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ROYAL COMMISSION

ON

THE INCOME TAX.

MINUTES OF EVIDENCE.

PART I.



LONDON:

PRINTED AND PUBLISHED BY
HIS MAJESTY'S STATIONERY OFFICE.

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ROYAL COMMISSION ON THE INCOME TAX.

TERMS OF REFERENCE

"To inquire into the Income Tax (including Super-tax) of the United Kingdom in all its aspects, including the scope, rates, and incidence of the tax; allowances and reliefs; administration, assessment, appeal and collection; and prevention of evasion; and to report what alterations of law and practice are necessary or desirable, and what effect they would have on rates of tax if it were necessary to maintain the total yield."

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*Sir T. P. Whittaker died on 9th November, 1919.

†Sir H. J. Mackinder was appointed High Commissioner for South Russia, and in consequence resigned from the Commission on 5th November, 1919.

‡Dr. J. C. Stamp was appointed to be a member of the Commission on 30th August, 1919.

‡Mr. Walker Clark was appointed to be a member of the Commission on 1st May, 1919.

‡Mr. Hill resigned from the Commission on 6th September, 1919, on the ground of ill-health.

‡Mr. Trotter was appointed to be a member of the Commission on 31st October, 1919, in the place of Mr. Hill.

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MINUTES OF EVIDENCE

TAKEN BEFORE

THE ROYAL COMMISSION ON THE INCOME TAX.

FIRST DAY,

WEDNESDAY, 7TH MAY, 1919.

PRESENT :

LORD COLWYN (*in the Chair*).

SIR T. F. WHITTAKER.

MR. BOWERMAN.

SIR E. E. NOTT-BOWER.

SIR J. S. HARMOOD-BANNER.

SIR W. TROWER.

MR. HOLLAND-MARTIN.

MR. WARREN FISHER.

MR. ARMITAGE-SMITH.

MR. BIRLEY.

MR. GRAHAM.

MR. KERLY.

MRS. KNOWLES.

MR. MACKINDER.

MR. MCINTOCK.

MR. MANVILLE.

MR. GEOFFREY MARKS.

MR. MAY.

PROFESSOR FIGOU.

MR. SYNNOTT.

MR. R. V. N. HOPKINS, C.B., a Commissioner of Inland Revenue, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

1. The evidence which, in association with Sir Thomas Collins, I am presenting at the outset of this enquiry is limited mainly to a brief history of the Income Tax in this country, and a conspectus—shorter than that contained in the Income Tax Act, 1918—of the Income Tax as it now stands, both in its law and in its practical day-to-day administration.

2. I propose to put in two written memoranda covering the history and the present scope of the Income Tax, and I will also put in some general statistical tables regarding the yield of the tax and the incomes upon which it is charged. [*See App. Nos. 1, 2 and 3.*]

Sketch of the Income Tax as it stands to-day.

3. The Income Tax extends to the income of persons who are resident in the United Kingdom, or who receive income which arises in the United Kingdom. In the expression "persons" I include not only individuals but legal persons, such as companies or corporations. The income which arises to these legal persons may be wholly or in part distributed by them amongst the individuals, and so become part of the incomes of the individuals, or it may remain in the hands of the company, &c., and form part of its undistributed profits. For example, a company may make a profit of £10,000, of which it distributes £9,000 as dividends to its shareholders and retains £1,000 as reserve. The company pays Income Tax on the whole £10,000. So far as concerns the £1,000 carried to reserve, it actually bears the tax, but as regards the £9,000 paid out as dividend it passes on to the recipients of the dividend the tax which it has paid.

4. Broadly speaking, the income which is charged to Income Tax is net income, that is to say, gross income less expenses necessarily incurred in earning it.

5. The tax extends to all income which arises in this country, even if it be enjoyed by a person residing abroad, and also to all income which accrues to a person residing in this country, although it may arise abroad. Thus, for example, profits arising from a business carried on in the United States, if accruing to a resident in this country, are chargeable with British Income Tax, although they may have borne Income Tax also in the United States; similarly profits arising from a business carried on in this country but enjoyed by a resident in the United States are also charged with British Income Tax, although they in turn may be chargeable with United States Income Tax. In this fact lies the kernel of the problem of Double Income Tax, upon which, no doubt, a great deal of evidence will be received by you.

6. The "standard rate" of Income Tax at the present time is 6s. in the £, but in actual practice this rate is borne as the ultimate rate only by a small number of taxpayers.

7. So far as the tax falls upon undistributed profits of companies, corporations, and other legal persons, the actual rate borne is 6s. in the £, and the same applies, with certain exceptions and qualifications, to income arising in this country enjoyed by residents abroad. This covers, however, only a small part of the field of the Income Tax, the major part of which is borne by individuals resident in this country. In its application to such individuals the tax is not a 6s. tax, but a highly graduated tax, starting from nothing in the case of the smallest incomes and reaching to very nearly 10s. 6d. in the £ in the case of the biggest incomes.

8. Effect is given to the graduation of the tax, which is designed to make it accord as nearly as possible with the ability of the taxpayer to pay, by a number of different expedients. Incomes less than £150 a year are exempt from the tax altogether. Where an income exceeds £150, but does not exceed £700, certain abatements prescribed by Statute are

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deducted from the total income in arriving at the amount of that part of the income upon which tax is to be charged. In the case of small incomes also an allowance of £25 is made if the taxpayer is married, and a further allowance is given of £25 for each child and each dependent relative maintained by the taxpayer.

9. In addition to this, in the case of unearned incomes where the total income does not exceed £2,000, and in the case of incomes not exceeding £2,500, so far as they are earned (and these cases, of course, cover the enormous majority of taxpayers), Income Tax is charged, not at 6s. in the £, but at a rate less than 6s. A scale of rates has been prescribed by Statute to apply to that part of the taxpayer's income which remains after deducting the allowances I have referred to, beginning at 2s. 3d. in the £ on the earned portion of an income not exceeding £500, and increasing as the size of the total income grows. On the other hand, those individuals who enjoy an income which exceeds £2,500 a year, and who pay Income Tax at 6s. in the £ on their whole income, are liable to an additional duty which is called Super-tax. This duty, although it is assessed separately from the Income Tax and under a different set of rules, is simply an additional Income Tax. It also is graduated. It represents only a small addition to the 6s. Income Tax where the income is little in excess of £2,500 a year, but it increases as the income grows larger and amounts to nearly 4s. 6d. in the £ (making, with the 6s. Income Tax, nearly 10s. 6d. in the £) in the case of the highest incomes.

10. The Income Tax admits, moreover, the principle of differentiation—by which I mean the principle of charging earned incomes at a lower rate of tax than unearned incomes—so far as concerns total incomes not exceeding £2,500. The difference in rate throughout the scale (up to £2,500 a year, where the differentiation ends) is 9d. in the £.

11. I have not attempted to give all the numerous figures of the scale, but I am putting them in.* The essential point, I think, is this—that the Income Tax (including the Super-tax), though it is often described as 6s. tax, is a graduated and differentiated tax, the virtual rate of which on small incomes is less than 6s., and on big incomes is more. The only individuals (excluding residents abroad) who pay Income Tax at precisely 6s. in the £ on the whole of their income are those individuals (an insignificant fraction of the whole community) whose incomes lie between £2,000 and £2,500 a year and are wholly unearned.

12. It may be convenient if I give a few examples of the weight of the Income Tax at various points in the scale.

13. A man earning £200 a year and having no other income pays, if unmarried, 11d. in the £; if married and without children, 7d. in the £; if married and with three children, nothing at all. A man similarly earning £500 a year pays, if single, 1s. 10d. in the £; if married, 1s. 8d., if married with three children 1s. 4d. A man similarly earning £1,000 pays, if single, 3s.; if married, 3s.; if married and with three children, 2s. 11d. A man with £2,000 unearned income pays 6s. 3d. in the £; with £2,500, pays 7s. 3d.; with £10,000, pays 8s. 4d.; with £100,000, pays 10s. 3d.; with £500,000, pays virtually 10s. 6d. in the £.

14. As I have said, when it is possible to do so, Income Tax is usually collected at the source by deducting it before the income reaches the person to whom it belongs. For instance, a trading company is required to pay to the Revenue Income Tax at the 6s. rate on the whole of its profits, and this company, when paying dividends to its shareholders, deducts and retains the amount of Income Tax appropriate to the amount distributed. The shareholder thus receives his dividends subject to deduction of Income Tax. This method of deduction at the source is applied, with certain exceptions, to every class of income which

can be so treated, and no less than 70 per cent. of the whole of the Income Tax is so secured. I have no hesitation in saying that it is this feature of the Income Tax which constitutes its peculiar distinction and has been responsible for the success which has attended the collection of the tax throughout its history, including its recent history during the war.

15. Speaking generally, where Income Tax is deducted at the source it is deducted at the standard rate of 6s., and it thus comes about that normally an individual receiving income under deduction of tax in the first place suffers tax at the rate of 6s. in the £ upon that portion of his income. As I have explained, practically every taxpayer whose income is less than £2,500 is in fact liable to Income Tax at a lower virtual rate than 6s., and an adjustment therefore falls to be made. In some cases this adjustment is made by way of repayment, but in very large numbers of cases the adjustment is made automatically by deducting from the amount of Income Tax properly chargeable upon that portion of the taxpayer's income (e.g., from business) which is assessed directly upon him the amount of tax which he has suffered in excess by deduction.

16. I am putting in an example which shows how this calculation is made.*

17. There are two other features of the general scheme of the tax to which I should perhaps make a passing reference.

18. Firstly, subject to various restrictions which have been made more stringent in recent times, an allowance is authorized in respect of Life Insurance premiums payable by the taxpayer; secondly, as arising out of the Double Income Tax question a stop-gap provision was enacted in 1916 authorizing as a temporary measure, at the expense of the British Exchequer, certain relief from Double Income Tax within the confines of the Empire.

19. It remains to refer to the rules which are prescribed for the actual computation of the profits chargeable to Income Tax, these rules being mainly contained in the five Schedules of the Income Tax.

20. In this connection profits are divided into five classes. Schedule A. deals with the computation of profits from the ownership of lands and buildings; Schedule B. with profits from the occupation of lands; Schedule C. with profits from investments in the public funds; Schedule D. chiefly with profits from trades, professions and employments; Schedule E. with emoluments of public offices.

21. Profits under Schedule A. from the ownership of land and buildings are ordinarily assessed upon the annual value, that is to say, the rent at which they are worth to be let by the year, subject to a deduction for repairs.

22. Schedule B. relates to profits from the occupation of lands. It includes farming, which is by far the biggest item in the Schedule, woodlands, &c., and lands occupied for purposes of amenity. In the case of lands used for the purpose of husbandry only, the profit arising is (subject to various reliefs) taken at double the annual value, and in the case of other lands the profit from the occupation is taken as equivalent to the annual value.

23. Schedule C. deals with profits arising from investments in public funds which are taxed by deduction at the source.

24. Omitting Schedule D. for the moment, Schedule E. deals with profits arising from the emoluments of public offices. It includes, for example, the emoluments of members of the Forces, Government employees, municipal officials, and of officials of public companies. The income arising from these sources is generally taken as the income of the actual year of assessment to Income Tax.

25. Schedule D. is concerned mainly with profits from trades, professions and employments, but in addition it sweeps up all other classes of income not dealt with in any of the other Schedules. A considerable body of rules is provided for arriving at these profits. Speaking generally, the assessment is

* Memorandum on "The existing Income Tax system," paragraph 8. [See App. n. 4.]

* Memorandum on "The existing Income Tax system," paragraph 13. [See App. p. 7.]

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[Continued.]

not based upon the profits of the year of assessment, but upon an average of past years. Profits arising from trades, professions and employments are calculated upon the average profits of the three years immediately preceding the year of assessment. The remaining profits included in the Schedule are computed partly upon the amount received in the actual year, partly upon the amount in the preceding year, and partly upon an average.

The demand for a simple tax.

26. A criticism which is often made is that the Income Tax is too complicated. Although the consolidation of the legislation of a hundred years in the Income Tax Act, 1918—which came into force on the 6th April of the present year—should make it easier for the general taxpayer to discover the rules of Income Tax, that Act at the same time throws into relief their number and variety.

27. But on that point a word of caution is necessary. The Income Tax cannot choose the world in which it is to live. It has to reflect the very complicated industrial community of the present day, with its variations in individual circumstances, its elaborate conditions and its inter-connections with foreign states; and nowhere are complications greater and foreign inter-connections more evident than in the United Kingdom.

28. A simple tax set up in these pre-existing conditions is bound to be a bad tax, and, therefore, the problem is not to find a simple tax but a tax of which the complexities are limited to those inherent in the complexity of modern civilisation and are so framed as in the aggregate to lead to the maximum simplicity of result.

Questions likely to be brought forward for consideration.

29. It may be useful if, without prejudging at this stage the merits of particular issues, I attempt to recapitulate some of the main questions which have been the subject of discussion in recent years and are likely to be brought to the notice of the Commission.

30. The general scope of the charge (which extends alike to profits accruing to a resident in this country, although they arise abroad, and to profits arising in this country though they accrue to a resident abroad), gives rise to the question of Double Income Tax with some allied questions as to the rate of tax levied upon residents abroad. Closely associated with these problems are those connected with the doctrine of "control," by which I mean the principle of the Income Tax as laid down in the Courts, under which a company of which the seat of management is in this country is held to reside in this country, and to be therefore chargeable to Income Tax on the whole of its profits, even although the main part of those profits may be created by trading operations carried on abroad and most of the company's shareholders may be residents abroad.

31. The scope of the charge in another aspect embraces also the question of the liability to Income Tax of mutual concerns.

32. As regards the computation of profits, the question likely to receive the greatest prominence is that as to the allowance to be made for wasting assets (including the allowance for depreciation of machinery and plant)—a question which was in part considered by the Ritchie Committee in 1905. In addition, questions are likely to be raised as to the sufficiency of the allowance for repairs of property assessed to Income Tax under Schedule A, and as to the present basis of computation of the profits of farming now assessed in the normal case to be equivalent to double the rent or normal value of the farm.

33. As regards the general framework of the tax mention is made from time to time of the principle under which certain classes of profits (especially profits of trade) are assessed by reference not to the amount arising in the year of assessment but to the amount arising on an average of three preceding years or in some other period preceding the year of assessment; this question also was under the consideration of the Ritchie Committee in 1905. There is again the question of the sudden jumps which take place at certain points in the scale of graduation of the duty, and

of the position of taxpayers whose income is taxed by deduction at the standard rate and who, being exempt from Income Tax or chargeable at a rate of tax lower than that at which the tax is deducted, are entitled to repayment of the whole or part of the tax borne by them.

Other questions on this aspect of the subject concern the limit of exemption from duty (at present £130 for single persons and £145 for married persons); the principle—at the present time the subject of vigorous debate—under which for the purpose of ascertaining the rate in the graduated scale at which a particular taxpayer is chargeable to Income Tax regard is paid, if the taxpayer is married, to the aggregate income of husband and wife; and the extent to which relief from duty is granted to individuals who have children to maintain.

34. Among questions affecting particular classes of taxpayers I may mention that of the basis of assessment of Life Insurance companies.

35. Of the questions which are unlikely to be brought prominently before the Commission by outside witnesses, but upon which we should be glad to be allowed to bring evidence, I may mention the following:—

The present scope of the allowance from a taxpayer's income in respect of Life Insurance premiums.

The leakage of Super-tax which at present occurs through non-distribution of profits as income.

Notwithstanding the questions awaiting review, the tax as a whole is pre-eminently a successful tax.

36. It has long been admitted, and is obvious, that the Income Tax as at present constructed contains anomalies and imperfections which require amendment. The present high rates of tax render these questions of the Board of Inland Revenue to assist the Commission in the removal of legitimate grievances. At the same time in recapitulating the foregoing list of subjects for consideration, I do not want to create the impression that the Income Tax as it stands to-day is an unworkable tax. Any such impression is, of course, refuted by the evidence of fact. Year by year it becomes more evident that the Income Tax is the mainstay of British taxation. Year by year it delivers the goods, and there is no tax in the world which can be compared with it for the magnitude of its success as a practical engine of finance. It has become necessary during the war period to weld into the old Income Tax framework certain modern complications and improvements for which the old framework may not have been entirely fitting, so that the Income Tax to-day bears some resemblance to the British Constitution. But, like the British Constitution, it works. In the financial year which has just closed, out of a total tax Revenue, excluding the temporary Excess Profits Duty of £459,200,000, the Income Tax (including Super-tax) produced by itself £221,180,000 or 58 per cent.

The impossibility of abandoning the system of taxation at the source.

37. There is one subject so vital to the success of the Income Tax as a practical vehicle of taxation, that I should like to add a word upon it even before it has been dealt with by outside witnesses. It is possible that some evidence before you may suggest that existing imperfections in the framework of the Income Tax can be met by abandoning the system of taxation at the source.

38. That course would in my judgment be nothing less than disastrous; there are few, if any, imperfections capable of being met in this way which could not be met by other means without giving rise to other anomalies and to the enormous loss which this course would inevitably entail.

39. It is not merely that the system of taxation at the source has a great weight of authority behind it, though I may recall in passing that the Ritchie Committee and the Dilke Committee both reported strongly against its abandonment.

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40. Taxation at the source is the primary safeguard against evasion of duty because it deprives the taxpayer of opportunity to escape, either by carelessness, or by ignorance, or by fraud, from payment of his due share of Income Tax. It is obvious that at any time and in any circumstances abandonment of the system would result in a heavy loss, and that at the present day, when the exceedingly high rates of duty afford an unparalleled temptation to the taxpayer to give himself the benefit of the doubt and even wilfully to evade the tax, abandonment of the system would be disastrous.

41. In my judgment the abandonment of the system would result in an annual dead loss to the Exchequer of upwards of £30,000,000 a year.

42. A loss even limited to £50,000,000 a year would involve an increase in the general rate of Income Tax from 6s. to say 7s. 3d. in the £. If honest and scrupulously careful taxpayers found their Income Tax annually increased by one-fifth in order that their increased burden might make up for the shortcomings of their less honest or less careful neighbours, profound dissatisfaction would inevitably result.

[This concludes the evidence-in-chief.]

43. Chairman: You have drafted a very valuable statement for us. Would you like to speak to the main points, and then have questions put to you afterwards?—Certainly, my lord, if that is what you wish.

44. Will you kindly do that? The reason I suggest this course is that it will be less lengthy if you will just take the main points and speak upon them to the Commissioners?—Quite so, my lord. In the proof that I have put in, I have concerned myself chiefly with the present position, and have given only a very brief account of the way in which we have reached it. I have not attempted to make any large excursion, for the moment at any rate, into the future. Whether you would care for me to summarise anything of what I have said in this memorandum as to the history of the Income Tax, I am not quite sure; perhaps I should be occupying the time of the Commission more than they wish.

45. I think you had better just go on with whatever you think to be best. If you like, you can go through the points of your own statement and pick out those that are important.—Dealing first with the history of the Income Tax, I have pointed out that the Income Tax in this country had its origin in the financial necessities occasioned by the expense of the great war at the end of the 18th century. But the Income Tax at that time, of course, was a very small impost in comparison with the income taxation with which we are familiar at the present time. The Act of 1799, introduced by Pitt, was a tax which was imposed directly upon the taxpayer who was in receipt of the income; the principle of taxation at the source was not present. That tax, which was raised at a rate of 2s. in the £, subject to abatements, ceased in 1802, and was replaced in 1803 by another scheme of taxation which really is the foundation of the Income Tax law of the present time. From the collection point of view, the leading fact in regard to the Act of 1803 was that the tax was collected at the source. The old tax was a tax of 2s. in the £, the 1803 tax was a tax of 1s. in the £ but the two taxes, by reason of the different methods of collection, realized a very similar yield. The tax went on in that form until shortly after Waterloo, when it was repealed, and we were without income taxation in this country until 1842. In 1842 Peel's Act was introduced. It was founded, to a very large extent, upon the Act of 1803, and, subject to amendments from time to time, forms the basis of the Income Tax law which was consolidated last year in the Income Tax Act of 1911, the Act which came into force on the 6th April of this year. The old rates, of course, were very different from the rates we are accustomed to now. I have put in some tables which show the rates right through, and these have been circulated. I need not, perhaps, enlarge further on that at the moment. In 1853 the tax was extended to Ireland by Mr. Gladstone. On many occasions in his life he expressed himself averse from the principle of taxation of income, where it could be avoided. His idea in 1853

was that the tax might be continued for a certain number of years (seven), but should die at the end of the 'fifties. His tax was introduced upon the basis of a declining rate. His scheme was that for the first two years the tax should be at 7d., for the next two at 8d., and for the remaining three years at 5d. But, as a matter of fact, the Crimean War intervened to render it impossible to repeal the Income Tax then, and, indeed, in 1855 it stood at a higher figure than it afterwards reached till quite recent times. In the next two decades or so, the rate of tax was very low, and I think in 1874 it fell to its lowest point of 2d., but the tax never passed away from the Statute Book; and in more recent times it has become recognized that a tax which originally was conceived as a war impost, and a temporary tax, must be, at any rate, one of the main taxes, if not absolutely the paramount tax in British taxation. A feature in 1853 which is, I think, of interest, is the re-introduction of an allowance which had existed in the very early days of Income Tax—an allowance for Life Insurance premiums. That recalls a controversy which existed during the middle of the last century, and was continually under consideration, particularly by two Select Committees which were appointed in 1851 and 1861, and which considered the whole question of what we now call the differentiation and graduation of the Income Tax. The first of those two Committees was presided over by Mr. Hume, a Member of Parliament, and it was concerned with an effort to equalize the incidence of the Income Tax by reference to the capital values of incomes. He had a scheme for capitalising incomes and charging tax upon them by reference to their capital value, their character, and the age of the owner who was enjoying them. But that scheme, as well as the less ambitious scheme of the later Committee in 1861, though it was canvassed, was never approved by the Committee, still less by Parliament. The scheme of 1861, that of Mr. Hubbard, the Chairman of the Committee of that time, who was also Governor of the Bank of England, was devoted to an attempt to reduce various kinds of income to a net income; gross income, for example, from property or from mining royalties and the like, was to be reduced to net income by certain average deductions. A suggestion was made of charging what was called "industrial incomes," as opposed to "spontaneous incomes," at two-thirds of the full rate. That carries me on—not indeed in order of time—to a further inquiry regarding Income Tax, that of the Dilke Committee of 1906, which was again concerned with the questions of differentiation and graduation. It was as the result of the recommendations of that Committee that the principle of differentiation, that is, charging what we now call earned income, at a lower rate of tax than unearned income, was introduced. That principle was introduced into the Income Tax actually in the Budget of 1907. From that time onwards Income Tax legislation has been voluminous, year by year, and the differentiation and graduation of the tax has made great strides. Until 1907 graduation was effected only by the grant of abatements in favour of small incomes. That, of course, does effect a lightening of the burden over so many incomes as fall within the abatement limit; but beyond the £700, or whatever other limit at any time applied, the tax was charged at a flat rate. Since then the graduation has been carried very much higher. To begin with, in 1909 there was the introduction of the Super-tax, which imposed an additional tax upon incomes exceeding £5,000; and subsequently there have been graduations made in the rate of duty which is chargeable within the Income Tax itself upon incomes below £2,500. So that at the present time you have a scale which is graduated by means of abatements in the lower part, by reductions in the rate of Income Tax up to £2,500 (where the normal rate of 8s. in the £ is payable), and by the imposition of Super-tax on top of the 8s. in the £ in the case of larger incomes.

46. Chairman: Are Income and Super-tax collected separately by the Inland Revenue. Have you a separate department for collecting them?—That is so, my lord. The Income Tax is collected in the way you know. The authorities charged with the making

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[Continued.]

at the assessments to Super-tax, are the Special Commissioners of Income Tax, and the assessment is based upon the Income Tax income of the preceding year.

47. Would there be any economy if the Super-tax were taken as a graduated Income Tax?—From one point of view, I think that would be undoubtedly a convenience, but under the Income Tax as it is framed at the present time, unless you contemplated some considerable alterations in its structure, that would be very difficult, if not impossible. I think the reason is this. The Income Tax is taken wherever it can be by deduction at the source. You could not, I think, take 10s. in the £ by deduction at the source from everybody; and, therefore, the Super-tax upon high incomes is taken by direct assessment upon the individual taxpayer in respect of his total income. There would be difficulties under the present system in making an assessment to Super-tax upon dividends except at the end of the year. So you have to make the assessment by reference to the Income Tax income of the previous year.

48. Will you please proceed with your statement?—In the second memorandum which I put in, in which I have endeavoured to give a conspectus of the Income Tax system as it stands at the present day, I have tried to put together so much of the very large body of Statute law in regard to Income Tax as I thought might be convenient for members of the Commission to have ready to their hand in a compressed form. The Income Tax, as I state there, extends to the income of all individuals, and also all companies, corporations and other similar bodies, who are resident in the United Kingdom, or who receive income from the United Kingdom. The total amount of the income of individuals liable to Income Tax amounts roughly to 1,745 million pounds. The aggregate amount of undistributed profits annually earned by companies, corporations and other similar bodies, we have put, very approximately, at 225 million pounds. I may say that to ascertain the income which is made by such companies and remains undistributed, is a difficult statistical inquiry, and that figure must be regarded merely as the best estimate that we have been able to make.

49. Sir E. Nott-Bower: Might I put one question there? You said 225 million pounds. Is that the non-personal income which was estimated some years ago, I think, at about 50 or 60 millions?—That is so. It is a very large increase, and whether that will be a permanent figure, it is very difficult to know.

50. Chairman: What is the cost of collecting that?—I think the cost of collection will be something under one per cent.

51. On the 285 millions?—I was taking the total yield of the Income Tax. The yield of the Income Tax (including Super-tax) last year was approximately 300 million pounds, and the Budget estimate this year is 320 million pounds; the cost of collection is roughly one per cent.

52. Mr. Marks: May I ask does the total of those two sums, 1,745 millions and 225 millions, represent the aggregate taxable income of the whole of the community?—Yes, £1,970,000,000 represents the aggregate income of the tax-paying community, of which £225,000,000 is non-personal income.

53. Mr. Maskinder: Can you tell us roughly what proportion of that 1,745 millions is income of people with between £130 and £160 a year?—Any figures that I give in regard to that, I must ask to give under reserve. We do, of course, endeavour, as far as we can, to form an estimate of the income as it falls into the hands of different sections of the taxpayers, classified by income. You ask for the amount of the Income Tax on taxpayers between £130 and £160.

54. Between £130 and £160; that is, the amount brought in by the reduction of the limit from £160 to £130?—I am afraid I have not any figure with me here which will give that information. I have a rough estimate of the taxable income exceeding £130 and not exceeding £400, and if you desire I will see if we could get what you ask. [See App. No. 11.]

55. Perhaps I may explain. My point is that if you are going to compare 1,745 millions with the totals of previous years, in order to form any sort of estimate how far that is likely to be a continuing figure, one does want to get the figures comparable; and of course this includes incomes which were not included before?—I quite agree that is so.

56. Chairman: You can get that?—I will arrange for that to be got and to be put in. [See App. No. 11.]

57. Sir F. Whitaker: There is extra for the farmers as well, you will remember?—That is so.

58. There is a great alteration in their assessment?—That is quite true. If I were attempting to compare this figure with previous figures, I quite agree there would be a great number of altered considerations to take into account. One could not merely take the income under review in the current year and compare it with the income under review in past years, and say there is an increase in the national income. A great deal more than that has to be gone into.

59. It would be very valuable if we could have a comparison based on the old footing; that is the £160 limit. Can you do that?—I think in all probability we can produce some figures at any rate leading in that direction.

60. Without going into detail, but taking the £160 basis as it was before, and £130 which is the basis now. Then there is (in addition to what has arisen from reducing the limit) the alteration of the taxation of farmers, and various points of that kind?—Yes.

61. For the purpose of comparison, the value would be put on the old footing?—Yes.

62. Mr. Kerly: Also, is there not to be considered the difference of taxation on foreign possessions?—That is so, since 1914. I was not, of course, attempting at the moment any comparison. I think that is understood. If any comparison is made, as I have said, it will need very careful explanation of the divergencies of the two figures.

63. Chairman: You probably will come up again once or twice before the Commission on points which may arise here?—I was contemplating, my lord, that perhaps if you wished, I should come again, or that at any rate such other official witnesses as you may desire should come and give evidence upon individual subjects.

64. Supposing the Commission came to some decision that they wanted to alter certain things in the Inland Revenue organisation, then you would probably come up again, would you not?—Certainly, my lord. Taking the next points in order on this memorandum, I have referred to the classification of income and profits under the five well-known schedules which have appeared in the Income Tax Acts since 1803: Schedule A, profits from the ownership of lands and buildings; Schedule B, those from the occupation of lands, which are chiefly the profits of agriculture; Schedule C, from investments in public funds; Schedule D, from trades, professions and employments; and Schedule E, from the emoluments of public offices. As regards the differentiation and the graduation of the tax, I think I need speak only very briefly. I have mentioned already the great increase in the range and character of graduation and differentiation that has taken place since 1807. In addition to these devices for the graduation of the tax, we have seen in recent years the introduction of various allowances which pay regard to the family circumstances of the taxpayer. You have the allowance for a wife, the allowance for the dependant, allowances for the children, and I have put in figures which indicate the extent of those various allowances. These results from the fact that the Income Tax, which is frequently spoken of as a 6s. tax, is really in its application to individuals a tax not at 6s. but at a graduated rate which starts from nothing on the smallest incomes, and which, in connection with the Super-tax, goes up to practically 10s. 6d. in the £ in the case of the biggest incomes.

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65. *Chairman:* You have worked out some figures, have you not?—I have put in a series of tables, in order to indicate the way in which the graduation proceeds. Then as regards the method of collection of the tax, the point which, I have said, constitutes in my judgment the peculiar distinction of the British Income Tax amongst the taxes of the world, a feature which secures far more than any other its fair and efficient collection as between different taxpayers, is the method of the collection of the tax at the source. We have had that in force in this country from 1803, and I ventured to say, in the proof that I put in, that any departure from that system would, in my opinion, be a retrograde step, and a disastrous step, most particularly at a time like the present. We have had experience of Income Taxes, not only in this country, but throughout the world, for a very long time at rates which nowadays appear to be, I was going to say, almost trivial, but in future the weight of the Income Tax is going to be very severe—I conceive that it must be so—upon all classes of the tax-paying community, and with rates at that height, I am perfectly certain that the great safeguard of the general taxpayer for the fair and efficient collection of the tax as between one individual and another lies in collection at the source, which is an automatic safeguard—I do not mean merely against fraud—but against evasion of all kinds. Evasion may be due to forgetfulness, it may be due to ignorance, it may be due to the taxpayer giving himself the benefit of the doubt, but taxation at the source is an automatic safeguard against all leakage of that kind.

66. Probably some of the Commissioners may want to ask you questions about that, later?—Quite so, my lord. I ought perhaps to say a word in regard to the relief in respect of Colonial Income Tax, which I think undoubtedly is a subject upon which you will be receiving evidence. That question was one which became prominent before the war, but assumed a greater importance during the war, on account of the great increase in the rate of Income Tax, not only in this country, but also in the Colonies, and the imposition in certain Colonies of taxes which had not previously existed there; and during the course of the war Parliament took action. There was put into the Finance Act of 1916 a provision which was admittedly a temporary stopgap measure, and one which was enacted, for the time being, solely at the expense of the British Exchequer, and without prejudice to the ultimate settlement between the Exchequers concerned. The provision was that if a person has, on any part of his income, borne both United Kingdom tax at a rate more than 8s. 6d. in the £—that was the bar set for the time being—and also Colonial Income Tax, he is to be repaid an amount which will reduce the British tax down to 3s. 6d. in the £, or the whole amount of the Colonial tax, if that is less.

67. *Chairman:* What do you think about that?—The whole question of Double Income Tax is a very difficult one. We shall be very glad if we might have the opportunity of giving you considered evidence upon the subject. That there must be a settlement of the question is obvious, I think. The hardship, as it appears to me, lies in the fact that a taxpayer residing here and investing in the Colonies, or *vice versa*, may be charged in the aggregate with an Income Tax which is much greater than the tax here, simply by making two contributions to what ultimately is a common fund: by that I mean the common purposes of the British Empire. The method of the settlement is a matter which perhaps we might deal with in considered evidence, which you will, perhaps, give us an opportunity to lay before you later. The present provision, of course, is admittedly a stopgap, and the relief is only given down to 3s. 6d. in the £, so that it does not benefit the smaller taxpayer who is liable to Income Tax at a less rate than 3s. 6d. That, I think, is admittedly only a temporary measure.

Into the rules for the assessment of profits I think probably I need hardly go at the moment in detail. In the First Schedule, A, B, C, D and E, of the Income Tax Act, 1918, you have a large body of Statute law, and in the memorandum that I have

put in I have tried to compress the more essential points in regard to the computation of profits. The question of Super-tax, perhaps, I have sufficiently dealt with for the moment in answer to the questions you put to me. The Super-tax is assessed on incomes in excess of £2,500 a year, is payable only by individuals in receipt of incomes in excess of that amount, and it is itself graduated. The rate is a very small addition to the £s. Income Tax in the case of incomes which are only just above £2,500, but in the case of the biggest incomes it proceeds up to an increase of nearly 4s. 6d., making a total rate with the £s. Income Tax of nearly 10s. 6d.

68. What is the present number of Super-tax payers?—The number which we estimate for the year which is just completed, the year 1918-1919, is 48,000. We have not at the moment got that number wholly into the assessment. The assessment may be made during the financial year, or within three years afterwards.

69. That is within the United Kingdom?—Yes.

70. Does the Inland Revenue think that that is really a correct figure?—There you ask me a question which I confess is very difficult to answer. We approach it in various ways. The taxpayers whom we are dealing with here are taxpayers whose income exceeds £2,500. For the previous year, when we were dealing with incomes exceeding £3,000, we had 35,000 Super-tax payers.

71. *Mr. Marks:* Do I understand that for the year 1917-1918 the number was 35,000?—Yes.

72. *Mr. Symonds:* Was that on the basis of the £3,000 a year?—Yes, £3,000 a year and upwards. I think probably it happens that, in the first year in which the limit of Super-tax is lowered, and a new range of taxpayers is brought under our purview, we may not at once find the whole of our clientele, more particularly, if I may say so, in the conditions in which we have been working during the war. You will appreciate that in the last four or five years not only has the rate of Income Tax been enormously increased, but the general legislation in connection with Income Tax has been made very much more complicated. The limit of Super-tax has been largely reduced. We have been introduced, if I may again use the expression, to an enormously large new class in the case of the wage-earners who are assessed quarterly, more particularly, of course, by reason of the reduction of the exemption limit and the increase in the wages of the armaments; and we have had also to carry the Excess Profits Duty, which, before its finish, will have produced over 1,000 millions, and which has been managed by us without any addition to the staff. We have been struggling with an immense mass of work, and we have done the best we can to deal with it, but it may well happen, I think, now that we are beginning to have a breathing space, that we shall be able to make some addition to the figure of 48,000 for the year 1918-1919 as the total number of persons whose incomes exceed £2,500. We have made calculations from another aspect which has led us to suppose that there is a gap to be filled up, but the gap, I think, is probably not a very large one, and we shall hope to fill it. Perhaps what I say is a little surprising when a comparison is made with the figures of a rather earlier time. It may be suggested that with the large increase of wealth which has arisen during the war you would expect a much faster upward movement in the number of Super-tax payers than is disclosed by the actual figures. In regard to that I think there are several things to bear in mind. One consideration which is important, I think, is this: not only have the profits of business been skinned to a considerable extent by the 80 per cent. Excess Profits Duty, but the balance of profit does not come into the Super-tax assessment as quickly as you would at first expect. Let me take the case of a rich man who receives his income from business in the form of dividends. We assess him for the year 1918-19 for Super-tax not upon his income for that year, but upon that of the previous year. Now, consider the case of a rich man deriving his income not from dividends, but from a business which he himself conducts—in which he may be a partner. In that case we are assessing him not upon the current year nor yet even on the previous year, but

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on the Income Tax assessment of the previous year, which is itself an average of the three years before that, so that to a very considerable extent the Super-tax income is always stable. You will hear in mind another point also, that whilst the incomes of many taxpayers have increased, the incomes of others have decreased, and while the increase is only slowly reflected in the figures of the Super-tax, the decrease is reflected at once, inasmuch as there are special war reliefs for certain taxpayers whose income has largely diminished during the war. I am speaking only extempore upon this subject; I have not come specially prepared upon it; but at the moment those are the things which occur to me as the explanation of the figures.

73. *Chairman:* Are there any other points which you wish to bring up, because if not I will proceed to your examination?—I would like to say at once that, in this very difficult enquiry that you have before you, the resources of the Inland Revenue will be of course entirely at your disposal. We shall be very glad to do anything that we can in the course of the proceedings, in the way of giving evidence before you, providing you with statistical information, and the like. We shall be entirely in your hands in that way. Might I just add a word in regard to foreign and colonial systems of Income Tax. I have not attempted in the prospectus that I have given to-day to say anything upon that subject. Nowadays, most of the Colonies and very many foreign countries have Income Tax systems. Many of them have a very voluminous law attached to them, and are very varied in their principles; and to attempt to give any general prospectus of what is done is almost impossible. Subject always to this, that whilst we do not profess to be experts in the understanding of these systems, because we have not worked them, we have a good deal of information at command, and if you so desire, I suggest that when you call any official witness upon individual subjects of major importance, you may think it convenient that we should give some brief prospectus of foreign and colonial analogies so far as they seem to be helpful.

74. You will probably have some suggestions to offer later on from the Revenue itself on the terms of reference?—Certainly. Exactly how we can best help I think may depend upon the course of the enquiry; there may be many points as to which you will have suggestions from outside upon which we might make further suggestions, and so on.

75. *Mr. Kerly:* This document [referring to the witness's evidence-in-chief] is in fact your evidence which you have summarized and to some extent supplemented by what you have said already?—Quite so, yes.

76. *Chairman:* We will put that in.

77. *Sir T. Whittaker:* The figure you gave of the Excess Profits Duty is rather an interesting figure. Did I correctly understand you that up to the present time, when all is collected that is due, the total will amount to about 1,000 millions?—I am not quite sure if I followed that.

78. What was that figure of 1,000 millions; what did you mean?—I am speaking from memory for the moment. I think we have 635 millions in the Exchequer already, and an estimate of 300 millions for the current year, making 935 millions in respect of liabilities which have already accrued. Of course, in what I said as to the production of more than 1,000 millions I was thinking of the continuance of this tax during the current year at 40 per cent. Actually in sight and in published estimates there is already more than 900 million pounds.

79. And the 1,000 millions was a rough forecast of the total arrears and collected amounts and the new amount for this year, I suppose?—That is so, yes.

80. With regard to the 48,000 Super-tax payers, would you just tell us so that we might have it on record what reduction has taken place in the basis of assessment during the last five years? At first the assessment was only on incomes above £5,000 a year?—Yes.

81. Then it was dropped to an assessment on incomes above £3,000 a year?—That is so.

82. What year was that?—That occurred for the financial year ended in April, 1915. In that year we got 15,000 additional Super-tax payers whose income ranged from £3,000 to £5,000 a year.

83. Then there was a further change made later?—Yes, it was made in the Finance Act of last year and took effect for the financial year which has just ended. For that year we got 11,800 additional taxpayers whose incomes varied from £2,500 to £3,000 a year.

84. Did you bring the £2,500 a year man in?—Yes, we brought him in for the last financial year.

85. Not the £3,000 man and taxed him back on his £500?—No. Until the outbreak of war we had Super-tax payable only by persons whose total incomes exceeded £5,000 a year. At the beginning of the war we brought in a new class of taxpayers, those whose income fell between £3,000 and £5,000, and we got a certain number of additional cases in that way. Then last year we took, in addition, those taxpayers whose incomes fell between £2,500 and £3,000 and we are now charging those with Super-tax.

86. That is the 48,000 that you estimate?—The 48,000 is the total number including those whose incomes are between £2,500 and £3,000.

87. And you are not able possibly yet to tell us what amount of the increase from, say, 35,000 to 48,000 is due to the bringing in of the lower incomes?—Yes, 11,000 roughly were people whose incomes were between £2,500 and £3,000, and roughly 15,000 were people whose incomes were between £3,000 and £5,000.

88. With regard to Double Income Tax you refer to a contribution—the contribution being to a common fund; what common fund is there?—What I meant was this: the taxpayer is contributing to two revenues. I agree they are quite separate, the one is the Home Country and the other is the Colony.

89. There is no common fund?—There is no actual common fund, but may I put it in this way? If there is a hardship, it seems to me that the hardship may be defined as contributing to let me say, two funds that have purposes in common, namely, the purposes of the British Empire.

90. They are entirely separate funds?—They are entirely separate funds.

91. Is there any sound reason why a man who invests in the Colonies should pay lower Income Tax here than if he invests in the United States, say?—For my own part I should say that there is a case to be met—I do not say necessarily a strict theoretical economic case, but at least a sentimental one.

92. If a man lives here and has money in land in Australia they charge him extra and not less?—Quite so. That applies to some of the Australian States. I am not suggesting that the whole of the relief should necessarily fall, as it does now, upon the British Exchequer.

93. If there is to be a saving of tax because a man is interested in both countries, the present proposal is that we should lose it?—That is what happens under the law at the present time, subject, of course, to the limitation to 3s. 6d. That admittedly was only a temporary provision.

94. Can you suggest any reason in logic and justice why that should be?

95. *Sir E. Nott-Bower:* It is only partial relief. If the relief is made complete the very form of relief which has been given so far suggests that it should be shared between the Colonies and ourselves. We have said we will go to a certain extent and we will give partial relief. If the thing is to be carried further, the question as to who shall bear it has to be seriously considered.

96. *Sir T. Whittaker:* At present it all falls on us?—That is so at the present time.

97. *Sir E. Nott-Bower:* With regard to the general scope of the tax, under our existing Income Tax system we charge Income Tax broadly—do not bother about small exceptions—on the whole income of people who are resident in this country?—Yes.

98. We also tax all profits which arise here even though they may be received by people abroad?—That is so.

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[Continued.]

99. Either of these conditions creates a liability and creates full liability?—Yes.

100. We charge the same rate of Income Tax in the case of income which arises here whether it is received by the person here or the person abroad?—Yes.

101. That is if the person is resident here and the property is here we charge the Income Tax and we charge it once?—Yes.

102. If the profits are here and the resident is abroad we charge Income Tax, and we charge it once?—That is so, yes.

103. It is a simple plan, anyhow, and it is the plan which has been in force, I think, ever since Income Tax has been created; but there are two different theories there. We think we are entitled to charge Income Tax because the property is here, and we think we are entitled to charge Income Tax because the person is here, and even when both sets of liabilities coincide we do not charge anything more. It is conceivable that this tax might have been framed as two separate taxes, one applicable to residents in respect to their own income, and one applicable to profits simply because they are made here, but that is not what we have done. I just want to ask you what your view is with regard to the graduation. The tax is graduated, and it is an endeavour, in your view, to adjust the burden of taxation?—Yes.

104. To the ability to bear it?—Yes.

105. In our modern views the adjustment is very different from what it was 100 years ago?—Yes.

106. And the burden of Income Tax is a heavier burden on a rich man than it is on a relatively poor man. That object, which has been attained through the Income Tax, could have been obtained in other ways, could it not?—Yes.

107. In your view is not that simply because the Income Tax is the most convenient method of arriving at it?—Yes, I quite agree with that.

108. The result of arriving at it in that way is that people who are resident here, and who have all the benefits of citizenship, and receive large revenues under the protection of the State, are taxed?—Yes.

109. The Income Tax is really used as a means of adjusting their contribution to their ability to pay?—I agree.

110. It is an ability tax?—Yes.

111. You could arrive at the same result, or endeavour to arrive at the same result, by imposing a tax on the value of all articles consumed?—Un- doubtedly, subject to this, that you could not have done it so well by that method.

112. It is a question of convenience?—Yes.

113. When you are laying a tax on a thing you are not really taxing the thing, but you are taxing the person?—Yes.

114. Taxes are paid by people not by things?—Yes.

115. Mr. May: In your evidence-in-chief, paragraph 27, you say that the Income Tax "has to reflect the very complicated industrial community of the present day, with its variations in individual circumstances, its elaborate conditions and its inter-connections with foreign States; and nowhere are complications greater and foreign inter-connections more evident than in the United Kingdom." I have been greatly interested in the whole of your statement, both printed and verbal, and I should like you to amplify that last phrase a little more from the point of view of the Revenue and as to the greater complications. The question I ask you is: Will you explain a little more fully than you have done the last phrase of paragraph 27 of your evidence as to the nature of these greater complications in the United Kingdom than in other countries?—I think that, at any rate, the complexity of industrial organisation is greater in this country than it is in, shall I say, Zealand. I am sure of that, and I think it will be at once recognised to be greater than it is in a very large number of the civilised communities at the present time. It may be a question of opinion whether our industrial community is more complicated and more specialized, and whether industry is conducted between this country and foreign countries to a larger extent, here than in (say) America, but

at any rate it is a very highly complex industrial and commercial community that we live in. All that I wished, in referring to this, was just to emphasize the fact that it is a little dangerous to start out with a supposition that you can have an extremely simple Income Tax, because an extremely simple Income Tax is a thing which will not have been moulded to meet all the varieties of trade and industry and life and conditions that exist in so specialised a civilisation as our own.

116. Chairman: With regard to land, on that one point how many different kinds of income are derived from land?—You mean gross, subject to Income Tax?

117. Mr. May: I did not, in my thought at all events, go as far as Zealand, but I did think that from your reference to foreign countries you would be able to tell us something nearer home as to how they compared and how the figures were greater. For instance, I myself have considered Holland, Germany, France and Belgium intimately, and I should like to know from the Revenue point of view what greater difficulties and complications you see?—I dare say that they are as great, or nearly as great, in such countries. All that I said was that nowhere were they greater than here. I was not endeavouring to labour any point in particular. I merely wanted to point out that the Income Tax has to live in exceedingly complicated conditions, and nothing more than that.

118. And I am seeking information; that is all. Now, I go to your paragraph 37. In this and elsewhere in your observations you have emphasized the importance of collection at the source?—Yes.

119. You do not favour any modification of the present practice of collection at the source?—No. I think that that system should stand as a whole. I believe that, regarded as a whole, it is the great standby for the fair and equitable collection of the tax as between different taxpayers.

120. Would you suggest any extension of it?—I have not anything particularly in my mind at the moment.

121. You just referred to complicated industrial conditions, and, of course, in other parts of these papers the Income Tax is worked out in your tables on very low incomes. The tendency in the present industrial conditions is for the wages to rise?—Yes.

122. What would you think of a system of collecting at the source, providing the present methods of applying the Income Tax to low incomes is continued, in the case of wages of industrial workers, for instance, on a similar plan to the National Health Insurance?—I think that there are difficulties in that. The Income Tax, as I have said in an earlier stage of my evidence, as levied upon the individual is levied not merely by reference to a flat rate, but it pays regard to the total amount of his income, and it pays regard to his family circumstances; therefore the amount of tax which has to be borne by a wage-earner earning £200 is not merely different from that which has to be borne by a wage-earner earning £250, but two wage-earners equally earning £200 may be charged altogether different sums of tax because one may have an allowance for example, for children and the other not. Merely to take a flat rate from all these various taxpayers would be wrong, and on the other hand, to ask the employers to deduct from the employee the exact amount of tax which is chargeable upon the wage-earner is open perhaps to this objection, that it may be held to disclose too much to the employer of the personal circumstances of the employee, so I should doubt very much whether it would be right that that system should be established by law. It is done on occasion by arrangement between the employer and employee where it is convenient to both sides, but I should hesitate to say that it would be desirable to carry it further than that.

123. As a matter of fact is it not now collected in Government factories from wage-earners?—It is done by arrangement in some cases.

124. Could you tell us the nature of the arrangement?—If I rightly understand, you are speaking of temporary wage-earners in Government factories.

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[Continued.]

125. Yes.—As far as I know, the employer, when an agreement has been arrived at to that effect, would deduct from the wage-earner the amount of tax which he is liable to pay. I have not given any special attention to this subject before I came down here. I could certainly make enquiries and give you further information.

126. In paragraph 41 you say: "In my judgment the abandonment of the system would result in an annual dead loss to the Exchequer of upwards of 50 million pounds a year"—Yes.

127. May I ask you how you arrive at that figure?—This is, of course, ultimately simply a question of personal judgment as to what is going to happen if the taxing authority is, let me say, blundered. At the present time somewhere about 70 per cent. of the total yield of the Income Tax and Super-tax, which is 350 million pounds, is collected, or ultimately secured, at the source. If you abandon taxation at the source an immense area of taxation will be swept right away from that automatic method and would be dependent on the personal return of individual taxpayers. As I have said once before, I have not in mind, primarily, fraud. You are faced indeed, it is true, with fraud, but you are faced also with forgetfulness and ignorance on the part of the taxpayer, and the taxpayer who thinks it is consistent with his duty to wait until he is invited to make a return, and the like. My own feeling is that with the tremendously high rates, which I presume we must expect in the future, if the whole system of taxation at the source were simply abolished, the revenue machine, however strong, and we have a strong machine at the present time, although it could minimise the loss, could not avert it, and I feel that the whole efficiency of the collection would be gravely impaired and would very quickly reflect itself in a large loss of duty.

128. This figure of 50 million pounds simply represents your estimate of the extent to which the community would evade the tax?—Yes, provided you accept my definition of the word "evade"; that is to say, it has no fraudulent intention attached to it.

129. In some cases?—In the majority of cases there would be no such intention.

130. Mr. Gresham: Is it not the case that in a large number, if not all, of the controlled establishments during the war, Income Tax was deducted at the source? I have more particularly in mind at the moment the case of soldiers who were transferred to civilian war work. Was there any difficulty in collecting the tax in that way, and in particular did any difficulty arise from the point of view of the family circumstances of the men and any relate to which those circumstances might have entailed them?—As far as I know very little difficulty was experienced in those cases where those arrangements were made.

131. Could you tell us if that involved a very large sum of money and employed quite a considerable number of the members of the community?—No, I am afraid I cannot speak to that. Naturally, I have not come prepared to speak in great detail of the whole field of the Income Tax, but I shall be very happy to make inquiry and see that information is put before the Commission on this subject.

132. The question is perhaps a little unfair, but it is very important from our point of view. The other question I should like to ask you refers to paragraphs 14 and 15 of your evidence. You state there that that 70 per cent. of the Income Tax at the moment is recovered at the source, and in paragraph 15 you say the deduction at the source is at the rate of 6s. the full rate?—Yes.

133. After that, of course, very large numbers fall to be taxed at much less. In some cases repayment is made, and in a large number of cases it is deducted afterwards. The question I want to put is from the point of view of simplifying the machinery or the working of this business, is there any reason why, in deduction at the source in the case of Income Tax, there should not be such a statement of the party's position as would enable the exact amount to be

deducted to a much larger extent even than is true of the present system?—You mean you would like wherever possible to secure that there should be deducted by the person paying the income, the exact amount that the taxpayer ought to pay?

134. Yes.—I think that subject divides itself into two heads: First of all there is that part of the Income Tax which is collected at the source upon land, and buildings, particularly house property. In the old days it was always the practice to deduct at the flat rate of 1s. in the £ or other rate in force for the time being, but in recent times—it is possible to deal with this without special legislation—we have made a practice of charging the tenant at a rate of tax which corresponds either precisely or roughly with the rate of tax which will be ultimately payable by the owner, unless, of course, the owner objects. So far, therefore, as concerns Income Tax which is secured at the source on land and buildings, paid by the tenant and deducted from the landlord, what you have suggested is already done. In addition, it is done under Schedule E. Where the emoluments of persons chargeable under Schedule E, public servants and the like, are dealt with by deduction, the deduction is made at the rate which the taxpayer will ultimately be called upon to pay. If one went further than that and tried to secure that, let me say, the dividends and debenture interest of public companies, should be paid to the thousands, if not millions, of recipients at the rate at which the taxpayer is ultimately liable to pay, the confusion that would arise and the labour that would be imposed upon the secretaries of companies would, I am disposed to think, be enormous. I should be disposed to say that the difficulty is rather one to be met in a slightly different way, so as to secure that every taxpayer, from whom there has been deducted tax at a rate greater than that which he is ultimately liable to pay, should have the utmost facilities for getting back the money quickly and easily. In that connection it was announced by Ministers, if my memory is right, some time ago, that we have earmarked for devolution as early as possible the Central Claims Branch in London, and propose to secure that the repayment claim may be sent by the taxpayer to his local tax office. We also have already in force a system under which taxpayers may make claims half-yearly, and I think very likely it may be desirable that that system should be extended and that taxpayers should be allowed to make claims where they so desire quarterly, and all the claims except the clearing-up claim at the end of the year, should be put forward on some very simple basis. That, I think, practically meets the difficulty you probably had in mind.

135. Mr. Warren Fisher: Surely in a very large number of cases there is no resort to repayment at all?—Quite so.

136. Where a professional or business man is assessed direct, and he is in receipt of dividends from which tax at too high a rate is being deducted, is it not the case that he gets a set-off in respect of the tax payable under his direct assessment?—That is so, and that, of course, covers an enormously large number of cases. I was speaking purely of the repayment claims, which is the balance of cases only.

137. Sir J. Harcourt-Banner: That is a set-off in what respect?

138. Mr. Warren Fisher: A professional man is liable to pay tax on his professional income, and he is assessed at, let us say, £1,000. The tax due from him, let us say, is £200 on that assessment. He also owns investments and has got the dividends paid under deduction of tax at the standard rate, which is too high for him. The simple way, instead of repaying the tax to him on his dividends, or the part overtaxed on his dividends, is to allow him to pay somewhat less than the tax assessed on his business. That saves the complications of repayment.

139. Mr. McLintock: It is almost universally done before payment of tax?—That is so; that covers the great majority of cases in which the question arises.

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140. *Mr. Marks:* There are one or two points that I want to ask you about, one point especially which I hoped would have come into your historical review. The first is the question of the Income Tax year. I think we must all have found in dealing with the persons we wish to help, female relatives and other feeble persons, one of the greatest stumbling-blocks is the fact that the Income Tax year, the fiscal year, extends from April to April and never coincides with what is an ordinary business man's or private person's year; when did that arise?—I think that arose at a very early stage. My impression is that it has been the 5th April for a very long period.

141. I notice in this statistical return of yours [see App., p. 13] various dates are mentioned including the 5th January?—That is only in regard to Exchequer receipts. If you look at the column which deals with the rate in force for the year you will find that the year is the year from the 5th April.

142. Have you any idea how long it does go back? Is it pre-historic? Is it the Roman year or is it any other new year?—I should hesitate to say that, but the 5th April as differing from the 25th March, I imagine, refers back to the reform in the calendar when we lost or gained 11 days.

143. That was about the middle of the eighteenth century?—Yes.

144. *Mr. Kerly:* It is the Revenue year, is not it?—Yes, and the Revenue year has been the same for many decades.

145. *Mr. Mackinder:* Is not there a difference between the 31st March and the 5th April; are not there two years for Revenue purposes?

146. *Mr. Kerly:* I beg your pardon; I did not know it was a question of odd days.

147. *Chairman:* You have raised a very important discussion, *Mr. Marks*.

148. *Mr. Marks:* I think it is a matter of the greatest interest and importance to public companies and to private people, and perhaps I might be allowed to pursue it further. Your suggestion is that it was previously the 25th March, and that in the reform of the calendar it got put on to the 5th April?—I think that is quite possible, at any rate.

149. Is not there some distinction, even in Government fiscal years, between the 1st April and the 5th April?—Yes, the 5th April is the Income Tax year and the Inhabited House Duty year, but the financial year to which the Budget accounts are made is the 31st March.

150. The Treasury year ends on the 31st March?—Yes.

151. And the Inland Revenue year so far as Income Tax or so far as other things are concerned?—It is Income Tax and Inhabited House Duty. Those are the two annual duties we are primarily concerned with.

152. Would there be any insuperable objection to altering the fiscal year, if not to coincide with the ordinary taxpayer's year, to coincide with the Treasury year?—Any "taxpayer's year" after all is only the year of some taxpayers; about 50 per cent. of business men make up their accounts to the 31st December.

153. I grant that?—And about 30 per cent. to March. I think there would be a good deal of difficulty in making the alteration to December. It looks to me at first sight as though one result would be that for one year the receipt of Income Tax would have to be limited to three-quarters of the normal receipt, and that would probably be a serious matter from the point of view of national finance. To alter it to the 31st March would probably be a small matter. I should imagine it could be done.

154. I am rather disappointed to hear you say that in your view it would be impossible to alter it to the 31st December, because although many businesses, as you say, 30 per cent., or at any rate a fairly large proportion, make up their accounts to the 31st March, do not you think that is probably due to the fact that the Income Tax year is approximately ending then, and that if the Income Tax people could see their way to alter the end of their year the businesses would do so? I can assure you so far as my own

experience goes and in my own business the tendency is always to make the financial year end on the 31st December, and most people are altering their financial year to that date.

155. *Sir T. Wainwright:* Is it not a fact that this fixing of the date in March was merely a device of Mr. Robert Lowe to get five quarters Income Tax in the one year?—I think that was when the quarterly payment was done away with.

156. That was so; he got five quarters in one year.

157. *Mr. Marks:* Is any evidence coming from your legal department?—I have not given any consideration to that question so far.

158. Perhaps I ought to ask you that, *Sir*.

159. *Chairman:* What is that?

160. *Mr. Marks:* If there is a legal witness coming; there are several minor points of a legal character which I should like to get cleared up as a sort of preliminary.

161. *Chairman:* If you will put them in writing we will see if they can be answered.

162. *Mr. Marks:* Perhaps if I ask one or two points *Mr. Hopkins* would see what the character of the thing is.

163. *Chairman:* Yes.

164. *Mr. Marks:* There is constant mention in the Act of "profits or gains" and in some cases "profits and gains"?—Yes.

165. Implying that in some connections they are alternative or possibly have the same meaning, and in others they are a different thing. Is there any special virtue in the distinction?—I think there is judicial authority for saying that virtually they mean the same thing.

166. In the new Act, if we ever get one, they might be described as the same thing?—I think so.

167. I have forgotten where, but I notice in one of your memoranda you speak of "income or profits" rather, I think, as if they were the same thing?—It is just possible that I was using language loosely there; I am sorry if it is so.

168. I should think it very unlikely. It is in Paragraph 4 of "The Existing Income Tax System" [see App., p. 4]. When you talk of classification of "income or profits" I conceived that there might be a distinction there, but in the last line but three you say: "These five descriptions of income or profits"—Frankly, I think I was becoming just a little colloquial; that is all. I had no definite technical distinction in mind.

169. Is there any distinction between "interest and discount," say, and "profits of interest and discount"?—I think that is a very technical question to throw at me, if I may be allowed to say so, but speaking on the spur of the moment I doubt whether there is any substantial difference.

170. Then another historical question, partly historical and partly legal. When was it decided that interest was taxable as interest; could you tell me that?—From the beginning, I think the charge upon interest is clear in Case 8 of Schedule D.

171. That was not quite my point. Perhaps I may explain a little further. There was a case in which a Life Insurance office was engaged, the Clerical, Medical and General Life Assurance Society versus Carter, I think, which did establish that as a principle, as I have always understood. I think it went to the Court of Appeal. What I want to know is whether that did establish that principle, as an interpretation of the Act of course, or whether there is any other case, or whether it dated back before then?—No. I think the Clerical and Medical was the first of those cases.

172. What I rather ought, perhaps, to have asked was whether the Clerical and Medical case was the leading case which decided that interest was taxable as such?—That is so.

173. Could you tell me, are there any other subjects of taxation which are in *pari materia* with interest in that connection, which have been decided to be taxable as such, other than interest?—Schedule D extends to a great deal more than commercial profits.

174. Yes.—There is a charge upon interest: there is a charge upon rents and dividends—property of all kinds coming into this country.

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175. Of course, Schedule D is tremendous?—Income Tax as a whole is not limited in any way to commercial profits. I think possibly you have in mind the case of concerns which are engaged commercially and are yet assessed upon interest.

176. Yes, that is so. I dare say I am quite wrong, and I am asking purely for information at the moment. It seems to me that decision established that interest was taxable as such, just as tobacco is taxable as tobacco, or sugar as sugar. Am I wrong in that, or is it that the effect of that judgment?—Just as the income from land is taxed, or just as the income from foreign possessions is taxed.

177. No; I think, to my mind, it goes a little further than that, because then you are taxing income; but I am not going to press it any more. That is one of the difficulties which I have in following this complicated matter. There is another point which I should like to ask you. Has there been any definition of what constitutes income?—I do not think that in any of the decided cases there has been any comprehensive definition.

178. There is nothing to show whether sums received in certain connections are income and others are not; there are no criteria by which you may judge what is income and what is not, as, for instance, that the thing must be reduced into your possession and be capable of being spent by you, and so on?—You have, of course, I was going to say, a whole volume of statutory definition upon it; upon individual aspects of it you have a great mass of case law.

179. But there is no general definition of income, that you know of?—No, beyond profits and gains.

180. That is another question that ought to go to the legal side?—Yes.

181. Mr. Synnott: On the question of double taxation, apart from the question of sentiment, which you alluded to as regards the grievance to the individual taxpayer, that would be the same as regards Double Income Tax in France, where we know there is an Income Tax, or in America?—You certainly get double taxation wherever you get inter-trade relations.

182. From the point of view of the Revenue, who wants the money, and the taxpayer who pays it, there is just as great a grievance in the case of Double Income Tax in France or America as there would be in the Colonies?—Yes, unless you attach importance to the view that the grievance lies in the double contribution to the fund for the common purpose.

183. You spoke of common fund. The common fund, of course, is really the fund for the war. While the Income Tax was low, the grievance was not very great, and was not considered so much?—No.

184. It might be said, in the case of France or America, there is also a common fund?—I should not necessarily agree that the common fund is for the war; that is not the only thing.

185. With regard to some figures you promised us, could you give us these figures, if the Chairman will allow it? What I should like are figures as to the loss to the Revenue by graduation and by differentiation since 1907. You pointed out that from the Committee of 1906, both graduation and differentiation largely increased in that year?—Yes.

186. The great extension of differentiation and graduation was previous to the war, when not so much Revenue was required. Could you give me the figures showing the loss to the Revenue by graduation and differentiation since 1907?—I am bound to say I feel great difficulty in that. What assumption am I to take? Am I to take this assumption, that but for this extension of graduation and differentiation, Income Tax at the present time would be charged upon all incomes at 6s. in the £ subject only to the old abatements.

187. No, pardon me. If you will just give it to me for each year it will do. Take the Income Tax in a particular year, 1911-1912; what has been the effect of the graduation and differentiation in each year?

188. Chairman: Can you do that now, or could you get that for Mr. Synnott?—I could put in curves, perhaps, which would show it. [See App. No 11.]

189. Mr. Synnott: You are not here, I suppose, to give answers on questions of policy so much?—I was mainly concerning myself at the present time with the position to-day.

190. I call attention to Paragraph 17 of the Report of the Committee in 1906. [See App., p. 54.] They said at the end, referring to the question of the practicability of extending the then existing system of abatements, that there are limits beyond which it cannot conveniently and usefully be extended: "Those limits"—that is the limits of abatement—"will be reached when the total amount of the abatements become such as to require a large increase in the normal or foundation rate of tax, and the amount of the income to which the system of abatement is extended reaches a figure which would involve the serious inconvenience of collecting large sums of returnable money." I understand, with regard to that inconvenience, of the Treasury having a large sum of money which they have to return, that has been considerably abated?—Undoubtedly.

191. Well, I will not dwell upon that. Have you anything to say on the policy of extending the system of abatements and differentiation at the very time that the Revenue, for war purposes, required to be increased? You notice that paragraph; it is the Report of the Committee?—Yes.

192. This was before the war, 1907?—The object, as I conceive, of differentiation and graduation, particularly graduation, is to fit the burden to the back, and when rates are increased to the enormous extent that they have necessarily been increased during the war, it seems to me that the old system of graduation which was adequate against the 1s. rate, may be quite inappropriate and insufficient against a rate such as we have at the present time. Whether the present limits and character of the graduation and differentiation are right, or whether they should be modified in the future, is, I do not doubt, a matter that the Commission would like to consider.

193. Chairman: That we should have to deal with. —But that something had necessarily to be done during these recent years, seems to me, if I may say so, to be obvious.

194. Mr. Synnott: We have to raise a large amount of Revenue, a definite sum. Have you anything to say—later on perhaps you can say it—upon the policy, at the very time that you have to do that, of extending the system of differentiation and graduation?—Do you mean as regards future policy?

195. Yes?—Yes, we have to consider that. Taking the assumption that a certain sum has to be raised out of the Income Tax, the whole question of graduation and differentiation must be looked at as a whole. It is a very big subject, and one on which we should wish very likely to lay considered evidence before you at a later time.

196. You are aware, of course, that Sir Robert Peel, Mr. Gladstone, Mr. Lowe, and Mr. Diersdi—I might add him—and Mr. John Stuart Mill were, some for economic, and others for political reasons, all opposed to a great extension of a system of differentiation and graduation, on the ground that it would destroy the tax?—A system of graduation rather than differentiation, at any rate as regards John Stuart Mill. Might I also say this: that since the days of John Stuart Mill and those you have named, a good deal of water has flowed under the bridge.

197. I quite agree, but as regards differentiation, can you logically distinguish between earned incomes and unearned incomes?—I am sure you will not expect me to go into the whole of a subject which was examined for many weeks by the Dilke Committee in 1906. The Dilke Committee were concerned originally with "lax" and "industrious" incomes, "spontaneous" and "I forget the other term," "permanence" and "precarious" incomes, and finally they hit upon the terms "earned" and "unearned," in which they had a distinction in mind which they did not attempt to define very exactly, and they admitted that a very precise definition was impossible. But, I

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think, broadly speaking, it may be said that an earned income, and an unearned income, is a thing which you know when you see it, and the charge of a lower rate of tax upon the earned income, in my judgment, undoubtedly accords with public sentiment at the present time. But whether the amount of the differentiation—the line running all through the scale—is right, or should be altered, is no doubt a matter for consideration.

198. That Committee had to abandon the question of "precarious" and "permanent," and make another distinction of their own, and in paragraph 15 of your historical summary [see App., p. 55] you say the Committee, when reporting, admitted it was not easy to make a logical distinction?—That is so.

199. And they thought it would be an acceptable working distinction if private traders' incomes were "earned," and profits of companies "unearned"; but it is absolutely illogical, if I may be allowed to say so?—I do not think it was. This was the best effort they could make to arrive at a reasonable working distinction for the purpose of a working world.

200. Was it a successful effort?—On the whole, I should say it did pretty well.

201. Having regard to the way in which businesses are carried on by public companies now, really in all but form private, in what sense can it be said to be true that because a business is carried on by a public company it is unearned, and by a private person it is earned?

202. *Chairman:* We will let Mr. Hopkins have a few days to think over that.

203. Mr. Armitage-Smith: If you will be kind enough to look at Table X of your statistics [see App., p. 26], there are some details given as to Super-tax from the year 1909-1910, up to the present time?—Yes.

204. May we have similar figures for Income Tax payers in each category? By "each category" I mean persons who pay at each rate, or alternatively, if that is inconvenient to you, persons within certain limits of income, which we might perhaps leave you to prescribe?—Yes, subject to this: I am not sure that I could even attempt to give it for all of these years. The calculation is a very difficult statistical one, and I should have to put it in under reservations, but I will certainly arrange to put in something on those lines, if you so wish.

205. I would rather leave that to the witness. What I want to get at is the distribution of tax between the various categories of taxpayers.

206. *Chairman:* You will do that?—I will do the best I can. [See App. No. 11.]

207. Professor Pigou: It is explained in the memorandum that undistributed profits are taxed at a flat rate. What happens if the company afterwards distributes those profits in a later year?—Provided that they are distributed in the form of profits, and they are not distributed in the form of capital, they then cease to be undistributed profit and become distributed profit: Income Tax is deducted from them as the profits go out, and they thereupon form the income of individuals.

208. They are taxed at the rate of the year in which they are distributed?—They form part of the income of the taxpayer for the year for which he receives them.

209. It is explained also in the memorandum that War Loan held by foreigners is of course not subject to tax; but if a foreigner holds shares in Municipal Stock or an English company, he is?—Yes, he is liable at the ordinary 6s. flat rate. That was based upon the decisions of the Ritchie Committee.

210. Does that not leave a danger that an Englishman owning War Loan might exchange it with a foreigner for shares in an English company, and that there would be a loss to the Revenue and a profit to these people?—I think that is so. Of course, the decision to issue War Loan under the conditions in which it was issued during the war, and the considerations governing it, were not Revenue considerations. It was done for very special and urgent reasons con-

nected with the war. From the point of view of the Revenue, future issues, I think undoubtedly should all be under the ordinary form of deduction of tax under Schedule C.

211. What I wanted to get at rather is how important this is now that things are free. Is there any knowledge of how much of such things as English Municipal loans foreigners hold, because otherwise there might be a considerable transfer, which would mean a large loss of Revenue?—The whole question is extraordinarily difficult. I do not think I can undertake to attempt an estimate which would be at all reliable upon that subject. [See App. No. 11.]

212. You would not be able to say whether you think the risk is an important one, and one that ought to be dealt with quickly?—Certainly, I will see that it is looked into, and if we can do anything in the way of expressing an opinion, we will.

213. Could you tell me what the exact process is by which the graduation scale is arrived at? Is it arrived at from any formula?—No, I do not think it is arrived at from a formula. Of course there are mathematicians in the world, and I believe particularly in Holland, who work out by abstract mathematical formulae the exact measure of taxation that ought to be put upon different backs. For my own part, I should say that how much in relation to each other different taxpayers should pay, is not a question of mathematics, but a matter of common judgment; and the value of a formula merely comes in, after you have arrived at a conclusion by the exercise of judgment as to the general lines of your graduation, for the advantages it can give in providing that your curve is smooth within the general lines that you have previously decided upon.

214. What actually happens is the thing is generally discussed by the Revenue officials as a matter of judging the expediency of each particular jump, and things of that sort; there is nothing behind?—These things are decided by the Government ultimately, are they not?

215. Mr. Mackinder: I have only two points, and the first one relates to data which it seems to me might be valuable, and that we should have them. On Table VIII of the statistics you put in [see App., p. 24] I find the heading "Income Tax repayments." Take that series of columns. I take it they give you really duplicates in the case of the total. Take for instance 1918-1919, a total of a million and a half, adding up the numbers of that succession of columns. I take it the number of taxpayers involved is a very much smaller number than the million and a half?—I think that is so.

216. Have you any idea of the total number of taxpayers making claims for repayment?—I am afraid I cannot give you a figure now, but I have no doubt we could provide the figures.

217. It may be that I have missed it, but I do not find anywhere in the statistics any statement made as to the total number of taxpayers?—No, but that, I think, will perhaps form part of the statement which I have just promised to try to get out, dividing incomes and taxpayers into classes. [See App. No. 11.]

218. So that we should then be able to see the proportion of the total number of taxpayers who make claims for repayment?—Yes.

219. It seems to me that is a very important thing?—I will see that that figure is included.

220. Can you give us at the same time, when you are giving us those figures, any estimate of the cost in which the Department is involved in adjusting those repayments?—Undoubtedly we can; it is quite a small figure, of course. [See App. No. 11.]

221. I will tell you what I was leading up to, really, as to whether you could not help, not the large tax-paying companies who can afford accountants, but the small people who are making the repayment claims. I will put it in another way: can you give us any idea of the number of people who do not reclaim because of the complexity of the system, and who really lose money to the Revenue?—I think in the old days, when the amounts involved were not large, there were a good many, but I believe the numbers now are very small indeed.

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222. Do you think that these people go to agents and have to pay those agents?—Not to any large extent, no. Many of them are already helped by the Surveyor of Taxes, and we are hoping to extend that system, so that taxpayers, to a larger extent than now, will naturally go to the Surveyor's office for the purpose of getting advice in filling up forms.

223. The only other point is with reference to a question put to you by Professor Pigou just now. If you assume a company to have made a certain amount of profit it will be taxed, will it not, on the whole of that profit, whether it distributes it or not in a given year?—Yes.

224. Supposing it reserves a certain amount of profit, and in a future year, for some reason or another, it distributes to its shareholders more profits than it actually makes in that year. How will the Income Tax be passed on in that case to the shareholders? I know of a case where that has happened. —I think what will actually happen in practice is that Income Tax will be deducted from the whole of the dividend which is paid to the shareholders, so that looking at that year by itself, the company will have deducted more Income Tax than it has paid.

225. The company will make a profit on Income Tax?—But, as I understand, there are previous years in which the company has paid more.

226. At a different rate, possibly?—Yes, that does happen.

227. Mr. Birley: I have one point to ask you with regard to your paper on the Existing Income Tax System. In paragraph 5 [see App., p. 4] as to graduation and differentiation, you are referring to people living abroad, and under (b) you say: "In the case of a large income the resident abroad who is technically chargeable to Super-tax can seldom be made to pay the tax." What is the difficulty?—The difficulty is that you cannot get at him.

228. But he has property here on which he is charged?—Yes. Income Tax is chargeable by deduction at the source, but Super-tax is charged by direct assessment. All you can do is to assess the amount of his income and write a letter and say that Super-tax is payable, but whether he will actually pay it or not, is, of course, a different matter.

229. But with his property here, cannot that be attached? Cannot he be assessed on the assumption that it is at the higher rate of Super-tax, and the onus be left on him to prove that he is not liable to that?—There is no power in the law at present to do that.

230. There is a leakage in that case?—There is undoubtedly a leakage.

231. Chairman: Would you bring that point up when we discuss it, Mr. Birley?

232. Mr. McIntosh: In paragraph 33 of your evidence-in-chief you refer to the existing method of taxation of trading concerns. I think you agree that the most fruitful source of revenue is under Schedule D, which is given in your statistics at Table VII [see App., p. 23] as amounting to 62 per cent. of the total income from Income Tax?—Yes.

233. 184½ millions?—That is so.

234. The point I wanted to ask you there was, at the present time you have various methods of assessing that tax. You assess it on the basis of one year, sometimes the actual year, sometimes the preceding year, and then again you have the three years' average and the five years' average. I do not know whether you are prepared to-day to make any suggestion as to the simplification of the assessment of trading concerns?—You are asking me a very big question to deal with in a very few moments.

235. No; I do not ask you to do it to-day. Probably it is a point that someone will come along and deal with; it is a very important question?—That is just what I think. I thought that probably at some later stage the Commission would like to have considered evidence from us.

236. Chairman: Will you take a note of that?—Yes; it is a matter we have been considering for a long time, naturally.

237. Mr. McIntosh: On paragraph 35 of your evidence-in-chief there is one point. You refer to the leakage of the Super-tax which at present occurs through non-distribution of profits as income?—Yes.

238. You have already been asked some questions with regard to the number of Super-tax payers?—Yes.

239. Could you explain just in a word the method by which that is evaded?—I think there are three things we should like to bring before your notice. One is the case where a trader, owning a very valuable business, has turned it into a private company, and does not distribute the whole of the profits out of the company into his own pocket. They remain there in reserve. Sometimes he may borrow money from the company instead of distributing profit. In another case he may wind up the company and take the profit as capital. We get the Income Tax at 6s. on the profits of the company, but at the present time there is a danger of leakage in these cases of the whole of the Super-tax. That is one class of case.

The second class of case happens quite ordinarily and it may be without any suggestion of effort to evade the tax. It is the case of the ordinary reserves of public companies. There are cases in which large sums remain in reserve and are ultimately distributed out in the form, let us say, of a bonus issue of shares. Those issues sometimes take place under such conditions that they have to be regarded as capital, and cannot be treated as income in the hands of the recipients. In some cases of that kind there is also a considerable leakage of Super-tax in circumstances in which, probably, Parliament never intended that Super-tax should not be paid. There is one other lesser class of case I might just mention in passing, and that is where individuals liable to Super-tax execute trusts and divest themselves of portions of their income upon trusts to apply the amounts to the benefit, it may be, of members of their family or relatives, or something of that kind. Naturally leakage may take place in that connection. I think those are the three heads that we should like to bring to your consideration at a later time.

240. Do you propose to put in any information indicating the amount of loss to the State?—Yes, we will try to, but speaking offhand, I should say it is about a million.

241. There is one other small point, and that is taxation at the source. Do you agree that the fact of certain taxpayers overpaying is the only argument against taxing at the source?—That is the only argument, and we can deal with that by making it as simple as possible for them to get it back.

242. I see by the tables you have put in that the claims have increased enormously of recent years?—That is so.

243. Can you give any figure as to the possible gain to the State by taxpayers failing to reclaim?—Naturally that is extraordinarily difficult, but my own impression is that the amount is very small.

244. I take it that your 50 millions is a net figure at which you estimate the loss to the State by the abandonment of the system of taxation at the source?—Yes.

245. Chairman: It seems a very large figure, having regard to the schedules from which the tax comes, and knowing how slender is the chance of evasion on the main schedule, especially with the extension of limited companies?—You would like perhaps to have me up and put me through a close examination at some time.

246. Sir J. Harcourt-Banner: Any amounts that come from America and the Colonies you tax on the profits as shown by the trading out there, do you not? In the case of a company which is carrying on business here and also carrying on business there, the charge is of course on the whole of the profits if the company is controlled here. In the case of income from foreign possessions and the like, we charge upon the whole of the income, even though not remitted, except in the case of possessions which consist of unremitted profits of private businesses. Rents, stocks and shares and securities, are chargeable upon the whole of the foreign income, whether remitted or not.

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[Continued.]

247. So that if the profits were used, say, for the extension of a gas works, you would still charge Income Tax on them, providing the company was a company registered in this country?—Yes, if controlled here.

248. Really the Income Tax is charged on the whole of the trading either in America or the Colonies, even if all the earnings and every part of the work done is transacted in America or the Colonies, and the only duty of the office in this country is the ledger work, receiving and distributing the dividends?—The direction and management must be here.

249. If, for instance, a native in Natal has shares in a company of that description, does he have to pay both in Natal and this country on the full amount of his dividends?—Yes, within the conditions I have named, he does. I, of course, agree that this question of the charge of Income Tax arising out of the doctrine of control is one which will undoubtedly be brought to your notice, and I do not doubt you will wish to consider it.

250. How are you dealing with the "free of Income Tax" question, which is so largely coming to the front, and which I see by the papers is coming to the front in new issues. How are you to charge on that so as to see that you are properly protected, and especially those which are coming to the front "free of Income Tax up to 6s."?—I think we are protected. In the case of an ordinary dividend, if it is paid free of tax, the amount of the income is treated in the hands of the individual as the gross amount which, after deduction of the tax, corresponds to the net amount received. There is, I know, a good deal of feeling in favour of abolishing tax-free dividends and the like, but there is not, I think, an actual loss of revenue involved under the present system.

251. You see no difficulty in seeing that you get the full benefit which accrues to these parties who get it free of Income Tax?—I think the position is sufficiently safeguarded. It would be much more convenient, I believe, from the point of view of the Department if tax-free dividends were not in future paid, that is to say, if the deduction were shown on the dividend warrant.

252. Are you satisfied as regards the speculation on cotton and wheat, and all those other things which have been going on so largely during the last few years, that you get your full tax? We know that there has been a great amount of speculation?—Are you possibly thinking of cases of isolated transactions that would not fall within the scope of the Income Tax?

253. Yes.—Of course the whole question of the charge of Income Tax on isolated and casual transactions is a difficult one which arises in a good

many connections, but as regards the desirability of making the Income Tax include the profits on speculations, I think it is just as well to bear in mind that in speculations it often happens that where there is one person making a gain, there is another person making a loss, and if those two things happen to cancel out, the Exchequer has gained nothing. If the losers lose more than the gainers, then the Exchequer loses also.

254. Just at present it does not look like it. It looks the other way. In the isolated cases that you speak of, are you satisfied that you are able to get proper payment, or on what basis do you found the principle of allowing the evasion of the Income Tax in isolated cases?—We only charge, of course, on annual profits, and within the meaning of that there must be some idea of continuity. The transaction which is purely isolated, whether it results in a profit or not we should exclude from the taxpayer's total income.

255. On the question of Super-tax, in addition to reducing the rate from £5,000 down to £2,000, the premiums of insurance are not allowed, whereas they are allowed in Income Tax?—That is so; that applies since 1916.

256. So in Super-tax a man now pays on a higher basis, and he is not allowed his premiums of insurance?—That is so.

257. Mr. Bowerman: May I get an expression of opinion from Mr. Hopkins on the points of the quarterly collection of Income Tax from the workmen. Does it work satisfactorily, expeditiously, and with advantage or not?—I think so. From our point of view it is quite satisfactory. We have had a great deal of help from representatives of the men at different times in keeping it going, and it is quite a convenient system.

258. Is it an expensive method of collecting the money or not?—Of course it costs more than to collect once or twice a year, there is no doubt about that; and inasmuch as there are very large numbers of charges, none of which are very large in amount, there is a considerable net cost.

259. Chairman: You could perhaps get the figure for Mr. Bowerman, because it is rather an important point?—Yes. [See App. No. 11.]

260. Mr. Kerly had some questions to ask you, but he is going to put them in writing, because we determined to adjourn at half-past one. He has kindly arranged to put his questions to you in writing and we will circulate them to the Commission.

261. Mr. Kerly: They were only suggestions as to the future evidence of Mr. Hopkins.

262. Chairman: We are very much obliged to you for coming here.

Sir THOMAS COLLINS, called and examined.

263. Chairman: Sir Thomas Collins, you are Chief Inspector of Taxes?—Yes.

264. How long have you held that office?—I think a little over five years.

265. Have you been all your life in the Civil Service?—Yes, I have been in the Service 37 years, beginning as an Assistant Surveyor of Taxes, and progressing on through various positions.

266. You understand the whole of the details of the work of Surveyors, do you not?—Yes.

267. Have you read Mr. Hopkins' statement?—I read it a few days ago.

268. You know what he said, so there is no necessity for going over the same ground as he did. Will you please read your statement, and any anything you wish to add on the salient points of it, and then you can be examined by the members of the Commission?

269. (Par. 1). The following summary is intended to give in outline the scheme of administration of the Income Tax.

270. (Par. 2). By the Income Tax Act, 1918, which consolidates the various enactments from 1842 onwards, the Board of Inland Revenue are specifically entrusted with the "care and management" of the

Income Tax, and are given power to "do all such acts as may be deemed necessary and expedient for raising, collecting, receiving and accounting for the tax in the like and as full and ample a manner as they are authorised to do with relation to any other duties under their care and management."

271. (Par. 3). The Board are, in fact, in relation to Income Tax administration a central co-ordinating body with the ultimate responsibility, under Ministers, for seeing that no default occurs in the execution of the Act in any part of the country. They are answerable to the Chancellor of the Exchequer, and control the organisation consisting of Inspectors and Surveyors of Taxes, who, with their clerical staff, are situated in the hundreds of districts into which the United Kingdom is divided. These officials are permanent civil servants, and are responsible to the Board for safeguarding the legitimate interests of the Crown in all matters relating to Income Tax. The Act authorises bodies of (unpaid) Local Commissioners to appoint Assessors and (with certain important exceptions) Collectors, and to make assessments, in their respective areas. The Board of Inland Revenue exercise a general control, and ensure through their Tax Surveying Service, in association with the Local Commissioners, the continuous and co-

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[Continued.]

sistent application of the machinery of administration provided by the Act. They also draw the attention of the District Commissioners to new legislation and other matters of general significance in relation to income tax, and by making statutory regulations prescribing the forms that are in use for income tax purposes, and making arrangements that are applicable to the tax as a whole, they secure a general uniformity of procedure.

272. (Par. 4). The Board are ex officio Special Commissioners of Income Tax, in which capacity they actively control the repayment of sums overpaid; and their general functions include also the making of arrangements for transferring the duties collected by local Collectors to the Exchequer.

273. (Par. 5). The duties of Surveyors, in law and practice, I am describing in a separate memorandum, which I am putting in. [See App., p. 4.]

274. *Chairman*: If there are any important points that you would like to amplify while you are reading, please do so. If you want to amplify by any explanation as you go along, that will be very convenient for us?—If you please.

275. (Par. 6). In Great Britain the method of administration of the Income Tax Acts in its local aspects is, to a certain extent, based on that adopted in connection with the Land Tax—a tax that, at the time of the introduction of the Income Tax, had been in existence for more than a century.

276. (Par. 7). Under the Land Tax Acts the county was made the unit for administrative purposes, and in pursuance of this plan a separate body of Commissioners was nominated by the Acts for each county.

277. (Par. 8). The Commissioners so appointed for the county at large were required to select particular groups of Commissioners from among themselves to act in the several areas—now called divisions—into which, under the names of hundreds, wapentakes, rapes, lathes, wards, &c., many of the counties had long been divided. (That is relating to the old Land Tax division.) I have a note here which may be of interest to some of the Commissioners, that the number of divisions in Great Britain is about 725. There are about 725 bodies of General Commissioners, as they are called, engaged in the Income Tax administration in Great Britain.)

278. *Mr. Mackinder*: Do their districts coincide with the districts of the Surveyors?—No, not at all. You might have one Surveyor taking four or five divisions in the country; and, taking an extreme instance the other way, in the City of London Division we have 34 Surveyors.

279. But a group of Commissioners' districts would correspond with a Surveyor's, or vice versa?—No. One division of Commissioners might have five or six Surveyors.

280. But either one way or the other, are the boundaries co-terminous? Do you get either a group of Surveyors under such a body of Commissioners as the City of London or do you get a group of smaller bodies of Commissioners under a single Surveyor?—No, they do not run uniformly like that. You might have a Surveyor who took two divisions of Commissioners and a half or a third or a fourth of another division of Commissioners. There is no uniformity there.

I think there are 5,600 General Commissioners in Great Britain. Of Surveyors and Assistant Surveyors and Inspectors—what we call the technical staff—the authorised number is 1,225. I think we are short to the extent of 80 or so at the present moment owing to the war. There are 601 Surveyors' districts in the United Kingdom.

281. *Mr. Symonds*: In Great Britain and Ireland?—Yes, in the United Kingdom.

282. (Par. 9). The only variation from this plan was that certain cities, boroughs, cinque ports and other places expressly enumerated in the Acts were constituted separate "divisions," the Commissioners for which were not appointed from amongst the Commissioners for the county, but were separately nominated.

283. (Par. 10). The Commissioners so allocated to, or specifically appointed for, each division were enjoined to take the necessary steps for putting the Land Tax Acts into force as regards each parish within their division.

284. (Par. 11). When the Income Tax was introduced, local authorities were instituted in the form of General Commissioners (a short term for Commissioners for the general purposes of the Income Tax) who, with a few exceptions, were to be appointed from amongst or by the Land Tax Commissioners acting for each division. It was provided that no person should be eligible for appointment as a General Commissioner unless he was possessed of property of a prescribed amount. These General Commissioners were then to take the necessary steps for putting the Income Tax Acts into force as regards each parish within their respective divisions.

285. (Par. 12). These provisions still apply, vacancies amongst the General Commissioners being filled from lists of "Commissioners to supply vacancies," which lists are replenished from time to time by the Land Tax Commissioners at meetings specially convened for the purpose by the Board of Inland Revenue. Both bodies of Commissioners are unpaid. (That is, the General Commissioners of Income Tax are still not nominated directly as Commissioners, but are put on to the list to supply vacancies in Commissioners by the Land Tax Commissioners for the division, which is generally co-terminous with the Land Tax division.)

286. *Chairman*: These Commissioners are unpaid?—Yes, all unpaid.

287. And they are nominated by the Land Tax Commissioners?—By the Land Tax Commissioners.

288. How do the Land Tax Commissioners get these names put before them?—I think it is entirely their own selection. They select them from their own body of Land Tax Commissioners ordinarily.

289. Supposing you have Commissioners for a city like Leicester, how do you select these Commissioners to deal with the Income Tax there?—You start with what is called the list to supply vacancies. The list to supply vacancies is filled up from time to time by the Land Tax Commissioners for the Division.

290. And they can nominate whom they please?—They nominate persons who are already Land Tax Commissioners.

291. Who nominates the Land Tax Commissioners?—All Justices of the Peace are ex officio Land Tax Commissioners, but, apart from that, you get from time to time what is called a Names Act. The last Names Act that I have any knowledge of was passed in the year 1906. I believe Names Acts are usually passed in the first session of a new Parliament—not in the first session of all Parliaments, but from time to time. The last Land Tax Names Act was passed in 1906. There was a General Election, I think, a very notable election, in 1906, when this Act was passed, and the names of persons which that Act made Land Tax Commissioners were published in the London Gazette. I have a copy of the Act here. I do not think there has been a Names Act since 1906.

292. I was only wondering where does it really spring from?—How gentlemen get their names into the Names Act is, perhaps, a matter which is known in Parliamentary circles more than in our own.

293. Is it a sort of patronage?—It is a mystery, I think.

294. *Mr. Mackinder*: Do you mean that practically since 1906 the Justices of the Peace are the Land Tax Commissioners?—They are ex officio Land Tax Commissioners.

295. And they are the great majority, I suppose?—No; I think, as a rule, in their capacity of ex officio members, they hardly take any interest in the matter. The persons who act as Land Tax Commissioners are mostly persons who are nominated ad hoc to that dignity.

296. *Chairman*: Can you then fathom that mystery for us at some time?—Of the Names Act?

297. Yes, and how these names get there?—I would not like to undertake that.

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298. *Mr. May*: Is there no specific provision in the Act that you have in your hand?—Might I pass it to you?

299. *Mr. Mackinder*: Is that a Names Act?—That is the last Names Act, that of 1906.

300. *Mr. McLintock*: In one city in Scotland, we have one body of Commissioners, who are known as the City Commissioners, who are elected and drawn wholly from the ex-magistrates of the city, whereas we have another body drawn from the Land Tax Commissioners?—That is the Lower Ward.

301. Yes, they are all ex-magistrates.—In Scotland the Land Tax Commissioners are known as the Commissioners of Supply, and the Commissioners of Supply have power given to them specifically by an Act of Parliament to nominate the General Commissioners.

302. But there is this other body, which is the only one I know of in Scotland, which is drawn solely from men who have been magistrates of the city?—They would be ex officio Land Tax Commissioners.

303. *Chairman*: I will ask you further questions on that later, Sir Thomas.—I should like to add that Land Tax matters and Land Tax Commissioners are subjects with which we are not daily brought into contact, and, particularly in Scotland; we are not very much interested in Land Tax matters.

304. But could the Commissioners be of great service to the Income Tax authorities by their local knowledge?—Yes, I think that is always so.

305. But they are not elected primarily for that reason, are they?—I would not like to say. Going back to a Names Act, which is the great fount of Land Tax Commissioners, I cannot for a moment pretend to know what led to the selection. The "Gazette" of some date in 1906 contained hundreds of names all over the country; how they were selected, I do not know, and I do not know who could tell you.

306. *Mr. May*: May I say, my Lord, that in this Act which Sir Thomas has passed to me, the last clause says: "for removing doubt." I think that is the point at issue. Reference is made to the Land Tax Commissioners Act, 1827, and there is another mysterious reference to a schedule which will appear in the London Gazette which will be sufficient justification of the qualifications, and so on, of all these gentlemen.

307. *Chairman*: Will you please proceed with your statement?

308. (Par. 13). The General Commissioners for each division are required to appoint annually a Clerk, who is to attend all meetings of the General Commissioners and also of the Additional Commissioners.

309. (Par. 14). The Land Tax Commissioners and the General Commissioners for a division usually appoint the same person to be their Clerk. (In Great Britain the Clerk to the Commissioners for Income Tax and for Land Tax is the same person, except, I think, in about 14 cases.)

310. (Par. 15). The Additional Commissioners are appointed by the General Commissioners and are charged with the duty of making the assessments under Schedule D. Like the General Commissioners, they are subject to a property qualification, but on a lower scale; they, too, are unpaid.

311. (Par. 16). In England, the General Commissioners each year appoint for each parish or assessment area officers, known as Assessors, whose duty it is to issue forms of return, to make assessments under Schedule E (annually) and under Schedules A and B (in certain years as stated in paragraph 34), to prepare the statutory lists on which the Schedule D assessments are based, and to perform various other services. (In England and Wales there are about 16,000 parishes. Originally, Assessors and Collectors were appointed for each parish, but power was taken later on, or the power was latent—I do not know its original source—under which you could unite adjacent parishes, and for Income Tax purposes treat them as one parish. I think in some cases the Commissioners throughout the country found it convenient to unite as many as ten or eleven adjacent parishes; so by that means, although there are about 16,000

parishes in Great Britain—I am leaving Ireland out of the matter for the present—they have been united and now form what are called Income Tax parishes, to the number of 6,800 only. In those 6,800 cases you find that the same Assessor is sometimes appointed for more than one area, so that there are about 4,500 Assessors in Great Britain.)

312. (Par. 17). In Scotland, the General Commissioners likewise appoint all Assessors, but, where the Surveyor of Taxes has been appointed Land Valuation Assessor within any county or burgh for the purposes of the Lands Valuation (Scotland) Act, 1854, the Commissioners may not appoint any other person to act as Assessor of Income Tax for such area. In other areas, the Commissioners appoint an Assessor either the Surveyor of Taxes or some local person.

313. (Par. 18). In the following cases the Surveyor of Taxes acts as Assessor:—

- (a) where no Assessor has been appointed for any area, or, having been appointed, does not act;
- (b) within the Metropolis, for the tax chargeable under Schedules A and B;
- (c) outside the Metropolis, for the tax chargeable under Schedules A and B in years other than those of general re-assessment (see paragraph 34).

(That is, when there is a general re-valuation the local Assessor is appointed, but in all other years—that is, generally four years out of every five—the Surveyor is the Assessor, and in present circumstances has been the Assessor since the year 1910, which is the last year of re-valuation. Owing to the difficulties in carrying on the work, created by the war, there has been no re-valuation since the year 1910; the Surveyor has been the Assessor throughout the country since that year.)

314. (Par. 19). In England, Collectors are also appointed by the General Commissioners (with the important exception of those cases in which the power to appoint has vested in the Board of Inland Revenue) for the purpose of collecting the duties assessed in the respective parishes or areas for which they act.

(That power of appointment by the Board of Inland Revenue comes about when Local Commissioners fail to make an appointment of a Collector by the 31st May in any year of assessment. If they let the 31st May pass in any year without making an appointment of a Collector for any parish, power vests after that, for good, in the Board of Inland Revenue. As a consequence of that, outside London, the Board now appoint Collectors in nearly all the important towns in England and Wales.)

315. (Par. 20). In Scotland, all Collectors are appointed by the Lords Commissioners of the Treasury, and in many cases the Collector of Customs and Excise is selected for the appointment.

316. (Par. 21). The General Commissioners form the tribunal to which taxpayers who feel aggrieved at the assessments made upon them—other than assessments made by the Special Commissioners—may appeal. Broadly, their decision is final on questions of fact, but if either the Appellant, on the one hand, or the Surveyor of Taxes as representing the Crown, on the other hand, considers the decision to be erroneous in point of law, provision is made for a case to be stated by the Commissioners for opinion of the High Court. From the decision of that Court a further appeal lies to the Court of Appeal and thence to the House of Lords.

317. (Par. 22). In addition to the General Commissioners, the Income Tax Acts provide for the appointment by the Lords Commissioners of the Treasury of a paid body of Special Commissioners—a short term for Commissioners for the special purposes of the Income Tax Acts.

318. (Par. 23). In Great Britain, any person assessable under Schedule D may elect to be assessed by the Special Commissioners instead of by the Additional Commissioners, in which case he has a right of appeal only to the Special Commissioners. Any person who has been assessed by the Additional Commissioners may elect to appeal either to the

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General Commissioners or to the Special Commissioners.

319. (Par. 24.) Assessments on railway companies in the United Kingdom for their profits, and the salaries of their officials under Schedule E, can be made only by the Special Commissioners. These Commissioners are also charged with the duty of assessing certain sources of income chargeable under Schedule C and dividends of certain foreign and colonial companies under Schedule D. The assessment of the Super-tax is also in their hands. Moreover, the powers which are exercised in Great Britain by the Local Commissioners are in Ireland carried out by the Special Commissioners.

320. (Par. 25.) As the information required to be furnished by persons assessable to Income Tax under Schedule D is of a highly confidential character, the prevention of the disclosure of such information is a matter of the utmost importance. For this reason, all Commissioners and officials concerned in the administration of the Income Tax under this Schedule are obliged to make a declaration of secrecy. Any person who acts in relation to the duties assessed under Schedule D before having made the prescribed declaration is liable to a penalty of £100, whilst any person who, having made the declaration, communicates, other than in fulfilment of his official duty, any confidential information obtained by him, is deemed guilty of a breach of official trust, which is punishable as a misdemeanour.

321. (Par. 26.) The Income Tax year of assessment runs from the sixth day of April to the following fifth day of April, both inclusive.

322. (Par. 27.) When assessments for any Income Tax year are signed (as is usual) before the first day of January in that year, Income Tax is payable in one sum throughout the United Kingdom on or before the first day of January within the year of assessment, except in the following cases:—

- (a) tax payable under No. I or No. II of Schedule A in respect of the ownership of property;
- (b) tax payable under Schedule B assessed on any individual or firm in respect of lands occupied for husbandry only;
- (c) tax payable under Schedule D or under No. III of Schedule A assessed on any individual or firm in respect of the profits of any trade, profession or vocation;
- (d) tax payable under Schedule D or E assessed on any individual in respect of any office or employment;
- (e) weekly wage-earners whose tax is assessed quarterly;
- (f) railway companies.

323. (Par. 28.) In the first four cases—(a), (b), (c) and (d)—tax is payable in two equal instalments, the first on or before the first day of January in the year of assessment, and the second on or before the following first day of July.

324. (Par. 29.) In the case of weekly wage-earners, when assessed quarterly, tax is payable within twenty-one days of the service of the Notice of Assessment.

325. (Par. 30.) In the case of railway companies in England and Ireland, the tax is payable in four quarterly instalments—on or before 30th June, 30th September, 30th December and 30th March respectively, all within the year of assessment. In Scotland the tax assessed on railway companies is payable in one sum on or before the first day of January within the year of assessment.

326. (Par. 31.) Where an assessment is ordinarily payable in one sum and it is not signed by the General Commissioners before the first day of January within the year of assessment, tax is payable on the day next after the day on which the assessment is signed.

327. (Par. 32.) Where the assessment is payable in two instalments and it is not signed before the first day of July next following the year of assessment, the whole of the tax is payable immediately in one sum. Where such assessment is signed between the first day of January and the first day of July, the first instalment becomes payable immediately.

328. (Par. 33.) The formal course of procedure set out in the Acts for the assessment and collection of the tax is described in the following paragraphs.

329. (Par. 34.) At intervals, normally every five years, a re-valuation is made of all property assessable under Schedules A and B. In such years, outside the Metropolitan Area, the Assessors appointed by the General Commissioners act under these Schedules. In years when a general re-valuation of property is not undertaken, the Surveyor of Taxes is the Assessor for Schedules A and B. The yearly Finance Act then directs that for existing properties the annual value assessed in the preceding year shall be adopted for the current year, and the assessing is mainly confined to the valuation of new properties and properties that are structurally altered. The Surveyor deals with alterations in liability to tax occasioned by changes in the ownership or in the occupation of property.

330. (Par. 35.) The General Commissioners having, in April, appointed Assessors to act under Schedules D and E (and under Schedules A and B in re-valuation years), the latter proceed to serve in their respective areas particular notices upon all persons liable to make returns under these Schedules, and to affix certain statutory general notices on the church doors. The Assessors examine the returns under Schedule E (and in years of re-assessment under Schedules A and B), enter them in the books of assessment provided, and make their assessments under these Schedules.

331. (Par. 36.) By a prescribed date the Assessors deliver to the General Commissioners these returns and assessments, together with the returns under Schedule D, and at the same time they deliver to the Surveyor of Taxes a list of the persons upon whom forms of return under that Schedule have been served. The returns under Schedule D are then entered into the books of assessment by the Clerk to Commissioners. The Surveyor is afforded an opportunity of examining all the returns and of amending the assessments made by the Assessors under Schedules A, B and E, as he may find necessary. The assessments under these Schedules are then signed and allowed by the General Commissioners, whilst the Additional Commissioners, having considered the returns under Schedule D, make the assessments under that Schedule. The Surveyor, however, has the right to object to such assessments and in the event of no assessments having been made to raise a charge. After service of the necessary Notice of Assessment, any appeals are heard by the Commissioners. The Clerk to Commissioners completes the books of assessment and prepares duplicates of them, which are delivered to the Collectors. The Collectors then proceed to collect and pay over the duties. At the close of each collection the Collectors account to the General Commissioners for all amounts given in charge to them to collect.

332. (Par. 37.) As a variation from the procedure set out above, it may be mentioned that, as regards the Metropolitan, the valuation list under the Valuation (Metropolis) Act of 1869 is by that Act made conclusive for the purposes of Income Tax under Schedules A and B, and the ordinary procedure of assessment under these Schedules does not there hold good.

333. (Par. 38.) In Scotland, the collection procedure differs slightly in its opening stage from that just outlined. After the assessments under Schedules A, B, and E have been signed and allowed by the General Commissioners and those under Schedule D have been made by the Additional Commissioners, an individual notice of assessment is sent each year in respect of each charge, and, subject to adjustment on appeal, forms in itself the application for payment of duty.

334. (Par. 39.) The formal procedure as regards making and hearing appeals and assessments which I have just described follows closely the provisions of the Income Tax Act of 1918, which reproduces the legislation of 1842 (and subsequent Acts). In practice, as is inevitable, it is the permanent whole-time official, the Surveyor of Taxes, whose whole working life is devoted to this highly technical subject-matter, who

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shoulders the major part of the burden of examining returns and settling liabilities. It is he who comes into hourly contact with the taxpayer both orally and by correspondence, who checks the returns made, examines accounts, institutes enquiries, clears up doubtful points, and generally carries the work of ascertaining liability up to the point at which assessments are ready for allowance by the Commissioners. All notices of appeal against assessments are sent to him, he collects the information necessary to enable the points at issue to be determined, investigates the particulars received, and in all but a small fraction of the total number of cases comes to agreement with the taxpayer without the Commissioners being troubled to do more than confirm the settlements which have been arrived at. The functions of this official are indeed of such practical importance that I propose to explain them in detail in a separate part of my evidence. (I have explained them in detail in a memorandum which has been put in.) [See App. No. 4.]

335. (Par. 40). The Income Tax was extended to Ireland in 1853. The machinery of the Land Tax Acts that has been referred to as forming in Great Britain the basis for the organisation of the tax did not exist there, and an entirely different system was accordingly adopted. The powers that in England are exercised by General Commissioners are in Ireland entrusted to the Special Commissioners (see paragraph 24); those of the Additional Commissioners and the Assessors are, broadly speaking, exercised by the Surveyors of Taxes. Collectors are selected by the Board of Inland Revenue, but receive their appointments and warrants from the Special Commissioners. The tax under Schedules D and E is wholly collected by the Collectors of Customs and Excise; that under Schedules A and B is collected by local Collectors.

336. (Par. 41). For the purposes of assessment under Schedules A and B the existing valuation for rating purposes is adopted, with certain provisions for relief.

337. (Par. 42). Appeals are heard by the Special Commissioners, but on the application either of the Appellant or the Surveyor as a case may be, in England, he stated on a point of law for the opinion of the High Court. A taxpayer in Ireland has also the right to require an appeal heard by the Special Commissioners to be reheard by the Recorder or County Court Judge, whose decision is final both on points of fact and law.

338. Mr. Synnott: There is no appeal to the Higher Courts?—Not from the Recorder or the County Court Judge, as the case may be. His decision is final. He might conceivably be wrong on a point of law, but you cannot appeal against it. But a practical way out of that difficulty has been found, I think, in some cases, by the Special Commissioners adopting in subsequent years the ruling of the Recorder on the same case in the previous year, and a case then being taken direct from the Special Commissioners to the High Court.

339. But there may be cases where in the past a man has appealed against a decision and the Inland Revenue has appealed against the Commissioners, and then you have taken it from Court after Court till it gets to the House of Lords?—Yes.

340. That means, of course, that he would be frightened owing to the cost. You having national money at your service, he would not be able to go on?—Well he has to think many times before doing it, I suppose. I have some particulars here of the number of cases demanded.

341. Chairman: Those can be put in?—I have not put it in the print.

342. Can you put it in for circulation?—I can give it to you or I can put it in afterwards.

343. Mr. Synnott: May I ask who appoints the Special Commissioners in Ireland; are they from local people? I happen to know, but I want you to tell the Commission?—The Special Commissioners are all appointed by the Lords of the Treasury. That is the beginning and the end of it, I think.

344. They are not resident in Ireland?—No,

345. They pay periodical visits?—They are over there a great part of the year. They go over there by the month or two months at a time; but they are resident here in England and have their head office in England.

346. Chairman: Will you please proceed with your statement?—Then I go on to the weekly wage-earners. They are dealt with in a special way.

347. (Par. 43). The tax on the earnings of weekly wage-earners (engaged in manual labour) is assessed and collected quarterly. No share in the administration falls to the Local Commissioners, nor are any Assessors appointed. The Board of Inland Revenue, by regulations which they are empowered to make, have provided for the assessment and charge being made by the Surveyors of Taxes. The persons charged have the right of appeal to the General Commissioners.

348. (Par. 44). Collectors may be appointed by the Board of Inland Revenue. Where the Collector for any parish is appointed by the General Commissioners, he acts in regard to the tax on these quarterly assessments, unless the Board give notice of their intention to appoint a separate Collector for the purpose.

349. (Par. 45). By a special provision tax may be paid by means of Income Tax Stamps—obtainable at any Post Office—to be affixed to cards provided for the purpose. These cards, when stamped, are accepted by the Collector in satisfaction of the sum due.

350. (Par. 46). The foregoing description of Income Tax administration deals almost entirely with assessments upon particular items of income which form part of the aggregate income of taxpayers. The total amount of Income Tax paid by any individual person, however, depends not only upon the direct assessments made upon him in respect of particular sources of income, for example, trade profits, directors' fees, &c., but also upon the amount deducted from his income which is taxable at the source, e.g., from dividends, ground rents, mortgage interest, &c. With certain exceptions, Income Tax is deducted from income taxable at the source at the standard rate of 6s. in the pound. But the Income Tax is a graduated tax and the rate appropriate to the incomes of the majority of individual taxpayers is considerably less than the standard rate.

351. (Par. 47). An individual who has profits returnable for direct assessment and who receives income subject to the deduction of Income Tax at 6s. in the pound but is liable to bear tax at a reduced rate is required, in order to obtain the relief due to him, not only to fill up that part of the form of Income Tax return—of which I am putting in a copy—[See App. No. 5] which relates to profits returnable for direct assessment, but also to make a statement of his income from all sources, whether taxed at the source or not. This latter statement forms the basis of his claim for relief by reduction of the rate of Income Tax from 6s. to the rate appropriate to his particular income.

352. (Par. 48). The relief due is afforded as follows:—

- (a) by deducting from the amount of Income Tax payable on a direct assessment upon the individual taxpayer (e.g., in respect of his trade profits) the amount overpaid on income taxed at the source,
- (b) by repayment of the excess tax deducted at the source, where there is no direct assessment, or,
- (c) where full relief cannot be allowed by the set-off of overpaid tax against tax payable on a direct assessment, by a set-off *pro tanto* and repayment of any excess tax not allowed by way of set-off.

353. (Par. 49). Although claims for adjustments of the rate of tax, or for other reliefs dependent upon total income, e.g., abatements, wife and children allowances, &c., are under the letter of the law a matter for the General Commissioners, the whole responsibility for dealing with these claims (except in a negligible number of cases) is in fact exercised by the Surveyors of Taxes and the Claims Branch of the Board of Inland Revenue.

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354. (Par. 50). The cash repayments of tax consequent on the allowance of claims for relief are not made by the Surveyor of Taxes, who is not an accounting officer, but by the Board of Inland Revenue in their capacity as Special Commissioners.

355. (Par. 51). When the Income Tax was reimposed in 1842, the Act (modelled on that of 1806) entrusted the "direction and management" of the tax to the Board of Inland Revenue; at the same time it provided, as indicated in the preceding paragraphs, for the setting-up of a system of local authorities in the form of unpaid Commissioners, who were, and still are, completely independent of the Board in the performance of their statutory functions. In theory the principal duty of the Surveyor of Taxes was to safeguard the legitimate interests of the Crown in the different localities, with certain powers of intervention.

356. (Par. 52). When, more than a century ago, the general plan of the Income Tax administration was devised, trade and industry were in a much less developed state than they are now, and facilities of transport and communication were restricted. Commercial life in general had then by no means its present complexity, and a form of administration almost wholly local in character was appropriate, and possibly effective.

357. (Par. 53). The past century has witnessed an immense growth in the volume of trade and wealth of the Kingdom, accompanied by a still more marked development in the complexity of business. This complexity, which in itself has greatly complicated the administration of the tax, has been accompanied by various changes in the tax, which have all tended to make the task of administration increasingly intricate. The tax has lost its temporary character, and the growth in the rate of duty in recent years has necessarily been accompanied by differentiation and graduation of tax and other measures of relief.

358. (Par. 54). From these circumstances it has resulted that a preponderating part of the vast business of administering the tax has inevitably been undertaken by trained officials, who devote the whole of their time and energies to the task; and the control of a central organisation has become essential as a directing and co-ordinating force. In actual practice to-day, Surveyors of Taxes, with their expert training and intimate acquaintance with the law and practice relating to the tax do, of necessity, carry out duties much wider in scope and more important in character than are assigned to them in law; and their work is organised and directed by the Board of Inland Revenue.

359. (Par. 55). As a consequence, the administration of the tax can nowadays be adequately carried out only by means of compromises which involve in practice a considerable modification of the functions of the various authorities and officers as laid down in law; and the consideration of the positions of the different bodies and persons concerned, and of the propriety of their respective powers, will be amongst the important matters to which the attention of the Royal Commissioners will be directed. It is obvious that, in order that a regular flow of revenue may be ensured and that the tax may be efficiently administered, it is necessary that the provisions of the law should be brought into closer relation with the actualities of the existing position.

[This concludes the evidence-in-chief.]

360. Mrs. Knowles: Might I ask you how your Surveyors in practice are appointed. Is it by a special examination, or is it the ordinary civil service examination?—I must answer that in two parts. Up to the outbreak of the war, all our staff were recruited as Assistant Surveyors through the Civil Service Commissioners.

361. By a special examination?—Not a special examination for the Surveyors of Taxes. By the intermediate examination, under which a certain class of civil servant came in who might be appointed, for instance, to the Admiralty, or to the Estate Duty Office in Somerset House, or he might come to us.

362. Then it is not the ordinary Second Division examination; it is the intermediate?—The intermediate examination; but that is common to other offices besides ours.

363. Is there any system of examination by which you get the pick of the particular class you are trying in?—Only in common with other Government offices. The Civil Service Commissioners would hold an examination for, say, thirty intermediate appointments. We might have asked them, before that examination was held, for six. Other Government Departments who are entitled to have intermediate men want 24, so they have an examination, and they pass 30; six of them come to us, and the other 24 go in other directions.

364. Who chooses among that 30? Do you take your pick, or do the candidates take their pick?—I think that is arranged by the Civil Service Commissioners. I think the Civil Service Commissioners give the first man his pick. They say: "There are vacancies in certain offices; there is the Inland Revenue, and there is the Admiralty, and so on; now where would you like to go? You are No. 1, and we will let you go where you like where there is a vacancy."

365. I happen to be at the School of Economics, and a great many of my students have gone in for this examination. This was not always the case. What about before 1908?—There was a period during which we had an examination to ourselves.

366. Did you get a better class at that special examination for yourself? Because my men who were going in were an extraordinarily picked lot. Did you get a better class at that examination or on the general examination?—I could not give a satisfactory answer to that question. If one had to go through 100 men who came in by various examinations I do not think you would find that any particular examination has given its stamp, so to speak, to a man. We sometimes get a good batch—they are all good batches, I would like to say, for the matter of that, but some are better than others—but I think it would be a very fanciful person who pretended he could say that the good men came from certain examinations.

367. You have no predilection for any special examination for this very skilled service?—Yes, I myself have, certainly. I certainly should have a special examination for it.

368. That is my impression, too, from the men I have known. How do you appoint your Collectors?—A large number of the Collectors are appointed by the Local Commissioners.

369. There is no sort of examination for them?—None whatever.

370. It is merely a sort of family inheritance?—I do not think it has presented itself to me in that way from my experience.

371. I know a few cases where it does go down from father to son?—Yes, because the son might have established himself in the work during his father's lifetime and in that way might become a suitable person to appoint.

372. You have no sort of method determining whether these people are suitable except that somebody may know somebody else and thinks it a pity that somebody's son should not have a turn. Is that it?—No. We are more concerned with, and our knowledge is better with regard to, what I may call the Board's appointment of Collectors. The Board appoint about 1,000 Collectors.

373. Mrs. Knowles: Then you are quite satisfied with the present method of appointing Collectors. It seems to me rather weakening the administration to have people who are appointed anyhow instead of having skilled men?—I do not endorse the view that our present system of appointing Collectors is the best; but of course the work of collection is quite different work from that of the Surveyor of Taxes. In the case of the Collector he has so much put in a book which is given to him and he is told that he has to collect, for example, from Thomas Jones, £1 6s. 8d., and he is given very strong powers to enforce that payment, and he gets the money.

374. There is therefore no sort of method of discrimination in the way in which your Collectors are appointed, and that is a branch you would like to see remedied. Is there any leakage from that? Do they let off friends or anything of that kind?—No.

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The Collector has to collect what he is told. He gets a book given him with the amounts in it. He has nothing to do with deciding how much a person is going to be charged.

375. Does your Surveyor get any sort of bonus on the amount he collects? Is it understood that if he does not collect from his district as much as his predecessor he does not get promotion?—You are talking of the Surveyor of Taxes now?

376. Yes, I have shifted ^{to} the Surveyor.—There is nothing of that sort at all.

377. It is not understood that the man who gets most out of the district is considered to be a good man and therefore he sides against the public?—Nothing of that kind is spoken about or thought about at Somerset House or anywhere. It is entirely remote from one's thought.

378. Therefore he is not arrayed against the public in that respect; that he gets on if he collects more?—No.

379. What would happen to a Surveyor who got less than his predecessor?

380. Chairman: The point that Mrs. Knowles puts is really believed by a great number of people to be so—that a Surveyor will not get promotion unless he collects more money. That is believed by a great number of people and she is asking you for your answer to that question?—There is no foundation whatever for it. A Surveyor's work is examined. A person's assessment might run down from £50,000 to £20,000, but that has nothing to do with the Surveyor at all; it is one of the ordinary fluctuations of commercial life.

381. Mrs. Knowles: Would there be any insuperable difficulty in these Surveyors acting in a more advisory capacity than they do at present?—To whom?

382. To the ordinary Income Tax payer. Would it add enormously to the administrative difficulties if they helped people out a good deal more than they do? Yes turns up at the ordinary Income Tax office and says: "Look here, I do not understand this," and the Surveyor is pretty short; he has got a lot to do. Is it not possible that they might act in a more advisory capacity than they do and help people more? Would it insuperably add to the numbers that might be required and make the administration too expensive?—I do not know quite from what starting point such a thought is taken.

383. Take the case referred to this morning—the ordinary weak-kneed female relative whose forms have to be filled up. They do not understand them, and they pay what is asked; possibly it is right, possibly it is not; otherwise they must go to a lawyer and it would take a lot of money. Is it possible that Surveyors might act a little as friends of the public and help them out?—Of course one has to hear this in mind.

384. I know they are very busy men.—Quite apart from that, the Surveyor must expect the public to help him also, and of course very often persons are not prepared to take sufficient trouble with their own affairs to give him the necessary information to deal with their case. He cannot divine what a person's income is. They must give him a sufficiency of fact to enable him to tell them what their case entitles them to be repaid. I suppose you are thinking of cases of repayment?

385. Anything. There is an enormous amount of ignorance; they have this paper in front of them, and it scares them, and they do not know what to do. They get into awful holes, and they go round and ask somebody else who knows a little less. If it was only understood that they might go to the Surveyor, would it not be better?—But they do go, I think.

386. Do you think they do? They so often think that it is his business to get as much as he can out of them that they very often keep clear of him.

387. Chairman: Have you had complaints from anyone, Mrs. Knowles, on that ground?

388. Mrs. Knowles: This is a general impression from what has been conveyed to me; I do not know that I have ever investigated it; I have never gone into it.

389. Chairman: Are there instructions that a Surveyor must act with courtesy and consideration?—We are very strict indeed on that point, and it we get complaints from the public we are very much perturbed by it and take immediate steps to investigate such cases.

390. Mrs. Knowles: Do you find any dropping of the standard of your Surveyors owing to the war? When you have had to put men in, have you had to put a lower type in, or have you been able to maintain the same standard?—We have taken on a very large number of new Surveyors since the war started, because we have had a great deal more work to do; but one thing I think that has struck every person who has come in contact with these men who have been taken on in the remarkable manner in which they have dovetailed themselves into the system, and risen to what we from our point of view, rightly or wrongly, consider to be the very high traditions of hard work and knowledge which have been a feature of our service. We have been remarkably pleased with the men we have taken.

391. Then although you have had a great many men go off to the war, the expansion has not injured the service?—The new men have adapted themselves to the work, and to our conditions with regard to the work, with marvellous success.

392. You have been speaking of the special exemptions under which railways assess themselves. Are there any other instances like that of the lawyers in the Temple, for instance; do they assess themselves?—The railways do not assess themselves.

393. I understood you to say so?—No, they are all assessed by the Special Commissioners.

394. Are there any cases of a special sort where people are allowed to assess themselves?—I think the Bank of England and the Bank of Ireland have their own Commissioners; and public departments, such as the Admiralty and the War Office. I am speaking now of the persons employed there, who have fixed salaries; they are charged by what are called Departmental Commissioners.

395. Has not the Temple got some sort of jurisdiction of its own for Income Tax?

396. Mr. Kerly: Only for collection.

397. Mrs. Knowles: Do you find that it works satisfactorily in the exemptions you have mentioned, the Bank of England, the Bank of Ireland and the departments?—Yes; they make their returns.

398. On what ground are these exemptions?—It is not an exemption; it is a privilege—if it is a privilege at all. One would have to go back to 1842 to find its origin. It is in that Act that the Governors and Directors of the Bank of England shall appoint Commissioners to assess the dividends paid by the Bank, the salaries paid by the Bank, and the profits of the Bank.

399. Then in the matter of administration would it throw an additional burden on your Department if the incomes of husband and wife were separated? Would it increase the expense of administration?—Yes, it would increase very largely the number of assessments, and each case would require its own investigation.

400. It would require an extra staff, would it?—Some addition to the staff. There would be more work certainly. That is, there would be two assessments where there is now one, and two collections where there is now one.

401. Would you be required to verify things like marriage certificates? You would have to go into the question whether people were married or not before you could claim they were not?—Yes.

402. Chairman: Would it bring less money?

403. Mrs. Knowles: It would bring less money, of course?—Yes.

404. I do not know whether you have any statistics of the number of Income Tax payers who are single and the number of Income Tax payers who are married?—No, we have no statistics of that kind. We never have had any.

405. You have no statistics of the number of assessments which include husband and wife?—No.

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[Continued.]

406. Because then one could see how far one could spread it over the unarranged?—No, we have not any statistics of that kind.

407. Mr. May: Do you think the Revenue suffers at all from these forms of special assessment that you have indicated, like the Bank of England and others?—No, not at all.

408. Was not the original reason rather the magnitude and complication of their operations, that the arrangement was made, rather than from any idea of privilege?—I suppose they were very striking. The East India Company also, in its day, had the same privilege. I suppose they were very outstanding cases at the time, in 1842, or perhaps earlier, in 1806, so that they were granted this right of making their own assessment.

409. Before proceeding further, will you please complete your answer to Mrs. Knowles. You said there were two forms in which Surveyors of Taxes had been appointed, and you have only dealt with one. You have not told us how they were appointed since the war?—Surveyors of Taxes since the war have been appointed by a selection board.

410. Without examination?—Without an educational examination.

411. Mr. Kerly: Just to complete what was asked you just now, the Collector, I suppose, needs integrity, but no particular ability?—That is so.

412. But the Surveyor is a highly skilled person?—With regard to Income Tax, yes.

413. I mean with regard to Income Tax. He is developed, I understand, according to your system; he has responsibility thrown upon him individually from the commencement of his career?—Not as an Assistant Surveyor, except, of course, to a small extent. He has then his Surveyor at hand to appeal to. But one might say, even as an Assistant Surveyor, he has some responsibility put upon him from an early date.

414. And then when he gets a district to himself, he is wholly responsible?—Yes.

415. And that is at a very early age?—It has ordinarily been so. For instance, in my own case, I was not 23 years of age when I was thrown out into a district by myself.

416. I gather from your evidence that you are not at all satisfied with the present arrangement for the administration of the Income Tax and its collection?—I should rather like to be specific with regard to that. With regard to the assessing work of the local Assessors, I think that that certainly might be passed into the hands of the Surveyor.

417. Is it a fair statement to say that as things stand, it is extraordinarily complicated; much of it is inefficient, and its complications are chiefly due to historical causes?—Do you mean the Income Tax itself.

418. The administration of the Income Tax by this system that you have described to us, of General Commissioners, Additional Commissioners, Surveyors, Collectors, and Special Commissioners?—I have nothing whatever to say against the General Commissioners, nor the Additional Commissioners.

419. But what about the system? You describe it yourself in paragraph 39. May I summarize your paragraph 39 by saying that the Surveyors are constantly engaged in doing other people's work?—The Surveyor is constantly engaged in settling the liability of the taxpayer.

420. Which for the most part nominally is done by other people, General Commissioners and Additional Commissioners?—Yes; but they are always in the background.

421. In this a fair statement: that the General Commissioners in practice are useless except as an appellate body?—I think that is the duty that they do carry out, and I do not think they pretend otherwise.

422. Nominally they make assessments, but in practice they do not?—The General Commissioners do not make assessments.

423. Perhaps it is the Additional Commissioners who nominally make assessments?—They deal with Schedule D assessments.

424. And in practice it is the Surveyor who really makes them?—The Surveyor makes a very large

number of them; that is, he gets the accounts of the company, if it is a company.

425. And makes suggestions which are put in a group and signed en bloc by the Additional Commissioners?—Not by all the Additional Commissioners; but, of course, one is speaking now of 600 or 700 bodies of Commissioners, and it is very difficult to speak—

426. I am only asking you in general terms?—Many bodies of Commissioners go through all those assessments. If you were to take my own experience, I have known many bodies of Additional Commissioners with whom I have sat in my time, who begin early in the morning and go on till the evening. They go through every case in the books.

427. How many days a year do they sit?—There, again, it varies; in some Divisions you would have four or five meetings of the Additional Commissioners.

428. Four or five days in the year?—Yes.

429. How many assessments do they go through in those four or five days—many hundreds?—Yes.

430. Do they know anything about them?—That would vary very much. You might have some Commissioners who would know a great deal about the assessments; they were dealing with, and in other cases you would find Commissioners who know only certain cases.

431. What is in my mind (perhaps wrongly) is that really this system, as it formally exists, is a sham; it represents something that does not actually take place. The examination of the returns and the materials for making the assessments is done by somebody who does not nominally make the assessments, namely, the Surveyor. Is that correct?—It is quite true that Surveyors spend every working day in the year on that work.

432. You agree with my suggestion, I think, that the only real purpose in those cases that the General Commissioners serve is to sit as an appellate body?—The General Commissioners, yes.

433. Now, let us see what sort of body they are for doing appellate work. They are a collection of gentlemen who were originally, in most cases, nominated by the Land Tax Commissioners?—Yes.

434. Another body, existing presumably for some other purpose. They are not directly appointed as suitable persons to be an appellate court upon Income Tax assessments. Is that correct?—Certainly it could be put in that way.

435. It would be better, would it not, that the body should be specially appointed for the purposes that they are to serve?—Do you mean a central body like the Special Commissioners?

436. No, not necessarily a central body, but they should be appointed and selected for their qualifications for the work they have to do?—Certainly, of course one would agree with that.

437. Would it not be practicable to put all the work that they do not do, but nominally are responsible for, upon the Surveyors directly?—Of hearing appeals, do you mean?

438. No; I have gone away from the appeals. I mean the assessments?—The Additional Commissioners?

439. I shall be glad if you will consider this, if the idea is fresh to you. I should like to hear the official view of it. Next one has to provide for appeals from assessments. Would it not be better that those should go to an appeal court expressly appointed for the purpose of hearing such appeals?—Are we leaving the question of locality? Because I personally attach a great deal of importance to locality.

440. I appreciate that answer. You would suggest that whatever appellate court there should be, it should be a local court?—Yes.

441. There is now, of course, the opportunity of going to the Special Commissioners?—Yes, that is open in the case of Schedule D.

442. Would it not be practicable to increase the Special Commissioners so that they should deal with all appeals?—All over the country?

443. Yes—I certainly would not advocate doing away with local bodies of Commissioners. I attach very great importance to that point.

444. I can see obvious advantages in it, especially for the poorer class of taxpayer?—Yes, and I think

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that many persons would prefer to go to the local body. They may be wise or not, but I think that is their feeling.

446. Supposing we have local bodies; at present the General Commissioners are collections of local people nominated somehow or other. Are they people of the same class as the Justices of the Peace, speaking generally?—I think in the country you might say that is so.

447. Whatever they are, they only meet a few times a year?—Yes.

448. And there are a large number of them, and such of them as please, go, and the others do not go?—There are not more than 16 for a Division. The ordinary number is seven, but it may be increased to 16.

449. Is it your experience that the gentlemen constituting the General Commissioners for a particular district meet together often?—As Commissioners, do you mean?

450. Yes.—Perhaps they have eight or ten meetings in the year.

451. Have they the assistance of anybody who is accustomed to judicial work to guide them?—They have their Clerk, who is generally a solicitor.

452. Generally a solicitor?—Yes, I think that might be said. We find that is so.

453. Is it your experience that sometimes, at any rate, they are accustomed to think that a very few minutes is sufficient for dealing with any case, however complicated?—Do you mean an appeal case that comes before them—a case which has accounts that are complicated, and which wants looking into?

454. Yes.—It is not my experience that they would dismiss a case like that quickly. They would hear what has to be said with regard to it on both sides.

455. I suppose in some of the large towns, like London, for instance, you do get people who in course of time get a good deal of experience in dealing with these things?—Yes.

456. Would you say that that applies elsewhere than in one or two large towns, London being the largest, of course?—I think the degree of experience varies.

457. In Ireland, as you have told us, at par. 40 of your evidence, there is a different system. There are no General Commissioners, as I understand. That is right, is it not?—That is right.

458. Their powers are entrusted to Special Commissioners, and the powers of the Additional Commissioners and Assessors are exercised by the Surveyors?—Yes.

459. That is more or less what I have just suggested to you?—Yes.

460. How does that work in practice as compared with the English system?—In Ireland you are dealing with a much simpler problem, in some ways. The Revenue that is raised from Ireland, I think, is about six millions a year, and in Great Britain you have 40 times that. I think the class of case which you come across in Ireland is a simpler case than you find in England.

461. That is true in parts, is it not? Take Belfast, for instance; Belfast is a big industrial town?—Yes.

462. Now compare Belfast with another town of the same size in Great Britain, we will say Bristol. Does the Irish system in Belfast work as well as the English system in Bristol?—As far as one knows, it answers as well, but I believe in Ireland they are more accustomed to centralized jurisdiction.

463. I thought that might have furnished a practical example, perhaps, of what I am putting to you. Surveyors do not deal with Super-tax?—No.

464. The Super-tax is dealt with by the Special Commissioners?—Yes.

465. Is the Surveyor's work considerably complicated and hampered by the state of the law?—I think the state of the law with regard to the Surveyor is defective in that he has not sufficient powers.

466. Does that mean that he has not sufficient discretion?—In dealing with the public, the Surveyor has no right to demand accounts. He has a return in front of him; it may be right or wrong, and he may know that it is wrong, but he has no

power to demand accounts. He has the right to ask, of course, and he does get accounts, but he has no right to enforce his demand for accounts.

467. Unless an applicant comes to him for a rebate or a repayment?—Yes.

468. Do you think it would facilitate his work if he had the right to demand accounts from anybody within his district?—Most certainly. I think that is what is wanted.

469. It seems pretty obvious that that is so, but further than that, if the tax itself could be simplified, it would diminish the Surveyor's work correspondingly?—Yes.

470. It would also make it much easier for the public, who are not assisted by accountants, to make correct returns?—Yes.

471. Does the existence of what for the moment I will describe as the unnecessary bodies, the General Commissioners, in their nominal work, for instance, add to correspondence between the Surveyor's department and the Commissioners' Clerks?—Not much. (I am on the word "correspondence")—not much to correspondence. Of course there is a passage of assessment books between the Surveyor and the Clerk; the Clerk does some work which he has to do upon them, and then returns them to the Surveyor.

472. It necessarily means the duplication or triplication of all books, does it not?—No; that is got over. The law as it stands, is that when the Commissioners have made the assessment, they are to give the Surveyor a duplicate of it. In practice, they do not; the Commissioners' assessment is given to the Surveyor.

473. That is what happens?—Yes. The Surveyor does not have duplicates of the assessments; he has the originals always in his own hands. I think there may be one or two exceptions to that with regard to Schedules D and E books, but not with regard to Schedules A and B; and not with regard to 99 per cent. of the Schedules D and E assessments.

474. There is an appeal from the General Commissioners on questions of law, by a case stated for the consideration of the High Court?—Yes.

475. But there is no appeal on questions of fact?—No.

476. So that if they find a fact, assuming there is some evidence to support their finding, that is conclusive?—Yes.

477. Whether it is against the Crown or against the taxpayer?—Yes.

478. Do you not think it desirable that there should be some means, shall we say, in extreme cases, of an appeal upon questions of fact?—That might be so in some cases, but I think most of the cases in recent years have been stated so as to leave the question pretty well open for the Courts.

479. Are you aware that there has been from time to time a great deal of dissatisfaction with the statements of fact by some of the Commissioners?—I think that goes back to the beginning of the present century, back to 1900 or 1905, or something like that. I do not think in recent years there has been much dissatisfaction on that point.

480. I suggest to you that there has been dissatisfaction both on the part of the Revenue and on the part of the public in many cases?—Yes, there has been at times, but I do not think recently.

481. May I remind you of a case which I think you will recognise, where it was suggested that in a case which counsel said would take three days to argue, within ten minutes after he had commenced to open, the Clerk of the Commissioners produced a suggested finding of fact, which was passed round to the Commissioners, and they all said that they agreed. I do not say it is right, but do you remember such a case?

—No.

482. Do you remember the case of Kodak v. Clerk?

—Yes.

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483. There was then an application for a mandamus to the Commissioners to rehear the matter?—Yes; I think that was in 1901.

484. Was it not later than that?—No.

485. That was, of course, quite an exceptional matter?—Yes.

486. Do not take it that I am suggesting for a moment that it was anything more than an accident. But have you had other complaints of the same sort of conduct?—No, I do not think so.

487. That was an exceptional case?—I think about that time there was a disposition for Commissioners to find facts very strongly in their cases; but in recent years I think they have left it more open.

488. At one time, not so many years ago, was it not a constant observation by the Courts that the Commissioners had staked one side or the other out of Court?—That is going back.

489. As far?—Yes, it is as far back as that. I agree entirely with what you say; all I wish to say is that circumstances of that kind have been quite rare recently.

490. I am sure you will not misunderstand me as desiring by my questions to cast any reflection upon the General Commissioners. It was rather the development of the suggestion I made earlier, that they are persons who are unaccustomed to judicial business, and without the assistance of a trained guide—not necessarily professional, but of any trained guide, such as a judge directing a jury, or a person experienced as the Special Commissioners are in hearing appeals. You will quite understand I do not mean to make any other suggestion?—Yes.

491. Sir J. Hornwood-Bensley: On that question of the General Commissioners, is it not the fact that in the commercial world, they are considered as a buffer, a safeguard, between the community and the Surveyor of Taxes, and they are looked upon as perhaps not a perfect but a very good means of dealing with questions of depreciation, and questions of accounts, and a fair method of dealing in that way which a trader does not always get from the Surveyor of Taxes?—I think that the Surveyor of Taxes sometimes feels that he has a case with regard to which it is his duty to state his views before the Commissioners, that is, to put his view of the case before the Commissioners, and not to decide it in favour of the taxpayer without an appeal. I think in that way cases sometimes go before the Commissioners where the Commissioners stand somewhat in the position you have put.

492. The Surveyor of Taxes is extreme in his views in these matters and then going before the General Commissioners it is open to a trader or a merchant to get some relief?—I am sorry, I did not catch the opening part of your question.

493. The Surveyor is, perhaps, rather hard on questions of account or questions of depreciation; then it is open to the trader to go before the General Commissioners, who take a broader view of it, and very often decide rather more generously than the Surveyor of Taxes does?—I would not assent to a general statement that the Surveyor of Taxes bears hardly on the taxpayer. What I was upon, if I may put it in another way, was this. A particular taxpayer sometimes wants more than an ordinary taxpayer, and the Surveyor of Taxes thinks he cannot grant that allowance, or that exceptional deduction which is claimed, on his own authority and take the case to the Commissioners and say: "Here is a case in which I am willing to do so and so, which I think you ought to accept"; but he thinks that the case, pro and con, ought to be put to the Commissioners for them to consider whether or not to give the taxpayer what he wants, or part of it.

494. I do not want to criticise adversely, but I do put it that the Commissioners are, in many cases, considered by the taxpayer as a buffer between the Surveyor of Taxes and the taxpayer?—They are a Court of Appeal, and they serve that purpose.

495. The General Commissioners, at all events in all the large towns, are generally advised by an eminent solicitor. I mention that because I know that is the case in Liverpool. The solicitor always attends on them and they listen very patiently to the appeals and, I may say, with considerable satisfaction to the

appellants?—Yes. Many Clerks to Commissioners are solicitors.

496. So that if you were to abolish the General Commissioners, really in the interests of the taxpayer there ought to be some other body set up to see that justice was done; and if you went to a hard legal tribunal you would not, perhaps, be so well treated as you are by the General Commissioners, who, at any rate in large towns, are men of great experience in business?—I quite agree. I have nothing to say against the General Commissioners.

497. Then in paragraph 3 you mention that you give directions to the Surveyors. You say: "The Board of Inland Revenue exercise a general control, and ensure through their Tax Surveying Service, in association with the Local Commissioners, the continuous and consistent application of the machinery of administration provided by the Act." Now, in giving those directions to the Surveyor, do you give them any liberty of any sort, liberty of expression, or do you give them definite directions as to what they should do?—Some subjects, of course, admit of definite directions; one could lay down a firm line with regard to them. In other matters you cannot do so; but what that passage refers to is, the day-to-day work of administering the Act, of carrying the work out successfully all over the country. That is what I was thinking of more when using those words.

498. Is it not the fact that directions are given from time to time to the Surveyors, sometimes an absolute direction which they must follow, and at other times giving them liberty of settling matters in their own way, and the result has been, especially lately, a good many various decisions by the various Surveyors, which have created a good deal of dissatisfaction because they differ in the result?—We are not thinking of anything like that in what is written there. Instructions which are given to Surveyors of Taxes are general instructions, definite, of course, with regard to the law, and with regard to cases which are decided in the courts. General information is what is sent to Surveyors.

499. But in some cases they are given liberty to deal with a case on their own volition?—No specific instructions of that tenor are sent to Surveyors.

500. You have not heard of the fact, of which I certainly have heard, of there being a good many different decisions (given by various Surveyors) which conflict, and, of course, create a good deal of dissatisfaction in consequence?—I should like to know something about those cases before I express any opinion.

501. Is it not a fact that the Board of Inland Revenue have rights of veto from allowing traders to appeal; that there are certain cases in which the Board of Inland Revenue, when one wants to appeal, can exercise a veto and decline to allow an appeal?—I do not think so.

502. Have they no right of veto?—Are you thinking of Excess Profits Duty? Of course, the Board have more power with regard to Excess Profits Duty than they have with regard to Income Tax. Nothing occurs to me with regard to Income Tax on the point which you have put.

503. I only got a letter this morning from somebody, saying, "I wish you would ask a question with regard to the veto on Income Tax"; he put it on Income Tax; he may be mistaken?—I think there must be some misconception there.

504. Then on the question of the weekly wage-earner. Has the collection from the weekly wage-earner added largely to your staff and to your expenses?—It has added to the staff, undoubtedly, and necessarily to the expense; in what proportion I could not say.

505. One would like to know, if you could let us know, what it has added to the expense. Would it not be simpler if that was collected through the wages list of the employers? Would it not be less expensive and also more satisfactory, and get a better result if it was collected through the wage sheets of the employers, than if it was collected in the way in which you now do it?—We have some cases where by agreement between the taxpayer and his employer, deductions of that kind are made; but they are voluntary.

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505. But would it not be more satisfactory and cheaper if that were done universally if the employer was required to deduct the tax?—The first question is whether the wage-earners want it done in that way; whether they would consent to its being done.

507. They said they did not want it in Parliament, but still the question comes whether it would not be better for them and better for the Revenue if it was collected in that way?—I am afraid they must be the judges of that themselves.

506. Then on paragraph 55: You mentioned that considerable modifications are laid down. You have not put here in any way what your views of those modifications are. I was going to ask the Chairman if we might ask Sir Thomas Collins to send us what his views are on this paragraph 55. He puts certain alterations that are suggested, and it would be very valuable to have them.

509. Chairman: Yes?—I was thinking about that. Of course it may be premature. Much that may be wanted, if anything is wanted, must depend upon your own final recommendations with regard to the reconstruction of the Income Tax.

510. We should discuss the point the Commissioner has mentioned now and probably you will have something to say to it when we come to that point in conference.

511. Sir J. Harwood-Baxner: There is a very strongly expressed view that alterations are required. I am sure Sir Thomas will give us the benefit of his advice.

512. Chairman: You will take a note of that, will you, Sir Thomas, because that will come up?

513. Mr. McIntosh: Do you not agree that in ordinary practice it would be an advantage if the Board of Inland Revenue appointed the Assessors?—In the sense that the Surveyor of Taxes might then take over the formal duties of the Assessor? I should certainly say yes.

514. It is the practice at present in a great many cases in very important districts that the Surveyor is the Assessor as well?—He does the real work, yes.

515. He issues the original form, the yellow form with which we are all familiar, and it comes back to him, and he checks it and he settles the assessment finally, generally in agreement with the taxpayer?—That is so in Scotland, of which perhaps you are thinking. Of course there the Surveyor is the Assessor in all districts where he is the Lands Valuation Officer. There is then no local Assessor at all; and the Surveyor is also the Assessor in several parts of Scotland where he is not a Lands Valuation Officer. So that outside Glasgow and Edinburgh, over a great part of Scotland the Surveyor is Assessor, and there he would send you the form. But in Glasgow you would get that form from the local Assessors.

516. But as a matter of practice you find that the system where it prevails works well?—Yes.

517. And even more efficiently than when you have a different Assessor?—I think in either case it comes to very much the same thing. Where you have a local Assessor, the Surveyor does the real work in the end. In most cases (not in all, for there are some cases where the local Assessor does his work), in most cases the Surveyor does the real work of the Assessor. What at the present moment is objected to is the time which elapses between the appointment of the local Assessor and the later date when the returns and other statements which he has obtained come into the hands of the Surveyor. The benefit would be that the Surveyor would get that work into his own hands at the beginning of the year.

518. I suggest there is no object whatever in having a different official to issue schedules for returns of assessment. It would be quite a proper procedure with, say, a clerk in the Surveyor's office who sent out the schedule?—Yes.

519. And it would tend to better administration?—Prompter administration.

520. As a matter of practice in all assessments of any consequence the Surveyor practically settles these in agreement with the taxpayer, without the intervention of the Commissioners at all?—Yes.

521. As a matter of fact the Additional Commissioners perform the most formal duties possible. They merely sign the books?—No, as I said in answer to the Chairman earlier, there are districts where the Commissioners go through the whole of the assessments, and in other cases they go through a proportion of them. Where the Surveyor has beforehand had accounts—and he gets accounts in a very large proportion of important cases—they take the settlement that he has made with the taxpayer.

522. May I put it in this way; that for all limited companies the Commissioners perform no functions at all?—Not where the accounts are rendered, which is, of course, in nearly all cases.

523. And wherever they do actually go over a list of taxpayers it is in some small district with, say, very small shopkeepers, who probably keep no accounts, and they just run through the list to see that the amount looks like what they think so and so ought to be making?—No. One knows from one's own experience, and from inquiries, that there are some important districts where the Commissioners take a very active interest in the assessments and spend many hours over them. They are men of commercial and social knowledge, which renders the work they do upon these assessments very valuable. That, as I say, happens in some cases.

524. But you do agree that in the assessments which really bring in the large amount of the revenue, the Surveyor and the public settle the amount between them as a rule?—Certainly.

525. And agree the liability? And there is never a suggestion from a Commissioner that they should be in any way altered?—That is so.

526. In fact I put it that no Commissioner would dare to suggest an alteration?—Oh, he dare, but in practice I think those settlements are accepted by the Commissioners.

527. There is one point on which I would like an expression of your view; that is, as to whether it would not tend to the more efficient administration and more revenue being collected if the Surveyors had a little more skilled assistance?—Yes, that certainly would help.

528. During all the war time in their ordinary duties—and even before the war—they did not have the time to go through every set of accounts and every taxpayer's return just as minutely as they might have done?—You mean that they were understaffed.

529. Yes?—I quite agree that that was so. But of course in recent years great additions have been made to the staff, and the disposition under the present Chairman of the Board and the late Chairman has been to recognise understaffing to be a drawback.

530. But I suggest that even those additions to the staff owing to the war have been insufficient to cope with the volume of work. The point I want to put is that it would be to the advantage of the State if the Surveyors had more assistance in order to investigate every taxpayer's return more fully than he does at present?—I quite agree.

531. On the question of the General Commissioners do you agree that practically the judgment that is given on appeal as a general rule depends on the Clerk that they have?—No, not to an undue extent. I am speaking generally.

532. I will put it more specifically. Many changes that have taken place in very recent years have made the subject so intricate and complicated that the average body of General Commissioners, through no fault of their own, are not competent to deal with appeals where any question of accounting arises or of differential assessment, and the many points that you know do arise, and that the result of the appeal depends very much on the type of Clerk that they have. Do you agree?—The need for guidance has been more pronounced recently, I should say.

533. In all questions of accounting at all times I suggest it applies?—I think that when you come to an appeal before the Commissioners, first of all the Surveyor and the taxpayer have had an innings with one another upon the matter. It is generally reduced to some one or two pretty bare points when the case goes before the Commissioners, and they are not, as

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a rule, asked to take the whole thing and travel over the accounts from top to bottom. Generally some point comes out which is put to them, and that point as a rule can be comprehended by the Commissioners.

534. I suggest it would be an advantage if, instead of the General and Additional Commissioners, you enlarged the scope of the Special Commissioners, who have a greater knowledge of all matters relating to taxation than any average body of General Commissioners that you get in the country—I can quite understand enlarging the body of Special Commissioners and making their existence more widely known, if that is necessary, but whether the public would go to them in preference to going to their Local Commissioners or not I am not so sure.

535. Or, as an alternative, strengthening the existing bodies of Commissioners by giving them some sort of skilled assistance other than what they have at present—I do not know what special form that would take.

536. I suggest an accountant would be very useful to have on the body of the Commissioners. I recognise, of course, he would have to give up entirely practicing Income Tax if he was sitting in that capacity. I suggest to you it would be helpful to appellants to have someone to advise the Commissioners on accounts. Do you agree?—I think the advice of an accountant is always valuable.

537. That was not the question. I suggest it would help them, as they are presently constituted, to have the advice of someone skilled, not necessarily an accountant, but that such assistance is very weak at present.

538. Chairman: We shall probably have to report on that.

539. Mr. McLintock: I wanted to get Sir Thomas' expression of opinion upon the point.—Of course, on a general question of that kind one must agree that the more skill and knowledge that can be brought to bear upon the subject the better.

540. You do not say, though, that the present body do not need any assistance?

541. Mr. Birley: On the question of the status of Collectors I take it that they have no discretion practically. According to your paper on the duties of Surveyors and Collectors, they have a list given them of what they are to collect, and they carry it out like any other collector of debts?—Yes.

542. Very little more than that?—Little more than that.

543. It is not a thing that would require great skill or judgment?—No, not beyond the collecting faculty.

544. Then on the question of the weekly wage-earners, I take it there would be a great saving in the cost of collection if employers could stamp cards in the same way as they do for insurance and such things?—The employers would want remuneration for doing work for the Government.

545. But if there were an arrangement by which they would use Income Tax stamps and deduct the amount from the wages there would be a great saving in the cost of collection?—Yes, if that were done gratuitously.

546. Mr. Mackinder: I want to ask one or two questions from rather a different standpoint. It seems to me that many questions that have been asked have regard to the large concerns, at any rate to concerns which keep accounts and which are capable of defending themselves; but I take it you would agree that the great number of assessments in the country are with reference to relatively small people?—Tradepeople.

547. Retail tradespeople, small professional people and that type of person?—Yes.

548. Can you draw any distinction between the action of the Commissioners in those two types of cases? Could you do it geographically, for instance, as between the great cities and the smaller towns, or in any other way? I mean, are the Commissioners more useful in the case of smaller retail people, and smaller professional people in a country district, where local knowledge, one imagines, comes in, than they are in great centres like Liverpool, Glasgow and so forth?—They do more work, as regards the number of cases that they deal with, in parts like that. A larger number of people come before them on appeal and have their cases settled.

549. There are more appeals?—Yes.

550. You have told us to some extent that the system does not work exactly as the law intended?—That is so.

551. Would you say that it does work to a greater extent as was intended, in those cases, than in the case of the large cities and the great joint stock concerns, and so forth?—Yes, more so, but still far short of the original conception.

552. I put it to you in this way. I myself am the son of a country doctor, and I remember well the discussions that used to go on, as to appeals to the Commissioners in regard, for instance, to how much should be allowed from rent for a consulting room, and how far a horse was used for professional purposes and how far for private purposes. On questions of that kind, if I remember rightly, the Commissioners used their local knowledge. They knew the man and they used their local knowledge. Do you say that that goes on to-day to any considerable extent?—To an extent it does, but of course deductions of that sort become more stereotyped than they were if you are speaking about 20 or 30 years ago or something like that. I think deductions like that get more stereotyped and give less trouble as time goes on.

553. I remember at that time there was very considerable jealousy of the Surveyor's interference in such things. I am speaking of a small town of 10,000 inhabitants. I remember distinctly the feeling of professional men all round about was a very general feeling of jealousy of the Surveyor, and the feeling that they could appeal to the Commissioners?—Yes.

554. Would you say from your experience that that still continues?—I do not think it continues to such a degree as 20, 30 or 40 years ago.

555. On the other hand, there was also this. I am putting to you my memory of a special case as a basis of fact to start from. There was also in some cases a feeling of dislike that the Commissioners who were neighbours should know one's business?—Yes.

556. In that case people trusted neither the Surveyor nor the Commissioners?—They went to the Special Commissioners, I suppose?

557. It was too small, as a rule, to go to the Special Commissioners, I expect. To what extent are the Special Commissioners resorted to?—I have the numbers, if that would answer your question.

558. I was thinking not so much of the numbers. Is it a question of large taxpayers resorting to the Special Commissioners, or do a considerable number of the smaller taxpayers resort to the Special Commissioners?—I think the fairly well-to-do class. I know in cathedral cities and places like that fairly well-to-do tradesmen used to go, and I think continue to go, to the Special Commissioners. I do not think many small people go to the Special Commissioners; I could give you no reason for that whatever. Special Commissioners cannot take an exemption case—the case where a man says his income is less than £130 a year. They cannot take him and give him exemption. But a person whose income is £181 a year can go to the Special Commissioners under Schedule D.

559. Have you ever tried to plot down on a map the degree to which people go from districts to the Special Commissioners?—No; I think there is a little fashion in it; that something or other has stirred up the locality with regard to the local Commissioners perhaps; one person and another.

560. You say "one person and another." Supposing you have a case of a black district in the sense of reference to the Special Commissioners from that district, would you at once go down as Chief Inspector, if I may suggest it, and investigate the Surveyor?—No; you do not get out of the Surveyor's hands by going to the Special Commissioners. You go through him to the Special Commissioners. So that it might in fact indicate a partiality for the Surveyor.

561. Exactly; in that case it would be a case of promotion for the Surveyor, I take it?—No, I do not think so.

562. You would not try to find out what was the reason of that; whether it was the Surveyor or the Commissioners, or what it was?—No, I think you would find it had been a matter of perhaps slow growth, and a certain conservatism in persons having

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their assessments always made by the Special Commissioners.

563. You would put it down to fashion; you would not investigate it to find out?—I cannot say that that train of thought has come into my mind at any time.

564. I think you answered Mrs. Knowles as to certain questions negatively in regard to the Surveyors. You are Chief Inspector, and I take it you have a large hand in it?—We have a Promotion Board. I am happy to say it is not left to me to stand the sole responsibility. Seniority has an influence, and, certainly, as they begin to go up in the higher ranges, merit and ability. We judge them by ability, not on any account by the success, so to speak, in regard to getting more money, but by ability and merit, and attention and regularity in their work. It is very hard, of course, to give an answer to that; but men become known. We are in contact with them in hundreds of ways in the course of their career, and men get known. Their industry and zeal are known.

565. But "industry and zeal" sounds unpleasantly near to what has been put to you on the other side—judgment by results?—No, I will not admit that at all. When their work is done to time, for instance; when the work of the district is carried out to time.

566. They do not get into arrears?—They do not get into arrears; they settle all their problems; they are not always leaning on their superiors and giving them a lot of trouble.

567. You say, in paragraph 19 of your evidence, in England Collectors are appointed by the General Commissioners, with important exceptions. If I remember rightly, when you were answering his Lordship you said that if the power of appointment once lapsed it lapsed for good?—Yes.

568. Can you tell me when that started historically; how that came about?—I think, to the best of my recollection, it came about very largely in the eighties, and it had its predisposing causes in a certain number of defaults of Collectors throughout the country, the parish being liable to be re-assessed whenever the local Collector made default in his payments; that is, when he pocketed or embezzled the money. I do not want to speak with too much assurance, but I believe there had been a fairly large number of defaults throughout the country and the Commissioners said: "We will not have the responsibility of appointing these Collectors; let the Board of Inland Revenue appoint them," because in that case the parish is no longer liable for what may happen.

569. This power must have been slipped into some Act of Parliament at some time?—It is found definitely in what is called the Taxes Management Act, 1880. That Act was entirely a consolidating Act. It was an Act which introduced no real change into the law.

570. In other words, it was slipped into a consolidating Act?—No, I do not suggest that for a moment. It does appear definitely in the Act of 1880, but the Taxes Management Act, 1880, was a mere amalgamation of a lot of old Taxes Acts, stretching back to George III. and William IV. and so on.

571. I should like to hear your evidence about this. I suggest to you that there is very great jealousy on the part of Commissioners, and on the part especially of their officials, with reference to the Inland Revenue Service, and that that jealousy is in part due to the feeling that the Inland Revenue Service is always edging into what they regard as their prerogatives, and that this is a new point?—No, I think it is very wide of the point, if I may say so. Assume what you say to be so. The Board of Inland Revenue have never had the power of appointing a Collector unless the Commissioners themselves have voluntarily abdicated the power by not appointing a Collector before the 31st May. They need only appoint a Collector for the year commencing 6th April at any time up to 31st May, that is two months later, and then they would continue to have that power. So that in no circumstances I think can the matter be put in the way you put it.

572. How would you from your point of view describe the relations in the way of cordiality or otherwise between the Inland Revenue Service Surveyors and so forth and the Clerks of the Commissioners, Assessors and the rival local Service?—

Highly satisfactory. You mean cordial every-day working?

573. Are you conscious of any strong jealousy between the two Services?—No, none whatever.

574. Professor Pigou: I would like to ask you a question about weekly wage-earners. It has been sometimes suggested that it would be fairer to the wage-earners if instead of certain indirect taxes Income Tax was put lower down the scale; and it has been objected that that was unworkable and too expensive. What light do you think the experience of these recent taxes throws on that? Does the thing really work?—The weekly wage-earners' tax is quite a success; that is, the work has gone smoothly in the assessment of the tax and in its collection.

575. Mr. Synnott: Do you mean the quarterly assessment?—Yes.

576. Professor Pigou: Would it be practicable, do you think, if the scale went down to lower incomes than £130?—The more mechanical work of assessing and collecting, of course, could be carried out, but the assessment and collection of a tax is like everything else, dependent upon the spirit in which it is met by the persons who are concerned. You will have to assume that persons with an income lower than £130 a year are willing to be taxed.

577. But on the assumption that it was done in steps?—If you can get the persons who are going to be assessed at something lower than £130 a year to acknowledge the propriety of their being taxed it may be carried out. Of course, the lower you get down the less tax you would get. The numbers would be very large and, of course, the cost would be considerable.

578. And, of course, it would be necessary that the rate would have to be lower on the £60 than on the £130 man?—Yes.

579. Would that add greatly to the complications of the actual collection?—Not to the complication, but it would add to the cost, and when you are at the lower figure you get down to a larger number of taxpayers. You will reach a greater body of persons the lower you go than you would get in the corresponding reduction from £160 to £130. That reduction from £160 to £130 brought in a large number of people. If you went down from £130 to £100 you would get that number multiplied, I suppose.

580. On the whole, if it were considered desirable to substitute an Income Tax going further down for other indirect taxes it would not be mechanically impracticable?—No; it would be costly, because you would have the greater numbers and the smaller amounts collected. If you want £1 from a person who has got £130 a year you can get it, but if you want £1 from a person who has got £100 a year you may have more difficulty in getting it. The poorer the person is the larger the trouble of collection, which does not occur when you have people with the money to pay what is charged.

581. It would be progressively more difficult but not impracticable?—It is not mechanically impracticable.

582. The other point I want to put to you is this: Of course, at present savings for insurance are partially exempted. It has sometimes been suggested that all savings ought to be exempted. There again it is objected that the thing would be impracticable because it is so easily evaded. Do you think that with the present organisation of the Income Tax that is really impracticable; I am not raising the question whether it is desirable?—The exemption of savings?

583. People might evade by saving one year and spending the next; do you think that would be dealt with practically?—It would be very difficult indeed. One does not like to use the word "impossible" in connection with a service which has, if I may say so, so very successfully dealt with many great difficulties, but I think you would reach a region of impracticability.

584. Mr. Armistead-Smith: Is there any reason why the Income Tax year should begin on the 6th April, for instance, rather than the 1st April?—No, I do not think so, except that somebody would lose five days' tax if you made the change. No, there could be little difficulty in that.

585. There is no Revenue reason for maintaining a different Income Tax year from the financial year?—No, I think not.

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586. In the course of your paper you have mentioned five different categories of officials connected with the collection of Revenue, Commissioners of three kinds, Collectors, Surveyors, Assessors and Clerks. Which of those categories are permanent salaried servants of the State?—The Surveyors.

587. The Surveyors only?—And the Special Commissioners. The General Commissioners and the Additional Commissioners are unpaid. The Collectors are paid by the State, but they are not permanent officials; the Assessors are paid by the State, but they are not permanent officials.

588. Would you describe the method by which those categories are paid?—I should have mentioned that the Collectors of Customs and Excise, who act as Collectors in Ireland and in some cases in Great Britain, are permanent Crown officials.

589. You were asked at the beginning of your evidence certain questions about the recruitment of certain classes of Inland Revenue officials. Are you aware that that subject has been exhaustively considered by another Royal Commission within recent years?—Do you mean Lord McDonnell's Commission? I remember, of course. That was before the war, which seems so remote a time to me.

590. You express the opinion that a special system of examination for a particular category of public officials was preferable?—For the tax surveying department I feel so; it is my own opinion. I do not give it as the opinion of the Department. It might be that or not, but my own opinion is in favour of a special examination for Assistant Surveyors.

591. You are aware that we have a policy of recruitment which is intimately connected with our educational policy, and the view which you have expressed would in some quarters be regarded as reactionary?—It might be so. I am not afraid of being dubbed a reactionary.

592. *Chairman:* What do you mean by recruitment, Mr. Armistead-Smith?

593. Mr. Armistead-Smith: The method by which an officer is obtained for the public service.

594. In the third paragraph of your evidence you point out that the Board of Inland Revenue is answerable to the Chancellor of the Exchequer. Am I right in assuming that a more accurate description would be the Lords of the Treasury?—That might be so, technically.

595. Do you find any practical inconvenience in the fact that some of your duties in Ireland are performed by the officials of another department, that is, the Customs and Excise Collectors?—Of course, one goes back at once in one's mind to the fact that this connection between ourselves and the Customs and Excise originated when the Excise were under the Board of Inland Revenue. In 1909, when the Excise left us and went to the Customs, they became officers of another department. The general view is that the arrangement is not now to the advantage of the work of collection, and that it would be better for us to have persons collecting who were directly under our authority. The Customs people, of course, have their own work, which is of precedent importance to them over the collection of taxes.

596. With regard to paragraph 49 of your evidence, can you tell me on the average what period of time is required for a taxpayer to recover from the Inland Revenue the excess of Income Tax levied at the source above the rate which is legally chargeable?—No, I cannot; that is not in my department.

597. Have you any reason to believe that there is any considerable leakage of taxes chargeable to the wage-earners who are assessed quarterly?—No, not considerable.

598. You are satisfied that the State receives all that is due from that particular category of income taxpayers?—I think, compared with other classes of taxpayers, yes. We have our difficulties, of course.

599. Mr. Synnott: With regard to the last point, limited companies now have to make a return of all their employees?—Yes.

600. Have private individuals to do that?—Yes.

601. And of the salaries that are paid by them?—Yes.

602. They have also to make a return of their wages staff, apart from the salaried staff?—Yes, of every person.

603. Has every employer to make it?—Yes.

604. Including farmers?—Yes.

605. Am I correct in this: Do you make the statement that every employer is bound to make a return of the wages of his staff?—Yes, there can be no question about it at all.

606. You are speaking of all classes of employees?—Yes, both wages staff and salaried.

607. Mr. McLintock: A gardener or chauffeur?—Yes.

608. Mr. Synnott: I have never been asked to do it. With regard to the General Commissioners and Additional Commissioners, on the one side, there is the importance of having the local knowledge?—Yes.

609. Both for assessment and for appeal purposes?—Yes.

610. On the other hand, in the case of the Surveyor, he is a floating personage, a changeable person; he is in the Civil Service, and he may be here to-day and in another place to-morrow?—Yes.

611. Is not there this further point that I think you hinted at in one of your memoranda, that there is no intercommunication between these bodies of General Commissioners and Additional Commissioners?—None whatever.

612. So it is quite possible that they may take quite different views—it would be only human nature—not only on questions of fact but on questions of law and questions of administration?—Yes, only I think that anything of any consequence in that matter is brought through the Surveyors to the Board of Inland Revenue.

613. Does not it point to this, that it is really the Surveyor who must in the end give a decision upon these points?—Not a decision.

614. He controls them?—No. Of course, there is a right and a wrong, and there is a margin of right and wrong in all these cases too. If the Local Commissioners in some part of the country were to do something which was distinctly wrong, the Surveyor would communicate that fact to the Board, and the Board of Inland Revenue would choose some officer to go down and discuss the matter with the Clerk to the Commissioners.

615. Will you tell me this. There is an appeal, and the General Commissioners sit as an appellate tribunal; what is the function of the Surveyor in that case?—Does he sit with the Commissioners?—Yes.

616. Although he sits there at the table, as I understand, he really guards the right of the Crown?—Yes, he presents his case.

617. He is a party to the proceedings?—Yes.

618. Do you think it right that he should sit with the tribunal—mind you the same remark applies to the Special Commissioners?—He attends before the tribunal in the same capacity.

619. Does not he sit at the head of the table with the tribunal?—No, he sits as I am sitting here.

620. I only once had the pleasure of appearing before the Special Commissioners, and my experience was that the Surveyor sat with the tribunal?—Only in the sense that I am sitting here with this Commission this afternoon.

621. Mr. Kerly: Have you heard of a case where he presided and had presided for years before it was pointed out that he ought not to do so?—No.

622. Mr. Synnott: We have heard various views. Would it be a compromise that, if the Surveyor's powers were to be considerably increased, he should have the benefit of the advice of local Assessors with local knowledge and local experience; a combination of the two proposals?—The Surveyor has the local Collector or the local Assessor.

623. We will leave out the Collector.—As a matter of fact, the Collector and the Assessor in nearly all cases are the same person. It is quite a rare thing to find that the offices are in the hands of separate men.

624. But the Commissioners make the assessment. You are speaking of the Assessor as something different from the Commissioners, whereas it very often is the same?—The Assessor and the Commissioners are quite distinct.

625. Do not the Commissioners join in making the assessment and sign it?—Those are the Additional Commissioners.

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[Continued.]

696. I mean the Additional Commissioners?—The Additional Commissioners make the Schedule D assessments, but they do not make the Schedule A or B or E.

697. Oh, I know. However, I put the question to you that possibly there might be that compromise of the Surveyor being there with the assistance of the local—call them what you like—Commissioners. Do they keep any minutes of their proceedings?—At appeal meetings?

698. The General Commissioners?—The Clerk of the Commissioners keeps the minute book.

699. Do you ever see the minutes up at head-quarters?—No, we have no title to see them.

700. Now will you tell me about these Surveyors. They have to deal in different parts of the country with quite different problems?—Yes.

701. They have in Scotland and Ireland and parts of England to deal with purely agricultural problems, farming accounts, and so on?—Yes.

702. In large towns they have to deal with balance sheets and depreciation and questions of that kind?—Yes.

703. How do you select Surveyors? Have they any experience in these matters before they take up these duties?—They have their training. When they enter the Service as Assistant Surveyors they are sent as such into the offices of Surveyors of Taxes, and there they remain for a period of from two to three years, or, sometimes up to seven years before they receive their commission as Surveyors of Taxes. Before receiving their commission they have to undergo special departmental examinations in law and accountancy relating to Income Tax, and in the practice.

704. You say there are 601 Surveyors' districts altogether?—Yes.

705. That is in Great Britain and Ireland?—Yes.

706. How many are there in Ireland?—I can give you that.

707. Am I right in saying there are eight?—Three times eight.

708. Could you give me them. There are two in Dublin?—There are 29 in Ireland altogether.

709. I group Dublin and Belfast together. Tell me in separate parts of the country how many there are?—Is the total?

710. No.—There is one in Tralee, two in Cork, two in Limerick, one in Waterford, one in Kilkenny, one in Athlone, one in Enniskillen, one in Galway, one in Sligo; at Dundalk there is a Surveyor, at Newry there is a Surveyor, seven in Dublin, eight in Belfast, and one in Londonderry.

711. Do you not think they are greatly under-staffed?—Not relatively.

712. Do the Surveyors in Ireland do the assessments; they do everything, do they not?—As far as the assessment is concerned under Schedule A they are bound by the rating. They have got Griffiths' Valuation before them.

713. And under Schedule D as well?—Yes.

714. They are practically the first appellate tribunal. There are many districts in which farmers and traders live 40 or 50 miles from the Surveyor?—Yes.

715. How do they get in touch? Is it not the fact that the Collector knows nothing about them?—The question of Schedule B, which may be prominent in your mind, has only come to the front in the last year or two.

716. Chairman. Is your point of examination now that you feel that Ireland is under-staffed?

717. Mr. Synnott: The next question will raise my point; Sir Thomas has quite followed it. In the case of Schedule B the farmer is now under the Income Tax. Is it not difficult for him to meet with the officer who has control of that tax and get the matter settled?—Of course, if that is so, it is a difficulty which has only arisen, so to speak, to-day, and it will make its effect felt; and if it is necessary, of course, a larger number of Surveyors will be placed in Ireland.

718. Do you or do you not think that a number of people escape assessment altogether or are under-assessed because the Surveyor has not the local knowledge?—Are you speaking of Ireland?

719. Yes we have no Additional Commissioners there; we have no General Commissioners.—I could not answer offhand.

720. Perhaps you will deal with the question later on?—Yes.

721. Who are the Special Commissioners in Ireland?—There are no separate Special Commissioners for Ireland.

722. Who are the Special Commissioners who sit there?—There are seven or eight Special Commissioners, whose head office is in London.

723. Do they go over?—They go over to Ireland, and spend a great part of their lives in Ireland doing the work there.

724. I want to ask you one more question on the general question; I confess it rather astonished me. At paragraph 34 of your evidence you refer to a general valuation not only in London but all over the whole country under Schedule A?—That is Great Britain I am talking of.

725. Is there a quinquennial valuation of the whole of England for Income Tax purposes?—Ordinarily, yes.

726. But you have no general valuation body in England as there is in Ireland?—No.

727. Is it done locally? Will you tell me by whom it is done?—It is not a valuation such as you would conceive a valuation to be in Ireland, where you would have the Commissioner of Valuation and his men coming down and surveying every field.

728. Is it a valuation of the rack rent?—Yes, getting returns of rent.

729. How is it obtained?—By forms of return. All the occupiers of houses and lands have to make a return of the rent which they are paying.

730. How do you get that where it is in the north country of England, with which I am familiar to some extent? How do you get at that rack rent when the occupying tenant does not very often pay a rack rent but has a long lease?—That is taken into consideration. He has to declare the terms of the lease.

731. He does not know what the rack rent is. I only ask how do you secure that valuation for Income Tax purposes should be uniform and on the same basis all over the Kingdom as it should be, you will admit, to do justice between man and man. How is that done in your quinquennial valuation in England or Scotland; how is uniformity obtained?—The Act of Parliament binds us to accept a rack rent which is not older than seven years.

732. But how the figures with regard to the rack rent are obtained you perhaps do not know?—We might not always know. The actual figure is obtained by a return which is called for.

733. You hint in paragraph 55 of your evidence that the Surveyors have been really exorcising duties which, strictly speaking, I think, in law, they have undoubtedly no power to do?—They exercise them with the approval of the Commissioners.

734. Will you tell me this. Have your Surveyors power to accept compromise? Supposing there is a question of law or accountancy, and an appellant says: "My income is £1,200 a year," and the Surveyor says: "No your proper income is £1,500 a year," on account of certain disputes either in law or fact. Can the Surveyor say this sort of thing: "I will compromise it." Can he compromise between, say, the £1,200 and the £1,500; has he power to do that?—He has no specific power to do anything like that.

735. Are you aware that it is done?—I know, of course, that many points of dispute arise with regard to which a great deal may be said on both sides, and there are a great many points with regard to which more precise information may be required, and the lack of that information, which it may be impossible to supply, may lead to some settlement between the Surveyor and the appellant.

736. As far as the duties defined in the Act are concerned you would consider, I suppose, that the Surveyor in doing that would be acting on behalf of the Inland Revenue. On his own account he could not do it?—No. He would be acting on behalf of the Commissioners before whom he was going to take that settlement for approval.

737. But it might never come to the Commissioners?—I think it would.

738. It might or might not?—I suggest that it would.

739. I do not want to pursue this point.

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[Continued.]

670. *Chairman*: Could not we get that cleared up, because it is a point?

671. *Mr. Symcott*: Supposing in this case there was a compromise in fact of £1,400 a year, taking the basis I suggested, and the appellant to save trouble agreed to that; that would never come before the Commissioners, would it?—I think, of course, this point cannot be put fairly unless it is put in some concrete way.

672. *I* undertake to put a concrete case.

673. *Chairman*: That will be very valuable.

674. *Mr. Marks*: Your department really has to administer the law as you find it stands?—Yes.

675. You have no latitude in which you can exercise your own discretion?—Of course, one has got to be careful in answering a question like that, because the law is not always a sharply defined line.

676. That was rather my point. That implies rather that there is a certain amount of discretion vested in you to give instructions to Surveyors, for instance, which in your opinion would be within the letter of the law?—I have difficulty in answering a question like that.

677. Well, I will not press that. I will just ask you this. Looking at your paragraphs 54 and 55, you say: "As a consequence the administration of the tax can nowadays be adequately carried out only by means of compromises which involve in practice a considerable modification of the functions of the various authorities and officers as laid down in law." How have those modifications come into being?—I am thinking there more of the part which is played by the Surveyor of Taxes, with regard to which I have stated a great deal in a Memorandum which I have put in. [See App. No. 4.]

678. In your final paragraph that statement is not confined to the Surveyors?—Well, it really does centre round the Surveyors, and what I have in my mind there more than anything is this:—that you find the Surveyor of Taxes settling objections by the taxpayer. I have given some statistics in the Memorandum with regard to that, where you find that the Surveyor of Taxes is the every day working centre of this tax. If I meet a person in the street who has a tax paper in his hand, he might say to me: "What is the meaning of this? Here I am charged £500 for something or other and it is wrong. What do you advise me to do?" I should not say to him: "You must appeal to the Commissioners." I should say: "You had better go and see the Surveyor of Taxes, and after he has heard your explanation or seen your accounts he will probably be able to settle the case," meaning that he would agree to something, on information, or on accounts, which he is able to take to the Commissioners and say: "Here you are, Gentlemen"—he does not say it quite like this, but it is the tacit understanding between them—"would you wish this person to come before you and wait about the place and spend half a day perhaps, and have his case settled the moment he comes into the room and the facts are presented to you, by your saying: 'we reduce your assessment to a certain figure?'" I know what the Commissioners would say to the taxpayer. They would say: "It is a great pity your having the trouble of coming here at all."

679. The object of my inquiry was not perhaps any particular case or kind of case, but really to lead up to this: I was going to ask you whether this modification in the administration of the tax has gradually grown up, or if it is in any special sense the result of the war?—It has been in existence all my tax life.

680. Does not that rather imply that the system has not, perhaps, broken down, but that it does certainly need some modification of the system as defined or laid down by the law?—Yes.

681. You agree with some such modification?—Yes.

682. Have you considered at all any definite plan of modification as far as your own department is concerned?—What runs through my mind in that matter is that the Surveyor should be the Assessor, as, I think, Mr. McLintock put it; that he should have the right to demand accounts from people; and that he should have a right, in law, if you like, of dealing with these objections which persons bring up which he, in fact, to-day does settle to the satisfaction of the Commissioners. This is the way in which the system is working, and when I ask for modifications of the

law I am not asking for modifications which will overthrow the present practice but for modifications which will seal and approve it.

683. Do you mean to say that you prefer the modifications of this system to be stereotyped in law as they have grown up?—To a large extent.

684. In spite of the fact that you agree with some of the suggestions made by Mr. McLintock?—What I say with regard to the local Assessor and the Surveyor is this: that the Surveyor in most cases nowadays does the real work of assessment; let that be recognised; I call that a modification of the law. With regard to the work of arriving at the amounts of persons' liabilities and getting accounts from the public being performed by the Surveyor, let that be the law; that is a modification also.

685. *Mr. Marks*: My lord, would it be possible for Sir Thomas, if he has framed in his mind any scheme, to outline such alterations as he himself suggests should be made. I am sure that I for one would value very much a scheme based on his experience.

686. *Chairman*: I think that the Inland Revenue will come later on with their ideas.

687. *Mr. Marks*: Perhaps, if Sir Thomas is coming again, by that time he will provide it?—I shall be very happy to.

688. *Chairman*: There is a lot of evidence that we shall have to hear, upon which we shall form some opinion, and then later on they are prepared to bring up their views as to reform of administration and everything?—Yes; and, as I have remarked before, modifications which would be to the point with the law as it stands at the present moment might be utterly beside the point if this Commission makes recommendations for changing the structure of the tax.

689. We may have evidence of people that will be against the Revenue, and they may bring up suggestions. They do not at once want to bring before us their suggestions.

690. *Mr. Marks*: If it is understood that we shall have that I am content. There is one rather important point I want to get. You said just now in answer to Mr. Armitage-Smith that you did not think there would be any difficulty in making the financial year and the fiscal year—the Income Tax year—coincide. Would you say that any great difficulty would arise if the Income Tax year were made from January 1st to December 31st?—I would not like to answer that off-hand. There might be some intricacies of account at the Treasury or other regions that I am not aware of. I cannot at the present moment give any reasons why it should not be made.

691. Do you agree that it would be very convenient to the public, and particularly the business public, if the Income Tax year were so limited?—I am not sure whether it would be or not.

692. You have not formed an opinion?—No, because of course the accounts which we have to follow for Income Tax purposes and at all sorts of dates. There is, for instance, the 30th June, the 30th September, the 31st December, and also the 31st March.

693. Would you not agree that the majority of them were the 31st December?—I think there is a greater proportion ending on the 31st December than on any other date.

694. With reference to what you said about the weekly wage-earners, first of all, have you any idea to what extent the stamps which can be purchased at the post offices are used?—How far they have been used?

695. Yes.—Yes, I can tell you, I think. In eleven months from December, 1917 to November, 1918, £967,000 was paid in stamps.

696. I suppose stamps of different denominations are issued?—Yes.

697. Do you use ordinary postage stamps?—No; there are special stamps, but if by mistake an ordinary postage stamp is put on it is not objected to.

698. Then in Table V of the statistics relating to Income Tax and Super-tax [see App. p. 21], that is taxable income, it is explained that taxable income is the gross income brought under review less exemptions and allowances other than those personal to the taxpayer; that is, I take it, statements and so on allowed by the Statute?—Yes.

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[Continued.]

699. And not abatements from the fact that he has got a wife or dependent relatives or children?—Yes, the personal allowances include those.

700. In Schedule D, the weekly wage-earners' returns go from £200,000 roughly in 1916-17, to £400,000,000 in 1917-18, and £470,000,000 in 1918-19?—That, of course was because—

701. I am only just calling attention to that in passing. Then on the next page, Table VI. [see App. p. 29], the income shown is the gross income reviewed by the Department less all exemptions and allowances of whatever kind or however made. Could you just tell me what sort of exemptions and allowances bring those totals of £200,000,000 and £400,000,000 down to £25,000,000, £62,000,000 and £66,000,000?—The abatement of £120 to each taxpayer if his income is less than £400 a year, the wife's allowance, the allowance of £25 for each child, and similar allowances.

702. Those are all the Statutory allowances to which he is entitled and they make that difference?—Yes. Of course they are very large. A person with an income of £200 a year, and a wife and child—

703. But that is excluded from one or other of the figures?—It has all been allowed when you get down to the lower figure of £22,000,000.

704. Table V is "less exemptions and allowances other than those personal to the taxpayer." That conveys to me the idea that the figures stated at the bottom are the taxable income of weekly wage-earners less exemptions and allowances, but not those exemptions and allowances which are personal to the taxpayer, wives, children and so forth, and I asked you for that amount.—The figures here are gross sums, I understand, before deduction of abatements. I beg you to understand, however, that this Table has not been put in by me.

705. Mr. Morris: I beg your pardon; I will not ask you anything more about it.

706. Mr. May: In reply to Professor Pigou, you said that the lowering of the exemption limit involved progressive difficulties and expense in assessment and collection?—Yes.

707. Could you give us any idea what has been the actual increase of expense in lowering from £160 to £130? I think it would be possible to give some rough estimate. Of course, some part of that work has been undertaken by persons who are engaged in the general work, and it would be very difficult clearly to disentangle what expense fell one way or the other, but some estimate I have no doubt could be given, not by me personally, but by the statisticians in Somerset House. I have no knowledge at the present moment what it comes to.

708. Do you think it would be practicable to show throughout the whole gradation of the tax at stated intervals what approximately is the cost for expenses?—No, I do not think so. You would have to cut me up, for instance, into so many parts and allot something of what I cost the State to each part.

709. That would not be a serious difficulty?—But to do that with every person who touches the tax in any way, and the stationery and postage and all that sort of thing—going through the whole of those expenses I think would be a matter of some difficulty, and would lead to rather large differences of opinion perhaps.

710. But you could give an approximate estimate of the original figure that I asked for, the extra expense of dropping from £160 to £130?—A trifle might be made.

711. You will try then?—Yes.

712. Mr. Bouverton: You were questioned about placing upon the employer a legal obligation to collect the tax from weekly wage-earners?—Yes.

713. Is it within your knowledge that when this particular form of collection was agreed upon, or before it was agreed upon, a conference was held of employers and workers' representatives, and the employers agreed with the workers' representative in resisting the imposition of such an obligation?—I remember that quite well.

714. Leaving it to be a voluntary matter?—Yes. Indeed, in the Bill, if I remember rightly, there was originally a provision that if the tax was not paid by the worker in a certain time we were to fall back on the employer and give him power to deduct it.

715. With regard to the collection you refer to special separate Collectors being appointed for the purpose of collecting this money. Are there many of those Collectors?—I do not think the number is very great. There are some in certain of the large working centres. The numbers of taxpayers run to 10,000, 20,000 and 30,000 in some districts, and there we have special Collectors; but generally speaking the ordinary Collector has undertaken the work of collecting the quarterly assessments in his locality.

716. How are they appointed? Are they selected from the workmen to act as agents on your behalf, or how?—The ordinary Collectors are generally appointed by the Local Commissioners, and we allow them, where the numbers of working people are not very large indeed, to collect the quarterly charges with their other charges.

717. With regard to the cost of collection, does that bear an excessive proportion, as it were, to the amount collected?—That I am not quite sure about, but I do not think it does. Of course, the assessments on the wage-earners are all comparatively small. You do not get large sums collectible running into hundreds and thousands of pounds such as you get in the case of the ordinary assessments sometimes; so if you are to take the cost of collecting not by numbers but by the amount collected, it might be that the collection is more expensive, simply because you have not got these huge sums to collect.

718. I understand you to say that, so far as the evading of the tax is concerned, the weekly wage-earners bear favourable comparison with those above them?—Quite, yes.

719. You have really no cause of complaint?—Of course, we have a double check. We have their own return and we have the return of the employer. A trader has no person to check him except himself, it is a matter between him and the Surveyor; but any person who is in employment has his salary returned by the employer.

720. I notice that the total number of appeals to General Commissioners for two years number, I think, 548; that is at paragraph 109 of your memorandum. [See App. p. 38.]

721. Chairman: Is that the quarterly payments?

722. Mr. Bouverton: Yes. The number who appealed to the Commissioners in those two years was 548.

723. Is not that a very small number?—Quite a small number, yes. There were more than a million of charges four times a year.

724. You have been asked with regard to Income Tax stamps. Are you satisfied with the number that has been used; is it satisfactory as a whole?—I think it shows that the mode of collection is appreciated by the working man. I believe the number of cards used is increasing, and not merely in proportion to the increased number of assessments.

725. I asked you that question, because at the initiation there was some doubt expressed as to whether the men would avail themselves of that method of payment or not; they are availing themselves of it?—Yes, to a substantial extent.

726. I suppose the experience of the National Insurance has indicated that method?—Yes.

727. Mr. Warren Fisher: As regards the recruitment of Surveyors of Taxes, you have expressed a preference, I gather, for a special examination for Surveyors?—Yes. That, of course, I give as my personal view.

728. So far as the subject has been discussed, would you say that that is a view fairly commonly held in the Revenue?—By men of my own age and experience, with whom I am more in touch on a matter like that, I should say yes. I think we all feel that our work calls for a knowledge of law and accountancy, which is not met by the examinations which we have had recently.

729. In addition, I suppose, to your special examination, you would rather hope possibly for the cream of the other Services, the men already in other Services of the Crown?—I should like to, yes.

730. You feel that the responsibility of a Surveyor makes him quite different from a headquarters centralised official?—Quite different.

731. It is considerably greater strain?—Yes and his

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[Continued.]

self-reliance wants to be developed at an earlier age too.

732. What sort of age would you pass him in at?—About 17 or 18, I think.

733. Would not that cut short his general education rather?—I would not leave him too late, but still I have no fixed view on that point.

734. But if our system of education in the country produces a University graduate at the age of 20, would that be satisfactory from your point of view? Would you prefer to have a man of high general education?—Yes.

735. Then on the question as to the Surveyors helping the public, is it not the case that a Surveyor would naturally look upon himself as really under an obligation to help the public, or does he regard himself as simply interested on the Crown side?—No. I think he feels he is there to help the public, and provision is made for that as far as possible.

736. I gather from your replies to previous questions your feeling was that the difficulty at the present moment is that the staff is short possibly in numbers and in the average training, because the additions have been of recent years?—Yes.

737. Supposing you could get a sufficiently large staff of a sufficient number of years of training, you would not feel that the Surveyor was wasting his time in helping the public and advising the public?—No.

738. Then there is a small point as to the accuracy of one of your documents; it is paragraph 3 of the proof of your evidence. It is a very small point, but I should feel disturbed if your whole statement were inaccurate. It is there stated by you that the Board of Inland Revenue are answerable to the Chancellor of the Exchequer. Would you say that Inland Revenue business in the House of Commons was conducted by the Government Whips, for instance, or is it usually done by the Chancellor of the Exchequer? Is that what you mean?—I certainly think we look to the Chancellor of the Exchequer as the head.

739. Mr. Arncliffe-Smith: My question was concerned with the legal position, and I understood the Witness to accept my correction.

740. Mr. Warren Fisher: I am anxious that this statement should be acceptable by us all as correctly setting out the practical facts of the Income Tax administration. Now, coming to the Collectors, the function of the Collector, from what you have said, is merely to present the bill made up by somebody else?—Yes, that is all.

741. And with regard to the question that Mr. Mackinder raised, I find in the Act of 1918, Section 84, it is stated quite definitely that where Commissioners do not appoint, the power goes to the Board of Inland Revenue?—Yes.

742. Was that introduced in 1880, or was it in existence under the original Acts?—It must have been in existence under the original Acts. I cannot answer to the letter for that, but I do remember that when the Taxes Management Act came out in 1880 a memorandum came with it, and it stated that it really made no alteration in the law at all. It only collected together the existing law which was found in a lot of old Tax Acts running back to the Georges and William IV, and so on.

743. Sir E. Nott-Bower: That provision was in the Taxes Management Act, of 1880. That Act, again, was a consolidating Act. The power was not created by the Act of 1880. My recollection is, and it can easily be tested, that if you look for one, two or three years before the Act of 1880 you will find the genesis of it.

744. Mr. Warren Fisher: I just wanted to clear my mind on that point. One further point with regard to the weekly wage-earner: the suggestion has been made, not merely here, and not infrequently, that the employer should, in effect, assess the tax on the wage-earner. Would not that be a very great differentiation in treatment between the wage-earner and other Income Tax payers?—Yes, an entirely different treatment; but it is meant that the employer should assess the amount to be deducted as well as collect it, or simply collect the amount that has been assessed by the Surveyor?

745. Well, I was not clear?—I think there are suggestions floating about that so much in the pound should be deducted from the wages which are paid,

it being an automatic arrangement on the wage sheet.

746. Chairman: But there is no suggestion that the employer should assess the tax, is there?

747. Mr. Warren Fisher: That brings me on to this, the employer would have to know the amount of tax payable by the wage-earner?—Yes.

748. In order of course to deduct it?—Yes.

749. With that knowledge before him he will at all events be able with a little arithmetic, if he wants to, to arrive at certain facts?—With the knowledge of the man's wages, which he previously had, he could reconstruct—

750. He could reconstruct to some extent his income?—Yes.

751. Would not that be withholding the confidentiality from the wage-earner that every other Income Tax payer demands for himself?—That would be one of the results, certainly.

752. Sir W. Procter: With regard to the General Commissioners, are you satisfied from the point of view of the Crown that the General Commissioners do substantial justice?—Yes.

753. Would not the taxpayer be dissatisfied without a local appellate tribunal?—Yes, I think there is a great deal to be said for that.

754. My meaning is this: that the taxpayer is satisfied with some protection, between himself and the Crown, of people whom he locally knows?—Yes.

755. Sir E. Nott-Bower: I want to ask you a question with regard to the Income Tax year. Take the case of the assessment of the last year ended on the 5th April. The payment of Income Tax on those assessments covers the full income accruing to the taxpayer up to the 5th April?—Yes.

756. It does not matter what average of years the assessment is based upon: that is immaterial; it really was a payment in full in respect of his profits up to the 5th April?—Yes.

757. If this year the Chancellor of the Exchequer said: "We are now imposing an income tax for the year ending on the 31st March," would not the taxpayer be entitled to say, and would not he say: "This is not a charge for the full year. I have already paid the tax for the first five days of that year and I must have an allowance for that"? and if you were to take it a step further, as Mr. Marks suggested, and say that the charge this year is to cover your liability up to the 31st December next, would not he say "You must not take a full year's tax from me; you must take not only three-quarters of a year but six days less." I think there would be real substance in that, because a time will come sooner or later when the taxpayer will go out of business or die, and if you only after your Income Tax year to the 1st April when he goes out of business or when he dies, you claim Income Tax from him for the period between the 31st March and the day of his death, and he would have paid five days too much or three months and five days too much. I think you almost assented a little too hurriedly to that proposition; I think there are difficulties. There is one other question I want to ask—I do not know whether you would attach much importance to it—with regard to the powers of the Surveyor. I am sure you will remember very well that the former power of surcharge was cut down quite unintentionally by the Taxes Management Act of 1880. By the language used in that Act we did not realize at first that the power had been cut down, but under a decision of the law courts it was held that the Surveyor's power to surcharge only extended to cases where there had been no assessment?—Yes.

758. And did not cover the cases of insufficient assessment?—Yes.

759. I do not know how much practical importance you attach to that, but would not you think it worth while to restore the former powers of the Surveyor in respect of surcharges? We were rather disturbed at the time?—Yes, because the Surveyor's power of surcharge ran 8 months beyond the Additional Commissioners' power of surcharge. The Surveyor had had it for 12 months afterwards, that is, for 8 months after their power had elapsed he had a power. Of course, the powers now run for three years each.

760. You think it is only a question of time?—I should like to think about a point like that.

There is one correction I wish to make in the Memorandum on the Surveyors of Taxes; I should

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SIR THOMAS COLLINS.

[Continued.]

like to make it before it goes any further. In paragraph 69, Table of adjustments [see App., p. 31], the heading is: "Number of adjustments made by the Surveyor and accepted without question by the Commissioners." The words "without question" escaped my notice, and I would ask you to delete them.

761. *Chairman*: It is your statement, of course, and you wish to have it deleted?—Yes, I intended to take that out on the final proof, but it quite escaped my notice.

762. That is at your request?—Yes.

763. *Mr. Holland-Martin*: That table gives certain important representative divisions, 22 in all. How

many divisions are there in reality?—About 725, I think. I can give you the figures respecting adjustments for the whole of Great Britain. The divisions listed were selected haphazard, but while we were getting the figures out in particular for those divisions, we were getting them out in the aggregate for Great Britain, and I can now give, if it is required, the figures for the country. As a matter of fact, in the remaining parts of the country, which are rather more rural, I find that the Commissioners hear a larger proportion of appeals than they do in the divisions included in the list, where people come with their accounts, and have got better evidence as a rule to lay before the Surveyors.

SECOND DAY,

THURSDAY, 8TH MAY, 1919.

PRESENT:

LORD COLWYN (*in the Chair*).

SIR T. P. WHITTAKER.

MR. BOWERMAN.

MR. BRACE.

MR. PRETTYMAN.

SIR E. E. NOTT-BOWER.

SIR J. S. HARMOD-BANNER.

SIR W. TROWER.

MR. HOLLAND-MARTIN.

MR. WARREN FISHER.

MR. ARMITAGE-SMITH.

MR. BIRLEY.

MR. KERLY.

MRS. KNOWLES.

MR. MCCLINTOCK.

MR. MANVILLE.

MR. GEOFFREY MARKS.

MR. MAY.

PROFESSOR FIGOU.

MR. SYNNOTT.

Sir FREDERICK YOUNG, M.P., Chairman of the Association to Protest Against the Duplication of Income Tax within the Empire, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

764. I presume it is unnecessary to present a case against this anomaly but rather as to how it should be met.

765. The Chancellor of the Exchequer has on many occasions of late admitted the injustice and unwisdom of things as they are which he asserted in Parliament only last year should not continue for one hour after the end of the war.

766. The Imperial Conference of 1917 passed unanimously the following resolution with which the British Government cordially acquiesced:—

"The present system of Double Income Taxation within the Empire calls for review in relation (i) to firms in the United Kingdom doing business with the Oversea Dominions, India, and the Colonies; (ii) to private individuals resident in the United Kingdom who have capital invested elsewhere in the Empire, or who depend upon resistances from elsewhere within the Empire; and (iii) to its influence on the investment of capital in the United Kingdom, the Dominions and India, and to the effect of any change on the position of British capital invested abroad. The Conference, therefore, urges that this matter should be taken in hand immediately after the conclusion of the war, and that an amendment of the law should be made which will remedy the present unsatisfactory position."

767. The movement has been consistently supported by the Royal Colonial Institute, the London Chamber of Commerce and the British Imperial Council of Commerce.

768. There have been protests since 1896, but only recent years the evil was not acute, owing to the comparatively light Income Taxes throughout the Empire.

769. In 1914 two important events accentuated the anomaly into an intolerable evil:—

1. The Finance Act of 1914 extended the double taxation to all income derived from abroad (i.e., in the case of persons resident in this country) whether it was or was not brought here. Before then the only income affected was that which was actually brought to this country.

2. The outbreak of the great war and the consequent increases in the rates of Income Tax throughout the Empire.

These circumstances brought the Association I represent into being.

770. It is of interest to note that in the earlier days of protest the Treasury declined to recognize any distinction between portions of the Empire and foreign countries. Even up to 1917 I think this view prevailed with the officials. However, His Majesty's Government in Great Britain have, throughout the war period at least, recognized the all-important Imperial aspect of the problem and made concessions up to 1s. 6d. in the £ and subsequently to 2s. 6d. in the £ in favour of double taxpayers who pay more than 3s. 6d. in the £ in this country, so that their maximum rate here should not exceed 3s. 6d. Beyond this the Government has declined to move until investigation after the war.

771. The anomaly has not only become acute during the war owing to the greatly increased rates of taxation, but two other circumstances at least have contributed to a deep sense of grievance on the part of those who suffer:—

- (a) The complete inconsistency of the taxation system with the otherwise perfect Imperial relationship between all parts of the Empire established by common sacrifice. This is quite important, as speaking generally those who suffer are great Imperialists at heart, and in many cases their sense of love for the Empire has drawn them to the Mother Country.

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[Continued.]

- (b) A more material cause of grievance is the fact that so great a part of the taxation paid represents a double payment towards the cost of the war. Take Australia as an instance: prior to war there was no Federal Income Tax. It was introduced after the outbreak of war, and avowedly for war purposes ascending in the first instance to 5s. in the £, then to 5s. 3d. in the £, and later, I believe, to about 8s. in the £. During the same period the State Taxes have materially increased largely owing to the war. In the meantime the British tax has increased by about 4s. 6d. in the £, avowedly for war purposes. Double taxpayers, above everything else, feel it an intolerable injustice that they should be singled out to make two contributions to the war cost—they rightly claim that the Empire fought as one unit and that individual citizens should pay one tax only for the cost.

772. I emphasize the gross injustice of the double war tax.

773. Dealing with the problem of double taxation with a view to amending the position, it is well I think, to distinguish income derived from the Dominions into two classes:—

(a) Income brought to this country.

(b) Income allowed to remain in the Dominion and, in the case of businesses, used for further developing the same.

774. This distinction prevailed prior to 1914.

775. Income (b) was first taxed in 1914, and, I believe, this was due to the tendency on the part of some capitalists here to invest in countries where income taxation did not operate or was more or less nominal. I would say, as to this, first, that the war has unfortunately levelled up all parts of the Dominions as regards income taxation, and second, that to deal with those capitalists the system unfortunately hit many whose capital originated in the Dominions and never was portion of the wealth of the Mother Country. I think there is more or less a consensus of opinion that the case for taxing income (b) is gone and that this is a fair and exclusive field for taxation by the respective Dominions in which the income is derived.

776. The more difficult question has relation to income brought to this country.

777. Income taxation within the Empire appears to be based on either one or the other of two principles, viz:—

1. Taxation of the income by the country in which it is derived.
2. Taxation of a person resident in the taxing country in respect of his income wherever derived.

778. Neither of these principles may be sacred but I venture to say that within an Empire which claims to be united under one King and in all its sentiments and hopes to be even more intimate and self-sufficing in its trade, the first principle is the one which can be applied without difficulty and without the necessity of elaborate agreements or adjustments and which recognizes the right of a citizen of the Empire to move from one part to another without penalty. The second principle if it prevailed generally would lead to intolerable overlapping of taxation and to complications, and would with anything approaching the present high rates of taxation lead to an absolute stoppage of the flow of investment money throughout the Empire. Even with correcting adjustments, the machinery would be complicated and vexatious, and deter investors from going afield within the Empire.

779. Whatever may have justified the British system of taxing the resident in the days when the Mother Country bore the total cost of defending the Empire and when the Colonies were little more than Crown Colonies with no income taxation systems of their own I suggest that a complete review of present circumstances warrant the application of the first principle (taxation of income by the country of origin

only) uniformly throughout the Empire, even at some loss of revenue to the Mother Country for the following reasons:—

1. It is the simplest plan for general application, and lends itself to an Imperial system—it is a clear and practical form of Imperial preference.
2. There is, or is likely to be, a more or less common level of income taxation throughout the Empire, so that investment will not be, to any material extent, determined by favourable income taxation in any one part.
3. Advantageous rates of interest to be earned in the Dominions do not prevail to any considerable extent now, and a measure of double taxation or vexatious administrative adjustment machinery to correct same is likely to prevent a proper flow of money within the Empire.
4. Some foreign countries are still Income Tax free, having escaped the financial burden of the war. These countries offering, as they usually do, high rates of interest on investment, will attract money from this country, to the detriment of Empire development.
5. The Dominions have largely financed themselves as regards war costs, and as a result local money usually available for private lending is now tied up in public loans. This creates the greater need for money, so far as it is available, to go from this country to the Dominions, if the latter are to be effectively and speedily developed.
6. It is generally accepted that the Dominions, as they are more developed and populated, will add corresponding strength to the Empire as a whole. Conditions are required, therefore, to enable the life blood (money) to flow from the heart (the Mother Country) to strengthen and develop the limbs of the Empire.
7. Those businesses which have head offices or a certain amount of control in this country (and not necessarily established with capital originating in this country) are finding double taxation a serious handicap, and already some companies have transferred their head offices elsewhere, and many others have postponed action awaiting the British Government's decision in relation to this problem. Our Association is able to declare that this is a serious matter. Apropos of this, I quote the present Chancellor of the Exchequer, Mr. Chamberlain, speaking at the 1917 Imperial Conference:—

"That, in his own interests the British Chancellor of the Exchequer 'must review the matter now.' He has no interest in delay, because it is perfectly true that with the very high rates of tax which are now in force in this country there is a great and growing tendency to remove the offices of companies to other places, and the Chancellor of the Exchequer will then lose not merely the revenue which he now collects on income earned abroad, but he loses the whole revenue. It is, therefore, to the interest of the British Chancellor of the Exchequer to get this matter reviewed and to arrive at a decision upon it as early as possible."

The effect of these transfers will be:—

- (a) In any case this country will cease to receive the Income Tax which the transferred businesses now pay.
- (b) This country will lose the advantage of thousands of individuals living and spending money within its borders, and paying taxation in other forms.

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[Continued.]

(c) These head offices maintain valuable trade connections between the Mother Country and the Dominions—they ensure, for instance, that large selling houses in the latter stock up with British manufactures. In their absence these selling houses will more readily respond (especially if they have a sense of grievance, which will not be unnatural) to the cheapest market and deal with foreign travellers from enterprising foreign countries.

8. The investment of money in the Dominions will increase trade with them, and this is likely to be the most enduring trade for this country. I quote, in regard to this, Mr. Lloyd George's statement at the 1911 Imperial Conference, when

"He referred to the fact that British investments in the Colonies were growing very rapidly, that it was an advantage to the Mother Country, and helped trade and especially trade with the Colonies, that it was also an advantage to the Dominions because it assisted them to develop the enormous resources of their various countries."

780. I do not suggest that the above exhausts the arguments in favour of a uniform system of taxing income by the country of origin. As regards the very real fact that this country would make an immediate sacrifice of revenue by adopting such a system as within the Empire, I would say that much of this revenue must of necessity be lost in any case because taxpayers will not remain here to pay it—the sense of grievance will weigh, almost as much as the loss of money with them. I also venture to say that there may be a considerable evasion. If the revenue is lost in this way, the Mother Country and the Empire will lose much more in Empire sentiment and trade connections, whereas if it is lost by a generous arrangement, which places Empire development in the foreground and looks upon property and the income therefrom as the exclusive field for taxation of the part of the Empire in which such property is situated and protected—which encourages the free movement of Empire citizens within the Empire without penalty—which particularly encourages Empire citizens elsewhere to look upon this country as 'home' to which they can return whether to settle absolutely, or to educate their children, or to carry on Empire trade, then the Mother Country and the Empire will be gainers in many ways which will more than counter-balance the revenue lost by any particular portion.

[This concludes the evidence-in-chief.]

781. Chairman: We have got your statement. Will you take the main points and address the Commission on them?—Yes. I would first emphasize the fact that there is an almost complete unanimity, as far as one can judge, that this is a distinct evil, if I may call it so, to be solved in some way or another so as to bring about a more satisfactory position than at present. I would limit my remarks on that point to quite recent years during the war, during which the Chancellors of the Exchequer have under existing difficulties, I think, not only admitted the Double Income Tax anomaly, but have made quite a considerable effort to alleviate it. As I say in my statement, a most emphatic remark was made by the present Leader of the House when Chancellor of the Exchequer last year. He made the statement that it was an evil, or anomaly, or condition of affairs which should not continue for an hour after the war. In addition to these statements by the member of the Government most interested, I would emphasize the fact that this question has been dealt with by Dominion representatives at Imperial Conferences in 1911 and onwards. It was not emphasized to any great extent in the earlier years because the rates of Income Tax had not become acute, but at the same time it was discussed as being unimperial. It originated from South Africa and was taken up by New Zealand in the first instance. Beyond saying that it was brought up, and the existence of the anomaly asserted at the subsequent Imperial Conference, I would direct the Commission's attention

to the specific resolution which was carried at the 1917 Conference. This is in my statement, which, I think, repeats as a matter of fact, the resolution carried at the previous Conference. The resolution is quite simply worded, and I think it conveys its full meaning and requires little or no amplification on my part.

782. Chairman: Are you speaking about the resolution [at paragraph 786]?—Yes. You do not wish me to trouble you by reading it.

783. We have all got it.—In addition to the Government acknowledgment of the position, and the Imperial Conference recognition of the fact that an alteration is required, the movement has been supported from its outset in 1895 by the Royal Colonial Institute which takes an interest in Imperial matters, the London Chamber of Commerce, and the Associated British Imperial Council of Commerce—the Associated Chambers of this country; and as a matter of fact at the meetings of the Associated Chambers of Commerce throughout the Empire, held at least on one occasion, a resolution was passed, when they met in Australia. It was 1914 which really made the matter of some vital importance. As I have stated, the Finance Act of that year extended the taxation to income earned abroad, whether or not it was brought to this country. That broadly affected businesses which retained, as businesses often and very properly do, portions of income to build up reserve accounts for the purpose of extending their businesses. They in particular felt it was a very great injustice that as regards that income it should be subjected to the two systems of taxation. I deal with that later on in my statement. The other fact of 1914 was, of course, the outbreak of the war and the consequent and subsequent serious increases of Income Tax not only in this country but throughout the Empire, which in common with this country shared fairly equally the burden of the war and the financial sacrifices. It was owing to those facts of 1914, that those who suffer under double income taxation determined to form themselves into an Association, of which I have recently become Chairman. Until last year I was unable to take any leading part, so I held an official position in this country as Agent-General for one of the Australian states, but last year I accepted the Chairmanship of that Association. I would like to emphasize the Imperial aspect of the question, because I think undoubtedly that was lost sight of in this country until quite recently, more or less up till the time when the war broke out. The war has been a considerable education to many people on that subject, and that education has had its effect in relation to Double Income Tax; but in the correspondence of the earlier years of protest, it seems unquestionable that the Treasury made no distinction between portions of the Empire and foreign countries, and even as late as 1917 at the Imperial Conference some objection was raised officially to making a concession to Empire investments because it might affect the United States, and that is exactly the official attitude which up till recent years has allowed this problem to remain stationary—a matter of periodic protest and nothing further. As I say, the war has altered the position, and the Government, at least throughout the war, since the increased Income Tax prevailed, have recognised the Imperial aspect, and have, as regards Imperial investments, made the concession in the first place up to 1s. 6d. in the £, and subsequently up to 2s. 6d. The working of that concession, if I may explain it briefly, is this: In the first place it is a concession entirely in favour of the more wealthy investors, that is, it does not operate until the British Income Tax exceeds 3s. 6d. in the £; therefore the small investor, the person living upon a more or less bare remittance of a few hundreds a year and who does not under the British taxation system pay 3s. 6d. in the £, gets no relief at all; that person pays the full British tax and the full Colonial tax. It is only when the British Income Tax exceeds 3s. 6d. in the £ that the Double Income Tax payer can then produce evidence as to payment of Income Tax in the Dominions, and up to the extent of at present 2s. 6d. in the £ he can get a rebate bringing down his maximum British Income Tax to the rate of 3s. 6d.

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[Continued.]

784. *Chairman:* What about the small investor; what Income Tax has he to pay in the Colonies? Is it graduated?—It is not always a very heavy one. I can give you an instance, if I may, of a person drawing £500 a year income. I can give you the Australian taxes approximately; it is impossible to give you an absolute figure because the Australian tax comprises a Federal tax and a State tax, and the State taxes vary. I have taken an average State tax plus the Federal tax, and on an income of £500 the Australian tax is £44 and the British tax on the balance, that would be on £556, is £68, a total of £112. If that were income from property in this country (and all this question is concerned in the main with income from investments and not what we call earned income), the British tax on £500 would be £75, so that in that case I would call the penalty of Empire investment £57, which is, I think, quite considerable on an income of £500 in addition to the heavy tax which would apply if that income were derived from this country.

785. *Sir J. Harwood-Banner:* Did you say the £44 was Federal or State?—That is the combined figure. A person earning £1,000 would pay on the balance which reaches him in this country 3s. 9d. in the pound, so that on production of evidence as to his Dominions taxation he would get a rebate of 3d., making it 3s. 6d., so that the rebate is of comparative unimportance in the case of a £1,000 income, which I should say was a fairly frequent case amongst Dominion people living in this country, and in that case the Australian tax is approximately £113 while the British tax on the balance at 3s. 6d. is £155, or a total of £268 out of £1,000. That is over 5s. in the pound as against 3s. 9d. if it were derived here. The British tax on £1,000 if derived here would be £187, so that the penalty of Empire investment, even with the relief, in that instance is £81. Those are the cases in which the relief does not operate, or operates to a more or less nominal extent. I was criticising the Imperial aspect of the question, and I would like very seriously to emphasize that. I have lived practically all my life in one of the Dominions and have been in public life, Parliament, and held ministerial positions there, and I do say with confidence that those who live on the fringe of the Empire value the existence of the Empire in the sense of Empire possibly more than people do in this country. I dare say that arises from a sense of weakness, but it is a fact, and it is a very evident fact to anybody who is out there. I would go further and say this, that people who have lived in the Dominions and come here to the Mother Country do not lose their regard for the Dominions in which they lived by any means, but in a great many instances they might be called ultra-Imperialists, and they are drawn by that very fact to the centre of the Empire, the Mother Country; they come here perhaps to make their permanent home for reasons of health or otherwise, or to educate their children, or they come here in connection with the trade which in their own individual cases is largely between the Mother Country and the Dominions in which they live. These are the people in the main who are affected by Double Income Tax, and as I say, being almost, one might call them, ultra-Imperialists, they do feel very acutely, apart from the financial aspect of it, that they should be singled out by a system for a greater degree of Income Tax than any other individuals in the British Empire. I lay very great stress on that aspect of the question. As I state, and this I would like to emphasize perhaps in different words, another fact which brings the matter home acutely to those who suffer is the fact that the increased taxation has relation to the war. The Income Tax in this country jumped from a little over 1s., I believe, up to the present rate of 6s. almost entirely on account of the war and avowedly for war purposes. As I state, in Australia the Federal tax is entirely a war tax. Until the war happened the Federal Parliament deliberately kept out of the Income Tax sphere, leaving that to the States as a field for taxation, but the imperious necessities of the war altered that and the Federal tax was brought in to help to meet the war bill. As you know, it ascended in scale up to 5s.

in the pound in the first instance; it was then increased in 1917, I think, by 25 per cent., making it 6s. 3d. maximum, and since then, although I am not absolutely certain—curiously enough we have not been able to get the information officially—I believe that another 30 per cent. on to the original 6s. has been added, which would bring it up to 8s. in the pound. I think I am right, but we shall be able, and you will be able, to obtain authentic information on that. That is 8s. in the pound, if I am right, Federal Income Tax at the higher rates, that is on about £20,000 and over. In addition, the State taxes have also increased somewhat owing to the war, but I would not lay much stress on that; as a matter of fact, they do run up in some instances to over 2s. in the pound; so that the Australian tax may be 10s. in the pound, and the bulk of it, as I say, is war tax. Canada only as recently as last year introduced the Income Tax system, being driven there by war expenditure, and her rate, as far as I can gauge it from the Act, which I have had only a very short time to look at, in the higher amounts, that is £30,000 and upwards, apparently runs into 25 per cent., that is almost 6s. in the pound. South Africa has also increased, but not to quite the same extent. New Zealand is very heavy, almost approximating to the Federal Tax—well, it does approximate to the Federal tax, but there they have not got the State tax in addition. The Double Income Tax payer is in the main paying a contribution to the war from the Dominion where his income is earned and also in this country. He does feel that whereas the war represented a common effort by the Empire without distinction, it should not be that any individual citizen of the Empire should pay twice over to the cost of the war. To my mind, and to their minds, it is easily distinguishable from anything that he ought to pay for domestic advantages.

Now as to the general question of double taxation as it exists. As I have said prior to 1914 there was the distinction between income brought to this country and spent here, and income which was left in the Dominion or in the foreign country where it was derived. I understand that in 1914 this distinction was done away with because the Super-tax, having come into existence, led some people here to look round and see if they could not invest their money elsewhere where Income Tax was not so serious. I am not able, of course, to say to what extent that did prevail, but I am told that it was a matter of considerable boasting—rather stupid boasting—on the part of some people in this country that that was the way they were going to avoid the Super-tax; and the Chancellor of the Exchequer, the present Prime Minister, not unreasonably took notice of this boasting, and the 1914 Act was the result. That is what I am told was the history. But apart from the extent to which that form of investment took place, I would emphasize what I have stated here, that in providing the cure for it the British Chancellor of the Exchequer, I think, did an injustice to a great many people who were not in his mind, that is, people whose income was earned from investments in the Dominions which never at any time constituted a part of the wealth of this country—investments which originated there. That was applied to quite a considerable portion of the cases. But assuming that the position was as the Chancellor of the Exchequer then viewed it, I would say that to-day it is radically altered by the fact that Income Taxes prevail now through the Dominions, and in most cases at pretty high rates. The lower rates prevail for the smaller incomes, but the 1914 Act aimed more at people who invested on a large scale, and as regards those people, they have comparatively little to gain in most of the Dominions. I exclude India for this purpose, but India, I think, has its own difficulties which would restrain people possibly from investing there except for good reasons quite apart from Income Tax reasons. The income taxation systems have, I think, levelled up to such an extent that unfair investment, if I might use the expression, would not be at all prevalent. As I say later on in my statement, I do not think that the rates of interest in the Dominions are now so very much higher than they are in this country as in themselves to be an

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[Continued.]

undue attraction for money to go from here to the Dominions, so that I think that where money does go for investment, leaving Double Income Tax out of the question, in the main it will flow legitimately from a pure investment or business point of view. As regards the distinction, I have not laid much emphasis in my statement on the case of the income left in the Dominions because, as I have read the debates, it seemed to me that the Government realises that they would have to forgo that taxation and leave that as a fair field of taxation to the Dominion Government. I thought when I prepared my statement, and I think now, that the more difficult question to get over is possibly the taxation of income which is brought to this country and spent here; that is, it may be said, that the residents in this country, spending his income here, to the extent of his enjoyment of that income derives some advantage in this country for which he ought to pay. That I would suppose to be the case in favour of some degree of income taxation in this country. Now following on the lines of my statement, I think that one has to view the systems of income taxation as we have them through the Empire. I think I am right in saying that in most of the Dominions the principle is to tax only the income which is earned within the Dominion; that is certainly so as regards Australia. It is so as regards New Zealand, and I think substantially that it is so in Canada, although I would prefer somebody more in touch with Canadian matters to give a definite opinion on that. South Africa, I think, is rather more like this country. If I were living in Australia on investments entirely in this country I would not pay a penny of Income Tax in Australia. That applies to New Zealand, and I think substantially to Canada. The other system—which prevails in this country—is to tax a person by virtue of residence on his income wherever it is earned or derived. I would not go so far as to say that either of these principles is the absolutely right one which ought to be adopted as between the different countries of the world, but I am urging in my evidence that the first principle, that is of taxing the income in the country of origin, is the one which is imperial, and it is the principle which can be applied to this country, certainly with some immediate loss of revenue, but it is the one which can be applied simply and avoid elaborate adjustments to check Double Income Tax to any extent which might be thought desirable. May I just illustrate for the moment the difficulties, as I conceive they would be, of adjustments, even as we have them to-day, but more so as to a more complete scheme were evolved to this problem. In the first place, the Income Tax years vary throughout the Empire. Even in Australia they vary as between the States and the Federal Government and as between Australia, New Zealand, Canada and South Africa, they vary to some extent, that is some end by the 31st December, some the end of February, some the end of April, and some the end of June. This country, of course, has her own financial taxation year also, so that if one were to provide for some system of abatement you are at once against the difficulty of getting a similar period when the income is actually taxed. Another aspect of the difficulty in this: take Australia, and I think this applies to most of the Dominions: the tax is levied in a given year on the actually ascertained income of the previous year. In this country it is assessed on the estimated income of the year of taxation ascertained apparently on a three years' average, a system which has a great deal to commend it.

788. Mr. Petyman: No, I do not think the tax on investments is calculated on the three years average?—No, on investments and mortgages, and so on, it is not, but as regards, for instance, banking institutions and pastoral companies—

787. Businesses?—Yes, businesses of which there are many important ones in this country operating in Australia. They are assessed on a three years' average here, as against an assessment out there on the actual income of the previous year. Of course, with the three years' average—especially taking pastoral cases, where owing to the droughts and that sort of thing you have in some years practically no income and in other years a very bountiful income—it is

very difficult to get the income of a particular period out there which coincides with a particular period here, and to my actually what Income Tax you did pay out there in respect of which you ought to get an abatement. That constitutes, I think, a considerable difficulty. Thirdly, if a distinction is, and I think assuredly it ought to be, made as between income brought to this country and income left out there, then there will be some amount of difficulty in ascertaining what is the proportion of Income Tax on the income brought here as compared to the whole income earned; that is are you going to take Income Tax on the highest rate, or on the specific rate, in Australia for instance, which would apply to that particular portion of income brought here if it were assessed separately, or are you to take a proportion of the total Income Tax paid in relation to the total income? Those are two or three matters which suggest themselves to my mind as creating difficulties of adjustment and which will involve a considerable amount of time before rebates would be obtained, and we know that even under ordinary conditions here obtaining rebates is quite a hazy procedure. I rather venture to say that with these elaborate adjustments the flow of investment money to the Dominions would be deterred seriously.

If the second system of taxation by reference to residence, irrespective of where the income is earned, applied generally throughout the Empire, I think the Commission would see that there would be an extraordinary overlapping, and that whilst people could move fairly freely many would not move as between the different parts of the Empire, and there would be an almost absolute stoppage of the flow of money.

788. Sir E. Northcote: Would you say that double taxation would necessarily arise because residence was taken as a test of liability throughout the Empire? I do not quite follow that. Would double taxation arise with residence as a test in one country and situation in the other?—Perhaps not, but I have in mind something wider than mere taxation by residence. I really mean the complete system which prevails in this country, under which residence is a leading factor, but under which also income arising in this country is taxed wherever the recipient resides. I should have stated the second system of taxation more fully to make it accord with the incidence of income taxation in this country, and all my evidence should be considered in that light.

789. Chairman: Perhaps you will ask the witness that question when it comes to your turn?—If I might venture just for a moment into the history, I would suggest that the system of taxation which prevails in this country possibly arose from the fact that this was the only part of the Empire up till within the last 20 odd years where Income Tax prevailed. Going back much earlier when Income Tax first became more or less a permanent system here, the various parts of the Empire were in an undeveloped state; almost the whole of the money out there belonged to people living in this country, and the Dominions in those days depended very much more upon expenditure in this country, as regards defence very much more. Until quite recent years that prevailed, and there was a very great measure of justice in this country deriving some return in the shape of taxation, but I think that the present day circumstances in those respects are completely altered and that the principle of taxation at the place of origin is the one that might well be adopted. As I say, it is a very simple plan, and I look upon it as the most effective form of Imperial preference that this country can give. We hear a great deal of talk about Imperial preference, and whilst I am an Imperialist I do not know that the Imperial preference which is being established at this moment is worth a great deal, or is likely to be. I appreciate the sentiment of it, but I do not know how this country is going to establish a very effective form of Imperial preference; but I do see in this Income Tax question a means of preference of a very useful kind, that is of allowing money more favourable access to the parts of the Dominions than it gets to other parts of the world.

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On that point, I think that the case has a great deal to commend itself. As I have already stated, the more or less growing level of income taxation—and I think it will tend more and more to become comparatively level—will not lead to an undue discrimination on the part of investors purely from an income taxation point of view. The same applies, I think, as regards the rates of interest to be earned in the Dominions. The margin of advantage, I think, is, and will be, comparatively little, and the slightest degree of double income taxation or wasteful administrative machinery will be sufficient very seriously to deter an Empire flow of money. I think I am quite right in pointing out that some foreign countries are income Tax free, and, as foreign countries, they do offer fairly remunerative returns, with, of course, a corresponding risk as foreign countries. These people who will not invest in the country in which they live (and there are people like that, I suppose), will be attracted to go to the Income Tax free country, whereas they might be induced to go to the Dominions if they are not unduly penalized. To that extent I think Empire development would be affected seriously.

790. Mr. Beveridge: Would you mention those countries?—I have not mentioned the countries, but I think an instance would be Chile. I believe that is quite Income Tax free, and so long as things are peaceful I think it is a very attractive country for money. I think the members of the Commission are well aware of the fact that the Dominions have financed themselves to a very large extent locally in connection with their war expenditure, which is quite a new departure with them. It was done at the request of this country, and very properly so, but it had the effect, of course, of drawing into the public securities vast sums of money which are ordinarily available for private lending through the banking system there, which is peculiar to the Dominions; and to that extent the Dominions, I think, will be wanting, so far as it is available, and their policy should be in their own legislation, to foster a flow of capital from this country. It will only be, I think, by means of a reasonable flow of money that the Dominions can continue their development effectively, and they must in the main depend, as they have in the past, upon the Mother Country. I think it is of great importance that the Dominions should not stagnate during the next generation, in their own interests and in the interests of the Empire. To give one's thoughts one direction, I suppose that this war will have an unsettling effect upon a great section of the community here, and, as after previous wars, there will be a tendency, sooner or later, for a certain percentage of people to leave this country; there will be a certain percentage of emigrants. I think the country should realize the great advantage of keeping those people under the flag, and if they are going to leave this country, at least see that they get to one of the Dominions. The best way of keeping those people to the Dominions is to maintain in a measure the prosperity of the Dominions, so make them attractive, and in that direction nothing will serve better than a reasonable flow of money from this country to the Dominions for investment there.

791. Chairman: You have made a very valuable summary of your observations. Perhaps I might emphasize the question of businesses which have their head offices here, which I consider a very important point; unless you think that I have adequately stated that.

792. It is an important point; will you please give it?—A great number of companies and partnerships which carry on business in the Dominions have head offices or some form of control in this country. The first point I would like to make is that they are not necessarily companies or partnerships established from this country; they are companies or businesses which have been established in the Dominions. They become important, and it is subsequently advisable to establish a head office or some degree of control here, a director residing here, for instance. They feel the effect of the

Double Income Tax and are likely to feel it more in the future: not so heavily per £ as individuals, but by reason of their aggregate income they will be penalized to quite a considerable extent. There has already been a fair indication that those companies are inclined to pick up and go back to the Dominions entirely. I may say, as an Association we have reason to know that there are many others who are very keenly debating the matter within themselves, and are in a measure waiting for the decision of the Government on the question. The present Chancellor of the Exchequer, in the quotation which I give in my statement, I think very adequately and very properly realized this aspect of the question. The advantage to trade, if I may just emphasize that one point, is this. A business trading between the Mother Country and the Dominions, and having the head office or control in this country leads almost as a matter of course to trade; otherwise the control or head office here is not justified. The simplest case is of a large importing warehouse in the Colonies requiring to stock up in hardware, soft goods or the like. They very naturally, and almost entirely, stock up from goods manufactured in this country. If they come to carry on business here they have to depend upon travellers, and then, apart from continent, which might reasonably favour this country, the traveller from this country will have to compete with the traveller from the United States and Japan, and so on. That has not hitherto been the method of business on the part of the British manufacturer to anywhere near the extent that it is the method of business among some of his energetic foreign competitors. There is a way to be made up there even if the British manufacturer is to get on the same floor as the other man. We foresee, or are afraid, that British trade with those large importing warehouses will be very apt to be seriously affected, and to that extent the Empire trade diminished. Mr. Lloyd George, in his statement at the 1911 Imperial Conference, clearly realized and appreciated this point, I think, in the quotation which I place before the Commission. There are just one or two matters in addition that I wish to bring before you if I may.

793. Chairman: Perhaps they will come out on examination?—As regards the very real fact that this country would make an immediate sacrifice of revenue by admitting such a system, that is, a system of taxation of income in the country or Dominion of origin, by adopting that system as within the Empire—and I am limiting it, of course, to that—I would say that much of this revenue must of necessity be lost in any case, because the taxpayers will not remain here to pay it. That will apply to businesses and to private individuals. Following up what I said earlier in my remarks, the sense of grievance will weigh, and does weigh, almost as much as the loss of money in a great many cases; and I would also venture to say that where you have grievance you are apt to have a considerable amount of evasion. If the revenue is lost by the taxpayer departing, or by evasion through a sense of grievance, the Mother Country and the Empire as a whole will lose much more than the tax; they will lose in Empire sentiment and they will lose in the trade connections to which I have referred; whereas if the problem is met by a generous arrangement, which clearly faces a loss of revenue, but which places Empire development in the foreground and looks upon property and the income from property as the exclusive field for taxation in that part of the Empire in which the property is actually earned, and under whose laws the income is actually earned, and if we have such a system which encourages the free movement of Empire citizens from one part of the Empire to another without taxation penalty, and which particularly encourages Empire citizens elsewhere in the Empire to look upon this Mother Country as a home (which is a very real fact at present, I am glad to say) to which they can return in order to remain here absolutely or to educate their children, or to carry on Empire trade then I do venture to say the Mother Country and the Empire stand to gain in many ways which will counterbalance loss of revenue.

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794. *Mr. Bowerman:* Obviously, Sir Frederick, your Committee is absolutely representative of the Dominions?—Our Committee is representative of all the Dominions.

795. How long has it been established?—It was established in 1915. As I have said, it was consequent on 1914; it first operated in April, 1915.

796. The objection of your Committee is to the principle?—To the principle.

797. You mentioned several times amounts of £30,000?—Yes.

798. You seem to be appealing on behalf of those with £20,000 and upwards?—No, I think in my early remarks I appealed for the people with smaller incomes who do not get any relief under the present system at all. When we appeal on principle we make no distinction between small and large incomes; but I pointed out that the higher rates throughout the Empire are approximating and they are approximating mainly as regards incomes over £20,000. In the smaller income the Dominion taxation does not approach the Home taxation.

799. With regard to countries which are Income Tax free countries. You mentioned one; can you add to the number?—No. I do not profess to understand foreign taxation systems, but I just happen to know—at least I believe I am correct in saying—that Chile is a case where they are free from Income Tax.

800. Do you think the large capitalists are likely to make their way there?—I do not know, I am sure. I should imagine that there is a fair amount of British capital invested there. It has found its way to most parts of the world.

801. *Mr. Warren Ficker:* You said that some relief had been given, down, I think, from 6s. to 3s. 6d.?—Yes.

802. Is that borne entirely by the United Kingdom Exchequer, or do the Dominions share the loss?—Entirely by the United Kingdom.

803. So the amelioration up to date has been at the expense of the Home Country?—Yes, that is so.

804. In your memorandum you suggest that the way out of the difficulty is to tax only in the country of origin, that is, where the income arises?—Yes.

805. Would that not mean practically that the United Kingdom would bear the whole of the loss?—That is so. I think, as I said, the main loss would fall upon the Mother Country.

806. The Mother Country, I think you said, works on two principles. It taxes by reference to residence, and it taxes the income that arises here, whether it is received by non-residents or not. Is that right? I believe that is so. There is an injustice even in that.

807. So that if non-residents demanded that income made in England should be freed from tax, and the Dominions demanded that income received in the United Kingdom from the Dominions should be exempted from United Kingdom tax, would there be much United Kingdom tax left?—I should think so.

808. Something to go on with?—Yes, I think so. I hope England does not get all her Income Tax from money invested in the Dominions.

809. No, but the dual process would tend to enlarge the loss to the United Kingdom Exchequer, I suppose?—Under what I have urged the United Kingdom would, undoubtedly, be the loser. The Dominions do not invest to any serious extent in the Mother Country.

810. Then you said, I think, that the present arrangement under which the United Kingdom gives up 2s. 6d. in the £ does not help the small investor in the Dominions?—No, so far as I can understand it.

811. Would not that be a good field for the Dominions possibly to consider the small investor's case and to afford some relief?—That would conflict, of course, with the principle that income that is earned under the laws and under the protection of the Dominion Government arises in the main from property situated within its jurisdiction, and that they are the people who should derive the benefit.

812. That is assuming that the only proper principle of income taxation is that the country where the income arises should tax?—Yes. I am urging that as the only proper way as within the Empire.

813. If the Dominions desire capital from the United Kingdom should it not in part fall to them to give such relief from taxation as would afford a preference?—I would not, of course, personally be averse to that. If I had the control of politics I should do a great deal more than is done in that and other ways to attract money to the Dominions, because I do look upon that as a very vital matter. But I imagine that they might raise the question of the difficulty in discriminating between the man living there and investing there and the man who sends his money out. As a matter of fact they discriminate the other way, in my opinion very unwisely, but that is so. But I imagine that might be how they would view that question. Personally I would be inclined to favour it.

814. *Mrs. Knowles:* Can you tell me if there is any principle underlying the Double Income Tax; any principle such as that it should be fair that you should pay for the capital raised in this country which does a good deal for the development of Australia, and which might go somewhere else? You talk of trade going somewhere else if foreign travellers were allowed freely. But why should not capital go somewhere else? Is there any principle like payment for capital which underlies Double Income Tax? After all vast sums of capital are raised here. Is not the Double Income Tax partly a payment for that capital?—The flow of money from the Empire to the Dominions is distinctly an advantage, in the first place to the Dominion benefited, and secondly to the Empire as a whole. The individual who invests his money in a particular Dominion, to my mind at least, should not pay more—I am not necessarily urging that he should pay less—but he should not pay more than any other investor within the Empire whatever he invested his money. If he happens to invest it in England I do not consider that he should pay less Income Tax than a man who happens to invest it in some other part of the Empire. The only principle I have ever known to underlie Double Income Tax is, I think, the needs of the Exchequer; they cannot afford to give it up.

815. You intimate that if this Double Income Tax is persisted in there will be a loss of trade?—Yes.

816. But do you really think there will be?—I do.

817. Are there not certain things in the world which nobody can get except in this country?—As regards those things, of course, we will get them, but there are a good many things of which this country is not the exclusive producer.

818. But there are a lot of high class things where that is the case. Do you think that you are a little exaggerating the danger of trade shifting?—No, I do not.

819. *Sir W. Trower:* Where the management of a company is in England and the business is carried on in the Colonies or Dominions, where do you consider for the purpose of your argument that the taxation should be enforced? For instance, with the board of directors in England who find the money and control the business, do you consider that the taxes should be levied in this country or in the Dominion or Colony?—I think that the taxation should be levied in the country where the actual business is carried on. May I take a typical instance with which I am most familiar, a pastoral company—there are several here—carrying on business in Australia. They own their freshfloods and leaseholds out there, and all their stock is there. In that case the income is actually earned there, it is realised home, and it is earned by virtue of such facilities and such laws as exist in that part of the Empire. That part of the Empire has to be governed; it has to have its public income to enable it to carry on and protect that property and income to enable it to be earned, and to the extent that this country cuts into that, of course the Dominion is handicapped in raising its own public income.

820. Then you would not attribute any portion of income earned by the Company to the management in this country and the capital expended in this country?—I would not go that far.

821. I only wanted to get what exactly you suggest—I have asserted more or less a single principle for the sake of simplicity, whichever way it is; because after

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all as an Association we stand more for a single tax rather than for any portion of the Empire deriving a tax. Although I happen to be an Australian I am not aiming to secure Australia the tax or to secure Canada the tax at all. My main principle is that our Association stands for a single tax. We are not opposed to the Exchequer here and the Dominion Governments coming to any arrangements to share taxation, except that I am afraid of the vexatious adjustment machinery which will be necessary. If that difficulty is got over then any objection from that point of view vanishes, and the Association I represent is in a measure disinterested as to how the taxation is shared. But we do say that people who invest in the Dominions should not be singled out to pay more than any other section of the community.

822. *Sir E. Nott-Bower*: In your opening statement I think you rather had special stress on the case of the man who had lived in a Dominion the greater part of his life, had made capital there and had invested it there, and then came home here and became liable to a double tax because he resided here?—Yes.

823. Of course, it is very natural that you should lay stress on that case because it puts your argument in a strong form?—Yes.

824. But that is hardly a typical case, is it?—There are great numbers.

825. I think it has been calculated that before the war people in business here had invested something like two thousand millions in the Colonies?—Yes, I believe that is so.

826. That is British money invested in the Colonies?—Yes.*

827. I think that covers a much larger area?—Yes, I freely admit that.

828. Now, looking at the matter from that point of view, taking those concerns, is it not really very difficult to accept your position that the British Exchequer should give up all claims to any tax from the income derived from that capital? Ought not the Colonial Exchequer to bear some part of it?—I answered that a moment ago. While I aim at the simple form, which certainly does bear heavily on the Exchequer here, on the other hand I think that the difficulties of adjustment are very considerable. If you overcome those I am not concerned very much as to who receives the tax. My main aim is, of course, to oppose a double tax and to achieve a single tax, so that at least that investor is not in any worse position than any other investor.

829. *Mr. Freyman*: You told us that in the Commonwealth, for instance, there was a double tax in a sense, that the Federal Government levied an Income Tax and the State Government also levied an Income Tax?—Yes.

830. Are there any inter-State arrangements to prevent that being a Double Income Tax?—That is not a Double Income Tax in the sense as it exists in this country. There you have two Governments, both protecting the property and both establishing laws under which the income is earned.

831. But this Government is protecting the property too?—I do not know.

832. What about the Navy and the Army?—If you raise the question of the Navy and the Army defence of course you fall back upon your pre-war system only, because since the war the Dominions have borne their proportion.

833. Have they quite?—I think so.

834. Have there not been very considerable loans?—In relation to population and wealth, I should say they have very adequately paid their own.

835. We all know that they have done fully their share up to their full ability. I am sure every man in this country recognizes that, but I rather doubt whether the same proportion has been borne by them, if you take into account the loans that have been advanced in this country and covered by Income Tax here?—The loans to the Dominions, do you mean?

836. Yes. The loans to the Dominions will bear interest, and amongst all your loans to your Allies and your Dominions, I think they are the best security you have got, and I think they are about the only ones that will pay interest for some time. In any case I would like to add that any contribution for defence purposes should be made as such, and not accidental to income taxation and fall on an unfortunate minority. Any benefit arising from the British Army and Navy is not limited to those who live in one part of the Empire and invest in another.

837. You have stated, and I suppose we should all agree with you, that this trouble has arisen mainly owing to the war?—It has become very acute owing to the war.

838. And owing to the excessive war expenditure?—Yes.

839. It is something more than becoming acute, is it not; there is a difference. The taxpayer is deriving two different benefits, one in each country, and he has to pay expenditure for both?—Yes, it is an altered case.

840. But so far as war expenditure is concerned, it is an Imperial expenditure which should be unified. Is that your case?—That is the main case as regards war expenditure which I would put as, I would say, an unanswerable or indisputable case.

841. You put it that the war is an Imperial war?—Yes, it is a common effort.

842. For which a citizen of the Empire should not pay a higher tax because his property happens to be distributed between different parts of the Empire rather than being all in one part?—That puts it exactly as regards the war tax.

843. You suggested that if the principle was accepted, you would not press very strongly your point that the only way to deal with it is by taxing income at its place of origin?—By no means. I think there is another very practical proposal, subject to the adjustment machinery being reasonable, and that is that you follow the principle which applies as regards Death Duties.

844. What is that?—If a person living in this country has personal property in one of the Dominions—and it applies pretty well all round now; it is a matter of mutual legislation, and I think it applies generally—the estate here pays the Death Duty on that personal estate situated in the Dominion. The executors have to prove the will in the Dominion and then again pay what we call Succession Duty there (it is the same thing) on that same personal property. Having done that, the executors can come back to this country and claim a rebate to that extent. So that they in effect pay one Succession Duty only.

845. How could you apply that to Income Tax? That is one single event which is independent of different periods of time?—Yes, I have raised those difficulties, which I think are considerable; but the principle of one tax subject to these difficulties can be fairly well met, and without the same loss of revenue to this country, by constituting one tax as between the Mother Country and the particular part of the Empire, the tax applying being whichever is the higher. So that if the tax in Canada is 3s. 6d., and the tax here is 6s., you would pay the 6s., and there would be a rough and ready adjustment.

846. Has it occurred to you whether it would be possible for the taxing authorities in different parts of the Empire, that is to say, the taxing authorities here and the taxing authorities in any one of the Dominions, to make an arrangement by which a certain rate of tax was divided between them?—Yes, I think that would be the only way.

847. That would get over some of these difficulties. If the rate of tax were apportioned as against the proceeds of the tax, several of those difficulties that you have referred to would disappear, would they

* With regard to this reply the witness wishes to make the following explanation:—"I should like to add in explanation that I think a considerable if not the major portion of that two thousand millions comprising moneys lent to the Governments and Public Corporations in the Dominions on bonds or stock issued in this country. As regards those public loans the dividends are not taxed in the Dominions and therefore double taxation does not arise, and there is no call for the Mother Country to sacrifice a penny of Income Tax in respect of them."

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not?—I think in a measure they would, if you could get that amount of agreement, and it would probably arrive by making the matter one of mutual concession as between the Government and the individual Dominion Governments, so that only when they came to terms would that particular part of the Empire benefit by the arrangement, the same as it applies to the Death Duties.

845. Would you confine any arrangement of that kind to such part of the tax as was actually agreed to be a war contribution?—I think the war tax is the most obvious injustice, but I do not think that there should be any extent of double taxation. Personally I think on principle that a member of the British Empire ought to be able to live in any part of the Empire without paying a higher taxation than any other citizen.

849. Where you are concerned with a tax which is not levied for Imperial defence, but is levied in respect of local advantages supplied, you do not apply that, even in your own Dominion. You have different State rates of tax in the Commonwealth; you have one Federal rate of tax, so that a person who lives in one of the States is paying a higher Income Tax than a person who lives in another?—Of course the Federal tax is uniform.

850. Certainly; and the State tax varies?—And the State tax varies, but wherever that person lives in Australia, he only pays the tax of the State in which his property is situated and from which the income is derived. He can move from any one State to another, it does not cost him a penny extra taxation.

851. This is a rather different question, but it bears upon it. You have just said that the tax is levied at the place of origin in the Dominions, certainly in the Commonwealth, which is the case you principally quoted?—Yes.

852. Supposing the income of a pastoral company created in Australia by its operations there, is taxed there at the source, do you know whether the private shareholder here, who may be in a very small way, who may be entitled to rebates owing to the smallness of his income, can get anything of that back because his income is small?—He gets no rebates from the States. If there are shareholders here, the company pays on its own, but the way they do it there is by constituting what they call a flat rate, which probably favours the more wealthy investor. It is done for this purpose—at least this is what I imagine; it has all come into operation since I left there—it is so that the highest rate will not hit the small shareholder.

853. In that system of taxation, the income is taxed at the source, and suppose you have a company in Australia which, we will say, has a taxable income of £35,000 a year, that £35,000 is taxed upon the Australian rate. Have you any cognisance whatever as to how much of that £35,000 a year will go to a person in this country who has got £10,000 a year, and how much will go to another person who has got £900 a year?—If I may say so, I think when we use the expression "taxed at source," we are speaking of two different things. I am talking of the income of a country, of all the individuals, being taxed only by the country of source; that is, where the income is derived. It is perhaps a confusing term. I was not referring to what applies in many cases of income being deducted by a company at the source, as applies in this country. If I may substitute a term, the country of origin will be better. Now as regards a question of taxing at the source, the Federal tax, as regards the shareholders out there certainly—I do not know whether it applies to shareholders here—taxes the shareholder. He makes a return of the dividend he receives, and pays at a rate in accordance with his total income.

854. This is a concrete case. I imagine that pastoral companies, such as you refer to, may have shareholders both there and here?—Yes, or they may have only shareholders there.

855. But most of them would have them in both countries, I suppose?—Yes.

856. Take a pastoral company making a certain income in Australia which is taxable in the gross. Take it that the pastoral company makes £30,000 taxable profit in a year in Australia. Is the whole

of that £30,000 taxed at a uniform rate?—No, I do not think it is. I think I can explain it, as far as I can understand it. They distribute the dividend amongst the shareholders out there, and as regards the Federal tax, the shareholder makes his return of that dividend amongst all his other income, and pays upon his total income. What they do not distribute there, but has to come home here to the shareholders, they put a flat rate on.

857. There is a differentiation there?—Yes, rather in favour of the shareholder here, I think, particularly the large ones, because the flat rate runs, I think, at present to about 2s. 4d. in the £, whereas very large investors here, if they paid individually, might well pay 5s., 6s., 7s., or 8s.; but that is one of those rough and ready ways they have adopted for simplicity. Of course there is the State tax in addition to that. A big company, on what we call an undistributed profit out there, I think to-day would pay 4s. to 4s. 6d. in the £ to the State and the Federal tax, owing to what I would call a rather favourable flat rate in the Federal tax.

858. Chairman: Do you deduct Income Tax before you distribute the dividends?—Federally, as regards shareholders who receive it out in Australia, no; but in the State tax, as a rule, so far as I am familiar with that, the company pays the tax on its total earnings, and the shareholder receives it free.

859. Mr. Kerly: I want to ask you some questions, not so much upon the general policy which you have dealt with in the statement we have had, but upon possible difficulties in application. Because one may be thoroughly in accord with the feeling that there is a grievance, and yet have a difficulty in seeing how it can be remedied.—Quite so; I readily admit the difficulties.

860. I want to see how far you and your Association have succeeded in finding solutions or suggesting solutions for those difficulties. Now am I right in saying that there are three different groups you have to deal with? I will speak of Australia instead of the Colonies generally. There is the Australian who has property in Australia, and who comes here as a resident. If he stays here for six months in an assessment year, he has to pay as if he were an English resident?—Yes.

861. And he has to pay two things: I am going to distinguish them. He has to pay the standard rate, 6s. in the £, and he has also to pay Super-tax, which depends upon his total income?—Yes.

862. Secondly, there is the English company which carries on its business here, but has an investment or property in Australia. That has also to pay, not the Super-tax, but it has to pay the standard rate. Thirdly, there is the English company which has investments in Australia and elsewhere, and also has to pay the standard rate. Now it is quite clear that different problems will arise with regard to each of those three?—Yes, there are distinctions.

863. May I ask you if you have considered at all how you are going to deal with that Super-tax question? Your memorandum seems to me to be directed only to cases of deduction of the standard rate. Take the first case, the Australian who is living over here and getting his income wholly from Australia. You suggest that the standard rate should be paid to Australia only, and that he should pay no standard rate over here. Do you suggest that he should pay Super-tax over here?—Personally, I do not make any distinction between Super-tax and the standard rate. I look upon whatever you pay as Income Tax.

864. If he is a man with £2,000 a year, living over here, he has to pay Income Tax at 6s. in the £, but if he has £30,000 a year he pays out 9s., or something of that sort?—Yes.

865. In Australia he has to pay the 6s., or what corresponds to it, the standard rate. Is he to be the better off by living here instead of in Australia, in that he will not have to pay the extra 3s. in the £?—He will not be better off for living here instead of in Australia, because under my suggestion he pays the same. As regards what he would pay, as I say, I make no distinction between Super-tax and ordinary tax. I simply say whatever you pay is Income Tax, and the Australian tax in that man's case might well be 9s. or 10s. in the £.

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[Continued.]

866. Then is your only suggestion with regard to the Australian resident ever here that the English Exchequer should collect no Income Tax from him, leaving him to Australia?—That is my main principle, although, as I say, I am not concerned as a taxpayer, or as representing the Association, with what this country and what the Dominion do as regards sharing. That has to be threshed out, I understand, at an Imperial Conference.

867. For the moment I am going to ask you a few questions upon the footing that there is no sharing; that we have to deal with it as an English problem.—Quite so.

868. Then you say that the Australian (my case A, as I call it) should be left to Australian taxation only, so far as regards Income Tax?—I think there is a great deal to be said in favour of it.

869. At any rate, you have no counter proposition?—No. That is on the basis which you say—that there is no sharing. If there is no sharing of course there is no counter proposition.

870. We will leave the sharing out for the present. Then without sharing there is no counter proposition.

871. Now take the next case: an English company carrying on business here, with an investment in Australia. Such a company has always been subject to Income Tax here, and is that partly because it supplies the brain which earns the money—or is supposed to?—That would be an assumption.

872. You would not put a high rate of charge for that factor?—No.

873. Sometimes it is important?—It is important, of course; I would not ignore it.

874. In that case, would you suggest that again the company should be left for the Australian Exchequer untouched?—Yes, subject to that man not being in a better position than anybody else investing in the Empire. I say I do not want him to be in a worse position.

875. Whether he is in a better or a worse position would depend upon the accident whether Australia is taxing more heavily or not?—I think Australia would tax him quite as heavily.

876. Now take the third case: an English company with investments in Australia and New Zealand, and, a further possible complication, in England, too. How are you going to divide it? Is he to pay the standard rate in each country upon so much of the income as comes from that country? Is that the suggestion?—I admit it is a difficult case; I freely admit that.

877. I am sure we shall all be very anxious for any suggestion, because a great many people feel that this is a grievance, and some way of dealing with it ought to be found. You have no suggestion to make? Now, let me carry it to a fourth case, which seems to be more difficult than any of the others, to my unassisted mind. Supposing, instead of being a company which has investments in Australia, in New Zealand, and also in England, it is an individual; then we get the Super-tax complication again. How would you deal with that?—If I were asked to do that, I think I should deal with it in this way. I should lump all his income together.—

878. If I may stop you for a moment: so you would get the rate of charge, would you not, we will say 10s. in the £, as appropriate to his total income?—Yes. If I may continue what I was going to say: I should put together his income from the three different sources, and suggest that you take the highest rate of Income Tax; I do not mean only the standard rate, but Super-tax, which runs you into 6s. or 7s. or 10s. in the £ here.

879. The appropriate rate?—Yes, the appropriate rate, whether it is higher here, or in New Zealand or in Australia, and charge that. Then, of course, you would have to have some amount of adjustment as between the three countries concerned, because the highest rate for the total would be higher than the appropriate rate for individual portions, and there would be something to divide.

880. What you are now suggesting is this, is it not: that the country where he is resident should first be

the only collector of Income Tax from him?—That might be the most convenient.

881. That is should collect his Income Tax at the highest rate prevailing in all the parts of the Empire where he is interested?—Yes.

882. That would probably be at home, as things stand?—It might be.

883. And that then there should be a division of the sum received from him between the different parts of the Empire which were interested in him as a taxpayer?—Yes; I conceive that is probably the only way of dealing with it.

884. On what lines do you suggest the tax collected should be divided?—I would not discuss definite fractions, but in the proportions I should favour the country in which the property is situated, and from which the income is derived, and under whose laws that income was actually derived.

885. The actual lines of division, of course, would have to be a matter of agreement between this country and every Colony concerned?—Yes. I understand that that is a matter left over for the next Imperial Conference.

886. It occurred to me that that was the only practical way of dealing with this; to have a collector, which would be the Imperial Exchequer if the man were living at home?—I think so; I think that probably would be so. The Double Income Tax, in over 90 per cent. of the cases, applies to people resident in this country.

887. I am afraid that would not solve all the difficulties, but it would simplify the problem very considerably.—I do not suppose we will ever get over all the difficulties.

888. You gave us an illustration of the case of Death Duties. Death Duties, like Income Tax, rise according to the total estate?—Yes, they do here.

889. Take the case of a man leaving £100,000 as his total estate, of which £10,000 is Australian. If he pays Death Duties in Australia, does he pay upon the footing that he had £10,000, or that he had £100,000?—He would only pay on the Australian portion of the estate.

890. At the £10,000 rate?—Yes.

891. That is what you suggest?—Yes.

892. I dare say you are quite right; I accept that.—I think that is correct. There is an extra refinement even beyond that, as a matter of fact, because where-as you pay here your Death Duties on your total estate, out in Australia the Succession Duty is levied upon the Successor's share only. So that if there are five people entitled to £10,000, the Death Duty is on £2,000 each, at a lower rate still.

893. We know that English Death Duties are made up of a great many items which are not all subsequently distributed. You see what the consequence of that is. The executors in England pay on that Australian £10,000 at a higher rate than they would have to pay in Australia?—That is so.

894. So that the rebate or allowance they will get is not the whole of what that £10,000 has cost them?—That is so.

895. Would you suggest applying the same principle in the case of Income Tax?—I would not be adverse to the same principle, to this extent, and I think it is covered by what I have already said: at least let the taxpayer pay the highest rate. If the highest rate arises not so much out of the standard rate charged, but by virtue of the fact that in that particular instance the estate is assessed as a whole instead of in parts, and so on, then, of course, the taxpayer pays the higher rate, however the result comes.

896. I dare say the difficulties I have been putting to you are not unfamiliar to you and your Association?—No.

897. If your Association could work out the solutions a little in detail and put them before us, it might assist us.—Why we have not pretended to work out in detail these solutions, is this. The whole matter has to be dealt with as between the British Exchequer and the Dominions' Exchequers in some way through an Imperial Conference.

898. But this Commission can hardly wait until those negotiations have been concluded, before making proposals?—I quite recognize that. If I may venture to say so, I really do not know quite to what extent this

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Commission can go; because it does fall back, I think, very substantially on bargaining, in a measure, if I may so put it, as between the different Exchequers.

909. That seems rather to answer the proposal that has been made, that there should be an interim report about this matter.—I should say this: to whatever extent this Commission can express an opinion, let it be expressed, but so long as it withholds that expression, to that extent the ultimate solution of bargaining by the Conference is delayed. That is why we urge an early interim report.

900. You have indicated, as one very strong reason why the Double Income Tax should be altered, that it is such a detriment, practically and sentimentally, to Australians living here, to take my own illustration, that it is likely to diminish the number?—Yes.

901. May I suggest to you that a possible operation of the grievance is that an Australian will pay floating visits here, and make his home, say, in Paris, or somewhere else where he will not be very far off?—That is often suggested, but I do not think that will be a very frequent case. Personally I think he is much more likely to go back to Australia. I have often heard that suggested, but I do not think that living in France is likely to occur to any great extent. It may occur in a few cases.

902. It is not so attractive to the Australian as Australia?—No; I think he is much more likely to go back.

903. Sir J. Harwood-Banner: Mr. Kerly has dealt with one question I was going to ask you about, so I need not touch upon that, except simply to refer to this. That question of dealing with the individual by taxation at the highest rate, whilst it might assist the individual, would still leave the partnerships and limited companies in a serious position of disadvantage; that is to say, if they were taxed on the highest rate, they would get no appropriation of the difference in the other taxation, but would have to pay where they traded, say in Victoria or Melbourne, and they would also have to pay the same rate here, so that they would have to pay the full taxes even if they came afterwards to apply for a reduction by way of relief.—I take it that if we apply the highest tax to a company or partnership of that nature, assuming the highest tax was in this country, that company would pay the same as another company would pay carrying on a similar business, but carrying it on in this country instead of carrying it on in Melbourne.

904. And they would have to pay in addition the taxes that they would have to pay in Victoria or Melbourne?—No. The principle of the higher tax is that if it were the British tax, then they would not pay the Victorian tax at all, or they would get a rebate of it by some machinery or other. I do not say it would work out exactly, because there are interrupting factors.

905. In the first instance he would have to pay it out of his pocket?—He would have to pay both taxes, no doubt.

906. He would have to pay both taxes out of his pocket?—Yes.

907. Wherein in the case of the individual he would only pay one tax out of his pocket?—No; he would have to pay all out of his pocket, and depend upon a rebate, as he does now in connection with the present rebate of 2s. 6d.

908. Now I will put two questions which affect myself, cases of which I have personal knowledge. One is in Natal, and the other is in Victoria. In the Natal case there was Double Income Tax paid, and on representations here no relief was given, so they closed their business of a limited company in this country, and carried on their business in future entirely in Natal. I presume we may take it that if things remain as they are, that is very likely to occur in a good many instances.—I know of one case, and I understand there are four or five South African firms that are cogitating the matter and are feeling very much inclined to move in that way, but they are waiting, I think.

909. Waiting to know what the relief is?—Yes.

910. And the fact that the rate of tax has become very high has been a very large element in bringing

this matter to the fore. When the taxes were small, it was not considered worth while?—That is so.

911. Now the taxes are high, it has become absolutely necessary?—That is so.

912. The other case is a case of the tramways. There are many English tramways in Australia. Is it not a fact that it is impossible to get Australian shareholders to interest themselves in tramways or other industries which are in this country, where the Double Income Tax is paid? I speak with personal knowledge of a case where we have had an agent out there to try to sell shares, and it was found absolutely impossible to get shareholders to invest in those companies, because those companies bear full Income Tax there, and they have to bear the tax here as well?—I should think that would be absolutely so, and I should be surprised if you did not have difficulty in getting investments on this side if the investor knew he was going to be subject to a Double Income Tax.

913. The money, unfortunately, had gone from this side when the rates were low, and now they are penalised in having to pay a higher rate. Is not the result of that fact, that all these British tramways held by British shareholders are suffering very serious inconveniences, because they get no support in the municipalities or in the States in reference to their tramways, having no friends in the shape of shareholders?—Yes. I think there is nothing like the voter on the spot, to secure political influence. The man who is twelve thousand miles away is not listened to as a rule.

914. Putting the reverse side, is it not also the fact that in consequence of this double taxation, both there and in this country, it is becoming increasingly difficult to get British manufacturers to carry out these things, or British capitalists to put their money into industries in Australia, in consequence of the heavy double rate of taxation they would have to pay?—Yes, I think that is undoubted; and in addition there is abundant evidence that people who have money in vested out there are bringing it home.

915. I am speaking from personal knowledge of companies who used to deal largely in putting down tramways and factories in Australia, and who have ceased entirely to do this work in consequence of the heavy double taxation. In those particular cases, and those particular industries, is it not a fact that the whole of the service is done out there, and there is nothing done in this country contributing to the dividend which the shareholders receive, except the registered office, the secretary, and perhaps the board of directors on this side; yet the shareholders here, perhaps spending £500 of his money here and thousands of pounds on the other side, has to pay double taxation on the thousands of pounds which are earned and expended on the other side?—Yes, I think that is a case that does exist; of course it is an extreme case, but it does exist in some numbers.

916. In the Melbourne tramways, the Ballarat tramways, and in these numerous tramway companies, there is nothing done on this side; all the work is done on the other side?—Yes. We have had a reference to brains, this morning, but I think, in undertakings like that, success in the main depends on the effort and management which are put into them on that side of the water.

917. Mr. Kerly made a suggestion that we should be very pleased to know some way by which we could pay something for the protection afforded us on this side, and at the same time pay our proper taxes in Australia for the services given there?—I should say, as regards people living in this country and deriving their income from elsewhere in the Empire, provided they pay relatively to other taxpayers a more or less equal tax, this country should be satisfied with the fact that they have people coming here to live and to spend money here. The very circulation of their money creates trade in this country, and in addition to that, in indirect and other forms they do contribute substantially to the taxation of this country. From a political point of view I should say that any country is wise to welcome without penalty as many people as possible to come here and spend their money.

918. I only want to reiterate the fact that it is open to those companies—I know many of them here contemplated it—to go over to Australia and be

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registered there, in which case only money remitted home for dividends would be subject to taxation?—That is so.

919. *Mr. Manville*: Just following on that last remark, in that case all the influence which previously existed in this country to get renewals and new plant here, would be subjected to other considerations which would affect business generally in this country?—I think so. The question of trade is very important. One knows that the sentiment in the Dominions has been entirely in favour of British trade; but we do know that there are tremendous efforts and inducements brought to bear out there to secure trade for other countries. Anything which tends to break down the sentiment which does help this country, is all to the bad.

920. *Mr. McIntock*: I understand your contention, in the main, is that the country in which the income is made should receive all the Income Tax in reference to that income?—Yes, I think that is the ideal Imperial system.

921. That is your evidence generally, in the main?—Yes.

922. Do you draw any distinction whatever between the resident in this country who has made his money in Australia, and the pastoral company which has been formed and is carried on entirely by means of capital sent from this country, without any Australian shareholders?—I should say sentimentally that the first case, of course, is one which invites obvious sympathy; that is the person whose wealth was created out in the Dominions. As regards the second case, the company which has sent money from here, I think that their case is answerable from an entirely different point of view, from the practical point of view, not so much a matter of sympathy or sentiment. Those companies have done a great service to the Empire. That is how I look upon it. They are people who put their money into companies and invested it in more or less unknown lands, as many of them did in the early days; because many of those companies are of fairly long standing. They have done an immense service to the Empire. Some of them failed, and some of them succeeded, and perhaps got good returns for their money. But quite apart from that fact, I do think they can take an immense proportion of the credit for the Empire as it stands to-day; and from that point of view I would like to see them treated with consideration from a taxation point of view.

923. The point is, you did not draw any distinction between the two?—No, I did not.

924. I suggest to you that the service by the company was performed to Australia, for example, and that if there is any relief of taxation to the people in this country who have sent their money there, it should be by the Australians giving up their tax, rather than the home people who supplied the money?—No; I consider that a very unimperial view to take of the question. Primarily Australia benefited by that investment, but if you take the investments for the last hundred years throughout the Empire, this country has benefited immensely by increased wealth here, because people were venturesome with their money and went out to the different parts of the Empire. They have created a very valuable trade for this country which would never have reached anything like its present dimensions if these companies had not gone forth with their money. So that the benefit from the action is not exclusively that of the Dominion which received the money, but has been shared by this country also. That is why I say, from an Empire point of view, we owe a great deal to those investors. In a sense they kept anything up to 35,000,000 people of British blood under the flag.

925. The reason I put it in that way was this. You answered Sir John by stating that the Australian who came here and spent his money should be relieved of British taxation; and I suggest that the converse to some extent applies to the company which sent its money to Australia, and in which Australia put none of her own. That is why I suggest it would be more proper that there should be a proposal to give relief from your side, and not throw all the burden on this country in the case of pastoral companies?—I still

think it is very difficult to differentiate between capital which originally left this country, and the capital as it is to-day. The main point I rely upon is that within the Empire, wherever you invest it, you invest it under laws created by the British Parliament, which, after all, wherever it is, is simply a department of one great Parliament under the King.

926. *Mr. Birley*: You said that in Australia there is no taxation on income arising in Great Britain?—Yes.

927. Is it not the case that an English manufacturing firm trading in their own name in Australia, has to pay Income Tax on the whole of the profits of the firm, whether made in Australia or in England?—No.

928. You are sure of that, are you?—I am quite sure of that.

929. I know a case where it has been done.—I think that is wrong. I know that within recent years they have made British manufacturers and traders pay Income Tax upon a sum of income which is estimated to have been earned out in Australia, following up the real principle that they tax all income that is derived from or created in that country.

930. I put it to you that if they trade in their own name, they have to pay on the whole?—No.

931. Most of them now find that they cannot trade in their own name?—They are not assessed on income earned in this country or elsewhere in the world. That applies as between different States out there I have had income from two States, and it is taxed in both quite separately.

932. *Chairman*: Have you some concrete case in your mind, Mr. Birley?

933. *Mr. Birley*: Yes, I have a definite case in my mind, where we were informed definitely that it was so.—The position is very clear out there.

934. *Chairman*: Perhaps you will let Sir Frederick have that case.—I shall be very glad to look into it.

935. *Professor Pigou*: You told us that a man with £1,000 invested in Australia, paid £64, and in England he paid £88?—No, I think that was £600.

936. It is clear that the rate of tax is considerably lower in Australia than in England, even if you add in the State Tax in Australia and the local taxes in England?—Yes, as regards the smaller incomes, that is so right throughout the Empire.

937. Have you considered the position of the Englishman resident in England? On your plan, if that man invests his money in England, he will pay a very great deal higher rate of tax than if he invests it in the Colonies?—That is so.

938. And that difficulty is not got over, whatever arrangement you make as to sharing the proceeds. There is a definite differentiation against investing capital in this country; he is more favoured if he invests it in Australia?—That is so, but of course that is got over by the sharing principle, because the sharing principle only comes into operation, as we have discussed it to-day, when you assess at the higher rate.

939. May I suggest that the difficulty is not got over, whatever arrangement you make about sharing the proceeds. The difficulty is that there is a definite differentiation and discouragement to an Englishman to invest in England, for, after all, England is in need of money, too?

940. *Mr. Pretyman*: He would still be resident here, and then he would have to pay the higher rate?—If he had to pay the higher rate, there would be no differentiation. That is the whole point of the higher rate.

941. *Professor Pigou*: I understand from your scheme, if this man resident in England has invested in Australia, his Australian money is taxed solely in Australia and not in England?—That is so; the case you are dealing with is more applicable to the smaller investors. As you get to the higher amounts, and the big companies, and that sort of thing, the higher rates tend to approximate, but with the smaller amounts of income the typical case is the person who is receiving an income and comes home and lives here.

942. But the point of principle remains?—It does remain, but the other principle comes in, that if a person is living in the Dominion and receiving £600 income, we contend from the Empire point of view

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that there should be nothing to deter him from coming home here, if he wants to.

943. My point is that on your scheme you have this difficulty, that an Englishman considering whether he shall invest in England or shall invest in Australia, actually has to pay more money if he invests in England than if he invests in Australia?—Of course that is so on paper; but as a matter of fact people do not readily go abroad to invest their money; and secondly there are always other expenses in connection with an investment abroad, and the result is that the difference in profit to be gained out of this taxation in these small amounts is comparatively little, and I do not think would deter people from investing in this country.

944. I suggest to you it is analogous to this. It is often said that we ought to give preference on goods imported into England from the Colonies as against foreign goods, but it is never suggested that we should give a preference on goods imported into England as against goods manufactured here. Does not your proposal amount to a proposal of that kind?—I freely admit, of course, that it does not hit him in a favoured position, and I have gone further in stating to-day that subject to proper administrative machinery being established, I and the Association I represent rather aim at the single tax. If you make it the higher tax, we have no great objection to that, but from a purely Imperial point of view, I should like to see perfect freedom of movement.

945. Would you greatly object if the plan was that the one higher rate of tax was paid in such a way that this differentiation that I have spoken of was abolished?—No; I think there is a great deal to be said for it. If that were done, it would be a substantial relief compared with things as they are.

946. Mr. Arncliffe-Smith: So far as your Association is concerned, you would be satisfied if this grievance were abolished. You are not concerned with the analogous grievance of, let us say, an Englishman who has an estate in Italy, and who is charged Income Tax, twice over?—No; we have concerned ourselves with the Empire. I really would not express any opinion as to how far the position as between this country and foreign countries ought to be dealt with, but I do say that within the Empire itself such a thing as Double Income Tax should not exist.

947. You express no opinion about the justice or injustice of double taxation elsewhere?—No, it is a matter on which I cannot say that I am in any degree competent to express an opinion.

948. You are aware that the alleged grievance does exist?—Yes, I believe it does. I notice that in the United States they have made a very ample provision as regards money invested in Great Britain, and that they allow a taxpayer in the United States to deduct the tax which he pays, not only in Great Britain, but anywhere in any other foreign countries; they allow him to deduct the tax, not from his assessable income, but from the tax which he has to pay in the United States; that is all a part of the policy, of course, of getting money invested abroad and building up foreign trade.

949. Mr. Symcott: The object of the provision in the Finance Act, 1914, making all income taxable wherever arising, was to prevent frauds on the Revenue?—I believe so.

950. There were two series of frauds. In the first place, such money very often paid no Income Tax at all?—That is so.

951. Say in America; it was invested in America nominally, and then perhaps the shares sold and remitted here in a few months?—Yes.

952. And that applied to all countries. Your plan now is that the present law should still apply to all countries except the Colonies?—No.

953. Is not that so? If the Colonies were relieved from that in this way, they would only pay Income Tax in the country of origin, and in such case Income Tax would not be paid on investments in Australia?—I think it ought to be put the other way: that, with out expressing any opinion as to what you ought to do with foreign countries, I do not think the present system ought to prevail as within the Empire.

954. Assuming this law does continue as regards foreign countries—and I think we may assume that it will, because sufficient revenue would not be raised without it—then would not this be a great loss to the Revenue?—would there not be a tendency for people to invest in the Dominions, and not have the money remitted at once, but sell their shares and not return the income here?—I would not say as to how far that operated. In any case I have pointed out that Income Tax rates are approximately throughout the Empire.

955. You have not considered that?—Yes, I have, but I have no information as to the extent that that did prevail.

956. You say the country of origin of the profit should levy the Income Tax?—Yes.

957. In the case of land in Australia and the Colonies, or in the case of a Colonial War Loan, you can localize the source of profit easily; but now take the case of an importer of British goods at Melbourne. These goods are manufactured here, and they are sent out there. In that case the profits of that importer would bear the tax in the Colony, in Melbourne, but not here at all. In what sense does that profit originate in Australia?—I think that is a very clear case. Take soft goods. A man manufactures soft goods in this country, and sells them to a warehouse in Melbourne, because the manufacturer here never conducts his business out there.

958. I will assume the case of one of these houses that have a business in London, and have an agency in Melbourne for importing this stuff. Why should they not pay Income Tax in both countries; why should they only pay Income Tax in Australia?—I am not quite clear as to the case you are putting. Is it the manufacturer of the goods who has an agency in Melbourne?

959. A large wholesale house in Melbourne which imports English goods; that is the case I put; and they may have a head office in London.—If they have a head office in London or some measure of control in London, they pay the Double Income Tax.

960. But I want you to justify the position that they should only pay Income Tax in Australia, on the principle of origin of profit?—That is just what I want to work up to. There are two bodies of people. There is the manufacturer who manufactures the goods, and there is the firm in Melbourne who sells them. The firm out in Melbourne have a representative here, which brings them under the influence of the taxation laws. This representative buys the goods from the manufacturer. We will presume the manufacturer makes a profit out of that sale. This Government gets its Income Tax on that profit. The representative who buys these goods puts them on board a ship and they are sent out to Melbourne, where they have to be subject to all the vicissitudes of trade, but we will hope that eventually a profit is made out there, and the selling firm takes that profit which is taxed in Australia. I think that is a very fair and practical distribution of Income Tax.

961. But do you not see that the question of testing the origin of the thing itself, where the income is made, is quite different in the case of English goods sold in Melbourne, and in the case of wool raised on Australian ranches?—I do not see the distinction. I see that a certain profit is made up to a certain point.

962. I will ask you this further question. Can you consider this question of Income Tax apart from other sources of Colonial taxation; for instance, import duties on English goods. I will not go into the question as to how far an import duty is a tax on the buyer or on the exporter, but can you consider this question apart from that?—I think that one has to. It may not lead to a perfect result; but there are very few perfect results in this world.

963. Do you think they are interconnected?—No.

964. Do you not think that an import duty on British goods is to some extent a penalty or tax on the English producer?—I am afraid it is, but I hope this problem can be settled without reference to the policy of each part of the Empire to build up its industries—import duties not put on for revenue purposes should, I think, be left out of the question.

Chairman: Thank you, Sir Frederick.

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MR. WILLIAM SCHOOLING.

MR. WILLIAM SCHOOLING, O.B.E., called and examined.

The witness handed in the following statement as his evidence-in-chief:—

1. *The assessment of Income Tax and Super-tax.*

965. The two subjects in regard to which suggestions are submitted to the Commission are (1) the assessment of Income Tax and Super-tax, and (2) the Income Tax regulations in relation to Life Assurance.

966. The proposals for the assessment of tax are:—

That there should be a standard basis of assessment that would not vary with changes in the rate of tax.

That the requisite adjustments should be made by deriving a "taxable income" from the "net income."

That there should be one rate of tax for all incomes and no Super-tax.

That there should be no sudden large increases or "jumps."

967. Manifestly it makes no difference in the amount of taxation if the income is increased by a given proportion, and the rate of tax decreased by the same proportion; nor if the income is decreased and the rate of tax increased proportionately. The amount of 6s. in the £ on £500 is the same as 3s. in the £ on £1,000, and the amount of 3s. in the £ on £1,000 is the same as 6s. in the £ on £2,000.

968. It follows that if the adjustments for incomes of varying amounts are made on the basis of a "taxable income"—which basis can be permanent—one rate of tax, such as 6s. in the £, can be applied to all incomes and can be changed from year to year as necessity requires without altering the standard basis of assessment.

969. The substance of my suggestions is that the system at present employed for Super-tax should be applied to all incomes to produce a "taxable income." Of course the Super-tax method can be applied to the rate of tax on all incomes, but I think it will be seen that this is not nearly so convenient as the plan of applying it to a "taxable income."

970. The following proposals show the application of the Super-tax method to all incomes on the basis of the "taxable income" and on the basis of the rate of tax.

971. The figures here employed give a rough approximation to the taxation for 1918-19. I would especially emphasize the fact that they are merely given for the purpose of illustrating the method and not as representing the fairest or most suitable details. The selection of the changing points and of the proportions depends upon many considerations, such as possible new conditions in regard to allowances, or the relative taxation on earned and unearned incomes, and upon whether the "taxable income" or the tax is adopted as the basis.

972. TABLE 1. "First and Next" method.

A. Applied to taxable income.
B. Applied to tax.

Net actual income.		Taxable income. A.		Tax. B.	
Nature.	Amount.	Total.	For each £1.	Total.	For each £1.
	(1) £	(2) £	(3) £	(4) £	(5) £
Earned:—					
The first	100	0	—	0	—
" next	300	120	4	36	12
The first	400	120	—	36	—
" next	500	480	8	144	24
The first	1,000	600	—	180	—
" next	1,000	1,900	10	800	30
The first	2,000	1,500	—	480	—
" next	1,000	2,500	10	600	30
The first	3,000	2,200	—	960	—

Net actual income.		Taxable income. A.		Tax. B.	
Nature.	Amount.	Total.	For each £1.	Total.	For each £1.
	(1) £	(2) £	(3) £	(4) £	(5) £
Unearned:—					
The first	2,000	2,000	1-2	600	—
" next	1,000	1,200	—	360	36
The first	3,000	3,200	—	960	—
" next	1,000	1,400	1-4	420	42
The first	4,000	4,000	—	1,200	—
" next	2,000	3,000	1-5	900	45
The first	5,000	5,000	—	2,280	—
" next	2,000	3,200	1-6	960	48
The first	8,000	10,500	—	3,240	—
" next	2,000	3,000	1-8	1,080	54
The first	10,000	14,000	—	4,320	—
" excess			2-0		60

* For unearned incomes up to £2,000, add one fourth to the rates for earned incomes. The rate of tax is 6s. in the £.

973. The method is so simple that it may be erring in the direction of lucidity to give examples; but this is not a bad mistake to make. The first thing is to find the net actual income.

Earned ...	420	—	300
Unearned ...	—	420	100
1 " ...	—	165	50
Total ...	420	585	450
Allowances ...	50	40	40
A. Net actual	380	485	420
The first ...	100 = 0	400 = 120	100 = 120
" next ...	280 x 12 = 336	85 x 12 = 102	20 x 12 = 24
Taxable income	—	112	186
Tax at 6s. ...	—	32-8	50-4
B. Net actual	380	485	420
Tax on first	100 = 0	400 = 30	100 = 30
" next	280 x 12 = 336	85 x 12 = 102	20 x 12 = 24
Tax	—	33-8	50-4

974. It is suggested that allowances should be deducted from the actual income to give the net income upon which the taxation is based. At present an income of £700, with allowances of £40, giving a net income of £660, is not allowed the abatement of £70 on incomes between £600 and £700. In consequence of the absence of sudden changes in the rate of taxation any such procedure as is now adopted appears to be unnecessary. Moreover, it may be urged that the purpose of allowances is to determine the "taxable ability" of, e.g., a man with dependants as compared with a man without.

975. There is perhaps little justification for continuing the distinction between earned and unearned incomes, but if it is to be maintained it would seem advisable, and would be convenient, that up to a certain amount there should be a fixed proportion in the rate of taxation between the two classes. In the above proposals it is assumed that up to £2,000 the rate of taxation on unearned incomes is greater by one-fourth than the rate on earned incomes. This addition of one-fourth should be made before the allowances are deducted, as shown in the above examples.

976. Between selected limits the distinction between earned and unearned incomes must be eliminated. In the illustration here given this elimination takes place between £2,000 and £3,000. The case of incomes

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between these limits which are partly earned and partly unearned needs to be dealt with. Clearly the rate of taxation on the earned portion should be that which would apply to an earned income of the whole amount, and similarly with the unearned. Thus if a total income is £2,500, of which £2,000 is earned and £500 is unearned, the required "taxable income" is four-fifths of £2,500 treated as earned, and one-fifth of £2,500 treated as unearned.

$$4/5 \text{ths of } £2,500 \text{ earned} = 2,000 \times .8 = 1,920$$

$$1/5 \text{th of } £2,500 \text{ unearned} = 2,500 \times .2 = 520$$

Required "taxable income" £2,440

977. The difference between the "taxable income" corresponding with an unearned and an earned income of £2,500 is $(2,600 - 2,400) = £200$. The difference for each £1 of income is $200 \div 2,500 = .08$. We can therefore, treat the whole income as earned and add .08 times the unearned portion, or we can treat the whole income as unearned and deduct .08 times the earned portion. The "taxable income" for—

2,500 earned	...	...	...	=	2,400
plus $500 \times .08$	...	...	...	=	40
Total	...	...	...		£2,440

2,500 unearned	...	...	...	=	2,600
minus $2,000 \times .08$	...	...	...	=	160
Total	...	...	...		£2,440

978. The proportion for the unearned and earned amounts is continually changing. It can be shown that (if T = the total income) for each £1 of the total income—

- (1) The taxable income is $£1,200/T - .4$.
- (2) " " " $288/001T - 96$ pence.
- (3) The tax is $£360/T - .12$.
- (4) " " " $864/01T - 288$ pence.

If T = 2,500 we have

- (1) $1,200/2,500 - .4 = .48 - .4 = £.08$.
- (2) $288/25 - 96 = 115.2 - 96 = 19.2$ is 7.2d.
- (3) $360/2,500 - .12 = .144 - .12 = £.024$.
- (4) $864/25 - 288 = 34.56 - 288 = 5.76$ d.

979. It is not, however, a wholly convenient arrangement to invite people to divide 1,200 by the total income, so it is advisable to do the division once for all and give the results in such a table as the following:—

TABLE 2.—Incomes, partly earned and partly unearned, from £2,000 to £3,000.

Taxable income for each £1 of earned or unearned.					
Total Income.	For £1.	Total Income.	For £1.	Total Income.	For £1.
£	£	£	£	£	£
1,800		2,240		2,581	
to	.20	to	.13	to	.06
2,017		2,286		2,637	
to	.19	to	.12	to	.05
2,201		2,336		2,697	
to	.18	to	.11	to	.04
2,367		2,376		2,759	
to	.17	to	.10	to	.03
2,514		2,424		2,824	
to	.16	to	.09	to	.02
2,642		2,474		2,892	
to	.15	to	.08	to	.01
2,802		2,526		2,963	
to	.14	to	.07	to	.00
2,948		2,581		3,038	
	.13		.06		

Tax for each £1 of earned or unearned.

Total Income.	For £1.	Total Income.	For £1.	Total Income.	For £1.
£	£	£	£	£	£
1,978		2,215		2,526	
to	.069	to	.046	to	.029
2,028		2,286		2,618	
to	.065	to	.043	to	.025
2,067		2,342		2,717	
to	.066	to	.040	to	.020
2,149		2,441		2,824	
to	.065	to	.038	to	.018
2,215		2,526		2,939	
	.060		.036	to	.000
				3,064	

980. In the above table the total income stated corresponds with amounts half way between the amounts for each £1 on the lines above and below the amount of the total income. Thus for an income of £2,017 the proportion for each £1 is $2/195$. If it is considered accurate enough to take either .20 or .19 it is immaterial which is taken for an income of £2,017. If it were thought necessary, a more extended table could be supplied, giving more precise results. In this case, as in regard to all the other tables and figures here quoted, £ s. d. can be employed instead of decimals of £1 if thought to be more convenient.

981. If the distinction between earned and unearned incomes is abolished, this elimination of the difference between the rates of taxation of the two classes of income does not arise; but if the distinction between earned and unearned is retained up to a certain amount and has subsequently to be eliminated, and eliminated without any "jumps" or difficulties in calculation, there is a strong additional argument in favour of a statutory "taxable income" deduced from the actual income.

982. Stated generally I believe the best available plan would be to provide a statutory income which should be

a for each £1 of the first £ A
b " " next B
c " " " C
and so on. The numbers to be assigned to a, b, c, can be selected to suit any desired requirements. In the above proposals

$$\begin{aligned} a &= .6 & A &= 100 \\ b &= .4 & B &= 300 \\ c &= .8 & C &= 600 \end{aligned}$$

983. I should like again to lay stress upon the fact that no importance is to be attributed to the particular values here assigned to a, b, c, or to A, B, C, since my concern is to suggest a method. The numerical values can be readily adjusted to whatever conditions are thought desirable.

984. It may be interesting to point out that the calculation of the amount of taxation on the principle here suggested can be made in a different way, which might sometimes be more convenient. A specified amount can be deducted from the actual income, and the remainder multiplied by a given number. Results identical with those tabulated above would be obtained by the methods stated below.

985. TABLE 3.—Deduction and proportion.

Net Actual Income.		Deduct.		For each £1.	
Nature.	Amount.			A. Taxable Income.	B. Tax.
	£ (1)	£ (2)	£ (3)	(4)	(5)
Earned ...	100 - 400	100	4	.12	
" ...	400 - 1,000	300	8	.24	
" ...	1,000 - 2,000	400	16	.40	
" ...	2,000 - 3,000	1,000	16	.48	
Unearned ...	2,000 - 3,000	333.3	1.2	.36	
All ...	3,000 - 4,000	714.3	1.4	.42	
" ...	4,000 - 6,000	533.3	1.6	.48	
" ...	6,000 - 8,000	400	1.6	.48	
" ...	8,000 - 10,000	2,000	1.8	.54	
" ...	Over 10,000	2,000	2.0	.60	

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Example.

A.—Net actual income	873
Deduct	250
Balance	623 x 8 ... 498.4
Tax, 6s. in £	149.52
B.—Net actual income	873
Deduct	250
Balance	623 x 20 ... 124.6
... ..	04 ... 24.92
Tax	149.52

986. There appear to be great advantages in having a standard basis of assessment that would not vary with changes in the rate of tax, and in having one rate of tax for all incomes with no Super-tax. It will be generally agreed that there should be no sudden great changes in the rate of taxation. I think I have shown that these desirable results can be obtained by applying to all incomes the method adopted in connection with Super-tax, using it to produce a "taxable income," subject to only one rate of tax.

987. A diagram of the proposals here made and of the taxation for 1918-19 on incomes up to £3,000 has been handed in. [See App. No. 6.]

2. Income Tax and Life Assurance.

988. The existing (1918-19) Income Tax law in connection with Life Assurance penalizes the poor, for whom, speaking generally, Life Assurance is most necessary, and subsidizes the rich to whom it is, generally, less essential.

989. The poor man is penalized because, while the State makes little, or no, contribution to the cost of his policy, the interest on his investment in Life

Assurance is taxed at a higher rate than that to which he personally is liable.

990. The rich man is subsidised because the State pays up to 30 per cent. of the premiums on his policy, and the interest on his investment in Life Assurance is taxed at a lower rate than that for which he personally is liable.

991. It will be remembered that the contribution by the State is up to 6s. in the £ on premiums for Life Assurance that was effected not later than the 22nd June, 1916, and up to 3s. in the £ on premiums for policies taken out since that date. It is also provided that Life Assurance companies may deduct expenses and commission from the interest on which they pay tax. This reduces the "taxable income," and consequently the rate of tax, by about one-third and, for 1918-19, makes the tax on the interest earned about 4s. in the £.

992. Some concrete examples will best illustrate the extent of the penalty and subsidy. For this purpose I take two policies effected at age 35. They are on the non-profit plan and at rates of premium within the limits charged by assurance companies. I assume that the gross rate of interest is 5 per cent.; that tax is paid by the Life Office at 4s. in the £, making the net rate 4 per cent.; that the commission and expenses are 15 per cent. of the premiums and that deaths occur in accordance with the British Offices Table of Mortality.

993. The first is a Whole Life Policy effected at age 35 at a premium of £22.25 per £100 assured, which for a premium of £100 a year gives assurance for £4,500. The second is 20 year Endowment Assurance for £1,000 at a premium of £44.73, which secures £2,236 for £100 a year. It is convenient to take the policies at annual premiums of £100.

994. The following Table shows the account for each policy for 10 year periods. The Whole Life Policy is in effect Endowment Assurance maturing at the end of 68 years or at death if previous.

TABLE 1.

Whole Life Assurance, without profits. Age 35. Annual premium £100. Sum assured £4,500.

Items.	Policy in force for years							Total 1-68.
	1-10.	11-20.	21-30.	31-40.	41-50.	51-60.	61-68.	
	£	£	£	£	£	£	£	
Premiums	1,000	1,000	1,000	1,000	1,000	1,000	900	6,800
Interest 5 per cent. ...	176	513	906	1,312	1,666	1,923	1,661	8,157
Total	1,176	1,513	1,906	2,312	2,666	2,923	2,461	14,957
Expenses 15 per cent. ...	150	150	150	150	150	150	120	1,020
Tax 4s. in £	35	103	181	262	335	385	332	1,631
For Protection	376	514	755	1,125	1,572	1,987	1,467	7,806
Saved	615	746	829	775	611	391	542	4,500
Total	1,176	1,513	1,906	2,312	2,666	2,923	2,461	14,957

Endowment Assurance, without profits.
Twenty years. Age 35. Annual premium £100.
Sum assured £2,236.

Items.	Policy in force for years		
	1-10.	11-20.	Total 1-20.
	£	£	£
Premiums	1,000	1,000	2,000
Interest 5 per cent. ...	224	767	990
Total	1,224	1,767	2,990
Expenses 15 per cent. ...	150	150	300
Tax 4s. in £	45	131	196
For Protection	156	90	248
Saved	871	1,866	2,236
Total	1,224	1,767	2,990

995. The loss or gain from Income Tax law arises in the following way:—

Policyholder liable for Tax at	—	Tax on interest.	Remission of Tax on Premiums.
All Policies— 6s. in £	loss	4s. in £	nil
2s. "	"	"	2s. in £
New Policies— 4s. in £	gain	6s. in £	2s. in £
6s. "	"	2s. "	2s. "
8s. "	"	6s. "	2s. "
10s. "	"	6s. "	2s. "
Old Policies— 4s. in £	gain	6s. in £	4s. in £
6s. "	"	2s. "	2s. "
8s. "	"	6s. "	2s. "
10s. "	"	6s. "	2s. "

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997. This statement shows the general character of the inequalities for people with different incomes. The figures can be easily found from Table 1, where the amount of the tax at 4s. in the £ is given. From this the amount at any other rate is readily

seen. The premiums in Table 1 are £1,000 for each ten years period, and £800 for years 61 to 68, to which latter period no attention need be paid. Hence the amount of the tax remitted, at any rate, is at once found.

998.

TABLE 2.
Whole Life Policy, as in Table 1.

Policies.	Tax Payable.	Loss or Gain.	Policy in force for years							
			1-10.	11-20.	21-30.	31-40.	41-50.	51-60.	61-68.	Total 1-68.
All ...	s. in £.	£	£	£	£	£	£	£	£	£
" ...	0	Loss ...	35	108	181	262	333	385	332	1,681
" ...	2	Gain ...	82	49	9	—	—	—	—	—
" ...	2	Loss ...	—	—	—	31	67	92	86	136
New ...	4	Gain ...	150	150	150	150	150	150	120	1,080
" ...	6	" ...	168	201	241	281	317	342	286	1,836
" ...	8	" ...	185	253	331	412	488	535	452	2,651
" ...	10	" ...	203	304	422	544	650	727	620	3,470
Old ...	4	" ...	200	200	200	200	200	200	160	1,560
" ...	6	" ...	318	351	381	431	467	492	406	2,856
" ...	8	" ...	335	403	481	562	633	685	572	3,671
" ...	10	" ...	353	454	572	694	800	877	740	4,460

Endowment Assurance as in Table 1.

Policies.	Tax Payable.	Loss or Gain.	Policy in force for years		
			1-10.	11-20.	Total 1-20.
All ...	s. in £.	£	£	£	£
" ...	0	Loss ...	48	161	190
" ...	2	Gain ...	78	24	102
New ...	4	Gain ...	150	150	300
" ...	6	" ...	172	236	368
" ...	8	" ...	186	304	490
" ...	10	" ...	217	377	594
Old ...	4	" ...	200	200	400
" ...	6	" ...	322	376	698
" ...	8	" ...	365	451	816
" ...	10	" ...	397	527	924

999. If we take the two extreme cases of one policy holder being liable for Income and Super-tax at 10s. in the £, and another not being liable to any Tax, we see that for the last ten years of a 20 year Endowment Assurance, effected recently, the rich policyholder obtains £150 for remission of Income Tax, and £227 saved in Income Tax on the interest, a total gain of £377. The poor man, on the other hand, pays £151 Tax on interest, when he ought to be exempt, and receives no contribution from the State towards the cost of his assurance. The rich man saves Income Tax amounting to £28 out of each £100 paid in premiums; the poor man loses 15 per cent. of the premiums paid; the difference is 53 per cent. of the premiums or £28 out of £1,000 paid in premiums in the 10 years.

1000. If the policies were effected prior to June, 1916, the remission of Income Tax to the rich policy holder is 6s. in the £ of premiums, instead of 3s., making the total gain £227 or 53 per cent. of the premiums paid, compared with the poor man's loss of 15 per cent. There is a difference of 68 per cent. of the premiums that is entirely due to Income Tax regulations.

1001. The comparison between Income Tax at 6s. and at 3s. in the £ gives an extreme case so far as tax is concerned, but if some other kinds of policies were used in illustration the contrast would be greater still.

1002. The matter may be looked at in another way, shrewdly, incorrectly, the cost of insurance protection is ignored. Under 15 years Endowment Assurance,

with profits, effected at age 45, the premiums paid by the poor man accumulate to the man assured by the end of 15 years at 1½ per cent. per annum. The payments by the rich man after deducting tax at 3s. in the £ of the premiums give a net return at the rate of 3½ per cent. To earn 3½ per cent. net an investor, liable to tax at 10s. in the £, would have to earn a gross rate of 6½ per cent. If the wealthy policyholder is receiving remissions of tax at 6s. in the £, the net yield is 5½ per cent., which for him is equivalent to 10½ per cent. gross, in addition to which he obtains insurance protection for nothing.

1003. Such contrasts as these, and the smaller contrasts shown in Table 2, suggest that the whole system is less equitable and satisfactory than could be desired. It is true that many Life Offices charge the same rate of premium and give the same rate of bonus on large policies as on small. As the rate of expenditure is greater on small policies than on large, there is some gain to the poor man from this source, but it does not to any appreciable extent compensate for the inequality.

1004. I recognize that it is not possible to eliminate all anomalies and inequalities by any Income Tax arrangements that can be devised. It may also be that, so far as the Government is concerned, the amount involved in making these concessions to the wealthy is not very great.

1005. At the same time, the system is undoubtedly unfair; it tends to make Life Assurance unattractive, and less beneficial than it might be for those who generally need it most; and it offers to the rich a legal method of evading Income Tax. This is not satisfactory from a public point of view, and it is an unworthy system upon which to base arguments in favour of so great an institution as Life Assurance. Yet it is a familiar fact that the saving of Income Tax is put forward to a very large extent by Life Offices and their agents as an inducement to assure.

1006. For the State to contribute towards the cost of Life Assurance by the remission of Income Tax was a convenient arrangement while the tax was low, but with the high rates likely to prevail for many years to come the method is inappropriate. The State contribution would more suitably be given to all policyholders at the same rate, irrespective of the rate of tax to which they are liable. It could, as a matter of procedure, be deducted when Income Tax is being paid, and in the case of the Life Assurance allowance exceeding the amount of Income Tax payable, the balance could be recovered from the Inland Revenue.

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[Continued.]

1007. A possible alternative is that Life Offices should be authorized to deduct the allowance at a uniform rate from the premiums payable to Life Offices. This, however, would make it difficult, if not impossible, to determine whether or not any individual was receiving a contribution from the State in regard to the investment in Life Assurance of more than one-sixth of his income. Also, such a system might be thought to require some Government inspection of the accounts of Life Offices, which is not a desirable arrangement.

1008. The figures given above suggest that there is no justification for continuing the remission of Income Tax on premiums at a higher rate to old policies than to those recently effected, unless, which so far as I am aware is not the case, the State is committed to the continuance of the concession. A contribution which may reach 30 per cent. of the premiums paid is excessive.

1009. Even under the present arrangement whereby Life Offices deduct expenses from the income liable to tax, it is probable that in many companies the amount paid for tax is greater than it would be if the individual policyholders were taxed at the rates to which they are personally liable. Thus, merely on financial grounds, the State can afford to, and in fairness should, make some contribution to the cost of Life Assurance.

1010. By promoting the extension of Life Assurance the State gains in other ways; capital is concentrated to a greater extent than would otherwise be the case; it yields interest upon which Income Tax is paid, and contributes to Death Duties. On larger grounds, it distinctly promotes the well-being of the individual and of the community; although it may be a dangerous line of argument to contend that, if it is good for individuals to have certain desirable things, it is proper for the State to contribute to the cost of them. It is, however, one thing to institute new concessions, and another thing to maintain old ones, and it seems to me that precedent, financial considerations, and the public good, abundantly justify, and even require, the continuance on an equitable basis of a contribution by the State to the cost of Life Assurance to all policy holders.

1011. As has been shown, the State may contribute in two ways; one by remission of tax on premiums, the other by allowing a wealthy individual to pay a lower rate of tax on the interest upon his investment than he personally is liable to.

1012. The first inequality could perhaps be eliminated by allowing policyholders to deduct from their Income Tax a fixed proportion, say 15 per cent. of the premiums paid for Life Assurance, subject to the present limitations of one-sixth of the income, and of the premium not being more than seven per cent. of the sum assured.

1013. The other inequality is less easily dealt with. There is no simple connection between the amount of interest earned and the premiums paid, so that remission of tax on premiums and the tax on interest earned cannot easily be brought into relation.

1014. It will be seen from Table 1 that, when a whole life policy has been in force for some years the interest earned exceeds the premiums paid. In such a case the saving of tax, at perhaps 6s. in the £, on interest, together with the remission of tax at 3s. to 6s. in the £ of premiums, makes the allowance to wealthy policyholders extremely large.

1015. So long as Life Offices are allowed to deduct the expenses from the income upon which they pay tax—an arrangement which in all fairness ought to be continued, with perhaps an increase in the allowance—substantial justice might perhaps be done by allowing nearly every policyholder to deduct 15 per cent. of the premiums paid for Life Assurance from the tax he would otherwise pay. The exceptions might be that the deduction should not be allowed to those policyholders liable for Super-tax under existing arrangements, or liable for a tax in excess of the standard rate calculated on actual income, if Super-tax is discontinued. Even under whole life non-participating assurance the gain of 3s. in the £ or more on the interest earned by the investment would constitute a substantial contribution by the State to the cost of Life Assurance.

1016. It may be supposed that, if the concessions to the rich were reduced, the penalties on the poor could be removed and some concessions, or larger concessions than at present, be given. From the point of view both of equitable treatment and of the greater need of the poor for Life Assurance, some such readjustment of the existing conditions seems greatly to be desired.

[This concludes the evidence-in-chief.]

1017. Chairman: You have very kindly drawn up two statements, and I remember you have puzzled me with some of your marvellous tables for the last 25 years; I do not know what you are going to do this afternoon. You have very kindly arranged that you will make your main points in a statement from the witness chair, and your examination will come on afterwards. Will you make your statement before the Commission with regard to this matter?—There are two parts dealing with quite separate subjects; do you think it would be convenient to take the assessment of Income Tax first and Life Assurance afterwards, or the two together?

1018. Whichever you think would place it before the Commission in the better way.—Of course, I am in your hands, but I suggest that taking them separately would be better.

1019. Very well.—The first point deals with the assessment of Income Tax, and my aim is to have a standard basis of assessment that would not vary with changes in the rate of tax, and naturally to arrange that there shall be no sudden large increases or jumps in the amount of taxation such as we have at the present time. It seems to me that this permanent basis would be best accomplished by having what might be called a "statutory taxable income" which would be liable to one rate of tax, let us say, 6s. in the pound, upon all incomes from the smallest up to the largest. That involves doing away with Super-tax as a separate tax, which Mr. Bonar Law suggested might be done. Clearly, it makes no difference whether a man pays, for example, 6s. in the pound on £500, or 3s. in the pound on £1,000. It is perhaps suggested that if a man with an income of £2,000 is taxed on £2,400 he would say: "I have not so large an income, and I ought not to be taxed upon it." It is a psychological point. On the other hand, it may be that a man with a small income, taxed at 6s. in the pound, would say: "It is quite inappropriate that I should be taxed at the same rate as the millionaire," thus ignoring the fact that he would only be taxed upon a "taxable income" considerably smaller than his actual income; but I think people would soon get used to that, and one rate of tax for all incomes, instead of the numerous rates we have at present, seems to present a very considerable advantage. Moreover, the "taxable income" would settle permanently, or for long periods, the relative amount of taxation to be borne by incomes of different sizes, and that would remain stable, instead of fluctuating from year to year. In order to make the point clear, I have made some suggestions (to the details of which no importance at all is to be attached, but which are roughly approximate to the present conditions). In the first table headed "First and Next method" I show how the results could be arrived at in two ways; either by applying it to the "taxable income" or by applying it to the actual tax. Really the method which I suggest is nothing more nor less than the existing Super-tax method. It might, for instance, be stated that the first £100 of income could be exempt, that the tax on each £1 of the next £200 should be £-13 in the pound; that is looking at the B. part of the table—the tax part. £-19 on £200 would come to £36, and that would give the taxation on the first £400 as £36. Then you would say on the next £200 the tax would be £-24 in the pound; and the next £1,000 is would be £-3 in the pound, and so you would go on, entirely avoiding any jumps.

1020. In order to make clear the nature of the proposal and the absence of the jumps, Mr. Clark, to whom I am very greatly indebted for all the trouble that he has taken, [see App. No. 6.] has had two diagrams prepared. The small one is merely repeating the curves for small incomes on a larger scale; the large one shows by the bottom solid line the existing arrangements for earned incomes, where you see that there is a jump at £400; there is another

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vertical line or jump at £500; another one at £600 where the abatement changes from £100 to £70; another one at £700 where the abatement of £70 is knocked off; another one at £1,000 where the rate of tax is increased; another one at £1,500 where the rate of tax is again increased, and so on. The thick dotted line indicates the proposals which I make. One step goes to an income of £400 in a straight line; the next line goes straight up to £1,000; the next line goes straight from £1,000 to £2,000; then there is another straight line from an income of £2,000 up to an income of £3,000. The net actual income is read at the bottom of the diagram and the "taxable income" is read on each side. Corresponding with that on each side there is the amount of the tax. The whole thing being based upon Income Tax at 6s. in the pound, the amount of the tax is 3 times the amount of the "taxable income." If the "taxable income" is £1,000 then the Income Tax is £300. There are perhaps certain minor advantages about a scheme of this kind. In getting the actual income upon which a man should pay tax after deducting allowances, such as for wife or children or Life Assurance, there is a little complication introduced at the present time inasmuch as a man is not allowed to get on to a lower scale of taxation by reason of such deduction. A man with an income of £720 and allowances of £40, giving a net income of £680, is not allowed the abatement of £70 which is given on incomes between £600 and £700. That has to be watched under the present system where there are jumps. I do not think that would be at all necessary if we had a smoothly graduated system with no kinks in the curve at any point. In the case of the allowances for children and Life Assurance could be deducted from the actual income, and the resultant net actual income could be converted into a "taxable income," or could be charged the appropriate rate of taxation for the net actual income, because, there being no jumps, it would make very little difference.

1021. Then if the distinction between earned and unearned incomes is to be retained—I am not here to express an opinion upon that, but it might seem better in the interests of economy and saving to abolish the distinction and take something extra if necessary from unearned wealth by means of Death Duties, but—if the distinction is to be maintained on something like present lines, the distinction between earned and unearned incomes must at some point or other be eliminated. Merely by way of illustration, I suggest that it should be eliminated between actual net incomes of £2,000 and £3,000. I should have said that if this distinction is to be retained it would seem advisable to maintain a certain proportion between the rate of taxation of earned and unearned incomes. At the present time on small incomes the tax on earned is 2s. 3d and the tax on unearned is 3s.; there is an increase of one-third; but on large incomes the tax on earned is 5s. 3d, and on unearned 6s., an increase of only one-seventh, which does not appear quite consistent. It would therefore seem a good plan to introduce a uniform proportion in the taxation to be borne by earned and unearned incomes respectively and, merely as an approximation to existing arrangements, I put that proportion at one-fourth. That means looking at this first table, "The First and Next method," that whereas the taxation on the first £2,000 of earned income is on £1,600, the taxation on the first £2,000 of unearned is one-fourth more than that, or on £2,000.

1022. Mr. Petyman: I did not quite follow that; do you mean that the taxation on £2,000 would be on a basis of £2,000?—Yes, a "taxable income" of £2,000, that is to say the actual tax would be £500. I should have said that the "taxable income" would be £3,000 on £2,000 of unearned income. But on £3,000 the earned and unearned incomes are both to be treated alike, either the "taxable income" or the amount of taxation would be the same for both, and therefore the increase as between £2,000 and £3,000 earned must be considerably more rapid—the curve must be steeper—than it is for unearned income. I explain that in the evidence I have submitted, and I do not know that I need trouble you with it now. I put in the evidence a fairly simple method by which mixed incomes, partly earned and partly unearned

between £2,000 and £3,000 can be dealt with. I give as an example that if there is a total income of £2,500, of which £2,000 is earned and £500 is unearned, the proper "taxable income" is four-fifths of £2,500 treated as earned and one-fifth of £2,500 treated as unearned. I show how that can be done by a comparatively simple table. I was rather pleased to learn from Mr. Clark that he proposed some time ago a scheme of this character, to bring earned incomes up to the full rate of tax at £3,000, because I think that shows that this method of getting rid of the distinction is more or less workable. The whole method of calculating Income Tax would, I think, be very considerably simplified if methods of this kind were adopted. It would make the proportion of taxation to be borne by different classes of income a permanent arrangement, and, if it were settled on a fair basis once for all, it would not be disturbed and upset. It avoids the sudden changes that bring about certain rather unfair inequalities, and, what perhaps is of some account, it does not involve the introduction of any fundamentally new principle, at any rate, if it is applied to tax. It is simply and purely a method of applying the Super-tax plan to all incomes, and then for the purpose of permanence of basis, I suggest a "taxable income" as being the fairest and most convenient method of carrying it out. I do not think I need trouble the Commission with any more remarks on that except perhaps in answer to questions.

1023. Chairman: Will you proceed with the other now, please?—That is as you like.

1024. Yes, I think so.—The other subject is of a different kind altogether and refers to the Income Tax regulations in regard to Life Assurance, especially and particularly as they affect individual policyholders. (I am not dealing at all with the question of the Income Tax payable by life offices.) The existing arrangements, it seems to me, tend to penalize the poor man who needs Life Assurance most, and to subsidize the rich man who, speaking generally, needs it rather less. The inequality arises in two ways. In the first place the amount of the contribution towards the cost of the Life Assurance which is made by the State is based upon the rate of Income Tax. It is true that for policies taken out since some date in June, 1916, the maximum rate of tax that is remitted from premiums is 3s. in the pound, but for policies effected prior to the 23rd June, 1916, the whole amount of Income Tax (but not Super-tax) on the premiums is, in effect, allowed as a contribution made by the State towards the cost of Life Assurance. That was a convenient enough basis when the rate of Income Tax was small, but there seems no reason at all why any contribution that is made by the State should be based upon the rate of Income Tax which a man pays. A rich man on a new policy, a recently effected policy, gets a subsidy of £15 out of each £100. If a man pays no Income Tax at all, the State contributes nothing to the cost of his Life Assurance.

1025. Mr. Marks: How do you get that £15 on each £100?—It is 3s. in the pound, which is 15 per cent.; he may get 30 per cent. if it is an old policy; but the poor man gets nothing. It might be a quite convenient arrangement that whatever contribution is made by the State towards the cost of Life Assurance should be deducted from the amount of Income Tax which a man has to pay, but it seems an altogether unsuitable basis to base the amount of the allowance on the rate of tax which a man pays.

1026. Its unsuitability is emphasized when you consider another point, that is to say, the rate of Income Tax which an individual policyholder in effect pays upon his life policy, that is to say upon the interest from his investment in Life Assurance. The present arrangement is that Life Offices pay tax at the full rate, 6s. in the £, but deduct from the interest upon which they pay tax the amount of the commission and expenses. The proportion of the commission and expenses to the interest earnings varies in different companies, but it may be taken as being something like one-third, which has the effect of reducing the rate of tax payable by the Life Offices from 6s. in the £ to 4s. in the £. The consequence is that a poor man

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making an investment in Life Assurance has the interest upon his investment taxed at 4s. in the pound whereas he personally may be exempt or liable to tax at only 1s. or 2s. in the pound. A rich man may be liable to Income Tax and Super-tax at 30s. in the pound, but on his investment in Life Assurance he only pays 4s., and to let the rich man off 4s. in the pound and for the State to contribute 6s. in the pound of premiums on old policies and 8s. in the pound on new policies is, with every possible sympathy for the rich man, giving him a little too much, it seems to me. In order to illustrate the point I have prepared a table showing a typical policy; it is without profits, and is effected at age 35, and I put it for convenience at a premium of £100 a year. The chief thing I am concerned to show in that table is the amount of interest that is actually earned by the policy. I think one can see it best if one looks at the shorter table dealing with 20 year Endowment Assurance. In the first ten years £100 a year was paid in premiums, amounting to £1,000. The interest earned at a gross rate of 5 per cent., which is what I assume, comes to £284. The Life Office pays 15 per cent. for expenses, that is £150 in 10 years. There is a tax at 4s. in the pound on the interest, and the amount actually saved during the first 10 years is £871, but a man may die within the first year (or at any time within the 20 years that the policy has to run) and then the Life Office pays him in the case of the Endowment Assurance policy at £100 a year, £2,336. There naturally has to be a premium charged for the risk, that is, for insurance protection for the difference between the accumulated savings and the sum assured. I do not think I need trouble the Commission with the details as to how that is arrived at; the main point to consider is the amount of the interest actually earned on the policies, and then come to the amount of tax that is payable upon it. If the Commission wants to know how the figures are arrived at, I think Mr. Marks, the President of the Institute of Actuaries, would satisfy the Commission on the point, but I thought it would be valuable to give the actual amount of interest earned under typical policies. In my evidence, which you have before you, there is a statement of how the loss or gain from Income Tax law arises. For instance, a policyholder liable to no Income Tax at all loses 4s. in the pound on the interest upon his investment and gets no contribution by the State towards the cost of his Life Assurance. On the other hand, under a policy effected recently, a man paying 8s. in the pound Income Tax on his personal investments, gets a remission of tax on premium amounting to 8s. in the pound, and pays tax on his interest at 4s., the rate the Life Office pays, instead of at 8s. the rate to which he personally is liable. Then these figures are turned into concrete examples on the basis of the two policies that I used in illustration in what I think is the second table, where if again we take the 20 year Endowment Assurance policy for the full period of 1 to 20 years, the poor man, being liable to pay nothing in the pound, loses altogether £196 out of the total payment of £2,000. I am not suggesting that a poor man paying no tax in the pound can take out of a policy at £100 a year; I am merely giving the proportion, and, of course, they are really percentages. It is £196 lost by the poor man out of £2,000 paid. A man paying tax at 8s. in the pound gains under a new policy £496 out of each £2,000 paid in premium, so there is a difference of £692 on a total outlay of £2,000 as between a poor man and a moderately rich man paying 8s. in the pound. That big discrepancy arises simply and purely out of the existing Income Tax regulations and out of nothing else whatever. Therefore it does seem to me that the existing arrangements are unduly favourable to the rich, and in some ways penalise and in any case do not assist the poor man, who from a Life Assurance point of view deserves more consideration than he is getting at the present time.

1027. It is perhaps not much good to point out defects in a system unless it is possible to make some suggestion that might modify the existing unfairness. Of course, one recognizes that it is not practically possible to eliminate all anomalies and inequalities,

but I think something might be done if the contribution by the State towards the cost of Life Assurance were made on a fixed basis and allowed to everybody rich or poor (with a reservation that I will make in a moment) on the same basis. If it is decided that the allowance ought to be 15 per cent. of the premiums, then the poor man could get his 15 per cent. of the premiums, and, if he does not pay Income Tax to an extent sufficient to amount to 15 per cent. or 4s. in the £ of the premiums, he should be able to claim repayment of that 15 per cent. from the Inland Revenue. Clearly a convenient method of allowing State contribution towards the cost of Life Assurance would be for the Life Offices to be allowed to deduct the amount from the premiums which they receive from their policyholders, but that I am afraid would lead to some sort of inspection of Life Offices and would probably be a troublesome and objectionable method of dealing with the matter; but if a uniform contribution by the State on, let us say the present basis of 15 per cent., were made to all policyholders rich or poor it might be fair not to give that contribution by the State to rich policyholders who stood to gain a great deal from having the interest upon their investment in Life Assurance taxed at a lower rate than that to which they were personally liable. For example, if a man who is liable to tax at 4s. in the pound or over—liable under the present arrangements to Super-tax—only had to pay, as we have seen he does pay, Income Tax on the interest upon his investment at 4s. in the pound which the Life Office pays, would it not be quite appropriate to withhold from everybody liable to Super-tax the remission of the 15 per cent. of the premiums while giving that 15 per cent. of the premiums to all other people totally irrespective of the rate of Income Tax which they paid?

1028. An interesting and important point arises as to the propriety of the State making any contribution at all towards the cost of Life Assurance. I do not think there can be any doubt that under the present arrangements the State receives through the Life Offices—through the Income Tax that the Life Offices pay—a very much larger amount of Income Tax than the State would receive if the individual policyholders were taxed at the rates to which they are respectively liable, and, considering the advantages that result to the State from Life Assurance being extensively taken up, it certainly seems inappropriate that, as a result of people taking life policies extensively, the State should get more in the way of Income Tax than it would if policyholders were taxed individually. So the State undoubtedly has some money to play with in view of the increased tax that it receives which could be applied towards the cost of Life Assurance for individual policyholders. Over and above that, the encouragement of Life Assurance leads to capital being accumulated to a greater extent than would otherwise be the case. That capital is invested; the interest upon it pays Income Tax, and, moreover, the capital becomes liable to Death Duties; so that it seems to me there is no question from the point of view of fairness, or from the point of view of general advantage to the State and benefit to the community, that a contribution to the cost of Life Assurance should be continued by the State. The chief point that I want to make is that the existing inequalities should be eliminated, that something less than is at present allowed to rich people should be the law, and that larger contributions than are at present given to poor people should also prevail. Among other things it seems to me entirely inappropriate, unless the State is in some way committed to it, as to which I am not aware, that people who took policies prior to the 23rd June, 1916, should be allowed to receive a contribution by the State towards the cost of their Life Assurance that, in fact, at the present time amounts to as much as 30 per cent. of the premiums.

1029. Mr. Marks: I do not think really there is very much to ask you having regard to the statements which you have put before us in writing and the very clear exposition of them that you have given just now. As regards the question of graduation, I take it really there is nothing in that except that it is a scheme to produce a smooth curve?—Yes.

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1030. And that it is really founded on those schemes which gradually build up on the basis which you have indicated here, that the first certain amount is exempt, and the next is taxed at such and such a rate, and the next at such a higher rate, and so on?—Yes.

1031. So that your scheme really might be put in that form?—Yes.

1032. Do not you think that possibly it would be clearer to the average taxpayer if it were so put, which I think would be the more practicable form, rather than if it were put in the form which you suggest, of a "taxable income" derived by the application of certain multipliers to the actual income?—Well, I think at first people would perhaps kick a little against the "taxable income" idea, but they would have to put up with it. I think they would very soon get used to it, and if the basis for calculating the "statutory taxable income" remained permanent for years at a time, and there was one rate of tax all through, I think it would make for permanence and fairness. If you vary your rate, as Chancellors of the Exchequer will have in future to vary their rates, probably very frequently, it will be less easy to keep a uniform proportion between the taxation of incomes of varying amounts than it would if you had one statutory rate fixing the proportions for different incomes more or less once for all, and with one rate of Income Tax right through.

1033. I am not quite sure how you would convey the information to the taxpayer in the event of a change of rate, nor do I feel quite certain that the rate of tax is likely to vary so frequently, or in such proportions as the actual net income is likely to vary?—I do not quite follow that. Is it the net income of individuals? I am thinking of the variations in the rate of tax imposed by Finance Acts.

1034. I am thinking of the two together. Assume, for instance, that the rate of tax remains at 6s. for some time?—Yes.

1035. There must be a very large proportion of incomes—I do not know how many—which vary from year to year?—Yes.

1036. Would not that create a certain amount of difficulty in the mind of the taxpayer that his "taxable income" would have to be reconstructed each financial year?—Well, it might, and there might be objections, as I indicated.

1037. I think the objections would come, of course, from those people whose "taxable income," as a result of this method, were made out more than it actually was?—But under the scheme here suggested (to the details of which I attribute no importance) it would only be people paying Super-tax whose "taxable income" would be larger than their actual income, and people liable to Super-tax ought to be able to grasp the simple arithmetic involved in recognizing that paying a lower tax on a higher income is the same thing as paying a higher tax on the actual income.

1038. Is this so; probably you are right, but if so I have rather misread your table. It seemed to me to show that up to £2,000, we will say, the "taxable income" of a £2,000 man was £1,600?—Yes, well, that is less than his actual income.

1039. But he is not a Super-tax payer?—No, but his actual income being £2,000 his "taxable income" if his income is earned, is £1,600; the "taxable income" is lower than the actual income—he would not mind that.

1040. I rather understood you to say that under this method nobody who is not a Super-tax payer would be taxed on their net income?—No "taxable income" would be larger than the actual income.

1041. Except in the case of Super-tax?—Quite, unless he is liable for Super-tax.

1042. Your first larger "taxable income" is at £3,000?—No, it is between £2,000 and £3,000. For example, an unearned income of £2,500 would give you a "taxable income" of £2,600, but then an income of £2,500 becomes liable to Super-tax.

1043. Do you mind just explaining on your "First and Next" table—how that arises?—On an unearned income of £2,500 there is the one point, at £2,000, where the "taxable income" exactly agrees with the

actual income. I made it so purposely. On the first £2,000 the "taxable income" would be £2,000. On the next £500 it would be £500 multiplied by 1.2, which is £600, so that the "taxable income" would be £2,600 for an unearned income of £2,500.

1044. Yes, I see. I see that your method is really that which the Americans have adopted, but their method does not produce such a smooth gradation. I saw the book this morning. There is a bad break between 6,000 and 8,000 dollars?—Yes, quite.

1045. Turning to the other part of your evidence for the moment, have you considered—I confess that I have not—whether your argument applies in the same way or in the same degree to the case of two men, let us say, one with an income of £800 and one with an income of £8,000, who are paying each respectively one-eighth of their income in Life Assurance premiums?—In proportion to the premiums that they pay the arrangement would be exactly as I have shown it.

1046. The same percentage?—The same percentage in proportion to the premiums that they pay. What proportion of a man's total income he would gain or lose, as the case might be, by the Income Tax arrangement I do not know, but presumably that is not what you mean. In proportion to the premiums it would make no difference what proportion it is.

1047. My point is this: that your argument as to the inequality, exemplified as it is by the extreme case which you took, does or does not apply to the case of the men paying that proportion of their incomes in Life Assurance premiums but paying respectively very much higher rates of Income Tax, taking into account Super-tax, of course, in the case of the highest man?—Yes. The proportion would be exactly as shown here, because you really get it as percentages, and in my Table 2, for instance, if you would take, say, the first 40 years of Endowment Assurance where the total premiums paid have been £1,000 (because the illustration is based on a policy effected at £100 a year), then a man paying, say, Income Tax at 2s. in the pound would gain £78, the remission of tax more than compensating for the loss of 2s. in the £ on his interest. He would get £78 on each £1,000 he paid, whereas a man paying 8s. in the pound on a new policy would gain £180 on each £1,000. If they were paying £80 and £800, or £800 and £8,000 the proportion would be identical, because my figures show that the proportion of the premiums would be identical whatever the amount of premiums paid happens to be.

1048. I am not prepared to argue that, because, as I say, I have not looked into it, but it struck me that there might be some objection on that ground?—I think not; I think you would find it made no difference.

1049. Then the whole of your argument is based, if I read it rightly, on the idea that the taxable unit, if we may so call him, is the policyholder and not the company?—Yes. My point of view always is the policyholder and the public, and not the Life Office.

1050. Should it be so? You mean your view is that that is the proper method of looking at it, regarding the policyholder as the taxable unit?—It is the proper method of looking at it, it seems to me, in the interests of the policyholders, who are the people that I want to consider. It may be an inconvenient method. I admit that it is almost necessary to collect Income Tax from the Life Offices, and you may have to make a rough-and-ready adjustment, but what I am concerned to show is that the existing arrangements are bad for certain individual policyholders—certain large classes of individual policyholders—and unduly good for certain other classes, and because it is thus bad for individual members of the public on a large scale, I should like to see it altered.

1051. The basis of your argument would be destroyed, would it not, if the basis of taxation of the Life Offices were altered in the sense for which the Life Offices have argued for a good many years, that is to say, that they should be taxed on their profits and not on their interest?—Well, I do not know that it would. I do not think the method by which Life

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Officers were taxed need necessarily affect the contribution which the State makes towards the cost of Life Assurance. I think the State could still contribute something and still make an allowance for Life Assurance, and if that allowance were, we will say, a uniform allowance to all policyholders irrespective of the rate of tax which they paid, I do not see that an altered method of taxing Life Officers would have any bearing upon the basis upon which the contribution by the State towards the cost of Life Assurance were calculated.

1052. I agree with you. I think the two questions are entirely distinct, but I was only wondering what effect the alteration might have on your argument; you say none?—I say none in regard to the definite contribution by the State towards the cost of Life Assurance which is now allowed as a remission of premiums; it might have some effect in regard to the rate of Income Tax in fact paid by different policyholders on the interest upon their investments, but a fairer basis of taxation for Life Officers would, I think, very likely go far to eliminate the unfairness that at present exists between rich and poor. If you had a fairer and more appropriate basis for taxing life officers, together with a change from calculating the contribution by the State on the basis of Income Tax to making it a fixed allowance, I do not think you could well have a better system. I do not think the inequality in the tax on the interest would be so important as it is now if life officers were taxed differently.

1053. Does not your assumption that the policyholder is the taxable unit involve necessarily the consideration whether he should not have provided for him some machinery by which he could recover the over amount of tax which he has paid, assuming that he is liable to abatement or exemption?—Theoretically, it is almost imperative that it should be done as a matter of fairness and equity, but the difficulty I see is as to the practical method of doing it. A Life Office could send out with every premium receipt a statement that the interest credited during the year had been so much, and the man could pay on it or claim on it, which would be a very good thing, but it would be rather a formidable task for Life Offices, and if they notified a man how much interest had, so to speak, been put to his credit during the year it would then be necessary to ask whether the Inland Revenue authorities could deal with the matter. If that could be done, certainly it would be the fairest way.

1054. You mean to say the volumes of claims would be so large?—Yes; certainly it is the fairest way if it could be done, but it is a point of some practical difficulty, I am rather afraid.

1055. Mr. Synnott: I do not propose to go into your first question except to this extent: Did you allude in your evidence to abolishing the distinction between earned and unearned income for the purpose of simplifying your plan?—No. It would simplify the plan, but I refer to it because it happens to be my opinion, which I did not emphasize, that the distinction is inappropriate.

1056. That is what I was going to ask you: The distinction is inappropriate, very hard to define, and it does not cover the case of so many incomes that are mixed incomes?—Quite.

1057. What you mean is this, and I would like your opinion if you have thought about it: There are so many so-called unearned incomes in which there is a certain amount of earning?—Yes.

1058. And per contra. Also take the case that just occurred to me, the trade of the publican, the trade of the bookmaker, if there is such a trade, the trade of the commission agent and the moneylender, those are all treated as earned incomes?—Yes.

1059. I will not comment on that, but there are in the so-called unearned incomes cases of business carried on by companies?—Yes.

1060. Is not it a purely fictitious and artificial use of the word to call it unearned because carried on by a public company, knowing, as we do, that there are so many what are called single man companies?—I agree; I think it is, and I see the still

more cogent objection to making the distinction and charging unearned incomes more, that it is so very definitely, in one sense, penalising thrift and economy.

1061. But it is not merely a question of charging unearned incomes more, but it is a remission to the so-called earned incomes and the State losing thereby?—Undoubtedly.

1062. As regards other matters, do you seriously suggest that any alteration in the law about these life policies should be retrospective? These are policies effected before 1916?—I think so. We have the example that previously premiums were allowed to be deducted in the case of Super-tax, but that concession was withdrawn.

1063. Take a case where people have insured and effected policies 30 years ago on the faith of the State saying that they would not be charged Income Tax irrespective of the rate, the object being to encourage saving. Do you think it is right that there should be an alteration made retrospective?—I am afraid I do, because when that concession was made and when they were allowed to deduct the full rate that they were paying we had not a war and we were not paying Income Tax as anything like 6s. in the pound. A man might have been getting 3s. or 4s. 6d. in the pound.

1064. Except for the argument of *force majeure* there is nothing else; that is not based on the principle of equity, is it?—I think it is, because if the man were getting 3s. in the pound he would be getting more than he was getting originally, and because we happen to have had our expenses increased and have gone to war I do not think that equity requires that a man should get a much bigger contribution by the State towards the cost of his Life Assurance than he was getting when his policy was taken out.

1065. You call it contribution, but it is not really a contribution, is it?—Well, I think it is.

1066. Let me put this case. Has not the State a very great interest that so-called rich people—although I do not think it is scientific, is it, quite to divide people into rich and poor?—No.

1067. You are forgetting all the intermediate classes?—Yes.

1068. Is not it to the interest of the State which has established a very high and graduated Estate Duty that people should insure for very large sums?—Certainly.

1069. And the more they insure for the more they will have to pay?—Yes.

1070. Did not the State encourage people to do so, and the companies, too, I think, in order that they might have liquid sums to hand over to the State at once on the death?—Yes, certainly.

1071. Do you think or not that as between these rich people and poor people your proposition is not a question that affects the Revenue?—No, I do not think it is; it is a question of distribution.

1072. Do not you think it is for the insurance companies to make the necessary adjustments?—The insurance companies do make some adjustment, because at any rate most of them charge the same rate of premium, and, under with-profit policies, give the same rate of bonus to a very big policy as they do to quite a small one.

1073. That is the very point I was coming to; and yet they can carry on their business very much more cheaply in respect of big policies?—Very much more cheaply.

1074. I do not know whether you are interested in any way in any insurance company?—No, I am not connected with any company at all, but I write about the subject of insurance.

1075. Mr. Aveling-Smith: You have persistently referred to the remission of taxation with regard to Life Assurance as a contribution by the State. Do you seriously suggest that public money should be paid to encourage Life Assurance to a person who does not pay Income Tax at all?—Yes, I think it should, and I think the State has a fund out of which to pay it. For example, a man who does not pay Income Tax at all, but does pay a premium on Life Assurance, has the interest on his investment taxed at practically 6s. in the pound, when, if it were a personal matter, he

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ought to be exempt. I think it is quite permissible that, taking that into account, the State should make some contribution towards the cost of his Life Assurance.

1076. Do not you think that if such a principle were accepted it would be more in consonance with the English financial system for Parliament to vote a sum specifically for the purpose so that we should know what we were doing? As I understand it, you suggest that the Commissioners of Inland Revenue should pay this subsidy out of intercepted revenue?—Well, practically, yes. In certain ways they get more from the life offices than they would get for Income Tax collected from the individual policyholders at the rates to which they are respectively liable.

1077. You really contemplate a direct or an indirect subsidy by the State in respect of Life Assurance premiums to a person who does not pay Income Tax?—Yes, I think it is quite a good thing and quite fair.

1078. I gather that you yourself do not sympathize with the distinction between earned and unearned incomes as a basis of taxation?—No, I do not think I do.

1079. But you accept it up to a certain point, I think you said £2,500?—Oh no.

1080. In this table?—Simply because I am making my table approximately fit the existing arrangements to illustrate the method.

1081. If the distinction is to be maintained do you think it ought to stop at a given income or not?—Well, I think it could.

1082. What principle would you invoke for arriving at the income point where earned income is to lose its advantage?—If you are to have a distinction, which seems to me illogical, I do not know that out of an illogical distinction you can get a logical method of making it sensible or proper.

1083. Logically you mean you must carry it right up?—To carry it right up is, I agree, the logical deduction if you start at all. The moment you began to carry it right up and say that a man who is earning, we will say, a salary of £30,000 a year, as some men may, ought to pay a lower rate of tax you manifest, it seems to me, the absurdity of maintaining the distinction between earned and unearned.

1084. Is your method susceptible of combination with taxation at the source as simply as the present system?—I should imagine so. I have no experience of the actual handling of the collection of Income Tax, but I should suppose it would be every bit as simple, and would fit in quite as well. Taxation at the source would be deducted at the normal rate, let us say 6s. in the pound, and the required adjustments would be made, I take it, by individuals.

1085. Perhaps it was when I was out of the room, but I did not hear your explanation of the two thin lines at the top of the diagram?—The two thin lines are unearned income as distinct from earned. The solid thin lines show the existing regulations for unearned incomes, and the thin dotted line is my proposed method for unearned incomes.

1086. Whereas the two thicker lines are for earned incomes?—Yes.

1087. I did not follow when you said that under your scheme nobody would pay more than he does at present up to the Super-tax point. The dotted thick line is higher than the solid thick line in several places before that point?—Yes. That is merely to smooth out the inequalities.

1088. Then it does involve paying more?—Yes, it does involve paying more in isolated cases; it smooths out the inequalities.

1089. It is more than isolated cases—a very large part of that line?—Yes, right through. For one thing I lay great stress on the fact that the precise details I suggest are of no importance whatever. I want to illustrate a method, not to illustrate particular proportions. If you are to get an equitable arrangement and get rid of your jumps, if, for instance, your tax jumps up suddenly at £1,500, to get a smooth line you must be somewhere between the tax on £1,500 and the much larger tax on £1,501.

1090. Therefore whatever your rate would be some people would pay more and others would pay less?—Quite.

1091. The results may be more equitable, but it is brought about in that manner?—Yes, quite.

1092. Professor Pigou: I should like to ask you one question about the first part of your evidence. I take it, apart from the object of securing freedom from jumps, the main purpose is that on your plan there will be a convenient basis for making the proportion paid by persons with different incomes the same whatever happens to the general rate of tax?—Yes.

1093. And that is the real object of it?—Yes, I think it is the main object.

1094. Is not this principle that the proportion would be the same whatever the rate of tax rather a dubious one? For instance, supposing now the standard rate of tax were doubled, on your principle the higher income would pay 21s. in the £?—Yes.

1095. Is that desirable?—It is not desirable, but I do not think the rate of Income Tax can be doubled, if it were it would come to the unpleasant necessity of a temporary tax on capital.

1096. But the fact that this principle leads to this rather paradoxical result surely suggests that the basis of the principle itself may be at fault. Have you any particular reason for holding that the proportion should be the same whatever the rate of the standard tax?—Well, it seems to me that it would be much more satisfactory that it should be taxed on a carefully considered proportion as between different incomes, always with the possibility that you might run on with that proportion for five years or ten years. You then might see the inequality, and it could be altered, but I do think that if you get a fair proportion of taxation between different incomes it would be better to keep it for a series of years, and not have it altered to a certain extent arbitrarily, because you have to fix some sort of rate of Income Tax and go up by sixpences and ninepences in changing the rate of tax.

1097. I quite see that, but my point is surely that what proportion is fair will depend on what the basic rate of tax is?—Yes.

1098. And there is no uniform proportion as to which you can say this is a fair proportion whatever the amount of revenue required is?—But if you look to the probable practical changes of 1s. or 2s. up or down I should think that relatively small changes like that would not set up any reason for making a basis that was fair and appropriate with the 6s. tax inappropriate for a 7s. 6d. tax or a 4s. 6d. tax.

1099. I am not disputing that. I was taking the question of principle. Of course, you may say this curve or any other curve is fair for a 6s. tax?—Yes.

1100. And a parallel movement of this curve will not be greatly unfair if you change the basis a little. My point is that as a general principle you will have to make the proportion dependent, not merely on the amount of the person's income, but also on the general rate of tax. That is shown on your principle by the fact that you get to absurdities in the extreme case?—Quite. I am not at all disputing that it is more necessary to raise a very much larger amount or a very much smaller amount than the proportion which might fit in with existing taxation it might not be the fairest plan to be maintained. If you have a "statutory taxable income" it is perfectly possible to alter it any year, you like if the extent of the tax has to be so much greater or so much less than the old proportion ceases to be fair and appropriate.

1101. Then, of course, we would be agreed. You would simply say for small changes of tax it is convenient to have the same proportion?—Yes.

1102. And no great harm can be done?—Quite. The idea of a "taxable income" is really mainly for convenience and I can imagine it would be a good deal more convenient to have one rate of tax, and for the Finance Bill to say: "The rate of tax is 6s. in the £," and all the details are settled once for all.

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1103. Then you would agree further that if the general amount of the Revenue required from Income Tax had either to rise a great deal or to fall a great deal it would be reasonable to consider at what point the exemption stood?—Yes.

1104. So in effect your plan is really designed for small changes, and does not pretend to be suitable to deal with large changes?—Quite. It is not a law of the Medes and Persians that could never be altered.

1105. Mr. McLintock: Is your criticism against the present method of Life Insurance mainly that it hits unfairly what you term the poor man? I would rather call him the man with the small income; he is not necessarily poor. That is your main proposition?—Yes.

1106. Your remedy is that if that man, or a man with an income of £200 a year and an statement or allowance for wife and children, is not liable to tax and he pays, say, £20 a year as an insurance premium, he has to get, you suggested, 15 per cent. of that relief. How do you suggest giving that relief?—Well, I mentioned 15 per cent. because—

1107. I am not troubled about the percentage; it is the method of giving the relief?—It is he is paying no Income Tax at all then I think he should be allowed to get it if he can from the Inland Revenue people—to claim payment of it.

1108. You suggested that the insurance company could give him an interest certificate annually with his receipt?—I think that is a different point.

1109. That is the only means; he must produce some voucher to the Inland Revenue before he can show his title?—Yes, but the Inland Revenue now can ask you for the receipt for your premium before it allows the remission of tax.

1110. I suggest to you that if all the payers of small insurance premiums have to go to all that trouble the practical difficulties are so great that the position would just remain as it is at present. No one would claim the relief?—I am afraid that that might be so in regard to making claims for money by people who were paying no Income Tax at all, but people who were paying some tax could deduct the remission from the tax they paid without any particular trouble.

1111. It means this: that if they did not take the trouble to reclaim what would give the State a lot of trouble to repay, they would be no better off than they are at present?—The people who are paying Income Tax to any extent would be somewhat better off—the people who are paying small amounts of Income Tax.

1112. I see. You emphasized the poor man. I am taking a man with £200 a year and giving him the ordinary allowances; the chances are that he would not be liable to pay Income Tax?—Exactly.

1113. Two children and one wife would get him out of it?—Yes, quite. The administrative difficulties are considerable, and so I did mention the case of the life offices being allowed to make this uniform deduction from the premiums and only collect from their policyholders the reduced amount. I do not think the Life Offices would like that arrangement even if in practice it could be carried out.

1114. What distinction do you draw between a man in the position I have indicated and another man who invests £20 in a Government bond?—I do not know that there is any particular distinction, but if you take £20, for example, invested in War Savings Certificates, which is one kind of Government bond—

1115. There is no tax?—There is no tax, and not only that but there is a very considerable expense. I believe it is estimated to cost 8d. each for the handling of War Savings Certificates, which is for practical purposes, as I understand it, a deliberate contribution by the State for the purpose of encouraging saving by the small investor.

1116. I suggest to you that the scheme you indicate would cost more than it is worth to anybody. It certainly would cause the State a lot of trouble?—If the money has to be collected by individual policyholders for very small sums, so far as it comes to that

I do not think the people would try to collect the amounts, but if they did try to collect them in large quantities I quite agree it would be an enormous amount of trouble and might be more bother than it is worth.

1117. Is there any other way that it can be done than the method you have just indicated?—I do not know how it would work for the Life Offices to collect something less than the office premium from their policyholders, and then settle up with the State.

1118. Each policyholder to give a declaration of his income? They complain of the Income Tax authorities at present, and if each insurance company had to do the same thing I am afraid no one would take out any policies at all?—I hope that would not be the result, but I do not pretend to say that one can make any suggestion in regard to Income Tax arrangements without getting up against some considerable practical difficulties when you are dealing with quite small people.

1119. Sir J. Harwood-Bailey: As regards contributions to the State, do not the Death Duties on the amount insured practically remove these inequalities that you speak of?—Yes, no doubt to some extent they do. The very wealthy pay extremely large amounts, of course, but I do not know that they all come in for Estate Duty. A man may take a ten or fifteen year Endowment Assurance for a big amount and the State has contributed a very large sum in those two ways: by remission of Income Tax on premium and a lower rate of tax on interest. The man comes into the money at the end of ten or fifteen years, and he may not die for a very long time. It is looking forward rather a long way to say that those advantages which he has had for the ten or fifteen years, for example, will ultimately be redressed when he dies and his estate pays Estate Duty.

1120. Mr. Symonds: The subsidy does not apply to Endowment Insurance, does it?—Yes, provided the premium is deemed not to exceed 7 per cent. of the sum assured.

1121. Does it apply to an Endowment Assurance, say, for 15 years?—Yes, so far as a premium of £7 is concerned for each £100 assured.

1122. Mr. Kerly: I want to take, first of all, your suggested simplification. As I understand, that is aimed at two things: a smooth rise in rate as the income rises, and, secondly, to arrange that in future it shall be easy to alter the rates by fixing upon your unit and getting your rate from it in a scale to be agreed until altered, and then you would only have to alter the unit. I am going to suggest to you something which comes to very much the same thing which occurs to me as being a great deal simpler. Supposing you took the Super-tax method throughout the scale and applied the Super-tax method to every successive £100. You take the first £100 upon which you charge nothing; you take the second £100, upon which you charge, shall we say, 6d.; you take the third £100, and charge 9d.—these are merely imaginary sums. When you come to the thirty-first £100 the charge will be 3s. 6d.; we will say; when you come to the one hundred and first £100 the charge will be 10s. 6d., for the sake of example. Of course, every £200 would not necessarily be different from the £100 before; it would depend where you choose to make your change of rate. You would charge then the appropriate rate on every £100, so that a man who had only hundreds 1, 2, 3, 4 and 5 would pay exactly the same on those as if he had nothing more, which would lend an appearance of fairness to the tax. Further than that, could not you avoid all sudden breaks by dealing with the case of a broken £100? Take the case of a man who had £350 a year—charge him upon the broken £100 at the rate of the last complete £100. Do you follow my suggestion?—Yes.

1123. That would avoid all corners, would it not?—Yes.

1124. And you would then be provided with a perfectly even curve throughout your system. That would attain your first object?—Yes.

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1125. Farther than that, once your scale was settled anybody would be able to see, when he found what his taxable income was, exactly how much he had to pay, by making his calculation at so much for each of his £100, and in addition to that, assuming that his last £100, shall we say, was a matter of discussion with the authorities, it would not be necessary to wait until that discussion was settled if his earlier hundreds were undoubted, because he could pay his tax or get his allowances in respect of those, and it is always the last margin, which may be £100 or more, which is a matter of dispute; it would have that further advantage?—Quite.

1126. Now let me see if we can get the unit method from it. Having once arrived at your scale you can fix upon any figure you like, say a shilling, and instead of saying 6d. for the third £100 you could say half the unit, or whatever it was, and so arrange your whole scale with reference to some agreed unit, and if you wanted to alter your rate all you have to do would be to say so many units, and that would readjust your scale automatically; that is so, is it not?—Oh, yes.

1127. It strikes me as being more or less—you shall tell me how nearly—that you have been aiming at, and to attain the end you have in view upon your lines, but more simply?—Well, if I may say so, it is exactly my lines with the exception that you suggest the changes should come at every £100, as to which I do not mind; it is a question for consideration. I suggest that the changes come at longer intervals. I do not see any distinction in principle between your method and mine, but you do bring out one point which had not occurred to me, and which is a very good one, that it is the last £100 or so that is in dispute, and things could be more or less settled up straight away while the dispute was going on. It is a point that had not struck me. I do not think there is any essential difference between what you suggest and what is suggested here.

1128. I think there are differences. For instance, I merely suggest a variation of the scale throughout, always applying it to an actual £100?—But does it matter whether it is an actual £100 or an actual £1,000?

1129. Not a bit for that matter. You introduce a second variant into your function, do you not, by your "taxable income"? I am leaving that out; I am taking the actual income?—It seems to me it is simply the method of my "First and Next" table, practically the B. method, applied to tax, where the tax, for instance, on the first £100 is nothing, on each £1 of the next £100 it is .12, on each £1 of the next £200 it is .24 and so on. You can make the change at single hundreds or single thousands or at any other amounts you like.

1130. It will be easier instead of, for instance, stating 12-12 or .24 to say 4d. or 6d.?—Quite. If you put on a tax it would be better to take it in shillings and pence.

1131. If my more simply expressed proposal meets your views you would not pursue that?—No, only do not make the changes every £100.

1132. Now let me make another suggestion to you for your criticism. So far I have assumed that my scheme is applied to a man's actual income. If you are making allowances to him do you think it would be better to make them generally by way of proportion rather than by way of fixed sums? I do not know whether you have considered this—if not, we will leave it. Supposing, for instance, you are dealing with wives' allowances. I presume one reason for that allowance is that there are two people to live out of the income instead of one?—Yes.

1133. It is common knowledge, I think, that if you have £500 a year to spend the addition of a second person costs more than if you had only £200 a year to spend?—Yes.

1134. Have you considered whether it would be a convenient and rational way of making the allowance for a wife, say, to allow one-fifth to be deducted from the actual income to get at the taxable income, with a limited amount, say, not to exceed £500?—Yes, I

think it would be much fairer to make the deduction on a proportion of the income.

1135. If you take my proportions up to £2,500, the full one-fifth would be allowed, but if you get an income of £3,000 you would still only have £500 allowed?—Yes.

1136. If this is all fresh to you, I do not want to trouble you with it?—Oh, no; as a matter of fact, I have thought about it a good deal.

1137. Now let me put another suggestion to you. In the case of the children, it costs more to educate children of a family living on an income of £1,000 than the children living on an income of £200, apart from the fact that the poorer children are very likely educated at the State expense. Supposing you made an allowance on each child of, say, one-tenth of the total income, not to exceed a total allowance of £200; it would be upon the same lines as I suggested with regard to the wife?—Yes.

1138. If you make proportionate deductions for that and for other matters which were allowed for, you could then start with a taxable income not the same as yours, because it would be the actual income, less certain proportionate allowances, and then you would apply your rates to each £100 of the taxable income so arrived at?—Yes.

1139. Does it strike you that that would be a satisfactory way?—Yes, I think it would. It seems to me that it would approach the plan, that has a lot to be said in favour of it with some modification, of dividing the total income by the number of people dependent upon it and treating them as separate incomes. It does not seem to me that this arrangement would really be quite fair, and your proposal of allowances for dependants such as a wife or children being, within limits, proportionate to the income is a much fairer plan than a lump sum allowance that may be considerable for small incomes and insignificant for large.

1140. The application of your system or the system that I suggest to you depends, of course, upon every taxed person making a return of his total income?—Yes, I am afraid it does.

1141. That is essential?—Yes.

1142. Provided that is done there need be no interference with the present method of deduction at the source according to some standard rate?—No.

1143. Now let me go to the life policy question. Are there not two views of what a life policy is? One is that the policyholder is investing in a business, and the other is that he is employing an agent to make his investments and savings for him. Let me just illustrate it as you have put it here. You treat in your paper the policyholder as making certain payments to the insurance company, part of which go to pay expenses, part go to pay them for taking a risk, and the remainder is accumulated to form with interest the fund which they are going to return to him when the policy falls in. As regards the third part, but only the third part, they are in the position of his agents making an investment for him, and not returning it at the time but returning it when the policy falls in. Is not your grievance that as regards that part of the transaction he is unfairly dealt with because instead of having the whole of the interest that they are saving up for him he has that less tax, the tax they have paid, and that tax is deducted at the standard rate, although his income rate may be a much smaller one?—Yes.

1144. That is a hardship, is it not?—Yes.

1145. Now the logical way of meeting that, as I think you have said, would be for the insurance company in each year to send him a note saying: "We have paid Income Tax for you at such and such a rate," just as a company says: "We have paid Income Tax for you on your dividends." That, you think, is impracticable from the point of view of the office because it would be too much business for them?—Well, I think the Life Offices could do it.

1146. Would it be a very big business?—I think the President of the Institute of Actuaries could answer that question better than I could.

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1147. Perhaps we will have some further evidence about that?—As a matter of fact I do not think it would be unappealing for Life Offices to do it. What the Inland Revenue could do with all these small things I am unable to form an opinion upon.

1148. In order to do perfect justice it is necessary to know first how much Income Tax has been paid in respect of the interest being saved for a particular policyholder, and, next, to know the personal rate of tax of that policyholder, because upon that depends whether the standard rate of deduction is above or below his personal rate?—That is so.

1149. So that there is no other way of dealing with him except as an individual?—Unless you can get a rough and ready method.

1150. How is it possible to get any rough and ready method?—Well, you get a very rough and ready method by not allowing any remission of Income Tax on premiums to a man who pays Super-tax, for example, and allowing a remission of Income Tax on premiums at a fixed rate to all other people; it is very crude and rough.

1151. I can see lots of ways of paying A. what may be due to B., but how you can arrange that B. should only be charged according to his personal rate I do not see unless you know that rate?—No. The best way, of course, to get the fair result would be for the Life Office to notify each policyholder when they send his premium receipt what Income Tax has been paid for him in that year on what amount of interest.

1152. However, you must go further than that because you have got from the total payment that he makes to deduct so much as is going in expenses, and so much as is going for payment for an interim protection?—Yes; the Life Office could tell him what the interest was.

1153. The proportion of his premium which is really interest depends upon the Life Office, and upon whether, for instance, their expenses of carrying on are higher or low amongst other things?—Not much.

1154. Does not it?—No.

1155. I should have thought, for instance, in the industrial Life Offices, where the cost of collection is very high, he would have far less interest to his credit out of his premium than in the normal insurance office?—Yes, out of a given amount of premium he would, but what a Life Office could do without much difficulty would be, to tell from the actual tables that it has and that it works by how much interest had been credited to a man during the year. If you were having profit policies with questions of bonuses being settled once in five years that might want some special adjustment, but the company knows exactly what the reserve is each year and can tell in a moment or two. They could have tables from which to fill in for any policy how much interest had been earned on that policy in the course of the year.

1156. Then what you say is the system of returning to each policyholder a statement of money paid on his account is practicable, though it would be troublesome and it would, of course, involve finding out what his personal rate is?—Yes. When the Life Office had made that statement to him and told him what interest had been credited to him, or what tax had been paid on his behalf, then I take it the individual policyholder would have to deal with the Income Tax Collector or Assessor.

1157. And if he were a person who paid no Income Tax he would have to get the money back from the State. If he were a person who paid some Income Tax he might get it as a credit against the Income Tax due?—Yes.

1158. There is another view of the matter, is there not? The man who invests his savings, or some of them, in a life policy is getting the advantage in that form of saving that he is dealing with a large investor who is able to spread his risks?—Yes.

1159. That is the great attraction of it, is it not?—Yes.

1160. Further than that, he is getting expert service in seeking investments?—Yes.

1161. And it is the fact that the insurance companies, generally speaking, have got a large number of insurers, the bulk of whom, I suppose, in the ordinary mixed company, at any rate, are members of something over the taxpaying limit of income?—Probably.

1162. Which puts them in the position of being able to give this expert service, and having sufficiently large funds to spread the risk, as I have said?—Well, I prefer to think of Life Offices as merely machinery by which a lot of people co-operate together for their common good. I never visualize a Life Office as a distinct entity; it seems to me it is a body of policyholders.

1163. The considerations I have suggested are present?—Yes, they apply; they come from co-operation really.

1164. A Life Insurance office pays Income Tax on interest it receives, as interest?—Yes, after deducting expenses.

1165. If you treat it as a business in which the assured invests it would be more appropriate to treat it as carrying on a business, and therefore to charge it on its profits rather than on its interest, would it not?—Well, it might. So far as Income Tax is concerned, it seems to me the appropriate plan is to look at it as a mere savings bank business.

1166. It is only a savings bank as to such part of the interest as is not spent in expenses and is not payment for current risk?—Well, the interest probably very seldom, if ever, contributes towards expenses. The expenses are paid out of the premiums mainly. For carrying the risk the interest sometimes has to be drawn upon.

1167. I will not discuss that further; I do not know that I am competent to. Now I suggest another analogy to you. In the case of a company Income Tax has to be paid on its undistributed profits, has it not?—well, will you take it that it does?—Yes.

1168. When those profits are ultimately distributed, if they ever are, they are then distributed to the shareholder and he then gets them free of Income Tax, the Income Tax having been paid in past years?—Yes.

1169. Is not the position of the man who is paying premiums something the same as that of a shareholder who is entitled to profits which are earned but which are not distributed?—The individual policyholder?

1170. Yes?—Yes, possibly.

1171. The time for distribution to the insurer is when his policy money is paid out to him?—Yes.

1172. And then the policy is subject to Death Duties if it is a Life Insurance?—Yes, it may be if it becomes a claim by death as distinct from a claim by maturity.

1173. When that is done he pays according to his Death Duty rate, that is to say, the rich man pays a very much higher rate than a poor man?—Yes.

1174. Have you considered how far that levels up any injustice which is done during the lifetime to the poor man as against the rich man?—No.

1175. Is not it quite possible that that more than sets off the advantage which, as you suggest, the rich man gets during his lifetime?—Of course it may, but it seems to me that Income Tax and Death Duties are to be considered separately. A man with no Life Insurance at all may pay 10s. in the pound for Income Tax and Super-tax and may pay Estate Duties up to 40 per cent., but I do not know that there is any connection between Estate Duties and Income Tax that need be taken into account. *Ques* Income Tax the rich man taking a Life Insurance fares too well. The fact that because sooner or later he may have to pay Estate Duties and a larger amount of his capital will have to be paid away I do not think is a reason for remitting his Income Tax any more than saying that if you have to pay Estate Duties of 40 per cent. on your estate you shall not pay 10s. in the pound Income Tax while you are living.

1176. Well, the matter is pretty obvious. You told me some time ago that you could probably only get rough justice?—Yes, quite.

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[Continued.]

1177. That is to say, in the big majority of cases it works out fairly right. I suggest to you that inasmuch as the real object of Life Assurance is to get a net sum at death, and the consideration for that net sum is the sum paid from year to year during lifetime, it is very appropriate to consider what the net sum realized is in each case in relation to the annual payment, and if you find that the net sum realized by the rich man is disproportionately diminished by his Death Duties then it may be that that makes up for the larger nominal amount he is getting for an extended payment?—Oh, yes; but one has to remember that Endowment Insurance, especially Endowment Insurance for short terms which become payable during the lifetime of the policyholder, is increasingly popular, and that under the existing Income Tax arrangements if a man is getting remission of tax at 8s., and still more at 6s., and is liable to tax at 10s. in the £ on interest, and is paying only 4s., he can get a net investment in Life Insurance at 4 to 5 per cent., which means a gross rate of 10 per cent., and people take it, not with any view of getting protection or paying Estate Duties, but merely as a method of legally evading the payment of Income Tax.

1178. The last consideration I put to you does not apply to short endowments?—No.

1179. Sir T. Whitaker: I want to ask you one or two questions on this insurance phase. It is, of course, quite clear that, if a flat rate of tax is charged to the insurance offices, that is not equitable to all the policyholders, who are liable naturally to different rates of tax, and some to none at all?—That is so.

1180. And it also seems clear that the only strict way of adjusting that would be to allow to those who are liable to a lower rate of tax a return, and those who were liable to a higher rate of tax should be called upon to pay up the balance; but as Mr. Kerly has suggested the taxes that should be dealt with in that way really should only be the taxes on the interest, on the amount in reserve for each policy?—That is so.

1181. That amount alters each year. Would it not be a very big job indeed for an insurance office with scores of thousands of policies to ascertain separately each year for each policy—to refer specially for its reserve value, and then to notify the tax on the interest on that reserve each year; would not that be an enormous amount of work?—I do not think it would. You could very quickly draw up tables.

1182. I am not thinking of the calculation at all; it is the reference in each case. You would have to make a special reference to ascertain, supposing you had got it on the table, the surrender value of each of these policies, and then tax on the interest?—It would not be calculated on the surrender value.

1183. I mean the reserve value?—You would be sending a man a premium receipt, and if, when you sent him the receipt for the premium, you turned up the table and saw that it was a whole life policy and the attained age was 43 and it was effected at 35, I do not think it would take anybody a minute and a half to put on the premium receipt what the amount of the interest credited to him for that year was. You could judge better than I could because you know more of the inside working of a life office.

1184. I think you would find it would involve a good deal of work. Are there not two other points? My real point is this: You cannot find these things down to a mathematical accuracy at every point.—I agree, and have said so.

1185. You must have some broad general working system. Now take this: If you are to adjust each policyholder strictly accurately you would have to go into points that insurance offices never do. You admit that the working expenses in proportion to the sum assured are much larger on a small policy?—Yes.

1186. Are you to adjust that?—No.

1187. You are not going to get down to strict accuracy unless you do?—But I am not maintaining that we can. The method I have suggested is a rough and ready method.

1188. Then, on the other hand, there are advantages, I think you have admitted, to the State in having these large Death Duty assurances?—Certainly.

1189. On the whole I presume the tendency is rather to increase the amount of the estate?—Yes.

1190. As very likely the insurer would not have saved that money for the Death Duties if he had not taken out a policy?—It increases the amount very considerably, and partly cuts against what I said as to reducing the allowance to rich men. If you take, under the new scale of duties, a man who has got an estate of £300,000 and pays on that, he would be liable to a duty of £36,000. If he wants to provide for that duty by means of Life Assurance he must take a policy for £50,000, and the duties will come to £50,000. By providing for it in advance he pays £50,000 for duty instead of £36,000.

1191. The State gets a considerable advantage in that way?—Quite.

1192. And another advantage which the State gets, which is greater as these duties increase, is that they are provided; there is the money?—Yes.

1193. And it facilitates the payment and eases the whole transaction and diminishes to some extent the objection to the duties because of that?—Yes.

1194. My point rather is this: that there are advantages at both ends, that the amount of interest on the reserve fund of the small policyholder is small, the tax on it is not great, and if it were strictly adjusted there are considerations of increased working expenses, and that really if you look at the matter broadly this thing is down is not worth looking at?—Well, that may be so, but there are very big inequalities. Personally I should be quite happy to see the question of Income Tax on interest left alone and a uniform proportion of the premiums allowed to all policyholders, large or small.

1195. That is rather a subsidy?—There are two points, the remission of tax on premiums and the Income Tax on interest. Now leaving alone the tax on interest, because it certainly presents very considerable difficulties in dealing with it, you do not subsidize the rich man quite so much by not basing the contribution by the State on the rate of Income Tax paid. If the rich man is to have 15 per cent. of his premiums paid by the State, let the poor man have it too; that is what I should like to see.

1196. Mr. Petyman: Both these difficulties that that you have been referring to arise solely out of graduation?—No; I do not think the Life Insurance question arises out of graduation, except that large incomes pay a higher rate of tax, a higher amount of taxation.

1197. That is what I mean. The high graduation is really the origin of the trouble in both cases?—Yes, it is in that sense.

1198. And it is an endeavour to go into rather meticulous details in order to secure that the graduation system, as applied, shall be as directly as possible applied in each individual case. That is a principle which governs both your proposals, is it not?—While I went into the details to show what I consider to be the inequalities are, and necessarily so to illustrate what the inequalities are, I do not think I suggested any meticulous inquiries and details to set it right. On the contrary I suggested what was expressly a rough and ready method of dealing with it as a practical point, and said distinctly that you cannot avoid anomalies and inequalities. To illustrate it I went into details; to deal with it I do not suggest going into details.

1199. Let me take your Income Tax point first. With regard to the ordinary individual who is accustomed to dealing with very simple facts which he can see or understand and to whom matters which are of every day simplicity to you are absolutely unknown, would you not say that to the ordinary taxpayer your first system, A, would be very difficult to follow and to appreciate?—As far as I can judge on a point like that, it might, but I think people would very soon get used to it; but really the thing

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[Continued.]

upon which I lay the greater stress is that the Super-tax method should be applied to all incomes. I think there are advantages in applying it by means of "taxable income."

1200. That is your system B?—Yes.

1201. Have you any preference in your own mind. Supposing you were given a free hand to apply either of these two methods, which would you apply, A or B?—I think I should see what the Inland Revenue officials, who had to do with the general public, thought about the thing, and if they said the "taxable income" system was going to confuse the public and they would not like it, I should go for the tax method. That is a point upon which I personally have no experience as to how individuals would regard the Income Tax methods; and I should certainly be guided personally in the decisions I ultimately come to by the opinion of experienced Inland Revenue officials. If they said: "This will be distasteful, and will create a muddle, and will not be understood," I should say: "Very well," I think, excluding the peculiarities of individuals, the "taxable income" method is better than the tax method.

1202. You have no opinion of your own on the point?—I have an opinion of my own that in itself the "taxable income" method is the better, but if it is going to create confusion and to bother people, as to which I have not sufficient experience of people paying Income Tax to know, then I would say that the "taxable income" method is not so good as the tax method, because it would appear to them complicated. Considering it apart from the individuals to whom it has to be applied, I think the "taxable income" method is the better; but that is not the whole problem to be considered.

1203. Then on the insurance question, of course, there is a proverb that you sometimes cannot see the wood for the trees. Is not that really to be looked at with reference to the very large question of the effect on the Revenue of very high graduation? Do you not think it might be desirable to get a little experience, before making any change of that kind, as to what the effect of high graduation is going to be on the amount which will be found available for assessment? What has happened now is that this very high graduation of Income Tax up to a figure previously undreamt of has only come about under war conditions. During those war conditions there have been three main causes which have contributed to maintain the very high rate of yield. One has been patriotism, people felt they could not put their money to a better use. I think you would agree in that?—Yes.

1204. The second has been the automatic savings which everybody who was well-to-do has made during the war through the automatic censor of expenditure which would otherwise have occurred; people they employed were going to the front, and there was no temptation to spend money on pleasure or sport, nor could a man spend money on the maintenance of his business premises or property, and so on; therefore that operated very much to provide a fund from which additional taxation could be met. Do you agree in that?—Yes.

1205. The third cause was the enormous expenditure of national capital borrowings, a large proportion of which passed through the hands of people and was treated as income, and that provided a very large addition to the Income Tax yield. You would agree on all three points?—Yes.

1206. All those things will now cease to operate. will they not?—Yes.

1207. And on the contrary the reverse conditions will apply. The people that were employed will be coming back and are desirous of being taken on again, and those people can be taken back only at something like a double wage?—Yes.

1208. The enforced economies are more or less ceasing. I think you will also agree that there is a certain feeling about the country that the expenditure which is going on now, is some of it, not quite so patriotic or necessary as what was going on during the war?—Very cordially.

1209. So that will decline. The capital expenditure on this very large scale will also cease. Will not all these conditions, coupled with the very high graduation, tend to induce people who have income to be less desirous of saving them, and rather more careless as to whether they spend their money or save it, and will it not also tend to avoidance—I do not speak of evasion—of taxation by legitimate methods, such as sub-division of income between members of families, and so on?—Yes, quite possibly those effects will be seen in a good many cases.

1210. Do you not think they cumulatively create a more anxious situation as to whether we might not arrive at that very deadly point when the raising of the rate of a tax decreases its yield?—Yes, that is possible.

1211. Have you considered that?—I know it is quite possible to increase a tax so as to decrease its yield.

1212. Do you not think that is a most dangerous point at which any State can arrive?—I do, and we may be near it.

1213. And the Income Tax is a tax in point?—Yes.

1214. You made a remark just now that you thought the Income Tax and Death Duties should be regarded separately?—Yes.

1215. I think we have been told by Sir William Harcourt, who was the author of the Death Duties, and who presented them to the country, that they were a deferred graduated Income Tax?—Yes, and I have often treated them as such, and shown what they cost as a tax on income.

1216. Do you think that the individual who is taxed can look at direct taxation generally, and do you think he can bring his mind into the position of thinking that he has only got to pay his Income Tax without any reference to the effect on his successors of his having to pay Death Duties as well? Will not a prudent person, who is in the enjoyment of very considerable income from business or otherwise, necessarily regard the continuance of his business, and make some provision to meet Death Duties out of income?—I think he should. A prudent person really will.

1217. Can they really be regarded as separate?—By the individual, possibly not; but the point I was rather making was that the fact that Death Duties chargeable under the existing scale would be heavy was no reason for reducing, by a sort of side wind, the amount of Income Tax to which a man was liable.

1218. I am looking at it from the point of view of policy of the State. I am not looking at it from a mathematical or actuarial standpoint. From that particular point of view you agree that in any individual case he cannot separate them. Can the State separate them? Because surely Death Duties are a capital tax; and is it not very important from the point of view of the State that that capital which is taken by the State and spent as income should be replaced in order that the total taxable capital and income of the country may not be reduced?—I think it is distinctly advisable.

1219. How can the State look at the two separately? If the State impose a graduated Income Tax on such a scale that people who have to pay Death Duties cannot find any money out of income and must pay it all out of capital, and if the State then spends that capital as income, will not the taxable corpus of property in the country be reduced?—Probably not. It would tend to decrease the rate of increase of the corpus of capital. It probably would not decrease it, but it would tend to decrease the rate of increase. But my whole point was simply this. If a man is to be liable under the law to Estate Duty of 30 per cent. or 40 per cent., and to Income Tax and Super-tax at over 10s. in the pound—it may be quite wrong to have those things, but if those are the facts—my whole contention was that it scarcely seemed advisable that, by means of a particular process, such as Life Assurance, a man could pay on a large part of his investment a lower rate of tax than the law makes him liable for.

1220. You were rather putting that forward from the point of view of fairness to the taxpayer, were you not?—Yes.

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[Continued.]

1221. I was not at that point at all; that has gone; I think we have got past that, and I do not think the question of fairness to the taxpayer really comes in in this matter with large incomes so much, because I think it is recognized that the main necessity is that we have to maintain the revenue of the State in a very difficult crisis of our history. My point of view was not the least one of fairness to the taxpayer, but only with regard to the maintenance of revenue. Does it not occur to you that it is worth while, purely from that point of view, to try and offer up some counter inducement to the very strong causes that I have referred to which will tend against the conservation of capital in the country? Is it not necessary or desirable to offer some counter inducement to people who have got money to put it by as far as they can? One must look at it from a sentimental and human nature point of view, but it is not a trait of human nature that, if a man thinks he is getting a little bit out of the State by a side wind, he takes a very great pleasure in it?—Quite.

1222. If the State were to wink at something of that kind and gained a sovereign itself where it only gives a shilling to the taxpayer, do you not think that might be worth doing as a matter of policy?—I think it might. I think it is a very good thing; but when it comes to paying 15 per cent. and sometimes 30 per cent. of the cost of the investment, I am afraid it is going a little too far.

1223. That depends on what you are going to get by it. However, that is all I wanted to put to you on that point. There is one other point I want to put to you. You suggested that in the present method of levying the Income Tax a fund is created, which by overpayment in one direction might be applied even to the extent of giving people a rebate on something they have never paid; that is to say, giving them a contribution towards a premium which they have paid, and on which they have never paid any Income Tax at all. But I think it was suggested by Mr. Armistage-Smith that our constitutional parliamentary financial system is that you cannot make grants to anyone except by a direct vote of Parliament, and you cannot take money that you have received for one purpose in a particular department, and, because you think it is fair and just, pay somebody else; and I venture to go so far as to suggest to you that there is no such thing as a State fund, which is created in connection with one particular purpose, and which can be applied to some ancillary object, because you look upon it as part of that purpose. The State revenue is all collected from different sources and put into one pond; and when you have poured a bucket of water into a pond you cannot get the same bucket of water again; you can go to the pond and get a fresh bucket of water, some of which may be the same as you put in and some of which may be what other people put in. Our finance is like that pond; and if you once begin these cross accounts in the departments might you not get utter confusion in the departments?—Yes; that is a point that had not occurred to me. What I say is that the State, by collecting the duty from the Life Offices in the way they do, receives a larger amount for Income Tax than it would receive if the policyholders were taxed at the rates to which they individually are liable. I did not go on to consider, as I ought to have done, how that excess Income Tax which the State in fact gets can be applied to help the policyholder who does not pay tax. There may be the difficulty that the allowance, if it were made a uniform amount instead of a remission of Income Tax, might have to be the subject of a separate Parliamentary vote. I am not learned in Parliamentary procedure, but I see the point; and, if so, it is a difficult one.

1224. Do you think it would be worth while to upset the uniformity of our whole financial system for that purpose?—No, frankly I do not think it would.

1225. Then that becomes impracticable, does it not?—I am afraid it does, but there are pretty glaring inequalities.

1226. Mr. May: I will not question you at all upon the scheme; I have learnt sufficient from the cross-examination that you have had; but I think in your evidence there is no reference to allowances such as those for wives and children?—No.

1227. But in answer to Mr. Kerly you have assented to a suggestion that the allowance for wives and children should be a fixed proportion of the income?—Yes, I thought it would be the fairer arrangement.

1228. Do you think there is any justification from the point of view of the State in making that differentiation between the value of wives. For example, do you think a rich man's wife is worth ten times more to the State than mine is and should be treated accordingly in the matter of Income Tax?—I think that is really answered by putting a slightly different point: there seems a great deal to be said for splitting up one total income among the number of people who are dependent upon it. In the way that has sometimes been suggested; something in the nature of saying:—Here is a man with a wife and three children, five people altogether, and an income of £1,000 a year. I would not say that should be treated as five incomes of £200 each, but you might say it is one income of £500, and four incomes of £125. Now take an income that is half that amount—£500. You can split it up into one income of £250, and four incomes of £125, and tax them accordingly, and I think that would be a fair arrangement. That would mean that where there was an equal number of dependants, on a large income as on a small, there would be a bigger reduction in the amount of taxation but not in the rate, not more in proportion for the large income than there would be for the small.

1229. Then I must take the point made, I think, by Mr. Pretymann, that we are not concerned with fairness to the citizen but with income to the State; and from that point of view I suggest to you that there is no justification for making that differentiation?—No; I think you cannot say off-hand that fairness is a question of amount and not a question of proportion. There may be a lot to be said about it, but personally I strongly adhere to the notion that fairness of distribution is a question of proportion rather than of fixed amount.

1230. You have considerable experience of the British public, and I ask whether in your opinion it is a practical proposition that would be accepted by the people of this country, that there should be that differentiation?—I should think it would.

1231. In the value, for example, in the education of my child as compared with the education of the child of a man with ten times my income; his educational cost would be ten times as much, and therefore he should have a proportionate allowance from the State?—Yes, it is an actual expense that is incurred, and personally I think very happily and properly incurred, with very good results to the country, and I think the proportion basis is really a much fairer basis than the amount basis.

1232. In the early part of your evidence you evidenced some concern for the poor man?—Yes.

1233. Is that the real basis of your proposals?—Unquestionably.

1234. Then I am afraid I must reconcile them.

1235. Mr. Marks: May I just say one more thing, because it has a bearing on the question in regard to premium and the amount of favour or disfavour with which the whole question is regarded. The greatest difference, as Mr. Schooling has pointed out, arises in the case of those short term Endowment Assurances, which get full benefit of the 6s. rate. But that is limited to policies granted before the 22nd June, 1916, and that limit was put in because it was felt that those policies in the nature of things will very soon have expired, and the advantage which they were getting will be only a temporary one.

1236. Chairman: Thank you very much for your evidence, Mr. Schooling.

THIRD DAY,

WEDNESDAY, 21ST MAY, 1919.

PRESENT:

LORD COLWYN (in the Chair).

SIR T. P. WHITTAKER.

MR. BOWERMAN.

MR. PRETYMAN.

SIR E. E. NOTT-BOWER.

SIR J. S. HARMOOD-BANNER.

SIR W. TROWER.

MR. HOLLAND-MARTIN.

MR. ARMITAGE-SMITH.

MR. WALKER CLARK.

MR. GRAHAM.

MR. KERBY.

MRS. KNOWLES.

MR. MACKINDER.

MR. McLINTOCK.

MR. MANVILLE.

MR. GEOFFREY MARKS.

MR. MAY.

PROFESSOR PIGOU.

MR. SYNNOTT.

Mrs. OGILVIE GORDON, D.Sc., Ph.D., President of the National Council of Women of Great Britain and Ireland, called and examined.

The witness handed in the following statement as her evidence-in-chief:—

1237. (1) *Rate of taxation on incomes under £500.*

The present rates of Income Tax, 2s. 3d. on earned and 3s. on unearned incomes not over £500, press very heavily on these small incomes.

Example 1.	£	£ s. d.
Wife earns	100	
Private income	100	
	200	
Less abatement	100	
Pays tax on balance of unearned income	100 at 3/- 15 0 0	
Husband earns	250	
Less abatement	£120	
Wife's allowance	£25	
	145	
Pays tax on	100 at 3/- 11 16 3	
Total Income Tax paid on joint income of £450	25 16 3	

Example 2.	
Unearned income	450
Less abatement	£100
Wife's allowance	£25
	125
Pays tax on	325 at 3/- 48 15 0
Total Income Tax paid on single income of £450	48 15 0

Example 3.	
Wife's income	NIL
Husband's earned income	350
Allowances—	
Abatement	£120
Wife's allowance	£25
Children's allowance (2)	£50
	195
Balance of taxable income	155 at 2s 17 8 9
(a) Total Income Tax paid on single income of £350	17 8 9

(b) If no children the tax is payable on £205 and the total Income Tax paid is at 2s 25 1 3

1238. (2) *Limit of exemption.*

Letters have been sent me by single educated women whose earnings are from £120 to £200 per annum, and by widows with small incomes, complaining of the present low limit of exemption and also of the method of collection, whereby the tax on unearned income is assessed at the highest rate and taxed at the source, causing difficulty and delay in recovering

Example 4.	£	£ s. d.
Widow's income from interest on Investment of husband's Life Insurance policy	260	
Less abatement	£120	
Allowance for 2 children	£50	
	170	
Taxable income	90	
Income Tax at 3/-	13 10 0	

The Income Tax deducted from such an income at the source would be assessed at the highest rate (6s.), and would amount to £78. A proportion of this sum would be recoverable, but only after a delay, which, in the case of small incomes, may frequently cause a good deal of inconvenience, if not of privation

Again, the persons claiming rebate, have to sign a declaration that they have been in Great Britain during more than six months of the financial year for which they ask rebate. Artists who wish to paint abroad, girls studying languages, middle-aged women who, by working hard have saved a small competence and wish to concentrate in a few years all the travelling they could not do before, are thus fined more than quarter of their income.

1239. (3) *Joint assessment of married persons' incomes.*

The present method of assessing the incomes of married people amounts to a tax upon marriage. If a couple live together without legalized union, their incomes are assessed separately.

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MRS. OGILVIE GORDON.

[Continued]

	£	£ s. d.
<i>Example 5.</i>		
(a) Married couple—		
Wife's private income ...	300	
Husband's earned income ...	416	
	616	
Less abatement ...	£70	
Wife's allowance ...	£25	
	95	
Taxable balance ...	521	
£200 at 3/9 ...		37 10 0
£321 at 3/- ...		48 3 0
Income Tax ...		85 13 0
(b) Couple not married—same income—		
Woman's private income ...	200	
Abatement ...	120	
Taxable balance ...	80 at 3/-	12 0 0
Man's earned income ...	416	
Less abatement ...	100	
Taxable balance ...	316	
Income Tax at 2/3 ...		35 11 0
		47 11 0

The tax upon marriage is therefore £38 2s. 0d.

	£	£ s. d.
<i>Example 6.</i>		
(a) Married couple—		
Wife's unearned income ...	600	
Husband's unearned income ...	600	
Total taxable income ...	1,200	
Income at 4/6 ...		270 0 0
(b) Couple not married—		
Woman's unearned income ...	600	
Less abatement ...	100	
Taxable balance ...	500	
Income Tax at 3/9 ...		93 15 0
(Man's income same in all respects.)		
Income Tax ...		93 15 0
		£187 10 0

The tax upon marriage in this case is £28 10s. 0d.

	£	£ s. d.
<i>Example 7.</i>		
(a) Married couple—		
Wife's private income (un-earned) ...	200	
Husband's private income (unearned) ...	200	
Husband's earned income ...	500	
Total income ...	900	
Allowances ...	Nil.	
Taxable income ...	900	
£200 at 3/9 ...		37 10 0
£200 at 3/9 ...		37 10 0
£500 at 3/- ...		75 0 0
		150 0 0
(b) Couple not married—		
Woman's private income ...	200	
Less abatement ...	120	
	80	
Tax at 3/- ...		12 0 0
Man's private income ...	200	
Man's earned income ...	500	
Total income ...	700	
Abatement ...	70	
Taxable income ...	630	
Tax on £200 at 3/9 ...		37 10 0
Tax on £430 at 3/- ...		64 10 0
		114 0 0

The tax on marriage in this case is £36 0s. 0d.

An anomalous result of the joint assessment of the income of husband and wife appears when one compares the total Income Tax paid on a joint income of £450, taxed separately, as in Example 1, with that on a joint income over the £500 limit, separate taxation, say £600, where the parties would not be entitled to separate abatement and the whole income would be treated as the husband's income.

The result would work out as follows:—

	£	£ s. d.
<i>Example 8.</i>		
Wife earns ...	100	
Wife's private income ...	100	
	200	
Husband earns ...	400	
Total income ...	600	
Less abatement ...	£100	
Wife's allowance (taken from earned income) ...	£25	12s
Balance of taxable income ...	475	
£375 at 3/- ...		56 5 0
£100 at 3/9 (Wife's private income of £100) ...		18 15 0
		£75 0 0

It will be seen that the addition of £150 to the total joint income (even when the addition is all earned) involves a married couple in the payment of £75 tax as against £26 10s. 3d. An increase of £150 in income therefore entails an additional tax liability of £48 3s. 9d.

Such a state of affairs is indefensible.

If the married couple referred to had two children under 16 years of age, then the tax payable on the joint income of £450 would be reduced from £26 10s. 3d. to £21 3s. 9d.; and on the joint income of £600 the tax of £75 would be reduced to £67 10s.

1240. (4) *Singly-earned incomes.*

Take again two examples where the husband is the only earner, to illustrate disproportionate relation between the rise in the amount of tax and that in the household income.

	£	£ s. d.
<i>Example 9.</i>		
Wife earns ...	Nil	
Husband earns ...	500	
Total income ...	500	
Allowances—		
Abatement ...	£100	
Wife ...	£25	12s
Balance of taxable income ...	375 at 2/3	42 3 9
If there were 2 children under 16 the balance of taxable income would be ...	325 at 2/3	56 11 3
If there were 4 children under 16 the balance of taxable income would be ...	275 at 2/3	30 18 9

	£	£ s. d.
<i>Example 10.</i>		
Wife earns ...	Nil	
Husband earns ...	650	
Total income ...	650	
Allowances—		
Abatement ...	£70	
Wife ...	£25	9s
Balance of taxable income ...	555 at 3/-	83 5 0
If 2 children under 16 tax payable would be ...	505 at 3/-	75 15 0
If 4 children under 16 tax payable would be ...	455 at 3/-	68 5 0

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Compare this example with No. 9. It will be seen that where the husband is the sole earner, an increase of £150 in income renders the married couple liable to about £40 further tax. Comparing this example with No. 1, a difference of £200 income from £450 to £650 entails an increase of tax of nearly £60—£26 16s. 3d. becoming £33 5s. 6d. This sharp increase shows the advantage of separate assessment in the case of the £450, and it also raises the question of the desirability of extending more liberal treatment to the married man who is the sole support of both wife and children.

It is to be noted that where the family income is earned by one member only—whether wife or husband—and where that income is under £200 p.a., the Income Tax is very much greater than in the case where the income is jointly earned by husband and wife, and assessed separately.

Example 11. (Same as Example 1.)

	£	£ s. d.
Wife earns	100	
Wife's private income	100	
	200	
Less abatement	100	
Taxable income	100 at 3/-	15 0 0
Husband earns	250	
Abatement £130 and allowance for wife £25	145	
Taxable income	105 at 2/3	11 16 3
Tax on total income of £450		26 16 3

Example 12.

	£	£ s. d.
Wife's income	NIL	
Husband earns	350	
Abatement £130 and allowance for wife £25	145	
Taxable income	205 at 2/3	23 1 3

He thus pays almost the same tax on £350, as husband and wife pay on separately earned incomes amounting to £450, of which £100 is unearned. If there were two children—£50 at 2s. 3d. = £5 12s. 6d., the tax would be £17 8s. 9d.

This acts very hardly on those cases where the wife is required at home to attend to the household duties, and to bring up a young family.

1241.

(5) Unearned incomes.

The following examples illustrate cases of unearned income only—where neither husband nor wife works for a living. In all these cases it is quite immaterial (at the present time) whether the income arises from the wife's investments or the husband's investments, as there are no separate abatements or allowances. These examples are merely given to show the different amounts of tax payable on incomes of various amounts so that comparison may be made with the cases of earned incomes already illustrated.

Example 13.

	£	£ s. d.
Wife's income (unearned)	200	
Husband's income (unearned)	400	
	600	
Less abatement	£100	
Wife's allowance	25	
	125	
Balance of taxable income	475 at 3/9	89 1 3

Compared with Example 8 or with Example 10, it is apparent that on moderate incomes of this amount the tax payable on earned income is nearly as great as on purely unearned income.

Example 14.

	£	£ s. d.
Wife's income (unearned)	100	
Husband's income (unearned)	250	
	350	
Less abatement	£120	
Wife's allowance	25	
	145	
Balance of taxable income	205 at 3/-	30 15 0
If there were 2 children: tax would be payable on £155 at 3/-		23 5 0

Compare with Example 3 which shows that the earned income of £350 suffers nearly as much tax as the unearned income of the same amount.

If the proposed legislation to treat no quite separate the incomes of husband and wife should become operative, the following sums would become payable by the husband and wife respectively in certain of the examples previously stated. For the sake of brevity the income figures are not again repeated.

The allowance for a wife would naturally disappear and we have omitted the allowances for children in order to simplify the calculations—although it is assumed that children allowances still continue as heretofore up to the present limits.

Example No.	Husband's Tax.	Wife's Tax.	Total.	Total payable under existing law.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.
2	19 10 0	12 0 0	31 10 0	48 15 0
5	35 11 0	12 0 0	47 11 0	85 13 0
6	35 15 0	93 15 0	128 10 0	270 0 0
7	102 0 0	12 0 0	114 0 0	150 0 0
13	42 0 0	12 0 0	54 0 0	89 1 3

1242.

Recommendations.

(1) That the rate of taxation on incomes under £500, whether earned or unearned, presses too heavily upon comparatively poor people. For example, a tax of £23 1s. 3d. (Example 3) on an earned income of £350, or a tax of £48 15s. (Example 2) on an unearned income of £450 constitutes a very serious hardship.

(2) The National Council of Women have received many requests from single women, who are entirely dependent upon their own earnings, for representation of their difficulties. While submitting their case for raising the limit of exemption, the Council fully realise the complex questions that are involved and have not themselves come to a finding on this very controversial point. Many such women earn from £150 to £200, which is a sum barely sufficient for their needs, and leaves little margin for making provision for illness or superannuation. They urge that the limit of exemption should be raised to £150, and the relief thus gained would represent about the amount that they could afford to lay by as some provision for sickness and old age. They also point out that the need for such provision is very urgent in the case of single women, as they have no children on whom they can rely for support when too old to work.

(3) Taxation of savings.—A very large number of small unearned incomes represent the result of thrift exercised for the benefit of dependants, or for provision for old age, and are really earned.

The widow, who brings up her family on the income derived from her husband's Life Insurance policy, or the spinster who is enabled to retire on a deferred insurance, is living really on earned income, often a very small one. It is, therefore, recommended that, as a relief and, further, as encouragement for thrift, unearned incomes of less than £500 be treated in all respect as earned incomes.

(4) Allowances.—Where the earnings of either husband or wife form the sole provision for the family, an increase of the abatement of £25, "wife's allowance," to £50 would be a great relief to incomes under £500. This allowance should also be made applicable

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to husbands who, for reasons of health, are unable to earn provision for their families and are dependent upon the wife. This relief is even more urgently needed than abatement for wife's allowance for the following reasons:—

(1) A woman receives in almost every case lower rate of payment than a man, therefore the wife who has to maintain her husband and family does it under disadvantageous conditions.

(2) A wife, who is maintained by her husband, normally contributes to the family maintenance by her work in the home; a dependent invalid husband, on the other hand, is not only unable to help in the home, but, if his wife is supporting him by her earnings, paid help must be engaged to do the home-keeping.

(5) In the cases of single-earned incomes, it is very desirable, in the interests of the children, that the age-limits of the children allowances should be raised from 16 to 18, in order that every encouragement and help may be given to parents to continue the education of their children to the later age.

(6) The allowance for Life Insurance premiums should stand as at present. Life Insurance, particularly Redemtion Insurance, is the safeguard against staggering poverty for widows and young fatherless children, it also presents an opportunity for some measure of compulsory thrift that exists in no other equally attractive form.

(7) The children allowances might be extended in the case of purely earned incomes (say, up to £800 a year) when the taxpayer is a widow with children under 16 or 18. In such cases it is impossible for her to supplement her income to any appreciable extent. Yet, as the law stands at present, a spinster or bachelor with £850 a year unearned income pays not a penny more tax than the widow with, say, two children under 16 and two children over 16. A point specially affecting women arises when a young widow left with young children has no alternative but to enter employ-

ment or set up in business for herself in order to keep herself and her children in comfort and give the young ones a decent education. In such cases it is thought some extra relief from taxation should be given to her up to a certain limit of income.

(8) *Joint Assessment*.—The incomes of husband and wife should be separately assessed; the effect of the present system being that it is cheaper for men and women to live together without legal bond than with one. The National Council of Women urge immediate reform on this system of taxation, both on the grounds of morality and equity. It is a method, moreover, wholly inconsistent with the intentions of the Married Women's Property Act.

A curious anomaly is created by the proviso that in order to obtain separate assessment for incomes under £500 the wife must not be employed by her husband. This affects people who have small businesses managed jointly by husband and wife.

Example.—Man and his wife managing a butcher's business. Man and his wife managing a baker's business. If the butcher's wife keeps her husband's books, and the baker's wife attends to the baker's shop, they have exemption on £150 of their joint income from the business. If, however, the butcher's wife attends to the baker's shop, and the baker's wife keeps the butcher's books, they have exemption for £150 on each income.

It is difficult to devise any scheme that will ensure absolutely automatic equitable treatment for every taxpayer, whether man or woman, married or single—and whether with or without responsibilities and burdens that must always vary in greater or lesser degree. This is particularly so amongst all classes of people and in all walks of life where the total income ranges from £150 to £1,000 a year.

But it is abundantly clear that most cases of real hardship crop up within the limits of £500 and £1,000, and especially when the major portion of the income is earned. It is, therefore, to these cases more particularly that the National Council of Women desire to direct the consideration of the Commission

[This concludes the evidence-in-chief.]

1243. *Chairman*: Mrs. Gordon, do you represent yourself or your Organisation?—I am hoping to represent, as truthfully as I can, what I believe to be the feeling of my Organisation, and not my own views.

1244. Your statement has not been adopted by your Organisation?—I have carefully asked the Organisation to give me an indication, so far as could be done without a general meeting, through the Executive Committee, of their views on the most important points which I told them I should submit; and I gathered from the tenor of the remarks of the Executive what they would like me to put before you.

1245. We have your statement of your evidence-in-chief. I suggest, if it will be quite agreeable to you, that you need not now go through the first part of it and all the Examples. Mr. Clark assures me that those Examples have been examined, and the figures that you put there are correct.—Yes; Mr. Clark very kindly revised them for me.

1246. I think perhaps you may take your Recommendations and amplify them. If you will read your Recommendations fully, then you can utilize your arguments and your figures where you want them.—Am I to read them, Recommendation by Recommendation, and let the members of the Commission ask any questions that they desire?

1247. You can read the Recommendations, and if you like, amplify as you go along any points that strike you as being arguments in favour of your Recommendations.—Then, my lord, is it your wish to ask me further questions at the end of the whole?

1248. Yes.—You would not think it desirable to ask me questions at the end of each Recommendation?

1249. No. We have subjected some of the witnesses to a very close examination by the Commissioners; they will ask you questions at the end of your Recommendations, after your statement. It would really take too much time to read the whole of your statement now.—Quite, I am in the hands of your lordship.

1250. Please read your Recommendations, and it will be quite in order to make any remarks that you wish to make, while you are reading your Recommendations.—The first Recommendation that I should like to submit is that there is a very general feeling amongst women that the rate of taxation on incomes under £500, whether earned or unearned, presses too heavily upon comparatively poor people of limited incomes. For example, a tax of £23 1s. 3d., as shown in example 3, on an earned income of £350, or a tax of £48 15s. 0d., as shown in example 2, on an unearned income of £450, constitutes a very serious hardship. You will observe that the tax of £48 15s. 0d. is more than 10 per cent. of the comparatively small income—an unearned income—and we may take it that as a rule where an income is small and wholly unearned the possessor is not in a position to amplify the income.

1251. The National Council of Women have received many requests from single women who are entirely dependent upon their own earnings, or saved earnings classed as "unearned" income, that we should represent their particular difficulties to your Commissioners, with a view to raising the limit of exemption. In doing so, I should like to say that my Executive fully realized the great difficulty of dealing with this particular question, and requested me to submit it to you simply as evidence, and not as an expression of their considered opinions. They recognized that it was a highly controversial subject, and that they could not in the time available at one meeting discuss it adequately. Many of these single women earn from £150 to £200, which is a sum barely sufficient for their needs, and leaves little margin for making provision for illness or superannuation. They urge that the limit of exemption should be raised to £180, and the relief thus gained would represent about the amount that they could afford to lay by as a reserve provision for sickness and old age. They also point out that the need for such provision is very urgent in the case of single women, as they have no children on whom they

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businesses managed jointly by husband and wife. For example, a man and his wife managing a butcher's business, and a man and his wife managing a baker's business. If the butcher's wife keeps her husband's books, and the baker's wife attends to the baker's shop, they have only one exemption of £120 of their joint income from the business. If, however, the butcher's wife attends to the baker's shop, and the baker's wife keeps the butcher's books, they have exemption for £120 on each income.

1258. It is difficult to devise any scheme that will ensure absolutely automatic equitable treatment for every taxpayer, whether man or woman, married or single, and whether with or without responsibilities and burdens that must always vary in greater or less degree. This is so amongst all classes of people and in all walks of life, but it is abundantly clear that most cases of real hardship crop up between the exemption limit and £1,000, and especially when the major portion of the income is earned. It is therefore to these cases more particularly that the National Council of Women desire to direct the consideration of the Commission. The Examples in my evidence set forth a variety of such cases and, perhaps, you would like to cross-question me upon any of the points; I might then refer to the Examples, if that is your lordship's desire.

1259. *Chairman:* It is a very interesting paper that you have prepared, and now I shall ask you to submit yourself to the examination of my colleagues. The Commissioners will ask you any questions on the whole of your statement, and that portion which you have not referred to may come under survey.

1260. *Sir Thomas Whittaker:* I will not question you on the details, but I will ask you one or two questions on general points of principle. Am I correct in gathering that in several instances you suggest a sex differentiation—that is, a different method of taxing women and men?—I think the only case that I spoke of was the widow. That is the only case I remember. I think I mentioned the special case of widows with young children.

1261. Would you apply that to single women?—No; and I specially said that my Council does not desire me to make any recommendation on the question of spinsters, but simply to submit to you that we have had many applications from them with reference to a general raising of the exemption limit, and asking that other particular points should be put before you.

1262. There is a suggestion that spinsters also should be treated specially?—Where is that suggestion, might I ask?

1263. You said so just now—that you have had these suggestions put before you?—Yes, they were put before me, but I was not empowered to ask you for any sex difference, but simply to state in my evidence the complaints that have been made to me in case those ladies might not have the opportunity of being heard by you; I am simply a carrier of a message relating to the urgent need in the case of spinsters to be able to make provision from small incomes for sickness and old age, as there are no children to whom they might look later on.

1264. That is to say, there is a suggestion that there should be a sex differentiation?—Yes, from some women.

1265. Do you support that?—Do you mean personally?

1266. Yes.—I do not wish to give personal views. I am here to give you the views of my Council.

1267. We should like to have some views, either of you or somebody else that you represent.—The view of my Council was that the raising of the exemption limit was too controversial a point for them to give a considered opinion upon without very careful study of all the aspects. At the end of the second paragraph of my evidence-in-chief there is a note where spinsters are more particularly concerned. The Income Tax deducted from such an income at the source would be assessed at the highest rate (6s.) and would be irrecoverable, but only after a delay, which, in the case of small incomes, may frequently cause a good deal of inconvenience, if not of privation. Again the

persons claiming rebate have to sign a declaration that they have been in Great Britain during more than six months of the financial year for which they ask rebate. Artists who wish to paint abroad, girls studying languages, middle-aged women who by working hard have saved a small competence and wish to concentrate in a few years all the travelling they could not do before, are thus fined more than a quarter of their income. The inconvenience created in the case of many spinsters with small incomes, and also widows, because of the Income Tax being deducted at the highest point and at the source, is one which my Committee wished me to submit to you. Then, again, we thought that the formalities they had to go through before they got a return of the rebate, and the delay which frequently took place, was a real grievance.

1268. The point I really was on was sex differentiation. What I wish to know is whether, where these grievances occur, you would apply them to both sexes as well?—I should. Personally, if you ask me, I do not want to see any sex differentiation at all; that is my own personal view. I think you will see that I have specially put in a plea in my evidence-in-chief for the man who is the sole earner for his wife and family and has a small income, and who has to be taxed upon the whole income; I think some consideration might be given to him. But that is not the special line of our Society.

1269. Just a point with regard to taxation of savings. You recognize, I presume, that there is considerable difficulty if you depart from the obvious fact that an income obtained from investments is not an earned income?—I know; I quite see the difficulty.

1270. It is opening a very wide door?—Yes, I see that.

1271. It is a very great concession to give some allowance for earned incomes, but if you are to extend that to the money that has been saved and invested from earned incomes, you are taking a very big departure?—I am quite aware of that. I think it is an exceedingly difficult point. But, on the other hand, it is very hard that income from money that has been saved by thrift very hardily should be taxed as if it were an unearned income that had come as a windfall to them from some source.

1272. Of course everyone is feeling the pressure of the tax, and we all recognize that. Now with regard to the separate assessment of husband and wife; what do you say to the view which I venture to put to you, that the sound basis of taxation is ability to pay? I suggest to you that a husband and wife, each with an income of £500 a year, that is £1,000 for the home, are in the same position of ability to pay as a man who has an income £1,000 a year and his wife has none, and that there is no justification for a differentiation in that case?—I am afraid that I could not agree with you. I think that you are putting as your basis something that is secondary. I think that the first great principle of equality of men and women who earn or have incomes is superior, and should be superior in the eyes of the State, to what you are suggesting as the first basis, namely: ability to pay.

1273. I suppose you really do not seriously suggest that people refrain from getting married because they will have to pay more Income Tax?—I have heard it said that they do, and we know—at least I know—the condition of affairs in many of the Continental countries.

1274. But I am thinking of this country?—Yes, exactly, but this country cannot afford and cannot continue long to be isolated. What takes place in foreign countries becomes known here. There is always a similar propaganda being carried on in this country, and we are in danger of losing much of the support of our home life in the past unless we do everything we can to encourage wedded life.

1275. We have reached a pretty low level, have we not, if that is the case?—I am sorry to say that we are in danger; I do think we are in danger of suddenly having sprung upon our country lower levels of moral standards than we have heretofore recognized; and I think it is a great pity to throw open any single door, even that of Income Tax.

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1276. In connection with the various suggestions you have made, and the rather interesting suggestion of the butcher's wife keeping the books for the baker, and the contrary, you will agree, I am sure, that these things do suggest the extreme difficulty of making these variations and concessions?—It may be, of course, that I have only the woman's mind, and it is usually a very direct one, and I cannot see that you are going to bring us any further forward in regard to reform unless you first recognize the big principle that the woman ought to stand side by side with the man and should not be subordinated to him by any law.

1277. I was not going into that.—But I am afraid that is the same thing; it is the butcher and the baker over again. It is going to pay that woman to serve the butcher instead of working for her own husband, just because of this iniquitous idea.

1278. I am putting to you that these concessions which you are suggesting, and this differentiation, would enormously complicate the collection of the tax and dealing with it?—That is what we are quite content to leave to the men. If they will take 50 per cent. of women into their body we will try to help them; but that is the problem of the Government and we want it to be done on big principles and the best principles for the nation's moral advantage.

1279. Where do you suggest that the income should come from that you are going to deprive the Revenue of by these sweeping proposals which you make?—You say that we women will deprive the Revenue of certain income. Yes, we should be willing to deprive the Revenue of income if we thought that by so doing we created a higher standard; because we believe that it would be possible to make up that revenue in some other form. We do not want money that has been got upon a wrong principle.

1280. I was trying to put a question to you.—I thought I answered it.

1281. No, you did not refer to it.—Perhaps you will kindly ask it again.

1282. My point was this: where would you suggest that we should get the income for the country which the granting of your concessions would deprive the country of?—I did not think I was here in order to suggest such things. I thought I was here to give you the views of women, more particularly, upon existing conditions.

1283. *Chairman:* You see, we have to deal with that. We have to take into account the money which would be lost, and you are only asked for an opinion where the money would come from.—My lord I did not think that I was to be asked to assist you in your problem; and I find that there is no woman Commissioner at present in the room. But perhaps if you were to form a women's committee they might be able to give you some suggestions.

1284. You need not answer if you do not desire. Please do not feel that.

1285. *Sir Thomas Whittaker:* I have no more questions to ask.

1286. *Sir E. Nett-Bower:* I would like to ask you a question rather applicable to the case that was put just now. Will you look at your Example 6. Imagine a married couple, the wife's unearned income is £200 and the husband's unearned income is also £200, that is £1,200. Your suggestion is that those two incomes should be treated as separate, and that the wife's income should be assessed at the rate appropriate to her separate income of £200, and the husband's should be assessed at the rate appropriate to his income of £200. I want you to imagine two couples living next door to each other, their houses completely similar in size—and you see why I suggest them being similar in size, because the couple next door have the same income; they also are making £1,200, but it all belongs to one of the spouses, either the husband or the wife, it does not matter which. Now, you suggest that where income is divided much less Income Tax should be paid than where the income is all in one hand. That is your suggestion, is it not?—You mean where it belongs to both parties?—

1287. Where the income is divided you suggest that the amount of tax paid shall be much less?—Yes; if the wife possesses half of the income; if part of it is her money.

1288. So that this couple next door, where the whole £1,200 belongs either to his wife or the husband, and the other spouse has nothing, should pay a much larger tax?—Yes, because it is his money; it is not hers.

1289. It may be all hers?—Yes, that is so. I quite understand that it may all belong to the woman.

1290. Here are these two couples: they have exactly the same combined income; they live in a house of the same size, a precisely similar house; they can afford to eat the same food, to wear the same sort of clothes, to give their children precisely the same education; all their expenses would be, or might be, exactly similar; but when you get to the Income Tax, which, as Sir Thomas Whittaker suggests, we have treated hitherto as being properly adjustable in theory, as far as can be done, with regard to ability to pay, you suggest that the expenditure on Income Tax to a couple where all the income is in one hand, is to be much larger than in the case of the other couple. You upset the equality?—Yes, but I quite recognize that. I am prepared to do that. I think that all along we have to recognise principles.

1291. I do not think you realize that you are asking us to make a great concession when you ask us to throw over any idea of adjusting Income Tax to ability to pay.—I have already given my opinion on that point: that it should be secondary to something that is bigger.

1292. And the something which is bigger is, as I understand, that under the present arrangement the tax penalises marriage?—Yes.

1293. It seems to me really that you are a little on the wrong track. I agree that the present tax does penalise marriage, but I really hope that we are not going to give up for that reason any attempt to adjust our extraordinarily heavy burden of Income Tax to ability to pay.—No; I quite think you have to consider the ability to pay, but second to, and after you have considered the equality of the woman and the man.

1294. Is there not absolute equality between the woman and the man?—Yes, when they are taxed upon their own earnings up to a joint income of £500.

1295. Beyond £500 under the present law, any woman who wants to be assessed on her own income may do so; very few care about it, but they can be separately assessed. But that does not affect the amount of duty they have to pay?—Yes, I am quite aware of that.

1296. The amount of duty that they each have to pay is adjusted?—I know.

1297. But there is absolute equality now. There is no differentiation between man and woman. You know that is so?—Yes. I took part in the deputation to Mr. Auston Chamberlain when those points were gone into, and when Sir Thomas Whittaker's further point of where we were going to find the money to make up for it was also put to other women; and they believed that there might be a higher taxation in the Super-tax ranges; but I was specially asked not to introduce the Super-tax ranges in my evidence this morning, and that is why I did not want to go into that in reply to Sir Thomas.

1298. Assuming that some of the Commissioners felt a difficulty about departing from the principle of equality of sacrifice, of taxing people according to their ability to pay, and assuming they thought that really in our existing social conditions the income of a married couple is the principal measure of liability?—May I repeat? Are you to assume first that you depart from the principle of ability to pay?

1299. No; assume that we did not feel we could recommend that.—I do not think I have ever asked you to depart from that principle. I have simply asked you to have that as a secondary basis, and not as the first. I have not asked you to depart from it. I have asked you first to recognise the main principle of the separate assessment and of claiming duty from men and women on the basis of their individual incomes, and then after that consider ability to pay in fixing the rates &c.

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1300. In the case of your Example No. 6 you do suggest, I understand, that where the income is divided between the husband and wife they shall pay less Income Tax than in the case where the income all belongs to the husband or to the wife, as the case may be?—Yes, that would be the effect.

1301. In my view—of course I may be quite wrong—that is departing from the principle of assessing according to the ability to pay?—Yes, but then, of course, I should not begin to apply the principle of ability to pay until I had first of all satisfied the other.

1302. On the assumption that some of us here are unwilling to depart from the principle of ability to pay, and yet feel that under the existing circumstances taxation pressed unduly on the married as compared with the unmarried, I want to think if there is not some other remedy than this objectionable one that can be found. Have you considered this?

1303. *Chairman*: Would you like to think over the point that you want to put to Mrs. Gordon and then we can take it from you later?

1304. *Sir E. Nott-Bower*: Yes, thank you.

1305. *Sir W. Prosser*: Some of your figures specified in your tables would be affected by a properly graduated system of taxation?—Yes.

1306. Especially as regards Example 8?—Example 8, joint income of £450 taxed separately, yes.

1307. I want to ask a question from a purely financial point of view. Have you considered the fact that husband and wife are compelled by law to live together? That being so, they can live more cheaply than if they maintain separate establishments. You agree to that?—Not altogether.

1308. Husband and wife, first of all, are compelled by law to live together. You agree to that?—Yes.

1309. Can they not then live more cheaply?—They ought to be able to; but they need not.

1310. If this is so, and due allowances are made for the children, will you explain what is the husband's hardship in the Income Tax being treated as one for the purposes of taxation, from a purely financial point of view?—I believe that the idea of pooling the husband's and wife's income simply because they can live, where two of them are concerned, a little more moderately together, to have to pay a heavier tax than if they were living separately is a very wrong principle. Financially it is a wrong basis to go upon. Neither do I think that they can effect (even allowing for the allowances for children) economies to the extent that would be necessary if it were really to be equitable to charge them Income Tax on the joint income. The family expenses where there are children concerned (and of course I should like to see that there were children) would be such that you would never be able to give a really equitable allowance that would make good to them the expenses connected with the family life.

1311. I only wanted to know your views on that point.—The family expenses increase to such an extent that you cannot regard marriage as carrying with it a relief in expenditure.

1312. My question, was: if this is so and due allowances are made for children what is the hardship?—I think it is difficult to make sufficient allowance for children to recoup, as it were, the married couple for all the risks that they take in respect of children. Your reasoning might be quite all right when the children keep well, but they run the risk of invalid children and all sorts of illness, and you cannot possibly deal with that in Income Tax.

1313. You know it has been said, I think it was by Sir William Harcourt, that Death Duties are merely a deferred Income Tax?—Yes.

1314. Whether this is so or not I want you to say whether you would admit that if husband and wife were treated as separate persons for the purpose of Income Tax, they should not in all respects be treated as separate persons for the purpose of Succession and Death Duties. You know that husband and wife are very largely favoured under the existing law. Have you considered the financial effect of the logical conclusion of your contention that husband and wife

should be treated as one for the purpose of Succession Duty?—No, I have not considered that; but might I answer that while I did not include that in my evidence, if you wish it to be considered I shall be very pleased to submit further evidence on the point. I should like to have an opportunity of answering a question like that and not letting it be understood that we are not prepared to carry our plans to their logical sequence. It takes time to enter into the figures.

1315. *Chairman*: If you like to send a note to the Secretary on that point it would be quite agreeable.

1316. *Mr. Boverman*: Do you seriously suggest that in future people may live together without getting married, in order to avoid this Income Tax?—Yes, I do seriously suggest that.

1317. Although you are unable to cite a case?—Yes, many cases have already been cited. I have not introduced them but you are sure to hear of them from other women, because a number of cases are quite well known.

1318. I understood in reply to Sir Thomas Whitaker you could not cite a case?—I said I was not prepared to cite them here to-day, but I have heard of actual cases. Even in the deputation to Mr. Austen Chamberlain cases were cited.

1319. *Chairman*: Would that really be the honest reason, do you think?—Yes, I honestly think that some women would rather live with a man unmarried for a time when the Income Tax is so high on joint incomes. Of course the view is very different in different parts of the country, but it does exist; I do not think you can put it aside.

1320. *Mr. Boverman*: It is rather regrettable to have such an expression of opinion.—I am bound to express it, because examples have been given.

1321. *Chairman*: It is a very important and very serious matter?—Yes, but women insist that it is so, and are prepared to give actual cases where that reason is assigned.

1322. *Mr. Walker Clark*: At the end of your evidence-in-chief you refer to cases of real hardship when the income is from £300 to £1,000, I understand?—Yes.

1323. There are no hardships, then, above £1,000?—Well, I was asked specially to give evidence on the smaller incomes.

1324. My experience is that it is more above that.—We wished to deal with the small incomes.

1325. There are eight points of change suggested?—Yes.

1326. That the Income Tax presses too heavily on incomes of less than £500, and so on. I should like to ask which of those you think to be most important. Are they most important in the order of their position in the evidence, or is there some one point which is more important than another one?—No, I think it is equally important that all the small incomes should be carefully considered, because after all the high tax, that is more than 10 per cent. taxation, for example, on a small income, is a very troublesome affair. It is really a sort of hopeless affair that people cannot get over. If you have over £1,000 it does mean that you must economise in one direction or another, but you have a margin of economy. The smaller the income the less you have of a margin.

1327. That is not quite the point. It is suggested that Income Tax presses too heavily on incomes of less than £500?—Yes.

1328. And that unearned incomes of less than £500 should be treated as earned?—Yes.

1329. And then that the wife allowance should be increased?—Yes.

1330. And that the age limit for children allowance should be raised?—Yes.

1331. And that the incomes of husband and wife should be separately assessed?—Yes.

1332. I want to know which is the most important from your point of view, or whether they are all equally important?—Might I ask you to refer to the page?

1333. It is spread over the evidence; there are practically eight suggestions before the Commission.—Would you be kind enough to let me take them with you seriatim?

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1334. Yes. Income Tax presses too heavily on incomes of less than £500.—We think that is extremely important.

1335. Mr. Marks: It is in the digest as prepared by the Secretary if you would like to look at that. (Document handed to the witness).—Thank you. No. 1 we think very important, and Nos. 5, 7 and 8. What I might refer to as the most important are Nos. 1, 5, 7 and 8 of the Recommendations.

1336. Mr. Walker Clark: If Nos. 5 and 7 were given would those not be sufficient to remedy the injustice, or what is the alleged injustice, of 1 and 3?—I think they would help.

1337. Nos. 5 and 7 are really the points you wish to bring before us?—The most important.

1338. The others are packing?—The others are points which naturally arise from existing conditions, but which if you considered 5 and 7 might be to a certain extent remedied through application or reform on those other points.

1339. Nos. 5 and 7 are really all that you expect to get?—No, I will not say that.

1340. Chairman: We had better get on the Minutes what Nos. 5 and 7 are if these are the two important ones.—I think No. 1 would have to be taken; I said 1, 5, 7 and 8. No. 1 is that the Income Tax presses too heavily on incomes of less than £500. Nos. 5 and 7 are that the age-limits for children allowance should be raised from 16 to 18 in the case of "singly earned" incomes, and in the case of unearned income where the taxpayer is a widow. No. 8 is "That the incomes of husband and wife should be separately assessed." I wish you to understand that I am commissioned to put forward the absolute unanimity of our women in regard to No. 8.

1341. Those are the three points that you have come here to-day to impress on the Commission; those are the main points?—There are also the other points, but in so far as these other points might be helped by the application of 1, 5 and 7, they would, of course, take a second place.

1342. Mr. Marks: In No. 6 of your recommendations you say: "The allowance for Life Insurance premiums should stand as at present."—Yes. I am sorry to delay you, but there was another point there about the unearned incomes being treated as earned in the case of small incomes. That I would regard as covered if you applied the rebate and helped in the other ways. You quite understand I am not going back on that point.

1343. Chairman: Quite right.

1344. Mr. Marks: You say: "The allowance for Life Insurance premiums should stand as at present. Life Insurance, particularly Endowment Insurance, is the safeguard against staggering poverty for widows and young fatherless children; it also presents an opportunity for some measure of compulsory thrift that exists in no other equally attractive form." You have had some special experience of Life Insurance amongst women, have you not?—Just ordinary experience. I have been the head of a big women's insurance society, and that has brought me into touch with a number of cases.

1345. And this was your considered opinion founded on some knowledge and experience that this allowance is an attraction to thrift?—A very great one, yes.—I do think so, amongst the women.

1346. And Life Insurance is the most attractive form in which thrift could be exercised?—I think it is one of the most attractive. I have observed that the women are willing to set aside money for the premium when they will not save for other things.

1347. Mr. Symonds: Do you adhere to your opinion expressed towards the end of paragraph 5 of your evidence in-chief that if a husband and wife are separately assessed the allowance for a wife would naturally disappear; that is to say, you do not claim an allowance for the wife if there is to be separate assessment?—They would be separately assessed where the wife had an income.

1348. Of course, if there is no income the question does not arise, but you adhere to that?—Where is that statement, please; I should like to see the context.

1349. I am reading from paragraph 5: "If the proposed legislation to treat as quite separate the incomes of husband and wife should become operative?"—Yes, that is quite right.

1350. You agree to that?—Yes. It is always on the assumption that the £500 limit already allows for it, and that my evidence refers to cases where the joint income would be more than £500.

1351. There is a difference, is there not, under the Income Tax Acts as regards joint incomes under £500 a year?—Yes.

1352. Therefore if a husband has £300 a year and the wife has £200 a year they can each get their separate abatements?—That is so, provided it is earned income.

1353. Have you any grievance or complaint as regards incomes under £500 a year except where one of the parties has an earned income?—Of course, there are the allowances, and so on, that I have already mentioned.

1354. You do not claim the allowances if you claim a separate assessment?—Not if the income is a divided one and over £500. At present you have both under £500. If you extend separate assessment and apply it to all other incomes, for the higher incomes also, that would probably make up for the wife's allowance in the higher range.

1355. I had better refer to section 21 of the Consolidated Act, which provides for that. I see you are right, because in your very first instance you allow for those abatements of both husband and wife?—Yes.

1356. What is your exact grievance then as regards incomes under £500 a year, because you said just now it was specially with regard to small incomes. There is separate assessment now?—Yes.

1357. Will you just tell us simply what is the exact grievance?—We think the Income Tax is too high for many of the small incomes.

1358. Is not that an objection to the whole rate of tax?—Yes.

1359. It is not an objection at all from the point of view of separate assessment of earned incomes?—No, you are quite right. The other points I have already put; they are various.

1360. Very well, I will pass that.—If you will excuse me one moment, my first Recommendation is that the rate of taxation of incomes whether earned or unearned presses too heavily.

1361. Have you any plan for distinguishing between property accrued from savings, capital, and other property?—I wish some plan could be devised; that would meet a widely felt grievance.

1362. Have you thought about any plan?—I have not, but, of course, while I really do not wish to be aggressive, if the men do not ask the women to form a committee or join them in thinking out those points, you cannot blame us if in the midst of our hurried lives we do not do it. May I reply that I should like women to think it out and to be given time and a commission to do it.

1363. We will leave the incomes below £500 alone and go to those above that?—Yes.

1364. In the case of a joint income of £1,000 do you suggest whether the wife has large means or small means relatively to the total income they would be assessed separately?—Yes.

1365. Will not there be considerable loss to the Revenue, not merely from the transfer of capital for this purpose, but by means of secret trusts and marriage settlements made to ensure that the smallest amount of Income Tax be paid to the State?—Do you not think that there has been remarkably little done in that way in connection with the Death Duties, to take an analogous case?

1366. Let us deal with Income Tax alone.—I have not had experience of that, but the country has had experience of the difference in connection with the Death Duties. There really has not been much transference upon the whole of the capital before a man's death in order to evade the high Death Duties.

1367. It is much easier to transfer income, is it not, than to transfer capital by secret trusts?—I should like to take the risks you suggest.

1368. You say that the age-limits for children allowances should be raised from 16 to 18. Would you

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apply that to the case of agricultural labour where there is free schooling? For instance, in the country I come from the ratepayers do not pay anything for education?—In that respect we are in a transitional state.

1369. Would you apply it, for instance, where there is free education?—Yes, because the parents miss possible wages while the children are required at school.

1370. And where the children work now from 16 to 18?—Yes, because there is a time coming when whatever work they are doing will have to be done under the provisions of an Education Act which insists that with certain exceptions there must be some form of schooling or training recognised until 18.

1371. It is not the law now?—The Act is passed.

1372. Could you postpone your suggestion until there is compulsory education to 18?—But it has already been passed that it is to be so, and we do not want to put in a Bill just now and change it again in two or three years. I think seeing the condition of the legislation at the moment that the change might suitably be made now.

1373. Mr. Armitage-Smith: I have listened with sympathy to your remarks.—I wonder if anybody does—well?

1374. With regard to the encouragement of the education of children, you say that the age limit of children allowance should be extended to 18. Would you do that for everybody or only for those who availed themselves of the educational privileges?—There are certain exemptions under the Education Act where they will not be required to remain at school or under recognised training until 18; I would endeavour to apply it in some direct relation to the provisions of the Education Act.

1375. Where educational facilities are actually given?—Yes.

1376. Does your organisation represent spinsters, married women and widows?—Very much—all of them.

1377. All three?—More than almost any other organisation; it is composed of all.

1378. Could you give the Commission any idea of the ratio of spinsters to married women?—We have far more married women than spinsters. I could not possibly give figures, but I can say that on a rough estimate our Organisation more than any, except the Mothers' Union, consists of married women. We are largely composed of married women. Its great advantage is that it gets the opinion of married women on these points, whereas in certain other organisations you have a large proportion of spinsters who have often more specialised views than married women.

1379. Your policy would be coloured rather by the views of married women than unmarried?—Yes, and the opinion of my Committee in favour of married men and women having separate assessments is of considerable importance from this point of view.

1380. Supposing you have two spouses—I use the word "spouse" in order to avoid the expression husband and wife—each of whom has an income and there is also a marriage settlement.—Yes.

1381. Under your proposal you would assess the two spouses separately; what would you do with the marriage settlement?—Well, it is the woman's is not it?

1382. Oh, no.—If it belongs to them both that is another question.

1383. It does not belong to either. Let us suppose that both spouses have put an equal sum to a marriage settlement.—Yes.

1384. That property does not belong to either of those spouses; they have the use of it.—They would learn to do it differently if this Bill passed.

1385. I ask you what you would do with it?—Well, I would change that.

1386. What would you do?—I think probably the lawyers who draw up these settlements would find a way to make it a separate assessment, competent and equitable in accordance with any new provisions that may be made.

1387. Would you divide the thing in proportion, let us say, to the income of the two spouses assessed, or is it a point you have not considered?—It is a

point I have not considered, but I do not think it is a point that ought to create any great difficulty.

1388. Professor Pigou: You have told us there was definite evidence of people living together without being married.—I want to say I am a little troubled at the fact that we should be expected to have considered all these questions, seeing that—

1389. Chairman: That is quite understood.

1390. Professor Pigou: You told us there was definite evidence of people living together without getting married because of the Income Tax. Could you suggest any way in which that evidence could be brought to the knowledge of the Commission?—Mrs. Purdie, for example, gave quite a number of cases the other day when she spoke to Mr. Austen Chamberlain, at the deputation, asking for the separate assessment. She knows quite a number of cases, and others have also been collecting them.

1391. You suggest she might give evidence on that subject?—I should, yes, if you want that aspect brought out.

1392. With regard to your argument for the separate assessment, the principal grievance, I gather, was that under present arrangements women were somehow subordinate. Is that really so? Surely the law states that if there are two they shall be assessed jointly together; the woman might have £1,000 income and the man none; are not they legally and exactly on a par?—I have not quite caught the question.

1393. You suggested that the women were somehow subordinated under the law?—Yes.

1394. But are not they really in exactly the same position? All that the law says is that these two people shall be assessed jointly. Does that make the woman in any way subordinate?—I recognise that as far as words go the actual reading of the word "jointly" might be taken to mean that both were regarded as equally concerned in the matter. But in ordinary usage it has been the case of the woman's income being lumped along with the man's, and we claim that both should be treated separately; whether the man's is the larger or the smaller is indifferent. It is true Mr. Chamberlain made a great point of the joint assessment bearing equally on both sexes, but in effect the general feeling is that it assumes that the woman is necessarily associated with her husband in all things the moment that she marries him. We think that while she is associated with him in the care of the family she should still be recognized in our laws in her separate personality, as a citizen and with citizen's rights, in all matters related to the care of her own income, the taxation of her own income, her personal belongings, and so on. But, as you say, the husband is in a subordinate position to the wife in some cases. That is quite true, and we think, also, that the man ought to be recognized as a citizen by himself and have to pay tax on his own income. I think it is desirable for both sexes although married to carry out their personal relations to the State separately.

1395. The point that they shall be separate is different from the point whether one is subordinate to the other?—Yes, I will take away the word "subordinate."

1396. I thought the fact of subordination was your great reason for separate assessment?—No. I used the word, perhaps, but it is not the appropriate word. We want separate assessment as a recognition of separate citizenship.

1397. I could understand it if the reason for their being separate was the subordination.—We think it is the only right attitude of the State towards man and woman, or towards man and man, or towards woman and woman, that they shall be treated as entities, as individuals, in all their relations to the State bearing upon money, their citizenship, and the laws relating to their family and other relations.

1398. Have you any reason for that opinion?—The reason of a long experience of the very much greater influence that it has upon men and women to have personal responsibility laid upon them, and to be made to feel that personal responsibility. If you gather up husband and wife together under one Income Tax, one or other of them bears the burden

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of looking into it, as a rule; they do not always deal with it together. On the other hand, every individual who is taxed is bound to consider it from his or her own point of view. That is the only way in which you will get people, either men or women, trained to act as individual citizens and realize their own share in the responsibility of the State and in the legislation for the State.

1389. Surely this change of law would not prevent, as a matter of fact, the husband from looking after the wife's income because he happens to know all about it?—That is so, but we should like to have it that the woman knew she ought to do it for herself; that she did not think it was any better for the husband to do it; that she should be made to feel that it was her duty, and that she should attend to it herself.

1400. I understood that you laid stress on that as a reason for the separate assessment. Is not it rather a small matter?—We do not think so. We think, as women, it is most important that we should bring the women of the whole country to realize, especially now that they are voters, their own individual responsibility in the upkeep of the State; Income Tax plays an important part in the upkeep, and we think if women were separately assessed they would take it far more to heart. It would train them financially; they would begin to read the statements of accounts in Parliament with more interest; they would take up Finance Bills; they would criticize Members of Parliament on finance matters as well as on social matters; and we believe it would give a tremendous impulse to the whole enlightenment of women and their powers of rendering assistance in statecraft.

1401. *Chairman:* That is a very clever answer.

1402. *Professor Pigou:* What I really wanted to get at was this: I thought in your earlier evidence you stressed this subordination?—No, that is not really so; I really wanted independence of thought.

1403. The second reason, as I understood it, for the separate assessment was that under the separate plan the State asks more from men and women when they marry than when they do not?—In some cases.

1404. Of course you are aware that various schemes have been proposed for having a lower rate of tax when they are married?—Yes.

1405. So that it would not necessarily follow, on the whole, if that were introduced?—No, that would come under Sir Thomas's point of ability to pay, which I always put second. It would not help me at all on the main issue.

1406. That was your second argument?—Yes, it is an argument, but it is a secondary one.

1407. Though it is secondary, still it is desirable to consider it, and it is not always applicable if you had this other form?—That is so.

1408. Then there was a practical difficulty; I was not quite clear how you proposed to distinguish the income of the man and wife. Supposing, for instance, a man and his wife both kept a shop, how are you going to decide what proportion of that income is due to one and what to the other?—I cannot give an answer "Yes" or "No" to that.

1409. *Chairman:* No, not quite, but perhaps you might with just a little modification.—You have really touched there on one of the main reasons why I should like them separately assessed, because the wife hardly ever knows what she has to count upon as an income, and if she is helping the man in his shop or in any other way, and she has for Income Tax reasons to get a definite valuation of what her help really amounts to, I think it would be an admirable thing for the sake of the family.

1410. *Professor Pigou:* Surely what would happen would be, since they have to pay the smallest Income Tax if they both allege that they earn half, that they would always allege that they earned half each?—Well, so far so good. She knows that her husband says before the Income Tax people that she earns half the income; that is excellent for her.

1411. That would be your method then; when they did anything jointly you would assume each of them responsible for half?—No, only if they said so.

1412. But they would have to say something.—That, again, is a point for consideration as to how the incidence of taxation assessed on a separate instead of a joint basis can best be carried out, and if you think of it seriously and call women together to submit suggestions on those points, I should be glad to consider such questions then.

1413. It had not occurred to you, I suppose, to draw any distinction between earned and unearned income, in this sense—that it might, perhaps, be suggested that earned income should be separately assessed but unearned, not?—No, I want the whole thing.

1414. You lay equal stress on both?—Yes.

1415. *Mr. Mackinder:* Have you considered how you would apportion allowances for children and for insurance payments in the case, for instance, where you have a husband and wife each with an income but unequal incomes; for instance, supposing the man had £300 a year and the wife had £100 a year and there is a children's allowance; have you thought out the practical question?—Yes, and I thought that the children's allowances ought to be made on the joint income.

1416. So that as a fact where there is a family the return would be a joint return but treated for the purposes of the rate of assessment or of allowance as separate?—Of course, you will remember that at the outset I pointed out that the children could only be regarded as the result so to speak of the marriage, whereas any income that the wife earned might have been earned whether she was married or not; I would follow that principle.

1417. What it comes to then is that where there is a family there would have to be a joint return, and the separation would only be for the purposes of assessing the rate?—Do not you do that really up to £500?

1418. Yes, but I want to get from you what the position you are contemplating would be. I want to get the logical conclusion and see whether you wish to follow it out. In the case of a hatcher and his wife and a joint business, they have, according to this, a single return for practical purposes, but it is assumed that they each earn equally?—Yes.

1419. I assume that because it would give them the lowest rate?—Yes, that is right.

1420. Now I take another case of a mother who, because she has a number of children, is unable to give assistance. Would you claim that as a mother she ought to have payment as well as if she gave a portion of her time to working and helping her husband who happened to be a hatcher or a baker?—That, of course, comes in under the single income question.

1421. No. The case I am putting to you is this: Assume no unearned income on either side to get simplicity. Assume earned income entirely. Assuming that it happens to be a business in which the wife can lend help—there are some businesses in which a wife cannot?—That is so.

1422. The net effect, I think we are agreed more or less, would be a tendency to divide the income equally in order to get the lowest rate?—Yes.

1423. Whatever the wife's contribution, the tendency would be to that. If that is so, would you follow out the logical conclusion, and, in a case where the wife is unable to give help because she is the mother of a family and has children, would you wish to assess her as being paid and as earning an income?—No, I dealt with that point in part of my evidence-in-chief where I said that comparing Examples 9 and 10, it appeared that where the husband was the sole earner an increase of £150 upon an income of £500 rendered the married couple liable to about £40 further tax in a case of joint assessment. This sharp increase in tax showed the advantage of the cases of separate assessment up to £500 where both husband and wife were earning, and it also raised the question of the desirability of extending more liberal treatment to the married man who was the sole support of both wife and children.

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1424. You would in that case rest mainly on income?—Up to certain limits I should recommend the more liberal treatment of the married man, or it might be women, who were sole-earners, in order to bring them into more equitable relation.

1425. You would draw a distinction between the woman helping the man by keeping the home, and the woman helping the man by coming downstairs, assuming they are living over the shop, and helping in the shop?—Yes, as far as the assessment is concerned. Might I add that of course the allowance would there be considered.

1426. Mr. Marshfield: Quite; I was only trying to get at what your ideas were.

1427. Mr. Kerly: Am I right in supposing that your Recommendations are divisible?—As to the last one—the separate assessment of husband and wife—I should describe that as a grievance rather than a hardship, and as to all the others it is hardship apart from any grievance; is that right?—Well, I do not know that I could allow that. I think that there is considerable hardship in the present arrangement for united assessment.

1428. Let me just see. Where is the hardship apart from the grievance for the moment?—Well, I have shown in several cases how it works out, and how much more tax it really means upon a comparatively small income between £500 and £1,000. I have shown actual hardship on comparatively limited incomes. A woman does not get any advantage from having herself been able to contribute to the family purse either by bringing it before her marriage or by earning it afterwards.

1429. Hardship in that sense?—Yes.

1430. Very well. You are not limiting your objection to the joint assessment to cases where the wife has an earned income; you extend your objection to the cases where the wife has an unearned income?—I extend it to all cases, because it is the general principle of the separate assessment that I am here to support.

1431. May I just remind you, I think you have forgotten, or it has been forgotten in some of the questions that have been put to you, that the right to divide where the total income is under £500 only extends to the wife's earned income?—Yes, I know.

1432. And there is no such provision in the case of the wife's unearned income?—I know; it comes out in the Examples.

1433. Now let me just see. As regards what I call the hardship part of your case, in many cases the suggestions may be met by graduations or allowances. You limit your objections to cases up to an income of £1,000?—I only limited my evidence.

1434. But you laid stress only on the cases up to £1,000 income?—Yes, because I did not want the evidence to extend any further; but while I consider the hardship is the more the smaller the income, in other words where the margin is small, I wish to apply the principle for all incomes.

1435. As regards the joint assessment it would be most important to the Revenue at any rate where the income is substantially over £1,000. Do you know that it has been suggested that the joint assessment will lead to a loss to the Revenue of 50 million pounds?—Yes, I have read that, but as far as the women are concerned they think that loss might be made up in some way more equitable than the present method.

1436. The only possible way would be by putting the burden on other shoulders?—Yes, other shoulders than because of marriage—on the shoulders of married and unmarried alike.

1437. Perhaps you will listen to me a little more.—I will not say patiently, but a little more readily, if I tell you I am very much in accord with very many of your suggestions, but I want to test them if I may. May I suggest that the reference to the possibility of people living together unmarried is such a remote accident that it had better be left out of the discussion?—I should not like to leave it out of the discussion, because several women in whom I place confidence declare that it is taking place.

1438. Then we had better clear it up a little bit. Is there any probability, do you think, of any substantial number of women with property entering into unmarried relationship with men?—No, I hope not.

1439. Is there any substantial risk of women earning as workers large and substantial incomes entering into such relations in this country?—I hope not.

1440. The cases which occur are cases of a joint association without marriage between poor men and women or between a rich man and a poor woman?—No, between men and women who are both working and not infrequently are professional in their activities, as I understand.

1441. Very well. Now may I put it to you that the difficulty about giving up the joint assessment is twofold. First of all there is the possibility of evasion, because in practice men and women, husband and wife, generally have a joint purse, and it does not matter to them whether they purport to divide so that half belongs to each, or whether they divide in any other proportion. You appreciate that that is the practical difficulty in the matter?—Well, yes, but I ought to say that while there may be many to whom it might not matter, it is of very serious importance to a few.

1442. Is not the ideal that you have in mind that the wife shall have a separate purse?—No, my idea is that—

1443. That she should keep her money separately?—I hope so, but that is not the point. The point is the statutory recognition of the equal standing of men and women. It is not a sex grievance but the placing of the responsibility upon every individual who has to see to the financing of the home and the financing of the State.

1444. So I thought, and that is why I imagined your desire was that the wife should keep her own money separately apart from the control of her husband, and manage it for herself?—That puts in something else. That puts in a feeling of strain between husband and wife. I do not want that to be felt at all. I do not wish to indicate that. It is the status of the individual that I think of.

1445. You can have separate management of her separate property by the wife without affecting the rate of tax upon which they both pay. That matter would be met by extending section 21 so that in all cases there could be separate assessments, though at the joint rate, and the wife and the husband separately liable for their share.—That would not meet what the women are asking.

1446. But it would meet that part of the difficulty?—It would not meet what the women regard as the most important point.

1447. Is not that the grievance? What the women you represent are really troubled about is the grievance, is it not?—No, I do not like the word "grievance." The women in our Council are not at all women who want to air grievances. We are rather out to try to secure new legislation upon lines that we think will conduce to a higher standard of responsibility being felt by all the individuals who have to take responsibility for the legislation, and we think this is an important point.

1448. You appreciate, I am sure, that before the law the men and women stand in exactly the same position?—Yes.

1449. Only in practical life it is the man who manages the joint property. Is not that, which is one of the regulations of social life and not of the law, what you really want to deal with?—No, what we want to deal with is the law so that we can bring it home to women that they really have to consider the money question, and that they are individuals in regard to their taxation. It is not a sex grievance. I am thinking of it as an equal citizenship demand.

1450. The alteration of the law introduced by the Married Women's Property Act has really no bearing upon this matter has it? That only dealt with the right to control the wife's own income?—Yes, her own right.

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[Continued.]

1451. It had nothing to do with the rate at which she should pay Income Tax?—It would be logical that if the wife is in control of her own income she should be assessed for it as a separate income.

1452. No, not if the reason for a joint assessment is that there is a common purse and that the two people are contributing as a firm to support a common fund.—But I have just said at the very beginning of my evidence that I did not wish the State to give any colour to the idea that marriage was a commercial partnership, and that is just exactly the basis upon which you are putting it. I regard it simply as a partnership for the sake of the rearing of a family and the training of children in the State.

1453. Is the State to be blind to the fact that in normal conditions the wife contributes what she has to support herself and her husband and her family, and the husband contributes what he has?—All that you say brings it to the fact that you wish the State to standardise the idea that marriage involves a joint purse and a commercial partnership; that is exactly what I think is unsound.

1454. Are you satisfied with the present wives' allowance?—Do you mean what is my personal opinion?

1455. Yes.—Many members of my Committee wish that it should be raised in the case of small incomes to £50.

1456. If the justification for a joint assessment is that there is a common home, does not it logically follow that you should appreciate that two people have got to live out of the income instead of one? I would suggest to you that the wives' allowance is hopelessly inadequate on that footing?—Yes.

1457. And that it should be a proportion of the total income—you have not considered it?—Yes, we did consider it. We consider that the other method is the fairer in the end.

1458. Can you give me any reason for it?—I mean the method of the separate assessment.

1459. I beg your pardon, I did not quite follow you. As regards the allowance for children, one of the difficulties that was put to you would be met, I think, if the allowance was only made upon proof that it had been expended. For instance, you suggest that there should be an allowance for children up to the age of 18?—Yes.

1460. That might be limited to cases where the amount allowed had been expended on the children's education?—I do not think I said that. I think I said that the increase was for educational purposes, and need not be necessarily applied when they were exempted on any other ground from those educational requirements, and were earning.

1461. You would be satisfied, I suppose, if the allowance were only made where an amount equal to the allowance was expended or had been expended?—No, I did not put that point. I did not say so, and I am not prepared to say so.

1462. *Chairman:* We are very much obliged to you, Mrs. Gordon. You have answered the questions extremely well, particularly when it is remembered that you are only one, and there are 20 people round you each with different ideas. I compliment you on the manner in which you have answered. Your little speeches I have enjoyed thoroughly, and they have added to the pleasure of the meeting. Thank you very much.

1463. Mrs. Knowles, we have two other witnesses, and I do not like to keep them waiting. Have you something which you would like to ask Mrs. Gordon?

1464. Mrs. Knowles: I only wanted to say I entirely agree with Mrs. Gordon, that everything a woman can get she ought to get. As a matter of fact I cannot understand any woman being subordinate, but then that is personal to me. Do not you think as a practical thing if you had to make a compromise you might compromise on the earned income? You cannot earn money without spending money—I quite understand that, but I am here to say that we would understand that, we do not want any compromise. What I do think, if I may say so, is, if you seriously want a compromise, the best way to do it would be to ask a number of the women to commit, placing expert assistance at their disposal in dealing with the more difficult calculations, and let them consider the desirability of arriving at some compromise at any rate in beginning any new regime.

1465. Do not you think there is a very much greater hardship in the woman's earned income being taxed in with the husband's? After all, two people live cheaper than one—I mean it is cheaper to be married. I know that is my own experience. My husband and I lived much cheaper when we first got married—I never generalise from my own personal experience.

1466. That is true, but taking the case of earned incomes, if you go out you have to spend. Do you not think it would be a practical thing if you confined the concession to earned income? You have to remember that in practice very rich women marry, and would get off Super-tax, and I do not really see why they should—I could not agree to what you say. I am here representing a Council who include both the earned and the unearned in their statements.

1467. Would you only envisage people whose income is under the first?—No, we have considered the whole question, and Super-tax as well. Although I specially limited my evidence to the smaller incomes what I have to say is that my Council apply it quite generally to all grades of incomes, both earned and unearned. If, however, there is a serious opinion that there might be compromise along certain lines I am quite sure that the leading members of my Council and others will be glad to give any assistance in taking all the facts into consideration, but as long as they are kept outside the expert discussions, and have not the advantage of hearing and knowing the intimate facts they cannot properly consider a compromise.

1468. *Chairman:* Mrs. Knowles is here, and we can discuss that point later, Mrs. Gordon.

SIR EDWARD BRADBROOK, C.B., and MR. J. E. ALLEN, on behalf of the British Association for the Advancement of Science, called and examined.

Mr. Allen handed in the following statement as his evidence-in-chief:—

1469. The Committee on War Finance, in its Reports for 1916 and 1917, referred to Income Tax and suggested certain improvements directed towards making it fairer and more productive. But the Committee thought that the question was too large to be dealt with merely as one among several, and accordingly appointed a special Sub-Committee:—

"To consider and report upon possible amendments to the law relating to Income Tax."

1470. The Sub-Committee prepared and circulated a Questionnaire and obtained opinions in reply from Accountants, Surveyors of Taxes and others.

1471. The Sub-Committee drew up, in 1918, an Interim Report, a copy of which was sent to the Chancellor of the Exchequer and the Secretary to the Treasury. The Committee has not arrived at a final

Report, and therefore has not presented one to the Credit, Currency and Finance Committee.

1472. As Hon. Secretary of the Committee I am authorized to submit the following points as those on which there is a considerable amount of practical agreement in the Sub-Committee.

- (1) That the Income Tax is the fairest, cheapest and most productive of all possible taxes.*
- (2) That the tax requires to be adjusted to the much increased demand for Revenue.
- (3) That it is indefinitely elastic and can be made to produce as much Revenue as the citizens as a body think justifiable.
- (4) That if skillfully adjusted to the "ability" of each taxpayer it imposes little real burden.

* We assume, of course, the existence of a constitutional Government; a despotic Government might use the Income Tax as an instrument of oppression.

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[Continued.]

- (5) That a heavy Income Tax has a tendency to lower prices of commodities in general, just as an inflation of the currency increases them.
- (6) That a graduated Income Tax, unlike most (if not all) other taxes, makes for greater equality of spending power.
- (7) That the symmetry and equity of the tax are marred by "steps and jumps" at arbitrary points in the scale of graduation.
- (8) That the tax should be intercepted at the time when the taxpayer receives his income.
- (9) That the existing machinery of the tax should be preserved as far as possible, and that the most useful and inexpensive machine in the tax-collecting plant—"collection at (or through) the source," should be preserved and extended.
- (10) We are inclined to suggest that the tax on salaries, wages and other periodical payments should be deducted by the person making the payments, at the time of payment.
- (11) That the employer or paymaster should be made the agent of the Inland Revenue in collecting the tax, and that he should be given some small remuneration for his trouble.
- (12) That tax should be deducted at the lowest "earned" rate from all wages and small salaries, and that in the case of regular payments such as wages or salaries the taxpayer's abatement and allowances should be taken into account at the time of deduction.
- (13) That in the case of "unearned" income, deductions should not be made at the highest rate as at present, because only a small fraction of taxpayers are finally liable to pay this rate.
- (14) That in all arrangements and re-arrangements in connection with Income Tax the convenience of the taxpayer should be consulted before that of the tax-collector.
- (15) That the forms connected with assessment and collection should be stated in simple language, and that the taxpayer should be treated as a reasonable citizen who is willing to do his duty to the State when he knows what it is.
- (16) That no concession which makes a tax fairer should be refused by a Finance Minister on the ground that "he cannot afford it."
- (17) That all changes which make a tax system fairer make it more productive of revenue.
- (18) We have considered various scales of graduation, but in the absence of knowledge as to the resulting produce we are not prepared to make a recommendation.
- (19) We think that any abatement which may be granted should be granted on all incomes whatever their amount.
- (20) The Committee was not unanimous on the question of "earned" and "unearned" incomes, but was inclined to dislike this kind of "differentiation." In particular we could not see why the income from a man's own savings should be treated as "unearned."

[This concludes the evidence-in-chief.]

1473. *Chairman:* Sir Edward, are you the one who is going to take the case?—(Sir Edward Brabrook): Yes.

1474. There is a statement that Mr. Allen has put in?—I accept that, if you please.

1475. Are you going to make a statement to the Commissioners on that, or are you just accepting that and letting them ask you questions upon it?—I almost think that it is complete as it stands, though perhaps I may be permitted to say just a word or two upon one or two points with regard to it.

1476. The Commissioners will probably ask you certain questions, and I want you to put the important points in as short a way as you possibly can so that

the Commissioners may ask you questions upon them?—I think really this statement is sufficiently full upon all the matters upon which we have agreed. I am ready to submit to cross-examination upon it at once if you please.

1477. Mr. Kerly: Has your Committee considered the method of making a regular graduation by applying the Super-tax method, and letting, say, each £100 bear its own rate, the 21st £100 having its rate, and the 21st having its rate?—That is one of the suggestions which have been before us, but that is one of the points upon which we have not been able to come to an agreement. On the question of graduation, we are all agreed, I think, that it must be a smooth graduation, but how that smoothness is to be arrived at is a question of very considerable difficulty. There is a very excellent little book by a Mr. Glover, Civil Engineer, of Loughton, Lancashire, which gives a geometrical solution of that, which is, I think, that the tax should equal in times the income to the n th power where n is greater than 1, and n is a small fraction. That is one way in which a smooth graduation might be obtained. Another way, which I think Mr. Allen has adopted, is that steps in the graduation should start from the point at which the graduation is taken. I will leave him to explain his view with regard to that if you will allow me. Then there is a third method, for which I am rather responsible myself, which starts upon the formula that for every ten times income there should be fourteen times tax imposed. That would make a perfectly smooth graduation, and there are others; but we have not been able to arrive at a conclusion with regard to which method of graduation should be adopted, or suggested for adoption.

1478. Very well then, you have nothing further to say about the method which I have just suggested to you. May I point out that it is of no interest whatever to the taxpayer how your Table is arrived at: it is the only result that he is concerned with—Clearly.

1479. Whether you arrive at it by a formula or not does not matter to him?—I hesitate to say anything more because I am here merely as representing the Sub-Committee, and they have not arrived at any conclusion upon these points.

1480. I see one of your recommendations is that allowances should be granted throughout?—Yes, that where you start with an initial sum which is not to be liable to duty an equivalent sum should be allowed on every other income, whatever the allowance may be. In other words, suppose you say that £100 is not to be liable to duty, then a man with £20,000 would pay only on £9,900.

1481. I appreciate that. That would fit in with the suggestion I have just made to you. Would you also suggest that allowances for children and wives, and Life Insurance, should be made without reference to the total income?—Is that one of the suggestions contained here?

1482. I did not know whether it was intended to be included in point No. 19?—I do not think that that is a point on which we have arrived at any agreement. My own impression is that it would be very desirable to avoid all such allowances by having a graduation that would be satisfactory whatever the amount of income were, but that is only a pious opinion of my own, and I do not want to put it forward as the opinion of the Committee.

1483. That would be open to the obvious objection that it would not attempt to deal with differences of need, differences of family for instance, in the case of even small incomes?—I would rather amend the expression "ability to pay" as meaning "ability to live on what is left." That I think is the test of what Income Tax should be.

1484. Sir J. Harwood-Banner: I see by point 20 you have not come to a unanimous opinion on the question of earned and unearned incomes, though in points 19 and 13 you do refer to the question of unearned incomes. You say that from unearned income deduction should not be made at the highest rate as at present?—That appears to be a convenient arrangement, but it really is, of course, a Departmental question.

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[Continued.]

1485. Do you consider that the question of unearned and earned incomes is really a matter which might be dealt with without special gradation?—If the distinction is adopted, that is so; but I confess my own personal opinion is that the distinction between earned and unearned incomes is an unsubstantial one, and that it would be better to charge the same rate upon all incomes whether earned or unearned in the technical interpretation.

1486. I see you are strongly in favour of continuing the collection from the source, with which I quite agree. Then you say you are inclined to suggest that tax on salaries, wages, and other periodical payments, should be deducted by the person making the payments at the time of payment. It is difficult to see how that could be carried out in the case of many of the accidental profits which a man has to bring in.—That is so, but it would greatly relieve, I think, the Departmental pressure if arrangements were made by which, where incomes are earned weekly or monthly, the person paying wages were allowed to deduct Income Tax from them, or required to deduct it from them, just in the same way as insurance payments are deducted now by the employer.

1487. You are aware that there is a very strong feeling amongst the Labour Party that this should not be done?—I am afraid that that is so, yes.

1488. In fact it is being made a peg to hang some difficulties on at the present time in relation to Income Tax?—Yes.

1489. Looking at the fact that everything is to be as far as possible deducted at the source would you suggest keeping up some individual record of each taxpayer, and following him up in order as far as possible to collect the tax which would not come in from the source?—I am afraid that the proposal could not be worked out without some amount of Departmental difficulty, but I hope it would be possible so to arrange it that those difficulties would be overcome.

1490. For instance, with regard to underwriting commissions and other commissions which are receivable in the City to a large extent, how would you arrange to bring those in?—It would be very difficult indeed.

1491. Without having some personal return?—I think we cannot dispense with the personal return; that would have to be made in practically every case, but I should like to make it as simple as possible.

1492. Mr. Mansuete: Do you not think that if in the case of wages of workpeople particularly the tax were deducted at the source, that is by the employer, it would probably result in pressure being put upon the employer to pay the tax himself?—I do not know why it should be so more than in the case of insurance.

1493. It would be a considerable sum?—No doubt that is so. That is a point which would have to be borne in mind.

1494. Mr. McLintock: With regard to the suggestions as to the extension of the principle of taxation at the source, do you not think the practical difficulties in the way of carrying these out are almost insuperable? For example, take a public works with 2,000 employees. It means that every single employee would have to declare his total income to his employer in order to determine the rate of tax to be kept from him?—Yes.

1495. Do you think that that is a practical proposition?—It might be worked, I think, through a system of wages papers, and things of that kind, but I admit it would be full of difficulty.

1496. So many difficulties as to be impracticable?—That, of course, remains as a question for those who have to administer the Act. We are merely talking of what would be desirable if it were practicable.

1497. Take the next point. All Income Tax returns are secret. Every employer does not know his employee's total income from every source, or his wife's income. I suggest that employers would never consent to declare to their employers what their total income was from every source?—They would have to declare to the Surveyor of Taxes what was the amount of their income no doubt.

1498. But your suggestion here is that the employer should be made the agent of the Inland Revenue in collecting the tax, and that he should be given some small remuneration for his trouble. I

suggest that no small remuneration will ever compensate him for the amount of labour that would be involved, even if he were agreeable?—Unless the organisation were made very perfect I quite think that is the case.

1499. You make another suggestion that not only should the employers deduct the tax, but they should determine the rate according to the total income, and they should also give him his abatement and his allowance?—That relates only to the lowest rate I think.

1500. You have the added labour of arriving at the various allowances; you have to find out how many children he has, and what his insurance premiums are. The same remarks that I made generally on the collection by an employer would apply to No. 12?—No doubt.

1501. The practical difficulties are very great?—Yes.

1502. In No. 13 you suggest that in the case of unearned income, deductions should not be made at the higher rate as at present, because only a small proportion of taxpayers are liable to pay this rate. How do you suggest that a limited company is to deal with 1,000 shareholders? At present we have taxation at the source there, and individuals as you know claim repayment, or such adjustment as they may be entitled to according to the total income?—I take it that from each person the average rate would be deducted, and that in his return to the Surveyor of Taxes he would have to show what the proper rate would have been, and to pay the difference.

1503. Are you not destroying the very principle that you are seeking to build up—of taxation at the source—in a case like that, by every shareholder making a supplementary return to the Surveyor of Taxes?—It would be very undesirable undoubtedly, but I hope it would not destroy the system.

1504. Assuming a shareholder has an income of £10,000 a year, and gets his tax retained by a limited company at the lowest rate, how do you suggest the Revenue is to get the balance of the tax from him?—Only by an individual return; I see no other method whatever.

1505. That is increasing the labour, is it not?—In this memorandum we advise doing it by the least amount of labour; it certainly would increase the labour.

1506. Professor Pigou: In most of the cases of your Point No. 13 rather weakened by the fact that adjustments are now often made by charging less on earned income without the trouble of making an actual return?—I was not aware of that.

1507. If a person has unearned income liable at less than the full rate, then he does not have to claim back, but when he pays his tax on his earned income the matter is adjusted by the Surveyor?—Quite so, yes; I know that that can be done.

1508. Does not that weaken the case for this No. 13 a good deal? At present there is not the difficulty about actually getting the money back?—No. By some adjustment of that kind a good deal of trouble might undoubtedly be saved.

1509. I should have thought in view of the fact that that was done there was really no particular reason for making the change?—It is no doubt a hardship in some cases. It has been pressed upon us that the full amount is deducted, and there is trouble in getting the difference, but I do not myself feel very strongly that pressure, and I am very much inclined to think that if the method of estimating the amount of taxation appropriate to a particular income were simplified, the simplification of the method of collecting at the source might also follow.

1510. In regard to No. 4, of course, if it is skillfully adjusted to ability the tax imposes little real burden; that it not intended to apply to the present rate of tax I suppose?—No, the whole of the meaning of that recommendation I think is involved in the word "skillfully." It has to be adjusted in some measure which we have not yet been able to devise.

1511. Is it suggested that however skillfully it was done, the present Income Tax, collecting the present amount of money, would involve little real burden?—(Mr. Allen): What I mean by the skillful adjustment is the ability of the taxpayer in this. In the last

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[Continued.]

five years the income of the country has risen by about half, but the people are no better off. If that one half had been taken by taxation we should have no war debt. If you imagine the Income Tax really adjusted to each person's ability to pay you lower prices, or you reduce the general purchasing power of people, and you increase in proportion the purchasing power of each £ they have got. Therefore, really I would go so far as to say that if your Income Tax is sufficiently well adjusted it imposes no burden at all, and it tends to the appreciation of the currency. What you have had in the last five years is a concealed Income Tax on all incomes equivalent to the fall of the purchasing power of the £ sterling. If you had had a heavy Income Tax imposed as soon as the war began, you would not have inflicted any greater sacrifice on the taxpayers than they had to pay owing to the depreciation of the currency. That is really what we mean in the other point, No. 3.

1512. *Chairman:* Is this in answer to Professor Pigou's inquiry?

1513. *Professor Pigou:* Perhaps I should make it clear by asking another question. I understand that this statement about an Income Tax lowering prices is intended to mean that prices would not have been so high if there had been a higher Income Tax instead of borrowing from the banks?—Yes.

1514. And it is not intended to say that the absolute effect of putting an Income Tax on is to lower prices, when the alternative is not to have an Income Tax. The argument is that Income Tax is better than various forms of borrowing from the banks; is that so?—Yes.

1515. It is not really relevant to the proposals for ordinary Income Tax in peace time, when there is no question of borrowing from banks?—No, except that the Income Tax is not so much a burden as people imagine. It is only a burden because it is paid by a very small number of persons. If it were paid by everybody it would be no burden at all.

1516. I understand you agree with my suggestion that this is a comparison between an Income Tax and borrowing from banks during war time, and is not intended to mean that all Income Tax as such has the effect of lowering prices?—No, my Income Tax theory applies to peace equally.

1517. Is this your personal theory, or the theory of the Committee of the British Association?—Those points have been more or less modified by the Committee; they are not as I should have put them myself.

1518. But this is the evidence of the Committee?—Yes, it is what they agreed to.

1519. What we understand then is that the Committee's reference is to an Income Tax in war time as an alternative to borrowings from banks?—Yes.

1520. What I want to get at in this is it intended to say now if we put on high Income Tax instead of high Death Duties prices will be thereby lowered?—Yes.*

1521. *Mr. Symonds:* When Mr. Allen says that an Income Tax is no burden at all does he mean no burden on the whole community, or no burden on the persons who pay it?—(*Sir Edward Bradbrook:*) I take it that literally every tax must be a burden upon somebody.

1522. *Chairman:* Let Mr. Allen answer that question.—(*Mr. Allen:*) I should say again if skillfully adjusted it is no burden to the individual, and it is no burden to the community. Of course there is friction, and other indirect results.

1523. *Mr. Symonds:* Take a man whose income is fixed, and is the same now as before the war, is it no burden on him?—Yes must assume all persons with income to pay Income Tax—something.

1524. I want to ask Sir Edward Bradbrook about the distinction between earned and unearned income. Is one of your grounds for an objection to making a distinction of this kind a basis of the Income Tax that it necessarily cannot be precisely defined?—(*Sir Edward Bradbrook:*) That is hardly one of my objections against it.

1525. Do you agree with the principle that has often been enunciated, that a taxing Act should be absolutely clear, and understood by the plain taxpayer?—Meet fully and entirely.

1526. You cannot distinguish logically, can you, between incomes that are earned or unearned?—I believe that all incomes are earned by somebody necessarily.

1527. If they have not been earned now they were earned a few years ago?—Undoubtedly.

1528. In the form of saving? In other words, realised capital is the product of past earned income very largely?—Very often, in the case of the individual, of his own past earned income.

1529. Let me take the case of a professional man whose time for making money is any between the ages of 25 or 30 to 60, and take the other case of a man who owns a public-house, or a business in which the element of goodwill or capital is largely involved. Both are treated as earned; is there any comparison between the two?—When the professional man invests his savings he is then treated as if the income he derives from the investment were unearned, which appears to me to be unfair.

1530. Would you be in favour of abolishing the distinction altogether?—I should, personally, certainly.

1531. And the State would gain? The concession in favour of earned income is an exemption under which the State loses, is it not?—Undoubtedly.

1532. Do you agree with Mr. Gladstone's dictum in his *Essays* that the exemption of one person means the extra taxation of another?—Undoubtedly.

1533. And that exemption is a gift by the State?—My own view is this, that of every person's income a certain proportion is the property of the State; the remainder rests with him to use as he thinks fit. If he likes to use it in rearing a family, so much the better; but if he prefers to use it in some other way he is at liberty to do so.

1534. I will not go into the proposition you have just started, which I think is rather a large proposition. Do you think it is possible to work the system of deduction by stamps in the case of smaller incomes if you had a low flat rate for the lower incomes?—A very low rate. I do not know whether a flat rate would be wise.

1535. Supposing it was something of this kind; say a flat rate from £150 up to £250, or £200, and then a higher rate from £200 up to £300, and so on, the same principle as in the case of the Super-tax?—If the plan of geometrical rise were adopted it would be almost equivalent to a flat rate in the very early incomes, but my own impression is that there is no reason why a person who has to pay 4s. 4d. a year Income Tax should not pay it by means of a penny stamp each week.

1536. That is rather a different question. I was confining myself to the lower incomes of employees?—Those cases I would meet by an arrangement of stamps if it were found practicable.

1537. To do that you would necessarily have a low statutory flat rate in the case of lower incomes?—Certainly it should be very low.

1538. Do you agree that it would be advisable, whether taxation at the source remains or not, that there should be an assessment for every individual?—I think that no person, whatever his income may happen to be, should escape a contribution to the necessities of the State.

1539. I am not speaking of contribution; I am speaking of assessment; that he should fill up a form of return of his income?—Yes, I think so.

1540. Have your Committee considered that question?—I am afraid we have not arrived at an agreement upon it.

1541. *Mr. Symonds:* Then I will not trouble you.

1542. *Mr. Walker Clark:* Does your Association include employers? Have they expressed approval of point No. 11?—I think there are some members of our Committee employers of labour. (*Mr. Allen:*) The President of the Economic Section which we represent, Sir Hugh Bell, is very strong upon the weekly deduction from wages.

* Mr. Allen wishes to add that he did not hear the words "instead of high Death Duties," and offers no opinion as to the effect of these duties on prices.

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SIR EDWARD BEADBROOK AND MR. J. E. ALLEN.

[Continued.]

1543. Mr. Bouwman: Sir John Harwood-Banner asked you if you were aware that the Labour Party objected to this money being deducted by employers, and you rather assented to that?—(Sir Edward Brobrook): I think it was so.

1544. Are you also aware that at a Conference, when this quarterly assessment of Income Tax was agreed upon, a Conference of employers' representatives and workmen's representatives, the employers were equally emphatically against it?—No, I was not aware of that.

1545. That was so. They objected to become tax-collectors. Just one further point with regard to No. 14; would you mind amplifying what is meant by the convenience of the taxpayer as against the convenience of the tax-collector?—I think it really is only a general statement of a kind of truism. Naturally everything should be done to make the payment less troublesome, and more convenient for the taxpayer even if it imposes extra duties upon the collector. I do not think it means anything more than just a truism of that kind.

1546. Mrs. KNOWLES: I do not know what is meant by your No. 19. Do you mean you want to do away with all Super-tax? "We think that any abatement which may be granted should be granted on all incomes, whatever the amount." "That simply relates to the portion of income which should be exempt from taxation; that is to say, if it is agreed that the \$1200 which is now exempt from taxation should be reduced to \$1000, that \$1000 should be deducted from everyone's income, whatever its amount; that is all, I think, that is intended by this."

Mr. G. O. PARSONS, Incorporated Accountant and Chartered Secretary, and Secretary to the Income Tax Reform League, called and examined.

The witness handed in the following statement as his evidence-in-chief :—

1954. As the fundamental grievance against the present method of assessing Income Tax appears to be that the tax is frequently levied on fictitious figures of profit, while true figures are available, or at least can be made available, it would appear that the present demand for Income Tax reform, apart from imaginary grievances, is really nothing more nor less than a demand for the substitution of a true balance of profit, according to recognized commercial ideas and practice, in place of the present statutory profit.

The above demand for reform is therefore a desire to establish a principle, and as such cannot properly be considered in conjunction with possible effects upon the Revenue. Having established the principle of how taxable income shall be scientifically computed, then the rates of Income Tax that can be applied to the taxable income must be considered. I have no evidence to offer on this last named question.

The opinions put forward in the following pages are personal and based on my own experience in Income Tax matters, they are not submitted as suggestions emanating from the Income Tax Reform League.

SUGGESTIONS FOR REFORM OF THE INCOME TAX.

1565. (1) *Officinalis*.

On every board of District Commissioners there should be at least two members who are duly qualified public accountants. The Specific Commissioners might remain constituted as at present. Questions concerning the true amount of income or profits arising, including any necessary adjustments of the figures for Income Tax purposes, such for instance as the addition to, or deduction from, profits, of income taxed at the source, where such items appear in the accounts presented, also for Schedule A assessments on business premises, or annual value, should always be regarded as questions of fact and in no circumstances whatever should they be referred to the courts for a decision. If disputes arise on accounting questions they might well be referred to a Court of Arbitrators consisting of duly qualified professional accountants to be nominated in equal proportions by, say, a Trade Society, a local Chamber of Commerce,

1547. Sir W. Trevelyan: You advocate the merging of the Super-tax in the Income Tax?—I think that they should both be consolidated if possible into one tax.

1548. Assuming that that is so, and it becomes one tax, what sum would you fix to be the rate deducted at the source?—That, of course, raises the difficulty which we have seen all along wherever there are varying amounts.

1549. Now it is deducted at 6s.?—Yes.

1550. Would you fix that sum, or a lower sum, or what other sum?—That I really think we must leave as a question for administrative determination.

1951. *Chairman:* There is a book I have in my hand published by Mr. Allen, and I notice a very remarkable thing. The estimate which he gives of the taxes for 1918-19, Income Tax and Super-tax, is \$290,000,000, and the actual yield was \$291,000,000. Then he estimates also for the year 1918-20 a revenue of \$350,000,000 from Income Tax and Super-tax. The Chancellor's estimate, given four months later, is precisely the same amount; Mr. Allen labours under some difficulty in giving evidence, but he is evidently a capable man if he can prognosticate as well as that.

1652. Sir J. Harwood-Bonner: Might we have copies of that book?

1553. Chairman: It is "The War Debt, and how to meet it," by Mr. Allen, and I wanted to pay him, as its author, that little compliment. We are much obliged to you, gentlemen.—(Sir Edward Brabreck): We are much obliged to you for what you have said with regard to our colleague, for whom we have very much respect.

and the Revenue authorities. In short, legal questions should never embrace any question concerning the computation of the income or profit upon which tax, if any, would be levied. Unless the point is kept in view the danger will always be present of such decisions, so manifestly inequitable, as that in *Stevens v. Bonstead*.

SURVEY of Taxes:

Arrangements might be made by which candidates for the office of Surveyor of Taxes should be examined in advanced accounting in addition to the tests already applied.

Answer: 1

This office might well be abolished. The duties now performed by Assessors to form part of the future office routine of the Surveyors. The present system gives rise to considerable confusion and misunderstanding among the general public.

Collector:

The duty of a Collector of Income Tax should be confined to collecting the tax upon the assessments made. He or she should hold no other office under the Income Tax Department.

1556. (2) *Level of exemption.*

If allowances to those with commitments which benefit the State are considerably extended the limit of exemption might well be considerably lowered.

1667. (3) *Abutments and allowances.*

All existing statements should be abolished, the necessary adjustments being made by graduation of rates of tax.

Whatever allowances are granted should be common to all incomes regardless of total incomes. This should be so because the greater the income the probable greater cost of the burdens enumerated below, and the granting of the allowances would also offer some compensation to every taxpayer with commitments that benefit the State. The confinement of allowances to the smaller incomes only, gives relief, in many cases, out of proportion to the expenses incurred. The extension of allowances to all incomes would also make a distinction between married persons and others

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with commitments for public welfare, and those with no such obligations. The following allowances are suggested:—

- (a) Marriage allowance two-thirds of the exemption limit.
- (b) Allowance for housekeeper of two-thirds of the exemption limit in case of a widower with child or children, or adopted child or children, under 16 years of age.
- (c) Allowance in respect of children one-third of the exemption limit for each child or step-child or adopted child under 16 years of age.
- (d) Allowance for dependent relative one-third of the exemption limit, limited to two persons, and further restricted by the provision that the allowance shall not be made where a dependent relative is in receipt of a total income, including voluntary allowances, exceeding two-thirds of the exemption limit.

Claims for allowances to be restricted to residents in the United Kingdom. The special treatment in regard to residents in the Isle of Man and the Channel Islands to be withdrawn, as also the allowances to residents abroad on account of health, but the settlement in this country of foreigners in search of health might well be encouraged.

Relief in case of narrow margins to be continued as at present.

Allowances for Life Insurance should be abolished, because there is no logical reason for retaining them, unless corresponding allowances are granted to those who provide for old age or death by other methods equally commendable.

1558. (4) Non-residents.

Non-resident should not be liable to British Income Tax on any emoluments arising in whole or in part out of their employment without the United Kingdom. The present system of assessing the foreign employees of British companies trading abroad to British Income Tax is a source of constant irritation. The tax is almost always impossible of collection, and its levy is, therefore, a waste of time, while veiled threats of arrest and proceedings against a non-resident, should a visit be made to this country, give rise to considerable feeling, which is quite intelligible.

1559. (5) Differentiation.

The distinction between earned and unearned income requires further consideration. For instance, at the present time a pension granted for services rendered is regarded as earned income, although the recipient may have contributed nothing towards it. It may even be an unexpected gratuity granted to a spendthrift. Yet a person who has exercised restraint and self-denial through a great part of life in order to make a corresponding provision, is now taxed upon the results of that thrift at the unearned rates.

1560. (6) Trade Associations.

All subscriptions to Trade Associations should be admitted as expenses of Trading, and therefore all Trade Associations should submit Accounts of Profit and Loss or Income and Expenditure for taxation purposes as if they were Associations seeking profit.

1561. (7) Husband and Wife.

The aggregation of the incomes of husband and wife is not unduly oppressive and the public agitation in regard thereto is mainly misconceived. The position would be fairly well regularized by granting the allowances, to which reference has already been made, to all incomes without limit. Separate assessments as two individuals would simply grant a preference to the union of income with income, as compared with a union of income with no income, and further penalize the latter by cancellation of the marriage allowance.

1562. (8) Bachelors and spinsters.

By the extension of the allowances for marriage and children, &c., to all incomes, a discrimination

would in effect be made between those persons having commitments for the benefit of the State and those with no such responsibilities.

1563. (9) "Free of Income Tax."

British Income Tax should be regarded as a personal tax, and therefore no allowance should be made in any case whatsoever in respect of such tax as an expense of earning profits or income. The practice of distributing income taxed or taxable at the source as "free of Income Tax" should be prohibited under a penalty. Every distribution of British income, taxed or taxable at the source, should be accompanied by a statement showing in the case of each individual distribution—

- (a) the total income or profits distributed;
- (b) the Income Tax apportionable to such distribution;
- (c) the net amount distributed after deduction of the Income Tax applicable.

N.B.—This to include all Government and other issues upon which dividends are now paid without such statements; also the counterfoils or statements of Indian Railway Annuities should set out clearly how much of the annuity paid is to be regarded as income for Income Tax purposes.

Failure to comply with this requirement should involve a penalty for each omission to supply such statement. The practice of paying Income Tax for others by way of remuneration for services rendered should be forbidden as contrary to national interest. Suggestions for enactments to deal with the "free of Income Tax" question in its entirety are attached.

1564. (10) Claims for repayment.

All claims for repayment so far as they relate to dividends of profits assessed under Schedule D should be based on the income actually received by the claimant within the year immediately preceding the year of claim. No reference should be had to the period in respect of which such dividends have been distributed. This would greatly simplify the dealing with these claims. Return of income from all sources should likewise be based on the income of the preceding year as assessed under each Schedule.

1565. (11) Schedule A.

The statutory allowance for repairs will require revision owing to increased cost of materials and labour. But so also will the present duplication of allowances, in case of business premises, to both landlord and tenant.

1566. (12) Schedule B.

Where the annual profits or losses from the occupation of lands or woodlands are or can be ascertained in the usual commercial manner by the preparation of annual profit and loss accounts and balance sheets, then the production of such accounts to the Surveyor of Taxes for the purpose of computing assessment to Income Tax should be compulsory, and the assessments should be under the Rules of Schedule D. Assessments under the Rules of Schedule B should only be made in those cases where annual accounts on commercial lines cannot be prepared with any reasonable hope of accuracy, as for instance in those cases where husbandry is carried on by the farmer and his family all working in common, but in no case should a joint stock company, whether private or public, be entitled to be assessed under the Rules applicable to Schedule B.

1567. (13) Schedule C.

This Schedule to remain as at present.

1568. (14) Schedule D.

The basis of every assessment to be the profit of the actual, or business year, as the case may be, immediately preceding the year of assessment. Losses to be carried forward until exhausted by profits earned. The system of average would thus be abolished. The results of all businesses and professions to be ascertained on the recognized principles of scientific accounting. These principles include, not only

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charges for depreciation and wear and tear, but also the proper charges for depletion or exhaustion of natural deposits, timber, &c. The question as to whether the charges made in the accounts in respect of these wasting assets were fair and reasonable charges should in cases of dispute be referred to the Commissioners as newly constituted, as questions of fact concerning the ascertainment of true commercial profit.

1669.

(15) Schedule E.

The reason for this Schedule would no longer exist if the average system were abolished and the income of the preceding year adopted as the basis of assessment of all profits arising not only from trading but from offices of employment as well.

1670.

(16) Conclusion.

Individual complaints in regard to Income Tax are frequently based on imperfect knowledge of the present system. This system is necessarily complicated, and if graduation and taxation at the source are to be maintained it must remain so. The difficulties of comprehending the incidence of the tax are greatly increased by the abuse of the term "free of Income Tax." As an instance, take War Savings Certificates. These have been issued as the only "free of Income Tax" British investment, and yet banks describe to their customers as "free of Income Tax" the following income without distinction:

- (a) Interest on War Savings Certificates redeemed.
- (b) Interest on the 6 per cent. Underground Income Bonds.
- (c) Interest on the 4 per cent. Tax Compounded War Loans.
- (d) Interest on the 5 per cent. Loans paid gross.
- (e) Interest taxed at source but described as "Free."

The complaints of individuals, as apart from complaints concerning the statutory computation of business

[This concludes the evidence-in-chief.]

1572. Chairman: Mr. Parsons, we have your statement before us; each member has had one of these copies. Perhaps you will take your statement and make remarks upon the point as you go along; there are some of them that will not need very much remarking about, but there are others that you may think of exceptional importance, and on them you might like to explain your observations. If you will go through your own document that will be the best plan, I think.—The first point is that we want the Income Tax to be assessed on a true balance of profit and loss according to the recognised commercial idiom and usage; the second is that the office of Assessor of Taxes might well be abolished. The Assessor is the man who starts the friction between the taxpayer and the Revenue.

1573. Why should he be abolished?—He issues formal official circulars, automatically, without regard to the circumstances of each case. Business men are very sensitive on this point and they do not realize that the Assessor is merely issuing formal notices. Let me give you an instance:—A firm's business year ends on the 31st March; in April the Assessor will send out a notice of a required return, and in about a month after he will issue a peremptory notice asking for the production of the said return without further delay. Now it may so happen that the firm has branches abroad, and the accounts cannot be prepared within the time within which the Assessor requires the return to be made. Some firms' business years will end on the 30th June. They have nine months in which to make their computations of the Schedule D, average for the coming fiscal year. That does not apply to those firms whose business years end on the 31st March. Therefore I think the office of Assessor might well be incorporated with that of the Surveyor, because the Surveyor has knowledge of the peculiar circumstances attaching to each business.

1574. Do you say some economy could be made in that?—I should imagine that economy could be effected by having the duties carried out under one roof, and I

ness profits, almost invariably resolve themselves into mere grumbles at having to pay a large sum for Income Tax. The quarrel is frequently found not to be with the figure or amount of the assessment but upon the amount of the tax. Many taxpayers fail to realize that they are suffering, not from the greed of the Revenue officials, but from a high rate of taxation, and that all other points are "as you were." Grievances based on imaginary wrongs are also given wide circulation in the Press, while at the same time, with exception of the Financial Press, many reasoned replies to the grievances that have been boomed are suppressed. Bearing in mind that the fundamental principle regarding equitable assessment to Income Tax is based solely upon the correct application of accounting principles, it necessarily follows that, if this view is kept constantly in mind, a comprehensive Income Tax Act should not present any great difficulty. Statutory profit subject to certain adjustments arising out of items of income and expenditure taxed at the source, in regard to which there could be no question of disagreement.

1571. Most of the present grievances are the result of permitting questions of accounting practice to be regarded as questions of law, and unless and until that anomaly is removed there can be no satisfactory reform in the method of Income Tax assessment. The liability to Income Tax may be regarded as a legal question, but when once that point is decided the computation of the liability should, in cases of dispute, be referred to qualified accountants and not to the law courts. Hence the guiding enactments of the main Income Tax Act should be framed in such a way as to render it impossible for questions concerning the computation of assessments to be referred to the courts for construction as to meaning. Such questions should be decided upon ordinary commercial principles as interpreted by methods of scientific accounting. If the phraseology adopted in the foregoing pages should appear somewhat dictatorial I would explain that it has been adopted for the sake of clearness.

should imagine that by the avoidance of a considerable amount of communication between one office and another, always in separate buildings, considerable economy must result.

Then as to the limit of exemption; I think that should be considerably lowered.

1575. Will you explain that?—Revenue has to be found, and it is to the lower incomes that we would have to look for a very large amount of revenue. At the same time I recognise that discretion must be used, and therefore if we increase the allowances in respect of married persons and children, dependent relatives and such like, the limit of exemption would in fact, as compared with the present limit, be materially raised for those persons with commitments that benefit the State, leaving those persons with no such responsibilities assessable on a larger amount of income than those with the said commitments. Further, I think all abatements and allowances, when eventually decided upon, should be granted to all incomes, regardless of the total of the income from all sources. To deny allowances to those with the larger incomes is to treat them as if they were not responsible citizens. The denial creates a class of itself, citizens who are dealt with as if they were merely beings to be taxed, who had no rights and performed no duties; whereas it is a fact that many with large incomes have much public spirit and spend a great deal of their wealth for the good of the nation in general, and frequently undertake large responsibilities. I think, therefore, this fact should be recognized and allowances extended to all grades of income.

Then as to allowances for Life Insurance premiums. In my opinion they should be disallowed, because there is obviously no sound reason for granting allowances for Life Insurance premiums unless you extend a corresponding privilege to those who make provision for death, &c. in other ways, such, for instance, as placing money in the Post Office Savings Bank or buying War Savings Certificates, or investing income in other ways.

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[Continued.]

The distinction between earned and unearned income, especially in the lower incomes, requires further consideration. There are those to-day with an unearned income, especially is it so in the case of widows, and all elderly people, who may have no means of increasing their incomes to meet the increasing cost of living, and I think, therefore, that the distinction between earned and unearned income should not commence until you reach, say, the £500 limit of income.

As to husband and wife the grievances are largely misconceived, but I certainly think that the earned income of a wife, irrespective of amount, should be assessed separately.

1576. You do not agree with the present mode of assessing?—I agree with it except as to the point that under the present law a wife has to be earning an income independent of her husband to obtain separate assessment upon her earned income, and that it is only granted where the joint incomes do not exceed £500. I think that limit should be withdrawn, and the whole of the profits a wife makes by her own industry should be separately assessed.

1577. There would be a loss of revenue, would there not?—Yes, probably there would be.

1578. How would you make that up?—I have not considered that point at all.

Then on the question of "free of Income Tax." This is divided into two sections. There is the question of "free of Income Tax" dividends and interest, and the question of emoluments for services rendered being paid "free of Income Tax." In regard to the distribution of dividends free of Income Tax, such a thing is impossible, because, profit being taxed at the source, the profits distributed are taxed income and therefore taxed income alone can be distributed. It is therefore a misleading statement to say that it is free of Income Tax, it creates great confusion; and apart from the question of any desired deception, there can be no sane reason for maintaining the system. Besides it has a very serious effect. The Government have issued War Savings Certificates as the only source of British income which is "free of Income Tax," and as a fact that is the truth, yet the workman and others can see in the accounts of many companies "Dividends free of Income Tax," "Interest free of Income Tax," "Directors' fees free of Income Tax." Thus the average citizen is confused and does not understand the position at all.

1579. Does he not?—I do not think so, my lord.

1580 Mr. Prynne: You could call it "Income Tax paid," could you not?—You could call it "Income Tax paid," but most companies are anxious to show a large return to their shareholders. Why minimize the true return? The Stock Exchange official lists quote the dividends as paid; that is to say, we will suppose Income Tax at 5s. in the £. A 15 per cent. dividend free of Income Tax is quoted in the official list as 15 per cent., but the true rate of dividend is 20 per cent. The lower rate must have an effect upon the market price of the shares; at least, that is my contention; and the Government lose in *ad valorem* stamp duties on the passing of the shares, because the market only puts on these shares the value attaching to a 15 per cent. dividend and not to a 20 per cent. dividend. As the rate of Income Tax increases, so, of course the real dividend is increased. Thus a company paying a pre-war dividend of 15 per cent. could now earn larger profits during the war period, and ostensibly pay the same pre-war dividend by paying away 20 per cent. as 15 per cent. "free of Income Tax," thereby concealing a larger distribution of profit. Then as to paying Income Tax for others; Income Tax should be regarded as a purely personal tax. If we allow certain industries to pay the Income Tax on the salaries of clerical labour there is no reason, in my opinion, why the manual worker should not be permitted the same privilege. Why should not the coal miner, for instance (if he is liable to Income Tax) ask that the coal mining industry should bear his Income Tax? The payment of Income Tax for others for services rendered cannot be properly considered as a payment for the economic value of those services; because the Income Tax of each individual will vary according to his private income, the income of his

wife, and the number of his children, so that you may have two men each earning the same salary, each working in the same office; for the one who is rich, the company (because it is almost always limited companies who do this thing) will pay more as an "Income Tax bonus" than it would in the case of the other who might have married a wife without income, have several children, and pay Life Insurance.

There is also the question of depreciation and the due allowance for the exhaustion of wasting assets. Those subjects will be very fully dealt with by others, so that I need not enlarge upon them.

1581. Chairman: Are you going to deal with the question of wasting assets?—No, I will leave that to others, my lord. Then as to taxation as the source. I think it has been suggested this might well be abolished. In my opinion this would not be good for the taxpayer, for the reason that taxation at the source softens the Income Tax burden; it spreads it out over the whole year. It has this advantage also, that in every case the taxpayer receives something; he does not have to pay out and receive nothing.

Besides, the abolition of taxation at the source would involve a question relating to the taxation of the profits of limited companies. If such profits were not taxed at the source limited companies would be in a position to put by much of their profits, that is to say, put it back into their business, and thus avoid Income Tax on those profits not distributed in the form of dividends. This would be unfair when compared with the position of the private trader, who would have to declare the whole of the profits he had made, regardless of whether he had withdrawn all or allowed some to remain as further working capital for his business.

1582. Can they do that? Can they put the profits back into their business? Would the Income Tax people allow them to take that as money without paying tax on it?—Such profits are taxed now, but they could by abolition of taxation at the source put it back into the business; they could create reserve funds.

1583. It is taxed now if it is a reserve fund?—It is now taxed. I am saying that if we abolish taxation at the source, and only tax the profits distributed, as some suggest, then limited companies would be in a better position with regard to Income Tax than a private trader.

Then—this is only a little point, but I think it is worth mentioning; there has been economy in regard to the paper that the Department is now using. In my opinion, the economy is a little bit of false economy. The paper for Returns is now very difficult to write upon; it is easily torn, and after a little use what has been written becomes unreadable; and although we may save on the paper bill, we certainly lose on the salaries bill in regard to the time wasted through indistinct writing by those who have to use these official returns. I think I have run through my paper, my lord; I have nothing more to say.

1584. Mr. Walker Clark: In your statement you refer to a true balance of profit according to recognized commercial ideas and usage. By whom recognized?—I take it there must be a standard for ascertaining profits, and it is usually supposed that accounts which are presented to the shareholders, or, in the case of private concerns which are prepared for individuals, are true and proper accounts. Of course it may seem somewhat invidious for me to say who should be the people to pass judgment, but I naturally would say public accountants.

1585. Evidently, from the rest of your paper, you would?—Yes.

1586. At Paragraph 1 I say that on every Board of District Commissioners, there should be at least two members who are duly qualified public accountants. Why?—Because, although to an accountant, accounts are simple, it is an extraordinary thing, and I think it is an admitted fact, that with the majority of people, accounting seems to present very great difficulties.

1587. You are aware that there are always two accountants present when there is an appeal?—I was not aware that qualified accountants were necessarily present on appeal.

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1588. It is the District Commissioners. You suggest there should be two qualified accountants?—Yes.

1589. You do not suggest that the two accountants who sit with the District Commissioners are not qualified?—No.

1590. There are two others?—I did not know that accountants were always present. This is the first time I have known or even heard of such a thing.

1591. They always have been when I have sat; I only know that.—I would not like to say positively, but I do not think I have been before Commissioners where there has been an accountant.

1592. Was there not a Surveyor?—There was a Surveyor.

1593. He is an accountant?—Yes, but he is the Revenue official.

1594. Did he not have his accountant by his side?—Never, to my knowledge.

1595. Then you suggest a Court of Arbitrators consisting of duly qualified professional accountants—I suppose, paid?—I suppose they would have to be paid.

1596. And the rest of the Court would be unpaid?—I did not say that.

1597. They are at present, are they not?—I think if anyone is paid, all should be paid.

1598. I do not see why you should not pay the Commissioners, too?—Nor do I.

1599. One of the reasons why you would do away with the Assessor is that forms are issued regardless of their application to the individual persons to whom they are issued?—Yes.

1600. Is it not a fact that the issue of these forms frequently elicits information to the Surveyor which puts him on a track which is very remunerative to the Revenue?—That is the inner working, of which I have no knowledge. It may be so.

1601. That is my experience.—I have no experience in that way.

1602. Would not the same form have to be issued by the Surveyor if the Assessor's office were abolished?—No. I find that the Surveyors as a rule are very well informed; they have a full knowledge of the circumstances of the case, and they never worry one unnecessarily.

1603. You suggest that subscriptions to Trade Associations should be admitted as expenses of trading, and therefore all Trade Associations should submit accounts for taxation purposes?—Yes.

1604. Many of these Trade Associations collect debts, many transact insurance business and other business. Would you suggest those subscriptions should be taxed?—What I mean by Trade Associations is that a number of firms subscribe to a Trade Association to protect their interests. And unless those Trade Associations have made an arrangement with the Inland Revenue, the subscriptions are not allowed to be charged as expenses of trading by the concern that pays the subscriptions. My suggestion is that all Trade Associations should submit their own accounts to the Inland Revenue for taxation, and that the subscriptions paid to the Trade Associations by the trader should be allowed as a deduction from his profits.

1605. I do not think you suggest that the Trade Association should pay tax, do you?—I say, "As if they were associations seeking profit."

1606. Mr. Marks: You suggest very emphatically that allowances for Life Insurance should be abolished because there is no logical reason for retaining them unless corresponding allowances are granted for those who provide for old age or death by other methods equally commendable?—Yes.

1607. Such as the Post Office Savings Bank?—Placing an annual sum in the Post Office Savings Bank.

1608. To accumulate at interest?—Yes.

1609. How long would it take to accumulate a few pounds to the sum assured under an ordinary policy?—I have not the remotest idea; I am only talking of the principle.

1610. Do you know any other form of thrift which immediately creates a fund available in the event of death like Life Insurance does?—That is entering upon the subject of Life Insurance as opposed to other

methods of insuring against sickness and old age and death. I am of opinion that Life Insurance is an extravagant method of saving, so I had better not say much about it. It has nothing to do with this question, from my point of view. The question is this: That there is no more reason for allowing a man to claim as a deduction from his income a provision for old age, sickness or death by means of Life Insurance, than if he chose any other method.

1611. There is room for some difference of opinion?—I quite agree.

1612. A witness, whom we had here this morning, said this: "The allowance for Life Insurance premiums should stand as at present. Life Insurance, particularly Endowment Insurance, is a safeguard against staggering poverty for widows and young fatherless children; it also presents an opportunity for some measure of compulsory thrift that exists in no other equally attractive form."—I do not know how he makes out that it is compulsory thrift.

1613. It was a "she," as a matter of fact, but "compulsory" she puts, so to speak, is inverted commas, and she explained that it was rather a moral compulsion, that a person who had once made up his mind to insure his life was much more likely to go on with it than if he said to himself: "I will put £10 a year in the Post Office Savings Bank."—Quite, but supposing he could not go on with the insurance.

1614. Then of course he has got certain methods of getting back an equitable amount of his payments?—That is also a matter of opinion. What is an equitable amount?

1615. I think you are perhaps confusing one form of insurance, industrial Life Insurance, with the form which is called ordinary Life Insurance, when you speak of its expense and extravagance, are you not?—I say it stands to reason that it must be an expensive and extravagant method, because the Life Insurance companies have no better means of placing money out at investment than the ordinary individual. I can place money out in the War Loan at 5 per cent., and the insurance company can do no better. They have to pay out of their 5 per cent. a large staff, commissions for introducing business, palatial offices to keep up, and I think they pay the Income Tax for their employees as well.

1616. We are getting rather off the point in regard to this, but it is all very arguable, and I can assure you that there are other considerations which might be advanced. You instance the Post Office Savings Bank as an equally commendable form of thrift, which does not get the same advantage. Is it not a fact that these people do not pay Income Tax on the interest on their investments?—It depends on the person's income from all sources.

1617. Mr. Synnott: Are you sure of that?—I myself pay Income Tax on my wife's small account in the Post Office Savings Bank. I always said it to my return, and I have always understood it had to be included. I make no secret of it; I put "Interest from Post Office Savings Bank" The Surveyor of Taxes has never said to me: "You need not return that." and I have always understood that it is taxable.

1618. Chairmen: That is quite right; you are liable.—Yes, I thought so.

1619. Mr. Marks: There is just one other point which involves the principle of Life Insurance, too. You said in one of your answers that this would provide for old age or death. I admit that if a person could be brought to invest at interest a stated sum per annum for a period of years which would bring him up to the ordinary period of, say, an Endowment Insurance, he would get the benefit of it to the same extent. But you cannot argue, surely, that the same thing occurs in the case of death?—Yes, I do. It all depends on circumstances. I quite agree that if a man is a spendthrift and cannot save money, Life Insurance presents to him a very convenient way of making provision for old age; but I see no reason, because of that, why he should enjoy a preference over me, or over anyone else, who provides for it in another way, simply because he is not endowed with the gift of being able to save money.

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1620. But even then there is a very wide difference. For instance, the man might pay £20 for £1,000 insurance, and die ten minutes after he had paid it?—Yes.

1621. In your case you would only get your £20, and in the other case he would get his £1,000.—His nephews might.

1622. I mean his family?—Well, it depends. He may have no family at that particular time.

1623. Anyhow, there would be £1,000 for someone to get?—Yes, for someone.

1624. Someone in whom he was interested, probably?—Not necessarily.

1625. In speaking of paying Income Tax for others, by way of remuneration for services rendered, you suggest that two men sitting at the same desk might be treated very differently in that respect owing to the private resources of one compared with the other?—Yes.

1626. But in all the schemes of this kind of which I have any experience, that is allowed for by the office which pays the tax. I only mention that so that you may not be under any misapprehension as to its being a general thing.—It is pretty general. Of course I am not ignorant of these matters, because I have in many cases to deal with men who are remunerated in that way. I will give you an instance. We have recently had some large amalgamations in the City of London. One of these big concerns paid the Income Tax for its directors and the whole of the clerical staff. The other concern left the directors and the staff to pay their own Income Tax. The directors and employees of the concern that left them to pay their own Income Tax did not grumble that they were underpaid; they were quite content with the emoluments that they received. But when the amalgamation took place, there were then two sets of directors and two sets of employees; one set was receiving their Income Tax as a bonus, and in the other case they were receiving no such benefits. That was the position. It was regularized by paying the Income Tax for the whole staff. I submit that to be a good illustration of the fact that Income Tax bonuses are not taken into consideration when employees fix the remuneration for their servants; and further, the servants themselves always quote their incomes net; they never refer to the Income Tax bonus as being part of their emoluments; whereas if those men were given a certain sum of money instead of the Income Tax bonus, they would appreciate it, and would then say that their incomes were so much, plus so much for the bonuses.*

1627. I think in statutory returns you have to return your income as such and such a sum "less Income Tax" which produces so much?—That was not so until the year 1919, when form 45 was altered after an application had been made to the then Chancellor of the Exchequer pointing out the unfairness by which these Income Tax bonuses escaped taxation.

1628. You say that statutory profit should be synonymous with commercial profit. Have you considered at all the question of the taxation of Life Offices and the method in which they are taxed?—I know something of it, but I understand that the question is to be handled by those who are experts on the subject; I have not given it any great attention.

1629. You advocate the extension of the principle of deduction at the source?—Not the extension; the retention of the principle.

* The Witness desires to make this addition to his reply:—Income Tax is deemed to be a form of direct taxation the burden of which is not transferable to others. But it must be clear that those industries which now bear the personal Income Tax of their servants, and charge these taxes in their accounts as an expense of carrying profits, are altering the whole nature of the Income Tax—the expense of such Income Tax bonuses being recovered from the public in the shape of increased prices for services rendered. Therefore, unless this practice, by which certain persons are relieved of their Income Tax by the industries that employ them, is forbidden by the Legislature, it is bound to spread from industry to industry, until in the end all Income Tax on salaries and wages will in effect become indirect taxation and Income Tax payees will consist of two classes, one class which will feel Income Tax burdens both directly and indirectly, and another class which will feel them indirectly only.

1630. Would you go so far as to say that it should be, or might be, extended?—I do not see how it could very well be extended. We have got it now pretty fully.

1631. In this way, for instance. Supposing employers had to deduct the tax from the salaries or other emoluments paid to their employees, would you go as far as that?—No, because if employers themselves did that they would have to deduct at a flat rate, and it seems to me it would only complicate the final adjustment.

1632. It would involve certainly an ascertainment of the correct rate to be applied?—That would be impossible to the employer, and therefore the Surveyor of Taxes would eventually have to deal with the individual, and I should imagine that it would merely complicate the whole question.

1633. It is in evidence before us that practically all people have to make a return of their total income, either in connection with schemes for exemption or abatement or in connection with the Super-tax; so I do not think it would add very much. The only point would be that it would be available for the employer instead of only for the Surveyor or other authority?—I confess I have not thought much about it, but it raises a very difficult question, and it seems to me it is a question of which the Revenue authorities themselves are the best judges.

1634. Mr. Symonds: Will you tell me what you mean in your paragraph 3 when you say: "The extension of allowances to all incomes would also make a distinction between married persons and others with commitments for the public welfare"?—There has been a lot of talk recently about the taxation of bachelors and spinsters. Now it seems to me that if we extend these allowances to all incomes—take, for instance, a man with £1,000 a year, if he is a bachelor he then would get no exemptions, no allowances, and we would then by differentiation get the bachelor taxed at a higher rate than a man with £1,000 a year who was married and had children.

1635. But that is the case now virtually?—No.

1636. The other man is taxed at a lower rate?—That only applies to certain grades; it does not now go beyond £500 to £1,000.

1637. By "commitments for public welfare" you generally mean a man with wife and children?—And dependent relatives; a man may be keeping his mother or his father.

1638. That is what you mean?—Yes.

1639. In regard to Life Insurance premiums, part of your objection seems to be an objection to the whole principle of Life Insurance, and therefore I will not go into that?—No; that objection was dragged from me.

1640. I will only ask you this question: this privilege has been for a long time existing?—Quite.

1641. Was not the ground for it that it was an encouragement to saving, and the only form of encouragement to saving upon which the authorities could pointedly say there was such saving? All other forms of saving would be impossible to trace, would they not?—Quite.

1642. But you have here a form of saving which is proved at once by the production of the receipt for the premium?—Yes.

1643. Does not that make a great difference between this form of saving and all other forms of saving?—Not in my opinion.

1644. But from the point of view of the Inland Revenue, who has to allow the abatement?—From the point of view of the Inland Revenue certainly, if it has to be allowed.

1645. Secondly, is it not an immense advantage to the State; first of all you have Death Duties now; so that the savings are taxed. The capital sum paid on the policy is taxed, is it not?—Yes, but not taxed to Income Tax. We are dealing now with Income Tax.

1646. Is it not a good thing for the State from the point of view of revenue that there should be encouragement for the creation of a capital fund which itself bears taxation?—I must confine myself to

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Income Tax. I am dealing now with Income Tax. I have already allowed myself to be dragged into the question of Life Insurance, and I am here only to give evidence in regard to Income Tax, and I really must adhere to that point.

1647. I wanted to put the other side of the picture. I will only put one more question. Are not a very large number of policies effected for the purpose of creating a fund to pay Estate Duty in cash where property is not very realizable in cash? Do not give me an answer as to whether it is right or wrong, but is not that true?—I did not quite catch the gist of your question.

1648. Are not a great many policies on land effected by people who want to provide a cash fund for their executors so that they will have that fund to pay the Estate Duty where property, such as land, is unrealisable?—Yes, and the man who provides in that way has escaped Income Tax on the funds he has set aside to provide for it. Therefore it comes back to the same question: that that man is getting an unfair advantage over a man who provides for it in another way.

1649. If the Estate Duty is considered as a form of Income Tax he pays in another way?—I do not admit that Estate Duty is a form of Income Tax.

1650. Now with regard to earned income and unearned income. I think you would agree—another witness has said it—that it is impossible accurately to distinguish between the two. Do you agree with that?—Unless you examined each individual it would be impossible. Then it would create such difficulties as to make it impossible to get any practical result out of the questioning. You would have to test a man's history and find out when he commenced to save, and so on.

1651. In other words, the saving may be this year, it may be last year, it may be the year before; it is always saving?—Exactly.

1652. I quite agree with you, if I may say so, that there should be no such thing as payment "free of tax," but is there not this further argument in addition to your arguments: that every individual, especially now when economy in public affairs is so much sought, should be made to feel that he is paying the tax?—Would you kindly repeat that question?

1653. Is it not very important now that women have votes extended to them, and so on, that all employees (who should be interested in public economy) should be made to feel that they are paying the specific tax?—I quite agree; that is my argument all through.

1654. You raised a very important question in one part of your evidence, viz., whether there is a duplication of allowances to landlord and tenant, under Schedule A. I am not going into that question of duplication of allowances, but with regard to the statutory allowance for repairs, of course there is the other question you raise, viz.: that the cost of repairs being enormously increased, the allowance will have to be considered. Is it not a fact now that an owner of property, say houses, is allowed one-sixth for repairs?—One-sixth.

1655. Whether he spends that sum or not?—Yes.

1656. And a good landlord who spends a great deal more than that is never allowed more than one-sixth?—That is so.

1657. In the case of land he is only allowed one-eighth?

1658. Mr. Petyman: Except on agricultural property, where he is allowed the whole.

1659. Mr. Symonds: The owner of agricultural property is under very peculiar conditions; but generally the owner of property is only allowed a fixed sum; he is allowed that whether he spends it or not?—But I suppose he would in his own interest eventually have to spend a sum that would average out at the fixed sum now allowed.

1660. Is it not a fact that there is an immense amount of what we call tenement property in Ireland, that is to say, dilapidated house property in respect of which the landlord is allowed for repairs, on which he never spends the money?—That would be so, because the allowance is a statutory allowance.

1661. Now with regard to Schedule B, have you ever seen the form which farmers have to fill up in an appeal from Schedule B?—Yes.

1662. Will you just tell me your opinion about it?—In dealing with these forms I always ask clients to obtain if possible the aid of local accountants.

1663. Is that a form of accounts which in practice the farmer would keep?—No, the only farming accounts with which I have to deal are dealt with on ordinary commercial principles; the expenses are ascertained, the sales are also ascertained in ordinary accounting ways. Then at the end of the year a valuer is consulted who values the crops in the ground and presents his valuation, and that valuation is taken as stock-in-trade.

1664. The form of accounts which is submitted and which one has to fill up is in the form of a balance sheet, and as a matter of fact no profit and loss is asked to be filled in at all. Have you noticed that?—I have noticed it.

1665. It is a remarkable thing that while you have to pay Schedule B on twice the valuation unless you can show a profit that is less, the accounts which are submitted to you to fill up show nothing about profit and loss at all?—I quite agree.

1666. Do you not think that the form for Income Tax should as nearly as possible approximate to that which a trader or a farmer in his own business, if he were a private business man, would keep?—Yes, in my opinion that is how it should be.

1667. Mr. Armistage-Smith: I understand that you would withdraw all questions of fact from the cognizance of the courts in relation to Income Tax?—Yes, so far as they relate to the computation of the liability to Income Tax.

1668. Your court of first instance would be composed of accountants and others; your court of final instance would be composed of accountants only?—And commercial men.

1669. You say so in your own paper?—Yes. I think there should be some representatives who are not accountants.

1670. You prefer accountants to High Court Judges?—On questions of fact concerning accounts, because, as I instance in my paper if accountants had been deciding the question in the case of *Stevens v. Bonstead*, we should not have got a ruling that annual value was not constructive income.

1671. Would you be prepared to generalize that principle, and say, for instance, that all disputes with regard to patents should be tried by patent experts and not by judges of the High Court, and so on through the whole gamut of commercial relations?—I should not like to go so far as that. I simply confine myself to my own particular business.

1672. But you are quite confident in regard to the immense superiority of accountants over every other type of legal mind?—No, it is the legal type of mind in dealing with accounts that I seek to avoid. A legal mind is not necessary for such purposes, as I have endeavoured to show.

1673. You propose, in your paper, to abolish the independent Legislatures in the Isle of Man and the Channel Islands?—No, not to abolish those Legislatures.

1674. Indeed you do. You say: "The special treatment in regard to residents in the Isle of Man and the Channel Islands to be withdrawn"?—We do not make special treatment for residents in America but, because we do not make special treatment for them, the American Legislature has not been withdrawn.

1675. I suggest to you that the only way to effect that proposal is to abolish the independent Legislatures of those islands?—I do not see any reason for the suggestion.

1676. You say in regard to differentiation, that it requires further consideration; but I am not clear, from your paper, whether you think that the term "earned income" is interpreted too narrowly or too widely: whether you desire to preserve this differentiation or to sweep it away because it cannot be made entirely logical?—I think it should be maintained. I simply instance the hardship of those with smaller incomes who have no means of augmenting those

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incomes although the cost of living has considerably increased, and therefore suggest that this question of the difference between earned and unearned incomes should be reconsidered with regard to the lower incomes, say as a limit, up to £500 per annum.

1677. Take an extreme case of a man whose whole means of subsistence on retirement from his profession consists of savings and the invested proceeds of savings which have been undoubtedly earned. Can you make any practical suggestion for differentiating between those incomes from investments, and other people's?—I can make no practical suggestion, for the reason that such a man might at some time or other have made little capital transactions; he may have bought and sold shares on the Stock Exchange and made considerable profit, which would be merged in the whole of his capital, and the income would be merged with the income which he was also getting from his savings. It is a very complicated question.

1678. I gather that in your opinion, if only there were more accountants, all Income Tax grievances would disappear?—The chief grievance concerning the assessment of business profits would disappear.

1679. There is no valid reason for question with respect to the incidence of the tax when once a question of fact has been settled by the accountants?

—The whole question of Income Tax is simply confounded in a whirlpool of selfishness. Most men seem to think that the limit of exemption should be measured by their own incomes. But when we come down to practical issues, the real grievances are only two: they are firstly that business men complain that they are taxed, not upon the profits they make, but upon something more; and the other main complaint is that they are taxed here and somewhere else on the same income. When you have taken those two points, you have in fact taken the whole of the great and legitimate grievances in regard to Income Tax. The first is an accounting question. The other a legal question. There are other grievances, but they are minor grievances as compared with those two.

1680. *Professor Phipps:* Your objection to the exemption of Life Insurance premiums is that it discriminates in favour of that particular form of saving?—Yes, that is my objection.

1681. So, if it were practicable, that objection would be met equally well by giving a similar exemption on other savings, as by abolishing that on Life Insurance?—Quite.

1682. Have you any view as to the practicability of that?—I think, for reasons I have just mentioned, it is impossible to trace through a man's life the income that is the result of savings pure and simple.

1683. I do not mean as the result of savings, but would it be possible for a man, when he sends in his Income Tax return, to claim an exemption upon investments, as he now claims an exemption upon Life Insurance premiums?—To what extent of his investments?

1684. I was not giving a particular example, but would the thing be practicable; would it, in your opinion, work?—No, because in my opinion most people would claim that the whole of their investments had been obtained from their savings.

1685. I mean the investments during any particular year. A man might claim exemption on that part of his income which he spends on investments. My question is, would it be practicable to have an exemption in respect of that part of the income which he invests in War Loan, Stocks, and so on?—That would open up a very wide question, and might seriously affect the Revenue.

1686. My question was: Do you think the thing would work in practice?—No, I do not think it would, for the simple reason that it would be very difficult to define whether the investments he had made were really the result of saving on his part, or of speculation.

1687. I do not think you have quite got my point. I am not talking about income that he derives from past investments, but about money that he invests in the year—money that he actually puts away in the year?—I will just give you an illustration. I may save £100 in the first three months of a year. With that £100, I might buy rubber shares, and in the next

three months sell those rubber shares for £200. I have now got £300, which I invest, and I go through the same process, and at the end of the year I have got £500 which I have invested, and I draw the first dividend on that £500, and claim that income as the result of saving £500 within that year. But as a matter of fact the sum that I have really saved would be £100, although I should be receiving the income on an investment of £500.

1688. Do you think there would be no way of getting over that difficulty?—I cannot see any practical way of getting over it. The detail involved would be so enormous that no progress would be made.

1689. You suggest that the limit of exemption should be lower?—Yes.

1690. Have you considered the incidence of indirect taxes in connection with that?—Yes; in my opinion the demand at the present moment of the coal miners to have the limit of exemption raised to £250, is against their own interest; because, as I say, if we lower the rate of exemption, and increase the allowances in respect of wife and children (and most miners are married men with families), they would in effect get exemption at £250, leaving those miners who are bachelors with no commitments to pay a share of taxation. But the mere fact that a man is liable, and has to get out of his liability by making claims, tends to make him a citizen, to understand by means of his pocket that he has got something to say in the government of the country, and something to pay by way of contribution to the direct taxation of the country. Indirect taxation is confused with prices.

1691. What I wanted to put to you was that in the case of a very low income the proportion of his income that the poor man spends in the sugar tax and tea tax is very much larger than the proportion that the rich man spends?—Yes. I had not quite finished my answer. The revenue has to be found, and if we increase the limit of exemption and still further increase the allowances, it seems to me that revenue must come from other sources. Therefore we must have greater indirect taxation, of which the poor man would pay a far greater share than the rich man. So that by asking for an increase of exemption the poor man is really doing himself an injury.

1692. Of course that depends on how the other revenue is got. Your suggestion is that the exemption limit should be actually lowered?—Yes, because we cannot get enough revenue out of a few rich men to run this country. That must be obvious. The Revenue must come from the masses, because if we take the whole of the incomes of the whole of the rich people in the country, we would still be millions short of the amount you require.

1693. Have you considered what the actual proportion of their income paid by the people below the exemption limit and those above it is?—No, but I take it that the exempted income should be an income that is sufficient to provide bodily comforts, with due regard to health; and it seems to me that the exemption limit might well be put at 30s. per week.

1694. That everybody with more than 30s. per week should pay Income Tax as well as the present payment in indirect taxes?—After we had arrived at the exemption that would depend entirely on the commitments the man had for the benefit of the State. If he were a married man, say two-thirds of the exemption limit as a marriage allowance, and further allowances for children.

1695. But would you not agree that the question of fairness cannot be decided with reference to the Income Tax alone, and that you must consider what actually happens to those people below the Income Tax limit in respect of indirect taxation?—Yes, we must, I quite agree, and I simply say we are then forced to increase indirect taxation. If we keep on exempting people from Income Tax, something else is bound to be taxed to make up the difference.

1696. You have not seen Mr. Herbert Samuel's presidential address to the Statistical Society, perhaps?—Yes, I have read it.

1697. Have you noticed that, according to his estimates, the percentage of payment made by a person

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with £150 a year is a larger proportion of his total income than in the case of a person with £250 a year?—Yes, and we should increase that if we increased the exemption limit, by depriving the Revenue of a large amount of Income Tax; the Revenue must come from something else; therefore we should increase the taxation that these people bear.

1698. Are you not assuming how the new revenue will be got?—I am taking things as they are to-day.

1699. You are proposing to make the exemption lower so that the present exempted class of people would pay a larger proportion than the richer people?—We have to divide taxation between direct taxation and indirect taxation. There must be some inequalities in regard to Income Tax. We cannot devise a scheme that would be fair to everyone. We have to do it in the fairest manner, after giving due consideration to all the facts of each individual's life.

1700. I am not certain that I have made my point clear. When you are considering the taxes to be put on a man with £150, and a man with £200, the question of fairness depends on his total payment to the State. That total payment is made up partly of indirect taxes, and partly of direct taxes?—I agree.

1701. Surely it is not legitimate to argue as you do for a lowering of the exemption limit, without first making a careful study of how much in excess the poor man pays in indirect taxes?—I quite agree, but as I have tried to explain, the revenue must be found, and if we are going to exempt taxpayers wholesale, we would not be saving any of the indirect taxation of the poor man, because in the end he would have to pay more in indirect taxation than he would pay if he made his proper contribution through Income Tax.

1702. Perhaps we are at cross-purposes, but I think you may notice that it is not my proposal that the exemption limit should be raised, but your proposal that it should be lowered?—The reason why I think the Income Tax exemption should be lowered is to save the poor man from that possible occurrence of increased indirect taxation, owing to the granting of wholesale relief in respect of direct taxation—Income Tax.

1703. Your real argument is, that if we do not lower the Income Tax limit, the indirect taxes will have to be raised to such an extent as to damage the poor man?—Yes, the damage in that respect would be greater than if he were called upon to pay a very small sum, because it would only be a very small sum he would pay for Income Tax.

1704. Mr. McLintock: There are just two points before I get on to the main point I want to speak about. First of all with regard to Trade Associations. I take it you are aware at present that most Trade Associations of any importance are already separately assessed for Income Tax?—They have to make special application to Somerset House if they desire to be taxed, and then submit their accounts to the authorities, then those Associations are put on the list, and all the people who have subscribed to those Associations are then entitled to deduct the subscriptions they make to those Associations as an expense of earning their profits.

1705. You are aware of that?—I am aware of that.

1706. That to a great extent meets the point which you raised with regard to Trade Associations?—It does; but at the same time there are numbers of Trade Associations that are not on the official list, and it creates great confusion as to knowing which subscriptions are allowed and which are not allowed.

1707. Are you aware, however, that if the Inland Revenue were to permit Trade Association subscriptions generally to be deducted as expenses in computing profit and loss, a large amount of revenue would be lost?—Well, I do not know that that would be the case, because, of course, the Revenue would gain in those cases not now on the list.

1708. I suggest to you that Trade Association payments very often take the form of Reserves in the Trade Associations to huge amounts?—Are you speaking now of Trade Associations that submit their accounts?

1709. I am speaking about Trade Associations other than those where you pay a small subscription of

£1 ls. for some annual publication, or something like that, and referring to the same type of Trade Association as you are dealing with.—Yes.

1710. You ask that Trade Association subscriptions be passed as an item of expense in the accounts of the particular business?—On condition; and the condition is, that all Trade Associations submit accounts to the Revenue to be assessed to Income Tax.

1711. Are you aware that in practice that very largely obtains to-day?—It does.

1712. And if faults lie anywhere, it is in the particular Trade Association not making arrangements with the Inland Revenue?—Yes.

1713. The trader has no grievance on that point to-day?—The trader has no real grievance in that respect to-day, although he often imagines that he has.

1714. You agree that he has no grievance?—I agree that he has no grievance in that particular respect, inasmuch as if he chooses to subscribe to a society that will not submit its accounts to the Revenue, he must put up with the consequences. At the same time, I was talking of facilitating Income Tax assessment.

1715. On the "free of tax" question, do you seriously suggest, in a case such as you illustrated, of a company paying a dividend of 15 per cent. "free of tax," which is in reality a 20 per cent. dividend, that that is not reflected in the value of the company's shares to-day, with a 5s. or 6s. tax?—It is reflected probably just at the moment when the public know, but as soon as the dividend gets into the official lists the reflection is lost, because as rates of Income Tax vary, and have done for numbers of years past, it is quite impossible for any man to carry in his mind what the real dividend capacity of the company is and was.

1716. I suggest to you that the brokers and jobbers in London are not quite so foolish as to not realize the value of "free of tax"?—I quite agree that the man who is an expert takes advantage of that.

1717. Purchases and sales on the Stock Exchange to-day are based on the opinions of those experts?—No; I have found in many cases they are not. I agree that those who know can make remarkably good investments by buying "free of Income Tax" stocks.

1718. I suggest that there is something else than the question of tax that causes the high yield on the stocks you have in mind. I suggest to you that a jobber knows perfectly well that he is buying or selling stock "free of tax," and the price is fixed accordingly, and if it happens to have a high yield it is not by reason of the Income Tax?—Well that is not the opinion I have gathered from Stock Exchange men. I have always understood from Stock Exchange men that these are "snips" to be had by those who understand it. Stock Exchange prices are governed by the law of demand and supply.

1719. On the question of payment of tax on directors' fees, and on employees' salaries, I agree with you that that might well be abolished, but you are aware that the director who receives his fees to-day "free of tax," so-called, is assessed on the basis of the fee paid plus the tax thereon?—The director who to-day receives his fees "free of tax" is assessed upon the net amount which the company pays, and he is then assessed to Income Tax upon the Income Tax on that net amount, but I do not know that even now such a director would pay any Income Tax himself, or whether the company would not pay it; but even so, up to the year 1918-1919 the assessment was only upon the net income, and it was the net income that such a director would return in his Super-tax return.

1720. My point is that to-day the director's total income is held to be the fee he gets plus the tax the company pays for him.—That is so to-day. The alteration was made in 1918-1919.

1721. Yes, I know when the alteration was made, but that is the practice to-day.—That is the practice to-day, but even so that does not give the true gross income.

1722. It gets near it?—It gets near it, I quite agree.

1723. And the same applies to salaries?—Yes.

1724. And the Super-tax, if any, is based on that sum total?—Now, and for the first time.

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[Continued.]

1725. On the general question of accounting, what you maintain is that what you want is some principle of what you term "scientific accounting" on ordinary commercial lines. I would like you to tell the Commissioners a little bit more clearly what you mean by scientific accounting in relation to ordinary commercial lines?—Well I take it that means that business men, if they have a profit and loss account put before them of their business, know whether it is on scientific accounting principles or not. There are different businesses and I do not see how it is possible to explain what scientific accounting in general means, in each specific case, but speaking generally it would mean that all the expenses in connection with earning profits are charged against revenue before arriving at a correct or scientific balance of profit or loss. Now in the case of a man, we will say, who buys gravel from another man, one would assume as a scientific accounting principle that the cost of that gravel should be a charge against profit: but if that man bought the gravel in the ground, according to Income Tax practice to-day that purchase of gravel is not allowed as a charge against profits.

1726. I think you might give us some other illustration than gravel and land. I think that is a very unusual type of case. I suggest to you that there is no difficulty to-day on the same question of accounting between the public and the Surveyors of Taxes?—I have not said there was any difficulty.

1727. I suggest to you this, as to the accounts: that no difficulty arises as to whether they are scientifically prepared, or how they are prepared, and that there is no difficulty in getting the Surveyor of Taxes to understand the method on which you have prepared your accounts, and no question arises when the Income Tax liability comes to be adjusted as to the method in which the accounts have been prepared?—I am afraid that is not my point. I am saying that the accounts if properly prepared should be accepted for taxation purposes, whereas they are altered, and I am simply arguing that for Income Tax purposes the accounts should stand. Take the case of a nitrate company. A nitrate company in its accounts charges as an expense the nitrate that is exhausted in earning these profits.

1728. I am coming to the question of a wasting asset by itself. I suggest to you at present that there is no difficulty in arriving at the balance of profit and loss?—I have not suggested that there is.

1729. From the accounting point of view?—I have not made a suggestion that there is.

1730. Do you suggest that because a firm prepared their accounts in a particular way, and a firm of accountants sign them as correct, that therefore the Inland Revenue should be bound to take them?—No, not without investigation.

1731. Is not that exactly what they do to-day?—Yes, and I do not object to investigation of accounts presented.

1732. I do not quite see what your objection is. You are advancing something in the form that you term scientific accounting?—Will you kindly give me the page.

1733. It runs all through your proof—the same thing.—Not right through. I simply refer to it at the beginning and end.

1734. You say that if disputes arise on accounting questions they will be referred to a Court of Arbitrators consisting of duly qualified professional accountants. Then later on, in your paragraph 14, under Schedule D, you say the results of all businesses and professions should be ascertained on the recognized principles of scientific accounting?—Yes, but we are dealing with Income Tax. I am referring to Income Tax, not merely questions of profit and loss as between business men. I am referring to how accounts should be dealt with from an Income Tax point of view.

1735. But, in your proof, you state that you want to get at the true balance of profit and loss?—Yes, but surely it is understood that this means the true balance of profit and loss for Income Tax purposes, which should conform to commercial usage.

1736. You admit that the present system of accounting perfectly well serves, and the Surveyors properly examine these accounts very closely in order to arrive

at the balance of profit and loss?—I admit it all, up to the point of arriving at the balance of profit and loss for Income Tax purposes. There is no dispute between Surveyors of Taxes and ourselves in regard to correct balance of commercial profit and loss. It is only when we have to adjust the correct balance of profit and loss for Income Tax purposes where I speak of applying these principles.

1737. I suggest to you that the main discussions that arise between Surveyors of Taxes and accountants to-day are on the admissibility of certain items which the client has thought fit to charge as a business expense—I say, and I have stated here to-day, that there are a number of grievances which have no basis, and if a trader has charged against his profit and loss account certain charges which are not proper trading expenses, he has no grievance if these are not allowed. But I am speaking of taxable profits which should be synonymous with commercial profits.

1738. Is that your whole point in regard to "scientific accounting on the ordinary commercial lines"—because on the latter words, "ordinary commercial lines," you know that no two firms in the country will agree as to what "ordinary commercial lines" are?—That is not my experience. All I can say is that they are wonderfully agreed. I have not in my 27 years as an accountant had that experience.

1739. I agree that the Inland Revenue officials are wonderfully agreed, but I have not found the trader the same.—Well, I have.

1740. On the question of scientific accounting from the point of view of charges for depreciation, and wear and tear, is it your opinion that the allowances that are made to day are inadequate?—Yes.

1741. Have you anything to say as to the method of arriving at them?—I do not think it is fair to the Commission for me to take up their time on that point, because it will be handled by men who have given this question many years of study.

1742. I will leave that. The only question with regard to accounting in arriving at the liability to Income Tax, as you term it "scientific accounting," is the question of wasting assets?—That also is a question that will be handled by an expert.

1743. My point is, that is the only point of criticism you have to make against the present method of compilation of profit and loss?—That is the great point, but subject always to the reservation that we are now dealing with profit and loss for Income Tax purposes.

1744. Namely, that no allowance is given for wasting assets?—Depreciation of wasting assets—the exhaustion of raw material.

1745. That is the only point. You have nothing else to say on the question of accounting generally?—That is the great grievance; I cannot think of any other at the moment.

1746. Mr. Pretyman: I want only to ask you on two points, numbers 11 and 12 on your paper, Schedule A and Schedule B: the subject of the statutory allowance for repairs requiring revision owing to the increased cost of materials and labour, and also the present duplication of allowances. Have you any view as to the direction in which that statutory allowance for repairs should be revised?—I did make a note somewhere, but this question is a little bit complicated, and I think it better to leave it entirely alone. All I can say is that it should be increased. You have to consider the increased cost of labour and materials, and you also have to consider, I suppose, the age of the property.

1747. You are aware that agricultural property is now practically under Schedule D. Schedule A for agricultural property is assimilated to Schedule D?—If you make the necessary claims for management expenses, you mean, and that kind of thing.

1748. Certainly. You are aware, are you not, that in an agricultural property Schedule A Return, you can now ask for an additional deduction to cover all costs of repairs, maintenance and management?—Yes.

1749. And on giving satisfactory particulars of that expense, that is deducted from your Schedule A assessment, exactly in the same way as the expenses of any other business are deducted under Schedule D?—Yes. I have not dealt with that at all. I was referring here, of course, to town property.

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[Continued.]

1750. I am only asking you if you are aware that that is so?—I am aware that that is so.

1751. Do you see any objection to dealing with town property on the same basis? Do you see any reason why the management of house property, which is a business, should be dealt with on a different system from any other property, and the allowances made which can be shown to be necessary expenditure for the maintenance of the property should be the trade deduction? Is there any necessity for Schedule A at all?—No, I cannot see that there should be any difference. What is fair for one must, obviously, be fair for the other.

1752. Is it not probable that Schedule A was originally a separate Schedule, because originally almost the whole of the income was derived from land in this country and arising out of land?—I could not say, but I quite follow your point, and I quite agree that the allowances in respect of repairs and maintenance of all property should be on similar lines.

1753. That is all I have to ask you on Schedule A. In fact it comes to this: That the revision you agree, or you suggest, should take the form of assimilating to Schedule D?—Yes, that would be a very good idea.

1754. Now with regard to Schedule B. I was rather interested to hear you say that you had been in charge of some farm accounts, and you suggested that a balance sheet showing a profit or loss could be shown?—A balance sheet, and a profit and loss account.

1755. You suggested that a profit and loss account could be shown, and I heard you say, I think, that the profit and loss account could be shown by taking on the one side the outgoings for the year, the expenditure for the year, and adding to that expenditure for the year a valuation at the beginning of the year; and on the other side of the account, the receipts during the year, and the valuation at the end of the year?—Yes.

1756. And I think you then went on to say that the valuation at the beginning and end of the year were made by a competent valuer?—Yes.

1757. And the value of the crops and stock were entered at their proper market value at the beginning of the year and the end of the year?—Yes.

1758. So that if the value of the stock or crops altered in the market, that would be reflected as a profit or a loss?—Yes.

1759. Supposing a man grows a crop of oats and, at the beginning of the year the value of those oats is, let us say, 40s. a quarter, and at the end of the year the value of the oats is 30s. a quarter, and that the valuation is made, as it usually is made, about September—harvest time?—Yes.

1760. That is the time the farm account generally comes out—about Michaelmas?—November we do as well.

1761. You are aware that oats are generally threshed very late in the season and allowed to mature, and that oats grown on a farm are very rarely consumed until after Christmas at any rate. Supposing a man has his whole crop of oats on the farm at the beginning of the year, and they are valued at 40s.; he has a similar crop at the end of the year which are valued at 30s.; and supposing for the sake of argument he had grown 500 quarters of oats, that would represent a difference of £250, would it not?—Yes.

1762. Which you would show on your accounts as a loss?—Yes.

1763. Or, on the other hand, if it had been the other way: If it had been 30s. at the beginning of the year and 40s. at the end, you would show it as a profit?—Yes.

1764. Do you regard that as a real profit? Before I put that to you, may I go on a little further. You are aware that at least two-thirds of those oats would be consumed on the farm by the horses and the stock?—Yes.

1765. And assume it is consumed partly by stock which is to be sold?—Yes.

1766. And assume that it had appreciated, that prices were going up, and that the oats that were worth 30s. at the beginning of the year were worth 40s. at the end of the year, and that the oats that were valued at 30s. were fed to stock, and that stock was sold, and that stock had appreciated on the

market, would you credit the man with a profit for both the increased value of the new oats over the old, and with the additional value of the oats because it was fed to the stock?—I can only speak from practical experience of accounting. I know nothing whatever of farming. The principle adopted among certain farmers is that an expert in the valuation of farms is called in at the close of the year. The farmer looks through those valuations, and after being satisfied that they are correct, they are put in as stock at the end of the period. This stock starts the next year's accounts, but I am not prepared to express any opinion as to whether those valuations are correct or not, because I do not possess the knowledge, but they should, of course, be based on cost.

1767. It may be correct for the farmer to arrive at some opinion if he sold for what he could get, but the inquiry we are on here is Income Tax, and what I am on, is the suggestion you make that a valuation made in that form would be a desirable method of assessment for Income Tax.—I say if the farmer has accounts prepared in that way, and regards them as the measure of his income.—

1768. Wait a moment: I am a farmer myself, and I have a good many acquaintances amongst farmers, and I never heard of any farmer who would suggest that an account made in that way would represent his income.—Then I suggest that he has thrown money away in having a profit and loss account prepared.

1769. Why would you suggest that? Supposing the farmer wishes to realize the stock which he has, the valuation of his stock and crops represent his capital, and not his income at all. The income is the profit which he actually makes by his sales during the year, over and above what he has to spend, in addition to any actual real increase in the value of the stock on the farm, which is deferred until he realizes that, and then it goes into the next year. The valuations you are speaking of is a capital valuation, and it may be very important for a man in his business to know exactly where his capital stands in case he wants to go out and go to another farm, but it has absolutely nothing to do with income at all.—Then I cannot understand why farmers have their accounts prepared.

1770. A man may desire to know what capital he has in his farm.—But why periodically, once every twelve months? Why accept accounts as profit and loss accounts of a business if they are not true accounts?

1771. But he does not.—But certain farmers do.

1772. Will you ask one of the to come here and give evidence to that effect?—I could not do so.

1773. I am afraid I cannot accept that from you as a fact, unless a farmer is prepared to come here and tell us that he will accept a balance sheet drawn up in that form as an actual profit and loss account on which he is prepared to pay Income Tax for the year.—The valuers, even in the case of farm crops, are experts quite apart from the preparation of the farming accounts by the accountants, and therefore, if the farmer only wants a valuation he can stop at that. Why a farmer should put useless figures into proper profit and loss form I do not know. I must assume that where he does so he must accept the results as being the results of his farming.

1774. I cannot see why they ask you to do it, but I can assure you it has absolutely nothing to do with profit and loss.—I do not dispute that; I simply say that it is a wonderful thing that a farmer should incur the expense of an accountant's services, and also pay valuers to get valuations, and having got them to remain unsatisfied.

1775. Do you therefore agree that a profit and loss account drawn up on a form on the same lines as it could be drawn up in a different business, could not possibly be used as a basis for Income Tax assessment?—I have no experience in farming at all, and know nothing whatever about the subject. I am only speaking as an ordinary business man, and if I pay money for certain services, I expect to get value for the money I have paid; and if a farmer chooses to employ accountants, and also to go to the expense of valuers, all to no purpose, then I am puzzled.

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1776. You really do not understand farming accounts, do you?—I do not understand farming; I understand farming accounts they are prepared in the way I have stated.

1777. Is it possible really, to come here to this Commission and suggest that the Income Tax basis upon the profits of farming should be altered, and should be based upon something which you suggest here, when you really know nothing whatever about the subject?—I do not say so. I simply say that where the annual profits are ascertained in that way, they should be regarded as the profits of the concern.

1778. No, I do not think you do say that. I think you say here that they must be ascertained in that way, and that everybody should be bound to, unless there is some proof that he cannot?—Yes.

1779. That is what I say.—Well I was certainly under the impression, having seen farmers' accounts made in that way, and having seen them adopted, that farmers naturally assume they are correct, but if you tell me it is all nonsense—

1780. Yes I do.—Then I have nothing further to say. You are a practical man in that direction and I am not. If you say that is a mere waste of money, and the farmer who has his accounts prepared in that way has simply had a financial statement placed before him, I have nothing to add to it.

1781. I say nothing of the kind.—That is what your suggestion amounts to.

1782. No; I say all he may desire to know is the value.—I say he has the information from the valuers who are totally independent of the accountants. Why cannot he stop at that?

1783. That I do not know.—Neither do I know; it is a puzzle to me. It is a puzzle to you as a farmer, and it is certainly a puzzle to me as an accountant.

1784. Mr. Mansel: With regard to your objection to "tax free" dividends, you are aware that that method of payment is largely adopted in substantial companies, who naturally try to raise extra capital by shares bearing fixed dividends, preference shares and things of that sort, and offer to pay the Income Tax up to a certain sum, say 5s. in the £?—Yes.

1785. Do you not think that that is a great advantage for the company, because it means, or I take it to mean, that in place of having to pay as they would otherwise have to pay an extra 1 per cent. or 1½ per cent. perhaps on the dividend they would guarantee to pay those charges. If Income Tax comes down, as we hope it may some time in the future, then the company immediately gets the advantage of that by reason of not having to pay a larger dividend under those circumstances. Do you think it would be a disadvantage to them if they were prohibited from paying dividends "tax free"?—It seems to me that you are departing from the principle that Income Tax is a personal tax, and I do not myself see why a man's income should go up or down in regard to the rate of Income Tax. A man's income might just as well go up or down according to duties placed on wine or cigars, or any other article on which he pays taxation.

1786. He has to pay more to-day for his wines and cigars than he did before?—Yes.

1787. And probably he expects to get a greater rate of dividend if he is making a fresh investment?—But there are people who are exempt from Income Tax, and people who pay Income Tax at varying rates, and apart altogether from that, I have not known any costing system where Income Tax is put on as part of the cost of earning profits. Why should certain favoured individuals have their income raised as the Income Tax rises, or fall as the Income Tax falls. If a company were issuing 7 per cent. preference shares "free of Income Tax" up to 5s. in the £ to-day, they are issuing 10 per cent. preference shares. Why not issue 10 per cent. preference shares straight off?

1788. You miss my meaning. It sounds a very high rate, 7 per cent. to bring it up to 10 per cent. From the point of view of a company working in a certain industry, it is going to be benefited in the future when the Income Tax gets lower by the fact that it will have to pay Income Tax less than it would otherwise have to pay by the 10 per cent.—Income Tax is

a tax on the profit; it cannot alter the profit of a company. I do not follow the argument. Income Tax is a tax on the profit a concern makes; it can neither increase nor decrease the profit. If there is no profit there is no Income Tax.

1789. I am talking about fixed dividend shares.—Yes; that does not affect the profit.

1790. Surely it must?—How can it? The profit of a company is £1,000; it may do that matter what the Income Tax is? It may be 10s. in the £, but the profit remains the same—£1,000. You are distributing taxed income. Supposing that £1,000 is the net profit after deduction of Income Tax, you are distributing taxed profit. You are simply making one class of shareholder bear the taxes of another class.

1791. I agree that it is quite correct, but the company, in that case, are the ordinary shareholders, who take the risks.—Who are bearing their own tax and the preference shareholders' tax.

1792. But the ordinary shareholders benefit by the saving in the tax when the tax gets low?—When the taxes are lower they will, but I do not think there is much chance of that.

1793. And they would always sustain that loss to the profits if the shares had to be issued at that rate of dividend, which would include the Income Tax at the present time at the present high rates?—But there are only a very few people who understand that. It is no use saying the public understand it. They do not, and cannot, understand it. I would like to place before all those who pretend they do understand it a "free of tax" dividend warrant, and ask them to turn the net dividend into gross income.

1794. That is not the point I am dealing with at all.—No. The point is this, in my mind, that whatever a company pays in dividends, they should be stated clearly and frankly. There is no object so far as I can see, in hiding the true figures: it can easily pay to the shareholder whatever it wants to give him.

1795. In this case, it can only pay to the ordinary shareholder by the saving that is made out of the reduction in the Income Tax which is paid on the dividends on that particular class of share?—Well I say that the ordinary shareholder is entitled to pay only his own Income Tax, and no one else's.

1796. Sir J. Harcourt-Banner: Is not this only a question between the preference shareholder and the ordinary shareholder?—It is the question of one class of people passing their burden of Income Tax on to another class, and that should be forbidden. We want to make the Income Tax a personal tax.

1797. Is not that rather a matter for those who have to raise the money?—When they find that they have to raise the money, in order to induce people to invest, they have to offer them a security which they will accept, and at present follow the lines of the Government in dealing with the 4 per cent. Free of Income Tax Loan. The financial world is now getting money, which they otherwise would not get, by offering to the shareholders shares "free of Income Tax."—Yet I cannot see myself why the real amount paid cannot be stated. If a man is to receive 5 per cent., 6 per cent. or 7 per cent., why must he receive 6 per cent. by saying it is 4½ per cent. "free of tax"?

1798. Is not it only the same question of which is the best method of raising money, and the financial world at present considers the way to raise money is by issuing bonds "free of Income Tax"?—Well, I can only say that in the "Financial Times" about a fortnight ago, there was an article saying that certain people who took "free of Income Tax" securities were simply fools; that is what the article amounted to; so I do not quite know that financial minds are agreed upon it.

1799. Of course that is merely a matter of opinion.—That is a matter of opinion.

1800. I put the question to some of the officials the other day, if they found any difficulty in dealing with these "free of Income Tax" securities, so as to make those who receive their dividends "free of Income Tax" pay properly the amount which is due

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to the State.—I can only speak from personal experience. If a man receives a "free or income Tax" dividend, which neither states the period for which it was earned, nor the amount of Income Tax applicable to that dividend, how can he possibly turn it into gross income?

1801. I would rather take the opinion of Somerset House, who know generally how to collect these moneys, than the individual opinion, and we got the opinion the other day that they saw no difficulty in collecting this "free of income tax" money from the taxpayers.—The Somerset House authorities, I take it, do not have to go direct to the taxpayer and prepare his income Tax return from all sources, or his Super-tax return. A lot of returns are taken for granted, but I can assure you that if they had to interview the men who have to make these returns, and go through their dividend statements with them, and convince them that their £7 must be turned into £10, then perhaps the authorities at Somerset House would have a different tale to tell.

1802. Is not it the fact that as regards the point you put in paragraph 9, "the practice of paying income Tax for others by way of remuneration for services rendered should be forbidden," that that really has arisen because for instance the salaries paid to men say of £1,000 a year are so depleted by the Income Tax that they are unable to live in the condition in which they should live as managers of great commercial institutions on the amount that is left for them to spend?—Why those favoured individuals any more than myself or any other man?

1803. Why are they favoured individuals?—Because income is depleted by expenses as well as by Income Tax. If an employee wants an increase of salary why should he not ask for it openly, and say: "The money I earn is not sufficient to keep me, and I want an increase." Those who pay the Income Tax of their employees are practically without exception limited companies.

1804. Oh, no.—I know of very few others.

1805. There are many big employers not limited companies, railway companies, and many other big employers, who pay "free of Income Tax" simply because the salaries which their people receive are salaries on which they have to live, and with this high rate of Income Tax it is impossible for them without raising the salaries, and it is not considered advisable to raise the salaries, so they pay the Income Tax.—Why not give them proper increases? But railway companies deduct the tax paid for the clerical staff.

1806. For one reason because they would have to give the increase in future years, and it is not easy to put it down; whereas when you pay the Income Tax it automatically serves a man's turn by giving him an amount on which he is capable of living.—But why his Income Tax any more than his water rate—I do not follow. If taxation is to be taxation, and a man is to bear his own taxation, why pick out the Income Tax? Why relieve him of that particular Tax?

1807. You are strongly against the system of paying "free of Income Tax," and you consider that the financiers and managers of great institutions who consider it a proper way of dealing with their officials, and raising money for their business purposes, are doing wrong in paying "free of Income Tax"?—I consider they are doing wrong for this reason: because if these increases in salaries are real increases for services rendered, why are they almost always charged against the Income Tax account in the accounts, and not against the salaries accounts. Why are the payments thus concealed? I ask that question.

1808. Chairman: That is your opinion?—Yes.

1809. Sir J. Harwood-Baxter: In paragraph 4 of your proof you speak of non-residents. Might I just ask you to amplify what you mean there. The present system of assessing the foreign employees of British companies trading abroad is a source of constant irritation you say; what do you particularly mean by that?—I mean a man in a position in British companies trading abroad. A man may be a manager of a concern in Paris; his money is earned

in Paris, and he may be a Frenchman, but because he is also made a director of that company he is then charged by the British Government with Income Tax upon the whole of the emoluments which he earns in Paris.

1810. Chairman: What is your opinion on the dual payment?—He should be exempt from British Income tax.

1811. Sir J. Harwood-Baxter: On the abatements and allowances have you made a calculation of what the extra amount of exemption which you put down here would cost the State?—I have made no calculations whatever.

1812. It would be a very large amount?—The cost of the increase in the extra allowances would be very large.

1813. Mr. Kerly: I will take in order, please, your three real grievances. You object to Income Tax being levied on what you call imaginary profits, a statutory income?—Yes.

1814. I gather that generally you want to check the statutory income by the actual income of the year before?—That is my idea.

1815. You told Mr. McLintock that the principal difference between the statutory income in trade and the real income are to be found in regard to the wasting assets and depreciation?—Yes.

1816. But you desire to leave to other witnesses suggestions as to dealing with those?—Yes.

1817. Is not there also a question about the valuation of stock? As an accountant, I suppose you have nothing to do with valuations?—No, but there are, of course, decided opinions as to how stock should be valued. It should be valued according to our idea at cost price, or at the customary market valuation if the market valuation is lower than the cost price, but you should not value it at the market price of the day, if more than cost, because you would then be taking credit for profits not actually realized.

1818. If the market price has risen and the stock is immediately saleable at the enhanced price, is there any logic in not taking it at that price?—Simply that you would be taking credit for a profit you have not realized. The profit is not realized until you have sold the article.

1819. That was one of the difficulties that Mr. Freyman just put to you about farm accounts?—Yes, but I do not know that the farm valuations are the market valuations. I told him I know nothing of farm valuations. It may be, so far as I know, that those valuations were on a proper profit and loss basis—I do not know if they are.

1820. Mr. Synnott: No, the Inland Revenue insist on the actual valuation.—I see.

1821. Mr. Kerly: I am obliged to Mr. Synnott. Let us stick to business accounts for the moment. You do not desire to give any evidence about the valuation of stocks; you do not know that any difficulty has arisen about them?—I have not heard of any.

1822. Now let me go to the farm accounts. Are you familiar with the form which is issued by the Inland Revenue for farm accounts?—Yes.

1823. That is a profit and loss account?—I have not filled any in, but I am familiar with them to the extent that I have looked over them for clients, and left them to fill them up themselves.

1824. I have been supplied with a copy. If you do not know it I will hand it down to you.—Thank you.

1825. I think you will find it is a profit and loss account. Will you just look at it; I want to ask you about it. (Document handed to witness.)—It is a profit and loss account in a certain form. The ordinary profit and loss account, of course, does not include debts at the beginning and end of the year, which this does.

1826. The profit and loss account does not?—An ordinary profit and loss account is not charged with the book debts at the beginning of the year, and credited with the book debts at the end of the year unless these men traders' accounts—so, I do not quite know what it is (reading from form): "Farm debts owing to me."

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1827. I assume they are debts in the business?—It varies from the ordinary commercial profit and loss account, but it is a profit and loss account in a sense.

1828. Now look at the debit side of it; that begins with a valuation, does not it?—Yes.

1829. That will be the valuation at the beginning of the year?—Yes.

1830. Of stock, produce, and cultivation?—Yes.

1831. And at the bottom of the other side you have a corresponding valuation for the end of the year?—Yes.

1832. You notice there is no charge there for produce consumed on the farm. It will be represented by the sales of stock, or difference in the value of stock, or produce?—Yes.

1833. Which was I think the difficulty that Mr. Petyman put to you?—It is either sales or increased value of the live stock.

1834. Have you any criticism of that nature?—No, I have no criticism to make, because I know farming accounts are very difficult to prepare. I notice this account is not headed "Profit and Loss account," treating it apparently as a special account for farmers based on receipts and payments.

1835. It is a profit and loss account for farmers?—Yes.

1836. You have no suggestion to make with regard to that, and, therefore, I will pass on. You deal in your proof with taxation of savings at the unearned income rate, and you suggest that that is a hardship. Am I right?—No, I say that to smaller incomes some relief should be given in respect of unearned income, where a person has no earned income, and cannot augment his income to meet the increased cost of living.

1837. The savings in a particular year are treated as earned income, are they not, in the year in which they are earned?—I do not quite follow.

1838. Supposing a man earns £1,500, of which he saves £500; upon the £500 he pays at the earned rate, does he not?—He pays at the earned rate on the £1,500 that he earns.

1839. In the following year he pays on the income derived from the investment of the £500 he saved in that year?—Yes.

1840. At the unearned rate?—Yes.

1841. I thought you objected to that as a grievance?—No, I make no distinction. I do not say anything about savings there at all. I simply say that for the lower incomes the distinction between earned and unearned income requires further consideration, because if a person has no earned income he has no means of adding to his income to compensate for the increased cost of living.

1842. I beg your pardon. I probably was mixing your evidence up with that of somebody else. With regard to the one-sixth for repairs I understand you have no special knowledge of that?—I have no special knowledge.

1843. I am interested in your suggestions for machinery. You propose first of all that the Assessor should be done away with, and that the Surveyor should make the assessment?—Yes, that is so.

1844. Do you see any good in the existing body of Assessors as they are at present provided for?—No. So far as I am concerned my experience has always been that they create a certain amount of friction.

1845. It is suggested that they bring local knowledge to help the Surveyor. Do you think that there is anything in that?—No, I cannot see that there is. The Surveyor himself is in the locality.

1846. If the Surveyor had the opportunity of summoning Assessors locally that might provide him with the advantage of local knowledge?—Yes.

1847. So much for making the assessment. Then you suggest that there should be a court?—Yes.

1848. To which appeals should come?—Yes.

1849. That is instead of the General Commissioners?—Yes.

1850. And you propose that that court should be made up of persons to be nominated by say a Trade Society, a local Chamber of Commerce, and the Revenue authorities?—Yes.

1851. Do you think that would be a satisfactory method of selection say for the City of London?—I was thinking in that connection more of what is done in connection with disputes on excess profits, a Board of Referees to which those disputes can be referred; that has worked very well.

1852. That is a central body?—Yes, that is true.

1853. Would not it be better to make the Special Commissioners the appellate court with any necessary development to allow them to sit often and locally?—I think there is a good deal in that suggestion. The only thing is that the taxpayer seems to think that, the Special Commissioners being Revenue officials, he is not getting fair treatment, although in my own opinion he is getting the best of treatment.

1854. Any court which was set up to try Revenue appeals only would be Revenue officials in the same sense that the Special Commissioners are?—But there would be some outside.

1855. You mean that there would be a lay element on them?—Yes.

1856. Then you object I gather to going to the High Court for any purpose?—For any purpose in connection with the interpretation of accounting.

1857. You would not object to going to the High Court to interpret the law?—No.

1858. Then you preserve an appeal on questions of law only as at present?—Yes, decidedly.

1859. Sir T. Waiteaker: I wish to ask you on one point with regard to the payment of Income Tax on salary. I want to know what is your objection to that from the point of view of the Revenue and the Legislature, suggesting to you that we have nothing to do here with the several considerations which you have suggested. Is there any substantial objection to that from the Revenue and legislative point of view?—I thought the Commission was to inquire into Income Tax in all its phases. I had no idea it was only confined to the question of revenue alone.

1860. I mean revenue and legislation; in it a matter in which legislation should interfere?—If you are going outside the question of mere duty. If you are confining yourself merely to the question of loss of revenue in my opinion the payment of Income Tax for others does not result in any appreciable loss of revenue.

1861. Then you see no reason on those grounds why Parliament should interfere with an arrangement which those concerned consider convenient?—I see no reason why Parliament should interfere with that arrangement if revenue is the only question they are going to consider. I have given the reasons why I think Parliament should interfere in the national interests.

1862. Mrs. Knowles: In paragraph 7 of your proof you say the aggregation of incomes of husband and wife is not unduly oppressive. Why do you consider it is not unduly oppressive?—I simply mean that you have to regard husband and wife for Income Tax purposes either as two persons or one person. If they are to be regarded as two persons they would be assessed separately as two individuals, and get all the allowances to which two individuals are entitled. Therefore if the woman has money, and the man has money—we will take an illustration of a couple with £1,000 a year between them, the woman with £500 and the man with £500, they would be assessed as two incomes of £500 each; but if two people get married, and the man had £1,000, and the woman had nothing, or the woman had £1,000, and the man had nothing, they would be assessed as one person; therefore the woman with the £1,000 a year who had married a man with nothing would pay a larger amount in Income Tax than her sister who had married a man with £500 a year; that surely is not fair. You cannot have it both ways. You must either regard married people as two individuals, or as one individual. Therefore, the system of separating the incomes of husband and wife simply means that the richer the married people as individuals are the greater the benefit they would obtain, and the poorer they are the greater loss they suffer.

1863. Chairman: There is nothing else that we desire to ask, thank you. We have had a very profitable two hours.

FOURTH DAY,

THURSDAY, 22ND MAY, 1919.

PRESENT :

LORD COLWYN (*in the Chair*).

MR. BOWERMAN.
MR. PRETTYMAN.
SIR E. E. NOTT-BOWER.
SIR J. S. HARMOOD-BANNER.
SIR W. TROWER.
MR. HOLLAND-MARTIN.
MR. ARMITAGE-SMITH.
MR. BIRLEY.
MR. WALKER CLARK.

MR. KERLY.
MR. KNOWLES.
MR. MACKINDER.
MR. McLINTOCK.
MR. MANVILLE.
MR. GEOFFREY MARKS.
MR. MAY.
PROFESSOR PIGOU.
MR. SYNNOTT.

SIR CHARLES CAMPBELL McLEOD, Chairman of the Imperial Commercial Association, and of the East India Section London Chamber of Commerce, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

1864. (1) I beg to state my evidence is submitted as to Double Income Tax in connection with India.

1865. (2) The injustice of the Double Income Tax has been admitted at the Imperial Conference of 1918 and on several occasions by the Chancellor of the Exchequer.

1866. (3) The Finance Act of 1914 provided that the Double Income Tax was leviable on all incomes derived from abroad by persons resident in this country whether the money was actually remitted to this country or not.

1867. (4) It is essential that the admitted injustice of Double Income Tax should be dealt with now without awaiting the outcome of the inquiry on the whole question of Income Tax.

1868. (5) The retention of the Double Income Tax has forced certain businesses in this country to transfer their offices to India so as to avoid the burden of the double tax, and if redress is not obtained at an early date many others are likely to follow suit. The result of this was pointed out by the present Chancellor of the Exchequer at the 1917 Imperial Conference, when he stated that the British Exchequer would "lose not merely the Revenue which he now collects on income earned abroad but he loses the whole Revenue." This has other aspects in destroying channels of trade with India.

1869. (6) There are no doubt occasions where the Secretary of State for India feels called upon to exercise special care and vigilance, lest the financial proposals of the Imperial Government should directly or indirectly imperil or cripple the finances and resources of India, or lest the British Exchequer should enrich itself at her expense, or to the detriment of Indian interests.

1870. (7) It is now invoking the principle and placing it in the forefront of my representations, I recognise that it is incumbent on me to make good my assertion that it is adverse to the development of India's natural wealth and staple industries.

1871. (8) I do not need to remind you (1) that Indian railway development has been crippled for

lack of available funds in the hands of the Indian Government; (2) that to supply this and other recurring pressing wants for the general administration and development of the country, and also abnormal expenditure, India requires every penny of capital and revenue she can acquire; (3) that the hoarding instinct of the Indian people remains firmly rooted and that for the most part they are still shy in embarking capital on or investing in any trading or industrial enterprise, especially in view of the rude shock recently caused by the wholesale failures of "Sandeshi" Banks and other concerns launched with and supported by capital wholly provided by Indians themselves; (4) that throughout India, her coal and mineral wealth, her tea, jute and other industries, including cotton to a large extent, and her trade and commerce generally are not only largely started, developed, and managed, but also largely financed, by capital belonging to British subjects of British nationality, who from time to time are enabled to sustain the rate of progress in these directions by the aid of fresh capital, automatically created by their savings from profits and dividends, yielded by their industrial enterprises and from accretions thereto; and (5) that this source of capital is largely augmented by the practice, hitherto adopted by the East India merchants of British nationality on the occasion of retirement or on establishing a residence in the United Kingdom, of leaving a large amount of liquid capital with their firms or in Indian Banks which is available and in fact employed in financing their businesses in Indian trade and commerce and also in financing industrial and other companies under their firm's management.

1872. (9) I bring all this to mind as demonstrating the all-important factor that the surplus profits and dividends just referred to, that is, profits and dividends not remitted to or spent in Great Britain or elsewhere out of India, and accretions thereto, are indigenous to India and constitute a large part of the working capital that India has to rely on for the development of her mining, commercial and industrial resources. It is true that British Banks, some of them with head offices in London, provide finance in the first instance, but spending generally these Banks advance funds either on the express guarantee or on reliance on the credit and financial reputation of the

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[Continued.]

merchants by whom the concerns under advances are managed, so that it is these merchants who bear not only the brunt of all risks inseparable from commercial or industrial enterprises but also, consequently, of the Income Tax levied on industrial profits under the Indian Income Tax laws. In the same connection I would state that the "outside" investor non-resident in India, or unconnected with trade or commerce in India, contributes but a negligible fraction towards the enormous capital already embarked in Indian commercial or industrial concerns, which rarely attract him on account of a vague feeling of insecurity and the difficulty generally experienced in realising. Moreover now-a-days the return on such investments is so moderate that any additional impost would scare a capitalist otherwise disposed to put surplus capital into Indian ventures.

1873. (10) Having thus touched on certain economic conditions relevant to present purposes, I proceed to summarize the various ways in which the Double Income Tax adversely affects India, viz:—

- (a) Even under existing favourable conditions capital does not flow freely into India—it has to be coaxed and enticed. It is therefore manifest that the additional impost on income arising from "securities, stocks, shares and rents" in India, even though not a penny of that income be ever received in Great Britain, must necessarily check the normal flow of that fresh capital into India which she so sorely needs.
- (b) There would be a natural tendency on the part of all holders of Indian investments, save only those who are not British subjects, and those who being British subjects are ordinarily resident in British India, to realise their Indian investments.
- (c) East Indian merchants, on retirement or on adopting an ordinary residence in Great Britain, will no longer leave in India their capital and savings earned in India, and the natural sequel would follow that existing Indian industries would be starved and new developments retarded. The hardship to retired Indian officials who have invested their slender savings in Indian securities, relying on reasonable treatment in the matter of taxation, is also one that must be considered.
- (d) These consequences necessarily entail a reduced yield to the Indian Government under its own Income Tax laws, and that at a time when she cannot afford to lose or forgo a penny of revenue, with the result that the Indian Government has lately been compelled to impose increased taxation in other directions to make good the loss sustained as the outcome of a short-sighted policy on the part of the British Exchequer.
- (e) The sources of income now being tapped by the British Exchequer for its own benefit should be regarded as preserves and reservoirs sacred to the Indian Exchequer, and be left intact so as to be an available means of instantly raising increased revenue in abnormal times of internal stress and trouble such as war, turbulence, famine, or pestilence; for otherwise those sources of income—burdened with the Income Tax imposed by the Imperial Government—cannot reasonably stand the strain of enhanced impost by the Indian Government in cases of emergency.
- (f) The very important question of Government loans in India has in my opinion also been seriously affected, as the removal of so much of the capital invested by Europeans in Rupee loans from India, as a natural consequence of the imposition of the double tax is a serious menace to the placing of Rupee loans by the Government. This factor alone would, I submit, be sufficient argument against the continuance of the Double Income Tax.

1874. (11) I venture to state that those considerations appear to have been overlooked, and justify our action in formulating and pressing them.

1875. (12) I further desire to offer certain observations of a more general nature, on its anomalies and unjust incidences of taxation, namely:—I cannot help thinking that the author of this measure must have had in view an objective wholly diverse from that which actually has been attained. If he had in mind the case of a man who had lived all his life in Britain, enjoying an income exceeding his expenditure and seeking to escape British tax on his surplus income by investing it in India or elsewhere abroad, then this measure by bringing such income within the net would no doubt justly deprive such investor of an unfair immunity from taxation. But as already observed this case is not only very rare and not worth legislating for, but it is also very different from that of the man who has worked in India, made his money there, and leaves his money there for the purposes of his business and to the advantage of the country.

1876. (13) My attention has been called to the *Précis* of the Printed Proceedings of the Imperial Conference of 1911 in which at pages 68 and 69 the Government of New Zealand moved a resolution in these terms:— "That it is inequitable that persons resident in the United Kingdom who, under the laws of a self-governing dependency, pay an income or other tax to the Government of such dependency, in respect of income or profits derived from the dependency, should have to pay a further tax in respect of the same income or profits to the United Kingdom, and therefore it is most desirable that imperial legislation should be introduced to remove the disability," and the Government of the Union of South Africa moved a cognate resolution in these terms:—"That it is desirable that an understanding be arrived at between the Imperial and Colonial Governments whereby the Imperial Exchequer, in claiming payment for Income Tax or Death Duties, should allow a deduction for payments fairly claimed for these purposes in the Colonies."

In dealing with the New Zealand Resolution she then incumbent of the Chancellorship of the Exchequer observed, "If companies wanted the advantage of the British market it was only fair that the British Exchequer should claim taxation in respect of that advantage," and afterwards he stated that he would consider the suggestions as to paying the difference only between the Colonial tax and the home tax in connection with Income Tax as well as Death Duties. Our comment on the Chancellor's remark asept wanting "the advantage of the British market" is that, so far as India is concerned, however much she wants it, she does not get it to any appreciable extent, and that therefore the Chancellor's argument would seem to be pointless as regards India.

1877. (14) The tenor of these resolutions applies with redoubled force to India if only because the Colonial Governments can retaliate on the "Mother" Country, whereas India is in leading strings to the Imperial Government in all matters of finance, seeing that her annual Budget must be submitted to and passed by Parliament—hence whilst the relationship betwixt the Imperial Government and the Colonies is more fraternal than maternal, that which binds India to Great Britain is distinctly maternal—a relationship which casts upon the Imperial Government the duty of "mothering" the material welfare of India as being under tutelage and subjected to parental-like control.

1878. (15) India and the Colonies alike have from time to time protested against the imposition of Double Income Tax on the constitutional ground that the same source of income cannot justly or lawfully be taxed twice in the Sovereign's name—thus in partial recognition of this principle the Imperial Government conceded as regards Death Duties, that Death Duty payable to the Government of India in respect of Indian assets should be deducted or allowed in assessing the Death Duties payable on the entire estate of a deceased person leaving assets located in India, and two years ago it was conceded that the

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Income Tax paid in India could be deducted from the rate payable in England. But that modicum of relief does not avert the untoward consequences of this measure, for the simple reason that the balance of the impost still constitutes an intolerable burden on the sources of income in question, which from their very origin ought not to be subjected to any tax other than that necessitated by the financial needs of India herself.

1879. (16) I may also usefully refer to certain glaring anomalies which are inseparable from the whole policy of the measure, namely:—

- (a) Under the law existing before the Finance Bill of 1914, the one basic test of liability to any Income Tax was ordinary residence for a period of not less than six months continuously in any part of the United Kingdom—but henceforth residence (the onus of proving which lies on the Crown), will still be the test as regards all sources of income other than income arising from "securities, stocks, shares and rents" abroad, whilst the test as regards only those particular sources of income will not depend upon residence at all but is imposed on every one who can be caught unless he can show affirmatively (the onus thus being shifted) either that he is not a British subject or being a British subject, that he is ordinarily resident in India or other British possession.

- (b) The expression "securities" is so elastic that conceivably it might be stretched to cover interest on the kind of capital above referred to employed in fostering trade and commerce of India.

1880. (17) Further, I urge that in these days when British subjects are keenly competing with foreign rivals for the world's trade they must lose pride of place, if on the one hand their enterprise is to be shackled by repressive taxation, whilst their rivals are adopting the contrary policy of heaping subsidy upon subsidy from their respective Governments on their own traders.

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[This concludes the evidence-in-chief.]

1884. *Chairman*: Will you care to take your paper and then indicate for the Commission the main points instead of reading it?—Yes.

1885. That will perhaps be shorter than if you read it through, and you can take your main points and speak to the Commission on them hearing in mind that it has already been read by the Commissioners?—I should like, if I may be allowed, to correct a printer's error in paragraph 12 of my evidence. Instead of "then this measure" it should be "then this measure." Then in paragraph 13 I deal with the New Zealand Resolution, and I say "the present incumbent of the Chancellorship"; that ought to be "the then incumbent of the Chancellorship"; it was not the present incumbent.

1886. Thank you; now will you please take your main points?—If I take the very first statement I make here it is that I desire to submit this evidence entirely on behalf of India. The evidence on behalf of the Dominions has been submitted by Sir Frederick Young, who is much more conversant with the ways of taxation in them than I am, and I therefore confine myself entirely to India, which is a country I lived in for many years and about which I know the conditions. Might I, in this connection, remind the Commission that India is a Continent as big as Europe minus Russia, with a population as big as Europe minus Russia, and with a trade approaching £300,000,000. We, in India, hold that those who helped to give the Empire India, and to build that trade up to its present stage, and are still going on building it, are entitled not only to justice but to consideration, and we do not think that we have either justice or consideration under the Double Income Tax. This Double Income Tax has been a vexed question now since 1914, and India has approached the Secretary of State frequently

1881. (18) The London and Provincial Press frequently contain matter in editorial comment and correspondence showing how widespread and profound is the alarm and dismay created by this measure on the part not only of those whose resentment may proceed from selfish motives but also from high financial authorities, who, having nothing to gain or lose personally, perceive that the welfare and prosperity of India and the Colonies alike is menaced by continuance of this double tax.

1882. (19) In conclusion I would submit that Indian taxation should be left to the Indian Government and regulated in India to provide for the needs of India, and that

- (a) British Income Tax be only levied on such Indian income as has been remitted to this country during the financial year.

- (b) That the British Income taxation at source on British registered companies operating in India and other Colonies which do not trade with or in this country, and whose assets and transactions are confined to India or the Colonies, should be abolished. Unless this is done, practically all such companies will liquidate and transfer themselves elsewhere, which means that London ceases to be the financial centre of the world.

1883. (20) British investors in Indian securities are practically limited to those who are connected with India, and their friends. Indians themselves do not invest very freely in commercial or industrial enterprises as yet, although in this respect there has been some advance made in late years, but it will take time to educate them, and in the meantime the mainstay of India's advancement must be British capital, and if advantage is to be taken of the developments in the many kinds of raw material produced in India everything must be done to encourage and foster confidence. This cannot be done with success so long as the Double Income Tax is retained.

on the subject without avail. Mr. Bonar Law was also approached when he was Chancellor of the Exchequer, and, as you know, it culminated in his repeating on the 3rd June, 1918, that it ought not to continue an hour after the end of the war. The beginning of this double tax was the Finance Act of 1914 which provided that the Double Income Tax was leviable on all incomes derived from abroad by persons resident in this country whether the money was actually remitted to this country or not, and the effect of that process I shall be able to give you in a few examples later on. We, who are connected with India, think that imperially a tax ought to be imposed where the money is earned. We are quite cognizant of the fact that this will be a very difficult thing to do under present circumstances as so much money is required in this country, but we think that the Chancellor of the Exchequer would get a very fair return if what I suggest in paragraph 19 (a) of my statement is put into effect, that is, that British Income Tax be only levied on such Indian income as has been remitted to this country during the financial year. Then there is a very important point, and that is the delay which is almost certain to occur if this Double Income Tax is left until the whole Income Tax question is submitted to Parliament. The result of that will be very disastrous as I shall be able to show you; and I think, and I have been asked to urge, that this Double Income Tax should be tackled first of all and decided one way or the other before the larger question of the Income Tax, which must necessarily take, we think, a very much longer time than is foreshadowed. In late years several companies in this country whose whole business is done in India—I am confining myself to India—have removed their offices from Great Britain to enable them to escape the tax that the Chancellor imposes at their "residence." I could name quite half a dozen, I

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also know for certain that a considerable number of very large and influential companies are waiting the outcome of this Commission to decide whether they are to remove to India or not in the same manner as the others have done. I think that that is a very serious point for this country to consider, and a very serious point indeed for the Commissioners to consider.

1887. Are they large companies?—They are. There is one very large group of companies; I think their income is something like £1,000,000 sterling; they are just waiting the outcome of this Commission before they act. They tried to act before, but they did not get unanimity, but, as I have stated, I know of half a dozen quite responsible companies, and large companies, that have already gone. The result of that is stated in this paragraph. Our view of taxation generally is shortly this: the main point is a claim made by two separate Governments to levy Income Tax. There is a very great number of companies who have only their registered offices in this country. The whole of the business operations, works, and assets are located in another country, say, India for the sake of my argument. This country claims the right of taxation because the registered offices are in this country. India claims a similar right to levy a tax on the sum of ascertained profits, because the business operations, works, and assets of the company are located in and confined to that country. It is the very general experience of those connected with company management that few commercial undertakings, financial or industrial, are justified in distributing as dividend to shareholders more than a certain proportion of the ascertained taxable profits, but the two Governments claim the right of taxation on the whole of those taxable profits, not merely upon the proportion distributed as income in the form of dividend to shareholders. In these days of high rates of Income Tax this double imposition on the full profits ceases to be a tax on income, and comes to be an actual tax on the industry itself, and acts as a severe handicap as against foreign and other competition. That is easily explained: A certain amount of the taxable profits of a company is divided amongst the shareholders and the balance is kept for the sake of expanding the business of the company; therefore, when that is taxed as well as the dividends, it is a tax on the industrial concern. The right to claim Double Income Tax on the full profits is a more serious matter than the mere double income taxation of the shareholders' dividend, for it is a direct menace to the continued welfare of our industries themselves. As you are aware, any resident of this country can go to Australia or New Zealand (and the United States recently have passed a similar law) and he need not pay a penny of Income Tax there unless his income is earned there.

1888. Paragraph 6 I am afraid I put in for the sake of a statement. I am afraid that the Secretary of State failed to consider it properly when he allowed that 1914 Act to affect India.

1889. In paragraph 7 of my evidence-in-chief I state that I hope to make a reasonable case against this Double Income Tax. I need only run very shortly through those paragraphs. The railway development in India is a hugely important thing. The Secretary of State has not been able to find funds there to equip and extend it as he ought to, and he has admitted that he is unable to; and even this year, when some £15,000,000 has been allocated, the price of materials and engineering, and so on, has gone up to such a high pitch that it is no more than the £9,000,000 that was allocated a few years ago, which was quite inadequate. Then I state here that the boarding instinct of the Indian people remains firmly rooted, and it may interest you to know the figures for the last four years; 10, 33, 53 and 45 crores of rupees have been hoarded, equal to a sum of over £100,000,000; so that my statement there is simply borne out. I remark upon the banks in India who have failed owing to the want of capital and inexperience of those who promoted them.

1890. Now I come to perhaps the most important part of the whole of my evidence, and that is, what is stated here as the wants of India and the practice which has met those wants previously to this Act. Business in India is largely conducted and expanded

by the profits of the large firms who are in India, who do not bring their money home but expend their money in extending their business. That is really most important as regards India, because when you come to seek for capital in this country for the purpose of investment in India, you find yourself confronted with very many difficulties. When you really are able to obtain capital in this country for industries in India, it is only through the influence of retired partners of large firms in India, who explain that their own money is being left for the expansion of certain industries and give certain assurances and guarantees. I could give you instances of this sort of thing that would convince you, but something may come out in my evidence.

1891. Chairman: Pre-war, what was the difference between the rate of interest in India and in this country? Could you get a bigger rate in India than you could here?—Yes; usually you do.

1892. Would that increased rate in India compensate for the loss of the Double Income Tax?—No. There is another point, and that is the uncertainty of the rate of exchange. A year ago it was 1s. 6d.; to-day it is 1s. 8d., and we do not know where it may go to or where it may come back to, but it is always a factor that prevents money from flowing out from this country to India. Under paragraph 10 I summarize a few examples of how Double Income Tax adversely affects India, exchange being one of them, another being a vagueness which has arisen from the expression "securities, stocks, shares and rents" in the Act of 1914. There are cases of firms here, whose partners originally were in India only, and after having successfully carried on their business for years, came home to this country, and, naturally, having expanded the business themselves they retained the control. These partners are now made to pay the Income Tax on the whole of their profits on the firm in India under this word "securities." That is very much affected by what I have stated previously in the question of firms leaving their capital in India, because we will take it at the present moment that many of the partners of those firms in India—I know some of them who have done it—are taking advantage of closing down altogether and bringing home their money at the very favourable rate of exchange that now exists. I mention here the hardship to retired Indian officials who have invested their slender savings in Indian securities. I got out a short statement of a man in this country who has investments in India of, say, £500, that come under "securities, stocks, shares and rents." That means that he pays in this country a tax on £500, because there is £100 allowed, at 3s. He pays a tax in India at 6 pias per rupee.

1893. Chairman: How much is that per £2?—It is about 7½d., as near as possible, but my point is this: the Indian Government receives £15 12s. 6d. on that income, and the British Government receives £44 7s. 6d., although that income is entirely earned in India. As I am on this subject, I will give you several other examples up to £10,000; there are only three of them. A man having investments of £1,000 in India pays 9 pias per rupee, because it is a little larger on the equivalent of £1,000, and the English tax is 3s. 9d. on £1,000, resulting in his paying to the Indian Government £46 17s. 6d., while the Exchequer draws £130 12s. 6d. On £5,000—I will not go through all the figures—the English tax comes up to 6s. and the Super-tax comes in. That I look upon in the same light as the ordinary tax. In that case the Indian Government gets £312, but the British Government gets £1,475. Then on £10,000 there is the 6s. tax and the Super-tax again. The Indian Government receives £635, whereas the British Government receives £3,562. I think that will show you that the English Government get what we consider more than they are entitled to. I do not know that I have anything to say on the next two or three paragraphs, because they explain themselves.

1894. On paragraph 14 I would just like to make one remark, as it might not be known to the members of the Commission; domicile in India is practically unknown; that is to say, Indian domicile for a Britisher. He does not remain there; he makes what he considers a reasonable sum to live on, and he comes back to his own country. I state that as

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[Continued.]

it guides the statement I made here about the Mother Country, because in the Colonies that is not the case; a man can live there in a reasonable climate all his life. There is nothing of that kind in India. There is hardly any domicile of the white man. He comes home if he possibly can. I have mentioned in paragraph 16 (b) that "The expression 'securities' is so elastic that conceivably it might be stretched to cover interest on the kind of capital above referred to employed in fostering the trade and commerce of India." As a matter of fact it does, under certain circumstances; that is to say, if those partners who come home still control the business in India, they are subject to Income Tax on the whole of their profits in India.

1895. Paragraph 17 is extremely important, perhaps one of the most important points in the whole evidence, for this reason, that this tax is against us in competition with other countries, say America and Japan, and later on perhaps our enemies, when trade begins to flow again, as probably it will. America and Japan are making great inroads on trade in India, and America and Japan are buying up firms in India and offering very large premiums for goodwill of businesses in India. There are at present two very large firms there. These firms are now buying out vested interests, and it is most desirable that that should not be allowed to go on if this Double Income Tax certainly has anything to do with it. I do not think I have anything more to add except to state that under paragraph 19, after very careful consideration, and talking the matter over with men connected with India who have had wide experience and large knowledge, we came to the conclusion that, failing what I stated at the beginning, that imperially we think a tax should only be levied where the income is earned, we think at the present moment these last two conclusions are all we could press for; that is, that British Income Tax be only levied on such Indian income as has been remitted to this country during the financial year, and "that the British Income taxation at source on such British registered companies operating in India and other Colonies which do not trade with or in this country, and whose assets and transactions are confined to India or the Colonies, should be abolished. Unless this is done practically all such companies will liquidate and transfer themselves elsewhere, which means that London ceases to be the financial centre of the world." I may mention that all those firms operate very largely in the way of bills and finance that come and help to make London the great centre that it is. Just one point that I missed in talking about income, and it is an extraordinary anomaly: a resident in India with an income of £500, we will say, from securities in this country which are taxed at source, although if ordinarily in this country he would be able to claim a refund of the excess tax, he is not allowed to do so if he lives in India. That is surely quite wrong, and I would venture to urge that that point be taken into consideration.

1896. Will you please repeat that last statement?—A resident in India drawing an income of £500 from British securities. If he were resident in this country his taxation would only be 3s.; if that income came from a company it would be taxed at the source at 6s., and he would reclaim the difference, but he is not allowed to claim for the difference because he is resident in India.

1897. What does the combined tax come to in India?—I have only taken in India the simple tax of 1 anna per rupee, that is, 3d. The combined tax on £500 is £80, or 12 per cent.; on £1,000 it is £187 10s. 6d., or 18½ per cent.; on £5,000 the effective rate of 7s. 3d. in the £, that is, £1,787 10s. 6d., or 35½ per cent. On £10,000 the effective rate works out at 8s. 4½d. in the £, or 41½ per cent., equal to £4,187 10s. 6d.

1898. Mr. Armitage-Smith: The two taxes together?—Yes, that is the two taxes together, and there is a rebate on the Colonial tax.

1899. Mr. May: I have no questions to ask, but I would like to suggest that it might be useful if Sir Charles would supply in support of his statement,

and with the special knowledge that he has, a few more comparative figures as to the effect of the working of the taxation.

1900. Chairman: Can you do that?—Yes, I can hand this in.

1901. Chairman: That will be included in your evidence.

The document referred to is as follows:—

STATEMENT OF INCOME TAX PAYABLE ON INCOME FROM CAPITAL INVESTED IN INDIA IN SECURITIES, STOCKS, SHARES, AND RENTS.

	£500.	£	s.	d.	£	s.	d.
Indian Tax at 6 pies per rupee...		15	12	6			
English Tax at 3s. in the £ on £400		60	0	0			
		75	12	6			
Less Indian Tax ...		15	12	6			
					60	0	0
							or 12½.
	£1,000.						
Indian Tax at 9 pices per rupee...		46	17	6			
English Tax at 3s. 6d. in the £		187	10	0			
		254	7	6			
Less Indian Tax ...		46	17	6			
					187	10	0
							or 18½.
	£25,000.						
Indian Tax at 1 anna per rupee		312	10	0			
English Tax at 6s. in the £		1,500	0	0			
Super-tax ...		287	10	0			
		2,100	0	0			
Less Indian Tax ...		312	10	0			
					1,787	10	0
							Effective Rate of 7s. 3d. in the £ or 35½.
	£10,000.						
Indian Tax at 1 anna per rupee		625	0	0			
English Tax at 6s. in the £		3,000	0	0			
Super-tax ...		1,187	10	0			
		4,812	10	0			
Less Indian Tax ...		625	0	0			
					4,187	10	0
							Effective Rate of 8s. 4½d. in the £ or 41½.

1902. Mr. Bowerman: When did Mr. Bower Law make this apparently satisfactory statement to you and your colleagues?—On the 15th June, 1918. It was a public statement in the House of Commons.

1903. Not to a deputation?—No.

1904. You accept that as committing the Chancellor or the Government, to some alteration?—I do.

1905. Sir W. Trevelyan: Where the seat of management is in this country, where the directors are in this country and the board is in this country, do you attribute any part of the earning capacity of the company to that board if the business is carried on in India? Do you consider that if the board is in this country and the operations are carried on in India the whole profit is made in India, or is not some part of it attributable to the management in this country?—Yes, undoubtedly.

1906. That would be a matter then, I take it, for distribution between the two countries?—Yes, I agree entirely with that, because as a rule the directors in this country are men who have had experience in India.

1907. Therefore part of the profits would be attributed to the directors in this country?—The better conduct of the company might be attributed to that.

1908. As regards his income from India, would you draw the whole of his income from India Tax in this country?—I would charge him on what he brings home, because he is getting the benefit of living in this country.

1909. You will remember that under the Finance Act of 1917, it has been suggested with regard to excess profits that there should be distribution by arrangement between the Mother Country and the Colonies or Dependencies. May I put it in this way.

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that the taxpayer should pay either British, or Colonial, or Indian, whichever is the highest tax on the whole income, and the amounts so collected should be allocated by arrangement between the respective Governments; would that meet the case of India?—Well, the case of India is extraordinary. We have never had excess profit tax, and that is why I have ignored it.

1910. I am not dealing with excess profits; I am dealing with the principle of the receipt.—At the present moment it would be very favourable for India.

1911. For instance, if the British Income Tax was 6s., and the Indian was 4s.—I am merely putting hypothetical figures—the English Government would receive the whole tax and distribute it; that is what has been suggested, and that is in accordance with the suggestion with regard to excess profit. Would that meet the case of India?—I think that would be a very reasonable solution, provided the one tax was dealt with, not the double tax.

1912. If that solution were carried into effect it would be a matter of negotiation between the Government here and the Government in India, as to the allocation of the fund?—That is so.

1913. Sir E. Nott-Bower: With regard to your recommendations in paragraph 19, recommendation (a) is that "British Income Tax be only levied on such Indian income as has been remitted to this country during the financial year." That proposal seems to contemplate that with regard to remitted income we should charge and retain our full rate of British Income Tax?—I think I understand your question to be this, that under this I say that the tax should be levied on Indian income that has been remitted to this country during the financial year?

1914. Yes.—I am only supposing by that, that if I am in this country and earning £15,000 in my business I will only probably remit £2,000 or £3,000; the rest goes for the expansion of the business, and I think it is quite right that I should pay Income Tax on that £2,000 or £3,000, because I use it for personal expenditure.

1915. But you would have paid Indian Income Tax on the whole amount?—Yes, but I get back the Indian Income Tax on the amount that is remitted home under the arrangement that was made three years ago when the Chancellor of the Exchequer conceded up to 2s. 6d. in the £.

1916. Then your suggestion (a) contemplates perpetuation of that temporary rebate which has been granted as a stop-gap?—Yes, it does.

1917. So that really what you want is, not only that the unremitted income should be exempted altogether, but you also want the British Exchequer to forfeit the Indian rate of tax on the remitted portion?—Quite. The Indian Income Tax is very low at present, but it does not follow that it will remain so.

1918. With regard to British registered companies in your recommendation 19 (b) I think you said just now that the mere fact that a registered office of an Indian company was here was sufficient to make the whole profits liable in this country. I ask you whether that is correct. My suggestion is that what makes the British Income Tax chargeable is the fact that the control of the business is here. The mere fact of having a registered office here would not really affect the question. It is a fact which you might take into account in considering control, but it is a detail. What we really look to in this country is whether the business is controlled here; do you accept that?—I am going to make a statement upon that point.

1919. Very well, will you do so?—What I agreed to before was, that a business in India would very likely, and generally does, benefit by the mature experience of the men who are directors at home, but that does not follow in every case; it follows in very many cases but not in every case. For instance, there are companies at home operating in India who register at home for the sake of conducting the business at home. In many cases it is easier. For instance, the raising of capital and debentures by a company registered at home is easier than the raising of capital and debentures by a company registered abroad. That is one aspect of it.

1920. Your suggestion is that in regard to companies which do not trade with England, whose assets and transactions are confined to India, we should give up our Income Tax altogether?—I do.

1921. Of course a great deal of capital in some of these Indian companies, as you have shown in your statement here, has been subscribed here; shares are owned here by British owners who invested share capital in the company; they receive dividends from those companies; what do you say with regard to those dividends? I am assuming for the moment that the company is Indian. What would you say with regard to the dividends which are received by shareholders resident here?—These dividends are now taxed here.

1922. No. The profits of the company are taxed here; you propose to give that up?—Yes.

1923. As the taxation at the source has been given up, under our existing Income Tax laws the shareholders of these companies would be receiving profits from possessions or securities abroad and would be liable to tax?—Yes, they would be taxed abroad in the country where the business was conducted, and the shareholders in this country, or in the other country, would have to pay the tax of that country.

1924. Supposing the tax of that country were a lower tax, they would have to pay tax here as well, even taking that temporary relieving clause?—That would be a question of the adjustment which we talked about a short time ago. It is impossible to say how you are going to arrive at these calculations. It is only the principle which is invoked here.

1925. I think that what you refer to in your paragraph 19 (b) is a very difficult question, and one which requires very careful consideration.—I am quite aware of that.

1926. It is an enormous extension of the British Income Tax that does follow on the theory that where a company is controlled here, although all the operations are abroad, the whole of the profits should be treated as British profits and should be charged Income Tax. You mentioned that a partner here in an Indian firm, a man who had been managing a firm in India and who came over here and retired, and was still a partner in the firm, was held as liable to Income Tax on the whole of his share of the profits of the firm, whether they were remitted or not?—That is so.

1927. That would be so if he were a shareholder in a public company.

1928. Mr. Kerly: Colquhoun v. Brooks is the other way.

1929. Sir E. Nott-Bower: I heard the statement of the witnesses with some surprise, because the rule laid down with regard to taxing the whole income, whether remitted or not, is this, that income from securities, stocks, shares, or rents is assessable whether remitted or not, but that the income arising from possessions out of the United Kingdom (other than securities, stocks, shares or rents) is to be computed only on the amount of the sums remitted. It was held in Colquhoun v. Brooks, the case that Mr. Kerly referred to, that partnership was a foreign possession. The statement I made is absolutely clear, and if you wish proof of it I can give it to you. I may say there is one point I would like to make in connection with that in case you mistake my meaning. A partner in a firm in Calcutta comes home here and retires. The first thing the Income Tax people do is to ask you for your partnership deed with your firm in Calcutta, and if that partnership deed discloses that you, as senior partner, who have probably made the business are still in control, then you pay your share of the whole of the profits of that firm in Calcutta. If, on the other hand, you can prove to the Government Income Tax Surveyors that you do not exercise that control, then you do not pay. I have had personal experience of it.

1930. Mr. Marks: You speak in one or two places about the difficulty of raising capital for India except in this country, but I think I remember a year or two ago, or rather more than that—before the war—in connection with some other matter into which I was inquiring, that in certain connections like rail-

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ways, for instance, I found the Government imposed a limitation on the amount of interest which was to be paid for the money advanced, and that the rate of interest was so much out of proportion with that which obtained in India that it rendered it practically impossible to raise money in India.—No, that was not the case. The reason that you found money was obtainable in this country to promote railways is accounted for by the fact that the Government guaranteed the interest up to a certain point, that is to say, when we got a concession from the Government to open out a light railway it is with a 3 per cent. guarantee.

1931. Yes, I quite understand that, but that is not my point. My point is that the money required, I will not say for the big trunk lines, but for feeder lines, and so on, might have been raised in India itself, but was in fact raised here, because the Indian Government, or the India Office—the India Office, I think—did not allow a sufficiently high rate of interest to be offered to attract capital from Indian sources?—I see your point now; that is quite correct.

1932. It is so?—It is so.

1933. It did have some effect?—It did have some effect; at the time there was a very acute shortage of railway waggons, and the Government were being pressed to allow local companies to be established in India at a high rate of interest in order to get these waggons quickly made and to work, and the Government refused.

1934. I was going to ask you whether you could say, out of your own experience, that that condition has been altered at all, and the regulations which the India Office used to impose have been relaxed?—I do not think they have been relaxed.

1935. Mr. Kerly: May I clear up a point you were on just now? It is the case of a sleeping partner resident in this country: he pays on his share actually remitted here; if he is a controlling partner he pays upon his whole share?—That is so.

1936. And the sleeping partner pays on an average of 3 years' receipts, under the present Act?—Yes, that is so.

1937. I think you may take that?—That is quite correct.

1938. Now will you turn to your conclusions in paragraph 19? 19 (a) refers to ordinary investments in India, but not to a British company carrying on business in India. You suggest that there should be taxation on the income remitted only, and that is, I understand, upon the assumption that an arrangement will be made that the returned Anglo-Indian, for instance, who has such an interest, is going to be allowed to deduct the Indian Income Tax with which he is charged?—That is so.

1939. Will that Indian Income Tax with which he is charged be upon the profits of the company or upon his share?—Upon his share.

1940. Upon his dividend?—Upon what he remits.

1941. You mean the company will deduct according to the practice here something in respect of the tax which they have paid?—The procedure is that we, who are subject to that condition, when we send in our Income Tax, accompany it with a certificate showing that Income Tax on that same amount was paid to the Government of India.

1942. The same as here?—Yes.

1943. Now take your paragraph 19 (b). You there provide in the case of English companies trading only in India that there shall be no English Income Tax?—That is so.

1944. You contemplate that if any of the shareholders are in England and receive their dividends here, they shall pay as under 19(a)?—That is so.

1945. That might be readily applied, if it is desirable, to cases of companies trading only in India. How would you deal with the case of a company which trades in India and elsewhere in the East?—I think it would have to be a matter of arrangement, according to the tax that was payable in those countries.

1946. Have you thought it out and have you any suggestion to make?—No, I have not; the various taxes are so complicated. It is quite conceivable that there might be a company in this country that would be trading with South Africa, with India, with Singapore, with New Zealand, and with Australia.

1947. Just the same difficulty was put to Sir Frederick Young about the Colonies. He also had no solution worked out. Now take another case. A company carrying on business in India and importing Indian produce, shall we say, here, and selling it here. It does some part of the work here. How would you deal with that?—They send some produce here to be sold. India has produced the produce, and it is sent here to be sold.

1948. Perhaps they buy English produce and export it to India?—I should say that the only way to meet it would be that the man who bought that produce and made his profit on it would come under the Income Tax.

1949. Do you mean that it should rank as an English trading company and not fall within 19 (b)?—No.

1950. Again I ask only for suggestions. Such a thing must be thought out if the law is to be altered.—Yes, but I do not think that produce is affected in the same way that income is. If you go into produce and manufactures you open up a colossal question.

1951. What I am putting to you is a company carrying on operations in India and in England and as the result of the combined operations making a profit.—That is a different case altogether. If the combined operation is making a profit, that clearly does not come under my 19 (b). Then that must be a matter of arrangement.

1952. You have no suggestion to deal with such a case?—No, I have not.

1953. I gather from your paper that although India is greatly in need of English capital the only source of English capital it gets is such capital as is influenced by people who are already interested in India, and particularly by returned Anglo-Indians?—That is so.

1954. Have you any idea of the advantage to the Revenue by the alteration which the 1914 Act produced, or what would be the corresponding loss if it were repealed?—No, I have not. I was prepared in my mind to answer your question under that. That is under (d) of paragraph 19, is it not? I make a statement there. Is your suggestion to ask me if it is within my knowledge that what I state under 19 (d) has reduced the collection of Income Tax in India?

1955. No; my question was a more general one. Until 1914 a payment was made only in respect of money transmitted to this country; now it is made in respect of the whole income which is produced by foreign possessions. You complain of that alteration. I ask if you know what it would cost the Revenue if we went back to the old system?—A very large sum.

1956. In paragraph 17 you speak of the danger of encouraging foreign rivals to acquire trading properties in India and carry on trade there. Do you say it is the fact that an American, for instance, pays no United States Income Tax as the result of his Indian operations?—That is so. A law has recently been enacted in the United States of America whereby anyone can reside there without paying any tax unless it is earned in that country.

1957. Does that apply to domiciled Americans?—That I am not quite sure of.

1958. Could you give me the reference to the law or could you supply it later?—Yes, I could.

1959. Perhaps you would supply it to the Commission. As regards Japan is there any corresponding law?—That I do not know.

1960. Mr. Holland-Martin: The law you refer to is one that was mentioned in "The Times" a few days ago, is it not?—I think it is very likely the same one; it is a quite recent one.

1961. I have not seen it fully; I have seen a paragraph in the paper to that effect.

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(Continued)

1962. *Mr. Kerly*: I have seen a general statement, but it was in such general terms that it was impossible to appreciate it. No doubt if it is a law one can find it.

1963. *Mr. Holland-Martin*: I have tried in the City to find out, but I could not find anything more than was in the paper—I will ascertain from my sources of information.

1964. *Sir J. Harcourt-Banner*: You mention in paragraph 19: "British Income Tax is only levied on such Indian income as has been remitted to this country during the financial year." Is there not a great deal of income in India which is at once reinvested there?—Undoubtedly.

1965. So that that money being reinvested and not remitted to this country would not pay any Income Tax under your contention?—No, they would not pay any Income Tax in this country.

1966. So that, for instance, a man might double his cotton mill or his bank, or anything, if it was an English company or an English partnership, and he would pay nothing whatever towards his country under your contention?—That is so, but it would be greatly to the advancement of India, would it not, to have that money available to extend that particular business?

1967. It would be rather a preference given to some of the other Colonies if income that was left there to be reinvested in capital was not to be charged Income Tax.—That is one of my very strong points that I wish to emphasise.

1968. That income retained in India for the purpose of being reinvested there should have the advantage of being free of Income Tax if it is dealt with in that way?—That is so, except the Indian Income Tax, of course.

1969. Do you not make rather a large assumption? You say that Indian investments only come from Anglo-Indians. I am speaking with a long experience. I happen to have some money in Indian cotton mills, and some money in Indian tramways, and I know of a great many others who have as well—not people connected with India. There are very large investments of English capital quite beyond Anglo-Indians?—That may be so in those particular instances, but to take it broadly, it is only people who are really connected with India who make these very large investments. It is quite possible that, we will say, a friend of yours who knows all about India and who knows all about these investments might say to you: "I think if you put £10,000 in that you would be all right," then you would do it. There is no doubt about it that as travel is becoming easier, and India is becoming better known in this country, that system is expanding.

1970. The Income Tax in India is pretty light, is it not?—Very light.

1971. *Mr. Mansfield*: In regard to Income Tax on profits in India, of which a portion only is remitted to this country, would you propose that the tax on the remitted portion should be at the rate appropriate to the whole of the profits, or only the rate which the remitted portion would demand?—I think that would work itself out without any difficulty. Because, say my income was £1,000 and I received £20 from India, that £20 would go into my £1,000 return. But if my income was £10,000 and I received £7,000 of that from Calcutta, similarly that £7,000 would be accounted for in my Income Tax return. So that really it would not make any difference.

1972. On the £7,000 you would pay the full rate, whatever that was, under the present arrangement, at all events?—It depends upon what the man is returning. If you are a man with a £10,000 income, whatever you receive from India—whether you receive £20 or £2,000—is the same thing. It is your total income that you are assessed upon.

1973. That is not exactly my question. My question is: Where the total amount is less than that which would demand the full rate being imposed whether you would suggest that the rate to be imposed in this country on the amount remitted to this

country should be at the rate which would be imposed if the whole of the income were remitted to this country?—Yes, I would.

1974. You mean, I think, the standard rate, say the 6s. if the two together made up the rate to 6s., would be paid?—Yes.

1975. But without Super-tax, which would be paid on his total income from every source in this country?—That is so.

1976. *Mr. Birley*: Assume a British company registered in India and selling in London produce or manufactures, where would you consider the profit was made?—The profit is made in India.

1977. So that that should not be taxed?—No. The produce was produced in India, and the profit therefore belongs to the produce.

1978. It is not where it is sold?—No, I do not consider it is.

1979. In the same way, as regards a large number of English houses shipping to India goods manufactured in this country, you would not consider that any of that profit was made in India?—No.

1980. So that all the profits that were made by shipping houses should not be taxed in India under your assumption?—No.

1981. They should only be taxed in this country?—Quite so.

1982. *Professor Pigou*: You said that an Englishman resident in India who had £1,000 from English securities would not be able to claim the difference between the rate on the £1,000 and the standard rate?—I said £5,000 was the figure mentioned to me. I do not know about £1,000, but we will take it as a small income that pays a tax of 3s. £1,000 would pay a tax of 3s. 9d.

1983. I do not much mind about the rate of tax. Can you tell us in what way residence for that purpose is defined? If a person lives half the year in England and half the year in India, what happens then?—If you live a day over six months in England you are subject to English taxation laws.

1984. So residence in India means living there more than six months?—That is so.

1985. Then another point in connection with that: I see under section 26 of this Consolidated Income Tax Act this rule about not getting exemption does not apply to a person who is or has been employed in the service of the Crown, or in the service of any missionary society or in the service of any native State under the protection of the Crown. So that an Indian civil servant, for instance, would get the ordinary right to reclaim, but an Indian merchant would not?—That is so, but I am not sure about your point there. I am not sure about the Indian civilian—whether he would get the right to claim.

1986. What it states here under section 26 is this. "No exemption, abatement or relief under this Act which depends wholly or partially on the total income of an individual from all sources shall be given to any person unless the person is resident in the United Kingdom, provided that any person who is or has been employed in the service of the Crown, or who is employed in the service of any missionary society abroad, or in the service of any of the native States under the protectorate of the British Crown"—and then various other things—"shall be entitled to any exemption, abatement or relief to which he would be entitled," and so on?—Then it is very evident that these people are exempt from it.

1987. So that it extends chiefly to people trading in India?—Yes, evidently it does. If those people are exempt from it, then the others come under the ordinary rule, merchants, assistants, engineers, all civilians except those who are under the Crown.

1988. *Mr. Arundell-Smith*: It was a presupposition of your evidence that it is desirable for capital to flow to India. Do you not think it possible that within the next 10 or 15 years it may be necessary to consider the desirability of directing capital to this country rather than encouraging it to flow from this country to other places?—No, I do not.

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1980. Mr. Synnott: As regards the locality where profits are earned, I wish you would consider that question carefully; because the illustration that was put to you just now about an exporting house from England, making profits in England by English exports, was put to Sir Frederick Young and he held that that was Colonial income. You suggested just now that the test of locality of earning profits was the place where the goods were originally produced; but I could like you to consider that generally—because your case is only part of the general case—as to whether you would come to some agreement as to what that means; because I put the case to Sir Frederick Young, and he said that in such a case that would be Colonial profit, because the goods were sold in the Colonies and the money paid there. I will not pursue it further but suggest to you that it is a very important question. May I ask you whether most of those big houses that you spoke of were importing houses or exporting houses—I mean the houses who threatened to go?—Both; chiefly export.

1990. You see therefore on your principle one set of houses would be relieved and the other would not if your change in the law was made?—But my contention is that if you export goods from this country the manufacturer makes his profit and he returns it in the Income Tax. If the receiver of the goods in India, for instance—I am only talking about India—makes a profit on those things he has to return that in his Income Tax.

1991. Yes, but under the present system he pays two Income Taxes; that is your grievance, is it not?—Yes, but that is not connected really with produce; that is companies and stocks and shares.

1992. I am speaking of companies who deal in produce. I think I have made the point?—Quite.

1993. Now as regards want of capital. You do not suggest that the hoarding that takes place in India, which prevents the circulation of capital, has anything to do with the subject of Income Tax?—No.

1994. That may be due to the Double Income Tax?—I only say that that system deprives the country of capital that otherwise would be available for it.

1995. You know the origin and the object of the section in the Finance Act, 1914. It was to prevent persons occupying the Income Tax altogether, or paying Income Tax at a low rate, on money sent out from this country for investment in other countries. You say the Income Tax in India is low now?—Yes.

1996. Is there a danger that persons protected by that low rate of Income Tax in India would send money out to be invested there to avoid the English Income Tax?—But they cannot avoid the English Income Tax. You mean if the double tax was done away with?

1997. Yes. I want to test that proposition. You say they cannot avoid it if the income ultimately comes here. They can avoid it if the income does not come here, can they not?—Yes.

1998. Under paragraph 19 (a) you say: "British Income Tax is only levied on such Indian income as

has been remitted to this country during the financial year." If he remits it two or three years after it is earned, that money would pay no Income Tax?—Yes, that money would pay Income Tax. All remittances that come from India pay Income Tax, when they are remitted. It would come into the next financial year.

1999. "British Income Tax is only levied on such Indian income as has been remitted to this country during the financial year"—Any financial year.

2000. You would take it whenever it was remitted?—Absolutely.

2001. Is it not possible that that money could be remitted and would escape the Indian Revenue altogether? Was not that done before the Finance Act, 1914?—I believe it was done, but of course it was not right. There are many ways that you could evade the Income Tax; you could buy stocks and shares and send them home, in the old days when the rupee paper was available for sale here, at something like the equivalent of the Indian paper.

2002. Would you still retain the proviso in the Finance Act that a man would have to return as his income profits whether received or not? You know that is the law now?—Yes.

2003. You would still retain that?—Yes, I would. There is one instance that may be of interest to this Commission. Take the case of a resident in this country who has shares, we will say, in a tea company in India. There is no Income Tax on tea in India. But that resident here has to pay the whole English Income Tax and Super-tax on his investments in tea, for which he gets no rebate of the Indian Tax.

2004. I quite appreciate your point about the returned Indian investing his money in India, which I quite agree he could probably do with advantage to himself and to the Empire; but I only want to put this case that you yourself have put. It is paragraph 12: "If he"—that is the Chancellor of the Exchequer—"had in mind the case of a man who had lived all his life in Britain, enjoying an income exceeding his expenditure, and seeking to escape British tax on his surplus income by investing it in India or elsewhere abroad, then this measure, by bringing such income within the net, would no doubt justly deprive such investor of an unfair immunity from taxation." You do not think there is any danger, under your system, of an English-domiciled Englishman escaping just taxation by investing in India?—No, I do not.

2005. Mr. Walker Clark: You have mentioned tea and cotton. Would your remarks equally apply to engineering firms in India, and exporters of engineering machinery, tools particularly?—If that company was a limited company, of course it comes under the same thing.

2006. And private firms equally?—Yes.

2007. Chairman: Have you anything further to say, Sir Charles?—Nothing, my lord.

2008. We are very much obliged to you for giving us your evidence.

MR. WILLIAM MOSENTHAL and MR. JULIUS AUERBACH, called and examined.

Mr. Mosenthal handed in the following statement as his evidence-in-chief:—

2009. Proof of evidence to be given by Mr. William Mosenthal, of the firm of Mosenthal, Sons, & Co., 72, Basinghall Street, in the City of London, on behalf of his firm, Messrs. Dyer & Dyer, Ltd., E. W. Tarry & Co., Ltd., and Dreyfus & Co., Ltd., being four firms who carry on the business of purchasing goods in this country for export to, and resale in, South Africa, and the purchase and export from South Africa of this country's produce.

2010. (1) I am senior partner of Messrs. Mosenthal, Sons, & Co., and have had very many years' experience of this class of business and am, therefore, well able to speak as to the conditions under which its business—as also that of the firms mentioned above—is carried on.

2011. (2) All the above firms have been established in this country for a long time, but the bulk—in fact,

almost the whole of the profits—is derived from commercial operations in South Africa.

2012. (3) Our London houses are established mainly for buying purposes, and to promote the sale in South Africa of British manufactures and products, and the marketing of South African products in this and other countries.

2013. (4) The profits made in South Africa, over and above the amounts required to pay dividends or to provide for partners' drawings, are not brought to this country but are invested in South Africa for the further development of our business.

2014. (5) Although almost the whole of the trade of these concerns is carried on in South Africa, they are liable—by reason of the fact that they are either companies registered in this country or firms with the actual control in this country—to the incidence of British Income Tax and Excess Profits Duty, even upon the profits which are not brought to this

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country in addition to similar duties imposed by the Government of South Africa.

2015. (6) The following are the maximum rates chargeable against such profits:—

British Duties:

Income Tax—6s. in the £.

Excess Profits Duty—80 per cent.

South African Duties:

Income Tax—1s. to 2s. in the £.

Excess Profits Duty—25 per cent.

Dividend Tax on amount distributed in dividends by companies—1s. in the £.

These figures are exclusive of Super-tax.

2016. (7) It is obvious that such a burden on any business must cripple enterprise and initiative. It is impossible to take any ordinary business risks when all the loss is borne by the merchants and a very large percentage of the profits is shared between the Government of Great Britain and South Africa.

2017. (8) It is recognized that some relief has been given under the Finance Act of the United Kingdom, but this is only temporary and does not affect the situation that Income Tax, Super-tax and Excess Profits Duty have to be paid twice on the same income.

2018. (9) On the other hand, companies which are registered in South Africa, or partnerships with the control in South Africa carrying on the same class of business, are only liable to South African taxation, and any person interested in any such partnership is only liable to be assessed on profits actually brought over to this country. The companies and firms which I represent cannot in these circumstances compete with houses which are so established and which are so much more lightly taxed. Even should Excess Profits Duty be eventually abandoned, the difference in Income Tax is in itself sufficient to render it impossible to compete with these firms on an equitable basis.

2019. (10) It may be said that it is possible for

[This concludes the evidence-in-chief.]

2023. *Chairman:* You are coming this morning, Mr. Mosenthal, to give evidence against the Double Income Tax, are you not?—(Mr. Mosenthal: Yes.)

2024. We have your statement here; it is not a very long one. Perhaps you would like to take the points in your own statement, and make out your case?—I understand you wish me to deal with the specific points that I have brought forward, and if necessary to amplify them?

2025. Yes; that is the case.—I think the preliminary paragraph scarcely calls for any comment on my part. I think the paragraph that I might deal with is my 4th paragraph:—"The profits made in South Africa, over and above the amount required to pay dividends or to provide for partner's drawings, are not brought to this country, but are invested in South Africa for the further development of our business." My view in connection with this is that if firms or companies are prepared to use their surplus profits for extending their business in South Africa, instead of remitting them to this country or perhaps spending them or putting them into outside investments, that is a direct advantage to Imperial interests, because it assists in the extension of trade. It is scarcely necessary, from a business point of view, to point out that if a business is to be extended, it is also necessary to have the capital in proportion to carry out such an extension. For instance, we are always urged to secure the trade which Germany had in the past; and rightly so; but I personally, fail to see how we are to add to our initiative and increase our commitments if we have not a certain amount of additional capital to enable us to secure that business which in former years went to Germany; and I might go further, and not only particularly emphasize Germany, but generally other neutral countries or other countries. Our object, I think, should surely be to do as much trade as we possibly can within the Empire for the general benefit of those concerned in Empire interests. Therefore, the more we are handicapped by capital which is taken out of the business

the firms concerned to avoid double taxation either by removing their business from this country and registering in South Africa, or so to change their constitution that the actual control is in South Africa and not in this country, so that only profits remitted to this country would be liable to English Income Tax, Super-tax and Excess Profits Duty. Assuredly, however, from the natural desire to continue business in this country, the removal of the businesses in question to South Africa would not only be a loss of legitimate revenue to this country, but would necessitate the disturbance of our buying houses here, by means of which close touch is kept between the South African markets and the British manufacturer—a fact which could not fail to be detrimental to the interchange of trade between Great Britain and South Africa, more especially in view of the keen competition by Japanese and American houses which is now in evidence.

2020. (11) Apart from this fact, the very nature of our businesses is such that the bulk of the profit is in paper, which is represented by increased stocks and outstanding debts which are not realized in cash, as is the case in a large number of instances here, whereas the tax has to be paid in cash. This, in course of time, will not only cripple the liquid reserves of any business and prevent extension, but even necessitate the curtailment of existing business.

2021. (12) In my view, profits earned in the Overseas Dominions should not be subject to taxation here, or alternatively, only such profits as are remitted to this country should be liable to English taxation and then at the higher rate of taxation payable in the two countries, the respective Governments arranging between themselves how the tax so arrived at should be collected and divided.

2022. (13) If neither of these views is acceptable, then I would suggest that the taxpayer should pay either British or the Colonial rate, whichever is the higher, on the whole income, and that the amount so collected should be allocated by arrangement between the respective Governments.

or is not available for that purpose, the more difficult it becomes for us to carry on legitimate extensions of business, and in fact, as things are to-day, although I admit that it is temporary and probably due to necessities which cannot be overcome, the taxation is of such a nature that it is not only preventing any legitimate extension of one's business, but it is actually crippling business for the moment. The huge amounts of capital which are taken out of business makes it difficult to carry on, even on the lines that we were doing previous to the war.

2026. Nearly every country is in that position, is it not?—I will not go so far as that. I think as far as certain businesses are concerned, they must be treated on their particular merits. I know many businesses here in this country, where huge profits are being made, and those profits are realized profits because they are able to trade on a more or less cash basis. They sell goods or they undertake certain services for which they are paid cash, or what I say is the equivalent to cash, within a very short period after the business has been transacted. But the nature of the business in South Africa is such that we have to give extended credits, and the profits which are made are not actually realized profits; they are really paper profits, from the mere fact that the bulk of the people out there do not pay cash; very often it is an exchange of produce for goods; and there is great delay in securing these profits. In fact I think at the present moment a business does not even earn the profits which it shows on paper, and on which it has to pay Income Tax, because we cannot realize these profits; and if a business were to be liquidated after having made, according to its balance sheet, a certain profit, in the course of liquidation you would find that the capital was greatly reduced. It is simply by carrying on a business from day to day, and from year to year, that you secure those paper profits.

2027. You have not been short of money, have you?—I have not been short of money for the time being,

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because I have certain liabilities which I have not yet met.

2023. Everybody has those?—Yes, but I am talking of liabilities running into huge figures. I saw this morning, if I may say so, a report of a debate in the House last night, where the statement was put forward that a great amount of the Excess Profits Duty had not been collected, for the simple reason that those who owed the money were not in a position to find the cash. I think the remarks that I have just made cover the first five paragraphs of my statement. As regards the sixth paragraph, showing the rates of tax, that was merely put in as information, and calls for no comment. Those are the facts as they exist, and I wish to emphasize, what I have already said, that these enormous payments do cripple a business, and put one in an unenviable position as compared with firms who may also be making large profits but who are not subject to the Double Income Tax. I have also in paragraph 8 stated that we recognize that some relief has been given under the Finance Acts of the United Kingdom; but that is only of a temporary nature, and I submit it does not affect the principle at issue. Then the next paragraph deals with either companies or partnerships which exist in South Africa, where there is no question of control from this side, and therefore they are not liable to taxation. That is a great handicap on firms who have to pay the Double Income Tax, because they are making good profits of which a much smaller proportion goes to the Government, and therefore they have more available for the purpose of extending their business; and the competition becomes very much keener through these firms gradually becoming stronger from a financial point of view, whereas those who are paying the Double Income Tax are becoming weaker. I am talking now from the point of view of the liquid cash available in a business.

2029. Whom do you mean by those people—in what country?—I mean any firm that is established in South Africa and has not got a London office of such a nature that it can be brought under the United Kingdom Income Tax by proof of control. You have to prove that the South Africa company is controlled by the London house, or the British house. Those firms are not subject to tax here; therefore, as I have explained, they financially grow stronger year by year, whereas the others remain stationary, or may even go back. There is no reason why a great number of the firms established in London should retain their London offices. If I may talk from my own personal experience, my London office is not necessary for the carrying on of my business. My firm has been established here for a great number of years, and we have always lived here, and we desire to continue to live here, if possible; but if the incidence of taxation is such that we cannot bear it any more, then the question resolves itself into this: either, if you have sufficient capital, you can retire from business and live on your income, or you have to take steps whereby you are in the position not to have to pay the British Income Tax; that is, to remove your London office.

2030. Is it as serious as that?—I assure you I am talking from my own individual experience, and I think I may speak for the firms who are grouped with me; it is so, because at the present moment the taxation that we have to pay is gigantic. We have also always got to remember that whereas we are working on a profit and loss basis, if our business does not prosper, or if we enter into certain business transactions which prove disastrous or leave us certain losses, we have to bear the full brunt of that; but whatever profits we make, if I may put it so, the Income Tax authorities are our partners in those.

2031. I do not want to ask you a personal question at all, but have not the profits been very large?—It all depends on what you mean by large. During the years that I have been connected with South Africa, we have had very good years at times; on the other hand, we have had very bad years; but I should think if you took an average period of years, the profits would certainly not be larger than in any large business, established either here or elsewhere. We are not in the position of being able to make excessive

profits. The idea may be abroad that people connected with South Africa make enormous sums of money, because one hears of the enormous amount of profit made by what are called the mining magnates. But speculation in gold or diamond shares, or in mineral shares of any sort, or even in land, for the matter of that, is not exactly analogous to making your profits out of a merchant's business.

2032. Only I have seen one or two balance sheets within the last three years, which show that they are very well able to pay a Double Income Tax.—Not a trade concern?

2033. Yes, a trade concern.—Connected with South Africa?

2034. Yes, connected with South Africa.—Well, I tell you my view is that as far as our business is concerned, from the point of view of merchants only, the profits are not such as to permit of that. I express it still more strongly than that. If I knew that this system was to be perpetuated, I should not be able to continue my business in London on the same lines. Fortunately, I have not got to the point of having to consider whether I should retire or whether I should have to remodel my business; but I have got as a foundation for my statement that under existing taxation, it would be quite impossible for me for any length of time to hope to be able to carry on my business successfully; because apart from everything else, the extra charges and the gradual dwindling down of my capital and my resources would put me out of count in competition with merchants out there who do not have to pay this very heavy taxation.

2035. That is a very important point. Now will you please proceed?—I think, with all due respect, what I have said so far—and I must apologize if I have been speaking at too great a length—really covers all I have to say, as far as my evidence is concerned; and we come to the point of how this question of Double Income Tax is to be dealt with.

2036. Do you think there has been a real hardship and that the Double Income Tax has prevented trade in South Africa?—Yes, that is my opinion.

2037. I like to hear what you have been telling us; it is rather out of the ordinary way. You may be able to tell us something we should not get anywhere else. Have you any other points to put before the Commission; do you want to add anything to what you have said?—I do not think there are any other points to add to what I have said, except that I wish to emphasize, as strongly as I can, that perpetuating this Double Income Tax must, to my mind, not only seriously affect individual interests, but must affect the interests of the community as a whole; and that as the prosperity of this country is dependent to a great extent upon its export trade, nothing should be done to handicap that trade beyond what it can legitimately bear. Otherwise, as I say, people will be compelled to take other measures; and once you sever your connection with your country and you domicile yourself, as I would for instance, in South Africa, to a certain extent after a course of time sentiment disappears; and whereas with a London office my efforts are always to get all business to pass through London, once I am not any longer in London, the sentimental feeling gradually disappears, and then the commercial aspect of the question comes to the surface, and if one does not do so oneself, those connected with one, who have to live out of the business, say: "Our principle must be to buy in the cheapest market without consideration to any interest but our own, from a purely commercial point of view."

2038. Mr. Kerly: Do I understand that your business is a combined business, buying and selling in South Africa, and also selling and buying in England?—My business consists in buying goods, preferably in this country, but all over the world, for shipment to South Africa, and for sale in South Africa. Against those goods, I very often get produce consigned instead of cash; therefore, part of my business out there is to sell produce, and I also employ my London office to try to secure orders from manufacturers or traders on this side for the purchasing of produce in South Africa.

2039. Then I was right; to some extent, at any rate, and perhaps in greater part, it is a combined business done partly here and partly in South Africa?

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—Certainly, part of the business has to be done here; but the point that I wish to make is that to do that business here in London it is not necessary for me to have an office here.

2040. I follow that, and I will return to that in a moment. I have put to you that question because we have had suggestions from other people about Double Income Tax, and I do not think they would meet your case at all. For instance, it has just been suggested by another witness that British taxation at source on British companies operating in a Colony, which did not trade here, should be abolished. That would not help you a bit, because you trade both here and in South Africa?—Yes, I do.

2041. Whatever arrangement is made to meet your case would have to be by collecting the Income Tax either here on behalf of both countries, or in South Africa on behalf of both, and dividing it upon some basis agreed between South Africa and the home country?—If Income Tax has to be paid in this country on profits which are earned in South Africa and not remitted here, then I agree that there must be some understanding between the Union Government in South Africa and the Imperial Government as to where the tax is to be collected; and how it is to be allocated between the respective Governments.

2042. Would it be a sufficient provision for the hardships you feel if the rule were as before 1914, by which profits paid Income Tax only when they were remitted to this country. Would that help you?—It would be an amelioration, but whether it would satisfy me, I don't know.

2043. It would not apply at all if the control of your firm was in this country; and I gather that that is the case?—I do not know that it does not apply if the control is here. I have not the Act before me, but what I always understood was that before that Act, as long as profits were not remitted to this country, you were not liable to tax.

2044. I suggest to you that if the control of the firm was in this country, the whole of the money was taken to be earned here, and you were liable to pay, not only on profits remitted here, but upon the whole of the profits?—Not prior to that Act.

2045. You think not?—That is the impression I am under, but I do not profess to know the Act thoroughly.

2046. You suggest that you could get out of your difficulty by abolishing your London office?—Yes.

2047. The critical question is not whether you have a London office, but whether the business is wholly or partly carried on in England, is it not?—By abolishing my office, I mean the purchase of goods here. My South African firm can appoint an agent here, who would charge commission for the purchase of goods, and his purchasing these goods for me would not make him liable to pay Income Tax.

2048. Not at all, but where do you propose that the people controlling your South African firm should live?—I propose that the people who control it should have their domicile in South Africa.

2049. And residence?—They could reside where they liked. In my instance, my domicile would be in South Africa, but that does not necessarily mean that I should permanently reside in South Africa; I should take the liberty of coming to Europe occasionally.

2050. And residing in England not more than six months in the year?—I do not think I should answer that question, sir.

2051. There is no difficulty. The Act explains that that is what you must do. You suggest that the consequence of that would be that your firm, either immediately or in course of time, would be less inclined to do trade in this country, if they could get the results more cheaply by buying and selling elsewhere?—Yes; it seems to me that that is the natural sequence. You must not forget that the people who are conducting my business in South Africa are either South African born, or have lived there so many years that they are imbued with all South African ideas, and they are there to make money; and these men will argue: "You employ me, and my business is to make as much money as I can; therefore I must buy the goods as cheaply as I can." That view is encouraged by the South African Government,

because when one discusses this question, as I have had the opportunity of doing, with Ministers out there, one gets a very simple answer: "Why do you not come and live in South Africa? You do your business here, and it is a beautiful country; come and live here, and then there is no more trouble about the matter."

2052. Is the competition which you complain of, from rivals who do not have to bear a Double Income Tax, limited to firms settled in South Africa, or does it extend to foreign firms?—It extends to all classes of firms.

2053. Theoretically, yes, but I want to know practically; up to now have you only had to meet South African firms?—Prior to the war there were certain firms with German connections that were very serious competitors.

2054. Did they pay no home Income Tax?—I did not look into their affairs. I do not know whether they did. Probably if the partners lived here, they would have had to pay something.

2055. Just a single question on what may be a transitory matter. Most of the South African firms doing businesses similar to your own, have been making excess profits?—Yes, I agree with that.

2056. I think I have had an opportunity of hearing about them elsewhere. They made an application?—Yes. Of course we are going on to somewhat different ground there. An application was made pointing out that the excess profit was not due entirely to the war; there was the natural growth of business.

2057. Sir J. Harcourt-Banner: Do you know the nature of the business conducted by Messrs. "X" & Co.?

No.

2058. I think I am explaining it rightly when I say that their method is to appoint an agent in this country, through whom all their business is done, and the only Income Tax they pay is on a salary paid to their agent, and the whole of the profits go abroad. That is what you suggest you would be able to do in case you did not get any satisfactory arrangement?—That is exactly the position which I could easily take up.

2059. Mr. Bouverman: Is that so: that they will only pay Income Tax on the salaries paid to their agents?

2060. Chairman: That can be done; it is an evasion, really, but I think it is done.

2061. Mr. Bouverman: I thought the Act of Parliament was altered in order to cover that.

2062. Chairman: We shall have that matter before us; it will come up on evasions.

2063. Mr. McLintock: In paragraph 11 of your statement, you say: "Apart from this fact, the very nature of our business is such", and so on. Are you referring there to Income Tax, or to Income Tax plus Excess Profit Duty in the two countries?—As regards this particular paragraph, it refers to Income Tax, but the position is strengthened, from my point of view, if I had to add on to it the Excess Profit Duty as well. It makes it still more difficult for me.

2064. You there deal with the question of your profits being locked up in stocks and debts, which is common to all businesses to-day, and you complain of the heavy burden?—Yes.

2065. You do not refer to excess profits there?—Not particularly there; it does not affect the question; but with regard to this matter, where you say stocks and outstandings apply to every business, I say of course they do, but there is always a question of degree. In the particular class of business done in South Africa, we have to give much more extended credits—and open credits; that is, you get no security against them, and you have to wait much longer for your money than in countries where business has been longer established.

2066. In the South African duties which you refer to here, you give the rate of Income Tax as 1s. to 2s., and then you refer to Dividend Tax on amounts distributed in dividends by companies, 1s. in the £8?—Yes.

2067. I take it the 1s. on dividends is for companies registered in South Africa?—This Dividend Tax on companies is collected irrespective of where the company may be registered. It is on the dividends.

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2068. Paid where?—It does not matter if it is a British company trading with South Africa or not.

2069. Let us take the case of a British company carrying on business in South Africa, and a certain amount of profit comes into the English company's accounts, and out of that they pay a dividend, we will say, to British shareholders alone. Does the South African Government collect a tax on that dividend?—The South African Government collects the tax on profits made in South Africa in proportion to the total made by the company; they thus collect on the South African profits.

2070. Can you tell me, in the case I have given you, which is not an uncommon case—a British limited company carrying on business in South Africa, which pays a dividend to its shareholders in this country out of the profits made in South Africa and remitted to this country—what tax does the South African Government impose on that company?—That is, as I have stated here, the Dividend Tax of 1s.

2071. Then is that all the tax that you pay in South Africa in respect of these profits?—No. I have pointed out that there is the Income Tax as well.

2072. But they do not tax both your total profits in South Africa, and then put an additional tax of 1s. on the portion of them that happened to be paid in dividends?—It is in this way. They differentiate between a private firm and a company, and that is why I put the Income Tax as 1s. to 2s. in the £. Where a company would pay 1s. Income Tax, a private firm would pay 2s., so as to equalize the Dividend Tax which the company pays. I have got here: "Income Tax 1s. or 2s. in the £." The Income Tax is levied whether you are a private firm or whether you are a limited company.

2073. On the total taxable profit?—On the taxable profits, yes.

2074. Enacted in South Africa?—Yes.

2075. Then the total additional burden that is thrown on a South African firm who have their headquarters in London, may be 1s. to 2s. in addition to the British tax. You suggest, in paragraph 12, that you should only be liable to taxation either in South Africa or in this country, whichever is the higher. I am suggesting that the additional burden here is the South African tax; your complaints, living in this country, is that the additional burden is the South African duty?—My complaint is of a general nature, to the extent; because I live in this country, and I do everything I can to further British trade, I am penalised simply because my business is being carried on in South Africa.

2076. To the extent of the South African tax?—I have not gone exactly into the figures, and therefore I am not prepared at the moment to commit myself to exactly what those figures are. I can only go on the general principle.

2077. I thought you had given us the figures of the existing rates of tax in the two countries?—Yes, I have given you the existing rates of tax.

2078. And you suggest that in your opinion the profits which you make in South Africa should be taxed either at the higher English rate, or at the South African rate, if it is higher?—The South African rate is 2s. and the English rate is 6s.

2079. It is somewhere between 1s. and 2s., and the relief you want is the South African rate?—Yes.

2080. You make another suggestion here in paragraph 12: "In my view, profits earned in the Overseas Dependencies should not be subject to taxation here." Then you go on to the alternative?—Yes.

2081. Can you make any suggestion as to how evasion of the payment of duty is to be avoided if your proposal here were adopted, that only the remitted profits are to be subject to taxation?—I do not know that that comes within my province. I should not have to deal with it. Unless I know all the ins and outs of the points that I am dealing with, it is rather difficult for me to make suggestions as to how I am to take measures to circumvent fraud.

2082. No; it may be a legal evasion. I am not suggesting it is a fraud at all.—I do not know how steps could be taken to evade legally under that proposal, but I know how steps can be taken to evade this double taxation.

2083. You are aware that, until some years ago,

profit which was invested abroad and left abroad, was not subject to taxation in this country?—Yes.

2084. Let us take the case of an individual who has plenty of income from some other source than South Africa, and can afford to leave all his profits there. You suggest that he pays no tax whatever?—I suggest he pays no tax whatever.

2085. Do you know if this question of hardship to a British company or a British firm carrying on business in South Africa has been put up to the Colonial Government in South Africa?—I think in my previous remarks I have mentioned that I have personally done everything I can do to bring it before members of the Government—not in an official capacity, but talking to them privately; and that is the answer which I invariably get. The South African Government says: "We are concerned in securing taxation for our own country. We do not admit that there is a hardship beyond this, that it is one that you can remedy yourselves, and which we would welcome your doing. Come and live out here. There is no need to live in England and submit to this heavy taxation. Come out here, and the whole question is solved from your point of view." That is the answer I get.

2086. You think it is worth at least 2s. in the £ in South Africa to live here; because that it what it amounts to?—I do not like to put it down on quite such sordid grounds as that.

2087. Mr. Birley: You suggested that one of the hardships of the trade in South Africa was that you had to stand out of your money for as long, owing to extended credit?—Yes.

2088. I take it that does not apply to all the business that you do. You get some of it approximately for cash?—Yes, otherwise we could not possibly carry on.

2089. In those cases I suppose you would be prepared to give a more liberal discount?—Yes, that is regularly done.

2090. So that you really cover yourselves for this extended credit by a bigger profit?—I cannot say that, exactly.

2091. You give a less discount?—If you say in providing for having to give extended credit I am providing for loss of interest, then I would be in accord with you; but I do not make a bigger profit.

2092. You cover yourself for the extra cost?—Up to a point, but that does not do away with my difficulty. In order to carry on my business I must have cash. It is no advantage to me if I have to buy goods for cash here to have a customer out there who is paying me interest over six months. It is the cash I want to get in.

2093. Where do you consider that you make your profit? Is it where you sell the goods? You buy goods in this country and elsewhere, and you sell in South Africa. On those transactions, do you consider you make all the profit in South Africa?—The profit that I make in this country is the commission which I charge for buying goods.

2094. You have a house of your own here?—Yes.

2095. And you say that that is not necessary to you?—No, it would not be necessary.

2096. If you had not a house here, would you not have to do as other South African houses do, namely, pay a commission to have goods bought for you?—Undoubtedly.

2097. And by your having your own house you save that commission?—I do not save it, in a way. I make, perhaps, an additional profit, because in calculating the cost of the goods, the commission charge is added to it.

2098. Do you not have the work done better because it is your own house?—I should be very foolish if I were to say I did not think I do.

2099. Is not that making some of your profit here, then? In a merchant's business, where it is a question of buying and selling, is not an expert buyer as much the agent in making that profit as anyone else?—Yes, but any amount of people have got expert buyers who have not got their own houses in South Africa.

2100. But is not part of your profit made on your expert buying?—Not more than if I was to appoint an agent here who was an expert buyer.

2101. I put it to you that a very large amount of your profit is made by your buyer; a very large

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amount of the profit on those goods that are sold in South Africa is made in this country?—I cannot agree with you on that point. For one reason, if you pay a little more for the goods here, the transport of those goods is so heavy to South Africa that a fraction more paid here is imperceptible when you work the cost out there.

2102. Mr. Moskinder: You say that a very general characteristic of your trade in South Africa is that you have to give long credit?—Yes.

2103. I take it that you do not finance the whole of that credit out of your own working capital?—I finance it in this respect: That I have sold the goods, and to carry on my business I must have capital to make further purchases.

2104. But I put it to you that it is a very usual thing to resort to other help in order to finance?—Yes, I might admit that I have to do so, too.

2105. I want to ask you whether you consider that you can get that help for financing this long credit more easily here than you could in South Africa?—I can answer that question very emphatically. In South Africa, undoubtedly, the banks know exactly the position of the people they are trading with, and if a firm is of any repute there, they are only too glad to give them facilities to increase the business.

2106-2114. [Evidence of a personal nature omitted.]

2115. Then you are saying that you make no extra profit on the long credit?—I do not make any more profit on the long credit than I make if I sell to a man for cash; and if I could carry on my business on a cash basis I should far prefer to do so.

2116. That is a very important statement, if I may say so.—It is not that I voluntarily want to give these long terms. It is from the very nature of the business; it is *force majeure*. If I am not taking up too much time, I can give you one instance of how this arises. The Boer only shears his sheep twice a year, but during the intervening period he goes to the storekeeper and wants things, and runs up an account there which he cannot settle until his clip comes in. Then the storekeeper takes his clip in exchange for what he owes him, or, if he does not owe him so much as the value of the wool, he pays him so much out in cash. I have to wait till the storekeeper gets that wool, and then he sends it down to me, and when it is sold he can settle his account with me.

2117. The net effect is that you tell us that on the giving of the long credit you make no separable profit?—No.

2118. There only remains the fourth thing: the general policy of the firm; and that is in your brain, and you suggest that that might be removed to South Africa?—Yes.

2119. Mr. Walker Clark: In paragraph 4, you say: "The profits made in South Africa, over and above the amounts required to pay dividends or to provide for partners' drawings, are not brought to this country, but are invested in South Africa for the further development of our business." If that were done generally, would it not retain the whole of the profit in South Africa?—It would retain the whole of the profit outside of what was necessarily remitted here for the sustenance of whatever party may be living on this side.

2120. Therefore, the extension of the trade would be an extension of South African trade, and not an extension of British trade, so far as this country was concerned?—But the extension of the South African trade is helped by the purchases which are made in this country. It is of enormous value to the export trade of this country.

2121. I do not deny that but, still, the point is that it is a development of the trade of South Africa?—Yes, it is a development of the trade which, in combination with the trade done here, is to their mutual advantage.

2122. Mrs. Knowles: Here you say you buy in England and sell produce here. What do you buy here? Is it manufactures—generally, I mean?—It is every

class of goods under the sun that you could mention. The business in South Africa is not of such a nature that you can specialise. In other Overseas Dominions you might find one firm devotes itself to soft goods, another firm devotes itself to groceries and all stores and that sort of thing, and another firm to hardware. But the nature of the business in South Africa is that the large firms deal in everything.

2123. But you take a large proportion in manufactures here, and you sell a large proportion of your wool here. England is the big wool market of the world, I understand?—A considerable quantity is sold to this country. There are other important outlets as well.

2124. The point is that if you shift your business you will have to do business with England for certain essential manufactures and certain essential sales of produce. Is not that so?—As far as produce is concerned, the business here would not interest me much, because I can always sell my produce out there; and if I get the price for it, it is immaterial where it goes to. As far as manufactured goods are concerned, naturally I could get goods from this country, but then I could employ an agent to buy those goods just as well.

2125. But suppose this Commission recommended that we stopped up the loophole of the agent?—If you stop up the loophole of the agent you will find that a number of firms will find another place where they can get their goods; and instead of extending trade you will reduce it. At the present moment we have to face the fact that America and Japan are very severe competitors in trade. Now, we do not want to do anything to encourage that competition. If you are going to make it more difficult to buy goods here, the natural consequence will be that people will endeavour to make their purchases, or increase their purchases, in other countries.

2126. Up to now, has the United States been a serious competitor?—In certain lines.

2127. Agricultural machinery, say?—Agricultural machinery, and all the lines manufactured by the United States Steel Trust, and food products, and in the case of what we call soft goods—draperies, and that sort of thing—in which they had no trade at all before the war, but owing to circumstances they have managed to sell a good deal in South Africa; they have established a trade which was unknown there before.

2128. Is there a double tax in the United States, do you know?—As far as I understand, they have recently passed an Act whereby they do not pay double taxation.

2129. Do you not possess, with your present method, a great advantage from the extraordinary shipping facilities between South Africa and England? You could not get the same shipping facilities from the United States, supposing you want to buy there?—But why not? As far as I have learnt, with all due respect, the shipping companies, the moment they see there is a certain amount of cargo at a certain point, are only too anxious to put ships on to secure that cargo.

2130. But to get your money you have to fill your ship, to run it profitably. You would not run it profitably from the United States?—I do not know. Unfortunately, not being interested in steamship companies, it rather makes my mouth water to think what they have made during the war; but they have had no difficulty whatever in filling their ships. They have been sending all through the war from the United States to South Africa. And the Japanese have their own lines, and, with all due respect, I consider they have followed a very selfish policy, because all they have done is to try to ship their goods in their vessels, and when their vessels got to South Africa, those vessels only took back produce which was intended for Japan; so they had us both ways.

2131. Then you think you could go past England easily?—I would not like to say easily. Very reluctantly would I do a thing like that.

2132. You would do it reluctantly as regards sentiment, but as regards commercial matters, you could go past England. That is my point. Could you do so?

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—I say I can carry on my business. Admittedly certain things must be got from England, but by not having my office here I do not lose anything like what I suffer by having to pay a Double Income Tax.

2133. Supposing, for instance, we made the agent pay in proportion to your office; if the agent was made to pay as much as if you had your office here, by some form of Income Tax, could you go to other countries? Is it possible to go past England?—I say entirely, I should doubt it. In a great many instances you can go past England undoubtedly, and unfortunately, not only you can, but, from the force of competition at the present day, you have to.

2134. Mr. Bouvern: You say, in paragraph 12, that "only such profits as are remitted to this country should be liable to English taxation"?—Yes.

2135. Who is to decide what profit is to be remitted?—I take it the man who makes profits must be in the position to know whether he has extraneous income which would permit of his living here without having such profits transmitted to this country.

2136. Supposing he was merely a shareholder, would he be allowed to reinvest his dividends in that country and to say: "I did not receive those"?—I do not see why we should draw a difference between a man earning money out there in the shape of dividend, and earning it as a private firm.

2137. You would simply allow him to say which he wanted?—I go on the broad principle that it is not remitted to this country.

2138. Do you think that would be a practical way?—I can only answer by saying that, as I have so many burdens on my shoulders, I have not considered how this point, which I have not got to work out myself, is to be dealt with. I am only dealing with the principle. I could not at the moment suggest how that principle is to be carried out. I do not suppose there are insuperable difficulties against it, but I am not aware of what the position exactly is.

2139. Mr. Symonds: I think, in answering Mr. McLintock, what you said came to this: that you summarised your grievance by saying that it was the payment of the South African duties. We know you object to both, but that is the substance of it?—The substance is that I object to the British duties.

2140. It is 1s. to 2s. in the £ in South Africa, but as a matter of fact, that is remitted now, is it not, under the arrangement as to the 2s. 6d.?—Certainly; I pointed out that we got a remission; but that does not affect the principle that we ought not to be taxed here at all on those profits.

2141. I know; but as regards the double taxation, there is that remission now?—Yes, I admit there is.

2142. I understand your point. You do not know whether that is going to be permanent, and it does not affect the principle. But as a matter of fact, that particular grievance does not operate now?—No, not from the pounds, shillings and pence point of view.

2143. Your business is both exporting and importing?—Yes.

2144. You pay tax in South Africa on profits earned there? That is the principle, is it not?—Certainly.

2145. Do the South African authorities treat the whole of your profits as profits earned in South Africa?—No; I have business in Rhodesia, for instance; the Union Government of South Africa do not claim Income Tax on my Rhodesian business.

2146. I understand your business there is outside the Union, but they deal with all the buying and selling of goods, although it takes place in England?—They do not deal with my London balance sheet at all; they only deal with my South African profits. In London I have to bring in profits made in London and profits made in South Africa. In South Africa you only pay Income Tax on profits earned in that country.

2147. What I want to get at is, if there is going to be any alteration in the law, how you are going to test where the profits are made. On what principle do they say in South Africa "Your profits are so much in South Africa"? That is what we want to get at?—They go on the principle of the profits that you make, according to the balance-sheet which you produce to them.

2148. I am afraid that does not exactly touch the point?—I am afraid I am a bit dense; I really do not follow what you want me to answer.

2149. I will put it in this way. We had one witness here, representing a Colony, who said that a profit made in the Colony would be taken as made where the Colonial goods were sold; but when English goods are sold in the Colony, that would be an English profit. We had another witness who said the reverse. Therefore we want to get at a test of what is local profit?—In South Africa they do not differentiate at all as to where the goods come from. You import certain goods, and you make a profit on the sale of those goods, and that is what you pay Income Tax on.

2150. It is where the payment for the goods is made, is it?—It is immaterial, in South Africa, where the payment for the goods is made.

2151. If there is to be a general arrangement made between all the Colonies, would it not be very desirable that this question of the method of assessing local profits should be settled on a uniform basis?—Yes, undoubtedly one must stick to a uniform basis.

2152. If one Colony has one method, and another Colony has another, it would be a difficulty?—Yes; any method which would simplify it I think everybody would agree is preferable.

2153. Chairman: Mr. Auerbach, if you have anything that you can add to the knowledge of the Commission on this point, we should be very glad if you would do so?—(Mr. Auerbach): I understood that Mr. Moenthal would give evidence for the whole of us. Although technically differently constituted, we are all conducting similar business.

2154. Do you feel that you would probably leave the country if the Income Tax were kept doubled?—That is rather a personal question, but, speaking for myself, as chairman of the company, I am certainly contemplating that step at the present moment.

2155. But is it on that ground alone? Is it purely on the ground of the difference of the Income Tax, that you propose leaving the country?—That would be the sole ground from a commercial point of view, certainly.

2156. It is sufficiently serious to make you do that, or think that, is it?—It certainly is. I did not come prepared to give evidence, but the incidence of the taxation is such that, if it is continued, it will necessitate the removal both of the offices and of the residences of the principals of businesses from this country.

2157. Is your point about the heavy taxation in this country, or that it is taxed in both countries?—That it is taxed in both countries.

2158. But is the main point the heavy taxation in this country?—The main point is the taxation in both countries.

2159. But it is very much smaller in South Africa than here?—Certainly.

2160. Which has the greatest impression on your mind—the large amount of tax that you have to pay here, or the burden of having to pay additional tax (a smaller one) in South Africa?—I did not come prepared to give any evidence, but I am quite prepared to place any facts I may have at the disposal of the Commission. I would like to revert to this question of Dividend Taxes, because Mr. Moenthal, fortunately for himself, is not the head of a registered company, while I am. The difference is this, that the South African Governments have split up the taxation in the case of companies, wherever registered and doing trade in South Africa, into two sections. We pay a normal tax of 1s. and we pay a Dividend Tax of 1s. on the dividends distributed; not only on the dividends distributed, but also on any undistributed profits which the Commissioner in his judgment thinks fit. In other words, with the exception of a small amount for reserve, we pay on the total amount of the profits. But that Dividend Tax is only payable on the proportion which the profits made in South Africa bear to the total profits of the company; in other words, it follows the Income Tax. Now, here I made that quite clear?

2161. Yes, you have made it quite clear to me, but I want to refer back to this point. I want to find out whether your dissatisfaction is because of having to pay a small additional tax in South Africa, or the

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general big tax which at present is existing in this country?—The general big tax which is existing in this country. In other words, even with the present relief—I am talking now of Income Tax only—the total taxation amounts to 6s., roughly. If I lived in South Africa, and if I employed an agent in this country, my total taxation in South Africa would be roughly 2s.

2162. Of course the main point is that everybody is taxed here because of the expenses of the war?—Yes, but I think I must bear Mr. Mosenthal out. I do not think that any of us are here to give evidence as regards the present taxation, which we all know is absolutely necessary; and not only necessary, but even desirable. But we are here, I take it, to give evidence as to the incidence of taxation as it would fall in normal times.

2163. Have you anything else to say?—No, nothing at all. I am glad I had the opportunity of explaining this question of the Dividend Tax.

2164. Mr. Mosenthal: Might I just ask one question? That raises this question. In South Africa, you have a smaller Income Tax than here?—Yes.

2165. One of the suggestions made by Mr. Mosenthal is that the higher tax should be paid in whichever country, but not the double tax. Have we not, therefore, got two questions: the question of the Double Income Tax, and also the question of the difference

of the Income Taxes? Supposing we agreed that the Double Income Tax was to go, but that you were to pay the higher Income Tax, whichever it might be, would the difference between a high tax here and a low tax there still be a very strong reason for moving to South Africa—given the present rates?—Certainly, because, given the present rates, the difference is 4s.

2166. There are two questions?—Yes, I quite follow. But, with all deference, I do not know what was running in Mr. Mosenthal's mind, but I think what was running in his mind was the same as was running in my mind, that if for the necessities of the Empire the higher tax has to be paid, by all means let it be paid, and let it be paid by all equally. I do not think Mr. Mosenthal was saying that if 2s. was sufficient, he would be glad to pay 6s.

2167. "By all equally," you say. Do you mean to say by all in the Empire?—By all in the Empire equally, and by all firms, companies, agents, and individuals.

2168. Then your suggestion is that, other things being equal, the only thing to prevent this tendency to remove from one portion of the Empire to the other, would be an equal Income Tax all through the Empire?—An equal Income Tax all through the Empire, to be divided between the Dominions and the Mother Country.

2169. Chairman: Thank you both very much for your evidence.

MR. H. A. GODSON BOHN AND MR. CLEMENT BUCKERIDGE, called and examined.

Mr. Godson Bohn handed in the following statement as his evidence-in-chief:—

Thrift Societies and Income Tax.

2170. Evidence of H. A. Godson Bohn, Hon. Treasurer, Kensington Self-Help Society, and Hon. Secretary (Conference recently held) of the principal Metropolitan Thrift and Self-Help Societies, Barrister-at-Law, Chairman of Kensington and Fulham General Hospital, a representative Governor of the Hospital Saturday Fund on the Cancer Hospital, Chairman of Organization &c. Committee of the Associated Societies for the Protection of Women and Children, &c.

2171. I have had considerable experience of philanthropic work, and have taken a great interest in the encouragement of thrift and providence amongst the working classes, through these Self-Help Societies held at mission halls, institutions and the like.

2172. As the law stands at present all these societies are liable to pay Income Tax, and where the tax is deducted at source they do actually pay it and at the full rate. Some years ago we raised this question with the Inland Revenue and were informed by them that a "collective" body, such as these societies were, was not a "person" within the meaning of the Acts of Parliament and, therefore, could not reclaim the tax. Our claim for the Kensington Self-Help Society of about £20 was thereupon ruled out by the Income Tax authorities. A similar claim by another or other Self-Help Societies (the St. Pancras and Acton Societies I think they were) lodged through a firm of solicitors had also previously been ruled out. The case the Inland Revenue authorities quoted was "The Commissioners of Inland Revenue v. The Old Monkland Conservative Association," which I believe is still good law and therefore still holds good. The object of these Self-Help Societies is thrift; and this is encouraged in two ways:—(1) The payment into the society of so much a week, and for this purpose our unit is 3d., and the limit allowed is 1s. 6d. a week or £20 in all, and this latter sum takes 12 years to save. (2) Thrift by encouraging a working man to purchase his own home, and here the co-operative savings of his fellow members are advanced at a low rate, and at cheap low and survey costs, the rate before the war being 4 per cent. and 4½ per cent., and in two mortgages 5 per cent. It is in this latter event (mortgages) that tax has to be deducted, and we are informed that, being subject to Income Tax, the borrower must deduct it before he pays us the interest on his mortgage. Having regard to the great importance now attaching to the housing of the working classes, we feel very strongly that these societies

should be exempt from paying Income Tax. Our members are very sore on this point, and at every annual meeting of the Kensington Society members have raised this question. I should mention that we have refused two mortgages already on account of this tax, and in each case the member was very disappointed. As regards our work generally this Income Tax is a great hindrance to our work, and we do feel that, being self-supporting and purely co-operative and accepting nothing in charity (although we are a philanthropic institution), we are more than justified in asking to be placed in this respect upon the same footing as the more powerful Friendly Societies and Co-operative Societies. Many a man has been saved from entering the workhouse through these societies inculcating thrift, our great idea being to get hold of the married men especially, and I have had many assurances that but for these societies many would never have saved anything. I go so far as to say that on purely "pounds, shillings and pence lines," if I may use the phrase, by encouraging these societies, by removing the impediment of taxation, we should in the end be adding a great deal more indirectly in taxes, as I find once a man acquires the habit of saving even a little, it grows upon him, and money saved encourages others to do the same, and this means a greater return in the end.

2173. Now that every Trades Unionist earns above the £130 Income Tax limit, every working man would make a return for purposes of Income Tax. But the principle of inculcating thrift and providence cannot be measured in money; the principle is the primary consideration, and the tax or monetary side is a very secondary affair.

2174. I am of opinion that the exemption from Income Tax can be made the lever of effecting still further good. Tax could be removed where the society is run in the very best interests of the working classes; and rules could be framed denoting where improvements in the management of a society should take place. I am thinking of the useful control over the hospitals which the three big Hospital Funds have, and something could well be done as regards these Provident Societies. I am inclined to think that a Conference as a permanent body might well effect this. Possibly your body would prefer a more "cut and dry" way of effecting this, and in that event I would suggest that tax should be free to:—

"Bona fide Thrift and Provident Societies when run in connection with a recognized mission, institution or the like."

I would also add a factory, as there are many factories where similar schemes (though not often Self-Help Societies) are in operation. I mean

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by the words "bona fide Thrift and Provident Societies" those run in the interest of systematic and permanent i.e., real, thrift, and in the best interests of the working classes. I am given to understand that many State Clubs and small Societies, are saying that it does not pay to have permanent investments as tax will be payable, and this view ought not to be encouraged. For many years the three largest Societies have met successfully to consider questions relating to these Societies. We decided to go a little further and invite all the principal Metropolitan Self-Help Societies to meet, and these appointed a Committee who are to form the deputation to your body on this question of Income Tax. They are Mr. C. Buckeridge, Secretary of the Kensington Self-Help Society, Mr. A. H. Parker, Secretary of the St. Pancras and also the Acton Self-Help Societies, and myself as Hon. Secretary. The Societies actively supporting us are:-

Kensington Self-Help Society (Church House, Warwick Gardens, W. 14).

St. Pancras Self-Help Society (Mission Hall, Sandwich Street).

Cricklewood Self-Help Society (St. Peter's Parish Room, Cricklewood Lane).

[This concludes the evidence-in-chief.]

2175. *Chairman:* You are going to speak to the Commission on the Friendly Societies?—Well, as to that, we are small societies, not strictly Friendly Societies. There is a distinction drawn in the Act of Parliament, the Friendly Societies Act, between those known as Friendly Societies and other societies, such as Cattle Insurance and various other societies, and our own class of society, who are termed "Specially Authorized Societies."

2176. You represent all those societies that are in your paper?—Yes. We are also supported by a number of other societies. Our particular section is a section of very small societies. They are termed self-help societies. Self-help and thrift are synonymous terms. They work in what we might almost term slum areas, or very poor areas, attached to mission halls in every case. We are also supported by other larger societies, but they admit that they are in a much wealthier position as regards their membership than we are. It has rather come down to this, that we ourselves are only representing these small societies attached to mission halls working in poor areas.

2177. What is the point that you want to put before the Commission?—We are very sore, indeed, as regards this Income Tax. The members are very sore because they are very small people, and for a number of years, I speak especially for the Kensington Society which has been going for over 25 years, we have been trying to encourage thrift among these working men, and we do feel that we ought to be assisted by the State. We feel that we ought to be recognized. Up to now we have not really been recognized other than, of course, by being registered under the Friendly Societies Act. There is a case in point as regards the law, the *Inland Revenue v. The Old Monkland Conservative Association*, which decided that no collective body is a person to recover any Income Tax if it is deducted at source. Unfortunately, we have had a good deal of this Income Tax deducted at source, and now we are paying at the rate of 6s. in the pound, so it has come rather more to a head than what it would have been in the olden days; but we have always grumbled at it. We have been before a number of Government Departments. In particular, when the war savings started I went and interviewed the War Savings Committee or their officials, and we were told that the Treasury was very sympathetic, but they could not do anything; it must come before the Claims Branch of the Inland Revenue. They advised me to see if the Inland Revenue Department could do anything for us. I saw the head of that Department, but they did not do anything. We put an appeal before all our members, and the Commissioners have a copy of this and also our last balance sheet. That appeal was a patriotic appeal. We appealed very strongly to the members to put all they could into the Society so as to support the war, and last year we went forward at the rate of £1,118 in one

Acton Self-Help Society (Churchfield Hall, Acton).

Falling Working Men's Self-Help Society (Church House, Warwick Road, Faling).

Hanwell Working Men's Self-Help Society (Mission Hall, Church Road, Hanwell).

Grove Park Institute Working Men's Self-Help Society (Church Institute, Strand on the Green, W.).

Stanhope Institute Self-Help Society (Stanhope Institute, Euston Road, W.).

I ought perhaps to have referred to other activities of these Societies. They all grant loans at cheap rates, the object being to enable a man to tide over a temporary difficulty, such as being out of work, payment for the illness of his wife or child, purchase of necessary tools, or to buy furniture for the home. Most of these Societies grant loans for a limited period at 2½ per cent., and in some for a short period no interest is payable. In others they have a Distress Fund for assisting needy members. Speaking for the Kensington Society, during over 25 years' of existence, not a single bad debt has been made, and the Arbitration Committee has never been called upon to decide a single dispute, and this Committee although appointed every year has never met.

year alone. It is made up entirely of three-pences; that is our unit. It is on a scale greater than the Penny Savings Bank, which is only suitable for children. The Penny Savings Bank is operated in a great number of those areas and is mainly for children. We are just the next stage above that. Our unit is 3d., and we claim that we are the procurers of the War Savings; they have taken the unit of 6d. because money is doubled now, and what 3d. would purchase before requires 6d. now. I do not know that I can impress too strongly the importance of thrift, especially amongst this class, the purely working class. In Kensington they are the descendants of the burghers who operated the barges on the canal that was taken over by the railway. When this started there was a number of very small and very improvident people in Warwick Road behind the Church House. Our late Vicar, Canon Carr Glyn, we did not believe in pauperizing them. They thought of making a grant, but that was not carried out. We thought they would do much more by having it self-supporting, and although a philanthropic institution it is not a charity. So it was that this was started. You might perhaps smile at a society like this being in Kensington, but you must not forget that the borough runs up into a very poor part. We have a large number of members of the Seven Dials district in North Kensington who were turned out from that slum area.

2178. What is your proposition to us; what do you want us to do?—We want you to remit the tax altogether.

2179. And you are arguing on that?—Yes. We feel that our claim is a very strong one. It is not the amount of money that we save, although it is considerable. It takes a man 12 years to save the utmost allowed, so you will see that we are dealing with the smallest of people, and they cannot pay more than 6d. in any one year. The average yield is quite small, and for a year in our balance sheet the largest is £80. They have to withdraw anything over £20. Might I also put this proposition in support of our case: thrift and providence are very important, and I regard them as a necessity. It has been recognized that you do not tax any article of necessity. It is quite clear a man ought to provide for the proverbial rainy day, and therefore it is a necessity for him to save money, so that the amount required to keep a man and his wife, and children until they are of a supporting age, should go free of Income Tax altogether. I also have a very strong point to put. We have found that once you persuade them to save something it goes on; it very seldom ceases. There are a few cases where a member joins for a short time and withdraws, but it is the exception to the rule. The rule in the vast number of cases is that they remain on with the society, and now we have members

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at Staines, Windsor and Haswell, simply because they used to live in Kensington, and they have so got this habit of thrift that they still save. I should like to put this point also; we regard ourselves as feeders for larger societies. We say it is very hard that these small societies, which are very greatly educational in thrift, should be taxed. It is taxing the tender plant which cannot stand it.

2180. Will you explain how they are taxed?—We have mortgages. These mortgages are to enable a man to purchase his own house, our thrift partaking of two forms—(1) regular systematic saving of so much a week, and (2) enabling a man to purchase his own home. That is done by advancing him money at the cost rate, 4 per cent. or $\frac{1}{2}$ per cent. We have also two mortgages at 5 per cent., but the vast majority are at 4 per cent. or $\frac{1}{2}$ per cent.

2181. He borrows from you to buy his house?—That is right. It is the co-operative savings of his fellow-members which enable him to do that.

2182. Where does the tax come in?—By the law as it stands at present the Income Tax must be deducted when he pays interest to us, and that lowers the dividend payable to the other members. The man who loses there is the smallest of them all, because he loses on the amount that is returned to him at the end of the year in the shape of interest on his deposit.

2183. Is it a serious matter?—It is, very. The claim that we put before the Board of Inland Revenue many years ago was then £60; it would be something well over £100 now. We have not worked it out, but I should think it is about £100 or £180. It is very serious, not for the amount that you put in taxation, but because it hampers our work. It is a very serious hindrance, and they are very sore on this point. At every annual meeting we have discussions, and they all regard this as a great grievance. The large Friendly Societies are free; why not the small ones? We are registered under the Friendly Societies Acts. The larger and more powerful ones, the Friendly Societies proper, and also the Co-operative Societies, are absolutely free of tax; why not ourselves? We are smaller, and we work at mission halls in poor areas.

2184. Would a great many more people save if they thought this Income Tax would be abolished?—I think so. If I might add a word more from the purely pounds, shillings and pence point of view, you get more tax in the end by encouraging these men to save. The habit so grows with them that they would save more money and the Revenue would get more tax in the end; but the principle is the important point; it is not the question of taxation, which is a very secondary affair, but it is the question of thrift and providence which is of great importance.

2185. Is this matter dealt with in your dividend fund account. In the dividend fund account you have interest on mortgages £87?—Yes.

2186. Is it the 6s. on the £87 that you complain of?—That is so.

2187. Do the Inland Revenue claim Income Tax on interest on bank account?—No, but when we offered to give evidence they served a notice on us to give a certified return of all our profits, and we pointed out that we were bringing our case before the Royal Commission, and so it is in abeyance.

2188. Have they been very generous to you in regard to your interest on Government stock?—They have; they have not claimed the tax on it, but we are liable; that is the law as it stands.

2189. Exactly, but I am putting this point to you, that you really escape the tax on the interest on Government stock, £154, you escape your interest on the bank account, £90, that is £184 altogether, and you pay only on £87 interest on mortgage, at 6s. is the pound; that is £28?—Yes, but we had to pay on some of the Government stock where tax was deducted at source.

2190. They have treated you very well, have they not?—Well, we feel we have a very strong case, and I must admit they have been very sympathetic. We say we have a very strong claim to go free altogether. I understand you gentlemen are here to recommend

any alterations of the law. The law is that we are liable to pay on the lot, and I have the uncomfortable feeling that if the Committee would not pay I am personally liable to pay all this back debt, which comes to a very considerable sum. It might even be £1,000 by now, and I think you would frighten any future treasurer from undertaking the job if he knew by law he was liable for all this back debt.

2191. But you do not think that that will be so?—Well, we must take the law as it stands.

2192. I think you must have been impressing them in the last few years with your eloquence on these points.—They have been very kind and sympathetic, but we do feel that the law ought to be altered in this respect. I think we have a very strong case. We are always referred to the Inland Revenue as being the ultimate department, and unless they move the other departments cannot do anything.

2193. Is that your case?—That is our case briefly.

2194. Have the other gentlemen with you anything to say?—Mr. Buckeridge wants me to draw attention to the origin of these societies. The first one originated about 1886; it was started at St. Pancras by the late Dean of Gloucester, and the Bishop of Stepney at the time took great interest in the scheme, and decided that it was the best scheme to adopt because it did not pauperize its members, and was self-supporting.

2195. What do they complain about; what is their point?—It is the same point—that we have to pay Income Tax.

2196. Is it on mortgages?—And also on Consols. The St. Pancras Society have Consols, and tax is deducted from the interest. Before the war they made a claim on the Inland Revenue, and it was decided, as I have mentioned already, that they could not claim anything.

2197. Has the other gentleman with you anything to say?—(Mr. Buckeridge): I should like to say a word as to these "Specially Authorized Societies." I have seen a good dozen of these societies start; in fact I was at the original meeting at which they started, and I think it would meet our case practically to put these "Specially Authorized Societies" for thrift on the same basis as registered Friendly Societies. There is an exception made because we are small, or inconsiderable, but our point is that because we are small and weak we touch a class who need help more than the large Friendly Societies, and if we can be put upon the same footing that would answer the whole of our case; they get their taxes remitted, and we ask to be put upon the same basis.

2198. Mr. Prynne. Do you know why the registered Friendly Societies have the privilege which you have not got?—(Mr. Bohn): They came earlier in the day; they were the first in the field, and Parliament thought they ought to be encouraged. They started I think in the reign of William the IVth. We came very much after them, about 1886. If the big Friendly Societies came now I think they would receive considerable assistance. Perhaps in the future they will receive more than in the past. At the time we started, why I do not know, no assistance was given.

2199. What is it that prevents you being a registered Friendly Society—a difference in the constitution?—Because we are in the nature of something above the Penny Bank, and the member should not withdraw his money too easily; that is the main point. If we were to register under the Friendly Societies Acts, which we can do, we should have to provide something in the nature of benefit for death, and out of work, in other words an unknown quantity, and for that purpose have a quinquennial valuation, and have to set aside a sum of money. That sum of money cannot be touched; therefore it would upset the payment in as a bank. We are more or less a poor man's bank—encouraging thrift in that way.

2200. Is it not probable that the suggestion that was made (no doubt quite in good faith), that the reason why this concession was not given was because these were small societies is incorrect? Would not it rather be, not because they are small societies, but because their constitution is different, and because

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when you get into the region of facility of withdrawal you then get into the same category as Slate Clubs, and other clubs, where the saving is quite temporary, and may cease; it may not become a saving at all?—There is a great distinction between a Slate Club and a registered society. A Slate Club comes to an end at the end of the year, and everything is distributed. That is no provision for a man's old age. A great number of Slate Clubs are what is known as "beano" concerns—that is the expression used; they are not run really in the best interests of the working classes.

2301. In principle that is what actually happens?—Yes.

2302. In your case what happens, or what you wish to happen, is that the money remains in, and is real thrift?—Yes, but he can withdraw it.

2303. I quite sympathize with that. In the Slate Club it is not intended to remain in longer than the date of the "beano"; therefore, there is a very material difference in fact; but so far as the constitution goes, which is the matter upon which any relief must be based, there is power I suppose to your members, if one of them wishes to have an individual "beano," to withdraw his contribution or his savings at any moment, and go and indulge in it?—That is so, of course, but the amount of withdrawals is not large.

2304. I am not speaking of fact.—They could.

2305. I am absolutely accepting everything you have said, and I am accepting that such a small society it would be in your opinion very wrong that, merely because it was a small society, it should be in a worse position than a large society with the same object. What I wanted to get at was how you propose that there is to be a definition? The definition must be on the constitution. It cannot very well be on the facts, because if a man has a right to withdraw his money it is impossible to go into each individual case, and see whether he withdraws it or does not. Your constitution says he may withdraw it, just as a Slate Club does. Have you any suggestion to offer to the Inland Revenue by which a line could be drawn between you and, say, a Slate Club?—I would suggest what I have said in my evidence, that bona fide Thrift Societies and Provident Societies should be exempted when run in connection with a recognized mission or institution, or the like, preferably those registered under the Friendly Societies Acts. I cannot too strongly dwell on the fact of registration. We are in competition with another society where the bookkeeping required is only a quarter of what we have; the secretary there receives between £300 and £400 a year, and we pay ours only about £30. A lot of these Slate Clubs are not run in the best interests of the working classes at all. They are run for the officials. We scarcely get a member from that area, although we get a lot of members from the areas further away and all round it; but exactly where that Slate Club operates we have no membership. It is not real thrift if they only save for the end of the year.

2306. I think I can quite understand all that. Assuming for the moment, whether it is so or not, that the Commission is with you in principle, and would like to see that where you are doing the same work as a Friendly Society, and not as a Slate Club, that you should be similarly treated. I do not think you need go further into that. The point is how can you suggest that your work could be differentiated from that of a Slate Club in order to get that relief. I am sure you would agree that a club in which a man can and does withdraw his money whenever he likes cannot be treated in the same way as a club where the thrift, once started, is compulsorily continued?—Perhaps I may deal with the question of a man withdrawing his savings. We always know in practice that it is for a specific object. I admit they withdraw them to go away for their annual holiday. We do then get a number of withdrawals. We get very few at Christmas, whereas the Slate Clubs get their withdrawals at Christmas.

2307. His holiday is his "beano" part. That is really what it comes to in that particular case, but I draw a very great distinction between the Slate Club and the registered society. These Slate Clubs will not

appear before a body such as you are; they will not produce a balance sheet.

2308. We are agreed on that. I wanted to get to the point—which is, the real difficulty of how you are to draw the dividing line?—I should say "run in connection with an organized mission or institution, or the like."

2309. That is the only suggestion you could make?

—It should also be registered under the Friendly Societies Acts. I am given to understand that, although we are known as a Self-Help Society, and under the "specially authorised" section, they will add no more to the list already in existence; I do not know why, but I understand the moneylenders have been taking advantage of this in running loan societies, and so avoiding registration under the Money Lenders Act. I understand that is the reason why the Treasury have withdrawn what is known as the "authority." That is the meaning of the words "specially authorized"—it is a special authority of the Treasury. Therefore, you have got a hard and fast number of societies who have registered under this Act, and no others will be registered unless the Treasury reserves that authority. I think you will find it will be a hard and fast number of societies.

2310. That will preclude anybody else in a parish a little way from yours, who was struck by the work you were doing, and wished to follow your example; surely you would not wish to shut them out because they were not registered already?—I am afraid the prevailing feeling is to have Slate Clubs, rather than registered societies, because the clergy can retain control.

2311. If you were exempted from Income Tax, and some dividing line found, would not that put you in a very strong position?—It would; it would be an excellent thing, and would do away with the overpayment of officials in the case of clubs that are run purely for the officials. It would do away with a lot of what I may call hanky-panky which has been going on in the unregistered concerns. They can do just as they like. The balance sheets produced before these working men are often absolutely fallacious.

2312. Accepting all that, you see the difficulty is this: supposing the Commission want to recommend something which would enable you to get an advantage which the Slate Clubs have not; the difficulty is how to draw the line. Can you suggest any way? The real point is, I understand, that both in your case and the Slate Club's case, the individual member has a right of withdrawal. Do you think it would be possible for you to do anything in the rules of your constitution, which would differentiate you in some way from a Slate Club, and would enable a line to be drawn?—That reminds me that when the war was at a very serious stage, it was proposed that we should have a Rule, purely on patriotic grounds, whereby no member should be allowed to withdraw more than three-quarters of his stock. The proposal was made at an annual meeting, and the chairman of the meeting thought that it was going against the constitution that we had already laid down, and one of the auditors objected on the grounds that our members had subscribed their money on certain terms. He admitted that the annual meeting could do anything, but he said the great number would say: "I subscribed my money on those terms"; and so it was not put to the meeting. It was proposed and seconded, but was not actually put to the meeting, and was withdrawn. We could do that if that would meet the point. I think that is an excellent suggestion that they should be only allowed to withdraw a certain amount. Of course you see the necessity of being able to withdraw a certain amount for furnishing the home, for example. A young man or a young woman saves money, and when they marry they withdraw it, and they are always very proud to tell you that it is for the setting up of the home.

2313. Chairman: Can you answer Mr. Pretyman's question—because we want to help you?

2314. Mr. Pretyman: I should be glad if you could answer my question, and not go off on to something

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else?—If you are of opinion that something of that nature should be done, I do not see why these societies should not have a rule.

2215. You went off on to something quite different. I asked if you could alter your constitution so as to make it different from that of a Slate Club in the matter of withdrawals. You then assumed that I had suggested that a partial prohibition of withdrawals would meet the case. I did not make any such suggestion.—I did not mean that. I only mentioned a case that had actually occurred at one of our annual meetings.

2216. That is not answering my question?—I thought the Commission might like me to state what actually has occurred at one meeting; we could do that in the future. Your point is: what could we suggest as regards that withdrawal. I should suggest that a great part of the members' savings should be compulsory.

2217. *Chairman*: It is not the question of withdrawals that Mr. Pretymen is asking.—I am sorry.

2218. *Mr. Pretymen*: Will you answer this question: Would it be possible, for instance—I only make this suggestion to you—to define the objects for which withdrawal was allowed?—It would be possible, but rather difficult, although we should know in nine cases out of ten, as we know now, what the objects are.

2219. You want a very large benefit from the State. You pay Income Tax at 6s. in the £?—Well, only on the mortgage.

2220. You told me just now that you were liable?—We are liable, but we do not actually pay.

2221. I think possibly the Inland Revenue may be holding it up awaiting what this Commission may say, and what the Chancellor of the Exchequer may decide after the Commission has reported, and I should not like to say for certain that you will not have to pay.—I think we shall be wound up if we pay the 6s.

2222. Then it is rather a serious matter?—It is, undoubtedly.

2223. It seems to me that the only line of country you have got is to try and differentiate yourselves from these Slate Clubs, who you quite agree ought not to have exemption. I quite understand that it is much nicer for a member to put his money in, and be able to leave it, or draw it out, whenever he likes; but it is not pretty clear that if you had that you could not expect to be exempted from Income Tax? You do not really suggest that where that absolute freedom exists there is any possible way of differentiating it from the Slate Club?—I admit it has been exceedingly difficult, and that was exercising my thoughts when I wrote out the evidence for this Commission, as to how we could draw that dividing line; and the only dividing line I have drawn up to now is this—that it should be "bona-fide thrift and provident societies, run in connection with a recognised mission or institute."

2224. I do not think that is very satisfactory, because it might be run in connection with a firm?—The members of a society run in connection with a firm are all above the Income Tax exemption limit, surely. We have a number of those societies supporting us, but they admit that we, working among very small people, are on a different plane altogether. For instance, Selfridge's Thrift Society supports us, and Waterloo & Sons' Society, but they say our members are vastly different from theirs.

2225. Are we not rather getting into the question of a particular region of society? The tax is based on what the society does with its money, and not on the question of the particular mission, or particular firm, or particular individuals who have originated the society. I think you get into a very different region there?—Would it meet your views, so that you could recommend it to the body you are responsible to, to Parliament, if we suggested that it should be a *sine qua non* rule with these societies that no member should be allowed to withdraw more than, say, three-quarters of his savings?

2226. I do not think that would meet the case, but I am only giving my own opinion. I do not lay it down at all; I only say, for what it is worth as a suggestion,

that it would be worth considering whether you could not limit the objects for which money could be withdrawn.—I mean make a definite limitation of the objects. Then of course you would have to say to your members: "You are not going to be as free to draw your money out as you were, but if you will agree to this limitation we shall be on stronger ground for asking for exemption from Income Tax. It will be real thrift. You cannot withdraw your money for a 'beano'; you can only withdraw it for certain definite objects"; and as long as those objects are objects which the State would obviously approve, such, for instance, as a man buying his own house, that must obviously be a sound thing. If you put that forward, I do not say that that would meet the case, but it seems to me the sort of line of country it would be worth your while following up?—(*Mr. Buckeridge*): As a rule nine-tenths of our members do not pay Income Tax and are not liable for Income Tax.

2227. I quite understand that.—Their point is, that if they kept that money away from our society, if, for instance, it was in the Post Office, they would not pay tax on it; by putting it into our Society they are charged at the full rate of 6s. in the £. They are not allowed to claim the difference between the 2s. 3d. and the 6s., because they are a society. If they were individuals they could go further than that, and claim to be exempt from Income Tax altogether; but we are told that as a collective body we cannot claim.

2228. There is no dividing line between you and a Slate Club, which, you admit yourselves, ought not to be exempt?—Slate Clubs and ourselves, I reckon, are on distinctly different footings. Our thrift is continuous, and a member will get the maximum amount in, which is £60, and leave it in for years.

2229. *Chairman*: You will perhaps think over the suggestion which has been made on that point?—(*Mr. Bohn*): May I also ask this? My attention has been drawn to the fact that we are really in the same position as the Post Office Savings Banks, but they are free up to a deposit of £200.

2230. *Chairman*: You will have a great many other questions to answer.

2231. *Sir W. Trueman*: Why do you put at £1,000 the income on which back tax could be claimed?—You see time does not run against the Crown.

2232. They have no power to assess you for more than three years.—I thought, being a Department of the Crown, time would not run.

2233. No, that is not so.

2234. *Chairman*: You have got some valuable information.—I feel much freer since I have heard that dreadful weight is not going to fall on my head. It is not such a big weight now. (*Mr. Buckeridge*): One of the remedies I would suggest is that the Registrar be empowered to insert a clause that a particular Thrift Society should be exempt from Income Tax on the same basis as a Friendly Society, and that he may differentiate between the societies.

2235. Well, that is a point to put up.

2236. *Mr. Bouvern*: As a matter of fact the Inland Revenue people have been rather kind to you, have they not, taking the Act as it stands?—(*Mr. Bohn*): Yes, they really are, but unfortunately the law is that it must be deducted at the source in certain cases, and that as collective body can reclaim.

2237. There is an old saying, is there not, "Let sleeping dogs lie"; you prefer not to let them?—Well, we feel we have such a strong case.

2238. Is it voluntary work on the part of the Committee?—Only the secretary and the cashier are paid. With some societies the Treasurer is paid, but with ours it is not so.

2239. *Chairman*: You act in an honorary capacity?—That is so.

2240. *Mr. Bouvern*: You are really a mixture of a building society and a loan society?—No, a building society is on trading lines; they mix the capital and the interest together.

2241. You encourage members to buy their own houses?—It is in the nature of an investment, and we only charge 4 to 4½ per cent. Building societies charge up to as much as 13 per cent. The cheapest we know anywhere round about is 6½ per cent.

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2243. In the case of a member withdrawing does he simply withdraw the contributions he has paid in?—Anything he likes.

2243. Can he get beyond his own contributions?—No, but he can get a loan on the cards of two other members. If, for instance, a man is out of work, or times are bad, or he wants to purchase his house or furniture, or what-not, if he has two friends who will go guarantee for him, then we will advance up to the amount of the three cards, his own and the two friends.

2244. Then the total of £4,528 would only be distributed should the society be dissolved?—You mean the total fund?

2245. The amount invested, £4,528?—That is so.

2246. It would only be distributed in the event of the society being wound up?—That is so. Under the registration of Friendly Societies we are compelled to distribute. In the case of the Kensington Society, which is now the largest, the amount distributed would be more than the members put in, because we have a reserve fund and also a management fund.

2247. Are you satisfied after the questions that have been put to you that it would be rather difficult to accept the words "mission hall" as a kind of dividing line?—I see the point, of course. I have met some who were interested in this movement, secretaries of other parishes, and so forth, and what they were inclined to say was: "It is not for us to suggest"; but I said, "One of the first questions I shall be asked is where is the dividing line to be drawn?" They said "surely it is for the body who are appointed by Parliament to do it." I said "No, I am afraid they will not take that view. We shall have to make suggestions to them." That is the very first point that arose.

2248. This is merely a pious suggestion on your part?—Yes, I think it is the most valuable one, because they would have to get the consent of the mission before they could have it, and in practice they are doing their work so very satisfactorily.

2249. Mr. May: I understood you to say that it is not the total savings of your members that you are taxed upon, but the portion which is put out to mortgage—the interest on the mortgages?—Yes, and on one of the war loans, I think it is the 4½ per cent. The Exchequer Bonds I think are free, and the 5 per cent. War Loan is free.

2250. Do you consider the building society section, if I may so call it, essential to your scheme?—Yes, it is one of the great objects of thrift. It encourages a man to do something more than mere payment into the society; he will save more still. It is a considerable prize to him, and I think you will agree that it makes for steadiness in the working class.

2251. Supposing that side of your operations were eliminated, and that you gave up for the time being lending money on mortgage, it would be a real hindrance to the development of your society as a means of self-help for these very poor people?—I think so. It is, I think, a great ambition for these working men to acquire their own homes. It makes for the steadiness of the working class that they should have a stake in the land by the owning of their own homes. I am very strong for that. It is the great ambition of these men to own their own place. They take a special pride in it.

2252. How many of your members at the present time are buying their own houses?—We have refused two; it is 50 altogether. Of course, the slightly richer ones, who can save more are able to do that.

2253. Out of 602?—Yes.

2254. So I suggest to you that after all the building society department is a very small section?—Yes, but we also do this, we lend our members the assistance of our surveyor, and of our solicitors, at the same rate, even though there is no mortgage with the society. They can purchase on their own, and those who have done so, of course, would not appear in our balance sheet.

2255. You suggested that Co-operative Societies in this respect have complete exemption?—Well, I believe there is something about putting money on deposit with a Co-operative Society. I understand they have to make a return and the Income Tax is deducted.

2256. I will not go further into it now, but I advise you to look into that, if I may.—We cannot take money on deposit. May I draw that distinction at once? We are forbidden by the Friendly Societies Act to take money on deposit.

2257. May I ask you how long it is since you put your case up to the Inland Revenue?—A long time ago.—(Mr. Buckeridge): If I might answer that question, I should think quite 15 to 20 years ago since we first tried.

2258. Mr. Prideman: That is not the last time; are you still at it?

2259. Mr. May: I asked what was the last occasion?—(Mr. Bohn): When I saw the head of the Claims Branch, Mr. Jacob, at the starting of the War Savings, I drew attention to this, and again I received the utmost sympathy.

2260. Have you yet appealed to the Special Commissioners to consider your case?—I did not know that we could do that.

2261. Any taxpayer can do that.—We have gone to the Somerset House authorities, and we thought we had exhausted every means. I should be very glad to hear that we can get some special consideration.

2262. I am not suggesting that. I only suggest to you that, if it is 15 years since the case was put up, the whole aspect of the Board of Inland Revenue has changed since then, and I am not sure that you are on safe ground in assuming all that you have assumed this afternoon. Why do you limit the holding of your members to £50 seeing that the object is to provide them with their own homes?—The idea is only to get hold of the very smallest people; it is education in thrift. We do not pretend to compete with the Friendly Society or any other organisation. It is part of the work of the society to encourage thrift and inculcate these traits of character into the individual, and then afterwards he will save more on his own. Once we have sown the seed we say the work is done; it is educational more than pounds, shillings and pence saved. (Mr. Buckeridge): I should like to answer that question more fully. It was the Registrar that prevented us increasing the amount of holding. He said: "You must define what a share is." He said: "Your share is 3d. per week and must be fully paid. A share fully paid is £10; therefore a member cannot hold more than £50 in the society." That restriction came from the Registrar. I dare say he would allow it to be increased, but he wanted a fixed amount.

2263. Is it not rather that the Registrar insisted upon a clear definition in your rules and that you limited it to £50 and not the Registrar?—Partly, but he wanted a definition of a share.

2264. As a matter of fact there is no legal provision which prevents you from having a share anything up to £200.—No. (Mr. Bohn): There is something in the Act, I believe.

2265. Mr. Bowdren: Supplementing Mr. May's remarks about the £50, men whose savings are limited to £50 are not buying their houses, I take it?—(Mr. Buckeridge): No.

2266. Why I ask is that there is a list on the back of this printed statement ranging from £750 down to £125.

2267. Mr. Kerly: Can you give us a working example, a practical example?—(Mr. Bohn): In the average case, or the typical case, a working man saves for a number of years. He saves for something like 12 years and has now something approaching £50. He knows he will have to find a certain margin to cover any fluctuations of market value of the house. If he is an old member we advance up to the half more than any commercial concern would do, and in one or two cases more even than a building society would do. Then he withdraws the £50 or £60 to form a part of that margin. I am afraid it is not always £50 or £60; we have had several where it was only £25 or £30. Where it is a £150 house a margin of £25 is not too much for the man to find himself.

2268. You lend him the money to buy the house. He takes the amount which is to his credit as part of the purchase money?—I have not quite followed that. After he has withdrawn some of the money standing on his account, say £20 or £30, he then enters into a contract to buy the house. We have an said what we will advance on the house. If he is an

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old member we will advance up to the hilt, and that £20 will be found by him to pay the costs, which, as a matter of fact, on £160 would be only two guineas and one guinea for the surveyor. He will pay the rest of that £20 as part of the purchase price and borrow the rest. We have a case in point actually now going through.

2209. I think that answers the question and it is as I summed it up.

2270. Mr. May: The members, irrespective of whether they hold a mortgage or not, are limited to £50 in their holding. The money that is advanced to them on mortgage is an entirely separate responsibility, an individual responsibility, which they accept under a deed.

2271. Mr. Kerly: Except that they have a preference, being members, when the society has money to lend on mortgage.—That is right.

2272. Mr. Walker Clark: You are registered under the Friendly Societies Act?—Yes.

2273. Is there anything to prevent you being registered under the Certified Savings Bank Act?—The Trustees Savings Bank Act?

2274. That would give you exemption?—We could not then purchase a house for a working man; he could not secure a mortgage. If he is out of work he could only withdraw his money and could not get a loan. Some of these societies have free loans, and if a man is out of work for a short period he gets a loan for nothing. Of course, he has to pay it back, but he has not to pay interest on a free loan; it is at the cost of his fellow members, and in the nature of co-operative providence.

2275. Then the only reason why you are registered under this Act is for convenience of working?—It gives us a status as well; I suppose that is the main reason. It is desired that every society should register, wherever it is possible.

2276. You would be registered as a Certified Savings Bank?

2277. Mr. Kerly: But Mr. Bohn says then they would be prevented from carrying on certain profitable work. They could only make their investments on an investment basis.—(Mr. Bohn): Such as Consols; and there we should have even more deducted at the source.

2278. I am told a Savings Bank can only invest with the Commissioners for the Reduction of the National Debt. Probably everybody knew that except myself.

2279. Mr. Marks: I see in the statement of your financial position you have got on mortgage £2,490, nothing turns on the exact amount. I imagine that on that, your mortgagors pay you interest. Do they deduct from their interest tax at the full rate?—Yes, that is our grievance.

2280. Whether they are liable to pay the full rate or not?—That is so.

2281. Do you know if they account to the Inland Revenue for that tax that they deduct?—They must, must they not?

2282. They ought to.—I thought that to every house a form was sent at the beginning of the year.

2283. We do not want to go into that. Do you know, or do you not know, whether they do account for it?—I am afraid I have never inquired further. We have to pay it, unfortunately.

2284. I rather gathered, from what you said, that it was one of the grievances of your members as a body that these mortgagors deduct the Income Tax from their interest?—Yes, especially these smaller ones.

2285. If the Revenue gives it back, it mitigates the grievance, to some extent?—If the individual member did not have to pay at the full rate, I dare say it might be so. I have never gone into that question. We have to pay it at the full rate; it is deducted by Act of Parliament; we are compelled to allow it.

2286. I see in your report you say "The dividends during the year were as follows"—amounting to 1s. 6d. in the £6?—Last year it was 9d.

2287. Yes, I beg your pardon; I am adding in the total. It is 9d. in the £3—just under 4 per cent. but that does not include the management.

2288. This, I take it, is in the nature of interest on the deposit of the member, and he has it in full without deduction of tax?—Quite right.

2289. And if he is liable to tax, he would have to account for it?—Quite right; in the same way as the Savings Banks; in fact, in that instance he might be paying twice over, because part of that represents what has been deducted over the mortgages. Then if he has also to deduct something else later on, he will be paying a portion twice over.

2290. Mr. Arncliffe-Smith: You told us that the important thing was the principle?—That is right.

2291. You regard thrift as an advantage to the State?—Absolutely.

2292. To such an extent that in this case you think the State should make a subsidy?—Quite.

2293. You think that a subsidy is justified when the thrift is on a small scale, but not when it is on a large scale?—Because we are dealing with the poorest.

2294. I did not ask you why; but that is so? A subsidy is justified when the thrift is on a small scale, but not when it is on a large scale?—I do not say that at all. We are only concerned with our small organisation; we do not speak for the larger ones.

2295. Would you generalise your principle, and say that the State should provide a subsidy for all thrift?—Yes, where it is a necessity; but if the man has the power of saving more than is an absolute necessity, then you could certainly tax him. You do not tax food, but if a man buys a cigar, or even if he buys sweets—I do not see why you should not put a tax on sweets; they are a luxury. I am drawing a parallel as to what is a necessity. Thrift, we say, is a necessity where it is to save money to keep a man for the rest of his days, when he is out of work or when he is ill, and when he is past work—and his wife also; and he should be allowed to put by a certain sum to provide for that, free of all Income Tax; the State should assist to that extent. But if he chooses to save more than that, by all means put on a tax.

2296. You say thrift is as much a necessity of life as food?—Absolutely. It provides the means whereby to secure that food—the money to buy that food.

2297. Sir J. Harwood-Banner: Is not this one of the general class of Thrift and Provident Societies that are established all over the land for superannuation and other purposes, which you think ought to be dealt with separately? Is it one of a class of a great number that we shall have before us?—We put ourselves on a different footing. The superannuation funds, I admit, are very necessary, and I think consideration ought to be given there; I am very strongly of that opinion. But ours is much more deserving, because we are educational as well. We seek to do more than these other societies do; we are so educational.

2298. Mr. Kerly (noting as Chairman): As I understand, your claim for special treatment is that the people who really own the interest from which the tax is deducted, are all such poor people that individually they would be exempt?—That is so.

2299. And that is why you suggest that, being grouped together, they should not pay a tax that otherwise would not fall upon them?—That is so.

2300. Your difficulty in running your Society is that for other reasons you want to make your investments on mortgage, where the tax is deducted at the source?—Yes.

2301. You are not in the position of such a Society as Sir John Harwood-Banner suggested to you—a superannuation fund, which can choose other investments?—Quite.

2302. I suggest to you that there are two difficulties in your way: The first is, to define your Society so that it and other societies may be exempted; the second is to provide that your Society shall be a legal person, so that it can claim repayment?—That is so.

2303. The second one is quite easily dealt with if you have got the first?—Yes.

2304. But the definition goes to the root of the matter. In fact, you distinguish your Society from a State Club, if I properly understand you, by suggesting that a State Club is a transitory body which

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MR. H. A. GODSON BOHN AND MR. CLEMENT BUCKERIDGE.

[Continued.]

exists to make a collection until the banquet comes round. How would this definition suit you; it is the best I have been able to construct at a moment's notice in answer to your evidence: "A Society registered under the Friendly Societies Acts and permanently constituted for the encouragement of thrift by the collection and care of small sums repayable on demand on notice and not at a fixed term or on a defined occasion"?—Would you mind putting that again?

2305. I want to rule out the Slate Club, which divides up at Christmas or divides up when some special occasion comes round. I am not very well satisfied with this myself, I may tell you, and I suggest it for improvement: "A Society registered under the Friendly Societies Acts"—not a Friendly Society, but registered as you are—"and permanently constituted for the encouragement of thrift by the collection and care of small sums"—which might be defined—"repayable on demand on notice and not at a fixed term or on a defined occasion"?—I think that would do it amply.

2306. First of all, would it include your Society? Because we do not want to rule you out?—"Not repayable on any fixed occasion."

2307. Is all your money repayable on demand?—Yes, on seven days' notice.

2308. If any member of the Commission would like, upon the suggestion I have just made, to ask any further question, there is an opportunity.

2309. Mr. May: I would like to ask whether this repayment on demand is not subject to the veto of the Committee of Management?

2310. Mr. Kerly: What do you say to Mr. May's question? Has your Committee of Management any veto?—(Mr. Buckeridge): No. If the money in hand is sufficient to pay it, it has to be paid. It is only a question of having the cash there.

2311. Mr. May: I think you will see my point: That without that power on the part of the Committee of Management it could be so arranged that it was all removed at a particular time.

2312. Mr. Kerly: I agree that the members could agree to give their notices at a fixed time; but, of course, they cannot all give notice at once, because the money is not there to repay.

2313. Mr. May: Quite so; but your point is to differentiate it from a Slate Club, and I do not think what you have suggested quite comes to it.

2314. Mr. Kerly: I am quite conscious that such a definition as I have suggested, if you eliminated "registered under the Friendly Societies Acts," might lead to the registration of moneylenders' friends and

customers; and societies might be specially set up in that way, and other societies which one does not wish to favour. That is why I put in the words "constituted for the encouragement of thrift," and also provided that they should be registered, which would give the Registrar of Friendly Societies the duty of passing them.

2315. Mr. Walker Clark: Ought there not to be a definition which would prevent it being a profit-making concern?—It should not be a source of profit either to the officials or to the place where the meeting is held. It should be more or less honorary. I think there should be some saving clause of that sort in your definition.

2316. Mr. Kerly: It occurs to me that one must leave that to someone's discretion. I doubt whether you could do better than the phrase I have suggested: "permanently constituted for the encouragement of thrift amongst the members."

2317. Mr. Walker Clark: "On a voluntary basis," or something of that sort.

2318. Mr. Marks: "And not for profit," or something of that sort.

2319. Mr. Kerly: Yes; I will put that in: "not for profit."—(Mr. Bohn): Of course that might stop the payments of any interest on their holdings.

2320. Mr. Kerly: No, I do not think so.

2321. Mr. Birley: It would be a profit to the members.—I think you need have no fear as regards that. In the case of all the registered societies, with their balance sheets having to be filled, and an annual return having to be made, it is so obvious, everyone can see it; it would stop at once. It is only with these Slate Clubs, where you have no proper balance sheet, that you have that.

2322. Mr. Kerly: I think it was Mr. Marks' suggestion: "and not for profit."

2323. Mr. Marks: I think there should be some definition which would cover the Co-operative Societies, and so on.

2324. Mr. Kerly: We have sufficient to discuss it amongst ourselves, I think.

2325. Sir E. Nott-Bower: You said: "for small sums." Would it not be better to have some definition of that?

2326. Mr. Kerly: I said: "collection and care of small sums" to be defined.

2327. Have you any suggestion as to the limit of amounts payable?—I do not think so. We ourselves do not wish a large amount; because what we say is that we have succeeded if we have once got a man into saving a small amount. We consider we have then got the work done. Thrift is so contagious that you need have no fear; it will catch on.

FIFTH DAY,

WEDNESDAY, 4TH JUNE, 1919.

PRESENT :

LORD COLWYN (*in the Chair*).

Mr. BOWERMAN.

Mr. BRACE.

Mr. PRETTYMAN.

Sir E. E. NOTT-BOWER.

Sir J. S. HARMOOD-BANNER.

Sir W. TROWER.

Mr. HOLLAND-MARTIN.

Mr. WARREN FISHER.

Mr. ARMITAGE-SMITH.

Mr. BIRLEY.

Mr. WALKER CLARK.

Mr. HILL.

Mr. KERLEY.

Mrs. KNOWLES.

Mr. McLINTOCK.

Mr. GEOFFREY MARKS.

Mr. MAY.

PROFESSOR PIGOU.

Mr. CHARLES EDWARDS, M.P., on behalf of the South Wales Miners' Federation, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

2328. Charles Edwards, J.P., M.P., Miners' Office, Blackwood, Mon., representing the Bedwelty Division of Monmouthshire, will give evidence on two points, viz., opposition to payment of Income Tax, and the reason for the demand that the basis below which Income Tax should not be assessed should be raised to £250 per annum:—

- (1) Reduction of basis from £160 to £130, and this when cost of living was going up.
- (2) Indirect taxation. This presses on the poor more than on any other part of the community, thus making it a double burden on the low-paid men.
- (3) Belief that cost of collecting same is almost equal to the amount collected.
- (4) Refusal to allow abatements to sons who may be keeping the home after the death of the father.
- (5) £130 equal to £2 10s. per week. Pre-war value, 25s. per week.
- (6) £250 per annum equals £4 10s. 1d. per week, or pre-war value of £2 8s. 1d. per week.
- (7) £160 pre-war basis was over £3 per week, so that the present demand is even less than that.

[This concludes the evidence-in-chief.]

2329. Chairman: Have you a paper before you that you would like to read to us, or would you prefer to address the Commission on the points that you have put down?—I was not quite sure whether I should have to speak on these points, or whether you would ask questions.

2330. I think it would be better if you would tell the Commission what is in your mind, and then you will be examined afterwards?—Then I will take the different points as they are put down. First of all with regard to the reduction of the basis from £160 to £130, and this when cost of living has gone up. I want to speak, first of all, on the opposition to paying Income Tax, and why opposition came about. I speak for the miners of Monmouthshire and South Wales: I belong to Monmouthshire. We consider that this reduction in the basis was made at the worst possible time, because the basis was reduced when everything else was soaring upwards. The old £160 basis, I remember very well when I was working, was a basis that none of us was called upon to pay under; we used to wish that we were, because the wages were very

much lower than that. But that was when things were soaring, and, through organisation, wages were going up at the same time; I would not say correspondingly, but wages were going up until, by the wages going up and the reduction to £130, there were so many more people brought in to pay Income Tax than there had been previously. I think there would have been an upheaval with labour at that time were it not for the energies of the labour leaders—and I was one of them—who did our best to make the thing workable and met the Income Tax Surveyors on different occasions and made it as easy as we could. We told the men that it was the law of the land and it ought to be observed, and that we should take constitutional means to get the basis as it was before. We have failed in that up to now. There has been opposition from the workers from the very commencement against this paying of Income Tax at £130, but through our exertions we got it going; sometimes men have refused, a few have gone to gaol, and the agitation has been going on from the very beginning. I myself consider that it was a senseless thing to do to reduce the basis—because there must be a standard of living after all—at a time like that. That is the whole point that I want to make on that. It became unpopular. I suppose Income Tax with you, gentlemen, who have always been used to paying Income Tax, was always an unpopular thing, but to reduce it to £130, which was not a proper basis that anyone could live upon, I look upon as a most senseless thing to have done. If they had left it where it was there would not have been the same opposition, because it had been the law for some considerable time before. I do not know that I want to labour that point.

2331. Then there is indirect taxation. That is always unpopular with the workers, because the articles of food that are taxed are upon the tables of the poor always. You may go into almost any working-class house and you will find tea or coffee or cocoa on the table every meal in the day, so that the poorer people pay much more in indirect taxation than I think other people pay. The lowering of the abatement, without any relief at all in regard to indirect taxation, helped to make it unpopular.

2332. Then there is a common belief—I do not know how far it is true; I know it is true very largely, but not to the extent that I have put down possibly—that the cost of collecting this Income Tax is equal to the amount collected. I would not like to say that that is true, but I think I should be safe in saying that to collect the total of these small amounts costs more than half of the amount collected. I am assured by Income Tax authorities—the local people I mean now

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[Continued.]

—that if it were not for these small amounts having to be collected their office staffs could be reduced very considerably. I think I should be safe in saying that of the eight millions pounds that it brings in, more than four million pounds go in salaries and expenses; so that if the basis were raised the loss would be very much less than it appears, because of that. This is my information from Income Tax authorities: that it costs more than half to collect the amount collected.

2333. Then the next point is the refusal to allow abatement to sons who may be keeping the home after the death of the father. I suppose there has been more feeling over this than over anything else.

2334. Who gave you that information about the cost being four millions—about the cost of collection being more than half the amount collected?—Well, sir, would it be right for me to answer that?

2335. Was it authentic information?—It came from an Income Tax Surveyor. I do not think I ought to go further than that. I asked him casually, "What is the cost?"

2336. It is so hopelessly wrong; that is the reason. I was wondering where you got it from?—Is that so, sir?

2337. Yes.—He told me that every girl in their employment—and there are girls in every office—the whole lot of them could be swept away, were it not for collecting these small amounts.

2338. It is hopelessly wrong upon the facts.—The common belief is that it costs as much to collect it as the tax produces, but I do not put it as high as that.

2339. It is absolutely wrong.—Then I go to the other point: refusal to allow abatements to sons who may be keeping the home after the death of the father. Now unfortunately in the collieries we get a lot of fatal accidents. The father is killed; the son then shoulders the burdens of the home, and ought to be encouraged in doing that; but for a long time they would not even allow the abatement on the children, on the brothers and sisters of that son who was keeping the home. Now to me it is the most ridiculous thing that I have ever heard of. And these tales are talked about in the little mining villages were everybody knows everybody else's business. This was a common thing. We met time after time and I think in a good many cases we got them to allow abatements on the children. I have known sons who were going to be married who have given up the idea because their father had died or was killed and they felt their duty was at home. I am sure you will all agree with me that there is credit due to a son like that, and he at least ought to be encouraged in bearing that burden. Then on the other point, of being allowed abatement for the mother, even to-day that is not allowed. I have a letter now with Mr. Chamberlain, the Chancellor of the Exchequer, on the very point I am putting to you now. There is a son who lives not a hundred yards from where I live. His father died and the son is keeping the home, his mother and two children. They refused to allow this boy an abatement for the mother because she is not an invalid. Well, is it not very fortunate for the State and for everybody else that the woman is not an invalid? She is able to look after the two children going to school, and this boy who is working in the colliery; and in the very last order that was issued, for April I think it was, they refused this boy an abatement for the mother because she was not an invalid. Now if any man will say that that is reasonable or commonsense treatment, then I have finished. This thing is talked about amongst the people, and there is no wonder it is unpopular when one can point to scores of cases like that, according to the size of the village; you find cases in every village like this, that everybody knows about. It is the most ridiculous thing that I have known, I must say, and even to-day that is practised in regard to the mother; I would not like to say whether the case of the children has been met—I am not sure on that point—but I know that no

abatement is allowed in respect of the mother unless the mother is an invalid. I think that is a point that ought to be given some consideration.

2340. Are there many cases where the allowances for the mother has been refused?—I take it that if one woman is refused others are.

2341. Has it been reported to you in many cases?—In the beginning we had a very large number. I have not had many lately, but I take it that if one Surveyor refused this woman that I know of, he would do the same thing all over his district, whatever that district might be. He lives in Blackwood in Monmouthshire.

Then the next point is about the money value, "£130, equal to £2 10s. 6d. per week." We consider the pre-war value of that to be about 25s. per week. I do not think anyone at any time would have thought of collecting Income Tax on 25s. per week. Of course we were hoping that the cost of living would come down after the war was finished, but I am not sure that it is not the other way about. As far as clothes and boots are concerned I know it is the other way about. I bought a pair of boots last Saturday in Cardiff and I gave no less than £3 15s. for them; I have never done a thing like it in my life before. I say I think the prices are still soaring as far as boots and clothes are concerned.

Then the next point is "£250 per annum equals £4 10s. 1d. per week, or pre-war value of £2 8s. 1d. per week." Now I find some diffidence in speaking on this £250, and I will tell you why. We failed in Parliament to get a promise from the Chancellor of the Exchequer that the basis should be raised. That was known in South Wales, and at the very first conference of miners that was held after that a resolution was carried unanimously that no more Income Tax would be paid under £250. It was unconstitutional and outside; I know all that; but still it was passed, and that fight will be put up. The only opposition in the conference was that £250 was too low. They thought that we ought at least to take the basis of the pre-war £160 and to double that according to the cost of living, which would have made it £320. That was the only opposition to the resolution that was carried—that it was not high enough. So that I think when I say that the basis ought to be at least £250 I am well on the modest side, not only for miners but for shopkeepers, small tradespeople, and so on. £250 in these days does not carry you very far in the home, and I do not think anyone could say anything less than that would be a proper standard of living. However, £250 was the amount agreed upon, and that is what I am talking about now; I think that ought to be the very least amount that should be considered as a basis for collecting Income Tax. The £160 pre-war basis was over £3 per week, so that the present demand is even less than that. I do not know that I want to say any more than that. I have gone over the points in a few words. Possibly there may be some questions put to me.

2342. What are about the average wages now?—I could not give you the average wages. Wages are pretty high in these days; it is fair to say that. I can tell you the minimum wage which I think would be the minimum standard of living in that district. The minimum wage, I believe, is £3 10s. and some odd coppers; anyway, you can reckon it up if you like. It is 5s. per shift plus 55-83 per cent., and then there is a war wage of 12s. per week, and the last Sankey Award of 12s. per week. I think it comes to about £3 10s. I have not worked it out. Now that is the minimum, and of course those men are called upon to pay Income Tax now, whereas that would be the minimum standard of living in that particular district.

2343. Has there been a practice amongst the miners to work only up to a point that will come inside the Income Tax limit? Have they restricted their output at all in order to evade the Income Tax?—I am glad you have mentioned that. I am afraid there has been a lot of that, however foolish it might be; and it is foolish, I agree. I have seen men on the

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[Continued.]

platforms and I have said: "Where are you going to-day; you are not working?" The reply has been: "Oh, I am going to have a day off; you have only got to pay it in Income Tax if you work." Now that is a common idea; foolish, I know, and I think there has been an actual reduction of work and earning because of the Income Tax; in fact I know there has. You may take it as a fact that that is so, however foolish it might seem.

2344. That is your opinion?—Yes, I know it. I have come across case after case and had that reply.

2345. Do you think if the Income Tax abatement was higher, that is, supposing it was made something like you suggest, there would be a greater output of coal?—I believe there would be. Surely it would remove what I have just spoken of; because the £250 is a basis agreed upon by themselves; they would not have that excuse then that it had been forced upon them; it is the basis they are asking for and I think the output would be increased because of that.

2346. Mr. Bowerman: Is it not a fact that owing to the action of South Wales miners the deduction on account of a child was increased from £10 to £25?—Yes, I think that is correct.

2347. Through their opposition?—Yes. We have had several deputations; that was one of them, I know; and we had improved the abatement in that sense.

2348. And are there not other deductions which miners can avail themselves of which perhaps the ordinary mechanic cannot avail himself of?—There are deductions. There is a deduction for tools, and there is a deduction for clothes. It is a small deduction, but still it is an abatement that is allowed for clothes and working boots, and that sort of thing. A good many of them to-day work with electric light and electric lamps. The electric lamps lose their fluid sometimes and burn their clothes, and that sort of thing. Then also they work in water, and a pair of boots does not last more than three months, and there has been a small abatement for that, equal I think on the average to about £10 per annum.

2349. In that respect they are in a better position than the ordinary mechanic?—Yes, they would be to the extent of about £10 per annum; I think that is about the average allowance.

2350. Is anything in the nature of a war bonus paid to the men?—Yes, they have a bonus of 18s. per week.

2351. Do they have to pay Income Tax on that?—Yes, all over £2 10s. a week unless the abatements come in and bring them under that amount.

2352. But the war bonus has to be accounted for in their returns?—Yes, it is wages earned.

2353. The war bonus being to enable a man to meet the additional expenses for food?—That is so.

2354. And he is still called upon to pay Income Tax on that extra amount?—Yes. The return comes from the colliery offices, showing the total amount that the man has earned; and of course both the Sankey Award now and the war bonuses before are in his total earnings; so that Income Tax is levied on all of them.

2355. From what you say, it would not be quite satisfactory to go back to the £180?—No, it would not be satisfactory at all. We consider that £250 is very modest. Considering the cost of living and the value of money to-day we consider it really modest.

2356. Of course, it was reduced to £130 as a war measure?—Yes.

2357. Am I right in suggesting that at the start the imposition was received not unfavourably?—It was received very unfavourably.

2358. At the start?—At the start; and the miners' leaders had very unpleasant times for a very long time. I suppose I have been told scores of times that I told the men how to pay it. We made it as easy as we could. It was quite a common thing, and there was quite a fight between the leaders and the men from the very commencement.

2359. Is it not the case that a great many of your men agreed to assist the Income Tax Surveyors or Collectors in the collection of the tax?—That is so, we advised that there should be a man appointed at every colliery to make it easy for the men, if there should be a mistake and that sort of thing; and a great many men have been appointed for that purpose and have been paid something—some commission on the work that they did. We did that to ease the position, as we thought, and to make it work more smoothly.

2360. To that extent there was co-operation between the men and Income Tax officials?—Yes, although you would be more correct in saying co-operation between the leaders of the men and the Income Tax officials, because we had to fight this opposition all the time. We introduced that as a thing that we thought would soften it a little bit and ease it; it is the leaders that are entitled to thanks for this having worked as smoothly as it has from the very beginning.

2361. I think we all know the influence the leaders wield in South Wales.—It is going, I am afraid.

2362. I am not going to ask you to show the pair of boots you had to pay £3 15s. for? I have not got them here. I am giving them another week at home before starting them. That is an actual fact—£3 15s. That is what I used to give for a suit of clothes.

2363. With regard to the quarterly collection or payment of this tax, did that give satisfaction at the commencement?—There has never been satisfaction; I am prepared to say there has never been any satisfaction.

2364. Apart from the payment itself, has the fact of its being collected in four quarterly payments instead of one annual payment been agreeable?—Personally, I should say it certainly made it easier, but the complaint that we have had during the last weeks has been this: "You advised us to pay quarterly; if you had not advised us to pay quarterly, and it had been an annual payment, they would never have got it, and we should have settled this in the beginning." That is another point that they use against us. We thought it would make it very much easier and we think it did make it easier for the people to pay.

2365. Comparing the position of miners with ordinary mechanics, so far as the payment of Income Tax is concerned, are they not in a more favourable position from the point of view of the deductions they may make?—The ordinary mechanic? No, I do not think they would be; because if you take boots, for instance, there is not a man in the world wears out his boots like a miner, unless it is a man at the fires all day, some puddler or some steel worker who possibly may wear out boots a lot. But the miner wears out a pair of boots every three months; there is no other body of workmen, I think, would know of a thing like that. The same would apply to clothes, with the wear and tear, the getting to the frame and all that sort of thing. I do not think a mechanic would wear out clothes to the same extent.

2366. I understood you to say that you were looking forward to the time when you would be called upon to pay Income Tax?—I was when I used to be earning considerably less than £3 a week; I used to think then that the man who paid Income Tax was a very lucky man. I am afraid I have changed my opinion since then.

2367. And you would not be singular in that respect?—I suppose not, at that time. I remember that when I started to work I was almost an unshod boy.

2368. Assuming, as one has a right to assume, that sooner or later the price of commodities will come down, would you still hold to the view that abatement for Income Tax should be raised to at least £250?—My hopes are gone about it ever coming down to any great extent. Of course, labour costs more, production costs more; I do not think it ever will come down. And, you see, the £250 is considerably lower than it was. You doubled the £160, as it used to be; so that it can come down considerably and still leave us in the same place.

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[Continued.]

2369. But, surely, we have a right to hope that prices will come down?—We live by hope, of course.

2370. And should they come down, I will not say to the pre-war price but within a reasonable distance of that, would the objection still hold good as to the payment of Income Tax on incomes below £250?—My hopes do not carry me as far as that. I do not think it will ever come below the point where the £160 would be equal to the £250. I do not think it will ever come below that again. I do not see any hopes of that.

2371. Mr. Warren Fisher: I think you said that £130 was an insufficient basis for subsistence?—Yes.

2372. I gather that you feel that the taxation should not commence at that point?—Yes, that is so.

2373. In answer to Mr. Bowerman, I think you said that there were certain allowances for children, the wife and for various other purposes?—Yes.

2374. So it might be, might it not, that if a man were married and had a family, £130 would not be the point at which his tax would begin?—That would be so of course; the abatements come in, £25 for wife and £25 for each child, and these other small abatements that I spoke of.

2375. So as regards a married man with a family, his taxation does not commence, I gather, at £130. It might commence at a very much higher figure if there were a wife and several children?—Yes.

2376. And dependent relatives possibly?—I do not know about that. That is a very doubtful point, because of what I have been saying just now about the children and the mother.

2377. If that is so, and the effective exemption is not £130 in the case of a married person with a family, but considerably more, would you feel that there should be any distinction drawn between a bachelor with no dependants and a married man?—There is certainly a difference between a single man and a married man. Of course, the married man has to keep the home going, which is a very different thing. After all, if the bachelors have to be taxed I think it ought to be done straightforwardly by a bachelor tax and not make any difference in the Income Tax abatement.

2378. You would prefer not to have allowances in the Income Tax for the wife and children and dependants?—A man up to now has been a free agent in regard to whether he got married or not, and he gives the same services as far as regards work and every other thing that we know of, and I think you could not have two bases from that standpoint. I would rather there would be a direct tax if you want to tax the bachelors.

2379. But on the argument from subsistence, a sufficiency to maintain oneself, would you recognize a distinction between a bachelor with no dependants and a married man with dependants?—Yes, there is quite a difference.

2380. Is the £250 that you suggest as the limit of exemption to apply to everybody?—Yes, to everybody.

2381. And are the Income Tax allowances to be given for a wife and dependants in addition?—Yes, certainly.

2382. So that the effective limit of exemption might be, not £250, but a sum very much larger than that?—Yes, exactly, according to the family.

2383. Were these special Income Tax allowances in existence before the war?—They were not as high; they have been raised somewhat. I cannot give you the dates when they were raised, but the abatements are higher now than they were before.

2384. I suggest that the wife's allowance did not exist?—It did not exist at all.

2385. And the children's allowance did not exist at its present figure?—I think the children's allowance was £10, as far as I remember.

2386. Mr. Prentiss: Yes, until 1914.—I was not quite sure, but I think that is it.

2387. Mr. Warren Fisher: Then the idea of keeping to the pre-war Income Tax position would not be completely carried out, I gather, because the post-war

allowances would continue, would they?—Yes, that is so. There would be that advantage in the proposal, of course; that is, provided things came down until it would be equal with £160, but I have not much hope of that.

2388. But is there to be a combination of the best of both worlds? That is what I want to understand. It is not suggested we should get back to pre-war limits of exemption and the pre-war position, but to the pre-war limit of exemption with all the allowances that have been granted since the war?—Yes, that is so, and the modesty of the demand of £250, as against £300 that it ought to have been, I think equalizes the point that you are on.

2389. Sir W. Trower: In reference to your question with regard to the death of the head of the household, may I put it in this way. In the event of the death of a married man, you wish to place the son, who is responsible for the family, in the same position as the dead man?—Certainly; the son ought to be encouraged by every possible means to take the place of the father.

2390. Have I put your view correctly?—Yes; the son ought to be encouraged, not anything cut out at all, but he ought to be encouraged to shoulder the burden. Many of them have very honourably done this, with the result that they have not been allowed these abatements.

2391. Then, you consider, I understand, that the lowest sum on which a man can live is the sum which should be fixed for the exemption limit?—Yes, I should say so. £25s. 1d. per week; that is what I put the value down as to-day.

2392. Your answer is in the affirmative?—Yes.

2393. It follows, then, that the limit of exemption, in your view, would vary with the fluctuation of the price of commodities?—I think that is a reasonable way of putting it. Of course, we are taking the present, and we have fixed it on the present.

2394. I was only asking for information, and trying to put your views into my own language.—I do not at all object to that question; I think there is some reason in it.

2395. Mr. Prentiss: I think what you really suggest is, is it not, that no Income Tax should be levied upon the wage which only represents the bare cost of living?—That is the point. Of course I have put it as £250.

2396. That is exactly what I was getting at.—Yes; you were rather leading me into the future when there will be fluctuations that I cannot foresee.

2397. But that is the ground of it. You suggest that £250 under the present circumstances of the high cost of living, only provides a bare living for a man?—That is so.

2398. Do you hold the opinion that the living wage for a miner who is a bachelor, must be as large as £250?—Well, yes, I suppose so. I do not see how you can differentiate between bachelors and others. They give the same service to the State.

2399. Is not the allowance for the wife and children a differentiation?—Yes, it is a differentiation, but you start from the same basis.

2400. Does it much matter what the basis is? What matters is what the man has to pay?—I do not think you could have two bases, for a single man and a married man.

2401. It does not matter to a married man what the basis is, does it, if he has to pay nothing?—No; but it would matter if you said the basis for a single man should be £200, and for a married man £250.

2402. But I have not suggested that?—The abatements might make a difference, but I do not think you can have two bases.

2403. I have not suggested two bases; I have only asked the simple question whether you consider that a bachelor could not live on less than £250?—Well, we consider that £250 is a modest request.

2404. For a bachelor?—Yes, for a bachelor; because, again, I say we are dealing with the basis there, and we cannot differentiate.

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2405. I am dealing not with the basis, but with the actual payment; with the actual position. Take a married man who has a wife and four children; he will get an exemption of £120, to begin with?—Yes.

2406. He will get an exemption of £125 for his wife and four children?—Yes, that is right.

2407. He will get an exemption of £10 for allowances for his expenses?—Yes.

2408. That would make him exempt up to £255?—Yes.

2409. So that a man with a wife and four children will be exempt from Income Tax entirely up to £255?—Yes.

2410. Under your proposal he would get £250, and he would have the allowances added on to that as well?—Yes, exactly; what would that be then?

2411. That would then be £285?—Yes, that is right.

2412. You do not think that is at all too high?—I do not, indeed.

2413. Of course you do not suggest that miners should have preferential treatment, do you?—No, not at all.

2414. That means that all the way up through the whole Income Tax paying class, a married man with a wife and four children would pay no Income Tax unless his income exceeded £285?—That is so, and if he had to pay for six pairs of boots the same price as I did, he would find that very low then.

2415. Have you considered from what source that very large loss of revenue could be made up?—I think from the Income Tax above £285, or whatever it is.

2416. Higher incomes would pay more?—Yes, certainly. I would not object myself to be taxed higher, but give me a proper basis, and then I think it ought to be increased every £100 as it goes up from there.

2417. But it is, already?—Yes, it is.

2418. But you would steepen the gradient?—Yes, every £100; I would not object at all.

2419. I rather gathered the impression, from what you told us about the payment of this tax and its history, that when it was a novelty, miners, as you yourself did, rather liked the idea of becoming Income Tax payers, and the novelty then wore off, and they are now rather beginning to see how they can avoid paying it?—Have you not been in exactly that same position?

2420. That is exactly the point I was coming to. Do you not think that people who have to pay these very high taxes are just as human as the miners?—Oh, quite; more so, I think.

2421. Do you not think that a very steep gradient may defeat itself?—I do not see why. If I am called upon to pay so much at £900, if I have got £500, I am better able to pay on the fifth hundred than I was on the fourth. I think that is reasonable and commonsense; and the same thing applies all the way up.

2422. Your proposal is that the wage-earning class shall be put in exactly the same position as they were pre-war?—We are not asking for that; we are asking for £250.

2423. Yes, but you want these additional allowances as well. You have discussed that just now with another member of the Commission?—Yes.

2424. Taking into account the additional allowances, the wage-earning class would be put in quite as favourable a position as regards Income Tax as they were before the war. So that you would put the whole of the burden of the extra Income Tax cost of the war upon the other classes, and none of it upon the wage-earning class?—I think I said just now that more comes out of the working-class from the indirect taxation than from any other class of the community.

2425. So it did before the war?—Yes, exactly.

2426. Is it not the fact that there is a very heavy additional burden upon the whole population of this country to pay for the war?—Yes, there is.

2427. Do you suggest, that being the case, that the wage-earning class should bear no share of that burden at all, and that the whole of it should be put upon the other classes?—No, I am not suggesting that at all. My suggestion is that the war has made this world in such a condition that we have to pay much more

for everything; only there must at least be a standard basis of living equal to the times that we live in.

2428. You claim that, as far as the wage-earning class is concerned, they should be put in at least as good a position as they were before the war?—Yes.

2429. Therefore they would take no share whatever of the extra burden imposed by the war; they would not be required to exercise any economies or to deny themselves anything that they could get before the war; whereas the whole of that is to fall upon others?—That is not the demand. If you keep to the £250, you will find that there is a big difference.

2430. But there are the additional allowances. You answered that question just now, that with the additional allowances they would be put in quite as good a position as they were before?—No. You take a married man with the £120 and the £25 for wife and children.

2431. £285?—You have taken four children, and you have taken into account the £10 that used to be given, as against the £25 to-day.

2432. Certainly—I do not think in our demand that the workers will be relieved from payment at all.

2433. It is rather a matter, I suppose, for us to go into in detail as to the actual figures; but, on principle, you would agree that the workers should bear some share of this additional national burden?—Yes, exactly. I do not want to get out of that; and I told you, I think, at the beginning, that there were many earning very high wages who would be paying considerable Income Tax under this. All I am after is fixing a proper basis, and from then impose what tax you like; I do not object to Income Tax; in fact, I would rather see it higher and indirect taxes taken off altogether; I would prefer seeing the Income Tax, from the basis, raised considerably above what it is to-day.

2434. Do you not think it is much to the advantage of the country that a bachelor should, on marriage, find himself as well off as he was as a bachelor, and that a man should not find that the fact of marrying makes him appreciably and seriously worse off; and is it not a great advantage if, in the matter of housing, or in the matter of taxation, or anything, a man who marries and gets a home, gets some corresponding advantage financially, so that he may keep his home and live as well as he did as a bachelor; and is it not a good thing, therefore, to have a basis which will greatly relieve the married man, at the expense of the bachelor?—I cannot go into that. Of course some women are very expensive at £25, and others are a very good bargain. I do not want to go into that.

2435. Quite. But on general grounds, do you not agree with that?—On general grounds, of course, the married man is entitled to abatements to be able to meet the difference in the cost of living, to what the single man would get.

2436. Is it not better to have a low basis with big abatements, instead of a high basis with low abatements?—But I am not asking for a high basis; I am only asking for £250, which is a modest basis.

2437. Mr. Kerly: The best way to get your basis would be to start with a normal family, would it not: shall we say, a man with a wife and four children? Take the average case; that would be something like a man with a wife and four children, would it not?—Yes, I suppose that would be the average; I do not know.

2438. That would be the best place to fix your basis, and you would find what it would cost for the necessary provision for such a family?—I do not know whether that basis would be the fairest, after all. If you take the married man without children, he has to meet certain payments which are the same as a man would have with three or four children. There is house rent, coal, and certain things that would be the same to the married man without children and to the one with children.

2439. But still, a man with four children has greater necessary expenses than a man with none?—Yes, that is so.

2440. If a man has less than four children, you would put his basis a little lower, on your footing of necessities; and if a man has not got a wife, then

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you would put it still lower—I do not say how much. Is not that the logical way to go to work, if your basis is to be what it costs him to live?—Of course that is what is done now, as far as the abatements are concerned.

2441. Then if that is the way you are going to work, you are penalising a hachole, and you are taking into account that he has not so much to spend for necessities?—That is true; I do not want to get out of that; he has not so much to spend.

2442. Now I come to another matter. You say that it was an injudicious moment, when the price of living was going up, to lower the basis of Income Tax taxation?—Yes, exactly.

2443. Of course you are aware that there was a war going on, and special taxes became necessary?—Yes, and of course people had to live during the war.

2444. Wages went up at the same time, did they not?—Yes, wages went up.

2445. And the wages went up much faster than the Income Tax that was imposed upon the man?—Wages did not go up as fast as the cost of living went up; put it that way. I think that would be better.

2446. That is another matter. That objection was a transitory objection; it was just an objection at the moment, but that will be forgotten when the Income Tax becomes one of the regular phenomena of life?—I am afraid you do not know the men, or you would not look upon the objections as transitory.

2447. Now let us see about something else. You suggest that the Income Tax is unfair because of the poor paying heavily in indirect taxation?—Yes.

2448. Have you any idea of how much the poor do pay in indirect taxation?—No, I could not tell you. I know those articles of food are taxed that are always on the table of the poor.

2449. I am very much in sympathy with what you say, but I think very often a very small thing constitutes a grievance altogether out of proportion to the hardship it causes. Now let me suggest this to you. I have before me a careful calculation in, what I daresay you know, a paper by Mr. Herbert Samuel, who has gone into the taxation of the various classes of people. This is for the year 1913-1919. An ordinary family consisting of a man, his wife and four children, is calculated to pay by way of tax, on tea 27s. a year, to pay on sugar £3 a year, to pay on tobacco £7 5s. 6d. a year, and to pay on drink £2 a year, making a total of £18 a year in direct taxation. Now you will see, of that £18, only £4 is on tea and sugar, and the rest is optional, because a man may smoke more or less and drink more or less?—Yes, exactly. That would be a general comparison of, say, a married man with four children over the whole of the classes, would it not?

2450. Quite.—So that it would not affect my point. My point would be that possibly on tea and sugar the cost to the lower paid workers would be double the amount you have got, or more than that.

2451. You see what I am putting to you; that as regards tea and sugar a family spending £200 a year, that is £4 a week, only spends £4 a year by way of taxation on tea and sugar. That is not a very big sum?—I do not know how he gets at that.

2452. If you will read the paper, you will find it is very carefully worked out?—I am afraid Mr. Herbert Samuel has not lived amongst them as I have; and would not be in as good a position to know the quantity of these articles that are used.

2453. You remember that sugar was rationed?—Yes.

2454. So that it was possible to find out how much was bought?—Yes.

2455. Have you considered this; was bread a matter over which a poor man spent a relatively large part of his income? It is a large item in a poor man's budget, is it not?—Yes, exactly; that again would be larger with a poor than a rich man.

2456. But have you forgotten that there was a subsidy on bread, and that the cost of the poor man's bread was partly paid out of the general taxation?—Yes.

2457. And that what he got returned by way of subsidy on bread was a far greater sum than what he paid by way of taxation on tea and sugar?—I do

not know the figures; there was a subsidy on bread I know.

2458. We will pass away from that. I merely suggest for consideration to you and the people you represent that when you talk about indirect taxation falling heavily upon the poor it is wise to consider how much it really comes to, and I suggest that it is a very, very, much smaller sum than they imagine. Now let me go to your next point. You say the cost of collection is assumed in your district to be excessive in the case of the workmen's payments. We have got here an actual estimate of the figures from the Income Tax authorities, and the whole amount spent in collecting Income Tax last year was £3,000,000, that is of collecting £370,000,000, and it is estimated the Income Tax from the working classes produced £7,700,000. I think you put it at £8,000,000?—Yes, that is Mr. Chamberlain's figure.

2459. The cost of that was seven per cent.—£7 for every £100. So that unless it was far more difficult to collect from the miners than from other people it was very, very, different from the figure which has been suggested to you. However, I will leave that unless you have anything to say against it.

2460. Chairman: Have you got these figures clearly in your mind, because that is a very important point? The unrest and opposition to pay the Income Tax is based on a supposed cost of collection which is said would be one half of the sum collected. You thoroughly understand now how much it cost to collect that £8,000,000 which you speak of?—You say it is seven per cent.

2461. Mr. Kerly: Yes.

2462. Chairman: £300,000 instead of £4,000,000, which you were suggesting.—I do not know where you get that from; there is a big difference between you and me.

2463. Mr. Kerly: It is an enormous difference.—And I did not give my own figure when I said half; it was from a man who was actually in the business.

2464. One understands that you cannot get a general view from one or two particular cases. I daresay a particular miner might pay 5s. Income Tax, and it might have taken several days insistence to get it, and there might have been a loss to the Revenue in that particular case, but you must take the average?—But an Income Tax Surveyor in a certain mining district would know, would not he, and would not that be a sample of the whole of, say, the mining districts?

2465. It certainly cannot be a sample of the whole of the working classes of the country, because here we have got the actual figures from headquarters, and that £7,700,000 costs seven per cent. to collect. We have got those official figures.—I think you should ask them to look into that again. I think a Surveyor of a district ought to know what it costs.

2466. He may have had a particularly difficult district?—No, I think he would have one of the best of them. I think you had better call for another investigation into that; in fact, I do not believe from the information that I have that that is anything like correct; I think there is a big mistake somewhere.

2467. The only possible explanation that occurs to me is that the greater part of this seven per cent. is spent in getting the miners' contribution. Do miners earning between £120 and £350 a year make a greater objection than other classes of the community between the same limits of income to paying their tax?—Do you believe yourself that seven per cent. would cover the cost of the offices, and the amount of people that are required to deal with these small sums, because I see no sense in the figure, I must say.

2468. Well, have you considered that after all a lot of letters can be written in one day?—Yes, quite.

2469. And it is collected quarterly, is it not?—Yes.

2470. Upon that, is it the fact from your experience of the working class, whom you know very much better than I do, that they strongly object to all forms of direct taxation?—We hear that sometimes, but I am not putting that point this morning.

2471. Is not there always a difficulty, when you have got to pay something that only comes once a

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year or once a quarter, in putting your hand on the actual cash to make the payment? It is a difficulty always felt about rent?—Yes, always.

2472. As regards rent you have to save up your money for a week, or set it aside, and then you pay your rent weekly?—Yes.

2473. As regards a yearly payment you would have to exercise forethought for a much longer period?—You would, yes.

2474. That is one reason why an actual cash payment is difficult for the working classes, and repulsive to them. Do you not think that the tax would be much more easily collected and cause much less opposition if it were deducted from the wages, as for instance the payments for National Insurance are?—On that point I should have to speak for myself. I think personally it would be easier, but I am not here to advocate that.

2475. No, but we want your assistance if you would give it to us. It would be much less prominently brought to the attention of the payers, would it not?—Much, I agree.

2476. And that counts for a good deal?—Yes. I am not here to advocate that policy. Of course, I think personally it would be easier.

2477. I know you appreciate that if this burden is not borne by the miners, and the other people with the same rate of income, it has got to be shifted on to other shoulders. It is not a question of nobody paying it; it is a question where the burden can most fairly be placed?—Well, have not I replied to that after all? I said fix the basis, and then charge a higher income rate if you like; I would not object to that.

2478. Fix the basis means that the people below the basis are to bear none of it?—The people below the basis have only got their cost of living, and people must live, I think, before they are asked to pay Income Tax.

2479. You spoke of the hardship upon a man who is keeping relatives other than those for whom he is allowed an abatement?—Yes.

2480. Everybody will sympathize with that, but could you give us any idea whether this is only an occasional hard case, or whether there are many such cases? Are there many such cases where the father has lost his life, or his capacity, and the son is keeping the family?—I suppose there would be many, many, hundreds of cases in South Wales, and there would not be a single mining village but what would have two or three of these cases which are known to everybody, and, of course, is a very unreasonable and unpopular thing, and creates a lot of feeling. It is a common thing.

2481. You appreciate probably that the reason why the allowance is not made is because it has not at present been provided for by Parliament. It is not a question of harshness in working the tax, but no provision has been made?—Well, I do not know. Some civil servants can be pretty senseless sometimes.

2482. They have got to obey the Act. If you will look at section 13 of the Income Tax Act you will find that provision is made for the case of anyone who has to keep a relative of himself or his wife, who—that is the relative—is incapacitated by old age, or infirmity, from maintaining himself, and whose income—that is the relative's income—does not exceed £25 a year; that is the only provision?—Yes.

2483. I suppose because the case you refer to was not thought of. As a matter of fact the expectation of life amongst the miners is a high one, is it not, as compared with people engaged in other industries?—I could not say. It is not as far as my experience goes quite a health resort; still I think it is fairly high.

2484. The cases of sudden death in mines are always spectacular, and they strike the imagination, but it is the fact, is it not, as the Insurance Tables show, that there are more workers who fall by the way, die in the forties or thereabouts, amongst other workers than there are amongst miners?—I

think the figures are fairly good for miners, but I do not remember them.

2485. You do not know one way or the other?—No, I do not.

2486. I suggest to you that the miner's expectation of life at 20 is distinctly higher than that of most other workers earning the same rate?—I could not tell you that.

2487. Mr. Bruce: That is for health, of course.

2488. Mr. Kerly: Yes, expectation of life.

2489. (To Witness) You speak of £150 before the war being equivalent to £300 now. Have you seen the calculations which have been made as to the increased cost of articles? Have you seen a Report of the Committee on the Cost of Living in the year 1918?—As far as I remember, it had gone up about 110 or 112 per cent.

2490. Where the weekly wage was 50s. in 1914 the increase in cost is not 100 per cent., as you suggest, but 67 per cent.; 50s. before the war, in fact, costs 82s.?—That is not the Board of Trade Return, is it?

2491. It is the Report of the Committee appointed to inquire into the actual increase since June, 1914, of the cost of living. Paper Cd. 8980. I will give you one other figure where the cost of living in 1914 was 44s.; it is now—this is in June, 1918, a year ago—76s., an increase of 70 per cent., so that 67 to 70 per cent. seems to be the general increase. Of course, you have to take into account that rent has not gone up at all, and rent is a material factor?—Yes. We generally accept it anyway, and I think it would not be far wrong, that it is at least 100 per cent.; I think that is the generally accepted figure. At one point it reached 120 per cent.; that was the Return given by the Board of Trade, as far as I remember.

2492. Was not that food only?—Yes.

2493. Then you had to take into account, in getting the general average of expenditure, rent?—Yes, exactly.

2494. That has not risen?—No.

2495. And there are other things which have not risen, though I am afraid not many. Do not you recognize that from the national interest it is an advantage that a man who has a vote should pay something, even if a small sum, towards the cost of carrying on the country?—Not if he cannot afford it. The man must live first of all. From there on there is no objection, and I have not raised any objection, but there must be a basis of living fixed which must be a reasonable standard.

2496. Subject to that, you appreciate the advantage of taxation, accompanying representation?—Subject to that, there is no objection.

2497. And you appreciate no doubt that the growing national expenditure of this country for many years past has been to a great extent for the benefit of the working classes, pensions, education, provision against unemployment, broad subsidy, and now the proposal to spend very large sums for housing; all of those are for the direct benefit of the class you are representing?—As far as the housing is concerned, I know there are sums proposed to be spent on that, but that is not going to make us equal to pre-war conditions by any means. The housing is a very serious matter, and the results of the future are going to be a very serious matter.

2498. It is hoped to provide the miners and other workpeople with better houses than they had before the war, and in part at the national expense?—In part, yes, for the first few years anyway; I do not know what it might eventually mean. I suppose after the first seven years rents will go up, and they will have to pay for themselves very largely.

2499. You would agree that, if possible, subject to your limit that you must not try and tax a man who has nothing to spare, it is desirable that some part of this expenditure should fall upon the working classes, and fall directly upon them?—There is no objection at all as far as I am concerned. Only fix the basis; that is my only point. From there up let it be heavier if you like.

2500. You suggested that there are actual cases where people have refrained from working to earn more money because they would not pay Income Tax if their incomes got above a particular limit?—Yes.

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[Continued.]

2501. That must very seldom happen, must not it?—I am afraid it has happened pretty often, although to me it is a very foolish thing.

2502. A man earns £3 10s. a week, and pays, apart from allowances, 2s. 4d. a week Income Tax?—Yes.

2503. How many days of the week do you suggest he refrains from working so as not to have to pay 2s. 4d.?—I could not tell you. Of course, I would not like to say that they refused to work until they pay no Income Tax at all, but I say it has the effect that days are lost because of the unpopularity of the Income Tax.

2504. It comes to this that the grievance is felt to be so serious that a man would rather be 10s. out-of-pocket by not doing a day's work than earn 10s. and pay 2s. 4d. of it to the Revenue?—I would say that that was quite a common thing, however unreasonable it might seem.

2505. Is not that because the Income Tax is a new thing? If the working classes began to regard it as one of the disagreeable incidents of life they would not attach such undue importance to it, would they?—No, it is opposition against reducing the standard from £160 to £130 at a time when everything was soaring, and these other instances where families have been refused the statements because the father is either dead, or been killed, and the son has shouldered the burden, that is another thing that has helped to make it more unpopular than anything else.

2506. Speaking for myself, you seem to have made a clear case for dealing with that particular point. Supposing the limit is fixed at £250, do you feel confident that there will not be an agitation for raising it to £300?—Well, I cannot tell you what might happen in the future, but I do know this, that this is the figure the men have fixed upon themselves in conference, and, surely, there could be very little argument against that afterwards.

2507. Have you formed any estimate of what the expenditure of an unmarried man amongst the miners is for the necessities of life?—An unmarried man? No, I am afraid I have not.

2508. Taking your £250; in that a calculation, or is it just a rough guess, or common knowledge?—Well, it is what was considered a very modest basis, £250. We looked upon the cost of living as having gone up 100 per cent., which would have brought the £100 to £250, and we fixed upon what we thought was a modest sum of £250, which is considerably less than that.

2509. As a shot?—Not as a shot at all, but as something below which we did not intend paying.

2510. May I suggest to you that it would be more satisfactory to this Commission if a representative budget were presented to us; I have no doubt you follow what I mean?—Yes.

2511. So that we could consider the different items. If you could give us a representative budget, say for a normal family, a man, his wife and three or four children, and for an unmarried man, who no doubt has, as you say, some expenses—perhaps he has some which are not found where there is a wife; he may have to pay something for housekeeping, or something of that kind—that, I think, would be very useful?—I am sorry I have not got that.

2512. Perhaps you could supply it. You could write to the Secretary and send it?—Again on the question of housekeeping, as you raise that point I think that is a matter that ought to be considered, too. Then there is this other question. Parents might have one of their children mentally deficient, able to do nothing. Why should the allowance stop at 16 when they have always got to keep them? They are always on their hands, and there is no hope of anything else. I think some consideration should be given for that.

2513. You follow that Parliament has got to make the law, and they can deal with all such cases as are sufficiently common in occurrence; Parliament must make the law, and once the law is made it must be applied to everybody, otherwise you would have taxation depending upon somebody's possibly biased opinion?—Yes, but I am putting these points because you are really making the law of the future here, and I am putting these points so that you may be able to get them in.

2514. That is why I have ventured to trouble you with a number of questions. One other question about the hachelor. He is generally a lodger, is he not?—Sometimes.

2515. Is he not generally?—Sometimes he lives at home, and sometimes he is a lodger.

2516. If he is living at home with his father and mother the family is particularly well off?—Well I suppose they would be better off, yes. I have put in no great plea for the hachelor any more than to say I think it must be the same basis. The alterations must be in the statements; that is all I say on that.

2517. Mr. Bruce: I have only heard the latter portion of what Mr. Edwards has said, but I think I can safely trust him to put the missing point of view.

2518. Chairman: He has been under a wrong impression with regard to the cost of collection, which he said would be half of the £3,000,000 Income Tax received. The Inland Revenue shows that it is only 7½ per cent., which is say £225,000 as against his estimate of £1,500,000, and I was wondering whether that one fact has caused unrest in South Wales, and whether, if it is put right to the miners it would make their views different upon the position.

2519. Mr. Bruce: No, I should not think so from what I know of them. I do not do a great deal of work among them as I used to do, but from what I know I should think it was the broad feeling of the £250 as being a fair basis, and the alteration of the standard, that has affected them.

2520. Chairman (To Mr. Bruce): Might I ask you a straight question, because I like putting these matters straight. Is the figure of £250 fixed so that the Income Tax can be evaded?—I do not follow.

2521. Mr. Bruce: Have the men taken the £250 as a basis for exemption for the purpose of avoiding paying any Income Tax?

2522. Chairman: You say it was not a shot figure. Is it in their minds that they will not pay Income Tax if that figure is taken?—No. I told you that at the conference where that resolution was passed the only opposition was that it was not high enough, so that many of them knew that under that they would have to pay Income Tax. Some of the wages of the miners are very high, of course.

2523. Mr. Bruce: It is a fact, is it not, that the Welsh miners, as other workpeople, accept the Income Tax as a fair principle of taxation?—I think so.

2524. And that they would prefer having more taxes raised by way of Income Tax than indirect taxes, such as taxes upon food?—Yes; I have been putting that point, or trying to.

2525. Sir J. Harwood-Banner: The reduction to £130, and the quarterly payments, were carried into law in December 1915?—Yes.

2526. At a time when we were in the very thick of our war expenditure?—Yes.

2527. At that time did not all the labouring classes, including miners, agree to the proposals without any very great opposition in consequence of their patriotism, and their desire to help the country in the time of war?—Well, I will agree that it was an easy time to gather payment of this sort in because we were all very patriotic at that time, but as I told you the leaders had considerable trouble from the very beginning notwithstanding the war and the needs of the nation, I still say that.

2528. The patriotism of the working classes in the country, including the miners, overrode the opposition, and it was fairly well accepted as a proper payment to be made?—It enabled us to get through with it; I will not say any more than that; it enabled us to get it accepted.

2529. Are we out of the war now, and are we out of the heavy expenditure yet entailed by the war, so that any class ought to come forward and say they are not tied by the patriotism which caused them to help the Government in 1915?—I do not think you are putting it fairly, if you will pardon me. We are not asking that any class should be outside. All I am asking is that there should be a basis fixed that would give, first of all, a reasonable standard of living. Tax where you like from there up. We are not asking that any class, as a class, should be outside. We are asking for a reasonable standard of living to start with.

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[Continued.]

2530. Have you not put it that the minimum of the collier's wage is about £3 16s.?—Yes, that is so.

2531. And that as a rule most colliers earn at least £5 a week wages?—A good many of them, yes.

2532. At £5 a week you are putting them in a position in which they would have nothing to pay towards this patriotic endeavour which they were willing to take up in the commencement of the war?—I call it £4 16s. 1d. per week, and, of course, you must remember there are a good many weeks when there is very little done by miners for certain reasons over which they have no control. You cannot put it down as £4 16s. a week all the year round; it is quite a different thing from that.

2533. But under your contention the miner virtually would be free from any payment whatever?—Below that.

2534. So he would not be paying anything in respect of the war?—No, not below that.

2535. Then you mentioned this Surveyor as giving information which is apparently not in accordance with the figures of the actual cash receipts and payments of the Government, but very much the other way. Would you be prepared to ask that Surveyor to put himself in communication with the Board of Inland Revenue and check his figures and correct his views, and to come up here again and give us the actual results after he has had an opportunity of confirming his figures with the Board of Inland Revenue?—No, I am afraid I would not be prepared to do that.

2536. Well, if you do not do that, do not you think that your statements as regards costs are rather weak?—I do not know, but my impression is—

2537. And that the absolute cash receipts of the Board of Inland Revenue show that 7 per cent. is about the cost of the collection of £7,700,000 of these quarterly payments?—That is not my information; I cannot go any further than that.

2538. Yes, but I want you, instead of your information, or the ipse dixit of a Surveyor, to get the Surveyor, or some responsible person, any chartered accountant in the district—you have representatives of that sort in your Union—to come up here and see the Board of Inland Revenue, check that statement, give you the actual facts, and then ask you to come here and tell us what your view is after having got that really in terms of absolute evidence.

2539. Mr. Warren Fisher: May I clear this up by one intersection? An individual Surveyor of Taxes could not possibly give any idea, or have any idea, of the total cost of the collection of the Revenue as a whole. If he did, in a sort of light heartedness, suggest that as a matter of fact it was rather costly in his own district it would convey nothing and he would not endeavour to pose as an authority on the total cost of collection because he has not got the data to form an opinion?—I do not follow that at all.

2540. It is a fact.—A Surveyor in any district would know how much money he was collecting. He would know approximately the cost of collecting in his own district.

2541. No. He would not know his rent or other office expenses, except his own salary and the clerks' wages.—He would know the salaries of all those who were under him, and he would have a fair idea of the amount of rent, and so on, that was paid in his particular district. I should think he could give a very close approximation of what it actually cost, and I should say further that when a Surveyor gave this approximation of any particular district it would be a fair sample of any similar districts; that is all I say. Of course I have heard very different figures to-day, and I suppose I must accept them, but they do not fit in at all, as I said before, with my information.

2542. Sir J. Harwood-Banner: Do you not think that if we have the book figures and you have only got hearsay figures we ought to accept the book figures of the Government rather than the hearsay figures from the Surveyor down in South Wales?—Of course it all depends on what basis it is taken. If you establish the cost of the collection, say, of the whole of the Income Tax of the country, it would be so much per £8,000,000, and that might be a very different thing from what I was speaking of; I do not know whether that is so or not.

2543. Mr. Kerly: No, it is this particular £8,000,000 from the working classes.

2544. Sir J. Harwood-Banner: It is the quarterly payments.—Very well.

2545. We know that South Wales is a very great leader in a great many things; I do not know whether Monmouthshire takes the lead before South Wales?

2546. Mr. Brace: It is part of South Wales.

2547. Sir J. Harwood-Banner: When they are putting forward this request that they should be exempt from £250, are they doing it as part of South Wales only, and on suggestions from South Wales?—It was done for South Wales, to start with, but I think it is such a popular, modest figure that it will soon be taken up by others. South Wales will not be left to themselves on this point, I know very well.

2548. If South Wales is putting it forward on behalf of the colliery districts and the colliers, are the colliers really, as regards wages, in a worse condition to put forward this plea than the clerks in the City of London?—I do not say they would be.

2549. The clerks of the mercantile houses and the clerks of the manufacturing houses?—I do not say they would be; possibly the other way about.

2550. Is it not the fact that the collier, as a matter of fact, has great advantages over a clerk in that he has sons working in the colliery, so that the household receipts with a father and three sons is very often a very considerable sum—£15 or £20 a week?—Well, I suppose the same thing would apply to clerks. Their boys start at something. I suppose they start in the same profession as their father, very likely; possibly the wages in the first years may not be equal to a boy in a colliery—I would not say that—but if there are advantages there are very many disadvantages.

2551. The question of health you put as a special reason why the South Wales miners should put this forward. Is the death-rate of the colliers, even including accidents, a higher death-rate than the ordinary death-rate of a great many trades in the country—sailors or other classes?—I should think it would be the highest, but there again I could not speak with any certainty. Fatal accidents, I should say, would be the highest, and considerably the highest, but there again I am speaking without figures and I could not give you exact information.

2552. The colliers are the parties who started this agitation for the £250?—Yes.

2553. And we may take it they are the leaders of the agitation which naturally everybody will follow who has only an income of £250 a year?—I daresay that will be what will happen.

2554. Have you formed any opinion as to what it will cost the State if this exemption is allowed?—Well, about £8,000,000 I understand from the Chancellor of the Exchequer.

2555. And that £8,000,000 would be put upon the taxes of the other parties?—Certainly; that is a thing I have not objected to. As I told you, tax me from that standard up heavier if you like. I do not object, and I do not object on behalf of anybody else.

2556. Do you think it right in this time when the war is not over, and the heavy expenditure is not over, that the miners should try to free themselves from the patriotic duty of paying for the war?—They have not done that.

2557. Are not they doing it?—No, not at all. They are trying for a reasonable standard of living; from there up I say there is no objection.

2558. Whereas they accepted the £130 in the middle of the war and were quite willing to take that stand as a patriotic duty, now they want exemption up to £250 or they will not pay?—We accepted a lot of things during the war which would not be possible at any other time.

2559. Mr. McLintock: Will you tell us whether the opposition mainly proceeds from the bachelors amongst the miners or the married men?—I could not tell you that—married men I should say.

2560. Cannot you form any idea?—I should say from amongst the married men.

2561. Chiefly?—Oh yes, certainly; bachelors would be a small proportion I should think—that is those over 21 anyway.

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[Continued.]

2562. I understood that the chief objection was the lowering of the exemption and abatement limit?—Yes, that is one point.

2563. Do you think the married men in Wales really appreciate the effect to-day of all these allowances as compared with the pre-war exemption and abatement of £100?—Yes, I dare say that is appreciated, but it does not put him in the same position by any means.

2564. Will you allow me to put these very simple figures to you? I take it from you that if the £100 had never been touched this opposition would never have arisen?—There would not have been the same opposition as there is.

2565. Take a man earning £200 a year to-day, which is a little above the standard wage you gave: under the old arrangement he would have got an abatement of £100 that would have left £40 income?—Yes.

2566. Assuming he was a married man with one child he would have got an allowance of £10 for the child; that would have left him with £30 of income taxable?—Yes.

2567. Which, at 2s. 3d. in the £ is £3 7s. 6d. f.—Yes.

2568. To-day, with the allowances which have been given since the exemption and abatement limit was lowered, he gets £120 abatement, £25 for his wife and £25 for his child, and he gets allowances as a miner which I have put down at £15—they are probably a little more?—£10 is the average.

2569. I think you are understating it probably?—The allowance for tools and boots and clothes is from £5 up to £12. Certain classes of workmen, handymen, and so on, get £5, and possibly we might say £15, I think, where there is a lot of shut firing. Mr. Brace would understand that very well. I have put it down at £10, which I think is about correct.

2570. Chairman: We will take it at £10.

2571. Mr. McLintock: Put it even at £10. He pays tax to-day on £30 only as against the £80 he would have paid on under the old arrangement?—Yes.

2572. If he happens to have two children he pays no tax at all as compared with the old arrangement. Do you think that the married men quite appreciate that while the exemption and abatement limit has been lowered the other advantages where there are three or four children much more than compensate?—If the money value was the same I think there would be something in the argument, but the money value is altogether different.

2573. I was taking it on your own statement that if the exemption and abatement limit had not been touched there would have been practically no opposition. If that is a correct statement it seems to me that the married miners do not quite appreciate what the taxation is, but they have got the £120 abatement firmly fixed in their minds forgetting the other allowances?—I say there would not have been the same opposition if the standard had been left as it was before, but the reduction of £100 to £120 at a time when things were going up made people look into the thing more carefully than they would have done if it had been left as it was before.

2574. I suggest that they have not looked quite carefully enough. They have lost sight of those other very important abatements for the wife and children, that is to say, the increase of the children and the addition of the wife?—I suppose they have looked pretty carefully into it and that is why these new demands are being made.

2575. Very well, I will leave that. Would it meet the case if the allowance for the wife and the allowance for the children were increased?—I do not think anything will meet the case except fixing the standard at £250.

2576. Then I suggest it comes back to this, that this is the bachelors' opposition and not the married men's opposition. The man who has the heavy burden to carry gets a very substantial relief. Give me your own view about this; if the wife's allowance were increased say to £50 and the children from £25 to £30, would the married men have any grievance?—Well, the married men and the single men, as far as we are concerned, always go together, and when we

talk about standard we talk about the standard for the whole, and we have now fixed upon what we consider not merely a reasonable but a modest standard of £250, to effect all persons. The allowances are in addition to that, of course.

2577. With regard to the bachelor who has a substantial income as compared with pre-war times, say £200 to-day, is he in such a different position that he should be relieved while a man with £200 a year has the additional tax to pay? Is it not reasonable that he should pay a sum in Income Tax greater than be paid in pre-war time?—If one man has £200 and another has £500 I think the £500 man is in the best position to pay.

2578. But your suggestion is that the £250 man should be entirely exempt?—Yes, that is what we are asking for.

2579. You do not agree with the view that the bachelor has less burden than the married man?—Yes, I do.

2580. Do you agree that the present day reliefs that are given go a long way to make the burden easier for the married man?—It certainly makes it easier, I agree, but I would not say it was in proportion between the married man and the single man; I would not say that at all.

2581. You think the miners of South Wales fully appreciate the effect of the present Income Tax allowance as regards the married men?—I think they do, yes. We have had a lot of talk over it at different times, and we had a good many deputations before we got the allowances increased. I think it is fully appreciated.

2582. But it would not satisfy them to increase the allowance for the wife and the children?—I do not think it would; we are after no increased basis.

2583. Professor Pigou: Your basis of £250 is on the assumption of the existing arrangements about indirect taxes?—The £250, of course, is considerably less than what we thought the old standard would have been if it had been brought up to pre-war money value.

2584. What I mean is this, supposing there was a suggestion to take off, we will say, the tea duty and the sugar duty, would you then be prepared to accept a lower basis?—Personally I should prefer that. I must say, but here I am speaking for myself only; I personally would certainly prefer that.

2585. Do you think there would be an agitation against an arrangement of that sort if the basis were lowered and it was made perfectly clear that this was in substitution for certain indirect taxes that at present exist?—That would certainly ease the position. It would change my opinion anyway, because indirect taxation affects the very poorest that are not called upon to pay Income Tax; it affects them worse. There should not be anything taken away from the bit of money they have to live on.

2586. So there would not be the same objection to a reduced basis plus the compensating reduction of indirect taxation?—That is my personal view; I am against indirect taxation, but there I am only speaking for myself. Of course our demand is the £250 basis, and that is the demand I am here to put.

2587. Mr. Armistage-Smith: Have you worked out what a miner would pay if he had, let us say, £4 a week? Supposing you have got a bachelor earning £4 a week, what is his Income Tax for a year?—I cannot get away from what I have said already, that the basis we consider should be £250.

2588. I did not ask you that. Have you asked yourself what he pays at present? I want you to explain so as to show the size of the grievance which you put. Do you know what he pays at present?—I am not in the happy position of being a bachelor, and I cannot quite tell you. I am a family man, and it is so far back that I cannot speak from experience.

2589. But you can do a little arithmetic, or I will do it for you. He would pay less than £10 a year if he got no abatement whatever for his tools. He would pay less than 6s. a week in Income Tax earning £4 a week?—I see.

2590. Do you suggest that it is unjust that a bachelor, a lodger, or living with his parents, earning

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£4 a week should pay less than £6 a week in Income Tax?—I suggest that the basis should be £250.

2591. Yes, I am speaking of the basis for the bachelor?—Yes, I know—well, we deal with bachelors the same as married men; when we talk about all our business everybody is served alike.

2592. I beg your pardon, you do not treat them alike, because a married man with three children earning £4 a week pays no Income Tax whatever. The present position is, that a married man with three children pays nothing and a bachelor pays less than £10 a year. I want you to realize, and I want the Commission to realize, that you are here to represent the grievance of bachelors and bachelors only. Do you suggest that it is unjust for him to pay £6 a week when he is earning £4 a week where he is living as a lodger or one of a family?—You are suggesting that the basis has nothing to do with the married man, and I do not follow that at all; I suggest it has everything to do with him.

2593. I quite agree with you. I want you to realize what the grievance of the miser is at present. If he is married and has three children, and is earning £4 to £5 a week, he pays nothing; it is only the bachelor who pays anything?—Yes.

2594. You suggest that it is unjust that a bachelor earning £4 or £5 a week should make that small contribution to the expenses of the State?—I consider that it is unjust, taking the money value of to-day, to collect anything from a man who gets less than £250 per annum.

2595. An unmarried man?—Anybody.

2596. Now we know where we are. With regard to wages one Commissioner put it to you that war bonus was included in wages and taxable as such; that is so, of course. You are aware that war bonus is similarly included in earnings for the purpose of workmen's compensation?—Well, no, I am not aware of that, because a man only gets 25s. a week compensation.

2597. For the purpose of estimating a man's earnings under the Workmen's Compensation Act it is included?—Yes, that is computed, but of course it does not amount to anything because of the limitation. These are the hardest hit men that I know of in the country—the men who are on compensation of 25s. a week. That is the maximum amount whatever the earnings might be. It is brought in I know, but it has no effect because of the maximum.

2598. I did not ask you about that. I said you are aware that it is taken into account?—Yes, but it has no effect whatsoever.

2599. Mr. Marks: I gather that you are against indirect taxation, and, if possible, you would not have any at all?—Personally I am.

2600. Are you personally also in favour of exempting incomes below £250 from direct taxation?—Yes.

2601. You are?—Certainly.

2602. If your views were followed out an enormous proportion of the population would pay no taxes at all?—Of course.

2603. Are they to get all the advantages of good and stable government, and everything that is done for them now, without paying any contribution towards them at all?—Certainly. Would not you say that the poorest people who are paying these indirect taxes ought to be relieved and yet have the advantages, if there are any advantages, to those people in the country?

2604. We are not talking of the poorest people?—No, but the indirect taxation hits the very poorest of the poor.

2605. We are talking of the two things together. As I gather from your views, and you admit them to be so, you would say that a person with an income of £250 a year or less should pay nothing whatever to the expenses of the State?—Yes.

2606. Is not that rather an extravagant proposition?—I do not think it is.

2607. Then we will not pursue it if you do not think it is. There is another point which was put to you in a different way by one of the Commissioners to this effect, that if this very large amount of Income Tax

revenue is sacrificed, as it would be if the views of your Federation were adopted, it must be made up by taxation in some other direction?—Yes.

2608. And you realise, of course, that that means that the expenses of production and distribution, and so on, would be increased generally. You realise that if it is only a question of a tax upon profits, for instance, you cannot go on increasing taxation without also increasing the cost of production?—We have not gone into the taxation of profits, and that sort of thing. I have said I have no objection to paying higher taxation over a certain figure.

2609. Yes, I know.—Whether it is Income Tax, or whether it is on profits or anything else—it would be on wages with me, of course, or on salary—I do not object.

2610. I know, and therefore if your employer—if you are employed—has to pay more by way of taxation on his profits, and therefore has to put on something to recoup himself when he sells those things, the cost of the things which he produces to the consumer will go up?—Yes.

2611. You are proposing, as I understand to-day, with a large volume of taxation, to put it on to those people who will produce certain things which the community generally needs, the price of which will, as a consequence of your proposal, if it were adopted be increased?—That would be so.

2612. That is so?—Under our present system of living, the people who produce these articles make other people pay their Income Tax, and so on. We are after nationalisation which will alter that.

2613. I want to get to this point—I do not know whether it is clear to you as it is to me, but I think it ought to be clear to you—that if you go on putting these burdens on production, the inevitable result is that the cost of commodities to the consumer is increased?—Yes.

2614. And you are now proposing to do away with a large tax revenue which would certainly have the effect of increasing the price of a good many commodities in ordinary use?—I think it would. That is the advantage of being a producer; he can hand it on to somebody else, whereas I, with my salary, would have to pay it out of the bit that I get.

2615. That is just the point; it would be handed on to the consumer?—It would.

2616. I should tremble to think what the cost of your next pair of boots would be?—So should I.

2617. But independently of that, on the basis which you are now putting forward, the result would be what you would consider a justifiable demand for raising the exemption limits still further. Is not that so?—Still further than the £250?

2618. Yes, your reason for asking a limit so high as £250, is the increased cost of living?—Yes.

2619. And you are now wanting to do something which will raise the cost of living still further, and when it is raised further if you follow your own reasoning logically you will come to the Government and say the cost of living has gone up some more, the limit must be raised some more?—No. I am hoping that the future will be based on a different principle from what it has been in the past. There is no necessity for so many of the things going up as they have gone up.

2620. That is another question?—Yes, it is, but I think it is the real question after all.

2621. I want to know whether you clearly see what the effect of your demand would be?—Yes, under present conditions it would mean that, I should think; that is the thing that wants altering.

2622. Mr. Walker Clerk: Would you make any difference between earned and unearned income?—That is a point that I have not paid much attention to.

2623. It is rather an important point?—Yes.

2624. You would make no difference, I take it?—Well, I am here chiefly over the £250 and the abatements.

2625. But you start with £250 whether it is earned or unearned?—If you ask me personally, I think there should be a difference in earned and unearned.

2626. But there is no provision for that distinction in your evidence?—No, I just put down a few simple points that came to me at the moment.

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[Continued]

2627. 25 is the basis where you start?—No, 24 10s. 6d. a week.

2628. 24 10s. 6d.?—Yes.

2629. That would apply to a young lady who was, say, 22 or 23 years of age, earning that salary and living at home?—Well, I have put it as the basis for wage-earners.

2630. For everyone? You have been tackled on the question of baculosity; I am rather interested in the question of girls who live at home?—I think they pay at present if they earn above a certain sum.

2631. But you are wanting to raise that limit?—I am not much of an authority with the ladies I am afraid.

2632. You want to raise the limit whether it is a girl, or a man married or single?—I do not see why not.

2633. I only want to understand the point. You know the trend recently of legislation is to relieve local rates at the expense of Imperial taxes, and if that goes on you would still maintain that those who receive small incomes and who are benefiting from the local rates should still be further benefited at the expense of Imperial taxation?—I do not follow you.

2634. Take education for example, increasingly we are getting more money from Imperial taxes for education, which very largely benefits the class of people for whom you are now speaking?—Yes.

2635. And there is a tendency to go on in that direction. Although lower incomes are benefited by this transfer to Imperial taxes you would continue, I take it, independently of that?—Yes, well, I am after the proper standard, first of all, whatever that is.

2636. I know; that is what you said—but you would go on doing it?—Yes, I could not say anything else. We say that £250 is a reasonable basis wherever it comes from, whether from national or local taxation.

2637. You know that in Germany, for example, Income Tax begins at £40 a year?—I have heard it.

2638. And it is graduated from a very small sum in the £ to a very high one?—Yes, I do not know the figure.

2639. Well, I happen to know.—I do not know very much about Germany.

2640. Do you know that in this country some incomes at present pay over 10s. in the £ towards Imperial taxes?—That is so.

2641. And that the purchasing power of a sovereign is no greater in a large income than it is in a small one?—No, but it is not wanted; there are certain necessities.

Mr. C. G. SPRY called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Proof of evidence of C. G. SPRY, an Assistant Secretary to the Board of Inland Revenue, in regard to the assessment of Income Tax and the rate of charge upon the incomes of married persons.

Separate assessment of the incomes of husband and wife.

2657. (1) It is probably quite commonly believed (although it is not the case) that under existing law every husband is bound, as a matter of course, to make a return of his wife's income (if his wife is living with him), and to pay the tax upon it just as if the income belonged to himself. It is true that for a long time that was the law, and if it remained the law it would, of course, in present conditions be indefensible. But no such suppression of the individuality of married women now continues. Under the provisions of the Finance Act, 1914 (now reproduced in sections 8, 31, 171 and Rule 17 of the General Rules applicable to Schedules A, B, C, D and E of the Income Tax Act, 1918), in cases in which either a husband or a wife objects to this procedure (which is a convenient and accepted one in the great majority of cases, especially those in which the wife's income is practically negligible in amount), and makes an application for separate assessment, the husband and the wife respectively make separate returns of their incomes, are separately assessed to Income Tax or Super-tax, or both, in

2642. Some people think it is wanted?—That cannot be. There are certain necessities which we must have. We must have food and clothes. Everybody needs the same, and, if necessary, the man who works hard needs more than the other one, so that in that sense the cost ought to be approximately the same between one man and another man, so that when one goes higher in salary he is able to pay.

2643. I do not want to argue the point. You do know that the purchasing power of the sovereign?—Oh yes, it is the same for everybody—the necessities are the same for everybody too.

2644. I take it you represent here this morning chiefly the miners?—Yes.

2645. I come from a very different district. In our district the operatives who are not earning the high wages that you indicate, very largely purchase their own houses. I think about 40 per cent. in our district live in their own houses; that is true of the miners?—I could not give you the percentage. There are very many of them.

2646. Would you think 40 per cent?—I should hardly think that.

2647. As the result of their own savings?—I should hardly think that, but I could not tell you.

2648. Would you speak of them as a class as thrifty and careful?—Yes, I think they would compare with any other class that I know of.

2649. You spoke about the special cost of the miner in boots, and so on?—Yes.

2650. Would that equal the cost of the man who worked in a chemical works, or a gas works, or an agricultural labourer?—An agricultural labourer would not be in it; I know something about that too.

2651. So do I. How long do you think an agricultural labourer's boots last?—More than three months, and very much more; there would be no comparison at all, either in clothes or boots.

2652. In the opposition to this tax on the part of the lowest wage men, or the higher wage men in your district?—The opposition is as a whole.

2653. Regardless of wages?—The standard is wrong.

2654. Regardless of wages?—Regardless of wages, Yes.

2655. And whether they pay tax or not—because some would be exempt?—Yes, I suppose those who are exempt to-day think that they would be paying some time or another.

2656. Chairman: Mr. Edwards, we asked you here to-day that you could give us, as you have done, a frank and free expression of your views on this trouble that has arisen in South Wales. We are very much obliged to you for coming.

respect thereof, receive separate demands for payment, and each pays the proportion of the total tax appropriate to his or her income.

2658. (2) Where a husband or a wife desires this procedure to be followed, notice is required by law to be given within six months before 6th May in the year of assessment. For example, if a husband or a wife desires separate assessment for the year commencing on the 6th April, 1919, notice must be given after 5th November, 1918, and before 6th May, 1919. In practice it is often impossible, in the year in which marriage takes place, to give notice by the date named, and in such cases, therefore, there is no right to separate assessment for that one year. In this connection the Chancellor of the Exchequer recently expressed his willingness to accept an amendment to meet this difficulty.

It has been represented that in other years also undue inconvenience is caused to taxpayers by the requirement that the notice should be given by so early a date as 5th May. Practical difficulties would be created if the request for separate assessment were allowed to be made long after returns have been called for and assessments prepared.

These difficulties stand in the way of the total abrogation of a time limit, but they would not preclude an extension of that limit, say, by another two months, i.e., to the 6th July in the year of assessment. If any considerable feeling of grievance is created by the existing law it is suggested that a relaxation on these lines might properly be authorized.

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The rate of charge upon married persons.

2659. (3) The chief point of debate, however, is one quite distinct from that above referred to. It is the question whether, for the purpose of ascertaining the amount of tax which a particular individual is to pay, regard should be had, if the individual is married, to the aggregate amount of the income of the husband and the wife, or whether those two incomes should be looked at separately. For example, if two married persons have an income of £800, of which £400 is owned by the husband and £400 by the wife, the question is whether those incomes should pay the tax applicable to a total income of £800 or that applicable to two separate incomes of £400 each.

2660. (4) Under the present law, in fixing the amount of tax, regard is paid to the aggregate amount of the income of husband and wife; the incomes are not looked at separately.

2661. (5) The question is sometimes represented as one which affects the political or social status of women in relation to that of men. That is not actually the case. Just as when a woman marries a rich husband her Income Tax may be increased, so when a man marries a rich wife his Income Tax may be increased. It is not a question of the status of women in relation to men, but a question affecting married people (either men or women), as compared with bachelors, spinsters, widowers and widows.

2662. (6) Prejudice is sometimes imported into consideration of the question by arguments concerning the charge of Income Tax on incomes of persons who live together without being married and whose incomes are treated separately in the graduation of the tax. It is said that the existing law constitutes a penalty on marriage. This, however, is an extremely one-sided view of the position. Under existing law any married taxpayer with an income not exceeding £250 is entitled to a special allowance of £25 if he is married. In the case of the great numerical majority of taxpayers (any income possessed by the wife being usually small in amount) this allowance far outweighs any increased charge of Income Tax due to the aggregation of the income of husband and wife, and thus in the great majority of cases the Income Tax, so far from being a penalty on marriage, has the exactly opposite tendency. For example, a married man earning an income of £250 pays Income Tax (at 2s. 3d. in the £) on, at most, £105; an unmarried man earning the same income pays Income Tax (at the same rate) on £130.

2663. (7) The suggestion made at the end of this evidence (paragraph 41) would, if adopted, tend still further to increase the extent to which the Income Tax acts as an incentive not to dispense with the marriage ceremony.

2664. (8) It is also important to notice that the suggestion commonly made that the income of husband and wife should be regarded separately raises the question whether any "wife allowance" ought to be continued. Once this allowance is repealed, the encouragement of marriage afforded by this Income Tax relief is removed, and great numbers of taxpayers (including wage-earners) with a small income all of which belongs to the husband would lose (without any compensation) an allowance which greatly mitigates or entirely removes the burden of Income Tax upon them.

2665. (9) Moreover, as regards the minority of cases, where the Income Tax upon married persons is greater in amount than it would have been if they lived together unmarried, the strict theoretical answer to the objection that the tax is a penalty on marriage is that the income of persons living permanently together unmarried might very properly be looked at together for the purposes of computing the tax payable (as if they were married, except that, of course, the "wife allowance" would not be granted). The fact that such a provision would be unlikely to commend itself to public sentiment and would be very difficult to administer would not seem to invalidate the argument.

2666. (10) The first fact which emerges on a close examination of the proposal that in determining the rate of tax the income of husband and wife should be looked at separately is that the proposal, if

adopted (though designed to remove anomalies), would on the contrary create anomalies of a startling character.

2667. (11) It may be well to test the matter by an example. In three houses side by side dwell three married couples. The total income of each household is £400. In the first house the income is all earned by the husband; in the second house it is all earned by the wife; in the third house the income is all derived from securities, £300 belonging to the husband and £100 to the wife. *Prima facie* it would appear that the capacity of the third household to bear Income Tax is rather greater than that of the first two, for the income in that house is secure and permanent, whereas in the other houses the income is precarious and dependent upon the health and life of the wage-earner. Under existing Income Tax law the Income Tax payable in the third household is slightly larger than that payable in the others. Under the proposal now put forward the third household would be very materially relieved from liability to Income Tax, the amount payable being reduced from £36 to £24, and the general increase in the rate of Income Tax which the proposal necessitates would actually increase the charge upon the other households.

2668. (12) This anomaly would indeed be unlikely to continue permanently in that form; it is likely that it would gradually merge into another. Regard being had to the rate of Income Tax now prevailing it is only to be expected that the first two households—the first of which is typical of the distribution of income among married taxpayers while the third is not—would feel that they possessed a moral right to re-distribute their income between husband and wife in order to secure the same advantages in taxation as (for the conditions postulated) would accrue to the household in which the income happened to be already divided; and thus, sooner or later, devices would be certain to be adopted to divide up income so as to secure these advantages, and the Income Tax, or what remained of it, would thus come to be levied to a considerable extent on sham incomes.

2669. (13) If the proposal now under discussion were adopted, the initial loss to the Exchequer would be something like £30,000,000 per annum. Owing to the devices that would be resorted to, this loss would quickly increase, and with the tendency for husbands and wives to divide their income between them in such proportions as would lead to the minimum payment of Income Tax had become fully effective the loss to the Exchequer (including a consequential loss of Estate Duty) might well reach alarming proportions.

2670. (14) It is apparent from the foregoing that the question is one of great magnitude. If the present system is unjust it may be said that those figures represent the measure of the injustice. The converse argument would equally apply to the concession of the claim which is made, if it be ill-founded.

2671. (15) It is of interest to note what particular classes of the community would gain most from the reversal of the present law. The following estimate of distribution, which of necessity is somewhat speculative, has been prepared by the Board of Inland Revenue upon this subject:—

Estimate of immediate loss of Income Tax and Super-tax which would result from the proposal to regard the income of husband and wife separately in determining the amount of tax payable.

Class of taxpayer.	Aggregate gain to married taxpayers.		Average gain to each couple.
	Amount.	%	
Incomes falling between			
£ and £	£		£
131 — 340	1,200,000	7½	4
341 — 1,000	3,000,000	17½	35
1,001 — 2,500	7,200,000	30½	86
2,501 — 10,000	5,000,000	25½	183
10,001 — 50,000	2,400,000	12½	609
Exceeding 50,000	300,000	1½	1,000
Total	20,000,000	100·0	

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If the wife allowance were withdrawn the figure of £20,000,000 would be correspondingly modified.

2672. (16) It will be seen that the proposal gives the largest individual present gain £1,600 to the richest persons. The bulk, however, of the aggregate gain is distributed over married taxpayers with aggregate incomes between £500 and £10,000 per annum: this is due to the fact that between these limits the effective rate of Income Tax rises steeply—from 1s. 8d. in the £ on an earned income of £500 to 8s. 4d. in the £ on an income of £10,000—and thus the tax on the large aggregate amounts of income held by married taxpayers in these classes would be greatly diminished if it were charged at rates of tax applicable not to the actual income of each taxpayer, but at a rate applicable to smaller incomes.

It may at first sight seem surprising that in the case of very large incomes the possible gain is no larger than £1,000 in any case and the aggregate gain no larger than that shown in the table above. But in the Super-tax, as at present constructed, where an income exceeds £10,000 the portion of the income representing the balance above £10,000 is charged at a flat rate (viz., 4s. 6d. in the £ Super-tax in addition to the 6s. Income Tax), and it is only the lower portions of the income which are charged at varying lower rates. Consequently, when a very large income, say, £100,000, is divided, the advantage gained is limited to the imposition of the lower rates in the first £10,000 of the second income which is thus created. If, however, it should be decided to steepen the graduation above £10,000 and to impose a series of increasing rates on sections of large incomes above that figure, the position would be very greatly altered. For example, it is roughly true that Income Tax including Super-tax is now charged both on an income of £100,000 and on an income of £200,000 at an effective rate of 10s. in the £. If it were decided in future to charge Income Tax (including Super-tax) on an income of £200,000 at 10s. in the £, while continuing to charge an income of £100,000 at 10s. the gain to a married couple with £200,000 a year, in being allowed to pay tax at a rate applicable to half the aggregate income, would amount to no less than £50,000 per annum.

2673. (17) The argument so far has been designed to show:—

- (a) that the question is not one involving the status of married women, but a question of the proper relative burden of Income Tax upon married persons as compared with bachelors, spinners, widowers and widows;
- (b) that the present system of Income Tax, so far from involving a penalty on marriage, contains, as respects the enormous majority of cases, a direct encouragement of the married state. The proposal to treat the husband and wife separately involves the question of continuing the "wife allowance";
- (c) that the proposal, if adopted (though designed to remove so-called anomalies), would, instead, create real anomalies, and in the process would cost the Exchequer an annual loss of £20,000,000 per annum, increasing in a short time to a much higher figure.

2674. (18) The anomalies which have been mentioned above suggest at the least that the demand put forward should not be accepted without careful examination of its theoretical and general justification.

2675. (19) It is suggested that such an examination shows the demand to be unwarranted. The question raised goes, however, to the very root of the problem of the proper test of graduation of direct taxes. It involves, for instance, consideration whether the aggregate income of the household may not be the most appropriate test to adopt.

2676. (20) From a theoretical standpoint there are at least three tests of ability to pay which require consideration. One is the test of the aggregate income of the household (e.g., father, mother, sons and daughters, or brothers and sisters) living under one

roof. This test is open to some objection in modern times owing to the lack of identity of interest which is often found within a household and the transitory character of its constitution. Often, moreover, while the income of husband and wife is merged in the fulfilment of common obligations, the child's separate income is reserved by the parents strictly for the use of the child.

2677. (21) The second test is that of the total income of the individual taxpayer without any regard whatsoever to his personal circumstances. That test overlooks the vital fact that the great majority of taxpayers, or at any rate of substantial taxpayers, are married persons, and that a test of ability which is based upon the circumstances of the bachelor, the spinster, the widower and the widow, is based primarily upon the exceptional case.

2678. (22) The remaining test is that of the aggregate income of husband and wife. This test, for the reason last indicated, has, it is suggested, by far the most to be said for it.

2679. (23) The consideration governing the graduation of Income Tax is taxable capacity. Taxable capacity in the case of married persons is independent of the question of the amount of the wife's separate income; it depends on the amount of income necessary for the maintenance of two persons living permanently together. The reason for the aggregation of the income of husband and wife is not the conception of their union as a "social unit," nor is it the medieval idea of their unity in the eyes of the law; but it is their practical identity as a taxable entity. It is beyond question that in the immense majority of cases where the wife has a separate income she contributes to the common fund either by the actual merger of part or all of her income, or by bearing expenses which would otherwise fall upon the husband.

2680. (24) Another class of suggestion, however, also calls for notice. It is sometimes suggested that for the purpose of ascertaining the rate at which to charge Income Tax in the case of married persons, the income of the husband and wife should be aggregated, but should then be divided by two and charged as if it were two separate incomes, each equal in amount to half the aggregate income. For example, if the aggregate income of husband and wife is £1,000 the suggestion made is that the tax levied should not be the amount applicable to an income of £1,000, but the amount applicable to two incomes of £500.

2681. (25) This suggestion would involve a loss of Revenue of about £40,000,000 per annum, roughly distributed as follows:—

Class of taxpayer.		Aggregate gain to married taxpayers.		Average gain to each couple.
Incomes falling between		Amount.	%	
£ and £	£	£		£
181 —	360 —	7,000,000	15.5	6
361 —	1,800 —	16,000,000	22.2	50
1,801 —	2,500 —	12,000,000	28.9	192
2,501 —	10,000 —	14,800,000	32.8	272
10,001 —	50,000 —	4,800,000	13.7	70
Exceeding	50,000 —	400,000	0.9	1,000
Total	—	45,000,000	100.0	

The suggestion is at any rate less open to objection than the suggestion that the income of husband and wife should be treated separately.

The latter suggestion would lead to husbands and wives adopting all kinds of shifts to divide their income between them. The present suggestion dispenses with the necessity for such artifices and the consequent levy of Income Tax upon a sham distribution of income. By a legal device, it gives to married persons the same Revenue advantages as they could obtain by subterfuges under the proposal which is most usually made. Beyond this, however, it is suggested, the proposal is without merit.

2682. (26) The following figures indicate the difference between the effective rate on the aggregate income of husband and wife which is charged now and

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that which would be chargeable if the rate were determined by dividing the income by two:—

Aggregate income.	Present effective rate of tax.	Effective rate of tax if income divided by two.
£	s. d.	s. d.
250 (earned) ...	11	20
500 " ...	1 8	1 1
750 " ...	2 11	1 5
1,000 " ...	3 0	1 10
1,250 (unearned) ...	4 6	3 4
1,500 " ...	4 6	3 9
2,000 " ...	5 3	3 9
4,000 " ...	6 10	5 3
10,000 " ...	7 5	6 3
16,000 " ...	8 4	7 2
20,000 " ...	9 5	8 4
60,000 " ...	10 3	10 1

2683. (27) So far as concerns married persons (who of course, constitute the great majority of taxpayers), the suggestion resolves itself into one for lessening the burden of the tax, more especially in the range of incomes from, say, £750 to £10,000, and, if regard is paid to the case of married persons only, the question immediately arises whether—the existing graduation having been fixed by reference to the conditions resulting from existing law—the introduction of the proposed change (if it were introduced) would not immediately involve a compensatory increase in the rates nominally chargeable upon those incomes to which the relief is given in order to recoup the great loss of revenue (£45,000,000) which the proposal involves. This would involve a great increase in the charge, within the same limits of total income, upon the incomes of persons other than married persons, i.e., bachelors, spinsters, widowers and widows. The propriety of that increase would then require consideration.

2684. (28) To put the matter in another way, if it should be thought that a new departure upon the lines of this proposal is worth examination, it would be more profitable to consider, not whether, in order to compute the amount of tax chargeable, the aggregate income of husband and wife should be divided by two (at a great loss of revenue which would then require to be recouped), but whether (with some gain to the Revenue) the income of bachelors, spinsters, widowers and widows should for the same purpose, viz., the determination of the rate of tax, statutory deductions, etc., be multiplied by two (or some other multiplier which might be held more appropriate). It is suggested that this method of approach brings the question out in its true bearings. It is probably not the real desire of the persons who advocate this change to increase the charge on spinsters and widows, and the propriety of increasing the charge on bachelors and widowers is a disputable question.

2685. (29) It may be replied that the deduction to be derived from the table in paragraph 26 above is a different one, viz., that the present graduation of the rate of tax is too steep; that the rate chargeable if the income is halved, is the appropriate rate for the whole incomes there set out, and that as a result the loss of revenue resulting from the proposal ought to be made good by such a revision of the rates as would redistribute the burden of the tax, e.g., by transferring a larger share of the total tax to the highest incomes. If so, however, the question has ceased to be one of a grievance special to married persons, and has developed into the entirely distinct general question of the steepness of the graduation of the Income Tax. Whether or not the existing graduation of the Income Tax is too steep is not a matter with which the present evidence is concerned.

2686. (30) Another suggestion sometimes made is that in ascertaining the rate at which an income should be charged to Income Tax the income of a whole household should be aggregated, but should then be divided by the number of persons in the household who are maintained therefrom, and should be taxed at the rate applicable to an income equivalent to the amount so obtained. For example, a man with an income of £1,000 a year has a wife and 6

children whom he maintains. The household income of £1,000 is to be divided by 8 and treated as exempt from Income Tax, the sum of £125 being below the limit of exemption, unless indeed the present limit of exemption is to be greatly lowered to counteract the effects of the scheme.

2687. (31) Or, again, a man with £5,000 a year has a wife, two children, whom he maintains, and a dependent relative. The household income of £5,000 is to be divided by five and charged to Income Tax at the rate applicable to an income of £1,000, in lieu of the rate applicable to an income of £5,000.

2688. (32) No such principle as this can be found in operation in any Income Tax. It might, perhaps, be possible to construct a scheme on these lines which would not be entirely unreasonable if a complete re-scheming of the present character of the graduation of the tax were combined with the principle in question. But, until at any rate there is evidence of some general desire for such a revolution in the Income Tax, it scarcely seems worth while to pursue the matter.

2689. (33) The conclusion of the above argument is:—

- That for the purpose of ascertaining the amount of tax payable there is no case whatever for treating the income of husband and wife separately (as usually proposed), and little or no case for dividing the joint income of husband and wife by two or for computing the rate of tax by reference to the income of the household or by reference to a sum arrived at by dividing the income of the household by the number of persons maintained therefrom.
- That some of the arguments used in this controversy point to the desirability of considering whether some additional burden should be placed on bachelors, spinsters, widowers and widows (without in any way concluding that such a course ought to be adopted).
- That the question is, to some extent, intermixed with the distinct question of the steepness of the graduation of the tax, in the sense that, once it is established that the proper test of the taxable capacity of married persons is the aggregate income of husband and wife, it may be considered in the light of that fact that the existing graduation is too steep.

2690. (34) It is not, however, suggested that the present law in relation to the taxable capacity of married persons is incapable of improvement.

2691. (35) There is a class of case in which a genuine hardship would be created if the main principle of the Income Tax in regard to the graduation of the tax in the case of married persons were applied without modification. That is the case of persons with small incomes where the wife earns part of the income by her own personal labour, and where, as a result, the necessity to employ additional domestic help may largely increase domestic expenses. This case has already been dealt with by legislation, now embodied in section 21 of the Income Tax Act, 1918, which provides in effect that where the total income of a husband and wife does not exceed £500 and any part of the income is income earned by the wife by her own personal labour that part may be treated as if it were a separate income.

2692. (36) The existing relief is the result of enactments passed in 1894 and 1897, and there may under present-day conditions be something to be said for increasing the limit of total income governing the admissibility of this relief.

2693. (37) Quite apart from this matter, however, it is suggested that the existing charge of Income Tax upon married persons is susceptible of improvement in another direction.

2694. (38) It is a principle of the British Income Tax, as of all, or virtually all, Income Taxes, to exempt from taxation a minimum of subsistence. At the present time the exempted minimum in the British tax is £130 in the case of single persons, and

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£145 in the case of married persons. Similarly, when the income is in excess of those limits (but not in excess of £700) the abatement of income allowed in the case of single persons is less by £25 than that allowed to married persons; for example, where the total income is £200, the allowance is £120 for single persons and £145 for married persons.

2685. (39) Whether the figure of £180 is too high or too low as a minimum of subsistence for a single person is a question upon which it is not proposed to express an opinion in the present evidence. No doubt a good deal of evidence upon this matter will come before the Commission in due course.

2686. (40) But what it is desired to suggest is that if £180 is right for the single person £145 is too low for married persons, and if £145 is right for married persons £180 is too high for single persons.

2687. (41) To take the matter one stage further, the Income Tax grants a general exemption of £130, a "wife allowance" of £25, and an allowance of £25 each for children and dependent relatives. These allowances may be considered as having some regard to the essential expenses of maintenance, and they take into account in that connection a taxpayer's family circumstances. It is suggested that the allowances are not suitably proportioned to each other. The so-called "wife allowance" (which is enjoyed by a wife when she earns the family income no less than by a husband when he does so) might more appropriately be described as the "marriage allowance." The three allowances might, it is suggested, be more properly styled respectively the general allowance (or exemption limit), the marriage allowance, and the children and dependant allowance, and the marriage allowance—possibly also the children and dependant allowances—might be increased.

2688. (42) The marriage allowance would presumably not be applicable in any case in which there was a claim to treat income earned by the wife's own personal labour as a separate income (paragraph 35 above). The small "wife allowance" given by the existing law does, however, at present apply in these cases.

2689. (43) In cases in which husband or wife seeks for separate assessment (see paragraph 2 above) these allowances would fall to be divided between them in proportion to the amount of their respective incomes.

2700. (44) The cost to the Exchequer of the adoption of such a scheme would depend on the actual amounts of the allowances granted: at the moment I am speaking not of the actual amounts, but of their relative proportion to each other. By way of illustration, however, it may be stated that the cost of increasing the "wife allowance" from £25 to £50 would be slightly in excess of £3,000,000 per annum: of this total about £2,550,000 would represent relief to taxpayers with incomes not exceeding £500. Taking another illustration, if, while the existing system of tax remained otherwise unmodified, the allowances were fixed at £180, £60, and £30 respectively, the cost to the Exchequer would be some £4,900,000 per annum which would be distributed between the different classes of married taxpayers as follows:—

Class £131—£200	...	...	£4,000,000
" £500—£800	...	...	£900,000

It will be observed that whereas the proposal usually made is one which chiefly benefits the richer (though not necessarily always the richest) taxpayers, this proposal benefits the smaller married taxpayer, i.e., that class on which the Income Tax burden weighs most heavily.

2701. (45) If this proposal were adopted, all that is of substance behind the discussion which has recently been proceeding would, it is suggested, have been fully met.

[This concludes the evidence-in-chief.]

2702. Chairman: We have a proof of your evidence; will you go through it and explain the main points to the Commissioners?—The more important points which are set forth in the evidence I think are the following. The first point is that spouses, either husbands or wives, can be separately assessed if they

wish; it is entirely in their own option; they can elect, and there is no compulsory assessment of the husband on the wife's income. That is perhaps an important point.

2703. It is a joint assessment all the same, is it not?—No.

2704. The pair of them will have to pay on the whole?—The amount of tax will be precisely the same whether they elect to have separate assessments or remain in the ordinary course on a joint assessment. The quantum of the tax will not be affected; but that is not the sentimental point at any rate.

2705. Has the sentimental objection come before you very largely?—It would not be addressed to the Department. I believe it is exploited in the Press and elsewhere. The real point at issue is the amount of tax to be paid by married persons; not so much who should pay it; but what the amount is that has to be paid. That is developed in paragraph 3. The question is, as the example shows, whether married persons with (say) an aggregate income of £800 should pay at the rate of tax which is appropriate to an income of £800, or two amounts of tax each appropriate to an income of £400. That is what we consider the gist of the problem.

2706. What would be the loss to the Revenue between the two methods, the two separate assessments of £400 and the combined assessment of £800?—I have not worked it out on that particular sum, but, taking earned incomes, it would be £800 at 3s. as compared with two sums of £400, less £120, that is £560, at 2s. 3d., in that particular example a difference in tax of £57. The next point is the question whether the Income Tax law as it exists penalizes married people. It is suggested that broadly, at any rate in the great majority of cases, it does not; it is an advantage; because there is the wife allowance. In the case of the great bulk of married taxpayers the wife has either no income at all, or an income which is so small that the wife allowance is a positive financial gain to the husband; so that he pays less Income Tax after marriage than he did before in the great majority of cases. That is brought out in paragraph 6.

2707. He pays less as a married man than he did before?—Precisely, where the wife has no income or where her income is very small. Then moving on to paragraph 11, we consider what the state of affairs would be if the incomes were separated in the way which is sometimes, indeed generally, suggested; various anomalies are suggested here. Three typical households are considered. They are alike in all respects, except as to the earning of the income. In the first case the husband earns the whole of the income, and there is no other income; in the second case the wife earns the whole of the income, and there is no other income; and in the third case neither of them earns anything, but each has an unearned income of £200; so that each household has the same total income. If the proposal which is made were adopted, the third household would pay a great deal less tax than either of the others, notwithstanding the fact that the income is precisely the same in amount, and, in the case taken, is more secure in character, because it is income from securities. It would be a very serious thing to entertain any proposal which would produce that result. Then, if it is suggested that people would take steps to avoid that by proceeding to their solicitors and getting the income divided up, and in other ways, then you would get a serious anomaly again, that Income Tax would be collected on fictitious amounts. That is developed in paragraph 12.

2708. That would open a way to evasion?—Evasion in the sense of avoidance, using every legal device to secure what could be obtained. Then it is pointed out in paragraph 13 that even assuming there were no artificial division of existing incomes, but taking the incomes divided as they are now between husband and wife, there would be a very large loss of revenue. That is estimated at 20 million pounds.

2709. On the actual cases that come before you?—Taking the existing distribution of income as between husband and wife, as it exists to-day. Then if the incomes were separately assessed and charged at rates

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appropriate to the separate incomes, we should lose 25 million pounds.

2710. *Mr. McLintock*: May we have that developed a little more in detail—what these actual figures are built up upon?—I am afraid I have not the workings of that estimate.

2711. *Chairman*: Could you explain how you have arrived at that estimate?—It is taking the income of the wife as a separate income, and then charging it at the rate appropriate to that income, and giving abatements or exemptions.

2712. What year was that taken on?—That would be on last year's figures, I think, certainly on the current rates.

2713. *Mr. McLintock*: I should like to know whether that is purely an estimate, or whether it is built up on actual information.

2714. *Chairman*: It is an estimate, is it not?—It is an estimate based on sample figures. I have not the sample figures with me.

2715. It is an estimate?—Exactly. Then in that table it is shown how the gain would be apportioned between various classes of taxpayers; and it emerges that the great bulk of it is distributed over the married taxpayers with aggregate incomes between £500 and £10,000 a year. Then in paragraph 10 and, in connection with that, paragraph 20, it is suggested that the real problem is one of graduation: what is the proper rate of tax to be charged. The paper suggests that the income of the husband should be considered jointly with the income of the wife in determining the quantum of tax to be paid, whether it is assessed on the wife and the husband, or on the husband only, and the computation should be by reference to the rate of tax and the allowances applicable to total income. Then if it is complained that the rate is too high, as it may be, it then becomes a graduation problem: what is the proper rate of tax to apply to a total income of that magnitude? That would be considered, of course, in connection with graduation as a whole. In paragraph 23 some stress is laid on the view that taxable capacity should be the criterion of the amount of the Income Tax to be charged; and in the case of married persons that does not depend upon whether the wife has income or no income, or upon the amount of her income, but upon the total income of the husband and the wife. In the ordinary course of affairs their taxable capacity depends on their total income. Then in paragraph 38 and onwards to paragraph 41, consideration is invited to the quantum of the wife allowance. It is pointed out there that it is a principle of the British Income Tax to exempt from taxation a certain minimum of income. The present exemption allowance to the individual is £130; there is an allowance of £25 for a wife up to the £500 income limit; so the effective exemption limit for husband and wife is £155 at present. Now if £130 is the right amount to exempt for an individual, it is a question for consideration whether £145 is not too small for two individuals, man and wife. Again, following on that, it is a question whether the allowance for children and dependants is high enough. That again would be considered, possibly in more detail, when you come to consider graduation; but if it were considered desirable to make an adjustment of the allowance for the wife, to increase it to some extent so as to make the joint allowance for husband and wife (which is now £120 plus £25, making £145) something higher than £145, that is to say, more for the wife than £25, then it is suggested that would go a long way, if not all the way, to meet the difficulty.

2716. Is that your suggestion?—That is put forward as a suggestion for consideration. I should add that that would benefit taxpayers with the more moderate incomes. For example, if it were kept at the present limit, £500, it would benefit those upon whom the Income Tax burden falls most heavily. It might perhaps be considered necessary to carry it to a higher limit; that would be a matter for consideration; but it would benefit the people with the smaller incomes. Those are the more important aspects of the matter.

2717. What do you say from the Inland Revenue side in answer to the objections which they raise to this combined tax?—I am assuming that they have no objection to make to the assessment of the husband in respect of the wife's income, because that need not take place.

2718. That separate assessment does not occur very frequently, does it?—It is at the option of the taxpayer.

2719. It has not been suggested by any of those who come here that this is the main point of objection. One point of objection is that combined assessment might lead to people living together unmarried, in order to escape taxation?—I should find it very difficult to believe that, in the absence of concrete evidence. Is it seriously suggested that a man and a woman refrain from marrying because of the Income Tax burden?

2720. That has been seriously suggested?—I should find it difficult to believe that that takes place on any large scale.

2721. Would you suggest that if people do live together in that way, they should be taxed in a similar manner as husband and wife?—That is the theoretical answer to the present objection that the husband and wife pay more. Then one can retort: "Well, make the others pay more." But you are faced with practical difficulties—what is the criterion of permanence; how are you to apply it; and whether public opinion would welcome a tax of that kind. It is a matter of policy, as to which I can hardly express an opinion.

2722. Is there any other point you wish to place before us?—There is nothing I wish to develop beyond my paper.

2723. You will be asked questions on your paper by the Commissioners, because there are a great many important points in your paper on which you have not spoken now. On those, you will probably be asked questions by my colleagues?—If you please.

2724. *Mr. Petyt*: The whole purport of this paper, I take it, is that an increase in allowances, to meet the increased cost of living, would be more in accordance with the general principles of the Income Tax as applied by Parliament now, rather than anything which tended to be a fractional relief carrying all up the line: that anything in the nature of a fractional relief would give greater actual relief to the people at the top, than it does at the bottom?—This paper does not suggest anything of that kind.

2725. What I say is, that is what is proposed. You suggest that it would be more in accordance with the present principles on which Income Tax is imposed to increase the allowances equally up to a certain point, which would really of course give a greater proportionate benefit to the poorer taxpayers, rather than to give a fractional relief where, the fraction being the same, the actual relief would increase as you go up the line?—It would not be suggested that we should give relief on a basis of, say, one-tenth of the income for a wife, which would give a man with £160 a relief on £14 at 2s. 3d., and in the case of a man with £500 a year, would give relief on £80 at 3s.

2726. What do you say about dividing the tax between husband and wife?—The ordinary claim, as we understand, is that the existing incomes should be divided.

2727. Take two families each with £10,000 a year; in one case the income all originally belonged to the husband, and in the other case half belonged to the husband and half to the wife; the basis of taxation on those two households, if these proposals were carried out, would be very different?—Exactly.

2728. That is the proposal that you are countering; it would be very different indeed?—Quite.

2729. It seems to me it is hardly conceivable that a man who had £10,000 of his own, would not transfer a considerable proportion of it to his wife?—We think that is most likely.

2730. Is there any means of preventing that?—Whether the law could prevent that, I should be very doubtful. It is assumed in this paper that those steps would be taken, and that it would be impossible to prevent them being taken.

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2731. I cannot imagine that it would be possible to prevent it. As you suggest here, I think it would not be held to be just at all that one household with the same means as another, should be paying very much less tax, simply because the income in the one case originated with one partner, and in the other case partly belonged to both—I think it would be quite reasonable to assume that steps would be taken to divide the incomes in the way you suggest.

2732. Mr. Kerly: Upon that, as I think it may raise further questions, may I put a question?

2733. Mr. Petyman: Please do.

2734. Mr. Kerly: Supposing the suggestion that the wife's income should be assessed at its own rate, and the husband's at its rate, were coupled with such a proviso as this: "Provided that any income derived by either spouse from the other or by way of income upon any gift, settlement or conveyance (other than for full value) from the other shall be included as part of the income of the other spouse." Do you follow what I am suggesting? It is to prevent transfers from husband to wife, or to make the transferred income part of the income of the transferor.

2735. Mr. Petyman: That is a very important question, because it is a rather authoritative suggestion, coming from Mr. Kerly, that it would be possible by legislation to meet that point; that is to say, that it would be possible by legislation to prevent a transfer carrying with it an exemption. Still, would not that leave quite as big a sense of grievance behind as there is now?—I can imagine the married woman saying: "Here is income which is mine; if it had come from my cousin, or my father, it would be treated as mine; but because it comes from my husband, it is not treated as mine."

2736. Mr. Petyman: I think I must ask Mr. Kerly a question: Would that cover a marriage settlement?

2737. Mr. Kerly: No.

2738. Mr. Petyman: Then the transfer could be made before marriage, by a marriage settlement?

2739. Mr. Kerly: Yes; so it can now.

2740. Mr. Petyman: But no exemption goes with it now.

2741. Mr. Kerly: Of course this is merely a suggestion of what might be done; it was not intended to be exhaustive; it might be extended to cover property derived from a marriage settlement.

2742. Mr. Petyman: It could be?

2743. Mr. Kerly: As a matter of drafting, it could be; but when you come to apply it, that would be a different matter.

2744. Mr. Petyman: I gather from your paper that you are of opinion that under present circumstances the allowances which are given for a wife and for children are insufficient?—If £120 or £130 exemption is right for a man, then £25 is almost certainly not enough for the wife. If £25 is enough for the wife, then £120 or £130 is too much for the man.

2745. Sir E. Nott-Bower: Apart from any question of avoidance of the tax by a transfer from husband to wife, assuming for a moment that that could be prevented legally, as Mr. Kerly suggests, of course your main objection still remains, does it not, that in your view the proper method of calculating the taxable capacity of husband and wife is by taking the united income of the two?—Quite clearly so. It touches the magnitude of the loss of revenue only. The main argument is not affected in the least, and we should still be faced with a loss of £20,000,000.

2746. There is only one question I want to ask on paragraph 38. You say that it is a principle of the British Income Tax to exempt from taxation a minimum of subsistence. I wonder whether you considered carefully, when you wrote in those words "a minimum of subsistence," that the Income Tax exemption limit before the war was £160. Now do you suggest that that £160 was regarded by Parliament as a minimum of subsistence? Was that the reason why the exemption was put at £160?—I should say so to that, at once.

2747. You do not repeat the phrase "minimum of subsistence"?—If I may refer to paragraph 41, in

the third line, I say: "These allowances may be considered as having some regard to the essential expenses of maintenance, and they take into account in that connection a taxpayer's family circumstances." I should not like the phrase "minimum of subsistence" to be taken in a narrow sense.

2748. You do not insist on the words "of subsistence"?—No.

2749. Of course for very many years the Income Tax limit of exemption was £150. Those were the days when wages and incomes were on a much smaller scale than they are at present; and I think it could not be seriously suggested that Parliament regarded £150 as the minimum of subsistence. I think the view really was that it was very difficult, and indeed impossible, to reach the weekly wage-earner by means of direct taxation, and that by far the best and most convenient way of getting taxation out of the wage-earner was by indirect taxation. It may not be so fair, but it was more convenient; and when the exemption limit was fixed at £150, it was fixed at that figure because it was thought that the contribution of the wage-earners in very small incomes might be regarded as already sufficiently taxed by means of indirect taxation.

2750. Chairman: You refer to the point of the living wage raised this morning. I want Mr. Bruce to hear that question. The witness this morning was speaking about the exemption limit as being a question of a living wage. Sir Edmund Nott-Bower puts to the present witness the question whether that was really in the mind of Parliament. Was it a question of the living wage or minimum of subsistence, and he says no.—Certainly not, as Sir Edmund Nott-Bower suggests; but there have been the recent allowances which have more regard to those points. I do not suggest for a moment there has been a scientific investigation or approximation to what might be exactly called a minimum of subsistence.

2751. Sir E. Nott-Bower: One of your suggestions, in paragraph 44, is that the allowance for a wife should be £90. Now that is a much more appropriate figure to name as a minimum of subsistence. At present high prices, would you think £150 is a reasonable minimum of subsistence for a bachelor or spinster by themselves?—I am not in a position to offer evidence upon that. I would rather not; indeed, I am not prepared to. That is part of the graduation problem. This is taken by way of illustration. If £130 or £130 is right, then £25 is not right; if £25 is right, then £130 or £130 is not right. What both or either should be is not dealt with in this paper.

2752. Let us assume for a moment that with the present high prices £130 is a reasonable minimum of subsistence for a bachelor or spinster. Then do you think it might be said that £90 is a reasonable addition for the minimum of subsistence of a wife who is living with her husband. Then there would be a minimum of subsistence of the husband and wife of £120 plus £90; that is £210?—The idea is thrown out here that the reasonable ratio might be 4:2:1, for husband, wife and child, but as regards the official view upon that, the actual evidence will be put in later.

2753. I understand you do not want to be bound to your figures?—No.

2754. What you mean is that if you take the minimum of subsistence of a bachelor or spinster, living alone, as 2, the minimum of subsistence of the two together would not be 2r, but something less?

—Yes.

2755. Sir W. Trouser: In paragraph 13 you refer to Death Duties?—Yes.

2756. Do you consider that Succession and Estate Duties are essentially bound up with the incidence of the Income Tax? It has been said, I think by Sir William Harcourt, that Succession and Estate Duties and Death Duties generally are merely deferred Income Tax. Do you agree with that opinion?

—I am afraid I cannot express any opinion on that.

2757. Assuming that the principle advocated of separating the husband and wife for the purpose of taxation of their income were carried into effect,

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would it not logically involve an entire alteration of the Death Duties, so that they would pay taxation on succeeding to one another, and therefore that there would be a large consequential increase instead of loss in Estate Duty?—That the Estate Duty would gain by the separation, do you mean?

2758. Yes. If they were treated as separate entities and Death Duties followed on the death of either spouse. You are dealing with the law as it exists now. The point of my question to you is: does it not necessarily follow that in the event of any alteration of the existing law one would be led to say that if married persons were separated for one purpose they should be separated for all purposes, in which case Death Duties would be payable, as they are not now, by the surviving spouse on the death of the other?—I am afraid I cannot answer that question.

2759. May I explain? If a life interest is given by a marriage settlement to a husband and wife in succession, one duty is paid on the falling in of the first life and no duty is paid on the falling in of the second life. I put it to you that it would not necessarily follow that there would be a consequential loss of Estate Duty?—The laws remaining as they are at present?

2760. If the laws remained as they are, I agree. But it is inconceivable that the law as to Death Duties would remain as it is, if, for Income Tax purposes, their properties were treated as separate properties?—I am afraid I have not considered what the effect would be.

2761. I wanted to call your attention to that point. —The point involved here in the mention of Estate Duty is, of course, that the estates would be smaller, and obviously the yield of Estate Duty would be less because the rates would be less; that is assuming the law as it stands.

2762. Then may I go to paragraph 23. Will you explain exactly what you mean by a taxable entity? May I suggest that the relationship of husband and wife is partly contractual and in part a status. Is that what you mean? Married status imposes obligation upon them both with regard to each other and with regard to children, and to that extent their lives are united beyond the contractual relationship. Is that what you mean by a taxable entity, or do you mean they are similar, or have an analogy, to a corporation?—No, it is not so much that. The phrase is intended to suggest the idea of the general circumstances of husband and wife as they are, under contractual relations; they live together, they have quite often a common purse, there are common domestic expenses, and the capacity to pay depends upon the total amount available for those common expenses.

2763. There is a contractual relationship effected by the law which compels them to a certain extent to live together, and which compels them to maintain themselves and their children; they are a body similar in some respects to a corporation?—The idea of a corporation was not present to my mind. It has perhaps some analogy.

2764. If a brother and sister were to live together and to enter into a similar contract would you unite their incomes in the same way?—There is no such thing.

2765. There is no such fact, but it might be possible?—There is not the same position.

2766. Therefore it must depend upon the status and contractual relations of the parties?—Yes, a permanent thing.

2767. Have you any statistics to show how many women there are whose husbands' incomes are united to theirs?—I have some approximate figures which I think might assist. These relate to married taxpayers with a total income not exceeding £800 a year. We have a total here of 3,297,000 married taxpayers.

2768. That is an answer to my question?—The women, I am talking about.

2769. There is a wife in each case?—Yes.

2770. Sir E. Nott-Bower: In all those cases have the married women a separate income?—It is estimated that of this total, in 2,800,000 cases roughly, the wife has no income at all.

2771. Sir W. Trouer: I think that answers my next question: that the men are in a far greater degree

affected than the women by the question?—Yes, because if the marriage allowance were taken away there are 2,800,000 unfortunate men who would not get any allowance for a wife.

2772. Mr. Hill: Is it quite clear that a husband and wife can be assessed separately?—The law is very clear on that, and we tell them so on all the Income Tax forms.

2773. Anybody can be assessed separately if they wish, at present?—Yes.

2774. Mrs. Knowles: Yes, I am assessed separately. —It is well known, I think.

2775. I have been for two or three years.—There is no trouble about it.

2776. None whatever except that I make my husband do it.

2777. Chairman: You have to pay the full amount although you are assessed separately?

2778. Mrs. Knowles: I pay the full amount, but I am assessed separately and get my abatements back separately.

2779. Chairman: Earned income?

2780. Mrs. Knowles: Yes. I fill up three forms. Of course I refer them to the other one in each case.—Yes.

2781. In paragraph 35 you refer to "Where the wife earns part of the income by her own personal labour." As far as I read the Act, it is where the woman earns money in some occupation distinct from her husband?—That is the interpretation generally put upon it; that is the general interpretation. When this was introduced, as you possibly are aware, it was introduced to meet the case of school teachers. Grievances were put forward in this way: Two teachers, a bachelor and a spinster, earning £150 a year each, in those days were not liable, but when they married they became liable, while continuing their employment. Then there was the need of a domestic servant or some equivalent in the home, and this allowance was brought in. It has been modified from time to time.

2782. Then, of course, there is no difference made in the case of the small shopkeeper whose wife helps in the business, because she cannot be proved to be earning anything?—The general practice, I believe, is to regard those cases as not within the terms of the section; but as a matter of fact the interpretation of that section is under consideration at Somerset House with a view to considering whether, if a bona fide money salary is paid for bona fide services, it would be possible to bring such a case within the terms of the section.

2783. There are quite common cases where a husband and wife run a laundry, for instance. The man does the delivery and the woman sees to the washing?—Yes.

2784. And yet they have no exemption in those cases?—That would be so in practice. I do not know, in the case taken, whether you mean it is the business of the husband or the business of the wife.

2785. Either way; she contributes by doing work which would otherwise have to be paid for?—Yes.

2786. Then you do consider that there should be some modification of that in the case of earned income?—It is suggested that under present day conditions, the £500 limit might be revised upwards; I do not pin myself down to any suggestion of the figure, but where the total income is something above £500 it is suggested for consideration whether the same principle which obtains when the limit is, as now, £500, should not obtain in the case of an increased total figure.

2787. Then you think that some arrangement could be made by which you could estimate the unpaid services of the wife?—No, I should not suggest that.

2788. That is the point?—I should not suggest estimating unpaid services. I think it should be a case (I am thinking aloud at the moment) of a definite money payment. It would be very difficult.

2789. When the husband and wife run a business together you could not make any exemption at all for her earned income?—If the wife owns the business and pays the husband a salary it is quite clear, the law does not at present allow it to be treated as a separate income; it has to be treated as the wife's income for the purpose of this relieving section; it is all treated as the wife's profit.

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2790. Mr. Walker Clark: Might I put a point of law bearing on that? Where a wife and husband are joint partners in business with a third person, their incomes are treated at present as one, although they may be managing quite a separate part of the business independently of each other?—As the law stands that would be treated as one income.

2791. Although they are both actual working partners, and save perhaps £10 a week to the joint partnership, still they must be assessed as one income?—The profits of the husband are not unconnected with the profits of the wife there.

2792. But the labour of the wife is not taken into consideration. That is the point, I think, which Mrs. Knowles is making?—In the case now suggested the wife is a partner?

2793. Yes, an actual working partner, managing part of the business quite independent of the husband.—All partners' salaries are regarded as profits. A man may do what he likes with his own, but for Income Tax purposes he cannot pay himself a salary.

2794. Mrs. Knowles: I understand one of the great grievances of husband and wife is that when they are lumped together they come under a very much higher rate for Income Tax payment?—Yes.

2795. Could not that be got over by closer graduation, for instance? Supposing the income of my husband and myself came to over £500, whereas separately it would not, that makes a very great difference in the income. Could not that be got over by some sort of arrangement?—Unless you abandon the principle of aggregating income it would still carry whatever rate of tax was appropriate to the total income. Then we are thrown back, as I suggested at an earlier stage, to the point that the problem is a problem of graduation; what is the proper rate on a total income of £2,000 of the husband, the wife having none; or of the wife, the husband having none; or in the case of their having £1,000 each. Whether the present rate of tax on £2,000 is too high is a matter for consideration when graduation is concerned; it is not a husband and wife problem.

2796. Would it not be possible to have two sets of graduation, one where it is a joint income, where the hardship is greater, and one where it is a single income? You think it would be difficult to work?—The whole view is that there is no ground for a different rate except in so far as you give a wife allowance. There is no ground for diminishing the rate of tax in the husband and wife case.

2797. You could not run two scales of graduation, one for married people and one for single?—That would be giving away the whole principle.

2798. The point seems to me that in equity, married people might be allowed an easier time when their incomes are lumped together, one scale of graduation for married people and one scale of graduation for single people. You want to do it by taking it off at the bottom for everybody?—Not quite. The suggestion is that when you come to the married people there should be, up to certain limits of income, what is called a wife allowance—what would be more aptly called a marriage allowance, taken into account in that way; at present it is a very small amount, £25.

2799. £25 is no good for the middle classes; it would not count?—There might be a difficulty in suggesting a higher rate of allowance the higher the scale goes. I do not think that would be very popular.

2800. You say a man gains by being married; I do not mean in comfort, but he gains in regard to Income Tax?—Yes.

2801. Then you say if they were separated the Government would lose twenty million pounds. How does he gain if it would cost the Government twenty million pounds to make the suggested alteration? Somebody is paying that twenty million pounds somewhere?—The man who gains is the man who has a wife and whose wife has either no income at all or a very small income.

2802. Again, it is only for the small man; not for everybody. The twenty millions is paid by men higher up?—The twenty millions would be lost as is shown in the scale in paragraph 15; it would be spread over

the various classes according to the estimated figures shown there. The biggest individual relief would go to the biggest incomes. When you get over £50,000 a year the average gain to each married couple would be £1,000.

2803. Mr. Walker Clark: You suggest increased allowances for wife and child in your suggestions?—Yes.

2804. If you brought those into force you would suggest a reduction of the limit of exemption?—I am not prepared to give any evidence as to the quantum of the exemption. That will come up before the Commission when graduation is considered.

2805. You are not now prepared to give evidence on that?—I am not prepared to give evidence as to what would be the proper figure for the exemption.

2806. In respect of graduation, which is a great point in your evidence, do you suggest that there should be graduation in the rate of abatement?—I am sorry, but perhaps I have not made myself clear. I am not giving evidence here as to what the graduation should be; but we say that this is part of the graduation question.

2807. You put it on the rate?—There again I am sorry I cannot anticipate the official evidence in regard to graduation, which is coming before the Commission later.

2808. For the present you merely make a temporary suggestion of abatement?—Yes, at any rate the ratio.

2809. Mr. Armitage-Smith: In your evidence you used the phrase: "Those upon whom Income Tax falls most heavily." How do you arrive at your judgment as to the class upon whom Income Tax falls most heavily?—The classes upon which the Income Tax, it is suggested, falls most heavily are the classes with the poorer incomes, who, having paid their Income Tax have much less income left than is the case of classes with the higher incomes.

2810. In other words, you look to the residual income after the payment of the tax?—There is that idea in it, certainly.

2811. You do not look to the portion of income paid away in Income Tax?—No, the suggestion is that the Income Tax is a heavier burden on the small income.

2812. Then your phrase means nothing more than the person with an income smaller than the others?—It means this: that it gives the benefit to the poorer taxpayers.

2813. Will you be good enough to tell me what is the present legal position of income derived from a marriage settlement when two spouses both have separate incomes and there is income derived from a marriage settlement and they have demanded to be assessed separately?—I should like to know the terms of the settlement: who can enforce the settlement and demand payment to him or to her of the income arising under the trust?

2814. Assume that the two spouses each have £500 a year income of their own, and enjoy in common £500 from a marriage settlement, and let us suppose that they demand to be assessed separately; how does the Income Tax authority divide the income derived from the marriage settlement?—I cannot answer that without knowing the terms of the settlement. If one has the right to receive the income then it would belong to that one; if the other has the right then it would belong to that other, and if they had equal rights I take it that it would be like a property in common; it would be half each.

2815. Divide by two?—In the absence of an individual right to the whole.

2816. In paragraph 15 the last words are: "If the wife allowance were withdrawn, the figure of twenty million pounds would be correspondingly modified." What does the word "correspondingly" mean?—It means this: it is suggested that the present wife allowance costs a certain amount.

2817. How much?—I think it is about 2½ millions.

2818. Do you mean that if the wife allowance were withdrawn the 20 million pounds would be 16½ million?—No, I do not mean that quite.

2819. I am trying to arrive at what you do mean?—It would be a bit less; roughly in the region of three millions.

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[Continued.]

2820. Why would it be less?—Because there are some people who could not get the whole of the wife allowance. A man with an income of, say, £140 and having a wife, gets an abatement of £120, and the wife allowance is £25, but he can only use up £20 of that.

2821. In paragraph 32 you appear to dismiss summarily the suggestion that we should have regard, in imposing taxation, to the charges which fall upon the family fund. In paragraph 31 you say: "A man with £5,000 a year has a wife, two children whom he maintains, and a dependent relative. The household income of £5,000 is to be divided by five and charged to Income Tax at the rate applicable to an income of £1,000, in lieu of the rate applicable to an income of £5,000." In the next paragraph you seem to dismiss that suggestion somewhat summarily. Do you think it is altogether unreasonable that the Government should have regard to the charges which fall upon the family fund?—Charges in the sense of domestic expenditure?

2822. A wife and several children?—The Income Tax law has very careful regard to that, up to a certain limit of income; beyond that certain limit, at any rate, a point may be reached—I do not say necessarily that it is £800 or £1,000, or any other particular figure—but a point may be reached at which the Government may utterly disregard the question of a man's expenditure in connection with his wife and children. A man with £50,000 a year, for instance, they could utterly disregard.

2823. They utterly disregard him for most purposes?—Except for collecting his taxes.

2824. Take the majority. Why should the relief with regard to the charges on a family fund cease at an arbitrary figure at, say, £800 a year?—Some limit would be necessary.

2825. Why?—Because when you reach the higher limits, it makes very little difference.

2826. What is your principle?—that you should tax a man more who has a wife and a numerous family, than a bachelor with no responsibilities, enjoying the same income?—I do not think we tax him more, do we?

2827. If he exceeds £800 a year you refuse to have any regard to his circumstances. The point I wish to put to you is this. If you aggregate income, as you do here, for the purposes of taxation, ought you not to have regard to the charges which fall on the family fund—domestic charges?—Up to a certain limit of income.

2828. Where do you draw your limit with regard to principle? You can suggest any arbitrary figure, and you do at present. But is there any principle that you can get at?—That the Income Tax is not so grievous a burden when you get to the higher rates of income, a man may still maintain his wife and family, and have plenty to pay his Income Tax, and possibly something over for saving or anything else. But with the smaller incomes the Income Tax is a very heavy burden, and therefore that burden is diminished—the amount of tax is lowered—to those small incomes by the allowances. When we give allowances in respect of wife and children, in effect we reduce the effective rate of the tax. It is the same as saying that for a married man with a wife and children, and an income not exceeding £800 a year, the amount of tax shall be 2 shillings in the £.

2829. Do you think it is reasonable to tax the bachelor and a married man who has children, on the same income?—It depends on the circumstances of the bachelor.

2830. Surely the only circumstance which concerns you in his income?—He might have dependants.

2831. Excluding for the moment the question of dependent relatives, is it reasonable to tax a man who has no responsibilities of a domestic kind, and an income of £1,000 a year, at the same rate as a man with that income who has a widowed mother and a wife and five children?—It is possible to say, and indeed it has often been urged, that a tax should be imposed upon the bachelor.

2832. I am asking you first of all whether you consider it reasonable that those two individuals

should be taxed alike?—That is the rich bachelor and the rich married man with a family?

2833. At first sight it appears that the bachelor ought to pay more; that he is able to pay more, if we do not know anything about his circumstances?—Certainly it would appear that he is able to pay more, and it is suggested here that it might be a matter for consideration whether a specific tax should be imposed upon unmarried persons. That is a matter which may or may not be worth considering.

2834. I rather think I have got you to admit that it is not altogether *prima facie* reasonable to tax these two individuals alike?—That is so; there is ground for saying that the bachelor can pay more.

2835. And ought to pay more?—There is ground for suggesting that he ought to pay more; whether there is a practical means of tax collection that makes it worth attempting to get it, is a matter for more detailed consideration.

2836. What are the administrative difficulties in taxing bachelors, using the term "bachelor" to include spinster, a person without domestic responsibility?—The question is whether they should be taxed irrespective of their conditions.

2837. Mr. Marks: Is not one difficulty that they could change their residence so quickly?—That might be a point; they are mobile. But the question is whether there is to be a tax on spinsters, on widows, and on widowers, as well as on bachelors, at a higher rate, because they are spinsters, widows, widowers or bachelors. If so, it might not be very difficult. It is not a very difficult thing to get a person to declare whether she is a widow or a spinster, and so on; but if you are going to have regard to the circumstances of the bachelor, whether he is a young man of 20 saving with a view to getting married, whether he is a man who had better, for various reasons, remain unmarried, whether he is a man who is maintaining his mother and younger brothers and sisters: if you are going to import considerations of that kind, which perhaps ought to be done, it would add greatly to the complexities of the Income Tax and would take away the value of the tax which is imposed, and you would be left with a tax on a small number of bachelors, which would not be very large.

2838. Mr. Arundell-Smith: At any rate, you admit that your figure of £800 is perfectly arbitrary, and is not related to any principle?—It is related to a principle.

2839. What is the principle?—The ability to pay. Of two men, each having a wife and 2 children, the man with an income over £800 a year is more able to pay than a man with an income under £800 a year. Then comes my suggestion of ability to pay.

2840. In your opinion the reasonableness of having regard to the charges on the family fund, ends at an income of £800 a year?—The law fixes it at that at the moment; it is a question for consideration in graduation, which will come before you later, whether that limit should be raised, and if so, how far and under what conditions.

2841. Your answer is that it should be considered when we are considering graduation?—I really do suggest it is a graduation problem.

2842. Mr. Bailey: You estimate the loss to Revenue at £20,000,000 if the present demand for separate assessments is agreed to?—That is so.

2843. The greater part of that loss, I take it, would be on unearned income?—Yes. I should say so. I have not the details here, but the wife's income is quite often unearned income.

2844. Where the larger incomes are concerned, I suppose the wife's income would be unearned?—It would be mainly unearned in the larger incomes.

2845. Suppose two men both do the same work, and each of them is earning £500 a year; one man is unmarried, and the other is married, and has a wife who earns £200 a year. The net income for his labour of the married man is less than of the unmarried man, because his wife works; that is so, is it not?—I am afraid I have not quite followed that.

2846. Two men are doing the same work, and each is getting £500 a year. One is unmarried, and the other is married, with a wife earning £200 a year.

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The net income that is left to the married man is less than the income of the unmarried man, because he has a wife who works?—The net income that is left to him?

2847. That is left after he has paid the tax. For that same work the married man receives actually less?—Treating the Income Tax as a deduction?

2848. Yes?—Yes, that would be so.

2849. Then would it not be a fair thing to deal separately with all earned income, but that where the option is taken to deal with it separately the wife allowance should be dropped?—At present it is allowed. It is a very small thing. The law allows it as it at present stands, as is pointed out, I think, in the paper. You will see in the paper itself the suggestion is made whether there should be some extension of the total income limit in giving relief where the wife earns a separate income.

2850. Could you not apply it to earned income?—This is applied to earned income only.

2851. That both the husband's and the wife's earned income should be dealt with as if they were not married; and in that case the man would not get the wife allowance?—In your illustration the whole thing would be met if the present limit of £500 were increased to £700.

2852. Would that deal differently with earned income as against unearned income?—In that case the wife's earned income would be treated as a separate income, and there would be two abatements, the one appropriate to the husband's income of £300 as if it were an income by itself, and the other to the wife's income of £300 as if that were an income by itself.

2853. Do you think that would be covered by your suggestions?—Up to £700. If you go on and ask for it in the case of a husband and wife with a total income of £10,000, we should then suggest that the answer would be "no."

2854. Would there be much loss on that—on earned income on both sides?—I cannot give you the figures, but the bulk of the loss of £20,000,000 would be on unearned income.

2855. Mr. McEwrick: Is there any information available as to the total earned income under £500 of married women—the aggregate income?—I am afraid I have not got that.

2856. Could it be obtained?—I will inquire into that.

2857. And similarly the aggregate earned income above £500?—The total earned income of married women, within what range?

2858. Where the combined incomes are under £500 or over £500?—Yes, I will inquire into that.

2859. You have no idea whatever what the aggregate income of married women by themselves amounts to in either category at present?—I will inquire, and see what can be found.

2860. Have you any suggestion to make as to extending the right of a woman to be separately assessed in respect of her own earnings, irrespective of her husband's income?—At present she has a right to be assessed separately on the whole of her income.

2861. My point is that she be treated as a separate unit for assessment in respect of her own earnings. She is only allowed that at present where the joint income does not exceed £500?—It is suggested in the paper that there may be, in present day conditions, some ground for raising that limit of £500. As to what that limit should be, I have no definite figures.

2862. Raising it, say, from £500 to £1,000?—Taking £1,000 as an illustrative figure.

2863. And discarding the limit?—It is not suggested that all limits should be discarded. All we suggest at present is that possibly the £500 limit might be extended under present day conditions.

2864. Then with regard to the allowances, is your suggestion that you should give the wife allowance and the children allowance to every taxpayer, irrespective of his income?—That again is a question of whether the income limit should be raised.

2865. You look upon that as a graduation question?

—Yes.

2866. Sir J. Harcourt-Bonner: In paragraph 15 you say: "Estimate of immediate loss of Income Tax and Super-tax which would result from the proposal

to regard the income of husband and wife separately."

Would it not be more correct to say the immediate gain of Income Tax in consequence of being assessed together? For instance, I have just met a man whose wife has come into a considerable sum of money, and he tells me that at once he is brought into Super-tax and has to pay increased Income Tax; so that it really is that there is a gain to the Income Tax in consequence of assessing these two together?—The law requires the incomes to be computed together.

2867. I am quite aware that the law requires it.—And that is the normal everyday state of affairs. If that were altered, the result to the Revenue would be a loss.

2868. But it is a gain. The man gets extra money, so that within last week he has got a considerable extra income with his wife. At once there is a gain to the Income Tax in consequence of his having to pay a higher tax, his wife having got some money. So that although you speak of the immediate loss, it is really that you are making a gain on Income Tax and Super-tax, because you get the two taxes together?—What it is intended to emphasise here—and I think this terminology brings it out—is this. The law entitles the Revenue to certain taxes on a certain basis. If that law were altered in the direction suggested in certain quarters, the Revenue would be affected to the extent of an estimated £30,000,000. It would receive that amount of Revenue less.

2869. It is only a verbal point. I think that you make a gain by treating them together rather than saying you would make a loss by treating them separately?—I do suggest it is a verbal point. If it were the other way round, if it were a separate assessment and we were suggesting that they should be put together, then I think it would be appropriate for us to say what we should gain by altering it. At present we should lose by altering.

2870. If my wife gets so much income and I get so much more, at once my taxes are cut up and the Revenue makes a gain. You say: "No, the Revenue makes a loss if you treat them separately?"—Yes, we do say that.

2871. Mr. Brice: I see in paragraph 36 you say: "It is a principle of the British Income Tax, as of all, or virtually all, Income Taxes, to exempt from taxation a minimum of subsistence." Is that the principle upon which the Treasury worked on the advice of the Inland Revenue advisers when they fixed the limit of £160?—I think I may refer to what I have previously said in reply to a question put by Sir Edmund North-Bower. I hope too much stress will not be laid on those particular words "minimum of subsistence." I do not think it can be said that that was the idea in the old days when the £160 limit was fixed; but at the present time there is certainly more regard to what is more accurately described down below in paragraph 41, "the essential expenses of maintenance"; and it is that principle which has been followed in the Finance Acts of recent years when the children allowances were increased from £10 to £20 and then from £20 to £25; and that was extended to include adopted children. Then there came the wife allowance and the dependent relative allowance and the allowance in respect of a widower's housekeeper. All those things have regard to the essential expenses of maintenance of the household.

2872. On what principle did you work when you fixed £160?—The suggestion in the old days was that it was hardly worth while going for the smaller tax on payer who paid his indirect taxes in those days on an income of less than £160. When the war necessities arose it was felt necessary in the Finance Act of 1915 to lower the exemption limit, and it was lowered to £130. Then, as the war went on, those other allowances were given: the wife allowance, the dependent relative allowance, the widower allowance and the increased children allowance.

2873. Do you consider that the principle of fixing an exemption allowance upon the basis of minimum of subsistence is a fair system?—I am not prepared to give evidence on that point. It really is not specifically concerned with the present problem; it is, I think, specifically concerned with the graduation problem.

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2874. But I see that you are an Assistant Secretary to the Board of Inland Revenue in regard to the assessment of Income Tax?—That is so.

2875. Is it improper for me to put it to you as an Assistant Secretary to the Inland Revenue, so that I might find out from you what is the working of the official mind in fixing the exemption allowance?—I am sorry, in my official capacity I am not in a position to offer evidence on that point. That is a point which is a very important point, I suggest, on the question of graduation—on the whole system of graduation; who shall pay tax and at what rate. Official evidence is going to be put forward on that, and I am quite unable to anticipate that official evidence.

2876. May I, without trespassing on your answer, put a further question. Did the minimum subsistence principle have any importance at all with you when you reduced the tax from £160 to £130?—I am afraid I cannot answer that.

2877. In your paper I notice in paragraph 39 you say: "Whether the figure of £130 is too high or too low as a minimum of subsistence for a single person is a question upon which it is not proposed to express an opinion in the present evidence." Why will you not express an opinion?—It is germane to the graduation problem. It was desired to keep this evidence to the question of married women and the assessment of husband and wife. The graduation problem will be dealt with in separate evidence by another officer of the department.

2878. We shall get it from someone else?—Yes.

2879. *Chairman:* The point of your evidence was that it did not pay to collect that money?—It was suggested, I think, in a question put by Sir Edmund North-Bower that in the old days no attempt was made to assess the smaller wage-earner.

2880. It would not have paid?—I think that is the suggestion.

2881. *Mr. Marks:* On that may I point out that in the historical note on graduation [see App. No. 7(a)] it is especially pointed out, what I think is really obvious—that these exemptions and partial exemptions of small incomes were really a form of graduation; I think there is no doubt about it.

2882. *Mr. Kerly:* When that figure of £160 was settled the rate of Income Tax was very much lower than it is now?—Very much.

2883. And there would have been the same trouble in collecting a very much smaller figure?—Yes.

2884. In dealing with the reasons that are given for the change you are objecting to there is one of them that you do not touch. It is said that the joint assessment of husband and wife is inconsistent with the principle adopted in the Married Women's Property Act. Have you considered that at all?—Yes, I have to some extent.

2885. May I put a question to you which perhaps will save time? Would you say that the Married Women's Property Act was directed to dealing with the control of a married woman's income and had nothing to do with the rate at which the woman and her husband should pay tax?—Individually pay tax, precisely.

2886. Does that express your view?—Precisely.

2887. Have you anything to add to that?—No, I have nothing to add.

2888. I gather you also suggest that if the proposed alteration is made it would be necessary to reconsider the system of allowances, particularly the allowance in respect of a wife?—That is so.

2889. Then you estimate that as things stand, taking the present class of taxpayers, the alteration will cost the Revenue £20,000,000?—Yes; that is the estimate with incomes as they are.

2890. With the present rate of tax?—The present rate of tax and with incomes as they are.

2891. Have you arrived at your estimate by extracting what you regarded as representative returns? Is that how it has been arrived at?—It has been done on samples. I have not done this myself, but this represents the best estimate that we were able to make.

2892. You took sample returns for the different areas?—The estimate is somewhat speculative.

2893. I should just like to have some idea of the number of returns that you took as representative?—I will inquire into that, and furnish particulars.

2894. Next: you are afraid that beyond the actual loss of 20 millions, there might be a much greater loss by re-arrangements of the ownership of property between husband and wife?—Yes.

2895. You call it evasion?—Well, legal avoidance.

2896. That, as I have suggested, might possibly be dealt with by a provision that, where a wife gets an income which would have been her husband's but for the rearrangement, it should still be added to the husband's income in fixing his rate. Do you anticipate that there would be any serious administrative difficulty in working out such a provision?—I have not considered that, but speaking on the spur of the moment I should think it would not be by any means free from administrative difficulties; I think it would be very difficult to distinguish.

2897. You would have to have a declaration from husband and wife as to the sources of the wife's income?—There might be a difficulty in testing the genuineness of the declaration in certain cases.

2898. Quite.—Of course the main principle which we are suggesting here would not be affected by it.

2899. It would only be touching your difficulty of evasion?—Yes.

2900. Would you look with me at two provisions in the Act which deal with this matter; first of all, in section 21 it is provided that, where the total joint income of a husband and wife does not exceed £500, and there is a claim that some part of that total income includes profits of the wife from a business carried on by her, earned by her own personal labour, without going through the rest of it, that part—what a wife earns by her own labour—is separately taxed and does not increase the husband's rate; that is the general gist of this?—Yes.

2901. Is there any justification for limiting that to £500? Why should not the provision be general?—There again, it is a case of ability to pay. This was introduced, as I believe I mentioned earlier, to meet the smaller cases, where, through the wife going out to earn the income which she does earn, expenses at home are incurred; but of course there may be some ground—I think I am merely repeating myself now—for carrying the limit to a higher figure; but when you apply the test of ability to pay, if you had a highish income, or a very big income, where these conditions obtain, there would be no particular hardship in the Income Tax at the existing rate without the separation.

2902. Take the case of two school-teachers, the husband earning £300 as a master, and the wife earning £200 as a mistress; it was intended in such a case that the joint rate should not be applied?—Certainly.

2903. And in such a case, someone else would probably have to be hired to look after the home and children, if any, which was a further consideration. Does it occur to you that £500 is a sufficiently high figure to meet cases where the wife is really working?

—In paragraph 36 of my proof, it is expressly stated: "The existing relief is the result of enactments passed in 1894 and 1897, and there may, under present-day conditions, be something to be said for increasing the limit of total income governing the admissibility of this relief."

2904. I am obliged. I wanted to know if you could put forward to us the official view of any higher figure?—Not a definite figure; I am sorry to have to say it so often; that would come in with the graduation.

2905. No, it seems to me to come in here on this question of joint assessment. Assume it is put in to deal with joint assessments?—Really it is a graduation point. That section was in operation long before the husband and wife had the right to separate assessments. It is really a graduation. The husband was given two abatements instead of one abatement, and his rate of tax correspondingly reduced.

2906. Separate assessment without affecting the joint rate is mere machinery. This is upon the joint rate is it not? Where the total income is not more than £500 in certain circumstances, the wife can except her own earnings. I suggest to you that there

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may be good reason for putting the limit much higher. There are many cases now where a woman earns more than, say £250 a year?—Certainly.

2907. You have nothing further to assist us about that. Then it goes on that in order to come within this section, the wife's earnings must be unconnected with her husband's business. That was put in, I suppose, to prevent the husband giving his wife a colourable salary?—No doubt that was so.

2908. It does not seem to be fair, as one of the witnesses put to us, that if a man is a baker, and his wife keeps the butcher's books next door, she shall get an allowance, and not if she keeps her own husband's books. Why should not the difficulty that that is intended to meet be dealt with by some such provision as this, which is only a rough suggestion: "Provided that any income of a wife derived from employment in the business of her husband, and not exceeding a reasonable payment for services actually rendered by her in such business, shall be dealt with as the income of the wife"? Why should you not deal with the difficulty strictly in that way?—I have nothing to oppose to that suggestion.

2909. No administrative difficulty, except seeing what is a reasonable sum?—I am assuming you to suggest a genuine money payment. You are suggesting a money payment bona fide, and a reasonable amount?

2910. Reasonable amount, yes; but you say a money payment; I had not said a money payment.—Then it would devolve upon the Income Tax Commissioners all over the country?—

2911. To see whether that is a salary?—To appraise the service.

2912. The agreed value of the services, I agree. Now will you turn to the other section; this is Rule 16 of the General Rules. This is the separate assessment of the wife. You said that a married woman could, if she pleased, be separately assessed. If you look at the Rule, you will see it is much more limited than you suggested: "A married woman, acting as a sole trader, or being entitled to any property or profits to her separate use." That does not seem to cover the case of a woman who earns money by the exercise of a profession, or as a lecturer?—No, but the next Rule, I think, does.

2913. Does it?—Have you by any chance looked at the wrong Rule?

2914. I am looking at Rule 16.—Would you mind going on to Rule 17?

2915. I will in a moment.—I rather think it does.

2916. Rule 16 allows a sole trader, a woman, to be separately assessed, but provides that in assessing the rate of payment, the two incomes shall be taken together; that is right, is it not?—Certainly. The rate of tax would be determined by the joint incomes.

2917. Then you say Rule 17 covers this case?—I rather think that meets the point.

2918. I will look at it. If an application is made for the purpose, in such manner and form as may be prescribed by the Commissioners, either by husband or wife within six months before the sixth of May in the year of assessment, Income Tax for that year shall be assessed, charged, and recovered on the income of the husband or the wife as if they were not married, and the provisions of this Act with regard to married, and so on, shall apply as if they were not married. I am sorry to say I had not directed my attention to this before, but it looks as if this covers 16, without its limitations?—16 is taken from the old Act of 1842, and 17 embodies the new Law of 1914.

2919. I will not delay you while I consider these strange sections, but it looks to me as if 17 makes a general provision without any limitation, and 16 deals with a particular case, with limitations; is that how you read it?—That is so; but 16, of course, prescribes what 16 prescribes, while 17 has an overriding effect, notwithstanding anything in 16. If there is specific election for separate assessment, in the time and manner provided, then they can be separately assessed.

2920. You suggest that what you call the marriage allowance might reasonably go up to £50, and you

estimate the cost of that at "slightly in excess of £3,000,000," provided there is no allowance beyond the £300 limit?—Yes. I should like to safeguard myself by saying that I do not suggest it ought to be £50; we say it ought to be something more, the ratio ought to be regarded, and that comes in graduation, but by way of illustration we say what it would cost if it were done in that fashion.

2921. Chairman: Could you let us have, with regard to joint incomes, particulars of the number of women having incomes of £25, £50, and £100, showing us how many there are of each?—I think I could give it to you approximately.

2922. Perhaps you would send that in? I want the proportion of the women that have money separately, producing £25, £50, and £100.—I will inquire into it and furnish everything that can possibly be furnished.

2923. Mr. May: May I ask one further question? I would like to be clear, if possible, about this first clause of 38 that Mr. Bruce and Sir Edmund Nott-Bower questioned you about. There are three paragraphs in your statement in which, I think, you refer to the same thing—the minimum of subsistence, the one that you have referred to in paragraph 41; the essential expenses of maintenance; and the one in paragraph 23, minimum "necessary for the maintenance of two persons." Would you tell us what difference there is in your mind between those three standards?—There is practically no difference at all; they all point to the same idea.

2924. What I want to be clear about is, whether you withdraw the statement that you make in paragraph 38 that: "It is a principle of the British Income Tax, as of all, or virtually all, Income Taxes, to exempt from taxation" the essential expenses of maintenance or a minimum subsistence, or as you stated in paragraph 23, the income necessary for the maintenance?—I do not withdraw the statement that, under the Income Tax Acts as they are held to-day, there is exempted from taxation a minimum sum which is known as the exemption allowance.

2925. The statement in paragraph 38 is a little wider than "the British Income Tax." It says: "As of all, or virtually all, Income Taxes." I presume you mean the Income Tax of other countries than Britain. Sir Edmund Nott-Bower has rather modified, or endeavoured to modify, that statement with regard to Britain. Do you accept any modification of it with regard to other countries?—No; I cannot of course here and now give you particulars of other countries, but I adhere to this, that it is a principle of virtually all Income Tax systems to exempt from taxation a certain minimum figure.

2926. You realize that it is a very broad, as well as a very important, statement?—Quite.

2927. I am content if you say that you stand by the statement as it is?—I do not want that expression "minimum of subsistence."

2928. You will not take either of the other two as expressing the point?—They are all intended to express the same idea. The phrase has been varied to express the same idea.

2929. The practical effect is the same?—Yes.

2930. Sir E. Nott-Bower: Of course I quite agree that Income Tax Acts have always exempted the minimum of subsistence, but they have exempted something more. My suggestion merely is that the limit of exemption is not the same as the limit of subsistence, but it is something higher. Of course the Income Tax Acts have always exempted the necessary amount for subsistence, but they have exempted something more, and when the limit of exemption has been fixed, it has not been fixed by reference to what is necessary simply for maintenance.

2931. Mr. May: But something higher.

2932. Sir E. Nott-Bower: Something higher.

2933. Chairman: We can discuss that afterwards.

2934. Mr. Bouvernas: There is one question that I should like to ask with regard to the subsistence. War bonuses are granted to workmen to help them to subsist?—Quite.

2935. On the ground, of course, of the increased prices of commodities. Should not these War bonuses

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be exempt from taxation?—They should certainly not in the terms of the existing law, where all a man's emoluments are treated as taxable income.

2936. I wanted to get your opinion if I could?—My opinion is that they quite certainly should be included as taxable income.

2937. Although they are granted really to enable a man to subsist in a proper manner?—Just as when a man's salary is raised to meet particular circumstances, he should be taxed on his salary; so, if he is

given it in two pieces, one called salary and the other war bonus, that really does not affect it.

2938. It really amounts to this; that a workman gets a war bonus to enable him to purchase the necessary food, and having purchased the food, and parted with his money, he is called upon to pay Income Tax on that war bonus?—After the allowances of the various statements and reliefs; for example, a man with a family would not pay until he got well up over the range of £20 a year.

Mrs. HUBBARD, on behalf of the National Union of Societies for Equal Citizenship, called and examined.

The witness handed in the following statement as her evidence-in-chief:—

2939. (1) The National Union of Societies for Equal Citizenship wishes to protest against the taxation of the incomes of married persons as one income, as this form of taxation is in direct contravention of the spirit of the Married Women's Property Act, by which it is acknowledged that a woman retains rights in her own property after marriage. The Union feels that the principle apparently recognized under the Income Tax, whereby a woman loses her individuality in this respect, by marriage, is one that is degrading in itself and unjust in its working out. The losses thus suffered by a married woman whose income taken by itself is entitled to a rebate as both maternal and moral.

2940. (2) The N.U.S.E.C. has evidence, as shown by the accompanying resolutions [see par. 5.] of the strong feeling in favour of the reform all over the country.

2941. (3) The N.U.S.E.C. wishes to protest against the injustice involved in the regulation by which any rebate which may be due on a wife's income is paid to her husband.

2942. (4) The N.U.S.E.C. wishes to protest against two forms of injustice which bear hardly on widows:—

(a) Widowers, with incomes of under £900, are allowed a rebate of £35 in respect to a relative who has charge of his children. No such rebate is at present allowed in the case of a widow who goes out to work and who also leaves a relative in charge of her children.

(b) Income Tax is charged on the pension of an officer's widow. An officer himself does not pay Income Tax on his disability pension.

2943. (5) *London Society for Women's Service.*

"That this Committee reaffirms the principle which it has already actively supported, that the incomes of married women should be separately taxed."

Oxford & Limpsfield Branch.

"That the Oxford and Limpsfield Branch of the National Union of Societies for Equal Citizenship, strongly urge the Government to accept the amendments about to be proposed with respect to the taxation of the incomes of married people as one income under the Income Tax, thereby removing an injustice which is keenly felt by many, as this form of taxation is in direct contravention of the spirit of the Married Women's Property Act."

Huddersfield W.S.S.

"That this Committee considers it a great injustice that married people's incomes should be taxed as one income. Two brothers—or two sisters—or sister and brother—or two friends would have their incomes assessed separately, or a man and woman leading an irregular life would be considered to have separate incomes, but married people are penalized. A husband and wife each having, say, £70 or £80 or £100 a year, would be charged Income Tax on that portion of their income above the tax limit which, formerly £180, is now lower. Separately their income would be below the Income Tax limit; together it would

be above the present limit. This is very rough on people with small incomes. We believe that all incomes (of married people or otherwise) should be taxed separately."

Warrington W.S.S.

"That the members of the Warrington Women Citizens' Association urge that an alteration in the laws as regards the taxation of the incomes of married people be made; that the incomes of married people shall be taxed separately."

Holt W.S.S.

"That this Society considers the present taxation of the income of married women under the Income Taxes as a direct contravention of the Married Women's Property Act and an injustice keenly felt by many women."

Beaconsfield W.S.S.

"That the Beaconsfield Society for Equal Citizenship calls upon Major Rothschild to do all in his power to effect such reforms of the present system of Income Tax as to ensure that the incomes of married persons be taxed as separate incomes, not jointly as at present."

Cheltenham W.S.S.

"That this Committee and Society considers it a great injustice to tax the income of married people jointly, and petition that this law be repealed immediately."

Salisbury & S. Wilts W.S.S.

"That we consider the present form of taxation of married women is in direct contravention of the spirit of justice, and resolve to support any movement made to get this injustice removed."

Southampton W.S.S.

"This meeting of the Southampton S.E.C. protests against combining the married woman's income with her husband's for the purposes of Income Tax assessment."

Dorking, Leith Hill & Dist. S.E.C.

"That this Committee is of opinion that the law as regards the taxation of the incomes of married people as one income should be altered with the least possible delay."

Burnley S.E.C.

"This branch of the above Union protests against the injustice of taxing married people's incomes as one person's, and respectfully calls upon the Royal Commission for Income Tax to suggest to the Government the advisability of establishing legislation for separate taxation."

Penzance W.S.S.

"In the opinion of this Society the method of treating the separate incomes of a husband and wife—as a joint income for purposes of taxation—is most unjust."

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MRS. HUBBARD.

[Continued.]

Maidenhead W.S.S.

"That it is an injustice that the incomes of man and wife should be counted as one for the purposes of taxation."

Colchester W.S.S.

"That this Committee consider it is an injustice that the separate incomes of husband and wife should be combined for the purposes of taxation, and urge that steps be taken to remove this injustice."

Accrington W.S.S.

"This Branch of the above Union respectfully calls upon the Royal Commission for Income Tax to suggest to the Government the advisability of establishing legislation for separate taxation, and protests against the injustice of taxing married people's incomes as one person."

Clitheroe W.S.S.

"This Branch of the above Union respectfully calls upon the Royal Commission for Income Tax to suggest to the Government the advisability of establishing legislation for separate taxation, and protests against the injustice of taxing married people's incomes as one person."

Middlesborough W.S.S.

"That this Society regards the taxation of the incomes of married people as one income as being unjust and grossly unfair to women, and calls for an alteration in the law without delay."

Redditch W.S.S.

"The Redditch Branch of the N.U.S.E.C. strongly protests against taxation of the incomes of married people as one income under the Income Tax, and urges that this injustice be done away with all possible speed."

Cambridge W.S.S.

"The Committee of the Cambridge Association for the Political Equality of Women protests against the taxation of the two incomes of husband and wife as one income—and that the income of the husband. In the opinion of the Committee, the Income Tax Commissioners, by taxing the joint income of married persons at the rate appropriate to a single income, violate the principle and intention of the Married Women's Property Act, besides placing an obstacle in the way of marriage and the rearing of children. The Committee would further point out that a peculiar injustice is perpetrated upon married women who are taxed at an excessive rate upon incomes which are relatively small, but are not admitted to have any compensating claim to the disposal of half the total income of their husbands and themselves."

Hunstanton W.S.S.

"We the undersigned Officers and Committee representing the Hunstanton Branch of the W.C.A., affiliated to the N.U.S.E.C., are strongly in favour of an alteration in the law as regards the taxation of the incomes of married people as one income."

Kensington W.S.S.

"That this meeting urges the Government so to amend the Income Tax Laws as to secure the separate taxation of married women."

Deal and Walmer W.S.S.

"That a letter be sent to Viscount Devonport drawing his attention to the present very unfair taxation of married people. This Branch is of opinion that they should be taxed separately and

that, when circumstances admit, the excess should be recovered from Somerset House."

Sevenoaks and District W.S.S.

"That for the purposes of Income Tax the incomes of married women should be taxed separately from that of their husbands."

Aberdeen W.S.S.

"That this Society enters an emphatic protest against the taxation of the incomes of husband and wife jointly as penalising the institution of legal marriage."

Bolton W.S.S.

"This Society strongly protests against the glaring injustice of the present system of taxing the joint incomes of husband and wife, and calls upon the Government to remove without delay the anomalies in the Income Tax as they affect married women."

National Federation Women Workers.

"That this meeting, representative of 60,000 organised working women, protests emphatically against the present method of dealing with married women's Income Tax, and demands that women shall be treated as separate entities in the assessment of their incomes for Income Tax. It further urges that this necessary reform shall be included in the present Finance Bill."

Winchester W.S.S.

"That the Winchester S.E.C. protests against the administration of the Income Tax of married women. They hold that the incomes of the husband and wife should be taxed separately, and they demand that Clause 45 of the Income Tax of 1912 be abolished."

Shanklin W.S.S.

"That the present system which counts incomes of husband and wife as one for the purposes of Income Tax is a great injustice; and that the member for the Isle of Wight be urged to use his influence to secure an alteration of the Income Tax law in the forthcoming Budget by questions, by his vote, and in every other way in the House itself."

Portsmouth W.S.S.

"A resolution was passed by the above Society to their M.P. urging him to support the alteration of the law relating to Income Tax, so as to secure the separate taxations of married women's incomes, and hoping that he would do all in his power to remove this great injustice."

Bristol W.S.S.

"That in view of the fact that the taxation of the incomes of married people as one income, under the Income Tax, is in direct contravention of the spirit of the Married Women's Property Act this meeting strongly supports the amendments in favour of having this injustice removed."

2944. The following Societies have also sent resolutions in support of separate taxation of married people's incomes:—

Brighton and Hove Women's Enfranchisement Society.

Rotherham Society for Equal Citizenship.

Kingston and Surbiton Society for Equal Citizenship.

Women's International League.

National Federation of Women Teachers.

Conservative Women's Reform Association.

Truro Society for Equal Citizenship.

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[Continued]

Women's Industrial Council.
Free Church League.

[This concludes the evidence-in-chief.]

2945. *Chairman*: You are taking the place of Miss MacMillan?—Yes, she has been detained abroad.

2946. And you are taking her paper?—Yes.

2947. Will you be good enough to take the points there and address the Commission upon them, or what would you like to do?—I think I would rather do that. I speak for the National Union of Societies for Equal Citizenship, which is the new name for the old National Union of Women Suffrage Societies. We have between 300 and 400 branches all over the country, and so we can claim to speak for a large number of organised women. The most important point on which the members of my society feel most strongly is the taxation of the incomes of married people as one income. This injustice bears most heavily on the woman because she loses her identity. My society feel that this is in direct contravention of the spirit of the Married Women's Property Act, by which it has been laid down that a woman is to retain rights in her own property after marriage. In the case of the Income Tax these rights have been done away with. Not only is the material loss a very great one, and this loss, of course, applies equally in the case of the man, but in the case of the wife there is this moral degradation that her identity disappears. Her income counts as her husband's income, the rebate, if there is any, is paid to the husband, and as regards the Income Tax she loses all rights as an individual. I do not wish to labour this point because I understand it is one with which this Commission is very familiar. Evidence has been received I understand by the Commission, and it is an old point, but I do wish to give evidence on the strength of feeling among organised women on this point. We have received resolutions from all over the country. Very few points have been discussed with such animation, and resolutions on very few subjects have been passed with such unanimity as on this subject.

2948. Did you send the resolutions out from your central office, or did they spring spontaneously from the branches?—Both. In some cases the suggestion came from the central office, but in a great many cases they came from the branches. They have also been sent to us from other societies spontaneously, large societies such as the National Federation of Women Teachers, and so forth. I think that covers my first two points. Then there are these two other forms of injustice which bear peculiarly heavily on widows. The first is perhaps of less importance, because it does not affect a very large number of widows. As you know widowers with no income of under £200 are allowed a rebate of £25 in consideration of a housekeeper when that housekeeper is a relative. There are certain cases in which it is better for the family that the widow herself should go out to work. She may be more skilled at outside work than in looking after her own children. In that case it is an anomaly that if the widow has a sister, or cousin, or some such relative looking after her children she gets no rebate, whereas the widower does. I feel that this point although a small one is perhaps one that has been overlooked, and might possibly be remedied. It is an injustice even if it does not apply to a very large class of persons. Then in the case of a widow of an officer (and this is a far larger question) the justice or injustice of whether a pensioner should pay Income Tax on his or her pension does not lie within the province of my society, but my society feel very strongly that if an officer is not called upon to pay Income Tax on his disability pension, if that officer dies his widow should not be called upon to pay Income Tax on her pension.

2949. *Mr. Kerly (temporarily in the chair)*: Is that all you wish to say?—Yes, that is all I wish to say.

2950. May I put one or two questions to you? You put the matter rather as a matter of grievance than a matter of hardship?—Yes.

2951. That a husband and wife should be assessed together, and that the rate of tax should be determined by their joint income. You are aware, are you not, that a wife can if she pleases now be assessed separately?—Yes, I am aware that she can be assessed separately, but I understand that she can be assessed to the amount of tax charged.

2952. It makes no difference to the rate, but it makes a difference to the grievance, does not it? She does not lose her identity?—She does lose her identity in the sense that the rebate is returned to her husband, and not to herself.

2953. The rebate?—Yes, if money is to be returned it is not returned to her; it is returned to her husband.

2954. *Mrs. Knowles*: Not if she asks for it to be returned to her.

2955. *Mr. Kerly*: I think, as Mrs. Knowles has suggested, that it is only because she leaves her husband to claim it for her; it is her money?—I understand that it is returned to her husband in any case.

2956. Subject to what you say so far as the grievance of losing identity goes, that might be met if the lady takes care to get separately assessed. Perhaps that was not known to the people who passed the resolutions you have brought before us?—I think it was.

2957. We are informed by an Income Tax official who has been here that there are very, very few cases where wives have asked to be separately assessed?—I think possibly that provision is not widely known.

2958. May I suggest that your society advocates it: it is far the easiest way of getting over the grievance.

2959. *Mr. May*: May I point out on this point that we were told also that it is clearly stated on the forum.

2960. *Mr. Kerly*: I am obliged; I remember we were told that, and I think I have noticed it myself. Then you suggest that the joint assessment is inconsistent with the principle of the Married Women's Property Act?—Yes.

2961. The joint assessment only affects the graduation of the tax, does not it? The only effect of the joint assessment is that the couple pay at a higher rate than they would individually?—Yes.

2962. But the graduation of the tax was totally unknown in 1883, so what can the Married Women's Property Act have to do with that?—It is the spirit of the Married Women's Property Act that a woman should retain all her rights in her own property after marriage.

2963. Pardon me, it is nothing of the sort, if I may put it so. The Married Women's Property Act only provided that she should retain the disposal of her own property, which before that time was no longer her property on marriage, but became her husband's. It has nothing to do with the rate at which the couple should pay tax. I suggest that that is a bad argument—well we will leave it there. Have you considered whether the grievance would not be met by making a larger allowance for the wife?—The hardship do you mean?

2964. I beg your pardon, I used the wrong expression.—To a certain extent it would.

2965. *Mr. Armitage-Smith*: I gather that there are two elements in the alleged grievance: one is the method of assessment, and, secondly, the amount that has to be paid?—Yes.

2966. You are now aware that the grievance as to the method of assessment is a voluntary grievance, and need not be endured any longer, because a woman can demand to be assessed separately?—Yes.

2967. So that part of the grievance is now non-existent. With regard to the second part, that the effect of marriage is to increase the charge, do you suggest that that is more a woman's grievance than a man's grievance?—No, I suggest it is a joint grievance.

2968. Why is it put forward vigorously by associations that appear to be interested in the specifically female grievance?—Because that side of the grievance is a joint grievance; the hardship is a joint grievance.

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MRS. HUBBACE.

[Continued.]

2909. And the other does not exist?—The other does exist in fact, because as a rule the woman is assessed with her husband. It has not become generally known.

2970. Then the activities of your society would come to an end with more complete knowledge of the existing law?—On this point it would.

2971. Mr. Bowdman: A previous witness has informed the Commission that on account of this method of taxation people are living together without getting married. Have any instances of that come to the knowledge of your society at all?—No.

2972. You have not heard of it before?—I have heard it suggested as a possibility, but I do not know of any such case. No such actual cases have come to the knowledge of my society.

2973. I do not know if I might get your personal opinion upon it. Do you think that such a thing is reasonable, or possible, or probable?—I should think it possible, but I should not think it either reasonable or probable.

2974. Mrs. Knowles: Has your society paid attention to the difference between earned and unearned incomes?—No.

2975. You do not say that it costs money to earn money, and therefore the unearned income might be taxed, whereas the earned income might be exempted?—No, my society has not considered that point.

2976. Do not you think your society might consider that point, because it is an important point?—I think it is an important one, but I do not quite know that it would fall within its scope.

2977. A working woman has to pay in order to earn—fines, meals out, and clothes?—Yes.

2978. You cannot go out without spending money?—No.

2979. Of course, if you get your income from unearned income at home that is a very different matter?—Yes.

2980. There is a very great distinction?—Yes.

2981. That you have to lay out before you can earn money?—I quite agree, but that has not been considered by my society.

2982. It seems to me there is a strong case for the earned income, but not such a strong case for the unearned?—Yes.

2983. I did not know whether you had considered it, or had any views on it?—Not as a society, no.

2984. Mr. Petyman: You rather divided your hardship into two parts, did you not?—Yes.

2985. One on the question of sentiment, and the other on the question of actual payment?—Yes.

2986. Has what you have heard since you have been in this room affected your feeling on the matter of sentiment?—I do not know that it has.

2987. You do understand, do you not?—Quite.

2988. That under the present law a woman at her own request can be separately assessed?—Yes.

2989. And that any return made of Income Tax on account of any claim made will be made to her?—I think the matter of sentiment would be met if she were separately assessed as a matter of course. It would come home to each woman that as a matter of course she would be separately assessed, and the relate sent to her as a matter of course.

2990. You mean you would prefer the present method do be reversed. At present they are not separately assessed unless they ask to be?—No.

2991. You would prefer, and you think the grievance would be very much met, if they were separately assessed unless they asked not to be?—Yes, separately assessed, and the relate sent to each one as a matter of course.

2992. Unless they express a wish to the contrary?—Yes.

2993. Of course, it saves a good deal of trouble, where no money is to be saved by separate returns, if the husband makes the return for both, or the wife makes the return for both?—Yes, if they know one another's income, but that is a matter of convenience, and I think the rule should be that they should be each treated as separate individuals.

2994. It would add to some extent to the expense of collection?—Yes, but I think it would be worth while.

2995. It would not alter the liability to payment at all?—Certainly not, but I think it would alter the sentiment on that side of it.

2996. You think it would go a long way to meeting the views of your association?—Yes, I think it would.

2997. You understand that if relief were given in the form you suggest by separating the two incomes, from the point of view of the actual levying of the tax, that would be lowering the graduation?—Yes.

2998. That would have the effect of giving much more relief to people with large incomes than to people with small incomes?—Yes.

2999. You see that do you not?—Yes.

3000. Whereas if the relief, instead of being given in that form of graduation, were given in another form of graduation, namely, by giving an allowance to married people which was irrespective of the amount of their incomes with a certain upward limit, that would give greater relief to the smaller incomes, and not relieve people with very large incomes?—Yes, I see that.

3001. Has your society considered it from that point of view?—No, it has not, but I think it would relieve the hardship for small incomes to a very great extent.

3002. It is rather important, is it not?—Yes.

3003. If you separated the incomes you would have people with £10,000 a year paying on two incomes of £5,000 instead of one of £10,000?—Yes.

3004. It would be a very large reduction of tax?—Yes.

3005. Is that what you desire?—We desire it, yes. We desire that married people should count as separate individuals the same as a brother and sister living together each with an income of £5,000; it would be taxed in that way, and not as one income of £10,000.

3006. Of course, brother and sister can separate at any moment. There is no law which makes them into one corporation, is there?—Certainly not, but I suppose the husband and wife can separate at any moment too.

3007. If they separate entirely the law is different, but as long as they are living together as husband and wife you would not suggest that they should be treated exactly as a brother and sister, who may either of them marry, or go away at any moment?—I think as regards Income Tax I should.

3008. You think it would be fair that where a husband and wife are living together with £10,000 a year, of which the whole £10,000 a year happens to belong to the husband, or to the wife, or nearly the whole of it, and where another husband and wife are living together, also with £10,000 a year, to which each contributes £5,000, the taxation of the one ought to be very much less than the taxation of the other?—No, I do not, but I should think that other methods should be found by which justice can be obtained on those lines.

3009. Is not that method the method of giving allowances to married people?—I think that is an excellent method; I do not see why that should not be done as well.

3010. But I must try and pin you to this; you say first of all that you think that however large, the income of the husband and wife separately dovetailed should be separately assessed?—Yes.

3011. But you also say that you do not think it fair that where two married couples have the same considerable income, in one case all coming from one party, and in the other case happening to come half from each, that one should be taxed very much more highly than the other?—An allowance for the wife might be made in the one case, and not in the other.

3012. These two things do not fit, do they? Your society cannot at the same time put forward the view that however high the income the assessment should be separate where the source is separate, and yet say it would not be fair that two similar incomes should be charged at very different rates merely because one happened to belong to the one party only, and the other happened to belong equally to both?—I think the society would hold they should be charged as separate incomes.

3013. Then you do not think it would be wrong

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MRS. HUSBACK.

[Continued.]

for two wealthy couples to be very differently assessed simply because in one case the income all came from the husband or from the wife, and in the other case it came from the two together?—No, the society does not.

3014. You think it would not be hard?—The society thinks it would not.

The Hon. HERBERT GILES, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

3018. (1) I propose to confine my evidence to the incidence of Income Tax on wasting assets and to deal chiefly with examples of which I can speak with personal knowledge.

3019. (2) I am the chairman of certain nitrate companies and also of a drainage company called The Rio de Janeiro City Improvements Company, and I should like to explain how these companies are affected; as they may be considered typical of the two classes of industry which are based on terminable concessions abroad, and on coal mines, deposits, and the like, where waste of capital is inherent to the working of the business.

3020. (3) The Rio de Janeiro City Improvements Company was formed to drain the city of Rio. The issued share capital is £1,192,775, and debentures to the value of £1,133,600 have been issued, of which there were outstanding on 31st December, 1918, £482,500. The concession lapses in 1947, when all the drainage works become the property of the Government. The city has increased considerably of late years, and new districts have been drained, and up to the beginning of the war, when building operations were checked, large yearly sums had to be expended in connecting new houses with the drainage system. The Government pay a yearly sum of £4 15s. for every house drained.

3021. (4) It is necessary to redeem the original capital as well as all sums spent as mentioned above in extending the drainage.

3022. (5) According to the amortisation scheme prepared by Messrs. Price, Waterhouse & Co., the yearly amortisation of the debentures is written off the capital expenditure, and when any of the various issues of debentures are paid off an equivalent of the amortisation fund of that issue is set aside for sinking fund.

3023. (6) In the year 1918 the amortisation of debentures was £29,300, and the amount set aside for sinking fund was £12,000, making a total of £40,300 to the debit of revenue before any profits could be earned, all of which sum is chargeable with Income Tax.

3024. (7) In addition the company has placed a large sum to reserve account, and adds thereto £35,000 a year, because by the amortisation scheme it is necessary to counteract the yearly increase of capital due to connecting new houses with the drainage system, and because it is clear that as the end of the concession gets nearer every year a heavier amortisation is necessary for the expenditure of each succeeding year. Thus the total sum set aside for amortisation is £65,300, and Income Tax levied on this amount at 6s. in the £ is £19,500, or over 1½ per cent. on the share capital.

3025. (8) I submit that in the case of terminable concessions in countries outside the United Kingdom (where there can be no question of commuting future profits by the sale of concessions) an allowance should be made for all necessary amortisation before the profits are assessed to Income Tax.

3026. (9) As regards nitrate properties, nitrate of soda mixed with common salt is found in the form of deposits from 1 to 8 ft. below the surface of the ground, and the thickness of the deposit is usually about 2 ft. The nitrate of soda is extracted by crushing and boiling the raw material—the hot water taking up the nitrate and depositing the salt and insolubles.

3015. Mr. Kerly: If it were the rule that every married woman should make a separate return of her own in how many cases do you think she would get her husband to do it for her?—I have not the slightest idea.

3016. 990 out of every 1,000?—I think not that.

3017. Mr. Kerly: We are very much obliged to you

3027. (10) The proper method of calculating the contents of a nitrate deposit is to sink holes at regular intervals and test the samples, and having thus estimated the amount of nitrate, the properties are sold on the basis of so much per quintal of estimated contents. The Chilean Government hold periodical sales on this basis.

3028. (11) It happens occasionally that if there is not a sufficient number of holes sunk, or if the holes are not at regular intervals, the estimates are afterwards proved to have been inexact, but as a rule an approximate idea is given of the nitrate contents.

3029. (12) Although the purchaser pays so much a quintal on the estimated contents of the raw materials, he is not allowed to deduct the cost of the amount used from his revenue account for Income Tax purposes, though it is clear that he can earn no profits until this deduction has been made.

3030. (13) The cost of nitrate grounds varies from about 2d. to about 8d. a quintal on the estimated nitrate contents, according to the quality of the raw material, accessibility, compactness of the grounds, and other conditions; and the average net profit on working is probably not more than 1s. a quintal.

3031. (14) The Commission will therefore realize that the refusal to allow any deduction for the cost of the raw material consumed constitutes a very heavy burden on the industry, and, further, that as the amount of raw material consumed would be more or less the same, whether the profits were large or small, the smaller the real profit per quintal of nitrate the heavier would be the rate of tax on the real profits.

3032. (15) Moreover, the value of the buildings and machinery practically ceases when the grounds are worked out unless it should happen that other grounds were obtainable in the neighbourhood; and no allowance is made by the Revenue officials for the diminishing value of the buildings, and the 5 per cent. allowance for depreciation of machinery is insufficient.

3033. (16) When Income Tax was 1s. in the £ or less, and when good profits were being made, the tax on depreciation funds, though equally inequitable, was not particularly onerous; but now that Income Tax is 6s. in the £ the tax in bad times would be a very serious matter.

3034. (17) The Commission will of course realize that the existing heavy taxation places British purchasers and workers of nitrate grounds and foreign properties at a disadvantage as compared with Chilean or native purchasers and workers, and it is suggested that nitrate and similar undertakings whose assets are exhausted in the process of making profits should not be placed at a further disadvantage in this respect by the taxation of profits which they do not make.

3035. (18) This excess levy is an incentive to British shareholders to move the domicile of companies in which they are interested from the United Kingdom, and is an additional incentive to foreign shareholders in British companies to advocate the same course. The Alianza (Nitrate) Company is a case in point. The majority of the shares are held by foreigners, who, having been much irritated by the levy of Income Tax upon the depreciation fund, and being unable to transfer the domicile during the war, have transferred the control of the company to a local board in Chile in order to avoid all British taxation and this course will be probably followed by other companies. This will certainly cause incidental losses to British trade; for local boards will have no reason for employing British manufacturers, or for making use of British financial facilities, not to mention the

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THE HON. HERBERT GIBBS.

[Continued.]

smaller direct loss of directors' fees, clerks' salaries, rent, &c., if and when the domicile is removed.

3036. (19) The existing law is perfectly clear and is based to a great extent on the decision of the House of Lords in the Coltness Iron case. The Allana Company fought a case with the Crown through all the Courts in an endeavour to obtain relief from Income Tax on its depreciation fund, and was defeated in every court. I may say that I have followed this question very closely for 20 years or so, and that I have never seen any attempt to show that a tax on depreciation funds of wasting assets is just, the objections to removing the tax being mainly based upon the fact that the country would lose revenue. In the Coltness Iron case Lord Blackwell in his judgment said that he had to consider "the intention as expressed by the words of the enactment," and he added, "I will not inquire whether this law is just or not." "The object of these framing a taxing act is to grant to His Majesty a revenue; no doubt they would prefer, if possible, to raise that revenue equally—but their object is to grant revenue at all events."

3037. (20) In the early days of the tax when Mr. J. G. Hubbard (afterwards Lord Addington), member for the City of London, raised this question in Parliament, he was met by a calculation of the loss which would accrue to the Exchequer if his proposal were adopted, to which he replied that he could not verify the calculation but that whatever the correct sum might be it was the measure of the present injustice.

3038. (21) It is also urged that there would be difficulty in agreeing the proper amount of depreciation, especially in some cases, and this is no doubt true; but I would suggest that the exact amount of the allowance for depreciation is of no great importance, as if it were too high it would only mean that the whole cost would be written off, and consequently the whole profit would be assessable to Income Tax at an earlier date than should rightly have been the case. The Commission may also consider that it would be in the national interest to encourage prudence in the matter of depreciation funds if it is thought that any alteration in the existing law would produce that effect.

[This concludes the evidence-in-chief.]

3039. Mr. Kerly: You are coming to give us evidence on behalf of the Income Tax Reform League, and your evidence is directed principally, or perhaps wholly, to the question of wasting assets abroad, as I understand it?—Yes; but I am not giving evidence on behalf of the Income Tax Reform League.

3040. That is a misunderstanding?—It does not much matter, I suppose, but I am giving evidence on my own behalf.

3041. It was so stated in a paper before me, but that is a mistake?—Yes; I am not authorized to represent them—at least I may be; I do not know.

3042. Will you kindly run through your evidence, and take out what you think are the important points, and tell us the gist of them?—I made it as short as I could because I have been on the other side of the table myself, and I did not think you wanted to be bothered with any very great detail. I merely wish to point out that, in the case of terminable concessions abroad, where there is no question of commuting the future profits by the sale of concessions, an allowance should be made. I am differentiating them from, say, tramway concessions in this country, or any concessions in this country where any payment that is made is really a commutation of future profits which may be assessable to Income Tax.

3043. Are you referring to the payment that is made when the concession is terminated?—No, whatever the payment is. What I mean to say is this; that if a British subject, who is amenable to British Income Tax, whether he is a municipality or whatever he may be, if he sells a concession, he is selling the right to future profits, and therefore, in my judgment,

the sum paid for that right is liable to Income Tax; but when it is a question of paying for a concession, by whatever means it may be, whether it may be by paying for it by handing over the assets at the end of the concession, or by the paying of a lump sum to the foreigner who is not amenable to British jurisdiction at all, then the Inland Revenue have no right, in my judgment, to a share of those profits.

3044. You might make it clear perhaps, by giving us a couple of examples, one of each class?—I have given one example, which is this: the Rio City Improvements Company.

3045. Yes?—There, the Brazilian Government have given a concession to a certain company here, and the payment for the concession is the surrender of the assets of the company at the end of the concession. I say that the British Government have no right to treat the value of those assets as profit. Though they may be profit, and are profit indeed to the Brazilian Government, the British Government have no right to tax the Brazilian Government; therefore they have no right to tax the company which has to make that payment as if it was a profit.

3046. Say if I put it rightly so that I can follow you. For this income each year the company has to set aside, or to set aside for an amortisation, a part of the actual receipts?—Yes.

3047. You say that part which is set aside is really representing the sum that will be ultimately handed over to the Brazilian Government?—Yes.

3048. And that it is not profit to the company, and upon that part of its income it should not pay tax?—That is so exactly. Then, if you take another case, we will take a concession for a tramway, and we will suppose that it is done on exactly the same terms: that is to say, we will say Brighton gives a concession to somebody or other to run tramways, and the terms are that the tramways and the lines shall be handed over at the end of a certain number of years; that is payment to the municipality of Brighton for that concession, and as the municipality of Brighton is subject to British Income Tax, there is no reason, in my judgment, why the Revenue officer should not levy Income Tax on the amortisation which the company must set aside to provide for the payment, that is to say, to amortise their capital. It is quite true that, so far as the company is concerned, the company cannot make any profits at all until it has set aside that amortisation. The point the Revenue officials, I suppose, would take is: "Yes, you ought to have taken that into account when you made your arrangements with the Brighton municipality, because that is profit to a British subject and therefore it is liable to Income Tax."

3049. It would probably be suggested that in each case the sum we are dealing with, which is set aside, is capital and not income, and that it should not pay tax?—I do not quite follow that.

3050. The sum which is set aside for amortisation is really a sum set aside to return the capital?—Yes, that is true.

3051. True income is arrived at upon the assumption that the capital is untouched?—That is quite true.

3052. There is no distinction between the two cases on that footing, the one abroad and the other at home?—On that footing, no. I am differentiating these concessions abroad, that is to say where the grantor of the concession is not subject to British jurisdiction, from any cases such as leaseholds here, or concessions here, which the Revenue officials say, and I think rightly, are subject to British jurisdiction and should therefore pay Income Tax.

3053. Now will you go on to the next point?—I should like to say that this morning I asked a friend of mine whether he could find any other cases similar to the Rio City Improvements Company. It is not an isolated case. I do not suppose there are very many of them, but he produced, I think, nine others that he knew of.

3054. Do you mean drainage cases?—No, not drainage necessarily, but concessions abroad

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[Continued.]

3055. There are a great many cases of foreign concessions of a similar kind, are there not?—Yes; there are, I do not know how many. All I mean to say is, this is not an isolated case that I am taking. The next point is concerned with deposits abroad, like nitrate of soda mines, and other things of a similar character.

3056. Where you are working out a limited quantity of material, and selling that material to purchase an annual income?—Yes.

3057. It being known that the total quantity available is limited, although the amount may not have been ascertained?—Although the amount may not have been accurately ascertained, yes.

3058. Does that case differ in your view in any way from the ordinary case of a company working a mine either at home or abroad?—I do not know that it does.

3059. Is not one difficulty the difficulty of determining how much of the actual income is to be set aside as really being replacement of capital?—Yes, there is a difficulty about that.

3060. How do you suggest that it should be dealt with?—I suggest that it does not very much matter how it is dealt with. The only point, I suppose, the Revenue officials would take would be that too large an amount was being set aside; that is to say, that the company or undertaking might be claiming too large a deduction for the amortisation; in that case all that would happen would be that the whole value of the undertaking, or whatever they were seeking to amortise, would be written off sooner than it ought to have been. That is the only damage that could occur to the British Revenue, because when it was all written off, then, of course, the whole of the income, less the expenses, would be assessable to Income Tax.

3061. Every company would attempt to set aside as much as possible in its early years, would it not, so as to be sure of getting it all back?—It might be so. It is not my experience of mines generally; but it may be so with a heavy Income Tax.

3062. There may be something else, the natural desire to keep the shareholders happy?—Precisely, they have to meet their shareholders and pay dividend.

3063. Do you think that would be a balancing factor?—Yes.

3064. Otherwise they would have the advantage of getting the Revenue, so far as it went, as an insurer of their capital, because the Revenue would not receive anything until the whole of the capital had been returned, in an extreme case?—Well, yes.

3065. Have you any formula to suggest by which the part of the income which is not to be treated as profit is to be ascertained?—No, I have not.

3066. There is a great practical difficulty, is there not?—There is if you want absolute accuracy, but my contention is that absolute accuracy is not necessary. If the Revenue officials suppose that what you suggest was being done, they could take some action to show that the amount was excessive.

3067. But if we are legislating we have got to put it into the Act of Parliament. You would not suggest that complete discretion should be left to the Revenue authorities to determine whether the allocation to capital account is right or not?—No. I should suggest that the managers or directors of the concern should be allowed to put aside what they pleased for depreciation, and I should leave the onus on the Revenue to prove that it was too large if they thought so.

3068. I suppose you would introduce the useful word "reasonable"?—Well, I suppose that is what it would come to.

3069. Is that all you desire to say in chief?—Well, I make a point which I think is rather an important one; I say the Commission may also consider that if would be in the national interests to encourage prudence in the matter of depreciation funds if it is thought that any alteration in the existing law would produce that effect. If you thought that that alteration of the law would tend to make people put aside more money for depreciation or reserves, I think it would be a very good thing for the country that it should be done. Of course the present position is this, as Lord Moulton said in some judgment—I have forgotten what it was—"If a promoter calculated profits

on the same basis as the Revenue officials calculate profits, he would be imprisoned." He told me that himself. I do not remember the case, but he told me that a little while ago; and they certainly would be.

3070. Sir E. Nott-Bower: I gather that you confine the evidence which you are bringing before the Commission to an allowance in respect of wasting assets which are abroad?—Yes.

3071. You draw a distinction between a mine in this country and a mine abroad?—Yes.

3072. Without expressing any opinion as to mines in this country, you say at any rate the mine abroad ought to be allowed something for the exhaustion of minerals—you speak of nitrate, but your argument would extend to gold mines?—Yes.

3073. I think Mr. Kerly put to you the question whether there was really any reason for making a distinction between the mine abroad and the mine in this country?—I do not think there is. What I was doing was to give the Commission my own practical knowledge. I know there is a gentleman, Mr. Leake, who is going to give the Commission a long paper on this very subject. I said to him: "I have some practical knowledge of certain companies, and I think perhaps it might be useful if I put before the Commission my personal knowledge of those companies." Those companies are abroad; that is really all.

3074. You are not concerned really to carry the argument further than the company abroad?—That is all I am doing in this paper.

3075. You are on clear ground, I think, when you confine yourself to the mine which is abroad?—Whether it is a coal mine, or whatever it may be here in this country, somebody has made profits and he is liable. It may be you say: "This is an increase of capital value," or "It is not a profit"; that is a technical question. But it is very clear in the case of the mines abroad, and these are the cases I put before you.

3076. The question whether there is a distinction between an asset at home, and an asset abroad, we might consider when Mr. Leake is before us?—Yes.

3077. In my opinion, there is certainly a very important distinction and I believe an essential distinction, on this question of the allowance for exhaustion of minerals, between a mining company at home and a mining company abroad, and I shall want to press that point when Mr. Leake is giving evidence, so I do not know that it is necessary to carry it further now, because you confine yourself to the asset which is abroad?—Yes.

3078. With regard to the asset which is abroad, may I put it in this way? I will take the nitrate illustration; you do not really complain, I think, that the Income Tax demand which is made exceeds the profits which are obtained from working the nitrates?—I do not follow.

3079. I do not think you really assert that the Income Tax assessments which are at present made on nitrate exceed the total profit which arises from working the nitrates. You do say it exceeds the profits derived by the nitrate company from working the minerals, because it includes also a part of the profit which goes to the owners of the nitrate. I understand your argument to be that the share of the profit that comes to the owner of the nitrate should not be charged, not because it is not profit, but because it is a profit which does not fall within the proper scope of the Income Tax Act. It is a profit derived by a person residing in Chile, let us say, from the working of nitrates which are in Chile, and therefore, in that case, the demand on the British nitrate company ought to be confined to the profit derived by the company from the nitrates?—There is no profit at all to the company from the sale of the raw material at the price which it gives for it.

3080. I agree. Please do not think I am hostile to your suggestion, but I think very different considerations would arise if the asset was nitrate in this country?—Well, you say that there was a profit to the owner of the ground—an original profit in selling the ground to the company.

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[Continued.]

3081. Yes.—That is so, of course; or it could be so, no doubt.

3082. Supposing a colliery company worked a mine in this country; they might enter into an arrangement with the owner of the soil under which they paid him only royalties for each ton of mineral extracted; that is one form in which the minerals might be worked. If the mine were worked under those conditions, that is the payment of an annual royalty, the colliery company would be assessed on the profits that it made, without deduction of the royalties, and when it paid the royalty to the mineral owner it would deduct the Income Tax?—Yes.

3083. And therefore the mineral owner would pay Income Tax on his share of the profits, and the colliery company would pay on their share, and that would be right. Now assume that, instead of arranging to pay an annual royalty, the colliery company bought the minerals outright for a capital sum; that, I believe, is done?—Yes.

3084. Then the question arises: Should the colliery company be assessed still on the whole of the annual profits arising from the working of the ground, without any deduction for the capital expenditure? That is a point we shall have to consider when Mr. Locke comes. I think perhaps it would be sufficient to say now that there are very strong reasons for saying that the colliery company should be so assessed.

3085. Mr. Kerly: Mr. Giles says that, in this case, the man to pay the tax on the value of the minerals unextracted is a foreigner, and no one ought to pay Income Tax upon his behalf?—That is so.

3086. That is your point about it?—That is so.

3087. Mr. Hill: With regard to the Rio City Improvements Company, you say you set aside so much out of income every year to form a reserve for the purpose of repaying capital at the end of a given period; that is all income, is it not; it is paid out of income?—It is all paid out of income.

3088. It is only like a prudent man in business who sets aside a certain amount for rainy days. You know that at the end of a certain time you are going to lose your concession, so it seems to me that it is quite right you should pay Income Tax on the whole income that is earned from that. It is all profit derived from that concession, and it is set aside for the purpose of returning the capital at the end of the concession. It does not go to the foreigner; it goes to the English shareholder?—Set aside for the purpose of returning the capital to the shareholders, and therefore you should pay Income Tax on the capital?

3089. No, Income Tax on the earnings of each year?—Of course they are not profits in the business sense of the word.

3090. They are profits earned each year, are they not, and out of those profits you set aside a form of reserve fund to repay the capital?—It is a question what the word "profits" means. In the city they certainly would not be considered profits until you have set aside sufficient for amortisation of capital.

3091. You are not compelled to set that aside, but a prudent man would do it?—You are compelled by every law of prudence and business to set it aside. If you contend that that amount which is set aside for amortisation is a real profit and should pay Income Tax, then if you buy a shillingworth of apples and sell them for 12 pence you have made 100 per cent. profit; that is the *reductio ad absurdum*, it seems to me.

3092. Mr. Kerly: May I assist the witness, as I think I can? Take this example: Your Rio Company starts with £100,000 capital. It spends that £100,000 in making drains and connections and other things, and at the end of the time it has neither got its £100,000 nor has it got the things that it made with it?—That is so.

3093. If you take the whole of its income as income, then you have divided that £100,000 up in repaying to itself and paid tax upon that as if it was profit; that is your complaint?—It is; you are paying on your capital as well as your income.

3094. Mr. Marks: You distinguish between such a thing as your Rio Improvements Company and one of your nitrate companies, do you not?—I put them into separate categories, because they seem to fall naturally into separate categories. One deals with mineral deposits.

3095. In this way, for instance, you did not give the city of Rio any sum for this concession?—No.

3096. But you agreed to pay them certain amounts?—Agreed to hand over the property at the end of it.

3097. Nothing else than that?—I think not. It is a long time ago since it was started, but I do not think so.

3098. And you wish to establish some sort of analogy between a transaction of that kind and a transaction similar to that by which the Indian Government purchased the Indian railways?—Do you mean the "A" and "B" debentures?

3099. The annuities in which, as you know, the part which represents capital is exempted from Income Tax?—Yes.

3100. That was on the principle, I believe, that it was the repayment of a debt by instalments?—I think it was.

3101. That does not apply to your case unless you can regard the shareholders as your creditors?—No, perhaps it does not.—I do not know.

3102. There is a distinction in principle. What you really want to introduce is a new principle altogether?—Of taxing profits and profits only; that is what I want to do.

3103. I will leave that for the moment. On the question of the nitrate companies how would you go about the purchase of a nitrate deposit and forming a company to work it? Perhaps you will correct me if I am wrong; would you not proceed in this way, you would estimate the contents of the ground, then you would estimate the cost of winning these contents; it might be an annual cost or a lump sum cost; then having estimated the total life of the property you would have got either a lump sum or an annual sum which would be repaid out of the estimated profits. Then I should do it in this way; I should say to myself: "all those profits are going to be liable to Income Tax; I must consider what rate of tax is likely to prevail during the life of this deposit," and then fix the purchase price having regard to all the incidents to which I was subject?—Yes.

3104. So that really, as a matter of bargaining, it would depend whether or not the vendor of the nitrate deposit was prepared to accept your price, in which price you have already made an allowance for the fact that the whole of the profits are to be taxed, would it not?—Yes.

3105. So that really there is no grievance at all as between you and him?—Who is "him"?

3106. The vendor?—No, there is no grievance—certainly not.

3107. It is a well understood bargain on both sides, and you have given only such a price as after deduction of tax on the whole of your profits it would pay you to give?—Certainly you would offer that, no doubt. There is no quarrel with the vendor obviously.

3108. I was only looking at it as a matter of bargain. I am looking at it entirely from your point of view. Does not that rather imply that to the extent, at any rate, to which you have a grievance in regard to existing companies, it is only a question of the amount of the tax and not the fact that part of it is imposed on what you consider capital?—I do not follow you, because we have no quarrel at all with the vendor.

3109. No, leave that out?—What I am contending is this, if you buy Consols or War Loan you get your 5 per cent.; there are no charges against them at all, and you have not got to amortise them at all. If you put your money into a nitrate mine you have to write off the whole of the capital you put in before you can show any profit at all.

3110. My point is this, that the whole of that capital, or the amount of that capital, has been decided by considerations which include the consideration of the fact that the whole of what you get out

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[Continued.]

of the property is taxed?—My point is that it should not be so, and that the British Government is acting inequitably in forcing people to make that calculation. The effect of having to make those deductions in your calculation is that you are putting them to a very grave disadvantage as compared with other people who have not got to do it.

3111. That is the point I was coming to. Then it is really the fact that it is the high rate of the tax which, if it does not introduce, emphasizes your grievance?—It emphasizes it undoubtedly.

3112. And so far as there is a grievance, not an injustice, it is due to the fact that you under-estimated the probable tax that you would have to pay when you bought these deposits?—No, the grievance is exactly the same, only it is more onerous now than it was. I have felt it a grievance for the last 20 years, and I have been struggling against it with Income Tax before it is in the £, because it is unjust to my mind.

3113. I cannot see that you have a real grievance in regard to the transactions which were made with your eyes open. You have given a price, I understand, for your nitrate deposits which has already taken into account the fact that you are going to be taxed on the whole of the profits derived from those deposits?—I am afraid I cannot agree with you.

3114. Mr. Birley: I was going to ask in a case like the one you have mentioned, would you not pay a smaller price, or look for a bigger rate of profit, because of the money you would have to lay by to reimburse your capital?—Yes.

3115. That being the case, the only hardship is that the rate of Income Tax is higher than you had anticipated when you launched that enterprise?—But what I contend is, that the action of the Government has been unjust all through. It is quite true that we have to take it into account.

3116. You knew that it was there, and you calculated accordingly, surely, as a prudent business man would calculate?—Yes. Of course, we did not expect Armageddon and 6s. in the £.

3117. It comes back to that every time; the tax has become much bigger than ever you anticipated?—It has become almost unbearable now, but the injustice is the same.

3118. Mr. McLintock: I was going to put the same point in another form. You show £100 capital invested in the purchase of concessions or deposits, and you budget on 20 per cent. of your money coming in to you, and in pre-war days you paid 1 per cent. of British Income Tax at 1s., and had 19 per cent. left, out of which you provided for amortisation, and that still left you a very handsome return on your capital. I suggest that it is only the higher rate of tax that constitutes the grievance to-day?—I am sorry to say I entirely disagree with you.

3119. If you compare it with Canada, as you did, you talk about a 5 per cent. return; that is in war time; in pre-war days you got 3 per cent.?—Yes.

3120. I take it in these concessions you always look for a very much higher return than 3 per cent.?—Certainly.

3121. Am I putting it too high in suggesting even 20 per cent.?—That is more than you get; I do not know what you look for.

3122. You made another suggestion. You thought that the Government should encourage the setting aside of larger sums for depreciation?—Yes.

3123. Have you considered where that would lead to from a Revenue point of view if every trader was allowed to set aside whatever he liked for depreciation?—I do not say whatever he liked. If the Revenue officials felt it was too much they could show that it was too much.

3124. I thought you were advocating as a general principle that it was desirable to encourage the setting aside for depreciation?—As a general principle I think it is desirable that people should be encouraged to be prudent.

3125. You appreciate that the taxpayer would wish to set aside probably the whole of his profits but his actual dividend?—It certainly is not my experience of companies or directors that they do that.

3126. Sir J. Harcourt-Murray: I have only one question, and that concerns your reference to Lord Justice Moulton and the law. Is it not the fact that if you dealt with your property for Income Tax purposes without providing for wasting capital the result would be that you would be, at the end of the period when the wasting capital was terminated, in the position of having paid good dividends but would have not a penny piece to return to your shareholders in the shape of capital which they had expended?—Yes.

3127. And that being so, would not the directors of the company and the auditors be liable to be attacked by the Official Receiver and by the shareholders and brought before the judges for having paid dividends not out of true profits?—I should think they would be unless they made it perfectly clear to the shareholders that they were paying away their capital in the form of dividend.

3128. Shareholders unfortunately do not remember that until the end, when they have got no money to receive, and then they bring actions against the directors and auditors for having permitted the payments of dividends out of unearned profits without making provision?—Yes.

3129. So that there is a difference in the position between the Income Tax profits and the true profits; a prudent business man would carry on his business so as to give a reasonable return in dividend and the capital back to his shareholders?—That is so—a very great difference. A prudent man tries to give his shareholders back their capital as well as a reasonable dividend; but the Income Tax computation would give them a high dividend but leave no capital to present to them at the end of the period.

3130. The statutory profits are not profits at all; they are purely imaginary profits to some extent?—Yes.

3131. Mr. Kerly: We are much obliged to you. Of course, as you know, we are going into the matter much more fully to-morrow with Mr. Leake, so we have only troubled you on the matter about which you have special knowledge, that is to say the foreign company.

SIXTH DAY,

THURSDAY, 5TH JUNE, 1919.

PRESENT:

MR. KERLY (*in the Chair*).

SIR T. P. WHITTAKER.
MR. BOWERMAN.
MR. BRACE.
SIR E. E. NOTT-BOWER.
SIR J. S. HARMOOD-BANNER.
SIR W. TROWER.
MR. WARREN FISHER.
MR. ARMITAGE-SMITH.

MR. BIRLEY.
MR. WALKER CLARK.
MR. HILL.
MR. KNOWLES.
MR. McLINTOCK.
MR. GEOFFREY MARKS.
MR. MAY.
PROFESSOR PIGOU.

MR. ROGER N. CARTER, F.C.A., Author of "Murray & Carter's Guide to Income Tax Practice," called and examined.

The witness handed in the following statement as his evidence-in-chief:—

3132. (1) It may be doubtful whether any system of Income Tax can be devised which will enable the average man to compute his liability correctly without professional assistance. It is, however, probably common ground that the complications at present existing render it almost impossible for anyone but a professional man of considerable experience correctly to compute any liability except in the very simplest cases. This arises from the fact that as the tax has risen, pressure has been brought for exceptional treatment to meet cases of hardship, and the main principles have been drowned in a sea of exceptions and concessions. In particular the payment of War Loan interest in full has made for increased complications.

3133. (2) Perhaps with the exception of—

(a) The charge on the gross income of a wasting asset, and

(b) The charge in the case of a Life Insurance business, &c., on interest, though that amount may be greatly in excess of profit,

I do not know that I would suggest there are any glaring anomalies in the Acts.

3134. (3) What one would urge is simplification, and the following notes are directed to that point. I have not gone into illustration in figures, as I think my points will be readily appreciated by the Commission. I have endeavoured to take a judicial view of what would be fair, ignoring the fact that present complications force all Income Tax work into professional channels.

"Free of Income Tax."

3135. (4) The payment of salaries (including directors' fees), interest and dividends, &c., "free of Income Tax," should be prohibited by Statute, except perhaps in the case of ordinary dividends. Each person should bear his own tax, and where necessary salaries should be increased accordingly. An ordinary dividend is different from any other payment as the balance of profit belongs to the ordinary shareholder in any case—but even if an ordinary dividend "free of tax" be permitted it should be made compulsory to state what full dividend was represented thereby.

Three years' average or preceding year.

3136. (5) The difficulty caused by the three years' average is that the amount upon which tax is being paid does not bear any relation to the profit being made. This has given rise to sec. 133 (revived during the war) (now s. 43 of the I.T. Act, 1918) and to sec. 29 of the Act of 1916 (now s. 44 of the I.T. Act, 1918). For neither of these concessions does there seem to be any valid ground except sentimentally.

The profit of the year would obviously be the perfect theoretical basis, but to institute such a system would mean either:—

(a) to drop taxation for a year awaiting the result of the trading, or

(b) to have an estimated assessment each year, which would mean adjustment at the end of year in every case.

The objections to either method seem insuperable.

If the preceding year be taken universally, all need for the above concessions would disappear. If this is considered impossible, the Crown should be protected by some provision such as is contained in the Act of 1890, to prevent a person getting the benefit twice over. Losses could be carried forward against future profits (as is now the case with unexhausted depreciation). In the case of a person having taxed income and making a loss in business he might have the option of recovery of tax on the loss as it is at present the case under the old Act of 1890.

"One man one charge."

3137. (6) The present system of charge, except to a man who is liable to tax at the full rate, is complicated beyond words. As an illustration take the case of a person who has property in various parishes. No notice is served upon him indicating the properties out of which allowances are made to him. One property is perhaps exempted "on account of abatement"—the balance of abatement and some "relief" comes off another—and for another he receives a demand for a sum of money from which is a mystic deduction for "U.I.R." without the slightest explanation. All this has to be done between the various District Surveyors and it would seem simpler even to them to collect in one district, and to send a Demand Note stating how the amount was arrived at.

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MR. ROGER N. CARTER.

[Continued.]

There would seem to be no objection to assessments being made in the parish where the business, &c., is carried on or where the property is situated. My point is that there should be one statement showing total liability and all deductions. Collection might of course be by instalments.

Separate assessment for partners.

3138. (7) The separate assessment of partners is a matter which should undoubtedly have attention. As a matter of administration a computation has first to be made as if there were separate assessments, and then the result is aggregated, leaving that aggregation to be separated again. Even in those days there is supposed to be something private about a man's total income, but the present system gives every partner exact knowledge of the finances of his co-partners, a highly objectionable thing. If it is suggested that the Revenue might make bad debts by having to collect from individuals, this could be covered by an assessment on "A.B. & Co., for account A," "A.B. & Co., for account B."

Income of husband and wife as one income.

3139. (8) Since the incomes of husband and wife essentially form one fund there does not seem to be any unfairness in requiring them to be aggregated for Income Tax purposes, particularly as where the wife has earnings these are treated as a separate income. The system of taking the wife's "unearned" income as being the husband's, is inconsistent, but probably necessary to guard against a division between husband and wife of the unearned income of the husband. Were the two incomes treated as separate for all purposes, the relief afforded would operate mostly to the relief of people of considerable means. The demand would be more appropriately met by an increase in the wife allowance.

"Earned" and "unearned" incomes.

3140. (9) The differentiation between "earned" and "unearned" income appears to me to be sound. It can scarcely be denied that a family with any income which will continue after death is infinitely better off than one with an income which will cease on death—and can consequently afford to bear more tax. It is the sounder as it ceases at £2,500.

I have not formulated any suggestion for alteration of the present scale of tax, but the rise is perhaps too steep in the lower scales of income. The fact that Estate Duty is payable on the death of a person with investment income does not equalize matters. To take one concrete case, contrast an income of £700 earned with one of £600 earned, and £100 from £2,000 investments. At present rates the latter only pays 9d. in the £ on £100 (£3 15s. 0d.) more than the former, whereas his family on his death will be left with £100 per annum—the family of the former being left penniless.

Allowances for wife, children and dependants.

3141. (10) I am in favour of a continuance of the allowances for wife, children and dependants, but surely there should not be any allowance in respect of a child who has an income which is available for his maintenance. The present proposals in some directions for an allowance for education of children seem also unsound—any such allowance would necessarily have to be uniform, and it is difficult to see where it would end.

Exemption and abatement.

3142. (11) I am opposed to the proposals made in some quarters to lower the exemption and abatement limits. Every person should look for some margin of saving, and in the case of small incomes the margin must be very small—and with prices of commodities at their present level this seems a singularly inappropriate time to seek to impose greatly increased Income Tax burdens on them. The proposal for universal allowances irrespective of total income, and a graduated tax (on the principle of the Super-tax), would be simple, but it does not seem equitable that a person with £10,000 per annum should pay the same tax on the first £200 as one with £500 only, though

he is paying a much greater tax (say) on each succeeding £300. The general idea of an increased tax on each succeeding amount appears to me to be eminently sound.

Taking round figures for the purpose of illustration, it would be simple that £100 should pay Nil,

the next £200 should pay 2s. in the £=£50.

" " £200 " " 2s. 6d. " £=

£62 10s. 0d.

and so on (as in Super-tax), so that a scale could readily be drawn of the tax payable on any given income, but that would exempt a millionaire on the first £100, which seems both trivial and inequitable. If, however, abatement is to be allowed in the case of large incomes it should come in that way. It obviously could not equitably come off the total as that might exempt £100 out of the last £10,000—and at a very high rate.

Total income for aggregation purposes.

3143. (12) Great confusion at present exists through the income for aggregation purposes having to be declared in advance where "relief" is claimed off the tax on earned or Schedule A income. It would help towards simplification if the unearned income of the previous year were used as in the case of Super-tax. Provision could be made for adjustment where circumstances change materially—as where income has been aggregated which has ceased (not a mere falling off in dividends).

Profits of speculation.

3144. (13) Theoretically there seems no reason why the profits of speculation should not be definitely charged, though one sees obvious practical difficulties in it. If profits are charged loss must of necessity be allowed, and it is to be feared that losses would be declared and profits concealed.

Life Insurance and financial companies.

3145. (14) As mentioned in my second paragraph, there seems no justification for the anomalous position in which Life Insurance and financial companies are placed, viz.:—that they are taxed on interest (less expenses) or profit whichever is the greater. This presumably arises from the charge in the Acts on "Interest" as such, but this charge should not include interest which forms part of the gross receipts of a trading company.

Taxation at the source.

3146. (15) There is probably little doubt that, so far as the taxpayer is concerned, direct assessment instead of taxation at the source would be both fair and simple. It may be, however, that in spite of the returns which the Authorities have of total income, whether furnished for the purpose of abatement, relief, or Super-tax, the abandonment of the present system would be too expensive to be entertained, and having that difficulty in view I could not urge the abandonment of the present system if the Authorities feel that evasion would make a serious inroad in the yield of the tax. There is also one further difficulty, namely, the tax on the undistributed profits of a company. If the tax were only levied upon the dividends paid, that would give a very considerable and unfair advantage to a limited company as against a private concern. If, on the other hand, the undistributed profits were taxed some difficulty would arise as to how this should be dealt with if ever they came to be distributed in later years.

Other points.

3147. (16) The following are a few other points which call for attention:—

- Sch. A receipts. Tenant should be compelled to produce receipts on claiming from landlord.
- Repairs Sch. A. A more liberal allowance than one-sixth is called for, probably graded by relation to rental.
- Sch. D. & Sch. E. No valid reason seems to exist for Sch. E. All salaries should fall under Sch. D.

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[Continued.]

(d) Deductions. A provision is required for writing off expenses of a semi-capital nature, e.g., expenses of purchase of property, underwriting commission, preliminary expenses, etc., now regarded as capital, and wholly disallowed.

(e) Form of return. Would not a more simple form be suitable? The present form with instructions is too full for a layman, and useless to a professional man.

[This concludes the evidence-in-chief.]

3143. Mr. Kerly: You are a chartered accountant, and you practise in Manchester?—Yes.

3149. You have also been consulted a good deal by other accountants in regard to Income Tax?—That is so.

3150. And you are in the position of an expert on that matter?—Yes.

3151. You have published a substantial work in which you consider some of the questions we have to deal with—"Murray and Carter's Guide to Income Tax Practice"?—Yes.

3152. Was that founded on a previous work of Mr. Murray's?—No, it was always "Murray and Carter."

3153. You are a Commissioner, I think?—No.

3154. Was Mr. Murray a Commissioner?—Yes.

3155. Will you take your evidence and run through the main points of it, emphasising anything you think is important, and then you will be examined in the usual way?—Yes. Taking the first head "free of Income Tax," it seems to me that the Income Tax is a national burden and that everybody should bear his own tax, and know what he bears. Furthermore, all shareholders voting remuneration to directors should know what they are voting. At the present moment they vote a given sum with the Income Tax attached to it, which, of course, would be a varying amount according to the income of the directors; this seems to my mind a most objectionable practice. Furthermore, where you have dividends paid "free of Income Tax" you have no fair comparison of the position between various companies. One company is said to pay 10 per cent, and another 10 per cent; the one is less tax, and the other "free of tax"; consequently, the one is more than one-third greater than the other.

3156. You suggest as an alternative that it should be compulsory to state the full dividend?—That would be helpful from an administrative point of view. So far as an ordinary dividend is concerned I would not press greatly the point of whether it should be free or not, because in any event the balance of the profit does belong to the ordinary shareholders, but the complications at present existing (particularly where there have been interim dividends paid) when one has to establish claims for repayment are almost beyond the comprehension of the expert, let alone that of the ordinary individual.

3157. You do not deal in your paper with the question of what Income Tax should be deducted from the dividend paid in a particular year?—No.

3158. It may have been earned three years earlier?—Such as arrears of preference dividend?

3159. Yes?—No. I think that would depend on the legal question of whether a dividend is accruing if there are no profits.

3160. And that is not all; there are other complications?—Yes.

3161. That is your point on that. Then you deal with the three years' average, or preceding year?—Yes. So far as our profession is concerned, of course, the three years' average does not present any difficulties because we are so used to it, except in respect of the endless claims for adjustment at the end of the year. There seems to my mind no reason for those claims if one is paying upon a three years' average in relation, so that in a series of years you have paid upon the entire profits made. There does not appear to me to be any ground for the concessions that are given where there is a falling off in the profit; all those concessions, of course, are greatly against the Revenue, and have the effect of dropping out a large year, so that it perhaps only comes into average twice,

or possibly only once, and introducing a bad year into the average possibly four times.

3162. Mr. McLintock: Will you make quite clear that that is only a temporary measure?—Yes, but I do not think even that principle makes any difference, and the adjustment when the actual income falls below the average assessed by more than 10 per cent. is a permanent thing.

3163. What I mean is that the revival of the old section 133 (section 43 of the new Act) is not part of the permanent taxation arrangements?—No, that is so.

3164. Mr. Kerly: Then you suggest taking the basis of the previous year?—That seems really to be the only thing to do, because if we take the actual year we must wait till the end of the year before we do anything.

3165. Then there is the tiding over difficulty, passing from one system to another?—That, so far as I can judge, might be met by a similar provision to that which is in operation with respect to a business which has come to an end, namely, a provision perhaps might be made when the change is taking place that if a person had paid more tax in the past three years than he would have paid if he had been assessed on the profit of the previous year he should have an adjustment to meet the difficulty.

3166. Will you just elaborate that a little more, and give me an example?—Supposing you say I am to pay on the profit of last year, I say that it is a hardship to me because it is a high profit, and under other circumstances would have come into average. You might then provide a concession, just at the commencement, that if a person could show that in the last three years by paying on the average he had paid more than he would have paid if he had paid on the profits of the preceding year he might be entitled to repayment of the difference, and then start afresh.

3167. In the case you put it is quite true that for this year, if the last year was a good one, he would pay less on the average than last year, but then the next year, and the year after, he would redress the balance?—Yes, there must be cases of difficulty naturally.

3168. So that if you made an allowance the taxpayer would gain?—He would gain just momentarily.

3169. He would gain more than momentarily, because he would only pay once on last year, which we assume to be a big one, and against that he would have some allowances. On the three years' average he would not pay on the whole of the last year's income this year, but he would the next year and the year afterwards, when it came into the average?—Yes, but if you put the previous year into computation for this year I should pay on that big year in the current year.

3170. Yes, I know; it is only a question of paying a little earlier; it is not a question of paying more?—I think you are bound to have a little difficulty at the start, but unless we can face that we are tied to the average for ever.

3171. The average with a rising tax and rising profits has been all to the benefit of the taxpayer?—Yes.

3172. Then you suggest losses should be carried forward against future profits?—Yes.

3173. That is a new departure altogether?—Well, that, I think, would be necessary, and would only follow the same principle as now operates with respect to depreciation. We must presumably carry forward losses, when we are paying on separate years, except possibly in the case where a man has a private income where he could reclaim at once, and then he would not want to carry forward—as under the old Act of 1890.

3174. Now take your next point, paragraph 6: "One man one charge"?—The present system, in my experience, and particularly with small people, leaves the taxpayer in an absolutely hopeless condition.

3175. Is this to apply to Schedule A?—To every thing—to all the tax that the man is liable for.

3176. How does it apply to Schedule D? Under Schedule D a man is always assessed in one place?—Yes, but possibly he is entitled to reliefs, and Schedule D is discharged as part relief.

3177. Give me an example of that; I do not follow?—A man with a small earned income, and a comparatively large unearned income.

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3178. Derived from property?—Derived either from property or dividends.

3179. On his earned income cannot he always be charged where his business is?—The man I speak of is, in the first instance, charged on his earned income, but that is discharged as part relief. He, perhaps, has property in three or four districts.

3180. That is Schedule A?—Yes.

3181. Yes, I follow that.—Then the balance of his relief is allowed off the various properties in some unknown proportions, and the complication is the greater that in my experience the man does not receive a discharge credit not for the Schedule A. If the Schedule A is wholly discharged as part relief the matter is dropped, and you do not hear about it at all; you have to make inquiries whether that has happened or not, which, of course, is a very outstanding difficulty in repayment claims.

3182. How do you propose to meet it?—By sending a discharge credit note.—“Assessment so much, discharged as part relief.”

3183. So that would act as a credit when he had got to pay elsewhere?—Yes.

3184. Mr. McLintock: It might be all handled through the office of the Surveyor who deals with Schedule D?—If it all came through one office then the man would know at once where he stands.

3185. Mr. Kerly: I understand it is possible, if a man has separate businesses in different places, that he should be assessed under Schedule D in more than one place; at any rate it seems to be possible that even under Schedule D a man could be assessed in two places?—It would seem to me that administratively this information has to be circulated in all the districts where the man is now charged, and so far as I can judge it would be just as simple for the Revenue to make him one debit note at one particular place as to intimate to a particular Surveyor that so much is to be discharged off one property.

3186. In effect you would make up an account for each taxpayer somewhere?—Yes.

3187. That I think is the whole of paragraph 6 unless you have anything to add?—Incidentally there is one point there that I think should have attention; at the present time if the relief to which a person is entitled exceeds the amount which he may have to pay, under Schedule D for instance, no information is given to him that he has a claim for repayment. If I have £20 of tax to pay and I am entitled to £30 by relief I receive an assessment which says: “assessment £20, relief £20,” and there is an end of it—no mention of a balance which you are entitled to repayment of on production of proper vouchers. Many people are so pleased to find that they have nothing to pay that that finishes the matter.

3188. Mr. Bruce: The trouble of applying for repayment is such that many people do not apply?—Well, of course, we do not object to that.

3189. Mr. Kerly: The rule of the common law that a debtor must seek out his creditor does not, apparently, apply to the Crown?—That is so.

3190. Now take paragraph 7: “Separate assessment for partners.” You suggest that there should be a separate assessment of each member of the firm?

—Yes. It seems to me that administratively there would be very little difficulty. Separate returns are made, that is to say the forms are filled up as if for separate assessments with reliefs, and so forth; the calculations are made, and then they are all added together by the Surveyor. They come back to the taxpayer, or his accountant, without any intimation of how they have been got at, and then they have to be sorted out again. We have separate figures first added up by the Surveyor, and then sorted out again by the accountant. That administratively is difficult, and to my mind it is intensely objectionable that every partner should know to within a few pounds what his partner's income is.

3191. Sir W. Travers: Is that the practice now that a partnership is assessed as a whole?—Yes.

3192. I understand the Surveyor of Taxes sends to each partner, or assesses each partner?—No.

3193. He does in some cases; I am speaking from personal experience. I get separately assessed. I am only putting it to you to illustrate the thing, and do as a matter of fact get separately assessed, and

my partners do not know in the slightest degree what my income is—I never saw such an assessment in my experience.

3194. I am only putting to you that it is not only capable of being done, but it is done.

3195. Mr. Kerly: It is your special privilege.

3196. (To Witness): Then you suggest that the income of husband and wife should be still taken together?—Yes.

3197. You say that the wife can be separately assessed; she can be in any event?—Yes.

3198. But she can only pay her own rate apart from the husband where the joint income is less than £200?—And where she has earnings.

3199. Yes, where it is her own earnings?—Yes.

3200. Then with regard to earned and unearned incomes: you have nothing to add about that I think?—No, I think there is nothing to add.

3201. Subject to anything you want to dwell upon, it seems to me your next most important proposition is paragraph 14: “Life Insurance and financial companies.” Stop if you want to dwell on anything else before you get there?—There is the question of income for aggregation purposes, paragraph 12.

3202. What do you want to say about that?—The difficulty of that is that a person is to-day, so to speak, asked to say what his unearned income will be for the current year. In small cases probably it does not vary greatly, but even in the smallest cases with a very heavy tax a few pounds makes a considerable difference, and yet, though he has to estimate what he is going to get, the true basis of taxation, of course, is what he actually does get. The position is particularly acute in the case of a person whose income is largely derived from the profits of a private company, where it may vary by hundreds—£100, £200, £300, or £400—and unless we have an adjustment at the end of every year, which, of course, is a lot of trouble and very trying, the person is apt to make an estimate which will be in his own favour, as big as he can, without bringing himself into another scale. If he does not get so much he does not go to the Surveyor at the end of the year and say that he has had too much relief; but if he gets more, of course, he is very fast to go forward, and say that his total income is only so much, and he wants so much more relief.

3203. This is in connection with claims for relief?—Claims for relief, yes.

3204. You suggest that claims for relief as regards unearned income as well as regards earned income should be on the basis of the previous year's actual receipts?—Yes.

3205. Paragraph 13, “Profits of speculation”—that seems to be plain?—Yes.

3206. What have you got to say about Life Insurance and financial companies?—In taxation upon interest we apparently have no principle whatever. It becomes a mere accident so to speak whether the company pays on anything approaching its profits or not, and surely that cannot be a sound basis. The profits presumably must be less than the interest, otherwise the profit is selected for assessment.

3207. I suppose you would say that where a company is trading in investments to use that expression, the interest should be treated as gross profit?—Yes, and the company if necessary should have repayment if it happens to have suffered too much by deduction.

3208. Then in your paragraph 15 you think taxation at the source is right?—Taxation at the source is subject to the question of what the administration would say. Taxation by direct assessment would be better from the point of view of the taxpayer if it would not involve loss to the Revenue.

3209. Cannot the two things be combined, and have deduction at some standard rate with correction by supplement or rebate from the personal return?—Would you achieve any simplicity by having it at any rate other than the highest rate? If you are going to have a great many people who have got to pay additional tax, and a great many others who have got to receive something back again, there would be more complication than if they were on the present basis.

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[Continued.]

3210. That is what we have got now, treating Income Tax and Super-tax as one?—But on the question of repayment. When you come to Super-tax of course all question of assessment is simple.

3211. All question of assessment will be quite simple when you have got the return from each taxpayer, will it not?—With a deduction at the source at some given rate, at say 5s. 6d. for the sake of argument?

3212. Yes.—I have never seen it worked out in figures, and I cannot think that it would simplify matters in the slightest degree.

3213. Well I will not ask you further about it now. Then your other points are:—"Schedule A receipt. Tenant should be compelled to produce receipt on claiming from landlord." That is the existing law, is it not?—No, he is not compelled to produce it. That case went to the Court of Appeal, and it was held that he need not produce it. How he was to convince the landlord the judges did not say, but it was held that he was not compelled to produce it.

3214. I thought it was an express provision: you say it has been decided the other way?—Yes.

3215. Mr. Bruce: It is most certainly the practice?—Yes, and probably there is not one person in a hundred who would not produce it, but this was the hundredth man, and he said he would not, and they went to the Court of Appeal and the judges said he need not.

3216. Mr. Kerly: I will look at that when I have finished with you. Then what is your suggestion with regard to repairs—that there should be an allowance corresponding to the one-sixth?—Yes, or that the actual expenditure of the year should be allowed; I should think a graduated allowance, corresponding to the one-sixth but graded according to the property.

3217. Graded?—Yes, I mean that one-sixth all round for every class of property is obviously unfair.

3218. Who is to do the graduation?—Well I should think people like a Surveyors' Institute would make suggestions which could be approved by the Board on somewhat the same principle as that on which depreciation is fixed.

3219. Some sort of a scale: property in class A one-sixth, class B a quarter, and that sort of thing?—Yes.

3220. Your last point is "form of return"—unless you want to say anything about deductions?—No, there is nothing very much on that.

3221. How could you get a simpler form giving all the information that is required; if you can do that for us we shall be much obliged to you?—I do not think it ought to be impossible.

3222. How would it be for you to submit a form; will you do that?—Yes.

3223. It would be of real advantage to submit a draft form?—Yes.

3224. You need not write it all out in full; we would put it in as part of your evidence?—My difficulty is rather this: We are familiar with the people who come to accountants. The net result is that the whole of the forms come to us without ever being looked at. The people say: "We do not understand anything about it," and we have a shelf of literature on the desk—just like everybody being supplied with an encyclopædia. The information is not of the slightest use to the man who is employing professional assistance, because it is not wanted.

3225. What about the man who does not employ professional assistance?—I undertake to say that the man who does not employ professional assistance does not understand the form; he has got to read up the Income Tax laws, and if he is a man who has no professional assistance he could not possibly come to a correct conclusion.

3226. Would you give me information then on the form?—You might say he could have a schedule of information if he applied for it. I may be wrong in this. It may be that there are many more people who fill up their own forms than I am aware of.

3227. I think I know a great many who do it, and get some assistance from the forms. If you submit to us a suggested simplified form we shall be much obliged?—I shall be very pleased to try that.

3228. Mr. Bruce: It is the simpler form that interests me much more than anything else in this gentleman's evidence, because it is at present very much like a Chinese puzzle to me.

3229. Sir J. Harwood-Basser: You and I, and another member here, being chartered accountants, sympathize a great deal with what you put before us. The first statement you make is as regards wasting assets. We do not tell us here at all what you suggest is the principle upon which we should deal with wasting assets?—Well, I rather left that because I knew it was being dealt with by another witness; but as a principle surely a person should not have to pay on something which is not income.

3230. That is to say, he should be allowed a charge for decreased value of capital?—Yes.

3231. Owing either to term of life, or any conditions whatever upon which there is a limited interest?—Yes.

3232. You carry that to capital expenditure on mines, such as shafts and roadways, and all the expenditure which is now charged to capital, but on which there is no allowance for wasting asset?—Yes, I should carry it right through.

3233. So that a man would be entitled to say at the end of the period that he had not only paid income, but he was able to return the capital which the investor had put into his concern in the first instance?—Yes.

3234. On what basis would you take that, on an even allowance or on an allowance based upon an average, or upon an actuarial valuation of what a given sum would return with capital at the end of the period?—As a matter of simplicity I should advocate an even sum. You have the even sum in shipping depreciation, and have you anything very much different here?

3235. With this advantage in the even sum, that coming into the funds of the company any interest earned would have to pay Income Tax, of course?—Yes.

3236. Practically, I have no doubt that you and I agree that we want to see wasting assets properly protected?—Yes.

3237. Then as regards the charge of Life Insurance companies, I will not ask you any question about that. I think Mr. Marks is here, and it is better to leave him to deal with that particular subject. I see you have a very strong objection to payments of dividend or remuneration "free of Income Tax"?—Yes.

3238. Is that in the interests of the State, in the interests of the hook-keeper who unkes up the accounts, or in these particular interest is it that you have that objection?—As a matter of certainty rather than anything else.

3239. If the Board of Inland Revenue say no objection to it and can see their way to collect the Income Tax which arises under these conditions what would you say as regards that?—If the Board of Inland Revenue do not see that it is going to create any loss to them, what would you say?—I still think that if a man is having a salary in any capacity he should have a proper salary, not that he should have £500 a year and have his tax paid, but that he should have £500 if necessary and pay his own tax.

3240. Does not that, in these days of high taxation, mean that you must at once put up a very great number of salaries?—Yes.

3241. And when the time comes that salaries come down it will not be a very easy thing to say to a man whose salary you put up from £500 to £1,000 a year because of this taxation. "Now, I am going to reduce your salary." It is a much simpler method for directors and managers to deal with it by saying "We will pay your Income Tax instead of putting up your salary"?—No, I do not agree with you. It is a national burden, and the man ought to know what he is paying. He does not care now what the Income Tax is; it is paid for him. Government money may be wasted as much as anybody likes so far as he is concerned. He gets his £1,000 a year, and if the Income Tax is 15s. in the £ he is still getting his £1,000.

3242. It is not a matter which really affects this question very much, is it?—No.

3243. Because directors or partners in a business can put this straight by putting up salaries; it is really a question of whether in their discretion it is better to put up salaries than pay a man "free of Income Tax"?—Yes.

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[Continued.]

3244. There is no difficulty whatever in connection with the collection of tax?—Of course, there is some difficulty as to what the assessment is to be. What is the assessment upon a man to-day who gets £1,000 "free of tax"? At the present moment the system is to assess him on the £1,000 plus the tax that was borne last year, but that is not the full amount of his remuneration.

3245. The Income Tax people do not seem to think they would have any difficulty in collecting the amount. Then, in paragraph 5, you say the average should be abolished and the ideal scheme would be to assess the actual profits of the year of assessment?—Yes.

3246. Would not that rather impose a heavy burden, that is to say, if a man has three years, two bad and one very good, and then he has a bad year again—if he pays for the year of assessment on the large profits of the year before, he has to pay a high tax when, really, he is not making a large sum of money?

3247. Mr. Kerly: He should have put it aside.

3248. Sir J. Harwood-Benner: In the good year?

3249. Mr. Kerly: Yes.—That, in a sense, is one of the features of the case, that a man who has made a profit should provide the tax out of it and be ready to pay upon it.

3250. Sir J. Harwood-Benner: The system of averages relieves him in that year, but you say the prudent man ought to put it on one side. As a matter of fact, in practical business, especially in a merchant's business, he sometimes gets a seriously bad year, and sometimes even fails and may become bankrupt the next year after a good year, and then he has to pay his Income Tax when he is almost on the margin of bankruptcy?—Yes, but he ought to provide for it in the previous good year.

3251. But a good year is swept away by the bad year, including the provision which Mr. Kerly thinks he ought to make, and yet he has the Income Tax to pay in a bad year in respect of the profits of a good year; all the profits having been swept away by the losses of the bad year?—He is almost in the same position on the average. He may have three good years and then a very bad one, and he is paying on the average figure.

3252. Mr. McLintock: Does not he pay on a three years' average, and if he has paid too much he gets the difference back?—Yes.

3253. Sir J. Harwood-Benner: In paragraph 7 you advocate that partners should be separately assessed?—Yes.

3254. What is your particular ground for that? It would be much simpler for the Income Tax authorities to assess a partnership in one sum and leave the partners to deal with it?—I do not think it can be simpler for them, because they first make a calculation of what each partner would have to pay if he were separately assessed, they then add these amounts together and say the firm has to pay so much.

3255. Your principal difficulty is that it discloses to one partner the profits made by another?—Yes.

3256. But as a matter of fact do partners often object to the fact that their co-partners should know what they are making when they are working together?—It seems to me highly objectionable.

3257. Then in paragraph 13 you deal with profits of speculation. Take, for instance, a cotton broking firm doing a profitable business and paying their Income Tax on the profits of the business; one of the partners goes in for private speculation in cotton; that does not come into the profits of the firm and he pays no Income Tax on it?—No.

3258. It is not only cotton but sugar also, and it has been particularly rampant during this war. Can you give us any suggestion whereby we could bring in the profits of these speculations so that they should pay Income Tax on the profits. In many cases a shipowner buys a ship and then sells it and makes big profits. It is no part of his business as a shipowner and he comes out free of Income Tax. Another man speculates in sugar and makes a big profit. How can you get at him in order to make him pay Income Tax on that?—The difficulties are probably very great, but would it not be partially met by a direct provision that the speculations of the

man who was carrying them on in the way of his own trade should be chargeable?

3259. "In the way of his own trade"—that would be a suggestion; but there are a good many men that one knows, occupying very small offices, who do a great deal in this way and never pay Income Tax on it. Can you make any suggestion by which we could bring those people in for payment of Income Tax?—No, I cannot see how you can bring those people in, but you would rope in a good many by a provision that profits in the nature of a man's trade should be brought into computation. That would prevent people who were in the sugar trade from having a venture in sugar on their own as a speculation apart from the business.

3260. It would not prevent a cotton broker who went in for sugar?—No, I do not think that you can charge such a thing as that.

3261. That it would be wise for a man always to speculate in an article in which he did not normally deal?—Probably the Revenue would not want to collect tax on such a thing as that. Probably there would not be any tax for the Revenue to collect on the profits of a business that a man knew nothing about.

3262. I do not know. Latterly I should say from experience that a good deal of money has been made in that way?—I take it that if you are charging the profits you must allow the losses, and I should say that the losses made in a business that a man knows nothing about exceed the profits.

3263. That is prior to the war and the war profiteering. You say here: "No valid reason seems to exist for Schedule E. All salaries should fall under Schedule D."—Yes.

3264. What is your reason for that?—At present we have the extreme anomaly that if you have two business houses each with a cashier, drawing the same salary, one a limited company and the other a partnership, one cashier is assessed on the average and the other on the actual income of the year of assessment. It becomes a mere accident what the man's assessment is, and it seems to my mind there should be no difference between the two. They ought either to be both averaged or both assessed on the year—or the previous year if we take the previous year.

3265. I was rather speaking from experience. Is it not the fact that by treating them separately a great number of charges which should come upon businesses are omitted; that is to say, in our own profession of chartered accountants we are assessed under Schedule E on the full amount of directors' fees and trustees' fees, from which we get no deduction whatever?—I have not experienced any trouble of that description.

3266. You have not experienced any trouble from people who have not been able to obtain deductions for expenses in connection with Schedule E?—No; so far as I know it is not the practice to assess an auditor on his fees under Schedule E.

3267. Trustees' fees and directors' fees come under Schedule E?—Yes, the director's fee, of course, is personal. He loses his travelling expenses; that is all.

3268. They do not always allow those?—No; I say he loses them.

3269. Whereas if everything was brought under Schedule D he would bring them into his general receipts and his expenses would go against them?—I am thinking of ordinary salaries rather than of directors' salaries.

3270. Then as regards repairs under Schedule A; a great number of repairs vary as to whether it is cottage property or farm property, and so on?—Yes.

3271. And where you allow a sixth, in many cases the repairs are very much less?—Sometimes, yes.

3272. Would that be met in any way except by allowing a proper agreed statement of the actual expenditure incurred to be met by an average allowance?—It might be met by an option to deduct the actual cost of repairs. It might be made a fourth or an option, but of course if there is an option it must not be constantly changed. The man must give notice

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that he is going to act on the actual repairs for all time.

3273. Either on average or on an absolute statement of the expenditure?—Yes, starting with a standard. Take a fourth, for the sake of argument, if he agrees to adopt that.

3274. As regards deductions made for charges of a capital nature arising on a question of purchase, and preliminary expenses, which are now regarded as capital, you think those should be allowed to be written off over a number of years?—Yes.

3275. Mr. McIntock: On the "free of tax" question there is one point you did not mention. Take two officials of a company each getting £500 a year and having the tax paid for them; one man has a wife with a substantial income. That makes it even more unfair. I mean the company have to pay a higher rate of tax for A, because his wife has an income, as compared with B, whose wife has none, and the company pay them both the same salary?—Yes.

3276. You might explain with regard to directors' fees. The practice now is to add on the tax to the actual fees paid to arrive at the total fee?—The actual tax paid last year.

3277. That is to say, suppose a fee is £600 a year and the tax is 5s., it becomes £600. The tax that has to be paid is not the tax on £600, but the tax on £600?—The fee is not taken in that way, in my experience. The fee is taken at the £600 which he is going to have this year, and to that is added the tax which was paid on that fee last year.

3278. We will say that is 5s. in the £. What do they tax on? What is the total sum on which tax is charged?—£600 and a fourth, that is £750.

3279. Then when a fee is declared of so much "free of tax" it is not that fee on which tax is paid, but a higher sum?—Yes.

3280. I do not know what your view is of that aspect of it. The shareholders pass a resolution with their eyes open, a fee of so much "free of tax," and it is a different fee on which the tax is paid—a higher fee. Is not that so?—Yes.

3281. The tax is paid on £750, whereas the shareholders have only voted £600 "free of tax"?—Yes, that is so.

3282. You are aware that at present there are various bases for arriving at the assessment for the year. Have you anything to say as to why there should be a continuance of the present system of the three years' average for one business, and five years' for another, the preceding year for another, and the actual year for another? Do you see any advantage?—Nothing whatever to support it that I can see, except the difficulty of getting into another line.

3283. Mr. Kerly: Mr. McIntock, just for my information: I am not familiar with any case of five years' average.

3284. Mr. McIntock: Collieries are all on the five years' average.

3285. Mr. Kerly: Thank you.—There does not seem to have been any reason why it should have been so in its initiation; that is the way to put it.

3286. Mr. McIntock: There is no reason for continuing it?—No, except the difficulty that arises of getting everybody fair on the opening of a new system.

3287. For example, collieries are taken on the profits of the preceding five years?—Yes.

3288. With the ordinary business it is the average profits of the three preceding years?—Yes.

3289. Then iron works, gas works, and so on, are taken on the profit of the preceding year?—Yes.

3290. Then the individual who is drawing a salary can be assessed on his actual income in the year?—Yes, under Schedule E.

3291. Although some are assessed under Schedule E on a three years' average?—Yes.

3292. And either they or the Revenue can come along and substitute the actual income of the year?—Yes, the actual income of the year is no doubt the legal basis for Schedule E, but it is not the practice of the Revenue to disturb an established rule.

3293. In any event you see no justification for continuing the present system of assessing trading concerns on three different bases?—None whatever.

3294. You made a suggestion—I do not know whether the Chairman and you were not a little at cross purposes—that if the basis is now changed, either to the income of the year for every trading concern, or to the income of the preceding year as for Super-tax at present, there will have to be some equitable adjustment between the taxpayer and the Revenue when the change takes place?—Yes.

3295. And it is only at that point that you suggest adjustment?—Yes, only that.

3296. You were not suggesting adjustments after the change takes place?—No, not once you get going.

3297. Then you go straight on with the income either of the preceding year or of the year itself?—Yes.

3298. On this question of having big profits one year and smaller profits or none at all the next year, is it not the practice to-day, in your experience, that with a higher rate of tax and the application of the average, most firms actually make provision for the tax at the current rate on the profits of the year, against which they charge the assessment based on the three years' average?—No, that is not my experience. My experience is, to provide for the actual tax assessed.

3299. Do you not think that is rather risky in these days?—Well, possibly. The legal liability is provided for.

3300. But I am asking you if it is not within your knowledge that the practice to-day of trading concerns is to provide for the tax for the ensuing year in that way?—No, not in my experience.

3301. You think it is quite a proper thing to do?—Yes.

3302. And you see no difficulty in such a provision being made from year to year?—No, not in the least.

3303. So there is no hardship on the taxpayer by asking him to pay on the profits of the preceding year?—No.

3304. He can always protect himself by making provision?—Yes.

3305. On the question of "one man one charge," my experience is the same as your own. The firm is the unit for assessment to-day?—Yes.

3306. Surveyors will not assess individual partners even if you ask them to?—I do not think I have ever asked them, because the Act specifically states that they shall be assessed as one.

3307. They properly refuse to assess separately?—Yes.

3308. And it is nothing unusual to get an assessment notice for four partners with four different rates of tax in the column and four different amounts?—That is so.

3309. And, as each partner is entitled to see the notice, he at once knows what his other partners' total income is, within certain limits, if the tax is less than 6s.?—Yes. It has to be so, because he says: "how much of this is mine?"

3310. Your view is that there is no difficulty, except a little clerical work, in issuing a separate notice?—No, there would not be even that difficulty.

3311. With all the computations that have to be made?—They have made the computations. They would save all this trouble by issuing separate notices.

3312. You have already mentioned about Schedule D in regard to salaries?—Yes.

3313. Is it your view that Schedule E might safely be abolished now? It is a relic of 1862, is it not?—Yes.

3314. Mr. Kerly: I think we have that from the Revenue.

3315. Mr. McIntock: There frequently arises this point: two employees of the same status, in a private firm and a limited company respectively, are assessed on different bases.

3316. Mr. Kerly: All I meant was that it does not seem necessary to labour it, as we have the fact from the Revenue themselves. The Act is quite clear about firms; the assessment must be made upon the firm?—Yes.

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3317. Mr. McLintock: You have not dealt in your proof with the question of Super-tax particularly?—No.

3318. What have you to say to the position with regard to Super-tax when the income entirely ceases and the individual has to pay the following year. He has meanwhile paid for the full number of years that Super-tax has been law. He has paid each year?—Yes, but he misses the first year perhaps.

3319. Not necessarily. I am taking a case where he was liable from the beginning?—But then his liability may be entirely different. A man might have had £1,000 in the year before the Super-tax started and £5,000 the first year of the Super-tax; he paid nothing for that first year.

3320. I am assuming a case where a man has been liable for Super-tax right along, from the date it became law, he has paid for ten years, we will say; in any case his income entirely ceases, say, on the 31st day of March, 1919. You are aware that he has to pay Super-tax for 1919–20, though his income has ceased?—Yes.

3321. Have you anything to say on that point?—You never get right because you are not right the first year. Your man may have paid, but did he pay what would have been due to pay in every year?

3322. I do not think that is a point at issue?—I think so.

3323. Mr. Kerly: That is a matter of accident?—Yes.

3324. Mr. McLintock: You do not think it is any hardship, or that the law ought to be altered in that respect?—It would be concession and a graceful one, but I do not think that it is absolutely necessary.

3325. Then there is the other question with regard to undistributed profits in a limited company, which escape Super-tax at present?—Yes.

3326. Two men, we will say, are shareholders in a limited company, and they either take no dividend at all or a very small one. Do you suggest that should be allowed to continue?—You might meet it by a direct assessment upon bonus shares or such things, or a provision that bonus shares should be liable.

3327. Leave bonus shares out altogether. Assume simply the profits are going on accumulating, and if the shareholders want any money from the company they take part on loan. Have you any opinion to express on that?—You are in considerable difficulty because if the profits are at some later time distributed they would come in for Super-tax, and consequently what are you going to do if you have already assessed them for Super-tax in the year in which they are made?

3328. Suppose they wind up the company; liquidate it?—Then they would escape.

3329. Have you anything to say on the subject; do you think it is right that they should escape?—I think they are almost bound to escape.

3330. That is not the point. Do you think it is right they should escape?—No, probably not right. If a means can be devised of getting over it I am with you.

3331. With regard to the question of Schedule A there are some items of expenditure, other than repairs, for which no allowance is given, such as payments to the agent employed to look after the property and collect the rents, and the insurance of the property; an owner occupier of his own building gets a deduction for insurance?—Yes.

3332. Is there any reason why the individual property owner should not have any allowance?—Does he not theoretically get it in the one-sixth?

3333. No, the one-sixth is a statutory allowance for repairs?—Was it supposed to be wholly for repairs?

3334. I think so. In any case a man who owns and occupies his own business property gets both?—Yes, he now gets, of course, one-sixth as depreciation.

3335. He has always got the one-sixth?—He now gets one-sixth more than he used to because he pays on five-sixths, and deducts six-sixths from profits.

3336. I am not referring to the depreciation question; I am referring to what you stated, that an owner who occupies his own property for the purpose of his business pays his Schedule A tax on the rental less one-sixth?—Yes.

3337. And he charges repairs in his accounts?—Yes, but only this year.

3338. I am not dealing with the depreciation question at all; it is the question of the allowance for a charge like fire insurance, which is very considerable to-day with enhanced values?—If it is understood that the one-sixth is for repairs only, and is not to include the other things, I am entirely with you. I always regarded the one-sixth as theoretically intended to cover all expenses.

3339. It does not do so?—No.

3340. It is a provision for repairs?—Yes.

3341. Then on the question of the tenant being compelled to produce the Schedule A receipt to the landlord; are you aware that the Inhabited House Duty is shown at the foot of the receipt?—It is frequently on a separate receipt.

3342. It is very often on the same one?—Very often, yes.

3343. That is one reason why the tenant will not part with the document. It is his receipt for another sum of money?—Yes.

3344. Do you suggest that there should be a separate receipt for Inhabited House Duty?—They so frequently issue separate receipts that I am not quite sure what is the usual practice.

3345. On the question of the depreciation, do you see any reason why the principle of giving 80 per cent. on ships should not be applied to other assets?—No reason whatever.

3346. On the question of the form; I suppose you agree that accountants generally do a great deal of the donkey work to-day for the Inland Revenue?—Yes.

3347. A very large portion of it. In limited companies particularly the Revenue officials get practically all the figures sent in to them complete, and they have only to check them?—Yes.

3348. That is a great advantage to the Revenue?—Yes.

3349. Which the taxpayer pays for out of his own income?—Yes.

3350. I agree with your observations regarding instructions on the form. They are little more than waste paper?—Yes.

3351. Mr. Kerly: You might like before you leave the witness, Mr. McLintock, to deal with one objection that is suggested to taking last year's actual receipts instead of the average. That is, that if you did that in a business with very varying profits it might occasionally push the payer into a higher region for Super-tax. That is the difficulty, is it not?

3352. Mr. McLintock: The same difficulty as the Chairman has put arises at present in Super-tax?—Yes; still it comes back next year.

3353. Mr. Kerly: No, not necessarily. Take the case of a man who makes £30,000 in one year and never makes more than £10,000 in any other year of his business career. The highest he can get to, on the average, is two years at £10,000 and one year at £30,000, making £50,000 divided by three, that makes £17,000. He can never get, on the average, above the £17,000 Super-tax, but if you tax him on £30,000 he is put in a different region?—He has made the £30,000; if he is taxed on it for one year there is no injustice.

3354. But for Super-tax it would take him up to a higher rate?—Yes, but if he has made £30,000 in one year, what injustice is there in making him pay Super-tax on that basis?

3355. You appreciate that it would make a difference to him?—Yes.

3356. But you say you see no objection?—That is so.

3357. Mr. McLintock: There is one point more I would like to put, which is this. How would you propose to deal with a business with varying results, a profit one year and a loss the next. The profit comes in one year and a tax is paid on that, and the next year there is a loss?—Carry it forward as depreciation is carried forward.

3358. With repayments of the tax paid?—That in a sense is a detail, is it not? One may hope that the tax will not jump about in the future as it has done in the past, so that the differences perhaps will not be very great.

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3352. In the event of a loss in the case of Super-tax do you suggest that the proper repayment be given?—Yes.

3353. *Mr. Birley:* I want to ask your opinion on one question in connection with Super-tax. Section 6 of the Income Tax Act, 1918, reads: "In the case of the death of an individual liable to Super-tax during any year for which Super-tax is charged, a part only of the year's Super-tax shall be payable, proportionate to the part of the year which has elapsed before the date of the death." Does not that mean that very considerable sums of income escape Super-tax, or a very large amount of Super-tax?—No, I do not think so.

3361. The man makes his Super-tax return, say, for the year ending 5th April, 1919; he sends it in during this year?—Excuse me; it will be 1920, if he sends it in this year, will it not?

3362. If he makes it up for the statutory year to the 5th April, it includes some earnings, I know, for 1919, and some for 1918?—He makes it on the statutory income of 1919, for the purpose of Super-tax, 1920.

3363. Yes.—And then he dies?

3364. Supposing he dies to-day?—Supposing he dies on the 5th July.

3365. His estate will pay very little Super-tax for that income?—Yes.

3366. Surely it means that a great deal of actual income escapes Super-tax. Say he dies on the 5th April, then a whole year's actual income escapes Super-tax altogether?—Yes, but that is the same point, really, that we have had before. The first year he probably missed a year or he paid when he was not due to pay.

3367. By assessment, yes, but not by actual income, surely?—As a certain stage he paid for a given year.

3368. But not on income that he had not had?—No.

3369. On income that he had had?—Yes.

3370. He paid on that income, and he went on paying year after year, deferring a year?—Yes.

3371. If he dies, say, on the 5th April, a year's income escapes Super-tax altogether?—No, I do not think so. That particular year, certainly, but it is quite likely that in the first year he paid.

3372. I mean the income received in one particular year escapes any taxation for Super-tax?—Yes.

3373. The Revenue would lose a considerable amount?—Not of necessity. You must go back to the beginning.

3374. When you have gone back to the beginning, surely the man paid on actual income?—No. If you take the first year the Super-tax was in force, my income may have been £1,000, and it was perhaps £20,000 the year before, and in that first year I paid on £20,000.

3375. You received that £20,000?—Yes.

3376. So that you only paid on actual income?—But I have paid as many years as I was liable for Super-tax.

3377. You have never paid on any income that you have not received?—No. Excuse me; I almost have, in one sense, because I have paid in the first year when that year itself was not liable. I have certainly had it; you are right in that.

3378. I put it to you that some substantial amounts of actual income escape Super-tax altogether?—No; I cannot admit that as a proposition.

3379. I will put it to you in this way: not on Super-tax, but on the three years' average?—The last year drops out.

3380. Is there not a considerable loss to the Revenue in that way?—I scarcely think so, because I should say that the successful businesses which cease are very few. If you have a successful business, you do not shut up your shop on the 5th April and throw the business away.

3381. But in the case of death?—In the case of death, it goes on to somebody else, who pays on it.

3382. But does not a good deal get returned? Does not the estate receive money actually back?—No, not if the business continues successful.

3383. I put it to you, as regards Super-tax, that income actually escapes a year, or part of a year, by

that?—No, I cannot admit that just as it stands, you or may.

3384. *Mr. Marks:* I see you have taken some interest in taxation of Life Assurance and financial companies?—Yes.

3385. What do you include in "financial companies"?—banks and discount brokers, and that sort of thing?—Yes, I should include them all.

3386. You know, do you not, that bill brokers, for instance, are allowed to reclaim from the Revenue the amount of the tax deducted at the source, if that exceeds their profits?—Of bill brokers I have not had any experience.

3387. You will take it from me that that is so?—Yes.

3388. So far as banks are concerned, until the special circumstances of the war arose their profit always exceeded their interest, and therefore they were taxed upon their profits?—Yes.

3389. Do you remember that a special provision was made for banks, that is to say, that when they began to invest largely in War Loan, in regard to the interest on that War Loan, if it brought their interest, taxed at the source, above their banking profit, they were enabled also to get a return of tax?—Yes.

3390. Do you consider that that would be a satisfactory way of dealing with Life Assurance offices, which also invest very largely in War Loan?—It would be an accident whether it would be fair or not.

3391. On the whole, you would prefer that the whole basis were altered from one of interest to profits?—Yes.

3392. With the idea that that would bring them more into line with the ordinary principles of taxation applying to commercial companies?—Yes.

3393. Have you ever considered at all the question of the mutual Life Offices?—It is particularly the mutual Life Offices which are affected, is it not?

3394. Not necessarily so, I think, they are supposed not to make profits, under the decision in the New York case?—Yes.

3395. Are you the auditor of any Life Assurance company?—No.

3396. You have only taken an interest in this as an accountant and a member of the public?—I advise at least one Life Assurance company.

3397. I take it from your evidence-in-chief that you are familiar with section 23 of the Act of 1890?—Yes.

3398. I notice you refer to it once or twice?—Yes.

3399. Which is reproduced more or less in the 1918 Act, section 34, I think?—Yes; that is repayment on the ground of loss and the aggregate income in the year.

3400. Do you agree that if the accounts of a Life Assurance company were made up, as it says here "by reference to the loss and to the aggregate amount of his income for that year estimated according to this Act"—if the accounts of the Life Assurance company were made up on that basis, that is to say, to show their profit excluding their taxed interest at the source, do you agree that if they could get it through the Special Commissioners or the General Commissioners, that that would remedy the injustice which the Life Assurance offices allege?—Yes. They cannot get it at present.

3401. *Mr. Kerly:* What is the section?

3402. *Mr. Marks:* It is section 34 of the Income Tax Act of 1918, and Rule 15, to which I am now referring, Cases I. and II. of Schedule D.

3403. (To *W. Lucas*) Do you agree with what seems to me a reasonable inference to draw from the insertion of Rule 15 (2) in the Schedule?—I have not the Act in front of me.

3404. I will read it: "In ascertaining whether an assurance company has sustained a loss in respect of its life assurance business for the purpose of setting off such loss against the profits of any other business carried on by the company, or for the purpose of obtaining an adjustment of its liability by reference to the loss and to the aggregate amount of its income under the provisions contained in this Act, any income of the company derived from the investments of its life assurance fund shall be treated as part of the profits of the company acquired in that business." I was going to ask you whether it is a reasonable

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inference to draw from the insertion of that section in Rule 15, that the Inland Revenue had an uneasy conscience in regard to this section 23 of the Act of 1890 if it were applied to Life Assurance; that is to say, that it was rather feared that if the application of that legislation to Life Assurance offices were not prevented, it would be found that the Life Assurance offices would get a return in respect of overtaxed interest—I take it the difficulty was, if anything, to get over the decision in the Exploration case. The Exploration case held that taxed interest must be brought in to show whether you had made a loss.

3406. My point is this. Having regard to that, and having regard to the attitude of the Inland Revenue towards banks and towards discount brokers, do you agree with me that Life Assurance offices have been the subject of rather hard treatment which, where it was found to be hard in other cases has been remitted, and in their case has not?—That is absolutely my point.

3406. Have you had occasion to consider a suggestion which has been made in connection with the taxation of Life Offices, namely, that they should be subject to a differential rate, a lower rate, than the flat rate?—No; I have not heard of that.

3407. Then you have no opinion on that?—No.

3408. Mr. Walker Clark: Your first statement was that Income Tax was a national burden, and that everyone should share the burden and know the burden?—Yes.

3409. As a matter of fact, everyone does not share the burden now. Do you mean that there should be no exemption limit, and everybody should be taxed?—No; when I say everyone, I was referring only to those who had to pay tax.

3410. The statement was limited?—Yes.

3411. You have dealt with wasting assets. Do you limit your remarks there to mines and nitrate companies, and things of that sort? Would you include shop fixtures and shop fronts?—Yes, everything which is expended for the purpose of getting profit and is going to have no residual value.

3412. You would include shop fixtures and shop fronts?—Yes.

3413. You would include them as wasting assets?—Yes.

3414. With regard to repairs, you have mentioned the one-sixth allowance for repairs?—Yes.

3415. Would you restrict that allowance to the landlord's repairs solely? In many cases the tenants have repairing leases?—It has nothing to do with the tenant's income.

3416. Yes; it reduces it very considerably?—But if he has a repairing lease, he is presumably paying a rent less than he would have paid if he had not a repairing lease. He knows his obligation; he pays so much for the benefit of living in a house. It has nothing to do with income.

3417. But the landlord is still enabled to charge one-sixth?—Yes.

3418. There may be no repairs by the landlord, because the tenant must meet them, but the landlord gets the benefit of the one-sixth?—In these cases the landlord is assessed at more than the rent.

3419. But not by the one-sixth?—Not perhaps as much as he ought to be.

3420. How would you get at the accurate figure for the landlord?

3421. Mr. Kerly: Mr. Walker Clark, are you not mistaken in suggesting that the landlord gets his one-sixth off if the premises are let on a repairing lease?

3422. Mr. Walker Clark: I did not say that.

3423. Mr. Kerly: I beg your pardon; then I misunderstood you.

3424. Mr. Walker Clark: There is something added to the landlord's assessment, but it is not the full amount equal to one-sixth. I am speaking of our own district. It is a sum which occasionally comes before the Commissioners, and I have never known a full one-sixth added to the rent. It is usually 10 per cent.—It seems obvious that if he has nothing to bear at all out of his income he should not have any allowance; he should have the whole of it added.

3425. The point I am making is this. There is an allowance, in fact, in the one-sixth which includes insurance charges, which is shown by the fact that the

one-sixth is not added to the landlord's rent in such cases?—I have always had the impression that the one-sixth was meant to cover everything.

3426. Then you agree with my point, that the one-sixth does include insurance?—I think it must have been meant to.

3427. Among the deductions which are not at present allowed, there is the case of renewal of leases?—Yes.

3428. Do you think that is equitable?—No; the cost should be allowed, unless it is allowed by way of deduction from Schedule D assessment, as it is in some cases.

3429. I am speaking now of a tenant's cost of renewal of a lease—the legal charges for renewal of the lease, which may be £10 or £50. They are not allowed as a charge?—No; they would fall in with my general suggestion as an allowance for those things which are described as capital.

3430. At present that is not a legal deduction?—No.

3431. You think it is unjust?—Yes.

3432. You suggest that profits on speculation might be taxed?—Yes.

3433. How would you ascertain the charges for administration in such cases? For instance, there was a good deal of speculation yesterday. Would you charge the cost of the drug which you used to get there?—As I suggest, I see great difficulties in charging speculation. Only if a scheme could be devised I see no reason why it should not be charged.

3434. But you have no scheme?—No, except what I suggested about charging a man on the profits of speculation in his own line of business.

3435. Then as to husband and wife, you see no reason for disturbing the present arrangement?—No.

3436. Whether the wife contributes to the income or not?—No. It seems to me that it is essentially a joint income, and the tax presumably is laid on the capacity to bear. The incomes of the husband and wife are joint in the sense in which no other two incomes are.

3437. Take the case of three partners, where one partner is a married man, the second is his wife, and the third is a single man, and they share in the profits. The wife is working as a partner, absolutely independent of the other two. Should an allowance be made for her earning capacity, which increases expenses at home, because she is withdrawn from the home and has to pay for work which she would otherwise do?—Those, of course, are very exceptional cases, are they not?

3438. Excuse me; they are by no means exceptional in the district from which I come. They are common.—Where the woman is working with her husband?

3439. Yes.—Some relief might be given.

3440. You say "might." I notice you are rather fond of that word "might" in your evidence. You say "may be doubtful" and "except perhaps"—I do not like to be too dictatorial.

3441. Would you not say "ought"?—You have, of course, the provision that the wife must earn separately in a separate business from her husband.

3442. But I am speaking of where they are actually partners in the same business. Take the case of my wife and myself and you, in partnership, each of us absolutely independent of the other; she managing, say, a millinery business, I managing a butchery business, and you managing a grocery business. Ought she not to be able to charge some portion of her domestic expenses?—Or regard her earnings as a separate income.

3443. You want them treated as one?—Yes.

3444. Should there not be some allowance made for the work that is done?—I have not considered cases such as that, because I should have thought that they were so exceedingly exceptional. A case where a woman is working with her husband as a partner, must, I think, be exceptional.

3445. Mr. Kerly: If you have not considered it, we will not trouble you further about it, I think.

3446. Mr. Walker Clark: Then as to partnership. There is only one point in reference to partnership:

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separate assessment for partners. In the case of a separate assessment, you would suggest an absolutely separate assessment, with all the due allowances to each partner, based on the total income of the partner?—Yes.

3447. You would not suggest that there are any common benefits from the partnership?—No.

3448. Mr. Warren Fisher: In the case of a Life Assurance company which is taxed not on profits, but on interest, do they get allowance for management expenses?—Yes.

3449. Then would you regard the remaining interest as a profit to somebody—as a thing that is properly taxable?—No; because the claims might exceed the interest. A company may have paid tax on a million of interest, and its claims might be £1,500,000.

3450. They might be?—I am only speaking in figures. It pays tax on a given amount; it pays tax upon its interest; then it has its claims to pay. It may be a mere accident whether the interest exceeds the profits or not.

3451. From its invested funds, unless it is heading rapidly towards bankruptcy, surely there is a large amount of interest which it receives yearly, and after the management expenses have been allowed, that interest, do you suggest, should not be taxed?—Yes, because it is a provision for the continuing liability of the company.

3452. But that interest will go to somebody eventually?—It will go to the policyholders.

3453. But would you limit the assessment of that company to the profits of the company itself, and have no regard to the rights of the policyholders to the interest from the invested funds? Why should all that escape tax?—That is another taxable item, if it is to be taxed, is it not? The company, gas company, either makes a profit or it does not. Why should it be an accident how much tax they pay?

3454. It is taxed gas interest?—Yes.

3455. I am suggesting to you that it is profit at some stage or other to somebody. If that view is right, should it not be taxed? I will pass from that point. In regard to wasting assets, take the case of a leasehold. I suppose when a man purchases a leasehold, he realizes that he is purchasing an asset the income of which is taxable?—Yes.

3456. Does he take into account that fact, do you think, in the sum that he pays down?—In principle, I should say no.

3457. Though he knows that the income is going to be subject to tax?—He is practically forced into a position of perhaps taking the premises into which he is leased.

3458. Circumstances may force him?—Yes.

3459. As his interest wanes, somebody else's interest waxes. Is not that so?—Yes.

3460. Would you suggest that if the leaseholder gets some relief, the reversioner should be taxed?—That would be fair, yes.

3461. You think that is fair in principle?—Of course the reversioner obviously is taxed on the interest on the increased value, but not on the capital.

3462. But if you are giving an allowance to the leaseholder, you would not think it unfair—if that were admitted in principle—to say that the increasing interest of the reversioner should also receive attention from the tax-collector?—I am not sure whether that is not covered by the tax upon his increased value, if he is now getting £500 a year and he gets £1,000 a year at the expiration of the lease.

3463. That is a future benefit?—Yes, but I mean to say the benefit of taxing on the £1,000 for another succeeding period almost pays the tax on his increased value, does it not?

3464. I do not know; I am not so sure. Then as regards that simple question of Super-tax that Mr. McLinck was interested in: supposing a man has had Super-taxed income for five years, is it not the case that he pays on the years from 2 to 6?—Yes.

3465. He pays as many years as he has had a Super-taxed income?—Yes.

3466. But he does not pay for more?—No.

3467. Sir W. Frouser: I would like to put a question on the separate assessment of partners. If the firm is assessed at the highest rate, say, 6s. now, and the

partners submit to pay at that rate, then there is no disclosure?—No.

3468. The junior partner who wants not to disclose it, can get back his amount: I think you may take it from me that that is so?—Yes, but that would be very complicated.

3469. Still, it can be done?—Yes.

3470. Now if you take your proposal, I take it that you would insist that the senior partner should make the return for all?—Yes.

3471. It would be necessary to provide that the senior partner should be responsible for the return?—Only so far as the profits of the business itself are concerned.

3472. And he would also be responsible for the shares into which it was divided?—Yes.

3473. And it would also be necessary, according to your scheme, to provide that the firm should be responsible in case of default of any one of the partners?—I suggest that that might be provided if the Revenue are so very much afraid of making a bad debt.

3474. It almost follows that it must be so, I think. You would see no injustice in that?—I see no injustice in that.

3475. Sir E. Nott-Bower: There is only one point that I wanted to refer to, and that is to my mind the rather startling proposition that the interest received by a Life Assurance company should be exempt from assessment; that the liability of the Life Assurance company should be limited to tax on its profits. That would involve an enormous sacrifice of revenue which I think is legitimate revenue. Mr. Warren Fisher has asked a question on the point already. This is a very big matter. I do not know whether it is necessary to pursue it now; because I think I am correct in believing that the Life Assurance offices are going into this question themselves.

3476. Mr. Kerly: Yes.

3477. Sir E. Nott-Bower: That being so, I think I might postpone any further question. Mr. Warren Fisher has already sounded one note as to there being difficulties.

3478. Mr. Kerly: May I put it before you, Sir Edmund, that the point on the other side, as I understand it, is that an assurance society, especially a mutual assurance society, is really acting as the investor, the agent, for the policyholders. Mr. Schofield, if you remember, when we had here, discussed the matter, and the complaint that he made was not that the assurance office is taxed on its interest, but that as many of the persons interested pay at a lower rate, they are, through it, taxed at too high a rate on the interest. But that we shall no doubt discuss with other witnesses; I do not know whether I have put the point sufficiently.

3479. Sir E. Nott-Bower: Yes, that is quite right.

3480. Mr. Kerly: You say that the tax is exceedingly complicated?—Yes.

3481. It must necessarily be complicated where it tries to do justice, with a great many different interests?—Yes.

3482. Do you think that a real public advantage would be gained if, in every popular centre, there were set up an official office to which people could go and get advice and instruction about making up their returns and claiming their rebates and allowances?—Would that differ from the present arrangements?

3483. At present a man can go to the Surveyor, and if the Surveyor is amiable, and is not too busy, he will get a good deal of assistance?—Yes.

3484. It is not the Surveyor's duty to give the public assistance at present, so I understand it. I just want your view whether, if there were something like the personal application in the Probate Department, that would not go far to meet some of the difficulties that the public feel about the tax?—I have thought it was not the Surveyor's duty to give those explanations, and, as far as I know, they are given in every Surveyor's office and with the most extreme courtesy. It is a matter of time rather than anything else. If you are going to draw all the inquirers from the various districts, and have another office, you would want a tremendously increased staff. Would you not?

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3485. You think there would be practical difficulties, and it would cause a large increase in the cost of administration?—I do not see that anything would be gained over the present system, where the taxpayer is entitled to go to the Surveyor's office, and where he is received and told what he ought to do.

3486. *Mr. Walker Clark:* Would there not be another point, too, that the whole of the inquiries would come at one time of the year?

3487. *Mr. Kerly:* That might be so.

3488. *(To Witness.)* You suggest with regard to repairs, that the taxpayer should have the option of paying on actual repairs, instead of getting a flat rate allowance?—Yes.

3489. Do you know that there are something like 12 million properties assessed. Your proposal would involve an enormous increase in the cost of administration, would it not?—Yes, perhaps. Administratively it might be difficult, I agree.

3490. And there would be this further difficulty, would there not: that instead of paying on his rent at the conclusion of the year, the owner, would want to wait until he had had his repair bill passed, so

that he could make the proper deduction?—Yes; it would be very difficult, I grant, consequently the grading of properties and fixing amounts would probably be much better.

3491. I have not forgotten your suggestion about grading properties. There is always a classification of properties for rating purposes under the Metropolitan Valuation Act, I understand?—I do not know that.

3492. It would be something similar to that?—I take it so.

3493. You made a point, I think, that the Surveyor of Taxes does not inform you if you are entitled to an allowance which exceeds his demand?—Yes.

3494. Do you not know Form No. 64-S? Are you not familiar with this form which is provided in order that the Surveyor may intimate that there is a credit due to the taxpayer?—In all my experience, I never saw that form.

3495. Then what you suggest is that that existing form should be made more use of?—Yes.

3496. We are much obliged to you; your evidence has been of great value.

Dr. MARION PHILLIPS, on behalf of the Standing Joint Committee of Industrial Women's Organisations, called and examined.

The witness handed in the following statement as her evidence-in-chief:—

3497. The Standing Joint Committee of Industrial Women's Organisations desires to lay before the Royal Commission evidence on the following points:—

- (1) The assessment of husband and wife.
- (2) The amount of income which shall entitle a person to exemption from payment of Income Tax.
- (3) Abatement to be allowed on income subject to taxation.
- (4) Abatement to be allowed for children, and the period for which this shall be allowed.
- (5) Considerations with regard to the scale of tax to be levied.
- (6) Considerations with regard to exemption from Income Tax and payment of indirect taxation.

The assessment of husband and wife.

3498. (1) We are of opinion that a husband and wife should not be placed with regard to the payment of Income Tax at a disadvantage in comparison with any other two persons living together. We therefore suggest that their incomes should be assessed (whether separately or jointly) in such a manner that the combined abatement or exemption shall be twice as much for a married couple as for an individual. If the incomes are assessed jointly the abatement should be double that for the individual; if separately, allowance must be made for the wife or the husband on the same basis. This would amount to the same thing, and the case of the wife or the husband with or without an income would be provided for. A married couple should have the option of:—

- (a) sending in separate Income Tax papers, and in this case each would receive these abatements or allowances which would be given to single persons. Where incomes are large the Treasury might be empowered to combine the two returns for Super-tax purposes.
- (b) sending in a joint Income Tax paper, and on this they would receive abatements, allowances, &c. on a special scale, the exemption limit being double that of a single person. On such a paper the husband and wife would each sign their own income declarations. If they claim refund of tax it might be permissible for them to sign a request jointly that the money should be paid to one of them. In the absence of such a request the Treasury should divide the refund in proportion to the income of each, and pay accordingly. Where the return shows money due to the Treasury the couple should have the right to nominate one of them to pay the money, and in

the absence of such nomination or in the event of non-payment the Treasury should be entitled to make a claim for payment by each in proportion to the income shown.

Claims for allowances for children could be made on either form. In the first case, however, the Surveyor should be empowered to demand evidence that the children are not counted twice. In the case of the joint form refund should be made to one of the parties where both request that that should be done, or in the absence of such a request, should be made in proportion to the income of each.

The amount of income which shall entitle a person to exemption from payment of Income Tax.

3499. (2) There should be no taxation of income which is not already sufficient to provide the ordinary human necessities for an individual. As at the present time a very moderate minimum wage would allow £100 a year, we propose that an income of £150 should be exempted from taxation. Applying the principle we have suggested for husband and wife, this would mean that in the case of a married couple the income exempt from taxation would be £300.

Abatement to be allowed on income subject to taxation.

3500. (3) The amount of income on which abatement should be made in cases where it is over £150 should be £140. This would mean that in the case of a married couple £290 would be exempt from taxation where the income was over £300.

Abatement to be allowed for children, and the period for which this should be allowed.

3501. (4) The abatement to be allowed for children should be £40 each, and this should be continued so long as the child is in receipt of full time education.

Considerations with regard to the scale of tax to be levied.

3502. (5) We are aware that the level of complete exemption which we have placed may seem high, though it is not yet so high as it was before the war, in spite of the great increase in the cost of living. We would point out, further, that under the present system, the tax begins at 2s. 3d. in the £, and that this sum is of very large importance to families or individuals with small incomes.

Considerations with regard to Income Tax and payment of indirect taxation.

3503. (6) We are of opinion that a lower Income Tax limit cannot be justified so long as the present system of indirect taxation on food and necessities is continued. Indirect taxation on the necessities of life means a very heavy burden on the poorer sections of the community. While we consider that a carefully graded Income Tax would be the best

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method of raising revenue, we are opposed to any Income Tax being placed on the wage-earners unless it is accompanied by the complete removal of taxes on food and necessaries.

[This concludes the evidence-in-chief.]

3504. Mr. Kerly: I think you represent, through your Joint Committee, several women's organisations?—Yes, with a membership altogether of something over half a million.

3505. What class of woman are they? Do they represent all sections of the community, or are they principally working women?—They are, by a very large majority, working women. There may be a few others amongst them, but the number would be quite inconsiderable.

3506. You said half a million, I think?—Yes.

3507. Can you give us an idea of their average income—the average incomes of their families, I mean?—I should say their average incomes would be much the same as the average incomes of any other section of the working class.

3508. They belong to the working class. Does that mean, for a family, £3 a week, or something of that sort? What would your estimate of the average income be? It will assist us if you can give us some idea of that?—It is a difficult thing to say, because they cover cases of independent women working by themselves, whose wages, even to-day, go as low as £1 a week, in some cases, and also the married working woman whose income is a family income, and may come up to the artisan level of £3 or £4 a week or more, if one takes it as a whole family income; and it does include also a percentage of professional women with much larger incomes.

3509. But the very great bulk of the women you are here to represent, are people whose personal or family income, that is, the income of husband and wife, would not exceed £4 a week?—I should think that would be so.

3510. Of course you appreciate that none of those will pay Income Tax, or very few of them will pay Income Tax at all?—At the present time they will pay Income Tax.

3511. No, I think not?—On an income of £200 a year they will pay.

3512. There are allowances for wife and children?—It depends on how many children they have.

3513. A few of them will pay; is not that the case?—A fairly large proportion, I should think, would. In the case of single women, a fairly large number will, also.

3514. Single women earning more than £130 a year?—Yes.

3515. Are most of them married or unmarried; can you give us any idea of the proportions?—I should say the proportions were much the same as amongst the rest of the community. I really would not like to give a figure. In some organisations, a large number are married, the Women's Co-operative Guild, for instance; in others, fewer.

3516. It is quite clear, is it not, that the women you represent, where they or their husbands pay Income Tax, are amongst the payers of Income Tax at the lowest rates?—Yes, I should think none of them pay at more than 2s. 3d. in the £.

3517. The principal point you make, I think, is that you think that the husband and wife should not be assessed together?—No; that they should not be assessed so that the husband pays on the wife's income as though it were his own.

3518. Is it an objection that the wife should make her own return?—I do not quite see your point.

3519. What is the real difficulty; that the wife does not make her own return, or that, because the two are taken together, they come into the tax-paying limit, which they otherwise would not reach?—The second objection is the greater objection. It puts two married people at a disadvantage compared with the rest of the community. It makes the taxation heavier on the income of a married couple than it would be if they were not married, and heavier than the taxation on any other two persons of the same sex, for instance, who were living together.

3520. Of course the unmarried women are not affected by this matter at present?—No.

3521. But you say the married women or their husbands suffer a disadvantage because they may have to pay tax which would not otherwise be due from them?

—Yes. There is also the objection that the assessment is made in the husband's name, and that the wife is not treated as a separate individual.

3522. You know she can be so treated, if she pleases to apply for it?—Yes, but there are a great many difficulties about those applications in the very cases in which it is a matter of difficulty.

3523. Why?—It is where the people living together are on bad terms with one another that most of these difficulties arise, and then it becomes all the more difficult for her to make an arrangement by which she shall get it separately done.

3524. Why cannot she make an application to be separately assessed then?—Because it is where people are on bad terms with one another that it is very difficult to carry out such arrangements.

3525. Why?—Because the root of the difficulties is often financial, and one party to the marriage makes objections to the other party voting independently.

3526. Mrs. Knowles: Is it not that you have to enter up your husband's income on your own return, which he will not tell you always?—He will not always tell you, and also he gets a right to know yours. He may exercise his right to know yours before he will give you his.

3527. Mr. Kerly: But the wife can apply to make her own return separately, and then her husband does not have to include it in his. Do you not know that by Rule 17 application may be made either by the husband or the wife?—I do not quite know the details of it; I think that what I have said is the case with a very large number of married women, and that is one of the difficulties. We understood that there were difficulties about it, and it has been put to us that there are, but I would not like to go into the details of it.

3528. We had a lady here yesterday, speaking of some grievance, who was wholly unaware that that provision existed, and I ventured to suggest that instead of troubling about the grievance in another way, she should find out what the law already provided, and advertise it amongst the members of her organisation?—That is undoubtedly an admirable course to take, but might I just suggest that even that will not meet all the people who are in difficulty about it? Nothing is more difficult than to find the exact details of a very complicated law, for the average woman.

3529. Then that wants a little more advertisement, does it not?—It certainly does, if that is the case.

3530. Do you advocate that every woman should be obliged to make a return for herself?—We put two suggestions here in our evidence.

3531. You say: "sending in separate Income Tax papers, and in this case each would receive those statements or allowances which would be given to single persons." How many women in the country would get their husbands to make the return for them?—I do not quite understand. Do you mean that the wife would not bother to fill in the return?

3532. Yes.—That does not matter. In the cases where they desire to fill them in separately, they would fill them in separately.

3533. It has some bearing upon whether there is a real grievance, if we think that 90 out of every 100 women would still ask their husbands to make the return?—If it is an injustice that you are doing to the one in the hundred unless you do it, I would not consider that sufficient.

3534. You go on to suggest that "where incomes are large the Treasury might be empowered to combine the two returns for Super-tax purposes." So that where they are rich people you propose they should still be taxed together?—Where is a case of Super-tax.

3535. Why should there be a difference between rich women and poor women in this matter?—This is a difference in combining the two returns in cases where the income is at a level very high above a living

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amount. Then we think that there may be a special reason for doing it.

3536. Is your complaint, then, that by treating the two together and so taxing a man and wife who would otherwise escape taxation, what is left to them is reduced below the subsistence limit?—That is one point.

3537. That would be met by a larger allowance for the wife, would it not?—Yes; it is met partly by that. There are the two elements which enter into it, and we have tried to meet the difficulties raised by the two.

3538. We have had your paper; is there anything else in it that you would like specially to speak about?—I would like to make one point quite clear in regard to the abatement for children.

3539. That is paragraph 4?—Yes.

3540. You say: "The abatement to be allowed for children should be £40 each, and this should be continued so long as the child is in receipt of full time education."—Yes. What I wanted to make clear about that was that we proposed the abatement should be, as now, up to 16, but that it should continue for years above 16 where the child is continuing to receive a full time education. I was afraid that as this was stated it might be taken to mean that the abatement should end when the child left school, even if it left at 14.

3541. What you propose is that it should be continued as long as the child is in receipt of full time education. Would you make that proposal whether the child is earning money or not?—Yes, if it is receiving full time education. I cannot imagine how a child receiving full time education could be earning money to any extent that would affect the problem.

3542. I am very familiar with cases of children doing their full time and earning 12s. a week?—That is, of course, one of the things which we should be very glad to see a law to prevent, for it means in such a case that the child is being very much overworked.

3543. I agree.—But I should not have thought it was possible.

3544. That is in the suburbs of London—taking round papers and delivering milk before going to school. Why do you suggest that the abatement should be £40 a year?—We think that that is a very reasonable and moderate allowance for the abatement for children, in view of the cost of keeping children.

3545. So that taking your average family at £4 per week, that is £200 a year, with four children, do you put the cost of the children down at £160 out of the £200?—As a matter of fact you cannot reckon it in that way. We think it is a reasonable abatement to be made on incomes. We are not considering only incomes of £200; we are considering incomes that go up higher. Under the proposal that we make, an income of £200 would be entirely exempt from tax, if it was a case of husband and wife, because there would be the abatement for the husband, and a similar amount for the wife.

3546. Is there any other point you would wish to speak specially about?—No, I do not think there is.

3547. Mr. Bruce: I see in paragraph 6, you are dealing with indirect taxation?—Yes.

3548. Is the Commission to understand that you advocate, in your evidence, the entire abolition of indirect taxation?—Yes; it is a point upon which women especially feel very strongly, because, as the buyers for the family, they know how heavily indirect taxation falls upon their income. We would therefore much rather have direct taxation in place of these taxes on food and other necessities which now make the poor pay so heavily in comparison with their income.

3549. Then if you abolished indirect taxation, what principle of taxation do you think would be a fair and equitable principle to the working classes?—Income Tax?—Yes, Income Tax levied on incomes that were above a minimum wage.

3550. I note that in paragraph 3 you say that in the case of a married couple £280 should be exempt where the income was over £200. Is that figure arrived at upon the present system of taxation and the present cost of living, or is the figure arrived at

by you after abolishing all indirect taxes?—That is on the present system.

3551. If indirect taxes were abolished, what figure do you think ought to be the effective standard?—We took it from this point of view: what is at the present time an amount upon which an individual could live reasonably; and we base the abatement upon that, taking it in the case of a husband and wife that the abatement should be the same for each individual, so that you do not place two individuals at a disadvantage because they are married people. That brought it up to the £280 on an income over £200. I believe that to be a reasonable amount which you should leave free from taxation at the present cost of living. If you abolish indirect taxation, the cost of living would be very considerably lowered, and you could then have a considerably lower level of income Tax.

3552. But in addition to that, if the indirect taxes were abolished, would not the working classes be in a better position to pay on a lower standard of income than they could if indirect taxes were to remain?—I do not quite follow your question.

3553. The working class now, by indirect taxes, pay a large amount of money in taxation; but if that system of taxation were abolished, would not the working class be able to pay a larger amount in Income Tax than they could be expected to do under the present system?—Yes, undoubtedly; you could have a very much lower level at which the Income Tax could be levied.

3554. The £280 is your figure for married people?—Yes.

3555. What would be your abatement figure for a bachelor or for an unmarried woman?—We place that in this statement at £150.

3556. Then you would differentiate between single men and single women and married men and women?—You do not really differentiate between them. You give to each individual the same amount of income free from taxation; if they are married they get just the same. It is the American system. They double the amount of the abatement in the case of husband and wife. £200, I think, is free from taxation for a single person; in the case of married people £400 is free from taxation.

3557. Whether the wife earns money or not?—Yes.

3558. Then for this purpose you would tax separately or you would take a separate standard, £150 or £150?—Yes.

3559. And in the case of two people married you would make it £280?—Yes.

3560. With all the children's allowances as well?—Yes.

3561. Sir J. Harwood-Benson: When you speak of the abolition of indirect taxes, what do you mean—merely tea, sugar, and coffee, or do you include tobacco, beer, wines and spirits?—I include all taxes on food and any other necessities.

3562. Including tobacco, wines and spirits?—Well, it is a little bit difficult. There you introduce a moral question into which I will not go. It depends on how you look on them. If the community in general looks upon them as necessities, then we should say abolish those indirect taxes. In any case, I do not know that you want to tax what are very commonly used luxuries. The tax on wine is perhaps a reasonable one.

3563. Mr. Kerly: It comes to this, when you look at the substance of it, does it not? You think direct taxation is excellent, provided it is taxation of other people?—No, I think that is quite an unfair way of putting it.

3564. I am speaking of the people you represent?—Yes; I am speaking of them, too.

3565. Of course, I am not speaking of you personally. You are speaking, in substance, for people whose incomes are £200 a year or less, and you provide that they shall pay no direct taxes, no indirect taxes, and you think that the revenue should be raised by direct taxes upon other people?—On the contrary; what we say quite definitely in our evidence, and what I have just said in reply to Mr. Bruce is that

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[Continued.]

at the present time, with the taxation which is now placed on food and other necessities, we believe the limit should be this limit of £280 for a married couple, but what I did say especially was that if you do away with these forms of indirect taxation, you can lower that limit and put on Income Tax at a much lower level.

3566. How much?—It depends on the extent to which you do away with indirect taxes, and the actual amount by which you are able in that way to lower the cost of living. Lower the cost of living, and you can reduce the limit on which income goes free from Income Tax, by the amount of the reduction.

3567. Do you know what the indirect taxation upon a family of husband, wife and four children spending an income of £200 a year amounts to?—No; speaking

offhand, I should not like to give you a figure, but I could very easily provide you with one.

3568. I can give you the figure—at least, the best calculation that has been made as to the figure. The total indirect taxation on such a family, with £200 a year, at present 1918 prices, is £29 6s. 8d., of which £14 6s. 8d. is paid on drink and tobacco, leaving £15 only which is paid on tea, sugar, and other indirect taxes, including the Post Office. You have only £6 to deal with?—Out of an income of £200 at present prices, a family can very ill afford that much; but of course the figures you have given I do not know.

3569. Mr. Kerly: We are very much obliged to you for your evidence.

MR. P. D. LEAKE, F.C.A., Author of "Depreciation and Wasting Assets and their Treatment in Computing Annual Profit and Loss," called and examined.

The witness handed in the following statement as his evidence in chief:—

Introductory.

3570. (1) Income Tax is, in my opinion, the ideal instrument for raising national revenue, because, provided that Income Tax is assessed on actual income arising, it always falls upon the shoulders of those who are, on the whole, best able to bear it, and therefore it is, on the whole, the most equitable tax to impose. But an Income Tax should be assessed on the nearest possible approximation to actual income arising within each period of assessment.

Wasting assets and taxation.

3571. (2) On present Income Tax principles no deduction is allowed from revenue to cover the cost of exhaustion of material wasting assets, such as, for instance, the raw material contained in grounds which have been bought and paid for, and are afterwards denuded of that raw material in the course of manufacture, by raw-material-winning companies, so that these undertakings, using up material wasting assets, always pay Income Tax on amounts which are greater than the profits earned by them, with results which are sometimes grotesque—as I will presently show by illustration.

3572. (3) In the interests of our national revenue, of which Income Tax is, and must remain, the great and growing source, the continuance of such principles—obviously suicidal to the Income Tax itself—is deplorable and should be remedied. Of minor importance when the tax was low, it has now become a national danger that Income Tax should be so unjustly assessed, not upon profits, but upon a balance of revenue which is not profits, but consists of profits plus something else.

3573. (4) It seems important to inquire—how did Income Tax come to be levied in this way? The Income Tax Act, 1842, is "An Act for granting . . . duties on profits arising from property, professions, trades, and offices." This is unmistakably clear language, and should suffice to exclude all—save profits—from the operation of the tax. And, as a matter of fact, the judges have frequently stated that the Income Tax Acts tax profits only, so that it becomes a question of what are profits? The third rule of the first case of Schedule D of the Income Tax Act, 1842, relating to deductions not to be allowed in computing profits, provides that "in estimating the balance of profit shall be . . . allowed to be set against or deducted from such profits or gains . . . on account of any capital withdrawn therefrom; nor from any sum employed or intended to be employed as capital in any trade, manufacture, adventure, or concern." These words are harmless in that they do not interfere with the just computation of annual profits, but the words appear to be superfluous, because if any capital is withdrawn and deducted in estimating profits the result will obviously be less than profits, and it is profits which the Act taxes.

3574. (5) But nevertheless it is these words in the original Act of 1842, "on account of any capital withdrawn . . . nor for any sum employed or intended to

be employed as capital," which have, from the first, been misconstrued. It has apparently been impossible to get away from the idea that material wasting assets are in themselves part of the capital of an undertaking. This is, of course, a misconception—the fact being that the exchangeable value of material wasting assets, that is, the unexpired cost-value, is part of the capital of an undertaking only until, in the ordinary course of business, the material itself is used up and has been exchanged into some other form of value, such as stock, book debts, or cash. Capital is not itself material, although the exchangeable value of existing material is capital.

3575. (6) The inevitable reduction or withdrawal of material wasting assets in the ordinary course of carrying on an undertaking is thus not withdrawal of capital, and the necessary deduction of the cost of the used-up material which must be made from the receipts before profits can be ascertained, does not involve the allowance of deduction of a sum from profits or gains on account of any capital withdrawn, nor allowance for any sum employed as capital. Capital resides only in exchangeable value, and that part of the capital previously represented by the value of material wasting assets which have been used up will now be represented by the value of some other kind of assets in the hands of the undertaking, into which part of the material wasting assets has been converted or exchanged.

3576. (7) What happens, of course, is that the operation of exchanging into other forms of value, and so gradually using up and reducing, what are called fixed assets—though they are really always wasting assets—in the ordinary course of carrying on the business of a profit-seeking undertaking, is, not a reduction of the capital of the undertaking, but an exchange of part of the assets originally representing the capital into some other form of assets, and the capital of any soundly financed undertaking always remains intact. It is curious to observe that if industrial profits were computed on our present Income Tax principles—that is to say, without deducting the expired capital outlay on material wasting assets—the profits would be systematically overstated, with the result that a sum larger than the actual profits would probably be distributed to shareholders, thus, *ipso facto*, improperly reducing the capital of the undertaking.

3577. (8) In the early days of the present Income Tax the science of computing annual profits was considerably less developed than it is to-day (when will the science of computing annual profits and loss receive the study and attention it deserves?), and joint stock enterprise, in its present form, was unknown. Industry itself was comparatively simple and traders carried on their own undertakings, and as long as they had sufficient cash at the bank for their needs they did not trouble much about computing annual profits with exactness. The cash book had an exaggerated importance, and the difference between receipts and payments in or about the year, together with a rough stocktaking, was sufficient for their needs, and this view, which was largely held by traders themselves, is reflected in legal decisions on the construction of the Income Tax Acts. Thus Lord Esher, M.R., in

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City of London Contract Corporation v. Styles (1887), stated:—"The difference between the expenses necessary to earn the receipts of the year, and the receipts of the year, are the profits of the business for the purpose of the tax;" and, again, Lord Herschell, in Russell v. Town and County Bank (1883), said:—"The profit of a trade or business is the surplus by which the receipts from the trade or business exceed the expenditure necessary for the purpose of earning these receipts."

3578. (9) The Customs and Inland Revenue Act, 1878, section 12, opens with the words: "Notwithstanding any provision to the contrary contained in any Act relating to Income Tax, the Commissioners . . . shall . . . allow . . . such deduction as they may think just and reasonable as representing the diminished value by reason of wear and tear during the year of any machinery or plant." For the reasons given it is contended that the Income Tax Act, 1842, does not contain "any provision to the contrary" such as to deny the taxpayer the right of making deduction of a properly measured sum for expired capital outlay on material wasting assets—part of the annual expenditure incidental to profit-seeking—the value of which material wasting assets once formed part of the taxpayer's capital, but which has now been exchanged into some other form of value, which now in its turn represents his capital.

3579. (10) In view of the very wide-spread misapprehension with regard to what is called fixed capital I desire to say that capital can exist only in exchangeable value, and therefore capital can only be fixed by maintaining the assets in some form or other, at an exchangeable value—on a "going-concern" value basis—at least equal to the fixed capital. As wasting assets in which capital resides become less in exchangeable value, some other form of exchangeable value arises which increases other assets, such as sale stock, debts, bank balances, or temporary investments. This must happen automatically when an undertaking results in true economic profit, provided that no greater sum than the profit is withdrawn; but when the undertaking results in a loss, or a sum greater than the profit is withdrawn the capital cannot be maintained except by introducing fresh value.

3580. (11) The theory that the capital and revenue outlay accounts of a profit-seeking undertaking are distinct, in the sense that the accounts relating to capital outlay can be partitioned off and treated as the capital account, is a fallacy. All capital outlay on wasting assets consists merely of payments made in advance on revenue account, all of which are constantly expiring in the service of the revenue account, and, therefore, the value of the capital investment cannot be upheld except by regular and adequate contributions, which must be retained out of revenue receipts by being charged to revenue account. These contributions need not remain lodged in the bank until the money is required to renew the wasting assets. The swelling balance at the bank should in the meantime be used, as it generally is used, if required, for the ordinary purposes of the business.

3581. (12) It increases for the time being the available floating or circulating capital, and, as the moneys representing the contributions are retained out of revenue receipts, the requirements of the business may simultaneously increase to an extent demanding the permanent use of these moneys as additional floating capital. Again, if not used to answer a growing need for further floating capital, the contributions may be gradually absorbed by the purchase of additional wasting assets, such as further plant, permanently required by the undertaking.

3582. (13) In either of these cases, when it becomes necessary to renew the original wasting assets, and bring them up to their value again, the money, although specifically contributed by revenue year by year in the past, will not be found at the bank available for use. The reason is that it has been already invested to answer the growing need of the business for new capital, and, therefore, directly the

money is required for its originally intended purpose, it is legitimate and may be necessary to increase permanently the capital of the undertaking by issuing new capital, and to use the money provided by this increase of capital to renew now needs a permanently larger capital. In the meantime, sums in lieu of this new capital have been borrowed year by year, as above stated, out of the proceeds of the gradual return of the money laid out in the wasting assets which formed part of the original "fixed" capital investment.

3583. (14) The use of the new capital for the renewal of the original wasting assets will operate to pay back the temporary loan which was legitimately borrowed from the original "fixed" capital, at a time when the money would otherwise have remained unemployed in the business. Thus the operation of exchanging into other forms of value, and so gradually using up and reducing, what are called fixed assets (although really wasting assets) in the ordinary course of carrying on the business of a profit-seeking undertaking, is not reducing the capital of the business, for the capital (or exchangeable value) will be found residing in some other asset received in exchange, which may be in the form of sale stock, debts, cash, plant or other value, provided always that the revenue account has been in the meantime charged with adequate sums for expired capital outlay.

3584. (15) Before passing on to define the terms "wasting assets" and "depreciation" I desire to illustrate the grotesque results which in periods of high taxation arise out of our present Income Tax principles of taxing statutory profit instead of actual profit.

3585. (16) As already stated, the principles on which profits are computed for Income Tax purposes, do not permit raw-material-winning companies to deduct from their revenue that part of the cost of producing the revenue which is represented by the cost of the raw material, nor to deduct the expired cost-value of the buildings, machinery and plant, which are gradually used up in getting the raw material and manufacturing the same; they are generally allowed to deduct only an amount equal to 5 per cent. per annum on the reducing balance of the cost-value of statutory machinery and plant, which may go a very small way towards meeting that part of the cost of production.

3586. (17) The consequent difficulty in which British nitrate-producing companies, for instance, now find themselves owing to the application of these Income Tax principles will be best illustrated by an example:—suppose a nitrate-producing company with a share capital of £500,000, all of which is laid out in the cost of nitrate grounds, development, buildings, machinery and plant. There are no debentures. The company has, during each of the six years ended December 31, 1916 (a period covering three pre-war years and three statutory accounting periods), with an annual output of 1,000,000 quintals, earned a gross revenue of £20,000, yielding, after deducting 64. per quintal—the cost of material, etc. (see note*)—a profit of £25,000 per annum. For the sake of simplicity the gross revenue may be assumed to be £200 more in each of the last three years—or accounting periods—to cover the statutory profit addition of £300 allowed. It is clear then, that—although owing to presently existing Income Tax principles the company will have paid ordinary Income Tax on some much larger than its profits—no claim will arise for Excess Profits Duty in respect of the company's operations up to December 31, 1916.

* NOTE.—The average cost of the raw material of nitrate companies is probably about 46. per quintal on the nitrate extracted—the cost of the nitrate bearing grounds varying, according to the quality and accessibility of the raw material, from about 2d. per quintal to about 84d. per quintal of the estimated extractable nitrate contents. To the average cost of the raw material must also be added the proper proportion of the cost of the necessary buildings, machinery, and plant, which become useless and of little or no value when the adjacent nitrate grounds have been exhausted, and this cost is usually estimated at about 24. per quintal, making together a total cost of 64. per quintal.

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3587. (18) And now suppose that at the beginning of the year 1917 market conditions were such that the directors of the company might—with a further outlay of capital of £25,000 on buildings, machinery, and plant—have doubled their output of nitrate in the year 1917, receiving a slightly reduced selling price, offset, however, by a saving in fixed expenses, which will not increase pro rata with the increase in output. The resulting annual profit would then be double. It should be noted that, for the purpose of this example, the actual movement of prices in 1917 is quite immaterial.

3588. (19) To double the output would have increased the supply of a wanted commodity during the war, and would have yielded an additional profit of £25,000 in the year 1917, in return for a capital outlay of £25,000, and if Excess Profits Duty was assessed on profits, the duty at 80 per cent. on £25,000 less the £900 statutory addition, would amount to £19,840, and there would be additional ordinary Income Tax (at 5s. in the £ on the balance of £5,160) amounting to £1,290, together £21,130, leaving a balance in hand after payment of Income Tax and Excess Profits Duty of £3,870, equal to about 15 per cent. on the further capital outlay.

3589. (20) But owing to the method of computing the profits of nitrate companies for Excess Profits Duty purposes on Income Tax principles instead of on profit, the company—as a result of doubling its output and earning £25,000 additional profit in 1917—would have to pay Excess Profits Duty amounting to £37,440 and additional Income Tax (spread over the next three years) of £2,933, together £40,393—being £19,263 more than should be charged on the £25,000 additional profit earned. The additional taxes, amounting to £40,393, payable as a result of earning £25,000 additional profit in the year 1917 are, on present Income Tax principles, computed as follows:—

	£	£
Statutory profits, ascertained on present Income Tax principles for the accounting period ending December 31, 1917 ...		100,000

Deduct:

Allowance for wear and tear of machinery and plant, 5 per cent. on £100,000 the assumed value of statutory machinery and plant included in the original capital outlay of £50,000	5,000
5 per cent. on £15,000, the assumed value of statutory machinery and plant included in the further capital outlay of £25,000 ...	750
	5,750
	94,250

Pre-war profits standard:

Statutory average of pre-war years ...	50,000
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Less:

Allowance for wear and tear of machinery and plant, 5 per cent. on £100,000 ...	5,000
	45,000

Add:

Statutory addition to profits ...	200
Statutory percentage on increase of capital, 9 per cent. on £25,000 ...	2,250
	47,450
	£48,900

Excess Profits Duty, 80 per cent. thereon ...	£	£
Income Tax on additional profits:		37,440
Statutory profits to be brought into average for Income Tax in 1917, as above ...		94,250
Less:		
Excess Profits Duty allowed as a deduction ...		37,440
		56,810
5s. in the £ on £56,810 ...		14,203
Deduct:		
Income Tax which would be paid, over the proper period, if annual output and profits remain as before the year 1917—5s. in the £ on £45,000, the statutory profit ...		11,250
		2,933
		£40,393

3590. (21) The overcharge of Excess Profits Duty is owing to the fact that £25,000 of the additional revenue—necessarily applied by the company to meet a part of the expense of earning that revenue (none the less an expense of the year in which the value is exhausted, because the property was previously bought and paid for out of capital) is treated on Income Tax principles as profit, less only deductions of £750 further allowance for wear and tear, and £2,250 interest on increase of capital, and after adjusting Income Tax on the additional profits, the overcharge of duty amounts to £19,263, being the difference between £40,393 which should be charged—and the sum of £20,393 shown above.

Wasting assets defined.

3591. (22) It is a fact that the majority of profit-seeking enterprises have to embark capital in wasting assets to enable them to earn their revenue, whether arising from the winning and sale of coal or minerals, as in the case of a colliery or mine, from traffic receipts, as in the case of a railway or tramway company, from the supply of electrical energy, gas, water or other public service, or from the manufacture and sale of goods. It is, unfortunately, customary to record and describe capital laid out in wasting assets such as coal measures, mineral deposits, buildings, plant, machinery and the like, as fixed or permanent. Consideration will show, however, that all such outlay of capital, far from being represented by anything fixed or permanent, consists of nothing more enduring and substantial than expiring value acquired and paid for in advance on revenue account for the purpose of enabling the gross revenue to be earned, in which process the value of all these wasting assets will inevitably be destroyed. Wasting assets of all kinds, unlike trade stock, are not for sale as such, but are deliberately dedicated to be destroyed in carrying on the undertaking. All subsequent fluctuations in the market value of similar property are thus immaterial and consequently should be deliberately excluded from the accounts of such undertakings, the sole question being how to apportion the cost of the wasting assets (a known amount be it observed) fairly over each of the limited number of years which will benefit by the outlay. Undertakings using wasting assets in earning their revenue incur each year expenditure under two distinct heads, one being that expenditure for which cash has to be disbursed at the time, or in or about the year the benefit is received, as, for instance, wages, rent, and the like; and the other being represented by that part of the previously incurred capital outlay which has expired within the year, and it must be admitted that this latter head of expenditure is at present previously neglected in accounting by profit-seeking undertakings.

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3592. (23) Wasting assets consist of all values of an exchangeable nature which inevitably diminish while applied to the purpose of seeking profits or advantage, otherwise than by purchase and sale, and they include the following:—

- (a) Industrial plant comprising all perishable material property other than that primarily intended for re-sale. Such plant includes all buildings, plant, machinery, fixtures and furniture of manufacturers; all buildings, plant, machinery, fixtures, and furniture of mines; and all surface works (reservoirs, water service, railway sidings, roads, etc.); the way, bridges, works, stations, rolling stock, and all equipment of railway and tramway companies, other than site value of land in such case. Most of the capital of electric lighting and power companies; gas, water, and omnibus companies; cable, telegraph, and telephone companies; shipping and dock companies; as well as that of many other undertakings, is also invested in perishable industrial plant. The undertakings least affected are banking, insurance, investment, and finance companies.
- (b) The mass of source of any natural raw material, including bodies of coal and all kinds of minerals; deposits of slate, stone, gravel, earths, oil, and nitrate; also timber and all kinds of growing plants yielding recurring crops.
- (c) Main shafts, main adits, shafts which develop ore, and other underground development, undertaken to win natural raw material.
- (d) Purchased terminable annuities.
- (e) Purchased terminable concessions.
- (f) Leaseholds.
- (g) Copyrights.
- (h) Patent rights.
- (i) Goodwill and trade marks.

3593. (24) Purchased materials and stock held for the purpose of manufacture and sale are not wasting assets, neither are gotten minerals and the like, nor sown crops, for they are all held for the purpose of manufacture, or sale, and do not inevitably fall in exchangeable value during any period of use in seeking profits. Gotten minerals are easily distinguishable from the mass or source of the natural raw material, for the latter, when applied to the purpose of seeking profits, inevitably falls in exchangeable value during the period of its use in consequence of the gradual reduction of the mass, or source, as the product is won. The site value of land is not a wasting asset; its value does not inevitably diminish while applied to the purpose of seeking profits otherwise than by purchase and sale of the land.

3594. (25) Stock Exchange and other like securities are not wasting assets; they are held, as a rule, for the purpose of obtaining the income receivable from them in the form of annual dividends, and although such securities may at any time either appreciate or depreciate in market value, this change in value will not arise out of the purpose for which they are held, and thus they are clearly distinguishable from wasting assets. This applies equally whether the securities are held as investments for the purpose of receiving the annual dividends, or by a dealer or speculator for the purpose of selling at a profit; for in neither case does any movement up or down in their exchangeable value arise directly out of the purpose for which they are held. Movements up or down in value of Stock Exchange or other securities are, of course, of everyday occurrence, and arise from various causes, but the cost of the securities does not expire in pursuit of the object sought to be attained, as it always does expire in the case of wasting assets. Realized losses on the sale of investments in Stock Exchange and other securities may thus be clearly distinguished as "capital" losses by the application of this test. When such losses are incurred by a profit-seeking enterprise, having part of its funds invested in outside securities, such realized losses should no doubt be refunded or made good out of profits retained in hand for that purpose, and the same applies to any fall in the value of investments when it is considered

that the loss may be permanent, but this is quite distinct from commercial depreciation. All such funds of "capital" losses are made out of true profits arising from the undertaking, except, of course, in the case of a financial enterprise specifically seeking profits from the purchase and sale of investments, when the securities are, to the financial enterprise, much the same as the stock-in-trade is to the industrial undertaking.

Depreciation defined.

3595. (26) In its true commercial sense, the word "depreciation" means fall in exchangeable value of wasting assets, computed on the basis of cost-value expired during the period of their use in seeking profits, increase of value, or other advantage. Depreciation is part of the cost of seeking profits, equal in importance to other revenue expenditure.

3596. (27) The fall in exchangeable value of wasting assets during the period of their use in seeking profits may be due to any one or more of the following causes:—

- Expiration of time.
- Natural decay.
- Wear and tear.
- Obsolescence.
- Diminution of the mass or source of natural raw material.
- Diminution of the principal sum involved in contracts such as purchased terminable annuities.

3597. (28) The term "profits, increase of value, or other advantage" includes not only all kinds of industrial and commercial profits, but it also includes the accruing interest contained in contracts such as purchased terminable annuities, and all accruing benefits (having exchangeable value) which may be received in some form other than cash, such as the annual value of a house occupied by the owner, or of furniture, or horses and carriages used by the owner.

3598. (29) It is important to observe that it is the fall in exchangeable value occurring during the whole period of use, and, further, that during that period wasting assets are not primarily intended for sale in their existing form. They are, in fact, out of the market, being all the time allocated to the specific purpose of seeking profits in the pursuit of which they will be destroyed, except as to any scrap or remainder value which may ultimately survive. Depreciation of wasting assets is, therefore, unaffected by market fluctuations in value due to the operation of the law of supply and demand during the currency of the period of their use.

3599. (30) The failure to recognize this fact is responsible for that part of the difficulty surrounding the subject of depreciation which arises out of the common belief that regard must be had to fluctuations in value due to the temporary state of supply and demand. All such fluctuations must be entirely disregarded, except always in so far as they may safely be taken as useful indications in revising earlier estimates of the ultimate exchangeable value (if any) likely to survive at the end of the period.

3600. (31) A profit-seeking undertaking using wasting assets is, and for accounting purposes must always be, treated as a going concern; and a going concern will apply its wasting assets for the purposes for which they were acquired, and will not act as a dealer in the purchase and sale of such property for profit. Therefore, after the purchase of wasting assets at a certain cost, be it high or low, the accounting problem is confined to the proper distribution of that cost over the years of the efficient life of the wasting assets. Suppose a machine costs £1,100, with expected life ten years and scrap value £100, the proper provision for depreciation is £100 a year. It makes no difference at all that in five years the market price of such a machine may have advanced to £1,500. It is still only necessary and permissible within the ten years to refund the cost of the machine which was purchased for £1,100. When it becomes necessary to purchase another machine at the end of ten years, it may cost £1,500, which will need a capital outlay of £400 in excess of that needed for the purchase of

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the first machine; but this circumstance does not render inadequate the charge of £100 per annum for depreciation on the first machine, which cost only £1,100. It cannot be too clearly stated that depreciation extends only to the replacement of the cost of wasting assets already acquired, and which are being wasted in the process of earning the revenue of an undertaking. The provision is not to cover the cost of future renewals, although it will be available to be applied to or towards that cost.

3601. (32) The word "depreciation" is unsatisfactory as a definition of that which it is intended to imply, for it means much more than is intended; thus, a fall in the value of Stock Exchange securities held by bankers and others is, no doubt correctly, described as depreciation in the same opposite to appreciation. Besides being commonly used to express fall in all exchangeable value, whether existing in the form of wasting assets or otherwise; the word is also used in the sense of lowering in estimation, thus:—

"A method . . . which much depreciates the esteem and value of miracles." 1646. Sir T. Browne, *Pseud. Ep.*, IV., x., 206.

"A great depreciation of the standard of morals among the people." 1829. J. Taylor, *Enthus.*, IX., 225.

"Our architectural reputation, never high, is still more depreciated by the building at South Kensington." 1892. *Fraser's Magazine*, November, 331.

3602. (33) The term "expired capital outlay" is an exact definition of that which the word "depreciation" is intended to imply when used in its commercial sense, and the general adoption of this term would avoid the common mistakes arising from a natural belief that "depreciation" covers at least all that which is opposite to appreciation.

3603. (34) A clear understanding of the true meaning of "depreciation," as being expired capital outlay, enables questions which have been raised from time to time by legal writers to be easily answered; thus Buckley, L.J., in his work on the Companies Acts, in discussing depreciation, asks this question:—

3604. (35) Suppose I buy £100 Consols at 80, and at the expiration of a year they have fallen to 77½, is my income £2 10s. or nothing? If nothing; then if at the expiration of the year they had risen to 82½, my income would, by comparative reasoning, have been £5, not £2 10s. Is the result affected by the question whether at the end of the year I am or am not, about to sell my Consols?

3605. (36) The answer to the first question is, that the fall of £2 10s. in the value of the £100 Consols, not being a loss resulting inevitably from the holding of the Consols for the purpose of receiving the £2 10s. dividend, is a capital loss. It is not commercial depreciation, and is not a charge against the income. Capital losses may perhaps be defined as the fall in exchangeable value of property not applied to the purpose of seeking profits in such a manner as to cause it inevitably to diminish or expire, and the capital invested in the £100 of Consols for the purpose of earning the £2 10s. dividend was not applied in such a way as to cause it inevitably to diminish in value. By the same process of reasoning, the answer to the second question is, that the rise in value of the Consols to 82½ results, if the Consols are sold, in a capital profit of £2 10s., which is of a different character to the dividend of £2 10s., and may be treated as income or not, at the option of the person concerned. The answers are unaffected by the question whether or not the Consols are about to be sold at the end of the year.

3606. (37) Another question in the same work is as follows:—

Suppose a tramway company lays its line when material and labour are both dear; both subsequently fall, and the same line can be laid for half the money, and, as an asset (independent of depreciation from wear), is worth only half what it cost. Is the company to make this good to capital before it pays further dividends? If so, then, if the cost of material and labour had

risen after the line was laid, might not the company have divided as dividend this aggregation to capital? Upon such a principle, dividends would vary enormously, and sometimes inversely to the actual profit of the concern.

3607. (38) This question brings out clearly the importance of understanding the true meaning of depreciation in its commercial sense, which is nothing more or less than "expired capital outlay." The tramway company no doubt laid out its capital to the best advantage at the time of installing the tramway, and having made the bargain and bought the property, whether the price was high or low, the sole question for the company in preparing its annual revenue accounts is as to how the cost, which is expiring over a long period of years, is to be fairly allocated as a charge against the revenue account of each year for expired capital outlay. The company must, after the tramway has been laid and equipped, disregard all subsequent fluctuations in the value of material and labour, for the reasons stated above, except in so far as these may safely be taken as useful indications in revising earlier estimates of the ultimate scrap value.

Two classes of wasting assets.

3608. (39) For Income Tax purposes, wasting assets must be divided into two distinct classes as under:—

- (a) Capital invested in the purchase of assets necessarily required to be wasted in seeking the profits of future years.
- (b) Capital invested in the purchase of rights to the enjoyment of the profits of future years.

3609. (40) Wasting assets falling within the first-mentioned class are termed inherently wasting assets, being assets which waste irrespective of particular ownership; and assets falling within the last-mentioned class, although wasting in the hands of the individual owner, are not inherently wasting assets, for they do not waste irrespective of particular ownership.

Inherently wasting assets.

3610. (41) In computing annual profits for Income Tax purposes, deduction should be allowed from revenue in respect of the annual waste of all inherently wasting assets.

3611. (42) Capital invested in inherently wasting assets includes all assets represented by a corpus or fund (apart from the value of mere rights to future taxable profits or income) which wastes in the process of seeking income or profits. Wasting assets of this character include therefore:—

Industrial plant as already defined.

Natural raw materials, including coal, minerals, stone, gravel, earths, oil, nitrate, and, when intended for sale, land.

Shaft sinking and development undertaken to obtain access to all such raw materials.

Proximate life and other terminable annuities.

3612. (43) In all the above cases the source of profit is temporary in the sense that it cannot continue without the employment of the inherently wasting assets, and therefore ceases to yield profit when these have been exhausted. There is no valid reason for refusing to allow the inevitable depreciation or reduction in value of wasting assets of this kind.

Wasting assets which are not inherently wasting assets.

3613. (44) But deduction cannot be allowed in respect of the wasting assets falling under class (b), which include:—

Purchased terminable concessions.

Leaseholds.

Copyrights.

Patent rights.

Goodwill and trade marks.

3614. (45) Capital invested in this class of wasting assets will be found on examination to consist exclusively of purchased rights to future taxable income arising over a series of later years, and deduction for

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waste in the hands of the individual owners cannot be allowed as a deduction in computing taxable profits. Income Tax must be levied periodically on profits as they arise from property, professions, trades and offices, and it must be levied at the source, but it is a common practice for the owner of a particular source from which profits arise, such as either land, buildings, copyrights, patent-rights, or what is known as goodwill, to sell or dispose of his personal interest in this source to another party either absolutely or for a term of years. The original owner receives as consideration a lump sum of money in exchange, this being really, therefore, an arrangement by which he secures in one sum the agreed present value of the future annual income, which is paid to him in advance, and no doubt, therefore, under discount. Allowance should also be made to the purchaser on fixing the purchase price for the estimated future liability shifted on to him to pay Income Tax. The new owner enters into possession of the particular source of profits arising, and while in possession he is liable to pay Income Tax periodically thereon. He may, in his turn, at any time, sell his interest either absolutely or for a term of years to a third party, and so on indefinitely. It is obvious that those responsible for assessing and collecting Income Tax cannot undertake to follow the ever-changing interests and equities of individuals in sources of taxable profits back into the hands of the original owner; they must assess annually at the source the annual profits arising, and collect the tax annually from the individual in possession of that source, whether he be principal or agent, leaving him to make all necessary adjustments with other parties.

3615. (46) Depreciation, or expired capital outlay, which is not allowable then in assessing profits to Income Tax is that which takes place only in the hands of the individual owner who has purchased the future income of another man, for this is not depreciation of inherently wasting assets arising out of, and necessarily incidental to, the earning of the taxable annual profits. The claim to an allowance in respect of wasting assets which are not inherently wasting assets arises simply out of the fact that the ownership of the source of profit has been transferred by purchase from one individual to another, but there is no equitable ground for claiming allowance on this account, because such transfer from one to another does not of itself impair the annual value or profit-earning capacity, which must in all cases be taxed in one sum at the source as it arises annually.

3616. (47) The granting of a right called a lease does not impair the annual value of the premises demised, and when a premium is paid for a lease the case falls into the same category, as the premium is merely payment in advance for an increase in annual value over the existing rent. The gross annual value of the land and buildings, less the statutory allowance for repairs, is taxable annually. The purchase for a lump sum of the right to the profits which may arise in future years from the work of the author (represented by copyrights), or from the work of the inventor (represented by patent-rights), or the industrial and business organiser (represented by goodwill), does not diminish these future profits, though the owner or creator of the source has himself anticipated the receipt and enjoyment of those taxable profits by assigning to others his right to receive them if and when they arise.

3617. (48) In all these cases, the charging of Income Tax on the full income or profit arising each year would seem to bear unjustly upon those who have invested their capital in the purchase of temporary rights of this description, except when due allowance has been made to the purchaser, in fixing the purchase price, for the future liability shifted on to the purchaser to pay Income Tax. No doubt it may be argued that although the tax must be paid, it falls on the wrong shoulders, but until some practical means can be found to charge with Income Tax those who have received expected future taxable profit in advance of the year of its arising, there seems to be no remedy. However that may be, it is certainly important that this particular class of wasting assets should be distinguished, and excluded when arguing the unanswerable claim for the allowance of deduction

from taxable profits of the depreciation of inherently wasting assets.

3618. (49) I will now proceed to consider the question of the measurement of depreciation or expired capital outlay on inherently wasting assets.

Industrial plant.

3619. (50) In selecting the proper basis for an annual charge to revenue for depreciation of industrial plant, the evidence is irresistible that expiration of time is the dominating factor. The following considerations have an important bearing on the question:—

- (a) The efficient life period of all industrial plant is strictly limited, although difficult to forecast. It may be compared to the period of annual life, which is not more surely limited.
- (b) The extreme efficient life period of any class of industrial plant may, in a few cases, exceed one hundred years, but rarely exceeds fifty years, the most common life period being, perhaps, between ten and thirty years.
- (c) Industrial plant has a strong tendency to fall in present value to a going concern directly in proportion to that part of its limited efficient life which has expired, because the process of natural decay, and the advance of obsolescence due to new inventions and other change, always progress, whether the plant is in actual use or not. Use, therefore, or the amount of work done by the plant, is not generally the dominating depreciation factor.
- (d) The only exception to this rule is when the plant is of such a nature that the amount of actual wear caused by work done will obviously be the dominating depreciation factor, as with steel rails, which, if used enough, will wear out before they rust out. In cases of this kind the efficient life period should be estimated according to the expected amount of work to be done, provided that the resulting rate of depreciation never falls below the rate necessary to cover the process of natural decay and the advance of obsolescence.

3620. (51) These considerations suggest that the mere existence of industrial plant offers, to the undertaking owning it, a continuous opportunity of advantage which must be charged for in the revenue account, because it expires, whether it is used or not, just as the annual rent of premises must be provided because a year has expired, whether the premises have been actually used or not. It is astonishing how rarely the rate of destruction of value, due to actual use, overtakes the rate of destruction due to constant and inevitable decay and liability to obsolescence.

3621. (52) In measuring annual depreciation of industrial plant, therefore, by far the nearest approach to accuracy will be obtained by estimating the whole life period, in years, of each class of industrial plant, with due regard to all known facts, as well as to future probabilities, and distributing the cost, less estimated scrap value, to future revenue accounts, in equal instalments over each year of that estimated whole-life period.

3622. (53) It will be found that this only means the provision, out of revenue receipts, of a fairly regular annual sum, amounting over a series of years to no more than is now taken out of the revenue receipts of any soundly managed undertaking, at irregular intervals, to pay for renewals of industrial plant as or about the time the cost of these is actually incurred. This latter is a haphazard method, frequently causing the desired net profits to fluctuate between one year and another, although the movement of the business during the period may have had a quite regular tendency; and this is a serious defect, especially in connection with the assessment of Income Tax. The method of measuring, and suitable forms of accounting equipment for recording depreciation,

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are fully illustrated and explained in my work "Depreciation and Wasting Assets."

3023. (54) It is a common custom to describe the annual provision for depreciation of industrial plant as a provision for future renewals, as though it has reference to the future; but this is a misconception. The annual provision for depreciation has nothing to do with the future, but relates solely to the past. It is a replacement of capital in respect of past capital outlay expired in the process of carrying on a profit-seeking undertaking, and is not less an expense than other expenditure of a current character, such as operative wages. It is an expenditure of exchangeable value incurred daily, and must be provided for with other working charges, although the exchange-

able value so expended has been acquired and paid for at an earlier date out of moneys provided as capital.

3024. (55) The following tabular statement is intended to demonstrate that the "original cost basis" of distributing annual depreciation charges is the most suitable for common use, because the distribution will coincide approximately with the value of the services rendered each year by the industrial plant. For comparative purposes a column has been added showing the annual distribution on the "reducing balance of cost basis," and this shows in graphic form the widely different results of the two methods. The cost of the industrial plant is assumed to be £100, the life ten years, and the scrap value £5:—

	Estimated proportion in which the total output is receivable each year.	Original cost basis.	Divergence from output.	Reducing balance of cost basis.	Divergence from output.
	Units.	£		£	
1st year	10	9.5	- .5	25.0	+ 15.0
2nd "	11	9.5	- 1.5	18.8	+ 7.8
3rd "	11	9.5	- 1.5	14.2	+ 3.2
4th "	11	9.5	- 1.5	10.6	- .4
5th "	10	9.5	- .5	7.9	- 2.1
6th "	10	9.5	- .5	5.9	- 4.1
7th "	9	9.5	+ .5	4.6	- 4.4
8th "	8	9.5	+ 1.5	3.4	- 4.6
9th "	8	9.5	+ 1.5	2.6	- 5.4
10th "	7	9.5	+ 2.5	2.0	- 5.0
Total output in units.	95	Usable value 95 Scrap value 5	12	Usable value 95 Scrap value 5	52.
		£100		£100	

3025. (56) There is a comprehensive table published at the end of my work, "Depreciation and Wasting Assets," showing the proportion of the whole-life output of industrial plant receivable annually in comparison with the proportion of the cost charged annually to revenue under various methods of distribution in common use. [See App. No. 10.]

Natural raw material and recurring crops.

3026. (57) Another important division of inherently wasting assets includes the mass, or source, of any natural raw material, such as bodies of coal and all kinds of minerals, deposits of slate, stone, gravel, earths, oils, and nitrate; also timber, and all growing plants yielding recurring crops, such as tea and rubber. All capital outlay on main shafts, main adits, shafts which develop ore, and other underground developments, also falls conveniently under this head of wasting assets, as also does the capital outlay on clearing, planting, developing, and weeding estates yielding recurring crops.

3027. (58) The payments made for the purchase of all this property are, without exception, payments made in advance on revenue account. The property is in each case wholly dedicated to the purpose of earning profits or income. It is not intended for resale in its existing form, and, therefore, subsequent market fluctuations due to the operation of the law of supply and demand cannot affect the question of the annual amount of depreciation necessary to be provided out of the revenue receipts of each year to replace the expired outlay or cost of this perishable property.

3028. (59) In measuring the annual depreciation of the mass or source of natural raw material—and land intended for sale—the chief factor to be taken into consideration is the proportion which the volume exhausted by being won, and thereafter assuming the same character as stock in hand for sale—or, in the case of land, exhausted by being actually sold—in each

year, bears to the whole volume according to the latest estimates. It should be noted that the factors of expiration of time, natural decay, wear and tear, and obsolescence, which are so prominent in considering the question of depreciation of industrial plant, are absent here; for, in the case of the mass or source of natural raw material—and of land intended for sale—the only question for consideration is the proportion which the annual depletion of the mass bears to the whole mass (known or estimated) which originally represented the capital outlay.

3029. (60) In determining the annual amount of expired capital outlay (depreciation) to be taken back out of each year's revenue receipts in the case of recurring crops, such as tea and rubber plantations, questions of considerable difficulty will arise. It is, however, clear that the benefit of all outlay incurred in securing planted and developed estates is temporary and finite; and, therefore, before profit can be claimed, each year's revenue account which receives any part of that finite benefit must be made to contribute something towards the cost of producing every unit of quantity, either weight or measurement, the proceeds or value of which is brought to credit of the revenue account. This annual contribution must be charged against revenue receipts quite independently of the results of each year's trading, which may be either good or bad; and regularity of the provision should be secured by the use of a carefully prepared scheme drawn up to suit the circumstances of each case, and capable of future adjustment to any altered conditions which may develop in the future. The important point is to secure the regular provision of an annual sum out of revenue receipts upon a settled basis. If the amount is at first wrongly estimated, the rates can be easily adjusted at a later date.

3030. (61) In preparing such a scheme it should be borne in mind that the outlay on planting and developing estates of all kinds falls under several heads, each having, perhaps, a varying degree of permanence.

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The original cost of clearing jungle land, and draining and road-making, for instance, may in some cases be considered of so permanent a nature as to entitle it to be placed in the same category as the site value of the land, so that, therefore, no provision for expired capital outlay need be taken back out of the revenue receipts of each year; but this is at best a doubtful policy. The cost of planting, and of weeding, and of tending the young plants until they reach the producing stage, including a proper proportion of supervision and administration expenses, is of a less permanent nature, and should generally be dealt with separately. The provision should, in each case, be made by fixing a sum to be charged against the revenue receipts in respect of each unit of quantity, the value of which is brought to the credit of each annual revenue account. Unless this is done the economic cost of producing the product will be understated in the revenue account. The policy of charging against annual revenue the cost of upkeep and replanting only when it is incurred does not overcome the difficulty that the economic cost of the product will be understated in the earlier years, and probably also in many subsequent years during the currency of the undertakings. The most convenient method of accounting for capital outlay of this kind is to divide it into classes, and record it in a register in the same form as the register of industrial plant explained in "Depreciation and Wasting Assets." The register would be called "Register of wasting assets."

3631. (62) It is obviously impossible to determine with accuracy the proportion which the annual waste taking places in the property of collieries, mines, etc., bears to the total cost of such property. It is, however, always possible to obtain sufficient data to fix the value of such property for selling purposes; and this is generally done by means of estimates of the total number of tons of ore expected to be contained in the mines, the assay value per ton, and the cost per ton of raising, smelting, and marketing, from which data a capital value is fixed, which is considered by the purchasers safe and sound enough to justify them risking their capital in the venture.

Mine development.

3632. (68) Main shafts, main adits, shafts which develop ore, and other underground developments, fall strictly under the head of "industrial plant"; but for the purpose of measuring annual depreciation thereon, this kind of property should be treated separately, because the outlay should be gradually refunded out of revenue receipts in the proportion which the quantity of the product won each year bears to the estimated total quantity to which access is expected to be gained by such works.

Purchased terminable annuities.

3633. (64) Purchased terminable annuities form a division of inherently wasting assets. They usually run either for a life or for a fixed number of years. Life annuities are the most common form, but annuities extending over a fixed number of years are occasionally purchased, generally in connection with the carrying out of some financial arrangement. A fixed term exceeding twenty years is rare. Before the war the rate of interest usually allowed was 3 per cent. to 3½ per cent. per annum.

3634. (65) The purchaser of an annuity of either kind enters into a transaction the effect of which is that he lends money at interest to the grantor of the annuity on the terms that the principal sum is to be repaid to the purchaser, together with interest thereon, in equal annual payments. Each annual payment contains both principal and interest, and, therefore, the unexpired capital outlay representing the present value of the annuity diminishes as each annual payment is received.

3635. (66) This will be made clearer by a simple illustration. Taking the value of money at 4 per cent. per annum, the present value of an annuity of £100 for three years is £277.51. This present value is built up by adding together a number of

units, each of which units represents the present value of one future year's instalment, as follows:—

INSTALLMENTS OF ANNUITY.					
	1st year.	2nd year.	3rd year.	Inst.	Total.
Present value of £100 instalments	90.15	92.46	94.76		277.51
One year's interest at 4 per cent. for 1st year	9.85	9.69	9.54	11.16	
	£100	90.15	92.46		
One year's interest at 4 per cent. for 2nd year		9.85	9.69	7.54	
		£100	90.15		
One year's interest at 4 per cent. for 3rd year			9.85	9.65	
			£100		27.49
					£300

3636. (67) The sum of the present value, amounting to £277.51, plus the sum of the interest from the present date, with yearly rests, to the date when each instalment of £100 becomes due, amounting to £29.49, equals £300, being the sum of the annual instalments.

3637. (68) It will be noticed that the interest factor contained in each annual payment is not a constant annual sum, but diminishes year by year. This is, of course, owing to the nature of the annuity contract, which is a specific agreement under which a certain sum of money is advanced in consideration of its being repaid in instalments within an agreed time, either fixed or ascertainable by average, together with interest on the diminishing amount of principal remaining from time to time outstanding.

3638. (69) From the above illustration it will be seen that the sums received annually from purchased terminable annuities are not income, but that each payment consists partly of capital and partly of income, and that whenever it becomes necessary, for any purpose, the two factors can be easily separated. The circumstance that a person in receipt of an annuity may, and perhaps usually does, elect to expend the whole of the amount of the annuity, does not affect its character in any way, or alter the economic fact that the annuitant is expending both his capital and his income together. Income Tax is not a tax on expenditure.

Draft clause making provision—under present law—as to expired capital outlay on raw material, &c.

3639. (70) In drawing the understated clause making provision as to expired capital outlay on raw material, &c., it was assumed that it was not intended to disturb the provisions of the Income Tax Acts, or the practice under which deduction is now allowed for wear and tear of plant and machinery, and which allows any part of this deduction which cannot be given effect to in a particular year to be carried forward to the next year and so on.

3640. (71) The classes of natural raw materials set out in the first part of the clause are by no means exhaustive, or stated with proper definition, and the different classes will require careful consideration and extension. Natural gas may, for instance, be a raw material which should be admitted.

3641. (72) With regard to possible attempts by adventurers to claim under the clause improper values for natural raw material by means of an individual purchasing the particular source at the market value and then selling it to a syndicate or another person at a much higher price, this will be found to be effectively countered by the provisions of sub-sections (a) and (b) of para. 2 of the draft clause. The value of assets acquired by purchase is not to exceed the price, and the value, whether acquired by purchase or not, is to be the value at the time when, in the opinion of the Commissioners, there was first intention of the material wasting assets being applied at any future time to the use of any trade. Evidence

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will always be obtainable as to the value of different classes of raw material in situ according to location, etc., and data on this subject already exist and will accumulate. It is true to say that industries are not often carried on with the deliberate intention of defeating Income Tax, and only in some few cases of a personal character is any serious trouble likely to arise. I think, therefore, that these sub-sections contain limitations which should be sufficient to defeat any improper attempts to overstate values for the purpose of claiming excessive deductions.

3642. (73) The draft clause is as follows:—

Notwithstanding any provision to the contrary contained in any Act relating to Income Tax, the commissioners for general or special purposes shall, in assessing profits or gains of any trade, manufacture, adventure or concern in the nature of trade, chargeable under Schedule (D), or the profits of any concern chargeable by reference to the rules of that Schedule, allow such deduction as they may think just and reasonable as an estimate of the amount of any portion, expired during the year, of any capital outlay of such trade, manufacture, adventure or concern in the nature of trade, represented by material wasting assets consisting of the mass or source of any natural raw material, including bodies of coal, and of all kinds of minerals, slate, stone, gravel, earths, oil, and nitrate, together with all main shafts, main adits, shafts which develop ore, borings, drillings, and all other development works undertaken with the object of winning any such natural raw material.

For the purpose of this section capital outlay represented by such material wasting assets shall be taken to be:—

(a) so far as it consists of such material wasting assets acquired by purchase, the value not exceeding the price at which those material wasting assets were first acquired by purchase with, in the opinion of the Commissioners, the intention of those material wasting assets being applied at any future time to trade purposes, or to the use of such particular trade, manufacture, adventure or concern in the nature of trade, whichever amount is the smaller; and

(b) so far as it consists of such material wasting assets which have not been acquired by purchase, the value of those material wasting assets at the time when, in the opinion of the Commissioners, they were first applied to trade purposes, or to the use of such particular trade, manufacture, adventure or concern in the nature of trade, whichever amount is the smaller.

For the purpose of enabling deductions of expired capital outlay under this section to be allowed by the Additional Commissioners, claims in respect of those deductions shall be included in the annual statement required to be delivered under the Income Tax Acts of the profits or gains of the concern for the use of which the material wasting assets representing such capital outlay are applied, and the Additional Commissioners in assessing those profits or gains shall make such allowances in respect of those claims as they think just and reasonable.

No deduction of expired capital outlay under this section or repayment on account of any such deduction shall be allowed in any year if the deduction when added to the deductions allowed on that capital outlay in any previous years will make the aggregate amount of the deductions exceed the amount of that capital outlay.

Where as respects any trade, manufacture, adventure or concern full effect cannot be given to the deduction of such expired capital outlay in any year owing to there being no profits or gains chargeable with Income Tax in that year, or owing to the profits or gains so chargeable being less than the amount of the deduction when added to the amount of the deduction, if any, for wear and tear of machinery or plant allowable under the provisions of the Income Tax Acts, the amount of such deductions or parts of such

deductions to which effect has not been given, as the case may be, shall, for the purpose of making the assessment for the following year, be added to the amount of the deductions for expired capital outlay and for wear and tear for that year and deemed to be part of those deductions, or if there are no such deductions or deduction for that year, be deemed to be the deductions or deduction for that year, and so on for succeeding years.

3643. (74) Now that it has become a question of revising the general Income Tax law and practice, I am strongly in favour of treating that factor of annual expenditure represented by expired capital outlay on all inherently wasting assets, as defined in my book on "Depreciation and Wasting Assets," as an annual expense to be regularly measured and recorded in a statutory register (as recommended in my work), the measured amount being charged against the profit and loss account of such year. The subject of these deductions would then, of course, be dealt with in quite a different way to that which obtains under the present practice.

Demonstration of the fact that the annual accretion to a sinking fund is not a sound measure of annual depreciation of material wasting assets.

3644. (75) The annual accretion to a sinking fund is not a sound measure of the annual depreciation of material wasting assets, and in view of the fact that it is sometimes so regarded for the purpose of measuring the annual deduction to be allowed for Income Tax purposes, it is of importance to understand the true effect of this method, which is known as the annuity or sinking fund theory of measurement of depreciation.

3645. (76) The most important division of material wasting assets is industrial plant, and industrial plant, during its efficient life, gives efficient, and therefore approximately equal, annual service, a fact admitted by the advocates of this theory; and in order to understand the true effect of the theory, the question: "What is an annuity?" must first be answered. Suppose a man has a capital of £100 in money and wants to lay it out to be exhausted in such a way as to bring him in the largest possible equal annual income over a period of twenty years. Then, taking interest at 5 per cent. per annum, this man will find that by parting with his £100 now he can secure an equal annual income of £8 over a period of twenty years, the first instalment of £8 being payable to him at the end of the first year, and the last or twentieth instalment being payable to him at the end of the twentieth year.

3646. (77) A man who enters into a contract of this kind has purchased an annuity, and should know what part of his capital outlay has expired or is exhausted at the end of each year. If he keeps accounts, his annuity ledger account will stand thus for the first three years of the term:—

Dr.		Cr.
Cost of annuity	£100	
Interest on £100 for one year 5%	£5	
		Annuity, consisting of interest per centum 45
		Capital
		£5
		£5
		Note.—This £8 is equal to the annual instalment of a sinking fund to replace £100 at the end of twenty years.
		Balance
		£97
		£105
Balance, unexpired cost ..	£97	
Interest on £97 for one year 5%	£5	
		Annuity, consisting of interest per centum 45
		Capital
		£5
		£8
		Note.—This £8.75 is equal to £8 plus one year's interest on sinking fund investments.
		Balance
		£95.75
		£101.75

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3055. (87) The balance of this plant ledger account should be £90 and not £62. The reason of the difference will be seen on reference to the annuity scale of value already set out, which operates to provide only £3.02 in the first year, the provision gradually increasing to £7.64 in the twentieth year, so that, in 10 years, the sum of the annual accretions to a 20 years' sinking fund—taken in this case as the measure of depreciation to date—is only £38 instead of £90. Of the £100 to be replaced by the sinking fund, £60 is ultimately provided by the sum of the 20 sinking fund instalments of £3 each and £40 by the interest accumable thereon in 20 years, of which less than half—by £12—has been earned in the first 10 years, and the £12 is, by the use of this theory, retained in the value of the plant to be taken out of the earnings of future years.

3057. (88) An argument which is often used in support of this theory is that the surviving value should be based on cost, and that cost includes interest. It is true that one of the elements of economic cost is a normal rate of interest on capital invested, but we have seen that the market value of material wasting assets is not increased by interest. But in connection with a profit-seeking undertaking using material wasting assets two distinct classes of value may co-exist, one the "going-concern" value of the material plant, and the other goodwill, which is the present value of future super-profits expected to be earned during the remainder of the useful life of the plant. The term super-profits—as applied to profits which may arise out of the use of the plant—measures the amount by which the profits or interest assumed by the annuity theory to be payable in the last 10 years exceeds the profits or interest assumed to have been earned in the first 10 years of the period, and in the case illustrated this amount is £12.

3058. (89) The unit of cost has been taken in the illustration as £100, and on this the over-statement of the "going-concern" value of the plant at the end of 10 years is £12, but when questions arise as to the value of extensive plant installations the matter assumes very great importance. Thus, in the case of plant costing £10,000,000 the over-statement of value at the end of 10 years by the use of this theory of measurement might amount to no less than £1,300,000. Another important point to be borne in mind is that the only possible justification for the use of this theory on any ground whatever is that the relative sinking fund has, in fact, been set up and regularly maintained out of moneys gradually released as the expiring cost of the plant is refunded out of revenue; but it will generally be found that this cannot be done, because that part of the capital of an undertaking which is invested in plant remains, as to its bulk, always permanently invested in plant, the units of which are continuously passing out of service and being renewed in the same way that other portions of the capital of an industrial undertaking remain permanently invested in such assets as stock and debts, the constituent items of which are always changing, while the amount of capital which they represent remains a fairly constant sum.

3059. (90) There are other objections to the use of the annuity theory of measurement of depreciation, such as the many classes of plant which have to be dealt with, and the difficulty under this method of subsequent alteration and adjustment of the life periods. Industrial plant often consists of scores of different classes with different life periods attaching to each class, and the estimates of the life periods of each class may have to be revised by the engineers from time to time owing to changing conditions, and to a variety of circumstances which cannot be foreseen over a long period of future years.

3060. (91) The fact is that the only form of wasting asset which can be safely written down year by year as it expires by the annuity or sinking fund theory of measurement is the annuity, because this is the only kind of property which yields future income certain, over a period certain, receivable in equal annual instalments. The degree of objection or risk incidental to the use of this theory for other wasting assets, which are not material wasting assets, varies with the degree of precariousness of the future income.

The kind of property which approaches perhaps most nearly in some respects to that of an annuity is a lease of land and buildings, entitling the owner of the lease to the use and enjoyment of the premises for a fixed term. If the leasehold property is of such a character that the annual value is likely to remain constant during the whole term, there is not much risk or practical objection to measuring and writing off the annual expired capital outlay on the annuity or sinking fund theory, although as the future is never certain it is better not to do so.

3061. (92) Although a great deal is sometimes heard of the annuity or sinking fund theory of measurement of expired capital outlay for ascertaining the surviving value of plant, and although it was put forward, and the case very ably, though unsuccessfully, argued on behalf of the National Telephone Company, whose claim, exclusive of goodwill, which was barred, amounted to upwards of £20,000,000, in the arbitration to determine the "then value" of the plant, it is hard to find a record of any commercial undertaking actually using this method. Never theless, it is unfortunately largely used by municipal authorities for their trading concerns. They borrow money to pay for wasting assets in the nature of plant required for tramways, gas, electric light and water undertakings, to be repaid at the end of a long period of years by accumulating a sinking fund, and they often measure the provision for expired capital outlay on their plant by the amount of the annual instalment of the sinking fund. It has been shown that this is unsound, and that it results in retaining in the value of the plant, and so capitalising an assumed goodwill, which should never be done, even if it exists, and, in view of the enormous sums of money involved, the subject urgently needs attention.

3062. (93) There is little doubt that the use of the sinking fund instalment as a measure of the annual depreciation of plant was originally adopted because the sinking fund provides the amount required by the end of the estimated life period. In those days the possible effects upon the computation of intermediate annual profits, and upon the current records of the unexpired value of plant, were of secondary importance, and indeed these questions were then regarded as incapable of treatment on the basis of an exact science.

Suggested amendment of the present law is regard to wasting assets and taxation.

3063. (94) Although the words of the Income Tax Act, 1842, setting out the manner of estimating the balance of profits and gains under Schedule D, are in themselves full and fair words, they have been so narrowly construed that their meaning has been entirely altered both by subsequent legal decisions and later Acts.

3064. (95) In any fresh legislation, therefore, it should, in my opinion, be provided that in estimating the balance of profits and gains, deduction shall be allowed for expired capital outlay (depreciation) during the year on inherently wasting assets, comprising all values of an exchangeable nature applied to the purpose of seeking profits otherwise than by purchase and sale, and necessarily required to be wasted in seeking the profits of future years.

3065. (96) This form of words will be found to include only material wasting assets such as industrial plant, natural raw material, and growing plants yielding recurring crops, together with the works undertaken to win the produce of these, and the capital elements contained in annuity contracts.

3066. (97) The words exclude the allowance of any deduction in respect of such wasting assets, which are not inherently wasting assets, as purchased terminable concessions, leaseholds, copyrights, patent-rights goodwill and trade marks, which represent only capital invested in the purchase of mere rights to the enjoyment of the profits of future years, which profits must be assessed to Income Tax in respect of the years in which they actually arise.

3067. (98) The method of measurement of the expired capital outlay during the year on inherently

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wasting assets must be left to the taxpayer, and will have to be proved as a question of fact to the satisfaction of the Commissioners of Income Tax. It will, in my opinion, be far less difficult than is generally anticipated to ascertain whether or not the annual amount of deductions claimed under this head is a reasonable one for the year. It will generally be necessary for this purpose for the taxpayer to show that the estimate is based on a regular policy which has been laid down to be followed, and will be followed in ascertaining the annual profits of the particular undertaking. Strict rules could be applied and the effect would be a great encouragement of sound finance and the gradual raising of the computation of annual profits to the level of an exact science by comparison with present irregular methods.

Payments "free of Income Tax."

3668. (99) In my opinion, it is desirable in the national interest to forbid under penalty the distribution as "free of Income Tax" of any profits or gains subject to taxation at the source, and of any fees, salaries, commissions or other emoluments for personal services.

3669. (100) The practice of distributing dividends as "free of Income Tax" is increasing and leads to great complications and additional labour in assessing Income Tax. I know of no sound argument in favour of permitting this practice to continue.

3670. (101) As an instance of the confusion arising out of the practice of paying dividends "free of Income Tax," I call attention to the following actual case:—

The Company has an issued capital of 200,000 divided into 500,000 shares of five shillings each, and the Company's financial year ends on the 31st December. For the year ended 31st December, 1916, the dividends were declared and paid less Income Tax. For the year ended 31st December, 1917, the following dividends were declared and paid:—

1917: 27th July, No. 49, 2s. per share, "free of Income Tax."

1917: 26th October, No. 50, 1s. 4d. per share, less Income Tax.

1918: 31st January, No. 51, 1s. 4d. per share, less Income Tax.

1918: 10th May, No. 52, 1s. 4d. per share, less Income Tax.

For the year ended 31st December, 1918, the dividends were again declared and paid "free of Income Tax."

The dividends paid for the year 1917, after adjusting the one dividend paid "free of Income Tax," amount apparently to 139-3 per cent., but even when consistently followed the practice is most confusing, and ninety-nine people out of a hundred do not understand it, besides which this method entails much needless labour on Inland Revenue officials and on professional accountants in endeavouring to straighten out computations of taxable income.

3671. (102) The payment as "free of Income Tax" of directors' fees, salaries, commissions, etc., is also increasing, and leads to vast and unnecessary complications in connection with Income Tax assessment. Paragraph 61 of the Report of the Company Law Amendment Committee recommends that payment to directors "free of Income Tax" or of Super-tax shall be forbidden.

Taxation of income periodically, at the source, as it arises.

3672. (103) In view of the paramount importance of Income Tax as the prime instrument for raising national revenue, it is, in my opinion, absolutely necessary for practical reasons that the method of assessment and administration of the tax shall be placed on the simplest possible lines. In recent years the complications arising out of concessions to meet this and that complaint have become so great as seriously to affect the efficient collection of the tax. An Income Tax, as a general rule, should be fastened on income periodically, at the source, as it arises, and this tends greatly to ease its collection and to soften

its harshness. There is no special virtue about the period of one year except that the profits of businesses are commonly ascertained only once a year. Interest payments and personal earnings should be paid subject to deduction of Income Tax either half-yearly, quarterly, monthly or weekly, according to the period of the earning. This is already so in the case of periodical interest, and the practice should be extended to all monthly salaries and weekly wages. Income Tax is a personal tax. The rate in the £ to be deducted from weekly wages would be determined according to the amount of the wages and the circumstances of each wage-earner, by reference to a table.

[This concludes the evidence-in-chief.]

3673. Mr. Kerly: You are a chartered accountant?—Yes.

3674. And you have given special attention to the question of the depreciation of wasting assets?—Yes.

3675. I have before me—I am sorry to say I only know the outside of it—what I have no doubt is a valuable work dealing with that subject. We have your evidence-in-chief before us. Will you run shortly through your evidence, just indicating its principal points. I hope it will not be necessary for you to read it all. I think most of us have read it. If not all of us. Then, of course, you will be examined by different members of the Commission?—I must apologise first of all for the very technical nature of the greater part of my evidence. It is, I am afraid, unavoidable on this subject. In paragraph 4 I stated that the third rule of the first case of Schedule D of the Act of 1842 provides that no sum shall be allowed to be set off or deducted from profits on account of any capital withdrawn from any trade, manufacture, adventure or concern, and said that those words are harmless in that they do not interfere with the computation of annual profit, but that the words appear to be superfluous, because if any capital is withdrawn and deducted from annual profits the result will obviously be less than profits; and it is profits which the Act taxes. This sentence is intended to convey that in deducting from revenue expired capital outlay on wasting assets one is not deducting anything on account of any capital withdrawn. Capital withdrawn would mean existing exchangeable value specifically withdrawn from the business. The exchangeable value of material wasting assets is part of the capital of an undertaking only until, in the ordinary course of business, the material itself is used up, and has been exchanged into some other form of value. If a quantity of raw material—of nitrate, for instance—was withdrawn by being carted away and given to another undertaking, without consideration passing to the company which originally owned it, that would be capital withdrawn; but if a similar quantity of nitrate was exhausted by the company in the ordinary operations of profit seeking, that would not be capital withdrawn, because other assets in the form of stock, or book debts, would arise, and take the place of the nitrate exhausted in upholding the capital. The argument relating to the operation of exchanging into other forms of value, and so gradually using up and reducing what are called fixed assets may be further illustrated thus: a nitrate company having paid £100,000 for its grounds, and having been soundly financed by regularly retaining out of revenue the annual expired capital outlay until it has exhausted its grounds, would find at the end of its career on the assets side of the balance sheet £100,000 such as bank or investments, while the asset previously represented by the value of its nitrate grounds would have disappeared and have been written down to nil. The company could then, of course, proceed to wind up and repay its capital of £100,000 in full, although all the nitrate had been withdrawn. I think I may just put it in this way, that the withdrawal of an original material wasting asset which formed part of the original capital is not a withdrawal of capital provided there remains an asset of equal value in some other form, which may be either stock, book debts, or cash, to take the place of the original material

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wasting asset. This other form of asset now represents the fixed or nominal capital.

3676. All that is argument to show that the interpretation put upon that section was wrong?—That is so.

3677. It does not really touch the practical question of how we are to provide for the future?—No. Except by allowing those deductions which form part of the cost of seeking profits. I think that the contents of paragraphs 1 to 14 of my evidence may really be summarized by saying that in the middle of last century when Income Tax was reintroduced it was inevitable that the then very imperfect commercial practice in regard to the science of computing annual profits should be largely followed in computing annual profits for Income Tax purposes, and this practice gradually set up a large body of precedent and Case law which assumed the force of law, and this was afterwards strengthened, and by implication recognized, in subsequent Statutes, such as the Customs and Inland Revenue Act of 1878, section 12 of which opens with the words: "Notwithstanding any provision to the contrary contained in any Act relating to Income Tax." It has now for many years been recognized in commercial practice that it is necessary to treat expired capital outlay, or depreciation as it is called, on wasting assets, as a part of the cost of seeking profits equal in importance to other revenue expenditure. I want to make it quite clear that, in my opinion, the refusal to allow deduction for Income Tax purposes of this part of the cost of seeking profits arose originally out of the very imperfect commercial practice in the early days of the present Income Tax. Paragraphs 15 to 21 contain an illustration of the great evils which may arise out of fastening an Income Tax on amounts which are greater than profits. The illustration given relates to Excess Profits Duty; but, as the whole case there illustrated arises owing to the method of computing profits on Income Tax principles instead of on profits, I think the illustration is an apt one. It shows a case of a nitrate company in which additional tax amounting to no less than £40,393 in one year would be payable as a result of earning £25,000 additional profits—in the year 1917 as a matter of fact it was. Owing to this deplorable defect of the present Income Tax practice the control of very large undertakings has already been removed from this country; and arrangements are, I understand, being made for further undertakings to be removed. Paragraphs 22 to 25 include a definition of the term wasting assets, and paragraphs 26 to 33 include a definition of depreciation. I think that these are accurate definitions, and that, although wide and comprehensive, they may safely be adopted for the purpose of commercial practice and for Income Tax purposes. There is no doubt in my mind that the use of the word "depreciation" should be discontinued, and the term "expired capital outlay" substituted.

3678. Why do you prefer the term "expired capital outlay" instead of "exhausted" which I think is the usual phrase?—I am scarcely able to give a considered answer to that. I have given this question very serious study for many years; and I have adopted the term "expired." I do not think there would be very much difference in the cases of some classes of wasting assets; but I can scarcely commit myself.

3679. Each phrase has its connotation, has not it. In each case "expired" and "exhausted," whichever word is chosen, has a connotation?—It may be so.

3680. I suggest to you that the connotation of "exhausted," which means something used up, is correct, and of "expired," which means something which has come to an end by mere lapse of time, is wrong?—I do not think so, because a part of my evidence is an endeavour to show that in some cases mere expiration of time is perhaps the most important factor in bringing about the fall in exchangeable value of some classes of material wasting assets.

3681. I am not at the moment attempting to criticize anything, only I wanted your explanation of why you selected that term?—That is one of the reasons.

3682. Pausing at paragraph 23 by way of explanation only; your definition "wasting assets consist of

all values of an exchangeable nature which inevitably diminish while applied to the purpose of seeking profits" I suggest means "are normally diminished." Do you again prefer your own phrase?—I do.

3683. Very well. Then you go on to divide them up?—I was going to say that the dictionary meaning of the word "depreciation" is very vague, and includes such expressions as "diminish in value," "lower market price," "reduced purchasing power of," and so on. Now I come to what I regard as perhaps the most important matter to understand clearly on this question of wasting assets, and that is the distinction between the two classes of wasting assets for Income Tax purposes, or for the purpose of assessing a tax on annual income, or profits, as these actually arise year by year. This matter is dealt with in paragraphs 38 to 43. At the end of paragraph 40 of my evidence, I say that assets falling within the class "capital invested in the purchase of rights to the enjoyment of the profits of future years," although wasting in the hands of the individual who has purchased the rights, are not inherently wasting assets; and I just want to add that the fact is they are represented by nothing but the calculated present value of latent pure profits which may arise in the future years. If and when they do arise in future years, they will at that time be assessed to Income Tax. This part of the subject is undoubtedly a difficult and obscure one; and it is important that it should be better understood by Income Tax payers. It will be observed that all those wasting assets which are not inherently wasting assets, including purchased terminable concessions, leaseholds, copyrights, patent rights, goodwill, and trade marks, have been purchased from a seller who may, or may not, be the original owner. But on this subject it is most important to state that deduction of expired capital outlay invested in wasting assets of this nature should be allowed for Income Tax assessment purposes whenever and to the extent that the original owner and/or the vendor would not have been subject to British Income Tax if the source of income had remained in his hands. An instance of such an exception would be capital invested in the purchase of a terminable concession outside the United Kingdom, for here the original owner of the source of the future annual profits would not have been subject to British Income Tax, and, therefore, the expired capital outlay necessary to be refunded out of revenue receipts before any annual profit can be earned by the purchaser domiciled in the United Kingdom should be allowed as a deduction from Income Tax receipts in assessing British Income Tax. The assessment to British Income Tax of the whole of the annual profits arising from such foreign concession would tend to restrict, and sometimes even to prohibit, as between a foreigner and a British subject, all transfer business of this nature, which is, of course, always open to the bids of purchasers in all countries of the world. The treatment of expired capital outlay on wasting assets of this nature belonging to persons domiciled in the United Kingdom but representing rights to the enjoyment of the profit of future years arising outside the United Kingdom, is a subject which is somewhat closely allied to the question of Double Income Tax, and will need to be considered also under that head.

3684. Would you pause there for one moment by way of explanation? You suggest, if I follow you, that in the case of purchased terminable concessions, which is your (c), paragraph 23, and all the other items down to (i), there should be no allowance if the vendor is an Englishman, but there should be an allowance if the vendor is a foreigner; is that the suggestion?—That is so, provided that the source of income lies outside the United Kingdom.

3685. Very well, add that. You say that these are, if I may put it so, the title to future profits?—The rights to future expected profits—the present value of expected future profits.

3686. Is it your suggestion that the vendor gets a smaller sum because the purchaser knows that he will be liable for tax on the profits, and therefore the tax that is paid by the purchaser, as the profits come home, may in effect be taken to be a payment for the

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vendor; is that the idea?—That, I think, would depend upon whether the vendor, being a foreigner, had in fact—

3687. I am speaking generally first of all; I want to get what the general principle is, to see why you differentiate between a foreigner and an Englishman. I have not followed it from your statement, and I want to find out if my speculation is right. The first thing is that these rights being sold, the purchaser, looking to get future profit, knowing that he will have to pay tax upon the whole of that future profit, is assumed to pay the vendor less than if he had not to pay tax?—That is an assumption.

3688. Well, is it the assumption you are proceeding on?—I cannot say whether it is so, but I should think not.

3689. Otherwise I do not see why you differentiate between an English vendor and a foreign vendor?—My reason for distinguishing is that the present value of rights to future profits in the hands of a person domiciled in this country are therefore liable to British Income Tax. If those profits arise within the jurisdiction of the British Income Tax the profits must be taxed. But there is another class of profits which arise outside the jurisdiction of the British Income Tax in the hands of their original owners; and I think we must not tax those profits, because otherwise we should be taxing persons domiciled here on profits including profits which have come into the hands of foreigners, and we should be that imposition prevent persons domiciled in the United Kingdom from having an equal chance with other persons in other countries of the world to purchase the rights to those future profits arising outside the United Kingdom.

3690. That is exactly why I asked you this question, because you seem to me to be confusing two things. One is policy, that it is advisable to enable British subjects to be free from Income Tax in certain directions because they come into competition with foreigners; and the other is, leaving the competitive foreigner out of account, that it is fair that the British subject should have an allowance. You seem to me to be mixing the two things up?—I quite agree it is a question of policy—whether a person domiciled here should be called upon to pay tax on profits, including profits which have gone into the hands of a foreigner.

3691. Very well, will you proceed? I hope I have not put you off by interrupting?—No, not at all. I quite appreciate the advantage of taking these points as they arise. Paragraphs 49 to 69 deal with the measurement of expired capital outlay on what I call inherently wasting assets. In my opinion this subject is still in a deplorably neglected condition; and, in view of its constantly increasing importance, I have suggested on various occasions that the use of a suitable accounting equipment, called a register of wasting assets, should be made compulsory by Statute, at any rate in the case of all public companies. If this were done I have no doubt the use of some such equipment and the practice of the scientific annual measurement of expired capital outlay on what I have called "inherently wasting assets" would soon be generally adopted. I feel that it is commercial practice which is still considerably at fault in dealing with this very important question.

3692. In paragraph 57, which is one of the group of paragraphs which I was discussing just now, I deal with capital outlay, amongst other things, on clearing estates to be planted with recurring crops, and it has been suggested whether this is not a permanent outlay. I think it approaches nearly to this. The only material wasting asset which does not waste, apart from geological changes, is land in its natural state. Fertile land in its natural state is generally covered with jungle, and it tends to return to this condition unless cultivation is maintained; so that I think the cost of clearing land is not really properly described as a permanent outlay.

3693. Paragraphs 70 to 74 contain a draft clause making provision under the present law for the allowance of deduction of unexpired capital outlay on raw material, &c. I claim no more for this clause than

that it would have provided a reasonably safe method under which deduction might have been allowed for such raw material as nitrate, coal, minerals, &c. With a revised Income Tax practice such a clause might not be needed.

3694. Then paragraphs 75 to 96 deal with the question of the annual instalment of the sinking fund as a measure of expired capital outlay on material wasting assets. I know of no more dangerous financial expedient than the sinking fund. The term is employed very freely; and the sinking fund is supposed to be a great specific and safeguard against loss, especially in public finance, but it is true to say that its operation is very little understood. Why is it necessary, it may be asked, if £100 is invested in the cost of plant having a life of 20 years, to take out of the revenue of each year, as expired cost of the plant, more than a sum which, if invested annually at, say, 5 per cent. per annum, will amount to £100 at the end of the period of the useful life of the plant? This question tends to some confusion of thought, and, with a view to avoiding this, it may be well to consider the results of three different methods of investment of £100 for 20 years. First, in the cost of plant having a life of 20 years; second, in the cost of an annuity of £8 yielding interest at 5 per cent. per annum; and third, in the cost of 2½ per cent. Consols, which, for the sake of convenience, I have put at, say, £50 per £100 nominal, yielding, therefore, 5 per cent. per annum. It will be observed that in case 3, the capital outlay does not expire, but will exist unimpaired at the end of the 20 years, whereas in cases 1 and 2 the capital outlay will have wholly expired at the end of the 20 years. Cases 1 and 2, therefore, only need be considered. In case one, the capital is invested, or locked up, in plant, which is material property. Material property does not yield interest, and £100 locked up in plant may be compared with 100 sovereigns locked up in a box. One-twentieth of the cost value of the plant, amounting to £5, will expire each year. The £5 will be taken out of the revenue of each year, and will probably be used to meet the cost of renewing other parts of plant necessary to maintain the volume of efficient plant required to earn the revenue of the undertaking, as explained in pages 174 to 177 of my work on "Depreciation and Wasting Assets." If not so used, the £5 thus released will go automatically to increase some other form of asset representing the capital of the undertaking, such as cash at the bank, book debts, or stock, or in the alternative will be invested in securities outside the business, which securities will still form part of the capital of the undertaking, and these assets, in whatever form they exist, will contribute their share in earning each year's profits or increase of the undertaking. If only £3 instead of £5 is taken out by deduction from the revenue of the first year, the profits actually earned for that year will be overstated by £2, and if an amount of profits so computed is distributed to proprietors the result will be that £2 of capital will be distributed, together with the actual profits of the first year; thereby improperly reducing the capital, which, however, will still appear to be intact because the value of the plant will be overstated in the balance sheet by £2. What really happens is this: £5 of the capital outlay expires each year and if retained in hand by being deducted from revenue, will contribute towards the profits of the 20 years a sum of not less than £65, being interest at 5 per cent. per annum on the investment of the annual sum of £5 retained out of revenue. If only £3 per annum is retained out of revenue on the sinking fund method, there being in fact no sinking fund, it is very important to know that the effect is that the £3 for expired capital outlay must be supplemented by an imaginary interest amounting, by increasing annual sums, to £40 during the 20 years; and these increasing annual sums must be debited to profit and loss each year as part of the depreciation, and written off the plant account, being on the other hand credited to the profit and loss account as interest, and debited to an imaginary asset account which is not represented by anything. The effect is to overstate the profits of the 20 years by £40, because in fact £3 per annum instead of £5 per

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annua have been retained out of revenue during the 20 years as depreciation, or expired capital outlay. The use of the sinking fund method under which only about £3 instead of £5 is taken out of the revenue of the first year operates to overstate the annual profits computed as being earned during each year of the period, and thus to cause the value of the plant to remain overstated in the books of an undertaking during the whole period of the life of the plant. This overstated value reaches its maximum in the case of a 20 years' period about the end of the seventh year. The unexpired value of the plant to a going concern is at that time overstated by more than 25 per cent. This constitutes the great danger of using the sinking fund method to measure the annual depreciation of plant. In case 2 the capital is invested in an annuity of £8. Investment in an annuity is of course quite a different thing from the investment of money in plant. The purchaser of an annuity, in effect, lends money at interest to the grantor of the annuity on the terms that the capital is to be repaid together with interest in equal annual instalments. In this case the first year's annuity will consist roughly of £5 interest and £3 capital, and the last year's annuity will consist of about 7s. 6d. interest and 27 12s. 6d. capital. As a matter of fact, these three forms of investing money are so essentially different in character that any attempt to compare one with another must result in hopeless confusion of thought.

3695. Paragraphs 94 to 98 contain suggested amendments of the present law in regard to wasting assets and taxation. I should like to refer to paragraph 97, and to suggest here again that provision should be made in any amendment of the law to secure that allowance of deduction in respect of wasting assets which are not inherently wasting assets shall be allowed for Income Tax purposes, whenever, and to the extent that the original owner and/or vendor, would not have been subject to British Income Tax if the source of the income had remained in his hands.

3696. That is the question about foreign rights that you have dealt with a little earlier?—That is so. The question of our paying tax on profits in the hands of a foreigner.

3697. That is the reference?—Yes. That, I think, ends the part of my evidence which deals with this difficult subject of depreciation and wasting assets. With regard to my evidence on payments "free of Income Tax" which is contained in paragraphs 99 to 109 I wish to express an emphatic opinion that it is desirable to forbid this practice.

3698. We have had evidence already upon that. The reasons that are given here are that it leads to uncertainty as to how much the dividend actually is, and further than that, it leads to concealment of what the actual total income of the recipient is?—Yes, that is so.

3699. I think those are the only points you make about that, are they not?—Yes. I have one other point to add. I have not been able to hear of a single advantage of making payments "free of Income Tax."

3700. May I suggest one, that the company bears the risk of an alteration in rate?—I cannot admit that that is an advantage.

3701. Not the receiver?—It introduces a speculative element.

3702. Yes?—But I cannot admit that that is an advantage.

3703. It is a factor?—It is a factor undoubtedly; but I was going to add that I find there is always present, though I believe quite unrecognized, an underlying element of deceit in the practice of this "free of Income Tax" system. I believe it is this that is really its attractiveness, although, as I say, I am quite convinced that this is unrecognized by those who advocate it. I wanted to make that point, because that is what I find always present—something which bears the character of deception or deceit.

3704. Who is deceived?—We deceive ourselves. I asked a well-known writer on Income Tax whether there was any advantage in this practice of paying

dividends "free of Income Tax," and he said: "Yes, foreign shareholders believe that they are not paying British Income Tax"—and that is deceit.

3705. They do not appreciate that the company is paying it for them?—No. It conceals things.

3706. With regard to your next point, taxation periodically at the source, have you anything to say?—I have a strong feeling that taxation of income should be made periodically at the source as it arises. There is no particular virtue in the period of one year except that for ascertaining profits of businesses one year must usually be taken as a period, and the shortest period. Other incomes as they arise weekly, monthly, or otherwise, should be subjected to taxation by deduction forthwith. This would make collection easier and the burden of tax would be much less felt by the taxpayer.

3707. Especially by the working classes?—Yes. On both of those latter subjects—payments "free of Income Tax" and taxation periodically at the source—I feel I am scarcely prepared to give more than a strong opinion as the result of a wide and extended knowledge of Income Tax practice. If those subjects are to be gone into in detail I should like first to have an opportunity of developing my evidence with regard to them. I wonder sometimes whether we realize that this country is at present—and is likely to remain for a long period—practically, a partner to the extent of something like one-third in the profits arising out of the human effort—a better expression than the word "Lebanon"—of Englishmen.

3708. Will you pardon my saying that in attempting to express yourself in abstract terms you are sometimes a little difficult to follow. Give us an illustration and then we can follow it better. When you talk about human effort of British people do you mean British people serving abroad or what?—No, I mean those domiciled within the United Kingdom who are liable to British Income Tax.

3709. Be a little more explicit. Your proposition at present—I am not putting this in any disparaging way—that caught me was: "This country is a partner to the extent of one-third in the profits of British effort." I should have thought it was sole owner?—Sole owner of all the profits of human effort or labour? It is perhaps technically the owner of all, but it does at present leave two-thirds or a little more—apart from Super-tax, I am speaking now of Income Tax—of the increase or profits arising from human effort to be enjoyed by the earner, and it takes a share equal to very nearly one-third, and it is going to do that for a considerable number of years. I think we ought to look at the question of Income Tax from that wide point of view.

3710. I follow quite well now. In simpler terms it means that the tax of this country is going to be one-third of its total income?—Not quite, for as was pointed out by Dr. Stamp the other day at the Royal Statistical Society, we only apply an Income Tax to the larger incomes. He pointed out that with £150 as the exemption limit we did not reach one-half of the earnings resulting from human effort in this country. As a matter of fact even now that the limit has been lowered I should doubt whether it touches more than one half of our present income arising out of human effort. The lower incomes received by the masses of the people are, of course, not taxed in this way at all.

3711. Sir T. Whittaker: I will not follow you on the question of depreciation and wasting assets. I only want to ask you with regard to the payment of Income Tax on dividends. Do you carry the same objection to payment of tax on directors' fees and on salaries? It is customary for many banks, insurance offices, and other large concerns, to pay the Income Tax on the salaries of their employees, and also to pay the tax on the directors' fees. What I want to ask you is, does your objection apply to those payments as well as to the payments of dividends "free of Income Tax"?—It does.

3712. Why do you object to the payment of the Income Tax on salaries?—There are several reasons: one is, that it causes complications which are quite

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unnecessary, and it has no real advantages that I can see, and then again one finds too often the element of deceit. I think that Income Tax, which is now so important an instrument of revenue, should be stripped of all unnecessary complications; and I say with emphasis that these practices do add enormously to the difficulties of administering the Income Tax.

3713. Mr. I suggest to you, taking this tax on salaries, that it is rather difficult to understand where there is any deceit in that, and that there are advantages. In the first place, it is much more convenient to the recipient of the salary that someone should put down the money for him, so to speak—it is a lump sum—than that he should have to pay it in that sum, especially if the salary is small. In the second place, during the last year or so the Inland Revenue authorities require a return of this tax as part of the salary, and consequently they get the tax upon it. I do not see how there is any complication upon that?—That is the very thing; that is part of the complication. I do not suggest for a moment that the total consideration passing to those directors and officials should be less than it is at present, but that it should be paid in a straight way and leave each recipient to account properly for the tax on that part of his income just as he does for the tax on other parts of his income.

3714. Sir E. Nott-Bower: I have studied, I hope not without some advantage, the memorandum which you have furnished us with. May I take it that really what you are out for is this: your view is that the Income Tax really is a tax upon profits?—That is so.

3715. And that under the law as it is now and as it is administered now, we do in effect tax something which is not profit?—Yes.

3716. Because insufficient allowance is made for expired capital outlay?—Yes.

3717. You want to secure a change in the law which will prevent the charging to Income Tax of that which is not profit?—Yes, that is so, in the interests of the Income Tax itself, of which I am a very strong advocate.

3718. Then, I suppose, we have to add to that, that where the asset is abroad you want to exclude also any charge in respect of profit which, I might put it, does not fall within the proper scope of the Income Tax at all?—Yes, in order to prevent British subjects from paying tax on profits which include profits paid to foreigners in advance of the years in which they arise and to secure fair treatment and equal treatment to British bidders for such property.

3719. I follow that. Now with regard to the foreign asset, I want to clear that out of the way. We have had separate evidence on this yesterday, and as any rate I agree that there are some considerations arising where the asset is abroad which we have got to consider, and which do not exist where the asset is at home; so in the two or three questions I want to put to you (it is a very complicated subject and very difficult to deal with) will you kindly remember that my questions are confined entirely to where the source of the asset is at home in the United Kingdom?—Yes.

3720. You agree that your object is to prevent the assessment of that which is not a profit?—Yes.

3721. Giving the best consideration I can to it, it seems to me that some of your proposals would result in the exemption of that which is profit. To clear my mind on that point I would like to put one or two questions to you. I think I might illustrate my difficulty in this way: a few years ago there was a valuable discovery of coal in Kent. Let us suppose that the owner of the land under which the coal was found was a man of means and that he sunk the shaft and worked the coal himself. That coal, of course, is a potential source of future profit for a number of years, profit which is realized for a number of years, it may be 20, 30 or 50—I do not know. You will observe that he has incurred no capital outlay whatever in acquiring the coal?—Except in sinking for the coal.

3722. I quite agree, but the mineral itself has cost him nothing?

3723. Mr. Kerly: No capital outlay in acquiring the coal?—Yes, I agree.

3724. Sir E. Nott-Bower: "Acquiring" is the word I used. Would not he properly be charged Income Tax on the whole of the profits which arose to him while the mineral is being worked? He would get no benefit under your clause, would he? He would be charged, would he not, and properly charged, on the full amount of the profits derived from working the minerals?—My answer is no.

3725. Why not?—Because that coal lies in his land, and it is capital because it has some exchangeable value. Capital is exchangeable value.

3726. Mr. Kerly: Although he did not know it was there?—Although he did not know it was there. If we did not admit some deduction for that capital we should be illogical, and further we should very much discourage the incentive to discovery which is an important thing. I am giving a reason perhaps why some allowance for expired capital outlay on what are called coal measures may be politic as well as logical. It certainly ought to be done from the economic point of view, but I suggest it is also politic that it should be done.

3727. Sir E. Nott-Bower: You would grant an allowance in that case?—Yes, an allowance; I do not think it would amount to very much or that it would weight the cost of the coal by very much.

3728. There would be some practical difficulty in fixing the capital outlay which had to be allowed for; in fact there has not been any capital outlay at all?—I do not agree with you, because there is exchangeable value there, and exchangeable value is capital.

3729. I merely want to hear your views on the matter. I think many people would consider that the profits got from the exhaustion of that coal were a peculiarly fit subject for taxation. It is all profit which the man had not got before, and I think many people would say it was peculiarly a subject for taxation. However, I understand from you, you would tabulate what the capital value of the coal was, and would make an allowance, and only assess as profit what he acquired over and above the estimated capital value of the coal at the time, I suppose, the mine was opened?—I would assess him on the full profit only. I cannot admit that if you do not deduct from the revenue expired capital outlay you get a sum which is really profit. It is then profit plus realized capital. I would assess him on the full profit but no more.

3730. Mr. Kerly: You will pardon my saying that is merely verbal. Sir Edmund Nott-Bower is putting to you, would you assess him on the whole return?—On the whole revenue?

3731. Yes?—No, I would not.

3732. Sir E. Nott-Bower: That is the balance of his receipts over his expenses?—No, I would not.

3733. I do not suppose that case has actually occurred. Now let me take the next case that I have in mind. Supposing the owner of the land entered into an arrangement with a colliery company under which the colliery company set to work and extracted the mineral, paying the owner a royalty of so much per ton on the mineral as it was got. In that case there would be no reason for any allowance to the colliery company, would there?—I should not be able to agree to assess the colliery company on the balance of its revenue without allowing some part at any rate of the royalty, as being the part of the royalty which represented expired capital outlay.

3734. In that case you would assess the colliery company on the full balance of receipts over expenditure making a deduction for expired capital value, and then the colliery company would deduct from the owner the proportion of Income Tax which they had paid on his behalf?—That is so.

3735. That is to say, hand the benefit of the allowance on to the owner of the minerals themselves?—Yes.

3736. I did not know that your proposals were so wide as that; but in that case again the result would be that the Exchequer of the State would get tax on the whole of the excess of the receipts over expenditure obtained in winning that coal?—No, it would get an Income Tax on the profits, and on no more.

3737. The other case is the one which you more immediately contemplate, I think, in your memorandum, where coal has been bought outright by the

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colliery company and there I quite understand you do contemplate an allowance?—Yes.

3738. I think you would not have contemplated an allowance in the other two cases?—I think so, otherwise I should be very illogical.

3739. I think so myself; but I am not quite sure that you do not rather add to your difficulties by saying that you would grant the allowance in the other two cases; that makes it a more serious matter. I think it would seem to many people, as it does seem to me, that what you contemplate is granting an allowance which has the effect, not of preventing the Inland Revenue from charging on what is not profit, but of preventing them from charging the Income Tax on something which is profit and that has accrued in the form of profit?—There we evidently differ in our conception of profit.

3740. Just so, and we must leave it at that. You do not recognize really any distinction between that case and the case of the existing allowance for the depreciation of plant? If you pay £100,000 for plant and machinery, that £100,000 really does not go as profit to anybody?—No, provided that enough depreciation is allowed to be deducted in computing the profit.

3741. I am looking at the sum which goes away when you buy that from a manufacturer. That £100,000 is not profit to the manufacturer in the sense that £100,000 paid for minerals to the landowner is profit?—I can see no distinction myself, because both have parted with material wasting assets.

3742. What you are paying in that case is merely the cost of producing the plant, and until the manufacturer has had the cost of producing the plant, you may well say he has not made a profit, and therefore the allowance of diminution by way of wear and tear of machinery is necessary?—I can see no distinction in principle, because there is capital outlay in both cases equally, to my mind, which capital outlay is inevitably expiring in earning the revenue out of which the profits would arise.

3743. You admit in the case of patent rights no allowance should be made?—For Income Tax purposes, yes, because patent rights represent the present value of profits expected to arise in future years; and if and when they do arise, then will be the time to tax them.

3744. I suggest that that is the case in mines also, that the payment you make when you are buying minerals outright from the owner of the land is really for the purchase of his right to a future profit?—But there is this great distinction, that in the one case you are diminishing the material, and in the other case there is nothing of the kind.

3745. Certainly. I agree that the material is removed and will be used up by the purchaser in providing warmth and light, and so on, but the material cost nothing to produce; it is the free gift of nature. Whatever you sell it for is a clear profit, without any deduction for cost price at all?—But inherently it is a material asset, and it has exchangeable value which is capital, and therefore as it expires in profit seeking you must allow a deduction equal to the value which expires.

3746. Sir E. Nott-Bower: Thank you. I understand your point of view now. I do not want to pursue the matter further.

3747. Sir W. Trouser: I should like you to assist me to understand one point, and that is the difference, or whether there is any difference, in principle between the purchase of a mine in a foreign country, so far as it affects Income Tax, and the purchase of a mine in this country. We had Mr. Glabe's evidence, with which I have no doubt you are familiar, before us yesterday, and he seemed to attribute some difference in principle between the purchase of a mine abroad and the purchase of a mine here?—I do not think there is any difference in the case of a mine, or of a nitrate bed, for instance, but there is a difference in the case of what we call a terminable concession.

3748. That is what I wanted to get.—That is the point I think. In the case of a mine, or of a nitrate company, one is dealing with material wasting assets which exist either abroad or here, and which have

exchangeable value as they lie, which exchangeable value is bound to expire as profit is sought by means of digging them up and selling them.

3749. Therefore, they are the same in both cases?—Therefore, they are exactly the same.

3750. Even as regards the terminable concession?—Even as regards the terminable concession which is in this country, and represents the estimated present value of profits which are expected to arise in future years.

3751. In this country?—Yes, in this country, and when the profits do arise here then they will be taxed to British Income Tax; but in the case of a concession abroad, the price paid is the present value of future profits paid to a foreigner, and further the source of profit is open to the high of foreigners in other countries as well as of British bidders, so that an English company or bidder for that source of profit would be at a very great disadvantage in comparison with persons in other countries where perhaps there is not such a high Income Tax. If the British bidder knew that he would be charged British Income Tax on the whole of the profits as they arose in later years, year by year, out of that concession in the foreign country for which he had paid a large sum of money in advance of the profits arising?—

3752. Mr. Keily: Have I not summed it up for you? I think you agreed that the distinction is not a distinction which is strictly relevant to Income Tax?—It is a question of taxing a person here on profits received by a foreigner.

3753. For identical purposes you suggest a preference to British traders dealing in certain classes of foreign investment?—Otherwise they would be at an unfair disadvantage.

3754. Sir W. Trouser: As far as Income Tax is concerned there is no difference in principle between the two?—No; but we are taxing the Britisher on profits in the hands of the foreigner.

3755. Now may I ask you a question with regard to terminable annuities, that is to say life annuities. With life and terminable annuities for a period the principle, again, is the same as wasting capital?—Yes.

3756. But is there, in fact, any hardship in taxing an annuitant who voluntarily sinks his money in an annuity as a matter of fact?—I think that there is, because Income Tax is a tax on income or profits, and not on expenditure.

3757. He has done it with his eyes open, and his property is diminished to that extent when his estate becomes subject to Death Duties. It seems to me that there is the greatest possible difference in practical hardship between the man who embarks on a commercial undertaking, and sinks his capital in that, and the man who voluntarily sinks his capital in an annuity for his own comfort?—I suggest that it does not even follow that because a man chooses that method of investing his capital, or some of his capital, he will spend it all; and even if he did spend it all, I most strongly urge that in assessing an Income Tax we shall do well to confine the assessment to profits, and not travel outside of profits, and extend that taxation to expenditure.

3758. The question of principle I understand; it is the question of hardship?—I would rather not express an opinion on the question of comparative hardship, because I am so anxious to get the Income Tax rightly assessed on profits.

3759. I take it that in allowing a deduction from profit for replacing machinery—Example (h), as given in the Inland Revenue Memorandum—see Appendix, p. 68—I will read it to you: "A machine which originally cost £1,000 is worn out and replaced by one of greater power or size or capacity costing £2,500. The amount to be allowed as an expense in this case not the full £2,500 but only the cost of replacing the old machine by one of similar power or capacity—say, £1,500." If I turn to your paragraph 31, I find that you would allow £1,000 in that case?—Yes.

3760. I put it to you that the Crown there is more generous than you as an export would allow it to be?—Yes. That raises a most interesting and, if I may say so, most important question on this subject. There is a widespread belief that allowance for depreciation is in respect of cost of renewals. It has

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nothing whatever to do with renewals. The question of depreciation is absolutely confined to how the outlay which has been incurred on the purchase of a machine is to be spread over the years of the life of that machine.

3761. Mr. Kerly: That is so obvious that I do not think you need labour it. The only reason why the two things are mixed up together is because it is said, naturally, that if you do not allow a company something in respect of its wasted assets it will not be able to renew them.

3762. Sir W. Trevelyan: Then you consider that the Crown has conceded the principle that you are contending for of restoring out of profits the original capital outlay in dealing with machinery, and so on, and conceded it in all other cases?—I am afraid I think very much the other way. The Crown is very reluctant to concede the allowance of sufficient deduction for expired capital outlay even on machinery.

3763. But it has to a certain extent?—It has made concessions to some considerable extent, yes.

3764. Mr. Warren Fisher: Arising out of one of the instances that Sir Edmund North-Bower gave just now, the case where English minerals have been sold outright—this type of case has been touched on, I think, by the Chairman before—would you say that the purchaser, in considering the amount he is prepared to pay down for those minerals, takes into account that he has purchased a source of profit which will be subject to Income Tax?—I think that he would not directly take Income Tax into account. I do not know if any transactions of this kind have taken place since Income Tax has become so great, but in the years before the war when Income Tax was not much more than a shilling I do not think it would be a recognised factor taken into account at all.

3765. You think that if the tax is sufficiently high a purchaser will take that into account?—If he feels that he will have in future years to pay tax on the capital as well as on the profit.

3766. Under the existing law?—I should, certainly; I do not know whether most people would.

3767. If that were so he would indirectly to the best of his power pass on that part of the tax to the vendor. Would that be correct?—Yes. He would be charging the vendor with Income Tax on his capital.

3768. The purchaser would relieve himself to the best of his ability of the amount of tax which under the existing law you say he pays on the capital as distinct from the correct profit?—If that were so, if the purchaser deducted the amount of the estimated tax, that would be the effect, I agree.

3769. In the case of the Kent coal assumption a man who buys coal under his land, and is well enough off to work it (I grant your point about the sinking of the shaft) I am not quite sure that I understand the exact importance, *vis-à-vis* taxation, of the inherently wasting asset point. It is clear in the assumed case, is it not, that he gets profit from what you may call a windfall, or an income from the windfall, which has cost him nothing?—Which belonged to him, and which he has rendered useable by his energy and enterprise.

3770. Quite, but most of us are taxed on income which we have secured by our energy. You suggest that he should not be taxed, as I understand it, on the balance of receipt over expenditure, but on something less than that?—Yes.

3771. You say that some allowance should be made because it is a wasting capital?—Yes.

3772. It is true I imagine that the world is the poorer by the exhaustion of that, but on the taxation point, why should he not pay? That is what I want to understand. Why should not he pay on the full income he derives from that mineral?—Because in getting the income he is deteriorating his own property.

3773. It is a set off against the damage to the surface?—To the property undoubtedly, that is my view.

3774. It is compensation?—Not for damage to the surface, but due to the fact that as he gets out each ton of coal the property as a whole, which is his, becomes of less value.

3775. Yes; it is true that there are fewer minerals by the exhaustion of that particular piece of mineral;

but, as regards his receipts from it, *ex hypothesi* he is spending no capital; there has been no outlay on his part, and what I do not quite understand is why his receipts less his expenditure is not a proper subject for taxation?—I think the difference between us is that I regard the coal, or the minerals, under his property as capital having exchangeable value which is expiring, therefore the balance of his receipts less his expenditure is not wholly profit, to the extent of an amount which represents that expired value.

3776. But, in the assumed case, in his hands there has been no capital outlay, and he therefore gets a receipt only diminished by the expenditure incurred in working the coal. That is right, is it not?—Yes, by the cash expenditure incurred in working the coal, but there is another kind of expenditure in the form of expired capital outlay. I must endeavour to make that point very clearly.

3777. May I put this point to you? An allowance in that case would mean that Income Tax would have to be found from some other source. To the extent to which an allowance in the case of our Kent coal man is granted for a capital which cost him nothing, we shall have to find revenue presumably to make up that deficit, shall we not?—To the extent of any Income Tax that we have hitherto been wrongly collecting on capital, and which might be discontinued because it was wrongly collected on capital instead of being confined to income, we should of course have to make up any difference out of the tax on true incomes.

3778. Have you in view the equity of the tax or is there some supreme significance in the notion of an inherent wasting asset? Is it equity *vis-à-vis* taxation that you have in mind, or an economic argument, founded, not on equity of taxation, but something that you call inherently wasting assets?—I am endeavouring to arrive at what is true profit or increase, stripped altogether of the capital element; that is all.

3779. You are not having regard to the question of equity in the incidence of taxation?—No, save that I feel that an Income Tax should be assessed on profits only. That is really the thing that I am looking at.

3780. As a mere technical point in this case an allowance for capital that has cost nothing to the owner of the mineral would mean a shifting of the burden of taxation on to somebody else, would it not?—I cannot agree that it has cost nothing, because his capital is expiring. There are two classes of cost; one which you have to pay for by cash expenditure now, and one which really represents the using up of existing capital. I think that our difference really is on that definition of expenditure. To my mind, the owner of the coal has expended something more than the cost that he has paid in wages, and so on. He has also expended that part of his capital which has expired represented by the coal which has been raised and sold.

3781. Of the existence of which, in the assumed case, he was unaware a few years ago?—Yes, that is quite possible.

3782. I am afraid this is rather an elementary question to you, but supposing you have a mineral which, though being diminished in quantity, has a great appreciation in value. How would you base your allowance in a case of that sort?—The question of rise and fall in market value of severed minerals should, I think, make no difference at all to the assessed value of minerals in the ground for the purpose of computing annual profits.

3783. That would be fixed once and for all?—Once and for all, as so much a ton, or other unit, raised to the surface, according to quality and location.

3784. Notwithstanding that the extent of the particular mineral field is unknown, or the possibility that though diminishing in quantity it may appreciate in value?—I think so, but perhaps subject to subsequent appeal on either side. A point which strikes me is that the amount per ton, or whatever it is, is a trifling amount compared with the value when the mineral is brought to market; as a rule in almost all cases it is very small.

3785. Leaving that abstract subject, may I ask you a question about wage-earners—the final paragraph of your paper?

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3786. Mr. Kerly: That is taxation at source as it arises?

3787. Mr. Warren Fisher: Yes. I gather that you suggest that a flat rate, but worked with reference to some sort of table, would be the proper method of taxing the wage-earner?—Yes.

3788. Your reference to a table seems to suggest that you have in mind to give the allowances that the other taxpayers get for wife, for children, or for abatement. You would allow all that?—Yes.

3789. You would work it by a table?—Yes.

3790. Could you work it by a table in such a way that the employer could not quite easily construct the total income of the employee?—I think that the employer would need information as to the position of each employee.

3791. That is as to his financial position?—Yes.

3792. Then confidentiality goes as regards the wage-earner?—I think it has gone already.

3793. Is that so?—At any rate, with regard to those who pay Income Tax it has; perhaps not with regard to those who do not.

3794. As regards wage-earners?—As regards wage-earners, perhaps not. My view was rather this. The payers of Income Tax have to disclose their whole position.

3795. To the Income Tax officials?—Yes, that is so.

3796. Who are bound to secrecy?—Yes.

3797. Do you think that any scheme that would take into account the proper allowances could be worked without the employer knowing the financial position of the employee?—No, I think it would be necessary that he should, unless he deducted tax at the full rate and left any adjustment to be made by means of a claim for repayment.

3798. And that would differentiate the working classes from the other Income Tax paying classes in regard to the privacy of their affairs, would it not?—They would have to disclose to their employer their position, or secure any abatement by claiming repayment.

3799. They would have to?—Yes.

3800. Mr. May: I was not going to ask anything; but following Mr. Warren Fisher I would like to ask whether you think that is a practical proposal?—I regard it as so essential to the future of the Income Tax that, though there is that objection, I think that, rightly understood by the nation, if it was explained to them, individuals should not object.

3801. Mr. Walker Clark: Following the last question, in the case of taxation at source of a weekly wage-earner deducted by the employer, who is to pay the expenses of that deduction? Some firms, for example for National Insurance, require three clerks to do the work. They would have to have another clerk added at least?—That is an objection, but I think that that objection is very small compared with what is to my mind the absolute necessity of something of this kind.

3802. Have you ever heard of any association of employers who looked favourably upon this matter; have you knowledge of any large number of individual employers either?—I dare say they would not.

3803. Therefore this would be more or less forced upon unwilling persons, to do what is admitted by you to be an absolutely changed method—that is to say, the secrecy?—Yes.

3804. Do you not think that would very seriously militate against the whole collection of the tax, which is extremely unpopular with working people at present?—Largely unpopular, I think, because they are called upon to pay it quarterly when they have not got the money. I agree it is unpopular with everyone, of course, but it is a necessary burden.

3805. I was rather thinking of evidence which was given to us yesterday, with which you are not acquainted. I take it that your chief point is that taxation ought to be solely on the profit; that a great part of these wasting assets which you have described, which are brought into receipts and expenditure account, are not profit, but they are part of repaid capital?—They are part of the expense of earning profit.

3806. In the definition in clause 23 of your statement you include buildings, plant, machinery, fixtures and furniture of manufacturers?—Yes.

3807. Solely manufacturers; not distributors?—Every profit seeker.

3808. You limit it there to manufacturers?—No. The words are "industrial plant, comprising all perishable material property other than that primarily intended for resale."

3809. Then you would include the fixtures in a shop, and the plate-glass front, and unexpired period of leases?—No, not unexpired period of leases, because they are not inherently wasting assets.

3810. They might be?—No.

3811. Where you put the capital sum down?—But the cost of a lease is in respect of expected future annual value to arise. I evidently have not been able to make this matter clear. That is just the very distinction that I wanted to make clear; the distinction between the two classes of wasting assets.

3812. I am rather driving at the point of the shop front and fixtures?—Yes; that is plant.

3813. You know there is a great difference of opinion between the Surveyor and the taxpayer on this point at present as to what ought to be the ratio or the method of allowing depreciation?—Yes, there will be differences of opinion, I quite admit.

3814. What is your view as to what is the right method?—My view is that one should take each class of plant, say counters in a shop, furniture in the shop and so on, and estimate the useful life which they will have in profit seeking; then deduct a part of the cost each year equal to the proportion which that year bears to the total life.

3815. Who is to do that? Who is to agree upon a figure?—That is a thing that persons who compute their annual profits must consider for themselves.

3816. You would suggest that the figure should be determined by the taxpayer?—Yes. The figure should be determined by the taxpayer; but of course he would have to show that it was a reasonable figure.

3817. To whom?—To the Surveyor of Taxes.

3818. With a right of appeal to the Commissioners by either party?—Yes; that is a very simple matter.

3819. Unfortunately I am a Commissioner, and I assure you that nine-tenths of the cases which come before us, apart from licensing, are on this very question, and it is by no means simple; it is extremely complicated?—That is generally because the commercial practice is still very undeveloped. I agree that it is so. They put all kinds of extraordinary claims in sometimes.

3820. Then take the question of machinery. There is a very wide difference between the same machine with different users?—Yes.

3821. The life of the same machine in two different shops may vary, whether the machine is quick running or slow running, doing heavy work or light work?—Yes; all that should be dealt with by the engineer's estimate of the life of the machine, having regard to the conditions under which it is worked.

3822. But the conditions change with every order which comes to the factory?—The average conditions under which it is worked. He would know most about it.

3823. I assure you he would not; however, that is a detail.

3824. Mr. Arncliffe-Smith: If Government compels employers of labour to act as tax gatherers by making periodical deductions from wages, is there any objection in principle to the Government paying the employer for his services?—I can see no objection, but they do not pay them for their services in the case of the Insurance Act, and employers have with some grumbling assented to that and are working that, and I think they would do it in this case.

3825. You think that employers would perform this duty, perhaps unwillingly and under protest, but still they would perform it?—Yes, I think so, judging from the Insurance Act.

3826. With regard to the man who suddenly discovers a valuable coal deposit under his land, is there any difference of principle between his case and that of a man who suddenly inherits an unforeseen legacy of £100,000 of Consols?—Yes, I think a very great

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difference, because the coal under a man's land is his property; he may have, and probably has, many things that he has never seen and never knew; but it is his property and it has been his property. That is a question of principle, to my mind. It has an exchangeable value, and it is his property.

3827. Having become possessed of this coal or having inherited this money I imagine your argument is, is it not, that it should be taxed on his income from it and not on capital?—That is so.

3828. So that so far as taxation goes there is no difference of principle?—In both cases I think he should be taxed on the true income arising from that property.

3829. In fact, the origin of the property is immaterial?—I think so, quite.

3830. Professor Pigou: I would like to ask you one or two questions about the general principles underlying what you have said. I take it that what you are aiming at is to make the Income Tax a logical coherent whole by eliminating all capital charges?—That is so.

3831. There is no quarrel at all with the suggestion that that part of inherently wasting assets which consists of plant should be left out?—I think that is admitted under the present practice.

3832. The difficulty arises as regards such things as minerals?—Yes.

3833. I would like to get it clear with regard to that. I take it that to work out your plan logically what you would have to do would be this: these minerals have a certain present value?—Yes.

3834. We will suppose that a mine will last 40 years. It has a certain present value. We will assume for simplicity that it is paying a royalty. You would subtract from this royalty one-fortieth of the present value of the original capital, every year. Is that so?—That would be provided we were getting out one-fortieth of the contents every year; yes, I follow.

3835. Mr. Kerly: Provided you thought you were?—Yes, provided we thought we were.

3836. Professor Pigou: Of course I must assume that?—Yes.

3837. Mr. Kerly: Is not that the very root of the whole difficulty?

3838. Professor Pigou: It is not the root of my difficulty; I am on a question of principle?—Yes.

3839. My difficulty is this: At what point are you going to stop? Before you discover that there is any mineral there at all the present value will be nought. Next year you discover it is there, and the present value may be £100,000?—Yes.

3840. Which of those two years are you going to choose for your basis?—One must fix one's value when one knows of the existence of the capital or the coal, and not before. One cannot, of course, until one knows of it. It is there but it is undiscovered.

3841. Then the first year that one discovers it one will assess a capital value for it and proceed to subtract one-fortieth ever afterwards?—Provided that you begin at once to secure one-fortieth of the contents each year over the next 40 years.

3842. Supposing that your mine is one of such a sort that you know it will be completely exhausted in two years, then your allowance would be very nearly the whole of the royalty; you would really let the thing off Income Tax altogether?—I do not know what the royalty would amount to. I do not quite follow that.

3843. Supposing a mine is known to have a life of two years, then the present value of that mine will be practically the sum of its two years' yields; I do not mean exactly, but nearly. The present value of £5,000 in each of two years will be a little less than £10,000?—Yes.

3844. So that mine would probably have to pay no Income Tax at all, or very little?—I have not gone very much into the question, but I think that the royalty would not be wholly regarded as capital, but that part of them would be regarded as profit passing to the owner of the land incidental to the minerals having been raised and marketed.

3845. But on the logic of your plan, surely, what you would tax would be the difference between the royalty and the estimated value, divided by the number of years?—Provided always that we got an equal annual output.

3846. Yes, of course?—Yes, but that all depends on what you assess the value of the mine at.

3847. I only say it has got a value; what it is, whether it is a microscopic value or whether it is a considerable value, I do not know at all. If you know that it is going to yield £5,000 a year for two years, and that its rate of interest is 5 per cent., it is a matter of arithmetic to find what its capital value is?—I should regard part of this £5,000 each year as profit arising to the owner of the land. I should allot the rest of these two payments of £5,000 each as representing the expired capital outlay owing to the fact that his land had become impoverished by the removal of those valuable minerals.

3848. I do not see that that is really different from the way I put it?—It may be so.

3849. The point that I am getting at is this: This man will obviously have a very large windfall?—Yes; the amount is not very material, to my mind.

3850. On your plan you practically let him off. What I want to test is this: Is it that you would simply let him off Income Tax in order to make Income Tax logical, and tax him, say, on the royalty duty; or are you concerned not to tax him at all? You want the Income Tax to be logical?—Yes.

3851. A lot of these difficulties would be met, from your point of view, if you keep this thing and call it Income Tax, and then propose other taxes?—Yes. If you want the value of the coal you can take it, but not in the form of Income Tax; that is what I am putting.

3852. Your point is not that you object so much to this person being taxed, but you object to his being taxed in the form of Income Tax?—Yes; as a matter of fact, I should object very much to his being taxed in the way of taking his capital; but that is outside this question.

3853. With regard to machinery: In the case of a machine which originally cost £1,000 and can only be replaced by one costing £1,500, you said you would allow £1,000?—Yes.

3854. And, further, the Chairman suggested it was so obvious that it was not worth pressing?—Yes.

3855. I want to ask you whether it is really so obvious? Because, after all, the thing that was involved in the original machine was not money but so much labour and so much other effort; and does not your method of allowing only the £1,000 overstress the money value? Might not a good deal be said for going behind money value?—I think not; because the £1,000 is, after all, the cost of that machine in labour and material.

3856. In money?—Or in money, whichever you like to say. It is the measure in money of what the machine cost, in labour and material, to build; and in the course of profit-seeking over the life of that machine we must recover the cost of that machine and no more, out of the revenue of the years of its life.

3857. But if all prices are deferred?—It does not affect the question.

3858. It does not affect the amount of money, but it would affect the amount of labour?—I do not quite follow. One must remember this, I think: that in computing the profits of industry or any undertaking one must regard the position from a "going-concern" point of view, which assumes that one is using up this machine, going to destroy it and use it up, in profit seeking, and it is not on the market for sale. It is not like stock-in-trade which is for sale in the hands of an undertaking, where, if the price goes up, it may affect the profits earned. But plant and machinery are not for sale; therefore I suggest that the varying market price has no effect at all on the method of computing profits and deducting allowance for expired capital outlay on that machine.

3859. I can quite see that, but it does expose you to the difficulty that what you actually do to these businesses will be affected by what currency policy, for instance, the Government chooses to adopt. The real allowance will be different, if the Government

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chooses to issue a lot of currency notes, from what it will be if it does not?—I do not think so. If we are considering the question of new machinery and what it will cost when we want it, then we shall have from that point to enlarge our claim for deduction each year for expired capital outlay on that machine, because the machine has cost more in consequence of currency policy, or something of that sort. But it has no concern whatever with regard to the cost of a machine which has previously been purchased. It is only a question of distributing that cost correctly over the years of its useful life.

3860. Of course I see the thing from a practical point of view. Your argument is not merely that it is practically convenient to do this, but your argument is that it is a matter of principle?—Yes, it is a matter of principle.

3861. I shall accept it from the practical point of view, but not from the point of view of principle.—That is an undoubted principle in computing annual profits. I have no doubt whatever about that.

3862. Mr. Armstrong-Smith: You use the word "profit" as synonymous with "income," do you not?—Yes, that is so; "profit, increase, or other advantage" is the definition that I have in mind. It is a complex subject.

3863. That would cover remuneration for labour in the form of salary, or interest on outlay?—Yes.

3864. Mr. McCulloch: Are we to take it that the suggestions put forward in your evidence are with a view of their adoption as a better method of applying depreciation than what presently exists, for Income Tax purposes?—Yes.

3865. Is it your view that the present allowances which are now given for depreciation are inadequate?—I think that, speaking generally, they are inadequate.

3866. And unscientific?—And unscientific.

3867. Do you suggest that it is possible in ordinary working everyday practice ever to arrive at a scientific method like yours?—Yes.

3868. Then let us take the case of industrial plant. Do you suggest that when that plant is first installed its life can be determined?—Yes; a fair estimate can be made by the engineers and others having most knowledge of the plant and of the conditions under which it will be worked.

3869. Then is there to be an appeal body consisting of engineers to consider their view?—No. My view is that one gets a body of evidence from hundreds of cases which gives one a fair measure by which one can judge whether or not the claims made are reasonable.

3870. A sort of average rate, you say, would be arrived at from the census?—I think so.

3871. You are aware, of course, that all users of plant are allowed the whole cost of upkeep at present?—Repairs, that is so.

3872. Repairs and upkeep?—Yes, repairs.

3873. And that the method of upkeep to a very great extent determines the life of the plant; apart from its use?—Yes.

3874. Do you not agree that this is bound to be a rough and ready calculation, in view of that?—The estimate of the life in each shop or factory would have regard to the way in which the plant was treated.

3875. But you have factories where you will have ten varieties of plant all put to different uses?—Yes.

3876. And after all we are considering a practical everyday problem in an allowance for wear and tear?—Yes.

3877. Do you seriously suggest that this scientific method can be applied and any tax will ever be collected at all?—I certainly think that it is capable of employment with great ease; not only if there are ten or a dozen different classes of plants, but where there are scores of different classes of plant.

3878. Have you any manufacturing clients of your own?—Yes, I know factories pretty well.

3879. And do you find that you can readily get this system adopted by them for their ordinary everyday book-keeping purposes?—Many manufacturers now have installed in their factories most excellent systems for calculating costs.

3880. I am not on a question of calculating costs. That, I agree, is capable of exact ascertainment. I am speaking wholly of the question of wear and tear of plant?—But that is part of costs.

3881. It is one part of costs which is more or less a speculative one. That is to say, you know the cost of material, you know the cost of labour, and when you come to your last item of cost, wear and tear, I suggest to you that it is not done in everyday practice on a scientific method; it is a rough and ready method?—I have admitted that in my view the subject is still most unfortunately neglected; but I think that if allowance was granted for expired capital outlay on plant, taking a wide definition, it would encourage more attention being given to this very important part of cost in computing profits. If a claim was made for a certain deduction and in the view of the Commissioners there was not sufficient evidence to support it, it would be simply disallowed. But it would be quite easy; and in view of the great importance nowadays to profit seekers of being taxed on no more than their profits it has become such an important thing that they would very soon lay down a proper policy on the lines which I have suggested, which are quite simple, and would be able to say in a reasoned way exactly how they do arrive at their claim for deduction. I would not admit mere guesses at all.

3882. Do you know of any factory where these quite simple methods prevail to-day?—Yes, I do.

3883. Do you know many of them?—Yes, the practice of paying attention to these matters is very considerably increasing.

3884. I agree, paying attention to arriving at a fair rate of depreciation; but I suggest what you tell me are quite simple methods are not in operation and are never likely to be?—I wish they were in more common operation, but I think they are likely to be, and I hope before many years are past.

3885. You are aware that a manufacturer has an alternative to getting wear and tear annually?—Yes.

3886. Namely, he has the right of replacement when a piece of plant is worn out?—Yes. That is a very unsatisfactory alternative.

3887. But he gets the full allowance, at any rate; he gets the whole cost of the machine?—By a method which operates to distort the true profits of each year.

3888. You say in paragraph 53: "It will be found that this only means the provision, out of revenue receipts, of a fairly regular annual sum, amounting over a series of years to no more than is now taken out of the revenue receipts of any soundly managed undertaking, at irregular intervals, to pay for renewals of industrial plant at or about the time the cost of these is actually incurred."?—Yes, I think that is often the practice to-day.

3889. That the annual amount is taken out at irregular intervals?—At irregular intervals to pay for renewals at or about the time they are incurred. I thought that was what you said just now was the alternative method allowed by the Revenue authorities.

3890. No, there are two methods. One is an annual allowance, not at irregular but at regular intervals?—Every year.

3891. And the alternative is that when the machine is worn out you will be allowed to charge the full cost of its replacement to revenue?—That is what I mean; to pay for renewals of industrial plant at or about the time when the cost of these is actually incurred.

3892. With regard to the question of the nitrate field, is your idea to arrive at the total contents of that field at the time of purchase and apply the purchase price as so much a ton in respect of these contents? Take, for example, a field containing a million tons?—Quintals, I think the nitrate unit is called.

3893. We will take tons. I am more familiar with tons than the other. Take a field containing one million tons and you pay £100,000 for the right to work it; that is practically 2s. a ton?—Yes.

3894. How do you suggest the annual accounting should be done? Would it be that for every ton used a charge would be put through the accounts of 2s. a ton?—Yes, the cost.

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3895. And of course if there is a greater quantity than estimated, then in the later period there will be no charge at all?—That is so, but as soon as I was aware of the greater quantity I should revise my charge; I should charge less per ton because I should have found that I had got more than a million tons for £100,000.

3896. But meanwhile we are settling out to arrive at an allowance for a field which, we will say, has a 20 years' life. You do not propose to change this annual charge of 2s. do you?—I should change this annual charge if I suddenly found, after two years, that I had got two million tons instead of one million tons. The great thing is to endeavour to arrive at facts as far as we can. I think that traders and manufacturers do not set themselves, except in very rare cases, to manipulate their accounts with a view to avoiding Income Tax. I am out all the time for getting the facts as nearly as we can.

3897. I suggest the type of fact that you wish to be ascertained is incapable of ascertainment in ordinary business, and, after all, is not that what we are here to consider?—Yes, but I do not agree with you.

3898. Taking the case of a colliery where the coal is worked under a lease on payment of a royalty, the allowance to the colliery owner is in respect of his sinking and in respect of his general equipment. At present he receives his depreciation allowance on his equipment and he gets nothing upon the sinking?—That is so.

3899. Then you have the case of another colliery, where the owner who works it also owns the minerals?—Yes.

3900. You suggest that he should have an allowance for the exhaustion of his minerals and his sinking and some more scientific allowance for the annual depreciation on his plant or equipment?—Certainly.

3901. How do you propose to deal with the roaster owner who merely leases the minerals?—I should allocate a certain part of his receipts as profits, and I should consider the balance of his receipts as expired capital outlay to make good the fall in the value of his estate.

3902. Do you suggest that is a simple proposition?—There again we should get to general lines which would keep one quite within reasonable figures; a base value of so much a ton raised to the surface.

3903. You put that forward as a practical proposition from the point of view of raising the revenue of the country?—Certainly.

3904. Take the case of ships. At present they are allowed depreciation on the prime cost?—Yes.

3905. Do you advocate that principle being applied all round?—Certainly. That is the right principle.

3906. You would apply it to a colliery?—What part of a colliery?

3907. We will assume a leased colliery?—But do you mean the plant?

3908. The plant and the cost of sinking?—I would apply it to the cost of the industrial plant belonging to a colliery.

3909. The cost of sinking and equipment as well?—No, that should be allowed as a deduction according to the estimated contents obtained each year.

3910. I suggest you should take the life of the colliery, not the contents?—But you can only tell the life by having regard to the proportion of the total contents to which you get access each year.

3911. You settle that at the beginning, do you not?—That should be estimated on the best information obtainable at the beginning.

3912. In the case of a ship you can follow its prime cost in the hands of every owner?—Yes.

3913. In the case of a colliery you settle at the beginning when the colliery is opened, the annual allowance; suppose that colliery changes hands at the end of ten years at a very substantial profit, what do you suggest the buyer is to get in the way of an annual allowance, having already fixed it ten years earlier for the original owner who opened the colliery?—I should like to see the accounts and know something more about the details before I can answer that question.

3914. Take the assumption that it is an every-day occurrence for a colliery undertaking to be sold at a substantial profit on its initial cost after it has

worked for ten years?—There may be goodwill then, and of course you do not get an allowance for goodwill in the hands of the purchaser.

3915. Mr. Kerly: What has goodwill to do with a colliery?—That seems to me to be the nature of the value which might arise.

3916. It is not goodwill?—Then this is surely the point: that originally the value of the colliery was considerably under-estimated; the value of the deposits of coal must have been considerably under-estimated. The deduction allowed of a base value of so much a ton raised to the surface would remain the same.

3917. Mr. McIntock: Mark you, the deposits of coal still remain in the same ownership as they were at the beginning; they have never changed hands. The individual who originally opened the colliery never owned the coal, and he sells his undertaking at a profit ten years after he started. The point is this: Is the buyer to receive the same depreciation as the original owner? Is the buyer, in your view, to receive the same annual allowance?—Yes, but what did he buy? In order to give an intelligent answer to that question I should have to ask for particulars of the assets which were originally in the hands of the first owner, and then to know what exactly it was that the purchaser bought at a largely increased price. I cannot give an intelligent answer to that question without seeing the case and knowing what it was that he purchased. Stringent safeguards are provided by section 2 of the clause I have drafted making provision as to deduction of expired capital outlay repaid by raw material, and this clause is set out in my evidence-in-chief.

3918. In your view there should be no allowance for goodwill as such?—No, there can be no allowance.

3919. That is the present value of the right to seek for profits?—Yes, the present value of the right to receive expected future super-profits.

3920. Is there any great distinction between that and purchasing a nitrate deposit on which you expect to make, over a period, a certain sum of annual profit?—Yes, because the profit which you make on the nitrate undertaking is after deducting the proportionate cost of the material. The goodwill which you buy is nothing but the present value of the right to pure profit expected in the future. A nitrate bed which you buy is merely the cost of the nitrate as it lies there, a material in fact; the two things are not comparable at all.

3921. In paragraph 98 of your evidence you say: "The method of measurement of the expired capital outlay during the year on inherently wasting assets must be left to the taxpayer, and will have to be proved as a question of fact to the satisfaction of the Commissioners of Income Tax."—Yes.

3922. Do you suggest that the Commissioners, as presently constituted, or probably any other body, without special experts to guide them on all kinds of assets, are capable of applying this scientific method?—Yes, I cannot see any difficulty; it is a mere question of computing true annual profits.

3923. No, it is not that. It is the point just before you get to the computation of the annual profits—computing the charge to be made against the profits earned?—Not the profits earned; the balance of revenue. If you cannot compute all your charges necessary to be made against the revenue you obviously cannot compute your profits.

3924. You go on to say: "Strict rules could be applied, and the effect would be a great encouragement of sound finance and the gradual raising of the computation of annual profits to the level of an exact science by comparison with the present irregular methods."—Is it possible in this world that we live in, and with the people that we have to deal with, ever to apply these principles?—I think gradually they will be applied, and they are largely applied at the present time.

3925. Mr. Kerly: As a matter of fact the scientific estimation of expired capital assets which you are making is impracticable, I suggest to you. Now take this, for instance. You have directed your attention to two things, so far as I gather: First of all a mine, and you have assumed a mine where the

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mineral is regularly disposed, so that you will know, more or less, how much you will get out of the available ore each year; and, secondly, you have dealt with the case of commercial plant. May I suggest that dealing with the mine your system is wholly inapplicable to a case where the greatest factor is the chance of finding or not finding any mineral at all; so that it may not be until the last year of your lease that you get any return whatever? You have not considered that case, have you?—Yes; my suggestion for providing expired capital outlay really goes no further than this, that you would allow something per ton on minerals extracted.

3926. So that if a company has a 50 years' lease and it does not begin to get any return until the forty-ninth year you would make it an allowance in the forty-ninth year, but the other 48 years you can make no provision at all?—If during the 48 years they had been extracting minerals—

3927. But they have not, on my assumption?—They have taken nothing. Then would they go on working the mine if they got nothing out of it?

3928. Perhaps I put an extreme example. How do you propose to estimate the value of the minerals which you are going to treat as capital return instead of profits? Are you going to take what the particular person who is working at the time has paid for them?—If he has bought them on an estimate of so many thousand tons and has thought that estimate sufficiently accurate to justify him in laying out his capital, I think that that would be a very important factor in considering what he ought to be allowed as expired capital outlay per ton.

3929. That is to say, your answer to my question is yes. Now supposing, instead of buying in the year when he did, he had bought in the next year, when—because his product was at a higher market price—he would have given double value for the mine; if he had bought in the next year you would have given him double allowance, would you not?—I think the allowance would be determined on a general level for minerals in the earth. A base value per ton raised to the surface.

3930. In what year?—I do not think that the values of severed minerals on the market, which are constantly going up and down, would really enter into the calculation of the allowance that ought to be given as expired capital outlay on minerals in the earth.

3931. But surely that is a very important factor in determining what the man who is going to work the mine has to give for it in the first instance. Take the Cornish lead mines, for instance—totally unsaleable some of them, five years ago, and now, or recently, saleable for very large sums?—I certainly should not contemplate making the allowance or deduction depend upon the market price of severed minerals. I should do nothing more than this. I should get to a recognized allowance for minerals in the earth, a kind of base value, having regard to average conditions.

3932. But how is that possible when the value of the minerals in the earth changes, to some extent, according to the value of the product when extracted—and very much from year to year?—But I regard the product in the earth as the mass or source which is not on the market and not subject to the market fluctuations of severed minerals.

3933. But do you not see, you have started, as one of your main figures, with what the working mine-owner gave for the mine. Let me put the case that Sir Edmund Nott-Bower put to you. You say, if a man finds coal in Kent you would consider his capital investment to be the value of that coal at the time when it is found?—Yes.

3934. Supposing that is £100,000, and supposing, by reason of the rise in value of coal, three years later, it was a million pounds, then you would say, if the owner worked it himself, he was to be allowed £100,000?—No.

3935. Or some proportion of £100,000?—I would say that he would be allowed as expired capital outlay the schedule rate, we will say, of 1d. a ton, of which perhaps 2d. would be considered as profit and 4d. as capital outlay.

3936. Then do you suggest that in respect of each mineral Parliament should enact a schedule of allowances?—I think that that would be a matter for consideration and settlement by the Income Tax authorities.

3937. But on what principle would it be arrived at? Is it to be changed from time to time?—No, I do not think so.

3938. Very well, I will not delay to discuss it further. I have indicated the difficulty that occurs to me about it?—That is a difficulty of practice, but the point that I have in mind is that it is capital having exchangeable value, and, therefore, that something should be allowed. The difficulty of application I admit, but we ought to be able to get over it.

3939. I quite appreciate your suggestion that before you find a trader's profit, or a manufacturer's profit, you should, if possible, take care that his capital remains intact, unless he has lost it. But, you see, as you have to deal with the possibility of capital losses, you have a double factor to consider, which introduces a great many difficulties. Now let me ask you one other thing that I want to put to you on your paper. Assuming we have come to the conclusion that a particular man is entitled within ten years to replace £1,000 of expired capital, why is not a sinking fund of as much per year as is necessary to provide £1,000 at the end of it the right arrangement for doing it?—In what would the capital outlay which has to be replaced be invested?

3940. Is not the proper way to consider it, what the trader would have to pay some dealer in such matters, for instance, an insurance company, by way of annual payment in order to get his money provided in cash at the end of the time?—No.

3941. Why not?—We will assume that the capital outlay is represented by a material of some sort, a material wasting asset.

3942. Pardon me; what does it matter what it is?—A great deal.

3943. Will you just allow me to put my difficulty to you? He has expended £1,000?—But I must ask, sir, on what, if you please—on your wasting asset?

3944. Any one of your first class of wasting assets for which you intend to provide?—Inherently wasting assets?

3945. Any one of these, and you are accordingly going to give him his £1,000 back again intact at the end of a period when you estimate it will have been worked out?—Yes.

3946. The cheapest way to give him back that £1,000 will be for him to go to an insurance company and ask them for what annual sum they will provide him with £1,000 ten years hence?—Yes.

3947. Is not that the right way?—No.

3948. Why not?—Because he has laid out his money in inherently wasting assets which are material, and interest does not arise on material. If, for the sake of argument, a man had laid out £100 on a machine which has a life of 20 years, he would find at the end of 10 years that the "going-concern" value of that machine having an efficient life of 20 years, was £50, and not £20, which latter would be the book value if he had only provided for expired capital outlay on the basis of a sinking fund instalment.

3949. I suggest to you that that is an entire assumption. In many cases a machine is as valuable in the ninth year of its life of 10 years as in the first year of its life?—Yes, but in computing profits, we must exclude the material or of the machine, because the machine is not on the market for sale.

3950. I am not suggesting anything to do with the market value of its output. I am only suggesting that it does its work as efficiently towards the end of its time as at the beginning, in many instances?—Yes.

3951. If so, it is just as valuable except that its life is shorter?—But that makes all the difference, because we have got half the valuable output exhausted.

3952. In practical business, if a man wanted £1,000 ten years hence, he would provide for it in the way I have suggested, would he not?—Yes, but it is different with inherently wasting assets. I may tell

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you that in the case of the National Telephone Company and the Postmaster-General, in which I was retained by the Postmaster-General, we objected to the company's suggested system, which was the sinking fund system of calculating or measuring depreciation, and we convinced the Court that it was entirely wrong, and it made a difference of over a million pounds by reducing the purchase price paid by the Postmaster-General.

3953. *Mr. Kerly*: I am afraid, unless we hear the arguments, we cannot pay much attention to that decision—that a particular method of sinking fund was not appropriate.

3954. *Sir J. Harwood-Benner*: I have only three questions to ask you. In your 44th paragraph you say: "deduction cannot be allowed in respect of the wasting assets falling under class (b)." Would you agree with me that a prudent board of directors, if they paid £20,000 for a 20 years' lease, would, before making up their profits and paying a dividend, write off £1,000 a year, or whatever it may be, so as to recoup them the cost of the lease at that period?—Most certainly.

3955. Then why do you say here that as regards Income Tax a deduction cannot be allowed in respect of such an asset?—Because the cost of that lease is merely the purchase of the right to enjoy the annual value of the property represented by that lease when it arises during the next 20 years, and when the annual value arises, in those years, it must be subjected to Income Tax.

3956. Then you would adopt a different way in assessing profits for Income Tax to what a prudent man would adopt in assessing the profit which he would distribute as dividends?—Yes. That you must do until some way can be found of following the charge for Income Tax into the hands of those who have received the income in advance of its arising, as would be the case where a seller of a lease had received £20,000 in exchange for which he gives the purchaser the right to enjoy the occupation of the premises over the next 20 years.

3957. Then you would commit an injustice on the man who paid £20,000, because you do not see the way to assess it for Income Tax purposes on the man who comes in with the right at the end of 20 years?—I am afraid that that is a difficulty inherent in a tax which is charged upon actual profits if and as they arise, year by year.

3958. Do you not think that we ought to take some steps to remedy it?—I think the only partial remedy at the present time is that the purchaser of a lease for £20,000 should say: "Now I must deduct from this £20,000 an amount of £a in the £ Income Tax, because I estimate that during the 20 years I am in

occupation of these premises I shall have to pay that average Income Tax on the amount that I am now advancing to you as the purchase price of this lease, and therefore I shall pay you £15,000."

3959. But you would agree that there is a considerable hardship on the person who buys a leasehold which has only a short period to run?—I do, unless he has succeeded in getting the full allowance for the average Income Tax.

3960. Then you have a great objection to "free of Income Tax." Is it not a fact that the Government, for the purpose of raising their War Funds, did issue "free of Income Tax" securities?—Only War Savings Certificates are free of Income Tax. The 4 per cent. War Loan is merely "Income Tax compounded," and I feel convinced that that was done without full consideration or knowledge of the enormous difficulties of a practice which it tended to encourage.

3961. At present, in order to provide some of the money requisite for the extensions in business which are going on, the finance world in London is adopting the same practice?—I regret to see that the practice seems to be increasing.

3962. And you would like to shackle the finance of the present day on this suggested plea of yours that it is bad for trade?—I do not think it would be any real shackle.

3963. In your last paragraph you deal with taxation at its source, bringing in monthly salaries, weekly wages, and everything else. I would like to draw your attention to the fact that while I was on the Luxury Tax Committee we had a great number of people come up to tell us that there were amateur traders who made very large profits. Can you make any suggestion by which the Inland Revenue can bring amateur traders, or traders of that description, in to pay their Income Tax as in the case of other people?—That is a most difficult question. I could give other instances. I am acquainted with these great difficulties, and I cannot at the present time, I am afraid, suggest a remedy. There is no record of these transactions in any banking account, as a rule; the purchase price is often paid in Treasury notes and invested perhaps in house property, or something of that sort, without any accounting record being in existence.

3964. If you could look into that and can make any suggestions, I think you would add greatly to our resources. It was extraordinary the number of people who came before the Luxury Tax Committee and assured us that there were amateur traders making profits?—Yes.

3965. *Mr. Kerly*: Thank you for your evidence.

SEVENTH DAY,

WEDNESDAY, 18TH JUNE, 1919.

PRESENT :

LORD COLWIN (*in the Chair*).

SIR T. P. WHITTAKER.

MR. BOWERMAN.

SIR E. E. NOTT-BOWER.

SIR J. S. HARMOOD-BANNER.

SIR W. TROWER.

MR. HOLLAND-MARTIN.

MR. WARREN FISHER.

MR. BIRLEY.

MR. WALKER CLARK.

MR. KERLY.

MRS. KNOWLES.

MR. MACKINDER.

MR. MCINTOCK.

MR. MANVILLE.

MR. GEOFFREY MARKS.

MR. MAY.

PROFESSOR PIGOU.

MR. SYNNOTT.

MR. R. V. N. HOPKINS, C.B., called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Proof of evidence to be given by R. V. N. Hopkins, C.B., Member of the Board of Inland Revenue and Joint Secretary of the Department, on the graduation and differentiation of the Income Tax and the question of the exemption limit.

PART I.

Introductory (Graduation).

3966. (1) Graduation in connection with the Income Tax is the name given to the principle of charging tax on the smaller incomes at a lower effective rate* than on the larger ones. So far as is known, graduation in some form or other is an element in all present-day Income Tax systems; but in some systems graduation is only applied to give relief to persons with comparatively small incomes, all incomes beyond a moderate amount being charged with a tax at a flat rate. Graduation of this character is often called "degressive." In other systems the graduation runs through the whole scale—or practically the whole scale—of incomes; it is then often called "progressive." These two terms are, however, sometimes used with somewhat different connotations.

3967. (2) It used to be suggested that it may be open to question whether it is correct as an abstract principle to graduate an Income Tax rather than to charge the tax at a flat rate on all incomes. In existing conditions, however, this question is of no practical interest as it is clear that a tax at a flat rate designed to produce such revenue as is now required from the Income Tax in this country would meet with widespread opposition and could only be a complete failure.

3968. (3) The Income Tax in this country has almost at all times been graduated in some degree; but before 1909, the graduation was limited to the smaller incomes and was effected solely by means of abatements allowed from the incomes of individual taxpayers in cases in which the total income did not exceed the specified limit. In those cases tax was charged only on that part of the income which exceeded the amount of the abatement.

* The term "effective rate" is used to denote the rate at which tax is borne by the taxpayer if the actual amount of tax charged is regarded as applicable not to his income as reduced by abatements and other allowances, but to his whole income. Thus a taxpayer whose total income amounts to £500 (earned income) and who is married and has three children under the age of 16 pays £89 in Income Tax, viz:—

Total income	£500
Less abatement	£160
Wife allowance	£20
Children allowance	£70
	£200
	£300
	£400
	£480

Tax on £400 at 3s. in the £ ... £10

In this example the nominal rate of tax is 3s. in the £, but the effective rate is £10/£500 or 2s. in the £.

3969. (4) In recent years, however, i.e., from 1909-10 onwards and more especially during the war, the graduation of the tax has developed rapidly, and, at the present time, the Income Tax (including Super-tax) is graduated throughout, that is to say, the effective rate of tax increases from the lowest to the highest incomes. As between the largest incomes the difference in the effective rate is necessarily small—otherwise the rate would approach or even exceed 20s. in the £ as the size of the income increases—but nevertheless there is some degree of graduation throughout the scale.

3970. (5) There are various methods which can be adopted for the purpose of securing graduation of Income Tax.*

- (a) The tax can be graduated by the grant of abatements. For example, it may be prescribed that for the purposes of computing the tax chargeable on any individual a sum of (say) £100 shall be deducted from the amount of his total income and that tax shall be charged at a uniform rate on the balance of the income after deducting the abatement. In this event no tax would be charged on incomes of £100 or less. A taxpayer with an income of £150 would pay tax on £50 only and, as this is only one-third of the whole income, the tax payable would be equivalent to a tax on the whole income at one-third the nominal rate whatever that nominal rate might be. In other words for an income of £150 the effective rate of tax would be one-third the nominal rate. Similarly a taxpayer with an income of £300 would pay tax at the nominal rate on £100; in this case the effective rate would be one-half the nominal rate.

The effect of a constant abatement of £100 on the effective rate of tax may be seen from the following illustration:—

Amount of Income.	Amount of Income chargeable with tax (after allowance of abatement).	Effective rate of tax.
£	£	
110	10	·09 of nominal rate
150	50	·3 " "
200	100	·5 " "
500	400	·8 " "
1,000	900	·9 " "
5,000	4,900	·98 " "
20,000	19,900	·995 " "

* A note on the methods adopted in British Dominions and Foreign Countries accompanies this proof. [See App. No. 14 (b).]

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[Continued.]

It will be seen that the allowance of the abatement results in a continuous increase in the effective rate of tax throughout the scale, though the rate of increase becomes very small when the larger incomes are reached.

The above example shows the effect of allowing an abatement from all incomes whatever their amount. The allowance of an abatement, however, need not be universal but may be restricted to incomes between certain limits. In this event the abatement only graduates the effective rate of tax within the limits to which the abatement extends.

(b) A second and more direct method of graduation is to charge tax at different rates on incomes of different amounts. For example, tax may be charged, at 2s. in the £ on incomes not exceeding £500 and at a higher rate in the £ on larger incomes. The varying rates of tax may be expressed either empirically or by a mathematical formula. Again, they may be applied to the whole income (after the allowance of any abatement) as in the British Income Tax, or to different sections or slices of the income, as in the British Super-tax.

(c) Another means of graduation is to charge tax at a constant rate on varying fractions or multiples of the actual income of a taxpayer. For example, it may be prescribed that the rate of Income Tax shall be a constant rate of 5s. in the £ but that this rate shall be charged not on the actual income of the taxpayer, but on an amount greater or less than the actual income and derived from that income by applying to it some formula, the taxable sum being a larger proportion of the income in the case of larger incomes than in the case of smaller incomes.

(d) Again, the tax may be graduated by imposing an additional tax (often called a Super-tax) upon incomes which exceed a certain amount. This Super-tax may itself be graduated by abatements and by variations in the rate.

3971. (6) The methods described in paragraph 5, and others resembling them, may be used either singly or in combination. For example, until 1909 the British Income Tax was graduated only by means of abatements. At the present time it is graduated by abatements, by variations in the rate of tax, and by a Super-tax which is itself charged at varying rates on different sections of the income.

3972. (7) The methods adopted for the purpose of securing graduation are sometimes applied in quite a rough-and-ready manner with the result that while a fair measure of graduation may appear when the system is viewed as a whole, yet the effective rate does not advance continuously but advances suddenly at certain points between which it remains stationary or nearly stationary. On the other hand, in some systems a considerable amount of inequity is displayed in applying the methods of graduation in such a way as to secure a constant increase in the effective rate throughout the whole or a large part of the scale. Some further information on this point is given in the Note on Graduation in British Dominions and Foreign Countries which accompanies the present proof. [See App. No. 14 (b).] Reference may also be made to Annex I, which graphically represents the effective rates in certain systems. [See App. No. 12.]

3973. (8) There is no special intrinsic virtue in any particular method by which graduation may be effected; but from the point of view of intelligibility, flexibility and general practical convenience, some methods are much superior to others. The method can only be regarded as the means to the end, and the problem involved in selecting a method of graduation is the problem of finding in what way graduation

on the lines desired may best be effected by a method which conforms with the general scheme of the tax and is at the same time capable of practical application to the mass of separate assessments in the country.

3974. (9) The term "graduation" in connection with the Income Tax is generally used to denote graduation by reference to the amount of the taxpayer's income, and it has been so used in the preceding paragraphs of this proof. There is, however, another class of relief which may fairly be spoken of as graduation and considered in connection with the general question of graduation, and that is the relief granted by reference to the extent of the taxpayer's family responsibilities—his wife, his children and other dependants.

3975. (10) Under the present scheme of the British Income Tax, a special allowance is granted within certain limits of income in respect of a wife, each child (including an adopted child) under the age of sixteen, and in certain circumstances in respect of a housekeeper and each dependent relative.

3976. (11) The allowance is made by means of an abatement from the income in respect of which tax is payable, the amount of the abatement being £35 for each such person (whether wife, child or other relative).

3977. (12) The allowance is restricted to incomes not exceeding £800, except in the case of children beyond two in number, in respect of whom the limit of income is extended to £1,000. Thus a taxpayer with four children all under sixteen years of age and with an income between £800 and £1,000 would be entitled to an allowance (from taxable income) of £50 in all in respect of the third and fourth children.

3978. (13) In the following parts of this evidence, so far as it relates to graduation, it is proposed to consider firstly, the present scale of graduation in this country, and the question whether any alteration in that scale is necessary, and secondly, the methods by which graduation is in practice effected, and the necessity for any alterations in these methods.

3979. (14) The first question which arises in this connection is the limit of income within which total exemption from Income Tax should be granted, and this question is dealt with in Part II of the present proof. Part III relates to the general scale of the graduation for incomes above the limits of exemption, including the allowances for wife, children and other dependants, Part IV to the practical methods for giving effect to graduation of the Income Tax (including the Super-tax), and Part V to differentiation in the rate of the tax as between earned and unearned income.

PART II.

The exemption limit.

3980. (15) The first question for consideration is the exemption limit. At the present time the nominal limit for total exemption from tax is £130; but in the case of persons entitled to allowance in respect of wife, child or other dependent relative the effect of the abatement of £120 and the allowance of £25 for each dependant is to increase the effective limit of exemption to the following amounts:—

In the case of a person entitled—

	£
to one allowance (e.g., wife only) ...	145
to two allowances (e.g., wife and child) ...	170
to three " (e.g., wife and two children) ...	195
to four " (e.g., wife and three children) ...	220
to five " (e.g., wife and four children) ...	245
to six " (e.g., wife and five children) ...	270
to seven " (e.g., wife and six children) ...	295
and so on.	

3981. (16) The question whether this limit is now too high or too low is ultimately a matter of opinion; but it is suggested that the first principle to be recognized is that of the taxpayer's ability to pay. It

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appears to be necessary also to pay regard to the comparative weight of indirect taxation upon the poorer and the richer classes. From another point of view the cost of collection of small amounts from a large number of taxpayers is also a factor which has a bearing on this question.

3862. (17) The question is one on which it is difficult for the Board of Inland Revenue to express an opinion in advance of the evidence which will doubtless be adduced from various quarters on the subject. It is suggested, however, with reserve, that the present ratio of the exemption limit in the case of persons without dependants to the effective exemption limits in the case of persons with dependants is unsatisfactory. It is obvious, for example, that the difference in amount between the necessary expenses of a bachelor and of a married man with no dependants is not measured by £25.

3863. (18) The exemption limit will always pay some regard to the minimum cost of subsistence. It may, of course, be fixed solely by reference thereto and on that basis it may be argued that the existing amounts of £130 for exemption and of £120 for abatement in the lowest range of incomes, are appropriate for single persons without family responsibilities.

3864. (19) The suggestion occurs that the marriage allowance and the allowance for a child or other dependant might very properly be increased to £60 and £30 respectively, raising the effective exemption limit to £180 for a married man without children, £210 for a married man with one child and so on.

3865. (20) It would not, however, follow if the exemption and abatement limits were fixed at figures in excess of £130 and £120 respectively, those new limits not being fixed solely by reference to the minimum cost of subsistence, that the other allowance ought to be increased in a like proportion.

3866. (21) Upon the basis suggested (if the normal exemption limit stands) the revised effective exemption limits would work out as follows:—

	Suggested Limit. £	Present Limit. £
In the case of an unmarried person without dependants.	130	130
In the case of a married person without children or other dependants.	180	145
In the case of a married person with one child.	210	170
In the case of a married person with two children.	240	195
In the case of a married person with three children.	270	220
In the case of a married person with four children.	300	245
In the case of a married person with five children.	330	270
In the case of a married person with six children.	360	295
and so on.		

PART III.

The present scale of graduation of the Income Tax (including Super-tax) and suggestions as to its possible modification.

3867. (22) At this point it may be mentioned that there is a school of thought which seeks to find a solution of the problem of graduation in a mathematical formula. It is suggested, however, that the assumption that an ideal scale is more likely to be evolved by these means is fallacious. The object of the graduation of the tax is to attain a fair measure of equality of sacrifice, to apportion the tax as nearly as possible to the different capacities of different taxpayers as measured primarily by the amounts of their incomes. Ultimately the question is one of common sense judgment, not of mathematics, and one which will inevitably be approached by different people with different standards of judgment and from different points of view.

3868. (23) The following Table illustrates in general outline the effect of the graduation of the Income Tax as it stands to-day.

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3989. (24) The graduated scale of effective rates of tax is shown graphically in graphs I, IA, and II of Annex I. to this evidence [see App. No. 12] while the remaining graphs in that Annex compare the graduation of the British tax with that of certain important foreign and Dominion taxes.

3990. (25) The present abatements (apart from family allowances) granted to taxpayers in this country are as follows:—

Incomes not exceeding £400	£120
Incomes exceeding £400 but not exceeding £600	£100
Incomes exceeding £600 but not exceeding £700	£70

If the exemption limit for persons without dependants remains as at present, there appears to be no good ground for altering these abatements except in one particular. The abatement which remains as high as £100 where the income does not exceed £600 is extinguished very abruptly, and it is suggested that abatements might with propriety be extended to incomes exceeding £700 and not exceeding £1,000 as follows:—

Incomes exceeding £600 but not exceeding £800	£70
Incomes exceeding £800 but not exceeding £950	£50

At this point (£950) the abatement might be reduced by £1 for every increase of £1 in the income so that it would be extinguished at £1,000. [See App. No. 13.]

3991. (26) If the suggestion is adopted that the marriage allowance and the allowance for children and other dependants should be £60 and £30 respectively (see paragraph 17) the question remains at what point in the scale of income these allowances should cease to operate. The present allowances for wife and dependants are granted when the total income does not exceed £800, and the children allowance is continued (for children beyond two in number) for incomes which exceed £800 but do not exceed £1,000. Clearly there comes a point when a taxpayer is wealthy enough to bear tax on the whole of his income and has no claim to receive these allow-

ances, which are appropriate only to incomes upon which family responsibilities are a heavy burden. It is suggested, however, that that point is not reached at £800, and that the marriage allowance might properly be granted in all cases where the income does not exceed £1,200, and the allowance for children and other dependants where the income does not exceed £1,500.*

3992. (27) Upon the basis of the foregoing suggestions—

The abatement would cease at ...	£1,000
The marriage allowance would cease at	£1,200
The children and dependant allowance would cease at	£1,500

3993. (28) The annual cost to the Exchequer of these alterations at present rates of tax would be as follows:—

Extension of abatements to £1,000	£1,100,000
Increase of wife or marriage allowance to £60	£4,170,000
Increase of allowance for children and other dependants to £30 ...	£1,530,000
Extension to £1,200 of limit for wife or marriage allowance of £80	£1,020,000
Extension to £1,500 of limit for children, &c., allowance of £30	£220,000

The combined cost of all the suggestions would be £8,000,000 per annum. Of this sum £4,000,000 would go in relief of taxpayers with incomes not exceeding £500, £3,000,000 in relief of taxpayers with incomes between £500 and £1,000, and the balance, £1,000,000, in relief of taxpayers with incomes between £1,000 and £1,500.

3994. (29) If these suggestions were adopted, the effective rates of tax upon incomes not exceeding £1,500 would be modified to the extent shown in the following Table.

* Under present day conditions there is also a case for extending beyond £800 (the existing figure) the limit of total joint income within which additional relief may be claimed in respect of income derived by the wife by means of her own personal labour.

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[Continued.]

TABLE

TABLE showing amounts of Income Tax payable and effective rates of tax

(a) present scale of allowances and abatements (as in TABLE I);

(b) in italic figures—present scale with amendments proposed in paragraph 28 of proof of

(i) an increase in the allowance for a wife to £40, to apply to incomes not

(ii) an increase in the allowance for a child, &c., to £30, to apply to

(iii) an extension of the allowance of £70 abatement to incomes not

(iv) the allowance of an abatement of £30 to incomes exceeding £800

(v) the allowance of an abatement equivalent to the difference between also the number of taxpayers in certain classes and the total produce of the tax in each class.

Total Income.	Nominal Rate of Income Tax applicable to		Bachelor.						Married Man	
			If income all earned.		If income all unearned.				If income all earned.	
	Earned Income.	Unearned Income.	Tax payable.		Tax payable.				Tax payable.	
			Amount.	Effective rate.	Amount.	Effective rate.	Amount.	Effective rate.		
£	s. d.	s. d.	£ s. d.	s. d.	£ s. d.	s. d.	£ s. d.	s. d.		
135 ...	2 3	3 0	(a) 1 13 9 (b) 1 13 9	8 3	2 5 0 2 5 0	4 4	NIL. NIL.	— —		
145 ...	2 3	3 0	(a) 2 14 3 (b) 2 16 3	5 5	3 15 0 3 15 0	6 6	NIL. NIL.	— —		
175 ...	2 3	3 0	(a) 6 3 9 (b) 6 3 9	8 8	8 5 0 8 5 0	11 11	3 7 6 NIL.	5 —		
200 ...	2 3	3 0	(a) 9 0 0 (b) 9 0 0	11 11	12 0 0 12 0 0	1 2 1 2	6 3 9 2 5 0	7 3		
220 ...	2 3	3 0	(a) 11 5 0 (b) 11 5 0	1 0 1 0	15 0 0 15 0 0	1 4 1 4	8 8 9 4 10 0	9 5		
250 ...	2 3	3 0	(a) 14 12 6 (b) 14 12 0	1 2 1 2	19 10 0 19 10 0	1 7 1 7	11 16 3 7 17 6	11 6		
300 ...	2 3	3 0	(a) 20 5 0 (b) 20 5 0	1 4 1 4	27 0 0 27 0 0	1 10 1 10	17 8 9 13 10 0	1 2 11		
400 ...	2 3	3 0	(a) 31 10 0 (b) 31 10 0	1 7 1 7	42 0 0 42 0 0	2 1 2 1	29 15 9 24 15 0	1 5 1 3		
500 ...	2 3	3 0	(a) 45 0 0 (b) 45 0 0	1 10 1 10	60 0 0 60 0 0	2 5 2 5	42 3 9 38 5 0	1 8 1 6		
600 ...	3 0	3 9	(a) 75 0 0 (b) 75 0 0	2 6 2 6	93 15 0 93 15 0	3 1 3 1	71 5 0 69 0 0	2 4 2 2		
700 ...	4 0	3 9	(a) 94 10 0 (b) 94 10 0	2 8 2 8	118 2 6 118 2 6	3 4 3 4	90 15 0 83 10 0	2 7 2 5		
800 ...	3 0	3 9	(a) 120 0 0 (b) 120 10 0	3 0 2 9	150 0 0 130 17 6	3 9 3 5	116 5 0 100 10 0	2 11 2 6		
900 ...	3 0	3 9	(a) 135 0 0 (b) 137 10 0	3 0 2 10	168 15 0 159 7 6	3 9 3 6	135 0 0 118 10 0	3 0 2 7		
950 ...	3 0	3 9	(a) 142 10 0 (b) 135 0 0	3 0 2 10	178 2 6 168 15 0	3 9 3 7	142 10 0 120 0 0	3 0 2 8		
1,000 ...	3 0	3 9	(a) 150 0 0 (b) 150 0 0	3 0 3 0	187 10 0 187 10 0	3 9 3 9	150 0 0 141 0 0	3 0 2 10		
1,100 ...	3 9	4 6	(a) 206 5 0 (b) 206 5 0	3 9 3 9	247 10 0 247 10 0	4 6 4 6	206 5 0 185 0 0	3 9 3 7		
1,200 ...	3 9	4 6	(a) 225 0 0 (b) 225 0 0	3 9 3 9	270 0 0 270 0 0	4 6 4 6	225 0 0 212 15 0	3 9 3 7		
1,250 ...	3 9	4 6	(a) 234 7 6 (b) 234 7 6	3 9 3 9	281 5 0 281 5 0	4 6 4 6	234 7 6 234 7 6	3 9 3 9		
1,300 ...	3 9	4 6	(a) 243 15 0 (b) 243 15 0	3 9 3 9	292 10 0 288 10 0	4 6 4 6	243 15 0 243 15 0	3 9 3 9		
1,400 ...	3 9	4 6	(a) 262 10 0 (b) 262 10 0	3 9 3 9	315 0 0 315 0 0	4 6 4 6	262 10 0 262 10 0	3 9 3 9		
1,500 ...	3 9	4 6	(a) 281 5 0 (b) 281 5 0	3 9 3 9	337 10 0 337 10 0	4 6 4 6	281 5 0 281 5 0	3 9 3 9		

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3996. (30) As regards the scope of the existing family allowances, it is sometimes suggested that the children allowance should not be entirely limited to the case of children under 16. There is something to be said for extending the age limit to 18 in the case of children who are receiving full time instruction at any school, college, university, or other bona fide educational establishment. The cost to the Exchequer of this extension would be some £150,000 per annum.

3996. (31) The larger question remains whether the graduation of the nominal rate of Income Tax (including Super-tax) by reference to the amount of the taxpayer's income calls for modification.

3997. (32) At present rates the tax undoubtedly falls heavily upon all classes of income; but it is especially its pressure upon small and medium incomes which is the subject of greatest complaint. While continuous efforts have been made to graduate the tax fairly according to the subject's ability to pay, yet there is probably a general feeling that the pressure is hardest upon taxpayers in the lower portions of the scale and that some fraction of their burden might fairly be transferred to wealthy taxpayers.

3998. (33) The suggestions made in the succeeding paragraphs are directed to easing the pressure above referred to. The matter, however, is one which depends on individual judgment, and the suggestions which are made in advance of the outside evidence which may be put before the Royal Commission are put forward with reserve.

3999. (34) So far as concerns incomes up to (say) £500 a year, the suggestions already made in regard to family allowances represent a substantial relief in favour of taxpayers who have other persons depending upon them. It is suggested that the tax chargeable upon persons without family responsibilities does not equally call for reduction.

4000. (35) Dealing next with what may be termed the medium incomes, it will be recalled that above £500 the rate of tax is increased; above £600 the abatement is reduced from £100 to £70, and above £700 it vanishes. At £1,000, £1,500 and £2,000 there are further increases in the rate of tax applicable to the whole of the income. The changes in rate are as follows:—

	Earned Income.	Unearned Income.
	£ s. d.	£ s. d.
Incomes not exceeding £600	2 3 in the £	5 0 in the £
Incomes exceeding £600 but not exceeding £1,000	3 3 -	5 9 -
Incomes exceeding £1,000 but not exceeding £1,500	5 9 -	4 6 -
Incomes exceeding £1,500 but not exceeding £2,000	4 6 -	5 3 -
Incomes exceeding £2,000 but not exceeding £5,000	5 3 -	0 0 -

4001. (36) The complaint which most frequently reaches the Board of Inland Revenue in connection with this class of income—and it is difficult to feel

that the complaint is not well founded—is that the Income Tax at present rates falls with great severity on professional and other earned incomes within the range between £500 and (say) £2,000 a year.

4002. (37) The suggestions above made in regard to the extension of abatements and allowances do not benefit these classes to any material extent. The relief accorded by the adoption of those suggestions would be as follows:—

Incomes.	Tax now paid.	Relief.
Exceeding £500	£21,000,000	£3,000,000
Not exceeding £1,000	£32,300,000	£1,000,000
£1,000	£31,500	
Over £1,000 the relief is nil.		

4003. (38) Although it is quite impossible to bring a question of this kind to the test of any authoritative standard, it is suggested for the judgment of the Royal Commission that should it be found that some small part of the burden upon these incomes can be fairly transferred to a higher point in the scale, that course would be both a reasonable one and acceptable to public sentiment.

4004. (39) The view that the present graduation is relatively more severe on incomes between £500 and £2,000 than is consonant with present day views in the great English-speaking countries is supported by comparison with the Income Taxes of some of the self-governing Dominions and of the United States of America. This will be seen on referring to Annex I, Graph III. [see Appendix No. 12], representing the graduation of the tax on earned incomes in the United Kingdom, Australia, New Zealand, the Dominion of Canada, and the United States of America. The countries selected are countries in which the Income Tax is imposed at especially high rates, and thus it would appear that the pressure of tax on medium incomes in this country is peculiarly great. [See also App. No. 14 (b).]

4005. (40) The following figures illustrate the point further; in the computation of the figures the rates of the tax taken are those on earned incomes, and reliefs granted in respect of dependants have not been taken into account:

In the United Kingdom an income of £900 pays a rate in the £ equivalent to 29·85 per cent. of the rate in the £ which is paid by an income of £10,000, and 24·30 per cent. of that paid by an income of £100,000. In Australia, if the Commonwealth and New South Wales taxes are combined, the corresponding figures are 20·60 per cent. and 13·99 per cent.; in New Zealand, 8·48 per cent. and 8·34 per cent.; in the Dominion of Canada, 20·007 per cent. and 5·60 per cent.; in the United States, 17·90 per cent. and 6·18 per cent. If incomes of £1,000 and £1,500 in lieu of £900 are taken the corresponding figures of comparison with incomes of £10,000 and £100,000 are as follow:—

	Rate of tax on £1,000.		Rate of tax on £1,500.	
	As compared with rate of tax on £10,000.	As compared with rate of tax on £100,000.	As compared with rate of tax on £10,000.	As compared with rate of tax on £100,000.
	Per cent.	Per cent.	Per cent.	Per cent.
United Kingdom	35·82	29·16	44·77	30·45
Australia	26·46	17·98	32·07	21·79
New Zealand	19·08	18·77	26·58	26·15
Canada	25·72	7·67	32·51	9·69
United States of America ...	21·52	7·42	34·67	11·96

It would no doubt be possible to carry this comparison too far—the precise value of the comparison cannot be appreciated without a knowledge of the effect in each country of indirect taxation, and of the burden of rates and other local imposts, together with the services secured thereby. In themselves, however, the figures are striking.

4006. (41) While, however, analogies such as these suggest that there is a case for granting some relief to the medium incomes, the question is not at all an easy one. As already stated, the cost to the Exchequer of the suggested modification of the abatements and family allowances is £25,000,000. The cost of reduction of the rate of Income Tax on small or medium incomes is indicated by the following Table.

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TABLE III.

The cost of reducing the rate of Income Tax by one penny in the £ in each zone would be as follows:—

Incomes.		On existing basis.		After reliefs summarized in paragraph 28 have been allowed.	
Exceeding.	Not exceeding.	Earned.	Unearned.	Earned.	Unearned.
£	£	£	£	£	£
130	250	243,000	40,000	185,000	36,000
250	500	404,000	139,000	329,000	132,000
500	1,000	340,000	326,000	282,000	335,000
1,000	1,500	161,000	290,000	149,000	282,000
1,500	2,000	101,000	215,000	101,000	215,000
2,000	2,500	76,700	186,000	76,700	186,000
Totals	...	1,325,700	1,225,000	1,122,700	1,186,000
		£2,551,700		£2,308,700	

Thus, for example, the cost of reducing by 3d. in the £ the rate of Income Tax on all incomes not exceeding £2,500 would (the suggestions summarized in paragraph 28 being assumed to be adopted) be three times £2,308,700 or £6,926,100. A reduction by 6d. in the £ would cost double that amount.

4007. (42) It may well be found that the proposed relief at the bottom of the scale of incomes (where pressure, it is suggested, is at present heaviest), in the form of increased marriage and children allowances, could fairly be recouped by some increase in the Super-tax, but that the extent to which relief to the medium incomes (beyond the suggested extension of the allowances referred to in paragraphs 26 and 27)

could similarly be given is limited. The possibility of making good by new taxes other than Income Tax, relief to particular classes of Income Tax payers is regarded as outside the scope of this evidence. Even so, however, an increase in the Super-tax, though it does not actually relieve the pressure on medium incomes, would mitigate the disproportion in the comparative severity of the tax as between medium and large incomes.

4008. (43) The categories of income exceeding £2,500, together with the effective rates of tax charged for 1918-19, are shown in the following Table:—

TABLE IV.

TABLE showing effective rates of Income Tax (including Super-tax) on certain classes of incomes; also number of taxpayers and produce of the tax in each class.

Income.		Effective rates of Income Tax (including Super-tax).		Number of taxpayers in each class.	Produce of tax in each class.
£	£	s.	d.		£
Exceeding	2,500 but not exceeding	5,000	From 6 0 to 7 2	36,535	39,381,000
"	5,000	"	7 2 " 8 4	13,974	35,027,000
"	10,000	"	8 4 " 9 1	4,023	20,063,000
"	15,000	"	9 1 " 9 5	1,749	12,964,000
"	20,000	"	9 5 " 9 8	906	8,973,000
"	25,000	"	9 8 " 9 9	550	6,779,000
"	30,000	"	9 9 " 10 0	566	8,856,000
"	40,000	"	10 0 " 10 1	257	5,300,000
"	50,000	"	10 1 " 10 3	392	12,697,000
"	100,000	"	10 3 " 10 4	148	13,352,000

4009. (44) The suggestion has often been made that the tax on exceedingly large incomes should be substantially increased. The produce of even a very large

increase of this character is shown by the following Table, in which the numerous possibilities of evasion due to high rates are disregarded:—

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TABLE V.

Illustration of additional revenue which (disregarding possibilities of evasion) might be obtained from a heavy increase in the Super-tax on the highest incomes.

ALTERNATIVE SCALES OF RATES.

*Section of the income.	Scale A.	Scale B.
Up to £10,000	No increase on present rates.	No increase on present rates.
From £10,000 to £15,000	4s. 6d. in the £	5s. 0d. in the £
" 15,000 " 20,000	5 0 "	6 0 "
" 20,000 " 25,000	5 6 "	7 0 "
" 25,000 " 30,000	6 0 "	8 0 "
" 30,000 " 40,000	7 0 "	9 0 "
" 40,000 " 50,000	8 0 "	10 0 "
" 50,000 " 75,000	9 0 "	11 0 "
" 75,000 " 100,000	10 0 "	12 0 "
Above 100,000	12 0 "	12 0 "
Estimated gain in a full year	£11,000,000	£15,800,000

* The Super-tax is charged at different rates on different sections or slices of income. Thus, under the existing scale Super-tax on an income of £3,300 would be charged:—

At 1s. in the pound on the £500 between £2,500 and £3,000.
" 1s. 6d. " " £500 " £2,500 and £3,000.
" 2s. " " £300 " £3,000 and £3,300.

The effective rates of Income Tax (at 6s. in the £) combined with Super-tax under the two foregoing alternative scales, as compared with the existing effective rates, would be:—

Income.	Effective rate of tax per £1 of income.		
	On existing scale.	On Scale A.	On Scale B.
£	s. d.	s. d.	s. d.
10,000	8 4	8 4	8 4
15,000	9 1	9 1	9 3
20,000	9 5	9 7	9 11
25,000	9 8	9 11	10 7
30,000	9 9	10 3	11 2
40,000	10 0	11 0	12 1
50,000	10 1	11 7	12 8
75,000	10 3	12 9	13 9
100,000	10 3	13 6	14 7
150,000	10 4	15 0	15 9
200,000	10 5	15 9	16 4
500,000	10 5	17 1	17 4
1,000,000	10 6	17 7	17 8

4010. (45) On the other hand, if the Super-tax on all incomes exceeding £2,500 were increased to any substantial extent the revenue to be obtained would (subject to the possibilities of evasion) be more considerable. The following Tables indicate the results which might be anticipated:—

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TABLE VI.

Illustration of amount of additional revenue which might be obtained from a general increase in the rate of Super-tax.

(NOTE.—In Scale D the increase affects all incomes exceeding £2,500; in the other Scales it affects all incomes exceeding £3,500, but the effect of the increase is very small until the income substantially exceeds these amounts—see Table of effective rates below. As that Table ignores fractions of a penny, fractional increases are either not shown or are shown as increases of a penny.)

*Section of the income (incomes above £2,500 chargeable).		Rate of Super-tax per £1 of income.				
		Existing Scale (up to £s. 6s. on all incomes above £10,000).	Alternative Scale A (up to 6s. on all incomes above £7,000).	Alternative Scale B (up to 7s. 6s. on all incomes above £3,500).	Alternative Scale C (up to 8s. on all incomes above £10,000).	Alternative Scale D (up to 9s. on all incomes above £7,000).
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Exceeding £	Not exceeding £	s. d.	s. d.	s. d.	s. d.	s. d.
—	2,500	NIL	NIL	NIL	NIL	NIL
2,500	2,500	1 0	1 0	1 0	1 0	1 0
2,500	3,500	1 6	1 6	1 6	1 6	1 6
3,500	3,500	2 0	2 0	2 0	2 0	2 6
3,500	4,000	2 0	2 6	2 6	2 6	3 3
4,000	4,000	2 6	3 0	3 0	3 0	4 0
4,000	5,000	2 6	3 6	3 6	3 6	4 9
5,000	5,000	3 0	4 0	4 0	4 0	5 6
5,000	6,000	3 0	4 6	4 6	4 6	6 3
6,000	6,000	3 6	5 0	5 0	5 0	7 0
6,000	7,000	3 6	5 6	5 6	5 6	7 9
7,000	7,000	3 6	6 0	6 0	6 0	8 6
7,000	8,000	3 6	6 0	6 6	6 6	9 0
8,000	8,000	4 0	6 0	7 0	7 0	9 0
8,000	9,000	4 0	6 0	7 6	7 6	9 0
9,000	9,000	4 0	6 0	8 0	8 0	9 0
9,000	10,000	4 0	6 0	8 6	8 6	9 0
10,000	...	4 6	6 0	9 0	9 0	9 0
Estimated gain in a full year ...	...	...	£14,200,000	£23,500,000	£30,300,000	£38,500,000

* The Super-tax is charged at different rates on different sections or slices of income. Thus, under the existing scale (column 2), Super-tax on an income of £3,300 would be charged—

At 1s. in the pound on the £500 between £2,500 and £3,000,
 " 1s. 6s. " " £200 " £2,500 and £2,700,
 " 2s. " " £300 " £2,700 and £3,300.

The effective rates of Income Tax (at 6s. in the £) and Super-tax combined, under the existing and the four foregoing alternative scales of Super-tax, would be as follows:—

Total Income (incomes above £2,500 chargeable with Super-tax).	Effective rate of tax (Income Tax and Super-tax) per £1 of income.				
	Existing Scale.	Alternative Scale A.	Alternative Scale B.	Alternative Scale C.	Alternative Scale D.
£	s. d.	s. d.	s. d.	s. d.	s. d.
2,750	6 4	6 4	6 4	6 4	6 4
3,000	6 6	6 5	6 5	6 5	6 5
4,000	6 10	6 10	6 10	6 10	7 1
5,000	7 2	7 4	7 4	7 4	7 9
6,000	7 5	7 10	7 10	7 10	8 5
7,000	7 9	8 4	8 4	8 4	9 1
8,000	8 0	8 9	8 10	8 10	9 10
9,000	8 2	9 2	9 4	9 4	10 5
10,000	8 4	9 5	9 9	9 10	10 10
11,000	8 7	9 8	10 1	10 3	11 8
12,000	8 9	9 10	10 3	10 8	11 7
13,000	8 10	10 0	10 5	11 0	11 10
14,000	9 0	10 2	10 7	11 3	12 0
15,000	9 1	10 3	11 0	11 6	12 3
20,000	9 5	10 8	11 7	12 5	12 11
25,000	9 8	11 0	12 0	12 11	13 4
30,000	9 9	11 2	12 3	13 3	13 7
40,000	10 0	11 4	12 7	13 8	14 0
50,000	10 1	11 6	12 9	13 11	14 2
100,000	10 3	11 9	13 1	14 6	14 7
150,000	10 4	11 10	13 3	14 8	14 9

4011. (45) In the past, fears have often been expressed that even a moderate Super-tax would drive capital out of the country. The circumstance that income accruing to residents in this country from foreign securities, stocks, shares and rents is now chargeable to Income Tax and Super-tax although

not actually remitted to this country limits this danger, and the high rates of taxation likely to prevail in future in the Dominions and in many foreign countries limit the probability of rich taxpayers leaving the country in order to avoid high taxation. Moreover much of the capital of the

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country is of a character which cannot easily be removed.

4012. (47) There may, however, be countries which would be glad to cater for rich immigrants, and if the Super-tax were forced up to such heights as rich taxpayers would regard as representing unjust "class" legislation, a great deal of income would be permanently lost to this country. Moreover, the success of a substantial tax always rests to a large extent on the goodwill of the tax-paying public. The absence of that goodwill tends to the adoption of all kinds of subterfuges within the four corners of the law—apart from the possibility of fraudulent methods—with a view to avoiding liability in whole or part.

4013. (48) It is on the other hand suggested that no serious loss of revenue from these causes would be produced by a reasonable increase in the Super-tax which commanded public acceptance as designed to secure a fairer incidence of the Income Tax and Super-tax among the different classes of the community.

4014. (49) It is suggested that an increase of the Super-tax on incomes exceeding, say, £3,000 designed to recoup the loss of revenue due to the increased allowances summarised in paragraph 28 and the smaller possible adjustments which will be referred to in paragraphs 52 to 61 and 65 *et seq.*, and to give some further small measure of relief to small and medium incomes by reduction of the rate of tax on incomes up to (say) £2,500, should command acceptance as just and equitable.

PART IV.

Practical methods of giving effect to graduation.

4015. (50) The existing practical method of giving effect to the graduation of the tax for incomes not exceeding £2,500 combines the allowance of abatements with alterations (in zones) in the nominal rates of tax, and it is suggested that this method is the right method for this country. Whatever may be the principles underlying the graduation of Income Tax in other countries, the scheme of graduation in this country has of late been developed with the objects of relieving from tax incomes not exceeding an amount bearing some relation to the minimum cost of subsistence and, by devices of abatement or otherwise, of diminishing the rate of duty in the case of small incomes exceeding that amount, upon which the standard rate of tax would impose an excessive burden. These objects are reflected in the method of graduation adopted.

4016. (51) Moreover it is submitted that the method is possessed of such practical convenience (as compared with alternative methods) from the point of view of the taxpayer, no less than from that of the officials administering the tax, that it should not be departed from.

4017. (52) It will be recalled that it is no part of the scheme of the British Income Tax that the tax should be assessed directly upon the taxpayer in a single sum. It is in part collected at the source (*e.g.*, from the companies from which the taxpayer receives dividends) and in part included in direct assessment upon the taxpayer at the various places where his income may arise. It often occurs then that a taxpayer receives part of his income under deduction of tax and is assessed for the remainder of his income in several different places. Collection at the source, the maintenance of which is the first essential to the practical success of the Income Tax, is readily workable so long as the graduation of the tax is effected by the present method. In order to make assessments correctly on parts of a taxpayer's income under the present method, it is necessary to know only within broad limits the amount of the total income, that information being sufficient to establish the amount of the abatement which has to be granted and the rate of tax which has to be charged upon the balance of the income. If, however, the present simple methods of graduation were discarded in favour of some mathematical formula under which the rate of tax varied with, say, each pound of income, it would be necessary to know the exact amount of the total income before an assessment upon any part of the income could be accurately made, and any necessary adjustments of an assessment upon any part of

the income would disturb the rate of tax chargeable on all other parts. While, moreover, the present method of graduation is easy to apprehend, a mathematical formula would try the intelligence of a large proportion of the general public (who neither are nor can reasonably be expected to be expert mathematicians). The time of the tax officials would thus be occupied, not only in corresponding with each other in order to collect particulars of income derived by taxpayers from other parts of the country, but also in striving to appease distracted taxpayers by explaining the complications of the system in its application to their particular assessments. It is hardly too much to say that the adoption of such a method of graduation under the existing scheme of the tax might involve a breakdown of the machine.

4018. (53) On the other hand the present method contains an imperfection which ought undoubtedly to be remedied. This anomaly consists in over-abrupt rises in the effective rate at certain points, the rises being sometimes described as "jumps." In graphs I, II and III, Annexes I, [See App. No. 12], illustrating the general scale of graduation in this country, the "jumps" appear as steps in the line.

4019. (54) The nature of the anomaly is best seen by taking a particular example. For instance, the tax on an earned income of £1,500 is charged at the rate of 3s. 9d. At that point the rate changes, and tax on an earned income of £1,501 is charged at the rate, not of 3s. 9d. but of 4s. 6d. The result is that an earned income of £1,500 after payment of tax is reduced to £1,218 15s. and a like income of £1,501 after payment of tax would, in the absence of special provision, be reduced to £1,162 5s. 6d. Such a position would of course be intolerable, and Parliament has already provided in effect that where an income slightly exceeds one of the points at which a "jump" occurs, sufficient tax shall be remitted to render the taxpayer no worse off than if his income had only just reached the point at which the rate of tax changes. Thus a taxpayer with an income slightly in excess of £1,500 is relieved from tax to such an extent as to reduce the charge to (a) the tax (at the lower rate) on £1,500, plus (b) the excess of his income over that amount. Instead of paying the tax at the increased rate on his full income he makes over to the State the actual excess of his income over £1,500 and is assessed to tax at the lower rate on the £1,500 retained. He is thus left in the same position as if his income were precisely £1,500 in the first instance.

4020. (55) The extent of the question may be seen from the following figures. Increases of income between the amounts shown do not, subject to the reservation below, benefit the taxpayer as the whole of the increase between those amounts is taken by the Revenue in the shape of increased tax:—

Earned incomes affected.		
Incomes between...	£	s. d.
130 and 400	131	5 4
" " " " 400	402	10 8
" " " " 500	517	12 11
" " " " 600	605	5 10
" " " " 700	712	7 0
" " " " 1,000	1,046	3 1
" " " " 1,500	1,572	11 7
" " " " 2,000	2,101	13 11
" " " " 2,500	2,638	18 7
Unearned incomes affected		
Incomes between...	£	s. d.
130 and 400	131	15 3
" " " " 400	403	10 7
" " " " 500	518	9 2
" " " " 600	606	18 5
" " " " 700	716	3 0
" " " " 1,000	1,048	7 9
" " " " 1,500	1,576	5 5
" " " " 2,000	2,107	2 10

These margins are reduced in cases in which personal allowances (*e.g.*, for wife or children) are due to the taxpayer, and, therefore, especially in the lower ranges of income, are often less than the amounts shown.

4021. (56) Similar jumps, but of varying amount, occur in the neighbourhood of £800 and £1,000, at which points the allowances for wife, children and other dependants cease to apply.

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4022. (57) There are no jumps at points above £2,500. Above that figure the rate of Income Tax is a uniform rate of 6s. and the Super-tax which applies to incomes above £2,500 is graduated smoothly: see paragraphs 79 to 81.

4023. (58) The payment of an amount of tax which can be regarded as including the whole of the balance of an income in excess of a certain amount naturally creates a sense of grievance on the part of those taxpayers who suffer it, and the anomaly is one which it is suggested calls for a remedy. There are various methods of dealing with the matter, some of which are mentioned in the following paragraphs.

4024. (59) A possible course, which mitigates the existing hardship without departing far from the present law, is to provide that in the cases affected the relief should be extended so that not more than half of the balance of income in excess of the point at which the change of rate (or abatement) occurs should be paid over in tax. For example—

The tax on an earned income of £500 (at 2s. 3d. in the £) is £45;

The tax on an earned income of £510 (at 3s. in the £) would be £61 10s.

but under the present law the actual charge on the latter income is limited to £55, i.e., £45 plus £10 (the amount by which £510 exceeds £500). It would be possible to provide that the charge should be reduced to £50, i.e., £45 plus £5 (one-half the amount by which £510 exceeds £500).

The cost of this relief would be about £1,250,000.

4025. (60) A more complete remedy would be to provide such a relief that in the cases affected the taxpayer should not suffer more than double duty on the balance of income in excess of the point at which the change occurs. For example—

The tax on an earned income of £500 (at 2s. 3d. in the £) is £45;

The tax on an earned income of £510 (at 3s. in the £) would be £61 10s.

but under the present law the actual charge (as explained above) is limited to £55. It would be possible to provide that the charge should be reduced to £48, i.e., £45, the tax on £500, plus £3, being double duty at 3s. in the £ on £10. [See App. No. 13.]

The cost of this relief would be about £1,300,000.

4026. (61) So far as jumps arise from the cessation or reduction of an abatement or allowance, another method is open for dealing with them. For example, the abatement now changes from £120 to £100 at £400. It would be possible to provide that—

An income of £401 should have an abatement of £119

" " £402 " " " " £118

" " £403 " " " " £117

and so on until at £420 the new abatement of £100 is reached.

The cost of this relief, so far as it goes, would not be appreciably greater than that involved in the use in the same connection of the methods named in the two preceding paragraphs.

4027. (62) Relief on the lines suggested in the preceding paragraph would go a long way to remove the present imperfection and would be simple to work. It is, however, perhaps open to two objections; it still leaves a certain irregularity in the progression and it extends very considerably the area over which the marginal relief would need to apply. For instance, at the present time unearned incomes between £2,000 and £2,107 2s. 10d. are granted marginal relief: see Table in paragraph 55. Under the suggestion made in paragraph 60 incomes from £2,000 to £2,250 would be granted that relief; i.e., all unearned incomes within those limits would be relieved of the normal charge applying to incomes between £2,000 and £2,500 (viz., 6s. in the £), and charged in lieu at 5s. 3d. in the £ on £2,000, plus 12s. in the £ (twice 6s. in the £) on the balance of the income.

4028. (63) In these circumstances the question arises whether some more radical remedy can be suggested. The following paragraphs, while suggesting a possible solution, indicate the difficulty with which the subject is beset.

4029. (64) The search for an alternative is difficult because it is conditioned by the necessity to find a remedy which is reasonably workable under the existing scheme of the tax. There is, however, a method by which jumps could be almost entirely eliminated

(where they occur at points in the scale above £500). This method, although it would add very considerably to administrative difficulties and appreciably to the cost of administration of the tax, is at any rate sufficiently in consonance with the general scheme to be workable.

4030. (65) This suggestion contemplates no alteration in the normal rates, of tax now existing, nor in the points at which the rates change, viz., £500, £1,000, £1,500, £2,000 and £2,500, but would secure a smooth progression from £500 to £1,000 by a re-adjustment of the abatements, and smooth progressions between the remaining points at which the rates change by a special relief from duty.

4031. (66) The suggestion is as follows:—

For the present abatements there should be substituted—

For incomes not exceeding £500 an abatement

of £120.

For incomes exceeding £500 and not exceeding £1,000 an abatement equal to one-quarter of the amount by which the income falls short of £1,000.

For example: income £800; abatement one-quarter of £300, i.e., £75.

4032. (67) In the case of incomes exceeding £1,000 (up to £2,500, at which point the uniform standard rate of 6s. comes into play) taxpayers would, as now, be liable to assessment at the following rates:—

Income.		Rate in the £.	
Exceeding	And not exceeding	Unearned.	Earned.
s. d.	s. d.	s. d.	s. d.
£1,000	£1,500	4 6 in the £.	3 9 in the £.
£1,500	£2,000	5 3 " "	4 6 " "
£2,000	£2,500	6 0 " "	5 3 " "

But every taxpayer would be granted a rebate of duty (not at present granted) as follows:—

Income.		
Exceeding	And not exceeding s. d.	
£1,000	£1,500	1 6 in the £ on the amount by which the total income is less than £1,500.
£1,500	£2,000	2 3 in the £ on the amount by which the total income is less than £2,000.
£2,000	£2,500	3 0 in the £ on the amount by which the total income is less than £2,500.

For example:

Income (unearned) £1,300 Present charge of duty: £1,200 at 4s. 6d. = £270.

Proposed charge of duty: £1,200 at 4s. 6d., less 1s. 6d. in the £ on £300 = £247 10s.

[See App. No. 13.]

4033. (68) The allowance of the rebate of duty reduces the effective rate of tax and produces a continuous graduation for incomes between £1,000 and £2,500, the effective rate rising continuously from

s. d.	s. d.
3 9 in the £ unearned ... 3 6 earned at £1,000 to	
4 6 " " ... 3 9 " " £1,500	
5 3 " " ... 4 6 " " £2,000	
6 0 " " ... 5 3 " " £2,500	

The resultant graduation is the same as if the scale of rate were:—

Incomes between		s. d.
£1,000 and £1,500	... 3 9 (or 3s. 10d. in the case of earned incomes) on the total income and 2s. 3d. on the excess above £1,000.	
£1,500 and £2,000	... 4 6 (or 3s. 9d. in the case of earned incomes) on the total income and 3s. on the excess above £1,500.	
£2,000 and £2,500	... 5 3 (or 4s. 6d. in the case of earned incomes) on the total income and 3s. 9d. on the excess above £2,000.	

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Income Tax system, the tax, till 1907, was levied without account being taken of the nature of the income assessed.

4049. (84) The Dilke Committee of 1906 was appointed "to inquire into and report upon the practicability of graduating the Income Tax, and of differentiating for the purpose of the tax, between permanent and precarious incomes."

4050. (85) The Report of the Committee as regards differentiation is set out in the Annex to the Historical Note above referred to (paragraph 83).

4051. (86) The Committee, in recommending differentiation between "earned" and "unearned" income, expressly stated that they were "not able to provide a completely logical and satisfactory definition of what constitutes an earned as distinguished from an unearned income," and came to the conclusion that "the line of demarcation is not strictly logical or accurate."

4052. (87) The statutory definition of "earned" income, built up on the recommendations of the Committee, is as follows:—

"For the purposes of this section the expression 'earned income' means—

"(a) any income arising in respect of any remuneration from any office or employment of profit held by the individual, or in respect of any pension, superannuation, or other allowance, deferred pay, or compensation for loss of office, given in respect of the past services of the individual or of the husband or parent of the individual in any office or employment of profit, or given to the individual in respect of the past services of any deceased person, whether the individual or husband or parent of the individual shall have contributed to such pension, superannuation allowance, or deferred pay, or not; and

"(b) any income from any property which is attached to or forms part of the emoluments of any office or employment of profit held by the individual; and

"(c) any income which is charged under Schedule B or Schedule D, or the rules applicable to Schedule D, and is immediately derived by the individual from the carrying on or exercise by him of his trade, profession, or vocation, either as an individual, or, in the case of a partnership, as a partner personally acting therein."

4053. (88) The proper line of demarcation between "earned" and "unearned" income is one of those questions arising in connection with Income Tax which are not susceptible of a strictly scientific solution. The success of the Committee, however, in providing an adequate practical solution may be judged by the small amount of criticism which the differentiation provisions of the Income Tax have provoked.

4054. (89) Criticism has for the most part centred round two points dealt with in the following paragraphs.

4055. (90) Firstly, there is the question of the charge on small incomes derived from the investment of savings originating from the personal exertion of the investor. In this case it is sometimes contended that it is a hardship that a man who derives an income from personal exertion which is taxed as it arises, and prudently saves a portion of the income to make provision for the time when his earning capacity will cease or, at any rate, appreciably diminish, should again be taxed, and this time at a higher rate (an unearned income rate), on the interest derived from the investment of savings.

4056. (91) It is obvious that, while the income out of which the savings were made may have been earned income, yet the income accruing from the investment of the savings was in no sense earned by the recipient, but was earned for him by some other person. More-

over, as a practical question, apart from the merits of the argument, it would be difficult for a taxpayer with a number of investments to earmark any one of these as being the result of savings out of earned income, and quite impossible to check his statement; broadly it would become necessary, as a practical measure, to tax at the lower rate the whole income of any taxpayer who had not inherited wealth.

4057. (92) Secondly, there is the so-called hard case arising when a firm has been converted into a private limited liability company, the original partners becoming the sole shareholders and managing directors, and being thus, so far as the earning and the disposal of the profits are concerned, broadly speaking, in the same position as they were before the incorporation of the company. It is pointed out by critics of the existing system that the whole of the incomes of the proprietors of the business, whether taken as salaries for management, interest on capital, or a share of the profits, would be treated as earned income so long as the proprietors were partners in a firm; while upon the proprietors becoming shareholders and directors in a private limited company only the directors' remuneration as paid under the Articles of Association would be so treated, any sums drawn out as dividends being deemed to be unearned income.

4058. (93) Theoretically it may be true that there is a disparity in the fact that proprietors as partners in a firm may be over-favourably treated, their whole profit being treated as earned notwithstanding the element of return on capital which the profit includes. But if it be remembered that the conversion of a firm into a company carries with it the limitation of liability to the actual amount of capital at stake in the company (as opposed to the partners' total estates), as well as greater facilities for transfer of the proprietors' interests in the business whether during their lifetime or after their death, the charge of a higher rate of tax on the part of the profit which is taken as dividend and may therefore be presumed to represent return on capital rather than reward for personal services is, it is suggested, reasonable.

4059. (94) The Dilke Committee considered these cases during their investigations but made no specific recommendations on them in their Report, confining themselves to general definitions of "earned" and "unearned" income, admitting that these definitions were not strictly scientific nor entirely comprehensive but confident that they were an acceptable compromise for the practical conditions of a complicated world.

4060. (95) The general proposals of the Committee in regard to differentiation were immediately accepted by the Legislature and in the Finance Act of 1907 earned incomes, in cases in which the total income did not exceed £2,000, were charged at 9d. in the £ in lieu of 1s. in the £.

4061. (96) Since that year the position has been modified more especially by the increased rate of tax and by the extension of graduation. At the present time the differentiation is granted where the total income does not exceed £2,500 (as compared with £2,000 in 1907) and the rate of tax on earned is less than the corresponding rate on unearned income by 9d. in the £.

4062. (97) The present abrupt changes in the rates of tax on earned incomes produce the same "jumps" as are produced by the changes of the rate of tax on unearned incomes—see paragraphs 59 to 73 above; the remedies there suggested cover the whole field.

[This concludes the evidence-in-chief.]

4063. Chairman: With regard to certain questions asked of you and Sir Thomas Collier on the 7th May by Mr. Kerly, you have official answers now?—That is so. I am putting them in.

[The questions and answers are as follows.]

4064. Mr. Kerly: Cost of collection 1 per cent. Does this include the whole of the Income Tax and Super-tax cost to the Revenue, direct and indirect?—That is the case.

4065. Collection at source. If retained, this involves deduction at source of some standard rate, the deduction to be taken into account as a credit on settling the charge on each taxpayer individually.

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If every taxpayer has his rate determined, might he not then easily be charged at the source where his income comes substantially from one source? This would meet all wages and salaries above the total exclusion limit?—It will be recalled that under the Income Tax as now constituted the graduation in the case of small incomes is effected by a combination of abatements, etc., with a reduced rate of tax, the reduced rate being charged only on the balance of income after deducting the abatements, etc. In order to secure the deduction from an employee of the correct tax it would not be sufficient to determine his rate; it would be necessary also to determine what fraction of the income is to be charged at that rate, or, in other words, to determine the effective rate on the total income.

For example:	
Total income	£200
Abatement	£120
Wife and children allowances	£75
	195
	£5

Tax at 2s. 3d. = 11s. 3d.

Effective rate on total income = 0.28 per cent.

To disclose to an employer the precise amount of tax payable by his employee is to furnish him with very intimate knowledge of the employee's financial circumstances. It would not appear desirable in these circumstances to alter the general system of assessment of Income Tax on salaries and wages to one of collection at the source. In the case of those salaries and wages (e.g., of Government employees) which under existing law are taxed by deduction, and in the case of income from house property taxed at the source, the Board already arrange as far as possible that the deduction should be made at the effective rate. Any further extension of this method (while it would have advantages for the Revenue) would, it is feared, be found to be full of difficulty.

4066. "Taxation is more complicated here than abroad." Is not this due to three main causes:—(1) There is more provision for special cases and hardships than in continental countries. (2) The legislation is more detailed, just as the Common Law is more detailed than (say) the Code Napoléon, and devised to leave less to administrative discretion. (3) The reluctance to make a new start when new principles are adopted, so that we put one patch upon another.—I agree.

[Questions 4067 and 4068 were addressed to Sir Thomas Collins.]

4067. Would it not be advantageous to make the Income Tax return and payment of a person available in evidence whenever his income becomes a matter of inquiry? In cases in court, e.g., personal injury cases, the judges refuse to make the claimant disclose, though frequently the return would show a great exaggeration of his income on the claim or also an under-payment of tax. On the recent inquiry in respect of the civil liabilities of soldiers there were literally thousands of cases of claimants who alleged they had lost incomes of £300-£500 a year, but had paid no tax and made no returns?—The returns and other information upon which Income Tax assessments are based are rendered in confidence, and it is a matter of public concern, and undoubtedly conducive to the successful administration of the tax, that taxpayers should be able to rely on secrecy being strictly maintained. This is not merely the view of the Department, but is also that of the Legislature, as expressed in the Income Tax Act. While the Department is bound to do its utmost to honour the pledge of secrecy under which it obtains information, and should therefore refrain from being a connecting party to any disclosure, it is possible that exceptional cases may arise where the particular public interest which it is the Department's duty thus to safeguard may be outweighed by public interests of greater importance. The Department, however, cannot be the best judge as to when this position may be reached. The Courts have expressly reserved to themselves the right of finally judging in this matter, and of compelling the disclosure of Income Tax information should they be satisfied that the balance of public interest justifies such a course being taken.

The question instances two classes of cases:—

- (i.) actions between subjects, and
- (ii.) claims made by subjects against the State.

As regards (i.), a greater disposition on the part of the public to reticence with regard to their business affairs, or even more undesirable results, would be particularly liable to ensue if Income Tax information were made generally available as evidence in connection with actions for recovery of debt, actions by employees for commission, actions for damages, and similar actions. It is always open, in actions between subjects, for a taxpayer to be asked to produce evidence of his Income Tax payments, which evidence he has in his own possession or can always obtain from the Department.

As regards (ii.), there might be less objection than in (i.) to making Income Tax information available, as here a claim is being made by the subject against the State, and broadly speaking the parties concerned are identical with those between whom the Income Tax information has already passed. Where an under-assessment of tax is revealed by statements made in the course of an action, the under-assessments can, of course, be corrected whether the Income Tax information has been produced or not.

4068. Could not something corresponding to the "Personal Application Department" at Somerset House (Death Duties) be set up in each Income Tax district to assist the public in making their returns and claims for repayment?—Surveyors and their clerks are instructed to afford taxpayers all necessary advice and assistance. In the case of return forms which are of a complicated character, the public are invited on the forms to consult the Surveyor if they desire further information. Many persons avail themselves of this help; and probably a larger number would do so if the forms, when completed, were returnable to the Surveyor instead of to the Assessor. As an example of the extent to which assistance is given, it may be mentioned that at present over 160,000 taxpayers (including companies) produce their accounts to the Surveyor each year or before making their returns. A very large part of the Surveyor's own time (in many districts the major part) is occupied in computing from these accounts the amounts of profits to be included by taxpayers in their returns. The Surveyor is always glad of this opportunity of assisting in the preparation of accurate statements, and there is no part of his duty to which he attaches greater importance.

As regards repayment claims, the first claim made by the taxpayer is dealt with in the Surveyor's office, and assistance is very frequently given there in its preparation. Claims subsequent to the first are made to the Claims Branch at Somerset House, and the Surveyor's office is not so frequently resorted to by the public when making out these claims. His office will be resorted to more frequently and as a matter of course when the contemplated decentralization of claims work has been effected; and perhaps future print of all claim forms might invite claimants to consult the Surveyor when they are in need of advice.

It has not, I consider, always been possible in the past to assist taxpayers to the full extent desirable in these matters. Only in comparatively recent years has the Income Tax been recognized as a permanent impost, and under-staffing, which had been of long standing, was not fully remedied even by 1914. During the war, fresh legislation added new complications and brought some millions of additional persons into assessment. Simultaneously, the greater part of the trained clerical staff had to be released for military service. Some part of this staff has now returned, and large additions of female clerks have also been made, so that there will undoubtedly be the means henceforward of giving to taxpayers increased and better assistance as compared with what has been possible in the past.

I do not think that the convenience of the public would be best served by setting up separate staffs for this purpose. The assistance sought varies very much in character. Sometimes it requires a degree of knowledge and experience possessed only by the Surveyor himself. At other times the necessary assistance can be afforded by a clerk, and probably afforded best by a clerk who is daily engaged in a practical capacity on the particular class of case concerned.

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Repayments can be passed more expeditiously, and with less trouble to the taxpayer, if any assistance needed is furnished directly by the officer who has eventually to examine and settle the claim.

The assistance given to taxpayers has hitherto stopped short of the actual filling up of forms. In view of the scope for evasion, it has been regarded as essential that it should always be possible to hold the taxpayer to a full responsibility for the complete disclosure of his income, and to prevent excuse for omissions or errors on the plea that the form was filled up by an official and not by the taxpayer. This assistance may appear to fall short of the assistance given by the Personal Application Department of the Probate Registry; but the difference is in appearance only. Where an applicant for grant of probate has recourse to that Department a full and detailed account of the estate concerned is required to be filled up by the applicant personally, in order that he may be held fully responsible for complete disclosure.

The Personal Application Department then draws up on his behalf (on payment of a fee) a form of affidavit, embodying the particulars given in the account of estate just referred to. When sworn to by the applicant, the affidavit, with a copy of the account of estate is sent to the Estate Duty Office for computation of the Estate Duty payable. Where an Income Tax payer has recourse to the Surveyor's office in connection with a return or repayment claim, he is similarly required to fill up one statement himself, but all subsequent records necessary for purposes of registration, assessment, or reference to other offices, and all subsequent adjustments and computations are made by the Department. So far as any comparison may be drawn between the action of the respective departments, it may therefore be said that there is much in common in the way in which they at present deal with the public. This does not, however, lead me to refrain from expressing an opinion that more might be done in the future than has been possible in the past, or than could be done by our existing establishment, to meet the reasonable requirements of the public for information and assistance at our hands, and that any additional convenience thus provided for the public would be well worth the extra expenditure that would be necessary on staff and office accommodation.

4068. *Chairman:* Mr. Hopkins, I have read this paper of yours with very great interest; I wish to compliment you upon it; it is a very valuable paper, full of vital matters affecting this Commission. How will you deal with it now? Would you like to make a general statement on the lines of your paper or on any points which arise in this matter, emphasising what you think to be the most important points?—I think I might take some of the points, if that is what you wish.

4070. Yes; will you please proceed with your remarks?—In this evidence I have dealt with three subjects: first of all, the general scale of the graduation of the tax, the proportion of the income which is taken from the small as compared with the big income, and so on; secondly, a subject which I regard as distinct, the practical methods adopted for giving effect to the general curve of graduation which is decided upon; and, thirdly, the old question, which was a question much debated in the last century, the question of the differentiation of the rate of the tax as between earned and unearned income.

4071. The distinction between the first two of those points always seems to me to be a very important one. There is a school of economists whose home is to a large extent in Holland, who are inclined to take the view that you can arrive at the ideal graduation of the Income Tax from a mathematical formula as such. They are inclined to say to a practical man: "This is our business and not your business, and we will find a formula which gives the ideal curve." Now to my mind the question of the general scale of the graduation of the Income Tax is certainly a practical problem and is not concerned merely with the size of the income. One man has very heavy responsibilities, another man has none. To one man his responsibilities may be from the financial point of view a grievous burden and a continual anxiety, while another man may be so rich that those responsibilities, from the financial aspect, are practically nil, and he may be regarded as purely

happy in possessing them. For that reason I approach the general question of the scale of the graduation, not from the mathematical, but from the practical point of view.

4072. I approach it, as I think my proof shows, also from this point of view: that this is not merely a question of examining particular classes of incomes and finding whether the tax upon those classes is very severe, and then arriving on that ground as a recommendation that its severity should be mitigated. Rather, I look at it like this. The Income Tax is budgeted at the present time to produce 350 million pounds, and I take the assumption that after any operations upon it as regards readjustment of the graduation, it has still got to produce that 350 million pounds. In other words, if it occurs to me that the burden of the tax upon certain sections of the range of income ought to be lightened I test that by examining whether the burden can be transferred to other sections of income in such a way that, as it seems to me, the general incidence of the tax, looked at as a whole, is fairer than before; and unless I can answer that question in the affirmative I should come to the conclusion that things are best left as they are at the present time. In other words, I am considering to-day simply the readjustment of a fixed burden. It would follow, I think, that if this Commission decide, as they may decide, that there are remissions of taxation which ought to be made under particular aspects of the Income Tax law not concerned with graduation, for example, Double Income Tax, or wasting assets, or things of that kind, on the general approach that I am making to this subject to-day I should say, as the result of what I have said, that those reliefs ought to be made good, not by putting the additional burden upon particular classes of taxpayers, but by a general increase in the rate, except so far as it is possible to make them good by any recommendations that the Royal Commission may ultimately make for improving the machinery of the Income Tax in certain respects in which it is deficient at the present time.

4073. The first thing that strikes me is the disparity, as it has always seemed to me, of the ratio of the ordinary abatement limit which is granted to the smaller incomes up to £400 or £500, and the allowance which so far is granted in respect of family responsibilities. The allowance in the Income Tax of abatements on account of family responsibilities, of course, is quite a recent growth, and perhaps it may be said that so far the Legislature has been merely feeling its way. I have thrown out a suggestion in my evidence that the allowance in respect of a wife, as it is called, should be increased to £60, and the children allowance to £30, those figures being in a ratio with the ordinary abatement of 4:2:1. I make the small suggestion in passing too, that the allowance which is now called an allowance for a wife might much more properly be called, let us say, a marriage allowance, because, in fact, it is given to a husband in respect of a wife when the husband has the income, but it is equally given to the wife in respect of the husband when the wife has the income.

4074. Another thing which is continually brought to the notice of the Board of Inland Revenue in the ordinary administration of the tax is the relative weight of the duty upon the medium incomes. We hear that complaint perhaps most particularly in regard to earned incomes, but it perhaps applies to incomes of all kinds. A question of this kind is, of course, extremely difficult to test by any standard which you can claim authoritatively to be a right standard; and different people will necessarily approach it from different points of view; but in favour of the view that at the present time the pressure of tax upon medium incomes is very heavy there is at any rate the evidence of the general line which has been taken by foreign states and by Dominions in those countries where Income Tax is the largest. I put in with my evidence some annexes [see App. No. 12] which indicate pictorially the relative weight, and I have also given a Table [see par. 4005] which shows that apparently the taxation for medium incomes in this country is very severe as compared with that in many foreign countries. I have also, in the third Table in my evidence, given particulars of the

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yield of the Income Tax per penny in the pound, right through the scale, so that it may be quickly seen what loss of duty would result from reducing by 3d. or by 6d. or as the case may be, the rate of tax in certain parts of the scale. As an example, to take 3d. in the pound off the rate of Income Tax for all incomes up to £2,500 would come to something under seven million pounds, to take off 6d. would come to something under 14 million pounds.

4075. Which is that?—That is in para. 41 of my proof: "cost of reducing the rate of Income Tax by one penny in the £ in each zone." There really only remains the question whether the weight of tax upon the lower ranges up to, say, £2,500 is at the present time somewhat excessive as compared with the range of rates upon higher incomes. In connection with that, I have put forward for the consideration of the Commission various possible schemes of increase which might be considered, with an indication of what they would probably produce in increased revenue. Some people would perhaps say one should look first of all at the most extravagantly large incomes, and increase the tax upon all incomes above £20,000, or £30,000 or £40,000 a year. I have dealt with that in Table V., which shows that even if you carry up the rate to a very high figure, and disregard the possibilities of evasion which that might produce, the ultimate sum which would be obtainable by that measure is not very large.

4076. Mr. Kerly: May I interrupt you for one moment? I cannot find what Scale A. and Scale B. in your fifth Table are?—Scale A. is stated in the column underneath; it is "Suggested Scale A." That is what I mean.

4077. Sir J. Harwood-Benner: And Scale B. also?—That is also a possible scale.

4078. Mr. Kerly: I thought that was a reference back to something else that I had overlooked?—No. I originally had printed in the proof the words "suggested scale," but I struck that out, because I do not suggest it. Table VI. deals with possible increases in the Super-tax, starting at a much lower limit and showing possible gains ranging from 14 million pounds up to 38 million pounds. I have dealt in my proof with the dangers which in my judgment would clearly follow from the imposition of any excessively severe rates upon high incomes, even apart from the question of the justice of a scale of that kind. On the other hand, we are disposed to feel that with some increase in the Super-tax scale relief to the lowest incomes, in the form I have suggested of increased allowances for family responsibilities, and perhaps some relief of the rate of Income Tax (the actual rate charged up to, say, £2,000 or £2,500) might be recompensed out of a slightly increased scale of Super-tax, and produce a graduation which would command acceptance as, on the whole, rather fairer than the graduation which exists at the present time.

4079. Mr. Symcott: What do you mean by "command acceptance"?—I mean acceptance as a whole, I am disposed to think, including acceptance by the taxpayers themselves who are adversely concerned. That may be, I agree, a question of judgment. I go to what I have said upon the practical methods of giving effect to the graduation. We in this country have graduated by reference to family responsibilities and by fixing the rate of tax upon those incomes which is generally considered are not of sufficient size to bear the full standard rate. The actual methods which we adopt exactly reflect those two principles. They are, in my judgment, right in themselves, but apart from that they have such immense practical advantages that the Commission, I feel sure, will be very slow to depart from them. We, of course, for many years past have had brought to our notice from time to time various kinds of mathematical schemes for producing a smooth curve. Of course, anybody can draw a smooth curve, and the different formulae for doing it are various and, for that matter, well known to us. It is quite true that some of these mathematical curves find their way into foreign and Dominion systems of taxation. There is a very striking one, for instance, in the Australian tax, which I have set out in one of the notes; it goes up in a curve first of all of the first degree, then secondly, in a curve of the second degree, and finally, in a curve of the third degree. But these

foreign taxes are constructed upon a scheme entirely different from our own. I should say they are unscientific taxes as opposed to scientific taxes, meaning by that, that they go only within very small limits on the principle of taxation at the source. In paragraph 52 of my evidence—and that, if I may say so, is a paragraph that I regard as rather important—I have set out practical reasons why the adoption of a mathematical curve cannot be worked under the Income Tax as it is constructed in this country; and I think, speaking generally, it may be said that these dissertations upon mathematical curves, though they have a great interest of their own, have no practical application to the Income Tax as it stands in this country at the present day.

On the other hand, in the method that we have there is at the present time an imperfection. It is well known, and I understand it has been referred to in this Commission from time to time under the name of "jumps." That is, of course, a matter that requires to be dealt with, and it is easily dealt with in a variety of ways. I have made certain suggestions, in paragraphs 59 to 61 of my proof, of rather simple methods by which those jumps can be, as I should suggest, quite sufficiently smoothed out. It may be thought perhaps that I am something of a Philistine in this matter, but it seems to me that any of those remedies are adequate for the case. On the other hand, in case the Royal Commission should feel that an absolutely smooth curve has an irresistible appeal, I have set out in paragraphs 65, 67 and onwards the means by which that smooth curve can be obtained, at a considerable cost in complexity, and I think also a considerable cost in regards intelligibility of the system to the taxpayer. What we really have done there is that we have taken a leaf out of the book of the mathematicians. We have taken one of his regular formulae and translated it into one of those forms which we could work within the scheme of the existing Income Tax. But while I put that forward, for my own part I should not recommend it. In one of the annexes to my evidence (see App. No. 15) I have drawn a picture which shows the present scale with the large jumps, the scheme which I should suggest with the jumps smoothed out, and finally this more mathematical scale which gives a smooth line.

The only other thing on which I think I need say a word in summarizing this paper is the question of the differentiation of the Income Tax between earned and unearned income. On that I propose to say very little. All through last century there was a continual discussion proceeding on this question of differentiation, and, as you know, two Parliamentary Committees sat upon it, and arrived at no conclusions. In 1906 it was considered by the Dilke Committee, and they made a recommendation which was admittedly rough and ready. They said: "distinguish between 'earned' and 'unearned' income. The distinction is not entirely logical, it is not entirely complete, but we believe it will be a satisfactory solution for the conditions of an imperfect world." That recommendation was accepted by Parliament and is in force at the present time. It is quite true that a great force of theoretical argument can be brought to bear against it; it is also true that it is one of the provisions of the Income Tax which has worked with the least complaint and the least discussion, I think, amongst the taxpayers concerned; and from that I derive the conclusion that it has proved an eminently satisfactory solution of that which is insoluble.

There are just one or two points which are raised from time to time which I believe have been mentioned before the Commission and which I have dealt with briefly in my proof. I do not think it need to touch upon that now. I may perhaps add just one word upon the graphs that I have put in to illustrate foreign taxes.

4080. Chairman: Yes, if you please?—I will say just a short word upon them. It might possibly be held that some of these graphs at any rate have a certain æsthetic value of their own as pictures; but, of course, it will be appreciated that they must not be looked upon as pictures; they must be severely read against the base and vertical lines. It was that that led me to put in the graph of the United Kingdom tax in three separate forms against different bases in

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order to show, in graphs I, Ia, and II [see App. No. 12], that according to the character of your base so the appearance of the line will vary, although the line intrinsically is the same. As regards the remaining graphs, they are used simply as a means of giving a rough and ready comparison of the graduation in this country as compared with the graduation in others. There, of course, the distortion in the line which is produced by the logarithmic scale which we have used is of less importance, and the comparison of the lines can be looked at practically pictorially. One of the things that the graphs show, which I think is perhaps most interesting, is shown in graph III, which shows how the New World has gone ahead of us in recent times in the taxation of very large incomes. I am speaking of the United States and Canada. They tax small incomes and medium incomes very much less than we, but they cut our line in the United States at about £10,000, and in Canada very much higher at £200,000, and they go up by a tremendous scale above anything we have contemplated in that way so far.

That, my lord, I think is all that occurs to me to say in summarizing this paper.

4081. Sir T. Whitaker: I will go over this a little disjointedly, because I will take the points as I have them on my notepaper here. You recognize, of course, that there are two schools of thought with regard to taxation; one which would press (and I think we are going to have a witness to urge that) that practically everybody should pay something; another suggestion is that the great bulk of the people should pay nothing?—I believe that is so.

4082. You seem to have come down rather heavily on one side?—You leave me a little in doubt as to which side you consider I have come down.

4083. I think there can be no question of that. I see no suggestion in your paper that everybody should pay something?—Not under the direct tax, the Income Tax; but you will bear in mind, of course, that there are indirect taxes in this country also.

4084. I suggest I wish you had borne that in mind* in drawing up these Tables.—Do you mean that you wish we had included the burden of indirect taxation in the figures that we have given?

4085. I suggest it would have given a much fairer view of the situation?—Of course, the whole question of the actual incidence and the burden of indirect taxation is very difficult, and it is a subject upon parts of which at any rate we could not claim to speak with expert knowledge. No doubt you know that in January last a paper was read to the Statistical Society by the President, Mr. Herbert Samuel, dealing with the taxation of the people as a whole, and in that paper he made an effort to arrive at a fair estimate of the whole burden of taxation in the years 1903-04, and 1913-14, and last year, upon incomes of various sizes. He took all the indirect taxation and all the direct taxation, treating the Death Duties as an additional burden upon unearned incomes. The whole inquiry, of course, is extremely difficult, and, as Mr. Samuel says in his pamphlet, is full of doubts at every turn; but he did arrive at certain figures, and if it would be of use to the Commission I have the pamphlet here.

4086. We have had them distributed to us. May I suggest another view, as you have raised that particular point, in this form? I will take the figures for the year 1917-18. I will suggest this to you: that a working man, or anybody, who did not pay Income Tax in that year, paid no tax whatever except on liquor and tobacco, which is a perfectly voluntary tax (and if he were as I am he would not pay any—it is a perfectly voluntary tax); that the indirect taxation, which fell upon him was more than counterbalanced by the subsidy on the price of bread, and that therefore a man who paid no Income Tax paid no taxation to the country whatever?—I have not made any definite inquiries with regard to the bread subsidy. Of course, I am well aware of the argument as to the use of the bread subsidy as an offset for the time being against the taxes upon tea, sugar and the like; but, on the other hand, I think I could hardly take that into account in giving evidence at the present time when one is looking to the future—assuming that the bread subsidy is not a thing that is going on for ever.

4087. I should not have mentioned this, but you referred to Mr. Samuel's paper, and I venture to suggest that if you exclude the taxation on liquor and tobacco, which is perfectly voluntary and a luxury, the figures are as I have stated?—I think that might very possibly be so, upon the assumptions you take.

4088. It has a very important bearing. Now coming to the question of the wife's allowance, have you never heard of a case where a working man has married because it was cheaper to have a wife than to keep a housekeeper?—I do not know that I have heard any definite expression of opinion one way or another.

4089. You will find it is not at all an unusual thing. Many working men have stated that it is cheaper to keep a wife than to keep a housekeeper. You have to bear these points in mind. Then your suggestion here is an allowance right away up to any limit of family. Are we to conclude that a man who brings a large family into the world, without any consideration of the effect it is going to have on the community, is a public benefactor?—For my own part, I should make the allowance in respect of children to cover all the children. It had not occurred to me to use the Income Tax as a means for confining the extent of families.

4090. No; it is not to be used as a means of confining it; your suggestion is to use it as a means of encouraging it?—I should hardly have held that, myself. It seems to me that an allowance for children up to the figure I have suggested, £20, is a natural allowance. I should say it was neither an encouragement nor a discouragement.

4091. That is to say, a man who takes no regard for precaution or care and prudence, and brings an endless family into the world, is to be relieved of taxation at the expense of the man who does?—It is quite possible that some limit might be put to the allowance; but personally I should put that very high. I believe in the last century you occasionally found families of 21 or 22.

4092. I am not suggesting by any means that there should not be an allowance, but does not that suggest that we must be a little careful, and not extend it indefinitely and increase the amount almost indefinitely?—I quite agree with that.

4093. One ought to be careful and bear that point in mind?—Yes.

4094. Now coming to the comparisons you have made as to the weight of the Income Tax on incomes here and in some other countries, is not your Table entirely vitiated for practical purposes by the fact that in every one of the countries with which you make the comparison, there is very heavy indirect taxation which falls upon the class who, you suggest, are overtaxed here by the Income Tax?—There is a good deal of truth in that, no doubt. These countries that I am dealing with, to a large extent are countries which have high import duties and other duties of that description.

4095. It is not necessary really to take both into account, if you are to get anything like an accurate view of the incidence of taxation as a whole?—Yes; I am afraid there is really more than that to be taken into account; there is the question also of how the rates are levied in those countries, and particularly what services are provided out of taxes and are enjoyed by the several classes of the community; for example, the Old Age Pensions in this country compared with the Old Age Pensions in the Colonies, and so on. If I may say so, I have guarded myself, in the course of my proof, by saying that the comparison is vitiated within certain limits until one can make a very exact and complete inquiry into this question. One could only do that by visiting the countries. At the same time, I think the disparity between ourselves and foreign countries and some Dominions is so striking that at any rate a considerable amount of balance remains.

4096. Is it not a fact that it is only striking in reference to this particular tax, and if you had taken in the indirect taxes, you would have found it more striking the other way?—I hardly think so.

4097. Very strikingly the other way, would you admit?—I hardly think so.

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4098. Then, as you say, there are a number of things to be taken into account in comparisons. If you omit every one of them, and only take this one, I do suggest very seriously that the publication by the Department of a Table like this, knowing how it would be used, is unfortunate, and I think a new departure. Now with regard to the grading of these taxes: I do not understand that you suggest any one of these Tables quite, but if I may put it in a most tentative form, which of them would you be disposed to favour if you had to make a choice amongst them? I wish to know which of the Tables you would like to take as illustrating your position?—I think Scale B. in Table VI. indicates about the point where my idea lies.

4099. I want to see whether I am correct. What is the first part of Table VI. as compared with the second part of the Table?—The first part of Table VI. in paragraph 45 of my evidence is the suggested scale of the Super-tax as it is actually expressed in the Statute at the present time.

4100. That is Super-tax alone?—Super-tax alone on slices of income. It is the second part of the Table that gives you the real effective rate on the total income.

4101. The next Table is the Table of the two taxes?—Yes, Income Tax and Super-tax combined.

4102. When we speak of the effective rate here, of course you do that is the rate over the whole income?—That is so.

4103. You do not give us, but you can, I have no doubt, (take the large income of £50,000) what would be the actual rate on the later stages of the income, if I am expressing myself correctly, say on the last £10,000?—I see what you mean. In Scale B., all that part of the income which exceeds £10,000 would be charged at 6s. Income Tax and 7s. 6d. Super-tax; that is to say, the maximum towards which this Scale B. leads is 13s. 6d. in the £.

4104. Which of these scales do you favour?—I suggested Scale B., as representing about the altered incidence that I have in mind.

4105. That would mean a maximum of 13s. 6d.?—A maximum of 13s. 6d.

4106. In reference to the suggestion that you are to diminish the taxation on incomes under £2,500 a year, and to increase it on those above, you bear in mind, of course, the fact that at the present time much the larger proportion of the Income Tax now comes from a little under 50,000 people, and the smaller portion from about 5½ million people who are assessed for Income Tax?—I agree that that is so. That, of course, arises out of the distribution of income between different taxpayers.

4107. Then you propose to accentuate that a good deal?—I propose to accentuate it just to this extent that I have suggested; but by no means to the maximum that could be obtained; but it does appear to me that to that extent the scale is loaded against the lower income. As I said in my proof, and I say again, it is a very difficult question to deal with. What I am suggesting to the Commission represents the result of a very careful joint consideration; but, as I say, different people will necessarily approach this subject from different points of view.

4108. I have no doubt you have followed the evidence that we have had given here?—I have.

4109. And you have noticed that practically everybody who comes before us suggests that the class or section of society to which they belong, should be relieved?—Yes; it is not unnatural that they should do so.

4110. If I may quite courteously and respectfully suggest the same thing: if this suggestion of yours represents the view of the Department, it means that Somerset House would be very much relieved in taxation at the expense of somebody else?—I hope, at any rate, that it may be assumed at once that anything in the nature of personal considerations has not in any way entered into this.

4111. Is it not in human nature that everybody feels the pressure himself, and every witness we have had has suggested that the section of society to which he belongs should be relieved?—I have said, earlier in my evidence, that there are not things that we have evolved out of our inner consciousness; they have resulted very largely from taking into consideration

the weight and character of complaints which are addressed to us from time to time.

4112. Now with regard to complaints. The larger men do not really complain—not that they do not feel it. Is not that so?—I am perfectly certain at the present time the weight of the Income Tax upon all sections of the community, is very severe indeed. The only question is as to whether you can say that the weight upon some sections is somewhat heavier than the weight upon others.

4113. I have no doubt you have heard it said in connection with public companies, that it is the smaller shareholder who makes the most noise?—That may be so.

4114. Therefore I suggest you must not attach too much importance to complaints as indicating the pressure that there is upon a class. Would you agree to that?—I agree with what you say, but I confess that the ultimate judgment that I arrive at on this matter, I think remains. We thought very carefully about it; we have done our best to arrive at an impartial judgment; and certainly our judgment, as a whole, does incline to the view that the steepness of the line on the lower ranges is at the present time slightly too heavy.

4115. Now just one other point. Of course you agree that we have got to raise the money somewhere?—Quite.

4116. And it is really a practical question more than a theoretical one?—Quite.

4117. And there is a possibility of reaching a point of heavy taxation upon large incomes which would discourage the making of those incomes and the keeping of them here?—I agree.

4118. You are also fully aware of the pressure that has been brought to bear upon Parliament—and we have it upon this Commission—to relieve certain classes of income, that is, incomes from foreign trade, for instance, and suggestions that the headquarters of large business concerns may be moved to neutral countries because of this taxation?—Yes.

4119. I suggest to you that it is very important that, from the practical point of view and the actual raising of revenue, we must bear in mind the danger of putting taxation to such a limit that it may drive income from the taxable reach of this country so as actually to reduce the total received?—I quite agree, and, if I may say so, I made the same point in connection with some tables which I put forward for consideration. On the other hand,

if you just consider for a moment this Scale B. in the second part of Table VI. that we have under notice now, the proposed increase of taxation upon an income of £5,000, under this proposal, would be 2d. in the £; the proposed increase on an income of £10,000 would be from 3s. 4d. to 3s. 9d.

4120. What I would suggest to you weighs with the man, is this. Whatever his income is, if you are taxing heavily the addition to that income, it is the tax on that extra portion that he looks at, and that will tempt him to part with that income, first of all to his family, and in various ways get rid of it, and also lessen the inducement to make it, and that the effective rate, while quite sound from one point of view, does not quite touch that point. He is looking at what will be the extra tax on the income he will make?—Of course the danger of high taxation is with us already, it seems to me, and the only question is whether I am wise in suggesting some accentuation at the top of the scale.

4121. Taken as a whole, you are going to spread it about the community. Then another point which perhaps you sincerely will feel disposed to say much about, is this. Will not the tendency of making the taxation excessively heavy through Income Tax, tend to drive Parliament and the country to indirect taxation?—I think that may be so, but, on the other hand, I am not here suggesting any increase in the taxation by way of Income Tax. I am merely suggesting readjustment, the object of which was— I may be misconceiving the problem altogether—to make the burden fit the back, and make the aggregate burden upon the community as a whole, less than it is at the present time.

4122. Is not one of the dangers of a democratic government, the making of a taxation system too heavy?—Of course that may be used as an argument against any form of graduation. The difference

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between us probably is as to the extent of graduation and the steepness of graduation.

4123. Of course you are aware that I am in favour of graduation, because the report you referred to I drafted. It is a question of degree?—We are on the question of degree.

4124. And I am merely putting these questions to you from the aspect of degree?—Yes.

4125. *Sir E. Nott-Bower*: I would like to ask you one or two questions on methods, and what you have put forward in your paragraph 52. With reference to your paragraph 52, I think you have already said that the graduation by a mathematical formula, which really involves a separate rate for almost every kind of income, although it is very pretty to look at, does not serve any very useful purpose—not any necessary purpose, anyhow—and involves extreme difficulty, not only to the Department, but to the taxpayer. That is so, is it not?—Yes, to the taxpayer as well as to the Department.

4126. I feel so much in sympathy with you that I do not want to cross-examine you on that view. Speaking for myself, I believe that to be so. But I do think it is very desirable, if we can, and as far as we can, to simplify the Income Tax and put it in a form which really is clearly intelligible to everybody. What has struck me, in thinking over this matter, is that the form of graduation which is already adopted for Super-tax is, so far as dealing with a tax like Super-tax is concerned, perfectly simple?—Yes.

4127. And you really get quite a regular curve of graduation?—Yes.

4128. The regularity of the curve ought to be sufficient, I think, almost to satisfy the soul of a mathematician?—I agree.

4129. Now have you considered whether you would tax your resources too heavily if a form of graduation of that description were applied to Income Tax throughout, starting from whatever point of exemption you like, and then exempting the first £100, or £150, or whatever figure you take, and then each subsequent £100 or £200, going on by steps, as in the Super-tax system?—We have given very careful consideration to that. In the form in which you put it, there are two difficulties which make it extraordinarily difficult to carry out. The first is that there is no definite rate at which any taxpayer is to be charged in respect of parts of his income which come under review. We do not deal with his income as a whole, as you know. Secondly, any adjustment of the tax on any part of the taxpayer's income would involve corresponding adjustments of the assessment upon any other part which may be assessed in other parts of the country. We felt very great difficulty in carrying out the Super-tax scale in that form. On the other hand, we have translated it into another form, which I have set out in paragraphs 66 and 67 of my proof, which is the same thing expressed in a different way. If, as I said, an absolutely smooth line had an irresistible appeal, we feel that we could work it in that way.

4130. The system suggested in paragraphs 66 and 67 is not simple on the face of it. It would be a little difficult for the taxpayer to understand?—I agree, and we are not recommending it; but I think also the Super-tax scale is never easy for a taxpayer to understand when applied to Income Tax collected at the source. Supposing we had a scale of Income Tax which was 2s. on the first £100, 2s. 6d. on the next £100, 3s. on the next £100, and so on; suppose his total is 200, of which £250 is derived from dividends. That sum would be taxed at 6s. in the £, and when making the assessment upon his earned income, it would be necessary to make the proper deduction for the tax overdeducted. In order to make that deduction correctly, the effective rate upon his whole income would have to be ascertained. For that purpose, a precise knowledge of his total income from all sources would be necessary, and it would in many cases be a difficult and complicated matter. I think when he actually got his assessment on the different parts of his income, he would find the system very complicated.

4131. In the case that you have put, where a man has unearned income and earned income, the question of adjustment has to be met in every case, anyhow.

He has had 6s. deducted, and at his rate it should be 3s. 7.—Yes.

4132. So that you would have to calculate what relief he was entitled to on unearned income, and deduct an amount from the assessment of his earned income?—I agree.

4133. If you calculate it on the Super-tax basis, would not that question of adjustment be easy?—I should have said not, because under the Super-tax scale, virtually the rate of Income Tax varies with every pound of increase in the income. Therefore, in the case of a man whose income is taxed at 6s., before you can give him his relief in respect of the excess tax deducted, you have to find out the exact virtual rate at which that particular man pays. Then you have to give the relief down to that virtual rate which may be a very small fraction of a penny. Having done so, you have to explain to the taxpayer, why.

4134. *Sir W. Trewer*: In reference to paragraph 66 of your evidence you say: "Moreover, much of the capital of the country is of a character which cannot easily be removed." Will you tell me what is in your mind?—Take the case of a wealthy man who is the owner of a business which is being carried on in this country; he cannot take it to Constantinople and carry it on there.

4135. A business?—Yes.

4136. You do not refer to land?—Equally with regard to land. The owner of land cannot take his capital out of the country in that form. He has got to dispose of it and go away.

4137. I put it to you that the greater part of the capital of the country to which you refer is land?—I should have said both land and businesses.

4138. But you differentiate between land and businesses in this way, that business can be removed to another country?—But it is very often difficult to do so.

4139. What do you consider is property of the character which could be easily removed?—Bearer shares can be taken away very easily.

4140. Is not the effect of making the Income Tax very stiff on the high incomes referred to by Sir Thomas Whitaker to frighten capital which can be removed out of this country?—I quite agree. I am not at all advocating a severe increase in the Super-tax. The utmost that I am advocating is some readjustment in the burden of taxation as between the smaller and the larger income.

4141. I am merely suggesting to you the possible effect of what you say; Income Tax and Super-tax amounts now to 10s. 6d., you advocate an increase in certain cases to 13s. 3d.?—In very extreme cases.

4142. In certain cases?—In certain cases.

4143. Will that increase the danger of the removal of that part of the capital in this country to other countries where Income Tax is less?—To that I should answer no, unless it is considered to be unjust. If it is considered to be unjust I agree entirely; but for my own part I do not think it is.

4144. Do you not consider that capital which is liquid and can flow to other places goes to those places automatically?—I am not quite sure if I have caught the sense of your question.

4145. Do you not think that people will trade with other countries and live in other countries where they can make a larger income on their capital if that capital can easily be removed from one country to another?—I quite agree that under any high system of taxing—

4146. There is that risk?—A certain centrifugal force.

4147. Then it follows, does it not, that the liquid capital having departed from the country in that way, or there being the possibility of that danger, there will have to be a much higher taxation of land and the other capital which cannot be removed?—In so far as that happens, though, of course, it is not my argument.

4148. No; but that is the risk?—I agree there may be a risk.

4149. *Mr. Warren Fisher*: I have no question to ask you on your paper, but in my judgment a very serious allegation was made against the Department by Sir Thomas Whitaker, and I want to ask you a question on that. I gathered from some of the ques-

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tions of Sir Thomas Whittaker to you that the information given in this paper of yours was not regarded by him as proper to be given. I want to ask you, do you speak as a member of the Board of Inland Revenue, or in your private capacity?—I speak as a member of the Board of Inland Revenue.

4150. And you represent that Department?—I do.

4151. Do you feel that information should be withheld from the Royal Commission, or that all the resources of the Department should be placed at the disposal of the Commission?—I said when I first came in that we are entirely at the disposal of the Commission, and would give every information we could.

4152. Sir T. Whittaker: Might I be allowed to put a question? I made no objection whatever to information being given. My suggestion was as to the opinions expressed, which is a very different thing.

4153. Mr. Warren Fisher: This is a matter for the Commission perhaps, but is it your conception that the Royal Commission should be precluded from obtaining any expression of opinion from the Department?—On the contrary.

4154. A still more serious suggestion was made, that in the view you took about the readjustment of the taxation, the advice was actuated by personal considerations of the effect on Somerset House officials, as I understand the matter.

4155. Sir J. Hammond-Banner: I should like to say I did not understand that.

4156. Sir T. Whittaker: No, that is not so at all.

4157. Mr. May: I should like to say that I did.

4158. Mr. Warren Fisher: That is a very serious matter.

4159. The Chairman: One moment; how did Mr. Hopkins take that?—I know that there was the possibility of placing that interpretation on what Sir Thomas said, but I hoped I was right in thinking that was not the real interpretation; but I did say this, that I hoped it was clear that the evidence we were giving was considered evidence, and impartial evidence.

4160. Sir T. Whittaker: The point I was making was this, that every witness practically that we have had before us had come and suggested that the class or section of society to which they belonged should be relieved, and that is due to the fact that everybody is feeling the pressure very badly, and this suggestion was in the same position. It was a suggestion that the class to which Somerset House belonged should be relieved, and I said it is human nature, and everybody is feeling the pressure, and therefore we must bear that in mind in listening to all the evidence.

4161. Mr. Warren Fisher: It is a very serious matter.

4162. The Chairman: If Sir Thomas Whittaker says or believes or asserts that Somerset House have their own personal feelings concerned in the amount of money involved in this, I do not agree with him.

4163. Sir T. Whittaker: I did not say so.

4164. Mr. May: I go further, and say it is an improper suggestion.

4165. Mr. Warren Fisher: I want to put this point to you, which is not only in connection with this Royal Commission: I suggest that the Board of Inland Revenue have to give advice on direct taxation year in and year out, and on their impartiality depends the advice that is given to Ministers of the Crown. It is a very serious thing, and that is the reason I am taking this point up, if there is any suggestion that a public Department is actuated consciously or unconsciously by reference to the economic position of the officials.

4166. The Chairman: I do not think Sir Thomas means that.

4167. Sir T. Whittaker: That is not the point.

4168. The Chairman: I do not want to get into a further personal discussion after your explanation.

4169. Sir T. Whittaker: I wish to point out that it is not that. It is in that each section feels the pressure.

4170. Mr. Warren Fisher: Are you giving your evidence to the Royal Commission as a member of the economic middle class or as a representative of the Board of Inland Revenue?—As the representative of the Board of Inland Revenue.

4171. The Chairman: The position that I take is this. We have had a great deal of evidence, and I

look upon this evidence of Mr. Hopkins as a real, earnest, and valuable endeavour to help us in our work, because of the changes that may come, which we shall have to discuss and which we shall have to settle. I look upon it in that light. It is the Inland Revenue's attempt to help us in the elucidation of the difficulties which have come before us.

4172. Mr. Warren Fisher: Thank you.

4173. The Chairman: If you accept that and you accept it, Sir Thomas, we will proceed.

4174. Mr. Warren Fisher: Quite. I have no further questions to ask.

4175. Mr. May: I have no questions. I only wish to express my appreciation of the valuable statement that has been placed before us this morning by Mr. Hopkins.

4176. Mr. Marks: May I just go back to the Tables [see App. No. 3] which you gave us when you were first before us, because there is a point on which I would like your explanation, bearing, as it does, on the taxation of the smaller income earners. In column 11 [App. No. 3, Table III.] the total there was £1,970,000,000 for 1918/19?—Yes.

4177. That is the taxable income, which is the gross income brought under review less exemptions in respect of incomes not exceeding so much?—Quite.

4178. That is carried forward in Table V. [of App. No. 3], to which please turn, where you got the taxable income in another form. The bottom right-hand corner figure is the same, £1,970,000,000?—That is so, yes.

4179. The heading being: "Taxable income is the gross income brought under review, less exemptions and allowances other than those personal to the taxpayer"—the personal ones being abatements, Life Insurance premiums and so forth?—Yes.

4180. But not exemptions?—Not exemptions. Those were treated as outside the purview of the tax.

4181. The amount of the taxable income of weekly wage-earners as I read that table is £470,000,000, approximately?—Yes.

4182. Table VI. [of App. No. 3] shows gross income reviewed by the Department; that is the £1,970,000,000, less all exemptions and allowances of whatever kind or however made, and that reduces that £470,000,000 to £265,000,000?—That is so. That would be after the ordinary abatements and allowances in respect of the wife and child and the dependent relative.

4183. It is the fact that the income of weekly wage-earners, which in total is £470,000,000, is reduced not by exemptions but by abatements and allowances of various descriptions personal to the worker by more than £400,000,000?—That is so, yes.

4184. That, of course, is a very considerable concession to the weekly wage-earner; is it not?—That is so. I put the same thing in a different form in Table I. of my present proof, by showing the effective rate on incomes from various sources. For example, we find the effective rate on an income of £250 in the case of a married man with three children is 3d. in the £.

4185. A very considerable concession being the exclusion from the purview of your return of all incomes which are exempt?—That is so.

4186. Have you considered at all, when you were considering the question of indirect taxation in connection with your suggestions, that when you grade up the Income Tax and Super-tax even to the amount which you suggest, you are putting an additional burden during life on those who are going to pay a very heavy one on death?—It is quite true that the Death Duties have to be taken into account as part of the general taxation of this country; that is what I think you have in mind. That of course was done in the paper that I referred to, which has been brought to your notice—Mr. Herbert Samuel's paper written at the beginning of this year.

4187. Mr. Synnott: Have you considered that in your recommendations, because there is no allusion to it?—Yes, undoubtedly we have taken all the material into consideration.

4188. But you have not got out any figures to show that.

4189. Mr. Marks: I was going to ask that question, whether it had been considered in connection with

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the suggestions which the Department is putting forward now?—That is so, yes.

4190. I just want to have it on record that in spite of the very heavy burden, and the additional heavier burdens which are proposed under the present resolutions, the Department still feels justified in recommending additional taxation of this character on their incomes?—Within such limits as I have suggested, yes.

4191. You have got a very considerable objection to any mathematical formula of graduation, and I think the Australian formula is wholly unsuitable for this country, but is it not a fact that this mathematical formula might very well be expressed in some other form—percentages for instance? The result of their application might be expressed in some such form as percentages which might be quite easily understood?—The danger of percentages is that you would simply be carried to the Prussian system of tariffs or categories of income with an infinite number of steps and an infinite number of little jumps.

4192. Of course, it might be so, but you could make your interval of change as large as you liked. I am not going into it; all I wanted to know was whether you have considered whether any mathematical formula might not be applied in such a way as to produce results easily understandable by the people?—We have done the best we can in that respect to provide an absolutely smooth curve in a form which we consider is at least workable under the present tax, and the result is expressed in these rather complicated paragraphs in my proof, beginning with paragraph 66 and I am afraid we think we cannot do anything better.

4193. My point is this. If complications are to be an objection to a smooth graduation you have got very nearly as complicated results by your methods as you could from any mathematical formula?—You mean my complicated method?

4194. Yes.—But it springs from a mathematical formula just like the Super-tax. The Super-tax is a mathematical formula.

4195. Mr. Symonds: I just take you up, as I have this before me, at the point to which the previous questioner brought you upon these Tables [see App. No. 3]. These Tables show an enormous extension in recent years of the amount of taxable income, primarily taxable, but not really brought to tax by virtue of abatements. The figures are enormous, are not they? Out of a total income of £2,290 millions (col. 2 of Table III.) the annual income on which tax is received is £1,350 millions?—Yes.

4196. That is to say there was a thousand millions of income which was not taxed and would have been taxed had for the abatements?—I think that is really hardly so. For example, there is £132 millions in respect of reductions for overcharge.

4197. £1,350 millions is the figure on which the tax was received?—That is so. As to that balance of £1,000 millions, it includes £100 millions of income which comes under our review but is never under the purview of the tax as a tax at all. It includes £45,000,000 for the repairs of houses, which is not profits or income in any ordinary sense, it includes £42 millions for wear and tear of machinery, and it includes £132 millions in respect of reductions and discharges in cases where overcharges have been made in case of incorrect returns or otherwise. That is in Table III. of the "Statistics relating to Income Tax and Super-tax" [see App. No. 3].

4198. Taking the year of the war, because that is the time when we wanted more money, look at your abatements in 1914 in col. 12 of Table III. You have got the figure there of £144 millions for the year 1913-14. They were extended to £321 millions in the year 1918-19, when of course more money was required?—That is very largely due to the fact that an enormously larger number of taxpayers were brought within the purview of the tax.

4199. Now come to my next point. Is not the significance of these figures generally this, an enormous increase of Schedule D in the gross income, and an enormous increase in the income for weekly wage-earners, and in the salaries of corporation and public company officials?—You are speaking of Table V.?

4200. Yes, and I point out that in that Table the income for 1916-17 of weekly wage-earners was £199

millions, and in 1918 it was £469 millions. If you take profits from businesses they went up from £261 millions to get £362 millions in spite of the war, and in the last column, salaries of Government, corporation and public company officials—I am afraid it would not be too great a supposition to suppose that was chiefly Government officials—they went from £147 millions in 1914 to £310 millions in 1918. I bring up these figures for the purpose of asking a question. Is it not clear that there are certain classes of the community who have been able to adjust their incomes far in excess of any increased taxation?—I do not think for a moment it must be taken that those increases merely represent increased income of individuals. It does not for a moment represent that. It represents an increased number of individuals engaged in industry or trade of one kind or another, or as Government officials, and so on, coming for the first time under the purview of the tax.

4201. But we have been in a state of war, and we know there have been three to four millions of able-bodied men at the front. Surely these figures point out that a smaller number of persons have enormously increased their income. We know how many millions have gone to the front. I am dealing with a series of years when there were fewer numbers of persons working?—Subject to the influx of women into industry.

4202. Very well. I want to point this out on the question of the difference between earned income and unearned income, is it not a fact that those classes were earning more, whether in trade or by being in Government offices, or as salaries or as weekly wage, and thereby have been able very largely to adjust their incomes to war conditions as to high prices?—In many industries I have no doubt that is so.

4203. Do not the figures show in fact what we all know is going on all round us?—In many instances that is so—I think generally so, but not entirely so; for example, solicitors and professional people. On the other hand, property incomes have also increased in many instances.

4204. Your general scheme before us here really gives large abatements and additional abatements and allowances to those very people who have been able to adjust their incomes and increase their incomes in spite of high prices, counteracting the effect of those high prices?—No; the allowance is given equally to the earned income and to the unearned income, and by reference to the household responsibility. I do not limit it in the least degree to earned incomes.

4205. And in view of those facts you still propose to give the bounty to earned income, because I call it a bounty?—You mean the "earned" rate?

4206. Yes.—I am not suggesting that there should be any alteration of the law in regard to the "earned" rate.

4207. Then you adhere to it?—Yes.

4208. In spite of the fact that we have the evidence that the man with an earned income can adjust his burden to his back, to put your own simile; he can strengthen his back in other words?—It still remains true in regard to property incomes first of all that many of them have increased, and, secondly, that there is an essential difference between the property income and the earned income, in that it continues to yield income after the man is dead.

4209. Let me test that proposition. You have read these proceedings of the Committee in which Mr. Lowe made his famous memorandum in 1861?—Yes, they were on temporary incomes.

4210. Have Mr. Lowe's arguments ever been answered?—In substance I think they were answered by the Dilke Committee which made this distinction, admitting that it is one against which a certain amount of theoretical argument can be brought to bear.

4211. "Claims quite as strong as those which have been recognised are left unredressed, such as those of the clergyman to be ranked amongst industrial incomes, of the owner of poor house property for a remuneration proportionate to his real outlay for repairs, and, above all, of professional men whose income depends on their skill and labour, to be taxed on a

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different scale to that applied to manufacturers, brewers, bankers, and merchants, who are able to leave out of the capital involved in their business ample provision for their children—and are, *pro tanto*, exonerated from the necessity of saving." It is pointed out there that in the case of manufacturers, brewers, bankers, and merchants there is an element of goodwill and capital involved in which earned income can be carried on from father to son just as well as by the man who saves a few thousand pounds for his wife: is not that so?—Might I just deal with those three things? The clergyman has been dealt with; his is earned income. The poor house property case has been dealt with; the repairs are allowed.

4212. Pardon me; I think you have misconceived my argument altogether. Is it not a fact that there are many cases in which the larger proportion or a very large proportion of the so-called earned income is not really earned at all?—I quite agree in regard to incomes from trade, a certain proportion in many cases represents a return upon capital.

4213. Are not we dealing with the very largest Schedule in the whole of the Income Tax? If I can show that there is an inequitable provision in the very largest Schedule, and if I can show that my proposition would lead to a large increase in revenue, would not the levelling up of the earned income under those circumstances to the unearned rate in war time dispense with all your new propositions, or the need for your new propositions?—No. It would hardly produce such a revenue as that. It would produce in effect something over £10,000,000, if you say that it would be right, having done away with the distinction between the two rates of tax, to level up the lower to the higher. I should say that it was equally right to strike a balance between the two.

4214. You are aware, of course, that economists, I think you may say the bulk of those who have written on it, trying to get at the root of the matter and the equality of the matter, uphold the view that I am presenting?—I think you will find amongst economists a very considerable divergence of opinion. Of course, there is capital income in the income which is derived from the carrying on of a trade, I quite agree. It was suggested before the Dilke Committee that you should have three rates, the pure unearned income rate, the pure earned income rate, and the mixed rate. Such a thing would be quite possible. It would indeed be extremely difficult to do, but it could be done.

4215. The very fact that such a proposition was brought forward shows quite clearly, does it not, that there is no logical distinction between the earned and unearned income?—The decision that was come to by the Dilke Committee on that subject was that there was a difference which was sufficiently marked and sufficiently prevalent to call for treatment. Consequently, although they said it was impossible to arrive at a completely logical and final distinction between the two, they gave you a working rule for the difference between the earned and the unearned income, and they said that in the conditions of the world as we know it they thought that would be a sufficient working solution of the problem, and my submission is that all experience goes to show that it has proved so.

4216. The people who are earning incomes do not complain to you because they get an abatement?—No.

4217. With reference to Sir Thomas Whittaker's questions, I am bound to say I did not take it in the way that Mr. Warren Fisher took it at all. I put it in my own way, and I should like to ask you this question: You have framed, and I think in your personal evidence you took a stronger line even than in your written proof, certain definite lines of policy. The Chairman and Mr. Warren Fisher very properly pointed out that it was one of the duties of the Inland Revenue to suggest lines of policy, but that would be confidential lines, namely, to the Chancellor of the Exchequer. Is there not a great and grave difference between such suggestions made confidentially to the Chancellor of the Exchequer, and made here to a Commission whose proceedings and whose reports will be in the hands of the public?—Really, I think I dealt with that in reply to Mr. Warren Fisher. I

was asked for a tentative suggestion as to the way in which my own mind was moving. I answered that question. I do everything that I can to assist the Commission.

4218. This was put forward not as a personal opinion, but as the opinion and the agreed policy of a public Board?—The proof was so put forward. I was asked as to what was moving in my mind, and as a tentative suggestion I gave my own view of Scale B. I hope I made that clear; I am sorry if it was otherwise.

4219. Chairman: You were asked the question which of the schemes you personally preferred, and you said Scale B; that was your answer.

4220. Mr. Synnott: Yes, but assuming the policy to be right, of course, your scale would come in, but it is a question of the wisdom and justice of the policy. Is it usual before Royal Commissions for a Department on the very matter which the Commission have to consider and look at all the circumstances, to express their opinion of the policy?—May I say we were asked to give evidence.

4221. Before a Royal Commission?—We were asked to come here with evidence on this subject, so naturally we come.

4222. Chairman: That is the point, Mr. Synnott. Do you want to elaborate the point now?

4223. Mr. Synnott: No, I leave that matter.

4224. Chairman: It is perfectly true that we did ask the Inland Revenue to give us assistance on all these matters. Do you think that these suggestions which they have put here ought to be secret suggestions?

4225. Mr. Synnott: No, I think it is in the hands of the Commission now, but I always dislike secrecy. I think I need say nothing more. The way I put it is this. There are considerations on this matter, and I hope if you will allow me I will present them, which are far wider in scope, which would naturally come before the Board of Inland Revenue.

(To Witness): You dealt with the question of complaints. Surely you will not judge of the equality or the justice of a matter of this kind merely by the number of the complaints and the character of the complaints; you have in the one case 5,000,000 of people at £250 a year; you have a million from there up to, say, £10,000; and then you have the smaller number of persons above it. Is not it natural that you should have complaints from the larger number?—We do not judge this matter simply by the number of complaints received. We are in continual touch with the taxpayers of the country from day to day, and I venture to suggest that we have very considerable opportunities of forming a judgment as to what it seems to us would be the general view held in regard to the present scale of graduation of the tax. We may have misjudged it, but we have done our best to come to a conclusion upon it.

4226. When you use the word "general," you at once let in the question of the numbers which you just before said have nothing to do with it. Let me put this general question: Is not this the fact, apart from complaints, that it is the high rate of tax, coupled on the other hand with, shall I say, the Report of the Select Committee on Expenditure before us as so notorious public waste, that induces many people so long as to consider their moral apart from their legal obligation to be conscientious in their returns?—I am bound to say I do not see the connection between the Reports of the Public Expenditure Committee and this matter.

4227. The Report of the Public Expenditure Committee points out in terms what everybody knows.—I know of no means by which we can relate the two things.

4228. Is not that just one of these matters that might never come before the Inland Revenue at all? You might never hear that view. They are not likely to express it to you. A man who was going to evade the tax is not going to tell you, is he?—I quite recognize that. A public report of that kind has a public atmosphere.

4229. Have you considered at all the effect of your increase in graduation of higher incomes on people who take those views?—I have dealt with all that in my proof as clearly as I can.

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4230. You are already aware that there is a great deal of attempted evasion?—There are certain classes of evasion in regard to which we shall wish to bring evidence before you. A certain measure of evasion is inevitable in connection with any tax which is assessed directly, and it rises with the rate; there is no doubt about that.

4231. Do not you know that every additional turn to the screw and addition to the rate, which you call an adjustment—I call it a large increase, in some cases a geometrical progression—very largely increases at least attempts at evasion?—Yes, but we are not increasing the rate by geometrical progression. Whatever we are doing we are not doing that.

4232. No, but I suggest that every increase in the rate by a certain percentage will by an increased multiplier add to the attempts at evasion?—I am not sufficient mathematician to know whether this will be geometrical or otherwise; but what I am concerned with is in not turning the screw on the particular taxpayers, but adjusting the particular turns of the different screws upon different sections of incomes.

4233. But you are loosening some screws and tightening up others?—Yes.

4234. You alluded to your chart and to the evidence of foreign countries. Surely the chart and that evidence hardly support your theory?—Will you tell me what you have in mind?

4235. The material is this. Taxation of all except very high incomes is very much lower in the Colonies and even in the United States than in England?—It is a good deal lower, yes.

4236. It is a great deal lower?—That is so.

4237. Up to £20,000 it is very much lower. Have you got there the Tables illustrating the rates of Income Tax in force in other countries?—Yes. [See App. No. 14 (c).]

4238. Table A shows earned incomes. Take a man with £3,000 a year; in England he pays £962 10s. in taxation; and in the Commonwealth of Australia he pays £289; while in the Commonwealth and New South Wales it is £405, that is the combined tax?—He must always pay the two.

4239. Ours is more than twice the amount?—Yes.

4240. In New Zealand it is £232; in the Union of South Africa £207; in the Dominion of Canada £187, and so on, down to the United States, which you alluded to as being exceedingly high, where it is £338?—I alluded to the United States as being very high on the very large incomes, if I may be allowed to say so.

4241. But you proposed a considerable addition to the tax on incomes under £40,000 and £50,000 a year?—A certain increase, I agree.

4242. The higher tax being there already?—Yes.

4243. That is the point I am putting to you, that we must take this Table. You are putting an additional tax on what I have shown to be a relatively much more highly taxed income in this country than any of the countries in your chart, and in the Tables. These are the countries which you wish to follow in certain respects with regard to wives' allowance and so on. I ask you to look at the whole question and see what they do in other matters?—I understand really Mr. Symonds to be arguing this, that the taxation in this country is so much higher than in other countries that it is almost impossible to think of any readjustment which involves any increase on any part of the scale; I think that must be the substance of the argument.

4244. Well, it is a little more than that, but I think the argument stands for itself?—In comparing with these other countries I quite agree that the burden of tax, which very likely at present has not reached its full development there, is less.

4245. We do not know about development here either?—I fear we do not; but it is less. At the same time, looking at them in their several stages of rate, it is true as regards other countries that the Income Tax is at a less rate upon medium incomes than it is here.

4246. As regards these lessons from other countries which you wish us to draw, in several particulars I think you admitted to Sir Thomas Whittaker that

unless you know all the conditions you could not properly make a comparison between the burden of taxation there and here. Let me put to you, are not these very important difficulties, that the cost of living has been generally higher in those countries, that the pound sterling is of less value, or has been, that the standard of wages was higher, and that there was a very much higher indirect taxation which would fall on the lower classes; there were all those differences?—I agree, as I have said before, that there is this question of indirect taxation in these other countries.

4247. I only put it to you that there are those essential differences if we are to take a broad view between those countries and this, which vitiate an inference or a conclusion as to what we should do and what we should not do with regard to our tax?—I doubt very much whether the cost of living is higher in other countries than it is in this country now.

4248. But it was before the war?—But I am not concerned with before the war; I am concerned with now.

4249. I understand they have also increased. Friends of mine who have come from America report the same thing?—The rates of tax I am dealing with are the present rates.

4250. We do not know those conditions accurately?—I quite agree there may be elements of difference at any rate.

4251. You have not considered the point in regard to your new adjustment, how far the people on whom you propose certain measures of relief have increased their incomes?—That, I think, is really the point you were on before.

4252. Yes, it is; it is a supplementary question. Are not there these questions also, that there is no doubt a very considerable proportion of the revenue now applied to schemes for personally benefiting those very classes—Old Age Pensions, education, and very largely free education, to which there has been a very large addition in point of money grant, even since the war; Labour Bureaux; the proposed nationalisation of industry; and there is the fact that whilst the wages, for instance, of the railway companies were largely increased, the goods rates were not increased, in order to cheapen living, that being in effect a subsidy in the nature of the bread subsidy; you have not considered those points of view?—Yes. Mr. Symonds mentions the question of Old Age Pensions, and the provision of national education and Labour Bureaux, and so on. Of course, the benefit of those services does not ensure entirely to the benefit of Income Tax payers.

4253. But do not they ensure to the special benefit of those classes whose burden you now wish to diminish?—My reply is, no, they do not. Old Age Pensions do not really benefit the Income Tax payers. They primarily affect the people who are far down below the effective limit of Income Tax at the present time.

4254. Would not they benefit a retired miner?—They may in some cases.

4255. They benefit the class, do not they? The miner has not his father to support?—I quite agree that there are Income Tax payers at the lower ranges whom it benefits.

4256. Professor Pigou: In paragraph 22 of your evidence-in-chief you lay down the general principle:—"the object of the graduation of the tax is to attain a fair measure of equality of sacrifice." Would not you add that you also take account of the object of making the aggregate sacrifice as low as possible?—I agree.

4257. So that this is not really a complete statement, unless you regard it in that sense?—Yes, I think that is a fair criticism.

4258. And consequently the case for graduation is really a great deal stronger than is suggested in your proof, because it is obvious that you will diminish the aggregate sacrifice in so far as instead of taking a large number of sections from small people you will take bigger ones from rich persons?—That is true.

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4269. So that the case is really stronger than it would appear from what you say?—Yes. Provided always that you may never overstep the limit. I have heard the question expressed like this: "You must not leave any particular taxpayer in a more painful position relatively to his conditions than another taxpayer." Within those limits I quite agree.

4260. Then further you would have to add, would you not, a second extra condition, a thing to which one would attach importance, namely, that the tax should not, more than it could be helped, diminish the amount of income that is available for taxation?—I agree.

4261. On that point it was argued in a question that there is danger that the high graduation at the present rate will drive a great deal of capital abroad. Is not it the fact that apart from fraud a person cannot escape the Income Tax unless he not only sends his capital abroad but himself lives abroad?—That is so, yes; he must also find a country to live in which, shall I say, is more healthy from the point of view of taxation than this country.

4262. Sir T. Whittaker: Is that really correct?

4263. Professor Pigou: That is the law, is it not?

4264. Sir T. Whittaker: Might I just put this point, because it is very important. A company may transfer its headquarters from London to Holland. The tax will then only be paid by those persons here who receive the money, that is sent here, but the profits which are distributed and detained in Holland will not pay tax. If the company's headquarters are in London they will pay tax.

4265. Professor Pigou: Yes, but that is only a minor part, surely.

4266. Sir T. Whittaker: That is a very material point.

4267. Professor Pigou: (To Witness) But is it not a small part?—Yes. I think the major part is chargeable to Income Tax, but as Sir Thomas says, that is so.

4268. Would you not consider that these very rich people whose graduation you propose to increase are rather the class of people who would be very unwilling to go and live abroad, the advantages they get from their wealth being largely social advantages, and so forth?—I think so. For my own part I do not at all contemplate a migration of capital, except as a result of the imposition of a system of taxation which definitely appeals to them as unjust. Given that you have such a thing, I think you are at once faced with the danger of migration of capital.

4269. As a kind of protest?—As a kind of protest, yes; the migration of capital and of business.

4270. But apart from that, the direct effect you think would not be very considerable?—That is my own feeling.

4271. Then with regard to what you say in this same paragraph about these mathematicians. You do not suggest, surely, that there is any school which proposes to evolve a graduation scale in the air? What I suggest to you really happens is this, that on the assumption that you take equality of sacrifice to be the thing aimed at, and on the assumption that you know the function relating to the satisfaction that is got by a normal possession of various amounts of income, then it is a mathematical problem to deduce from that what the rate for different scales of income is?—My theory always is that that is rather a large assumption. It does not take all things sufficiently into account.

4272. That is my point. It is quite impossible, and no mathematician could conceivably attempt to deduce these in the air?—Quite.

4273. He could only deduce it on some assumption about the function relating to the satisfaction as to the amount of income?—Yes.

4274. That function is necessarily unknown, and therefore the thing is impossible?—Yes.

4275. But, on the other hand, when you have got certain points on your scale arrived at by general reasoning, then a mathematical formula can give you a means of interpolating?—I quite agree.

4276. And that is the real purpose of the thing?—I quite agree that there there is a proper province for mathematics.

4277. There is a point that has been suggested to us in evidence, in effect the thing suggested was this: suppose you take £2,000 as the amount on which a certain standard rate is paid; you then make a number of fractions of that standard rate which you apply to all other income. The suggestion then was that it was desirable that these fractions should be permanent, so that when you wanted to move your Income Tax up or down, you could merely move the standards?—Yes.

4278. Of course, that obviously does not work for large changes in the rate, because it merely means that, if you had an arrangement that was suitable for small incomes, at the top of the scale someone would pay 21s. 8d.—Yes.

4279. Would you consider that there would be a convenience from the point of view of small changes?—We really have something like that in our 6s. and the fraction of the 6s.

4280. Supposing you say 6s. for this tax, and if we want more Income Tax we will raise the standard to 7s., and multiply all other fractions by 7 over 6. Do you think there would be any advantage in that, so that people could know a bit ahead?—You really could do that, of course, with the present system. You could raise all the rates by a fixed percentage. The difficulty is, you would get into awkward fractions of pence.

4281. You do not think there is much in it, as a matter of convenience?—I certainly think if there was any question of a general increase in the Income Tax, provided that your system of graduation when the time comes is right, the increase should be a proportionate increase. I also think it would be always wise to round off to the nearest penny. That we should be working in '35 of a penny and making such calculations on the Income Tax of the working man would be very inconvenient.

4282. But in principle you would not say it should be a proportionate increase, however much the scale was raised?—No. I certainly agree with you there. If you had to increase your Income Tax so as to produce double what it produces now, I think quite different considerations would arise.

4283. Then in paragraph 29 you speak of the wives' and children's allowances, and give your argument for stoppage of these allowances after a certain point. You say: "Clearly there comes a point when a taxpayer is wealthy enough to bear tax on the whole of his income, and has no claim to receive these allowances."—Yes.

4284. Does that really meet the point? Is it not still true that a man with £5,000, or even £10,000 a year is less able to bear taxation than a bachelor who has got the same income?—Yes, but it is so very little less. The bachelor may have other responsibilities of another kind.

4285. That is so, of course.—At one time both I and several of my colleagues were very much attracted to the view that these allowances should be carried right through, but on consideration we came to the conclusion that on the whole it was better to take the other view. If the allowance is to be carried right through the tax, it really becomes surprising to find that the man with an income of a million a year should be entitled to an allowance in respect of a wife, but that it should only be a marriage allowance of £25 or £30, or whatever the sum may be. It almost suggests that a full carrying out of that line of thought would result in exempting a proportion of the income, which, as you know, again leads to great difficulties; the man with £6,000,000 a year might then be allowed (say) £1,000,000 a year as the wife's allowance. We have thought on the whole that the family allowance could better be regarded as one necessary in the case where

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the burden of maintenance of the members of the family is a serious and pressing question to be met; but when the taxpayer is sufficiently rich to be able to meet his responsibilities out of the balance of income left to him, that is to say, the increase in utility of the balance of income left to him, after payment of his taxes, it would be better simply to wipe them out at that point. Whether the point is reached at £1,200 or £1,500, or a rather higher figure, is a mere question of opinion.

4286. Suppose, for instance, you take a man with £2,000 who has three sons at school, he is surely in a much worse position than a man with £3,000 who has not any sons?—Yes. But, on the other hand, I think it may be argued that after paying over the tax which he is now liable to, or any tax which might be imposed upon him in the early future, he has still got a very adequate fund out of which to provide for his sons' education. He can perfectly well provide for his sons' education, and he is very lucky to have the sons.

4287. I agree to that, but you said your aim is to get a fair measure of equality of sacrifices?—Yes.

4288. Surely you do not on this plan get a fair measure of equality of sacrifices between those two men?—I should have said so, and I think as the income goes up the difference in the burden of responsibilities becomes a continually diminishing factor in importance in the gradation.

4289. I quite agree to that; that is what I was going to suggest next. Would not the thing really be met best in this way: Suppose that the thing works out at present so that when a man has £200 a year, and has a wife, you halve his tax; then as you go up with larger and larger incomes the wife should still diminish it by a certain fraction, but that this fraction should continually diminish so as to approach a limit; would not that be a fair way?—Of course, it would be a possible way. All kinds and sorts of schemes of this character are suggested; some of them I regard as very extravagant schemes like the scheme, for example, of taking the total income and dividing it by the total number of persons maintained therefrom. Others are much more moderate.

My own feeling with regard to all those schemes is that the whole question of gradation is most extraordinarily difficult, and whatever method you fix upon is only going to be an imperfect method in the end. You cannot take into account differences in health, differences in ability, and a great number of individual differences between households of the like income. Nor do I think that you can really get a true measure of ability by merely taking diminishing fractions of income on account of the existence of children. You are still left with the difference between the healthy child and the child who is delicate, the child who wants a particularly good education and the child who would not repay it. On the whole my view is that you ought to pay the limited regard that we do pay on the existing principles to family responsibility, and merely extend the amounts rather than adopt a system of this kind, which I think would probably lead to rather ambitious proportions. I think the present system on the whole is better.

4290. It is rather a dangerous argument that because you cannot make it perfect therefore you should not try to improve it?—I think we should try to improve it. I have made suggestions as to trying to improve it, but on general lines, which incidentally are adopted all over the world, I do not know any case corresponding with your suggestion. Of course the allowance of the fixed sum for the marriage allowance and for the children is common everywhere.

4291. Then passing from that to the distinction between earned and unearned income, Mr. Synnott put questions to you in which it was suggested that because of the present rise of prices the earned income people had gained at the expense of the unearned, and that that was an argument for removing this differentiation. Would you not say that in considering Income Tax reforms you have got to take account of periods of falling prices as well as rising prices?—I agree entirely.

4292. And therefore that argument becomes irrelevant?—I think so, yes, and in addition it seems to me that many property incomes of all sizes have increased also.

4293. It was also put to you that all economists were opposed to this differentiation. You are aware, of course, that Mill was the original advocate of it?—I was reading his evidence before the 1851 Committee only the other day.

4294. Mr. Synnott: I did not say all economists. 4295. Professor Pigou: With regard to the arrangements made in France, which are referred to in your annex, [see Graph VIII., App. No. 12], and which I believe are made still more elaborately in Italy, where business income earned by a man who is also managing his business is treated intermediately between earned incomes and unearned?—That is so. The system exists in both countries.

4296. Do you think there is anything to be said for that? Do you know how it works there at all?—Of course in France they have a separate kind of tax for all kinds and sorts of incomes, professional incomes, trade incomes, and mixed incomes—I forget what they all are. It is rough and ready, of course, just in the same way as our division is rough and ready. It was suggested before the Dilke Committee that we should have three, or it may be four divisions. You could have a rate for mixed incomes but the additional revenue which you would produce would be very small. You could, of course, attempt to get the capital elements out of the mixed income and charge that portion of it at the higher rate. That would involve arriving at the capital in all private businesses in this country. I think Giffen used to take the figure that the capital element in earned income of trade was about one-fifth of the whole. If that is true, and if you suggested that we should launch upon the very big undertaking of getting out the capital element I think you might scrape together nearly a million more revenue.

4297. But you do not yourself think it is worth while?—I should not for a moment touch it myself.

4298. You would leave it as it is?—I would leave it as it is.

4299. Next, with regard to the machinery, which of course is, as you have said, entirely distinct from these questions we have been discussing, in paragraph 52 you use arguments against mathematical formulae, based, as I understand, on two principal grounds, first, the difficulty to the taxpayer of understanding them?—Yes.

4300. And secondly, the difficulty arising when an income is assessed in two places?—And partly taxed at the source, if I may add that; that is a very important addition.

4301. Do you extend that objection to an arrangement on the American plan, which in effect is of course our Super-tax plan?—It is the same as the English Super-tax.

4302. Would you extend your objection to that?—That really was the question which Sir Edmund North-Bowler put to me. We thought it over very carefully as to whether we could work a Super-tax method on the present Income Tax. We felt that it would be extremely difficult to do it. This alternative expression that I put in in paragraphs 66 and 67, is just the same thing turned the other way round. That we think we could work it if it really is considered that we must have an absolutely smooth scale. The reason why we could work that and not work the Super-tax is this, that it does give a fixed and definite rate in some cases every taxpayer is liable to pay. You know that a taxpayer has an income somewhere between £1,000 and £1,500. You can assess the whole of his earned income at 3s. 9d., and his unearned at 4s. 6d., and then he can bring in his return for his rebate at his convenience. On the Super-tax plan, on the other hand, supposing we had to assess part of his income at 3s. and part at 3s. 9d., in dealing with that part of his income which was taxed at the source and from which 6s. had been deducted, before we could ascertain what was the proper amount of relief to give in respect of that over-assessment against the assessment on his directly assessed income we have got to find his income out to the exact £, and translate the double rate into a virtual rate on the whole income, involving a calculation down to the decimal of a penny. Obviously it is very inconvenient in comparison with this scheme.

4303. Mr. Kelly: May I make a suggestion? The whole difficulty is the exact £. If you take £100

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steps, or, if it is convenient, £1,000 steps, that would disappear?—Only so long as you had the rate applying to the whole.

4304. You get the next complete £100, or the next complete £1,000?—No, I am afraid it would not work.

4305. *Professor Pigou*: May I take your two arguments in succession? So far as your objection depends on intelligibility to the taxpayer surely this Super-tax method would be more intelligible to the ordinary taxpayer than the method you suggest. It is quite simple. He knows he pays so much more each successive increment of income?—It would not be very easy, I think, in the case of a taxpayer who has a certain proportion of his income taxed at the source. If you think of a man with £250 taxed at the source, and £302 liable to direct assessment at earned rates, and you try to consider the sum in your head, I feel sure that there are great difficulties attached to it.

4306. Do you mean the man cannot do the sum, or he will not understand the principle? He would clearly understand the principle, would he not?—He will understand the principle, but it is the actual working out of the sum. Before you can get the sum right you are carried to the effective rate every time.

4307. But he will not regard the principle to be unjust if it is intelligible?—No.

4308. The great objection seems to be the assessment in two places or from two sources?—No, the whole question of collection at the source is involved as well.

4309. What happens now? Surely everybody except people with incomes of £2,000 to £2,500, has to return his total income?—Yes.

4310. Surely it is a mere matter of arithmetic. I think everybody, except these few people, has to return his total income as it is, and then it is a mere matter for the Surveyor to do the arithmetic, and make the adjustment?—It is true that practically everybody makes a return of his total income from all sources. But very often they are not ready to make a return of their total income from all sources at the time when we have to be making our assessments on that part of their income which is assessed direct. They cannot make an accurate return of that part of their income which is taxed at the source and the amount of which they do not know till the end of the year. Moreover, if we are held up before we can make any assessment on any taxpayer until he has rendered his return, it is not merely inconvenient to ourselves, but it means to say we have to begin to huddle taxpayers to bring in their returns earlier than they do at the present time in order to enable us to get the effective work of assessments carried through to time.

4311. But surely is that necessary? What happens to me is this: I have got a house in one place, and I have got some income assessed at the source, and I have got an earned income at Cambridge. All these things, except the earned income are taxed, the one at the source, and the house in the place where the house is, at the full rate, and any adjustment that is required is made on the part of my income that is assessed at Cambridge, and there is no trouble to anybody. Why cannot that be done generally?—We have considered this very carefully together. I have taken the opinion of several of my practical colleagues who all feel that under that form it would be very difficult to carry out. I do not say that it is impossible, but it is extremely difficult. It is a kind of Super-tax assessment of a portion of the income made in the year in which the income is still arising. As you know the real Super-tax that we have at the present time is assessed always by reference to the Income Tax income of the previous year at the time when the exact income of that year is known. Your case would be, perhaps, easier to deal with than most, inasmuch as I gather that early in the year you know the exact amount of your income from all sources.

4312. No, not the amount of my odds and ends. I return those odds and ends as part of the earned income?—Would it not be very difficult to be able to arrive, at the time when the assessment is made, at the proper allowance to be made in respect of the tax deducted at an excessive rate from your income

which is taxed at the source? We could not, until we know the exact details of what your income is from all sources, know the effective rate at which you fall to be charged. The effective rate will vary with every pound of income.

4313. I make a return for the earned income applied to the year before?—Yes.

4314. Then any deduction that comes in as regards Income Tax elsewhere is made in the assessment on me from that earned income?—Yes, but you see the difficulty I have is, that we should not be able to make it correctly until we know precisely what your total income from all sources for the year is going to be, including the dividends which you have not yet received. I may put it in another way; the difficulty that we have is this, that a system in which the effective rate chargeable varies with each pound of income involves an adjustment upon all the parts of assessment of the aggregate liability of a man, and the moment one item is changed it is bound to give a great deal of trouble, not merely to ourselves, but also to the taxpayer. Therefore now we have taken the alternative and translated it into a scale on a fixed rate with a varying statement which the taxpayer if he is able to and wishes to, can come forward for at the ordinary time, or, if he likes, he can postpone it and ask for it at the end of the year when his total income is known.

4315. I do not feel quite convinced about the difficulty, but passing on from that there is the fact that this is done in other countries?—The French tax, and all these other taxes.

4316. The Canadian tax?—Yes, but they are not taxes which are collected at the source. They have expedients for getting at some of the sources in a kind of way, but they have not this difficulty.

4317. I would like to put at all events some advantages that this arrangement might have. Apart from the obvious advantage of avoiding jumps, supposing what I suggested just now about allowing a fraction of the income for the allowance for wife and family, diminishing as the income increased, and the same thing would hold for earned income, that could be done quite as simply on this plan, could it not, because you would simply make the fraction vary with the different increments of income?—I quite agree; the two things would fit in together, although, of course, the scheme for the fraction for the wife and child could be worked under the present system.

4318. Quite so, but the whole thing would be more intelligible to the public?—Yes, but two series of varying fractions, working this way and that way, will not add greatly to the simplicity of the tax—I think rather the opposite.

4319. Of course under this American plan it would be the last increment which would be overtly taxed and so it would be obvious to a man that the last increment was paying more than the net rate?—Yes.

4320. Sir Thomas Whittaker put to you that it was this tax on the last increment that affected people. Do you think there is anything in the argument that he would be less likely to notice it if it was done under the present plan? The American plan would tend to check the earning of more?—I think the American plan is just the same as the Super-tax in this country, is it not?

4321. Yes, but if it was extended throughout—you do not think really there is much in that?—Honestly I am not greatly impressed with Sir Thomas's argument, for my own part. I think the Super-tax payer looks to a very large extent at the effective rate; that is the thing which matters to him in the end.

4322. You do not attach much weight to the argument—supposing that the effective rate is 10s. and the rate on the last £100 is 12s.—that he really thinks of the 12s.?—I do not believe that the method of expression weighs very much.

4323. *Mr. Mackinder*: With regard to paragraph 59, there and elsewhere I notice that the mathematical formula plays a considerable part. First of all, do you think that any appreciable number of taxpayers in this country, excepting large taxpayers who employ accountants and so on, really know, or at least think in terms of the effective rate they are paying?—I wonder. I think there is a good deal of misapprehension about that in regard to the smallest incomes.

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Very often the effect of the abatement is not fully understood. I think as regards the higher ranges of income the effective rate is fairly clearly understood.

4324. I put to you, for instance, the kind of thing that I hear frequently from people who in the last year or two have just come within the purview of the Super-tax. The number of people that I hear talking as though they were liable to the whole Super-tax, because there is a certain rate on the last few hundreds, is very great, and those are relatively intelligent people?—You see they are only just making their first acquaintance with the Super-tax, I understand. I think in a very short time they would learn better than that.

4325. I submit, from the point of view of the mass of taxpayers, it is desirable that they should think in terms of effective rates?—Yes, I quite agree.

4326. At the present moment you would agree, would you not, that apart from tables which are supplied sometimes, by private enterprise chiefly, I think it is rather difficult for a taxpayer really to ascertain what his effective rate is unless he is prepared to sit down to a very troublesome calculation?—He has got to take account of his abatement, has he not, in the case of the great bulk of the taxpayers?

4327. He has to apply a mathematical formula in order to ascertain his effective rate?—He has got to divide his total tax by total income.

4328. This phrase "mathematical formula" is a very grand one. I approach it in another way. Would you say that, for the purpose of graduation, 100 steps are practically sufficient?—100 steps with 100 jumps is what you mean?

4329. Well, you may have small jumps to start with and larger jumps no doubt further up?—To carry over the whole range of incomes, like the new Italian scale?

4330. Yes?—I should not favour it myself.

4331. You would say it would be sufficient, would you not? How many have you at the present time, eliminating the difference between earned and unearned?—There are six scales at present, and then, of course, the ascending scale of the Super-tax afterwards.

4332. Then you have a Super-tax which runs up another 10 or 15?—There are nine steps.

4333. So it is a total at the present moment of about 15 steps?—Yes.

4334. So if you had 100 steps you would have a very great gain?—You would have 100 jumps.

4335. Never mind that; that we can deal with by other methods. There would be jumps somewhere unless you apply a complicated mathematical formula?—Yes.

4336. There are bound to be steps of some sort; you may reduce them as much as you like?—Yes.

4337. The point I suggest to you is, would the taxpayer find really practically any great difficulty over a simplified Australian or New Zealand system? Shortly, what I am putting is, that you ascertain the income, you then (say) have a table, and you apply a certain percentage. You say that a person who has an income of so much shall pay at 36/100ths, and a person who has an income of so much shall pay at 72/100ths; do you think the public would find that a difficult thing?—Broadly speaking, it is a suggestion for small zones; that is what it comes to, is it not?

4338. Yes?—I really doubt whether the public would find it much more convenient, if at all more convenient, than the present method. After all, at present there are six, or it may be, including the Super-tax, 15 things to do remember. To turn that into 100 means supplying all taxpayers with a table containing the 100 on all their forms. I do not want for a moment to suggest that small zones are unworkable, but, speaking generally, the smaller the zone the greater the difficulty in dealing with the taxpayer's assessment, and therefore, I am afraid, the greater necessity for addressing to him annoying enquiries.

4339. Well, I do not want to go to the point that Sir Thomas Whittaker was putting, but I submit in another sense, and a totally different sense, and I

think in a perfectly fair sense, you are biased; that is to say, you are biased in favour of the system to a certain extent?—No, I am not at all concerned to maintain the status quo if I can find a thing which will make the tax work more smoothly and more satisfactorily than at present.

4340. Supposing your taxpayer has before him these facts: first of all, he has a number of personal adjustments?—Yes.

4341. Family, and so forth?—Yes.

4342. The total income has to be ascertained?—Yes.

4343. Secondly, the adjustments have to be ascertained?—Yes.

4344. Thirdly, having ascertained the adjusted income, he has then simply got to run his finger down a column containing, I do not care whether it is 50 or 100 steps, and he sees at once what is the proportion of his income on which he has to pay tax. Would you say that that justified the use of the expression "mathematical formula" with the prejudice that is involved?—No. I am just considering this aspect of that matter. We are going to have 100 of these things. A very large number of taxpayers will come very close to one of those margins. A certain number of those will be anxious to represent themselves as just below that margin.

4345. Do you not get that now?—Yes, but only at six places. It is only the taxpayers round about those six places that we have to worry in order to bring them up. We should have to be worrying a great number of taxpayers as to whether they have made a correct return. There may be small adjustments to be made where the return was such that they are on one side of the bar rather than the other. I am always afraid ultimately that the adoption of a great number of small zones may not be convenient either for us or the taxpayer.

4346. I put to you a case that was mentioned to me last night by a thoroughly reputable citizen of considerable standing, that he offered to transfer a brief, as a matter of fact, to another lawyer, who refused to take it, and refused to exert himself on the ground that he feared it would just lift him to the next step. —I have already made suggestions for dealing with that. I have made it well worth his while to take it in future.

4347. I suggest where you have these big steps they are far more likely to exercise a kind of cheating of the Revenue, if I may so put it, that is to say, cheating of the country by not exerting, than having small steps which no doubt would give you a little more trouble?—I think I have dealt in my evidence with the marginal relief for the big steps.

4348. But if you can have marginal relief in the case of the big steps then you can have marginal relief in the case of the small steps. Is it really a very practical question at the present moment? The marginal relief, of course, is very important because you suddenly jump and your jumps are considerable?—Yes.

4349. If your jumps were small jumps I suggest that a very large number of taxpayers would not trouble about the marginal relief?—Supposing he had a jump of 55 or 56, do you think he would ignore it?

4350. I am suggesting £100. I take £100 because it is so simple and everybody understands the idea of percentage. Suppose you have 75; as a matter of fact you might have 80 at least of those jumps in the lower scale of income?—Yes.

4351. I suggest to you that when you get to the higher scale, 25 would not be important, but you might get down to £10 on the lower scale?—I think probably even some of those jumps as you begin to ascend the scale would have to be big. There would be a continual question of the taxpayer round all those points nibbling at the income in order to get a lower rate of taxation. It is a thing one could not overlook. One could not publish a list of distribution of incomes which was like a continual letter "S."

4352. That is all I wanted. I submit to you that this use of the expression "mathematical formula," &c., is hardly justified. As a matter of fact there is an alternative system which would be quite as simple as the present complexity, namely, to have a fixed

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rate. I suggest that a fixed rate that can be altered by the Chancellor of the Exchequer without a complicated scale in his Budget, by a simple line in the Act of Parliament altering everybody automatically at once, and adjustments on the incomes by applying a factor to the incomes, to use a mathematical term, would be just as simple and just as understandable. Taxing an income as though it were a different amount always at a fixed rate—no.

4353. It is the fact at the present moment though your people do not work it out. Your effective rate is arrived at in that way?—Yes, but we operate in fact upon the rate, of course. Where you have changes you have changes of rate.

4354. I am suggesting that operating on the income and leaving the rate fixed is not more complex than operating on the rate and leaving the income fixed?—No, frankly, I am not satisfied that that system would appeal to the majority of taxpayers in this country. You could not say to a man who has an income of £500: "We are going to tax you on something else." I doubt that very much. Apart from that I may say that most of these schemes—I have not had a definite scheme before me at the moment—contain the same difficulty that you have in the Super-tax method, that is to say, there is an effective rate varying with each £1 of income. To that extent all the objections that I have endeavoured to suggest to Professor Pigou apply also.

4355. You would agree, would you not, that when you get to larger incomes there is a question other than equality of sacrifice that comes in. The term used just now was "aggregate sacrifice"?—Yes.

4356. Would you not agree that there is also the question of the indirect effect on the total productivity and economy of the country that may be involved? What I mean is that, in so far as the large income to a very large extent is really in the nature of a trust and is not spent by the individual himself, you may influence that to the detriment of the country and to the detriment of smaller people. You cannot apply rigidly the pure principle of justice and equality of sacrifice, but you must consider the sacrifice of the country as well as the individual when you come to large incomes. I hoped you would find that those two principles were capable of being reconciled with each other without leading, when separately considered, to different results. So long as your general sense is fair in the proportions of its tax it seems to me you have met the whole thing. Let me put to you this case, supposing a person has a very considerable income, and he says: "now I am going to enjoy myself. I am going to play for security. I am going to put my money into gilt-edged securities, and I am going to come out of risky venturesome work where I am cutting ice for the country and increasing the productivity of the country." Would not you say in that case the policy of your tax was bad if it had that effect?—Yes, but I cannot quite see how one can produce that effect by modifications in the system of graduation.

4357. You have proposed a very steep graduation?—A slightly steeper one.

4358. That postulates that it is not very steep already; I should double my "very" therefore, and say a very, very steep one. You are proposing a very steep one, and there really comes into consideration, not merely the question of equality of sacrifice, but also the question of the economic effect on the country. I suggest that where people are administering large incomes, if the effect of the administration of the large income is to lead to a playing for safety rather than to adventure, that on the average will be to the detriment, not only of the country, but of the dividend in the country?—Yes, I quite agree; I do not dissent from that.

4359. And therefore there are two principles to be considered?—Yes.

4360. And it is the inter-action of those two principles in the case of large incomes which we really have to bear in mind?—Yes.

4361. Mr. Birley: There is only one question I want to ask about. You have mentioned the agitation in favour of larger allowances for wife and children, relief from Double Income Tax, and other things, and you think it a possibility that the Commission may come to the conclusion that some relief should be advised. As this would mean a loss to the Revenue, you have given us, so far as you show, the scales of incomes which would bring in gains varying from £14,000,000 to £38,000,000, by which the loss caused by any reliefs could be made up. That is really one of the points of these new Tables that you have given us?—It was not exactly my meaning. My meaning was this: It seemed to me that on the strict graduation of the Income Tax, that is to say, the proportion of tax which is taken from different ranges of income regarded as against each other, if one arrives at certain conclusions in regard to that, then the incidence of the tax is made as far as possible even between the taxpayers, as nearly as can be done. If the Commission should arrive at the conclusion, for some reason, that, apart from graduation, some other remissions ought to be made, such as with regard to wasting assets or Double Income Tax, then that was outside. In the way I approached the matter, I should not for my own part recommend that relief of that kind should be made good by taxing any particular body of taxpayers. It seems to me that it should be done by a general increase in the rate, except so far as you can make it good by increased efficiency of collection in certain respects in which the collection of the tax is now deficient.

4362. My point rather is this: that if reliefs were made, the total amount raised by Income Tax would be reduced, and it would have to be made up. These scales are your suggestions as to the fairest way to make up some sum, varying from £14,000,000 to £38,000,000, according to the reliefs which the Commission suggest should be made?—Yes. I never had £38,000,000, though, in my own mind.

4363. One of your scales gives £38,000,000?—Yes, I gave the scale, just to include that.

4364. They show various amounts, according to the reliefs the Commission may decide to advise; that is one of the points of your scales?—That is so.

4365. Mr. Masville: Graph No. III, [see App. No. 12], which shows the graduation of taxation as between this country and the Dominions and the United States of America, points to very high taxation and very large incomes. Do you not think that, as compared with this country, where the taxation is not nearly so high on income such as those, some degree of misapprehension might arise from these comparisons? Because I take it you agree with me that in new countries like the United States of America and the Dominion of Canada, there are none of those obligations which undoubtedly exist in this country, what I might call hereditary obligations, in the shape of big estates of one sort or another to keep up, which absorb the incomes earned by the owners of those estates, and which, I think, if taxation in this country were raised to the same point on big incomes, would absolutely necessitate their abandonment, and as a result, their falling into decay. That would have a bad effect on the country generally, I think, because it would inevitably mean that large numbers of people who are at present employed in these places would be thrown out of employment, and would have to find employment elsewhere. I might say I am not interested in any such estate myself, but I think that estates of that nature in this country are a distinct asset to this country; they actually produce revenue for the country from the point of view of visits which are paid by the inhabitants of other countries to see things of that sort, which do not exist, I think, anywhere outside this country. That is rather a long question, but I want to get that point out?—I quite follow what you mean. I quite agree that if you had imposed on the largest incomes in this country a tax which progressed in the same kind of way that the United States and the Canadian Income Taxes progress, it undoubtedly would involve the cutting up of the big landed estates in this

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country, having regard to the general conditions which apply to their tenure. In addition, as I said earlier in my evidence, it seems to me that the graduation of Income Tax, both in the United States and in Canada, is exceedingly steep in the top ranges as compared with the graduation below.

4366. There are no such obligations on big incomes existing there as exist here?—I should imagine not; certainly not in Canada, I should say.

4367. Or in the United States?—Probably not.

4368. Mr. McLintock: I think you have read the evidence that has already been given to the Commission with regard to graduation?—I think I am familiar with the points that have been made.

4369. The witnesses have been asked how far their various ideas could be put into practical operation. The answer that generally has been given, I think, has been: "That is not our job." I understand that the purpose of your evidence is to show the practical operation of a scheme of graduation?—That is one of the main objects I have had in the third part of my evidence.

4370. In your suggestions as to altering the effective rate on certain classes of incomes, you have adopted what you believe is a more correct graduation than what presently exists?—I am not expressing merely my own opinion, but the general opinion of the Department; I have tried to find out what seems to be a fairer incidence of the tax throughout the scale.

4371. Is it not fair to put it in this way: that graduation, so far as it has been evolved in this country, is of such recent date that it has not been possible to evolve the most perfect system by the method which you have been working on up till now?—I think it would be very natural that it should be so. It has been recognised for a long time, of course, that the Income Tax has been undergoing evolution in the way in which we do evolve things in this country, and was crying out for such an inquiry as is taking place at the present time.

4372. You are concerned with the raising of £350,000,000?—That is so.

4373. And your proposals are only to raise that as fairly as you think it can be raised as between all Income Tax payers, from the lowest up to the highest?—That is the object we had in view.

4374. Do you think it would be an advantage, or gild the pill of the Super-tax a little, if it was expressed in terms of an effective rate, instead of a higher rate on a small portion of the income, at the top?—There could certainly be no harm in expressing it in that way. It could be expressed as easily in that way as in any other way, in the Statute. It is a point which has been made earlier in the examination; I do not think, for my own part, that the Super-tax payer casts the whole of his regard on that rate which applies only to the top range of his income. At the same time, I quite agree that the Super-tax scale is a little difficult to translate into English. You do not visualise the effective rate, and some taxpayers may possibly have an idea that the rate they are actually being called upon to pay is greater than the rate payable.

4375. Do you think that the Super-tax payer generally looks on the total amount that he has to pay as Super-tax on his total income?—That is what he ought to do.

4376. And puts it on a bit of paper and converts it into a rate?—I do not know whether he does the arithmetic correctly in every case, as you would; but, after all, the Super-tax is charged in a single sum by direct assessment, and he does get on a piece of paper the statement of the aggregate sum which he is required to pay each Christmas, and that must exercise a material influence upon his estimate of the weight of the Super-tax, at any rate.

4377. I think the form in which it is imposed almost compels him to convert it into a rate on the income so assessed, rather than to look particularly at the last £5,000?—I think so.

4378. On the question of the removal of capital or businesses from this country, have you considered what risk, if any, capital is running, if the grievances that it is suggested exist on the lower Income Tax payers are not removed? You have an illustration, for example, just now in South Wales. There is a danger to capital, apart from the mere question of capital flying away, which is a very difficult operation, on account of high taxation, to some country where the tax is very low (I do not know where they will find it); that suggestion is put forward, that the imposing of higher rates of tax will cause capital to go away from this country and revenue will be lost. Have you considered the effect if certain grievances are not removed?—I am perfectly certain of this, that the best thing for the country is that the incidence of the Income Tax should be as fair as possible between taxpayers; and it is greatly to be hoped that when once the Commission has been able to arrive at that result, their conclusions will command general acceptance also, and then you would have the best possible conditions.

4379. Is it your experience that the taxpayer in this country prefers to see on a piece of paper in front of him the tax on the income that he actually receives, rather than to have some theoretical "taxable income"?—I am quite sure of that. I am quite sure that it is much better to charge on the actual income; that is the sum that the man has got in his pocket, and that is what he looks to. He can understand a variation in the rate very much better than a manipulation of the income.

4380. And the demand paper which the taxpayer receives indicates quite clearly to him the effective rate, if he likes to make a simple calculation on paper?—Yes, it does.

4381. There is just one point with regard to Table I in paragraph 23, I think the aggregate of the Income Tax as shown on that table amounts to £270,000,000?—It would be about that, because in addition to that there is the tax which is payable upon what I call non-personal income.

4382. That is where there is a difference of £80,000,000 tax; you have mentioned £350,000,000 as the proceeds of the tax, or the amount to be raised by means of Income Tax and Super-tax?—£350,000,000 is the estimate of the yield of Income Tax and Super-tax in the current financial year. Those figures deal with the actual yield of Income Tax assessed in the year 1918-1919; the figures are not quite the same.

4383. Then those figures brought up for the current year would produce £350,000,000?—That is so, with the non-personal income included.

4384. Have you got readily available, or can you make available, the aggregate of the incomes under each group, as distinct from the tax upon them?—I have put in a statistical table containing a distribution of the income. [See Table I. of App. No. 11.]

4385. I did not go back to compare and work it out; it is impossible for anyone to work it out easily; but I take it the other Table is linked up with that?—Yes, it is.

4386. There was a question put to you with regard to what practically amounts to evasion of tax by reason of the prodigal expenditure of Government Departments. The method of assessing the tax to-day does not readily permit of anything of the kind taking place?—It does not. Taxation at the source is an automatic collector as regards the main part of the assessments.

4387. In fact the only evasion of that kind that can be readily carried out to-day is by a Super-tax payer?—That is true, as regards the great part, though not of the whole, of the Income Tax.

4388. But that is particularly true with regard to this one point, that if an individual feels that because the Government have been so extravagant in certain directions, he is going to pay less than he should, it is practically only on the Super-tax that there is any room left for him to carry out any such idea?—I

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think there is a great deal to be said in favour of that view, because Super-tax is assessed by direct assessment only.

4389. Have you had any experience of that happening in any part of the country?—The actual evasion of Super-tax?

4390. Yes, recently. I mean on any scale that is worth talking about?—You remember I was questioned, when I came here last time, rather closely on the question of the number of Super-tax payers with whom we have not yet got into touch. There are two methods of Super-tax evasion at the present time. One is the adoption of devices within the law to exclude the taxpayer from liability, by non-distribution of profits as income; and at a somewhat later stage we are hoping to give you evidence in detail on that subject. The loss of revenue which arises at the present time is quite considerable, and we shall suggest various remedies for your consideration to make that matter right. In addition to that, there is the question of the loss of Super-tax owing to our failure to get into touch with the taxpayer, or our failure to obtain a statement of the full aggregate of his income. In this Table of distribution of incomes, I say in the explanatory note that there is a leakage between the Income Tax income which we know ought to be brought into assessment to Super-tax, and that which we expect to be able actually to bring into assessment in the current year to which those figures relate. That, I think, is a question on which we cannot be helped to any very large extent by additional powers. It is more this: that the range of the Super-tax has recently been lowered; we have not yet got to know all the taxpayers to the extent that we may reach within a short time. As I said before, we have been working under conditions of such enormous difficulty during the war that we really have not had time to get to work on that very difficult problem; but there is a leakage from both those causes.

4391. You are not afraid that the State will lose much money in Income Tax and Super-tax by reason of the publication of the Reports of the Committee on National Expenditure?—It would not have occurred to me.

4392. There is only one point that is dealt with in your footnote to paragraph 26—that is with regard to the relief in respect of income earned by a wife from her own personal labour?—Yes; thank you for reminding me of that.

4393. You do not go very far there. There is a case for extending beyond £500, which is the existing figure?—Thank you for reminding me of that. Mr. Spry was asked upon this subject when he came last time, and I had fully intended to mention it. In the year 1897, when that provision first became law, the limit of income of £500 was no doubt a suitable one, but now conditions have greatly changed, and our recommendation would be that it would be very reasonable that that limit of income should be increased; I should suggest increasing it to £1,000; so that both the husband and the wife may earn by their own personal labour as much as £500 apiece before the relief ceases to operate. Mr. Spry was asked for particulars of the amount of earned income of married women. That is rather a difficult inquiry. We are engaged upon it, and we will have the figures as soon as we can. I am sorry I am not ready with any estimate to-day, but we shall know more exactly when we have the figures; but the cost of a relief of that kind will be quite small.

4394. Would it be unreasonable to say that a wife who earns an income from her own personal labour should be assessed in respect of that income just as if she was a spinster?—You mean carrying it right through the scale?

4395. Right through.—The amount that you would lose would be very small, but, on the other hand, supposing that the wife of a man whose income was £5,000,000 a year derives £50 of income from a directorate of some society, would it be worth while? She could really very well afford to pay, or her husband could afford to pay Income Tax for her.

4396. Can you imagine the wife of a man with £5,000,000 a year hiring her services out for £50 a year?—It might be thrust upon her in circumstances which rendered it liable to Income Tax.

4397. There is a suggestion which you make from paragraph 55 onwards. You deal there with what is undoubtedly a hardship as to the "jump" after the income has reached a certain point. I would like to have an expression of your own view with regard to the suggestions that are mentioned in paragraphs 59 and 60?—For my own part, what I think I should do would be this: In the ordinary case, where the jump took place owing to an increase in the rate of the tax, I should take the first of those suggestions, namely, 10s. in the £; that is to say, relieve the taxpayer down to the lower rate of tax, plus 10s. of the small balance above the margin. Where, on the other hand, the jump is one due to the falling out of an abatement, or the allowance for wife and children, I think the most natural way to deal with it perhaps would be to let it die gradually step by step for every pound that it runs over the margin. If you have a margin at £1,300, and the allowance is £50, let it die £49 at £1,301, £48 at £1,302, and so on, until it dies naturally at £1,350.

4398. My point is that I think to the ordinary taxpayer the suggestion that you make in either paragraph 59 or paragraph 60, would be very easily understood by him?—Yes.

4399. And the more easy it is for him to understand it, the less chance there is of him having any grievance about it?—You would prefer to have either paragraph 59 or paragraph 60, rather than paragraph 60 or 61?

4400. Yes, I think so?—We have no strong views about it at all ourselves. There are quite a number of ways in which this can be dealt with; these are some of them.

4401. Is it your experience that a good deal of the grievances of Income Tax payers are owing to their failure just exactly to understand the nature and amount of the taxes imposed on them?—I think very often that is so.

4402. I might put it in another way: that it always tends to a grievance the more difficult you make the computation to the average understanding?—Yes, undoubtedly.

4403. That is your reason why you do not wish to introduce what I may term any fancy methods into the Income Tax?—That is so.

4404. Sir J. Harwood-Basser: I think I am right in saying that if A and B carry on trading on their own account and make £30,000, you get full Income Tax and Super-tax to the extent of £30,000?—That is so.

4405. If A and B are turned into a limited company and make £30,000, but they only distribute £3,000 as dividend, and pay the £17,000 to reserve, they may pay Income Tax on the whole amount, but they do not pay Super-tax on the £17,000?—That is so, and that is a matter which we hope to be allowed to introduce to your notice in a considered proof in a short time.

4406. I would just like to pursue the subject to this extent. Is it not the fact that, for instance, very many large companies lately have paid small dividends and made big reserves; they have paid their full Income Tax upon the profits, and on the reserves they have paid no Super-tax; and now they have distributed the reserve to their shareholders, who sold their shares, and got the money, and have called it capital profits, and so in that way they have escaped any Super-tax, as against the private individual who has had to pay Income Tax and Super-tax on the full amount of his income?—That is quite so. It is a very difficult and perplexing problem which we shall certainly have to bring to your notice at a later stage, if you will allow us to do so.

4407. I only want just to ask this question. Would not that be very much met, and would it not relieve the man who pays his Super-tax in full, if you had

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a graduated tax which applied to all profits, and did not have the two variations that you have now, Income Tax and Super-tax?—No; I am afraid that as long as you have a standard rate of 6s., that difficulty will still remain.

4408. As long as you have a standard rate, but if, as has been suggested, the standard rate varied in a decimal sort of way, going up to a certain sum but being applied to all profits, you would in that way get the same amount of money, but would not have this inequality which exists now in Income Tax and Super-tax being collected, so that many men pay far too much Super-tax and others pay far too little?—Ultimately the point that we want to get at is this: where you have these reserves in private limited companies, which really are the profits of individuals, we want to be able to have a system of getting at them and treating them as what they actually are; and it is, I think, in an approach to the subject on these lines, that the solution of the subject will lie.

4409. And you propose to bring up some instances and suggestions to deal with that?—I hope to be allowed to; we are ready at any time.

4410. Supposing I as a private individual put my money into a limited company and only drew out what was necessary for my maintenance, I would only pay Income Tax on my earnings and I would be relieved of Super-tax?—Subject to the recommendations that you may make in a short time for dealing with yourself; that is the only thing.

4411. I know some people who do it already. There are distinctions observed between the reserve in a private limited company and in a public limited company, are there not?—Of course the treatment is the same at present, but the considerations that arise in the treatment of the two are very likely different.

4412. A suggestion was made by Mr. Kerly in connection with the evidence of Sir Thomas Collins, that on a recent inquiry in respect of the civil liabilities of soldiers there were thousands of cases of claimants who alleged that they had lost incomes of £300 to £500 a year, but there was no record that they had ever paid any tax or made any returns. [See par 4067.] That statement looks as if there were a very large number of Income Tax payers who do not pay on their proper income?—I have not myself been closely associated with the examination of those cases.

4413. I was going to ask, if you are going to make a statement about the other, might we have something from you in respect of how we are to bring the whole of the population of Great Britain into payment of Income Tax, so that there shall be no omission. Some of us who are professional men know there are a great many omissions?—That is a point we are going to ask to address you upon later. May I say this in the meanwhile? We have made some representative inquiries in regard to statements which were made, in the circumstances that Mr. Kerly mentioned, before various courts and tribunals, and I think it was found that there was a good deal of optimism in the minds of the claimants before those tribunals as to the amount which their income actually was or might be likely to be within a short time. I do not think that we found evidence of a great deal of evasion which had been unsuspected.

4414. You have no system at present by which you check off all the inhabitants of the Kingdom and see that they all, in one way or another, account for their incomes?—That would be an unspeakably tremendous job.

4415. Yes, but to the extent that it is possible?—We do not keep a card index in one place, or anything of that kind, but we have machinery, through the Surveyors of Taxes, by which as far as possible everybody is looked after and traced up.

4416. You will give us an account of that, will you?—Yes, we propose to do so.

4417. Then the only other question is this. There are many demands by municipalities that they should be allowed to charge an Income Tax rate as being a more equitable method of meeting rate expenditure, instead of the present system of rating properties.

Have you had that put before you at all?—I personally have not had occasion to consider it. The rating system of some of the continental countries, including France, is by additions to the Income Tax—additions which vary in different places. Supposing it were decided that it was desirable to alter the basis of rates in this country—I say supposing it were, but that is a large assumption—I suppose it would be possible to work a scheme of that kind in this country, though the method of collection would make it probably more difficult than it would be on the Continent.

4418. You are aware that there are a great many municipalities where this demand is constantly put forward?—I know that it is put forward; but of course the whole question of incidence of rates and dealing with rates in this country is a large question.

4419. Mr. Kerly: You have dealt with various systems of graduating by a formula?—Yes.

4420. Is it not highly desirable that the scale of graduation should be fixed once for all and attributed, if possible, to some general principles which will command a natural respect, so that it should not be open to critics of the Chancellor of the Exchequer every year to propose an alteration in the scale?—I quite agree that it is desirable as far as you can have it.

4421. I put it to you that it is a matter of the first political importance, when the Income Tax is becoming the chief source of revenue of the country?—Yes, I quite see that it is desirable to have a scale of rates bearing an intelligible relation to each other as far as possible, and capable of being moved up or down as a whole.

4422. Supposing you had such a scale—it does not matter how you get at it, but supposing you had such a scale—showing the proportionate payments on incomes of different magnitudes, then if you tabulated them all by making them each one a fraction or a multiple of some standard figure which might be taken as unity, in altering the Income Tax for a particular year you would only have to alter your unit?—That is so.

4423. You must have a standard, so long as you collect at the source, as the rate at which you are going to deduct your tax at the source?—That is so.

4424. So the thing would serve two purposes; it would fit both necessities?—Yes.

4425. If you have a formula it will give you a scale, but you might get your scale without it?—That is so.

4426. Does any formula give you any further advantage than this: that it provides a method of filling the gaps so that there is no step, but a continuous curve?—That is all; of course it does that.

4427. There is a disadvantage, is there not, in having to ascertain, to use your phrase, the last pound of taxable income. It is much easier to settle rates, to come to an agreement between the taxpayer and the Surveyor, if it does not make any very material difference if it is £10 or £20 one way or the other?—That is so. Not only is it more convenient, but it is enormously more convenient, including more convenient to the taxpayer himself.

4428. The method of allowance which has been adopted with regard to a margin, in respect of Super-tax for instance, of allowing the taxpayer to abandon the surplus beyond the last step, has this disadvantage, that everything that is abandoned is tax and not income?—Yes.

4429. Has that led the Surveyors, seeing that they are giving up tax and submitting to a reduction, to be siffer than they would have been if it had been income only?—I believe so. It is a particular point in the scale which needs to be carefully looked at.

4430. Perhaps you are not aware of it, but I may tell you that it has been suggested to me that with

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regard to Death Duties the operation of that consideration has led to enormous delay in settling figures?—I have no knowledge of that.

4431. It may or may not be right, but that is where I got the suggestion from.—It is a point which would naturally require careful examination.

4432. That difficulty may be got over, as I think I suggested possibly to you or to an earlier witness, if you have a £100 step, by taxing always at the figure for the last complete £100?—And the balance at some further rate?

4433. The balance might be either a proportionate rate, or if you have £100 steps, it would not matter if, for instance, you had £1,500, if you taxed at the rate for the last complete £100, it would get over the difficulty?—Yes, I think so. As I understand, you are suggesting what we call smaller zones than those at present.

4434. I am not familiar with that term, so I will not say "yes" till I know what it means. What I mean is the Super-tax method, giving every £100 its proper rate of tax and allowing an incomplete £100 to pay at the tax appropriate to the last complete £100?—That, I consider, expressed in that way, to be very difficult. If you ultimately decide that we have to do things, there are very few things we could not do, and after I have emphasized the difficulty of carrying through things, if necessary we will willingly set to work to confute what I have said, and make the best job of it that we can. But the Super-tax scale applied to Income Tax is really very difficult. During the luncheon interval I have been concocting an example which illustrates it. Would you care to hear the figures?

4435. We can either have it now or you might simply it to me?—Shall I put it in? The point really is this. When you consider the necessity to make the wife allowance and the children allowance and the allowance for Life Assurance, they have all got to be made at a rate, and the rate must be an effective rate, and you can only find that ultimately by dividing the tax into the total income. To divide the tax into the total income would provide you with a variety of rates. The rate will vary with every pound of income. We at the present time take part of our tax by deduction at the source. In the case of the incomes we are dealing with now, the tax deducted will be excessive; instead of being 6s. it ought to be some rate found by dividing the total tax into the total income; and the rate may be 9s. 7½d. In addition we make a direct assessment upon the taxpayer upon separate parts of his income at the point where they arise. He may have a business income in Leicester and directors' fees in Liverpool. We should have to take the effective rate upon his business in Leicester and the effective rate upon his business in Liverpool, and in that way make the Life Assurance allowances, etc., properly. In addition he may have some houses. We should like, as we at present do, to deduct tax from him in respect of those houses at his real rate; but we cannot do so because we can only find his effective rate after he has made his return, including a correct statement of his income—correct I may say almost to the last point—from all sources. Even if he has done so, ultimately a house goes vacant and upsets the whole calculation, and the whole thing has to be done again. That is the general character of the difficulty we have in working the Super-tax scale as it stands. If I might put in, as was suggested, half a dozen examples showing the difficulty, I think it would bring it out.

4436. May I tell you, with the greatest possible respect for your experience and my total lack of it, that I am not in the least convinced. It does not seem to me to approach the problem that I put to you. I agree that before you can ultimately settle the man's account you have to know his total income. So you have if he asks for any repayment. So that is common to both problems?—Yes.

4437. Further than that, I agree you have to make your deductions at the source at some standard. Why not always make them at the agreed standard rate? Let him—or make him, as I would—carry in his total figure, and so ascertain once and for all his total income, and then you have got your figures for adjust-

ment. I merely throw that out; I do not want to discuss it?—Do you think it would be better for me to try and deal with it in a series of examples, or shall I try to deal with it now?

4438. Chairman: In a series of examples. [See App. No. 71.]

4439. Mr. Kerly: I will pass on from that. I think the adoption of a standard rate you are convinced is desirable?—On that I am perfectly clear. The one thing on which I feel quite dogmatic in regard to Income Tax is the necessity of maintaining taxation at the source at the present time.

4440. I am not concerned to dispute it; I am quite of the same opinion at present. But do you not think the standard rate of 6s. at present may be much too high? Ought you not to try and fix your standard rate at a point where you will have, not the lowest amount of money to return—because you have to consider the taxpayer's inconvenience and the machinery of dealing with it—but the fewest number of taxpayers with the right to claim a return; and I suggest to you, as a sort of guess, that 3s. 6d. would be nearer to it than 6s.?—That is a very important question; it is very difficult to deal with it in a brief reply.

4441. Chairman: Then will you deal with it later, because we have not time to go fully into it now?—Shall I put it in a memorandum?

4442. Yes, please.—I will.

4443. Mr. Kerly: I dare say your Department has considered this?—We have given an immense amount of consideration to it. The more we think of it the less we like it, I am sorry to say.

4444. One other thing upon the standard rate. The distinction between Income Tax and Super-tax has a very invidious air, has it not? Does it not suggest that the man is being charged, not the proper rate for his income, but something extra because he is rich?—I suppose that is, after all, a question of nomenclature. "Super-tax" was invented, of course, as a name in 1907, and it has always remained with us.

4445. You are familiar, as Sir Thomas Whittaker put it, with the difficulty in any democratic country, that the great mass of people, not being influenced by Super-tax, are ready to say: "Well, there is a mine of wealth and you must further investigate it"?—Yes.

4446. Have you considered whether, if you retain the difference between earned and unearned income, the limitation of £3,000 is an appropriate one now? Would not £1,000 be a much better and fairer figure?—The limitation is now £2,500.

4447. I beg your pardon, £2,500.—After all, that is a question of judgment. I have not often heard the suggestion made that the limitation should be carried down. The suggestion is sometimes, of course, made that the allowance should be carried right through the scale.

4448. I wanted to know if your Department have considered the suggestion of £1,000?—I have not considered it at all with my colleagues. I think the suggestion is new to us.

4449. Amongst other difficulties in raising the Income Tax upon large incomes to a much larger figure, it may be that the return from the Death Duties would be largely affected. Is it not the fact that large incomes in business are generally made by men late in life—I mean the very large incomes?—Yes, in some businesses, and particularly in many professions that is so.

4450. Certainly in one profession—when they are almost moribund. Is there not a danger, if you tax the larger incomes very severely, that at a time when a man has the opportunity of continuing his exertions, or of increasing them, he may say, "why should I; why should I earn 17s. in the £ for the State and 3s. for myself"?—If the Income Tax is, as I have seen it suggested, going up to somewhere like 17s. in the £?—I hope it is clear, whatever I have done to-day, that I have made no such suggestion as that.

4451. Has not the Excess Profits Duty shown that that is a real danger?—In spite of the severity of the

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Excess Profits Duty the actual taxable income of the country goes steadily mounting up. These times are very exceptional, and it is difficult to form a judgment. I agree entirely that very heavy taxation, both in the form of Income Tax and Death Duties, must arrest the growth of capital in this country.

4452. I merely suggest the matter for consideration. Now one word about your comparative Tables and graphs. You have given us some American and Canadian graphs [see App. No. 12]. They rise very steeply on large incomes?—Yes.

4453. Have you any idea whether the very high rate of taxation has produced any return at all?—Of course the American taxation is exceedingly new. They started a scheme, which in 1916 was more or less remodelled, as I gather, in practice, and these present rates are really effectively operating for the first time this year. What effect they will have I do not know. But the American estimate is for a sum approaching 500 millions. Of course you remember the extent of wealth and also the extent of population in that country; but, generally speaking, it is true that these foreign taxes, I think, do not produce, and they never will produce, the amount of tax that ought to be produced by such a rate by a scientific tax. I think that is partly due to the difference in the taxpayers, because the characteristic of the British taxpayer is that he pays his tax, which has been said to be unusual in the world as a whole.

4454. Without wishing to do any injustice to the people of another country, it was supposed to be the characteristic of an American taxpayer that he did not pay his property tax?—Yes.

4455. And the American property tax produced really a ridiculously small return?—Yes.

4456. I just want to see if you agree that although these figures of high rates of tax on big incomes in Canada and the United States of America have been proposed and enacted, at present there is no experience whatever as to whether it will be possible to get payments made according to them?—That is quite true. On the other hand, the time to form a judgment is too early, of course.

4457. One other point that I suggest to you is this. You have dealt in part of your evidence with the steep abatement—the jump caused by the abatement?—Yes.

4458. I suggest to you that, as a much simpler method of arriving at your result, something like this might be proposed. It is rather involved, I am afraid, but it is that there should be scheduled figures, and for any intermediate income between the scheduled figures the abatement is to be the lower figure diminished by such a proportion of the

difference between the two scheduled figures in question, and on the number of complete hundreds, or tens if you please, that the total income bears to the number between the scheduled figures. You will not follow it, but you will read it in the print. It occurred to me when I read your calculation that it might be expressed in words in that way with the same result?—Thank you very much.

4459. Mr. Marks: I want to ask you whether your Department have considered at all the possibility of adopting the machinery of National Registration to providing a list of all taxpayers, male at least; I do not know how far it goes in the other direction?—No, we have done nothing up to the present upon those lines. Frankly, I doubt whether anything so extensive as that is necessary. You will remember that in regard to employees, big or small, we get a return from the employer, which forms the starting point of our catching them as taxpayers.

4460. There is just this other point, to make it clear to my own mind. Do I gather that the measure of the loss to the Revenue owing to the differentiation between earned and unearned incomes is only ten million pounds?—It is something over ten million pounds; I have not the exact figure at present, but it is somewhat over ten million pounds.

4461. Chairman: In your Table No. IV I see that 23,000 taxpayers pay 120 millions out of 160 millions roughly?—Yes.

4462. Where do the savings of the nation for the development of the industries of the country come from mostly? Every year there must be savings to develop all the various industries. Where do these savings come from?—They come mainly, I think, from the large incomes.

4463. Now if you take these large incomes and increase their taxation considerably, what is going to be the chance of the industrial development of the country? Because, you see, there are 23,000 people who pay 120 millions. If they are the same 23,000 that you suggest in your scale B they will have to pay very much larger Income Tax. Will not that really retard the development of the nation?—It seems to me that whatever is not taken from one class in taxation is available for saving in another class. It may not all be saved, I agree; but it is available for saving in another class.

4464. We are very much obliged to you. That Scale B. has been very much criticised, but what I am perfectly certain of is that all these things that you have done have been done from a very high sense of duty and to aid us in our investigation. We are very much obliged to you for your evidence.—Thank you, my lord, very much.

MR. J. C. MITCHELL, F.C.I.S., called and examined.

The witness handed in the following statement as his evidence-in-chief:—

EVIDENCE SUBMITTED ON BEHALF OF THE CONFERENCE OF SUPERANNUATION FUNDS BY MR. JOHN C. MITCHELL, F.C.I.S., TREASURER OF THE UNDERGROUND RAILWAY COMPANY OF LONDON, LIMITED, AND ITS ASSOCIATED COMPANIES; PAST PRESIDENT OF THE CHARTERED INSTITUTE OF SECRETARIES; CHAIRMAN OF THE OMNIBUS RAILWAY AND EQUIPMENT COMPANIES' STAFF SUPERANNUATION FUND; CHAIRMAN OF THE CONFERENCE OF SUPERANNUATION FUNDS.

4465. (1) *Constitution of the Conference.* The Conference of Superannuation Funds is representative of 55 Superannuation or pension, provident and thrift funds. A schedule of the names of the funds is appended. [See par. 24.]

4466. (2) *Membership, &c., of funds.*

The total membership of the funds is	58,428
Their invested capital amounts to ...	£5,674,978
Their annual revenue from investments is approximately ...	£281,491
And their annual payments in respect of pensions amount approximately to	£182,472

4467. (3) *Objects of the Conference.*

The objects of the conference are, *inter alia*:

- to obtain relief from Income Tax on the interest on investments held by the funds,
- to obtain the like relief in respect of the contributions to certain of the funds which do not at present receive such relief, and

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- (c) to arrange a standard form of agreement with the Board of Inland Revenue in regard to the Income Tax, which shall be applied to all funds similar to those represented by the conference.

4408. (4) *Management of the Conference.*

The management of the conference is vested in a committee of seven members. The offices of the committee are at Electric Railway House, Broadway, Westminster, S.W.1; honorary secretary, Mr. H. C. Davy.

4469. (5) *Working of the funds.*

The schemes under which the funds vary considerably, but in the main their provisions are as follows:—

- (a) deductions are made weekly or monthly from the salaries or wages of the employees and paid over by the employer to the fund;
- (b) the employer contributes a sum equivalent to the amount deducted from the salaries and wages of the employees;
- (c) these contributions from employer and employees are invested and the capital of the fund consists of the accumulated contributions with interest additions;
- (d) on retirement at a specified age or on previous incapacity the employee receives from the fund a pension, based on the salary or wages received by him during his period of service with the employer;
- (e) in the event of the employee leaving the service of the employer, he receives back his contributions, with or without interest, according to the constitution of the particular fund;
- (f) in the event of an employee dying before he becomes entitled to superannuation, his legal representatives receive a sum equal to twice the amount of his contributions, with or without interest, according to the constitution of the particular fund.

4470. (6) *Sources of income.*

The income of the funds is derived from three sources as follows:—

- Contributions of employers.
- Contributions of employees.
- Interest on investments and on moneys on deposit.

The question of Income Tax in regard to these sources of income is considered in the three following paragraphs.

4471. (7) *Contributions of employers.*

The contributions of the employers being specifically assigned for the payment of future pensions, which are of the nature of deferred pay provided in consideration of services rendered during active life, are proper deductions from assessments to Income Tax just as much as if they were payments for salaries or wages paid during the year in which the contributions were made. The deduction from assessment is admitted in cases in which the fund has an arrangement with the Board of Inland Revenue. It is claimed that it should be admitted in all cases under proper regulation.

4472. (8) *Contributions of employees.*

It should be pointed out that in the case of funds having statutory authority to compulsorily deduct contributions, such contributions are allowed by statute as a reduction of income for assessment to tax, and, further, the principle of deduction from assessment has been admitted by the Board of Inland Revenue in regard to these contributions where an arrangement has been made between the Board and a particular fund, and it is claimed that all funds should be placed in the same position as those having statutory authority.

The argument for the allowance in respect of contributions made for the purpose of securing a pension would appear to have greater force than that urged in favour of the allowance in respect of Life Insurance premiums in that the pension when paid is subject to Income Tax, if liable, whereas the provision made by a Life Insurance is not necessarily so subject. The provision of a pension also tends to render unnecessary and inapplicable the provisions of the Old Age Pensions Act, 1908 (see par. 16, *infra*), whereas Life Insurance has not in general any such effect.

4473. (9) *Interest on investments and on moneys on deposit.*

In regard to interest on investments and on moneys on deposit, tax is charged at the full unearned rate upon the full amount of interest received by the fund, either by deduction at source or by direct assessment. The fund is empowered to deduct tax at the full rate charged during the particular year of assessment from pensions paid, and the pensioner is of course entitled to obtain a refund of the amount of such deduction in excess of his appropriate assessment.

To obviate the trouble involved by such a course, it is usually a provision of the arrangement, where such exists, between the Board of Inland Revenue and the particular fund, that repayment will be made by the Inland Revenue to the fund of the difference between the tax at the full rate of tax imposed for the year on the aggregate amount of the pensions and the aggregate amount of the tax certified by the Surveyor as deductible from the pensions.

Many years elapse, however, after the inception of a fund before the amount paid out in pensions is equivalent to the amount received in interest, and during these years the fund loses the amount represented by tax at the full unearned rate on the difference between the pensions paid and the interest received.

With the exception of the relatively small amount paid out on the withdrawal of members from a fund or on the death of members all interest on investments, indeed all moneys received into a fund, are sooner or later paid out in pensions.

These pensions, if the recipient's income is not below the limit of exemption, are subject to tax at the appropriate rate, and it is submitted that this alone constitutes a sufficient ground for the relief sought.

It should be noted that with the limit of exemption at £130 as at present, approximately 85 per cent. of the pensioners are not liable to Income Tax, while the remainder, with few exceptions, are liable only at the lowest rate. If the limit of exemption is raised, the proportion not liable to tax would be correspondingly greater.

4474. (10) *Proposed standard arrangements.*

The arrangements with the Inland Revenue at present in force vary to some extent and the proposal as to a standard form has already received preliminary consideration. A draft of a new scheme suggested by the Inland Revenue officials is annexed (see para. 25.), but this would merely give effect to existing practice and in no way satisfies the claims of the conference.

4475. (11) *Effect of present taxation. Solvency of funds endangered.*

The pensions of to-day are paid out of the accumulated contributions and interest of past years, and the net-of tax is always many years behind the payment of tax on the income which provides the pension; the loss of the large sum absorbed by the tax together with compound interest thereon must inevitably have a serious permanent effect on the fund. When the basis of the funds was actuarially determined the rate of tax was in almost all cases comparatively nominal, and it will therefore be realized that the solvency of the funds in present circumstances is seriously endangered.

4476. (12) *The funds make no profits.*

The contributions received by the funds are invested, and as practically the whole of the money thus accruing is paid out as pensions there is no question of profits being earned. Income Tax is

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recognized as a tax upon profits, and since the funds earn no profits, it follows that on this ground alone tax should not be payable, except by individual pensioners in respect of pensions as and when paid.

4477. (13) *Income Tax a tax on the individual.*

In the Appendix to the Report of the Departmental Committee on Income Tax of 1906, the Deputy Chairman of the Board of Inland Revenue stated in a memorandum submitted by him that

"the central principle of Income Tax law is that each individual whose total income from all sources is over £160 a year is liable to Income Tax; if it does not exceed £160 he is exempt."

This being the case, in view of the impracticability of passing on the tax in full measure to the pensioner, it should follow that the revenues of the funds should not bear tax, but that the pensions payable to members should be subjected to tax as and when they are paid, and not until then. It may be mentioned that making due allowance for the concession as to the deduction of contributions by the members from their assessments to Income Tax and for the rebate of tax allowed in respect of pensions paid the amount of tax payable during the first thirty years of a fund is substantially more than the amount of tax which would be payable in the aggregate were each member to invest his contributions and pay tax (if liable) on the income therefrom.

4478. (14) *The question of thrift.*

It is submitted that superannuation funds form a most valuable asset from a national point of view, as being a measure of thrift which is not likely to be attained in any other way. The joining of the fund is made a condition of service in most cases where a fund exists, and many employees who would be very unlikely to save otherwise are compelled to save in this manner.

4479. (15) *A national benefit financially.*

The pensions paid by superannuation funds must result in a considerable reduction of the amount required from the national purse for Old Age Pensions, and must also tend to reduce expenditure in connection with the administration of the Poor Law.

4480. (16) *The principle involved already admitted.*

The principle for which the conference contends may be briefly stated thus.—A superannuation fund is merely a channel, and income passing through it should be taxed only at the destination, viz., the pensioner (or in the case of refund, the contributor). This principle is already recognized in regard to two of the three sources of income, amounts received from employers and employees being taxed only when paid out to pensioners or as refunds. It appears also to be admitted in its entirety in the case of certain funds not parties to the conference, e.g., those of certain railway companies and police pension funds administered by local authorities.

4481. (17) *Colonial practice.*

In some of the British Dominions e.g., New Zealand and the Commonwealth of Australia, the entire income of superannuation funds is already exempted from Income Tax. In India all provident funds and provident insurance societies, which probably include superannuation funds, are exempted.

4482. (18) *Life Insurance offices.*

The witness is aware that some years since a similar question was raised by the Life Insurance offices but without success. It is submitted that the position of superannuation funds in regard to interest on investments is in no way analogous to that of the main body of the Life Insurance offices. It is not a purpose of superannuation funds to earn profits, and therein they are different from the offices just referred to and should not, therefore, be considered as being in a like category.

4483. (19) *Relief desired.*

The application on behalf of the funds is:—

- (a) That the income from their investments should be exempt from Income Tax and that only pensions paid should be brought into and rendered liable to assessment.
- (b) That the contributions of employers should be legally recognized in all cases as a deduction from assessment to Income Tax.
- (c) That the contributions of the employees should be allowed as a reduction of income for the purposes of assessment to Income Tax.

PROVIDENT AND THRIFT FUNDS.

4484. (20) *Working of the funds.*

The principles on which these funds work are usually as follows:—

- (a) Deductions are made weekly or monthly from the salaries or wages of the employees, and paid over by the employer to the fund.
- (b) The employer also contributes a sum, usually, but not necessarily, equivalent to the amount deducted from the employees.
- (c) These contributions from employer and employees are invested, and the capital of the fund consists of the accumulated contributions with interest additions.
- (d) On retirement at a specified age, or on previous incapacity or death, the employee or his legal representative receives from the fund a capital sum equal to his own and the employer's contributions with interest.
- (e) In the event of an employee leaving the service of the employer he receives back his contributions with interest.

4485. (21) *Position in regard to Income Tax.*

There is no specific relief given in regard to Income Tax.

4486. (22) *Colonial practice.*

In certain British Dominions contributions to thrift and provident funds are allowed as deductions from assessment to Income Tax, while in India and the Commonwealth of Australia the income from investments of such funds is exempted from payment of Income Tax.

4487. (23) *Relief desired.*

The application on behalf of the funds is that the employees' contributions should be allowed as deductions from assessment to Income Tax in the same manner as insurance premiums are allowed.

The witness understands that certain of the large provident and thrift funds desire a further measure of relief and therefore the statement submitted must not be regarded as exhaustive so far as they are concerned.

4488. (24) *List of funds represented.*

- Widows' Fund, Society of Solicitors in the Supreme Courts of Scotland.
- Camberwell Borough Council Superannuation Fund.
- Chiswick Urban District Council Superannuation Fund.
- Croydon Corporation Superannuation and Provident Fund.
- Kensington Borough Council Superannuation Fund.
- Manchester Corporation Thrift Fund.
- St. Marylebone Borough Council (Superannuation) Act, 1908.
- Metropolitan Water Board Superannuation and Provident Fund.
- Newcastle-on-Tyne Corporation Superannuation Fund.
- Paddington Borough Council Superannuation and Pensions Fund.
- Poplar Borough Council Superannuation and Pension Fund.

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Southgate Urban District Council Superannuation Fund.
 Southgate Urban District Council Workmen's Pension Fund.
 Westminster City Council Superannuation and Pension Funds.
 Omnibus Railway and Equipment Companies' Staff Superannuation Fund (Underground Electric Railways Co. of London, Ltd.).
 Railway Clearing System Superannuation Fund Corporation.
 Cunard Steam Ship Co., Ltd., Superannuation Fund Association.
 Elder Dempster Superannuation Fund Association.
 Lamport & Holt Line Superannuation Fund Association.
 Frederick Leyland & Co., Ltd., Superannuation Fund Association.
 Frederick Leyland & Co., Ltd., Benevolent Fund.
 Frederick Leyland & Co., Ltd., Marine Superannuation Fund.
 Oceanic Steam Navigation Co., Ltd., Superannuation Fund Association.
 Pacific Steam Navigation Company's Superannuation Fund Association.
 Royal Mail Steam Packet Co.'s Superannuation Fund Association.
 Royal Mail Steam Packet Co.'s Pension & Benevolent Fund.
 Union-Castle Line Superannuation Fund Association.
 Brentford Gas Co.'s Officers' Superannuation Fund.
 Cardiff Gas Light & Coke Co. Officers' Superannuation Fund.
 Croydon Gas Co.'s Staff Superannuation Fund.
 Co-Partners Pension Fund.
 Ipswich Gas Light Co.'s Superannuation Fund.
 Leamington Priors Gas Co. Workmen's Superannuation Fund.
 Portsea Island Gas Light Co.'s Officers' Superannuation Fund.
 South Metropolitan Gas Co. Workmen's Superannuation Fund.
 South Suburban Gas Co.'s Officers' Superannuation Fund.
 Tottenham District Light, Heat & Power Co.'s Co-Partners' Pension Fund.
 Birmingham Proof House Superannuation Fund.
 Boots United Chemists Pension Fund and Friendly Society.
 Boots Co-operative Insurance and Pension Society Limited.
 Bourville Works Pension Fund (Men).
 British Insulated and Helsby Cables, Ltd., Pension Fund.
 City of London Electric Lighting Co.'s Staff Provident Fund.
 English Sewing Cotton Co., Ltd., Pension Fund for Employees.
 Sir William Harty Pension Fund.
 Hasell, Watson and Viney, Ltd., Administrative Staff Pension Fund.
 Hasell, Watson and Viney, Ltd., Provident Fund.
 Home and Colonial Stores Pension Fund.
 Johnson Bros. (Dyers) Ltd., Superannuation & Pension Fund (Scheme B).
 Paul's Superannuation Fund.
 Reckitt & Sons, Ltd., Superannuation Fund.
 Renters Officers' Superannuation Fund.
 Rowntree & Co., Ltd., Pension Fund.
 W. H. Smith & Son's Superannuation Fund.
 Spillers & Bakers Superannuation Fund.
 Thrutchley & Co., Ltd., Superannuation Fund Association.

4489. (25) SUPERANNUATION FUND.

PROPOSED STANDARD ARRANGEMENTS IN REGARD TO THE INCOME TAX.

1. The Company's annual contributions shall be allowed as a working expense in computing the assessable liability of the company to Income Tax.

2. The annual contributions of the employees to the fund shall be allowed as a deduction in arriving at the assessments to Income Tax upon them.

3. All income of the fund from investments or from bank deposits shall be liable to assessment to Income Tax at the full rate, and the fund shall make an annual return for assessment to the Surveyor of Taxes of any untaxed income.

4. On a refund of any contributions to a contributor (except on the occasion of his death) the fund shall account for the tax on such of the contributions refunded as were made for years when earnings exceeded £300.

The tax shall be accounted for at the lowest earned income rates of tax in force for the respective years in which the contributions were made.

The fund shall render annual return to the Surveyor of Taxes of all amounts to be so accounted for, for the purpose of assessment and payment thereof to the Revenue.

5. The fund shall account to the Revenue for the tax on the amount by which the total pensions paid in any year exceed the income on which tax has been borne by the fund for that year. In order, however, to avoid the necessity for the deduction of tax from the pensions at the full rate and subsequent claims by the individual pensioners for the repayment of the relief to which they are entitled, the fund may, if it so desires, adopt the annexed scheme for deduction of tax from the pensions.

6. A return of the pensions paid and of the income of the fund on which tax has been borne shall be rendered annually to the Surveyor of Taxes.

7. The fund will furnish annually to the Surveyor a copy of its accounts, and will give the Surveyor any other information to enable him to ascertain that the conditions of the arrangement are being complied with.

8. The arrangement shall come into force for the year commencing on the 6th April.

4490. (26) SCHEME FOR DEDUCTION OF TAX FROM PENSIONS.

1. The secretary of the fund will furnish to the Surveyor of Taxes a complete list of all pensions payable. In future years he shall furnish each April, a list of all new pensions and of all pensions that have ceased during the previous year.

2. The Surveyor will supply forms of claim for relief which the secretary will distribute to those pensioners from whom the Surveyor considers it necessary that such a claim should be obtained. The form of claim when completed by the pensioner will be sent by him direct to the Surveyor.

3. The Surveyor will, in due course, send to the secretary a certificate showing the amount of tax deductible from each pensioner.

4. At the end of the year repayment will be made to the fund as follows:—

(a) If the pensions paid exceed the income of the fund on which tax has been paid, repayment will be made of the difference between the total amount of tax paid by the fund and the aggregate amount of the tax certified by the Surveyor as deductible from the pensions. Thus if the pensions paid amount to £1,000, the taxed income of the fund to £300, on which tax of 6s. is £240, and the tax certified by the Surveyor as deductible to £100, the repayment will be £140.

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- (b) If the pensions paid do not exceed the income of the fund on which tax has been paid, repayment will be made of the difference between the tax at the full rate of tax imposed for the year on the aggregate amount of the pensions, and the aggregate amount of the tax certified by the Surveyor as deductible from the pensions. Thus if the pensions paid amount to £600, the taxed income of the fund to £800, and the tax certified by the Surveyor as deductible to £100, the repayment will be £90 (viz.: the difference between £180 the tax on the pensions at the full rate of 6s. and the £100 certified as deductible).
5. If the aggregate amount of the tax certified by the Surveyor as deductible from the pensions exceeds the total tax paid by the fund, the fund will pay over the difference to the Revenue.
6. The fund will furnish the Surveyor annually with a copy of the accounts.
7. The arrangement can be terminated by either side for any Income Tax year provided that notice be given prior to the commencement of the year.

[This concludes the evidence-in-chief.]

4491. *Chairman*: We have the copy of your statement. Will you state your case as briefly as you can on the main points of it, and then one or two members of the Commission will cross-examine you?—As you please, my lord. Perhaps I may first make definite a point which is implied, but perhaps not expressed in the evidence: that our trouble is not a new one in principle, but is aggravated by the recent increase in the tax. The position came upon me personally some two to three years ago, when I realized, in connection with the fund with which I am connected, the possibility of the net rate of interest being taken below the 34 per cent. upon which the fund had been based by the actuary. As a consequence of that I got into communication with some friends who I knew were interested, and we held a first meeting of this conference just about two years ago, 11 funds attending; we are now 55, as stated in the evidence. Those 55 have come together, not by reason of any advertisement, but by the introduction of one to another, and so on. The membership and the capital of these funds are set out in paragraph 2, and I think the objects of the conference are sufficiently stated in paragraph 3, by far the main object being that scheduled as 3 (a), viz., to obtain the relief which we desire from the incidence of the tax at the full unearned rate upon all the interest on our funds. This evidence was put together by the committee referred to in paragraph 4. That committee consists of men of commercial experience who are concerned with the practical working of some of the funds. The working of the funds is perhaps sufficiently described in paragraph 5. I should point out that we show in the main how the funds are worked; there are of course many minor differences in their several constitutions. The sources of income, at any rate principally, are the three which are stated in paragraph 6—contributions of employers, contributions of employees, and interest on investments and moneys on deposit. Then paragraphs 7, 8, and 9 contain the principal matters upon which we are appearing before you. Paragraph 7 relates to the contributions of employers, and the manner in which those contributions are dealt with in respect of Income Tax. As is pointed out in the paragraph, where the funds are regularly constituted and are subject to the regulation of the Inland Revenue authorities, these contributions are allowed as a deduction by way of working expenses. In paragraph 8, the contributions of the employees are dealt with; and, similarly, and following on the provision which was made many years ago in regard to Life Assurance premiums, those contributions are allowed to the contributor as a deduction from his assessment; and indeed, in some cases in the cases of statutory funds, as a reduction of his income when arriving at his assessment to Income Tax. There is a somewhat subtle difference there, which

doubtless the Commission will readily appreciate. Then in No. 9 we deal with the question of interest on investments and on moneys on deposit. Of course, in the nature of things, it is practically all interest on investments; because in a well-managed fund, so soon as there is money to invest, it is invested; there is very little which is left on deposit earning a low rate of interest, since, at any rate in the earlier years of the funds (and it is in respect of those years that our complaint lies), our disbursements are comparatively small and there is always money to invest; and, consequently, we deal chiefly with the question of interest on investments, and in that respect, as the Commission is of course well aware, except on some recent securities, the tax is deducted at the source, and is deducted at the full unearned rate of 6s. in the £. We claim that that is wrong, and that the funds making no profit, qua funds, should not bear that tax.

4492. That is your main point?—That is our main point: that the pensioners who take moneys out of the funds as individuals, and they alone, should be taxed at the rate appropriate to their several incomes. The Commission will readily realize the great hurt to which the funds are subjected, when I impress the point that for many years in the early years of a fund—possibly for thirty years, it depends of course upon the growth—that interest is a very much larger sum per annum than the amount which is paid out in pensions. While 6s. in the £ is retained by the Inland Revenue authorities on all the interest income, on the other hand they allow to us only the corresponding amount upon the total paid out in pensions. The loss to the funds which we claim is insupportable, is that deduction of 6s. in the £ upon all the surpluses between the total outgo in pensions and the total income in interest. That is a loss to the funds which we are in no way able to recoup, and which indeed, when the fund arrives at maturity, when the point is reached in the mature years of the fund that the pensioners are more than the interest received, we are not allowed to go on recouping ourselves then by charging on that excess; we are restrained from doing that, and any surplus which we receive in that way is required to be passed over to the Inland Revenue. We base our claim entirely on grounds of equity; but we reinforce it in paragraphs 14 and 15 by an appeal to the necessity or the desirability of encouraging thrift—a principle which has long been acknowledged and pressed by the Government of this country; on which ground indeed alone, as I understand it, the concession was given many years ago, to the contributor to a Life Assurance in respect of the premium for his policy. We point out to you that a superannuation fund provides an even better security in that regard from the point of view of the State, in that, in the nature of things, with very few exceptions indeed—in my experience I have not known one exception—the money comes out as pension, and is accordingly taxable. As distinct from the general result of a Life Assurance policy, which results in a capital sum being paid to a person, the benefit to our members is almost invariably in the nature of a pension, which is taxable at the rate appropriate to the particular man; and which, moreover, as is pointed out in paragraph 15, does away with the possibility, if I remember the law correctly, of that same person claiming an Old Age Pension from the State. In the two or three concluding paragraphs we point out to you that in some ways the principle is already admitted. It seems to us somewhat anomalous that two sources of our revenue are exempt from taxation when they come into the fund, and the third source is taxed. We point out to you that in quite a number of substantial funds of long standing which have not arrived at the maturity to which I have referred—when their pension outgo equals their income—we understand that those funds are already, in some manner and by some machinery, exempted. We are assured, especially with regard to the police pension funds which are set up under the Police Act of 1889, that all of them are so exempt. We have ascertained from the High Commissioners of the Commonwealth of Australia, and the Dominion of New Zealand, that the principle is admitted to the full in these countries, and we have reason to think it is also in

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India, although our evidence about that is not so clear. I had some correspondence with the Secretary of State, and his lordship referred me to a local Surveyor, if I wanted some further information, which was rather an impracticable suggestion. Then in No. 19, we set out, I think, quite clearly the relief which we desire you to recommend should be given to superannuation funds; that the income from the investments should be exempt from Income Tax, and that only pensions paid should be brought into and rendered liable to assessment; that the contributions of employers should be legally recognized in all cases as a deduction from assessment to Income Tax; and that the contributions of the employees should be allowed as a reduction of income for the purposes of assessment to Income Tax.

Then to deal with paragraphs 20 to 23, I want to make an explanation, if not indeed an apology, to your Commission in regard to provident and thrift funds. There are some five or six of such funds, members of our conference. Most of these are in connection with the superannuation fund of the same concern, and it was not until quite late in our consideration that we found that those funds were not, at any rate in the view of the committee with whom I was working, quite on the same lines as our superannuation funds; but we found that, at any rate in the case of one very large fund, that of the Manchester Corporation, they claim so to be. I was minded at first to leave out this reference and refer these funds to you separately; but I felt that we had gone so far that that course was not proper, and therefore my committee has put in here what we think proper; but we would be glad (because we feel we are not properly representing the case, at any rate, of the Manchester Corporation) if you would call them later to represent their own case.

4493. Have you anything else to say?—No, my Lord, thank you.

4494. Mr. Marks: Your final statement as to the relief desired seems to go rather further than I anticipated when I started reading your memorandum. Your claim, I thought, was something to the effect that such funds ultimately were taxed at the full rate on that part of the income which is undistributed, and that was the measure of relief that you claimed?—Well, is not that so, sir?

4495. Do you not go rather further than that when you say that the whole of the income, as I gather, from your investments should be exempt from Income Tax, and that only pensions paid should be brought in, and rendered liable to assessment?—That amounts to the same thing, because at the moment we get back from the Board of Inland Revenue £s. in the £1 in respect of the amount we have paid out as pensions.

4496. What do you do with that? Is it retained in the fund?—The Income Tax is accounted for annually to the Board of Inland Revenue, or to the nearest Surveyor.

4497. But you are allowed, are you not, to retain the amount of tax on the pensions which you distribute so long as that is within the amount of your interest?—We shall find it set out in my paragraph 25. We are recouped the £s. in the £1 in respect of the amount we have paid out in pensions, and the pensioner bears, in some cases I believe the fund bears for him, the amount of tax appropriate to the pension he receives.

4498. Do you pay out your pensions in full, or not?—Some do, and some do not.

4499. It varies?—It varies. Some deduct tax on payment, and some pay them without deduction of tax. The proposed form of agreement we have given you here, as I pointed out in my evidence, is a new and partly discussed form, but a previous form obliged us to pay the pensions free of tax.

4500. In regard to that form of agreement, do you object to the regulation which is at present in force that it has to be agreed that the contributions of the employer should be definitely alienated by the employer, and must not represent a reserve sum over which he retains control?—Many funds are constituted

with a trust deed, which, of course, immediately puts the whole thing beyond the control of the employer, except that as a rule he nominates the majority of the committee, but the funds are in trust and in that sense quite beyond his control.

4501. Does not the Inland Revenue recognize that even though there may be a majority of the committee appointed by the employer the funds are still beyond the employers' control?—Yes, I think so.

4502. And the employer does get the benefit of that?—The employer gets the benefit of charging the contributions as a working expense. There are, however, some few funds of our conference apparently not yet in possession of that benefit. I cannot tell you quite definitely why that is so, but we know from the reports that we have had from them that it is so.

4503. Would it not be possible for those funds to put themselves into the position, so far as the employers' contributions are concerned, to get all the benefit you require?—I think that is possible.

4504. So far as that is concerned it is a question only for them?—Part of our programme, since we are now freed of our recent work in connection with this evidence, is to discuss this proposed agreement with all of our members, and that will in effect regularize the position which my friend is just discussing.

4505. Then to a very large extent your relief desired in paragraph 19 (c) is also granted, is it not, as regards the contributions of employees?—19 (c) is granted at present in two ways; the points largely is that it should be regularized. The funds that work under Statute, either local or Imperial, obtain this concession as a reduction of the income, and not, in the same way as the person who pays a premium on his Life Insurance, as a deduction from his assessment. There is a difference. It is rather a subtle difference, but the Commission will doubtless appreciate that a man who has this deduction from his income is better off, supposing for example he is on the edge of a new scale, and it seems well that the situation should be regularized.

4506. What are the particular points in the scheme in paragraph 26 to which you take exception?—Only such points as arise out of our claim for relief in respect of taxed income. I think we should not have any difficulty in arriving at an agreement with the Board of Inland Revenue. I do not know that we take exception to this form under present conditions. As we understand the present position I think the form is as good as we can get. Is that your point?

4507. Yes. It seemed to me quite a good and fair arrangement so far as I am capable of judging?—It is an arrangement we have recently discussed, because we find that hardly two of the agreements of the several funds correspond. Even if they meant the same thing they were in such different verbiage that it required close study to understand that they meant the same thing.

4508. It appears that probably by arrangement with the Inland Revenue, and some re-modelling and re-constitution of your various funds you could get most at any rate of the advantages you ask for?—No, I do not agree at all.

4509. The only thing you could not get perhaps is the interest?—Yes, and that is the thing.

4510. That is the major thing, of course?—There is the further point that in some respects at any rate some of the other matters are matters as we understand of concession by the Board of Inland Revenue, whereas we would like to feel that we were on substantial legislative ground with regard to them; there is that about it.

4511. Mr. McIntosh: In paragraph 7 you state it is claimed that it should be admitted in all cases under proper regulation, that is the deduction from the assessment. The allowance to employers and employees in respect of these contributions can always be obtained at present provided the proper safeguards are taken?—That is so, but we have put that in because as I have already explained some of our friends do not obtain it, and owing to the shortness of time we have not been able to investigate, and to dis-

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cover why. We agree that they should not be able to obtain it automatically, but that it should be under proper regulation.

4512. And where those regulations are made, do you obtain all you are asking for here?—Yes, I think we do. In the proposed agreement, so far as both the employer and employee are concerned, I think we obtain all that we can properly ask.

4513. What do the Revenue insist on. In one of the main points that you must have trustees?—No. I think all the Revenue wants is stated in paragraphs 25 and 26. Among the points set out in those paragraphs there is no question of trustees. It is merely that we shall undertake to deal with the pensions in the manner in which they suggest, and account to them for the tax. I do not think there is any difficulty about that point at all.

4514. You suggest that the fund be set aside and earmarked?—I think that would be essential. I quite appreciate that the Board of Inland Revenue might take exception to the employer seeking this privilege if he did not place the moneys entirely beyond his own control.

4515. Is not that the real point that they insist on?—Yes, I think that may be so, not that it is in the proposed agreement, but they would probably satisfy themselves on that point. At any rate I should personally agree with them that that was a reasonable position.

4516. Do you not think that that is a safeguard very much in the interests of those who are to receive the pensions ultimately?—That the money should be earmarked?

4517. Yes. For example, it prevents creditors attaching it?—I quite agree.

4518. If you carry out that safeguard the Revenue practically give the concession which you ask for here?—Yes, so far as contributions are concerned.

4519. On the question of the solvency of the fund, it is not quite clear from your paragraph No. 11 as to what you mean by the solvency of the fund being in danger?—I think I can quite simply explain to you that point. It was the point which first brought home to myself the urgency of this present situation. The funds, of course, I suppose without exception, or practically without exception, are based upon actuarial advice, and the actuary has taken in most cases a basis of 3½ per cent. net interest on the investment which the fund may make. With the present incidence of tax as the full unearned rate, even where a fund is newly established, and can employ entirely new money, it is very difficult; where the fund has been established some time, and there is a lot of old money in it, it is quite impossible. I have three instances which we took out yesterday anticipating that we might have to explain this situation. The fund of the Metropolitan Water Board in the year ended March, 1914, was earning a gross interest of 3·85 per cent., and a net interest of 3·62 per cent. In the year ended March, 1919, the gross interest had increased to 4·56 per cent., and the net interest had decreased to 3·21 per cent. Another representative fund, taking one this time from commerce, is the Bournville Works. In the year ended December, 1913, they were earning a gross interest of 3·55 per cent., and a net interest of 3·35 per cent. In December, 1917, which was the latest information we had—their last account was not completed—their gross interest was 4·85 per cent., and their net interest 3·12 per cent. Before I give you the figure of our own fund I want to impress the Commission with an important fact, that we have practically doubled our membership during the war—since the time that money has changed its value we have practically doubled our membership, and we have brought in from the companies a large increase of funds for investment in respect of a lot of back service of new men who have been added to the fund; consequently, there is a much greater portion of our moneys in securities of the new value, added to which our fund was only founded in the year 1913. In our year ended July, 1914, which was our normal year,

we earned a gross interest of 3·85 per cent., and a net interest of 3·72 per cent., and to December, 1918, the financial period covering 17 months, we earned a gross interest of 4·95 per cent. We will see at once how much of the new moneys we have when I tell you the gross interest was 4·85 per cent., and our net interest was 3·45 per cent. In our case it is just under the point at which the actuary based his figure of 3½ per cent.

4520. With regard to the future net earnings, can you not assume that the increased rate of the gross earnings on investments is likely to continue with the higher rate of tax? The funds you invest from now on are clearly invested at a higher rate of interest than your earlier funds were?—So long as money maintains its present value doubtless the new money will influence the net revenue in an improving ratio, but that will not remove the inequity of the incidence of the tax.

4521. Mr. Marks: I think perhaps I can make this point a little clearer when I say no doubt Mr. Mitchell is referring to the actuarial solvency or otherwise of these funds, and that depends on the rate of interest which is assumed at their inception or at their periodical valuations. If that rate of interest owing to the operation of Income Tax is reduced below the amount assumed in the valuation the fund is actuarially insolvent, and although it may be able to recover it is very unlikely, particularly in the case of an old fund, that it would be able to do so, partly on account of the action of the Income Tax, and partly on account of the depreciation in their investments already made. In a new fund the position is rather different, because although a somewhat higher gross rate of interest may be anticipated the net rate is still going to be a very low one, and when you have got to take into account the duration of these funds, and the contracts which are guaranteed by them, there is a distinct danger that the imposition of the tax, or the maintenance of a large tax for any long period would push them over the line.—It not only disturbs the immediate revenue, but the consequential revenue from compound interest.

4522. Mr. McLintock: I was going to ask if you could tell us what the assumed net rate was when the original actuarial calculations were made in respect of your own fund?—3½, which we have just now got below, although as I say in a very large measure the moneys have been put into new funds.

4523. What is 5 per cent. less 6s. in the £ to-day? Is it not 3½?—It is 3½, yes.

4524. So far as any present investments at the higher rate are concerned you are not affected prejudicially?—That is so; we quite appreciate that.

4525. I take it that there are certain pensions at the moment, from which you are deducting 6s. in the £, which are paid out of interest which originally only bore tax at 1s.—In a sense this is so, but it should be borne in mind that the tax reclaimable by a fund in any one year can never exceed the tax borne on income from investments in that year.

4526. But do you not get the full rate now allowed to you by the Inland Revenue—the full 6s.—From the pensioner?

4527. Either from the pensioner, or from the Inland Revenue?—Technically from the pensioner, but as a matter of convenience actually from the Inland Revenue. At the same time we have paid that 6s. on a far greater amount in the year than we are paying out in pensions, on which we got the refund. If, however, the pensions exceed the income from investment, it would appear to follow that tax should be reclaimable on the greater amount, but the Inland Revenue step in and say: "No, you must not take any more than you have actually lost in the year."

4528. But ultimately all the interest less expenses is paid out in pensions, is not that so?—That is so, yes.

4529. And your fund will recover tax either from the recipient of the pension, or from the Inland Revenue?—No. I have already explained to you that

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when we come to the point at which the amount of pension exceeds the amount of interest of the year we are then precluded from retaining that money from the excess amount of pensions. If I remember rightly it is a principle which is following something laid down in the general Schedule of the Income Tax Act of 1918. I should not inflict this upon you, because I am not a lawyer, but I happened to notice it the other day. It is the General Rules applicable to Schedules A, B, C, D, and E, and is No. 21 (3) of those Rules: "The amount of annuities which an assurance company carrying on the business of granting annuities is entitled, for the purposes of this rule, to treat as having been paid out of profits or gains brought into charge to tax, shall not exceed the amount of the taxed income of its annuity fund." I think probably our situation follows that, and it will be found laid down, in paragraph 26, clause 5, in the proposed agreement with the Board of Inland Revenue: "If the aggregate amount of the tax certified by the Surveyor as deductible from the pensions exceeds the total tax paid by the fund the fund will pay over the difference to the revenue."

4530. The net effect is that you suffer tax, if at all, only on your undistributed income?—On our undistributed income of the year, that is so.

4531. And originally, of course, full deductions have been given both to the employer and to the employee from the original contributions?—That is so.

4532. Have you considered an individual case taken through the whole course of its existence, and that the whole of the tax paid on the interest earned by the invested contributions both of employers and of employees is ultimately borne by the pensioner, or repaid to the fund?—I am sorry I have not followed your point.

4533. Take an individual case, and carry it through the whole course of its existence?—The case of an individual fund?

4534. Yes. The whole of the tax paid on the interest earned by the invested contributions of both the employers and the employees is ultimately borne by the pensioner, or repaid under the arrangements

with the Board of Inland Revenue to the fund?—I submit that cannot be—in view of the point which I made last that some of it has got to go back to the Revenue in certain cases. When you are getting to the end of the fund—suppose after a certain number of years of existence you suspended operations except for the paying out of pensions (to put the argument as a *reductio ad absurdum*), in those circumstances anything you get out of the pensioner goes automatically to the Inland Revenue, and the fund is entirely deprived of the advantage suggested.

4535. Mr. Walker Clerk: Is it not a fact that many of these funds are actually insolvent, and are you not asking the State to contribute towards the solvency of funds which are now insolvent, by the relief you are asking for?—No, I would not admit that for a moment. I would not like to say that they are all solvent, but I might say to the Commission that funds that were established long ago in the middle years of last century were established enthusiastically on a contribution of 2½ per cent. each way whatever the man's age was, and these funds were found after a number of years to be insolvent; but I would say to the Commission that that state of things is not existing to-day in the newer funds. Our own fund commences with a contribution of 3½ per cent. each way for the youngest individual, and as a man increases in age the contribution increases, so that if he joins the fund at (say) age 40, he has to pay six per cent., and the company the like for him—12 per cent. in all as against the original five per cent. of years ago.

4536. Therefore, the newer funds are solvent, and the old ones are insolvent?—No, I would not put it in that way. Really I do not appreciate what bearing it has upon it. Whatever the situation of the fund I am asking for something which I submit to the Commission is an equitable request. If a fund is insolvent it might help it to recover itself; if it is solvent it will tend to keep it so in the future.

4537. Chairman: That is your answer?—I think so.

4538. We are very much obliged to you for your evidence.

Mr. FRED HUTCHES, Assistant General Secretary of

The witness handed in the following statement as his evidence-in-chief:—

4539. (1) The points on which I desire to give evidence on behalf of the National Union of Clerks are:—

- (a) The exemption limit.
- (b) Assessment of families.
- (c) Assessment on the average income of three years.
- (d) Assessment of soldiers, sailors, and airmen.

The limit of exemption.

4540. (2) Generally, the view of the National Union of Clerks is that the Income Tax is the one tax entirely unexceptionable in principle, but that it should be levied with due regard to the maintenance of a reasonable minimum standard of comfort. This, of course, involves graduation, and in the absence of an adequate legal national minimum wage, the exemption of incomes below a prescribed limit. In determining this limit, as in determining the amount of the tax, the current value of money and the incidence of indirect taxes have to be taken into account.

4541. (3) Prior to the war the Union held the view that (at least in the case of married men) incomes of less than £200 per annum ought to be exempt. Our experience and investigations among clerks led us to the conclusion that £50 in the chief industrial centres and £80 in country towns was the lowest income on which a single man or woman, without dependents, could maintain a barely respectable existence, and it followed that the limit of £100 then recognised was considered too low, applying, as it did, to married and single alike. The reduction of the limit to £120, concurrently with a decline in the purchasing power of money, has been quite inadequately compensated by the increased family allowances, and I submit that the limit now ought to be not less than £200 in the case of a married man. A lower figure (say £200) might be justified for single persons, but

the National Union of Clerks, called and examined. I find as a matter of fact, very few Income Tax payers among clerks without dependants of some kind.

4542. (4) The agenda for the Annual Conference of the National Union of Clerks, Whitstable, 1919, contains proposals from branches of the Union:—

- (a) That no incomes under £200 should be taxed.
- (b) That no incomes under £300 should be taxed.
- (c) That all indirect taxation upon the necessities of life should be remitted, and that, in substitution therefor, a steeply graduated Income Tax should be imposed upon all incomes exceeding a statutory minimum living wage up to £5,000 per annum, and a tax of 2s. in the £2 upon income in excess of the latter amount.

- (d) A similar proposal, suggesting £7,500 instead of £5,000.

4543. (5) I invite the attention of the Commission to the actual budget of a clerk earning £300 per annum in London, married, and with one child nine years of age, as follows:

	£	s.	d.
Rent	32 0 0
Local rates (including water)	12 0 0
Coal	6 0 0
Gas	8 0 0
Season tickets (2nd class and tube)	12 0 0
Food and general household expenses	100 0 0
Clothing	40 0 0
Education	4 0 0
Recreation (including holidays)	20 0 0
Meals in town	20 0 0
Insurance: Life £2, fire, etc., 7s. 6d.	2 7 6
Savings (covering medical attendance, replacement of furniture, etc.)	28 17 6
Income Tax	14 15 0
Total	£300 0 0

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I suggest that it would be difficult (consistently with a reasonable standard of living) to cut down any of these items. It will be seen that nothing is allowed for charity, for associations religious, political or social, or for books and papers, all of which have to be met out of the amounts provided for housekeeping, or for recreation. The meagre item of £4 for education is made possible, of course, by the provision of free elementary education, but as the child grows older this item must increase in amount unless the future citizen is to be sacrificed to the demands of the present.

The assessment of families.

4544. (6) It will be observed that the distinction between assessing a single taxpayer and assessing a family is much in my mind. At the present time the only relief given to a family is the allowance of £25 in respect of each dependant. One anomaly of the present rule is that while the incomes of two adults living together but not being man and wife are separately assessed, with the consequent advantage of the usual abatements in each case, the income of man and wife are treated as one, with the result that if both are wage-earners they lose some of this advantage, having in compensation only the £25 allowance. The difficulty cannot be met by the simple expedient of separate assessment, and the whole basis of estimating family incomes is in need of revision.

4545. (7) I submit for comparison the budgets of clerks on incomes ranging from £180 to £300 per annum.

	Man and wife without children in London.		
	(A) on £280.	(B) on £273.	(C) on £244.
Rent and rates...	£45	£45	£53 17
Coal ...	4	7	6 0
Gas or electricity ...	4	5	5 4
Rail and bus fares ...	5	8	5 0
Food and housekeeping ex- penses ...	110	95	110 0
Clothing ...	30	30	27 0
Education ...	5	5	5 12
Holidays and recreation ...	15	25	15 0
Meals away from home ...	30	15	10 0
Insurance ...	14	10	1 1
Income Tax ...	14	13	11 0
Savings (covering medical at- tendance, removal or replace- ment of furniture, etc.) ...	11	10	—
Margin for charity and social calls ...	3	5	—
			£249 14
*Less draft on savings ...	—	—	5 14
	£280	£273	£244 0

* C. had a spell of illness during the year.

	Income £169 in London.	
	(A) Man, wife, child 2 years.	(B) Man, wife, child 4 years.
	£ s. d.	£ s. d.
Rent ...	19 10	23 8
Coal ...	6 5	3 10
Gas or electricity ...	4 0	4 0
Fares (workman's) ...	6 10	8 0
Food and housekeeping expenses ...	130 10	109 0
Clothing ...	15 0	5 10
Holidays and recreation ...	5 0	—
Meals away from home...	5 4	13 0
Insurance ...	2 18	2 12
Income Tax ...	3 14	—
	198 11	169 0
Less draft on savings ...	29 11	—
	£169 0	£169 0

It will be seen that there is in both these cases, not only no margin, but a failure to make ends meet. A. has to draw upon his savings, and B., having no savings, states that he cannot pay his Income Tax, and has had to cut down coal and light below what is necessary in order to keep up his insurance.

	Man with wife and one child, 11 years, on £221 10s. in Gainsborough, Lincolnshire.
	£ s. d.
*Rent ...	14 10 4
*Rates (including water) ...	4 12 0
Coal ...	11 5 4
Gas or electricity ...	8 18 0
*Fares (nil) ...	—
Food and housekeeping expenses ...	145 12 0
*Clothing ...	14 15 0
Education ...	6 10 0
Holidays and recreation ...	9 0 0
*Meals away from home (nil) ...	—
Life insurance ...	3 3 0
Savings (covering medical attendance, replacement of furniture, etc.) ...	2 2 0
Income Tax ...	4 4 0
Margin for charity and social activities ...	1 18 4
	£221 10 0

I would draw attention to the lower cost of the "starred" items in this budget than in those of clerks working in London. The items of higher expenditure are coal, food and housekeeping expenses, but the fact of all meals being taken at home must not be forgotten in this connection.

	Man, wife and three children, six, ten and twelve years respectively, on £320 per annum in London.
	£ s. d.
Rent and rates ...	35 0 0
Coal and gas ...	23 0 0
Fares ...	15 10 0
Food and housekeeping ...	130 0 0
Clothing ...	40 0 0
Education ...	30 0 0
Holidays and recreation ...	30 0 0
Meals away from home ...	20 0 0
Income Tax ...	11 6 0
	323 15 0
Draft on savings ...	3 15 0
	£320 0 0

It will be seen that here there is no provision for insurance. This is a vegetarian family. I do not know how far that fact affects the food budget.

4546. (8) From the budgets I have collected it is evident that, while the present system of assessment does handicap marriage, it will not be satisfactory merely to draw a line between the married and the unmarried. To operate justly taxation should not

(a) place people with dependants in a worse position than those with the same income who have no dependants;

(b) place the woman housekeeper (whether wife, mother, or sister) at a disadvantage compared with the wage-earning woman, or

(c) assume that the person who has her services enjoys them without cost.

4547. (9) Neglect of these considerations has been the cause of hardship in the past; in the future, with the increasing industrial and commercial employment of women and the greater approximation of their pay to that of men, accompanied by the progressive

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raising of the school age and decrease in the wage-earning activities of young people, such neglect will create a grave social problem. A considerable proportion of the wage-earning women are clerks, and the National Union of Clerks has always endeavoured to promote the principle of equal pay, irrespective of sex, for similar duties, as a measure of industrial justice and necessity. There is a rapidly growing tendency to adopt this principle, which is now accepted by other organised bodies of workers, and especially among the professional classes. I am myself an active advocate of the policy, which I am convinced is generally applicable and likely to be widely applied in the near future, but I think its natural corollary is a recognition of the social value of unpaid domestic service. This recognition can be effectively shown with the minimum disturbance of our social customs and moral relations by an adjustment of the methods of taxation.

4548. (10) As far as the trading, professional, and wage-earning classes are concerned, the present incidence of taxation falls most heavily upon those who carry the heaviest responsibilities and perform the most essential social service. The indirect taxes, being taxes upon expenditure and to a great extent (excepting the duties on tobacco and spirits) upon vitally necessary domestic expenditure, obviously derive their largest yield from the families in which the largest number of persons are maintained by the one income. It is an inherent vice of this form of taxation. In the Income Tax it is not inherent, but arises from the practice of treating families as economic units comparable with single individuals.

4549. (11) My suggestions are:—

- (a) That the exemption limit might be arrived at on the assumption that the income must maintain a single individual.
- (b) That the total income should then be divisible by the number of persons between the ages of ten and sixty years to be maintained upon it, i.e., the taxpayer and those dependants who may be presumed either to be rendering service or to be incurring expense as a means of preparation for service.
- (c) That an allowance of not less than £30 should be made in respect of each dependant under ten or over sixty years of age.
- (d) That any loss to the Exchequer should be made good by steeper graduation, especially upon incomes in excess of £5,000 per annum.

4550. (12) These suggestions (I think) preclude the separate assessment of a wife's independent income, which I am aware is a proposal supported on somewhat similar grounds, but they would obviate the injustice to married people which the joint assessment now involves, while they would avoid the equally serious mistake of giving the wage-earning and/or the property-owning wife preferential treatment over the dependent wife. They would, moreover, "fit the burden to the back" of the taxpayer as nearly as it can be estimated.

The three-years' average.

4551. (13) One of the anomalies of Income Tax administration is the unequal treatment of claims for the assessment of salary on a three years' average. The general practice has been (as far as clerks are concerned) to allow the average if claimed by employees of a private individual or a private partnership, but to take only the actual salary of the year of assessment in the case of employees of a public authority, a corporate body, or a limited company. The term "salary," of course, includes in this connection all money payment of whatsoever kind.

4552. (14) I may illustrate the effect of this differentiation by an example. A clerk receives, say, in 1914, £150; 1915, £150; 1916, £170; 1917, £200. If allowed to average he will be assessed in 1917 on £150; if not, on £200. Thus A., employed by a private firm, pays in 1917 on £150, less £120 abatement—£30 at 2s. 3d.—a tax of £3 7s. 6d.; whereas B., earning precisely the same income in the employ of a joint stock company, pays on £200, less £120 abatement—£80 at 2s. 3d., a tax of £9. The injustice is manifest, and during the last three years it has affected so many

clerks that I was bound to take it up with the Internal Revenue authorities.

4553. (15) On inquiry at Somerset House I learnt (what many Surveyors were themselves unaware of) that the Acts permit the application of the three years' average in the case of clerks employed in a subordinate capacity by limited liability companies, provided that no objection is raised by the Local Commissioners; and, finally, after one or two appeals had been heard, the concession was extended to the parallel cases of clerks temporarily employed in Government industrial establishments on war work. The decisions of Commissioners vary, however, from district to district, and the result is one of uncertainty and inequality.

4554. (16) A short way out would be the entire abandonment of the principle of the average, but this would in some respects be very unsatisfactory, and I should prefer to see it made more general instead. There should, however, be a definite rule applying to all taxpayers, and not dependent upon the whim of Surveyors or Commissioners.

Assessment of soldiers, sailors and airmen.

4555. (17) There are three points to which I desire to refer under this head. The first is the difference made between the several forces in respect of the assessment of rations and clothing. In the Navy and the Air Service the amount of these items is calculated in money, and is assessable for Income Tax, although the men seldom handle the money themselves. In the Army it is not so calculated, and cannot be assessed for purposes of taxation. I am unable to discover any reason for the difference.

4556. (18) The comparative advantage to the soldier of escaping assessment on his rations and clothing is more than lost, however, if on his demobilisation he becomes an Income Tax payer, for it strengthens the case against his claim to average. Such claims have been met by not only the technical objection that the period of Army service constitutes a "change of occupation" within the meaning of the Income Tax Act, but the practical one that the soldier's income cannot be accurately assessed because the value of his rations and clothing is not ascertainable.

4557. (19) In normal times this may be a negligible grievance, but when so large a proportion of the male population has been diverted from its normal occupation for the national defence as during the past four years, it becomes quite a substantial one, and I suggest that in the case of men who joined the forces during this period, the time of service should be regarded as non-existent for the purposes of the Income Tax Acts, and they should be allowed the average of the last three years of civilian life as the basis of assessment. The case is a special one, in which any departure from strict equity should be in the man's favour, and not to his disadvantage.

4558. (20) The last point is conveyed in the terms of a resolution carried without dissent by the Annual Conference of the National Union of Clerks at Whitecliffe, 1918, viz.:

That pensions paid to discharged sailors and soldiers shall not be assessed for or subject to payment of Income Tax, and that such pensions shall not in any way be taken into account in determining the wages of such men.

The view taken is that pensions are in the nature of deferred pay, and should be regarded as part of the income in respect of the period of actual service—not as income for the subsequent period of civil life in which they are, in fact, drawn.

[This concludes the evidence-in-chief.]

4559. Chairman: We have got your statement. Would you like to go over the main points in your statement; afterwards the Commissioners will examine you upon them?—Yes. I take it it will not be necessary to go through what I have already put in?

4560. No, but you may take that as a basis and give the main points to us—just those that you think necessary to emphasize your case.—To take the first point, the limit of exemption, you will see that in the first paragraph of my statement I refer to the view that we

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held prior to the war, that in the case of married men, at all events, incomes of less than £300 per annum ought to be exempt. I point out that we had some years ago gathered together a number of budgets with a view to finding out what was the lowest figure on which a clerk could maintain a decent existence. The change since then has led us this year to revise our figures, and we decided at our annual conference last week, after considerable discussion, and considering a number of proposals, that the figure of £80 a year which is mentioned in this proof as being the sum which in the large industrial centres was the lowest income on which a single man or woman could maintain a barely respectable existence should now stand at £180; that is to say, practically we hold that it requires double the income to-day that it did. I am not taking 1914; this is an earlier figure than 1914; 1900 was the year in which that figure of £80 was arrived at. We suggest that the figure for exemption ought to be revised in that sense. If I may mention the question of abatement, it is not clear to me why one figure should be given for exemption, and when you come to the first abatement you take a different figure. Whatever the limit of exemption should be, we suggest that the same figure should apply in the case of abatement. I might just deal very briefly with the figure we have suggested. In the fourth paragraph I mention (this having been drawn up before Whitsuntide) that at our conference we had three or four proposals before us with regard to the figure for exemption. I may give you the resolution which finally the conference adopted, which was as follows:—“This conference urges upon the Government the necessity of abolishing all methods of indirect taxation upon the necessities of life, and that in substitution thereof a steeply graduated Income Tax be imposed upon all incomes up to £5,000 per annum, excepting a minimum living wage hereafter to be determined, and that a tax of 20s. in the £ be imposed on incomes in excess of £5,000.”

4561. I see you are smiling at that?—I am smiling at the 20s. in the £ over £5,000. What we have done is, we have avoided fixing £300 or £300 or any definite figure as the minimum free from taxation. Our conference has committed itself merely to the principle that you should take a figure which does not bear Income Tax, or rather does not bear taxation at all, and should tax nobody below that figure. The tenor of the discussion showed quite clearly that between £200 and £300 a year was about the idea, although we did not venture to commit ourselves there to a definite figure. I have a rather interesting document which came to hand as an instruction to one of the delegates to the conference. It came from a group of our members in Birmingham, two or three foolscap sheets full of signatures to a petition asking that we should adopt the same kind of attitude that the South Wales miners are reported to be adopting, if an exemption limit of £250 were not agreed to. I mention that as quite a unique thing. It is not the sort of thing that is likely to come along. I think from our people. Of course, we do take the view that we object very strongly to a great deal of the indirect taxation. We also take the view that the Income Tax is in principle the most equitable and reasonable tax. We would rather see a very great deal more raised by Income Tax, and the other taxes removed; always provided that it is recognized that there are some people whose incomes do not admit of any taxation at all. I have put in two or three budgets which I got from clerks. In most cases they have, I think, followed out what I asked them to do, when I asked for those budgets—that is to say, they have given, not estimates of the amount of their expenditure for the current year, but they have based their budget on the actual expenditure for last year.

4562. Did you take those as a sample, or did you pick one out as being a particular one to make your point?—What I did in fact was, I put in those which had come to hand at the time when I was making this statement up.

4563. You did not pick them out simply to make your case?—No, I have not done that. Those that have come in subsequently do not vary very greatly; there is not very much difference, except that some I should not have put in because they clearly contain estimates which may or may not be justified. These are in the main actual figures of expenditure. I have gone on to deal with the suggestion of a different basis for the assessment of families. It has been suggested to me that the case might be met in family cases by giving a double abatement in the case of the married man instead of the small allowance which is given now. I hesitate to say that that would meet the case. It would certainly be, I think, much nearer getting justice than the present method.

4564. What do you mean by a double abatement?—Instead of allowing £30 for the wife; suppose a single man has £120 abatement, he would get £240 abatement if he were a married man, the point being, of course, that there are two people to be kept out of the one income. My impression, from looking through the budgets I have received, and from examining clerks on this question, has been that it really does not make so much difference whether a man is married or whether he is not married, so far as these people are concerned. If they are not married men and women, in nearly every case, I have found, they have somebody dependent upon them. Among all those I have collected I have found so far only one person who has no dependants at all. Of course, as luck will have it, he is a clerk in a responsible position with quite a good income, and can easily afford to pay double the Income Tax of almost any of the other people who have sent in their budgets. Amongst the women as well as amongst the men I find that practically every clerk who is paying Income Tax at all is in the position of having to support either a parent or a brother or sister or children—some dependant—and therefore the question of marriage is merely one incident.

4565. You are suggesting the abatement of £240 for a married man?—That is a suggestion that has been made to me in connection with this point. I say my feeling is that that does not fully meet it. That would be allowing for the case of the married man and his wife, but it would not be allowing for the case of other people who have other dependants.

4566. Would there be many clerks left to pay Income Tax if the abatement were fixed at that amount?—I should think it would practically amount to a £250 exemption; it would in effect come to that, taking the abatement at £120. Nobody with less than £250 or £300 a year obviously, if married, would have to pay Income Tax then. I do seriously submit that on these figures that I have put in it seems very evident that £250 is about the limit. Then if I may go on to the question of the three years' average, I would like to make one point with regard to that. In the 16th paragraph of my statement I say that a short way out would be the entire abandonment of the principle of the average, but I do not think that would be satisfactory, and I suggest it would be better to make the average general. I have gone rather more fully into that point during the last few weeks, and unless I am very much mistaken people who have to administer the Income Tax would prefer that solution to the abandonment of the average. The main point in its favour seems to me to be the fact that you would not have to make adjustments in the course of the year when there has been a change, and some new source of income comes. There must be an enormous number of three adjustments. Within my own experience I have seen quite a number of cases, and it is extremely confusing for the average Income Tax payer, and it must mean additional work to Surveyors and others that could very well be saved, and if the whole of the Income Tax payers paid on the three years' average you would avoid those adjustments entirely. With regard to the assessment of soldiers, sailors, and airmen, what I have said there is to some extent out of date already. During the last two or three months there has been a concession in the case of demobilized and discharged soldiers and sailors, who are now allowed, at all events by some Surveyors, to take the average of the current year

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and the last two years: that is to say they get the current year's income and two years of service averaged, and it does meet the injustice of which I am complaining in this statement. I think if these three points could be met, if a reasonable exemption limit were fixed, and if an equitable adjustment in the case of the family incomes were arrived at, and the three years' average became the general rule, and some simpler method could be devised of dealing with repayments, a great deal of the discontent which is occasioned by the Income Tax would be avoided. I know that Income Tax is unpopular, and I do not think it ought to be unpopular. My feeling is, and the evidence that I have got is, that the unpopularity of the tax is very largely due to the difficulty which the average working class taxpayer (which includes a very large number of clerks) have in knowing what they are paying for, why they are assessed, and what their rights are in the matter of repayment. Very few people know on what grounds they are entitled to average, and very few people know how the income on which they are assessed is arrived at. Clerks who have to deal with the Income Tax business for workpeople employed by their firms tell me that in the case of the quarterly assessments, for instance, there is an enormous amount of discontent occasioned by the fact of the workman having made a claim for a refund to which he appears clearly to be entitled being called upon to pay another quarter's Income Tax before he knows what is happening to his claim for a refund. He frequently has to pay one or two further quarters, when there is actually money owing to him in the way of a refund.

4567. Would it make any trouble if the Income Tax were to be deducted from the wages?—Well, it would in some cases.

4568. But would they feel the same annoyance supposing there was taken off weekly from their wages the amount which is due from them for Income Tax?—That I do not know, because presumably they would not be huddled then with the refunds. I am not quite sure that they would be satisfied that their employers were looking after that point for them. There is undoubtedly an objection on the part of a large body of workpeople to anything being deducted from the wages. They do not like it at all. They feel that they are not being treated as individuals. They are rather ciphers in the whole business, and in somebody else's hands.

4569. Have you any suggestion as to what would be the best method to make it popular?—I wish I could make a suggestion. If the Income Tax could be made popular it would replace a good many of the other taxes which people do not see, but which they nevertheless have to pay, and in most cases they have to pay a great deal more than the Exchequer really gets from them in the finish. It would be better for the Treasury and for the taxpayer.

4570. Your point is, you object to indirect taxation and you want a limit of £300 for the exemption?—I am not sticking to the £300; I am thinking of a limit of approximately (say) £250, unless you are definitely going to recognise that where there is a family it ought not to be assessed as one income in precisely the same way as though you were dealing with a single person. The allowances at present given are a relief, but they do not effect justice as between the family and the single individual.

4571. Mr. Mackinder: Is it not the case that a single man in lodgings has to pay more relatively for his living than he would if he were living with a family; is not he practically maintaining as a dependant the lodging-house keeper?—Partially he is, of course. If I may I will just turn up the budget to which I referred of the single man, and you can compare his payments with those of the family man whose budgets I have put before you. This man is in London, and he pays £17 for rent—I beg your pardon, I am wrong there; this man, I find, has got a dependant after all, so that my one exception has gone. Of course, the single man living in lodgings does have to

pay proportionately more for his rooms, no doubt; but he does not occupy as much in the way of rooms and he does not spend so much money in that way. I have mentioned the assumption that is now common, that a man whose housekeeper is his wife or his mother is getting a housekeeper free. That is the assumption, apparently, on which the married man pays the same Income Tax as the single man. I suggest that he is not getting his housekeeper free, or at any rate he ought not to be.

4572. Mr. Synnott: But he does not pay the same Income Tax?—Well, he gets an allowance now of £35 in respect of his wife.

4573. Chairman: Have you any other point?—No, I think those were the grounds in the main.

4574. Mr. Kerly: You represent the National Union of Clerks?—Yes.

4575. How many members has the Union?—40,000 in round figures—rather over 40,000.

4576. Do you suggest that you speak on behalf of any class of clerks outside your own members?—No, I do not profess to speak for anybody outside my own members.

4577. 40,000 clerks—are most of them married?—Of course, I could not say definitely, but I should say that probably half of them are married.

4578. Not more than that?—It may be more; I cannot say. There are some 10,000 or 12,000 women amongst them, very few of whom would be married.

4579. The women are unmarried?—And of course there is a certain number of juniors; they range from 16 years of age up.

4580. The unmarried clerk is usually, is he not, a young man who is living at home?—Yes, or a young woman who is living at home.

4581. So that the case of the bachelor living by himself is an exceptional case?—I should say so, yes.

4582. Could you tell us, roughly, what is the average income of each of your members, any between limits; it will have to be quite rough, of course?—I could not average them, because they range, as I say, over all the ages, and over all grades, from the quite inexperienced clerk at 35s. a week, or thereabouts, up to managing clerks, cashiers, and so on at £600 or £700 a year. Roughly speaking, perhaps, it may help you if I say that salaries of our members to-day, including the war advances which have been paid in a number of cases, would range from £2 to £6 a week.

4583. If we take (say) £200 a year, that would be somewhere about a fair average?—£200 to £400 a year; you cannot very well average.

4584. 55 a week is only £200 a year?—Yes.

4585. Do you really think that the average is much above £200 a year?—Not very much if you take an average, I should say, because you have to take in the vast numbers of juniors and women clerks.

4586. Speaking for your Union, with an average of £200 a year, they ask for an abatement of £250 for married men. Do they ask that the allowance for children should be continued?—Yes, you will see the suggestion I make on that head.

4587. Never mind; they do ask that the allowance should be continued and, I think, increased; still it will be sufficient that it is continued?—Yes.

4588. If they have only two children that will be another £50?—Yes.

4589. So that until a clerk has got £200 a year he would not pay Income Tax at all?—That is so.

4590. In those circumstances it is of less importance, is it not, to us that they consider other people should pay all the taxation of the country in the form Income Tax, because that is what it comes to?—That is what it comes to if you take it on an average.

4591. You quite understand; I am not putting it offensively?—Quite so.

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[Continued.]

4592. They propose to continue to legislate for the rest of the country, and hope to arrange the expenses of the country which other people are to pay for as they think right?—Well, the question rather is, whether on an income of £200 a year there is any margin to pay Income Tax at all.

4593. You complain of the indirect taxation, and want to get rid of that?—Yes.

4594. Do you think these are actual budgets?—They are actual budgets.

4595. The figures are round figures. Where is there any provision for alcohol or tobacco in them?—In most cases that will come into the housekeeping expenses. In a large number of these cases the alcohol that they take is taken with meals, and their tobacco, I know, in a very large number of cases is bought with the weekly groceries.

4596. Do not imagine that I think a clerk with £200 a year has very much money to spend in luxuries of any sort. I am quite well aware that he has not. He will not spend very much money on drink and tobacco, and if that is the case he will pay very little in indirect taxation?—Some of them will spend nothing on tobacco, and, as far as I am able to judge, not many of them will spend very much on alcohol. On the average, I should say, with regard to those who are not territorialists, their consumption will perhaps be a glass of beer at dinner and perhaps a glass of beer at supper-time. The expenditure on tobacco, of course, will vary; the majority of clerks are great cigarette smokers, and those who smoke what I call tobacco will probably smoke from two to four ounces a week.

4597. Have you ever considered what indirect taxation actually means by way of burden to a clerk with three or four children and an income of £200 a year?—The item for food and housekeeping expenses is swollen by the indirect taxation.

4598. The total taxation of tea and sugar of a man earning £200 a year, allowing for a man and wife and three children, if they took all they could get during last year, for instance, would amount to £4 8s. 3d?—That is about enough tax, I suggest.

4599. It must be that or less?—I am quite prepared to admit, in fact I think I ought rather to emphasize the fact, that these demands for a limit of £200 in the Income Tax are based upon the remaining expenditure which now has to be incurred. Just in proportion as you relieve indirect taxation we should agree that you are entitled to increase the Income Tax.

4600. Of course, you appreciate, I am sure, that in taking the burden off a very numerous class, because you do not deal with the clerks without dealing with everyone else on the same pecuniary level, you are shifting the burden upon other shoulders?—Yes.

4601. Take the suggestion which you mentioned, that all incomes above £5,000 a year should be forfeited to the State; that is what 20s. in the £ means, does not it?—I suppose it does.

4602. The State should take it. Do you think that would be advantageous to the class of clerks? Where would they get employers for the great mass of themselves?—If you put it in that way, I think I should say that Income Tax, however heavy up to a certain amount, would not affect the investment of capital.

4603. Would it not? Would there be any capital to invest?—Surely, yes.

4604. Let us just consider. The people who have incomes of £500 to £1,000 a year for the most part spend their incomes, do they not?—Yes.

4605. They do not make any very large savings?—Not large savings, no.

4606. And it is savings which provide the capital for new speculations, is it not?—I am not sure that it is the savings out of income which is assessable for taxation. I think a very large portion, at all events, of the new capital is provided before dividends are declared.

4607. I will not discuss that with you; I do not know whether it is a matter to which you have given any very great consideration?—I am not posing as a specialist on it.

4608. Very well, then, I will leave it there. Have you considered a large class of clerks who are employed, we will say, by solicitors, stockbrokers, and generally by the middlemen?—Yes.

4609. That is a very large part of the whole group of clerks?—Yes.

4610. Have you considered how far the existence of solicitors, stockbrokers, and the middlemen to whom I have referred depends upon their having clients with large incomes, and that if their business went there would be no business for the clerks they employ?—I am not prepared to say that a business which depends upon the existence of a few people with very large incomes is an economic business which is providing useful employment. I incline rather to the view, if on your assumption these businesses are only kept going in that way, that probably if our national affairs were better regulated more useful employment could be found for those clerks. We are not proposing to wipe this money out or throw it away. We are proposing to transfer it from the pockets of a certain particular class of taxpayer to the pockets of the community.

4611. Do not you see your suggestion is, you should only tax income when it is found in large pieces? If you distributed your income of £1,000 amongst even four people, the State is to get nothing. It is only while one man has the £1,000 that you are going to take any taxation from him?—Yes.

4612. You say it may not be an economic advantage to have people with large incomes. As an association of clerks have you considered that it may not be an economic advantage to the country to have a large body of clerks; they are not producers?—Quite.

4613. I am sure you will understand that the point of my examination is only suggest to you that to take the burden off the clerks and put it down somewhere else is not such a simple proceeding as your conference seems to have imagined?—I quite appreciate that.

4614. I will not pursue that any further. You suggest that there should be an allowance for dependants other than wives?—Yes.

4615. How do you propose to define a dependant; is there to be an inquiry in a particular case whether there is a person or persons dependent on the taxpayer or not?—Well, you have it already. You have now a return made showing what dependants there are.

4616. Certain special dependants who are defined there?—Yes.

4617. And it would be necessary to give a definition as to what is a dependant. Have you any proposals with regard to that?—What further definition do you require than the one you have?

4618. I rather anticipated that you wanted something other than the law already provides for?—I want a more adequate recognition of the needs of those dependants, that is all. You do already, in some way or another, provide some kind of allowance for wives, for children, for infirm and aged parents. You cannot go very much further for classes of people.

4619. Very well, that will answer my question. You do not wish for any wider definition of dependant than that which is already provided by the existing Act?—No, I do not know that it is necessary.

4620. Is it not the fact that a young unmarried man who lives at home is generally a contributor to the family income and the family expenses?—Yes.

4621. In that degree his mother and father, if living, are dependent upon him?—Yes.

4622. Presently he marries, and then his mother and the rest of the family have to get on without him, and without his contribution?—Yes. I am suggesting that you should take the total family income and then divide that by the total number of persons who are dependent upon that income.

4623. How would you deal with the case I have just put to you?—While he is at home contributing, his income would come into the family income.

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4624. And as soon as he has gone his mother would have to pay at a larger rate?—When he goes, the total family income becomes less, and of course the number of persons by whom it is divisible becomes less.

4625. You say there is a difficulty about reclaiming tax. That might be met, might it not, if there were an office readily accessible to which any member of the public could go and get information as to Income Tax—a sort of Income Tax inquiry office, where he could get information as to what he had to pay and assistance could be given in making up his return if he had to make one?—That would be useful, but I fancy if the delay which occurs, and which I quite appreciate is difficult to overcome, could be obviated, it would have a very considerable effect. I am not saying that that is a point which is worrying my members. It comes to me through people who are doing the Income Tax business of their firms, and who come in contact with the workmen with whom this is a real difficulty.

4626. Do you suggest that there should be no average? Would it not be better to take the last year's actual income and make a man pay upon that?—I do not suggest there should be no average.

4627. I beg your pardon; you raise a question about the average?—I suggest that the three years' average should be the general rule.

4628. Would it not be better to take the last year's actual income and avoid any question of average altogether?—Well, the difficulty about that is that it would put a taxpayer into a considerable hole if in the course of a year he had to pay Income Tax on that basis; he may have lost his position, for instance, or have had a serious misfortune of some kind, which has reduced his income, but he would have to pay on last year's income. It would be all right if everybody were sufficiently provident and sufficiently prudent as to what the Income Tax was going to be to provide a year in advance for it, but in practice I think you would find what you are finding now, for example, that many ex-munition workers are not now munition workers any longer, and that they are not in a position to pay the Income Tax which accrued during the earlier part of the year.

4629. But on the three years' average, he always pays after the last year is completed?—That is true, but on the three years' average you get a much wider margin.

4630. Only by going further back?—Quite true.

4631. So that the disadvantage you have just referred to is the same in both cases?—It is not quite so heavy if you average.

4632. Sir J. Harwood-Baxter: Might I ask you what your general experience is as regards rates of salaries? Are not the rates of salaries higher in big firms than in smaller firms?—I would not like to say quite generally in big firms, but in some large prosperous concerns, take some companies that are doing very well, the rates of salaries to the staff do generally run higher than they do on the average. On the other hand, there are some quite small concerns, from the point of view of the size of the business, which are having a fairly considerable turnover and making large profits, and they will do very well; whereas a very large business which is not making large profits does not tend to pay its staff on anything like the same basis.

4633. As a rule a company with £10,000 capital will not be paying as high salaries as a company with £50,000 capital?—Probably as a general rule no, but it is not an invariable point. One could easily find very large concerns with very large capital and large business and profits, but paying very low salaries to the staff. It depends on many factors.

4634. Have you any analysis of your members showing those who are paid their salaries "free of Income Tax"?—No, I have not.

4635. Is it not a fact that a very large number of clerks have their salaries paid "free of Income Tax"?—Not a very large proportion. I think, of the whole;

certainly a large number in the aggregate, because of course when you talk about clerks you are talking about a class of a million or so of people.

4636. A very large proportion of them?—I do not think a very large proportion of them are paid their salaries "free of Income Tax"; certainly a very large number in the aggregate, it is true.

4637. Mr. Birley: You suggest that £200 a year should be the limit for an unmarried man; he should not pay until after £200?—Yes.

4638. I put it to you that the present limit of £130, £2 10s. 0d. a week—a single man can live on that?—Well, not in London—not to live decently.

4639. Taken as an average a single man would be living at home, I take it. The smaller incomes are mostly the younger men who are living at home, and have very much less cost. Would not he be able to live on £2 10s. 0d. a week?—A young man living at home might manage on £2 10s. 0d. a week all right.

4640. That is the present limit, of course?—If he gets that.

4641. He does not pay now; that is on £130 a year. Your suggestion is that he cannot live on less than £200?—In a case like that my suggestion would bring his income into the family budget, or into the family income.

4642. That would be mostly the case with the un married men, would it not?—Yes, it would.

4643. With a married man with children there are at present abatements allowed?—Yes.

4644. If those abatements were increased would not it be very largely met that objection?—If the abatements were increased it would go to meet the objection, undoubtedly. What I have felt in going into the question of those allowances and abatements, was that if you were going to get justice as between one taxpayer and another you had rather to alter the basis from the present system.

4645. At the present time a married man with four children does not pay until after £345 a year?—No.

4646. If the allowance for wife and children are increased, it would largely get over that difficulty; of course it would depend on the amount of increase, but it would largely get over the difficulty?—If the suggestion, for instance, of doubling the abatement to the married men—

4647. Well, not necessarily doubling it, but something more than at present. I put it to you in the case of the man with children, or the married man, if his case were dealt with there is no reason to deal with the case of the unmarried man earning £130 a year?—So far as the people I am representing are concerned, there are not very many of them.

4648. I suggest to you that those clerks who are earning £130 a year and who are unmarried are very largely younger ones who are living at home?—That is so to-day.

4649. Is there good cause for claiming £200 for the unmarried man? There may be good cause for claiming something for the married man with children, but is there the same ground for claiming it for the unmarried man?—Not the same ground, No.

4650. Mr. Mackinder: You said you were surprised to find that nearly all your people, I think you said all but one, in the cases you inquired into, had dependants?—Yes.

4651. Did those dependants include the cases of those who were contributing to the home expenditure?—No. I can give you just a few examples of what they do.

4652. I only just wanted to ask you that point; I did not want to go into it in detail?—In point of fact they are widowed parents, mothers mainly, or young brothers or sisters; in some cases both.

4653. Mr. Symonds: You want an extension of the definition of dependants, I understand?—Not an extension of the definition, only a larger recognition of the needs of the dependants.

4654. You observe that one of the conditions in the Act is it must be a relative unless it is a person under

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16, and the dependant must not have an income exceeding a certain amount, and there are a whole lot of other conditions. Do you not think it is extremely difficult for the Inland Revenue, or any other body, to find out all these particulars?—I imagine they never do find them out, as a matter of fact.

4655. Do you not think there is a great danger—I do not put it offensively, you know—of dependants being manufactured?—I do not think so, because obviously anybody who attempted that would be running a very considerable risk.

4656. I have here the figures for 1914-1915 for allowances in respect of wives and children and dependant relatives. The amount of these allowances has gone up from £11,000,000 in 1914-1915 to £108,000,000 in 1918?—Are you engrossing?—

4657. I do not know, but I put it to you that there is that danger?—I should think it is probably due to the fact that in the early years of these allowances a considerable number of taxpayers did not realize that they were entitled to them.

4658. You say you have 40,000 members out of a total of a million clerks?—Yes.

4659. You must apply your principles of abatement and exemption to all earnings, whether they are clerks or whether they are not?—I agree you cannot have a separate class.

4660. You would have to apply them to traders, to agriculturists, and to the distributors of food. Have you considered what the effect on prices would be to the consumer, including the clerks?—I do not know that I quite follow you. If the effect upon the taxpayer would be to relieve those who are most in need of relief, surely that would not cause a rise in prices.

4661. You have not considered that the necessary alternative to your scheme is an increase in indirect taxation?—That does appear to me to be the alternative; but, in fact, that is the alternative which I desire to avoid.

4662. Have you considered that all these people I have mentioned, the trader, the farmer, and the distributor, employ persons who will come under the category which you represent, the small incomes, and that they necessarily will put the increased taxation which they themselves have to pay on to the consumer?—But they will not pay increased taxation, will they?

4663. But surely they must share in the taxation which the people below are freed from, must not they?—You mean the people who would have to pay the larger Income Tax in order to make up for these abatements would add it to the prices?

4664. Yes.—I do not think that would be likely, or could happen very well all round; it might happen to an extent. The worst of it then would be that what we gain on the swings we should lose on the roundabouts.

4665. The object of that clause extending the 20s. in the £ to all incomes in excess of £5,000 is to effect a redistribution of income?—Yes.

4666. That is the main object?—That is so really.

4667. Mr. Walker Clerk: You said that you regarded the Income Tax as an equitable tax?—In principle.

4668. But unpopular?—Yes.

4669. You thought it ought to be popular?—Yes.

4670. You are aware that there is a tendency to put upon Imperial taxes charges which benefit the class of men whom you represent, education, to give you one example?—Yes.

4671. There are many others in the same way. You really suggest that your clerks, 40,000 of them, in the main should continue to vote, and have all the rights of citizenship, and if they do not drink, or do not smoke, they should pay nothing?—It depends upon their income.

4672. But, roughly speaking, you have said that if your proposals are carried out the whole of the 40,000 you represent would be exempt from Imperial taxation?—No, I did not say the whole of the 40,000; that

is the danger we get into by dealing with averages. It was put to me that £250 a year would be the average.

4673. For the sake of argument I will say one-half of your 40,000 would be totally exempt?—Probably.

4674. They would have all the rights of citizenship?—Those who were of adult age would.

4675. And pay nothing towards the upkeep of the country?—Yes. There would be no large incomes without the labour of the people with small incomes.

4676. Do you suggest that that is a reasonable and fair thing, and would make the Income Tax a popular tax with the community as a whole?—I think it would. It would be effecting more or less a redistribution of the national income. Probably what we are doing on the other side, endeavouring to raise these incomes to the point when they can bear Income Tax, is the sounder way to deal with it. In the meantime we have to deal with the number of people who are not getting sufficient to enable them to pay Income Tax.

4677. Then your proposals are merely expedients; they are not proposals on principle?—Is not all taxation an expedient, more or less of a temporary character?

4678. No; some taxation is absolutely necessary. You cannot run the ship on nothing?—But after all it is expedient.

4679. It depends on the meaning you attach to the word "expedient"?—The weight of taxation is always temporary. It may be heavier next year, or it may be lighter according to the national expenditure and the number of taxpayers that there are.

4680. My experience is that it is always increasing?—It is, generally speaking.

4681. You seriously suggest that four or five millions of people should vote for the upkeep of the State, and contribute nothing towards that upkeep, and you say that would increase the popularity of the Income Tax?—I do not know that it would make the Income Tax more popular with the large taxpayers, or people with large incomes, but I think it would very decidedly make it more popular.

4682. With those that did not pay?—With those whose payment would be brought into more real relation with their ability to pay.

4683. But you never said anything at all about the ability to pay before?—My whole evidence is based on it.

4684. You stated that indirect taxes should be abolished, and that this very large number that you represent should be totally relieved of Imperial Taxes. I pointed out that they are being relieved to a very large extent of local rates now, and these local charges are being put upon Imperial Taxes. They are relieved by the contributions from the State towards local costs, taking education as a case in point?—That is another point altogether, into which I have not entered—the question as to what subventions are justified from the National Exchequer to local rates. My point is simply this, that all incomes exceeding a minimum living wage, which I have tentatively put at £200, or £250, should be liable to Income Tax, and that the Income Tax should be steeply graduated so that the ability to pay would have more relation to the actual payment made than it has to-day.

4685. Mrs. Knowles: The only thing that strikes me is this, that when you take a minimum of £200 you take it on the basis that a person needs that to be able to live, without the deduction of a tax at all. Do you take that for London, or for the country? There is, of course, an enormous variation whether you take London or the country?—There is an extraordinary variation.

4686. A man living in Lincolnshire seems to do himself extraordinarily well on £145 a year for food. I do not pay that in London for my family of three. —He has got the advantage there of not having to pay for the things that people pay here. What has

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happened during the last three or four years has been that the difference between the rate in a place like Grimsborough and the rate of pay in London has been considerably reduced by the practice of the Committee on Production, which has been followed more or less by various firms, of paying war advances at the same rate irrespective of the local variations in the cost of living. I am not saying that there is any alternative to that, but it has had this effect, that a man in Grimsborough has had a very much larger increase in his income relative to the total cost of living than a man doing the same kind of work in the same position in London has had.

4687. I see that, but my point is that the £300 a year exemption would be principally for a place like Cornwall, which I know, and would be very low for London. How do you propose to get over that?—I do not know how you could get over that in Income Tax. You could hardly have a national Income Tax varying according to the localities I am afraid.

4688. Would it not be better to get it by another means—raise the wages for London so that they can pay the Income Tax, and keep your exemption lower, so that the country can pay it?—That is what we are doing on the other side. I have told you that we took the figure to-day of 23 10s. a week, that is £180 a year roughly, as against £90 in 1909. That is the figure for large industrial centres. For rural districts we fix a lower figure, you see. You can do that when you are dealing with wages questions. I admit I have not been able to see how you can do it when you are dealing with Income Tax, unless you do what might very well be considered, raise your local rates on the basis of Income Tax also, which would make a difference, but you could not do it as far as I can see for a national purpose.

4689. You have talked of the unpopularity of Income Tax. Personally I find a lot of people who are quite proud of paying Income Tax?—So do I.

4690. They come along and say: "So and so is paying Income Tax." The local man is paying Income Tax, and he seems to think that he has gone up in the social scale. Do you think it is unpopular?—It is not unpopular with our members, but there is clear evidence, unfortunately, that it is unpopular with a large body of people who are now paying Income Tax by quarterly assessment who have never paid Income Tax before, and do not understand how the Income Tax is assessed, or what their rights and duties are with regard to it. Undoubtedly there is evidence that it is unpopular there. My view is that the unpopularity of the Income Tax is not due to the principle of the Income Tax itself, the other taxes would be a great deal more unpopular if people only understood what they were, and what their incidence was. If the Income Tax were rather more equitably adjusted, and its working were simplified as far as possible the unpopularity would go.

4691. I find a great many people think they have risen in the social scale when they pay the Income Tax?—They generally have.

4692. They mention it as an asset. "So and so is very well off. She has got a daughter who is married to a man who pays Income Tax." I have actually heard that said recently. The point is whether we can make it popular by making it socially attractive, do you think it would be possible to do that?—I really believe there is something in it.

4693. Chairman: Mr. Warren Fisher will be very glad to hear you talk like that.—That merely is a recognition that generally speaking people who pay Income Tax have larger incomes than people who do not pay; that is why it is popular in that sense. I

do not think many people who understand the principle of the Income Tax, and who have been paying the Income Tax for some time, object to the tax as such.

4694. Mrs. Knowles: No, I do not think they do?—What there is an objection to is the particular difficulties which arise in dealing with it. If I may take a personal case, my own case, when I first came up to London, I point blank refused to pay my Income Tax; I struck against it because I had not been assessed at the earned rate. It was not so much a question of the money, but I was distinctly annoyed at the suggestion that I did not earn my income, and I said I would not pay it, and I did not pay it in point of fact.

4695. Chairman: Have you not paid it yet?—Not what they assessed me at. I worked out my own assessment at the earned rate, and I paid that, and after the cheque had passed through the post a few times they finally accepted it and sent me a receipt. I remember saying then to the Surveyor: "I have not the slightest objection to paying Income Tax; I am proud of paying it, but I do object to the assumption that my income is not earned, and I am being assessed on that assumption." There had been a mistake. It is difficulties of that kind that make the Income Tax unpopular. Three men out of four do not know whether they are assessed at the earned rate or the unearned rate, if they have only just become Income Tax payers. The forces are rather terrifying to anybody who is not used to them.

4696. Mrs. Knowles: I feel if one could only get at the psychology of people one could get money out of them so much easier. The difficulty is you do not know how to get at them in the right way. If you work on their pride, or something, you can do it.—I think if you can make the thing intelligible to their business instinct, allowing for the fact that there is a large number of them who have no experience of business beyond their own purely technical work, you get over the difficulty to a great extent. It is really getting them to understand what the thing means.

4697. Sir T. Whittaker: Very briefly on a point that has not been touched on, I understand you desire to abolish indirect taxation?—Yes, on necessities, not necessarily on tobacco and alcohol; indirect taxation on the necessities of life.

4698. You would continue it on tobacco and drink?—I do not think we should say those were necessities of life; we mean practically the food taxes.

4699. Chairman: I want to ask you a straight question. Is it in the mind of those you represent that if they got these proposals accepted they would not have to pay Income Tax at all?—I do not think that they have looked at it from that point of view at all.

4700. That you frankly tell me. I wanted to ask you the straight question; that is not in your own mind, is it?—Not at all, no. As I say, I really could not say with any approach to accuracy how many of the people whom I represent would be exempt under these conditions, and how many would not.

4701. I am personally very pleased at the way you have spoken, because I think you are quite fair, and you do not want to evade Income Tax?—I do not think there is the slightest desire on the part of our people to avoid paying what they consider their fair share of the taxation of the country, but there is a feeling that a large number of people are being called upon to pay Income Tax who cannot afford it, whose incomes do not admit it, while other people who could afford to pay a great deal more than they now pay are being let off very lightly. That is putting in plain English precisely the feeling which influences most of our members.

EIGHTH DAY,

THURSDAY, 19TH JUNE, 1919.

PRESENT :

LORD COLWYN (*in the Chair*).

Sir T. P. WHITTAKER.
Mr. BOWERMAN.
Sir E. E. NOTT-BOWER.
Sir J. S. HARMOOD-BANNER.
Sir W. TROWER.
Mr. HOLLAND-MARTIN.
Mr. WARREN FISHER.
Mr. BIRLEY.
Mr. WALKER CLARK.

Mr. KERLY.
Mrs. KNOWLES.
Mr. McLINTOCK.
Mr. MANVILLE.
Mr. GEOFFREY MARKS.
Mr. MAY.
Professor PIGOU.
Mr. SYNNOTT.

The Hon. W. N. BRUCE, C.B., and Sir HUGH ORANGE, C.B., C.I.E., on behalf of the Board of Education, called and examined.

4702. *Chairman*: Will you state your case, please, Sir Hugh?—(*Sir Hugh Orange*): The Board of Education desire to recommend to the Royal Commission on the Income Tax:—(1) That the relief granted in respect of children should be continued beyond the age of 16 for those who attend school. (2) That the relief in respect of school attendance should be graduated from the age of 14 onwards, so as to increase with the age of the student. (3) That the relief should not be restricted to persons whose incomes do not exceed £800 or £1,000 per annum. Those are the three proposals of the Board.

4703. Have you anything to say in addition to that by way of supplementing it?—I was just reading this from the written statement which the Board have sent, and the Board, in their written statement have developed their points a little; shall I continue in that way?

4704. Yes?—By the words "attend school," in the first of these proposals, is meant full-time attendance at—(a) any University in England or Wales; (b) any school recognised by the Board of Education as efficient, or as making satisfactory provision for the education of its scholars. The Board are not proposing that the relief (at present £25) now granted in respect of children aged 14 to 16 who are not in attendance at school should be discontinued. The scale on which they suggest that relief should be given for those who are in attendance is:—age 14-16, £50 per annum; age 16-18, £75 per annum; age 18-21, £100 per annum; age 21-25, £125 per annum. The principle on which these proposals are founded resembles that which underlay a recommendation of a Select Committee of the House of Commons in January, 1915, with respect to separation allowances, as follows:—"Payments of allowances and pensions in respect of children should in all cases continue until the age of 16 years, and may be continued above that age on the recommendation of the Local Education Authority in the case of apprentices receiving not more than nominal wages or of children being educated at secondary schools, technical schools or universities." The Board regard it as a matter of the greatest importance that parents should be encouraged to keep their children at school after the age of 16, and that the numbers of pupils in places of higher education should thereby be increased until they reach a level more adequate to national needs; and they consider that the proposed remission of Income Tax would not only help to lessen the financial obstacles to such expansion, but would also improve the incidence of the tax by relieving the burdens of those who most fully discharge their duties as parents. The Board of Education, while they see no reason for limiting these proposals to England and Wales, desire to add that they have no authority to speak for Scotland or Ireland.

4705. Do you wish to say anything further, or to

address the Commission on any of the points you raise?—Not unless the Commission ask that they should be developed on any particular points.

4706. It will mean a loss to the Revenue, will it not?—Yes.

4707. Have you any advice to us as to how we can make that up?—Perhaps the first point would be how much it would amount to. So far as we can see, it would amount, on the present scales of Income Tax, to about a million and a half per annum, and it would affect about 225,000 children.

4708. It would affect rich and poor alike; the same allowance would be made to the rich and to the poor?—Yes.

4709. Why?—Well, the child relief at present is on similar lines. Anybody who gets the child relief at present gets the flat £25. The Board thought that the rich parent or the fairly well-to-do parent usually incur a greater out-of-pocket expense on the education of his child than the poorer parent, whereas, on the other hand, the poorer parent suffers more by foregoing the earnings of the child. Of course, the very poor parents are not Income Tax payers.

4710. Do you feel this matter very earnestly at the Board of Education?—The Board are very much impressed by the great deficiency of pupils remaining at school after the age of 16. They think that it is a matter of the very greatest national importance that a far larger number of the population should proceed to a higher stage of education than it does at present. They wish to see more scholars proceeding to the universities, more passing through the technical colleges, and more being prepared for the professions, and of those who do not proceed beyond the schools they desire to see a larger number staying at school till the age of 18 or 19, and they do find that financial considerations weigh in that matter.

4711. This is really an addition to the Education Vote, is it not?—Well, it would not be borne on the Education Vote.

4712. No, it would not; it comes in in another way.

4713. Mr. Birley: I do not understand your scales. You say 14 to 16, and 16 to 18. Is not 14 to 18 the secondary school age; why do you differentiate those?—14 is the age up to which attendance at schools is universal and compulsory.

4714. Between 14 and 18 it is very much the same education, is it not?—They go to the secondary school, and they drop off at the age of 16.

4715. But if the same allowance between 14 and 18 were made it would be for the same class of education, would it not? I do not understand why you say £50 for the first two years and £75 for the other two?—(*Mr. Bruce*): There is a very distinct break in secondary education at the age of 16.

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[Continued.]

4716. Still, it is secondary education right through from 14 to 18?—That is true, but it is only true in the sense that it would be difficult to draw a line at 14.

4717. You assume a different cost by saying £50 in one case and £75 in another, do you not?—There is a real difference in the cost because the cost of schools which provide education up to 18 is higher, and, secondly, because the burden on the parent becomes an increased one.

4718. Is the cost greater between 16 and 18?—I think so. I think on the whole the schools which provide efficient education from 16 to 18 charge higher fees.

4719. Not universally?—It is not universally so, but I say on the whole it is so.

4720. I go further. In the same way from 18 onwards, is not that the university age?—That is the university age.

4721. Why differentiate between 18 and 21, and 21 and 25 in the same way?—Because, there again, there is a very important break at the point at which it is possible to take the initial degree of the university. After that time it is most desirable in the public interest that students should be encouraged to stop on, either for a fourth year pursuing their studies, or even longer for the purpose of training for research.

4722. I suggest 25 is rather odd?—Possibly, but not from the view of encouraging research, and making students competent to take an active part in the development of industry and commerce. There are also the professions of medicine and law, which require a prolonged training.

4723. It seems to me that you are asking rather much in the way of ages and differentiating?—I think that differentiation does represent real stages in the educational organisation.

4724. Semi-stages?—Well, they are stages of very great importance.

4725. The first two are distinctly secondary schools and the second two distinctly university, are they not?—That is quite true, yes.

4726. They are not quite distinct stages?—University and professional, in the second case.

4727. Professor Pigou: Is there not a further point, that at the higher age the sacrifice is more, in view of the probability of being able to earn?—That is so.

4728. Mr. May: I should like to ask on what grounds the Board of Education feel that they have a responsibility for taking care of incomes above £1,000 a year in securing them greater relief?—(Sir Hugh Orange.) The classes which make use of the schools are all classes, and the education of boys and girls at school or university up to the age of 18 to 21, or 25, becomes a heavy burden on the income of a man who is subject to the tax on £1,500 a year or £2,000 a year. It is a heavy burden for a professional man to have his boys and his girls educated for a profession. It is a costly thing for him, and it is a temptation for him to spare that.

4729. It would be an impossible thing for a man with £200 a year. If it is a difficult thing for a man with £2,000 a year, it would be an impossible thing for those with £200 a year, who form the large majority, for example, for whom you speak. You say you deal with all classes?—Yes. It would be impossible for him to do it from his income of £200 a year, but there is a good deal of assistance given to them to go to school.

4730. Do you think people with incomes above the margin that you yourselves put would be prevented from giving their children that education because of the lack of this abatement on their Income Tax?—I think, looking at it as a matter between two incomes of the same amount, one of which has to bear that burden and the other does not, it improves the tax if you ask for more from the man who is not bearing that burden and less from the man who is; or it comes to the same thing perhaps if the man during that time of his life when he is bearing the burden has the Income Tax lightened for him.

4731. Mr. Walker Clark: Does the Board of Education suggest that this scale should apply equally to all the members of one family? If a man has ten children, for instance, between the ages of 14 and 25?—Yes.

4732. Do you make no difference as between girls and boys?—No, none.

4733. You are aware that there are an enormous number of scholarships and bursarships and that sort of thing: do you make no allowance for those?—No.

4734. My experience is that it is not difficult for an average boy to get a scholarship in a local grammar-school to the university. As a matter of fact our local Education Committee finds a difficulty in getting the scholarship taken up, although they are scholarships which practically provide for complete education?—I do not know whether they provide the whole cost of it, and something for the youth to live on, too.

4735. They provide a larger amount than you are providing here?—Well, the Board could not provide, by way of relief from Income Tax, a livelihood for the boy, no; but the Board's experience is that the assistance given by the local authorities to take young persons to the university is not sufficient all over the country.

4736. That may be said, but still there is no difference suggested by the Board between those who win scholarships, either foundation scholarships or the major scholarships?—No, there is no difference in their proposal.

4737. The idea of a scholarship is that brains to some extent enters into it?—Yes.

4738. This would give an equal advantage to those with or without?—Yes.

4739. My experience is that there are very few scholarships at universities for girls or women, but a plethora for boys. You make no difference as between a boy or a girl?—This is not a scholarship system.

4740. No, but I say you make no provision?—We make provision equally.

4741. You make no special provision?—No.

4742. Is not this really a suggested inducement for continuing education, particularly in research?—I mean 21 to 25?—If you stopped at 21 you would offer an inducement the other way.

4743. From 21 to 25 it is an inducement for research work, is it not?—It is the prolonged university course, and the professional.

4744. Well, it would not be a prolonged university course unless the lad were a slack lad, or entered late?—(Mr. Bruce.) I think so. Take Oxford, for example. The ordinary period for the honours course at Oxford is four years. If the boy goes up at 18 he would not be able to get the benefit of a remission of Income Tax for his last year, but he might have to take a shorter course.

4745. What I was really driving at is this. I happen to have four children who have gone through this curriculum. A large number of the larger and wealthier firms are now giving very excellent positions as research students at London and Cambridge and other universities; you are aware of that?—Yes.

4746. For which they are paying, roughly speaking, from £300 to £500 a year to quite young people. This proposal takes no notice of young people of 25 who are receiving at present £500 a year for research work?—I think those would be considered to be in employment.

4747. Does it say anything about employment here?—No.

4748. Mr. Synnott: You are aware that the £25 a year allowance given for children under the present Income Tax is based on quite a different principle from yours. Let me remind you that it was given for the purpose of maintenance, was it not, and in order not to deprive the parent or the child of the necessities of life; that was the principle?—(Sir Hugh Orange.) I take it from you that it was so.

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[Continued.]

4749. You are starting a perfectly new principle, are you not?—I think we are extending it.

4750. Is it not a perfectly new one—an abatement for education purposes?—I do not think so. The present complaint is that when the child remains at school after the age of 16 the relief stops. If the relief was intended to aid the father in the maintenance of the child, the burden on the father has not ceased at the age of 16 if the child remains at school, but the relief ceases.

4751. If we do not agree with your policy, there is no case for it, is there? You cannot expect us to decide the question whether it is in the national interest, on the whole, that practically everybody from 16 to 25 should be educated free?—It is not free education.

4752. It is a very large subsidy towards it?—The Board have not proposed that £125 a year should be granted to everybody who remains in attendance at school or university between the ages of 21 and 25; they have proposed a relief from Income Tax on that amount of income.

4753. That is a considerable subsidy, is it not, at the present rate of Income Tax?—It is a relief.

4754. Because you propose to extend it to people of any income to whatever degree. You propose that there is to be no limit?—Just the same as Life Insurance.

4755. You propose that people should go to the Inns of Court for a professional career, and receive a subsidy from the State, and to Oxford and Cambridge?—To the universities, certainly.

4756. Irrespective of their individual merit?—Yes.

4757. It is a flat rate irrespective of merit?—Yes.

4758. No selection?—No.

4759. Sir W. Fowler: The allowance that you seek for is to the parents. Have you at all considered whether, where the child or the man has an independent income, the relief should still be given to the parents?—Where the child has an independent income?

4760. I mean either by scholarship or an independent income. Very often, as you know, children have independent fortunes which can be applied by parents for their maintenance?—Yes.

4761. Would you give relief in those cases?—I think the Board would consider that a matter rather for this Commission or for the Inland Revenue, in the working out, but I think the proposal should be understood to relate to those young persons who are dependents on their parents.

4762. Then have you considered whether it is desirable in any way to see that the allowance to parents has been expended on education? You assume a rate from 21 to 25 of £125. Would you vouch that item in any way—a sum not exceeding that sum spent on education?—That would be a different proposal; obviously that would require a great deal of administration.

4763. Have you considered that point?—Yes.

4764. What is your view?—The Board thought it better not to propose that, but to make the proposal in the form in which they have made it. Of course, it would be necessary that it should be shown that the young person was in full-time attendance at school or a university.

4765. And they have to prove to that extent—not the amount spent?—Quite so, yes.

4766. Mr. Warren Fisher: Do I gather that the Board of Education feel there should be State assistance for education purposes up to a certain age?—It is a question of a tax, and a tax that has to be assessed on incomes, and certain reliefs granted, and in order to adjust the tax basis it appeared that the tax should be borne by those who were least feeling the burden.

4767. But it is true that the form you suggest is not a grant from the Exchequer?—No.

4768. But it is interception of revenue on its way to the Exchequer?—If you like to put it in that way; but supposing it is a question of diminishing the Income Tax by a penny, that diminution might be made by way of relief to some of the Income Tax payers.

4769. But it is State assistance indirectly, is it not?—It is relief from Income Tax.

4770. Indirect State assistance. Do you not think it would be more scientific, and could be applied in cases according to their needs, if it were an over-grant from the Exchequer proportioned to the requirements of each case rather than an all-round and disguised bonus which will apply indifferently whether it is needed or not?—That might be said, I think, of the relief as present granted for children.

4771. No. Another Commissioner, I suggest to you, has made that point. In the first place, that is limited, whereas yours is not limited to any income limit. That is limited to small incomes, and as I understand it is for the purpose of maintenance; but you would remove the limit of income so that anybody could claim, as I gather, your relief from Income Tax. Would it not be the case that it would be unscientific in its application, because anybody who fulfilled the condition that their children were educated would get it, whether they economically needed it or not?—I think with two taxpayers, one of whom is maintaining children at school, and the other is not, there is nothing unscientific in asking the one to pay Income Tax with more relief than the other.

4772. Notwithstanding the extent of their income—a person with £500 a year and a person with £5,000 a year?—Well, that is another point.

4773. My suggestion to you is that there is left as an alternative, if the State is going to help, that it should do it openly and in a form by which it can be scientifically adjusted to the needs of the respective families?—That would be done by the scholarship system. Relief from Income Tax, after all, is a very small matter compared with the total cost.

4774. Chairman: A question has been put bearing on what Mr. Warren Fisher says with regard to a man with £10,000 a year paying the proper Income Tax, do you suggest that he should receive a remission in respect of a boy or girl maintained at college?—If he claimed it; just the same as if he claimed it on his Life Insurance. No relief from Super-tax in such a case is intended to be proposed.

4775. Mr. Symonds: Have you read the Reports of the Intermediate Commission in Ireland?—No.

4776. I suggest you should read them.—(Mr. Bruce:) I have. I do not know if I can answer your question.

4777. Have you heard a complaint that since the establishment of that Commission there has been an enormous increase in applications for clerical employment and professional employment in excess of the needs of the country?—No, I have not heard that.

MR. A. EBBUTT, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Exemption abatements and reliefs.

4778. (1) The exemption limit should be fixed with regard to the amount of income necessary for a healthy existence. It should be the highest abate-

ment and should govern the determination of the others. The allowance for a wife appears to be inadequate. It should be sufficient to constitute, in conjunction with the allowance for children, a tax on bachelors. By extending these allowances to all incomes not exceeding £1,000, imposing additional duty or Super-tax on all income in excess of £1,000,

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[Continued.]

and adding a percentage to the additional duty in the case of unmarried persons, the levy would be in proportion to the taxpayer's ability to pay. The present allowance of £25 for aged and infirm relatives does not appear to meet the case of a man who has to maintain a relative in a nursing-home or similar institution.

4772. (2) Earned income cannot be defined satisfactorily and relief should be allowed only on the first £1,000. When a man's earnings exceed £1,000 it will generally be found that part of them is really interest on capital, or is attributable to circumstances over which he has no control. The ability to command a high rate of remuneration usually depends on education, previous training and experience, or on a reputation built up in past years, and is not always in proportion to the exertion put forth in the work. A man may earn thousands by inventing a simple article which is of general use, whilst B may work harder, invent a more complicated article of limited application, and earn only hundreds in consequence. There appears to be an "unearned increment" in all large incomes, depending upon the state of the society in which the worker finds himself.

4780. (3) With additional duty (or Super-tax) beginning at £1,000 the normal rate could be considerably reduced, and it would be possible to effect great simplification by having only one unearned rate, and not more than two earned rates, for incomes not exceeding £1,000. Taxation at the source would be at the normal unearned rate, greatly facilitating the work of assessment and collection, minimising the likelihood of errors and overcharges, and obviating many repayment claims. It would minimise the existing injustices in the cases of Corporations and other Local Authorities which pay tax at the full rate on the "profits" of "industrial" undertakings such as "gasworks" although such "profits" usually belong to a community most of whose members are exempt or not liable to anything like the full rate. Where a private limited company does not distribute to its shareholders a reasonable proportion of its profits, a proportion of the undivided profit would have to be added to the income of each individual shareholder for additional duty or Super-tax purposes.

4781. (4) Foreigners and persons resident abroad should not be allowed to own more than a certain amount of property in the United Kingdom; or alternatively the Inland Revenue should have power to recover Super-tax from such persons.

4782. (5) See also "The Income Tax in Utopia" (pages 9-10) as to the allowance for Life Assurance.

Administration.

4783. (6) The Act should say only what is essential as to the exact method of assessing and collecting the duty, leaving the Board of Inland Revenue to draw up such regulations as they think fit (subject to Treasury approval and Parliament veto) so that they may be free to adopt the most convenient and up-to-date methods and to change them as occasion requires. In the past there has been much waste of valuable time and energy complying with obsolete provisions in the acts, e.g. in order to legalize the assessments it is necessary for the officials to post various notices on church doors, although such notices are seldom read and serve no useful purpose.

4784. (7) The tax should be made permanent, collectible annually, in order that the annual appointment of officials may be obviated.

4785. (8) The office of Assessor should be abolished and the duties should be performed by the Collector, who should be a permanent, whole-time, pensionable official, appointed by the Board of Inland Revenue and liable to removal from one collection to another. It would be advisable to combine some of the smaller collections, and if necessary those of the present part-time Collectors who were unwilling to become whole-time officials might be replaced by ex-service men. The present system is very unsatisfactory. Many, if not most Collectors, are appointed by the Local Commissioners and paid by the Board of Inland

Revenue whom they serve. The latter pay the piper whilst the Local Commissioners call, or omit to call, the tune. The appointment of permanent officials should result in better service, and greater security for all concerned. It ought to be possible to put the collecting staff on a thoroughly business-like footing in the course of a very few years without doing any very serious injury to anyone.

4786. (9) "Special" and "number or letter" assessments should be abolished. They give a great deal of unnecessary work, and if every taxpayer availed himself of these privileges the Inland Revenue staff would have to be increased. There would be little need for "special assessments" if none but permanent officials had access to the books and documents relating to the duty.

4787. (10) The duties of the Clerk to the Commissioners should be confined to arranging for and attending meetings of the Local Commissioners, keeping the minutes, and advising the Commissioners on points of law. He should not have access to the books and documents relating to the duties. The completion of the assessments and the preparation of the Collectors' duplicates, now done by him, could be more easily and more effectively done in the Surveyor's office, where none but permanent officials should be employed. The present system of making the Clerk to the Commissioners, who is usually a local solicitor, the legal custodian of the assessments which disclose people's financial position is open to serious objection.

4788. (11) The assessments should be made by the Surveyor of Taxes in the case of all profits other than those derived from a business or profession and those now assessed by the Special Commissioners under Schedule C. In making assessments on business profits the "personal" element plays an important part, and in consequence these assessments require special consideration. In other cases the assessment is largely a matter of calculation, and the Surveyor has or is able to obtain such information as he requires. In dealing with business profits it appears to be necessary to keep the following points in mind:—

- (a) the advisability of disclosing as little as possible to any but permanent officials;
- (b) the fact that the local knowledge of the Surveyor of Taxes, who is necessarily a bird of passage, is limited;
- (c) the need for local knowledge in making assessment in those numerous cases where proper accounts are not kept or not supplied to the officials.

If permanent whole-time Collectors were appointed the assessments in question might be made by the Surveyor and the Collector. But one must not lose sight of the fact that permanent officials are exposed to a strong temptation to take the line of least resistance and to let sleeping dogs lie; and as an alternative it is suggested that the assessments should be made by the Surveyor of Taxes, subject to the proviso that he should take the instructions of two Local Commissioners nominated by the General Commissioners in all cases where he is not satisfied with any accounts, or where no accounts are supplied. The Surveyor should have the right to surcharge in any particular case, provided he notifies the taxpayer accordingly. Under this system it would not be necessary to disclose to the Local Commissioners the amount of the income or profits of persons supplying proper accounts, and people would be encouraged to supply such accounts.

4789. (12) Appeals to the Special Commissioners should be confined to points of law. Having no local knowledge, they are not competent to deal with questions of fact, and appeals are often made to them with the object of avoiding local knowledge. It is submitted that if a taxpayer cannot satisfy the local Surveyor as to the accuracy of his returns or the justice of his case, he ought not to object to appeal to his fellow-citizens on a question of fact. At appeals only the point at issue need be disclosed. If, for instance, a taxpayer claims to deduct a certain expense in calculating his profits there should not be any need to inform the court the amount of his return and of the assessment.

* A copy of this essay on Income Tax reform has already been placed in the hands of the Commissioners.

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MR. A. ECKAUF.

[Continued.]

4790. (13) The Schedules classifying profits or income might be more conveniently arranged as follows:—

- Schedule A. Income from the ownership of landed property.
- " B. Income or benefit derived from the occupation of land not used for business purposes.
- " C. As at present.
- " D. All profits not otherwise assessed.—
Case 1. Business and farm profits.
Case 2. Other profits.
- " E. All employed persons.

This suggestion is intended to be considered in conjunction with paragraph 11, as well as those relating to the calculation of "profits" *in/fra*.

4791. (14) The present system of making returns to the local Assessor, who is not a permanent official, is open to objection. The Collector might issue forms of return to all liable taxpayers in his collection who are assessable there, notifying the Surveyor of all fresh liabilities, new arrivals, removals, and cessations. A notice might be inserted in the local papers intimating that forms of return have been issued for the district, and reminding local taxpayers of the necessity of making a return, whether they have received a form or not. Returns might be posted direct to the Surveyor, who should acknowledge their receipt by means of a slip giving the reference number of the papers. Instead of issuing notices of assessment for each item, as is done at present, a statement of his total liability for the year should be sent to each taxpayer who makes a return of his total income at the proper time. All income not taxed by deduction and all additional duty should be dealt with at the place where the taxpayer makes his return. Returns should be treated as repayment claims where repayment is due, and such claims should be dealt with locally. Assessment of Super-tax by the Special Commissioners and the settling of repayment claims at Head Office increases the volume of work and the likelihood of errors.

4792. (15) In the case of an appeal which cannot be determined at once, the duty on so much of the assessment as is not in dispute should be payable as and when due. Some taxpayers take advantage of an unsettled appeal to defer payment indefinitely.

4793. (16) In the case of cottage property the duty should be recoverable from the landlord. Some hardship may be caused by enforcing payment from poor tenants. Recovery by distraint is objectionable.

4794. (17) Railway officials should be assessed in the ordinary way and not by the Special Commissioners.

4795. (18) See also "The Income Tax in Utopia," pages 14-15, as to payment in instalments in certain cases; pages 15-16 as to payment in advance; and page 16 as to payment of interest on arrears. With regard to the latter, many people whose Income Tax amounts to a considerable sum are tempted to, and do, delay payment as much as possible. It is practically impossible to prevent them from doing so under present conditions.

Suggestions for amending the rules for calculating income.

4796. (19) In these days of keen competition it is essential that the British trader should not be put to any unnecessary trouble in the determination of his share of the burden of taxation. The Income Tax Act should be as non-contentious as possible. The best way to reduce friction and litigation to a minimum is to remove all unnecessary complications, and to avoid claiming tax on anything but what may be fairly deemed to be income or profit. The following suggestions are made with this object in view:—The system of averaging profits was introduced in the Act of 1843 in order that everyone might bear his fair share of a temporary impost, but now that

the tax is permanent there is no longer any need for it. The ideal to aim at is an assessment based on the actual income of the preceding year. One of the effects of the average system is that a man whose business is going through a critical period is called upon to pay tax on profits made during more prosperous years. That could not happen if the preceding year's income were taken as the basis of assessment. A man's Income Tax bill would be heavy or light, according as his profits in the preceding year had been big or small. He would, therefore, be in a position to meet it, and the Revenue would be less likely to lose any part of it. Moreover the taxpayer would have to a greater degree than at present the satisfaction of knowing how his liability has been calculated, and there would be fewer opportunities for error on his part as well as on that of the officials. At present the officials spend much time explaining the complicated system and making sure that the different items of income have been returned and assessed on the proper basis. In consequence there is waste of much energy which might be more profitably employed in pushing enquiries in directions where there is a possibility of leakage. The average taxpayer does not gain by the fact that the officials are so hampered in their work, for he has to pay more if the dodger is paying less than his share of the tax. Both the Departmental Committee on Income Tax (1905) and the Committee of the Birmingham Chamber of Commerce (1910) advocated a simplification of the forms of return, but both seem to have overlooked the fact that such simplification is impossible unless and until each item of income is assessed on the same basis.

4797. (20) The very necessary principle of "taxing at the source" prohibits any change in the basis of assessment of income from landed property, and from interest, dividends, or investments. But the actual income of the preceding year from these sources might be taken in calculating the total income for abatement and similar purposes. In the case of property the net assessments thereon (less any "empty" allowances during that year) should be taken, instead of the net assessments for the year of assessment. At present, as he cannot tell how much he will lose on empty property, an owner cannot always make an accurate return, and often takes the preceding year's figures. It is the same with dividends which may fluctuate. The consequent confusion adds to the difficulty of determining a man's total income, and some taxpayers take advantage of this fact to make a very moderate estimate of their income from these sources, and may, and often do receive excessive allowances in consequence.

4798. (21) Income from landed property (Schedule A, see paragraph 13) should be taken to be a fixed proportion of the rack rent or letting value. The gross assessment should be the same for rating and Income Tax purposes, and the authorities should have the right to increase or reduce any assessment in any year and to have a general revision made for any parish or district whenever necessary. The present system of a periodical revision throughout the country, and of reducing but not increasing assessments in the intervening years is unsatisfactory. A general revision throughout the country throws a great strain on the officials, and it would be better for all concerned if a separate staff were continually employed on revision work. In some places a general revision may not be necessary for years, whilst in others owing to some rapid development or unexpected change in local conditions it may be required much more frequently.

4799. (22) The additional allowances for repairs and maintenance granted in Schedule A No. V. and rule 8 are unsatisfactory. It is difficult to check the accuracy of the claims—which often involve a good deal of work. It is submitted that it would be better to make a generous allowance for repairs and maintenance of all comparatively small dwelling houses and business premises, including farm houses

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and farm buildings. This would encourage investment in house property, which is a wasting asset. In some cases the heavy cost of maintenance may be due to the fact that the estate is too large for its owner to superintend its management personally. The allowance of the actual cost of repairs in all cases is impracticable.

4800. (23) All employees, including public officials and manual wage-earners, should be assessed on the same basis, viz. their earnings during the preceding year. This would remove the existing injustice as between civil servants and the employees of public bodies and limited companies who are assessable on the actual income (salary, bonus, and commission) of the year of assessment, and the employees of private firms and individuals who are assessable under Schedule D on the 3 years' average. The objections to the quarterly assessment of manual wage-earners are stated on page 15 of "The Income Tax in Utopia." It is not always easy to foretell one's salary with accuracy. Incomes are not always regular, and the bonus or commission is generally an unknown quantity until the year is over. Under the present system this is a prolific source of trouble, involving inaccurate returns and many additional assessments, irritating both to the public and the officials. The actual remuneration during the preceding year should be the basis of assessment, provided that in the first year the salary or fixed remuneration of that year (excluding any bonus or commission) should be taken, and the fluctuating emoluments included in the next year's charge. In the year of cessation the assessment should be reduced to the amount earned since the preceding April 5th, plus the preceding year's fluctuating emoluments. Where no fixed remuneration is received the income or profits should be assessed similarly to those falling under Schedule D.

4801. (24) The adoption of the preceding year's income as the basis of assessment under Schedule D would help to remove a host of difficulties and anomalies. In the case of profits of an uncertain annual value—e.g., bank interest—no assessment should be made for the first year, and on cessation the assessment should be continued on the preceding year's receipts. Non-recurring profits should be assessed in the year following that in which they are received. Profits now assessed under Nos. II and III of Schedule A should be transferred to Schedule D, to which they naturally belong.

4802. (25) In the case of a new business the assessment for the first year should be on the profits of that year. Afterwards the preceding year's figures should be taken, but the taxpayer should have the right to have the assessments for the second and third years adjusted to the actual profits of each year in order that any hardship may be obviated in cases of diminishing profits.

4803. (26) In the case of a cessation the assessment should be reduced to the actual profits of the year in which the cessation takes place; but where the business has not been in existence more than three years the minimum liability should be on the actual profits of each year. This proviso would meet the case if a temporary undertaking, which, having made little or no profits in its first year, achieves its object and is discontinued in its third year, and would otherwise pay little or no tax on the second year's profits, however large.

4804. (27) If the preceding year's profit is taken as the basis of assessment, it would hardly be necessary to disturb the assessment in the case of a falling off owing to some "specific cause." But the Board of Inland Revenue might have power to grant such relief as they think just in cases of exceptional hardship. This would be better than to attempt to draft a provision which would afford adequate relief in all cases of hardship, without providing a loophole for escape. In the case of the conversion of a private firm into a limited company, the profit of the preceding year should be taken, subject to a deduction of the directors' fees payable for the year of assessment.

4805. (28) In the case of a loss in any year, the assessment for that year should be reduced by the amount of the loss, a "nil" assessment made in the following year, and the balance (if any) of the loss deducted from subsequent assessments or set against any other income.

4806. (29) Section 44, which grants relief where the income of the year falls short of the assessed income by more than 10 per cent., should be abolished. The adoption of the foregoing suggestions would remove the necessity for it. It is often overlooked in practice.

4807. (30) At present the farmer is treated far more generously than any other taxpayer. If his profits are less than double the amount of his rent the assessment is reduced accordingly, but if they are more the Revenue cannot claim tax on the excess. It is a case of heads he wins and tails the Revenue loses. Farming is a "mixed" business, and it is often very difficult to decide whether a farmer's profits are derived from "the occupation" of land, or from the exercise of some other business, e.g., cattle dealing. The transfer to Schedule D of all the profits derived from land used for any business would simplify matters and would put farmers on the same basis as other taxpayers. There would be nothing to prevent the Assessors from adopting an assessment based on the rent in cases where accounts are not available and where considerable profits are not likely to have been made. But in districts where speculative crops such as hops are grown the present system is most unsatisfactory. Farm profits seem to vary, not in proportion to the rent paid, but according to the nature of the cultivation. The present system appears to assume that a farmer can keep accounts when his profits are small, but not when they are big.

4808. (31) The income or benefit derived from the use of land not used for or in connection with a business, e.g., pleasure grounds, should be assessed on the basis of the rental value and should be treated as unearned income (under Schedule B).

4809. (32) The work would be greatly facilitated if benefited clergy of the Established Church were assessed in one sum under Schedule E for all their emoluments—grants, fees, tithes, glebe rents, &c.—on the basis of the net amount received during the preceding year. The present system is very involved and causes much unnecessary friction and misunderstanding. Easter offerings obviously accrue to the clergy by reason of their office, and should not be exempted. Everyone should pay in proportion to his ability—without regard to the source whence his income is derived.

4810. (33) In the case of hotels, boarding-houses, and similar concerns, the allowance of two-thirds of the rent or Schedule A assessment as a deduction in calculating the occupier's business profits is often inadequate. In such cases the authorities should have the right to allow the full amount and to add back a round sum for the board and lodging of the proprietor and his family.

See "The Income Tax in Utopia," page 19, regarding the allowance for wear and tear.

Suggestions for preventing evasion.

4811. (34) Balance sheets should be produced where available. The adoption of the suggestion "that none but permanent officials should have access to the books and documents relating to the duty would remove a serious objection."

4812. (35) Professional accountants should be presumed to know the rules for calculating "profits" for Income Tax purposes, and they should be required to show separately in all trading and profit and loss accounts any expenses which are not admissible deductions for Income Tax purposes, and in particular all expenditure of a capital nature which the trader may have decided to charge against revenue. This would have much correspondence between accountants and

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the officials, and would make the latter more anxious to have audited accounts in all important cases.

4813. (36) To strengthen the hands of accountants in dealing with unscrupulous clients who might expect them to assist in defrauding the Revenue, the Board of Inland Revenue should employ one or two experts to check books. A few cases might be checked annually in each district.

4814. (37) The penalty for all offences of a fraudulent nature or attempts at evasion should always be fixed by the Commissioners or Court, who should have the power to make the punishment fit the crime. In such cases settlement between the Revenue authorities and the taxpayer should be prohibited.

4815. (38) Where a taxpayer has not been adequately assessed in past years the actual duty lost during the ten preceding years should be a debt to the Revenue and recoverable as such with interest. A penalty should be incurred only in case of fraud or culpable neglect on the taxpayer's part.

4816. (39) The best way to reduce evasion to a minimum is to endeavour to make the average taxpayer realise his obligation to pay whatever is due, by making it plain that every effort is being made to do justice and to secure fair assessments. If the public feel that the authorities are determined to do this at all costs, without regard to political expediency and without respect of persons, they will respond accordingly. The Inland Revenue seems to be in need of an ideal.

See also "The Income Tax in Utopia" (pages 16-17), for suggestions as to how to secure the proper incidence of the tax.

General.

4817. (40) In the case of *Partington v. the Attorney General* (1896) Earl Cairns, in giving judgment in the House of Lords, said:—"As I understand the principle of all fiscal legislation it is this: if the person sought to be taxed comes within the letter of the law he must be taxed, however great the hardship may appear to the judicial mind to be. On the other hand, if the Crown, seeking to recover the tax, cannot bring the subject within the letter of the law, the subject is free, however apparently within the spirit of the law the case might otherwise be. In other words, if there be admissible in any statute what is called an equitable construction, certainly such a construction is not admissible in a taxing statute, where you can simply adhere to the words of the statute." This rule as to the construction of Taxing Acts is unfortunate and has tended to make taxpayers think that they are entitled to pay—not their fair share according to the spirit of the Acts and intention of the Legislature—but as little as the letter of the law demands. This has resulted in avoidable disputes and litigation, and in the growing practice of calling in the aid of experts in order to take advantage of the weak points in the law. Would it not be possible to indicate the object of the Act as fully as possible in the preamble, with a view to its interpretation in the spirit rather than the letter; or do we still refuse to recognize the fact that the letter kills? Interpretation in the spirit would reduce litigation to a minimum and would help to revive a sense of duty on the part of the taxpayer, facilitating the work, and reducing the cost of assessment and collection.

[This concludes the evidence-in-chief.]

4818. *Chairman*: You were formerly a Surveyor of Taxes under the Board of Inland Revenue?—Yes.

4819. You retired from that position?—I resigned my position.

4820. I see that you wrote "The Income Tax in Utopia."—I did.

4821. Will you give your views to the Commission? We have a summary of your evidence; you may

address the Commission on the main points.—I do not think I have anything to add to my written evidence, beyond emphasising the paragraphs relating to administration.

4822. Were you a reformer when you were in the Inland Revenue?—I had no opportunity.

4823. How can we get more money for the Income Tax: can you tell us that?—It depends entirely on the rate.

4824. Have you any points upon which you wish to address the Commission in addition to your statement, to enforce your argument?—I should like to call attention to paragraph 3 with regard to the suggestion of having a low flat rate for deduction at the source instead of deducting, as is done at present, at the highest rate. The adoption of a low rate for taxation at the source would simplify matters from an administration point of view immensely, and it would help the officials to avoid errors and overcharges, and in that way there would be less chance of evasion than there is at present.

4825. Are you speaking now as an ex-official, or are you speaking with independent views?—I am speaking with independent views, but I naturally look at it from the point of view of the ex-official, getting the proper amount of revenue from each taxpayer.

4826. Is the organisation for collecting the tax perfect, in your view?—No, it is very imperfect.

4827. Let us have your views on that. Be quite frank; although there are officials representing the Inland Revenue here, they are not Inland Revenue people for the time?—In the first place it is necessary, it seems to me, to give the Inland Revenue power to draw up Regulations, and to confine the provisions that are set forth in the Act only to what is essential, so that the Inland Revenue may be free to keep themselves up-to-date. The Inland Revenue is hampered at present because many of the provisions in the Acts are obsolete. The present Act is based on the old Act of 1842. It is rather like a business man trying to carry on business with machinery set up in 1842 overhauled in 1880, and just tampered with ever since; whereas if the Act confined itself to essential matters, that is to say prescribing the exact amount that each taxpayer shall be taxed, by which I mean the method in which his liability is to be determined, it need not say anything as to the exact system under which that is to be carried out; that could be left to the Board of Inland Revenue. It does not matter, it seems to me, to the taxpayer, so long as he is taxed at the right amount, what method is adopted, provided it is reasonable.

4828. On paragraph 5, Life Insurance, what have you to say?—That refers to a suggestion in my pamphlet—"The Income Tax in Utopia"—that it would be better to do away with the Life Assurance allowance altogether, or to allow 10 per cent., which would be quite easy. The present system involves a lot of trouble. You have to examine Life Assurance receipts and bother people considerably in order to make the proper allowances. Some people get much larger allowances than they ought to have, simply because they can afford to pay more than others for Life Insurance. It is not merely a provision for old age or dependants; it is often a form of investment, and this does not seem to be in keeping with the spirit of the allowance, namely, to encourage providence.

4829. Mr. McLintock: You do not suggest limiting the allowance to one-tenth instead of one-sixth, but merely to give everyone a flat deduction of one-tenth of their income?—Limiting it to one-tenth instead of one-sixth; but that is only a suggestion. Then if you have a low flat rate for deduction you have to make some provision for dealing with the Super-tax of persons who reside abroad.

4830. *Chairman*: In your paragraph 7 you suggest that the tax should be made permanent?—That is simply to save a lot of formalities which have to be gone through now, and which waste a considerable amount of time. Collectors have to be re-appointed every year; the Clerk to the Commissioners has to be re-appointed every year; all that could be avoided. Meetings have to hold all over the country to appoint

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Collectors, and to appoint Assessors. All that could be avoided if you make the tax permanent, collectible annually, and one appointment to serve until a Collector is dismissed or until he resigns.

4831. Is there a large cost to the Inland Revenue in making these yearly appointments?—It simply wastes the time of the officials, who already have quite enough to do. It all means more wear and tear, and all for nothing at all really.

4832. Then you say the Assessor to be abolished?—Yes. I suggest that simply because the two offices, Assessor and Collector, can be easily combined. At the present time the Assessor is very often the Collector, but he need not be. In a parish you may have an Assessor and a separate Collector. The Assessor's duties ought to be transferred in large measure to the Surveyor. The local Assessor and Collector are at present appointed by the Local Commissioners. If they were appointed by the Board of Inland Revenue some of the duties of the Assessor could be very conveniently transferred to the Surveyor, who at the present time very often does the Assessor's work for him.

4833. Are they both civil servants?—No, the Assessor and the Collector are not civil servants at all; they are appointed by the Local Commissioners.

4834. Both of them?—Both the Assessor and Collector, but paid by the Board of Inland Revenue.

4835. Is it on the ground of economy that you would have the Assessor abolished?—No, the real reason is to avoid dual control. You cannot have efficiency under the present system, and you never will as long as you have Assessors and Collectors appointed by the Local Commissioners, but paid by the Inland Revenue.

4836. Mr. Symnott: Did the witness say that the Assessor and Collector was the same person?

4837. Chairman: No, he says they are different; but he says that he wants the Assessor abolished.—They may be the same person.

4838. Mr. Symnott: Are they ever the same?—Yes, they often are in practice, but they need not be.

4839. Chairman: You suggest that they hold the dual office?—They need not; sometimes they do, and in other cases they do not. In some cases you have two different men doing the work.

4840. Mr. McLintock: Your suggestion simply is this: that the Assessor's duty should be part of the ordinary clerical duties of the Inland Revenue office?—That is so.

4841. The Collector, of course, being simply the man who deals with the cash, just as a cashier in a big business, as part of the undertaking?—Yes, he would just take the cash like a cashier.

4842. Your main point is that the assessing could be perfectly well carried out as part of the ordinary clerical duties of the local Surveyor's office?—It could, and the Collector could be made use of in that connection, because he has nothing to do during the assessing period; he could be most conveniently used to assist in that work, but in the actual making of the assessments he should have no voice at all. As a matter of fact, in practice, he has not any voice now. He has in theory and in law, but not in practice.

4843. A Collector may collect for a whole district or a whole county?—It may be so arranged. You would have to cut your cloth to suit the conditions. He could collect for several parishes in any case. It depends on the volume of work. Each small town would require one Collector.

4844. Mr. Kerly: You have divided your paper into two, and you attach more importance to the administrative suggestions with which, of course, you were very familiar as a Surveyor?—Yes.

4845. Just a word or two first of all about your substantive proposals. You think the wife allowance is inadequate?—I do.

4846. What figure do you propose that it should be put at?—I am not in a position to suggest a figure.

4847. You suggest that the figure should be considered by arriving at a standard of income necessary for a healthy existence; can you define that in any other way?—That depends on the purchasing power of money, surely. I am hardly in a position to offer any suggestion.

4848. And also there is a difficulty, is there not, that the cost of existence varies very much according to local circumstances?—Yes. You would have to leave a margin; I do not see how you are going to do justice otherwise.

4849. Do you suggest that the present limit of £130 is inadequate?—At present prices I should say yes, but I am not in a position to offer any evidence on that. I think that ought to be decided by Parliament.

4850. Why do you suggest that the differentiation between the earned and unearned income should stop at £1,000?—Because you cannot define earned income with justice. You cannot produce a satisfactory definition of earned income.

4851. You mean that, for the reason you have indicated here, when you get an earned income beyond £1,000 it is more akin to unearned income in part than a small earned income?—There is an element of unearned income in it.

4852. That element is very variable, is it not?—Quite so.

4853. Then you suggest that the Super-tax should begin just above the £1,000 limit. You have also suggested that if there is to be collection at the source there must be some standard rate at which the deduction is to be made?—Yes.

4854. That is now 6s.; do you think that is too high a figure?—Yes. The 6s. is the full rate at present.

4855. Yes, that is if you treat Income Tax apart from Super-tax; if you treat the whole as one system it is what I call the standard rate?—That is so.

4856. Have you any suggestion as to what would be the proper rate, assuming the present graduation?—It depends entirely on the yield you want from your tax.

4857. I am asking you as to the rate you are to select for the purpose of deduction, supposing all the figures of tax remain the same; do you suggest that 6s. is too high a rate for the purpose of deduction; I understood that you did?—Yes, I do.

4858. Now I want to know, first, what rate you suggest, and then why you fix upon your figure? What rate do you suggest instead of 6s.?—I do not suggest any rate. I think the rates must vary from time to time, according to the needs.

4859. You are not following me. Assume that the tax on each individual taxpayer is exactly the same as at present, the same rate and the same scale: now at some point, which at present is 6s., you make your deduction. You say 6s. is too high. What figure do you suggest instead—3s., 6d., or something of that sort?—A rate of that sort would be more reasonable. I cannot make any definite suggestion.

4860. But how are we to find the right rate? What considerations ought we to have before us?

4861. Professor Pigou: In paragraph 3, he suggests the appropriate rate on £1,000.

4862. Mr. Kerly: I am much obliged. (To Witness) Do you adopt that?—Yes; taxation at the source at the rate appropriate to £1,000.

4863. Why do you suggest that figure?—Simply because that figure is the figure at which I suggest Super-tax should begin. You should have a flat rate for deduction up to the point where Super-tax begins. Thus you avoid repayments, and you save no end of trouble, because you have only got to deal with your Super-tax afterwards.

4864. Is it your view that there would be an administrative saving?—A considerable administrative saving, and to the public a saving of time and trouble. Instead of having to make two returns, as the Super-tax payer has at present, under the system I suggest

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he would make one return of his whole income. It would be all taxed up to the rate appropriate to £1,000 (if you take £1,000 as the Super-tax limit), and then you could calculate the liability on the excess of his income over £1,000, and make him pay that direct.

4865. Do you think there would be any administrative difficulty in calculating the tax on the larger incomes, if that plan were adopted?—No more difficulty than there is in collecting Super-tax at present.

4866. Now take your paragraph 3. You say that undistributed profits of companies should be allocated to the shareholders. How is that to be done? Would you treat the undistributed profits as if they were dividends?—That is for Super-tax purposes; that idea is borrowed from the Commonwealth Income Tax. In the Australian Commonwealth they have that provision.

4867. The company is retaining the money?—May I explain what I have in view if this system that I have suggested is adopted? Supposing that the proprietor, or the practical proprietor, of a private company, of which himself and his wife are the only shareholders, or something of that sort, a family concern, wants to avoid Super-tax, what he would do is that he would arrange to pay out in dividends only a portion of the profits, and then he would transfer to reserve a considerable sum.

4868. We are quite familiar with the operation. Now how do you propose to deal with it?—By giving the Inland Revenue the right to divide between the shareholders that sum which is transferred to reserve, if they think fit to do so.

4869. The company retains the money. What is to happen in subsequent years?—You would have to earmark it, if necessary. I do not know how they work it in the Australian Commonwealth, but they do work it there.

4870. I do not see how it can be worked out at all. The company has got the money; its individual shareholders have paid Income Tax on money which remains the company's money; the company is using it and dealing with it. Supposing by dealing with it they earn future profits which they distribute later. Is the shareholder to pay again?—He would have to pay for Super-tax purposes. That is the difficulty, of course. I do not know how they get over it in the Australian Commonwealth, but they must have some means of getting over it.

4871. Personally I should be glad to see how you could work it practically; I do not appreciate how it could be done. Now, passing from that, I come to your administrative suggestions. At present I gather that you, as an experienced officer, think the administration is inefficient?—I do not think so, not necessarily. I think that the provisions of administration could be improved, and I think the Department has suffered from the overwork of the war.

4872. Is this an unkind description of it: that they have got a secondhand machine, constructed for a different business, long out of date, and covered with super-imposed matters?—Not the Inland Revenue, but the law. The old Act of 1849 has simply been codified in the Act of 1918.

4873. What is the greatest blot on it? Is there anything that goes to the root of the trouble?—I think the suggestions I have made cover the root, as far as I can see.

4874. Is the principal proposal that you should do away with assessment by the Additional Commissioners, and put it upon the Surveyor?—No, that is not it. I think the assessments on business profits ought to be made by the Surveyor where he has the accounts, but all the other cases should go before the Commissioners.

4875. You would make the Surveyor the Assessor, subject to some control by the Local Commissioners?—Taking the instructions of the Local Commissioners in all cases where he has not got accounts; simply to save leakage. That is my view.

4876. How would you provide your Local Commissioners? Would it be as at present? Perhaps you have not thought of that?—I think they ought to be strengthened, but I am hardly in a position to suggest how they ought to be strengthened.

4877. Do you suggest that they should be nominated by the Board of Inland Revenue?—I am hardly in a position to offer any opinion on that.

4878. If you have not thought of a subject, just tell me, and I will not trouble you any further. You propose that the Board of Inland Revenue should be able to make regulations. What classes of regulations have you in mind? You do not propose, do you, that they should be able to make new rules for the imposition of tax or the collection of tax?—Certainly not; merely administrative regulations; that is all.

4879. Give me some indication, so that I may follow what you mean. The idea seems excellent, but I want to know what it involves?—At the present moment you have to seal the assessments and arrange them—

4880. Do you suggest that so far as the collection of tax goes, apart from its amount, it should be conducted according to rules to be proposed by the Board of Inland Revenue and laid before Parliament, like other statutory rules? Is it some position of that kind that you have in mind?—It is rather difficult to draw up any set of regulations which will apply equally well to every place throughout the country.

4881. Are you speaking of regulations for collection?—For assessment and collection; not for calculating the assessment or altering the law. Of course those must be prescribed by Parliament.

4882. The amount of tax must be determined by Parliament?—Yes, of course that must be so.

4883. If the Surveyor were made Assessor, would these be any of the present duties of the Assessor which the Surveyor could not or ought not to perform?—I think it would be better if the ordinary forms were served by the Collector.

4884. Does the Assessor serve them now?—The Assessor serves them now.

4885. Then you would have the Collector as an independent person. Would you make him a civil servant?—Yes; I have suggested that.

4886. What advantage would be gained? He would get a pension, of course, but apart from that, what advantage would be gained by making him a civil servant?—You would have much greater security.

4887. Do you mean against defalcation?—Yes.

4888. Does that ever occur?—I have had one in my short experience.

4889. Paragraph 9 deals with "number or letter" assessments. That is where the taxpayer desires to conceal his name from the taxing body, is it not? Does the number or letter serve any other purpose than that the people who are levying the tax do not know who it is?—Not that I am aware of.

4890. Are there many such cases, do you know?—There are not a great number, I should say, from my experience.

4891. Are they insignificant in number?—Practically speaking, they are. They are a nuisance.

4892. Then paragraph 10, I think, explains itself. I gather you are convinced that it is necessary to have Local Commissioners for the purpose of assessing businesses where no accounts are produced?—That is so.

4893. For any other purpose?—For hearing appeals in such cases.

4894. Would there be any difficulty, do you think, in enforcing the rule that everybody, when called upon, should deliver accounts?—I do not follow the question.

4895. Would there be any difficulty in providing that accounts should be furnished in every case, under a penalty?—It is impracticable.

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4896. Why?—Because so many people do not keep proper accounts.

4897. The small tradesmen?—The small tradesmen.

4898. Do you think it impracticable to teach them to keep accounts?—I think you would invite fraud. If you compel them to produce accounts, they would produce accounts which would not be perfect. Their outgoings would not be properly recorded. I am not sure that the Revenue would not lose by it.

4899. It would be necessary to go further and provide that regular business books should be kept, and to extend your penalty to that?—Yes; I do not like the idea at all; I think it is impracticable.

4900. Now paragraph 12: "Appeals to the Special Commissioners should be confined to points of law." Would you allow no appeal on the facts?—Not to the Special Commissioners.

4901. To whom would you allow an appeal on points of fact?—To the Local Commissioners.

4902. Are the Local Commissioners, according to your experience, a satisfactory appellate body?—I think they ought to be strengthened, but they are more satisfactory than the Special Commissioners on points of fact.

4903. Putting aside the case of a few big towns, such as Liverpool and Glasgow and I dare say some others, are not the Local Commissioners very unsatisfactory as an appellate body? Do they ever, in fact, according to your experience, listen judiciously until they have mastered the facts of the particular case, as a judge would?—I think they try to do rough justice, especially in the case of the small trader. On technical matters I think they want strengthening.

4904. Especially in the case of people they happen to know in the neighbourhood?—They can form a better opinion as to the size of a local business.

4905. I suggest this to you—only by way of inquiry, because I do not pretend to have any knowledge of it. They are, of course, unpaid people, and they are unpractised in dealing with litigation or any similar matters?—A good many of them are Justices of the Peace.

4906. Without the assistance of the Justices' Clerk?—That is so.

4907. I make the suggestion for your consideration, that they generally think that two or three minutes for an appeal is quite enough, whatever the complication of the facts?—That depends on the Commissioners. I have had Commissioners who take a lot of trouble.

4908. Why is an appeal to the Special Commissioners on points of fact unsatisfactory?—Because they have no local knowledge.

4909. Is there no means of bringing the local knowledge before them, by witnesses?—It is very difficult.

4910. It is very unsatisfactory, is it not, that a person sitting as a judge should act upon his own knowledge, or assumed knowledge, which has not been communicated to the parties, and has never been criticised? As a lawyer, it gives me a horrible shock that any body should think of doing it. Do you think that is satisfactory?—But is not the Income Tax in rather a different category from ordinary legal questions?

4911. I do not see why it should be—on a question of fact?—May I give you an example? Supposing A returns his profits at £350; he has not kept proper accounts, and he admits it; the Surveyor is of opinion that he is making more than £350; there is no definite evidence on either side; he asks to be assessed by the Special Commissioners, and he appeals to the Special Commissioners. The Surveyor can only say that the man has not got accounts, and he, the Surveyor, thinks he ought to be assessed at £400. The Special Commissioners are completely in the dark. They make a shot; they can do nothing else. They can either accept the Surveyor's recommendation or make a guess; and when it comes to the appeal they are in exactly the same position. Now the Local Commissioners are in a better position, in a case of that sort,

to do justice. It may be that the taxpayer is to blame for not keeping accounts, but knowing the number of business men who do not keep accurate accounts—who will not be bothered—it will never do to penalise the whole lot of them.

4912. Local Commissioners may say: "because he lives in a big house, or because his wife had a new dress last week, we think he must be earning more than £500 a year"—I think it is more than that as a rule. I think they try to do rough justice by comparing the sizes of different businesses.

4913. On that you are satisfied with the present position, subject to strengthening the Local Commissioners?—Yes, give them some strengthening.

4914. What do you say to the suggestion that they should also have a clerk as competent for this particular work as the ordinary Justices' Clerk is for his work?—That would be all the better.

4915. Mr. Warren Fisher: Mr. Kerly, might I interject one question at this point?

4916. Mr. Kerly: If you please.

4917. Mr. Warren Fisher: In regard to Special Commissioners in Great Britain, is it not the case that it is at the option of the taxpayer whether he is assessed by the Special Commissioners?—That is so.

4918. And it is at the option of the taxpayer whether he appeals to the Special Commissioners against a local assessment?—That is so. The point is that you cannot refuse to let a man be assessed by the Special Commissioners.

4919. At his option?—At his option.

4920. Mr. Kerly: I am much obliged. (To Witness)—Now passing on to paragraph 19, you suggest that the three years' average should be abandoned. Is your proposal that last year's actual income should be taken?—That is so.

4921. Apart from bridging over difficulties in passing from one system to another, do you think there would be any difficulty about that?—It ought to be quite possible.

4922. Do you anticipate there would be any administrative difficulty about it?—I do not; nothing insuperable.

4923. Mr. McLintock: With regard to the administration question dealt with in your paragraph No. 10, I take it that generally you think the whole of the issuing of notices, and the imposing of assessments, and collecting of the money, should be in the hands of the Inland Revenue?—Subject to the making of the assessments by the Additional Commissioners in cases where there is no satisfactory evidence of profits, and of appeals to the Local Commissioners.

4924. Tell me, in the first place, where have you gained your practical knowledge of the work of the Surveyor, in what part of the country?—First of all in North London, then in Tunbridge Wells, then in the City, and then in Yeovil.

4925. Were you a Surveyor in the City?—I was an Assistant Surveyor in the City.

4926. And you were a Surveyor down in Yeovil?—Yes.

4927. You have had a good deal of experience of Local Commissioners and appeals to the Local Commissioners?—I have.

4928. In paragraph 11, you say: "The assessments should be made by the Surveyor of Taxes in the case of all profits other than those derived from a business or profession." Why do you except the profits derived from a business or profession?—Further on in the paragraph, I think, I give the reason: because the personal element enters into those cases.

4929. That is only in cases of a business or profession where no accounts are kept. You do not make any qualification there?—The Surveyor is capable of making the assessment where he has accounts—unless he thinks the accounts are doubtful.

4930. Is there any reason, why a Surveyor should not make an assessment even in the case of businesses

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or professions, if he has the materials before him?—He can make them where he has the materials. I think he ought to make them where he has the materials; to save leakage of information.

4931. It is not clear why you except them in that paragraph 11, I mean on the assumption that accounts are available, and copies produced to the Surveyor?—I think lower down I suggest an alternative. I say: "As an alternative it is suggested that the assessments should be made by the Surveyor of Taxes, subject to the proviso that he should take the instructions of two Local Commissioners nominated by the General Commissioners in all cases where he is not satisfied with any accounts, or where no accounts are supplied." Where he has properly audited accounts, I do not see there is any need to go to the Commissioners, because they would only tell him at once: "you must accept the accounts."

4932. So that in every case where accounts can be produced which are satisfactory to the Surveyor's opinion, the Commissioners need not be troubled?—That is what I think.

4933. You agree, do you, that generally speaking, the local knowledge of Local Commissioners does not apply to cities?—I agree.

4934. Do you see any particular purpose that they serve in cities for making assessments? Have you had experience of Commissioners in any city but London?—Only in London, not elsewhere.

4935. Have you had much experience in London?—Not a great deal; I have attended meetings for a year or two.

4936. Beyond what you have heard about other cities, you have no actual working knowledge?—Not of another large city outside London.

4937. But so far as that knowledge goes, do you agree that the Local Commissioners could be quite well dispensed with in large cities?—It depends on how you propose to replace them. They bring in an unofficial element.

4938. As presently constituted?—They bring an unofficial element into the determination of an appeal, which is of value.

4939. I quite agree as to the unofficial element, but the special point you make for their continuance is their local knowledge, and I suggest to you that in cities they have no local knowledge worth having, with regard to the general taxpayer who does not produce accounts?—I think, generally speaking, you are correct.

4940. In paragraph 11 you say: "If permanent whole time Collectors were appointed, the assessments in question might be made by the Surveyor and the Collector." Why do you bring the Collector into that?—Because the Surveyor's local knowledge is limited. He is moved about. He is a bird of passage; and the Collector is there longer; he may have some more local information.

4941. Is it your experience, in a country district, that the type of man who is Collector, even a good type, is capable of assessing his neighbour's income?—No; I think he ought not to do so in a country district at all. I think the other alternative is far better.

4942. Do you not think it is better to keep the Collector in his own sphere, that of handling the money?—I think it is.

4943. And leave the Surveyor to do his work without the Collector?—Yes; giving the Surveyor the right to ask for information which he wants from the Collector.

4944. I gather that your suggestion is that a great deal of assessment might be done at one place, say, a man's residence. He makes the return from his residence of all his taxable income?—Yes.

4945. Do you not think the present bodies of Local Commissioners, constituted as they are, make the average taxpayer disinclined to have his whole income

dealt with from one place; they do not want their neighbours to know how much income they have?—But would that happen at all if you adopt the suggestions I have made?

4946. You make a separate suggestion not to have a man assessed in half a dozen different places?—Quite so.

4947. I suggest that if he is to be assessed in one place, he may object, so long as the present Local Commissioners are constituted and drawn from his neighbours?—Yes, and so long as the books and documents are the property of the Local Commissioners, and not the property of the Board of Inland Revenue.

4948. I quite agree with you. I am entirely of your opinion that should be abolished. I do not think the Local Commissioners and their Clerks should have anything to do with them. Leave them entirely to the Surveyor. You make rather a sweeping suggestion here. You say: "The Surveyor should have the right to surcharge in any particular case, provided he notifies the taxpayer accordingly." It is very simple to notify a taxpayer that you are going to surcharge him, but do you seriously suggest that power should be given to every Surveyor?—Provided there is a penalty on the Surveyor for making a vexatious charge, as there is at present.

4949. What sort of penalty is there on the Surveyor?—I forget the exact amount, but there is a penalty on the Surveyor for making a vexatious charge.

4950. Have you ever known of one being imposed?—No; I cannot say I have made any vexatious charges.

4951. I am not referring to you. Did you ever hear of a penalty being imposed on a Surveyor for making a vexatious charge?—No, I have not. That suggestion of mine is to meet this difficulty. Supposing that the Surveyor has circumstantial evidence—nothing definite, but circumstantial evidence—which leads him to conclude that a taxpayer who does not keep accounts, and who has returned, say £400, is really making considerably more than that, and he cannot persuade the Additional Commissioners that such is the case; they say: "No, we think he is only making £400, and we will assess him on £400". I think the Surveyor should have the right to take the responsibility upon himself, and send the man formal notice that he has surcharged him, and make him prove that his profits are less.

4952. I quite agree it is very desirable in many cases to do that. You propose to give the taxpayer a full right of appeal?—Yes, of course. Then the Surveyor takes the full responsibility for the step; he is the only one who has the information.

4953. It might be liable to abuse?—That would be asking for trouble, and I do not think any Surveyor would embark on that, unless he was very sure of his ground.

4954. With regard to paragraph 12, as to appeals to the Special Commissioners and their lack of local knowledge, you told Mr. Kerly that your only objection to Special Commissioners was owing to their lack of local knowledge?—Yes.

4955. That is, you have a small shopkeeper who says his income is £300, and the Surveyor says it ought to be £400. The Special Commissioners have probably less knowledge than the Surveyor of that man's actual circumstances?—Quite so.

4956. Are you aware that there are nothing but Special Commissioners in Ireland?—I am not in a position to express any opinion about Ireland.

4957. But do you know that they have nothing but Special Commissioners?—I think they have nothing but Special Commissioners in Ireland.

4958. On paragraph 14 have you any suggestions to make to the Commission with regard to the present practice in connection with limited companies who have proper accounts and who lodge them with the Surveyor? You know that at present, in addition to producing their accounts (say) in the month of

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January in response to a request of the Inland Revenue, they adjust the assessments and they agree figures with the Surveyor probably by February or March?—Yes.

4959. Do you know that they go through all the formality of filling up a return afterwards, and they are bombarded with forms if they do not do it, though probably their assessment was agreed two or three months earlier?—I am aware of that.

4960. Have you any suggestion as to how that additional trouble can be abolished?—It was one of the things I was aiming at in paragraph 8, where I suggested that the Act should contain only what is essential for assessment. At present the Assessor is bound to serve those forms, although he knows they are useless.

4961. Then with regard to limited companies who make their returns in a certain way, do you not think that, having agreed with the Surveyor, they should merely have some simple slip that they should sign, concurring in the amount they have agreed, and let that be an end of it?—I see no objection to that.

4962. Then in paragraph 15 you refer to the right of the taxpayer to hold up his tax while his case is under appeal?—Yes.

4963. Is it your experience that that prevails to any considerable extent?—I have come across a good many cases. Of course you cannot tell the motive; it is impossible to say definitely.

4964. The motive very often is to hang on to the money?—Well, you suspect it.

4965. Your evidence generally on the amending of the rules for calculating income is that all assessments should be based on the preceding year's income for all purposes?—Yes. What I am aiming at in the suggestion is that it ought to be possible to calculate every taxpayer's liability by simply calling upon him to make a return of his actual income in the preceding year, and then the officials can do the rest.

4966. Then with regard to abatements and reliefs generally, you do not suggest he should have the right to come along when the actual income of the year is known?—Not if he is always assessed on the preceding year's income. Surely it works practically right in the end.

4967. You mean just as the Super-tax is at present. The income of the preceding year is final for Super-tax purposes?—Yes, for Super-tax purposes, based of course on the Income Tax assessment.

4968. Never mind how it is arrived at, the preceding year's income is final. You want that to apply for all purposes?—Yes, for all purposes.

4969. You raised a point which it is very necessary should be cleared up; that is on the question of assessing interest and income of that description for broken periods. That is paragraph 24. You carry that principle out with regard to non-recurring profits as well?—Yes, that is to simplify procedure. At present you ought strictly to make assessments for the preceding year.

4970. Mr. Synnott: You were never in Ireland?—No.

4971. You know that the practice there is that the Surveyor makes the assessments; or you may take it from me that that is so. You have used an expression or phrase which rather alarmed me, I confess. You suggest that in a doubtful case the Surveyor should get information from the Collector?—He should have that power.

4972. Get information, I presume, as to persons to assess and so on?—At present the Assessor sends in a list of liable persons.

4973. Was that expression or phrase used on the assumption that the Collector was to be a proper civil servant?—Yes, so that he might communicate.

4974. You are aware that in Ireland the Collector may be a local farmer or tradesman?—Yes; he may be in England, too.

4975. You would not suggest that the Surveyor should go to him for information?—Not unless he is a permanent whole time official.

4976. If you have an assessment by the Surveyor do you consider it essential that he should have some local persons to assist him, first of all, in ascertaining the persons who may be liable to tax, and, secondly, on the question of the amount of the assessments?—I think the local Collector should send in a list of persons likely to be liable to tax, and the Surveyor should make the assessment, subject to taking the instruction of the Commissioners.

4977. I cannot find out from your evidence exactly what you propose the Collector should do. Is the Collector to collect or is he to furnish a list of names for assessment as well?—He is to do both.

4978. Do you suggest that he does that or that he should do it?—As a matter of fact he does it at present where he is both the Assessor and the Collector.

4979. Do you think it is right that a perfectly unofficial person holding no responsibility to the State at all, with undefined duties in that respect, should furnish a list of names?—No, I make my suggestion on the assumption that he is made a permanent whole time official.

4980. Then he ceases to be only a Collector?—He becomes a civil servant.

4981. He would be a great deal more than a Collector?—You could call him Collector and Assessor.

4982. Are there not great objections to making a person who is a Collector anything more than a Collector?—The difficulty is how you are going to replace him.

4983. Are there not great objections, which I think must occur to you at once?—Not if he is whole time official; not if he is a permanent civil servant.

4984. I do not like to suggest objections. I think that they are so obvious that they will be present to most of the members of the Commission. You suggest this in paragraph 30, to which nobody has alluded yet: "At present the farmer is treated far more generously than any other taxpayer. If his profits are less than double the amount of his rent the assessment is reduced accordingly, but if they are more the Revenue cannot claim tax on the excess. It is a case of heads he wins and tails the Revenue loses." Is there not some ground for saying that the proposition is quite the other way? Is not the present Income Tax provision on that point on the assumption that the farmer does make as profit double his valuation?—He has a right of appeal.

4985. If that assumption is not correct there is no point in your paragraph at all, is there?—Yes; I am for sweeping away every assumption.

4986. But you are aware that that provision was put in during the war, without, I think, any evidence being collected on the point, and the Agricultural Department is now, I think, obtaining a lot of evidence which seems to show that that is a wrong assumption?—I do not express any opinion as to whether the assumption is correct or incorrect; I simply suggest that we ought not to make any assumption at all.

4987. Are you aware that unless he proves, with proper accounts and so on, that his income is actually less, he has to pay on double the valuation?—Yes, that is the present system.

4988. It is a provision that compels the farmer to keep accounts. He is put in that position different from an ordinary trader, is he not? An ordinary trader is assessed, but he is not assessed on the ratable value of his house, or anything like that; he is not assessed by mathematical formula?—No.

4989. But here he is assessed on a statutory formula based on the valuation, and if he does not prove that his income is less (which he must prove by accounts), he has to pay on an assessment based upon his rent?—That is so.

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4990. *Mr. Marks:* Is it fair to say that your suggestion in regard to administration is that you propose to take a good deal of power from the General Commissioners and to give power to the Board of Inland Revenue?—I think not. I think my suggestions would tend to strengthen the Local Commissioners. They would deprive the Special Commissioners of power. They would strengthen the Local Commissioners.

4991. Let me put it to you in this way. Do not the Local Commissioners now appoint both the Assessor and the Collector?—Yes.

4992. And do not you propose to make the Assessor and Collector into one person and make that person a servant of the Board of Inland Revenue?—Yes; he is a servant of the Board of Inland Revenue, but he is now appointed by the Local Commissioners, which seems to me unbusinesslike.

4993. That is where your point about dual control comes in?—Yes.

4994. Under whose orders is he? Although he is paid by the Board of Inland Revenue is he under the orders of the Local Commissioners?—He has to take the instructions of the Surveyor.

4995. Who appoints the Surveyor?—The Surveyor is appointed by the Board of Inland Revenue.

4996. And he is an official only of the Board of Inland Revenue?—That is so; he has to work with somebody else's servant.

4997. In a case of doubt on the part of the Collector as to what his duties would be he is obliged to take the instructions of the Surveyor or of the Local Commissioners?—He would take the instructions of the Surveyor.

4998. Supposing he did not agree with them has he got any appeal to the Local Commissioners? What I want to get at is who is the authority who has control over the Assessor and Collector?—If it comes to a question of dismissal, of course it is the Local Commissioners. It is rather difficult to answer the question.

4999. You disclaim any intention to reduce the power of the Local Commissioners and to put additional power into the hands of the Board of Inland Revenue?—My idea is to make the Local Commissioners more effective.

5000. So far as I can see you propose to make them more effective by taking away from them some of their existing powers?—By confining their duties to the essential duties of the Local Commissioners.

5001. I will not go into the question of essential duties. You are no doubt aware that many people, particularly taxpayers, regard the Local Commissioners as a sort of palladium of their liberties in the matter of Income Tax?—I am aware of that.

5002. Do you not think it would be rather dangerous, and would tend to disturb the harmony which has hitherto prevailed in the administration of Income Tax, if anything were done to render their powers less?—The appointment of the Assessor and the Collector has nothing to do with that question.

5003. I am speaking on the general question now. If you disclaim any intention of lessening the powers of the Local Commissioners, that is all right; but if there were any wish generally to lessen their power I ask you whether it is not rather a dangerous thing, and would tend to disturb the harmony which has hitherto been a prevailing characteristic of the administration of the Income Tax?—Quite so; I agree with you that it would.

5004. *Mr. Walker Clerk:* With regard to the Local Commissioners, you are rather fond of the word "strengthening." I notice it appears several times in your evidence and also in your replies to questions?—Yes.

5005. You suggest they should be strengthened. How?—I think they want legal strengthening.

5006. They have their own clerk?—Yes, they have their clerk.

5007. His chief qualification is the fact of his knowledge of Income Tax law, is it not?—Partly.

5008. I take it as a matter of fact that the qualification of the Clerk to the Local Commissioners is his knowledge of Income Tax law?—I think not.

5009. Then my experience differs. You do not suggest that they should have any accountancy strengthening?—I do not think it is necessary.

5010. I noticed one phrase in paragraph 39 that struck me. It is in the last line: "The Inland Revenue seems to be in need of an ideal." I am not quite sure what that means?—I think the Department is suffering from the constant changes that have been made since 1907.

5011. Changes in what way?—In the tax itself. There has been practically no rest in the Department since 1907.

5012. But that has nothing to do with an ideal, has it? That is a matter of calculation?—The hurry of those years has tended to make it lose its sense of proportion, I think. I do not think that it has been able to devote its attention entirely to securing fair assessments as between one taxpayer and another.

5013. *Sir W. Trower:* I want to ask you two questions. I think that Mr. Marks has partly covered one of them. I will put it in this way. Do not the public require some local tribunal in which they have confidence, such as the General Commissioners?—I think so.

5014. In your experience, both from the view of the Crown and from the view of the public, do the Local Commissioners satisfy that need?—Generally speaking, I think they do.

5015. Have you known them to make any glaring errors?—No. I have known a them to be a bit careless, I think, sometimes.

5016. What is the practice of Surveyors with regard to Income Tax more than three years in arrears in collection?—The Inland Revenue has practically to take what it can get at present.

5017. What I want to know is whether in all cases the Surveyor of Income Tax demands the arrears of Income Tax whether they exceed three years or not? Is that the practice?—Whether he can demand it, do you mean?

5018. No, whether he does demand it. I am asking on the question of practice?—I think what happens in these cases is that the taxpayer has usually incurred penalties.

5019. I am not asking you that question. I am asking you whether the practice of Surveyors is to demand the amount of the arrears where there are arrears, whether they exceed three years or not?—I think the practice is to ask the taxpayer to make an offer in settlement.

5020. The practice, I put it to you, is to ask in the first instance for the whole of the arrears?—I think the average Surveyor would make that demand.

5021. The average Surveyor asks for the whole. Then after that what happens? Suppose that the Surveyor asks for 20 years' arrears, and they are paid?—In practice I do not think they ever go beyond ten years. I never had a case.

5022. I am quite content with ten years; I have known it more. A Surveyor asks for ten years and the taxpayer pays it. Is that so?—Assuming that he does.

5023. Assume that he does. Is it explained to him by the Surveyor, before the receipt of the ten years' arrears, that the Crown, where there is no fraud or misconduct, has power to assess him only for three years? What is the practice?—I think a settlement is made in each case having regard to the facts of the case.

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5024. That is not my question. If you demand ten years' arrears and no question is asked, I am asking you whether it is explained to the taxpayer that he is not liable?—I can only say that the facts are usually put before the taxpayer.

5025. Is it so?—I cannot say what other people do.

5026. Did you in any case demand arrears of more than three years?—I have had cases where taxpayers have defrauded the Revenue.

5027. It is not a question of defrauding the Revenue; it is a question of mistake. Where they have defrauded the Revenue, time is no bar; you know very well that they can assess you for more than three years and they can impose penalties; but where there has been a mistake which is subsequently discovered, the taxpayer can be assessed on three years if it is a genuine mistake, and three years only?—But you can only assess him for three years even if there is fraud; you can impose penalties, of course, which enable you to get the loss to the Revenue.

5028. But in the case which I am putting to you where there has been a mistake and there has been more than three years, have you demanded the larger sum and got it, without any explanation to the taxpayer?—I have not had such a case, but it entirely depends on what you consider a mistake.

5029. You know there are such cases?—It is difficult to draw the line between a mistake and a fraud.

5030. Mr. McLintock: There is one question I would like to ask. In paragraphs 35 and 36 you refer to professional accountants being presumed to know the rules for calculating profits, and you go on to say that they should be required to do certain things. Has it not been your experience that accountants to-day do all that you there suggest they should do?—No.

5031. The great bulk of tax under Schedule D is raised from the large taxpayers in trade?—Yes.

5032. And the bulk of them are assessed on accounts?—Yes.

5033. And it is the rule, not the exception, that these accounts are produced and agreed between the Surveyors and accountants?—Yes.

5034. And most accountants return to you all the items which in their opinion, after checking the accounts, are not proper charges in taking expenses for Income Tax purposes?—I cannot agree with that.

5035. Is that your experience in the City of London—that accountants do not do that?—I am referring more to country accountants.

5036. I suggest in the country districts there are practically very few practising accountants at all, and certified statements are more or less unknown except for a few odd taxpayers?—I think you are wrong.

5037. I suggest this to you, at any rate: that in the cities and in the big centres, where the bulk of the tax is raised, what you suggest should be done is actually done at the present moment?—It may be in the cities; it is not done in the country.

5038. In the City of London was it your experience that the accountants facilitated and helped very much the adjustment of the liability with the Surveyors?—In many cases they did; in most cases they did.

5039. And did they disclose to the Surveyor all the items in the accounts which ought to be disclosed for taxation purposes?—It is rather difficult to agree there, because the Surveyors have to make a great many inquiries.

5040. You agree that there are a lot of spade work inquiries which are sent out by the Surveyor, it does

not matter what sort of account it is?—That is so; it is to avoid that that the suggestion is made.

5041. I suggest that you could not well avoid that with some Surveyors. I want to know whether your own experience is that accountants do generally carry out that work which you suggest is something new to be done by them?—Good accountants do.

5042. Then in paragraph 36 you say: "To strengthen the hands of accountants in dealing with unscrupulous clients who might expect them to assist in defrauding the Revenue." Whom do you mean by that?—I have come across cases—

5043. Of unscrupulous accountants who were willing to assist their clients in continuing a fraud knowingly on the Revenue?—No, I was not going to say that. I was going to say that I have come across cases where the accountants were not certified by the accountants.

5044. Accountants need their hands strengthened; somebody has been so weak that he has fallen. You refer to accountants generally. I suggest that you very seldom meet that, and that most of the cases of discovery of failure to pay duty have come from accountants themselves?—My experience does not quite agree with that.

5045. Have you had any experience of accountant coming along to disclose the fact that an under-payment has been going on systematically for years?—I believe those cases do happen.

5046. But you have no experience of them?—I do not remember one at the moment. Of course the accountant often points out items which have been omitted or overlooked.

5047. Have you any suggestion to offer as to what the duty of an accountant is when he comes across this state of matters and wishes to have it put right, but is afraid that his client is going to be criminally prosecuted if he makes a disclosure and gets him on the right track?—There is a difficulty there, certainly.

5048. Because, remember, your suggestion in your next paragraph is that the Inland Revenue authorities should never take the money from a taxpayer; they must punish him. In paragraph 37 you say: "The penalty for all offences of a fraudulent nature or attempts at evasion should always be fixed by the Commissioners or Court, who should have the power to make the punishment fit the crime." Which Commissioners are to have the power to do that?—It would be the Local Commissioners, because under my suggestion they would hear the appeals.

5049. You do not seriously suggest the Local Commissioners having that power?—Or the Court if it is a case of prosecution.

5050. Then that comes back to the question I want an answer from you upon. What is to happen when an accountant comes along and voluntarily makes a disclosure on behalf of his client and offers to pay up all the arrears even for 30 years, or 50 years, and interest, if your suggestion is to be carried out that the Inland Revenue must not take it?—I see your difficulty.

5051. Is the difficulty that it is a bit late in the day?—The difficulty is that direct settlement with the Inland Revenue seems to me to encourage other cases of fraud.

5052. I am dealing with it from the point of view of the professional accountant, with which these two paragraphs specially deal. If your plan is carried out, that the Inland Revenue are to take no money, the professional accountant bound to come and tell the Revenue, ought he to come and tell the Revenue, knowing that his client may have to go to gaol?—I think he ought, but I think he is in a very difficult position.

5053. Chairman: Thank you for your evidence.

Mr. L. H. M. DICK, on behalf of the Royal National Pension Fund for Nurses, called and examined.

5054. Chairman: You are the Secretary of the Royal National Pension Fund for Nurses?—Yes.

5055. You have come here to represent a class of persons for whom it is not easy to find a representative in this country; that is, people of small means

living in the Dominions and Colonies and elsewhere abroad, deriving income from this country?—Yes.

5056. Will you state your case to the Commission?—(1) I am secretary of the Royal National Pension Fund for Nurses, which is a mutual and co-operative fund

[19 Jan., 1919.]

Mr. L. H. M. DICK.

[Continued.]

for the provision of annuities to hospital nurses. The fund is incorporated under the Companies Acts and the Life Assurance Companies Acts. It is not a charitable organisation, the pensions or annuities being provided from a fund built up out of premiums contributed by the nurses. The total membership at 31st December, 1918, was 11,000.

5057. (2) I desire to call attention to the hard case of British subjects resident abroad who derive income from the United Kingdom, and who in the United Kingdom would be entitled to claim exemption or abatement of Income Tax.

5058. (3) Under section 96 of the Income Tax Act, 1918, no exemption, abatement, or relief which depends wholly or partially on the total income of an individual from all sources shall be given to any person unless such person is resident in the United Kingdom, with a proviso, among others, that any person who resides abroad for the sake of health may claim as if resident in the United Kingdom.

5059. (4) The Royal National Pension Fund for Nurses has 109 pensioners who reside abroad, 65 of them living in British Dominions and 43 in other countries. They are all women who have, by exercising the greatest thrift and self-denial, scraped together during their working years sufficient to assure themselves a small annuity when past work. The pensions payable out of the Fund to these women range from a few shillings per annum to about £95. The average pension paid is slightly over £27 a year.

5060. (5) Under existing law Income Tax is deducted at the full rate (now 6s. in the £) on payment of these pensions, with the result that their amount is reduced by nearly a third. In most cases the pension paid by this fund is the sole source of income which the nurse possesses; but at the present time the tax deducted reduces the average pension of £27 to £18 4s. It is easy to realise the crushing effect of this huge deduction and how impossible it must be for these poor women to exist except by public or private charity.

5061. (6) From their point of view the position is made worse by the fact that the majority are living within the Empire—mainly in Australia and South Africa—and they feel bitterly that they should be made to bear so uneven a burden, in spite of the fact they are under the British flag; for the nurse resident in the United Kingdom, if similarly placed financially, is entitled to complete exemption.

5062. (7) If the provisions of Income Tax law could be so amended as to place British subjects resident abroad on the same footing as those within the United Kingdom, these old pensioners could have complete exemption.

5063. (8) The Departmental Committee on Income Tax, 1905, which reported in favour of abolishing the grant of exemption or abatement by reason of smallness of income in the case of persons resident outside the United Kingdom (Cd. 2575), suggested that "if it be thought well to make an exception for British subjects resident abroad, relief should be granted only on a certificate from a British Consular Officer (or, in a British colony, from the Colonial fiscal authorities) that the claimant has produced proper evidence showing that his income from all sources is within the limits." This suggestion was not acted upon when the law in regard to repayment claims was amended by section 71 of the Finance (1909-1910) Act, 1910, but I submit that it would have afforded ample protection against fraudulent claims for repayment.

5064. (9) It is true that some of the Royal National Pension Fund pensioners reside abroad for the sake of health, and are therefore entitled to relief from Income Tax under existing law; but the delay involved in obtaining repayment is so great that with the present high rate even a temporary deduction of tax from such small incomes involves hardship.

5065. (10) With regard to the sixty-six nurse pensioners who reside in the British Dominions the question is to some extent one of double taxation within

the British Empire. These pensioners are, of course, subject to taxation according to the laws of the Dominions in which they reside, and it is an undeniable hardship that they should be further subjected to heavy taxation on the small income derived from the United Kingdom.

5066. (11) The case of the nurse pensioners who reside in foreign countries makes less appeal from the patriotic side, but the individual hardship is equally serious.

5067. (12) Both classes can be readily distinguished from the case of the person (perhaps a foreign millionaire) who has invested money in British shares or securities from which he derives dividends. Under the law as administered from 1908 to 1909 such persons could claim exemption if the total income derived from the United Kingdom did not exceed £160, and similarly as regards abatement. This anomaly was removed by the Finance (1909-1910) Act, 1910, but sufficient care was not taken to safeguard the legitimate interests of British subjects of small means resident abroad, with the result that great hardship has been imposed on a humble and deserving class. It is particularly hard that a British subject living in the British Dominions should be charged the highest rate of United Kingdom Income Tax on a small income which represents a return of savings with interest added, when, if the savings had been invested here otherwise than in the form of an annuity, tax would either not be chargeable at all or chargeable on the interest only.

5068. (13) While I have no figures showing what would be the total cost to the Chancellor of the Exchequer of granting relief to British subjects of small means resident abroad on the lines indicated in the Report of the Departmental Committee on Income Tax (Cd. 2575) I am confident that it would be negligible.

5069. Is there any particular point that you wish to call attention to or to amplify?—The only point I want to emphasise is that these unfortunate creatures are most of them living abroad, not because they want to, but because in many instances it is the cheapest place for them to live, and the income which they are living on now is wholly derived from the savings of a very hard lifetime. They are for the most part working women, and their working life is a short one. You will see the average pension is a small one, an average of 10s. a week, and out of this they have to pay at the present moment 6s. in the £, the highest Income Tax which is chargeable. It is peculiarly hard to them, because they are living under the British flag, and the majority of them are intensely patriotic. There is no class of subjects of this country who have worked harder or more loyally, and at a very low pay. I think it is all in those few words.

5070. That is all you wish to say, then?—That is all I wish to emphasize.

5071. It is rather a pathetic case that you have to bring?—It is horribly so. I have received dozens of letters, and I have copies of them for the Commission, if you care for me to read any of them; they are all on the same note.

5072. Have you thought at all what amount the Revenue would lose?—It is perfectly impossible for me to form any estimate at all; but it must be inappreciable; the numbers are very small.

5073. Sir F. Whitaker: Have you thought of any method by which these extremely deserving cases could be relieved without endangering the practice of the Revenue with regard to residents abroad generally?—Yes. I think it would be possible to make quite certain that their incomes were within the limit, whatever the limit is. I do not think there would be the slightest difficulty in establishing that fact.

5074. Subject to that, I cannot help feeling that everybody would wish to do as you suggest.—Yes. You can have no idea what it means, and the pathos of the whole business.

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MR. L. H. M. DICK.

[Continued.]

5075. *Chairman*: This is a pathetic paper of yours. —And it would be much more so if you saw the letters.

5076. *Sir E. Nott-Bower*: You say you have received dozens of letters. Are those all from retired nurses, or are they from other people in a somewhat similar position?—Mainly from nurses. I have had two or three from other people sent to me since I was asked to give evidence. I had one yesterday from a lady who is the treasurer of a women's hospital. She refers to a relation of hers who is resident in New York, whose whole income is under £150 a year, and who is obliged to live in the States because she has to look after her son and a son-in-law there. The whole of her income is derived, her £20, from a pension provided by her husband's contribution to the Established Church of Scotland Widows' Fund, which you probably know every Established Churchman has to contribute to in Scotland.

5077. Your proposal is to follow a suggestion of the Departmental Committee on Income Tax of 1905; that is, to exempt from the provisions of Section 28 British subjects resident abroad?—Yes, that is so.

5078. I see that already under this clause any person resident in the Isle of Man or in the Channel Islands is relieved under the proviso?—Yes, but unfortunately some of these people have thought of living there, or are able to live there.

5079. It is a little difficult to understand in principle why the person in the Isle of Man or the Channel Islands is relieved from the operation of the Section. Your suggestion is that the Department here should be put in a position to satisfy itself by evidence that the total income of the British subject who has gone to reside abroad is within the limits within which relief would be given if they resided in this country?—Yes, that is the idea.

5080. Your particular clients, these poor nurses with their small pensions, would command the sympathy of everybody; I am quite certain of that.—Yes; I think they ought to.

5081. *Mr. May*: Have you knowledge of any other organisations whose pensioners or members would be in a similar position to your members?—No, I am afraid I cannot answer that; I do not know.

5082. You have not come across any cases that would be similar?—Cases, yes; but not organisations. I have a case of a man living in Spain. He says: "My brother is living in the province of Merca in Spain. He has a small income, not over £200, from securities in this country, and besides that he loses 17 to 19 pesetas in the £ on exchange." So that they not only have him on the Income Tax, but on the exchange, and his income is reduced to considerably less than half.

5083. My point was as to whether there was any considerable number of persons or organisations who would benefit by a concession?—That I am sorry to say I cannot tell you.

5084. You would not say that the lady who lives in New York lives there because it is cheaper, would you?—From my experience I should say not—not in that particular instance.

5085. *Mr. Walker Clark*: Your organisation is an insurance really?—Yes.

5086. You do not ask for any different treatment from an insurance society?—No.

5087. *Mr. Marks*: Have you any knowledge of the arrangements which the Life Assurance Offices have with the Inland Revenue by which they pay small pensions to persons exempt in full, on a declaration by the annuitant?—Yes, we do that in England.

5088. I do not know whether it would be possible within the four corners of the law, but it seems to me to afford a valuable precedent for the Inland Revenue in regard to persons living out of the country?—We suggested that some years ago, and they said we could not do it.

5089. *Mr. McLintock*: I suppose your claim is that the non-resident British subject, if may be in the Empire or in a foreign country, should obtain the same measure of relief as if they lived in this country?—Yes.

5090. You appreciate that, however deserving the case of the nurses may be, and they are very deserving—this will have to be given to everyone?—Yes, quite.

5091. All the small incomes of all the British subjects, wherever they may be, and whatever their calling may be. You appreciate that it is a little difficult to give it to the nurses without extending it to everyone in the same position?—It might be.

5092. Do you press for a special enactment for nurses alone?—If that were possible, yes, sooner than lose the chance of their having the benefit.

5093. That, of course, would raise the question from many others where there is an undoubted hardship as well?—Yes. Of course, on this particular class the hardship is greater than one can imagine any other class suffering.

5094. You fully appreciate, in putting this forward, that it means extending it to every Britisher with a small income, wherever he may be?—Possibly it may have that effect.

5095. *Chairman*: Thank you.

NINTH DAY,

WEDNESDAY, 2ND JULY, 1919.

PRESENT :
LORD COLWYN (*in the Chair*).

MR. BOWERMAN.

MR. BRACE.

SIR E. E. NOTT-BOWER.

SIR J. S. HARMOOD-BANNER.

SIR W. TROWER.

MR. HOLLAND-MARTIN.

MR. WARREN FISHER.

MR. BIRLEY.

MR. WALKER CLARK.

MR. KERLY.

MRS. KNOWLES.

MR. MCINTOCK.

MR. GEOFFREY MARKS.

MR. MAY.

SIR GILBERT KINHEM TREFFRY PURCELL, Chief Justice of the Supreme Court of Sierra Leone, called and examined.

5096. *Chairman:* You have had 18 years' experience on the west coast of Africa?—Yes, next September I shall have been there 18 years.

5097. We have got your statement. Would you like to take that statement and read it?—Yes, I should like to do that.

5098. Then probably some questions will be asked you by the Commissioners?—I welcome any questions that may be asked. I am only wishing that every light shall be thrown on this from our point of view. I have resided in British West Africa for nearly 18 years, 10 years on the Gold Coast where I was a Puisne Judge of the Supreme Court, and since September, 1911, in Sierra Leone, of which colony I am at present the Chief Justice. I believe I am in a position to speak on behalf of all Government officials serving on the west coast of Africa with regard to the unjust way we—as a body—consider we are being treated in this matter of Income Tax.

5099. For over 70 years the Inland Revenue authorities had never put forward any claim that Income Tax was payable by Colonial officials like myself—whose incomes were derived from a non-taxable source—(viz., the revenues of the Colony in which they were serving) and whose occupations compelled them to live abroad, but whose dependants—owing to unwholesome climatic conditions—were forced to live in England, in fact the very instructions issued to Surveyors of Taxes recognized this, as they laid down, *inter alia*, "A wife receiving an allowance or remittance from her husband abroad when such allowance or remittance is derived from trade profits, or a salary, &c., is not taxable."

5100. I pause there to say that I notice in this memorandum that the Board of Inland Revenue prepared, [see Appendix No. 17] they seem to doubt the veracity of that statement. I speak with full knowledge of what I am saying, and I respectfully challenge the Board of Inland Revenue to show that there was ever a demand made on people like myself for this tax till 1915-1914. I know that I can be borne out by Sir Edwin Speed, the Chief Justice of Nigeria—I have a private letter in my pocket from him, which I do not want to read—and Sir Frederick Van der Meulen, a Judge of Gambia, that that is a fact, and every single man who has lived in West Africa will bear me out that this claim was never made until a few years ago.

5101. But about 1913 the Board of Inland Revenue adopted a completely different attitude—an attitude which I submit with very great respect, is not only inexplicable and unreasonable—but is really a complete contradiction in terms of the instructions to Surveyors which I have just adverted to.

5102. The method adopted by the Board was to force all Colonial officials arriving in England on leave to make a full return of their incomes from whatever source arising, and then, if they or their wives maintain a house in England (other than a furnished house or apartments), to assess them for Income Tax on their full income. I understand that the reason which has induced the Board of Inland Revenue to adopt this attitude and force people like

myself to pay Income Tax is the judicial decision in the case of *Inland Revenue v. Cadwalader*, (5 Tax Cases 101). I need not read the head note to that case, but I say I was informed of that fact by one of the leading officials of Somerset House. That statement has also been made to Sir Edwin Speed and Sir Frederick Van der Meulen. I do not think it is necessary to mention the gentleman's name, unless I am forced to do so; it was a private communication; but there is no doubt that the Board of Inland Revenue, according to my information put that forward as the reason. I find now that the case was decided in 1904, but at any rate this has been put forward to us when we complained: "well, there is a judicial decision, and you have got to come into line with it." That is the reason given to us by the Board, or by the officials representing the Board at Somerset House. Whether it is really so now, on the memorandum that they put forward, [see App. No. 17] I do not understand at all, but that is what I have been told, and I am perfectly sure if I called the gentlemen here before you who told me he would not deny it.

5103. Until some six years ago there was never any question of persons in the position of Colonial Government officials being liable to the payment of Income Tax in the United Kingdom in respect of salaries paid in the Colonies, and they only became liable as a result of the judicial decision just quoted, upon a technical point, which it is probably not incorrect to say was never present to the mind of the Legislature. I consider that the circumstances of a wealthy American who maintains a shooting box—as did the defendant in the case of *Inland Revenue v. Cadwalader*—and a Colonial Government official devoting his life to the service of the Empire in an unhealthy climate, who is keeping a small house in order to bring up a family, are so entirely dissimilar as to make it only just that they should be distinguished.

5104. The position is that the Inland Revenue authorities, in view of the decision in the case of *Inland Revenue v. Cadwalader*, have decided that Colonial Government officials who maintain a house in the United Kingdom—which in West Africa applies only to the married officials—if they are themselves in the United Kingdom for a single day in the financial year, must be treated as being domiciled in the United Kingdom in so far as they are liable to pay Income Tax on all portions of their salaries earned and payable in the Colonies which in the course of the year they may either draw in or remit to the United Kingdom.

I pause to make this remark. I have got a boy at a public school. Education is now a very expensive thing. When I come to England I have got to get decent clothes to wear. Clothes and necessaries of life of that sort are frightfully expensive now. It seems to me hard that I have to pay Income Tax on every farthing I remit to England to cover those liabilities of education and cost of clothing; but it is so, and it hits people with less salaries than myself much more; it absolutely beggars them and pauperizes them.

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SIR GILBERT K. T. PURCELL.

[Continued.]

5105. However fair the ruling which has been given may be in the case of people who are not bound to maintain a home in the United Kingdom when employed in other parts of the Empire where it is possible for them to make a home, may I be allowed to point out the great hardship which this entails on persons employed in the unhealthy parts of the Empire, such as West Africa? The men who go to such places are all poor men, and those of them who maintain a home in the United Kingdom are, I think, without exception, men who are married and are under great difficulties endeavouring to bring up families from whom, for climatic reasons, they must be separated—indeed, Government officials in West Africa are not allowed to have their children with them—while for reasons of health they must themselves come to the United Kingdom at infrequent intervals, and so bring themselves within the ruling of the Inland Revenue authorities. Also the salaries of Government officials in West Africa are not large (they are frightfully small, as a matter of fact), and were in most cases fixed before there was any thought of their recipients having to pay Income Tax thereon in the United Kingdom in addition to the ordinary taxes in the Colony in which they reside.

5106. During recent years the salaries of Government officials in West Africa have in some cases undergone a revision, but there are still many offices, of which that occupied by me is one, the salaries attached to which are now precisely the same as they were many years ago, long before the decision in *Inland Revenue v. Cadwalader*, or before there was any thought of the occupants of those offices being called upon to pay Income Tax in the United Kingdom in respect of their salaries.

5107. The question involved would appear to be peculiarly a West African one, for in most parts of the world there is no absolute deterrent to a married man making a home for his children in the locality in which his work lies. The result is, therefore, so far as West Africa is concerned, that the ruling as regards Income Tax falls, I think, almost entirely, upon the married man who can least afford it, leaving untouched the bachelor, who would be in a better position to meet it. While the amount of Income Tax received from married officials in West Africa must, from the Exchequer point of view, be very small indeed, yet it does fall very hardly upon the individuals who have to pay it.

5108. I would further point out that, contrary to the practice which obtains in the Indian Civil Service—which is, perhaps, the Service which is most similar to the Colonial Government Service—if an official dies the whole of his deferred pay, from which presumably his pension is paid, reverts to the Government, and his widow and orphans receive no pension at all from the Government. It is, therefore, incumbent on the married official out of his salary to make provision for his dependants by contributing to the Widows and Orphans Pension Scheme and by insurance, for which latter the rates are very high.

5109. I may say that, under present conditions, having to insure one's life, having to make provision in the case of death, which in a place like West Africa one always has before one's eyes, and with the additional burden of the cost of living, and Income Tax on the top of that on your whole salary, it practically, as I say, paralyzes a man like myself.

5110. Do you get any exemption?—At the present moment I may mention I am having a controversy with the Inland Revenue—a perfectly friendly and amicable controversy—about whether I shall pay £85 or whether I shall not. Of course, they will make me pay it no doubt, and I shall have to pay it, because I am not in a position to fight them; but I believe myself if I had the money they would take me up in the House of Lords, and if I lost it would cost me over £1,000, and I have not £1,000 to play with. The hardship in my case is this: they are taxing me on a technical point, because it is a purely technical point they are trying to get me on, and I am perfectly sure if it came before a competent tribunal it would be blown out of court at once, but I say I have not got the money at present to indulge in the luxury of fighting it. My wife has a small income; as a matter of fact, she has an income of just under £200 a year, and

what they do is to take 6s. in the £ off her miserable dividends, and I cannot get it back from them because they will not recognise my wife as a legal entity. They will not recognise her in this transaction. They say: "you must claim," and I cannot do it because I have been in England.

5111. Mr. Kerly: I do not quite understand; you say you cannot claim because you have been in England?—What I am telling you now is rather going off the point of my main evidence, but it shows the hardship in my particular case. I do not know whether it applies to many West African officials, because in my opinion very few West African officials have wives with any money at all, but in my case it happens that my wife's dividends have to pay 6s. in the £, whereas the tax ought to be on £280, about 2s. or 2s. 3d. They tax it at the source, because it comes from dividends.

5112. Chairman: Unearned income 3s.?—I am much obliged to your lordship. She pays exactly double what she ought to pay, in my opinion, and when she tries to get it back she cannot, because they say: "your husband has been in England, and we do not know you in this transaction. You have no legal entity at all." I do not know if your lordship noticed in a leading article in "The Times" a short time ago it spoke of the extraordinary attitude of the Inland Revenue in that they insist on refusing to recognize the legal status of a married woman, and my case exemplifies that position of the Board in working terrible hardship, because I am taxed myself on my income, and have to pay a heavy Income Tax for a place I never live in, because I am not domiciled in England; I only come here for a temporary purpose. I spend my life in a West African swamp. When I come here they say: "you live here." I say: "no, I do not." They say: "well, your wife does, and she is your agent." Therefore, if I land in England for a single day, or hypothetically for five minutes, I have to pay Income Tax on my whole income and my wife's 6s. in the £. It is deducted at the source. The moment she tries to get it back they say: "we do not know you at all." So I am deeply hit, and I think if I could get back all that I am entitled to it would amount to a very considerable sum of money.

5113. It is quite right that you should speak quite fully all that you feel on those matters—I could not tell you all I feel.

5114. If there is any injustice, it is the proper thing to bring it before this Commission?—May I say one thing that occurs to me? West Africa is absolutely different from any other place. I lived in the West Indies once for three years without coming home. The West Indies are the tropics, and parts of the West Indies are very unhealthy, but it is nothing to West Africa. I do not want to make out that the place is worse than it is, but I have been there for 18 years, and I believe I have served as a judge in West Africa longer than any other Englishman has ever served; at any rate, if not, it must be very nearly. I must hold a record, or very nearly. It is impossible for people to understand what living in West Africa means unless they have gone and tried it. The number of men I have seen die, the number of men I have seen invalided, and the number of men whose health has been entirely shattered by living there makes it so absurd to talk about India, and Indian officials, when they can get away to a place like Simla and hill stations, where you can get every luxury, where the judges are drawing £5,000 a year—it is true it is payable in rupees, but as long as you spend the money in the country the value is the same. A man with £5,000 a year in India can bring up a wife and family in India. We know perfectly well that men like Lord Chelmsford, and other people, go there and do not come home for five years. Why? Because it is not necessary. They could not go to West Africa and stop there for five years unless they ordered their coffin first.

5115. Mr. Bouverton: You suggested that a distinction should be drawn between a married man and a bachelor. May I assume that the salaries are the same in each case?—I have known bachelors who are

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[Continued.]

Governors. Sir Mathew Nathan was Governor of the Gold Coast, and he was a bachelor, and is still as far as I know. That is a mere incident. Most men who have got to a certain time of life, of course, marry, but I think a man who is in West Africa, and has business in West Africa, is very foolish to do it; I think he regrets it very much afterwards.

5116. But you cite the case of the bachelor as against a married man; would you say whether the salaries are identical?—There is no difference. Whether a man is married or is single makes no difference to his promotion in the Colonial service; that is a mere incident. I suppose it is the same in every service.

5117. I am right in saying that the salary is the same?—Yes; there is no distinction between a man being a bachelor and a married man as far as his salary is concerned.

5118. Your point is that, that being so, the married man with a family who has his boy or girl educated in this country is penalized unduly?—Yes, and I want you clearly to understand this: I do not wish because a man is a bachelor to tax him at all. I am not in favour of that. The salary is the same, and if a man chooses to marry after all it is his own business. But I do say this for a man like myself, who has got children, it penalizes him out of all reason altogether. I quite see that the Inland Revenue authorities with that decision of *Cadwalader* no doubt have got an arguable case. I am not disputing the legal contention of that for a moment.

5119. Chairman: I think Mr. Bowerman's question arose because you speak of the bachelor escaping. Mr. Bowerman wanted to press that point on you. You say you do not see any injustice in that. When you were asked by Mr. Bowerman you said that the bachelor ought not to be taxed more than the married man?—I certainly do not think so. While I was on my way here I went to see the Governor of Sierra Leone, who happened to be in England on leave. He and his wife are staying in an hotel in Suffolk Street. They have no children; they are middle aged people, and have come to England, and do not maintain a house in England. I told the Governor where I was coming, and he said, "if it was not for that absurd rule"—as he called it—"I should keep a flat in London, but I am not going to do that because I should be taxed on my whole income if I did." So when he comes to London, having no family, no children to educate, or a wife to keep in England to look after the children, he simply stays in an expensive hotel for a few weeks, or months, and goes back to Sierra Leone, and does not pay a farthing in tax. He gets three times as much income as I do, and does not pay a farthing for it. If that gentleman had two or three sons at a public school, and his wife had to stay in England to look after them, he would have to take a house in England, and on the whole of his Sierra Leone salary he would have to pay Income Tax; he would have to pay Super-tax in fact.

5120. Mr. Bowerman: You rather suggested that if a competent tribunal could be set up the point you argue would be endorsed?—No. The point of my raising that question with the Inland Revenue, which is not before you at this moment, is this, that the house they are trying to make me liable for is my wife's house, and not mine. I say that a married woman since the Married Women's Property Act is a *fee simple*, in the eye of the law. Lady Purcell's house is not my house. I know the Inland Revenue, or some of them, take the view that my contention is a sound one, but I believe the majority of the Board will not listen to it.

5121. I understand you to say that whilst you were not sufficient enough to test it in the Law Courts, if a competent tribunal were set up you feel sure that your case would be endorsed?—I believe this, if I could afford to fight the Inland Revenue on the point I am raising, that is that Lady Purcell's house in England is not my house—and it is in respect of that house they are trying to get £55 from me—up to the House of Lords, or to the Court of Appeal (I do not say in the first Court) I could win it. With a competent counsel to argue the case I believe I should win.

5122. I only wanted to ascertain what that competent tribunal might be?—I hope you do not think I am throwing any disparagement on the courts of this country.

5123. No, but coming from you I just wanted to follow it up if I could for the moment?—I may tell you this, with all respect, that there have been decisions in the courts of England which are not regarded as satisfactory at all. The late Mr. Danckwerts, who was a great authority on Income Tax, used to talk in the most disparaging tone very often of some of the decisions which came from the courts. I do not wish this Commission to misunderstand me. I have great respect for the courts of this country, and I should be very sorry that anything that fell from me should be thought disparaging to them at all.

5124. You realize that an appeal to the courts is a very expensive matter?—I know it is. I may say in answer to your question that if the Board of Inland Revenue would meet me in a way that I think is reasonable I would fight them. What I mean is this. I want them to say that if I fought this case that I would to litigate with them they will not ask for costs. I am quite willing to pay my own costs, but they would take in the Law Officers of the Crown, Sir Gordon Hewart I suppose, and it would be a very expensive matter.

5125. Chairman: Do you think that is quite for us to deal with? The question to you was only with regard to this competent tribunal?

5126. Mr. Bowerman: Apart from what you may have to pay in this country—the taxation in your Colony particularly heavy?—There is a heavy import duty, of course.

5127. I mean personal taxation?—I do not think there is any personal taxation as far as I know.

5128. If you were not paying Income Tax in this country you would not be paying anything in the nature of Income Tax in the Colony?—Certainly there is no Income Tax in West Africa that I am aware of.

5129. Mrs. Knowles: That is the question I wanted to ask you. If you did not pay Income Tax here you would not pay any tax anywhere?—I quite agree, but my point is that my income comes from a non-taxable source.

5130. And for the security afforded to your wife and children in England you would not be paying anywhere, would you?—I do not follow that argument about protection afforded to my wife and children; would you mind amplifying it a little.

5131. The State in England has got to be kept going; somebody has got to pay for that?—Yes.

5132. You choose to bring up your children in a place which is the best place in the world; therefore it seems to me that you should contribute something towards the security and the amenities of life that you choose to enjoy?—With great respect, if that is the view you take about it I am afraid that any argument I could put before you would be useless. If people take the point of view that I ought to pay for living in a place like West Africa I have nothing to say about it.

5133. Your wife does not live in West Africa?—She did live there once and nearly died.

5134. I quite agree. I would not live there for the world, but as she is living here it is not reasonable that she should contribute something?—She does; she pays £6. in the £.

5135. Why do you not get it back?—I cannot get it back. I have tried, and they say they do not know my wife in the transaction.

5136. How often do you get leave? To what extent do you benefit by the amenities of this country?—The rules are that you are supposed to get leave after twelve months' service; you get four months' leave in England from the day the ship lands you in England, but that is subject to the exigencies of the service, and the last period of service I did was 23 months. I was out in West Africa exactly 23 months from the time I went to the time I left.

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[Continued.]

5187. *Chairman*: In five years how long do you spend in England?—It comes to this. You do twelve months, and come home for four months; then you go out again for twelve months, and come home for four months.

5188. Do you get a quarter at home, and three-quarters of the year out there?—No, you have to do a full year out there, but nearly always a man stays longer than twelve months, and for every extra month he stays he gets ten days extra leave.

5189. *Sir E. Nott-Bower*: The liability that you incur you incur because technically you are a person resident in the United Kingdom?—That is exactly where I join issue. I say technically I am not resident in the United Kingdom, for this reason, that I am not domiciled in the United Kingdom. I say the fact that Lady Purcell out of her own money leases a house from a landlord who is a stranger to me, does not make me a resident in the United Kingdom. It is a place I only come to for a temporary purpose at long intervals of time.

5190. But you have either for yourself, or your wife and family, a permanent residence?—No, I have not. I have been driven out of my house, and I have got no house at all. We are living in expensive hotels. We had a house at Gaidford, but we gave it up. When I say we had, my wife had a house; she leased a house there.

5191. I understand, of course, that point is special to your case, that the house was taken in the name of your wife, and on that point you think you would win?—When I say the house is taken in the name of my wife I want to explain to you that is not quite the correct way to put it, because my wife is not wholly dependent on me for all the money she has got. If my wife was wholly dependent on me I should agree with you that the house was taken in her name.

5192. But you do not quarrel with the general rule of the Income Tax Act which imposes a larger liability on persons who are resident in this country than on persons who are not resident here?—I do not quarrel with anything. All I want to do is to put before this Commission the views of people like myself who are earning their living in a very, very hard way. I may say this, with all respect, I do not hope for anything; I have lived too long in the world to hope to get any amelioration.

5193. I think your case really comes to this, does it not, that there is a considerable hardship in applying to West African officials the general rule of the Income Tax Act with regard to the liability attaching to residence, and there is a special hardship in applying that to West African officials, because the climate of West Africa is so dangerous that although they spend the greater part of their lives out there they are almost obliged to maintain a residence for their wives and children in this country?—Perfectly true. I quite agree with you; that is what I say.

5194. *Mr. Kerly*: So far as the general question goes, apart from particular hardships, which you unfortunately bear, either you must leave the law as it is, or you must alter the law which says that a man personally living abroad is a resident here if he maintains a house?—I do not follow; do you mind repeating the question?

5195. Do you make any general complaint, apart from your special trouble, of the rule that a man is held to be resident here if he maintains a household here, although he himself is normally abroad?—Certainly. I think that in justice to me the law ought to be altered so as to exempt people like myself who are maintaining a family under great difficulty.

5196. Then your complaint is a general one about the rule of residence?—My position is a general one, I complain generally of the position of people like myself.

5197. I know, but I am sure you appreciate that I am trying to analyse your complaint into its constituent elements to see which of them we have got to deal with. So far that is a general difficulty of the Income Tax administration as it exists. Now come to your particular case. You say it is specially hard on

you because, living in an unhealthy climate, you are bound to maintain a home over here. Is not the proper inference from that that a higher salary should be paid to judges whom the country requires to serve under such conditions?—Well, of course, I naturally think I ought to get a higher salary than I do, because my salary happens to be a low one.

5198. You make the contrast between India, where you say the salary is sufficient, and West Africa, where it appears not to be sufficient?—I am speaking now of Colonial judges as differentiated from Indian judges. Colonial judges are paid very badly. The answer to that is you should not take a judgeship. Colonial judges, the puisne judges in Ceylon, for instance, are paid £1,400 a year. That is not the income of a County Court judge in England, and there is no doubt that a puisne judge in Ceylon has much greater functions to perform than any County Court judge here. He is a judge of the High Court, and very frequently has to try much more important cases.

5199. I may say personally I entirely agree with you. I think that to expect gentlemen of sufficient education and competence to go and serve in the very important office of judge in any part of the world under the British flag, and be paid the salaries that are paid in some unhealthy climates, is to form an expectation which will be disappointed?—I am very glad to hear you say so.

5200. One other thing. As regards husband and wife, again it is part of the general Income Tax law that the incomes of husband and wife should be taken together in determining their taxation?—Of course, that is so, and it is very unjust, for this reason, that it entirely ignores what the law has been altered to be with regard to the Married Women's Property Act; they have jumbled the thing up. In all these cases where you get a principle of that kind there are particular cases which work terrible hardship, and my case is one of them. I am not greatly impressed with all the criticism that has been levelled about a husband and wife in England, although I think there is a good deal in it. Still, if I was living in England I should not complain very much, but in my particular case these rules work tremendous hardship, and I think the great mistake that has been made all through this matter is this, that the Inland Revenue authorities refuse to recognize that a married woman's legal status was completely altered by the Married Women's Property Act.

5201. Surely as an administrator of the law you know it is not for officials to deal with a case of particular hardship. The law itself must be altered?—I speak with all respect, but I say that people who have got the greatest part in this business are the permanent officials in Somerset House, undoubtedly. I say the Board of Inland Revenue, who are a Board of permanent civil servants, are supreme, and they are our masters, and they are the people who say what you are to pay and what you are not to pay.

5202. I hope that is not the law that you administer?—We have not got a Board of Inland Revenue out there, but an Executive Government in a Crown Colony is particularly like Somerset House from what I have seen of it.

5203. I should have thought to a lawyer at any rate an official is a person who has got to obey the law?—My only knowledge of Somerset House is paying fugitive visits there, and seeing very nice agreeable gentlemen, but what I say is this, with all respect, in my opinion from what I have seen of Somerset House in the dealings I have had with them their methods are peculiarly like a Colonial Crown Colony administration.

5204. *Chairman*: You did not answer Mr. Kerly's last remark.—I am very sorry; I am only too willing to answer anything.

5205. *Mr. Kerly*: The lawyers' view is that an official has to administer the law which Parliament provides him?—Yes, certainly, I quite agree.

5206. *Sir J. Harwood-Bonner*: If the law was altered it would not only be West Africa that it would have to apply to. There are other districts where people are bound to leave their wives in this country, are there not?—Well, I do not know.

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5157. Zanzibar, or Aden, or British Guiana. It would not be limited to West Africa?—I have not been in Zanzibar, or Aden, and I have not been in British Guiana, but I have been very close to British Guiana, and wives and children certainly live in all those places you have spoken of. Of course, you cannot have children in West Africa; it would be death to go there. No doctor would allow it for a moment.

5158. That is so in some other parts of the world—Zanzibar, for instance?—Very likely what you say is correct, and if it is so my remarks would apply to those places, but I am not acquainted with them.

5159. In West Africa is it not the fact that many employers make it a condition that their clerks, or officials, should take a month every now and then in Madeira? They treat it like Santa in India?—Do you mean that if you had your wife and family there you could take them out to Madeira for a month? You would find it a very expensive thing to do—paying passages. It would be practically impossible, because Elder Dempster's steamers would only call there occasionally, and for a man to be out there with his wife and to go away to Madeira for a month would do no good at all. Of course, most people would not have the money to pay the passages.

5160. I happen to be an employer, and those are conditions we make with some officials, that at certain periods they should go to Madeira?—Do I understand you to say it is the habit of people in West Africa to go to Madeira for health trips?

5161. Yes?—All I can say is that from my experience only a man with a considerable income could do it. Madeira is an expensive place to get to and an expensive place to live in, and I say for most people in West Africa, so far as my experience goes—I am only speaking of what I know myself—it would be practically impossible; I do not think you could do it.

MR. ADAM MORTIMER SINGER and MR. G. M. EDWARDS JONES, called and examined.

The witnesses handed in the following statements as their evidence-in-chief:—

STATEMENT OF THE EVIDENCE PROPOSED TO BE GIVEN BY MR. ADAM MORTIMER SINGER, of MILTON HILL, STEVENSON, BIRKS, ON BEHALF OF HIMSELF AND OF MR. WASHINGTON MERRITT GRANT SINGERS, of NORMAN COURT, HANTS.

5170. (1) The following evidence has reference to the position of persons resident in this country deriving income from property situated abroad, and more especially refers to the position of subjects of the United Kingdom or of the United States who derive their income from America.

5171. (2) We are sons of the late Mr. Isaac M. Singer, the original inventor of the Singer Sewing Machine and founder of the Singer Manufacturing Co. of the U.S.A., but are naturalized British subjects, and have always from infancy been resident in England (except during short visits abroad).

5172. (3) Our income is derived from the dividends on shares in the said Singer Manufacturing Co. of the U.S.A.

5173. (4) Such income is first taxed at the source in the U.S.A. by deduction of the United States taxes from the dividends by the paying bank in New York, the balance only being remitted to us.

5174. (5) The tabular statement set out in the evidence of Mr. G. M. Edwards Jones shows the graduated rates of U.S.A. sur-tax so payable and deductible for last year, 1918, applicable also to the current year 1919 and future years—which in the case of one of us works out at over 34 per cent. and in the case of the other at over 39 per cent. on our American income.

5175. (6) The balance received is taxed in this country for Income and Super-tax at the rate of approximately 10s. 6d. in the £.

5176. (7) The double taxation in the two allied countries leaves us with but a fraction of our present gross depleted income, in one case of less than 32 per cent. and in the other case 29 per cent.

5162. Mr. Birley: You say as a general thing you are out in West Africa for twelve months?—Yes.

5163. And four months at home?—Yes.

5164. If those four months were May, June, July and August, they all fall within the same financial year, and for the whole of that financial year you would have to pay the tax on what you receive from the Colony?—If you have an unfurnished house. I have avoided it by living in apartments and hotels, which is a ruinous way of living.

5165. But supposing, instead of that, you are at home in January, February, March and April, which fall within two financial years, have you to pay the tax for the two years? You tell us if you are at home for five minutes you have to pay the tax?—You have to pay the tax for the financial year.

5166. But if the leave falls within two financial years do you have to pay for two?—I suppose, logically, you would have to pay for both financial years, but I have never had experience of it. It has only happened once that I have made a claim, because they never began claiming until 1914.

5167. I take it in the years that you are not at home your wife gets statement from the G.S.?—No, she does not get anything.

5168. Not on the years that you are not at home?—Well, you see, I always have been at home during the year. There has never been a financial year in which I have not been in England up till last year, when I was not in England at all from April, 1917, to April, 1918. Every other time I have always got home to England in one part of the financial year.

5169. Chairman: We are very much obliged to you for your presence to-day. These matters will come into consideration with other matters that we have to deal with.

5177. (8) We have no desire to attempt to escape from payment of our fair and liberal proportion of contribution to the ordinary and special war taxation both in the country in which our income is earned and produced, and also of this country, which we have adopted for our home from infancy, but the result of the present double taxation is that we cannot continue to reside in this country and to derive a reasonable amount of benefit from our property and to have due regard to the fulfilment of our moral obligations without trenching continually on our capital. The inevitable result to us and others placed in a similar position must be that unless the gross unfairness of our double burden is speedily adjusted and removed we shall be compelled, however unwillingly, to give up our residence and sever our connection altogether with this country, and go to reside in the country where our income is produced and spend our income (which would then be doubled) there instead of here. In fact, one of our brothers felt himself compelled to adopt this course even before the war, when in the year 1914, by section 5 of the Finance Act of that year, the new principle of British taxation was adopted of taxing residents here upon the whole of their foreign income, and not only on the portion thereof remitted to this country as before.

5178. (9) As a further illustration, we take the case of a person resident in the United Kingdom whose income from the United States is derived from a business or private partnership and amounts to \$500,000 or £100,000. In that case, such person will have first to pay (for the year 1918) 12 per cent. normal tax (subject to a credit in respect of dividends on shares in U.S. Corporations who themselves pay normal tax and to credits in certain cases in respect of excess profits tax) and also over 50 per cent. sur-tax—altogether over 62 per cent. U.S. tax—and would again in this country pay practically 10s. 6d. in the £ on the balance of 38 per cent. if received in this country, leaving less than 19 per cent. of the income available; and if such a person should happen to have a residence also in another country as well as the United King-

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[Continued.]

dom it might be that, if there taxed on the same basis and at the same rate as in the United Kingdom, his Income Taxes alone in the three countries would be over 100 per cent.—and the larger his income the greater would be his deficit. The inevitable effect of such a result must manifestly be to force out of the United Kingdom all very wealthy people who derive their income from another country, and compel them to spend their large incomes elsewhere instead of in this country in which they would desire to live, and to and in which they would desire to bring and spend their large incomes if they were permitted to have the enjoyment of any fair and reasonable proportion thereof.

5179. (10) The U.S. Revenue authorities have evidently appreciated the unfair and impossible burden which would be imposed upon their citizens by the double taxation at the heavy rates now imposed on their foreign income in their own country as well as in the country of production, and consequently the Revenue Act, 1918, introduced the principle (for which we have always contended as the right principle) of setting off tax against tax in the case of such foreign income, instead of only allowing deduction of foreign tax against foreign income, which is the principle at present adopted in the United Kingdom. We venture strongly to contend that this principle now introduced by the United States should be reciprocated by the United Kingdom in the Finance Act for the coming year, and in any amendments of the Income Tax Acts.

5180. (11) The effect of this provision, if adopted by the British Government, would be that we would first pay the full taxes imposed upon our United States income by the U.S.A., and would then only pay the British Government on such income derived from the U.S.A. the British tax which might be in excess of the taxes imposed thereon by the U.S.A.; and that a British subject resident in the United States would then get the benefit of the provision in section 222 (3), which he would not at present get because a citizen of the United States resident in the United Kingdom is not allowed to deduct from his British taxes on United States income the amount of his United States taxes thereon.

5181. (12) The great importance of securing this benefit for British subjects by reciprocal British legislation must be manifest, because in the absence of such reciprocal legislation British subjects resident in the United States are placed at an immense disadvantage, and if their British income is considerable might be forced to relinquish their British nationality and become naturalized United States citizens, or else to withdraw the whole of their investments and business from the United Kingdom and invest all their capital and carry on their business in the United States—and looked at from the other point of view, of a United States citizen resident in the United Kingdom, such a provision would go a long way to encourage United States citizens to acquire or retain a residence in the United Kingdom and to bring over and spend their money here, whilst the present state of British taxation must act as an insuperable deterrent to any wealthy United States citizen desiring to take up or retain a residence or spend his income in the United Kingdom.

5182. (13) With regard to the other similar provisions in the Act conditional upon reciprocal provisions in foreign countries, e.g., section 216 (a) which provide in case of a foreign non-resident the credits in (c) and (d) allowances for personal exemptions and for children against the United States normal tax, we are authoritatively informed that, by a recent ruling of the United States Treasury Department, British subjects do not get the benefit of these exemptions (whilst on the other hand French citizens do).

5183. (14) Regarding the new U.S.A. War Revenue Act as a whole we believe that it has been framed with due regard to the advantage accruing to the U.S.A. and their citizens of encouraging them to spread into

other countries and embark upon world-wide business; whilst the policy of British taxation hitherto, and more particularly in recent years, appears to be framed upon the principle that British residents should be discouraged from embarking in any business in any foreign country (to a lesser extent even in British Colonies), and that the whole of their wealth and enterprise should be locked up within the borders of the United Kingdom itself.

5184. (15) A comparison of the two principles, it is submitted, shows a very great advantage and encouragement to United States citizens as compared with British residents in securing the trade and commercial supremacy in all foreign countries which Germany in particular had to a large extent secured in recent years up to the outbreak of war.

5185. (16) The provision in the United States Act allowing deductions of contributions for religious and charitable purposes is much more generous and more just than any corresponding provision in the United Kingdom.

5186. (17) It is possible, by creating a trust for charitable purposes only, to obtain repayment of Income Tax on sums applied pursuant to such trust to charitable purposes, and if the property producing the income is vested in the Official Trustees of Charitable Funds it is possible to secure exemption for the income, but this affords a very limited relief and the taxpayer seldom knows how to obtain it even when it is possible, or he might desire to do so.

5187. (18) In our own case it was not until we had been contributing between £8,000 and £10,000 a year of our income for three years to support a hospital at Milton Hill provided by Martin Singer, out of income on which large sums had been paid for Income Tax, that we became aware that by creating a charitable trust and vesting property in trustees sufficient to produce the income to be applied we could obtain exemption from tax, which we then did; but there was no means available by which we could obtain repayment of the Income Tax paid on the £30,000 already spent.

5188. (19) A very small proportion of those who make charitable donations would be willing to part with a portion of their capital and place the same in trust, and the large proportion would certainly prefer to feel that their contribution, though perhaps regular, is entirely voluntary and can always be increased, diminished, varied or stopped from year to year without expensive formalities, according to the donor's own success in his business or profession, or to the particular needs of different institutions, or their methods of management from time to time, or to a thousand other considerations, which it would be impossible to provide for by constituting charitable trusts.

5189. (20) The endowment of a charitable institution by putting a portion of one's capital fortune into trust is a very different matter from making a subscription or donation thereto, and probably in ninety-nine cases out of a hundred a donor would not entertain the idea of constituting a trust to endow a charity, where he would be perfectly willing to give a voluntary annual subscription or donation.

5190. (21) The absence of any general provision corresponding to that of the United States Act of 1918, and the consideration that every charitable contribution, unless made the subject of a trust, now costs the donor (with the taxes upon it) double the amount of his contribution, must make a serious difference to charitable institutions whilst taxes remain at their present high rates, and there can be no doubt that British charitable institutions would benefit very greatly by such a general provision, while the absence of such a provision may result in many charitable institutions having to be maintained by the State.

[This concludes the evidence-in-chief of Mr. A. M. Singer.]

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MR. A. M. SINGER AND MR. G. M. EDWARDS JONES.

[Continued.]

STATEMENT OF THE EVIDENCE PROPOSED TO BE GIVEN BY MR. GEORGE MORGAN EDWARDS JONES, OF 8, FIO TREE COURT, TEMPLE, BARRISTER-AT-LAW, IN CONNECTION WITH THE HEARING OF MR. ADAM MORTIMER SINGER.

5191. (1) The following evidence has reference to the position of persons resident in the United Kingdom deriving income from property situated abroad, and more especially in the United States of America, and to the incidence of double war taxation imposed by both countries, and deals more particularly with the provisions of the recent United States War Revenue Act, 1918, and a comparison between the methods and bases of taxation imposed by the United States and of that imposed by the United Kingdom.

5192. (2) The citizens are entitled to require that the Legislature shall cause all public taxation to be fair and equal in proportion to the value of property so that no one class of individuals and no one species of property may be unequally or unduly assessed (Story's Commentaries II., p. 268). Subject to this every state has the right to levy taxation either on persons who are in fact resident within the state or on property situated within the state, and may determine the measure of taxation of a person so resident by reference to property not situated within the state—(Colquhoun v. Brooks, 14 App. C., 493 at p. 503, and 21 Q.B.D. per Lord Esher, M.L., at p. 57 and Fry, L.J., at p. 62).

5193. (3) Accordingly the state may by sufficiently clear words thus impose a tax on property not situated within it by imposing the tax on the individual who owns the property, yet such a result if attained directly by imposing a tax on the property would be inadmissible and would be a breach of the comity of nations, and it is only because Income Tax in respect of property situated abroad is a charge upon a person in respect of a thing and not upon the thing itself that it is permissible to impose it.

5194. (4) As the state is bound by the comity of nations to recognize a corresponding right of the state in which property is situated to levy taxes on the owner in respect of it, it follows that the class of individuals deriving income from property situated abroad is liable to be unequally assessed, and that according to the passage cited from Story the Legislature ought to redress such inequality where it arises.

5195. (5) Up to the year 1914 no serious hardship arose because the tax in the United Kingdom was not measured by reference to the property owned by the individual or the income derived therefrom but by reference to the amount of income which the individual thought fit to bring into the United Kingdom, and the United States had been prevented by a decision of the Supreme Court from levying a federal Income Tax.

5196. (6) By section 5 of the Finance Act 1914 Income Tax was imposed on the whole income of the individual derived from foreign and colonial stocks, shares, securities, or rents, with the result that what Lord Esher (21 Q.B.D. at p. 57) had considered to be so contrary to the comity of nations that it could not be intended because law. In the preceding year 1913 in the United States the 16th amendment to the Constitution had provided that "the Congress shall have power to lay and collect taxes on income from whatever source derived without apportionment among the several states and without regard to any census or enumeration," and thereby enabled Congress to levy a Federal Income Tax.

5197. (7) On October 3rd, 1913, Congress approved Cap. 16 of Sess. 1 of 63rd Congress, which provided (Sect. 11) for a levy of Income Tax on every citizen whether residing at home or abroad, and every person not a citizen residing in the United States, and on the entire net income from all property owned or trade carried on in the United States by persons resident elsewhere, at the following rates:

1%	per annum with additional rates of
1%	on excess over \$20,000 up to \$50,000
2%	" " " 50,000 " 75,000
3%	" " " 75,000 " 100,000
4%	" " " 100,000 " 250,000
5%	" " " 250,000 " 500,000
6%	" " " 500,000 " "

5198. (8) On September 8th, 1916, Congress approved the Revenue Act of 1916, which imposed in respect of income received after June 1st, 1916, 2 per cent. on the income in the preceding calendar year from all sources received by a citizen or resident of the United States, and on the income received from all sources within the United States by a non-resident alien, with additional rates of—

1%	on excess over	\$20,000 to	\$40,000
2%	" " "	40,000 " "	60,000
3%	" " "	60,000 " "	80,000
4%	" " "	80,000 " "	100,000
5%	" " "	100,000 " "	150,000
6%	" " "	150,000 " "	200,000
7%	" " "	200,000 " "	250,000
8%	" " "	250,000 " "	300,000
9%	" " "	300,000 " "	500,000
10%	" " "	500,000 " "	1,000,000
11%	" " "	1,000,000 " "	1,500,000
12%	" " "	1,500,000 " "	2,000,000
13%	" " "	2,000,000 " "	"

5199. (9) It was provided that income derived from dividends on the capital stock or from the net earnings of any corporation, joint stock company or association, or insurance company, should be included, except that in the case of non-resident aliens such income derived from sources without the United States should not be included.

5200. (10) There was also a Corporation Tax of 2 per cent.

5201. (11) In 1917 the Federal War Tax Law, 1917, imposed an additional normal tax of 2 per cent. and a further additional tax upon the income of every individual received in the calendar year 1917 and every calendar year thereafter as follows:—

1%	on excess over	\$5,000 to	\$7,500
2%	" " "	7,500 " "	10,000
3%	" " "	10,000 " "	12,500
4%	" " "	12,500 " "	15,000
5%	" " "	15,000 " "	20,000
7%	" " "	20,000 " "	40,000
10%	" " "	40,000 " "	60,000
14%	" " "	60,000 " "	80,000
18%	" " "	80,000 " "	100,000
22%	" " "	100,000 " "	150,000
25%	" " "	150,000 " "	200,000
30%	" " "	200,000 " "	250,000
34%	" " "	250,000 " "	300,000
37%	" " "	300,000 " "	500,000
40%	" " "	500,000 " "	750,000
45%	" " "	750,000 " "	1,000,000
50%	" " "	1,000,000 " "	"

5202. (12) The Corporation Tax was increased by 4 per cent. to 6 per cent.

5203. (13) An excess profits tax was also imposed (s. 201) on the income of any corporation, partnership, or individual, of 20 per cent. of the income in excess of the authorized deduction and not in excess of 15 per cent. of the invested capital,

25%	in excess of 15%	up to 20%
35%	" " "	20% " " 25%
45%	" " "	25% " " 33%
60%	" " "	33% " " "

5204. (14) The deductions allowed (s. 203) were based on the percentages earned on the capital during a pre-war period.

5205. (15) The tax was not imposed on a non-resident alien or foreign company with less income than \$3,000.

5206. (16) By the Revenue Act, 1918, a normal tax of 12 per cent. (or in the case of a citizen of the United States 6 per cent. on the first \$4,000 and 12 per cent. above that amount) on the net income for the calendar year 1918, and 8 per cent. in lieu of 12 per cent. and 4 per cent. in lieu of 6 per cent. for U.S. citizens on the first \$4,000 in each ensuing year, is substituted for the 1 per cent. and 2 per cent. imposed on all incomes by the 1916 and 1917 Acts, and sur-

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taxes in lieu of the above sur-taxes at the following rates—

U.S.A. Income Tax for 1918 and 1919 and Future Years.

Statement of graduated sur-taxes payable under the U.S. Revenue Act, 1918, calculated as to citizens and residents of U.S.A. on their whole income, and as to non-resident aliens on their income derived from sources within the U.S.A.—

Amount of income.			Rate per cent. of sur-tax.	Amount of annual sur-tax for 1918 and future years in addition to normal tax (of 12% beyond certain limits for 1918—8% for future years).		Next		...	2,000	...	26	520
				Total	Next	Total	Next	...	56,000	...	27	7,010
					Total	Next	...	2,000	...	28	540	
					Total	Next	...	58,000	...	...	7,550	
					Total	Next	...	2,000	...	...	560	
First	...	\$ 5,000	...	Nil	...	\$ Nil	...	Total	...	60,000	...	8,110
Next	...	1,000	...	1	...	10	...	Next	...	2,000	...	580
Total	...	6,000	...	—	...	10	...	Total	...	62,000	...	8,690
Next	...	2,000	...	2	...	40	...	Next	...	2,000	...	600
Total	...	8,000	...	—	...	50	...	Total	...	64,000	...	9,290
Next	...	2,000	...	3	...	60	...	Next	...	2,000	...	620
Total	...	10,000	...	—	...	110	...	Total	...	66,000	...	9,910
Next	...	2,000	...	4	...	80	...	Next	...	2,000	...	640
Total	...	12,000	...	—	...	190	...	Total	...	68,000	...	10,550
Next	...	2,000	...	5	...	100	...	Next	...	2,000	...	660
Total	...	14,000	...	—	...	290	...	Total	...	70,000	...	11,210
Next	...	2,000	...	6	...	120	...	Next	...	2,000	...	680
Total	...	16,000	...	—	...	410	...	Total	...	72,000	...	11,890
Next	...	2,000	...	7	...	140	...	Next	...	2,000	...	700
Total	...	18,000	...	—	...	550	...	Total	...	74,000	...	12,590
Next	...	2,000	...	8	...	160	...	Next	...	2,000	...	720
Total	...	20,000	...	—	...	710	...	Total	...	76,000	...	13,310
Next	...	2,000	...	9	...	180	...	Next	...	2,000	...	740
Total	...	22,000	...	—	...	890	...	Total	...	78,000	...	14,050
Next	...	2,000	...	10	...	200	...	Next	...	2,000	...	760
Total	...	24,000	...	—	...	1,090	...	Total	...	80,000	...	14,810
Next	...	2,000	...	11	...	220	...	Next	...	2,000	...	780
Total	...	26,000	...	—	...	1,310	...	Total	...	82,000	...	15,590
Next	...	2,000	...	12	...	240	...	Next	...	2,000	...	800
Total	...	28,000	...	—	...	1,550	...	Total	...	84,000	...	16,390
Next	...	2,000	...	13	...	260	...	Next	...	2,000	...	820
Total	...	30,000	...	—	...	1,810	...	Total	...	86,000	...	17,210
Next	...	2,000	...	14	...	280	...	Next	...	2,000	...	840
Total	...	32,000	...	—	...	2,090	...	Total	...	88,000	...	18,050
Next	...	2,000	...	15	...	300	...	Next	...	2,000	...	860
Total	...	34,000	...	—	...	2,390	...	Total	...	90,000	...	18,910
Next	...	2,000	...	16	...	320	...	Next	...	2,000	...	880
Total	...	36,000	...	—	...	2,710	...	Total	...	92,000	...	19,790
Next	...	2,000	...	17	...	340	...	Next	...	2,000	...	900
Total	...	38,000	...	—	...	3,050	...	Total	...	94,000	...	20,690
Next	...	2,000	...	18	...	360	...	Next	...	2,000	...	920
Total	...	40,000	...	—	...	3,410	...	Total	...	96,000	...	21,610
Next	...	2,000	...	19	...	380	...	Next	...	2,000	...	940
Total	...	42,000	...	—	...	3,790	...	Total	...	98,000	...	22,550
Next	...	2,000	...	20	...	400	...	Next	...	2,000	...	960
Total	...	44,000	...	—	...	4,190	...	Total	...	100,000	...	23,510
Next	...	2,000	...	21	...	420	...	Next	...	50,000	...	26,000
Total	...	46,000	...	—	...	4,610	...	Total	...	150,000	...	49,510
Next	...	2,000	...	22	...	440	...	Next	...	50,000	...	28,000
Total	...	48,000	...	—	...	5,050	...	Total	...	200,000	...	77,510
Next	...	2,000	...	23	...	460	...	Next	...	100,000	...	60,000

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Amount of income.		Rate per cent.	Amount of sur-tax.
£			£
Total	500,000	—	137,510
Next	200,000	63	126,000
Total	500,000	—	263,510
Next	500,000	64	320,000

On an income } \$1,000,000 { the sur-tax { 58-351 per cent.
total } works out { at } to \$583,510.

On any excess beyond \$1,000,000, 65 per cent.

5207. (17) By section 230 the Corporation Tax was increased to 12 per cent. for the calendar year 1918, and 10 per cent. for ensuing years, and by section 301 an excess profits tax was imposed on corporations in lieu of the excess profits tax imposed by the Act of 1917 at enhanced rates for 1918 and the following years.

5208. (18) The result is that a person resident in the United Kingdom deriving his income from property in the United States may have to pay nearly 65 per cent. Income Tax in the United States, and 6s. in the £ Income Tax and 4s. 6d. in the £ Super-tax on the balance of 35 per cent., while in certain cases it may be possible that this 10s. 6d. in the £ will be charged on far more than 35 per cent., because it is charged on the average of the preceding three years when the Income Tax in the United States was on a much lower scale on the same income.

5209. (19) It usually happens that persons with large incomes have very heavy commitments, e.g., to dependants and charities which are not legal obligations so as to be deductible for United Kingdom Income Tax, but are none the less moral obligations and are in some cases of great advantage to the State.

5210. (20) The Revenue Act, 1918, recognises all these points and to a great extent includes provisions to meet them—

Thus by section 213 (a) (1) gross income does not include the proceeds of Life Insurance policies paid on the death of the insured to individual beneficiaries.

By section 213 (c) in the case of non-resident aliens gross income includes only the gross income from sources within the United States.

By section 214 (A) deductions include—

(3) taxes other than income, war profits, and excess profits taxes; and local taxes other than those which tend to increase the value of the property assessed; and these subject to certain qualifications are allowed as deductions not only when levied by or in the United States but when they are levied by the authority of the countries from whence the income is derived.

(11) Contributions or gifts made within the taxable year to corporations organised and operated exclusively for religious or charitable purposes, to an amount not in excess of 15 per cent. of the net income, but in the case of a non-resident alien this deduction is only allowed in respect of gifts to domestic corporations (i.e., corporations within the United States).

By section 216, for the purposes of the normal tax, a credit is allowed of \$2,000 for husband and wife, and \$300 for each other person dependent upon and receiving his chief support from the taxpayer, if under 18 years old or incapable of self support because mentally or physically defective, but in the case of a non-resident alien these credits are only allowed if the alien's country allows similar credits.

By section 222 a credit is allowed—

(1) to any citizen of the United States of any income, war profits, and excess profits taxes, paid to any foreign country upon any income derived from sources therein, or to any possession of the United States.

(2) to any resident of the amount of such taxes paid to any possession of the United States.

(3) to any alien resident the amount of such taxes paid by him to his own country upon income derived from sources therein, if such country allows a similar credit to citizens of the United States.

By section 236 a credit is allowed to any domestic corporation of the amount of any income, war profits, and excess profits taxes, paid during the taxable year to any foreign country on income derived from sources therein or to any possession of the United States.

5211. (21) My experience to a great extent illustrates the points mentioned and the importance of making some provisions in the United Kingdom similar to that contained in section 222 of the United States Revenue Act, 1918.

5212. (22) In some other respects the U.S. War Revenue Act, 1918, suggests possibilities of amendments which might usefully be made in the United Kingdom.

5213. (23) Having had for 20 years considerable opportunities of discussing the incidence of taxation with persons holding important positions in the commercial world, I am convinced that the Revenue will profit if the business community recognises that the taxation of trade profits is consistent with business methods and is administered fairly and even generously.

5214. (24) I believe that the Revenue before the war suffered for want of such recognition.

5215. (25) There was a general feeling that the Income Tax laws were unjust, that the exercise of the necessarily drastic powers given to enforce them was oppressive, and that therefore the taxpayer in self-defence was justified in paying no more than he was compelled to pay and disclosing no more than he was required to disclose.

5216. (26) During the war, probably owing to recognition of the fact that the country badly wanted the money, a better feeling arose, and most people thought it right to assist the Surveyors in their task and to pay all that they could reasonably be asked to pay. Whether as a result or not there has arisen a general recognition that the Surveyors are doing their best to act fairly.

5217. (27) It is worth while therefore to obviate any obstacles to this improved feeling becoming permanent.

5218. (28) These obstacles broadly speaking are:—

1. Inconsistency between the assessment of profits for Income Tax purposes and for business purposes. Income Tax is a tax upon income, and it should be possible for the firm's accountant to discuss with the Surveyor the amount of the assessable profit on the same lines as those on which he discusses with the partners the amount of their profits which is available for income.

The U.S. Act seems to me to be superior in this respect. Thus—

(a) S. 212 provides that: "The net income shall be computed upon the basis of the taxpayer's annual accounting period (fiscal year or calendar year as the case may be) in accordance with the method of accounting regularly employed in keeping the books of such taxpayer; but if no such method of accounting has been so employed or if the method employed does not clearly reflect the income, the computation shall be made upon such basis and in such manner as in the opinion of the Commissioner does clearly reflect the income."

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This seems to me to admit of a nearer approach to business methods than the provisions of Schedule D, especially as the Commissioners of Inland Revenue insist on referring to the amount of income to be returned as a "statutory" income, instead of quoting accurately the rule "the duty . . . shall be computed on a sum not less than the full amount of the balance of the profits or gains upon a fair and just average of three years," which does not suggest that this sum in any sense represents income. It is true that these words have been altered in the Income Tax Act, 1918, but they still fall short of justifying the phrase "statutory" income.

(b) S. 214 provides for deductions which on the whole seem to me to be much more reasonable. Thus it allows for deducting:—

"(4) Losses sustained, and not compensated for by insurance or otherwise, if incurred in trade or business."

"(5) Losses sustained, and not compensated for, if incurred in any transaction entered into for profit though not connected with the trade or business, but in the case of a non-resident alien only as to such transactions within the U.S."

"(6) Losses sustained during the year of property not connected with the trade or business (but in the case of a non-resident alien only property within the U.S.) if arising from fires, storms, shipwreck or other casualty, or from theft, and if not compensated for by insurance or otherwise."

The provision made in the United Kingdom by the Customs and Inland Revenue Act, 1890, c. 23, and now by the Income Tax Act, 1918, s. 24, is very much narrower, and it often happens that the taxpayer fails to give notice within the time limited and is thereby precluded from obtaining any benefit even within the limits of this provision. Moreover, this remedy is incomplete as it has been held that there is no appeal by way of decision under this section.

"(8) A reasonable allowance for the exhaustion, wear and tear of property used in the trade or business, including a reasonable allowance for obsolescence."

This seems to me to compare favourably with the involved provisions dealt with in the Command Paper Cd. 9134 of 1918.

"(11) Contributions or gifts made to corporations, organized and operated exclusively for religious, charitable, scientific or educational purposes."

Having regard to the magnitude of the grants required to bring the Education Act, 1918, into effective working the Crown would probably gain by the adoption of a similar deduction at least so far as educational purposes are concerned.

"(12) At the time of filing his return for 1918 a taxpayer may file a claim in abatement based on the fact that he has sustained a substantial loss (whether or not actually realized by sale or other disposition) resulting from any material reduction (not due to temporary fluctuation) of the value of the inventory for such taxable year. . . . If it is shown to the satisfaction of the Commissioner that such substantial loss has been sustained the amount of such loss shall be deducted from the net income."

This provision is in accordance with sound business principles.

(c) S. 219, which relates to income of estates or of property held in trust, exempts "any part of the gross income which pursuant to the terms of the will or deed creating the trust is during the taxable year paid to or permanently set aside for any corporation organized and operated exclusively for religious, charitable, scientific or educational purposes, no part of the net earnings of which inures to the benefit of any private stockholder or individual."

This seems to be a much more comprehensive and comprehensive provision than the elaborate provisions contained in Rule VI of Schedule A, Rule III of Schedule C, and section 106 of the Income Tax Act, 1912.

2. A further obstacle to good relations with the Surveyor is the fear that any information volunteered may give rise to an unjust claim and that there will be no redress.

5219. (29) The U.S. Act, s. 252, provides that "if upon examination of any return of income . . . it appears that an amount of income, war profits, or excess profits tax, has been paid in excess of that properly due, then . . . the amount of the excess shall be credited against any taxes then due under any other return, and any balance of such excess shall be immediately refunded provided a claim is filed by the taxpayer before the expiration of five years from the date when the return was due"; and s. 1316 provides that "the Commissioner of Internal Revenue, subject to regulations prescribed by the Secretary of the Treasury, is authorized to remit, refund, and pay back, all taxes erroneously or illegally assessed or collected, all penalties collected without authority, and all taxes that appear to be unjustly assessed or excessive in amount or in any manner wrongfully collected . . . and shall make report to Congress at the beginning of each regular session of all transactions under this section."

5220. (30) These provisions seem to be more liberal and just than the Acts in the United Kingdom which preclude any relief more than three years after the end of the year of assessment and contain no such general power of granting relief.

5221. (31) The taxpayer's fear is not so much as to what the Surveyor will do if left to himself, but that he may feel bound to submit some questions to headquarters and will then be ordered to insist on some point which the Board consider important. The result is that, however right he may be, the taxpayer has either got to submit or to fight the Crown, with the prospect that if he takes his case to the High Court he will almost certainly have the Attorney-General or Solicitor-General briefed against him, and will have to brief someone of equal ability if he can, and to pay proportionately heavy costs if he loses.

5222. (32) In such circumstances few people venture to fight and much injustice may be done which might be obviated if some impartial official could be appointed with some such general dispensing power as is contained in the United States Act, so that no question of principle would be involved and no fight before the Law Courts would be required.

5223. (33) In the United States the practice is followed of publishing departmental decisions and Treasury decisions as to particular cases, which are cited "T.D." Something of the sort was done in the United Kingdom in 1882, when a series of Cases for the Opinion of the Law Officers in Scotland was printed, which was reprinted and published as a part of Tax Cases in 1907. It would tend to minimize litigation and to facilitate administration if this could be extended and brought and kept up to date on the lines followed in the United States. As regards departmental rulings, it is said in the United States that "unless large revenue is involved or there is a lack of courteous frankness the Department may often be convinced of error and it has repeatedly reversed its rulings." The necessity for this might be largely obviated here by the practice of submitting difficult points to the Law Officers.

5224. (34) It would tend to diminish the existing fear of injustice if the Board of Inland Revenue would abandon, and publicly state that they have abandoned, the practice which is referred to in paragraph 5 on p. 10 of "Dewell" as "compelling a taxpayer by means of a surcharge to verify his return on appeal." In default of a return the Commissioners raise an official charge. The charge so made may have no relation at all to the facts, and (where the default arises simply from non-receipt of or inability to understand the precept) may become binding and

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may be enforced against a perfectly innocent person. There does not appear to be any reason why the Commissioners should not follow the procedure laid down in section 126 of the Income Tax Act, 1942, and instead of assessing in a penal sum with the view of compelling appearance, proceed to ascertain according to the best of their judgment in what sums such person ought to be charged.

5295. (35) Good relations with the Surveyors would also be encouraged by a public recognition by the Board that the duties of the Surveyors ought to be carried out in a judicial spirit and that they ought to give the taxpayer all the assistance they can in obtaining any exemption or abatements to which he is entitled.

[This concludes the evidence-in-chief of Mr. G. M. Edwards Jones.]

5296. Chairman: Mr. Singer, will you deal with your case first; we will take Mr. Edwards Jones afterwards on the other points?—(Mr. Mortimer Singer) Yes.

5297. Would you like to read your statement, or state your case verbally to the Commission?—I do not know that there is very much to be said, excepting what is given in the evidence. I was born in America—I am an American—and brought to France at the age of two without my permission. I lived there about four years, and I have lived here ever since. Then I became naturalized in the year 1900, and if I had known it was going to be so very expensive I rather doubt whether I should have become naturalized, although my sentiments are completely with this country, and I have always wanted to live here; but now of course we have to ask ourselves a very, very serious question, and that is whether our sentiments in wishing to live here are sufficiently strong to warrant our being able to spend only about 35 per cent. of our incomes instead of about 70 per cent. if we went back to the United States, which is almost exactly the position.

5298. Would that be your position if you went now to the United States?—Yes.

5299. That your large income would not be taxed more?—No, I do not think so. It would be taxed, I think, about the same, in my case somewhere round 33 per cent. in the States, and then as the matter stands at present the other 67 per cent. when it comes to this country has to pay the Income Tax and the Super-tax, which is round about 55 per cent. on the balance, so it only leaves us some 35 to 37 per cent. of our real incomes to spend at all.

5300. Has the income increased largely during the war when these heavy taxes have been on?—Do you mean our incomes?

5301. Yes.—Directly war was declared our incomes were divided by half. There was a very small increase after that. It used to be somewhere about 16 per cent.; it then went down to 8 per cent.; and I am not exactly certain, but I should imagine after about a year or a year and a half it went up to 10 per cent., and it has remained there ever since. So our incomes have been a great deal less than they were at the beginning of the war, naturally, as they depended entirely on the Singer Sewing Machine Company, and they had enormous tracts of land in Russia, for instance, where they had enormous forests, thousands of acres of forests, out of which they made their tables for the machines and their packing cases, and all that kind of thing. These were confiscated; and of course everything was smashed up in Belgium, and in many parts of Russia, and the North of France, and in many other parts of the world, where our personnel ceased to exist altogether, and all the stock went, and anybody who hired machines had their machines stolen or broken; that was an enormous loss.

5302. But what about America?—I should imagine that the business there was improved. Of course, they took to making munitions; but I personally know nothing about the business of the company. It is a

company which is about two-thirds owned by an interest which is not Singer; in fact, anybody of the name of Singer is rather kept out of the secrets of the company. We are only shareholders.

5303. Now will you kindly proceed with your evidence?—Would you like me to do it?

5304. Yes.—“The following evidence has reference to the position of persons resident in this country deriving income from property situated abroad, and more especially refers to the position of subjects of the United Kingdom or of the United States who derive their income from America. (1) We are sons of the late Mr. Isaac M. Singer, the original inventor of the Singer sewing machine and founder of the Singer Manufacturing Co. of the U.S.A., but are naturalized British subjects, and have always from infancy been resident in England (except during short visits abroad). (2) Our income is derived from the dividends on shares in the said Singer Manufacturing Co. of the U.S.A. (3) Such income is first taxed at the source in the U.S.A. by deduction of the United States taxes from the dividends by the paying bank in New York, the balance only being remitted to us. (4) The tabular statement set out in the evidence of Mr. G. M. Edwards Jones shows the graduated rates of U.S.A. sur-tax so payable and deductible for last year, 1918, applicable also to the current year 1919 and future years—which in the case of one of us works out at over 34 per cent. and in the case of the other at over 39 per cent. on our American income.”

5305. Will you read paragraph 9, please; that is a point which you will perhaps be examined on?—“As a further illustration, we take the case of a person resident in the United Kingdom whose income from the United States is derived from a business or private partnership, and amounts to \$500,000 or £100,000. In that case such person will have first to pay (for the year 1918) 12 per cent. normal tax (subject to a credit in respect of dividends on shares in U.S. Corporations who themselves pay normal tax and to credits in certain cases in respect of excess profits tax) and also over 50 per cent. sur-tax—together over 62 per cent. U.S. tax—and would again in this country pay practically 10s. 6d. in the £ on the balance of 38 per cent. if received in this country, leaving less than 19 per cent. of the income available; and if such a person should happen to have a residence also in another country as well as the United Kingdom it might be that, if there taxed on the same basis and at the same rate as in the United Kingdom, his Income Taxes alone in the three countries would be over 100 per cent.—and the larger his income the greater would be his deficit. The inevitable effect of such a result must manifestly be to force out of the United Kingdom all very wealthy people who derive their income from another country, and compel them to spend their large incomes elsewhere instead of in this country in which they would desire to live, and to and in which they would desire to bring and spend their large incomes if they were permitted to have the enjoyment of any fair and reasonable proportion thereof.”

5306. Now will you go on to clause 14; there is another important point there?—“Regarding the new U.S.A. War Revenue Act as a whole we believe that it has been framed with due regard to the advantage accruing to the U.S.A. and their citizens of encouraging them to spread into other countries and embark upon world-wide business; whilst the policy of British taxation hitherto, and more particularly in recent years, appears to be framed upon the principle that British residents should be discouraged from embarking in any business in any foreign country (to a lesser extent even in British Colonies), and that the whole of their wealth and enterprise should be locked up within the borders of the United Kingdom itself.”

5307. Then the point about your Trust is an interesting one, in paragraph 17?—“It is possible, by creating a trust for charitable purposes only, to obtain repayment of Income Tax on sums applied pursuant to such trust to charitable purposes, and if the property producing the income is vested in the Official

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Trustee of Charitable Funds it is possible to secure exemption for the income, but this affords a very limited relief, and the taxpayer seldom knows how to obtain it even when it is possible, or he might desire to do so." I should like, if I may, to correct a statement in paragraph 18. I do not know how it slipped in; I do not remember seeing it in the draft. It says here: "In our own case it was not until we had been contributing between £8,000 and £10,000 a year of our income for three years to support a hospital at Milton Hill provided by Mortimer Singer, out of which a large portion went for Income Tax"—that is not the correct statement. The large portion for Income Tax was not at all out of the £8,000 or £10,000 a year. The £8,000 or £10,000 a year was found after Income Tax had been paid.

5238. That was the gift after you had paid Income Tax on your income?—That was my brother's and my gift, yes.

5239. I think we all understood that?—"Income on which large sums had been paid" should have gone in really. Then I go on: "we became aware that by creating a charitable trust and vesting property in trustees sufficient to produce the income to be applied we could obtain exemption from tax, which we then did; but there was no means available by which we could obtain repayment of the Income Tax paid on the £30,000 already spent."

5240. That is an interesting point?—Yes. As a matter of fact it was Mr. Edwards Jones who told me, when we were talking about something quite different.

5241. Mr. Edwards Jones will follow afterwards. I think you need not read any more. The members of the Commission will ask you questions on your statement, and we will take Mr. Edwards Jones afterwards on his statement, and questions will be asked of him.

5242. Mr. McIntock: In paragraph 5 of your statement you refer to the tax of 34 per cent. and 39 per cent.?^{*}—Yes.

5243. Which tax is that you refer to: is it the American sur-tax?—It is the American taxes together—the American normal tax and the American sur-tax.^{*}

5244. Is the normal tax paid by the company from which you draw the dividends?—I think possibly that it is paid by the company.

5245. Are your dividends from the Singer Company fixed in their amount? Are they from ordinary shares or preference shares?—There is only one class of share.

5246. Which fluctuates with the profits of the company?—Yes.

5247. In paragraph 8 you state that you have no desire to attempt to escape from a fair and liberal proportion of taxation in both countries?—Yes.

5248. Do you suggest that the tax paid in the United States should be set off against the tax payable here?—Yes.

5249. That is your suggestion in paragraph 11?—Yes.

5250. Do you know the rate of tax on the higher ranges of income in America, and how they compare with the higher incomes in this country?—I only know what is set out by Mr. Edwards Jones.

5251. Is the rate higher or lower on the higher ranges of income? I suggest to you that the American taxes are higher on the larger incomes than they are in this country?—I have not worked it out, but I should think probably from Mr. Edwards Jones' calculation which is given in his evidence that they are higher, when they get up to an extraordinarily high level, which applies to very few of them.

5252. On the higher ranges of income, anyhow, the tax in the United States does appear to be higher?—Yes.

^{*} Note by witness.—This is an error corrected in paragraph 5325. I did not clearly understand this question.

5253. If your suggestion were adopted would you pay any tax in this country at all, having paid tax in the United States?—No.

5254. Then it amounts to a total relief on the income remitted from America?—Yes, that certainly appears to be so; but then I should like to remark that that is exactly what the United States Treasury proposes to do, and in the present instance in many of the lower grades—nearly all the lower grades until you get to a very, very high level—an American citizen deriving income from England would not pay any American Income Tax. My main suggestion is that these advantages are encouragements to invest all over the world.

5255. But your suggestion anyhow does mean this, that the United States in your case would get all the tax from you, and this country would not get any?—Yes, that certainly is so, but it would be exactly the same for them.

5256. In paragraph 9 you refer to the normal tax for 1918 as being 12 per cent.?—Yes.

5257. Am I right in saying that for 1919 it is to be reduced to 8 per cent.?—I really do not know that technical point, but I understand that is so.

5258. In that same paragraph you suggest that all very wealthy people who derive an income from another country will be forced out of the United Kingdom?—Well, of course when I say forced out I mean there will be a very strong reason for them to go out.

5259. What is to happen in the United States? Are the British residents there who draw large incomes from this country going to be forced to leave the United States?—It would not be a British subject resident in the United States; I am not an American, I am British.

5260. Yes, I know.—And I say that I, as a Britisher, am offered 35 per cent. more income by going to the United States.

5261. That is to say the high taxation would cause you to go back to America and live there?—I say it would be a great inducement, and it may be made imperative on account of the moral and legal obligations, into which I entered when I was a very rich man, being unable to be met under the present circumstances; that is my actual position.

5262. Still, the taxation in the United States is also very heavy—heavier than here?—Yes, for some incomes, but not for me.

5263. If a United States citizen draws his income from the United Kingdom, as you, a British citizen, draw yours from America, it will drive him out of America back here, will it not?—No.

5264. As the law stands at present?—No, because under this new American law he is allowed to deduct the tax which he pays in the foreign country from the tax which he pays in the United States; and there is no doubt whatever that until the range of the American Income Tax gets up to the 55 per cent. which is paid by a resident here he would pay no Income Tax there at all.

5265. There is another alternative, is there not, for anyone placed in your position who wishes to reside in this country; I suggest you might realize your American investments and invest them here?—That, I suppose, is the reason of this law; but I think you will allow that in my own particular case it is a ghastly thing to contemplate, because this company which I got my money from was founded by my father, who invented (I think it is very modest to say) a very useful thing; and it would be contrary to all kinds of feeling and interest and everything else for me to sell those shares. I could do it, of course, but I think very few people, if the alternative were presented to them, would wish to continue in this country or to continue their nationality; they would rather go and stick to the ship.

5266. Still, you would get a satisfactory return from your income if invested in this country; it would probably save you money as compared with paying taxes in both?—That, of course, is quite possible; but

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if you will excuse me saying so, I do not think that really touches the question, because that means immediately that no Britisher could invest in any foreign security. I cannot help feeling that at some future time when we wish to make purchases, as we have done during the war, in the United States, that would place us in a very bad position with regard to exchange. I cannot help thinking that it is a healthy thing for people to be encouraged to make investments in other countries so as to have an asset there when needed.

5267. Then you also suggest in your evidence that your brother left this country owing to the Finance Act of 1914?—Yes, that was so.

5268. Are you aware that the tax at that time was 1s. 3d. in the £?—Yes. I have not thought about that; I only know the fact that he did so.

5269. You suggest that he left here owing to a tax of 1s. 3d. in the £. Of course it is much higher now, but that was all it was when he left?—Do you mean now the English tax or the American tax?

5270. I am referring to the British tax?—Yes. Well, I think the main reason why my brother left at that time was that he had properties abroad, and up to a certain date in 1914 the only income coming from abroad on which a citizen paid was what was brought into this country. Then my brother naturally only brought here what was necessary (for his English properties), and the other he spent, some of it in France and some of it in other places where he had houses and other properties; but when the law was changed and he had to pay on his whole foreign income, although not brought to this country, he then thought it was not good enough, and he went and resided abroad.

5271. That is just my question. You seriously suggest that your brother left this country owing to a tax of 1s. 3d. in the £ on that portion of his foreign income which was not remitted to him?—I think it was so. When I say left this country, I think at that time my brother was living a great deal more out of this country than in it. It was not a question of wishing to be here and not being here. It was only a question of being subject to a tax.

5272. It really was no wrench for him?—No; I think it was only a question of owning property here; but in any case it is quite different, in my case all my interests are here.

5273. I take it your evidence generally suggests, as regards the Singer income, that the U.S.A. tax should rank before the tax of the United Kingdom; that it should come first, and if it exceeds the United Kingdom Income Tax you should pay no more?—Well, that is not my own idea. If I had to settle it I should say that the largest Income Tax should be paid—whichever is the larger—and then it should be divided. That is my own impression of it, but that is nothing to do with the law. My contention at present is not that the United States should be given preference over the British Treasury, but that the relief given under the new law in America is exactly the same position should be reciprocated here, because that relief, I understand, is not to be given unless it is reciprocal.

5274. Is that because the income is made in the United States?—Well, that, I suppose, is the reason that the United States have fashioned a law relieving citizens from paying by letting them take the tax paid on income from other countries off the tax they pay in the States. I suppose that is their reason, and the same reason would apply here.

5275. The United States is the country of origin of the Singer profits?—That is so in this particular case, yes.

5276. I see quite frequently a very large Singer factory at Clydebank?—I am glad you do.

5277. Which is the country of origin of those profits? Have you not got some other branches in England?—That company that you speak of at Clydebank is a Scotch company.

5278. Do the profits flow to the American company?—No, the profits are dealt with by them in this country.

5279. You are shareholders of the Scottish company. Who has the control?—I am not very good at technical details, but the controllers are, I suppose, the President of the United States Company—he is one of the shareholders—and others are officials.

5280. The point is that the profits from the business in this country at Clydebank, and elsewhere in this country, ultimately flow back to America?—No, I do not think so. I had a balance sheet the other day in which the profits were kept in the company in Scotland.

5281. Chairman: How do you mean: kept in the company?—I mean to say they were not distributed in dividend.

5282. But they belonged to America all the same, did they not?—No, I do not think so. There is a company in Scotland, and there is a company in England; they are both registered companies which deal with their own profits, and so far we have never had any dividend from them.

5283. Mr. McIntosh: But your dividend in effect indirectly flows from them?—I do not think so. Of course, these matters of these particular companies, I suppose, must affect the general question, or else we would not be going into them. They have been the subject of arguments between us as shareholders and the company, and we have contended that these companies are children of the main company; but I think as far as the actual facts are concerned each company does deal with its own profits.

5284. Suppose you took up shareholding interests in the United Kingdom company, and took all the dividend you could get up to a point, would not that get rid of your difficulty of the double taxation? Suppose instead of being a shareholder of the United States Company you transferred your share interest in some way to the United Kingdom companies to the same extent?—They have never yet paid a dividend—except one, I think.

5285. Chairman: But they have made money?

5286. Mr. McIntosh: I was just going to ask that.—Well, they have not made much.

5287. It depends what price they are charging for the machines, I suppose. I can quite understand that if they sell their machines made in Scotland to the American company at a very low price, they will never make any profit?—That is what I suppose happens; I do not know, but that is what I imagine happens.

5288. That could be remedied, of course, by giving you a shareholding interest in the company which charges a reasonable price for the actual product, and earns enough profit to pay you your dividend?—I have not any proof of anything, and I do not know. I am not in the business except as a shareholder. What I presume happens is that the Scotch company make the machine and sell it, with a very small margin of profit to themselves, to the American company, and then the American company sell to a selling company in England, and they sell the machine, and they do not show a very large profit.

5289. By that means this country gets no tax at all out of the Singer operations here, or very little?—Oh, yes, they get quite a fair amount of tax.

5290. I take it the profits are not on the same scale?—Of course, what is made at Kilbowie goes all over Europe; it is not only English trading.

5291. Yes; I am not concerned with the rest of Europe. I am only concerned with the United Kingdom position with relation to you as an individual. It is not quite, perhaps, relevant, but I take it the Singer Company in America send considerable parts from America to be assembled in the Clydebank factory—still, if you do not know the details I do not want to follow it up?—I do not know, but I should imagine not, because the Clydebank factory is a very complete institution; it is a very big thing. I should imagine they made everything except, perhaps, they may get wood from Russia.

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5292. Have you any experience of the administration of the tax in America?—I do not know anything except what I am advised by my bankers who deduct the tax from us.

5293. You do not know anything about the American forms that are sent to the taxpayer; you do not fill them up yourself?—Yes, we do, once a year.

5294. You mean you do like many clients of mine do—they sign them; they do not fill them up?—Well, that is about it, but I never sign anything without examining it.

5295. I agree, but that is a different thing from taking the trouble of filling it up?—Yes.

5296. The American forms are not very easy to understand?—They are rather difficult.

5297. Do you think they are even more complicated than the British forms?—I should not like to say that, because I have enjoyed so many days in the different courts listening to the arguments, and the judges themselves differ on the subject so often that I should not like to say that anything in the world is more complicated than English taxation.

5298. That is not my question exactly. You have seen an English Income Tax return schedule?—Yes.

5299. And you have seen an American one?—Yes.

5300. Do you think the American form is any simpler than the British form, or do you think it is more complicated?—It is on a smaller piece of paper.

5301. That is a disadvantage right off; you mean the print is smaller?—The print is smaller, I think. I think we are hoping to show that some of the things printed on the English form ought not to be there.

5302. I asked you a very simple question as to the complicated kind of return that the British authorities ask, and the complicated return that the American authorities ask. If you are not familiar with every simple question on both I do not want to follow it up?—As a matter of fact I may say really I do know the British form pretty well, but I have never divined very seriously into the American form, except where it concerns me. I do not know whether it is a separate form for foreigners.

5303. Its only feature that impressed you was that it was on a smaller piece of paper?—Than the English one was.

5304. In paragraph 16 of your statement you refer to the provisions for contributions for religious and charitable purposes as being more generous and more just than any provision in the United Kingdom. The provisions in the United States do not refer to charitable contributions in general, but only to certain particular corporations or associations. It is only in respect of those special contributions that Income Tax relief is given. Are you familiar with the section of the American Act which deals with that?—No, I am not. I think that comes in Mr. Edwards Jones' evidence. But I know this; I think the difference in it that appears to my own mind is that if an American gives, or if I give out of my American income, to any registered charity the income would be taxed; whereas an income in England would be taxed.

5305. The effect with the present high rate of Income Tax—you say 50 per cent.—of your being allowed to deduct it is that the State pays 50 per cent. of the contribution of which you get the credit. I suppose that is the effect of it?—I should not think so, because if one gives, say, £1,000 to a charity one gets credited with giving the £1,000; but if I gave £1,000 to a charity I should be giving really £3,000, that is to say, I should have to set aside £3,000 of my income to pay £1,000 to the charity, and I should only get credit for that £1,000.

5306. I suggest that in the United States where you get credit before arriving at your taxed liability, for a contribution to a charity, in effect, with the tax at 50 per cent., the State has paid 50 per cent. of the contribution?—No, I do not think I can follow that. A man wishes to give £1,000 to a charity, and does it. The charity gets £1,000, and that is what he is credited with. Whether that is going to cost

him another £1,000 or not is a thing which is decided by the Treasury, and he never gets credited with giving £2,000, but he gets credited with giving £1,000.

5307. I do not suggest that he gets credited with double the nominal contribution, but if a contribution to a charity is allowed as a deduction before arriving at net income, and the tax is 50 per cent. on that net income, the State has paid 50 per cent. of that contribution?—Well?

5308. They have lost that amount in tax, have they not?—In the present conditions in England, if a charity is a charity registered with the Charity Commissioners there is no Income Tax charged on the income of it.

5309. You are suggesting in your proof that there should be a more generous and just method of allowing contributions to charitable institutions to be treated as a deduction before arriving at the net income liable to tax; that is generally your proposition?—Well, it is already done here if the capital for the charity is cut out and earmarked and made into an absolute trust. They do that in the case of my hospital, but I have only had the advantage of it for something like a year instead of for nearly five years. All that is more generous in the American system is that in addition to that they give relief for income which is given to charities; that is the only addition, and that does make it more generous, in my estimation.

5310. Sir J. Harwood-Barker: Might I ask who makes the sales to the British people who purchase goods in this country? Are those sales made by the American company, or by the British companies which are registered here? I believe by the British companies.

5311. If I buy a Singer sewing machine, do I buy it from an agency of the British company or do I buy it from the American company?—From the British company.

5312. So the profits from the manufacture and sale go into the credits of the British companies?—The profits of the manufacture go into the Scotch company at Kilbowie, and the profits of the sale go into the English company.

5313. I asked the question because I understood you to say just now that neither of those companies made profits or paid any dividends.—Exactly. I do not know for a fact, but I presume that the profit is in between the two companies, and is made by the American company, and not by either the Scotch or the British company.

5314. If the manufacture is by the Scotch company and the sale is made by the British company, how can any profit be made by the American company?—The only way I can suppose it is done is because they buy at one price and sell at another.

5315. From whom do they buy?—They buy from the Scotch company and sell to the English company.

5316. So there is an intermediate profit made by the American company buying from the Scotch company?—I cannot say that there is because I do not know; I only presume so.

5317. That is so, is it?—I presume that that is so, but I have no proof of it.

5318. So that the portion of the profit between the manufacturing and the selling goes, we will assume from what you say, into the American company, and does not come here to pay Income Tax?—I suppose so; but I must state I am not a technical witness in any way whatever. I am only a shareholder in the American company, so that I am not aware of all the facts. I am not absolutely aware of them, and I could not tell you, because I do not know.

5319. On that point it might be desirable to have it cleared up a little bit, as to who does make the profits?—(Mr. Edwards Jones): Might I say we went into this very fully before the Abingdon Commissioners, and I could explain it perhaps better than Mr. Mortimer Singer, because I was there.

5320. Mr. Kerly says he can deal with it. The only other thing I ask is, are there any royalties, trade

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marks or copyrights in any way payable by the manufacturing company here, which are paid to the American company in respect of these machines?—(Mr. Mortimer Singer): I never heard of any such thing.

5321. One other question in this respect: your mention in paragraph 9 that the tax in America is 12 per cent. and 50 per cent., that is 62 per cent. It is 10s. 6d. in the £ British tax on the 38 per cent. what is received on this side. In America, before you pay your dividends, do you transfer large sums to reserve before they are remitted over to this side?—Do you mean the company?

5322. The American company, yes. The dividends will be considerably less than the profits?—The company has done so, but they have hardly ever been liquid reserves. They have been things that could not be paid, because they are houses and machinery and extensions generally.

5323. The dividends paid would be considerably less than the profits made by the company; they would not on the prudent side?—Yes, I suppose so.

5324. So that when you speak of 38 per cent. as applied to the general profits, it is only 38 per cent. upon the lesser amount which is distributed in dividend, and is not 38 per cent. upon the whole profits made by the company?—No, I think you have misunderstood it. I am only dealing with my own private income. My shares might have been in railways or in anything else; that does not touch it. It only means that I have 38 per cent. of my original income left to spend. That is not a percentage of what the company has. I am only an individual enjoying a certain income, and of that income, when the Income Tax people have done with me, I only have 38 per cent. left.

5325. The 12 per cent. and the 50 per cent. is paid by the company; it is not paid by you?—No, the 12 per cent. is paid by the company.

5326. One question on paragraph 13, where you mention that British subjects do not get the benefit of exemptions which French subjects do. What do you mean by that?—I did not know what that meant until I asked Mr. Edwards Jones. I believe that is because it is a question of exemptions for children, &c. I believe that is the only tax on which the French Treasury have made a reciprocal allowance to American citizens.

5327. Chairman: Perhaps you will explain that afterwards. Mr. Edwards Jones?—Might I remark that my evidence is only affecting my own private income?

5328. Yes, I understand that?—And I have really nothing to do with the company; in fact they have rather always pushed me away when I have gone anywhere near them.

5329. But this is what the members of the Commission want, quite rightly. They say you have interest in this country, and part of your interest is in America; but you do not want to pay any Income Tax here, although the American company is receiving a large amount of profit from this country. They want to drive you to the position that you ought to pay Income Tax in this country; that is the position?—I know. I do not say at all that I ought not to pay Income Tax in this country.

5330. If, as you suggest, the income should be taxed in the country where the largest tax was payable, you would not be taxed here at all?—That is only really an accident of the way the balance goes, and in nearly all cases, excepting the very very highest incomes, there would be a tax paid here.

5331. But you said the position was that you would not pay tax here?—No, not that I would not pay tax here; I certainly would pay tax here.

5332. Not if the American tax were larger?—When it gets up to colossal incomes of something like a million or two a year, these people would not pay tax here, but those are rather fictitious, outside cases, and do not really affect the balance.

5333. Mr. Bruce: As I understand it, what you want to persuade this Commission to do is to make such a recommendation that you would not pay Income Tax in this country?—No, that is not what I

mean, and that would not be my case. In my own particular case if the same relief were given by the Treasury to its citizens as is given by the American Treasury to its citizens under their new law, which is that the tax paid there would be deducted from the tax paid here, I should have to pay a little over 20 per cent. in this country and 30 per cent. in that country. All that I suggest is that the relief that the American Treasury is giving to its citizens should be reciprocal.

5334. Anyhow, you feel you have a real grievance, and you want this Commission to make representations to meet your grievance?—Yes, I do.

5335. Are you aware that working people pay an Income Tax if they have got an income of £131?—Yes.

5336. What kind of effect do you think it would have upon this country if this Commission, or the Government, or Parliament, made a recommendation upon the lines that you are suggesting, in face of the fact that working people must pay upon an income of £131 a year?—I think if it was stated in that way, that a wealthy person did not pay any Income Tax, it would have the most horrible effect, and I should be the first person to be disgusted by it; but that is not the case at all. Having been naturalized a British subject, I would not have had any objection to have been ruined by my payments in this country for the defence of the country and for the sake of the war. All I object to is having to do the thing twice. I do not think the same people that you are talking about, if it was put fairly to them, would for a moment think that any man should make two war sacrifices, which is what happens. It is not a question of a man not paying Income Tax on his enormous income; it is a question of his not being asked to do so twice; and as in the war we were supposed to be pooling men and pooling resources, surely one person ought not to be asked to pay twice into the same pool. That is my argument. If I did not pay any Income Tax in England it would mean that I was paying a larger Income Tax than the highest tax in England to some country, you see, and then the American citizen would be doing exactly the same thing in England. It is not one-sided at all. The American people have large investments in England, and the thing would be that they would pay all their Income Tax in England, and we would pay all our own in America; and the two things would balance each other.

5337. Just a moment; you make such elaborate answers.—I am sorry; I thought I had to explain my point of view, because my point of view is not one of wishing to get out of paying tax; it is only of not wanting to get penalized twice.

5338. The whole intention of your presence here is to get out of paying so much tax as you have been paying to the British Exchequer?—That is the effect of it.

5339. Now I am trying to put this to you, to the degree that you are relieved someone else must find the money for running the Empire?—Yes.

5340. Do you think it is a fair proposition that people who earn from £100 to £200 a year should bear additional taxes on purpose to give you the relief that you are asking for?—There are several answers to that. One is that if I was not here at all I should not be spending the 38 per cent. that I have remaining in this country. I should be spending that abroad in the country where I came from, and that would be a very great disadvantage to this country. Then another point is that all my life I have been contributing to hospitals and other institutions in this country very large sums of money, something like one-eighth or one-tenth of my income. If I was not doing so, and if those things were not run by voluntary contributions, the people that you talk about would have to run them through the taxes.

5341. Certainly; and they would make you pay proportionately. I hope, towards those taxes here?—And I should be delighted to do so.

5342. Now I want to put another question to you. I am trying to examine your point of view as to what regard you have to the effect upon the masses of people of this country, if you get the relief you ask for. At this moment you are quite aware that we are passing through a serious phase of industrial unrest?—Yes.

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5343. Do you expect that industrial unrest to increase or decrease in the coming immediate years?—Well, that is a matter of opinion. I hope it will decrease, but I am afraid it will increase.

5344. Do you think that if this Commission made a recommendation on the lines that you are asking for it would help to decrease that unrest?—I certainly do, and I will tell you why—

5345. No, do not tell me why, because that answer is sufficient to tell me that you know nothing at all of the mentality of the working classes of this country?—Would you mind my putting it in this way, because this is being treated as an individual thing, that I or my class (and when I say class I mean to say people who get their incomes from abroad) wish to be relieved of taxation; but that is only one side of it. If it can be shown that the net result, not of one country doing it, but of both countries doing it, is to the advantage of this country, then I cannot help thinking that any person who takes the trouble to think it out fairly and squarely would say: "Well, then, it is to the advantage of this country; it is a reciprocal matter." It is not a question at all of an individual wanting to avoid a tax.

5346. Mr. Kerly: Your general proposition, I understand, is that the tendency of cumulated Income Tax in different countries levied on a resident is to drive wealthy people to reside in the country from which their chief income is derived?—Well, I have not quite thought it out like that, but I imagine that most people would wish to reside in the country where they pay the least tax.

5347. And obviously, as cumulated Income Taxes may exceed 100 per cent.—?—They may, and they do in some cases.

5348. Then if a man is to avoid paying away the whole of his income he will have to take some step, and the step which will save him is to go and live in the country from which his income is derived?—Yes, that is so.

5349. I thought that that was the gist of your objection. Your suggested remedy is that the country of origin of the source of income should be allowed to charge what it likes, and the person receiving the income, if he resides elsewhere, should be able to treat that as a payment against any Income Tax in the country where he resides?—Yes. May I remark, as a matter of fact, that is not at all my proposition; it is the proposition of the Treasury of the United States, and I only say that as it seems to be the only possible condition to get at present, that should be made reciprocal, my own personal idea on the matter is that the taxpayer should pay the higher rate in whichever country, and then that the countries should come to some sort of financial arrangement as to what they should receive.

5350. You suggest a pooling arrangement?—Yes.

5351. That would have to be a matter of treaty between every two countries?—Yes; that is my own idea.

5352. And at present that is not practicable?—No.

5353. You have probably been advised as to the effect of the American legislation. It only provides that tax paid in another country can be set off where it is levied upon income derived from that country?—Yes.

5354. It would not enable you in your case, for instance, to set off any tax you have paid except upon income derived from Great Britain or the United Kingdom; have you observed that?—Yes, certainly.

5355. Very well. Now let us see how that applies to your particular case. The Singer Company, from which you derive your income, is really an international trader?—No; it is an American company.

5356. Has it not interests in Russia?—Yes.

5357. Has it not interests in the country?—Oh, yes, it trades all over the world, but the seat of it and the incorporation of it is American.

5358. From what country in the world does it derive its income—from many?—Yes.

5359. Where are you going to fix the country of origin of its income, and of the part of its income which comes to you as dividend?—Well, I fancy that is fixed by law, the same as any other company.

5360. By what law?—By the law under which the company itself is incorporated.

5361. Then you propose to go further. Is each particular country in allowing the deduction to determine as to what is the country of origin from which the income is derived—because very different views are taken about that?—Is it not decided finally by the country where the company is incorporated?

5362. No, certainly not. If the question is in England it will be determined by English law. I am merely pointing out to you practical difficulties that you do not seem, naturally enough, to have grappled with. Now let me ask you a little more about the Singer Company. The Singer Company, like other companies with international interests, has done its best to avoid paying Income Tax in each country where it trades?—I have no knowledge whatever of that.

5363. I am gathering that from what you have already told us. Singer machines are made in the United Kingdom and sold here?—Yes.

5364. But the business is so arranged that the profit on that whole transaction is not subject to English Income Tax?—Well, I cannot say that; I do not know.

5365. Is not the very object of having a Scotch company which is a manufacturing company, the shares of which are owned by or for the American company, that the manufacturing business in Scotland shall not pay tax upon the income which an ordinary Scotch manufacturer would derive?—I really do not know enough about the actual affairs of the company to be able to give proper answers, and I am not certain. If you will excuse my saying so, I do not know that I ought to be talking about the company at all, because I am only a shareholder. If it was a question of inquiring into whether the Singer Company is paying its taxes or avoiding its taxes, it seems to me that some officer of the company should be cross-questioned by the Commissioners. I do not accept that the Singer Company is doing anything at all contrary to the laws of the country, or else the gentlemen I have formerly met to do with the Treasury would have found it out, and would have gone for them.

5366. You were not following me. I suggested it was so arranged that they did not have to pay Income Tax; that is to say, they so made their arrangements that the legal consequence of those arrangements is that they do not have to pay Income Tax; but the result is that a British manufacture, followed by a British trade, does not earn a normal income upon which tax is paid in the United Kingdom?—It looks like that.

5367. Very well; I pass it by. You suggest that people will be driven to alter their residence if the present cumulated Income Taxes are continued. Would there be much reciprocity about that? Are there many wealthy residents in America who have large incomes from foreign possessions?—I have no knowledge at all about that.

5368. You know enough of the world, do you not, to answer this question: that the number of wealthy residents in America who get their income from abroad is incomparably less than the number of wealthy residents in the United Kingdom who get their income from abroad?—I really do not know; but I should imagine that you are quite right.

5369. I take your answer.—Of course, you know in my own particular case it is a family matter; it is not a matter of choice at all; it just happens to be so.

5370. I quite follow that, and of course I am not cross-examining you upon any personal matters at all. You have come here as a representative?—Of course, all my contentions are not only concerned with the Singer Company; they are concerned with any company—a railway company or any other kind of company.

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[Continued.]

5371. Now as regards charity; if you choose to make a settlement of some part of your capital, then you no longer pay Income Tax on the income derived from the settled property?—No.

5372. But if it is your income from year to year, and you make a charitable contribution as part of your yearly expenditure, then you get no allowance for that part of your expenditure?—That is so.

5373. You suggest that in America you are allowed to treat to a certain extent sums paid for charitable purposes as deducted from your income?—Yes.

5374. You suggest that that should be extended to this country?—Well, I do not know whether I have suggested that, but it has been put in for me to show that the provisions for charitable purposes in America are more generous than they are here, and that is the only part in which I imagine they are more generous.

5375. Very well, then; if it is only to be taken as something put in for you I will not trouble you further about it.

5376. *Chairman:* Mr. Edwards Jones, we will proceed with your case now. I want you if you can to condense it, because we shall adjourn at half-past one, and then take you first at half-past two. We have another witness called for this afternoon, and we did not intend to take you this afternoon, but some very interesting points have been raised this morning, which have taken a little longer time than was anticipated. Therefore I want you if you possibly can to condense your statement, so that we may be able to finish at about three o'clock. You understand these matters quite well, and it is left to you now so to arrange them.—(Mr. Edwards Jones) May I begin by just referring to the point which Mr. Singer has been asked so much about, the English and Scotch companies? With regard to the English and Scotch companies, we tried before the Abingdon Commissioners to establish the proposition which has been put to Mr. Singer, that is to say, that the Singer Manufacturing Company was making large profits here through the English and Scotch companies, and therefore we were entitled to a reduction of the amount of income derived from America on which we paid tax because it was profits of those companies which had already paid tax here. We found the greatest difficulty in arriving at what the profits were, and such was the difficulty that we had to compel the attendance of witnesses from the Scotch company and from the English company in order to establish our position. We could not then satisfactorily decide, but it is the fact that the Scotch company and the English company do pay Income Tax here, and both of them have declared dividends which go to the American company, the U.S.A. company. It is true that, as far as we could ascertain, the shares were at that time held—that is about three years ago now—by a corporation which was obviously a corporation representing the Singer Manufacturing Company of the United States. That is the position. I do not think we can state with any accuracy what the profits are, or how much of them really pass into the coffers of the Singer Manufacturing Company. The Abingdon Commissioners decided in our favour to a very small amount; I think it was 1-32nd of the whole income, as having been paid out of profits which had already paid tax in the United Kingdom. I thought I had better explain that position.

5377. Did they go into the question on business lines to see whether you were simply utilising these concerns in England to make larger profits for America, and not pay tax here?—That suggestion was made, undoubtedly, and it was very difficult to arrive at any conclusion.

5378. There has been no commercial investigation, because a commercial investigation would at once find out what you were doing here, and the prices that you were selling at, and all the things that were being done; that would be done at once, but that has not been done?—The Inland Revenue authorities were well represented at Abingdon on that occasion. They had the whole of the facts that we knew; we gave them the opportunity by subpoenaing these

witnesses to have the whole information that we had before them, and I presume if they thought there was an opportunity of establishing anything of that description they have meanwhile taken the steps necessary.

5379. You can tell from the questions that have been addressed to you, by Mr. McIntock particularly, what is in the mind of people with regard to that?—Yes, and that is why I was anxious at the start to put it as clearly as I could as far as my knowledge goes. Broadly speaking the gist of my evidence is contained in the first six paragraphs really, and it is to this effect: where a class is taxed on any principle, the whole class ought to be taxed uniformly. If you take the ordinary basis of taxation, say, for instance, that incomes from £1,000 a year to £1,500 a year ought to pay 10 per cent., it would be right that all persons who come within that class should pay 10 per cent. of their income. But in the case of persons owning property in two countries or being resident in one country and owning property in another, the effect may be, and in many cases is, that they will pay not 10 per cent. but 20 per cent. of their income. I submit that that is not a just taxation of that class. That is a perfectly general proposition, and it seems to me to be quite independent of individual cases. With regard to the questions which have been put to Mr. Singer, there were two points raised which I thought I ought to mention at once. The one was as to the credit for taxes in the United States, and I should like to read the particular section, because that is the really important point here. It is section 222 (a), and it runs in these terms, that the taxpayer under Part II. shall be credited with "(1) in the case of a citizen of the United States, the amount of any income, war profits and excess profits taxes paid during the taxable year to any foreign country, upon income derived from sources therein, or to any possession of the United States; and (2) in the case of a resident of the United States, the amount of any such taxes paid during the taxable year to any possession of the United States; and (3) in the case of an alien resident of the United States who is a citizen or subject of a foreign country, the amount of any such taxes paid during the taxable year to such country, upon income derived from sources therein, if such country, in imposing such taxes, allows a similar credit to citizens of the United States residing in such country; and (4) in the case of any such individual who is a member of a partnership or a beneficiary of an estate or trust, his proportionate share of such taxes of the partnership or the estate or trust paid during the taxable year to a foreign country or to any possession of the United States, as the case may be." The Commission will see that the credit is, in the case of an alien resident, upon income derived from sources in the foreign country; that means that the country of origin of the income will be entitled to tax the property and the whole of that will be credited. That is not a provision which will be of any very general application. It happens in this case for the reasons you have heard, that the whole of this considerable income does come from the United States; but that is a rare exception which arises from the particular circumstances, and even in that case there will be still an amount available for this country to the extent of approximately 20 per cent., and it would only be in cases where the income amounted to over £200,000 practically and was all derived from the particular country that this country would be left with nothing.

5380. *Mr. McIntock:* Just one moment before you go on. I suggest to you that the paragraphs you have read do not touch the case of the individual situated as Mr. Singer is?—That is so.

5381. He is a non-resident alien?—Yes, that is so.

5382. He is not a non-resident of the United States?—That is so; it does not touch him.

5383. There is no reciprocal arrangement offered here to a non-resident alien; this is the description applied to a British subject in the American Act. Mr. Singer is known as a non-resident alien?—Yes.

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[Continued.]

5384. Therefore the statement made in paragraph 11 is not strictly correct. There is no reciprocal arrangement offered by the United States to anyone in Mr. Singer's position. He refers to section 222, sub-section 3, that reciprocal arrangements only apply to an alien resident, not to a non-resident alien. That is what is said in paragraph 11, that a British subject resident in the United States, which is not Mr. Singer's case, but would be his case if he went there, would then get the benefit of the arrangement.

5385. I suppose that those sections do not apply to anyone in the class that Mr. Singer is in at present?—That is so.

5386. There is no reciprocal arrangement possible under the United States Act to anyone who continues to live in this country, as Mr. Singer does?—That is so. This is not being put forward on the ground that Mr. Singer is going to get immediate relief from it; it is put forward as a general proposition.

5387. It is the class of individual such as Mr. Singer is, who is a subject of this country, lives in this country and brings his income from the United States—there is no reciprocal arrangement offered for people of that sort in this Act; there is no sort of legislation in America at present to give him credit, I suggest?

5388. *Chairman*: I think the reciprocity would come in if we had a section corresponding to sub-section 1 of section 222?—Yes, that is where it arises. If Mr. Singer were a United States citizen resident in America he would get this without any reciprocity at all. That is to say, if he were drawing his income from a purely British source he would under sub-section 1 get a credit for the whole of that.

5389. *Mr. McIntock*: I do not read that in sub-section 1; that is "a citizen of the United States."

5390. *Mr. Kerly*: Our Act would run: "a citizen of the United Kingdom"; that would be the corresponding legislation.

5391. *Mr. McIntock*: But we give that relief at present.

5392. *Mr. Kerly*: No. In the case of a citizen of the United Kingdom—that is Mr. Singer—the amount of any Income Tax paid during any taxable year to any foreign country upon income derived from sources therein—that is to the United States upon income derived from the United States.

5393. *Mr. McIntock*: I suggest that in this country at present a citizen of the United Kingdom drawing income from America is allowed to deduct from that income all tax and excess profits tax paid in America before being assessed?—I am very glad you mentioned that. It is necessary to emphasize that there is all the difference in the world between the deduction under the American tax law and a credit. A deduction means what you have been referring to. Under section 5 of the 1914 Finance Act Mr. Singer is entitled to a deduction from his income of the American tax, but what this provision provides is that there shall be a credit; that is to say, that the total tax shall be deducted from the tax payable in the United States. It is a totally different proposition. I only want to say this generally; a subsequent part of my proof, beyond that which gives merely the figures of the American tax, was directed to what seemed to me very enlightening points arising on the difference between American tax and our tax. My experience with regard to Income Tax does lead me to realize the extreme sense of hardship under which people labour. I have had really startling instances of people who have felt the hardship so much that they were prepared to sacrifice almost their whole lives in order to get their wrongs righted. In going into this American Act in reference to Mr. Singer's evidence, I saw admirable provisions which were capable of being applied in this country so as to reduce that sense of injustice, and I felt that it was an opportunity to put these sections before the Commission. That is all I desire to say generally, and I shall be quite prepared to answer any questions as to the particular points.

5394. *Chairman*: I think in any case of injustice you are perfectly right in coming to put it

before us. Have you anything further you would like to say?—I do not think I can usefully add anything to what I have put in my evidence-in-chief. If there is any important part I shall be quite glad to read it. There was one other point I promised to mention, and that is with regard to the reciprocity that there is in reference to the allowances for wives and children dependants; that is more information which I have. The section of the act does provide that those allowances are only given in the case of the non-resident alien individual who is a citizen or subject of a country which imposes an Income Tax. The credits allowed in sub-divisions (c) and (d) shall be allowed only if such country allows a similar credit to citizens of the United States not residing in such country. I am informed that that reciprocity has been arranged with France; that is under section 216.

5395. I want to draw your attention to this, that when you and Mr. Singer have given your evidence to-day no public use must be made of that evidence until the Government has published it?—Certainly. (*Mr. Mortimer Singer*): Is it possible for us to have a copy of what has been said for our own personal memories?

5396. Yes; it will be sent to you when it is received from the shorthand writer for correction.—Thank you. Could I make just one remark on what the member of the Commission said about the man who pays Income Tax on £131?

5397. That was Mr. Bruce.—I think that if the man who pays Income Tax on £131 were told that any American citizen who derived his income from England would have to pay the whole of his tax in England and none in America it would show him that the fact that an English citizen under certain circumstances—very rare circumstances—would not be paying any Income Tax was not unreasonable, and he might be a great deal relieved; and also if he were told that the reason that a British citizen was not paying 55 per cent. Income Tax in this country was because he was paying a like amount, or a greater amount, in another country where the income was derived, for the relief of exactly the same class of people—you see the drift of my meaning?

5398. *Mr. Bruce*: I quite follow.—He would not be avoiding a payment, but he would be paying in another place with exactly the same object.

5399. *Chairman*: You wish to make that statement with regard to Mr. Bruce's question?—Yes, I wanted to make that statement as it had occurred to me. Then I wanted to make one other remark. It has been said that the Singer Company, although I do not think this inquiry should really have anything particularly to do with the Singer Company, was an international company. I only wish to remark that it is no more international than crowds and crowds of other companies, shipping companies and others in England, registered in England, which trade all over the world.

5400. I think as you have come to give evidence upon these points of Income Tax it was really necessary for the Commission to make those inquiries about the Singer Company, because it is from that company that you get the larger portion of your great income?—I do, my lord, I admit; but my whole idea was not only to do with myself; it was general.

5401. *Chairman*: I agree.

5402. *Mr. Kerly*: Mr. Edwards Jones, your suggestion of principle is that where an income is derived from a particular company, that income, so far as it is subject to Income Tax, should be by international arrangement treated as primarily a fund for the country in which the income originates?—(*Mr. Edwards Jones*): I do not venture to make suggestions, but that is the effect.

5403. That is the foundation in principle?—Yes, certainly.

5404. That, of course, must be a matter of international arrangement?—Yes.

5405. The proposal that is made in the United States goes some way in that direction, but it is strictly limited to relief in respect of income derived wholly in the taxing country?—Well, the word "source" is the word used.

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5406. That is probably what it means, is it not—from a source within the taxing country?—Yes.

5407. In the case of companies or individuals carrying on a trade in several countries, farther arrangements will have to be made before the principle can be carried out?—I think so.

5408. I need not ask you for any details, because it is obvious that such arrangements must be matters of international arrangement?—I think so.

5409. Very well; I pass on from that. I am going to ask you a few questions as regards the latter part of your examination, but just to clear up a matter in case there should be any misunderstanding; it is possible in England, by setting up a subsidiary company which is really for Income Tax purposes an independent organisation, for a foreign trader who owns the bulk of the shares to derive an income from the English operations which is not subject to taxation here?—It is very difficult now, because of the provisions of section 31 of the 1915 Act.

5410. Well, it is rather the Rules of the Act of 1918, is it not—the General Rules 6 to 12, I take it, provide that the trading operations of the local company, the English company, may be subject to consideration to see whether they are deriving a normal profit or not?—Yes.

5411. You, I suppose, in principle would have no objection?—Not the least.

5412. I pass on from that to some specific suggestions you have made. You suggest (in paragraph 26 of your evidence-in-chief) that there is a change of feeling with regard to Income Tax. Is not that change principally due, now that the war has ended, to the enormous size of the tax?—I am suggesting an improvement in feeling. I should have thought the enormous size of the tax would have tended in the other direction.

5413. You did not follow. I meant the change of feeling is one of greater dissatisfaction?—I was not suggesting that. You mean in paragraph 26?

5414. Yes.—I think that is in the past; there was a general feeling.

5415. There has recently been a change?—Yes.

5416. In making an English resident pay on the whole of his foreign income instead of upon such part of it only as was received in this country?—Yes.

5417. Do you think that is generally regarded as unjust?—I do not know that it has ever been discussed in any careful form before this, as to the fairness or unfairness of it.

5418. With the exception of that provision and with the exception of certain dissatisfaction as regards allowances for depreciation and so on—I am not talking of details, you know—can you tell us of any general provision of our existing laws which strikes the commercial community, so far as you are acquainted with it, as unjust?—I think that the wear and tear allowances and the way that they have been worked—

5419. Yes, that is what I meant by depreciation; I meant to cover that?—does strike them as very unjust.

5420. Those are the two principal sources of complaint, are they not?—I think myself that the three-years' average strikes people as unfair, although they have become so accustomed to it now that they do not resent it much.

5421. Would you prefer to take last year's actual income instead of the three years' average?—I think so. I think the American provision, the accounts as audited if they "reflect the income," is an admirable provision, and perfectly workable.

5422. I do not want to ask you about matters which explain themselves in your statement. Turn, please, to paragraph 29. You cite from American a provision which gives a Commissioner of Internal Revenue a discretionary power to remit certain taxes?—Yes.

5423. Do you think that any such discretion to a Government official would work well in England?—I

think it would. I think it would be better than the present system. I have often had cases of real hardship where, owing to the matter being out of time or something of that sort, the Commissioners of Inland Revenue felt themselves bound to refuse any redress.

5424. And you think it would be desirable and would work beneficially if a discretion were given to the Revenue authorities?—I think it ought to be some independent authority—somebody representing the Treasury simply.

5425. In paragraph 31 you point out that any taxpayer who fights the Revenue is subjected to a very great risk as to costs?—Yes.

5426. You are familiar with the fact, I think, that in some proceedings the Crown neither pays nor takes costs?—Yes, certainly.

5427. Do you think that would be a desirable amendment of the law with regard to Income Tax?—I think it would. It is practically the universal practice now for the Attorney-General or Solicitor-General to be briefed in all Revenue cases, and as you will realise, that does form a very serious handicap on the subject.

5428. Is it your experience that since the change in the method of remuneration of Law Officers it has become more common in Crown cases to brief the Attorney-General, with consequent high fees and consequent larger risk to the litigant, than it was before that alteration was introduced?—I could not say more than that as far as my experience goes it is so. I should not like to say without verifying by looking back to the cases.

5429. That is the general view of the Bar, is it not?—Oh, certainly.

5430. You suggest that a return should be made in many cases. Do you see any difficulty in imposing a liability upon every possible taxpayer to make a return of his income when called upon?—That is the practice in America, and I think it is sound.

5431. Mr. McIntosh: You refer in your paragraph 30 to section 213 (B) of the American Act. "Gross income does not include the proceeds of Life Insurance policies paid on the death of the insured to individual beneficiaries." Then the Act goes on to say "or to the estate of the insured" "2.—Yes.

5432. There is no such assessment, of course, in this country?—If there was an annual payment arising out of the provision for dependants there would be such a payment in this country.

5433. Yes, but the American provision is "the proceeds of a life policy paid on the death of the insured" "2.—Yes. I think that does not really constitute a sound point; I quite admit it.

5434. You are aware that in America if you get the proceeds of an endowment policy repaid during your life you have to account for the difference between the premiums paid and the sum you recover as income?—I think that is so, but should not like to say without verifying it.

5435. You do not suggest that we adopt that principle in this country?—That again I should not like to say until I had got the case before me.

5436. What is your object in putting forward these suggestions in paragraph 30, where you quote the American Act?—I should rather like to say that section 213 (B) sub-section (1), the particular paragraph you ask me about here. I do not think it is a sound point; it ought to be omitted. The rest I put forward as being more generous treatment than the treatment which people get here.

5437. Then in paragraph 23 you state: "I am convinced that the Revenue will profit if the business community recognize that the taxation of trade profits is consistent with business methods and is administered fairly and even generously" "2.—Yes.

5438. At whose expense do you suggest the generous treatment should be provided?—If the generous treatment implies a loss of taxation I think that the American system gives you a fair indication where you can look for redress.

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5439. We all agree it must be fair, but if it is to be generous, somebody has got to pay for that generosity—some other taxpayer?—I do not think so. I think that an enormous amount is really lost both in costs and in bad feeling, and in actual money, by taking small objections which really do not bring in any appreciable sum, but put the taxpayer in a frame of mind when he will do anything rather than pay.

5440. You recognise that the point of view of the taxpayer and the Board of Inland Revenue as to what is generous are not exactly the same, or hardly ever likely to be the same?—I do not see any reason why they should not be the same.

5441. Have you made up many ordinary traders' returns or assisted in connection with them?—Certainly; a very large number.

5442. Is it not your view that the trader takes rather a different view as to generosity from the Inland Revenue?—That is just what I think is a mistake. I think the ordinary trader is an extremely honest man and the ordinary Surveyor is an extremely honest man, as a rule, and it is perfectly possible for them to come together and agree on the proper basis.

5443. You refer to a provision under the 1890 Act?—The Customs and Inland Revenue Act, 1890, about loss.

5444. Yes?—That is about the middle of paragraph 28 of my evidence-in-chief.

5445. You suggest there that the remedy under that section is incomplete?—Very incomplete.

5446. Because there is no appeal?—That is so.

5447. There is an appeal to adjust the amount of the loss of the year, is there not?—There is power to apply to the General Commissioners or the Special Commissioners for an adjustment, but it must be made within six months of the termination of the year.

5448. You know that in practice they allow 12 months?—I did not know that, no.

5449. Have you ever known of a case of an actual adjusted loss between the taxpayer and the Inland Revenue where the tax has not been repaid?—Oh, yes.

5450. Have you had many appeals under this section?—You cannot appeal.

5451. You can appeal to the Local Commissioners?—You can apply to the Local Commissioners, yes.

5452. You are referring to appeals from the decisions of the Commissioners?—By case stated, yes.

5453. I have had considerable practice in this, and will you take it from me I have never known of a single case where there was any difficulty in getting the relief under this section to which the taxpayer was entitled?—I have one very important one on at this time, and I shall be only too happy to find that you are right.

5454. The general run of taxpayers have no difficulty in adjusting the loss for the year, and as a general rule the Inland Revenue in my experience never ask them to go before the Commissioners at all;

they repay the tax?—I know in many cases they do, but in many cases they do not.

5455. I suggest to you the case you are referring to is altogether exceptional; it is not the general practice?—I have one now which involves £30,000, and I shall be very glad to find that you are right.

5456. Do you realize the effect of the three years' average on losses, even under this 1890 Act?—Yes.

5457. A man never applies for repayment on the loss unless he fears he is going to make a loss the following year, and might have an average of nil?—If I may say so, I do not agree with the suggestion that people never apply except when they feel sure it is going only to work for their benefit.

5458. My point which I am putting to you is this, that the taxpayer here gets all the relief he is entitled to, either by the operation of the three years' average or by getting repayment of tax on the loss of the year?—I simply say I do not agree at all. My experience is directly to the contrary.

5459. You contrast in the latter part of your statement the administration of the tax in America and in England, and the suggestion is that the administration there is better?—I do not pretend to be an expert as to the administration of the American tax. I have not been in America for the last 40 years. I can only say that the framing of the regulations and the whole language seems to me to be more designed to do justice as between the taxpayers and the Government.

5460. You make a considerable point of that. May I just read the Report of the Committee on War Finance of the American Economic Association; they probably know more about it than any of us here?—Certainly.

5461. "Our income tax laws have been badly drafted, and they are obscure at many points. Local revenue officers have often given conflicting opinions. The Treasury Department has frequently reversed its rulings, and retroactive investigations under changed rulings have resulted in demands for additional taxes on account of former years. In this respect the United States income tax has been exceedingly uncertain and vexatious, and it is undoubtedly time for a Statute of Limitations. The proposed limit of five years is probably too long, at least for normal times; except in case of fraud the limit should be ultimately reduced to two or three years."—May I ask the date of that?

5462. This was published in December, 1918.—I can only say that all this law has been growing very rapidly in the last few years, and undoubtedly at first it was open to very grave criticism, but I have before me now the Treasury Regulations under the Revenue Act of 1918. They are not even in their final form; they are headed: "Regulations 45 relating to incomes, and war profits and excess profits tax under the Revenue Act of 1918, preliminary edition." These are admirably drafted, and seem to me to be drafted with a desire to do justice to the taxpayer.

5463. Chairman: Thank you very much for having taken the trouble to come and give us the evidence you have given.

MR. THOMAS LUYA, LL.B., called and examined.

The witness, handed in the following statement as his evidence-in-chief:—

5464. (1) Thomas Luya, LL.B., of the city of Liverpool, Solicitor of the Supreme Court of Judicature in England, says:—

I am a solicitor practising in Liverpool, and have been so practising for nearly 13 years. My practice is very largely a commercial one, and involves investigation into, and advice upon, many matters connected with commerce and trade of the city. In particular I act as solicitor to most of the large provision houses carrying on business in the city, and am well acquainted with the nature and character of their business.

5465. (2) I represent in this country the following firms carrying on business in the United States of America:—

Boyd, Lunham & Co., Chicago, U.S.A.,
Chatham Packing Co., Chatham, Ontario,
Cleveland Packing Co., Ohio, U.S.A.,
Cudahy Bros. & Co., Milwaukee, U.S.A.,
Cudahy Packing Co., Chicago, Omaha, Sioux
City, Iowa, Los Angeles, California, and
Kansas City,
Fearman Packing Co., Hamilton, Ontario,
G. A. Hornell & Co., Austin, Minnesota,
Ingersoll Packing Co., Ontario, Canada,
International Provision Co., Brooklyn,
Jacob Dold Packing Co., Buffalo, U.S.A.,
John Morrell & Co., Ottumwa, Iowa, U.S.A.,
Morton Gregson & Co., Nebraska, U.S.A.,
Parker, Webb & Co., Detroit, U.S.A.,
Roberts & Oake,
T. M. Sinclair & Co., Ltd., Cedar Rapids,
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and other smaller packing houses. I also represent those British firms who do business with one or more of the before mentioned American firms. As an example of the size of the interests concerned I mention that the consignment turnover of the said firms in England during the 7 months ended 31st August, 1917, was £5,000,000 or thereabouts.

5466. (3) Before the Finance (No. 2) Act, 1915, was passed most of my clients were paying Income Tax upon a profit assumed and arrived at by the application of a particular percentage on the gross consignment turnover of such clients in England, such percentage being one on the goods consigned by my clients for sale in this country. Upon the passing of the Finance (No. 2) Act, 1915, the law, it is thought, was altered in two vital ways. In the first place the test to be applied for the purpose of ascertaining whether a particular non-resident was or was not liable to pay taxation was altered so that the test was no longer, was the non-resident carrying on business in England or exercising a trade there, but became a question of whether the non-resident was receiving profits directly or indirectly from a branch house, a factor, an agency or otherwise, domiciled in England; and in the second place powers were given to the Commissioners of Inland Revenue of assessing the profits of non-residents to be represented by a percentage on their gross turnover where the actual profits of such non-residents were not readily ascertainable. No proper notice do non-residents was ever given of the passing of this Act or of the drastic changes in the law which it effected, and it was not until May of 1918, some three years after the passing of the said Act, that steps were taken by the Commissioners of Inland Revenue to apply their interpretation of the Act to the packing industry of the United States, and as the result a very grave hardship was brought upon such industry. It is here mentioned that the industry in question is advised that the sub-section of section 31 of the said Act, which gives the Commissioners the arbitrary power before mentioned, was intended only to apply to cases where there was such a close connection between the non-resident and the resident that the resident, while making profits, appeared, owing to the arrangements between the two houses, either to be making no profit at all or to be carrying on at a loss, and was never intended to apply to the cases where a non-resident sold his provisions through a commission agent in this country who was duly and properly remunerated for his services and who in due course paid taxation upon any profits which resulted from such remuneration.

5467. (4) The particular industry which I represent, namely, the packing industry of the United States, is in a somewhat unique position with regard to the question of the ascertainment of its profits from sales which were made to or through agents or commission agents in this country. The average packing house in U.S.A. only sells in this country a small proportion of its total production, and further only sells in this country a particular class of the goods which it manufactures, which represents about 10 per cent. of the different kinds of articles which result from the hog packing industry. There are packing houses in the United States which manufacture 40 or 50 or more different articles, and only export to, and sell in this country 3 or 4 of the same. The usual articles sent over here for sale are bacon, hams, and lard. It will be sufficient as an example of the difficulties which beset any person endeavouring to ascertain the profits of a packer made from trading in this country if we take the case of bacon. In the first place only certain hogs raised in the United States will produce a kind of bacon which is saleable in this country. In the second place, from those suitable hogs only a portion is saleable in this country. That portion has to be cut from the whole hog, and has to be cut in a particular manner, and as a result the residue left differs from the residue which is left after the hog is cut for the American market. Again hogs are bought in droves containing various kinds of hogs, some suitable, and some not suitable for the English trade, and the price is so much per given weight of live hog. In the third place, the price which is obtainable for the bacon when cut for the English market from

the suitable hog is the price of the market upon the day when the produce is ready for sale, and is not the price figured out in relation to the cost of the whole hog. The market price, as it is called, from day to day of English cuts is arrived at in this way. The packer who is estimating the price at which he can profitably sell his English cut first of all ascertains how much his hog has cost him, as it is called, on his feet. He knows from experience how much that particular hog will dress, that is to say, when it is killed and dressed ready for cutting up what its weight will be. This averages somewhere about 65 per cent. to 70 per cent. of the live weight. He then calculates what he can get on the market price, on the day on which he is proposing to price the English cut, for all the other products which come from that hog. The other products have a daily market value. He thus knows by a process of elimination how much he must get per pound for his English cut in order that the whole transaction, of purchasing, killing and cutting up and generally manufacturing from the live hog various products, may produce a profit to him. It will thus be seen that while the price fixed for the English cut has in fact no relation to the cost of the hog, because, as before mentioned, the price is governed by the market, yet the market price is in turn governed by the general market price of the various market prices of the hog, and the price therefore fixed for the English cuts in this way has a definite relation to the cost of the hog. It will also be seen that if the market price, owing, for example, to a "big run" of hogs coming along at a particular time, comes down, then, of course, he must sell his product of the hog, bought at a higher price a few days before, at a loss, because he cannot get more at any time for his English cut than the market price of the English cut on the day that he wishes to sell. In practice what happens is the packer runs his business like many other businesses upon the average result coming from the trading for a considerable period.

5468. (5) In addition to the above difficulties there are difficulties inseparable from any large business, resulting from the fact that there are considerable expenses which are not attributable directly to any particular part of the business. For example the clerical expenses; these are considerable, and the expenses of this branch of the business have to be apportioned among the various selling and manufacturing departments on a basis of sales. While this method is perhaps not technically absolutely accurate it works out to within a fine point of complete accuracy.

5469. (6) Coming to the result of section 31 of the said Act, as interpreted by the Commissioners of Inland Revenue, upon the position, I wish to inform the Commission first of all of these facts. Before the war prices of hog products were normal in that they were the result of ordinary competition trading. Upon those prices 1 per cent. on the gross consignment turnover was assumed to be the profit of the non-resident in the hog packing trade. During the war years the prices gradually rose until they were some three times as big as they were before the war. Application of a 1 per cent. basis to the increased prices would produce, by a mere calculation upon the same volume in weight of goods handled, an assumed profit three times as large as the pre-war on the same weight of goods handled. This in itself would be an assumption of profit greater than the facts warrant. The Commissioners of Inland Revenue have assumed the profits of the non-resident to be represented not by 1 per cent. on their gross consignment turnover, but by 4 per cent. and 5 per cent. on such turnover, with the result that it has been assumed that the profits of non-residents during the war years were 12 and 15 times as great on the same volume of goods handled as they were before the war, a conclusion which in itself is completely inaccurate. Apart from the important question of Income Tax there follows upon those figures the more serious question of Excess Profits Duty.

5470. (7) By way of example the following figures are quoted:—

The Inland Revenue are now assessing profits on a 5 per cent. basis on sales which for the past

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year may reasonably be taken at three times their normal value.

In the case of a business doing a normal pre-war trade of £100,000 turnover, Income Tax (at 6s. in the £) would amount to £300. If we increase this turnover by the rise in value, the Income Tax at 1 per cent. is automatically increased to £493, an increase of £193.

There would be no Excess Profits Duty payable on the 1 per cent. basis and normal turnover, but a sum of £1,440 duty would be payable at 1 per cent on the increased values.

If however the Inland Revenue succeed in their estimate of a 5 per cent. basis of profits on increased values, then the position is much worse. Income Tax goes up from £300 to £1,168 (increase of £868) and Excess Profits Duty goes up from nil to £11,040.

These figures are after deducting from the profit liable to Income Tax the amount payable in respect of Excess Profits Duty.

5471. (8) One of the complaints by my clients, which was foreshadowed early on, is that in the year 1918 assessments for Income Tax were issued against my clients for the years commencing April 1915 onwards. In May of 1918, the years ending December 1915, 1916 and 1917, were closed years, that is to say, the profits had been ascertained in the belief that their liability for taxation had not been increased, and such profits had been divided, or left in the business to provide the necessary further capital required owing to increased costs all round. A complaint is made that the Commissioners of Inland Revenue ought not to be allowed in May of 1918 to call for taxation of so unprecedented amount, or at all, in respect of such closed years except upon a basis precisely similar to the pre-war basis. Then again there is the question under the said Act as to the position of resident firms who do business with or for non-residents. Precisely what the said section means as to the liability of agents has not yet been settled, but there are different opinions as to whether or not an agent may not become personally responsible for the amount of an assessment confirmed against a non-resident, even though such agent may never have had or may not at the time hold the result of such profits and gains. This one uncertainty is gravely hampering the resumption and initiation of the import business so far as it relates to food imports in this country. Not unnaturally agents are not prepared to do any business with non-residents unless they are satisfied either that no liability will ensue against them for the taxes of a third party, or that such third party will indemnify them against such liability. In many cases, within my knowledge, old-standing business relationships have been disturbed through this particular clause, and inquiries from non-residents as to the initiation of new business from them are being turned down wholesale by large firms of general commission agents here because of the uncertainty above referred to. If, as appears to be the case from my varied knowledge of this matter, this uncertainty exists in the same degree in other trades as it does in the food trade, then a serious menace to the import business in this country is in being, and ought to be dealt with without delay.

5472. (9) From the trade point of view I can summarize the position by the emphasis of the following points:—

5473. (10) Firstly, from the point of view of the non-resident the exempting clause, sub-section 6 of section 31 of the Finance Act 1915, appears to have the effect of exempting either the non-resident or the resident, or both, from taxation, where the business is done through a general commission agent who is not an authorized person carrying on the regular agency of the non-resident; and although this would seem to be, and is of course, a very proper provision, yet the mischief of that particular section lies in the fact of its uncertainty. Suppose, for example, business done through such an exempted source became very large, sooner or later, without any definite dividing line and without express agreement of any kind, it would be

open to the Commissioners of Inland Revenue to say that the resident in such circumstances was an authorized person carrying on the regular agency of the non-resident, and call upon the non-resident, through the resident, for taxation in accordance with the previous provisions of this section. In practice such a condition of affairs works out as a very serious brake upon business initiative, and in the view of the trade any such uncertainty in the carrying on of the huge import business in this country would become intolerable and seriously prejudicial to such business as compared with the non-resident's business with other markets.

5474. (11) Secondly, it would appear as if the basis of the present form of taxation attempted to be imposed went back in its essentials to the Income Tax Act, 1842. Any business man of experience in this country will say without hesitation that the conditions under which business was carried on in 1842 and is now carried on are totally different, and that the vast network of importation of produce of all kinds into this country in which a general commission agent is used was in 1842 unheard of. What are required here are precisely defined conditions which the ordinary business man can understand and calculate upon, so that he can tell a non-resident desiring to do business with him exactly what his liability will be in respect of taxation.

5475. (12) Thirdly, it follows that a further necessity of practical legislation in this matter is that the liability of a non-resident in respect of taxation should be not only definitely defined, but also defined for some reasonable period in advance, because most, if not all, of the trade affected by the present form of legislation, is a trade in respect of which purchases have to be made, and calculations got out, to enable a price to be fixed for a future market. If, at the time of working such calculations, the non-resident is unable to calculate his possible liability to taxation at the date in the future on which he may expect to sell his manufactures, then his position is not improved.

5476. (13) Fourthly, if, as my clients and business men generally agree, it is necessary and proper, while taxing certain non-residents for certain classes of trade, to exempt other non-residents who do their business through a general commission agent who does not carry on an authorized agency, then my clients and business men generally feel that some clearly defined line of distinction should be drawn, so that business men can be in no doubt as to whether they are in a class, or have a type of business, which is taxable or not taxable, as the case may be. In this connection reference is made to the statement of Mr. McKenna when he was piloting this Bill through the House in regard to an example given of a man who shipped wool to London for sale, and where the wool-broker, having sold the wool, remitted the proceeds and retained his brokerage and commission, and where Mr. McKenna stated that in such a case the non-resident would not be liable to taxation. Under precisely similar circumstances, so far as can be judged, assessments have been made against non-residents whose business is that of hog packers. This is only cited as an example of the uncertainty which widely exists in the minds of the trade, and apparently in the minds of the department responsible for collection of taxation under this Act.

5477. (14) Fifthly, under the charging sub-section of this section of the said Act sharp disagreement and differences of opinion exist as to the position in regard to what are known, the world over, as c.i.f. transactions. Those are transactions which, prior to this Act, were never taxed. In form and in fact they are a transaction in which the sale is completed in the foreign country by the acceptance by the non-resident of an offer obtained from the resident at a price which includes not only the cost of the goods, but freight and insurance. From the moment of shipment at the foreign port the goods are the property of the resident, and are at his risk throughout. The uncertainty which exists here is due to the wording of such charging section, which provides for taxation on profits which arise to the non-resident directly or indirectly from or through any branch house, factory, agency or management in this country. If such sec-

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tion is intended to cover *c.i.f.* transactions it should be repealed. In any event it should be made clear that it covers only transactions where the goods are consigned to this country for sale, and sale actually takes place here. Unless this step is taken what will happen is the origination of all kinds of methods of doing business so as to make the non-resident not taxable in respect thereof; or if this is found to be impossible the result undoubtedly will be very gravely to restrict the business of the country, and probably in particular to restrict it to the purchases made by the people employing brokers at the seat of production. This, it need hardly be pointed out, will result in a real loss of revenue to this country which it at present gets from direct taxation upon such agents or brokers who carry on business in this country as such agents or brokers.

5478. (15) Sixthly, with regard to possible new business: this is being very seriously hampered. So far as the non-resident is concerned he very naturally wants to know from the resident with whom he proposes to do business what his liabilities are going to be, and in truth at the moment no resident dare take the risk of saying what is the meaning of section 31 of the Finance Act, 1916, and cannot therefore tell the non-resident with any certainty what the non-resident's liability may be. The result undoubtedly has been, and will be until the matter is cleared up, largely to prevent the initiation of new business which in the view of commercial men generally is so vitally necessary in the best interests of this country.

5479. (16) Seventhly, on the general question of the necessity of this country being able to buy its raw materials in the cheapest market, the non-residents will not ship in the same volume as they otherwise would do their materials to this country if there is an uncertain and unascertained taxation liability here. This is particularly so at present because of the many other markets to which they can profitably ship, and to which they will be able to ship for some years to come, where they know or can ascertain the beginning and the end of their taxation liability.

5480. (17) Eighthly, continuance of the present system of taxation if, as seems probable, other markets could be found, would very seriously affect, in what is deemed to be a critical time, not only the supply of foodstuffs to this country, but also the price thereof. This is particularly so in regard to hog products, where quite normally a considerable portion of the productions sent here consist of surplus production.

5481. (18) Ninthly, the existence of agency and brokerage houses in this country, so far as import trade is concerned, is not wholly undue to the fact that such agency and brokerage houses render valuable and large financial assistance to the non-resident by advancing on the bills of lading before the arrival of the goods.

5482. (19) Tenthly, in connection with this matter it should not be forgotten that these agencies and branch houses themselves pay the appropriate taxation, having regard to the size of their profits, to the Government. The non-resident taxation in its present form would tend, by one method and another, to a decreasing revenue, in that, as before mentioned, owing to its uncertainty, both as far as regards the non-resident and the resident, other methods would be sought for, so that the business could be carried on in a manner which would enable both sides to reckon their obligation, or would, in default of such other methods being found, tend to disappear.

5483. (20) Generally, I wish it on behalf of my clients to be understood that they agree most entirely with the principle of taxing a non-resident who establishes a branch house or organisation in this country and who so works his business at this end that the branch house appears to make no profit. Not only do my clients agree, as before mentioned, with this principle, but they urge upon the Government the necessity of strictly enforcing taxation against such non-resident in each circumstance, so that at least the subject may trade on equality with the foreigner. By way of suggestion it may be said that a form of taxation which would call for payment

of Income Tax at the current rate for the time being

- (a) the profits made by a non-resident from the sale of goods consigned by him to this country for sale, and
- (b) the profits made by a non-resident from a branch or other organisation set up by him in this country for the sale of goods manufactured in the foreign country,

would be quite acceptable, and that for the purposes of ascertaining such profits my clients at any rate, who consist of, with the exception of the four largest packers in the United States, the larger representatives of the packing trade of the United States, would not object to such profits being assumed to be not more than 1 per cent. on the turnover done by them on consignments as aforesaid.

5484. (21) With regard to the non-residents who establish branch houses in this country which appear to make no profit, some scheme of taxation whereby, having regard to the trade they carry on, their profits were assumed to be equal to the profits made by similar concerns domiciled in this country would be one way of dealing with them.

5485. (22) Finally, as will be gathered from the foregoing statements, it is of vital importance that any scheme of taxation should have incorporated in it provision for:—

- (a) notification in advance to non-residents of their taxation liabilities for such a period as would enable them to make provision therefor;
- (b) some provision for the non-alteration of such liabilities for an agreed term;
- (c) a reasonable limitation of time within which an assessment must be made;
- (d) restrictions on the power of the Commissioners of Inland Revenue to assume profits;
- (e) acceptance of accounts certified by professional accountants of the U.S.A.

[This concludes the evidence-in-chief.]

5486. Chairman: The Commissioners have all seen this statement of yours, and I should like you, if you will, to speak on a few of the salient points, but not read the whole of it; the Commissioners all have a copy of it. After you have addressed the Commission upon the main points, the examination will proceed?—If you please. The most important feature of the evidence which I wish to bring before you is the necessity that exists, from the point of view of my clients, for some definite knowledge on the part of trading interests, both in America and in England, of the amount of taxation which non-residents may be called upon to pay in respect of any business which they do in this country through agents. The position at the moment is this, that non-residents, both those who have been carrying on business for some time and those who wish to commence business, very naturally ask: "What taxation am I going to be subject to in respect of the business I am going to do?" To-day I do not think there is any person in England who can tell them. All they can say to-day is that there is an Income Tax Act in existence in this country, under which their liability to taxation is indeterminate. It depends on what views the Commissioners of Inland Revenue may take of your business. In many instances that has prevented business being commenced. It is disruptive of old associations between American business men and British business men, and there is a tendency undoubtedly at work at the moment for American business men to stop this business. I went over to America in connection with this matter, and when I was over there, they asked me: "What are we to do about taxation in Great Britain; how much is it going to cost us in 1919?"—and I could only tell them that there were views present among the Income Tax officials in this country that they were making certain high percentages on their turnover, that the height of these percentages did not appear

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to be justified, and that the matter was at present under consideration between the Inland Revenue and myself as representing them here. There is one other point, and that is this. As the law stands at present, assessments may be delivered against non-residents in respect of past years. In 1915, assessments were levied against non-residents for a period commencing in April, 1915. Any business man knows that accounts for the years 1915, 1916, and 1917, at any rate, would be finished and done with in May of 1918. This statement as to the real necessity for some definite position with regard to the liability for Income Tax covers the most important part of what I have to say. There are many things which arise out of it, such as the Commissioners' powers, which at the moment are quite arbitrary, of assuming that the non-resident makes a profit equal to the application of some percentage on his turnover in this country; but they all arise out of that one point, and if the non-resident knew what his liability was, there would not be very much trouble.

5487. You want to get that defined?—Yes, that is one of the things. If that is done, so far as the future is concerned, it would quite meet with my clients' wishes.

5488. You have no objection beyond that?—No objection beyond that, so long as it is defined on reasonable lines.

5489. Have all those firms that you represent got offices in England?—No. The position of those firms generally is this. They manufacture the goods; the goods are sent over here to commission agents, who sell them on commission. In the course of years, the persons to whom they send them here become established, and the firm in America sends all its goods to one firm in England, and in that sense they may be said to be agents. You will appreciate that there is an exempting sub-clause in the charging section of the 1915 Act which exempts business done through general commission agents who are not authorized persons carrying on the general agency.

5490. Are they trading as general commission agents?—Yes.

5491. Is that done to evade Income Tax?—No, that is the general course of their business, and has been for many years—long before this was thought of.

5492. That is not the only reason?—No. I just wanted to make this point, that the exempting clause is so drawn that it is exceedingly difficult for anybody to state definitely what it means. Who is an authorized person carrying on a regular agency, is a very difficult question to determine.

5493. Supposing you sent a million pounds' worth of goods from Boyd, Lunham & Co., in Chicago, into Liverpool. How is that million pounds' worth of goods treated by us?—That represents goods sent to people for sale on consignment, and it is treated in this way: the million pounds, I think you ought to know, represents the value of the goods landed in England.

5494. That is so—It includes all sorts of charges, especially during the war years. That is treated as a turnover in England, by Boyd, Lunham & Co., of America, of one million pounds.

5495. To whom do you send that?—It goes to the agent in Liverpool.

5496. To whom does he make the report of the million pounds—to the Inland Revenue?—He, of course, has to make a return to the Inland Revenue that Boyd, Lunham & Co. have a turnover in a particular year of one million pounds.

5497. What do the Inland Revenue do with that?—They say: "we are going to assume that on that turnover of one million pounds you have made 10 per cent. of profit." Before the war they said 1 per cent.

5498. Suppose they take 1 per cent, and assess you on 1 per cent?—They assess you at 1 per cent. on a million pounds, that is £10,000; they say "that is your profit."

5499. Do you object to that?—I do not.

5500. What do you want us to do? Keep the case to the million pounds, because it makes it a concrete case?—I will do that with pleasure. I quite follow. Take the case of the million pounds in question, and

assume that to be a pre-war turnover by Boyd, Lunham & Co. They have made a profit in that pre-war period of £10,000; that is 1 per cent. on a million pounds. Supposing in the year 1917 they had a turnover of £2,000,000, the Inland Revenue assume that the profit on that is, not 1 per cent., but 5 per cent. or 4 per cent.; we object to that.

5501. Are they not right in their assumption?—No, they are not. I am in a position to prove they are not right. They are wrong in the percentage of the turnover which they take to be the profit.

5502. Would not your profit be very much larger on £2,000,000 turnover? Your expenses are not relatively increased. In war-time, will not your profit be very much larger?—It is not very much larger, so. £2,000,000 turnover in 1917, in the first place, represents not quite the same weight of goods as £1,000,000 in 1914. That £2,000,000 in 1917 includes charges which did not exist in 1914; for example, insurance against war on the way over; there was no such thing in 1914. Then there is the question of a very much higher freight, as you know; very much higher insurance generally; very much higher landing charges in Liverpool, and very much greater expenses altogether.

5503. Mr. McLintock: How do they arrive at the turnover? Is it the net proceeds of the actual sales, as sent by the agent in this country, plus the freight and the landing charges?—It is the sale price realized by the goods in this country.

5504. The net?—No, the gross, before payment of commissions.

5505. Plus what?—Well, included in it are the landing charges, freight, and the other expenses of getting it here.

5506. Chairman: Will you proceed with your statement now, please?—The difficulty which has caused the present position is this. The packing trade in the United States send over only a portion of the product which they manufacture there. They send over a special cut from a special hog, and it is very difficult indeed for anybody to ascertain what is the manufactured cost at the door of the factory, as it were, of the article, the cut of him which they are going to send to England.

5507. Is that a real contention, that the clever, sharp, shrewd packers cannot get an estimate of cost for that?—I put it as high as that, and it is a provable statement.

5508. Are these concerns in the Meat Trust?—The Meat Trust?

5509. The Packing Trust?—They are not in what is commonly known as the Packing Trust—the Big Five.

5510. Are they not connected with them?—I have no knowledge of their being in any Trust at all. There is no working arrangement between them with regard to British business.

5511. During the war, did you have any arrangement about prices to charge to the English people at that particular time?—Over there they had a fixed price for hogs. The American Government fixed a price which they must pay the farmer for the hog, and that regulated the cost, and the price at which they sold.

5512. Were the companies that you represent allied so far as communicating to each other the prices that they must charge the English consumer?—No, they were competitive all the time. Might I mention with regard to the question of the estimation of cost, that the American Government made an investigation into the prices and costs of all these packers, and included in those packers are all the firms I am representing to-day. They sent their best accountants through the books of these people; they had access to every figure and document in the factories and shops, and they themselves agree that it is a difficult, if not an impossible matter, to give a definite cost to the British article which they are going to send out. I just mention that in connection with your question. That has brought about the position, of course, that under the 1915 Finance Act it may be with soundness said against my clients that it is not possible for them to estimate their profits. You will appreciate that

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if you do not know what your cost is, it is difficult to say what your profit is. That is why they have been assessed in the way they have been. The figures which the American packers work on in the first place are reliable figures, in all these cases, because they are large businesses, got out by accountants of high standing in the United States. They are figures which in many of the cases are public, in the sense that there are shareholders in the concern and they have to be published, and they are figures which in all cases have been investigated by the American Government, under that Federal Commission which no doubt you know of. They are figures of which, with respect, I think the Inland Revenue here ought to take notice. In the past there have been cases which have led the Inland Revenue to regard with great suspicion American accounts, but, with respect, I suggest with regard to my clients that such a suspicion is not now and in all circumstances justifiable. I do not think there is anything more I wish to add at the moment.

5513. How would you suggest that we should tax you?—I think, on the whole, that the best method of taxation is the one at present in existence.

5514. Mr. Kerly: Percentage on turnover?—Percentage on turnover.

5515. Mr. Marks: It is the amount of the percentage you object to?—It is the amount of the percentage, and the fact that there is no legal control over the amount of percentage which may be assumed against us.

5516. Sir E. Nott-Bower: I see in paragraph 3 of your evidence, you object to the powers given to the Commissioners of Inland Revenue, of assuming the profits of non-residents to be represented by a percentage of their gross turnover. You do not object to the percentage system; in point of fact, I think you have said it is necessary, because you cannot ascertain the actual profits?—I think in all the circumstances, it is the only reasonable way of getting at it.

5517. Everyone would prefer an assessment on actual profits, if they could be ascertained?—Yes.

5518. But dealing with a mere section of the business, it seems that difficulties arise in attributing a definite portion of the profits to one particular section?—It is very difficult, and so difficult to convince, for instance, the Inland Revenue, as to the amount of profits, which could be got out to some extent, that we all agree, and my clients agree, that the percentage system is quite a good one.

5519. Of course, the difficulty of ascertaining the profits in cases like this has been admitted by the Treasury, and arrangements have been made for an assessment upon a percentage?—It goes a little further back than that. I dare say you are aware that in 1902 the Inland Revenue officials and the packing industries, which then traded with this country, were in consultation.

5520. I think there was nothing on the Statute Book to that effect?—Nothing until 1915. But there was an arrangement which followed the same lines as this.

5521. Assuming as I do, and I think as you do, that a percentage basis has got to be taken in certain cases, can you suggest any better plan than the present? You say here: "Powers were given to the Commissioners of Inland Revenue." Is that quite correct? The power is given to the Commissioners by whom the assessment is made, to the Special Commissioners or the General Commissioners. The Commissioners of Inland Revenue are paid officials of the State?—Yes.

5522. And the Local Commissioners are not paid officials at all?—No.

5523. Their very function is to stand between the Crown and the taxpayer, to see that justice is done?—I quite agree.

5524. Many of the Local Commissioners are gentlemen of great experience in trade?—Yes.

5525. The first power is given to them, and then I think the Act goes on to say if either the resident person or non-resident person is dissatisfied with the percentage determined, he may appeal to a

referee or a Board of Referees?—Yes, that is quite true.

5526. Can you suggest any better way than that?—The advantage, if I may so call it, in the present method, is this. The ordinary person who is liable to taxation, is called upon to make a return of his income, and having made that return, he is assessed accordingly. The other thing is done as against my clients; they are assessed off the book. The first thing that happens to them is that they get an assessment notice. It is true that it is based upon information which has been obtained from the people with whom they do business, the domiciled Britisher. They get an assessment notice which says, and brings to their notice for the first time: "We are going to assume that the profit you have made upon your turnover is 6 per cent."

5527. Chairman: Do you make a return?—Yes, many of them do.

5528. But they do not assess you upon a percentage if you make a proper return?—We do not make returns of our profits. We simply make a return under an old arrangement, not a statutory arrangement. We make a return of the turnovers done by these non-residents through us.

5529. You do not make a return of profits as we do?—No.

5530. Therefore, if you do not make a return, there is no objection to your being assessed, and, as Sir Edmund Nott-Bower says, if you appeal against that assessment, producing an actual return of your profits, the Inland Revenue would deal with you on those conditions?—Yes, but if I may point out to you, under the Act, if we are in the legal position of not being able to show what our profits are, we are at the mercy of the gentlemen who assess us.

5531. Sir E. Nott-Bower: With a right of appeal to a Board of Referees?—With a right of appeal to a Board of Referees, but the Board of Referees have to deal with it in this way, in law. They say to us: "What are your profits?" We regretfully say: "Honestly we cannot tell you that; we cannot give you an actual profit and loss account, because of the special circumstances of our trade." Therefore, they take, I suppose, what evidence they can get of a comparable business. There is no business done in this country which is really comparable with that of the packer selling his stuff through an agent here.

5532. Chairman: You have fixed your price of selling?—The price of selling is based entirely on the British market here at the time it arrives here. We do not fix it by any market at all.

5533. Supposing you are losing a great deal of money on every transaction, you do not know that you are losing money except that there may be something wrong on the other side?—We do not know until we see our returns from the other side. We fix no limit, and we have not fixed a limit, because the market price controls it. If we are not prepared to take the market price, we cannot sell.

5534. You do not know, even then, what your profit is?—When we have sold?

5535. Yes?—As I have said, it is difficult to know what our profit is. When we send out goods for sale on consignment here, we have to decide at the moment when we are sending them out, whether we will sell them in America or England, and we decide according to the market in America, that is the domestic market. If we can sell them in America at a price which we think will pay us, we sell them.

5536. At a price which you think will pay you—is not that a method of obtaining your cost price?—It is a method, but it is not accurate, as you will see when I tell you that it is arrived at in this way: they pay a fixed price per hundred pounds for a drove of hogs. They know that these hogs will dress roughly 70 per cent, and they know that if they get them up for the English market, or cut the ham out of them, there will be certain residue, and they know what they can get on the domestic market, because there is a market every day for the lard and other residue which remains. All they can say is: "We want so much back for the English ham in order to set us a profit." If they send out a consignment to England, they have got to take the

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risk of getting so much a lb, but when they send it out, they put opposite in their books the price which they want for it.

5537. And not one of the 15 great companies that you represent can tell you whether they make a profit on what they send here?—Out of the English business, no. It sounds a most curious statement. I did not believe it till I went to America, but I am satisfied it is so.

5538. They must be clever even to satisfy you. It seems inexplicable to me, knowing a little of American trade transactions?—I am anxious to bring this home to your minds, that it is true and accurate, and if I may take up a few moments, I will try to do it. If you take a pig, a hog, as they call it, and you decide to cut it for the English market, you cut out of it a bone.

5539. I have read your explanation?—Perhaps all the Commissioners have. It takes a certain number of days to get that ham ready for shipment, and, in short, it takes 30 or 40 days before it is on the English market for sale.

5540. But you are costing all the time, are you not?—All the time, until it leaves us. When it leaves America, we have no further control. The price we fix as being the money we want back for the English cut, depends entirely on the price we can get on the domestic American market for all the other residue. That price varies every day up and down, and down and up.

5541. Still, you know the cost, all the same, whatever the price, and however it varies, in your stock-taking or in your balance. It does not affect the taking of your balance?—All we know is how many cents we want back for the English cut per lb. in order to net us a profit on the whole hog. Supposing we want 20 cents a lb. for our English cut—

5542. And you sell it at 24 cents?—If we sell it at 24 cents, we are very pleased.

5543. You know you have made 4 cents more?—We sell it for 24 cents. We do not sell it for, say, 30 days after we make that calculation. As a business man, you will appreciate at once that the whole of this business must be carried on upon a replacement cost, that is to say, 30 days after we figure 20 cents back, we might be in such a position as to require to get 26 cents.

5544. And that will settle itself on your next shipment?—On the average, that settles itself. Sometimes some of these large companies have actually lost money on their whole business on a whole year, through reasons such as I have mentioned, through a continually falling market, and so on.

5545. That is usual with everybody.

5546. Mr. McIntosh: Is it not competent for them to produce accounts?

5547. Chairman: I think you could produce accounts. I do not think there is a single Commissioner sitting round this table, but who will believe you could get out a profit and loss account?—I am sorry that that is the view. I can produce accounts which will show you what the result of the sale of the English stuff is, compared with the prices we price them out at, but that is a false basis, or possibly a false basis, to start with; at any rate, it is an arbitrary basis.

5548. Sir W. Fowler: May I put it in this way: that the whole of this trade, according to your evidence as far as I understand it, may now be carried on at a loss?—Do you mean to-day? It may be carried on at a loss.

5549. You do not know whether it is carried on at a loss or at a profit?—In some years it is a loss, and in some it is a profit.

5550. If you have no statistics at all, how can you tell whether it is a loss or a profit?—Because when you deal with the whole world-wide business of the firm, a different state of affairs exists. Ten per cent. of their business, roughly, is done with England, more or less, and 90 per cent. is done domestically. When you are dealing with the whole of the purchases for the world-wide business, and you have got the whole of your costs of carrying on your business as a debit, and you have got the

whole of your sales as a credit, you can find out then whether on your whole business you have made a loss or a profit.

5551. But you cannot attribute any particular profit to this country?—Well, you can, but I do not think we can say that, unless the point that we start from is an arbitrary price fixed for our English product.

5552. But if you cannot attribute any profit to this country, you do not know whether your trade is carried on at a loss or a profit in this country?—We do not know whether our English trade is carried on at a loss or a profit, in fact.

5553. Mrs. Knowles: I have only just come, but I have been reading, quite recently, a report concerning the Big Five which has been issued by the Federal Trade Commission. You represent 14 firms, but they are not really 14 firms, are they, according to that report?—Oh, yes, they are.

5554. They are all in the combine?—No.

5555. Well, the Federal Trade Commission said that they were?—They said so, but it is not admitted.

5556. You do not admit it?—Nor do my clients.

5557. The point is that the Federal Trade Commission in America, which was appointed to investigate the whole subject, has said so?—I believe that is so.

5558. Is it not part of your profit to be able to obtain for the combine the world products which you are out to get? You do not admit it, but assuming that what the Federal Trade Commission says is correct, that you have got 70 per cent., if I remember rightly, of all the meat products of the United States in your hand—that is, the Big Five—is it not part of your profit to get the whole of the English trade into your hands? It is part of your profit not to have people outside?—It may be part of our profit or our loss.

5559. Is it part of your monopoly?—If it is a monopoly, it would be part of our monopoly.

5560. Is not that part of the assets, so to speak?—We do not think so.

5561. You represent all these firms, and the Federal Trade Commission says there are practically very few packers outside?—That is perfectly true, but we do not admit it. All my clients' presidents have been in the witness box, and have stated that there is no arrangement for the purchase or selling, or joint arrangement of any kind between them. Mr. Armour, the head of Armour & Co., himself, who is not a client of mine, makes that statement most categorically in his evidence which I have read.

5562. It is true that the Commission took a different view?—But they are wrong, and we cannot help it.

5563. It seems to me that you ought to count something against the profits of this combine for the power of being able to establish a combine on the English market?—We do not object to paying tax on a profit which is a reasonable one assumed against us. We have in past paid it, and are prepared to pay it in the future.

5564. Is it not part of the profit to be able to stop up the loophole, so to speak?—It all depends.

5565. Mr. Walker Clark: In your opening statement, you said that the amount of taxation which you have to pay, whether 1 per cent. or 4 per cent., depends on the view of Surveyors: do you stick to that?—Subject to the right of appeal that has been referred to.

5566. That was a very serious omission in the first statement that you made?—Well, it is common knowledge that the Act gives a right of appeal. That does not help us, because we are not in the position of coming to the appeal tribunal and saying: "here are our accounts; there is the profit we have made."

5567. In what respect are you different from a business with which I am connected, where it takes us three months to get our raw cotton manufactured?—What is the business?

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5568. The cotton trade. We buy the cotton; we spin it; and between the purchase of the cotton and the manufacture of the goods, three months have elapsed?—Yes.

5569. We must sell them at the market price. How are you different from us?—We are different, in this respect, that when you buy your cotton, you know what it costs you.

5570. Yes?—And you know, therefore, quite definitely how much you have to get for it if you are going to make a profit; we do not know.

5571. Yes, but there is this great difference. We spin low counts at an absolute loss, and make our profit on high counts only?—What is a low count?

5572. It is a thick yarn, and inferior yarn; that is sold at a loss. How are you different from us?—We are different, as I have stated, in that you know the cost of the raw material.

5573. No; we only know the average cost of the total output?—I may be wrong, but, as I understand your business, you buy so much cotton in a year, and pay so much money for it.

5574. In the same way as you buy so many hogs in a year?—But we do not sell the hogs.

5575. Neither do we sell the whole of our cotton?—You sell the cotton after it has been manufactured. We sell only a portion of our hog.

5576. But there is wastage in the manufacture?—Which can be provided for.

5577. In the same way that you provide for your residuals?—Pardon me. We sell ours to a different market. We sell some to England at a higher price, and sell some at home at a lower price, or it may be in the opposite way. At the time we get to the selling stage, and before we start manufacturing, we are in a difficulty which, with respect, you are not in. You buy all this cotton, which it is true you manufacture in various ways.

5578. To give you a concrete instance, we are giving now to-day 25d. for cotton, which we are now producing, which cost us only 19d. There is a difference of 6d. But we must average our sales in order to make a profit?—Yes; and of course, as a matter of business, if, when the cotton which you bought at 19d. is ready for sale as a manufactured article, the price of the raw material has gone up to 25d., you sell your raw material costing you 19d. to manufacture, at the market price of the manufactured article of the day when the raw material is 25d., and make your profit.

5579. In the same way as you do with your hogs?—That is not the point. I am very anxious to make this clear, if I can; it is exceedingly difficult. The point that this Member has taken, shows that he, at any rate, does not quite appreciate my point, if I may say so. Raw cotton is entirely on a different basis, like almost every other trade, from this hog packing trade. This gentleman's firm buys raw cotton; he knows what it costs him. He knows the cost of manufacture, and he knows the manufactured cost in all, and he can very easily say what he has got to get for it, in order to make a profit. When I buy a hog, I do not manufacture the whole of that hog. When I say manufacture it, I do not sell to England anything but a small portion of it, and the price at which I price it out to England for book purposes only, because it is only a relative price, is a price which is relative to what I can get on the domestic market for all the other things on the day I price it out.

5580. It is exactly the same as my cotton.

5581. Chairman: I do not see how you can do that without getting at your profit, because you could not fix any price at all, if you did not do that?—May I just take shortly, a hog—

5582. Take three parts of it as sold in America, and one part of it sent to England?—I will take, if you like, a hog costing 20 dollars, and I will take your suggestion that three-quarters of it is sold in America. We decide to cut it for England, and it means that one-quarter of it is coming to England. I am the American hog packer, and I have got to find out what I have got to get for my English cut, and I do it in this way: I take the three-fourths

part, and I know what the market to-day is for the lard, the feet, and the ears, and all the rest of it; I price that three-fourths part, and I say that will bring me in so many dollars; therefore I say, to get a return out of that hog, which will give me a profit, I have to get if I can, for my English cut, so many dollars.

5583. Mr. Kerly: That is not the transaction at all. You do not have to assume the result in order to find the cost.

5584. Chairman: You had got to the point of saying you must get so much from England for that part?—Yes, that is the nearest we can get to the cost of our English product.

5585. Suppose you get a good deal more from England than you thought you could get?—Then we make a profit.

5586. How much profit?—It depends upon how much we get.

5587. Mr. Walker Clark: Therefore you can show by your accounts?—No, we cannot, because those accounts will start off with this figure that I have mentioned already, what we say, on the day we price it out, we are to get.

5588. Chairman: I quite understand the position?—Very well; if you follow that—

5589. Are you not in this position, that you are like the ordinary man in England who does not send a return to the Government. The Government assess him. If he is doing better than that, he pays the assessment without complaint. If the next year he still continues to make no return, then they assess him higher, and he pays that, if he is doing well. Then he gets to a point where the assessment has really gone beyond what he has actually made, and he complains; is that not your position?—It is our position, except this, that the man you mention, when he gets to this point, comes in and says: "here are my accounts; here is my profit and loss." We cannot do that.

5590. Mr. May: You said your position was provable, at the beginning?—What I said was, it was provable that we could not fix the cost on our article that we sent from America.

5591. Chairman: What dividend have these companies paid?—I have not got those figures with me, but roughly they are about 7 to 10 per cent.; they vary.

5592. What have they done in the last few years?—They have been controlled in America; they have not been allowed to make more than 2 and 2½ per cent., varying with their size. That is on their turnover.

5593. Of course, the turnover has enormously increased?—Yes, that has gone up, for the reasons that you know of.

5594. You have got the balance sheets of all these companies?—All of those that are public companies, yes.

5595. What would the average percentage be in the last few years?—The percentage of profit?

5596. The dividend?—Dividends have gone up. I should think the average might be 15.

5597. Fifteen per cent., and big reserves?—The dividends are the payments on the capital upon which dividend is payable.

5598. But you put to reserve large amounts?—Well, they have such reserves as business men would put in the ordinary way.

5599. But you have got a balance sheet?—All of these companies can show you a world-wide balance sheet, but that would not be looked at.

5600. Mr. Walker Clark: Is it not a fact that this method which you are indicating is a method which is sometimes described as dumping?—No, I do not think you can describe it as dumping. I think it is undoubtedly true, to be quite frank, that they do not send anything to England which they can sell in America, as quite obviously it is a much better business proposition to sell it at your own factory doorstep.

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5601. I do not know these individual firms—I am not in your business—but it is not a fact that many firms do ship to this country through subsidiary companies, independent of the main company which exists on the other side?—I think that is so, but it is not the fact with regard to my clients, with one exception; it is the fact in many of the American concerns.

5602. And they evade a certain amount of tax by that method?—No, they do not.

5603. Not any of those who ship through subsidiary companies?—It is quite inoperative to evade the tax. The subsidiary company idea is quite useless for that purpose.

5604. We have had evidence on rather different lines?—I know in days gone by there has been some success in that respect, but it has been fairly dearly paid for.

5605. Your real objection is, as I take it, that the Inland Revenue assumed the 1 per cent. profit on your turnover two years ago, and it has been seriously increased; it has gone up to as much as 5 per cent. in some cases?—The real objection, as I stated in the beginning, was that my clients over there do not today know what it is going to cost them in English taxation to do business in England.

5606. Because you have no working arrangement with the Inland Revenue officials in respect of the profit on the goods you ship?—Yes, and because under the act, the Inland Revenue officials could say any percentage.

5607. No; I object to that. It is not the Inland Revenue officials who may say that, because you have a right of appeal?—Yes.

5608. And you cannot convince the court to which you appeal, that your profits are less than the 4 or 5 per cent. at which you are assessed; or you do not?—We cannot tell them what our profits are in the English business.

5609. No more than I can tell it for the yarn which I am sending to Japan, or was sending to Japan; simply because I am only sending one count there, whereas I may be making twenty counts?—I dare say in Japan you have a similar difficulty.

5610. Are the goods which are sent out on consignment here, sent out with a fixed margin below which they must not sell?—No.

5611. They would have to be sold absolutely at market rate?—Obviously, yes.

5612. And that market rate is fixed by the amount of stuff which is sent over by competing companies with you?—It is fixed by the demand from day to day.

5613. It is really fixed by the amount which is sent over by other packers and yourselves?—That is one of the two factors, obviously; that is the supply. The other factor is the demand. If the price gets too high, people will not buy it.

5614. Practically the only point really is that the increase in the charge is an arbitrary one in your judgment, and an unfair one?—I do not wish to cloud the real point. The point you mention arises out of it. The real point is this. Take an American packer to-day; nobody can tell him what it is going to cost him in taxation. It may be there is another wrong somewhere, but I do not think that assists.

5615. Chairman: We shall have to accept that answer.

5616. Mr. Walker Clark: You speak of the views of the Inland Revenue officials as being arbitrary. Did you then speak of the local officials, or of Somerset House?—I spoke of the officials who issued the assessments against which the appeals are entered.

5617. Those are the local officials?—Yes, I suppose the local Surveyor.

5618. In the first instance?—In the first instance.

5619. Subject to such appeal as you have?—They have emanated from Somerset House, in this case.

5620. Mr. Marks: What is exactly the consignment turnover? You did tell Mr. McLutock, I think, that it was the returns on sales in gross?—Yes.

5621. What comes off it to get the net?—Only the commission payable to the agent.

5622. On that you say that to take 1 per cent. of that as profit, is within the mark?—Well, we do not object to 1 per cent. It is not dreadfully beside the mark in some cases, and not so far under the mark in others as to cause us to object.

5623. You do object to 5 per cent?—Yes.

5624. Where does your idea of a fair figure come between those limits?—1 per cent.

5625. It stops at 1 per cent?—It stops at round about 1 per cent.

5626. Do you seriously tell the Commission that your people can consign to this country and carry on trade safely on those terms, that they were only anticipating a 1 per cent. profit on the turnover?—They have done it for 20 years.

5627. Does not that rather imply what the previous questioner asked you, that you were using this country to dump your surplus products in, and did not mind much what profits you made on them?—No, I do not think so.

5628. You do not admit that?—Oh, no.

5629. It surely means this, that you are trading here at such a small margin as to involve you in a very considerable risk of loss?—Well, if I may respectfully say so, the average percentage on turnover in the United States for the large packing industries has been limited to 2 per cent.

5630. Well, that is double?

5631. Chairman: To 2 per cent. or 2½ per cent?—To 2 per cent; 2½ per cent. in the smaller cases. Where the turnover is more than 100 million dollars, it is 2 per cent.

5632. Mr. Marks: That is a war measure?—Yes. Over there there is a war tax and Income Tax. The war tax is heavier than here, and the Income Tax is less.

5633. If you object to anything over 1 per cent., and you have no very definite idea as to whether you are making a loss or a profit, when you are charged on that basis, how is it that you object to 5 per cent., if equally you cannot tell whether you are making a loss or a profit?—The reason is this. We do know whether we are making a loss or profit on our whole world-wide business.

5634. And that is less than 5 per cent?—Very much less.

5635. Then you would not mind being assessed on the same percentage that you made on your world-wide business?—Yes, we would, for this reason, that the world-wide business includes a very large business in what they call over there specialties. Out of the hog packing trade there come such things as scent and soap and dyes, and all sorts of things, and it is known in the trade that there is a specially large profit made on these particular things. Anybody who is interested in a factory will know that the by-products are very often more productive of profit than the general business.

5636. I am brought back to the point I started from, and that is this, that in those circumstances it seems to me obvious that you are selling in this country products which you do not want in your How is that profit arrived at by your American either at a loss, or at a price very much lower than the average price which you get on your products elsewhere? That seems to me, if I may say so, to imply what is ordinarily called dumping?—Very well; I have answered it once.

5637. Mr. Birley: Like other questioners, I am afraid I am rather puzzled about this rate of profit. How is that profit arrived at by your American factories. You have a manufacturing profit first, and then your selling department—or is there a selling company which makes the 1 per cent. after that?—No; only one organisation.

5638. Direct from the factory to England?—Yes, to England, to the agent here.

5639. What is the form of these accounts which you suggest should be accepted? Are they certified by professional accountants of the United States?—Yes. What has been done is this. All these factories over there have, in the ordinary way, to prepare their annual accounts. Starting with the basis I have mentioned, which is an arbitrary basis—that

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is the price they have got to get for the English stuff—these accountants have specially gone into the books, and have allocated to the English business, on the basis of sales, a sum taken out of the total overhead charges of the business in the ordinary way that an accountant would deal with a department here. There is a total sale cost for the whole world-wide business, total sales of 200 million dollars, and English sales of five million dollars. They have taken 24 per cent. of the total cost of sales, and allocated that to the English business. In that way, by taking the sales, and taking the arbitrary figure as the cost, they have arrived at the best estimate they can of the profit and loss from the English business.

5640. That is the cost of administration, etc.?—Yes.

5641. Before you come to that you must have the cost of the materials?—Well, we started with that figure I have mentioned.

5642. But that is arbitrary?—I quite agree. There is no other figure obtainable.

5643. What you suggest here would be more or less—I will not say what you like to put forward—but it would be of no value?—My submission is that it would be the best account obtainable in this particular business. I admit at once that it starts with an arbitrary figure, and that is our difficulty.

5644. You object to us being empowered to vary the percentage of the assumed profits?—Without notice, yes.

5645. Should not the Income Tax authorities here have power to vary it if they had reasonable cause to assume that a greater rate of profit had been made?—No. May I make this point, that a flat rate, which this is—

5646. That flat rate is an assumed profit?—I know, but it takes in the bad year with the good, and in the past my clients actually have made a loss in a particular year and have paid 1 per cent. tax on their turnover.

5647. Are we really to take it that that 1 per cent. is only an average?—An average profit.

5648. And that in some years it is less?—In some years there is a loss.

5649. I suggest if the Inland Revenue authorities have reason to think that your profits are greater they should have power to vary that rate?—Is it quite fair when you make an arrangement to take the good with the bad, as it were, and during a bad year we have paid that 1 per cent. although we made no profit? We paid on an assumed profit of 1 per cent. on our turnover, and the next year we come along and make a good profit; surely it is reasonable that we should be entitled to the benefit of having paid on the bad year at the flat rate.

5650. Of course, it is the 1 per cent. that sticks with me?—Yes. I just want to mention this, that the largest of my clients, with a turnover of over £250,000,000 last year on their world-wide business, made 1.7 per cent. on their turnover. That is demonstrable.

5651. Chairman: On £50,000,000 you made 1 per cent?—1 per cent. on their turnover.

5652. What was the turnover?—About £250,000,000—£200,000,000, yes. It is a lot of money.

5653. Was not the limitation of 2 per cent. on thereof—2 per cent.

5654. So they could only come between 1 per cent. and 2 per cent?—They did the best they could.

5655. It shows that they were clever enough to arrange between 1 and 2 per cent. They were able to fix prices so that they could sell between those margins?—No. In a large business like that if they could make 1.8 per cent. they would make a lot more money, as you would appreciate.

5656. Mr. Birley: You suggest that if there is any alteration made you should have notification

in advance?—Yes, I understand from my interview with the Inland Revenue authorities there would be no difficulty about that.

5657. When you say notification in advance, the point of that would be to put it on to the consumer, I suppose?—Whatever happens it will go on to the consumer, I am afraid.

5658. But the taxpayers in this country, the traders and so on, do not get that advantage?—I think they do.

5659. Are there any firms in this country who do, of course in a much smaller way, a business on similar lines?—There are none that I know of. I have made inquiries in Liverpool.

5660. They must deal with similar articles?—The only person who may be in a similar kind of business would be a man who bought direct from the packer and then sold to the wholesaler. The packer sells at the moment either through or to agents for the consignees.

5661. Are there not people in this country who buy the live animal and sell the dead products?—There is a company domiciled in this country which carries on a hog packing factory in America. That is the only one I know of.

5662. Are we to assume that they on a very much smaller turnover make as small a profit as you? It is hardly likely. What I am aiming at is this, that if you are charged on a 1 per cent. basis of profit, and they most probably, indeed almost certainly, make considerably more than that, they have to pay perhaps three or four times as high a rate of Income Tax as the foreign company does?—As you appreciate, of course, the firm that you are speaking of in this country pays on world-wide profits. We are not liable to pay on anything except the profits which we make out of our English business.

5663. Mr. McIntock: Why do you sell the bacon in this country?—Largely because we have been selling it here for about 30 years, and we have inquiries for it every day.

5664. Is it the only market for certain kinds of goods?—There are certain kinds of goods where it is the other way round. This market will not take anything but a certain kind of cut that we have provided for it.

5665. What would happen to the bacon if this market were closed against you?—I think this market will cease to get bacon from America in a very few years.

5666. In any case?—In any case.

5667. So this question will cease?—It will end automatically, unless they send something else.

5668. I agree with your statement that you cannot ascertain accurately the profit on the sale of bacon to this country—I am much obliged to you.

5669. But I suggest to you the reason you accept 1 per cent. is because you believe it is less than the profit you actually make?—Well, I deny that.

5670. Why do you object to 5 per cent.?—Because we do not make anything like 5 per cent. on our world-wide business, and we know or believe that our English business is less remunerative.

5671. You admit you can arrive at that? If you know that 5 per cent. is more than you make, you must know whether 1 per cent. is more or less than you make?—No, I do not think so. Take the business which made 1.7 per cent. on its turnover last year: it is selling in America the product of hogs just as it sells them in England.

5672. One moment. Is the 1.7 per cent. the net profit from the sale of hogs made the world over?—It is the net profit made not only from the sale of hogs, but of all other things they deal in.

5673. I mean all the products of the hogs?—Yes, everything they deal in.

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[Continued.]

5674. Hogs are your main raw material?—Yes.

5675. Have you offered production of your hog accounts to the Inland Revenue here, the manufacturing accounts and distribution accounts?—We would have no objection to producing our world-wide accounts.

5676. Are you quite prepared to quote the total weight of the pigs sold as bacon, or the percentage in money value that is sold in this country, and apportion the profit accordingly?—If we could do that we would be delighted. We would be quite prepared to make out accounts on the basis you speak of.

5677. Have you offered it to them?—No, not yet.

5678. I suggest to you that you offer to do it. I do not think any body of Commissioners in this country if you produced a certified manufacturing account with details of your charges would refuse to accept it. Has it ever been offered?—Not through me yet. A certified manufacturing account of the world-wide business is what you suggest?

5679. Yes.—That will be considered.

5680. Would you agree to apportion the profits on the whole according to the value of the produce sold in this country?—If you mean am I agreeable to pay on the turnover in this country at the percentage we make on our world-wide profit, I say no at once.

5681. Why not?—Because, as I have said before, our world-wide profit includes a profit which is very much higher in regard to our by-products than it is with regard to the bacon, hams and lard which we sell to this country.

5682. I suggest the onus is on you to produce the certified trading account and show that a certain portion of your sales is not earning the same profit as the other portion?—I dare say you are right.

5683. You have never tried that?—Well, the matter is in negotiation, as you know, at the moment between myself and the Inland Revenue, and I am in constant communication with them.

5684. I suggest the form of account you have sent here as a certified account is useless to anybody in determining profit?—I do not agree with that.

5685. Yes arrive at an arbitrary estimated cost price of the bacon shipped to England. Does not that wholly depend on the market price in America of the rest of the products?—Yes, the rest of the products, and the market price in America of a similar product there.

5686. Supposing these products go down in America for some reason, do you expect to obtain a higher price in other markets to cover the loss in America?—Obviously.

5687. If you obtain anything less than that in this country you make a loss?—Yes.

5688. On that particular commodity?—Yes.

5689. Do you seriously suggest that that is a sound proposition?—I do, because on the day we fix that price we have in front of us the price which we can get in the American market for that article. If we can sell it in America, of course we sell it in America; if we think the English market is going up, as business men we send it over here.

5690. I suggest to you you only send it to this country because you cannot sell it in America?—That is not so.

5691. Sir J. Harwood-Banner: Might I ask a few questions as regards the course of business in the packing trade. Your present packing business is more or less recent?—Well, no; it is within the last 30 or 40 years; it is not more recent than that.

5692. I am speaking of my recollection; in Liverpool in the old days there were big mercantile firms who bought from the packers, resold in Liverpool, and their profits paid Income Tax in the usual way.—Yes.

5693. Then followed the period when the packers came to Liverpool and started their own business, putting in commission agents to whom they paid 1 per cent. or something more, and as a matter of fact these big mercantile houses in Liverpool have really more or less vanished; the result being that so far as regards Income Tax or profit in England the only profit earned at all was the 1 per cent. paid to the commission houses, the whole of the rest of the profit on the import of bacon going to the packing houses in America?—Well, so far as I know the trade, and I know it pretty well, that is not accurate. Various clients of mine who are mentioned here have been doing the business that they are now doing for over 30 years.

5694. They have not had the houses in Liverpool to whom they paid that commission?—Yes, with the same people.

5695. For over 30 years?—For over 30 years.

5696. That is not my recollection. Is it not the fact that just before 1915, when the clause was brought in which imposed Income Tax on the packers, there were great agitations arising from the fact that the packers were getting an enormous advantage in this war in selling their material as against the English firms who were unable to compete, and who had to pay, on any profits they made, Income Tax and Excess Profits Duty?—Well, there has been continually a large and vigorous agitation about packers' profits, which is not justified.

5697. Is it not a fact that a clause of the 1915 Act was passed in consequence of this agitation?—No. I think if you will go back you will find that the clause in the 1915 Act relates right back to the arrangement which was made agreeably with the packers in 1902.

5698. I am only speaking of the recollection of my Parliamentary experience, that we had very many interviews and deputations, and the clause was passed in consequence of these representations that all this profit was made without paying any Income Tax as against the British merchant who had to pay Income Tax on his profit and Excess Profits Duty?—May I just say this, that all of these firms that I mentioned here were before 1914 paying Income Tax on the assumed profit of their consignments. They have been paying since 1902—some of them.

5699. Mr. Walker Clark: One per cent on the turnover?—One per cent. on the turnover.

5700. Sir J. Harwood-Banner: At what rate?—On an assumed profit of one per cent. on their turnover.

5701. I see for instance you have not got Armour's business amongst these?—No, I do not represent Armour's.

5702. But still you would know about Armour's?—Yes.

5703. Was it not the fact that they were making very large profits at that time on which they were paying no Income Tax?—Armour's had a branch house, Armour & Co., Ltd., of England, and various subsidiary companies, and I believe it was a fact that up to some time in 1914 they did not pay tax.

5704. They were only paying a very moderate commission?—Yes. I do not set for them, and of course I have not the details, but I have heard what you say.

5705. In addition to these packing houses there are the tinned salmon houses, the tinned fruit houses, and the rabbit trade, all of which are of an exactly similar nature to these packing houses you have mentioned, who are really only paying a commission and are not paying the British Income Tax and Excess Profits Duty?—That may be so; I do not know.

5706. You have not in your recollection the fact that certain large firms absolutely left their business and went over to the other side because of the injustice that was perpetrated by the fact that there

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[Continued.]

was no Income Tax collected from the packing houses?—No, that is not within my knowledge.

5707. The profit that has been made on bacon sales has latterly been limited by the United States, but up to the period when that limitation was put on it was more likely to have been 20 or 25 per cent.—It has not been 25 per cent. Is it profit on turnover that you are speaking of?

5708. I am speaking of the profit on the business they did in that country?—It has never been anything like that; it is absolutely out of the question.

5709. Chairman: I think Sir John means 25 per cent. profit on capital.

5710. Sir J. Harwood-Bonner: Yes, not on turnover. I mean 25 per cent on capital. That means £250,000 on your million?—It possibly is; I do not know. I do not think that affects the question. It may be anything of course on your capital, because some people conserve their capital and some people do not.

5711. Do you think it would be fair, seeing that a great part of this business is being done in this country, that we should receive some proportional Income Tax and Excess Profits Duty based on the profits made on the business done in this country?—We are quite prepared to pay on those.

5712. The question is at what rate?—That is the question I have mentioned; it is the difficulty of ascertaining the liability.

5713. Mr. Kerly: You have directed your evidence to the 1915 Act?—Yes.

5714. Are you not aware that that has been replaced by General Rules 6 to 12 of the new Schedule?—Yes.

5715. And that some of the difficulties that you have raised have been met in the new Rules?—I do not think that is so. I have read the new Rules and know of them.

5716. Amongst other things there is a provision for a reference?—Yes.

5717. And there is a general provision that if the agent of the foreign house can show that he has been overcharged—not show what his profit is, but that he had been overcharged—he can get relief?—That involves him showing what this profit is.

5718. They are two different things, are they not, to be able to show the exact profit you have made, and to show that it is less than the amount upon

which you are assessed?—I should say not; I should say it is exactly the same.

5719. You say that a general commission agent is in a different position from the special agent of a particular house?—No, I do not object to it at all. What I do object to is the difficulty of determining when a man is a general commission agent and when he is an authorized person carrying on the regular agency.

5720. Can you suggest anything plainer than those words: "Nothing in these rules shall render a non-resident person chargeable in the name of a broker or general commission agent or in the name of an agent not being an authorized person carrying on the regular agency of the non-resident person"?—I think those are most difficult words to interpret.

5721. Can you suggest any improvement?—Well, I think I could.

5722. That would really assist us.—If you accept all business done through general commission agents without the clause under which it is mentioned there a general commission agent may be looked upon as a person carrying on the authorized agency?

5723. No, it excepts the case of a man who has a regular agency. He is not to be treated as a general commission agent.—Unless he is the authorized person carrying on the regular agency.

5724. Yes.—I am glad you raised that point, because it is very important. Imagine one of the cases which I mentioned in reply to the last Member. A firm in America has for 30 years sent its products, which it wants to sell in this country, to one firm in Liverpool. It never sends them anywhere else. There is not a word of writing between them; there is nothing except the course of business. The firm in Liverpool is remunerated by a commission. It is, for various other branches of its business, a general commission agency firm. Is that firm a person carrying on a regular authorized agency of the Americans, or is it not? Is it within the excepting clause or is it not? It is a matter of the most extreme difficulty to ascertain.

5725. Will you tell me how you would deal with the case of a general commission agent who confines his general business to one principal?—That is one of our difficulties.

5726. I ask if you can furnish us with a definition which will distinguish?—I would be very pleased to work one out for you and let you have it.

5727. Will you kindly send it to us?—Certainly.

5728. Chairman: Thank you, Mr. Ley.

Mr. CHARLES W. CROOK, on behalf of the National Union of Teachers, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

5729. In presenting evidence on behalf of the National Union of Teachers we have limited ourselves to those points which directly affect the teaching profession, and in suggesting alternatives have confined the suggestions to the present system upon which Income Tax assessments are based. If any other systems should be considered preferable, we would ask that the reliefs or abatements under that system should be equal in extent to those suggested.

5730. (1) Abatements.

(a) General.—The present total relief for Income Tax is limited to incomes up to £130, but this figure was decided upon as the lowest amount upon which a single man or woman could live in the most moderate way, and is under present conditions too low. We suggest that the limit should be raised to at least £160, and that the full abatement of £100 should be allowed on all earned incomes up to £1,000. The loss on the lower incomes could be recouped by increasing the graduation on incomes above £160.

(b) Wife and children.—We consider, too, that the rebate of £25 each for wife and children does very little towards the object for which it is given, meaning in actual cash relief, at the lowest rate payable,

£2 16s. 3d. in each case. This does not meet the actual extra indirect taxation payable by the married man, and, if and when the Income Tax is reduced, will do less in this direction. If the relief were increased to £50, it would help a little, but still would be utterly inadequate to meet the extra expenses of the married man, or of the woman with dependants. As a further relief, particularly necessary in the case of teachers, who are specially as a class desirous of giving their children further education, we ask that the relief should be continued to the age of 18. We suggest this age as the one fixed by the Education Act, 1918, to which attendance at the day continuation schools will be ultimately compulsory.

(c) Joint incomes.—The question of the taxation of the joint incomes of man and wife particularly affects teachers, as in their case the employment of both man and wife as teachers is common. We ask that assessments and abatements should be separate on all earned incomes up to a joint total of £1,000.

(d) Room and office.—We also ask that the same relief which is granted by the Income Tax Acts to clergymen and ministers who use part of their house for the duties of their profession should be extended under similar conditions to teachers.

5731. (2) Repayments from local superannuation scheme under the School Teachers' (Superannuation)

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[Continued.]

Act, 1913.—Under the terms of this Act, contributions to local pension schemes by teachers accepting the act are compulsorily returnable. These local schemes vary very much both in their premiums and benefits, but a considerable sum of money will be returnable to the teachers in every case. Although the amount paid by the teachers has each year been exempt from Income Tax, yet the whole sum paid is exactly analogous to the payment made by the teacher to the School Teachers' Superannuation Act, 1898, the capital value of which is paid as an annuity. We consider therefore that this returned cash payment should be treated like the lump sum payable on retirement or disablement under the recent Act of 1913, and should be treated with respect to Income Tax as capital and not as income.

5732. (3) *Method of payment.*

Teachers generally would prefer that the Income Tax in their case should be payable quarterly, as we understand is now done in the case of civil servants generally.

5733. (4) *Appeals and refunds.*

We suggest that definite information as to the method of appeal should appear upon the Income Tax assessment note, and that a more rapid method of return of over-payment should be instituted.

[This concludes the evidence-in-chief.]

5734. *Chairman:* All the Commissioners have received a statement of what you want to put before the Commission. Would you like to take a few of the points and address the Commission, or would you prefer to be examined at once?—I think there is one point I would like rather to elaborate. With regard to most of them I think you have already had corroborative evidence, and there is no need for me to deal with them any further.

5735. Which point is it you wish to address the Commission upon?—It is a point with regard to the taxation of retirement allowances, paragraph No. 2.

5736. Is it under the heading of abatements?—No.

5737. Do you mean with regard to wives and children?—No, the taxation of retirement allowances.

5738. *Mr. Marks:* The heading is "Repayments from local superannuation schemes"?—Yes, that is the case.

5739. *Chairman:* Will you proceed, please?—Most of the members of the Commission will be aware that from the 1st of April of this year a new system of superannuation has come into force for teachers, a non-contributory scheme. Before that the school teachers had a contributory scheme. Men paid £3 12s. per annum and women paid £2 8s. to a Government scheme of superannuation. That was on the non-returnable basis, and only matured at 65. It was a very poor scheme. The benefit to the teacher, apart from his own contributions, came to about £60 per annum. The consequence was that in many areas local educational authorities brought out what they called complementary schemes. These were local schemes to which the teachers paid, and they were allowed by the Government on condition that the benefits from the two schemes combined, the Government and the local schemes, did not exceed the civil service pension. When the new act came into force all these complementary schemes had to be stopped, and if teachers wished to get the benefit of the Government scheme they had to retire from the complementary scheme.

5740. *Mr. Walker Clark:* Without any return?—I was coming to that point, which was the point I wanted to get at, but I wanted to make preliminary matters quite clear. The London scheme I think dated back to 1904, and the rates of contribution for older teachers were very heavy, as much as 12 per

cent. being charged on the complementary scheme to some of the older teachers. The consequence is that many of them have large sums of money to withdraw from the fund on the winding up. We think that such sums should be treated as capital when they are returned to the teachers, and not as income, because although the teachers were allowed for Income Tax purposes to claim an abatement for those payments year by year, yet we think that those payments were in the same position as ordinary insurance premiums would have been at the same time, and we understand that money obtained from an insurance policy is treated as capital. We think that these sums should be treated as capital also, and we urge that on that ground, and also on these two grounds, that, for example, the London scheme returns all the money paid in to any teacher who withdraws from the service whilst the scheme was in force, and that returned money was treated as capital. Also if a teacher had retired at the retiring age under the scheme and died before he had received the full benefit from his own contributions the excess that he had paid in against his receipts was also returned to his estate on death as a lump sum, and that also was treated as capital. We think, therefore, that this compulsory retirement of the teacher should be treated as a retirement under the scheme itself. Of course that would have many advantages to the teacher, but it would have some advantage to the Income Tax Collectors, because it is difficult for them to calculate, if they do claim Income Tax, how much of this lump sum is chargeable for each year during the currency of the scheme, and of course in some cases, where the salary is low, there would be an entire abatement even under the old Income Tax scheme. I am not quite sure whether the point I am urging is within your reference or not, point I am asked to make before this Commission, or whether it is an administrative point, but it is a point it is for you to decide whether it comes within the purview of your inquiry or not. I hope at any rate I have made the position clear from my point of view. Another point that I want to mention is paragraph 1(d) of my evidence-in-chief. We find from the Act, and from experience too, that if a clergyman has part of his house occupied for the purposes of his profession, he is allowed a certain abatement from Income Tax for that, and we think that teachers have quite as much claim as clergymen to a similar abatement if they have a similar room; because teachers have to prepare their work for the next day; they have to receive parents, and so on, quite as frequently as ministers have, and if it is recognized as a proper abatement for ministers we think teachers should equally claim the same abatement.

5741. Those are your two main points?—The other points have been dealt with by the Board of Education and other witnesses.

5742. *Mr. Kerly:* You make a suggestion of £160 as the limit for total exemption, and allowances of £50 for wife and child. Are those just guesses, or have you any basis for them?—We took £160 as being practically £3 a week, and we thought £3 a week would be the lowest living income for a man or woman at the present time; and of course it did once appear as an Income Tax figure.

5743. Then you suggest that the allowance in respect of children should be continued up to 28?—Yes.

5744. Would you limit that to cases where the child is devoting his whole time to education or would you extend it to cases where he is earning money?—I should extend it to all cases where his power of earning money is reduced by compulsion to educate.

5745. Although he may in fact be helping the household rather than be a charge upon it?—Yes, but if he has to attend a continuation school his earning power is lessened, as I think employers are already beginning to see.

5746. Then sub-paragraph (c), "joint incomes." You suggest the total limit for separation should be £1,000?—Yes.

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[Continued.]

5747. Can you give me any idea of the average income of a man and his wife both engaged in tuition? It is not anywhere near £1,000 in primary schools?—I do not come here as a witness for primary schools only. The National Union of Teachers embraces all kinds of teachers.

5748. Take your Union; take an average; what do a man and wife earn together?—I should not like to say. It would be a guess if I gave a figure.

5749. Can you give me any figures which will assist me?—Suppose, for instance, the headmistress of my school were my wife (which she is not) our joint income would be £900.

5750. So that it would be only in cases where the man and wife were respectively headmaster and headmistress that you would get anywhere near £1,000?—That is quite common in London.

5751. And for the joint income to be so much?—Yes, more now.

5752. As regards assistant masters and mistresses the joint salary would be very much less, I understand?—The joint salary for assistants in London now could be, and will be in a year, £540.

5753. Then as to repayments from superannuation schemes. Is the money which comes back to the teacher merely his own contributions, or does it comprise any accumulated income?—You mean from his own contributions?

5754. No, from investments?—It is entirely his own contributions.

5755. Without interest?—With interest, 3 per cent. in London.

5756. Except as regards the interest I must say it seems difficult to me to understand why that should be called income at all or should be taxable?—They are proposing to tax it.

5757. Turning to paragraph No. 3, you say that teachers would generally prefer the Income Tax to be payable quarterly. Would they not generally prefer that it should be deducted from their salaries?—I mean deducted quarterly from their salaries.

5758. Would it not be a very great relief to the ladies and gentlemen you represent that the taxation should be by deduction instead of their having to find a sum in cash at stated intervals?—Yes. The only objection teachers have had to that is that where that has been done, as in the case of London, they have not been able to find out without great inquiries exactly how much they are being taxed upon.

5759. The tax might be made at an agreed rate?—Quite so.

5760. Even if it were made throughout the school at an agreed rate there might be some re-arrangement afterwards by further payment or by return?—That is done in London now, but it is done yearly instead of quarterly.

5761. Take your last paragraph. You suggest there should be a more rapid method of return?—Yes.

5762. Can you suggest how that could be done?—No. I think we say at the beginning of our evidence that we are not Income Tax experts.

5763. Perhaps you will appreciate that the difficulty is not an absence of desire but the difficulty in devising machinery?—Yes. Since we sent in this evidence I have learnt that the Commissioners of Inland Revenue themselves are desirous of this.

5764. Mr. Walker Clark: On what ground do you suggest that the teachers should have an allowance under 1 (d) for room and office on the same lines as a clergyman or minister?—We base our claim on exactly the same lines as a clergyman or minister: that he has to use a room in his house as an office in which he carries on his studies, prepares his sermons, and so on. The teachers have exactly the same kind of work to do. They do not prepare sermons but they prepare lessons.

5765. But they have an opportunity of preparing those lessons at the school?—Oh, no.

5766. None at all?—None at all. Our Union has about 110,000 teachers and I should think there are not 2,000 of them who have a moment of spare time in school hours. They are teaching the whole time from when they enter the school until when they leave.

5767. But after lessons are over; at all the schools I am connected with as manager we set apart a room for this specific purpose?—Then I think your managers are rather more generous than most people.

5768. Where such a room is set apart by the managers you do not suggest that there should be an allowance made as well?—No, I do not want a man to have two allowances for the same thing.

5769. We provide a room for this specific purpose in the schools of which I am a manager, in every case, and therefore there could be no claim for our teachers?—None whatever; I quite agree; some whatever in that case.

5770. It is where there is no provision made by the public authority or by the managers that you suggest this allowance should be made, and solely there?—Yes, where the teacher is bound to have a room at his house for that purpose.

5771. I suppose the majority of teachers live in houses that are not of a high rent; so the allowance would not be a very large item; £10 a year, or something like that would cover it?—£10 a year. It is not a serious matter; it is only a matter of *consequence*, I suppose. We think if the clergymen get it we ought to get it.

5772. In reference to the continuation of the children allowance up to 15 you said that attendance at continuation classes reduced the earning capacity of the child?—Yes.

5773. You are aware that attendance at continuation classes has to be done in the time of the employer and at the expense of the employer?—Yes.

5774. There is a specific clause to that effect?—Yes, but that is not why we claim abatement. We say that if the employer has to provide this education as well it is natural that the wage of that child will be less than it would be had it been employed full time.

5775. That is not exactly what employers have told us?—But you see, I am not an employer.

5776. Mr. May: I think you said that some of your London teachers at present have the Income Tax on their salaries deducted at the source?—All of them in London.

5777. Do they independently of that make a return to the Revenue of their income from all sources?—They have not done so until this year.

5778. How then have they obtained, in the cases where they are married, the allowance for the wife; or if they have children how have they obtained the allowance for their children?—I do not know. I am not a London teacher. They get the allowance all right; I know that; they have taken care of that.

5779. Do you find that there is no objection on the part of the teachers to reveal to their employers, as distinct from the Inland Revenue, the whole of their income from all sources?—I think teachers, like other people, are of all classes. Some will object to anything and some of them do object to that point.

5780. But do you think there is any general objection to make a return of the whole of their income to their employers?—That is a point I would rather not answer.

5781. Do you think that the system of deducting their Income Tax at the source is one of general application?—No. It only refers to London. London is the only place where it is done.

5782. Suitable for general application, I mean?—If the deduction were limited to their salary I can see no possible objection anywhere.

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[Continued.]

5783. Then how would you suggest that the Revenue authorities, on the one hand, should obtain the exact return that they demand in the interest of the Revenue, and that the teacher, on the other hand, should secure the necessary abatement?—Could not they do as they do it with the ordinary Income Tax payer: send him a form to fill up for his other income.

5784. In that case what would be the advantage of deducting from the salary at the source?—The advantage would be that the teacher would have the tax deducted at regular intervals.

5785. He would only have some of it deducted regularly. He might in some cases have other payments to make or in other cases fresh claims?—Yes, but the salary would be the bigger proportion.

5786. You think that would be a desirable thing for general application?—Yes, I think they would welcome it if the deductions from their salaries were made at the source.

5787. Mr. Warren Fisher: Arising out of Mr. May's question, is it not the case that the employers of the teachers are public authorities?—Yes.

5788. They are not private employers?—No.

5789. And to that extent teachers are like servants of the Government—civil servants, soldiers and sailors?—Yes.

5790. Your view is that there would be advantage in public authorities who employ the teachers deducting the tax. Is your proposition a very general one? Would you say that it would be desirable in all cases? If you were in private employment would you like your private employer to know about your income and private affairs?—I think if it were limited, as I state, to the deduction from the salary there would be nothing private about it, because the employer would know the salary as well as the teacher himself.

5791. But is it not the case that before the proper amount to deduct could be arrived at, all the reliefs would have to be taken into account?—Yes, that is so.

5792. And other income not from the employment, so as to get at the proper rate; and could not the private employer construct the income if he had a little arithmetical knowledge?—I suppose he could.

5793. Do you draw no distinction between public employment and private employment in your view about the deduction of tax from salary?—My evidence is given on behalf of teachers. Of course, I can see difficulty about the case of a private employer, naturally.

5794. The other point I want to ask you about relates to the room used as an office. Is it not the case that many of us who work away from our homes have also to do work at our homes, and is there any reason, if the teaching profession were to

get a room allowance for work done at home, why everybody else who works at home should not get it?—I think it is not quite so similar as that. The point is that the teacher is bound to do his work at home. People who have offices in the City are not bound to do it at home; they have an office there to do it in, and it is their own choice whether they do it at home or not. The teacher must do it at home.

5795. Mr. Walker Clark: In some cases?—Except in some cases like yours where they have an office.

5796. Mr. Warren Fisher: I do not want to press the point, but assume that a person does work at home out of hours, then I suppose you would agree that he ought to have an allowance for the use to which he puts his private room?—Undoubtedly. If the principle is applied to one section for that purpose it should be applied all round.

5797. Sir E. Nott-Bower: I would like to ask you one question with regard to these contributions, on your paragraph 3, so as to be quite sure I understand it. When the contributions were originally paid they were paid out of income and they were allowed as a deduction?—Yes.

5798. They were allowed as a deduction under a contract, not under the terms of the Income Tax Act. I suggest that under the Income Tax Act strictly speaking that deduction should not have been made, because the contributions were in certain circumstances returned. Now the contributions have been returned. The contract was: "We will allow you for the time being the Income Tax on the amount of your contribution, provided that if that contribution is returned to you you shall then pay the Income Tax applicable to that contribution," which, in the circumstances which have happened, has been wrongly allowed." Is not that the position?—I do not think that is so.

5799. I think that must be so; I think Mr. Kerly said that he would not regard that repayment of contributions as income. Neither should I. But I think it is built up out of moneys which were exempted from tax subject to the express contract that if they were ultimately returned the tax had to be paid?—I have not seen any contract of that kind. The superannuation payments were allowed under the ordinary saving clause.

5800. I think if you inquire you will find that my suggestion is correct; at any rate, I put it forward?—That would be a very interesting fact for us to know, of course.

5801. Chairman: Perhaps you will ask Sir Edmund Nott-Bower about it. I think he is probably partly responsible for it?—I hope he is not responsible for claiming Income Tax on these returns.

5802. Thank you for your evidence.

TENTH DAY,
THURSDAY, 3RD JULY, 1919.

PRESENT:

LORD COLWYN (*in the Chair*).

Mr. BRACE.

Sir E. E. NOTT-BOWER.

Sir J. S. HARMOOD-BANNER.

Sir W. TROWER.

Mr. WARREN FISHER.

Mr. BIRLEY.

Mr. WALKER CLARK.

Mr. KERLY.

Mrs. KNOWLES.

Mr. McLINTOCK.

Mr. MANVILLE.

Mr. GEOFFREY MARKS.

Mr. MAY.

Professor PIGOU.

Sir JAMES MARTIN, Mr. E. BELFOUR, and Mr. PEROT E. REINGANUM, on behalf of the London Chamber of Commerce, called and examined.

The witnesses handed in the following statements as their evidence-in-chief:—

Proof of evidence to be submitted by Sir JAMES MARTIN on behalf of the London Chamber of Commerce on July 3rd, 1919.

5803. (1) I am a Justice of the Peace for the County of Surrey and a District Commissioner of Taxes, Chairman of the Council of the London Chamber of Commerce (Incorporated) and of its Income Tax and Excess Profits Duty Committee, a member of the Executive Council of the Association of British Chambers of Commerce. I am a Fellow, honorary member and adviser to the Council of the Society of Incorporated Accountants and Auditors, and I have been a partner for 37 years in the firm of Martin, Parlow & Co., Incorporated Accountants.

5804. (2) I desire to state that I am giving evidence on behalf of the London Chamber of Commerce, and that I approach the subject from the standpoint of the trade and commerce of the City of London.

5805. (3) The Income Tax and Excess Profits Duty Standing Committee of the Chamber has examined a large number of criticisms and suggestions sent in by members of the Chamber—and I might say that the roll of numbers now exceeds 8,000—and after very careful and lengthy consideration, has requested me to bring before the Commissioners the following points:—

Double Income Tax (within the Empire).

5806. (4) I generally support the evidence already placed before the Royal Commission by Sir Frederick Young on behalf of the Association to Protest against the Duplication of Income Tax within the Empire. In my opinion, no British subject should pay more, in Income Tax, than the highest rate in any one part of the Empire. The difficulty seems to be the question of apportionment of the taxpayer's payment as between the Mother Country and one or other of the Dominions. This difficulty should not be insuperable but should be capable of adjustment as between the Imperial Government and the Governments of India, the Dominions and the Crown Colonies.

Double Income Tax (income from foreign countries).

5807. (5) Speaking, as I have already mentioned, from the point of view of London, I wish to say that many companies and firms working in foreign countries are established here not because London is the headquarters of the particular trade or business but because the necessary capital is obtainable in London. The danger is the formation of separate companies for each component part of the business in various parts of the world, clearly entailing a very large loss of revenue to the Government. The attention of the Commissioners has doubtless been drawn to the United States New Revenue Law, 1919, section 222, from which I extract the following:—

"(a) That the tax computed under Part II. of this title shall be credited with:

(1) In the case of a citizen of the United States, the amount of any income, war-

profits and excess-profits taxes paid during the taxable year to any foreign country, upon income derived from sources therein, or to any possession of the United States; and

(2) In the case of a resident of the United States, the amount of any such taxes paid during the taxable year to any possession of the United States; and

(3) In the case of an alien resident of the United States who is a citizen or subject of a foreign country, the amount of any such taxes paid during the taxable year to such country, upon income derived from sources therein, if such country, in imposing such taxes, allows a similar credit to citizens of the United States residing in such country; and

(4) In the case of any such individual who is a member of a partnership or a beneficiary of an estate or trust, his proportionate share of such taxes of the partnership or the estate or trust paid during the taxable year to a foreign country or to any possession of the United States, as the case may be."

Income Tax paid by non-residents on dividends of companies domiciled in the United Kingdom.

5808. (6) Since the Act of 1910 the maximum Income Tax rate is deducted from dividends payable to non-resident shareholders in British companies; this is the case, however small the total income of any individual from the United Kingdom may be. If we wish to continue to attract capital to the country, as we must do, we should so arrange that the non-resident is not in a less favourable situation than the resident. There should be machinery whereby the non-resident may make a declaration to the British Consul, or otherwise, of his total income from the United Kingdom, in order that he may be in a position to claim a return. The point is one of very special importance at the moment.

Income Tax on the profits of non-residents.

5809. (7) By section 31 (2) of the Finance Act, 1915, agents, or representatives, in the United Kingdom of non-residents were made liable for the Income Tax of the non-resident upon the profits resulting from the business transacted through the agent. Brokers, business transaction agents, and agents not being authorised persons carrying on non-residents' regular agencies, were expressly excepted [sub-section (6)] without, however, these terms being defined. I am not referring to agents who hold stocks, or otherwise trade in such manner on behalf of their non-resident principals, as were liable under the Acts of 1842 and 1853.

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[Continued.]

5810. (8) Messrs. E. Belfour and P. Reinganum will submit detailed evidence upon this question for the Chamber, and I therefore desire simply to express the decided opinion that, unless the law as it stands at present is modified, the business of the agent will necessarily be closed up, as the non-resident invariably considers himself outside the jurisdiction of the British taxing authority, and will not pay the sums demanded; the business will thereafter be done direct, *e.g.*, by correspondence or by means of travellers, who will not be subject to any restrictions. The gentlemen mentioned above will refer principally to the effect of the present position on agents in the textile and allied trades, but the foregoing remarks are intended to apply to agents in all trades in which the business is carried on on similar lines.

Evasion of Income Tax and Super-tax.

5811. (9) There can, I submit, be no doubt that under existing conditions a large number of persons liable to Income Tax either evade payment of the tax altogether, or make improper or insufficient returns on the ground that they do not keep books of account. The result of this evasion is that the Revenue loses a large sum annually, and those companies, firms, and individuals who keep proper books of account are penalized, as necessarily they suffer by having to pay at a higher rate than would otherwise be necessary to meet the national expenditure.

5812. (10) As to the class of persons who evade payment of tax, generally by having no fixed place of abode where they can be assessed, I must leave a remedy to be found by the Royal Commission and the Inland Revenue authorities.

5813. (11) So far as traders are concerned, I suggest that it should be incumbent upon all persons engaged in trade or business to keep such books of account as are usual and proper in the business carried on, and as will sufficiently disclose the business transactions and financial position, either from the date of the commencement of the business or for a period of not less than three years. I see no reason for exempting farmers from keeping books of account. That farmers do not as a rule keep books of account is detrimental to the whole nation. I notice from a report in the "Times" of June 4th that Mr. Wilfrid Buckley, of the Ministry of Food, stated "that not one farmer in a hundred—probably not one in a thousand—knows what it costs him to produce milk, and there is a serious danger that the constant cry that is being dinned into the farmers' ears, in some instances by people who are not farmers, but who have axes to grind, may cause men who are producing milk at an adequate profit to believe that they are working at a loss, and consequently give up their herds." I myself have heard of cases of farmers who carry on other business besides that of farming, and it is an incentive to dishonesty where a man is compelled to make a return for Income Tax for one part of his business transactions only and not for another.

5814. (12) In regard to the keeping of books by all persons engaged in trade or business, I need only quote what Lord Esher said in the case of *R. v. Campbell, Re Wallace* (1885), *i.e.*, that a trader who did not keep books was carrying on business with an utter disregard of the interest of anyone but himself. Of course, it is well known that in some Continental countries traders are compelled to keep certain regulation books.

5815. (13) It is also urged by many members of my Chamber that it should be incumbent on traders to present accounts prepared from the books duly audited by qualified accountants, but I prefer to ask what I think Parliament should grant without question, leaving it to other witnesses to amplify the proposal if they consider it in the interests of the Revenue to do so.

Depreciation.

5816. (14) I have had before me the statement respecting the allowance for wear and tear and obsolescence of plant and machinery, &c., issued by the Board of Inland Revenue (Cd. 9134/1918).

(a) *Buildings.*

In the statement mentioned the owner-occupier of trade premises is allowed to deduct, in the case of mills, factories or other similar premises, the whole of the annual value in computing his assessment under Schedule D. I consider the limitation to mills, factories or other similar premises is unsatisfactory, and that the allowance should be extended to all premises in which trade or business is being carried on.

Incidentally, I may remark, that the allowance of one-sixth for repairs is far from sufficient under present circumstances. This should be increased to one-fifth.

(b) *Plant and machinery.*

While it is true that a schedule of agreed rates of depreciation has been made in connection with certain industries, they are only a small percentage of the whole. My view is, that the Chambers of Commerce should be asked to group all the trades in the country and to agree the grouping with the Board of Inland Revenue. Rates of depreciation should then be settled between the Board of Inland Revenue and the respective industries as grouped. In the event of failure to agree in any particular cases, it should be referred to the Board of Referees under the provisions of the Finance Act, 1918, section 24, and the agreements or decisions arrived at should be binding on the respective parties for a fixed period, unless some unforeseen event, such as the recent war, should necessitate a re-opening in any particular class. I do not think that these agreed rates of depreciation should be subject to the concurrence of the respective bodies of Income Tax Commissioners. In my opinion, the District Commissioners are not a very satisfactory body for settling questions of depreciation, which often tax the knowledge and experience of the Commissioners of Inland Revenue and professional accountants.

Items which should be allowed for Income Tax purposes.

5817. (15) I desire to urge that the following items should be allowed as a charge against profits for Income Tax purposes:—

(a) *Accidental losses not covered by insurance.*

I desire to mention two specific cases under this heading. The first is that of the trader who does not insure against fire. The loss of stock-in-trade is, of course, a charge, but not so the loss of buildings, on the ground that such represent capital. I submit that in such circumstances a loss of this nature ought to be allowed as a charge or there should be an annual allowance of an amount equal to the market rate of insurance on similar property. I have in my mind an actual case where the owner of a sawmill has always adopted the practice of taking the risk himself.

The second case is that represented by the flock mill, the risk in connection with which is so great that, in some cases at any rate, no Insurance Company will accept the risk. This is a special case of hardship which I submit should receive the consideration of the Commission. I have an actual case of a mill situate in London in mind, which was in fact burnt down not so long since.

(b) *Cost of removal of a business from one place to another.*

(c) *Loss on transfer from war to peace conditions.*

(d) *Depreciation of patents.*

(e) *Preliminary expenses of joint stock companies.*

(f) *Legal costs in connection with lease of business premises.*

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[Continued.]

- (g) Single-premium Life Assurance payments should be allowed as a deduction up to one-sixth of a taxpayer's total income, in the same way as when the premiums are payable by annual instalments.

- (h) Subscriptions to bona fide trade and commercial associations.

Apportionment of rent, rates, etc.

5818. (16) The apportionment of one-third of rent, rates, etc., to the personal account of a proprietor when he resides on the business premises should be modified when it operates unfairly. In existing circumstances this is not permissible.

Assessment in respect of employments.

5819. (17) The provisions of tax in respect of employments require to be re-cast and Schedules D and E revised. It is anomalous that a person should be taxed under E if employed by a company and under D if employed by an individual or firm. The anomaly has been so far recognized that certain classes of employees of companies are allowed by the authorities to be assessed on a three years' average as under Schedule D. On the other hand, where there has been a change of employment and one employment has been under Schedule D and another under Schedule E, the average is sometimes refused. All employments should be brought under one Schedule and all should be treated alike as regards three years' average.

Businesses which entail the holding of securities.

5820. (18) Section 23 of the Income Tax Act, 1918, permits of repayment of Income Tax, deducted at the source, on the profit arising from investments entered into, in the course of business, by a "life insurance business, or any company whose business consists mainly in the making of investments, and the principal part of whose income is derived therefrom, or any savings bank or other bank for savings." There are many businesses outside those expressly named which regularly invest funds as a part of the business, and where Income Tax deducted at the source on the yield from such investments exceeds the actual profits of the business it is impossible, as the law stands at present, to obtain a return of the difference between the Income Tax payable on the actual profits of the business and the Income Tax deducted at the source in connection with the investment. In effect, the Revenue authorities take advantage of the existing mechanism actually to impose taxation.

Income Tax on married persons.

5821. (19) This question, which I agree presents many difficulties, is of interest to the commercial community in that, for example, the single assessment frequently brings the total income just over, say, the £1,000 limit, thus necessitating payment of Income Tax at a higher rate. I submit that ample case has been made out for relief of some kind, and by way of a practical proposal I suggest that while the income of husband and wife continues to be assessed jointly, the wife's income should also be subject to abatement, in other words, that a separate abatement should be allowed on each income.

Notice of appeal against assessment.

5822. (20) At present the period of time during which notice of appeal can be lodged is 21 days. Whilst fully appreciating the difficult situation which would ensue were the taxpayer given a considerable period of time, I submit that 21 days is insufficient, as there are many cases which might prevent a taxpayer from actually receiving the assessment until the period has elapsed; I suggest that six weeks would be a reasonable period.

Payment of directors' fees "free of Income Tax."

5823. (21) I desire to support on behalf of the Chamber the following recommendation contained in the report of the Committee on the amendment of the law under the Companies Acts, 1908 to 1917:—

"We have learned that there exists a practice in some companies of making the payments to directors *qua* directors free of Income Tax, including Super-tax. Assume that a director's fees are to be £100 a year free of Income Tax and Super-tax. The additional sum which he in fact is paid by reason of his being relieved of Income Tax is a sum not fixed but varying according to what his aggregate income from all sources may be. The rate demandable from him for Income Tax may be 1s. in the pound or may be some less sum. Further (and this is the mischief at which we point in particular) the Super-tax of which he is relieved may vary in a very much larger degree. If his aggregate income is small there may be no Super-tax demandable at all. If it be large the Super-tax may be 4s. 6d. in the pound. The payments which the directors receive should be of an amount openly stated and plainly known without any necessity of computation to every member of the company. The sums payable to directors are in some cases large, so that the additional sum due to relief at the expense of the company from Income Tax and Super-tax may be substantial. The shareholders ought to know what the directors' remuneration is. We recommend that payment to directors free of Income Tax or of Super-tax shall be forbidden."

Co-operative Societies.

5824. (22) I am aware that the question of making organisations trading under the Industrial and Provident Societies Act, 1893, liable for Income Tax is debatable. I think it may be admitted, however, that when such societies were made immune it was not the intention to allow them to trade with the general public, as they do to a considerable extent, in competition with traders who have to pay Income Tax. The high rate of tax brought about by the war has necessarily emphasized the injustice to the latter. I believe it to be a fact also that during the war the Co-operative Societies have obtained large Government contracts, a branch of business which is clearly outside the scope of operations originally contemplated. I submit accordingly that the situation is entirely unfair to the private trader and that the case would be met by making liable to Income Tax such Co-operative Societies as trade with anyone outside their registered list of members.

Official forms.

5825. (23) The official forms should clearly indicate that it is at the option of the taxpayer to send his Income Tax return to an Inland Revenue official instead of to the local Assessor, and that in such case the figures should not come under the observations of the Assessor. At present the form states that the taxpayer has to elect to be assessed by the District Commissioners under a letter or by the Special Commissioners if he does not desire to send in his return to the local Assessor.

Exemption, abatement and relief.

5826. (24) The Council of the London Chamber of Commerce, on June 12th, passed the following resolution and authorized me to communicate its terms to the Royal Commission:—

"That any readjustment of the Income Tax in connection with the lowest scale of earned incomes should be based upon the cost of living from time to time.

It is not desired by the Council to interfere with the discretion of the Chancellor of the Exchequer in placing his Budget before Parliament, nor with the free exercise of the privilege of the House of Commons to impose taxation in such manner as may be considered expedient. At the same time it appears to the Council of the Chamber that as the Income Tax must be regarded as part of the permanent scheme for raising the necessary national revenue in peace as

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[Continued.]

well as in war, certain principles must be recognized. At the present time every individual whose income exceeds £150 is liable to taxation, subject to abatement and relief as set forth in Part III. of the Income Tax Act, 1918. It does not appear to my Council that, in fixing the limit of income for taxation at £150, regard has been paid to the fundamental point contained in the resolution. There is admittedly a limit below which taxation should not, and, in effect, cannot be imposed, and if the State disregard this fact, then either discontent must be engendered or employers or others must give to the person taxed the wherewithal

to pay, that is to say, they must make up the difference. But when Parliament has decided the limits of taxation, either on profits or wages, with due regard to the principle I have enunciated, then the Government must impartially administer the law amongst all classes of His Majesty's subjects and ensure that every person, whether engaged in trade or commerce or otherwise, shall bear the burden which has been fairly imposed upon him.

[This concludes the evidence-in-chief of Sir James Martin.]

Evidence of Mr. E. BELFOUR.

5827. (1) My firm is one of a large body of agents in the textile and allied trades employed by foreign manufacturers, and remunerated solely by commission on their sales. The methods of carrying on the business by my firm are representative of the general practices of this trade.

At the present time my firm is employed as their agent by six foreign manufacturers; two each in France, Italy and Switzerland, and by one in England. In some cases my firm has a written contract for a stated period, setting forth the conditions of the representation. In other cases there is no written contract, and the representation would then be worked according to the usages of the trade, terminable by three months' notice from either side. In some cases the conditions of the representation, either written or verbal, cover the whole of the United Kingdom and British Dominions; in others the United Kingdom only; in others the representation is for London only, and in others for London and the Dominions. In some cases the representation is only given for certain specified articles of the foreign manufacturers' production; in others for the entire production when exported to the United Kingdom; in others for only such of the exports to the United Kingdom as my firm has been able to influence.

All these forms of working the business are governed by the following conditions:—

- (a) all orders solicited and received by my firm are subject to being accepted or refused by the foreign manufacturer;
- (b) payments are made direct to the foreign manufacturer by crossed cheques to their order, or sometimes handed to my firm to be forwarded to the manufacturer abroad;
- (c) the goods are sent direct to the purchaser, except occasionally when, for economy of packing, a case of small deliveries is sent to my firm for distribution;
- (d) no stock is kept by any of these foreign manufacturers in this country;
- (e) there is no name of any of these foreign manufacturers on the doorplates or in any directory.

My firm has no financial connection with any of these manufacturers. It pays its own rent, staff, and outgoings out of commission received, which varies from 2 per cent. to 3 per cent. on the turnover passing through its hands, according to the terms of the representation agreed upon.

5828. (2) This class of business is therefore what Mr. McKenna, during the debates in the House of Commons on section 31 of the 1915 Finance Act (Hansard, 17th November, 1915, column 1,395), called that of a bona fide agent, who sells to English firms at the true price of the foreign manufacturer, i.e., without making a further profit in this country on the manufacturing price. And as regards the non-resident:—

- (a) his acts are limited to exports to this country;
- (b) he does not carry on a trade within this country;
- (c) there is no further profit added to the goods in this country beyond that made at the place of production.

5829. (3) Under these conditions of trading the textile agents of non-resident manufacturers have, during the past sixty years, starting from the Treaty of Commerce with France in 1860, built up an extensive business in this country.

They have promoted with the British wholesale distributing houses the importation of many articles which have not been made, and still are not made, in this country. They have provided the raw materials for the British manufacturing industries of such articles as ladies' and children's dresses, underclothing, millinery goods, umbrellas, ties, &c. These industries have grown to very large proportions owing to the facilities granted of buying at manufacturers' prices, and on credit from non-resident firms granted on the recommendations of the agents, and these facilities have enabled these British manufacturers to cater not only for home consumption but for export sale all over the world.

There is also a large transshipment trade to our Dominions and to many foreign countries, which has been created and centralized here by the British agents.

All this vast import and transshipment trade has been developed and has grown up, based on methods of trading akin to those of my firm, entirely untroubled by any suspicion that beyond the Income Tax on their commission earnings, which the agents have always paid, they were also liable for Income Tax on profits alleged to be made here by their foreign manufacturers.

My firm has existed for 40 years, and no such demand has ever been put forward on it until last year—1918. Even to-day, out of 100 agents 99 do not know anything about such a liability, and would repudiate any suggestion that they can be made liable to be ruined by a demand for large sums of money alleged to be due by their foreign manufacturers, over whom they have absolutely no control, therefore, no means of recovering from them.

5830. (4) And yet the incredible has happened. The Board of Inland Revenue maintains now, in defiance of the statement made in the Committee of the House of Commons of the object of section 31, that subsection 2 of section 31:—

"A non-resident person shall be chargeable in respect of any profits or gains arising, whether directly or indirectly, through or from any branch, factorship, agency, receivership, or management, and shall be so chargeable under section 41 of the Income Tax Act, 1842, as amended by this section, in the name of the branch, factor, agent, receiver, or manager."

is entirely a new charging section. Further, that it abrogates the fundamental principle of only taxing profits on trade exercised within the United Kingdom laid down in the Acts of 1842 and 1869, and that, therefore, a non-resident who exports to this country through a resident agent here irrespective of whether the non-resident can be held to carry on a trade within this country or no, is liable for Income Tax and Excess Profits Duty on the profits alleged to be made on these imports. The Inland Revenue maintain that the words "directly or indirectly" mean:—

- "directly"—profits arising to the non-resident from a branch in the United Kingdom;
- "indirectly"—profits arising to the non-resident from a resident agent;

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Mr. E. BELFOUR.

[Continued.]

whereas these words were inserted to catch a certain class of collusive trade carried on within the United Kingdom by a resident agent for account of the non-resident which this section was aiming at.

The Inland Revenue further maintain that as regards the exemption of brokers and general commission agents under sub-section 6, the textile agents, although they have no authority from the non-residents to act in any essential thing, are "authorized persons carrying on the non-resident's regular agency" and are not protected by sub-section 6.

5831. (5) Worse as regards the textile agents and their business remains to be told.

In January, 1919, the Italian manufacturer of one of the textile agents, which manufacturer had been exporting through the agent for upwards of 12 years, was suddenly assessed to Income Tax on an entirely imaginary basis.

This manufacturer refused to acknowledge any jurisdiction of the British fiscal authorities or to allow his agent to render any information, and warned the agent that he would not be responsible for any payment of tax whatsoever. In these circumstances the agent appealed before the Special Commissioners against the assessment on himself, on the grounds that the foreigner was not carrying on trade within the United Kingdom, and that he was himself exempted as commission agent under sub-section 6. The Board of Inland Revenue pleaded that, although the non-resident had not been liable for taxation under the Acts of 1842 and 1853, the Act of 1915, section 31, had now made him liable and that the resident agent was chargeable in his place. The Commissioners gave their decision in favour of the Inland Revenue. As the non-resident refuses to acknowledge any liability or any jurisdiction in Italy of the British courts, and the agent has no control over him, the agent is made liable for a sum of over £8,000 for Income Tax and Excess Profits Duty (the demand for which will certainly follow) on this arbitrary assessment, and this will mean the agent's ruin.

In this, as in all other cases of which I am speaking, the business is really carried on abroad. But the non-resident as an episode sells through the commission agent in this country.

5832. (6) As a consequence of this decision the textile agents are faced with a very serious situation. As regards themselves, unless they can have the protection of sub-section 6, they are exposed to a liability for account of their non-resident employers far exceeding the commission they earn from them.

As regards the non-resident's experts to this country, as the Board of Inland Revenue seeks to discriminate against the non-resident exporter who employs a resident agent in favour of one who does not employ a resident agent, it is manifest the resident agent's business must disappear. The non-resident will cater for this market by sending travellers over here, by correspondence, or by trading through commission houses in the places of production abroad. The disappearance of the resident agent would mean a great curtailment of the facilities given to the British manufacturers referred to in paragraph 3, and would lead to the complete extinction of the transhipment trade referred to therein. In this way the Act defeats its own end. The Revenue gets no tax, and the agent here is deprived of his business at a time when it is urgent that everyone in this country should earn as much profit as possible.

5833. (7) In the hearing of the case above referred to in January last, the Special Commissioners in giving their judgment in favour of the Crown referred to section 31 of the 1915 Act as "a rambling section of uncertain meaning," but the United Agents' Committee of the London Chamber of Commerce and the Manufacturers' Agents' Association, for whom I am privileged to speak, maintain that it hits and will ruin the textile agents by reason of the section having failed to bring textile agents and the like within the exemption of sub-section 6, which exempts brokers and commission agents.

Reference to what passed in the Committee of the House of Commons when section 31 was under discussion will confirm this view that such exemption was intended.

As regards sub-section 2 which the Board of Inland Revenue say is an entirely new charging section, Mr. McKenna, in introducing the clause, said, on 17th November, 1915 (Hansard, column 1870), that the object of the new clause was to deal with such cases as a foreign firm having a British branch, this branch being the mere creature of the foreign firm, and not being allowed to make profits, so the whole profit of the purely British trade inured to the benefit of the foreign firm, which thus escaped taxation made on the profits in this country. Mr. McKenna said that all he intended by this clause was to deal with cases of this sort.

(This proves that this is not a new charging section but one merely extending the machinery of the Acts of 1842 and 1853 in order to hit collusive arrangements which had been discovered between non-residents and residents.)

On 17th November (column 1870) Mr. Duke said: "I think that the Committee would agree with the Board of Inland Revenue and the Chancellor of the Exchequer in insisting on the principle that if profits are earned in this country by business carried on in this country, those profits are a subject of fair taxation here. The difficulty has arisen as I think by the presence in this clause of language which by itself suggests that an agency existing in this country without a business established in this country, shall render a foreign principal, who has not a business here but merely employs an agent, liable to be taxed in this country though he is a foreign principal and is not doing anything more than employing an agent. I listened to what the right hon. Gentleman said the last time when he laid such emphasis upon the action of businesses existing here, but having no one here who was subject to taxation under the Income Tax. That was the difficulty with which he was proposing to deal; but if I understood him properly, he was not, by these words of precaution and definition in section 1 (a) of his new clause, aiming at the large class of most valuable and delicate businesses which it is the object of the speeches which we have heard this afternoon to safeguard."

Sir F. Banbury: "Suppose the clause goes through in that form, and my honourable and learned friend was called upon to interpret it in a court of law, would he not give the interpretation which he has himself just put upon them?"

Mr. Duke: "I must confess when I read this clause that it seems to me that it would be exceedingly likely that the officers of Inland Revenue would propose to tax agency business—business which may be done through an agent. But I do not gather that that is the object in view."

Mr. McKenna assented.

5834. (8) As regards the agent, it is abundantly clear from the debates that no change from his position under the Acts of 1842 and 1853 was intended unless it could be proved that a collusive arrangement had been made between the agent and the foreign principal in order that the foreigner should escape taxation. The entire debates on the subject, as reported in Hansard, prove that both the Government and the House were desirous of safeguarding the interests of the bona fide agent as against the agent who was practising collusion with a non-resident.

On 7th December (Hansard, column 1196) Mr. McKenna replied to Sir A. Williamson that if the course of business between the principal and the agent was collusively arranged so that the business done by the non-resident produced no profit to the resident, that is the agent, either no profit or less than the ordinary profit which might be expected to arise from that business, the non-resident principal would be chargeable to Income Tax in the name of the agent, and the agent would be chargeable to Income Tax on the proper profit or commission of the agent; otherwise the Acts of 1842 and 1853 were not being extended.

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MR. E. BELFOUR.

[Continued.]

Replying to Mr. Bigland (column 1198), Mr. McKenna said that if the agent came under the 1842 Act he would still be liable under the new section. If he did not come under the 1842 Act he would not come under the new section. The only new effect of the section as it relates to the agent is that contained in sub-section 3, that is, it relates only to conditions in which there is a quasi-collusive arrangement between the non-resident principal and the agent. Apart from that, the section did nothing as far as the agent was concerned.

Sir F. Banbury (column 1896) asked about the case of a non-resident who sold through a resident agent to an English firm. Would the agent have to pay merely on his commission or upon the so-called profits of the non-resident? Mr. McKenna replied that if the sale by the agent to the English firm was what they called—and everybody would understand—a bona-fide sale, then the agent would only pay on his agent's commission. If it were not a bona-fide sale and he sold to the English firm not at the true price, then he would be called upon to account for the profit which he made.

5835. (9) From the foregoing it will be seen section 31 of the 1915 Act has been so badly framed, anyway as concerns the textile agents, that the Board of Inland Revenue is placing an interpretation upon it which is diametrically opposed to the intentions of the framers as declared in the House of Commons, and in any case is one which requires amendment.

5836. (10) The wording of section 31 sub-section 2 is so sweeping that if a non-resident employs a resident in such a manner that such employment can be inter-

preted to constitute an "agency" all the profits made directly or indirectly out of the transactions on the non-resident, though they merely amount to the exportation of goods to this country, are liable to Income Tax though such transactions do not constitute in fact or law a trading in this country. This is the interpretation claimed by the Inland Revenue, and is, by eminent lawyers said to be correct. This interpretation amounts to a tax on imports, but instead of making the tax payable by the foreigner it in fact falls on the agent though no money of the non-resident ever comes into his hands, and as it operates from April 1915 the agent has incurred a ruinous liability accumulating over a long period.

5837. (11) It is submitted that the agents of non-resident manufacturers, such as are dealt with in my evidence, should be exempted from liability to Income Tax just as brokers and general commission agents are exempt under sub-section 6, section 31.

As the law now stands they are not exempted, but are caught by the words in sub-section 6 which exclude from the exemption afforded to agents, an agent being an "authorized person carrying on the non-resident's regular agency." The Special Commissioners hold that the textile agents come within these words.

It is further submitted that section 31, sub-section 2, should be amended by adding the words "within Great Britain" after the word "arising" in order to bring this section into harmony with the intentions of the House of Commons as expressed in the debates, and with common-sense.

[This concludes the evidence-in-chief of Mr. E. Belfour.]

Evidence of MR. PERCY E. REINGANUM.

5838. (1) I am a manufacturers' agent, representing at the present time both resident and non-resident manufacturers in the textile and allied trades, and remunerated solely by commission on sales made on their behalf.

I am also the Honorary Secretary of the Manufacturers' Agents' Association of Great Britain and Ireland, and represent many hundreds of members of that Association similarly employed, as well as those who are not at present members.

5839. (2) Prior to the passing of the Finance (No. 2) Act, 1915, and by virtue of section 41 of the Act of 1842, where an agent resident in the United Kingdom was employed by a non-resident to act as his agent to solicit orders, to make contracts of sale, and to receive payments on behalf of the non-resident, such agent was chargeable for any Income Tax payable in respect of the profits of such business as if the non-resident resided in the United Kingdom, it being rightly held that such non-resident firm was trading (through the agent) within the United Kingdom.

5840. (3) If, however, the proceeds of the sale of the goods sold by the non-resident did not pass through the hands of the agent but were paid directly to the non-resident, by a decision of the High Court the agent was not under any such liability. Similarly the agent was not liable if the transaction entered into by or on behalf of the non-resident did not constitute a carrying on of business in the United Kingdom, i.e., by the making of contracts by the agent, or the receipt of payments for the goods contracted for.

The only Income Tax for which the agent was in such case liable was the Tax upon the commission which he himself earned.

It will be observed that to make the agent liable three conditions were necessary, viz.:—

- (a) that the non-resident should carry on business in this country,
- (b) that the contract should be completed in the United Kingdom,
- (c) that the agent should receive the profits arising from such business.

By the Act of 1915, the liability of the agent was extended.

By section 31 (1) the agent was made liable, although he did not have the receipt of the profits of the non-resident.

It was also enacted by sub-section 2 of section 31 of that Act that a non-resident should be chargeable through the agent in respect of any profits arising, whether directly or indirectly, through or from any branch, factorship, agency, receivership or management.

5841. (4) The effect of sub-section 2 of section 31 of the 1915 Act, as interpreted by the Inland Revenue authorities, is to make every resident agent of a non-resident liable for the payment of Income Tax (and Excess Profit Duty) on all the non-resident's transactions, notwithstanding that the non-resident's transactions in this country are such that the non-resident is not carrying on business in this country, and that no money passes through the agent's hands.

The words of sub-section 2 are as wide and vague as possible. They extend under this interpretation to profits made by non-residents, whether directly or indirectly, and through or from any agency, etc.

The present position, therefore, is that the Inland Revenue now seek to make agents in this country liable for the payment of Income Tax (and Excess Profits Duty) payable in respect of profits made by a non-resident, irrespective of the fact whether or not the transactions of the non-resident constitute a trading in this country, and notwithstanding that all the monies arising from such business go direct to the non-resident and do not pass through the hands of the agent.

Attempts have been made to make agents liable also in cases where they are not "authorized persons" (i.e., having power to complete contracts) but merely to show samples, solicit orders which are subject to the acceptance of the non-resident, who, exporting the goods contracted for direct to the buyer, is trading with and not within the United Kingdom.

There is an exception as to liability under section 31, which is to be found in sub-section 6 of section 31, which provides that the non-resident person shall not be chargeable in the name of a broker or general commission agent or in the name of an agent not being an authorized person carrying on the non-resident's regular agency, or a person chargeable as if he were an agent in pursuance of such section. There is no definition of a broker or general commission agent or agent not being an authorized person, etc., and it is therefore impossible to distinguish as to the class of persons who are exempt under sub-section 6 and the

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class of persons who are liable under sub-sections 1 and 2. This depends entirely on the view which may be taken by the Surveyor or Special Commissioners or by the Court as to what class of persons fall within the one category and what class fall within the other.

5842. (5) The Inland Revenue hold, notwithstanding sub-section 6, that under sub-section 2 a resident person representing a non-resident manufacturer, though such non-resident neither by himself nor through the resident does such acts as in fact constitute carrying on business within the United Kingdom, is liable for Income Tax (and Excess Profits Duty) on the profits made on goods sold by such non-resident to persons in the United Kingdom.

5843. (7) It is contended that this interpretation is directly opposed to the intention, both of the framers of the Act and of the members of Parliament who discussed this clause prior to its being passed, as is clearly shown by Hansard, 17th November, 1915, col. 1195-6, and again on 7th December, 1915, col. 1195 onwards.

5844. (7) In order to show the operation of sub-section 2 as thus interpreted, the following example will illustrate how this sub-section works.

If a non-resident appointed a resident (Mr. A.B.), his agent or representative (the term used is of course immaterial) for the purposes of soliciting orders for the non-resident, then, though the resident's duties terminate with the solicitation of orders, and the result of the transaction, including payment, is carried out direct between the customer in this country and the non-resident person, then in such case the Inland Revenue hold that the non-resident has made a profit, either directly or indirectly arising through or from an agency in this country. If, on the other hand, instead of regularly employing Mr. A.B. for the purpose of soliciting orders, (a) the non-resident had transacted each individual transaction through an agent appointed for each particular transaction, or (b) had carried out the transaction through a foreign traveller roaming over the country soliciting orders, the case would as regards the first set of transactions (a) fall within the exemption of sub-section 6, and as regards the second set (b) would not fall within sub-section 2 of section 31, as there would be no profits arising from a branch, factorship, agency, receivership or management.

5845. (8) It is obvious that if the agent is to continue under the present liability he must go out of business, and the non-resident must carry out his business either by correspondence or through travellers or other means, from which the Exchequer would receive no revenue.

During the last 50 years agents employed by non-resident manufacturers have built up a large import and export trade in goods which are in many instances the raw material for British manufacturers.

If the agent is wiped out the non-resident manufacturer's business which has been largely promoted and extended by agents here would be greatly restricted, if it did not cease altogether, to the detriment of various trades carried on in this country.

A large export trade from England to other countries is also instituted by the agents in these foreign-made goods through merchants, which, of course, would also disappear if the agent can no longer represent the non-resident manufacturer.

The hardship to the agent of having to pay the Income Tax on profits made by the non-resident out of his own monies is so manifest as to require no elaboration.

As the law stands the agent is liable, notwithstanding that not a penny of the non-resident's money comes into his possession.

The view taken by a non-resident is that he is outside the jurisdiction of this country, that the British Government has no power to tax him, and he refuses to reimburse the agent any money; the agent may either choose or be forced to pay by reason of his liability under the existing law.

If the liability is enforced against the agent it would naturally mean his ruin.

The witness submits that such alteration should be made in the present Income Tax laws as will prevent the agent or representative in this country

of a non-resident manufacturer from being personally liable for Income Tax on the profits made by the non-resident in respect of the export of the non-resident's goods to this country.

[This concludes the evidence-in-chief of Mr. Percy E. Reinganum.]

5846. *Chairman:* Sir James Martin, we have had and read your full statement, and shall be obliged if you will indicate the salient parts so that you can deal with them; you need not necessarily read the whole of your paper, but give your statement on those points which you think most important?—(Sir James Martin:) In coming before the Royal Commission, perhaps you will allow me to say that I am here to give whatever assistance I can to the Commission on behalf of the London Chamber of Commerce, and I do not necessarily give evidence as an expert; because the Royal Commission will have before them a number of experts from my profession; in fact the Associated Chambers of Commerce are going to send some before the Royal Commission, and I think I shall be found in general agreement with the evidence which they will place before you. I would therefore wish to approach the matter from the more general point of view of the trade and commerce of the City of London and give such assistance to the Royal Commission as I am able. The first point of my proof relates to Double Income Tax (within the Empire). This is a subject which I have considered for a good many years, and I have addressed the Chancellor of the Exchequer (Mr. Bonar Law) on the matter and also Mr. Hughes, the Prime Minister of Australia. I would like to urge before the Royal Commission that unless something is done to remove what everybody admits (when I say everybody admits—I think the Chancellor of the Exchequer admits it) to be a great injustice to British subjects, it will be, I think, disastrous to our trading interests here and to the good relations between ourselves and our Dominions. I would like specifically to put before the Royal Commission the following points: that unless a remedy is found it will tend to the closing of the London offices of companies and firms in the Dominions; that people will withhold investments where they are liable to double taxation; that trade will be lost to this country where investments are withheld, as those people who find the capital generally obtain the orders; and (the last point is one on which I have some special knowledge) that professional men are largely recruited from this country to look after the interests of investors abroad. I can say from my own knowledge of the profession of accountancy that at the present time we are not able to meet the demand which is made upon us for sending qualified accountants abroad. Owing to the war the number of young men trained is less than usual, but there is a greater demand from the East and from other countries for these qualified young men who have to go out to look after the interests of British capitalists. I do not think I need labour the point with regard to Double Income Tax beyond saying this. The only difficulty that I have heard in connection with this matter is as to who is to bear the loss; is it to be the Mother Country or is it to be the Dominions? It seems to me that if our statesmen and the statesmen of the Dominions cannot arrange that between them, then I think we shall have to come to the conclusion that statesmanship is bankrupt. Now, with your lordship's permission, I would like to turn for a moment to Double Income Tax (income from foreign countries). This presents to me, I candidly confess, a greater difficulty; because I am not out, and I do not suppose anybody is out, to find money for foreign Exchequers. But even here I think there should be some means of adjustment found. We do know that there are foreign companies which have removed themselves bodily from the City of London rather than subject themselves to double taxation.

5847. You know that yourself?—I know that for a certainty. By removing themselves in that way the only tax which is paid to the British Exchequer is the tax on the dividends which come into this country. The general trading operations are removed out of the jurisdiction. Well, we do not want that. Speaking for the London Chamber of Commerce, we have

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nothing to say with regard to our enemies; we do not want anything to do with them; but we do not want to drive from the City of London, with loss to ourselves and loss to the Revenue, our allies and friends who have so long traded here. My next point which I would desire to put before the Royal Commission is that of the Income Tax paid by non-residents on dividends of companies domiciled in the United Kingdom. I do not know to me that if we want this very much. It does seem to me that if we should have some machinery whereby the non-resident who is liable to pay the full tax which is deducted could make a declaration. I think it is sufficient for me to mention the point; it is one of considerable importance on the question of raising capital. Now I come to Income Tax on the profits of non-residents. You will see that there are two witnesses who are to come before the Royal Commission this morning, Mr. Belfour and Mr. Reinganum. They will put before the Royal Commission the evidence in detail on this subject. I only want to say this. The London Chamber of Commerce were approached by the agents in London on this subject. We considered it very carefully; we did not rush into it at all, because we felt it was a subject for careful investigation. They asked me to go down to their meeting, and I presided over the meeting of these agents. And first of all I was surprised at the very large number of people affected. They filled to overflowing one of our biggest rooms. The standpoint that we take up is this. We want the Royal Commission to examine the grievance which they will put before them and to come to such a conclusion as will enable these agents to carry on their businesses in this country. If the authorities are going to endeavour to tax a non-resident, a foreigner, who is out of the jurisdiction, through a resident, then you compel that resident to close down his business and get out. Now we do not want that; because the authorities will not be able to tax the foreigner, he will be out of the jurisdiction. If you close down the agent what will result? The foreigner will come here and he will do his business just the same, that is, he will come over, he will take his orders, he will go back to France or Italy or wherever he comes from; he will execute those orders and he will send the goods into the country; or else he will get his orders by mail. He will get the profits on those orders. The Inland Revenue will not be able to annex anything upon them. What will the country be faced with? If they are going to tax that foreigner they have got to build a tariff wall round the country. There seems to me to be no other way out of it. But what have we got at present? I am speaking for the City of London only; I am not authorized to speak for anywhere else. We have a number of these people in the City. They take premises, they pay rates and taxes; they pay the Inland Revenue tax on their own incomes which they earn. They are good citizens. Why do we want to drive them out of the country? That is the standpoint of the London Chamber of Commerce, which I respectfully submit to the Royal Commission. Now, my Lord, I come to what I venture to suggest is the most important part of my proof. That is the question of the evasion of Income Tax and Super-tax. First of all, I want to deal with the evader and shirker of Income Tax. We all know he exists. He wanders round the country; he lives a more or less luxurious life in hotels and other places, and he manages in some way or another to evade the taxing authority. Of course, I know that through taxation at the source the authorities get a good deal out of him, but they do not get out of him all that they ought to. I am not in a position in regard to that class of men to suggest a remedy, but there is a considerable leakage, and that leakage is one which ought to be stopped for the benefit of the traders and others who submit proper returns. I now come to the position of the trader himself. It is more and more the practice for concerns of any magnitude to be carried on under the Companies Acts. Even if they are not carried on under the Companies Acts, all reputable concerns have a good system of book-keeping. The result of this is that all reputable concerns do in fact keep proper books of account, and are able from those books to prepare proper

trading and profit and loss accounts. But there are a number of people in this country who do not keep books and who have no intention of keeping books.

5848. What class of people?—I am referring to traders. I am speaking of something of which I have some knowledge. There are a number of individuals and firms in this country who do not keep proper books and who have no intention of keeping them. There are a number of others who do keep books, and yet, if it suits them, those books are not complete as they ought to be. Now I want to submit to the Royal Commission that in the interests of sound trade, in the interests of those companies and firms that do keep proper books of account, the law ought to be altered so as to compel every person in this country to keep such books of account as are proper and usual in his trade or business. I do not know whether those are the exact words in my proof, but I took the words out of the Bankruptcy Act. Under the Bankruptcy Act a man is liable to have his discharge refused if he does not keep such books of account as are usual and proper in his trade. Why should people carry on business in this country at all and not keep proper books of account? It has been suggested to me that witness after witness comes before the Royal Commission and asks for relief here and relief there which will reduce the yield of the tax. I want to put before the Royal Commission a suggestion that if they will adopt this proposal and ask Parliament to say that every man engaged in trade or business should keep such books of account as are proper and usual in his trade or calling, then I believe the yield of the tax will be very much larger, which will go towards the relief and benefit of those people who do everything they can to obey the law.

5849. Do you think these people escape assessment?—I will not say they altogether escape assessment, but many of them escape a proper assessment.

5850. Have shopkeepers come under your survey at all? Shopkeepers do not keep books always, do they?—So far as I know, every shopkeeper ought to keep proper cash accounts at least. I know very well that the general system of book-keeping of small shopkeepers is deficient; but I have not shopkeepers in my mind to any extent, in the observations I have made, because I believe as a class shopkeepers are honest people. But I am referring to people who come in and out of town and who carry on business—and some people, to my knowledge, have carried on business for years and have not kept proper books of account, and the Inland Revenue have not got the amount of tax out of them which they ought to have got. There is just one other thought that has occurred to me before I leave this subject. There are a number of people who want also to suggest that from these books shall be prepared proper accounts, and that those accounts should be audited by qualified accountants. The London Chamber of Commerce do not want to go quite so far as that. We prefer to ask for what we think Parliament might reasonably grant. We do not want to ask that in an Act of Parliament there should be imposed further additional responsibilities on people beyond what we consider is absolutely reasonable to be put in a Statute. So I stop at the demand for proper books of account.

5851. Then, turning to the subject of depreciation, I do not want to repeat evidence that is already printed. I might just refer in passing to the question of allowance for repairs. I think it is agreed that the present allowance of one-sixth under existing circumstances is not sufficient. I do not want to labour the question of one-fifth; I want to submit the point respectfully to the consideration of the Royal Commission. Then, on the subject of plant and machinery, the way depreciation is dealt with at the present moment is not altogether satisfactory, although I wish at once to say that I do not desire to criticize the Inland Revenue officials. I think, taking them all round, there is a willingness to do the best they can under the existing circumstances. But I think it would be very much better if the suggestion were adopted which I have put down as to grouping the trades in the country, and for those trades to agree rates of depreciation with

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the Inland Revenue authorities. Of course, I know that certain trades have already made arrangements, but it is haphazard. What one wants is to have a system. Then, in the event of disagreement, I should like an appeal to a Board such as the Board of Referees. I do not want an appeal to Special Commissioners or General Commissioners, or to the Law Courts. I want an appeal to a body constituted like the Board of Referees which, if I may venture to say so, has done extremely good work and in which the public have confidence. I have already mentioned in my proof with regard to the General Commissioners—I happen to be a General Commissioner myself, although I am afraid I do not give them very much assistance—but with regard to General Commissioners throughout the country, they have not a great deal of experience of these questions of depreciation. They are mostly recruited from county magistrates, and of necessity these questions do not come before them in ordinary every day work, and although they always do their best, and I believe them to be impartial, yet at the same time it is hardly the tribunal with whom we want to discuss questions of depreciation, which, if I may say so, often present great difficulties to the Inland Revenue authorities as well as to the professional men who are dealing with them. Then there are some items I have mentioned which, I think, should be allowed for Income Tax purposes. I have set them out pretty carefully, and unless any member of the Royal Commission wishes to ask me questions upon them, I do not think I will go over them again.

5852. With regard to the apportionment of rent, rates, &c., that is a matter which has been brought before us. Sometimes business premises, for the purposes of the business, may be very large, and the portion used for residence may be very small; and we should like that taken into consideration, because it affects the interests of a large number of retail traders.

5853. Then with regard to assessment in respect of employment, I hope I have made that point quite clear in my proof, and I do not know that I need repeat anything that is there. Then businesses which entail the holding of securities. That is a matter that I am bringing before the Royal Commission at the request of one or two well-known firms in the City of London. I hope it is set out quite clearly, and if so I do not want to take up time in repeating that.

5854. With regard to Income Tax on married persons I would like to say one word. I do not think it quite appears to us, as representing trade and commerce, that there should be absolutely separate assessments of husband and wife. May I put it to your lordship in this way? I think a commercial man, say, whose wife has a separate income, is in a better position than a man whose wife has no separate income; of course, that seems to follow; but for this reason. Out of the profits of his occupation he has not got to set aside so much to provide for his wife in the event of his decease. She has got something to fall back upon, and to that extent he is better off than his neighbour who, out of his annual income, has to make provision for his wife. Therefore it seems to me that, approaching it from that standpoint, that taxpayer has an advantage which the other man has not. But I do think that in dealing with the income of husband and wife there should be some consideration given; and I would suggest that an extra allowance should be made, according to the scale of the wife's income; that is, that there should be two abatements instead of one.

5855. Then with regard to notice of appeal against assessment; that is purely a little matter of machinery upon which we should like the Inland Revenue to make some concession. I do not think it is a matter to labour.

5856. Then I come to the question of payment of directors' fees "free of Income Tax." There I have quoted Lord Wrenbury's report. It seems to me, and to the majority of my Committee (there may be perhaps some little division over it), that when shareholders vote directors' remuneration, they should

vote to them a specific sum. If they vote a sum "free of Income Tax," what happens is that the richest director has the biggest remuneration, and the poorest director has the smallest remuneration, because of the amount of tax payable.

5857. With regard to Co-operative Societies, I am not going into the whole question of the position of these societies, but I do submit that where Co-operative Societies trade with anybody outside their members, they should certainly be called upon to pay Income Tax upon their trading.

5858. With regard to official forms, I do not think I need add anything to what I have put in the proof.

5859. Then I come finally to the question of exemption, abatement and relief. If I may, I want to read the Resolution of the Council of the London Chamber of Commerce, which was passed on the 12th June. It is this: "That any readjustment of the Income Tax in connection with the lowest scale of earned incomes should be based upon the cost of living from time to time." As I have already said, we do not want in any way to criticise the action of the Chancellor of the Exchequer or of Parliament, but we should like this question of Income Tax to be approached a little more from a scientific standpoint, rather than, if I may say so, from the standpoint of political expediency. If it can be considered that a person is really able to bear in the way of taxation (I am referring now solely to the smaller incomes), having regard to the cost of living, I think the conclusion must be that there are certain incomes which will not admit of a penny of deduction. Unless the subject is approached from that standpoint, there must be agitation on the part of the lowest scale of Income Tax payers against the Income Tax, which is prejudicial to the State.

5860. What do you suggest to us?—I suggest that when one is approaching the lowest scale of Income Tax payers, the subject must be considered from the standpoint of the cost of living. I cannot, for the life of me, understand how Parliament has imposed this limit of £130 for the beginning of taxation. I want to suggest that it must be approached from the standpoint of the cost of living; and if it is approached from that standpoint, then it seems to me that all agitation from the smallest Income Tax payers against the tax must go. We are very much interested in the matter in the City of London, not only from the point of view of the organised trade union wage-earner, but we are interested in it from the point of view of the city clerk and the widow of the city clerk, and all these people with small incomes, remembering how great in diversity the interests of the City are, and we do not want to see these people dragged into an agitation against the tax. But if it can be looked at, might I say, more from the point of view of the advisers of the Inland Revenue, than from political expediency, I believe we shall get a basis of taxation upon which all can agree. Then, having that, we are going to ask that the tax should be enforced against everybody impartially, and not merely against those firms and companies and traders who have good accounts to show, and whose reputations are at stake if they make any false or improper statement. We want the whole country to be taxed on an equitable basis, and we want the tax to be enforced against everybody in the country in an equitable manner.

5861. Have you any suggestion to make about the exemption?—No, my lord; if I made a suggestion, with great respect, I think I should be falling into the error which I have been pointing out. What I say is this, I think there should be a careful inquiry into what a person who is in receipt of a small income can bear in the way of taxation, and the taxation should be imposed as the result of that inquiry. I do not mind by whom the inquiry is made—any persons in whom the Government have confidence; because I am perfectly certain that our civil service, if they went into the question from the standpoint that I have suggested, would very soon be able to advise the Government: "You cannot tax a person who has got less than so much per annum"—having regard, of course, to the existing cost of living, and so on.

Of course, one does not legislate on these matters except from year to year; the subject ought

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to be considered every year from the standpoint I have put forward.

5862. Now you will be interrogated by members of the Commission on some of the points in your statement?—If you please.

5863. Mr. Birley: In paragraph 4, in dealing with Double Income Tax, you say: "In my opinion, no British subject should pay more, in Income Tax, than the highest rate in any one part of the Empire." Do you mean the higher of the two rates in those parts of the Empire with which the trade is concerned?—Which ever is the higher rate in force.

5864. In the two parts of the Empire. Of course, if it is here and Australia, and here was the higher rate, you would take the rate of this country?—Yes. If 6s. was the higher rate, then he should not pay more than 6s.

5865. You point out to us that there is a great difficulty in deciding which country should bear the loss?—That is so.

5866. There is another difficulty, and that is this: in which country has the profit been made? If a manufacturer manufactures here and sells in Australia, is the profit made here or in Australia? We want help on that point?—It is a very difficult point, and one that I am afraid we shall not elucidate by question and answer.

5867. We have to try and arrive at something?—It must be a subject of investigation in each case.

5868. As a general rule, surely, in the transaction of manufacturing and of selling, you cannot say that all the profit is in manufacturing; the transaction is not finished till you have sold and got your money. So part of the profit, at least, will be in each country?—That is so.

5869. We have had three suggestions made to us to remedy this. Sir Frederick Young suggests that the higher of the two taxes should be paid. Mr. Mosenthal suggests that the tax should be that of the country of origin of the profit, but he did not quite agree as to where that profit came from. His idea was rather that it was in the country of manufacture. Sir Charles McLeod thought that the resident should be assessed only on the remitted profits. I take it that in the opinion of the London Chamber of Commerce, Sir Frederick Young's is the best suggestion?—Both Sir Charles McLeod and Mr. Mosenthal are colleagues of mine, but I think I should prefer the policy of Sir Frederick Young.

5870. That would be the view of the London Chamber of Commerce?—I think so. The other two are members of the Council, but the question has never been discussed in the Council from that standpoint. I can only give my own view; I think I should prefer the policy of Sir Frederick Young.

5871. As regards your next paragraph, Double Income Tax (income from foreign countries), if a company removed its offices its shareholders would still remain here probably, and the tax on the dividends would come here?—Yes, you would get the tax on the English shareholders who receive their dividends.

5872. That tax would remain the same?—That does not follow.

5873. But the probability is that it would remain the same?—I am looking at it from the City of London point of view.

5874. May I put it to you in this way: that if the head office were removed, so that there was no longer liability to the tax on the whole of the income, the dividends might be increased for that reason?—I do not quite follow you.

5875. If the head office is removed, so as to escape a very high British Income Tax, the company would have more left over as its revenue?—Yes.

5876. And, therefore, it would probably be in a position to pay a higher dividend?—It might be so.

5877. It probably would be so?—Yes.

5878. Therefore, the dividends sent to this country might be higher, and that would very largely make up the loss?—Looking at it from the country's standpoint, you lose all the influence of that company in trading. You throw it into the arms of a foreign country. That is not desirable from the point of view of the trade and commerce of this country.

5879. When you are considering the United States revenue law, have you considered the fact that other countries derive their revenue from Customs duties, including impositions on this country's imports?—I only mentioned the United States law by way of example.

5880. Do they obtain a great deal of their revenue from other sources, from taxing, not the profits that an English manufacturer makes on what he sends there, but on the goods, which comes to very much the same thing?—I quite agree.

5881. In paragraph 6, do you distinguish between a foreigner and a British subject living out of this country where each derives income from this country?—From the point of view of the investment of capital here, I think the case of both should be considered. We have got to a position in this country where we want to attract capital.

5882. So as to make the position such that it would not pay a Britisher better to invest his capital abroad than to invest it at home. It would have that tendency?—It would be a bad thing for the country. We want to get the Britisher to invest here, and we want to get the foreigner to invest here; we want to get both.

5883. You suggest that a declaration should be made to a British Consul abroad. Are you sure you could get a true declaration? Would not there be a great deal of risk about it?—I will not say it is an absolute safeguard.

5884. It is a risky thing?—But I do feel I am right in submitting this matter to the consideration of the Royal Commission, and I hope you will be able to find some machinery which will deal with it.

5885. Are you aware that a Committee which sat in 1905 recommended the abolition of the exemption of the foreign resident in respect of income derived from this country, and after inquiry they made a recommendation directly opposed to your present proposal?—I take it from you that that is so.

5886. The matter has been carefully inquired into, and turned down?—But in 1905 we were a country which was exporting capital very largely. Are we in a position to export capital to-day? The standpoints at that date and at this date are entirely different.

5887. We have to raise revenue?—I quite agree, but you raise the revenue by increasing the trade and business of the country. If you spoil the business of the country, where is your revenue to come from? You must get the capital.

5888. In paragraph 7 you come to the important question of agency. How would it affect the business of an agent to impose a charge in respect of goods sold in this country, even by a commercial traveller? That means that all goods coming from abroad should pay, if not on actual profit, on an assumed profit?—That means a question of a tariff, does it not?

5889. It means you put agents and commission brokers and all the rest on the same level; that is to say, that with a company selling goods in this country it would not affect his position as to how he sold?—Are you referring to an *ad valorem* charge on all goods coming in?

5890. It practically amounts to that—an assumed rate of profit?—I should want very carefully to consider that before I answered.

5891. Chairman: A tax on turnover.

5892. Mr. Birley: Yes, a tax on turnover, I should say?—I should want very carefully to consider the point before I answered that.

5893. At present your difficulty is that if sold by authorized agents, a tax is paid; if sold by brokers a tax is not paid, and therefore injustice is done?—Yes.

5894. If you had one level, and a tax was paid on an assumed profit on the turnover?—I should object to the assumed profit, to begin with.

5895. How are you going to arrive at the actual profit?—I understood in reply to his lordship you said on the turnover; that would be a different thing.

5896. The only thing is that if you do not take it on the turnover you will have to take it on actual profits?—The turnover and the profits would be entirely distinct.

5897. The turnover must be the criterion?—The turnover, of course, is the gross turnover of the goods,

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whatever the goods are valued at or are priced at, whichever way you take it.

5908. Unless you take the turnover, what figure can you take unless you get actual accounts?—I agree, but, with great respect, you put to me the profit. Are you going on the profit or the turnover?

5909. I made a mistake; it is on the turnover: an assumed profit?—No, I cannot accept that.

5910. It must come to that—a percentage?—Pardon me; there are two things: turnover and profit. Now on which do you want me to answer?

5911. An assumed profit on the turnover?—I am afraid I cannot have anything to do with assumed profits.

5912. It is not unusual; it is done in this country with certain goods?—It is to my mind very dangerous.

5913. What alternative is there?—It seems to me that that is taking a sledge hammer to crack a nut. We have got a difficulty here, and what you suggest would raise a very much larger difficulty.

5914. It is a very serious thing, because it affects other interests. Is there not a strong and constant demand by the British producer—and that is where the difficulty comes in—for the taxing of goods imported by, or profits made by, non-residents in order to place them on an equal footing with the British producer, who has to pay Income Tax. That is where the whole crux of the difficulty comes?—The man in the street is always shouting out: "tax the foreigner," and we all want to know how it is to be done; but I maintain that instead of taxing the foreigner you are taxing the resident agent in London, who is in most cases a Britisher.

5915. Yes, but surely if you tax the resident agent it has got to come to the foreign manufacturer sooner or later?—It is a question whether the foreign manufacturer will pay. You cannot impose taxation on a man who is outside the jurisdiction. If you want to get him you must put a tariff on him and say: "your goods shall not come in unless you pay the tariff."

5916. If you tax that agent and that agent knows he is going to be taxed is he not going to make his agreements with the foreign manufacturer accordingly?—Whether that can be done or whether it cannot be done, I think it would be better, if I might suggest it, that you put those questions to the two gentlemen who will give evidence on that point. I think I prefer to leave it to them.

5917. Then you ask for a definition of the terms "brokers, general commission agents and agents not being authorised persons carrying on non-residents' agencies." Is it not rather a question to ascertain in each case what the man does? I mean, if that broker or that general commission agent offers to the public facilities for doing business with his principal similar to those that would be available if a small branch of the foreign business were set up in the United Kingdom, surely in effect he is something more than a broker or a general commission agent?—I may say this. The language of the Act of Parliament is such that it can only be interpreted by the highest judicial authority. I do not think we ought to be left in that position. It would be a very great deal better if, on the report of this Royal Commission, the whole matter could be made clear. I do not think it should be left to us to have to fight these matters from court to court in order to interpret Acts of Parliament.

5918. What is the effect on the British producer of similar goods if the foreign goods are brought in, through an agent or otherwise, without paying Income Tax and without paying Customs duties; is it not unfair competition with the British producer?—Without paying Income Tax and without paying Customs duties?

5919. That is to say, suppose a foreign manufacturer does not pay Income Tax and he does not pay Customs duties; he pays neither?—My reply to that is that this country can impose such Customs duties as it likes.

5920. You would go as far as this then, that without something?—I was going to conclude my answer

to your question. I say that this country can impose such Customs duties as it likes, and if those duties are not paid the goods are excluded; but I do say also that this country cannot tax a man in Italy or France or some other foreign country; and it is unjust to tax a resident person in this country in order to get at him. I am not arguing the case of the foreigner; I am arguing the case of the British resident in London. That is the man I am appealing for. Let the foreigner make some arrangement with the British Government.

5921. But you have to consider the British producer?—Certainly. I consider the British producer. But it is impossible to tax the foreigner with an Income Tax. I take that as common ground between us; because you cannot enforce the tax. Then my next statement is this: that in endeavouring to tax a foreigner it is unjust to impose a tax on the resident Britisher who is not responsible for it. That is as far as I go. I am not going to argue these questions of tariffs from the standpoint of the foreign trader or the British producer. I do not consider it has anything to do with the subject.

5922. You would go so far as this: that without some form of tax the British producer would be prejudiced?—This seems to me to be a tariff discussion; one that I do not want to get into. I am not authorized to go into the question of tariffs. How to protect the British producer from the foreigner does not seem to me to be a question that arises on Income Tax.

5923. Mr. Bruce: I also should object to any discussion here on the question of tariffs.

5924. Mr. Birley: I do want to point out that British Income Tax paid by British producers is a tax on the British producer if the foreigner does not pay something similar?—My answer to that is this: very well; tax the foreigner if you can do it. I leave that to the Royal Commission.

5925. Then you would agree, if the foreigner can be taxed for Income Tax, that it should be done?—I do not know whether I agree that it affects the matter. You put a hypothetical question to me and I answer it in that way.

5926. Do you consider that if a method can be found to tax the foreigner it would be a fair thing to do?—In relation to Income Tax it really seems to me to be so remote and so impossible that I would rather not discuss it, with great respect, unless I am pressed; I do not see to what point it leads.

5927. Very well; I will leave it at that. Are not the profits made by a British importer taxed in foreign countries and the Dominions either by Income Tax or Customs duty, whether or not the sale is made in the foreign country, through an agent?—With regard to the Dominions, I am sorry to say there is a great deal of taxation to which we object, and I have been to Mr. Hughes on the matter, and I wanted to go to Mr. Massey on the matter, but unfortunately he escaped us and got back to New Zealand. This arises to a very great extent from the way we deal with these matters here. The Dominions copy us. They see the class of taxation we impose here, and then they impose a similar class of taxation on our manufacturers who have agents in Sydney and Melbourne, and other places. These agents are being taxed on the amount of the whole of the turnover unless they make a declaration. We have made strong objections to this being done, but I think what the Dominion statesmen rather feel is: "put your own house in order and then we will put ours in order."

5928. The Dominions now generally charge an Income Tax based on the percentage of the value of the goods sold?—Yes, I know, and I strongly object to it. It is very wrong, I think.

5929. I put it to you that the general effect of your proposals is to protect the agents of the foreign producer at the expense of the British producer?—I do not admit it at all.

5930. Is not that the effect of it?—No, certainly not.

5931. Chairman: That is your answer?—That is my answer, my Lord.

5932. Mr. Birley: Now leaving that point, I come to paragraph 11, about not keeping books. Are you

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sure that there is not a chance that the small traders, keeping no books, do not as often pay on more than they make as on loss, knowing the Surveyors of Taxes as you do?—I am not competent to give an opinion, because I do not act for these small traders; therefore I have not the general experience. But in these days of education I should think a small trader could keep a set of books and find out what his profits are. I think these people are generally pretty shrewd.

5923. *Chairman:* You suggest that Parliament should enact that they should keep books?—Every body who trades should keep books.

5924. *Mr. Birley:* In paragraph 14 (b) you suggest that rates for depreciation allowances should be settled between the Chambers of Commerce and the Board of Inland Revenue?—I rather suggest there that the trades should be grouped. We should try and group all the trades of the country.

5925. Not the Chambers of Commerce but the trade associations should do it?—I suggested the Chambers of Commerce because all these trades are in Chambers of Commerce, and they would simply endeavour to get the trades grouped together; but of course other bodies could assist them.

5926. There is one matter in paragraph 15 (A): 'subscriptions to bona fide trade and commercial associations.' You suggest that those should be allowed?—I do.

5927. They are allowed at present if those trade associations pay tax themselves?—Yes, if they pay tax themselves, but some of them do not; and I do not think they are liable to pay tax either.

5928. On the question of Income Tax on married persons you gave us arguments on both sides, so that you clearly see the difficulties; but is there really any reason for granting to a man and his wife, each say with £300 a year, larger allowances than would be granted to a man with £600 a year, or to a widow with £600 a year?—I would make that concession. There are two incomes here of two people. There is a very great deal to be said for the separate assessment.

5929. There are difficulties. You do not think that the difficulty would be better got over by a larger allowance?—No; I am suggesting a double abatement.

5930. You do not think the other would be simpler?—This is where the injustice possibly comes in. Where in making a total return of income you add the two together and it puts the total income into taxation on a higher scale; that is where I think the trouble comes in mostly.

5931. On the question of Co-operative Societies, do you mean that a tax should be paid on the amount of the trade with non-members?—Certainly.

5932. So that all Co-operative Societies doing trade with non-members should be assessed on their full profits?—I have carefully left the whole question of Co-operative Societies; and the reason I have done that is that I have not myself a very deep knowledge of the Co-operative movement, but I do feel that where they trade with the public in competition with other traders they should pay tax on their profits.

5933. Are you aware that not only do they trade with the public but also they trade in a wholesale way by taking Government contracts, and so on?—Yes, quite.

5934. How would you keep those profits separate? You merely wish to point out that it is a question that should be gone into?—Yes. I do not say that the matter should not be gone into more deeply, but I want to confine my evidence to saying that decidedly in my opinion where they compete for general trade with the public then they must be dealt with like the general public are.

5935. *Mr. Brace:* You say that in fixing the exemption allowance for Income Tax you would have regard to the cost of living?—Yes, certainly.

5936. Then your considered judgment is that in arranging the tax it ought to be scientifically arranged; that the cost of living should be the standard, a changing standard according to the cost of living, do you suggest?—I think it should be considered year by year, having regard to the general standard.

5937. How will you arrive at the cost of living for this purpose?—I do not propose to arrive at it; I propose to leave that to the advisers of the Government.

5938. You simply enunciate the general principle?—I simply submit the general principle.

5939. What figure do you think should be the exemption standard to-day, taking the cost of living as you know it to be?—The Chairman, I think, put that very same question to me and I preferred not to answer; because I would immediately negative my own principle. I say, investigate; and the result of the investigation will show you what the amount should be. I have not investigated, and therefore I do not think I ought to give an answer.

5940. You would not agree to give an answer with any reservation?—No, I would not. I think the independent advisers of the Government—and the Government have plenty of them—are the people who should advise them on the subject.

5941. In arranging the exemption allowance, whatever it may be, should it be arranged individually, that is, recognising a man and his wife as two separate persons for this purpose rather than taking them as one entity as at present?—Would you mind repeating the question? I did not quite follow it.

5942. Supposing the exemption allowance is, say, £200; that is, a bachelor would get £200. The point I want to put to you is this—and there is no reason why I should not put it quite frankly to you. The bachelor would get £200?—Yes.

5943. And a man and his wife would get £400?—I believe under the existing scale a bachelor gets less than a married man. Whether those scales should be elaborated or not is rather beyond the question.

5944. I know what they get now. I am asking this. This Commission has to make recommendations to the Government and this is one of the points they have to make a recommendation upon, and I am putting the point to you as to an experienced accountant with great knowledge of public affairs. What in your judgment should be the recommendation? Should the married man and the bachelor have the same exemption allowance, or should the wife have the same exemption allowance as the bachelor; that is, two exemption allowances in one family?—No, I do not think I am prepared to go as far as that.

5945. What would you be prepared to say?—This is just one of those things that I should like carefully to work out and not to give an off-hand answer to the Royal Commission. I think I should do a great deal more harm than good in attempting to do so.

5946. It is because I thought you were just the gentleman who would have worked it out that I was anxious to put this question to you?—I have been very careful to say that I have looked at these matters from the standpoint of trade and commerce; I have not investigated that part of the subject thoroughly.

5947. I should like to get somebody who could give us a little help upon this point, because it is one of the questions in which I am deeply interested. If you cannot help us it is no use my putting it to you?—I think I would rather not follow it if you have no objection.

5948. *Mr. Marks:* May I ask you one or two questions on the insurance point? First of all, on your paragraph 15 (b), "Accidental losses not covered by insurance," where you suggest that the trader who does not insure should be entitled to set off against his profits the loss of buildings as the result of a fire, or alternatively he should have an annual allowance of an amount equal to the amount required to pay premium for necessary insurance?—I am rather dealing with the cases of those people who either cannot insure at all or who, if they do insure, have to do so at what I call a ruinous rate. I do not think I want to go much beyond that. Every other man has the opportunity of protecting himself at a moderate charge.

5949. I was going to ask you whether it might not result in a man putting aside more than was an adequate amount for the insurance which he ought perhaps to have made or could not make?—That has to be guarded against. I do not want to open up any avenue for fraud.

5950. Then on your paragraph 18, with regard to section 33 of the Income Tax Act of 1918. Will you

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forgive me saying that I do not think the intention of that section is what you imply in your paragraph 18. That section was to enable Life Offices and similar businesses to obtain a return of Income Tax in respect of their expenses of management only?—Of course I must have great respect for your opinion on the matter, but I can only read the Act as it is set forth; and I do know of a case—in fact, there is more than one that I know—where there is considerable hardship inflicted by the investments being taxed at a higher rate than the profits of the business.

5951. Life Offices, at any rate, would be very glad to have your support and the support of the Chamber of Commerce in their campaign for the readjustment of taxation, but I think you have gone a little off the line here. Probably what you had in mind was that if they were taxed on their interest, and their profits were shown to be less than their interest, then they ought to be entitled to a return of Income Tax?—Yes, quite.

5952. You say that a single premium Life Assurance payment should be allowed as a deduction?—Yes.

5953. You agree there is nothing in principle against that. If a man likes to divide his single premium into two and pay it in separate years, he would be entitled?—A single premium seems to me to be simply an anticipation of a certain number of annual premiums. A man might have the money available and say: "well, I will pay it down now instead of paying it year by year."

5954. Within the limits allowed?—Within the limits allowed.

5955. Mr. May: You said you did not know very much about the working of Co-operative Societies?—I said I have never made it a study.

5956. But your evidence here does represent, may I take it, the position of the London Chamber of Commerce?—Yes, quite. My standpoint is one from the general point of view of trade; that if you trade with the public, you ought to be treated as the general public are. I do not think my paragraph goes much beyond that.

5957. This is the position taken by the London Chamber of Commerce?—Certainly.

5958. And the whole of the position?—No, I did not say that. It is the position that I am asked to put before the Royal Commission. The London Chamber of Commerce, I believe, have a great deal more to say about Co-operative Societies than what is in that proof.

5959. I mean in relation to the Income Tax?—That is all I am asked to put before the Royal Commission to-day.

5960. Do you suggest this is not the whole of their case in relation to Income Tax?—No; in relation to Income Tax, this is all that I am asked to place before the Royal Commission. I think that is a specific, clear statement. I am not asked to put forward anything else in regard to Co-operative Societies to-day, or any time, before this Royal Commission.

5961. May I ask then if it is the whole of your case in relation to Income Tax?—It is the whole of the case that I have to bring before this Royal Commission. If you are going to ask what is inside my mind, that is quite another matter; it would lead us into a very long discussion, which would not be of any profit, I think.

5962. You have already admitted that you do not know very much about these organisations?—No, I have not admitted that. I have made no special study of the matter.

5963. One function of the Commission, besides receiving information, is sometimes to impart it?—I shall be very glad if you will give me some information.

5964. In paragraph 22 you say that it was not the intention to allow them to trade with the general public, as they do to a considerable extent?—I think that is so.

5965. It is no use my asking you if you have any figures to support that. May I ask you whether you would be surprised to learn that normally the "considerable extent" is less than one half per cent. of the total?—I have not a figure; I will take it from you. If you say that is the figure, I will accept it.

5966. Would you consider that a considerable extent?—It depends upon your turnover. I believe your turnover is enormous.

5967. I think you had better refer to the turnover of the Co-operative Societies, not to mine?—I mean the turnover of the Co-operative Societies is enormous. I do not think you ought to trade with the general public unless you accept the same obligations.

5968. Then I expect you would be surprised if I were to suggest that the societies, and the movement generally, do accept the same obligations as the general public, and claim that they fulfil them?—In regard to Income Tax?

5969. Certainly.—I am glad to hear it.

5970. In the next sentence you say that during the war these societies have obtained large Government contracts?—Yes.

5971. Do you base your position generally in this paragraph on the transactions during the war?—No; I think it leads to the conclusion that the Co-operative Societies, like a great many more people, are out for profit.

5972. Are you aware that they have been compelled to take these Government contracts, and that their own business, like the business of other people, has suffered a great deal in doing it?—I am glad to hear that under the Defence of the Realm Act you have not escaped.

5973. Has there ever been any suggestion that under the Defence of the Realm Act we have?—No; I do not make it.

5974. Would you mind answering my question, then? Are you aware that the business of the societies, in many cases, has been considerably crippled, not only by the commandeering of their premises and plant, but by their voluntarily relinquishing it for the good of their country?—I should be very surprised to hear that you had not done everything in your power towards the prosecution of the war, like other people. I should be more surprised to hear that.

5975. I simply ask you if you are aware of the fact that large plants have been taken, and factories as well, by the Government, and that the staffs of these organisations have been required to work for the nation's good; and presumably on the results of those transactions you now make a special plea for their taxation to Income Tax. That is my point?—If they made profits out of those transactions, I say they ought to pay taxes, like other people. Other people who have taken profits from the Government have had to pay taxes.

5976. Is it not possible for you to give me an answer to the question I put to you?

5977. Chairman: Mr. May has asked, are you aware of a certain thing? Now could you not answer whether you are or not?—Yes, my lord, I will answer at once. Personally, I am not aware of it.

5978. Mr. May: Then you may accept my assurance that to a very large extent it has taken place?—Certainly. I offered to do that before the argument took place.

5979. Then presumably you are not aware that the majority of those contracts have been carried out in some cases at a loss, and in many cases without producing profit at all?—Very well; then there is nothing to pay on them; and if you have made losses I should say you should be entitled to set them against profits. I do not want Co-operative Societies unjustly treated.

5980. But you ask for special treatment to be meted out to them because they have carried out those contracts during the war?—Certainly not; I do not ask for anything of the sort. I say where they trade in competition with the general public they should be taxed, as the general public are. My whole contention with regard to these Income Tax laws is that we must have equality of administration.

5981. Do you suggest there is not equality of administration at the present time?—In my opinion there is a great deal of leakage.

5982. This is not a question, surely, of leakage from administration that you propose here, but it is a question of the application of the tax?—My whole evidence to-day has been to show, not only on this particular point but on other points, that the collection of the tax might be improved and the yield made larger.

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5983. This is a paragraph of your evidence which is not devoted to the general question of collection, but to the special case of Co-operative Societies?—Yes, and it is a very narrow paragraph, and one that does not seem to me to admit of a great amount of argument.

5984. And to which you apparently do not attach very great importance?—Pardon me; I attach very great importance to it.

5985. Very well then, it is worth while pursuing it a little further. You say that you do not desire that any special exception should be made with regard to Co-operative Societies in applying the tax. Is that so?—I am not prepared to go into the whole question of the trading of Co-operative Societies, and I have limited my recommendations to what appears here in print. I submit that the case will be met by making liable to Income Tax such Co-operative Societies as trade with anyone outside their registered list of members. That recommendation is very clear.

5986. Very clear. There is only one question more I will ask you. You have accepted my statement that normally the trade of Co-operative Societies, which you desire to tax, is not more than one half per cent?—Certainly, I accept your figure.

5987. Do you think it worth while making a change in the legislation in order to secure a tax on one half per cent?—Yes, I do, most decidedly.

5988. Mr. Walker Clark: Just one or two questions on the matter of evasion of the tax. Do you suggest that those traders who evade the tax are small traders solely?—No.

5989. Not so much on evasion, as the man who does not keep books?—The man who does not keep books. I do not suggest that they are always small traders. I suggest that they are people who would probably be able to produce a set of books, who are in a larger way of trade, but they do not contain all their proper entries.

5990. Would you suggest a statutory form of book-keeping for this purpose?—No, I do not think I would go as far as a statutory form of book-keeping. I suggest what is printed here. Such books of account as are usual and proper in the business carried on, and as will sufficiently disclose the business transactions and the financial position. I do not want to go farther than that.

5991. Books approved by whom? The point I want to get at is this. You know perfectly well that accounts are frequently submitted to Surveyors which are not acceptable?—Yes.

5992. What I want to get at is, in what form you suggest the traders should present their accounts, if they keep them, in order to secure the assent and passing by the Surveyor?—In what form they should present their accounts?

5993. I will put it in another way. Would you suggest that all the accounts should be submitted by a public accountant?—I expressly said in my statement that I would not go as far as that. I want the books kept.

5994. I accept the answer; I do not want to go further into that point. In reference to depreciation, wear and tear, and so on, you suggest an appeal to a special board, a new authority?—Yes, if we cannot agree. I think you know that the number of cases of disagreement is very much smaller than the number of cases where we can agree; still, where there is a difference, I would like to go to a special board.

5995. That is the very point I wanted to get at. The number of cases of disagreement are very few?—They are a minority.

5996. Very few?—Yes.

5997. Speaking as a Commissioner, I remember only about six cases during the last two years in our district?—I am perfectly prepared to say that I do not think the number of appeals would be large. There is generally a spirit of sweet reasonableness on both sides, and I think it would lead to agreement.

5998. You suggest that there should be an agreement for a general rate of depreciation in certain industries?—Yes.

5999. Is it not a fact that the same industry varies very much indeed in different districts?—That is so.

6000. So that it is almost impossible to arrive at what is the fair rate of depreciation on a flat rate?—I quite agree there are these difficulties, and that is why I think it is worth an attempt to see if we can group industries. Of course an industry in one part of the country and an industry in another part might vary.

6001. Therefore the Local Commissioners come in, and the central board fails, because the Local Commissioners know the district, and the central board do not?

6002. Chairman: Your point against the witness is that you believe in Local Commissioners as against the central board?

6003. Mr. Walker Clark: That is exactly the point. (To Witness) With reference to agents, it is not a fact that a good deal of the trade which is done by these agents on behalf of foreign firms is described popularly by the word "dumping"?—I do not know of that, and I have not heard it alleged in the London Chamber of Commerce.

6004. Generally speaking, your evidence would be confined to the London district, rather than to the country districts?—Certainly; I give evidence on behalf of London only.

6005. This evidence, I take it, has been in the main principles approved by either a large committee or by the Council?—By a committee.

6006. And that committee included traders?—Yes.

6007. And the traders agreed in the main?—Yes.

6008. Mr. McLintock: I would like to ask you a question about paragraph 9 of your proof, "Evasion of Income Tax and Super-tax." Your remarks generally refer to Income Tax?—Yes.

6009. You make a very definite statement there that there can be no doubt that a large sum annually is lost?—Yes.

6010. Can you give us any idea of the amount, or the ground for that statement?—No, I cannot. All I can say is that from my personal experience I know that revenue is lost.

6011. You said that you have no personal professional experience of the small trader?—With the shop-keeper. I think that was the question put to me. You must limit it to that. I think the word "shop-keeper" was put.

6012. I think there is probably a popular fallacy that there is a large sum of tax being lost, and the Commission naturally are very anxious to find any source from which additional revenue can be obtained which is presently being lost, in order to help to make up for all the claims that are being made to the Commission for relief?—Certainly.

6013. Do you seriously suggest that there is much more revenue to be got from the small trader who fails to keep books, by more correct accounting on his part? There may be a great many, but is there much revenue to be got? He is the man generally who does not keep books: the grocer, the baker, and the butcher; he knows how much is in the bank, and he knows how much he spends, perhaps, and he knows how much meat he takes out of his shop, and so on. But is there much tax to be got from that source?—I should say there is a good deal.

6014. Can you put a figure to it?—No, it is absolutely impossible.

6015. You see, you make a very definite statement here: "there can be no doubt"?—Yes; I say there is no doubt that there is a large sum lost to the Revenue because people either do not keep books, or, if they keep them, they keep books which are more or less useless; and I use that as an argument that the State should prescribe that every man in trade should keep proper books of account, and I think it would not be a hardship upon anybody.

6016. I suggest to you that it would be more correct to say: "there may be some doubt"?—No.

6017. On the question of the other type of evasion, you refer to the wealthy individual who goes about and lives in expensive hotels?—I do not think I said "wealthy" and "expensive." I said there are individuals who wander about the country and evade taxation.

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[Continued.]

6018. Mr. May: And live in expensive hotels?—It does not matter; I do not know whether I said that or not.

6019. Mr. McLintock: I would suggest you are referring to what I might term the wealthy wanderer?—Yes, there are such people. I know such people.

6020. Do those wealthy men, as a rule, not draw their incomes from sources which are taxed?—I said in my examination that a good deal of their income was taxed at the source. I admitted that.

6021. Then there is not much evasion there?—Not where they are taxed at the source; of course they cannot evade then.

6022. The reason why I put that question is this. It is very desirable that, if the popular belief that there is a large sum being lost is wrong, it should be cleared up, because if the other reliefs are to be given, it means a higher tax to the present taxpayer. There is one point of evasion you did not touch on, in regard to the Super-tax, namely, the case of the private limited company which retains in the business large sums of profit, and does not pay them as dividends. Has that come to your knowledge?—I know that reserves are created, but I am not aware of improper reserves being created.

6023. I am not suggesting improper. Has it come to your knowledge that in many private limited companies where the shareholders are practically the managers and directors of the business, they declare a dividend sufficient for their immediate wants, and retain the balance in the business?—And the Inland Revenue get the tax on the profits of the business.

6024. What about the Super-tax? I will put a specific case to you, or a type of case. Say three people are interested in a limited company, and they have income from other sources, and they decide to draw no dividend whatever from the limited company, which makes large profits. It is their income, nevertheless, but they only pay Income Tax on it, and not Super-tax. Has that type come to your knowledge?—I have seen such cases, certainly.

6025. I suggest to you that there is a fund where there is a legal evasion—I do not mean a fraudulent evasion, but a legal evasion—which may produce a large sum of tax?—It must depend upon the facts in each case; and I do not believe that those funds are accumulated in that way for the purpose of evading Super-tax or any other tax. You have to create capital somehow or other, and many of these companies would have gone clean to the wall, had it not been for that prudent management which has kept the profits in the business, especially during the war, when they have not been able to raise capital.

6026. I quite agree with you.—And the State gets the benefit of that capital year by year.

6027. Suppose the individuals in question, in a case such as I have given you, take a loan from the company, as it does not need the capital?—If any of those individuals are getting up a sort of tortuous avenue for the purpose of defrauding the Inland Revenue, I have no sympathy for them, and the sooner they are caught, the better. That is another question; but to allege, if it be alleged, that these profits are accumulated in business for the purpose of evading Super-tax, is, to my mind, nonsense.

6028. Have you never heard of the formation of a trust by an individual with a large income?—I have heard of all sorts of frauds.—But the great majority of our trading is honest.

6029. No; they are not frauds?—But the great majority of our trading is honest. There is a minority always out to evade their obligations as citizens; those people I should like to catch.

6030. I do not suggest that what is being done at present is dishonest; it is legally a quite proper thing to do. Do you approve of legal evasion of that type being prevented?—I have first got to have it proved to me that it is a legal evasion.

6031. Chairman: Have these cases to which Mr. McLintock is referring, come to your notice in London?—I have said that there are many cases where profits are allowed to accumulate in a business—in companies, but that is for the purpose of creating capital to carry on business.

6032. Going on the lines of Mr. McLintock's questions, have you, in your experience, come across those cases?—Certainly, but not for the purpose of fraudulent evasion of any taxation; I certainly have not.

6033. Mr. McLintock: I did not use the adjective "fraudulent"?—Personally I call a fraud a fraud. I do not care about mining matters.

6034. Are you in favour of tapping that source for Super-tax, for example, which escapes at present?—The matter wants very careful consideration.

6035. That is all you can say?—Yes, that is all I can say.

6036. On the question of depreciation, I suppose it is within your knowledge, as it is very much within mine, that generally speaking, the Local Commissioners have not very much to say in the setting of rates of depreciation between the taxpayer and the Inland Revenue to-day, in reality?—I think the different agents of the Inland Revenue express their views on all these things very freely.

6037. That is not my point. Take one of these groups of trades. There are many of them who have made arrangements with the Inland Revenue at present?—There are some.

6038. A group of taxpayers, or an individual taxpayer, goes direct to the Inland Revenue, and he produces to the Inland Revenue the facts regarding his particular plant and machinery, and he satisfies the Inland Revenue that a certain percentage is a fair rate, and they settle it between them?—Yes.

6039. While the Commissioners may give some formal approval, you never meet them, and they never come into the picture at all?—Are you referring to the General Commissioners?

6040. I refer to all of them, General and Special?—Where the Inland Revenue settle the rates with you, of course they do not interfere. In fact, in nine cases out of ten, one never gets to the Commissioners at all; you settle it across the table with the Surveyor.

6041. Your proof indicated that the General Commissioners had not sufficient knowledge to settle an important question like that?—I was referring to a clause, I think it is in the Finance Act, 1918, section 24. I believe that certain rates are agreed upon, but it is subject to the approval of the Special or General Commissioners. I hope I am quoting it rightly.

6042. I suggest that is put in because they do not want to slight the Commissioners?—That is all I was referring to, and I say that these General Commissioners, as a rule, do not know very much about these questions of depreciation. But I am prepared to go farther than that, and I say that in the great majority of cases these questions are settled with the Surveyor across a table.

6043. Or the Board of Inland Revenue at Somerset House?—Or the Board of Inland Revenue at Somerset House.

6044. And, generally speaking, if you can put up a fair case for a certain rate you get it?—I am making no attack of any sort on the Board of Inland Revenue or their agents.

6045. Then there is the case that is put of inadequate depreciation allowance. I suggest it is the exception rather than the rule?—The allowances are as prudently set aside in commercial accounts as are often not recognized by the Inland Revenue.

6046. Do you, as an accountant, admit that it is very risky to allow every taxpayer to be the judge of the prudence of a given amount for wear and tear?—Yes; of course a man must not be a judge in his own case; I quite agree with that.

6047. On the question of Co-operative Societies, I want an answer from you as an accountant this time. Would you agree with the proposition that every Co-operative Society should state on the face of its accounts the profit made from trading with non-members, as distinct from profit made with members?—Yes.

6048. Do you agree that it would be necessary to ascertain the dividend, and therefore the rates to all members?—Yes.

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6049. And it should not be a difficult accounting problem?—No.

6050. Then we come to the general principle of profit made on the members' trade. Do you personally hold the view that as regards the members' trade it might not be worth the while of the State to go to the trouble of having assessments?

6051. Mr. Bruce: The witness just now said to the Commission that he did not know anything on the subject; otherwise I was going to examine him.

6052. Mr. McLintock: I am putting to him a general accountancy question that anyone with merely a knowledge of accountancy can answer.

6053. Mr. Bruce: It is more than that.

6054. Chairman: I was going to suggest that the matter of Co-operative Societies comes on as a separate point with us a little later on, and therefore we might leave that.

6055. Mr. McLintock: Very well, I will leave it. There was another point, but I will not put it. Now, on the question of trade associations, do you know that it is not unheard of for some trade associations to accumulate large reserves out of the subscriptions or levies paid by their members?—Naturally they expend out of their annual income what is necessary and the rest they put by.

6056. And sometimes it is pretty substantial?—It may be.

6057. That should not escape tax, should it?—Then if that is going to be taxed I shall want everything gone into—clubs, for instance.

6058. I am not asking you about anything but the one point at the moment. You seemed to express an opinion that you were not altogether favourable; you said they were not legally liable?—I stated what I believe to be the fact; that they are not legally liable and that the Inland Revenue cannot enforce the tax against them at the present time. I feel quite sure that if they could have enforced it they would have done so.

6059. I do not think probably they would deny that, but still it is desirable that that particular type of contribution should not escape taxation?—I do not agree with you.

6060. Even by agreement?—I do not agree at all.

6061. Yet you have just expressed a desire that no one should escape taxation as a general proposition?—But where a man pays a subscription to an association which is carried on for the purpose of protecting and promoting his interests, that association being one registered not for profit, and no dividend can be declared by that association otherwise it loses its licence, surely there is no income there liable to Income Tax.

6062. I am not talking about a five guinea subscription; I am talking about an annual contribution to a trade association?—I am afraid, unless it is a specific subscription, I cannot follow it. I do not quite know what class of association you are alluding to.

6063. Do you mean you professionally do not deal with any of these trade associations?—Yes, I deal with a number of them, but I do not quite know what is in your mind at the moment.

6064. Where members contribute levies on their output?—That is not what is in my mind here.

6065. That is the type of association that makes the arrangement with the Inland Revenue to-day; that is not what is in your mind?—I am referring more to associations which are carried on under licence by the Board of Trade.

6066. I was not referring to those?—Those are the associations I have in mind, where they cannot distribute any portion of their funds by way of dividend.

6067. You do not suggest the type I have put to you should escape taxation?—I should have to go into the question. I am afraid I could not answer that off-hand.

6068. On the question of the holding of securities, which is in paragraph 18 of your proof, I think your statement does not exactly convey the meaning of the section. An insurance company is entitled to a deduction from its taxed income in respect of the expenses incurred. You make no reference to that there, do you; you make a general statement?—I am sorry the quotation is not set out.

6069. It is rather material when you come on to the second part. "There are many businesses outside those expressly named which regularly invest funds as a part of the business, and where Income Tax deducted at the source on the yield from such investments exceeds the actual profits of the business?"—Yes.

6070. What sort of business have you in mind?—I had in mind the merchant banking business when that paragraph was put in.

6071. Will they not get a deduction for the expenses of their business, from whatever profit they make?—No, I understand not from the income derived from investments; they are taxed at the source.

6072. Why are they?—Because that income is part of the income of the business.

6073. For Income Tax purposes, if you assume that their expenses exceed their interest, there would be a loss?—Yes.

6074. Is there not a remedy under the Act for rectifying?—I suggest not in these cases.

6075. I suggest there is relief for such a case as I have just put to you?—I am advised by an eminent firm in the City of London that there is no relief for them.

6076. We will take specific facts before a general statement?—You must understand this: that I have had the facts given to me, but I do not want to disclose to the Royal Commission the names of the people who have entrusted me with the facts; but I think the Commission will take it from me that this is an actual case which has been given to me by a well-known firm in the City of London whose name would be known to nearly all the Commissioners present.

6077. Chairman: You accept that, Mr. McLintock?

6078. Mr. McLintock: Yes, I do; but my point is merely this: that this statement goes down in evidence that such a thing happens, and it is not quite correctly put, I suggest?—All I can say is that I put it to the best of my ability, and I am sorry if it does not come up to expectations. I have done the best I can; I cannot say more.

6079. Chairman: Both Mr. McLintock's questions and your answers will come out in the evidence.

6080. Mr. Mauville: In connection with paragraph 21 of your proof, I expect it is within your knowledge that other witnesses who have appeared before the Commission have not only objected to the payment of directors' fees free of Income Tax and Super-tax, but have also objected to dividends being paid by companies "free of Income Tax"?—Yes, I have heard of that.

6081. Do you agree with that?—I do not think I am prepared to go as far as that.

6082. Would you take the view that, especially in these days when the Income Tax is as high as it is, it is quite a serious thing for a company issuing prior securities to pay them "free of Income Tax" up to a certain point so as to get automatic relief?—Yes. I am not prepared to go as far as these witnesses. I have heard of that evidence, but I am not prepared to adopt it.

6083. Sir W. Trower: Sir James, we have the great advantage of your presence to-day; may I ask you a general question? May I put it that the savings of one year are required for the extension of the business and for renewals and improvements in the next year?—Yes, certainly.

6084. I may put it to you in that way?—Yes, I think I can accept that.

6085. That being so, in your experience has the present rate of taxation diminished savings so as injuriously to affect the trade?—I certainly think a high Income Tax must have an injurious effect on trade; but under existing conditions I am not prepared to condemn the high rate, because of the purposes for which it has been levied.

6086. My object in asking the question is to know whether the present rate of taxation has or has not affected trade. Perhaps you cannot answer my question?—I am not prepared to say that it has affected trade; it has certainly affected people's incomes derived from trade.

6087. And it has therefore precluded them from saving money and putting it in their business?—Certainly; it must have that effect.

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6068. Therefore it has prevented some embarkation of capital in business for extension?—Yes, I quite follow, now. Owing to the high rate of Income Tax one has not got the same amount of savings to invest in business.

6069. Have you at all considered whether the present rate of taxation is the limit which can be placed on the subject without detriment to trade?—I should say if it went any higher it would be really—I do not want to use an exaggerated word, but I think it would be a great hardship.

6070. Mr. May: May I ask whether Sir James is now expressing the view of the London Chamber of Commerce or his own view?—I cannot in cross-examination say whether I am expressing the views of the Chamber on something that is not before the Chamber.

6071. Chairman: You know the reason why Mr. May asks you, of course?—Yes. I could not be cross-examined at all if I had to refer every answer to a Committee.

6072. Mr. May: It is a pity you did not realize that earlier.

6073. Chairman: A Commissioner can always ask a witness whether he is giving his own views or the views of the Chamber of Commerce.—My lord, I do object to the remark Mr. May made to me. He said it is a pity I did not realize it earlier. I have endeavoured to come here and give the best assistance I can to this Commission.

6074. Mr. May: I submit, my lord, that most obviously Sir James refused to answer my question, and I think I am justified in suggesting to him that it would have been well if he had remembered earlier that he need not apply to the Committee every time he answered a question.

6075. Witness: My lord, I leave myself in your hands.

6076. Chairman: There is, in Commissions, a little feeling evolved sometimes on personal matters, and you cannot help it. I think we can both let it pass. We are on too big a subject to deal with these things, so we will just pass that little incident and will ask you to answer the question that Sir Walter Trower has put.

6077. Sir W. Trower: I think you have given me an answer to my question. In your opinion, so far as trade is concerned, are the incidence of the Income Tax and the incidence of Death Duties inseparably connected as they affect capital?—Yes, they both have an enormous effect on the question of accumulation of capital.

6078. So far as income is concerned it is necessary to provide for Death Duties by an annual saving, is it not?—They must be provided for in some way or other.

6079. Then do you answer my question that they are inseparably connected? It is said, I think it was by Sir William Harcourt, that Death Duties are really a deferred Income Tax. Do you regard it in that light?—I am not prepared to adopt that in its entirety.

6100. Sir J. Harwood-Bauner: There is just one little point with regard to payment of directors' fees "free of Income Tax" that I should like to put. The question was put to you about dividends and you say you have not a very definite opinion upon that?—I do not think I am prepared to suggest that a law should be passed to prevent dividends being paid "free of tax." I am not myself quite sure who could benefit by such a law.

6101. What about officials, managers and clerks; have you any objection to their being paid "free of Income Tax"?—Not so long as everybody who ought to know knows exactly what they are being paid.

6102. Then your animus really is against directors?—The point of view with regard to directors is exactly what I have put before the Royal Commission: that the better off a director is, the bigger the amount of tax which is paid for him. The shareholder does not quite know what the director is getting.

6103. Mr. McIntock put a question to you about Super-tax upon amounts of revenue placed to reserve. Is it not possible, without imputing any fraudulent intention as regards that amount of revenue placed to reserve, that Super-tax might be obtained on such

sums placed to reserve without any detriment to the general interests of the country? For instance, I will put this question. There have been lately very numerous clever resolutions drafted by the legal fraternity, declaring that reserves out of profits are converted into capital, and then those reserves out of income are distributed in bonus shares to shareholders and are being received by them as capital and held as capital, and they pay no Super-tax. Would it not be possible that some regulation might be made in reference to that, so that those distributions which are really revenue distributed might be brought in for payment of Super-tax?—Yes, I think so.

6104. That would bring in considerable sums of money?—Quite.

6105. Then in paragraph 15 you give a list of items which you say should be allowed as charges against profits for Income Tax purposes. It is a very limited list, is it not; for instance, you do not deal with the capital expenditure of a coal mine and sinking?—That is so; it is very limited.

6106. You do not deal with goodwill or purchase of leaseholds?—No.

6107. So you did not intend this to be a complete list of these items?—No, that is so. I rather want this part of the subject dealt with in detail, which I have not done myself.

6108. You only put a limited number in?—Quite. I admit there are more to be added.

6109. Then as regards evasion of Income Tax; perhaps you put it rather largely in stating that there are a great number of persons liable who evade. Is it not a fact that when it is generally known in a city or town that there are people who are trading who do not pay Income Tax, but are yet making money, it is very detrimental to the general moral feeling of the community, who know these people are making profits and yet do not pay?—That would be so in the smaller towns, but I think in the great cities the general public know very little of what is going on. Of course some of us who dive beneath the surface have different ideas.

6110. You mentioned people living in hotels. Is it not the fact that those people who make those profits are living in very small offices and garrets, and are carrying on large businesses in produce, cotton, wool, timber, and other trades?—Yes.

6111. And by doing so and living in small premises they very largely evade Income Tax?—Yes.

6112. That information comes to accountants?—Quite.

6113. Is it not the fact that to accountants comes from time to time evidence that big businesses are being carried on in very small ways?—That is so.

6114. You suggest it and put it upon the Royal Commission and the Inland Revenue authorities to find out how to obtain this information. Is there no way that you could suggest of having some list of traders kept upon whom the Income Tax authorities might put pressure for information? I do not mean to say that every trader should take out a licence, as a man takes out a licence for a dog, but would it not be a good thing that everybody who does trade should be required to take out some sort of licence so as to put on record that he is at liberty to trade, and then, if his trading were followed up, information would be obtained and he would be brought in for purposes of Income Tax?—I think that any person who commences any trade or occupation might be called upon to give notice to the authorities. I should object to anybody being licensed; but it might be incumbent upon any person starting in a business occupation, or anything of that kind, to give notice to the Inland Revenue authorities that he has commenced business. Something of that sort might be done.

6115. That is very much the same thing?—Yes.

6116. And anybody trading without that notice should be liable to be called up before a magistrate and fined, very much in the same way as a man is fined for keeping a dog without a licence, or for not taking out his armorial bearings licence?—It would be something like a limited company having to give notice of its address.

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6117. The laws as to secrecy as regards Income Tax are very stringent?—Yes.

6118. Do you think it is necessary? You are very particular here about people keeping books, but if these books of account cannot be used, if they can refuse to use them for the purpose of exhibition to the Inland Revenue authorities, do you not think it would be possible to relieve the secrecy so as to enable the matters to be dealt with more easily in regard to these books of account at Somerset House. Is this extreme secrecy necessary?—I should not like to give any Government Department the right to rake over every person's books; but it seems to me that the Inland Revenue has a very great power in its hands in assessments. If a man cannot produce proper books of account in support of an appeal against an assessment, then I think judgment should go against him.

6119. *Sir E. Nott-Bower*: I just want to ask you a question on your paragraph 15, where you give a list of items which you think should be allowed. At (d) you mention depreciation of patents?—Yes.

6120. We have had evidence bearing on that question already given by Mr. Leake in connection with wasting assets generally?—Yes.

6121. Are you aware that Mr. Leake did not put forward any claim in respect of depreciation of patents?—I am very sorry; I wanted to look at Mr. Leake's evidence, but I have not had an opportunity of reading it.

6122. Mr. Leake, although he asked for a great deal, did not ask for anything for depreciation of patents?—I believe that depreciation of patents is allowed for in regard to Excess Profits Duty. I am not sure, but I think that is the case.

6123. I think that is quite possible, but I think that is really a different question. The Excess Profits Duty is a tax only on business profits?—Yes.

6124. The Income Tax Act tax all profits—profits from property as well as profits from business?—Yes. I was asked to put this point forward, and it seemed to me to be reasonable.

6125. I do not know quite what you have in your mind. Are you thinking only of patents purchased by a trader outright for a capital sum down, in respect of which of course he has to make provision to write it off during the life of the patent? I expect that is what you had mainly in mind?—Yes, that was what was mainly in my mind.

6126. When a man takes out a patent for an article or process he is protected by the law for a period of, I think, 14 years?—Yes, that is so.

6127. So that for 14 years his patent right is his property, and he will be able to get an annual profit which arises from the use of that patent during the 14 years?—Yes.

6128. He may deal with the matter by allowing some commercial firm to manufacture the article or to use the process, and receive an annual royalty during the time the patent lasts. At present he pays Income Tax on the full amount of that annual royalty. Is not that right? Of course it is only a temporary income. Why should he not pay on the whole amount?—I cannot labour this point very much with you. I was asked to bring it forward, and I do rather think that perhaps it would be better to hear some of the other experts who are going to deal with these matters in detail.

6129. *Mr. Kerly*: In your paragraph 4 and the paragraphs immediately following, you are only dealing with Income Tax and you are not dealing with Super-tax?—I think I must limit it to Income Tax.

6130. You appreciate that the difficulty of Super-tax is that you are dealing with the whole income, wherever it comes from?—Yes, quite.

6131. So that any of these proposals are partial only in dealing with the difficulty?—Yes.

6132. In the paragraph with reference to American legislation to which you refer, you no doubt observe that the only exempted income where tax is allowed as a credit is on income derived from a source in the country exacting the tax?—Yes.

6133. That again does not deal with a case where the business spreads over several countries?—No. I did not quote that Act as a remedy; I only put it there by way of example.

6134. It would be very useful if somebody who has considered the difficulties would come before us, because there are a great many difficulties. Now may I pass on to your paragraph 6? Here we get another class of consideration. You there speak of machinery by which a foreign resident can declare his total income from the United Kingdom; but if it were Super-tax you were dealing with, you would want his total income from everywhere, would you not?—Yes.

6135. So far as I know, none of our taxation is regulated by total income from the United Kingdom. That is a new factor?—Super-tax surely would not apply in a case like this. I am dealing only with people who would pay a less rate than the full Income Tax of 6s. in the £; so there cannot be any question of Super-tax.

6136. But the rate at which they pay depends upon their total income. It is total income; not total income from the United Kingdom?—I admit the difficulties are very great from the point of view of the Inland Revenue, but I am trying to set up a struggle for getting capital into the City of London. Perhaps our standpoint is not quite the same.

6137. In this paragraph, if one is to deal with it at all, will it be necessary to provide, as you have suggested here without appreciating, perhaps, what a revolution it would make, that tax on income derived from possessions in the United Kingdom by a foreign resident is only paid at the rate appropriate to that particular income. I do not myself see any other way of dealing with it. Now passing on to paragraph 11, you suggest compulsory keeping of books?—Yes.

6138. Should not the corollary to that be a compulsory return from every trader?—I do not object to a compulsory return.

6139. And you would not object, I gather from an answer you gave, to a registration of all traders as a preliminary to the licence to trade?—I do not object to every person who commences a trade or occupation—whatever words would be necessary—giving notice that he has commenced; but I should object to anybody being licensed. I do not want any licence from Government Departments.

6140. I did not mean to suggest any discretion as to granting the licence, but that nobody should be allowed to trade until he has registered his trading name and address and the description of his business?—Yes, he should do that; I quite agree.

6141. *Chairman*: I think, Mr. Belfour, that we have all studied your evidence-in-chief, and I think the better plan will be to ask the Commissioners to interrogate you on the points that are in your paper. It will save you reading even those points which we have marked?—(*Mr. Belfour*): If you please.

6142. Then, Mr. Reinganum, perhaps you will just watch the process, and if there are any points that you would like to bring forward afterwards you will do so. Our time is restricted, but I do not wish to omit any point that is necessary for the Commission?—(*Mr. Reinganum*): Thank you, my lord.

6143. *Mr. Kerly*: Mr. Belfour, your complaint is, first, that agents for foreign manufacturers are made liable to taxation on profits which are made, or supposed to be made, by the foreign manufacturer. That is the first of your difficulties?—(*Mr. Belfour*): Yes.

6144. As regards that, do you anticipate any difficulty in getting the foreign manufacturer to repay to you the tax, if you have to pay it?—Certainly.

6145. Of course, if you know in advance that you have to pay Income Tax, you would make your arrangement for repayment by your foreign principal?—But it is entirely a partial thing, and not a general one; it would mean an attempt to make some manufacturers pay, and not others. That, of course, would give an enormous preference to those people who were not asked to pay; and therefore no agency could be fixed up under such conditions.

6146. Will you allow me to distinguish between two things? One is making the foreign manufacturer pay, and the second is making you pay for him. I was for

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the moment dealing with the second. Assuming he has got to pay, then, except as a transitory difficulty, you would have no difficulty in making your arrangements with your foreign manufacturer for repayment, of what you pay on his behalf, if he intends to continue the business?—If it were a general thing universally admitted, I suppose there would be no difficulty about it.

6147. Now, as regards the liability of the foreign manufacturer. Is there any other way of compelling the foreign manufacturer to pay a tax on profit which he earns in this country, except by charging him through the agent through whom he deals?—You have mixed up two or three different assumptions in that question.

6148. Will you put them right? Just tell me where?—My answer must be, first of all, that the profits of the foreign manufacturer whom the textile agents represent are not made in this country.

6149. I said such profits as he does make?—I say there are none.

6150. Supposing the foreign manufacturer does make profits—never mind what they are—and the decision is taken to tax those profits, is there any other way of making him pay, except through any agent he employs here? He does not keep any stock of goods here?—No, he keeps no stock of goods.

6151. Suppose that end is in view, there is no other way of taxing him, except through the agent?—I say you cannot tax him at all.

6152. It was suggested by Sir James Martin that you could get the same result by an import duty; but that will not produce the same result, will it?—It certainly will not make the foreigner pay. Besides, it is not at all in the course of the present business.

6153. Compare the foreign manufacturer with an English manufacturer. The English manufacturer manufactures here and sells here, so that he has a double profit. The foreign manufacturer manufactures abroad and sells here. If you can do it—you may not be able to, but if you can do it—is there any reason why you should not charge him on the selling profit he makes here?—Again, there are two assumptions in your question.

6154. What are they?—You assume, first, that on the prices at which textile agents sell, there are two profits. I say there are not two profits, there is only the one manufacturing profit made abroad.

6155. Do you say there is no profit on the sale?—No, it is all one manufacturing profit.

6156. But it corresponds to the two profits which the English manufacturer makes?—No; I entirely object to that.

6157. Do you suggest that the English manufacturer can get the same price if he sells his whole output to a dealer, as if he deals with particular customers?—I say that supposing an English manufacturer in Bradford sells to a wholesale house in London, he will make the ordinary manufacturing profit at which he sells; and that it is precisely the same profit which the foreign manufacturer sells at.

6158. I appreciate what you say. You complain, I think, of the alteration of the law which was made in 1915, and is now represented by the General Rules for all Schedules, 6 to 12. Are you familiar with those Rules?—If I can see them I should know. (Copy handed to Witness.)

6159. You complain, I think, of the definition of general commission agents who are not charged; that is part of your complaint, I understand. Just let me call your attention to it. An agent is subject to the tax on behalf of his principal, but it is provided that: "a non-resident person shall not be chargeable in the name of a broker or general commission agent or in the name of an agent not being an authorised person carrying on the regular agency of a non-resident person." You are familiar with that, are you not?—Yes, I am familiar with that.

6160. And you object to that. I understand you say that it is indefinite, and you do not know where you are?—I do not object to the whole clause. I simply say that under that clause the textile agent ought to be exempted.

6161. What is it that does not exempt him? If he is the agent for several manufacturers, then he comes within the exemption, does he not?—No, that

is exactly what he does not come within, according to the law as it has been interpreted.

6162. No interpretation has been put upon this yet?—Excuse me. I refer to a case in my evidence, if you have read that.

6163. Yes; what paragraph in your evidence is it?—Paragraph 5.

6164. I do not call that a decision. You mean that a demand has been made upon a particular agent?—Yes.

6165. That is not a decision; if the demand is wrong, then the person charged has his remedy?—That is before the Special Commissioners. It is not the demand only.

6166. Do you say this was a decision of the Special Commissioners. I did not so follow it; however, it may be so?

6167. Mr. May: It is in the third sub-paragraph of paragraph 5, Mr. Kerly.

6168. Mr. Kerly: I see, thank you. "In these circumstances the agent appealed before the Special Commissioners." Would it meet your view if Rule 10 read in this way: "That nothing in these Rules shall charge a non-resident person in the name of a broker or general commission agent or in the name of an agent who only renders the services normally rendered by a broker or general commission agent"?—Yes, I would agree to that. I was going to propose another thing, if you will allow me.

6169. I shall be obliged if you would?—I was going to suggest that in the old sub-section 6, which is here reproduced, under No. 12, the words "not being an authorised person carrying on a non-resident's regular agency," might be altered to "not being an authorised person through whom the non-resident carries on business within this country."

6170. It is the same idea?—I think it is about the same idea.

6171. For the moment your words do not strike me as being as clear as mine?—I am quite willing to give you the professional palm.

6172. Do you make any complaint of the provision of these Rules for arriving at the actual profit made upon the business done through the agent? Let me just remind you what it is. If you are charged upon an assumed profit, you can appeal and prove that the profit you are charged upon is more than the profit made. If such a charge is to be made, is there any fairer system?—But you are assuming that trade is being carried on within this country by concerted action of the agent and the foreign manufacturer. That, in our case, is not so. You are mixing up two entirely different things.

6173. What are the two things?—You must distinguish between the agents representing manufacturers trading with the United Kingdom, that is, merely exporting to the United Kingdom, and agents representing non-residents whose methods of business bring them within the category of firms trading within the United Kingdom. They are two quite distinct things.

6174. Members of the Commission who are more familiar with this will no doubt put questions to you.

6175. Chairman: Supposing that you represent a firm in Holland, and you take the whole of their manufactures in this country; all that they produce in Holland you sell in London; you get probably 2½ per cent. or 3 per cent. on that transaction; and you claim only to pay the Income Tax upon what you earn by that commission?—Yes.

6176. But have we not some claim upon that Dutch manufacturer who sends his goods into this market, and by sending them into this market, makes his profit? How can we get hold of that money to make a claim on that?—I cannot tell you how you can get hold of it.

6177. Is it right to make a claim on that?—I do not think so.

6178. Why?—It all depends on the conditions under which the manufacturer in Holland is carrying on business: whether he is simply exporting to this country, or whether he has a branch here, or is carrying on trade within this country.

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6179. Supposing you take the whole of the production, and it is sold in London, should he not pay the tax on the profit that he makes upon the whole of that production being sold in London?—No, I do not think so, if he merely exports to this country.

6180. Where he makes his profit is in selling it here?—No; he makes his profit in Holland.

6181. Supposing he does not sell it here, would there be any profit in Holland?—If he sells it elsewhere, there would be profit.

6182. But the case is that he sells it here?—When the money goes back to Holland, of course it is there that the profit is made.

6183. No; the profit is made upon the price the article is sold at here. If you sell it at a loss, there will be a loss; if you sell it at a profit, there will be a profit. I want to see where is the fair thing to get hold of that profit which is made by the manufacturer coming into this market?—I can quite understand you want to get hold of it, and so would I, but what we say is that we do not want our Government to try to get hold of it over our heads.

6184. You say they would send their own agents here?—They would send travellers over here.

6185. Could not this Commission recommend that the traveller coming here will have to be laid hold of for that?—That is not my affair; I could not say that.

6186. I want you to agree that the profit on that transaction should be taxed in this country?—I think, if you will allow me to speak my mind, all those ideas are rather too vague. Supposing we here in this country find a means of making the Dutch manufacturer pay to the British Treasury, then of course the Dutch Government will find a means of making the British exporter pay to the Dutch Treasury, and therefore, as we in England are the largest exporters in the world, of course the balance of profit would not be with the British; that is to say, we should lose more than we should gain.

6187. They do tax us when we send stuff into their country?—They put a duty on, but then it is not the Britisher who pays that; it is the Dutchman who pays it.

6188. You sell woollen goods, say, made in Holland. The man who makes those same woollen goods in this country has to pay Income Tax and Super-tax, and he competes with you, selling in the London market. Do you follow that?—Yes, I quite follow.

6189. Is not that an injustice?—No, I do not think it is, because the Dutch manufacturer over there will have to pay his country's taxes, which are about on a par with ours, if not higher than ours.

6190. But you do not know that, you see?—But generally, in all European countries anyway, the level of taxation is just about on a par; in fact, I think in most countries it is rather higher than here.

6191. Mr. Kerly: The foreign manufacturer pays the London agent whom you represent a commission?—Yes.

6192. That is for services which are at least as valuable as the commission represents?—I hope so.

6193. Therefore he is doing something in this country which is bringing him a profit?—No. I suppose, for the privilege of having an English agent, he takes something out of the profit that he makes in Italy or in Holland.

6194. Very well; that is how you put it; I will not trouble you any further with that. Will you listen to this: "I agree with the opinion that whenever a foreigner, either by himself or through a representative in this country, habitually does or contracts to do a thing capable of producing profit, and for the purpose of producing profit, he carries on a trade or business within the United Kingdom, and the profits and gains from these transactions are liable to Income Tax." Do you agree with that opinion?—I believe you are reading from some of those law cases.

6195. Yes?—Well, you see, I am not a lawyer.

6196. But may I tell you that the business of a lawyer, even if he is not always successful, is to reproduce and formulate the wisdom of the commercial community. He does not invent things?—Then you will allow me to say, I think I remember from my browsing among those different subjects, that that

dictum (I cannot remember whose it was) has been absolutely overthrown by later law cases. There is a lawyer here by my side, and I have no doubt he would be quite ready for you, if you like to put such things to him; but I am not capable of arguing from the point of view of law.

6197. Mr. McIntock: Do you agree that there can be no profit until there has been a sale?—I should like to say, in reply to that question, which is a very leading one, that it is not an absolute question of profit. The question is of where the profit is made.

6198. We will come to that later. Can there be any profit until you make a sale?—Yes, there is a potential profit.

6199. I am referring to an Italian manufacturer either selling goods in his own country or in this country. His profit is not made until he has made a sale?—The profit is in the price which he is asking.

6200. Naturally, but when does that profit materialise—before he has got it, or after he has got it?—When the goods are paid for.

6201. Your evidence seems to indicate that the section to which you refer, sub-section 2 of section 31 of the old Act of 1915, is something quite new?—That is the contention, I understand, of the law officers of the Crown.

6202. It has always been contended that trade within this country was liable to tax?—Yes.

6203. The difficulty was to get at either the amount or the individual. Is not that so?—Yes.

6204. And all this section does is to find a way to get at him?—No, I do not agree with you there.

6205. I take it the main point of your objection to this section is that the agent of a foreign manufacturer might lose his agency?—No, I do not think that is the question.

6206. I suggest that is what it comes to?—My objection to that section is that it is so extraordinarily badly drawn, and that the real intentions of the Legislature have not been realized in that sub-section 2.

6207. Do you agree that the Italian manufacturer should pay a tax on the profit on his sales made in this country?—If he is not carrying on business within this country, no; if he is carrying on business within this country, yes.

6208. Of course that begs the whole question?—Excuse me, that is the law as it was before 1915.

6209. Assume for the moment that the law is that a man who sells goods in this country made abroad is carrying on a business within this country?—No, I cannot assume that.

6210. Assume it?—No; I will not.

6211. Do you agree that a foreign manufacturer, on any profits made in this country, should contribute to the British Income Tax?—On trade done within this country?

6212. On trade done in this country?—Yes.

6213. All you really object to is that an agent, who merely receives the commission on the price of the goods sold, should not be rendered personally liable to pay that tax?—Of course that is so monstrously unfair that there is no arguing it.

6214. Do you think a foreign manufacturer, with a twelve years' connection in this country, and, we will say, the only market for his goods of a particular kind, is going to ask his agent to pay his Income Tax for him out of the commission he gets?—If the manufacturer is forced in the future to pay the Income Tax by the reading of this law, he will give up the agency.

6215. What will he do then?—Send travellers over here.

6216. Then it comes back to this. The objection—and it is quite proper that you should object—is a pure question of the agent being deprived of his source of livelihood?—Absolutely; that is the thing that we are pleading for.

6217. Mr. Birley: In your paragraph 2 you suggest some sort of definition of those who do not pay tax. You say as regards the non-resident (a) his acts are limited to exports to this country, and (b) he does not carry on a trade within this country. As regards (a) can a man limit himself to exports

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to this country; is there not a further step; does he not take profits from this country for these exports?—We have already had the point. The foreign manufacturer's profit is included in the price.

6218. He does not simply export the goods here and leave it at that; he takes profit back for it?—He quotes a price in Italy or Spain or wherever it is, for his agent to sell at, and his agent sells at that.

6219. And sends the money back?—And the money goes to the manufacturer abroad.

6220. The manufacturer gets it in some form?—Yes, he gets it.

6221. And when he gets it, it includes a profit?—Yes.

6222. And that profit comes from this money?—Yes.

6223. And that profit comes from this country?—Well, the money comes from this country.

6224. Which includes the profit?—The profit was counted in Italy.

6225. Surely that money payment includes the profit?—Yes; the profit was made when the price was quoted in Italy.

6226. You do not agree that the profit is made when the goods are sold?—No; the profit is realized when the goods are paid for.

6227. So that that money includes the profit?—Yes, of course it does.

6228. And that money comes from this country?—Yes.

6229. And that profit comes from this country. It follows, does it not. Should not that profit be taxed?—In the first place, the profit was added in Italy, and therefore when the money comes afterwards, of course, the profit was realized in Italy.

6230. The transaction is completed when he gets the money?—And the profit realized in Italy.

6231. Chairman: Supposing you put on your price in Italy £5 per piece profit. Do you call that profit?—I call that a profit added by the manufacturer.

6232. But do you call it a profit if he has not realized that £5?—I cannot quite follow, my lord.

6233. The point Mr. Birley puts to you is this: Supposing your manufacturer in Italy, making a calculation on a piece of silk, makes out that it costs £4, and he puts on a profit of £6, making a total of £10. Will he say to himself that he has made £6 profit?—When he gets the English cheque he will say that.

6234. Mr. Birley: When he gets the money from England?—Yes.

6235. And that money from England will be £10?—Yes, he will get £10.

6236. Of which £4 is the cost?—Yes, we will suppose that.

6237. And £6 is the profit?—Yes.

6238. And that £6 comes from England?—Profit on which he has had to pay the Italian Income Tax and Super-tax and all other taxes.

6239. The £6 comes from England?—Yes.

6240. The £6 is profit?—Yes.

6241. Now I suggest that the profit comes from England and should therefore be taxed?—Supposing it is taxed in Italy.

6242. I am talking about the British tax?—We textile agents are not out to protect the foreigner. If you can get at them by all means get at them.

6243. Chairman: How do you suggest that we can get at them?—I am sorry to say I have thought that out very carefully for some years and I cannot find any means whatever.

6244. You want to leave it to us to suggest it?—I have come here in the hope that you will find some means of protecting the agency trade against these unfair demands.

6245. Mr. Kelly: May I put this to you? It will probably save a good deal of difference if you can agree with some of us about this. The difficulty is not the unrighteousness of the tax but the difficulty of its collection?—Yes.

6246. Chairman: That you agree?—I agree with that. I am not out to protect the foreigner at all, if you can get at him.

6247. Professor Pigou: I want to put a question to you that arises not so much out of your evidence in

chief as out of the examination. It has been suggested to you that it is unfair on the British manufacturer selling in England that he is taxed by Income Tax, and the foreigner who sells the same thing in England is not. Would you agree that in general the process of obtaining goods from abroad is a process of exchange, that English goods are sent abroad with which to buy foreign goods?—From a pure point of view of political economy, do you mean?

6248. From what happens?—From the point of view of political economy, I suppose it is so.

6249. It cannot be so from one point of view and not so from another, can it?—No. I am not sure that I know enough about political economy to go into that.

6250. If we take it that that is so, does not this suggestion of unfairness towards the British manufacturer rather break down? Compare men who make boots. The Englishman makes boots and sells them in England. He has to pay Income Tax. The foreign boots are bought by textile goods made by an Englishman, who also pays Income Tax. So Income Tax is paid equally whether the boots are made by a British manufacturer or by a foreigner and bought with textile goods. So there is no differentiation between these two ways of getting the thing?—What concerns me more in this trade is, as I have said, that supposing we succeed in levying a tax upon the Italian manufacturer, of course the Italian Government will proceed to do the same thing on British exports.

6251. That is another point. My point is that this point which has been put to you, that the British bootmaker is differentiated against because he pays the English Income Tax whereas the foreign bootmaker does not, will not be valid if one agrees that foreign boots are bought by the export of English goods?—Yes, I agree with that.

6252. Assuming that the argument against levying the foreign importer free from British tax is valid, it would not follow from that, that it was not desirable for other reasons.

6253. Mr. Marks: I am not in business, so I am asking for information really?—I shall be glad to give it.

6254. I see your firm has existed for 40 years?—Yes.

6255. I also see that in the Income Tax Act, 1842, there was a section which provided for the charging of non-residents in the name of their factors or agents. Why did not this difficulty arise before 1915?—Because it was a question of trading within the country. The Act of 1842 makes it a condition of the agent being liable for the non-resident's Income Tax that the non-resident should be trading within this country. Also there was the further condition that the agent had to be in receipt of the money belonging to the non-resident. That one condition of the receipt of money was abrogated by a certain section of the Act of 1915. Then it is contended by the Inland Revenue authorities that the principle of trading within the country has also been abrogated, which would cause all the hardship about which we are complaining.

6256. Anyhow, between 1842 and 1915, there was no difficulty in accommodating the business which you transact to the conditions which existed?—No.

6257. And the difficulty has really arisen only since 1915?—That is so.

6258. Does not that rather imply that the altered conditions of which you complain might have arisen in consequence of high Income Tax, and be therefore the result of some arrangement between the manufacturer and the agent?—I do not quite understand the question.

6259. You agree that up till 1915 there was no difficulty in carrying on the business of non-residents through agents in this country?—Yes.

6260. Why has there been any change since 1915? Because the law is practically the same?—No, the law has been altered by section 31 of the Act of 1915.

6261. Only to catch those agents who were acting as agents and not carrying on business within the country for non-residents?—That was the intention. The whole purport of section 31, as laid down by Mr. McKenna in the House of Commons debates, was to catch collective action between the non-resident and the resident agent; and it was laid down over and over again in those debates in Committee that it was

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only for the purpose of bringing within the net certain collusive trading which had been going on, by means of which the non-resident managed to escape paying Income Tax altogether.

6263. That is rather my point. Has not the pressure of a high Income Tax rendered these collusive arrangements so frequent and so widespread that it was necessary for the Legislature to bring that in?—No. I say in the case of the textile agents and the agents for whom I am speaking there is no collusive action, absolutely none, and never has been. We pay on our commission. The thing is perfectly above board. There is no trading going on within this country.

6263. I will not pursue the subject, but I still cannot understand it?—If you will kindly ask me another question, I will try to make you understand.

6264. Mr. Walker Clark: You sent a letter to the Chancellor of the Exchequer containing a resolution last November?—Yes.

6265. And you received a reply in due course?—Yes.

6266. Did you comply with the Chancellor's request in that letter?—The Chancellor said we might, if we liked, apply to the Inland Revenue for an interview; only it was put in such a way that we thought it was not very useful, because at the same time the Chancellor suggested that we should bring our grievances before the Income Tax Commission.

6267. Did he not suggest in that reply that you should furnish him with specific particulars of hardship?—Are you referring to a letter of the 30th January?

6268. I am referring to the reply on the 7th December to your letter of November?—Was that the letter which the Chamber of Commerce sent to the Chancellor of the Exchequer?

6269. Yes. You sent a letter on the 19th November from the Chamber of Commerce to the Chancellor. He replied to you on the 7th of the following month, and in that reply he asked you to furnish specific particulars of cases of hardship. Did you send those?

—We did reply to that letter.

6270. Did you furnish the specific particulars of hardship? That is the point I wish to get at?—If I remember rightly, we replied to that letter, and we did not refer to any particular cases because we wanted to put the thing as a question of general principle. It had been put before the Chancellor of the Exchequer by the memorandum from the Agents' Committee about the beginning of October.

6271. The point I rather want to get at is this: You were asked for specific cases of hardship, and I take it those cases of hardship were not furnished by you?—No, I think not.

6272. What was the reason for not complying with that particular request?—The reason was that the Chamber of Commerce and the Agents' Committee thought it had better be discussed as it was discussed in the memorandum to the Chancellor of the Exchequer, on general grounds of injustice to the agent.

6273. But is it not very difficult to discuss matters in a general way if you have no specific cases before you? Does not the whole question hang upon the specific hardship in the specific case?—As it happens, the whole matter of danger and injustice to the agents' trade, which we foreshadowed to the Chancellor of the Exchequer in our memorandum of October, has been exemplified in this case to which I refer in my evidence. Therefore, exactly what we told the Chancellor of the Exchequer in October has happened.

6274. But you did not give him a specific case?—No, because that case had not come on.

6275. Sir E. Nott-Bower: I think you said you think it is quite proper that where trading is carried on in the United Kingdom the foreigner should pay the tax on profits derived from that trading?—Yes.

6276. I rather understood you to suggest that the majority of the principals whom you represent do not carry on business in the United Kingdom?—Yes.

6277. I think you say that, so far as agents of your class are concerned, they have only been brought to assessment since this new regulation, section 31 of the Act of 1915?—Yes.

6278. And there seems to be some difficulty in understanding exactly what sub-section 2 of section 31 means?—Exactly.

6279. Is not the history of that affair this? Some 20 or 30 years ago there was a whole series of cases decided in the Law Courts; it was in connection with the wine trade?—Yes.

6280. You are acquainted with those cases?—Yes I am.

6281. Is not the history of the matter this: that the courts there had to consider whether trade was carried on in the United Kingdom or not?—Yes.

6282. And finally it came almost to this: that the main point of consideration was where the contract was concluded?—Yes, that is so.

6283. The result was that the Inland Revenue lost all those assessments which had been made on these traders, because they were able to arrange matters. Those cases brought the whole matter into the full light of day, and the traders were very quick to appreciate that if they so arranged matters as technically to withdraw from their agents the right to accept a contract, then they might be able to plead those cases in their favour, and say: "we do not carry on trading in the United Kingdom." Was not sub-section 2 of section 31 really devised to meet that?—Mr. McKenna stated quite distinctly, when the matter was in the House for the second reading, and in Committee, that the whole of the action was aimed at collusive trading and nothing else.

6284. Certainly the word "collusive" was very fully applicable to part of the matters that section 31 was aimed at. But even with regard to sub-section 2, might not Mr. McKenna have had in his mind that the whole course of business was so arranged as to avoid liability on what I should think, from a practical man's point of view, was really a technicality; that is, where the contract was accepted.

"Collusive" seems rather a hard term to apply. I do not want to apply so hard a term to it; but still, on the point where sub-section 2 was concerned, the fact was that it was meant to meet the class of case where the whole course of business had been arranged with a special view of avoiding the liability to Income Tax on what is really a technicality, namely, where the contract is concluded?—But that has nothing to do with the question of where the contract is made; that is quite a clear issue.

6285. Look at the wine agents case. The agents were appointed; they canvassed for orders; they advertised; they did their best to get orders; they had got the prices; so it was a very easy thing to say: "if we withhold from the agent the power of accepting the contract, then we shall be free of Income Tax." Ought liability to Income Tax to depend upon such a point as that?—I am quite with you there.

6286. Chairman: Mr. Reinganum, I think it would be a proper thing, if there are any of your points that have arisen during this discussion or examination that have not been elucidated, if you would now address the Commission on them.—(Mr. Reinganum) I shall be very glad to do so. My first point is this: Sir James Martin confined himself to London, but as a matter of fact I represent agents not only in London but in Manchester, Glasgow, Dublin, Belfast and in many other provincial towns. The question of trading within the country of course turns to a great extent on a technicality, but I must say as far as our trade is concerned, and I represent chiefly textile agents, the foreign manufacturer has never within my experience or that of my father before me contemplated Income Tax anywhere except in his own country. He pays Income Tax there, where the profit is made, wherever those profits are actually derived. As regards the question of whether the profits are made in this country or the country of origin, a point which was raised by Mr. Birley, I should like to point out that in a great many cases the British buyers go to the country of origin and complete the contract for the purchase of goods there; the goods may afterwards be sent to this country, and the money sent over from this country: but I

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SIR JAMES MARTIN, MR. E. BELFORD AND MR. PERCY E. REINGANUM.

[Continued.]

should like to know, from a legal or hair-splitting point of view, with regard to the profit on that transaction which is actually carried out and completed in the country of origin, where that profit has been made. It seems to me that the whole transaction having taken place in the country of origin, the profit must necessarily have been made in the country of origin. A great many foreign manufacturers export their goods to this country, but are only responsible for those goods until they reach a continental port, or in other cases until they leave the actual town of production. The moment they leave their hands those goods are the property of the English purchaser. As to other means of taxing the foreign manufacturer, I did not think it lay within my province as a witness to suggest other means. If there is any way of getting at the foreign manufacturer to tax him or obtain Income Tax from him, it should be quite as easy for the Inland Revenue authorities to get the money from him as for his agents, it certainly would not be more difficult. In our own Association at the present moment there are seven or eight cases of agents who have been assessed, who have been asked to give returns of their manufacturers' Income Tax for three or four years back. They have been informed that if they do not give a return of their profits they must give a return of their turnover. The profits will be assessed, and they will be liable to Income Tax on that amount. They have written to their manufacturers, and the manufacturers disclaim all intention of paying. They say they are not within the jurisdiction, and have not the slightest intention of paying that amount or any other amount, and they repudiate all liability. It will mean in the case of colleagues of mine, of whom I speak, that they will be utterly unable to meet, out of the exiguous incomes they earn by their very small commission, the Income Tax at the rates assessed by the Surveyors; and it will mean they will be sold up, and have to close down, and their manufacturers will thereafter use other methods. Some of the largest manufacturers are confining themselves to certain large consumers, and even conducting their business by correspondence. The buyers of those large consumers are only too pleased to have opportunities for various continental visits, and the transactions will be carried out entirely in the country of origin, the goods coming in without there being any possibility whatever of collecting a tax from the manufacturer. If anybody in this country is to be liable for Income Tax levied on the profits of a non-resident, the only persons who can possibly be made so liable are persons who handle the money due to that foreign purchaser. If it is thought necessary to put an *ad valorem* tax on goods coming to this country, and if it is thought that it would not answer the purpose to put a customs duty on, the only question would be an *ad valorem* tax on the invoice, the sum to be collected from the person who pays the invoice; but personally I do not think that would be a very feasible plan either. Our whole point is to protect the bona fide commission agent representing one or perhaps three or four manufacturers. Perhaps another year he will lose one of those manufacturers, and the following year he may get one or two more, but in many cases he has not a definite contract; he is not authorized to do anything except offer samples of that manufacturer's products. He is not authorized to accept a firm contract, because in the meantime local conditions may cause a price to rise, and he is not authorized to promise any particular delivery, because he does not know until an order reaches his manufacturer what conditions are influencing that delivery. He is not authorized to collect money; he is not authorized to buy; he is not authorized to sign for them, and he is not authorized in any way. He is merely a glorified commercial traveller; but he is an independent merchant and has his own office, and he has to pay Income Tax and Excess Profits Duty on whatever he makes on the surplus of his commission over office expenses.

6287. You have suggested a plan?—I am merely throwing out a suggestion. The Association that I

have the honour to represent expresses no opinion whatever upon the feasibility or possibility of taxing the foreign manufacturer.

6288. I am very glad that you have made that suggestion; I do not know of what value it is, but still you have done something to help.—We are not out in any way to protect the agent who is actually carrying on the business of the manufacturer within this country. We know several cases where a man only represents one manufacturer. The manufacturer probably pays the office rent, and probably pays this man a guaranteed minimum per annum, and their place in London is *ipso facto* probably a branch of the foreign manufacturer. There is no real reason why tax should not be paid on income made in such a case as that.

6289. That is perfectly true?—Yes. There are many cases in my own trade, which is the ribbon trade, in which some of the largest ribbon manufacturers have never had agents here. Their business is done entirely by travelling to and from the country of the manufacturer and of the British buyer, and the contracts are fixed up entirely in the foreign country.

6290. That is a very valuable addition to what has been said. Have you anything further that you would like to say?—There is only one point. I do not know whether this is the right moment to say it, but it is this: if by any means the Inland Revenue could be persuaded to suspend the present harassing of agents, which is increasing daily, until this Commission has given its considered Report, or until some action has been taken to clear the matter up, it would be of inestimable service to us, and would spare us a great deal of worry, anxiety, and expense.

6291. When was the first intimation you got about this new proposal—in what year?—It was within twelve months, I think.

6292. Have you been able to take any contracts or do any business with a provision that Income Tax may be taken?—No, it is quite impossible. I only recently had a foreign manufacturer over here and put the question to him, and he repudiated it entirely. He said: "I pay my Income Tax in my own country, and if there is any question of my paying it here I should have to make entirely different arrangements."

6293. Your suggestion to meet this arrangement is that it should be on the invoice?—That seems to me a more equitable arrangement than to try and get the money out of the man who has not got it. (Mr. Belford): May I say one word? Sir Edmund North-Bower said it might be equivalent to a sort of collusive arrangement under sub-section 2. Those arrangements about the contract being made abroad were qualified by Mr. McKenna in the House as being legitimate evasions. What I would like to say about it is this. I think in the textile trade those evasions are quite necessary, because the manufacturers must have the power of saying whether they will accept an order or not, and therefore it is quite legitimate even apart from any legal point.

6294. Sir E. North-Bower: I was not complaining of your action at all, you understand?—No.

6295. But until the law be changed I am not the least surprised that manufacturers should have made their arrangements?—But Mr. McKenna did qualify this as being quite a legitimate evasion, which he thought legitimate and did not want to attack. There is a further point under sub-section 2. I have suggested at the end of my evidence that if we could, after the word "arising," add the words "within Great Britain," that would really bring that section into harmony with the intention of the House of Commons and also with common sense.

6296. Chairman: You are relying a great deal on what Mr. McKenna said?—Yes. Of course, with the words "within Great Britain," it is quite uncertain where the profits will arise. The whole intention of the section was to attach profits made within Great Britain.

ELEVENTH DAY, WEDNESDAY, 16TH JULY, 1919.

PRESENT:

LORD COLWYN (*in the Chair*).

SIR T. P. WHITTAKER.

MR. BOWERMAN.

MR. PRETYMAN.

SIR E. E. NOTT-BOWER.

SIR J. S. HARMOOD-BANNER.

MR. HOLLAND-MARTIN.

MR. BIRLEY.

MR. WALKER CLARK.

MR. KERLY.

MR. KNOWLES.

MR. MACKINDER.

MR. McLINTOCK.

MR. MANVILLE.

MR. GEOFFREY MARKS.

MR. MAY.

MR. SYNNOTT.

Mr. E. R. HARRISON, called and examined.

The witness handed in the following statement as his evidence-in-chief on the subject of Double Income Tax:—

PROOF OF EVIDENCE OF E. R. HARRISON, AN ASSISTANT SECRETARY TO THE BOARD OF INLAND REVENUE, ON THE SUBJECT OF DOUBLE INCOME TAX WITHIN THE BRITISH EMPIRE.

Purpose of evidence.

6297. (1) The following evidence is directed principally to the cause of double income taxation, and to the examination of various proposals for the prevention of such taxation that have already been put forward from one quarter or another, and of various provisions with the like object that are in force in this country, in the Dominions, or in foreign countries. The Board of Inland Revenue assume that the Royal Commission will not wish to receive constructive suggestions for dealing with this subject until an opportunity has occurred for a conference with representatives of the Dominions.

6298. (2) An "Historical Note on double taxation" has already been submitted to the Royal Commission. [See App. No. 7 (c)].

How Double Income Tax arises.

6299. (3) Double Income Tax arises when two countries charge Income Tax on the same source of income. As it is not ordinarily practicable for a State to tax income effectively unless either the source of the income or the owner of the income is within its borders, it may be said broadly that the possibility of effective taxation exists only when the source of the income or the residence of the owner is within the State. Although the United States of America charge also the income of a citizen even if he resides abroad and his income arises abroad, this may be regarded as an exceptional method of taxation, and the results in revenue depend, presumably, in a great measure on sentiment and patriotism.

6300. (4) Whenever either of these two conditions of effective taxation—origin of the income or residence of the owner of the income—occurs in a country it becomes possible for that country to charge tax; and so it happens that the same source of income may be taxed in two countries. Thus a person who resides in this country and enjoys income arising in India may pay United Kingdom Income Tax because he resides in the United Kingdom, and Indian Income Tax on the same income because the income arises in India, and vice versa.

Scope of the United Kingdom Income Tax.

6301. (5) The charging words of Schedule D of the United Kingdom Income Tax are very wide on this

point (Income Tax Act, 1918, Schedule D, First provision):—

"Tax under this Schedule shall be charged in respect of—

(a) The annual profits or gains arising or accruing—

(i) to any person residing in the United Kingdom from any kind of property whatever, whether situate in the United Kingdom or elsewhere; and

(ii) to any person residing in the United Kingdom from any trade, profession, employment, or vocation, whether the same be respectively carried on in the United Kingdom or elsewhere; and

(iii) to any person, whether a British subject or not, although not resident in the United Kingdom, from any property whatever in the United Kingdom, or from any trade, profession, employment, or vocation exercised within the United Kingdom."

Scope of Dominion Income Taxes.

6302. (6) The scope of the Dominion Income Taxes varies considerably. Broadly speaking, the Dominion of Canada, India, New Zealand, Tasmania, British Columbia, and Newfoundland tax both income arising in the country and income (wherever arising) enjoyed by residents in the country. Of these, India, New Zealand, Tasmania, and British Columbia limit the tax on income arising abroad but enjoyed by residents to so much of the income as is remitted to the country of residence. Again, the systems of Canada, India, and British Columbia make no special provision for relief from double taxation, whilst those of New Zealand, Tasmania, and Newfoundland provide a measure of relief.

6303. (7) On the other hand, the Income Taxes of the Commonwealth of Australia, the Australian States, and the Union of South Africa are more limited in scope, applying only to income arising within the country. The systems of these countries contain no special provisions for relief from double taxation, the reason no doubt being the restricted scope of the charge.

6304. (8) A detailed account of the Income Tax systems of the Dominions is given in a handbook on the Colonial Income Taxes prepared by the Board of Inland Revenue for departmental use, copies of which have already been furnished for the use of the Royal Commission. A Table showing the rates of tax in force in the different Dominions will be found in the front of this handbook.

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(Continued.)

Difficulty of eliminating double taxation.

6305. (9) There is probably general agreement that each State has an unrestricted right to tax within the sphere of its jurisdiction, and also that the governing principle of taxation in the United Kingdom is and has been the test of ability so far as residents in this country are concerned.

6306. (10) It would also be generally admitted as regards the incidence of the United Kingdom Income Tax that, other things being equal, it is at present to the advantage of the taxpayer (except to the extent to which the relief from Double Income Tax conferred by section 55 of the 1918 Act affects the matter) to invest at home rather than in any country abroad where there is an income tax or equivalent tax. Investment abroad gives rise to the possibility of double taxation. The general assumption is, however, qualified by the fact that an investor seeking an outlet for his capital abroad takes into account the taxation to which the product is likely to be subject and the rate of interest which he is willing to accept is affected by this consideration.

6307. (11) As each State has an unrestricted right to adopt its own methods of taxation within the sphere of its jurisdiction, and as each will attach special importance to its own circumstances in deciding its methods, the existence of double income taxation cannot be easily eliminated. Moreover, if any compromise were attempted each State would try to insist on the particular form of compromise which its own interests dictated.

The existence of hardship.

6308. (12) Nevertheless, whilst various methods will doubtless continue to be adopted by different States to suit their varying needs and conditions, it may be that in some cases the double taxation creates a public sense of hardship calling for correction. During the war, with the increasing rates of Income Tax in this country and the imposition of new or increased income taxes in the Dominions (which term, for the sake of brevity I have used throughout this proof to include not only the self-governing Dominions but also India and British possessions generally), the feeling, already manifest before the war, has grown in intensity that double income taxation within the confines of the Empire involves hardship upon those taxpayers who suffer it. The root of the feeling must lie in the consciousness of the essential homogeneity of the Empire and the consequent inequity of requiring a taxpayer to make two contributions of Income Tax for purposes which can be conceived, as in some measure, a single purpose, viz., the purposes of the British Empire. Combined with this feeling must be the desire to encourage Imperial trade and the development of the resources of the Dominions. The passing of section 43 of the Finance Act, 1916 (now section 55 of the Income Tax Act, 1918), as well as the resolution passed at the Imperial War Conference in 1917 [see paragraph 8 of the Historical Note on double taxation, App. No. 7 (c)] constitute a recognition of this hardship of Double Income Tax within the Empire, and seem to establish at least a *prima facie* probability that a permanent measure of relief will be called for.

6309. (13) I assume that the Royal Commission will agree that, where double income taxation arises within the British Empire as an incident of the exercise of the general right of each State to follow its own methods of taxation, this hardship and also hindrance to Imperial trade in some degree exist (whether they existed before the general increase in rates of Income Tax due to the war or not), and that the Commission will wish to have before them some official evidence as to the merits or demerits both of existing reliefs and of various constructive proposals or legislative provisions that have already been put forward as a permanent solution of the question or have found their way into a Statute book. It is from this point of view that I approach the matter.

The existing United Kingdom provisions for relief from Double Income Tax within the Empire.

6310. (14) The United Kingdom Income Tax code has always admitted the principle of treating as an expense, in computing taxable income, the amount of

any Income Tax paid abroad in respect of such income. Thus, in the case of income from securities and possessions abroad the liability is either limited to income received in the United Kingdom, in which cases taxes paid abroad would not form part of the same remitted, or, where the liability extends to income arising abroad, whether remitted to this country or not, a deduction is expressly allowed for "any sum which has been paid in respect of Income Tax in the place where the income has arisen." (Schedule D, Cases IV. and V.) For example, A receives a rent of £1,000 a year from house property in India. On this income he has to pay Indian Income Tax amounting (at 1s. 3d.) to £62 10s. A's income from this source for the purposes of United Kingdom Income Tax will be taken to be £937 10s. (£1,000 minus £62 10s.); not £1,000.

6311. (15) This relief has always operated and will, it is assumed, remain operative in relation to foreign countries. The case for its retention within the limits of the Empire will disappear if and when any complete relief from Double Income Tax becomes operative there.

6312. (16) The principal measure of United Kingdom relief from Double Income Tax became law as section 43 of the Finance Act, 1916 (now section 55 of the Income Tax Act, 1918). This section provides, in effect, that where a person has on any part of his income borne both United Kingdom Income Tax (at more than 3s. 6d. in the £) and also Colonial Income Tax, he shall be repaid the smaller of the two following amounts—

(a) such an amount as will reduce the United Kingdom Income Tax on that part of his income to 3s. 6d. in the pound; or

(b) the total amount of tax on that part of his income at the rate of the Colonial Income Tax.

6313. (17) Consideration of this relief is of limited value in connection with the finding of a permanent solution of the Double Income Tax problem because it was admittedly granted without prejudice to the question of principle, was makeshift in character, and one-sided in its incidence, being allowed solely at the expense of the United Kingdom Exchequer. It was introduced merely as a temporary alleviation of a hardship pending that examination into principle or which the Royal Commission is now engaged.

6314. (18) Nevertheless the experience gained in the administration of this section is not without significance, as on the one hand it has shown that relief on these general lines can be worked, and on the other it has revealed the existence of certain practical difficulties which are likely to be met with in all attempts to solve the problem of Double Income Tax, but which need not be present in all solutions in the same degree. These difficulties are indicated in the following paragraphs.

Difficulties which have been experienced in the administration of the existing relief, illustrated by the case of dividends of Dominion companies.

6315. (19) The branch of relief specially referred to in the following paragraphs is that granted to shareholders, &c., in Dominion companies by adjustment of the rate of United Kingdom Income Tax deducted on payment of dividends, &c., in this country. The difficulties mentioned have also been found to exist in the administration of other branches of the relief. The observations made, therefore, are of general application.

6316. (20) Relief to shareholders of Dominion companies is legally due to each individual by way of repayment of tax; but there are important advantages in the present administrative arrangements under which, when a dividend is about to be paid by a Dominion company, the agent (if any) in this country entrusted with payment of the dividend furnishes information as to Dominion Income Tax paid, ascertains from the Inland Revenue Department the rate of relief in respect of such tax applicable to the dividend, and deducts United Kingdom Income Tax from the amounts paid to the shareholders at a rate reduced so as to allow the relief due.

6317. (21) As the announcement of a dividend is frequently made only a limited time before payment, the time for settlement of the rate of relief is usually short.

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[Continued.]

6318. (22) In the administration of the relief mentioned two considerable difficulties have been met with:—

- (i) that of obtaining at short notice, possibly from the other side of the world, information as to the liability to Dominion Income Tax of the income under review; and
- (ii) that of ascertaining the "part" of the income which is the subject of double taxation.

6319. (23) The first of these difficulties has been surmounted in practice by the adoption of somewhat rough-and-ready methods of ascertaining the rate of relief allowable by reference to the best evidence available for the time being. Such a course, while necessary to prevent a breakdown and justifiable by reference to war conditions and the makeshift character of the relief conferred by section 55, could hardly be continued indefinitely without modification as part of the administration of a permanent scheme of relief. This difficulty is accentuated by changes in the Dominion Income Tax laws and rates, which occur from time to time, as the precise extent to which such changes actually affect particular companies is often not definitely ascertainable until a considerable time after payment of the dividends, and in the meantime it has sometimes been necessary (especially where the rate of the Dominion tax has been raised) to make an allowance of relief on estimate, which may ultimately prove, on receipt of the required information, to differ from the proper allowance.

6320. (24) It is similarly necessary to make estimated allowances where, for instance, the taxation of the company in the Dominion is held up temporarily (it may be for a year or more) by appeals against assessments; for companies naturally expect, if they adopt the system by which the paying agents deduct tax at a rate reduced to allow relief, to be able to rely on the continuity of such allowances, as an interruption of the allowances would mean trouble with their shareholders. Again, a revision and reduction of the Dominion assessments for past years must of necessity normally be ignored, allowance of relief having already been made by reference to the original assessments. There seems to be a tendency on the part of some Dominion taxation authorities to make tentative or provisional assessments as soon as possible each year (with a view, no doubt, to collecting the maximum amount of tax at the due date), subject to revision at leisure.

6321. (25) This situation has been met to some extent in practice by making "provisional" allowances of relief. This procedure is unsatisfactory, mainly because, owing to transfers of shares, adjustments made on payment of subsequent dividends may penalise or benefit the wrong persons, but partly because the practice tends to have a one-sided effect, viz., that where an under-allowance has been made the Revenue cannot refuse to make an additional allowance, while if an over-allowance has been made the Revenue has no effective means of recovery, and, in view of transfers of shares, hesitates to claim an additional deduction of tax from a subsequent dividend.

6322. (26) The conclusion is thus reached that no scheme which involves the first difficulty, mentioned in paragraph 22, can be entirely free from objection. Either the Department may on occasion have to grant relief by reference to defective information, or each individual taxpayer must be required to claim relief by way of repayment and kept out of his money for

a more or less prolonged period of time while the full information necessary to establish a claim is being obtained from overseas.

6323. (27) The direction in which a remedy must be sought is that of improving the arrangements for obtaining speedily from the Dominions the necessary information.

6324. (28) The second of the difficulties mentioned in paragraph 22 is inherent in all schemes for affording relief from double taxation, and must therefore remain as an obstacle of greater or less magnitude to complicate any and every system of relief. It is met with in nearly all cases of relief granted through paying agents of Dominion companies to shareholders. In the first place such companies almost invariably have a certain amount of income arising in this country as well as income arising in a Dominion. Secondly, a company's receipts frequently include amounts which arise in a Dominion but are not treated as income, or for one reason or another are exempted from Dominion Income Tax. Thirdly, a number of companies (e.g., Australasian concerns) carry on business simultaneously in the United Kingdom and in several Dominion States. Fourthly, where the company carries on business in several Dominion States, differences of basis between the Dominion assessments render a proper apportionment of the relief allowable in respect of the several Dominion Income Taxes extremely difficult. The profits of a particular year may in one place be assessed in the following year, the tax being payable the year after; in another, provision may be made for a payment on account during the year in which the profits are made, the balance being assessed and paid at the end of the year; in one State the assessment may be made on actual profits within the State; in another an arbitrary basis (e.g., an apportionment by reference to assets and liabilities) may be adopted; in another the dividends distributed may be assessed at one rate and the undistributed profits at another. Owing to the existence of these complications the dissection of the gross sum under review into its component parts has occasioned some of the most perplexing problems that have arisen in connection with the section 55 relief.

6325. (29) Whilst the second difficulty is impossible of complete removal, its magnitude may vary greatly under different schemes for conferring relief from Double Income Tax. It is, therefore, important to keep this consideration in mind when the relative merits of various proposals are under examination.

A defect of the existing relief.

6326. (30) One of the defects of the scheme of relief contained in section 55 is that it does not take sufficient account of the graduation of the United Kingdom Income Tax. It operates only to reduce the standard rate of 6s. in the £ (by a maximum amount of 2s. 6d.), and, as a reduction of the 6s. rate can also be obtained on different grounds by an individual whose income does not exceed £2,000, and who is consequently liable to pay tax at a lower (graduated) rate than 6s., the two reliefs overlap, and the net effect is that the large income benefits from the section 55 relief more than the medium income, whilst the small income does not benefit at all. This point is brought out by the following Table:—

United Kingdom Income Tax.

Total income of individual.	Standard rate of deduction.	Rate after allowance of section 55 relief at 2s. 6d. in the pound (maximum relief).	Graduated rate payable on unearned income without regard to section 55 relief.	Rate ultimately borne on income (column 3 or column 4, whichever is lower).	Net benefit to the taxpayer by the section 55 relief (column 4 minus column 5).
(1)	(2)	(3)	(4)	(5)	(6)
Not exceeding £500	s.	s. d.	s. d.	s. d.	s. d.
Exceeding £500 and not exceeding £1,000	6	3 6	3 0	3 0	Nil.
" £1,000 " " £1,500	6	3 6	3 9	3 6	3
" £1,500 " " £2,000	6	3 6	4 6	3 6	1 0
" £2,000	6	3 6	5 3	3 6	1 9
	6	3 6	6 0	3 6	2 6

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Proposal to collect the higher of two taxes, while remitting the lower, and to apportion the proceeds.

6327. (31) A proposal that has been received with favour in some quarters is based upon the relieving enactment (designed to avoid double Excess Profits taxation within the Empire) contained in section 23 of the Finance Act, 1917, i.e., broadly speaking, a provision to collect from each taxpayer the higher of the two charges whilst remitting the lower, and to apportion the proceeds between the respective Exchequers concerned. It was suggested by Mr. William Mosenthal in his evidence before the Royal Commission. A proposal on these lines was also put forward in 1918 by the Association to Protest Against the Duplication of Income Tax within the Empire, which suggested the passing of a clause in the following terms:—

His Majesty may by Order in Council declare:—

- (a) that under the law in force in any of His Majesty's Possessions Colonial Income Tax duty is chargeable in respect of any profits in respect of which Income Tax duty is also payable in the United Kingdom; and that
- (b) arrangements have been made with the Government of any such Possession whereby in respect of any profits only the duty which is higher in amount is to be payable and for apportioning between the respective Exchequers the amount of such duty.

Where any such Order in Council is made, then, if the Commissioners are satisfied that any case is one to which any such arrangements relate, they may, in lieu of any relief granted under section 43 of the Finance Act, 1916,* allow or make such remission or adjustments of duty as may be necessary to give effect to such arrangements, so, however, that the effect of such remission or adjustments shall not be less favourable than the relief in lieu of which they are allowed or made.

The obligation as to secrecy . . . shall not prevent the disclosure to the Government of the Possession concerned of such facts as may be necessary to enable such arrangements as aforesaid to be carried into effect.

Objections to proposal.

6328. (32) It is important to observe at the outset that the provisions of the draft clause would be useless for the purpose of relief if a Dominion were disinclined to modify the scope of its income taxation, even if, in view of the temporary nature and the special features of the Excess Profits Duty, it had been willing to make a special arrangement with regard to that duty.

6329. (33) No directions are given in the draft clause as to the apportionment of the duty between the respective Exchequers—it is presumably left to the Exchequers of the respective Governments to make such arrangements as they may think fit. It is very doubtful whether either the United Kingdom Parliament or the Dominion Parliaments would be willing to relinquish their respective powers in an important matter of this kind. On the other hand, if directions as to apportionment are to be inserted in the legislation dealing with the matter an extremely controversial topic is at once raised which could only be settled by a series of previous agreements with the various Dominion Governments concerned, and even then could probably not be regarded as permanently settled.

6330. (34) As regards the merits of a scheme on these lines as a practical solution of the Double Income Tax problem it may be stated at once that, as compared with Excess Profits Duty, the Income Tax lends itself far less readily to relief of this

nature and that the conditions under which the two duties are charged and collected differ so widely as to prohibit the inference that a system of relief which can be applied in the one case can for that reason be applied in the other. The following points of contrast call for special attention:—

- (a) Excess Profits Duty is temporary; Income Tax is for practical purposes permanent;
- (b) the scope of Excess Profits Duty is limited to certain kinds of profit; Income Tax applies to income of all kinds;
- (c) Excess Profits Duty is chargeable only in a relatively small number of the cases within limits of its application, viz., cases of excess over the pre-war standard; Income Tax is chargeable on all income above a low exemption point;
- (d) Excess Profits Duty is chargeable by reference to the profits of specific accounting periods; Income Tax is chargeable on profits computed on various averages, &c.;
- (e) Excess Profits Duty is chargeable for the most part on large and prosperous businesses and corporations whose accounts and taxation affairs are in capable hands; Income Tax is chargeable also in a very great number of cases where adequate accounts and competent co-operation are wanting;
- (f) at present some half dozen Dominions only have been concerned with Excess Profits Duty, viz., the Commonwealth of Australia, South Africa, Canada, India, British Guiana and Southern Rhodesia, and New Zealand for one year only; there are many more Dominion Income Taxes.

6331. (35) It is the distinguishing features of the Excess Profits Duty mentioned above which render possible a working solution of any difficulties that may arise and give scope for elasticity in particular cases where a strict interpretation of the relieving provisions is not practicable. The Excess Profits Duty itself is temporary and the difficulties are temporary.

6332. (36) But even in regard to Excess Profits Duty the greatest difficulty has been experienced in getting any workable scheme on its legs, and up to the present no effective arrangement has been completed with any Dominion. More numerous and more accentuated difficulties would be met with in connection with an attempted solution of the Double Income Tax problem on these lines.

6333. (37) Some of the more important of these difficulties are indicated by the following considerations:—

- (a) communications by letter with the Dominions involves delay, and communication by cable is expensive and inadequate. But the essence of a business-like reciprocal arrangement is that it should work immediately and automatically without the intervention of the taxpayer to give precise effect to the scheme adopted;
- (b) it would appear necessary to set on foot a system by which special representatives of the Dominions should be appointed to act as liaison officers in London with power to settle in consultation with representatives of the Inland Revenue the course of action to be taken in individual cases and to give instructions to the Dominion collecting authorities accordingly. Even with a staff of liaison officers frequent communication between the United Kingdom and the Dominions would be necessary;
- (c) it would be necessary for the officials of both countries to have complete particulars regarding the facts of each case, and knowledge both of the relevant provisions of the Dominion and the United Kingdom Income Tax laws and of the way in which those laws are administered, because the amount and nature of the profits liable both to Dominion and to United Kingdom tax would have to be agreed between all parties concerned;

* Now section 50 of the Income Tax Act, 1918.

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- (d) the determination of the actual relief allowable in particular cases would be a matter of difficulty involving the equation of systems of taxation that are often widely at variance;
- (e) there would always be at least three parties to be satisfied with the determination of the relief allowable, viz., the Dominion and United Kingdom officials and also the taxpayer;
- (f) if more than one Dominion Income Tax were involved in a case the difficulties would be greatly increased. For instance, a bank carrying on business in Australasia would be likely to pay Income Tax in New South Wales, Victoria, Queensland, South Australia, Western Australia, Tasmania and New Zealand, in addition to the Australian Commonwealth Income Tax and United Kingdom Income Tax, and the amount of profits might in one place be determined on an arbitrary basis (e.g., an apportionment of the aggregate profits in the ratio of assets in the State to total assets), and in another place in a totally different manner;
- (g) in view of the foregoing obstacles to prompt settlements it would frequently be impossible to dispose of the question of relief as profits were determined. This would lead to inconvenience and delay which might ultimately become so serious as to cause a breakdown of the system.

Settlements involving concurrent action by two countries.

6334. (35) No doubt it would be possible to devise other settlements proceeding on the same general lines as the Excess Profits Duty provision, though differing from it in some of its aspects, or settlements involving concurrent action in each case by the two Governments concerned. Such arrangements, however, seem to involve serious difficulties. In particular, the precise nature and extent of relief based on reciprocal arrangements is always liable to depend in some degree on the views of the governing authority for the time being, and succeeding Governments, who do not necessarily hold the same views as their predecessors, might desire to modify such taxing arrangements when they come into power. Alterations in the rate of tax in force in a particular country would also tend to disturb or at least to lead to the reconsideration of any existing reciprocal arrangements for relief from double taxation.

6335. (36) An even more important consideration, perhaps, is the fact that such an arrangement would tend to limit the freedom of a State to tax within its own borders, and to place certain of its residents under the fiscal jurisdiction of another State: effects which might lead to the raising of difficult constitutional questions as well as to the existence of strong public feeling and possibly friction between Governments.

6336. (40) These considerations point to the conclusion that the best solution might be one which enables the whole hardship to be met by the British Government and the Dominion Governments acting separately—of course, after discussion of the matter with Dominion representatives, and perhaps on agreed parallel lines—but so that in any case the British Exchequer bears a generous, though not unreasonable share of the aggregate loss which the relief of the hardship entails.

Provisions of Dominion and foreign systems.

6337. (41) Provisions to avoid double taxation of income appear in the codes of certain Dominions and foreign countries, and it is proposed to make a brief examination of these provisions with a view to testing whether any of them may contain a remedy suitable for adoption by this country.

6338. (42) In the Dominions and in foreign countries, the subject of the Income Tax and the special measures adopted with reference to the problem of double taxation vary considerably. It is here proposed to show the general position in the States

mentioned, minor distinctions being ignored. The following observations relate more particularly to the liability of individuals, and the statements made do not in all cases apply to companies without some reservation.

6339. (43) As regards the general scope of the tax, Income Tax systems may be broadly divided into three classes, viz.:—

- (a) those in which the tax is charged on the total income of residents in the country, from whatever source derived;
- (b) those in which the tax is charged on all income derived from sources in the country, whether it accrues to residents or non-residents, and
- (c) those in which the tax is charged on the total income of residents from all sources, and also on the income accruing to non-residents from sources within the country.

6340. (44) The "general Income Tax" of France is the chief example, and almost the sole example among States of any importance, of the principle of charging tax only on persons residing in the country; and even in this case the general tax is accompanied by other supplementary or "schédular" taxes applicable to income arising from sources within the country.

6341. (45) In the following countries the source of the income is the test of liability, tax being charged on all income, whatever its destination, arising within the country:—

Commonwealth of Australia, New South Wales, Victoria, Queensland, South Australia, Western Australia, and the Union of South Africa.

6342. (46) The third class of system is that in which Income Tax is charged both on the total income of all residents in the country, and also, with certain limitations, on the income accruing to non-residents from sources within the country. This class may be divided into two main sub-classes, i.e.:—

- (a) systems in which no special provision is made to give relief in cases of double taxation, and
- (b) systems which contain some special provision of this character.

6343. (47) The principal examples of sub-class (a) are the systems of the Dominion of Canada, India,* British Columbia,* Sweden, Denmark and Prussia.

6344. (48) Sub-class (b) is represented by New Zealand,* Tasmania,* Newfoundland, Holland, Austria, Hungary and the United States of America. The special provision made in these countries to give relief from double taxation differ widely as regards both the nature of the income to which the relief extends and the actual measure of the relief granted.

6345. (49) As regards the former of these points, the relief usually applies to income accruing to residents in the country from foreign sources, where that income has been subject to Income Tax in the country of origin. Citizens of the United States of America are entitled to a generous measure of relief from United States tax on these lines (see paragraph 53). In the system of Tasmania the relief extends to income from any country which has borne tax in that country. On the other hand, the New Zealand system limits the relief to income derived from another Dominion on which tax has been paid in that Dominion; Newfoundland to income derived from the United Kingdom, Canada or the United States of America; Holland† to income derived from a Dutch Colony; Austria‡ and Hungary to income derived from a foreign State which gives reciprocal treatment. In Austria, moreover, the relief is limited to income from real property and a few other specified sources. Residents in the United States who are not citizens are entitled to relief in respect of income derived

* In these cases, the income accruing to residents in the country from foreign sources is only chargeable with tax if it is remitted to the country.

† In Holland and Austria the Government is empowered to enter into agreements with foreign States, with a view to the avoidance of double taxation.

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from their native country when that country grants reciprocity.

6346. (50) The measure of the relief granted also varies to some extent. In New Zealand, Newfoundland, Austria and Hungary the income to which the relief extends is totally exempted from Income Tax in those countries, and in Holland a somewhat similar provision is made. On the other hand, in the United States of America and Tasmania any excess of the home tax over the foreign tax remains payable.

6347. (51) With regard to the countries named in paragraph 48, it may be said broadly that New Zealand, Tasmania, Newfoundland, the United States, Holland, Austria and Hungary all recognise in a greater or less degree a primary right of the country of origin of income to tax that income.

6348. (52) The law in New Zealand, Newfoundland, Austria and Hungary seems unduly generous in that it grants total exemption from its own tax in respect of income to which the relief extends without regard to the burden of the tax in the other country concerned. The result would be in certain cases that the total tax paid on the income so relieved would be less than the total tax paid in respect of income not subject to double taxation.

6349. (53) The scheme of relief from double taxation of the United States of America is remarkable for its wide sweep. A citizen of the United States is allowed to deduct from the Income Tax payable by him in that country the amount of any Income Tax, War Profits Tax and Excess Profits Tax paid by him to any foreign country upon income derived from sources therein or to any possession of the United States. But the United States occupies an exceptional financial position and there is reason to infer that its present generous attitude as regards taxes paid abroad by its own citizens is attributable to a deliberate policy of encouraging the investment of American capital abroad.

6350. (54) An examination of the systems of taxation mentioned in the preceding paragraphs seems to suggest that none of them provides a remedy for Double Income Tax suitable for adoption in the United Kingdom. The reason for this conclusion may be briefly stated.

Objections to limiting the United Kingdom tax to income arising therein.

6351. (55) The suggestion to limit the United Kingdom Income Tax to income arising in this country (taxation by reference to the place of origin) not only emerges from a consideration of the taxation systems of certain Dominions (i.e., the Australian Commonwealth and State taxes and the tax of the Union of South Africa—see paragraph 46), but was made by Sir Frederick Young and Mr. William Mossenthall in their evidence before the Royal Commission.

6352. (56) Owing to the disproportion between the amount of United Kingdom capital invested in the Dominions compared with Dominion capital invested in the United Kingdom the cost of solution of the Double Income Tax problem on these lines would be thrown almost wholly on the United Kingdom Exchequer. A borrowing country can always succeed in taxing residents in the country from which it borrows by taxing by reference to the origin of the income. The lending country cannot reciprocally tax residents in the borrowing country, and must maintain its right to tax residents in its own country. It is sometimes overlooked that, at any rate under an Income Tax of the modern type, a State taxes a person rather than his income. Moreover a State adopts methods of taxation which suit its own conditions, and the question becomes one of power and expediency rather than of right. It is suggested that it cannot be conceded that as a matter of right a State can expect to tax the residents of another State, and because it has done so expect that the other State should renounce its claim to tax its own residents.

6353. (57) Liability to taxation in this country would no longer be determined in all cases by the generally accepted test of ability to pay as measured by total income, and inequality as between a resident in the United Kingdom deriving his income

from a Dominion and another resident deriving his income from this country would arise in every case save only where the rate of the Dominion tax charged on the former income happened to coincide precisely with the rate of the United Kingdom tax chargeable on the latter income.

6354. (58) The United Kingdom would have to surrender its unqualified right to tax its own residents according to a properly graduated scale, in favour of Dominions whose views as to the appropriate incidence of taxation might be entirely different from the views of the Government of this country. Moreover, even if this surrender were made, it would be impracticable for the Dominions concerned to measure the faculty of the non-resident taxpayer to pay the taxes which they might think fit to impose, for they would have cognizance not necessarily of his total income but only of such part as might arise within the Dominion concerned.

6355. (59) A solution on these lines appears unsuited to the circumstances of the United Kingdom. The cost to the United Kingdom Exchequer of exempting from liability to United Kingdom Income Tax and Super-tax income arising in the Dominions is not likely to be less than £30,000,000.

Taxation by reference only to residence.

6356. (60) The limitation of the United Kingdom Income Tax to income accruing to residents in this country (compare the "general Income Tax" of France—see paragraph 44) as part of reciprocal arrangements for preventing double taxation would, it seems, be quite inacceptable to the Dominions, which are unlikely to be ready to renounce the exercise of their power to tax income arising within their boundaries even if it accrues to residents in this country. Such a limitation would introduce numerous anomalies, and is not known to be advocated by anyone.

Exemption from United Kingdom tax of income taxed in a Dominion.

6357. (61) The objections to exempting income from liability to taxation in this country when it has borne tax in the Dominion in which it arose (compare, for example, the New Zealand tax—see paragraphs 49 and 50) are in substance the same as the objections to the limitation of the United Kingdom Income Tax to income arising in this country (see paragraph 55 to 58).

Deduction of Dominion tax from United Kingdom tax and collection only of balance.

6358. (62) The related proposal to collect only the excess of the United Kingdom tax over the tax charged in the Dominion from which the income is derived (compare the taxes of the United States and Tasmania—see paragraph 50) is, it is suggested, not likely to command acceptance in this country. In many respects it resembles the proposal to limit the United Kingdom Income Tax solely to profits arising in this country. It involves the waiver by the United Kingdom Government of its right to tax by methods suitable to its own conditions persons resident within the United Kingdom, and it throws upon the United Kingdom Exchequer the whole cost of the relief. For it is clear that the deduction of the Dominion tax from the United Kingdom tax would entirely free the income in question from double taxation at no cost whatever to the Dominions. Moreover, the rate of the Dominion tax has only to be equal to the rate of the United Kingdom tax for the latter country to receive no tax at all—the whole of its tax being wiped out by the deduction of the equal tax paid in the Dominions.

Converse of the last proposal.

6359. (63) The converse proposal, in relation to the case of a person residing in the United Kingdom but deriving his income from a Dominion, would as certainly be unacceptable to the Dominions. It would concede the primary right to tax to the country of residence and would throw cost of relief on to the Dominion Exchequer.

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Taxation in the United Kingdom of income not remitted to this country.

6360. (64) In the course of the evidence given by him before the Royal Commission Sir Frederick Young put forward the suggestion that income arising in the Dominions but not remitted to the United Kingdom should not be taxed in this country. This suggestion was also made by Mr. William Mosenthal and by Sir C. C. McLeod, the latter of whom, however, limited his proposals to India, with which country his evidence was particularly concerned.

6361. (65) The United Kingdom Income Tax is, broadly, a faculty tax, that is, the taxpayer's liability is measured by his ability to pay. In the case of a resident receiving income from abroad, taxation based on the total income conforms more closely to the test of ability to pay than taxation by reference to such proportion only of his total income as the taxpayer chooses to bring to this country. The ability to pay is frequently greater in the case of a person who can afford to keep a portion of his income unremitted than in the case of one who is unable to do so.

6362. (66) Moreover, the exemption from United Kingdom taxation of income arising in a Dominion and not brought to this country, without regard to the rate of a Dominion tax, would mean that wherever the Dominion rate is lower than the British rate (as is at present usually the case), the total taxation of the income in question would be less than the total taxation of an income of the same amount arising from a source in the United Kingdom.

Charge for "double services."

6363. (67) The various proposals which have been examined in the foregoing paragraphs proceed on the assumption that all double income taxation ought to be removed, and consequently that it is not appropriate to make what may perhaps be described as a special charge for "double services." The propriety of this assumption requires to be considered.

6364. (68) Briefly, the case for a charge for "double services" may be rested on the view that a person who is interested, in his person or in his capital, in the future security of two separate countries may reasonably be called upon to contribute to some extent more freely to the means that ensure such security than another whose interests are confined to one of them. A charge for "double services," to the extent of 1s. 6d. in the pound, has been upon occasions admitted as reasonable by the Association to Protect Against the Duplication of Income Tax within the Empire. The opinion that "double services" may properly be the subject of double taxation in some degree appears to be widely held.

Conclusions.

6365. (69) The considerations to which attention has been drawn in the course of this evidence suggest that a perfect remedy for such hardship from Double Income Tax as exists is not likely to be found, and that a reasonably workable solution which removes any substantial hardship is the best that can be hoped for. As stated in the opening paragraph, the Board reserve for a later occasion any suggestions which may be desired from them for a solution of the question.

The doctrine of company control.

6366. (70) Some reference is necessary in this evidence to a question that is closely related to the Double Income Tax question, namely, the legal doctrine of company "control," by reference to which a company that is directed and managed in the United Kingdom is taxed in this country on its total profits, even if such profits are made by trading operations which in a popular sense would be said to be carried on wholly abroad. This question was raised in the evidence given by Sir Frederick Young, Mr. William Mosenthal, and Sir C. C. McLeod. As, however, separate official evidence will be submitted to the Royal Commission on this important subject at an early date, it is not proposed to pursue it in this statement.

Mr. Harrison also handed in the following statement as his evidence-in-chief on the subject of the rate of Income Tax payable by persons resident abroad:—

PROOF OF EVIDENCE TO BE GIVEN BY E. R. HARRISON, AN ASSISTANT SECRETARY TO THE BOARD OF INLAND REVENUE, ON THE RATE OF INCOME TAX PAYABLE BY PERSONS RESIDENT ABROAD.

6367. (1) The graduated rates of United Kingdom Income Tax which are applicable to incomes not exceeding £2,000 (or, in the case of earned income, £2,500) and the other reliefs applicable to small incomes do not in general apply to persons resident abroad who derive income from this country. Broadly speaking, such persons pay United Kingdom Income Tax at a flat rate of 6s. in the pound, the standard rate at which Income Tax is deducted at the source.

6368. (2) The governing enactment is section 26 of the Income Tax Act, 1918, which continues the provisions of section 71 (1) of the Finance (1909-10) Act, 1910. It provides that no exemption, abatement or relief which depends wholly or partially on the individual's total income shall be given unless the claimant is resident in the United Kingdom.

6369. (3) The proviso to the section, however, allows the following persons to claim relief to which they would be entitled if resident in the United Kingdom:—

"Any person who is, or has been, employed in the service of the Crown, or who is employed in the service of any missionary society abroad, or in the service of any of the Native States under the Protectorate of the British Crown, and any person resident in the Isle of Man or Channel Islands, and any person resident abroad who describes as the Commissioners of Inland Revenue that he is so resident for the sake of health, and any widow who is in receipt of a pension chargeable with tax and granted to her in consideration of the employment of her late husband in the service of the Crown."

6370. (4) In each of the above cases the claimant's total income has to be calculated to include any income in respect of which tax may not be chargeable (e.g., income earned abroad, rents from property abroad, &c.) in order to arrive at the extent of the relief. Thus, if the income from this country is £100, and the income from abroad on which tax is not chargeable is £500, the abatement allowable against the £100 would be £70, being the abatement applicable to the total income of £600.

6371. (5) The principal reliefs which depend wholly or partially on the individual's total income and from which most non-residents are now excluded are:—

- (a) exemption—where the total income does not exceed £120;
- (b) the abatement of £120, £100, or £70 allowed where the total income does not exceed £400, £600, or £700 respectively;
- (c) allowance (subject to certain restrictions) for Life Insurance premiums;
- (d) allowance in respect of wife, children, adopted children, or dependent relatives, and the allowance to a widower, where the total income does not exceed £800; and allowance in respect of children or adopted children above the number of two where the total income, though exceeding £800, does not exceed £1,000;
- (e) reduction of the standard rate of tax on "earned income" where the total income from all sources does not exceed £2,500;
- (f) reduction of the standard rate of tax on "unearned income" where the total income from all sources does not exceed £2,000.

6372. (6) The principal reliefs to which all non-residents are entitled are:—

- (a) total relief from Income Tax on the interest or dividends of foreign or colonial

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securities, &c., payable or realized through an agent in the United Kingdom;

(b) relief in respect of Dominion Income Tax granted under section 55 of the Income Tax Act, 1918;

(c) total relief from Income Tax on interest, &c., from British Government securities issued subject to a condition of exemption from Income Tax where the securities are in the beneficial ownership of a person not ordinarily resident in the United Kingdom.

6373. (7) The history of the matter is as follows. For a long period any person resident abroad was allowed to make a claim for exemption, abatement or Life Insurance allowance, and the title to relief was determined solely by reference to the income derived from the United Kingdom. Thus, a foreign millionaire who derived an income of £160 and no more from the United Kingdom could claim exemption in respect of the tax on that £160 (the then limit of exemption), and similarly as regards abatement.

6374. (8) The matter was brought to the attention of the Departmental Committee on Income Tax of 1905, which recommended that the grant of exemption or abatement to persons resident outside the United Kingdom should be abolished. (Report, par. 129.)

6375. (9) The reasons for their recommendation appear to have been:—

(a) the indefensibility on grounds of justice and common sense of allowing relief solely by reference to the amount of the income from the United Kingdom;

(b) the impossibility of verifying the accuracy of claims: from abroad, and of punishing persons making fraudulent claims;

(c) that one of the main grounds for granting relief to persons of limited income—namely, that they contribute to the public revenue in indirect taxation in fair proportion to their taxable capacity—does not apply to residents abroad.

6376. (10) The Committee stated that if an exception were made in the case of British subjects residing abroad, relief should be granted only on a certificate from a British Consul Officer (or in a British Colony, from the Colonial fiscal authorities) that the claimant had produced proper evidence showing that his income from all sources was within the prescribed limits.

6377. (11) Extracts from the report of the Committee are printed in the Appendix to this evidence.

6378. (12) The recommendation of the Departmental Committee of 1905 was in general accepted by the Legislature and effect was given to it by section 71 (1) of the Finance (1909-10) Act, 1910. This section is in the same terms as section 28 of the Income Tax Act, 1918, above referred to, except that the case of the widow in receipt of a pension was not included in the 1909-10 Act. That provision was added in 1911.

6379. (13) The highest rate of tax charged for the year 1909-10 was 1s. 2d. in the £, and the effect, therefore, of withholding relief in the case of non-residents was to impose a flat rate of 1s. 2d. in the £ on all income derived from the United Kingdom by non-residents. At the same time non-residents whose total income from the United Kingdom exceeded £5,000 became technically liable to the Super-tax of 6d. in the £ on the amount by which the total income exceeded £3,000.

6380. (14) In connection with this matter various courses are open. On the one hand, the existing law could be maintained. On the other hand, the recommendation of the Departmental Committee of 1905 might be reversed and the incidence of tax upon foreign residents be made to revert to the position it occupied prior to the Finance (1909-10) Act, 1910.

6381. (15) As regards any total reversal of the recommendation of the Departmental Committee the following observations may be made:—

(a) The impossibility of verifying the accuracy of claims from abroad and of punishing persons making fraudulent claims is now of greater importance on account of the large increase in the rate of tax. The temptation to evade is greatly increased while the impotence of the taxing authorities to check evasion remains unaltered.

(b) Persons resident abroad desiring to invest in this country can do so without incurring liability to British Income Tax by investing in 5 per cent. War Loan or in Funding Loan or Victory Bonds.

(c) The case of persons resident abroad who hold shares in companies which are controlled in this country but carry on operations wholly or mainly abroad would no doubt depend in large measure on any decision arrived at by the Royal Commission as to the treatment of such companies—a question upon which the Board propose to offer separate evidence.

6382. (16) Unless it were decided to reverse the recommendation of the Departmental Committee in 1905 the question still remains whether a flat rate charge of 6s. in the £ upon British subjects resident abroad may not involve hardship in particular classes of cases not covered by existing statutory reliefs.

6383. (17) There are naturally cases of British subjects residing abroad for good and sufficient reasons who derive income from this country and are unable to change the source of their income; for example, persons receiving a pension or annuity from this country and residing abroad on account of the presence of their relatives there, or again, retired missionaries who have settled in the country where their work has been carried on. It is particularly in cases of this character that the existing law is the subject of complaint. It would be a matter of great difficulty to frame legislation which covered all cases of this kind and did not extend to all British subjects resident abroad.

6384. (18) The treatment of this question as it affects British subjects dwelling within the limits of the Empire may no doubt be affected by any decision which may be arrived at on the question of Double Income Tax within the Empire. Subject to this, it is for the Royal Commission to consider whether such British subjects should not be included in the scope of the existing statutory reliefs.

6385. (19) It would appear natural that this relief, if given to British subjects dwelling within the Empire, might also be accorded to British subjects dwelling elsewhere.

6386. (20) It remains true that evasion would be exceedingly difficult to check. It may, however, be anticipated that evasion would not be practised by British subjects resident abroad to a serious extent—indeed, the total area of income over which loss from evasion could arise is, of course, comparatively small.

6387.

APPENDIX

Extract from the Report of the Departmental Committee on Income Tax. [Cd. 2575.]

(17) Our attention has been particularly directed to the case of persons resident abroad in regard to claims of exemption and abatement. Their position is peculiar in several respects.

(128) First, while persons resident in the United Kingdom obtain relief only if their total income from all sources is within the prescribed limits, in the case of persons resident abroad only the income derived from the United Kingdom is taken into account. Thus a foreign millionaire who derives an income of £160, and no more, from investments in the United Kingdom is granted exemption on that £160, and similarly as regards abatement. This view of the law was imposed upon the Inland Revenue Department by an opinion of the Law Officers in 1866. No doubt it is legally correct, though it appears to us,

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on grounds of justice and common sense, indefensible. But the matter has only recently become of practical importance, as the following figures show:—

	Number of claims from abroad.
1877	200
1887	1,000
1897	8,900
1901	13,700
1903	20,000

(129) These figures make it important to emphasize another peculiarity of claims from abroad, viz., that it is impossible to verify their accuracy. In effect, the Board of Inland Revenue are obliged to accept declarations made by unknown persons before unknown authorities. Under such circumstances the manufacture of fraudulent declarations is easy; and we understand that beyond any doubt it has taken place to some extent. It is, however, difficult to obtain legal proof; and even were proof forthcoming,

[This concludes the evidence-in-chief.]

6388. *Chairman:* I do not think there will be any lengthy examination this morning. We are making some difference in our procedure. We have taken the papers that you have prepared, and read them thoroughly; and if there are any questions arising upon them the Commissioners will ask you. It will probably mean that this morning you will have a much easier time than you had on the last occasion. —Thank you, my Lord.

6389. *Mr. Kerly:* I will take first, please, your paper on the Double Income Tax. You have in this paper carefully criticized various suggestions for dealing with the problem of the Double Income Tax? —Yes.

6390. And it is so clear that I do not propose to ask you anything about the general matter of it. The result is that you find difficulties in the way of every suggestion?—Yes, that is so.

6391. The only conclusion you state is that a strict logical solution of the problem is unobtainable? —Yes.

6392. We shall have to be content with some rough and ready rule. You appreciate, I think, that the matter must be dealt with, to a certain extent, at any rate, on broad grounds of policy?—Oh, certainly.

6393. You appreciate that it is very undesirable to drive residents away from this country, especially if they are people of means?—Yes, I think we fully appreciate that also.

6394. And also, to take the matter you refer to in paragraph 70, the doctrine of company control, there would be a very material loss to this country if the seat of management of the large international companies we are familiar with were removed from this country?—I think that view would be generally accepted.

6395. And that at any rate there is a possibility that we might lose a great deal more than we should gain by insisting on the present taxation?—That is quite possible.

6396. Those, I suggest, are possibly dominant factors in the situation?—I should not dissent from that.

6397. You have dealt critically and effectively with various suggestions that have been made. Is the Inland Revenue Department prepared to put forward—not as its own suggestion—any further compromised suggestion such as you have indicated—some practical working solution of the difficulty?—We have had what I hope will be some practical schemes under consideration for some time, and we do hope that it will be possible to put forward at the appropriate time a constructive proposal on those lines.

6398. Is the proposal ready?—It is not quite ready.

6399. May I suggest that when it is ready it be circulated—not necessarily given in evidence—so that we may consider the other proposals with that in our minds?—Do I understand that you would like it circulated in advance of the Conference which is to take place in the autumn?

6400. All that I am asking you is if that will be practicable?—Our view was rather that we should have preferred to hear what views were coming from the Dominion representatives before we quite finally

there is hardly ever any effective means of punishing the culprit.

(199) (*sic*) Further, one of the main motives of equity in granting relief to persons in receipt of small incomes is that such persons contribute to the public revenue by means of indirect taxation in fair proportion to their taxable capacity. This ground for relief does not apply to residents abroad. We therefore recommend that the grant of exemption or abatement by reason of smallness of income should be abolished in the case of persons resident outside the United Kingdom. We believe that very few (if any) of the foreigners who invest in British securities have total incomes within the prescribed limits. If it be thought well to make an exception for British subjects residing abroad, relief should be granted only on a certificate from a British Consular Officer (or, in a British colony, from the colonial fiscal authorities) that the claimant has produced proper evidence showing that his income from all sources is within the limits.

[This concludes the evidence-in-chief.]

made up of my own minds as to the proposal we should like to put forward. We could put forward a proposal, but I think the general feeling of those who have considered this subject at the Board of Inland Revenue is that it would be better to wait until we heard what the Dominion representatives would have to say, if that would be convenient.

6401. The effect of that is that we do not have your proposal, which holds the field as an hypothesis, before us in considering the others; I put that to you for your consideration?—Thank you.

6402. Now as regards the present compromise of 3s. 6d., has that given satisfaction so far as the Department is able to judge?—The chief complaint made with regard to it is, I think, first of all that it does not give complete relief from double taxation, and secondly that it does not relieve the small man sufficiently.

6403. You have given us examples of that?—Yes.

6404. I have nothing to ask you further about your first paper. Will you now turn to the second, residents abroad? The present position is that a resident abroad cannot get relief?—With certain exceptions.

6405. Normally he cannot?—Normally he cannot.

6406. That is justified on the ground stated in paragraph 9?—Yes, that is so.

6407. The real ground of refusing relief is the second one, is it not—the impossibility of verifying the accuracy of claims from abroad?—That I certainly think was a very important consideration.

6408. Is there any greater difficulty in verifying the accuracy of claims from British residents abroad than from British residents at home?—There is this great difference, that the British resident in this country can be confronted with the expert tax official, and the British resident abroad cannot.

6409. Is it ever done?—In this country?

6410. Yes?—Oh, certainly. The taxpayer who wishes to claim exemption or abatement has to satisfy the Surveyor of Taxes in this country.

6411. That is to say, he sends in a statement, and there is a correspondence?—Or a personal interview in very many cases.

6412. But generally it is done by correspondence? —I am not quite sure that it would be right to say that it is generally dealt with by correspondence.

The cases in which it is dealt with by personal interview are very numerous indeed; I could not put it into a percentage.

6413. There remains a very large number of cases which are done purely by correspondence?—Yes, that is so.

6414. Then in paragraph 15 you speak of punishing persons for making fraudulent claims?—Yes.

6415. Is it ever done?—In this country?

6416. Yes?—Certainly.

6417. Very rarely, if at all?—Rarely, I admit, but there are cases in the courts from time to time in which persons making fraudulent claims have been sued for penalties.

6418. But substantially you go on the footing that people are honest, if mistaken?—Yes, generally I think so, certainly. I would not be for a moment taken to allege anything like widespread fraud.

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6419. You investigate for the purpose of seeing that the claimant thoroughly understands the statement he is making, and has taken all proper materials under his view?—That is so, yes.

6420. And then when you have done that you take his statement?—Normally we should take his statement, yes.

6421. Have you any substantial ground for believing that there would be more fraud if you allowed the relatively few foreign residents to get this relief?—I think a foreign resident who is not a British subject cares very little for British Income Tax, and his conscience is perhaps somewhat easy as regards the accuracy of his return.

6422. I am speaking of foreign residents who are British subjects?—No; I should not anticipate any considerable amount of fraud if the exemption applied to them.

6423. What suggestion would you make with regard to the level of abatement in the case of a British resident abroad? Would you suggest that the limit, if any, of the place where he is living, say, a British Colony, should be taken, or our own limit for exemption?—I would suggest our own limit for exemption.

6424. It would be very difficult to work anything else?—It would be very difficult indeed.

6425. Mr. Walker Clark: In the case of correspondence to which Mr. Kerly has just alluded, is it not a fact that in the great majority of cases the correspondence is not with the individual taxpayer, but with some expert?—Certainly not in the majority of cases. It is quite a minority of cases in which the tax official is in communication with the expert. There is a large number in the aggregate, but certainly quite a minority.

6426. The cases that are settled by correspondence are rather between the individual taxpayer and the Surveyor than between the expert and the Surveyor?—All that I meant to say was that the majority of cases which are dealt with by correspondence are cases between the tax official and the individual taxpayer.

6427. And not an expert on behalf of the individual taxpayer?—Not in so large a number of cases, no.

6428. My experience is rather different locally. Is not another difficulty in dealing with foreign income the difficulty of verification of specific items in that income?—It is very difficult, of course, as regards foreign income.

6429. Is not that the greatest difficulty of all, really?—Yes, I suppose it would be. We have no check at all upon the amount of the income.

6430. You have neither check nor data?—That is so; and we have no satisfactory means of investigation.

6431. You have neither data nor means of investigation; is not that the position?—That is generally true, yes.

6432. Mr. Meekinder: Would you assent to this, that the great practical difficulty of adjusting this matter is an argument for the simplest possible system of reliefs in regard to Income Tax?—You are speaking, I take it, of Double Income Tax?

6433. Yes.—I certainly think that we are, as a Department, great advocates of simplicity, if it can be attained.

6434. I mean this, that granting the desirability from a national and imperial point of view of not driving capital away, a strong argument for simplicity in your system of reliefs is to be derived from the difficulty of adjusting the double tax?—Subject always to this, that simplicity has to be considered in connection with objections.

6435. Yes?—Simplicity in itself is most desirable, of course, if it can be attained.

6436. Mr. Birley: In the case of the foreigner resident abroad and receiving income from this country, he is now taxed to the full extent of the Income Tax, 6s. in the £?—That is so, yes.

6437. But you have no means of making him pay Super-tax in many cases where his income is sufficient to make him liable to it?—That is perfectly true, and we hope to be allowed at a later date to offer to the Royal Commission some evidence on that very subject.

6438. Then I will not ask you anything further on that point.

6439. Mr. Symonds: You are aware that there is a treaty between the French and English Governments by which in the case of a person having assets in both countries, before they can get out the Probate in either country the schedule of assets in each country has to be handed to the other country?—I am aware that there is a treaty, but I am not aware of its exact terms.

6440. I have read the treaty. Of course, everybody must die in the course of time. I want to ask you this as regards evasion; ultimately you must, under that treaty and apart from your own investigations, know exactly what the man's property is who is resident abroad?—No doubt that would follow from what you say; I will take it from you.

6441. Do you not think you will be able to remedy these possible evasions, if any, under that?—I should hesitate very much to say that.

6442. It would help you?—It would go some distance, perhaps.

6443. Would it not help you also on the question of the Super-tax?—The Super-tax difficulty is rather a different one.

6444. I want to shorten the proceedings, so I will not go into that, but I want to put this point to you: the object of any relief in this matter is that the man with a small income resident abroad should not be taxed higher than he would be if he were living in this country; it is a question of fairness?—Yes.

6445. Are you aware that now a person resident, not merely domiciled, in France has to pay an Estate Duty in France and also in England? Are you aware that he is liable to two Estate Duties?—I am not very familiar with Estate Duty law.

6446. Perhaps you will look it up, because I have seen French counsel's opinion. If that is true, would not you consider this question also: if a resident abroad, who for family reasons or economic or other reasons has to be resident there, is liable to two Estate Duties, would not that be an additional reason for giving him this relief?—It might be a consideration to be taken into account.

6447. Perhaps you will look into the matter from that point of view and investigate it?—Yes.

6448. Mr. McIntosh: On the question of a company carrying on business, say, in Australia, and controlled in London, and the shareholders all in this country, have you considered the net effect to the Revenue of only taxing them on the profits earned in Australia once, and not taxing them on the profits in this country again?—We have, of course, been considering that mainly in connection with the doctrine of control, on which we hope to give evidence at an early date. Taxation by reference to the control of a company being in this country is connected with Double Income Tax, but it is to a large extent a separate problem.

6449. The point I want to put to you is this, that if you relieve them in this country and the shareholders are all in this country, you will get back some of that tax?—Yes.

6450. By the shareholders getting a larger dividend?—The shareholders who are resident in this country would of course be liable to Income Tax, whether we taxed the whole of the profits of the company as a company or whether we taxed the dividends in the hands of the shareholders as residents in this country.

6451. I agree; and therefore if the company only paid one Income Tax, say in Australia, there would be a bigger fund of profits out of which to pay the dividend to the shareholders in this country?—That, as far as it goes, must be true.

6452. You get back by that means part of your loss through giving the company relief from taxation of its profits in this country?—Yes, but of course it would be only a very small fraction. For every 20s. that we gave up the maximum amount that we should get back would be 6s.

6453. Still, there is something to come back, even in that case; it is not all lost?—Some fraction, I agree.

6454. Sir T. Widdowson: I want to ask you whether this is not a matter that cuts both ways, so to speak. Take the case first of all of a company in this country having businesses in several parts of the world, not

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only in the Empire but in other foreign countries, making large profits, a large amount of the profit not being brought to this country, but being reinvested there in extending their business; at the present time I think I am correct in saying that they will be charged tax here on the whole of those profits?—That is so, yes.

6455. That is obviously a very strong inducement to that company to remove its headquarters, say, to Holland?—No doubt that does operate.

6456. And thereby avoid the tax entirely, except on the profits made in this country?—Yes, and of course the profits accruing to resident shareholders in this country.

6457. Yes; that is one side. It is apt to drive the control of concerns, and perhaps the residence of proprietors where they are few, to other countries?—Yes. May I just say I do not want not to answer these questions, but may I suggest they are rather on this subject of control, on which we are giving separate evidence?

6458. Still, it does bear on the double tax?—Yes, it has a bearing on the double tax, of course.

6459. The other side which I am going to suggest, which is a different one, is this: if you abolish the tax on income not brought to this country, and thereby retain those companies here, you would facilitate, would you not, the old trouble of investment corporations, insurance companies and wealthy persons who did not require all their income, investing abroad and keeping their income abroad and reinvesting it there?—Undoubtedly, if you abolish the taxation of income which is not remitted to this country it would have those effects.

6460. And if you do not abolish that, you will run the chance of driving from this country a good many of those concerns of which I have been speaking?—If I might suggest it, there seem to me to be two separate questions there. One is the taxation of income which is not remitted to this country, whether it accrues to a company or a person or a company controlled here or whoever it accrues to, and the other is the taxation of income arising abroad, which accrues to a person or a company controlled in this country.

6461. Practically the policy is the same, and what I am suggesting is that it is a very difficult problem, because it cuts both ways?—Undoubtedly it bristles with difficulties.

6462. And when we speak of driving capital from the country, while on the other hand it may do so, if you give a pretty extensive remedy it would facilitate other money in going out which would not otherwise have gone?—No doubt it might have those effects also.

6463. Sir J. Harcourt-Banner: I see this evidence of yours is "on the subject of Double Income Tax within the British Empire." Might I ask you if you are going to prepare and submit to us any similar evidence on the effect of Double Income Tax on international business?—If the Commission desire to have from us evidence on that point we should undoubtedly be prepared to give it.

6464. I venture to suggest it would be desirable. We are going to have evidence to-morrow from a gentleman on the effect of Income Tax on international business, and I think it would be very valuable if we had the views of Somerset House upon it. We are going to have from Sir Archibald Williamson some evidence on the Double Income Tax in America and in this country, and we should like to know what your views are on the subject?—I will make a note of that.

6465. The only other question is as regards Regulations. You are aware of the Regulations that the United States have as regards making residents abroad give information, are you not? They first ask them whether they have any branch office in the country, or domiciled agent, to prepare and verify returns and make a true and accurate account, and then if they have not an agent resident they ask them to notify to their tax office the name and address of the agent or the name and address of the home office to make the return?—I have seen those

Regulations; I am not very familiar with the details of them.

6466. It might be as well if you would look at the way the Americans carry it out, with a view of seeing if that would in any way meet our requirements as regards the collection of tax?—Certainly.

6467. Mr. Freyman: In paragraph 65 of your paper on Double Income Tax within the Empire you remark that the Income Tax in the United Kingdom "is a faculty tax, that is, the taxpayer's liability is measured by his ability to pay," and then at the end of the paragraph you say: "The ability to pay is frequently greater in the case of a person who can afford to keep a portion of his income unremitted than in the case of one who is unable to do so." That really has a bearing upon graduation?—Yes.

6468. That paragraph means that one of the difficulties is not only whether a particular item of income is taxed or not, but at what rate it shall be taxed?—That is precisely the point I had in mind.

6469. I do not see that in any of these proposals any suggestion has been made as to dealing separately with actually taxing and with graduation; has that been considered? For instance, it might not be possible to demand a return from an individual—I am not dealing now with the company question if you are going to deal with that later and separately, and of course that particular paragraph 65 does not apply to companies?—Not specially.

6470. Although returns could be obtained by individuals and tax paid on dividends that they received from companies?—Yes.

6471. They could get that individually?—Yes.

6472. I am dealing with this purely individually. Has it ever been suggested to you whether it would be possible to demand a return of all income derived from all sources, whether in this country or in the Empire or anywhere else, whether taxed at the source or brought here, so far as rate is concerned?—Rate?

6473. So far as graduation is concerned—so far as the rate of tax is concerned. What I mean is to have a complete return, but then actually to charge the tax upon a different basis, that is to say possibly only on money brought to this country; you see my meaning?—I think I follow. You mean determining the rate by reference to the total income, but not necessarily apply that rate to the total income?

6474. That is the point. Has that ever been considered?—Well, I do not know that we have considered it to a very considerable extent, but we have certainly had it in mind from time to time; but it does seem to us that the taxpayer should pay the tax on his total income. The resident in this country should, subject to any relief from Double Income Tax which it may be thought proper to give to him, pay the tax on his total income, because if he were charged on any other basis he might leave large sums of income abroad simply and purely in order to avoid British Income Tax.

6475. Paragraph 65 does not mean much in that case?—I do not follow why you draw that inference.

6476. You say here in paragraph 65 that the difficulty in the remission of tax is that it is a faculty tax, that is to say you cannot get the proper graduation if you make this remission; I therefore ask you whether it has ever been suggested that you should get this graduation which in paragraph 65 you suggest is necessary without taxing the whole income?

Of course, we do get the graduation at present. Non-remitted income is taxable at present with certain exceptions, as well as remitted income, and we do include that non-remitted income in the statement of income, and do tax the whole of it.

6477. But it would not be necessary to tax the whole of it as a matter of machinery. This paragraph 65 refers to machinery, does it not?—No, not only to machinery. It refers also to the fairness of the tax in circumstances where we are seeking to determine the tax of a particular individual. If we determined that his income was, say, £5,000 or £6,000, but we wanted to tax him only on £500 or upon half the amount, apart altogether from the question of fairness there would be considerable practical difficulty. For instance, a person on his

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income pays Super-tax on slices of his income at different rates, and it would be extraordinarily difficult to say whether the £300 that came from abroad was what I may call the top slice of his income or the middle slice or the first slice; there would be very considerable difficulty in working that out.

6478. That is a question of Super-tax; that is a different point?—But the same consideration would apply as regards Income Tax also. There are reliefs and abatements, and it would be a question at any rate for consideration as to which part of the income you took the abatement from.

6479. Mrs. Knowles: Does this Income Tax of people living abroad apply to consuls?—All persons residing abroad who derive their income from British funds have to pay Income Tax on that income.

6480. Do they have to pay it, say, in Spain?

Suppose there is a consul at Bilbao; will he have to pay Income Tax in Spain as well as here; is he subject to double taxation?—Subject to any diplomatic immunity he might enjoy, which Spain I think does allow to the ambassadorial suites and people of that kind.

6481. I am thinking of the ordinary consuls?—Subject to any remission of taxation which the Spanish Government might allow to him on that ground. He would pay British Income Tax on salary drawn from British funds.

6482. And possibly have to pay a second Income Tax in the country where he is living?—Possibly; but I would qualify that because I am not quite certain of the extent of the immunity which he might enjoy in Spain owing to the fact that he is a British consul.

MR. EVAN WILLIAMS, on behalf of the Mining Association of Great Britain, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

6483. I am the President of the Mining Association of Great Britain and have been deputed by the Executive Council of the Association to give evidence before this Commission. I am desired to put before the Commission the views of the Association on the following points in connection with the assessment for Income Tax of collieries and coal mines:—

(1) *Wasting assets.*

6484. Under existing Income Tax law a colliery owner receives no allowance in respect of wasting assets. The chief items of expenditure comprised in these are:—

- (1) costs of securing leases,
- (2) laying out surface work and preparation for sinking,
- (3) sinking of shafts,
- (4) opening out of workings and other development until coal is won on commercial basis and capital account closed,
- (5) extensions chargeable to capital during course of working.

These are all outlays which, though essential to the carrying-on of the undertaking, cease to be of any value when the life of the colliery comes to an end. It follows, therefore, that the total amount of such expenditure must be written off during the effective life of the colliery, and such redemption is as much a part of the cost of production as the expenditure on pitwood or horse fodder. Inasmuch as no allowance is made for such redemption for Income Tax purposes the colliery owner in fact pays tax on more than the true amount of his profits, because the full cost of production is not charged in the computation. In his evidence before the Coal Industry Commission Dr. J. C. Stamp estimated that a fair charge in respect of wasting assets for the coal mines of the country would be about £2,000,000 per annum. The Government propose to limit the profits of the coal trade as a whole to an amount per ton which, on the Coal Controller's estimate of output, will yield about £12,500,000. At 6s. in the pound the trade will pay in Income Tax £3,750,000, whereas the true profits are only £10,000,000, and the industry is being in reality taxed not at 6s., but at 7s. 8d. in the pound; that is to say, at a rate 19 per cent. higher than other businesses.

- (6) In addition to the above items there is the initial and subsequent expenditure upon rails, sleepers, trams, tubs, and other details upon which no depreciation is allowed. It is true that all renewals of these are allowed as an ordinary expense, but there is no provision to meet the wear and tear of the first complete set laid down. The expenditure on these is clearly an item in the cost of production over the period for which they last and should be allowed for Income Tax purposes over the period.

- (7) Where the colliery company actually owns the minerals which it works, the capital expended in the purchase of these should also be the subject of an annual allowance for amortisation over the period of their life.

The method of calculating the allowances which should be made to meet the above items would involve taking into consideration the circumstances of each case, particularly the life of the colliery, but once general principles were laid down the settlement of the individual case would present no new difficulty.

(2) *Provision for contingencies at expiration of lease.*

6485. When a mining lease terminates, either at expiration of the full period or at any earlier determination, there are always obligations upon the lessee which extend in all cases some, and in many cases, heavy, expenditure. For instance, the workings have to be maintained free from water and in a state of repair up to the last day; all the surface that has been occupied by the colliery works has afterwards to be restored to its former condition, at for agriculture, or paid for at its full value; pits have to be filled up, and the like. This expenditure has to be provided for during the working life of the colliery by setting aside part of the income for the purpose. Such deduction is a legitimate working expense, and a fund set aside for that purpose should be allowed as a deduction for Income Tax purposes.

(3) *Inefficiency of amount allowed for wear and tear.*

6486. The present practice is to allow a percentage, generally 5 per cent., upon the diminishing value of the plant and machinery. At this rate it takes about 40 years to reduce to scrap value. There is no piece of machinery at a modern colliery which has not to be scrapped long before it reaches that age, and a very large proportion of colliery plant and machinery has only a life of less than half that length. Indeed the complaint made against coal-owners in this respect at the Coal Industry Commission was that they were far too slow in replacing their machinery by the most recent types. However that may be, the allowance for depreciation now made from Income Tax assessments is wholly inadequate, and requires immediate revision. Rates should be fixed, preferably upon the initial value, which would bring the various classes of plant and machinery to scrap values within a reasonable estimate of useful life, and more and no less, amount of total allowance, no more and no less, should be granted whatever the actual length of life of the plant in question.

(4) *Income Tax on rents and royalties.*

6487. It is suggested that inasmuch as the colliery owner is in fact, though not in law at it stands at present, merely the channel through which the Income Tax upon rents and royalties is collected, it would be more equitable that this item should be

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kept separate from the assessment of the profits of the undertaking and be accounted for year by year as the amounts due upon the actual rents and royalties paid for such year.

[This concludes the evidence-in-chief.]

6488. *Chairman:* You are the representative of the Mining Association of Great Britain?—Yes.

6489. What experience of mining have you had?—I have really been brought up in it. I have been engaged in the mining industry since I left Cambridge in 1892; I have done nothing else but look after collieries belonging to my firm.

6490. Then you have practical experience of collieries?—I am not a certificated manager, but I have had practically the whole conduct of collieries since 1892, having done nothing else but look after collieries both commercially and industrially.

6491. You understand all about the working of the pits?—Well I should not like to say that, but I have a very good general knowledge. I have been a great deal underground from time to time.

6492. Of course, you must have knowledge or else you could not have written your evidence on Wasting Assets?—I have considerable knowledge.

6493. We will not ask you to read your paper, because it is before us now, but the Commissioners will ask you questions upon it. I will ask Sir John Harwood-Banner to put to you some preliminary questions.

6494. *Sir J. Harwood-Banner:* You have had very great experience in collieries, and all matters connected with them. In your view is it not the fact that collieries have always been very hardly dealt with on the question of Income Tax, because at the termination of their life, having paid good dividends subject to Income Tax, to the shareholders, they give back again to their shareholders nothing to represent all the huge expenditure that has been made on the capital account of the collieries?—That is so. I may say that I have made inquiries from people in South Wales and elsewhere who have been engaged in opening out new collieries on a large scale during the last ten years, and I find from their experience that the proportion of the total initial capital expenditure upon which depreciation is allowed, that is the amount representing the value of the plant and machinery, varies from 21 per cent to 31 per cent. I have had no case of a recent large colliery where the value of the plant and machinery upon which depreciation is allowed exceeds 31 per cent. Of course, the proportion must depend very largely upon the depth of the pit, and the amount of trouble that has been experienced in sinking the pit, but it is obvious that a modern colliery costing say £500,000 would only get depreciation upon something from £100,000 to £150,000 of its initial expenditure. The whole of that expenditure is, I will not say valueless, but of very little value when the colliery undertaking is exhausted. There is the scrap value of the plant and machinery, but no value as it attaches to any of the work that has been done in laying out the colliery to start with, or in sinking the pits.

6495. The Income Tax authorities deal with the first expenditure of the colliery entirely as capital, and capital being lost, there is no deduction allowed at all. You set out in your evidence very fairly the various items of expenditure. In addition are there such things as overpaid mine rents, which are frequently paid by the mine and not recovered in any way, upon which no allowance is made?—That frequently happens. Income Tax is paid on the whole of those amounts year by year as they have to be paid to the landlords.

6496. Then supposing the overpaid mine rent instead of coming out at £100,000 only comes to £20,000, the £80,000 of loss made on that overpaid mine rent would not be allowed as a deduction from the profits of the concern?—No.

6497. Are the rates of depreciation they allow you fair, or do you consider they ought to be extended?—On the plant and machinery at the present time I consider the rates allowed for depreciation are entirely inadequate. Generally speaking they run about five per cent., and it takes a very long time to reduce to scrap value at five per cent. upon the written down value year by year. Of course, the scrap value varies with the type of machinery. If

it is heavy the scrap value would form the great bulk of its initial cost, but a great deal of machinery has a scrap value which is a very small percentage indeed of the original cost.

6498. I see you include expenditure at the termination of a lease. At the termination of a lease there are very big obligations in turning the colliery land back into green fields?—Yes.

6499. Nothing of that sort is allowed for Income Tax purposes. Virtually you have made the land into a waste, and you are compelled under your arrangement with your landlord to restore it, but those expenses are treated as capital expenses, and you are allowed nothing?—That is so.

6500. *Chairman:* Do you not make allowance in your depreciation funds for the future scrapping of the colliery, that is, out of your profits?—In the accounts of the company do you mean?

6501. Yes?—Generally speaking I think that is so, but the Income Tax authorities do not recognise those as deductions for the purpose of the assessment.

6502. That is one of your points?—Yes.

6503. *Mr. Mackinder:* Is it the custom of colliery companies to have a sinking fund to cover those wasting assets?—I would not like to say that it is general, but I think some companies do. A large number of companies that I know do not; they have a general reserve fund.

6504. What I was trying to get at was whether a simple method would be if you could have rules fixed for a sinking fund on which Income Tax would not be charged?—I would suggest to the Commission that when the first assessment for Income Tax is made upon the profits of a new company there should be a statement of the total expenditure saying how much is in respect of machinery and plant, and how much in other respects. With regard to machinery and plant the allowance should be determined having regard to the general life of the different classes, so that during the life of the trading of the plant, which is the difference between its scrap value and its original value, should be written off and allowed as a deduction for Income Tax. With regard to the other expenditure it is rather more difficult perhaps to deal with, but I think it is possible to fix within very fair limits what the expectation of life of a colliery would be having regard to the extent of the area in lease, the number, and the thickness of the known seams that have been made workable by the outlay, and the annual output which can be dealt with by the equipment, and an allowance should be fixed which would be sufficient to recoup that outlay. When the first assessment for Income Tax is made upon the profits of a colliery company the owner should be asked to make a statement of the total expenditure upon the colliery, showing separately the particulars of the expenditure upon the various classes of plant and machinery, and the expenditure upon other matters such as preparation for the sinking, the actual sinking of the pits, and the other expenditure that has to be incurred. With regard to plant and machinery such an allowance should be made for depreciation year by year as would make up the difference between the scrap value and the original value within the life of the particular class of machinery. I think there is so great difficulty in fixing fair periods as representing the different classes. The fixed and heavy plant would be one class, the electric plant would be another class, and things like rails, and trams, and ropes, and things of that kind which wear out rather more quickly should be put in another class and those allowances should be determined.

6505. Would not all those matters be really attained in the adjustment of the sinking fund. Let me put it in this way: would you not say that it was sound finance that a company with a wasting asset such as a colliery company should emerge at the end with its capital intact?—Certainly.

6506. I put it to you would it not, therefore, be well that the State should encourage companies with such assets to be soundly financed by giving them the Income Tax advantage on the sinking fund method rather than by the complicated method you are putting?—The disadvantage of a large sinking fund is that you lay by a considerable capital which

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you have got to invest in some first class security, whereas the money might be employed to better advantage in other ways.

6507. I do not go into the question of how you employ the funds which are accumulated as a sinking fund. But taking it broadly, you would say, would you not, that the shareholders of a colliery company ought not to be encouraged to be living partly on their capital, and if that were to be admitted then I am suggesting a simpler method than this complicated method that you are suggesting. I suggest that it would be a sound method for the State to recognise sinking funds made according to certain rules, and to give tax remission on those funds?—That would be a simple solution of it, of course, but the method I am suggesting is one which is now in force in regard to plant and machinery. My complaint with regard to the present method is that the amount of the allowance is inadequate, but in regard to the other expenditure, upon which no allowance is made at all at present, the amount of the allowance would depend upon the life of the colliery, and such an amount ought to be written off year by year or set to a sinking fund, as would before the end of the life of the particular undertaking, replace the whole of the capital expended at the beginning.

6508. Chairman: Supposing you had a special sinking fund for this wasting asset you say that would take capital which could be better utilized in the business. In a colliery are not there a great many liquid assets for which you could utilize that fund—wagons for instance?—Wagons, of course, are an expensive luxury. No one wants more wagons than he is absolutely bound to have to carry on his business.

6509. It is a very large amount in connection with a colliery?—It is a very large amount, because wagons have to be provided at the commencement of the life of a colliery.

6510. And rails?—And rails. They are part of the first equipment, and they wear quickly, and have to be replaced during the life of the colliery.

6511. You always keep your rails in order. They are an asset that can be dealt with if there is a smash up of the colliery. The rails could be sold, and the wagons could be sold?—The wagons, I suppose, are the most saleable assets that a colliery company has.

6512. Mr. McLintock: Your claim really falls into three separate compartments. First, that the present rates given to you on plant and machinery are inadequate?—Yes.

6513. You are aware that there is at present a different rate given for different classes of colliery plant? That is so in some districts. In some cases they make a uniform percentage applicable to the whole lot.

6514. You know that the wagon rate has been very fully gone into, and a rate has been agreed which fairly corresponds with the life of a wagon?—Yes; I was a party to those negotiations with the people at Somerset House.

6515. The main part of your claim is that you get no allowance for the cost of sinking?—That is so.

6516. If you adopt the sinking fund proposition you clearly must invest that fund outside the business?—You must.

6517. Otherwise if it is simply an accumulation of a sum of money in your own business the profits flow into the business in the ordinary way?—Exactly.

6518. Is it your view that a workable scheme could be devised whereby at the start of a colliery a percentage could be fixed on the wasting asset corresponding to the life of the colliery?—That is my view.

6519. And once you have got 100 per cent. you cease to claim any more if you have been wrong in your estimate of the life?—When you have had your full allowance to cover your expenditure then no more allowance should be made, but such an allowance should be made as would cover the total expenditure within the life of the colliery.

6520. Then you come to the other group of expenses, such as rails, sleepers, trams, tubs, &c. You get renewals of those from time to time?—Yes.

6521. But your complaint is that at the end of the colliery's life you are still left with the original cost undepreciated for Income Tax purposes?—Yes, of the first complete set that you equip the colliery with. That is an absolute loss unless you get an allowance

for the depreciation of that lot during the life of the particular articles.

6522. Your contention is that mere renewal is not enough?—Renewal is not sufficient. Renewal debited to your working cost deals with all the replacements of the first set, but the first set is not dealt with at all, and that is as much a legitimate cost chargeable against Revenue as anything else that you buy in order to carry on the colliery.

6523. That initial outlay you would put in the same category as the sinking cost?—Exactly.

6524. In sub-paragraph 7 of paragraph 1 of your evidence is chief you refer to a colliery company owning the minerals?—Yes.

6525. And you say that the capital expended in the purchase of the minerals should also be the subject of an annual allowance?—Yes.

6526. You are aware that where the colliery company does not own the minerals but pays a royalty, the mineral owner would in that case require to get some concession?—Well, that is his business.

6527. It would be hardly fair to give it to the owner who worked his own minerals, and not give it to the owner who leased his minerals?—I do not claim any preferential treatment for the colliery company that owns its minerals.

6528. But you see where that lends you to. Have you anything to say on the question of the five years' average that is applied to collieries?—I think on the whole colliery companies would prefer to retain the five years' average rather than be assessed year by year, if that is what you mean.

6529. May I ask you why?—Because there are collieries that make losses some years, and profits in other years; if you are assessed year by year you do not get those losses set off against profits.

6530. Suppose you are assessed on the income of the preceding year, and say for the last year you made £100,000, is there anything to hinder you setting aside the tax to pay the following year on that £100,000 when you have earned it?—No.

6531. And if in the following year you lose £50,000 you would be entitled to get the tax back again?—Provided you do get the tax back again I do not think there is any great objection.

6532. Is your fear that you may have to pay on the profits, and get no relief for the losses?—That is my fear.

6533. But subject to that you see no reason to continue the five years' average?—I do not think there is any strong argument in favour of it except that it gives you a means of setting your losses against your profits within five years.

6534. That is the only reason?—That is the only strong reason that I have. There are other reasons in favour of making the assessment a yearly one. The point I have raised in regard to rent and royalties would be simplified in that way, because at present there is a complication in regard to the amount deducted by the colliery company from the landlord in respect of Income Tax; that is done on the rent or royalty of the particular year, whereas the colliery company pays the Inland Revenue upon an average of five years. There are cases where the company benefits, and there are others where the Inland Revenue benefits. Mr. Clark was good enough some year or more ago to go into this question very fully with me, and we came to an agreement upon it that in some cases the Inland Revenue benefits, and in other cases the taxpayer benefits. My view is that the colliery company should be treated purely and simply as the channel through which the tax is collected from the landowner.

6535. In other words, you wish to hand over the specific amount that you retain?—Year by year.

6536. And to be assessed on your profits independently?—Yes. Even if the nationalisation of minerals takes place I think it is very desirable that that should be done. Possibly it would follow automatically, but in any case I think it is a change which should be made as soon as possible.

6537. Have you any suggestion to offer as to the rates which you think would be reasonable for plant and machinery on which you get allowance at present?—I think that fixed plant and machinery ought to be subject to an allowance of five per cent. per

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annum upon the original cost. There may be cases where if it is heavy plant of a very permanent character a slightly lower percentage might be applicable. In the case of electrical machinery the rate should be higher. Obsolescence enters very largely into the question with regard to electrical machinery, and also the life of the electrical apparatus is not a long one, and I think there should be an allowance of $7\frac{1}{2}$ per cent. upon electrical machinery. If the machinery lasts longer than the period over which the $7\frac{1}{2}$ per cent. will cover the cost, no more allowance should be made after that.

6538. You know they give you $7\frac{1}{2}$ per cent. if you claim it at present?—Yes, but on the written down value. My view is that an allowance on the written down value does not meet the case at all.

6539. It usually goes on for ever you know?—It goes on for ever.

6540. At least so long as the company is in existence?—In fact it cannot come to an end mathematically.

6541. It goes on for the whole length of the life of the particular business. Is not that a set off in getting the proper rate from the beginning?—There is hardly a business that lasts long enough to write the plant down to scrap value at the rates that are given in some cases. My view is that it is not right to diminish the value on which wear and tear is allowed during the year of any plant or machinery used for the concern. I do not think the rate upon the diminishing value really meets the requirements of the Act of Parliament.

6542. But as a rough and ready method which on the whole is fair would it not meet you if the diminishing value were continued with a slightly higher rate?—No, I should prefer a fixed allowance year by year; I think that is the fairest in the long run.

6543. You know that the outstanding instance of an allowance for depreciation based on the initial cost, is the case of ships?—Yes.

6544. Do you suggest that you can follow a set of colliery plant throughout its existence as completely as you can a ship?—I think rather more so. You may lose the ship altogether.

6545. And suppose a colliery changes hands at a very much enhanced price?—Still the machinery would be there.

6546. You would continue the allowance on the old basis?—Continue the original allowance.

6547. Mr. Marks: I understand you expressed a preference just now for a sinking fund at a fixed sum per annum?—I hardly said a sinking fund at a fixed sum, but an allowance.

6548. Well an allowance. What would you do with that, applying the method practically; would you put that to a particular account?—I would not keep the money in the business; I should be inclined to invest it outside the business.

6549. Where it would accumulate at interest?—Where it would produce a revenue year by year, and where there would be a good chance of the capital being intact at the end of the life of the colliery.

6550. You know, of course, that there are three methods suggested for this allowance; they have been referred to; the one you mentioned just now, the equal sum per annum; the percentage of the diminishing value; and the sinking fund. Do you not think that if you are going to bring interest into account you really must adopt the sinking fund method. You produce in the case of a fixed sum per annum—if you invest the amount at interest—a larger sum than you really require for redemption?—You pay Income Tax on the interest.

6551. But you make allowance for that, and even so you produce too much?—Yes.

6552. I am only putting this point because it makes a good deal of difference plus or minus to the Government which method you adopt. Does not that suggest that the sinking fund method is the proper one?—I think the sinking fund method is the more scientifically correct.

6553. If you agree with that I have nothing more to ask you.

6554. Mr. Walker Clark: Your evidence has been chiefly in respect of coal mines?—Entirely.

6555. Would you include in the same principle chalk, or slate, or stone, or clay mines, or brickworks, where the same conditions to some extent apply?—I should apply what I say to every case where the conditions are similar.

6556. And to shop fronts for example?—I am afraid I know very little about shop fronts.

6557. I am giving you a case in point. The principle is very extensive if brought into operation?—Yes. I regard the profits upon which a company shall pay Income Tax as being the difference between the total expenditure and the total receipts over the whole life.

6558. But there is a great difference in the life. You cannot estimate the life of a colliery actually, or any of these other mines?—You can estimate it.

6559. It is not like the case of the life of a lease?—I am afraid I have not given sufficient consideration to that part to give you an answer which would be worth anything.

6560. The whole point of the sinking fund is that you must have a definite period, and it appears to be impossible to have an accurate method of establishing a sinking fund where the period is unknown, and I want to know how you would get over that difficulty?—I think it is possible in the case of a colliery to estimate the probable life of it sufficiently accurately to provide for the allowances that I advocate should be made.

6561. Mr. Symonds: You represent the case of a colliery that has either purchased an interest, or leased an interest from the owner; that is the type of company that you represent?—Do you mean the owner of the land—the minerals?

6562. Yes, that is the type?—I think that covers all the types of collieries that are in existence.

6563. In that case you say the right to take the minerals at a certain price, or you pay so much a year, or the other; is not that so?—As a rule you pay so much a year as a certain rent and royalty upon the tonnage that you raise.

6564. But is not the price that you offer based on the fact of what you have to pay now, and on the fact that you are not given these allowances?—I am afraid I do not quite follow.

6565. Supposing you were given these increased allowances, would not you have paid more for the colliery in the first instance?—No, I do not think you would.

6566. Supposing ten years ago you knew that you would be allowed certain rates for sinking fund, and so on, and for waste, would you not have considered all that in the price you offered to give?—I should be very surprised if it entered into the calculation of any colliery owner in starting a colliery.

6567. Very well, that is so?—That is my own experience, certainly.

6568. Mr. Kerly: Is there an element of speculation in working collieries?—A very large amount of speculation.

6569. Have you ever considered whether the total expenditure on collieries in a particular district has led to a loss or a profit?—Do you mean on the average?

6570. On the total over, say, fifty years?—I should say a profit on the whole.

6571. Supposing you adopted the sinking fund method, it would be merely a question of determining the period in which you are to amortise your loss, and then getting an allowance of the yearly premium?—Yes, quite, and the way in which that would be dealt with would be a matter for the company to decide.

6572. And taking into account that all human assets are of a wasting character you would not allow for the whole of the period but only for part of the period in the case of the collieries, making your allowance, not for the total period of life, but for the period by which that is shorter than what you took as the normal asset?—You would have to allow a considerable margin in order to be safe.

6573. Mr. Petyman: Do not these suggestions of yours divide themselves into two quite separate parts; one is the question of depreciation of

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machinery and plant; is not that common to almost every industry in the country?—Yes, I rather think it is.

6574. Is there any reason why collieries should be treated differently from other businesses in that matter? Take a dock company for instance. A dock company possesses a great deal of the same kind of plant that a colliery company possesses in the way of transporting machinery, and various assets of that kind. Is there any reason why the colliery case is in that respect different from that of a dock company, or any other business of that character?—There is no difference in principle, but I should think, generally speaking, the wear and tear of colliery plant, particularly that part of it which is underground, is more than perhaps in any other industry.

6575. That is purely a matter of degree?—That is purely a matter of degree.

6576. That is a question which should be raised in the general interests of businesses of that character throughout the whole country?—I think so.

6577. The other grievance is quite a different one, that is to say that you are paying as if it were a continuing profit upon a property which only endures as long as your capital lasts. You are really wasting some of your capital, which is your coal?—Yes, that is so.

6578. That also applies to things like brick-earth?—Yes.

6579. Or a slate quarry?—Yes.

6580. You are really breaking off a piece every year and selling it?—That is so, as far as the mineral is concerned which you are working.

6581. The difference between that and the profit on a field of wheat, for instance, is that the field of wheat is renewable every year indefinitely?—Yes.

6582. And there is a profit on growing that crop of wheat which is reasonably definite?—Yes.

6583. But the profit on your coal is accompanied by the actual loss of capital, and when that comes to an end it is gone?—Yes, and collieries are peculiar in this respect, that there is such a very large proportion of the initial capital which is of no value at all when coal ceases to be worked at the particular pit, and the whole of the cost of laying out the surface and the staking is really cost of production of the coal over the life of the colliery paid in advance.

6584. But that is taken into account in the interest. The more you spend, of course, the more capital there is to divide your profit out of. The rate of interest is less?—The rate of your profit would be less, of course, on the same income if your share capital is high.

6585. You keep it down as much as you can?—Yes.

6586. Your special case really is that coal is a wasting asset in its nature?—Yes. The coal is of itself of a wasting nature, and when the coal is done the whole of the expenditure that you have gone to in order to make the colliery to work that coal, is of practically no value.

6587. Supposing you went on the sinking fund basis, as has been suggested, would that sinking fund cover both the categories that I have referred to, or only

one of them?—It might cover both. The plant and machinery, I think, could be dealt with as at present, provided the rate of depreciation were adequate, because you have such things as renewals even of heavy plant which have to be dealt with, and that might complicate your sinking fund to some extent.

6588. If collieries, or businesses of that character, where the capital is of itself a wasting asset, were to create a sinking fund *ad hoc* only, and were to leave the other point, depreciation of plant, to be dealt with in the same way as other businesses dealt with it, would not that be one way of meeting it?—I think so.

6589. Would not that be the most practical way?—I think it would be a practical way to which I can see no objection at all.

6590. Would you provide a special sinking fund to meet the actual loss of your capital in the shape of coal so that it may be returned to your shareholders at the end of the period?—Not only the capital in the shape of coal, but the capital which you have to expend to make that coal workable.

6591. All businesses have to spend capital for the working of their business?—That is quite true.

6592. A dock company has to provide a great deal of plant?—Yes.

6593. And if the dock ceases to be of any value that plant has gone; that is common to all businesses?—Yes.

6594. But in your case the capital itself goes?—The capital itself goes, because when the coal is exhausted your pit is no good.

6595. Is not that the special point?—That is the special point.

6596. Would it not be better to confine your claim to that special point, and have a sinking fund. If you could get some special provision to meet that special point would it not meet your case?—It would certainly meet the case on that point.

6597. And on the other point ought you not to go in with all other industries in the country under a similar disability?—I think we naturally should go in with them. I can imagine that the Commission would regard the coal owners' case in respect of this plant and machinery in very much the same way in principle as it would that of any other industry.

6598. Sir J. Harmond-Benner: In order that there may be no confusion with regard to the question put as to whether docks and collieries are not of a similar nature in dealing with wasting assets, is it not a fact that there are very few collieries in which the sinking of roads, or various things, lasts over twenty years, whilst there are many docks which have lasted one hundred, two hundred, and five hundred years?—Yes.

6599. It is the particular wasting nature of the collieries, and similar ore fields, which requires to be specially dealt with, and have special provision made for it?—Yes.

6600. The docks may last like Westminster Abbey, and may be here a thousand years hence, but you would not find a colliery here in a thousand years?—The dock will remain useful as long as there is trade. A colliery is no good after the coal seams have been worked out.

ARTHUR L. BOWLEY, Sc.D., Professor of Statistics in the University of London, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

6601. (1) I understand that I am asked to give a reasoned opinion on the question of the minimum income below which direct taxation should not be levied. No definite answer is possible on strict scientific principles. The minimum required for mere physical existence is not to the point, for a standard must allow for housing and clothing as approved by law or by custom, and nourishment should be sufficient for the strain of efficient work and for the good development of children. In these phrases relative, not absolute, standards are necessarily introduced; it is not possible to ascertain at what point further expenditure could produce no improvement in efficiency for work or in a growing child's health and

physique. The only procedure appears to be to begin with the lowest recognized standard, and allow such additions as common observation suggests as obviously tending to a greater productive power or better physical development. It does not seem proper to make allowance for expenditure which different social classes incur for the purpose of maintaining purely conventional standards of housing, clothing, food, service or education. These standards are established as a result of income, and their existence shows taxable capacity; at the present time the pre-war standards have been greatly modified and are capable of further change. In dealing with the question some reference must be made to the effect of indirect taxation, though it is not proposed to consider the general question of the relation of direct to indirect taxation.

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6002. (2) The simplest method is to start with a married couple without dependent children. Data can be obtained from Mr. Rowntree's analysis (*Poverty, 1902*, and *The human needs of labour, 1918*) and from the Report of the *Working classes cost of living Committee*, Cd. 8890 of 1918. The weekly budgets for a man and wife as based on these data work out in 1914 as follows:—

	Mr. Rowntree's method. s. d.	Cost of Living Com- mittee method. s. d.
Food—		
Man ...	4 4	5 3
Wife ...	3 6	4 4
Clothing—		
Man ...	1 9	2 9
Wife ...	0 9	2 4
Fuel ...	2 6	2 4
Sundries—		
Household ...	1 2	1 2
Personal ...	5 0	3 10
	19 0	19 8
Rent ...	5 6	5 6
	24 6	25 2

The estimate on Mr. Rowntree's method includes food sufficient to produce the physiologist's minimum in calories for moderate work, purchased as economically as possible, while the Committee's figures show the estimated average of the expenditure of the urban workman in regular work. The Committee's "sundries" include only travelling, insurance, and trade union and similar subscriptions, while Mr. Rowntree allows a further margin. Rent is additive to Mr. Rowntree's estimate, varying according to locality. The 5s. 6d. included above is approximately the rent of a four-roomed house in a provincial town, or of two or three rooms in the nearer outskirts of London in 1912. (See Cd. 8955.)

6003. (3) If we take 25s. as the sum on which a man and his wife could maintain themselves, and allow no margin, taxable capacity begins at £25 per annum; but some additions may certainly be reasonably made. A slightly higher range of incomes involves for a clerk or teacher the necessity for better clothing and the conventional necessity for better house-room, and for a manual worker may involve the need for more substantial or more expensive food. Unless allowances, numerous and detailed, are to be made for additional expenditure due to expenses incurred in particular trades or localities, the minimum should be raised to include all such expenses as are at all commonly incurred. Thus food may be put at 11s. for the couple (corresponding to the average in 1914 for a skilled workman's family), clothing at 6s., rent (including rates) at 10s. to allow for a clerk's residence in London, and sundries at 6s. (including 1s. travelling). Though this is still an under-estimate for some occupations in some details, yet the maximum is not necessary in every detail for any occupation.

6004. (4) The annual minimum budget now becomes:—

	Man and wife, 1914.	£ s.
Food	29 12
Clothing	13 0
Fuel	6 10
Rent and Rates	26 0
Sundries	15 12
		£89 14

To this perhaps £10 should be added for holidays and emergency expenses, and we obtain £100 per annum. Nothing has been allowed for beer, tobacco, luxuries, or recreation. Here indirect taxation takes its part,* and it is suggested that a further £10 may be left before direct taxation begins. We thus arrive at £110 as a reasonable exemption limit at 1914 prices. Incomes of £130, of which £20 was paid in

* The prices at which food is reckoned include, of course, the effects of duties on tea, sugar, &c.

insurance premiums, would not (on the existing scheme of allowance) be taxed. No estimate has been included for domestic service; but if any large part of the income of £110 was due to the wife's earnings, some domestic help would tend to become a necessity, and in such cases the limit might be put at £125.

6005. (5) For an unmarried man or woman the minimum expenditure would be lower. A workman could board and lodge with a family at about 10s. a week in Reading in 1914. A school teacher, if I am rightly informed, could board and lodge at 15s. a week in Reading and 21s. in London. Taking the higher sum and adding 3s. a week for clothes and 3s. for other personal expenses, we obtain £70 per annum. Add, as before, say £15 for semi-luxuries, holidays, and emergencies, and it appears that £85 for the unmarried is on a level with £110 for the married couple. The smallness of the difference is due to the fact that the higher of possible estimates has been taken, namely, where the man or woman is lodging with strangers and paying for domestic service, which the couple do not need. The comparison should rather be made with the former estimate of £125 when the wife is at work. The unmarried manual worker in the provinces, not on specially heavy work nor having to pay for meals away, would have been comfortably off at £1 per week in 1914; but taxation starting at £52 would have hit heavily clerks and teachers, especially those working in London.

6006. (6) If the exemption limit had been fixed at £85 for the single and £110 (or £135) for the married, there would be the apparent anomaly that two persons, whose joint income of £170 was tax-free before marriage, would pay tax on £45 after marriage, or on £80 if the wife's income was unearned. So far as taxable capacity is concerned this does not appear unreasonable, for necessary expenditure on rent, service, and to a less extent on food and sundries is considerably lower for two conjointly than for two singly; if a tax of 2s. in the £ were levied on £80, they would still be better off, after paying it, than when they lived separately. A difficulty of a different kind arises from the fact that the man is liable for the tax on the whole, while he has no legal control on the expenditure of his wife's income; this could be overcome if each was liable for parts of the tax in proportion to his or her income.

6007. (7) The same principle appears to me to apply to the taxation of married persons' incomes, whatever their amount. Ability to bear tax on an income of £1,000 is the same, whether the income belongs solely to one or partly to each of the two, but the liability to pay should be on the possessor of the income. A married couple with an income of £1,000 can bear more than two single persons each with £500, but less than one single person with £1,000, if regard is had solely to ability to pay; just as, if the above-named exemption limits were adopted, a married couple with £170 would pay on £60 (or £45), a single person with £170 would pay on £85, while two single persons each with £85 would pay nothing. A scheme could be arranged either by two scales of abatements or rates, one for married couples, the other for single, or by the existing system of allowance for a wife, which need not be at a flat rate. A further allowance could properly be made if the wife's income is earned; when a woman does the domestic work of the house she is performing services which add to the real, but not to the taxable, income of the household; the household is no better off when she earns £50 and pays the same sum for domestic help.

6008. (8) Allowances for children.—The expense of feeding children varies with their age, but not in a regular way, nor in strict proportion with the amount of nourishment they need. A current estimate (Cd. 8080, p. 13) is that the food of children under 16 years costs on the average two-thirds of the food of an adult, and it is hardly practicable to allow for the variation by age. In correspondence with the estimate already suggested, a child's food cost 4s. weekly in 1914. Mr. Rowntree reckoned 9d. a week for clothing; if we make a more liberal allowance and

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add also to the sundries and for emergencies, we easily reach £15 a year. The first child requires a new perambulator, the second calls for more house-room, but with larger numbers economy becomes more practicable. If we pay regard to the importance of the proper care of children and to the increasing expenses of food and clothing as they grow older, a flat rate of £20 a child added to the exemption limit is, perhaps, reasonable up to the age of 14. Nothing is here allowed for education, since the Government has taken the responsibility of providing adequate education gratis. For a man, wife, and three children the exemption limit would then be £170, with a further allowance if and when the wife was earning. The additional exemption should date back some months before the birth of each child to allow for maternity expenses. For older children it may be suggested that £25 should be allowed up to 18 years, so long as they were not earning but under instruction, and that

additional sums should be exempted if money was spent on special training, apprenticeship premiums, &c. Finally, there are very numerous cases where there are dependants other than children, and it appears that allowances are properly made where near relations, unable to work, have no means and are supported by those whose income is above the exemption limit.

6609. (9) All the sums named are on the basis of 1914 prices, and must, of course, be raised. The material is not sufficient for making an accurate measurement to the present date, and it is quite uncertain (especially as regards rent and clothing) what the level will be when prices have settled. In making the computation it is necessary to take each category separately and to allow not only for change in prices but also for changes in commodities. I suggest that this calculation should be postponed as long as possible.

[This concludes the evidence-in-chief.]

6610. Chairman: You are Professor of Statistics in the University of London?—Yes.

6611. The members of the Commission have had your evidence-in-chief before them so we need not trouble you to read it now. It is sufficiently clear and explicit, but the members of the Commission will examine you upon your statement.

6612. Mr. Kerly: You have given us a detailed statement based upon the figures for 1914?—Yes.

6613. You do not go beyond 1914 in this statement?—No.

6614. You arrive, if I follow it, at £25 a year as the minimum for a bachelor. Does that apply either to a man or a woman?—Yes.

6615. And £110 a year for a married couple?—If the wife is not earning.

6616. Here you formed any estimate of the proper corresponding figures at the present time?—No, I have not formed any estimate that can be in any way valid. I think there is no adequate measurement of the change of prices, and that the current estimates are not at all soundly based; also, it is evident that the existing prices are not those which are likely to be current at the time the Commission reports. I therefore recommend at the end of my evidence that the question of the movement of prices should be postponed as long as possible.

6617. You have nothing, therefore, to suggest?—I have nothing, therefore, to suggest on this subject.

6618. I notice you do not deal with the distinction between town and country; you refer to it incidentally, but are you prepared to make any suggestion as to the modification of your figure of £25, for instance, as between towns and country?—I had intended my figure to apply to London, in which case the corresponding figure for provincial towns in the country would necessarily be lower. I have intended them in every case to be a reasonable maximum.

6619. You suggest, upon the same footing of 1914, an allowance of £20 for each child?—Yes, that is so.

6620. You deliberately put aside the fact that the child of a household with more money to spend costs more than the child of the poorest household?—I deliberately put that aside on the ground that I am thinking of taxable income above the minimum. I may add that I think that position is met by graduation rather than by exemption.

6621. Mr. Mackinder: With reference to the last paragraph of your evidence-in-chief you are facing the change of the level of prices, and you are suggesting postponement. In view of the possibility that even, say, a year hence, when the Chancellor of the Exchequer may take action on any report about this, prices may not have reached a very stable level, and, in fact, may vary for years to come, have you given any thought to the possibility of applying in any way the principle of the Tithe Commutation Act, of making the amount of the exemption limit vary, not in every detail, but making it capable of variation as a function of some index number or something of that kind?—It had occurred to me that the exemption limit might be modified from time to time as prices changed, so long as they had not reached an equilibrium position, but, I think, it would be extremely difficult to get an index number that would meet with general approval.

6622. Of course, at the present time for rough and quick purposes, I suppose, we may say that prices have doubled?—No, that is exactly the position I should dispute.

6623. You would agree that they have very largely risen for the time being?—Yes, I would agree to that.

6624. And that it was something in the nature of a doubling?—I think I would decline to be pinned to a figure.

6625. It is a very large percentage increase, at any rate?—It is a considerable increase.

6626. Chairman: You will not even agree to the "very large"?—I am afraid that presently being interpreted into a number.

6627. Mr. Mackinder: What I am really driving at is whether in all this matter you do not think that we ought to face the possibility of very great change in the level of prices, which might throw out altogether the basis of settlement on a minimum?—I think that might be met somewhat as follows: if shortly before the report is made an investigation were made as to the then level of prices as compared with pre-war prices, having proper reference to all the difficulties involved in that measurement, a formula might be made which would fit, let me say, next March, and which could be modified without changing the formula for subsequent years.

6628. That is to say, suppose you had a five-yearly revision of the minimum it would be possible to establish the principle in an Act of Parliament from the beginning, and you would only have to apply that principle in order to ascertain the right minimum for each quinquennium?—I think that would be quite possible.

6629. Mr. Symonds: Could you tell us on what particular ground you think that this figure of 100 per cent. increase is wrong?—A good part of the necessary analysis was done in the report of the Committee on the Cost of Living.

6630. That is one ground?—Where emphasis was laid on the difference between change of expenditure and change of prices, and on the substitution of goods as the prices of different commodities moved in different directions.

6631. I take it you include prices of necessities; that must be so, must it not? You would not include luxuries?—Excluding luxuries. I read a paper to the Royal Statistical Society in April in which I went much more in detail into the theory of the subject, and showed why I believed the index number issued by the Minister of Labour was not completely well based.

6632. I think it will be sufficient for me if you point out where we can get the grounds of your opinion. You have studied this question, and I am quite familiar with one of your works. Do you, or do you not, think that since the rise of prices there has been generally amongst the wage-earning class an adjustment in wages which covers, or more than covers, the increased cost of the necessities of life; have you considered that question?—I have certainly considered the question, but it has appeared to me that the absence of adequate statistics, at any rate to the public, has made it quite impossible to give anything like a reasoned answer.

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[Continued.]

6633. How would you make the distinction between town and country in this matter? Do you consider it necessary or not to have a flat rate?—It appears to me that it would be necessary, for administrative purposes, to have a flat rate, and for economic reasons it would be unsound to have a differentiated rate.

6634. And therefore the result is that you must have a maximum?—Yes.

6635. Have you considered in the case of a married man, who already gets an allowance for wife and children, whether the exemption limit should be the same where he has earners in his family living in his house, sons and daughters? Supposing they make an income of £500 a year between them; do you consider that that is a case for an abatement down to £130, or £160?—I have not quite grasped the question, I am afraid.

6636. Supposing five people in a family, a man, his wife and grown up children, all wage-earners, and the grouped income is very much larger than the limit of exemption, do you consider that they should be entitled to exemption and pay no Income Tax at all because each individual is under the limit?—I think it would be extremely difficult to legislate to the contrary, and I see no strong reason why the exemption should not be the same for all the members of the family. Of course I would express no opinion about the abatements.

6637. You see the point, of course?—Yes, I do. A large family income from members of the family, not husband and wife. I would suggest that if a man or woman continues to live with his family at the age when he is earning a considerable income, he is practically a boarder there and his expenditure is very much the same as if he was living in separate lodgings.

6638. That is the point?—Unless he is deliberately sacrificing some amenities.

6639. Have you considered the increased benefits which have been given to persons even above the present limit of exemption—both above and below—by direct subsidies from the State? You allude to education in your paper, and there are many others, are there not? For instance, there is the bread subsidy, the old age pensions, and the unemployment benefit, which might indirectly affect the expenditure of a family; have you considered those at all? They do go to relieve the expenditure of the family, do they not?—In arriving at my minimum of £85 I think all those matters are considered that were in existence before the war.

6640. Some have been increased since?—And the bread subsidy would be reflected in the prices, and the cost of living, I think, would not enter.

6641. Mr. Merritt: In the final paragraph of your proof you say: "it is necessary to take each category separately and to allow not only for change in prices but also for changes in commodities." What do you mean by "changes in commodities"?—The commodities we were able to buy in 1914 are, in many cases, not still in the market, and the standard of purchase, and kind of purchase, has been adjusted, and will no doubt reach a new equilibrium.

6642. Mr. Walker Clark: In the first paragraph of your evidence-in-chief you refer to indirect taxation. Mr. Synnott pretty well thrashed that out, and I do not want to labour it. You have not considered there the present relationship of indirect taxation towards your policy; it is merely the pre-war 1914 relationship?—I have not considered it separately for the present year except in so far that in paragraph (4) I speak of indirect taxation of luxuries and recreation. The amusement tax is since the war.

6643. I was rather referring to the point which Mr. Synnott alluded to, the subsidy received by the taxpayer, not the contribution made by the taxpayer?—No, I have not named that in my proof.

6644. Have you considered it with reference to the figures?—Except in the case of the bread subsidy it simply enters into the prices; it is met, I think, by that.

6645. In paragraph 7 of your evidence-in-chief you allude twice, I think, to the ability to bear tax; is that the basis of your findings throughout?—Yes, speaking only of the raising of the exemption limit, and not of abatements at all.

6646. Do you consider that it is in the interests of good government that a very large proportion of the voters should be exempt from direct payment of tax?—Certainly not.

6647. Of course it follows that those who do not pay direct taxation should not have a vote?—That is not my conclusion.

6648. Those alterations which you suggest would lead to considerable variation in the Revenue. Have you any practical suggestions to make to us for making good the loss?—I should have been inclined to say that they would have led to increased revenue—exemption limit at £25 instead of £130.

6649. Mr. May: In your statement that prices are not sufficiently stable to enable you to compute the increase, and that they will be probably more stable at the end of this inquiry, is the assumption that they will go down?—Not necessarily.

6650. Have you any reasoned basis upon which to form any conclusions as to the tendencies of prices during the next year or so?—No, none that is not open to every member of the Commission. I have made no special forecast on any scientific data.

6651. Is it a fair assumption on your evidence that you would favour a *pro rata* increase of the exemption limit corresponding to the increase of prices at at any given period?—If the price movement was sufficiently great—a movement of let us say, 10 or 20 per cent. which would really affect the question.

6652. I do not want to fix you to any figure as you have expressed an objection to it, but, for the sake of argument, supposing we assume that prices at the present moment are 50 per cent.—they are probably more—above those of 1914, would I be right in assuming that you favour the increase of your limit of exemption by 50 per cent.?—Yes; there might be some modifications in detail, for some prices move in quite a different way from others, but generally I had in mind that every one of these figures would be increased by that percentage which it was found that a price index number applicable to this range of income suggested.

6653. But any official figures, such as those you have referred to of the Committee on the Cost of Living, would take into account all those changes. I think you pointed out that they have already done so. They have taken into account the changing over of the population from certain classes of goods to other classes of goods which are now available, and therefore any conclusions arrived at on official inquiry would take into account all these differences that you suggest?—Certainly. I should say that in the Cost of Living Inquiry the method used was not to answer this question but a somewhat different one, and the method would have to be modified in some quite essential ways to apply to the question of the exemption limit.

6654. May I take it that you would favour also a similar increase in the amount of allowance for wives and children, for example?—Yes.

6655. You do not say anything in your evidence about abatements. Have you formed any opinion as to the proper relation between abatement and exemption?—No, I have formed no opinion. I have not studied that subject as it was not referred to me in any special way.

6656. I want to know whether this is your view, that from the point of view of the Revenue the standard of life, to put it in a trite phrase, should be protected from taxation and that there should be an exemption up to what is a recognized standard of living?—The minimum standard of living, yes, not the conventional standard. What I mean is the standard that has been obtained by persons whose incomes are in the neighbourhood of the exemption limit, which is above a theoretical minimum for the working class, but below the conventional expenditure of the middle class whose incomes are somewhat greater.

6657. You have been asked questions with reference to such things as benefits that people with lower incomes, working men and women, may obtain through pensions, and so on, as minimising their direct contribution to the State. Have you considered at all, from the point of view again of the Revenue, the desirability, or otherwise, of making every wage-earning person a direct contributor to taxation?—I

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have not considered that very closely, because the difficulties of collection are so considerable, and also the difficulty of obtaining the relation in such payments to any standard of life is so extremely difficult.

6658. My point is that to adopt the principle of the direct contribution of every wage-earning person would do away at once with your exemption of the standard of living?—Yes.

6659. The exemption of the standard of living would not continue, in such a case?—That is so.

6660. And you have not formed any opinion as to the desirability of taking that course?—No, I have formed no definite opinion; I have not considered the question closely.

6661. Mr. Bouverman: Do you feel that if your idea of an exemption limit of £110 for a married couple was agreed upon it would be very popular in this country?—No, I do not suppose it would be, but what exemption limit would be popular?

6662. I notice in your proof you suggest that an unmarried manual worker was comfortably off on £1 a week in 1914. Is that your own view, or one that you have gleaned from other people?—It is my own view from observation of the way in which payments are made by unmarried men living with their own families or lodging with others.

6663. You have never heard the manual labourer himself express that view?—No, I have not heard him express it, but when the man had paid 10s. or 12s. as he used to, for board and lodgings, and had 8s. left over, I have seen him enjoying himself.

6664. I must not ask you in what way he enjoyed himself, but I would like to know, has that been a matter of observation in London or in the country?—As regards those particular figures, I base them rather on Reading, and other provincial towns, for which I have examined special statistics.

6665. You really suggest that 25s. per week is sufficient for two married persons to live upon reasonably and comfortably?—Of course, in 1914.

6666. Yes?—It depends upon what meaning one attaches to "reasonably and comfortably." The greater part of the working class before they have children have been living on that sum; they have been living, I think, reasonably, and I think, in all, not uncomfortably.

6667. Would you not rather suggest that they have been existing rather than living?—I should not say so; I think they have been enjoying life. Perhaps I might say, as I believe this goes into print, that I am not in any way advocating the 25s. in 1914 as the best possible wage. I am only answering the question directly that the working class living on that sum were not unhappy.

6668. Chairman: The position that you occupy means that great weight will be put upon a statement of yours, and the examination of Mr. Bouverman and Mr. Myn is to find out really whether you have gone deeply into the fact that this amount of money in 1914 was sufficient for them to live decently on or not. They want to find out what authority you have. Have you investigated really seriously that statement?

6669. Mr. Bouverman: And particularly in view of the fact that you are suggesting a lower exemption to bring more people in?—Perhaps I might say something further on the question.

6670. Chairman: Yes, because this is an important matter?—The expenditure of 25s. is the average found from the budgets that were used by the Cost of Living Committee, not which were collected by them, but the pre-war budgets which were used, and it corresponds to the income of the partly skilled artisan in the provincial towns. The question, as I understood it, was whether the life that such a man could live with his wife as sole dependant, and with no special circumstances calling for expenditure, was unreasonable and uncomfortable. I think common observation of any people who have watched the working class, or seen them in their homes, or seen their homes, would give answer to the question that life was not uncomfortable so long as the money was coming in regularly, and there were no special anxieties, and I do not think that the word "unreasonable" can properly be applied. The standard of 25s. in 1914 as the average of the working class in the provincial towns was higher than that of 30 years ago and higher than that

of the old industrial countries. I think one cannot say that the standard was unreasonable, but that does not in any way mean that one would not have welcomed a much higher standard.

6671. In answer to one question you said you had not considered the equivalent to-day as against that of 1914?—I have not got any figure which I think ought to go in the evidence. May I further say that before I come to the exemption limit I screw up that 25s. quite perceptibly up to about the standard of the skilled artisan, and then above that limit it appears to me the taxable capacity begins; indeed, it is not unreasonable to ask a man for a shilling or two shillings (whatever the rate may be) in the £ beyond that limit.

6672. Mr. Bouverman: May I suggest to you that 12s. 6d. per week even in 1914 would simply enable a man or a woman, or both, to scrow out an existence?—I am afraid I must differ from that. An unmarried man boarding with a family, for example an engine driver living in Reading for the convenience of his work, paid a sum of that kind for board and lodging. He was feeding with the family on the scale which artisans generally use. The landlady was making a profit in that, at any rate, she was getting part of the rent of her house and a small sum for her services.

6673. If in 1914 the limit of £110 which you suggest was a reasonable sum, at the present time it would mean at least £200 or £220, taking prices into consideration?—That, of course, is the opinion that I am trying to avoid expressing. I admit that the £110 does not stand, and that a higher sum would be put in its place. I am not even saying that £220 is too high. My point is simply that one has not adequate information for getting the factor.

6674. Mrs. Knower: You say we should put off the consideration of the minimum until the report. How would you advocate that we should arrive at that minimum, say, in March, 1920? Will the Board of Trade figures do? They bring them out every month, or every three months, do they not?—They are brought out monthly. No, I think they would not do. I think the Commission should make a special investigation, using the material of the Ministry of Labour, as well as any other material. In particular, what is valid for working-class expenditure and the working-class budget is not necessarily valid for the income of a school teacher or of a married clerk.

6675. Then you suggest that before this Commission reports we should ask the Ministry of Labour to work out a maximum? I thought you did not agree with their figures at any time?—I suggest that some inquiry should be made. It is for the Commission to decide what kind of inquiry. In the papers to which I have referred can be seen my view and the view of the Committee on the Cost of Living, and that, I think, would not lead to direct adoption of the figure that is published in the *Labour Gazette*. I might further say, however, that when prices tend to become normal, if ever they do, the difficulty of measurement and the discrepancy in the different measurements will tend to disappear.

6676. You have been engaged recently in investigating the cost of living in foreign countries with regard to consuls abroad?—That is the case.

6677. It would not be fair to tax in this country British consuls living abroad on the basis of the cost of living here when the cost of living is so much higher, we will say, in Spain?—No, it would not.

6678. Our consuls abroad are taxed at the present moment on their income derived from the Government here; they live in a foreign country and pay very much higher for the cost of living there, in Spain and Denmark, for instance?—There have been some exemptions, or partial exemptions, of Income Tax in the case of diplomatic and consular salaries.

6679. On that ground?—Partly on that ground; certainly on that ground with reference to the special cost of living in those countries.

6680. Could we take your figures working out the cost of living in foreign countries and apply them to this country in March of 1920; would that work?—I am afraid the figures I obtained for foreign countries—

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[Continued.]

6681. But your method, I mean?—The information as regards foreign countries is very difficult and very scanty. The information we have for this country is very much more complete, and more easily intelligible to us, and certainly I think we should have to obtain statistics from this country for the purpose, but I do not think it would be very arduous or very difficult.

6682. You cannot suggest any plan by which one would be able to obtain it other than the Ministry of Labour figures?—I suggest a small sub-committee, if I may, to go into that question including not only the Ministry of Labour figures but whatever other information there was available.

6683. Mr. Holland-Martin: You suggest that if a wife works, probably her place in the home will have to be taken by a servant, and there might be some reason for giving her an additional allowance. Would that allowance be given only if the servant was actually kept, or if the wife simply said: "I am in receipt of £50 a year, and therefore I am not able to work at home, and I should have an allowance"?—I think the allowance would be given in any case for simplicity, and if a wife was really at work during full working hours she would be almost bound to hire some help of some kind or another.

6684. Would you suggest that that should be an allowance of, say, £50; you mention £50 there?—Not £50 I think.

6685. You say a household is no better off when she earns £50 and pays the same sum for help?—That is not with reference to the exemption limit; that is merely a figure for illustration. In the matter of the exemption limit I give an estimate in paragraph 4 of my evidence-in-chief, and I allow £15 in 1914 for the kind of domestic help which would be necessary in such a case; it would be very much more now.

6686. Sir E. Nott-Bower: You know, I dare say, that under the existing Income Tax law, in the case of a married couple whose income does not exceed £500, if the wife earns money separately her income is reckoned as a separate income?—Yes.

6687. If she earns £100 a year she would be exempt altogether?—Yes.

6688. I gather from what you were saying just now that in principle you approve of that; you think that provision is sound?—In principle I approve of some allowance, but the allowance that I have obtained by the method that I have followed is a good deal less than would be reached by the existing method.

6689. Mr. Mackinder: If you were asked to do such a thing do you think that you could draft a reference to a committee to enquire into this minimum cost of maintenance next March in such a way that the committee would be asked to produce, not merely a figure calculated according to the prices of next March, but a formula of some such simple character (by "formula" I do not necessarily mean a mathematical formula) that it can be included in an Act of Parliament in the same way as the tithe commutation is dealt with, and so would enable us to extract from the committee a method of fixing an adjustable minimum according to the prices as they varied either upward or downward in the future? Admitting your principle that they must vary appreciably, do you think you could draft a reference in such a form as would extract from a skilled body of statisticians that kind of formula?—I think it would not be quite so definite as in the Tithe Commutation Act.

6690. Probably not?—I think in the Act of Parliament it would not be possible to give a formula, but only to give a reference in principle, the details of which were to be worked out by the proper authority.

6691. I expressly said I did not mean a mathematical formula. I would include a statement of principle as a formula?—Yes.

6692. I am speaking to you as one of the leading statisticians, and I am asking you whether you could put into language that would be understood by fellow statisticians a reference which would enable the Commission to obtain a form of words such as might be put into an Act of Parliament, or, at any rate, be

put into our Report, with a view to extracting an adjustable figure, and not an absolute figure, for next March?—I think it would be possible to draft such a question, and then it would be a question of fact whether the statisticians were capable of producing the appropriate information.

6693. Quite so, but you would know what the kind of information would be?—Yes.

6694. And, therefore, you would probably be the right person to address the question to the statisticians. I do not know whether you could possibly help us if the Commission thought it well to have such a question addressed?

6695. Chairman: Could you take the existing condition of things and give us a paper similar to this on the existing state of things. The difficulty is that this statement of wages looks to us, in the revelation of what is going on at the present moment, absolutely strange. The wages put down there as being living wages are in these days totally non-understandable. Can you take the existing position of things and work out your problem from that now?—Not now, but it may be at a later date possible to get better information.

6696. Before we go further—say, in December?—I should think at the end of the year it would be possible, at any rate, to form some opinion, and to draft some formula which could be adopted.

6697. That would help us in our investigation.

6698. Mr. Mackinder: I am very anxious to face the position. Probably the facts will be of a very incomplete character by the end of the year, but we ought to have something which could be included in the Act of Parliament of next year which would enable an adjustment to be made, say, two years afterwards. Things may go wildly away from anything we settle next March.

6699. Chairman: I understand what you want, Mr. Mackinder.

6700. Mr. Marks: I do not quite understand Mr. Mackinder's wish. Do I gather that he wants some competent statisticians to provide some figure with it would be possible to vary within limits according to the change of conditions as to these index numbers?

6701. Mr. Mackinder: It seems to me most undesirable that whatever settlement the Chancellor of the Exchequer makes, based on our Report, should be opened up again two or three years afterwards.

because it leads to great animus and feeling between classes, and if it were possible I should like to arrive at some principles which could be incorporated in the Act, so that whenever the index figure of the cost of living varied by more than a certain amount, either upward or downward, it should be possible to have an adjustment by machinery provided beforehand.

6702. Chairman: A sliding scale.

6703. Mr. Mackinder: Yes, it comes to that.

6704. Mr. Kerly: I should like to see if you can clear my mind a little bit on this for me. Suppose you take as your basic factor something of this sort, the cost at the time of 10 loaves, 1 pair of boots, and 1 lb. of coal; that is the sort of function that you would set up, is it not, and if that comes to 5s. in 1919, and next year it comes to 7s. 6d., then you would increase your figures by 50 per cent?—Subject to the qualification that we may all be burning wood at that time if wood has been substituted for coal.

6705. I quite appreciate the difficulty, and I am not suggesting that these would be the right commodities, or their respective quantities. Do you think that a figure for any given moment, or any given period of years, could be worked out something in that sort of way?—Yes, I do think so, and the reason why the actual formula is not appropriate to an Act of Parliament is that there would have to be some latitude in this very point of substitution and change of custom.

6706. Upon that, appreciating that we can only draw a rough and ready line, would it not do to take the loaf without anything else?—No, I think certainly not. If we took the loaf only we have an increased expense now of 54 per cent. I do not think many people would accept that as being equivalent to the average rise of prices.

6707. At the present moment of course the loaf is artificially cheap because of the bread subsidy?—If one went back for any period of time for which there

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are figures one would find that the price had not moved in the same direction, or to the same amount, as the price of commodities in general.

6708. Mr. MacIndier: Does not the discussion which has taken place rather suggest that Professor Bowley might exercise his ingenuity in framing the question?

6709. Chairman: We have that in mind.

6710. Mr. Kerly: Your allowance for travelling seems to me to be extraordinarily low in such a town as London, for instance. Have you specially considered the case of a non-residential town such as London is; no clerk could do his week's travelling on 1s. 6.—Very many school teachers must do so if they live within a couple of miles of their schools.

6711. And there is a tramway available?—Yes.

6712. It is only a penny fare each way then?

6713. Mr. Walker Clerk: A halfpenny fare; there are four journeys?—I think it may be too low for London, and I should make no objection to it being raised, but, on the other hand, there are only three or four towns in England where much travelling to work is customary among the poorer middle class.

6714. Mr. Kerly: I should like, in all ignorance and modesty to put this to you: I have an impression that the cost of living in London for the working classes is nearly 50 per cent higher than in any other part of this Kingdom; is that anywhere near the

figure?—The report of the Board of Trade on the cost of living and the prices in different towns to which I refer is Cd. 6365 which goes into that question; I do not remember the answer.

6715. Mr. Synnott: Was not that due to war conditions?—No, in 1912.

6716. Mr. Kerly: I am asking Professor Bowley if he would just give the information. Is not the figure something of that character; does not London stand altogether apart with regard to the cost of living?—I should not like to assent to any figure there. It would be possible to work out what it was in 1912, but I have not in my mind what the difference would be. The main difference is, of course, rent and travelling in those occupations where journeys beyond the penny tram fare are necessary. As regards food it was as cheap in London as in provincial towns, except possibly for some garden produce.

6717. And there is the cost for the worker away from home of getting his mid-day meal near his place of work?—That applies to men in the building trade, for example, in the provincial towns, and in very many occupations.

6718. Quite. It does not apply so much in the case of a man who takes his meal with him?—There is nothing to prevent a Londoner from taking his food with him.

Mrs. E. AYRES PURDIE, F.L.A.A., on behalf of the Women's Freedom League, called and examined.

The witness handed in the following statement as her evidence-in-chief:—

MARRIED WOMEN AND INCOME TAX.

6719. (1) My experience of Income Tax procedure as it affects married women is based upon twelve years' daily experience in dealing with Income Tax matters of every kind for all classes of the community, both civilians and members of the military, naval and air forces. Married persons have naturally predominated, as they are in the majority amongst income-owning and tax-paying adults.

6720. (2) My statement consequently deals with actual facts and conditions which can without exception be proved by reference to documents accumulated since 1907 and to official records. While I do not admit that the attitude of the Crown to married women has any authority in law, I am yet prepared to prove that even if it rested on law it involves a state of affairs which cannot continue to exist in a democratic state.

INCOME TAX ACT, 1918.

"Incapacitated Person": means any infant, married woman, lunatic, idiot, or insane person. (S.237).

6721. (3) This covers the grossest insult to many millions of responsible citizens, members of the electorate of a so-called free and democratic community. These cannot consistently be both responsible electors and on a par with lunatics.

6722. (4) The legal marriage relation is here brought into utter disrepute by this derogatory assertion. Those women who have preferred a civil or religious ceremony to living in irregular relations are classed with the irresponsible feeble-minded and insane.

6723. (5) In contrast with women who are nominally married only, the advantage is wholly on the side of the latter. The modern intelligent young woman naturally becomes inclined to despise and to dispense with any thing which will bring her within the above category, and the Women's Freedom League protests most emphatically against the policy of branding married women as inferior to unmarried women; marriage is a commonplace incident in life which confers neither inferiority nor superiority on any person, male or female.

6724. (6) The clause may also be taken as reflecting the greatest discredit on husbands at large, as it implies that willingness to be legally bound to a man is in itself evidence of low mental capacity in a woman, a somewhat ludicrous tribute to the general character of husbands as a class.

6725. (7) Whether considered as an insult to women who marry, or to the men they marry, it is

gratuitous and uncalled for, because wholly untrue. Married women are not incapacitated persons, and assertions to the contrary effect are false and designed to mislead. In actual practice their capacity for paying Income Tax is entirely indisputable; during the last forty years such capacity has been rated by the Crown higher than that of all other members of the community, being at the highest current rate on the whole of even the most imperceptible of incomes. In law also their incapacity as regards their own property, either capital or income, were removed forty years ago by Parliament when a married woman secured the sole right to her own property to have and to hold as her own and to dispose of as her own, but which the Crown presumes to dispose of without reference to her. By the Act for the Representation of the People Parliament conferred on women political power, which is the supreme mark of freedom, responsibility and equality, and a class cannot be singled out from amongst politically free and equal people and labelled as irresponsible and in subjection.

16. A married woman acting as a sole trader, or being entitled to any property or profits to her separate use, shall be assessable and chargeable to tax as if she were sole and unmarried:

Provided that—

(1) the profits of a married woman living with her husband shall be deemed the profits of her husband, and shall be assessed and charged in his name, and not in her name or the name of her trustee; and

(2) a married woman living in the United Kingdom separate from her husband, whether the husband be temporarily absent from her or from the United Kingdom or otherwise, who receives any allowance or remittance from property out of the United Kingdom, shall be assessed and charged as a sole trader if entitled thereto in her own right, and as the agent of the husband if she receives the same from or through him, or from his property, or on his credit.

[Income Tax Act, 1918, General Rules for all Schedules, No. 16.]

6726. (8) The enacting clause herein (being the "principal enactment" for married women) is absolutely contradicted by the first proviso thereto making them, by reason of their fundamental opposition, irreconcilable and mutually destructive and thereby bringing the law into ridicule and contempt. They cannot intelligently co-exist, for while the enacting clause properly regards a married woman as an individual and a unit of taxation and imposes

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the tax upon her precisely as on any other subject, the first proviso forthwith repudiates this consistent and constitutional attitude, removes the liability just created, and imposes the tax on another subject. The second proviso is equally illogical, and meaningless in the sense of the first proviso, and attempts to apply it to actual facts produce most nonsensical conclusions. The Crown relies solely on the first proviso. Therefore, if the enacting clause were wholly deleted and the first proviso raised to an enacting clause, this position would not be affected in the slightest degree. This would at least be more dignified than the retention of the present irreconcilable injunctions.

6727. (9) It will hardly be gainsaid that so long as the Crown relies upon this first proviso and bases its procedure thereon, it ought to justify its attitude by relying upon the whole of it, and that it should not, as at present, invariably obey the first injunction herein but fail to obey the second injunction which is equally positive and peremptory, and possessed of equal force. The inevitable result of the Crown's evasion of this issue and its equivocations regarding it is that women in whose case the second injunction is ignored are unable to understand the case of women in regard to whom it is duly observed. They endeavour to reconcile this anomaly but seeking explanation can obtain none whatever, which naturally incenses them and arouses their resentment to the same extent that it destroys their respect for the Crown.

6728. (10) Another alternative which would enable this impasse to be disposed of in a rational and dignified manner would be the Crown's recognition and acceptance of the Married Women's Property Acts, which have been in force for forty years, and acceptance of which is imposed on all others. It is on record that the Crown refuses to be bound by the Married Women's Property Act. As the old French has it, "Le Roy gouverne par lui-même." In these circumstances no married woman knows to what extent her property will be respected by the Crown or treated as belonging to herself. No subject would be allowed to stand up in a Court of Law and make snob a claim which outrages and defies all the democratic ideals of the world to-day, and raises the inevitable issue as to whether, in this country, the supreme power in the State is vested in the Crown or in Parliament. If the Crown is above the law and can set it aside when it considers it expedient, of what use is Parliament and what is its function? The Crown is lowered and brought into contempt when in an endeavour to collect revenue it has resorted to relying upon a fiction, and has to maintain its attitude by asserting that something is a fact which it can be legally and conclusively demonstrated is not a fact, and never will be a fact. It is more than time that the first proviso should be treated as obsolete. It relates to a condition of things long since passed away and forgotten and never experienced by the present generation. It is in the highest degree improbable that it was ever intended at any time to bear the meaning which the Crown seeks to attach to it. The fact that this proviso is an anachronism in no way alters or affects the enacting clause which embodies the supreme principle of taxation, obtaining throughout the Income Tax Act, i.e., recognition of each individual as a unit of taxation. Any policy which depends upon the assumption that on marriage a woman ceases to be an individual and her property passes to her husband is doomed to fail at every point, because it is not founded on law nor fact, nor acceptance by women. The case of the King's taxes presents the sole example of anybody embarking upon such a policy, which is unknown for instance in local taxation. In the latter, a wife's property, means or residences are dealt with as being solely hers without regard to her husband or his position. Thus, if a married woman resides in her own house, the local taxation authorities treat the house as her property but the Crown authorities treat it as her husband's property, the wife being answerable for the rates and the husband for the King's taxes, which is absurd.

17.—(1) If an application is made for the purpose in such manner and form as may be prescribed by

the Commissioners of Inland Revenue, either by a husband or wife, within six months before the sixth day of May in any year of assessment, income tax for that year shall be assessed, charged and recovered on the income of the husband and on the income of the wife as if they were not married, and all the provisions of this Act with respect to the assessment, charge, and recovery of tax, and the penalties for failure to deliver a statement of profits or gains, shall, save as otherwise provided by this Act, apply as if they were not married.

(2) The Commissioners of Inland Revenue may require returns for the purposes of this rule to be made at any time, and the provisions of this Act relating to penalties for neglect or refusal to deliver, or for delay in delivering true and correct statements of profits or gains, shall, with the necessary modifications, apply in the case of the neglect or refusal to make, or wilful delay in making, any such return. [Income Tax Act, 1918, General Rules for all Schedules, No. 17.]

31.—(1) Where, on an application made for the purpose, under the provisions of this Act, tax for any year is assessable and chargeable on the income of a husband and wife respectively, as if they were not married:—

(a) All the provisions of this Act relating to claims for exemption, abatement, or relief, and the proof to be given with respect thereto, shall apply as if they were not married, and a claim for the relief hereinbefore granted in the case where the wife carries on a separate business, may be made either by the wife as well as by the husband; and

(b) The income of the husband and wife shall be treated as one in estimating the amount to be repaid or allowed in respect of any exemption, abatement or relief which depends wholly or partially on total income (except so far as otherwise required for the purpose of dealing with any claim for exemption, abatement, or relief made in the case where the wife carries on a separate business as aforesaid), and the total amount of any exemption, abatement, or relief given in respect of the incomes of husband and wife, shall not exceed that which would have been given if any such application as aforesaid had not been made; and

(c) The benefit of any such exemption, abatement, or relief may be given either by way of reduction of assessment, or by repayment of any excess of tax which has been paid, or by both of those means, as the case requires, and shall, in the case of relief given in respect of earned income (including any exemption, abatement, or relief given in respect of the profits of a wife from a business carried on separately from her husband as aforesaid), be given in proportion to the income earned respectively by the husband and the wife, and in the case of relief given in respect of payments for life insurance or deferred annuities, be given to the husband or wife, as the case may be, by whom any such payment is made, and, in any other case, be given in proportion to the respective incomes of the husband and wife; and

(d) For the purpose of any exemption, abatement, or relief, a return may be made by the husband or the wife of the total income of the husband and wife, but if the Commissioners of Inland Revenue are not satisfied with such return, they may obtain a return from the wife or husband, as the case may be.

(2) The Commissioners of Inland Revenue may require returns for the purposes of this section to be made at any time, and the provisions of this Act relating to penalties for neglect or refusal to deliver, or for delay in delivering, true and correct statements of profits or gains, shall, with the necessary modifications, apply in the case of the neglect or refusal to make or wilful delay in making any such return. [Income Tax Act, 1918, Section 31.]

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6729. (11) Clause 17 is not peremptory but conditional and proceeding from an hypothesis. It is totally misleading where it is not altogether false. It purports to be a (conditional) provision for taxing married women as if they were not married, i.e., it professes to bring them under precisely the same regulations as govern the taxation of unmarried women. Herein it is in accord with the enacting clause of 16, but comes into conflict with the first proviso, the latter having provided that married women shall not be taxed at all. The result is that married women are led to believe that clause 17 means what it says, and they can be taxed as if they were not married, i.e., as single women are. But seeking to proceed on this belief, and after being directed from pillar to post, expending much money, time and patience, they ultimately obtain the explanation that the clause means nothing at all, by reason of the devastating reservation in the last line but one, which annihilates what would otherwise be its significance and effect. (The corollary to this reservation is, of course, the first sentence in 31 (1) (b).)

6730. (12) The very opening of clause 17 (i.e., first four lines and the qualifying words "for that year" in the fifth line) serves to cover a tremendous and radical differentiation in favour of non-married women. The unmarried woman (incidentally the married man also) can at any moment of time make a claim for repayment of Income Tax overpaid during the three (sometimes four) years preceding. No notice is necessary; a person frequently decides to make a claim, prepares it, and lodges it, all within the same day. But a married woman is to give from 12 to 18 months' notice of her intention to make a claim for repayment, and even then not with reference to a period which is past or to tax which has been paid, but with reference to a future period not yet begun, to an income not yet existing or ascertained, and to a tax not yet paid. In effect what happens is that she is told to sit down and make an application eighteen months ago, which is absurd.

6731. (13) This needlessly complicated and irritating procedure is to be performed annually by married women, in contradistinction to unmarried women and married men who take action as and when they choose without any preliminary application. The conditions are also impossible to fulfil in many ways. For example, every single woman is a potential married woman, and ought annually to make the formal application at the psychological moment in provision of a possible marriage in the course of time, that is to say, a single woman must make regular application in order to be in time if she ever gets married. A married woman having no means nor employment must similarly make regular application in order to be in time if in future she should be earning money or become a widow or succeed to an income on the death of an aunt or the happening of any other contingency. In short married women must always be taking steps to anticipate and discount in advance any event which may take place in the future.

6732. (14) It cannot be too frequently insisted upon that any policy based on assuming that a woman's income belongs to her husband is doomed to fail at every point for two reasons, namely, it comes into conflict with the law and actual facts, and the converse proposition is not also assumed. The Crown's theory is that in marriage there is one income only, the husband's. Clause 31 presents a grotesque attempt to reconcile this theory of one income with some measure of common justice to the wife. Now if there really was one income only, common to both parties, it stands to reason that knowledge of that one income would also be common and available to both parties. But there is no such thing as a common income. Of three parties involved in this clause the one income is known to two of them, the Crown because it has taken power to

demand returns from husband and wife of the income of each, and the husband because he can obtain knowledge from the Crown regarding his wife's income by reason of there being only one income consisting of his own and his wife's, which is deemed to be his. But the wife, the person chiefly concerned, and the only person standing to gain anything, has yet no power to ascertain the amount of the one income in question, in other words she has no power to compel a disclosure either by the Crown or by her husband of the latter's income. Now, no one, not even an expert, can know how much can be claimed, or even if a claim can be made at all, unless he can obtain knowledge of the statutory income out of which the claim is to arise. So here again the wife is brought up against a blank wall. She can never surmount the equivocations of the Crown, so as to achieve some definite result. It is suggested that the oath of secrecy should apply equally to a married woman and her income as to all other persons, or conversely that she should be given power to compel the disclosure of her husband's income. The Women's Freedom League stands solidly for the terms of the Women's Emancipation Bill "to remove all existing inequalities," not only between the sexes, but in this case between married persons. It must be obvious to any practical-minded person that the combining of two or more persons' income in order to treat the result as one income for purposes of Income Tax involves, in common justice, that power be given to each person concerned to compel full disclosure by the Crown of each other person's income. Failing this, the individual has no guarantee that he or she has been correctly charged. The individual would also need power to check, and to correct where required, every item of the income of any other member of the combination. For any member who had inadvertently overstated his statutory income (a thing easily and constantly done, owing to Income Tax complexity, and ignorance of what is meant by income) would thereby prejudice the interests of every other member of the combination by inflating the combined income, increasing the rate and jeopardising relief of all kinds. This is already demonstrated in the case of married persons.

13. *The person who is chargeable in respect of an incapacitated person, or in whose name a non-resident person is chargeable, shall be answerable for all matters required to be done under this Act for the purpose of assessment and payment of tax.* (Income Tax Act, 1918, General Rules for all Schedules, No. 13.)

6733. (15) On behalf of the Women's Freedom League it is requested that so long as the Crown persists in regarding married women as incapacitated persons the liabilities of husbands arising therefrom shall be equally regarded and strictly enforced, every husband being a "person chargeable in respect of an incapacitated person and answerable for payment of tax." This will deprive the Crown of the opportunity for presenting large sums of money to men who have no income and pay no tax, as they would then be called upon to make payment of the tax chargeable upon and payable by them before they can claim repayment. It is pointed out that if the Crown acted consistently it would never be in the position of having in its hands Income Tax paid by and belonging to married women, because the tax would have been paid by the husband. The Crown has always been extremely careful never to enforce the liabilities of husbands, as the storm of resentment which it would arouse amongst men would promptly direct undesired attention to the absurdity of the first proviso to clause 16. The Crown attains its ends by closing its eyes to the obligations of husbands and transfers their liability to the shoulders of their wives. Hence married women's widespread resentment. The simple and obvious course for the removal of the anomalies, absurdities, and injustices which the foregoing statement discloses is compliance with the Married Women's Property Act. The Women's Freedom League is at a loss to understand why there should be anybody interested in opposing this vital demand of women.

[This concludes the evidence-in-chief.]

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6734. *Chairman*: The procedure which we have adopted lately is just to receive this statement that a witness has prepared, and then interrogate upon that without the witness making any further statement. There are so few ladies paying as the complement of coming here that we make some little alteration in that respect, and if you like you can give a brief statement in your own way to the Commission, and then you will probably be examined afterwards upon your whole statement. There may be two or three points in your paper which you feel very deeply upon, and we shall be very glad for you to express to the Commission in passing what you would like to say upon them?—I do not think I want to add anything to the statement I have made here; I think it covers everything, and everything in it is equally essential. I could not pick out anything as being more essential than any other part.

6735. I thought perhaps you would like to strengthen the statement with regard to the incapacitated person?—It seems to me that that explains itself. Of course, it is not only a question of words, but that is translated into actions, and that is the part that is very disagreeable. I can tell you what that is when it is translated into action, being one of those incapacitated persons myself. I am incapable of making a return of my own employees. The return to be made by an employer is sent to my husband, and I am too incapacitated to do it myself. I have another paper here addressed to my husband in which he is described as my trustee, agent, receiver, guardian, tutor, curator and committee. I do not know why I should be supposed to want a curator. I always thought that applied to an exhibit for a museum. I do not know why I should want a tutor for that matter; but that is the position. Also any return that has to be made, or is expected to be made, always comes to my office addressed to my husband.

6736. Do you feel that really a very serious matter?—Yes, I rather think I do. I do not think I like being treated like that. I do not think any man in business would like to be treated in that way. I think it rather insinuates that I am not of any account, and I do not feel like that myself at all. Besides, you see, it is a most ridiculous position. Fancy anybody describing my husband as my tutor and guardian!

6737. That is not your main objection, is it?—No, it is not the main objection, but it is very funny to describe him as my guardian and tutor, considering what the position is. It is not in accordance with facts; I think you must admit that.

6738. Are there any other points you would like to address the Commission upon?—No, I do not think so. I am quite prepared to be examined, and that is really what I am here for.

6739. You have given us a very full paper. That contains all you wish to say?—Yes.

6740. The Commissioners will now ask you a few questions.

6741. *Mrs. Knowles*: The only point I should like to ask you about is that you have not said anything as to husband and wife being treated as two persons for Estate Duty purposes. They got married people as two persons for Estate Duty, but as one person for Income Tax; they get more out of them for Income Tax?—That is the very strange position. We are told that the Married Women's Property Act is not recognised, yet as a matter of fact in some respects it is recognised.

6742. Therefore for the present Income Tax purposes it is merely a revenue-producing device?—Yes, of course that is what a revenue Act is for.

6743. It is really not intended to cost a shur upon women seeing that they treat them as two for Estate Duty purposes; it is merely a way of screwing more money out of them?—Which section are you referring to?

6744. What I mean to say is, your paper seems to imply that married women are treated extremely badly, and are in a position of inferiority?—Decidedly.

6745. Do you not think that is merely a revenue-producing device—because they do not treat them in that manner when it is a question of Estate Duties?—I think we are only discussing the question of income now.

6746. I quite agree.—I have not come here to discuss anything outside of income.

6747. It is a revenue-producing device. It is not merely a sex distinction. It is a question of getting more money out of someone?—I should think it is a sex distinction, seeing that men are not treated in the same way. I should say it is precisely a sex distinction and nothing else.

6748. Would you consider it fair to treat a man who married a woman with a lot of money in the same way as a man who married a woman without money—because that is what it would come to?—I do not think that arises out of this at present. As a matter of fact married women are not supposed to be taxed at all, so really I may say personally I have got no present objection to the present system; it suits me personally down to the ground. The thing other women object to is that they are not treated as I am.

6749. How is it that you get different treatment from anybody else?—Perhaps it might not be considered to be different treatment, but I have been in business for 12 years, and I have never yet made a return of my income, and no tax has ever been paid upon it.

6750. *Chairman*: Do you say you have not returned an income?—No; of course I have not.

6751. For twelve years?—Yes.

6752. Has your husband returned it?—Certainly not; he does not know anything about it.

6753. And you have not paid any Income Tax, have you?—No, I have not got any income technically.

6754. But you have an income, have you not?—I have a letter here dated July, 1910, from the Inland Revenue in which they say, "With reference to your letter of the 4th instant relative to the statement to be found on Income Tax forms to the effect that a married woman's income belongs to her husband, notwithstanding the provisions of the Married Women's Property Act, I am directed by the Board of Inland Revenue to explain to you that the Crown is not mentioned in that Act and is consequently not bound thereby." So that I have not got any income, you see. Perhaps you would like me to hand you a copy of that letter.

6755. I do not see that you have not got an income?—I have got an income, because the Married Women's Property Act gives me an income, but for the purpose of Income Tax I have not any income.

6756. You have not returned your income to the Income Tax authorities?—No.

6757. Nor have you paid Income Tax?—No. All the papers come to my husband, as I have told you—at least I should say they are addressed to my husband. It is not the same thing, of course. As a matter of fact they come to my office addressed to my husband, and they stay there.

6758. I am afraid you would come under that part of our investigation which relates to evasions of the Income Tax?—Oh, no; not at all.

6759. Have you managed to escape all these years?—"1917-1918. F. S. Purdie, Hampden House." Of course, there is no F. S. Purdie at Hampden House. "For wife's profits, duty chargeable thereon, £1,250. Payable £625 on the 1st January, 1918, and £625 on the 1st July, 1918."

6760. Is that an assessment on you?—There is no mention of me on it.

6761. Do you know that it is for you?—Well, it does say, "For wife's profits."

6762. That you know means you?—Well, it might; I presume it does. I do not take things for granted; one never does—at least I do not.

6763. In the responsibility that you have and that every woman has to her country do you not feel the responsibility that you have to pay Income Tax?—Well, I should like to, decidedly. Yes; I feel that, quite.

6764. Why do you not?—I am waiting till I am asked.

6765. Supposing we ask you this afternoon?—Yes, but that is not the regular way of doing it. This is being treated rather in a spirit of levity, and it is a very important thing.

6766. You have an assessment there?—No; my husband has.

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6767. For you?—Yes, for me, I suppose.

6768. How will you evade it?—It is not how I evade it. It simply comes to my office, and that is all.

6769. Mr. Muckinder: Does not your husband pay it?—How would he know anything about it?

6770. How do the Commissioners know? They put down a sum of £1,250?—I suppose they estimate what I earn, and the estimate is £5,000 a year. That is apparently how they get at that.

6771. Chairman: How do you propose to get out of the difficulty?—By recognizing the Married Women's Property Act.

6772. Mr. Prestman: You got that assessment for 1917/1918?—Yes.

6773. Have you had similar assessments in previous years?—Yes.

6774. Have they not been paid?—I have got one here for my dividends to be paid.

6775. That is a demand for £1,250, is it not?—Yes.

6776. And you have had similar demands, not necessarily for the same sum, but for considerable sums in previous years?—Yes; I do not remember much about them, I am afraid.

6777. Were these demands never paid?—No.

6778. And did you receive no reminders that they ought to be paid?—No, I never heard anything more about them.

6779. And nothing has ever been paid: that £635 or £1,250 follows the normal course of previous years; it will not be paid and you do not expect to hear anything more about it?—No.

6780. Mr. Manville: Were the dividends you received not taxed at the source?—No, because my money was abroad. There was an appeal against these dividends because for some reason I think that one came to our private residence addressed to my husband. Naturally when it comes to my office he hears nothing of it, but this happened to come to my private residence, and he appealed against it.

6781. And successfully?—On the ground that there was no proof that I had any such dividends.

6782. And he succeeded in his appeal?—Well, I should say so—I should think so, because what happened was, the Commissioners adjourned it and we never heard any more of it.

6783. Chairman: I wish you could help us, because it is a serious matter, really, that we are on?—Yes, that is what I say; it is a very serious matter; it is a matter of principle.

6784. Do you think you are treating it quite seriously?—Quite seriously, yes.

6785. What is going to be the end of it?—The end of which?

6786. Of these assessments and your refusal to pay?

—I suppose as long as the Married Women's Property Act is not recognized the position will remain as it is. You see this is in accordance with the Income Tax Act, which you have got quoted in my statement. I do not suppose you have read it, but it says quite clearly there: "The profits of a married woman living with her husband shall be deemed the profits of the husband and shall be assessed and charged in his name." The position is quite right if you do not take the proviso as obsolete. I suppose most people would consider this proviso as obsolete, but if you are going to take it as standing for anything my position is quite right.

6787. What do you want us as a Commission to do?

—I should think what would be the best thing to do would be to delete that proviso as being obsolete, and not applicable to present conditions.

6788. That is the reason for your appearing before us this afternoon; that is what you want done?—I say that is one suggestion. You ask how the present position can be altered, and I say that is one way in which it could be altered.

6789. What is another?—Another way which would alter the grievance that exists at present would be if all married women were treated the same as I am. Any married woman living with her husband comes within that proviso just as I do. The married women who are having £5. charged at the source in their own names want to know why it is; it is inconsistent.

6790. Mr. Marks: Do you want to be assessed directly instead of through your husband?—I want to be assessed.

6791. Directly, on yourself personally?—I do not call this assessment on me.

6792. I say do you want to be assessed directly?—Yes.

6793. And that is the object of your appearing here?—I do not want other women, say, for instance, married women with £500 a year, as I know to be the fact, to be paying £18 Income Tax. If I have not to pay Income Tax they ought not to pay; that is where the grievance lies.

6794. Do you agree that that would be remedied if all married women were assessed direct?—If this proviso were deleted, yes. The enacting clause says that a married woman shall be charged as if sole and unmarried.

6795. I do not think the Act concerns us at the moment, because if the Commission and the Government came to the conclusion that married women should be assessed directly proper words would be inserted in the next Act; but the point I want to get at is whether the object of your appearance here is to obtain direct assessment for married women?—Yes, it is to obtain equal treatment for women so that married women shall be treated the same as single women, or the same as married men if it comes to that—that there shall be equality as between the sexes.

6796. You are only here on the point of assessment?—Yes. The way the Inland Revenue take this proviso is, they always make a point of deeming that the profits of a married woman are the profits of the husband, but they mostly forget to assess and charge it in his name, which they are called upon to do; and when a woman has been charged in her own name, which is not in accordance with what it says in the Act, they give the money she paid back to her husband.

I have got £150 in my hands now, and I have to hand it to a husband who has not got a farthing of income, and has never paid any tax.

6797. Mr. Birley: Do you know as a fact that your husband has not paid these assessments?—He has never seen the notices; I have said they come to my office.

6798. Do you know as a fact that he has not paid them?—I do not know anything about that. I only know he does not know anything about them, because they come to my office, as I have said.

6799. Mr. Bouverman: Does the witness suggest that the assessment of this £1,250 was made by the Revenue authorities and not on any figure supplied by the husband?

6800. Mr. Birley: Is it not possible that as he did not reply to these assessments, the assessments were sent to his home address and he has paid them?—They do not know the home address as far as I am aware.

6801. He may have paid them, so far as you know?—Well, he might have done, certainly, but as he happens to be a discharged soldier out of work I do not think it is very likely.

6802. Sir E. Nott-Bower: I suppose you are aware, are you not, that if you desire to be assessed personally instead of having the assessment made on your husband, you have only under the existing law to give notice of your desire, and it will be done?—I think if I were going to be taxed I should like to be taxed in a constitutional manner, the same as anybody else, by Act of Parliament; I do not propose to tax myself.

6803. The Act of Parliament provides that if any married woman desires to be separately assessed and gives notice before a certain day in the year that she desires to be separately assessed she is separately assessed?—But she is not separately assessed in the proper meaning of the word. Separately assessed would mean separately assessed the same as any other individual is separately assessed. Separate assessment would mean on her own income. The assessment that you are thinking of is an assessment on the combined incomes of herself and her husband.

6804. The rate of tax would be governed, I agree, by the combined income, but the assessment would be made if you desired it on you. You would be treated just like your husband is treated?—But as I say, I do not propose to levy a tax on myself. I think it is for Parliament to levy it; it should be by Statute. That clause to which you are referring is merely persuasive.

6805. You see that this grievance of yours really, strictly speaking, you cannot call a woman's grievance at all. Your point rather seems to be that you insist that the husband and wife who are living

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together shall have their incomes treated as entirely separate, and all allowances and all allowances and so on should be made by reference to the two separate incomes?—You are thinking of that clause I am alluding to later on; it is a permissive clause; it is conditional.

6806. You can claim to be separately assessed, and the assessment would be made on you, and you and your husband would be treated exactly alike. You would both be assessed on your separate profits by reference to the rates applicable to the conjoint income?—But if I wish to be separately assessed I think that is provided for in the enacting clause, "a married woman acting as a sole trader or being entitled to any property or profits to her separate use, shall be assessable and chargeable to tax as if she were sole and unmarried." If I wanted to claim to be separately assessed I should claim under that.

6807. You could get rid of that grievance at once?—I have claimed to come under that clause.

6808. Was not the assessment made on you then?—No, because they say it does not apply. I have said in my statement that the Crown relies wholly on that first proviso to the enacting clause. The enacting clause says one thing, and the first proviso says another. I say I want to come under the enacting clause, and the Crown says I come under the first proviso, and they directly contradict one another. The Act says most distinctly, "a married woman acting as a sole trader or being entitled to any property or profits to her separate use, shall be assessable and chargeable to tax as if she were sole and unmarried."

6809. There is a proviso there, "Provided that the profits of a married woman living with her husband shall be deemed the profits of the husband and shall be assessed and charged in his name"—Yes.

6810. So that the assessment on you under that clause would fall to be charged on your husband. But there is a later clause in the Act which says that if a married woman desires to be assessed separately for her own profits she may give notice, and she will be so assessed?—How can there be any reason that she should not be chargeable under this clause? One is of as much force as the other—in fact more so, because this is a peremptory clause, and the other is permissive.

6811. Under that first clause a married woman residing with her husband?—Living with her husband; it is not the same thing.

6812. Under that clause in the case of a married woman living with her husband her profits may be charged on the husband?—Yes. What I claim is that the Married Women's Property Act has altered that.

6813. By a more recent clause you can escape from that if you wish, and have your profits assessed on yourself?—But if there are two clauses in the Act, and I say I come under this one, why not?

6814. The first clause says that the profits of a married woman living with her husband shall be charged on the husband?—No. The first clause says, "shall be assessable and chargeable to tax as if she were sole and unmarried."

6815. But you are only bringing in part of the first clause. It goes on with a proviso: provided that if a married woman is living with her husband the profits shall be charged on the husband?—That is contradictory to what it has just said.

6816. No.—But indeed it is; the two things are contradictory one of the other. First it says the married woman shall be charged, and then it says the husband shall be charged; you cannot reconcile the two things, and I do not know of anybody who can reconcile those two things. I have a letter here from a lady who is an L.L.B., and who has studied them very carefully, and she says it is really nonsense, and one is really contradictory of the other.

6817. Mr. Kerly: Madam, the fact is that you have discovered in some circumstances a married woman is in a very favourable position?—So have a lot of other married women; I am not only one.

6818. A married woman who earns an income is liable under the existing law to pay Income Tax, but it is assessed upon her husband?—Then she is not liable, is she?

6819. Oh, yes.—When you speak like that it is as if you say black is white.

6820. Very well; I do not follow it myself, but you put it so. When the Inland Revenue comes to get payment, if the husband has no means they cannot make him pay?—I do not know anything about that.

6821. But that is the position, is it not? It is because you are for this purpose fortunate in being married to a man who has no means that although you are liable to Income Tax which you ought to pay to your husband in order that he may pay it?—I beg your pardon; that I ought to do what?

6822. *Chairman*: Which you ought to pay to your husband.

6823. Mr. Kerly: You are liable for Income Tax which you ought to pay to your husband, in order that he may pay it to the State?—Is my husband authorized to collect revenue?

6824. Yes.—I do not see any authority for that anywhere, and I do not think you can say that.

6825. Upon that hypothesis?—I say my property is my own. It says in the Married Women's Property Act, "to hold and dispose of."

6826. *Chairman*: Mr. Kerly is just asking a few questions, if you will kindly answer them.

6827. Mr. Kerly: If the husband has no profit of his own the only way in which he can be made to pay, or you can be made to pay through him, is by sending him to prison, and if the Inland Revenue shrink from that you escape?—Yes, but it is not only if the man has not got any means, because, for instance, I know another case where there may be means, but the husband is a lunatic in an asylum, so it has nothing to do with means.

6828. It is equally useful for this purpose to have a husband who is a lunatic as to have a husband who has no means?—Or, of course, you may have a husband abroad.

6829. That would not fall within the provision of the Act of a woman living with her husband?—Oh, yes, it would fall within that provision.

6830. But that is the position under the existing law: you escape payment because it so happens that you are married to a gentleman who has no means!—I think the reason I escape taxation is because that is what the first proviso has said; that is what I should say is the reason why I escape taxation.

6831. *Chairman*: Has not Mr. Kerly put the truth to you; is it not true what he says?—I am afraid I cannot accept that, because I can see what the idea is; I am not recognized as an individual, and the country makes me pay as part of my husband. Well, I am an independent person. I am not a chattel of my husband. I must be regarded just the same as anybody else—as a man or my husband is. You would not put such questions to a man or my husband if he were here. Why should I be treated differently. I claim to be treated as an individual, and to be treated as any other individual is.

6832. How do you suggest that they should treat you, as an individual?—I should say by recognizing the Married Women's Property Act, and by saying that Act has rendered this first proviso obsolete.

6833. Are there a great number of people in the Women's Freedom League?—Yes, I should say there were, but I could not tell you what the numbers were.

6834. What is your connection with that League?—I have been the auditor of that League since about 1907, and as in the case of a great many women's associations I am retained as a sort of adviser to them, shall we say.

6835. You are a professional accountant?—Yes.

6836. Do you come before us by any resolution of the Women's Freedom League?—At the request of the committee.

6837. How many members have you got?—That I do not know; I have not any idea at all.

6838. Have you large funds?—Well, I audit the funds.

6839. I am only wanting to ask because I want to find out whether you really represent, in the spirit in which you are before us this afternoon, a great number of other women who feel similarly to yourself?—Well, I think I may say that I represent the feeling of another body, the National Federation of Women Teachers. There is a very strong feeling

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[Continued.]

among the women in the Federation because the married teachers are paying full tax on the whole of their incomes, and their husbands are not.

6840. Do you know another case in the whole of the people that you say you represent similar to your own?—Yes.

6841. Acting as you are acting?—Yes.

6842. Mr. Holland-Martin: Do you advise your clients to not in this way?—I always tell them what the law is, naturally.

6843. And resulting from that advice there are other cases similar to your own?—Yes.

6844. Mr. Petyman: I suppose the State could quite easily meet your particular case by simply enacting that in a case like yours the wife would herself become liable for the tax?—That I think is already provided for.

6845. I do not think so?—I take it that the section means that a married woman would be assessable and chargeable to tax; that is the principle, but at that time it was not possible, of course, to put it into practice, because a man did have his wife's income at that time. At that time a woman had not got any separate income, and they could not say it could be collected from the wife, because she had not got it. It is a bit of what I should call the machinery of collection.

6846. I think you agree that it is not really a matter of sex so much. Supposing the law said that where a father and son were living together in the same house their income should be treated as one for the purposes of taxation; if they happened to be both of the same sex exactly the same provisions would be required. Acts of Parliament use this sort of phraseology merely for the purpose of getting the tax. Parliament may say that black is to be deemed to be white, but that would not make black white, and they do things in language quite as ridiculous as that. It does not mean because Parliament says that a woman shall be deemed to be incapacitated, that Parliament thinks a woman is incapacitated; it merely means that for the purposes of this Act, as regards the raising of revenue, a woman shall be regarded as a person who is legally incapacitated from paying this particular tax?—But then she is not legally incapacitated, is she?

6847. Yes, she is, apparently, in your particular case?—Not according to the Married Women's Property Act.

6848. I am not speaking of the Married Women's Property Act; I am speaking of the Income Tax Act, which we are here to consider, and that is what we are really discussing; and the way this Income Tax Act happens to be drawn, at Mr. Kerly has put it to you, is that a woman whose husband happens to be also incapacitated—that is really what it amounts to—the woman is incapacitated from paying, because her husband is also incapacitated, either because he is a lunatic or has no means; and then the tax is not paid at all. Is not that what is comes to?—I am afraid I do not quite follow your argument. I think you began by comparing father and son, and I thought that was rather what you were arguing on at first. You said would I have any objection if there was a similar case of father and son. I think the answer to that is that there is not any similar case of father and son, and that if there were it would be altering the principle of taxation altogether, as it is the individual who is now the unit of taxation; consequently, of course, you would have to have everything devised to fit a new principle.

6849. I was not suggesting that that would be done. I was only saying that that might have been the principle adopted. Parliament has adopted a certain principle. There are two principles on which taxation may be raised. It may be raised on an individual or it may be raised on the household?—Not so far; I do not know of anything except in this particular case, and not even here, because the married woman is recognized as an individual even here. I do not know of any other case.

6850. But you see the reason for it. I think you should understand this, that the object is not in any way to make a sex difference, and never has been.

The point has been this, that if a husband and wife's incomes were allowed to be treated as entirely separate for all purposes of taxation, both husband and wife could claim all the allowances as having separate incomes, just the same as if they were two individuals with no connection with one another. You would have a great many cases such as your case, for instance, where the wife has a considerable income where the husband has none; and you would have a great many other cases where the husband has a considerable income at the time of the marriage and the wife has none. Practically in all those cases where the husband and wife were living together, if they were treated separately the husband in the one case or the wife in the other case would transfer half of his or her investments to the other, and the income which was originally the income of one would be divided between the two, and they would get double allowances. That would not operate to help very poor people, but it would operate to give enormous relief to very rich people. Supposing, for instance, a man with £10,000 a year marries a girl with nothing. His income of £10,000 a year is liable now to a very heavy Super-tax, which with the Income Tax would mean that he would pay between 8s. and 9s. in the £. If your proposal were carried out he would be able, on marrying, to make over £5,000 of his income to his wife. She would then have £5,000 and he would have £5,000, and the tax instead of being 8s. or 9s. in the £ would be reduced to very little more than 7s. in the £. There would be just the same income going into the household; they would be living together. The richer the people are the more they would benefit. It would not even be necessary to make such a big transfer, because £2,500 is the limit of Super-tax. If he could transfer £2,500 of his income to his wife he would get off Super-tax on that amount, and rich people could quite easily do that. They would be the people who would gain. When you come here in this way we want you to help us to try and look at it from the national point of view, not only from the sex point of view or the personal point of view, but to help us about a real difficulty, how we can satisfy the very proper and reasonable aspirations of women to be treated on exactly the same basis as men, and to have their incomes properly assessed in every way, but at the same time not to make the enormous hole in the Revenue which would result if very rich people could take advantage of a clause which provided that a man and a woman married should be treated as entirely separate persons. Can you give us any idea as to how we can avoid that?—Of course, your speech, I think, to some extent, is dependent on an assumption, and I might remind you that that same assumption was made, I think, in 1908, when it was proposed to introduce the Super-tax. That same argument was brought up by the party that was then in opposition, I think it was the Unionist, that if you put Super-tax on people, fathers would immediately transfer their property to their sons and their daughters. The Super-tax has been in force now for ten years, but so far as my own observation goes, I have not noticed people rushing to transfer their property to their sons and daughters.

6851. There is a great deal of that, but that you cannot help?—I do not find it, and certainly it is not my experience that fathers or other persons are in a hurry to divest themselves of their property before they die.

6852. It is not quite the same thing?—I think it is the same thing; I do not see the difference myself. For instance, I know a lady who has got seven children, and every one of those children has got an income; they are all living together; why should they not be put together?

6853. Surely there is this difference: a husband and wife come together for life?—It does not make any difference whether they do, according to the present position. Lots of married people have parted company, but there is no provision made for that.

6854. Yes, there is, in the Act. It is a husband living with his wife.—It does not seem to be quite clear what those words, "living with her husband," mean. Living with her husband has a legal meaning. You do not take just what it says. You are living

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with your husband so long as there is no divorce or judicial separation.

6855. If you are occupying the same house with your husband?—No; you are living with your husband so long as there is no divorce or judicial separation. One of you may be in New Zealand, and one in England, but you are living together unless there is a divorce or judicial separation.

6856. Whether the husband be temporarily absent from her or from the United Kingdom or otherwise?—Now take the first proviso, and you will see there cannot be such a thing as temporary absence from the husband, and I can quote to you the letters of the Inland Revenue sent out on that point.

6857. You do not feel inclined to help us at all?—What I am very much exercised about is that there are so many married women who are paying £s. in the pound Income Tax, and nothing can be done about it, and very often they are not living with their husbands, at least not in the sense that you take the words, "living with their husbands." When they make a claim they get a letter from the Inland Revenue—I have two or three such letters here—in these words: "I beg to point out that the Board of Inland Revenue are not prepared to admit claims by married women unless there is evidence of divorce or legal separation."

6858. If you are inclined to help us in our difficulty we may be also able, and in any case we should try, to help you in yours. Our difficulty is we have to try and avoid loss of revenue by enabling very wealthy people to transfer to their wives easily. I think it is a little beside the point to say that they can transfer to their children, because we can tighten that up, possibly. The present revenue is derived under the existing law where they can transfer to their children in order to escape tax. If they could also transfer to their wives there would be a very great loss of revenue. I wanted to point that out, and we want to find some means of meeting the reasonable wishes of married women, giving them as separate a status as we possibly can, and avoiding anything which would in any way offend them. There is no desire, I am quite certain, on the part of the Chancellor of the Exchequer, or the Revenue, or this Commission, to treat a married woman in any way differently from another, provided we can avoid that loss of revenue that I have mentioned. Can you suggest to us any way in which we can maintain the revenue, particularly in the case of very rich people, and at the same time avoid the kind of cases that you refer to?—Perhaps I should be able to follow what it is you desire to do if you could give any reason for the assumption that married people should pay more tax than others; that is the point that is my difficulty. I do not see any reason myself why married people should pay more than those who are not married. I can see the reason if the same principle on which that apparently is done was applied to other people too. The reason why married people are to pay more is, as Mr. Lloyd George told us when we went on a deputation, because they save money by living under the same roof. If you accept that I say you would have to carry it further.

6859. They do not pay as much?—They pay more.

6860. Well, they pay more, yes, but that point is already being met, in the case of people with very small incomes, in another way: an allowance is made to married people with very small incomes, whether the income belongs to the husband, or belongs to the wife, or belongs to both of them. An allowance is made because they are married, because they are two people instead of one. It is only when you get into the very large incomes that that allowance ceases. That is a way of meeting it so as to help poor people?—I think if you are going to take it on two people who have got an income being taxed as one, you might take it further to three or four people. I know for instance a solicitor who lives with his mother and his four sisters, and they have all got an income. Why should not they pay more heavily than other people?

6861. Because that is really their own income.—I am afraid I cannot accept that. You are going on the assumption that the income of a husband and wife is one income, and I do not accept that.

6862. No, I was going on the assumption that the husband and wife can always interchange their incomes as they like.—Well so can anybody.

6863. No, not without running much greater risks?—I think so; I do not follow that at all. I should like to know how the Commission is going to deal with this question of these sums of money being paid back to men who have got no income, because I notice it is put as if it was a very terrible grievance that I do not pay my Income Tax, but I do not think it is quite as great a grievance that a man who has got no income should get £150 for nothing.

6864. Chairman: We shall consider all those points, but if they all came in the spirit that you come in with regard to the evasion of Income Tax we should not get any further.—Pardon me, I do not think there is any need to refer to it as an evasion. I am keeping within what is stated here. If there is to be something different why does not Parliament say that a married woman is to be liable to Income Tax; that is the proper way to do it. It is Parliament that levies the tax.

6865. I hope that the explanations that have been made to you will make you feel that so far as Income Tax is concerned we want to do what is perfectly fair and just?—That is what I am appearing for on behalf a number of Women Societies; it is for equality. One of these gentlemen put it to me I could if I liked make arrangements to be taxed myself. I think he must have lost sight of one thing, that I should have to take steps to that effect, and when I have taken those steps they would not come into operation for eighteen months.

6866. The whole question has got a little bit overshadowed by the personal matter as regards yourself. I think it struck us all as a very strange step indeed that you have taken. What is true and right in your paper we shall try to use for the benefit of those that you represent.—Of course, that is my idea in coming here this afternoon, because there are so many poor women like the one whose case I have here with £60 a year, who is paying £18 a year Income Tax.

6867. It is your own personal dealing in this matter that strikes one as being so strange; it is your own case that you have put before us?—The one involves the other. If you once take up the position that the man is chargeable then you take up the position that you give the money back to the husband. The two things go together. I am only using my own case to point out that that involves giving back to the men money that they have not paid when they have not got incomes, and the same thing that affects me affects very poor women.

6868. I do not think there is anything else that we can get of any value, thank you?—There is one thing that I was asked to put forward by the Women's Freedom League that does not arise out of this; it was about a question of Commissioners being eldest sons.

6869. If there is any matter of injustice that you would like to put before us you can give that, although we are adjourning now?—It is a matter of inequality.

6870. I do not want to exclude anything which you think is an injustice to anybody. Just give the facts in a few words?—There is a section in the Income Tax Act which says that one of the qualifications of a person acting as a General Commissioner is that he shall be the eldest son. That again is another inequality. It is not only as regards women. It is rather a funny thing altogether in these days that one of the qualifications of anybody should be that he should be the eldest son.

6871. That is the point you wish to put before the Commission?—Yes.

6872. There is nothing else that you wish to put?—No. I think the Commission are not prepared to give any consideration to these cases of women whose money is being given to their husbands, or who are paying £s. in the £, and that sort of thing.

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6873. Is there anything else you wish to say?—I have dealt with the question of the eighteen months' notice in my statement; that again is an inequality.

6874. Pardon me for saying so, but you have not dealt with your own case properly; that is my view?—What do you call my own case?

6875. The case that you presented as regards yourself to this Commission?—But I am not here to

present my own case; I am here to present the position generally.

6876. You have done so?—I have presented my own case because what applies in my own case applies conversely in the other case of the women whose money is taxed at the source. For the same reason as I cannot be charged they cannot get their money back. The two things hang together. They all depend on the same principle.

TWELFTH DAY,

THURSDAY, 17TH JULY, 1919.

PRESENT :

LORD COLWYN (*in the Chair*).

SIR T. P. WHITTAKER.

MR. BOWERMAN.

MR. PRETYMAN.

SIR E. E. NOTT-BOWER.

SIR J. S. HARMOOD-BANNER.

MR. HOLLAND-MARTIN.

MR. BIBLEY.

MR. WALKER CLARK.

MR. GRAHAM.

MR. KERLY.

MRS. KNOWLES.

MR. MACKINDER.

MR. MCCLINTOCK.

MR. MANVILLE.

MR. GEOFFREY MARKS.

MR. MAY.

MR. SYNNOTT.

MR. SIDNEY WEBB, LL.B., Professor of Public Administration in the University of London, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

6877. Witness was editor and part-author of *How to Pay for the War* (1916), which contained a chapter (separately published) entitled "A Revolution in the Income Tax." This, it is understood, has been circulated to the Commissioners. Apart from the various criticisms and suggestions contained in that publication, witness desires to emphasise the following points.

The exemption limit.

6878. (1) It is submitted that the present exemption limit of £130 cannot stand, even for the unmarried person. Apart altogether from the question as to the level of economic resources at which an Income Tax should properly begin, the mere change in the level of prices since 1915 has made the figure of £130 obsolete. An alteration is very urgently needed.

6879. (2) There is a certain amount of evidence that, in coal mining at least, the attempt to levy the tax on unmarried miners earning no more than fifty or sixty shillings per week, and on heads of households earning no more than £3 to £4 per week, is actually lessening the production of coal. It is a new cause for the "absenteeism" which has increased. Men are known to have refused to work a fifth or a sixth day in the week, on the ground that it would make them liable for Income Tax. It must be remembered that, in spite of the sensational high earnings reported, usually inaccurately, with regard to some hewers (the whole class of hewers being only one-third of the miners), there are collieries in which at all times no fewer than half the hewers are down at the legal minimum level, which is only about 10s. to 16s. per shift; and that a large proportion either do not get the opportunity, or do not take the opportunity, of working more than four or five shifts per week.

6880. (3) The widespread discontent among not wage-earners only, but also among the large class of what may be called "minor professionals," at the present exemption limit should not be ignored, or lightly estimated. There is a point at which popular objection to what is felt to be unjust taxation has to be taken seriously into account by the statesman, even if he does not himself admit the injustice.

6881. (4) The discontent is largely due to the fact that the changes in the level of prices and wages have brought within liability to Income Tax a large num-

ber of persons whom the Chancellor and the House of Commons had no intention of rendering liable when the limit was fixed at £130. They are no better off with doubled wages than they were before the cost of living rose by 100 per cent. Unless some change in the exemption limit is made, we shall be taxing those who before the war were getting only 25s. per week, which was certainly not within the minds of those who proposed, or of those who authorized, the limit of £130.

6882. (5) An analogous question had just been decided by the Ministry of Health, with the concurrence of the Treasury and the express approval of the War Cabinet. The National Health Insurance scheme includes, as regards non-manual workers, persons receiving not more than £160 a year. Thus the alteration in nominal incomes, due merely to the change in the value of money, is resulting in the exclusion from insurance of a large number—officially estimated at between half a million and one million persons, or as many as twenty to thirty per cent. of those assessed to Income Tax—of non-manual workers, whose pre-war income was less than £160 a year, and who are to-day no better off. The Government Memorandum proceeds as follows:—

"To preserve the *status quo ante* notwithstanding the altered conditions, an amendment of the Acts themselves is requisite. Such an amendment is accordingly proposed, not (it should be clearly understood) for the purpose of extending or modifying the present scheme of health insurance in any way whatever, but as the only possible means of enabling that scheme to continue to operate without its scope being artificially narrowed by the circumstances described above.

"After close consideration it has become clear that this object cannot be secured except by substituting for the figure of £160, above referred to, some higher figure, so as to retain in insurance non-manual workers whose increase of remuneration does not exceed such higher figure. A careful investigation of a large number of employments demonstrates that the substitution of £250 affords the closest possible approximation to the extent to which wages have risen in the case of the classes of non-manual workers affected."

It is accordingly suggested that, merely in order to prevent the class which Parliament considered entitled

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[Continued.]

to exemption being "artificially narrowed," the sum of £200 should be regarded as the equivalent of £160 by the one Department of Government as by the other. On this argument alone the exemption limit should be placed at £200 as being merely equivalent to £130 four years ago.

6883. (5) Such a raising of the exemption limit from £130 to £200 would merely be carrying out the intention of Parliament and keeping the Government Departments in line with each other. Witness submits, however, that the exemption limit of £130 was, when imposed, quite unduly low; and that the step then taken was warranted, if at all, only by the stress of war. Indirect taxation has since been further increased. In order to prevent the aggregate burden of taxation, indirect as well as direct, from pressing proportionately more heavily on persons having between £200 and £250 a year, than on those having twice the amount, witness suggests that the exemption limit should not be lower than £250, which is equivalent to no more than 50s. per week before the war—an income that Parliament would not have thought of taxing directly and one which is bearing a disproportionate share of indirect taxes. The percentage of the income represented by the household contribution in indirect taxation falls, it is believed, on an average, steeply about this point; although no exact figures can be given.

It is submitted that it is open to doubt whether such a raising of the exemption limit would involve much net loss of revenue, if any. The assessment and collection of the Income Tax on incomes below £250 takes up a vast amount of the time and energy of the Surveyors of Taxes and the collecting staff. Witness believes that the utilisation of this time and energy in looking more closely and more competently after Excess Profits Duty, and the higher ranges of Income Tax assessments, would go far to recoup the Exchequer. It may be suggested that it is doubtful whether the absorption, during the war, in the work of bringing into assessment the people down to £130 a year of so large a proportion of the powers of a limited staff, and the consequent reduction of the attention that could be given to bigger items, has really been profitable to the Exchequer. To vary a common saying, what has been gained on the swings has been lost on the roundabouts.

6884. (7) But the fundamental reason for any exemption limit is the paramount necessity of not trenching by taxation on the standard of life necessary for the maintenance of the taxpayer in the fullest industrial and civic efficiency. No one can pretend to justify as low a limit as £130 at the present cost of living. A bachelor clerk or workman, a woman typist or teacher, cannot live to-day in London in proper health and efficiency on £2 10s. per week; nor can a childless couple do so on £153, or a family of four on £205, which are the sums now free from Income Tax. Moreover, apart from the price of food and clothing, the increase in indirect taxation logically involves an equivalent addition to the incomes exempted from direct taxation, if the principle of not trenching by taxation on the necessary standard of life is accepted. Taking indirect taxation into account, including the increased cost of travelling and postage, and—as may be added—house rent, it is suggested that the unmarried man or woman at £250 to-day has no more free or properly taxable margin than, before the war, at £125, or even £100. On all these grounds, political as well as economic, witness submits that the exemption limit will have to be raised to £250—which is the limit for National Health Insurance proposed by the Government to the House of Commons in the new National Health Insurance Bill (No. 111 of 1919)—so long as anything like the present level of prices and the present amount of indirect taxation continue.

The family or household as the basis for assessment.

6885. (8) Whatever the exemption limit, witness submits that it is imperatively and urgently necessary to remedy the present disproportionate burden (as compared with that on the unmarried person) imposed on heads of households and especially upon the fathers of several children. This grievance—

which is believed to be having results that are disastrous to the nation—has been already recognized by the concession of allowances for wife and children. But these allowances (nominally £25) amount, even at the present high rate of tax, only to a subvention of about £3 per annum for each person maintained, a sum that is derisory. It is a further absurdity that even this inadequate allowance stops for children at 16—just when they are, or should be, most costly, as if the Chancellor of the Exchequer had resolved to make as far as possible abortive the grants that the Minister of Education had screwed out of him for secondary schools and universities. Here, too, it is vital that the several Government Departments should get into line. If Parliament and the Cabinet really want to double and treble the number of students at the technical schools and universities, the Chancellor of the Exchequer must not be found tripping the Minister of Education by objecting to continue the children's allowance up to any age, not exceeding 25, during which the sons or daughters are wholly engaged in their own education, and are being maintained from the taxed income.

6886. (9) The amount of the allowance needs to be raised so as to make it more comparable with the part of the income devoted to the expense. Doubling the present allowance for a wife and per child is the very least that could be suggested.

6887. (10) But the present plan of a uniform allowance, whatever the income, has the drawback of failing to make the alleviation vary in proportion to the income and, therefore, to the scale of expenditure usually incurred. It thus fails to bring such relief to middle-class households as would promote rather than discourage both the production of children and their effective secondary, technical and university education. Its limitation to incomes not exceeding £800 a year has a like effect.

6888. (11) It was with this view that witness suggested the facultative adoption of the family or household as the basis for assessment, instead of the individual. What is proposed is that it should be open to any taxpayer under, say, £1,500 or £2,000 a year, to claim to be assessed on the family basis; that for this purpose he should furnish the authorization of all the adult members whom he wishes to combine; that these should include all the members of his family either resident with him or maintained elsewhere at his expense; that all their incomes, however small, should be brought into hotchpot; that one assessment should be made on the total; and that exemption and abatements should be allowed in some relation to the number of persons maintained from the aggregate income. The logical and extreme course would be to divide the total income by the number of persons maintained and deal with it as if it were a group of separately owned incomes of equal amount. But something less than this logical concession would suffice.

Occasional gains.

6889. (12) Witness suggests that "windfalls" and gains of occasional nature should be made liable to Income Tax, just as much as annual receipts. At present there is no consistency. The writer of a book who receives a lump sum on selling the copyright is charged as if this sole represented annual income; and a painter, sculptor or composer is similarly treated. On the other hand, when an inventor sells a patent for a lump sum he is not assessed for it to Income Tax—which is perhaps our Philistine way of discouraging the arts and favouring mechanical invention!

The capital gains made by sale of ships were, in 1916, made liable to Excess Profits Duty, but apparently no other analogous profits are so treated. All such occasional profits seem to be brought into assessment by the Income Tax laws of Hamburg, Bremen and Bank City, and by those of Australia and New Zealand.

The logical course would appear to be to require from everyone (or at least from everyone liable to Super-tax), as is already done from every company, an annual statement of assets and liabilities, as well

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as of income; and to take into account, as part of income, any clearly demonstrable increments of capital (or decrements). Such a statement of capital would incidentally greatly facilitate discovery of evasions.

Prevention of evasion.

6890. (13) Witness suggests that the principal case of any considerable evasion at present is that of investments (principally abroad, or in the Isle of Man or Channel Islands) from which tax is not deducted. These could be detected, and back duty recovered, in many more cases than at present if (as is done in Scotland) a detailed schedule of the investments on which Death Duties had been paid were required to be attached to the Probate or Letters of Administration, when these are presented as authority for transfer. At present, in England and Wales, the mere presentation of these documents secures the unquestioned transfer of anything standing in the deceased's name, whether or not it has been brought to account.

But witness suggests that the suggested annual return of capital investments—at least from all persons assessed to Super-tax—which would only amount to an explicit statement of what the Super-tax return already implies, with the addition of non-income-yielding investments, would prove extremely valuable in this connection. If it were known that this would eventually be compared with that made after death, omission would be less tempting. It would, however, be essential to get the capital return also from companies, as well as from individuals.

The very great resort to "capitalizing income," for the purpose of escaping Income Tax and Excess Profits Duty, and to a preference for investments yielding capital increments at subsequent dates, instead of full annual returns at the market rate, seems to make it important to close this loophole of avoidance.

More continuous graduation.

6891. (14) Witness suggests that the graduation should be smoothed out and made more continuous by making all incomes in excess of £1,000 assessable to Super-tax, charging nothing on the first £700, and 3d. on the next £300, 6d. on the next £1,000, 9d. on the third £1,000; thence 1s. rising by 6d. on every £1,000 to £10,000; thence 2s. 6d. rising by 6d. on every £10,000 to £50,000; and thence 3s. 8d. in the £. There would, it is suggested, be considerable advantage in bringing all incomes exceeding £1,000 a year within the survey of the Super-tax Commissioners, it would reveal many investments from which tax was not deducted. Incidentally, it would stop the last useful hole of escape from making a return for the (possibly) 20,000 persons without Life Assurance between £2,000 and £3,000 a year derived exclusively from investments or not claiming the lower rate on some earned income.

Increase of staff and improvement in status and remuneration.

6892. (15) It is impossible, in connection with any enquiry as to the yield of Income Tax, to ignore the fact that the Taxes Branch of the Inland Revenue is very far from adequate, either to the extensive and important work that it had to perform in 1914, or (even with the war increases) to the enormously enlarged responsibilities that have been placed upon it. Witness wishes to bear testimony to the generally excellent manner in which, so far as he is aware the work has been, under great difficulties, done. If the Commission has not yet had before it a return of the staffs and salaries, witness suggests that it should be obtained. It seems incredible that the assessment of a wide and populous area, with all sorts of profitable industries, including firms and companies of magnitude, where half a million a year is collected in Income Tax and Excess Profits Duty, should be in charge of a young Surveyor at a salary of less than £6 or £7 per week without any formal training in law, accountancy or economics, aided only by half a dozen entirely uneducated and untrained clerks at

two or three pounds a week. Yet this is what is reported to be happening to-day. Witness suggests that, if only to reassure public opinion, the precise facts should be ascertained for all the tax surveying districts.

Witness wishes to record his opinion that more Income Tax and much more Excess Profits Duty would have been received by the Exchequer during the past four years and would in future be obtained—

- (a) if the tax surveying staff were increased in strength;
- (b) if higher salaries and brighter prospects were accorded to men in charge of all districts of importance;
- (c) if systematic provision were made for training in economics and accountancy, as well as in law, of all Assistant Surveyors during their first year of service; and
- (d) if the professional studies and mutual consultation of the Surveyors with regard to improvements in the technique of their profession were further encouraged and facilitated.

Witness suggests in particular that arrangements should be made to secure, for every Assistant Surveyor on appointment, at least one year's systematic training in economics and accountancy. There seems much to be said for enabling Assistant Surveyors to devote their whole time, or at any rate half time, for the first year to systematic study.

The foreign agent.

6893. (16) It is made a subject of complaint that companies and firms established overseas (either in the British Empire or in foreign countries) carry on extensive businesses here, either in importing or exporting, by mere agencies; sometimes remitting only the salaries or commissions of the London staff and their office expenses; and sometimes, where the London agency is allowed to make a profit, so adjusting prices as to make this British-made profit equivalent only to an agent's salary and commission. In this way, it is alleged, large amounts of profit avoid taxation here.

The witness submits that there is here no grievance to be remedied; and that there is no way of bringing such profits into assessment without giving rise to grave dangers, if not evils.

It must be remembered, to begin with, that the practice complained of is bilateral. British firms and companies maintain innumerable agencies abroad in connection with both British exports and British imports; and foreign countries, as well as our own Dominions, where heavy Income Taxes are now levied, might equally claim to assess locally, not merely agency salaries and commissions, but also the whole profits on the transactions. This country would not, on balance, be the gainer.

Moreover, in the large number of cases where no such arrangement exists, and the goods are imported or exported for their own profit by British merchants who are only merchants, not interested either in the manufacture or in the retail distribution of the goods, there is no other profit that could be assessed in this country than that earned in mere agency. Hence, any attempt to make the London agency of a foreign or Colonial firm or company pay on more than the profits of mere agency—say, for instance, by a tax on turnover—would be quickly avoided by transferring the agency business to an independent firm.

Logically, the only profit made here, in the one case as in the other, is that of agency; and we have nothing to complain of in the fact that the British Exchequer gets only the tax on the salaries and commissions of the agents any more than we have when the agency is an independent British firm, making strictly analogous profits; or than the Dominions or foreign countries have when they tax only the local agency profits on the goods that our own companies and firms import into, or export from, their territories.

[This concludes the evidence-in-chief.]

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6894. *Chairman:* Mr. Webb, the procedure that we adopt now is to take the statement of the witness that is submitted to us before he comes and carefully to look at that, and then to commence examining on the statement that has been given to us. There is one point on which, I think, it would be very helpful to the Commission if you were to express your views; that is, on administration. Will you make that a special point now, because that is an important matter about which we are very anxious to hear. You have very full knowledge, I think, of that matter, and if you would kindly address the Commission on that point and then submit to examination on your main evidence, that would be very helpful to us—I understand that you suggest that it would be more convenient that I should not attempt to summarize the statement that I have sent in. I am quite willing if it is put in as read.

6895. We want to get at the quickest and best way, and we have found out by experience that summarising has not been the best way of dealing with it—I will not attempt to summarize, but I shall ask permission to add some considerations which are not printed.

6896. Yes; if there are any points you would like to put before us, please make those points now.—May I say, to begin with, that I am not here to urge anything or to support anything. I am here at the request of the Commission to give them any information that I can, or to make any suggestions and criticisms that I can, and I have made those suggestions and criticisms in the print which you have before you. I also want to explain that I am here entirely on my own behalf. I am a member of the Executive Committee of the Labour Party, but I am not in any sense appearing for them, nor are they committed to my views. There is just one other thing I should like to say. I think practically all the criticisms and suggestions that I have made on the Income Tax would make myself, and people in the same position as myself, pay more and not less. Consequently, I am not in the least here to ask for remission of duty for my own advantage, or, if you like, the advantage of people who happen to be in the same position as myself. Practically everything that I have suggested would increase the burden upon my own particular class, if you reckon class by income. My main suggestion is about the exemption limit. I wanted to add to that, that the phrase that is frequently used is "subsistence level." I suggest that is entirely misleading, and it implies quite a wrong view of the matter. By "wrong" I mean an unstatesmanlike view of the matter. What the Chancellor of the Exchequer is bound to take into account, and to take as his guiding consideration, unless he is going to make a heavy loss to the Exchequer, is not subsistence level but maximum efficiency. Any taxation, whether by Income Tax or otherwise, which diminishes the efficiency of any taxpayer is not only not a gain to the Chancellor of the Exchequer, but is a sheer loss; and I need hardly point out that maximum efficiency of the taxpayer has no connection at all, except at extremes, with subsistence level. If you were to proceed on the basis of asking what is the subsistence level, and you taxed down to that, it would be suicidal, because you would be interfering with efficiency in millions of cases. Consequently, I think, the Commission ought to dismiss from its mind altogether the question of subsistence level, which is extraordinarily low, because millions of people in this country are living actually under conditions which prevent them exercising their maximum efficiency. In fact any consideration of subsistence level, except as an ultimate limit, seems to me entirely unstatesmanlike and suicidal, to put it strongly; and you ought, therefore, to take into account what is the level of income which permits the maximum efficiency. Of course one must be reasonable about that, but the efficiency level rather than the subsistence level is the one to get at.

6897. How would you go at it?—You would get at it in the same way that you get any other datum—by inquiry and investigation. The next point I want to urge is that we have been too much in the past in the habit of talking about efficiency as though it only meant efficiency productive

of material wealth. Now that again would be suicidal for the Chancellor of the Exchequer to take into account exclusively. Because the taxpayer is not only a producer of wealth—if he is a producer of wealth at all; sometimes he is a producer of income which is not wealth—but assuming for the moment that he is a producer of wealth, he is also the father of a family and a citizen; and the statesman who would, by taxation, interfere with the man's efficiency as a citizen, and still more with the man's efficiency as a husband and father, would be again committing a suicidal act, which actually, so much are things related, would not even pay the Exchequer. The loss which the nation would be incurring through the diminution of civic efficiency and the diminution of parental efficiency, even apart from the diminution of productive efficiency in the narrow sense, would be such as to have a repercussion not only on wealth but on taxation and receipts; and a statesman who would do that of course would not know his job. There are statesmen who do not know their jobs.

6898. Another thing I want to point out is that all discussion about the exemption limit necessarily has to take into account the burden of indirect taxation. It seems to me that people who argue about the exemption limit being placed at such and such a point, as if the Income Tax were the only tax, are omitting the necessary fact that the Income Tax is only one of the taxes, and that you will not find it possible, in this country, permanently to maintain any tax which is inequitable or appears to be inequitable. To impose first of all indirect taxation in such a way as to press much more heavily on people with small incomes than on people with large, and then to impose an Income Tax as if there were no indirect taxation, is again suicidal. The Chancellor of the Exchequer will be tripped up if he does that. Consequently you cannot consider the burden of Income Tax, at any rate in the lower levels, without taking into account the altogether disproportionate burden which those lower levels of taxpayers already bear in indirect taxation. There is, of course, a great deal to be said, theoretically, for abolishing all indirect taxation, and then making everybody pay according to taxable ability. You may go on that line if you like, but so long as you have indirect taxation it seems to me that you cannot consider the exemption limit purely from the point of view, not merely of subsistence, but even of efficiency maximum.

6899. Then the third point, which is a small one, is the cost of direct taxation at an extremely low level. By cost I mean a great deal more than the items which appear in the Inland Revenue Estimates. The aggregate cost and trouble, first of all to the Government and then to the taxpayer, in a large number of direct assessments which yield relatively little, is a very formidable item, and, as I suggest, a much more formidable item than has usually been taken account of. It is formidable not only, as I say, in respect of the actual salaries of the officials who are employed in the work; it is much more formidable in the diversion of attention of those officials from more profitable fields. I say definitely that in my opinion—it is obviously only a speculation, but in my opinion—the present Income Tax, with an exemption level of £180 a year, has not paid the Chancellor of the Exchequer. The Chancellor of the Exchequer has lost more in revenue through attempting to bring in all those taxpayers than he has gained in the amount which they have paid—very much more. I mean, of course, by failing to get sufficiently the Income Tax at the higher levels, but very much more, failing to get the Excess Profits Duty in anything like the amount which the law requires. That is my opinion, and of course it is not a matter on which anything but an opinion can be given. I think that most of the people who argue in favour of very low exemption level first of all argue about the cost of subsistence, as though that had anything to do with it, and forget altogether the question of maximum efficiency; and then they ignore mainly the burden of indirect taxation; and finally I think they almost usually forget the cost. And as to the cost, I must remind you that there is not only the financial cost, but what

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I may call the political cost, which is perhaps the biggest item of the lot.

6900. I will not attempt to repeat further what I have said in my paper, but I should like, as requested, just to emphasize what I have said about the staff. I do not know actually much about the administration of the Income Tax now at first hand, but of course I know something. I want to give it very emphatically as my opinion that, while the tax surveying staff has really done its work amazingly well in those years of stress—so far as I have seen anything of it I have been surprised at the accuracy and excellence of the work that has been done; I have seen very little, but that is my testimony as far as it goes—I am very strongly of opinion that the Revenue loses a great deal through not having, first of all, a larger staff; secondly, a better paid staff; and, thirdly, a more highly trained staff. I make the specific suggestion that there ought to be adequate training provided for all Assistant Surveyors on first appointment. I do not mean that they should be told to get up something and be eventually put through an examination. That is not training. I mean that they should be deliberately provided with, and required to attend, an adequate course of training as some other civil servants are now gradually coming to be treated, in the proper subjects. I do not mean the actual Income Tax law, but accountancy and economics and all the range of subjects which would fit a man to be the Crown representative on such an important matter, on his own account.

6901. Now I go further to the question of administration that I have been asked about. I have formed a very strong opinion that the duties of the General Commissioners, and of the Assessors and Collectors, want considerable re-arrangement, shall I say? So far as my knowledge goes, there is a great deal that is on paper which is not carried out in practice; and the theory wants bringing into conformity with the practice. It seems to me that the General Commissioners exercise a very useful function—the function for which they were originally created, I suppose—that is, that they should be a court of appeal to protect the taxpayer against the Crown. I think the danger is largely imaginary, but it is a real necessity that there should be such a court of appeal. The Commissioners seem to me to fulfil that function and they ought to be continued in that function. But I cannot see why they should have anything to do with making assessments. I just mention that in practice it lends to great inconvenience. A Surveyor of Taxes may have to do with several bodies of Commissioners. Speaking of the country, the Clerk to the Commissioners will very often have his office a long way away from the Surveyor's office, or one or other of the Clerk's will. The present system practically involves that the books of assessment have to be absent from the Surveyor's office over a large part of the year in the aggregate; and it is a very great inconvenience in the Surveyor's office that he has not got those books of assessment under his hands at all times. It seems to me that the Commissioners and their Clerk ought to be restricted to the business of hearing appeals, and that, speaking roughly, the Surveyor and his office might carry out the whole work of assessment. The Collector also, who began by being always the servant of the Commissioners, and very often is still the servant of the Commissioners, has to a large extent in populous places, become the officer of the Inland Revenue; and it seems to me that there is no reason why the Collector should not always be the officer of the Inland Revenue. I think there is no reason for maintaining that the Collector is likely to be harsh in the execution of his office because he is appointed by the Inland Revenue rather than by the General Commissioners. The retention of the appointment in the hands of the General Commissioners, to put it shortly, very often is merely a means of jobbery. Anybody can be a Collector and anybody is appointed a Collector; and while the post is not very lucrative in the great majority of cases, I have known cases where the post is extremely lucrative and where the work is small. If you take districts where most of the people pay their Income Tax by cheques (there

are such districts), the Collector has very little to do and he gets a large income in some cases. But it is not so much for the saving of the salary that I suggest a change as for the sake of the saving of the complications, of having to make the appointments, and passing papers backwards and forwards, and extra meetings which have to be held, which in the aggregate do take up a good deal of the time of the Surveyor. I do not go into details about these matters because I am not sufficiently familiar with the present arrangements to be precise, but, speaking generally, they remain as I know them years ago, and I think they ought to be changed on the lines I have suggested.

6902. With regard to the Commissioners as a court of appeal, I believe to great dissatisfaction is expressed with them. I have not come across any. But I think that is very largely due to the ability and the *amour propre* of the Surveyor. But I think now some alteration will have to be made. Speaking roughly, the Income Tax Commissioners are what I will call of the Justice of the Peace class, and in Victorian times there was an impression that the Justice of the Peace class really represented everybody at any rate everybody whom it was important to represent. But that has long since passed away, and I think there is a great deal of dissatisfaction at present with the Commissioners as a court of appeal for the lower ranges of assessments, especially when they come to deal with the manual working wage-earner. The manual working wage-earner certainly does not recognise in the court of Commissioners any proper body to hear his appeal; it is a body which, in fact, is disqualified from hearing his appeal, because the assumption which used to run through the doctrine on the subject, that the Local Commissioners had a very general knowledge of everybody in their district, at any rate, more than the wicked representative of the Crown, does not apply when you are taking into account such classes as the small shopkeeper, and still less the clerk or the teacher or the manual working wage-earner. I am suggesting that it should be considered whether something might not be done in the direction of enabling some other court of appeal or some modification of the present court of appeal to deal with those cases.

6903. There are not many appeal cases, are there? —No, there are not. Proportionately there are extremely few, but you see, it is important that you should have satisfaction even in those few. I do not anticipate many appeals; but what you have to provide against is a feeling of injustice.

6904. Has that feeling of injustice been expressed in any form?—I have come across it, but I am bound to say that these classes are not the articulate classes, and what they express is a grievance. They do not distinguish between the particular parts of the grievance. I think it would go a long way to remove grievances if they had an effective court of appeal which they thought satisfactory.

6905. Do you know how many appeals there have been in the year?—I have seen the figures; it is quite trivial in percentage on the total; but I need hardly point out that that is true of all cases of appeal, criminal or civil or any other. It is not the cases which go to appeal which are so important; it is the feeling of satisfaction which it gives to those who do not even come into court, that they have got an appeal.

6906. Is it not a remarkably small proportion, having regard to the millions of assessments, as against hundreds in the ordinary appeal court that you speak of; the small number of appeals ranging over millions of cases is a very remarkable fact?—Yes, that is a remarkable fact, but I think the Commission would be quite wrong if they assumed from that, that there is no necessity for the court of appeal. In a rather analogous case of the state unemployment benefit, where the Labour Exchange official refuses peremptorily if the case is not strictly within the four corners of the words of the regulations, the method of appeal is extremely easy, and is without cost, and was deliberately intended to be used in order to get out of the hardship of a liberal construction of the words. That appeal has been made use of only in an infinitesimal number of cases, so that, as a matter of fact, the Labour Ministry is

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quite perturbed, because it recognises that, owing to the failure to appeal, equity is not done. I should like to point out that the Finance Act of 1915 provides for such a modification of the machinery of appeal; it provides for co-option by the District Commissioners of persons able to give skilled advice for the requirements of their particular trades. Of course there the Inland Revenue and the Legislature quite naturally were thinking only of the trader. That is the Victorian habit of mind, which runs through all the Income Tax. But if it is desirable that there should be special machinery for the man who is carrying on a particular kind of sheep or manufacture, it is far more desirable that there should be suitable machinery for the hearing of appeals of people so different from the average client of the Income Tax Surveyor—the Victorian Inland Revenue—as the working miner, for instance. I think the Inland Revenue would do wisely to make some arrangement by which they would form a tribunal of appeal by co-option of the trade union. They would and the thing would go much more smoothly, I think, if the court of appeal were a court which consisted wholly or mainly of the representative of the trade union concerned. Curiously enough, if you give a trade union the right to judge its own members you do not find that it is lax. Experience has shown that you find that it is strict. It is quite an interesting case; whether you thereby get nearer to the primitive man who acts on abstract grounds of morality, I do not know, but experience in a great many fields has shown that if you throw the matter into the hands of the trade union you get assistance rather than hindrance. I do not think I have anything more that I can usefully say about administration that occurs to me at the moment. I shall be prepared, of course, to answer any questions.

6907. Mr. Kerly: I should like to commence, if I may, by asking you a general question or two. We have had a good deal of evidence from representatives of the working classes and other people with small incomes, that they regard the Income Tax as an excellent tax, the best of all taxes, but on examination it always appears that they regard it as the best of all taxes—for others to pay?—Yes, that is an epigrammatic way of putting it, and perhaps a little cynical, is it not?

6908. No; it is the exact fact?—After all, it is a matter of opinion whether it is cynical.

6909. Well, it may be. Do you think that in dealing with abatements, you make the Income Tax really more popular or easy to collect?—I think if this Commission does not hurry up, there will be nothing left for it to do in the way of abatements. The Chancellor of the Exchequer is giving you away every week. I should say that the grievance is a manifold one; it is not at all necessarily the grievance of a single layer, but there are grievances of various layers of people; and I think that there should be a more equitable arrangement of abatements, more in accordance with up-to-date Income Tax laws abroad; because our Income Tax laws at the present time, as no doubt has been pointed out, are behind of the best foreign models. I think an arrangement of the abatements, more in accordance with equity and other experience, would remove some of the grievances of some of the layers, but it would not, of course, deal with the main grievance, which is the exemption limit.

6910. We have, of course, already a graduation, which at the bottom is a very steep graduation?—Yes.

6911. It begins with a very small sum?—Yes.

6912. You suggest to us, if I follow you, that £200 is an appropriate limit for abatement to commence?

No, pardon me; I only pointed out the figure which has been adopted by the Ministry of Health and the Government. That is all that I have suggested. Let me make myself clear. You put it to me that I have suggested that £200 was an appropriate limit. I did not. What I suggested was that, merely in order that the Inland Revenue should put itself in line with the other Government Departments, it would be necessary, if you keep the limit at £130 in your mind, to put it at £200.

6913. Let us take £200 as a hypothetical limit?—

Yes, take it as a hypothetical limit; but I want to guard myself from my having suggested it.

6914. Under the existing law, for a miner, with a wife and three children, and the £10 allowance for his tools, the limit of abatement is £230?—Yes, I am aware of that: equal to about £115 in 1914, and equal, I suppose, to about £120 or £130 when the limit of £130 was adopted.

6915. There again you have introduced matters which are matters of estimation of a figure?—Certainly.

6916. We had a witness here yesterday, Professor Bowley, who took a very different view?—Did he? Are you quite sure? I think Professor Bowley was giving evidence about something entirely different—namely, the subsistence level.

6917. Quite?—But Professor Bowley was not giving any evidence with regard to the efficiency level.

6918. He was good enough to give his view, without pledging himself to any ratio?—If Professor Bowley was giving evidence as to what the level of maximum efficiency was, I have misread his statement.

6919. At the present moment, taking into account the concessions to which you refer, a miner with a wife and three children, with the £10 allowance for tools, begins to pay Income Tax only if he has more than £270 a year?—Is it not a little invidious to take a miner? I humbly suggest it is a little dangerous.

6920. Mr. Prettiman: Take anyone?—Supposing we take a teacher.

6921. It is the same?—Is it the same?

6922. Mr. Kerly: I have something in my mind that I want to pursue, if you will kindly follow me. You suggest that we should abandon the notion of subsistence level?—Certainly, if it was ever entertained. I am not prepared at the moment to believe that the Chancellor of the Exchequer is so suicidal as to take it.

6923. And you suggest as an alternative, I think your phrase is, the maximum efficiency level?—Yes. I am speaking in terms of economics. That is what economists would recommend, or, rather, economists would want the Chancellor of the Exchequer that if by taxation he trenches on the efficiency of the taxpayer, he is performing a suicidal act. That is an orthodox view.

6924. If you will pardon my saying so, if you discuss my hypothesis every time, I am afraid I shall not get on. You suggest a maximum efficiency level?—Yes.

6925. Would you just explain a little more what you mean by an efficiency level—never mind the maximum, for the moment. Must not that be considered with regard to each class of the community?—Yes, certainly.

6926. Then you will have a maximum efficiency level for every trade?—That is what a wise Chancellor of the Exchequer would do, except, of course, it must be reasonable. Let me explain. If you do not have regard to that, then *ex hypothesi* you are deliberately doing something by taxation which diminishes efficiency.

6927. Let us see. The maximum efficiency level for an unskilled worker?—Pardon me: he is also a citizen and a father.

6928. Certainly?—But, you see, it is very important.

6929. It seems to me, with all respect, to be wholly irrelevant to the question I am discussing?—Very well; we have to differ on it.

6930. We are dealing with efficiency. Treat him as one of the workers of the community?—But are you, by efficiency, meaning merely efficiency in the production of wealth?

6931. I want to know what you mean?—I have explained. I mean efficiency as a producer of wealth, efficiency as the head of a household, and efficiency as a citizen.

6932. Then there are three different efficiencies?—Yes.

6933. Are they to be combined?—Yes, certainly.

6934. In what proportion?—You have to do the best you can. The Chancellor of the Exchequer will be committing a suicidal act if he interferes with efficiency.

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[Continued.]

6935. I will come to the suicide in a moment, if I may; for the moment I want to know what you mean by efficiency. I understand now you have three elements, and you are to combine them as you please?—Yes.

6936. Then, however you combine them, the efficiency level for a day labourer will be very different from, say, the efficiency level for a school teacher?—That is so.

6937. Or a miner?—That is so.

6938. And you may arrive at a different result?—Yes; those are the facts of the case set by nature for the Chancellor of the Exchequer; I have not set them.

6939. Would you suggest that in each case you take the efficiency level for the particular citizen you are dealing with?—No, of course not. The economist always recognises that taxation must be by general rule; therefore you have to be very careful that your general rule does not interfere with efficiency. Of course these are only platitudes that I am talking; they are not my own heresies; they are the elements of economics.

6940. For my part I want to understand what you are saying?—Quite so, and I am endeavouring to explain.

6941. I appreciate that you are making a serious contribution, and I am hoping to profit by it as much as I can. Now I have given three instances, and I gather that there are three possibly very different levels to be arrived at?—No, pardon me; that is an inference. I did not say there were different levels in those three instances.

6942. Do you suggest that the efficiency level will be the same for an unskilled labourer and, say, for a miner?—I am not prepared to recognise any assignable difference between the efficiency level, as I call it, of what is called the unskilled labourer—we call them semi-skilled now—and the miner. To consider, first of all, the mere question of food, I am not aware that the muscular exertion of the one man is necessarily more than that of the other. There may be particular cases. With regard to efficiency as a citizen, I cannot see any difference at all. They have both got the vote, and they have both got to have an opinion on the Government. They have both got to have the same sort of education, I suppose, and with regard to the case of the households, I really do not see why it should be suggested that the desirable things in the miner's household should be different from the desirable things in an unskilled labourer's household. I have gone into this to explain that by maximum efficiency I do not necessarily mean that each particular occupation should have a separate level; but that the Chancellor of the Exchequer must be careful in no case to go beneath the maximum efficiency level.

6943. Is your suggestion that you should find the maximum efficiency level for any class of the country, and take that and apply it to all?—No, that is not my suggestion at all. I am talking about the exception limit, and my suggestion is that it is suicidal from the economist's standpoint for the Chancellor of the Exchequer to put the taxation level below this efficiency level.

6944. At present you are leaving upon my mind—if I dare say it is my fault—the notion that the maximum efficiency level is only a phrase; that it is no sort of guide by which two men can be expected to arrive at anything like the same conclusion with regard to the same facts?—I am interested to hear that that is your view.

6945. Can you displace it?—That is my view. My suggestion was this; I want to put it in simple words. And again, as I say, I think I am only giving what the economists would tell you: that taxation ought to be so adjusted as not to trench on anything which is required for the efficiency, in the wide sense, of the taxpayer, but that that must be understood to be expressed in general rules; you cannot do it in each case, not because you cannot take the trouble, but because that would necessarily lead to a feeling of injustice.

6946. Now let us take a concrete instance. The Sussex labourer of 1912, we will say, was well fed, a capable citizen, and generally a happy man?—I am interested to hear you say so. That was not my opinion.

6947. Was he relatively as well off in those particulars as a Welsh miner?—I think not; and, as a matter of fact, you know that has been the view of Parliament and the Government; because they have very largely raised his wage.

6948. If this test is to be of any use, we shall have to be able to translate it into figures in some way?—You will.

6949. How much addition to his wages did a Sussex labourer need, to bring him up to the level of efficiency of a miner?—I do not know. I cannot formulate in my mind what the level of efficiency of a miner is. It is rather a difficult thing to do.

6950. If you cannot formulate the test in your own mind, how can you teach anyone else to apply it?—I am not attempting to teach you. You have asked me to put a figure to it. I would say, in my opinion, that the level of £160 a year pre-war, was a very proper level to be maintained, and I do not believe that you could have led an effective and efficient life in any occupation, when you take those three kinds of efficiency into account, as you must, on anything much below that. That level of £160 in 1914, which, remember, no responsible person at that time proposed to reduce, and which the Landed Revenue had pressed should be raised to that minimum, that level which nobody at that time proposed to lower, would now, I suppose, correspond to a level of something like £200 or £250. I do not put it as high as that. My recommendation is that the exemption limit, in view of the very large amount of indirect taxation which at present exists, should be placed at £250.

6951. Then your practical suggestion is that we should take the 1914 limit of £160 and alter it to meet present conditions?—Yes; that is exactly what has been done by the Government, in the Ministry of Health.

6952. What plan would you follow to turn the £160 into some other figure? Are you going to take the proportionate costs of some commodities, or what?—I will endeavour to answer that the best way I can. My reason for suggesting £250 is twofold. The first reason is that I do not think it is desirable that the class of persons whom Parliament intended to bring into the Income Tax should be, to use the Government phrase, artificially narrowed, without the decision of Parliament, by a mere alteration in currency values. In order that it should not be artificially narrowed, I suggest that instead of £160, you must make it £250. That is the argument which the Government has actually applied in the case of Health Insurance. They say that they want to keep the same class of people in insurance, as nearly as they could, at the new level of prices as compared with the old. It seems to me that we ought to begin by trying to keep the same class of people in the Income Tax at the new level as at the old. That is the first consideration. Then another consideration is that of maximum efficiency. It seems to me that a level of £250 a year is not too high, in view, not, mind you, of subsistence, not mind you, even with regard to the production of material wealth, but in order to give full account to the new considerations, which were not thought of in Victorian days: that you want a man to be a good head of a household, and you want him to be also an effective citizen.

6953. It would assist me so much if you would give me a proposition instead of a speech?—I am sorry, but there are some questions which cannot be answered by yes or no.

6954. I did not ask for an answer yes or no; I asked for a proposition. You, quite unconsciously no doubt, repeat what you have said in other parts of your statement, and several times over, while I am trying to deal with one thing at a time. You say that you would maintain, as I understand, the same class, that is to say, roughly the same group of individuals, as taxpayers?—That is the first consideration that I urge.

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[Continued.]

6955. Does it occur to you as right, or not, that when a very much larger income has to be raised for the country, some people who escaped before should be brought within the direct tax-paying community?—That, of course, has to be taken into account; but I may observe, with due deference, that your phrases are wrong. These people did not escape taxation before, and they are not brought within the tax-paying community for the first time.

6956. I said direct tax-paying?—I should not make that answer merely as a repartee; but it is an essential point that those people are paying much more heavily than you and I are to indirect taxation, and you cannot leave that out of account when you are proposing to put on direct taxation.

6957. Very well; I have your answer. Do you attach any political importance to the direct taxation of the largest classes of voters?—I think that it might be, in Utopia, a desirable thing that everybody should pay some tiny proportion of direct taxation. But that would involve the sweeping away of indirect taxation. Now, I am quite willing to go into the proposition of sweeping away indirect taxation, but it would be obviously illogical, and in fact stupid, to talk about the Income Tax as if there were no indirect taxation, and then to apply, even unconsciously, the argument to the Income Tax in a state of things in which there is very heavy and very degressive indirect taxation.

6958. There are, of course, indirect grants, but I do not propose to discuss that with you; it seems to me to be irrelevant to this matter?—I think the grants are irrelevant.

6959. Will you tell me what you mean by the expression that certain kinds of taxation would be suicidal? Do you mean that they would not produce revenue?—I mean that they would not, all things taken into account, produce revenue. If I may give an instance, I think the raising of the cheque tax from 1d. to 2d. is suicidal. That is an instance. I think there is a great deal to be said for the view that the Chancellor of the Exchequer was badly advised when he increased the cheque tax. He appeared to get a large sum, but he really did not, on the whole.

6960. Your phrase means that the tax, put in the way you object to, would produce a smaller return than if put in the way you approve?—Yes; I mean, taking all things into account, a smaller aggregate revenue to the Chancellor of the Exchequer.

6961. I follow your statement. Can you give us any tangible reason for supposing that it would be suicidal in that sense to make the abatement £200 instead of £250?—Of course, it is extremely difficult in all these matters to draw a line and say, at that line something happens, and ever so little beyond it, it does not happen. That, of course, is not a possible way of arguing the matter. It does seem to me that the exemption level of £200 brings into direct taxation people, for instance, let us say, the typist or the unmarried teacher, who are bearing a very heavy burden in indirect taxation. Indirect taxation to them is in the nature of a poll tax, and the poll tax is, of course, the most inequitable of all taxes.

6962. You do not suggest that there would be a loss on the cost of collection?—No, I do not suggest that there would be a loss actually measured in Inland Revenue salaries; I did not mean that.

6963. Are you aware that the cost of collection of the payments of Income Tax of the wage-earners is 7 per cent.?—I am a little sceptical about those estimates of cost: it is so extremely difficult to abstract the whole of the costs of an establishment; but that criticism does not go to more than a few points per cent. I am quite willing to believe that, even including everything, it is only 10 or 15 per cent.

6964. *Chairman:* The Inland Revenue say 7 per cent. I know, and I have no doubt that that arithmetically accurately states the number of the amount of workers that can be allocated to that particular office, but I think it is extremely difficult to allocate the whole cost of an establishment.

6965. *Mr. Keble:* You suggest that the children's allowance shall be increased?—Yes. That increase is to deal very largely with another layer of people. The most heavily burdened layer at the present time is perhaps the man between £500 and £1,500 a year, if you take into account the three efficiencies which I have spoken of.

6966. Do you propose that the allowance for children should be discontinued, whether they are being educated or not?—No, I do not see any reason for that. I think it is extremely desirable that the Inland Revenue should come into line with the Board of Education. After all, it is a desirable thing that all the Government Departments should help each other, and I think it is very desirable that they should come into line and extend the allowances for children and increase it up to the age at which education is in fact going on, even up to 25.

6967. Would you make the allowance depend upon the expenditure of at least the amount allowed upon the child's education?—I do not think there would be any harm in making it depend on the expenditure of at least the amount of the tax remitted.

6968. I did not say of the tax remitted; I said the amount of the allowance?—I think that would be quite impossible, but as a matter of fact what is spent is not so much the school fee or the university fee, but the cost of maintenance of the child or young person, and it has a very bad effect to cut short an allowance at a particular point, assuming, of course, we desire that education should be continued. I should like to point out a precedent, which is of some interest, that in Bavaria the child's allowance is continued whilst preparing for a profession or whilst doing military service in the course of such preparation.

6969. Are you aware what is the qualification for getting that allowance?—No, I am not.

6970. Does it not correspond to our scholarship system?—No, it applies to all people who are preparing for a profession.

6971. Is everybody allowed to prepare for a profession if he pleases?—Everybody who has the necessary education, yes.

6972. And the necessary means?—And the necessary means; that is exactly the case in this country.

6973. Would not the end in view be better obtained by a development of the scholarship system?—No, I think not.

6974. Why not?—Because the scholarship system necessarily implies an élite—that you pick your people for superior ability. We cannot run our professions, out of the élite; there are not enough of the élite, and you cannot get anything like enough. A mere look into the statistics would show you that you cannot get enough doctors, lawyers, teachers, journalists, engineers, architects, surveyors, and so on out of the élite. We have to come, as I am sure the Commissioners are aware, down to very ordinary people in order to fill the ranks of those professions.

6975. I thought the experience of most of us was that there was too large a professional class?—No, there are nothing like enough people of professional skill and service in this country to get through the work that these professions ought to undertake.

6976. I will ask you only one further question about that. You have had great experience, I know, in this matter. Is it your experience that to take children of the working classes generally, without reference to their ability, and give them or encourage them to get a higher education is generally beneficial?—Yes.

6977. Quite apart from selection?—Yes, I believe that this country would gain enormously if you could give every child in this country a University education, that is to say, that the common level should be that of educated people, which to some extent has prevailed in Scotland. I believe that would be of enormous benefit to this country, and there, after all, I am only speaking the commonest of commonplaces. I am not talking about technical education, of course; I am talking about education—if you could give everybody a liberal education. I should just like to mention an extraordinary thing now that we have got 300,000 people in the service

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[Continued.]

of the Crown, that the lower ranks of these civil servants are only able to get for their children a very inferior education, while the higher ranks of these civil servants are able to get a good education. I cannot for the life of me see why all the children of civil servants should not receive the same education.

6978. It is an interesting matter, and I will not attempt to follow that now.—I did not introduce it.

6979. You make a proposal for what I may call family grouping?—Yes.

6980. You propose that all the people dependent upon a particular person, I suppose you mean as father or mother of the family, should be grouped together?—At his option.

6981. And theirs?—And their option, yes.

6982. Do I follow that you propose to divide the grouped income by the number of members of the group?—I pointed out that that would be the logical way of dealing with it, but that practically another way might be preferred.

6983. Is there any other way?—Yes; I have suggested another way.

6984. What is that?—That is that some corresponding number of abatements should be allowed. I have gone into the details, and I have given you particulars about that.

6985. I see at page 17 of the pamphlet to which you have referred us, and again at page 21, you suggest that if you took the total income and divided it up, the result would be an expense to the country of something like twice the sum of abatements and allowances for children in 1915-16; you will find that at page 21?—Yes. It was very difficult for me to work out those figures, and I do not lay any stress on them. I would only point out it is not a loss to the country. It is only a question of re-arranging your Income Tax; there is no loss.

6986. A very large group of citizens would find their Income Tax lower?—Yes, that is so on the argument that that is a just concession.

6987. That would apply, I understand, right through the scale up to incomes of £10,000 a year?—No, I did not make that suggestion. I made the suggestion that the privilege should stop at a certain point, and I suggested £1,500 or £2,500.

6988. You mean when the grouped income came to £1,500 or £2,500?—Yes.

6989. The result of that would be that up to the limit of £2,500 or whatever it was, the rise in the rate would be stopped?—Yes, it would have that effect, of course.

6990. And that would leave a very large lost Income Tax to be recovered from some other part of the scale?—Yes, but I demur to calling it lost. It is a question of assessing your Income Tax in a just way, and then fixing the rate.

6991. In effect it means lifting a burden off the middle class incomes and the lower middle class incomes, and putting more on the upper ranges of income?—Yes, but I think that is commonplace, is it not? You cannot possibly maintain the stoppage of the graduation at £10,000.

6992. Sir J. Harcourt-Banner: I see you have not been able quite to get rid of the Royal Commission on Coal Mining, and I want to put a question on that. In your clause 2 you put that the miners do not take the opportunity of working their full time?—I thought it was to the advantage of the Commission to bring that fact to their notice.

6993. But do you think in dealing with this question we should take that into consideration at all?—I think in dealing with taxation you must take into consideration its effect upon productive efficiency. The argument, for instance, for halving the Excess Profits Duty was that it actually interfered with productive efficiency, and the miners are saying that that large remission of taxation was made on that very plea, and they do not necessarily believe it to be a true one.

6994. Do you not think in these days of education and progress we ought to get rid of that entirely?—I think we ought. I think the giving away of half the Excess Profits Duty was a very wrong act.

6995. Chairman: That was not the question?—Pardon me, I understood the question to refer to the Excess Profits Duty; but still the argument applies to the Excess Profits Duty, does it not?

6996. Sir J. Harcourt-Banner: I thought you put in a sort of apologetic way that we ought to consider the man who does not take the full opportunity of earning in considering taxation, and I was asking whether you thought that was the right principle?—No, but on the other hand, equally in the case of the Excess Profits Duty, half of that was given away on that plea, and it is very necessary for the Chancellor of the Exchequer to be even-handed.

6997. Then with regard to your paragraph 12 I am very much in sympathy with you as regards our being able to bring occasional gains or windfalls into our taxation. The difficulty, of course, is earmarking the man who receives them?—Yes. That would be got over, of course, as once if you had to examine every person for Income Tax. At the present time you do actually get before the Inland Revenue Department all but about one per cent. of the taxpayers; it is only bringing in that other one per cent.

6998. You say we bring in all but one per cent. 99 per cent. of the taxpayers do now apply.

6999. Ninety-nine per cent. of the taxpayers, but not 99 per cent. of the population?—No; the exclusions are very large, but if you get before you the whole 100 per cent. of the taxpayers and are able to cross-examine them: "Have you not had occasional gains in this or that respect?" you would get them in.

7000. I am speaking as a chartered accountant, who not infrequently comes across cases of men who are living in small rooms and hotels who have been brought up for non-payment of Income Tax, and am rather inclined to think there is a good deal of it. Is there any way of obviating that unless we keep a census of the population and compel every man to take out a licence to trade or adopt some system that puts him under the particular observation of the taxing authorities?—You can do it much more easily than that. It can quite easily be done, and the Inland Revenue know how to do it as a matter of fact. It requires a very little extension of the present arrangements of returns to bring those people in with quite as much accuracy as the present flock are herded. It is quite possible to do it. The Inland Revenue will tell the Commission how that can be done.

7001. I think you made a little error here. You say the capital gains made by the sale of ships are made liable to Excess Profits Duty. I am rather inclined to think that it is only in the case of a transfer, and that where a company sells its ships and distributes the profits they do not come in for Excess Profits Duty?—I am very sorry to hear it, because obviously they ought. They ought also to come into Income Tax for the same profits. I want to emphasize before the Commission that other Income Tax systems do that. It is not an extraordinary thing. It is done as a matter of common form elsewhere. It is only the stupidity or perhaps the vested interests in our Parliament which have prevented it being done.

7002. There is only one other question further, having regard to the shortness of time, and that is as regards the foreign agent. I thought you had sympathy with him, but apparently you seem to lay it down that it is impossible to make him pay anything in respect of profits made in his trading in this country?—No, I think it is quite possible to make him pay in respect of all the profits on his trading in this country, but not on the profits which are made in the other country.

7003. I am afraid I misread your Clause 16, because I understand that there you put it that there is no way of bringing such profits into assessment without giving rise to grave dangers, if not evils?—Yes, bringing the profits which are really made in the other country into assessment, but so far as they are made in this country they are already brought into assessment.

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[Continued.]

7004. Of course, that is the question, what is made here and what is made on the other side?—Yes.

7005. For instance, an article manufactured in America or coffee sent from Brazil or anything sent from elsewhere has its cost, including its profits, in the particular country of origin?—Yes.

7006. Then it comes to this country, and by these foreign agents it is sold here at considerably above its cost of origin, plus the proper proportion of profits made in that country?—That begs the question—the proper proportion. May I point out that the foreign agent does not mean a foreigner; he is very often, and indeed, in a large number of cases, a British subject.

7007. I quite admit that. I only used the word foreigner as meaning people not resident in this country?—Yes, but as a matter of fact the only business done in this country is that of agency.

7008. Are not you aware that in many countries outside this country there are laws by which they manage to assess and obtain for Income Tax purposes returns of amounts sent from this country or elsewhere?—I am not aware of that, and I think those laws would be quite certainly ineffective.

7009. We have heard a good deal of evidence on that point?—Have you had evidence as to their effectiveness, because as a matter of fact it is so easy to evade them. All you have to do is to have a separate firm, and at once you cannot possibly get any tax on the foreign profits.

7010. We have had all that before us?—I am very glad to hear it; then you will not go wrong.

7011. I would only put it in this way. If we can manage to obtain such evidence as enables us to obtain the tax upon the profits made in this country by the outside person, you would not consider that we were doing anything wrong in doing so?—I should only consider you would be giving bad advice to the Chancellor of the Exchequer, because you would be proposing he should grab something which is moonshine. He would find it would disappear in his fingers by this transfer of the business to a British firm.

7012. The only thing I have in mind is that other countries have shown us it is not moonshine, and they obtain a considerable return in that way?—I have never seen any evidence that their laws were effective, and I do not believe they are.

7013. Mr. Molistock: Will you look at the last sentence of paragraph 13 of your proof, relating to evasion?—Yes.

7014. You say there: "The very great resort to 'capitalising income' for the purpose of escaping Income Tax and Excess Profits Duty." Do you mean by that the practice which is common to-day of issuing bonus shares?—Yes; that is only one variety.

7015. Is that what you mean?—That is one variety. What I mean is not drawing the profit in current dividends, but in some way or another adding it to capital. There are a number of varieties of cutting the melon.

7016. But take that one way of cutting the melon: I suggest to you that there is no escape from Income Tax and Excess Profits Duty there?—Indeed!

7017. Well, how does it escape?—As a matter of fact, of course, in so far as you give the man bonus shares, for instance, which he then sells or can sell as part of his income, he has not paid Income Tax on that.

7018. Look at the thing seriously. A company has accumulated profits?—Yes.

7019. Do you suggest the company has not already paid the tax on them?—It may or may not have done, but I follow you. I will assume it has paid the tax, and that there are not accumulations out of earnings. As a matter of fact a company very often grows very much more valuable by what we will call for the moment unearned increment.

7020. Excuse me just a moment. Your statement here is quite definite that the capitalizing of income means the escaping of Income Tax and Excess Profits Duty?—Yes, it does in many cases.

7021. I suggest to you that the statement should not come from you; it is an absolutely wrong statement?—Pardon me, I retain my own opinion. I know the obvious trick, of course, and I am not falling into that error, but I do maintain my own

opinion that a good deal of capitalizing* of income is—I will not say it is done for the purpose, but it has the effect of there being no Income Tax paid on it. Let me give you a case. Supposing a company is retraining, and being assessed upon, its actual profits each year up to the full, and I am not making any bother about that; but supposing owing, let us say, to the war, that the value of its assets is leaping up enormously, and because its assets, say ships or anything else, have doubled in value, it is then able to issue new shares in proportion to that increment of value, and it has not paid any Income Tax on that increment of value.

7022. Hold on just a moment. Your statement is "capitalising income"?—Yes, in inverted commas; that is my meaning.

7023. Do you mean that the inverted commas mean that it is something we do not generally recognise as income?—I meant to include a great many cases, but I am suggesting that as a matter of fact an increment of value in the property of a company might be distributed year by year as income, and could accurately be so distributed.

7024. And the loss too?—If there is a loss, of course you could not distribute it as income.

7025. You admitted when I first asked the question that the issuing of bonus shares in respect of accumulated profits was one of the incomes you had in mind?—I do not think I said in respect of accumulated profits; I said bonus shares, and I gave you an instance where those bonus shares were not issued in respect of accumulated profits. It is so easy to assume that I must have fallen into the common error, and then correct that common error; but I did not. I am quite aware of the fact. The exposure of the common error ought not to be made a means of confusing the issue.

7026. I suggest that it is you that is confusing the issue, and not me?—Very well.

7027. Mr. Symonds: Can you give us a concrete case?—I have, I think.

7028. Can you give us a concrete case where capital was increased owing to the increased actual value of the assets?—Take the case that was in the paper the other day of the fleet of trawlers at Grimby, where the company was wound up and the trawlers were sold at ten times the original cost, in order that the shareholders might divide that excess amount, and, if I might say so, without paying Income Tax on it.

7029. They have paid Income Tax?—No. They have not paid Income Tax.

7030. Do you know that they have not paid Income Tax?—I know that they were not liable to Income Tax on it, and it will not be suggested that where there was no legal liability to Income Tax on the increased value of the trawlers that they tendered something to the Chancellor of the Exchequer as conscience money. I cannot prove that they did not, but knowing the ordinary habits of business men I think they did not pay Income Tax which they were not liable to pay. I have given you the concrete case, and a very clear one.

7031. In your pamphlet, in which I presume you express your recent opinion, at page 21 you say: "Moreover, there is undoubtedly value in enforcing some direct payment to the State on as large a proportion of the citizens as it is practicable to reach." You agree with that opinion?—That is so but you must take that subject to the incidence of indirect taxation.

7032. I quite agree, yes. You hold up there for approval countries with systems under which there is a small sum exacted from every citizen?—I think in the case I have given it is about 2s. 6d.

7033. But it increases?—Yes.

7034. And therefore it would be *a fortiori* that some small graduated payment should be made by those up to £130 or £160?—Assuming you abolish the indirect taxes.

7035. Would it not help the abolishing of indirect taxation in many ways if there was this small contribution?—I am afraid I do not think so.

7036. First of all, you would create a fund by which it could be done, and you would have great pressure, would you not, brought upon the

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Chancellor of the Exchequer to abolish this indirect taxation?—Well, I do not think it would have that effect.

7037. Therefore the inference I draw from that is that you are in favour, I am sure, of limitation of public expenditure and the abolition of waste in public departments?—I am not in favour of the limitation of public expenditure; I am in favour of the limitation of private expenditure; but I object to waste anywhere.

7038. Well, shall we say public expenditure above what is necessary?—I object still more to private expenditure above what is necessary.

7039. Public expenditure that is unnecessary if the same ends can be obtained by a limitation of that expenditure?—Quite so; I fully agree, but I must be careful. I want to guard against the implication that there is any more waste in excessive public expenditure than in excessive private expenditure; and it is a flea-bite at present compared to the waste in private expenditure.

7040. Do you know the number of persons who come between £130 and £250 a year?—No, I am sorry I have not got the figure in my head at the moment.

7041. Will you take that figure from me? I am referring to a Board of Inland Revenue return, and it appears there as 4,093,000?—Yes.

7042. If your system of abatements was extended they would be wholly free from Income Tax?—Yes. That is not a new thing, is it?

7043. And they are voters?—It is not a new thing.

7044. No, but there is a very large extension?—I do not know that there is. Before the war the number free from Income Tax was still larger.

7045. Do you not think it would be extremely advisable to have a very large number of persons interested in watching public expenditure?—I think it would be still more desirable that they should be interested in watching private expenditure. If you keep on insisting, I must go on protesting. Still, it is desirable that they should have an interest in Government, of course, and provided you will abolish indirect taxation I think it would be most desirable that they should pay direct taxation down to the limit of maximum efficiency. It would not be desirable to decrease their efficiency in order that they should have a sentimental interest in politics.

7046. Do not say sentimental—actual, real interest?—Actual, yes, but you would not wish to decrease their efficiency thereby?

7047. No?—Therefore you would stop at the efficiency level, that is all.

7048. I make the same appeal to you that Mr. Kerly made to you, and that is that you will kindly deal with the points at once; but do not think I am leaving the efficiency point; I am coming to it.—Pardon me; I was anxious not to be misunderstood. I am not to be held to be advocating a direct tax upon everybody.

7049. You say on page 12 of your pamphlet: "It may be observed that it is very bad statesmanship to maintain unreformed a basis for the Income Tax so inequitable that it prevents, in a national emergency, proper use being made of this impost"?—That is so.

7050. We are in a national emergency now?—And we have been unable to make proper use of this impost. May I call attention to what you are quoting from me? What I pointed out was that the inequity of the Income Tax was adduced by the Chancellor of the Exchequer, Mr. McKenna, who said it was because it was so inequitable that it could not be raised to the proper amount. I quite agree with him; it could not, and I said it was very bad statesmanship to maintain so inequitable a basis of Income Tax that he could not raise it to what he thought necessary; and I am sure we all agree to that.

7051. I put to you a general proposition that I do not think there can be any question about. You do not agree with the doctrine of a limitation of production, do you?—No. I think it is desirable we should have as much production of social wealth as we possibly can. Of course, a great many things are pro-

duced which are not wealth at all to the community; they are only income to the man who produced them. A vast amount of operations merely produce income, and do not produce any wealth at all; but where there is any real production of service or commodities it is extremely desirable that it should be as great as possible.

7052. On the point of efficiency, Mr. Kerly has already dealt with that, and I only ask you a supplementary question. How can we be certain that any remission of tax that we make will necessarily or even probably go to making a man efficient? May it not be spent by himself or his family upon luxuries?—That is a very pertinent question, and I quite agree it is very desirable to prevent misapplication of what is left for necessities as far as you can.

7053. If you say there is immense difficulty in that, is it not an immense difficulty for us to make any recommendation on the point?—Yes, and I have made suggestions on the point. I am not without suggestions on the point.

7054. On the point of subsistence, and by subsistence I mean a rational and reasonable subsistence?—I take it you mean efficiency, as we all do.

7055. That you cannot get?—Yes, I quite agree.

7056. When you come to efficiency, are you not in a sphere and area of the greatest possible vagueness?—Let me give you an instance. Supposing you have a case of a man with children, it is obviously in the interests of the State and in the interests of the Chancellor of the Exchequer that those children should be brought up so that they should be effective citizens, and that anything which interferes with his bringing them up in that way is a detriment to efficiency. Therefore, you must take that into account.

Otherwise it would be suicidal; I repeat the word.

7057. If these allowances are made?—Very well, if you make them, but I am not aware that they are made now; obviously they are not.

7058. On this question of the allowance for children, do you know anything about agriculture?—Well, I am a Londoner, but I go into the country sometimes and I have looked over the hedge.

7059. Do you suggest that all the sons of farmers in all parts of the country should have a liberal education, by which you mean even up to a university education?—Certainly, I do suggest that, and I suggest that any other education is unfit for them as citizens. Of course, I am not suggesting they should go to Oxford; I assume they will go to a rational university.

7060. You will agree that it is desirable that there should be a maximum of agricultural production in these times?—No; I said maximum of production. I do not want to grow wheat on this table.

7061. Do not you include production in agriculture?—I include production, but I do not want the maximum agricultural production, because, of course, you could grow wheat on this table if you took trouble enough; but I do not want to do that.

7062. I am coming to the point of your higher education. I do not ask the question about this country, but in the country that I come from, Ireland, have you ever heard that the professions of every kind are overcrowded?—I know that Ireland supplies a large number of professional men to other countries, to their great advantage.

7063. And that there was a great dearth of agricultural labourers and ordinary labourers during the war?—I really must say that if it is suggested we are to deprive or hinder the sons of people from getting higher education, a liberal education, because you want them to serve on the farms, I am not in sympathy with that. I think the community would be better if they were educated.

7064. Pardon me; there is nobody here wants to hinder them. Do you suggest a subsidy from the State to increase those already large numbers?—No. I do not suggest a subsidy from the State at all. What I suggested in answer to questions was that I thought it was desirable—and, after all, this is surely commonplace; we have all said it—that everybody in the country should have a liberal education.

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[Continued.]

We very much regret that we have not at present given everybody in the country a liberal education. Is there anybody here who would suggest that his son ought to have a better education than any other man's. We cannot get away from that.

7065. I am trying to confine myself to the Income Tax point entirely. I want to come to your argument with regard to the £250. The mainstay, or one of the mainstays of that argument is the action of the National Health Insurance Commission?—That is a very important consideration.

7066. You know what the object of it was?—I have stated it. They wanted the class who were in insurance not to be artificially narrowed.

7067. Was not it simply this, that wage-earners were excluded if their income was above £160 a year; that was before this recent change?—Well, if you will say non-manual workers.

7068. Very well, non-manual workers, but manual workers are included?—Manual workers are included, whatever their income.

7069. And this was to include the non-manual workers?—Yes, and it is those people, to the number of between half a million and one million who are now being made to pay Income Tax merely because of the rise of prices.

7070. Pardon me. We know the object of this alteration of the National Health Insurance Commissioners was to include a certain class whose wages had been increased during the war?—Yes.

7071. And that was the only object?—Yes.

7072. How do you make that an argument for testing the question of abatements?—I have endeavoured to make that clear, that unless you do make the corresponding change you are taking advantage of a change in the currency level to include in Income Tax a class of people whom Parliament definitely decided not to include.

7073. But Parliament when they did that was not considering the question of subsistence or efficiency or any of these questions?—I do not say that they were.

7074. Then it is no argument at all?—That is all matter for you to consider.

7075. Do you or do you not agree that the class of persons who would be affected by your raising the exemption limit have very largely increased their wages during the war, even proportionate to the increase in prices?—No, not at all.

7076. You do not?—No, I should like to make that quite clear. Pardon me, I want to give evidence on the point as the question is raised. As far as I have been able to get the information, and I have rather good sources, I should say that the aggregate wages of the wage-earning class have not, taking them as a whole, more than doubled since 1914, whereas the cost of living has about doubled. Whilst some small sections have had their incomes increased more than in proportion to the cost of living a number of sections have not had their incomes increased anything like in proportion to the cost of living; and putting the figures together so far as they can be ascertained, I am here to give evidence that the money income of the wage-earning class has not been raised, at any rate beyond the increased cost of living, and I doubt whether it has been raised quite as much.

7077. Have you gone into the figures?—I have. I have gone into all the figures that have been given that are obtainable.

7078. Have you read the figures given before this Commission?—I have only seen, I think, eight days' evidence.

7079. Have you followed the arguments in the *Economic Review* on this matter?—The *Economic Journal*, yes, but I see nothing in those articles which conflicts with what I have stated.

7080. This is my last word, and I am sorry to have kept you so long. Here is a return which I am sure will be made available for you: "Statistics relating to Income Tax and Super-tax." [See App. No. 3.] There is only one figure in Table IV. which I call your attention to. This is showing for the United Kingdom the gross amount of income brought under the review of the Inland Revenue Department for Income Tax purposes. What I wish to point out is that this does not include anybody under £130 a year?—Are you quite sure?

7081. We will just take the figures, if you please?—Are you quite sure that that leaves out all under £130.

7082. But it must be so, because they do not come under Income Tax?—Pardon me, but they do come under review very often.

7083. We will take this for what it is worth; we have had a witness to explain it. I do not think they do come under review, but at any rate the income of weekly wage-earners in 1916-17 was £205,000,000 odd; in 1917-18, the estimates were £410,000,000; and in 1918-19, £485,000,000; that is considerably more than 100 per cent?—But you have not given me the number of people.

7084. Do you want the number?—Yes. If you are inquiring by how much their incomes have been increased it is necessary to divide the total income by the number of people whom you charge.

7085. From 1916 to 1918 was not there continuous and severe conscription?—I have not got that return. I merely observe you must not quote to me an increase of gross income as proving that the rate per person has increased.

7086. I am very glad you make the observation, because you are strengthening my proposition. As a matter of fact there was a large increase in the number of soldiers sent abroad?—And a very large increase in the number of people assessed.

7087. A large increase in the number of non-workers between 1916 and 1918?—I do not think there was any increase of non-workers.

7088. Chairman: Very well; that is Mr. Webb's answer.—There was a large increase in the number of manual working wage-earners assessed.

7089. Mr. Synnott: Between 1916 and 1918?—I think so.

7090. Will you agree to the proposition that conscription was going on and increasing?—Pardon me, that has nothing to do with it. I did not say there was a large increase in the total number of wage-earners in the country, but there was a large increase in the total number assessed to Income Tax, which is a different proposition. There may have been a great decrease in the total number of wage-earners.

7091. When was the £130 limit fixed?—1915.

7092. Chairman: You are not agreed upon the figures, I think?—What you do not notice is, if I may say so, that if money wages increase, a larger and larger proportion of the wage-earners are brought into the Income Tax net. Money rates were going up all that time, and consequently it follows that a larger and larger proportion, it may be of a smaller total, were brought within the Income Tax net.

7093. Mr. Synnott: I started this, and I only wanted to test it by saying that the adjustments in the income were more than corresponding to the increase in prices?—But pardon me, your figures do not show that at all. The mere fact that you get a larger number of wage-earners for Income Tax does not prove that the wage-earners generally had a larger income.

7094. The limit being the same and the numbers, for the reason I have suggested to you, being probably decreased?—No, the total number being decreased.

7095. Chairman: I would not proceed any further with that point, Mr. Synnott.

7096. Mr. Marks: Referring to page 21 in this volume "A Revolution in the Income Tax," I remember when I read "How to pay for the War" some year or two ago being very much encouraged by the statement which is reproduced here, which has been adverted to this morning: "there is undoubtedly value in enforcing some direct payment to the State on as large a proportion of the citizens as it is practicable to reach." A quite unqualified statement, you agree, as far as any reference to any indirect taxation is concerned?—Yes.

7097. Nor do I remember, although perhaps you can tell me if it is so, that there is any such qualification elsewhere introduced in regard to indirect taxation?—No. I wrote that fully intending it, but of course it must be subject to the reasonable qualification of maximum efficiency.

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[Continued.]

7068. I am not concerned with any of those trimmings, if I may call them so. All I wanted to know was whether you had changed your opinion at all?—No, I have not. I think it is most desirable, subject always to not encroaching by taxation upon the maximum efficiency level and proper arrangements for abatements, that all citizens should be brought in to pay something; it may be a very small sum, but there it is, subject to having the proper exemption level.

7069. As you have not changed your opinion then, all that you have now explained to us at great length is to be implied from this definite statement on page 21?—Yes, certainly.

7100. Mr. Walker Clark: I have only four questions to ask you, which I think will be capable of a single word reply. Following the question of Mr. Synnott, the wage-earning class's income, you said, was not increased in greater proportion than their expenses of living?—I think that is so.

7101. Is not that true of all other incomes?—No, I do not think it is. I think a large number of large incomes have increased very much more than the expense of living. May I explain why that is so? The expense of living is a comparatively small sum in the case of the millionaire, and even if prices doubled any increases in his income will be much more than the increase in his household expenses.

7102. But there is a wide difference between the household expenses and the cost of living?—By cost of living I really meant the cost of maintaining himself in efficiency.

7103. And equally so with the millionaire?—Quite so; I want the millionaire to be kept in a state of maximum efficiency, but I should prevent him eating too much.

7104. What would you suggest should be the maximum rate of Income Tax?—20s. in the £.

7105. And where would 20s. in the £ begin?—At infinity. That is to say, there ought to be a rising curve which is always getting nearer to the 20s., but reaches it only at infinity.

7106. At what point should it reach 15s.?—I have forgotten exactly what I suggested, but 15s. in the £ I think should be somewhere about £100,000 a year. I am proposing that merely as a practical Chancellor of the Exchequer's expedient.

7107. I do not want eloquence poured over it. What contribution to the cost of the war would you suggest should be borne by those who receive an income of less than £250 a year or £300 a year, as you suggest, taking into account the fact that the bread tax relieves them of all indirect taxation?—I do not agree that the bread tax does relieve them of all indirect taxation.

7108. You have not seen the figures that we have?—I should be very much surprised if you have seen figures which show that the subsidy to the bread tax amounts to the sum total of indirect taxation; it obviously does not; it is very far below.

7109. I mean excluding luxuries?—But I deny the right of anybody to say that something is a luxury. Obviously all taxation is in a sense voluntary. We none of us need pay any taxes at all if we like to forego the income, or forego what is taxed. I think it is not only intolerable, but it will be very very much resented, if some things are to be classed as luxuries. There is no more voluntary taxation in one thing than in another.

7110. If a statement is made to this Commission by a representative working man that in his judgment the Income Tax is the fairest and most equitable tax, would you differ from that statement or agree with him?—No, I have made that statement myself, but it involves the abolition of indirect taxation.

7111. Except that you quarrel with 101 things in expressing it?—Pardon me, I do not think the workman said the Income Tax was an ideal tax; if that is what he meant I do not agree with it.

7112. You said that our Income Tax laws are very much out of date, and you suggested that some foreign laws were up to date?—Yes.

7113. Would you kindly give us the name of the country where the up-to-date taxes exist?—The most

up-to-date Income Tax law is, I think, that of Wisconsin. Of course, you do not find all the excellences in any one country.

7114. There is no perfect country?—No; there is no perfect country on earth.

7115. You referred earlier on to the duties of Local Commissioners, Surveyors, and Assessors. You went into some considerable explanation in respect of General Commissioners, but you did not refer to Surveyors at all. In respect of the General Commissioners you think they ought to be restricted to hearing appeals?—Yes.

7116. And they ought not to fix assessments?—That is so.

7117. You are aware at present that they do not, as a rule, interfere with assessments or arrangements between Surveyors and taxpayers unless there are no accounts?—Yes. I know in practice the Surveyor makes the assessments.

7118. I just want a yes or no?—Yes.

7119. Mr. May: I am afraid I will have to go over one or two of the questions that have already been put to you, but I want to be clear on one or two points. May I take it that in arriving at your suggestion about the Income Tax limit you regard what may be called the taxable capacity of the citizen as beginning at some point beyond the minimum standard of living?—Yes, that is essential. If you want to make it begin at what I may call the minimum taxation subsistence you are quite certainly very considerably impairing the efficiency of that citizen.

7120. And you say in your first paragraph that the figure of £130 as the exemption limit has become obsolete, presumably owing to the change of that standard?—Yes, owing to the change of prices. Of course, it means that it is only 25s. a week pre-war. Supposing you imagine that instead of prices having doubled, prices had quadrupled, which may possibly happen yet, you would be making a man who was only getting £1 a week for himself and his family before the war, which is so to speak the lowest possible income, liable to Income Tax even after abatements.

7121. It has been put to the Commission that the taxable capacity before the war was represented by anything above 25s. a week, or £95 per annum. What would you say to that?—I should say that was contrary to all the teaching of the economists, and it was quite wrong. It cannot be supported with any authority. As a matter of fact that must be taking into account merely the physical subsistence level, and even that not adequately. It is taking into account the physical subsistence level which may exist, and not taking into account that at such a level as that the whole class would degenerate.

7122. Chairman: Was that on what we heard yesterday?

7123. Mr. May: Yes.

7124. Chairman: That would be 1914.

7125. Mr. May: I said pre-war quite distinctly?—Even pre-war a level of that sort is quite accurate very possibly for day-to-day subsistence, but that is not even subsistence level, because at such a rate the class degenerates and prematurely dies; the class suffers from undue sickness; it has not even a healthy existence level.

7126. Then you would say as compared with a standard such as you have in your mind as the maximum efficiency, this represented a subsistence level merely?—And not even properly a subsistence level, but only subsistence from day to day, without taking into account the steady degradation of efficiency in not having enough to eat.

7127. Do you suggest that the limit of £250 is a limit which represents the maximum efficiency?—It is impossible to arrive at that with any precision, and obviously you cannot do it. Any general rule cannot apply exactly to any particular case, but I suggest that it really is not reasonable to expect a person who is already paying very considerable indirect taxation to be paying direct taxation, if that person is not making more than £5 a week to-day.

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7128. I take it your £250 exemption limit is not an arbitrary figure?—No, it is not arbitrary. You cannot get any arithmetical precision for any such conception.

7129. How far does your suggestion in the fourth paragraph of your statement, that the cost of living has risen by 100 per cent., affect the basis of your £250 proposal?—I think vitally. If the cost of living were to go up this winter by another 50 per cent., as is quite possible unless the Government takes very serious action, then the £250 would become obsolete.

7130. We have had evidence from a statistical authority that the 100 per cent. cannot be justified?—I should like to go into that. As a matter of fact, of course it depends what the exact statement was. You must not take the price of food only. You have to take other things into account. Six months ago or a year ago the price of food had risen more than other things. Now, at this moment the other things have risen more than the price of food probably.

7131. You think there is a good scientific basis upon scientific investigation to support the suggestion of 100 per cent. rise in the cost of living?—Yes, I think 100 per cent. is putting it very mildly. The rise in the cost of living has perhaps been more than that, but, of course, it varies from week to week, and you cannot be exactly precise. It is very often assumed that rent has not risen owing to the Rent Restriction Act, but as a matter of fact the unmarried person, about whom we are talking particularly with regard to the exemption level, lives in lodgings very largely, and his or her rent has enormously increased. That is just one of these things that are left out of account.

7132. It has been suggested that in attempting to arrive at an exact figure with regard to the cost of subsistence for the purpose of fixing an exemption limit the present time, for example, is a very unsatisfactory and unsafe one to base figures upon; that the prices are not stable, and therefore no stable figure can be ascertained; that it is likely to be better in December or better still in March. What would you say to that?—I could not predict. I do not think there is anything to be said for six months ahead as compared with now. Of course, prices are uncertain at present, but then the Income Tax is being levied now, and you must adjust your Income Tax to the actual payments. Of course, there is a good deal to be said for making the exemption limit vary with the cost of living—for having a sliding scale. But I do not think you can put off your adjustment because the present figures are not stable; that would be to leave the hardship unremedied.

7133. Do you think it would be practicable for this Commission to draw up recommendations in such a form as would provide for a sliding scale for the adjustment of the limit of exemption to the cost of living?—I do not think that is at all impossible. I think you could say that the limit should be £250 when the cost of living is as it is, and that you should ask the Minister of Labour to certify quarter by quarter or year by year how much the cost of living had varied as compared with the standard 100 per cent. of the present time; that would be quite practicable.

7134. Do you think if his Lordship thought it desirable, you could provide a proposal for the consideration of the Commission on that point?—Yes. Assuming that an exemption limit had been decided on it would be possible to draft that so as to make the exemption limit vary in proportion to the alterations in the cost of living.

7135. One other question with regard to exemption. The abatements have only been casually referred to but I should like you to tell the Commission if you have any views with regard to the relation between abatement and exemption?—All I have to say is that I think the system of abatement is our British, practical way of arriving at a graduation, and I think it is probably a convenient way of graduating the tax. I only see its relation to exemption in connection with the subject of graduation. Up to a certain point you charge nothing, and then you must make your charge vary and rise very slowly; broadly the abatement should be such as to avoid jumps as far as possible.

7136. That rather leaves out the point that I have in mind, which affects the people mostly with lower incomes, and that is that under the present system—of £130 exemption and £130 abatement—the worker who has £130 expenses, and the worker who has £131 pays on £11?—Yes.

7137. Do you think there is any sense of injustice on that account?—Certainly, not only a sense of injustice, but a very practical harm, because it is just that sudden jump which induces that man not to earn a little more. Of course, that applies to all ranges. I have heard of a man with £2,000 a year giving that reason for not taking a contract. It is a strong argument against suddenness of jump. I think probably you ought to begin by asking the man who is only just within the limit for a very small sum—5s. or something like that.

7138. Why not adhere to the practice that was in vogue for so long, and make the exemption and abatement limit the same?—That would arrive at the same result if you fixed your rate accordingly. The object to be aimed at is that there should be no sudden jump from paying nothing to paying what is relatively a large sum.

7139. There is one question with respect to administration and the fewness of appeals, which you demonstrated in another matter than the Income Tax; they are practically infinitesimal?—Yes.

7140. You have studied this question very closely, and I would like to know if you have come to any conclusion as to the reason for the fewness of these appeals, in spite of the fact that justice is not secured without them?—I really think that within the limits of the law justice is secured. A man goes to the Surveyor of Taxes and feels that it is very hard that he should have to pay so much. The Surveyor of Taxes demonstrates to him that it is the law, and makes all the allowances that he can. I think the man feels that it is no use appealing to the Commissioners when he is satisfied that he has been told the truth as to what the law is.

7141. Would you say that generally either in the administration of Income Tax or of the unemployment benefit, two separate Government Departments, it may be said that the officials who are entrusted with these do not only rough justice but very general justice to the citizen?—I am quite sure that the Surveyor of Taxes really does his best to treat the taxpayer according to the law fairly, and I am inclined to say even leniently. So far as I know the Surveyor of Taxes, I am thoroughly satisfied with the way in which he has done his job, but of course it is the law which causes the grievance.

7142. Have you come across a case in which a person has been legally assessable for twelve years and has escaped the tax every time?—No, I have not known of any such case.

7143. With the knowledge of the Department?—No, I have not known of any such case.

7144. You would regard that as more than justice where it occurred?—Such things may happen, but they may not be the fault of the Surveyor of Taxes.

7145. One question about the General Commissioners, and this is rather an important point, I think, for a large number of people. You have clearly said that you think the General Commissioners perform a useful function as a court of appeal?—Yes.

7146. But that the question of assessment should be separated from their present duties?—Yes, I think so.

7147. Is not one of the qualifications for a General Commissioner which is being most strongly urged at the present time, not only that he may or may not be a Justice of the Peace, but that he is a local business man with a knowledge of local conditions?—Yes, that is constantly urged.

7148. Would you not think it was rather a disadvantage to have men in the same town investigating the accounts and the proceedings of their trade competitors?—Yes, I think that is an objection and a disadvantage. You may not be able to help it if it is a case of appeal, and at any rate the appellant comes voluntarily; but I do not think it is desirable that the Commissioners should have

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[Continued.]

a roving commission to go all through the assessments of their fellow-citizens. I do not see any advantage in that.

7149. Do you think that the present system of appointing General Commissioners could be improved with a view to getting persons better trained?—Of course, the present system is comic. I am afraid I am not prepared to describe what it is, but it is no system at all, and I think it would be very desirable that these panels of General Commissioners as appeal courts ought to be made up in a much more representative way. I would allow the town council to nominate, and I would allow the Co-operative Society, and the trade union, and professional associations. I would bring in the general body of the public and allow them to put these people on this panel from which the appeal court would be formed.

7150. I would like to pursue this, but it is getting late, and I have only one more question. Can you suggest, with your knowledge of the administration of the Inland Revenue Department, means of simplifying the forms which are issued, especially of course to people not only of low incomes but of low educational attainments, such as the class to which I belong?—I am afraid it is extremely difficult, when you have a hundred different abatements or concessions, to make the forms simple. I confess I see no hope of making them simple. I should suggest that the Surveyor of Taxes ought to be much more accessible than he is in practice to the taxpayer, and also I think the taxpayer ought to be assisted in other ways—by the officer, for instance, of his association to which he belongs, and so on.

7151. Mrs. Knowler: You are a Professor of Public Administration of the University of London?—Yes.

7152. You have therefore given special attention to administrative questions?—Yes.

7153. You have also been an Assistant Surveyor of Taxes yourself?—Yes, some time in the middle of the last century.

7154. You have practical experience of the administration you are speaking about?—Yes.

7155. Were you an Assistant Surveyor under the arrangements before 1908, when they changed them?—I was Assistant Surveyor from 1879 to 1881.

7156. In 1908 they changed the examinations, and they went in for an examination of what you might call a general educational standard?—Yes; formerly it was Class I; we used to think that general education, too.

7157. I mean before 1908 they had economics and something like that in the examination?—I cannot remember the dates, but when I was appointed I got in under the Class I examination; then I think they altered it to a special examination of the Department.

7158. And then that was changed in 1908 for a general educational one, and you went to make it a special education by some form of training after the Surveyor is appointed?—Yes.

7159. How would you recommend that that should be done?—I think that the Assistant Surveyor for the first year, let us say, ought to give, if not his whole time, at any rate half his time, to formal training. I would require him to go to suitable places of instruction and be instructed in accountancy, economics, economic history, geography, business methods and Income Tax law. I would definitely put him under formal instruction. Of course, at the London School of Economics, for example, we do something of that sort for the War Office, and we are about to do it for the Consular Service, and we do it for the railway service. I think instruction of that kind should not only be provided, but should be made compulsory on the Assistant Surveyors in the first year of their appointment.

7160. What good do you think it would do them if they got it? Do you think it would give them breadth of vision?—I think it would give them breadth of vision; it would give them a knowledge of economics; it would give them actually a knowledge of the way business is carried on, and I think it would make them more able to cope with the business firm with regard to, let us say, the Excess Profits Duty, but still equally permanently with regard to Income Tax. They are not even trained as accountants at present.

7161. Chairman: That concludes your examination. We thank you for coming to-day.

MR. GILBERT JOHNSTONE and MR. JOHN A. SPRINGBOUR, on behalf of the Committee of the Stock Exchange, called and examined.

The witnesses handed in the following statement as their evidence-in-chief:—

7162. The Committee desire to submit evidence in order to draw attention to the danger which threatens British industries in general and the resultant business on London Banking, Exchange and Stock Markets, owing to the present high rate of Income Tax on interest derived from capital invested by foreigners in this country. They hold that under present financial conditions it is of paramount importance to attract foreign capital to this country. They believe that the existing rate of Income Tax will not only not act as an embargo on foreign capital which would otherwise seek employment in this country, but when physical possession restrictions are removed from the stock markets, must lead to heavy sales in this country of British securities purchased by foreigners at a time when the rate of Income Tax had little material effect on the yield of interest obtained.

In support of the above views we desire to point out:—

7163. (1) That the principle that foreigners who are holders of securities the interest on which is payable in Great Britain should not be made to pay Income Tax, has been admitted, not only in the case of foreign bonds and Colonial Government securities, but also in the case of all British Government War Loans. To extend the same privilege to holders abroad of securities in British companies does not, therefore, introduce a new principle.

7164. (2) That whilst it may, perhaps, be argued that in the past, when the British Income Tax was an almost negligible charge, foreigners did not invest freely in the above class of securities, it must be

remembered that at that time, in comparison with the rates of interest current abroad, the yield obtainable on British industrial securities was too low to attract foreign buyers. Now conditions have materially altered. We are informed by persons closely in touch with America and Holland that there are constant enquiries for English industrial investments. A representative of a well-known English financial house recently visited Switzerland, and he informs us that at nearly all of about eighty institutions he visited, he was told that their clients were enquiring for English industrial investments—recent political events having frightened them in regard to Foreign Government loans—and that many investors were also looking for a higher rate than could be obtained from Government stocks. We also have reliable information that even in France, with the present adverse conditions in exchange, there is a constant demand for good English industrial investments.

7165. (3) That the investor abroad has ever regarded Great Britain as politically more secure and less liable to upheavals than many foreign countries, and that this has prompted him to deposit securities in this country. That the financial stability of Great Britain has also fostered a predisposition for foreigners to invest their money in British securities. The British Government War Loans have been largely subscribed for by foreigners. In our opinion, for the advantage of this extra security foreigners will not be found willing to pay a tax of 30 per cent. on the income derived from such investments. Thus, the present prohibitive tax, instead of being a means of obtaining revenue for this country from abroad, will not only act as a means of excluding further capital, but will be the cause, once the physical possession

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restrictions are removed, of the greater part of British securities at present held abroad being forced on the London market.

7165. (4) It is known that some companies have already made such arrangements as in effect to remove their domicile from England to various foreign centres on account of the British Income Tax, and other companies, some of which are of great importance, contemplate similar steps. The effect of this would be the loss of income produced by the financial arrangements necessitated by English domicile, and what is far more important and is practically certain, of the loss of large trade orders to meet the requirements of the companies concerned, orders which are nearly always influenced by domicile.

[This concludes the evidence-in-chief.]

7168. *Chairman:* The Commissioners have all read your paper and studied it, and will now ask you a few questions upon it.

7169. *Sir T. Whitaker:* Mr. Johnstone, everybody would agree, of course, that the absence of taxation, or a very reduced taxation here of foreign investors, would induce them to put their money here?—(Mr. Johnstone) Yes.

7170. But we have the difficulty that we have a big revenue to raise?—Clearly. On that point we would suggest this, that two people cannot hold the same share. If a foreigner buys the share the Englishman has got to buy some other share, or hold something else. Therefore, you still have the Englishman's capital to tax, and if you tax the foreigner he will not come.

7171. You would not limit it to holding shares. Supposing a foreign firm established a business here, a branch, you could not distinguish between that and holding shares in an English concern?—I think clearly, because of the question of residence—of domicile. If a foreign company starts business in London the company pays the Income Tax in the first instance. The person who would recover it is the person who is domiciled abroad.

7172. Supposing the foreigners abroad held all the shares in their own concern they would then get the remission?—Yes, I suppose in that case, if the shareholders in the particular business were resident abroad, they would get the remission.

7173. That would give a foreign firm establishing a business here an enormous advantage or preference over an English firm?—Yes, it might give them an advantage, but the advantage would be to this country in having the capital here whilst exchanges are so much against us.

7174. But it would be competing with our own people here, and giving them a preference to an enormous amount in tax?—The question is whether it is better to get the capital here, even if it gave a nominal advantage to the foreigner or not.

7175. Or drive our own out?—No, I say you would not drive our own out. Our own will not go out; why should it go out?

7176. Supposing you have concerns here doing a certain class of business. If a foreigner establishes a business here, and has an advantage of 5s. Income Tax over the English trader doing the same class of business, he will tend to drive these people out of business?—You mean it will pay him better than it will pay the Englishman.

7177. Yes. He can afford to sell at a much lower price, and beat the Englishman?—Well, yes, I suppose he could afford it.

7178. That is a very serious matter, is it not?—I should have thought that was to the advantage of the country in general.

7179. But if it were fully developed the trade of the country would be done by foreigners who would pay no tax?—(Mr. Seringeour): The company would have to pay tax.

7180. Yes, but as I understand your proposal, the foreign shareholder, the owner of the business, would have that tax remitted. That is your proposal?—But the company would have to pay in higher dividends. It would only be shareholders in the company who would get it paid tax free.

7167. (5) By granting remission of British Income Tax to foreigners there should be practically no loss of revenue, as, but for such remission, no foreign capital would come to this country. As an alternative, we would suggest that it is well worth consideration to charge a very much reduced scale of Income Tax to foreigners, but in our opinion should this appeal to H.M. Treasury it is essential that the rate charged should be a very low one, certainly not more than 1s. in the £. We are not suggesting that estates of foreigners in this country should not be liable to Death Duties. Investment of foreigners in British securities are and will be often held in Great Britain with the resultant benefit to the Revenue on the death of the holders.

7181. I think you are not quite following my point. Take a firm, say, in France; they establish a business here, and form a company. They hold all the shares in France. Under your suggestion they would pay no Income Tax?—But they would have to pay an Income Tax as a company.

7182. But they would get it returned I understand?—The shareholders would get it returned.

7183. But I am speaking of a firm holding all the shares themselves. I am dealing at the moment with all the shareholders being abroad. They would be entirely relieved of tax?—(Mr. Johnstone): As individuals resident abroad they would.

7184. Then there is a second point which Mr. Kerly has suggested to me, that if in this company there were a considerable proportion of foreign shareholders, and some British shareholders, then as the company has to pay the tax it would mean really that the British shareholders would pay the whole of the tax?—No. The British shareholder would pay the tax on the proportion that he drew.

7185. The suggestion is that the company would pay the tax?—Yes, the company would pay the tax; you mean to that extent the British shareholder would not get the benefit of the remission and that he would pay the whole of the tax.

7186. I suppose the foreign shareholder would get it returned?—(Mr. Seringeour): The English shareholder would not have to pay any more.

7187. The other phase that we have had put before us very strongly is that where British firms have investments in foreign countries they should not pay the tax both here and there. It means that they should be relieved wholly or partially here. Is not that an inducement to put English capital abroad?—(Mr. Johnstone): I suppose that depends upon the policy of the country in question. I do not suppose that other countries which do not at the present moment wish to attract capital would allow that remission.

7188. At the present time if there is a British firm with a business in the United States, the proposal is made that if that business is taxed in the United States, the United States tax should be allowed off the tax here?—That is not our proposal.

7189. No, I know, but I am putting that to you; it is the reverse of yours. But do you not see that between the two proposals we are going to lose the tax all round?—(Mr. Seringeour): It must be reciprocal.

7190. How could one influence other countries?—Unless they agreed then it ought not to be done, but by agreement it could be done without loss.

7191. It appears as if you are going to encourage the foreigner to come here, and encourage the Britisher to invest his capital in another country?—(Mr. Johnstone): Of course, the Britisher will be encouraged by the action taken by the foreign Governments. If the foreign Governments wish to attract capital they can do this quite irrespective of what England does.

7192. The suggestion is that the relief should be given here in proportion to the taxation abroad?—Well, that is not our suggestion.

7193. No, it is the other side of your shield which we are having very strongly put before us?—Well, that is the question of what the other country chooses

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entirely. What appears to us is that if you want foreign capital to come here, and to prevent foreign holdings being sold here, and capital being taken out of the country, you must give this relief.

7194. Then you are going to give a preference to the foreigner over the Englishman?—You would give that preference in order to get what you want, that is, capital. (Mr. Schindler): The presumption is that he has to pay tax in his own country.

7195. But we do not get it?—He is not benefited as against the English shareholder, because he has to pay his tax in his own country; he is in the same position.

7196. His company and business are defended, and he has all the benefits of our Government, and everything here, and he has to pay no contribution towards it?—(Mr. Johnstone): It depends whether it is worth your while to get his money or not. If you do not you will not get his money, so you will not lose any Revenue at all.

7197. You realise this is a very complicated and very difficult matter?—We quite realise that, and we quite realise everybody would say you are favouring the foreigner. To that extent a foreigner is better off, but we are giving him that favour because it will get us what we want, which is capital, and it is not really a loss of revenue, because if we do not do it he will not bring his money here at all. (Mr. Schindler): If the foreigner is paying 6s. Income Tax in his own country he is not better off as regards that business than we are here.

7198. Mr. Holland-Martin: In your second paragraph you seem to imply that the moment the present restrictions are removed there will be a very heavy sale of securities held by foreigners. Have you any direct evidence of that at all?—(Mr. Johnstone): Yes, we have direct evidence that clients are writing saying they will sell these industrials because of the tax. I had a case only yesterday. It happens to be the holding of the Argentine Tobacco Company. There it was a Frenchman, and even though the exchange was so much against him he said: "can we sell because of the heavy tax?" I have got the figures of the Argentine Tobacco Company's capital, and their issued capital is £840,000 preference, and £250,000 of that is held abroad, and £245,000 ordinary capital, and of that £270,000 is held abroad. Our friends in every direction on the Stock Exchange tell us that their clients are saying: "when can we sell our holdings in these companies, because it does not pay us to pay the tax?" The Forestal Land is another company which is a very striking instance. They have £3,000,000 of capital, of which £1,000,000 is held abroad. Remove your restrictions and those people will say: "If we have to pay the 6s. tax it cuts our returns to pieces, and we shall force them on the market."

7199. That also might be met, to a certain extent, by the company moving its office?—That, again, is another thing. Take the Argentine Railway Company, for instance. If they want to raise money in the future they would talk of moving to the Argentine, or somewhere else, to raise their money so as to avoid the taxation.

7200. With consequent loss of orders?—With consequent loss of orders to this country for stock, rails, and engines. If you attract your foreigner here to put capital here he gives his orders in the country of domicile. I think that has been proved over and over again.

7201. Of the two proposals, the total freedom from tax, and the reduced scale of tax, which do you favour?—Personally I should favour freedom from tax altogether, but if you have to meet the cry that you are favouring the foreigner too much he probably will face a small Income Tax as long as it is not too much, and you can use that. If he has the advantage of the protection of Great Britain it is fair that he should pay something. Our whole point at the present moment is that if you want to stabilise exchanges you must attract capital here, and prevent capital being withdrawn; and if you leave your Income Tax at 6s. you will have capital withdrawn from here, and people selling, and no fresh capital coming in. That is really our case in a nutshell.

7202. Mr. Walker Clerk: These conditions to which you refer of the necessity of attracting foreign capital are largely due to the war?—Yes.

7203. It is to be hoped in a few years those conditions will not apply?—Well, they might, or they might not. (Mr. Schindler): It is very unlikely, I am afraid.

7204. How could the Commission recommend legislation which could only deal with the temporary conditions caused by the war?—(Mr. Johnstone): Cannot you recommend anything that would deal with a thing that might last for five or six years?

7205. Is that your suggestion?—I should not suggest that you should bind yourself down in perpetuity that no foreigner should ever pay Income Tax on an English security—certainly not.

7206. You merely suggest a temporary relief during the special conditions created by the high tax, which is the result of the war?—That is it really, until the position is remedied. When you do not want foreign capital, when you are not afraid of investments being withdrawn, you can alter your rules.

7207. Is not your contention to some extent met by forming subsidiary companies, selling companies, and that sort of thing, as a matter of fact?—I do not quite follow you.

7208. Take the case of an American firm that has a manufactory here, and they make no profit here, but the goods are sold here, and it is evident that the goods which are sold here are sold back to America to a selling company at a low price in order that the whole of the profits are made on the other side of the water; is not that a common thing?

7209. Mr. Holland-Martin: I think that has more to do with agency business than with the Stock Exchange, has it not?

7210. Mr. Walker Clerk: It has to some extent a bearing on the question?—I do not quite follow how that goes; I had not thought of that point.

7211. We had evidence given of a case of that kind, and a very large case of that kind?—Is not that a clear case really of people in order to avoid the tax making these arrangements to get round it?

7212. That is so, and we think they ought to be prevented. You suggest a method of preventing it. I see the practical proposal you make is that your suggestion should not be operative in perpetuity, but for a temporary period owing to the exigencies of the war?—As long as it is necessary to attract capital you ought to have those arrangements.

7213. Mr. Marks: Is it not a fact that the arrangement which you propose in regard to foreign investors in British companies is already in force in a great many countries in regard to English investors in those countries? For instance all the American railway bonds sold in this country are guaranteed free of Government and other form of local taxation?—Yes.

7214. That is the case in almost every country which wishes to attract capital?—That is so.

7215. Therefore the question comes down, does it not, to whether or not in the view of the governing authorities here it is desirable to attract capital to this country?—Surely.

7216. You come before us to say at any rate so far as the Stock Exchange Committee is concerned they are convinced that that is the right policy?—Quite, more especially to prevent sales; that is the Stock Exchange Committee's point of view.

7217. Have you any support for this point of view from other financial bodies in the City?—Well, we did not put forward these views without consulting other bodies as well. I do not know that I am at liberty to quote other bodies, but in going round and asking in the City we have received a great deal of support. Almost in every case they have said: "well, it is self-evident that the only way you can prevent capital being withdrawn, or attract capital, is to make this allowance." That has been said by finance houses and bankers.

7218. On the face of it it seems self-evident, but you admit it is open to the objection which Sir Thomas Waitaker has pointed out?—Yes, clearly.

7219. Have you considered that point at all, and if so do you consider there is any possibility of separating companies the entire capital of which is held abroad from British companies part of whose capital is held by foreign investors?—That was suggested to me only yesterday by one of the biggest finance houses in the City who have very largely to do with

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American securities. They suggested that we might differentiate.

7220. You see Sir Thomas Whittaker's objection is a valid one, and if you are to maintain your point of view you will have to devise some means to meet him?—Quite.

7221. Therefore I suggest that if your Committee can put up any suggestion which will help the Commission in that matter it might be useful?—Yes, quite.

7222. I am not quite sure about the point you made just now, that the Stock Exchange Committee was afraid of sales here. I should say that that might have a very sensible effect on the Exchange, but as a compensation for that would it not mean that possible investors in this country were getting hold of securities previously held abroad at very low prices, entirely owing to the fact that taxation in this country made them an undesirable investment abroad?—But is not that equivalent to having a foreign issue made in England to all intents and purposes? Is that what you want at the present moment?

7223. I see your point.—It is like having a foreign company issued in England, and the Englishman subscribes to it.

7224. I wanted really to ask you whether your objection to that flood of sales which you anticipate was an objection purely from the Stock Exchange business point of view, or from the national point of view?—Not from the Stock Exchange business point of view, because the more people who sell the better for us.

7225. It does not much matter which way they are going so long as they go?—So long as they go it does not really matter at all. It is purely from the point of view of affecting the exchange. We thought we were in a position to have special knowledge as to the likelihood of these sales.

7226. Mr. Kerly: There are two problems, are there not, foreign capital already here, and capital that is coming, or that you want to come?—Yes.

7227. As regards foreign capital already here, that means foreigners holding shares in English companies. It is impossible to deal with those by remitting the tax which is now charged to foreign shareholders unless the Government pays it. Is that what you propose—that the Government should pay it to the foreign shareholder?—The Government would have to return it to the foreign shareholder, yes.

7228. It is no good saying that the company is not to charge it while paying its own full Income Tax. What you mean is that there should be a Government endowment of the foreign shareholder?—The Government would allow the foreign shareholder to recover the tax in order to keep the capital in this country; that is the point.

7229. Have you any idea of what that would cost?—No, I am afraid I have not yet, because I have not got the total of the foreign holdings here.

7230. What is the consequence of not doing it—that the foreigner wants to sell his shares?—Yes.

7231. That means that there will be a fall in prices?—The Englishman has to find that money, yes.

7232. There is no loss of capital because the foreign shareholder has to find an English buyer, or another foreign buyer?—Do you mean there is nothing goes out of the country?

7233. It will not make any difference to the company?—No, not to the company itself, except in this case—suppose the company wants to raise fresh money.

7234. That is the other problem?—There are fewer people about to find the money, and their credit is affected.

7235. As regards the other problem, the new money you want to get here, it is exactly the position of our attempt to place our War Loan abroad. You have to pay the foreigner practically at a higher rate than you pay the Englishman in order to get his money?—Yes, and if you leave the exchange against you, you have precisely the same thing to-day; you have to pay at a higher price for everything you buy.

7236. Is that an operation at the expense of the whole country, and the particular instance is to be left to the private speculator?—I do not follow that.

7237. I am suggesting that this operation to get foreign capital is to be left by putting the means into the hands of the private promoter so that he will make such promotions as he pleases with the advantage that when he sells his new shares abroad the foreign buyer gets an allowance from the Government?—Yes, but he draws the capital from the foreigner to this country.

7238. He is paying part of the price, and the Government is paying the rest, because the Government is going to give the foreigner the equivalent of the Income Tax on his dividends?—But is the Government going to? If the foreigner sells his holding the Englishman buys it, and the Government gets it in that way. If you do not give this the foreigner will sell.

7239. There you have gone back. I was trying to divide the two propositions?—Surely you cannot get away from this one thing, that if the foreigner does not hold the share the Englishman does, and the Government gets the tax, and the only money that comes in is the money which the foreigner is prepared to leave here, and, therefore, there is no reduction in the amount the Government gets at all.

7240. I will not pursue it. What I put to you seemed to me to be difficulties on the face of the matter which make it very troublesome to deal with?—It is just a question of whether the Government think it worth while in order to stabilise the exchanges to attract foreign capital.

7241. The foreign investor can at this moment if he wants English securities invest in the Government bonds from which tax is not deducted?—And has done so very largely.

7242. So that what practically this might lead to is a shifting of foreign investments from industrials to Government securities?—It might to a certain extent, but that is perfectly true about the Englishman. The Englishman is not content to put the whole of his money into War Loan any more than is the foreigner. You have two different classes of investors. You have the class of investor who will take Government Loans up to a certain amount, and after that he wants a higher rate of interest and a different security. Foreigners are full up of Government Loans, and the reply we get back is: "cannot you suggest anything else except this eternal Government Loan?" That is the reply we are getting every week.

MR. HAROLD COX, called and examined.

7243. Chairman: Your paper is very short, and I am very glad it is short; if you would like to read it will you please do so, and then you will be examined by any of the Commissioners who wish to ask you questions?—With pleasure. The two propositions which I wish to lay before the Commission are:—

(a) that the Income Tax should be made absolutely universal, so that no person could claim full rights of citizenship without paying Income Tax;

(b) that the tax should be levied at the source in the case of wage-earners as it already is for dividend drawers, landowners and civil servants.

The first proposition depends on general principles of constitutional government. I hold that no person should be allowed to vote for Members of Parliament, who have power to control public funds, unless he makes some direct contribution to these funds.

The second proposition arises out of Adam Smith's well-known canon of taxation, that taxes should be levied at the time and in the manner most convenient to the payer. A weekly wage-earner generally regulates his financial life on a weekly basis, and it is extremely inconvenient to him to be called upon for comparatively large sums of money at quarterly intervals. On the other hand, he is quite pleased to receive any sum that comes outside his weekly budget.

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The success of the working class Co-operative Societies is mainly due to their recognition of the mental attitude of weekly wage-earners. The co-operative stores charge a fairly high price for the goods they sell, but give back to their customers every quarter a lump sum in the shape of a dividend on purchases. This practice is so immensely popular with weekly wage-earners that some private firms are now adopting it and out-bidding the stores in the matter of dividend.

Following this analogy, my proposal is that employers should deduct from the weekly wage they pay a sum so fixed as to be in the majority of cases more than sufficient to cover the amount of Income Tax which will finally be due from the wage-earner. At the end of the quarter the wage-earner will claim from the Inland Revenue office a refund of the balance due to him. On this plan I believe that the special dislike of the Income Tax which now exists among weekly wage-earners would disappear.*

7244. Mr. Marks: Have you considered, in connection with your proposal (c), what has been put before us from other quarters, that if the Income Tax is to be made universal it should be coupled with the abolition, it is suggested in most cases, but at any rate a modification, of indirect taxation?—Yes, I think that is desirable, of course, when we have got down to an approximately sound financial position.

7245. You still think that universal direct taxation should be advocated or brought into force, and that indirect taxation should be maintained?—I think for the present we have to get more revenue. As soon as we want less revenue, I think indirect taxes ought to be lightened, because they press with unfair severity on the poorest people. A man earning £1 a week pays relatively more in indirect taxation than a man earning £3 a week; it amounts to a bigger burden upon him.

7246. Does your proposition imply a graduated tax down to some very small amount?—Yes; I accept the principle of graduation of the Income Tax. I do not put wage-earners in any other category than other citizens.

7247. Have you formed any idea as to where your Income Tax should begin; what should be the limit of exemption?—I would have no exemption whatever. That is my whole proposition.

7248. As regards your other proposition, that the tax on wage-earners should be levied at the source, have you considered that the employers have objections to that method of levying the tax?—In 1915, when Mr. McKenna was considering the extension of the Income Tax to weekly wage-earners I took the trouble to get letters from a number of employers throughout the Kingdom, and with one accord they said they were quite willing to undertake the responsibility.

7249. It has been stated to us as a fact that the employers would object to this method of collecting the tax?—I can only say it may have been luck, but all the people I wrote to said they were perfectly willing to do it.

7250. Can you give the members of the Commission an idea how many people they were?—I should think seven or eight probably. I did not continue it any further, finding that I got unanimity.

7251. Do you not think there might be some objection on the part of the wage-earner to having to claim back from the Inland Revenue his over-payment of tax?—No. I think if he got the money he would be quite pleased.

7252. It is generally considered that there is a certain amount of delay and difficulty in getting

back from the Inland Revenue any over-payment to which one may be entitled, and you can imagine that if weekly wage-earners were put on this basis the number of claims on the Inland Revenue would be very large indeed?—Yes. Latterly my information is that the Inland Revenue has been very prompt in meeting claims.

7253. Have you considered also the very great extent to which the number of claims would be increased?—Yes. I do not know whether you would want any larger mechanism for collection than you do under the present system; I rather think you would want a smaller mechanism, but in any case I should like to lay before the Commission the proposition that in order to save administrative expenditure in connection with taxation, the collection of local and Imperial taxes should be entrusted to the same office. I would have a Revenue office in every district, which should collect taxes for the central Government and for the local governments.

7254. That would be part of the ordinary Inland Revenue administration?—Yes.

7255. Would you still use the employers?—Certainly. Just as you use bankers now to collect Income Tax for the Government, I would use employers to collect taxes on wages. I dare say you know the fact that it is already done in the case of civil servants, in the case of postal employees for example.

7256. Sir E. Nott-Bower: With regard to your suggestion that the tax on wages should be levied at its source, my recollection is that the objection to the deduction of tax by employers came rather from the employees than from the employers. I think they did not like it?—I think that they are more likely to object than the employers, but I think they object still more to paying a quarterly tax. That is my point. Of the two they dislike the deduction less than they dislike having to pay a lump sum.

7257. With regard to the instance you quote of the man who is a shareholder in a Co-operative Society, you take him as an instance?—I was not speaking of shareholders in Co-operative Societies; I was speaking of dealers at co-operative stores.

7258. A dealer generally holds a share, does he not?—Yes; that is another point; but I was speaking of him *qua* dealer.

7259. What happens to him is that he buys goods at the stores, at a price which I imagine he thinks, at any rate, and probably rightly thinks, is not higher than he would have to pay at a shop?—I think he generally knows it is rather higher, because many of the shops try to undercut the stores. But it comes back to the wife. She prefers to pay rather more because she gets a lump sum at the end of the quarter, which the husband does not touch.

7260. I will leave the question of price to other members. At any rate at the end of the quarter, without making any claim at all, I suppose, he gets his dividend. Does he not?—Yes; he has to present his tickets, or whatever they are called—I forget the technical term.

7261. Would not the workman's feelings be very different if he was required to pay to the State more than he really owed the State and was kept out of his money for a time without any benefit to himself, and then could only get his money back on making a claim?—I do not suppose it is nearly so pleasant an operation as the other; because in the case of the store you get the goods first and you get the money back without much worry; in the case of the tax you have to pay something you do not want to pay at all, and you have some worry in getting back the balance. But that is the difference between compulsory payment to the State and private trading for your own pleasure.

7262. Mr. Walker Clark: You said just a moment ago in reference to indirect taxation that you would not have it abolished until we had reached a desirable basis of national income, as I understand it?—I said "lightened."

7263. Until that point has been reached every weekly wage-earner, regardless of amount or age or sex, should pay some contribution?—In proportion to his earnings.

* Mr. Cox wishes to add to his statement the following note:—On November 19th, 1914, Mr. Arthur Henderson, speaking in the House of Commons, said:—

"He had come to the conclusion that the only fair way to treat the working classes was by a graduated wage tax, and was quite certain that some day a Chancellor of the Exchequer would feel that was the only fair way."

On May 14th, 1918, Mr. Philip Snowden said that he could imagine:—

"Nothing more harmful to the best interests of the country than that we should have a large section of the community able to influence the policy of the country and yet altogether relieved from financial responsibility for that policy."

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7264. From the errand boy at 6s. a week or less, upwards?—I laid particular stress on the question of voters, but I do not see why errand boys should escape.

7265. If they are voters?—No, they would not be voters.

7266. We want to get a clear idea whether it is the voting register which is to be the basis of taxation, or the income?—I combine the two things. Every income ought to pay and nobody ought to vote until he has paid his tax.

7267. Direct tax?—Yes, direct tax.

7268. That is very different from other suggestions which have been made to this Commission. That is your opinion?—Yes, that is my opinion.

7269. Can you tell me to what extent you regard yourself as entitled to speak on behalf of that large class?—I do not regard myself as entitled to speak on behalf of anybody.

7270. Except yourself?—That is so.

7271. Those opinions are your own opinions, formed as the result of your own knowledge and opportunity of investigation?—Absolutely.

7272. But they are not confirmed by any organisation representing either employers or employees?—No, I represent nobody.

7273. Except yourself?—That is so.

7274. In the same way in the case of collection of the weekly wage-earner's tax by the employer, you do not there represent employers except those seven or eight you consulted?—Except those people who have written to me. They all said it was quite easy to do.

7275. I think we should all admit that it is easy to do, but whether it is desirable is quite another matter. It has been suggested to the Commission by another witness that, in order to prevent repayments of tax by weekly wage-earners, a lower rate, a kind of compounded rate, should be deducted, without any return. Do you favour that?—I think there is a great deal to be said for that, quite frankly. You might save a certain amount of administrative labour by some such device as that. I do not rule that out.

7276. I am not looking at the saving in administration so much as the desirability from a revenue-earning and the taxpayer's point of view. You would see no objection to it?—No. I do not think it would be any economy except in the matter of administrative expenditure, as far as I can see.

7277. Is your idea that the same rate should apply to all classes of the community, regardless of occupation? I do not mean a graduated rate; I mean that the trader and the professional man and the farmer should all be treated in exactly the same way so far as administration and collection are concerned?—Would you mind putting the question in another way; I am not quite sure that I see what you are driving at.

7278. At present you know there are different methods of treatment, different options, shall I say, for the farmers?—The farmers are in a special category; they can be either under Schedule D or Schedule B. Personally I think it was a mistake having Schedule B for farmers; I think they ought to be under Schedule D.

7279. Therefore you would agree with the proposition that I put, that all should be treated exactly in the same way?—Yes.

7280. Mr. Bouverton: You refer to those employers with whom you communicated being willing to act as tax-collectors?—Yes, just in the same way as they do for the National Insurance; exactly the same thing.

7281. Are you aware—probably you are not—that before Mr. McKenna decided upon this quarterly assessment he convened a meeting of representatives of employers and workmen, and that at that conference strong objection was taken by some very prominent employers to allowing themselves to become tax-collectors, to use their own expression?—I am also aware that a deputation of employers went to Mr. McKenna to urge the scheme I am advocating upon him and were turned down by the Treasury officials. I have a note of that here. "A deputation of the Shipbuilding Employers' Federation met the Chancellor of the Exchequer some time ago" (this is 1915) "and made the suggestion you advocate in your letter that the Income Tax should be collected by means of a weekly

deduction on the same lines as the National Health Insurance. The officials who met them were anything but sympathetic to the suggestion and stated that they preferred to follow their own lines of quarterly returns from employers and quarterly collections."

7282. Presumably that was after the decision had been arrived at by the Chancellor?—This is dated 22nd November, 1915.

7283. I think that would be after the Chancellor had come to his decision. At any rate, what I want to impress is this: that the conference did take place; it was a very representative conference upon both sides, and the employers, as I say, were many of them great employers of labour, and they were strongly opposed to anything of the kind?—I speak from memory, but my recollection is that the proposition put before the employers on that occasion was a very different proposition to the one I am now urging. The proposition was that the workman should be assessed on his quarterly or annual income and then the employer should become the collector. That is a very different thing from saying that the employer is automatically to make a deduction week by week from wages.

7284. The main point considered on that occasion was, in the first place, whether workmen would be willing to accept a quarterly assessment as against an annual payment, and secondly, whether if they were willing, the employers would be willing to collect the money?—I do not know whether you see the very important difference that comes in. On the system of the employer merely taking an automatic deduction from wages, the employer knows nothing about the workman's final financial affairs. He makes that deduction, and then the workman makes his arrangements subsequently with the Inland Revenue official, and the employer knows nothing about that. On the other plan, the employer would become cognisant of the total financial affairs of his workman, and that is what neither employer nor workman wanted. I hope I have made clear the distinction.

7285. It is only fair to say that at the conference, at which I happened to be present, that point was not raised. It was a question whether or not the workman would accept a quarterly assessment, and if so, in the event of his agreement, would the employer collect the money?—Quite so, but I think I am right in saying that the proposition which the employers turned down was a totally different proposition from the one which I am making to-day.

7286. You advocate a universal payment of Income Tax?—Yes, something, however small it may be.

7287. Would you abolish indirect taxation?—I think that you ought as soon as possible to reduce indirect taxation, especially on things like tea and sugar.

7288. You have agreed, in answer to a question, that indirect taxation bears more heavily upon those who can least afford to pay than upon others?—Yes, and that is one very great argument for having direct taxation in place of indirect taxation.

7289. And in addition you would desire to see Income Tax imposed upon those?—You have to deal with the present financial situation, which is one where you want more money, not less.

7290. With regard to the amount to be paid, would it be on a graduated scale starting from a nominal sum?—Yes, it must be graduated, clearly.

7291. Could you suggest to the Commissioners what the starting point should be?—No, as long as you pay some small sum to begin with.

7292. May I suggest a sum—3d. in the £, say?—I would go even lower than that. I think even 2d. in the £ would be enough on the smallest incomes.

7293. So long as it was a payment, nominal or other, you would be satisfied?—Yes, I would be satisfied with one penny in the £ on very small incomes.

7294. Do you think that your suggestion that a young man should not be allowed to vote for a Member of Parliament unless he has paid his assessment, would be carried with the working people?—I think quite possibly not, but it does not prove that it is wrong.

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7295. I agree, but is it practicable?—I think in life we have first of all to think what is right and then, secondly, think what is practicable.

7296. With regard to exemptions, exemptions of all kinds should go by the board, should they?—So far as the exemptions produce a nil result; but otherwise I think you cannot get graduation except by some form of abatement. I think that is the best way in many cases of getting your graduation.

7297. Then you do not agree with the action of the Chancellor in what he has done, say, yesterday, and one or two days previously, in increasing the amount of deductions?—No, because that has exempted a number of people altogether. I think he ought to have made a proportional exemption; and, if I might touch upon a germane point, it is this: I think in dealing with such a problem as the exemption for wife or for child it ought to be a percentage of the income and not a lump sum; so that all classes in the community would get their share of the exemption. That, of course, would deal at once with the point which the Chancellor has just made; if he had given a percentage abatement the man would still have paid something, but he would have paid less if married than if he had been a bachelor.

7298. Is it an effort on the part of the Chancellor to adjust matters as far as possible between all classes?—It may be, or it may be just to meet political pressure.

7299. It did not strike me from that point of view. I thought it was really to prevent unfairness as between man and man or man and wife?—I remember the last deduction of the same kind that was made by Mr. Bonar Law in response to a threat from the miners; so I was rather suspicious about the next one.

7300. You think the Chancellor's recent action is supplementary to that and in the same spirit?—That is what occurred to me.

7301. I think you are doing the Chancellor an injustice?—I hope I am.

7302. Mr. May: I am at a little disadvantage in asking you questions, Mr. Cox, first because I did not know you were coming, and, secondly, because I have not your proof of evidence here. On the co-operative point I do not wish to ask any questions, because I understand that you simply used the co-operative system as a useful illustration of another point?—Quite right.

7303. And that everything that you have said about the co-operative system is to its advantage, and therefore I have only to endorse it. With reference to this weekly collection, there are one or two points that I am not clear about. You say that you are in favour of one local office for the collection of municipal and national taxes?—Yes. That is rather a side issue, but I will go into that if you wish.

7304. Do you think it is a side issue, that the collection in each district should be centralized and made more efficient because of its centralization? I thought that was your proposal?—My proposal is that you could save a good deal of money if the same person who goes round collecting rates also goes round collecting taxes. There is a great deal of waste labour now in collecting rates and taxes.

7305. But as a matter of fact is not that what actually happens in many cases?—I am very glad to hear that it is so. I know of many cases where it is not.

7306. I understood you to favour a more centralized and therefore a more efficient method?—Not necessarily a more centralized method. I do not believe that centralization is necessarily the same thing as efficiency. In each district at present you have an office representing the Inland Revenue; you have also an office representing the municipal corporation. I propose that those two should be amalgamated.

7307. We will call it co-ordination instead of centralization, if you like; at all events, what you want is one man to do the work of two and to do it more efficiently?—Not necessarily more efficiently, but at a less cost.

7308. Then how do you reconcile with that your proposal that all the employers in the district should

henceforward be made collectors of Income Tax?—That is no different from the existing fact that bankers are collecting Income Tax.

7309. So far as the population generally is concerned, that is to a very small extent, surely?—Quite appreciable. Bankers collect tax on dividends; tenants collect tax on all rents.

7310. But you propose in addition to extend that with regard to three-fourths of the community?—Yes, but may I submit that that proposition has nothing whatever to do with the purely administrative question of combining the collection of local and Imperial taxes in one office? That is why I said it was a side issue. I only raised that parenthetically; it has really nothing to do with my main proposition.

7311. But does it not appear to you that if it is desirable to concentrate the collection locally it would also be well to apply that to the whole of the working population so far as they are liable to taxation, instead of putting it upon their employers and increasing the number of unofficial tax-collectors?—No. The point is that the employer can collect the tax at practically no cost, simply an extra column in his wages sheet or an extra stamp, whichever way you like to put it, in addition to the insurance stamp. There is practically no cost involved in that.

7312. There is this difference, is there not: that with regard to Health Insurance, up to a certain maximum it is a flat rate for his Health Insurance, irrespective of the man's wages?—Yes.

7313. And there will be a difference in a very large number of cases in the amount of Income Tax?—Yes, I quite see there is a difference, and that would have to be adjusted.

7314. Seeing that the law at present provides for assessment to Income Tax on a yearly income, how would you apply the collection of the tax to the weekly wage of a man who might for five or six or seven weeks in the year be unemployed and not know until the end of the year what his liability would be?—He would present his claim for refund, just as a person who has been taxed on dividends now presents his claim.

7315. Then do you say that that contemplates first of all a compulsory deduction from the man's wages by his employer?—Yes.

7316. A claim back if he is out of employment?—Yes.

7317. An additional and separate claim, because that is one which may or may not arise, for the allowance in respect of his wife and children?—Yes, he will have, of course, to present all those claims in exactly the same way that a man does who gets a dividend with the tax taken off it.

7318. Then, may I ask on what grounds do you suggest this collection direct from the wage-earner?—For the reasons I have given; that the wage-earner regulates his life on a weekly basis and therefore it is more convenient to him to pay a weekly sum than to pay a quarterly sum.

7319. Do you think it is to the advantage of the wage-earning taxpayer that it should be collected in that way?—I think it is distinctly to his convenience.

7320. Notwithstanding the fact that he finds the utmost difficulty (in a very large number of cases, by far the great majority of them) even to understand, let alone to fill up, the forms stating his income; and you now propose to put upon him three separate forms for dealing with his income, which will apply to a very large number?—He will be in exactly the same position in making a claim as he is now in making a return.

7321. Except that he will have to do it a good many more times?—Why?

7322. For the reasons I have given. He makes one claim now; he will have to make one statement in respect of his employment; unless you propose, of course, that the employer should be authorized to deduct the tax from his wages without any return from the man. Do you suggest that?—Of course, that is the whole proposition. The man has to make no return at all except when he claims a refund.

7323. Up to what income would you take that?—How do you mean "up to what income"?

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7324. This is entirely a novel proposition, is it not, except in the case of Government servants?—Is it done throughout the civil service. It is done in India. I have letters from India saying it is done there by private employers.

7325. But surely the conditions of the civil service, where a man or a woman is a salaried servant receiving a yearly salary, are altogether different from those of the ordinary weekly wage-earner subject to the risks of unemployment?—Then if he is out of employment he pays no tax.

7326. I quite appreciate that it may in the course of years work out satisfactorily to him: that he may in the course of years be able to adjust his payments and his proper charges for the year; but what I want to appreciate is the complications that you are putting in the way both of the payment of his tax and the repayment of anything that he has improperly paid?—There is no complication in his payments, because that is deducted from his wages. The only complication arises when he is making a claim.

7327. No complication arises with respect to his wages, but that is not necessarily the whole of his income, and he has to make out a separate return of the remainder of his income?—Yes, but he would do that when making his claim for a refund. The Inland Revenue people would say: "you claim a refund; have you any income from any other source?"

7328. I must leave it at that. I do not think it is a practical proposition.—It is exactly what people do with their dividends. When you make a claim for a refund on dividends from which the bank has deducted tax, you have to show what is your income from other sources, from wages, for example. I do not see why the wage-earner should be put in a favoured position as compared with the rest of the community.

7329. But you are proposing to put him into a special position which is unfavourable, I suggest?—I am putting him in the same position as every landlord in the kingdom and every dividend drawer in the kingdom.

7330. I do not think so. You are going to assume the amount of the main source of his income for a year or a proportion of his yearly income at the end of the week?—No.

7331. Undoubtedly you are. You cannot otherwise compute what he is liable to pay?—I quite see your point now. As I suggested in my memorandum, you take a figure which in the majority of cases would probably be in excess of the amount he would have to pay, so that he would get a refund at the end of the year.

7332. An estimate?—Yes, a rough estimate.

7333. Do you think the working men of this country will accept an arrangement of that sort?—I think it would be most convenient to them.

7334. Do you think they will accept it?—I do not know.

7335. I am not going to put questions to you to show that you represent nobody, because I knew that you have investigated and written about and studied these questions for many years; and if you have not been accepted as an authority, you have been accepted as a man with considerable knowledge. Now I ask you, do you think it is a practical proposition for the working people of this country to accept?—Yes. I think if the scheme were explained to them they would accept it.

7336. One other thing. You say that you are in favour of allowances for wife and children, instead of being a flat rate, being a percentage of income?—Yes.

7337. So that a man with £1,000 a year will get ten times more allowed for his wife than a man with £100 a year?—Yes, I think that is fair.

7338. Why?—Because then you get a proportion. Otherwise you get this difficulty: that the man with £100 a year might pay nothing at all, because he had the luxury of a wife, and the man with £1,000 a year would get no abatement for the cost of the wife.

7339. Would it be unfair in assuming that this differentiation arises from the fact that you do not recognize the right of the citizen to an exemption

up to a subsistence level?—I think that everybody can afford a few pence a year. However poor he may be, every man can afford to pay something, and ought to pay something, to the State.

7340. And do you think that all this machinery which is admittedly involved with regard to the wage-earner should be put into operation in order to gain those few pence?—I do not think it would be involved. I think it would cost less than the present system and would bring in much more revenue.

7341. Mr. Bouverton: In advocating the imposition of a universal Income Tax, have you considered the desirability of that tax covering local as well as Imperial purposes?—Yes, I think it would be a very good thing if we had, as the Danes and the Germans have, a local Income Tax as well as a national Income Tax, so that you could supplement the local rates by a local income Tax.

7342. That means you would preserve the present system of local rating?—I think you cannot get rid of rates, but I think it would be very good to supplement rates by a local Income Tax.

7343. Mr. May: I do not want to prolong the examination, but I would like Mr. Cox to make clear this point.

7344. Chairman: In this case, Mr. May, I think you are justified in having a little more time, if you wish to.

7345. Mr. May: It is only on the one point that Mr. Cox has now introduced, about the local contribution.

7346. Chairman: Just ask that question.

7347. Mr. May: I would like you to amplify that point. It did seem to me that there was the possibility of a practicable scheme of securing these small contributions without unnecessary machinery or excessive cost?—By local Income Tax I mean this: the local authority now—I think the technical phrase is, make a precept for a rate. They should, in addition, make a precept for an Income Tax; they would make their precept on the Inland Revenue people, saying: "collect Income Tax from this district at such and such a rate for our local purposes." That is done in Berlin, and that is done in Copenhagen, and it is done in other places. I have an actual demand note issued in Berlin (I have not got it here to-day) before the war for local Income Tax plus national Income Tax collected on the same paper.

7348. That would be additional Income Tax for purely local purposes?—That is it.

7349. Mr. Symonds: One advantage of an Income Tax for local purposes would be that you would get rid of the anomaly of subsidies from the Imperial Exchequer to local taxation?—Yes.

7350. Which has been greatly extended?—Yes.

7351. Which confuses the Budget and confuses the Revenue Accounts?—Yes, and also destroys the autonomy of the local authorities.

7352. When you say the Collector should be the same person for Income Tax and for local rating, of course it would involve that a Collector should cease to be an Assessor; and it would be the Collector of the Income Tax who would collect the local rate, and not vice versa?—Yes, I agree.

7353. You spoke of your unrepresentative character, although I think some of us might qualify that very much; but would you kindly say what is the ground of your opinion for a universal contribution to direct taxation?—I think that that is a general principle which the State ought to lay down in order to bring home to every voter the responsibility for his vote.

7354. Do you not think it would have an effect on the stopping of the wasteful expenditure—if there is such a thing—that we have heard of?—That is the salutary effect I hope for.

7355. Your proposition is an extension of contribution at the source?—Yes.

7356. But you admit there is a great difference between contribution at the source in the case of larger incomes, dividends, and so on, and contribution at the source in the case of smaller incomes?—Many dividends are quite small.

7357. And a flat rate of 6s. would be quite out of the question?—Absolutely; it would be something like 3d or 4d. in the £.

7358. It would have to be a graduated rate, would it not?—Quite so.

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7360. A graduated flat rate, extending up to, say, £200, the sphere of the wage-earner?—Let me give an example. This is the sort of thing in my mind. The employer would say: "Here is a man with £1 a week; I deduct 2d. from him."

7361. It would be a statutory rate?—Yes, a statutory rate of, say, 2d. for a man with £1 a week, 3d. for a man with £2 a week, and so on. Then the final adjustment would be made with the Income Tax Collector at the end of the quarter.

7362. You would agree that the class of persons who range, say, from £1 or 30s. a week up to £200 a year, are not, as a rule, investors?—I agree.

7363. The adjustments on what they would pay in the way of tax on dividends, would be comparatively small?—Would you make your question a little clearer; I am not quite sure that I follow.

7364. Supposing a man has £2 a week, and he has also invested in some Government funds, something from which 6s. is deducted, there would have to be an adjustment there?—Yes.

7365. But that case would be an inappreciable fraction of the total?—Yes. I suggest, 2d. on £1, say, and 3d. on £2. The adjustment at the end of the quarter would not be a big thing.

7366. Illustrating what you say, on £145, £2 10s. is what a bachelor pays?—About that.

7367. That would only be something about 1s. a week?—Yes.

7368. Do you suggest it should be done by means of stamps?—Frankly, I do not want to degenerate on that point. Some of the people I have consulted are in favour of stamps, and others are in favour of simply another column in the wages book. There is a good deal to be said on both sides.

7369. To get over the difficulty suggested by your questioner opposite, if the tribunals, where you are making claims for rebates, were more local than they are now, would it not get over any difficulty there is about claiming refunds?—I think you might very much improve the machinery of claiming refunds.

7370. Your theory goes a great deal further, of course, than the exemption for subsistence theory?—Yes, I think that is wrong. I think the subsistence exemption is absolutely wrong.

7371. Perhaps you will kindly tell us why?—Because I think everybody ought to pay something, and everybody can afford to pay a few pence; most of the people who are claiming exemption for subsistence have no objection to paying much larger fees to their trade unions, and they spend considerable sums on pleasure.

7372. In the case of local rating, the principle of subsistence is not recognized at all, is it?—No.

7373. I think there are in some cases exemptions down to £10, and the landlord pays the rates, but it is by voluntary arrangement, is it not? I mean the principle is not recognized at all in local rating, is it?—No.

7374. In connection with that, might I give a very good illustration to the Commission of the advantage of the weekly deduction. I am connected with a little company which built, more or less on philanthropic lines, some cottages, several years ago, and we decided that it should be an essential part of the scheme that the tenants should pay their own rates, and they agreed. But after the first half-yearly collection of the rates, several of the tenants came to us and said it was very inconvenient paying a lump sum every half-year. They said: "We do not mind paying the rates a bit, but would you kindly add them to the rent, week by week, so as to save us the trouble of saving up the money?" and we have done that ever since. We put it down in a separate ledger account, and the thing works automatically without any trouble. That was at their own request; they preferred to pay week by week.

7375. Mr. Mackinder: Neglecting the subsistence wage theory, is it your view that if you impose a small tax, wages would adjust themselves to that; that is to say, that one of the elements in subsistence would come to be a small tax?—I think it is difficult to prophesy about any adjustments of wages. In some cases the wage-earner might be in a position

to demand an increased wage, which probably would more than cover the tax; in other cases he might not.

7376. The second point I want to put to you is this. Do you object to indirect taxation because you think it bears too heavily on the smaller incomes?—Take the case before the war. An agricultural labourer with 15s. a week was paying proportionately a very much larger amount of his income in the taxes on tea and sugar than an artisan with £3 a week.

7377. I realise that, but what I want to put to you is this. If you grant the assumption for one moment that the practical complications in applying your theory would prevent it being carried out, would you assent to the view that you can get, for practical purposes, a graduation from the lowest end of the scale by combining indirect with direct taxation as at present, provided that you adjust indirect taxation so that it forms the lowest rung in the ladder, and that, higher up, you have a combination of indirect and direct taxation?—Yes, but unless you take your direct taxation down very low indeed, you do not get over that gross injustice between members of the wage-earning class.

7378. Mr. Birley: On the procedure of collecting, I take it that your idea is that you would have a card, on which the actual amount of wages week by week is entered, and stamps to the requisite amount put on the same card?—I think probably so, but I do not want to degenerate about it.

7379. At the end of the period, in the case of workpeople who had no investments, that card would show the income and would show the tax paid, and it would be a perfectly simple matter to assess what the right amount should have been, and the only other information which practically would be required would be whether the man had a wife or children; and the whole thing could be done on the one card quite simply?—I think so, that is my own belief, certainly.

7380. Mr. McLintock: You are opposed to the giving of exemptions by way of the first rebate?—Yes.

7381. You are not opposed to the granting of allowances that are given for wife and children?—No, but I think they ought to be percentage allowances.

7382. I do not agree with the percentage, but I know that is your view. Take the case of a working man with, say, £3 a week, who has had a flat rate deduction from his weekly pay. Is it your view that he is only to get such allowances as will still leave a portion of that liable to tax?—Yes, that is the point—that he should still pay something.

7383. Then the allowances will have to be re-adjusted as well?—If the allowances are percentage allowances, he would pay something.

7384. Take the case of a working man with a wife and two children, and there is a fixed allowance for the wife and a fixed allowance for the two children?—No; I am suggesting a percentage allowance, which meets your point.

7385. I am assuming that there is no percentage allowance; that is going a very long step forward; you have another man with the same wage, and he has six children instead of two. Would you alter the allowance then?—I simply reply that a percentage allowance meets the whole situation.

7386. But you agree, if it is not a percentage allowance, a man with a large family has either to get a proportionately smaller allowance for each child above two, or the effect will be that he will get total exemption?—I am so glad to get your argument, which strengthens my position.

7387. Sir J. Harwood-Banner: You say: "Following this analogy, my proposal is that employers should deduct from the weekly wage they pay a sum so fixed as to be in the majority of cases more than sufficient." Would it not be just the same if it was less than sufficient? On an extreme case, say, that at the end of a quarter, instead of the wage-earner asking for relief of the balance, there would be a small surplus balance to collect from the wage-earner?—I was dealing with the psychology of most human beings; they prefer to have a sum given back to them, rather than

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to have something extra to pay. I think you will find most people, in all classes of life, are built that way. They like to get a little bit of something back.

7386. This would be in order to avoid the question of having to make applications for rebate?—Yes, but the man, I think, would sooner do that and get the money back than have the Income Tax Collector coming to dun him for insufficient payment.

7387. Is it not the fact that nearly all large works which are paying wages have some sort of arrangement whereby payments are made by the men on behalf of numerous matters which the men have agreed to contribute?—That is so.

7388. That is to say, their charitable contributions, their relief towards men, and perhaps their rent or payment for coal, which could not be deducted under the Truck Act; in all cases there are some arrangements made in large works which would cover that; so that there would be no difficulty whatever, if they gave instructions to collect this sum, in the amount being collected in this way?—Yes, this is exactly the notion I have. Many large employers collect two or three separate funds for their workmen, by deduction from wages, and it would be practically no additional trouble to have to collect this Income Tax as well.

7389. Mr. Pretyman: Do you not think that the percentage deduction would cause a great deal of expensive calculation?—I admit it is a little more trouble.

7390. Would it not be equally simple to have a fixed minimum, to leave the abatements as they are now for wife and children, say, subject to a fixed minimum of 1d. in the £ if you like?—Yes, it might be; but I think it is sometimes worth while to incur a little extra expenditure for the sake of extra justice.

7391. Is not simplicity of great importance in dealing especially with a large number of small sums?—Yes, you have to try to adjust the economy of simplicity with the cost of justice.

7392. The principle that you have been advocating would not be infringed if the allowance were to be kept, but if there were to be some small minimum, such as you advocated, say, 1d. or 2d., which would always be paid?—I think that would meet the principle, certainly.

7393. You spoke of a local Income Tax?—Yes.

7394. From what you said, I rather gathered that you had in mind certain cases abroad where this has been already done?—Yes; it is done in Berlin, for example.

7395. Have you studied that subject at all?—Yes; some years ago I went into it pretty fully in Berlin.

7396. The time will not allow of us going into details now, but I should like to ask whether you have considered at all how, if there were a local Income Tax, it is to be allocated?—That, of course, is the great difficulty.

7397. There are so many different sources; take the ordinary case of a man who lives in one place, who has a place of business in another, and whose income is derived from investments all over the world?—Quite, that is the difficulty.

7398. Have you any real method of meeting that?—The suggestion I make—I put it forward tentatively—is this. It is a very tentative idea. It is that the Income Tax people should certify the collective amount for people residing in a certain district, and the particular taxpayer should have the option of choosing to what district he should be assigned.

7399. Then there is the man who has got a place of business in London, and who lives in the country?—He would say: "I prefer to be taxed in London," or "I prefer to be taxed in the country."

7400. Would it be in his discretion to say: "London is to have all my Income Tax," or "Surrey is to have it all"?—I admit that is one of the practical difficulties. I admit that the question of local Income Tax is extremely difficult.

7401. You know, do you not, that we have already got a very serious question to consider of Double Income Tax?—Yes.

7402. Under the existing difficulties?—Yes.

7403. Do you not think that a local Income Tax would greatly increase that difficulty in regard to Double Income Tax?—I quite admit that there are a certain number of people for whom the problem would be very difficult, but I think for the majority it would be fairly simple.

7404. Chairman: Thank you for your evidence.

THE RT. HON. SIR ARCHEBOLD WILKINSON, M.P., called and examined.

The witness handed in the following statement as his evidence-in-chief:—

7405. (1) I am a partner in the firms of Balfour, Williamson & Co., of London and Liverpool; Williamson, Balfour & Co., of Valparaiso; Balfour, Guthrie & Co., of San Francisco, Los Angeles, Portland, Tacoma, Seattle, and Vancouver; and have business connections with other places in the East and South America.

7406. (2) My firm do principally a merchant's business, but in addition thereto are interested in merchant banking, and in the establishment and management of a number of industrial concerns, including flour mills, nitrate works, sugar refineries, oilfields, cement works, &c. We have been the means of forming into British companies a number of foreign industrial concerns.

7407. (3) In connection with our merchant's business, and with the organisation of industrial concerns situated abroad, I have come frequently into contact with the effect of British Income Tax upon international business. I propose to represent the matter purely from the point of view of a business man, and to show where in my judgment our present laws interfere with the extension and even the maintenance of our overseas enterprise.

7408. (4) Public attention to Income Tax questions has hitherto been chiefly concerned with the domestic aspect of the subject. I would venture to impress upon the Commission that the effect upon our international trade is as worthy of serious consideration. Our domestic industry and prosperity are in the long run founded upon our overseas commerce, and the extent to which we can establish or maintain control or direction over foreign branches or industries will

greatly affect domestic prosperity. Merchants have been the pioneers. They have established branches and affiliations in foreign countries. Directly or indirectly through these branches local industries have been founded, natural riches such as mines, oilfields, nitrate fields, timber forests, &c. have been developed and exploited, railways, waterworks, harbour works, and other enterprises constructed. Any policy which hinders or interferes with the establishment or maintenance of branches of British houses abroad, or with the location of the direction of foreign enterprises in Great Britain, must react with incalculable effect in course of time upon the domestic prosperity of all classes of the community.

7409. (5) I propose to make my evidence as specific as possible, and to confine it to three points which have chiefly impressed themselves in the course of my experience.

(1) *The effect of Income Tax law upon the formation of British companies where the enterprise is abroad, and the capital is largely owned abroad.*

7410. (6) Much has been heard of the policy of "taxing the foreigner" and "making the foreigner pay," but less attention has been given to the ultimate results of this policy and to the loss which falls upon all classes of the community through pressing it unduly.

7411. (7) It is frequently the case that in a foreign country a valuable property or enterprise only awaits the aid of capital to be turned into a remunerative investment. The foreigner is unable to provide the capital, but does not wish to sell out. The opportunity occurs for the formation of a British company. The public are invited to participate in a promising enterprise. A large portion of the shares are allotted to and

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retained by the vendor. Perhaps I can best illustrate by giving the example of a nitrate property owned by a Chilean subject. The property in its undeveloped condition is worth, say, £200,000. A further £200,000 would be required to equip it with works, and provide working capital. A British company with a capital of £400,000 is formed, of which the vendor, wishing to retain an interest in his property, takes one-third in shares and perhaps subscribes for a further amount in cash. The board of directors is constituted principally or entirely of British citizens, and meets in London. Orders for the machinery for the new works are placed by the board. Naturally, being situated in this country, and in contact with engineers and works here, the orders are by preference placed here. Once the works are established the orders for supplies are likewise placed here. The banking is done with a British bank, and the insurance is placed in London. The recipients of office rent, directors' fees, and clerks' salaries, &c., are all British. When the product of the works comes to be sold a British broker is employed, and no doubt given a preference in chartering to a British vessel. Another British broker is employed to sell the cargo, and altogether the whole operation bristles with payments in one form or another to Britishers, the greater part, if not all, of which would be lost if the Chilean had formed his concern into a Chilean enterprise with the direction located in Chile.

7412. (8) I need hardly remind the Commission that on such a British company as I have described Income Tax and Excess Profits Duty are chargeable upon the profits of the undertaking, including the sums set aside to reserve to meet exhaustion of the grounds—a fund so necessary in this class of enterprise. As these taxes are deducted at the source, the foreign shareholder bears them equally with the shareholder in this country. When the Income Tax was small, say in the neighbourhood of 1s., while there was some reluctance on the part of the foreigner to be mulcted, the advantages of forming a British company in many cases overcame this reluctance. I cannot impress too strongly upon the Commission that the high rate of Income Tax now reached, and which appears likely to continue, has greatly altered the views of foreigners upon this matter. They are no longer willing to transform their concerns into British companies in which they are to be large shareholders, and thus the location of direction here is precluded and a very large loss sustained. Public notice has been directed to the removal from this country of companies owned as I have described. There was recently the instance of the Alianza Nitrate Company, with a capital valued in the market at £1,600,000, which has transferred its control from London to Chile, and it is only one of a number of concerns, partly foreign-owned, which have adopted or are about to adopt the same step. Attention has no doubt been directed to these removals, although I question whether the general public and the Government realise the full extent of the loss which they entail.

7413. (9) But much more important both to the community and to the Revenue is the loss that is being sustained by Great Britain through the non-establishment in this country of companies which but for our policy of "taxing the foreigner" would be established here. I myself can give two instances, and have heard of many more. One is that of an important railway and nitrate company, with a capital exceeding one million sterling. About three-quarters of the shares are held abroad. Owing to the advantages of its shares becoming better known and more saleable, and the greater facilities for issuing debentures and making other financial arrangements, the company desired at one time to transform itself into a British company, with a head office in London. After considering, however, the charge of British taxation which would fall upon the Chilean shareholders they desisted from the proposed step.

7414. (10) The second instance was that of another company also owning a railway and nitrate works, with a capital of £600,000. In this case the shares were mainly owned in England, and the objection to the

formation of the British company probably more largely arose from the fact that reserve funds provided for the exhaustion of grounds are taxed as if they were available as dividend, rather than on account of the deduction of Income Tax from the dividends themselves. In both cases the direction remains Chilean. Orders are placed in Chile, and are given without preference to American travellers, German, British, Belgian, or local Chilean concerns. In both these instances I estimate that the loss to this country, through the non-establishment of the companies in Great Britain, is very large.

7415. (11) I venture to suggest for the consideration of the Commission that in cases where the enterprises themselves are situated abroad, in order to secure so far as possible that there should be no hindrance, but on the contrary every encouragement, to their being formed into British companies with direction in Great Britain, and in order that this country should reap the benefit of the advantages accruing therefrom, the non-resident shareholders should be entitled to claim a refund of the Income Tax and Excess Profits Duty charged upon their individual shareholding. It may be pointed out that this would not get rid of the objection to the charging of British taxes upon the sums placed to reserve. I do not, however, think that this item would greatly interfere with the establishment of the direction of such companies in this country, especially if the Commission recommend just treatment in cases where reserves are necessary for the replacement of quick, exhausted capital assets, such as in the case of nitrate and oil fields. Failing the allowance of a claim for complete exemption on the part of the non-resident shareholders from taxation on their dividends from enterprises themselves located abroad, I believe that a comparatively small but fixed British tax on their dividends, say of 6d. or at the most 1s. in the £, would mitigate the disadvantage which we are suffering although naturally it would not entirely remove it.

(11.) *The effect of the attempted taxation of foreign concerns through their agencies in Great Britain.*

7416. (12) The second point with which I propose to deal is the adverse effect upon trade of existing provisions for taxation of profits made by foreign concerns through agents established here.

Prior to the introduction of the Finance (No. 2) Act, 1915, the liability of a foreign concern selling or buying commodities in the United Kingdom, was limited to those cases where the non-resident had a "factor, agent, or receiver having the receipt of any profits and gains," and this limitation combined with the comparatively low rate of tax in pre-war years made the question of liability a matter of relatively small importance. In my opinion the extension of the liability effected by legislation in recent years is a serious interference with trade, for although the liability of a foreign concern to taxation on the profits arising directly or indirectly through an agency established here is limited to the merchandising profit on the goods sold, the knowledge that a liability exists tends to discourage the giving of foreign agencies to British houses in this country. It has been an advantage in the past for foreign concerns to have an agent in the United Kingdom for the disposal of their products, the placing of orders for goods required, and for purposes of finance and insurance. If, however, the giving or continuance of a regularly constituted agency renders the concern abroad (which is sometimes foreign and sometimes British owned) liable to our domestic taxation, the concern overseas naturally will cease to appoint such agents and will tend to do its business in other ways, which will entail loss and disadvantage to us.

7417. (13) It need hardly be pointed out that an agency is an advantage not only to the agents themselves, but that it ensures a certain preference to consumers and manufacturers in this country, as well as to banks and insurance companies. I think it cannot be missed that this country must lose to the extent that such agencies are discontinued, or not established. Any policy which injures our position as the

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most important exchange and mart and financial centre for international trade I submit require amendment.

7418. (14) It may further be pointed out, that while the policy may have been directed with some reason to the case of the foreign meat companies, it would be regrettable if such cases alone were considered. Typical examples of concerns which establish agencies here are, mineowners, shippers of grain, cotton, wool and other products. There are also numerous instances of firms (which may be composed of British subjects or foreigners, or both) which have established a local merchant's business in a foreign country such as Brazil or Peru with no office in England. Such a firm has usually in the past appointed a firm in this country as its regular agents, to whom it entrusts the consignment of produce for sale, the purchase of goods, and other business, remunerating them by a commission. Under the law the foreign firm is now rendered liable to taxation on the merchant's profit of its business, in addition to paying a commission to its agents, who in turn pay tax upon the commission they receive. Thus the Government looks to tax the business twice.

7419. (15) None of the agencies I have referred to involve the opening of shops, as was the case with the meat companies. The conditions ruling in their case are entirely absent in the case of the agencies to which I allude, and which form 99 per cent. of the whole.

7420. (16) Clearly foreign concerns will as far as possible seek methods of avoiding liability for the tax, and will cease to appoint regular agents in this country, the effect of which will probably be that orders will be given for goods to travellers from the United States and elsewhere, and that produce, instead of being sold through London, is likely to be sold locally or through agents established in some other country. I therefore believe that this country will lose much more than the Treasury will gain by the present policy.

7421. (17) Before concluding this part of my evidence, may I draw attention to the effect which our policy has and is likely to have in other countries. No country in the world is so largely concerned in the penetration of foreign countries as ours is. Our constant endeavour is to establish ourselves in every foreign country, and if our national policy is to be that of penalising agencies, then we may expect retaliation which will hit us harder than any other nation.

(III.) *The effect of Double Income Tax upon our overseas business.*

7422. (18) As it has been reported in the press that "Double Taxation within the Empire" has already been the subject of representations, the general principle will be familiar to the Commission, and I propose therefore to base my remarks on double taxation as affecting our commercial relations with foreign countries, and especially the United States. Trade with the latter is an important section of my firm's activities, and is one on which by experience I am best able to speak.

The liability of trading profits to British Income Tax under Schedule "D" seems to fall into two broad classes:—

- (i) Persons resident in the United Kingdom are assessable in respect of profits and gains, wherever arising, with certain minor exceptions.
- (ii) Persons not resident in the United Kingdom are assessable upon profits and gains arising from property situate or trade, &c., exercised in the United Kingdom, with certain exceptions.

7423. (19) Consideration of the history of British overseas commerce shows that merchants having houses in this country and abroad usually keep the control and direction here. "Control" and "Direction" are used in the general or non-technical sense in this instance.

7424. (20) The material benefits reaped from such a system of control have naturally been that the business of the foreign branches with Europe has been

done through Great Britain. Goods have been bought here in preference to other countries. Banking, insurance, and chartering of ships have preferentially been done here also. It may not be commonly understood how much such a preference means in business, but a commercial man will readily appreciate its importance.

7425. (21) Even before the imposition of Income Tax at war rates and the imposition of Excess Profits Duty, the effect of the stricter enforcement of the provisions of the Income Tax Acts, combined with the gradual increase of the rate of tax, had been to cause some undertakings, mainly carried on abroad, to transfer the effective control of their business outside the United Kingdom. The institution of Income Tax in the United States has made the position intolerable, and is seriously jeopardising the continuance of control in this country of foreign enterprises where Double Income Tax is thereby incurred.

7426. (22) As a result of present conditions, separation of foreign houses from their head office in the United Kingdom is becoming more common, and although the foreign partners may retain for a time their natural preference for trade with or through Britain, the independence of the foreign houses must eventually tend to weaken this preference and to induce them to deal with others, thus causing an ever-growing loss to British commerce. Moreover, from separation of the houses follows separation of capital, and as the foreign houses usually make most of the money, their financial position is strengthened, while that of the house in Great Britain is correspondingly weakened. It is hardly necessary to point out what such a loss of the control of capital means.

7427. (23) Take the hypothetical case of a British house with a subsidiary house in the United States, some of the partners in the British house being also partners in the house abroad, and some of the partners abroad not being partners in the British house. The British house naturally pays Income Tax upon its own profits, but as it controls the house in the United States, it is also liable in law to pay British Income Tax upon the whole of the profits of the American house, although some of these profits may have been made in local operations within the United States, or in trade between the United States and a third country, in which the British house took no part. The American house has to bear American taxation upon all its profits, and it matters little if this is chargeable upon the individual partner, because if he is an absentee it has to be returned by the firm. The effect upon the partner in the American house who is not a partner in Great Britain is one of grievance that he has to bear not only American taxation but his share of British taxation upon the American results. The effect upon the British partner in both houses similarly is that he has to pay American taxation on his American profits as well as British taxation upon the residue of the same profits, and possibly Super-tax in addition. In an extreme case the American profits may be subject to the highest rate of American normal tax and sur-tax, which rises to 77 per cent., and the remainder of the profits earned then be liable to British Income Tax and Super-tax, which rises to a maximum of 10s. 6d. in the pound. Thus the possible profit is reduced to a small percentage of the gross amount, while any loss made would fall entirely upon the trader. But short of the extreme case, the double burden is so intolerable as to make it clear that the establishment of further enterprises in the United States, or even the maintenance of control of existing enterprises from this country, is practically impossible.

7428. (24) It is important to notice that the position of an American business house with a branch in the United Kingdom and that of a British business with a branch in the United States entirely differ, and that a comparison shows clearly the advantages enjoyed by the former. The American concern pays British Income Tax on the profits of its branch in this country, but in computing the liability to American tax it is entitled to claim the duty paid here as a set-off against the duty payable to the American Revenue. Thus the

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American pays Income Tax *once only* on his profits. The British concern, on the other hand, pays American Income Tax and sur-tax on the profits of its American branch, but is only allowed to treat the tax so paid as a trading expense in arriving at its liability to British taxation.

7429. (25) It might be useful to direct attention not only to the case of bankers, merchants, and others, doing international trade, but also to the case of establishment of industries, and to point out the handicap which at present exists. I have under my notice an instance of a British company which some years ago established cement works in the United States. It has now become liable to both American and British taxation, and this double burden makes it impossible for the undertaking to compete successfully with a similar undertaking registered in America, whose property adjoins.

7430. (26) Many other instances could be given, but the following hypothetical case clearly illustrates what I have in mind. A British subject resident in London constructs and owns an underground railway in New York. On the profits he would pay, first, American normal tax and sur-tax, and, second, on the residue,

[This concludes the evidence-in-chief.]

7431. Chairman: We do not want you to read your paper, because it has been circulated to every member of the Commission. Our procedure is for the members to read the statement carefully, and then to examine on points that come up. So, if you do not mind, I think we can proceed with the examination at once.

7432. Mr. Kerly: The first question you raise is about a foreign property. You give an example of a foreign property sold to an English company, partly for shares. The real thing to look at is the income that the foreign seller is going to get for what he sells. He might get the same return by your giving him more shares, might he not?—I am afraid you would only unnecessarily increase the capital by doing that.

7433. No; increase his share of the capital. It is no good doubling the capital of the company; you must give him a larger proportion of whatever the shares are?—If you give him a larger proportion of the total, I agree you would increase it.

7434. The alternative is that in effect the Government should contribute something towards financing the company's operations. That is what it comes to, is it not?—That may be your view of it.

7435. I am only testing it. When you come down to the business of it, that is what it means?—I can only tell you these things from the practical experience of business that has come before me. From the legal point of view, I cannot argue points of law with you, or even, perhaps, abstract points of economics; but as a matter of practice a man does not require, in selling his property, that it should be formed into an English company; he is, to put it at the lowest, reluctant to take shares which he knows will involve him in the payment of British Income Tax.

7436. Is that partly due to the fact that the Income Tax has been rising to quite unexpected heights, so that in fixing the sum for which he is willing to sell, the foreigner has not been able to anticipate such a large deduction for Income Tax?—There is no doubt that as Income Tax rises, the reluctance to take shares in the British company which is to be formed, increases; in fact it amounts now to more than reluctance, because I think it must be said in practice that very few would do it.

7437. Now there is another proposition it seems to me. There is the case of the English company earning a revenue abroad where the control of the company is in England; that raises another difficulty does it not?—Are you thinking of something like the Argentine railways?

7438. Yes; or the American breweries; there have been a great many instances?—Yes, there are many such.

7439. We have heard a good deal about them here. The income which is produced abroad may be taxed abroad?—Yes.

British Income Tax and Super-tax. An American citizen resident in New York constructs and owns an underground railway in London. On the profits he would pay British Income Tax, but would only be charged American tax if the amount of this exceeded the amount payable in Great Britain.

7440. (27) It is clear from this that while such an enterprise would be possible for an American citizen, it would be out of the question for a British subject.

7441. (28) It may, I think, be assumed that new British companies are unlikely, under present double taxation conditions, to be formed for any enterprise whatever within the United States, and this will surely constitute a matter of national concern as soon as we emerge from the effect of war conditions.

7442. (29) I cannot too strongly emphasize that something should be done to save the position of British enterprise in the United States and other countries where there is or will be an Income Tax, and I suggest that the American policy of deducting the duty paid abroad from the duty payable here is a possible way out of a very serious position, and deserves the careful consideration of the Commission.

7443. Do you know that it is proposed, as a partial remedy at any rate, that where tax is paid abroad in the country where the income is earned, that tax should be allowed against the English payment?—Yes, where it is an Income Tax. Of course, there are many local taxes that all these concerns pay already; it is not suggested, I think, that they should be set off.

7444. I am only dealing with Income Tax. Would that adequately meet the case, in your view?—The chief example at the present moment is the United States, which under the recently passed law allows its citizens to deduct from the amount of tax payable to the United States Revenue the amount of tax paid on any investment in this country; therefore it is conceivable that a man in the States who had almost his whole means on this side might be paying more here than the amount which he was liable to pay to the United States Revenue, and the United States Government might receive nothing or very little in such a case as that. That is perhaps an extreme case, and the suggestion I have to make to the Commission is that there should be some reciprocity of treatment, so that a man paid once and once only at the higher rate; that is either in the country in which he resides or the foreign country, whichever was the higher of the two; but he would pay once and once only.

7445. And then that the sum so collected should be divided by the collecting Government between itself and the country of the source of income?—Well, I have not said so. I had not thought of that, and I do not know whether that would be entirely equitable in every case; but at any rate it is one of the suggestions, I suppose, that has been made.

7446. Very well; you have not considered it. The alternative is, assuming you alter the existing state of things, that you should not tax a foreign shareholder, by which I mean a shareholder who is resident out of this country?—I think the suggestion rather is that he should be entitled to recover the tax paid by the concern so far as his shares are concerned.

7447. It would of course be deducted by the company?—In full.

7448. Otherwise the other shareholders would pay it?—Exactly.

7449. And it should be repaid to him in this country?—Yes.

7450. That would of course be a direct advantage to the foreign shareholder?—Well, he pays his own taxes in his own country.

7451. If there are any?—Which there are sure to be.

7452. It is probable, but still, that is a matter which is irrelevant to this immediate inquiry?—Excuse me, I do not quite appreciate that, because I think every man is called upon to pay taxes for

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the support of the Government under which he lives. It is merely a question of charging him with something in another country where he does not live.

7453. I think we may take it that the Government which has him in its possession will take care that he does pay; at any rate it has the best chance. Supposing that suggestion is adopted, is not that a direct inducement to the British shareholders to transfer their shares into the hands of foreign residents?—Well, if they do so they must make a false return to the Income Tax authorities.

7454. That is if they do not really transfer them?—If there is any fraud and they lead themselves to it, of course they are committing the fraud; but short of fraud they could not escape.

7455. They will escape fraudulently if they pretend to transfer them; if they really transfer them they escape legally?—Well, they cease to own them if they legally transfer them.

7456. Where does that lead to? You are anxious, and we all appreciate the importance of it, that the company should remain in this country, and under English control?—Yes.

7457. If all the shareholders, or the bulk of them, really transferred their shares to foreigners, although the company might remain here, it would remain here under foreign control?—In my opinion even if 99 per cent. of the shareholders were foreigners it would be a good thing that the company should have its office here and its control here.

7458. You also deal in the second division of your evidence with the effect of attempted taxation of foreign concerns through their agencies in Great Britain?—Yes.

7459. And you think it is inequitable and, I gather, impolitic?—Eleven members of the House of Commons spoke last night on the subject, and every one condemned it. The only one who defended it was the Chancellor, and it was not a very strong defence.

7460. In all probability those eleven were all feeling the burden of the tax, or speaking for those who did?—I do not think so.

7461. Very well, then, it was on general grounds. Could the same result of raising a revenue from the foreign seller in this country be reached, in your opinion, by a tax upon his turnover?—I do not quite follow the question.

7462. The attempt is to tax a man who makes a profit here by selling foreign-produced goods, is it not?—First of all there is a difficulty in knowing where the profit is made. I do not think anyone has ever been able to settle that question very satisfactorily. Sometimes goods are sold f.o.b., sometimes c.i.f., and sometimes delivered; and it is very difficult to say sometimes where the profit is made; but we all know that the 1915 Act, which was directed, I believe, chiefly against the American meat companies, had the effect of roping in all regularly-established agencies, and a very large number of these agencies are not concerns that open shops here or sell retail or even ex-warehouse.

7463. We have had a good deal of evidence about it, and I think we appreciate what the mechanism of the business is. The 1915 Act provided that instead of taxing the agent on the actual profits made by his principal he might be taxed upon a percentage of the turnover?—I do not think that is in the Act.

7464. Well, if you have not considered this matter I will not trouble you further about it.—I think it says that he may elect to be taxed upon an estimated merchant's profit.

7465. And that may be based upon turnover. The taxing officials have that alternative, but I will not trouble you further with that; perhaps you have not considered that matter?—I know there is an alternative, but after all I do not think that affects very much the argument that a man who establishes a regular agency here may be taxed upon a profit apart from the tax upon the commission he pays to the agency.

7466. Sir J. Harwood-Bonner: You have seen a good deal of the discussion about Double Income Tax within the Empire?—Yes.

7467. Is not your contention something of the same description as regards Double Income Tax on foreign companies?—Yes, it is. I think the question is quite as serious for this country in connection with Double Income Tax of neutrals as it is in connection with Double Income Tax within the Empire—from the trade point of view quite as important.

7468. Would it meet a very large number of traders who are trading in foreign countries if some system such as the existing relief from Double Income Tax within the Empire was suggested to meet their particular cases?—Individually?

7469. Yes; that is to say, by allowing relief down to 3s. 6d.?—A reduction where they pay an Income Tax somewhere else?

7470. Yes?—Of course, every relief is a relief, but it is quite clear that at the present moment a great many businesses cannot be conducted and stand the full payment of Income Tax both in the States and here.

7471. Now, as regards these companies, one of the contentions as regards the Chilean company is that, for instance, there is no provision for the wasting assets of nitrate fields?—I only mentioned that incidentally. I think you have had evidence of that.

7472. Yes.—Therefore I did not go into it, but it is quite clear that there has to be a larger sum set to reserve on account of the wasting asset than there is in many concerns, and a foreigner who is a shareholder would naturally object to the tax upon that in addition to the profits received as dividends.

7473. The difference really between the foreigner and the British trader is that they both have the wasting assets deducted from their profits, but that if it was in Chile there would be an allowance for wasting assets, and he would not have that deduction made; he would get his profits without such deduction?—In Chile an Income Tax law is now being discussed, and I cannot say what the allowance might be, but in the United States they are more liberal in allowing for wasting assets than we are in this country.

7474. You have very great experience. Would you mind telling us the position of your different firms as regards the United States and this country? Of course, there is a difference between limited companies, and there is a difference between limited companies and private trading companies. As I understand your firms in America have partners there, some of whom are American citizens and some of whom are British citizens?—Yes, I should think so.

7475. And the Income Tax affects them all in different ways?—Yes.

7476. So that, for instance, the British citizen who happens to be a partner with an American citizen has to pay a great deal more than the American citizen in respect of the profits made in identical businesses?—Where the firm is taxed, of course, if he is a partner he suffers through the firm being taxed. In America it is an individual tax largely, of course. I am not able to distinguish exactly how it affects the American partner as compared with the English partner in the American firm, and I do not think I can give you any information of that sort.

7477. Has not the American partner the right to apply to have the Income Tax returned to him?—That depends upon Part II of the recent Act in America, which says: "In the case of an alien resident of the United States who is a citizen or subject of a foreign country, the amount may be deducted of any such taxes paid during the taxable year in such country upon income derived from sources therein, if such country in imposing such tax allows a similar credit to citizens of the United States residing in that country." Therefore our British subjects who are trading in the United States are not allowed to set off their British Income Tax against what they pay in America; it is only the American who is allowed to do it.

7478. Therefore the American partner there will say: "It does not matter what the British Income Tax is, because when it comes to settlement I shall be allowed to deduct it, whereas my British partner resident in San Francisco has to pay, and he has no remedy whatever?"—He has to pay both.

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7479. So that whilst we wish to encourage American trade, as we certainly do, the way we are carrying on at present is making a very great disadvantage to the British partner in an American firm?—The position at present is so disadvantageous that there is very great dissatisfaction, and the question arises whether it is not better to become an American citizen and cut the painter altogether.

7480. Mr. Pretyman: Can the American partner resident in America deduct the tax which he has paid as a partner in the firm, or only the tax which he has paid personally?—You mean the British tax?

7481. Yes, you see what I mean. The tax has been paid by the firm as Income Tax on its total profits in England, and part of that is really the sum which will be deducted from his individual dividend; which is it that he can get back?—I think we must clear the ground first. As a matter of fact none of my American partners are partners in England, so it is only a hypothetical case I can give you.

7482. Sir J. Harwood-Bonner: But you have English partners in your American firm?—Yes, and in answer to Captain Pretyman I would say that the firm's profits are not all merged, so that there is no one sum that you tax. Our firm has its own balance sheet, and is taxed separately, so that you cannot exactly work it on the supposition that you had in mind.

7483. If an American partner took one fourth of the profits paying Income Tax in this country, he would be entitled to deduct that one-fourth from the Income Tax he paid in that country?—He would be entitled to deduct the amount of the tax.

7484. But the British partner who was stopping in San Francisco and was getting his fourth would not be able to deduct his share?—That is so.

7485. So that really there are very grave disadvantages in an Englishman becoming a partner in an American firm?—Yes; if he has income in this country he pays twice.

7486. Then to come to what you seem to have a strong view upon, in reference to taxation of foreign concerns, I dare say you will remember all the discussions in Parliament in 1915 in order to bring this foreign business into general taxation for the purpose of our huge expenditure. Is it not the fact that America, for instance, does exactly the same thing perhaps in a little different way as this 1915 Act?—I am afraid that is quite true, and it was prophesied in the House of Commons in 1915 that if we tried to tax the foreigner through the agent the other people would follow suit, and that we should suffer more than any other nation, as we are greater sinners in penetrating other countries than any other country in penetrating ours.

7487. That is to say if nitrate was brought from Chile to San Francisco, or coffee from Brazil, or wheat or sugar from the Argentine, they would at once in the States want to know the proportion of the profit made in respect of that produce by the sale and transactions in the United States, and they would want to bring that into assessment for Income Tax?—The law is directed to that object in the United States, but at the present moment it is a new law, and there have been very few decisions, and it is rather in a state of chaos. The case of the coffee shipper who shipped coffee from Brazil to New York is well known; they dropped down on the agent and asked what the profit made by the shipper or the owner of the coffee in Brazil was, and they sought to tax it. They have tried the same thing with British ships, which have discharged their cargoes in the United States and been paid abroad, and they have suggested that that is a profit made within the United States, and that they are entitled to tax it. So far as I know no British shipowner has paid it. I suppose that the liners, who have their regular established offices will have to pay something, but the tramp steamer has never paid anything at all. It is quite clear that that will not be an effective tax, because the man who sells coffee in Brazil will take very good care that in future he either has a very stiff invoice that shows no profit at all, or else he will sell the coffee f.o.b. and let somebody else be the person who makes the so-called

profit in New York. He makes his profit in the f.o.b. price, so it will not in effect be a tax which will bring in any material revenue to the United States.

7488. Chairman: But they could assess him, could they not?—They could estimate the profit.

7489. Yes?—And he has a right of appeal, I suppose.

7490. Sir J. Harwood-Bonner: And the man who bought it f.o.b. would have to pay on the profit?—The real owner of the coffee is, I presume, the man who lives in Brazil, and he can hide up his profit in various ways before the coffee is shipped, and every invoice will show no profit at all.

7491. Chairman: Supposing he sends a million pounds' worth of coffee into New York, the assessors might assess the profit at one or two per cent. on that million pounds?—That is conceivable, just as in this country we passed a law last year estimating a profit on goods sold by an agent; I do not know how it is going to work.

7492. Sir J. Harwood-Bonner: The effect of our 1915 Act is very much the same as what has been done by other nations, the United States for one, I believe Australia for another, and New Zealand and I think Brazil and the Argentine, and a good many places have carried out the same legislation as we in 1915; that is to say, trying to get a fund for taxation from the people who trade in this particular country?—They are trying to tax the foreigner through his agent.

7493. Might I ask you to say what is your particular objection to that; because it is ineffectual, because it is unjust, or for what particular reason?—The first reason is purely a selfish one, and that is that this country is more interested in penetrating other countries than any other, and therefore it is to our commercial interest not to encourage a system of taxation which will hurt us more than other people. It never had been done at all until we set the example.

7494. You have nothing to say about the injustice?—No, I do not think there is any moral wrong in it at all, but I think it would be a very serious interference with the establishment of regular agencies in this country, and a great deal of business comes through the establishment of these agencies.

7495. Mr. Menzies: You refer in the first part of your proof to foreign businesses abroad, which might have become English companies, but have failed to do so because of the obligations laid upon them from a taxation point of view?—There are a good many such.

7496. I suppose you also agree—we have had it from some of the witnesses—that there are other companies established in this country operating abroad who have moved or contemplate moving their offices to the country in which they are operating, in order to avoid taxation except in the case of shareholders living here?—Yes, there are a good many such—some of the South African companies, one I know in particular. Also the Afananza Nitrate Company, which Messrs. Gibbs & Company are interested in, a very large nitrate company, is doing so, and I understand the Pan de Azúcar is following the same course, and there may be others. It depends whether the shareholders are largely foreign or not. In those cases they were largely foreign. Where the shareholders are 90 per cent. British I dare say they will not move.

7497. In both these cases it means, as you have pointed out here, that a great many other avenues of trade are lost to this country, the supply of materials of one sort or another, and services of one kind or another, on which profit would be made, and on which taxes would be levied; these are lost to this country?—They are, and I think if it was possible to arrive at any conclusion, a balance sheet putting on one side the revenue we get and on the other the loss of trade and the profit on that trade, the loss we suffer through driving the companies away we should see I believe to be much greater than any revenue we get.

7498. That leads on exactly to what I want to put to you finally, which is this: do you think that if there were a reduced rate of tax charged upon a concern of that sort, the total revenue obtained by this country might be greater owing to the fact that

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we might then get the tax on the profit from the other trade which is connected with those companies?—That is so.

7499. You would find a happy medium whereby you would raise a bigger amount and not chase the company away from this country?—By a reduced tax do you mean to the foreign shareholder?

7500. Yes. Of course, the resident here must pay his tax in any case?—Yes.

7501. If the company goes away it is on account of the foreign shareholders?—Yes.

7502. There would not be the same temptation to remove the company to the shores where it is operating if the tax were lower than it is at present, and you would obtain the tax on all the other industries which would benefit by the company remaining here?—Of course, no one wants to suggest impracticable things; therefore I quite recognize that it is desirable that these people should pay the tax if we can get it without losing the trade; and if you had a fixed tax, shall we say 6d. or a shilling, and not a fluctuating amount, I do not think a comparatively small tax like that would drive away companies, or would prevent the formation of new ones here which are largely foreign owned; but when you come to taxation at 6s. in the £, they simply will not stand it.

7503. Sixpence or a shilling is putting it very low, is it not?—I do not know that it is putting it too low. I know that when it was a shilling some companies would not agree to be formed into English concerns because of the tax.

7504. The level of taxation has increased all over the world?—It has.

7505. So you might contemplate a higher tax than that and yet retain the companies here, without going anywhere in the neighbourhood of 6s.?—I think you must distinguish between retaining companies which are now here and the formation of new ones. I dare say what you say is quite correct, as far as regards retaining those which exist here now, but not when you are considering the point of view of a man who owns some possible concern abroad, it may be a great area of land which he thinks contains oil. Most owners of land, if they think it contains oil, do not want to part with it, but rather want to retain an interest in it if they think it might be a very successful concern. They are willing in some cases to consent, as they have not the necessary capital to develop the land, to an English company being formed in which they take shares. If the English tax so far as they are concerned is limited to 6d. or 1s., perhaps they would agree, but when it comes to a tax of 6s. or even 3s. or 4s. I question whether they would. I think they would then say, "it would be better for us to turn the property into money in some other way."

7506. Mr. McIntock: You agree that there is a distinction to be drawn between a business carried on abroad and the question of wasting assets. You deal with the two points in your paragraph 8?—Yes. I did not really mean to go into the subject of wasting assets excepting incidentally, but I am quite prepared to answer any questions you wish to ask about it.

7507. In the illustration you give I take it your main point is that there is no allowance for the wasting asset, taking a nitrate company, for instance?—I quite agree. That applies to the British shareholders just as much as to the foreign shareholder. The whole object of my evidence under heading (I) was the effect of Income Tax upon the formation of companies in this country where the property is partly foreign owned; the question of wasting assets applies both to the British and foreign shareholder.

7508. I quite agree. This company, you say, the Alianza Nitrate Company, has a large body of foreign shareholders?—Yes, the majority, I think—not a large majority, but just a bare majority, I think.

7509. By the removal of this company, or the transferring of its control abroad, the British shareholders of course still continue to pay tax on the dividends?—They do, but not upon the amount set aside for the wasting assets.

7510. Until that country has legislation?—Quite so.

7511. So that that is the gain they make by the control being sent abroad; they really get an allowance for a wasting asset?—The British shareholders benefit by the company going abroad in that respect.

7512. So that if an allowance were given in this country for wasting assets, that would largely meet the difficulty, would it not?—It would meet the difficulty of the British shareholder; it would not affect to a very great extent the difficulty of the foreign shareholder, because he would still have to pay Income Tax.

7513. It would mitigate it to a substantial extent?—Yes, it would mitigate it.

7514. You agree that a private firm carrying on a business in Chile of the same type would have to pay a very much bigger tax. You can shift the control of a company, but you cannot do the same thing when a private firm is carrying on the business?—I think I deal with that in one part of my evidence, as to the great disadvantage there is to this country in the control of private firms passing away.

7515. It is your fear that they will give up the control of their businesses there?—At the present moment it is a serious difficulty for people who have foreign houses to know if it is possible at all to retain control here without rendering all their foreign partners liable for taxation. If the houses were entirely separate the foreign house would not have to pay British taxation, but as long as there is control here then they are liable.

7516. I suggest they would still have to pay if the capital is owned in this country?—The residents here would pay, certainly.

7517. I suppose you agree that the result of legislation on the lines you indicate would mean that all these British enterprises abroad would contribute taxation more largely to other countries than their own?—Naturally, as they get stronger and bigger, and as funds accumulate in the foreign house, if it were separate they would contribute more largely. The effect of the present law is, I think, that the foreign houses are built up both in control and in capital at the expense of the English house, which at present is linked to it. If the link is severed then the money would chiefly accumulate abroad, I think, and the control would be there.

7518. I suppose you agree that what you contend for may mean a very large loss of revenue to this country?—On which point?

7519. On both points, particularly the exemption of the foreign shareholders?—The Double Income Tax?

7520. No, the exemption of the foreign shareholders and the exemption from taxation of the foreign company?—Well, I am not quite sure. I rather think on the other hand that the exemption of the foreign shareholder from taxes would cause a very large number of concerns to be established here, and that we should derive a great deal of benefit from that. After all, what we want is that control should be in London, where we can get the benefit of all the banking, insurance and other side profits which arise from the company being controlled here. I think if you take that, as I said before, and weigh it up against the question of the loss to the Revenue, the benefit we receive would be greater than the loss. That is my distinct opinion, and I have seen a good many cases.

7521. The profit on all the trimmings would be lost by the transfer of control?—They are there no more; there is no passing of orders with the British manufacturer; there is no chartering of the British ship; there is no insurance with the British insurance company; there is no banking with the British banker; there is no payment of the clerks and the directors and the rent, and the many things that come from it.

7522. Your view is that the loss of these would be much more serious than the initial loss on the

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profits?—I rather put it that at present you are not gaining them.

7523. Take the case of the Chilean nitrate company; its capital is provided in this country; it is managed in this country, and its produce is sold here, and in Europe and elsewhere?—Do you speak of the company that has been removed?

7524. No; I speak of the Chilean nitrate company generally?—I am not suggesting that a nitrate company established in England with its capital raised here and owned here should not pay its full tax. I am only suggesting that the foreign shareholder in that company should have a rebate to the extent of the tax, or at any rate most of it.

7525. Should not that foreign shareholder contribute something to our revenue for all the services rendered on this side?—If we get the establishment of that company here I think we are gaining a great deal. I think we can still afford to let him off his Income Tax.

7526. You do not agree that he ought to pay a little more than your suggested sum of 6d. or 1s.?—I think it would stop the establishment of a company where the shareholding was largely abroad, if it was more.

7527. In these days of such high taxation all over the world?—I quite admit that if there are only a few foreign shareholders to a small extent, and the dividend is high and so forth, they should submit; but where a man owns a very large stake in the company, which very often happens, and he wants to take a half interest and retain a half interest in the concern because he believes in it, he does not want to establish that concern here if he has to pay all this tax.

7528. Is there any other country in the world where he can raise capital which has not similar taxation to raise?—Yes. About one-third of all the nitrate companies are Chilean, and you can raise capital there for the purpose, and if it is a concern in the Argentine there is a great deal of capital in the Argentine now. You can raise capital there for a good concern, and there may be other places where he can go.

7529. Mr. Birley: On the question of taxation of the foreign concern, would you agree that Income Tax should be charged on all profits made in this country?—I think so.

7530. Would you agree that a foreign manufacturer who sends his goods to this country makes at least part of his profit on the sale in this country?—That leads us back to the question of where the profit is made; I am afraid that is a technicality.

7531. That is why I said "at least a part of his profit"?—I do not know where it is made; I cannot say.

7532. It makes no difference to that principle how he markets his goods. May I put it to you in this way. If a manufacturer is valuing stock, which is not sold, will he not take it at cost price, and only take his profit when he sells it?—I am not quite sure whether even that is so. Take the nitrate companies for example. Some of them value their nitrate which is unsold at the end of the year at cost, and some of them at market price.

7533. Which is the sound business practice?—I prefer cost, but it is sometimes more than the market price; it is not always below market price.

7534. You see what I am leading up to. You agree it makes no difference how the market stands. At present the grievance is that the foreign manufacturer is taxed differently according to the method he employs to market those goods. If he has his accredited agent he is charged, but not if he sells through a broker?—He can make a telegraphic sale through an irregular agent, or a casual agent, without being taxed.

7535. Would it not do away with all the grievances if there was the same taxation whether he sold through an accredited agent, through a broker direct

to merchants, or through his own branch house in this country, simply on either an ascertained profit or an assumed profit on the goods that he has sent into this country?—I do not think that would work, because in such a case as that many men would simply sell f.o.b.

7536. But the goods would come into this country?—Yes; they might or might not. At any rate all the contingent benefits of the establishment of the regular agency would be lost to this country, and it must not be forgotten—I have had many experiences of this—that a man abroad who has something to sell, if he has a regular agent here, is accustomed to get his information from him by cable and so forth, and it is convenient to do all his business through him, and the goods are entrusted to him to sell. That regular agent then follows on, and he insures the goods and he makes the arrangements for finance, on whom the bills are to be drawn and so forth. If it comes to chartering he is also employed to charter the ship. If there is something wanted for the works he is again appealed to to look round and get what is necessary, and send it out; so that a great deal flows from the accredited agent. If a man has no accredited agent he may sell his nitrate f.o.b. to somebody, or by cable to a broker, but when it comes to doing the insurance and doing the chartering he does it with anybody that suits him out there, and the goods he wants are very often ordered from drummers. We have lots of experience of very clever-talking drummers, many of them Americans, who come out to these foreign countries and talk people into giving orders. We have seen it over and over again, whereas if the man had an accredited agent here he would give his orders through his agent, and we have lost orders to this country through the fact that he had not an accredited agent here.

7537. The accredited agent is a great convenience for the foreigner?—Yes, I think he is.

7538. And the only objection to him is that the foreigner may be taxed more through that agent than if he did his business by some other method?—Up till now he has never been taxed through him at all. It is only coming home to people since these letters have been issued, which I propose to read to the Commission. I have one that has been addressed to a company; I do not know whether you would like me to read it to you now. It is from City 8, 140, Finsbury Pavement House, E.C. 3, and dated May, 1919, from the Inland Revenue, Surveyor of Taxes, and it is addressed to a blank company, and it runs as follows:—"It would appear that by virtue of the articles of association you hold the position of London agents for this company for the purpose of the sale of tea in London, etc. It would, therefore, appear that the profits derived in this country from such sales are assessable in your name. I shall be glad, therefore, if you will let me have the particulars of the amounts of the sales effected by you from the 18th January, 1918, to the 5th April, 1918, and from that date to the 5th April, 1919, or for any other period for which particulars are ascertainable by you, and also particulars as to the cost of production, etc., of this tea, in connection with which I shall be glad to have the accounts of the company itself. If you desire to take advantage of Section 25 of the Finance Act, 1918, by which 'where a non-resident person is chargeable to Income Tax in the name of any branch, manager, agent, factor, or receiver, in respect of any profits or gains arising from the sale of goods or produce manufactured or produced out of the United Kingdom by the non-resident person, the person in whose name the non-resident person is so chargeable may, if he thinks fit, apply . . . to have the assessment to Income Tax in respect of those profits made or amended on the basis of the profits which might reasonably be expected to have been earned by a merchant . . . who had bought from the manufacturer or producer direct.' I shall be glad if you will supply me with such other information as would enable me to give effect to these provisions."

7539. Chairman: That is a very clever letter.—A very clever letter. That kind of letter is sent out to the foreigner who has appointed a regular agent in

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this country, and he is staggered by it. It has only just come out. The law I admit is two years old, but it has not been enforced until recently. That goes to the foreign trader, and what is the effect upon his mind? I ask you if he will go on having a regular agency here in future?

7540. *Mr. Birley:* Why not?

7541. *Mr. Petyman:* What difference would it make to him if he did not?

7542. *Mr. Birley:* Suppose all goods were assumed to make a profit by whatever method they were sold when they came into this country; if they were deemed to include a profit would it not put everybody on an equality, and every foreign manufacturer or every foreigner who exported to this country would know what he had to pay on his turnover; he could still then employ his accredited agent, and get all the advantage of that man's experience and knowledge of the local market?—I do not quite follow all that, but what I say would happen in practice is this. He would sell his goods f.o.b. to a merchant, if you like to a British merchant in London with a house abroad, and that British merchant might be liable to tax, and pay it; but the foreigner will not appoint a regular agent in this country under those conditions. He may appoint him in Amsterdam, where the same conditions do not exist.

7543. *Mr. Marks:* Does Mr. Birley mean that the foreign exporter would so adjust his prices as to cover the additional cost which you anticipate in this country?

7544. *Mr. Birley:* Presumably he would, but it would no doubt come out of the consumer in the end. My point really is this is not a profit (whether to the foreign manufacturer, or whoever it is) made in this country when the goods are sold, and if so should not that profit be taxed?—I think the profit is usually made in the foreign country. As a matter of fact it is a very debatable point. Take nitrate of soda, which I happen to know something about. You may say the profit is made on the sale of the nitrate here. I contend, on the contrary, that it is made in Chile, because we know that for nitrate that costs say 9s. 6d. the market price is 10s. f.o.b. We get 10s. for it for shipment to America as well as to this country.

7545. But you sell it here because it is worth your while to sell it here?—I can sell it here or in America; the price is practically the same.

7546. If you sell it in America they make you pay under their new law on an assumed profit?—Well, take Italy.

7547. Why should they not do the same here; they assume the profit is made in America?—They have collected no tax from the manufacturer of nitrate so far.

7548. Well, on manufactured goods?—The law in America, as you probably know, is quite recent, and so far it has not been collected, and there will be no tax collected in my judgment.

7549. You refer to retaliation, but do not nearly all foreign countries already tax us, not in the same way, but through tariffs?—Most foreign countries have an import duty on goods, but they do not so far tax agents of foreign concerns situated in their country. If you come to think of the innumerable British agencies there are in every foreign country, thousands and thousands of them in the Argentine, and countries of that sort, if they are going to copy us and tax the agent, it is going to be a very serious matter.

7550. Ought we not also to consider the effect on the British producer if the same class of goods which he makes is sold here by the foreigner without paying Income Tax?—I am rather one of those who think the cheaper the goods the better for the people who consume them, but in any case you must remember this, if you are inclined to wish protection, that you have a high protection by the freight.

7551. *Mr. Mackinder:* Your broad point, I take it, is that we as a nation stand to gain far more by generous treatment of the foreigner than by attempting

to get the last penny in taxation out of him?—I think we shall make money by letting him off.

7552. I notice you drew a distinction between the retention of control in the case of old companies, and the formation of new companies?—Yes.

7553. Your business is chiefly in the new world, but I am going to put to you a question for our information, because you must have had a very large outlook on these things. Do you think that this method (which you describe in your evidence) of forming a company where the enterprise is abroad, based on the capital already in that enterprise, English capital being added to it, and control being brought here, is likely to be very largely open to us in the big areas of the old world which have been involved in the war, say Roumania and Russia, and so forth, and that we shall not there be in competition with America seeking to do exactly the same thing? I am putting it to you from the point of view of the scale on which you contemplate the formation of new companies in this way, and asking if you think that method is not a method which is likely to become very prevalent, since we shall have to export capital to a very large extent to these countries in connection with reconstruction in the old world?—I do not know that I am competent to express an opinion about the elements, but I think it must be obvious to all of us—it is certainly obvious to me, who have travelled a good deal in South American countries—that that we are only yet on the threshold of the development that is possible. There are enormously valuable properties and enterprises capable of development. It would be, I think, a very good thing if we could get by some generous treatment the location of the direction of those concerns in London for the sake of all the contingent advantages we would get. We want to be the mart of the world. We want to have here the control of the capital, and insurance, and the other things. I think, therefore, that we should hold out every inducement, and it would really be profitable to us—never mind what the other countries do—to say: "We will not tax the foreigner who comes and establishes his business here so far as his individual interest is concerned."

7554. You would say even if we were to get a little revenue out of a shilling tax, and so on, it was rather an unwise policy?—Yes.

7555. The less obstacle you put in the way the better?—Yes.

7556. With regard to bearer shares and coupons in foreign companies, I happen to have been involved in an investigation for the Board of Trade a short time ago, and I had before me the case of the Spanish mining companies, and I found that a very large proportion of the capital was held abroad, but held on bearer shares, and the coupons were cashed, no one quite knew where, except that they came very often through foreign bankers. I take it that in that case you would be compelled to apply the full British taxation?—Yes.

7557. You do not see any method of dealing with that?—No, I do not. I think the full British taxation would have to be charged in the first instance, and the man would have to establish his right to the rebate.

7558. In other words, the effect would be to drive foreigners to abandon that system of the bearer share, and the coupon?—I think a man must establish his right to get the return, otherwise it cannot be done.

7559. *Mr. Symonds:* Do you consider the Income Tax is a charge on industry?—I suppose it is.

7560. Is it one of the elements that enter into it? The only reason I ask you is that we had a witness say it does not enter into this question. This is what his pamphlet says: "The Income Tax has no crippling or injurious effect on industry."—I do not agree with him. Of course, if everybody in the whole world paid the same Income tax it would be a different matter.

7561. The case you put before us is that, not the company, but the foreign holders of shares in a company which is sending its products here, should be either free from tax, or pay a reduced tax. Does not

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the extra burden remain on the British producer of the same article? Is not the foreign producer relieved by the amount of the tax if the tax is a charge on industry?—That enters into a very debatable point, as to whether there is an advantage or not in having things cheaper.

7562. I know, but other things being equal?—I think myself that people in most countries have their own taxes to bear, and the general tendency is for those taxes to get heavier. If you take the American case, the American tax runs now up as high as 77 per cent. in an extreme case. I think he is bearing his share of the taxation if he is paying American tax, and we are bearing our share of tax if we pay our own tax, and I do not want to pay both, and I do not think America does.

7563. Your remedy is the American policy of deducting the duty payable abroad from the duty payable here?—Yes.

7564. In paragraph 24 you say: "The American concern pays British Income Tax on the profits of its branch in this country, but in computing the liability to American tax is entitled to claim the duty paid here as a set-off."—Yes, I believe that is correct.

7565. The same tax is paid, is it not? There is a tax paid on such a transaction either here or in America?—I agree.

7566. Will not the problem be how to divide it?—I think there is a great deal of room for negotiation about the division, but I have not, of course, gone into that.

7567. Is not this tremendously difficult? If you say it is almost impossible, or difficult, to say where the profit is earned, are not we entering upon an enormously difficult question. You say the profit is earned in the country of origin, and the gentlemen who are asking the question suggest it is earned where the price is paid; who is to decide that question?—The suggestion here is that there should be the same treatment as the Americans give to their citizens.

7568. I want to get at it. If they adopt a certain principle of saying where the profit is to be regarded as earned we should adopt the same principle?—It is really going into that, and I personally do not know whether it is advantageous that the two Governments should meet and discuss the division of the tax, or whether it is advantageous to let the citizen of each pay the higher tax of the two, whichever it is, and let the question rest there.

7569. I quite agree, but do you not see what I mean is this, that before we get to that the two Governments must agree on a principle as to the place where profit is to be treated as earned. They must look at the thing from the same point of view?—I think their duty is to tax the people who live within their borders.

7570. Mr. Marks: Do I understand that your paragraph 29 contains the proposal which you make as a complete remedy for the difficulty which you feel?—I think it is a practical suggestion which would be worthy of consideration, but there is the other point that could be taken, that between the Governments there might be an adjustment. I did not enter upon that at all. It is quite possible that the Governments might make some treaty between the two countries for the treatment of the Income Tax question altogether, and pool it, and divide it in some way, but I made this practical suggestion because it is what is now done in America.

7571. And unless the international dealings between the countries were more or less equal that difficulty, you feel, would arise?—Yes.

7572. Mr. Graham: In paragraph 24 of your proof you say: "The American concern pays British Income Tax on the profits of its branch in this country, but in computing the liability to American tax is entitled to claim the duty paid here as a set-off against the duty payable to the American Revenue. Thus the American pays Income Tax once only on his profits. The British concern, on the other hand, pays American

Income Tax and sur-tax on the profits of its American branch, but is only allowed to treat the tax so paid as a trading expense in arriving at its liability to British taxation." My point about that is, does that amount in practice to any equality between the two sets of conditions? I do not know trade, of course, but I ask that question, does it amount to that in practice?—The treatment is very, very different. If you are only allowed to set-off the tax you pay as a trading expense it is like taking the salaries of your clerks. It only amounts to a relatively small reduction of the amount on which the tax is levied. The American plan is to deduct the tax from the amount to be paid, and not from the assessment.

7573. So that, of course, something very much more than that is really required to put the countries on an equal footing?—Yes.

7574. I have read this hastily, but can you tell us how many countries, roughly, of the large trading countries are in the position of levying this Double Income Tax, and how many are on what you might call the American basis?—No, I am afraid I cannot. The levying of Income Tax is growing rapidly all over the world. There is hardly a South American Republic to-day that is not considering the levying of Income Tax, and the question, therefore, is one which I would urge upon this Commission as requiring very grave consideration, not only because of the present condition of things, but because of the condition of things which is going to arise. This Income Tax question is before the minds of men in every country where they need revenue, and they all need revenue.

7575. The bulk of your argument, as I understand it, is from the point of view of the penetration of these countries, is use that word?—Yes.

7576. Does not that point to international agreement of some kind, or international arrangements, rather than a step by this country, which might lead to steps by other countries as a result, by which we should be no nearer a solution of this than we are to-day?—I think that if we were to deal with it in this way, and have reciprocity, that is to say give advantages to the citizens resident here if the advantages are given to our citizens resident in their country, you would then arrive at some sort of fairness. I think I have already mentioned to the Commission that a beginning of reciprocity has already taken place in the United States. They give certain advantages to a British citizen who is resident in the States, if Great Britain gives similar advantages to their citizens. As a matter of fact we do not give those similar advantages, and consequently a British resident in the States does not get the advantage of a reduction.

7577. So that in trying to arrive at a solution of what is really a world problem in trade, or in commerce, I take it that your conclusion would be that it is better to attempt that on the lines of international agreement rather than on the lines of retaliation by one country against another, or even on the lines of reciprocity, one country with another?—Yes, but I am not quite sure that I can usefully say anything about that. I do think there is a basis for agreement between countries in connection with it, and the Americans have really shown us the way by which this great evil can be ameliorated. They have felt that their citizens could not take part in enterprises in this country, and pay British Income Tax and American Income Tax, and consequently they have searched about for some means of relief, and these are the means they have brought into law. Of course, our own Government has recognized the difficulty, because in offering the Americans a share in the British loans they have said: "We will not charge you Income Tax. If you will take an interest in our loans we will let you off the Income Tax."

7578. Has any estimate been prepared of the loss which we sustain from year to year by this system; are any statistics available?—I do not think so, and I would like to say that some of the information it is very difficult indeed to give in the way of statistics. If you were to take the point of view of the Inland Revenue authorities they could form some

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judgment as to what companies are largely foreign owned, and might be lost to this country if they were taken away; but the Inland Revenue have no idea whatever of the loss that we incur in this country through the non-establishment of concerns which would come here if we gave them terms which would induce them to come. It is only people who have foreign houses, and who have been accustomed to go to these foreign countries, who have any conception of the amount of loss this country suffers through the non-establishment of these concerns here.

7579. Mr. Bowerman: Take the case of a huge concern like what is known as the American Beef Trust, with its increasing hold upon the meat trade of this country. You would suggest that they should be allowed to go root-free so far as Income Tax is concerned?—I think I must differentiate in that case, because I think at any rate there was some amount of reason in trying to tax them, because they really were carrying on trade in this country. They had shops and they retailed the meat as I understand it to the people of the country through the shops. I have heard it stated that their invoices were so arranged that there was no profit in meat in this country at all, and therefore they paid no tax here. They were really conducting a retail business in this country, and it seemed to me a case where they should have paid a certain amount of tax here.

7580. You agree that they should pay?—Yes, I do, but that is quite different from 99 per cent. of the agencies established in this country.

7581. Would you suggest that they ought not to be taxed on their turnover?—I think the suggestion was that it should be a reasonable merchant's profit, but I do not know how that is to be arrived at.

7582. I cannot speak as to what a reasonable merchant's profit may be, but we all agree they are doing a huge business in this country, and really in effect closing down a good many of our own traders in the meat trade?—I think the words are, "on the basis of the profits which might reasonably be expected to have been earned by a merchant . . . who had bought from the manufacturer or producer direct."

7583. However, do you agree that in that particular case they should be called upon to pay Income Tax or a tax of some kind?—I think so. If the allegation has any foundation at all that the invoices are so adjusted as to show the profit somewhere else, then I think there is a case.

7584. Is it possible for a concern of that kind with its many ramifications in this country to carry on business without making a profit?—I think the profit arises somewhere. Where the profit is made is a very difficult thing to decide.

7585. You will not commit yourself?—I really do not feel it is possible. As a rule I am bound to say I think the profit is made on the other side where the produce is produced somewhere else and sent here; that is my opinion.

7586. Although our own retail butchers and traders are suffering as a result of that trade carried on by the Americans?—If you take the other side of the case, iron and steel or anything of that sort, that we manufacture in this country and send abroad, you would say, I think, that the profit is made in the production of the article.

7587. You think that applies to the distribution of meat?—I think it possibly does.

7588. Mr. Mackinder: I did not commit myself to saying no profit was made here; I said the bulk of the profit.

7589. Mr. Walker Clark: In reference to the new American law, is not the chief reason for that change of law in America due to the fact that America no longer needs to attract capital there?—Well, I never knew any country that did not want to attract capital.

7590. Well, foreign capital shall I say?—I think they all want capital. I do not think it comes from that.

7591. You do not think that has any bearing upon the new law?—No.

7592. And you would not suggest that because Great Britain does need foreign capital at present in an especial way some new policy is necessary on our part in respect of Income Tax?—Because we need capital?

7593. Yes.—I think it very desirable that we should do everything we can to attract capital here.

7594. And this is the method you would adopt?—I go the length of saying if even 10 per cent. of the shares are held abroad let us have the company here, and we shall be sure of its capital.

7595. This is the method you suggest, to allow the foreign shareholder to have a reduction of the Income Tax chargeable on his particular shares?—I think that is an advantage.

7596. You think this would attract foreign capital to this country?—I think it would to a large extent.

7597. Mr. Pretymann: What it really comes to is you think that by sacrificing a certain proportion of a certain sum of actual revenue you are really going to increase the whole corpus upon which the Income Tax is levied as a whole?—I think that is true.

7598. That is really the point?—I think that is so.

7599. Of course, you agree it is not possible to look at a tax like this from the isolated standpoint of one particular taxpayer or one particular set of taxpayers. What has got to be done is to maintain the revenue as a whole, and a most important factor in the maintenance of the revenue as a whole is the maintenance of the general wealth of the country upon which the tax eventually falls?—I think if we take care of the profits of the country the tax will take care of itself.

7600. The sacrifice that you have suggested is rather figurative the plea as a matter of fact to induce the foreigner to come here, which I suppose is exactly the same principle as was adopted when the Loan was suggested to get the foreigner to take it?—Yes.

7601. You propose to surrender the tax which is now levied upon the foreigner who derives profits from the operations of companies in this country in which he holds shares, if he is a foreigner resident abroad. Do you not think there is some possibility that with the very high rates of Income Tax and Super-tax now prevailing in this country people who have partners abroad who are foreigners might so arrange it with those partners that property which was really actually belonging to the British subjects resident here might appear as the property of foreigners and might thus escape tax?—Upon that I think that any man who claims a return would have naturally to swear to some document, and could only do what you suggest if he committed a fraud, and in that case there might be two people committing the fraud.

7602. I do not think so, because the tax is now so enormous; it is 10s. in the £ with Income Tax, and Super-tax on large incomes?—Yes; but the foreigner does not pay Super-tax.

7603. No; I am not speaking of the foreigner; I am speaking of the Englishman. I accept your point, and I agree with it, if I may say so, that it is worth while exempting the foreigner to get his money here in order generally to increase our taxable wealth; but I suggest to you that there is a danger that where people in this country are in very close business relations with foreign firms they might take the risk, as they are taking for the gain of it, of actually transferring with a proper understanding to a foreigner a considerable sum in capital which would be his actual property and which he might run away with if he liked, and which they could absolutely swear was not their own property, but by some private arrangement with the foreigner the income upon it would be paid to them?—Would you not make the foreigner who claimed the return swear a declaration similar to that which is now presented to every shareholder in an oil company, for example, who produces a transfer to the company? He has now to swear that it is his own property, and that no foreigner has any interest in it whatever, either direct or indirect—a declaration legally drawn up by the Government. Could you not sufficiently protect the Revenue from fraud by some such declaration?

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7604. I doubt it. He would have no interest in it whatever. He would be absolutely free if he liked to lose it or to go away with it; you would have to trust entirely to his honour. It would be worth the while of a banking firm, for instance, abroad, to cater for that kind of business; they would become the absolute owners of properties which they would hold as their own, and in which there would be no legal interest belonging to any person in this country whatever, but by a private arrangement between them and the owner certain sums would be paid over?—There might be some such, but I do not think as a rule in my experience of life any man likes to put his property in the control of somebody else. As a rule he does not like to part with it. A father does not even part with his property to his son until he is getting pretty old as a rule, and I do not think people here would be very likely to give the documents of title to somebody else at the other end of the earth in order to escape tax. With regard to the other point you raised as to the policy of bringing to this country a very large control of capital, my own feeling is that if we were to adopt this policy we would be the country which had all the capital. It would all come here—at least not all, but very large quantities of capital would come here which are not now brought here. If the foreigner did not have to pay Income Tax, the Italians, the French, all the nations of Europe and perhaps America too, would have large sums here, and we would have the real money market of the world.

7605. Mr. Walker Clark: Would China come?—I do not know.

7606. Mr. Pretyma: You told us that you thought the most trust operations, for reasons that you gave, ought to be subject to some tax, and you also thought the ordinary operations of a foreign merchant or a foreign firm selling through an agent in this country ought not to be taxed?—Yes, I think that the general run of agency I had in mind was the man who had an agent here and who sells really wholesale.

7607. Have you in your mind, or could you let us have at some time, any reasoned suggestion of how it would be possible to draw the line?—I think there would be some little difficulty in drawing the line.

7608. Apparently the businesses are very much on the same footing?—No, they are quite different in practice from the man who opens shops and retails the goods.

7609. You draw the line at the man who retails in shops?—I do not know that that would be the right line to draw, but that at any rate is a very different thing from the agent.

7610. It is rather a difficult point, and I will not press you to give an answer on it now. We have to get revenue from somewhere, and to surrender the revenue there would be unfortunate, and it might be, on the other hand, that if a proper line could be found we might get revenue there without doing any harm?—There was no difficulty in this at all until the tax was put upon the agent, and the real reason, as I understand it, for putting the tax upon the agent was because of the meat companies; the other people were not sinners.

7611. You cannot put an Income Tax on and say, "this shall be paid by the meat trust and nobody else"?—But unfortunately the putting on of a tax which was intended to catch a limited number of people has taken into its ambit about 99 per cent. who were never intended.

7612. The natural result is that there is a sort of new body for taxation. After all, you are dealing with the Revenue authorities, and when they have got an Act of Parliament they have got to carry it out?—Although it was said at the time they did not intend to work it hardly, now we get letters like this.

7613. You are of opinion that the meat trust and other companies carrying on operations of that kind should be taxed. In your evidence-in-chief you have stated reasons why similar kinds of operations ought not to be taxed. If you can think that subject out and let us have some suggestions how a tax could be levied to the point which you think right, but which

would not go beyond that point, I think it would be very useful to us?—I think I should find it very difficult, because after all the Government itself brought in an Act of Parliament in which they have done more than they really intended to do, and then they brought in an amending Act and tried to belittle the evil they had done, and I am afraid the evil still remains.

7614. Tell us how we should set about it. I do not want you to draft an Act of Parliament, but only a broad suggestion?—I am afraid I should find it very difficult to draw it at all.

7615. Sir E. Nott-Bower: With regard to the relief you propose to the foreign owner in a company which is simply controlled here, I understand that your suggestion only extends to cases where the enterprise is abroad?—Yes, certainly.

7616. You do not propose that for a foreign shareholder of the Great Western Railway, for instance?—No.

7617. Would you not anticipate any difficulty in drawing the line there? Captain Pretyma has rather put me on to this. Have you not got every grade of company, from the Great Western Railway, which is undoubtedly seated here, and controlled here, and all its operations are conducted here, to the other end of the scale where you have, say, a nitrate company where possibly the nitrate is in Chile; between those extremes you have endless cases of companies which conduct their operations apparently here?—There may be some, yes.

7618. There might be some difficulty of distinction there?—Yes. Of course, really I am here to put the difficulties that we see as merchants, rather than to suggest the remedies.

7619. We want every help we can get from you. You bring these facts before us, and we want your help?—I will give you all the help I can in arriving at some suitable solution.

7620. Sir T. Whitaker: It is not the difficulties that we want; we know all about those; it is the remedies. I want your suggestions as a very experienced and practical man to deal with the difficulties that arise in finding the remedies, and without suggesting any opinion of my own upon the matter, I want to probe one or two points to see where this is going to carry us. With reference to what Sir Edmund Nott-Bower has just said, I would point out that we have had witnesses here urging very strongly indeed that foreign shareholders in all our undertakings here, the Great Western Railway and everything else, should be free from tax. I gather that is not your view, but I want to suggest to you that you are touching just one phase of an extremely complicated and an extremely difficult part of our inquiry?—I think you are quite right in pointing that out, but I really came with the idea of giving you the experience I had had of difficulties in international trade, and I therefore did not touch upon, nor have I given full consideration perhaps, to the point of a foreign shareholder in a purely British concern, and I did say just now in answer to a question of Sir Edmund Nott-Bower that I do not advocate his escaping tax. It is obviously true that if you want to attract the capital of the world to London you would probably have to go a step further and do as your witness this morning suggested, otherwise you would not attract all the capital of the world, although through the proposals I make you would attract a certain amount.

7621. I want to follow up one line for a moment. Am I correct in gathering that your view is that concerns in this country, whether companies or firms, which have considerable branches or establishments abroad, should not have to pay Income Tax on the profits of those concerns?—I do not know that I have quite advocated that. I think that anybody who is resident in this country is in a different position from the man who is resident abroad. At the present moment some of the persons who are resident abroad are British, and sometimes we have foreign partners, and they object to paying the double tax.

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7629. That is another matter altogether. I am dealing with your suggestion in paragraphs 18 to 29, the effect of Double Income Tax upon overseas business. That means, I gather, that if a firm or a company in this country has branches or establishments in America, which pay Income Tax there, they are to be relieved to that extent of Income Tax here?—The difficulty at present is this. If you have a firm in this country and in some foreign country, and the partnership is worded so that the control is here, then it is held by the law that the whole of the profits of that foreign firm are liable to British tax, although much of the business of that foreign firm is not done here at all. Perhaps 70 per cent. of it is of a local character, and does not touch this country. You can escape that liability in that firm by parting with the control. If you have no control here at all and you are simply a partner in a foreign firm, then the firm *quo* firm does not have to pay British Income Tax; but if you have control here then the whole profits of that firm are liable.

7630. I quite understand the difficulty, it is your suggested remedy that I want to get at. Is the remedy that the firm here shall not be taxed on the profits of its subsidiary company in the Argentine?—A company and a firm are on a different footing.

7631. Well, say a firm that has another branch firm there, perhaps in the same name, or different name: are they to be taxed here or not on the profits?—I think it would be perfectly reasonable that the individuals who live here should be taxed upon all their foreign profits, whether they are remitted or not. I dare say that is a very reasonable suggestion, but what I think is unreasonable is that a partner in the firm who lives abroad and does not come here at all should be subject to a tax here through the liability of the firm to the tax.

7632. But supposing all the partners are British, and they are living here, and they have undertakings abroad: you do not object to the tax being levied upon them?—Not if they are all living here; but on taxing the firm a partner who lives abroad pays his share of that tax, although he is not living here. I can give you a concrete case.

7633. I quite understand that one, but that is not my point. I gather from your evidence, paragraphs 18 to 29, that you are dealing with the effect of Double Income Tax upon our overseas business, particularly business with foreign countries?—Yes.

7634. That means that you think that when the firm is taxed on its branches in America with American Income Tax it ought not to be taxed again here?—No, I think it ought not. I do not think there ought to be double tax.

7635. That means that your view is that the firm should not pay a tax here on its foreign business if it has paid a tax abroad?—It should pay subject to the deduction of the tax already paid abroad; if it is liable here it should pay less than amount.

7636. Would you apply that to investments?—To investments abroad?

7637. Yes?—Yes, I would.

7638. That means that insurance companies, trust companies and others might invest abroad and receive relief here on the Income Tax equivalent to the Income Tax they paid abroad?—There should be a deduction from the amount payable here. If the amount payable here is larger than they have paid abroad they would naturally have to pay the balance.

7639. That would mean a great loss to the Revenue and bring nothing in return back?—Well, I took the case of this cement company that we established ourselves in America, and I pointed out that that company has to pay American tax and British tax, and consequently it is unable to compete with the American company alongside which pays only the American tax; consequently it is almost impossible to establish any such company now. This company was established before the American tax was in existence.

7640. Would you mind giving me your view about the trust companies' and insurance companies' in-

vestments being on the same footing?—You are taking me a little beyond my own experience.

7641. I am anxious to probe what this proposal involves, and would lead to, because my own view is that while it may be quite correct, as you suggest, that giving a concession on the very limited area which we are touching upon might be remunerative, I see great difficulties in limiting the concession to this particular point, and I think it is a very much wider question than your evidence has indicated?—Well, take a British loan company running in America; that is the type of company you have in mind?

7642. No. A few years ago trust companies and insurance companies put their capital in America into American undertakings. They did not bring the income home, and they paid no Income Tax?—That was so at one time.

7643. Do you want to revert to that?—That is not quite the suggestion.

7644. Well, it is very similar. You will find great difficulty in drawing a distinction between an interest on investments and profits of a business for practical purposes?—The suggestion is, is it not, that the whole of the profits of that company, take one of the big insurance companies for instance, on investments in America, should be liable to the British Income Tax, and from the amount payable to the British Exchequer as tax should be deducted the amount that the company has already paid in America in the way of Income Tax.

7645. A very serious loss to the Exchequer with no corresponding advantage?—It would make some difference undoubtedly.

7646. And no corresponding advantage?—Not so much in that case.

7647. None?—I will have to think it out; it involves a great deal.

7648. The next point I want to touch upon is the opposite one, that is, relieving from tax the foreigner who invests here. We can all see it is of great advantage to get foreign money to this country, but does that involve this in your mind, that say a foreign firm, French or German, might establish a factory here or a works—say a German firm put down a large dye works in this country; all the proprietors are foreigners and they compete with the dye industry in this country—are they to be relieved of 6s. in the £ of taxation while their British competitors pay the 6s. in the £ on their profits?—Yes; well, I suppose there is a point to be made on that, but as a rule the establishment of the industry here even if the capital is held abroad and there is relief given to the foreign capital, is beneficial. Take the case of the American Electric Company that started works in Manchester, a very large and important works giving a great deal of employment in the neighbourhood. It may be true, and I think it was, that the shares were owned in America. In such a case, as suggested, they would have got a reduction. They would have been able to claim back a certain amount of Income Tax if the tax here was more than the tax in America. There you have got a very large amount of employment given here; you have got all the banking and the other things done here that come from those works, and I think on the whole it is an advantage that they should come here. After all, there is a very great deal of money, and no doubt our people will follow suit and establish similar works. It is the story of the Huguenots coming over and establishing the industries here.

7649. Chairman: Supposing that the introduction of that American electrical firm prevents the development of trade for electrical firms in this country: would that be right?—But would it do so? Has it not really followed that where an enterprise of that sort has started we have copied and taken advantage of the lesson?

7650. I rather fear that by the cost they can produce at through not having to pay Income Tax they

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are preventing the development of the electrical industry in other quarters. I am talking rather personally—I follow. Of course, naturally if there was no Income Tax they would not have bigger resources as a company, but they would individually get richer.

7644. Sir T. Whittaker: Does it not really mean that that would be giving a very substantial preference to foreign firms producing in this country and would not that be very much resented by their competitors?—It would not be as a firm; it would only be the individual who would get the drawback. That individual if he is in America has to pay a very heavy tax there. He has not got more in his pocket probably than if he lived over here.

7645. He has got the advantage from this country, and this country would lose that amount of Income Tax?—Yes.

7646. That would have to be made up by other members of the community?—Yes.

7647. A certain number might benefit by the bringing of that firm here?—Yes.

7648. And by bringing certain business here?—Yes.

7649. But there are a great many people who would not benefit at all, who would have to pay additional Income Tax because of this kind of thing?—We come back to that point—the balance of advantage; and I think the balance of advantage is that you should bring the business.

7650. I have merely been putting these questions with a view to probing as far as one can in a brief examination the range of these suggestions; you have put one or two before us, but we have had a number of them, and really in my judgment they provide the most difficult and complicated question that we have to deal with?—That is so.

7651. I do not think anybody has any doubt as to the difficulties in the way of traders and capitalists that you have referred to.—On the whole, my feeling strongly is that it would be of advantage to us to lose a little on the one side of the account and gain a larger amount on the other. That is my own feeling, and I have seen so many cases of it myself from my own experience of it. I think we would have gained a great advantage if we could have encouraged the establishment of more foreign concerns.

7652. Chairman: I want to ask you about this cement company of yours in America; that is English capital?—Yes.

7653. Competing with American capital?—Yes.

7654. Is the American capital paid a bigger interest in America than we have in this country?—I think on the whole not much bigger; it may be a little larger.

7655. I was wondering whether it was 2 per cent.—Oh, no.

7656. If it were 2 per cent. that would compensate for the extra tax that would have to be charged?—Sometimes money is cheaper in America than it is here, but there is not much in that. I have a few notes I have put together here; I do not know whether you would care for me to read them. Perhaps it is going a little bit over the ground from a fresh standpoint.

7657. Yes.—“The principal reform to which it is specially desired to direct attention is the abolition of Double Income Tax. The duplication of Income Tax within the Empire is unjust, unnecessary and contrary

to imperial interests, placing a bar almost amounting to an embargo on the investment of money from the Mother Country in the Colonies and restricting trade and relations between the various parts of the Empire. This fact was recognised by the Act of 1916 itself, where it was provided that an individual or corporation liable to British Income Tax, at its then existing rate, and also to Colonial Income Tax, was entitled to a rebate of his Colonial Income Tax not exceeding 1s. 6d. in the pound. This admitted the principle and the restriction was quite illogical. The principle adopted should be the logical one that any citizen of the Empire, wherever in the Empire he resides, should be liable to no more than the Income Tax appropriate to his domicile. If he be resident in the United Kingdom and is liable to British Income Tax of 6s. in the pound, then, so far as his Colonial investments are concerned, he should be allowed a deduction of the amount, whatever that may be, which he has to pay for Colonial Income Tax. It is, of course, quite possible that some reciprocity might be arranged and that the Colonies should make some concession on their side. There is abundant room for such an arrangement, because the Colonies must desire to attract money to be invested in their enterprises by citizens of the Mother Country. Such arrangements, however, must be left to the political department involved. Whether or not they can be made, the principle of single Income Tax should be put into effect. The duplicated tax involves a flat injustice to the individual citizen of the Empire, and when the whole position demands closer relations and complete unity between the different parts of the Empire its practical effect is inevitably divisive and compels the different parts to operate largely in watertight compartments. Citizens of the Mother Country cannot be expected to send their money out in support of Colonial enterprises if they have to bear this largely increased burden. On the other hand, take the case of an Australian desiring for some reason to spend his retirement in the Motherland. He finds that, with a large portion of his means probably locked up in Australian enterprises, the burden of the duplicate taxation is intolerable. What he hoped was a competence is reduced to such an extent that the Income Tax law operates against him with a force of a decree of deportation against an undesirable alien. Instances can be multiplied both for trade and personal relations, because the bad practical effects are the result of a system which is radically unjust and prejudicial to the interests of the Empire and its citizens. The close relations between this country and the United States bring forward another aspect of this matter and the point here is sharply raised by the practical invitation to reciprocity contained in the Revenue Law which was recently passed by Congress. There the principle is distinctly adopted that allowances and rebates should be given to non-resident aliens whose own laws give similar concessions to citizens of the United States. And it is submitted that the principle above adopted for the British Empire will be correctly applied, and will result in undoubted benefits in questions between the United States and this country.” That was pretty much the same sort of evidence.

7658. Mr. Marks: Could you tell us from whom it comes?—It comes from an important concern in Scotland who do a very large business in America in leasing largely.

7659. Chairman: We have had a very interesting afternoon, and we are very much obliged to you for coming.

THIRTEENTH DAY,

FRIDAY, 18TH JULY, 1919.

PRESENT:

LORD COLWYN (*in the Chair*).

MR. BOWERMAN.

MR. GRAHAM.

MR. PRETYMAN.

MR. MCINTOCH.

SIR E. E. NOTT-BOWER.

MR. MANVILLE.

SIR WARREN FISHER.

MR. GEOFFREY MARKS.

SIR J. S. HARMOOD-BANNER.

MR. MAY.

MR. BIRLEY.

MR. SYNNOTT.

MR. WALKER CLARK.

SIR ALGERNON F. FIRTH, MR. GEORGE W. CURRIE, MR. G. P. NORTON, MR. H. D. LEATHER, MR. H. LAKIN-SMITH and MR. STEWART BLACKER QUINN, on behalf of the Association of British Chambers of Commerce, called and examined.

The witnesses handed in the following statements as their evidence-in-chief:—

Summary of evidence to be submitted by Sir ALGERNON F. FIRTH, Bt. (Ex-President), on behalf of the Association of British Chambers of Commerce.

7603. (1) All questions of taxation touch closely the industrial, commercial and financial interests represented by the Chambers of Commerce throughout the country and the Empire, and they have received close attention at the hands of the Executive Council of the Association of British Chambers of Commerce. Of that Association I was president for six years, retiring from office a few months ago in favour of Mr. Manville, M.P., who is himself a member of the Royal Commission. I have myself been closely involved in much of the Association's consideration in committees of all taxation questions for many years, and as president and otherwise have frequently taken part in deputations before and discussions with the Chancellor of the Exchequer, the President of the Board of Trade, and heads of Government Departments. The preparation of the evidence to be tendered on behalf of the Association before this Commission was entrusted to a specially selected committee of which I am a member and of which Mr. G. W. Currie has acted as chairman. All the other members of the committee have had prolonged practical and professional experience of dealing with the interests under discussion, and with your permission evidence will be tendered upon separate points by separate witnesses. The whole evidence has, however, been prepared by the witnesses and other members of the special committee sitting together.

Mr. Currie, who will follow me as a witness, will explain the allocation of the evidence and deal with certain of the points himself; the other witnesses will then follow.

7604. (2) I may add that I am given to understand that the views expressed by each of these witnesses represent a unanimous and agreed view on the part of the Association's special committee. In forming their conclusions they had before them statements of the views of a great majority of their individual constituent Chambers throughout the country. As was to be expected, there is divergence of opinion between these numerous Chambers upon quite a number of points, but on many important points there is no difference. In any case, there is not upon any point of material importance any divergence of opinion worth mentioning amongst the members of this special committee.

7605. (3) The points which I myself as a witness have been asked to deal with are three in number. Firstly: the effect upon trade of a very heavy rate of Income Tax. Secondly: sundry proposals urged in certain quarters that employers of labour should be made use of as tax-collectors on behalf of the Government; and thirdly: the whole of the questions which have come to be referred to shortly as Duplicate Income Tax.

7603. (4) *Firstly: Heavy rate of tax.*—The committee's resolution on this point reads as follows:—

Burden of Increased Taxes: Their effect upon trade: Resolved:—

The Committee is of opinion that a very heavy rate of Income Tax is a great discouragement to enterprise and to trade developments; that it tends to the expulsion of capital from the country; that for both of these reasons and in every way it causes restraint of trade and enterprise and reacts unfavourably upon the yield of the Income Tax itself. The committee wishes to assure the Government, however, that if heavy Income Tax is unavoidable the commercial community will shoulder the burden. It is anxious, however, that the burden be distributed as equitably and assessed as simply as possible, and urges upon the Government that the mere fact that Income Tax is easily collected as compared with many other ways of raising money should not be regarded as a reason for placing almost complete reliance upon it; on the contrary, the committee urges that other methods of raising money be carefully considered and exhausted.

I have been engaged in manufacturing activities all my life, and have no hesitation in supporting the committee's resolutions.

I am satisfied that in many cases people will not extend their businesses or go into new enterprises if too large a proportion of their profits has to be paid away in Income Tax. I do not need to argue this point, as I am sure it will be in the minds of the members of the Royal Commission.

7604. (5) *Secondly: Collection of tax by employers.*

On this point the opinion of the Associated Chambers is altogether against any such use being made of employers of labour. It is notorious that the wage-earners, their Parliamentary representatives, and their political advisers would entertain strong objection to any such course, and I believe the employers throughout the country are altogether averse to it.

On this point the resolution adopted by the committee reads as follows:—

(See minute of meeting of 24th June, 1919.)

The Association does not regard with favour any suggestion that employers of labour should be made to act as tax-collectors, except, perhaps, in cases of default, and then only on a legal order.

Employers of labour, in cases of default, cannot object to facilitate prompt and proper collection, nor do they object to supplying the necessary information to the taxation authorities in order that assessment notices may be prepared. Their objection is to being asked to act as tax-gatherers, and even although they were to be paid a commission or fee for collecting the money, their objections would be, in no way, overcome or even affected.

The relations at the present time between employers and workpeople are, unfortunately, sufficiently strained, and it would undoubtedly strain them still

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[Continued.]

further if the employers were compelled to act as tax-collectors.

7665. (6) *Thirdly: Duplicate tax.*—The committee agreed to recommend:—

That adjustment should be made in respect of businesses carried on in the Colonies and in Allied Countries, so that the duplicate tax should not be greater than the higher rate ruling in either country. The general feeling was that in this connection there might be greater difficulty in securing an improved condition with regard to foreign countries than in a question with our own Colonies, because in connection with the former diplomatic action might be required.

7666. (7) The Association of British Chambers of Commerce have frequently passed resolutions during past years on this subject, and have made representations to the Chancellor of the Exchequer, requesting him to give effect to them. At the autumnal meeting of the Association, held at Newcastle-on-Tyne in 1912, the following resolution was adopted:—

That the charging of full Income Tax in the United Kingdom upon profits made in a foreign country by a firm carrying on business in this country is unjust.

At the annual meeting of the Association in 1916 the following resolution was carried unanimously:—

That in the interests of Imperial trade and commerce, and of the unity of the Empire, it is highly essential that such steps should be taken by the British Government as will enable immediate relief to be given from the imposition of Double Income Tax within the Empire.

This resolution was submitted to the Chancellor of the Exchequer, and on June 22nd, 1916, a deputation, at which the Association was represented, waited on the Rt. Hon. W. M. Hughes, Prime Minister of Australia, who in his reply stated that he realized the injustice. In December, 1916, the Association was represented at a deputation to the Prime Minister and Finance Minister of New Zealand, who both expressed hearty agreement with the views of the deputation on Duplication within the Empire. Sir Joseph Ward said he considered it vital to the Empire that this question should not be allowed to continue on its present basis. At the annual meeting in 1918 the following resolution was passed:—

That the attention of H.M. Government should be drawn to the hardship imposed on branches of British houses in Allied Countries, with reference to the Excess War Profits Taxes which are payable in the country where the branch is situated as well as in England. It is suggested that an arrangement similar to that existing for those firms having branches in the Dominions should be applicable to branches of English firms in Allied Countries.

Resolution was submitted to the Treasury. This question has been pressed upon the Association from time to time by the British Chamber of Commerce in Paris. At the annual meeting, 1919, the following resolution was unanimously passed:—

That the present system of duplicate payment of taxes on profits of business and on incomes of

[This concludes the evidence-in-chief of Sir A. F. Firth.]

Evidence to be submitted by Mr. GEORGE W. CURRIE, Chairman of the Special Income Tax Committee of the Association of British Chambers of Commerce, sometime Member of the Munitions Control Board, and Assistant Comptroller of Accounts in the Ministry of Munitions.

7670. I practised for 27 years as a chartered accountant in Edinburgh, where I was senior partner in the firm of Martin, Currie & Co. I have travelled extensively in connection with financial business in the United States, South America and Canada, and have in this way had some opportunity of considering questions of taxation from points of view other than those strictly British. I was for some time President of the Scottish Society of Economists and for a number of years, particularly whilst sitting in Parliament,

individuals levied by this country, our Dominions, and our Allies is unjust, and that His Majesty's Government be urged to make arrangements with the Governments of our Dominions and our Allies to avoid duplicate payment of such taxes.

This resolution was submitted to the Chancellor of the Exchequer and a reply dated 25th April was received saying that this was a matter for the consideration of the Royal Commission on Income Tax.

7667. (8) The evidence already submitted by Sir Frederick Young, Sir James Martin, and others, in connection with Duplicate Income Tax within the Empire has been perused by me, and I agree entirely with this evidence, and it is unnecessary for me to argue this point.

I wish, however, to urge that the same principle be extended to businesses in the countries of our Allies in the war. The present high rate of Income Tax and Super-tax are undoubtedly due to the war, in which our Allies have been engaged equally with us. The Allied Countries have had to increase enormously their taxes in consequence of war costs, and it is not fair that businesses in Allied Countries should pay taxes which cripple enterprise because they have branches in two or more Allied Countries. The only fair course is that such a business should pay up to the maximum rate in either country. The matter could be easily arranged between the Governments of the Allies and those joint enterprises which will be in future a source of strength and security to our present Alliance, and should be encouraged and not made impossible.

7668. (9) I know several cases of businesses having joint undertakings where it is at present being seriously considered whether it would not be advisable to sell the foreign enterprise because it is not worth continuing under the present system of taxation. My firm has been manufacturing in the United States for over 30 years, and we have now a large and prosperous business there. Considerable business transactions between the firm in America and the firm in England have taken place, and profits have been remitted here regularly, which have been to the advantage of this country. If the present system is to be continued we are faced with the alternative of selling this business, and this action cannot be to the advantage of this country.

7669. (10) The facts as to the United States Revenue Act have been placed before you fully by Messrs. Slinger and Sir James Martin, and also the clause in that Act as to reciprocal treatment has been given you in Sir James Martin's evidence, so I do not need to repeat those matters, but I urge most strongly that the present system is injurious to British interests, and should be altered. There is no doubt that it would be to the advantage of this country to attract American capital to our industries, but it is very unlikely that American firms would manufacture here unless such an arrangement as is foreshadowed in the United States Revenue Act is made. It must be apparent that it would be more remunerative to manufacture in America and ship the goods here. The same point applies to France and Italy, both of which countries are desirous of attracting British capital to replace that from Germany which has formerly been utilised there.

I was closely associated with the interests of Chambers of Commerce in connection with Budget arrangements and taxation generally. I was asked by Mr. Edward Manville, M.P. (President of the Association of British Chambers of Commerce), to act as Chairman of the Committee specially constituted to prepare evidence on behalf of the Chambers of Commerce generally to be brought before the Royal Commission.

The Committee regard simplification of assessment as a very great end to be aimed at in itself, and the general views of the Chambers of Commerce have been carefully collated on this point. With those views before them the Committee have arrived at certain conclusions and have asked their colleague, Mr. H. Lakin-Smith, who is a chartered accountant practising in Birmingham and in London, to submit the whole of the evidence regarding simplification.

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[Continued.]

On one particular point, viz., the problems connected with and arising out of the three years' average system under Schedule D, Mr. Stewart Blacker Quinn, President of the Institute of Chartered Accountants in Ireland, is prepared to submit our views.

7671. Upon the whole question of depreciation, Mr. G. P. Norton, of Huddersfield, who gave evidence on behalf of a deputation from the Associated Chambers of Commerce to the Chairman of the Board of Inland Revenue in connection with those particular questions in November, 1913, has been entrusted with the presentation of our views, in co-operation with Mr. Harry D. Leather, chartered accountant, of Leeds. Beyond saying that the Committee attach the greatest importance to more reasonable and ample allowances being made in this connection, I do not wish to anticipate the evidence of these gentlemen in any way. The discussion in 1913 was a very full one, but the experience of the administration of the Excess Profits Duty during the war has thrown a great deal of additional light upon problems of depreciation, obsolescence, wasting assets, &c. [see App. No. 18.]

In connection with a number of the items which I and my colleagues touch upon, the remark applies that it is very difficult to develop and insist upon some views in detail; that is to say, the treatment of one point very often hangs upon the treatment of quite a number of others, and in questions of administration it is realized that no decision can be taken except with the guidance and assistance of the administering authorities.

The points upon which my colleagues have asked me to tender evidence may be summarized as follows:—

7672. (1) *Exemptions, allowances, abatements and reliefs.*—We would approve of a wider and more liberal treatment in this direction; the material increase in the cost of living should be reflected in the weight of the Income Tax upon moderate incomes; the present system of giving graduated reliefs up to £700 should be extended, and the extension might very well be carried up to £1,000 or £1,500 per annum. We sympathize with the evidence tendered by the officials of the Board of Education and by the Secretary of the Board of Inland Revenue as to more liberal treatment in those directions and in particular in connection with money spent upon education.

As to the total exemption limit at the bottom of the scale, we think that a deduction of this kind should be made from every assessment, altogether irrespective of the amount of the income in question. It should be made from rich and poor alike. As to the figure to be selected, we have considered whether it should be £130, as at present, £160 as formerly, £200 or, as suggested in other quarters, £250 per annum. This figure, whatever it is, should be fixed with reference to the whole of the reliefs, abatements and graduations to be brought into force. We do not think that a figure of this kind, which is meant to correspond, roughly, to the wages of subsistence, can ever, at any given point of time, be fixed in advance for all time or for any considerable number of years ahead—it is a sort of index figure. Assuming, however, that the cost of living is to remain at anything like its present level for a considerable period of years, we think that there might be an exemption from every assessment of £200 per annum. We suggest this figure bearing in view the scale of allowances for dependants which are in force at the present moment. Whatever figure be fixed upon, it will produce slightly varying results as between different parts of the country; this is unavoidable.

7673. (2) *Collection at source.*—This method is the sheet-anchor against evasion, and we regard any suggestion that it should be abandoned as out of the question. We think the plan adopted in the new Government Loan of not deducting tax from dividends on small holdings through the Post Office is a considerable step in the direction of alleviating inconvenience and hardship to prospective claimants for refund of tax, and we should welcome any further devices of the same kind. They will be more welcome than ever if, as one of our witnesses is to suggest, Income Tax and Super-tax are merged for the future.

7674. (3) *Adequate information to be placed at disposal of officials.*—We think that, for the purpose of

ascertaining the liability for Income Tax, every trader should keep accounts in proper form and produce balance sheets and profit and loss accounts when called upon to do so; we are not in favour of extending to traders who do not keep proper accounts any of the benefits of the sundry reliefs and abatements allowed under the Acts. As a further practical suggestion, we wish to say that although we believe that fraudulent returns of a really gross nature are very few and far between, they have, in the unanimous opinion of the Committee, been unpleasantly in evidence from time to time. We consider that every possible step should be taken to extirpate and punish conduct of this kind, and we would support a requirement that every trader, whether company, firm or individual, be required to produce a certificate signed by himself (and not merely by his auditors) to the Surveyor in a form to be agreed upon, certifying in specific terms that all business transactions have been declared, and that all the accounts and valuations produced are true and correct. The certificate should include a statement that the valuation of the stock-in-trade is true and correct, both as to quantities involved and the bases of valuation adopted. We believe that such a requirement would serve a useful purpose.

The interest paid by banks on deposit receipts was in previous years, according to the best of our information, very often omitted from returns. Probably the war has done much to remedy this, as taxpayers were, as a rule, unwilling to shirk liability. Such a return as we suggest might contain a place for deposit receipt interest, so that, except by dishonesty or very gross carelessness, the omission of this item would not take place.

We are prepared to support a very severe stiffening in every direction of the penalties to be enforced for fraudulent conduct.

7675. (4) *Assessment of farmers.*—We think it is intolerable that farmers should not pay on their full earnings like other people. The change introduced by Mr. Bonar Law two years ago was a great improvement, but the position existing is still quite unsatisfactory. If the community decide that it is in the public interest to give certain assistance to farmers it should be done in some other way than by wrenching and twisting the Income Tax system which, when once revised and established, should not be regarded as an ordinarily available means of effecting what may be described as outside objects. Unless some attempt is made to regard the Income Tax system as one existing for its own ends, we think it quite likely that, 10 or 15 years hence, the whole position will be as confused and difficult to understand as that which we are now engaged in revising.

7676. (5) *Assessment of connected businesses and rights of set-off.*—We have received numerous complaints of hardship in this connection. The principle we are prepared to support is, that profits and losses should be pooled where substantially a true connected ownership exists. We do not regard a 51 per cent. holding as sufficient for this purpose where a connection exists between two companies; on the other hand, it seems scarcely right that the existence of perhaps one shareholder, or a group of holders not representing more than a few points per cent. of the total capital at stake, should be regarded as defeating a right of set-off.

7677. (6) *Assessment of Life Assurance business.*—We think in a general way that the existing relief regulations, which were revised by Parliament recently, may very well be left as they are. We sorely think that a taxpayer in the Super-tax category can be regarded as entitled to this kind of special inducement to thrift. We think, however, that as leading actuaries are to give evidence before the Commission it is unnecessary for the Chambers to enter into details.

7678. (7) *Treatment of Co-operative Societies.*—We endorse the statement made to the Commission by Sir James Martin, J.P., on behalf of the London Chamber of Commerce, on the 3rd instant, that when certain of such societies received treatment in a special method of assessment it was not in contemplation that they would ever develop such a large trade with the outside public as they now transact. We are aware that a good many exaggerated statements as to the

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proportion of their trade represented by this outside business are not infrequently made, but we believe that it is at all events a substantial amount and that it is increasing. We think this point requires action as a matter of justice. We think it is clear also that a society might, if it chose to take so much trouble, so arrange its accounts and affairs as to avoid showing a surplus at all at the end of a year. We particularly wish to disclaim, on behalf of the Chambers of Commerce, all desire to interfere with what may be called the domestic affairs of Co-operative Societies, *e.g.*, the prices at which they may sell their goods; the amount of dividend they pay to their members; and, in fact, the disposition they may make of any of their funds. Further, we regard it as immaterial what answer is returned to the question of whether the surpluses of these societies are exactly of the same nature and composition as the profits resulting from ordinary trade operations; because, whether they are so or not, we feel that the large operations, of which they are the result, are conducted in competition with, and result in the displacement of, ordinary trade, which would otherwise be conducted on an Income Tax paying basis. We think that if a society has a turnover of say one million pounds sterling a year it should be deemed to have incurred a liability for a fair share in the cost of the nation's upkeep roughly corresponding to the magnitude of its operations. In our view, not much reliance can properly be placed in this connection upon the number of members enrolled in any society—an index is rather to be sought in the amount of tax-bearing trade displaced by its operations.

7679. (8) *Distinction between earned and unearned income.*—On this point our view is that without discussing the question of whether and how far there is a fundamental distinction between earned and unearned income, there is an equitable case for maintaining a working distinction between them so far as incomes which may be described as small or even moderate are concerned. A point to be noted is that if better graduations are adopted some relief would be that means be granted to all small incomes in any case; and, of course, both widows and families living on the revenue of comparatively small funds and the smaller class of earners would be benefited.

7680. (9) *Assessment of married persons.*—There is a great deal of substance in the contention that it would be better to assess married persons separately; we believe this to be so especially in the case of persons not of large means, say up to the point at which Super-tax now begins to be exigible. No such separation, however, would be equitable to the general body of taxpayers unless adequate safeguards were introduced against sundry forms of evasion or avoidance; for instance, a man with an income of £20,000 a year should not be able so to arrange matters as to represent that his family has two separate incomes of £10,000 each, to the effect that the whole £20,000 would be taxed at the £10,000 rate. We advance this view taking it for granted that a genuine system of graduations will be introduced which will make incomes of £20,000 or £50,000 a year liable for a heavier rate of tax than incomes of £10,000 a year. The present system always informs a husband how his wife stands, but tells a wife nothing about his husband.

If a separation be made, it might be necessary to make some special provision for the assessment of the

income from the funds of a deceased spouse whose income continued after death to be used for family purposes. Apart altogether from these considerations, we wish it noted that representations have been made to us as to the undesirability of its being practically necessary to reveal to a business man's partners information as to the financial position of his wife.

In connection with this whole point we feel that to a considerable extent the movement in favour of the separate assessment of married persons has its real origin not altogether in considerations touching the general rights and position of women, but very largely in a feeling that an income of say £400 a year belonging half to a man and half to his wife is unduly heavily taxed in any case.

7681. (10) *Sundry claims that certain expenses of one kind and another should be allowed as deductions in computing liability for tax.*—We are not prepared to support the claim sometimes put forward that every charge recognised in business circles as a reasonable trade charge upon the profit and loss account should be allowed as deductible by the Inland Revenue; nor do we think that the cost of the removal of business premises where such removal is of a non-compulsory nature from one place to another can reasonably be claimed. On the whole we think that the statement which Sir Matthew Nathan made in November, 1913, to a Deputation from our Association was not unfair. We do not think that depreciation of patents can be claimed, but this rather falls to Mr. Norton, another witness, to deal with. We do not put forward a claim that the flotation expenses of a joint stock company or expenses incurred by traders, whether companies or individuals, in borrowing money should be pressed for. We support very strongly, however, the evidence that it is to be given by Mr. Norton.

7682. (11) *General.*—In conclusion we wish to say that we are aware that many if not all of the above contentions represent concessions desired by certain taxpayers at the expense of the general body of taxpayers. We accept the logical conclusion that, assuming the requirements of the country to remain at their present point every one of these concessions means an increased general rate of taxation. On the other hand, we think the contentions are just and reasonable and that a simpler system of administration would in itself result in more effective collection and more successful elimination of fraud. In addition to this we think, looking at the figures in the White Paper* published by the Board of Inland Revenue the other day, that much if not all of the amount involved in these concessions could be made good by continuing the process of graduations beyond the £10,000 point at which for the present it stops. We observe from the White Paper that there appears to be in the hands of taxpayers, everyone of whose income exceeds £5,000 a year, a taxable income of just under three hundred millions a year; and that there is in the hands of persons whose incomes exceed such a very substantial figure as £20,000 a year, approximately one hundred and twenty millions a year. At the other end of the scale we observe that the total produce of Income Tax last year paid by persons whose incomes in no case exceeded £300 a year was something less than twelve million pounds. The aggregate sum collected up to the £200 level was only four and a-half millions.

* Cmd. 224 of 1916.

Supplementary memorandum illustrating how suggestions made in Mr. CURRIE'S evidence would work out in practice.

7683. (1) The following is a rough memorandum to illustrate my evidence. The general idea is to make concessions at the bottom of the scale and to find compensation for the same by increasing the burden at the top. To all intents and purposes these suggestions would not have any effect upon incomes occupying a middle position in the scale, *i.e.*, upon incomes between £1,500 and £5,000 per annum.

7684. (2) To cancel all assessments up to the £200 point would cost, say, £4,800,000

According to the recent White Paper the number of incomes not exceeding £200 in this country is 3,600,000, and of these 1,850,000 are removed altogether from the tax-paying category by the various abatements. This leaves 1,750,000 people to pay the above sum, the average assessment being about £2 10s. a year, say 1s. a week, per taxpayer.

7685. (3) The next category to be dealt with is that of incomes between £200 and £1,000. The relief we propose on incomes in this category would need to be

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[Continued.]

made applicable partly by graduated rates of assessment dependent on the size of the income involved and partly with reference to the number of children in a family, &c. But, taking these two kinds of reliefs together in a rough attempt to find out how much money is involved, the cost might perhaps be put at

£13,860,000

7686. (4) The number between £200 and £1,000 taxed at present is 1,461,400, and between them they paid last year £46,300,000. To remit 30 per cent. of this amount would be a fairly substantial relief and would cost the above figure of £13,860,000. A cash return to them of this amount is equivalent at, say, the 3s. rate, to allowing an additional abatement in respect of about £63, so that a man with a wife and two children (of course, some have more, some less and some none) would on such a footing get £75 abatement off for these three persons, as at present, and £63 being a further £21 for each of them; in other words, the £25 would be increased to £46. Alternatively a portion of the relief might be expressed as a graduated reduction all round.

7687. (5) Going further up the scale we come to incomes between £1,000 and £1,500 a year. Of these there are in this country 21,802, paying between them £29,400,000 per annum. They might receive a concession representing a return upon the tax at present paid by each taxpayer of 15 per cent. The average assessment paid by this class is about £244 of tax each per annum; so that the average return cheque in this class would come to about £36. This at the 5s. rate of tax is equivalent to an abatement of between £140 and £150, say £144, and would represent a substantial attempt to relieve the professional and smaller mercantile man of a portion of his educational expenditure; it would be equivalent, for example, to exempting from tax one-half of the school bills for a couple of boys or girls at a Public School. The cost to the Revenue would appear to be

3,360,000

These three concessions would thus cost

£22,020,000

7688. (6) Separate assessment of married women would certainly cost the Exchequer a good deal; Mr. Chamberlain intimated in the House that it might cost six or eight millions just now and more than twice that sum eventually. Our evidence shows that we think a portion of the claims might be met, and for the purpose of this rough memorandum perhaps we might take a figure of, say,

3,000,000

Including this proposal the reliefs will cost

£25,020,000

Say, a round £25,000,000 a year.

7689. (7) Passing upwards and leaving in their present position incomes between £1,500 and £5,000, it is obvious that we must look for compensation in the upper Super-tax region. The incomes here should, we have suggested, be carefully graduated from top to bottom, but, for the purposes of this rough memorandum, let us divide Super-tax incomes into two categories, one lying between £5,000 and £50,000 a year and the other between £50,000 and the top of the scale, whatever that may be. The White Paper (Cmd. 224 of 1919) does not specify higher figures than £100,000 a year—there being 148 in-

comes each exceeding that figure, whereof between one-third and one-half have entered that category during the war, and no less than 53 during the last two years according to the Treasury particulars. The payers of Super-tax at present between £5,000 and £50,000 slightly exceed 22,000 in number, and they pay between them £28,500,000. If their burden were increased to the extent of 50 per cent. it would bring in.

£14,250,000

And going on to those with incomes over £50,000 a year, I see from the White Paper that there are of such people 540 in the country, who pay between them Super-tax per annum to the extent of a little over £10,000,000. Our proposals, if our calculations are to balance, would involve doubling the burden upon them, so as to bring in to the Exchequer, per annum,

£10,000,000

These two additional burdens together bringing in a further

£24,250,000

We have no information as to the amounts up to which the 148 individual incomes ran, but logical adherence to the principle of graduation would involve quite a number of them in something further, and at this point I enter a conjectural figure of

750,000

in respect that large sums of profits were not taxed at all during the war.

Bringing the total extra burdens in question up to

£25,000,000

The two sides of the account now balance.

7690. (8) The graduation of figures above adopted is, of course, quite rough, but it shows the principle, and it could be worked out in a fairly smooth curve. It arrives, at the top, at an income representing a merged tax and Super-tax of 15s. in the £, and I observe that to tax an income of £100,000 at 15s. and one of £150,000 at 16s. is equivalent to taxing the excess £50,000 at the rate of 90 per cent.

7691. (9) It is feared, however, that if you are to have exemptions up to £200, to make an attempt to give some substantial relief between that point and £1,000 a year, and to give, at all events, some relief beyond that up to £1,500, the principle of graduation would force the top rate of tax up to something like 15s., assuming, as we are told to assume, that the Exchequer has no money to give away. Had there been no Excess Profits Duty in force last year the ordinary tax (including Super-tax) would have required to be something between 11s. 6d. and 13s., graduation stopping at £10,000. There are, however, portions of our evidence which point to the possibility of saving a good deal of money, which might make the position a little less burdensome. For instance, simplification might stop fraud to a great extent. I suspect that a good deal of money is passed into the accounts of manufacturing concerns as repairs which a stricter examination would reject. I am unable to say what the cost to the Exchequer of meeting Mr. Norton's demands for more liberal depreciations, &c., which I consider are thoroughly reasonable, would be; but I think that if the granting of a concession in this direction were accompanied by more thorough auditing, the cost to the country would not be so large, and I see no reason to think that the better collection which would ensue as a result of simplification of the whole system would not save at least five million pounds a year. I think indeed it might save a very much larger sum. Nor am I able to put a figure upon the extent to which increased sums might be recovered by the more equitable assessment of farmers, but looking to the prices that farmers are eager to pay for sound farming properties at present I can only say that I think the sum would work out at a figure large enough to affect materially the above estimates. Before the war Schedule A used to yield one-fourth of the whole assessments. It is true that taxation at largely increased rates would discourage and probably lead to retire-

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[Continued.]

ment from business, especially amongst older men, of a considerable number of individuals, the bulk of whom perhaps might have to retire from business within the next 10 or 15 years in any case. On the other hand the relief and encouragement proposed to be given to persons far lower down on the scale would, by parity of reasoning, make them work all the harder, so that perhaps one would balance the other.

[This concludes the evidence-in-chief of Mr. G. W. Currie.]

Evidence to be submitted by Mr. G. P. NORTON, Chartered Accountant, Huddersfield.

7693. (1) My firm, Messrs. Armitage & Norton, Chartered Accountants, of Huddersfield, Leeds, Bradford, Halifax and London, has been intimately associated for nearly half a century with textile industries. I have been a member of the Institute of Chartered Accountants in England and Wales about 38 years, and I am the senior acting partner of my firm. In 1913 I gave the principal evidence on behalf of the Associated Chambers of Commerce at a deputation representing the Chambers before the Board of Inland Revenue, when the subject-matter under discussion was the whole system of dealing with depreciation of buildings, plant, machinery, etc., for Income Tax purposes.

7694. (2) It is concerning depreciation, obsolescence, writing-off of expenditure in course of exhaustion and replacement of wasting assets that I propose to give evidence. I am a director of the British Dyestuffs Corporation, Ltd., and, with the concurrence of my colleagues on that Board, I propose to illustrate my evidence from that company's position.

7695. (3) We contend that the general principle should be adopted that allowances should be granted in respect of capital used up or exhausted in earning profits. The existing practice in this direction is not consistent, and is insufficient to meet equitably the demands of modern conditions.

7696. (4) We contend that this principle should apply to buildings employed as works, mills, factories, etc., and also to expenditure on shaft-sinking and mining developments. An arbitrary line cannot in practice be drawn between buildings and plant. The structure of a modern factory is inseparable from and forms part of the whole plant and equipment of a manufacturing business.

7697. (5) Allowance is granted for depreciation of ships. We contend there is no adequate reason to distinguish between a factory and a ship so far as depreciation is concerned. Both contain engines, boilers and gearing as an essential part of their equipment.

7698. (6) The allowance of one-sixth of the rack rent to cover depreciation of trade buildings is altogether insufficient. As a question of equity between one trader and another all properly vouched expenditure in actual repairs ought to be allowed. There is no insurmountable difficulty in deciding what are and what are not repairs.

7699. (7) We think it obvious that allowances for obsolescence should be granted whether or not the plant is actually replaced, or, in any case where it applies, whether or not the building is replaced. To make replacement a stipulation is unreasonable in itself, and in modern conditions it is frequently impracticable to apply this stipulation to actual practice. If the fact of obsolescence be admitted, allowance should follow as a matter of course.

7700. (8) The war has brought about altered conditions and has revealed to all what many leading manufacturers have been realizing in an increasing degree for the last 20 years, viz.: that manufacturing processes can only be carried on efficiently when out-of-date machinery is continually replaced by modern

7701. (9) The risk that capital might leave the country is a large one unless steps are taken to guard against it. For several years before the war a good deal of capital was going abroad to escape taxation. This movement was undoubtedly checked a good deal by taxing foreign income, and, of course, it remains to be seen what the level of taxation is to be in other countries.

plant. We contend that it is most undesirable in the national interests that manufacturers should be in any way penalized for keeping up to date. It is this substitution of new plant for old which renders increased production possible, and enables a higher rate of industrial wages to be paid. We regard it as urgently necessary that the arrangements very nearly brought about as a result of the deputation in 1913 should be forthwith put into effect.

7702. (10) We believe that the easiest method of carrying what is above suggested into effect would be for rates of allowance to be agreed with accredited representatives of the several trades interested. In this way agreement covering the whole ground could be secured on the basis of a general principle, and, in a necessarily auxiliary way, the peculiarities of each trade could be reasonably provided for. No doubt many points of technical difficulty are involved, but none of them are insurmountable.

7703. (11) I wish to refer to the effect of the foregoing considerations on new and extending industries—and particularly the "key" industries of the country. In the immediate future new works and new plant must be put down under exceedingly costly conditions. In this connection I wish to speak in my capacity as a director of British Dyestuffs Corporation, Limited. A great national effort is being made by our company, with the support of the Government, to establish the manufacture of dyes in this country, and to render it free from German supplies. Many millions sterling are being spent by our company in new buildings, plant and equipment. The present cost of construction is probably three times the pre-war cost. It is absolutely essential that this excessive cost should be written off as early as possible. All the great German works and the principal Swiss works had written down their plant to a very low figure before the war. It is essential that our company (and also others in a like position) should be in as favourable a position, in regard to the capital value of its equipment, as the German companies; otherwise the excessive burden of its capital outlay will make it impracticable for it to compete in the price of its productions.

7704. (12) If Income Tax at anything like six shillings in the £ is to be charged on the whole profits, without very ample deductions for depreciation, as well as for excessive cost of equipment, it may well be that more than the whole of the real profits of this and other similar undertakings will be absorbed by taxation. In other words, after 6/10ths of the whole profits have been taken for Income Tax, the 1/10th remaining may not be sufficient to provide for reasonable and prudent writing off.

7705. (13) I venture to submit that this question requires most serious consideration, or our vital industries will be taxed out of existence. Methods which could be endured with Income Tax at 1s. in the £ cannot be upheld with the tax at 6s. There should, in my opinion, be some tribunal established for dealing with special cases, and a much more liberal treatment should be extended to manufacturing industries in regard to the questions above referred to.

[This concludes the evidence-in-chief of Mr. G. P. Norton.]

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MR. H. D. LEATHER.

[Continued.]

Proof of evidence to be submitted by Mr. H. D. LEATHER on behalf of the Association on July 18th, 1919.

7705. I am a member of the Institute of Chartered Accountants of England and Wales and I have been in practice and a partner in the firm of Messrs. Leather & Vasele, Chartered Accountants, of Leeds, Cloughdale and Harrogate, for the last 20 years. I am also a director of engineering, electric supply and other limited companies.

I have, from the years 1904 until 1914, submitted annually resolutions at the meetings of the Associated Chambers of Commerce dealing with the question of the inadequacy of the present rates of depreciation on plant and machinery and the fact that no allowance was made for depreciation on buildings; these resolutions have on each occasion been accepted by the Associated Chambers with practical unanimity.

I was a member of the Committee appointed by the Associated Chambers of Commerce in 1913 which met Sir Matthew Nathan, C.M.G., the then Chairman of the Board of Inland Revenue—as a result of this conference instructions were issued that an annual allowance for the depreciation of furniture and fittings used for trade purposes should be granted; and sympathetic consideration was promised with regard to depreciation allowances on buildings used for trade purposes and for shaft sinking and the cost of pit development.

I am in general agreement with the points raised by Mr. G. P. Norton in the evidence that he is to give before your Commission, and am of opinion that—

- (1) adequate allowance should be made for the annual reduction in the value of all property—used for trade or business purposes—in earning profits assessable for Income Tax; whether such reduction in value is caused by wear and tear, obsolescence or exhaustion;

- (2) adequate rates of depreciation for such annual reduction in value should be fixed—as far as possible for each particular trade—by a properly constituted authority acting on behalf of the Board of Inland Revenue; and that such annual allowances should be regarded as a recognized trade expense, chargeable against all profits ascertained for the purpose of assessment of such trades and businesses under Schedule D.

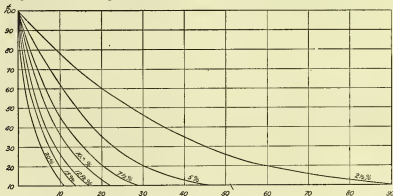
In arriving at such annual allowances account should be taken of all the working conditions—as and when they may arise—and such rates should be subject to regular and constant revision by the duly constituted authority; the present enormously increased cost of replacing both buildings and machinery should be taken into account in fixing the depreciation rates at the present time.

These allowances should cover *inter alia* buildings, plant, machinery, motor vehicles, furniture, fittings, outlay on leasehold premises, shaft sinking, pit development, &c., &c., and would be claimable by and allowable to either the user or the owner and would be automatically granted by the Surveyor of Taxes without any need for appeal, except that provision should be made that in exceptional circumstances special allowances might be made, e.g., in the case of machinery running night and day.

- (3) the present allowance of one-sixth from the gross Schedule A assessment, i.e., the rack rent valuation—for repairs, &c.—is under existing circumstances quite inadequate and should be considerably increased.

I beg to submit herewith a chart showing the number of years required to write down to its residual value plant of an assumed value of £100 at varying rates of depreciation from 2½ per cent. to 30 per cent. on the annual written down value; the term covered it will be observed ranges from 12 to 90 years, thus demonstrating the inadequacy of the present rates of depreciation to provide an annual fund for the replacement of modern fast-working machinery.

Curves demonstrating the number of years required to write down to residual or scrap value (assumed at 10% of cost) plant of the value of £100 at the following rates of depreciation—20%, 15%, 12½%, 10%, 7½%, 5% and 2½% per annum on the reducing balances.



[This concludes the evidence-in-chief of Mr. H. D. Leather.]

Proof of evidence to be submitted by Mr. H. LAKIN-SMITH of the Association of British Chambers of Commerce on July 18th, 1919, upon the questions of simplification and administration.

7706. I am a Fellow of the Institute of Chartered Accountants and Fellow of the Royal Statistical Society. I am, and have been for many years, the Chairman of the Imperial and Local Finance Com-

mittee, and member of the Council of the Birmingham Chamber of Commerce (the largest Provincial Chamber). I have a large experience in Income Tax practice in all parts of England and Wales, and have given addresses upon Income Tax and Income Tax Reform in London to the National Association of British and Irish Millers, and in Birmingham to the Chamber of Commerce, Institute of Secretaries and Institute of Bankers.

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MR. H. LAKIN-SMITH.

[Continued.]

Returns.

7707. (1) One great cause of difficulty to the average taxpayer is that of making his returns. Frequently more than one return is required (e.g., under Schedules D and E), and the form for the return under Schedule D is the same for an individual as a business and, consequently, is unnecessarily complicated and unsuitable for both purposes. Then there is the further complication for some taxpayers of having to make a separate return for Super-tax.

In the opinion of the Association of the British Chambers of Commerce, Schedule E should be abolished, and, if and when it becomes practicable, Schedules A, B, and C should be similarly treated. Further, Super-tax should be merged in Income Tax. The ideal would be one Schedule only.

The method of fixing the amount of Income Tax payable might, perhaps, very well be on the lines hitherto adopted only for Super-tax, by which the rate charged increases in respect of each succeeding additional amount of income and not of the total income. The amount of tax obtained for the Inland Revenue can be made practically similar, and Super-tax may well be merged.

Graduations should not stop at the £10,000 point as at present; that is to say, that a man with an income of £50,000 should pay at a higher rate than one with an income of £10,000 per annum. Of course, such a scheme would involve the fixing of a standard rate for deduction at the source.

Turning now to the question of returns, each taxpayer should only make one return to include his whole income (taxable and untaxable) from all sources. There should, however, be two forms of return, one for a business and one for an individual in his private capacity. Further, every possible facility should be given to ensure a proper and accurate return made on a simplified form of return. All the notes or instructions should be printed on the form (each note against its corresponding item), and not on a separate sheet as now. It is obvious that the present form of return is confusing to anyone not versed in Income Tax matters, and especially to private individuals wishing to make out their own returns. For example, a private individual does not require a space for claiming a deduction for "Wear and Tear," nor notes as to "Repairs of Premises," "Debts proved to be bad," "Any sum paid as Excess Profits Duty or Munitions Exchequer Payments," &c., &c.; nor is a business return assisted by a whole page of the return being devoted to allowances of Life Insurance Premiums, claims for relief in respect of a wife, widower, children or dependants.

Further, on the individual's return a table should be printed showing how the amount payable would be arrived at, on the lines at present adopted for Super-tax.

It is also recommended that instead of, as now, returns being often required from one individual from various districts, all information relating to these should be forwarded by the Surveyors concerned to the Surveyor of that district in which the taxpayer makes his return, which district must be either his chief place of business or where he lives.

This makes a complete return from each individual an easy matter (and also makes the deduction for Life Insurance easier) and then only one assessment is made on each taxpayer.

Each taxpayer should sign on the form for assessment a clear declaration that it is a return of the whole of his income, including interest on deposit account, if any.

Forms of return should be sent out in duplicate, so that one copy may be retained by each taxpayer.

Taxpayers should be assisted in every reasonable way by the Inland Revenue. When a manifest slip or error is made in a return the Surveyor should at once point this out. Departmental instructions to Surveyors should be made public, and all important decisions of the General and Special Commissioners should be published. Probably there would be much

less evasion if everyone was compelled to keep proper accounts.

The office of Assessor should be abolished. They are generally ignorant of Income Tax law and practice, often have only part-time employment upon this work, and are generally the cause of numberless unnecessary assessments being sent out (often incorrect), and if a question is asked them, it has to be referred to the Surveyor. The consequence of all this is delay and unnecessary annoyance to taxpayers. The Collectors should form a portion of the Inland Revenue staff in each town or city, and the returns should be sent to, assessments made from, and tax paid to the same office.

Assessments.

7708. (2) There would be only one assessment made upon each taxpayer.

In the case of partnership, there would under the same scheme suggested be one return for the business and one for each partner, and it is suggested that it would be far more convenient and satisfactory if an assessment were then to be made upon each partner instead of, as now, one assessment being made upon the firm, including adjustments of all partners, as regards rates of tax, abatements, allowances, income of wife, &c. This assessment often results in a letter to the Surveyor, asking for details, before it can be understood, and also gives to each partner detailed knowledge of the private affairs of his partners, which, it is submitted, is undesirable.

The existing choice of assessment by the General or Special Commissioners may well continue; but it is submitted that more care should be exercised in the appointment of the former, and that only those with real business training (and, preferably, some knowledge of Income Tax) should be appointed. Nominations might well, in suitable cases be made by the local Chamber of Commerce.

Collection.

7709. (3) As already suggested, this should be undertaken in the office of the Surveyor of Taxes.

Encouragement for the early payment of tax should be given, but the existing discount on pre-payment at the rate of 2½ per cent. per annum is quite unattractive. Taxpayers should be encouraged to pre-pay. Five per cent. per annum is the lowest rate that could attract them. A slightly higher rate than that would probably be very effective. The taxpayer should have the right to pay in advance in substantial instalments at an attractive rate of discount as soon as his assessment notice has been received. The simplification of Income Tax would itself decrease evasion, and increase the yield of tax.

Appeals.

7710. (4) The Board of Referees, which in Excess Profits Duty matters, has had and is having a most valuable experience, should be continued for Income Tax, but nothing must be done in this direction which (as in the case of Excess Profits Duty) denies to the taxpayer an absolute right of appeal to the General or Special Commissioners.

The Commissioners might well, when taking appeals, be advised by a skilled chartered or incorporated accountant as well as solicitor. When a taxpayer, through inadvertence, has failed to give notice of appeal within the prescribed time, the amount of the assessment should still be able to be corrected, when it is caused by a clear error in the figures. Complaints have been received with regard to the method of hearing appeals, to the effect that it is not altogether satisfactory that one party should be present as an act of grace or that the Surveyor should be present with the Commissioners without the presence also of the accountant (or appellant).

Repayment.

7711. (5) In view of the high rate of tax and consequent hardship on many, repayment claims should be allowed to be made half-yearly. Great promptitude

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Mr. S. B. QUIN.

[Continued.]

in repayment is desirable. All public bodies should show satisfactorily full information, *re* Income Tax treatment, on the counterfoils attached to interest and dividend warrants, including cases where dividends are paid free of tax. Further, counterfoils should be legally compelled to be issued in every case.

[This concludes the evidence-in-chief of Mr. H. Lohin-Smith.]

SUMMARY of evidence to be submitted by Mr. STEWART BLACKER QUIN on behalf of the Association of British Chambers of Commerce.

Average system.

7713. I am a member of the Council of the Belfast Chamber of Commerce and Chairman of the Income Tax Committee of that body. I am a Fellow of the Institute of Chartered Accountants in Ireland and, for the third year in succession, President of that body; and I am the senior partner in the firm of Stewart Blacker Quin, Knox & Co., chartered accountants, Belfast. I am also a Fellow of the Royal Statistical Society.

I beg to say that my evidence is given on behalf of the Association of British Chambers of Commerce, and I have been requested by the special Income Tax committee of that body to give evidence on the proposal to discontinue the system of averaging profits as a basis for Income Tax assessments, and in lieu thereof to base the assessments on the actual profits of each year. I, therefore, beg to submit the following:—

That profits under Schedule D shall be assessed on the actually ascertained profits of the preceding year, instead of on the average of a period of years as at present, and where a loss is incurred it shall be carried forward to the succeeding year or years until made good out of profits.

The foregoing recommendation is made mainly on the following grounds:—

(a) The distribution of profits, whether by way of dividend in the case of a company, appropriation in a partnership, or withdrawal in a business carried on by a private individual, is determined by the results as shown by the accounts for the last preceding year or other period, and as the State now participates so largely in the profits, it is submitted that it would be more convenient and equitable that Income Tax should be ascertained and provided for in respect of the accounts of each individual year as in the case of the other parties interested in the distribution of the profits.

(b) It will also obviate loss to the company or to the shareholders in the deduction of Income Tax from dividends payable to the latter, based upon an average which may be at variance with the amount of tax and the rate for the individual year.

(c) Prevention of loss to either payee or payer in respect of tax deducted from royalties owing to variation in rates of tax based

[This concludes the evidence-in-chief of Mr. S. B. Quin.]

7714. *Chairman:* Gentlemen, this is a very important representation which you have brought before us this morning. The great problems which we have to solve are known to you. The difficulty that faces this Commission is that nearly everyone that comes up before us desires some statement from Income Tax. We want to get some of the Intelligence of this country to show us methods of retaining Income Tax rather than reducing it. We have your evidence-in-chief before us. The procedure we adopt is this; we take the evidence and read it very carefully, which we have already done, and then commence examination on your statement. That saves a great deal of time and reiteration of the points. I propose this morning to ask Mr. Currie to be examined first, and I think probably Sir Algernon Firth comes next.

Other points on administration.

7712. (6) It is of the utmost importance that instructions to Inland Revenue officials should be codified and grouped, so as to ensure uniformity of practice as far as possible in different parts of the country.

upon an average instead of an individual year, the tax being deductible from the royalties and the latter being disallowed as a charge against profits for Income Tax purposes.

(d) Immediate relief to the taxpayer in respect of falling profits or in the case of a loss in trading, and immediate gain to the Inland Revenue in respect of increasing profits, thus being fair and equitable to both the taxpayer and the Inland Revenue.

(e) Prevention of hardship to an incoming partner where the profits in the year of assessment are below the average of the three previous years.

(f) Avoidance of inevitable irritation where the trader is losing money and yet has to pay Income Tax on apparently fictitious profits based on an average, even though he is able to obtain a refund at a later date. Under the present system of averaging it frequently happens that a trader with falling profits or who may be incurring a serious loss in trading is called upon to make quite heavy payments for Income Tax at a time when he can least afford it while, on the other hand, a trader whose profits are greatly on the increase is called upon to make quite moderate payments for Income Tax at a time when he could conveniently pay much more.

It is desired to emphasize the necessity for carrying forward a loss from any particular year to be made good out of the profits of the next succeeding year or years on the same principle that losses are brought into the average and relief given therefor under the present system.

I am in agreement with the proposals contained in the Memoranda, prepared by Mr. G. H. Blanden, a former Surveyor of Taxes, and Sir Francis Gore, Solicitor to the Inland Revenue, which appeared respectively at pages 17, 18 and 26, 27, 28 of the Appendix to the Report of the Departmental Committee on Income Tax, 1905. I am also in agreement with the evidence of Sir R. E. Nott-Bower, Commissioner of Inland Revenue, as shown on pages 91 to 93 of the same Report.

With a view to an earlier computation of the amount of tax derivable under the proposed altered conditions, perhaps it may be desirable that the available accounts should be made up to a date immediately preceding the 1st January, instead of the 5th April of the year preceding that of assessment as at present.

7715. *Mr. Monsie:* In the first section of your evidence, which relates to exemptions and allowances, you refer to exemptions up to £200; have you any idea what that would cost the country?—(Mr. Currie): Yes. The White Paper published last week (Cmd. 224 of 1919) shows that that would amount to a little under £5,000,000 a year.

7716. And you also suggest that a man with £300 a year, that is 48 per week, stands in as much need of help in regard to his children and so on as the one with £200 per year?—No; and of course to begin with we are not making any attempt to equalise them; but a man with £6 a week might or might not need as much help. It is really a relative matter. There are schools and schools, and then there are travelling expenses sometimes. In London, too, a man with

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[Continued.]

£300 a year might have to pay very high rent. All these things have to be taken into account. We wish to look at the thing as a whole and make an attempt to relieve the really poor man from taxes upon his means of mere decent subsistence. Beyond that point we think that every man should pay his share, whatever his income may be. That is our general view on that point.

7717. In connection with the second paragraph, the collection at the source, how do you propose to deal with the difficulty of deducting at the source a high rate all round? Do you recommend a division at a certain point in the line?—Yes, we feel that a division is really the only way out. Mr. Lakin-Smith, who is to follow me, will explain this more in detail. It comes under the evidence as to administration really, and we have asked him to give evidence on those points. We think there must be a dividing line somewhere.

7718. Then as to No. 3, adequate information and fraud, do you suggest that fraud is common? Have you arrived at any idea of what the country would save by having it eliminated, and is not most of the fraud on a petty scale? Have you come across much of it in your own practice?—Of course you will not ask me to give details of an individual practice, but I think I may say that accountants in the course of their work do come across a good deal of such fraud, or such carelessness that the result comes to the same thing. Probably people who wish to act not quite on the straight do not as a rule employ a professional accountant at all. They prefer to attend to these things for themselves. My colleagues, all of whom are professional men of long experience, are agreed that fraud and evasion are far too common, and that the money lost must really run to a large figure annually. Of course at this point one gets into the realm of conjecture, but last year £350,000,000 was collected on Income Tax and Super-tax, and if you take the loss at 6d. in the £ it would work out at more than £8,000,000 a year.

7719. 6d. in the £ on what?—On money paid.

7720. Money collected?—Yes. We think that simplification might fairly be expected to enable your officials to get hold of, say, a further £5,000,000 a year. The figure might be a good deal larger. We think that simplification would pay for itself over and over again and save a good deal of trouble in the bargain. I see that one of the witnesses before you about a month ago estimated that in connection with Super-tax alone there was probably a leakage of about £1,000,000 a year. It was not suggested that that was a fraudulent leakage, of course, but it is leakage. Schedule D, of course, is where the leak takes place, and Schedule D represents nearly two-thirds of the whole tax that we collect.

7721. Then with regard to farmers, you do not agree that farmers cannot keep books, or that it is too difficult for them to do so?—No. My colleagues and I do not take that view of it. We know, of course, that many people find it difficult to keep books of any kind; that is quite true; but we think that farmers can learn, and should learn, just like other people. I see that the Agriculture Board in Scotland, and the same Board in England, is making considerable efforts to help them to learn at present. We feel very strongly that if a farmer is really to make head or tail of the rather complicated return required from him under the Corn Production Act he must be a man who is able to grasp a good many figures pretty thoroughly; and if you accept the position that a farmer cannot keep books it would, we think, be more reasonable to charge him a much higher multiple of his rent as an alternative basis of assessment. Five times, we think, would be a better arrangement, and it would be an inducement to farmers to keep books or to send for someone to do it for them, which after all is what a great many traders do. The authorities have this last year done a great deal to enlighten the farmer, and my own belief is that farmers are coming to see that a well-kept system of books is a very good friend to them. I do not doubt for a moment that many farmers are rather afraid of books at present, but we think that they can be cured of that. However that may be,

we really think it is quite unfair, and that if the country wishes to do something to help the farming interest (it may be a very wise thing to do), it should not be done by twisting the inside arrangements of the Income Tax in this way. I observe that Schedule B brought under review rather more than £100,000,000 starting last year, and was actually taxed on £42,000,000. Taking tax at 6s. in the pound, that comes to about £10,000,000 a year, and so far as one can make a calculation in a matter of the kind, we think it is not an immoderate view to take that somewhere between £5,000,000 and £10,000,000 further might, without any injustice to the farmer, be obtained from him.

7722. Chairman: You will probably be examined on that point.

7723. Mr. Menzies: I see you use the expression in No. 8, on the distinction between earned and unearned income: "income which may be described as small or even moderate." For this particular purpose what do you regard as the meaning of the word "moderate"?—My friends and myself discussed that, and we agreed not to put in a figure, but that if any of us were asked the question we would say we were not thinking of any figure under £1,000 a year—certainly not a smaller figure than that.

7724. Then, with regard to married persons, you refer to secrecy. Do you think there should be no secrecy between husband and wife?—No. What we think is that it should be a mutual matter if there is to be a joint assessment at all. One great difficulty is that as a rule a wife's return is quite simple, and even the least intelligent husband can follow it quite easily, but a business man's return is not at all so easy to follow even by an intelligent business man himself. If the present system is to be continued I think the wife should be asked to sign a certain portion of the joint return corresponding to her own interest in the money at stake; and that any money due to be repaid in respect of her share should be actually sent to her by a cheque in her own favour. As you see from the rest of my evidence, we are prepared to recommend that some concession be made in respect of the claim that is being urged upon the Chancellor as to joint assessment, but as to secrecy that is what we feel.

7725. One question on No. 10. How do you propose to treat annuities?—I would treat a fixed contract like a rent charge as they are treated just now, that is, divide them up between capital and income, and tax the income; but I take it your question refers to life annuities?

7726. Yes.—On that point I would not care to argue that a life annuity is a true wasting asset. It involves a tract of time which comes to an end sooner or later, but it presents rather a different problem. You can always draw a dividing line between capital and income involved, and perhaps an attempt can be made to do this; but the life contingencies are so varied and complicated, and the premiums paid take so many forms, that it is certainly difficult to arrive on lines of principle at a fixed opinion as to what sort of consideration could be given to an annuitant. I have a feeling that to tax a man who puts down a lump sum, and buys an ordinary annuity, or the same returned to him, in so far as they will be a return of capital, is rather harder than is justifiable. On the other hand, assuming that he spends the money and does not begin to repeat some process of saving, he effects a complete escape from the Death Duties. I do not doubt that your actuarial witnesses will give their views on this matter. The interest of the life offices might not exactly coincide with the interest of the annuitant. It seems to me that if the Commissioners go into this matter they will require to consider annuities and pensions as separate problems. I see no case for not subjecting a pension to full Income Tax at the proper rate on a graduated scale.

7727. I was just going to ask whether the opinion you have been expressing is that of the Committee as a whole or of yourself personally, and I should like further to ask you whether the material that is in this proof, and especially in the supplementary memorandum, is intended to represent the views of the Committee or, to some extent, only your own views?—

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[Continued.]

In respect of the first part of the question, the answer is that in connection with questions arising out of Life Assurance business we think, as leading actuaries are to give evidence before the Commission, it is unnecessary for the Chambers to go into details. We had some conversation about it, but the Chambers of Commerce are not very specially and particularly interested in Life Assurance assessment, and the actuaries after all must speak for themselves; the views that I have expressed in reply to your question are simply a reply to your question, and, of course, we have not talked over the details of the answer to it; it is in reply to a side question, as it were.

7728. *Chairman:* Is your paper representing yourself or is it representing the organisation for which you appear here this morning?—The paper represents the views of the evidence as it reached us, but I would like to make this further observation, that it was left to me after the last meeting between myself and my colleagues to put together what the effect of the various resolutions we had passed really was, and I have done my best to do so. The resolutions themselves were arrived at in this way: we communicated with every Chamber of Commerce in the country; we received their evidence; Mr. Quin, one of my colleagues, made a very useful résumé of every opinion that reached us; we examined every opinion; we either accepted it, modified it, or in certain cases had to reject it, because some of the opinions were diametrically opposed one to the other. I would like, if I may, to put in the résumé of all the evidence that reached us. I would like also to lodge a copy of the series of resolutions contained in the minutes.

7729. *Mr. Mansville:* I do not think that goes quite far enough on the second part of the question, the supplementary memorandum?—That was circulated as soon as printed. We regard this supplementary memorandum not so much as a statement of opinion, or as a statement of advocacy of any view as to what should be done, but as an attempt to put together in a convenient form what will happen if the recommendations which the Chambers have asked us to make are made; that is to say, everybody comes here and says, as you said, my lord: "Please let me do something," and we are doing the same thing. We say, "Let them off up to a certain point altogether; up to certain other points, so much more," and so on. It all costs money. This memorandum is an attempt to say how much money, and it is not a statement of what we or what I would be glad to see done, because I know we all take the view that these heavy taxes, even the taxes we have at present, are a very serious drag upon trade, and after all trade is our chief interest.

7730. *Chairman:* Your statement is an important one, and Mr. Mansville's question is as to whether your colleagues sitting with you agree with your statement; that is to say, whether you make the statement as representing yourself or whether it represents your colleagues' opinion. If it does not represent your colleagues then I shall probably give permission for your colleagues to examine you?—I should be quite glad to be examined by either my colleagues or anyone. I will put it in this way: I think my colleagues are in agreement with me as to most things, but as to the further result, that really lies more with your colleagues than with us, and there may be a great many reservations both in my mind and in yours.

7731. *Mr. Pretyman:* On your first point about exemptions, allowances, abatements, and reliefs, you have stated here that you think the total cost of that would be £4,800,000, in the first category in your supplementary statement, and then you have a figure of £13,860,000. I cannot quite make out whether that £13,860,000 is intended to cover both; is that No. 4?—I think I can assist you. The £4,800,000 would be the cost of a complete exemption below the exemption line if the line were fixed at £200.

7732. And the rest is the sum of the others?—The second figure following, of £13,860,000, represents relief which we think should be given to people in some shape or another—we do not care much in what shape—with incomes between £200 a year and £1,000 a year.

7733. The £4,800,000 is the cost of a clean cut at £200?—Yes.

7734. Then the sum of the others except 5, that is to say the remaining part of 2, plus 3, plus 4, is £13,860,000; is that it?—No, I do not think that is quite it. We propose four exemptions, and they are all going to cost money; altogether they will cost £25,000,000 a year. We propose, in the first place, to give away £4,800,000 at the very bottom of the scale. Then we propose to spend nearly £14,000,000 in giving some sort of relief between the £200 a year point and the £1,000 a year point. In addition to that we propose to spend between £3,000,000 and £4,000,000 in giving still further relief between the £1,000 a year point and the £1,500 a year point.

7735. That is exactly what I said. The first part of No. 2 on your paper is £4,800,000. The remainder of 2, together with 3 and 4, is £13,860,000?—Yes.

7736. And No. 5 is £3,860,000; that is right, I think?—Yes.

7737. And then the separate assessment of married women is £3,000,000?—Yes.

7738. I only want to get it quite clear. You have proposed here in a reasoned form—you have evidently thought it out—the exemption up to the limit of £200?—Yes.

7739. Can that exemption limit be regarded in any way separately from the abatements; must not it be considered with the abatements?—Of course, our minute shows that we considered that very carefully.

7740. Then when you were considering those abatements what was in your mind, because it is a very, very different thing whether you were considering those abatements with a bachelor or a lady typist in your mind, or whether you were considering the average family of a man and wife and a couple of children; which was it you had in your mind when you said £300?—In the evidence-in-chief we say: "Assuming, however, that the cost of living is to remain at anything like its present level for a considerable period of years, we think there might be an exemption from every assessment (. . . rich and poor alike) of £300 per annum. We suggest this figure bearing in view the scale of allowances for dependants which are in force at the present moment. Whatever figure be fixed upon, it will produce slightly varying results as between different parts of the country; this is unavoidable"; but having done that, we, of course, go on with our eyes open.

7741. Yes, I know. The effect of those words on my mind is that you were considering the bachelor in the £300 limit?—No, not only.

7742. Is it not the fact that nobody except a single person will be affected by the £300 limit?—We were largely thinking of women, as a matter of fact.

7743. I am not dealing with sex at all. I am dealing with the single individual who has no dependants at all. Is it not the fact that your £300 limit would apply only to them, and no one else?—Yes.

7744. Very well, then you have them in mind?—Certainly.

7745. The others are higher?—The others are higher.

7746. Much higher?—Much higher.

7747. Therefore, the £300 limit would only apply to single persons with no dependants?—Yes.

7748. By single I mean a man might be a widower with no dependants—individuals who have only themselves to support?—Quite.

7749. Do you rather consider that in view of the enormous burden there is upon capital at the present time it is reasonable to exempt entirely from tax a single person with nobody but himself or herself to support with £300 a year absolutely and entirely to exempt them?—Well, I would like to divide my answer up into three answers really. In the first place, we recognize that £300 a year just now is only equivalent—

7750. I am speaking of now?—Well, £300 a year just now is only equivalent to something like £100 a year before the war. On that point, I think I may say up very much agree with a good deal of the evidence that Mr. Bowley is reported to have given to you. Then, secondly, we are in favour of dealing much more liberally with dependants' allowances than

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has ever been done heretofore, and in fixing the £200 figure we had that in view. Finally, in fixing the £200 figure we were guided by the evidence which our constituents placed before us, and I might say the exemption limit suggested by Chambers of Commerce here, there, and everywhere, range from something under £100 up to something a good deal above £200. At all events, we had to make up our mind what, as a Committee, we would recommend, and having weighed answers which have reached us from the various Chambers, and considered them along with the rest of our evidence, we decided to put in the figure £200. But, in addition to that, there is a point which occurs to me a good deal, and it arises partly out of the cost of living, and that is this, that when one divides taxation in this country up into direct and indirect, we see that so far as the machinery of levying goes, the Excess Profits Duty is direct taxation, but in its effect it appears to me at least, to operate more nearly as indirect taxation. We are told that the price of a pair of boots is increased by the Excess Profits Duty. If that is so, it appears to me that the Excess Profits Duty, if it is operating in that way at all (I do not want to argue that), is operating rather as indirect taxation than direct taxation, and I, at least, had that in view in agreeing to this £200 figure.

7751. You do not think then that a single person ought to begin at, say, £3 a week, or £150 a year, to contribute something to direct taxation?—No. The view that was taken by my colleagues and myself was that we are here, to a great extent, giving evidence on behalf of and in the interests of the employing classes, the small and large manufacturers, and we came to the conclusion that there was no special interest that should weigh with a manufacturer to make him regard with liking, or anything but great disliking and great discontent, the exemption limit of £150, and we think, in the interests of industrial peace, the sooner the £150 level is done away with the better.

7752. Had you at all before you, or was the point considered, of the political bearing of as large a number of persons as possible who are voters having to make some direct contribution to taxation?—Yes, we discussed that.

7753. You do not attach much importance to that apparently?—Oh, yes, we did.

7754. At these levels you would have a very large number of millions of voters who would be entirely exempt from direct taxation; you have that in mind?—Yes, we had the figures before us.

7755. You think that the other considerations entirely outweigh that?—We thought so, yes; but our main point is that the £200 is a fair representation of the figures that reached us from our constituents, and our green book when it is lodged with your Secretary will show that to be so.

7756. I take it that in considering this matter you were not merely considering what it is desirable to do to relieve people from all hardship, because you realize, do you not, that there is hardship in Income Tax the whole way up the scale?—Oh, yes.

7757. And that it must be looked at as a whole?—Yes.

7758. And it is impossible to consider desirability. You have considered, of course, that you have to put it on somewhere else, but I will come to that later?—Yes.

7759. You had that fully in mind when you were thinking of this. You did not want to do everything you would like to do for one set of people?—No.

7760. Leaving others to bear the burden?—We considered that very fully.

7761. What I mean is that you have under present circumstances to impose on everybody a very unpleasant form of Income Tax, and the question is not how you can make it pleasant, but what is actually bearable. Did you consider this from the point of view of what is bearable, or what is pleasant?—We considered it from the point of view of what was reasonably bearable, not from the point of view of what was pleasant, because we quite

realize that every penny we took off at the bottom had to be put on at the top, or to be found in some other way which perhaps might be better.

7762. You made one suggestion here about allowing this £200, or whatever the exempted minimum is throughout?—Yes.

7763. Did you mean that that should be allowed to everybody all the way up?—Yes, right up.

7764. You realize, do you not, that as you mount the scale of income the graduation of tax, the rate of tax, increases? Did you intend that the same exemption should be given to the people at the top as the people at the bottom, so that the higher exemption should be given to the people at the top, because they pay at a higher rate?—We were not particularly wishing to urge the latter view, but really I do not imagine that we attach very great importance to whether you allow a man with an income of £50,000 a year an abatement of £200 off his assessment or not. We do not pretend to attach much importance to it, but we thought if you phrased it in this way, that every man, be he a miner, or be he the Duke of Northumberland, gets £200 to begin with, which I think is the American plan, it would do a good deal to allay discontent, and that is really why we put it in.

7765. There are not many people with £50,000 a year, so the Revenue would not lose much on them; but there is an enormous number of people who are between £200 a year and £50,000 a year, on whose incomes the Revenue would lose a great deal if that exemption of £200 were operative all the way up?—I can only say that we attach great importance to having an adequate complete exemption at the bottom.

7766. Which way was your figure calculated; that would really answer my question. In your supplementary memorandum you have this figure of £15,300,000 to cover all these points. Was that taken, exempting the £200, on a standard basis, or on a graduated basis?—It does not pretend to enter into the detail of doing it either in one way or the other.

7767. It would make a great deal of difference?—We are quite aware that it would make a certain amount of difference, and we do not very much care how you treat the point. All we say is that we are prepared to support relief to the extent of £14,000,000 a year being given between the £200 and the £1,000 a year point.

7768. You do not attach such importance to these smaller details. You think about £14,000,000 should be given in the most convenient way possible to help people as much as possible?—Yes, that it what we think.

7769. I understand, and now I will leave that, and come to accounts. I take it from this it practically means compulsory accounts?—Yes, very nearly. We would like it to mean that.

7770. Of course, the members of Chambers of Commerce are all highly educated people with a very good knowledge of business; at any rate they are very much above the average standard knowledge of the country, and I think everybody would agree with them. I do not think there is any individual who would not agree with what you have stated in your evidence, that it is desirable that every trader, including farmers, should keep accounts?—Yes.

7771. But at the same time would you not bear in mind that there is a very large number of small traders, not only farmers, but others, who are people of a certain age in whose days education was not what it is now, and to whom it is extraordinarily difficult to keep accounts. You are putting a very heavy penalty upon them. Do you not think that if this were to be done it should be done very gradually, and it should be done over a long period of time, and with very ample warning, otherwise it would be a very unfortunate matter. Income Tax is unpopular enough already; do you not think if you are going to use the Income Tax not merely as an instrument of taxation, but as an instrument of enforcing the keeping of accounts on everybody in the

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country, because you think that it a desirable thing to do, that you are taking it out of its proper sphere? Would not it be better to pass a law that everybody is to keep accounts?—We certainly entirely repudiate any suggestion that we are recommending that this thing be done simply because we think that everybody should be dragged into keeping accounts. We recognize that accounts are made for man, and not man for accounts, but what appears to us is that however those things may be it is simply not fair to the shopkeeper, and the trading community, that farmers who make profits of £500 or £5,000 a year should not be taxed upon them.

7772. May I come to that later? I was not discussing farmers making £5,000 a year; I was speaking of the small trader, whether a farmer or other trader, especially a man or a woman of a certain age keeping a small shop assessable under Schedule D, and not understanding the keeping of accounts. You think that it is generally desirable that all those people should keep accounts, and you want to make them keep accounts, and you want to make the Income Tax the instrument for making them keep accounts. Do not you think that is going rather far? You are giving very important evidence on behalf of a very important body, and you are speaking on behalf of traders as a whole. Do you not think you ought to be rather careful before you make such a suggestion as that?—We have considered it with the greatest care, and I was instructed to give this evidence by all my colleagues, and we are unanimous without the slightest reservation.

7773. You have thoroughly considered that?—Yes.

7774. And you still think they ought to be made to keep accounts?—We think they should be made to pay on their profits.

7775. And it should be done through the Income Tax?—It should be done through the Income Tax (and for farmers) on a different principle from twice the annual value; we suggest as an alternative that a larger number of years should be taken.

7776. Do you suggest that should be done at once, or done gradually?—Unless they produce accounts we are in favour of depriving them of all the abatements and reliefs which are given to other people who do keep accounts; that is our evidence.

7777. It is your evidence that unless you can show some accounts you cannot get an abatement?—That is so.

7778. They do not give abatements without some form of accounts now?—Quite.

7779. That happens now; it is merely a question of degree?—That may be so.

7780. You would not legally give an abatement unless figures are shown to justify it?—That is a detail that must be very much better known to some of your colleagues than it is to myself.

7781. I think we may take that. Now as to farmers. I did not quite understand the figure you gave to Mr. Manville, but you said that £102,000,000 had come under review under Schedule B; what was the £42,000,000?—£42,000,000 was actually assessed upon.

7782. The balance went under Schedule D?—No; it is pared down in one way or another to £42,000,000. They are figures taken from your own Blue Book issued the other day. They were given by Mr. Hopkins.

7783. You mean the actual taxable amount was £42,000,000?—Yes.

7784. Out of £102,000,000?—I think so, under Schedule B.

7785. Have you any experience of the kind of profits which farmers make; you suggest five times the rent as a figure. Do you know anything about farming?—Cases have come under my notice which have been mentioned in the House of Commons where large profits have been made, and it cannot be maintained, we suggest, that to assess a man on merely double his rent gets fairly at these large profits.

7786. I want you kindly to answer my question. Have you any first-hand knowledge of farming—not something you have heard second-hand from somebody else—which leads you to suggest that five times a farmer's rent would be a reasonable figure to assess his profits upon if he could not produce proper accounts?—We consider that it would be fairer to apply such a form of pressure to him than to allow him to escape taxation.

7787. You suggest five times the rent as against twice the rent. What that indicates to my mind is that twice the rent is much too low, and, therefore, does not approximate to the ordinary profits of a farmer; that is evidently what you think?—Yes.

7788. Is that opinion that you have formed, that twice the rent in no way represents the ordinary profits of an average farmer, based on first-hand knowledge, or is it purely conjectural?—It is based on the opinions that reach us from our constituents whose evidence we give.

7789. Have any of them got any first-hand knowledge of farming? Would it be much the same thing if all farmers were to suggest that all grocers should have an assessment of five times because the grocers made large profits?—It amounts to that.

7790. It is the same thing?—Yes.

7791. You really have no first-hand knowledge; it is merely that you think you have heard they make those profits, and, therefore, you would like to put that figure in?—No, I do not think that is a fair construction of my evidence. We think that pressure should be applied to farmers—we think they are escaping at present.

7792. Chairman: Have you any facts that you can put before the Commission in reply to Mr. Pretzman upon which this suggestion is based?

7793. Mr. Pretzman: It is rather a serious matter when a very large body of traders in the country come forward to this Commission and suggest that another body of traders should be assessed on five times. It cannot be done lightly. You suggest the farmers should be assessed on five times their rental. It is a serious matter that such evidence should be given, and I want to know on what knowledge that evidence is based, whether it is purely conjectural, or whether it is based upon any sort of actual first-hand knowledge?—We are not tied up to four, five, or twenty-five; the view of every Chamber of Commerce in the country is that farmers are escaping too lightly at present, and beyond that I do not wish to spend time.

7794. Chairman: That is your answer?

7795. Mr. Pretzman: That is your answer, that you really do not know anything about farmers' profits?—No, I do not admit that.

7796. Not at first-hand; if you do I should like to have some information about it?—In the course of my profession I have in my day had occasion to examine the accounts of farmers. You must not assume that because we are not entering into details that five experienced chartered accountants between them do not know anything whatever about accounts of farmers in this country.

7797. Chairman: I do not think Mr. Pretzman is assuming that. I think your other answer that has been taken down is the answer.

7798. Mr. Pretzman: Of course, you understand that the keeping of accounts on a farm is an absolutely different thing from keeping accounts in any other sort of business?—Of course, every business has its own accounts.

7799. It is absolutely impossible to have a profit and loss account of any transaction on the farm; it is squaring the circle. There is no end to any transaction. You always begin with something left from the previous crop, and you leave something behind for the crop that follows, so it is purely a matter of assessment. Also you have stock which is like machinery, and that stock may be sold?—We understand all that thoroughly. It is like a trader's stock, which has to be valued at the end of the year.

7800. Has it to be valued at the end of the year at the value it has at that particular moment, or at a standard value?—It has to be valued in some way, and really I do not think there is much to be gained by spending more time in discussing valuations.

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7891. *Chairman:* Only that Mr. Pretzman wanted to get the point, because this is an important recommendation of yours. I think we can proceed now to the next point.

7892. *Mr. Pretzman:* With regard to Co-operative Societies, you suggest that societies doing business with persons who are not members should pay an Income Tax. I think that has been put forward by a great many traders who feel that grievance very seriously. Is your suggestion is the short way of putting it, they should be taxed on their whole profits, or only on that part of their profits which is made on outside business?—I would require there to divide my answer. We endorse without hesitation Sir James Martin's evidence on behalf of the London Chamber the other day, that when these privileges of registration were given to Co-operative Societies under the 1893 Act it was never contemplated that they would develop such large trade with outsiders. We think it clearly unfair to other Income Tax payers, whose trade is displaced by them to that extent, that the present position should be allowed to continue. As to the exact proportion involved the figure is in dispute.

7893. I will not press that any further, because Mr. May will be able to give you a much more complete examination than I can on that point. There are two more points I want to put to you, one about married persons. With regard to the separation of the assessment between husband and wife, you realize obviously that that is a very difficult question?—Yes.

7894. You rather suggest that there should be separate assessments?—Well, we put in a reservation of a very important nature. Our reservation is that there is a great deal to be said for a working distinction between them up to, say, a couple of thousand pounds a year, or up to the Super-tax point. We do not commit ourselves to the principle that we wish a cast-iron line drawn between the one and the other, but we think there is some hardship at present, and as we say, we are willing to support that movement to the extent of £3,000,000 or £4,000,000 a year.

7895. On that point you state in your evidence, and in this supplementary memorandum, that you understood the Chancellor of the Exchequer to say that £5,000,000 or £8,000,000 a year would be the probable loss, and you put it down at £3,000,000, but I think, somehow, there is a misunderstanding about that. What Mr. Chamberlain did state in the House of Commons was that the initial cost was estimated at £20,000,000, and the ultimate cost might reach £50,000,000; we have this official answer?—Mr. Chamberlain's first answer to Mr. Locker-Lampson, I think, referred to a figure of £6,000,000 or £8,000,000, but however extensive it is we are not prepared to support spending more money in that direction than about £3,000,000 a year. We have considered it as best we can.

7896. It is quite obviously no longer a principle?—Not with us.

7897. The women put forward as a principle that a woman must be treated as separate from her husband, that she has no right to know his income, and that he has no right to know hers, and that they must be separately assessed. That is the principle that they advocate, and if you accept that principle there is no question of stopping at any limit at all?—Quite.

7898. If you do not accept that principle it then simply becomes, does it not, an additional abatement, and nothing else?—Certainly.

7899. Very well, then is it not much better to give it as an abatement?—Possibly.

7900. So that I really do not think, if I might suggest it, that the Chamber would adhere to their suggestion of dividing it in that way. Would it not be much more businesslike, and better, to deal with it by two abatements, and to carry those abatements up as high as is thought necessary, and on as liberal a scale as is thought necessary, and to vary them as may be required from time to time?—That may be so. The views of the Chambers that reached us clearly showed that their whole idea was that the present position was not quite satisfactory, and a great many of them say frankly that they are favourable to it as

a principle, but the Committee that collated all the opinions do not feel able to commit themselves, and do not think it necessary that they should commit themselves to a principle one way or the other. They have considered the matter, and they are willing that further relief should be given, because they think the hardship lies amongst comparatively poor men and comparatively poor women.

7901. You agree that is merely an additional abatement?—Certainly.

7902. Very well, that does not help us much. The view of the Chambers does not give us any help on the matter of principle?—No. The principle is for the Commission to settle; we are only giving evidence.

7903. So far as your evidence goes it means that you do not suggest giving way on the whole of the principle, but what you suggest is giving some additional abatement?—Not quite. We qualify our evidence by saying specifically that it would be unfair to do anything of the kind unless sundry forms of evasion, or avoidance, were safeguarded. For instance, we say a man with an income of £20,000 a year should not be able to arrange matters that he has two separate incomes of £10,000, and has his £20,000 taxed at the £10,000 rate.

7904. Even if you went down to the lower figures, such as £1,000 a year, do you think it would be right that a widow with £800 a year should pay a larger tax than a man with £800 a year, whose wife has £200 a year?—We quite see the difficulty, and the line we took was that beyond saying we were willing to spend a certain amount of money in easing the position we did not feel it incumbent upon us to deal with the principle at stake, which we think falls to your Lordship and your colleagues.

7905. I will not press you any further on that. The last subject I wish to refer to is your proposal which is amplified in your supplementary memorandum. Examples are given there showing how you propose to obtain the money which you have given away lower down?—Quite.

7906. Have you worked out what the total actual effective tax would be on the various incomes on which you propose to increase the Income Tax and Super-tax?—No, we have prepared no schedule, but we say that if £25,000,000, or any sum, is removed from the bottom, and if we are to be held to Mr. Chamberlain's cast-iron requirement that what is taken away with one hand shall be replaced with the other, we are driven to the conclusion that there is no other way of getting back this money through the means of the Income Tax except at the top of the scale.

7907. You say there is no other way of getting back this money?—No, I do not say that. I say there is no other way of getting it back as Income Tax.

7908. I did not wish to tie you down. What you would say is that you see no other part of the Income Tax upon which you could get it back. Is it not necessary before you can put forward the opinion that you are going to get it back in this way to make sure that your proposals are going to result in an effective tax, and in order to judge of that would not you have to prepare a schedule? Would it not be at least worth while to have prepared a schedule, and to have opinions as to what the exact effect of your proposals was? How much do you suppose for instance a man with £10,000 a year, which is not such a very large income nowadays, would have to pay?—No, we are not prepared to take the responsibility of preparing schedules for the Commissioners.

7909. We have had your proposals examined officially, and a schedule prepared. A man with an income up to £10,000 a year would have to pay 6s. 6d. Super-tax, plus 6s. Income Tax, so he would have to pay 12s. 6d. in the £ on £10,000 a year?—No, I do not think he would, because, of course, he would get a good deal of benefit from the adjustments lower down the scale. I do not think the effective rate would work out nearly so high.

7910. These are official figures prepared, on your statement, by the Inland Revenue?—The digressions that we recommend between £200 and £1,000 a year would have some effect even on a £10,000 income.

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7821. I have got the wrong figure?—Yes, I think you have got the wrong figure.

7822. On £10,000 it would be 9s.?—Yes; my calculation, which I made roughly last night, was that it worked out about 9s. 3d.; but 9s. is probably all right.

7823. You think 9s. would not be too high?—We all think that these heavy taxes, even those we have got at present, have a very depressing effect upon trade. At the same time, we bear in mind that in spite of these taxes the growth of taxable incomes on an enormous scale has been very marked indeed. I would like to be allowed to mention some figures which I have with me, if I may.

7824. *Chairman:* There are other figures which have been placed before you; perhaps you might deal with them first.

7825. *Mr. Prettiman:* I agree that nothing can be more important than the taxable corpus, as long as the barometer which has to be watched with great care. On large incomes the present limit of tax is about 10s. in the £, is it not?—At £150,000 it runs up to 10s. 4d.

7826. But much below that, practically anybody with £20,000 or £30,000 a year, pays about 10s. 6.—*Quite.*

7827. And it does not go any higher; it only goes up by a penny or so; the sixpence gets eliminated?—*Yes.*

7828. Do you think that a higher rate than 10s. in the £ can really be made effective?—I do not say it can be made completely and mathematically effective, but I would like, in the first place, to read a resolution on that point, which is quite short: It was agreed to recommend that Income Tax and Super-tax be merged, and that one graduated scale from top to bottom be applied; the graduation should not stop at the £10,000 point.

7829. We have read all that carefully. I quite understand that. I was only putting to you one or two very straight questions. We have now got 10s. in the £, and apparently I am right in supposing that you think that on some incomes a higher rate than 10s. in the £ could be effectively imposed. When I say "effectively imposed" I mean that the result of imposing a higher rate would be to get more money?—The risk of capital being exported is very material.

7830. Do you think that a rate higher than 10s. in the £ on large incomes could be made really effective?—On very large incomes I do not doubt that it could be made effective, but we always have in view that these heavy taxes are a great drag upon trade.

7831. I should rather like you to answer me, if you can. Do you think that a higher rate than 10s. could really be made effective? Looking at it broadly, and from your general knowledge, could you give me that answer yourself? I cannot ask you to give an answer on behalf of the Chambers of Commerce to a question which they perhaps have not actually considered. Can you give me your own opinion on that point?—They have considered it, and they put forward the view that graduation should not stop at £10,000 a year, because they want to get more money out of the tax; but when it comes to the point of whether you could make a really thoroughly good collection of an Income Tax that would run up to 14s. or 15s. in the £, we can only warn you that the risk of the export of capital is so great that there might be some disappointment; I do not doubt that there would be.

7832. Then what becomes of the money that we are going to get to give to the other people at the bottom of the scale?—That is the problem for the Commissioners and the Chancellor of the Exchequer; but we point out two other ways by which you could get money.

7833. May we stick to this one, for the moment? You put this forward as the principal one, which is to steepen the graduation and increase the rate of tax upon these very large incomes?—*Yes.*

7834. I ask you this. It is now 10s. in the £, and I

gather that you think something higher than that could be made effective. Will you give me a figure which you think is the highest that could be made really effective?—As there appear to be incomes in this country on a scale much larger than £200,000 a year I do not doubt that a higher tax could be made effective.

7835. Up to what figure do you think it could be made effective?—The great difficulty would be not at the very top; it would be when you get into the region of men who are still working, and may be making incomes from £20,000 to £50,000 a year; that is where the difficulty comes, and where the real hardships would come in. You would get a good deal more money; we do not doubt that for a moment; we do not think the whole proposal is nagatory. (*Sir Algernon Firth:* Please say "I"; do not say "we.")

7836. I am really asking you whether you think you would get a higher amount of tax by imposing it beyond 10s.?—(*Mr. Currie:* Yes, I think we would.)

7837. Up to what point do you think you could go, and still get more money? There obviously comes a point when you would get less money?—I think that in cases of £150,000 a year you could make a collection of 15s. in the £, but I do not say that that is the considered opinion of the other members of the Committee. (*Mr. Norton:* None of us. (*Sir Algernon Firth:* We are all against that opinion.)

7838. *Mr. Synnott:* How many incomes are there above £150,000 a year?—(*Mr. Currie:* I will give you the figures so far as they are disclosed in the Blue Book. [See App. No. 3, Table X.]

7839. *Chairman:* I really would like you to answer directly this question that Mr. Prettiman has put to you. You come with expert knowledge of certain facts; will you kindly answer that question, and then we will get clear of this point.

7840. *Mr. Prettiman:* The question I have asked you is: up to what limit; it is no use speaking of incomes of £150,000 a year?—Yes, I beg your pardon; there is a great deal of use in speaking of incomes of £100,000, £41,000. You said £150,000; there are very few of those?—I have an idea how many there are.

7842. Of course, your proposal goes very much below incomes of £150,000. Under your proposal the 10s. limit would be reached at £13,000 a year?—*Yes.*

7843. At £20,000 a year it would be 11s. 8d.?—*Yes.*

7844. At £30,000 a year it would be 12s. 8d.?—*Yes.*

7845. Now, that was a figure at which you mentioned there would be considerable hardship. Do you think that an Income Tax of 12s. 8d. in the £—bearing in mind all the other taxes which have to be paid—would be an effective tax on a man with £30,000 a year?—It would be effective from the point of view of the Exchequer; but it is necessary to add that we think, quite obviously—at least, I think quite obviously—that very large incomes would show a tendency to sub-division. You would get your tax, but not from the same man; but that would not matter to the Exchequer.

7846. This brings me to the very point. The moment you put a tax beyond a certain point—and it is very doubtful whether that point has not been reached now—there will be a tendency to sub-division, and sub-division is in very many cases possible, but then you would not get the same money. You said you would get the same money, but you would not. If a man who gets £20,000 divides £10,000 of it among his children, or in some way or other does something with it, then you would not get the same amount. You would only get tax at the rate applicable to £10,000, which would be 8s. You are now getting 9s. Would there not be some danger that, instead of getting 12s. 8d., you would only get 9s.?—I am not thinking of children at all; I am thinking of other people in business.

7847. *Chairman:* Do your colleagues agree with this position? Because, if they do not, I do not think it is worth while cross-examining you much longer on the point. Do they agree with you or not?—(*Sir Algernon Firth:* Certainly not. (*Mr. Norton:* None of us. (*Mr. Currie:* Our resolution, which was passed unanimously, was that we did not wish graduation to stop at £10,000. We are agreed upon that point, according to the resolution.)

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7848. Mr. Protyman: Apparently it is only your personal opinion that the tax could be made effective. There is only just one further point on that, arising out of something that you said. You said just now that the taxable income of the country had very largely increased lately?—Yes.

7849. Would not that be due to the very large expenditure of capital during the war, passing through people's hands and being taxed as income?—The increase to which I refer dated back before that. I had figures right back to the beginning of the Super-tax. It is not confined to the war; but I would like to be allowed to mention the figures; they are quite brief, and, with your permission, I will mention them.

7850. May I put it to you in this way. I really do not think that these earlier figures would have much influence upon my mind, at any rate, because the high rate of tax was not then in existence. We all know that before the war, with the rate of tax then in existence, the total of the taxable incomes of the country was increasing. Then you come to a second stage, when the taxation gradually became very heavy, and when the increase was not a normal increase, but was due to people receiving very large incomes through the expenditure of six or seven millions a day of national borrowed money. Therefore, taking those two considerations into account, first of all that in the pre-war period taxation was not crushing, and secondly that during the war period incomes were inflated through the expenditure of borrowed capital treated as income, do you think that those figures have any real bearing upon the points at the present time, until we have got more experience?—They have considerable bearing, but considerable allowances must be made for the points to which you refer, undoubtedly; these are not destitute of value.

7851. Mr. May: Mr. Currie, I think I understood you to say, in reply to a previous question, that though this evidence is drawn up by yourself, it represents generally the views of your association?—Yes.

7852. And your own views also?—Yes.

7853. There is just one point that has been dealt with by Captain Protyman, with regard to accounts. May I take it that your proposals with regard to farmers and traders keeping accounts if necessary compulsorily, is a proposal made on the same basis as your proposal with regard to Co-operative Societies, that is to say, first of all in the interests of the Revenue, and secondly, in order to reduce hardship or inequalities between different sections of the taxpaying public?—Yes, I think that is not unfair. We wish to do the fair thing as between everyone.

7854. That is your only object?—Our only object.

7855. For instance, you have no more animus or personal feeling in this matter with regard to the farmer than you have with regard to the Co-operative Societies?—Not the slightest.

7856. You have had some experience, may I take it, of Co-operative Societies' accounts?—I have had to consider them very carefully.

7857. You have seen the form in which they are generally prepared and issued to the public, not merely to the members of the Society?—Yes, I have a general acquaintance with them.

7858. Would you say that they were accurately and satisfactorily kept—satisfactorily from the point of view that you have in mind in making your proposals with regard to traders' and farmers' accounts?—No, I do not like the form, for this reason: that however carefully and accurately and honestly they are kept, as I do not doubt that they are, I do not myself think it is possible or very reasonable to apply the ordinary Income Tax, which aims at being a tax upon profits, to a surplus, or whatever it is, gained by a society one of whose first principles is that it is not working for profit in the ordinary sense of the word at all. There is something so illogical in that that it offends my mind.

7859. Do you mean by that, that it is difficult, as you have put it often in your public utterances, to discriminate between mutual trade and a non-

members' trade? Is that the point that you have in mind?—No, that is not the real point, although that is there, too. I think a rough dividing line could be drawn between the result of mutual trade and that of non-mutual trade. Take a Co-operative Society, even one that had no non-mutual trade—an unchallengably pure Co-operative Society. If at the end of a year it has a surplus of a million pounds, that, of course, is not commercial profit. It is illogical, to me, to try to apply Income Tax to that. I think the only fair way out of the difficulty is to say that if a Co-operative Society transacts a certain volume and weight of business, which of course displaces other business which does pay tax, it should make some contribution.

7860. I am not dealing with taxation now; it is purely an accounting question that I am asking you?—But the taxes are based upon the accounts; you cannot separate them so distinctly as that, with deference.

7861. Have you ever made any representations, either to the Chief Registrar or to any Government Department, that the accounts of Co-operative Societies do not truly reflect the operations of the society, and should be amended?—Certainly; I made a representation to Mr. Bonar Law, two years ago, in connection with his last Budget, to the effect that I thought that Co-operative Societies were being treated with very great unfairness in connection with Excess Profits Duties.

7862. That is not a question of account keeping. I am asking you an accounting question, not a question whether the Co-operative Societies should be taxed. I ask you again whether you have ever represented to the Government that the system of book-keeping, which nearly every responsible accountant and actuary in the country who has had to do with it says is as near perfect as it can be made—whether you have ever represented to the Government, directly or indirectly, that it did not reflect properly the operations of the society? The question of whether they should pay Excess Profits Duty or not, does not arise; we will come to that in time, if you will deal with the accounting question?—No; the accounts fit in well enough with the taxation system at present in vogue.

7863. I am sorry; I do not want to press you for an answer Yes or No, but I do want you to give me a straight answer?—I am very anxious to give you a straight answer.

7864. I am asking a question as to the accounts. It is not a straight answer to introduce the question of taxation, which does not arise in that connection at the moment?—I have often represented to the Government that I think the form of accounts does not lend itself to disclosing the profits which the societies make upon their non-mutual trade. I have often made that criticism, and I think it is a reasonable one to make.

7865. Yes, I accept that. You also agree that, taking the method that is at present adopted, there would be no difficulty in making that perfectly clear in the accounts of the Co-operative Societies?—I would not like to say "no difficulty," but the thing could be done.

7866. From an accounting or book-keeping point of view, it could be done?—I think it could be done—roughly, perhaps.

7867. I ask you personally this question, now, as I gather that the evidence here is more or less involved, as partly representing the views of your association, and partly your own?—I think we are all in agreement upon this evidence about Co-operative Societies.

7868. Very well, so much the better. Then may I ask you how far you think an arrangement of that sort, carried out properly by Co-operative Societies—because, as you have admitted, we are here simply to help the Revenue, both of us, from whichever point of view we touch this question—how far do you think an arrangement to discriminate properly between members' and non-members' trading accounts, would meet the objection of your Association?—I do not think it would meet the objection for a minute—not the whole objection.

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7869. Would it meet the whole of your objection?—No, certainly not.

7870. Then let us go a step further. In your proof of evidence, you say: "We think that if a society has a turnover of, say, one million pounds sterling a year, it should be deemed to have incurred a liability for a fair share in the cost of the nation's upkeep, roughly corresponding to the magnitude of its operations."—Yes.

7871. What do you mean by that, in connection with Income Tax?—The question itself is really misleading, because please observe this: I call in question the reasonable applicability of Income Tax to surpluses of this kind, and to societies of this kind, at all. I challenge it, root and branch. I challenge the application of Income Tax, which is a tax upon commercial profit, to surpluses of that kind, root and branch. It is not a suitable thing to do. It is like asking what is the height of a pound of tea. It is utterly illogical. A Co-operative Society could quite easily adjust its prices so as to show no surplus at all. Then, on that footing, if you were still talking of Income Tax, and still trying to apply Income Tax to such a surplus, there would be no liability at all. That is what appears to me to be an injustice, and that is why I should prefer some other fiscal system upon that point in this country.

7872. May I remind you that you are here giving evidence with regard to Income Tax, not with regard to the general fiscal system of this country?—My answer is that Income Tax is not applicable logically to this at all.

7873. Is the suggestion that some other form of taxation should be found for Co-operative Societies?—Certainly.

7874. Mr. May: Then, my lord, I must appeal to you for your ruling in regard to the admissibility of this evidence, which is professedly, on the admission of the witness, not within the terms of reference of this Commission.

7875. Chairman: If you will proceed with your other questions, I will think about that point.

7876. Mr. May: I may have to come back to that point again. You say, a little earlier in the paragraph: "Further, we regard it as immaterial what answer is returned to the question of whether the surpluses of those societies are exactly of the same nature and composition as the profits resulting from ordinary trade operations."—Yes.

7877. Why is it immaterial what answer is returned to that question?—It is immaterial because, as I mentioned a few moments ago, a Co-operative Society could quite easily conduct all its business so as to show at the end of the year no surplus at all. But that would not, in my mind, and in the minds of my colleagues, dispose of the fact that, in our view at least, they would still be liable to pay a fair share towards the government of the country. They conduct their operations, whether they result in profit or not, under the protection of the Government service—the soldier and sailor, and the man who keeps the dock gate, and so on, and we think it fair that in some way they should be made to pay a fair share.

7878. Therefore you propose that some other form of tax should be found for them?—Some other form should, I think, be found for them.

7879. Do you adhere to this statement of yours, which was made last year to the annual meeting of the Association of British Chambers of Commerce of the United Kingdom: "So much weight has been laid upon the contention that the surpluses accumulating in the hands of these societies are in the nature of ordinary commercial profit that I think it desirable to place on record my view, at all events, that there is no foundation for that theory. That point was the subject of long and careful investigation nearly 20 years ago by a committee presided over by Lord Ritchie, and the conclusions in that report on that investigation really exhausted the theory of the matter."—Quite.

7880. Do you still stand by that?—Yes, we accept Lord Ritchie's report, particularly that portion of it in which he says that he and his colleagues believe

that it is worth considering (even in 1906) whether inquiry should be made into the conditions under which the privilege of registration under that 1893 Act was conferred. We have no hesitation in accepting that conclusion, and all we ask for now is that the inquiry should take place.

7881. We are agreed about that, but the essential point is that Lord Ritchie's committee exhausted the theory of the matter upon which alone you can base your case before this Commission?—Of course, since then there has been a great development of non-mutual trading. You must not leave that altogether out of account; but I accept it that Lord Ritchie disposed once for all and permanently of any theoretical discussion about the nature of these surpluses, except in so far as they arise from non-mutual trading.

In my view there can be no question whatever. 7882. Before Lord Colwyn gives his ruling as to the admissibility of your evidence, I would like to call your attention to another speech of yours, or, rather, more particularly to the resolution which you proposed at a similar meeting in 1910. You have put in some resolutions here, so there can be no harm in bringing this to your notice?—Quite.

7883. You proposed this resolution: "That this Association, while disclaiming any desire to interfere with the organisation and activities of genuinely mutual Co-operative Societies, and recognising that surpluses arising on mutual trading operations are not ordinary trading profits, and should not be treated as such, records its opinion," and so on, that non-mutual trading should be taxed"?—Yes.

7884. I think that resolution was passed by the Association?—Yes, at the annual meeting.

7885. Mr. May: My lord, I pause for a moment for your ruling on this matter.

7886. Chairman: I shall let the evidence be admitted.

7887. Mr. May: I would like to ask you whether you say that it is within the Terms of Reference.

7888. Chairman: I do not want to take an extremely rigid line in these matters; it is on that ground that I admit it. Dealing with these things I take a rather broader view than I might do under other circumstances.

7889. Mr. May: Now to return to this paragraph which his Lordship has now admitted, and therefore permits me to question you further about. This proposal is that a special tax should be invented in order to deal with Co-operative Societies. Have you any idea what kind of a tax it should be?—I have made the suggestion that it might be arrived at by a levy upon turnover; but really we do not want to press theories on the matter. All we say is that we think that at present non-mutual trading is certainly treated in a way that is unfair to ordinary retail traders who pay full taxes upon all their profits, and for the rest we look to this Commission to find some way out of the difficulty. It is really the problem of his Lordship in the Chair and you gentlemen, not our problem. We are here to say that the Chambers of Commerce think that in some limited way—limited but important—the present position is unsatisfactory. That is our evidence.

7890. You said a little while ago that you were here to help the Commission to come to conclusions?—I should be glad to help them in every way in my power.

7891. And yet you throw a bombshell into their midst in the form of a proposal which only by a very wide stretch can be brought within our Terms of Reference at all, for a new and special tax; and yet you have no practical suggestion to make as to how it can be applied?—Yes, I have made a practical suggestion. I say you might make a levy upon their turnover; and I may add that I am not at all sure that though you did so it would result in Co-operative Societies paying more money than they are paying at present. But I think it would put the whole thing on a more logical and satisfactory basis.

7892. Do you think it is a fair and practical proposal that one section of the trading community in this country should be taxed under one form of taxation, specially designed for them, and the other section

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left free?—It is not a question of the other section being left free at all. It is a question of one section of the trading community electing to trade in a particular way. One of the first considerations is that they do not keep their eye fixed upon their profit and loss account, because they deny that they are making profits at all, and I agree with them. The point is that, notwithstanding that, they should pay a fair share in some other way, comparable to their volume of trade, than by way of Income Tax. That appears to me to be quite fair. We are afraid that they are escaping a good deal at present.

7893. You yourself have more than once, I think, demonstrated not only in written but in spoken words in public that that is not the case?—No, I have not demonstrated, or tried to demonstrate, anything of the kind. There must be a misapprehension.

7894. Then will you give us some estimate—and you must have formed some estimate—of what the non-mutual trading of Co-operative Societies is?—I have heard in the House of Commons and out of it very various estimates given. I have heard men contend that it only amounts to one half per cent. I heard Mr. Barnes refer once to 10 per cent. as the figure. I have heard others speak of a very much higher figure. I do not know which of them is right; and whatever it is to-day it may be different to-morrow.

7895. These men whom you have quoted are ordinary laymen like myself, but you profess to be a scientific investigator, and you give an answer of that kind as being a satisfactory estimate on a matter that should be, approximately, within your knowledge. Is that the best you can do?—I think the best calculation I can make is that it lies somewhere between the extremes. I do not know where it lies. We believe it to be considerable.

7896. That is to say, if, as I have pointed out to you before, it is not more than one half per cent., you think it is worth changing legislation and adjusting administration order to collect it?—I take my stand upon Lord Ritchie's finding in 1905.

7897. Will you kindly answer my question?—I think so. I think it is perfectly clear. I believe Lord Ritchie's report to be well-founded when it said that considerable and regular dealings with the outside public took place. We believe that since 1905 these considerable and regular dealings have shown a steady tendency to increase.

7898. What is the basis of your belief?—Common knowledge; but all we ask for is an investigation.

7899. I am very anxious to get a proper solution of this matter?—Then you should have an investigation. Support my demand for an investigation and you will get the information.

7900. Is it not a fact that Lord Joicey and other distinguished members of your Association have, year after year, deprecated proceeding with any action against Co-operative Societies?—No; that is not the case at all. For many years the Association of Chambers of Commerce passed resolutions protesting against the present position as being somewhat unfair. The wording from one year to another varied, of course, but they passed many resolutions committing themselves to the opinion that the present position is not quite satisfactory.

7901. Mr. May: I will not detain the Commission or the witness now, but I must say that I shall take steps to place before the Commission some extracts from the speeches of the gentlemen whom I have mentioned, which will support my statement.

7902. Witness: There are one or two figures, my lord, which, with deference, I was anxious to be allowed to mention, if that concludes my cross-examination.

7903. Chairman: I am afraid it does not, but I wanted to speak to your colleagues about this. As the time that has been occupied has been much longer than the time usually occupied by a witness, will it be necessary to take the evidence of each one of you after Mr. Currie, or does Mr. Currie's evidence on a great many points cover the evidence that you are bringing forward?—(Sir Algernon Firth): You see, we divided up the different points.

7904. That is the difficulty; I shall have to rely upon the questions being short. There are two or three important points that have been developed during Mr. Currie's examination. That has occupied considerable time and there will probably be half a dozen other Commissioners who wish to ask questions, so that we must endeavour to be as concise as possible?—I will be very brief, I promise you.

7905. I will ask the Commissioners to ask only really important and definite questions and to eliminate these subordinate things which have been drawn out in the discussion.

7906. Mr. Walker Clark: In reference to your first point, the £200 a year limit, how would the average voter, who would be exempted under this £200 a year limit, contribute to the cost of the war?—No doubt at present he thinks that he contributes through the increased price that he is paying for food and clothing.

7907. Are you aware that the broad subsidy now releases him of all indirect taxation except taxation on wines, spirits and tobacco?—My view is that to a great extent the increase in the cost of living is a form of indirect taxation; but I agree you cannot get at, and this scheme would not get at, nor is the present scheme supposed to get at, the man who is really living on a bare subsistence.

7908. You would not agree, then, with evidence given before the Commission yesterday that every wage-earner should contribute directly to the upkeep of the State?—No.

7909. You exempt more than one half of the voters of the country by these proposals and you think that is wise?—I think it is wise to exempt from direct taxation every man who is living on what I would call the wages of mere subsistence.

7910. Now on the question of accounts. Is your experience that those men who do not keep accounts are small men as a rule?—Yes.

7911. Do large cattle dealers and men of that class keep accounts?—Most of them keep a book in which they record information. I do not know whether you would call it an account exactly or not. It is an account book of some sort. Many of them keep accounts very loosely, I quite agree.

7912. Would you suggest that men who trade should have a licence in order that they should be registered?—My colleagues and myself are not prepared to go out of our way to make things too easy for people who will not take the trouble to keep trading accounts. Frankly, we do not believe in traders who do not keep trading accounts.

7913. Just one word on your evidence as to Co-operative Societies. You suggest a tax on turnover?—Yes.

7914. Would you tax bazaars and clubs and all mutual trade in that way?—I am not in favour of running a theory to death, of course. No, we had not thought of taxing bazaars or clubs.

7915. Would you limit the tax on turnover to packing companies and others and to Co-operative Societies?—Yes, I think I would.*

7916. Then on your evidence as to married persons. Would you make a special exemption for a wife who works, or should she be treated just the same as the woman who does not work?—I am not authorised to give, on behalf of the Chambers of Commerce, a detailed answer to that question, but I think there is a good deal to be said for making an allowance for a wife who works.

7917. I should have thought the Chambers of Commerce were rather interested in that, but you are not prepared to express an opinion?—We do not feel strongly on that.

7918. Just one point on your supplementary memorandum. The Commission has received very strong evidence from the Stock Exchange and other quarters that it is necessary to attract foreign capital to this country and suggestions have been made that a very low rate of tax, say 6d. in the £, should be put upon the profits of foreign capital in this

* Witness wishes to explain that he cannot have heard this question distinctly. He thought it applied to Co-operative Societies only.

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country? Would you agree with that?—I say in my statement that the risk that capital might leave the country is a large one, and therefore I do admit that there is some force in the evidence that the risk of losing or of not attracting capital is one of the worst risks that you have to consider. I think myself it is much the worst.

7919. Therefore your evidence on that point nullifies the evidence which preceded it?—No, I do not think so, I do not agree with that.

7920. Mr. Synnott: Is there not a danger, not only that existing capital may go but that people will not save in the future?—I dare say you would find a good many individuals who, if they were threatened with heavier taxation, would decide to stop work and not to save more. But, on the other hand, and as balancing that, other people who are being relieved might work all the harder.

7921. I was just coming to that point. You say: "On the other hand, the relief and encouragement proposed to be given to persons far lower down on the scale would by parity of reasoning, make them work all the harder, so that perhaps one would balance the other." That is your only balance. Is not what we have seen around us during the last year or two, up to this day, proof and absolute evidence that the contrary is the case?—No; I think that is putting it too strongly.

7922. Is it not before us daily that, with increasing wages, hours of work have decreased and production has decreased?—Yes, but of course there may be a great many motives, and very mixed motives, for that.

7923. Is not that a fact?—I think there is no doubt of the mere fact.

7924. We have had evidence before us from a gentleman representing the lower incomes—quite the small incomes. In answer to the Chairman he said that the savings of capital which were necessary for this country were largely and almost entirely from the higher incomes. That was his evidence?—Quite.

7925. Now if there is to be no recoupment from the lower incomes, where will you get the necessary capital, with an Income Tax, as you suggested to Mr. Protyman, up to 13s. in the £?—The argument and the fact surely is this, that hitherto the bulk of the money to pay for the war has come from the large incomes; but if you make taxation at the bottom lower and taxation at the top higher, then that might not hold good in the future, because you are dealing with the future.

7926. You have had certain Appendices before you, but I do not think you have had the last one. I shall ask you to be good enough in your Chamber to consider that?—Which Appendix is that?

7927. It has not come out yet. It is Appendix No. 11. I will bring out two figures. Do you know what the total taxable income that you propose totally to exempt from taxation, of persons between £180 and £200 a year, is now?—It is in the White Paper here. [Cmd. 224 of 1919].

7928. I do not think so?—Yes, I think it is. Between £180 and £190.

7929. No; between £130 and £200.—I am adding them together. It is 830 millions taxable income, and the abatement knock off almost the whole of it. The net income left to pay tax on is only 41 millions.

7930. I want to show that the total taxable income of those persons is considerably greater than the total income of all persons between £2,500 a year and up to the highest figure. That is only 417 millions?—Yes; we had the White Paper that gives this figure before us at our meeting.

7931. The total income of persons up to £2,500 a year is 1,327 millions: that is to say, it is three times the amount of the income of persons between £2,500 a year and the highest possible figure?—Yes, we had this White Paper before us.

7932. In face of that do you suggest there is very much more to be got out of the higher incomes for the necessary expenditure of this country?—Yes, we suggest that. We suggest that graduation should be carried above the £10,000 point.

7933. I was very much surprised to hear you gentlemen of the Chambers of Commerce basing any

argument on the increase on the income returns during the last few years. Will you not candidly tell us that that is a fictitious income, not represented by real production? Now will you be candid enough to say whether that is not really borrowed capital circulating and appearing as income but not real income?—We are not being guided, and in none of the views I have expressed on my own account have I been guided by figures during the war.

7934. Will you kindly say yes or no to the question. I am not putting any figures now?—Our evidence is not based upon what happened during the war alone at all.

7935. Do you abandon any argument based upon the increased figures appearing as the total national income?—No, certainly not; most emphatically not.

7936. Let me put it the converse way. Supposing this borrowing ceased now, do you, or do you not, accept that in the next few years the figure appearing as total income would be very much reduced?—The expenditure will go down and I think the profits may decrease.

7937. The income?—The income or profits; the budget will be smaller.

7938. I will ask some other gentleman that question. Now about farmers. Do you seriously suggest that five times the rateable value or the rent should be taken as the farmers' profits, in order to put pressure upon them, in the words you have used more than once, to keep books?—Pressure to keep books, yes.

7939. I will not go into the question about books. Mr. Protyman dealt with that very thoroughly; but do you really suggest that Income Tax should be used in that form: that a fictitious arithmetical figure should be taken as the farmers' profits, in order to compel him to do something else?—It is done at present; and it was done at the request of the Chambers of Commerce by Mr. Bonar Law.

7940. Twice the valuation?—Yes.

7941. Had they any figures whatever before them as to the percentage of farmers' profits?—Schedule B figures are public.

7942. Had they any figures before them when they made that recommendation to Mr. Bonar Law?—We had the published results of Schedule B before us.

7943. But that was when it was one-third. First it was one-third, and then one, and then two. Had they any figures showing that farmers' profits had increased in that proportion; that is six times? Had they any figures before them? You had better say "no"?—I presume the Chancellor of the Exchequer was advised. I am not the Chancellor of the Exchequer.

7944. Before giving your evidence with regard to farmers' profits did you consult the Chambers of Agriculture in either England or Ireland?—We thought it fair to point out to the Chancellor of the Exchequer our view of the matter and he adopted it. We are content with that. We pressed inquiries no further.

7945. Chairman: That is scarcely a plain answer.

7946. Mr. Synnott: You are now advancing from two up to five?—We think further pressure should be applied. I do not care whether it is three or four or five. What we think is that further pressure should be applied.

7947. You are most anxious that prices should come down, are you not, especially of the necessities of life, food, for instance?—Yes.

7948. You started your examination by dwelling on the burden; and I was glad to hear you say so, because it was a direct contradiction to Mr. Sidney Webb's statement, that a high Income Tax was no charge on profits. You admit that a high Income Tax is a heavy charge on profits?—Yes, terrible, of course, and upon trade.

7949. My last question is this: Do you think that by increasing the Income Tax two and a half times, under pressure, farmers will tend to reduce or increase prices of the necessities of life?—I think if the result were to persuade them to keep books, the position then would be much fairer than it is now.

7950. Do you think keeping books will enable us to grow potatoes?—No; I think it might enable them to pay taxes, though.

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MR. G. W. CURRIE.

[Continued.]

7951. *Mr. McLintock*: In No. 3 of your proof there is a considerable amount of evasion that you refer to?—Yes.

7952. We have had before us the view of the London Chamber of Commerce that there is a large untapped reservoir to be found, untapped income which has never borne tax in the past?—Yes.

7953. Naturally this Commission is very anxious to find these sources. Do you also believe that there is a big fund of income that has never been taxed by reason of evasion?—It is not income that wholly escapes review. A man will bring under review 19s. instead of 9s.; that is what I meant here. Of course, the evidence which you heard recently as to the million of leakage in Super-tax is rather evidence of a different kind.

7954. Is it your idea that big concerns err in their own favour?—Big and small. When they make mistakes they are apt to make mistakes in their own favour, and we think simplification would make them less likely to make those mistakes, and would render detection much more easy.

7955. You mean just tightening up by the granting of certificates?—Yes.

7956. Are you aware that these certificates are being granted to-day?—Yes; I know that many Surveyors ask for certificates which are practically indistinguishable from what we ask for. But we would rather that it were made a statutory obligation, and not a thing merely done in the Surveyor's room.

7957. Do you know that requests are circulated fairly broadcast to every trader to make a declaration as to how his stock is valued?—Yes.

7958. And he has omitted the thing from his books?—Yes.

7959. In the bulk of the cases from which a large amount of Schedule D. tax is drawn they have certified accounts as a further support?—Yes, I know. In spite of all that we think there is material leakage; but we do not suggest that the average Income Tax return is a dishonest document. There are frauds, of course.

7960. If the popular belief is wrong that there is this large fund, it is as well that it should be cleared up; there is a popular belief, and I am not quite sure that it is a right one. The London Chamber of Commerce said they had no doubt there was a large sum?—What do you mean by "large"? Did they put a figure upon it?

7961. No; they would not put a figure. Will you give a figure?—We were told by one of the best-informed men in the country that there is a leakage in Super-tax of about a million pounds from various causes. I think, looking at money that you recover under Schedule D. it is not immoderate to suggest that if you simplified your whole system, and applied stricter tests, and increased penalties in the event of detection, the Revenue might be better to the tune of about five millions a year; but it is largely conjectural.

7962. I suggest to you there may be a leakage in Super-tax, but it is by no means follows that the same income escapes Income Tax?—I quite agree.

7963. You argue that because there is a leakage in Super-tax, therefore there must be a leakage in Income Tax?—No; I did not mean to argue from the one to the other. There is a sort of connection between the one and the other; but one is dealing with conjectural matter. You must just face that. I would not care to say more than that, in the course of my professional work, and all my colleagues agree with me, every now and then we come across a case that rather opens our eyes; and we suppose that if we come across cases there are other cases that no accountants comes across at all.

7964. You do agree that so far as the Inland Revenue are concerned at the moment steps have already been taken to have these particular declarations. All you wish is to have them made practically universal?—Yes, that is our position.

7965. You refer to interest paid by banks on deposit receipts?—Yes.

7966. And you remark that the deposit interest is omitted to be put into the return?—Yes; we think it is one of the things that very often drop out.

7967. I agree with you; I expect it is very often missed out. Why should not banks deduct the tax on the deposit interest? Have you any observations to make on that?—The question arises, at what rate would they do it? One does not wish to take a step which would create a trifling claim for repayment; theoretically, I have no objection to it.

7968. It is not the small man who is escaping tax by forgetting to pay on his deposit interest; it is the big man. Why not take it off at 6s.?—I do not think the Chambers of Commerce would object to bankers being made to do it in that way. Bankers might.

7969. You have not considered it as a Chamber?—It is a detail that we have not applied our minds to.

7970. It is a substantial detail?—Yes, it is, I agree.

7971. In paragraph 9 you refer to the fact that a business man has to reveal to his partner the financial position of his wife?—Yes; we receive complaints from quite a number of the Chambers of Commerce.

7972. Is that complaint well founded? You know that great ignorance prevails, even amongst Chambers of Commerce, as to Income Tax practice?—Quite.

7973. I suggest that no partner need disclose his wife's income in making up the firm's liability at all. All that has to be disclosed is the total income to be assessed; he does not need to tell his partner whether it is his own outside income or his wife's?—No, but the difficulty is a practical one. The complaint that reached us was that the forms, in the case of a partnership, are so complicated that in nine cases out of ten it is necessary to hand the whole thing over to one partner and just tell him all about it; otherwise you will never get the work done; and, in the course of that, some men complain that they have found it necessary to divulge the amount of their wife's income so as to arrive at the divided rate amongst the partners. That is all there is in it.

7974. That is all there is in it. They do not of necessity need to disclose it at all?—There is no legal obligation upon them to do it; it is a practical working difficulty.

7975. If an individual does not take the trouble to make up his own return, but hands it to his partner, he naturally tells him his wife's income?—Yes.

7976. And that is all there is to it?—Yes, I think that is about all there is in it.

7977. *Sir J. Harwood-Barker*: There is one question I would like to put, in consequence of Mr. McLintock's reference to interest on deposits. Is it not a fact that traders have very great difficulty in getting repaid on interest allowed on matters such as guarantees, bank overdrafts, and also on debts which turn out to be bad?—They are supposed to be able to recover for trading debts. Sometimes there is difficulty in doing so. One does hear the complaints, certainly.

7978. Then just two questions as regards evasion. Is there any possible method of avoiding evasion, unless there is some sort of census of traders, and some sort of notice by a man when he is going to trade, so as to bring him under the supervision of the Income Tax official?—Of course that would be one way of doing it, undoubtedly.

7979. Is there any other way of avoiding the fact that many men trade without keeping any record of accounts, or keeping any office, and then it turns up sometimes that they make large sums of profit which have not been taxed?—We think, in those cases, that the penalties and fines should be very greatly stiffened.

7980. You are very strong in your regulations, with which I entirely agree, as regards the keeping of accounts. There are very strict regulations as regards secrecy under Income Tax law. Do you still hold those strong views on secrecy, or do you not think that if accounts were kept in this way there might be some lessening of those rules as regards disclosure of accounts and balance sheets to the Surveyors or to the Income Tax authorities? Is it necessary to continue the extreme secrecy which is now required?—So far as opinions have been placed before us by Chambers of Commerce, I think it right

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[Continued.]

to say that the commercial community appears to attach very great importance to secrecy. Of course, individual views may differ. We do not believe that there is any leakage of information in the Revenue offices, or anything of that kind going on; we do not think so.

7981. The regulations for the keeping of accounts, and the regulations with regard to secrecy, rather contradict themselves?—On the whole, I scarcely think so; so, I do not think so.

7982. Mr. Marks: With regard to your paragraph 6, as to assessment of Life Assurance business, you can shorten my question if you will admit that there is some error, or confusion of thought at any rate, in the statement there, combined with the heading. The heading is: "Assessment of Life Assurance business"; that is one thing. Then you say: "We scarcely think that a taxpayer in the Super-tax category can be regarded as entitled to this kind of special inducement to thrift"?—I admit at once that the language of the heading is loose. I should like, if I may, to mention two or three figures to which I attach importance.

7983. Chairman: Will you please hand them in? Sir Algernon Firth, your paper is a concise paper. I would suggest that, in addition to the questions Mr. Geoffrey Marks will put, your examination might be dealt with by one of our number; there may afterwards be one or two other points arising, but we would like to conclude your examination before the mid-day interval?—(Sir Algernon Firth): Yes.

7984. We will proceed at once, complimenting you upon the manner in which you have produced this short and concise paper?—Before you begin, may I just refer to Mr. Currie's evidence? I should like to say that, though in paragraph 2 of my evidence it is stated that the views expressed "represent a unanimous and agreed view on the part of the Association's special committee," I think all the rest of us dissent from the views expressed in Mr. Currie's supplementary memorandum. I did not see that before it was sent in, and it was never considered by the committee. I feel bound to say that, because I am perfectly certain that my colleagues in the other Chambers of Commerce would resent very much my being a party to such suggestions being put forward; and I wish to disclaim them in *testis*.

7985. That can be placed upon our records?—I must say we never considered this point which has been put: "the general idea is to make concessions at the bottom of the scale, etc."

7986. Suppose we take it generally that you have made that statement, and that it is entered on our records. We need not proceed any further with it, need we?—I wish also to dissent from some of the other matters which have been mentioned. Mr. Currie has asked permission to put in these minutes of our special committee meeting. I object to that very strongly. I do not think that we should be called upon to put in the private minutes of our meetings, at many of which some of us were not present, and had no opportunity of judging of their correctness or not. Therefore I object very strongly to these being put in.

7987. It will suit us if they are not, because we have not called for them?—And perhaps you will not do so.

7988. It will not be necessary to do so.—Also, we object to this summary being put in. [Showing green book summary referred to in para. 7738 and 7755.]

7989. You need not put it in.—Thank you; so long as you do not call for it, it is all right.

7990. Mr. Marks: These questions that I am going to put to you I have written down rather carefully, so will you kindly make your answers very categorically to them, and then we shall get through quickly?—Quite.

7991. On the question of the separate assessment of husband and wife?—That does not come into my evidence.

7992. Then I will pass from that. The first part of your own evidence is dealing with the high rate of tax. Assuming the necessity of raising the same revenue, has not Income Tax the following advantages as compared with other forms of taxation:

that it taxes all trades and all incomes proportionately equally, and that it is the cheapest form of taxation to administer? Do you agree with that?—Yes, I agree with that.

7993. If the burden of taxation is to be moved, should it, as far as possible, be placed upon the shoulders of those, rich and poor, who spend money on luxuries? Do you agree with that?—Certainly.

7994. Do you consider that such a form of tax as the Assessment Tax, is a proper form?—I do. I do not want it to be understood that I suggest that Income Tax is the only form of taxation, in any way. It is a fair tax, up to certain limits.

7995. You say that other methods of raising money have been carefully considered, and exhausted. That is why I ask you this point; because I want to know in what directions the minds of the Chambers of Commerce are working, as regards the means by which the revenue which will be lost by alterations in the Income Tax may be gained?—That does not come within the terms of reference to our committee at all. It is not for us to make suggestions as to how revenue should be raised. We have simply had to deal with the question of the working of the Income Tax at the present time.

7996. Only in this sense. This Commission is very anxious to have the benefit of the experience of you gentlemen—and you certainly should be able to give some results from your experience—in regard to the direction in which taxation may be most properly applied?—Do you wish me to give my ideas on the subject? I should be very willing to tell you what I think personally, but I cannot commit the Chambers of Commerce to it.

7997. Then I will ask you personally. Would you be in favour of the appointment of a Royal Commission, or some similar body, to inquire into the whole question of the readjustment of taxation? It is too big a subject, I think, for this Commission to undertake, even if it came strictly within our terms of reference?—You mean general taxation, such as the question of tariffs, and how money might be raised in other ways. Certainly, I think it desirable.

7998. Mr. Bouverton: May I ask your lordship, if witnesses are called upon to give their personal opinions, is there not a risk of those opinions being repudiated by their colleagues?

7999. Chairman: That has happened this morning. (Mr. Norton): I think we all confirm what Sir Algernon says.

8000. The point has been raised this morning. Some very important points have been put as emanating from the Chambers of Commerce. It is a totally different matter if one member, or two members of the delegation give their own opinions. We have the pleasure of receiving you here to-day, and we thought it was a complete representation expressing the views of the Chambers of Commerce, but it has been rather different in some respects. I think we shall have to take this course, that if the other members of the delegation are not in agreement the witness probably had better say: "this is my opinion," or "this is not the considered opinion of the Chamber," in his answer?—(Sir Algernon Firth): That is exactly what I did, Lord Colwyn. I made that very clear, and I will on every question put to me.

8001. If you will do that it will make it very much more easy for us to judge the position?—Certainly.

8002. Mr. Marks: The second point was the collection of tax by employers. That is very clearly expressed, and I take it that does express the opinion of the Chambers?—Absolutely; that has been stated many times.

8003. Then the third point is the question of duplicate tax—double tax within the Empire. The Commissioners have had before them three different suggestions; you may have seen them in the evidence. There was Sir Frederick Young's suggestion?—I have seen Sir Frederick Young's.

8004. That was that Income Tax should be paid on the higher of the two rates, when business affects two countries or Dominions?—That is our suggestion, too.

8005. Mr. Mesenthal suggested that the tax should be paid at the rate of the country which is the source of the income?—We do not agree with that.

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[Continued.]

8006. And Sir Charles McLeod suggested that the principle of taxation of the resident should be adopted, but that the income derived outside the country of residence should not be taxed unless remitted?—Of course, that is reverting to the position before 1914, and we have never considered that, because we do not think it is practical politics.

8007. I was just going to ask you, but you have anticipated me, which of those suggestions you prefer?—The first one.

8008. Of course there is a good deal of difficulty, as you realize, in working any one of these in practice; but assuming that the first is accepted and an endeavour is made to remedy the individual grievances by charging only the higher of two rates of tax, have your committee thought out the practical details? Because there are present many difficulties; as for instance, the division of the proceeds between the two countries?—Yes, we admit that; we admit there are great difficulties in it.

8009. Have you thought out any scheme of applying it?—No; we think that is a matter for negotiation between the Governments. Of course there is the offer so far as regards resident aliens in America, that if their country makes the same provision they may deduct the amount paid from the tax payable instead of deducting it from the amount assessable. That principle being admitted in the case of aliens resident in the United States shows a way in which it is possible to approach the Americans to secure a corresponding arrangement so far as Allies not resident in their country are concerned. That forms a basis for negotiation, I think.

8010. That is the reciprocity principle which has been urged on us in other directions?—Yes.

8011. Then your committee agree with other witnesses in thinking that if a complete remedy is not possible such a remedy should be sought for in regard to the Dominions first, without regard to foreign countries?—Excuse me; we do not say foreign countries. Our suggestion is only Allied Countries.

8012. *Chairman*: What does that mean?—"Allied Countries"?—Those who have been our Allies in this war; because the principle which we seek to put before you is that these high rates of Income Tax and Super-tax and so on are the result of this war. Therefore, whether a man is a citizen of Great Britain or France or the United States, it is unfair that he should pay twice over for the same war. That is the principle we wish to lay down.

8013. *Mr. Marks*: You quite realize that Income Tax is only one aspect of the international question?—Yes.

8014. Other countries get their revenue in other ways?—Yes.

8015. The claim has been advanced, as you know, to tax only in the country of the origin of the income?—That would mean that if the tax was 5s. in France a man living here would not have to pay 10s. 6d. on income from France, the same as we have to pay on income from elsewhere.

8016. That would mean a very large loss to this country, whose capital has been sent to the Dominions and abroad and whose activities embrace the getting of income from sources in many other countries. Do you agree with that?—Yes. Our statement is that a man should pay up to the 10s. 6d. If he has been charged in France or the United States, that should come off what he pays here.

8017. That was not quite my point. What I was coming to was this: Have you formed any idea in your individual or collective mind as to where profit is actually made—whether in the country of origin or in the country of sale, and so on? Let me put this case to you: Take the case of a nitrate company, the capital of which is found in this country, which is actively managed from this country, which gets its nitrate from South America, and sells it in this country or elsewhere in Europe or America. Where is the profit actually made?—The profit is made, I should say, in the country where the nitrate is produced.

8018. *Chairman*: Before it is sold?—It is a product of the country, just the same as our coal is a product of the country here; and if we have a right to claim a profit upon our coal as assessable to our tax, surely the country producing the nitrate has a right to claim a profit upon its nitrate. I do not say it should have all.

8019. *Mr. Marks*: You say the profit is made in South America; that is the source of the income—although South America only provides the raw material which is subsequently treated and sold elsewhere?—The country itself is producing the capital and producing the revenue; therefore if it was left to me personally I should say that.

8020. I ask you the question only to illustrate the difficulties which arise?—Of course there are enormous difficulties.

8021. Your answer shows me that you will, if you do not already, appreciate that?—May I put it in this way. I am a manufacturer; I manufacture in the United States of America; the money is undoubtedly made there; and the capital that is running that business has, most of it, been found there; comparatively little was sent out from this country. I think they should have the first call upon the profit.

8022. *Chairman*: But suppose the organisation in this country is a very good one, with very capable and able salesmen, expert men in all branches of this manufacture, and you just simply manufacture in America, is all the profit made in America?—I do not say it is all made there, but I say that they should have the first call on it, because it is produced in the country and sold in the country.

8023. We are faced with this Double Income Tax problem, and no one has given yet a clear definition as to where the profit is made?—It is an extraordinarily difficult position. I quite admit that. You ask me for my personal opinion and I give it.

8024. *Mr. Walker Clark*: You do not agree with the evidence given before the Commission yesterday—that the weekly wage-earner generally regulates his finance on a weekly basis, and therefore would prefer to pay his Income Tax weekly?—Did somebody give that evidence?

8025. Yes.—Well, I am amazed.

8026. You do not agree with it?—Certainly not.

8027. You would not think that it was a disadvantage to the weekly wage-earner to pay a lump sum quarterly?—No disadvantage at all.

8028. The only other point was this: Mr. Geoffrey Marks asked you one or two questions about Double Income Tax. How would you deal with the situation where a large American firm has a factory in this country and distributes in this country goods which are produced in this country, and makes no profit here?—You cannot tax him on profits if he does not make any.

8029. Because they sell their goods to a selling company in the States which takes the whole of the profit?—I do not follow you.

8030. A firm produces in England an article, say carpets; they sell the carpets in England to their own distributing houses, tied houses, but they make no profit on their British manufacture or their British sales, because the whole of the carpets are sold, in the first instance, to an American selling firm in such a way that no profit is made in this country?—That selling firm must be in this country, surely?

8031. No, in America.—I should trust the Inland Revenue people to secure that profit, and they would be perfectly right if they did.

8032. *Mr. Boeckman*: In your statement you express the view that the employers throughout the country are altogether averse from being made the medium for collecting Income Tax?—Yes.

8033. May I ask is that your personal opinion, or is it confirmed by your colleagues?—It has been over and over again said by the different Chambers at meetings that it was objectionable; and we have all the time held that we object very much to being placed in the position of tax-gatherers from our own work-people. It does not tend to the harmony that we wish to have in our works.

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Mr. G. P. NORTON.

[Continued.]

8034. *Sir E. Nott-Bower*: I just want to follow up for a moment Mr. Marks' question about the nitrate company. Do I understand your view to be that even if the nitrate is sent over here and sold here, still you regard the profit as a South American profit?—Of course all these questions of different methods of trading are very difficult, without full consideration, to answer; but I should say that you must adopt either one principle or another. There is bound to be give and take; you cannot have it both ways, and you will probably gain on the swings what you lose on the roundabouts. You cannot have it exactly every way to suit yourself.

8035. *Chairman*: You wish to make a short statement, I understand, Sir Algernon?—I want to say one word, and that is this: I did not have a chance this morning to emphasize the importance of this question of Double Income Tax in connection with our relations with the United States of America. First, I will put a quite personal case, not that I am complaining in any way whatever, because I do not complain as a rule, but just that you may realize the seriousness of the position.

8036. We would like a concrete case; it will help very much if you will give your case.—In the case of my personal income from my firm's businesses in America, which have been established a long time, the amount paid in America through the firm and upon my personal income, before it is remitted home, amounted to 49.18 per cent. I had that worked out by one of our staff.

8037. That was the tax upon your American investment?—Yes. The American Government received 49.18 per cent, and then on the balance I had to pay about 10s. 6d. in the pound, which amounted to 27.20 per cent. of the American income, so that the total that the two Governments received was 75.38 per cent. I got less than 25 per cent. of my earnings out there. I just want to put that before you, because it shows the seriousness of the position as affecting other people besides myself. Of course, I did not object the least bit whilst the war was on; if they had taken the lot I would not have cared a bit; but now that the war is over I do think matters of that sort want redressing so as to make the burden equal. I do not know whether you saw the statement made by Mr. Robert Benson, the Chairman of the Merchants' Trust, to his stockholders last March, on the subject of the Double Income Tax in the United States. Very few men know more about American investments than Mr. Benson. He made a statement which I will put in if you will allow me: "Another consideration will compel us to abandon the American field of investment—namely, the American Income Tax, except in cases where interest is payable tax free. The same difficulty of the Double Income Tax militates against Colonial investments. Nor, I may add, can America afford to take payment in British securities for what Great Britain owes her, and at the same time pay a British Income Tax as well as the American Income Tax"—that is a very material point, because if they will take payment in securities it will undoubtedly be to our national advantage. "Reluctant as the Inland Revenue may be to lose a chance of taxing a foreigner, the price of America's co-operation in developing the estates of the Empire, speeding up production and assisting us to get out of her debt, will be that British securities held by Americans must be tax free. It is well to recognize at once that in this case the debtor really pays; for the creditor when he lends and settles the terms of a loan naturally puts the tax on the borrower and demands tax-free bonds for himself. Also he will probably seek for bonds payable in dollars or sterling at his option, just as after the Civil War European lenders of money to America insisted on specific payment in gold dollars. This is a point to be remembered in the simplification and reform of the Income Tax Acts so long overdue; so as not to warn off American capital, but to facilitate our chance of paying our debts in securities as well as in goods and services." I think no man can tell you more about the effect of the Double Income Tax on United States securities and investments in the United

States, and American investments here, than Mr. Benson.

8038. We will now proceed with Mr. Norton. I understand you are a Chartered Accountant, but you have had business connections with dyes, have not you?—(Mr. Norton): Yes; I am a director of the British Dyestuffs Corporation.

8039. We have your statement. One of our colleagues will examine you upon it at once.—Before the examination takes place, might I make a statement with regard to what has taken place this morning; it is a very important matter.

8040. Is it in addition to what Sir Algernon said?—It is in addition.

8041. I do not want to go into anything more personal?—No, it is not a personal matter at all. When I received this supplementary paper prepared by our Chairman, I at once saw what an important bearing it had on the whole question, and I wrote to him putting before him what it really meant. You have taken this morning the case of an income of £10,000. In the remarks which were made, the real effect has not been grasped. What I fear is this: practically all the capital that is found for new enterprises in this country, and for the development of enterprises, comes from the men who have got already over £5,000 of income. All the important extensions of business and new developments come from those men. What is going to be the position? If a man has an income of £10,000 he is up to the highest point of Super-tax. He pays 4s. 6d. on anything beyond, so that if he goes into a new venture under Mr. Currie's proposal he will have to pay 12s. 9d. to the Government, and take 7s. 3d. for himself on every £. He has got to bear the whole risk of the business. He may lose the whole of the capital that he has embarked in the enterprise. The Government are perfectly secure to get 12s. 9d. if profit is made. The taxpayer bears any loss, and can only hope to get 7s. 3d. if profit is made. What would be the effect from a national point of view? It seems to me it would be absolutely disastrous. New developments would come to an end. There would be neither new developments nor would there be the time and attention given by men of that class to the direction of new businesses. I think the point should be made quite clear, and I thought I had better clear it up.

8042. That was quite clear to us when we had the examination?—I am sorry if I have taken up your time unnecessarily.

8043. Mr. McLintock: On that one point, of course he does not pay 12s. 9d. if there are losses?—No; I say 12s. 9d. on any additional income which arises out of the new venture.

8044. The risk of losing the whole of his capital is what you think is not worth the 7s. 3d.?—It is not worth the risk for 7s. 3d.; that is my point.

8045. Your own evidence, I think, I may divide into three divisions. There is the general question of depreciation which you seek to extend to buildings as well as plant and machinery?—Yes.

8046. There is the question of obsolescence, which is somewhat similar to depreciation; and then there is the other question of a special writing-off allowance, similar to what has been given during the war period for Excess Profits Duty?—Yes.

8047. These are the three points?—Those are the three main points, but of course there are the subsidiary points which are mentioned.

8048. Then there is the general question of repairs?—Yes.

8049. That expenditure to some extent affects the allowance which would be given for depreciation either on plant, machinery, or on buildings?—Yes.

8050. With regard to the question of wasting assets, you are referring, I take it, to wasting assets in this country, such as a coal mine?—Yes.

8051. Have you considered how the life is to be ascertained, in order to arrive at the amount of the annual allowance to replace that wasting asset?—Do you wish me to deal with buildings?

8052. No, a wasting asset is used up like a coal mine?—I do not profess to have much knowledge of coal mines, and if you would not mind, my friend Mr. Leather will deal with that question. I have not had any great experience in coal mines. The

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point that I wish to bring forward particularly in factory buildings.

8053. You are, of course, aware that there is an allowance now given, the Schedule A deduction being the gross instead of the net?—Yes.

8054. Which to some extent is equivalent to depreciation on certain classes of factory buildings?—Yes. I regard that as altogether inadequate.

8055. Then would you suggest how you would deal with that?—May I give you an illustration, which will show you in the first place how inadequate it must be. Take a building which is worth £12,000; a fair average rack rent has been and is now, I suppose, about £200; one-sixth of that is £100, which means it will take you 120 years to write off that asset of £12,000.

8056. The one-sixth is for repair?—No, I am referring to the one-sixth of the rack rent which is allowed by way of depreciation.

8057. Yes, quite?—I say it will take you 120 years on an average to write down a building. I do not know whether this red book, reporting what took place when the Chambers of Commerce were before the Board of Inland Revenue in 1913, can be put in evidence, but I then very fully argued out the question, and Sir Edmund North-Bower was present. If this can be put in evidence I think it will give you a very full answer to all those points and it will save time. [See App. No. 18.]

8058. May I put it in this way. In the illustration you give, the one-sixth is something less than 1 per cent. of the capital value, is that your point?—Yes.

8059. What rate of depreciation do you suggest on buildings, assuming they are kept up in first-class repair?—Almost my whole experience is amongst textile factories and engineering places, and that experience, extending over nearly 50 years, has led me to the conclusion that for ordinary factory and mill buildings, eliminating the motive plant altogether, 2½ per cent. is not enough. It is barely enough to provide for the shell of the buildings.

8060. Do you mean on original cost, or on diminishing value?—I mean on diminishing value, but I think it is not possible to lay down an exact rate for all buildings. For instance, a stone building will last longer than a brick building, and then there are certain classes of buildings which are not built in a substantial manner; but on the average our custom has been to allow 2½ per cent. and we have found it not enough.

8061. Is this claim for additional depreciation made in respect of buildings containing plant and machinery or of all buildings?—You are raising a very difficult point.

8062. You know the one-sixth is only given to mills and factory buildings?—Yes. You are raising a very difficult point there. I was speaking of factory buildings—mills.

8063. Your suggestion is this: that there should be depreciation on these buildings, and that it should be at a rate of not less than 2½ per cent. on diminishing value?—That is my first suggestion; I want to bring forward a supplementary suggestion after that; but at the least 2½ per cent. is necessary in order to provide for the depreciation which undoubtedly takes place. My view is that an average engineering shop or mill is out of date in 30 years.

8064. What do you mean exactly by out of date?—I do not mean it is so good after 30 years, but if a mill costs £40,000 to build, at the end of 30 years it will not be worth more than £10,000. I do not say that applies in every instance, but if you take it on the average I think that is about the position.

8065. Chairman: If it is constructed under proper modern conditions, does that depreciation hold good? Supposing you built a spinning mill 30 years ago, at the present time that is not modern; do you mean the depreciation takes in the modernity of a mill, or just simply depreciation in the mill itself?—No, I do not mean of the structure. I take a mill not merely as a building, but as a part of your plant, and in 30 years it becomes obsolete because of new conditions. May I give you an illustration, which will show you what I mean at once. I have in mind

a fine mill, which cost something like £60,000 to build. It was built when the short machines were in operation, and the machines were placed transversely across the mill, the lighting being between the alleys. Then there came the alteration, and the machines were lengthened, and instead of the machines being used transversely they were put lengthwise. The result was that my firm sold that mill for £3,500. Those conditions may apply in the future. We have to take into account all the developments which are likely to arise from electrical changes, and things of that kind, and I think it is not fair to assume that a mill is going to be an effective and efficient mill for over 30 years. It has a residual value at the end of that time, but the loss in value ought to be provided for, and in my opinion 2½ per cent. is too low.

8066. Mr. McIntosh: Do not think I am opposed generally to your views, but suppose most of the mill owners were asked to-day how long it is since their existing buildings were erected, and to put a value on them for general business purposes, do you think this short life would be revealed; in other words, do you think that the bulk of factory buildings become really obsolete in 30 years?—I do not think I could say that definitely. I say they become so inefficient that they are not profitable to work.

8067. You quite admit, unless by the experience of the past you can show that mill and factory buildings generally become obsolete within a period of 30 years to 40 years, it is difficult to justify a claim based on that life?—I think you will find, if you take the average mills, that their value has been very greatly reduced after 30 years of use. Take a machine shop, for instance; that is a very good illustration of the depreciation that takes place. Within these last 30 years we have had the introduction of overhead cranes, with electrical equipment. What has that meant? It means that the old shops were frequently unfitted for their purpose. You want a new shop built on modern principles. We must expect to have, I think, greater developments in the future.

8068. They do not convert these old buildings and modernise them and get a portion of the expenditure allowed for Income Tax purposes?—I do not follow.

8069. You have an old building, and it is not quite suited to modern requirements, and you convert it?—Yes.

8070. If the cost of converting it, and the repair and alteration necessary, were charged to revenue, would that not to some extent meet the difficulty?—I would rather answer you that question in this way: If I were a manufacturer, I would not alter an old building; I would have a new one. To encumber yourself with an old building or an old tool is to spoil your chances of competition.

8071. I quite agree; but at present if you actually replace an old tool there is no doubt you get the allowance?—I think you should regard a mill building or a mill factory as a tool—it is nothing more—when it is built, is an efficient tool, and as time goes on it becomes an inefficient tool. There is no distinction in my mind between a mill and plant. Therefore I say it has been entirely inconsistent to allow depreciation off plant and not to allow it off buildings.

8072. In other words you wish to class the whole building and the plant therein generally as the plant for producing the particular goods?—Yes.

8073. What view have you to express on the question of providing for this obsolescence, or end of the life, by means of a sinking fund?—How would you apply the sinking fund?

8074. You know the two methods. You know the ordinary municipal method of accumulating a sinking fund invested in certain assets for a given time?—It does not matter which way you take it, a depreciation fund is a sinking fund in assets.

8075. That is to say, you would want accumulated a sinking fund as a revenue charge?—I think it should be debited to profit and loss account.

8076. Just in the same way as if you paid it to an insurance company?—Quite.

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8077. Then on the question of obsolescence your point is that you wish, if buildings or plant become obsolete, whether replaced or not, to get an allowance for Income Tax purposes?—That is so.

8078. You see, it would be a little difficult at times to arrive at the reason why it has been decided to scrap an old building when you do not replace?—I appreciate that there would be difficulties, but I think obsolescence should apply to buildings just the same as to machinery. We ought not in our minds to separate the two things, that is, the building and the machinery; they are the plant with which a man works his business.

8079. A man has a particular machine, and he says it has become obsolete, but he does not replace it by any other machine?—If he sells it I think the obsolescence should be allowed.

8080. You are coming to the point of wanting capital losses allowed as revenue, you know. It is difficult when you do not replace a thing which you say is obsolete, to say that you should have a title to get an allowance; you appreciate that there will be a difficulty?—It seems to me it is an incident of the man's business that he gets a machine, he works it for a number of years, it is no further use to him, and he sells it. Surely, there is capital used up in the production of profits, and I think he certainly should be allowed for the loss on the obsolescence of the plant, whether it is replaced or simply sold and not replaced.

8081. I think you will agree with me that it is rather exceptional to find a man who has a piece of plant which becomes obsolete, who sells it and puts nothing whatever in its place, and still carries on business?—On the contrary, speaking from a wide experience, it is quite frequently the case that the machinery is not replaced. Other processes are utilized; the machine falls out of use because other processes come in.

8082. I think one could reasonably put that forward as a ground for getting the obsolescence allowance?—Yes.

8083. In other words, you want the obsolescence allowance interpreted a little bit more generously; that is, you need not actually replace a special machine by another one in its same place to do the same type of work, but if you can show that the process has changed, and you have had to get other plant to perform that process, the machinery discarded should then be brought into account?—If we go so far why not go to the full extent? You are going to draw a very fine line, and you are eliminating cases which are very few indeed.

8084. On the question of arriving at the rates for depreciation generally, have you any more definite suggestion to make as to how that should be done? At present you have an appeal to the General or Special Commissioners, and you have also got an appeal by trades to the Board of Reference?—You are bringing me on to this question which is raised about the British Dyestuffs Corporation?

8085. Yes, No. 9. "rates of allowance to be agreed with accredited representatives of the several trades interested." When we had the deputation to the Board of Inland Revenue in 1913 it was practically arranged then that the several trades in the country should be got together, consulted with, and a rate of depreciation agreed which should apply to the whole of the trade. I believe I am right, am I not, Sir Edmund?

8086. Sir E. Nott-Boswell: I am afraid I do not remember, but I have no doubt you are correct. You have the record in your hand there?—Your Department did actually take the steps, and you did agree with certain trades, but it has not been carried out universally.

8087. Mr. McLintock: You know there is now a right of appeal by trade to the Board of Reference?—To settle the rate.

8088. I do not think it has been taken much advantage of up to now?—That is the difficulty. I am afraid if we leave it to the trades themselves to

take the initiative it will never be done, and consequently the individual has to suffer. It seems to me that the Inland Revenue authorities themselves ought to take the initiative and to call together the trades, and that they ought to settle the rates which are to be allowed to the particular trades.

8089. Do you not think the trades concerned really ought to come forward, and produce the evidence which they have and the Inland Revenue have not, in order to justify a given rate?—Yes, I do think so, and I think that the trades are very remiss in that respect; but we have to face the facts as they are. It is no one person's job; most of the traders of the country have got plenty to do, and therefore it is not done. If the Inland Revenue authorities would take the initiative I feel sure that they could collect the trades together and get the arrangement fixed and finally settled.

8090. A great many trades have already, by mutual agreement with the Inland Revenue, settled rates for their particular trades?—Yes.

8091. And that has been done, as a rule, by the traders approaching the Inland Revenue people?—Yes, I believe it has.

8092. Do you not think the trades should set about and present their case either to the Inland Revenue or the Board of Reference and get it settled?—I agree that they should do so, but, as I have said, if it is left in that way I do not think it will be done, and the individual has to suffer because the trade will not combine and take the necessary action.

8093. I think probably it is a function of a Chamber of Commerce to see that the respective trades do set about getting this put right?—I entirely agree.

8094. On the question of the Dyestuffs Corporation, in paragraph 11 you refer to having to pay 6/30ths of the whole profits for Income Tax, and that the remaining 14s. in the £ is not sufficient to enable you to do three things, to provide for your ordinary wear and tear, the writing down of your plant and buildings which have been bought and will continue to be bought or erected at a high price, and also to meet obsolescence from various reasons?—Yes.

8095. Is your suggestion that the present system of getting a special writing-off allowance which is not given for Income Tax except to controlled firms should be continued in the future?—That is my suggestion exactly.

8096. That is the point you make in paragraphs 11 and 12?—Yes. I regard this as a vital necessity. I have brought this case of the British Dyestuffs before you because it illustrates what applies, I suppose, to all the key industries of the country. It is absolutely of vital importance. Let us take the German industries. Within my own knowledge both the German and the Swiss have actually written down the value of their plant to a very small figure. We have to compete with them. We have to put down our plant at, I should think, three times the cost before the war, so that our position will be that we have three times the capital outlay against the original German outlay already written down.

8097. Chairman: Have not you had some special allowance made by the Government?—We have had very considerable allowance made on the plant which has already been put down.

8098. That you have not really taken into account?—I am talking now of the future. We are going to spend several millions more money.

8099. Supposing that you make three times the profit, in those circumstances, as you did previously, you would have plenty of money then to go on, would you not?—Yes, if we were so fortunate.

8100. Are not the whole of the country's profits very much larger than they were before the Income Tax was 6s. in the £?—I regard that as merely temporary.

8101. The Income Tax at its present rate may be temporary; I do not say it will be, but it may be; but if you get your profits considerably enlarged it does not fall so hardly upon you as if it was in a normal time, does it?—I think we can look into the

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immediate future and make a fair estimate of what we are likely to get, and I regard the position as most serious. If this arrangement which has applied hitherto in regard to the Excess Profits Duty does not continue it seems to me that the Government will take all the profits. They are partners at present, and so it will come to a large extent out of their pockets either one way or the other.

8102. I quite understand.

8103. Mr. McLintock: I think you might illustrate what you are afraid of in the future by what has already happened in the past in two of these dye firms; I happen to know of it.—I do not want to give figures.

8104. The point is you got a special writing-off allowance on this enhanced cost of your plant and buildings for Excess Profits Duty, but you do not get it for Income Tax unless you happen to be a controlled firm?—Yes.

8105. One of the dye firms is not controlled, Levinsteins?—They did not get the allowance.

8106. British Dyes got an allowance for the special writing-off, both for Excess Profits Duty and for Income Tax. Levinsteins, with the same plant and the same type of building, got the allowance for Excess Profits Duty, but no allowance for Income Tax?—That is so.

8107. Is the point you wish specially to make that in future, if the special writing-off allowance is given, it should apply for Income Tax; the Excess Profits Duty is a temporary tax?—Yes. Of course, we are dealing only with Income Tax, are we not?

8108. You wish to get that type of allowance continued in the future which was not given prior to Excess Profits Duty coming into force?—That is so.

8109. Is there anything further you wish to add yourself on this question?—I did want to make a suggestion. I think at the present time the Government should take into consideration the fact that new developments will be going on under very costly conditions, and that the position of manufacturers especially is altogether different from what it was before the war. Not only that, but the Government are practically now, shall I say, the predominant partner in a pecuniary way in all businesses. In large businesses where Super-tax has to be paid it means that the Government are taking practically one-half of the profits. If that is so, it seems to me that the Government must take up the position that an ordinary partner would have to take up. I want to suggest that something beyond ordinary depreciation should be allowed. No man carries on his business without making what I would call prudential reserves. Whilst the Government are taking 10s. in the £ of profits, it seems to me that they must allow these prudential reserves to be made by manufacturers and others, otherwise it would be impossible for a man to make proper provision for contingencies which are unknown and unforeseen. I make a very strong point of this. I know that it is felt very strongly by manufacturers in my own district, and I would ask for it your most serious consideration. As to the form in which relief should be given, it can be done by an extra allowance off fixed plant perhaps. I said I was content for the moment with not less than 2½ per cent. on buildings, but I wanted to bring something more forward. I think, with regard to all fixed plant, in view of the fact that the Government are taking 10s. in the £ of the profits, there should be a prudential reserve in addition to the ordinary allowances for depreciation. It might be by doubling the amount of depreciation or something of that sort. That is the main point which I wish to bring forward for your consideration.

8110. They do not take 10s. from the profits of a limited company—not yet?—It is as broad as it is long, they get the 10s. in the end.

8111. Chairman: That is the conclusion of Mr. McLintock's examination on your evidence. Mr. Leather, I think, supports you in all these points. Mr. Geoffrey Marks has asked to put one question to you, but I thought if Mr. Leather came on now the examination of the whole of the Commission could

be upon him, so that you could each have a share of the examination and cross-examination. Therefore, if Mr. Geoffrey Marks will ask you his question now, we will then proceed with Mr. Leather's examination.

8112. Mr. Marks: You took the case of a building worth £12,000 producing a rack rental of £800, and you spoke of the one-sixth allowance, £200 a year, as replacing the capital value in 120 years?—Yes.

8113. Have you not overlooked two things: first, that the allowance of one-sixth is not for replacement but for repairs?—No, I think I am right, it is also by way of depreciation now.

8114. Well, I do not think that is its ostensible object. It is an allowance for repairs, and it is continually spoken of and generally spoken of as an allowance for repairs—a maintenance allowance, if you like, but not a replacement allowance.

8115. Mr. McLintock: There are two points there, and I may not have made it quite clear. There is a one-sixth allowance taken off before you pay your Schedule A tax, and in computing your profits you were formerly only allowed to deduct the net Schedule A assessment?—That is so.

8116. But under the new arrangement you are allowed to deduct the gross Schedule A assessment?—Yes.

8117. And the difference between the two is supposed to cover the depreciation of buildings?—Yes. It really comes to this, that we are allowed by way of depreciation of buildings the one-sixth to which I refer; that is the effect of it.

8118. Chairman: Mr. Leather, you probably may have to answer questions arising on Mr. Norton's paper?—(Mr. Leather): I understand, my lord.

8119. Sir J. Harwood-Benner: Referring to the evidence which Mr. Norton has given, is not the last contention with regard to money which has been expended under the authority of the Government by controlled firms, that they are treated differently from concerns which have not come under the Government order for extensions?—I gathered that Mr. Norton's view was that the same treatment that had been applied to Government-controlled firms should be applied to all firms, and to future transactions, and not only to past transactions.

8120. To future transactions only and not to old ones?—I gathered that; and, personally, I think as far as possible it ought to be allowed to apply to past transactions, or else I think the position, from a financial point of view, will be a very difficult one. If I might very briefly say so, I think the idea of the ordinary commercial man is to provide, by means of his depreciation fund, a sufficient amount to replace his existing machinery, and by his reserve fund to provide a fund for the extension of his business. If at the present time the trader is only allowed to write off depreciation on the original cost of his machinery, when the day comes for the replacement of the machinery—it may be next year or the year after—it would cost him two or three times as much as the depreciation fund, and therefore he would have no fund available for that purpose; he would therefore require to issue additional capital.

8121. Chairman: I see Mr. Norton is shaking his head at your statement; does that mean he does not agree with you?—(Mr. Norton): Yes, my lord, I am afraid I ought to have mentioned this to Mr. Leather.

8122. Sir J. Harwood-Benner: Might I just put a question with regard to the British Dyes concern. The Government have induced the company to spend a very large sum of money. Did I gather, from what you said, that you consider the Government ought to give to that company extended provisions for depreciation, allowances larger than they would have done to companies which have previously been in existence?—I do not in my remarks wish to confine the Government action in any way to the British Dyestuffs Corporation, but to let it apply to all similar businesses which are in that position. I merely used the British Dyestuffs Corporation as a convenient illustration.

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8123. The reason I ask is this, because there are different methods of Government dealing with those matters. In some cases the Government has lent very large sums of money, in fact they have become partners; you do not differentiate at all between these concerns and others as to the extra amount of depreciation which you ask for; that is to say, where the Government have become partners and induced you to spend a very large sum of money, and to bring that down to the pre-war level you want extra allowances, you do not want to get any benefit yourselves other than what you are asking for the rest of the community?—That is so.

8124. *Chairman:* Now about the point between you and Mr. Leather; can you settle that so that one statement shall go down?—I had better explain my position, my lord. I am not here, I am sure none of us is here, to take advantage of the Government or Inland Revenue authorities. We have to face the situation as it stands. Mr. Leather, it seemed to me, was suggesting that because there has been a great appreciation of machinery, it would be necessary for us to have a larger depreciation. If we do not give the Government the benefit of the appreciation, surely in regard to existing plant we cannot expect extra depreciation. (*Mr. Leather:*) I know it cuts both ways. (*Mr. Norton:*) I thought he was getting on to dangerous ground; that is the only thing. Mr. Leather did mention it in his memorandum, and I ought to have discussed it before, but I had not an opportunity. (*Mr. Leather:*) Might I intervene for a moment? We are putting forward the views expressed by various Associated Chambers of Commerce, and this is the view held very strongly by certain Chambers of Commerce.

8125. Is the evidence that we have been listening to this morning just the expression of views which are held by various Chambers of Commerce?—No, it is our view as a Committee who have considered their evidence.

8126. But you are not agreed, you see, on this point. If we are to take it as not being from your organisation, it is very difficult. Do you want to proceed any further with it?—(*Mr. Norton:*) No. (*Mr. Leather:*) I am quite content.

8127. *Mr. Maxwell:* Are you acquainted with the methods of depreciation which are in use in the United States of America?—The allowances for depreciation in America are made upon all property that is used in the business. They allow reasonable allowance for wear and tear of property used in the trade or business, including a reasonable annual allowance for obsolescence.

8128. *Mr. Walker Clark:* In the evidence both of Mr. Leather and of Mr. Norton a number of items are included besides buildings. For instance, Mr. Leather includes "plant, machinery, motor vehicles, furniture, fittings, outlay on leasehold premises, shafts sinking, pit development, &c., &c." I should like to know if those double "&c.'s" include shop fronts and expensive shop fixtures?—I believe, as a matter of fact, in some cases allowances are made for such outlay.

8129. No, they are not.—That is where the practice varies sometimes, as it is bound to do.

8130. You think they ought to be included?—Certainly, if it is a legitimate trade expense.

8131. And dilapidations charges?—What do you mean by that?

8132. Restoration?—Do you mean in the case of a man who is occupying leasehold premises?

8133. Yes.—I think most certainly, if a man has premises, say, on a 10 years' lease, and he expends money on alteration and in improving those premises, and does additional business and produces additional revenue and pays additional Income Tax, and at the end of 10 years those premises have to revert to the original owners, he ought to receive an allowance for that additional outlay spread over the term of the lease.

8134. I am glad to hear that last expression; I think it is very useful. In Mr. Norton's evidence,

in paragraph 12, he suggests some tribunal should be established for dealing with special cases; is that a new tribunal?—(*Mr. Norton:*) I think there is an existing tribunal which probably could be continued with advantage. (*Mr. Leather:*) The Board of Referees.

8135. The Excess Profits Duty tribunal. It is not the ordinary appeal to the Special Commissioners and to the General Commissioners?—No.

8136. Is it the Excess Profits Duty tribunal?—That is what I had in mind—the Board of Referees, yes.

8137. *Mr. Symonds:* That list which Mr. Walker Clark has referred to includes things many of which could be used in farming?—Yes.

8138. Would you apply this principle to farming?—Yes, I should, certainly.

8139. You said you would apply it to all trades. You would apply it to merely distributing trades, or what I may call middle-men trades, as well as producers?—The question of depreciation, yes, in so far as it applied to any assets that were subject to wear and tear or obsolescence.

8140. The object which Mr. Norton referred to was to increase production and to stave off unfair competition by foreign countries. That would not apply to mere distributing trades. Let me give you an example. The sum of £50,000 spent in buildings to make an attractive shop building to attract customers; would you allow the same depreciation there as to the cost of the necessary plant put in for production?—No. I gather that, supposing the principle was allowed of depreciation of buildings or upon outlay, the Board of Referees, or whatever authority you had, would settle the particular rate. It might be one per cent. in this case, and it might be ten per cent. on plant and machinery.

8141. You would make a difference between those two trades?—If the assets involved would be different, I agree.

8142. Would you make any distinction between expenses on buildings, and so on, shop fronts used for mere advertisement purposes, and buildings used for necessary production?—I cannot say I have considered that point very closely.

8143. There is another point in Mr. Norton's evidence, and perhaps he would like to answer. What Mr. Norton is afraid of is, as I understand, German competition under those circumstances working on a very low capital?—(*Mr. Norton:*) Yes.

8144. I do not like to use the word "protection" at all, but could that not be obviated in many other ways?—I am afraid not. It would take me probably two or three hours to explain.

8145. You do not think those articles are going to be allowed in here except under conditions, do you?—That is so; but that does not finish the matter.

8146. *Mr. Morris:* You say in your proofs [see para. 7706 (2)] that "adequate rates of depreciation for such annual reduction in value should be fixed"?—Yes.

8147. And at the end of your proof you submit a chart showing how a sum of £100 may be redeemed by various allowances from 2½ per cent. to 20 per cent.?—Yes.

8148. That is on the decreasing value after the deduction of the annual percentage?—That is so, yes.

8149. Of course, there is the minor point that you would never come to the end of the capital that you are applying to one particular thing, machinery or buildings, whatever it may be; that is a small point?—(*Mr. Leather:*) In my case I would. I fix a residual value, 10 per cent. of the cost.

8150. Mr. Norton spoke of taking 190 years to replace £12,000 by £100 a year?—Yes.

8151. Do you agree with that?—Well, there is a question of compound interest to bring into account.

8152. That is my point; that is a very important question. You realize that if the Inland Revenue is to make this allowance for the amount of each annual instalment of capital outlay, that amount

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[Continued.]

being taken out of the profit, it would make a very great difference in estimating the allowance whether compound interest is taken into account or not?—(Mr. Norton): May I answer that? I had to consider that point, and I have come to this conclusion: that in the earlier years the mill repairs would be very small; in the later years they would become very large, and therefore the additional repairs in the later period would compensate for the question of compound interest.

8153. I cannot go into it to the bottom with you, but I cannot accept that, and if you had a schedule showing particular sums per annum, which you might in your business apply to depreciation, dividing each payment into principal and interest, I think you would see that hardly coincides with the fact?—Any way, I think the £100 a year in my example [see par. 9065] is not anything like sufficient. That is my point. (Mr. Leather): Might I say that the average rate on plant just now is 5 per cent. or 7½ per cent. I have here letters from Sheffield, in which they quote 12½ per cent. on general engineering plant, and I suppose nobody can speak with more authority than Sheffield on that. It is 12½ per cent. on steel works plant and 10 per cent. on rolling mills plant, and the engineer of Vickers quotes as follows: armour plant 15 per cent., open hearth furnace plant 12½ per cent.

8154. I am not on the question of how much, but the question of how long?—Yes, certainly.

8155. For instance, if I turn to your chart where you say that 5 per cent. takes some 42 or 43 years, on that principle, of course, that is correct?—Yes.

8156. Suppose you take 5 per cent. per annum of the capital as an even annual sum and accumulate it at, say, 4 per cent. interest, it would only take 15 or 16 years. And there is another point which I wish to make, which has already been mentioned by Mr. McIntock: that in the business which you represent, if you are not in a position to utilise the depreciation funds in the business, you could quite easily pay an insurance company the annual amount which you think necessary, and they would give you compound interest on it—I admit that, but I think even then the present rates are not adequate.

8157. My only point is not whether the amount of the rate is adequate, but how the adequate rate should be calculated?—Certainly.

8158. Chairman: Mr. Lakin-Smith, there are some new points in your evidence. We shall not take long over them. Mr. Petyman will ask you a few questions on your statement.—(Mr. Lakin-Smith): If you please.

8159. Mr. Petyman: I see you advocate the abolition of Schedule E. In the first instance, that is, salaries of Government servants?—Salaries of public servants.

8160. Do you think there is any particular waste or loss or difficulty in doing it as it is now; what would be the advantage?—I think the great advantage would be the simplification of getting money in, and in making assessments. There is an amount of confusion among many individuals to-day in receiving a whole series of papers that they do not understand; I know those who receive a dozen different papers of this kind within a few weeks, and that causes a good deal of confusion, because they do not realise where they are returning the whole of their income, or where they are getting deductions for Life Assurance.

8161. Does not that largely arise from collecting at the source?—I do not think so altogether. There is a narrow line drawn now as to whether a man comes under Schedule D or Schedule E. One man who is a manager comes under Schedule D and another manager is put under Schedule E as a public servant. It is very uneven all through.

8162. I thought you meant it caused confusion with the one particular man?—It does too, but it causes double confusion. I do not want to touch on the other point; evidence will come from Mr. Quin later on the question of taking only one year

instead of three. If we simplify things in that way, and put Schedule D on a one year basis, then the reason for Schedule E, which is on one year, drops.

8163. On the other hand, you suggest that everybody should make full returns of income from all sources?—On one form, not on Schedule D in one case and on Schedule E in another.

8164. Of course, a great many do now, but some do not. Where income is deducted at the source, where a man has no payment to make which compels him to make a return, is it not rather unnecessary to ask him to make a return?—The view of the Chambers, and we are quite united on this, is that first of all there ought to be a statement of each man's total income, dealing with Super-tax and everything else. Now the only way to do that is to get it on one form. If you have that you must abolish Schedule E to make it simpler, and then if you follow our suggestion you would make the complete return go to one Surveyor.

8165. Something in the nature of the Super-tax return?—It would take the place of it in a sense.

8166. The Super-tax return is on those lines now?—Yes, the return is on those lines for those who pay Super-tax, but not, of course, for those who do not.

8167. So far as Super-tax payers are concerned it is on those lines now. What you would advocate is that everybody should present the same sort of return as Super-tax payers do?—Yes, I think it would help to avoid evasion in Super-tax, too, if it was taken at the earlier point, because you are aware that the Super-tax basis is precisely what the Income Tax was for the previous year. Therefore, if the Income Tax is wrong the Super-tax may be wrong.

8168. And also there may be people who are just within the Super-tax limit, but who do not make a return at all?—Yes.

8169. Then I see you advocate having one single Income Tax and not having a Super-tax, but you add at the end: "Of course such a scheme would involve the fixing of a standard rate for deduction at the source;" which would mean under present circumstances at 6s. as the standard rate. How would doing that differ from what is done now?—It does not really matter, but there would have to be a standard rate fixed; in some cases there would have to be additional assessments and in others they would be largely let off.

8170. Then what you propose is really what is being done now?—Certainly.

8171. You could not possibly deduct at the source all the way down on the maximum rate?—No.

8172. You must have a standard rate?—Yes.

8173. That is what you do now?—Yes. We do not want to appear to depart from the point that there must be a standard rate.

8174. Take the first point, that what you want is that the thing should be as well understood as possible and as simple as possible. Does it not seem rather more to appeal to the public mind and make it perfectly clear if the standard rate is your Income Tax, and the other, which is an increment on the top of it, should be called, as it is, a Super-tax?—I think there was a good deal in that at the beginning, but now that Income Tax is so high, there is no necessity for it; I think everybody knows about it now.

8175. You would have no rate of Income Tax then at all; you would simply have a standard rate—or it would not be quite a standard rate?—It would be a standard rate of deduction, that people would have eventually adjusted according to the gradations that might be in force at the time.

8176. Ever since the history of the tax began, Income Tax has always been looked upon as something that must have a definite figure to it?—Yes.

8177. There would be no definite figure under your scheme at all?—There would be the same definite figures that there are now.

8178. Would you get the same result? You would not call it a 6s. Income Tax, or a 5s. Income Tax, or whatever it is; it would be simply Income Tax?—Yes.

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[Continued.]

8179. And the standard rate for deduction would be altered?—Yes.

8180. But you would not be able for the purpose of comparison to call it a 6s. or a 5s. Income Tax?—No, the standard would be comparable, but not the types.

8181. Mr. McLintock: There is just this one point I would like to ask you about. You suggest making appeals to the Board of Referees?—Not making appeals to the Board of Referees.

8182. What is the difference?—Will you let me see just what I have put; I do not think it is quite that.

8183. It is under heading (4) Appeals. What is the suggestion?—The suggestion is this. First of all, we are unitedly most anxious that nothing shall be done, in any change, which takes away the absolute right to appeal in every case to the Special or General Commissioners that now exists. It has been taken away in the case of Excess Profits Duty in certain cases, as you know. Therefore when we suggest, as we do, that the existing Board of Referees, of which we have experience and which we know is most useful, should be continued for dealing with such questions as classes of trade, depreciation, or other special matters, we make that suggestion with the very vital reservation that on no account whatever should the absolute right of appeal which we have now be taken away.

8184. Then this is only on limited points?—On any point; but the right of appeal must still exist; that is our point.

8185. You do not suggest having appeals held by the Board of Referees on taxation points generally?—I dislike it extremely, if I may speak for myself. After many years of experience I should like to say, in fairness, that my experience of the Special Commissioners is that they are absolutely excellent and fair in every particular. I should like to say that, with a personal experience of a good many years.

8186. Mr. May: Do you say that also with reference to the General Commissioners?—I have not been before the General Commissioners for about 15 years, but I think my answer would be the reverse.

8187. Have you any suggestion to make as to their reform?—We do not suggest doing away with the General Commissioners, but we suggest there might be more care taken in their appointment. For example, I may instance one Board, without giving the district, which consisted of a clergyman who knew nothing about Income Tax, a small rent collector, and another man in some similar class of business.

8188. Chairman: This is not in your paper, is it?—No.

8189. It would be a very good plan to send us this, because we have to consider this matter?—We have suggested here that the appointment of General Commissioners should be strengthened.

8190. Mr. May: The evidence of these gentlemen, representing as they do such a large area of trade, is very important. I should like to know whether you have any opinions as to the disadvantage of General Commissioners from the point of view of commercial men revealing their affairs to local competitors?—If I may say so, I believe there are disadvantages.

8191. Sir Warren Fisher: There is just this one question I want to ask. In connection with appeals there is one remark of yours that I do not understand, namely, that it is not satisfactory that one party to an appeal should be present as an act of grace, or that the Surveyor should be present with the Commissioners without the presence also of an accountant or appellant. Is it not the case that some few years ago there was a decision in the Courts settling that point? There had been a practice of the Surveyor remaining after the case had been heard, when the Commissioners were coming to their decision. Are you referring to that?—We quite believe that that is so. We have had so many complaints sent us by various Chambers of Commerce that we thought we ought to record the fact that complaints have still been received. We agree with you entirely in our view, but we did not think it right to pass it over, as we had so many complaints; that is all.

8192. Mr. Walker Clark: In your statement, you say that the taxpayer is to be assessed either in the

district where he lives, or at his chief place of business. Who is to elect the place of assessment, the taxpayer or the Inland Revenue?—That suggestion was really put in to indicate that whichever way it was done now might continue to save alteration. I am rather inclined to think that taking the place where the man lives is the easiest way of knowing all about it. It does not very much matter, so far as we are concerned; we have no particular view about it. We thought he might continue to make his return from where he makes his return now, which might be either place.

8193. It may be at the selection of either the Inland Revenue or the taxpayer?—I would suggest the taxpayer in that case, but I have not any strong feeling on that. It would be for the convenience of the Inland Revenue and the taxpayer.

8194. Then one other point with reference to General Commissioners. You suggest greater care should be taken in their appointment and that they should have some knowledge of Income Tax. Do you mean knowledge of the law, or knowledge of the tax? Is this an examination that you suggest?—Was not an example rather given in the case of the General Commissioner that I mentioned who is a clergyman? Is not that a sufficient answer, that some General Commissioners have not the general knowledge to judge of accounts and Income Tax.

8195. Mr. Graham: In your memorandum, you indicate that instructions to Surveyors should be made public?—Yes.

8196. I gather that the intention of that is to bring the meaning of the Income Tax at large home to the masses of the people. In what way do you mean to make it public—through the Press, or in what other way?—Our suggestion is that the Inland Revenue should make public all its decisions and orders. For instance, this afternoon we have learnt that the Board of Referees will deal with classes as to depreciation. I have never seen that published anywhere yet, and the general public does not know it yet, if I may so put it. We have a suggestion here that people shall get repayment of tax half-yearly. I believe that by an order, or something of that sort, it can be done; but if nobody knows it, the benefit will be lost. It is the same point again, that wherever an instruction is given it should be free to the country. I have only this week, from an Inspector of Taxes in the north, had a letter on the rate of depreciation, saying that he is only allowed a certain rate in that district, which is totally different to the rate allowed in any other district that I know in England. That shows that the instructions are not even the same in all cases.

8197. My point is rather this. In what way would you make it known—simply by announcements in the Press, or recognizing the fact that Income Tax comes down to a very much poorer section of the community than it has ever done before, would you approve of the idea of broad general instruction in this very important matter to the State, in say, technical colleges, or institutions of that kind?—It would do no harm, undoubtedly.

8198. Has that been considered by the body you represent?—No, not from our point of view.

8199. You would not disagree with my suggestion that that would be a good step to take?—No; I think knowledge is power. If people know something about it, they will do it better.

8200. Chairman: Mr. Quin, I will ask Mr. Synnott to examine you on your paper?—(Mr. Quin): May I say, to begin with, that my evidence is really supplementary to the evidence given by Mr. Lakin-Smith, the idea being to arrive at greater simplification.

8201. That is very wise indeed, but there are some points on which it is fair you should have a separate examination.

8202. Mr. Synnott: You are speaking generally on behalf of the Association of British Chambers of Commerce, and not specially for Belfast?—No; I am a member of the committee that has been sitting in London for weeks past.

8203. Shortly, you are in favour of discontinuing the system of averaging profits on the three years,

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and you are in favour of treating the income of the past year, in all cases, as the basis of the income to be taxed?—Yes.

8204. You give your various reasons under (a), (b), (c), (d), (e) and (f)?—Yes.

8205. I think there are some of them that we can pass over, because they speak for themselves. The first case (a), I really do not think requires much elaboration; I will not ask any specific questions on that, unless you wish to supplement what you have put?—No. I do not think I have anything to say on that.

8206. The second point (b), I think, does want perhaps a little more explanation. I see it myself, but perhaps it would be better that you should just explain that?—What is meant there is this. Take the case of a company that is being assessed on a low average, and the profits are on the increase. It pays Income Tax on a much smaller amount than the actual profits for the year in question, and the dividends to the shareholders are out of the enhanced profits, and the Income Tax is deducted from the dividends. Therefore there must be a disparity between what the company actually pays, and what is deducted from the shareholders.

8207. The present system creates that anomaly between what the shareholder receives and what the company pays in Income Tax?—Yes. Then take the reverse case.

8208. I think we see that. Then (c), the object of the reform, you say, is the "prevention of loss to either payor or payer in respect of tax deducted from royalties owing to variation in rates of tax based upon an average instead of an individual year"?—That case is put by one or two Chambers. It is the same principle as governs the previous paragraph.

8209. Still, that does not cover so wide a field?—No.

8210. Then the next (d), is "Immediate relief to the taxpayer in respect of falling profits or in the case of a loss in trading and immediate gain to the Inland Revenue in respect of increasing profits." What you emphasize there is that immediate gain and immediate relief will be at once granted; but the average system would still work out in the end, would it not?—It would; but, as I say in paragraph (f), the abolition of the three years' average, and the adoption of the assessment on the one year, would avoid inevitable irritation in the case of falling profits. Where a trader has had several prosperous years, and then comes upon lean times, and perhaps is incurring a serious loss in trading, he yet has to pay Income Tax on a high average, and at a time when he is not quite able to do it.

8211. In not the point shortly that the money out of which he has to pay Income Tax in the third year is already spent?—Yes, he has spent the money.

8212. The next one is a more difficult and important one. You put the case of a partner coming into a business; perhaps there is a retiring partner who takes his capital out, and the income of the incoming partner instead of being, say, £5,000, is £2,000, but he has to pay on a system of average?—Yes.

8213. Is there not another way now, under the section of the Income Tax Act, by which loss due to any specific cause is considered by the Inland Revenue? Do you know that section?—Yes, that is the reinstatement of section 134 of the Act of 1842.

8214. Mr. Synnott: I forget the number of the section, Mr. McLintock.

8215. Mr. McLintock: It is in the 1918 Act, Schedule D, Miscellaneous Rules, Rule 3 (3).

8216. Mr. Synnott: "A person who has succeeded to the trade, profession or vocation of a person charged shall, subject to the provisions of rule 9 of the rules applicable to Cases I. and II., be liable to pay the full tax charged without any new assessment, and no relief under this rule shall be granted in any such case unless the person so succeeding proves, to the satisfaction of the commissioners, that the profits or gains have

fallen short, from some specific cause, since, or by reason of, the succession."?—In the next paragraph you will see I say under (f): "Avoidance of inevitable irritation where the trader is losing money and yet has to pay Income Tax on apparently fictitious profits based on an average, even though he is able to obtain a refund at a later date."

8217. Your system would avoid all that trouble?—Yes.

8218. I think we have now dealt with (f)?—Yes.

8219. Just underneath that I will quote this, because it seems to me a more debatable point. We have gone on very smoothly so far. "It is desired to emphasize the necessity for carrying forward a loss from any particular year to be made good out of the profits of the next succeeding year or years." You would not carry forward that loss, would you?—Yes, to be made good out of subsequent profits; otherwise it would be very unfair to the trader.

8220. How long would you carry it forward?—Until made good out of subsequent profits.

8221. It does occur to me that you might have to bring forward a loss for twenty years. Would you?—If there are no profits. If the trader has suffered enormous loss why should he be called upon to pay Income Tax?

8222. I will put one point to you. It has been put to us, or, if it was not put to us, it was brought out in one of the Committees on the Income Tax, that they were rather in favour of the three years' average because they had by that means the inspection and investigation of three years' accounts before them, and it was easier to test the balance sheet of a company and the profits and loss account by going over three years than by going over one year?—But those years would still be available. They will get them year by year. They will have the figures in each year still.

8223. I have not the exact reasons before me, but I know that that was the official view?—They will still have each year available.

8224. Mr. McLintock: Perhaps you would tell us how you would bridge over the gap when the change over takes place. Have you any suggestion about that? Take a case where there have been three good back years on the average, and you suddenly decide to go on to the profits of the preceding year. Can you give us any suggestion as to how that bridge would be formed?

8225. Mr. Synnott: Would you not have to give three years' notice, or two years' notice?—I do not think so. You must make a beginning some time if you are going to make a change, and, to my mind, you should make it at once. Take the last of the three years. It may be necessary, in making the change, to assess twice on the same year.

8226. Mr. McLintock: Could you consider putting in some carefully considered suggestion; because after all, this proposal of years has been put forward by various witnesses, but you agree there is a difficulty as to exactly how to make the change?—I do not apprehend any great difficulty.

8227. Mr. Synnott: It is easy to make the change, but will there not be great anomalies owing to the variation of profits and losses?—You cannot help that at the commencement. There may be anomalies, but they will all right themselves in a couple of years.

8228. Yes, that is why I suggested perhaps two years' notice of the change?—But they would have to make the commencement at the end of the two years. You must commence some time.

8229. Now with regard to the last paragraph, we have had other evidence upon that. You think that the financial year should correspond to the ordinary business year?—Yes; we make that suggestion. At present the accounts available are those made up to the date immediately preceding the 5th April, and we suggest that that should be immediately preceding the 1st January.

8230. That, again, will want adjustment and notice, will it not?—Most business concerns end their year on the 31st December, so I think that would not create any great difficulty in making the change.

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8231. I will ask this question generally: are you satisfied, in the north of Ireland, as business men, with the present system which combines in practice the Surveyor and the Assessor? You have no General Commissioners?—No, we have no General Commissioners.

8232. Are you perfectly satisfied with the system under which the Surveyor is practically the Assessor?—I think, on the whole, the system works extremely well, and I would say, so far as our experience in that part of the country goes, that this Department of the Government, the Inland Revenue Department, is administered with great ability.

8233. There is an appeal to the Special Commissioners, and then there is a further appeal to the County Court Judge?—To the County Court Judge or the Recorder.

8234. That is a very useful thing, is it not?—Yes.

8235. You do not want General Commissioners?—No, we do not want General Commissioners.

8236. Mr. Walker Clark: You suggest bringing forward the loss indefinitely?—I think you could.

8237. Would it not be better to have a repayment in the following year?—We do not claim that.

8238. I ask you whether it would not be better and simpler and quicker?—No. I do not think that would be reasonable. After all, people are in business to make money, not to make losses; that is the fundamental principle underlying all business, and if a trader makes a loss he regards it as a temporary matter which will be made good out of subsequent profits.

8239. Sir Warren Fisher: This does not arise out of your paper, but in connection with the question that Mr. Synnott asked. In the case of the County Court Judge or the Recorder now, is it not the case that there is no appeal from him to the High Court?—I do not think there is an appeal; I have never heard of one.

8240. I think you are right. Would you think it desirable to have an appeal, not on fact, but on a point of law, to the High Court?—I think it would be desirable.

8241. Sir E. Nott-Bower: In your advocacy of assessment on the profits of the preceding year and giving up the three years' average, I suppose your Association is giving voice to the wishes of the trading community generally?—Yes, as expressed by the Chambers of Commerce. We have had this point raised by a great many Chambers. The great majority from whom we received recommendations are in favour of the abolition of the three years' average and the adoption of the one-year assessment.

8242. It would be a simplification?—It would be a simplification. People understand it better. As I say in my memorandum, they base their distribution of profit on the one year's accounts, and they feel they should at the same time make provision for the liability to the State for each year out of its profits.

8243. When a change of that sort is made, what will happen inevitably will be that some people will gain by it in the first year, and others will lose?—Yes, we cannot help that; but all those anomalies would be righted in a very short time.

8244. And you think the change would be agreeable to the commercial community?—I think so.

8245. Mr. Petyman: There is one small point about your carrying on the loss. Where the rate of tax varies between the two years would not that make a difficulty? At what rate would you treat the carried forward loss? Would you carry it forward at the old rate or at the new?—The loss would be carried forward, say, for one year or two years, and then when we come to profit in the second or third year we deduct the loss, and we pay on the balance at the rate appropriate to that year.

8246. There is only one other point, which really arises out of Mr. Lakin-Smith's paper rather than yours. That is on the question of chronology. In deal-

ing with this single Income Tax that you propose to have, do you propose that the whole of it should be calculated on the income of the year itself?—On the preceding year.

8247. The whole of it?—The whole of it.

8248. Even in the case of income taxed by deduction at the source? How could you deduct at the source for the previous year?—We are not proposing any change in regard to deduction at the source. That would continue as at present. Our recommendations are in the matter of assessment. It is not stated here in the paper actually, I think, but I would propose that the return of the total income is to be for the preceding year.

8249. For the preceding year, the same as the Super-tax is now?—Yes.

8250. So that a man would not pay his ordinary Income Tax on the current year, except so far as deductions are concerned?—That is right, and you would get over the difficulty of estimating. For instance, in the case of returns made under Schedule E, at present the estimate is what he will receive during the year, but it may not be the correct amount; the man may receive a bonus, or an increase in his remuneration, and his return does not cover that. If you take it on the preceding year, that can be ascertained, and he will pay on that.

8251. The return of his income that he would make, so far as deduction at the source went, would not be for the year in which it was actually paid, because deduction at the source must be for the actual year of assessment, must it not?—He would make his return of income deducted at the source in respect of the preceding year also.

8252. Mr. Synnott: You want the principle of Income Tax to be paid on the preceding year to apply to all the Schedules?—Yes.

8253. Mr. Marks: May I ask Mr. Currie one question? The point is a rather important one, I think, and it has not been mentioned so far. It is with regard to his paragraph 9, the assessment of married persons. One difficulty seems to be that of recovering the amount of tax. For instance, the present method of ultimate recovery is by distraint or by arrest?—(Mr. Currie): Yes.

8254. You could not very well distraint for the wife's Income Tax on anything but household goods, and then there would be a difficulty in identifying those which were her property; on the other hand, there is a very strong objection, not only on the part of the Inland Revenue, but generally in this country, to the arrest of a woman for debt; and the thing might result in a serious loss. We had a case before us yesterday where a certain lady had evaded payment of her Income Tax by taking advantage of this provision. Have you considered that at all?—I have myself considered it. We did not discuss it on the committee, but, as you put the question to me, I will tell you what I think. I think, if you are going to separate the woman from her husband for this purpose, the Government should be armed with all authority to attach and to follow up and take possession of all her property, wherever it may be, and wherever they may find it: not merely her share of certain furniture, which may amount to nothing at all. I am quite sure you would require to be armed with something you have not at the present moment.

8255. You might attach her securities?—Yes.

8256. And you suggest it should be got over in that way?—If you are going to assess her in this way, I think so.

8257. Sir J. Hermond-Banner: I would like to say one thing, and that is that while we have not gone into the examination of a great many of these statements that are brought before us, it is not because we ignore the valuable contribution which the Chambers of Commerce have made to us in the evidence they have given to-day.

8258. Mr. Petyman: Where it is a perfectly straightforward expression of opinion which can be taken on its merits, we simply take it and record it and we shall consider it, with all the weight behind it

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We do not want to cross-examine where it is a perfectly obvious statement, and where there is nothing to be asked about it. It does not mean that, because you are not asked about it, we regard it as unimportant at all. It has been pointed out to me that this point that I raised about chronology is very difficult and very important, and I hope you will think is out, because there is more in it than I think appeared when you and I were discussing it just now. The rates on the two years will vary, and a man will pay by deduction in the current year at the new rate?—(Mr. Quin): But that difficulty prevails at present in Super-tax.

8269. No, because Super-tax is fixed by a perfectly clear and separate enactment, and to meet that difficulty Super-tax is raised on a slightly different basis from Income Tax for that very reason?—You are referring to the merging of the two, now?

8270. Yes, that is where my difficulty came in about chronology. You propose to merge the whole tax. The reason why the Super-tax is slightly different is to get over that very difficulty of chronology?—Yes, I see the point now.

8261. It really is very difficult, and I think if you had one single tax you would be in a perpetual muddle with chronology, because it is not until the end of the existing current year that you can calculate on what basis your Super-tax is to be paid. You would perhaps think that over?—The proposal of the Association of Chambers of Commerce is that there should be a graduated scale.

8262. I do not think that affects the question, really?—It would only be one rate; and then the suggestion has been made that for the purpose of taxation at the source, there should be a standard rate, and then that would be adjusted with the individuals according to their incomes.

8268. But where you have a standard rate and you deduct at the source, it does not really depend in the least upon the total income of the person charged?—No; that has to be adjusted afterwards in the individual case.

8264. But then you cannot tell what is the total income of the person charged, or what he is actually paying by deduction, until the end of the year; yet you want to get this extra sum on the previous year, and that has to be calculated with relation to what he has paid in the present year. The two have to be put together for the total?—Yes.

8265. And unless you have the two on a rather different basis, to get over that difficulty, the thing will not be workable. Perhaps you will think that matter over, and let us have a paper upon it, because it is a point which is important?—Mr. Currie would like to say something on that point. (Mr. Currie): We did, of course, see that that question would arise, and we considered it very carefully. We thought, if your maximum rate was 10s., you could not assess everyone at 10s.; you might have to assess them at, say, 3s. or 4s. We quite realize that if you had that to begin with, you would still have reclaimers; a man might only be liable to 2s. 9d. or 3s. 6d.; we are not getting rid of reclaimers. The rest of the balance the man would pay according to his own rate.

8266. But he would pay it on a different year?—No, because we propose that our sole merged tax would be on the basis of the last twelve months, so that by the time the assessment was made the facts would be in our hands.

8267. But the tax deducted at the source must be deducted for the current year. You cannot deduct at the source for the past year. You must deduct at the source when the dividends are paid; there is no other time for doing it; that is to say, in the current year?—We quite saw the point; we have not overlooked that, and we quite admit that it is a con-

siderable difficulty; but in spite of that difficulty, we think the balance of advantage is in favour of merging the tax and putting up with the difficulty.

8268. What is the advantage? You are going to create a serious administrative difficulty; what are you going to gain, except in terminology? You would call it one tax; it is practically one tax now?—The only thing that we would gain would be simplification, and if you arrive at the decision that it would not result in simplification—

8269. Simplification in words is less important than simplification in fact and administration?—Yes, I quite agree.

8270. The fact of calling a thing a single tax sounds simple, but if, in order to levy it, you have to go into more complicated and intricate calculations, by calling two different things one thing you are giving up the substance for the shadow?—We are prepared to admit that; but that is a question which you have to consider. We came to the opinion, for what it is worth, that the balance of advantage is in favour of making every effort to get it on the basis of one tax.

8271. The Commissioners will consider that, but if you can, think that point over a little, and if it occurs to you that you have anything further to say upon it, you will let us have it in writing?—If you please.

8272. Think out how it would work, and if you have any suggestions to make, let us have them?—If you please. (Mr. Quin): The point you have just been discussing does not affect the question on which I have given evidence, namely, the abolition of the three years.

8273. No, not the least. I think there are two points of great importance that it does not touch at all. It does not touch that, and it does not touch Mr. Lukin-Smith's other point, which is most important, that every taxpayer should send in a complete return. Those points seem to me of great importance, and they are not affected. The other is merely a matter of convenience of terminology. You call it simplification. What I was trying to get at is whether you really were going to get simplification, or whether it would result in complication. Perhaps you may think about that a little more?—Yes.

8274. Mr. May: Just a point that escaped me this morning; Mr. Currie said, in reply to my question, that he thought it was worth while to enact legislation and alter administration in order to collect Income Tax from non-members trading with Co-operative Societies, even though it were shown to be less than $\frac{1}{2}$ per cent. I wanted to put the following question. Is Mr. Currie aware that Co-operative Societies at present pay Income Tax under Schedule A on all their property that properly comes under that Schedule?—(Mr. Currie): Of course the answer is that everyone who knows anything about it is quite aware of that fact. It is not in dispute for a moment.

8275. I want also to ask whether you are aware that the Schedule A tax—to which technically Co-operative Societies are no more liable than on any other part of their mutual trading, and for the same reasons—very often exceeds the total amount of any possible computed profit upon their non-members' trading?—The answer is that under any scheme, if you are basing taxation upon profit, if there was no profit there would be no tax, of course, obviously. I do not propose to levy tax where there is no profit, when we are talking of profit taxes.

8276. I simply ask whether you are aware of the actual fact that they do pay a tax which they are not liable to pay at the present time, which very often exceeds in amount the profit on non-members' trade, for which they might be held to be properly liable?—I have answered that question already.

FOURTEENTH DAY, WEDNESDAY, 30TH JULY, 1919.

PRESENT :

LORD COLWYN (*in the Chair*)

SIR T. P. WHITTAKER

MR. BOWERMAN.

MR. PRETTYMAN.

SIR E. E. NOTT-BOWER.

SIR WARREN FISHER.

SIR J. S. HARMOOD-BANNER.

MR. HOLLAND-MARTIN.

MR. BIRLEY

MR. WALKER CLARK.

MR. KERLY.

MRS. KNOWLES.

MR. MCCLINTOCK.

MR. GEOFFREY MARKS.

MR. MAY.

MR. WILLIAM CASH, F.C.A., on behalf of the Institute of Chartered Accountants, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

8277. (I) Mr. William Cash will say:—

I am a Fellow of the Institute of Chartered Accountants and senior partner in the firm of Cash, Stone & Co., carrying on business at 90, Cannon Street, London, E.C. I have been a member of the council of the Institute of Chartered Accountants in England and Wales since August, 1908. I am one of the Board of three Referees appointed by the Minister under the Munitions of War Act, 1915. I have had 30 years' experience in accounts generally and, in the course of my professional practice, have had to deal with many cases of assessment and appeal on behalf of clients. I was chairman of a committee acting for the Gas Industry in 1912 to settle on behalf of the industry with the Inland Revenue authorities a scheme for assessment, including allowance for depreciation. The Institute of Chartered Accountants have been invited by the Commission to submit evidence on the matters now referred to, and have accordingly appointed a committee who have been in communication with certain of its members and the Chartered Accountants' societies in the provinces, and obtained certain statements as to their views, and I have been deputed on behalf of the Institute to give evidence before this Commission. I have, on two or three occasions, acted on behalf of the Inland Revenue authorities in giving evidence for them.

8278.

(2) *Simplification.*

In my experience the chief complaint against the present system of Income Tax assessment and collection is the complications that arise in the interpretation of the Acts of Parliament and the rules and regulations at present in force. A considerable step in simplification has been made by the codification of the existing law by the Act of 1918 but, even now, the Act of Parliament which with Schedules covers 231 pages is quite beyond the comprehension of the ordinary trader or business man. Many of the existing complications arise from attempts made in past legislation to meet individual cases of hardship or exceptional circumstances. The result is that in the majority of cases and particularly in relation to business or private incomes of any magnitude the taxpayer has to engage professional assistance. This is undoubtedly an advantage and source of profit to my profession but, speaking impartially, it does not seem reasonable that taxation should be based on methods which necessitate an expense to the taxpayer to ascertain his true liability. These same remarks apply, with even greater force, to a return of tax over-paid under the present system.

8279.

(3) *Administration and Inland Revenue authorities.*

In my experience, which I think might be applied generally to my profession, the officials are prepared to deal, and do deal, with accountants in a not unreasonable manner, and certainly, in the majority of cases, they are willing to accept figures duly certified by the profession as correct. On the other hand, under the present system, the officials are bound by fixed rules, little or no latitude is admissible, and

many cases arise perhaps through no fault of the particular official, where broader views are wanted. As a general principle I should submit that in the assessment of profits there should be a nearer approximation of the assessable income to the commercial result shown by the trader. As an example of this tendency I would refer to the question of depreciation dealt with hereafter, and to the disallowance of a number of petty items such as trade subscriptions, removal charges, law charges, fees for trustees for debenture holders, which fees for many years were disallowed but are now admissible as a deduction. I should like to refer to the case of Strong & Co., Limited, v. Woodfield, Messrs. Strong & Co. being clients of my firm. Messrs. Strong & Co., Ltd., were the owners of an inn which was carried on by a manager as part of their business. The case is reported in Dorell's Income Tax Laws as follows:—
"In estimating the balance of profits for Income Tax purposes they claimed to be entitled to deduct the amount of damages and costs recovered against them by a customer, who had been injured by the fall of a chimney while he was sleeping in the inn. Held that they were not entitled to do so. The loss was not connected with or arising out of the trade and was not money wholly or exclusively laid out for the purposes of the trade." This case was decided in the House of Lords. In fact the damages and costs payable by the brewery company were paid out of the profits of the year and could be paid from no other fund.

8280.

(4) *Assessment by Surveyor.*

I am desirous to put forward as a suggestion that all assessments in future should be made by the Surveyors, and that Assessors should be done away with. The actual facts are all investigated by the Surveyors, who, in fact, settle the assessments today. There exists, at least among accountants, a strong feeling that the Surveyor when settling the liability for Income Tax should also settle the liability for Super-tax. In most cases nearly all the facts are then present and under discussion and I am sure that, so far as the Inland Revenue is concerned, this method would effect a considerable saving in departmental correspondence and reference. A method of graduation of Income Tax to supersede Super-tax would, of course, lead to this result.

It has been suggested that the Local Commissioners should also be abolished and that all questions of assessment and relief should then be left to Revenue officials, with rights of appeal, in the first instance, to a permanent quasi-judicial body of referees appointed by the Crown, renewable only by petition, recruited from the civil service, the Bar, and the accountants' profession, whose decision on questions of fact should be final, but with rights to the taxpayer and the Revenue to appeal to the High Court on all questions involving law. In rural districts, or in minor matters generally, a rota of assistant referees might act, subject to the appeal to the official referees on all questions, whether of fact or law, these assistant referees being nominated by the local authority and appointed to act by the official Board of Referees. Experience, however, goes to show that many traders value the right to appeal to

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[Continued.]

the General Commissioners and their abolition would not be universally welcomed. The fact that they are not Government officials is regarded as of value.

Under the Taxes Management Act, 1880, a case can only be stated on an appeal against an assessment, and it has been held that an application under any of the relief or abatement clauses is not an appeal against an assessment. Many points of law arise on these "applications" involving important questions, and the right of requiring a case to be stated should extend to any question of law arising in any form. For example, War Loan interest received in 1917 is not taxable by the statute until the assessment year of 1918-19, and for Super-tax until the year 1919-20, but in claiming allowance for reduced income in 1917-1918 under sec. 29 of the 1916 Act this interest is taxed, by which operation the Revenue are taxing the same interest in two successive years. The point is doubtful. I am informed that counsel have advised both for and against the Revenue, but this being an "application" no case will be stated and apparently no mandamus will effectively lie.

8281. (5) *Three years' average.*

There is considerable feeling among members of my profession that the present system of adopting a three years' average as the basis for assessment should be abolished and the assessment made on the last preceding annual accounts of traders. This practice is already applied in the case of railway companies, gas companies, etc. It would involve an arrangement under which losses in one year would be carried forward for deduction against future profits following a similar practice already in operation with regard to unexhausted depreciation. If the three years' average is abolished temporary arrangements would be necessary to adjust the profits or losses not fully brought into account for taxation purposes at the date of alteration. It would do away with many adjustments now necessary as, for example, such adjustments as arose under sec. 133 of the Act of 1842 repealed by the Finance Act, 1907, and other like allowances for relief for diminution of profits owing to the war (Finance Act, 1914, section 13 and subsequent Acts). The variations now existing under Schedules A, II, Rules 1-7, III, 1-3, Schedule B, Rules 5 and 6, Schedule D, Case 1-6 and Schedule E are very numerous and of doubtful value. For aggregation of income and for Super-tax purposes continuation of these groups gives a confused result.

8282. (6) *Evasion.*

Judging from my own experience there has been a real and substantial improvement in the attitude of the taxpayer as to his obligation to pay his full liability. Actual frauds are few, and the number of those who now hold the view (common in years gone by) that there was nothing wrong in attempting to get the best of the State by evading payment is reduced to a minimum. On the other hand, evasion by legal means to escape the incidence of high taxation is continually going on and is increasing. Such methods as gifts inter vivos, family settlements, estate trusts and the formation of private limited companies are all used as a means to escape taxation.

As regards the formation of private limited companies, no doubt this is done to give exemption from Super-tax by holding up profits from distribution which, in the case of the private trader, would render him liable to Super-tax. Then, too, large sums of accumulated profits are being distributed as bonus shares, with the contention that these are not revenue by capital, relying on the decision of *Bouch v. Sproule*. This matter is still *sub judice*. It appears equitable that accumulated profits if distributed as shares should be taxed at the appropriate rate payable by the recipient.

The suggestion that a Super-tax be imposed on limited companies would not appear to be workable, and might create grave injustice if the tax were assessed on a company gas company. The provision that a private limited company should, for the purpose of Super-tax, be deemed to be a partnership might partly get over the difficulty. On the other hand, this might lead to create hardship because, in

many cases the retained profits cannot be released, but are employed in the trade or business and are, therefore, not conveniently available for payment of tax. This hardship already exists in the case of private traders.

No doubt one effect of a high tax will be to induce certain companies to transfer their constitution out of the United Kingdom or amend their constitution so that the management is under local control, and therefore only the profits brought to England would be subject to taxation, following the Egyptian Hotels' case. I was concerned as controller in the case of the Aramayo Francke Mines, which company proposed to transfer its undertaking to Switzerland, but was prevented from doing so under proceedings by the Board of Trade in view of the fact that the company was supplying, from Bolivia, articles essential to this country in time of war. I was also consulted in 1916 with regard to certain enquiries put forward by a foreign neutral Government with regard to a proposed agency business in this country and the consequential liability to Income Tax under the later Finance Acts. There would seem to be considerable doubt as to the exact position, but certain principles were defined by His Majesty's Government, and an indication was given that if the law required alteration it would be amended. I mention this case because of its importance as showing that foreign Governments are fully alive to the difficulties in connection with assessment for Income Tax, and the large sums involved if business is to be carried on in this country.

I would refer to one other case—*Stevens v. Bonstedt*. In the House of Lords it was decided that in the assessment of the profits of a company carrying on business abroad the annual value of the land, etc., used in the business might be deducted as a set-off against the profits of the business. This decision seems to rest on the exact wording of the 1842 Act, section 60, but in principle such allowance must be wrong because, as owners of the land, the company, on the principles adopted in England, enjoy the annual value of the land, but when the property is situated abroad they have paid no Income Tax on the equivalent assessment, and therefore, so far as the land and/or buildings are concerned, escape taxation. It is claimed that computation of duty is to be made exclusive of the profits or gains arising from lands, tenements, or hereditaments situated abroad (Income Tax Act, 1842, Schedule D, Rule 2 of the 1st and 2nd Cases) and this may have a very serious effect on the Revenue if sustained. (Taking as an example, a rubber company.) The law has now been altered by the Finance Act, 1918 (section 25), so that no deduction is now allowed on the annual value of premises abroad, but a doubt seems to exist as to whether, even now, the second suggestion put forward above is actually excluded.

Examples of evasion or escape from taxation by foreign firms transacting business in this country through agents are not infrequent. Goods imported are invoiced at an excessive price to show no profit on realization in this country. It is not easy to see how this practice can be checked.

8283.

(7) *Depreciation.*

There is a very strong feeling among traders that adequate allowances for depreciation are not made and, particularly, that these do not apply to all wasting assets. Under this last head might be included household property, debenture loan expenses, plant sold or abandoned by reason of obsolescence or because of the decline of business, preliminary expenses, patent rights.

1. *Losses.*—Here a difficulty will arise by reason of the question of assessment under Schedule A, and if the Crown are to allow the writing off against profits of premiums paid for leasehold properties it would seem reasonable that they should then assess the lesser for the premiums received by him. No doubt, in favour of the present system, it may be argued that the payment of a premium is a contract in which the Crown are not concerned and that the lessee pays the premium knowing that he will not be allowed the deduction on assessment of Income Tax.

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[Continued.]

The feeling, however, is extremely strong on this subject, particularly with reference to buildings or improvements to property carried out by a lessee.

In a similar category to leaseholds might be grouped copyrights, patent rights, goodwill and trade marks. The assessment of the lessor or vendor does not appear to be feasible.

2. *Debenture issue expenses.*—Where debentures are issued for a fixed term of years, the discount and expenses in connection with the issue must be provided from profits, and allowance should be made accordingly. These are not permanent capital expenditure.

3. *Plant.*—Where plant has actually been sold, the disposal arises from the fact that the plant is out of date or worn out. Any loss thereon is not, in my opinion, a capital loss in the ordinary sense of the term, and it ought to be allowed as a charge against profits whether the plant be replaced or not.

4. *Preliminary expenses.*—This item is of a more doubtful character, being part of the cost of the inauguration of the company.

5. *Distinguishing value.*—The present method of calculating depreciation on diminishing values is very strongly objected to by traders and by many accountants. In my personal view, however, there is something to be said for the practice, because it recognizes the essential point of residual value, and coincides with the rise in the cost of repairs or partial renewals in the majority of cases.

On the other hand, I do not think that there should be any insuperable difficulty in arriving at a fair assumed residual value in practically all cases of plant, machinery, &c., as is now done in the case of ships, and that the cost of such assets, less residual value, should be written off over the assumed life. Any profit or loss on sale (or scrapping) after bringing into account the depreciation already allowed, should be adjusted in arriving at taxable profits. The assumed life should, in my opinion, be underestimated, if anything. The Revenue would not in the end be prejudiced, because the allowance would definitely cease when the total of allowances amounted to the cost less residual value.

As a broad or general principle the allowance for depreciation (or as it has been termed expired capital outlay) should be claimable where the relative capital expenditure is made on assets of an inherently wasting character essential to the earning of profits in the trade or business.

6. *Furniture and fittings.*—Allowance is now granted to traders but not to professional men. This anomaly calls for alteration.

(8) Free of Income Tax.

8284. The present practice adopted by many companies of paying dividends "free of Income Tax" and also paying fees to directors, salaries to officials and wages to workmen free of tax is, in my opinion, wrong in principle. So far as the accounts are concerned the effect is that the true payments made are generally not apparent, and the principle of taxing all those who are receiving remuneration which renders them liable to tax is defeated. Naturally the working-man asks that he should be put on the same footing as the official of his company. Moreover, so far as dividends are concerned, the effect is to disguise the amount of the actual distribution of profits. The Report of the Company Law Amendment Committee to the President of the Board of Trade, dated 15th July, 1918, recommends that payments to directors "free of Income Tax" or of Super-tax shall be forbidden.

I suggest that Income Tax payable by weekly wage-earners could be deducted from wages and collected by means of stamps following the practice of the National Health Insurance Act; but difficulties principally in connection with assessment would undoubtedly arise.

(9) Interest on prepayment.

8285. Now that the Income Tax payments are so substantial in amount it is a convenience to many taxpayers who have to finance their payments to be allowed to pay in advance on account of the duty, but a commercial rate of interest should be allowed

on such prepayment. I think that the Government could afford to pay a commercial rate of interest for the use of the money and I do not think there would be any objection on the part of the taxpayers if interest were charged on sums overdue, after allowing some reasonable time by way of grace.

(10) Capital profits and capital losses.

8286. Although it seems unreasonable that profits made from speculation should be exempt from taxation I think that so many difficulties would arise that there would be no advantage to the Revenue in bringing in such sums for assessment. Obviously if profits are to be brought in losses must be set off, and any check on bringing in of profits would be very difficult. There are certain transactions, however, in the way of business (say, for example, a broker speculating in a speciality in which he deals for clients) which might be assessed.

(11) Amendment of existing Schedules.

8287. *SCHEDULE A.* There are many instances in which the allowance of one-sixth for repairs under Schedule A is inadequate. With regard to small properties the allowance of the actual repairs would tend to encourage landlords in carrying out further repairs if these were allowable. Any such allowance should, of course, exclude improvements.

The allowance by way of a deduction from profits of a proportion not exceeding two-thirds of the rent and rates of any dwelling-house partly used for the purpose of the business is in many instances inadequate. This applies particularly to licensed premises but, in like manner, to other businesses such as, for example, a nursing home where the proprietor lives on the premises.

SCHEDULE E. It is suggested that salaries of directors and staff now assessed under Schedule E should be included under Schedule D but that allowances should be made for expenses incurred in earning such salaries as, for example, travelling expenses. If this were in operation Schedule E might be abolished.

SCHEDULE C. There seems no good reason why this should be continued as a separate schedule unless for statistical purposes. Moreover, so far as the various Cases under Schedule D are concerned, these would all fall into one category if the assessment was made on the income of the preceding year.

8288. (12) Colonial or Indian Income Tax.

At present the method of assessment abroad differs from the method employed here in certain cases. This leads to considerable confusion, but the most important question in this connection seems to me to be that the home authorities should arrange with the authorities abroad so that full particulars of the payments made, the amount of the assessment, the rate of duty and the income to which the duty relates should be available for transmission here to facilitate the repayment of the difference in duty allowable. Provided that evidence of identification of the income was furnished there seems no reason why the Imperial Revenue should not return the exact sum paid at the appropriate rate on evidence of payment in the Colonies. It is suggested that in any event the total tax payable should not amount to more than the equivalent of the highest rate of tax in force in the two countries.

8289. (13) Graduated Income Tax.

Many proposals have been made for strictly graduated Income Tax, and in principle this is sound, but a tax strictly graduated presents difficulties. On the other hand I think a scheme could be devised under which Super-tax might start at a lower figure, say, for the sake of illustration, £1,500, and the rate of Income Tax be correspondingly lowered to say, 5s. in the £. The advantage of such a system would be that the labour involved in dealing with small Income Tax claims for repayment would be considerably diminished. A system of graduations on all incomes can be devised which would effect the desired result and I can submit a scheme showing the method. Such

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system would involve a return for Income Tax purposes by all taxpayers, and this principle is advocated. In theory under present conditions this obtains to-day, having regard to the law relating to Super-tax and existing provisions as to graduation and abatements. The abandonment of the principle of taxation at the source would of course solve the difficulty but such alteration of method would involve the State in heavy loss.

8290. (14) *Exemptions and abatements.*

Abatements for children, in my opinion, should not be allowed where a child has an income available for its maintenance. Such income up to the amount of the abatement claimed should be brought into account if the child is living at home.

8291. (15) *Other points.*

The following points have been brought to the notice of my committee:—

- (1) Repayment locally of Income Tax overpaid through the medium of the Surveyor.
- (2) The departmental instructions issued to Surveyors should be available to practising accountants.
- (3) Assessment on partners in firms should be made separately.
- (4) There should be only one charge on each individual, even if his property and/or business is situated in different places. (This is a very difficult question, because the matter only arises where the taxpayer is not liable to the full rate, and is bound up in some measure with the principle of taxation at the source).

[This concludes the evidence-in-chief.]

8292. *Chairman:* We have your paper before us; it is a very valuable paper, well thought out and very well expressed; and it gives us real help in regard to many of the suggestions that you have brought before us. The Commissioners have it before them, and they have studied it, but there may be a few points in your statement that they want to elucidate; if you will kindly answer any questions that are put to you, I shall be obliged. Perhaps, my lord, you will allow me to say one word on the paper as a whole, before the members of the Commission ask me questions. I should like to say that I have endeavoured in this paper to reduce the broad points to a condensed form as much as possible. I have assumed that the present practice in regard to the administration of the Acts of Parliament is entirely familiar to the Commission. Then I am aware that you have heard a great deal of evidence already, and that perhaps you may regard some of this either as confirmatory or otherwise of such evidence as has been already before you. Many points are highly controversial, and I do not suggest that even this evidence, presented as it is on behalf of the Institute of Chartered Accountants, expresses their unanimous view on many of those points. Experience in various parts of the country differs possibly from experience in London, and so forth. Then, again, I have attempted, as far as possible, to exclude (because our committee did not think it was a matter for us to touch upon) such matters as might be regarded as political, such as where a question of policy was involved in certain aspects of the law as it stands to-day. Matters of that kind we have tried to exclude.

8293. Can you tell us what these points are?—For instance, as to whether it would be advisable on general grounds to extend limits of exemption, and that sort of thing—whether it might be wise or proper to look at them from what I might term the political point of view rather than from the accountancy point of view. Then, generally, the impression one is asked to convey is that there are a great number of what I might term alleged grievances, some of which in our opinion are hardly well founded, because in many cases we think they are due to ignorance or are exceptional cases; of course there must be, in any legislation on this subject, exceptional cases, and it is very difficult to meet every individual case of hardship. I merely mention these facts because I have

(5) Earned and unearned income.—Whilst the present system of differentiation between earned and unearned income is generally approved, it mitigates against thrift, often presents unfairly on persons with limited means, and in my personal view the differentiation should be abolished.

(6) Income of husband and wife.—The case for separate assessment, except so far as already provided for, does not seem to be justified.

(7) Co-operative Societies.—The general view is that these societies should be subject to taxation, and where they are carrying on retail trade in competition with other trades, I cannot see any possible reason for their exclusion.

(8) Accounts now furnished to the Authorities.—The request by Surveyors that they should have a balance sheet in addition to the trading and profit and loss account is justified by their experiences in many cases.

(9) Revision or repayment.—The rights of the taxpayer in respect of period of time should be made similar to the rights of the Crown in every instance where revision of figures for repayment or any other purposes is necessary.

(10) Instructions should be given to Surveyors to point out to taxpayers any relief to which they are entitled, but which they have omitted to claim.

(11) The form of certificate as to stocks, &c. required from the taxpayer is approved and is a protection to the professional accountant.

been supplied with a mass of information coming from various parts of the country, and my committee, who have asked me to come here and represent them to the best of my ability, felt that some of these matters were not matters on which we ought to trouble your Commission where they are obviously very exceptional or very uncommon.

8294. You will probably be asked by some of the Commissioners with regard to the question of evasion, I see that you mention the forming of trusts by individuals, which I believe is getting to be rather extended; probably you will be asked some questions about that. Would you give the Commission information on that point later on?—I will, so far as I am able to do so.

8295. *Mr. Ker:* With regard to your proof, may I venture to say that it is so clear, that whether one agrees with it or not, it is not open to misunderstanding. Will you take paragraph 2? You suggest that the Tax Acts—even the codified Act—are very complicated, as of course they are. Can you make any suggestion with regard to simplification?—It is very difficult to do so, except in one particular. I venture to think that if a system of graduation of tax could be found, you might get over a great deal of the present detailed legislation which deals with abatements and with varying rates of tax, with margins, that is to say, the tax varies where the income does not exceed so and so. If you could find a system of graduation which would run in a smooth curve I think a great deal of that might be removed.

8296. Have you considered starting the Super-tax method almost from the bottom?—I have.

8297. That would tend in the direction you suggest?—It would.

8298. It would give every £100 an appropriate rate of tax?—It would.

8299. But the majority of the sections of the Act are not concerned with abatements?—No.

8300. They are concerned with imposing the law?—That is so.

8301. Then you suggest that it is desirable that the taxpayer should be able more readily to ascertain his liability. Do you think that—apart from the simple case of, say, a clerk with a fixed income—it is possible to make the matter simple enough for even an ordinary business man to appreciate his liability?

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—It is very difficult, because for obvious and good reasons there must be a certain amount of variation between the ordinary ascertained commercial profit and the statutory income on which a man is called to pay tax.

8302. Do you think that could be done by publishing simplified official manuals and tables with illustrative cases?—I think that that is possible. Of course there are many textbooks available now to the ordinary trader or the ordinary taxpayer, to which he can refer, and in which tables are set out; but with the number of adjustments and variations and so forth that there are to-day, it would be difficult to codify those in any brief form.

8303. Supposing, instead of having an ill-printed form of very close print, and appearing to be very complicated, there was an official publication, costing, say, 6d., and the official form referred to it, would that assist?—I think it would assist, certainly. If it was official, it would carry with it the imprimatur of the Department.

8304. I am suggesting that?—I notice you are, Sir.

8305. Will you kindly turn to paragraph 3. You say there should be more latitude. Everybody would agree that if a reliable body of persons could be allowed a certain latitude with regard to exemptions and so on, to deal with difficult cases, that would be satisfactory if you could trust your body. Can you make any suggestion as to laying down the principle?—I think in that matter the practice has improved; that is to say, I think the Surveyors, who are becoming more and more skilled and more and more trained, are taking what I might term rather a broader view with regard to small matters. They do not insist so much as they used to on a cast-iron interpretation of what, after all, are comparatively small matters.

8306. There are two divisions, of course, the statutory law and the administration. So far as the administration goes, do you think it would assist matters if the Commissioners of Inland Revenue were given a general rule-making power?—I see this difficulty, that if you give too much latitude you may get a variation in practice, and you may get allowances made by one man which would be disallowed in another case.

8307. At any rate the principle must be settled by statute?—Certainly.

8308. Perhaps you had something of this sort in your mind. I am going to read what I have jotted down, only as a rough suggestion: that there should be a general provision that tax is payable on income, and a further provision that notwithstanding anything contained in the Act, some Board—call it a Board of Referees—should determine, in respect of any class of profits or returns, or any trade or business, or in any particular case, whether and to what extent the profits or returns is taxable in accordance with the principle first stated?—By the last sentence, you mean, if I may interpret, in accordance with the principle stated by Act of Parliament.

8309. No, stated in the opening lines of my proposition: that tax is payable on income, and not on capital; and then leave some judicial body to distinguish in particular cases that principle, between income and capital?—I am afraid I do not follow.

8310. I did not know whether it was something of that sort that you meant; you see I put it in the most general way possible?—I have no doubt it is my fault, but I do not quite understand your opening phrase; you say a tax, distinguishing between income and capital.

8311. My suggestion is that, instead of trying to deal with particular cases, for instance with regard to dissipation, depreciation or anything of that sort, you should merely lay down in the Statute the principle that it is income which is to be taxed?—That it is income to be taxed, I agree, certainly.

8312. And then leave it to be worked out by the decisions of a particular body?—Yes.

8313. That would be the only way in which you could get a real simplification?—It certainly would be one way, and should help in that direction.

8314. And would have the great disadvantage of leaving the whole matter very indefinite and the application of the tax very uncertain, at any rate for a very great number of years?—Yes. As the

position is to-day, in the great majority of these cases, decisions have already been taken either in courts of law or by established practice.

8315. Then turning again to paragraph 3, you give a case where an expense falling upon an innkeeper in the course of his trade was held not to be a deduction from his profits for Income Tax purposes. There again would you propose that there should be some general provision, say, of this nature: that all expenses incurred in earning the profits and actually paid out of profits shall be charged to revenue?—Yes, and I would be glad to accept your wording "actually paid out of profits," because the point in this case, from the accountant's point of view, was that of course there was no other fund out of which this money could be paid.

8316. Do you think that in actual practice, if you had the thing left so loosely as that, there would be a difficulty in administration?—I think still disputes might arise, but I do not think there ought to be difficulty in determining a question which would then become purely a question of fact; was in fact, the particular charge and expense in this case paid out of profits or not?

8317. The position would be somewhat similar to that which arises when there is a dispute as to whether a loss is due to negligence?—Yes.

8318. It must be tried by a judge of fact or by a jury under the direction of a judge?—Yes.

8319. Turning to paragraph 4, we have had many suggestions that the assessments should be made by the Surveyors. Those you approve of, I understand?—Yes.

8320. Do you think that the General Commissioners should be retained merely as a Court of Appeal?—I do feel, so far as expressions have reached us, and particularly from the country, that many traders consider the General Commissioners an advantage.

8321. What is your personal experience?—My personal experience is this. If I had a question of real difficulty, involving a number of technical considerations, I should go to the Special Commissioners.

8322. In large towns, at any rate, the General Commissioners can have no knowledge of their own with regard to any particular case which comes before them?—They may or may not.

8323. It would be more accident if they did?—Yes. While you are on this subject may I say this? I also do suggest there—and I venture to think it would be a real help—that the same Surveyor should go on to deal with the question of Super-tax, particularly as in so many cases that come within one's own practice so many of the facts are before him at the time. I venture to suggest that that would be of assistance, because when the Super-tax assessment comes to be made I believe there is inter-departmental correspondence to verify the facts submitted on the Super-tax assessment.

8324. At present Super-tax is assessed by the Special Commissioners?—Yes.

8325. Whose general duty is to act as a court of appeal?—Yes.

8326. Has it struck you that the Special Commissioners are in any way prejudicially affected by acting also as the Super-tax Assessors?—I have never seen any evidence of it.

8327. No evidence that they are taking the official view rather than a judicial view?—No; I call to mind no instance where I have had any reason to suggest anything of the sort.

8328. You may have seen a letter in this morning's paper?—No, I have not. Before you pass from that, might I just mention one case that came before me: as a matter of fact it was a foreigner, who was liable to and assessed for Income Tax, and who paid his Income Tax, but who left this country while his Super-tax assessment was in process of being made. Of course, there was no means of recovering or enforcing that assessment. That duty was lost.

8329. Because of the delay?—Partly because of the delay, and partly because of the Super-tax assessment being always in effect one year behind the Schedule D assessment.

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8330. The Super-tax, as you have just said, is a year behind the three years' average?—Yes.

8331. Do you think that is convenient?—No, that also would be done away with if it was one assessment. It would bring the whole thing much closer together.

8332. Would you make the Super-tax and the Income Tax one tax?—Yes.

8333. Your view is that it should be upon the last year's actual profits?—Yes, or income.

8334. Then further, in paragraph 4, you suggest that there are cases where no appeal is allowable. I presume you would generalise and allow a Case to be stated under the 1890 Act, or what now corresponds to it, wherever a decision is given by the Commissioners and the party aggrieved desires to raise a question of law?—Yes. This is a point sent up to us, I may say, from the country.

8335. Certain difficulties arise with regard to repayments?—Yes.

8336. Then in paragraph 5 you mention the three years' average. Do you think there would be any practical difficulty in working on the last complete year's actual profits instead of on the three years' average?—I do not think so.

8337. It would be necessary, as you suggest, to carry the losses forward?—Yes, that would be essential, I think, at all events in fairness. On that I indicate that when the change was made there would have to be some temporary arrangement, both in the interests of the Revenue and in the interests of the taxpayer, to bring forward unpaid tax from the average into the calculation of the first two years of the change.

8338. Have you thought out how that could be worked?—The suggestion made is, assuming it to be made at once, that for the assessment for the year 1920-21 there should be added to, or deducted from, the profits of the preceding year the following sums, namely, one-third of the difference between the profits of the preceding year and the profits of the year 1917, and one-third of the difference between the profits of the preceding year and the profits of the year 1918. I am taking the 31st December as the financial year, and I am taking the Government year as stated, 1920-21. Then for the following year, 1921-22, there should be added to or deducted from the profits of the preceding year one-third of the difference between the profits of the preceding year and the profits of the year 1918. Then there would have to be similar provisions where the average was not of three years, but of a greater period, as, for instance, in the case of coal mining profits, which are on a five years' basis.

8339. I will leave members of your own profession to deal with that?—I only mention it for this reason. It is an obvious objection to the change, if not provided for.

8340. Now with regard to paragraph 9, on the question of evasion. You mention bonus shares which really represent accumulations of undistributed profits?—Yes.

8341. So far as the company is concerned they have already paid their tax on those profits?—They have paid their tax.

8342. But they are not available as part of the Super-tax income of the shareholder?—That is so. It is a point which affects Super-tax, but I daresay the Commission are fully aware that this is a point which is receiving a great deal of attention at the present moment, and it also affects very large sums of money.

8343. Yes, we have heard of that?—I do not want to go over the ground and waste your valuable time, but it is a pressing point, and it is an important point.

8344. That addition to the definition of profit might be dealt with by providing that shares which represent accumulations of profit are to be considered as income?—Yes, the accumulation. With regard to what is being done at the present time, there are many attempts being made to deal with this matter by first taking those profits and going through a process of capitalisation within the company, that is

to say, applying the profits to pay up in full certain bonus shares and then distributing those shares and alleging that by that transaction they are capital. Now, as it seems to me, and as it seems to most of us, that is only really—I do not want to use a harsh term—but a subterfuge; because in fact they must be profit. There can only be two returns to a shareholder, either profits, or return of capital; and by this means, and also by means of a limited company holding up profits, the true owner of those profits escapes the Super-tax.

8345. You have rather avoided the difficulty by leaving out the possibility of an increment of capital, have you not?—For Death Duties do you mean?

8346. No, capital of the company?—I am afraid I do not follow you.

8347. Supposing a company has a piece of land, for instance, and it trebles in value, is that profit or an increment of capital?—That is an increment of capital. That is not a realised profit until the land is sold.

8348. I do not want to discuss it with you, but, of course, the difficulty has been introduced here by applying the doctrine of the case of *Bouche v. Sproule*, to which you refer, which was a matter between a tenant for life and a reversioner, and depended upon the testator's or the settlor's intention; it was not a question between the taxpayer and the Revenue, to which totally different considerations would apply?—I entirely agree.

8349. I am going on to paragraph 15. There are many matters in between, but I do not propose to deal with those. In paragraph 15 you deal with a number of other points. At No. 3 you say: "Assessment on partners in firms should be made separately." I suppose you would preserve the liability of the firm?—Yes.

8350. Then in No. 4 you say: "There should be only one charge on each individual, even if his property and/or business is situated in different places." You would have all the materials from the different localities concerned, if there were several, sent to one particular Surveyor?—That is the suggestion which is submitted to us.

8351. Would you leave it to the taxpayer to select his area?—I think you would have to lay down some rule; either the place of residence or the place of business.

8352. One or the other seems to be obvious. At No. 6 you object to separate assessment of the income of husband and wife. As the law is at present, husband and wife can require separate assessments where the wife has an earned income and the joint income does not exceed £200?—Yes.

8353. Do you not think it would be desirable that that should be raised to £1,000?—I do not know that I have any decided view on that matter. But I think the law should not be so altered as to enable joint incomes to be split up for the purpose of evading tax.

8354. Then I go to point No. 11 of paragraph 15, as to the form of certificate as to stocks, &c. I call your attention to that because another member of your profession, whom we expect to see in a day or two, rather strongly objects to that. You see no objection to it?—No, I am in favour of it.

8355. I will tell you what is said about it: "No trader would be justified in signing it." I presume that means because it pledges him to statements as to which he cannot have knowledge?—For the moment, subject to further observation, I do not see why he should not sign.

8356. Personally I do not either, but I wanted to know. I have no doubt the other critic will have some good reason?—If you take it paragraph by paragraph, first of all he certifies that the whole of his stock is represented. I cannot see what is the objection at that. The next paragraph is the basis of valuation, whether it is valued at cost, or at market price if under cost. Assuming that for some special and perfectly good reason that is not the case, there is nothing to prevent the trader explaining why he is not in a position to give the certificate. There may

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be very good reasons, but the Surveyor should know that there has been a departure from what you might regard as the ordinary practice.

8357. Personally I have a strong objection to forms of this sort, because I think they get signed without consideration unless they provide for variation. It seems to me that the second paragraph should have a side note: "If this is not in accordance with the facts, state the actual facts."—Yes, I agree that might be a possible improvement, but if a man signs a document of this sort he must be presumed, I think, to know what he is signing.

8358. Then the next paragraph seems to be right: "all transactions . . . are correctly entered."—It is a very small matter, but it is just the sort of point which arises here. I once had an examination of a set of accounts which were prepared for Income Tax, where it was the practice of the partners when they recovered bad debts to divide them outside the business altogether. They did not bring them into the business books at all. They said: "Oh, here is something to the good; this is a debt which we thought was bad, and we have got back £100 which we never anticipated"; and they divided it and kept it outside the books altogether.

8359. They treated it as a gift from the gods?—Quite, but it should have come into the business transactions.

8360. Mr. McLintock: I would like just to follow up the question of this certificate. Is it not your experience with regard to stocks in particular that a certificate of this kind has become very necessary?—Yes. What may be prudent and advisable from a commercial point of view may be a matter which ought to be open to the Revenue when they come to consider the question of the tax payable in respect of the trader's operations. A reduction in the value of the stock may be in the nature of a hidden reserve.

8361. Is there any other method of hiding your profit so simple as deducting from stock?—It is the simplest way. Of course it always has this effect, and some traders do not seem to realize it, that if you reduce the value of the stock at the end of one year you have to bring it into the next year.

8362. They can do that all right?—It cannot go on indefinitely.

8363. You may come to a minus quantity?—Yes; I have actually seen that happen.

8364. So have I, and it has been rather awkward for the taxpayer to explain it. But accountants generally welcome this certificate?—Yes, I certainly do, and my committee see no objection to it.

8365. You know from experience probably that the Inland Revenue at times would like to put the burden of giving this certificate on the accountant?—It is a matter which the accountant cannot possibly check, except in a very few special cases, where the stock consists of one article or a very limited number of articles, and you can test the price by the price paid for it.

8366. The first paragraph practically corresponds to the type of certificate that clients are asked to give before their accounts are certified?—It does.

8367. On the question of erosion, you refer in paragraph 6, to the conversion of private firms into limited companies. You do not overlook the fact that the income then becomes "unearned" income, and to some extent in the smaller businesses the Inland Revenue gain by the conversion?—Yes, that is so; that is a quite correct observation.

8368. You also refer to the possibility of a private limited company being made liable to Super-tax?—Yes.

8369. Of course the limit is 50 shareholders?—Yes.

8370. Is it the case that lie somewhere between the point of 50 and the private firm that you refer to?—Personally I do not think it is possible to inflict a Super-tax on a private company or on any company; because although you may have, for example, only half a dozen ordinary shareholders in a private company—there are many cases like that—you have preference shareholders; so that it would become a public company. So you cannot draw that distinction. Then again where you have, say, 50 shareholders there might be at least one or two of them

who are not liable to Super-tax. It would be very difficult to say to what extent those particular persons had paid Super-tax, and would be entitled to recover, because in the case of a limited company you are not distributing the whole of the profits; so that you would be inflicting a Super-tax on undistributed profits as well as distributed profits, and you would get into great confusion; confusion would arise also as between one year and another.

8371. Then you think to assess a limited company to Super-tax is not a practicable scheme?—No, I do not think so. I merely mentioned it in my evidence because the suggestion has been made, but I do not think it is practicable.

8372. On the question of the distribution of bonus shares, your view is that they should be taxable to Super-tax?—I think so.

8373. Generally I agree with you in many cases it should, but I will give you an actual case within my own experience. A company decided to distribute share for share wholly out of undistributed profits. On the day before the scheme was finally applied their ordinary shares were selling in the market at £10; on the morning afterwards the Stock Exchange quoted the two shares at £5 each; and yet the whole of that bonus came from undistributed profits. Do you suggest that was liable to Super-tax?—Yes, I do, for this reason: so far as the Stock Exchange price was concerned, that in theory at least was the value of the assets of the company under two heads, namely, first the ordinary assets, what (to use a loose term) I may term the original assets, and secondly, the undistributed profits; and therefore as between the two persons on the Stock Exchange who were dealing, it is obvious that the man who had bought the £10 share at £20 had bought with it the rights to those undistributed profits, and if those undistributed profits were liable to Super-tax and properly liable he had also undertaken liability to pay that when it was distributed.

8374. In this particular company the shares did not rise to £10 by reason of the bonus distribution. They had always been round about that figure, and when they gave one bonus share for every share held—the capital had been the same for a period of years—the price of each share was divided by two. You were a holder of shares to-day at £10 and you sold them to me; I got the bonus share next morning, and I sold my two shares at £5 each?—I beg your pardon. I thought you meant that the company had a capital consisting of £10 shares and they distributed to each holder of a £10 share two shares of £10.

8375. No; they were £1 shares standing in the market at £10, and they distributed a bonus out of profits and gave one share for every one share held, so that every shareholder had two shares?—Two shares of £1 each?

8376. Yes, and the following day or the following week—it was just at once—the shares were quoted at £5 each.

8377. Chairman: Would not the knowledge that you had to distribute it be taken into account in the £10?

8378. Mr. McLintock: No, the shares had been standing for a long period round about £10. They did not rise by reason of the fact that the shareholders were going to get one new share for every one they held.

8379. Chairman: Is it not known by people that there is a reserve which is equal to that?

8380. Mr. McLintock: This was an actual case and there was no doubt about it. (To Witness): I wanted to know if you would go the length of suggesting that in a case like that Super-tax ought to be paid, where the man has simply had his market value cut in two?—Cut in two; not doubled.

8381. No, not doubled, just the same; one share was valued at £10, and he got his share for share, and then he had two shares worth £5 each?—He had two shares of £1 each?

8382. Worth £5 each. That is not a case where it would be fair to impose Super-tax?—I do not see why not. There the position has not really been altered at all, as I understand your proposition.

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Naturally the transaction of giving the man two shares of £1 each had doubled the nominal capital, so that the capital which was £100,000 became £200,000.

8383. And the capital before the distribution was worth £200,000?—It was £100,000.

8384. No; it was £200,000 on the market?—Then I do not understand how in that case it was a distribution of profits; because that has not altered in the company's books the share capital at all.

8385. There was £100,000 of issued capital and £100,000 of accumulated profits?—But as I understand your proposition, the capital of the company before the transaction took place was 100,000 shares of £1 each. Therefore, the total issued capital was £100,000.

8386. Each share worth £10?—Leaving market value out for a moment, after the transaction the issued capital of the company was £100,000.

8387. £200,000?—Then they have doubled the capital so that the holders had got £2 for every £1 share which they had before, and that distribution of the second £100,000 was made out of profits. Now it is quite true that each one of these new shares, there being 200,000 of them, was only worth £5; that is what I should expect both in theory and in fact because there was no increased value merely by reason of the split up. In the original market valuation of £10 for the £1 share was the value of the undistributed profit, and you have merely released it into the hands of the man who was perfectly prepared on the Stock Exchange valuation to put that value upon it; you have released it into his hands. Previously it was not free. It is a distribution of income. Why should he not, when he gets it, pay Super-tax upon it when it is released to him?

8388. It was not realisable?—It was realisable by selling on the Stock Exchange.

8389. Exactly—the only mode of selling?—Yes, but now you have actually released it to him he has got something tangible in exchange for a mere Stock Exchange price.

8390. It was just as tangible the day before?—I agree it was just as tangible the day before, but it was then the market valuation of the undistributed profits.

8391. Which is not taxable?—I agree it is not taxable, but when the purchaser bought it, paying that price for it—assuming that it was the law that it was liable to Super-tax—that would be an element in the valuation.

8392. On the question of depreciation is it your view that the present method of calculating it on diminishing value does not work, on the whole, fairly; leave aside the question of the rate for the moment?—Personally I have no very great objection to taking the diminishing value. If in theory it is not fair, then it should be corrected by the rate.

8393. Do you agree that probably there would be a slight increase in the rate first of all to make the rate uniform for the same classes of trade all over the country?—Yes; there has been an attempt to do that in certain trades, as you know.

8394. Yes, there has been. Do you not think that would meet the case? That is, let the trades of the country which use certain types of plant submit a reasoned case for a reasonable rate based on the dissipation of value?—That is what I did in a case in which I was concerned for an industry, namely, the gas industry. We met the Inland Revenue authorities; they met us very fairly indeed; we agreed rates with them and agreed the whole scheme.

8395. What has your experience been with the Inland Revenue when you put a case of depreciation, as a rule do they meet the traders fairly?—Yes. Of course, there is a general view of which, no doubt, you are aware as well as I am, that the rates are inadequate; but that is partly due, in my judgment, to the fact that from commercial prudence people write off higher rates than are actually required for the true life to be ascertained.

8396. Something like a stock reserve?—Yes, very often. It is always open to the trader, if he objects to the rate, to bring actual evidence. I have been concerned in cases where that has been done, where evidence has been submitted as to the life of a particular plant, taking a number of examples.

8397. The final court of appeal at present, in regard to depreciation, is the General Commissioners?—That is so.

8398. Do you think, on a question of this kind, they are really competent, as you find them generally?—Of course there is a certain measure of practice with regard to rates of depreciation. No doubt they have regard to that when it comes before them. It is said to them that it is not usual to allow a higher rate on this type of plant, and unless you are prepared with expert evidence to show that that rate is in fact inadequate by actually proving it, they naturally adhere to the usual rate.

8399. The Commissioners are fairly well wedded to 5 per cent., are they not?—Yes, as a broad principle.

8400. That is their only principle?—In the White Paper of 1912, on allowances for depreciation, there are set out a number of cases, and taking one which happens to catch my eye, I see, for instance, flax spinning and weaving in Ireland 7½ per cent., gas undertakings in part at 10 per cent., steel manufacturers' machinery 15 per cent., and so on. [See enclosure B to App. No. 7 (i).]

8401. I am not speaking of the Inland Revenue; I am referring more to the General Commissioners?—I think the General Commissioners would have regard to these facts in particular cases.

8402. Do you approve of the tribunal to whom questions of depreciation of trade are now to be submitted?—That is the special Board of Referees whose names are set out here. I should say that is an extremely competent body.

8403. It is not so much the composition of the Board as the principle as a whole?—I beg your pardon: I misunderstood you. Yes, I think that would be distinctly helpful.

8404. You are not opposed, as representing the chartered accountants of England, to the diminishing value principle?—I have put down in my evidence—in chief—that there is a considerable feeling that the full value should be the basis. That is why I have expressed this paragraph in the way in which I have. But my own personal view is that there is not really very much objection to it, especially if you have regard to the rate of depreciation.

8405. As an accountant, are there a good many serious practical difficulties which would apply to-day in old businesses?—Yes, and even if you said you were going to write off 100 per cent. over a fixed number of years, you would have first to deduct some sum for residual value, which would lead to difficulty in assessing what that should be.

8406. In practice to-day there is no attempt to arrive at the average life of general plant in a mill or a factory for this purpose?—No. One finds a good many cases of clients who do actually consider the actual life of individual items of plant right through their factory.

8407. I agree that in their accounts they may, but in the Income Tax computation, in which the depreciation is put from year to year, I think I am right in suggesting that once an item of plant is in that total, it remains there practically for all time?—Yes, and the difficulty, if you go into further detail, is to analyse it all out, unless the particular trader—which is unusual, speaking broadly—keeps detailed valuations of his plant from year to year.

8408. It runs on parallel lines with Income Tax?—Yes.

8409. In paragraph 11, with regard to Schedule A, the question of repairs, you do not draw any distinction between the repairs, say, of office property, as compared with dwelling-house property. It has been suggested that one-sixth is a pretty ample allowance for office property generally. Do you agree with that?—When you say office property, you mean property used as office?

8410. Used as offices?—I should think probably it was.

8411. Then on point 8 of paragraph 15, with regard to accounts furnished to Surveyors: may I ask if this is the result of communications to Headquarters?—Yes.

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8412. I rather gather that traders are unwilling, not only to produce to Surveyors profit and loss accounts, but balance sheets?—Yes.

8413. Is the suggestion here that this should be made statutory, or is there an objection to it?—I do not know that it goes so far as to say that the Statute should make it essential; I see a difficulty there, because there are people who have not got such a thing as a balance sheet.

8414. But if they do exist?—As a general principle, I think that it is not unreasonable that the Surveyor should see the balance sheet. I think we are agreed on that.

8415. As an accountant, you would agree that it is a very necessary thing to have the balance sheet?—Yes. I had one case of alleged fraud in which I had the honour of acting for the Inland Revenue, where the balance sheet had not been before the Surveyors.

8416. The accountants would not raise any objection to it being made compulsory for every trader who has a balance sheet and a profit and loss account to produce them?—I do not see why the accountants should object. The person who might object is the trader, who might say: "I am willing to say what my profits have been, but I am not anxious to disclose to anybody what my exact financial position as a whole is."

8417. I have heard objections from accountants to their production; I have not thought them well-founded, but they have been made. This question of disclosing your whole affairs raises the other question as to the right of the Commissioners and their Clerk to have access to all that information. Do you approve of that?—In principle, yes, subject again to reservation of the taxpayer's right to maintain secrecy as to his general position.

8418. In practice do you think the Commissioners look at it?—In practice it seems to me a primary matter that the Commissioners should know the whole story.

8419. My point is this: From your experience, do you think they ever do to-day? Take the City of London, or any big city in the provinces. You produce a set of accounts to settle the liability of your client; I suggest the Commissioners never look at those at all; they never even look at the assessment, particularly?—I think they do. Do you suggest then that they are so satisfied with the statement supplied by an accountant that they do not see it?

8420. No; I suggest that their functions are so formal?—You mean the Commissioners as distinguished from the Surveyor. I beg your pardon; it is my mistake. You suggest that the Commissioners do not look at it. I think the Commissioners rely on the Surveyor.

8421. To that extent, that part of their functions might quite easily be abolished?—I agree.

8422. In country districts it is not altogether desirable that the General Commissioners and their Clerk should have the right of access to all the private affairs of their neighbours?—I think that is certainly a point, for very obvious reasons; because, particularly in country districts, they may be looking at their competitors' private affairs, and therefore of course the balance sheet is, or might be, a matter of considerable importance.

8423. There are city districts where a very curious Commissioner and his Clerk could get a lot of information?—Yes.

8424. Mr. Birley: I want to ask a question or two about bonus shares. It seems to me there would be very great difficulty in getting at the right man. You would only charge Super-tax, of course, if bonus shares were distributed?—Yes.

8425. If a company went on accumulating in its reserve fund, and did not distribute bonus shares, there would be no suggestion of charging Super-tax on any of the shareholders?—No.

8426. The shareholder would have just the same profit as if the company's shares had been distributed. His capital value would be practically the same, and his income would be the same, whether bonus shares were distributed or whether they were not; it merely

means that in one case it is bonus shares, and in the other case it is reserve fund?—Until the distribution takes place.

8427. Would you get at the right man? Supposing a company makes a profit, it gives away part of it in dividends, and it puts part of it into a reserve fund which accumulates in that reserve fund year by year until it has become sufficient to make it worth while distributing in bonus shares. Assume a man has held shares in that company ever since the reserve fund began to be built up, and he sells out just before the distribution of the bonus shares. All that time he has got the increased value of his capital; when he sells he sells with the increased value of that reserve fund. A man buys those shares and gets bonus shares, and immediately he has to pay Super-tax on those bonus shares?—Is not that an element in the price which the transferee pays for the shares? What is done in practice is, I was going to say almost deliberately in some cases, to hold up those profits so as to avoid payment of Super-tax.

8428. I am speaking rather of a large public company. I quite see your point as regards a small company, but is it not a great difficulty in the case of a large company where the shares are quoted and dealt with?—But supposing it was known that it was the law that any distribution of bonus shares would, so far as in the hands of the recipient it properly would, render the recipient liable to Super-tax, then a purchaser of shares in a company would have regard to that fact in the price he paid for the shares.

8429. Then when those shares are sold they are worth more money to a man with a small income than they are to a man with a large income?—Yes that is so, in a sense.

8430. Is it income even to the man who buys them; is there any income?—If I buy a share in any company I buy it with all its rights, and with all its liabilities, and with all its reversions, and with all its possibilities.

8431. But after all you charge Super-tax on income?—Yes.

8432. Can this be assumed to be the income of a man who has just bought those shares?—But why, because there is a contract between the purchaser and the seller, should the Revenue be deprived of the tax on a distribution of what is undoubtedly income?

8433. I put it to you that the man who has really received that income, in effect, if he sells out, is the man who does not pay Super-tax at all?—The case generally arises, or very often arises, in those large companies, although there is a very limited number of shareholders. That is where it arises, to a substantial extent.

8434. They could get out of this liability simply by keeping it in the reserve fund and not distributing it?—Yes.

8435. Is there any difference between reserve fund and bonus shares, in effect? It is all accumulated profits, is it not?—It is accumulated profits.

8436. If you call it one thing you would charge it, and if you call it another thing you would not charge it?—No; surely there is a difference when it is released. There it is locked up in a fund and is intangible, except so far as it is represented by the market value of the shares.

8437. Is there much difference in effect?—Yes, because it is intangible in the market value of the shares; until the man sells the shares it is unrealized.

8438. I put it to you there is very little difference?—Of course, there is that aspect of the case which you have put. It is a difficult case in any event.

8439. In paragraph 6, on the question of evasion by foreign firms, you say: "Examples of evasion or escape from taxation by foreign firms transacting business in this country through agents are not infrequent. Goods imported are invoiced at an excessive price to show no profit on realisation in this country. It is not easy to see how this practice can be checked." Have you ever considered whether it would not be possible to assume a rate of profit on those goods in order to charge the foreign manufacturer on an assumed rate of profit?—The Legislature has attempted to do that already, in a measure, in section 81 of the Finance (No. 2) Act, 1915.

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8440. Can you see any objection to that being carried out universally?—It is difficult to apply.

8441. Where is the difficulty?—There were one or two cases sent to us of Continental firms—German firms, in fact—

8442. I have known cases myself?—Cases where they were invoicing practically at selling prices here. Assuming for the moment that that is deliberately done to avoid making profits in this country, it is a little difficult to say what rate of profit ought to be assumed.

8443. But suppose a fixed rate of profit were assumed, unless the trader could prove that it was less; then you would do it on turnover?—Yes, you would have to do it on turnover.

8444. Do you not think it is practicable and fair to do it on turnover?—I have no doubt you could, on inquiry, but it would be an extensive and troublesome inquiry to find out.

8445. Taking a percentage on the turnover?—Yes, that is the only way you can do it. You would have to inquire what was a reasonable rate of profit in that particular trade.

8446. Mr. Walker Clark: In paragraph 3, you refer to trade subscriptions. It is rather a general phrase. You say: "petty items, such as trade subscriptions." Some of those trade subscriptions are very large, are they not?—Yes.

8447. One hundred guineas, or a thousand?—Yes.

8448. Are those to be non-taxable, without any regard either to their size or to the objects of the organisation?—I think you must have some regard to the objects of the organisation.

8449. Then this ought to be a limited clause?—Yes; I said petty items.

8450. It is not clear in the sentence whether you consider the whole of those items are petty, utterly regardless of their magnitude, or whether it is petty items which should be deductible?—Personally I should feel almost inclined to say that any trade subscription should be a charge, because in theory, at least, it is made with the object of increasing trade or business, and would come back again in results.

8451. Then you would submit that all trade subscriptions should be deducted?—I am inclined to think so. In the first place they are actual disbursements out of profit, and are, theoretically at least, made in the hope of corresponding advantage.

8452. That principle would be favoured by chartered accountants generally?—I feel right through my evidence-in-chief some difficulty in saying that I can bind the Institute on every observation which is made here. We have attempted, as far as possible, by communication and so forth, to get the views of the Institute consolidated into this statement.

8453. But I am rather interested in this specific point, and that is why I am asking you?—May I put it so far as to say that in my personal view, I would be inclined to allow it?

8454. Chairman: Yes; you specify now it is your personal view, and it will be put down in that way.

8455. Mr. Walker Clark: In respect of law charges, I presume that those law charges that you would deduct would be all law charges; law charges in reference to losses, law charges in reference to disputes?—I would not allow law charges incurred, for instance, in connection with a Bill in Parliament where an Act resulted.

8456. That is to say, where it was a definite capital charge?—Yes.

8457. In paragraph 4, you say: "It has been suggested that the Local Commissioners should also be abolished and that all questions of assessment and relief should then be left to Revenue officials," and then further on you refer to the General Commissioners and say their abolition would not be universally welcomed. What is the particular advantage of the General Commissioners as against Local Commissioners?—General Commissioners as distinct from Special Commissioners?

8458. It says Local Commissioners; I thought they were the same?—That is exactly what I was going to say; for the moment I think they are the same. It is badly expressed.

8459. At one place in paragraph 4 you are to abolish them, and at another place you say their abolition would not be universally welcomed. I presume one is a personal opinion, and the other is not?—What I mean by that is this. From the accountants' points of view, pure and simple, their view would rather be that the Local Commissioners or the General Commissioners should be done away with, because so many accountants prefer to go to the Special Commissioners. 8460. They have that option?—They have that option.

8461. There is no necessity for them to go to the General Commissioners?—I quite agree; but in expressing that view, we thought we ought to say what was conveyed to us; that the trader in many instances takes the opposite view, and would prefer to go to the Local or General Commissioners.

8462. Is it not a fact that the preference of the trader should have considerable weight?—Undoubtedly.

8463. Then in paragraph 5, you refer to the three years' average. You suggest that losses should be carried forward. How long do you propose to carry them forward—for an interminable period or a fixed period?—I should follow the practice with regard to unexpired depreciation.

8464. Then they might go on for ever?—Yes; they would be set off against profits. I need not elaborate it, but perhaps I might say that the principle involved there is that the taxpayer should ultimately pay only on such profits as remain to him.

8465. At present, on the average system, they can only go on for three years?—Yes, that is so.

8466. But you would abolish that principle, and allow them to go on indefinitely?—Yes.

8467. I notice that in your judgment actual frauds are few?—Yes.

8468. Then in paragraph 6, you mention the taxation of foreign firms transacting business in this country. There are other methods which foreign firms adopt in addition to this one, of course?—I dare say.

8469. Selling companies, and so on?—Yes.

8470. And you would have all these brought into the net, if possible?—Yes.

8471. You say: "it is not easy to see how this practice can be checked"; but still you would like them to be taxed?—I should certainly like the foreigner, who was making a profit here, to pay his share of tax.

8472. Then in paragraph 7 you speak of depreciation of plant. Is it not a fact that plant is often sold and not replaced, and it is very difficult to get any allowance made for the obsolescent plant?—Yes, that is so; and also there is the other case, of plant which is deliberately allowed to remain out of use, and probably may never be used again; you can get no allowance until it is replaced.

8473. Should not that be remedied in both cases; should there not be a fair method of dealing with plant, that is to say, some allowance made for plant which is not in use?—Yes, I think there should. From the point of view of commercial prudence, if that plant really is definitely out of use, it has gone and is of no value to the trader.

8474. Is not that a specific point on which the judgment of the General Commissioners is of great help and assistance, both to the Surveyor and to the taxpayer?—Having regard to local knowledge, you mean. It might be.

8475. Have you had much experience of plant used during the war?—A certain amount.

8476. A change over from one class of trade to another?—Yes.

8477. Do you know those points have been settled between the Inland Revenue and the taxpayer by the General Commissioners, as a rule, fairly and justly?—Yes, so far as my experience goes, they have. Of course there are special means of dealing with those war cases.

8478. If they were controlled firms?—Yes, under the Munitions Act, 1915.

8479. Only if they are controlled firms?—The Inland Revenue authorities have carried the practice under the Munitions Act into their administration under the present Act.

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[Continued.]

8480. I am really appealing for the General Commissioners. In paragraph 7, sub-paragraph (6), you say: "Fixtures and fittings. Allowance is now granted to traders, but not to professional men." You are quite aware that what traders consider an adequate allowance is not made to them?—Yes; it is generally allowed about 5 per cent.

8481. Four per cent., is it not?—No; 5 per cent.

8482. You suggest these matters in some way should be more or less standardized in respect of an industry. You give us no case as a case in point. Is there not a great difficulty that when standardization was fixed, there might be a very material change come over the industry? Take, for example, the application of electricity as a driving power instead of steam. The whole thing is remodelled. Should there not be some margin left there for appeal to the General Commissioners or the Special Commissioners?—But although the rate has been fixed for the industry, I see no reason why, under special circumstances, the question should not be reopened and re-discussed. You do not fix those rates for all time, regardless of all changes.

8483. In paragraph 8 you say that the practice adopted of paying wages to workmen "free of tax" is, in your opinion, wrong in principle; and you suggest that Income Tax payable by weekly wage-earners could be deducted from wages and collected by means of stamps. Have you consulted any employers with regard to that?—Yes, I have consulted one of the big railway companies. They told me they saw no difficulty in doing that, any more than they did with regard to National Insurance, subject to this, that in their view it would be best for the tax to be deducted on the actual wage paid; that is to say, where the wage disclosed a liability, you would deduct the tax by affixing the stamps to the cards, and leave the workman the right to a refund on production of his card. So that if he went out of employment during the course of the year, or if he was entitled to special statements or allowances, it could be adjusted afterwards. That was their view, and that was dealing with a big body of men.

8484. You are not agreed with the representatives of the Associated Chambers of Commerce, who thoroughly oppose this view?—I fancy they opposed it on the ground that they do not want the employer to be the assessor.

8485. They do not want the employer to be made the collector, they said?—Well, are not the two things involved? It seems to me, even there, that there is an answer, because to-day, where an employer pays, as has become very common, the Income Tax of his clerks or his servants, he always goes into the question to see that he pays as little as need be, having regard to the allowances due to the particular employee.

8486. Then there are just one or two points in paragraph 15. You mention the stock certificates. I take it that one of the reasons why accountants favour stock certificates is that a certificate signed by the taxpayer does in effect absolve the accountant from any liability to inaccuracy for the stock sheet?—It assists in an audit, undoubtedly. To-day, as one of your colleagues, Mr. McIntosh, pointed out, in conducting an audit, you ask for a certificate as to the stock, and the certificate is given in this form. What is proposed might be regarded as a more solemn form; it would be of assistance to an auditor.

8487. Is not the present certificate between the holder of the stock and the auditor?—Certainly.

8488. But this is a statutory certificate?—That is why I used the phrase "a more solemn form." Of course a certificate given to-day is as between the auditor and the owner, but in many cases it is for the protection of the shareholder, where it is the audit of a limited company.

8489. Mr. Marks: Two things have been suggested to me by the remarks you have made. First of all, may I ask you directly whether you would advocate that the interest on foreign capital invested here should be free from tax? Has the point come before your Institute? If not, I will ask your personal opinion?—I do not know that I should like to bind

the Institute on that. My personal view would be that we should encourage foreign capital to come here as far as possible, but I think it should be subject to reciprocity.

8490. Then the other point is this. You mentioned, when you were discussing the period of transition from the three years' average system to the preceding year system, two years, the calendar year and the fiscal year. Have you considered at all whether it would be advantageous to make the fiscal year coincide with the calendar year as a practical matter, both for the taxpayer and the Inland Revenue?—No doubt it could be done. It would have to be done, I take it, by saying that in one year three-quarters only of the Income Tax would be payable up to, we will say for argument's sake, 31st December, and then another twelve months thereafter. I think that the alteration from three years' average to one year would assist in dispersing a certain amount of difficulty which arises with non-technical people; because if it is once known that the Income Tax was payable on the income of the last known preceding year, a good deal of the confusion with regard to the 5th April so far as it exists in the minds of people, might disappear.

8491. There is one other point on which I would like your personal opinion, because I see it has not been mentioned here. You are, I know, the auditor of at least one important Life Assurance office?—Yes.

8492. Has your attention been specially directed to the basis on which Life Assurance offices are taxed, and, if so, have you formed any view as to that basis?—It is a very technical question, and I believe the Institute of Actuaries, or some association on behalf of the life offices, are to submit evidence. They will be more fully advised than I am. But, speaking quite broadly, from my own point of view, I do not think there is any very grave injustice in the present system, for this reason, that you have an aggregation of persons who have agreed to pool certain annual payments for their mutual protection and advantage, and those persons joined together in a mutual office, are in fact receiving as a body the interest on investments, which is taxed, and there is an allowance, as you know, to-day, for expenses of management. Now the injustice, if there is any, lies in the fact that that is taxed at the full rate, whereas a great number of those persons may be liable only at a less rate. On the other hand, those persons are allowed exemption from Income Tax on their premiums in assessing their general income, and having regard to all those facts, without going into certain other details which may come out from persons who know more precisely how the assessment is arrived at, I am inclined to think that the present system is not unfair.

8493. I will not go further into the matter from the standpoint of expert knowledge; I am quite satisfied from your answer that that is your personal opinion?—I do not want to be too dogmatic, because there are other questions; the taxation of the annuity fund also arises. Perhaps I had better leave that to persons who are more familiar with it. On the general principle, I would go so far as to say that on the whole it is a difficult question, but in my judgment the present system is not unfair.

8494. Mr. Moy: I would like to be clear as to the advantages that you think are to be obtained by taxing workmen's wages by means of stamps?—I think there are two, in the main. One is that it is an assistance to the workman to have his tax provided for him, in a sense, rather than to have to meet a lump sum payment at the end of the period. The other advantage is from the Revenue point of view. We have all seen in the papers cases brought up by the hundred where proceedings have been taken against workmen for a tax for which they were undoubtedly liable, and where all that trouble and expense has been involved in endeavouring to collect a sum of money inconsiderable relatively to the earnings of the men.

8495. Then part of the advantage that you see is that you are leaving him no choice as to the making of a return, but you take it from him?—Yes, subject to this. It would not be substantially, week by week,

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any more than his payment into a benefit society or a sick society every week, and he would have the right to repayment on production of his card.

8496. Would you regard it rather as a safeguard against any attempt on his part to avoid payment of it?—Yes, I think that is one element in the consideration of it.

8497. Have you looked at it from the point of view of the complication that it would involve in the account-keeping of the employer? For example, you cite the National Health Insurance, which is a flat rate. As you know quite well, the Income Tax is anything but a flat rate?—Yes; but still, supposing a man has got 2 shillings, or 2 pounds a week—

8498. But no ordinary working man does get any fixed sum like that. His wages vary from week to week, and they very seldom come to an even number of pounds?—It would be quite simple on a table; say that the man's wages are so much, that involves liability to Income Tax of so much. You calculate what his total income at that rate would be, which would involve a deduction of 3d., 4d., or 5d., or whatever it may be, per week.

8499. And you think that that is practicable, in spite of the fact that he may not at the end of the year be liable to Income Tax at all?—If he went out of employment he could go and ask for repayment simply on the production of the card.

8500. Is it your experience that repayments are obtained with such facility as that at the present time?—The ordinary repayment at the present day involves the production of a mass of evidence, for instance, tops of dividend warrants, figures of income from varying sources, and so forth, and certificates in support. Here, if you have got the card, you have got one single document which shows at a glance what the man paid.

8501. It shows what he paid in respect of his wages, but have you not left out of account the fact that you are still leaving him liable to make the ordinary return?—You mean with regard to his abatements for wife and children, and so forth.

8502. And also, on the other hand, for any other income he may have?—He has got to-day to make a return for that. To-day the employer returns the name of the man who is liable, and the Surveyor must take that case up and get from that man particulars of his abatements, and so forth.

8503. And you suggest that that is something which is practicable, from the point of view of the workman as well as of the employer?—I should have thought it would rather have simplified it for the workman. To-day the workman gets a notice that, according to the return made by his employer, he is liable for Income Tax. He has then to go into the question, or somebody has to go into the question, as to what his liability is, having regard to his wife, his children, and possibly his insurance. It has to be gone into, in any event.

8504. Do you not think it would be a double irritation to the average working man, who has little taste for or knowledge of these things, that he should first have it deducted regularly from his wages, and, if he is out of work, be required to reclaim back specially, and still make a separate return in order to secure the necessary abatements and make a separate reclaim with regard to them?—It sounds formidable.

8505. But is it not really so, in fact, for the average working man?—I do not know that it is more formidable than the inquiry which has to be gone through at the present moment. The only difference is that in one case you settle the sum which he has to pay; and in the other case you settle the sum which he has to pay, and there is evidence of what has been paid. He may have either underpaid or overpaid. It may cut both ways. There are numbers of working men in various parts of the country who have house property, own their own cottage, and sometimes own two or three cottages, all of which must enter into their Income Tax return.

8506. Does not that complicate, rather than simplify, the case of the working man?—I should not have thought so.

8507. Really, that is inexplicable to me—with the multiplication of returns by people who at present are striking against them, and refuse to make them up in some cases, or at least are refusing to work because they will not make them up?—I am assuming that in any event, whether the present system is continued or whether you alter it, the Income Tax payer will perform his proper duties according to the law.

8508. But we are face to face with human nature and its objections?—Yes, but if you put the objection so high that the present liability to pay tax by the working man is to be a ground for saying that therefore he should be exempt either from making up his form or payment of the tax, then you put the discussion on a different basis altogether.

8509. In another part of your evidence you say directors and others should not have the tax stopped from their fees, but they should have the opportunity of making one return. Why do you want to complicate it for the working man, and make it simpler for the people who are in receipt of these fees?—Forgive me; I think, with great respect, you are confusing two issues, if I may say so. I say, in regard to directors' fees, as has been pointed out to the Commission already, and as has been found by the Company Law Amendment Committee, it is desirable that these should not be paid "free of tax." That is a separate matter altogether. Now it was put to me by another member that it was suggested in this paper that one return should be made by taxpayers who are liable in various districts or in respect of different properties.

8510. It is not merely fees; you say salaries to officials and wages to workmen?—Yes, the case is the other way on. I am suggesting that the individual relief which some of these persons get is not desirable. That is rather on the same lines, that in my view every taxpayer should pay his Income Tax out of his own pocket, and should be made to feel the increase in burden arising at the present time.

8511. I see your point; I am afraid it is my misunderstanding. I understood the point to be an objection to the method of taxation?—No; my suggestion is rather the other way.

8512. You have cited a large railway company as being willing to apply that?—When I say a railway company—I consulted with the chief accountant of the railway company. I do not want to bind any railway company.

8513. Are you aware that the employees of one of the largest railway companies in the country have decided not to pay any more Income Tax, much less to have it deducted from their wages, until the amount on which tax is payable is raised to £200 per annum, and, in the event of prosecutions taking place, the men have decided to stand by one another. That is in the paper this morning?—That is a political aspect of the case.

8514. It is financial to the men?—It is financial to the men, undoubtedly, but there they are protesting against the principle of paying Income Tax at all, which, if I may venture to suggest, is different to the question that I am discussing here, as to whether, assuming the Legislature say they are to pay tax, this is a convenient and proper method of collecting it.

8515. I am not to be understood to be defending them from their liability to pay tax, but I am trying to defend them from unnecessary complications in the collection?—Undoubtedly you are, and if my suggestion is not of value, this Commission, of course, will not adopt it.

8516. It has been pointed out that a majority of employers in the country strongly object to become tax-collectors?—I venture to suggest that their objections may be grounded on the fact that they are afraid that it may raise difficulties with their men.

8517. In reply to Mr. McIntock you said that the balance sheet should be produced to the Surveyor wherever it existed. Would you go further and say that the keeping of accounts and the consequent preparation of a balance sheet should be a statutory obligation on all traders?—As a matter of principle I would like to say yes, but I should not like to be taken to be advocating a course which might be directly advantageous to my profession; it would

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sound too much like special pleading, I am afraid; but in principle, yes, of course, every trader ought to keep accounts. But whether it would be right to say that there should be a statutory obligation on every trader to have a balance sheet is a rather serious question.

8518. You are prepared for a statutory obligation on employers to collect Income Tax from the workman's wages in the interest of the Revenue. All I ask you is, are you not in favour of a statutory obligation upon every trader to keep proper accounts, in the interest of the Revenue, in order that the tax may be paid voluntarily, not stopped from them?—I think in the interests of the Revenue it would be undoubtedly desirable that there should be a statutory obligation.

8519. Would you extend that to farmers and farming operations? I see you do not mention Schedule B, in your proposed amendments?—Farmers have the alternative method of procedure to-day, and therefore I do not think so far as the farmer is concerned you need make it a statutory obligation to keep accounts.

8520. Would it not be desirable that the alternative should be taken away and that the farmer should pay under Schedule D with the statutory obligation to keep accounts?—I think you might have a difficulty in making the farmer, who, in a sense, is not a trader at all, and he may have no staff beyond his own hands, keep accounts and so forth. I think you might create a hardship if you said that every farmer should keep accounts so as to be able to produce a balance sheet and profit and loss account.

8521. Do you think it would be a difficulty comparable with that of the railway men who say they will strike rather than pay?—I should not like to compare the two.

8522. You say in point 9 in paragraph 15 that the departmental instructions issued to Surveyors should be available to practising accountants. What do you mean by that?—There are alterations in the Acts of Parliament and in the rules from time to time. The authorities at Headquarters issue to their Surveyors special instructions as to how those are to be interpreted and the methods to be employed in carrying them out. There is a feeling among accountants—I am asked to express this—that those instructions might be available to practising accountants. They would be helpful in order that they might see what was the interpretation in the minds of the Commissioners to be placed on the Parliamentary enactments.

8523. Have you seen the Departmental instructions issued to Surveyors?—No.

8524. I take it that what you propose here is merely those instructions which are interpretations of the law and their application to general or particular cases?—That is so.

8525. And not what is probably also issued by the Board of Inland Revenue, confidential instructions to Surveyors, issued as the result of the experience of the Department?—I do not think the accountants would be entitled to see a confidential document at all.

8526. But are not the Departmental instructions generally confidential?—At present they are.

8527. Is it that you propose that a more explicit summary of the provisions of the law as applied to special and particular cases should be published for the use of the public or only to practising accountants?—Here I am only dealing with the question from the point of view of practising accountants. I think it would be helpful, where there are alterations or amendments, that instructions of this character should be available; because the accountants would know what line the Inland Revenue were taking with regard to certain matters.

8528. Mr. Marks: Like the Treasury Minutes of the United States?—I have never seen those.

8529. Mr. May: It seems to me rather a suggestion that the confidential instructions of the Department should be made available to practising accountants; and I want to get clearly whether that is in your mind, or whether it is merely a simplified manual of the law on the various difficulties which might arise.

that might and ought to be, if necessary, equally available to the public as to practising accountants?—The most important instance of this that there has been was when the Excess Profits Duty was instituted. There was practically a brand new tax on brand new lines, with very special features and so forth. It was very difficult to know at first what was intended by that Act and how it was to be worked out in practice. The Inland Revenue naturally issued to their own officers instructions as to how the Act was to be interpreted in certain particulars. It would certainly have been an advantage in that case if the accountants, who had to prepare the returns in, I was going to say, nearly every case, in the first instance had known what was the general view of the Inland Revenue as to the form which the return should take.

8530. Now on Point 7 in paragraph 15, you say that the general view is that Co-operative Societies should be subject to taxation. What do you mean by that?—There is a general view that these societies are carrying on trade, and that they ought to be subject to Income Tax on their profits just like any other trader. Of course I am quite aware that there is an answer to that. But cases do arise, and I came across a case quite recently in a provincial town where a man was carrying on a milk business and making a profit of, say, £1,000 a year. The business was bought up by the Co-operative Society and carried on on precisely the same lines; the public can call in and buy in that shop, whether members of the society or not, and the society pays no tax. The individual, when he carried on the business, did pay tax. That seems to me wrong in principle. But the answer to it, of course, is that the profits of the Co-operative Society when distributed as dividends among the shareholders in a great number of cases are distributed to persons who are not liable to tax or who are liable to such a very small sum in tax that practically the society as a group of persons is exempt.

8531. Is that the only answer?—That is the main answer as to why they should not pay tax. Otherwise they are a trading undertaking, and in my judgment should be taxed like any other trading undertaking. Besides they have got the remedy in their own hands. If they object to paying tax they should reduce their prices so that they make no profits.

8532. We are not entering into a debate on the subject of Co-operative Societies. I want to get at the meaning of your paragraph?—Quite.

8533. You said that in the case you instanced the society bought a business and carried it on on exactly the same lines as before. Are you sure of that?—So I am told.

8534. So you are told?—Yes. I was told locally.

8535. But you are giving evidence for a scientific organisation, and "So I am told" is hardly good enough?—I can only tell you that that was an instance actually quoted to me, and the name of the business was given to me.

8536. Do you think that is sufficient ground for you to make a statement?—I used that as an example of a case.

8537. Do you think any number of instances like that, based on such evidence as you have given, would be sufficient ground for making the suggestion that an alteration in the law should take place with regard to them?—No; but what I do understand is this, and it is referred to in the Report of the Departmental Committee of 1905, that the Co-operative Societies do in their business transact business with non-members to a very considerable extent.

8538. You are introducing the question of non-members for the first time. You said that this society bought a business and carried it on exactly the same as before. That is why I asked you if you were sure, because it is the practice of the society to serve its members, and if it used the premises it used them, I presume, to serve its members, and not to carry on the same business as was carried on there before?—I thought you rather objected to my quoting that specific case.

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[Continued.]

8539. Not at all if the facts are right?—Seeing that it was based on second-hand evidence, and therefore was hardly a fair case to quote. My answer to that is that here is official evidence of the fact that Co-operative Societies do carry on business with non-members, and therefore to that extent ought to be regarded on the same basis as ordinary traders.

8540. To what extent do they carry on trade with non-members? You are quoting an official Report?—Paragraph 137 of this document is: "A Society may, however, of course, make profit on dealings with non-members. This profit, in the case of most ordinary Societies, is very small in amount." But there was evidence produced to that Committee that it is the practice of Co-operative Societies to some extent at least to carry on business with non-members.

8541. Is it only with regard to their non-members' trade that you suggest they are liable to tax?—I say that of course there is a differentiation between the two.

8542. But is your proposal here that they should be taxed upon their non-members' trade?—My view would be that there would be no hardship in asking the Co-operative Societies to pay tax, because they are traders in effect and because the remedy is in their own hands; if they object to it, let them reduce their prices and make no profit; then clearly they would not be liable.

8543. Just let us leave that point for a moment before we get too far away from this Report. Are you aware that the Report which you have just quoted says that there is no justification for taxing Co-operative Societies, and that to attempt to collect the tax upon that proportion of non-members' trade would be actually disadvantageous to the Revenue?—What they point out is this—

8544. Excuse me: Are you aware that that statement is in the document?—Not quite, if you will forgive my saying so, in the language in which you have put it. What they say is what I endeavoured to put, namely, that so far as their profit is distributed to members, a great number of those members would escape actual taxation because of the size of their incomes.

8545. The Report says: "We do not think, therefore, that any case for alteration of the Income Tax law was made out by the Traders' Associations; certainly none is required in the interests of the Revenue. Indeed, the particular proposals which have been put before us would not only on general grounds be inequitable or impracticable, but also, by reason of the expense they would entail, actually disadvantageous to the Treasury?"—Yes. That is the very point which, I have no doubt inadequately, I attempted to make.

8546. Chairman: Those are the exact words, are they?

8547. Mr. May: Those are the exact words. I do not want to detain the Commission on this.

8548. Chairman: I was wondering whether it was worth while to go on after you had got your answer. The whole question of Co-operative Societies will come up later on.

8549. Mr. May: I only just want to round it off. It will not take two minutes.

8550. Chairman: You are quite right.

8551. Mr. May: Two questions will settle it, my Lord. (To Witness): I only want to put to you that the representatives of the British Association of Chambers of Commerce agree that the theory of this matter is absolutely settled in favour of the Co-operative Societies by this Report?—It was settled in their favour on the grounds referred to in that Report.

8552. And that they now accept that position?—Yes; I take that from you.

8553. Mr. May: As the Chairman has said, the main case has still to be put before the Commission; I only wanted to ask one or two points as to the basis of this general view. Thank you.

8554. Chairman: Have you anything else to ask, Mr. May?

8555. Mr. May: No, my lord; I will leave it at that.

8556. Mrs. Knowles: There is one point I do not understand in paragraph 13: graduated Income Tax. You say: "On the other hand I think a scheme could be devised under which Super-tax might start at a lower figure, say, for the sake of illustration, £1,500, and the rate of Income Tax be correspondingly lowered to 5s. in the £ on incomes under £1,500?—No; as a basic rate. There is one grave consideration which would arise in that matter, and that would be if you lowered the basic rate and then made a Super-tax on a sliding scale, above that basic rate there would undoubtedly be a loss of revenue on the undistributed profits of every limited company.

8557. Then why would it save labour in dealing with the small Income Tax claims?—Because if the basic rate deducted at the source was only 5s. any return between rates of 5s. and 6s. would be avoided.

8558. Then you say you could submit a scheme which would show how that would work. Would it be worth while for us to have that when we are considering the scheme? We shall have to consider various schemes?—I am in his lordship's hands there. I have tabulated one here. I do not know whether you want to enumber your notes with it. (The Witness produced a document). [See Appendix No. 20.]

8559. Chairman: Has that been put in?—I will take your lordship's view on that. I do not know whether you want to enumber your notes with a document of this size. That does not pretend to be accurate; it is only given as an illustration.

8560. We will take this?—I have other copies if your lordship would like to have them.

8561. Mrs. Knowles: Then in the case of income of husband and wife you consider that there is no case for separate assessment because you think the husband would give the wife money and evade the tax?—That is so, especially on large incomes.

8562. Do you believe husbands do hand over money to their wives like that? I do not believe it. I think they like to keep their money in their own hands; but of course that is only a personal opinion?—What might be done would be to prepare a settlement by which a substantial sum of money was settled on the wife so as to make it the wife's income.

8563. A marriage settlement, you mean?—No, a post-nuptial settlement or a trust to the wife for life and then to the children, and so forth, so as to divest the husband of the income for the time being and so alter the rate of tax.

8564. Would it not be possible to manage that by imposing some sort of tax on those settlements; a very substantial tax?—Of course a marriage settlement comes into consideration on death or succession, and then duty is payable.

8565. A gift inter vivos, for instance; could it not be done in that way?

8566. Chairman: Mrs. Knowles is suggesting that there might be a tax to prevent that being done. That is a possibility?—Yes, it is possible; and on any division of capital like that there is always the risk that the wrong person may die first. That has been so in a great many cases where a man has divested himself of his capital, we will say, in favour of his son in order to reduce the rate of tax, and the son has died before the father.

8567. Sir E. North-Bower: With regard to the suggested abolition of the three years' average, of course you are aware that the Departmental Committee of 1905 considered the question fully?—Yes.

8568. And they were really not, I think, opposed to it; they thought it might be advantageous?—Yes.

8569. But they said that such a change could not be attempted without public opinion, and especially the support of business men, behind it. You tell us that there is a considerable feeling among members of your profession that the three years' average might go. That is in paragraph 5 of your evidence-in-chief?—Yes.

8570. There you are speaking simply for accountants?—Yes.

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8571. But of course your knowledge extends far more widely than that. Could you say from your experience whether the abolition of the three years' system would meet with support from business men generally?—I think it would from a very large number of them, on two grounds. One is this. Where you have a rapidly rising profit the trader does not feel the effect of what he has to pay in Income Tax for some considerable time on the three years' average, and a question very often arises which we have to draw the client's attention to in this way: "you have had a very good year; you have made a very large sum of money; do not forget that presently, some little way ahead, you will feel the effect of this in your Income Tax, especially now that the rate is so high." In fact it is actually questioned, in compiling the accounts of some undertakings, whether they ought to make a special reserve for that; and that also leads to a distinct sense of grievance when very high profits are followed by diminishing profits, because then a man is actually in receipt of diminished profits and has to provide the money to pay very large sums for Income Tax in respect of anterior years.

8572. I suppose that profits range high still?—Yes, speaking generally.

8573. So if the Legislature stepped in now and substituted an assessment on one year for the average of the three preceding years, it would be rather favourable to the Revenue, would it not?—If you have it in contemplation that the profits which are high to-day may be falling presently, then unless you made some temporary arrangements to bridge over the change the Revenue would lose one-third or two-thirds of these high years' profits, and would only receive tax on the poor years to come. That would be to the advantage of the taxpayer, if the assumption is right that the profits are going to fall. But on the suggestion which I venture to put forward you can get over the difficulty by bringing in temporarily the third or the two-thirds which have not borne tax.

8574. But you think that business men generally would approve of the simpler method of being assessed on the previous years' profits?—Yes, I have a very strong opinion myself that it would simplify matters if it was generally known that the amount of tax which a man was to pay was based on the last known preceding year—a perfectly simple straightforward statement, which gets away from all question of average of three years or five years, and so on.

8575. With regard to the five years' average I think we had a witness before us the other day who was interested in coal mining, who particularly wished to retain the five years' average?—I want to say that this view is largely an accountant's view.

8576. I see in paragraph 3 you speak of "petty items such as trade subscriptions." When you speak of trade subscriptions do you include in your mind the cases where large amounts of trading profits are divided under pooling arrangements?—Where the payment is payment into a pool definitely; but I am inclined to think the Revenue should allow it provided you get the results of the pool into the other side.

8577. You would agree that any provision which covers subscriptions of that sort would involve as a necessary consequence a provision for imposing a charge on the trade association itself; otherwise the profits might escape altogether?—It is difficult to know exactly what you mean by the trade association. If the trade association is, as I said just now, a pool, then those profits are all paid out again to the subscribers, except so far as they may hold them up from one year to another.

8578. Do they not build up reserves?—Yes; I say except so far as they may hold them up by way of reserve or otherwise.

8579. Therefore, would you not agree that the liability should be put on the trade association if the contributors to the pool are relieved?—Some of the pools work by giving a certificate of the amount due to their members which is incorporated in the trader's

accounts; so that they bring in even the ineffective reserve in some cases.

8580. Mr. Prentiss: Just carrying on that point for a moment, is there any material difference between money which would be subscribed to a pool or a trading association, and money which would be put from revenue into the trading account to be used in the company itself?—You mean to say, it is merely the subscription to the pool which is held by the pool, and is therefore still the property of the contributor.

8581. Yes, and is held to advance the financial interests of the company. Is there any difference if a company profits through a pool or profits through its own direct action?—I do not know that there is any difference.

8582. Why should one be exempt from Income Tax and not the other?—It is essential that you should bring back into the accounts of the contributors all the amounts derived from the pool.

8583. So it would in the other case. If a company puts money, which is the profit of one year, into its trading account, it is perfectly clear that the profits which that trading account subsequently yields come into the taxable profits of a subsequent year, but they are not exempt from Income Tax on that money on that account?—Certainly not.

8584. Then why should they be exempt if it is put into a pool or trading association to which they subscribe with an exactly similar object?—I do not suggest that they should be exempt. If it is merely a subscription to a pool in the sense that it is a sum paid down, then that is a charge against the profits as against which there is brought in the joint operations of the pool due to the subscribers.

8585. But if the pool is a trading pool, I really cannot see much difference?—I am afraid I do not quite follow the point. What is meant by this particular paragraph where there is the phrase "petty items such as trade subscriptions" is this: Where one is dealing with considerable sums it seems rather petty to object to such a thing. For instance, take my subscription to the Institute of Chartered Accountants. The annual subscription until lately was not allowed. Why? Because the Institute of Chartered Accountants does not pay Income Tax. It is a matter of three or five guineas, or whatever the annual subscription is.

8586. With regard to the subscription of the ordinary individual you mention, the associations to which he belongs for his own benefit, are not some of them exempt?—I know; but, at any rate, that is a payment out of my earnings, and it is an essential payment.

8587. The word "essential" is rather difficult to define, is it not?—It is essential in this sense: that I cannot call myself a chartered accountant unless I pay it. That is what I mean.

8588. I will not press you on that. I will ask you one question on the point of simplification. I notice that you do not suggest, as some people have, that it is possible to have a single tax graduated all the way up. What I take you to mean by that is that you realize that you must have a flat rate tax to deal with taxation at the source?—Yes.

8589. And that when you are dealing with higher levels above the flat rate which can only be applied individually you must have a separate form of tax?—Yes. You may have a rate extending upwards and downwards.

8590. Quite. I know that point; I know what you say about year 5s. or 6s., and I quite agree that that is a matter which can be adjusted. It is a very important point that you raise—that you can alter the position of your flat rate so as to have the least trouble in administration?—Yes.

8591. But putting that aside you must have both?—Yes.

8592. In order to get taxation at the source, to which I suppose you attach very great value?—Absolutely. I do not see how it is possible effectively to collect the Income Tax on any other method.

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8593. And you must have, in addition to that, an individual tax which must be collected on a different basis entirely, in that it is impossible to collect at the source except for the year of collection, and it is impossible to collect from the individual except for at any rate a preceding year?—Yes, I agree.

8594. So that is quite clear?—Yes.

8595. Then on this question of stock certificate which you refer to, do you apply that suggestion to agriculture?—I refer to this particular clause: "We further certify that the Stock is valued at cost, or market price if under cost."—That would not be a suitable certificate for a farmer at all. He does not value his stock at cost or market price. It would not be suitable for him at all. He takes the value put into the ground or the value of the growing crop.

8596. And he breeds his stock?—Yes.

8597. And some stock is bred and never sold?—Yes. This would not be applicable to a farmer.

8598. All I wanted was to make it clear that this certificate would not be applicable to agriculture at all?—No.

8599. You made a remark in the discussion you had with a member of the Commission about bonus shares being liable to Income Tax, and it was pointed out to you that if a distribution of bonus shares were liable to Super-tax it would be quite easy to avoid that by simply keeping the money in the business. You said then it would be intangible until distributed; that was the expression you used, but would it be intangible? Is not the money in the business simply used in the trading account?—Intangible for purposes of taxation. Let me put a simple illustration. Two men are carrying on business, making a profit of £20,000 a year. One man is an ordinary trader; he is liable to Super-tax. He turns the same business into a limited company, and he says: "Instead of £20,000 a year, I am going to distribute £3,000 a year; that is enough for me to live on. The rest I shall allow to pile up in this business." He pays no Super-tax, except a mere trifle, although he owns every share in the company.

8600. I quite understand that the main point of your proposal was that it still should remain not liable to Super-tax, unless it was distributed as bonus shares?—Yes. Take the illustration which I have given. Directly that individual reaches the point when his business is so swollen with money from accumulated profits that something must be done with it, he may say: "I am going to double my capital." If it is possible for him to do that and then turn those profits into shares and take them as bonus shares, is it fair that he should escape Super-tax on that sum?

8601. The point I am on is this. Surely the turning it into bonus shares is not a necessary transaction in any shape or form; it is merely a matter of convenience. What does it matter to him? Take your case. The man has formed a company which is producing £20,000 a year profit. He distributes only, we will say, £5,000 a year of that; the other is locked up in accumulations, we will say, of £100,000. The whole of it is being used in the business, and is contributing again to tax on what I may call the secondary profit. What I mean is that that primary profit has not paid Super-tax, but the secondary profit, so far as it comes to him, will pay at any rate Income Tax, and may pay Super-tax. His object is to avoid paying tax in the first instance. What difference does it make to him whether those shares are distributed as bonus shares or not? What does it matter to him what the face value of the shares in his company is? I do not think it makes any difference at all. This private company may have a nominal capital of any amount; it is quite immaterial whether the nominal capital is £10,000, or £100,000, or £10. The aggregate value of that capital will be equal to the whole of the money in the business which has been accumulated there. But what the face value of the particular shares is does not seem to me to matter in any way; it does not affect the profits; it does not affect the distribution; it does not affect taxation in any shape or form. Therefore if the mere fact of converting each share into two was

going to render an individual liable to a heavy Super-tax, why should he do it? I cannot see that your remedy meets the case. I am not saying that Super-tax ought not to be paid. All I am saying is that the remedy of taking bonus shares when the profits are distributed, does not seem to me to meet the case, because there would be no object in distributing them, and they would not be distributed?—But in practice, at all events in the case of a public company, there is the actual physical difficulty of having this very large accumulated reserve, and shareholders crying out as to what should be done with it.

8602. But we are discussing a private company at the moment?—It is quite true to say that a man can go on indefinitely piling up his capital and deliberately refraining from distributing it. To that extent, even under any legislation, he would escape Super-tax unless you make the company itself liable to Super-tax. Then the objection to that is that a great many cases would arise where you would be taxing in the corporate body a number of people who individually would not be liable to Super-tax at all.

8603. The only way of getting at the tax in every case would be to tax the company?—Certainly.

8604. But that is, for the reason you have given, impracticable?—Yes.

8605. It is a partial remedy?—I agree.

8606. And it really is not effective?—It would be effective to a very considerable extent, because there are very large sums being dealt with like this.

8607. One word you used I should like to ask you about. You were asked about foreign money invested in this country, and whether you thought it ought to be liable to Income Tax, and you said you thought it was very desirable that we should do all we could to encourage the investment of foreign money here, but there ought to be reciprocity?—I mean if they are to escape taxation here, then British money in the country of origin should also escape taxation there.

8608. Do you want to encourage British money going abroad?—Provided it could earn a profit out there to be brought here.

8609. Would it be any particular advantage to the nation to ask for reciprocity in that way? It would be an advantage to the individual, but would it be to the nation?—It would be an advantage in the sense that it would encourage our merchants here to foster foreign trade, for instance, by building railways, as England has done abroad, say, in the Argentine; the investment of British money out there has brought profits to this country in very large sums, both directly and indirectly.

8610. That is not quite the same thing, is it, as the investment of foreign capital owned by foreigners who are resident abroad?—Is it not the same thing as an Englishman investing his capital in the Argentine? I should respectfully have thought it was. The question put to me was, for instance, with regard to an American investing his money here in England. Does not that correspond to an Englishman using his money here for investment in the Argentine?

8611. You mean a company which is located in the Argentine, and with its headquarters there?—Yes.

8612. I am not quite sure that it is in the interests of this country to press for that reciprocity. I will not press you on that. Then on this question of evasion or avoidance, is it your view that the present rate of tax is so high that there is a serious risk that a good deal of capital which is at present located in this country, and liable to Income Tax, may, I will not say be forced, but may at any rate be transferred out of this country, so that, although the rate of tax may be raised, the corpus to be taxed may be reduced?—It is a risk, undoubtedly.

8613. Do you think taxation has reached a point where that has become a serious danger?—I think it has reached a point when people are considering it.

8614. Do you realize that the present increase of the taxable corpus of money for Income Tax has been very much swollen by the great national expenditure of borrowed capital? Is not a large proportion of the taxable income to-day income derived from

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national payments to producers and traders out of borrowed capital?—Yes, that has created a large amount of capital with which the traders have traded, undoubtedly.

8615. Is that going to be permanent and recurring, or was it a temporary matter?—It must, in a certain measure, in my humble judgment, be temporary with regard, for instance, to factories, and so forth, built for special purposes for the war time.

8616. Do you consider we have got a danger point ahead, when we may reach the very serious position that if the tax is at the same rate the actual yield may be decreased?—Whether that is exactly cause and effect, I am not sufficient of a political economist to say. There may be a diminution in the yield of the tax, due to the falling off of trade. Take the example of the case I gave here, with which I was personally concerned. A very large company actually transferred, or sought to transfer, the whole of their business to Geneva.

8617. Do you know of any other case of that kind?—I have just been concerned in another case where a big Indian cotton mill, run from here as an English company, has been sold, lock, stock and barrel to natives of India. I would not like to say that in that case Income Tax was the determining factor, but it certainly had something to do with it. In the first case I alluded to, which is referred to in this paper, that was entirely due to Income Tax. The Board of Trade stepped in on other grounds and prevented it for the time being.

8618. It means now, does it not, that in the case of anybody with any considerable income one-half of the gross income is paid to the State?—Yes, it is getting on that way, with the Super-tax.

8619. 10s. in every £, which is nominally received, is paid away to the State in Income Tax and Super-tax?—Yes.

8620. And then there are Death Duties and other heavy taxes to consider as well?—Yes.

8621. Sir T. W. Atterbury: I want to ask you very briefly questions on only two points. First you refer to the undesirability of tax being paid by companies or institutions on director's fees and salaries?—Yes.

8622. Is the objection one based on grounds affecting the Revenue, or is it based on grounds affecting the making up of the accounts and as it affects the shareholders as a body?—I do not think the Revenue is seriously affected, if at all.

8623. It does not concern the Revenue?—No, I do not know that it does.

8624. The only point I was going to put to you about that is this. We being here to examine into questions of Income Tax as regards Revenue, is it any business of ours to suggest legislation which does not affect the Revenue, to make people make out their accounts or alter practices in their own business?—

Except, if I may say so with respect, that the effect of following this practice is to make quite a large body of persons totally regardless of the rate of taxation that happens to be in force. It becomes a matter of no importance to them whatever.

8625. That would apply to many subjects, would it not; for instance, compounding of rating?—Yes.

8626. You are opening up a very wide field?—Yes.

8627. I understand that it is not on grounds generally affecting the working of the Revenue, that you suggest this alteration?—It did affect Revenue only last year to a small extent; that is a point which I have no doubt has been made clear to you.

8628. That has been remedied?—That has been remedied now almost entirely.

8629. You will have had a good deal to do with General or Local Commissioners. Is it your experience that practically the work done in bringing the information before them is done by the Surveyor?—Yes.

8630. But there is a Clerk to the Commissioners?—Yes.

8631. Is he of any use?—He advises them on questions of law, undoubtedly.

8632. Do you think they are guided by him, and not by the Surveyor?—I think they are very largely guided by him. The Surveyor is really a party to the proceedings before them, if you are dealing with the question of an appeal.

8633. And the Clerk really advises them on law?—Undoubtedly.

8634. Sir J. Harwood-Banner: I have only one question to ask, which arises out of a publicly reported speech a couple of days ago. In dealing with depreciation, have you considered at all the termination of concessions; for instance, the chairman of the Costa Rica Railway Company mentioned the fact that the concession from the Government terminated in about 20 years, when the whole of their railway passed to the Government. The railway is leased for a fixed term, and they are bound to pay Income Tax on the whole of the lease, without any allowance for the fact that they will lose the whole of their property at the termination of the concession. You mentioned depreciation here. Do you bring under that head the diminishing value of the lease, in a case such as this?—A case such as that, I think, is very parallel to the question of leases, except that where it is a foreign concession the lessor is not here. That is the difference between the two.

8635. Here the whole income is taxed, although at the end of the 20 years' period the whole property passes away?—That is very similar to the position of a coal mine, which is a term of years may be exhausted.

8636. Chairman: Thank you for your evidence, Mr. Carr.

PROFESSOR LOUIS, on behalf of the British Lead and Zinc Mine Owners' Association and the West Coast Hematite Iron Ore Proprietors' Association, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Evidence-in-chief of HENRY LOUIS, M.A., D.Sc. (Hon. Dunsin), Assoc. R.S.M., Min.A.C.R., F.I.C., F.G.S., M.M.S., Member of Council Institution of Mining Engineers, Institution of Mining and Metallurgy, Iron and Steel Institute, Professor of Mining in the University of Durham.

8637. (1) For many years the output of British metalliferous mines has been steadily decreasing; one of the causes that has contributed to such decrease is to be found in our methods of taxation, which discriminate unfairly against investments in wasting assets, of which mines form one of the leading examples. Furthermore, these methods discourage exploratory and development work, without which the lives of such mines must necessarily be short, and they also are unfavourable to the replacement of old-fashioned machinery and plant by new and improved types, the absence of which hinders us in our competition with foreign countries.

8638. (2) The mineral industry is adversely affected by the method of taxation of mineral royalties. When a company or individual proposes to start mining a mineral deposit, the mineral rights must either be purchased, or else a mineral lease must be obtained from the royalty owner; it must, however, be emphasized that a mineral lease is not of the nature of an occupation lease of which the lessee has "only the usufruct, so that the property is returned intact to the lessor at the expiration of the lease," but is, on the contrary, a true sale; as Lord Cairns said in *Gowan v. Christie*: "What we call a mineral lease is really, when properly considered, a sale out and out of a portion of the land," and Lord Blackburn, in *Coltess Iron Company v. Black*, expresses his entire agreement with this view. Nevertheless, Income Tax is not chargeable upon a sale of mineral rights paid for in one or several instalments, but is exacted on the payment by annual instalments, which constitutes a mineral lease. This discrimination operates adversely to the latter method of acquiring mineral

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[Continued.]

rights, although it is the better calculated to foster the mineral industry. Many concerns may not have the funds necessary to purchase outright a mineral royalty, or they may not care to invest large sums in the purchase of an asset that is necessarily of unknown value. It is more equitable and more in the interests of both buyer and seller that the sale of unsevered mineral by lease should be encouraged rather than discouraged.

8639. (3) The most serious hardship inflicted upon the mining industry by the present method of taxation is the failure to distinguish between revenue and profits; Income Tax, which should be levied on the latter, is assessed upon the former. Thus, if a mining company spends £50,000 in opening up a mine, and produces minerals, the sale of which leaves an excess of £5,000 per annum over the cost of production, it will be called to pay Income Tax on £5,000 a year; if at the end of eight years the mine is exhausted the shareholders will have paid Income Tax on £40,000, in spite of the fact that they have lost £10,000 in their venture. No account is taken of the fact that the dividends of a mining company do not represent solely income on capital, but represent income plus a return of a portion of the capital. In this respect investors in mining properties are at a grave disadvantage as compared with investors in property not of the nature of a wasting asset. The equitable remedy would be to allow every mining concern to set aside annually a sum to form a reserve fund that shall amount to the original capital invested at the end of the estimated life of the mine, such sums, together with interest earned by them, not to be liable to Income Tax. In this way the investor in mines would be placed in the same position as an investor in, say, Government securities, that is to say that he would have his original capital intact at the end of the period, and would be paying taxes only upon the profits legitimately earned by that capital. Of course, he would still have to take the risk that the life of the mine should be at least as long as had been calculated, but this is a legitimate mining risk.

8640. (4) The present system of making no allowances for mine development calls urgently for reform. Attention might be drawn to the methods in force in the South African mines, where the whole cost of the development work may be added to the working costs without any limitation to the expenditure on development thus allowed. It is no doubt not easy in many cases to determine where capital expenditure ceases and expenditure on development begins. Perhaps it would be safe to take all expenditure until the mine becomes a real producing concern as being of the nature of capital expenditure; when the main shaft or adit had reached the deposit so that exploitation could begin, when the necessary winding or hauling machinery, the dressing plant, shops, offices, buildings, means of communication, &c., had been erected, and the mine was ready to produce mineral on a working scale, capital expenditure might be considered as complete. The shaft no doubt would subsequently have to be deepened, levels prolonged, new levels driven, rises put up, winzes sunk, &c., but all this work would be with the direct object of developing additional ore. Similarly, prospecting work, boreholes, trial drifts, trial pits, &c., might be required in order to find additional ore to develop; all such exploratory work, whether it actually prove ore or not, should be classed as development work. The only admissible exception, and this might be considered a debatable point, is when an entirely new ore deposit is discovered, constituting an additional asset not contemplated in the original scheme of the mining venture. The cost of developing this might perhaps fairly be considered as capital expenditure. If a company is formed to work a mineral vein, the cost of any explorations or developments on that vein, after the mine has reached the stage of a going concern, should be considered as expenditure on development. But if a parallel vein previously unknown were discovered and opened up, say, by a cross-cut, this work

would probably be regarded legitimately as a capital charge. Such development costs might be charged in either of two ways. The actual expenditure in each financial year on development may be looked upon as an addition to working costs. Or else a development account may be opened, debited with the net cost of all development work, and credited with an amount per ton of ore gotten which it is calculated will fairly represent the total cost of developing each block of ore, divided by the tonnage assumed to be developed; the sums thus credited to the development account would, of course, form an addition to the working costs. The latter method is probably preferable as giving a more accurate determination of the actual cost of getting the ore.

8641. (5) The present system (if such it can be called) makes no proper provision for the depreciation of mining plant and machinery, and both methods and rates appear to vary in different parts of the country. At present the cost of renewals, as and when incurred, may be claimed as a deduction from profits, or alternatively a claim for depreciation may be made, but not both together. The proper course would be to allow a settled rate for depreciation, to include deterioration and obsolescence, and to allow also the cost of repairs and renewals, taking into account the diminished value of the plant in computing the latter item. Renewals should not be charged to capital account unless they actually increase the producing capacity of the mine. Thus, if an old winding engine is replaced by a new one capable of hoisting more ore, and thus increasing the output of the mine, capital should be charged with such a proportion of the cost of the new engine as represents the increase in winding capacity, but the remainder should be looked upon as a charge against working costs.

8642. (6) (a) The present method of calculating depreciation upon the diminishing value of the plants is objectionable; by this system the value can never come down to zero, yet old mining plant is often absolutely worthless. Mines are often situated in such inaccessible places that the cost of removing scrap or worn-out machines from them is greater than the value of the material, so that provision ought to be made for reducing the value of plant to zero.

Instead of the diminishing value method, various other methods may be adopted.

(b) The amount written off may be a fixed ratio of the first cost, so as to write off the whole cost in a given number of years.

(c) The amount written off each year may be such as, together with interest, shall amount to the first cost, the amounts being equal in each year.

(d) The amount written off each year shall be such that, together with the interest upon it, it shall amount to an aliquot part of the first cost, the sums of all these amounts, with interest, amounting to the first cost.

8643. (7) The first method has the drawback that the deductions are greatest when the plant is new and when it, in fact, depreciates least rapidly. In the second and third methods the deductions are uniform throughout the life of the plant. In the last method the deductions are greatest towards the end of the life of the plant, which corresponds best with the actual facts.

8644. (8) The rate of depreciation can be determined when the method of calculation has been decided upon by the life of the plant. Some mining machinery deteriorates very rapidly, for example, rock drills rarely last more than five years; on the other hand, air compressors may last 15 years. In the case of mining machinery obsolescence is of even greater importance than deterioration. There are very few machines or appliances used in mining that have not undergone such radical improvements within the last 20 years as to be hopelessly out of date to-day. Taxation in this respect should be so adjusted as to encourage the scrapping of mining machinery when it is no longer equal to the best modern practice, whereas the present method has just the opposite effect.

[This concludes the evidence-in-chief.]

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PROFESSOR HENRY LOUIS.

[Continued.]

8645. *Chairman:* Whom do you represent?—I am representing the British Lead and Zinc Producers' Association, and the West Coast Hematite Iron Ore Proprietors' Association, so you may take it that I am speaking on behalf of practically the whole of the metal mining industry of the country, i.e., of the industry subject to the Metalliferous Mines Act, with the exception of the Cornish.

8646. We have your evidence-in-chief before us. This is one of the great questions that we have to deal with in this Commission?—Yes.

8647. Each member of the Commission has had your paper, and we have given it careful study, so if you will kindly be prepared to answer questions which the members of the Commission may ask you, that is the procedure?—Will you allow me to amplify one or two points?

8648. Yes, with pleasure. Will you amplify them on the questions, or would you like to make a short statement to the Commissioners before we begin to examine you?—What I should like to do, if I may, is to amplify one or two points in my evidence.

8649. Would you see whether they come up on questions from the Commissioners, and then if they do not come up in questions perhaps at the end you could amplify them. I think that will probably be the better plan, because those points which you wish to address the Commission upon may come up in your answers.

8650. *Mr. Kerly:* I do not propose to take you through your statement step by step. You will understand I am only asking you questions in regard to matters which I want to elucidate?—Yes.

8651. Your general observation is that the present method of taxation tends to diminish the incentive to develop mines, to diminish exploration work, and I gather also would prevent people working with the most up-to-date machinery?—Yes, and farther it discourages capital being put into mines of this description.

8652. Is not the whole of the mining you are dealing with wholly speculative?—You may say that certainly—necessarily from the nature of the deposits it is highly speculative.

8653. Do you think that if for a period of 50 years the total cost of mining for lead and zinc in this country was set against the return, it would not show a very big loss?—No, I should say not; I should say on the contrary it would probably show a profit.

8654. I am delighted to hear it, because in quite another place I have heard of a number of applications which have left upon my mind the impression that the result shown will be absolutely disastrous; that here and there you get a profit, but nine times out of ten you get a loss, do you think that is wrong, and that the general result would be to show a profit?—I think upon the whole within the last half a century or so probably more money has come out of them than has been put into them.

8655. Are you now excluding the Cornish?—I am excluding Cornwall; I am speaking of the mines with which I am dealing before you.

8656. So far as there is a very large speculative element, that is a factor which would overshadow any discouragement arising from the method of taxation?—No, I am not prepared to agree with that altogether. If a man is doubtful as to whether he will put his money into a mining venture or into anything else he will certainly consider how taxation will affect him, and especially at times like the present when taxation is so high.

8657. Just consider. If the chance is 3 to 1 against his getting any return, but he goes on hoping that in his case he may get a sixfold return, which is what I suggest to you, he is not likely to be influenced much by the fact that he has got to pay even 6s. in the £ if he does get a return?—I cannot conceive any wise mining speculator working on that basis. A man who speculates in one mine is pretty certain to come to grief. Usually men who are mining speculators spread their ventures over a considerable number of mines.

8658. And so average their risks?—So as to average their risks, and then the taxation of 6s. in the £ is a very important item.

8659. Am I to understand that in your view the people who provide the capital for mining concerns are a limited class, and that they average their risks by making many investments?—I think so, as far as my experience goes.

8660. All the suggestions that you have made in your paper really involve an estimation of the life of the mine, do they not?—A great many of them do.

8661. I think practically all?—I would not say the depreciation of machinery does.

8662. Take that for instance. You have always got to consider not only the life of your machinery, but the life of the mine it is going to work?—If you are suggesting that the mine might be done before the machinery is worn out, yes; but not otherwise.

8663. Does not that frequently happen?—It occasionally happens.

8664. Only occasionally?—Yes, and then, of course, you have residual value in your machinery.

8665. Is there a real residual value if you have to move it—it is very small, is it not?—In such a case as you are suggesting, where a mine comes to grief after a very short life, there may well be a real residual value.

8666. How would you practically estimate the life of a lead mine?—The way in which it is actually done is, of course, by means of trial shafts, trial adits, and other workings. You come to some conclusion as to the quantity of, say, lead ore available; you come to some conclusion as to the economic rate of exhaustion, and upon these data you base your calculation as to the life of the mine.

8667. That cannot be done until working has been going on on the site for a considerable period?—Sometimes you have to take risks, naturally, but it is safer after work has been done for some time.

8668. Would it be necessary at intervals to re-estimate the life of your mine?—It is not necessary, unless such a circumstance as the termination of a lease or anything of that kind necessitates it.

8669. I do not follow?—If I am working a mine and I have got five years' ore in sight, and I am entitled to go straight on with it, why should I estimate the life of that mine?

8670. If you are going to get an allowance not only for your machinery but for the cost of your shafts and work of that kind based upon a short life, that is to say, a large proportion of allowance each year, it is very necessary to get somewhere near the real life of the mine, is it not, or you may be getting a great deal too much?—I am afraid I do not see how that can be. Assume that my method is adopted, and that you allow me to deduct from my profits an amount that represents the yearly wastage of my original asset, if I give the mine a short life and the mine is still working after my assumed life has come to an end, obviously, there are no more deductions to make.

8671. I thought that might be your answer. You would get the whole return, only you would get it more speedily?—Quite so.

8672. Do you propose to allow the return of the whole original capital invested in the mine?—Yes.

8673. Have you considered that in other businesses the original capital is in great part lost?—I know a good many where it is not.

8674. In great part, I say. You make a factory; you put up buildings?—Yes.

8675. You do not get back the value of those buildings, though they wear out?—You may get them back, of course. It depends what you mean by getting them back.

8676. You do not get it allowed against your profits; you have to pay for it out of your profits on which you pay tax?—The difference is that a factory is theoretically, at any rate, eternal; there is no reason why a factory should ever cease operations.

8677. There is no reason why a building should be worn out?—There is a reason why a building should be allowed to become worn out, but that, of course, comes under the heading of renewals.

8678. Of buildings?—Yes.

8679. Which, at present, are not allowed for?—Exactly.

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[Continued.]

8680. I just want to understand your proposition. Your suggestion is that the whole original cost should be allowed over a period of years?—Yes, and may I add, which I have not done in my proof, one of the points I have omitted, namely, that together with these various items that enter into capital outlay the cost of securing the lease and of putting down the preliminary boreholes should be included. I have not mentioned those, and I should like to be allowed to add them as part of the capital outlay.

8681. I understood that would go in with the rest?—I did not specify them, so I wanted to be allowed to do so now.

8682. Supposing you adopted the sinking fund method, I presume you do not propose to limit the mining company to making an actual investment by way of sinking fund. If they choose to use the money which is allowed against their profits as a contribution in a particular year to the sinking fund, they could claim it, whatever they did with the money?—I should like them to be able to claim it, but as to whether they ought to form a sinking fund or not, that is one of the most difficult questions that I know.

8683. Is it your proposition that, as between the company and the Revenue authorities, you get the allowance without the Revenue authorities having to see that it is invested?—That is my proposition.

8684. Or distributed to the shareholders?—That is my proposition, but I repeat that it is an exceedingly difficult question.

8685. There is another thing which prevents a mining company buying new machinery or doing new development work, and that is, as the mine is getting old and towards the end of its life no one is likely to put in new machinery or do development work which does not offer a very good prospect?—I am afraid I cannot entirely subscribe to that view. I have to do with mines which are a good deal over 100 years old, where we are to-day actually doing development work and putting down new machinery.

8686. I did not say anything about its age; I said getting towards the end of its life?—We hope it is not, but you can only maintain it in existence by such development work.

8687. Sir J. Harcourt-Banner: Looking, perhaps, to your ignorance of where these mines are, can you tell us the localities where this lead comes from?—The principal lead and zinc mines in the country are in Wales, in the Pennine Range, Cumberland and Durham, and in some of the lower Scotch Hills—the Lead Hills district.

8688. Westmoreland?—There are a few in Westmoreland, but there is not very much doing there now; there is a little there.

8689. It requires a good deal of temptation to bring anyone in now to look for these minerals?—To-day, yes, a great deal.

8690. In your paragraph 3 you say every mining concern should be allowed to set aside annually a sum to form a reserve fund that shall amount to the original capital. That is, may I put it, based on the fact that it is very desirable at the present moment to encourage in every way home production of British minerals?—Precisely so. I want to put the investor in mines in this respect in the same position as the investor in stocks or similar securities, where his capital is intact at the end of a given period.

8691. One knows in Wales there are a great many ventures of this description which do not turn out satisfactorily. It would be a considerable incentive in inducing people to enter this production if they felt that they were going to use their profits to repay their capital, and that the venture would not begin to pay Income Tax until it had really shown a profit to the shareholders?—Precisely.

8692. Mr. Morris: I do not want to touch on the technical aspect of your evidence, but in regard to the methods you state of calculating the depreciation on the diminishing value of plant in your paragraph 6 may I take you through this to see that I understand it completely?—If you please.

8693. The first one is the usual mode of deducting a percentage on the diminishing value?—Yes.

8694. In the second one, the amount written off may be the fixed ratio that is equivalent to taking, say, one nth part of the cost for a years?—Yes.

8695. Subparagraph (c) is that the amount written off each year may be such as, together with interest, shall amount to the first cost, the amounts being equal in each year?—Yes.

8696. That is the annuity method?—Yes.

8697. It is really the sinking fund method?—Well, I call (d) a truer sinking fund method.

8698. Let us go to subparagraph (d); that is rather what I wanted to put. "The amount written off each year shall be such that, together with the interest upon it, it shall amount to an aliquot part of the first cost, the sums of all these amounts, with interest, amounting to the first cost." That is to say, as I read it, you are taking such a sum as with interest will divide into the original cost without leaving any remainder?—If the mine lasts a years each sum shall with its interest amount to 1/n of the total.

8699. That 1/n would be partly composed of interest and partly composed of capital?—Precisely.

8700. And there would be an equal amount of interest and an equal amount of capital in each payment?—Not necessarily; no, certainly not.

8701. That is what I want to get at?—In the last year you will have no interest, and the amount derived from the first year will be nearly all interest.

8702. That is why it seems to me that your (c) and (d) are really the same?—No, they are not the same. (c) gives you a linear equation; (d) gives you a parabolic curve.

8703. Do you express a preference for (d)?—Yes, because the amounts then written off are larger as you go on.

8704. The point I really want to get at is that you, with your experience, have adopted a method which does credit the sinking fund payments, however they may be calculated, with interest?—Yes.

8705. That is to say, you feel that these payments should, if their proper effect is to be ascertained, have interest credited to them?—That is my definite feeling. You will not buy your machinery until the end of a given time, during which the depreciation fund can accumulate.

8706. Mr. Kerly suggests I should ask at what rate—the same rate that you assume in your original calculation, or a smaller rate?—The current rate for gilt-edged securities.

8707. Whatever that may be?—Whatever that may be.

8708. And you would accumulate your sinking fund at the same rate?—You obviously must accumulate at that rate; you cannot accumulate at a speculative rate.

8709. But you might accumulate your sinking fund at a lower rate than that which you perhaps assume for the interest?—You necessarily would, because the interest on your capital will be at what I call the speculative rate, which is necessarily higher whilst in the other you are putting aside other people's money, and you must put it into gilt-edged securities.

8710. You do presume that two rates of interest will be employed?—Necessarily.

8711. Mr. McLintock: In what respect does the present method of calculating depreciation on diminishing value tend to hardship?—The present method tends to hardship in many ways. First of all there is not a method, if one may put it in that way; it is more or less at the goodwill of the Assessor. You have various rates in various parts of the country.

8712. Assuming you have an agreed rate from year to year, in practice where is the hardship?—The hardship is this, that in calculating at a diminishing rate your value can never come to zero.

8713. I agree?—In the case of the mines I am dealing with the value does as a matter of fact come to zero, because when your machinery is worn out it frequently does not pay you to lift it.

8714. Take the case of coal mining in this country?—If I may interrupt you, I have carefully excluded coal mining, because I am not representing it.

8715. Very well, I will not pursue that. In paragraph 7 of your proof you state that taxation should be so adjusted as to encourage the scrapping of out-of-date machinery and its replacement by the best and most up-to-date machinery?—Yes.

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[Continued.]

8716. And you are aware that the taxation rules have already provided for what you ask there?—No, I should hardly say that they do, in my opinion. If I read the 1918 Act rightly, obsolescence for instance is only allowed as and when you replace the old machinery.

8717. I took it that that was your point?—No, that is not my point.

8718. You are aware, of course, that at present for any plant which is scrapped, and more up-to-date machinery introduced, you get a full allowance at present?—Yes, I am aware of that. My argument is that you ought to be allowed, the moment you put a new machine in, to begin to put aside money for replacing it. As it is now you are only allowed that consideration after you have in fact replaced it.

8719. You get an allowance for wear and tear annually?—But not for obsolescence, if I understand the Act correctly.

8720. No. When the obsolescence has actually taken place, and it is replaced, you get the full allowance in the year in which the expenditure is incurred?—Quite. I maintain that for the mining interests the other method is better. If you are allowed to put aside money gradually and accumulate it in readiness for replacing this machinery by up-to-date machinery, a board of directors is more likely to do it than if, for instance, they are faced with the fact that they have a diminishing output, and they would like a new and improved dressing plant, and they are called upon to spend a big lot of money in a year when their revenue is falling, they are then far less likely to do that than if they have been allowed to accumulate the money ready for doing it—that is my argument.

8721. Assuming that in the year with the falling revenue, after charging this loss on the scrapping of the old machinery, they are not liable for tax, they are allowed to carry it forward to the next year?—They have got to find the money, though, quite apart from the tax.

8722. It is a question of the financial aspect of it that you are considering, rather than the taxation question?—I am afraid I cannot separate the two very well.

8723. I suggest that they are two separate propositions, and that there is a remedy at present to meet the point of the hardship that you put forward?—I agree that the difficulty has in a measure been met by the clause you are referring to, but not quite as I would like to see it met.

8724. In the case of a company who have plenty of money to buy the new machine, there is no hardship; they do not pay too much tax?—Not if it were adjusted on a proper basis; assuming a proper basis being allowed, they would not pay too much.

8725. Do you suggest the present basis is not a fair one?—I do; the present basis of depreciation I consider inadequate.

8726. Chairman: You want the depreciation to begin when the machine is put down. Who estimates the life of the machine?—Well, the engineer would estimate the life. One knows by experience what the probable life of a machine will be.

8727. But you would get the Revenue to give you so much per annum up to the point of obsolescence, would you not?—Yes.

8728. That extends in some machines to 10 or 15 years. You cannot tell for 10 or 15 years whether the machine would be obsolescent?—Obviously, I cannot tell to-day whether an improved machine may not be brought out next year that may make my present machinery useless.

8729. Therefore, how could you arrange with the Inland Revenue to give you a basis; there is no real basis?—One can only arrive at approximation.

8730. That is all?—We are dealing with mining, and as I have once or twice pointed out, all problems in mining are problems in probabilities; we can only approximate to them.

8731. Mr. McLintock: You might put it in this way. You wish a rate agreed at the beginning?—Yes.

8732. And the owner of the plant takes the risk of loss by obsolescence?—Yes.

8733. And you give up the present right you possess to claim the whole of the obsolescence or loss as

and when it is incurred?—Yes, that is what I should like to see. I should like to see an adequate rate based on experience and worked out according to that method in paragraph 6 (d).

8734. You are no better off from a taxation point of view at the finish, and you may be worse off?—Conceivably, you might be.

8735. You have known of a great many mining undertakings having changed hands?—Yes.

8736. Being sold?—Yes.

8737. And substantial profits made on the sale of the undertaking?—Yes, I have known that happen.

8738. Owing to the valuation placed on the plant being considerably higher than even its written down income tax value would be?—I have known cases of this occurring.

8739. Do you not think on the whole that it is fairer from a taxation point of view to give you your loss as and when it is incurred?—I do not think it is so convenient for the mine.

8740. And eliminate the chance of gain or loss as the case might be?—My opinion is that it is not so convenient for the mine. I should prefer the other method myself; I admit it is a matter of opinion.

8741. Sir E. Nott-Bower: In sub-paragraph (d) of paragraph 6 you say, "The amount written off each year shall be such that, together with interest upon it, it shall amount to an aliquot part of the first cost, the sums of all these amounts, with interest, amounting to the first cost." Then in the seventh paragraph you say, "In the last method the deductions are greatest towards the end of the life of the plant, which corresponds best with the actual facts." This is a sinking fund method, is it not?—Yes, that is a sinking fund method.

8742. In answer to a question by Mr. Marks I understood you to say that the first payment of the sinking fund would be nearly all interest?—May I ask, sir, have you noticed that paragraph 4 refers to capital outlay and paragraph 5 to depreciation of current and renewable plant; the two are not comparable precisely.

8743. I am referring to sub-paragraph (d) of paragraph 6?—I beg your pardon.

8744. I expect I am wrong, and Captain Pretymau tells me I am wrong, but I thought that under sub-paragraph (d) what you contemplated was that you would set aside out of your business profits in the first year and any other year a sum which if accumulated at a given rate of interest would at the end of the life of the estate reproduce the capital sunk in the estate?—Yes, that is right—the sum of those annual payments plus interest.

8745. Now assuming you sink a lot of capital in sinking a shaft, and assuming you estimate the life of that shaft—would 30 years be a possible time? I do not know anything about lead mining. The life of a shaft might or might not be 30 years?—That is quite a possible figure.

8746. If you sink £20,000 in sinking a shaft, at the end of 30 years the shaft then ceases to be useful and no more minerals may be got?—It may have a negative value, if by your lease you are bound to spend money in filling it up or fending it off.

8747. You want in the course of that 30 years a fund to replace the capital that has gone?—Yes.

8748. On a sinking fund basis. If you paid annually to a sinking fund, set aside out of your profits so much, and accumulated that at compound interest, it would produce at the end of the period a sum equal to the capital lost?—Yes.

8749. Would you be satisfied with an allowance limited to the amount that you set aside annually out of the business profits which during the 30 years of course would amount to considerably less than the capital lost, or would you want in addition a further allowance equal in agreeing interest on the fund?—Yes are now dealing with the replacement of original capital?

8750. Yes, an allowance to replace the original capital?—It is rather a difficult point. I think at first sight that the equities would be sufficiently met if at the end of say 30 years, or whatever the life may be, you have accumulated with interest a sum sufficient to replace the original capital. What I wish to do is to see the investor in a mine, as I said before, in the same position as the investor in stocks

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[Continued.]

or shares, who at the end of the period of investment has his original capital intact.

8751. If you form a sinking fund and invest, have you taken into account that you would have to pay Income Tax on the accumulated interest?—I take it you would not have to; that is your capital; that is a replacement of capital.

8752. Supposing you are building up a sinking fund and you invest money and you receive the interest on it; surely you will receive the interest less Income Tax?—In that case you would have to calculate a rate of interest less Income Tax in determining what annual payments will amount to the original capital.

8753. And in that case you would have to make a larger payment into the sinking fund?—Quite so.

8754. And that larger payment would simply represent the Income Tax on the accumulated interest?—It would represent the Income Tax on that portion of the capital which you are accumulating for the life of your mine.

8755. So that, in consequence of the liability to Income Tax of the sinking fund, instead of paying £2 a year into the sinking fund you would have to pay £2 plus £y.

8756. And if you got the allowance of £2 plus £y you would be satisfied?—Yes, I think so. I think that would be equitable.

8757. Mr. Pridemore: Is not the allotment of a sum which with compound interest is going to produce within a certain period of years the original capital rather a theoretical than a practical proposition in a sense? Is it not very difficult to invest money practically so that it is going to accumulate at compound interest?—I do not think so; I personally do not see the difficulty.

8758. But then it has to pay Income Tax?—In that case you would have to allow that in your calculations.

8759. You get the extra sum to cover it?—Yes.

8760. On the point of whether this allowance should be made whether the accumulation of capital takes place or not, do you not think that it is desirable that an allowance should be made for an actual replacement of capital rather than for an imaginary one?—I have a very open mind on that point; I have known it argued both ways. Personally I should like to see the actual accumulation made. On the other hand, I have repeatedly known mining shareholders who have said, "No. If you accumulate this money you must put it into gilt-edged securities bringing in 4 or 5 per cent. Pay it out and let me have it in my own business where I can make 15 or 20 per cent. out of it." As a technical man responsible for the maximum life of a mine, I very much prefer to see the sinking fund formed, which gives me something to fall back upon in the case of accidents or of bad years.

8761. Is it not more in consonance with your original proposition that they should be put in the same position as people who have their original capital unchanged?—I think it is.

8762. They could not use their original capital in the way that is suggested?—No, they could not.

8763. And that would give them an advantage that is not given to the ordinary shareholder where the capital remains intact?—Quite so.

8764. In the case of machinery, does not the same thing apply to some extent? You rather suggested that the allowance should be made at a rate which was calculated over a term of years to cover obsolescence, and that that would be better than the present system of allowing the actual sum when obsolescence does occur?—Yes.

8765. You thought that would be rather an incentive to renewals?—Yes.

8766. But would it cut exactly the other way?—I do not think so.

8767. Is it not human nature that when the mine owners have got a sum on which Income Tax has been allowed there is no particular incentive to spend it, but, on the other hand, if they have got the obsolescent machinery and they are only going to get the allowance if they do spend the money, there would surely be more inducement to spend the money and get the allowance than there would be to spend the money when they have already got the allowance?—I do not think so, because in one case they are

spending money they have got, and in the other case they may want to spend money they have not got. If you are dealing with a wealthy company with a big reserve fund there would be a great deal in what you say.

8768. Mr. Marks: May I suggest that Professor Louis should be kind enough to put his suggestions (c) and (d) either algebraically or graphically, or both?—I will be very pleased to send them in. [See Appendix No. 21.]

8769. If you will be so kind?—I have not got them with me, but, as a matter of fact, I have got them worked out. May I add one or two points?

8770. Chairman: Yes?—One of the points I wished to draw attention to was with regard to the present method of paying Income Tax on royalties. At present, as you know, a mining company pays Income Tax on an average of its five years' gross revenue, by which I mean profit plus the royalty which it pays to the royalty owner, and then the proportion of the tax paid on royalty is deducted for that year. That operates very hardly against the mine owner. If he is faced, as he may be, with a very large royalty, cases may arise, and do arise, especially in the hematite mining, where the total amount of the royalty exceeds the average of the profits of the preceding five years, so that the unfortunate mine owner is actually called upon to pay tax on a larger sum of money than the average of his five years' income.

8771. Mr. McIntock: Does he not deduct the tax from the royalty before he pays it?—He deducts the tax from the royalty, but meanwhile he has to pay tax on a bigger sum.

8772. Only if the tax on the profits exceeds the royalty?—No, if the royalty exceeds the profits.

8773. Then he has kept the tax on the royalty?—But meanwhile he has paid the money out, and it operates adversely in calculating a five years' average. I am very strong on the view that this method which I am referring to of taxing the mine proprietor to pay taxes on royalty is unfair. The Income Tax Commissioners have throughout treated royalty as rental, and therefore have taxed it as its source. I hold very strongly that royalty is not rental. It is payment for unserved ore, and I maintain that the mine proprietors in regard to royalty are in precisely the same position as the blast furnace manager who buys ore. In one case the unserved ore is, the crude material purchased, and in the other case the served ore is the crude material purchased, and I hold that in both cases the purchase price of ore, whether served or unserved, should be deducted before profits are calculated and before Income Tax is paid upon them.

8774. Mr. Kerly: Apart from the extraordinary things you have just put, what harm does it do a mine proprietor if he pays his royalty in part to the Revenue and in part to the royalty owner?—It is an inconvenience.

8775. In what way?—He may be out of his money for some time.

8776. No, he only pays at the time. I must have misunderstood you, because it strikes me in this way: he has got to pay £1,000 royalty. Instead of paying £1,000 royalty he pays some of it in tax, not his tax, but the royalty owner's tax, to the Revenue, and he pays the balance to the royalty owner. Is the point that he has to make these payments at different periods?—Yes, he may be losing interest on that money for six months.

8777. Mr. McIntock: He loses the interest? The man who works the mine pays his fixed rent, and keeps the tax off the landlord?—Yes.

8778. The probability is that he keeps that tax in his possession for some time before he hands it over to the Revenue?—He may, or it may be the other way about.

8779. As a general rule, he does?—Very frequently, he does, I agree.

8780. Where is the hardship?—In the case you have named it is a hardship on the royalty owner.

8781. I put it to you in the general case?—In that case it is a hardship on the royalty owner; it is not equitable, and may be a serious injustice if the rate of taxation has varied in the five years.

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PROFESSOR HENRY LOUIS.

[Continued.]

8782. *Chairman:* I do not think that is a very serious matter?—It is really an important matter, and it is one that really is worth considering. It can be met in two ways, either as I suggest, looking upon royalty as a deduction from working costs, which I maintain it should be, or another way would be to give the mine proprietor the option of paying on his previous year's profits instead of on the average of five years. An ironworks owning an iron mine

always pays on the basis of the preceding year's profits, even in respect of such profits as are derived from the mine.

8783. What percentage of profits usually in the last five years have these concerns earned?—It is so variable, I would not like to give you a figure.

8784. Have they come out, on an average, to 15 per cent?—I should say so; I should think they are quite that.

MR. R. F. CHOLMELEY, on behalf of the Incorporated Association of Head Masters, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

8785. (1) On behalf of the Incorporated Association of Head Masters I desire to support the proposals of the Board of Education, viz:—

- (1) that the relief granted in respect of children should be continued beyond the age of 16 for those still in full time attendance at schools or places of higher education, recognised by the Board of Education as efficient,
- (2) that the relief in respect of school attendance should be graduated from the age of 14 onwards, so as to increase with the age of the student,
- (3) that the relief should be granted without restrictions as to the income of the parents.

8786. (2) If the relief now granted in respect of children aged 14 to 16 who are not in attendance at school remains at its present figure, it seems reasonable that the relief for those who are at school should be £90 for the same period. After that, graduation should proceed on some educational basis. The age of 16 marks a stage at which far too many children leave school, often for no better reason than that their parents cannot afford to allow them to stay longer; the final stage in secondary education corresponds roughly to the period from 16 to 18, and for this an additional relief in respect of £25 is suggested; the normal university or higher technical institution requires three years after the age of 18, and an additional £25 should be allotted to the period 18-21. In not a few cases, however, and those the most important from the point of view of national efficiency, higher education in definitely organised educational institutions is continued for 3 or 4 years longer, and it is desirable that a further additional

[This concludes the

relief of £25 should be granted for the age 21-25. The scale would then run, as suggested by the Board of Education:—

14-16 (not at school)	... ..	£25
14-16 (at school)	... ..	£50
16-18	... ..	£75
18-21	... ..	£100
21-25	... ..	£125

8787. (3) These proposals may be regarded as embodying an extension of the principle already recognised in two cases:—

- (a) the relief already granted in respect of Life Assurance premiums;
- (b) the recommendation of a Select Committee

of the House of Commons in January, 1915, with respect to separation allowances, as follows:—

"Payments of allowances and pensions in respect of children should in all cases continue until the age of 16 years, and may be continued above that age on the recommendation of the Local Education Authority in the cases of apprentices receiving not more than nominal wages or of children being educated at 'secondary' schools, technical schools, or universities."

We support these proposals because we believe that the efficient bringing up of children is a matter of supreme importance to the nation, and because our experience convinces us that the relief now asked for would produce an effect not to be measured merely by the amount of money involved; at the same time we submit that if these proposals are adopted the incidence of the Income Tax will be brought into closer agreement with the principle that the best scheme of taxation is that which answers most nearly to the ability of the taxpayer to contribute from the income which is actually at his disposal.

[This concludes the

8788. *Chairman:* We have had witnesses from the Board of Education and some of your points have, therefore, already been dealt with?—Yes.

8789. We have all a copy of your evidence-in-chief, and we thoroughly understand what you want to suggest to the Commission. Having your paper before us, the Commissioners will probably ask you a few questions arising out of your statement.

8790. *Mr. Pellyman:* You advocate these allowances principally in the interest of cheaper education?—Yes.

8791. How far do you propose to carry these allowances up in the scale of Income Tax payers?—I should carry them all the way.

8792. Would you apply that to other allowances as well? You know at present that £2,500 is the limit for "earned" as against "unearned" income. There are various kinds of allowances, earned as against unearned, for wife, children, and so on, and at present these allowances only operate below a certain income?—Yes.

8793. You would propose to carry this up through all grades of income, would you?—Yes, I think I should. In fact I was thinking over that very point as I came along. What I should like to see would be not only these allowances carried up, but I should like, if possible, that it should be insisted upon that people apply for them.

8794. How do you mean, "insisted upon that people should apply for them"? Do you mean that you would compel people to qualify for them by sending their children to school up to the age you

state, 21 or 25? Would you compel everybody to send their children to school up to 25 in order to qualify for that exemption?—No, that is not quite what I mean. I thought that if their children were being educated up to that age they should apply for the allowance, whatever their income was.

8795. Do you mean they should be bound to apply, whether they wanted to or not?—I know that may be impracticable, but a schoolmaster has to be an idealist in some respects. That is what I should like to see, and I think it would do a lot of good.

8796. We have already had these questions before us, and I really do not think I need ask you anything further on this.

8797. *Mrs. Knowles:* Would you give the allowance for children between 14 and 16 if they were earning money already? You make an allowance for children 14 to 16, not at school, £25. Supposing they were boys working in a coal mine earning good money, would you still make their parents an allowance of £25 a year?—I do not know that I should object to that now, but I should regard it as a great pity if it were made a permanent arrangement.

8798. Surely if the child is earning you would not make an allowance of £25 to the parents?—I should not if I could possibly help it. I am only thinking that at present it might be difficult to insist upon what I should like to see.

8799. Then supposing the child had an income of its own, would you still make the parents an allowance for it?—I think not.

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MR. R. F. CHOLESLEY.

[Continued.]

8800. You do not say so here?—No, I confess I had not thought of the case in which the child had an income of its own.

8801. But there are many cases where people insure for their children's education, and begin to take it out when they are 14 or 15, or whatever the age is, to send them to college?—Yes.

8802. People put money into War Savings Certificates, for instance, in their children's name, and take out £500 or whatever the amount may be, they have not paid tax on it, and do not intend to; would you in that case give an allowance?—I have not thought of that case.

8803. I have done it myself; I have put £500 in War Savings, and intend to take it out. Do you propose to give me a £50 allowance, or whatever it is?—After all, you have refrained from using that income; it has not been available income.

8804. But I have not paid Income Tax on it; it is just accumulating. Would you still give me the allowance?—I do not think I should.

8805. There are lots of cases like that. I know heaps of them, that either insure or take out War Savings Certificates?—Yes.

8806. There are many cases in which children have money left to them by aunts and godmothers and people of that kind. You would not grant the allowance for a child with money; that is my point?—I am looking at it from the point of view of the parents' available income.

8807. But this is not the parents' income; it is the child's income?—It is not the parents' income, and therefore it would not come under my suggestion.

8808. It would relieve the parents, because they could use that money for the child's education?—Yes.

8809. What kind of children do you think would get an education between 21 and 25? Of course, they are not children at 21. What kind of men or women would get an education at that age?—Young persons in what the Board of Education calls them, I think.

8810. Chairman: From what class do they come, Mrs. Knowles means?—They would be the kind of boys whom I, for instance, am engaged in educating, and they might be the sons of anybody, from a railway porter to a professional man.

8811. Mrs. Knowles: Surely they finish with a university at 21 or 22?—Well, I put 25 because there are so many cases (I have had cases of my own) where a post-graduate course is of enormous importance. Take, for instance, a boy or a girl who has gone to Cambridge and has been intending to enter the medical profession. I do not think there would be many cases, but I think it would be a great pity to put the age lower. However, I think the Chancellor has, as a matter of fact, taken away the age limit.

8812. Chairman: Yes, that is the case?—My point is mainly upon the increase of the allowance.

8813. Mrs. Knowles: Supposing these boys or girls had a good scholarship to go on doing research work—the Carnegie Scholarship, for instance—would you still make your allowance of £125?—No, I should not. I should be in favour of making it strictly an allowance commensurate to the degree in which the parent would be deprived of what would otherwise be available income.

8814. In a case where the child had money of its own, or where the child had a scholarship, you would not make this available?—No, I would not, if the scholarship entirely relieved the parent.

8815. Sir Warren Fisher: You say that the Chancellor has removed the age limit. Are not there considerable differences between your scheme and the one that has been passed by the House of Commons? Is not there an income limit under the existing law?—Yes; it is only the age limit that he has removed.

8816. Under the existing law there is an allowance considerably less than the figures you quote?—Yes.

8817. When you get to figures as high as mine suggest, I suppose you would agree that it is an indirect form of State assistance?—Yes. I suppose whenever the State refrains from taking my money it is to that extent assisting me.

8818. Would you not get a more scientific result if you had open grants adjusted to the needs of par-

ticular cases?—You mean not in connection with Income Tax at all?

8819. Nothing to do with taxation, but grants?—Well, I do not know.

8820. I suggest to you that if a man is a Super-tax payer, he would get more relief under your scheme than a man who is paying Income Tax at the lowest earned rate?—Yes.

8821. Although he is the person who needs least relief?—I am afraid I do not quite understand how he would get more relief.

8822. Because he gets £125 free of Income Tax and Super-tax combined, let us assume at 7s. in the £, and the other man gets £125 at 2s. 3d.?—He would be relieved of his Super-tax on it.

8823. And Income Tax at the highest rate?—Yes.

8824. In other words, the relief would be the greater the greater the parents' income?—Yes.

8825. Would you not avoid that anomaly if you advocated direct State aid instead of indirect State aid?—State aid for everybody who wanted to go to the University?

8826. Direct as distinct from indirect State aid?—Well, perhaps you would. I admit that I have not perhaps taken sufficient interest in the Super-tax payer.

8827. But take the Income Tax payer at 6s. in the £; another man pays at 2s. 3d. in the £. Under your scheme the person who pays 6s. in the £ would get more relief than the person who pays 2s. 3d. in the £?—Yes, he would.

8828. Mr. Bouverman: You are really dealing with the question more from an educational point of view than from the point of view of the needs of the country financially?—Yes. I am thinking of it as a very considerable stimulus to the kind of parent that I have met to deal with, who is hesitating as to whether he or she can possibly let the children go on and be further educated.

8829. Would not the point raised by my colleague just now with regard to a State subsidy for educational purposes meet your point?—I think it might. The advantage of the Income Tax is that it hits everybody. If you could give a State subsidy that would also apply to everybody I suppose as an educator I should be satisfied.

8830. I ask you this question, upon which your opinion will be valuable. Would you favour a State scheme of education up to the University?—For everybody?

8831. For everybody?—I have always found it difficult to make up my mind about that. I have found in so many cases that the fact that the parents are making an effort, and a successful effort, to get their children educated has been a great joy to them. If I could avoid State subsidy to everybody I would.

8832. As a principle could you express an opinion on it?—That is the nearest approach that I can get to a principle about it.

8833. Do you suggest that Income Tax payees are not claiming the allowances they can now get for their children?—Oh no, I did not mean that.

8834. You spoke about exercising compulsory powers?—I was thinking of the argument that the rich man did not need it, and I said that I should rather like to see the rich man made to apply for it. There again I am speaking as an educator, because I think it would make him take more interest in education.

8835. Do you think there is need for compulsion so far as rich people are concerned?—In the case of what would be a comparatively small sum?

8836. Do you think so?—I do not know them very well.

8837. Mr. Marks: One point is not quite clear to me. You say in paragraph 3 of your proof: "These proposals may be regarded as embodying an extension of the principle already recognized in two cases." The first one is the only one I am concerned with, "relief already granted in respect of Life Assurance premiums." It is not clear to me what analogy there is between the two cases of allowance for children and allowance in respect of Life Assurance premiums?—I think all I meant was that both of them were thought to be a kind of respectable thing to do.

8838. To educate the children?—To educate your children and to provide for the future by insurance.

FIFTEENTH DAY, THURSDAY, 31ST JULY, 1919.

PRESENT:

LORD COLWYN (*in the Chair*).

SIR T. P. WHITTAKER.

MR. BOWERMAN.

SIR E. E. NOTT-BOWER.

SIR J. S. HARMOOD-BANNER.

MR. BIRLEY.

MR. WALKER CLARK.

MR. KERLY.

MR. KNOWLES.

MR. McLINTOCK.

MR. MANVILLE.

MR. GEOFFREY MARKS.

MR. MAY.

MR. WILLIAM GEORGE RAYNER, called and examined.

Proof of evidence-in-chief to be submitted on behalf of the Society of Incorporated Accountants and Auditors by MR. WILLIAM GEORGE RAYNER, Past President of the firm of Messrs. W. G. Rayner & Co., Incorporated Accountants, 12-14, Arthur Street, London, E.C.

The witness handed in the following statement as his evidence-in-chief:—

Schedule A.

8839. (1) The present scale of deduction for repairs should be increased. The view is expressed that one-fifth should be substituted for one-sixth.

(2) Gross assessment at present allowed in the case of mills and factories under section 24 (4) of the Finance Act, 1918, should be extended to all business premises.

Schedule B.

8840. (1) The present method of assessment of farmers should be abolished, substituting therefor assessment under Schedule D, supported by proper accounts duly certified.

Schedule C.

8841. See under Schedule D, paragraphs (4) and (5).

Schedule D.

8842. (1) There should be statutory obligation on all traders to keep accounts.

(2) The present system of taking a three years' period as the basis of assessment should be abolished, and the income of the last completed year be substituted as the basis of assessment. Losses to be carried forward and allowed out of profits of subsequent years.

(3) The present system of relief by exemption, graduation, and differentiation is cumbersome, and should be simplified. Suggestions have been made for the substitution of a graduated Income Tax on a similar basis to that at present employed in assessing Super-tax.

(4) It is suggested that deduction of tax at the source should be abolished; hardship is caused by the fact that a large number of cases for repayment of tax arise, many taxpayers not being aware that they are entitled to relief. In this event it would be necessary to ensure that returns of income were obtained from every person in the country, and a system of registration of all firms and businesses has been proposed. This system would lead itself to graduation.

(5) On the other hand, if deduction at the source as a principle is adhered to, the practice of deduction of tax from dividends and interest before payment should be universal, and counterfoils handed to receiver of dividend showing tax deducted. This would facilitate claims for repayment of tax where overcharged; on repayments being made, particulars of the manner in which the amount returned is arrived at should be furnished.

(6) Minimum rates of depreciation should be fixed and scheduled by committee of industrial and commercial men, having practical knowledge of the various types of assets concerned, provision being made for appeal by the committee concerned to a Board of Referees to be set up for this purpose.

(7) The question of wasting assets, including terminable annuities, leaseholds and buildings, copyrights and patents, requires careful consideration.

(8) All bona fide trade expenses should be allowed as a deduction under Schedule D, e.g., legal expenses, removal expenses, and trade subscriptions.

(9) Increased allowances for children and dependants.

(10) The desirability of the separate assessment of income of husband and wife should be considered.

(11) Assuming taxation at source be continued, persons in receipt of wages should be taxed by stamps under a similar system to that in force at present for the payment of contributions under the National Health Insurance Act.

(12) The collection should not be in the hands of a Collector, who is also the Assessor: the Surveyor of Taxes should be the Assessor, Local Commissioners should be abolished.

(13) Abolition of double tax within the Empire.

(14) The allowance of two-thirds only of rent, rates and expenses of premises in which the proprietor resides is in many cases insufficient and should be amended.

(15) Stocktaking.—The following certificate issued by the Surveyors of Taxes has come under my notice and I suggest that no trader would be justified in signing the same:—

"Accounts. One year ended

"We hereby certify that the whole of our stock

"on hand on the is shown in our

"Stock Sheets produced to

"and amount to £.....

"We further certify that the Stock is valued

"at cost, or market price if under cost, on the

"same basis as hitherto, and that no deductions

"have been made from the value of the Stock

"is arriving at the above figures, which repre-

"sent its total value to the best of our know-

"ledge and belief.

"We further certify that to the best of our

"knowledge and belief all transactions relating

"to the business of

"are correctly entered in the books of account

"during the period

"which have been produced to Messrs.

"and that we know of no other trans-

"actions which ought to be included and which

"would affect the Balance Sheet and Trading

"Account of the Company, or which should be

"brought into an account of the Company's

"dealings.

"We further certify that no reserves whatever

"have been created (whether by writing down

"Stock, Book Debts, or otherwise) beyond those

"disclosed on the face of the Balance Sheet

"sent to the Surveyor of Taxes.

"Dated this day of 191 ..

{ To be signed by an Acting
Partner in a firm or a
Managing Director of a
Limited Company."

31 July, 1919.]

MR. WILLIAM GEORGE RAYNER.

[Continued.]

Schedule E.

8843. (1) If the three years' average under Schedule D be not abolished, a similar average should apply to income under Schedule E. This is now indefinite in view of the conflicting clauses in sections 4 and 5 of the Income Tax rules, 1918, and the interpretation placed upon them by the Surveyor of Taxes. The sections are as follows:—

4. (1) "Perquisites may be estimated either on the profits of the preceding year, or on the average for one year of the amount of the profits thereof in the three preceding years.

(2) "In any such case the preceding year or years shall be taken to end on the fifth day of April, or on the day of each year on which the accounts of such profits have been usually made up.

(3) "Perquisites shall be deemed to be such profits as arise in the course of exercising an office or employment from fees or other emoluments.

5. "If at any time, either during the year of assessment or in respect of that year, a person becomes entitled to any additional salary, fees,

[This concludes the evidence-in-chief.]

8846. *Chairman:* Your paper has a great many points in it, but these points are not elaborated, so I thought probably you might take a few of the really important matters which you want to bring before the Commission and elaborate them now, and then there will be an examination on the whole paper later on?—As you please. The first point in my paper is the question of allowance under Schedule A. I suggest that it should be one-fifth instead of one-sixth, as at the present time. I take it that is obvious to anybody on account of the increased cost of repairs.

8847. Is that an important matter?—It is important to a large number of people in this country. The next point is the deduction of the gross assessment now allowed in the case of mills and factories. We suggest that should be extended to all business premises.

8848. But are those the main points?—No, I cannot say that they are.

8849. I would like you to deal with the main points only for the present?—Schedule B, I think, is a main point: that the present assessment for farmers should be abolished, substituting assessment under Schedule D.

8850. I will defer that for a time because one of our colleagues who is interested in this particular matter may be coming a little later?—Another main point is that statutory obligation should be placed upon traders to keep accounts. There are two classes of men in this country who do not generally keep accounts. One is the very successful man who does not wish to disclose his figures for the purpose of Income Tax. The other is the man who is endeavouring to rob his creditors. The latter man you are not much concerned with here, but with the former you are, because I feel sure there is an enormous amount of revenue lost because traders are not compelled to keep accounts.

8851. You want that to be made compulsory?—I would make that compulsory. In many cases I have had to do with men who have had not full accounts, who have been able to settle with the Surveyor of Taxes without our services as accountants, and where they settle under those circumstances we have generally found that the assessment is less than it should have been. If they had called in our services the Revenue would have obtained more than it did by settling with the trader direct. That means that a certain leniency is given to people who have only what I may call scrappy accounts to deal with.

8852. We have had a considerable amount of evidence on the three years' average. Now with regard to No. 3, under the heading Schedule D, the present system of relief, how would you simplify it; that is the point?—I suggest that the graduation should be on the basis of the Super-tax. I think

"or emoluments beyond the amount for which an assessment has been made upon him, or for which at the commencement of that year he was liable to be charged, an additional assessment shall, as often as the case may require, be made upon him in respect of such additional salary, fees, or emoluments, so that he may be charged in respect of the full amount of his salary, fees, or emoluments for that year."

(2) It is proposed that Schedule E should be abolished and the income brought in under Schedule D.

Super-tax.

8844. (1) Super-tax should be dealt with by a further graduation of Income Tax.

Generally.

8845. (1) Taxpayers should be allowed a longer period than 21 days in which to make an appeal against an assessment.

(2) In cases where the assessments differ from the taxpayer's return, the basis of the assessment should be set forth in detail for facilitating checking.

that is a simplification. That would do away with all abatements and all allowances, or some allowances; of course, there would still have to be allowances for wife and children, I take it—in fact I advocate that. But if you did away with taxation at the source, which I am advocating—

8853. What have you to say about that point? You say: "It is suggested that deduction of tax at the source should be abolished." Why?—There are many reasons why it should be abolished. It is a very cumbersome method at the present time on account of the abatements and reliefs that are allowed. My suggestion is that every taxpayer should be assessed on his total income from all sources; that is from his earned and unearned income; that all companies should make a return of their total profits in the usual way, and that there should be deducted from them all dividends that are paid away; that a copy of the dividend sheet, that is the names, addresses and amounts, should be given to the Surveyors of Taxes, so that they would be able to check any person's income that they desire to, in the same way as now they refer to the Bank of England for the untaxed dividends that are paid by the bank. That information should all be in the Surveyors' hands.

8854. Do you know that over 70 per cent. of the Income Tax is now paid by persons not directly interested in the payment? You want to abolish that taxation at the source?—Yes.

8855. You see the seriousness of that?—I am sorry, but I do not see it. It seems to me to be such a very simple affair.

8856. You will be cross-examined by some of our colleagues on that point later on?—Then the three years' average—

8857. We have had a lot of evidence on that point, and probably you will be examined on that. Now will you take No. 8?—Bona fide trade expenses. We are always having trouble with the Surveyors of Taxes as to what should be allowed in the shape of legal expenses, removal expenses, and the other question of trade subscriptions. Trade subscriptions are allowed in all cases where the particular trade society receiving the subscriptions makes a return in some form or other of its profits, but not in other cases. That trade subscription is a necessary expense in many concerns for the carrying on of the business, and if the trade society receiving the sum is not taxed I say that they should be brought into taxation. As to removal and legal expenses, there is a question as to what is a proper capital charge and what is a proper revenue charge. There are many points at issue with regard to what is a capital charge and what is not. The raising of loans for short periods is often treated by Surveyors as a capital charge. I maintain that the legal

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expenses connected with that are a charge against the profits of the business and should be allowed.

8858. Do you want increased allowances for children and dependants, since the change made by the Chancellor?—That, of course, satisfies me.

8859. Then No. 10: "The desirability of the separate assessment of income of husband and wife should be considered." What do you mean by that?—I am advocating the views, to a certain extent, of other people, the Society of Incorporated Accountants, and from the replies that we had to the questionnaire that we put out, I brought the question forward in that form, because they were not all of the same view.

8860. You have gathered together the opinions of the whole body?—Partly; it is partly my own.

8861. There are not many what you may call definite proposals laid down in your paper, are there?—No; they are for consideration by the Commission.

8862. You put the desirability of the husband and wife question being considered. That, of course, is vague?—I agree it is very vague. It is a very difficult question to decide. There is so much argument both for and against.

8863. Are you in favour of it or not?—I am in favour of it—that it should be considered as to what extent you should go with the income, which is at present up to £300 a year—whether you should go higher.

8864. And you are in favour of a separate assessment?—Yes.

8865. Now the point on No. 15, stocktaking. What objection have you in regard to that?—I have a strong objection to that certificate.

8866. Perhaps you will state it to the Commission?—Part of that certificate is not very valuable to the Surveyor of Taxes, because it is only made to the best of the knowledge and belief of the person making the statement; and I do not know that the acting partner in a firm, or the managing director of a limited company, would be justified in making a statement as to stock under any circumstances. The managing director or the acting partner does not take the stock himself; he cannot make any definite statement as to the method of taking it. He gives certain instructions as to the method in which it should be taken, but he cannot make any statement as to whether his instructions have been carried out. He may believe that they have been carried out, but that is of very little value, really. The difficulty I find with regard to this statement is with manufactured and partly manufactured stock. No one has ever been able to get at the cost; no costing system has ever been evolved up to the present time, and I cannot see that it is ever going to be evolved, which will give the actual cost of manufactured or partly manufactured goods.

8867. It says: "to the best of our knowledge and belief"; that covers it?—I know, but I do not think that a man should shelter himself under the words "to the best of our knowledge and belief." How far is he going to shelter himself? It is a dangerous insertion in the certificate. I think the certificate goes too far, and that the person signing the certificate can shelter himself under those words "to the best of our knowledge and belief." You find that in part of the statement those words are introduced, but in what you may almost call the sting in the tail, the last paragraph, he further certifies: "that no reserves whatever have been created (whether by writing down stock, book debts, or otherwise) beyond those disclosed on the face of the Balance Sheet sent to the Surveyor of Taxes." Well, it is not usual to disclose on the face of the balance sheet the amount written down for stock. He writes each article down as he comes across it when he is taking his stock. He is not shielded there by the words "to the best of our knowledge and belief." He has got to make a definite statement that he has taken the stock at cost price or market value; but he has only got an approximate cost of his manufactured or partly manufactured stock. Directly he breaks bulk in any large parcel of stuff, he does not know the value of his stuff.

8868. Then the next point. You propose that Schedule E should be abolished?—It is a question of the three years' average. Those two clauses are very conflicting, you will notice, and the construction placed on them by the Inland Revenue Department is rather extraordinary. They will allow a manager or an employee of a company to take the benefit of the three years' average, but they will not allow an officer of the company. A man may be a general manager, and have all the power that a managing director would have, and be in receipt of large remuneration in the shape of commission or a percentage of profits or otherwise, and he can have his three years' average; but the managing director of a company, who may not have a large share of the profit of the concern, although he is directly interested, has to be assessed on his year's profits. Although these are incorporated in the 1915 Act, standing side by side, they look very different to what they were in 1842 and 1863.

8869. Mr. Mawhood: In your remarks about No. (3) of Schedule D, you suggest that graduated Income Tax, on a similar basis to that at present employed in assessing Super-tax, should be substituted?—Yes.

8870. Then in your paragraph on Super-tax you say that Super-tax should be dealt with by further graduation of Income Tax?—Yes.

8871. By that I take it you mean that there shall be no separate Super-tax, but that there shall be a graduated Income Tax right to the top?—Yes; it is rather badly expressed, I think.

8872. But that is what you mean?—Under certain circumstances.

8873. That is what I am trying to arrive at; because I am going to point out to you that the larger any income is the greater would be the amount of taxation per pound on that income?—Certainly.

8874. In that case how would you deal with a trading concern, a manufacturing concern? The larger its income (not the larger its profit), the larger would be the taxation?—There would have to be a flat rate. It would amount to the same thing as a Super-tax. It is only to make it in one tax or one assessment. That was my idea. There would be a flat rate, a maximum rate we will call it, for ordinary Income Tax.

8875. Then there would have to be two systems of taxation, one for individuals and one for commercial concerns?—Yes.

8876. Two separate systems?—Yes.

8877. Mr. McLintock: With regard to Schedule A, deduction to be increased from one-sixth to one-fifth, would you apply that to all premises? Have you any data on which your opinion, or that of your Society, is based, with regard for example to premises occupied as offices? Are you satisfied that the present deduction of one-sixth, even at the present-day cost of repairs, is inadequate?—It is inadequate.

8878. What evidence have you that it is inadequate as between different classes of property?—It is my experience.

8879. Have you ever collated the cost of repairs of groups of business premises occupied as offices, to show that the landlord has spent more on repairs than one-sixth of his rental, taking it over a period of years?—But this is a maximum that we are dealing with.

8880. The present allowance is one-sixth, which everyone gets from the gross rental; before you pay your Schedule A tax, you get one-sixth of the gross rental for repairs?—Yes.

8881. You are suggesting that repairs generally exceed that one-sixth?—Yes, if the property is kept in proper repair.

8882. All classes of property?—Practically all classes.

8883. I suggest that that does not apply to certain types of premises where the burden on the landlord to repair is less than one-sixth?—My experience is this. I have six houses which I have been looking after as trustee.

8884. Dwelling houses?—No, offices; exactly the premises you have described. I have not taken them out, but my recollection of it is that it is considerably more than one-sixth.

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[Continued.]

8885. For one year, or over a period of years?—Over a period of years.

8886. How long a period? You get one-sixth when the property is new, you know, just as when it is 20 years old?—This is old property.

8887. But there is new property as well. Do you draw no distinction generally between one property and another, in asking for the allowance to be increased?—Of course the system is bad at the present time.

8888. What would you put in its place?—It should be taken on the actual outlay for repairs.

8889. You know what that would mean?—I know; I quite see the difficulty of it.

8890. You do not think, on the whole, one-sixth works fairly?—No, not at the present time; I am sure it does not.

8891. The view of your Society, anyhow, is that for all classes of property the one-sixth should be increased to one-fifth?—That is so.

8892. You put no evidence before us in support of that, as applying to one kind of property or another?—No; I did not think it would be necessary. I think it is obvious that the enormous increase in the cost of repairs at the present time warrants the additional allowance. It is very small; I should have put it a little more.

8893. I agree with you as regards house property, but not as regards other property; and of course it does not affect the owner of a property who carries on business in that property?—No.

8894. You agree with that?—I do.

8895. He gets his full repairs?—Yes.

8896. So that there is a distinction to be drawn?—But he wants it allowed him, all the same, in his rates.

8897. You mean his local rates?—Yes.

8898. We are not considering local rates?—It follows the Income Tax.

8899. In some places it does?—In most places.

8900. Chairman: Does it follow or precede it?

8901. Mr. McLintock: I do not know what the practice is all over the country.

8902. Mr. Walker Clerk: I think Income Tax precedes the local rates.

8903. Mr. McLintock: Your point (2) under Schedule A. is that the owner who carries on business should be allowed depreciation in effect on all his premises, whether they contain machinery or are used as offices or anything else?—Yes.

8904. And, in addition, full repairs?—Yes.

8905. Of course that depends on the life of the property?—Very much.

8906. It would be helpful to the Commission if we could have some evidence as to the average life. Full repair goes a long way to make property last for a very long time?—It does. We have had no full repairs on business premises in the last few years—since the war. That is our difficulty.

8907. You get it though when you spend it?—Yes, but I have nothing to base an estimate on.

8908. Chairman: But you have had the allowance during that period, have you not?—Not for deferred repairs.

8909. Not for the repairs that you have done?—Yes, certainly, but not for deferred repairs.

8910. Mr. McLintock: You have an allowance, whether you have made any repairs or not?—Yes, certainly.

8911. You get your deduction under Schedule A. whether you spend one penny or £100; you get the same allowance?—That is right; it is a very bad system.

8912. With regard to the obligation on small traders to keep accounts, have you much experience of the small trader, the small shopkeeper?—I cannot say that I have.

8913. At least you have this experience: that even if it was a criminal offence not to keep books there is a certain class of the community who would not keep them?—Quite so.

8914. Do you suggest that that is the class who ought to be compelled to keep accounts—the small trader?—I suggest they should all keep accounts—every trader.

8915. Most traders of any consequence to-day do keep accounts?—Yes.

8916. You stated to his lordship that there was an enormous amount of revenue lost?—I believe there is a large amount lost.

8917. You said enormous?—Well, enormous.

8918. Naturally this Commission is very anxious to find those sources. Have you any evidence that there is an enormous amount of revenue lost?—It is impossible to give direct evidence on that. It is only the result of experience that leads me to the conclusion that there is an enormous amount lost.

8919. Surely you have something on which you found that conclusion?—I have.

8920. Will you tell us what it is?—Well, I think I have already practically said it.

8921. Let me put it to you in this way. Every small trader gets a form of return to fill up?—Yes.

8922. If he does not fill it up the probability is he has an estimated assessment imposed on him. Now the loss to the Revenue can only be the difference between his actual profits and that estimate?—That is right.

8923. And it is that difference which constitutes an enormous amount of lost revenue?—Yes, I should think so, because there is such an enormous number of small traders.

8924. Do you not think the small trader might just as readily be over assessed as under assessed?—I have not found it so.

8925. Surveyors, as a rule, are fairly zealous in seeing that everybody pays his tax?—Yes.

8926. And the General Commissioners, with their local knowledge, can size up all the local shopkeepers, roughly. They know they live in houses of a certain size; they know that they must at least have so much to live on, and they arrive at the sum of £200 or £300, and they might be £50 or £100 out. Now that is income which is taxed probably at the lowest earned rate. Do you still maintain that there is an enormous amount of revenue lost?—Lost through the man who does not keep accounts, who is under assessed. I do not suggest that because the Revenue gets more out of one man than it should, and less out of another, the surplus out of the one man should go against the loss on the other. I say the man who does not pay his full amount should be made to pay his full amount; and that is the only way I know of getting it—by compelling everybody to keep accounts.

8927. Is that your personal opinion, or the opinion of your Society?—That is the opinion of the Society; it is my personal opinion also.

8928. Did they put evidence before you before they asked you to come forward and express that to the Commission as their view?—Yes, there would be some evidence.

8929. What kind was it?—General statements.

8930. Loose statements. Do you suggest that accountants should accept loose statements in a matter of this kind, and come forward to give them as evidence—accountants, mark you?—It is merely an opinion, after all. It is based upon one's experience. You cannot bring the cases before the Commission; you cannot say that so and so is not paying properly because he has not kept accounts.

8931. I asked if you had had any experience of these people, and you said no?—Small people?

8932. Small traders?—Of those that I have come across many of them have not kept accounts.

8933. In what capacity would you meet them?—I have been practising since 1877 and naturally I have come across a great many men. In my earlier days I came across the small trader naturally more than I do now.

8934. In what capacity did you meet him, if he did not keep accounts?—When he has become insolvent.

8935. There was no tax lost to the Revenue when a man became insolvent?—I am not so sure. I am just of the opposite opinion. There is very often a great deal lost. You do not know where they have put their stuff.

8936. I have had considerable experience of insolvent people over the last 25 years, and, as a rule, I recover any tax they have paid. I do not have to pay any extra?—Yes, they kept accounts, or you could not have recovered it.

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8937. The point is, that they were not liable to tax; it was rather the other way about. Very often the small trader who becomes insolvent is afraid to go and tell the Commissioners or the Surveyor that he is losing money; he thinks it will destroy his credit; therefore, he pays on an income which he has not been earning?—But you could not get it back unless you had some accounts.

8938. I quite agree?—Then he kept accounts.

8939. No; we can prepare accounts even for an insolvent debtor who has not kept them?—Many of them do not keep books.

8940. Anyhow, I suggest to you that we want some very carefully prepared evidence before societies of accountants come forward and suggest that there is an enormous amount of revenue being lost from that source. If it is a fallacy then it ought to be exposed; if it is correct then, of course, the revenue ought to be collected?—I can give you a case that we came across in the course of one of the Board of Trade cases that we had under the Trading with the Enemy Act. We reported the case to the Controller of the Board of Trade; we gave full details. I do not know if the Inland Revenue took it up at all.

8941. What did you report?—It was a case where a man had partially kept accounts, where accounts had been prepared from his books by an accountant, who had stated that they were prepared from these books—from certain books given to him with those accounts. We found fictitious entries in those books, which reduced his profit by £8,000.

8942. That is a different type of case altogether?—It is, but it is a case. If this man had been made to keep books and prepare proper accounts from those books, that money would not have been lost.

8943. Have you ever come across a man who has kept a set of books specially faked for the purpose of sending them to the Inland Revenue? After all, the keeping of books by itself, if the man is dishonest, will not ensure the collection of the proper sum. The Revenue have no right to examine the books. You want the right for the Inland Revenue to go and examine such records as a man has, and see if they are in accordance with his return?—Yes.

8944. I suggest that is a different problem?—Yes.

8945. Then as to No. (4) under Schedule D, it is the considered opinion of your Society that taxation at the source should be abolished?—There are certain members who are of that opinion.

8946. The majority of your members are of that opinion?—No.

8947. Then this is the opinion of a minority?—It is very much my own opinion.

8948. Then this No. (4) is your personal opinion?—Practically; I take responsibility for it.

8949. Chairman: I would just like to ask you whether your Society have seen your evidence?—Yes, the committee.

8950. It is rather a serious matter, is it not, when you represent your Society, that you should make a statement which, in answer to a Commissioner, you have admitted to be the opinion of the minority, and finally your own opinion. How must we treat this statement of yours—if all the points that you raise here are the points of the minority, or your own points, or not the points of the majority, how can this be put before us as a reasoned and representative statement?—I take it that this particular suggestion that you are referring to is one that might not cross a great number of minds. The members of our Society were not asked if they were in favour of deduction of Income Tax at the source. It was an opinion voluntarily expressed.

8951. Mr. May: May we know how the evidence was prepared on behalf of the Society.

8952. Chairman: How was it prepared?—It was prepared from statements made by members of the Society. We sent them out a notice with the terms of reference to the Royal Commission as a heading, and asked them to give their views on the working of the tax, in accordance with the reference; and from their replies this evidence was prepared with certain suggestions of my own and of the committee who dealt with it.

8953. And they passed this statement of yours?—Yes, they have passed this statement.

8954. Mr. McIntock: The point we have been on for a little while is the compulsion on small traders to keep accounts in order to get more revenue?—Yes.

8955. You now make the suggestion to abolish deduction of tax at the source, which I suggest to you will swamp any additional revenue a hundred times over?—Yes, but it will be a more honest taxation.

8956. Honest?—Yes.

8957. In what respect?—Because at the present time there are a great number of people, widows and others, who do not receive the proper abatements and allowances that they are entitled to; who are out of their small incomes deprived of a considerable amount by taxation which may be of great importance to them. I suggest there are thousands of people who do not get the proper abatement and relief that they are entitled to, and they are people who cannot defend themselves.

8958. What defence is needed on the part of a widow who has £100 a year, taxed at 6s. by deduction at the source, to enable her to get the whole of that 6s. back? You said "who cannot defend themselves." Do you suggest that there are many widows or people in similar circumstances with small incomes taxed at 6s. by deduction at the source who are not recovering their tax to-day?—Yes, I do.

8959. Do you know of them?—Yes. We have frequently people come to us who have not had tax back for years and years.

8960. How many years do you get it back for?—Three years, naturally.

8961. You have many cases of that kind?—Yes, many cases.

8962. They have arisen with the present high rate of tax?—Yes.

8963. Are they getting less?—We claim naturally for them all they are entitled to.

8964. Do you suggest that is common?—It strikes me, by the number of cases we have and the people I know who do not get their tax back, that it is common.

8965. Who are the kind of people who do not get their tax back—that you know of?—Generally people with small incomes.

8966. Who do not get their tax back?—They do not get it back because they do not know they can get it back; and then they do not understand it when they get forms; they have to go to some cost in getting it back.

8967. Do you suggest there is any difficulty for anybody in respect of an income of £100 in filling up a repayment form?—No, I do not suggest that.

8968. There is no difficulty?—No difficulty at all, but people do not understand it; women particularly do not understand it; and they cannot do it. They come to us asking for the most simple things.

8969. I suggest to you that if the fact that repayment of the higher rate of tax by deduction can be obtained was more widely advertised that would be the more correct method to adopt than to abolish taxation at the source?—I do not think so.

8970. What do you suggest would happen if these same ignorant people—and they are very ignorant—were to make their individual returns? How much would the Revenue get?—I think they know their income better.

8971. That is not my question. You say that owing to the prevailing ignorance amongst the recipients of small incomes taxed at 6s. there is great hardship created in respect of the fact that they never get it back because they do not know how to get it back?—That is so.

8972. Do you agree that many of these small incomes are liable to some rate of tax?—Yes.

8973. How do you think the Revenue would get on if these people had to make direct returns?—I think if it were compulsory they would get it. You would have registration of everybody.

8974. You do not think the Revenue would lose?—They might at first. I think it would all come in afterwards.

8975. Do you agree that the general attitude of the taxpayer is that he likes to get out of it if he can?—Yes, I think so.

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[Continued.]

8876. And yet you would leave the Revenue of this country at the mercy of every single taxpayer to make his own return in his own way as compared with taxation at the source, from which, as Lord Colwyn has stated, 70 per cent. of the national income from Income Tax is derived. You would like that to be done?—I should like to see it done.

8877. *Chairman:* After this examination do you still adhere to the statement that deduction of tax at the source should be abolished?—I admit that there are very great difficulties in the matter. I see difficulties, but I really think it would be to the benefit of the country in the end. At first you would lose probably, but afterwards you would gain when it became usual for everybody to make their returns of income. There are so many allowances and the work is so enormous at the present time with the statements and reduction of rate.

8878. *Mr. McIntock:* Under No. (6) of Schedule D you say: "Minimum rates of depreciation should be fixed and scheduled by committee," and so on, "provision being made for appeal by the committees concerned to a Board of Referees to be set up for this purpose." Have you read the recent White Paper on depreciation and obsolescence, issued by the Government?—Are you speaking of the White Paper that came out a year or so ago?

8879. Yes.—I have seen that. [See Enclosure B to App. No. 7 (U).]

8880. Are you aware that an appeal such as you suggest here is already in existence? Are you aware that traders may go before the Board of Referees and submit evidence as to their own particular types of plant and machinery, and endeavour to get a rate which has some relation to the actual life of that plant, taking it as a whole?—Do you mean for the purpose of Excess Profits Duty?

8881. No, for the purpose of depreciation for Income Tax purposes. Are you aware that such an appeal exists to-day?—I did not know there was a Board of Referees appointed for that purpose, I must admit.

8882. This is the Income Tax Act of 1918, Schedule D, Cases I and II, Rule 6 (7): "Where an application is made to the Commissioners of Inland Revenue for the alteration of the amount of any deduction for wear and tear, the Commissioners, unless they are of opinion that the application is frivolous or vexatious, shall refer the case to the Board of Referees, and that Board shall, if they are satisfied that the application is made by or on behalf of any considerable number of persons engaged in any class of trade or business, take the application into their consideration, and determine the deduction to be allowed." Were you aware of the existence of that provision?—Yes, I was aware of that.

8883. Then what do you mean now by paragraph (6)?—There is no regular Board set up in various districts to settle the particular allowance.

8884. What criticism do you make against that provision, that the group of traders, say general engineers, marine engineers, cotton spinners, soap manufacturers may come forward to the Board of Referees and say: "There is the evidence of the life of our plant; we wish for a rate which will cover its life." They can go to the Board of Referees and submit that evidence, and they will get a judgment. The Board of Referees is drawn from all sources: accountants, merchant's, bankers, solicitors. Do you suggest that tribunal is not a sufficiently good tribunal to meet this paragraph (6)?—I do not think it is generally set up in districts.

8885. No, it is not in districts, but after all a trade is not confined to a district. You may have a marine engineer on the Tyne and one on the Clyde, and one at any other port; why should not the rate be settled for marine engineers as a class?—Because it does not cover the case always. One man is using one class of machinery and another one is using another class.

8886. A marine engineer?—I do not know about marine engineers. Personally I have no knowledge of marine engineering, but I have of other plants.

8887. Take cotton spinning?—Well, I cannot say as to cotton spinning.

8888. Give me any form of trade you like?—I am chairman of a large printing concern: Waterlow Brothers & Layton. The rate in printing machinery alone varies very considerably. Where you have got a general class of machinery running, there may be a very different rate allowed to the rate for machinery of a special kind.

8889. This paragraph provides for classes of trade?—Yes, that is classes of a trade.

8890. The printers can come along who use a special type of machinery that your particular firm works with, as a class, and say that that machinery should have a certain rate?—That would not do the whole thing.

8891. Who are the committees you suggest should be set up?—The Board of Referees is constituted for the purpose of Excess Profits Duty. That is a very good Board.

8892. You say: "provision being made for appeal by the committees concerned to a board."—Those are local committees.

8893. Composed of whom?—people in the trade or people who are not in the trade?—It does not matter; the local people.

8894. Surely it matters?—The people who understand that class of machinery; we will put it that way.

8895. That is people in the trade?—Yes.

8896. Is not that what this section provides for: people in the trade to come to the Board of Referees?—I do not think it goes quite far enough.

8897. In what respect?—In the respect that I state, that you have not got your local people. I have got a special class of machinery running. I have to go to the whole of the other men in the trade, and we go in a body to this Board of Referees and we ask them to give us a certain allowance. Then I may have machines running that nobody else has got.

8898. Then you are a class by yourself?—Yes.

8899. A committee is no use to you, a committee, mark you, to be composed of industrial and commercial men, having practical knowledge of various types of assets concerned. There are no men who know anything about your machines except your own people?—I never said anything like that; pardon me. I said we may have a class of machinery which is not being dealt with by other people—special machinery. I have plenty of clients who have got very special machinery, and the depreciation on that is not the ordinary depreciation applying to their particular trade.

8900. Has a rate been fixed on your particular printing machinery?—Yes.

8901. Is it an inadequate rate?—The rate allowed at the present time on printing machinery, yes, it is.

8902. Was it fixed after consultation between the printing trade and the Board of Inland Revenue?—I am not sure.

8903. Was it fixed by agreement?—It was fixed through the Master Printers' Association, I think.

8904. It was an agreed rate between the trade and the Inland Revenue?—I am not putting forward any plea specially for a larger rate on machinery for printing.

8905. I quite appreciate that.—You quite understand that, I hope. I am not doing that; I am merely quoting a particular case of machinery of which I have intimate knowledge, for the purpose of showing you that there may be classes of machinery which are not dealt with by the trade generally.

8906. That is just what I am anxious for you to show me; I have not seen it yet. Is this the collective opinion of your members expressed in this paragraph?—I do not think collective opinion is quite the word to use. Only a comparatively small number of our members replied to this memorandum.

8907. What is the total membership of your Society?—2,500, I think.

8908. In practice?—Not all in practice; you said the total membership.

8909. How many are in practice?—2,000?—I could not tell you.

8910. How many replied?—I am afraid I could not tell you that.

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[Continued.]

9011. 500?—No.

9012. 250?—No, there were not as many as that.

9013. 100?—About 100, I think. I am wrong; there were more than 100; there were about 150, I should think.

9014. Do you think your members who replied to a question like this had knowledge of that section?—Of course, they have all knowledge of it through that White Paper.

9015. When I asked you at the beginning you said you had not that knowledge?—For the moment, but I knew it in the Act.

9016. Do you agree that the provision in that section goes a long way to meet what you were advocating?—I agree it does go a long way, but it does not go all the way.

9017. Where does it stop short?—It stops short in the way I suggest.

9018. Where is that?—You are going collectively instead of individually.

9019. On a question of depreciation?—Yes.

9020. Would it ever be settled by every single individual? It depends how he repairs his plant; it depends how he uses his plant; it depends whether he bought it second-hand or new. Do you suggest that a big broad question like this can be settled by every individual trader rather than by classes?—There comes in the injustice to the individual trader very often.

9021. He has a right to appeal still; he can go to the Commissioners and put his own special case and bring his evidence?—And what do they say to him?

9022. I cannot say until I hear the appeal. Do you suggest the General Commissioners do not even give him rough justice on depreciation? What do you say to that?—I never go to the General Commissioners.

9023. Therefore, you do not know?—No; I always go to the Special Commissioners.

9024. Do you get justice from them?—Generally, yes.

9025. Even the individual trader?—So far as depreciation is concerned, they have got their fixed rules and we cannot get more.

9026. Fixed rules for depreciation?—Well, practically.

9027. In the light of careful evidence submitted to them as to the life of a particular kind of plant, they have fixed rules to apply?—Yes, practically they have.

9028. That is your experience?—It is my experience.

9029. As regards this question of the abolition of Double Income Tax within the Empire; there is just a statement there, but whether you want it abolished or whether you do not want it abolished is not very clear. What is the view of your members on that point?—The view generally is, that Income Tax within the Empire should only be assessed at the highest rate that exists in the country of origin. That should be the maximum.

9030. In the country of origin of the profits?—Yes.

9031. In the case of a company controlled from London, capital found in London and shareholder in London, this country is to get no tax?—Yes.

9032. In the case of profits made in Australia, Australia gets all the tax?—Yes, that is the suggestion.

9033. Have you considered the question of apportionment of the tax between the two countries?—No. I am here for the trader, you know, sir. I am here as a professional accountant whose interest is in the trader of this country and the taxpayer.

9034. Who wishes to pay as little tax as possible. We are all the same; I am not making any suggestion?—Well, we have to do the best we can for our clients.

9035. Are we to take that as applying generally to your evidence?—Yes, I think you may.

9036. Now take this stocktaking certificate. This is rather important. We have had accountants and others before us who are strongly in favour of this certificate. Your Society is an important one with a large practising membership?—Yes.

9037. It does not help to the working of the general machinery if a big body of accountants encourages its clients not to grant the certificate. I would like

to go over it with you in detail. The first paragraph is: "We hereby certify that the whole of our stock on hand on the (blank date) is shown in our Stock Sheets produced to"—that is the accountant—"and amount to £....."—Where are you referring to?

9038. It is the first paragraph in this stocktaking certificate. It is in No. 15 under Schedule D in your evidence-in-chief. Is there any objection to that first paragraph?—No, nothing at all.

9039. That is quite a proper one?—Quite a proper one.

9040. The next one is: "We further certify that the Stock is valued at cost, or market price if under cost, on the same basis as heretofore, and that no deductions have been made from the value of the Stock in arriving at the above figures, which represent its total value to the best of our knowledge and belief." What is the criticism on that paragraph?—Well, no deductions; cost, or market price if under cost.

9041. Is not that a common and every-day expression, well known to every trader as to what it means?—Yes, but it is not always clear when it is put into a certificate. You have to look at it in a different way. If you got down to the Law Courts and got that certificate overhauled by gentlemen at the Bar you will find it means something totally different to what it reads.

9042. Do you suggest that the average honest trader is in difficulty in granting that certificate?—I do; very great difficulty.

9043. That he does not know the cost price of his goods?—Manufactured or partly manufactured goods.

9044. A merchant knows the cost price of his goods?—A merchant knows it until he breaks bulk. If he breaks bulk he can never trace his exact cost.

9045. Give me an illustration of breaking bulk of a particular kind of goods that you refer to?—We will say soft goods.

9046. What kind of soft goods?—We will say silk.

9047. Right; go ahead with silk. He breaks bulk in what respect? He takes one of his rolls on to the board, and what happens?—He cuts it off and he starts selling it.

9048. Suppose he has taken out a roll, and he has sold half of it, do you suggest he does not know the cost price of the half that is left?—He does of that half. I am spending now of it in bulk.

9049. Take your own illustration. I suggest that a roll of silk is rolled out on one of these tapping boards; when the goods come in each piece of silk has written on a ticket the cost price of it, taken from the invoice, and the number of yards that are in it?—Yes; but five years hence?

9050. Five years hence that ticket is still there?—How about the price?

9051. He is still entitled to value his stock at cost price, or market value if it is less?—Who is going to tell the market price?

9052. You take the trader's certificate for that. You know the purpose of this certificate, and what it is wanted for. Have you ever seen a stock sheet, all carefully prepared with extensions made, and at the end of the stock sheet £1,000 deducted?—Yes.

9053. Have you asked what that £1,000 was for?—Yes.

9054. And you have got the answer that it was not for anything in particular?—No; I have never had that. It would be for a fall in prices since the stock was taken.

9055. Have you ever known of a case where a deduction was made and there was no fall in price but a rise in price?—I have never seen anything added on for a rise in price, because they are taken at cost.

9056. Have you never seen a deduction from a stock sheet, taken at cost, with a deduction at the end of the stock sheet?—Yes, percentages.

9057. Lump sums and percentages?—Very often percentages. In many instances it is to reduce it to cost; that is manufactured and partly manufactured stuff.

9058. I want you to be quite frank with me on this point?—I am trying to be, I assure you.

9059. Do you know that this is the one method by which a trader can create a secret reserve which

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[Continued.]

most easily avoids detection?—I quite agree to a form of certificate, but I object to this form of certificate, 9000. That is not my question. I put it to you, do you agree that deductions from stock, whether deducted from the individual items or from the total, is the one method of hiding up profit that is most difficult to detect?—It is, I quite agree.

9061. Is that not of itself a good reason for a certificate?—For a certificate.

9062. Will you draft for the Commission a better form of certificate to prevent the trader making these wrong deductions from his stock in returning his account for taxation?—I think I could. I have no doubt I could.

9063. We shall be glad to have it. Do you know that only during the war period has this method of stock deduction come to light?—For Excess Profits Duty principally.

9064. Yes, to raise standards and other things; and that it has disclosed a state of matters which has made the Inland Revenue set about checking it. Do you agree that it is desirable to check it?—I quite agree there should be a certificate. I take a certificate myself, but not on those lines. It is generally cost price or a fair value.

9065. Will you draft and send us along as from your Society a suggestion for a form of certificate to carry out what this does in paragraphs 1, 2, 3, 4 and 5?—Yes; when will you require it?

9066. Any time within the next month.—You see, I have to get a committee together at a time when they are taking holidays.

9067. Within two months?—I could give you my own within a week but that is not the Society's.

9068. We would rather have a certificate put forward as one approved by your Society?—Certainly; I will try and get that.

9069. The reason I suggest getting another form of certificate is that this certificate in its present form was put forward by a prominent firm of accountants. You recognize the importance of the stock valuation question?—Undoubtedly.

9070. And that there should be no scope for omission by the trader in regard to this important item?—I quite agree.

9071. Just one last question. You suggest here that where the computation differs from the return made by a taxpayer the Surveyor should write him a short note explaining how that difference arises?—Yes.

9072. That is done in some cases?—It is done in some cases.

9073. You would like it made an invariable rule?—Yes.

9074. That where they have had accounts and return of profits and assessment is made on a different amount they should disclose where the difference arises. I quite agree with that suggestion?—Yes; that often causes a lot of difficulty.

9075. It causes a great deal of needless correspondence?—Yes.

9076. Of course the Revenue have been very hard worked, as we all have?—Yes.

9077. Mr. Walker Clark: On No. (1) under Schedule D of your evidence, accounts by traders, do I understand you to say that you would insert a penal clause against traders who do not keep and render accounts to the Revenue?—Yes.

9078. You would suggest that an Inland Revenue Act is a suitable means of putting on the Statute Book a penal clause in reference to accounts?—I think it is, because it may defraud the country of tax.

9079. It may?—The omission of it may.

9080. It may?—I only say, may.

9081. I suggest it is a highly improper thing to do. You suggest in No. (12) under Schedule D that the General Commissioners (who are sometimes spoken of as General Commissioners and sometimes as Local Commissioners) should be abolished?—I do. They seem to me a very interfering body in other people's affairs.

9082. In what way do they interfere?—They get knowledge of other people's affairs.

9083. In what way do they get knowledge?—I have

known cases where a man has disclosed the fact of a person's income to another man who was not a member.

9084. You know he was breaking the law in doing so?—I do. Lots of people break the law.

9085. Is that sufficient reason for the abolition of General Commissioners?—So far as we are concerned as a body of accountants, we rarely go to the General Commissioners, because we do not consider them a sufficiently responsible body to go to on appeal. They have no knowledge of accounts as a rule; they have no knowledge of the profits that are made.

9086. They have no knowledge as a rule?—No.

9087. But that is a very wide statement, is it not?—Yes.

9088. I happen to be a General Commissioner?—I am sorry.

9089. There are others here?—But I am not referring to individuals.

9090. You seriously suggest their abolition?—I do.

9091. Although you make no use of them and have no interest in using them; you can always appeal?—Yes.

9092. Do you think their local knowledge is of no value?—It may be of some value.

9093. I put to you the very question you have been raising about depreciation; their local knowledge is of very great assistance to the individual trader; but, of course, you have no knowledge of them, so you would not be able to answer that question?—I have been before the General Commissioners, and that is the reason I do not go now.

9094. Now, with reference to trade subscriptions, which you consider ought to be deducted, would you say that, regardless of their amount and regardless of the consideration given for those subscriptions, they should be deducted?—Not regardless of the consideration. I know personally no extravagant subscriptions.

9095. £1,000 a year, for instance?—£1,000 a year is a lot.

9096. There are trade organisations where the subscription is £1,000 a year?—Yes.

9097. And you would consider those are reasonably deductible?—I have not come across any of that amount.

9098. There are some?—If a commensurate advantage is given by the subscription it should be allowed.

9099. There is an "it" there, but it does not appear in your evidence. There ought to be some reasonable limit, then, both as regards the amount and consideration given?—Yes, I agree.

9100. Mr. Bowerman: With regard to the point you raised about printing machinery, does assessing the depreciation really present the difficulty that you suggest? Take a Meibla machine; whether it is in Manchester or London or Sheffield, it is doing the same class of work?—I am not dealing with a Meibla machine; I am dealing with special machinery.

9101. Printing machinery?—Yes; they are not Meibla.

9102. I agree. I do not want to go over the list, but it struck me as being rather strange that you should make the suggestion that there was a difficulty as compared with a machine for cotton spinning?—Cotton spinning is a very large industry, run practically in the same district, and the same conditions prevail throughout the district. Then a body can go forward and ask for a special allowance for that machinery. I take it you have some knowledge of printing.

9103. Yes. That is why your remark rather struck me, that there was special difficulty about it?—But where there is general printers' machinery one man may be doing only a certain class of work and employing practically one class of machinery, but another may employ machinery generally—the whole of the machinery that is supplied to the trade—and special machinery in addition.

9104. I can understand that at one house the machine is running all the time and at another house it is only running half the time?—That, of course, is another matter.

9105. Chairman: Thank you.

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[Continued.]

MR. ALBERT J. HOBSON, Pro-Chancellor of the University of Sheffield, and Chairman of the Glass Delegation, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

9106. (1) As Chairman of the Glass Research Delegation and Pro-Chancellor of the University of Sheffield, I desire to bring to your notice an anomaly which seriously affects the revenue available for the researches and experiments carried out under the Glass Delegation, and, further, I desire to submit on behalf of the University a plea for more generous treatment, so far as Income Tax is concerned, of donations made for the encouragement of research and advanced learning.

9107. (2) The Delegation for Glass Research, University of Sheffield, was constituted in 1916 under conditions laid down by the Department of Scientific and Industrial Research for the purpose of carrying out industrial researches applicable to the glass industry. An annual contribution was promised by the Committee of the Privy Council through the Department of Scientific and Industrial Research, on condition that the University raised from the industry at least an equal sum.

9108. (3) The Delegation was the first of the bodies to be set up by the Department of Scientific and Industrial Research, and its constitution served as a model for the formation of somewhat similar bodies charged with the administration of funds for industrial research.

9109. (4) Subsequent to its formation, other bodies, termed Research Associations, have been set up as the result of negotiations between branches of different industries and the Department of Scientific and Industrial Research. These Associations differ slightly from the Delegation in that (1) the initiative is largely with the manufacturers themselves, (2) the Associations are registered as limited companies.

9110. (5) As an inducement to join Research Associations, manufacturers are given the privilege of considering their contributions as a necessary business expense so that they become freed from Income Tax and Excess Profits Duty.

9111. (6) Now, the constitution of the Delegation is, in general, very similar to that of a Research Association, each being composed of manufacturers and scientific experts, the difference being that as the Delegation was established in connection with the University of Sheffield, the chief officers of the latter are included as members. In each case the objects are the same, as will be seen by comparing the constitution and objects of the Delegation with the model articles of association of Research Associations, such as are noted in the second annual report of the Department of Scientific and Industrial Research, and it may be worth pointing out that Research Associations themselves are invited by the Department of Scientific and Industrial Research

search to have their researches carried out in universities and similar existing institutions. In each also the manner of raising funds is the same, the Department of Scientific and Industrial Research contributing as well as the manufacturers in the industry.

9112. (7) But whereas the contributions of manufacturers to Research Associations are usually exempt from Income Tax and Excess Profits Duty, those made from the same source to the Delegation are not so favoured.

9113. (8) This is an anomaly which, I venture to think, should be removed. The manufacturers' associations that contribute to the industrial researches of the Delegation have made representations in the matter to the Board of Inland Revenue, so far without effect, and four associations in particular, namely, the Association of Glass Bottle Manufacturers of Great Britain and Ireland, the Yorkshire Glass Bottle Manufacturers' Association, the Yorkshire Flint Glass Manufacturers' Association, and the British Chemical Ware Manufacturers' Association, associate themselves with me in the plea that the anomaly shall be remedied.

9114. (9) As the matter stands, manufacturers who prefer to make grants direct to the Delegation for industrial research of common benefit to the industry are penalised as compared with members of a Research Association, whilst the University, which ultimately has to carry out the work, is handicapped by the fact that the contributions obtained are not so large as they would be if exemption from Income Tax and Excess Profits Duty were permitted.

9115. (10) If, without diverting your earnest attention from the special case submitted above, I may briefly refer to another matter of importance, I would urge the Commission to give every consideration to my plea that it would recommend the exemption from Income Tax and Excess Profits Duty of all donations made for the purpose of education, particularly for higher education. Research and higher education are matters of the highest public welfare and should be encouraged. During the war great hopes were held out by the Government that much more liberal grants would be available for these purposes. But the best that the Board of Education has been able to do, finally, has brought great disappointment to all the chief officers of universities and kindred institutions who are handicapped heavily in their finances on account of the war.

9116. (11) I urge, therefore, that as the State has not been able to make adequate contributions directly for research and higher education that it should at least do all it can to foster more generous giving from private citizens by exempting donations, when made for specific purposes, from Income Tax and other duty.

9117.

APPENDIX.

COMMITTEE OF THE PRIVY COUNCIL FOR SCIENTIFIC AND INDUSTRIAL RESEARCH.

Conditions applying to the grant of the Committee of the Privy Council for Scientific and Industrial Research, hereinafter called the Committee, in aid of the establishment and maintenance of the Glass Research Institute in connection with the University of Sheffield.

1. A Delegation will be formed for the promotion of research in Glass Technology. The Delegation will consist of the following persons:—

Two Pro-Chancellors, the Vice-Chancellor, the Treasurer and the Registrar of the University.

The Chairman and the Vice-Chairman of the Applied Science Department.

The Professors of Chemistry, Engineering, Geology and Metallurgy and Physics and the Lecturer in charge of the Glass Technology Department.

Other persons to be appointed by the Council of the University on the nomination of the bodies whom they severally represent for such period as that Council shall determine, namely:—

Two representing the Yorkshire Association of Glass Bottle Manufacturers.

Two representing the Yorkshire Association of Flint Glass Manufacturers.

Three representing the Glass Workers Trade Unions.

One representing the Association of Glass Bottle Manufacturers of Great Britain and Ireland.

One representing the British Flint Glass Manufacturers' Association.

One representing the British Laboratory Ware Association.

One representing the Northern Association of Pressed Glass Ware Manufacturers.

Three representing the West Riding County Council.

Other persons to be appointed by the Council of the University for such period as that Council shall determine.

2. The Delegation shall have power to receive moneys granted for the promotion of research in the scientific principles underlying the manufacture of glass and in the application of science thereto.

3. The Delegation shall annually present for approval to the Council of the University a financial estimate

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[Continued.]

of receipts and expenditure, and all expenditure shall require the consent of the Council.

4. The Delegacy shall be empowered to make arrangements, for such teaching and training of students in Glass Technology as the University may from time to time prescribe for a diploma, and during a period of three years for such other teaching and training in Glass Technology as the University may undertake, provided that, in the opinion of the Delegacy, it does not interfere with the research work of the Glass Technology Department.

5. The Delegacy shall make such arrangements as they think fit for the prosecution of the research into the science and technology of glass.

6. The staff of the Institute shall be paid by the Delegacy and shall work under their direction.

7. The University will find the site and buildings for the proposed Institute of Glass Technology, and shall be responsible for securing such contributions as they may require for those purposes, and no part of the aid now given by the Committee shall be applied for the purpose of providing either site or buildings.

8. The Council of the University shall enter into an agreement to place at the disposal of the Delegacy for a period of 5 years rent free the site and buildings appropriate to the Institute.

9. The Committee will provide and pay to the Delegacy a capital sum of not more than £1,500 for equipment. Such equipment will revert to the Council of the University at the conclusion of the period of 5 years unless the agreement is renewed. But the Council of the University will consult the Committee and obtain their concurrence before applying the building or its equipment to any other purpose than Glass Research.

10. The University will accept ultimate financial responsibility for the maintenance of the Institute and will provide a sum of not less than £500 a year for a period of 5 years towards such maintenance.

11. The Committee will provide and pay to the Delegacy a sum of not more than £1,300 a year for the period of 5 years towards the maintenance of the Institute.

12. Separate capital and maintenance accounts shall be kept by the Delegacy and shall be audited.

13. The first grant for maintenance will be made by the Committee for the half year beginning on

[This concludes the evidence-in-chief.]

9118. *Chairman:* We have had your evidence-in-chief printed, and I am certain that you will like to get away quickly?—Yes, I will be as brief as I can.

9119. Your paper has been circulated and read by the whole of the Commission, and I think if you will agree, we will now commence your examination?—Might I say just one preliminary thing? I do not know whether you have had from the Industrial Research Department of the Board of Education the paper I requested the Secretary to send, on the Articles of the Organisation and Research Committees, because the paper with my evidence was prepared before I went and saw the Education Authorities; and I went there so as not to be otherwise than well informed as to whether there was any possibility of getting what I wanted through the existing machinery. If you have had before you the Articles forming the Research Committees, you will find that under Clause 3 (a) the funds of the Research Committees may be used to encourage and improve the education of persons who are engaged or likely to be engaged in industry. That gives a kind of indirect permission to use the funds for teaching, which is the main prayer of the memorandum that has come before you. But at the same time I think that it is so obscurely put in the regulations that the fact that it exists is generally unknown, and that a fuller arrangement by which the funds contributed from industry to research and teaching, may be given to teaching, is still necessary, notwithstanding the fact that I have drawn your attention to that point in the schedule. I do not know that I have anything else to add.

9120. *Mr. May:* I think it is a fact, is it not, that a Glass Research Association is in process of formation?—Yes, but it presents several difficulties, because it would be a Research Association of the whole of the

the 1st October 1916. Subsequent grants will be for the year beginning 1st April, and be payable in quarterly instalments. Before paying subsequent annual grants the Committee must be satisfied that the work of the Institute is progressing satisfactorily and that the agreed conditions are being observed. The Delegacy will submit as soon as possible after the 31st March in each year audited accounts with a report of the work of the Institute for the year ending on the 31st March.

14. The Delegacy shall enter into such reasonable arrangements of general application to all industrial research as may be required by the Committee, after consultation with the Delegacy, for the purpose of preventing duplication of work, and securing the intercommunication of results which are applicable to more than one of the glass researches aided by the Committee.

15. (a) The results of the researches conducted at the Institute as obtained from time to time, shall be communicated in the first place to the Committee which in consultation with the Delegacy shall determine the extent to which and the conditions under which the results shall be made available.

(b) The Committee reserve the right to determine in consultation with the Delegacy to what extent and in what proportion the Committee the Delegacy and the members of the Staff of the Institute shall secure to themselves by patents or otherwise a share in any profits derived from the results of the researches conducted by the Institute.

(c) Provided always that the conditions under which tests and investigations shall be conducted for an individual manufacturer or association of manufacturers, in the results of which it is proposed that the manufacturers, or association shall have proprietary interests, shall not be governed by this clause but shall be the subject of an independent agreement between the manufacturer or association and the Delegacy in a form that has been approved by the Committee.

(d) Other assistance given by the Glass Technology Department to a manufacturer or association of manufacturers whether in the form of advice or of routine tests is not the subject of the foregoing clauses.

country, with many districts; and whether we should be wise, in the University of Sheffield, to send into an indirect source of contribution the contributions we at present receive direct from the Manufacturers' Association, is doubtful; also there is no room in those Research Associations for a trade association to be a member. It must be individual firms. Therefore, there is a difficulty as to whether we could put the subscriptions of trade associations through a research committee.

9121. But the association will probably be formed with the approval of the Department of Scientific and Industrial Research?—Yes, that is so.

9122. And in that case, the relief that you are seeking, to a certain extent will be allowable under the arrangements made by the Board of Inland Revenue with regard to Research Associations. Is not that so?

—Yes, that is partly so. As far as manufacturers join that Research Association, we shall get some of the relief, but there will be no relief as far as the manufacturers do not join that Association.

9123. You appreciate, of course, that the research work of a university is of a different character and scope to that of a Research Association in a particular industry, and that therefore it cannot have quite the same relief?—Yes, I do appreciate that, but I think the line between research work and teaching work is too artificially drawn for this purpose. The teaching work is as valuable as the research work for the promotion of the better working of the industry, and when the Government has declared itself a 30 per cent. partner in every firm, it is not quite fair to throw the whole of the burden of the teaching of the industry on to the share drawn by the commerce of the country, and for the Government to make no contribution to it. I am not asking for anything that I think would

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[Continued.]

reduce the revenue; it would pay the Revenue to give encouragement to any industry to pursue both research and teaching in its own industry. That is my point.

9124. In other words, you want to get the relief from the tax both ways?—Yes; I think the more broad arrangement is sound and can be defended.

9125. But, after all, the main burden of your evidence, and the plea in the statement, is on the ground of benefit to industry and commerce. Is not that so?—Yes, but the other point is that the Government, being a partner, will also derive benefit from the same thing. I think your point is that you must not reduce revenue by your investigations, and I put it to you that the broader view in this case would not reduce revenue.

9126. So far as the basis of your evidence is concerned, that is to say, seeking relief in order that industry and manufacture may be benefited, do you know that any trader may deduct sums expended in research work by his own staff?—Yes, I do; but they are put upon individual proof; the sums must be continuously expended, and unless they set up a research society it is a very troublesome thing to get through with the Surveyors.

9127. That is rather a matter of administration?—Yes, except that there again you are allowed to spend money for research; if you can prove it is research in your own laboratories it is not much questioned; but if you begin to spend the money on outside research it may be questioned as to the expense; you are limited to research, and I want it to be a little wider, and take in teaching of the industry if possible.

9128. You would agree that in the case of a university it would be necessary to examine a little carefully the scope of the work undertaken, to see whether the relief was being properly granted; or would you not, as I suggested just now, get it both ways?—I want to get it both ways, but at the same time the Government has agreed that if a Research Association is formed it will accept its certificate that the money is properly expended; and that is the main inducement to make a Research Association—in order that the subscription through it may be free from harassment on this question of whether they are legitimate expenses or not.

9129. Mr. Knowles: Do you not think you are approaching this from the wrong end when you ask for relief from Income Tax? Ought you not to get a larger grant from the State and pay your Income Tax?—That is arguable; but at the same time I do not

think it is as likely to be as successful as allowing the industry to subscribe; for the reason that the industry knows its own wants, and what is really likely to get for its subscriptions, more intimately than the State ever can; and therefore there is an amount of individual interest in the subscriptions from the manufacturers, to see how they are spent, that you would not get with an increased State grant.

9130. So many people come to us who want money off the Income Tax, which is an indirect subvention; and it seems to me that if you are going to give these bounties and subventions they ought to be given directly, and not in a hidden way as exemptions from Income Tax, which may rise to any point. You are asking for something which goes against the principle, asking that we should give exemption from Income Tax and so hide the subvention?—I do not think that is quite the right way of looking at it. It is not a question of hiding the subvention, to my mind. It is a question of whether this is a legitimate business expense expended in the interest of the business, like an advertisement. Advertisements increase the income both to the Government and to the proprietors, and are regarded as a business expense. I say that educational grants in a business do promote the prosperity of the business, and that they ought to be regarded as a legitimate expense.

9131. Mr. Walker Clark: At paragraph 10 in your proof, you recommend the exemption from Income Tax and Excess Profits Duty of all donations made for the purpose of education, particularly for higher education. That is a very wide statement, is it not?—Yes, but I would put it as high as that.

9132. Therefore the contribution of £1,000 to a private orphanage, conducted on strictly select lines for a specific class, which was educating the children of the orphanage, would be exempt?—I think that is going rather further than I intended to go; I do not wish to put it as high as that; but I am pleading against the present restricted view; and I agree that there must be a line drawn somewhere; I think that is only right.

9133. Should not the line be that the purpose of the donation has some connection with the industry?—Yes, I would agree to that. I think, myself, that that is the right line to take, because general charitable and general educational subscriptions ought not to be an expense of a commercial kind to the business in question.

9134. Chairmen: Thank you very much for your evidence.

MR. ROBERT SHIRKIE, on behalf of the Trades Union Congress Parliamentary Committee, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Proof of evidence of ROBERT SHIRKIE, Secretary of the National Federation of Colliery Enginemen and Boilermakers and Secretary of the Scottish Colliery Engine and Boilermakers' Association, 121 West Regent Street, Glasgow.

9135. (1) I am a member of the Parliamentary Committee of the British Trades Union Congress which represents nearly 5,000,000 of the workers of this country. I have been asked to give evidence before this Commission on their behalf.

9136. (2) The position of the Trades Unions of this country on the question of what income should be free from Income Tax is a well defined one, and rests upon two or three simple principles. Generally, they believe and submit that Income Tax should be exacted only from surplus income, that is, Income Tax should not be imposed except on incomes above the money figure which is required to maintain the persons assessed in reasonable comfort and complete health.

9137. (3) The present practice of assessing on all incomes above £120 per annum is most strongly objected to. This Income Tax limit means that a married man has to pay on all income above £145—

self £120, plus wife £25; or, to add two children and make a household of 4 persons, on all incomes above £180, being the above £145, plus 2 children, £20. The insufficiency of £195 per annum to maintain a family comfortably and in health is obvious. It cannot be done. The position is very much worse than it was on the pre-war basis. Then—in the case of the household of 4 persons—the assessment was not imposed except on incomes above £210—being the old £160 plus £25 for each of the two children. While the Government has generally recognized the fact that the purchasing value of money has altered it has not done so in the present case. The expression "increased cost of living" is so frequently used that its real significance becomes somewhat blunted in the ordinary. In dealing with Income Tax it must always be looked upon as a fundamental consideration. In dealing with money values, the workers always take the purchasing power of money as the real and only test of its value. The money itself is a mere token bearing a certain name, issued by or with the consent of Government, which entitles its holder to make certain purchases. If the purchasing value has diminished to one-half of what it previously was, then the income free from tax must also double. This is precisely what has taken place. The workers receive double the number of money

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tokens, but, they are not advantaged, because these purchase no more of the necessities of life than they were able previously, with one-half the number, to obtain. Income Tax has always been looked upon as a tax on surplus income. The fact that there is a minimum at all proceeds upon the assumption that the person assessed and his dependants should have a sufficient sum to maintain life and health free altogether from Income Tax. This also is the contention of the workers whom I represent.

9138. (4) The question as to what income should be free from Income Tax has been carefully and exhaustively considered by the workers. They ask—assuming the necessity meantime for the imposition of the tax—that it should be imposed much more heavily upon large incomes than at present, indeed so heavily as to make any vast accumulation of wealth impossible, and that the burden should be removed from all incomes under £250 per year. This is their minimum demand. My own view is that it does not leave a sufficient sum untaxed. If it is to be accepted that the workers should have the income free which is required to provide a standard of living which will permit of the raising of a healthy race—and this must be conceded—then the present limit must be immediately raised. If we are not to take the necessary food and clothing from the homes—and particularly from the mouths and bodies of the children upon the healthy upbringing of whom our nation depends—we must always ask, how much does it take to keep this family in life, health and comfort, before we impose Income Tax. £250, or a pre-war standard of £125, is not more than adequate for this purpose, indeed, under the existing state of our law which permits of almost unlimited money-making and profiteering, an increase beyond the £250 may be quite reasonably contemplated. In submitting this figure—and from our point of view it is an irreducible one—it is accepted that the present additional allowances will be continued and in many cases increased.

9139. (5) Spending my life among the working people, and being one of them, I know that the present practice causes very many and serious hardships. In one district, so serious is the position that the County Court is flooded weekly with scores of actions for the recovery of small sums of Income Tax which, in many cases, the workers are unable to pay. The figures for the last six weeks in one Scottish County Court are as follows:—

Week ending.	Total No. of cases.	No. of Income Tax cases.
20.5.19	39	20
27.5.19	73	35
4.6.19	76	35
11.6.19	61	12
18.6.19	35	3
25.6.19	213	180
Total	497	285

These people are not dishonest or disinclined to pay if they had the means to do so, but they simply cannot pay without depriving their children of the bare needs of life. I know cases where the paying of such tax has meant that the children have gone without boots. Surely, this is not just. It is against the national interest. It is opposed to the whole tendency of modern legislation. Meantime, the State seems, legislatively, to have accepted the responsibility of seeing that the needs of the children be cared for, and their best interests promoted. School feeding and clothing, medical inspection, the care of malnourished children, and the maintenance of children who attend school beyond a certain age, can only be logically defended on the hypothesis that it is the business of the nation to see that its child life is hedged round with all necessary safeguards and protections. Is the nation going to do this on the one hand, and, on the other, by the imposition and exaction by process of law, in cases where the money is required for home needs, defeat its own proper purpose?

9140. (6) The proposed standard is a reasonable one. Apart entirely from the views of my constituents, I have entered into the matter thoroughly, and am satisfied that the £250 limit is a most moderate one. The general costs of living have recently more than doubled. On the outstanding foodstuffs, the increase is roughly 100 per cent.; on the odd things, nearly all of which are outwith any control, the increase is anything up to 400 per cent. The house rents are likely under the new housing schemes to be more than doubled, and the local rates will be increased 100 per cent. on the present rental, or 400 per cent. on the future rent. Altogether, the difficulty is in seeing how the minimum proposed will meet the case, but I leave it there, contending that the question as to a lower figure than the proposed £250 is impossible.

9141. (7) It is also maintained that the minimum should not be the bare cost of comfortable and safe living, but that it should leave a margin sufficient to secure the workers against the ordinary incidents and accidents of life. The minimum ought to be the naked cost of comfortable and healthy living, plus such sum as may be required to meet the above and other risks. The workers must not be asked to remain on the border line of poverty. Till such time as the nation provides for the maintenance of the worker's wife and children during his and their illness it must make allowance for a sum, free from Income Tax, sufficient to secure from the ordinary risks of life.

9142. (8) This clearly, and I think irresistibly, arises from our present practice. The existing system assumes—and I admit frankly that I think it does so wrongly—that the individual worker should make his own provision for domestic troubles, to a great extent for enforced illness and old age, and it is a corollary to this that the sum required for the purpose should be free of Income Tax. I do not feel myself called upon to show how this proposal can be given effect to. I am not to discuss the question of ways and means. My submission is that the sum required for comfortable and healthy living is a first charge upon the nation.

9143. (9) The maintenance of public services, the payment of interests, and many other charges, must be postponed to the necessary abatement on Income Tax and the payment of the monies required to maintain our people in comfort and health. If it be at any time impossible to pay all these charges, then they must be paid in their order of preference. I can quite conceive the possibility, in the future, of our nation finding a difficulty in meeting many of its commitments, but, if any have to remain unpaid, it must be the least important and less urgent of them. Assuming that the question were to arise as to whether the people were to be deprived of the necessities of life, or that certain interests were to be paid, I hesitate not in saying that the payment of the interests would require to stand postponed to the liquidation of what, I submit, is the more vital consideration. So huge is our nation's commitments, that it is only by having a nation in which 93 men and women are practically unknown that we can hope to meet them. It is not the present generation, or even the next, that will pay the debt. If we begin to chafe at such a way as will encourage the production of a population of a low physical and mental class, then our debt will never be paid at all. I contend that I am not called upon to descend on the financial aspects of my proposals. My submission is that it is the postponed creditors who must show ways and means, and not the body which I represent.

9144. (10) It is strongly suggested that all overtime should be free from taxation. If men are called to work more than they ought to do, they are in so doing making a sacrifice which ought to give any income desired immunity from tax. I agree that such overtime should be reduced to its very minimum, but, where it is absolutely necessary, then the men should be encouraged to do it. There are many cases where low-paid men, such as railway workers and others, only come under Income Tax by working overtime. These men are, many of them, differently paid. They

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labour under circumstances which are not conducive to good health, and it is asked that the earnings from overtime work should not be assessed.

9145. (11) With regard to the minor exemptions, such as for wives and children, it is submitted that these are not on a sufficiently generous scale. The allowance of £25 per child might be good enough on the pre-war basis, but it is absolutely insufficient now. It requires twice as much to keep a child now as it did in 1914. It is therefore submitted that an allowance of £50 should be granted instead of the pre-war allowance of £25. The allowance to the wife is a more recent abatement, but the same argument applies in this case.

9146. (12) Under the present practice of exemptions, sons who maintain the household, on the death or illness of their father, are not properly treated. There is no legal obligation on them to keep their brothers and sisters, but they do it, and in discharging this duty they relieve the public rate. The present position is that, while they are allowed in certain cases an abatement for their brothers and sisters who are

dependent relatives, they are not allowed anything for their mother if she should be in the home and required there to attend to the household. I have known cases where the abatement has been refused in respect of mothers, 50 years of age, because it was said they were not infirm, that they were able to work and should do so. In one such case the mother was required at home to keep a house containing a number of little children, all of whom were being maintained by the working son. The abatement is also refused in respect of a father who is unable to work, and who had been maintained by a working son. In one such case the abatement was refused in respect of a man, 50 years of age, who had not wrought any for a number of years in consequence of miners' lung trouble. This father was being maintained by his son, who made the necessary application, but was refused. It is submitted generally, with regard to such abatements, that they are too small, and that they should be granted in every case to every member of the household—including father and mother—who is dependent upon the working member of the family who claims the abatement.

[This concludes the evidence-in-chief.]

9147. Chairman: Are you the Secretary of the National Federation of Colliery Enginemen and Boilermakers?—That is so.

9148. In Scotland?—Yes, Scotland. The Federation is England and Scotland; that is the Federation of the different Societies in the two countries; but I am also Secretary of the Scottish Association.

9149. Were you a workman before you took the Secretaryship?—Yes. I winded up the collieries for 20 years.

9150. You were a winder, were you?—Yes.

9151. That is a very interesting job, is it not?—Yes.

9152. Was it in the old days, when there was a danger of over-winding?—Yes, it was long before the improved methods were introduced. I had a hand in getting these done, that is the overwinding gear, and detaching books, and so on. I was at all those enquiries and commissions assisting to get these safety appliances.

9153. Have you ever overwound?—I never did. I was only fortunate. I know many times when I might have had an accident, but I did not.

9154. I am very glad to hear that record?—It is nearly 16 years since I took up my present position. I winded in Scotland, and in South Africa at the gold mines.

9155. You are not coming with any proposals to ask us to raise Income Tax, are you?—No, I could not do that.

9156. The Commissioners will now ask you questions on your evidence-in-chief?—There is one point I should just like to mention. In the statement I sent in there were some figures omitted by error, and I want to supply them.

9157. Mrs. Keoules: It is in paragraph (5); cases in the County Court.

9158. Chairman: Have you the figures now?—Yes. I lived in Hamilton previous to going to Glasgow, so that it is the Hamilton court that I refer to. These are figures referring to cases in court for the last few weeks previous to my sending the statement. For the week ending 25th June, 1919, the cases in court were 213, and out of the 213, there were 180 Income Tax cases; 18th June, there were 35 cases, and 3 of them were Income Tax cases; 11th June there were 61 cases, and 12 of them were Income Tax cases; 4th June, there were 76 cases, and 35 of them were Income Tax; May 27th, there were 73 cases, and 35 of them Income Tax; May 20th, there were 39 cases altogether, and 20 of them Income Tax. The total for the whole is that there were 285 Income Tax cases against 212 other cases. The total cases in the Court were 497.

9159. Mr. McLintock: There is just one point there: all these Income Tax cases are brought into that one period?—That is so.

9160. Is it quite fair to draw a comparison between the Income Tax cases all crowded into a few weeks, and contrast them with the general County Court cases?—It must be of necessity that there is a certain

period when it is possible for Income Tax cases to come.

9161. That is about 12 months' Income Tax cases?—No, I should say that, because workmen pay their Income Tax quarterly.

9162. But were the proceedings taken quarterly?—I should say yes, that is my opinion.

9163. Mr. Beverman: Is not the matter adjusted at the close of the year?—It was a lawyer who was dealing with that, who was speaking to me about it, and I got my information from him, and he said it was general all over.

9164. Chairman: Does this follow as a result of the men declining to pay Income Tax?—No; in our district there was no question such as there was in South Wales. There are many branches of organisations threatening direct action because of Income Tax, but there is no systematic refusal to pay. My position is that there is inability to pay on the part of the poorer people.

9165. Mr. Walker Clark: Just dealing with the one question which is now before us, were these cases of miners, or were they cases of the general public, munition makers who had ceased working on munitions and had come on to less well paid jobs?—In the district of Hamilton you could scarcely say there were any munition workers. It is a mining district, mostly.

9166. I mean the whole of these cases would be local cases?—Yes, local cases.

9167. And there would be no change in the wages in the interval; no downward change?—No, there was no downward change.

9168. Therefore they were incomes of £3 a week and over that were taxed and not paid?—They must have been.

9169. And the proportion would probably be not more than 2d. or 3d. in the 2 on the weekly earnings?—But that total comes to something.

9170. But the proportion would be that. And you seriously tell us that a man would not pay because he could not, under those conditions?—Yes, absolutely; I say that as to this Court.

9171. In the beginning of your paper, the third paragraph, the figures you give have been altered by the Chancellor recently?—Yes, my paper was written previous to that.

9172. You go on to say Income Tax has always been looked upon as a tax on surplus income. Is that so?—We expect so.

9173. You say it has always been looked upon. Do you mean looked upon by miners of your own class?—The working class people; the fact that £120 is allowed indicates that, does it not?

9174. I do not want you to put me into the box, but if I were answering the question I should say this is totally wrong. You put it that the view of the working class people as a whole is that it is a tax upon surplus income?—I do not know that I would

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put it so strongly as that. The position is that the working class were practically immune from Income Tax up to very recently.

9175. When they had a lower wage?—Yes, which would make it appear that it was the case that they required to have a living wage, and a standard of comfort; it is not a question of surplus, but a question of having a wage that could keep them.

9176. You are getting on to the new advances now. Here it says "surplus income"—Where is that?

9177. In your paragraph 2?—It really does not matter much. Take it either way; if you admit the fact that they have to have a comfortable living wage—

9178. You are not putting me in the box?—No. I am making a statement. If you admit the fact that you have to have a comfortable living wage free from Income Tax then it follows that it must be a surplus.

9179. Therefore, there must be a basis?—Yes.

9180. Is the basis to be the living wage, or is the basis to be something else?—I would say something else.

9181. Will you tell me please what it is?—I do not know what it is here; I know where it is in my paper.

9182. The untaxable basis?—It is paragraph 7 which begins "It is also maintained".

9183. What is the basis in pounds?—The basis is pounds free from Income Tax?

9184. Yes?—I have given £250.

9185. That is to be the minimum; that is £250 for a single man?—Yes.

9186. If the man is married he has the wife allowance; that makes £300?—Yes.

9187. If he has one child, that is £340 at the present time?—Yes.

9188. And if he has other children there is an additional allowance?—Yes.

9189. And you think it is necessary for a young woman, who is a clerk living at home, to earn at least £5 a week, roughly speaking, and that she is not able to bear any share in the cost of the upkeep of the country unless she receives at least £250 a year?—I would say the case that you have mentioned is rather the exception in the nation.

9190. But they would all come under this class?—Yes, certainly, but it is an exceptional case that you mention. You cannot make a general rule by an exception; that is my submission.

9191. But the general rule includes the whole of those. You say that any person, either a woman or a boy who lives at home, and who contributes to the upkeep of the home, must have an income of at least £250 a year before they pay any share in the taxes of the country?—Yes, well that is as it is based at the present time that would be necessary.

9192. And you are aware that there is a very large subsidy through the bread subsidy which at present pays all the indirect taxes of such an individual?—At the present time?

9193. Yes?—Yes.

9194. Therefore, the whole of this class, having a vote dealing with the taxation of the country generally, should pay nothing towards the cost of the war or the upkeep of the country?—You say the whole of this class. You mention the one that has no dependants earning £5 a week.

9195. I mentioned the others previously, the man with the wife, and the man with one child, or two or more children?—That is my submission, yes.

9196. And you think that is a moral, and wise, and statesmanlike proposal?—Yes.

9197. That more than two-thirds of the voters of the country, dealing with the taxation and upkeep of the country generally, should be able to vote for their representatives, and have no share in the cost?—Yes, but when you speak of two-thirds are you assuming that there are two-thirds who would be exempted from taxation?

9198. I am.—Then I say they ought to be if there are two-thirds.

9199. And you think that is a moral, and wise, and statesmanlike proposition?—Yes.

9200. In paragraph 4 you say that this question has been carefully and exhaustively considered by the workers. Of course, I am in that class, and I have

carefully considered it. What method has been adopted for this consideration?—The method that has been adopted is from the standpoint of living—ability to pay.

9201. Has it been done in classes, or by reading textbooks on economics, or by attending lectures, or by personal study, or by personal investigation? What method has been adopted?—That is a question I should not be able to answer, as to what method has been adopted by all the different organisations.

9202. I am dealing solely with your own?—I am giving evidence on behalf of the British trade unionists.

9203. Yes?—And I may say that there have been motions sent in and discussed, and passed by the Trades Union Congress, which represents nearly five million workers, and we have motions on this year's agenda.

9204. We have had those put in before. You say they have been exhaustively considered?—Yes, I have said so.

9205. What I am trying to get at is how they have been considered?—I am quite safe in saying that there are hundreds of men in the trade union movement that are entirely able to consider it apart from tax questions, men that are learned and intelligent, and able to put their views on the subject, and I assume that that has been done.

9206. You make here a definite statement that they have been exhaustively considered. What I am trying to get at is what method has been adopted for the consideration, and how widespread has been the consideration?—Well, I have made the statement.

9207. For instance, we have had quite a number of men here, very learned men, who have given a totally different view from your own?—Yes, I agree, but I give the view from the workers' standpoint.

9208. I am referring to this exhaustive consideration?—The exhaustive consideration refers entirely to his ability to pay Income Tax, to the wage he requires to keep his wife and family in comfort. It is from that standpoint alone that I speak.

9209. Chairman: That is his answer, Mr. Walker Clark.

9210. Mr. Walker Clark: There has been no systematic and careful consideration of the whole question from an Imperial point of view, or an economic point of view, other than the personal point of view?—No, I cannot say that. I have stated that I cannot give you all the different considerations that have been given to this question by the different societies, or the different branches, so I would not say that.

9211. Then further on in paragraph 4 you say: "the existing state of our law which permits of almost unlimited money-making and profiteering." You are quite aware that of a very large income more than half the money is taken in Income Tax at present?—Well?

9212. It is hardly unlimited profiteering?—Suppose it is?

9213. Half of it taken already, I say?—It is taken from those who can spare it better than the worker.

9214. You are aware of the fact that more than 10s. in the £ is taken from large incomes now by the State in Income Tax alone?—No, I am not aware of that.

9215. Well, you should be.—I am not aware of more than 10s.

9216. Yes, more than 10s. in Income Tax and Super-tax alone, and that the purchasing power of the sovereign in the large income is no greater than the purchasing power of the sovereign in the small income?—Yes, but I would point out that the purchasing power of a sovereign to a wealthy man, or a man with a large income, is much different from the purchasing power to a worker, that is he feels it in one sense in a way the other does not. In proportion to income the working man pays in indirect taxation almost the same amount as the man with the large income.

9217. There is another paragraph in your evidence, No. 7, in which you say: "Till such time as the nation provides for the maintenance of the worker's wife and children during his and their illness it must make allowance for a sum, free from Income Tax, sufficient to secure from the ordinary risks of life." This not

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the State made some provision, and is there not further provision anticipated in this direction?—I do not know about anticipations; they are not actualities yet. When you say some provision—will it be some provision; it is only some.

9218. In paragraph 9 you say: "The maintenance of public services, the payment of interests, and many other charges, must be postponed to the necessary abatements on Income Tax." I presume that really means that contributions towards these must not be enforced upon these small incomes?—That is really what I mean.

9219. It is not very well expressed?—I mean that the question of a healthy race is more important than any of the others.

9220. There are only two other questions, and the first is on paragraph 10: "overtime should be free from taxation." Why?—There are various reasons for that. I have had a letter from the Railway Workers' Association, on which I have touched here, saying that the wages are so small that some of these workmen—

9221. But they would not pay Income Tax if the wages were small?—Yes, but it is only overtime that brings them inside the Income Tax limit at all.

9222. That is so with many employees?—The answer to the question why is simple—because it is overtime.

9223. But it is income, is it not; and the tax is upon income?—It is overtime, and it costs more to work overtime. A man that works overtime spends more than the man who does not work overtime. It is the Trade Union point of view that overtime should not be taxed.

9224. In the last paragraph you say that an allowance is refused in respect of a father who is unable to work, and who has been maintained by a working son. Have you instances where that has been refused?—Yes, I can send them on.

9225. A father quite unable to work?—Yes.

9226. And no income?—Yes.

9227. And dependent upon the son?—Yes.

9228. Who systematically paid a fixed sum and no allowance made?—That is so.

9229. I never heard of such a case.

9230. Mr. Bowerman: You have been pressed upon the point of the exhaustive consideration given to this matter?—Yes.

9231. At some Congress has the question been considered?—I think at every Congress it is considered and debated for hours.

9232. And before the matter reaches the Congress you speak of would not the matter be considered by the men in their different branches and lodges, and so on?—Yes; if it is the question as to the method by which it is done, that is so.

9233. To that extent, although it may not be quite exhaustive it is to some extent a fairer consideration?—It is.

9234. Mr. Walker Clark: That is the point I wanted to get at?—I did not appreciate that.

9235. Mr. Bowerman: With regard to the £250 as a limit, I suppose you cannot speak with regard to the feeling of the co-operative movement in addition to the Trade Union movement upon that point, can you?—No.

9236. You put forward a suggestion that house rent will be greater in future than it has been in the past?—Yes.

9237. And you give that as one reason why the limit should be raised. Are you satisfied in your own mind that that will be one result of the present day circumstances?—I think there is no doubt whatever that that will be a result. If better houses are to be built, higher rents will have to be paid; that is not questioned.

9238. With regard to overtime not being accounted for, what ground do you take up for making that suggestion?—It is my own personal opinion; of course, the question has been before Congress for many years also—the question of overtime, and week-end labour—and the class I belong to work every week-end—every Sunday—that is the winding engineers are continually working every day in the week. The week-end labour and overtime it is contended by that class

should be free from Income Tax as it is additional to their real income on the ground that it takes more to live; it takes more to pay for the man's upkeep when he works overtime and on the Sunday.

9239. Chairman: Is he compelled to work all the time?—He is compelled; there is no other way out of it. It is either that, or the company would incur a good deal more expense in having additional experienced men to fill in the seventh shift.

9240. Do they wind on Sunday?—They do not wind on Sunday.

9241. But the pits are very often not working on Sunday? They keep the steam up, but the pits do not work on Sunday?—They have always pump men down the pits keeping the water out, and they have horses in the pits, and the winding engineers have always to be there to let these men up and down.

9242. But he does not work the whole day?—On Sunday?

9243. Yes. If you let the men down in the morning you do not stay there?—If you are acquainted with the Coal Mines Regulation Act you will find there that a winding engineer has to be in attendance during the whole time that any person is below ground in the mine.

9244. Do they not often have men to take Sunday work in Scotland?—Not in England either—nowhere.

9245. Mr. Bowerman: Do you suggest that overtime work is compulsory?—Yes.

9246. Obviously men are not evading overtime work in order to evade the payment of Income Tax?—No. Men have got to work overtime. I believe in most cases they would rather do without working overtime.

9247. Apart from the question of working overtime, it has been suggested that in certain parts of the country men are losing time in order to evade payment of Income Tax; has that been brought to your knowledge at all?—No, that is new to me.

9248. It has been suggested that it occurs in a sense in your own trade, or your own district?—Well, I am entirely ignorant of it; I do not believe it.

9249. It has not been brought to your notice?—No, I do not believe it either.

9250. You hardly think it is reasonable?—No, it is not.

9251. With regard to the cases you have cited of the number of summonses issued in connection with the non-payment of Income Tax, could you say what the general result is? Do they distribute on the goods, or is the amount paid, or what?—I did not go into that. I just got the recent numbers, but I expect in most cases they will just have to pay whether they are able to or not.

9252. Chairman: What population do these figures represent?—The Hamilton Court takes in more than Hamilton Town; it takes in that part of Lanarkshire.

9253. Mr. Bowerman: These cases were general I think you said—not merely applying to the miners?—No, they are not applying to the miners entirely, but I should think well over a half of them would apply to miners.

9254. What other industries are there in Hamilton?—Well, there are engineering works, and then there are the Lanarkshire Ironworks, and fruit works, and a large number of other industries in Lanarkshire.

9255. Mr. Walker Clark: Cotton?—No, there is no cotton.

9256. Mr. Bowerman: Did it rather surprise you when you found the number of summonses for this special purpose?—I was surprised. Really I questioned them at first when I found 180 cases out of 213.

9257. Are you satisfied there has been no combination in Hamilton, as in another part of the country, to refuse payment?—Absolutely none; I can say that definitely; there was nothing of that.

9258. With regard to the quarterly assessment of Income Tax for working people have you any particular opinion as to whether it works satisfactorily or not, generally speaking?—I do not think it works very satisfactorily, that is the companies giving the totals of the wages and so on; there is a great deal of trouble in regard to it.

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9259. Could you express an opinion as to what would be the result if workmen were asked to allow money to be deducted from their wages?—Well, the result would be a refusal.

9260. You feel pretty sure of that?—Oh, absolutely certain of that.

9261. Can you speak as to the view of the employers regarding that point?—No, I cannot say. I do not think they wish that either, do they? They do not want more trouble.

9262. Chairman: What would you advise them to do?—I think I would advise them to refuse.

9263. I like a frank and straight expression of opinion?—Well, that is my opinion at the moment.

9264. Mr. Bowerman: You think it would be left to the man himself to pay it as he can, and when he can?—Yes.

9265. When the figure of £250 is arrived at has not one consideration been rather prominent, that is the amount of indirect taxation to which work-people are subjected?—Yes. That is one of the strong points that is in the consideration of the question, which has been mentioned in the debate repeatedly—the indirect taxation that the worker does pay, and must pay. I think it is conceded that the working classes have usually larger families than the wealthy classes, and it certainly takes as much, if not more, tea and sugar and butter and all that for the worker than it does for the wealthy classes. Of course, they pay the same amount of indirect taxation, and, secondly, we hold that they pay the equivalent fully of the other classes; that is a consideration which should be given great weight in this Commission's Report on this question.

9266. As between the two classes, the poor and the wealthy, would you say indirect taxation bears more heavily on the one than the other?—It must do.

9267. Proportionately?—Proportionately it must do, but even apart from proportionately, I believe it does bear heavier on the worker for the reasons I have given, but proportionately there is no question.

9268. You are aware that the allowances for wives and children have been increased lately?—Yes.

9269. Is that increase satisfactory to you and those you represent?—I suppose we have to be thankful for small mercies, but at the same time it is not satisfactory.

9270. Not to you personally?—No.

9271. Chairman: Is it a small mercy?—Yes, it is a small mercy compared to what we ask.

9272. Mr. Bowerman: You agree, I assume, it is a step in the right direction?—Oh, yes, it is that.

9273. In paragraph 9 you say that payment of the creditors of the nation is of secondary consideration to the comfort and health of the population. Would you amplify that at all?—I do so, I think, following on in this statement.

9274. Are you speaking generally, or mainly in connection with war expenditure?—Well, both. In connection with the war there is a point that I would just like to mention. It is not exactly what you say, but practically I would say in 70 or 75 per cent. of working-class homes the assistant of the father has been taken away—he has been killed. I put it at 75 per cent., but I may be wrong. In the case of a worker, a man with a wife and family, when he has a small family growing up he is just waiting until he gets some assistance from his eldest son. During the last five years there have been many of those sons killed in the war; consequently the assistance that the breadwinner would have been taken away. I may say for myself I lost my eldest son in the war, and my second son made useless. Had I been working with a low wage—I do not say that I have a large wage—but had I been working at the engines, as I was previously, I know that it was my hope and my desire that when my boy would be able to help me we would be better. We would simply have been left now with my two eldest sons taken away. That is pretty general amongst workers. That is one point that ought to receive very great consideration from this Commission. I wanted to read an extract from a statement of Mr. Bonar Law when he was Chancellor of the Exchequer; perhaps I may do this after the adjournment.

9275. Chairman: If it is in relation to Mr. Bowerman's question do it now, because Mr. Bowerman

will not be here this afternoon?—This was a deputation from the Parliamentary Committee with certain representatives of other organisations that met the Chancellor of the Exchequer on November 14th, 1917, and I would like to read what the Chancellor said to that deputation. The deputation put forward a suggestion of a levy on wealth, and the Chancellor of the Exchequer said: "I do not think so, any more than does the yield from the Income Tax. I will put it in the way of a percentage. The indirect taxation in 1913 and 1914 represented 42 per cent., and the direct taxation 58 per cent. Now indirect taxation is 18 per cent. while the direct taxation is 82 per cent. All I mean by that is to show you that the great bulk of the cost of the war has been paid naturally in the only way in which it can be paid, by those who have wealth, but you are, of course, thinking of what the effect will be after the war. What sort of parties we are going to have I do not know, but as a matter of prophecy I would venture to say this, that the political conditions which prevail in this country will be of such a nature that the burden of this taxation is not likely to fall upon the wage-earners so long as there is wealth which can be made to pay it. That is my own view. I think there is very little danger from your own point of view of the bulk of it not continuing to be paid in the same way as the war itself is being paid for, but I feel that the total burden of taxation represented by the National Debt however you adjust it will mean a burden upon industry. Everything comes down to that in the long run where there is taxation. That burden to a certain extent is one of the inevitable consequences of the war, and all we can do is to try to make it tell as little as possible on the life of the country. Suppose you take this view—and I am inclined to take it myself—that we ought to aim at making this burden one which will rest practically on the wealth that has been created, and is in existence at the time the war comes to an end, not merely that it should not fall on the wage-earning classes, or on the people with small means with which to meet it, but that it should as far as possible be borne by the wealth that exists at the time so that it would not be there as a handicap on the creation of new wealth after the war. I think that is what we have to aim at, and how is that to be done? The question of whether or not there should be conscription of wealth then is entirely a matter of expediency, and I think it is a matter which concerns mainly not the working classes, but the people who have money. In my opinion it is simply a question of whether it will pay them best, and pay the country best, to have a general capital levy, and reduce the National Debt as far as you can, or have it continued for fifty years as a constant burden of taxation. Perhaps I have not thought enough about this to justify me in saying it, but my own feeling is that it would be better both for the wealthy classes and the country, to have this levy of capital, and reduce the burden of the National Debt. That is my own feeling, but I am convinced of this, and this is the only point on which I am absolutely in disagreement with Mr. Webb, that you cannot do that while the war is going on, and that you will not get the money if you try to do it, but that you will run the risk of falling short of money." This extract I have just read to show really that the Chancellor of the Exchequer at that time held the point of view which I am endeavouring to put forward here.

9276. Mr. Bowerman: With regard to the quarterly assessments it is the case, is it not, that at the end of the financial year, if a man has overpaid, a readjustment takes place?—Yes, that is so.

9277. Do your members experience any difficulty in getting those readjustments?—Yes, great difficulty.

9278. In what way?—Well, men do not like to have to pay arrears.

9279. I am not speaking about where they are called upon to pay more, but where they have something refunded?—That is what I mean; they have to pay back out of their wages.

9280. No, I mean the other way, where a man may have overpaid?—No, but there may be difficulty. I have many questions asked me, but I have never had any personal experience of it.

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[Continued.]

9281. No case of overpayment has been brought to your knowledge?—No.

9282. But cases of underpayment have?—Yes.

9283. Then you say they do not like to pay the balance?—They do not like to pay the arrears now.

9284. You could not say whether some of these statements were for cases of that kind, or for non-payment altogether?—I think these would be non-payment altogether—inability to pay. I do not know what the procedure is in many courts, but I think it is pretty general all over Scotland at least, that if a worker appeals and that appeal is refused, if he appeals to the Income Tax Collector and they do not agree with his appeal, it is put into court. The man is not given a right of appeal at all. That is before he gets making his appeal at the proper tribunal.

9285. *Chairman:* Appeal on assessment, or on the payment of the Income Tax?—Some point on assessment.

9286. *Mr. McIntock:* Is that not through failure to appeal at the proper time?—No. The solicitor that takes most of these cases informed me that if a man appeals, and if they are not going to grant it, that is to say if they are not going to give in to what he says, they send it into court, and he has no right of appeal then.

9287. The days of appeal have expired?—Well, he said not.

9288. *Chairman:* I should like to have it a little more definite if you can get it?—Would it be sufficient for me to send it on to this Commission? [*Sir App. No. 18.*]

9289. Yes, if you will do that, because that is not clear?—Well, I will send it on. What I have stated is correct.

9290. You will get that properly confirmed, will you?—Yes.

9291. *Mr. Bourcman:* With regard to the last paragraph as to some maintaining the household on the death of the father; you suggest there should be an allowance?—Yes.

9292. Could you make any suggestion as to what the amount should be? Is it according to the number of children that would have to be looked after?—Yes. I think it should be made on the same lines as if it was a father that was making the wage. If the son is keeping his mother and brothers and sisters he is surely entitled at any rate to the same consideration as the father would have received if he had been the wage-earner.

9293. May one take it that in your particular industry with all its daily risks, and so on, cases of this kind are fairly numerous?—Yes, I know a good number myself, and it is very nice to see the eldest son, or the second son, or at least the oldest son that is unmarried, keeping the house, keeping his mother and family, and, of course, he is subject to these disabilities that we have been pointing out. I think at least he should be put on an absolutely equal footing with the father if he was the wage-earner. I think there should be no difference in that; it is so manifestly fair.

9294. *Mr. Marks:* In your first paragraph you say that the Trades Union Congress represents nearly 5,000,000 workers; that has increased a great deal in the last few years?—No, that is with the increase. I think it will be about 5,000,000 at the present time. About three or four years ago it was much less—under 4,000,000. I think about 5,000,000 is pretty near the present membership.

9295. How have you got at their opinions? I gather that at the last Trades Union Congress there is an instruction to the Parliamentary Committee to take certain action on particular points?—Yes.

9296. And the question is decided, is it not, by a vote of all the delegates at that Congress?—Yes; I may just illustrate the procedure. Take my own Association, the Colliery Enginemen and Boilermen; they discuss a certain resolution, and that is passed at their annual meeting and sent up to Congress for

an instruction to be given to the Parliamentary Committee, or a motion on any question. That motion is put before Congress. I have the present agenda for the current year here. That motion is placed on the Congress agenda, and then it becomes the property of the Congress, and it is debated in the Congress. It may be defeated at the Congress, but if it is carried at the Congress then it remains to the Parliamentary Committee which is also appointed every year at the Congress to carry that motion into effect.

9297. And it goes forward as a resolution of the whole Congress?—Yes.

9298. Let me go back for one moment to your own Society: how many members are there in your Society?—About 25,000.

9299. Call it 24,000, because it is easier to divide. Suppose there were a few over 12,000 in favour of a particular motion, and a few under 12,000 against; that would go forward, would it not, as the resolution of 24,000?—Yes.

9300. So that there might be only a small majority in favour of a particular proposition?—Yes, that is possible.

9301. I do not say that it is so in this case, because I expect there is a large majority, but that at any rate is the theory of the thing, and it is possible that a resolution might go forward as the resolution of 5,000,000 workers, whereas it was only the resolution of a little over 2½ millions?—Yes, but I may add this. As regards this motion there never was a division upon it at the Congress.

9302. So we have understood from other witnesses. Now let me ask you another question. Do you not think that in any income which a bachelor at any rate enjoys there is a certain margin above the mere needs of subsistence which would be available for taxation?—Yes, well, I have always been a strong advocate of a tax on bachelors—that is, a tax on single men.

9303. As single men?—As single men.

9304. I am not on that point, and what I want to get at is this: whether there is not in most incomes at any rate a small margin which might be available for taxation. It applies most strongly to bachelors, but it also applies to married men and families?—Well, that might be quite possible; I do not say it is not.

9305. I will just put one or two cases to you. I saw in the *Westminster Gazette* a day or two ago a statement of one of their correspondents who had been in Northumberland, where he found two miners—he had been talking amongst them—each of whom could earn about £4 by four days' work, and they spent their leisure and their surplus income one in pigeon-fancying and gardening and the other one in two days' golf, with which you and I, I dare say, will sympathise; but still it does show that he has got a certain margin, does it not, that might be reduced by an appropriate tax?—Yes, I quite agree in that, but these instances are usually the exception.

9306. I know; I am not taking them as typical. I just mentioned that case as a case that I had seen in the papers?—I do not for a moment say that there is not the possibility of a margin.

9307. Now I will go a little more closely into detail, because I think it is necessary to get at a proper understanding of this thing. You may perhaps have read the paper that Mr. Herbert Samuel read at the Statistical Society dealing with the taxation of the various classes of people, in which he ascertained by very careful inquiry what amount of taxation was paid by families of five persons—the average family. He says there that an income of £100 a year paid in indirect taxation just under £14 a year—a large proportion, I agree. Of that amount tea, sugar, tobacco and alcohol amounted to over £12 13s. What I suggest to you is this, that even with so small an income as £100 a year for a family income, some slight reduction of the expenditure on tobacco and alcohol would provide a margin for direct taxation?—

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[Continued.]

Yes; but then it depends what the expenditure on tobacco and alcohol is.

9308. The expenditure on tobacco, according to the statistics, per family of five persons for one year, 1918-1919, is £4 4s. 10d. for tobacco and £4 18s. for alcohol?—I would say that is high; that is not the average.

9309. It is supposed to be after a really careful inquiry—an exhaustive inquiry. If you do not know the paper I suggest that you should look into it, because it is very instructive.

9310. Mr. Kerly: Perhaps Mr. Shirkie can tell us what he thinks an average expenditure per week in tobacco and alcohol is amongst his constituents?—It is a bit difficult for me to say that, because I do not mix very much with the alcohol, although I do with the tobacco. I do not know that it is a fair thing to take it in that way.

9311. Mr. May: You would say two ounces a week would be a fair average for the working man?—Yes.

9312. And that he does not smoke tobacco at 101d. or 111d. an ounce?—Well, you do not get it for much less now.

9313. Mr. Marks: I will not pursue it, as you have not studied the figures yourself, but it suggests at any rate that there is a margin which can be applied to direct taxation?—I agree there may be.

9314. Now let us carry this a little further. You say yourself I think, that the workers receive double the number of money tokens at the present time?—Yes.

9315. That is to say roughly that their average wages have been doubled?—Yes, that is so. It is certainly within the mark to say that they have been doubled.

9316. Therefore, if we assume that the bare margin of subsistence also takes twice as much as it formerly did, we have still got this, that the surplus, if there is any—and I am assuming for the moment that there is—is almost doubled at the present time?—Yes; but I do not think you can assume a surplus generally.

9317. You object to the assumption of a surplus?—I do, yes.

9318. Very well, that finishes that. In paragraph 5, where you stated to us the number of cases in the County Court in Hamilton, and the number of them which had to do with taxation, I think you said that you did not know what the result of those cases was?—That is so.

9319. Do you think it might be in any way comparable with the result I saw reported, I think at Nottingham, but I am not sure, where there was a considerable number of summonses for non-payment of Income Tax, but before those summonses came into court in that particular case rather more than half of them were settled by payment?—No; these were in court.

9320. Yours came into court?—Yes.

9321. Might not that be due, perhaps, to the more pertinacious character of the Scotch?—I do not know. If it was going to be any use to this Commission I could get the exact results of the cases.

9322. I think it might be of some use, because it is a point whether these things were eventually settled under pressure by payment?—Well, I will undertake to do so. I did not go into that, except to state the facts as an indication of the hardship of the Income Tax. [See App. No. 19.]

9323. Now I want to take you on to a rather more difficult national question, where you say that the maintenance of public services, payment of interest and many other charges, must be postponed to the necessary abatement of Income Tax. Do you realize that if, for instance, the payment of interest on the national loans were abandoned or knocked down, that would do very much to destroy the credit of the Government, not only at home, but abroad?—Yes,

but when I make that suggestion I do not mean that it is going to be carried into effect. I am only saying that if it was to be the case that there was a choice between the two, whether you would have a C3 nation or not, or whether you would postpone some of your commitments, then the choice for the A1 nation would be the first and the most important.

9324. Yes, I see that point. We will assume that we have got to the situation where it is necessary to make a choice between a repudiation or postponement of interest, and the raising of the Income Tax limit. My point is this, that when you have got postponement or repudiation admitted, and it had taken place, you would so far have destroyed the credit of this nation that you would have driven all forms of capital to earth, whether foreign or home, and you would very much raise the price of every sort of commodity here, because you have destroyed your foreign trade, which depends almost entirely on credit?—Yes, I agree; but then the point is this, or at least the point that was in my mind was this, that if you have a C3 nation you are simply destroying everything.

9325. I am coming to that. That being so, if you have raised the price of commodities, and particularly commodities which are necessary to maintain the health of the nation as a nation, you are putting them in a much worse position for maintaining their health and vigour than if you take from them by way of taxation some small portion of income which they at present enjoy?—Well, of course, it would just depend on the proportion you did take from them.

9326. I agree that how much is rather an important point?—That is just the point I am wanting to show.

9327. I do not know that there is a great deal of difference between us. I agree that you could only take a small proportion from small incomes, and you say that you should take none at all?—No, I do not say you should take none at all, because I agree there would be a proportion taken even at the present time, supposing the Income Tax was limited to £250.

9328. By direct taxation?—Yes. I do not mean every worker, but a good proportion of the workers.

9329. Would you agree, then, to go as far as this, that in certain cases the limit of £250 is too high. For instance, suppose an unmarried man enjoyed an income of £240 you would think he ought to be taxed?—Yes, but as I have indicated I would do it in another way, where you would get at the bachelor or the unmarried man.

9330. By means of a specific tax on bachelors?—Yes.

9331. Mr. Walker Clark: A poll tax?—Yes, a tax that would touch him, and that he is entitled to pay; I agree there. It is the married man with the family that we are talking of at the present time.

9332. Mr. Marks: I will just ask you this, more for information than anything else in my own case. Does not that imply, whether you call it a tax on bachelors or whether you call it Income Tax, some sort of distinction between the various classes of persons whom you are taxing which leads up to this, that in a properly adjusted system of wages there would also be a distinction between a bachelor and a married man with one child and a married man with two children. If you are going to adjust the payment of tax to the man's circumstances, ought you not logically also to adjust his wages to those circumstances?—You mean his direct wages from the employer?

9333. Yes?—You would have a difficult task.

9334. I know. What I was going to ask you further was this: is it not the general policy of the trade unions not to admit any distinction between the private circumstances of the various workers as regards payment of wages?—Well, I think that is fair. It is fair from his employer's point of view, he being employed with an employer and doing the same work.

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[Continued.]

9335. You mean the man who does the same work, whether he has got a wife and children or whether he has not, supposing he earns £2 or £3 a week, should receive that £2 or £3 a week?—Yes; but approaching it on the other side, it is just, on the other side, that there should be a responsibility on him to contribute as far as his abilities go. For instance, take the City, the corporation that you live in. The bachelor gets all the privileges that the married man pays for. He has the use of the streets, he has the use of the lighting, he has the use of everything, and he really uses them more than the people that pay for them; and he does not pay anything.

9336. Out of rates?—Out of rates, yes.

9337. I was going to put it to you, but I do not think we shall agree, that if the trades union policy, which I take to be the general policy of labour, is that no distinction must be made between men with differing responsibilities so far as wages are concerned, is it your suggestion that a distinction should be made in the matter of taxation; the two things do not seem to me quite to hang together?—They do, yes, because they come from different sources; but I am not advocating the one any more than the other; but I say the one is fair.

9338. You suggest that all overtime should be free from taxation, and you say that the ground of that suggestion is that the man who works overtime is put to greater expense?—That is so.

9339. Does he not also get greater wages—time and a half or double time?—Yes, but they do not all get time and a half or double time. For instance, the trades that I am in does not get any extra for working overtime.

9340. That is a condition of your trade; it is not an ordinary condition?

9341. Mr. Walker Clark: Is it at an extra rate?—No; it is at the usual rate.

9342. Mr. McIntosh: Is it your view that above £250 there is a taxable capacity?—That is evidently the view of the trade unionists.

9343. I would like you to look quite fairly at the amount of taxation up to £250 in view of the recent concessions that were made in the House of Commons. You take the case in your own proof here of a household of four; that is a man, his wife and two children?—Yes.

9344. I will leave your figures, because they have gone; they are the old allowances. The position at present is that there is £120 of abatement; there is £50 for the wife, £40 for the first child and £25 for the second one; you know these are the allowances now?—Yes.

9345. The total is £335. I am dealing simply with a married man's position. If he has an income of £250 per annum he is asked to pay tax on £15; the difference between £335 and £350. Do you follow these figures?—Yes.

9346. You know the rate of tax he pays on that £15?—Yes.

9347. It is 2s. 3d.?—Yes.

9348. He pays £1 13s. 9d. out of his £250 a year?—Yes; a married man with two children pays £1 13s. 9d.

9349. I think you will agree that it is fair, if you say the cost of living is doubled, to put that real burden of £1 13s. 9d. at one-half the amount, namely, 16s. 10d.; that works out roughly at about 4d. a week. Do you think that is an excessive tax for a man with £250, in view of the need for money at the moment?—I do not deny the need for money. All that we are contending is that it is not taken from the proper source.

9350. As a small contribution is it not a very moderate and a very trifling one?—You have got to take it this way, that the man rearing a family, keeping them in comfort and endeavouring to do the best he can for them, is doing his duty to the State apart from taxation; he is paying for it.

9351. I quite agree, but that 4d. a week up to £250 a year for a married man with two children is the measure of his grievance to-day as regards Income Tax?—But our contention is that he should not be called upon to pay the 4d.

9352. I will put it to you in this way. Supposing they put a penny an ounce on tobacco and they smoke four ounces a week, which is not a very excessive allowance, do you think there would ever have been any complaint about the paying of that 4d.?—No, because he would have the choice not to buy the tobacco.

9353. Would he smoke any less?—Possibly he would. I know men who have stopped smoking.

9354. This is only a penny an ounce, of course. I am not referring to the full duty. There has never been any complaint that I have seen or heard of, as there has been against the Income Tax, against the high tobacco duties or the high duties on liquor?—Of course, that is mostly dependent on the fact that I have mentioned, that if he does not wish to pay it he does not need to pay it. If he likes to stop smoking he does not need to pay the duty. If we wish to smoke we will just have to pay the duty.

9355. If he does not smoke should he not still pay some tax in some other form?—Well, possibly he should; and he does.

9356. He is like the bachelor you have referred to; he walks about and pays nothing at all?—No, that is not so. He always pays, at any rate, his rates.

9357. You are referring to local rates?—Yes.

9358. I am referring to Imperial taxation?—Well, it all comes out of his wages, whether it is local rates or any other rates. He has only the one source of income, and he has many outlets for expenditure.

9359. I quite agree with you; but, after all, you are concerned here with Income Tax, and the grievance of this tax on the married man with incomes up to £250 a year?—Can you dissociate other sources of expenditure from the Income Tax?

9360. Oh, certainly?—You may, but still it amounts to the same thing to the working man with the family.

9361. Do you not think it is more the direct tax he objects to rather than the amount of the tax itself?—No, I do not think so. I think it is just the ability to meet his liabilities that he objects to on the ground that it is not fair compared to the other classes of the nation.

9362. Even a small amount?—Of course, you are putting it from the very smallest.

9363. No; no one who falls below the £335 with two children—and two children is smaller than the average family?—Yes.

9364. If the man happens to have three children he pays no tax until he reaches £250. Do you think the average working man who is paying tax to-day really appreciates the effect of all these allowances?—He must. Of course, you are talking about allowances that he has never had the advantage of yet. At the same time £350 is a very small income for a man to keep a wife and family in comfort on at the present day.

9365. I quite agree with you; but the point is with regard to the new proposals that are made, do they, in your opinion, not go a long way to meet this objection up to £250 a year?—No, because the £250 a year would be the starting-point, whereas it is £120 at the present time; he would have other additions on to the £250.

9366. Then really the claim you wish to put forward is that no married man with two children shall pay any Income Tax until his income exceeds £1 a day?—I think I made that clear in my statement; the other statement should be increased, or remain at least.

9367. Let me put it to you: £250 abatement, £50 for the wife, £40 for the first child, and £25 for the second child, amount to £365 a year?—Yes.

9368. Do you really seriously suggest that up to that point there should be no direct contribution?—I do so. I would state this, that £1 a day is not too much, if enough, for any working man with a house and a wife and two children at the present time. £1 a day is actually insufficient to maintain them in comfort and provide for the necessities of life and the future of the children. There is a different outlook on life, and labour under Government

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[Continued.]

encourages it. I do not think they are wrong; they are quite right, because it is pressed upon them. If things are to be maintained as they are without getting any better, £1 a day cannot be too much; and there is not £1 a day in £325 a year.

9369. The figure I gave you was £365?—Well, that is my answer to that, emphatically; that he ought to be free.

9370. And it is also the view of those you represent that the real objection is to the tax as a tax, and that they would not take it in any other form such as a tobacco tax or a sugar tax, as I have indicated to you, of an equivalent amount?—No. I am not saying they are not dissatisfied with this other taxation; I am only here on the question of Income Tax.

9371. I have reduced it to you, anyhow, as it stands at present that it means the equivalent, if you judge everything by the 100 per cent. rise standard, of 5d. per week at £250 a year, and I doubt if it is generally known amongst the great mass of working men that that is all it does mean. You think they are thoroughly aware of the effect of the tax—that while nominally the rate is 2s. 3d. on the portion they are asked to pay upon, it is a very much smaller rate on the total income than 2s. 3d. in the £?—I believe they are thoroughly aware of what it comes to per week, and per day for that matter.

9372. Mr. Mansville: One question, continuing what my friend on my left said a few minutes ago, and that is with regard to the possible postponement of interest. Have you really considered what that brings in its train? Let me put this to you. This country, you know, cannot grow its own food for its own necessities?—I know it does not.

9373. Well, I think you must admit it could not, with the existing population?—With qualifications I would admit that.

9374. Chairman: It is agreed it does not?—It does not.

9375. Mr. Mansville: And therefore we have to purchase food abroad?—At the present time, yes.

9376. So long as we do not produce all our necessities we have to purchase the balance abroad?—Yes.

9377. We cannot do that without credit abroad?—No.

9378. If we became a discredited nation nationally we should find it very difficult to get any food from abroad at all?—Yes.

9379. If the total of food to go round was not as great as it is at present, it would not matter what wages you were paying or what Income Tax you were paying?—But I am not assuming for the moment that any of the things are necessary that would require the postponement of our payments. What I say is, if it came to be a choice between the two, then for the good of the nation and for keeping the prosperity of the nation, taking a longer view of it, the other would be preferable.

9380. What I am trying to put to you is that that would be a physical impossibility if we lost our credit; that the whole nation would be worse off for food and other amenities that they ought to have. It would sap the very foundation of things as far as we are concerned?—Yes; I quite see that.

9381. And it would react still further than that, because it must inevitably mean that there would be less employment, and more more?—Yes.

9382. And therefore there would not be the ability to pay wages up to anything like the present standard; they would not exist?—But that would only come to be a question when it was to be considered which of the two you would take.

9383. But I do not admit that there is an alternative; I say you are in a vicious circle. If you do the one thing you bring the whole of what I might call the betterment structure to the ground with a crash?—But I do not admit that you have reached the point when you must choose between the two.

9384. But you would have reached the point if you renounced or postpone the interest on your national indebtedness; that would be the dividing line?—You are speaking of a very extreme situation, are you not?

9385. Mr. Mansville: I am only taking your own words. I hope it will not arise, but if it does I think we must all admit that it would mean a worse and not a better state for the nation as a whole.

9386. Sir J. Harwood-Barnes: Might I ask you what in your view would be the position of a cotton spinning mill or a wool mill if they carried out your suggestion that the payment of creditors was a secondary thing to the comfort and health of the nation. In order to provide the cotton or the wool whereby these workers gain their wages they must pay for the cotton and the wool which is put into the mill. If your suggestion were carried out, and you are not to pay the creditors, and therefore not to pay the people who supply you with the cotton and the wool, how would you provide the industry by which the population would gain their wages?—I think you are wronging me. I think you are blaming me in the wrong; I do not suggest that.

9387. You suggest that the payment of the creditors is a secondary consideration to the comfort and health of the population?—Yes, but that is not suggesting we do not pay them.

9388. But it is suggesting that you cannot pay them if you have not paid first for the implements whereby they carry on their trade?—No, I am not suggesting that you cannot pay them. What I do say is that if it came to be a question of the two, then the preferable course would be to keep the nation fit.

9389. That is to say, it is better to keep them without work sooner than pay for the articles by which they are employed?—No, I am not saying keep them without work.

9390. I will not pursue it. You have given us very fair answers. I only want to point out that if you do not provide the material you cannot provide the wages. Then you say payments for overtime should be free from taxation. Is it not a very common complaint that overtime is very largely used in periods when there is slackness during the day; there is overtime afterwards because it is paid for at higher rates; is not that a very common complaint?—No, I do not admit that at all.

9391. Is it not the fact, for instance, among collieries that Saturday or Sunday work is considered rather more valuable, and Monday is devoted to play, because Monday is a day when there is full time at ordinary wages, and Saturdays and Sundays are days when there is good overtime?—There is no extra rate paid for overtime at the collieries; you may take it from me as one who has spent his life at the collieries.

9392. Surfactmen?—No. There may be an isolated place here and there. We are really negotiating with the Government at the present time to get it.

9393. Well, it comes to the same thing?—No, it does not. It comes to the same thing against you.

9394. Take it in a steel or iron works, is it not the fact in the same way that certain days are very popular for work, where overtime is heavily paid, and other days are very popular for play, when there is full time and no overtime?—No, that is not the case. And I will tell you, as one who knows colliery work more than any other industry, that managements experience the greatest difficulty in getting men to work at the week-end.

9395. It is not so in Lancashire. You speak of Hamilton. Has the Hamilton district been very exceptional as regards its coal industry? Has it been doing very badly—a very poor output?—No, it has been doing as well as any other parts of the country.

9396. Then the men there have been getting good wages?—As good wages as any other parts of the country.

9397. Are there many men who are coming home with £1 a day in their pockets at Hamilton?—There may be.

9398. I should like to know is it common to Hamilton and other places that a colliery household will often consist of a father and his wife and sons, the father and the sons bringing home (with coal wages) a considerable amount into the house?—Well, it is the case, but there is certainly not a majority of these kind of cases.

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[Continued.]

9399. Is it not a fact that a widow with a lot of male children is a very valuable woman to be wedded by a collier, because it adds largely to his income?—I do not know; I have not much experience in that. I know this at any rate, what I referred to at first, not only in Hamilton district, but throughout the country, what you refer to was more generally the case; but since the war there has been a vast alteration in these things. You know that the Government has often stated, and it is true, that there was an exceedingly good response from the mines of young men at the very first, and the result has been that "the Flowers of the Forest are a' wode away."

9400. Still, what I want to say is that there are many houses in which large sums of £10 and £15 a week are coming in in colliery districts?—Well, not many.

9401. There are some?—I could not agree to many.

9402. Would you say as regards those houses that they ought not to contribute Income Tax unless there is a general average of £250 a year per person?—I would not say anything about these houses at all, because I think they are so few. I think it would be quite right to make them pay something, but it is the difficulty of getting at them; this is hypothetical, is it not?

9403. It is actual in a good many cases?—I mean to say if you put it at a good many, I am not aware of it.

9404. I want just to amplify the fact of their not paying Income Tax. Is it because they object to Income Tax? In the first instance you rather suggested it was because they were unable to pay?—Yes.

9405. But you do not adhere to that, that that is the reason they are put into the County Court: it is rather that you had not considered it fair that they ought to pay?—Oh, no; I do not think it is fair to say that. Do I say that here?

9406. No, but some of the evidence which you have given suggested that they were in a very poor condition, and these County Court summonses were issued because they could not pay their Income Tax?—The presumption I go upon is this, that if they have to live in comfort, if they have to have sufficient to make ends meet in a fair, comfortable and happy way, they are not able to pay. That is really the summing up of the whole thing.

9407. You say they pay so much in indirect taxes, but if you put it to us that we are to make no charge upon them in Income Tax, does it not come to the fact that we must encourage them to consume as much beer and tobacco as possible, so as to pay their fair share of the taxes?—Well, if you wish.

9408. Mr. Kerly: You have admitted some modifications. Will you add as a qualification to your whole statement, "always remembering that half a loaf is better than no bread"?—Will I admit that?

9409. Yes?—Oh, yes.

9410. Mrs. Knoder: How would you guarantee that if people were let off their Income Tax the amount saved would go to the family income? Sup-

posing you took off 4d. a week, how do you guarantee that it would raise the standard of family comfort? Would the woman get hold of it? Is it not a fact that the husband allows her so much weekly, and if he gets off his Income Tax it would not necessarily go to the family?—I think if they were prudent it would.

9411. You mean if they were Scotch?—I think a man feels a responsibility to his wife, and his family, does he not?

9412. But would she know it? If she is managing all right on what he allows her, would not he regard that as so much pocket money?—My experience is that she would know it.

9413. And would she get it?—I give the same answer.

9414. You think so?—Yes. Really it is not a question amongst the working classes of allowing so much to the wife. It is a question of the wife allowing so much to the husband actually.

9415. You think she would really handle it for the family?—Yes, she gets the whole pay to handle, and then she may allow him something, or he may not want it; but it is not a question, as they do in business life, that so much is allowed to the household. The whole wage goes into the household.

9416. I have known cases even in Scotland where the wife did not know what he was earning?—You may have known cases, but I am talking of the average working man, and you may take it that that is the case.

9417. Well, you ought to know. You think it would really go to the pocket of the family if they were let off?—Yes, I do.

9418. Mr. May: I have only one question to ask. Mr. Marks asked you to assume that we have got to the point suggested in your paragraph 9, and he suggested to you that at that point we should be without all forms of capital, and I think for the moment you agreed?—Yes.

9419. Would you not, as representing the trades unions and the workers generally of Great Britain, suggest that the main form of capital was still intact—labour?—I would.

9420. And is not that really at the back of your suggestion in paragraph 9? What you really mean is that if the country ever did come to the point when it had to choose between these two alternatives, the credit of the country at home and abroad would be so far gone that the adoption of your proposal would matter very little in that direction, and that the maintenance of the physical standard would be the surest means of restoring that credit?—That is the whole of my meaning in that paragraph.

9421. Mr. Marks: I did not quite say what Mr. May suggests; I said capital would have gone to earth, which is not the same thing as destroying it.

9422. Mr. May: At least, we were lacking it for the time being.

9423. Chairman: Thank you, Mr. Shirkie, you are an excellent witness.

SIR WILLIAM VESTRY, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Evidence-in-chief of Sir WILLIAM VESTRY, of the firm of Vestry Brothers.

9424. (1) Our firm, both as to the partners and the capital, is purely English. We are not interested in the American Beef Trust or any other foreign firm in any way.

9425. (2) We are proprietors and managers of freezing works, cold stores, or cattle ranches in Great Britain, Russia, China, Australia, New Zealand, United States, Venezuela, Brazil, Paraguay, Argentina, South Africa, Madagascar, France, Spain, Portugal, and other countries. The capital employed in the business and that of the affiliated concerns under the same management is in excess of

£30,000,000; the business therefore ranks among the largest British industrial concerns and is larger than that of all other British freezing and cold storage companies combined. It is quite as important as that of three out of the five members of the American Beef Trust. Up to the end of the year 1915 we conducted the business from London. In that year taxation was imposed which made it impossible to continue working from England. We did all we could to be allowed to remain in England, but after several interviews with the highest officials, who were most sympathetic, we had no alternative but to remove the business abroad, and are now domiciled in the Argentine Republic.

9426. (3) Our competitors are the American Beef Trust; they are fierce competitors with more than £100,000,000 of capital; enterprising and skilled in

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[Continued.]

their business, and with the whole force of the American Government and of every employee of that Government everywhere working like beavers for them. Under these circumstances, for any firm to try to compete with them on anything but absolutely equal terms is useless, the slightest handicap means failure.

9427. (4) I think the best evidence I can give as to the effect of the Income Tax, Super-tax, and Excess Profits Duty is to give the concrete example of its effect in the case of our firm and to show the unfair and overwhelming advantage given to the American Beef Trust by the present method of taxation.

9428. (5) In respect of all businesses begun since August, 1914, if we were working from London, we should have to pay on the profits 6s. Income Tax, 4s. 6d. Super-tax, plus 40 per cent. Excess Profits Duty on all profits in excess of 9 per cent. In addition we should also have to pay 40 per cent. Estate Duty, which is merely deferred Income Tax, so the result would be as follows:—

(In the following calculation no account is taken of the effect of the 9 per cent. allowed on capital, as it is impossible to estimate what relation it would bear to the profits, but it could not materially affect the calculation.)

Profit	...	...	£100	0	0
40 % Excess Profits Duty	...	...	40	0	0
			60	0	0
Income Tax 6/	...	...	
Super-tax 4/6	...	...	31	10	0
			10	6	
			28	10	0
Death Duties (merely deferred Income Tax 40 %)			11	8	0
			217	2	0

so that the Government would take £22 18s. in taxation, leaving us with £17 2s. for the use of our capital and to cover the risk and as payment for our time, energy and enterprise; to do business on these terms is, of course, impossible. The Trust, on the other hand, pays the American taxes on the business they do in America just as we should do on our English business, but they have made their businesses outside America into foreign companies, and unless they take the profits to America, which they avoid doing as much as possible, they are free from American taxation. Most of the goods they sell to England are sold f.o.b. port of shipment, and are quite free of English taxation. If they ship goods to England without selling first, then they are given special terms by the English Government. The net result is that on more than 90 per cent. of their business with England from their works outside America they pay no taxation whatever, and only a mere trifle on the remaining 10 per cent., while we, if carrying on our business from England, should have to pay £22 18s. per cent. on the profits if the goods were sold in England or even if they were sold abroad and never saw England, a condition under which it is obviously impossible to work.

9429. (6) We are told and believe that the Government would like to get England out of the clutches of the American Beef Trust, but, in fact, the Trust themselves could never have conceived so perfect and simple a device for consolidating and extending their practical monopoly of the frozen meat trade as that the British Government should exempt them from taxation and impose a tax of £22 18s. per cent. on the profits of any British firms who might have the temerity to oppose them. It appears impossible, but that is the present position.

9430. (7) We should like very much to bring our organisation to this country and work from London instead of Chicago or Buenos Aires, but we cannot do this unless we have equality of taxation with the American Beef Trust and the Argentine Meat Companies. It does seem a pitiable state of affairs that we should have to ask our own Government for equality of treatment with foreigners in our own country, or that we should have to remove our business abroad in order to be able to trade in England on an equality with foreigners.

9431. (8) It is unnecessary to point out how vital it is that the supply of foodstuffs, particularly of meats, should be in the hands of English subjects, whereas, whatever their intentions may be, the Government have done, and are doing, everything they can to fasten the American Beef Trust still more firmly upon the backs of our people.

9432. (9) Until ten years ago, the American Beef Trust had not one single freezing works outside the United States. Since then they have built very many in different parts of the world, solely to supply the English market, and are now building freezing works at San Paulo, Santa Ana de Livramento, another quite near that place, and two at Rio Grande de Sul, all in Brazil, three in Paraguay, and one in Santa Cruz, Patagonia, and have bought land and are about to commence the erection of another at Rosario de Sante Fe, in the Argentine Republic. They are also commencing building in Colombia, I believe at Barnaquilla, also sending out material to build in South Africa, and have their men out acquiring sites in other countries. They have, to my knowledge, offered to buy important works in the Colonies. All their works in the past have been built almost solely to supply the English market. While all this work is being done by the Trust, not one English freezing works has been built abroad by any other firm than our own. It does seem to me that the preferences which are given in every possible way to the American Beef Trust by the English Government should be stopped and English firms given equality of treatment. We do not ask for any preference in any way, but merely equality of taxation.

9433. (10) One of the most shameful things is that the American Beef Trust are allowed to open freezing works in Australia (a British Colony), sell the whole of the beef from those works to the British Government, and not pay one farthing of taxation in England either for Income Tax, Super-tax, or Excess Profits Duty, while, upon any profits which might be derived from our Australian works, were we domiciled in England, we should have to pay £22 18s. per cent. in taxation. That this state of affairs should be allowed to exist for one minute after attention is called to it is beyond belief.

9434. (11) We have been asking for many years for equality of treatment with the foreigner. Every Government official we see agrees with us that the position is unjust and deplorable. Seeing the great interests which are at stake, and what a matter of national importance it is that the frozen meat industry should be in English hands and conducted from England, cannot taxation be so arranged that English firms can commence to work from this country at once, on an equality with the foreigner.

9435. (12) So far as I know there are only two English companies engaged in the meat freezing industry abroad. The American Beef Trust had nearly killed them both, when the war broke out and saved them, but it is quite certain that when the trade gets back to its normal state they will either have to be given equality of treatment with the American Beef Trust so far as taxation is concerned, or they must conduct their businesses from abroad, sell out to the Trust, or go out of business.

9436. (13) In conclusion there is no reason whatever why England should not have the lion's share of the frozen meat industry, it can be conducted quite as well from London as from Chicago or Buenos Aires, but the foreign works controlled from England must be free from English taxation so long as the profits are not brought to England (this was the case until 6 or 7 years ago). If any taxation should be imposed upon the Trust's business with England, English firms should pay on the same basis, but it is idle to think for one moment that they are going to be able to pay any taxation in England, on business done from their foreign works, with countries outside England; competition is too fierce to permit of any handicap.

9437. (14) So far as revenue is concerned, the Government would receive far more indirectly by freeing the industry from taxation, otherwise it is only a matter of a short time before there will be no industry to tax. Take our own case for instance, if

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[Continued.]

we were granted equality of taxation with the Trust we would as soon as possible move our business to England and control our foreign businesses from England, directly and indirectly finding employment for a very large number of men. Further, I am quite sure that when the trade knew that the English Government would give them equality of treatment with the American Beef Trust so far as the taxation of foreign businesses was concerned, and would not handicap them by taxing them more heavily than the American Beef Trust on any business they might do

[This concludes the evidence-in-chief.]

9438. *Chairman:* We have your evidence-in-chief. You are the proprietors and managers of these great works?—These various works, yes.

9439. I will ask the Commissioners to examine you now on your statement.

9440. *Sir L. Whitaker:* We have had an opportunity of reading your proof of evidence, and therefore I will simply ask you questions upon it?—Might I say one thing: I see you have got me down here as Vesley Brothers, Limited. It is Vesley Brothers, not Limited, but I do not know that it matters very much.

9441. You are proprietors and managers of very large concerns in many parts of the world?—Yes.

9442. With a very large capital?—Yes.

9443. Prior to 1915 your head office was in this country and the control was exercised from here?—Yes.

9444. In consequence of taxation you have removed the control, I understand, to South America?—Yes to Buenos Aires.

9445. So this is not a case of someone coming and telling us that they might have to take their business away, or would have to do so; you have actually done it?—We have actually done it.

9446. That means a considerable loss of Income Tax to this country?—Very considerable.

9447. Then I think you make a further point about the American packing houses sending their meat into this country?—Yes.

9448. And that if you were here you would pay a tax that they do not?—That is so. They practically do not pay anything. We should have to pay, according to the statements I show here, something like 82½ per cent.

9449. And you feel that this differentiation, as you consider it, against you is so serious that you cannot possibly remain here?—We cannot possibly compete with the American Beef Trust unless we are given equality of treatment in taxation. Any German can come in here to-day and send his stuff in on the basis I am asking for. I only want the treatment that you give to any German.

9450. I understand also that there were some other companies here, and that some of them, at any rate, you have acquired because they could not continue here on the old footing?—That is it.

9451. So that it means more companies than your own in this particular line of business have gone?—Yes, and further, there are now only two companies in this country engaged in the frozen beef trade. One of those companies has been to us three times for us to buy them out, and we were within 5 per cent. of buying the other company out, and then you would not have had one British company in this country.

9452. That is a condition that applies in principle to other businesses as well as your own?—I will keep altogether to the beef trade. I do not know anything about any other businesses, but this one I do know something about. I know you cannot have any beef trade, or any frozen works abroad if you continue with your present policy.

9453. I think I understand that, and I just wanted to put it to you for the purpose of getting your opinion, and advice if you feel able to give it, as to how the difficulties which doing as you wish would give rise to could be best met. As you are well aware, until 1914 investments abroad, when the income was not brought to this country, were not taxed here. That is the position in which you wish to be placed?—Yes.

9454. You are no doubt aware that that affects a large number of other concerns, that is to say, large

with England, they would soon begin to form companies and largely increase England's share in the trade, so that directly and indirectly the trade would be the source of a large revenue. If this line is not taken it cannot be long before there will cease to be any revenue direct or indirect from English freezing works abroad, as the two English companies will have been taxed out of existence, no new ones will be started, and the American Beef Trust, aided by the English Government will have secured practically a monopoly of the supply of foreign beef to England.

trust companies and insurance companies, and also some private individuals who did invest their money abroad and accumulate the interest abroad and not bring it here?—Yes.

9455. The total of that income would be very large and would make a very serious gap in our income tax receipts. I did not know whether you, with your great experience, had any suggestion to make to us that would enable us to relieve what all of us would feel is a serious matter about these businesses, and still retain the tax on those other investments and businesses to replace which would be a very serious matter?—So far as our trade is concerned you cannot tax the trade which is done between two foreign countries. For instance, if I kill a beast in the Argentine and sell the product of that beast in Spain this country can get no tax on that business. You may do what you like but you cannot have it. On the other hand, the goods which come to this country I would suggest that you take a turnover tax upon, say, 1 per cent., or any percentage you like to fix on the goods which are brought to this country. They are the only ones which can pay a tax, and that would put us all in the same position.

9456. You are aware there is a provision in the law now for a tax on turnover practically?—Yes, but that is not applied to English people; that advantage is given to foreigners only.

9457. Of course, as you see, that does not deal with the difficulty of letting off the investment companies?—No. I do not know what you are going to do. I know, of course, it is a very difficult position. How would it be if it were applied to trading concerns only?

9458. That means differentiating between business profits and interest on investments, and when you come to split up your business profits to ascertain how much of that is interest on investments or return of capital, and how much is profit, you will find you are in very great difficulty?—An investment company is an investment company; its investment consists in debentures or investments in shares, and that is very easily found out; there is no business profit there, so I think it would meet the case probably, so far as investment companies are concerned, do you not think so?

9459. Your suggestion broadly would be that the relief should be given to trading undertakings?—Only.

9460. *Sir E. Nett-Bower:* I suppose you would not object to this: assessment on the business excluding the trading between foreign countries. The partners who resided here would be liable to some extent, at any rate, in respect of foreign profits that have accrued to them if they were brought here; at any rate, you would admit the liability?—In a business of this nature you cannot say how much is made in one country and how much is made in another. You kill an animal and the product of that animal is sold in 60 different countries. You cannot say how much is made in England and how much is made abroad. That is why I suggest you should pay a turnover tax on what is brought to this country, whether it be the hides, the beef, or any portion of the animal. I want to help the country to get revenue. It is not my object to escape payment of tax. My object is to get equality of taxation with the foreigner and nothing else. I do not mind if you make your turnover tax 10 per cent., 5 per cent., or whatever you like so long as I have equality with the American Beef Trust; and that, I think, I am entitled to have. I cannot get it, and I have never

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been able to get it yet, but I do feel I am entitled to it.

9461. It is not a very easy problem, but I should like to put one question to see if I understand the matter aright. Your suggestion comes to this, does it not, that we should pay no attention to the question of where the control of the business is?—Absolutely.

9462. I think that is the point you are on?—Yes. 9463. We have evidence of other witnesses bearing on that point. No doubt the doctrine that the control of the company being here should carry with it the consequence that the whole profits of the concern, stretching over two or three continents possibly, should be taxed just as if they were English profits, does give an enormous scope to the Income Tax. We have to consider very carefully what we have to recommend with regard to the enormous liability which attaches to control?—Yes.

9464. You say you would like to control your business here provided it did not involve your business in such an immense liability. You have to arrive at the English profits somehow?—You cannot arrive at the English profits; that is why I say you should take the turnover.

9465. You have to take some measure?—You take some basis.

9466. That was the difficulty that had to be faced, I understand, in the case of the Beef Trust Companies. I understand they said that they could not ascertain what their English profit was?—No, they cannot.

9467. And the one solution was to charge them on turnover?—Yes.

9468. As long as the same calculation was made in your case as in the case of the American Beef Trust, you would be content. You merely ask for equality of treatment, and you want to get rid of what I understand is the further liability to taxation by reason of control here?—That is it.

9469. You have a lot of foreign properties, and if you had the control here, you would probably come to reside here to exercise that control?—Yes, I should.

9470. With regard to the foreign properties you would not object to being assessed on the foreign profits so far as at any rate as you had them sent over to this country?—The net result of that would be that none whatever would be sent over.

9471. I only want to understand what your position is?—I am quite willing to accept that, but I want to point out what the result would be.

9472. Then if I understand the matter aright you really want two things; first of all, you want some limitation of liability to taxation by having control in this country, and, secondly, you want the law to be restored to the position it was in before 1914 when foreign profits which were not remitted to this country were not charged?—That would settle all our difficulties; we should come back to England to-morrow, and we should employ 3,000 or 4,000 men.

9473. Mr. McLindock: I would like to ask you a question or two about your calculations here. With regard to your 32 per cent. in the first place, you ignore the standard altogether?—The 9 per cent.

9474. Take the case of a new business?—I call attention to that; it would affect the calculation to some extent.

9475. To a material extent?—No, not very material.

9476. Assume you have a capital of £500 earning £100 profit, that is, 20 per cent.; you are entitled to 9 per cent. on that £500, are you not?—Yes, I suppose so.

9477. That is £45. You take that £45 off the £100 first; you are allowed to keep that: is not that right?—May I put it in another way?

9478. I should like to put it in my own way first?—Will you begin again; I want to follow closely.

9479. Capital £500; 9 per cent. on that is £45; take that off the £100 profit you have earned on the £500?—That is after I earn 20 per cent?

9480. Yes. You are then left with a balance of £55 which is subject to 40 per cent. Excess Profits Duty, that is £22; you have to pay away £22 out of the £100, and you have £78 left. Then you pay Income Tax and Super-tax at practically the highest rate, 10s. in the £1—10s. 6d.

9481. Well, call it 10s. You are left with £30?—Then I pay 40 per cent. of that again.

9482. To whom?—For Death Duties; it is merely deferred Income Tax.

9483. You never spend any of your profit?—Never.

9484. You save every penny you make?—Every farthing.

9485. How do you live, may I ask?—On what I earned 20 years ago.

9486. You neither spend any of it, nor give any of it away?—I do give a good deal of it away; unfortunately I am rather foolish in that respect.

9487. Then you do not pay Death Duties on it?—If I may say so, I do not give any of it away, because I give also from what I earned many years ago.

9488. Do you not think it is hardly fair to bring in the Death Duties?—Well, this is my evidence.

9489. You are dealing with Death Duties, which clearly do not emerge to-day when the Excess Profits Duty is 40 per cent.; you have not to die this year?—If I die to-morrow this calculation is correct so far as the Death Duties are concerned. If I die in 15 years this would have to be reduced by some 10 or 15 per cent. according to the length of time I take to die, but if I die to-day it is correct.

9490. I agree if you die to-day these Death Duties will have to be paid, but you look like living a good while longer?—I am thinking about dying every day. This 40 per cent. always keeps my death before me.

9491. I hope it will not shorten your life, at any rate?—That is what I dislike about it.

9492. On the question of removal to Chicago?—We are domiciled in Buenos Aires.

9493. You have not removed to the United States?—No.

9494. So you have escaped the heavy American sur-tax?—There is no tax in Buenos Aires at all.

9495. You agree if you carried on the same business in America you would have to pay probably just about as much tax as you paid in this country?—Considerable taxes, but not nearly so much, and not on foreign businesses. I can go to America, I can go to Chicago just as the Trust do, and I can run my South American business, and I do not pay one penny of taxation in North America on that.

9496. Supposing you ran the business as Vestry Brothers of Chicago instead of Vestry Brothers of the United Kingdom, are you then liable for Income Tax?—On the business I do in America, yes; on the business I do outside of America, provided I do not take the results to America, no.

9497. Assume you carried on just exactly as Vestry Brothers in this country where you have the separate companies?—Yes.

9498. You would have in America on 500,000 dollars 64 per cent. to pay in taxation?—I cannot tell you now, but a considerable amount; but on all business done outside America, provided I did not bring the profits to America, nothing.

9499. That is provided you form outside companies?—Yes.

9500. And without any control?—The question of control is not raised in America. France also absolutely exempts everyone.

9501. Can you have all your profits for an indefinite period, say, in the Argentine, for all time, to escape taxation either in America or in this country?—Why not?

9502. Would you be prepared to leave all your capital in the Argentine rather than bring it to this country or to America?—I do not know what I might feel about it in time, but I could do if I choose.

9503. Are there no Death Duties in the Argentine?—Yes, in direct line about 3 to 5 per cent.

9504. Much lower than here?—Much lower.

9505. You agree, however, that this illustration is not quite right from the point of view of the British taxation if you exclude that important fact of your profit standard?—That is the 9 per cent?

9506. Yes?—The 9 per cent. on every £100.

9507. On every £100 of what?—Of capital. But out of that 29, that is the amount of the standard, I have to pay 10s. 6d. in the £ Income Tax.

9508. I agree you pay 10s., if your income is big enough, even on the £29?—Yes, and I also pay 40

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SIR WILLIAM VESTY.

[Continued.]

per cent. on the balance, that is something over £2, so that it would make a net difference in this calculation of something over £2.

9509. I suggest to you that the difference is, as against your £28 10s. about £39?—No, I am jolly well sure it is not. I have spent with this too long.

9510. But you have not paid that because you have removed to Buenos Aires?—Yes, but I know the figures all right.

9511. Sir J. Harwood-Barnes: Where are you domiciled at present—in this country?—No, Buenos Aires. I am technically abroad at present, but I came over specially to appear before this Commission. The present position of affairs suits me admirably. I am abroad; I pay nothing. I am talking against my own interest, but I was born in the good old town of Liverpool and I want to die in this country, and I want to come and work here; that is why I am here. Really I am doing myself harm by making all these propositions. If I have got to live abroad I am speaking against myself.

9512. Did the clause in the Act of 1915, whereby we brought in the Chicago houses, not affect your views of the situation?—You never did bring them in; that is only a farce. I know that one at least of these Chicago houses pays on 1 per cent. of their turnover; that is to say, they have to pay the Income Tax on that. Very well, that is merely a farce. If you will give me that—that is all I want.

9513. Are you aware that that percentage is being raised?—Give me the same. Raise it as much as you like, and give me the same—nothing more. Make it 2, 3, 4, 5, 10, 20—it is quite immaterial to me if mine is the same, only do not give them one basis and give me a worse.

9514. I think you will probably see in the papers that we have had the packers here, because they consider we treated them badly by raising the percentage?—Did you see Armour's balance sheet? Did you see Swift's balance sheet in "The Times"—a profit of 20 millions on these works? Do you treat them very badly? All that must come to England.

9515. You know I am a townsman of yours. Is it not a fact that you made every endeavour, even to interviewing the Prime Minister and all the authorities, in order to persuade them to make such arrangements as to avoid your having to leave this country?—I did; I did everything I could. I did not want to go, and I want to come back. I want to work in this country, but I cannot if I am treated worse than the American Beef Trust is treated here, or worse than any German would be treated here. You would give to any German what I am asking you to give to me, and what I have been begging for for 4 years. You would give it to any German.

9516. Mr. McIntock: How much do you think you ought to pay in taxation to this country?—I will give you £100,000 a year, beginning to-morrow, so be allowed to come and work in this country.

9517. We cannot collect taxation here on that basis?—No, but you wanted to know, and I will give you that much; but apart from that I want whatever you give to the others. I do not care what it is. Am I not right in asking that the American Trust should have no advantage over me, or that the German should have no advantage over me?

9518. Sir J. Harwood-Barnes: Is it not the fact that Petrie's, Powell's, and a lot of other firms, took it very seriously into consideration as to following your example because of the way in which this tax in favour of the packers affected them?—I believe they did; and another thing, when I left here in 1915 I went to a solicitor in Chicago for advice. He said: "What is the matter with your people? You are the third Englishman I have had in have this work on the same business." He gave me the name of one of them, and it was one of the very biggest iron companies in this country. They had been into that office just the day before to form their business into an American business, or a foreign business.

9519. Mr. Kerly: I am not quite clear, except that you have a very serious grievance, either as to what your grievance is or what your proposals are. Do not imagine that I do not appreciate that you have a grievance, but I want to see a little more clearly what it is?—My grievance is this, that the American Beef

Trust can send their goods into this country. They have their works alongside me in the Argentine, in Brazil, in China, and in other countries, and even in the British Colony of Australia. They can send the whole of their products into this country, and on 10 per cent. of them will not pay a farthing of taxation because they sell the goods f.o.b. and on the other 10 per cent. you give a special rate, 1 to 1½ per cent. on the turnover. If I come here I get no advantage of that f.o.b. If I make £100—I have to be bothered to a pound or two more or less—I have to pay 75 per cent., 80 per cent., or 85 per cent., of what I make; that is my grievance.

9520. There are two things, and I think they must be distinguished; one is the amount of taxation that you pay?—No, not the amount.

9521. Well, the rate of taxation that you pay?—Yes.

9522. The other is your comparative competitive position alongside the American Meat Trust?—Yes.

9523. Let us take the second one first. Whatever your difficulties are comparatively with the American Meat Trust, you do not contemplate that they will prevent your earning a profit?—Not at all. They might in this country if I stayed here, but I would not try.

9524. Of course, we have to consider not your feeling perhaps of quite natural irritation?—No, it is not irritation; I do not feel irritated.

9525. How is it reflected on the trade of the country in which you have earned the profit; you have not to pay any Income Tax?—No.

9526. So that if the competition with the American Meat Trust is so severe that although they make a profit you cannot, you do not suffer any hardship from English taxation because you have no profit to pay upon?—What I suffer is, if I am unfortunate enough to make £100 in England, I pay £28, while the American can make £100 in England and pay nothing, and I am not going to compete with a strong rival on that basis.

9527. What I am putting to you, and I want you to meet it if I am wrong, is that does not prevent you trading at a profit. You do not make such a big profit as they do, but unless your operations are profit-producing you do not pay Income Tax?—No. If I lose money I am on as good a basis as they are.

9528. It is really a feeling of soreness that someone else should trade besides you in a similar business and retain more of the profit which he makes?—Put it that way if you like.

9529. And that is aggravated because he is a foreigner?—Put it that way.

9530. You do not know what taxation he pays in America?—No. I am taking now the Argentine; I know exactly what he pays, and I pay the same. I have my works in the Argentine, and I pay the same as he pays in the Argentine plus the English tax; he only pays the Argentine tax.

9531. But you are the individual who is the ultimate recipient of the profit?—Yes.

9532. Because you are a firm?—So is Armour.

9533. Your competitor is a Trust?—No, they work under the names of companies.

9534. It is a collection of companies?—And they work under the names of the companies, but they are in exactly the same position as I am.

9535. Are they not in the corporation?—Just as we are. Vestey Brothers is a firm do not work at all. We have the Anglo South American Meat Company, or something of that sort, but we own all the shares just as Armour owns all the shares.

9536. Again, there is a qualification that was not apparent here. Your real interest is as a shareholder in a number of corporations?—Yes, put it in that way.

9537. But it makes a great deal of difference?—Not merely as a shareholder, but the owner of all the shares in many corporations.

9538. You make, as I understand, two propositions. The first is, that a foreigner trading here should be put upon the same basis as regards taxation as an Englishman trading here and abroad?—No. My proposition is that an Englishman should be put upon the same basis as the foreigner trading here.

9539. That is the reverse of my proposition?—Well, I like to put it in that way, because I know jolly well

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SIR WILLIAM VESTRY.

[Continued.]

they will never tax the American Beef Trust as they will tax me if I come here.

9540. You propose that as regards your meat import business you should pay no more taxes than a foreign producer who is sending meat here?—Yes.

9541. And you suggest that if he pays on turnover you should pay on turnover too?—Yes.

9542. The simpler way if you were going to raise revenue in that way is to impose import duty, is it not?—That would be too obvious.

9543. It is no good talking about two things under different names. The tax on turnover is an import duty?—Absolutely; well, it is not so obvious to the general public.

9544. When you have got an import duty on all importers alike you propose that if the Englishman has no other business than the importation business he should be free from taxation?—Certainly, having paid what the American paid on the same business he should be in the same position.

9545. But you know that Income Tax is a tax on individual income?—Yes, but I should have already paid it in the other thing.

9546. No, you would pay because you are a resident here. Are you not to pay anything for the advantage of living here? I am testing your proposition, you know. I want to see how it works out?

9547. Mr. May: With great respect, I should like to have an answer to your question; it is one that has agitated me a good deal since the witness has been in the chair.

9548. Mr. Kerly: Sir William is going to give me an answer. I think he was indicating it by gesture, but that will not go on the shorthand note. (To Witness): You are prepared, of course, to pay Income Tax as a resident upon your income, are you not?—Yes, I think I must say so.

9549. You do not expect that we should charge Income Tax as Income Tax upon the foreigner who chooses to trade here amongst other places?—If you do not you will soon not have any of that business to do, because you are going to throw this market open to him and let him sell in his goods and pay nothing, whereas I must pay 83 per cent.

9550. Is the only suggestion you can make for getting out of this difficulty that where we find an English resident has an income derived from an import business he should be free from Income Tax?—If you put it in that way it does not sound right.

9551. It does not, does it?—No.

9552. Well, what is the alternative?—I do not know what to say about it any more than you do I dare say. You are in very much the same position.

9553. I will leave that. I am very much alive to the fact that there are very grave difficulties, and I want to see how far you are helping us about them. Let me put another proposition to you. So far I have dealt with the import part of the business. You suggest that it is inequitable that an Englishman carrying on a foreign business should pay tax upon the profits of that foreign business?—Do you mean between two foreign countries?

9554. A wholly foreign business if you please. It makes the case no better and no worse that it is between two foreign countries or wholly in one, so we can deal with a foreign business. Do you suggest that if an English resident derives an income from a foreign business he should cut out of his income for income taxation purposes the whole income derived from that foreign business?—Putting it in that way of course it will not do, but if you do not do something of that sort the Englishman will not have any foreign business because he cannot pay two taxes, the taxes in the other country where the foreigner is and the English tax also.

9555. Now you have introduced another element altogether. If he pays a tax on the foreign business in the foreign country of origin?—He must do that.

9556. Well, supposing he does, the American expedient is to allow him to deduct that tax from the tax he pays on that portion of his income in this country?—But they have another expedient also.

9557. What is that?—Provided that he does not bring the profits of that business to America he does not pay any tax as we do in this country.

9558. I am not sure that you are right, but I will hypothetically accept that?—I believe I am right.

9559. I think you are wrong, but I may be mistaken?—But I know in the Argentine there is no Income Tax at all so the question does not arise.

9560. How far would it relieve the situation if we adopted the American plan of allowing a man who is taxed upon a foreign business to deduct from his English tax the tax he pays in the foreign country?—In the case of the Argentine, which is the principal source of the English frozen meat supply, there is no Income Tax, so it would not help in any way.

9561. In the case of the Argentine the man earning an income there is in exactly the same position as the man earning an income in a factory in England. He has got an income which is not already taxed at the source, and why should he be in a different position from an English resident?—Because you put the American Beef Trust, who send the beef from their factory, which is alongside the Englishman's factory, into this country practically, and relieve him from all taxation, and he is the man he has got to compete with.

9562. I pointed out to you, and I thought you agreed with me that that is not a trade liability, because taxation only comes after you have got the realized profits?—Of these realized profits I should have to surrender about 81 or 82 per cent., and the Americans would surrender nothing; that is my grievance. The business cannot exist on that basis. It would be carried on by an Englishman resident in the Argentine, or by a foreigner.

9563. Very well. Now I want to remind you of what you perhaps know, that there is another difficult question put to us: it is said that where foreigners invest capital here, foreign shareholders in an English company, they should not be charged any Income Tax upon the money which is produced here?—If you do so I should go to the Argentine and I should start a foreign company there, own all the shares myself, build a factory in England, and pay no penny of Income Tax.

9564. So if we adopted both suggestions this poor country would neither get an income from profits earned abroad, nor receive an income from profits earned here?—I think if you adopted all the suggestions you would have no income whatever; I quite agree with that.

9565. Now let me go to your particular example. In your first paragraph it looks rather appalling. I will not say anything more about the Excess Profits Duty, because Mr. McInnes has dealt with that. Income Tax 6s. and Super-tax—that is an individual tax depending upon the total income of the man who is paying it?—If the man is unfortunate enough to have an income in excess of £2,500 a year.

9566. His misfortune is not to have this particular kind of income, but to have so much other income as well?—But does it matter if he has got to pay it?

9567. Does not your whole objection on this amount to an objection to a graduated Income Tax? Is not your real complaint that each source of income should be treated by itself, and that nothing extra should be levied upon the taxpayer because his total incomes lumped together are larger than his neighbour's income?—No, I never thought about that. My sole point is that I should not be called upon to pay more than the American Beef Trust pay upon the business that they do; that is the point I stick to.

9568. I am much obliged to you; you have cleared up my notions of what you meant?—That is all I want.

9569. Your real grievance is that whether it hurts your pocket or not it hurts your feelings very badly to be trading alongside a competitor who is not taxed so heavily as you are?—I have no doubt it does; it makes me very cross. Another thing, the business could not continue to go on with the handicap in favour of the Americans.

9570. We are all very much obliged to you, because you have done what is so useful, you have brought a particular case before us, and it happens to be a very large one?—I may just add this, that there are from 3,000 to 5,000 men out of employment because I am not working in this country.

SIXTEENTH DAY, FRIDAY, 1ST AUGUST, 1919.

PRESENT:

LORD COLWYN (*in the Chair*).

MR. BOWERMAN.

SIR E. E. NOTT-BOWER.

SIR WARREN FISHER.

SIR J. S. HARMOOD-BANNER.

MR. HOLLAND-MARTIN.

MR. WALKER CLARK.

MR. KERLY.

MRS. KNOWLES.

MR. McLINTOCK.

MR. MANVILLE.

MR. GEOFFREY MARKS.

MR. MAY.

DR. J. O. STAMP, C.B.E., D.Sc. (Econ.), London, (late Assistant Secretary to the Board of Inland Revenue), called and examined.

The witness handed in the following statement as his evidence-in-chief:—

9571. (1) My official experience extends over twenty-three years, of which all but about a year were spent in the Inland Revenue Department. In the Tax Surveying service, I was for eight years in districts, for three upon the Head Office travelling staff, visiting for longer or shorter periods a large number of districts, and for three years at the Head Office as private secretary to the Chief Inspector. After being appointed a Surveyor in the City of London I was transferred to the Secretariat, where I remained for nearly five years, becoming Assistant Secretary in 1916. On the academic side of taxation questions I have been writing for about ten years.

9572. (2) In regard to the various subjects upon which it has been suggested I should give evidence, I have rather assumed that the Commission have already had before them in *extenso* the various arguments and facts, and that I may, to avoid repetition, confine my evidence-in-chief to a rather brief statement of conclusions or views under each head. If necessary, I am quite willing to write at greater length, but in the last few weeks pressure of business has curtailed my opportunity and leisure.

Double Income Tax and "control."

9573. (3) In a world in which there are no vested national interests, where perfect reciprocity reigns, and where an Income Tax similar in character exists in each country, I imagine that its distribution might be ruled according to the following principles.

The tax that a man is called upon to pay to the State may be said to be divisible into two parts, that which is due for the specific protection and maintenance of particular sources of income, and that which is due for the privileges which the citizen himself enjoys in his person and residence. I think no one would contend that the Australian Government has no right to make any charge in respect of a farm there merely because its net produce goes to an English resident; similarly, no one would admit that the English resident should be free from all obligation to the British Government merely because his income is derived from abroad. It is often serviceable to remember that our Income Tax is a combination of these two separate taxes, and the Commission may recall that the confusion that has arisen in the past on the subject of the taxable capacity of Ireland had its origin in the failure to distinguish these elements. It would seem to me that the origin tax, taken separately, might fairly be levied on the benefit principle, and be a flat rate, i.e., proportionate to the magnitude of the interests protected—a sort of fee or charge. The Australian Government would charge the same amount for their services to the farm, whether the English resident were a millionaire or a poorer man. There are, of course, considerations which would make the rate of the tax diminish with increasing magnitude in the object protected, but I think, on the whole, they are not important. The resident's tax, however, must necessarily be according to ability, and therefore, in my judgment, progressive. Speaking generally upon incomes of considerable amount, it would be much the larger

tax. Where origin and residence are in the same country, we can well afford to blend the two into one composite tax, and even admit the principle of degression, remitting part of the fee, applicable to origin, chargeable upon poorer people. As soon, however, as origin and residence are distinct, there would appear to be no theoretical reason why the distinction should not make itself effective. In the application of this principle, therefore, each country would charge a combined tax upon its residents for their income derived within the country, a resident's tax for the income derived from abroad, and an origin tax for all income going out, the net result being that there would, apart from slight differences in rates, be no problem of double taxation.

9574. (4) The full application of such a principle in present circumstances is, of course, impossible.

(1) There is no general reciprocity likely, and the tax systems and principles of different countries are very various.

(2) A piecemeal system admitting the principle, would be very difficult, because in relation to such of the countries considered, we are either a debtor or a creditor nation. The nations who stood to gain by it would come in with us, and those who stood to lose would stand aloof. Moreover, the practical difficulties on accounts of a piecemeal system would be enormous, as the trade carried on by various businesses does not fall conveniently and separately into different countries, and is very often merged and indistinguishable.

(3) The amount of revenue to be given up by this country would be very large, and conformity to a mere abstract conception would be too dearly purchased.

There are, however, some instances in which a recognition of the principle enables us to choose between two alternative schemes, e.g., on the difficult question of "control." In the case of a concern with manufacture abroad and head office, finance and control in London, we may be faced with the alternatives: (a) a charge upon the whole profits, less the proportion earned abroad paid by way of dividends to foreign shareholders, or (b) a charge upon the whole profits earned in the United Kingdom, together with a charge on the remaining profits, so far as applicable to shareholders abroad, of some nominal or reduced rate, say 1s. 6d. or 2s., with a full charge upon the remainder. These are only two of many possible alternatives.

Clearly, if our abstract principle allowed us to give up the origin tax where the manufacture and control are both abroad, we might be justified in making a charge where these features, instead of being joint, were divided, i.e., by imposing half the benefit or origin tax where one half of the origin is in this country. Such a line of argument would lead to the view that there was nothing repugnant in principle to a charge where a concern is being directed and managed from London, even though in all other respects it were abroad, and every shareholder were resident abroad.

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[Continued.]

9575. (5) Having regard to all the circumstances, I do not think this country is called upon for any closer approach to theoretical justice, or greater modification of the doctrine of "control," than a recognition of the distinct position of foreign shareholders in respect to profits earned abroad. Of course, all differential exemption, like differential taxation, tends to defeat itself, and be a complete burden or a complete bonus to the people in possession at the moment of change, for the differential element tends to be amortized or "bought out" at the first market sale. Sales so recent as to be within the recent rapid rise in the tax rate would not, however, form a very large part of the total holding, and so the majority of present holders would have held from the time when rates were low—indeed, low enough not to be very generally or consciously allowed for in market prices. These holders would not be given a bonus by some remission, but merely be protected from the now threatened curtailment of their sale values which recent heavy taxation may have set up. No doubt certain economic tendencies in regard to the distribution of capital would be set in motion, but I doubt if they are sufficiently important to interfere with the grant of general relief, or of a character to be properly dealt with by way of taxation rules or law.

9576. (6) It is obvious that relief on the foregoing lines in regard to the doctrine of control would be a little towards the problem of double taxation, and cover part of the field, for the dividends referred to would really fall under the weight of only one system of taxation instead of two, as now. But for the residents in this country the problem remains to be solved. Here again, pending fuller reciprocity between Governments, and as a present expedient, a full approach to the academic solution is inadvisable, and a solution on the lines of that proposed for Excess Profits Duty (viz., the payment of a total sum not exceeding the higher of the two taxes) is the best that can be given. This should be confined to British Colonies, at any rate at the outset.

9577. (7) Both the foregoing raise practical problems of administration of great complexity which cannot be avoided whatever solution is proposed upon these lines. No doubt these difficulties will be elaborated in the official evidence. One does not wish to take a non-possessive attitude, but it may well be found in practice, if the Exchequer is to be properly protected against abuse, that some of the difficulties raised are insuperable, without short-cuts and conventional standards.

Agency.

9578. (8) The question as to the point at which commercial transactions with persons abroad really constitute a proper subject for taxation here, under the form of an Income Tax, is essentially one of degree. We have an almost unbroken graduated series, viz., the regular recognized agent established here, with full powers to act; a similar agent with more limited powers (inability to accept orders finally or to receive payment); more casual or general agents; trading through brokers and travellers in the United Kingdom; regular advertising in the United Kingdom, but orders received by the firm abroad, down finally to the case where the British buyer is not the person sought but the seeker, and the goods come into the country as the result of British buyers seeing foreign advertisements and buying direct. All through there is an element of competition with British selling houses, and, therefore, the cry can be raised that exemption of such transactions from a high Income Tax confers a favour upon the foreign seller. And, in deciding the point at which the application of taxation should stop, whether in principle or in practice, there is always a point just beyond at which the circumstances appear so similar that any differential treatment seems hard to justify. If a single recognized agent entails liability, then why not business done through several brokers? If trade advertisements by means of a travelling representative (all orders being sent abroad) then why not trade advertisement by means of the more silent but no less effective persuasion of the printed page?

To fix any particular point, or set of conditions, at which taxation begins is, it is alleged, to give an impetus to a form of trade which is closely allied to, but just outside these conditions.

To the objection that in practice as soon as one gets away from a recognized agent there is no ready means of computing profit, it is answered that a conventional profit of x per cent. on the sales may be assumed. It is also urged that the import should not be allowed without some person being nominated who can be treated as an agent by the Revenue for the purpose of dealing with the Income Tax question.

Against this it is stated that at this stage the so-called Income Tax becomes very little different from a protective import duty.

9579. (9) My views on this issue are on the following lines. If a brewer is taxable on Income Tax upon his "profits" it is pretty certain that the incidence of the tax is upon him, and is not shifted to the consumer. The "marginal" brewer who can only just keep going at the current price of beer (or the "marginal" pint which a profit-making brewer finds it only just pays him to sell) bears no Income Tax. The tax does not perform any function in determining price, though it may be payable out of receipts, and, in ordinary circumstances, it is not shifted. But if a tax is imposed upon the beer per barrel, it does enter into and form part of price—it is in the cost of production to the "marginal" brewer, and in the "marginal" pint, and it is shifted to the consumer (subject always to the elasticity of demand and the altered quantity of total trade that may result). So if the profits of foreign traders here are determined upon ordinary profit lines, I believe that, over a large part of the field, the foreigner can be taxed. There is the least successful foreigner who, though making considerable sales here, is not chargeable because his profits are nil, and moreover successful ones may have margins beyond which their sales would be unprofitable. But if practical difficulties are such that you are driven away from the ascertainment of actual profits, to use conventions (x per cent. on sales, &c.) you have a tax which applies to marginal sales and sellers like a beer duty, which is much more likely to enter into price.

In short, when in practice we are driven away from profits to turnover for Income Tax, we approach the character of an import duty, and our Income Tax will have a similar incidence. In my view the general incidence of import duties is upon consumers, and I say this, of course, without attempting to pass judgment here upon the whole question of policy involved in such duties, and without making any implications for or against them as a whole.

9580. (10) In practice, therefore, I consider that section 31 of the Finance (No. 2) Act, 1915 (Income Tax Act, 1915, General Rules 8), taxing by reference to a flat percentage of turnover, where profits cannot readily be ascertained, goes to the very limit at which the economic character of an Income Tax can be said to be preserved. This is the more positive according to the extent to which, in applying the section in question, the practice of Commissioners tends to the adoption of a common percentage for a whole trade, rather than of a specific percentage for a particular assessment.

A simple Income Tax.

9581. (11) It may not be out of place at this point to register a deliberate opinion that the clamour for a simple Income Tax, which he who runs may read, is an absurd one. In many particulars, not always the most important, the existing chaos of rules can indeed be greatly simplified, but if the tax is to be so highly subjective as to reflect every slight difference in ability, on grounds of aggregate amount of income, marital condition, family responsibility, character of income, elements of capital, origin and source of profits, and all the other differentia which are now urged, then unless it is to be reduced to the status of a voluntary offering, it must be a complicated system.

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DR. J. C. STAMP.

[Continued.]

The United States had a full opportunity to get a simple system, having no previous commitments, and the great advantage of a prolonged study of other nations. Within a few months there were widespread complaints that that law and system were "irritatingly incomprehensible." In 1915 I was prompted to write, "There is the usual failure to see that modern life and modern commerce are so complex and diversified that to expect a tax form which shall read like a pill advertisement on the railway, and yet close down upon every case, is asking for the moon." It is almost pathetic to see how reformers propose smooth gradations and curves based upon formulae as a part of their contribution towards "simplifying" the tax.

Taxation at the source.

9582. (12) Any advantage which these curves may confer can be more readily obtained if we are prepared to pay a special price, and that price is the abandonment of "taxation at the source." I do not think that this principle can safely be abandoned until the social or commercial conscience is much more highly developed, and until men generally are prepared to be more careful and exact in regard to their personal financial affairs. In the *Economic Journal* of September, 1918, I showed that a very great gap exists between the income belonging to individuals taxed at the source and the aggregate incomes shown on Super-tax and other individual statements of total income. I believe that even the latter aggregate would rapidly diminish if it were not to a great extent "held up" by the knowledge that the other principle exists.

(1) It is difficult for a man to justify the omission of an item on his personal return on the plea that he "didn't think it was chargeable as income," if it came to him with tax deducted.

(2) He is less likely to risk omission of any items if they have already been the subject of some record by the authorities.

(3) There is less risk of collusion when the person passing on an item of income will have to bear the tax thereon finally if he doesn't deduct it.

(4) Under the present system, unless a man happens to be at a limit of income where the rate changes, and if his liability is at less than the standard rate, it is now positively to his interest not to omit any dividends, &c., from his personal statement, and therein he would not secure the necessary remission of the difference in tax. With no taxation at the source, and with a smooth graduation, a defective memory is doubly endowed: first, by the tax on the item omitted, and, secondly, by the reduced rate on the income shown.

(5) The collection of income at points of dispersion just short of the individual recipient (*i.e.*, reserves of companies, &c.) will be encouraged to an indefinite extent.

I do not believe that even a perfectly organized system of "information at the source" would be a satisfactory substitute, and it would add greatly to the responsibilities and duties of taxpayers generally.

9583. (13) It is not actually impossible, however, to have a smooth graduation, while retaining taxation at the source. For the practical application of a curve, in which the rate on the whole income alters with every change in the amount of that income, it is necessary that each individual shall be entitled to render a single comprehensive tax return for a year, on which his net liability as a whole should be determined. This must clearly be "after the event," or variable dividends, void allowances for premises and other uncertainties will affect the result. This might be given effect to as follows:—

(1) The income for taxation for the year 1920-21 might be the actual realized income of the year 1919-20. The net amount due on the scale would be payable, less any actual tax

deducted at the source from dividends, ground rents, &c., in 1919-20. The public would have to be educated to regard the tax being deducted from dividends, &c., during 1920-21, as nothing to do with the actual tax liability of 1920-21, but as payments on account of the liability for 1921-22. This would doubtless be a difficult idea to get accepted.

(2) The income for taxation for the year 1920-21 might be the actual realized income of the year 1920-21, and the direct tax for 1920-21 not be actually due and payable until after the end of the year 1920-21. When the net sum payable on the whole amount was computed, the difference between it and the actual deductions at the standard rate during the year would be payable or repayable as the case might be. This, once started, might follow on satisfactorily year by year, but the difficulty is to start it without loss to the Revenue through a year's delay in revenue collecting. Some temporary expedient might be found for bridging the gap between the two systems, or there might frankly be two nominal tax liabilities for 1920-21 at an interval of a year.

(3) A third method to avoid the difficulties in the foregoing would be to make a provisional assessment for 1920-21 on the 1919-20 actual income, to be revised by repayment or additional assessment after the end of 1920-21 when the actual income is known. There would be thus a worn payment at the usual time, and an adjusting payment or repayment some months later (which in practice might be an addition to or deduction from the following year's provisional assessment, which would be based on the same figures as the adjustment).

All of these expedients involve far-reaching modifications in the powers and methods of making assessments. But I know of no other way in which smooth graduation, the merging of Super-tax into the Income Tax, and taxation at the source could be achieved together.

Husband and wife.

9584. (14) I think that the proposition that a married couple living together should be treated separately for taxation is not reconcilable with a just view of the principle of ability. So long as cohabitation and a common ménage are the general mode of social life in this country they must dominate the taxing conception for all. If and when other modes supervene, it may be fair that the taxation principle shall be altered. For a married man with £1,000 a year the "sacrifice" in taxation falls equally upon his wife in most households, *viz.*, a sacrifice of £75 each. If they have £500 each there is no such difference in their "ability to pay" as to justify a sacrifice of only £45 each.

Except for obvious difficulties, the law, to be strictly equitable, ought to treat as joint incomes the incomes of all married couples, and also of all couples who are living together as though they were married. It is a pity that it is not, at any rate, competent in law, even if it were not often done, to charge an unmarried couple together on the principle of ability. It could then no longer be alleged that the Income Tax is a bar to marriage, a premium on immorality, and so forth.

Allowance for wife.

9585. (15) We are led to rather different conclusions as to the principle of this allowance according to whether we fix our attention primarily upon comparative ability at the same stage of income or on consistency at different stages. Should we, on the principle of ability, try to give such a "wife allowance" to a man with an income of £1,000 as will afford him the same marginal relief, the same relief from hardship, as the allowance to an income of £300 affords? Or should we think only of two incomes of £1,000, one to a bachelor and one to a

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married couple, and give such an allowance to the latter as will equate the sacrifice on the principle of ability to pay?

If the tax upon an income of £1,000 is x times that upon £900 when both belong to bachelors or widowers one is tempted to say that the same ratio should obtain between the tax upon two such incomes belonging to married couples. This, of course, is not quite the same as saying that a definite proportion of the income should be allowed. For example, let the progression be such that a net taxable income of £200 pays 2s.; of £300, 2s. 3d.; of £500, 3s.; of £900, 3s. 9d.; and of £1,000, 4s. Then the bachelor pays £33 10s. and £900 respectively (or as 1: 5·92), and if the wife's allowance were one-third the taxable incomes for the others it would be £300 and £908 respectively, being at 2s. and 3s. 9d., £20 tax and £100 2s. tax, or as 1: 5·045. The way in which the similar ratios would be secured would be to find the *rate* on the gross incomes, and deduct an amount equal to that *rate* of duty upon the proportionate part of income. Thus on the above figures the married couples would pay respectively (£200-100) at 2s. 3d. = £29 10s. tax, and (£1,000-333) at 4s. = £133 1s. 3d. tax, or as 1: 5·92 again.

9586. (16) Rival principles would indicate—

- (1) that it is unsound and undemocratic to give a greater relief in amount of duty remitted to the higher incomes, i.e., that if the difference between the bachelor's and the married man's Income Tax at £300 is, say, £5, the difference in duty at higher stages of income should never be greater than £5.
- (2) that it is wrong to give a greater relief in the amount of income deducted from the higher incomes on account of a wife—obviously the *same* amount of income will be represented by a larger allowance of duty on a progressive tax.

In both cases it may be alleged that the rich man's wife is being treated as if she were "worth more" than the poor man's.

If the non-allowance of a larger amount of income at higher levels seems to lead to inadequate distinction being made at that level between bachelors and married men, still more so does the limitation of duty. A difference of £5 when the bachelor is paying £900 in tax appears a paltry recognition of the difference in "ability" which we should never dream of regarding as sufficient if we were looking only at that level of income, and not to the democratic principle and the lower incomes.

9587. (17) I incline to the view:—

- (1) that the "wife's allowance" must be regarded at the lowest stage as a second "minimum of subsistence," i.e., that if £180 is the exemption limit, a second sum nearly equal thereto, or, say, £100, should be added thereto for a wife, the tax on a married couple beginning at £280 (a point at which the single man's tax is, say, £5).
- (2) Further, that despite the progressive allowance in duty, £100 should continue to be deducted from higher incomes, but from them at the top of the scale and not the bottom (i.e., not by a constant duty of £5), and that the duty allowance on the £100 should be at the rate applicable to the gross income. In this way the allowance would not serve to reduce the rate of tax upon the whole of the remaining taxable income. As the allowance in duty will never exceed £100, even on the highest levels, and is a continually diminishing proportion of the whole, I see no objection in theory to its going right up the scale, but as in practice on incomes of three or four thousand, it would be so small a proportion of the duty as to be treated as negligible, it might smooth off into the main curve of graduation.

Wasting assets and depreciation.

9588. (18) The subject of wasting assets is essentially one that must be seen clearly in its theoretical aspects (on pure economic principles) before the mind

is prejudiced by commercial appearances. When the abstract situation is realised, the extent to which it has to be modified by the frictional elements and the approximations of real life may be separately determined. Then still further modifications may come in for the practical aspects of taxation. The probability is that a considerable part of the original abstract conclusion will remain, though some of its sharper edges may be removed, and part of its weight may be shifted.

Mineral properties.

9589. (19) As regards the principal case of the mineral asset, I may perhaps be allowed to annex extracts from my critical reviews of works by a witness before the Commission, Mr. P. D. Leake, which I reproduce from the *Economic Journal*. Though, as might be excused in the earliest published presentations of an argument, they omit all but broad considerations, they still represent substantially my views.

As regards the corpus in mines in this country, I think no allowance should be made. As regards mines abroad, the considerations are more difficult. Where foreign competing capital is not active, we probably achieve at the present time a certain degree of shifted taxation upon original sellers of the asset who are really outside our proper tax scope, and whom it is not very fair to charge. But where the foreign capitalist, not having to discount the special burden, is active, the price is sustained to some extent, and the special burden is diffused partly upon the vendor, partly upon the mineral worker, and to some extent, perhaps, on the consumer, in the world price.

9590. (20) Where practical considerations have to be superimposed upon the theoretical argument, I am brought to doubt whether there should be any change in the status quo as regards allowances for the foreign mineral itself. The disentangling of financial interests and the ascertainment of reliable details for estimating "life" in particular cases, make it extremely improbable that proper allowances could be made in practice, though, of course, a specially constituted tribunal might handle the matter more satisfactorily. My experience with the Board of Referees' work for Excess Profits Duty encourages me to think that rough justice might be possible for foreign mines for classes or sub-classes, and a general average sinking-fund allowance for each sub-class (subject to quinquennial revision) might be a broad solution. In any case I should treat a "life" of 35 years as "normal," and only allow for other cases to the extent to which the average expectation of life falls short. The amount to be amortised would be confined to the sum paid by the first person in the chain of vendors who came properly under British Income Tax. The complications are many, and it will be a difficult thing to work satisfactorily in practice. In any case allowances should be restricted to the businesses which themselves make the reserve in question.

EXTRACT from *Economic Journal*, March, 1910.

Wasting Assets and the Income Tax.

9591. (21) The recent contribution to this subject by Mr. P. D. Leake, F.C.A. ('Income Tax on Capital,' Geo & Co.), in a plea for reform in the official method of computing taxable profits, expresses in many of its contentions what must be the opinion of the majority of those who consider the time has arrived for a revision of the Income Tax system. . . .

9592. "The position of mineral properties as wasting assets unfairly treated by the tax is worthy of further consideration. Mr. Leake founds his argument upon the case of a mine purchased outright, probably because it most clearly shows the subject of criticism. But such a case is not by any means the universal one, and an examination of other cases is essential. A landowner, having discovered minerals, wishes to profit by them. He has, broadly, three courses open to him:—(a) To work them himself, and by their produce to realise their 'original value'—adopting for a moment terms to suit the idea embodied in the proposed reform—plus 'profits' (or remuneration for management, enterprise, and capital invested), (b)

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To lease them and receive the 'original value' by royalties and dead rent, leaving 'profits' to the lessee. (c) To sell the 'original value' outright for one sum, and leave 'profits' to the purchaser. Allowing in each case the working expenses, Income Tax is paid on the whole produce, both 'original value' and 'profit'. In (a) it is borne by the owner. In (b) it is borne on the profits by the lessee, and on the 'original value' by the owner, because tax is deducted by the lessee from royalties and dead rent. In (c) it is suggested that tax on 'profits' is borne by the purchaser, and also that on 'original value,' because the asset represented by the purchase price is finally worthless, and the purchaser has paid tax on the whole product. But is this view of the incidence in (c)—though exceedingly common—the correct one? The mining industry, for most minerals, is subject to free competition. Capital and enterprise in front of any proposed undertaking can take it, or leave it to seek more advantageous openings elsewhere, and, so far as their reward is concerned, the industry is, taking the average, fairly in equilibrium with other forms of business. Moreover, the direct purchase method is not the only way of approach, for alternatives (a) and (b) are available. In short, all the conditions are present for a complete shifting back of any exceptional, calculable burdens on profits. Is it to be understood that the purchase price would be exactly the same, whether the purchaser had to pay this tax on the wasting asset or not? If the 'original value' is generally so closely ascertainable as Mr. Leake suggests, the total Income Tax to be paid thereon, apart from that on extra 'profits,' is also approximately known, and to suggest that the real value of the consideration payable in both cases is the same and yet that the original owner bears the tax under (b)—as he actually does by deduction—and the purchaser bears it under (c) is almost a contradiction in terms. There must be a very strong tendency for the consideration (c) to be less than the real consideration (capitalised and discounted gross royalties, &c.) under (b) by the lump sum of the tax, which appears to be a special disability to this class of profits. If, however, it be held that the 'original value' should not be charged to tax, it would be necessary—to be consistent—for the royalties and dead rent to be exempt under (b), and for a special calculation to be made under (c) for something which represents 'original' value, so that tax should be levied only on the balance of 'profits'—in short, to tax such of the profits as are 'earned,' and to exempt those freely given by nature. But this is surely opposed to the trend of modern opinion, which, so far from specially favouring spontaneous wealth occupying such an exceptional position, is disposed to regard it as capable of bearing an extra burden. It would clearly be possible for minerals to be discovered and wholly worked out in the lifetime of one owner without tax of any kind being paid thereon. There seems to be no valid reason for departing from the old principles by which annual value for rating purposes is determined, nor for altering the existing system under which the burden of Income Tax really reaches the owner first conscious of the existence of computable mineral wealth.

9593. "In his classification, Mr. Leake makes the statement that a leasehold is 'not an inherently wasting asset,' but this is surely to confuse the right in a subject with the subject itself. A lease for twenty-one years from 1885 is not a brick-and-mortar property, but a right to its use, and quite independent of the ownership of the right, other things being equal, it must be worth less in the market in 1900 than it was in 1890. It is rightly stated that the administrative difficulty of making allowance for its wasting value is against any change, but it is also important that if the allowance were made, the Revenue would get no *quid pro quo* (as against the larger tax received from a freehold of equal annual value) unless tax were collected from the owner upon the lump sum paid as premium or part consideration. But the argument that there is then no hardship on the lessee is not valid. A man buys a business for £1,000 and at the end of twenty-one years, on the expiration of his

lease, sells it for the same sum. The whole amount paid for the use of the premises is a fair deduction in computing the total profits of the period, but if he paid £1,000 premium he has not recovered tax thereon (by deduction) and has borne the duty himself on a real expense. It may be urged that the argument as to the shifting back of the total tax in the case of a mine is applicable here, and that the consideration he pays to go in is really less than it would have been by the total tax exceptionally suffered. But the cases are quite different. The use of land and buildings is a common requirement of all business, often with urgency as to time and place, and the owner is generally in such a superior position, especially in the renewal of a lease, that the conditions are not favourable for really shifting back the burden to any extent.

9594. "The law and practice have been much modified from time to time with regard to their application to the wasting asset, machinery and plant. Mr. Leake, in throwing upon Surveyors of Taxes the blame of disallowing properly measured 'wear and tear' charges and substituting their own calculations 'upon an arbitrary percentage off the reducing balance of cost,' refers to that method as 'altogether wrong in principle,' and implies that it is not one generally recognised in the world of commerce and accountancy. But this method of allowing upon the 'written down value,' and not upon the original cost, is not an official invention, but is very widespread indeed, being almost universal, for instance, in the printed accounts of the cotton industry. Any method is arbitrary to some extent, but that this is 'wrong in principle' is debatable. The arbitrary element can be reduced to a minimum by close attention to the facts relating to the average 'life' of the machinery in question. Neither method gives a true result at any given stage in that life. It is beyond human ingenuity to fix a rate that will, over a wide number of similar assets, always make the balance sheet value correspond with the facts, and uniformity of practice is essential. The suggestion that the auditors' and valuers' recommendation annually should be accepted, regardless of such uniformity, because it is checked by the shareholder's desire for dividends is based too much on public company experience, and ignores the wide field of private enterprise where accounts can be submitted for tax purposes, and there would be no limit to claims that could be urged. The 'prime cost' method is not inapplicable where the original subject—such as a ship—is not much affected by subsequent addition, for, a record being kept of annual allowances, the allowance ceases when the asset is wiped out. However carefully an average life is determined, some ships must exceed that average, so that we have the anomaly of a vessel written down to nil on paper sailing at an obvious value on sea. Moreover, if at this stage such a vessel is sold, and still used, the arrangement of wear and tear allowance with the purchaser—who naturally wants one—is a matter of difficulty where the full cost has already been allowed to the vendor. The 'written down value' method has at least the merit of never losing the asset entirely, and it can be arranged so that over a vast number of cases the value is written down to a nominal figure in the same time that the machine itself reaches a nominal value. Where there are constant additions it obviates the necessity for a record that would become cumbersome and complicated, for it is only necessary to record the value of the previous year and to add the new expenditure. It may be observed that neither the officials nor the Board of Inland Revenue are the final authority in such matters. In most of the staple industries the rates in force have been approved by the District Commissioners, who have usually wide experience themselves of the industry, and against whose decision in the matter of a rate per cent. the officials have no appeal.

9595. "It is necessary to consider whether a diminished value is value as a saleable asset or as a producing agent—two connected but by no means identical things. In the present state of industry, where producing capacity may be little impaired though saleable value is poor because of recent improvement in types. In any case, with the present

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method adjusted and the allowance for obsolescence, machinery as a wasting asset has full treatment in the majority of cases.

Before leaving the subject of depreciation, it is important to note that the allowance is not admitted as an ordinary trading expense deductible before arriving at the balance of profit and striking the average, but is taken off from the average. So, in a typical case where, from bad years, an average fell to £500, and the proper allowance for wear and tear was £1,000, the assessment stood £500—£500 wear and tear (duty 'nil'), and the balance of £500 was never given credit for (or, if the average was a loss, no part of the £1,000 was ever obtained). This constituted a real grievance, and the Finance Act of 1907, in allowing such unused balances to be carried forward indefinitely to future years, until they were exhausted, gave the first real recognition to the fact that the tax 'has come to stay,' and that its effects 'in the long run' must be considered. But owing to the fact that 'wear and tear' is not a working expense but an allowance, we have a very curious and somewhat anomalous result. Depreciation, though admittedly real, is not susceptible of exact measurement, but is an actuarial calculation, and yet it now stands in a far superior position to ascertained and definite expenses incurred in hard cash. Such expenses may have the effect of giving a definite known loss for a number of years. If such years of loss are isolated, they are daily worked off, in the average, against years of profit, but if they occur in succession the taxpayer may lose the 'benefit' of some of them in his averages. This may be seen by taking a hypothetical case with six years' losses in succession. Whether the aggregate tax over a series of years exceeds tax on the aggregate profit depends upon this isolation or succession, and the anomaly could only be rectified by allowing a mean average (or average loss) to be carried forward against future average profits. At present relief is granted only where taxed income is received from other sources, and this is by no means equivalent. Thus depreciation of machinery now stands in a satisfactory and even favoured position, and it is no longer upon this line that the main criticism of the tax can be directed."

EXTRACT from review of Mr. Leake's book on Wasting Assets. (*Economic Journal*, 1912.)

1906. (22) "The author's main thesis is that all the minute care in accounting for the multifarious cash and credit transactions in business which is essential to a proper computation of profit, and which now extends so widely and deeply in the industrial system, is practically set at naught, or, at any rate, greatly discounted in its usefulness, by carelessness and haphazard methods associated with provision, out of revenue, for the loss in value of plant and other assets which have depreciated in earning that revenue. It may be accepted without parody that all the trouble that the industrial world may, in course of time, be induced to take in this matter will be amply compensated. Mr. Leake shows the way, and is no uncertain guide. On the accountancy side, given the requisite data, his treatment is complete, and the consideration of rival methods, the 'original cost basis,' the 'written-down value basis,' and other forms, with the admirable tables given, is very thorough and leaves little to be desired or proved. But the requisite data are to-day too seldom present. Before they are available on any wide scale the services of the engineer, and a wide and patient series of records of actual facts and conditions over a good period of years, well compared and worked upon, will be necessary. In the writer's view the comparative value of the methods depends upon the conditions of the time; while the majority continue to 'scrap' their books after a few years and keep no record of the continual acquisition and relinquishment of plant, the written-down method is, at any rate, safe and relatively accurate—being the possible method, it is the best. As soon as the detailed record is kept, an automatic

'original cost basis' becomes possible, and when this has been kept for two decades Mr. Leake's ideal division of the total output units over the years of life becomes possible for the humblest workshop and most 'practical' proprietor."

1907. "A small point for criticism arises in the treatment of goodwill. It may be, and doubtless generally is, good policy or wise investment to write off goodwill; but it is difficult to see that it is obligatory where all the conditions that have created the goodwill still exist unimpaired, and the sale of the business would yield an equivalent sum under this head. Directly contrary to the commercial tendency to regard a good balance as a favourable opportunity for reducing goodwill it would seem that, in so far as recent profit is one of the elements in deciding whether the conditions remain unimpaired, the obligation to write off varies inversely as that profit."

1908. "The work is, of course, not primarily an economic one, although along its whole length it adjoins the economic field. So the author is probably right in dealing only with 'normal' profit in the commercial sense, and ignoring any rent-conceptions of profit. The final chapter upon the relation of taxation to the problem appears to be the least satisfactory, as the possibility of the first impact of a tax not being the same as its final incidence is nowhere mentioned or considered. Now it may be perilous to take up this aspect, but it is no less perilous to ignore it. It must be faced. In proportion as the so-called 'wasting asset hardship' is a real one, and a definite differential burden exists on a certain class of profit, arises the possibility of shifting by anticipation in purchase price be a practical consideration. The hardship cannot be real, and the question of shifting 'more theory' at one and the same time. It is not clear that the classification of assets so carefully insisted upon for the purpose of this chapter into those 'inherently' wasting and others wasting only as personal to the owner, really serves any useful purpose, and does not rather obscure the issue, for although the 'corporeal' ground of distinction may be useful for some purposes, it is precisely the asset in relation to the individual that we are wholly concerned with in any tax system based on faculty. Whether my coal or my annuity or my goodwill is disappearing is one and the same question in relation to my tax-paying capacity. The vital question is, 'Has the vendor of the source of profit been taxed on the profits of the sale?' (whether the source is sold outright or for a number of years). Mr. Leake himself shows that on purchased rights to future income no allowance can be made because the vendor's profits of sale are not taxed. Two persons with similar sources could sell to each other and neither would pay on the sale price, and if both had an allowance for 'wasting' the Revenue would lose tax on those sources altogether. Wherever a source of future profit is sold, if there is a differential tax on that profit (such as this wasting asset disability) it will be in theory thrown back into the purchase price, and the vendor pays. Reasons for opposing that economic friction operates to prevent complete shifting back in some cases (e.g., leaseholds compared with mines or copyrights) have been given elsewhere, and the point is that where there is any reason to believe that friction leads to hardship it would be better to charge the vendor direct and give the purchaser a wasting asset allowance. As soon as you make a direct charge in any of these cases you are in a position to give the allowance from annual profits, but not before. The profit on the sale of a machine (even though a firm makes but one a year) is taxed—then the depreciation can be allowed in theory, as it is in practice. If no depreciation were allowed there would be, in theory, a tendency to depress the price of machinery, though possibly the general necessity for machinery in industry and other economic conditions would operate to modify this result. Although space fails for the successive steps to be shown, the classification leads logically and inevitably to exemption from taxation (local and imperial) of all natural mineral products (coal, &c.) on so much of the value on realization as represents pure economic rent, i.e., just that 'unearned' portion of the proceeds of which the tax-faculty is usually

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marked as the highest. Now if this is really meant, it should not be left in implication, for analysis to reveal, but should be made explicit, brought to the forefront, and argued out upon first principles; any classification should then proceed from the result. If that results be a decision that such corpus-value is not a fit subject for taxation, and the wasting asset allowance be given to the purchaser of a mine, he would then have no special burden and would not depress the purchase price, while the vendor (as the original owner) would not be taxed directly on the transaction, so that Mr. Leake's present proposal would carry out the decision admirably. But such an important question must not be begged under the title of this work."

Cost of shaft sinking.

9959. (23) As regards *shaft sinking*, it would appear at first sight that the special burden brought about by the non-allowance of tax on the wasting expenditure would be similar, and that, but for the cost of sinking, the royalties or mineral values would be higher. The same line of reasoning does not, however, fully apply. The special tax is not likely to remain upon the trader's capital—it must go backwards to the owner, or forwards to the consumer. Take, first, the case where practically the whole supply of this mineral comes from sources subject to the disability, *e.g.*, British coal. At the marginal point of supply there is no rent or royalty, and, therefore, no tax on the rent or royalty. Neither the royalty, nor the tax upon it, affects price, and the burden of the tax is upon the mineral owner. But the coal that can be got from drifts without shafts is negligible, and we can fairly say that even the marginal supply must be got by shafts. The cost of shafts existing practically as fully at the margin of supply (unlike royalty or rent) enters into cost of production and price. If no shafts were necessary, the cost would be lower and the price lower for the same quantity of coal, *i.e.*, the margin would be unaffected.

But in so far as the lower price induced a larger consumption, the margin might be shifted to make a recourse to the less profitable seams somewhat necessary, so that price would not fall by the whole difference—the mineral owner in a position to command a rent could get a slightly higher one, and the consumer would not take the whole benefit.

Now the differential tax upon the cost of shafts is like an increased capital cost of the shaft, and so tends to keep up price. If it were not imposed the consumer would be the better off for the most part, though not quite the whole. But in the other case, where the world price is a blend of two supplies—one from a source specially burdened in this way, and the other free from the burden (*e.g.*, tin from foreign companies and from companies with head offices in London), the burden is upon the mineral owner and not the consumer, pretty much to the extent to which the non-taxed area dominates the supply. For the imposition of the tax does not affect cost of production at all at the margin of supply in the untaxed countries—their price would be unaffected, and if supply were large the smaller contribution from the taxed area would not be raised in price, and the new burden would go back upon the owner.

But, again, in the taxed area, certain marginal rents would become negative and the supply diminish; total supplies would be less, world prices would slightly rise, the margins in untaxed areas be slightly extended, and mineral owners there would be benefited. The net effect would therefore be mainly a reduction of rent in the taxed area, and an increase of rent in the untaxed area, with a slight rise in prices.

Conversely on the remission of the differential tax, the main ones to benefit would be the mineral owners in the taxed area, if the supply therefrom does not already dominate the market. The problem of incidence where different areas of supply are concerned

is, of course, a difficult one in mathematical economics, and I have merely sketched briefly my broad ideas.

9960. (24) In theory, there is very little real grievance left for the companies which work minerals, either in respect of the "corpus" or the shafts, in so far as they knew of the burden when their leases were fixed or minerals bought, and their troubles are more apparent than real. But a rapid increase like the present one hits them hard, particularly if there are rival sources of supply, for the burden can be thrown neither backwards nor forwards.

9961. (25) With regard to depreciation on wear and tear of plant, I consider the case is sufficiently met by the present arrangements. Obviously, not more than the whole cost should be given in the long run, and of the possible methods of making the allowance, I regard the "written down value" method as possessing the fewest disadvantages.

Then follow the various kinds of "wasting assets," such as business leaseholds, terminable annuities, life interests, and here I feel that some other tests of whether it is necessary or expedient to make allowances besides the mathematical or actuarial test of the presence of capital repayment is legitimate.

9962. (26) I do not think that the acute search for the mathematical elimination of all elements of capital from annual receipts, leading as it does to the most difficult and involved questions (as may be seen in the 1859 and 1861 Committees), is a necessary feature in taxation according to ability. I think that taxation by ability may very reasonably have regard not so much to exact mathematics as to psychological and social considerations. We profess to graduate on the principle of ability, by which we mean the relative extent to which taxpayers feel the tax sacrifice, taken on an average.

This relativity is very difficult to express in quantitative terms, and we can only make a shot at it. One may wear a pair of boots, both of which pinch, and it is very difficult to say quantitatively that one boot pinches three times as much as the other. How much more difficult is it for one man to say that his boot pinches twice as much as another person's! I have thought much upon the question of ability for years, and my mind has moved away from the idea that mathematical differences that can be demonstrated on paper have necessarily any counterpart psychologically. I think we must judge difference of ability quite as much by social habits and customs. You might demonstrate to a man that there were elements of £50 capital in the income of £500 which he was holding himself free to spend, as compared with another man whose £500 was pure income. If, in fact, the men in these two relative positions make no difference in their habits and expenditures, I incline to the view that in the practical application of the principle of ability in taxation it is hardly necessary for the State to make any recognition either. Of course, directly you get any considerable body of people who do, in fact, order their lives differently because of the difference, then I think you have some ground for admitting the mathematical principle, but, otherwise, I do not think it is worth while wasting revenue and the taxpayer's temper upon its complications. After all, if you are out upon a mental expedition to find what pure tax-bearing income is in an economic sense, you may have to go a good deal further than the mere elimination of the wastage of the capital originally invested, and get to the extraordinary medley of distinctions raised by the Italian School as, for example, Achille Loria in his book on *Income and Capital*.

9963. (27) On the whole I think it has not been an unkind instinct which has maintained for so long a scheme of taxation paying no special regard to terminable annuities, life interests and other forms of annual income. Of course, it may well be that the very weight of tax will bring about discrimination in personal financial habits which would not otherwise have been worth while or customary, and for this reason the time may be ripe for distinctions which have hitherto been academic only.

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I do not, of course, carry this principle of action so far as to distinguish between two incomes of £500, one of which is going to a man who is always "hard up" because he happens to be at the lower edge of a social group whose habits, etc., are conditioned by incomes falling between £200 and £1,000—say, £750 average; while the other income goes to a man who would "feel" the payment less because he lives on the upper side of a group whose incomes range from £250 to £500, with an average of £350. Such differences in relative sacrifice can never be objectively measured.

The principle of graduation.

9604. (28) In a brief note and in simple terms it is not possible to do more than touch the edge of this subject. What is the ideal graduation curve? This must depend upon the principle involved. I have had it put to me thus:

"If taxable capacity increases with each £ it must either increase in the same, or greater or less, ratio with each £. It is absurd to suppose that it increases in a less ratio, because the extra £ above, say, £10,000, is obviously more available for luxury (and, therefore, taxation) than the extra £ above, say, £200. If it were the same ratio (for example, 6d. in the £ increase at the 1,200th £ compared with the 200th £ and 6d. more in the £ at the 2,200th £), then assuming 1s. in the £ at £200, the rate at £1,200 would be 1s. 6d.; at £2,200, 2s.; at £3,200, 3s., and the rate would be 9s., consecrating the whole income, at £20,200. But it is agreed above that the taxable capacity should increase in an increasing ratio, that is, that if the difference between the tax at 200th £ and the 1,200th £ is 6d. the difference between 1,200th and 2,200th £ should be more, say, 7d., and we should reach confiscation at an even lower level than £20,200. This doctrine of taxable capacity, therefore, leads to confiscation, or it is a false basis—it does not justify the usual curve of progression which, while it approaches 20s. on the highest incomes, never actually reaches it."

This argument is more clearly illustrated by a graph than by words.

9605. (29) I believe it to be fallacious, and based on a wrong statement of the principle.

The principle is based upon the diminishing utility of money or wealth as a whole to its possessor. While the utility of increments of any particular commodity may rapidly diminish, and reach zero or even disutility (as when a schoolboy has exceeded a fourth helping of plum pudding, or as when we have heard "The end of a perfect day" indifferently sung for the hundredth time), the utility of commodities in general does not reach zero so readily. The utility of money, therefore, while continually diminishing to the individual possessor as he has more and more, does not actually become nil until the aggregate is enormous, and possibly not even then, for even if a man is surrounded with everything that money can buy, an additional sum may still have some value to him as ministering to his pride.

9606. (30) This diminishing utility may be pictured in two ways, as in the table below, assuming that it diminishes "in the same ratio." The first column sets out one meaning, viz., that a 2s. drop (or one-tenth) in the utility per £ at £1,000 is matched by a similar drop of one-tenth at £2,000, and again at £3,000. Of course, we soon reach finality, viz., at £9,000. The second column shows the kind or type of diminution which, I believe, correctly represents our psychology (viz., a deduction of a constant fraction from each foregoing stage), assumed as one-tenth. The 2,000th £ is assumed to have one-tenth less utility than the 1,000th £, the 3,000th £ one-tenth less than the 2,000th, and so on. In this way zero is constantly approached but never actually reached. You can even increase the "one-tenth" fraction at each stage (say, one-ninth at the 2,000th £) provided always that the increment in the fraction is a continually diminishing increment.

*Diminishing utility of money.
In the same ratio.*

£	Method 1.	Method 2.
		<i>One tenth less of the preceding.</i>
100th	£1	£1.
500th	18s.	18s. 1·8
1000th	16s.	16 2 1·62
2000th	14s.	14·56 1·456
3000th	12s.	12·122 1·312
4000th	10s.	11·810 1·181
5000th	8s.	10·629 1·063
6000th	6s.	9·566 ·956
7000th	4s.	8·610 ·861
8000th	2s.	7·759 ·775
9000th	nil.	6·974

9607. (31) Taxation, based on the second column of the above; if it took away x from the 3000th £ would have to take away $12·122 x$ at the 9000th £ (or $6·974$).

nearly 2s.) to deprive the owner of the same "utility" and that equality of deprivation is the rationale of progressive taxation.

Based on this principle the usual curve shown in graph form, which gets flatter and flatter, but never quite horizontal at the highest points, is justified.

The form of graduation.

9608. (32) I do not propose to occupy the time of the Commissioners with any discussion of mathematical formulae for taxation curves. Mathematicians, from Cohen Stuart down to recent writers, have fanned in this field a fascinating and not unprofitable study. The devices for lifting the curve, and giving it new progressive impetus at the point where it begins to flag and become almost flat or proportional, are numerous, and have interested me greatly, though I can easily escape their thrall. Professor Edgeworth has just published in the *Economic Journal* an excellent study of graduation curves, setting out their desiderata.

9609. (33) The one essential feature that emerges from the whole subject is that when all the mathematical elegancies have been satisfied, it is still impossible to say which of the various curves truly represents that principle of equality of sacrifice they purport to embody. One may be as right as another for all we can say. The final decision as to whether two points of income on a curve are psychologically or subjectively in right relation to each other still rests upon the common sense and instinctive judgment of the people, and on practical tests. There is absolutely no common agreement among economists that a certain type of curve or formula is economically the most correct. If there were, then great sacrifices might be made to attain it in practice.

9610. (34) This being so, we are forced to consider simplicity and convenience first of all, associated with any reasonable degree of smoothness and adaptability. The wanton and higgledy way in which persons obsessed with certain mathematical ideas urge the sacrifice

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of all practical points to their lust for algebra, would be a serious public danger if their influence became great. If they are told that a certain smooth curve would entail abolition of taxation at the source, they reply quite unmoved "taxation at the source must go." Even so able a publicist as Mr. J. A. Hobson, in a book published recently says:—"The idea of a total abandonment of collection at the source need not cause any great alarm... official convenience of collection at the source is the chief reason why the process of progressive graduation has hitherto been stopped at a level which has protected the richest men from the higher taxation... A careful application of checks would enable the Income Tax Commissioners to dispense with collection at the source... The stiff official bluff which will be put up on behalf of the present method by the Treasury, supported by the ipse dixit of certain expert authorities, must not be permitted to block the way to the adoption of the only scientific working of an income tax."

9611. (35) No one will accuse me, I think, of any lack of appreciation of economic theory, and I would always keep as closely to the indications of abstract

[This concludes the evidence-in-chief.]

9613. *Chairman:* We have all heard of your book, and I can say as far as I am concerned that I have read it with the greatest interest. I do not think I have ever read a book which has been more interesting, and to one like myself who does not know very much about these matters it is instructive.—Thank you, my Lord.

9614. We have your evidence-in-chief, and the Commissioners will ask you questions on the various points arising out of it; but I want to get your opinion on one thing—only by way of illustrating the point from actual business—as to the getting of additional revenue from the Income Tax. Take the case of a shipper in Manchester, who has a large place in Manchester. He ships his goods to India, China, and all over the world. He pays Income Tax because his place is there, and his Income Tax papers are there. People in the adjoining warehouse ship to the same places, but they pay no Income Tax, because they are said to be only servants of some principals who are away in Egypt or Mesopotamia or Syria. They do not pay Income Tax except upon a very limited amount which they make by charging on their exports a very small profit to their firm in Cairo or elsewhere, just to cover the expenses of the office here. The main profit is retained over in Cairo, and does not come into the hands of the Income Tax authorities at all. In some cases we have got, as you know, the power of putting no Income Tax on them by assessing them as we do the American tinned meat people. Would it be a wise thing, and would it be possible for us to let the Inland Revenue have the power of assessing the firm that is evading, by pretending it has not a responsible place in Manchester. Can we do that wisely? Can we also do this wisely in the following circumstances. An importer sends from Switzerland goods into our market; he has an agent here to whom he pays a percentage; but the goodwill rests in this country because in business the selling itself is sometimes more important than even the manufacturing and producing. The agency of selling may be of far more value to that concern than the whole of the mills and works, and five or six men as salesmen are probably worth more for the purposes of the business than thousands of those who produce. The Swiss exporter to this country has an agent to whom he pays 2½ per cent., and we put a tax on that in the ordinary way. Can we charge that importer? It practically becomes an import duty, but I cannot help that. Can it be done properly as an Income Tax? Those are the two points I want you to consider some time quietly?—It seems to me it must be divided first of all clearly in one's mind between principle and practice. On the principle of the thing, if a firm or a man is making real use of an institution in this country for carrying on business, an institution of a fixed character, there seems *prima facie* no reason why he should not be a contributor to our Revenue; but on

principle as practical conditions permit. Moreover, if there is such a thing as the non-possessive inertia of officialdom, I may now claim to be free from it. But I must say, with great conviction, that we should as a people make a very bad bargain if we sacrificed the principle of taxation at the source for the doubtful boon and inconclusive virtues of a curve even of most elegant functions and unimpeachable suavity. Not one per cent of the taxpayers would be any happier, or pay their taxes any more cheerfully for a logarithmic demand note.

9612. (36) If the present "jumps" are, by one of several available devices, reduced in abruptness, and "diagonalised" so to speak, on the graph, and the rates are so adjusted that the whole trend of the curve approximates to a continuous function curve of approved shape, I think all that practical convenience and conformity to justice require will be substantially met. I should view with no little misgiving, in view of the real practical difficulties to be surmounted, the adoption of even those solutions for combining a pure curve system with taxation at the source, which I have outlined under the paragraph headed "taxation at the source" above.

the other hand great anomalies creep in immediately one assumes that the Income Tax is a business tax. It is, after all, a tax on people's income, and though it may be paid by businesses as a matter of machinery, in the last resort it is not a business expense as such, but a tax on a person's income, and one cannot ignore the extent to which he is in other respects dependent on the institutions of the country. If he is resident abroad, there seems to be some reason why one should be rather more lenient to the income he derives than if he is resident here. That leads to the view that a full tax on him on equal terms with the British trader cannot be defended in pure principle. When it comes to a question of practice, of course it is quite possible to say that the agent shall have to make a return of the profit attributable to this country, and to tax it; but, as I indicate in my evidence-in-chief, if the only way of getting at it in practice is to take a rough and conventional percentage, you have got what is to all intents and purposes an import duty.

9615. Yes, that is so?—But if you can in practice make a clear attempt to get at the net profits in an economic sense made from this country, then I think you are justified in imposing a tax. It may be that you cannot carry out the full principle as being rather Utopian—that is, splitting it up and charging him a less tax on it, and so it should make you perhaps a little more lenient in the point at which you stop charging it as an Income Tax.

9616. *Chairman:* Thank you. That is a point I shall probably bring up before my colleagues later on, and I wanted to get that elucidated in some measure by you.

9617. Mr. Kerly: It is rather out of order, but may I just begin where you were. You want to tax the foreigner doing what I may for convenience call an import trade into this country?—Yes.

9618. It is suggested you should tax him on turnover, because you cannot get at his profits made here in any other way?—Yes.

9619. That is said to be equivalent to an import duty, and it is if you charge everybody who is importing, but if it is to be in substitution for Income Tax it is going to be an import duty levied ultimately only on the foreigner who is importing, is it not?—Are you distinguishing between foreigners and other people abroad?

9620. Yes?—I should have understood that it would be a tax on all people abroad.

9621. By foreigner I mean a non-resident?—Well, I understand that all non-residents under that principle would be taxed.

9622. If you treat the tax as a Customs duty then you levy it on all imports?—From a British house abroad you mean as well?

9623. All imports coming into this country of the class you are dealing with?—Yes.

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9624. That is simple enough; you levy it at the point?—Yes.

9625. And if you are only distinguishing such imports as are going to be imported for the profit of a foreign importer, then it ceases to be an ordinary import duty, and either you are going to return the equivalent of your Customs duty to a resident who is importing, or else you are going to distinguish between the origin of the goods?—One could not, of course, say that a tax on the turnover is precisely equivalent to the full operation of a Customs duty; it could never be.

9626. It is radically different in that respect?—It is different in its scope, but I think not in its economic incidence.

9627. Let us see how you are going to work it out. The English house has bought a consignment of goods from the Argentine. It is going to pay an import duty on those goods. If the Argentine man is really an English house carrying on business here, that import duty is in some way or other to be returned to him; how is it to be done?—You are speaking of the imposition of a pure Customs duty upon him?

9628. Yes?—That it is to be returned to him?

9629. Yes, if it is the equivalent of Income Tax?—You are speaking of the imposition of the Customs duty as the equivalent of an Income Tax?

9630. Yes?—I do not think you could make Customs duty an actual equivalent of Income Tax. One would rather assume that in the majority of instances he got his Customs duty back in his pocket. Of course, it would be possible in calculating his profits, and it would be done, to allow the import duty as an expense in his accounts.

9631. I am afraid I have not made my problem clear: it is my fault. Take two men side by side—we had such a case yesterday—one is an English resident who has an Argentine business, and he is exporting his produce to England. He complains that, although he himself has to pay Income Tax, a foreign non-resident doing exactly the same trade does not have to pay English Income Tax. He says that so handicaps him that he is driven out of this country and has to go and reside in the Argentine. It is suggested that the foreign resident should be charged a tax on turnover—which is said to be the same thing as an import duty. It is only an import duty upon his imports. If they are the British resident's imports then they are not to pay a duty. How are you to distinguish?—Of course the whole argument is based upon the view that Income Tax is a business expense. He does not see, putting it in that way, that as a resident in England he ought to hear something the other man does not pay.

9632. I am not considering whether the grievance is a good one, but supposing we want to deal with it as suggested, by, instead of a tax upon turnover (which I am coming to in a moment) a tax as an import duty, say, paid on the value of the goods?—I should hesitate to give any opinion as to what the Board of Customs and Excise could do in the way of distinguishing the goods by reference to their origin. Supposing that they were all taxed on one basis equally, I imagine that afterwards on proof a rebate could be given—a drawback.

9633. The only way to level the matter up would be to allow the English resident, against the tax which he has ultimately got to pay, a credit for what has been paid by way of import duty?—Quite; that would be a practical way of making the drawback to make it as an offset to his Income Tax; to say that he has in the form of the Income Tax paid so much, and that is already a composition on account of so much profit.

9634. Supposing you take the other plan, a tax, as I understand is the present practice, on the turnover. Once the person scatters his business through a lot of different hands you cannot get at his turnover, and you are merely inviting him to do business instead of through one agent through half a dozen or more?—I agree.

9635. So that it must be a very unequal tax, and a tax that is very readily evaded?—Whatever point you stop at, you always tempt him to adopt the very next set of circumstances that get him exemption.

9636. I should like to get your assistance on a general proposition. The assistance that economic studies, when I try to follow them, give to me seems only to be that they enumerate for me the conditions of the problem, and make guesses, more or less sure, as to their relative importance. I cannot find anything of the nature of a mathematical function amongst them, because they are not susceptible of quantitative valuation. However, that is merely to illustrate my difficulty. Are not these the conditions of the problem we have to consider in the face of your first argument; we have to consider as an objection to a possible tax, first the possibility of the tax diminishing the income of the country by stopping the business; next that the particular form of the tax may operate to diminish the taxable income, and so we shall get less and less tax because of its form?—Do you mind repeating the last one?

9637. The form of the tax may lead to the disappearance of the tax itself; of course, it is a phase of the other one?—Yes; it is a variant of the other.

9638. It is only the application of that. The next is the difficulty of collection, which of course is important especially if difficulty of collection provides means for evasion, or suggests them, for instance, by leading people who are making profits in this country to reside abroad. The next is the feeling of grievance which is particularly keen if a man finds that he has to pay a tax and his competitor in similar circumstances has not; and it seems to me that the considerations of natural justice or theoretical principle are to be placed after those other considerations, and a long way down. Do you think my enumeration is complete?—Yes, I think you fairly represent the factors which will decide the point to which you can go economically in the matter of taxation without a tax destroying itself. It is quite obvious that the point at which a man will be tempted to evade, or the point at which he will say, "the net return on this saving is so small that I shall not save," or, "the net return on this working is so small that I shall not work," depends in the last resort on the psychology of the man, his attitude to the State, and the extent to which he is impressed by the needs of the country for revenue; it must depend on the state of public feeling. A nation that is intensely patriotic in the majority of its individuals and prepared to shoulder its burdens, will go working and bearing tax to a much higher extent than a nation that is sullen and discontented about it. Of course, on the question of the point at which saving is checked from an economic point of view, it is extraordinarily complex, and one cannot summarise it in a sentence. The motives that actuate people in saving are so varied that a diminishing rate of interest to them will have very varied effects. Some men will have to save more, and will save more, because the rate is diminishing; other men will save less. It all depends on the objects and motives of saving, so that when you say that a diminishing rate of net interest diminishes the total saved funds of the country, that is only a net balance on a variety of results; a certain proportion of that saved fund will be increased by that very cause, but perhaps a larger proportion will be decreased.

9639. Almost pure guesswork, is it not?—I think not. If one divides the human motives that go towards making up the whole saved fund, one will see that some of them, such as saving against a definite contingency in the future, will have to be larger in the gross sum if the net is smaller, to achieve the result; whereas other saving that is out of surplus of income, and is made with a desire to get large future income, would be diminished if the value of the future is unduly diminished compared with the present. The question is, which of these two sections is the larger contributor to the total saved fund—probably the latter; and in that connection one has also to remember that in the total saved fund there is a very large section—the largest section—that is never subject to individual psychology at all, namely, the reserves of public companies, and the large sums of profits put aside by corporate bodies where the joint wisdom of the directors, with the desire to improve their business or to take advantage of profitable openings, completely overcomes any individual feeling about it not being worth while. Since getting on for

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nearly half the saving of the country is made collectively like that, it does not follow that an increased rate of taxation of a shilling or two shillings over and above a particular figure will have anything like a corresponding effect by way of reducing the total saved fund.

9640. That bears upon another proposition I was going to put to you. The feeling of grievance that a man has in paying his tax is really a very important one, is it not, because a man will very often nourish a grievance and refuse to work because of a grievance, even though the grievance turned into money value is a very small one?—It is just the difference of degree between a man who has a sharp temper and one who has a sullen temper. If it is a feeling of grievance at the moment, and the man goes away and forgets all about it and works just as hard, one does not mind very much; that is natural to everybody; but if it is the sullen temper that nourishes the grievance throughout the year it has a most important effect.

9641. Perhaps my experience is a limited one, but I have very frequently noticed that a man will insist on litigation, although you point out to him that the sum at stake must inevitably be lost if he is successful; and he has his risk besides?—True; but the difference between litigation and the grievance against the State is that litigation very often has its origin, in my judgment—I speak under your correction—in certain personal feelings such as not being hated by the other man. A man's grievance against an impersonal entity like the State is rather of a different order, and I should hesitate to base much upon the parallel that you draw.

9642. Now, may I take finally your "Double Income Tax and control," beginning with paragraph 3. Have you left Super-tax out of account altogether in this and the following paragraphs?—No. I am putting Super-tax there as an integral part of the system of taxation as a whole, regarding the whole of our tax as a graduated tax from the bottom to the top, and the Super-tax merely as a method of machinery.

9643. I was not quite clear, but now I understand that. Where you are dealing with a business, of course, you cannot well deal with Super-tax, because the business does not pay Super-tax; a company does not pay Super-tax?—No. In that theoretical portion at the beginning I am thinking entirely of the burden upon the individual, when the business has transferred it to him.

9644. But are you not sliding off as you go along from the individual who does pay Super-tax and pays on his personal total income, to the position of the company?—Certainly I am.

9645. The company which is earning part of its income here and part of it abroad?—Certainly I am, when I come to the practice, as distinct from the pure theory. The pure theory in paragraph 3 is Utopian in the present state of the world. It would need international commissions of a quite unthinkable kind to carry it out effectively, and therefore it is when it comes to the practice that I begin to deal with the only tangible thing that one can get hold of—the business making a profit.

9646. Unless you merge your Super-tax in your Income Tax?—Even if you did that on the individual (you could not do it on the company, if course) you would still have to consider the problems of where the individual got his income from, and you would have to study the situation of the company and how it made its profits, in order to answer that question. If an individual, for instance, has as part of his income of £20,000, £100 a year from a certain company, if it is to be treated according to strict principle as to the question of how much is earned abroad controlled from this country, you still have to consider the whole facts of that company.

9647. I only want to appreciate what your suggestion is. In seeking to differentiate between portions of an income earned here and abroad, and retained here and paid to non-residents, as things stand at present it must be impossible to deal with the Super-tax; are you suggesting that it is possible?—Oh, yes, just as the company that has been subject to some such manipulation as this in its assessment knows what proportion of the gross or aggregate normal rate it has been relieved from, so on its total distribution to an English shareholder, it can show the fact on its

dividend warrant, and whatever can be shown on a dividend warrant can be aggregated in that form, on the total income return. It is not free from practical difficulty, of course, but it could be done. Elaborate things can be done on an individual return.

9648. The principle you suggest for us to deal with is that you should distinguish between the origin tax and, is it the residence tax—would that phrase do?—No; I should hesitate to say that in practice, and in the present situation of the country's finances, I should go as far as that. I only say it is useful to see where in abstract principle one might be led; but in actual practice now, as we stand, one has got to be very chary of taking up anything that is beyond the powers or demands of the moment. Although there should be something done in the matter of control of Double Income Tax, it should be of a far less drastic character than that would lead to. In paragraph 5 I merely say that I have brought out this abstract principle in order to throw it over for the most part, but it may be of use in distinguishing between the empirical and quite conventional methods that you may be considering at the present moment. I just elaborate two of those methods and say that if you were in doubt as to the nature of them you can say that the principle that you have enunciated justified the second one, if you wish to adopt it. I am not setting forward there that you should adopt division into origin and residence as an actual practice to-day, by any means.

9649. What do you say as to the general proposition—I know it is here, but perhaps you would summarise it with regard to this particular question—to exempt foreign shareholders in English resident companies from taxation upon incomes which are produced abroad?—I think that that would be one of the best solutions of the present difficulty. It is difficult because of the confusion of words between profits, dividends, reserves and so on, to express exactly what I mean in words, so I have prepared a rough diagram; I do not know whether you can see it from that distance? (*Produces diagram.*) [See Appendix No. 22.]

9650. Yes, I can see it quite well?—Let that circle represent the profits of the company resident in England, the white part representing the profits made in Australia, we will say, and the shaded part the profits made here. Of course, those are profits; the question comes, what are the dividends? Let this narrow strip represent the reserve, part of it out of the Australian profits and part of it out of the British, leaving in the part not covered by this slip the sum available to be distributed in dividends.

9651. The centre is the reserve?—The centre is the reserve, yes; proportionately out of the two profits. That third slip introduces the idea of different shareholding. The cross-lined portion represents the Australian shareholders, and the portion not covered by this cross-lined slip represents the British shareholders. You have there present all the elements that you have to work upon, and there are all sorts of combinations and permutations of those elements. You can have many solutions of them, and here are four. [See Appendix No. 22.] You can say, "We are out to give the most that we think we can give"; that one (pointing to the third) would be the most. The black portion represents what you give up as compared with the present situation; that is, you charge only the dividends paid to the British shareholders. That represents, of course, everything belonging to foreign shareholders. If you charge the dividends paid to British shareholders you cut out the reserve and you get the dividends paid out of English profits to British shareholders, and the dividends paid out of Australian profits to British shareholders; all the rest represents the sacrifice to the Revenue. That (number 3) represents a sort of maximum position to which you can come. This first represents the sort of minimum concession you can make having regard to the present exigencies of the Exchequer, and in that you charge everything except the dividends paid out of profits made abroad to people resident abroad. There are the dividends as distinct from the reserve. That is out of foreign profits, and that is to the Australian resident. This method seems to me to be, on the question of control, one of the least expensive, and it concedes the principle for the most part as far as

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it is desired. Something like that is the sort of thing I should think might be done. Here (pointing to sub-paragraph 2) you have what I mention as (b) in paragraph 4 of my evidence-in-chief, namely, a charge in full on everything except the profit made abroad which is applicable to foreign shareholders, and on that a charge of a small nominal rate, having regard to the English control in London; I have cross-lined it there to show you are not charging the full rate; that is the second alternative. And that charge I say on the abstract principle I first sketched out would be defensible in principle—not very clearly, but still it is.

9652. Mr. Marks: You include the reserves in that?—I include the reserves in that.

9653. Mr. Monville: The Australian part of the reserves, or the Colonial part of the reserves?—Yes.

9654. Mr. Kerly: Why do you do that; why does not your second diagram follow the first?—Only that I wanted to make it a little more distinct than merely charging the same thing at a reduced rate, and show that the whole of the profits accruing to the foreign shareholders apart from the dividends owe some sort of respect to this country.

9655. Mr. McLintock: No. 1 is just paying the actual dividend free of tax?—Yes, so far as it is earned abroad.

9656. The other is profits plus the reserve?—The other is profit made abroad applicable to foreign people charged at a reduced rate. The last one on the diagram is another alternative, that is charging everything except the dividends paid to foreigners, whether from Great Britain or from abroad. That is rather more generous to them than the first one. It adds not only the foreign-origin dividend, but the British-origin dividend. You can make every kind of variant, of course, in those factors. It perhaps helps the eye a little in discussing rather complex details.

9657. Mr. Kerly: It occurs to me that you might mar the extreme simplicity of those diagrams by making a provision for tax paid in the country of origin?—Certainly; this is only dealing with the question of control. If you are going to introduce the question of double taxation as well, I hesitate to say whether you can get that in diagram form at any rate.

9658. I do not know—with a little more paint perhaps, or you might perhaps have cut off a part of your right-hand circle for the amount which is abstracted by taxation in the country of origin?—If you are only thinking of the amount paid as tax as a deduction from profits, I agree; but if you are thinking as an allowance of tax against tax, then I think you have got a problem in three dimensions.

9659. You are quite right; I was confusing it. I think I have exhausted it, but I am going on if I may to the question of agency. Would you kindly turn to your paragraph 8. The greater part of the difficulty with regard to this question has arisen, has it not, from the alteration by which we now charge all foreign income of British residents whether it is brought into this country or not?—You think the difficulties under paragraph 8 arise through that?

9660. Yes?—I do not quite see why. That seems to be another problem; it is rather the question of what we tax British residents for incomes abroad as compared with other residents in this country with no such income.

9661. The agency trouble is the trouble of the foreigner carrying on business here?—Yes.

9662. One great difficulty about not doing that is that the British resident who is carrying on business between a foreign country and this country feels a very bitter grievance?—Ah, yes; on the reciprocal element of it.

9663. That is the nexus between the two things. Of course, the magnitude of the tax made a great difference, but apart from that that grievance was not so bitterly felt until we began to tax unremitted income?—Well, you substitute one grievance for another.

9664. Whether it is relevant to this passage or not, would you tell me whether in your view any very

substantial return has come to the Revenue by taxing unremitted income?—Well, at the time it was introduced, just before the war, the estimate, if I remember rightly, was that there were about 90 millions of income to be taxed that would come within the scope of the tax. I do not know how far that estimate has been justified in practice in the tax that we have got.

9665. About six or seven millions in tax?—At an average rate of 6s., yes.

9666. It has introduced great discontent, and it has been a very serious handicap to British companies carrying on business abroad, has it not, because it has diminished their opportunity of piling up reserves and so developing their businesses?—It has given them a grievance, but it has relieved the other people (who formerly had the grievance) of their grievance; it is merely a substitution of one grievance for another.

9667. A grievance of some other people?—The people who did bring the whole of their income home, and had to do so, naturally had a grievance against the others. There was equal taxable capacity, and yet they were being very differently treated in taxation.

9668. Now will you turn to the suggestion about substituting one year's income for three years' average; would you tell me what you consider are the leading advantages of that alteration?—Are you referring to paragraph 13?

9669. Yes?—You are now referring to the whole elimination of averages for computation of business profits, I take it?

9670. No.—You are thinking now of methods of getting at the net liability of the individual?

9671. Yes?—What are the leading objections?

9672. Yes, to a three years' average instead of taking the last year's income?—The leading objections to taxing a business on a previous year—

9673. A business or an individual?—The individual carrying on business—you are not regarding his composite income from all sources?

9674. No, I know; except for Super-tax purposes that does not come into it?—I think on the whole there are more advantages in the taxation on the previous year's income for a business than on the three years' average.

9675. I want you to tell me why; I hold the same view, but I should like you to tell me?—The first is that if the average is rising, the man is clearly paying less tax than his taxable capacity at the moment justifies, and he is paying as it were less than can be fairly demanded of him at that moment. He is getting some advantage at the expense of the Exchequer. But if it is falling he can always make his grievance felt that at a given moment he is being asked for too large a sum in his current circumstances; that is to say current circumstances are pleaded in his favour when it pays him to plead them in his favour; but they are not pleaded in favour of the Revenue in the contrary direction. If you have an average you are nearly always compelled to have elaborate provisions for any circumstances of the year or of the last year, which may be different from the circumstances that brought about the high average. You get provisions for relief, but you do not get corresponding provisions helping the Revenue. If you tax on the previous year the amount of tax has a much closer association with the man's prosperity in its immediate vicinity in time. If he has had a very good year he is pretty happy, and he does not mind paying a fair amount of tax; while if he has had a bad year the demand on him is small. In the case of a company which makes its tax reserves and has impersonal feelings it does not matter nearly so much; it is in the case of the individual that it does matter. There are considerable difficulties in bringing it in in practice, as you know from reading the discussions in 1905, the difficulties being to find a satisfactory bridge between the two systems. But if you can get over that at the start I can see no objection.

9676. You think the difficulties are substantially transition difficulties only?—Yes, with this further

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proviso, that the average system does help you to work off the losses automatically except where they are so large—as they may be in the cotton industry, a very highly fluctuating industry—that you get a minus average. If you have a minus average you lose that particular element for all time, but provided that the other two years against which you are deducting the loss are sufficiently large you succeed in getting your loss worked off in the averages.

9677. Providing three years is a sufficiently long period?—Certainly. If you have a five years' average (as for coal mines) you might get lower minus averages. Of course one would have to have some provision in the one year basis, for carrying forward over a certain length of time, a year of loss.

9678. Would it not be practicable to carry forward losses not for a limited period but for an indefinite time?—That would be in the discretion of the Legislature, as to whether it was necessary to go right through to the bitter end, or whether it should be stopped at three years. The Revenue might say: "we do not want you to get any advantage you have not now got, and therefore we shall limit you to a three years' set-off."

9679. Mr. Walker Clark: Or some other period?—Or some other period.

9680. Mr. Kerly: With regard to husband and wife, paragraph 14, you make a suggestion which is new, I think, that you should lump incomes of people who are unmarried couples living together?—Well, my own personal resentment against the particular argument that is used, that the present system is a premium on immorality and so on, is rather strong; and I think it would be one way of closing the argument if the law were such that if they did live together like that they would be no better off from the point of view of taxation than if they were married. Even if you could not do it in practice, I do not see any harm in making it competent in principle.

9681. It struck me that your second paragraph of 14 has merely an argumentative value?—Well, at any rate, I should regard it as a happy accident if the words of the Act had been such that they did not specifically refer to married people, but people living together as though they were married.

9682. Such associations are by nature casual, and if they were casual you could not enforce your provision?—No, I might not be able to enforce my provision, but, on the other hand, these people could no longer flaunt it.

9683. Now, with regard to the allowance for wives, you say in paragraph 16: "In both cases it may be alleged that the rich man's wife is being treated as if she were 'worth more'"; the real proposition is if she costs more, is it not?—I do not think the person who makes the allegation will look upon it on the basis of "costing more."

9684. The whole of these paragraphs 15 and 16 ought to be read, ought they not, together with the second part of paragraph 27. You say you do not carry this principle that you are talking of in paragraph 27 so far as to distinguish between two incomes of £500, one of which is going to a man who is always hard-up because he happens to be on the edge of the social group, and so on, and another one who is at the bottom of the social group instead of the top; that is the real corollary to your paragraphs 15 and 16, is it not?—You are thinking of two incomes of equal amount, which are going to people who are in different circumstances, one of whom could afford easily out of that by his circumstances, and the other one could not, the payment of a given sum of tax; but the question involved in paragraph 15 is perhaps rather the comparison of two incomes at different points in the scale, which is most difficult. The point I would make is that you must go on the quantitative facts; you cannot get any further in a practical world.

9685. But the real test would be this: if you were going to tax husband and wife according to their ability you have to consider what is the cost of the wife to the husband?—Not the actual social cost, but the subsistence cost.

9686. At what level do you propose to put that? I did not quite follow your proposition, probably because I read it hurriedly. Do I understand you to suggest that there should be a fixed allowance all through the scale, not a proportionate allowance at all, but a fixed allowance?—There is a good deal to be said for different views, but I think the balance of advantage is to treat it as a flat allowance. If £100 is the minimum of subsistence, treat that as an allowance up to the point in the scale where it begins to be insignificant.

9687. Will you turn on to the mineral properties, paragraph 19. You make a point, which is sufficiently clear, that you think nothing should be allowed for the gift of nature which is found in the unworked mineral in the ground?—Yes, I think that is a highly suitable subject for taxation.

9688. If you do make an allowance for the life, as you suggest you must because of foreign competition in the case of a foreign mine—that is your suggestion, is it not? In the case of a foreign mine worked by an English company you would, if I follow you, make an allowance for the cost of the mine?—Balancing theory and practice together, I am inclined to say, no, I would not at this present juncture. There is a theoretical case for it, but I do not think there is a strong practical case. I do not think I would go so far as to do it; I would leave that alone.

9689. But if you do that you would have to deal with the price paid by the first resident purchaser?—Yes, I think that is the point at which to start.

9690. You would disregard any inflation of that price in subsequent flotation and manipulation?—Certainly. One would assume that at such inflation the burden had been passed back to a person who is within the ambit or jurisdiction of British taxation.

9691. As a matter of fact that is a very important qualification, is it not?—Yes, it considerably cuts down the area of allowance.

9692. And, judging from what the public now sees, at any rate in the case of most foreign mines, the mine is first of all bought at a relatively small price and afterwards passed on to the actual working company at a much enhanced price?—By British people or by persons within the area of taxation. That is why I think the problem, even in theory, gets down to a comparatively small one, small even on the principle, and not worth the great complication in practice.

9693. I am now going on to wasting assets. In seeking for simplicity in taxation, simplicity would be found if you taxed a trader or a manufacturer merely upon the profits which he distributed. You would then get out of all trouble about wasting assets and other matters?—Yes; you are speaking of that particular point.

9694. Would you not get out of all difficulties about wasting assets and the connected difficulties?—If you take the profits he distributes?

9695. If he chooses to make a distribution of profits, you could assume that he has made a proper provision for himself, whether reserve or otherwise?—An affirmative answer to that might lead me into difficulties about reserves made for other purposes; on this particular point about the wasting asset there is a good deal to be said for it.

9696. I should like to have your answer. What reserves would you disallow?—Even if you were prepared to allow the wasting asset?

9697. Serious assets; mine shafts?—If you were prepared to allow those, doing it by means of taxing only the dividends a mine paid, you would then be up against the other difficulty of the accumulation of profits of an ordinary character which you should tax. Therefore I should hesitate to say that you could do the one by reference to dividends without stepping into practical difficulties over ordinary reserves.

9698. I will tell you at once, I assume it is quite impossible to do this, for revenue reasons or because of the loss or something or other, but it would assist me if I could get your view?—If there was no other allied problem you might achieve this by taxing dividends only; with this exception. It is a practice in some mining groups frankly to say: "we make no provision for the capital at the end of the life of the mine; you are getting it all back now," and to declare in dividends really the corpus.

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9699. That is undesirable in the public interest, is it not?—Not so long as everybody knows what is being done.

9700. The mine will come, as we know has often happened, to an untimely end, because the company, having still a workable property, has no means of working it if it has kept nothing on hand for subsequent necessary capital expenditure?—If you are thinking of capital expenditure in the sense of plant and equipment of the mine, certainly; but if you are thinking merely of so much of the original capital cost of the mine as will be lost at the end, I say that if it is the general custom and thoroughly understood that it should be returned to the shareholder in the form of a terminable annuity, one cannot say that in abstract principle it is immoral or anything like that. I think on the whole it is better to conserve the capital, because if the company retains the capital and has it in hand at the end, it is more likely to remain as economic capital than if you hand it to the individual, who will spend it more freely if he receives it in dribs and drabs periodically.

9701. If you did anything so revolutionary as to tax only distributed profits you would have to provide for the distribution of accumulated profits. It is a problem one must consider. You will have to deal, for instance, with bonus shares which represent accumulated profits?—Certainly, at the time of distribution.

9702. Mr. McIntock: It would not do in the case of private firms?—You would be up against considerable difficulties in the case of private firms, or you would have difficulties in the case of private companies, where the owners never take any money out at all but borrow it from the company and leave it on loan until they die.

9703. Sir J. Harwood-Banner: You have given us very much to digest and have given your reasons so very fully that there are only very few points one has to ask about. In paragraph 8 under the head of "Agency" you mention: "It is also urged that the import should not be allowed without some person being nominated who can be treated as an agent by the Revenue for the purpose of dealing with the Income Tax question." Have you a very strong opinion that that would be undesirable?—On the whole I do not think anything is gained by it.

9704. Would not the effect of doing that be that the English importer or British importer having been recognized, would be assessed for his Income Tax on his ordinary British trading, and the foreign importer, through this recognized agent whom he would have to nominate, would then be called upon to pay his contribution upon his trading in this country, and put himself on an equality with the English importer?—I do not think you can look at the question of equality without the reciprocal side of it: what is done abroad to the British importer to the foreign country. The thing is a matter of larger policy than the comparison of two individuals on this. You must think of two individuals on that side also; and I rather feel that some kind of action by foreign countries by way of retaliation might ensue on too grasping a policy on this side.

9705. So that you think it is rather for that reason—the injury it would do to our own business abroad, than on the argument against equality as between the British importer and the foreign importer?—I think if you are attempting to get exact equality between A and B on this side with regard to goods coming here, before you do that you must consider what would happen if there were similar action by the foreign country in regard to C and D on goods going into their country.

9706. Is it not the fact that, for instance, in America they do require a recognized agent and they do require that recognized agent to divide up the profit that he has made by trading in America and the profit he has made by the creation of the material in his own country; and that Australia and several other places do the same?—The law may require it.

9707. And in addition there is import duty?—The law may require it, but I am afraid that legal infant is still-born; at any rate it has not shown much sign of consciousness yet in practice. It is like a great

many of the provisions in *the American Act*; no thing substantial has yet come of them. They are put there in the hope that they will be workable.

9708. Is not that because it is only in its infancy, in its nursing stage, and as it gets stronger it will be effective in a more effectual way?—No doubt American administration will be stronger as time goes on, but they may find that some of the things to which they put their hand in the Act will still be unworkable in ten years' time.

9709. There they have this recognized agent, and a payment to make in addition to ordinary import duties?—That is the theory, but I do not think they are getting a dollar out of it yet. In this country there is no such thing as a recognized agent, except under those last Regulations of 1915; and there the argument put forward is that there are all sorts of methods of distribution preventing it being effectual.

9710. If there were a recognized agent, where all these matters were included, would not that bring him under the purview of the Income Tax so that all trading matters coming from abroad would be effectively dealt with, and, being free of import duties, it would be one method of getting a very considerable source of revenue?—There is no doubt that by imposing such conditions you could get a larger number of agents paying Income Tax; but I would like to say I do not think it must be assumed that because a thing is in the American Act, therefore, it proves anything as to its practicability, either in this country or elsewhere, at present.

9711. As you put it at the end of the paragraph: "this so-called Income Tax becomes very little different from a protective import duty." That is your view, but do you think it cannot be put in another way, as a method for providing for equality of treatment between the British trader where he is abroad and the foreigner who comes and makes use of this market for making his money?—Yes, if you are looking at that narrow point only, you may reach that goal to some extent by this method; but, in the paragraph you are dealing with, what I am looking at is the economic effect of imposing a tax that is not in actual fact a tax on profits.

9712. I see you are not very sympathetic to any effort on our part to get money from that source?—I am sympathetic to the theory of it, but I think when the practical considerations are considered there is not much in it.

9713. Now just one question on taxation at the source. Who was responsible for paying dividends on War Loan free from taxation at the source? I do not know that I ought to put that question; the only point that I wanted to get at was this. Has not that been a very inadvisable method and created very great difficulties, indeed, to all parties concerned?—I think I can go so far as to say that I do not think the Board of Inland Revenue, within my knowledge, recommended it or care very much for it.

9714. In paragraph 26 you put this: "How much more difficult is it for one man to say that his boot pinches twice as much as another person's." Have you considered the fact that the ideal of a commercial or manufacturing man is that he shall be able to pay a good dividend and repay his shareholders their capital, and that when you have got this reasoning about the boot, and rather limited methods of depreciation for cost of shaft sinking, you are ignoring what is the ideal of a manufacturer or commercial man?—You think there is something different between the way I present the thing and the way it presents itself to the merchant or manufacturer?

9715. I think so. For instance, in this question of an enhanced price paid in purchasing a mineral property, you said that the first price should be considered as the capital, and any further additions to that price should not be allowed in any way. Is it not the fact that the first price in most of these foreign mines and foreign nitrate works or other works is the price given before the experimental stage has been adopted for ascertaining whether that property is worth going on with. For instance, a man going out to a rubber plantation pays £5,000 for 100,000 acres; he goes out and spends a lot of money in testing it and he comes home and sells it to the shareholders at a good deal more than £5,000. Now

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which is the true price, the price before it is tested or the price after it is tested and its value ascertained?—The price of the corpus that the man gets on his flotation from the second sale of course must be the price that he gets less all his payments for proving it. But I still do not think that because he has taken certain risks he has altered the character of the price. He has not shifted it on to anything else. It must be the price of the corpus. Supposing that he buys a thing for £100 and sells it for £100,000, and he has spent £20,000 in proving it, there is a difference of £80,000. The question is, is that £80,000 in an economic sense the price of the corpus? You can say, if you like, that £80,000 was his remuneration for taking the risk, and the other £20,000 is the price of the corpus still. The remuneration for taking risk is also chargeable to Income Tax.

9716. If I might say so, as regards shaft sinking on all mineral property, you rather deal with it in the same way, do you not, that depreciation should not be allowed on any portion. In mineral shafts and similar works and business leaseholds, terminable annuities, life interest, and a great many other things, you do not think that it is necessary or expedient to make allowances in reference to any condition of wasting assets in those properties?—I think so, if you have in mind the relief of the trader from a differential burden that he is now said to be bearing; because I do not think he is, generally speaking, bearing it; he thinks he is, but I do not think he really is.

9717. Is not that rather an unsympathetic view to the ordinary man who deals in commercial undertakings?—Yes, I frankly think that his views are not sufficiently complete; they are right on the points that he is dealing with, but he does not take a large enough compass.

9718. Then you take the tax-collector's view, rather than the view of a commercial man, as regards those wasting assets?—No, I do not think I should label my views those of the tax-collector.

9719. I do not put it offensively?—No. I think you might find a great many tax-collectors who took a more commercial view; but I think, on a little more careful examination of the facts, one finds it is not necessary to come down with the commercial view as a practical proposition for altering the tax at the present time. It would be far better if shaft sinking had from the beginning been allowed as an expense. The price of the product would have been a proper commercial price. The position is this, that if you are altering it now, you are not altering a real burden that is upon the trade itself, but you are contributing to an alteration of the price; you are altering the price of the commodity at the expense of the present yield of the tax.

9720. And because you would be altering the price of the commodity you would not grant the relief which many people do consider necessary for writing off wasting assets of that nature?—It is a hidden tax in the produce at the present time, which we ought to be thankful we have got.

9721. Mr. McLintock: On the question of taxation of the foreign manufacturer; do you agree that a tax on turnover has no relation whatever to the profit on turnover?—Yes, that is my economic objection to it.

9722. He may quite easily be selling at a real loss to himself?—Yes.

9723. The suggestion has been made that when a foreign manufacturer sends goods to this country, there are really two profits; there is a manufacturer's profit, and there is a merchant's profit. What have you to say with regard to that proposition?—I think that theoretically there is something in that, but when you come to practice, of course you find the two merge, and very often a man is content with one profit.

9724. Is it not something more than a theoretical profit where the manufacturer is abroad?—Is he entitled to get no profit in his own country for his manufacturing operations?—Clearly, yes. I think that in a majority of cases the profit would be divisible into two.

9725. It is contended by foreign manufacturers that it is only the merchant who should be taxed in this country?—Yes, I think there is a good deal of justice in that view.

9726. They should clearly be given the right to produce accounts, if they will?—Clearly.

9727. As an alternative to a tax on turnover?—Yes, clearly as an alternative to any conventional tax.

9728. You would agree, also, would you not, to give them some percentage on profit as manufacturers in their own country?—To leave that out of the ambit of taxation, yes.

9729. I will give you an actual illustration. It is a decided case. It was a company in Belgium who sent to this country generally certain waste products, the tops as the result of spinning. They were held by the Scotch Courts to be liable to pay through their agent. Can there be a profit on selling a waste product, when the original product, the yarn bought, cost more than the total selling price per pound of the product sold in this country?—Do you mind putting that last sentence again?

9730. In this particular product, the selling price of the waste product was less per pound than the cost price of the yarn when purchased in Belgium. Can there ever be a profit on selling these goods in this country?—There may be certainly, if the sale of the waste serves to reduce the costs.

9731. Which costs does it reduce?—The home costs. It is equivalent to making a profit.

9732. But which cost does it reduce? There are the manufacturing main operations in Belgium, we will say, to make the yarn for making these French fabrics?—The first point is that the sale here of those tops might be divisible into two, namely, the price at which it would be sold to a purchaser of the tops who was going to sell them again at the port, as compared with the price that he gets actually in sending them to somebody who is going to make use of them.

9733. That is a pure merchant profit?—If you can divide that into two and find the second section, then I say that portion of the profit is just as much a profit as any other, though it may take the form of a reduction in his working costs at home on a business the profits of which are not chargeable to British Income Tax.

9734. I do not think the provision in the Act provides that failing a percentage on turnover as the measure of the profit, the onus would be thrown on the foreign manufacturer to produce accounts?—It may not provide that onus in set terms, but such a solution would not be really rejected in practice.

9735. Do you not think it would be an advantage to let him see that he has that right? It is capable of being ascertained, from an accounting point of view, nearer than a percentage on turnover?—Yes, except this, that while it is capable of being ascertained from an accounting point of view, all other things being equal, there is a temptation, of course, to present it from an accounting point of view without being absolutely in accordance with the economic facts.

9736. I quite agree. I would like to hear from you very briefly on what principle you differentiate the depreciation or allowance for exhaustion of capital. I will give you six instances. There is a ship; plant and machinery for any operation; buildings, which may be merely let to a man who owns the plant and machinery; that is in two portions—there are buildings which are merely let to the individual who owns the plant and machinery, and there are buildings owned by the man who owns the plant and machinery; there is the case of a timber plantation; a nitrate deposit; and a colliery. The point is this. In ships, in 24 years the man gets 95 per cent. of his cost. In machinery, it may take him till eternity but he gets it some time. In buildings, a man who has let the building to another man to use, gets no allowance such as the man does who owns and occupies his business premises as a factory. Is not that so?—Yes.

9737. Then we have the timber plantation, which, I take it, you would value as you would stock-in-trade?—As forming part of a timber business.

9738. Yes. Then the nitrate deposit and the colliery. It is very difficult for an average commercial man to appreciate that there is any distinction between

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£100,000 expended by way of capital expenditure in any one of those six types of assets, and yet he gets such different treatment with regard to assessing the profits derived therefrom?—You want me to discuss the differences in principle, and not in practice, of giving depreciation?

9739. Of course we know the difference in the practice?—You are on the point of the principle?

9740. Yes?—The method of taxing the corpus in the case of nitrate or coal at present.

9741. Leave the question of the mineral deposit out. I am more concerned with the shaft-sinking, the development, the boring, and the other plant and machinery about the mine?—I have not got shaft-sinking down in your list. By "colliery," you meant shaft-sinking?

9742. Yes?—You did not mean the corpus of the mine?

9743. I make one distinction, when it is let and a royalty paid. You say it is the gift of nature, which they have done nothing to put there, as distinct from the case of a colliery owner who actually buys the minerals?—Yes. Of course the whole point is this: that you have elected by your method to tax the corpus in the one case by reflex action through the purchase price; I have made that as clear as I can in my evidence-in-chief. It perhaps was not the wisest way of doing it. It would have been better perhaps to have taxed every sale of the corpus outright (call it a capital sale, if you like) to Income Tax, and to have given an allowance to the purchasers every year, in the same way as you tax the sale of a machine upon the person who makes it—the engineering firm, and then allow the cost to the person who uses it. That would have been a more direct and a more satisfactory way, because everybody would have seen what was happening. But you did not do it, and therefore the result is that you cannot put your mistake right without a certain reaction.

9744. I agree that the purchaser of minerals can discount in his price the tax which he may ultimately have to pay. Do you suggest that that discount is present to his mind in connection with his other expenditure on a colliery?—No, I am only thinking of the corpus. Now when you go to the shaft-sinking, that expenditure ought to have been allowed in the first place on the same footing as plant and machinery, and the allowance would have followed in the ordinary way, and the economic character of the price would have followed a normal course. The point you are now on is whether it should be given up, as a practical proposition for this Commission; and I say there is no case for giving it up at present in obedience to theoretical justice, because the people that you would be giving it up to are not the ones who are suffering the burden. The ones who are suffering the burden do not know that they are suffering it, and you are giving up a fruitful source of Revenue.

9745. Very many of them have come before us, complaining that they have a burden?—The colliery owner thinks that he is paying tax on his shaft. I do not.

9746. You do not think so?—No, only to a very slight extent.

9747. But except that you do not recommend a change over, you think he ought to get it?—If we were starting afresh in a perfect world, certainly; I would not make a difference between plant and shaft at all; it is just as much capital for this purpose as plant and machinery, and its value is wasted in the same way at the end.

9748. Then what about the man who buys and starts to sink a colliery to-day? Should he not get something?—No, because he is going to enjoy the general market price, which allows for this. You must not have a differential exemption.

9749. You suggest that the market price of coal is regulated with an allowance?—I say the market price of coal follows on economic principles from the margin at which the least profitable colliery is carried on in its costs, and those costs include this differential burden upon the shaft.

9750. I am inclined to agree with that proposition. It amounts to this, You cannot defend giving a man an allowance who puts £100,000 of his capital

into a shop for plant and machinery, and not giving it to the other man?—No. Of course, with regard to what you said about shafts, I do not think that applies in any way beyond the British coal industry. I do not think it is in the price in regard to things that are in competition with foreign mines.

9751. No, I agree?—I think, however, it is a burden, probably a joint burden, slightly upon the industry and most upon the owner of the corpus.

9752. Have you considered another type of capital expenditure in connection with colliery undertakings in this country—namely, the house property that they must erect to house their miners? Is there any reason why there should not be a proper rate of depreciation on those houses?—No, there is no reason, from any point of view, why there should not be a proper rate of depreciation.

9753. Yet from the very situation of the colliery the house property becomes derelict when the mine is worked out?—Yes; it is all a part of the economic expense of carrying on the business in the long run. The question you have before you is whether the hardship, year by year, is sufficiently great for you to make a sacrifice of revenue now.

9754. May I put it in this way: that the people who have these grievances will talk about them, and that is all, and just go on as they are going on at present?—There will be something gained, of course; Mr. Kerly's point about a sense of grievance is a very important one, and if you find that it is rampant, it might be worth while on the whole to make a change.

9755. On the question of depreciation, as just given, I mean the diminishing value method, we have had it before us that instead of the diminishing value method, the amount written off may be a fixed ratio of the first cost, so as to write off the whole cost in a given number of years. The amount written off each year may be such as, together with interest, shall amount to the first cost, the amounts being equal in each year?—Equal sinking fund instalments?

9756. No?—Do you mind saying that again?

9757. I take this suggestion: that if you spent £100,000, and it had a life of 50 years, you divide the £100,000 by 50 to get the annual instalment. Then the amount written off each year shall be such that, together with interest upon it, it shall amount to an aliquot part of the first cost, the sums of all these amounts with interest amounting to the first cost. That is a sinking fund. What have you to say with regard to this suggestion as compared with the present method of diminishing value, as to its practical advantages?—One must pay regard to the facts of life and the conditions of the world we are in, and what business men do. In a more advanced stage of the community it might be better to allow all on original cost, as we do for ships; but boats are kept in such a way now, and the complications are so great, that I think, generally speaking, that is not practicable, and on the whole the advantages are with the method of writing down from diminishing value; because no mistake can ever be made as to the length of time. You do, in fact, get larger allowances at the beginning than are perhaps really warranted. It has those two signal advantages. It may not correspond with the pure engineering idea of annual capacity, but nobody precisely knows what that is. Mr. Leake's world that he lives in for that purpose is an ideal world, and if everybody kept Mr. Leake's "Register of Plant," it might be done easily; but they do not, and if the engineers themselves knew how to divide up the life of a plant by output, we might be able to use their annual results; but they do not.

9758. Do you think there is any great hardship in the continuance of the present method?—I am sure there is no hardship; I am quite sure of that.

9759. Do you think that in some particulars the rate might approach more closely to a rough approximation of the life of the plant?—Yes; I would go so far as to say this: that in the long run, and apart from a growth in industry, the total amount allowed by way of wear and tear by the Revenue for all industry, will be exactly the same under any uniform method you adopt.

9760. Do you suggest that it would not make any difference to the Revenue to give a little more, provided they could limit the amount? I mean, after

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all, whether you start with 20 per cent. or 3 per cent. there is a point reached before the end of the life when the rates pretty well correspond. Yes, and, what is more, a business man loses sight of the fact that although he might not have got the rates that he wanted on the plant that he had recently introduced, during the war for instance, with a high rate of Income Tax, he has got in his depreciation schedules a vast amount of plant that he put in 10 or 20 years ago, which on the principle he demands would have disappeared for the purposes of allowance, if his methods had been in force all through. He does not realize that he is getting (at a high rate of tax) the advantage of previous—what he called sigmoidness—on the part of the Revenue.

9761. And, of course, in regard to plant put in during the war, and on which inadequate rates have been given, the depreciation will go on at the higher value for all time?—Yes, and he has practically no grievance if the rate of tax remains high, except perhaps a grievance on the question of the rate of interest upon the tax advanced.

9762. We had a suggestion—I think Mr. Harold Cox put it to us—that the married allowance ought to be calculated by way of a percentage of income?—Yes, I have discussed that point with Mr. Cox.

9763. Your alternative suggestion is that the allowance might be a fixed sum and disappear when the income exceeded a certain amount. Do you see any advantage, even though it is not decided to change the basis of assessment to the preceding year, in continuing the three years' average, the five years' average, the preceding year, and the actual year?—None whatever.

9764. Have you any suggestion to offer with regard to bringing everything to the same basis, not necessarily the preceding year?—If you try to make this uniform at once there is no doubt there are people who will benefit by it and people who will have a hardship. The latter would say: "If you had continued the previous method we should not have had to pay so much." I rather incline to think that you might make some sort of bridge by saying that for three years we will not tax you either on the old or on the new method, but we will tax you on the mean between the two.

9765. On the question of provision for a particular loss, of course, that principle has been followed in the way of carrying forward depreciation already?—Yes. Depreciation stands in a remarkably favoured position.

9766. Above all other business expenses. You can carry it forward, if there are no profits, for all time?—Yes, for ever.

9767. There is one particular item I think you are probably better able to express an opinion on than any other witness?—I am afraid you disarm me at the outset.

9768. There have been other witnesses who have said this; I will state it very briefly. Some suggestion is made that there is an enormous amount, or a substantial amount, of revenue being lost to the State through the failure of certain traders to keep books; and on pressing this point further we find it is small traders who fail to keep books, who have this tremendous fund which is at present escaping tax. Now, you have investigated the question of the income of this country very extensively. What is your view with regard to that suggestion?—In "British Incomes and Property" I made a reasoned attempt to estimate what the actual income escaping tax was out of the whole amount. Although as an official I had to express it very guardedly, I can perhaps express it more clearly now. I think in putting it at 17 millions in 1913-14 I put it high enough for that date; it has been probably considerably more during the war.

9769. This is merely traders failing to keep books. I am not referring to evasion of Super-tax or anything like that?—No, I am not referring to tax; I am referring to the amount of income that would be brought in at various rates.

9770. That is 17 millions of assessable income?—That was the total figure which I thought might be

regarded as being actually evaded. The proportion of that for small traders who do not keep accounts is not large. What happens in actual practice is that a baker in a country town does not know his exact income; perhaps he does not know it as well as the Revenue official does. He is assessed at £300 or £350, or perhaps £250—a round figure—and that is looked at every year, and if there is a marked difference in the man's shop and his style of living and so on, perhaps £50 or £100 will go on; but year in year out probably that £250 is not far different from the real figure.

9771. It is only a difference between what is assessed and what is actual?—Sometimes more and sometimes less.

9772. Then the income of 17 millions is probably assessable at the lowest earned rate?—No. Some proportion of it, not more than three or four millions of it, might be assessable at the lowest earned rate; most evasion occurs, in my judgment, in manufacturing and merchandising businesses in the neighbourhood of £1,000 to £3,000 a year profit.

9773. Do you mean through the failure to keep books?—No; they may keep accounts, and may even present accounts, but they are not always representing the full facts in the accounts.

9774. These are wrong accounts, of course. The point is suggested—and it is suggested by accountants—that it should be compulsory for every trader to keep books for the purpose of arriving at his tax liability?—If you are merely considering the portion of the community that do not keep any books at all, I do not think there is much not lost to the Revenue. If you could suddenly assume a world in which they all kept books and everybody's books were exactly correct, you might vary your £250 country baker's assessment to £200 one year and £300 the next; but I do not think there is much in it.

9775. May I put it in this way: that your view, after very full consideration of the subject, is that in the case of small traders who do not keep accounts or who fail to keep proper books, the loss to the Revenue is very trifling?—Up to the beginning of the war.

9776. That is to say, you have not investigated the matter since?—Partly that and partly because I think the immense overturn of circumstances has enabled a number of them to go on without increased assessment, who have perhaps been making a very much greater figure. I think that must be common knowledge.

9777. Mr. Marks: It has been impressed upon us here that the heavy taxation which falls on foreign investors in this country has very deleterious effects on the national prosperity, in obvious ways; for instance, if the rules as to physical possession, in dealings on the Stock Exchange were removed there would be heavy selling and there would be no room for new investments. Have you considered that matter yourself and formed any opinion upon it?—I think there is no doubt there is now considerable economic deterrent to investment in this country. I do not think we can get away from that.

9778. It is sufficiently serious, to your mind, to be worth consideration in connection with this question of Income Tax?—It should be considered.

9779. Sufficiently serious from a national point of view?—From a national point of view we have to consider how far the opening out and the development of this country can be left safely in the hands of British capital, and how far we really want foreign capital, bringing with it very often the introduction of foreign elements, about which we are all so extremely intolerant at the moment, or, I should say, impatient. You cannot have that and we want the foreign capital here and then complain about the immense foreign interests there are in British businesses.

9780. On the question of taxation of the turnover, if it were possible to apply to the facts your suggestion that individual assessments should be made on a percentage of the turnover—assuming that that is possible—do you not think that you would get a very close approximation to taxation on profits?—Yes, if the facts could be considered for an individual

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business by the Commissioners or whoever is looking into the matter and if they could say: "well, although there are no accounts to show us, we think the profit in this particular business is 3 per cent. on the turnover, or 2 per cent., and we think the profit on another man's business, which is more profitable, is 7 per cent."—if that judgment is based upon anything like decent data, then it is of course approximate to a proper tax; but if you are going to say that on everybody in this class of business the turnover makes 5 per cent. profit, then you have not got a proper tax.

9781. It has been put to us that many business men show a statement of profit?—I think in practice you will come back to this. The line of least resistance will be: "Well, we decide in such and such a business that the rate is 4 per cent. and we will adopt 4 per cent. in this case." You always tend of course to get to a flat rate where your facts are not known.

9782. And you will agree that so far as there is any discriminatory advantage given by our fiscal system, it is in favour of the foreigner in this connection?—In that particular case, yes, but I do not think that that is a bigger advantage than we get as exporters to foreign markets.

9783. This is rather a big question. Why do you think that a perfect system of information at the source would not be a satisfactory substitute for deduction of the source?—Assuming that you had a strong enough central administration to handle it and to get speedily every little ticket that came in from all parts of the United Kingdom—"John Jones certifies that he has paid a certain amount of ground rent to Lord so-and-so"—into Lord so-and-so's dossier; assuming that you could handle it quickly enough, you still have to look at the public side of it: whether everybody will send you in those tickets of information of income that they have passed on, without a lot of refreshing their memory, and trouble. It is going to add tremendously to the burden of the average person, but I do not think you can fairly estimate that your administration can handle it. There is, I believe, a house at Washington stocked with millions of these information-at-the-source documents which have never been looked at and never will be.

9784. That is very instructive on that point, thank you. Then just one point on the question of the sinking fund method of dealing with wasting assets. Would you agree that since it is possible to provide for complete or partial replacement of expenditure by payment of a smaller total sum than is necessary if compound interest were not brought into consideration, it is not fair to the Revenue to ask for an allowance of a larger sum?—A certain mathematical hardship can be demonstrated in the sinking fund method, owing to the operation of Income Tax. But you have again to consider what is the practice of commerce; and if the average man is satisfied to provide by a sinking fund and he does so provide, I think he would be satisfied. I think it is a sufficient sacrifice for the Revenue to make at the moment; and I think it is largely influenced by this fact. If your total investment of £100,000, we will say, gives you its full yield of interest right up to the day when it vanishes, then I think all you have to provide is that on that day there shall be a sum of £100,000, and the net cost of providing for it year by year is all that is necessary to allow. But if your capital and the yield upon it is vanishing year by year, then you should provide year by year a sufficient amount to give you the income that is dropped, the loss of income, and that means that you could not have a sinking fund method in that case. If you invest £100,000 and you are in fact getting 10 per cent. on that right up to the day of its death, I think the sinking fund method is all that need be given. But if as time goes on your income from it diminishes and gets less and less, then you should provide as capital out of each year's profit enough to bring you in the diminished interest, and that would be a greater allowance than the sinking fund affords.

9785. Enough to bring you in a greater allowance?—Suppose that the correlative of the loss of so much capital in the year were that, instead of getting 10

per cent. on £100,000—namely, £10,000, in the following year you only got £9,000, and then £8,000, you are losing £1,000 of income yearly by the wasting. I say that you must put out of your profits sufficient to bring you in that loss. Therefore, you must not let Income Tax prejudice you.

9786. Do you mean to say that, although the sinking fund method would not meet that case, it might be met satisfactorily by one of the other methods?—Yes; I think the sinking fund method meets adequately most cases.

9787. And it would involve rather less sacrifice to the Revenue than the other?—Certainly, and I think it would be acceptable to the commercial community. I think the fact that you can demonstrate a mathematical hardship does not carry you very far in questions of taxation.

9788. Mr. Walker Clerk: I notice in paragraph 16 (1) you introduce the words "unsound and undemocratic," which sounds rather like a political phrase. Does that phrase infer that Income Tax should proceed political power? It is rather a wide question, perhaps, but there is something following it?—No; all that that implies is that it may be contended by people who have this particular bogey, that it is not in accordance with the democratic principle to allow a larger sum in duty to a wealthy man. I am not saying I accept it. I am only saying that it may be thought.

9789. Should ability to pay be the absolute basis of the tax?—Not the only basis.

9790. You stated, in reply to another question put by Mr. McIntock, that the minimum of subsistence should to some extent be acknowledged?—I should incorporate that in principle with the ability to pay. The minimum of subsistence is a mere correlative of ability to pay. What I had in mind in saying it was not the only basis was this. In that rather cryptic paragraph in which I discuss the basis of progression in the principle of diminishing utility, I said that you get to a point, treating not of particular commodities but of wealth in general, at which a man is surrounded by everything that money can buy. With an additional £100 or an additional £1,000, you cannot say it has no utility to him, because it ministers to his pride. He likes to think that he has got a bit more; not that he can use it. The point is whether the State need take any notice of that particular class of utility—ministering to a man's pride. They might very well say: "We are coming down on that section more heavily than the simple principle of diminishing utility might justify."

9791. Then you agree to the principle of graduation to practical extinction beyond a certain point?—I hesitate to say extinction, but I think severe progression.

9792. In the early remarks you made you dealt with the attitude of mind of the taxpayer, psychology, and so on. Can you suggest to us some method by which that psychology can be used to advantage in order to make, say, the teachers or the miners, who want to be excused tax, view the matter from a different angle?—I am afraid that, as we are constituted at present, the conception of the State and our position in it is quite subordinate to the hedonic impulse. The man often feels his own position in the economic scale, as it were, much more strongly than any mere patriotic impulse.

9793. Therefore the patriotic impulse does not apply as a practical solution of the difficulty?—It is there, and with some men it is very strong; but taking the average man right through, and not in times of stimulus of war and immediate danger, it is quite secondary; it is just as secondary as his feelings to a railway company.

9794. Just one other point, and that is in reference to that foreign manufacturer whose position has been constantly before the Commission. Is there any other method of securing any other assistance to the Revenue from certain foreign manufacturers than by a tax upon turnover? I am thinking of the foreign manufacturer who deliberately produces goods and sells those goods to a selling company at such a price that they are sold at an actual loss by the selling company who exports them to this country?—You are thinking of systematic dumping?

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9795. I have not used the word, but that is what it means?—If you are after a tax on incomes, I say it does not burden it with too many other lines of policy.

9796. That should be dealt with quite independently?—If possible. In attempting to make one person go through a certain routine or in a certain hole in the hedge, you make everybody go through; you cannot discriminate; and there comes a point at which it is too burdensome a matter for Income Tax to achieve all sorts of Imperial policy and all sorts of tariff policy, and matters of international policy by the machinery of Income Tax. In the realm of the Commissioners of Inland Revenue they and their staff may be absolutely expert along this particular line of taxing income, but directly you introduce questions of international policy and our relations with other countries, whether there should be retaliation and so on, it is the thin end of the wedge, and a very bad wedge for them.

9797. Mr. May: Do I understand you to suggest that the advocacy of democratic principle is a booby?—No; I should hesitate to condemn myself like that. What I would say is that the man who looks first at some ideal of democratic principle in everything and has no other principles at all by which to work except a comparison of riches and poverty, is rather poverty-stricken in his ideas.

9798. Is that the only application of the use of your terms in this statement? I mean the persons who are poverty-stricken in ideas?—If a person said he was going to judge this question of the amount to be allowed for a wife on an income of £1,000 by a comparison with an income of £200 solely on the principle of the comparison of those two in their wealth, and not on the principle of a man with £1,000 a year who is married compared with a man with £1,000 who is a bachelor, I should say that he was afflicted with poverty of ideas.

9799. And that is the only reason for introducing the term here?—I am putting into his mouth the contention that he uses, that it is undemocratic and unsound to do this. I say the "therefore" is a non sequitur; because he has not taken into account other principles.

9800. On the question of compulsory keeping of accounts by small traders, I gather from what you have said that you do not think it advisable in the interest of the Revenue that all traders should be compelled to keep accounts?—I do not like the word "compulsion." I think it is very advisable in the interests of the Revenue that all traders should keep accounts.

9801. You do not think that it is necessary that it should be applied for the purpose of recovering the three or four millions which you estimate is now lost on small trading operations?—I doubt even if you could have the books kept compulsorily. You may compel a man to "keep books," but you cannot compel him to keep them accurately.

9802. Chairman: What is that figure of three or four millions that you suggest, Mr. May?

9803. Mr. May: I am using Dr. Stamp's figures. He said that out of the 17 millions which he estimated was lost to the Revenue, three or four millions applied to the operations of small traders—May I correct that? I never said 17 millions was lost to the Revenue. I said in "British Incomes and Property," I was dealing with national income; I was not dealing with tax. I said the amount that comes coming into the gross income will not exceed, say, three or four millions. Let us take a concrete case. A man is assessed at £250. If he kept books and you had access to them that figure perhaps ought to be £275. Or, we will say, alternatively, the man's income is something a little above the exemption limit. He has put it at £150, and it ought to be £165; that is a better case to illustrate it. That is in 1913, when the exemption limit was £160. Just look at what that means. £150 means that there was nothing that came into the Income Tax totals. If he had given the truth £165 would have come in. That is the point that I was dealing with. Now the point that you are dealing with is different, viz., what is the loss of duty? The loss of duty in 1913 was nil,

because if you had had him in at £165 you would take off £160 for abatement and perhaps the remaining £5 for Life Insurance or wife and children. The loss of duty out of that three or four millions of income is very small because of the allowances.

9804. Then out of the balance of that 17 millions of income, have you made any estimate as to whether any part of it, and if so how much, applies to farming operations?—No; farming was not included in that, for this reason: that that was not evasion in the ordinary sense. That was something that was given by law, though we imagined that the legal conditions treated them too leniently.

9805. Do you think any appreciable loss of revenue occurs from the fact that farmers do not generally keep books?—Very little loss of revenue occurred for the 20 years down to 1905 or 1907, and then of course it began to increase with the prosperity of agriculture and as the price of wheat went up. At the present time, with a conventional rate of twice the rent as their income, taking year in and year out, I do not think there would be very much loss. There may be at the moment now that prices are very high; but when you adopt a convention you adopt it as a flat rate for bad years and good years.

9806. I gather, then, that you do not think that any considerable increase of revenue would accrue if farmers were compelled to keep books?—Not considerable in the sense in which you are thinking of it to-day. I think it would be very much better if farmers could be properly taxed, but you must face the facts as they are.

9807. I also understood you to say that with regard to that 17 millions of taxable income which escapes, a good deal of it arose from the fact that books were inaccurately kept by persons who could not be described as small traders?—Mainly by people who are emerging from the class of small traders and are becoming more prosperous.

9808. Have you any suggestions to meet that case?—Do you mean suggestions for the strengthening of the administration?

9809. Yes.—If I were to give evidence on the administration side at all, which I was asked expressly on this occasion not to touch, I might have some suggestions to make about the powers of the Department. Certainly, would not like to elaborate them now without any thought. They are mainly powers of administration that are wanted.

9810. Mr. Bouverman: You said, in reply to a question, that you would agree with it, provided that we were starting afresh in a perfect world. I take it you have clear ideas as to what a perfect world should be. Could you give us the benefit of them?—What was the reference to starting afresh?

9811. Mr. McLintock: It was my suggestion on depreciation; there would be no depreciation in a perfect world, would there?

9812. Mr. Bouverman: Perhaps that is the answer to the question.

9813. Chairman: It would be very interesting if you could answer that?—I am not thinking about a world perfect in the sense of there being no physical deterioration. I was thinking of a world in which you knew that the rate of Income Tax was not going to vary greatly, and everybody paid it cheerfully, and you had no vested interests of any sort, but you could go straight ahead on pure principle.

9814. Mr. Bouverman: It was going to be a perfect world from the tax-paying point of view.

9815. Sir Warren Fisher: In your paragraph 13 (3) you make a suggestion as to the year's income which should form the basis of charge. Do I understand that as near as possible you want to get to the actual year's income; that you take as a provisional measure the income of the year before in order to get an assessment and payment of the duty on the 1st January, and that you rectify upwards or downwards at the end of the actual year? Is that your suggestion?—Yes. In these three alternatives you have really got the same thing in substance; that you pay a tax upon the actual income of a year, but the dif-

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ference between them is that you give them different labels as regards the year that you call them. I am not in love with any of these. All I say is that I do not feel that one can say it is impossible to have a smooth graduation with taxation at the source. It is possible if you will pay the price.

9816. Would not year third alternative, the one I am asking about more particularly, bring you nearest to the actual year; because, in point of fact, your adjustment at the end, when you have revised your provisional assessment, would be on the basis of that year?—Yes, it is, I think, the best of the three from that point of view.

9817. Would not that get over a certain number of difficulties in relation to the merging of Super-tax and Income Tax?—Yes, and the cessation of income and other matters.

9818. The basis of that is that there should be a provisional assessment, presumably in the late summer or autumn. Do you think that the taxpaying public would object to a provisional assessment?—Not if you develop a system in practice, as I think you would, of making your adjustment simultaneously with, and a part of, the next year's provisional assessment. It would not be two bites at a cherry in practice; it would only be in theory.

9819. In the great majority of cases, when could you get your adjustment made—how soon after the end of the financial year?—There you get up against the considerable practical difficulties of any of these schemes. I do not think you could do it very much before June.

9820. You could get most completed by the end of June?—No, I do not think you could get most completed; you would get your statements from the public.

9821. Might it involve different periods of payment from what we have hitherto been accustomed to?—Yes.

9822. If that were adopted, you think your scheme is feasible?—Yes, if you were prepared to alter radically the precise times at which you must make assessments, and the precise dates at which you must get payment.

9823. Of the three alternatives there, which do you prefer in your paragraph?—In the long run, I prefer No. 2, if you could get over the gap; but if you cannot do that, I prefer No. 3.

9824. Then on a small point, namely, the method of your allowance for wear and tear: Mr. McLintock was asking your opinion as to the comparative advantages of prime cost and diminishing value. If you were to adopt prime cost in regard to a large number of big manufactures, would it not involve very great practical difficulties to the Revenue?—Enormous practical difficulties, the business world book-keeping being as it is. If everybody kept that ideal register of Mr. Leske's, it would be simple.

9825. Would not every machine have to be watched in the register?—Every year's additions would have to appear for a particular year, and drop right out when the time had expired. I would not say every machine, though in some businesses it would practically amount to that.

9826. With regard to Double Income Tax, you suggest as a sort of *pis aller*, applying what is now in force in relation to Excess Profits Duty, taking the higher charge and dividing it between the two Exchequers. Admittedly, of course, there would be difficulties, but do you think the practical difficulties would be insuperable?—Not if you can get a satisfactory method of being in touch with the Colony. You cannot do it by cable or by post. You must have somebody on the spot who is empowered to not with you and agree on behalf of his Colony finally and once for all. You must have two officials, your Inspector for this country, and the man occupying a similar position for the Colonies, sitting together.

9827. Do you think no question of sentiment or pride might come in: might they not require we should have our man out there?—That element might come in. They probably would not care for it all to be on one side.

9828. Then as regards agents of non-residents trading in this country. I gathered from your answer to a question put by Mr. McLintock, that it was thought that the only method was the turnover method, and that permission should be given for people to put in accounts. But is it not the other way round? Is not the turnover merely where accounts are not put in?—Where no satisfactory evidence can be given. I forget the exact words.

9829. The first leg they stand on would be the accounts?—Yes. I said in practice I cannot imagine that proper accounts would be rejected.

9830. As regards small traders, if the Revenue be regarded as a business, do I gather that you feel that it would not be worth the money to have a very great elaboration of the present method of assessing and dealing with small traders?—On a purely mercenary test, perhaps not; but still I do think it would be an advantage that everybody should be assessed on what they are making. I do not regard it as an ideal for all time or that an assessment upon a round figure year after year is the proper thing. I only say that there is not a great deal in it from the point of view of money.

9831. But are not Government Departments accused of extravagance? You would not advocate that the Inland Revenue should be subject unnecessarily to that charge?—I cannot imagine anybody, who knew the facts, ever accusing the Inland Revenue Department of extravagance. In a business, one runs the expenditure of the business up to the marginal point where it pays for itself. That has never been done in the Inland Revenue Department. You want to see a return of about one hundredfold before you incur expenditure.

9832. Mrs. Knowles: We have talked of turnover as a way of getting at foreign trading here, as an alternative to their presenting accounts. Is there no other alternative plan, by getting bankers to make a return of the charter-parties or bills of exchange, which I believe are habitually deposited with bankers, and finding out there what the profit is? You would get a truer return of what is done, would you not? I speak as an amateur?—All that you would get by the agency of the bank would be, after all, figures which were variants upon the turnover. The bank could never deal with any more than the figures that passed through them as a bank. They could never tell you, for instance, what the true invoice price from abroad would be, or the freight or the various expenses.

9833. Does not freight come in the charter-party?—Partly it may, but it would not give you the whole of the expenses.

9834. Would not that enable you to get at these businesses split up when they are over here. Charter-parties and bills of exchange must go through bankers' hands, sooner or later?

9835. Chairman: On bills of lading, the bank takes the value of the bill which is recorded on the bill of lading, and it advances you so much. That is the way they do their business. They can tell the value from a bill of lading.

9836. Mrs. Knowles: Might not that be a possible alternative plan for getting hold of these big trades which are split up into separate companies here?—The one advantage it might have might be to show the volume of the business—whether you are getting sufficient in your gross receipts. It might be a kind of auxiliary check, but it could never tell you anything about the profits. For instance, if a man put in his statement of turnover that he had sold £10,000 worth of goods in this country, and the information that you got at the bank was that bills had passed through to the extent of £100,000, you would have a *prima facie* case for investigation.

9837. Mr. McLintock: That is assuming no resident in this country on his behalf, and that you cannot get at him at all on this side?—If you have nobody to correspond with except the man abroad, you are helpless.

9838. Mrs. Knowles: You say that the Income Tax is not a method of machinery by which one could carry out national policy such as an alternative to a tariff policy, or taxing the foreigner, or anything of that

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seet?—I think you must be very careful how many of your other national ideals you gear on to the Income Tax machinery.

9839. But as this is the principal item of revenue, surely it is true that it would have to be worked largely through it, because what you are attempting to do here is to apply to international finance a national system of economics. It has really outgrown our ken. We have got to get at it somehow?—But surely if there are more direct methods available, they should be adopted. For instance, you might be giving a man pills for his liver and he might have a sore toe. You might say: "I will introduce something into that pill which will make the healing power in his toe greater." I say you are approaching the thing at too great a distance, and you had better put a healing ointment straight on the toe. Now, if you are aiming at dumping, why not have a direct method of tax via the Customs and Excise and at the ports? Similarly, if you are aiming at the investment of foreign capital, there may be other ways of attacking it than this. I do not say you cannot do something; and I do not say you should not qualify your tax policy by reference to certain economic reactions; but you cannot do everything by way of an Income Tax.

9840. In your experience, is there much loss from arrears of Income Tax?—Do you mean irrecoverable loss?

9841. I was thinking of the loss of interest from people being behind in paying up?—There is nothing very much in that in the long run, if they pay at regular intervals of a year. There is not a great deal of loss in that way.

9842. You spoke of the sense of grievance, and I think you will admit that the sense of grievance exists over the joint incomes of husband and wife, though it may be your opinion that they do live as one unit and should therefore pay as a unit?—I think the sense of grievance has been fomented.

9843. I see what you mean, but it does seem to be a very serious one between husband and wife who want to get off a certain amount of Income Tax?—A grievance, of course, always deceives one as to its scope, because it is so vocal; 5 per cent. of the people can make a horrible noise, whereas the 95 per cent. may be quite content. I do not think it is a widespread grievance, myself. I think that the people who have the grievance, of course, make themselves felt.

9844. Then you would include brothers and sisters, and brothers and brothers, living together, and almost any combination of people. You would not merely include people living with their mistresses?—No; I would not go so far as that, because I do not think that you can say, in the case of a brother living in a house, even though he may be sitting at the same table, that the common resources are pooled in the same way; not as a general social mode in this country. He is more on the footing of a lodger, after all. If he is a grown-up son, he has his own rights over his own income; he probably contributes a regular fixed figure for his maintenance. But if his sister, or whoever he is living with, takes a sudden fancy for a new hat it is not so incumbent upon him as it would be upon her husband.

9845. The sister can leave, and the wife cannot. Have you any views as to the limit at which exemption should begin?—Of course one's mind is very much affected at the present time by prices, and one cannot determine quite at what level prices are going to settle.

9846. Do you think it is a feasible plan to vary the abatement limit according to the cost of living, if once you get a formula?—Not year by year, but over long periods of time, yes.

9847. Do you think that would be a satisfactory plan?—Yes; I do not think you can escape from it over long periods of time. Suppose that the prices were fivefold in one decade what they were 20 years before, that must have an influence upon the minimum of subsistence.

9848. Then you think the only thing is either to vary it arbitrarily or take some scientific basis. Would it not be better to take the scientific basis?—Certainly, so long as you do not let yourself become

slave to the science, year by year. If you found that the present exemption limit was settled 20 years ago, and it was wholly out of harmony with the economic facts of to-day, then you might look at the index numbers. You might fix it by reference to the circumstances of a certain decile of the population.

9849. Sir E. Nott-Bower: You make a reference, in paragraph 4, to what you very properly call the "difficult question of control." Of course no one knows better than yourself how the imposition on the total profit of the company drives companies out of the country altogether, and lends them to register abroad. You make a proposition here that we might be faced with this sort of thing: a charge of tax upon the whole profits less the proportion earned abroad paid by way of dividends to foreign shareholders. Of course it would be very difficult, would it not, in the case of a company, to distinguish between that portion of its profit which was earned abroad and that portion of its profit which was earned here?—It certainly presents considerable difficulties, and we might have in certain cases to take a short cut.

9850. Further on in paragraph 4 you make a suggestion which it seems to me would make the problem more difficult still. You say: "Such a line of argument would lead to the view that there was nothing repugnant in principle to a charge where a concern is being directed and managed from London, even though in all other respects it were abroad, and every shareholder were resident abroad." That is the suggestion there. You might attribute a part of the profit to the control. Supposing half the trading operations of the company were here, and half were abroad, but the control was here; most people would, I think, say that half the profit was a British profit, and half the profit was a foreign profit, and they would ignore the control?—I think if you were to say that we are not prepared, in the present state of the Exchequer, to go as far as that, you could, in strict theory, justify saying "we will not exempt the profit made abroad, in view of the fact that you are controlled here; we will charge 2s. in the £, or 1s. 6d." I think that would be defensible in principle.

9851. It would be very difficult to arrive at the proportion on principle, would it not?—The exact rate of tax, yes; that is not easy to determine.

9852. In fixing the rate of tax, you are practically fixing some proportion which you have in your mind?—Yes, in endeavouring to say how much shall be the fee, so to speak, to this country for control here of those foreign profits, you would have to ask yourself what, on the principle of origin and residence, would be the origin part of the tax, and then (say) halve that. It really comes to this, that for this particular purpose you divide your Income Tax into three; first of all into two parts, origin and residence, and then the origin portion into two.

9853. Take a company, for instance; the wages of control would be the directors' fees, would they not? The control would be exercised by the directors, and they are paid fees for controlling the business?—Yes, but so far as the shareholders are concerned, the shareholders should be presumed to get some advantage over and beyond that.

9854. You do not think that the directors' fees cover the whole of the profit which you might reasonably attribute to control?—No; I think the shareholders would not seek control from London, if they paid away the whole advantage of the control in directors' fees.

9855. I think Mr. Marks asked a question about allowance for depreciation—a sinking fund. I am not clear as to what your view was as to that. Supposing you have to replace the value of machinery or of any wasting assets which cost £10,000, let us say, you assume a certain rate of interest, and you say a sinking fund, an annual payment of £x a year accumulated—?—£x being a net rate after deduction of tax?

9856. Yes. Would you limit your allowance to the contribution to the sinking fund? The interest on sinking fund would be taxed, would it not?—Yes. Mathematically I think you can represent a hardship there, but I do not think it is a hardship that is felt, and I think the practice of the community, and

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their expectations, would be sufficiently met if you could provide a capital sum at the date of the death of the asset sufficient to replace that asset; never mind how you had done so.

9857. You do not deny mathematical hardship?—No.

9858. Sir J. Hornwood-Banner: There is one question which I think has not been put to you. No doubt your attention has been called to that legal decision the other day, about the distribution of reserves. Do you think that some steps ought to be taken as regards that—that that decision will lead to very considerable diminution in Super-tax payments?—I do not think that the decision makes a great difference. The loss has been there all along, and the decision merely puts upon the actual records of law what has been assumed to be the law for many years. The loss is there, and should be provided against.

9859. As it stands at present, it provides a method which goes against the general interest of the Super-tax, paying a low rate of dividend, putting away large reserves, and then distributing them as capital upon which no Super-tax is paid?—Quite.

9860. That creates great irregularity, because one man does that, pays small dividends and distributes in a way in which no Super-tax is paid; but in the case of another man who distributes his dividend fairly and reasonably every year, his shareholders have to pay Super-tax?—Quite; that has been the position, of course, for some years.

9861. And this case is really rather a lesson to people to use that method as one by means of which they will get rid of the payment of Super-tax?—I do not know. I think that case merely forms part of the chain of reform.

9862. Chairman: Thank you. We have had a very interesting morning, Dr. Stamp.

Mr. A. Hook, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

PROOF OF EVIDENCE OF A. HOOK, SUPERINTENDING INSPECTOR OF TAXES, ON THE SUBJECT OF THE DEPRECIATION OF WASTING ASSETS IN RELATION TO INCOME TAX.

9863. (1) Separate memoranda have been put in dealing with the past history of the questions of wasting assets, allowances for wear and tear of machinery and plant, and terminable annuities. It is proposed in this evidence to deal with this aspect of the question as briefly as is consistent with a full understanding of the present position of the law and practice.

9864. (2) As regards trading profits, the existing allowances, as set out in the Income Tax Act, 1918, are—

- (a) The "supply, repairs or alterations of any implements, utensils or articles employed for the purposes of the trade." [Income Tax Act, 1918, Sch. D, Cases I. and II., Rule 3 (d).]
- (b) A just and reasonable allowance for the "wear and tear during the year of any machinery or plant used for the purposes of the trade." [Sch. D, Cases I. and II., Rule 6.]

When the assessed profits are insufficient to cover such depreciation allowance, the unsatisfied balance is carried forward and allowed in future years. The total allowance for all years is restricted to the actual cost to the trader of the machinery or plant in question.

- (c) If the machinery or plant becomes obsolete and is replaced, an allowance is made of the unexhausted (written down) value less the sum realised on sale. [Sch. D, Cases I. and II., Rule 7.]
- (d) In computing trade profits in the case of mills, factories and other similar premises one-sixth of the annual value is allowed by way of depreciation (in addition to the ordinary outlay on repairs). [Sch. D, Cases I. and II., Rule 5 (2).]

9865. (3) A proposal that is likely to be urged upon the attention of the Commission with special emphasis is the extension of the depreciation allowance to assets which are subject to inevitable wastage and exhaustion in the course of trade, for which at present no allowance is made.

9866. (4) The Income Tax Acts are concerned with "profits"; and "depreciation of wasting assets" is merely one aspect of the wider question "what is profit?" The meaning of the word as used in the Income Tax Acts is narrower than its ordinary business meaning. The word is nowhere defined with exactness. Its limitations are derived from certain

Rules which specify deductions that may be made in arriving at the amount of the assessable profit and from sundry definite prohibitions.

9867. (5) The following have a direct bearing on the question of wasting assets—

No deduction may be made on account of "any capital withdrawn from, or any sum employed or intended to be employed as capital in such trade." [Sch. D, Cases I. and II., Rule 3 (f).]

"No other deductions shall be made than such as are expressly enumerated in this Act." [s. 209.]

Read in conjunction with paragraph 2 these prohibitions show the extent and the limits of the allowances as factors in estimating "profit."

9868. (6) The present position is clearly expressed by Farwell, L.J. (*Smith v. Lion Brewery Co., Ltd.*, [1906] 2 K.B. 912; [1911] A.C. 150): "The Income Tax Acts" expressly forbid certain deductions which might be thought allowable before the true profits of a trade could be ascertained, but with this exception "profits of a trade" bears its ordinary significance as used by business men in business."

9869. (7) The essence of the present problem is to determine whether any of the deductions which the Income Tax Acts at present prohibit ought to be allowed in arriving at the profit on which Income Tax should be paid.

To take the well-known *Albionia Case* (*Albionia Co., Ltd. v. Bell*, [1904] 2 K.B. 686; [1905] 1 K.B. 184; [1906] A.C. 18), an English company purchased nitrate grounds and makes its profits by extracting the nitrates from the soil, using up year by year the raw material which it had bought in bulk. The company claimed that the cost of the raw material so used up was a proper deduction to be made in arriving at its profits. The courts held that the Income Tax Acts prohibited such deduction.

An English company spends £100,000 in equipping a colliery, sinking the shafts, &c., the mine being worked out in 30 years. Should the company be allowed to charge the whole or part of this £100,000 as an expense in estimating its profits for Income Tax purposes?

A medical practice produces a profit of £1,000 a year. A doctor purchases the practice, paying £2,000 for the goodwill. Is his assessable profit £1,000 a year, or £1,000 less some portion of the sum he paid for the practice?

These are instances of deductions which the Income Tax Acts at present forbid; and it will no doubt be for the Commission to consider whether in any of these cases, or in similar cases, the particular deduction should be allowed.

9870. (8) The Rules of the Act of 1842 were first relaxed in 1878, the Act of that year allowing a

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deduction in respect of "wear and tear" of plant and machinery used for the purposes of the trade. This is a logical extension of the earlier Act. Plant and machinery are material things used in making the profits and used up in the process. An allowance by way of removal, which is adequate in the case of utensils which are numerous and liable to frequent replacements, ceases to meet the case of plant whose renewal will not take place for a long period of years or may not take place at all.

9871. (9) It may be pointed out that the Income Tax Act of 1842 permitted no allowance on account of the depreciation of trade plant and machinery, the only deduction authorised being the average cost of the supply and repair of implements, &c., used in the trade. A subsequent allowance of the cost of renewing important plant and machinery did not give satisfaction, seeing that the outlay occurred at long intervals and that the profits of the year in which the expense was met might well be insufficient to cover the allowance. In certain parts of the country the practice consequently arose of making allowances for depreciation to meet this obvious hardship. The practice received legislative sanction in the Act of 1875, which authorised an allowance on account of "wear and tear." This Act recognized that, in the case of plant and machinery, the "using up" of the capital asset is the condition of the allowance, the "using up" being an inevitable incident in the process of production.

9872. (10) The Finance Act, 1918, extended this principle still further to the actual structures in which such plant is housed as material assets essential to the process of production, and "used up" in that process. In both cases it is assumed that repair may lengthen but cannot perpetuate the "life" of the particular asset.

9873. (11) The question of wasting assets has been considered on several occasions, as indicated in the Historical Note. [See App. No. 7 (A).] The somewhat inconclusive result of these discussions may perhaps be traced to certain elements in the problem which tend in opposite directions, and which cannot be ignored in considering the possibility of reform without the risk of creating greater anomalies and practical difficulties than those that such reform is designed to remove.

9874. (12) There has been no general agreement as to the meaning of "profits" which might reasonably form the basis of a charge to Income Tax. In the case of mines, for example, some have urged that the value of the mineral in its native state should be admitted as a deduction in arriving at the assessable profit; others that only a proportion of that value should be so treated; others, again, that no part of that value should be excluded from the profit. Apart from these other aspects of the problem which call for consideration, it would seem desirable to consider what principles should guide us in determining "profit." A common agreement on that point may make it easier to deal with the practical questions resulting from the long continuance of a particular, though perhaps imperfect, form of tax.

9875. (13) It has, for example, been pointed out that most existing contracts involving wasting assets have been entered into during the currency of the present Income Tax system, and that whatever faults there may be in that system must have been known to and taken into account by the contracting parties. Where it is difficult to decide between arguments for and against change, such a consideration may well prove to be decisive; and there is little doubt that it has on other occasions exercised considerable influence. It is proposed, therefore, to examine this point more fully in connection with the particular questions that may arise.

9876. (14) The practical difficulties of any change that may be contemplated will be dealt with later; and the Commission will no doubt consider what weight should be given to this side of the question in estimating the urgency of a wasting asset allowance.

9877. (15) In pursuance of the suggestion in paragraph 12, the following observations on the meaning of profit are submitted.

9878. (16) Any consistent treatment of the general question of wasting assets involves some definite conception of the meaning of true profits. A clear idea of the meaning of profit will enable us to distinguish between expenses which are actual costs in earning the profit (such as the cost of trading stock) and expenses which are not in themselves actual costs in earning the profit, but merely payments by individuals for the opportunity of earning the profits (such as payments for goodwill). A definite conception of the meaning of true profit will in the same way enable us to distinguish between assets (such as pit shafts) whose wastage or exhaustion is an inevitable incident of the trade, and therefore a legitimate factor in measuring the profits of the trade, and assets (such as leases) which are wasting capital to the actual trader, but which are in essence capitalised profits and not assets "used up" in the actual trade or productive process. Instances of typical cases are given in paragraph 7 above. It is suggested that the question should be approached in this way because, unless the discussion is based on some generally accepted interpretation of the word "profit," the selection of assets as the proper subject of Income Tax allowance becomes more or less arbitrary, and much misunderstanding and confusion may result which might otherwise be avoided.

9879. (17) It is desirable that the definition of profit should leave out of consideration all payments between individuals which are merely "transfers of rights to future profits," and should admit only such costs as are expenses in the actual carrying on of the trade or in the actual process of production. In other words, profit is the amount by which the sale price of the product exceeds the capital expended and used up in the actual process of production, without regard to any sums paid for a share of, or an interest in, the profits arising from such process. It is not difficult in any particular case to determine whether a payment is a proper deduction in calculating profit within the meaning of this definition.

For example, the capital expended in sinking a mine shaft which becomes worthless when the mine is exhausted is a real expense in earning the profits of the mining. On the other hand, the amount paid by a doctor for a partnership in a practice is no part of the cost of carrying on the practice or of earning the profits, but is merely a sum paid to entitle him to a share of or an interest in the profits.

9880. (18) The theoretical problem of the Income Tax is to determine the amount of this true profit, and what portion of it (if any) should be excluded from the charge to British Income Tax where part of the capital is expended in the purchase of wasting assets abroad.

9881. (19) The practical problem is to decide to what extent the existing tax falls short of abstract perfection, and whether this discordance between fact and theory is so great as to necessitate change in spite of the long establishment of the tax in its present form and of the consequent fact that, as regards existing concerns, positive hardship may have been mitigated if not entirely removed.

9882. (20) It will be convenient to consider separately the question of wastage of natural resources (such as mineral deposits) and depreciation of plant and machinery in view of the different practical problems they present.

Wasting natural resources.

9883. (21) So far as regards wasting assets as a factor in determining profit, the first question that is likely to emerge is that which concerns the "inherent" value of mineral deposits and other natural resources which form the raw material of industry.

9884. (22) It has been urged in some quarters that the "inherent" value of coal (for example) as it lies in the earth should be deducted from the receipts on the sale of the extracted coal in arriving at the true profit of the whole operation of mining; or, to narrow the question to the position of the landowner in reference to Income Tax, that he should deduct some hypothetical value of the coal in the ground in estimating his profit from its sale or exploitation. On

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this view the coal in the ground is treated as though it were ordinary stock-in-trade, and the suggestion is that its value in stock-in-trade should be debited in the trading accounts like the purchaser's stock of any trader. Various difficulties suggest themselves in connection with this proposal. Stock-in-trade normally appears either in the purchases of the year or as a credit in the accounts of the previous year. The native coal falls under neither of these heads. The suggestion, indeed, can only find support if the landowner is assumed to sell the coal by himself as landowner to himself as coal trader, a strained view of the facts which it is difficult to accept.

9885. (23) It may not unreasonably be postulated that the coal has no value at all until its extraction for use (immediate or remote) is contemplated; and that the whole of the exchange value is inseparable from, or is created by, the trading operations whose profits are in question. Regarded in this way, the value of the "native" coal (whatever that value may be) forms part of the profits produced by the trade.

9886. (24) If any "original value" is assumed as a deduction from profits, there appears to be no measure of such "original value" other than the actual purchase price of the mining right when such is sold; a price which may vary widely from year to year according to the market price of the extracted coal. Any smaller figure must be purely arbitrary; and the mere suggestion of such seems to admit that the logical consequences of the "inherent value" theory cannot be faced.

9887. (25) Another aspect of the matter may be put thus: The actual coal is the gift of nature. So far as it possesses any exchange value before human labour has been applied to it, such exchange value is entirely the creation of the community. The landowner at least has expended nothing in creating it. When such exchange value is realized, the proceeds passing into the hands of the individual landowner, it is a not unreasonable proposition that such proceeds should be regarded as profit to him, and profit which the community is justified in taxing.

9888. (26) If it is accepted that in the case of mineral deposits worked in the United Kingdom the proceeds derived from the sale of the mineral in its native state are profits falling within the legitimate province of the British Income Tax, the question remains: How and at what point the tax thereon should be levied? Such minerals are commonly worked by a trader who leases the mining rights and pays to the lessor a royalty on the amount extracted, less frequently by a trader who has purchased for a lump sum the right to work the minerals, and occasionally by the owner of the minerals himself.

9889. (27) In the first case the tax is paid on the full amount of the royalty. The trader pays tax on the profits of the business without charging the royalty as an expense, and deducts the appropriate amount of tax on paying the royalty. The lessor thus bears tax on the whole sum he derives from the minerals. On the other hand, the proposition that the "inherent value" should not be subject to tax involves the total or partial exemption of the royalty from tax.

9890. (28) In the second case the trader purchases the minerals outright. The purchase price is paid in full; and in estimating the trader's profit no deduction is admitted on account of such purchase price. The burden of the tax is economically shifted to the shoulders of the vendor of the minerals in so far as the purchase price falls short of what it would have been had the vendor been liable himself to pay Income Tax thereon. It will no doubt be admitted that the aggregate profit on which tax is paid should not be affected by any arbitrary arrangements between those participating in such profits. An allowance to the purchaser on account of the price paid for the minerals would consequently involve a charge upon the vendor. If, for example, a company pays to a landowner £100,000 for the mining rights on his property, and the company is allowed that £100,000 as an expense in calculating its profits for Income Tax purposes it becomes necessary to charge the landowner with tax upon this £100,000 as profit accruing to him, otherwise the Revenue loses tax on this

£100,000 profit as a result of a purely arbitrary arrangement between the seller and the buyer. In practice the company knows that it will receive no Income Tax allowance in respect of this £100,000, and it can and does shift the burden of the tax to the landowner when it makes its bargain with him. The latter consequently bears the tax indirectly, since he gets less for the mining rights than he would otherwise have received. Apart from the undesirability and the unfairness of charging a graduated tax upon such a lump sum as income in one year, any change of the present practice in the case of minerals which have already been bought and paid for would be inequitable, the purchaser having already received an allowance from the vendor in the purchase price, and receiving it again from the State in his Income Tax. As regards future sales, no advantage would accrue to buyer or seller from any alteration of the present system, since any change would be reflected in future bargains.

9891. (29) If it is suggested that the trader cannot and does not provide in such a bargain for an unforeseen and altogether abnormal increase in the rate of tax, it may be replied that this is merely one of the speculative factors in all bargains involving the future. In so far as this unforeseen burden does in fact fall upon the trader, it may be fair to say that the conditions which have brought about the high Income Tax have also brought about the high market price of the product (e.g., coal), and that on balance the result is not to the trader's disadvantage.

9892. (30) The third case, in which the owner of the minerals works them himself, calls for no special remark. The general arguments for and against the allowance of the hypothetical inherent value of the minerals are set out in paragraphs 23 to 25; and the answer in this third case will depend upon the weight given to those arguments.

9893. (31) As regards mineral deposits abroad, the arguments for and against the deduction from profits of the hypothetical value of the minerals are the same as in the case of home deposits; although further questions may arise in considering the Income Tax to be charged on those profits.

9894. (32) If it is held, as suggested by some, that the "inherent" value of such minerals (measured, presumably, by their purchase price) is a proper deduction in arriving at profits, it is clear that the British Revenue at present receives something more than tax on real profits, seeing that the existing Income Tax admits no deduction in respect of such purchase price. Before, however, extending relief to the British trader on that account, it would still be necessary to consider whether the "burden" fell upon him, or whether, apart from this consideration, the Income Tax operated as a handicap to British trade whose removal might be advisable as a matter of policy. These are points of considerable complexity; but the position may perhaps be summarised briefly as follows.

9895. (33) The British capitalist is competing with foreign capitalists for the purchase of a mineral field abroad. The "local market price" of the mineral field is determined by the nature of the general demand (both foreign and British); and the British Income Tax is therefore not a direct factor in fixing that price. The British capitalist under such circumstances has no power to compel the foreign vendor to accept less than the "common market price"; or, in other words, to pass on the burden of the tax to the foreign vendor. On the other hand, it is equally evident that the British capitalist will not purchase unless the net return on his capital, in spite of the burden of the tax, is sufficient to attract him. He must therefore enjoy certain advantages as compared with his foreign competitor. These advantages may be greater enterprise, wider knowledge and experience, greater facilities in raising capital on moderate terms, and so on.

9896. (34) These considerations would appear to lead to this conclusion, that while the burden of the tax on the purchase price of the foreign mineral deposit falls in theory upon the British trader and is not shifted to the foreign vendor, he makes, or anticipates, exceptional profits which leave him in a favourable position in spite of the tax; in other words,

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while in principle he should be relieved of tax on the purchase price, its existence in the past has not imposed upon him a real hardship and has not operated as a bar to foreign enterprise.

9997. (35) The present discussion, however, is concerned less with the tax as it has been than with the tax as it should be in the future. The Commission will no doubt consider whether the position of the British capitalist in the future will be so advantageous in competing for foreign mineral deposits and the like that the burden of the tax on the purchase price may still safely be ignored, or whether, in view of keener competition, the burden of the tax will become a serious factor in the British capitalist's position.

9998. (36) If it is held that the hypothetical "inherent" value of the mineral deposit is not a deduction in arriving at profit, other considerations arise. The purchase price now becomes pure profit; but it is profit accruing to a foreigner from a sale by him abroad, and, as such, is not an appropriate object of British taxation. If the British trader pays tax on the whole profit (including that represented by the purchase price), and if, as suggested in paragraph 33, he has no effective power of passing any part of the burden of the tax to the foreign vendor, he then in fact pays tax on a figure of profit which exceeds what may be called the "British profit," the excess being represented by the purchase price (which, if the above principle is accepted, should not bear British tax at all). In that case we reach the position outlined in paragraphs 34 and 35—the reality of the hardships and the requirements of policy.

9999. (37) The review of this question as regards mineral deposits abroad would not be complete without some reference to the various ways in which such assets are acquired. In many cases the properties are leased, the British trader paying rent or royalty. Such payments are admitted as deductions for Income Tax purposes; so that in this instance tax is paid on real profits only, no tax being levied on the "profit" accruing to the foreign lessor.

9990. (38) In many cases the foreign asset is acquired by purchase for cash. We are here faced with the simple issue set out in paragraphs 34 and 35.

9991. (39) In other instances, however, the asset is acquired (wholly or in part) by the issue of shares in the British company. In this case it might be suggested that the property is not purchased at all as the company sacrifices nothing to acquire it, and that no question of a wasting asset arises. Whether this point of view is sound or not, there still remains the other question. What part of the joint profit accrues to the foreign landowner in respect of property abroad transferred to the British company, and should such part be exempt from British tax? If it be held that such exemption should be granted, it may take either of two forms: (1) an allowance to the company on account of a wasting asset, or (2) the exemption from tax of the dividends paid to the foreign holder on his "vendor's shares." The allowance of the wasting asset would probably be the simpler and the cheaper. The question of exempting dividends to foreign holders under such circumstances will come before the Commission in another shape; and it is perhaps only necessary to point out here that these two "exceptions" are in a sense alternative.

9992. (40) It may be added that foreign mineral deposits may change hands more than once before coming into the possession of the company that works them. Should the Commission decide that allowance on account of the wasting asset (the mineral field) ought to be made, it is suggested that the amount to be allowed should not exceed the price paid when the property first passes into the hands of a person normally liable to British Income Tax. For example, A (residing in London) buys a mineral property from its foreign owner for £20,000 and sells it to B, Ltd. (an English company), for £20,000. The wasting asset allowance might reasonably be based upon the £20,000, the additional £20,000 being "profit" accruing to a British resident.

9993. (41) Closely associated with the question as it concerns the mineral deposit is that of the capital expended in immediate connection therewith (e.g., mine shafts, sinking oil wells, and general development). The assets created by such expenditure share a liability to exhaustion. They are wasting assets; and such capital as is irreversibly expended in this way is in principle a deduction to be made in estimating the true profit.

At present no allowance is made for Income Tax purposes on this account; and, as a consequence, tax is paid on something in excess of real profit. If, however, the removal of this hardship is contemplated, it becomes necessary to consider as a practical problem not only the weight of the burden itself, but upon whom it falls, whether any measure of relief would reach the right pocket, and whether such relief is necessary as a matter of policy in the interests of British trade.

9994. (42) Taking the case of the British coal mining industry as a typical example, it is suggested that the burden of the tax in question (i.e., on the amount represented by shaft sinking) is shifted forward to the home consumer and borne by him in the market price of coal. There is no foreign competition in the home coal market; the particular tax burden is common to the whole industry serving that market. Economically the tax is shifted to the buyers in that market. The amount of tax involved at six shillings in the £ is approximately one half-penny per ton of coal.

The position in the coal industry (as regards home consumption) appears to be this: the colliery company pays more tax than it should to the extent of a little over one half-penny per ton, because it receives no Income Tax allowance for the capital sunk in mine shafts, &c.; the half-penny per ton, however, is ultimately borne by the home consumer. A "wasting asset" allowance would, therefore, be (for a time at least) a gift to the colliery proprietor, amounting in the aggregate to approximately £300,000 a year. Whether the relief would ultimately find its way to the consumer (as in theory it should) is open to question.

9995. (43) On the other hand, coal is an important article of export, specially important in that its outward freight tends to cheapen the inward carriage of British imports. If there is any effective competition in the foreign market (as, at least, seems probable in the future), the "tax burden" cannot be shifted to the foreign consumer, and must therefore be regarded, to the small extent indicated, as a handicap to British export of coal.

9996. (44) The above considerations do not apply to the same extent in the case of other mining industries in this country, a varying degree of foreign competition in the home market having to be met in practically all of them; and in these other industries it may be stated that the burden of the tax in question is not wholly shifted to the consumer, but remains as a special (though probably trifling) weight on the industry itself.

9997. (45) Much the same thing may be said of British-owned foreign mining undertakings. Where there is effective competition by foreign concerns the burden of the tax now under discussion must remain in whole or in part on the British company; and again the practical problem takes the shape set out in paragraphs 34 and 35.

9998. (46) In presenting the subject as regards mines and mine shafts and the like in the above form, it has been the desire of the Board of Inland Revenue to set out various, and sometimes conflicting, views that are held in different quarters; and the very complex considerations involved have made it necessary to deal with the question at some length. It may therefore be convenient if the discussion is briefly summarised. The essential points, it is suggested, are:—

As regards the mineral deposit:

- (1) Is the hypothetical value of the minerals a proper deduction in calculating profit?
- (2) Is such value part of the profit itself?

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(3) In the case of (2), should the "profit," which accrues to a foreigner from the sale of minerals abroad, be included in the charge to British Income Tax or not?

(4) In the case of minerals abroad, is the tax in question borne by the British capitalist, is the burden a real hardship in itself, and, apart from this, is its removal desirable on grounds of policy?

As regards wine shafts, &c.:

(5) Is the cost (to the extent of its exhaustion) a proper deduction from profits?

(6) By whom is the tax in question ultimately borne?

(7) In view of (6), is relief to the mine owner justifiable? and

(8) Apart from these considerations, is the relief desirable on grounds of policy?

Purchased terminable annuities.

9909. (47) The position of terminable annuities as taxing assets also calls for consideration. The Departmental Committee of 1906 was of opinion that no sufficient reason existed for altering the present law, and took the view generally that in the case of a life annuity, the capital is exchanged for a life income, and that in the case of nearly every then existing annuity for a period of years the liability to tax must have been present as an element in fixing the terms between the parties.

9910. (48) Annuities vary greatly in character. At one extreme is the contractual repayment of debt with interest by equal annual payments over a fixed term of years, as in the case of annuities under the Irish Land Purchase Acts. In these the interest element in the annual payment is alone taken into account in dealing with the Income Tax. At the other end of the scale appear perpetual annuities such as irredeemable Government loans. Between these limits lie various classes of annuities in which the element of debt repayment appears more or less clearly.

9911. (49) Some "annuities" are merely the allocation for a fixed period of the profits from a continuing source of income—for example, an annuity left by will as a charge on an estate or a lease of premises. It is suggested that in such a case no reason exists for any allowance. Tax is charged upon the continuing profit without regard to its allocation. Payment by one person to another for the right to receive this continuing profit for a specified period is in no sense an expense in producing the profit. The profit continues to arise whether such payment is made or not. The payment is, in short, the commuted value of the net future profits. The vendor in effect bears the tax on this transfer price, since he must normally receive less because the purchaser will have to bear tax on the whole amount of the profit.

9912. (50) In the case of purchased life annuities, the view has generally been taken that the capital is definitely exchanged for an income. There is no doubt that, in their method of computation at least, they are a combination of capital and interest; and from some points of view it is difficult to divest them of that character. The predominant characteristic of the life annuity is that it is an "income for life," an income that may cease in one year or fifty years, or any other number according to the luck of the recipient. While it may not be unreasonable that its position as regards the Income Tax should be governed by that which it occupies in the main in the eye of the annuitant, the Board of Inland Revenue recognise that there is much force in the argument that it is an asset acquired by an expenditure of capital, and that it is liable to inevitable exhaustion.

9913. (51) Here also the question of incidence arises. Seeing that the bargain is entered into in full knowledge of the fact that Income Tax will be payable on the full annuity, does not the annuitant take this into account when he accepts the terms? It is true that the contingent Income Tax liability is an existing fact when the bargain is made, and that each party to the bargain enters into it with his eyes open; and under such circumstances the plea of hardship loses much of its weight. On the other hand, the Commission may feel more concerned with the future

shape of the tax than with its past, and may consider that the actual incidence of the tax is a matter to which attention should be given.

9914. (52) The real incidence of a tax is never quite free from difficulty; but it is probably correct to say that in the case of life annuities the tax falls upon the annuitant both in fact and theory. If it is the case that the annuitant does in fact bear the tax, relief to past as well as to future annuitants would appear reasonable.

9915. (53) The governing considerations to which the attention of the Commission will no doubt be directed appear to be these:—

(1) Should a life annuity be regarded as the return of capital with interest, or

(2) As pure income received in exchange for capital?

(3) If the former, does the tax really fall upon the annuitant, or has he relieved himself of it in the process of bargaining; and

(4) If the tax is borne by the annuitant, is it desirable on grounds of justice or of policy to restrict the tax to what would, under these circumstances, be regarded as the income element in the annuity?

9916. (54) In the case of purchased annuities terminating after a definite period of years the essential facts are less complex. Unlike the life annuity, the period in this case is fixed, and the likeness to mere debt repayment clearer and more obvious. Indeed it is probable that most of such contracts could be so framed as to constitute the annuity an actual repayment of debt with interest, in which case tax would be limited to the interest part of the "annuity" under the existing law. The incidence of the tax is wholly or mainly on the annuitant. The general considerations set out in paragraph 53 apply here also, and there will no doubt receive attention by the Commission in due course.

9917. (55) Among other instances of wasting assets, reference may perhaps be made to patented inventions. In so far as the patentee expends capital in experimenting with and patenting the invention, the outlay represents an expense in earning the consequent profits. In many cases patents are taken out by engineering firms or companies, and as a rule the experimental expenses are charged among the general expenses of the business. In other cases the patent is sold for a lump sum. Under such circumstances it appears reasonable to assume that the vendor has taken all the conditions into account and that there is no positive hardship urgently calling for relief. Where royalties are received for the use of a patented invention a case probably exists for an allowance of the proved costs of experimenting and patenting. An allowance is already made in such cases in respect of the cost of maintaining the patent. It may be of interest to note that of patents taken out in any one year in this country about 50 per cent. remain alive at the end of two years, about 5 per cent. at the end of 10 years, and only 2 per cent. survive at the end of 14 years.

Practical difficulties attending the allowance.

9918. (56) Whatever view may be taken of the principle of allowance for wasting assets, there is no doubt that its practical application presents problems of extreme difficulty. In the case of mineral deposits and the shafts and other works of development associated therewith, which occupy a foremost place in the question, the practical difficulties may be summarized broadly as follow:—

(1) The difficulty of determining with accuracy the life of the mine, &c., as such

(2) The possibility of extending the life by the taking up of further options or leases or as the result of the discovery of unexpected seams or ore bodies, which would in some measure be served by the original capital expenditure.

(3) The possibility of an extended life as a result of the discovery of new methods of treatment bringing lower grade ores into the field of production.

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- (4) The death or suspension of the undertaking as a result of want of capital or of the fluctuation in the market price of the product.
- (5) The difficulty of determining in many cases the original outlay to be admitted as the measure of the wasting asset.
- (6) The inextricable tangle of interests and finance in the case of reconstructed or subsidiary concerns.

9919. (57) As regards the difficulty of forecasting the life of mines, the proverbially speculative character of gold mining is perhaps the best known instance. With rare exceptions, it is quite impossible to estimate the life of an existing mine with any approximation to accuracy. The variations in the lives of most such properties are too great to admit of an average life as the basis of the allowance for wastage; and in practice a periodic review of the circumstances of the mine would appear to be inevitable. The extremely speculative character of the life of a gold mine is no doubt one reason why generally no attempt is made to build up a reserve to meet the loss of capital, the dividends paid being frankly regarded as a partial return of capital in addition to any distributable profit that may have been made.

9920. (58) Of a much less speculative character is the nitrate industry, in which the question of wastage plays an important part. It is generally admitted that, owing to the form in which nitrate deposits are met with, it is possible to estimate the total contents of any unworked area much more closely than in the case with most mines. The yearly publication "Nitrate Facts and Figures" includes a yearly estimate of the further anticipated life of individual concerns; and it is suggestive of the difficulty of accurate forecast that the highest and lowest life of such individual concerns shown by these yearly anticipations have varied during the past ten years by margins ranging from 35 per cent. to 100 per cent.

9921. (59) It is a not uncommon practice in the nitrate industry to make some provision for capital wastage by the creation of general or other reserve funds out of which debenture capital is from time to time redeemed. Where such reserves exist they are built up out of profits at the discretion of the directors, and do not in themselves afford any criterion by which the allowance for Income Tax could be measured.

9922. (60) The comparative stability of coal mining and the wild adventure of such tin mining may be regarded as extreme types of wasting assets in this country. The complete dependence of the economic life of the mine in many cases on a widely fluctuating price of the product (as in the case of tin) illustrates another difficulty in anticipating the life of the asset for which no exact solution can be given.

9923. (61) It is unnecessary to multiply instances. This element of uncertainty in the life of the asset is met with wherever the exploitation of natural resources involves the using up of the body of the asset. The degree of uncertainty varies within wide limits; but it is always great enough to make any approximation to accuracy impossible. It becomes generally a question of "opinion" (the happy hunting ground of the professional expert) and, in view of the important sums involved, one is bound to anticipate continuous contention and litigation (if the Revenue is to be protected) in which the Revenue official must be at a serious disadvantage.

9924. (62) The difficulty of determining the life of the asset hardly exceeds that of fixing the capital value in respect of which allowance would have to be made. Rarely, if ever, can this figure be ascertained from the published accounts. The balance sheet figure is generally an "omnibus" account which includes many things other than the actual prime cost of the asset subject to wastage. With mining ventures of recent origin it may be possible to obtain the necessary information from the original documents; but in the case of others which have possibly been subject to one or more reconstructions, to divisions, to combinations, it is extremely doubtful whether the information could be obtained at all. The smallest acquaintance

with the accounts of mining companies, particularly those working mineral deposits abroad, will satisfy one that none but an expert could find his way through the financial tangle, even though all the records were available. The frequent payment for assets by means of shares on which no definite value can be placed, and the ease with which the "original" purchase price can be inflated by means of artificial transactions through nominees, are among the practical difficulties to be met with.

9925. (63) It is important to remember that the Income Tax is not a matter of economic theory, but a severely practical question. Practisability is always an essential test. Attempts to make the tax conform in all particulars to certain abstract principles may well reduce the whole to chaos unless this fact is borne in mind. Probably in no case does this acquire such force as in this question of wasting assets. An exact or approximately exact result can hardly be looked for. The most we can expect is a broad treatment of each case, which shall do substantial justice to the taxpayer, but which shall not involve either the taxpayer or the Revenue in an interminable dispute in matters which are not susceptible of exact treatment.

9926. (64) From what is set out above, I am of opinion that any attempt to deal with the question of wasting asset allowance, if any such is granted (at least as regards such matters as mines), on rigid and exact lines by the ordinary Income Tax machinery must in practice break down. The problem is of a very exceptional character, and requires exceptional treatment. The simplest and most effective course would probably be to leave the amount of the allowance to be fixed by the Board of Inland Revenue, subject to appeal to a Board of Referees where the taxpayer and the Revenue fail to reach agreement. The concentration of this work in few hands should speedily build up a body of experience and knowledge and reduce the serious practical difficulties to manageable dimensions.

9927. (65) The settlement of these extremely troublesome questions would be greatly facilitated if it were provided that the allowance should in no case exceed the amount actually written off the value of the particular asset in the books of the concern. It is not unreasonable that in so exceptional a problem a company should be required to write down such assets in its accounts if it claims allowance on the ground that so much of the asset has actually disappeared through wastage.

9928. (66) The importance of this provision is particularly manifest in the case of dividends from foreign and colonial companies distributed in this country through paying agents or received direct by the shareholder. By no conceivable means could the Revenue officials determine in any case how much of the dividend represented repayment of capital. The ordinary published accounts would be useless for the purpose; and no access could be had to original documents or to responsible witnesses with first-hand knowledge. It may, however, be pointed out that in these cases a remedy always lies in the hands of the companies concerned. Tax is only payable on the amount distributed as dividends; and it is open to the foreign or Colonial company so to arrange its distributions that tax is charged only on true profits. It is difficult in any case to go behind the form in which remittances reach this country and to divide the remittance into its constituent parts when all necessary evidence lies abroad. It is a matter for consideration under these circumstances whether any relief is necessary in such cases.

Plant and machinery.

9929. (67) In the case of plant and machinery allowance is already made for exhaustion through wear and tear in addition to the cost of current repairs. It has been suggested to the Commission that the amount of the allowance commonly given is insufficient. The Board of Inland Revenue are unable to agree that there is any material foundation for such a suggestion, and would point out that adequate machinery exists to secure for the taxpayer a full and impartial consideration.

9930. (68) The Act of 1874, by which the allowance is authorised, requires it to be "just and reasonable."

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and leaves the determination of the amount to the General Commissioners in the absence of agreement between the taxpayer and the Revenue. The General Commissioners are a completely independent body, and among them are to be found members of most of the important industries of the country.

9931. (69) In order to promote uniformity of treatment and to remove the difficulty which many individual taxpayers no doubt feel in presenting a case to the Commissioners based on their own limited experience, the Finance Act, 1918, provided that if any considerable number of persons engaged in any trade or business make application for this purpose, the question of the rate of depreciation to be allowed in the particular trade may be referred to a Board of referees for determination.

9932. (70) The desirability of a uniform allowance in particular trades has long been recognized. As the result of negotiation between representatives of particular trades and the Board of Inland Revenue, standard rates of allowance in respect of the wear and tear of particular classes of machinery and plant have been agreed for such trades, and where such agreement has been arrived at, it has been found that the General Commissioners with whom the legal jurisdiction lies are always ready to give effect to what is obviously an equitable and convenient arrangement. A table is annexed giving details of allowances for particular trades under arrangements which have been made in this manner.

Methods of allowance.

9933. (71) The existing allowances in the case of plant and machinery are based upon the general principle that the wastage of the asset is a cost of production, and that the total allowances over the life of the wasting asset should equal the original capital in respect of which the allowance is made (less any residual or scrap value that may remain). The following observations are submitted concerning the various methods in which this principle may be applied.

Equal annual instalments of the original cost.

9934. (72) This method of allowance is appropriate and simple when the life of the asset can be determined within narrow limits, and when the particular asset can be followed through the accounts from year to year.

It is adopted in practice in the case of ships, the effective life being assumed to be 24 years, and the break-up value 4 per cent. Equal annual instalments of 4 per cent. of the cost are given, aggregating the original cost less the break-up value in the assumed life. This involves a separate depreciation account for each vessel, a practice which in the case of so important an asset is simple enough.

The weakness of the system even here is that the lives of ships are not so nearly uniform. Their possible life is certainly considerably more; and as a consequence the depreciation allowances are excessive in the first 20 years, or thereabouts. Many vessels are sold abroad while there is considerable life still in them, the selling price exceeding the unexhausted Income Tax value in view of the excessive depreciation allowed.

The Revenue is therefore at some loss when the vessel is sold to a foreign purchaser at a figure exceeding its "written down" value, or when it is so sold to another British owner who is entitled under the present law to depreciation equivalent in aggregate amount to the price he pays. In principle this is unsound. On the other hand, the practice does encourage the keeping of the British Mercantile fleet up-to-date, and for this reason may, perhaps, be overlooked.

In the case of plant and machinery, the equal instalment over a fixed life is not adopted. The great variety of plant, with consequent variations in life, the considerable effect on life of the system of repair adopted, the impossibility in Income Tax practice of following each item, or even each year's outlay, render this system unsuitable for Revenue purposes.

Where there is a considerable body of plant of a varied nature a uniform life is clearly impossible, and, as a consequence, whatever average life be postulated some will die before and some after that date. In practice, the value of plant which dies within the average life is commonly left in the asset figure (less any scrap value realized) and depreciation is continued thereon. This is not at present legal, but it is equitable seeing that the whole of the plant is deliberately treated as a unit.

In the case of specific wasting assets, such as mines, a modified form of this system might be adopted; but even here the extreme uncertainty of the life, the yearly addition of new amortisable capital, the combinations and divisions and transfers that take place would suggest as desirable a system which would permit the application of an agreed percentage to the whole body of the wasting assets of the concern (involving the "written-down" method).

Fixing percentage on written-down value.

9935. (73) For general Income Tax purposes this method is the most convenient. The whole of the assets to which any particular rate is applied can be dealt with *en bloc*.

The allowance is higher in the early years of the life and smaller in the latter. As repairs increase towards the end of the life, this method tends to equalize the burden of depreciation and repairs.

This method is based upon the possible life of the plant, etc., as such if full repairs are carried out.

It does not take into account the possible death of the plant from obsolescence; but any hardship is avoided by allowing for obsolescence when it is proved by the discarding and replacing of any plant. Obsolescence should, it is suggested, be broadly interpreted. The discarding of any plant and the substitution of plant of another type to perform the same work more efficiently should be adequate ground for allowance (e.g., in an extreme case the substitution of electric power for steam power), due regard being had to the scrap or sale value of the plant displaced.

Allowance based on quantity extracted.

9936. (74) This method is used in some Income Tax systems (notably in the United States of America) in dealing with natural resources—mines, oil, etc.

It has no special advantages over the "life" method.

It is not easier to estimate the total content of a mine than to estimate its life, while the life method leads to simpler calculations in practice.

The quantity method gives larger allowances when specially productive seams are being worked; but there is no direct relation between the capital expenditure on shafts, etc., and its rate of exhaustion and the accidental quality of seams.

Under the quantity method periodical revisions are necessary; and it would, on the whole, appear more difficult for the Revenue to exercise any check on the claim.

In cases where (as in the United States of America) the Income Tax allows for exhaustion the facts admitted by the foreign or Colonial Government and the basis adopted would be useful guides in dealing with the British tax; but generally speaking the allowance should, it is suggested, have reference to the life of the particular asset rather than to its varying productivity.

The sinking fund method.

9937. (75) Under this method the depreciation allowances are not such yearly sums as will over the life of the wasting asset cover the original cost of that asset, but are such sums as will if put out at compound interest accumulate to such original cost at the end of the life of the asset. This method may be illustrated in its simplest form by reference to an annuity for a fixed period of years. £100 purchase

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on a 5 per cent. basis) an annuity of £8 a year for twenty years. On a strict analysis the annual payments of £8 no doubt consist of (1) interest on the un-repaid capital, viz., £5 in the first year, diminishing in subsequent years as capital is repaid and totalling in the twenty years £80, and (2) repayments of capital beginning with £3 in the first year and increasing year by year, totalling in the twenty years £100, the amount of the sum originally paid for the annuity. The twenty years receipts, amounting to £160, are from this point of view regarded as consisting of £100 repayment of capital and £60 interest, and the "full-cost" method of depreciation is consistent therewith.

The sinking fund method adopts the view that the yearly repayments of £8 may be regarded as consisting of (1) interest £5, i.e., the original £100 at 5 per cent., and (2) £3 repayment of capital, such repayments if invested at the same rate of 5 per cent. accumulating to £100, the original cost of the annuity, at the end of the twenty years period. From the point of view of the trader the result is apparently identical with the full-cost method provided (1) the instalments of repaid capital are securely invested at 5 per cent., (2) the accumulating interest is not diminished by the payment of Income Tax thereon, and (3) such interest is treated not as distributable income but as capital.

The Commission will no doubt consider the merits of these alternative methods regarded as an Income Tax question.

It has been suggested in the course of this evidence that the hardship arising from the present treatment of wasting assets is mitigated to some extent either by shifting of the tax to other shoulders or by a rate of profit exceeding the normal return on capital. In view of this and of the other difficulties inherent in this problem it may perhaps be considered that an allowance based upon the sinking fund method will meet substantially the needs of the case both from the point of view of individual hardship and of general policy. On this point the Board offer no opinion. They have, however, considered it incumbent on them to bring these various views to the notice of the Commission in order that no aspect of the question may be left unexplored.

9938. (76) The treatment of the more important classes of wasting assets in foreign and Colonial systems is briefly summarised below:—

(a) *Natural resources.*

Allowances are not general in the various Dominion Income Tax systems; but in Canada and Newfoundland a deduction is allowed on account of the depletion of the mass of raw material, and in New Zealand gold mining companies are taxed on one-half only of the dividends paid.

Allowance is also permissible in a number of foreign systems including those of Sweden, Prussia, and other

German States, Austria, the United States of America and Japan.

As regards the United States, the general object is that the owner of the property shall secure through an aggregate of depletion allowances a return of the amount invested in the property. The annual allowance is based upon the number of units (tons, ounces, barrels, etc.) extracted during the year as compared with the estimated total contents of the mineral field or oil grounds, this estimate being subject to review on any material change in the known conditions. The allowances must be recorded in the taxpayer's books; and, if dividends are paid out of the depletion reserve, stockholders are notified that the dividend is a return of capital and not an ordinary dividend out of profits.

(b) *Mine shafts, etc.*

Allowances in respect of capital expended in this way are common in the Dominions and in foreign systems.

Under the Australian Federal Law the taxpayer may claim an allowance based upon cost and estimated life or, alternatively, the actual outlay on development and new plant in the year.

(c) *Plant and machinery.*

Allowance is almost universal, and it commonly corresponds to a "just and reasonable allowance representing the diminished value by wear and tear."

(d) *Buildings.*

Allowances are not very general in the Dominion Income Taxes on account of the depreciation of buildings, which appear to be regarded as practically permanent sources of income; but in Canada, British Columbia, Newfoundland, India, New Zealand and Queensland some allowance is made in respect of premises used in the production of income.

Certain foreign systems (including the United States) admit an allowance for buildings used in the taxpayer's business. In some cases, e.g., France, Prussia, Bavaria, the allowance apparently extends to private houses and is generally based upon a small percentage of the capital value.

(e) *Purchased terminable annuities.*

Allowances in respect of such annuities are not usual.

In the United States, however, an official ruling of 1914 stated that "so much of any annuities paid to an annuitant as represents payment made by him on annuity contract and paid back to him shall not be included in income of annuitant. Any increment on purchase price of annuity is taxable income."

The position under the laws of Canada and Newfoundland may be similar, but the point is not quite clear.

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9939.

Annexe.

TABLE OF AGREED RATES OF DEPRECIATION REFERRED TO IN PARAGRAPH 70 OF THE PROOF OF EVIDENCE.

Industry, &c.	Rate per cent.	Prime Cost or Written-down Value.	Nature of Plant.	Remarks.
Electric light undertakings.	3	Written-down value.	Cables.	
	5	Written-down value.	Plant and machinery.	
Flax spinning and linen weaving (Ireland).	7½	Written-down value.	Machinery and plant (except accessory plant, such as pirns, pirn cages, spools, belting, driving ropes, damask cards, designs, patterns, models, furniture and fixtures).	
Flour milling ...	5	Written-down value.	Engines, boilers and main shafting.	
	7½	Written-down value.	Other machinery.	
Gas undertakings other than those owned by municipal or other public authorities.	3	Written-down value.	Gasholders.	
	10	Written-down value.	Meters, cookers and gas fires.	
Linen and floor cloth manufacturers.	5	Written-down value.	Fixed plant.	With an addition of 50 per cent. of these rates to meet abnormal war conditions.
	7½	Written-down value.	Other plant.	
	10	Written-down value.	Diesel engines.	
Motor omnibuses...	20	Written-down value.	Motor omnibuses.	(a) The rate of 20 per cent. is to be reconsidered at the expiration of four years, commencing with 1916-17. (b) This rate does not apply to commercial motor vehicles.
Paper mills ...	5	Written-down value.	Machinery working day only.	
	7½	Written-down value.	Machinery working day and night.	
Printing ...	5	Written-down value.	Engines, boilers and shafting.	With an addition of 50 per cent. of these rates to meet abnormal war conditions.
	7½	Written-down value.	Printing and binding machines.	
	10	Written-down value.	Type.	
Railway wagons ...	5	Written-down value.	Railway wagons.	(a) The allowance applies to all wagons owned by traders. (b) In the case of railway companies the method adopted is to allow the actual cost of renewals year by year.
Scottish lace manufacturers.	7½	Written-down value.	All plant.	With an addition of 3½ per cent. to meet abnormal war conditions.

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[Continued.]

Industry, &c.	Rate per cent.	Prime Cost or Written-down Value.	Nature of Plant.	Remarks.
Shipping ...	4 3	Prime cost. Prime cost.	Steamships. Sailing vessels.	With regard to ships purchased at secondhand at prices in excess of the written-down value at the date of purchase, the following arrangements have recently been made:— (a) The allowance is made on the actual cost price of the ship to the owner for the time being without regard to the prime cost to a previous owner. (b) The rate of depreciation allowable is calculated by reference to the reasonable expectation of the life of the ship at the date of purchase from the previous owner.
Steam laundries, dyers and cleaners.	7½ 20	Written-down value. Written-down value.	General plant and machinery. Motor vans.	With an addition of 50 per cent. of these rates to meet abnormal war conditions.
Steel manufacturers.	15	Written-down value.	Machinery and plant used in the manufacture of steel.	The rate of 15 per cent. represents 5 per cent. for normal wear and tear, and 10 per cent. for the additional wear and tear arising from war conditions.
Steel nail manufacturers.	5	Written-down value.	All plant.	With an addition of 2½ per cent. to meet abnormal war conditions.
Timber merchants, saw millers, and manufacturers of timber goods.	5 7½ 20	Written-down value. Written-down value. Written-down value.	Engines, boilers and main shafting. General sawmilling plant and machinery. Traction-engines, tractors, motor cars and haulage plant.	
Trade hemstitchers	5 10	Written-down value. Written-down value.	Fixed plant. Other plant.	With an addition of 50 per cent. of these rates to meet abnormal war conditions.
Tramways ...	— 3 7 5	— Written-down value. Written-down value. Written-down value.	Permanent way. Cables. Cars and other rolling stock. General plant and machinery, including standards, brackets, and workshop tools.	An allowance per mile of track based upon the estimated life of the permanent way.
West of Scotland hosiery manufacturers.	5 10	Written-down value. Written-down value.	Engines, boilers and shafting. Process plant.	With an addition of 50 per cent. of these rates to meet abnormal war conditions.

[This concludes the evidence-in-chief.]

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[Continued.]

1940. *Chairman:* How long have you been in the Inland Revenue service?—About 27 years.

1941. What did you begin as?—I began as an Assistant Surveyor, and I became a Surveyor, an Inspector, and a Superintending Inspector.

1942. So you have had experience in all those capacities?—I have had experience in the industrial districts in the North of England, in the City, in Ireland, and in various parts of the country.

1943. Cotton districts?—I was in Burnley and Rochdale for two or three years.

1944. Mr. McLintock: Your paper deals chiefly with the wasting asset question?—Yes.

1945. Is there anything in the Income Tax Acts prohibiting an allowance for wasting assets, speaking generally?—Yes, I think it is held that the prohibition comes under the rule of *bedchamber D*, which states that no deduction should be made in respect of capital employed in the business. The courts have held that money sunk in assets which are liable to wastage is capital, and in respect of that capital no deduction is allowed.

1946. There is, of course, the decision specifically with regard to wasting assets in the Scotch colliery cases?—Yes.

1947. But you think apart from these the Income Tax Acts do not permit any deduction?—I think that is quite clear.

1948. In paragraph 17 you say: "profits is the amount by which the sale price of the product exceeds the capital expended and used up in the actual process of production, without regard to any sums paid for a share of, or interest in, the profits arising from such process." In the case of a colliery do you not recognize that part of the price of the colliery is used up and expended?—I quite admit that the material in the colliery is used up, but no capital is expended in producing such material.

1949. You distinguish the case of the mineral owner from this general proposition which you lay down here?—I must say about the general proposition it has no literal inspiration, and it is, of course, extremely difficult to lay down any definition of profits which would cover every possible case, but I would ask you to read the words "capital expended" in connection with the following words "in the actual process of production." In the case of the colliery the capital is not expended in the actual process, because the process is the exploitation and the use of certain minerals, in respect of which no capital was expended at all.

1950. Then in paragraph 25 you refer to exchange value as being entirely the creation of the community, and you say that the landowner has at least expended nothing in creating it. Is coal, or any other mineral deposit, the only gift of nature in the sense in which you use this expression?—No. I think if you take the word "land" in the economic sense, which embraces all natural resources of every description apart from human capacity, the same definition could be applied to each.

1951. That is land, and all natural growth?—Yes.

1952. What about the case of minerals that have been acquired by purchase?—You can only disentangle, in my opinion, the actual cost of production from costs which are merely incidental to temporary ownership if you omit the case of the man who has purchased the mineral, and consider the case of the man who actually exploits his own coal—the coal which he himself originally owned. In that case the resultant profit is not diminished in any way by sums paid by an intermediary owner for the actual mineral in the soil so that the sum paid by the colliery owner who purchases the mineral rights is a payment, not in the course of production, but a payment for the right of producing profits, a payment between owners, and therefore, I suggest, is not a cost of production that should be deducted as an Income Tax expense.

1953. Still he cannot hope to make any profit until he takes out the coal?—He cannot hope to realize any profit.

1954. Well, either realize or make; it is all the same. Your distinction is between the opportunity to earn profit and the making of the profit itself?—Exactly.

1955. In paragraph 33 you refer to the British capitalist in competition with foreign capitalists. Do you think in all these competitive transactions as between American or German producers and English producers the factor of Income Tax comes into their calculations?—I think that in any case where an intending purchaser takes expert advice as to what he can afford to pay, the question of this exceptional Income Tax is, and must be, one of the factors taken into account. On the other hand, I quite recognize that many of these transactions are not undertaken with the advice of expert accountants, but are decided upon more or less rough and ready experience, so that although the British capitalist may decide that he can afford to pay £100,000 for a certain foreign asset he does not as a matter of fact set down the Income Tax as so much, but he has learned from experience that after allowing for all the expenses which will inevitably fall upon him there will be a sufficient profit left.

1956. Do you mean that five years ago he took into consideration in some way the rate of Income Tax of 1s. or 1s. 2d. that then existed?—I think that must have been so, subconsciously, no doubt, in many cases.

1957. Take an American producer five years ago as compared to a British producer; they were both willing to pay the same price. The American clearly had not that factor before him, and yet probably was willing to pay the same price as a Britisher?—Yes.

1958. How does the tax come into view in a case of that kind?—I think the position is very briefly this: if we go back to the middle of the last century I think it is quite undoubted that normally the British capitalist enjoyed advantages in the shape of experience, cheaper capital, and better methods of marketing, and so on, as compared with most of his foreign competitors, so that although he might himself have laboured under a specific handicap such as this Income Tax, his other advantages would have compensated for it, and have put him in the position of being able to offer as much as the American capitalist and yet feel certain from his practical experience that he would achieve a sufficient profit in the finish.

1959. Do you really believe that these factors were present?—I believe that with every business man who is able to take advantage of his own experience or other people's experience (and he would not be a successful business man unless he could) all these factors have become merged in one common experience, very much the same as all the factors in a profit and loss account come to one final focus, the balance of profit. If I put it to a business man in a particular trade, "you have £10,000 in the trade; what profit do you expect?" he would probably make a rapid calculation in his own mind, 10 per cent. £1,000; but in theory he should have gone through every item, what his wages are going to be, what his stock is going to be, and what his rates are going to be, and so on. When I say that he has subconsciously taken into account all these things I am simply saying that his experience shows that after all these things have been taken into account a certain recognised rate of profit may be expected.

1960. And yet I take it you have read many prospectuses at one time and another in connection with new ventures, and the desire to attract capital for them?—Yes.

1961. Did you ever see any one which, while it made many calculations, ever indicated that Income Tax was a charge to be provided for as part of the cost?—If it was suggested to me that every issuer of a prospectus did disclose all the facts in his own mind for the information of the public, then the omission of any particular one might be very significant, but until we reach prospectuses of that character I do not think the question is very pertinent.

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[Continued.]

9962. I was not referring to the ideal prospectus, but merely that generally this question of Income Tax is not taken into consideration at all in the question of purchase?—I am not an expert business man; I cannot say.

9963. I take it your main point is this, that one reason why no allowance should be given for wasting assets before taxing the profit is the fact that the tax which has to be paid is discounted in the price paid for that asset?—That is as between the purchaser and the original holder where the assets are in this country.

9964. Or in any country?—No, I do not suggest that as regards foreign assets the Income Tax is discounted in the price. I take quite the opposite view, that the English capitalist abroad has no effective power of discounting the future Income Tax.

9965. Do you think that is a reason for giving the English capitalist who invests his capital in a wasting asset abroad an allowance?—Standing by itself I think that is quite an adequate reason; but there are, of course, other factors to be taken into consideration. It may be held that although the British capitalist abroad who chooses to take his money abroad instead of investing it in this country and employing labour here, may bear this particular burden, yet his other advantages are so great that on net balance there is no real hardship.

9966. May I put it in another way, that your view is this, that the English capitalist only invests his money abroad where he can see a yield large enough after paying tax to give him a return on his money, and replace his capital?—Exactly. If we leave out of account those many undertakings abroad in which the profit is expected to accrue to the promoter instead of to the undertaker.

9967. In paragraph 42 you take the case of the British coal mining industry as a typical example, and you suggest that the tax on the amount, represented by shaft sinking is thrown on to the home consumer, and borne by him in the market price of coal?—That is the theoretical aspect of the case. You may have an industry in which one particular element represents, we will say, one penny per ton, and yet it may be the conventional fact that prices to the consumer go up by threepence or sixpence per ton. It is manifestly impossible in a case like that to put your finger upon the particular penny, and say that particular penny has been transferred to the consumer, but in the long run, and over the aggregate of businesses, economic theories become practical facts, and if one needs to say who bears this penny per ton in the case of coal one is bound to say that in the long run the consumer bears it.

9968. I suggest to you that in ordinary practice amongst the colliery owners in determining the cost of the product, and the price that they are going to get for it—do they not treat as part of the cost, even in theory, the replacement of the shaft sinking and general development?—I am not in a position to express any opinion as to what covers the practical act of a coal owner.

9969. Then from what do you draw your conclusion that it is passed on to the consumer?—I draw my conclusion from economic law, in which I have a strong belief, and of which I have been a student for the past twenty years; and I draw it from this practical conclusion, that if an exceptional burden is placed upon capital in any particular industry, capital will tend to go elsewhere.

9970. Mr. Walker Clark: Excessive?—Exactly. If capital goes elsewhere—take the case of the collieries—means that the supply of coal diminishes relatively to the demand, and therefore the price of coal goes up. In other words although there is a continual oscillation about the point of equilibrium, in the long run the price of coal cannot fall below that point of equilibrium. I do not suggest for one single moment that any particular item of a penny or twopence per ton where the figures are large is specifically handed over to the consumer, for example by an addition to his coal bill.

9971. Mr. McLintock: That may, of course, have applied generally when the tax was low, but your view is this, that they will continue to work coal in this country even with a higher rate of tax whether they get an allowance for the cost of replacement of the shaft or not?—I think that is so.

9972. There is one point in connection with coal mining upon which I should like an expression of opinion, and that is the boring charge. There is the boring to be done in the first case, of course, to prove the existence of the coal, and how it lies; but in addition there is the boring which goes on from time to time; do you not think that ought always to be a charge?—I distinguish between those two classes of boring; one is incidental to the exploration or the proving of minerals, and the other I think is incidental to the actual exploitation of the minerals. In the first case where a land owner is boring to ascertain whether there are minerals on his property, that is not in my opinion a cost of production any more than, for example, the expenditure of a man who is paying railway fares to find a suitable place for opening a shop; the two things are practically identical. As regards the boring expenses of the company when exploitation is actually in process, such expenses are necessary to see the lie of the seam, or its value, and whether it is worth proceeding in that direction, and I think they should be deducted as expenses.

9973. You agree that at present they are disallowed?—I should say that at the present moment there is no clearly recognised practice. In many cases I think those expenses will be submerged in the general expenses of the company. In some cases I believe they are put to capital, and then of course they have not been allowed.

9974. I suggest to you it goes a little further than that, and that to-day it is a stock query on every set of colliery accounts: "please state how much has been expended on boring," and when that amount is stated, it is added back as a disallowed item of expense?—I have not examined a colliery account myself for many years.

9975. I have seen a very great number of them within the last ten years, and that is a stock query by the Surveyor in dealing with the accounts for the purpose of assessment. He does not ask why the boring was made, or at what time, or at what stage in the colliery work. He merely asks the one question, and then promptly disallows it. I take it your view is that boring other than the initial boring to prove the coal should be allowed as an expense?—I certainly think it should be allowed if it is a boring in connection with the seam that is being exploited. If it is a boring to discover new seams I think quite another consideration arises. Whether colliery owners do as a matter of fact distinguish between those two classes of boring in their accounts, or whether they distinguish between those two classes in reply to enquiries, I confess I am quite ignorant.

9976. As a rule the initial boring to which you refer does not appear in the colliery company's accounts at all; it had probably been undertaken as an experimental boring before they entered into the lease, and they then enter into a bargain with the landlord, and proceed to sink the shaft and open up the colliery. Is there anything in your view in the present Income Tax Acts which prevents boring expenditure, after the colliery is working, being allowed as a charge?—In my view there is nothing in the present Income Tax Acts which will prevent charging as a working expense any expense which is necessarily incurred after the coal has been reached.

9977. Such as boring?—I think boring might certainly under some circumstances come under that head; I am not prepared to say that it would under other circumstances.

9978. Can you suggest why it is disallowed?—No, unless the assumption is in the minds of the Surveyors, and I am speaking entirely from guess-work, that the boring is of the character of seeking new seams rather than necessary expenses in exploiting known seams. On the other hand, perhaps I ought

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to draw attention to the old case in the courts, the Coltness Iron Case I think it was, in which the courts held that all expenses of sinking new shafts, although these new shafts were necessary to exploit the one bed of coal which was already being undertaken, were inadmissible.

9979. That is shaft sinking?—Well, it is probable that boring was considered to be a kind of shaft, or at any rate that in theory the decision as regards shafts covered the practice as regards borings.

9980. I would accept that as an explanation at once if there was ever any inquiry made as to the nature of the boring, but I suggest that what I have stated is correct; they do not ask the nature of the boring expenditure. Would you hold the same opinion—but for the specific provision in the Income Tax Act—as to the allowance for depreciation on the plant and machinery of a colliery as you do in the case of shaft-sinking, that it should not be allowed?—Do you mean that the shaft-sinking should not be allowed?

9981. The colliery owner expends a sum of capital on sinking a shaft, and he expends a sum of money in equipping that shaft with winding gear and pumping machinery, &c.; do you draw any distinction between the two types of capital?—You mean the capital sunk in the purchase of the mineral?

9982. No, leave the mineral out of account. He expends, say, £50,000 on the sinking of the shaft and opening out, and he expends another £50,000 in equipping the colliery with plant and machinery; what is the distinction you draw in your own mind between these two classes of expenditure? On the one depreciation is given, and on the other it is not?—Simply this, that prior to 1878 no depreciation of any sort was admissible. In 1878 depreciation was given by Statute to plant and machinery.

9983. I qualified my question and made it subject to that Statutory allowance. Do you recognize any real distinction between the two cases?—Do you mean in principle?

9984. Yes.—Apart from any Income Tax law at all, I recognize the wastage of such to be an essential cost of production, and, therefore, a proper charge in principle in getting at net profits.

9985. Then you would allow annually as a cost of production the writing down of the expenditure on the sinking?—Undoubtedly; I think in principle there is no question about it.

9986. You only draw the line at the mineral itself?—Exactly.

9987. *Sir J. Hornood-Banner*: On paragraph 35 may I ask whether you mean that you have an open mind as to the possibility of altering the burden of tax in view of the present position? We have had before us the case of lead and zinc mines in this country, a very hazardous enterprise, and it was pointed out to us it was such a hazardous enterprise that the heavy charges of Income Tax prevented new exploration of British minerals. Does your paragraph 35 mean that you have an open mind on the question whether there might be an alteration of the existing Income Tax regulations to meet a necessity of that description?—If that suggestion is founded upon the assumption that the Income Tax burden has been in fact a real handicap on the lead and zinc and tin mines, I should certainly demur to the statement; but if it is put to me whether it is possible that in future this particular Income Tax burden may be a real handicap on British trade, I should say Yes. I go further than that, and say if there is any reason to think that it may be a handicap on British trade, and if in principle it should be allowed in getting at real productive profits, then I think we should give British trade the benefit of the doubt, and pass the allowance.

9988. With regard to terminable annuities as wasting assets, what do you consider is the position of a railway concession from a foreign Government where the concession will terminate, say, in 25 years, and there is a large sum expended; at the end of that time the whole of the property passes to the foreign

Government. Do you allow now any sinking fund or allowances to provide for the fact that that property will leave the present holders at the end of the concession?—At present no allowance at all is made.

9989. So that the British shareholders who own that railway will at the termination of the concession have paid Income Tax on the full amount, and yet will lose the whole of their capital expended on the railway?—That is so.

9990. Does not that seem a considerable hardship?—I think undoubtedly. On the other hand, in measuring the hardship, one is bound to ask whether as a set off against this particular burden, which I assume is not shifted to the foreign Government, the British undertaker is making such exceptional profits that he can very well afford to put up with the loss. Whether there is a positive hardship or not necessitates taking that into consideration, but on principle I have no doubt at all that the allowance should be made.

9991. *Mr. Mosville*: With regard to your paragraph 55 in which you refer to patents as wasting assets it is a fact I think that the sum received for patents sold outright is not subject to Income Tax?—There is no direct Income Tax charge upon the vendor of a patent.

9992. Sold outright. On the other hand, if a patent is sold for a series of payments or royalties during its life, there is, I think, Income Tax charged upon those royalties?—That is so.

9993. Is it not in effect the same thing? One is a question of deferred payments, or payment on results; the other is a question of a payment on an estimate of value? I quite agree that it is. On the other hand, I also consider that when the price for the purchase of the patent is considered it is, in fact, diminished owing to the fact that the user of the patent, the purchaser, will receive no allowance for the Income Tax upon it. In other words, if an Income Tax charge were levied upon the receiver of the money paid for a patent the purchaser of a patent would pay so much more.

9994. I do not quite see the bearing of that, because the seller of the patent is the same in either case. In the one case he gets a lump sum for his patent, and in the other case he gets an annual sum spread possibly over the life of the patent, but in the first case he does not pay Income Tax, and in the second case he does?—May I correct that? In the case of the royalties he bears the tax directly by deduction; in the case of the lump sum payment I consider that he bears the tax indirectly by getting a smaller lump sum than he otherwise would have received; in other words, I consider the lump sum payment to be commuted value of the net royalty after deducting the tax, and not the commuted value of the gross royalty.

9995. He must have prophetic vision if he is going to know what the Income Tax is going to be during 16 years?—Every successful business man has prophetic vision.

9996. I must say it seems to me a great hardship that there is not a real distinction between the two when you consider the fact that one is subject to tax, and the other is really on similar practical conditions not subject to tax?—I think if legislation were passed which imposed a direct tax upon the lump sum payment with corresponding allowance to the purchaser the immediate result would be that future lump sum payments would be so much larger, and I do not think anybody would be one penny better off, or worse off, than before.

9997. That might be so. I admit that.

9998. *Mr. Marks*: With regard to your paragraph 53 (1) you say: "Should a life annuity be regarded as the return of capital with interest," and then in sub-paragraph (3) you say, if so, "does the tax really fall upon the annuitant, or has he relieved himself of it in the process of bargaining?"—May I say this on the general question of bargaining? More than once I think it has been suggested that the mere fact that a particular Income Tax system existed when the bargain was made deprived both parties of any possibility of grievance.

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5009. I agree.—But frankly I do not attach any importance to it. What one has to look at is not the fact that the system existed, but upon whom in fact did the tax fall? In the case of life annuitants in my opinion the tax is in the main borne by the annuitant.

10,000. Why in the main; why not entirely?—I say in the main to safeguard myself on economic grounds. I think it is a commonplace among economists that every economic impulse has actions and reactions in every direction, so that after a certain charge is imposed it is quite impossible to say how exactly that charge is passed on.

10,001. I see your point. As a matter of fact I think perhaps in the case of the life annuity less than in any other is there room for bargaining, owing to the fact that the grantor of the annuity would hardly give a better price in anticipation of the incidence of Income Tax?—I should put it in this way, that, assuming an Income Tax at any figure you like, the aggregate body of Life Assurance companies will require a certain minimum rate of return on their capital, and will not be prepared to accept less because the Income Tax rate is put up, and therefore the tendency must be that any charge or additional charge of Income Tax on annuities is put on some body else, that is, on the annuitants.

10,002. Yes. I suggest that however small the charge for Income Tax may be it is always borne by the annuitant?—I quite agree.

10,003. Assuming that an allowance is to be made for wasting assets, you set out in paragraph 71 and the following paragraphs various methods by which it may be made. I think you may leave out of account the "allowance based on quantity extracted"; of the other three which do you prefer?—I should myself prefer a percentage, to be estimated according to the expected life at the time, to be applied to the written-down value, and to be reviewed every three, four or five years when circumstances may change.

10,004. Do you base that preference largely, or at all, on the fact that administratively it appears to be the most convenient?—As between that method, which is a combination of the written down method and of the fixed annual percentage, I think it certainly has very considerable administrative advantages.

10,005. At the end of paragraph 75 you say: "It has been suggested in the course of this evidence that the hardship arising from the present treatment of wasting assets is mitigated to some extent either by the shifting of the tax to other shoulders or by a rate of profit exceeding the normal return on capital." That is the zone which runs all through your statement. Then you go on to say: "In view of this and of the other difficulties inherent in this problem it may perhaps be considered that an allowance based upon the sinking fund method will meet substantially the needs of the case, both from the point of view of individual hardship and of general policy." In spite of that expression of opinion you still think the method advocating a fixed percentage on the written down value, with the variation you suggest, is the better method?—Perhaps I should make it clear that what appears as an expression of opinion in what you have just read is not necessarily my opinion nor the opinion of the Board of Inland Revenue; it is simply an existing opinion which is in the atmosphere, which the Board thought should be considered by the Commission.

10,006. You say in the second part of paragraph 75: "From the point of view of the trader the result is apparently identical with the full cost method, provided (1) the instalments of repaid capital are securely invested at 5 per cent., (2) the accumulating interest is not diminished by the payment of Income Tax thereon." Have you formed any opinion as to whether the accumulating interest should be liable to tax or not?—I am perfectly clear in my own mind that if it is the first place you have your depreciation allowances on sinking fund instalments you must exempt from tax any interest earned by those in-

stalments; otherwise you give the trader less than he is entitled to.

10,007. And for that reason I presume you would not say that the method by which these arrangements might be made, the method of taking out a sinking fund policy with an insurance company, is equitable to the trader if he only gets an allowance of the amount of the premiums that he pays?—That is my opinion.

10,008. Mr. Walker Clerk: In paragraph 73 you deal with the problem of obsolescence?—Yes.

10,009. Do these remarks apply merely to the mining plant?—Oh, no.

10,010. Generally?—Generally.

10,011. Do you not there suggest that there is a real hardship at present?—No. I think the allowance of depreciation plus the allowance for obsolescence (which represents the balance between the depreciation allowance and the gross value) meets the case entirely.

10,012. You give an example, which you call an extreme case, of the substitution of one method of motive power for another. Are there not many other instances, for example, where owing to improvements a machine may be discarded or a method of production may be absolutely discarded, and a quicker-running machine, a better type of machine substituted, and no proper allowance is now made because that machine is not actually replaced; is not that a real grievance?—But that is not the case. I think the moment a machine is discarded because it is no longer fit for its particular work under modern conditions, and another machine is installed in its place to perform that or similar work, obsolescence has taken place, and is allowed for.

10,013. Yes, but as a matter of fact the present method may be that you displace not one machine but ten, or possibly twenty, and is not the allowance restricted now to an individual and particular machine, and to the case where the work of that particular machine is being carried on by a new machine?—I know of nothing in the instructions of the Board of Inland Revenue which would justify that. I see no reason myself why if three antiquated machines are cast out and one modern machine is installed to do the work of three antiquated machines which are obsolete, they should not be allowed for.

10,014. And therefore they should be allowed as obsolescent?—Yes.

10,015. You know that there is a great difference of opinion frequently between the taxpayer and the Surveyor as to that particular point?—I cannot say that I know that, but I would suggest that the Surveyor is a member of a homogeneous body which is competent to form uniform opinions, and the taxpayer is a member of a very different body, each unit of which may form its own opinion; and under those circumstances there must be difference of opinion.

10,016. I should like to call your attention to the Annex to your proof. In several cases—linoleum, printing and so on, and for some reason the West of Scotland Hosiery Manufacturers—there are additional allowances for wear and tear, but that is the exception even in this schedule, and those war allowances vary very much, from 50 per cent. down to 3½ per cent. Have those war allowances been laid down by representatives of the trade as a whole to the Department and agreed upon?—I think the explanation of that apparent inconsistency in this schedule is simply this, that at the time these particular arrangements were under negotiation the war also was in progress, and therefore the question of a war allowance must have arisen in the negotiations, and have been dealt with.

10,017. By a committee representing the industry on the one hand and the Department on the other?—Yes. But in the case of industries where negotiations took place before the war the thing would manifestly not have come into discussion at all.

10,018. To some of them the war conditions did not apply, of course, but these abnormal war conditions and their corresponding allowances were the result

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[Continued]

of negotiation between competent parties on either side?—That is so.

10,019. I am glad of that opinion; that is a constant source of trouble, as you know. There is only one other point, and that is in paragraph 4. You rather indicate that the definition of profit is narrower in the view of the Income Tax Acts than its ordinary business meaning. Should there not be some attempt to reconcile the two in any suggestions for the alteration of the law?—I quite agree that the Income Tax should take tax upon the net profits of production, and that if in any case it does not at present admit an expense which is a bona fide cost of production, in principle it should be altered to meet that hardship; but as regards every other expense I think the Income Tax directly is not concerned at all, and in any case any outlay of that sort should not diminish the amount of profit on which the Revenue is entitled to receive tax.

10,020. That new condition should not enter into the definition of the term profit?—Not conditions as between mere owners of the source of production. May I put it in this way: if I have a business which is producing £1,000 a year, and I hand that business over to you for a consideration, the business is still going on and producing £1,000 a year, and if the Revenue was entitled to tax on £1,000 before the transfer it is in my opinion entitled to tax on £1,000 after the transfer.

10,021. Whether you have made a profit or not?—The assumption is that the business is making that profit; but now the purchaser might say to me, "it is perfectly true the business is producing £1,000 profit, but I have got to pay you so much to purchase the business."

10,022. You regard that as the expenditure of capital?—An expenditure as between the two owners.

10,023. And therefore expenditure of capital which ought not to enter into the question of profit afterwards?—Exactly.

10,024. It is a very wide principle?—It is the only possible principle.

10,025. Mr. Marks: May I ask Mr. Hook one question which I omitted?—I want to make sure that I have got the meaning of paragraph 76 (c) where you speak of the United States practice in regard to taxing terminable annuities. I want to know whether you agree with me that the last phrase which you quote from the official ruling, "any increment on purchase price of annuity is taxable income" means that the interest on the purchase price in the hands of the grantor of the annuity is liable to tax?—One would endeavour to interpret United States law with considerable reluctance, but I can only imagine that it means this. If I pay £1,000 for an annuity, and in the course of 20 years I receive £1,500, the £500 is the sum referred to here; that is to say, it is the interest as distinguished from the £1,000 capital.

10,026. Probably the ruling is intended to mean that that part of the annuity which can be ascribed to interest is taxable, and that which may be ascribed to capital is not taxable?—Probably, but it was put in here as a quotation, because nobody would undertake to say exactly what it meant.

10,027. That was rather my feeling, and I would rather like to know what your feeling was.

10,028. Mr. Kerly: It is the corollary to the first sentence?—Yes.

10,029. Your very excellent paper, if I may say so, has left on my mind the uncomfortable feeling (correct me if I am wrong) that which think that although the Income Tax may be applied in some cases as you would not desire if you were starting anew, yet generally the operation of the law of supply and demand is such that it shifts it round so that the tax ultimately falls on the general community?—I may say that the paper was never intended to convey that suggestion. I think I am correctly interpreting the mind of the Board of Inland Revenue if I say this: that the Board would welcome any allowance in re-

spect of wasting assets which are in their nature bona fide costs of production, provided the allowance is a practicable one, and provided it is of some use in removing artificial handicaps from British trade.

10,030. I do not doubt that. But still you do suggest, over and over again in the course of your paper, that whether it is the vendor of a patent, or whether it is a colliery owner who is sinking a shaft, ultimately it is all right, because the burden is shifted from his shoulders on to those of someone else?—It certainly is not all right for the one upon whose shoulders it is shifted.

10,031. It rather leads to this *reductio ad absurdum*, does it not if it is true; that it really does not matter what arrangement you make as to Income Tax, because it will all come right in the end if you wait long enough?—No, I do not think it goes as far as that. In the case of coal shafts, which is a very good example, if I have suggested that the colliery owner is in a position to shift this particular burden of Income Tax to the shoulder of the consumer, it is merely because at present the coal owner in England has a practical monopoly. But in any case where articles sold in England are produced or supplied partly by those who have this burden upon them, and partly by others from abroad who have not that burden upon them, the English producer is not able to shift it. Therefore the English producer in that case is labouring under a burden which, in the case of a high Income Tax, may be a very serious trade handicap.

10,032. May I pursue that? You suggest that the essential factor with regard to the colliery owner is that he has a monopoly. I suggest to you that that shows the viciousness of your reasoning. He has not, in fact, a monopoly, has he?—I said a practical monopoly.

10,033. He has always got to meet the possibility of new collieries being opened under more advantageous circumstances; and at the moment, as we all know, he has got to meet the threat of imported coal, and, as I am reminded, he is an exporter as well as a seller for home consumption?—I think you will find that referred to in the evidence. If I suggest that the coal producer is able to shift this particular burden of Income Tax on to the shoulders of the consumer, I say it is only in the case of the home consumer, and only so long as the home market is not invaded by coal from abroad. I mention coal, because there is a practical monopoly in the home market. In the case of other minerals in this country there is not that monopoly, and they have to face the competition in the English market of minerals produced abroad to which this particular burden does not apply.

10,034. I am merely endeavouring to test whether we can find the comfort which is rather suggested in some parts of your paper is what appears to be a monopoly, in the reflection that the burden is shifted round to someone else. Now, taking the particular example, sinking shafts, as between one colliery owner and another, the present method, even if there is a shifting, may work better, because one man may have a much more expensive shaft to sink than another man?—That is perfectly true, but that is rather a hardship arising from the differential conditions between two collieries, and is not in itself a hardship directly arising from the tax.

10,035. But it greatly accentuates the unfairness of the tax upon the man who is not allowed to deduct what I suggest is really a working expense?—Perhaps I may make myself clear if I say this: that in all these questions one is bound, as one aspect of the question, to take into consideration the incidence of the tax. Now, in dealing with the practical issue, I sweep that aside, because, if the Commission is concerned with the shape which the tax should take in the future, I do not think the Commission should feel itself bound by any conditions which have become more or less petrified as regards existing concerns. I am quite convinced myself, that the cost of sinking shafts is a cost of production, and although in the operation of the English market, where there is no competition, the coal owner who has borne this expense may shift it, yet one is bound to contemplate the fact that, in the

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future, conditions may change altogether and he may entirely lose the power of shifting. Therefore, if you are going to apply a general rule of Income Tax, I think you must leave out of account this particular question of incidence, and ask, is it or is it not a true cost of production? If it is a cost of production, then in principle it should be allowed.

10,036. You accept my suggestion, as I understand?—If I understand your suggestion, yes.

10,037. Upon that, it has been suggested quite recently to us that if you commence now to make an allowance—take the same example—for the cost of sinking a shaft, you will be merely giving an endowment to the people who have already sunk shafts; because they have not had the allowance. What do you say to that?—I think that in the case of English coal, where the total Income Tax burden (I am speaking about the Income Tax upon the shaft-sinking) amounts to probably £600,000 a year at present rates, if the allowance is now given, and it is not reflected in a diminished price to the consumer, it is a present of £600,000 for the time being to the coal owner. But one has to contemplate that as a fact which cannot be avoided in the case of any change whatever.

10,038. Will you explain to me a little more what you mean by that? What is your £600,000 going to be? Is that the allowance which will be made from now onwards annually?—That is what we estimate to be the annual allowance of Income Tax at 6s. in the £ if an allowance for the wasting asset is allowed in respect of shaft-sinking and equipment in the case of English collieries.

10,039. Of course the other way of putting it is that you are in future going to extract £600,000 as a tax upon a profit which is not really a profit?—We have done that already.

10,040. No. Until the tax rose, you were taking a tax of 1s. 2d. in the £?—Of course I make allowance for the differential rate of tax.

10,041. So that people who had to pay without allowances for their shafts paid on the low rate, not at the present rate; or, rather, they did not get the allowance at the low rate?—Undoubtedly.

10,042. Now apply the same thing to a foreign mineral deposit. I gather that your suggestion is that if an English company purchases a foreign mineral deposit with a view to working it, inasmuch as they will be buying in competition with possible foreign buyers, it is almost inevitable that you should allow them to replace the capital they sink in making the purchase before assessing their taxable profits?—I come to that conclusion, but in a rather different way. I consider that the sum paid for the mineral deposit abroad is profit, quite as much as the sum paid for the mineral deposit in this country. I simply take the view that it is profit which accrues, not to an Englishman, but to a foreigner for something abroad which he sells abroad, and that therefore in equity the English Revenue should not demand tax upon it. It comes to exactly the same position as saying boldly that when an English company pays for an asset abroad, what it pays should be regarded as an expense.

10,043. Of course there is the other side to it, which I think you also refer to, that if the English buyer has to pay tax in the long run upon his capital which he is sinking, he will be handicapped in dealing with foreigners, and therefore to that extent kept out of the trade?—I think that is so, beyond doubt.

10,044. Upon much the same point, you suggest, to take another example—I take them, as you did, as an example of the general matter—you dealt with the case of charging as income the royalties paid to the owner of a patent. I thought perhaps you would have said in answer to Mr. Manville that where the royalty is dependent upon the profit earned by the patent, the royalty owner is a sort of partner; but you did not suggest that. I do not know whether that influences your view?—I do not think it influences my view at all.

10,045. If the patent is sold for a lump sum, that is not taxable?—Not directly taxable.

10,046. It is not taxable as a lump sum. In what way is it taxable?—I want to make my view on this matter perfectly clear. If I say the lump sum is not taxable, it at once suggests that the user of the patent suffers from an unfair hardship, because he has to pay the tax on something which is not taxable.

10,047. Yes, I follow.—Our position is that it is, as a matter of fact, taxed indirectly, because the seller of the patent receives less than he would if there were no Income Tax in existence.

10,048. If instead of taking £14,000 down he takes £1,000 a year, that £1,000 a year is treated as income and taxed?—Exactly.

10,049. There is no possible justification for that, is there?—Do you mean there is no justification for taxing the £1,000?

10,050. For taxing the one and not taxing the other.—I should quarrel with your preamble, I think. If a man is to receive £1,000 a year for 14 years, he could not, as an alternative, receive £14,000. What we suggest is that if he receives £1,000 for 14 years, and suffers, we will say, a 5s. tax, what he could sell the patent for as a lump sum would be the present value of the net annuity after deducting the tax.

10,051. Is the money any more profit in one case than in the other?—There is not, in my opinion, any distinction in principle between the two.

10,052. So I thought. You suggest that the fear of anomaly is cured because the vendor knows that he has got to pay tax in the one case, and therefore, I suppose, he demands a higher price. Is not that in the realm of fantasy? The inventor, as a matter of fact, gets the largest sum he can, without relation to how much he keeps in his pocket?—That is the very reason that I found my opinion on. He gets from the purchaser the largest sum he can. In other words, the purchaser pays the largest sum he feels that he can pay as a business proposition. Now if you impose upon the purchaser an Income Tax of 5s. in the £ upon this particular sum, he is, by the hypothesis, unable to pay quite so much to the vendor.

10,053. But there is no imposition upon what the purchaser pays. Where do you get that from?—I do not quite follow what you said.

10,054. Perhaps I have misunderstood you. I thought you said if you impose a tax of 5s. in the £ upon what the purchaser pays. It is the vendor who is dealing with?—I say, if you impose a tax of 5s. in the £ upon the purchaser, upon his profits, and he receives no allowance in respect of what he has paid for the patent, you have in fact imposed upon the purchaser a tax of 5s. in the £ upon the amount that he has paid the vendor; and therefore he can pay so much less to the vendor.

10,055. That is not a practical way of looking at it, is it? The purchaser of the invention is not going to deal with that normally as a separate item of a separate business. He is going to bring it into his business. He is not going to distinguish between whether it is going to add to his taxable profits or not, or to what extent it is; the practical thing, as we all know, is this. The owner of a patent has a very limited market; he is not open to direct competition, and what he can get for his patent is, to a great extent, a matter of happy accident; he gets the most he can?—I quite agree with that.

10,056. Does it really assist the matter to suggest that there is any passing on of tax either way?—It is a mere question of fact—a fact which does not emerge as an isolated fact in the transaction, but it nevertheless is a fact.

10,057. Let me go back to the shaft-sinking, if I may. I think your personal opinion, if I have followed it, is that the cost of sinking a shaft for mining ought to be allowed as a cost of production?—Exactly.

10,058. There are one or two things that occurred to me as necessary to be worked out with regard to that. Where would the capital account of the company, in opening a new colliery, end—before or after

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you had sank your shafts?—The capital account would quite clearly end after you had sunk the shaft. It would continue up to the point when you really commenced the trading operation of production.

10,059. So that your allowance for the cost of production of shafts would be shafts subsequently made?—No, it would be just as with plant and machinery, which appears at its full cost in the capital account, and as it is used up or exhausted is written off the revenue.

10,060. That is what I say. It would be only the cost of shafts subsequently made?—Yes.

10,061. Would you make any allowance for the cost of the coal in the ground?—No.

10,062. I want to ask whether you think it possible to simplify this whole matter, and also to provide for what I will describe as unexpected cases, unforeseen cases, by laying down a general principle and then appointing somebody as a referee or a court of appeal to work it out and apply it to particular cases. Would you refer to paragraphs 64 and 65 of your statement. You see what you say there. In paragraph 65 you suggest one limit upon the discretion which seems to be vested in somebody, if the earlier suggestion is adopted, and no doubt it would be possible in any statute to put other limitations which were considered desirable. Do you think it a practical policy to substitute for the particular allowances which are scattered through the Act and the Schedules a general proposition to be worked out in the manner you indicate here?—Do I understand you to mean that the various sections in the Act, dealing with deductions, should be scrapped?

10,063. Yes?—And that there should be a general guiding section, for example, this: that in estimating net profits every cost of production should be admitted as an expense?

10,064. Yes?—I think I should want to think over that a good deal.

10,065. Subject to general rules to be laid down by somebody, which should make and vary its rules from time to time as circumstances suggest?—I think there you are putting out of the hands of Parliament into the hands of another body, although possibly a statutory body the power of taxation; and unless you did embody in your statute very definite limitations I think it would be open to great objection.

10,066. Is it your opinion that it would be necessary to put so many limitations upon the country to be traversed by the determining body, that you might leave the existing railway lines as they are?—I must say I have not thought of the particular question, and I should not like to express a final opinion.

10,067. The notion was in my mind before, and seeing paragraphs 64 and 65 I hoped I had found a supporter. At present there are allowances for plant and machinery, and I gather that you think that they work reasonably well and are on the whole satisfactory?—I think so.

10,068. You make an allowance for obsolescence when an old machine is scrapped and replaced by a new one?—Yes.

10,069. And you allow the whole of the written down value of the machine at the time?—Yes.

10,070. Would it not be right to make the same allowance, although there is no replacement, if the machine is scrapped or sold?—I think not, for this reason. Assuming a machine is scrapped and is not replaced, you have the position of a business or a part of a business which has come to an end, and then you are at once up against the question of making allowance for any capital sunk in a business when the business terminates. That is such a wide extension of the Income Tax that personally I should regret to see it.

10,071. There are two propositions involved there. One is that you do not scrap the machine until part of the business has come to an end, and the other is that if you are going to make an allowance you are making an allowance in respect of an item of capital.

Let us deal with them separately. Does it not often happen that a machine is scrapped, although no part of the business has come to an end, because some other part of the existing machinery is taking over the job? Let me give you an example that occurs to me. You have got 10 machines of varying efficiency and running at given speeds turning out a common product. You determine to drop No. 10 and to run the others a little faster. Why should not the value upon the books of machine No. 10 be allowed?—I think in principle it is a question of obsolescence. You have a unit consisting of 10 machines; you replace it by a unit consisting of nine machines.

10,072. Do you suggest to me that in such a case, where there is no fresh expenditure, there would be no allowance for the scrapped machine?—At present I think not.

10,073. But there ought to be, ought there not?—In principle, undoubtedly.

10,074. Now let us consider your other proposition: that if you did make such an allowance, it would be capital. But I am dealing with plant and machinery which is being written down. Is it not being written down upon the footing that what is lost is not capital, but a deduction from profits?—What is lost in the course of working a machine to produce profits.

10,075. If it has gone altogether, and you find, because there is a residual value in the books, that sufficient allowance has not been made, why should you not make the rest of the allowance?—Do you mean that at a particular point the machine is used up, done with, although the written down value has not covered the cost?

10,076. That is a wider proposition, including mine?—That simply brings us to this point. If the machine has been dealt with separately as a depreciation item, the estimate of life has been excessive. On the other hand, if the machine is dealt with as one item of a mass of varied plant, and the particular machine has died before the average life, I think there is no occasion to make any allowance.

10,077. Put the second case aside. In the second case you say it comes into the general average; but in the first case it is clearly an allowance that ought to be made, is it not?—In the first case it means that too much tax has been paid in the past, owing to a miscalculation by somebody.

10,078. No allowance is made for buildings at present?—Except in the case of mills and factories and others containing machinery.

10,079. Mr. Walker Clark: Recently.

10,080. Mr. Kerly: That is allowed, is it?

10,081. Mr. Walker Clark: Yes, quite recently.

10,082. Mr. Kerly: Let me call your attention to this case. I prefer to put a concrete case, because then I shall know that I am not misunderstanding the point myself. Someone writes: "We have at present a factory on leasehold land, worth £5,000, used in connection with the manufacture of steel and tools. It is old, and we desire to pull it down and erect more modern buildings at a cost of £15,000." Then they say the value of the present factory was estimated to be £5,000; and then they go on to say that if they do that they will be allowed nothing in respect of the expense, which you see is going to be an expense of £20,000—£5,000 less and £15,000 fresh investment. Now is that right?—I think the present practice is quite right.

10,083. The present practice is to allow nothing, either in respect of the £5,000 or the further expenditure of £15,000?—That is, to allow nothing beyond what is already allowed under the Act. In the case of a mill, as I mentioned just now, they get one-sixth of their annual value. But the mere fact that a building was pulled down and replaced by another is not, in my opinion, a ground for making any Income Tax allowance.

10,084. You shall tell me why, in a moment. It is very detrimental to the manufacturing interest of this country that people should be discouraged from doing

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this sort of thing, is it not?—Probably I think it might be so.

10,085. Take this particular case. These are people competing with an American manufacturer. It is very desirable that their buildings, as well as their machinery, should be up-to-date, and yet if they make this further investment, they have got to make it by putting fresh capital in, and having no allowance. Now, how do you justify that?—In the first place, may I suggest the case of a man who purchases a site with a building upon it. He may give £5,000 for the building. He decides that the building is not suitable for his purposes. He pulls it down and he erects another at a cost of £15,000. In my opinion, it simply comes to this: that he has considered that site as worth so much, including the £5,000. Now, if a man pays a sum fixed by market conditions for the site on which he proposes to build a factory, I can see no reason myself for giving him any allowance in respect of the site.

10,086. This is not a site question; this is a building question?—What I want to make clear is this. I am taking first the case of the man who wants to put up the factory. He looks round, and there is no available site free of buildings. He sees a particular site with a building on it. He says: "that will suit me; I will put my factory up there." Now, if the bare land itself cost £5,000, and the buildings upon it were worth £5,000, he has got to pay £10,000 for something which he intends to use as a site, and only as a site. I think it follows from that, that if there were a bare site in the neighbourhood that would suit him, and that he could get for £9,500, he would have taken the other. He has found himself compelled, through market conditions, to pay £10,000 for something which he regards solely as a site; and if a man is compelled to pay an extortionate figure for a site of land, I cannot see any reason for making him an Income Tax allowance because he has suffered that extortion.

10,087. Supposing he had removed to another site, would he get any allowance for the cost of removal?—The only allowance that would be given, certainly at present, for the cost of removal, is when the removal is compelled. If the man removes voluntarily from one site to another because he wishes to extend his business, we regard that as a capital expense, except so far as it involves the removal of stock.

10,088. Putting it your way, is not this very much like a removal, only instead of taking his goods to another factory, he brings another factory to his goods? As a matter of fact, you have left out of account a very probable set of circumstances, which happen to apply in the case I have put to you. It is not the case of a man moving his factory to another site, but putting a new building on part of his factory. He cannot go, because there is the rest of his commitment there. He wants to have his new toolhouse at hand. Why is not that a working expense; because its fruits are going to be realized over a number of years?—I think the position is simply this: that there was existing on his own site a building which was worth to him £5,000. He desires to make alterations. He may make an absolute addition to that building at a cost of £15,000, when he has a building which is suitable for his particular purposes which has cost him £20,000. He may decide that it would pay him better to pull the old building down. He has voluntarily sacrificed £20,000 for the new building. I should simply take the view that the new building had involved an outlay of £20,000, an outlay voluntarily undertaken.

10,089. I see you put it rather as a case of a man indulging in luxuries, but I do not think that is the view that he would take. Except in size, is there any difference between a building full of machinery and one machine? What is the difference?—I think there is this difference. In the case of a machine, if new and more efficient machines are invented to do that work, the machine is automatically reduced to a worthless condition. But that is not the case with a factory. The erection of 10,000 factories would not reduce a man's present building to a worthless con-

dition. It suits him for his own particular purposes to alter it, but it is not an expense that is imposed upon him, as it is in the case of the machine.

10,090. Mr. Walker Clark: May I put a case on this very point. In our neighbourhood recently the dimensions of factories have been rendered obsolete on account of the increased size of machines. I have no doubt it is the same elsewhere; and because of that the factories are absolutely out of date. The floors would not carry the weight of the machines; the width of the walls would not carry the length of the machines. We can get an allowance for obsolescence on the machinery in a factory; but the factory is just as much obsolete as the machinery, and we can get no allowance whatever for the building which is equally obsolete with the machinery. That is the real point.—Does it not come to this, that the factory in its specialised shape is no longer of use for a particular class of machine?

10,091. For the whole industry?—Is it suggested that the factory is no longer of any use to anybody for any purpose?

10,092. It is not for that trade?—I think the distinction between that and the machine, to my mind at any rate, is quite clear. The one keeps value no doubt because it is less suitable for a particular purpose, although it is suitable for some purposes. The machinery is reduced to scrap iron absolutely.

10,093. Mr. Kerly: You will not think I want to be rude, but it appears to me that that is the sort of distinction that one gets from looking at these things from a distance. That is what I do myself, you know. It seems to me you might almost as well say that an obsolete machine has still a value; it could be used as a paper weight. It is no good to the particular man for his job?—May I suggest that one real difficulty is this. There may be in any concern quite exceptional conditions. If you decide that that condition is a legitimate reason for giving an allowance, the difficulty is to put a definition in a general statute which could be confined to that particular condition.

10,094. I quite appreciate that; I know that is the difficulty; that is why I should have been so happy to think that you can deal with these things by laying down general rules and leaving them to be worked out in particular cases.

10,095. Sir Warren Fisher: Before you leave that, might I put one question. There is, I gather, an allowance for depreciation of mills and factories. Whether it is a sufficient allowance or too large is not my point at present; there is an allowance?—That is so.

10,096. Now assume that instead of having been recently introduced, it dated as far back as the allowance for wear and tear of machinery: would it not be the case that in the great majority of instances (I am talking now of buildings) their duration is so considerable that, assuming that the sixth is an adequate amount, they would have got the full value by the time the building had normally ceased to be useful?—I think that is quite true, although of course there may be these very exceptional contingencies to which Mr. Kerly refers, which could not, I think, by any manner of means be embodied in a statute.

10,097. I was inviting an answer on the normal case?—Normally, undoubtedly I think that is so.

10,098. Mr. Kerly: I quite appreciate that, Sir Warren Fisher.

10,099. Mr. Walker Clark: It is quite recent.

10,100. Sir Warren Fisher: The trouble is that it is so recent.

10,101. Mr. Kerly: One question about sinking fund. You did not develop it in answer to another member of the Commission, but you said that the method of giving the manufacturer an allowance for depreciation based upon the payment he would have to make to a sinking fund was unfair because it would not give him sufficient. That is your view, is it not?—Yes.

10,102. That is because even if he goes to an insurance company, the rate at which he would be charged

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by the insurance company is higher than you think it ought to be if the interest on his payments were not to be subjected to tax?—That is the reason of the difference between his position if he invests the sinking fund himself and if he goes to an insurance company; but of course it does not touch the other question, that in either case he has to sacrifice the Income Tax.

10,103. I misunderstood you, then. If he invests his annual payments himself and pays Income Tax upon the interest which he is going to accumulate himself, I thought your view was that it would be much the same as if he went to an insurance company, where he would know nothing about their payments, but they would say: "We want so much a year"—that so much a year being really determined amongst other things, by the consideration that they have to pay Income Tax upon the interest which they receive?—That is so. In either case he is accumulating interest less Income Tax.

10,104. Can you put it into a proposition? Why is it unfair?—I think if you would allow me I should like to deal with our view of the whole of this question. I find it very difficult to deal with an extremely complicated matter by question and answer.

10,105. Do you mean verbally?—I should like to do it now, if you would allow me. The position we start with is this, that if a man incurs an expense, we will say for a machine, and that machine is used up in a week, the cost of that machine is a cost of production, and you can only get his profits of the week if you allow him the full cost of that machine. Exactly the same thing occurs if the machine lasts for a year; the cost of the machine is still a cost of production, and you can only get his profits of the year after deducting the full cost of his machine. Now the same thing, in our opinion, applies if the machine lasts for 20 years. If he is drawing up a profit and loss account for 20 years, the cost of the machine is a cost of production, and the whole of the original cost of the machine must be debited in the accounts if you are to get at his real net productive profit. That is the general proposition that we start with. For the sake of clarity I will take the illustration that has been given more than once, the figure of £100 for a machine which expires in 20 years. That will facilitate my explanation, which is, in any case, rather complex. It may be suggested that over the period of 20 years the trader need not put aside £5 per year; it will be quite sufficient if he puts aside out of his profits £3 a year, because if he uses that £3 a year and obtains an income from it, it will accumulate to the £100 which he needs to have at the end of 20 years. Now, I look at the trader's balance sheet. At the end of the 20 years he has a plant account of £100, and of that plant account he has written off 20 instalments of £5 each; that is £20. His plant account stands then at £80, but the plant is dead. It is perfectly clear that to make his books fit he has to transfer from somewhere £20 to make good his deficiency. It may be, as it often happens, that he has used this sinking fund in his business. In that case he has to transfer from his profit and loss account a full sum of £20 to clear his balance sheet of this item of plant. If, instead of using the £3 in his business, he has invested it and obtained the extra £40 in the way of interest before the tax is deducted, he has to transfer that £20 interest to his plant account. So that in whichever way you look at it, over the period of 20 years that is the life of this machine, he has somehow or other to transfer from profit to depreciation account the full original cost of the machine. Now, regarded in that way, the sinking fund method does not differ in any way whatever from the ordinary full cost method. Its result is to charge against the machine, over the life of the machine, the full original cost; but instead of charging equal annual instalments it has the effect of commencing with £3 a year and charging year by year larger sums which in the aggregate come to £100.

10,106. Now, leaving the question of Income Tax out of account altogether, supposing there were no Income Tax in existence, it is, I think, quite clear that the two methods are identical. The only difference is as to the sums to be put aside year by year. Now, when

we come to Income Tax, one can carry the question a step further, and say that under the sinking fund method he would never get his £20 at all. When he looked at the end of the 20 years for the £20 to set against his plant account, he would not have it. To make that point clear, I should like to take the question of the simple annuity, and I think it may be legitimately used as an illustration in the case of plant, for this reason: that the depreciation allowance is made not to the user of plant as such, but to the owner of the plant; and it may be, as it sometimes happens, that the owner of the plant is not the user. Therefore we can concentrate our attention upon the case of the man who owns plant and lets it; because, manifestly, the allowance for depreciation should be the same in either case.

10,107. Now, let us take the case of a man who owns plant that cost him £100 and admittedly will be dead in 20 years. He receives year by year a rent for the plant; in other words, he is in exactly the same position as a man who spends £100 for a 20 year annuity. Therefore the principle which will emerge if we take the case of the annuity is a principle which is applicable to the case of machinery. Then I would ask you to put aside, for the sake of simplicity, all questions of the machine, and look at the simple annuity.

10,108. I take the case of the man who has £100 and invests it in an annuity for 20 years at 5 per cent. and gets £5 a year. The man has £100; he can if he likes invest that £100 at 5 per cent. He gets his £5 a year, and at the end of 20 years he has his £100. I think it will be agreed that if, instead of doing that, he spends this £100 in an annuity, he must also enjoy at least £5 a year and he must also have £100 in hand at the finish. That is to say, he must not be worse off by purchasing an annuity than he is if he chooses to invest his capital himself. Now take the case of a man who purchases an annuity of £8 a year under those circumstances. He receives £8 a year. In the first place—and this I suggest is the correct method of regarding an annuity—he receives in the first year £5 interest and £3 repayment of capital. In the second year he receives something less than £5 interest, because he has got part of his capital back; and so the yearly interest that he actually receives starts with £5 a year and diminishes steadily over the 20 years, and it amounts to £20 in the course of the 20 years. The capital repayment that he receives starts with £3 a year and increases yearly, and over the 20 years amounts to £100. Now it is perfectly clear that he is in exactly the same position as the man who invested the £100 at 5 per cent., because at the end of 20 years he has his £100 and each year he enjoys £5, being £5 from the annuity in the first year, and in all future years the interest contained in the annuity and the interest on the investment of the capital repayment. That, I suggest, is the correct interpretation of an annuity. But it may for common practical purposes be put in another way. It may be said that the £8 annuity which he receives is £5 interest a year for 20 years and £3 capital a year for 20 years; and that £3 a year will amount to the full £100 at the end of 20 years provided he can invest at 5 per cent. and no Income Tax is taken off. So that if we leave out of account the fact that Income Tax exists, we find these three positions identical in their practical results: the pure investment and the annuity in whichever way you choose to interpret it gives the man £5 a year, and it gives him his capital at the end of 20 years.

10,109. Now turn to the question of Income Tax. The man who makes his investment gets £5 a year interest, and if we deduct the Income Tax at 4s. in the £, as a matter of convenience, his net yearly income is £4 a year. In other words, the pure investor gets £4 a year income and he has at the end of 20 years his full £100 left. Now I suggest, as I suggested before, that if a man who chooses to put his money in an annuity for 20 years, he must be in exactly the same position as the man who chooses to invest it; in other words he must enjoy £4 a year net spendable income and he must at the end of 20 years possess £100 clear capital. Now if we take the annuity in what I suggest is its correct interpretation we have capital amounting to £100 over the 20 years; that is £3 in the first year and increasing year by year; and we have income amounting to £5

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[Continued.]

a year being partly in the annuity and partly investments outside. If you apply an Income Tax to an annuity so interpreted you have the Income Tax applied only to £5 a year; in other words, his spendable income becomes £4 a year, and at the end of 20 years he does possess his £100; that is to say, he is in exactly the same position under the Income Tax as he would be if he simply invested the £100. That interpretation of the annuity, which involves an allowance of wastage equal to the full original cost, is therefore consistent with the position of the pure investor.

10,110. Now let us take the annuity as interpreted in the other way. We have three sums to think of. There is first of all £3 a year admittedly capital, amounting to £60; we have another sum of £5 a year, which is regarded as income, amounting to £100; and we have a third sum, the interest on the investment of the yearly £3, which is admittedly income and amounts to £40. If you apply an Income Tax you do not reduce your £3 a year, because admittedly that is capital and is not touched by the Income Tax; but you do reduce your £5 a year to £4, and you do reduce your interest from the investment of the sinking fund by the relative Income Tax; and instead of this investment of the sinking fund producing and leaving in the pocket of the man £40 at the end of 20 years, he finds in his pocket £32. In other words, as compared with a man who makes a pure investment he spends his £4 a year, and he has not got his £100; he is £8 short. The £3 which is lacking is the Income Tax upon the sinking fund repayments. Therefore to put him in the position of the investor you have to exempt from Income Tax this £40 interest. In other words, you have to allow him over the 20 years £100 free of Income Tax, which is simply another form of the full cost basis. So we suggest that if cost of production is to be the determining factor of an Income Tax allowance the full cost basis is correct, because only under that method is the cost treated as a cost of production. We suggest that the sinking fund method is incorrect because it is inconsistent with the cost of production theory; and further, it does not leave the man the £100 that he is, on the hypothesis, entitled to.

10,111. Mr. Kerly: I am sure we are all obliged. You have worked it out very elaborately for us; but it seems to me to come to where I started from. I am not saying, of course, that it is not of assistance to see it worked out in detail as you have done; but the result is that because the interest has got to bear Income Tax, therefore practically for accumulation purposes you have to take it as less tax; you will have to make a bigger payment in order to produce your sum?—I took my last illustration for that particular reason. I isolated all conditions except the ownership of the machine or the ownership of the annuity, and I endeavoured to show that the man would not have any other funds from which he could make this larger payment.

10,112. The result is that it has to be a larger annual payment in order to produce the total sum required?—And, on the hypothesis, the man has no resources from which this larger sum could be obtained.

10,113. I am going to tell you in one moment a way in which I think you could more directly get your result, but the attractiveness of the sinking fund is this, is it not? The man's problem is this: "I want £100 twenty years hence, and there are people

in insurance companies whose business it is to do that job for me." They say "we offer you £100 twenty years hence for a certain sum." Therefore £100 twenty years hence is a commodity that you can buy for an annual payment in the market. He has got to pay for the other commodities he is buying in the market, at market rates; why should he not pay for this in the same way, although the price may be different because the trader has to bear Income Tax?—In the second illustration that I gave you—the second interpretation of the annuity—we assumed that the man was putting aside a sinking fund and was investing it himself.

10,114. Do not misunderstand me. I am not suggesting that he has not got to pay more because the insurance company have to pay Income Tax upon what they receive. Of course he has. The service he wants has a market value. You say that he ought to get it at less than the market value?—Excuse me, I do not suggest, and I did not suggest I think for a single moment, that he is entitled to any service at less than the market value.

10,115. You are quite right, I was wrong?—If he used the sinking fund repayments to purchase that particular service on the market from an insurance company he could not purchase enough; instead of being able to purchase £40, which is admittedly necessary to complete his plant account or his annuity account, he could purchase, instead of that, something less; that is £32.

10,116. Yes; I put it the wrong way. What I should have said to you is this. What you suggest is that the Revenue authorities should allow him something more than the market value of what he wants to get. I will not pursue it; but is not this another way of getting at your result? A man starts with a machine which costs him £100. In estimating his profits at the end of the year what has he got? He has got a machine that is worth £85, assuming that £5 has gone off it, and therefore that £5 ought to be among his costs of production for the year; and if you pursue that down you will have to write something off the machine every year until ultimately it comes to nothing, and the amount you have written off will be in effect the allowances to him in every year, coming, without any interest at all, to the total value of the machine?—That is so.

10,117. Which is exactly your result?—Do I understand you to say this—because I do not want to commit myself to an agreement to a thing that I do not understand—that in the first year you allow him £5, and year by year as the machine goes down in value, you allow him subsequent sums, so that by the end of the 20 years, when the machine is dead, you have allowed him £100?

10,118. Yes?—That is the full cost allowance?

10,119. Yes?—That is all we claim.

10,120. And that must be right, as I follow it, if you treat each year by itself. For simplicity I will take a life of 20 years, and a loss in the value of the machine of £5 each year. Then he would be allowed as a working expense £5 each year because of the less value of his machine; it does not matter whether you make it £5 in one year, £7 in another, £12 in another, and none in the next; the total allowances added together must be the total cost of the machine?—That is our position.

10,121. Thank you. We are much obliged to you for your evidence.

SEVENTEENTH DAY, WEDNESDAY, 10TH SEPTEMBER, 1919.

PRESENT:
LORD COLWYN (*in the Chair*).

SIR T. P. WHITTAKER.
MR. PRETYMAN.
SIR J. S. HARMOOD-BANNER
SIR W. TROWER.
MR. HOLLAND-MARTIN.
MR. WALKER CLARK.
MR. GRAHAM.

MR. KERLY.
MR. MACKINDER.
MR. MCINTOCK.
MR. MANVILLE.
MR. GEOFFREY MARKS.
MR. MAY.
MR. STAMP.

Mr. C. G. Sney recalled and examined.

The witness handed in the following statement as his evidence-in-chief:—

Proof of evidence to be given by Mr. C. G. Sney, an Assistant Secretary to the Board of Inland Revenue, on the question of the liability to Income Tax of companies controlled in the United Kingdom.

10,122. (1) Under the Income Tax Acts tax is chargeable in respect of the annual profits or gains arising or accruing to any person residing in the United Kingdom from any trade, profession, &c., whether carried on in the United Kingdom or elsewhere.

Although these words are in themselves wide enough to cover the profits of a business wholly carried on outside the United Kingdom, if accruing to a person residing in the United Kingdom, it was held by the House of Lords in 1889, in the case of *Colquhoun v. Brooks* (14 App. Cas. 433, 2 Tax Cas. 450) that such a business is a foreign possession chargeable under Case V of Schedule D, on the amount of profits remitted to this country, and not a business chargeable under Case I on the total profits arising abroad (whether remitted to this country or not).

Under the law as interpreted by this decision, therefore, it is a condition precedent to the taxation of the profits of a business under Case I of Schedule D, that the business should be at any rate partly carried on in the United Kingdom.

10,123. (2) In its application to companies, the proper interpretation of the phrase "person residing in the United Kingdom" has been the subject of numerous judicial decisions. As a result of these decisions it is sufficiently established (a) that the place of residence of a company is, for the purpose of Income Tax, the place where the meetings of directors are held, and where the directing and controlling power is exercised, and (b) that the business of the company is carried on, in part at least, where the control is exercised. Consequently, a company of which the governing body meets in the United Kingdom, and there actively controls its operations, is liable to Income Tax on the whole of its profits, notwithstanding that the whole of its trading operations might in a popular sense be said to be exercised abroad, and notwithstanding that the whole or the main body of the shareholders may be non-residents.

10,124. (3) The growth of this doctrine and its precise extent are indicated in the accompanying Historical Note. [See App. No. 7 (k).]

10,125. (4) It is assumed throughout this evidence that the particular issue which is raised by this doctrine and requires consideration, is the liability to British Income Tax which it imposes upon non-resident shareholders in companies which are controlled in the United Kingdom, but which carry on their ordinary trading operations wholly or mainly abroad (either in a Dominion or in a foreign country), so far as that liability is in respect of the part of the total profits that arises abroad.

Resident shareholders of such a company appear to have no claim for alteration of the present statutory position merely because the profits may arise wholly or mainly from trading operations carried on abroad. Even if the company were relieved from liability to

Income Tax in respect of its profits because they arise from operations carried on abroad, shareholders resident in this country would be required on the analogy of the treatment of other income arising abroad to bear British Income Tax upon the whole amount of the dividends arising to them. This would also be the case if the seat of the company were removed abroad. It is true that if the company were relieved from the liability referred to, the Income Tax now charged on the undistributed part of these profits would no longer be charged so long as it remained undistributed. But, whether the matter be looked at from the point of view of the resident shareholder or of the company itself, the charge of Income Tax on the whole of the profit arising to resident shareholders, whether distributed or not, appears to be consistent with the general scheme of the existing Income Tax and to call for no modification. The charge of Double Income Tax, if it arises, in these cases may, of course, create hardship calling for relief. That, however, is a part of the general question of Double Income Tax which is under the separate consideration of the Royal Commission.

10,126. (5) It may be added that the suggestion that the doctrine of control involves no hardship upon the resident shareholder—apart from the general question of Double Income Tax—appears to be borne out by the non-official evidence which has been presented to the Commission. This question was under consideration in the course of the evidence of Sir Frederick Young, Sir C. C. McLeod, Messrs. William Mesenthal and Julius Ausbach, and Sir Archibald Williamson, and in that of Sir Algernon Firth on behalf of the Association of British Chambers of Commerce. Although Sir C. C. McLeod, dealing with the special case of India, recommended an alteration of the doctrine of control, the alteration he suggested (*viz.*, that taxation at the source should be abolished in the case of companies operating in India or other Dominions which do not trade with or in this country and whose assets and transactions are confined to India or the Dominions) appears to be consistent with, and indeed to be intended as consequential upon, his general proposal for remedying the hardships of Double Income Tax, his remedy being the abandonment of taxation of unremitted income, and the other witnesses appear to have considered in the main that the point for consideration, so far as concerns resident shareholders, was nothing more than the general Double Income Tax question.

10,127. (6) In particular it would appear from his evidence that Sir Archibald Williamson is in agreement that, so far as concerns the resident shareholders, the charge of tax upon undistributed profits, which the doctrine of control entails, does not act in restraint of trade.

10,128. (7) The problem is one which affects a large number of companies and involves a very considerable annual revenue. Reliable information as to the profits made abroad by such companies or as to the proportion of the shares held by non-residents is not readily available. In view of the amount of time and labour that would be involved, it has not been considered necessary to make a special investigation, and the following figures, which are based on such

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[Continued.]

materials as are available, are subject to a considerable margin of possible error. Subject to these reservations it is estimated that some 3,500 companies carry on their trading operations wholly or mainly abroad, and that the holdings of non-residents amount to some 13 or 14 per cent. of the whole. The aggregate average taxable profits for 1919-20 are estimated at £80,000,000, of which £11,000,000 accrue to non-residents, while the dividends paid to non-residents are estimated at £8,000,000.

The sacrifice of the Income Tax on the profits and dividends respectively accruing to non-residents would cost £3,300,000 and £2,400,000 respectively.

The table in the annex accompanying this evidence contains an estimated division of these figures among trade groups. [See para. 10,157.]

10,129. (5) Attention has recently been drawn from time to time, in the press and elsewhere, to the removal of particular companies from the British jurisdiction, with the object of avoiding the heavy taxation now prevailing in this country. These, however, have all, or nearly all, been companies of which the trading activities were wholly or mainly carried on abroad. Also the extent to which this transfer has taken place has been very limited. About a score of substantial companies, so far as the Board have noted have removed in recent war years, and it is believed that—in so far as taxation has been a factor—many of the transfers which have taken place have been due more to the incidence of the temporary Excess Profits Duty than to the burden of the Income Tax. The Excess Profits Duty is a tax which attaches only to the increased profits of trades and businesses; it is not chargeable upon individuals in respect of increased dividends which they may receive from a non-resident company. A company, therefore, by removing from the British jurisdiction can avoid the Excess Profits Duty entirely. It seems probable that certain companies, of which the shareholding was preponderantly British, and of which the trading activities were carried on abroad in competition with those of other companies registered and controlled abroad but having a proportion of British shareholders, were influenced by the very high rate of the Excess Profits Duty to remove the seat of control from this country. The other companies which have removed were chiefly companies where the interests were jointly British and Dominion, and where there was a large and perhaps preponderating Dominion shareholding, cases, for example, of foreign or Dominion tramways, tea, jute or mining concerns, together with a certain number of cases frankly foreign by name and reputation. It may be that in these cases the Income Tax as well as the Excess Profits Duty contributed to the motives for removal.

10,130. (9) At the same time, the brief experience of the war years, during which arrangements for removal could in most cases be made only with difficulty, is no certain guide to future developments. Some observations made by non-official witnesses before the Royal Commission to the effect that there are companies which have been meditating removal and are awaiting the results of the present enquiry before deciding upon their course of action do not appear to afford any guidance in the present connection, as these statements appear to have been directed mainly to the case of companies with British shareholders affected not by the question now under consideration, but by hardships felt to arise from a double charge of Income Tax.

10,131. (10) Before discussing whether on merits relief from Income Tax ought to be given to the class of companies now in question it may be well to consider, as a practical matter, how far the present law would be likely to be rendered nugatory by the future removal from the British jurisdiction of companies carrying on their enterprises wholly or mainly abroad.

10,132. (11) If the existing Excess Profits Duty were terminated and the Double Income Tax question were solved, any pressure to remove the seat of a company abroad so as to escape liability to British taxation would naturally owe its origin to the non-resident shareholders. As mentioned in paragraph 4, British shareholders would have very little to gain from the removal. In any case in which the substantial majority of shareholders in a given company is British, it would not appear that this majority—

ultimately controlling the company's affairs—would feel themselves constrained to remove the company's seat of government with the sole object of relieving the non-resident minority from contributing to the British revenue.

10,133. (12) The danger—from the practical point of view—is that where a substantial majority of the shareholders in a company are non-residents they have the power, and may exercise the power, to withdraw the company from this country, and more particularly they may do so if the company is one managing specific assets situated abroad, such as a gas undertaking, a railway or a mine.

10,134. (13) These companies, in which the majority of shareholders are non-residents, fall into two natural sub-divisions:—

(a) companies which have a more or less cogent and continuing necessity for the exercise of management and control in this country; and

(b) companies which have no such pressing need.

10,135. (14) In a company of the last-named class where the non-resident shareholders are in a majority, they might quite reasonably press for measures to relieve them from British Income Tax, and in view of the decision in the case of the *Egyptian Hotels, Ltd.* v. *Mitchell* (6 Tax Cas., page 542; see paragraph 12 of the Historical Note, Appendix No. 7 (h)) the desired object could be obtained by modifying the Articles of Association with the necessary consequential changes in the administration.

10,136. (15) In the light of this decision it appears to be possible for a company to be an English company resident in London with registered offices here, and with a London Board of directors who have, and alone have, the power to raise fresh capital, to exercise the financial control of the company and to declare dividends, and yet for such a company to escape British Income Tax (except as to dividends paid to shareholders in this country) on the ground that the management of the business itself, its control, and actual conduct are exercised by a board located out of the United Kingdom.

10,137. (16) It is not unlikely that the availability of such methods will attract notice and that in certain classes of cases they will be adopted.

10,138. (17) In these cases, viz., cases of companies with a majority of non-resident shareholders and no pressing need for the management and control in this country, the Revenue would lose the Income Tax on the non-resident shareholders' dividends and on the undistributed profits and might lose a further small amount of tax in respect of directors' emoluments. The question arises in the case of companies of this character, the control of which in this country is accidental rather than necessary to the success of the business, whether the loss of duty where the control is transferred abroad should not be accepted as is the natural order of things. At any rate it is suggested that the possibilities as regards these cases would not of themselves afford ground for relief in the large number of cases of quite different character, where the ordinary course of a loss of duty is not evidently imminent and is perhaps improbable.

10,139. (18) As regards businesses carried on abroad, which from their nature do not lend themselves to local control but require that earnest management should be exercised from a great commercial centre, it is suggested that London still retains very great attractions notwithstanding the liability to British Income Tax which control here imposes on the non-resident shareholders. There is often such interdependence between a number of companies that it is practically necessary for them to be located in the same neighbourhood and to possess some measure of common control. This is especially the case as regards subsidiary companies formed by a parent company for purposes ancillary to its own objects or in order to work particular trade areas, and it is not to be expected that a group of companies of this kind would lightly remove from a centre like London.

10,140. (19) It is part of the hypothesis that these companies must of necessity be located in a great commercial and financial centre, and, if it is suggested that they will be driven from London by the terrors

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[Continued.]

of the Income Tax, the question at once arises where are they to go?

10,141. (20) While it would appear likely, the existing law being assumed to be maintained, that companies with a majority of non-resident shareholders may remove the seat of control from this country, where there is no cogent or continuing necessity for the exercise of management and control here, more particularly where the business consists of the management of a specific asset (such as a tramway) abroad, it appears unlikely that such companies will do so in any large number of cases where that necessity exists.

10,142. (21) Since control can be removed from this country, although the registration of the company may remain British, and since the removal of control, without removal of registration, will confer immunity from tax, it may be suggested as regards all classes of foreign businesses with a preponderating foreign holding that foreigners will not continue to pay Income Tax for the sake of the advantage derived from British registration, when this advantage can be secured without relinquishing the registration here provided that the control be transferred abroad. On the whole, experience seems to show that where British registration is really essential to the interests of the company control is likely to remain here also and cannot be removed without disadvantage. For example, it is of little use for a foreigner to form a company in London, perhaps with a distinctly British name, in order to facilitate business, say, in a British Dominion, if all his actual business is worked from a Continental city.

10,143. (22) There remain such questions as how far the existing law may prevent the formation of new undertakings with British registration, and how far it prevents foreign undertakings with preponderating foreign ownership from transferring to London and becoming British registered and controlled companies with the object of securing greater financial facilities and a wider market for their shares. Such points as these involve the question of principle whether the existing law ought or ought not to be maintained.

10,144. (23) If the question of principle be approached from the theoretical standpoint of the natural scope of an Income Tax—apart from its reactions on international trade in the business world as now constituted—it might perhaps be argued that the present charge is overdue. The companies in question, viz., companies carrying on an enterprise wholly or mainly abroad, are companies which are resident in the United Kingdom only in a technical sense—as appears from the judicial dicta the test of residence is strictly appropriate to an individual rather than a company—by reason of the exercise of control and management here, and it is only this technical residence which creates liability to Income Tax under the law as it stands. The company may, in a popular sense, be carrying on all its trading activities abroad—only the directing power being in this country—and may be entirely owned by residents abroad. On the other hand, the company will normally be a British registered company, and will trade under the British flag, gaining advantage from that fact and from the use of this country as the seat of ultimate control. And notwithstanding a large non-resident shareholding, the company as an entity in itself, may be looked upon as British. Nevertheless, the exemption of a Co. Income Tax on the profits accruing to the benefit of the non-resident shareholders, whether distributed to them or not, may be felt by them to be an excessive impost as compared with the advantages gained.

10,145. (24) The imposition of the tax, also, at any rate in the way in which it arises under the existing law, may be said to be to some extent the result of accident. The charging section which applies was framed many years ago, when the conditions of business were entirely different from those now obtaining. The scope of the doctrine of control grew under a series of judicial decisions spread over a considerable period, the Courts finding means to reconcile the somewhat inapposite language of the Acts with the growth of international joint stock enterprise. Also the growth of the doctrine took place at a time when the rate of Income Tax was comparatively small and imposed only a small burden upon non-residents. The

aspect of the matter is materially changed, it may be said, when the tax amounts to 6s. in the £, and becomes a very important factor in the return which the non-resident gains from his investment.

10,146. (25) If the Income Tax had not grown gradually in this country but were now being imposed for the first time at the rates which are now in force, it appears by no means certain that a charge such as now exists would be imposed upon non-resident shareholders of the class now in question.

10,147. (26) In seeking to find the measure of a charge which would be theoretically justifiable it would appear that the question of Double Income Tax ought, in the first instance at any rate, to be disregarded. If hardship arises from Double Income Tax, that hardship is one common to the present class of case and to many others, and falls to be dealt with as a whole. Moreover, the present question arises whether other Income Taxes are borne by the non-resident shareholder or not. It thus goes further than the question of Double Income Tax; the question is whether there is sufficient ground for levying tax in this country upon profits of a British company which result from trading activities exercised wholly or mainly abroad, so far as those profits accrue to the benefit of non-resident shareholders.

10,148. (27) It has been suggested to the Royal Commission by Dr. Stamp from a theoretical standpoint (although the theory is not applied, and indeed, for reasons which Dr. Stamp himself indicated, could not be applied in present circumstances), that there are two bases on which an Income Tax could rest, each of which justifies a separate charge, viz., it can attach to profits which arise in a particular country and to profits which are enjoyed by residents in that country; upon this basis separate rates of tax could be assigned to profits arising and to profits enjoyed respectively, the aggregate of the two rates being applied by any country imposing the tax to profits which both arise and are enjoyed within its jurisdiction. If regard were paid to such a principle in the present connection it would perhaps lead to the conclusion that the dividends paid to non-resident shareholders out of profits arising from trading operations carried on abroad should be charged with Income Tax at some comparatively small fraction of the full normal rate. These profits are not enjoyed in this country; in one sense they may be said to arise in this country on account of the control and management exercised here; in another sense they may be said to arise abroad where the trading activities (including normally the sales) are carried on. The adoption of such a theory would support the idea of applying to those dividends some such rate of tax as 1s. 6d. or 2s. in the £ (as compared with a normal rate of 6s. in the £). Such a solution would, under the theory, apply not to the whole dividend, but to that proportion of the dividend which is attributable to the profits earned from activities abroad.

10,149. (28) A solution of this character would have the merit of comparative simplicity of working. With the normal rate of tax at 6s. in the £ it would involve an annual loss to the Exchequer of about £1,800,000 if a rate of 1s. 6d. only were charged on these dividends or about £1,600,000 if the rate were 2s.

10,150. (29) There are, of course, other solutions which would be comparatively simple in practical working as, for example, to exempt altogether the dividend of the non-resident shareholder in so far as it is attributable to profits earned abroad, or to exempt such dividends to non-residents so far as they do not exceed, e.g., 5 per cent. on the capital involved.

10,151. (30) To the question which is now under consideration there are broadly three possible solutions.

It may be held that no sacrifice of tax is justifiable in view of the present financial requirements of the country, and that the full tax should be exacted in all cases as the price of control and management in the United Kingdom. Any company then, which did not require control here, could remove elsewhere, and the companies whose business required control here would have to pay the full Income Tax price.

On the other hand, it may be held on a broader view of the interests of the country that not only should all such companies be encouraged to remain here, but that no Income Tax hindrance should be put in the way of the formation of new companies of a

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[Continued.]

similar character, and that no British Income Tax whatever should be borne by the non-resident shareholders in respect of profits earned abroad.

Lastly, between these two extremes a middle view may present itself which would seek to meet in some degree the immediate requirements of the State in the shape of revenue, and to a considerable extent the wider interests of the State in the direction of the retention of existing business and the attraction of new business.

Relief from Income Tax on the non-resident shareholders' dividends earned abroad down to, say, one-fourth or one-third of the standard rate, or complete Income Tax relief on such dividends up to five per cent., or some similar relief would no doubt go a long way, if not all the way, towards meeting the objections which are urged against the present Income Tax charge.

10,152. (31) If such a solution were considered desirable and were adopted the Income Tax position would be somewhat as follows: Where the location of the control and management in the United Kingdom is a real necessity or a clear advantage to a company, the non-resident shareholders could have no valid case against making a comparatively small contribution to the Revenue in respect of the benefits which they derive. And where the location of the control and management here is not a business necessity the company could avoid the Income Tax difficulty altogether by transferring the control abroad. If, on the other hand, the shareholders decided to retain the control in this country they must be presumed to be willing to bear the reduced Income Tax charge for some adequate reason. At any rate it would seem difficult for them to put up a strong case against the claims of the Revenue. Such a solution would, therefore, seem fairly to meet the present grievances of the non-resident shareholders and remove any real risk of the withdrawal of concerns from this country on account of the burden of the Income Tax.

10,153. (32) Also, it would be to the benefit of this country and of the Empire generally, in so far as it prevented the removal or encouraged the formation of companies whose activities tend to secure an outlet for home manufactures, the maintenance of British markets, the employment of British services, or the development of the Dominions.

10,157.

ANNEXE.

CONCERNS TRADING WHOLLY OR MAINLY ABROAD.

Trade Group.	Holdings of Non-residents.	Estimated aggregate taxable profits 1919-20.	Non-residents' share of aggregate profits.	Dividends paid to Non-residents.	Income Tax on profits of Non-residents.	Income Tax on dividends of Non-residents.
	1.	2.	3.	4.	5.	6.
Railways, tramways, etc. ...	% 3.2	£* 22,300	£* 710	£* 346	£ 213,000	£ 103,800
Cables, telegraphs and telephones	1.0	2,800	28	16	8,400	4,800
Mineral properties ...	38.8	12,400	4,811	4,147	1,443,300	1,244,100
Gasworks and waterworks ...	8.0	2,600	208	108	62,400	32,400
Land and mortgage concerns ...	20.0	3,200	640	401	192,000	120,300
Oil companies ...	5.6	7,000	391	179	117,300	53,700
Tea, coffee, sugar, rubber and other plantations.	12.0	15,400	1,845	1,773	553,500	531,900
Banks ...	16.3	5,400	883	603	264,900	180,900
Other concerns ...	16.3	9,000	1,470	522	441,000	156,600
TOTALS ...	13.7	80,000	10,286	8,095	3,295,800	2,428,500

* (000's omitted.)

[This concludes the evidence-in-chief.]

These are very important aspects of the question. For example, Sir Archibald Williamson submits to the Royal Commission as follows:—

"I venture to suggest for the consideration of the Commission that in cases where the enterprises themselves are situated abroad, in order to secure, so far as possible, that there should be no hindrance, but on the contrary every encouragement, to their being formed into British companies with direction in Great Britain, and in order that this country should reap the benefit of the advantages accruing therefrom, the non-resident shareholders should be entitled to claim a refund of the Income Tax and Excess Profits Duty charged upon their individual shareholding."

10,154. (33) There are, however, possibilities in the other direction which, perhaps, ought not to be kept wholly out of consideration.

Relief from Income Tax would naturally render it more easy than at present for foreigners to form British companies in order to facilitate their trade in foreign manufactures in British Dominions. Again, if predominating foreign interests register a British company to operate abroad for mining or other productive purposes, it is not necessarily the case that the products will be shipped to British markets.

10,155. (34) The question has been treated in this evidence as one of giving or refusing relief to non-resident shareholders (in companies carrying on business wholly or mainly abroad) whether the business is carried on within the Empire or in a foreign country, and without any regard to the nationality or place of residence of such shareholders.

It may, however, be desired to consider whether the present question should be looked at primarily from the point of view of the development of the Empire and the securing of British control of Imperial resources—a point of view from which various restrictions of the scope of any relief might suggest themselves.

10,156. (35) However it may be regarded, the whole subject is clearly one of difficulty, and probably one of those questions arising in connection with a high Income Tax for which an entirely satisfactory solution can hardly be expected to be found.

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[Continued.]

10,158. *Chairman:* Is this your second time here, Mr. Spry?—Yes, my Lord.

10,159. What was your evidence on the first occasion?—With regard to married women.

10,160. We will take the examination right away, because we have your paper before us in full?—If you please.

10,161. *Mr. Kerly:* So far as you express any opinion in your paper, I gather that you are not in favour of making any allowance in respect of companies with control in this country which are carrying on business in a foreign country or one of the Dominions?—I do not think it was intended to convey a definite view in that direction. It is realized that there is a very strong complaint on behalf of the non-resident shareholders in a company which is charged here, while the business of that company in an ordinary sense—its trading operations—is carried on wholly, or in effect wholly, abroad. It was not intended to suggest here that no relief should be given. There are various grounds on which a claim for relief might reasonably be put forward; then there are considerations on the other side. My evidence is intended to deal with the various aspects of the matter rather than to suggest definitely that relief should be given, or otherwise.

10,162. Then I may take it that your paper is not to be read as expressing any adverse opinion?—No; not to be read as expressing a definitely adverse opinion against the claim.

10,163. You do suggest that where the income is taxed abroad that is a matter for consideration under the Double Income Tax heading?—Yes, quite so. But this problem of "control" would, I think, exist even if there were no Income Tax anywhere but in the United Kingdom.

10,164. Supposing it is desired to give some relief to non-resident shareholders, would there be any administrative difficulty in dealing with it in this way? Return to the company, for the non-resident shareholders, the tax upon their dividends, leaving the company to distribute it or allow it in dealing with the shareholders, either wholly or so far as the dividend is earned abroad, disregarding the fact as regards those shareholders that the control exists in this country. Do you think there would be any administrative difficulty about that?—I think there might be, because the company might not be in a position to show us who are the non-resident shareholders. Take the case of bearer shares, for example, and cases of nominees on the register; I think there might be very serious difficulty. There may be the case of a company in which they have full information as to the location of their shareholders—I do not know whether there is—but of course addresses may vary from time to time. A man may be resident abroad to-day and not to-morrow, and I think it would be difficult to have up-to-date, accurate, reliable information from the company itself, without, at any rate in some cases, requiring declarations from the individual shareholders.

10,165. Of course, the end might be reached by requiring the shareholder to come and satisfy the Inland Revenue that he was entitled to a return?—Very much in the way we deal with the foreign dividend cases at present. Where a foreign dividend which really belongs to a non-resident is cashed in this country a declaration is made by him or on his behalf, and he receives the dividend in full, without deduction of tax, on proof of his non-residence.

10,166. Of course, besides the question of bearer shares, which is itself might be met by requiring the bearer shareholder to register in order to get the advantage of repayment, there would be the danger of fictitious foreign addresses?—A great danger.

10,167. Do you think that would be a serious one?—I think that would be a danger to consider.

10,168. Assuming the plan I have suggested was adopted, it would be feasible, would it not, instead of returning the whole of the tax, to charge a proportion of the tax, say, 10 per cent, or some other figure, in respect of the control being in this country?

—In other words, give the relief by deduction from the assessment?

10,169. Yes.—If we once got over your first fence, that would present no particular difficulty. If we knew what relief we had to give in the total we could quite easily deduct it from the total tax charged on the company; but the difficulty would be to know the amount of relief which we ought to give.

10,170. Of course, any such arrangement as I have been suggesting would leave the company liable in respect of undistributed profits?—Undoubtedly.

10,171. And no return of tax would be made in respect of those unless they were distributed?—I am taking your suggestion to be: give some relief in respect of the dividend to non-resident shareholders in so far as the dividends are paid out of profits made abroad.

10,172. *Mr. McLintock:* There is one point in paragraph 7, towards the end. You are referring there to the estimate of the taxable profit of companies whose operations are carried on abroad. You put the figure at £20,000,000?—Yes.

10,173. I am not concerned so much with that; I take it your next figure of £11,000,000 is intended to represent the fall share of that profit which would fall to foreign shareholders if it was wholly distributed?—Yes, including their share of the reserve or any other sum not distributed.

10,174. The other is limited, of course, to the dividends?—To what they receive by way of dividend.

10,175. Do you suggest that the foreign shareholder should get any form of relief other than relief on the ground of dividend received?—It is not desired to support a claim for that fuller relief—indeed, we are not putting forward a recommendation that any claim should be supported. We should not be adverse to a claim in respect of the dividends themselves; though we should not be so inclined to view favourably relief in respect of the whole of the profit, whether distributed or not.

10,176. It would hardly be possible to give him relief on anything but the dividend?—No, it would be so difficult to allocate. We should have to make a fictitious allocation of profits. When you get to complicated cases of shareholdings, preference shareholders, deferred shareholders, and so on, we might, indeed, allocate to them as income for a year something which they might never get at all.

10,177. And, on the other hand, the taxable profit is not necessarily the profit shown on the face of the published accounts?—Indeed not; we have various unpleasant disallowances to make.

10,178. You only put that as a figure?—Yes, it is only approximate. It is an estimate. It is difficult to get it with any degree of close accuracy, but there it is; that is the best we can do.

10,179. I was not quarrelling with the figure, but dealing with the distinction between total profit and distributed profit. I merely wanted to get from you that you did not suggest for a moment that you would give a foreigner any relief on the taxable profit of the company in which he was a shareholder?—No, we do not suggest that, and those figures are not intended to convey any such suggestion.

10,180. *Mr. Kerly:* May I ask this, as developing a question I asked before. Supposing the bulk of the shares are in the name of a foreign company which itself has English shareholders, can you suggest any way in which you could deal with that? The foreign company would get the relief that was given, and the English shareholders would get the advantage of it?—Yes, but the English shareholder, when he gets his dividends from that foreign company, will have to pay Income Tax on them, and he cannot claim that they have already been taxed at 6s. in the £, and are paid as fully taxed income, because that would not be the case.

10,181. *Mr. Marks:* As you support the claim of these non-resident shareholders, do I gather from your paragraphs 32 and 33 that it is rather on the ground of national interest than from any considerations of equity towards the non-resident shareholders?—Perhaps I have gone rather far if I have conveyed the suggestion that the Board of Inland Revenue support this. I did not want to go so far as that.

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[Continued.]

10,182. I do not want to assume that, but so far as the Board is prepared to consider this, is it a matter of national interest or as a measure of equitable relief to the non-resident shareholder?—I think it would be more correct to say that it is on a combination of grounds. Take the case of a runaway abroad. The shareholders may say, "there is no intrinsic reason why we should pay British Income Tax."

10,183. I gather from you that it is a combination of reasons?—Yes.

10,184. Mr. Walker Clark: From paragraph 8 of your statement I gather that the Excess Profits Duty is really the cause of removal, in your judgment?—That is so, in certain classes of cases. We have reason to believe that it is the case that certain companies have either gone abroad, or transferred the control abroad which comes to the same thing from the Income Tax point of view, because of the Excess Profits Duty.

10,185. Which is really an additional Income Tax?—It is an additional tax.

10,186. And that the removals are few in number but large in amount?—We have not full and exact particulars, but cases have been brought to the notice of the Board within a period of 2½ or 3 years, and particulars of those cases are indicated in that paragraph.

10,187. They are comparatively few?—Yes.

10,188. But they are large concerns?—Yes.

10,189. In paragraph 25 of your statement you suggest a hardship, do you not, because you say that if the Income Tax had not grown gradually but were now being imposed for the first time they would have suggested relief?—I do not say that we would have done that. What we suggest here is that it is not quite certain that if Parliament were imposing Income Tax for the first time at 6s. in the £, Parliament would have said: "we will in the £." We do not think that Parliament would necessarily have decided that.

10,190. Dr. Stamp: Arising out of the question that has just been asked as to the difficulty of proof, I take it that it would be necessary, in order to protect the Revenue, in the case of a company claiming relief in respect of its foreign shareholders on the dividends to be paid to them, to get the company to collect actual declarations from the foreign residents that they hold the shares in their own right and not as nominees or under declarations of trust for other people?—I think it would be very necessary—I do not say every time, but at any rate, probably at short intervals—to have a declaration either direct from the individual or through the company; because the company might with perfect good faith put before us information which was not correct.

10,191. Therefore the corollary to the relief must necessarily be some additional trouble to the company in proving its case, in collecting all these declarations to be made abroad?—Certainly, if it is to be done through the company.

10,192. There would be no other way of doing it, except that of repayment to the individual shareholders?—Probably. I think it would be very difficult for them to get in declarations in time to enable the dividends to be paid without deduction of tax in the first instance.

10,193. Do claims by foreigners, declared to people that we have no knowledge of, and coming to us from abroad, present any particular danger or difficulty?—There is a suggestion of danger from time to time. In certain centres on the Continent we have had reason to be on the alert on one or two occasions. Of course, there is obviously a possible danger.

10,194. Taking the case where you intend to grant relief through the company; it has been suggested that it might be given from the assessment. I take it that that would always necessitate your information upon which you gave the amount of relief being out of date. You would have to ask what were the number of shareholders and the amount of shares that they held last year, and it would never relate to the holding of the year for which you were making the assessment, and in respect of which they were going to pay dividends. It must rigidly be something in the past?—That might be necessary.

I can conceive that it would not be inevitably necessary in every case, if the dividends are declared sometime after the end of the year. Some of the companies declare their dividends quickly and others take a long time. It might be possible; it would be difficult to do it in all cases.

10,195. It might be possible, in arranging the assessment for the year, to ask them to give evidence of the holding of shares abroad in the previous year, and then for the actual holding during the year itself to be materially different?—On the spur of the moment, I do not like the idea of giving relief by reference to a previous year's state of facts. It is not particularly satisfactory.

10,196. Yes that is involved, is it not, in making the relief at the same time that the assessment is made?—The assessment covers the given year's profits, and the dividends out of that year's profits will not be paid until after the end of the year of assessment. Ours is a theoretic year's profits that discharges the liability for that actual year's profits. Now the problem is to give relief in respect of that year's profit.

10,197. As your assessment has been made during the year you cannot make it square with the actual conditions of the profits of the year?—No, it would in effect generally be impossible, because the company would have to pay their tax before the year is up.

10,198. Therefore, if you are going to grant this relief collectively to a company without going to all the shareholders abroad by way of personal repayment, it does involve some conventions to get over this difficulty?—I am afraid it would.

10,199. One more question, arising out of Mr. McIntock's question. One of the suggested methods of relief was to confine any relief, either the whole duty or part of the duty, to the dividends paid. Of course, a large part of the profits may ultimately be distributed to the shareholders in the form of a capitalisation of reserve, or bonus shares. There would be no possible way of giving any retrospective relief to the foreign shareholder for those. My meaning is this. If half your dividend had been paid to people abroad who had had this relief, but there has been no relief upon the reserves, when the time comes that these reserves are capitalised and distributed as bonus shares they would have horse tax and the foreign shareholder cannot get free from it?—I think the answer to that would have to depend upon the ultimate fate of the bonus shares.

10,200. As things are at present that would be so?—As things are at present the decisions of the Courts have been against us as regards certain bonus shares.

10,201. On the question of Super-tax?—On the question of Super-tax.

10,202. Ignore Super-tax and think only of the standard rate of Income Tax. On this method that standard rate has been paid on those profits that are not sent abroad. Ultimately they are sent abroad in the form of bonus shares. There is no way in which the foreign shareholder could get relief at all on that?—He would at first blush seem to have some sort of equitable claim, especially if he had held the shares during the whole period.

10,203. That is what I am thinking?—He would seem to have some ground for claiming.

10,204. But he could not get it on this method?—No.

10,205. On the other hand, if you try to give it to him by a sort of differential treatment on the whole of the profits, by the time they were distributed the shareholder might be quite a different person?—Certainly.

10,206. Therefore, of the choice of the two anomalies, the former is the better—that he should get no relief at all on the reserves?—Yes, I certainly suggest that.

10,207. Sir T. Whittaker: Of course it is obvious that any relief given to these foreign shareholders means an additional charge upon someone else in this country?—That is unfortunately the case with all the Income Tax reliefs, I am afraid.

10,208. Where a minority of the shareholders are abroad you agree that the British shareholders would have no interest in removing the control?—I should not expect the British shareholders to remove the control in that case.

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[Continued.]

10,209. The foreign shareholder invested in a company controlled in this country with the knowledge that there were advantages in being here; would he be likely to remove the control?—It has happened before. We know that it has happened. We also know that it is prophesied that it will happen. As to the realization of that prophecy I cannot speak. We do know that it has happened. We do know cases of concerns, the majority of the shares of which were held abroad—concerns whose activities were practically wholly abroad; we do know that in cases of that kind the non-resident shareholders have said: "We will have this removed abroad," and they have done it.

10,210. Is that likely to operate to a very large extent?—I should think it might operate where there is no particular reason, from the point of view of the conduct of their business, for their being here. If it is necessary for their business to be here, then I should expect the business to remain here; but where it is accidental—may be that the directors are people who have founded the company, people who have come back from the East, for example, and founded the company here, and who operate wholly in the East, and gradually get an increasing number of foreign shareholders; but still they like to remain here, they have come back to England to live, they have their directorate here, but in the end the interest of the non-resident shareholders comes in, and they will say, "we gain nothing by this company being registered in London; all we get from it is having to pay 6s. Income Tax, and we will remove." That has happened in a few cases.

10,211. They get originally the benefit of the directorship and control of those persons in this country. So long as that continues that is a very important matter, is it not?—Most important where it is necessary that the control should be exercised here. But if you are taking the case, say, of a tramway in an Indian town, there would seem to be no supreme necessity for the control of that tramway to be exercised in the City of London.

10,212. What I am suggesting to you is that the number of the removals and the value to the Revenue of the removals would not be so great as the danger you would incur of losing in other directions?—Of course the whole problem is one of balancing probable advantages with probable disadvantages.

10,213. Directly you give an exemption you open a door, and a great many people slip through that door who were never intended to?—I do not know exactly what you have in mind.

10,214. The moment you let out income because it is in the name of a resident abroad, you will have people in this country arranging for portions of their income to be in the name of persons abroad, and you are opening a door through which a large number of people will slip who were never intended to?—You mean in the direction of definite fraud?

10,215. No, not fraud?—Taking the case that we are considering, we have a person who is down on the register as a non-resident shareholder; he is not really the beneficial owner of those shares; I am assuming you mean this case.

10,216. That is one point?—Then for us to lose any revenue that nominee must come forward and perjure himself. He must say, "I am the beneficial owner of those shares," when in point of fact he is not. There may be a risk of that, but whether it is a great risk is rather another matter.

10,217. On the previous Committee on which I sat we had a very useful phrase. We differentiated between evasion and avoidance of tax. Avoidance does not involve fraud. People can avoid the tax?—I do not see how the British shareholder in such a company could avoid the tax without being a party to fraud.

10,218. But you could not limit this to companies?—It is not proposed that it should go any further than companies. The grievance is with companies.

10,219. You have cases of firms who are not companies here, with branches abroad, or separate companies abroad belonging to them, in which there are foreign partners; those partners would have to be relieved?—You are taking the case now of a number of partners, some resident abroad and some resident here, and business carried on partly here and partly

abroad. There is no Income Tax grievance that I am aware of in that connection.

10,220. The profits that come here, that the partner here gets, are taxed?—Certainly. He is carrying on business partly here and partly abroad, and he is resident here.

10,221. Perhaps he has a son abroad, and he can put shares, if you like, in the name of his son?—I would like to keep it to firms, distinct from companies for a moment, if it will be convenient.

10,222. He can put profits in the name of his son?—You mean that he will not have his profits remitted here. You have a father and son in partnership; the father in London, and the son in Bombay. The business is one, carried on partly here and partly in Bombay. I should like to know what is in your mind as the suggested Income Tax grievance?

10,223. That the son should retain the father's share and not be taxed?—You mean that the father in such a case would be liable on the whole of his share of the Bombay profits, whether remitted or not.

10,224. He hands it over to his son; he can do so to avoid tax?—Do you mean under the partnership deed? Either his son is legally entitled to it under the deed or he is not.

10,225. He can make him legally entitled?—If he likes to part with that interest in the business it is no affair of the Revenue's.

10,226. But it is avoidance of the tax?—On the hypothesis, he has divested himself of a part of his profit out and out. He has made the son a partner. We should hardly quarrel with that.

10,227. You cannot get hold of him?—No. I do not think we can quarrel with a man who says, "I will give my son half my business," and who honestly and legally does so in proper fashion, so that the son could enforce his rights, if necessary, against the will of the father. I do not think the Revenue could have any claim upon the man in that case.

10,228. Do you think that the suggestion that the foreign shareholders should be relieved would open any wide door?—I think if it were confined to the type of cases that have been considered here this morning, you get a company carrying on business wholly or mainly abroad; you get a non-resident shareholder. Supposing declarations were obtained before a proper authority, directly from the individual shareholder—whether coming direct to us from him or through the company does not make any difference—then I think there would be some risk, not of avoidance, but of fraud—evasion. I do not think that would be so serious as to make it impossible to consider the question and give any relief at all.

10,229. It is suggested that I should ask you this question. Supposing a father and son are in partnership in a business in India. The father is in this country and the business is partly carried on here and the son is in India. Does the son pay Income Tax?—If you can show that the control of this business lies in India, then the liability, I suggest, would be as follows: British Income Tax on the whole of the British profits, whether going to the father or to the son, and British Income Tax on the father's share of the Indian profits so far as remitted to him. That is, if you can establish definitely that there is control in India. If you cannot establish that, then the liability is: the whole of the profits of the British business and the father's share of the Indian profits whether remitted or not.

10,230. The difficulty in my mind is this. The suggestion has been that if that were a company, although the control were here, the son in India would not be relieved of tax on his share of the profits?—We now have a company carrying on business in India but controlled here and the son is a shareholder?

10,231. Yes, and he is in India?—And he gets dividends out of profits which in a popular sense arose entirely in India. The suggestion under consideration is that he should get some relief.

10,232. The difficulty in my mind, that I tried to put before, is this. How can you differentiate equitably between that case where it is a company and the case where it is a firm?—Is the suggestion which you are now making that because the son in the case of the firm would not pay any British Income Tax on

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[Continued.]

his share of the Indian profits, therefore he ought to be relieved not on the dividends only but on his full share of the company's profits?

10,233. If the firm is controlled from here does the firm pay on its full profits?—If the firm is controlled from here it pays on the full British profits and on the resident partner's share of the foreign profits. That is often the case. Of course these cases have to be decided by reference to their facts. I have known cases where the liability has been found to lie on the whole of the profits, but I have seen a number of cases where the facts have been fully investigated by Commissioners on appeal and in which the position has been as in this type of case: you get three partners here and two abroad; the liability has been found, on appeal to Commissioners, to be as follows: the full profits of the British business, to whomsoever they go, and the full share of the foreign profits which arise to the resident partners; so that we should not get British Income Tax on the foreign partners' share of the foreign profits; and we do not fix any decision which is given on these lines.

10,234. If you relieve the foreign shareholder in a company entirely, you would put him practically in the same position as the foreign member of a private firm?—It would be an analogous position; but in the case of the partnership, the son or partner is himself working and carrying on the business.

10,235. He may or may not be?—We are assuming that all these partners are engaged in the business.

10,236. He may be a sleeping partner out there?—Yes, he might be.

10,237. *Chairman:* How do you decide who controls the firm?—It is very difficult. The doctrine of control in the case of a firm was entirely unknown to us until 1914, when a one-sided section was brought in. That was, as I say, one-sided. It says, where the taxpayer proves that the control lies abroad, then certain reliefs are to follow.

10,238. Supposing there is a man exporting to a firm in Beyrout or Alexandria or Cairo; he is in this country, the father may be in Beyrout, and the son here. The control is in Beyrout?—There are only two partners—the father and the son. It is really a question of facts for the determination of the Commissioners who settle the liability, on appeal or otherwise, in the given case. It is often a very difficult problem.

10,239. Have you power to investigate? For instance, there are cases now of this kind: A man ships £2,000,000 worth of goods to Alexandria in a year. The partners are father and son. The son says that he receives £250 or £300 per year as salary. The invoice is £2,000,000 of goods to Alexandria, just to cover expenses and make a profit of say £1,000 for the exporting end. The whole profit is realized in Alexandria, and not a farthing comes to this country. Have we power to fix upon the turnover and say we will fix an Income Tax upon that turnover?—I am afraid not. As I gather, in the case suggested there is only buying in this country and no selling.

10,240. They buy and finish and pack and do all the real profit of the business here, and it is only the sale that is made in Alexandria?—On the decisions in the various Income Tax cases which we have had—and there are a great many, as you know—great attention is paid to the place of sale, and in a case of pure buying it is not regarded as carrying on business at all.

10,241. What is your opinion on that point, because that is a very important matter which we shall have to consider? What do you say yourself?—Not what is under the Income Tax law, but what ought to be?

10,242. Yes.—Of course it is possible to divide profits up in a notional manner and say that a man can make no profit till he sells or till he buys; and, just as in this paper it is suggested that some profit attaches to control, so some profit might notionally be attached to buying, to finishing, and to packing, and only a balance of the profit to selling.

10,243. *Mr. McLintock:* One question with regard to the removal of control abroad. You referred to the cases of removal of control where there was a preponderating foreign interest?—Yes.

10,244. Have there been no cases where the majority interest is resident in this country?—Yes, I think we could find cases where the thing has gone lock, stock and barrel abroad, or, what comes to the same thing for Income Tax purposes, the control has gone abroad, where there has been a majority of British shareholders.

10,245. Is that common?—No, that would not be so common.

10,246. In the cases you know of?—That would be attributable, I suspect, to the effect of the Excess Profits Duty.

10,247. *Mr. Mackinder:* In the case of South Africa, would not there be some large cases of that kind?—I have not particulars of the South African cases in my mind.

10,248. *Mr. McLintock:* Take America, for instance. Would not the Income Tax there be sufficient reason for removal of control?—The American Income Tax?

10,249. Yes.—Removing the control from here to America?

10,250. Yes; not necessarily distributing the profits at present?—You think it would be a sufficient motive for the British shareholder to transfer control to America?

10,251. I am not discussing the question of motive, but do you know of cases of actual removal of control where the majority interest has been in this country?—Yes, I have seen one or two of such cases.

10,252. That is taking place to-day?—Well, it has taken place within the period which I have looked into, the last two or three years, but I rather think the motive was the Excess Profits Duty.

10,253. Were they large cases?—I have not the figures. They would be substantial cases, but I could not give any names or figures.

10,254. *Mr. Kerly:* One point about the Income Tax of partners. My mind is very indefinite about it, and if we are going to act upon any analogy with regard to companies we ought to know what the partnership position is. You suggested that where there is a firm controlling a business here which is carried on abroad with local partners living abroad, the local partner gains some advantage and does not pay the full Income Tax. You say the question has to be investigated by the Commissioners, and they find how the facts are, but it is no good finding facts until you know what principle you have to apply. What right has the Indian partner in the illustration you gave to any relief, the firm being controlled here?—There is no doctrine of control as regards a firm controlled here—at least, I cannot find it in the Income Tax Acts, and I suggest that the Indian partner whose case you are describing is not within the charge.

10,255. There is no reference to control in the Act. It speaks about a company being resident. Is not the firm resident?—It does not treat a firm as having a residence except in the particular case, the exceptional case, which was introduced against the Revenue in 1914. It says that the incomes of assessable partners shall be assessed jointly in one sum.

10,256. Do I understand the law as administered is this: if there is such a firm as I suggest, you would treat it as a collection of individuals, and each of them is to pay Income Tax in respect of his personal liability for the share of profits?—I think the assessment which we have on a firm trading in this country is in legal theory a bundle made up of the separate liabilities of the individual partners, but it is assessed in one sum jointly, and of course is recoverable from any one partner.

10,257. *Mr. McLintock:* Will put to you an actual case, but I want to ask you one further question upon the principle where a firm is controlled here and its business is wholly carried on in India; do you distinguish between the profits of the firm, and such part of them as are profits of the Indian business?—You say a firm controlled here, but carrying on no part of its business here.

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Mr. C. G. SPRY.

[Continued.]

10,258. It is controlled here in the same sense that the beer companies in the familiar cases were controlled in England, although they had breweries in Chicago?—I have never met a case in which there were no trading operations or business here. There was the case of *Ophio v. Kitten*, as you know, where there was regular oversight.

10,259. Can you suggest any principle where the business is partly carried on here and partly carried on in India, but the control is in England, for distinguishing between the Indian profits and home profits?—It would depend entirely on the facts of the case, and I cannot give a formula which would apply to all cases.

10,260. With all respect, to refer me to the facts when I do not know what principle I am to apply is no good?—The only principle I can suggest is that we must find out what are the profits of the British business; when you know what the British business is, what the trading operations are, how it is carried on and what the result is, then the Commissioners will say what the profits are; but these are very difficult cases, and almost individual cases.

10,261. Really that comes to saying that the Commissioners make such shot as they please?—They are faced with great difficulties.

10,262. Mr. McLintock: I will give you an actual case. There are five partners in a business in Scotland, two of them reside abroad and carry on the main operations of that firm—I mean not merely the main operations abroad, but its main operations as a firm. The bulk of the manufacturing is done abroad; the growing of the commodity is abroad and the finishing of it practically ready for the market, whether sent direct from abroad or first shipped to this country and then sold. There are accounts available showing exactly the profits that emerge abroad and those that emerge in each department at home. There are five partners, and unless you suggest that the majority in this country means control, although the dominating partner may be abroad, although he is only one individual, you cannot say that the control is in this country with the three partners here and the two abroad, when the men who are abroad are left pretty well to conduct the business just exactly as they think fit in the best interests of the combined partnership. Is your suggestion that the partners who reside abroad are entitled to be relieved from British Income Tax on their share at least of the profits which emerge abroad?—Where are the sales? Are the sales all in this country?

10,263. The sales are more or less all over the world; a good many of them in Scotland, a good many of them sold direct for shipment from the works abroad; but the accounts are produced, and they are not adjusted accounts showing a bigger profit at one end than the other. The home partners will not let the foreign partners charge them too high a price. The result is the accounts are available every year to show exactly how much money is earned abroad.—That is putting their own allocation of some share of the profits to manufacturing?

10,264. But the home partners take good care that the foreign partners do not charge them so big a price that they cannot make a profit at home?—The problem there is to allocate the profits.

10,265. Assume they are fairly allocated for the moment?—Then the question is, is there Indian control? You then raise the question whether the control is in India.

10,266. Take a case where the control is here, but there are partners resident abroad who have an interest in the profits made at home and made abroad; is there any relief whatever to the foreign partners?—I must make this general remark. These cases are not settled by the Board of Inland Revenue; we only see those which come to our notice because of appeals. They are settled by the bodies of Income Tax Commissioners. I have seen cases where because of the business being in fact controlled here, although the Act does not talk about the control here—it does speak about control being abroad—the whole of the profits, including the profits of the non-resident

partners, have been charged. I have also seen cases, and recent cases, where the Commissioners have decided in the way which I suggested just now, namely, that in the case of some partners here and some abroad, part business here and part abroad, the liability has been fixed at no more than the average profits of the British business, and the British resident partners' shares of the foreign business—I have seen both.

10,267. I understood earlier that where a partner was abroad and any portion of the profit in which he was interested was made abroad, wherever the control lay, that partner had a certain measure of relief from British Income Tax on the foreign profits?—A decision on those lines is never disputed by the Board of Inland Revenue.

10,268. Exactly; you acquiesce in such a decision?—Yes.

10,269. Chairman: That is your point?—I think I have got that accurately, that the assessment here does not include the non-resident partners' share of the profits made abroad.

10,270. Mr. McLintock: Irrespective of where control lies?

10,271. Chairman: Is your total balance sheet made in England of the whole concern?

10,272. Mr. McLintock: Yes; the accounts are dovetailed together, but they are quite separate. The foreign profits are shown separately.

10,273. Chairman: Do not the Revenue treat that as being controlled here?

10,274. Mr. McLintock: The Revenue assess them for the whole profit?—(The Witness): The Commissioners assess them.

10,275. Chairman: Therefore the foreign partner has to pay English Income Tax.

10,276. Mr. McLintock: Yes.

10,277. Sir J. Harwood-Bonner: Is it not the fact that the foreign partner has his Income Tax returned to him? I am speaking of a case which I am now discussing with the Income Tax authorities, of a big firm where the control is in this country and the profits are brought from America to this country. It is considered a great hardship that the British partner who lives in San Francisco gets no return, but an American who is a partner in that firm has his Income Tax returned to him?—I am afraid I cannot follow that case. Is it a firm carrying on business here and in America?

10,278. A firm carrying on business here and having control here; the senior partner is here?—It carries on business partly here and partly in America?

10,279. It carries on business partly here and partly in San Francisco; one of the partners is an American; the profits are all brought into the balance sheet here, and pay Income Tax; but the American partner, who is residing in San Francisco has returned to him his Income Tax on his share of the profits of that business.

10,280. Chairman: By the Revenue?

10,281. Sir J. Harwood-Bonner: By the Revenue.—That hears out the suggestion that I have been making, that the liability has been fixed on the full British profits plus the British resident partners' share of the foreign profits.

10,282. Chairman: You can vouch for that case?

10,283. Sir J. Harwood-Bonner: I can vouch for the fact that I am at present in negotiation with Somerset House.

10,284. Chairman: Perhaps you will take a note of that, Mr. Spry.

10,285. Mr. Freeman: With regard to the question of control, I understood you to say just now that as far as a firm was concerned the doctrine of control did not arise?—The first we heard of it in any Act of Parliament was in 1914.

10,286. Mr. Kerly: I have just found the section which deals with it; it is Rule 12, Rules on Cases I. and II., Schedule D. It is rather long, but the gist of it is that where a trade or business is carried on by partners, and the control of the business is situated abroad, the business is to be deemed to be carried on outside the United Kingdom, and the partnership to be outside the United Kingdom, although some persons may reside here.

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[Continued.]

10,287. Mr. Pretzman: How could that be interpreted? In the case of a company the control is unified, is it not; there is a Board of directors, and it can only be one Board; it must meet in one place, and therefore you have something to go upon. Where you have got a firm you may have four partners, two may be resident abroad and two may be resident in this country; there must be infinite gradation in the relative control exercised by the two abroad or here?—I can imagine a case where you cannot affirm that there is control in either place. You may have two partners, men about the same age with the same capital, and the same interest in the business. Who controls the other? Neither.

10,288. I only want to clear up one other small point. When you speak of a company resident abroad, or rather shareholders resident abroad in a

company carrying on business abroad, that covers shareholders of all foreign nationalities, I suppose?—All shareholders.

10,289. Suppose you have a company carrying on business in Australia with control here, you will have, no doubt, a considerable interest in that company by Australian shareholders, but you might also conceivably have an interest by an American shareholder?—Or French, or anyone.

10,290. When you talk of relieving a foreign shareholder, you would relieve all equally, quite irrespective of where the shareholder is?—That is the line on which the discussion has proceeded.

10,291. Chairman: That is very interesting, and a very important point for us to deal with. Thank you very much.

Mr. F. L. MACE, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Proof of evidence of F. L. MACE, an Assistant Chief Inspector of Taxes, on the subject of the taxation of non-residents trading in the United Kingdom through resident agents.

Object of evidence.

10,292. (1) The evidence which has been given by former witnesses on this subject appears to have been directed to draw attention to the difficulties and drawbacks of the present system, and to dwell on certain dangers to British trade and British agents which it has been suggested are involved in its continuance.

It may, therefore, be considered useful to show by a brief history of the subject how it reached its present stage of development, and to examine both the criticisms which have been brought to the notice of the Royal Commission, and the suggestions which have been made for the improvement of the position.

Legislation prior to 1915.

10,293. (2) The scope of Schedule D of the Income Tax Acts in force for many years includes the taxation—

- (a) of all annual profits or gains arising or accruing to residents in the United Kingdom from any profession, trade, employment or vocation, whether the same shall be respectively carried on in the United Kingdom or elsewhere; and
- (b) of all annual profits or gains arising or accruing to any person whatever, whether a subject of Her Majesty or not, although not resident in the United Kingdom, from any profession, trade, employment or vocation exercised within the United Kingdom.

[Income Tax Act, 1853, sec. 2.]

10,294. (3) This is the language of the Income Tax Act, 1853, and the Schedules of previous Acts (the Income Tax Act, 1893, and the Income Tax Act, 1842) contained similar phraseology.

10,295. (4) The charging section now in force is contained in the Income Tax Act, 1918—Schedule D of the First Schedule of the Act:—

"Tax under this Schedule shall be charged in respect of—

- (a) The annual profits or gains arising or accruing . . . to any person, whether a British subject or not, although not resident in the United Kingdom, from any property whatever in the United Kingdom, or from any trade, profession, employment or vocation exercised within the United Kingdom." [Income Tax Act, 1918, First Schedule.]

10,296. (5) The trading profits accruing to non-residents are charged, like other profits of trade, &c., upon an average of three years, and are to be ascertained in the same manner as those accruing to residents. The only special machinery provided by the Income Tax Act, 1842, was that needed to make the

charge upon a non-resident person *effective*, in view of his being personally outside the jurisdiction of the United Kingdom. This is to be found in sections 41 and 44 of the Act of 1842 (now embodied in Rules 5, 13 and 14 of the General Rules of the Income Tax Act, 1918). [Income Tax Act, 1842, sections 41 and 44 see App. No. 23.] The effect of these sections was to make non-residents chargeable in the name of a factor, agent or receiver having the receipt of the profits or gains, and to empower such person to retain the tax out of monies due to his principal.

10,297. (6) Such were the entire provisions of the Income Tax Acts on this subject until the passing of the Finance (No. 2) Act, 1915. It will be observed that the taxation of the British profits of non-resident persons was thus limited before 1915 to the following extent:—

- (1) the profits must arise or accrue to the non-resident person from a profession, trade, employment or vocation exercised within the United Kingdom;
- (2) the assessment of such profits could be made in the name of the resident agent, factor or receiver only if he had the receipt of the profits or gains;
- (3) in circumstances other than the agent having the receipt of the profits or gains, it is conceivable that the principal might be assessed, but there was no machinery by which he could be compelled to pay the tax unless he or his goods could be got at in the United Kingdom.

10,298. (7) It is convenient at this stage to see what was the practical effect of the provisions mentioned, and what was the necessity for the later legislation of the year 1915.

10,299. (8) First of all, it is to be borne in mind how different were trading conditions, especially as regards international trade, when the Acts of 1803, 1842 and 1853 were passed, as compared with the conditions of the present day. A tax imposed in the circumstances of those times upon the profits of non-residents trading in the United Kingdom through agents, factors or receivers, even though such representatives were not assessable unless they had the receipt of the profits, would hardly be open to the avoidance possible in present-day conditions.

10,300. (9) In the course of time, however, the conditions of trade were altering, international trade was increasing, and agencies of many varieties were being established. Cases began to be stated for the opinion of the Courts, and a series of decisions affecting the liability of non-residents and their agents revealed the machinery defects in the position of the taxing authorities. The case of *Erichsen v. Last* (1 Tax Cas. 351 and 537, and 4 Tax Cas. 422), followed by the *Wine Cases*, viz.—

Fischler & Co. v. Aphorpe (2 Tax Cas. 89);
Pomery & Greno v. Aphorpe (2 Tax Cas. 182);
Wright & Co. v. Colquhoun (2 Tax Cas. 402);
Grainger & Son v. Gough (3 Tax Cas. 311 and 462);
 were dealt with between 1881 and 1896, and the broad lines of enquiry in deciding whether there was

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[Continued.]

liability were (a) was the contract of sale made in the United Kingdom? (b) did delivery take place in the United Kingdom? (c) was the agent in lawful receipt of the profits or gains?

The Revenue won all the cases named, except the last, but in that case (*Grainier d'Isou v. Gough*), owing to the fact that the French principal reserved a discretion as to the execution of contracts offered through his agents, and that delivery was in a technical sense made abroad, the House of Lords decided that the trade was not carried on in this country.

10,301. (10) The anomalous situation created or revealed by these decisions was brought out in evidence before the Departmental Committee on Income Tax in 1904, by Sir Thomas Hewitt, K.C., then Clerk to the Commissioners of Taxes for the City of London. In his Memorandum of Evidence [Cd. 2576] he drew attention to the results of the *Grainier v. Gough* decision, and to its necessary effect upon avoidance of tax.

10,302. (11) The following passage is taken from page 26 of the Appendix to the Report of that Committee [Cd. 2576]:—

"In the case of *Grainier v. Gough*, the House of Lords decided that the appellant was not liable to tax by reason of the technicality of the contracts for sale of goods having been made abroad.

"The absurd result follows that two wine merchants selling the same class of wine in adjoining offices are not chargeable in the same manner. If one represents a foreign firm the firm is not chargeable by reason of the little technicality of the reservation of the right of acceptance being retained by the firm abroad, and one or two other details explained in the case which free the firm from liability in respect of the exercise of the trade or business in the United Kingdom. The foreign firm may send over or employ an agent with a large number of travellers to obtain orders; they may spend large sums of money in advertising, and yet escape liability on the ground of the form of the contract.

"The above decision works a manifest injustice to the English merchant, and operates to the detriment of the English trader, and is manifestly unfair.

"In the case of *Sulley Bros.* and other cases, it was decided to the effect that the place of the purchase of goods is not the place where the profits are made, but that the profit is merely made on the sale of the goods.

"I would suggest, therefore, that a few words should be inserted in an Act to the effect that the exercise of a trade by foreign and colonial persons in Great Britain shall be judged by the 'habitual sale of goods' and the 'habitual performance of contracts' for valuable consideration. This alteration would, in my opinion, be popular as well as cure a very considerable leakage of the subjects of fair assessment. It would only be an amendment of the machinery, and not alter the proper incidence of the tax.

"From my own experience, I know that the evasion under the provisions of the Act in this respect extends, and is daily more widely extending, to Belgian iron, to silks from France and elsewhere, to wines from Germany, France and Italy, to a very great extent to velvets, mantles and other goods peculiar to foreign trade from various foreign countries, and, secondly, to trade from India and the Colonies."

10,303. (12) In the Minutes of Evidence two questions by the Chairman and Sir Thomas Hewitt's replies put the matter as far as the effect upon agencies is concerned in a nutshell. [Cd. 2576.]

"1117. (Q) I understand your point to be that where a foreigner has an agent in this country who makes contracts for him subject to reference to him, he is not liable to Income Tax in this country, whereas if the agent is himself in a position to make a contract without reference to the principal, he is liable?—(A) That is the general effect of the decision.

"1117. (Q) You think both these persons should be put in the same position?—(A) Certainly, I say that an habitual sale of goods, which fits the foreign wines, &c., cases, or an habitual carrying out of contracts for valuable consideration, which fits the South African cases, ought to be the test of the exercise of the trade."

The position in 1915.

10,304. (13) The effect of the decisions already referred to, and others on similar lines, was to make the taxation of non-residents trading here through agents dependent upon mere technicalities of business methods. Whether the final binding contract is made in this country, or is fixed by a formal advice-note from abroad, whether delivery takes place from a stock of goods in London, or is made through the agent for convenience of sampling and checking, or is made by f.o.b. delivery in a ship abroad—these are questions which do not get to the root of the matter as regards equity in the liability to Income Tax. It is suggested that the fundamental questions ought to be—Is there really a trade carried on in this country, either by the non-resident person, or by a duly authorized agent on his behalf? Does the non-resident use the British market for his goods in such a way that he is either present himself or by a representative who is looking after his interests, canvassing for orders, interviewing customers, building up a goodwill—in short, is he obtaining the benefit of British law for his goods, his contracts and himself?

10,305. (14) The interpretation put upon the original taxing Acts by the Courts undoubtedly led to non-resident traders availing themselves of the opportunities of legal avoidance so evidently displayed. It is safe to say that the large majority of such persons took care to arrange (a) that their British agents had no formal authority to accept orders, but must refer to their principals, and (b) that they should not be authorized to collect payment, as well as (c) in some cases, that the agents should not undertake the delivery of the goods. In practice, comparatively few foreign houses of the manufacturing and merchandising class carry on branch establishments, a further small proportion employ agents admittedly liable to Income Tax on their behalf, whilst a large number have in the past constantly escaped taxation by observing a few technicalities.

10,306. (15) The legislation of 1915 was intended to bring effectively within the Income Tax the true profits of the following classes of traders:—

- (a) non-residents who trade in this country through resident agents, but who escape tax by completing contracts of sale abroad, and/or receiving payments abroad.
- (b) non-residents trading in this country through recognized agents or branches who fail to disclose the full amount of their true profits.
- (c) non-residents who trade in this country through so-called purchasers (either individual nominees or subsidiary companies), who are in fact dependent on the non-residents, though nominally and legally independent. A resident purchaser of this class, who buys in order to re-sell, is generally the only person within the United Kingdom, or a selected part of the United Kingdom, to which the particular non-resident sells.

10,307. (16) It was not intended to attempt to tax:—

- (a) non-residents consigning goods to this country for sale by brokers, general commission agents, &c. (The last-mentioned persons are not regarded as the agents of the non-residents in the sense in which the term agent is used in tax legislation.)
- (b) non-residents who merely canvass this country seasonally for orders by commercial travellers or circulars, and who execute their orders abroad. (These persons have no resident agents.)

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[Continued.]

Legislative changes in 1915.

10,308. (17) The new provisions designed to have the above-mentioned effect were those of section 31 of the Finance (No. 2) Act, 1915, quoted in Appendix No. 23. They are now represented by Rules 5 to 14 of the General Rules in the First Schedule of the Income Tax Act, 1918, which include also the provisions of sections 41 and 44 of 1842, and section 26 of the Finance Act, 1918 (Rule 12 of the Consolidating Act).

10,309. (18) The position of non-residents trading in the United Kingdom, as regards assessment to Income Tax, was altered by the legislation of 1915 to the following extent:—

- (a) the non-resident became assessable in the name of any branch or manager, as well as in the name of any factor, agent or receiver.
- (b) the non-resident was so assessable, although the agent, &c. might not be in receipt of the profits or gains on behalf of his principal.
- (c) the non-resident became liable if he derived any profits or gains indirectly as well as directly through or from any branch, agency, &c., thereby surmounting the difficulty which arose where the contract and delivery were made abroad.
- (d) the profits of the non-resident became taxable in the name of the resident in cases of arrangement such as those referred to in paragraph 15 (c).
- (e) where the profits accruing to the non-resident could not be readily ascertained, the Commissioners might assess upon a percentage of the turnover—such percentage being subject to appeal.
- (f) the recognized position that profits derived by a non-resident from sales through a broker or general commission agent were not taxable, was specifically confirmed.
- (g) profits of a non-resident arising from transactions with other non-residents were excluded from the scope of the extended liability.

Legislation since 1915.

10,310. (19) The subject received further consideration in 1917, when Sir A. Williamson put down for discussion a clause on the lines of the section which was afterwards adopted in 1918 (section 25, Finance Act, 1918), and which is now represented by Rule 12 of the Income Tax Act, 1918. [See Appendix No. 23.] This provision gives the resident person in whose name a non-resident is chargeable, the right to have the assessment made or amended "on the basis of the profits which might reasonably be expected to have been earned by a merchant," or by a retailer (if the goods are retained by or on behalf of the manufacturer or producer).

10,311. (20) This provision operates only if the goods are produced or manufactured by the non-resident out of the United Kingdom, and does not deprive him of the right of producing evidence that the whole result of his business as a manufacturer or producer abroad for sale in the United Kingdom is a loss, or that the profit on the whole transaction is less than a merchant might expect.

10,312. (21) The last-mentioned provision completes the legislation on the subject, and the Income Tax Act, 1918, contains the whole of the existing law, as stated in paragraph 17 *supra*. For the sake of convenience of reference, the Rules therein mentioned are quoted in an Appendix to this evidence [see Appendix No. 23.]

Criticisms of the present system.

10,313. (22) In attempting to consider the objections which have been raised to the present system of taxing the British profits of non-resident traders, it is desirable to point out at the outset that the changes introduced in 1915 in no way extended the scope of the charge contained in the earlier Income Tax Acts, but aimed at improvements of machinery with a view to securing that all businesses carried on

in the United Kingdom should be equally liable to taxation. Non-residents are personally outside the jurisdiction of British Courts, and can be got at only indirectly, through their agents, even where such non-residents are mere legal entities such as companies registered abroad. It has always been recognized that non-residents may be in a very real sense trading in this country, and may indeed derive a large part of their profits from an agency which is to all intents and purposes a branch in the United Kingdom.

10,314. (23) The real difficulty is to decide the proper limits of the taxation of such profits. The trade done by or on behalf of non-residents may vary from the clear case of a branch establishment to the other extreme of orders obtained abroad by means of advertisements or circulars. There is the authorized regular agent, who may be said to afford facilities to customers almost equal to those which would be afforded if his principal were personally present. He may be the sole agent in a certain area, or for a certain kind of goods. His business may be entirely or mainly that of furthering the interests of one principal, or he may act in a similar capacity for a number of principals. Then there is the general commission agent, who sells any goods consigned to him or takes orders for transmission to any trader with whom he can get into touch, though not regularly acting for him nor authorized to describe himself as the non-resident's agent. And there is the broker, who merely acts as salesman for goods, and has no other duties than to sell the goods at the market price and remit the proceeds, less his charges.

10,315. (24) There is nothing repugnant to a sense of justice in the levying of an Income Tax in all these cases. The matter is essentially one of expediency and not of principle. It would be easy to support a proposition that the profit made in the United Kingdom on every sale of goods to, or performance of services for, or making of a profitable contract with, a resident in the United Kingdom should entail a payment of Income Tax to the nation's Exchequer. The sole consideration in such matters is the effect upon the national welfare. The amount of revenue expected to be received must be weighed against the disadvantages arising from any such extension of the area of taxation.

10,316. (25) The practical question, therefore, is how far it is expedient to carry a system of income taxation in the direction of the limit referred to in the last paragraph. The system at present in force in the United Kingdom stops short after including the profits made by non-residents who employ authorized regular agents to represent them. It is conceivable that the scope of the taxation might be extended or might be restricted within still narrower limits.

10,317. (26) The evidence which has been given before the Royal Commission on this subject has been mainly directed towards securing a recommendation that the existing scope is too wide, and that the tax should revert to its old position before the 1915 Act was passed. This means, of course, that liability would again become dependent on such technicalities as where the contract is signed, where delivery takes place, and whether the agent is in possession of his principal's profits or gains.

10,318. (27) It is submitted that such a course should not be followed unless the arguments in its favour are clear and convincing. The arguments relied upon by the representatives of the agents and those who think with them on general grounds of policy appear to be—

- (a) that the present system is unfair to the British agents, and will take away their livelihood—see the evidence of Messrs. Belfour and Reingmann.
- (b) that the entrapment trade of the United Kingdom is endangered, because British agencies will be given up—see the evidence of Sir A. Williamson.
- (c) that our tax policy will lead to retaliation which will hurt us much more than can be gained by the tax—see the evidence of Mr. Sidney Webb, Sir A. Williamson, and others.

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The British agencies.

10,319. (28) The first of these objections is concisely summed up in the reply of Mr. Bédouin to the Chairman's question, number 6183 of the Minutes of Evidence: "I can quite understand that you want to get hold of it" (i.e., the tax on the non-resident's profits)—"and so would I, but what we say is that we do not want our Government to try to get hold of it over our bodies."

10,320. (29) Again in Question 6216 this witness said that what he was pleading for was the agent's source of livelihood. The point is therefore, whether a continuance and enforcement of this taxation will have the effect of closing down the British agencies, and, if so, whether such effect must compel an alteration of the taxing Acts to the possible prejudice of other British traders.

10,321. (30) In this matter, it is suggested that, as usual, the truth is to be found in a moderate view. First of all, there are no indications that any general closing down of British agencies will take place, although cases of hardship may undoubtedly arise. The regular agency is, it is suggested, of too great a value to the non-resident to be lightly given up. The foreign house may send its goods to a broker or general commission agent for sale and escape the tax, but where there is keen competition to get orders from British merchants or retailers this is not the way for a foreign manufacturer (particularly if his goods are distinguishable from others, unlike produce such as wool, corn, hides, raw material, etc.) to extend his clientele. The proved way for the manufacturer to make profits is through a regular agent whose interest it is to push the sales of his principal. Non-residents can give up the advantage of an agent pushing their goods, and so suffer a decline of profits, or they can sell the goods outright to someone (perhaps a former agent) willing to accept financial responsibility, but in this case they must obviously offer extra remuneration to the person who undertakes this risk. The principals may come over personally from time to time, but they cannot do as well as an agent always available to the trade. They may send travellers, and perhaps this is the greatest danger to the British agent as the travellers might be constantly to and fro and do almost as well for the non-resident as an agent. It may be that the taxing scheme should be extended to catch all cases of canvassing for orders in the United Kingdom, and the non-resident made assessable through a traveller exactly as he is through a regular agent.* This is a suggestion which is mentioned as a possible means of protecting the regular agent and of preventing further avoidance of tax when the present law is thoroughly understood. At the present time, without any question of the Income Tax, I frequently hear it said in the City of London that sales which used to come through the agents' hands are now made (a) at the place of manufacture abroad to buying agents or branches of the great British merchants, who prefer to buy on the spot and whose volume of purchases justifies a buying office at the important centres of foreign manufacture, or (b) direct to the British customer, who establishes personal relationship with the foreign house and sends his orders direct or goes over to the Continent occasionally to see the goods and may (or may not) get better terms than the agent would be authorized to give him.

10,322. (31) It may be inferred, therefore, that where the volume of purchases by British houses is heavy the tendency is for these to be made through other channels than the British regular agent. But the value of the regular agent to the foreign manufacturer or merchant is dealing with small houses or in extending their market can hardly be doubted.

10,323. (32) These considerations do not suggest that a continuance and enforcement of the present taxation will mean the general closing down of British regular agencies, and I would add that very recent personal experience has confirmed the view that they will not be crushed out of existence. I have not yet

met with a case in which the British agency is to be definitely abandoned. Still, I should not like to say that some of the smaller agencies (in which the agent is of less importance by reason of the smaller volume of trade or because the agent is not so fully occupied in the business of a single foreign house) may not suffer because of the enforcement of the tax.

The entrepôt trade.

10,324. (33) The criticism which produces most cause for anxiety to the business world is to the effect that the present system will strike a deadly blow at the entrepôt trade of this country. If goods are diverted from our market to a great extent, it is of course clear that our shipping, merchandising, banking, insurance, carrying and manufacturing industries must suffer. If, therefore, the cost of an Income Tax is to include the loss of considerably larger percentages of British profits which now accrue indirectly (and the consequent loss of the Income Tax upon such indirect profits), it may well be urged that we ought to abandon the attempt to collect the tax in question. And when we are assured by business experts that these results will undoubtedly follow, it is right that we should pause to consider the national policy. The textile agents themselves have made strong representations on the subject, and the matter has caused considerable debate in the House of Commons. Mr. Shaw on July 16th last, referred to the necessity of linking the channels of our Imperial trade broad and deep and clearly marked, and Sir A. Williamson thought we were endangering our position as the market of the world. [Parliamentary Daily Reports, 16.7.1919, Col. 334/8.] The evidence given by the latter before the Royal Commission on July 17th contained the following passages:—

"Any policy which injures our position as the most important exchange and mart and financial centre for international trade I submit requires amendment." [Minutes of Evidence, Q. 7417.]

"If, however, the giving or continuance of a regularly constituted agency renders the concern abroad (which is sometimes foreign and sometimes British owned) liable to our domestic taxation, the concern overseas naturally will cease to appoint such agents and will tend to do its business in other ways, which will entail loss and disadvantage to us." [Q. 7446.]

"... the effect ... will probably be that orders will be given for goods to travellers from the United States and elsewhere, and that produce, instead of being sold through London, is likely to be sold locally or through agents established in some other country. I therefore believe that this country will lose much more than the Treasury will gain by the present policy." [Q. 7430.]

10,325. (34) The Royal Commission will no doubt consider whether these results will necessarily follow from an insistence on the taxation of profits made in trading here by non-residents. An official witness is not competent to offer an expert opinion on this subject, but it may be suggested that the following facts should be kept in view:—

(a) that British resident concerns, manufacturing or buying raw material or goods abroad for use or sale in this country, already bear the full burden of United Kingdom Income Tax on all their profits, even including profits of foreign manufacture and importation.

(b) that non-resident concerns are asked to bear tax, not upon profits of manufacture abroad, but merely upon profits such as a London merchant makes on buying at the ports and selling in London wholesale (and retail, if he also sells retail).

(c) that goods sold here for transhipment to the Colonies or foreign countries are exempted under Rule 11 of the General Rules of the Income Tax Act, 1918 [See App. No. 23], so that to this extent the shipment of goods into the United Kingdom, and all the handling, banking and insurance business arising therefrom, is not disturbed.

* This would have to be done by a system of registration or licensing, before a traveller or salesman for a non-resident house was permitted to sell goods here.

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(d) that the entrepôt trade of the United Kingdom may be deemed to depend more upon the extraordinary advantages offered by this country for shipping, finance and marketing, than upon this question of taxation.

(e) that the entrepôt trade is not at present complicated by tariff questions which might have a much more important effect upon it than a tax on merchandising profits made here.

Retaliation.

10,325. (35) In evidence before the Royal Commission it has been stated by Sir A. Williamson, Mr. Sidney Webb and other witnesses, that the levying of a tax on the merchandising profits of non-residents will lead to retaliation.

In his evidence-in-chief Mr. Webb said:—

"It must be remembered . . . that the practice complained of" (the avoidance of tax by non-resident importers) "is bilateral. British firms and companies maintain innumerable agencies abroad in connection with both British exports and British imports; and foreign countries, as well as our own Dominions, where heavy Income Taxes are now levied, might equally claim to assess locally, not merely agency salaries and commissions, but also the whole profits on the transactions. This country would not, on balance, be the gainer." [Minutes of Evidence, Q. 6893.]

10,327. (36) In this connection it may be pointed out—

(a) that several of our Dominions and Colonies already levy a tax on such agencies by estimating their trading profits on a percentage basis. (The systems of the various Australian States contained provisions to this effect even before the change was made in the United Kingdom in 1915);

(b) that foreign countries, unlike this country, levy an import duty on the goods which we send them, which renders the question of an Income Tax on profits made by non-resident importers of less importance to them, although it is, of course, a fact that if their Income Tax systems tax the merchandising profits of resident importers while exempting those of non-resident importers, the inequality remedied by our 1915 Act is present in those countries, apart from any question of an import duty;

(c) retaliation in Income Tax is to be feared only if the British trader were singled out from other traders for such treatment, just as it is considered that those who complain of our system have no grievance if we treat all nationalities alike, as it is the constant practice of our taxation to do.

Other criticisms and suggestions.

10,328. (37) The observations contained in the preceding paragraphs (28 to 36) have been concerned with such radical criticisms of the present system as could be satisfied only by the entire abandonment of the legislative changes of 1915, or at least by the abandonment of the change represented by Rule 6 of the General Rules, Income Tax Act, 1918 [See App. No. 23] (which makes the non-resident assessable if he derives any profit directly or indirectly through or from any agency, &c.). It is suggested, however, that Rule 6 is an essential part of any real attempt at equality of treatment as between residents and non-residents. Under the system which prevailed before 1915, the non-resident escaped income taxation on his trade in the United Kingdom if he guarded himself from completing his contracts here. His profits might arise to a very material extent in this country, but a technicality saved him from being liable to the same tax as his British competitors. At the present time, with an Income Tax of six shillings in the pound a return to that system would, it is considered, entail still more avoidance of tax than before 1915, as it could hardly be expected that branch establishments in the United Kingdom would remain in existence when their metamorphosis into agencies might free them from liability.

10,329. (38) Apart, however, from the fundamental criticisms which have been referred to, various defects of the existing system have been brought to the notice of the Royal Commission.

10,330. (39) First of all, there is the defect of the uncertainty of the liability. Nothing in taxation is more annoying to a trader than uncertainty as to the approximate amount payable. And in the subject under consideration there is still some uncertainty in the minds of the non-residents and their agents whether any tax is payable at all. This is because they have been advised in some quarters that, in spite of the broad language of Rule 6, the question of liability still depends on the old technicalities upon which the Court cases referred to in paragraph 11 were decided. No case on this point has at present reached the Courts since the 1915 Act came into operation, although there have been appeals heard and decided by the Special or General Commissioners of Income Tax, and it may be that some of these will go on to the Courts. It is, of course, most desirable that any existing doubt on this fundamental issue should be dispelled.

10,331. (40) In this connection a further point is sometimes taken, viz., that there may be no tax payable, not because of any doubt as to the law, but because it is alleged that the merchandising profit mentioned by Rule 12 of the General Rules does not exist in some cases. The agent in whose name a non-resident trader is assessed sometimes arms himself with proof that his principals sell goods at their place of manufacture or production at precisely the same prices as (or even higher prices than) those which they obtain in the United Kingdom, and he feels convinced that this fact cancels all possible liability. It should be borne in mind, however, that the Rule speaks of "the profits which might reasonably be expected to have been earned by a merchant, or, where the goods are retailed, by or on behalf of the manufacturer or producer, by a retailer of the goods sold, who had bought from the manufacturer or producer direct." [Income Tax Act, 1918. General Rules, Rule 12 (see App. No. 23).]

It is clear that a merchant or retailer would not buy the goods abroad, risking his capital until he recovered the price from his customers, unless he had a reasonable expectation of a profit sufficient to yield him interest on his capital, profit on his risk and remuneration for his efforts. This, it is submitted, is what the Rule means shall be taken as an alternative basis of assessment. And this view, it is considered, has been overlooked by some witnesses who have stated to the Royal Commission that the agent's commission ought to be regarded as the full profit made in the United Kingdom. [Minutes of Evidence, Q. 6154/5, 6893, 7418.] The elements of risk and of interest should not be ignored.

10,332. (41) There still remains the uncertainty as to the measure of the liability. The evidence of Mr. Lays on this point emphasises the trader's desire to be able to foresee his responsibilities:—

"What are required here" (he says) "are precisely defined conditions which the ordinary business man can understand and calculate upon, so that he can tell a non-resident desiring to do business with him exactly what his liability will be in respect of taxation." [Minutes of Evidence, Q. 5474.]

10,333. (42) The same witness made suggestions in the final paragraph [Q. 5485] of his evidence-in-chief as follows:—

" . . . it is of vital importance that any scheme of taxation should have incorporated in it provision for:—

"(a) notification in advance to non-residents of their taxation liabilities for such a period as would enable them to make provision therefor;

"(b) some provision for the non-alteration of such liabilities for an agreed term;

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"(c) a reasonable limitation of time within which an assessment must be made;

"(d) restrictions on the power of the Commissioners of Inland Revenue to assume profits."

10,334. (43) These suggestions, it is submitted, go beyond the needs of the situation. They reveal one dominant motive, viz., the desire to have the tax so definitely fixed in advance that the trader might be enabled (if permitted by competition) to add the duty to his price, and so pass on the burden to the purchaser. In other words, Mr. Laya asks that the Income Tax on the trading profits of the firms he represents shall be converted into what would really be a small import duty on merit. In the case of that commodity there is little doubt who would ultimately bear the burden.

10,335. (44) As regards Mr. Laya's suggestion (d), the idea seems to be that, whatever the profits might actually be, the Revenue should be limited as to the percentage upon which the assessment may be based under Rule 8. Inasmuch, however, as the witness was complaining of the adoption of 4 per cent. by the Commissioners it is hardly likely that any general limitation of percentage assessments would affect his case.

10,336. (45) It is essential that an Income Tax shall have some real reference to the amount of profit actually made. Otherwise it loses its character and tends to become an import duty and a trading expense. The idea of fixing a general percentage for all non-resident cases has appealed to many people, but it is considered that no fixed percentage could operate fairly in all cases. The range of profits is too wide, from the small percentage made on sales of raw material and produce to the high percentage made on manufactured and proprietary articles. A percentage basis appropriate to the latter might have a disastrous effect upon the former, and it is reasonable to consider also that the interests of the United Kingdom point to greater caution being necessary in taxing the former than the latter. The produce which might be kept out of our markets by an unduly heavy Income Tax, and the agencies which might be deemed to be jeopardised, are precisely those in which the turnover is largest in bulk and the goods of most importance to the community, while the reasonable merchanting profit might be expected to be a small percentage. On the other hand, the manufactured articles, the patent medicines, the luxuries, which normally yield a high rate of profit to the manufacturer and the merchant (and a higher commission to the agent) are mainly those which are less important to British industry, and which enter more into competition with the produce of this country.

10,337. (46) Not only, therefore, is no single percentage basis applicable, but even a limit of percentage upon which Income Tax could be assessed would tend to be one which could afford no satisfaction to the importer of raw materials or food.

10,338. (47) In conclusion, the possibility of it becoming necessary to extend the area of the taxation of non-residents on the lines referred to in paragraph 30 of this evidence should not be forgotten. Such an extension might be in the interests of the regular agents, as well as of the Exchequer, if trade now done through those regular channels should be found to be diverted into the hands of travellers or salesmen.

[This concludes the evidence-in-chief.]

10,339. Chairman: This is a very interesting paper of yours, and it will help us in the elucidation of one of the most difficult questions with which we have to deal. The process is that you will be examined by the Commissioners on your papers; we do not ask you to read it, the points will arise on examination. I will ask Sir Thomas Whittaker first to question you upon it.

10,340. Sir T. Whittaker: The case we have to consider now, as I understand it, is the case of foreigners or foreign firms trading here in this country and as to how they should be taxed?—Yes, that is so.

10,341. The practical point is, is it not, whether we shall lose more by taxing them than we shall gain?—That is one of the points involved.

10,342. There is no point of equity, surely? We are at liberty to tax if we wish?—Yes.

10,343. It is a question of the balance of advantages, whether the taxation would drive from this country trade which, if it were not driven away, would so increase the income of the country in other directions as to more than balance the first direct loss?—Yes, it is entirely a question of expediency, I think, as to this country's policy.

10,344. And that being so, it becomes one of great difficulty to ascertain what is the balance of loss or gain?—I quite agree.

10,345. At present, if there is a branch here the firm or company is taxed?—Yes.

10,346. If they send travellers here they are not?—No.

10,347. There is no equitable difference there, is there?—Yes, I think there is a difference. The firm that has a branch here has a branch that is carrying on business in this country, but if it sends travellers here it is carrying on its business abroad.

10,348. Surely, if it puts its travellers in an office in London and they work from there instead of travelling about and staying at hotels the position would really be substantially the same?—They may have established a branch by taking an office and sending their travellers from that place. It is entirely a question of which side of the borderline the particular case falls.

10,349. And the borderline may be a very thin one?—Yes, I quite agree.

10,350. If you are to tax in the case where they send travellers, there is no other practical means of doing so than by taxing on the turnover?—I think it would resolve itself into a tax on the turnover in practice. You could, of course, ask them what profit they made, but it would be extremely difficult for them to tell you.

10,351. But you could not do that until you got registration of travellers, or something of that kind?—You would have to have that.

10,352. A very considerable departure?—Yes, quite a departure.

10,353. Have you formed any estimate yourself of the balance of the financial advantage which would result from freeing these people from taxation, or otherwise?—Are you speaking purely of the amount of the tax?

10,354. Yes.—Or the trade that might be lost to this country?

10,355. Of course, that is very difficult to estimate, because one thinks again of the tax you would get as a result of their trading in this country?—Quite so. I have formed no opinion at all as to figures, and I think it would be quite impossible to forecast it.

10,356. I appreciate very much indeed the value of this paper; it is an extremely valuable paper.—Thank you.

10,357. Mr. Petyman: I think we all feel that it is a valuable and interesting paper. Arising out of what Sir Thomas Whittaker has just asked you, I see that in the beginning of your paper you bring this in: "annual profits or gains arising or accruing to any person whatever, whether a subject of Her Majesty or not, although not resident in the United Kingdom, from any profession, trade, employment or vocation exercised within the United Kingdom." Where you differentiate between the traveller and the agent is that one is really carrying on a trade in the United Kingdom, and the other is not?—Yes, that is so.

10,358. Is not the real principle of the Income Tax this: that the fundamental principle recognized are, first of all, that a tax may properly be levied by the Government of the country in which the income arises, and secondly, that a tax may be properly leviable by the Government of the country in which the recipient of the income resides? The first principle is that a tax may properly be levied by the Government of the country in which the income arises. Is not the phrase which you have used here merely the interpretation in the light of existing

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circumstances at the time that phrase was coined of getting at the principle of the country in which the income arises, and is it not, according to the theory of taxing where the income arises, just as legitimate to tax the traveller as it is to tax the income obtained through an agent? The income arises equally in this country in both cases?—I think that is rather a matter of opinion, is it not?

10,359. I want to get at what your opinion is about that; what is the Inland Revenue view of it?

—The basis of this part of the Income Tax is a business exercised in this country. If you think that a traveller is exercising the business of his principal in this country, of course that may appear to be a proper subject of income taxation.

10,360. The income arises here?—The profit arises from the sale here, I agree.

10,361. Looking at it from the broadest point of view of principle, is it not the intention of the Legislature, not only in this country but anywhere, that when they tax income arising in the country they tax it irrespective of the methods by which it is obtained, whether through travellers or agencies, or how it is obtained?—Yes, but at present the Income Tax system here has quite consistently refused to regard such sales made by travellers as being a business carried on in this country.

10,362. I quite understand that. All that the courts of law can do, of course, is to interpret the English; they do not interpret the intentions of Parliament except by the expression of those intentions in the Acts. You get certain verbiage put into Acts with a certain intention, which the courts of law may find have a very different operation?—Yes.

10,363. Is it your view that the principle upon which the Income Tax should be levied should be on all profits which are made in this country, or only on profits arising out of businesses which may be actually said to exist in this country?—As a matter of principle I should personally agree that it is quite right to try to get a tax on all trade done by travellers as well as by agents, if you can do it.

10,364. That brings me to the second question I was going to ask you. You told Sir Thomas Whittaker that you regarded this purely as a question of expediency?—Yes.

10,365. Would you not qualify that by saying that at any rate you would include under expediency the very serious administrative difficulty?—Absolutely, yes.

10,366. I think he rather put it to you that the question of expediency was simply a question of what you were going to get and what you were going to lose?—Yes.

10,367. It is not only a question of what you are going to get and what you are going to lose, but it is also a question of how you are going to get it, and the administrative difficulties which are so complicated?—Yes, I included that all in the question of expediency. It is rather a loose word, but still I had that in mind.

10,368. You are aware, I suppose, that we are asked to simplify the Income Tax?—Yes.

10,369. Is it not possible when we have made some of these reforms that it will be an even greater maze than it is now?—Yes, and I am afraid, speaking for the Department, we should have very serious difficulty.

10,370. I want to ask you another general question. Is it your opinion that, before the war particularly, trade tended to become constantly more cosmopolitan?—Yes, certainly.

10,371. The war, I think you will agree, has checked that for the moment?—Yes, temporarily.

10,372. Do you think that trade will now again, gradually at first, but later more rapidly, flow back into cosmopolitan channels?—I am afraid my opinion is not worth much on that point, but I should say it certainly looks like it; I should expect it to do so.

10,373. Does not the difficulty of this particular phase of Income Tax largely arise from that tendency of trade constantly to become more cosmopolitan?—Yes, the difficulty would be intensified by that.

10,374. Is it not a difficulty which will increase rather than diminish?—Yes, certainly.

10,375. That makes this in one sense more important and in another sense more difficult?—Yes.

10,376. That is to say this phase of it?—Yes.

10,377. Does this paper of yours look ahead from that point of view as well as deal with the present position; is not that very important?—I have not given much of my paper to looking ahead; I have considered the difficulties of the moment.

10,378. But looking at it from the point of view that I have mentioned, some of those difficulties are liable to be accentuated in future by that tendency of trade to become more cosmopolitan?—That is so.

10,379. Ought they not to receive very special attention? Is it not very important in an inquiry of this kind, if we are hoping to get an increase of revenue in a certain form of taxation, to see whether that tendency will be one which will grow or diminish?—Very important indeed.

10,380. And you must look at those tendencies?—Yes.

10,381. I do not know whether you could consider that? I may say I am very much impressed by the ability of this paper of yours?—It is so exceedingly difficult to forecast what will happen in the future.

10,382. Perhaps you could give that point of view a little thought, because your paper is a very able one, and deals with exactly existing conditions. Perhaps you could think of it from that point of view, and if anything occurs to you which you think will help as you will let us have it. On the specific points, what really has brought this question largely before us is the grievance of the British agent under present conditions?—Yes.

10,383. And the tendency at present is naturally for foreigners trading in this country to cease doing their trade through a regular agency and to do it either through travellers or a commission agent?—I have not come across that at present. I have put that in my paper as a possibility, but I have no experience of that coming into operation.

10,384. It is put forward as the grievance of the agent that that will be and must be the tendency, naturally?—Yes, there must be a tendency although it may only be a slight one.

10,385. In your paper you deal with that. You say there may be counterbalancing advantages in dealing with a regular agent, who will be a much more zealous canvasser than the man who is less interested personally?—Yes.

10,386. Then comes the point that I really put to you just now, that under the original conception of the Income Tax the man who sells in this country and makes profit by doing so would be held to be trading here whatever his methods might be?—I should not like to agree that that is the interpretation of the original Act, that because he sells in this country he makes a profit here.

10,387. Presumably everybody who sells sells to make a profit?—Yes.

10,388. And he would not be taxed unless he did make a profit?—It has always been held that he was making his profit at his place of business.

10,389. Yes, quite. It has also been held that no profit takes place except on sale?—Yes.

10,390. And where the sale takes place here, the profit must arise here?—He gets a profit through selling in this country, certainly.

10,391. And on selling in this country?—Yes, he does.

10,392. Do not those two doctrines rather conflict?—I think rather what we have been going on hitherto is that a business must have a place where it is carried on, just as we settle where a business shall be assessed in this country, at some place. It is a place of business, and the travellers are sent out from that place, and they return to that place and report.

10,393. So that theoretically the sale takes place abroad, and the purchase here; is that what you mean?—Up to the present we have accepted the view that the profits arising from canvassing for orders by a traveller are made at the place of business of his principal, so that if a branch or a regular agency is

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set up, then the profits are made at that place of business—the place where his principal trades in this country. If no such branch or agency is set up, then the non-resident is trading abroad and merely sending over a man to come to terms with the customer.

10,391. That is rather the point to which we have got to direct ourselves?—Yes, as to where the profits are made.

10,395. In this case the goods are sold here?—Yes.

10,396. From a business controlled abroad?—Yes.

10,397. In one case through an agent and in another case through the traveller?—Yes.

10,398. In one case, at present, they are taxed, and in the other case they are not, and what we have to consider is whether that is equitable and whether it is to the advantage of the Revenue?—Yes.

10,399. I do not know that in your paper you express a very clear opinion on that. You give us all the pros and cons very ably, but have you come to any very clear decision in your own mind on that main point?—The only conclusion I have come to personally is that shown by my paper, namely, that it is so part of my intention to press for an extension of the area of tax at present; I am not expressing an opinion in that connection at all.

10,400. Chairman: Are not you going to express an opinion on the difference between a traveller and an agent, because the traveller is taking the place of the agent? Because the agent is taxed they now send travellers. Are not you going to say that the Inland Revenue suggest that they should be treated alike?—I am not suggesting that for the Inland Revenue.

10,401. But do you not think it is right that it should be so?—It is really a question which we have not gone into to that extent; we are taken up at the present moment with trying to carry out the Act as it exists. It has not really been thoroughly carried out yet. We have not had time.

10,402. Mr. Petyman: We are not here so much to consider the Act as it exists as to consider how the Act may be altered. What we want to get at is the question of principle, and the question of balance of advantage and disadvantage. We have got this very clear case that the foreigner is selling his goods here in one case through an agent and in another case through a traveller?—Yes.

10,403. You give us all the consequences of that very clearly and very ably, and you have been studying under the existing law how much tax you can equitably obtain—that is under the existing law as interpreted by the Courts. Our point is, taking your very clear explanation of what happens now under the existing law, are we going to suggest any alteration of it? Would you not assent to this proposition, that there is really no difference in principle whatever whether the foreigner sells through an agent or through a traveller, and that either both of them or neither of them should be taxed?—My answer really is, as I said before, that I see no objection in theory to taxing the sales through the traveller. But I do see several objections from the point of view of an Income Tax; I think it will become almost an import duty.

10,404. Is that in itself an objection, necessarily?—That is, of course, a tariff question really.

10,405. It becomes an import duty if you tax the turnover?—Yes; that is why I hesitate about the whole thing. I think that this tends to become a tax on turnover.

10,406. Why is it more or less a tax on turnover when you tax an agent or when you tax through a traveller; what is the difference?—It is a little further in that direction. In taxing through the agent we shall still try our best to get at the actual profit made. We are not pressing to apply a fixed percentage all round, and I should not like to express an opinion that that would be right. We try to get at the cases which really make profits, and as long as we charge Income Tax in those cases which make profits and do not charge Income Tax in those cases which do not make profits, I think we

are keeping well within Income Tax theory, and in my opinion that tax cannot normally be passed on to the consumer.

10,407. At present that can be done when the sale is through an agent?—Yes.

10,408. Would it not be possible by licensing travellers still to maintain that and tax the business done through the travellers; what is the essential difference?—I do not think there is any essential difference really.

10,409. Could not some scheme be devised for doing it and still maintain that dividing line, which I agree is an important one? The difference between an import duty and Income Tax is that one is charged on profits and the other is charged on turnover?—Yes; it bristles with difficulties, I think. I should like to see a tax paid on every profitable sale in this country, if it could be done; I am quite in sympathy with that.

10,410. There is a tax now on every profitable sale where the seller is within the ambit of the Income Tax?—Yes, with this exception, as you say—these people who come from abroad.

10,411. Yes. It does not seem right or fair that where all sales are taxed where the seller is within the Income Tax, those people alone should escape; and does not the present rate of Income Tax make that difference of enormously greater importance than it used to be?—Might I say here that if it is proposed to tax the traveller I presume you would have to deal with the broker and the general commission agent?

10,412. Certainly; I only used traveller for short; I include the broker?—I think we are getting on to very doubtful ground if we are going back on the decision of 1915 and try to tax the broker, because the exemption of brokers was specially introduced, or confirmed at that time because of the serious objections brought forward by the produce people of London, I think. Rule No. 10, I think it is, was the answer to the danger to the consignment trade of London. I am now going rather outside the function of a mere taxing official.

10,413. We want you to do that?—I think the consignment trade of London was rather feeling itself in danger, so Rule 10 was specially introduced to guard them from any attacks from our Department. Then there was another danger, and that was the danger of the entrepôt trade, popularly speaking. I do not know how far the entrepôt trade really goes in practice, but Rule 11 was introduced to guard against the particular danger to that trade. That is, all trade which comes to this country in order to go abroad should be relieved.

10,414. Is not that already done by drawbacks?—By drawbacks of import duty?

10,415. No, by drawbacks of Income Tax. With regard to any trade which passes through this country in that way, surely if any tax is paid upon it it is returned?—Oh, no; there is no provision known to me to that effect.

10,416. Under this new interpretation of the Act of 1915, where the trading profits of foreign companies are liable to tax, if it is proved that the goods are not sold in this country and only passed through this country, they are not taxed, are they?—I think you are referring to the very Rule that I am dealing with.

10,417. I know there is something of that kind?—They are not assessed on those profits. They do not get a drawback—they are not assessed. If I might just finish that, I think the danger to the consignment trade and to the entrepôt trade ought still to be borne in mind, and the evidence which you have had before you from eminent business people who can speak as to that; consequently from an Income Tax point of view I should say that before the tax is extended—and any extension it seems to me must touch those people—you have to consider whether it would bring in more revenue, which is exceedingly doubtful, or whether it would drive away a very important section of British trade.

10,418. Two methods have been suggested so far; one of taxing turnover, which you have referred to as approximating towards an import duty?—Yes.

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10,419. And the other of identifying the profits, whether made by a broker or a traveller, just as you do in the case of an agent?—Yes.

10,420. There is a third possible method—I do not know whether you have considered it at all—which would be to make the purchaser of the goods sold by a foreigner, through a broker or by a traveller, pay some percentage as duty and deduct it from the price?

—Yes, I have considered that, but I look upon any device of that kind as a device of the nature of an import duty, and I think it would find its way to the consumer. I do not think we should be taxing what we wanted to tax—the profits of the trade.

10,421. That is the main difference, that where you tax the sale by the import it can be passed on in the price?—Yes.

10,422. Where you merely tax the profit it cannot be?—That is so.

10,423. *Dr. Stamp:* From the point of view of practicability and the difference between dealing with those resident agents which you are already empowered to deal with under the legislation of 1915, and mere travellers, I take it you divide the practical difficulties up into two or perhaps three; first, the getting hold of somebody to assess in a recognized place; secondly, the even greater difficulty that a traveller might have in telling you what the total profits of his principals were; and thirdly, the difficulty of recovering the duty. Taking the second, do you think that there is any very great difference between travellers for foreign principals and resident agents, in the ability to tell you what the true profits are? Would you have a greater percentage of cases where you are driven on to turnover?—Yes, I certainly think so. I think you would be much more forced to take turnover in those cases than in the agency cases.

10,424. Therefore you are getting still further into the region of relative impracticability with the traveller than you are with the recognized agent, or even with the resident broker?—Yes; impracticability from the Income Tax point of view.

10,425. To tell you what the profits are?—Yes.

10,426. To come to the third type of impracticability, when you have made your assessment, assuming you can make your assessment on the amount of profit that has been returned to you, there is the difficulty of recovery. Do you see any greater difficulty in getting hold of the traveller—by reason of the fact that travellers change, or take different areas after you have made your assessment—than you would have with the sole person who has a definite location in this country, and is a recognized institution?—One could get over that difficulty, I take it; I have considered that. You could get over that difficulty by a system of bonds. The traveller would not be allowed to sell in this country until he had given surety for the tax. You would have to be rather autocratic about that, I think. You would have to say that no foreigner could sell goods in this country until he had registered an agent who should pay the tax for him when it was due.

10,427. Therefore, although it appears that there is a very fine line of distinction, when you come to handle the thing in practice you do find that you want more powerful machinery or new regulations, which seem to show that you have reached at present something like the recognized limit of practicability under the ordinary methods?—I am inclined to think so.

10,428. Both from the point of view of computing the profit and also of getting your assessment effectively handled by the Revenue?—Yes.

10,429. While there may be no difference in theory between the case of sale through agents and sale through travellers, is there not in the mind of the foreign principal some actual difference? Would he not find, generally speaking, in most classes of business, that, apart from the question of taxation, he would be likely to have a better standing in this country if he had that class of person with whom you are now dealing, the recognized agent? Supposing he were weighing the pros and cons in his own mind of

the two classes of business, is not there something distinct about a person recognized here to whom a customer can go, and not merely be approached by, that you do not get in the case of a traveller?—Yes, I think so; and I think we can more reasonably say to the foreigner who has an agent here: "you are trading in this country."

10,430. The tendency of the questioning this morning has been rather, I think, to urge the identity of the two cases, whereas it would be possible, I think, even in the mind of the foreign principal to distinguish them and say they are not quite the same case, the case of the recognised agent with whom we are dealing and the case of the system of travellers, and that there is a point at which in practice it is logical to stop?—Quite. As soon as you have dealt with the traveller you would get on to the selling by advertisements and by circulating.

10,431. Once you pass that point there is no reason why you should stop there?—I agree.

10,432. Would it be the opinion, do you think, of your Department that the legislation of 1915 has on the whole reached the limit of practicability as an Income Tax?—I am not exactly authorized to say that that is their considered opinion, but they are not asking for an extension of the liability.

10,433. Are they, on the other hand, asking for a restriction of the liability?—No, they are not. They think the present scope is none too wide.

10,434. But tacitly, by not asking for more, one rather infers that the suggestion is that they regard this as on the whole the best limit?—I think you may take it, for the time being anyhow, that they think this is a very good limit, and they think this is the limit of the original scope of the Income Tax Acts, but if it is considered for other reasons of policy that it should be carried further, a new set of principles will come along.

10,435. Which will be rather foreign to the existing Income Tax Acts?—Yes.

10,436. Could you give us any idea as to the proportion of cases dealt with under the Act of 1915, that were brought in by that Act, in which there will be produced reasonable accounts of profits, and the proportion on the other hand which will have to be dealt with by way of turnover?—I am afraid not.

10,437. You have not sufficient material available?—We have not sufficient material even to get out such statistics, because we have not got the majority of these people in the assessment books yet; they are still not there. We are pursuing inquiries, and we have only just been able to take them up, because we have been quite unable to cope with it during the war time.

10,438. I take it that of the original ones who have accounts it would be of no avail to them in later years to say: "we cannot keep accounts any longer; you must assess us on a turnover basis"; but on the other hand the people who at present are assessed on a turnover basis might in future adopt accounts if they thought they were more favourable?—Yes.

10,439. Therefore the whole tendency of this legislation will be to play into their hands?—Which legislation are you speaking of?

10,440. Legislation that compels you to handle it by turnover. People who find they are paying more through the turnover method than they think they would pay if they had some means of showing the separate profits will now set about to see "as they can keep accounts in order to show a smaller liability?"—Yes. I think you may take it that they will only pay on turnover so long as they think it pays them.

10,441. They have got an option, and therefore it will always be against the Revenue?—Yes.

10,442. *Mr. Prestyn:* Is it not your practice in the case of British firms or traders liable to Income Tax when they do not render proper accounts, and when you are rather doubtful as to what the tax ought to be, to assess them on an arbitrary sum, leaving it to them to prove that their actual profits are less if they like to do so?—The Commissioners in each district have the duty of fixing the assessment, and if they have no proper return or are advised by the Crown Surveyor that he has no accounts, they will perhaps put an estimate upon the business.

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10,443. And then it is up to the trader to show what his actual profits are if they are less?—Yes.

10,444. If he tacitly accepts the estimate and pays, the presumption is that he makes more?—Yes.

10,445. Is it not the practice, then, to put it up a little higher still, until you do get accounts?—In an important business, of course, one would not go on like that. One would mark the case "This man pays on so many thousands of pounds without question," and one would approach him and ask him for his accounts.

10,446. But would it not be possible, without going on to a percentage on sales, to treat the traveller or the broker in respect of foreign business on that same principle—to ask the Commissioners to assess him on a certain lump sum, and leave it to him to prove if he could that he had not made so much profit?—Yes; you might assess him on anything.

10,447. Could not that be tried?—Then when he comes in with such figures as he can get, what are you going to do with him?

10,448. *Chairman:* But you do assess in that way. You assess some agents on that basis. They will not show you any profit, and you assess them on turnover?—We assess them on an estimated percentage.

10,449. On turnover?—On turnover.

10,450. *Mr. Freyman:* Could it not be done upon estimated profit instead of calling it turnover?—If they do not give us any help whatever—if they will not even say what their turnover is—of course we assess them on a round figure.

10,451. *Chairman:* With regard to the point that Dr. Stamp was putting to you between the traveller and the agent, you can carry that out, cannot you; there is no difficulty, because the traveller is simply now the name for the agent?—The agent whom we have in mind is something more than a traveller.

10,452. What they are doing now is this. They find that you are getting hold of the agent, and are going to tax him, and they get a traveller who just carries out the same work as the agent had done. Cannot you deal with the traveller as you have done with the agent?—Yes, it can be done, of course. You can assess him, but I agree with what Dr. Stamp says about the limits of practicability with regard to this; I think we are approaching them, anyhow.

10,453. You are losing revenue by the agent being changed to a traveller?—Yes.

10,454. We want to stop that, you see?—Well, of course I have said in my paper that it might be necessary to stop that by some drastic step, such as registration of travellers, or something of that sort.

10,455. Then you would have to alter that clause by which the broker is at present excluded. If you do not, the agent will be changed to traveller, and then if you get the traveller the traveller will be changed to broker?—Yes.

10,456. The travellers will call themselves brokers?—Yes; in this way of course a serious question arises for the Royal Commission.

10,457. That is the point, and that is the reason we attach great value to your paper, because it is a serious point for the Commission to deal with, and that is the reason we are pressing very closely our examination this morning?—I am now speaking personally, and my view is that for the time being anyhow we have reached what we think is the limit of the true and original Income Tax.

10,458. In same; but when your taxable person changes from one name to another for evasion, cannot you still follow that through?—Yes, but if we are to follow him across this morass of changing from agent to traveller and from traveller to broker, there are very important points involved, and we may get up to the neck.

10,459. I wish you would explain how you would get up to the neck; I do not see that, really?—Of course, as regards practicability, Dr. Stamp was referring just now to the difference in the foreigner's mind, or in the non-resident's mind. I do attach weight to that when I am dealing with a non-resident now. I may say: "Well, you have set up an agency in this country; that agency is affording facilities

almost equal to those of a branch; that is a fair subject of taxation," and he has to agree that if we are out to tax such profits it is fair, although he wants to escape. But if we say, "Now you have given up your agent, but you send over a man so many times a year and sell goods, and we are going to tax you for that," he would then think that is going a long way further. The next thing is that the principal himself—I dare say you have had this before you—will come over once a year and look up his customers.

10,460. Yes?—And normally he will correspond with them.

10,461. Supposing that the bulk of his profit is made by advertising and by goodwill in this country, why should not the principal have to pay Income Tax on the profit made in this country, because it has arisen from this country?—If you carry it to that, I agree, why should not he be charged?

10,462. Do you agree that that is the right thing to do?—I will express my agreement in principle that if you can get a tax on every profitable sale in this country it is quite sound, but I am afraid it will not be an Income Tax.

10,463. *Sir J. Harwood-Baxter:* Has your attention been called to the American law on this subject, whereby every importer has at once to declare himself and undertake to pay an Income Tax on his imports?—I am not aware of that clause of the American Act about the importers. I am told that they have an Act which is very far-reaching, and that it will lead to a lot of interpretation in the Courts as our old Acts have done, and they have a phrase very much like our "exercising a trade within the United Kingdom" in their Act, which will need to be interpreted, no doubt.

10,464. For instance, an importer of coffee from Brazil—I take that because it is a specific case given—is at once called upon by the authorities in the United States to declare himself as the person who will be responsible for the Income Tax on that import?—That, I take it, is quite a new departure over there?

10,465. Yes, and I have no doubt that there will be many difficulties of interpretation. It is absolutely clear from that that every importer must at once become responsible for Income Tax on the profits of that import?—Yes; that is quite on the lines on which the Chairman was speaking.

10,466. *Mr. Walker Clark:* Is there not a difference in the class of business done between the traveller, the agent and the broker?—There is not always a difference between the traveller and the agent in the class of business done. The broker acts rather differently. A broker does not handle the goods at all. He brings the buyer and seller together on that particular transaction, and then his job is over.

10,467. It is an accidental purchaser of special goods?—Yes.

10,468. A specific transaction?—Yes.

10,469. Is there not a difference between the traveller and the agent—an equally marked difference? My experience is that the foreign agent sells, as a rule, the entire produce to a willing purchaser, but the foreign traveller, to use a phrase which is generally understood, dumps goods here—sells the surplus products rather than the average run of products: is not that your experience?—No, I cannot say that it is. I think both the traveller and the agent very often do the same kind of work. They go about seeking to enlarge the sales of their principals and getting orders.

10,470. I notice you said that a small proportion of agents are taxed in the assessment?—Yes.

10,471. And that you consider the scope of the present law fair and reasonable?—As far as it goes it certainly is fair and reasonable.

10,472. And that any further extension of the present law would bring us into the nature of a tariff of some sort or other?—The tendency of any extension of the present law in this way would be towards something in the nature of an import duty.

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10,473. *Mr. Mackinder:* One question upon that point. I take it that what you are putting to us is that we have got to have regard to two difficulties, on the one hand and on the other. On the one side you have what you call a morass; that is to say, we are involved in all kinds of difficulties, if we attempt to press the Income Tax further?—Yes.

10,474. —and on the other hand you will admit, I take it, that if you maintain your present rule its tendency would be, with high taxation, to drive the foreigner to sell by traveller rather than by agent?—Yes.

10,475. And so escape taxation?—Yes; there is a tendency in that direction.

10,476. And with high taxation there would be a stronger tendency?—Yes.

10,477. I do not want to go into the question of practicability; I want to keep to the question of principle, because your Department somehow or other has got over many difficulties where practicability is involved. You draw a distinction between the tax as now levied, and the explanation of the tax that has been suggested to you, on the ground that you would be exceeding the original principle of the tax and getting towards a system of tariff; is that the correct way of putting what you have put to us?—That we should be exceeding the view taken of the original principle of the tax as dealing only with businesses that are carried on in this country.

10,478. Let me put it in this way. You say that the tax is a tax on profits, and you are rather against anything in the nature of a tax on turnover?—Because it will not resolve itself into an Income Tax.

10,479. Yes.—I am only speaking from the Income Tax point of view.

10,480. Quite so. Is not that the fundamental difference? If you impose a licence duty on your traveller based on turnover, would not that be based on what I may call compounded profits—average profits?—Yes, the average profits of the whole trade, regardless, of course, of whether the individual was making a profit or not.

10,481. Quite so. It would be the average profits of the whole trading upon which you would base your licence duty on turnover?—Yes.

10,482. I think from a phrase you used, you dislike this tax on turnover, because I think you suggested that there would be a tendency for the tax to find its way to the consumer?—Yes.

10,483. Do you suggest that a tax on profits on the average does not find its way to the consumer at the present time?—I do.

10,484. Do you suggest that one of the costs in the article which is sold to the consumer is not average profit?—Average profit or average tax?

10,485. Well, if it is a tax on profits, that is included. The profit includes the tax?—Yes, quite so. The trader is trying to get as much profit as possible, but if you put a tax on that profit, it does not automatically enable him to get a higher gross profit in order to pay the tax.

10,486. Does it automatically help him to get a higher gross profit if you impose a duty on turnover?—Yes, because you make every trader pay that; all the goods will pay that, and that will enter into the cost of production or the cost of sale.

10,487. But if he is dumping, and he is up against another cost of production of goods from another source?—If he is dumping, of course he is selling regardless of cost.

10,488. Let me put it to you in another way. In the case of your agents, you are going to assess them on the profits of selling here?—Yes.

10,489. How are you going to estimate the profits of selling here in the case of a firm which sells at one profit in its own country, we will say, and sells at another profit here, and regards its total profits as made at all these very varying rates of profit; how are you going to say how much is the true profit made in respect of this market?—That is of course the difficulty which has led to this Rule 3, which enables the taxing authority to put a percentage on the trade; but that is the first breach that has been made in the Income Tax habit of getting at the real profits.

10,490. I suggest to you that the upshot of that is that there is no such fundamental difference as you are suggesting, and therefore no over-stepping of the original idea, but I recognize fully the question of practicability, which I have not gone into?—You do not agree with me about the tax on a general turnover finding its way to the consumer, I take it?

10,491. Any more than in other cases; it may or may not?—Of course, but my view is that as regards Income Tax, Income Tax only enters into the expenses of the man who makes a profit.

10,492. I will not press the thing further. My suggestion to you is that your answers to those points were rather due to preconceived ideas?—I hope not.

10,493. *Mr. McLintock:* The complaint by the agent in this country, I suppose, is not to relieve his foreign principal, but to relieve himself of a difficulty?—Yes, I think so.

10,494. You admit it is a difficulty?—Yes.

10,495. In asking a man with no capital, merely an agent, to pay £5,000 or £6,000 of Income Tax?—It is a difficulty, because it interferes perhaps with his relations with his principal.

10,496. It worries him a good deal?—As far as finding the money is concerned, of course; when this thing shakes down on an agent will not pay it out of his own pocket; that would be absurd.

10,497. He cannot?—He cannot. He must make such arrangements with his principal that he gets the money without difficulty.

10,498. Do you think, if we take a firm stand, the non-resident trader in this country will pay up in the end?—Yes.

10,499. He is using his agent for the present merely to voice his objection to paying tax such as other people pay?—Certainly. I have had recent experience of these cases. One agent told me that he was certain he would lose his whole business. I was very sympathetic with him, of course. He went away ahead, and saw his principal, and came back quite happy. He said: "I have found out how important I am. Instead of losing my agency, the business in London will be turned into a full branch, and I shall run the whole thing."

10,500. As against that here is a foreign agency—I had a letter last week—where the foreign principal has withdrawn the agency, and he says: "You can only have my goods if you will buy them as a merchant"—That man wants reasoning with.

10,501. The people in this country want these goods; but he can sell them elsewhere; that is the point?—Yes.

10,502. He says: "I prefer to do business with this country, with you as my agent. I give you the goods for the full price or the price I may fix, and I give you a commission; but if you cannot do my business in that way I will only give you my goods if you buy them outright from me." I asked this party what was the result. They have plenty of capital, and they said: "We have to buy his goods or lose the business, as we have always been agents, but the profit we are getting on the goods is just practically our commission that we formerly got and returned for taxation?"—Really, I should have said that in the average case the agents who consent to buy the goods would undoubtedly receive a higher commission.

10,503. Not a commission?—A higher profit.

10,504. Gross profit?—A higher gross profit.

10,505. But he will have to pay all his own outgoings. Do you know that the average agent debits his foreign principal with a great many charges as direct charges of handling and selling his goods, and he gets his commission net in his pocket as profit; and on that he pays tax?—Not always.

10,506. Not always, but that is a common method?—The most common method that I have come into contact with is the agent bearing nearly all his own expenses. Sometimes he gets an allowance as rent; sometimes he will get an extra allowance for employing a traveller, or something extra.

10,507. The point is this. After all, we are out for revenue in this country?—Yes, I am afraid we are.

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10,508. And we are apt to lose sight of the consumer, are we not, occasionally; and the effect of putting these taxes on is that he pays directly without any relation to profit at all?—Yes.

10,509. With the bare agent at present, those people you have been assessing in the past, you merely assess the agent for his commission, and on that he has paid tax. You are now seeking to get at his foreign principal so that he should pay on some additional sum as being a merchant's profit. If he takes away the agency and sends travellers, will you get any tax at all?—I do not quite like your way of putting what we are now doing. The fact is, we have been taxing agencies since 1842. A number of those agencies have been paying tax regularly; other cases would be branches which have also paid tax regularly.

10,510. I agree?—If you are going to exempt those agencies, of course, that will spread, and be very objectionable; you will have to exempt the branches or else they will turn themselves into agencies.

10,511. You are aware that a man may be an agent for one principal who is taxed to the Revenue, and who gets an assessment notice on the foreign principal, and he may have two or three other agencies for other foreign principals who are never assessed?—That may be so at present.

10,512. That is part of the trouble; you are not getting everybody into the net?—Yes. I think I ought to say to the Commission that although I cannot speak for my Department in this, I think possibly a system of registration will meet that difficulty. At present we are largely in the hands of chance information. We perhaps ask the agents who are known what are the names and addresses of their foreign principals.

10,513. Or a competitor gives them away?—Or a competitor gives them away; but that is very objectionable, really. I get a list sent to me. A man says, "Look here, you make me pay. Here is a list of all the other agents who are doing the same trade." I do not like that sort of thing. It would be very much better if you could enforce the registration of these people so that they could be dealt with properly. They do not put their names into the directory; they do not put their plates up; there is no sign whatever for the local Assessor that they are in business in this country.

10,514. You have no fear that in the end the Revenue may lose money as compared with the existing practice by driving foreign traders to abolish their agents and send their own travellers?—I do not think we shall lose money by insisting on the regular agencies paying tax.

10,515. It would help very much, would it not, to get the tax accepted more readily by the foreign manufacturer, say that he should get what he thinks is a better interpretation of what is merchant's profit as distinct from a manufacturer's; is not that a great part of the difficulty at present?—Yes; I do not think they fully recognize the fact that we are willing to make very decent terms with them about merchant's profits. Really the case that you mentioned a little while ago of the man who told his agent that he would give up the agency unless he bought the goods outright is not going to save the tax for the foreigner. He is going to get less money than he did before. The agent is not going to pay him the same price that the customers in London pay.

10,516. The agent tells me that in effect his own profits as a merchant practically amount to the same money as his net commission formerly came to. It means that the Revenue get no more?—Yes, that is quite possible, of course.

10,517. You agree also there is a very great difficulty in getting the foreigner who can only produce his accounts as a whole to produce accounts as a merchant?—That is one of the difficulties.

10,518. Is not that one of the difficulties of administration in the Revenue? It depends on the sort of attitude you adopt to the foreign trader how far he will pay this tax gladly?—Yes; it is largely a matter of administration.

10,519. And you have no fixed principles for arriving at a merchant's profit, say in France or Belgium or elsewhere?—The fixed principles are there, but the difficulty is the practice, of course.

10,520. You have no fixed principles?—In practice we try to compare the data of a similar British case to see what the normal rate of profit is in that particular trade.

10,521. That is hardly fair, is it, if he is getting a high price in his own country and a large profit, and is selling at a keen price in this country in order to get the trade? I suggest to you that part of the difficulty, so far as the foreign trader is concerned, will be got over if he finds he is getting a fair deal, as I think on the whole he will get, from the Inland Revenue, if he will produce his accounts and show his profits as a whole. Do you not think that would get over a good deal of the difficulty?—That is what we are trying to do.

10,522. Your view is that he should be encouraged to produce these accounts rather than that the existing Income Tax should be altered?—Yes.

10,523. Sir J. Harwood-Baxter: With regard to paragraphs 33 and 34, Mr. McIntock asked the question whether you were not out for revenue only. Is it not very much a question, as you broadly put it here, between the British resident concerns (manufacturing or buying raw material abroad for use or sale in this country, even including profits of foreign manufacture and importation) and the shipping merchants, banking, insurance and manufacturing industries who may have their trade affected if goods are diverted from this market? Is not this question very much a question between the British resident manufacturer and the shipping and merchants' interests who are afraid that their interests would be affected by any legislation dealing with this question?—I take it you mean that we have to consider more important points than the mere question of how much tax we are getting?

10,524. Yes. I want to know whether you consider the point for revenue only, or whether you consider the point of fair dealing between the manufacturing and mercantile interests in this country and the shipping merchants, banking and insurance and other interests who, you say, complain that they will be affected by any legislation?—I think the Royal Commission will of course take those matters into their mind in deciding these points. Of course, as representing the Revenue it is our business to think of the Income Tax, and how much Income Tax we can get by adopting various expedients, but I have brought out here the things that we are all very interested in.

10,525. Yes, you have most fairly brought it out, and that is what I really wanted, that you as the Revenue, looked upon it for Revenue purposes only, and you have not looked upon it as to fair dealing between the manufacturing interests and the merchants' interests of this country which they say will be affected by the legislation?—I suppose that that was one of the chief causes of the legislation of 1915, because up to that time we had had constant complaints from British traders as to the unfairness of letting the non-resident people escape the tax, and that was why legislation was introduced in 1915, to bring the machinery of the old taxing Acts a little more up-to-date. But I want very distinctly to emphasize that in my opinion, and departmentally also, the scope of the Income Tax has not been changed, that the tax included the taxation of agencies, but it failed of its purpose because there was not sufficient machinery at that time, and owing to these numerous complaints constantly coming to us, the machinery was improved in 1915, and now I think the tax as it stands tends to get all the people within the net who were originally intended to be there.

10,526. In paragraph 30 you give us suggestions whereby the extension of the principle can be made by registration or licence?—Yes; that may be considered necessary by the Royal Commission or by Parliament at a later date if this tax becomes evaded to a great extent.

10,527. Chairman: Thank you for coming and helping us.

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SIR LEO CHIOZZA MONNEY.

[Continued.]

SIR LEO CHIOZZA MONNEY, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Précis of evidence of Sir Leo Chiozza Monney, Author of "Riches and Poverty," "The Nation's Wealth," &c.; late Parliamentary Secretary to the Ministry of Shipping.

10,528. The witness gave evidence before the 1906 Select Committee on the Income Tax, the Chairman of which was the late Sir Charles Dilke. His then recently published book, "Riches and Poverty," and the estimates of national income contained in that book, were put before the Committee by Sir Henry Primrose and by the author. He was in close touch with Sir Charles Dilke throughout the proceedings, and at the close of the evidence handed in a Paper which is printed as Appendix Number 14 of the Report of November 29th, 1906 (Parliamentary Paper No. 365 of that year). He would like to direct attention to that Paper now, as much of it, in his opinion, stands good.

(A) The national income.

10,529. (1) It is submitted that the extent and distribution of the national income must now, as in 1906, largely influence our judgment in the matter of the Income Tax. The incidence of the tax must have due relation to what I called in "Riches and Poverty" the "error of distribution," which apparently remains as great to-day as when I discussed it in "Riches and Poverty." That book estimated the aggregate income of the 43,000,000 people of the United Kingdom as approximately £1,710,000,000, of which

	Million £.
1½ million persons were estimated to take ...	585
32 " " " " " " " "	245
38 " " " " " " " "	880
	<hr/> £1,710

Thus about one-half of the national income was enjoyed by about 5,000,000 persons. As to the manual workers, their share of the entire income was about one-third, and as, with their dependants, they formed about two-thirds of the community, it followed that two-thirds of the entire nation existed on about one-third of its income. These figures had a very great and proper influence upon opinion. In 1915 the national income had advanced to about 2,200 millions, and the distribution remained very much the same in character as in 1906. Still, it remained true that the manual workers formed about two-thirds of the nation and drew about one-third of the aggregate income.

10,530. (2) Material does not exist for a computation of the post-war national income of which one can speak with as much confidence. I have seen such exaggerated statements made, however, that I think it well to put on paper a rough but not unreasonable estimate. It is as follows:

Rough estimate of the national income, 1920.

	Mill. of £
(a) The "Taxable Income" of 1918-19 was 1,970	
(b) Of this about 400 millions was the income of manual workers ...	400
(c) Leaving us the aggregate of incomes over £130 and of other than manual workers ...	1,570
(d) But the amounts of income collected as "Excess Profit" Duty is deducted from profits as an expense of business, and has to be added here. It was probably not less than (actual receipts in 1918-19 = 285 millions) ...	350
(e) There is little doubt that there is serious evasion of the Excess Profits Duty. I add 20 per cent. on this account ...	70
Making ...	<hr/> 1,990

	Mill. of £
(f) The averaging system diminished the assessed income of 1918-19 by at least 150	
	<hr/> 2,140
(g) Evasion and avoidance account probably for an under-assessment of ...	100
(h) Aggregate of incomes over £130 per annum, excluding manual workers ...	2,240
(i) Allow for a reduction of 5 per cent. of income in 1920 ...	110
	<hr/> 2,130
(j) Incomes of manual workers (including the taxed income) ...	1,200
(k) Incomes under £130, but not manual workers ...	250
(l) Rough estimate of national income in 1920 ...	<hr/> 3,640

There is admittedly room for considerable difference of opinion as to some of the items in this estimate, but I do not think it is misleading as to the main facts of the situation. I point out that the estimate is dated 1920, and assumes that by the end of this year the fighting forces will have been reduced to something approaching a peace footing. Upon these approximations the income of the manual workers still remains a very unsatisfactory part of the aggregate income.

10,531. (3) A statement as to the distribution of "Taxable Income, Allowances, &c., among Taxpayers" has been officially furnished to the Commission and also published as a Parliamentary White Paper, Cmd 224 of 1919. [See App. No. 11.] This statement, of course, does not purport to be an estimate of the distribution of the real incomes of the Income Tax and Super-tax payers, but I fear that it may be accepted as that.

It has to be remembered that taxable income is much less than true income owing to the averaging system, evasion, and avoidance.

Moreover, the Excess Profits Duty is an Income Tax, although it is not called that. It is an Income Tax deducted at the source, and does not appear in the official tables of gross income reviewed. This fact vitiates all the income statements and shows how the use of arbitrary terms may seriously influence estimates.

10,532. (4) As shown by the Financial Statement 1919-20, White Paper 88 of 1919, the actual receipts from Excess Profits Duty, &c., in the financial year 1918-19 were 285 millions, but there is great lag in collection, and this sum is an under-estimate of the real amount of income cut off at the source as excess. I submit the following table as supplementary to the tables of Income Tax and Super-tax of the White Paper Cmd. 224:—

	Million £.
Grand Total "Taxable Income" ...	1,970
Add:	
(a) Excess Profit Income (items d and e of Table in par. 2) ...	420
(b) Under-assessment through averaging, evasion and avoidance (items f and g of Table in par. 2) ...	250
	<hr/> 2,640
Net Produce of Income Tax and Super-tax ...	338
Add Excess Profits Duty (really Income Tax) ...	350
	<hr/> 688
Net Income after payment of Income Tax, Super-tax and Excess Profits Duty ...	1,952

According to this estimate, and only a very small part of it can be questioned, the real income of the Income Tax payers in 1918-19, as distinguished from their "taxable income," was 2,640 millions.

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[Continued.]

Of this 2,640 millions, 338 millions was taken as Income Tax and Super-tax, and a further virtual Income Tax termed Excess Profits Duty, cut off another 350 millions at the source, making a total collection of Income Tax of 688 millions.

This left the aggregate income of persons with incomes over £130 a year at the figure of 1,952 millions in 1918-19.

That is to say, the virtual Income Tax expressed as a flat rate was no more than about 3s. 9d. in the £.*

10,533. (5) These considerations, I venture to submit, have a most important bearing upon the Commissioners' inquiries. The Excess Profits Duty has just been reduced from 80 per cent. to 40 per cent., which means that a very large reduction was made in the real Income Tax of the well-to-do classes. At a time when we hear so much about the crushing burdens of taxation it is well to keep clearly in mind that our real rates of Income Tax are very different things from the nominal rates of which we hear so much.

10,534. (6) In this connection I should like to remind the Commission of the now demonstrated truth of what I submitted to the Select Committee on Income Tax in 1906. I quote from paragraph 7 of my memorandum of that date:—

"I should like to touch upon the two oft-repeated assertions (1) that the Income Tax is our 'only war reserve,' and (2) that this 'war reserve' has been already seriously tampered with. What are the facts? In the fiscal year 1906-7 the revenue from Income Tax is but £31,000,000. The net income of the Income Tax paying classes is not less than £380,000,000 net. After payment of Income Tax, therefore, their income is reduced as nearly as possible to £349,000,000. . . . The 'war reserve,' if that phrase has any meaning at all, surely means the reserve taxable capacity of the nation. That taxable capacity, so far from decreasing, has greatly grown, and was never larger than it is now. The present Income Tax to which such terms as 'oppressive,' 'iniquitous,' and 'intolerable' are so freely applied, takes but about 3 per cent. of the net income of the Income Tax paying classes. I think that fact supplies an answer to the question whether the present Income Tax, with an average incidence of 3 per cent., is either a 'burden on trade' or a danger to our 'war reserve,' to beg the question whether that can be called a 'reserve' which, as I have already indicated, is the only fund from which taxes can be drawn, whether directly or indirectly. It is true that every pennyworth of revenue raised makes it more difficult to get another pennyworth, but the 'reserve,' tapped by 'Income Tax,' is the same 'reserve' which is taxed by the beer duty or the tobacco duty, or the dog and gun license duties."

10,535. (7) Before the war over a year passed but I heard men rise in the House of Commons to declare that when war came we should be unable to find funds for it because of the high rate of Income Tax that was being paid in peace. The war has sufficiently proved who was right in that matter. Now, again, as was to be expected, we have the cry raised that we shall be unable to afford, because of the added burden of the war, highly necessary social expenditure, and it is represented that it would be "economy" to cut down the cost of many essential national functions. I therefore take this opportunity to repeat the protest which I made in 1906. The current talk about "ruin" is of the same value as that of those who declared in lurid terms that we were on the brink of ruin in 1913.

(B) The exemption limit.

10,536. (8) The lowering of the exemption limit during the war and the quarterly assessment to Income Tax have been greatly resented by the weekly wage-earners, and I think with good reason.

* The witness desires to amend this sentence so as to read as follows:—"That is to say the virtual Income Tax expressed as a flat rate on the whole income of the country was no more than about 3s. 9d. in the £, and expressed as a flat rate over the incomes of those with over £130 a year, is 2s. in the £."

As to merits, the rise in the cost of living has been such as would raise the old exemption limit of £160 a year to more than twice that sum if we desired to maintain the real effect of the old exemption limit. The claim that is made that the exemption limit should be raised from £130 to £250, therefore, is a very moderate one, for it leaves the small taxpayer worse off relatively than before the war.

As to expediency, I do not think it is worth while to maintain the low exemption limit. It must cause a very large amount of trouble, and the result to the Exchequer is comparatively small. The official figures show that in 1918-19 the amount of Income Tax collected on incomes not exceeding £250 a year was £7,896,000. It is therefore shown that the raising of the exemption limit from £160 to £130, with all the consequent friction and discontent, yielded only £1,683,000 to the Exchequer. This while the House of Commons refused to give the officials such a proper power of investigation in respect of the Excess Profits Duty as might have given the State fifty times this sum.

10,537. (9) On this matter of the exemption limit, I desire to add something on the side of economic theory.

It is too often forgotten that a citizen's contribution to the State is not alone to be measured by what he pays in taxes. The doctrine of equal sacrifice, if it is to have any real meaning, must be considered not merely in respect of what a man pays in tax to his country, but what he does in work for his country.

It is because this all-important consideration is so often neglected that we get fanciful propositions for the taxation of wages, either irrespective of their rise altogether, as one ex-member of the House of Commons would have it, or with some small exemption limit. A true valuation of the personal contribution of each citizen to the State, as a whole, makes short work of such proposals. Compare, for example, the contribution of a seaman, miner, steel worker or carpenter, to the State, with that of a stockbroker, company director, civil engineer, or journalist. The four last-named as a general rule command very much bigger incomes than the four first-named, but who will venture to say that the respective sacrifices made by the eight individuals for their country in time of peace are measured by their respective incomes or that a graduated tax applied to the eight equalises their respective sacrifices?

My contention is that, in view of the dimensions of the national income and its distribution, the work done by those having incomes up to £250 a year represents all that of sacrifice for the Commonwealth can properly be demanded from them, and that any money required to be raised for public purposes should, save in respect of the indirect taxes on alcohol and tobacco, be levied on incomes above that figure.

The unequal treatment of rich and poor in the matter of inquiry into incomes should not escape attention in this connection. We go behind the back of the employee and compel his employer to reveal his wage or salary, which is often his entire income. Yet the Inland Revenue authorities are not given power to investigate the books of Income Tax, Super-tax or Excess Profits Tax payers. The persons who are made inquirers are not themselves subject to inquiry!

(C) The incomes from war fortunes.

10,538. (10) I submit also that the nature of many of the larger incomes which swell the national income is very pertinent to the present enquiry.

If war contractors and others had been content with the not unhandsome profits of peace the cost of the war would have been much smaller, there would have been less need to borrow, and the problem before this Commission would be of a different character.

10,539. (11) If the Commission desires to know the magnitude of the profiteering which has obtained, I venture to refer it to two well-authenticated items out of many that might be given.

The first is the fact which was referred to by the Prime Minister in the House of Commons on August

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18th—that the Costings Department of the Ministry of Munitions, helped by the Socialist manufacture of shells, &c., in National Factories, saved the nation £400,000,000 upon the charges originally made by war contractors. But the Costings Department did not get to work until very commercial operations had taken hundreds of millions from the Exchequer.

The second illustration is that in the first two years of the war the shipowners of this country made a profit of about £200,000,000, or more than twice their pre-war capital.

This rate of profiteering was stemmed by the Ministry of Shipping early in 1917, when the Cabinet gave the order for the complete reorganisation of the mercantile marine at the Blue Book arbitration rates, but not until the cumulative effects of all-round profiteering had made it too late for the State to do what it might have done at the beginning—run the ships at reasonable cost.

I can name a case in which a man who was exceedingly poor in August, 1914, now possesses a great fortune made out of the shipping which was our chief anxiety in the war. While the mercantile marine lost 15,000 sailors through the enemy attack, this man piled up a fortune in six figures; yet he did not possess a ship when the war broke out. Is it right that he should pay no more than a man who acquired the same fortune in thirty years of useful manufacturing in peace?

10,540. (12) The creation of a new rich class by the war is a shame to the nation, and it is within the powers of the Commission to represent to Parliament that no system of Income Tax differentiation which it can propose will touch this subject, and that therefore it is for Parliament to consider whether there should not be a special and heavy levy upon the capital of war fortunes. If this were done it would reduce the National Debt and therefore reduce the Income Tax to be paid by persons who have not made war fortunes.

(D) *The simplification of the Income Tax.*

10,541. (13) The many hands which have worked at different times to reform the Income Tax have done so by a process of detailed amendment which has resulted in extraordinary complications. The Board of Inland Revenue have submitted to the Commission a paper entitled "The existing Income Tax system." [See App. No. 2.] It fills fourteen foolscap pages, and so far from containing redundant matter, is an admirable example of concise statement. It is suggested that the fact that fourteen foolscap pages are needed to treat the subject concisely amounts to a grave criticism of the tax as it is.

10,542. (14) It seems to me abundantly necessary to aim at simplification. The Income Tax is, in my opinion, faulty, and needs amendment, but it is not nearly as bad in its total effect as it appears to the average taxpayer. The prolonged process of cutting bits off and adding bits on has resulted in a series of provisions to obscure that often a taxpayer does not know the rights which he possesses, and deems the tax to be much more unfair than it actually is. The Income Tax is such a valuable instrument that it seems to me a thousand pities that its provisions should not be such as to be easily understood without the study of a complicated document. Although I have for years given a considerable amount of attention to the subject, I confess that I often find myself at sea in the matter, and shall be surprised if I succeed in giving evidence without making some blunders. What, then, must be the position of the average busy man, who has little time for the study of Income Tax documents, and who finds himself assessed by an official who, in his turn, can hardly be expected to be a sort of combined tutor and guardian of the taxpayer? I think the result of all the complications is that some men avail themselves of all their advantages under the law as it stands, while others, from ignorance, do not.

I plead, therefore, as I have pleaded for so long, for a simplified Income Tax charged upon a plain graduated scale and ceiling, therefore, for the application of no abatements save those made in respect of dependants. That is to say, I would sweep away entirely the abatement system as it is used to amend a flat rate of tax.

10,543. (15) It will be remembered that before the Dilke Committee it was urged that graduation was quite inconsistent with taxation at the source. The Dilke Committee fortunately thought otherwise, and subsequent practice has proved that graduation is as practicable as it is fair. I strongly object now, however, as I did in 1906 (see my memorandum of that date, paragraphs 8 and 9) to the levy of a separate Income Tax, called the Super-tax, levied upon a different assessment, especially when it is levied upon a separate and arbitrary assessment which robs the State of a large revenue, and which gives the Super-tax payers the credit of paying a much higher rate than that really imposed upon them.

10,544. (16) If a plainly graduated scale were substituted for the present system, with its abatements at the lower end of the scale, and its Super-tax upon big incomes, we could still, as is desirable, retain collection at the source.

10,545. (17) It would be necessary for each taxpayer to declare his aggregate individual income from all sources, whether taxed "at the source," or not.

10,546. (18) Taxation at the source would be levied in respect of a certain part of the tax, the proportion of which would depend upon the particular scale necessary to produce the sum required. If, for example, the graduated scale ranged up to 10s. in the £, as much as 6s. in the £ might be collected at the source. Then upon the individual declaration of the taxpayer the balance would be paid if the person was taxable at a higher rate than 6s., and a balance would be returnable to him if he proved to be taxable at a lower rate than 6s. This plan would sweep away the separate Super-tax assessment. It would, however, leave intact the evasion of the Super-tax by reason of the fact that joint stock companies put large sums to reserve and afterwards distribute their reserves as shares which do not appear as "income" in individual Super-tax assessments. There is grave loss of tax through non-assessment under this head, so that the rates of Super-tax now charged are nominal, the virtual rates being smaller, because Super-tax is only levied on part of the real income of the well-to-do taxpayers. It is a great misfortune for the nation that at one and the same time Super-tax payers should be avoiding tax and obtaining credit for paying higher rates of taxation, and I deal with this point later.

10,547. (19) The three years' averaging system should be abolished. Every taxpayer should declare in the current financial year the income he received in the last calendar year. That is to say, in the financial year beginning April, 1920, the taxpayer should declare his actual income for the calendar year 1919.

This would greatly increase the assessment in most years, since the income of the country is usually rising. In the war the existence of a three years' averaging system combined with the absurd Super-tax assessment on the last year's income—last year's income in its turn being a combination of averages of former years—cost the Exchequer a very large sum of money.

But whether the income of an individual is rising or falling, it is the fairest thing to assess upon the income of the previous year, because it is the realised income and because, therefore, the result is either that the taxpayer, receiving more, is able to pay more, or, receiving less, has less to pay. This consideration appears to me to be conclusive on the score of justice, and it is above all things necessary to make the Income Tax just.

10,548. (20) All assessments being made on last year's income, I suggest that all joint stock companies should be compelled to pay their dividends on official dividend warrant forms supplied at cost price by the Inland Revenue authority. These forms should be divided longitudinally into two parts by a perforation. (There would also of course be a counterfoil.) The left-hand side would be the dividend warrant, payable through a banker in the ordinary way. The right-hand portion would repeat the details of the dividend paid, and the amount of the tax deducted at the

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[Continued.]

sources. It should be made compulsory for the individual taxpayer, in declaring his aggregate income from all sources, to return with his declaration form the tax record half of the dividend warrant. This would at once help him in making his declaration, while furnishing the Inland Revenue authorities with conclusive evidence as to the tax due and the amount of the tax paid at the source. There should be a penalty of forfeiture of the whole amount of the dividend if the form is not returned with the Income Tax declaration.

This tax record portion of the dividend warrant should also bear a record of that proportion of the company's profits of the year not distributed as dividend, so that the individual taxpayer could return it for what it is, the actual income of the year, and the Exchequer would no longer lose tax upon it as it now does through the Super-tax system.

10,540. (21) This matter is of so much importance that I ask leave to quote here in full, from the official record of the existing Income Tax system [see App. No. 2], the final paragraph (50):

Super-tax.

"Assessments to Super-tax for each year are made on the basis of the total income of the individual from all sources as liable to Income Tax for the preceding year. The statement of income for the preceding year is not necessarily or even usually the actual income of that year, but it is the income on which Income Tax was paid for that year."

"For instance, take the case of an individual whose total income is derived from the following sources:—

Profession of barrister,
Interest on Registered National War Bonds,
and

Dividends on investments taxed at the source.

"The computation of his total income for the purposes of Super-tax for (say) the year 5 will be made as follows:—

(a) Profits as barrister:—The Income Tax assessment of the year 4, which is itself based on the average profits of the years 1, 2 and 3

(b) Interest on War Bonds:—The Income Tax assessment for the year 4, which is itself based on the interest arising in the year 3.

(c) Taxed dividends:—The amount on which Income Tax was paid (by deduction at the source) for the year 4 which in this case is the actual sum received in the year 4.

"The aggregate amount of these three items represents the 'statutory income' of the year 4 on the basis of which the Super-tax assessment for the year 5 will be made."

It appears to me that merely to recite these particulars is to criticize them.

10,550. (22) The plan I have proposed would, I submit, greatly simplify the tax. As to the nature of the scale, this must, of course, vary with the revenue required, but I should like to join with those who reject the idea of a pretty looking scale based upon a mathematical formula. Taxes are things applied to human beings, and the scale must have regard to human considerations which cannot always be embraced in a pretty curve.

10,551. (23) Nevertheless, I should like to make a plea for:

(1) The avoidance of sudden jumps in the scale, which is perfectly simple if the plain-scale method is adopted, and

(2) The more moderate taxation of the smaller incomes.

Examination of the curves given in Appendix 12 to the Minutes of Evidence shows how steep is the rise up to £2,000 a year. I think it would be just that some part of the burden of the smaller taxpayers should be readjusted to fall upon the higher orders of income.

[This concludes the evidence-in-chief.]

10,552. Chairman: We have your paper before us and we shall immediately examine you on that, if you will kindly answer the questions the Commissioners will put to you. Sir Walter Trower will begin the examination.

10,553. Sir W. Trower: In your estimate of the national income you take as the taxable income of 1918 £400,000,000 as the income of manual workers?—About £400,000,000. I am afraid it is only a shot.

10,554. That is the best estimate you can obtain of the total income of all manual workers?—Oh no; it is the estimate of the income of that part of the manual workers who pay tax.

10,555. Does that mean that you estimate the income of manual workers at less than £130 at £8,000,000—the difference between those who pay tax and the others?—The total incomes of manual workers for 1920 I estimate at about £1,200,000,000.

10,556. Then, if that is so, you estimate that of the manual workers the income of less than one-third is liable to Income Tax?—Yes, it would be about that.

10,557. Rather more than two out of three pay no Income Tax—the proportion of 400 to 1,200?—Yes, roughly.

10,558. That is your estimate?—Yes; that is because so many of them are still under the exemption limit. Although we have lowered the exemption limit we still get the greater part of the working class of the country under that exemption limit—which is a very significant thing.

10,559. Then, with regard to paragraph 8, you propose to raise the exemption limit to £250?—Yes.

10,560. If that were accepted, can you tell us what would be the income and the tax paid by the other classes, that is to say, what would be the rate equivalent to the 3s. 9d. which you arrive at? You spread 3s. 9d. over all the payers?—It would make a very small difference, because, although I have not the figures in my mind, it is, of course, true that the lowering of the exemption limit has had very poor results for the Exchequer. If you raise the limit from £160 to £250, I do not think it would make very much difference, but I have not the figure in my mind.

10,561. You do not consider that that would raise the 3s. 9d. materially?—I do not think it would very materially, but I am afraid I have not the fact in my mind to enable me to answer your question.

10,562. You have formed no estimate?—It is easily formed, of course, from the official figures. We could easily do it now. I am sorry I cannot give the answer at once.

10,563. I was only asking for information. I am afraid I have not been able to follow that quite. This 3s. 9d. is taken as a flat rate, is it not, for all the Income Tax payers?—Yes.

10,564. That is the result?—Yes.

10,565. If every taxpayer were to pay the same, it would be at the rate of 3s. 9d.?—Yes, and I do not think it would make a very great difference to that figure if you raised the exemption limit to £250.

10,566. That is your answer?—Yes.

10,567. It is the effective rate on the whole amount of the taxpayers as paid?—Yes. You refer, of course, to the last paragraph in my paragraph 4.

10,568. Certainly.—That is to say, the virtual Income Tax expressed as a flat rate is no more than about 3s. 9d. in the £.

10,569. That is, taking the taxpayers as a whole, you make the flat rate 3s. 9d.?—Yes. My answer is there would certainly not be a very great difference caused by the alteration which I and others have suggested.

10,570. I will not trouble you more on that question; I only wanted to hear what you had to say. The effective rate on small incomes is very small, is it not?—Yes.

10,571. The effective rate on large incomes is very large?—Yes, but not so large as is generally supposed. I have endeavoured to show that.

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SIR LEO CHICHESTER MONEY.

[Continued.]

10,572. I shall come to that later?—The nominal rates are large; the real rates are smaller because of the evasion and avoidance which obtain.

10,573. If you take an income of £10,000, that pays an effective rate of over 8s., does it not, Income Tax and Super-tax?—It is about that. You know how difficult it is to carry figures in one's mind.

10,574. I am asking for your assistance. You are an expert in these matters?—That is a matter of fact, and, of course, the facts are in the official papers; one cannot bear all those facts in one's mind.

10,575. That is what I gather from your paper?—I have the official paper here somewhere, where the figure is given.

10,576. I think you may take it from me that that is so; I do not think that will be disputed?—You are referring to the nominal rate, putting aside any question of avoidance or evasion or averaging, or anything of that sort.

10,577. Yes; a taxable income of £10,000 pays a little over 8s.?—Yes.

10,578. I think it is common ground between you and me?—Yes, but I must please correct that: only if the £10,000 is the true income of the taxpayer.

10,579. We will assume that is the true income. Then I think you will agree with me that a large income pays 10s. 6d. Income Tax and Super-tax?—Yes, that figure I at once recognize.

10,580. Also, if the taxpayer is the unfortunate owner of mines, he pays mineral rights duty out of his income?—Yes; he also pays Inhabited House Duty.

10,581. That is in the nature of an Income Tax, is it not?—Yes.

10,582. You also refer, later on, to a reduction in the Excess Profits Duty?—Yes—the recent reduction.

10,583. Was not that advocated everywhere to save crippling commercial enterprise, to prevent the destruction of commercial enterprise?—That was, I think, the main argument used by the business men who approached the Chancellor of the Exchequer and asked him to make some such reduction.

10,584. But that was very generally alleged, was it not?—Yes.

10,585. That enterprise in trade, and the development of trade, as I understand it, was suffering. I think the contention was that the Excess Profits Duty crippled enterprise?—Yes, that was the contention.

10,586. And probably that was the ground on which the Chancellor of the Exchequer acted?—Yes. Of course, I am not aware of the ground that influenced him.

10,587. But that was the contention everywhere?—I think the tax was found to be eminently disagreeable to those who paid it.

10,588. Of course, we all feel that with regard to all taxation, I think. Do you agree to this proposition: that Excess Profits Duty would increase prices?—It is very difficult to give a true general answer to that question. Prices of various commodities at this time are high, and are high for a number of different reasons. The reasons are not always the same in every case. It is therefore very difficult for me to give a true general answer to your question. Let me add to that, if I may, this: that, so far as the products are concerned which are touched by Excess Profits Duty, as a general rule, as you will find by reference to a recent Report on Trusts and Combinations, they are controlled by price rings or trusts, who are already exacting the highest possible price that the commodity will bear. I do not think, therefore, that the Excess Profits Duty, one way or the other, will affect price. If you reduce the Excess Profits Duty you will merely increase the amount of the profit taken by the taxpayer and decrease the receipts of the Chancellor of the Exchequer. Forgive me for giving a long answer.

10,589. It is difficult to give a concise answer. Probably you will agree that, to a certain extent, it will affect the price. Now I ask you to turn to paragraph 4. The rate taken from the whole taxed community is 20 per cent., roughly speaking, or 3s. 9d. in the £—the flat rate of which we have been talking?—Yes, according to the estimate which I have made.

10,590. That amounts to 20 per cent. Four shillings would be 20 per cent?—Yes. You are, of course, putting to me these quite obvious things; you are simply expressing the 3s. 9d. as a percentage.

10,591. Practically I express it as a percentage of 20 per cent.?—Yes.

10,592. You contend that there is not even a present taxable margin in small incomes?—A taxable margin, as I have tried to explain in this paper, must, I think, have reference to the whole contribution of the taxpayer, not merely to the Government, but to the community.

10,593. That I understand?—That I have explained, and therefore you will understand the difficulty I find in answering your question in the terms in which you put it. I have really given the answer in my paper.

10,594. You will agree, I think, that some incomes pay 30, or 40, or 50 per cent. more; I have dealt with that question just now; they pay 10s. 6d.?—Yes, or should do.

10,595. And when Excess Profits Duty is added to the Income Tax they pay 60 or 65 per cent., or even more?—Yes, I suppose so in some cases.

10,596. You contrast that with the 3 per cent. of net income of the Income Tax paying classes in 1906?—Yes. Would you allow me to add one thing, if I may.

10,597. Do so, if you please?—I cannot help thinking that one of the basic facts which bear upon the questions you are asking me is revealed by the Death Duty returns in a much more striking and significant manner than any figures which you have got before you. If you refer to the revelations of the Death Duties—estates passing at death—you will find that every year about two-thirds of all property that passes is left by only 4,000 persons; roundly I think it is £200,000,000 out of £300,000,000 is left by 4,000 persons. Now, if you apply the multiplier 30 to that 4,000 persons, you get, of course, 120,000 persons, and it is a fair presumption that 120,000 persons own two-thirds of the United Kingdom. When you have got that extraordinary disproportion in the distribution, not of income but of all property, before you, and all that it means in unearned income arising from that property, then alone, I think, you can get a true view of taxable capacity.

10,598. How does that affect Income Tax?—I was trying to explain. Then only have you got a true view of what your application of Income Tax should be to the majority of the persons of the country—the majority of whom have little or no property. That seems to me, if I may say so, a very important point. It must be so, must it not? If 120,000 persons have over two-thirds of the country, taking its land and railways and everything as a going concern, less stock and barrel—two-thirds owned by a group of persons so small that it is only one half the number of persons who emigrated from the country before the war, and whose loss was never noticed—the rest of the nation owns only one-third of the whole national property. I was only suggesting that that has a very great relevance to the question of graduation of the Income Tax.

10,599. I think we are travelling a little far from Income Tax, because you must know, as well as I do, from painful experience, that a very large part of the property of this country does not produce any income at all?—No, I could not admit that. A large part if you mean actually, but not relatively. Relatively the greater part of the property of the country does yield income.

10,600. My experience is that a very large part of the property of this country does not produce income?—No, I am sorry to differ from you; the greater part of the property of this country yields income. That does not mean that there is not a very large lump that does not, but I am speaking in relative terms, and it is relative terms that you have to consider in this connection.

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SIR LEO CHIOFFA MONEY.

[Continued.]

10,601. I put it to you that you cannot measure the incidence of Income Tax by the capital that appears as assessed for Death Duties?—Yes; it has been practically done in certain countries. It was done in Germany; it has been suggested that it should be done here, and there is a good deal to be said for it. It is a highly practical suggestion: that you should levy a percentage upon the capital property possessed by all of us. So that if a man has made a collection for his own gratification, of £500,000 worth of masterpieces, which yield him only an income of pleasure, he should nevertheless pay an Income Tax in respect of them.

10,602. You would tax the Surveyors of this Institute on that masterpiece which is hanging opposite to you. That is your meaning?—Forgive me for mentioning that, but I do really think that this question of the distribution of property, if I may respectfully say so to the Commission, has a very great bearing upon the question of taxation, because it affects the whole question of a man's income and its nature.

10,603. I think we understand what your contention is on that point. Do you agree that Death Duties are deferred Income Tax or not?—In practice it comes to that, because the greater number of people insure against them.

10,604. In regard to increased taxation and its effect on trade, do you consider that as Income Tax increases up to and beyond a certain point it results in limitation of trade enterprise?—No, I do not think so; there has never been any evidence of it.

10,605. I have always understood—and I am speaking to an expert now—that you want the savings of one year to carry on and develop your business for the next year. Is that not so?—Yes, but if I, as a man of enterprise, have to pay Income Tax, I know that in all intelligent, civilised countries heavy contributions have to be made to the cost of Government. If I have so little enterprise that my just contribution to the State makes me unenterprising, I am not an enterprising man.

10,606. It is not a question of whether it makes you unenterprising or not, but whether the margin of profit which you make out of your business is taxed so that it is impossible to develop your business in the succeeding year. That is the point I am asking about?—Of course, if the State came down upon me and took away the whole of the profits from my business, it is quite possible it would put me out of business.

10,607. It is quite possible to tax the business so that you cannot save for next year?—Yes; it is all a matter of degree.

10,608. So that the higher rate of Income Tax, the less there is to save and develop business in the following year?—Yes; I am afraid it is one of the concomitants of a civilised existence. One has to pay taxes to keep up the society of which one forms a part.

10,609. We are dealing with a particular tax?—But all taxes are Income Tax. The expenses of the Government have to be met.

10,610. Excuse me, we are dealing with an Income Tax, so called, in this Commission. My question was whether, if taxation does proceed beyond a certain limit, it will seriously affect the development of trade?—Yes, that is so.

10,611. You agree?—Yes.

10,612. May I ask you a question in reference to paragraph 9, on the economic theory?—Of course, I have not put all the points here. I have endeavoured in this evidence to put new points to the Commission. I have not gone over well-worn ground; I have not gone into John Stuart Mill and all the rest of it.

10,613. Chairman: There are a great many points that are not in your paper which you will probably be examined on later on.

10,614. Sir W. Fowler: I am trying to make my points as clear as I can. You adopt one value in your paper as far as you can—of sacrifice?—Yes; I think that should be the guiding principle, if I may say so.

10,615. You do not take into consideration the ability and efficiency of the taxpayer as a unit of the community. You do not make any difference, as I understand, between the man who contributes to the State by working, and the man who does not?—Yes, I give a general consent to the principle of differentiation, which does seek to distinguish between the man who works and the man who does not work.

10,616. Therefore the man who does not work you differentiate from the man who does, as an economic problem?—Yes.

10,617. In that connection, may I ask you whether you think that a man who is a bachelor and who earns £250 should not contribute anything to the country?—If I may be forgiven for saying so, I think I was the first person, at any rate in the House of Commons, to propose the taxation of bachelors.

10,618. You talk of sacrifice; is there any sacrifice in a bachelor, an operative, who earns £250 a year, paying something towards the State?—I think there is a case for a contribution from such a man, if it is worth collecting, which I very much doubt.

10,619. That is a different point?—Yes.

10,620. You would differentiate between the man who does not really need £250 to obtain the maximum of efficiency, and the man who needs more?—Yes; as a matter of theory, one must grant it, but in practice, taking into account all the circumstances of the case, I doubt if it would be worth while.

10,621. I think I have got your answer to that point. Then will you go to paragraph 12? Have you considered the practical aspects of a differentiation of Income Tax by a levy which looks only at conditions due to the war?—This proposes not an Income Tax, it proposes a capital levy upon such persons in order to bring in revenue.

10,622. But both as regards income and capital we are passing through an inflated period owing to the war. As that disappears, do you agree that things will be different?—I do not see how those fortunes are to disappear. Where a man has made half a million out of the war, that half a million is not likely to disappear.

10,623. It will disappear in currency?—I do not think so. I think we should make a capital levy upon him in order to reduce the National Debt, and therefore to reduce indirectly the Income Tax and help to reduce the size of the problem that you have to consider here. That is the proposition that I make in this paragraph. I understand it is being done in Italy; I am not sure, but I think I have read of it being done; I have no special knowledge of it.

10,624. You do not agree that the condition which we have to face with regard to currency is temporary owing to the war?—Whether or not high prices are due to currency is a matter for separate argument; I should be glad to argue that, but I think you attach too much importance to it, if I may say so; but so far as high prices are concerned, quite apart from their cause, undoubtedly prices will fall in the course of a few years.

10,625. Can you distinguish profits or capital whose increase is due specifically to war activities, and increases incidental to or consequential on such war activities?—Yes, I think you can.

10,626. Can you give us some light on that point?—I think you could take any man who at the end of the war had a larger capital than at the beginning of the war, save for an ordinary rise in values, which of course he can show. For instance, shares, it would not be his fault if shares rose in the market; but in the general case you can certainly show whether or not the man has gained a fortune during the war. I see no great difficulty, and I believe it is being done, as I say.

10,627. You can distinguish?—Yes, I think so. These things are difficult, but they are certainly worth attempting, if only for their moral effect.

10,628. Then with regard to graduation. Have you read the official evidence about graduation?—Of Mr. Hopkins, yes, I have read it with very great interest.

10,629. You say that all statements should be done away with?—No, not necessarily.

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SIR LEO CHOIXEA MONKY.

[Continued.]

10,630. Other than for dependants?—I am speaking of the main graduation system. You cannot, of course, get an absolutely simple Income Tax, but I am trying to contend in this paper that you can get a much simpler one.

10,631. I quite understand that, but you read from the official evidence that they have tried to make the collection of Income Tax as simple as possible?—I think that the present system has been the result of successive reforms, but no attempt has been made to make radical reforms.

10,632. Do you not think that in working the system of graduation and the system of abatements together, the Income Tax authorities have made it as simple as possible?—No, I do not think so.

10,633. But, as a business proposition, is it not certain that, if there was an easy method of doing it, the Government would have taken it?—I do not think that. Each successive Chancellor of the Exchequer has taken the easy road as the time.

10,634. The object of the Inland Revenue is to raise the maximum taxation in the most simple manner?—No; I think the object of the Inland Revenue is to do what it is told.

10,635. As simply as possible, with the least friction?—No, forgive me. What the Inland Revenue does as an official administrative body is determined by Parliament in its wisdom.

10,636. With the least friction, I am putting to you?—The least friction from the point of view of official administration does not necessarily accord with what a man may do in the House of Commons.

10,637. Surely you will agree that those gentlemen who have had this experience, and whose evidence you have read, have been working on this point, and their object is not to have any friction with the public?—I think your question should be addressed to the official administrators, if I may say so. You can only ask me for my opinion. My opinion I have tried to express in simple terms. It is that, so far as the main graduation is concerned, it should take the form of a simple scale. That would entail certain abatements, but not the hits on and hits off that now obtain.

10,638. Will you go to paragraph 15? You say that the Super-tax payers get the credit of paying higher rates than those really imposed upon them?—Yes.

10,639. What do you base that upon?—May I give you a practical example which has come into my hands since I wrote this paper. Here is a company which earned, in its last financial year, enough to pay 66 per cent. dividend. As it earned 66 per cent. it paid Income Tax on 66 per cent., and that was deducted at the source.

10,640. You are dealing now with the question of reserves, are you?—Yes.

10,641. I shall come to that directly?—I beg your pardon; you asked me a question.

10,642. That is what you mean; you are referring to that and that alone?—No, I am not referring to that and that alone.

10,643. In paragraph 18 you say: "It is a great misfortune for the nation that at one and the same time Super-tax payers should be avoiding tax and obtaining credit for paying higher rates of taxation," and in paragraph 15 you refer to the same question?—What is the question you wish to ask me?

10,644. Chairman: Would you like to have the answer now, Sir Walter, that Sir Leo was going to give you? Would you like him to develop that point of the case which he wishes to put before the Commission?

10,645. Sir W. Trower: Yes.

10,646. Chairman: Will you give that case?—This is the case of a company which made 66 per cent. and, as I need not inform the Commission, the whole of their earnings, which are paid out in dividends or which are put to reserve, pay Income Tax, and is deducted at the source. But what did they distribute? They distributed only 28½ per cent. The major part of the profits for the year goes to reserve,

and no doubt by and by will take the form of a distribution of shares. I do not know that, but probably it will take the form of a distribution of bonus shares; it will never appear in any Super-tax return. There must be Super-tax payers connected with it. Therefore the larger part of that income will never appear in Super-tax returns, although it appears in Income Tax returns.

10,647. Some companies, where they make that large amount in one year, sometimes put the reserve to next year, which may be a very bad one?—That is true; of course, I do not neglect that point.

10,648. Sir W. Trower: We have had a great deal of evidence on that point, and I think we have that point in our mind?—I expect I am only giving redundant evidence.

10,649. Do you refer to any other question of evasion of Super-tax? I see you put it generally that Super-tax is evaded?—It is true, as I understand, that the Inland Revenue authorities in their administrative work have not power to inspect the books of an Income Tax payer; they have not power to inspect the books of a Super-tax payer. In the House of Commons, if I remember aright, there was a great fight over whether an official should be given the power to investigate books in connection with the Excess Profits Duty. The provision was beaten in the House of Commons, where the Excess Profits Duty was fought tooth and nail in my hearing.

10,650. Then you say that by a false return Super-tax escapes?—Yes.

10,651. That is what you allege—for two reasons; one is the reserves in companies, and the other is false returns?—The other is book-keeping, I suppose.

10,652. The other is improper returns?—Yes, I should say so.

10,653. Incomplete returns?—Incomplete; and, as I have pointed out in my paper, the very persons whose books may not be investigated are yet compelled by law to give the names of Thomas Brown, Annie Smith, and all the rest, and deliver over to the Income Tax officials what is often the complete income of the small Income Tax payer.

10,654. I am ignorant on these matters and you can enlighten me; is it not a fact that the Income Tax people are in close connection with the Super-tax people? Is not the information which is in the hands of one in the hands of the other?—Presumably.

10,655. If that is so, would not that meet your objections?—I do not think it would, because neither has the power to inspect books.

10,656. Neither has sufficient power?—Neither has sufficient power. It is not that I mean that all books should be inspected always, but I mean that more power should be in the hands of the administration.

10,657. Those are the two main sources of what you state?—I can only judge by the cases that have come to light in the public press, the reports that have appeared of cases where, without the investigation of books, suspicion has been aroused and there have been prosecutions.

10,658. You have no other information on the point except what you have read in reports?—Well, one hears things from time to time.

10,659. Then I should like to ask you a question with regard to the three years' average system. Could you suggest anything as to how a change could be carried out? I want to put this proposition to you. If you have taxation on the preceding year, in a year of falling income there would be an enormous loss?—Yes.

10,660. In a year of rising income you might be accused of injustice if a taxpayer were deprived of an average for the smaller years, when in those smaller years he had been paying on an average of larger years. How would you work it?—What I have suggested in my paper is that you should pay in the current financial year upon the realized profits of the preceding calendar year.

10,661. But taking the existing system, which is on an average of three years, you might have very great injustice, might you not, with a sudden change?—I do not see it is unjust. If I made a loss last year I have no Income Tax to pay this year.

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SIR LEO CHLOXKA MONEY.

[Continued.]

10,663. Supposing you made a heavy loss last year, and a heavy profit the next?—Then you have the money to pay with. That is my answer.

10,663. But your real profit for the two years is, say, £1,000, and your taxable profit may be £3,000?—I put forward, if I may respectfully do so, the other view. If you have made a loss you have no tax to pay; if you have made a small profit you have a small tax to pay.

10,664. You have considered that subject?—Yes, I have considered it for many years.

10,665. And that is your opinion on that point?—Yes; and, if I may say so, it is a confirmed opinion. May I add one thing to that; it really is of practical importance. A number of classes are excluded deliberately from the three years' average. A London teacher has just put a case to me. They are paid increments; they are deprived of average. So it is, of course, with public officials. They get their increments yearly; they never get an average. So that, even if the average system is just, we do not justly apply it.

10,666. I am only asking for your views on the subject; I am not propounding any system.

10,667. Mr. Marks: In the last part of your paragraph 8, how do you get that figure of £1,682,000?—It is derived, or ought to be derived (I hope it is just) from the official figures relating to the Income Tax.

10,668. When I read your proof I had not got these available.

10,669. Mr. Kerly: It is in Appendix No. 11.

10,670. Mr. Marks: Then I will not pursue that. Then paragraph 19: in the first part you refer to the desirability that taxpayers should declare their annual income for the calendar year 1919. Have you considered whether there are any advantages in making the fiscal year contemporaneous with the calendar year?—Yes, I have, but on the whole I think the disadvantages outweigh them.

10,671. Could you suggest some disadvantages?—It seems to me obviously convenient to deal with the realized profits of the preceding year. If you are to do that, you have to produce a scheme of taxation some time in the year which succeeds that calendar year, and therefore it is quite a convenient, if arbitrary, course to take some period that begins later than the calendar year.

10,672. Even supposing all accounts were made up for the purpose of Income Tax to the end of the preceding calendar year, and rendered for purposes of assessment prior to the 5th April?—That is a very interesting point, and, if it were enacted that all accounts should be so made up and rendered then, I think it would be a practical thing to do what I understand you to be suggesting, namely, to make the fiscal year coincide with the calendar year.

10,673. It arises in connection with a suggestion which has been made to us that the taxable income should be the income for the year preceding assessment, if necessary, corrected by a subsequent assessment?—I should be quite content with that.

10,674. Would it not, in your opinion, be a considerable advantage or assistance to small taxpayers not versed in business?—Yes, it might be; there is certainly something in the point, I concede, for serious consideration.

10,675. Now, the last part of your paragraph 20. You suggest that the tax record portion of the dividend warrant should bear a record, and so on, for the purpose of assessing the receiver of the dividend to Super-tax?—Not Super-tax. I suggest the sweeping away of Super-tax.

10,676. To a high rate, at any rate?—We mean the same thing, I think.

10,677. The point I wish to put to you is this. On that tax record portion there would appear a certain sum which would include the taxpayer's share of undivided profits, and he would be assessed to the combined tax on that amount?—Yes. I thought over, no a practical matter of administration, how I could get at it for Super-tax as it now is, or for my system

as I have suggested, and it seemed to me this was a highly practical method, and a method, moreover, which helps the taxpayer to declare his income if he wants to do it honestly. He has got his forms all ready; he has only got to make them up. Here are his dividends for the preceding year, and he returns in his declaration a list of 10, 20, or if he is a lucky man, 500 items.

10,678. And those would include his share of the undistributed profits?—Yes.

10,679. Chairman: Suppose the reserve fund is lost next year, how is that going to be paid?

10,680. Mr. Marks: That is what I was going to ask Sir Leo. Would you then require a taxpayer to pay his tax as shown in this record?—That would be a matter for adjustment.

10,681. So that he might pay tax on a sum which he never received?—He would merely make an application for it; provision could be made for that; but I would take the precaution of taxing it first.

10,682. The undistributed portion might never be distributed, or might not be distributed for a very long period?—I cannot conceive why a sum which is taxed for Income Tax should escape taxation for Super-tax. I do not think it was ever intended that it should be so.

10,683. We are probably agreed upon that, but I put this point to you as, perhaps, a practical objection to your method of obtaining the tax?—At any rate, my form would help the repayment of the sum. May I add one thing? I think this method of returning the dividends would also afford the authorities a means of occasionally checking the accuracy of the whole returns. They would take samples, and they would trace them to their source.

10,684. Chairman: You know, as a business man, that the bulk of the reserves are used in the business; they are not in money; and you generally find that these reserves make profits for the next year's Income Tax. I see your point clearly. The custom now is that all our reserves are utilised in the business; they are not kept there as so much money?—Yes, and I cannot help suspecting that this increasing habit of distributing these reserves as bonus shares has a direct relevance to the existence of the Super-tax, which does not take account of their existence.

10,685. I quite understand that point. But you know this: sometimes the reason you distribute bonus shares is because you have not got the money to distribute?—It should be available.

10,686. Mr. Marks: Do you agree that, if your suggestion in that paragraph were applied, it might involve considerable hardship to the taxpayer?—I hardly say that.

10,687. He would perhaps be put on a higher scale of taxation; he probably would be if he had many such advantages as you suggest, and he would be called upon to pay a very much larger tax on sums which he had never received, and might never receive?—But, nevertheless, of which he really is owner. After all, he is a shareholder in the company; he is a part owner of its capital value.

10,688. Mr. Walker Clerk: In paragraph 6, you deal with the Excess Profits Duty and the reduction from 80 to 40 per cent. You indicate that a very large reduction was made in the real Income Tax of the well-to-do classes?—Yes.

10,689. Do you suggest there that the Excess Profits Duty only affects well-to-do people?—Chiefly.

10,690. What would you describe as a well-to-do man in income?—Of course, the answer can only be an arbitrary one. When a man has more than a few thousands a year we used to describe him as well-to-do.

10,691. I saw these figures yesterday. Income £1,333; Income Tax £777 on that. Would you think he was a rich man, either before or after he had paid his tax?—How can a man with an income of only £1,300 pay a tax of £800?

10,692. It is due entirely to Excess Profits Duty?—In that case it is very just.

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SIR LEO CHIOZZA MONEY.

[Continued.]

10,693. The man does not think so?—Of course he would not.

10,694. I want to call your attention to the fact that the Excess Profits Duty does not affect solely the well-to-do classes?—That is so, but I answer in relative terms, which are the only true terms in this connection.

10,695. We cannot suggest an alteration of the law in relative terms?—Forgive me; you must do that. All systems of government must work relatively. If you work on the exceptional cases you are wrong. We have to work on relative considerations, and that is why I speak in general terms.

10,696. We attach different meanings to the word, evidently. In your next paragraph (No. 6) you suggest the present Income Tax is 3 per cent. of the net income of the Income Tax paying classes?—Or was. This was written in 1906, before the war. It is part of my old memorandum to which I take the liberty of directing the attention of the Commissioners.

10,697. You are not bringing this up to date?—No, this is quoted from what I wrote in 1906.

10,698. I will leave it at that. In paragraph 8, you suggest that proper powers of investigation in respect of Excess Profits Duty might have given the State fifty times this sum. That sum I take to be £1,682,000?—Yes.

10,699. Do you suggest that the State has lost that entirely because of evasion or avoidance? There is a difference between evasion and avoidance?—Taking the two together, I have estimated here—of course it is only a shot, but I believe investigation will show it to be a very modest shot indeed—the evasion of Excess Profits Duty as £70,000,000. That is rather less than the fifty times that I mention in that paragraph, but the figures are of similar magnitude. In fact, I have heard of so many cases that have been mentioned to me of evasion and avoidance of Excess Profits Duty by all sorts of dodges and all sorts of things that are hardly dodges, merely business arrangements.

10,700. Avoidance?—Yes.

10,701. Not evasion?—When avoidance is deliberate, when it is part of a business method, it almost becomes evasion.

10,702. You suggest that £250 should be the limit of exemption?—Yes.

10,703. That is for a bachelor or a girl without any responsibility?—If it were practicable to make a difference, as I tried to indicate in a former answer, one would not make it for a bachelor or a girl. Therefore there is a good deal to be said for Mr. Hopkins' scheme.

10,704. Therefore you are to some extent in sympathy with the present method of abatement or allowance for a wife and children?—In the case of a bachelor I would rather make it a special levy, a higher rate of taxation.

10,705. Are there not cases where a bachelor has to maintain his parents?—In that case I should make my abatement. You cannot have a wholly simple system.

10,706. So that you are driven to what should be proper?—So far from being driven, I ventured to say just now that I was the first man in the House of Commons to suggest the higher taxation of bachelors. I was also the first to suggest the allowance for children; so I am not driven to it; it is part of my argument.

10,707. You did not let me finish my point. I did not suggest you were driven to that, but you are driven to the undesirable method of abatement?—Not at all. I would make my main graduation a plain line that any man could understand. Then with regard to exceptional cases, that line is varied by various abatements and provisions, but it does not alter the fact that the basis of my system is a plain scale which gives me my main justice. That little minor injustices I file away by means of separate provisions.

10,708. Exactly like the present Super-tax?—Not exactly like; that is not a plain scale. The graph which has been prepared for the assistance of this Commission shows how unjust it is as a line, taking the whole of the line.

10,709. I said, on the same basis as now adopted for Super-tax?—But the Super-tax, apart from three errors of which I have spoken, is a graduated scale.

10,710. You would have it similar to that?—Right up the line from the bottom where you think your exemption should begin, to the top limit, I would have a line which I should very carefully consider in practice. I do not propose to suggest a line here, because it seems to me it ought to vary with the needs of the country at any particular time. But, having got my main conception of justice satisfied by my plain scale, then I should make, in respect of children, in respect of invalids supported by the taxpayer, or what not, whatever allowances seem just.

10,711. In other words, the main line would have to be varied up or down to meet hard cases?—Yes, but nevertheless that variation does not remove the justice, and, if I may say so, also the comparative simplicity of the plain scale.

10,712. You suggest in the same paragraph that the man whose income is less than £250 a year does sacrifice for the commonwealth all that can properly be demanded of him?—That is my opinion.

10,713. Does that sacrifice include his contribution to the local upkeep; I mean the upkeep of local rates?—Local rates, as you know, are only partly taxes. Local rates include payments which are exactly the same as if you bought a pound of butter.

10,714. They include policing, and justice, and education?—It would apply to part of them, but not to the whole of them.

10,715. It does apply to some extent?—It would apply to some of them.

10,716. Are you aware that in many cases the man whose income is less than £250 a year does not pay enough in his local contribution to meet the expenditure by the local authority upon him?—I should think that is very probably true in some cases—in many cases.

10,717. Therefore the man with an income of less than £250 a year pays nothing in direct taxation, according to your scheme here, and nothing more than he receives in local taxation, and in indirect taxation the subsidies which are given on bread and other matters more than meet his contributions?—I do not think the matter of bread should influence the Commission.

10,718. And the extent of luxury taxes?—You are giving me a very complicated question. I can only answer it in its various parts, and it wants an answer for each part, if I may respectfully say so. With regard to bread, I do not think the bread subsidy should affect the deliberations of this Commission, because it will automatically come to an end as the harvests of the world become normal and as the world price of wheat, which is not influenced by British wages, falls.

10,719. That is one point; now on the other?—On the whole question, what I am respectfully suggesting to the Commission is that it should not do something new; it should go back to the position that obtained before the war, when there was an exemption limit of £160; and the £250 which is commonly spoken of is merely an attempt to put into current value the £160 which obtained before the war.

10,720. There are a great many other changes; the war has happened since, then, which has very much increased our liabilities. Should not that same class bear some contribution towards the war?—I have given my reason for saying that the sacrifices which a man makes to his country are not to be measured by the payment he makes to the Government; and when I think of the nature of many employments with which I am familiar, as, for example, a man riveting on a ship's bottom, or a man mining, or a

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man working at a blast furnace, or a thousand other operations that I have myself witnessed and sometimes tried to take part in—when I think of those employments and compare them with my own lot, I say that man makes more than I ever make in sacrifice to the State, and he ought to be therefore relieved from taxation. That may be a foolish view, but it happens to be my view.

10,721. Would you consider it a desirable thing that this Commission should recommend that this enormous number of men, who are, many of them, drawing wages quite equal to the increased cost of living over and above £160 up to £250, should be very large factors in the government of the nation and should contribute nothing towards its upkeep?—I say that they are contributing towards its upkeep.

10,722. Mr. Mackinder: I notice at (e) and (g) in paragraph 2, that you have two figures relating to evasion: Excess Profits Duty £70,000,000, and then another figure at (g) £100,000,000?—Yes.

10,723. I take it that that £100,000,000 refers to Income Tax and Super-tax. You are aware, of course, that that is largely in excess of the official estimate?—I am afraid I do not know the official estimate.

10,724. If I remember rightly—I have not the figures here this morning—the official estimate given to us was something like £30,000,000 in respect of the income from this country, and the remainder, I think it was £40,000,000, was the possible evasion in respect of income derived from abroad?—That is £60,000,000 against my £100,000,000.

10,725. Yes, but you will observe that £40,000,000 of that was the special portion of income which is derived from abroad, which, obviously, it is very difficult to touch?—Yes.

10,726. Have you based your estimate of £100,000,000 on any detailed investigations?—No, it is impossible to make a detailed investigation. I confess it is only a shot; but if you get that £60,000,000 from the officials it is a figure, I may point out, of very much the same order of magnitude.

10,727. But you notice that £40,000,000 is in respect of income derived from abroad?—Yes.

10,728. So that there is only £30,000,000 for evasion in this country?—My £100,000,000 includes the evasion of the foreign income as well as of the home income.

10,729. Yours, if I may say so, is a pure shot?—Yes.

10,730. Mr. Kerly: Are you suggesting, Mr. Mackinder, that there was any official estimate of £40,000,000? If so, I have forgotten it.

10,731. Mr. Mackinder: If I can get our first Blue Book, I think I can find that.

10,732. Mr. Kerly: If so, I have forgotten it.

10,733. Mr. Mackinder: I ought not to speak from memory, but unfortunately I have left the Blue Book behind. It is not a very important point, because I am merely trying to elicit from the witness that his £100,000,000 is not based on any real estimate?—It is put down as a reasonable and approximate estimate. It is based upon conversations with a great many people on this subject over a long period of years.

10,734. Mr. Kerly: If it is to be at all useful, would you ask the witness as to his estimation of the limits of error; because if we have nothing, it is perfectly useless?—May I say it is bigger than the estimate I gave in my published book, for this reason, that a very large number of new commercial firms has arisen and expanded during the war. Some of these firms are not of a very high calibre, and the Inland Revenue authorities have no power of investigation; they have to take their word. They cannot, with the exigencies of the war and the depleted staff, investigate. I said to myself: How can they investigate these people's accounts? They could not do it. Therefore, I have no doubt that my estimate of £100,000,000 is fairly correct.

* Mr. Mackinder finds that he had in mind here, not an official estimate, but the estimates given in Professor Bowley's recent book on "The Division of the Product of Industry." Professor Bowley's figures at page 16 of that book are 17 millions in respect of home income, and 20 millions in respect of income from abroad. No official estimate had at this date been given.

10,735. Mr. Mackinder: May I put it in another way. The official estimate of the taxation at once, I think I am correct in saying, is 70 per cent. of the total income passed in review. Therefore, your £100,000,000 would have to fall on the 30 per cent?—Quite; and the official estimate of £60,000,000.

10,736. In view of what has been said just now, there are two figures, one is the estimate of loss in this country and the other is the estimate of loss of income coming into this country. However, I will pass on to the next point; that can be looked up. You make the broad statement, in the middle of the first paragraph, in respect of the years you are there dealing with, 1906 and 1913, that the manual workers, who form two-thirds of the nation, drew about one-third of the aggregate income?—Yes.

10,737. That is a statement that has been repeated a great deal?—Yes.

10,738. In regard to your estimate for 1920, would you say in the first place that before you compare the receipts of the two wings of the nation, if I may so call them, you ought to deduct what is borne in the way of taxation by the large incomes? It is admitted that only £7,000,000 is derived from the wage-earning Income Tax payers; therefore, broadly speaking, so far as Income Tax is concerned, so far as Death Duties are concerned, and during the war so far as Excess Profits Duty was concerned, the burden of the nation was borne by the comparatively well-to-do. Would you not say that before you come to make a statement as to the relative proportions of income distributed between the two parts of the nation, you ought to deduct the share in bearing the burden of the nation—I am talking only of money now—that is carried by the large incomes; in other words, that from your £2,130,000,000 which you give, before you begin to make any comparison you ought to deduct from that the greater part of the Income Tax, Super-tax, Death Duties, so far as you can convert them into an Income Tax, and Excess Profits Duty. You see, you are dealing with justice as between class and class?—I think I apprehend your meaning, and if I may reply as well as I can I should say this. It would be just to expand the statement as to the manual workers and their share of the entire income as being prior to taxation being levied.

10,739. You ought to alter that?—Yes, but while I say that on the one hand, let me say on the other hand that the reason why it would not be just to subtract those figures of taxation is this: that you get value for them.

10,740. But do not the other people get value?—But the rich get value in especial.

10,741. You get your share of it?—They get value in especial. They get the protection of property; the other people have no property to protect.

10,742. May I put it to you that the other people have their share of what I call the national property—the whole of the streets, the whole of the education, the whole of the public services, the whole of that vast element of property which is public property, at the present moment—pensions and all the rest of it?—It is relatively small. The public property of this country is relatively small. I gave an estimate of it in my book "Riches and Poverty"; I forget the precise figure, but it is very small indeed. I return to my point: that the people who pay these taxes get value for them. Take my own case as a professional man earning a comfortable living in a big community. Put me down in a little community and what happens to my income? Suppose my activities, or if I may say so, the activities of any gentleman in this room, were confined strictly to the country of Ireland and I or he could not get outside it, what would be my or his income?

10,743. It would increase at the present moment.—I appreciate your humour, but you know the point I am making. A man, part of a big community, gets unearned increment by reason of his presence in that community. The property owner has all the advantages of the protection which is afforded by the big community, which gives him security in his life,

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which gives him a place and position and power, without which all his pleasure and all his life would change. He gets all that in exchange for his Income Tax and Super-tax and all the rest of it. So although I am quite willing to put in words to remind people that it is before taxation is levied, yet I do not agree that the taxation ought to be deducted; because I say every man gets value for his taxation and more than value.

10,744. If we alter the taxation as between class and class, in what way do you suggest that the well-to-do get more value?—That depends upon circumstances. A greater proportion of the expenses of the nation has been recently placed upon shoulders that are able to bear them.

10,745. You would surely say, would you not, that the wages of wage-earners are also dependent on the degree of order and civilization of the State?—But not to the same extent.

10,746. When we look at Russia, that is a question of opinion. You admit, however, that a statement at least ought to be put there that the taxes have not been deducted, in order to get that?—Forgive me for asking you to withdraw the word "admit." I do not agree that the statement as I have made it is unfair, although I am prepared to add those words to it. I state it, I do not admit it.

10,747. May I draw your attention to the fact that in paragraphs 1 and 2 you have not gone into any question of—what shall we say—personal service by the wage-earning workers. You made an absolute statement as to the distribution of the national cash income?—Which is absolutely true.

10,748. And you made a statement that two-thirds of the nation draw one-third of the aggregate income?—And that is true.

10,749. I suggest, when I am asking you about that statement, I am entitled to limit our consideration to cash, because it is a cash statement; it is not a statement made with the further points that you subsequently put in, of personal service?—The answer to what you are asking is this. If you contend that the income of the rich people of this country is not their income before taxation but their income after taxation, then they make no contribution at all to the expenses of the country.

10,750. That is not my point. I should be perfectly willing for you to take this, and it would be a legitimate point for you to take as against what I was putting—that the incomes of the manual workers ought also to be adjusted in respect of their contribution in the way of taxation to the State?—But that, of course, is met as a practical point, I think, by what I have said and what has already been discussed in question and answer on my paragraph 9, where I state that the contribution of a man to his country, and the sacrifices he makes to his country, are not to be measured by the taxes he pays, but are to be measured by his life and his work.

10,751. I do not want to go into that; I merely was repeating the statement made in the middle of paragraph 1, which is a statement which has been freely repeated and which you are now drawing our attention to in order to point out the injustice between class and class; that does not take cognizance of that fact at all; it is a statement in regard purely to cash?—Quite. Obviously when we are considering where taxes lie we must consider incomes before taxes are deducted from them.

10,752. Now may I come to another point. With regard to that figure of £2,130,000,000, if we took the equivalent figure before the war, it included, according to most of the estimates, about £200,000,000 derived from abroad?—Yes.

10,753. That £200,000,000 was in the way of management and capital, &c., was it not?—£200,000,000 was received as interest or profit of all kinds of undertakings: from Government loans, commercial enterprise in foreign countries and British Dominions.

10,754. There were workers working on those enterprises in the foreign countries, were there not?—True.

10,755. Those workers for the most part would be foreign workers?—True.

10,756. Do you not think that you ought to exclude the £200,000,000 derived from abroad when you are making any comparison of the share in national income allotted as between the two sections of the nation; because if you are going strictly to consider that £200,000,000, it is really balanced by wages paid, not within this country, but some the less paid to foreign workers?—That is a matter for argument, but I think more properly it ought to be included, because it is income of the taxable subject and you are considering here the income of the taxable subject, and if you are considering how justly to apportion taxes as between A, who has no foreign investment, and B who has, you must take into account that one has got the investment and is receiving income and the other has not got the investment and is not receiving income. That is the only practical way I can see of looking at it. You surely would not leave them untaxed because they derived their income from abroad.

10,757. No, but I suggest that when you are making a comparison, drawing in the question of justice, and when especially you go on to the further point that you have put in, of personal sacrifices as opposed to cash sacrifices, in order to make any fair comparison you ought either to exclude that £200,000,000 from consideration, for this special purpose of getting at justice as between class and class, or you ought to weight it with an addition for foreign wages in order to get the fair position. My suggestion to you is that in the place of your statement of two-thirds and one-third of the national income we shall get figures which will be very different; it may be half and half, or even a higher percentage than that taken by wage-earners if you deal with the matter with those corrections?—This is of great importance. May I point out this. Let us take £200,000,000 if you like. As a matter of fact it is generally agreed that it has gone down. Those estimates are approximate, of course, but I believe an accredited estimate is £200,000,000 of profit from overseas before the war and £150,000,000 now.

10,758. That is based on the assumption of rise in values, is it not, tending also to send up the dividends derived from foreign investments?—But let us suppose that it were £200,000,000. Deduct the £200,000,000 from this estimate. My estimate here is quite a conservative one. I have seen estimates made up to £4,500,000,000. I cannot make them myself, but I only mention that because my estimate seems to me to be conservative. Deduct £200,000,000; you get £3,440,000,000. If my estimate of the wages is correct, it is as nearly as possible one-third of that figure, just as it is as nearly as possible one-third of the other figure. The figures are of the same magnitude.

10,759. Pardon me, you have also to deduct your £200,000,000 from the £2,130,000,000?—You cannot deduct it twice; I am deducting it from the total income of the country.

10,760. But you must deduct it twice?—No.

10,761. If you deduct it from the total income of the country, then you want to know from which section you are going to deduct it. You are comparing wages with the money earned by other people?—You are challenging my statement that the manual workers take one-third of the nation's income?

10,762. I am?—If this estimate is accepted, it is £3,440,000,000. Deduct £200,000,000 from that and that leaves you £3,440,000,000. My estimate of wages here is £1,260,000,000.

10,763. Chairmen: Where do you get your estimate from?—It is explained here in some detail, but I will willingly give more detail if you like.

10,764. It is not a guess?—No. What I have taken for wages is the generally accepted estimate before the war; I have doubled it and deducted 10 per cent. for the pensioned, maimed and so forth, and the million soldiers and sailors dead; and I have thus

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arrived at a fair estimate of wages to be drawn at the end of this year, if the people are demobilised from the Army and Navy.

10,766. Mr. Mackinder: I just put to you what is the upshot in my mind if from the £2,190,000,000 you deduct, as I claim you ought to deduct, £800,000,000, namely, £300,000,000 in respect of Income Tax and Super-tax, £300,000,000 in respect of Excess Profits Duty, and about £200,000,000 for income derived from abroad in respect of which no wages are earned in this country; then we get a figure something like £1,900,000,000 or £1,800,000,000, which is not so very far different from your £1,260,000,000 that you are giving for manual workers. In other words, taking a purely cash statement, which is all that you have done in your statement, you would get, not one-third and two-thirds, but half and half, on the basis of your figures?—I respectfully suggest that your deductions are not properly made, and there is no good ground for them. You have really made a statement—it is not a question—and I have a right to answer it, and my answer is this, that the Income Tax which I pay I consider to be one of the cheapest purchases I make. It buys me citizenship, it buys me safety, it buys me security. To write that out of my income and say that I do not get value for it, if you will forgive me saying so, with respect, I cannot imagine anything more absurd.

10,766. I have only one other question I wish to ask you, if you do not wish to add anything further. Your desire has been entirely for what I may call equality of sacrifice?—Yes.

10,767. Would you or would you not admit that we, in considering the whole problem, have got to consider the good of the State in this sense, that we have to consider what will be the effect (let me say) of any form of Income Tax that we may propose on the amassing of capital for national purposes; would you admit that?—Certainly.

10,768. So that we have to consider something more than sacrifice; we have to consider national policy as a whole?—Yes.

10,769. You based a considerable statement on the fact that, if we take the Death Duties, about 4,000 people leave the greater part in any year?—Two-thirds.

10,770. You have already agreed that you may look upon Death Duties as a form of Income Tax?—Yes.

10,771. They are, in fact, converted into terms of Income Tax by insurance companies?—Yes.

10,772. Therefore, when we are looking at high policy, Death Duties and Income Tax in their ultimate economical effect, being both of them Income Taxes, it is a matter of high policy, is it not, as to how much we should derive from the one and how much from the other?—Yes.

10,773. Would you admit this, that the greater part of saving as the basis of capital is done by the large incomes?—Necessarily.

10,774. You would admit, I take it, that at the present moment capital—I am speaking of real capital and not simply paper amounts—is a very urgent national need?—Certainly; it always is—it is no obvious.

10,775. Therefore we must be very careful how we deal with the large incomes which are the main basis of saving and therefore the main origin of capital at the present time; you will admit that?—If you mean that they are to be left untaxed, we simply cannot do it.

10,776. I do not say untaxed; I am going to suggest to you, and I want to see what you say, that the mere fact that 4,000 people leave the largest incomes shows that we have to consider large incomes from another point of view of saving machines, and not merely from the point of view of sacrifice, personal or cash, to the State; and that it may be better to allow money to be amassed during life by only levying a certain Income Tax on it. Your suggestion was that we should put a higher Income Tax on

because of the very large estates on which Death Duties are now levied. Would it be better to retain the present high rates of Death Duty for the purpose of dealing with those cases?—If we are to consider the question from the point of view of national policy, the great need of this country, as you say, is capital, and always has been, and it has been most insufficiently supplied with capital by the well-to-do classes. If you suggest to me that I am to encourage the rich to save more by taxing them lightly, I say I do not think you will get the effect you want. You will simply get more luxurious living; you will simply get deduction from production of a large number of workers of this country. For every £1 you get saved you will get £10 wasted, as is shown by the extraordinary luxury—

10,777. Are you making that as a careful statement, that for every £1 saved £10 is wasted?—I should say for every £1 saved at the present time you get several pounds wasted by the people who have made money in the war.

10,778. Are you basing that statement on investigation?—No; it is impossible to investigate it; one can only use one's eyes.

10,779. Mr. Kerly: For so much as they can see?—That is the power of every man.

10,780. But it is no good making an estimation when you know a good deal of the matter to be considered is invisible?—But the man who uses his eyes will see as much sometimes as a hundred men if you go to the right places to observe and conduct your operations properly; if, for example, as I endeavour to do, you examine the trades of luxury, if you examine the dividends paid by those trades, and you find that those dividends are increasing very rapidly, you know there is a very large amount of luxury expenditure going on. One pair of eyes has therefore become a hundred eyes, or a thousand eyes. I only throw that out as a suggestion that one pair of eyes can see a good deal if they go the right way about it.

10,781. Mr. Mackinder: I should not like it to be on record that I am suggesting that there is not luxurious expenditure at the present moment; it is a question of proportion?—I could name case after case; timber men and wool men and even retail men who have bought an estate, who have got an army of men working at the present time. I could name case after case, and I am sure every Commissioner knows case after case, if he will only think for a moment. They are all taking the producers out of production in this country at the present moment, people who might be better employed in making for export. What are they doing? They are serving these producers, and therefore there is an army of people in their employ who are taken from production.

10,782. Chairman: When you say profiteers, do you put one class or all classes as spending extravagantly?—There is certainly a tendency to extravagance in many classes, but the extraordinary fortunes that have been made in this war, and that are proved beyond the possibility of doubt by the returns of the Excess Profits Duty, are being spent, and they are being spent, as investigation of the property market and all sorts of investigations which you can make yourself show, in ways that detract from the production power of the country, and when Mr. Mackinder suggests to me that by lowering the taxation of those persons—

10,783. Mr. Mackinder: No, I did not say lower them. If I may remind Sir Leo, what the thing arose from was this. He made the statement that you could see the large sums that were saved by the comparatively few from the fact that 4,000 people left two-thirds of the money that was left every year on death?—Yes; I think it is a very good way.

10,784. That is your basis, and that was your evidence, and from that you drew the deduction, if I remember rightly, in so many words, that we

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should put on a higher rate of Income Tax and get at that money before death?—Yes, I think so.

10,785. My point that I was asking was this. Obviously that money which is there accumulated, in whatever manner it has been accumulated, when it was left at death was capital available for use in the nation; and I was asking you whether you consider that we should do better by putting on a higher Income Tax—it was not a question of freeing them from Income Tax—and stop that saving to some extent, with the result that the evidence of the Death Duties would show us a less quantity of money left?—If you ask me the question I am bound to answer it. I would levy these taxes in the way I have suggested in a high degree, and I would utilise the proceeds not upon armies and navies; I would utilise them, for example, in reinforcing the mines of this country with new capital; in making our transport system not the clumsy thing it is, but a really efficient transport system. By doing that I think I should perform a very great service for the country. Some people differ from me; but that is my opinion.

10,786. That postulates that people would go on earning the money for you to tax?—Yes.

10,787. Mr. McLintock: The Commission is naturally very anxious to find some of these sources of untapped revenue such as you suggest in paragraph 15, when you speak of the evasion of Super-tax. You give as an illustration a company earning so many thousands but paying a very much smaller dividend than they should?—Yes.

10,788. Do you suggest that the whole of that income is liable to Super-tax?—I suggest it ought to be, but at present it is not. This company paid out £15,000 in dividend—

10,789. Yes, I remember the figures. You know there are very few Super-tax payers in the country?—Yes.

10,790. Round about 50,000?—Yes, there are really more, only evasion reduces them to that official figure.

10,791. Well, it may be. These are the incomes as taxed above £2,500?—The Super-tax income is not the true income. I have tried to show that in my evidence, and I really thought I had succeeded, if I may say so with respect.

10,792. It does not affect the point I am going to put. There are a great many of the shareholders in every public company who have incomes considerably below £2,500. Have you considered the amount of repayment the Inland Revenue would have to make if these reserves were distributed as dividend?—I do not call for their distribution. I only call for their taxation.

10,793. I do not know that you are entitled to call for their taxation. Assume the case of a man with £1,000 a year, who would be entitled to a distribution from the company you mention of £100. That man is not liable to pay at 6s., which the company have already paid?—That is so.

10,794. He therefore recovers from the Revenue?—Yes.

10,795. Have you any idea, or can you form any idea, how much of that 6s. tax the Revenue would have to repay as against the Super-tax it would get?—No more. I am glad you asked that question, because it enables me to explain to you the system that I propose. I do not propose that the top rate should be collected at the source. My system is that a median line should be taken.

10,796. I am concerned not with any new system of taxation, but the system which is presently in force to-day of 6s. Income Tax. If these reserves are distributed to all shareholders who are liable to less than 6s. the Revenue will have to repay?—You mean if they are taxed on it, but it would not be taxed at the source, and I have not suggested that it should. I have merely suggested that, even if you retain the present Super-tax, and I hope you will not, then the Super-tax payer should be compelled to return in his income what he receives indirectly by way of reserve.

10,797. The point you make is, there is a grave loss of tax through non-assessment under this head?—Yes.

10,798. So that the rates of Super-tax now charged are insufficient. Take it from me, for the moment, that the present system continues and that the shareholder who would receive a part of this profit actually receives it in cash?—I do not propose that.

10,799. Or actually receives it as a scrip bonus?—I do not propose that. I am sorry, but I am completely misunderstood. I never proposed such a thing.

10,800. Chairman: Is it your point that when a dividend is paid the proportion of the reserve fund allocated to that particular shareholder is stated upon the dividend warrant and he puts that in his Income Tax return?—He declares it in his Income Tax return, but he does not pay a penny of it unless it is due from him, so that there is nothing to pay back.

10,801. Mr. McLintock: Excuse me, there is. Here is the point. Take the simple case of a company who earn £100,000 of profit and pay 6s. in the £ to the Inland Revenue on it. They divide £50,000 as dividend, and one of the recipients of that dividend has an income of £500 a year with the dividend that he gets. Supposing he got the other half put down as his earnings from that company, or got it paid to him, or got a scrip bonus, would he be entitled to go to the Inland Revenue and say, that dividend has been taxed at 6s. in the £; give me back the difference?—Of course he would, but it would not be paid back because it would only be levied on his declaration. Say it raised his income, for the sake of example, to £1,000—

10,802. Hold on, you have not got my point. The present system of taxation is that the man only returns as part of his income the dividend he gets in cash?—He only returns it as Super-tax purposes.

10,803. He only returns it as part of his aggregate income for all purposes?—As part of his income which he receives, which he returns as part of his aggregate income from all sources.

10,804. To determine his abatement and his rate of tax?—Yes.

10,805. You agree that a limited company at present pays 6s. in the £ on the total earnings?—Yes.

10,806. And many of its shareholders get a rebate according to the amount of the dividend?—Of course you know the system as well as I do. It is that the shareholder has a right to claim repayment of the Income Tax if he can show that he ought not to have paid 6s., but so far as Super-tax is concerned he does not return that part of the earnings of the company which are put to reserve.

10,807. I know that. Your point is that if a shareholder returns the part of his earnings which are put to reserve and it is Super-tax he will pay more Super-tax?—Yes.

10,808. If the aggregate income is comparatively small, something under £2,000, he is liable for less than 6s.?—He would have the same claim for repayment as he has now.

10,809. No, excuse me, he has no claim for repayment now. A man gets £50 dividend paid by a company, and he claims back the differential rate of tax on the £50?—Yes.

10,810. He has no claim for the £50 they put to reserve; the State gets that?—Yes.

10,811. The fact that these claims are not made by the State from the very few Super-tax payers, and there are a great many shareholders whose incomes are under £2,500?—I cannot see that the suggestion I have made in any way diminishes the taxpayer in regard to Income Tax, but it does diminish him in regard to the present avoidance of the payment of Super-tax.

10,812. I am not taking it from the taxpayers' point of view; I am taking it from the point of view of a grave loss to the State; that is what you say?—That is my opinion.

10,813. I suggest to you that you are wrong. You have not made any allowance for the fact that on

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[Continued.]

the undistributed reserves which would go to shareholders who are liable for less than 6s. the State would lose part of the Income Tax they now get. They only get it for Income Tax. Take the case of the Imperial Tobacco Company. They have made an enormous distribution from reserve of bonus shares. The Super-tax payer has not to return that on his Super-tax return. It is not income. He gets it, but it is not income. It has been taxed at 6s. in the £ for Income Tax purposes, but I claim he should also pay Super-tax on it.

10,814. I want to suggest to you that, as against the additional Super-tax that would be gained by the State, they would have to repay a very considerable portion of the 6s. Income Tax, and the one is a substantial set-off as against the other.

10,815. *Chairman*: That is the point.

10,816. *Mr. McLintock*: Do you not admit that?—No, I do not admit that.

10,817. *Mr. Kerly*: Might I put it; I think I see the difference between you. Sir Leo, while proposing that the distinction between Income Tax and Super-tax shall be swept away, on this proposal is assuming that it remains, and he is proposing that the added income which is represented by undistributed money should not affect the Income Tax rate, but should only be payable if there is a Super-tax rate?—That is it.

10,818. *Dr. Stamp*: Sir Leo is really proposing that the poor man's share in the company's reserve should be taxed at 6s. always. It should be taxed at only 2s. 3d. or 3s. if it is given to him, but if it is withheld for a few years he should pay at 6s. *Mr. McLintock's* whole point is, is there a correlative right of repayment to people whose aggregate rate should be less than 6s.?—The right of repayment remains untouched.

10,819. Do you give it to him by your method?—I am quite willing to concede it; it seems to me quite fair to do so.

10,820. *Mr. McLintock*: The next point is where is the grave loss sustained. I suggest that if the Government repaid to all the shareholders whose income was below the 6s. limit it would go a long way to set off the extra Super-tax you would get, because the Super-tax payers are a very small proportion of the total?—But a very large amount is repaid.

10,821. *Dr. Stamp*: The measure of the true loss really is the difference between what the State gets now under the present imperfect system and what it would get if the dividends are repaid?—If one thinks of the high rate of Super-tax and the comparatively low rate of taxation on the other hand, the State would gain.

10,822. *Mr. McLintock*: Take the rate of 3s. Every shareholder who comes within that gets 3s. in the £ back. The highest Super-tax rate is not very much higher than 3s.?—That point is a point for consideration; I would like to think it over. I am much obliged to you for raising the point. My proposal as it stood did not damnify anyone in that particular.

10,823. We have had any number of witnesses; you are merely following what many more have done. They maintain that there is a grave loss in Super-tax to the State through the distribution of bonuses, but they always leave out of account the other side of the story. After all, we are concerned here with loss to the State. There is the other point about losing the 6s. tax on undistributed profits which belong to a shareholder with a small income?—The greater number of shares are held by well-to-do people. It is true that there are a large number of shareholders in this country, but the great number of the holdings belong to well-to-do people. That is to say, many holdings belong to one man, and are apparently the holding of small shareholders; but they are not. He is a wealthy man.

10,824. Have you had occasion to examine lists of large companies and the designation of shareholders?—Yes.

10,825. I examined one in the last few weeks with £5,000,000 of capital, and it was a most surprising fact that of the whole list the greater number there, from their description and addresses, were clearly people of small incomes?—There used to be a firm in London—I dare say it still exists—who supplied lists of addresses to company promoters. They took every list as it came along and collated it into their main list, so that they got a main list of shareholders.

10,826. Small gullible shareholders?—That is another point. I might be inclined to agree with you, and that is a nice reflection on the capitalist system that you have made, in passing.

10,827. It is really not material to the point, and I will pass on?—It is really material to the point, and I would like to give the answer, if you will allow me, but I bow to the Chairman's ruling.

10,828. *Chairman*: I think you might state from your own knowledge what you have to say about the shareholders?—The point is that they collated all these names. All the shareholders, who appeared to be, on the face of it, a very large number indeed—millions—boiled down to a few hundred thousand names, and when you took the considerable shareholders' names amongst those it was a smaller list still. The very special list is a very small list. The same names appeared in a hundred different shareholders' lists. They appear to be small shareholders, but they are not. It is the investment of the well-to-do man. If you want proof of that you must go to the Death Duty returns, where, as I again remind you, you take the whole property of the country, in land, houses, railways, mines, and everything, and you get two-thirds of the whole owned by 180,000 people.

10,829. *Mr. Pretyman*: Would not it cut both ways? If you take the case of the company given by *Mr. McLintock* which makes a profit taxable at the source of £100,000 and distributes £50,000 and keeps £50,000 in reserve, the whole £100,000 has paid 6s. in the £ tax. When the £50,000 which is distributed comes to the shareholders one shareholder who is a Super-tax payer gets, let us say, £1,000. Another shareholder who has a small income and would be able to obtain a deduction, gets £40. In the case of the man who gets the £1,000, he only adds the £1,000 to his assessment for Super-tax, and the corresponding £1,000 which goes into reserve he pays nothing on; that is clear?—Yes.

10,830. The man who gets £40 will be in this position, that the corresponding £40 would cut for him in one way and against him in another. The State has got 6s. in the £ on that £40. On the £40 that he gets the State may be getting nothing, because his total income may entitle him to go clear altogether, but supposing his income was, say, £300 a year, of which this £40 formed part; it surely must be taken into consideration both ways, so that if the corresponding reserve is taken into account, the State, which at present gets 6s. on that, will be in the position of losing the certain 6s., but, on the other hand, it will gain something, because the man, in claiming his deduction, will have to return an income of £40 greater than he returns now. Is not that right?—Yes. You have put it very clearly indeed, if I may say so.

10,831. He would return an income of £40 greater than he returns now?—Yes.

10,832. So that the position of the State would be that it would certainly gain something from the Super-tax payer?—Yes.

10,833. But whether it would gain or lose anything from the man with the small income who is entitled to deductions would really depend upon whether the 6s. certain which it gets on the portion which is reserved was or not increased or diminished when it came to the question of the gain?—That is so, and the gentleman who was questioning me based his argument that the loss would be greater than the

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[Continued.]

gain upon a supposition which I think, if I may respectfully say so, has no foundation in fact.

10,834. *Mr. McIntock*: I did not say so. I asked you if you had taken the loss into account, and you said you had not.

10,835. *Mr. Prettymann*: It is agreed that that is the position. Have you taken all that into account, I think was *Mr. McIntock's* question?—That point, it seems to me, is comparatively negligible.

10,836. That is really rather for us to judge. I only wanted you to answer my question as to whether you had or had not taken that into account?—Certainly. I am not claiming that any injustice should be done to any individual taxpayer. I only want him to pay on his income.

10,837. I only asked you a plain question, whether you did or did not take that particular fact into account when you made these calculations?—Certainly.

10,838. *Mr. McIntock*: What calculations did you make?—There are no available figures on which to base an estimate, but the main fact upon which I go is the fact that the greater part of the property of the country is in comparatively few hands. If that is true, and the Death Duties prove it to be true, it therefore follows that the loss in question would be a negligible loss, and is one with which this Commission need not concern itself.

10,839. In paragraph 3 you state: "It has to be remembered that taxable income is much less than true income, owing to the averaging system, evasion and avoidance."?—Yes.

10,840. I take it that your view that the averaging system makes a less taxable income is that a man pays no tax when he makes losses; he is allowed to carry forward the losses?—Yes.

10,841. You agree there is no lowering of the taxable income, even by taking the preceding year, if you bring the losses into account?—There is in the case of a country like this, where incomes are steadily rising. The income of this country has been steadily rising for a great many years, and during the war of course it advanced rapidly. It therefore follows that the averaging system must rob the State of the aggregate of revenue. That also applies to Super-tax, quite apart from the question of the reserve, because, as was so fully brought out in the brief description of the Income Tax which was circulated to you, which I quoted in paragraph 21 of my précis, the Super-tax income is not the real income of the person at all, quite apart from the question of the reserve funds. It consists of a quite arbitrary collection of sums which are themselves all sorts of different averages of past years.

10,842. It may, but only in cases where the average comes into a man's income. With a man whose salary is fixed at £5,000 a year it is quite fair; it is the preceding year there, exactly what you are contending for?—Yes.

10,843. It is only in the case of Super-tax incomes based on averages?—Yes, but in the case of the Income Tax payer it also tells, quite apart from Super-tax. In the case of a country with a steadily rising standard of life and income the averaging system robs the State of the tax on the full income of the country and gives it a tax on something less than the income of the country.

10,844. On the other hand when the income is falling the State gets more than it is entitled to?—Yes. I am speaking of the practical case of the United Kingdom in the last 15 years, where I do not think there has been any set back in the aggregate income of the country.

10,845. It does not tell you exactly how much is on the averaging system?—No, but I think you will find that is true.

10,846. There have been variations, for instance remittances from abroad, come into one of the years as taxable income?—Yes.

10,847. *Mr. Mackinder*: On the averaging system you are only postponing; you are not losing, are you?—You are losing in the case of a country with a steadily increasing income.

10,848. No; will you not get the effect of the increase, though a little later?—No, you are always behind at any point.

10,849. But your average is steadily rising. If you have a steadily rising income your average of three years is steadily rising also?—If you take a series of figures which are constantly increasing, and average at any point, there is a loss at any point.

10,850. I suggest it is not a loss, but only a postponement?—If you take a series of figures, 5, 6, 7, 8, 9, 10, and 11, and say they are the income of the country, and take the average system, you are losing in any particular year a certain amount of the true income of that year, by the averaging system.

10,851. But you will get the effect of that in two years' time?—No, you will not.

10,852. *Dr. Stamp*: Is not the distinction really between loss and arriving at the actual income of a certain year?—No, this point is very plain. Take 5, 6, 7, 8, 9, and 10. In the year 6 he returns the average of 5, 6, and 7, an average of 6, whereas his income is 8. The next year, being 9, he returns an average of 7, whereas his income is 9. In the next year he returns an average of 8, and his income is 10. The State constantly loses.

10,853. *Mr. Mackinder*: You are assuming the world goes into liquidation, and we are coming to an end at this date, whereas I am entitled to say this year's income is the first of a new series, and you will get the effect of this year's income two years hence?—The actual experience of the last 15 years shows that the income of the United Kingdom has not looked back; therefore the averaging system each year robbed the State of actual income.

10,854. *Mr. McIntock*: Take the coal trade, where the profits fluctuate from period to period?—An exceptional case does not invalidate my general statement.

10,855. If you go on from your figure 10 and start to show ups and downs, what will happen then?—In the case of the United Kingdom, taking the course of trade and industry as it has actually occurred, it can be shown that the State has lost taxable income for many years—for the last 15 or 20 years.

10,856. As against that you put forward the proposition to-day that the preceding year should be taken?—Yes; but that is not my only reason for advocating the abolition of the three years' average. I advocate it as an act of justice, and I think it fair that in any year having done well or badly in the past you should pay more or less at the very time when you are well prepared to pay either more or less.

10,857. I agree there are many advantages, but here is your alternative: a man makes a loss of £10,000 one year, and he pays no tax; the next year he makes a profit of £5,000, and pays on £5,000; he makes a profit of £5,000 the next year, and again pays on £5,000. The result for the three years is, he has made no profit at all, and he has had to pay tax on £10,000?—Yes.

10,858. As against the present averaging system that is your alternative?—Yes.

10,859. Do you suggest yours is a fair proposal?—I do; I am quite prepared to abide by it myself.

10,860. Are you a trader returning on a three years' average?—If you put it to me personally I can make a very good case.

10,861. *Mr. Kerly*: Well, the answer is No, is it not?—These things ought not to be argued on personal cases.

10,862. *Chairman*: Did you hear what *Mr. Kerly* said?—No.

10,863. *Mr. McIntock*: One other point I want to ask you about. In paragraph 2 (c) you refer to the loss of Excess Profits Duty. You put it at £70,000,000?—Yes.

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[Continued.]

10,864. Would you tell us what members of the community or which class of traders in the community you think have escaped this Excess Profits Duty?—Many classes.

10,865. Do you suggest it is the small trader who does not keep books?—No; I suggest different classes of traders, some of them very big.

10,866. You mean the big traders who keep proper accounts?—Yes.

10,867. Have you ever had occasion to submit any accounts to the Inland Revenue for Excess Profits Duty?—No; I am not a payer of the tax.

10,868. I said have you ever had occasion to submit any?—No.

10,869. Have you any idea of the thoroughness with which the accounts are investigated?—I hope they are.

10,870. Do you know how thoroughly they are investigated?—Forgive me, I do know this; I know of many cases in which there is evasion in the form of paying salaries to get rid of the Excess Profits Duty. I know of cases in which the partners deal in commodities so that they do not come into the accounts of the firm. I know of all sorts of things of that kind which have come to my notice in the last three or four years. They take so many different forms that I come to a certain conclusion. If you think my conclusion is wrong you are entitled to your opinion, but I should invite you very seriously to examine the officials about it.

10,871. I am asking you to give us the grounds of your statement?—They are the grounds of my statement.

10,872. I am asking you if you have any practical experience of the thoroughness with which the Inland Revenue investigate accounts; the only other class are the traders who keep no accounts?—They cannot investigate the accounts in the cases I have mentioned; the accounts are perfectly correct. £5,000 paid to Thomas Brown, Junior, out of profits.

10,873. Plenty of taxpayers charge items and pay these salaries. Do you know that the Inland Revenue always pass them? You are aware that there is a very stringent examination as to salaries paid, as compared with pre-war?—I have said what I have said.

10,874. Well, I suggest to you that you want a little more evidence before you put statements like that forward?—I suggest you should call the officials and very closely examine them on the points to which I have referred.

10,875. I do not think we need call the officials. I have made up a good many returns?—You asked me whether I knew what the officials do; I think it would be far better, with great respect, if you asked the officials themselves.

10,876. Chairman: We shall do that; but could you say really from knowledge that this has been done?—It is very difficult when one is giving evidence before a Commission of this kind to name names or to name particular cases. You know how difficult it is, Lord Colwyn.

10,877. Is it from actual knowledge that you speak, or is it from being told by someone?—I have been told by someone, and, as a public man, I have received letters. I received a letter, for example, to take the case I mentioned, which I had in mind, to this effect: "Let me bring to your notice a common way of evading Excess Profits Duty. The firm is a manufacturing firm in so and so. One of the partners deals in the material. Dealing in the material, it not being the ordinary matter of his trade to deal in the material, he does not even pay Income Tax on the profit he makes in that dealing. It is an odd transaction. He never did it before, but he does it now. It does not go into his Income Tax returns, and it does not go into the Excess Profits returns of the company." That is a letter I received. If you like, I will look it up and hand it to you later.

10,878. I should like that, if you will do so?—That is one case. Other cases I have been told of where profits have been appropriated to salaries and all

sorts of things of that kind. Forgive me saying so, but the officials do their work well, but they have been doing it under very great difficulties. They have had three, four and five times the amount to do at Somerset House than they had before the war, when they had more men to do it. Can you really imagine that, with all the good-will in the world, they make an absolutely thorough investigation of every case? It is common sense that they would not have time to do it, whatever their good-will might be.

10,879. Take Mr. McLintock; he has had great experience in these big concerns, having to deal with this matter. Our experience in all the affairs that we have had to deal with is that the Income Tax people have been very, very careful, and that these exceptions which you specify cannot, I think, be very large ones. We are here to examine these things and to find out, and the letter which you send to me will be very carefully considered?—I hope no word I have said reflects on the officials. I look at the fact that £285,000,000 of Excess Profits Duty was collected by how many men I know not; perhaps Dr. Stamp could tell us how many men collect that money?

10,880. Dr. Stamp: Do you mean actually engaged in collecting it?—Yes.

10,881. 300 or 400 Surveyors, and they would have their assistants and clerks?—What does it come to in dealing with £285,000,000?

10,882. Mr. McLintock: I have seen some thousands of cases during the war, and I know of no single case of Excess Profits Duty where the accounts were accepted without the closest investigation of every item, and I assume that my experience is common to everybody else.

10,883. Mr. Walker Clark: Particularly salaries.

10,884. Mr. McLintock: Particularly salaries.

10,885. Dr. Stamp: May I clear up the point about salaries while you are on it. Your idea is that by charging excessive salaries the Excess Profits Duty is diminished. We are at the moment on the point of the rough estimate of the national income. If it is taken out of the Excess Profits Duty as salaries, do you suggest that the Revenue do not pick it up out of Income Tax on the salaries?—Not to the same extent.

10,886. Where does it go to?—Say it is £100. If it is Excess Profits Duty it is £80 at once. If it is paid as a salary you do not get 80 per cent.

10,887. Do you suggest that the Surveyors pass the items charged as salaries?—How could they challenge the reasonableness of a salary? The firm if asked would say, "We are expanding our business. Where we were making 10 shells we are now making 10,000."

10,888. Mr. McLintock: You mean that represents in the wages book half a dozen people all defrauding the country?—I have heard so many cases in this war from well-authenticated sources. I speak with a good deal of conviction in what I say, not only in regard to charging the Government on Government contracts, but many other things, some of which have been proved in Court, and those that have been proved in Court, in my opinion, are only a small percentage of the cases that actually occurred. I may be wrong in making that statement, but I speak as a man who, after all, has opportunities for making inquiry, and who as a public man receives volunteered information from all parts of the country.

10,889. From people who have been defrauding the Revenue?—No, from people who have found it out.

10,890. Dr. Stamp: I suggest to you that your item (c) in paragraph 2, if correct, is balanced by a corresponding error the other way in item (a), if the Revenue people do their work properly?—No, for the reason I have stated, that £100 escaping Excess Profits Duty is £80 lost to the Revenue.

10,891. The only thing that comes off the total income is the amount of the Excess Profits Duty?—Yes.

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[Continued.]

10,892. The only effect is that it goes on to the top from (c) to (d)?—That would cover this particular case, but not the case I put to the Chairman.

10,893. You are speaking of evading Excess Profits Duty by salaries; it may be an evasion of Excess Profits Duty, but it cannot affect your total on this estimate?—On the salary item it would only affect the amount of Revenue received by the State, but in other kinds of cases I may mention it affects not only the amount received by the State but it affects the top line, the amount of taxable income. Take a man buying cotton who never bought it before; it is not part of his income and no part of his business to deal in cotton, and it does not go in his Income Tax returns.

10,894. Are not you really on a different point, that the scope of the tax is not wide enough?—No. It is that it was well worth while to evade the Excess Profits Duty. If you could write down £1,000 of excess profits in another form you escape £800 of taxation. The temptation was very great, and after all there are many business methods of meeting that problem. Some of those methods have been described to me.

10,895. Mr. Mackinder: With regard to the salary question, do you suggest that these were salaries to the officials of the company, or are you taking the case of people paying salaries really in lieu of profits?—Do not you think the young son of the managing director can be advanced into a position by the war in which it would be necessary for him to carry on certain duties. That is how it could be put in explaining the matter, that it had arisen because of the war, and he was therefore receiving £1,000 a year, whereas before he was receiving £800.

10,896. Chairman: All that you can say is that you believe there are evasions in that respect, but that there are no definite cases which you can put before us?—Not more definite than I have stated, but they are very definite; they do not rest upon hearsay.

10,897. We cannot cross-examine upon that, because there is nothing more definite than that.

10,898. Mr. McLintock: What you have indicated to us—F—Might I ask this, if it is legitimate to ask you a question: when it was suggested in the House of Commons that the books of firms should be examined in connection with Excess Profits Duty, it was debated hotly and defeated. Why was it debated hotly and defeated if it did not matter whether the books were examined or not?

10,899. I suggest you ask those who debated it; it is not a question to put to me. I did not debate it in the House of Commons, and you were there at the time?—At any rate it bears on my evidence, because I claim in my evidence that the Inland Revenue authorities should be armed with powers that they do not now possess.

10,900. You know that the Commissioners have power to demand books?—No, I was informed not; is that so, Dr. Stamp?

10,901. Dr. Stamp: The Local Commissioners have power to investigate books; as soon as the matter comes before them on appeal they can call for all documents.

10,902. Mr. McLintock: They call for very drastic certificates from the accountants. On the question of exemption and raising the limit to £350, you indicate that you think hachelors with £250 should contribute something?—Yes, except for the practical point I have spoken of. I think the amount of work in connection with it would be so great.

10,903. On the general question of the abatement of £250, I want to ask you if in your opinion the recent extension of the relief to dependants has not gone a long way to meet it, say a household with husband, wife and three children, where the total relief is £260?—You refer to the Hopkins system?

10,904. No, I am referring to the existing position with an abatement of £120?—No, I think the existing system does not meet the case.

10,905. You mean that for a household with a husband, wife, and three children, which means a relief of £260, the relief is not enough?—It certainly is not.

10,906. But you do agree that the bachelor, subject to your qualification, should contribute something?—Well, I worked out before the war a poverty line based on the meanest line of comfort. It was very mean indeed, so that you would not yourself if you could help it live like it. It came to nearly £2 a week. You have got roundly to double that at the present time. You have £4 a week—£900 a year—for what? Not for the kind of existence that ought to be tolerated in this country at this time, but a very mean kind of existence indeed. Another £50 or £60 in my opinion does not raise it to what ought to be considered taxable capacity in our time of day. It is my view.

10,907. Is your suggestion an exemption of £250 and all the existing reliefs on the top of it?—Yes.

10,908. That is with a household such as I have given between £300 and £400 a year?—Yes.

10,909. Sir J. Harwood-Barnes: I am sure we all sympathise with your desire to find us a new tax. You suggest that there should be a special levy upon capital of war fortunes. How are you going to analyse and obtain a record of war fortunes as against general fortunes?—By comparison of the fortune as it existed at the date of the armistice, let us say, with the fortune as it existed in 1914. If I am worth £100,000 after the war, and I was only worth £20,000 before the war, I should say that it is pretty clear evidence that the war has profited me as it ought not to have profited me.

10,910. Your suggestion is that the difference between those two fortunes should be subjected to a special tax?—Yes, the capital should be subjected to a very heavy tax indeed, almost to extinction, so that the gentleman I mentioned, for example, should be reduced pretty well. He had nothing before the war. Let us reduce him, say, to £500 or £1,000 a year. The war then will have benefited him a great deal, and he ought to be content with that.

10,911. How would you carry that out, for instance, with the Swedes and the Norwegians and the Americans, all of whom have profited immensely by the war?—We leave them to their own people; we can only deal with our own people.

10,912. Would you take no steps with regard to profits which they have made or are making out of the war?—I do not see how you could. If any suggestion can be made for dealing with them I would deal with them, but because I could not deal with one injustice it is no reason why I should not deal with this one which I can deal with under my hand.

10,913. If suggestions have been made to us to endeavour to touch those fortunes, do you think it would be worth while?—Certainly.

10,914. But you yourself have not considered and have no plan whereby these outsiders can be brought in to bear any of the cost of the war?—I am sorry to say I cannot; I wish I could.

10,915. In paragraph 11 I see you say that the Costings Department saved the nation £400,000,000, and you add that the Costings Department did not get to work until commercial operations had taken hundreds of millions from the Exchequer?—Yes.

10,916. £400,000,000 is hundreds of millions. How many hundreds of millions do you consider in your second?—I do not know; I have not the figure. The other figure is an official figure and is not based on hearsay. It is based on such things as this, the fact brought out at the British Association meeting yesterday or the day before, where it was shown that by the Costings Department of the Ministry of Munitions and the standardising methods they adopted they reduced the cost of the Lewis gun, the light portable machine gun, from £120 apiece to about £60 apiece. That was done by the Ministry of Munitions' operations.

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[Continued.]

10,917. Are you aware that the profits of the Lewis gun come under the Controlled Establishment regulations, and the makers will be called upon to pay over all except a very small proportion of that profit?—Yes, but that does not alter the fact to which I have referred.

10,918. Yes.—Does it? I only refer to it as the kind of saving that was made, and the kind of estimate that goes to make this £400,000,000. It has been given in Parliament both by Mr. Kellaway, the Deputy Minister of Munitions, and Mr. Lloyd George, the Prime Minister.

10,919. If the whole of the £400,000,000, or the greater part of it, was obtained back under the Munitions Levy or the Excess Profits Duty, does the Exchequer suffer to the extent of hundreds of millions?—A great deal of it was not got back. Take the case of shells. We began by making generous contracts for shells. We had to. The soldiers had to have shells, and you could not stop to inquire too closely into prices; you had to get your shells made. Then the Ministry of Munitions established this Costings Department, and also had the advantage, which is very important, of the national factories, where they could find out for themselves what materials exactly cost and what the cost of production was, and when making new contracts for shells they knocked down the prices.

10,920. Chairman: This is common knowledge?—I beg your pardon; I am glad if it is.

10,921. Sir J. Harwood-Buxner: I only wanted to know where you got the hundreds of millions taken from the Exchequer, looking at the fact that there was a Munitions Levy and an Excess Profits Duty, which touched every one of those particular matters. You have no account or statements; it is merely a general statement?—I think it is a good deal more than a guess, when you think of the enormous expenditure at the Ministry of Munitions. The Excess Profits Duty began at 50 per cent. and went up to 80 per cent. and then up to 90 per cent., and it was only 80 per cent. at the end. After you have subtracted that Excess Profits Duty, you have enormous sums left.

10,922. Hundreds of millions is very large?—No, not at all large in relation to the thousands of millions spent. The Ministry of Munitions did not deal in hundreds. Ten per cent. profit on £1,000,000,000 worth of munitions is £100,000,000.

10,923. I should be inclined to suggest that you entirely neglect the amount that came back in Munitions Levy, Excess Profits Duty, or Super-tax, when you estimate the hundreds of millions that have been taken from the Exchequer?—I do not. As I say, the Excess Profits Duty was not 80 per cent. until nearly the end of the war. It was 50 per cent., then 60 per cent., then 80 per cent.

10,924. Mr. Petyman: It was 80 per cent. at the end?—At the end, yes, but only at the end.

10,925. Sir J. Harwood-Buxner: Is it not the fact that the shipowners got a very favourable position because the House of Commons only brought in the Munitions Levy to the munitions firms, but did not bring ships into the general levy?—No, that is not so.

10,926. Ships were not brought into the general levy the same as controlled establishments?—A series of ships could be charged highly for, because the number of ships rapidly decreased. They were taken first by the Admiralty, and secondly, they were sunk by the Germans.

10,927. The matter of receipts and payments shows that the ships made a profit which was subject first to 50 per cent., then to 60 per cent., and then to 80 per cent.?—No, forgive me.

10,928. Chairman: What is your point. Sir John?

10,929. Sir J. Harwood-Buxner: The point I want to make here is, he states the enormous figures made out of the mercantile marine that he wishes to tax. I want to know where he gets those enormous fortunes from, and whether those fortunes did not rather come, not from the ordinary trade of the country, but from

speculations which were called capital profits, and did not come into the general taxation of the country; that is to say, in the way you gave just now, that the man was speculating instead of bringing it into his regular business. A man was speculating in cotton or corn, or he sold his ships or his factories. Are not those the people who made these capital profits which you now state ought to be specially taxed?—No. This £300,000,000 profit of shipping in two years, of which I speak, was not the profit on the sale of ships at all. It was the profit made on the running of the ships, and I assure you it is a well-authenticated estimate.

10,930. The profit made on the running of the ships I am quite aware of, but on that profit on running they had to pay 50 per cent., 60 per cent., and 80 per cent.?—It so happens that the shipowners had a very high datum line for Excess Profits Duty. In the two years before the war they made about 20 per cent. profit; they were therefore able to select those two years out of the three as their datum line. They were therefore very well off.

10,931. Any shipowner making 20 per cent. before the war was doing very much better than the shipowners generally do.—The average profits just before the war were very high.

10,932. That only forms a small proportion of this amount upon which you want to take a capital levy. Is it not a fact that a great part of those fortunes have been made out of sales of capital and speculations in cotton and corn which do not come into Income Tax at all?—I beg your pardon. I did not apprehend your point. I quite agree on that point, if I may say so, and that is another reason, it seems to me, for the argument I advanced that there should be a levy on war fortunes.

10,933. Mr. Kerly: One or two general questions on your very interesting paper. Can you tell me how you make a calculation without figures?—I do not quite understand what you mean.

10,934. You have used the expression, and you have used it more than once, that this was a calculation without figures. I want to know what sort of thing a calculation without figures is?—I am not sure if the shortened notes will reveal that I used such an expression as "calculation without figures." If they do, I withdraw the expression.

10,935. You will agree that you cannot have a calculation without figures?—Certainly; I thought we wanted useful information.

10,936. What you can have is an estimate?—Yes.

10,937. Do you think that an estimate which is a generalization from a few particular instances that can come to the notice of one particular individual, is likely to be very reliable?—No. No person ought to make a calculation on a few instances brought to his notice. I have never done so in my life, and I hope I never shall.

10,938. Will you tell me what you mean by sacrifice? You use the expression in paragraph 9?—Sacrifice is something given up for a certain definite purpose.

10,939. And sacrifice generally means some discomfort voluntarily submitted to?—It is the same thing in other words.

10,940. Do you not mean services where you said sacrifices?—No, I do not; I mean sacrifice.

10,941. Do you say a collier makes a bigger sacrifice for the country than a professional man?—Certainly I do.

10,942. In what way?—He risks his life every day, and does it knowingly. Go down into a mine and see if it does not come over you as you go down the lift at lightning speed that you are making quite an adventure.

10,943. That is what you mean by a sacrifice in this connection, is it?—Yes.

10,944. He does it because the wages which he gets are a sufficient temptation to him to induce him to

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enter that occupation and remain in it rather than some other occupation?—Yes.

10,945. Now we know what it is.—You are putting words into my mouth in every question. You are asking me a number of leading questions, and asking me to say yes or no to propositions which require very careful examination.

10,946. Pardon me; I did not ask you to say yes or no; I asked you for an answer?—I am asked to give an answer to a question which involves not only commercial but psychological considerations, such as why a miner goes down into a mine to get his living instead of emigrating to Canada to get work on a farm. It will require an answer of considerable length, and I do not think it will assist this inquiry.

10,947. That is not a question that I asked you. May I tell you I suggest you have coughed a good deal of your evidence, which, if you will allow me to say so, in a good deal of its particulars I personally agree with, in language which contains other suggestions?—Very probably. It was done in a great hurry under circumstances of very great stress.

10,948. For instance, I do not see that there is any advantage in comparing the services which are rendered by one member of the community and the services which are rendered by another by calling the services of the first sacrifices?—Well, that is a statement of yours; forgive my saying so, it is not a question.

10,949. That is why I put the question. You suggest that the well-to-do are paying their Income Tax for value received, which the poor who pay no Income Tax do not receive?—That is so.

10,950. And by way of example you gave citizenship, safety and security?—Yes; I threw out those suggestions.

10,951. Do the poor get each of those advantages?—No, they do not.

10,952. You say so?—I say so.

10,953. The poor get no citizenship? They have a vote, have they not?—A very limited citizenship indeed.

10,954. Do they have a vote?—Of course they have a vote.

10,955. Do they get safety?—Do they get safety?

10,956. Yes?—If you examine the returns of the Home Office you will find that many of them work in occupations which entail considerable risk.

10,957. Do they get the protection of the police?—Yes.

10,958. What do you mean by security?—They get the protection of the police—for what? What does the ordinary working man in Holloway, near where I live, get out of protection by the police? Look at his home! Street after street for square miles with nothing to protect. My home, on the other hand, is worth protection, and I get value.

10,959. Who suffers first in times of rioting?—The man with property; that is the very point I want to make.

10,960. I suggest to you that you are entirely wrong. When the Louisiana riots were disturbing this country, some of us had an opportunity of seeing who did suffer, and it was the small shopkeepers; that is a matter we can all form our opinion about?—If you mean that a man with property does not get more value out of the police than a man with no property, I really cannot understand your suggestion; I say that he does.

10,961. It was not a question of comparison?—Mine is a question of comparison. I am comparing here the respective sacrifices of different people with the respective values they receive under the protection of the State.

10,962. Then I misunderstood; I thought your suggestion was that the rich man got a return for his Income Tax, and the poor man did not get the same return; and naturally was charged nothing for it?—You are really expanding my suggestion and

decorating it. What I did suggest was that the rich man gets more service from the State than the poor man, and I believe that to be perfectly true.

10,963. One other question of a general nature. You suggest that the professional man is able to earn his income because he lives in a developed community?—Yes.

10,964. How much could a collier or a metal puddler earn in an undeveloped community?—In an undeveloped community the poor are sometimes better off than they are in a developed community.

10,965. So they are—such poor as are able to live. Can any of the industrial workers live in an undeveloped community?—We are speaking of the poor of those countries as they exist. It would be ridiculous to transplant a man at any given moment and make a comparison. I am merely stating in general terms that if you take the poor of different countries they are more nearly alike in point of economical advantage than the classes above. In big communities it is the classes above that gain, and not the classes below. I can give you illustration after illustration in proof of that.

10,966. I am quite satisfied if that is the answer to my question?—Take the northern countries of Europe. If you take Scandinavia, I say that the poor of those countries are better off than the great majority of the people of London, yet London is incomparably richer than those countries. That illustrates my point, not with a few cases, but with millions of cases.

10,967. I entirely agree with you if you restrict it to the agricultural classes. They could exist in an undeveloped community. Now let me pass on. You suggest that there has been great evasion of the Excess Profits Duty. Has that evasion been because people have been very careless or relatively careless about the amount of profit they were making? They have been willing that a large number of people should get a large part of the profits that would have come to them; that is how the evasion has occurred?—I do not know. I am afraid I do not quite understand the question.

10,968. You say a man gives very large salaries to his sons and to his employees. The instance you gave was of a man giving his son £500?—I named that as an instance of how a man could absorb, as it were, part of the excess profits that he made in his family.

10,969. Is not that because when a very large proportion of the profit was taken by the State, the man who was earning the profit became careless about the amount which was reckoned as profit?—So far from being careless he was so careful as to endeavour to absorb some of it.

10,970. Absorb it by giving it to other people?—But the careless man would not have made the arrangement. The careless man would have let the State take the tax that was due to it.

10,971. I suggest to you that experience shows that the Excess Profits Duty was a very uneconomical tax because it made people careless about the amount of profits that they earned?—It may be so in some cases.

10,972. Would not exactly the same result probably follow from an excessively high Income Tax?—It may be so.

10,973. It is obvious, is it not, that if you reach the limit and take the whole of the income beyond any given figure nobody would trouble to earn it?—A professor at whose feet I used to sit told me in my youth never to say that a thing was obvious, or to think twice before I said it. I am not quite sure that it is obvious.

10,974. As we cannot begin our investigation because you deny my first proposition I will pass on from it. You suggest that the exemption limit should be raised to £250?—Yes.

10,975. You propose to add after that £250 the allowances at the present rate for wife and children?—I said in answer to a previous question—probably you did not hear it—that I wanted the present position to

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obtain, substituting £250 for £130, but at the same time I said, in answer to another question, that I had very great admiration and respect for the plans put before this Commission by Mr. Hopkins.

10,976. You recognize that your proposal would mean to the average man an allowance of about £400 before he paid any Income Tax?—In some cases, yes.

10,977. To the average man?—Does it for the average man? I will take it from you.

10,978. Would it not be better to start the allowance at a lower figure and let that figure be increased to the average man by adding allowances for wife and children?—That is the Hopkins plan, which I say is well worthy of serious consideration.

10,979. Very well, I will leave it at that?—It may be that a compromise between the two might meet the case even better.

10,980. We have had several witnesses here who have told us that the Income Tax is a very excellent tax, and some have suggested that it should be the only tax. Each of the witnesses I have in mind represented large bodies of persons who would pay no tax at all, and therefore their statement came to this, that the Income Tax was an excellent tax for other people to pay. Do you appreciate, or do you believe that there would be a very serious difficulty before the country if a highly graduated Income Tax were introduced and it were controlled by the votes of people who pay no Income Tax at all?—I do not think so. That is, of course, the position that obtained before the war, when the Income Tax exemption limit was £160 a year; the number of Income Tax payers was only about a million, so that the great majority of the people who had votes did not pay Income Tax. The result was not so terrible as you seem to contemplate.

10,981. They had not then begun to raise the greater part of the income of the country by the Income Tax?—No, but a very large and increasing proportion was being raised. Super-tax was invented before the war, you know.

10,982. You suggest that there should be a capital levy on war fortunes?—Yes.

10,983. And that the war fortune should be the difference between a man's present capital and the capital he possessed before the war?—Yes.

10,984. How do you propose to work that? Do you propose to take a return from the whole of any class of persons?—You would have a sworn return from the individual, with powers of investigation.

10,985. From what individuals—all the individuals, I suppose, above a certain Income Tax limit?—Yes, I should think so. The receipt of unearned income is a pretty good test. I do not think you would have very much difficulty in finding the people. Of course, it is not worth the trouble of going to the little people; a man with probably £5,000 or £10,000.

10,986. How are you going to value the present capital of any man?—There are many plans of doing that. You could, if you cared to do so, make an allowance for rise in values, or something of that sort, and tax over that point.

10,987. You would make allowances for the rises in value?—Yes, it is a consideration.

10,988. Take, for instance, the man who has a house which before the war was worth £2,000, and is now worth £10,000; would you consider that a war profit?—No. You are naming a case there which would be swept aside. That has happened practically without any volition of the taxpayer concerned.

10,989. You propose to limit it to trading profits?—That is so, as far as it can be done. I think it could be done. I do not say it does not present difficulties, but I think it could be done.

10,990. I expect most of us would agree with the idea if it is workable; but one wants to see how it is workable?—I have been through all this before. I have been through all the years when it was said you

could not graduate the Income Tax, and could not differentiate the Income Tax; I had to fight it all through.

10,991. You have such an advantage over me, because I have not, and I want to learn?—If you go back to the year 1905 and read the literature and speeches of that time, read even my humble contribution, you will find it was said that Income Tax could not be graduated, and those who wanted to graduate it were talking as I am talking now.

10,992. May I remind you that sometimes it is said things cannot be done, and they cannot be done?—But here is a case as to which, subject to the imperfections of human nature, I think you can do what is necessary.

10,993. We are now going to limit it to war incomes made by trading profits?—Yes; that is to say you are to limit it as far as you can to real accretions of fortune which have arisen out of the war. I am sure that any half dozen men of ability sitting down on that problem could in a few days devise a good scheme. I really do not see that the thing is insoluble.

10,994. It seems to me you would have assisted us more if you had given us a scheme?—Forgive my saying this is an Income Tax Commission, and I thought really the work of this Commission would not be to hammer out such a scheme as that, but merely, as I said in paragraph 12, that they might direct the attention of Parliament to the fact that here is something which, while it lies outside their immediate subject matter, has a bearing upon it, because any capital values recovered in this way would lower the amount to be raised in Income Tax.

10,995. There is a class of problems where a negative answer is required, not because the end is undesirable, but because it is unobtainable?—Yes.

10,996. Surely, before this Commission can make any such suggestion as you propose, they ought to see whether the end is attainable?—Yes, I quite agree with that. I am sorry if I have not tried to help you more, but I did it under circumstances of very great difficulty, I repeat.

10,997. You have taken into account excess profits. Of course, in your calculation you took no account of losses?—No. Losses never have been taken into account by any nation that I know of in these matters. It is rough justice, and it has to be in that case.

10,998. You propose to charge Income Tax upon the basis of last year's actual income?—Yes.

10,999. I just want to make it clear; do you or do you not propose to carry forward losses?—No, I do not.

11,000. Has it occurred to you that if you do not carry forward losses you may ruin the traders?—No, it has not.

11,001. And leave them without the capital to carry on?—It must be very odd indeed if a man, after making a loss in one year, makes in the year succeeding a considerable income, the mere taxing of which would ruin him.

11,002. If he has made a loss and he has had to borrow money to meet it, or pay it out of capital?—Well?

11,003. The next year he is looking to his profits to repay the debt?—Yes.

11,004. And you would make him pay practically one-third of the profit he makes?—Well, I should think he would be in a fairly comfortable position, would not he? Let us suppose a man made a few thousands less one year, and the next year he made £5,000. You mean to say he would be ruined in paying the tax on £5,000, at 20 per cent.?

11,005. Like yourself, I am not a trader?—Well, I have been a trader.

11,006. You are a trader?—I am not a trader now, but I have been. I have had a very considerable business experience.

11,007. Then you deal with the question of undistributed profits. Is not the whole difficulty that you want to meet the distribution of undistributed profits

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in the form of capital so that they escape Income Tax?—No, I want to go further. I want to see the whole profit actually made by the limited company, which, if it were not a limited company, would be returned in a taxpayer's return, returned in that way. When the man sits down to declare his total income from all sources, I want it to include his whole share of the profit made by any company whose shares he holds. That is what I propose, quite seriously.

11,006. I follow. Is it a fair comparison between a private individual, who can retire from business, or take the whole of the profits he has made or believes he has made in the particular year, and the shareholder in the company who has not got and cannot get the undistributed profit until the company chooses to distribute it?—Well, that is his lookout. Is he really in such a desperate position if the company, in addition to paying a dividend, has the power to put sums to reserve? Is his position any more desperate than that of the private firm? He is a sleeping partner in effect.

11,009. You propose in effect to tax him as income in respect of money which he has not received and never may receive?—Well, he does receive it, because either he gets his dividend, or he knows that a certain sum in which he has a share has been put into a reserve fund and used by the company. How is that reserve fund used? First, it is invested, in which case the investment partly belongs to him, or, secondly, it is put into the business, in which case the business is improved and his money has been put into the business by a board of directors for which he has the power to vote.

11,010. He has the power to vote as you say. If I may correct your statement, in one respect he does not know that the money has been earned or has been invested in the business; he only knows that somebody has made an estimate and not himself?—A chartered accountant has said that the profits of the company are so much, and the board of directors in their wisdom have said, "we will pay a dividend of so much free or not free of Income Tax and the rest we will put to reserve," and they do or do not tell their shareholders what they have done.

11,011. In addition, the case is somewhat more striking than what I put just now, because not only does the man pay upon money which he has not received and may not receive, but he pays at a higher rate upon the money which he has received. Do you still think that that is a position?—Certainly I cannot see that there is any injustice in it. I am trying to see it, but I cannot see where the injustice comes in.

11,012. We are both aware of the proposition that the best way to deal with a *reductio ad absurdum* is to deny the absurdity?—There is no absurdity there that I can see.

11,013. You suggest that the Income Tax might be greatly simplified by amalgamating the Super-tax and the Income Tax itself?—Yes.

11,014. And by doing away with the three years' average?—Yes.

11,015. You would also be left with considerable sources of complication in our law which comes from the allowances for repairs for wear and tear?—Yes; they are matters of account.

11,016. You propose to leave those?—They are matters of account; they lie quite apart from the question of graduation.

11,017. You add a further source of complication by deduction at the source which you propose to leave alone?—Yes, that must be retained.

11,018. One question I should like you to answer as you have made a number of calculations and estimates, and that is, have you formed any opinion as to the average rate in the £ at which Income Tax is paid on the taxpayer's income of the country?—Yes, it is in the paper.

11,019. Would you tell me what it is?—You will see the calculation in paragraph 4, towards the end: "This left the aggregate income of persons with incomes over £130 a year at the figure of £1,893,000,000 in 1918-1919. That is to say, the virtual Income Tax expressed as a flat rate was no more than about 3s. 9d. in the £."

11,020. It is quite possible that we may have the actual figure before us. No doubt you have done your best with these calculations; would it be fair to judge your probable accuracy by comparison between your 3s. 9d. and the actual figure?—The actual figure does not exist.

11,021. But we may learn it?—You can only learn it from an estimate prepared intelligently by a capable person. There are many such persons at the Inland Revenue quite capable of producing this estimate. If you ask them what they think the Excess Profits Duty due and payable was as compared with what was actually collected, that is one point; secondly, ask them what they think the under-assessment was one year, allowing for averaging and for evasion and avoidance. I understand a table has been put in; substitute the official figures for mine; next add the Excess Profits Duty; here is a figure which must be near the truth, because £285,000,000 was collected, and the Chancellor of the Exchequer stated it was largely in arrear; therefore, when I put down £350,000,000 instead of £285,000,000 I was not going upon guesswork. Those are the whole of the figures.

11,022. I shall be as anxious to test anyone else's as I am to test yours, and I will try and remember that the question you suggest should be put to any official who comes to give evidence?—Yes. I have a great respect, which I have tried to express, for the officials of the Inland Revenue; I do not therefore throw any doubt on their figures.

11,023. Chairman: With regard to your statement on the capital tax, that matter has been in the mind of the Commission. It has been thought over before you gave us the pleasure of putting it in your paper, and it will be investigated as a great many other serious matters which came up before us will be investigated—I notice, of course, the law case of which everybody knows, in which they brought an action in order to test the matter of reserves and Super-tax.

11,024. Sir T. Whittaker: I will not ask you questions upon or discuss your estimates. As you very truly say, they are matters of opinion, and on some of them I should differ, although I value very much the work you have done in that way; I do not wish to pursue that. With regard to the Excess Profits Duty, I do not know whether you have realized the extent to which that duty led to ways of extravagance, that is to say, people, when they saw the amount of profit that would involve them in payment of that duty, were willing to throw it away almost, amongst their employees, and in advertisements and in various ways, because if they did not, it went to the Government; you realize it did lead to a very large amount of extravagance?—I have heard of cases.

11,025. It is very widespread?—It is very difficult in those cases to generalize, as you know, but certainly I have heard of a considerable number of cases.

11,026. It is widespread, and it led also to these institutions which have made large sums paying their employees and their staffs very generously and very freely, which involved others who had not made those large sums to do the same thing, and so led to general extravagance?—Yes.

11,027. You realize it is one of the difficulties and objections?—Yes, Excess Profits Duty is not wholly defensible, and I am only defending it in the particular circumstances. In the long run you might gain by an improved system. For instance, look at the gas profit clause; that is an Excess Profits Duty. If you make more profit, down goes the price. I notice the Gas Light and Coke Company have reduced the price of gas in spite of coal going up.

11,028. With regard to the Inland Revenue people for Income Tax purposes and Super-tax purposes having power to require the production of books and access to all information, is it not the fact that they have power to enable them to demand almost anything they require in this way, and if you do not give them the information they want they can keep putting up your assessment until you do produce it?—Yes. I am afraid, after what Dr. Stamp says, I

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[Continued.]

may have rather overstated that, and if so I apologise.

11,039. But they do get very ample information?—I should like to have the details before me of what exactly their powers are, after what has transpired this afternoon.

11,040. Their powers are direct and indirect; they can practically get everything they want?—I am bound to say I have understood they are not satisfied with their powers.

11,041. They have great power. With reference to what you call these large war fortunes, speaking for myself I think most people would agree that the large fortunes that have been made during the war would be a very legitimate subject of taxation. I would not limit it to taxation of fortunes made out of the war; I do not think you can. I think you have to deal with it as you do the Excess Profits Duty. That is, any fortune that has been of a special nature. The real difficulty is the practicability, and if you could have suggested any working plan you would have assisted as a good deal?—I really did not think it was the business of this Commission to make a plan as to that.

11,042. The official objection that has been taken is practicability. Public opinion in my judgment would welcome it, and as the Chairman has said, we shall have to consider this, and if you could have given us any practical suggestion it would have been very valuable. With regard to the simplification of the Income Tax by having a graduated tax right through the scale, which is your proposal, would that really simplify matters very much? You suggest that the abatements for dependants and that sort of thing should still be allowed?—Yes.

11,043. Therefore the only thing that you would get rid of would be the allowance of the minimum figure; that is all?—Forgive me, I have spoken of the valuable evidence of Mr. Hopkins. He makes some excellent suggestions for improvements. My only criticism of them is not their effect so much as the way they do it. I think it is on page 197, the second column (see paragraph 602), where he says, instead of the present system "every taxpayer would be granted a rebate of duty (not at present granted), as follows:—Income exceeding £1,000 and not exceeding £1,500, 1s. 6d. in the £," and so on, and by chipping away in that way he makes his scale fairer, in my opinion, than it is now. It is not the tax that I complain of; it is the way he does it. If you try to explain the Income Tax to anybody, you have to write out a large number of sheets of foolscap. You say the rate is not really what it says it is; you have to take so much off. Or you say, do you not, see clause so and so, which says if your Income Tax is this or that, you get a rebate of so much, and when you have got that into the man's mind he says, "Yes, it is fairer than I thought it was." Cannot we substitute for that, I do not mean a beautiful mathematical curve, but a plain common-sense curve based on ordinary human considerations, and the considerations of the Chancellor of the Exchequer, so that the man who has got £2,500 a year knows at once, his rate is so and so, and the man who has £7,000 a year knows that his rate is so and so, definitely?

11,044. My only suggestion is, it really does not simplify the working of the tax very much?—I think it does.

11,045. Your main point is, its effect on the public opinion if a person knows the exact rate of tax he pays?—It is done in the case of the Death Duties, and has been for many years since Sir William Harcourt graduated them. There is a little tinkering at the top, which rather detracts from the simplicity, but it is a plain scale of so much per cent.

11,046. I am not suggesting there is any difficulty, but when you speak of it as simplifying the tax—I do not mean simplifying the working of it—I suggest it means very little. I do not say it is impossible, it is perfectly practicable, but it does not amount to anything?—Forgive me for saying I think it helps the public to understand a tax that ought to be understood. You have no idea of the number of letters I have to write to different people to try and explain their Income Tax to them, until

it becomes a bore. They ought to know much better than I. If it were easily understood people would see its justice more. Secondly I think it saves work; there are not abatements to work out, and so on.

11,047. With regard to the taxation of the profits which are carried to reserve, it is clear, is it not, that it is an injustice to the small man that that part of the profit, which is his share really, that is carried to reserve is taxed at 6s.?—Yes.

11,048. It is an injustice to him?—It is an injustice which ought to be remedied.

11,049. It ought to be set right?—It ought to be set right, whatever its results.

11,050. And it is also an injustice to the State, on the other hand, that the large shareholder and the wealthy man escapes Super-tax on that money carried to reserve?—I quite agree.

11,051. You are probably aware that we have had during recent years, especially in the last three years, very large distributions of what are called bonus shares?—Yes; it seems to be growing.

11,052. Practically that is a dividend distribution to these people, and we ought, ought we not, to get tax upon them?—Yes.

11,053. Mr. Petyman: You agree that the effect of the Excess Profits Duty, which I think has been the general experience, has been to cause extravagant expenditure?—Yes.

11,054. Because they have to pay away 80 per cent.?—I do not disagree with that, because I have heard of a number of cases of it myself.

11,055. Do you agree that that will always be to some extent the effect of very high taxation—what an individual considers super-taxation?—Of course, if super-taxation went an inordinate length it certainly might have that effect.

11,056. Is it not a very important fact that, in order to secure a tax, the individual taxed should feel that the tax is essentially just?—Yes.

11,057. If you impose upon any individual, rich or poor, a tax which he feels to be a super-taxation, a penal taxation or essentially unjust, will he not consider himself justified in doing everything he can to avoid it?—Yes. Injustice in a tax makes people dissatisfied.

11,058. Is not the feeling exactly the same as in the case of the miner who is prepared to take any steps to avoid paying any tax until his income exceeds £250; is not human nature exactly the same in a man who has a very large income and who thinks that 10s. is the limit which ought to have been put upon him?—Yes.

11,059. Will not they both do all they can to avoid it?—All these matters are matters of degree.

11,060. That leads me to this, and I am not speaking of matters of justice at all; but the primary object of taxation is to collect revenue?—Yes.

11,061. And to collect revenue with regard to the maintenance of the trade of the country, is it not of very great importance to bear in mind the limit to which you can carry taxation on large incomes without defeating your own object?—Yes.

11,062. Is not there a danger of reaching a point and a very serious danger-point, when the increase of the rate of tax will not result in an increased revenue?—There must be a point at which these feelings are engendered.

11,063. At present, broadly speaking, the highest rate of taxation is 10s. in the £1?—Yes.

11,064. It is only on very very large incomes that it is 10s. 6d., because Super-tax is not paid on the whole income?—Well, that is only the virtual rate, because Super-tax is paid on last year's income.

11,065. I will say 10s. Theoretically 10s. 6d. is the highest rate, but on large incomes it is 10s.?—Yes.

11,066. You have considered these matters very carefully. It is the sort of point you would have considered. Have you in your mind whether 10s. is or is not the sort of figure, or is it much lower than the sort of figure, at which by increasing the rate you

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would be in danger of decreasing or not increasing the revenue?—You put it to me as a practical matter in the circumstances of our time; is 10s. a sort of maximum that this Commission ought to have in its mind?

11,057. Have you formed an opinion upon that?—Yes. I think you could go above 10s.

11,058. You were speaking of justice?—No; only of practicability.

11,059. I am speaking purely from the point of view of revenue?—I am speaking now of practicability in the circumstances of our time, and its effect on men of business. I think you could go above 10s., but whether you could go as high as 15s. or not I do not know. It is a matter of experiment. I do not think 12s. would have any more effect than 10s., because business men know that taxation is rising abroad as it is here, and all over the world in civilised communities men have in the name of common sense to submit to high taxation.

11,060. I am not talking about money going abroad; my point is about extravagance?—Yes.

11,061. Take, for instance, a man who has got £20,000 in War Loan lent to the country; they pay him £1,000 interest on that, and they take back half of it in taxation at 10s. in the £. Therefore, of that £1,000 the State takes £500, and the nominal owner takes £500. Supposing he spent that £20,000 on a picture; that picture gives him pleasure, as you pointed out, and he gets the whole of the pleasure. The State loses £500 and he loses £500?—Yes.

11,062. When you get beyond a certain point, if the State is taking 12s. and he is only getting 8s., then the State is taking £600 and he is only taking £400 out of the £1,000 which the State purports to pay him; whereas if he spends that £20,000 on something which will give him pleasure, but which will produce no income, the State contributes £500 of it and he only contributes £400. Is not that a direct temptation to extravagance to those who can afford it?—Yes; but then one has to deal with the circumstances that obtain. After all, a man in that position knows what has occurred. He knows the position of his country; he knows his own country is in no worse position than others that have to raise huge revenues. That must be present to the mind of the man who has to pay; we have no other recourse, and we must tax.

11,063. One effect of this very heavy Super-tax up to, say, 15s. in the £ on large incomes, which I think you consider rather a desirable effect, and it may be a very desirable effect, is to correct the distribution of wealth. Without taking your actual figures as to so many thousands people having two-thirds of the total income or capital of the community, but assuming that too few people have too much money, generally without going into the actual figures, one of your objects in this taxation would be to correct the distribution?—Yes.

11,064. And to reduce the large incomes down to a reasonable level?—Yes; but that would not be the major object. I do not believe in getting to a better state of society merely by redistribution in that form; it is incidental.

11,065. I am only speaking of the result of it, and not whether it is desirable or not; it would have that effect?—Yes.

11,066. But you would still have the same revenue to raise, clearly?—Yes.

11,067. As the incomes at the top were reduced their taxable capacity would fall?—Yes.

11,068. Where would you raise the revenue then?—The State would have to look for other sources of revenue, as other countries have done.

11,069. They are already doing that?—Are they? Take the case of Prussia. Prussia before the war raised half of its national income from revenue producing undertakings owned by the State.

11,070. The Prussian genius and ours are not quite the same in that direction. Do you seriously suggest that State-run industries in this country would

be our best resource of taxation?—I do not know what other resources will be open.

11,071. That exactly is my point?—Or in any country.

11,072. If by super-taxation the taxable capacity of the owners of the largest incomes is reduced, you admit that the demands of the Revenue remaining the same or even increasing as they have done to-day, that revenue must be raised somewhere else?—Yes.

11,073. Your only suggestion for it is State industrial concerns?—Suppose all the firms of the United Kingdom came to an agreement that they would not make more than 5 per cent. for their shareholders, obviously you would get a great fall in the taxable income on our graduated scale of taxation.

11,074. Not at all under your proposal, because all their profits would be taxed whether they were distributed or not?—No; they could tax them, but in the hands of people who are taxed at a lower rate and therefore you would not get the same revenue.

11,075. If the money goes to people who are paying at a lower rate instead of to the people who are paying at a higher rate you would get less revenue; that is just my point?—You would either have to readjust your scale or go without revenue.

11,076. Would not you be then compelled to have a higher tax at the lower level?—You would have to levy a higher tax at the lower level, or else seek other forms of raising the revenue of the country.

11,077. Dr. Stamp: I would like to look for a moment at the estimate you make of the national income upon which a certain amount of your evidence turns. The total comes to £3,640,000,000?—Yes.

11,078. I am not disposed to criticise that as being too high or too low. In my own judgment, as far as I am capable of judging these matters, I should think it is somewhere about the truth. There are one or two details in the calculation I should like you to give me your ideas upon, because that may modify the argument. Take (f) in your second paragraph: "The averaging system diminished the assessed income of 1918-1919 by at least £150,000,000." I am not talking about any loss of revenue, or any lag, or the various things that have been talked about this afternoon. I merely want to get what is in your mind as to the difference in the profits now from some years ago. If you take those figures, as an example for the year 1918-19, the assessment would be the average of 1915, 1916 and 1917?—Yes.

11,079. Suppose that 1915 were £100,000,000, 1916 £120,000,000, and 1917 £140,000,000, then your average for 1918-19 would be £120,000,000?—Yes.

11,080. Suppose that your actual profits for 1918 are £160,000,000 in the order of progress that we have gone?—Yes.

11,081. There is a difference between the actual and the average in 1918 of £40,000,000?—Yes.

11,082. That is the sort of figure you are talking about in this £150,000,000?—Yes.

11,083. If the difference between the actual year 1918 and the average is £150,000,000, then the difference between 1918 and 1916 would be about £150,000,000?—Yes.

11,084. And 1915 would probably show a larger difference?—Yes.

11,085. And 1915 would be somewhere about the pre-war profits; there was not a great deal of difference in 1915?—No, I should think not; but 1915 was beginning the war contracts and very high prices.

11,086. What sort of figure would you substitute for this £150,000,000 if you were taking the difference between the actual profits of 1918 on this paragraph and say 1914—£200,000,000?—I should say at least.*

11,087. £200,000,000, the difference between 1918 and 1914. 1914 is roughly the pre-war standard of income?—Yes.

* Note by witness:—My answer should have been "much more."

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[Continued.]

11,088. What people are entitled to keep now which comes into the Income Tax returns at the top is 20 per cent. of their rise, is it not; the State gets 80 per cent.?—In this year of which I speak they will get more, because it is reduced to 40.

11,089. We are dealing now with the average income assessed for 1918. I am speaking only of the income for 1918, which by hypothesis is £200,000,000 more than 1914?—Yes.

11,090. Suppose that £200,000,000 is one-fifth of the total increase: therefore the total increase is £1,000,000,000 before you take Excess Profits Duty off?—Yes.

11,091. If you charge Excess Profits Duty on that £1,000,000,000, the sum which would be payable to the Exchequer would be 80 per cent., £800,000,000?—Yes.

11,092. Whereas as actually assessed it only comes to £220,000,000?—Yes.

11,093. Does not it seem to throw some doubt either on the Excess Profits Duty computations or on the £150,000,000?—It does.

11,094. I suggest, as you are averaging what is left to the taxpayer after taking off the duty the £150,000,000 ought to be very substantially reduced, or else your Excess Profits Duty is ridiculous?—I see your argument.

11,095. May I go now to item (c), the evasion of Excess Profits Duty, £70,000,000. That has been described in two ways, partly things that do not come under the notice of the Revenue, and partly these excessive salaries?—Yes.

11,096. I do not know how much you attribute to one and how much to the other, but let us take the case of the excessive salaries that are paid. I want to see whether I have the same idea in my mind as you have in yours in this table. Supposing a man who made £5,000 before the war now has profits of £10,000; he would pay £4,000 Excess Profits Duty, being 80 per cent. of his £5,000?—Yes.

11,097. Taking that from the £10,000 would leave him assessable to Income Tax on £6,000?—Yes.

11,098. So you would get into the top line of this table £6,000, and you would get in line (a) £4,000?—Yes.

11,099. And you would get in this total income of the country the £4,000?—Yes.

11,100. By reason of this extravagant method of paying salaries, he pays £1,000 that he did not pay before; you then get £9,000 as his business profit in that case?—Yes.

11,101. With an excess of £4,000?—Yes.

11,102. Of which he pays £3,200 in tax?—Yes.

11,103. In the top line you get £5,800 as income?—That appears on the top line.

11,104. You also get the £4,000?—Yes.

11,105. And you also get in the third line the £3,900?—Everything appears in the top line as before.

11,106. You get the figures in the top line, and you have two items instead of one?—Yes.

11,107. And you get in line (a) the Excess Profits Duty he pays, £3,200?—Yes.

11,108. That comes to £10,000 again. Now vary the figures and let him pay £2,000. It still comes to £10,000?—Yes.

11,109. Without adding anything to line (c) for evasion?—In that particular case, yes.

11,110. Now let us take the second branch of the case?—It would not apply to every case.

11,111. In the case where he evades it does not come to the Revenue at all?—Not in every case, but you get an equation for line (c). It would depend on the amount of the salary and the amount of tax on it.

11,112. The amount of Income Tax on the salary I suggest does not matter a scrap. However you manipulate these figures you always get the total in-

come on those figures without line (c) at all?—Yes, you always get the total income in the salary case.

11,113. Let us take the second line of evasion, where there is some profit which does not come to the notice of the Revenue at all?—It does not appear in line (a) at all, so you get a double loss there. On such an item as that you get a loss on line (a) which is part of the estimate (g), and you get a part of course which should appear but does not appear in line (c).

11,114. I suggest for your consideration—I will not pursue it—that (c) and (g) are a duplication. I will not reason it out now, but I think you will, after considering it, come to the conclusion that (c) and (g) are really duplicating the same thing?—I do not think so in that particular case.

11,115. I think so in all cases, unless you mean that the total evasion of Income Tax is £170,000,000, because that is what it comes to, because what is an evasion of Excess Profits Duty in that way is also an evasion of Income Tax in that particular case; therefore line (c) either is not wanted because it is in (a) or it is not wanted because it is in (g), if you take £100,000,000 as the total?—Yes, but granted that for the moment, nevertheless there is an omission which has got to appear in either one or the other.

11,116. I am quite content for you to say that part of the evasion of Excess Profits Duty does appear; I only ask you whether the evasion of Income Tax you really mean is £170,000,000?—Yes.

11,117. I suggest you do not mean that it is £170,000,000, but £100,000,000?—It would be if the evasion only covered some kinds of cases.

11,118. Coming to line (g), "Evasion and avoidance account probably for an under-assessment of £100,000,000." That I take it is only a sort of impression that you have?—Yes.

11,119. It compares with your £70,000,000 of years ago?—Yes. You are familiar with the estimates that have been made from time to time. I raised my old estimate to a round £100,000,000 because of the fact that a great number of new firms sprang up during the war, and very possibly there was increased evasion in respect of new war income, which was often made by people of the most dubious character.

11,120. This figure is comparable with your old figure of £70,000,000?—Yes.

11,121. Your subsequent investigations have made you think that the £70,000,000 was right?—Yes, and I increased it for the reason named.

11,122. You are aware that there are some people who do not think it was more than £17,000,000?—No. It has always been put at a very high figure by anybody who has thought about it. But you know more about the estimates than I do.

11,123. I suggest it has been examined in rather more detail than you have given, and it has been found difficult to arrive at a figure of £70,000,000 before the war without the most ridiculous results because the range in which that can occur is so limited as to make £70,000,000 a very high proportion indeed?—Take the foreign evasion; do not you yourself put a high valuation on that?

11,124. What is the total amount that is capable of being evaded there?—The question of re-investments abroad.

11,125. Not remitted to this country?—Yes, not remitted.

11,126. The figure would be £20,000,000 in all when it is remitted?—Yes.

11,127. Was that in your £70,000,000?—Yes.

11,128. There is now legislation to cover that?—Do you think it is successful?

11,129. If it is moderately successful what difference does it make if the total is £20,000,000?—There is a case where a man has not got to evade; he has merely to do nothing. How can you discover it.

11,130. He is called upon to make a return?—Yes.

11,131. There is now a law, though there is not much machinery for getting that, and if the total to be got

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is £20,000,000 and the Revenue are only successful in getting a half of it it leaves 50 per cent., £10,000,000, to be added?—With all respect, I cannot see how such a percentage is made by Somerset House. As you know, I have a very sincere respect for their ability, but I cannot see how in cases of that kind they can investigate the problem. If you take such a correlative case as the amounts assessed to Death Duty in respect of personal property, furniture and personal possessions of that kind, the amount that appears every year in the Death Duties is obviously wrong. It cannot be such a small amount as appears in the Death Duty returns, otherwise there would be practically no furniture in the houses of the country. What is the explanation? The explanation is that the officials really have not the time to push every case to a thorough examination; that is my own explanation. Here is a rich man's house, and they have the power to value, and if they cannot act in that case how can they do it in the case of some unknown property in a foreign country, possessed by a private individual, of which they have never heard?

11,132. Granted all that, the question of magnitude comes in; what is the amount? I suggest to you that it does not justify a figure as high as £100,000,000?—But you have that calculation of £200,000,000 before the war of foreign profit. If there were 20 per cent., £1 in £5, undiscovered, that would be £40,000,000 alone.

11,133. I think the official estimate of that given in Parliament was that there was £20,000,000 to be brought in under that legislation of unremitted income?—Yes.

11,134. I will not pursue that now. Coming to (f), you have there £200,000,000 included in Income Tax?—Yes.

11,135. And £200,000,000, which is an estimate of yours?—Yes, it is got by the method of debiting the pre-war wages, which is about £700,000,000 for the manual workers. I have debited it making £1,400,000,000, and subtracted 10 per cent. by reason of the fact that we have lost about 1,000,000 of our most able-bodied men through the war. Then there are hundreds of thousands maimed, and unable to work as they used to work, and therefore I have deducted 10 per cent. from that £1,400,000,000, reducing it to £1,260,000,000, which I think is reasonable.

11,136. Have you taken into consideration the incomes of the women who are working now and not then?—Yes, I think so. You mean there is a great influx of new workers.

11,137. It is such an important figure that if you rely on it could you give us some more details as to how the figure is arrived at?—That is how it is arrived at—by doubling the pre-war wage aggregate and deducting 10 per cent. If I am wrong on that what would be the explanation? Even since I have written this memorandum the opinion is growing in my mind that we are in for a trade boom. If we are in for a trade boom not only will the £1,260,000,000 go up, but the £2,640,000,000 will go up. That will mean that there will be such good employment that all these new people who have come in will be kept in.

11,138. I will pass from that with this comment, that personally I should be disposed to agree with the total, but to add £200,000,000 to (f) and take it off the rest of your statement which does very materially affect your argument as to the distribution of wealth. Coming now to paragraph 4, you say the collection is £285,000,000, but there is a great lag in collection; that comment is only material if the lag at the end is greater than the lag at the beginning?—Yes, but I think the lag on the year's collection was greater. It went up very rapidly, as you know. The lag was small on the preceding year, but the lag on the year just ended was much larger.

11,139. When I first read this passage at the end of paragraph 4, "That is to say, the virtual Income Tax expressed as a flat rate was no more than about 3s. 9d. in the £," I understood that to mean that that was what you thought was the flat rate on the Income Tax paying classes?—Here is the total income, £2,640,000,000.

11,140. There is a virtual Income Tax according to your statement of £288,000,000?—Yes.

11,141. £288,000,000 on £2,640,000,000 is 5s. 2d.?—I am sorry if there is a mistake.

11,142. I think you used as your base the whole income of the country is getting at 3s. 9d.?—I think that is so.

11,143. I think, as it rather misled me, it might be wise to say that the virtual Income Tax expressed as a flat rate on the whole income of the country was no more than about 3s. 9d. in the £?—Yes.

11,144. If you put that in, does not it rather rob it of its meaning?—I will take it from you that it is right.

11,145. I suggest rather than put the proviso in and make it on the total income of the country, you should alter the 3s. 9d. into 5s. 2d.?—I will do both, if I may. "The flat rate was no more than about 3s. 9d. in the £, and the sum collected expressed as a flat rate on the income of the taxable classes over £130 a year was 5s. 2d."

11,146. If that is the comparison you want; it was not clear to me, at any rate?—It would be better to give it like that.

11,147. I thought what you meant was that the Income Tax paying people were really paying 3s. 9d.; but it must be on the total income of the country?—Yes, I will make that addition; I am most anxious to get this correct.

11,148. Coming to your objection to the Super-tax system, I take it what really would satisfy you on the point of the misleading nature of the rates is that greater publicity should be given to the real rates. Instead of saying on incomes over £70,000 and £80,000 3s. 6d. is charged, it should be put in the form that it works out at a tax on the total income of so much as so much?—If I had a free hand to deal with it I should construct what I call a plain scale.

11,149. It is really a difficulty of nomenclature?—Yes.

11,150. You could have the same system in the office, but you could have your scale as published if it expressed your point?—But for the benefit of the office would it not be better to have the plain scale?

11,151. If you are asking me that question, I say No.—You know more about the administrative difficulties than I do.

11,152. It is a little misleading, perhaps, when people say, "I am paying so much at such and such a rate," when that rate applies only on the top slice of the income?—Supposing when a man received his yellow form every year there was on it quite plainly stated the rate of Income Tax, and suppose he saw the whole of the scale beginning at 1d., for the sake of example, and working up to 10s. or 12s., he would see his place in the scheme of things. He would say, "I have £1,000, and I pay so much." He would see above him the others who pay so much more, and the sense of justice would be more in his mind than it is now.

11,153. Taking now the paragraphs that follow, you are a great advocate of rejecting the average and coming on to the previous year?—Yes.

11,154. You put the arguments very forcibly?—I hope so.

11,155. Have you considered this point: if a man has an income of £2,000 for years 1, 2 and 3 he pays a certain tax, x; but if he has an income of £1,000, £2,000 and £3,000 in succeeding years he would, but for the average, pay a very much larger sum owing to the increasing rate. Does not the averaging system have the effect of diminishing this income penalty on a fluctuating income?—It does in some cases, undoubtedly.

11,156. Does it not in all cases where the income fluctuates? Is not the total amount of tax payable higher with a progressive scale?—In the fluctuating case what happens is that the bad year comes and he has to pay a higher rate than he would have to pay

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under the plan I favour, when he can least afford it. On the other hand, when the average reduces his tax he does not say thank you; he is not pleased. It does not present any sense of justice to his mind. At the time he has got money, and he does not thank you for taxing him less than he ought to be taxed. On the other hand, when the average makes him pay a fair amount in a bad year he feels the injustice very acutely.

11,157. You will agree that the same aggregate over a good period of years, if it is an even aggregate, pays less than if it is a fluctuating aggregate?—Yes.

11,158. And that therefore that may be off-set as an objection?—Yes.

11,159. But you do not consider it a sufficient objection to the scheme?—In other words, it is not a one-sided argument; but I think paying on the last year has the greater advantages.

11,160. I understand you still think there is no obligation on the Revenue to have losses carried forward?—No.

11,161. Take the case of a highly complicated industry like the cotton industry, where the making of losses in certain years is quite a normal thing. Supposing a man makes £10,000 one year and £10,000 the next; he has a certain amount of tax to pay under this scheme; whereas in another class of business he makes minus £30,000 the first year and make £40,000 the second; he has still made £30,000 in the two years, the same as the other man, but he has four times the amount of tax to pay?—Well, such cases occur under all systems.

11,162. Do you recognize that that takes away more than his profit and eats into his capital?—It may be that there are hard cases of that kind.

11,163. I suggest to you that it is quite a normal case; if you do not carry forward losses you will ruin them.

11,164. Chairman: In the case of cotton, wool, and shipping, it is quite true?—I should like to see it worked out on the actual profits of a cotton spinning company for 20 years, and surely it would be quite easy to do that. Fluctuating trades could meet the point by making reserves in good years.

11,165. Dr Stamp: I suggest that you have only got to put down one or two examples, and you will find that you have more to pay in the year of profit than you have made in the two years. You simply could not do it; the thing contradicts itself. You must infringe upon capital to pay your tax. Passing to your points relating to bonus shares and correcting the great anomalies that now exist, I think you now accept as a result of what has been said this afternoon that there is some obligation to repay the poor man?—Yes, I accept that theory.

11,166. Suppose a man left his widow an income in a good paying company, and she had a sole dividend of £1,000, but they were putting a lot of money to reserve, and the true figure, as you would call it, should be £4,000. They were putting much more away than they were paying her. Does it not appeal to you that she would have more tax to pay than her total income? She would have had to pay it all away in Super-tax?—Why should she with £1,000?

11,167. Because the tax on the £4,000 would exceed the actual cash dividend she had received?—One can postulate such hard cases in connection with

every reform that you like to mention, but I think such cases would be very exceptional, surely.

11,168. I suggest to you that if you make people pay the Super-tax on the reserve you might very easily take the whole of the rest of the dividend?—I think such cases would be very exceptional. Surely the placing to reserve would have to be very high indeed and very continuous.

11,169. Does not it appeal to you that it might be better to go to the person who gets the distribution at the time it is distributed and make him add the bonus dividend to his income then?—That is an alternative.

11,170. Does it not seem to you that it is more likely to fit the facts of the case of ability to pay, because you would make persons pay this tax though they might never come into the reserve when it is declared; they might be dead, and all sorts of things might happen?—Equally you can postulate the case of the man who has not any such dividends whatever. After all, the country has got to be run. The country is not full of widows with dividends to draw from companies; it is full of widows who have not a penny to draw from any company at all.

11,171. I only put it in an extreme case in order to show the argument clearly. It applies to all the rest of the cases in more or less degree. I suggest for your consideration that it does modify the practicality of the very ingenious scheme, with which I am very sympathetic?—Your point is to substitute for my plan a declaration if and when received of the bonus shares or whatever distribution takes place.

11,172. When a man can realize it and use it. On that point there was a considerable discussion between yourself and Mr. McIntock on the suggestion that there was a great loss. It was put to you that there would be a set-off against that loss in what you would say the Revenue is now improperly collecting. You think that was negligible?—I should say it was comparatively small as compared with the loss of Super-tax.

11,173. The average rate of Super-tax is about 2s. in the £ on the Super-tax payer's income?—Yes.

11,174. The average rate at which the Revenue might have to repay below 6s. might be as much as 1s. 6d. or 2s. 2?—I think even if it is you ought to do it.

11,175. I am coming now to the question as to whether the great loss is not more than negligibly off-set?—I should think not.

11,176. If I suggested one-third would be off-set, would you think that would be extravagant?—No.

11,177. You think it might be right?—Yes. From the point of view of revenue it would be worth doing if it were only a half, but the justice of the case must come first.

11,178. Referring to your suggestion that the powers of the Revenue officials should be improved upon, you alluded to a famous debate in the House of Commons in which four lines of the Excess Profits Duty Bill were debated for the whole of one evening and cut out. Could you give the Commission any recollection you have of the reasons given by members of Parliament?—No, I am sorry I cannot.

11,179. Chairman: We have had rather a pleasant afternoon?—I have enjoyed it very much.

11,180. We are very much obliged to you for coming here to help us?—Thank you.

EIGHTEENTH DAY, **THURSDAY, 11TH SEPTEMBER, 1919.**

PRESENT:

LORD COLWYN (*in the Chair*).

MR. PRETYMÂN.

SIR J. S. HARMOOD-BANNER.

SIR W. TROWER.

MR. HOLLAND-MARTIN.

MR. WALKER CLARK.

MR. KERLY.

MR. MACKINDER.

MR. McLINTOCK.

MR. MANVILLE.

MR. GEOFFREY MARKS.

MR. MAY.

DR. STAMP.

MR. S. B. LUCAS, B.A., on behalf of the Incorporated Association of Assistant Masters in Secondary Schools, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

11,181. The evidence offered on behalf of this Association may be divided broadly into two categories, though it is not always possible to make a sharp distinction between them:—

- A. Evidence bearing upon conditions which affect us specially as secondary assistant masters,
- B. Evidence which bears upon conditions common to ourselves and other salaried workers.

11,182. (A) (1) *Agents' fees.*

An expense which falls on assistant secondary teachers as distinct from other classes of teachers is that of agents' fees. Many headmasters do not advertise but use a scholastic agency in making new appointments. The whole fee is paid by the assistant teacher, and if the latter changes his post at all frequently his expenses in agents' fees are extremely heavy. We suggest that relief to the extent of the tax on £10 should be given in such cases.

11,183. (2) *Books.*

We should like to suggest that an allowance equal to the tax on £20 should be made in respect of purchases of books necessary to help a schoolmaster in the efficient discharge of his duties and in keeping in touch with the latest developments in his particular subject. Many members of our profession cannot afford to buy books at all, and in many cases facilities for borrowing them do not exist. Such an allowance would thus increase educational efficiency. Supposing that at the very lowest estimate a teacher ought to spend £5 per annum on books, the remission on the tax on £20 would go some way towards enabling him to do so.

11,184. (3) *Travelling expenses.*

We desire to emphasize the fact that with very many members of our profession these expenses are obligatory. At the present time, when the shortage of houses is so acute, men who have accepted new appointments have found it impossible to obtain a house in the new locality. To give two examples of this: one of our members who took up a post in Sheffield was obliged to leave his family in Stockport and travel to and fro frequently; another man in Middlesex is obliged for the same reason to spend one-eighth of his income in daily travelling. We are strongly of opinion that the balance of argument is in favour of leaving travelling expenses untaxed up to a maximum of £10 per annum.

11,185. (B) (1) *Relief in respect of wife and children.*

In a large number of salaried professions there is a tendency for the salaries of women to become approximately equal to those of men. This tendency appears to be increasing, one of the results being a decrease of men entrants to our profession. We therefore contend that the relief given in respect of wife and children should be on such a scale as to correct this tendency. There should be some arrangement made by which the Income Tax paid by a married man should be substantially less than the amount paid

by the unmarried. In other words, the present allowance in respect of wife and children should be very materially increased, and the relief for the second child should be greater than that for the first, and so on.

11,186. (2) *Dependent relatives.*

The fact that no relief can be claimed in respect of contributions to the support of dependent relatives when the income of these relatives from other sources exceeds £25 is a source of hardship to many of our members. A man with a wife and a family of young children who is supporting or partially supporting his widowed mother ought not to be taxed on the amount of his contributions unless the mother has an independent income of more than 30s. a week.

11,187. (3) We should like to support the proposals for—

- (a) quarterly payment of Income Tax,
- (b) relief in respect of the use of part of a teacher's house for the duties of his profession.

[*This concludes the evidence-in-chief.*]

11,188. *Chairman:* We have your paper and the Commissioners have all read it. They will now ask you a few questions, and in your replies you can amplify your points.

11,189. *Mr. Kerly:* With regard to the question of agency fees, which you claim should be treated as a working expense, what is the normal agent's fee?—Five per cent. on the first year's salary; and this is paid even if the engagement lasts only three months.

11,190. How often, on an average, does a master have to pay this fee through the course of his career?—That is a difficult question to answer. Some teachers may stay in the same place for ten years; others, for a variety of reasons, stay only a short time. Possibly on the average it might be said that the fee is paid every two years.

11,191. As often as that?—Yes.

11,192. There is an Association of Schoolmasters: could not they undertake this agency work?—There is an agency which is partly under our control, and they charge lower fees.

11,193. Has it been discussed with the Inland Revenue whether the masters could get the allowance for agency fees under the existing law? Has it been tried?—I don't know.

11,194. Books are, you say, a business expense, necessary for the master's efficiency?—Yes. There is no other profession in which theory is changing more rapidly. In other professions books mainly represent additional facts that come to light, but in our profession in recent years changes in the whole theory of education have taken place, involving such changes in older methods as, for example, the direct method of language teaching, the Montessori method, the heuristic method in science teaching, and so on. All these involve radical changes, and the teacher may have to change his whole method.

11,195. I could suggest other professions where entry on books is equally necessary and perhaps more expensive. Now, in regard to travelling or

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MR. S. B. LUGAR.

[Continued.]

houses, how does a schoolmaster differ from a clerk or other business man who is not able to live at his place of business?—There is an analogy between the teacher and the ordinary business man; but, owing to the lowness of their salaries, secondary teachers very often take evening work in addition to the ordinary day work, and though they may, perhaps, live near their day work they may not live anywhere near their evening work.

11,186. This seems to me common to a good many people who have small incomes. Now, with regard to the question of relief in respect of wife and children. This is in no way peculiar to schoolmasters?—I think I may say our profession is one where it is essential that the majority of members should be men, although women in secondary schools do take very successfully boys up to the age of 12; but with boys between the ages of 12 and 15 we do not agree that they can undertake work in secondary schools with any amount of success. They may do so later on, that is with older boys.

11,197. If you come to the bottom of things, what you are really suggesting is, under cover of Income Tax, an endowment for badly paid assistant teachers to enable them to supplement their insufficient salaries?—No, I do not think so. What we want to correct is the increasing tendency of women coming into our profession.

11,198. Yes, that is the reason of it, but what you propose is to make male schoolmasters pay a lower tax than other members of the community with the same incomes?—If they are married.

11,199. Lower than other people who are also married; I think it comes to what I suggested?—You will notice at the beginning of our evidence we say that we divide the evidence into two categories, and that it is not possible always to make a sharp distinction between them. That was the point I had in mind when I put this down.

11,200. In your last paragraph you suggest a quarterly payment of Income Tax; that would be an obvious convenience for all people who got a small income at stated intervals?—I think so.

11,201. You next say, "relief in respect of the use of part of a teacher's house for the duties of his profession." What does that mean? Do you mean where he sets aside a room for coaching, or have you in mind a housemaster?—No, not a housemaster especially there. We have in mind the fact that a minister of religion is allowed, I believe, £10 in respect of a room used for his special studies. We should claim that on the same ground, and also that a secondary schoolmaster frequently has to take private pupils at home in the evening. When he is not doing evening work in an institution, he frequently has to engage in private coaching at night, and he wants a special room to do it in.

11,202. That is what I understand—a room set apart for coaching?—Yes, or it might also be a room in which he studied himself at night.

11,203. The difficulty about it is that the room

would be used for this specific purpose for only part of the day?—Yes, it probably would.

11,204. Is it the fact that an assistant schoolmaster generally takes a larger house so as to have such a room available?—I should say that he does sometimes; I would not say that he does it invariably.

11,205. But he is not often able to afford it, is he?—No, I suppose he is not.

11,206. That is the root of the difficulty, is it not: the pay is not high enough?—Yes.

11,207. Mr. McLintock: What is about the average salary of the members of your Association?—From exhaustive statistics that were prepared just previous to the war the average salary was about £170 a year. We have received a considerable amount of information which leads us to state with pretty good authority that the average salary now is about £230—that is under present conditions.

11,208. In that case with an average salary of about £230 the married assistant schoolmaster gets £120 abatement, £50 for his wife, £40 for the first child, and £25 for the second?—When I mention a salary of £230 I am not reckoning the evening work which is necessary to supplement that salary.

11,209. No. My point was, of course, that the increased allowances that have now been given to a married schoolmaster with two children exempt him up to £235?—Yes, but I was thinking in this evidence of the extra salary. No man can live on £230 under the present conditions; he has got to do evening work of some kind to supplement his income.

11,210. Would £100 per annum be a fair figure to put on for the evening work?—Not more than £70, I should think.

11,211. You think about £200 altogether is about an average total income?—Certainly not more.

11,212. Do you agree that these recent increases in the wife allowance and the allowance for the first child, and the £25 for the others, go some substantial way to meet the second part of your claim?—Certainly they all go in the right direction. We rather fail to see why there should be a greater allowance for the first child than for the others. We should perhaps prefer to see it the other way, that there should be a progressive increase, say something for the first child, rather more for the second, and rather more than that for the third.

11,213. Still, on the principle of the half loaf it is worth having?—Yes.

11,214. Chairman: Which of these points do you consider the most important for you, supposing the Commission had to differentiate?—I think on the whole we should put the travelling expenses question and the question of books as more important than the other points we have raised.

11,215. Those are the two most important points in your remarks?—Yes.

11,216. Chairman: That matter will be considered by the Commission. I do not think there is anything else I need trouble you with. We are much obliged to you for coming.

SIR HARRY HAWARD, MR. F. OGDEN WHITELEY and MR. KEITH, on behalf of the Institute of Municipal Treasurers and Accountants (Incorporated), called and examined.

The witnesses handed in the following statement as their evidence in-chief:—

Evidence to be given by the Institute of Municipal Treasurers and Accountants (Incorporated) on behalf of the Association of Municipal Corporations, the London County Council, the Convention of Royal Burghs of Scotland, &c.

11,217. It is desired to secure certain modifications in the Income Tax Laws as they affect local authorities, and particularly municipalities, and the Institute have deputed Sir Harry Haward, Comptroller of the London County Council and member of the Council of the Institute, and Mr. F. Ogden Whiteley, City Treasurer of Bradford and Vice-President of the Institute, to appear before the Commission, to tender evidence and support the contentions put forward on behalf of the Association of Municipal Corporations, the London County Council, the Convention of Royal Burghs of Scotland, &c.

The finances of local authorities are adversely affected as the result of two decisions of the House of

Lords, viz.: (1) Attorney General v. London County Council (19th March, 1907) and (2) Sugden (Surveyor of Taxes) v. Lord Mayor, &c., of Leeds (3rd April, 1913), and there are certain other respects in which it is submitted, the existing law should be altered.

PRESENT POSITION.

11,218. The following is, generally, the present position of local authorities with regard to assessment for Income Tax purposes:

Schedule A.

11,219. (1) With the exception of certain properties such as public parks, public schools, police courts, hospitals, public libraries, workhouses and Union offices, local authorities are assessed upon the net annual value of their property in exactly the same manner as private individuals.

Schedule B.

11,220. (2) Assessments under Schedule "B" are made in respect of agricultural land, woodlands, &c.,

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[Continued.]

as well as, in many cases, lands used as sewage works, refuse tips, etc.

Schedule D.

Productive undertakings—

11,221. (3) Separate returns for assessment under Schedule D are submitted to the Inland Revenue Department in respect of the productive undertakings, and each undertaking, where there are assessable profits, is assessed separately upon the amount of such profits.

11,222. (4) The assessments upon tramways and electricity undertakings are made upon an average of three years' profits, but those of the gas, water, markets, shuttles, cemeteries, crematoria, etc., undertakings are based upon the full amount for one year or (where the undertaking has been in operation for less than a year) an average for one year of the profits received therefrom.

11,223. (5) The Inland Revenue Department allow, as a working expense, the cost of management and registration of stock, where the local authority has arranged with a banker to carry out such duty, but do not allow the cost of stamping debentures and the commission paid for procuration of loans.

11,224. (6) In regard to the tramways and electricity undertakings allowances—upon bases agreed with the Inland Revenue Department—are made for wear and tear of machinery or plant, but no such allowances are made in respect of the gas, water and other undertakings, the cost of renewals, as and when incurred, being allowed upon the latter undertakings. Allowance in respect of obsolescence are also made, as and when it is necessary to replace existing machinery or plant with more up-to-date equipment.

11,225. (7) Many local authorities have formed insurance funds to cover risks of fire, accidents to workmen, etc. The premiums transferred to such funds are not allowed as a working expense, but the actual cost of claims is so allowed.

11,226. (8) The local authority is allowed to charge against the profits of the productive undertakings a proportion of the cost of establishment expenses, and also (where applicable) of collection expenses, notwithstanding the fact that any such transfer may not, in fact, have been made in the books of the authority. Generally the amounts allowed for administration, etc., are proportionate to the amount of revenue expenditure of the various undertakings and departments, and amounts allowed for collection are proportionate to the amount collected.

11,227. (9) The proceeds of the levy of a rate are excluded in arriving at the assessment, e.g., income from a Water Rate levied over a whole area upon all hereditaments whether water is supplied or not, is not taxable, but the income from water rents, being in the nature of payment for water supplied, is held to be taxable.

11,228. (10) The amount received from the sale of land for grave spaces is included as income in arriving at the Schedule D assessments upon cemeteries and crematoria.

11,229. (11) The local authority is allowed to deduct from the profits of the undertaking concerned, the amount of profits upon commodities sold to non-productive departments, but only if such non-productive departments are connected with the same rate fund as the productive or trading undertaking concerned.

11,230. (12) In regard to rating funds, assessments are made upon the income from bank interest, bill posting stations, etc. So far as bank interest is concerned, a separate assessment is made upon each rate fund, and no "set-off" is allowed where, upon one or more funds, there has been a net payment of bank interest during the year.

11,231. (13) Any loss upon a productive undertaking may be set off against a profit upon any other productive undertaking connected with the same rating fund; but a loss upon a productive undertaking connected with one fund cannot be set off against a profit of an undertaking attached to another fund.

Interest on loans.

11,232. (14) In addition to the returns in respect of the productive undertakings, statements are submitted in order to arrive at the amount of liability (if

any) to account to the Inland Revenue Department for tax deducted by the local authority from interest paid. These statements are made in respect of each separate rating fund, and show the amount of interest paid by the authority upon its unproductive departments during the year, less the following items which are allowed as "set-off," namely:—

- (a) the surplus profits (including the Schedule A and B assessments) of the productive undertakings;
- (b) the income from bank interest, bill-posting stations, &c., on rating funds;
- (c) the amount of interest on investments received *net*—i.e., after deduction of tax—other than investments in respect of statutorily accumulating sinking funds and reserve funds;
- (d) the amount of Schedule A assessments upon properties owned, but not occupied, by non-productive undertakings of the authority, and from which rent is received;
- (e) the amount of Schedule B assessments in respect of non-productive undertakings.

11,233. (15) If the amount of interest paid in respect of the non-productive undertakings of any rating fund is in excess of the deductible items set out above, a further assessment is made in respect of the difference, but if the aggregate amount of the "set-off" exceeds the interest, no further liability exists.

11,234. (16) The amount of surplus profits of the productive undertakings available as "set-off" is arrived at by taking from the actual profits (as adjusted for Income Tax assessment purposes, but without deduction of any allowances for wear and tear) of the year in which the interest is paid, (a) the amount of gross interest on loans, (b) the sinking fund contribution (or any allowance for wear and tear where such an amount is greater than the sinking fund contribution), and (c) any other statutory charges against the profits of the undertaking. Where, however, the Act under which the particular undertaking was established does not specifically provide for the contribution to sinking fund to be made out of the profits of the undertaking, such contribution is not required to be deducted from the surplus profits in arriving at the "set-off."

11,235. (17) The taxed interest received by local authorities in respect of non-statutory reserve funds is allowed as a "set-off" against the rating fund interest, but not the taxed interest upon statutorily accumulating sinking funds and reserve funds.

11,236. (18) Where, in respect of any productive undertaking which has no assessable profits, the interest on loans upon such undertaking is less than the Schedule A assessments, the difference is allowed as a "set-off" against the rating fund interest, but where the Schedule A assessments in such circumstances are less than the interest on the undertaking, then the balance of interest is included in the general pool of the rate fund concerned.

11,237. (19) Only the amount by which the Schedule A assessments of houses erected under Part I of the Housing of the Working Classes Act, 1890, exceeds the amount of interest and sinking fund contribution in respect of such houses, is allowed as a "set-off" against the rating fund interest. This stipulation is made by the Inland Revenue Department because Section 24 of the Act provides that it is only any "balances of profit" made by the local authority under Part I which are applicable to any purpose for which the local rate is, for the time being, applicable.

11,238. (20) The amount of assessment under Schedule A upon property in the occupation of the non-productive departments of the local authority is not allowed as a "set-off" against rating fund interest except in the case of the town hall, where there is an income from lettings, in which case a proportionate amount representing such income, less maintenance and establishment expenses attributable thereto, is allowed, and bath, where (if the premises are not used mainly for medicinal or similar baths) one-half of the Schedule A assessment is allowed.

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[Continued.]

11,239. (21) The principle upon which superannuation and thrift funds are assessed in respect of their taxed income has already been placed before the Commission by the representative of the Conference of Superannuation and Thrift Funds. So far as the police pension funds are concerned, any tax deducted from interest on investments is reclaimed from the Inland Revenue Department, and any bank interest earned by such funds is exempt from taxation, but superannuation and thrift funds, other than those under the Police Act, 1890, are subject to the special arrangements as to assessment made with the Inland Revenue.

OBSERVATIONS AND CONTENTIONS.

11,240. (22) The Witnesses desire, on behalf of local authorities, to submit the following observations and contentions with regard to assessments to Income Tax of such authorities:—

Schedule A.

Exemptions.

11,241. (23) Attention is called to certain apparent anomalies which exist in regard to the assessment of local authorities under Schedule A.

11,242. (24) As stated, public elementary and secondary schools are not assessed to Income Tax, but the building in which is housed the staff to administer the Education Acts is assessed. (See Par. (1).) Public libraries are not assessed, but art galleries are liable to assessment. The Union offices of Poor Law Guardians are not assessed, but the town hall and public offices of a municipality are assessed. Hospitals are not assessed, but sewers and sewage works are liable to assessment.

11,243. (25) It is observed that the present exemptions concern property occupied in connection with services which are semi-national in character (within the meaning of the Report of the Departmental Committee on Local Taxation), and it is a matter for consideration whether all land and buildings occupied by local authorities for the purpose of carrying out or fulfilling all such duties imposed upon them by Government, should be exempt from assessment to Income Tax. These duties are placed upon local authorities because the services, although national, or semi-national, in character, such as education, public health, main roads, &c., &c., can be more conveniently administered by local authorities than by the Government, but if the Government were to administer such services direct, the property would not be liable to assessment.

11,244. (26) Until recently no rates or taxes were imposed or levied in respect of public sewers. They were not regarded as falling within the meaning of lands and heritages to which the Valuation Acts applied.

11,245. (27) As the result, however, of decisions in cases taken to the House of Lords, particularly that of the West Kent Main Sewerage Board, decided in 1911, the practice which had obtained theretofore was altered and it was held "that all sewers whether overground or underground were rateable wherever the occupation of them was valuable within the meaning of authorities dealing with rating." (In each of the cases referred to considerable sums were received from outside authorities for the use of the sewer, and this was held to constitute "valuable" occupation.)

11,246. (28) Proceeding upon the principle that whatever is a proper subject of rating is a proper subject of assessment to Income Tax, the Inland Revenue authorities are now charging public sewers with Income Tax. The practice, however, does not appear to be uniform throughout the country. In England some local authorities are not charged at all; others are charged on nominal amounts only. In Scotland, on the other hand, all local authorities appear to be charged on an annual value representing fully four per cent. on the original cost of all the sewers in their area. This is the result of a decision given by the Scottish Valuation Appeal Court in 1912 in an Aberdeen case (Aberdeen Assessor and Parish Council v. Aberdeen Town Council), where it was held that sewers were lands and heritages in the sense of the Scottish Valuation Acts and must, therefore, be entered in the Valuation Roll. The Court also decided the principles on which the annual value

should be fixed, and had recourse to the well-known idea of a hypothetical tenant willing to pay a certain percentage on the cost of construction and fixed the rate at fully four per cent. This decision being final and not subject to appeal, is now being acted on throughout Scotland.

11,247. (29) The following quotations are from the opinions expressed by Lord Salvesen in giving judgment in that case:—

"Since the Valuation Act was passed in 1854, sewers have never entered the Valuation Roll of any Bergh, the general view taken by Assessors apparently being that such sewers, although not directly rated, did appear indirectly in the Roll, and contributed to the rates by enhancing the letting value of the houses which they served. This is the view taken by Mr. Armour in his work on rating, and affords an explanation of the practice which has hitherto prevailed. The action of the Assessor of Aberdeen therefore constitutes a new departure, which, if it be sustained, cannot fail to have very wide-reaching results. Personally, I cannot but regret this attempt to disturb a practice which has so long prevailed, and which, but for the differences in the incidence of the various rules which are tested on the basis of the Valuation Roll, would be of no practical importance. The Parish Council, however, who are charged with the duty of levying poor and school rates, find it in their interests that every kind of heritage which is capable of a separate valuation should enter the Roll. The higher the assessable value of lands and heritages within their area, the lower will be the rate which they require to levy in order to meet a given annual expenditure, and as the sewerage rate is levied upon owners only, while the poor rate is payable equally by owners and occupiers, the inclusion of this substantial new item hitherto exempt from taxation affects the proportion of taxes falling to be contributed by a large body of individual ratepayers. It is not therefore surprising that the Parish Council have appeared to support the Assessor's appeal, and indeed it is perhaps not unfair to assume that the innovation is due to their initiative."

"The alternative argument for the respondents was that the drains of Aberdeen are part of the buildings, and that their value is already included in the rental. I have great sympathy with this view. The rating value of any urban tenement must to some extent depend on the fact that it is connected with an efficient drainage system. It may further be said that the modern method of conveying sewage and surface water in underground pipes is merely a civilized substitute for the gutters by means of which all liquid sewage as well as rain water was in ancient times carried away. I am, however, unable to sustain the view that the system of sewers constructed by the Town Council, and under their administration, can be regarded as a pertinent of the buildings which they drain. These buildings belong to other proprietors, and it is difficult to understand how the property of the Corporation can be regarded as pertinent of the properties of individual citizens of Aberdeen. Whether sewers may on other grounds be exempt from assessment is not a matter with which we are concerned. Our sole duty is to see that all lands and heritages enter the Valuation Roll at their fair annual value. It is worthy of note, however, that in England it has now been settled by a decision of the House of Lords that sewers, whether overground or underground, are rateable notwithstanding that they had enjoyed an exemption from taxation for a period of several hundreds of years (West Kent Main Sewerage Board, 1911, A.C. 171)."

11,248. (30) In Scotland all lands and heritages are entered in the Valuation Roll whether they are rateable or not, whilst in England and Wales, only rateable hereditaments are included in the Valuation Lists. The entry of a subject in the Valuation Roll in Scotland does not, therefore, of itself establish

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liability to local rates; all that the Aberdeen Case decided was that—as sewers came under the head of lands and heritages—they must find a place in the Valuation Roll.

11,249. (31) The question of liability to rating as regards sewers has not been contested because it is not of vital importance, as apart from minor questions of incidence, it is a domestic matter for the local authority, consisting largely of taking money out of one pocket and putting it into another. With regard to Income Tax, however, the local authorities feel that the burden is wholly inequitable. Representations to this effect have been made to the Treasury, and questions have been asked in the House on several occasions, with the view of having the present position of the matter fully considered and the grievance removed. One local authority (Edinburgh Corporation), by arrangement with the other large burghs in Scotland, appeared in 1914 against the charge, and the case, which is regarded as a test one, is still pending.

11,250. (32) The following reasons are adduced in support of the contention that public sewers should not, in the public interest, be assessed to Income Tax:—

- (a) sewers are, as a rule, incapable, from their nature and on account of the statutory restrictions upon their use, of being let or of producing any rent. In other words, they have no "valuable" occupation. They are in this way analogous to public parks (which are exempt from Property Tax). They are vested in the local authority solely for the purpose of being maintained for the use of the public; they may be regarded as a necessary adjunct to the properties which they serve and any value which they possess is reflected in the assessable value of such properties.
- (b) underground sewers do not occupy land so as to affect its character as a taxable hereditament in any other connection.
- (c) The obligation to provide an adequate and efficient system of sewerage and drainage within their areas is now a duty placed by Statute upon local authorities as part of their public health administration. Such provision is essential not only for the good of the local inhabitants, but also for the protection of the whole community. Every encouragement should, therefore, be given to local authorities to carry out their duties in this respect without fear of incurring onerous burdens through Imperial taxation.
- (d) Even if assessed to local rates, it does not follow that such properties as public sewers should be assessed to Income Tax. Assessment to local rates of property owned by local bodies, is merely a matter of local bookkeeping or of incidence of rating. Waterworks are valued and appear in the Valuation Roll, but, following the statutory directions, the Inland Revenue do not levy Income Tax assessments on the rental appearing in the Valuation Roll, but levy the assessment on the profits arising from the sale of water, apart from the revenue arising from public rates.

Schedule B.

11,251. (33) The assessment of properties under Schedule B is a matter with regard to which it is felt that some alteration of existing law and practice is necessary. [See Par. (2).] In many cases the lands occupied for purposes of sewage works, as distinct from sewage farms, are assessed, under this Schedule as well as under Schedule A, although no income whatever is derived from these lands. Tipping lands also are frequently assessed, even though such lands are waste, and neither produce nor outgo is derived therefrom. It is contended that it was never the intention of Parliament that any lands other than purely farming lands should be liable for tax under this Schedule, and lands which have no connection either directly or indirectly with farming, horticulture or afforestation, should be exempt from taxation under this Schedule.

Schedule D.

Matters affecting basis of assessments.

11,252. (34) No observations, except the point raised in paragraph (52). [See Par. (3).]

11,253. (35) It is understood that the Commission have heard evidence from various witnesses with regard to the basis of arriving at the assessment of profits of trades or businesses. The Institute, therefore, do not wish to submit evidence on this point, except to state that they favour a uniform average in respect of all undertakings, and suggest that the average period of three years should be the basis of assessment. [See Par. (4).]

11,254. (36) It is contended that the cost of stamping debentures and of commission for introduction of loans, is an expense properly chargeable against the profits in arriving at the assessments upon productive undertakings. These sums are not allowed to be charged against capital account, and would be deleted by Parliamentary Committee or Government Department if included in any estimate submitted upon an application for sanction to borrow money. [See Par. (5).]

11,255. (37) The Institute do not desire to make any observations with regard to the question of allowances for wear and tear, except to urge that allowances for obsolescence should be made in respect of obsolete machinery or plant, whether such machinery or plant is replaced or not, on the ground of absolute wastage of the asset. [See Par. (6).]

11,256. (38) No observations. [See Para. (7), (8), (9).]

11,257. (39) It is understood that the Commission have arranged to hear witnesses on the contention that sums received for the sale of grave spaces in connection with cemeteries and crematoria should not be taxable, and the Institute desire generally to support this contention. [See Par. (10).]

The Leeds Case.

11,258. (40) The Inland Revenue Department have always contended that the various rating funds of each local authority should be regarded as separate entities, and this contention was upheld by the House of Lords in the Leeds Case of 1913. In this case a great deal depended upon the provisions and interpretation of the Local Acts, and the question raised was as follows:—

11,259. (41) There were two rate funds, the City (or Borough) Fund, and the Consolidated Fund. Attached to the former were the tramways, gas and water undertakings, and to the latter the electricity and markets undertakings. The profits from the tramways, gas and water undertakings were more than sufficient to pay the interest on the loans raised for those undertakings and, in addition, all dividends and interest payable out of the City Fund. On the other hand, the taxed income of the Consolidated Fund including the profits of the electricity and markets undertakings was less than the interest paid out of the Consolidated Fund.

11,260. (42) The Corporation sought to apply the balance of the surplus profits of the three undertakings belonging to the City Fund as a further set-off against the dividends and interest payable out of the Consolidated Fund, contending that the whole of their accounts should be pooled and that the liability to Income Tax should be based upon the total profits and property, deducting losses, if any, or upon the total interest, whichever was the greater. In other words they claimed to be regarded as one person and not two.

11,261. (43) A decision in favour of the Crown was given by Mr. Justice Hamilton, but was reversed by a majority of the Court of Appeal. The House of Lords decided, unanimously, that the Corporation had not the power under their local Acts to pool the two funds in the manner proposed.

11,262. (44) The effect of the judgments delivered in the House of Lords is that local authorities cannot, for Income Tax purposes, pool the whole of their accounts, irrespective of specific statutory provisions, but that regard must be had to the obligations and powers contained in the local or other Acts under which the various undertakings are acquired or established; that the income of each undertaking must be utilised in meeting, *vis-à-vis*, the obligations

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imposed thereon by the Act, and that any remaining surplus can only be applied in relief of such rate or rates as may be authorised by the local or general Act governing the undertaking. So that a local authority, in the absence of specific powers to that effect, is not entitled to set off the surplus taxed income arising in respect of an undertaking secured upon the Borough Fund against the liability in respect of interest on loans secured upon the Consolidated (or District) Fund, and vice versa.

11,363. (45) The same principle is held to apply to cases of differential rating within a county or other area. Thus, the London County Council, which levies a special County rate for certain purposes, from which the parishes in the City of London are exempt, is held to be two persons or entities for the purposes of Income Tax, and is unable to apply the surplus taxed profits of its tramways (which are a Special County Purpose) to meet interest on any debt except that created for special county purposes, notwithstanding the fact that every ratepayer who pays the special county rate also pays the general county rate.

11,364. (46) On the basis of the law as laid down by the House of Lords, a satisfactory arrangement has been made by the Institute with the Inland Revenue Department, for carrying out the principles enunciated in the judgments, but the Institute desire to raise before the Commission the substantial question which was decided against local authorities in the Leeds case, because they are of opinion that it is unsound in principle and inequitable in practice.

11,365. (47) The position is aggravated by the fact that it is purely accidental which rating fund an undertaking is attached to, for in no two towns are the conditions identical. In many towns the water undertaking is connected with the Borough Fund and Rate, whilst in others this undertaking is part of the District Fund and Rate; similarly with regard to gas, tramways and electricity undertakings. Moreover, in certain towns, although a productive undertaking may be specifically attached to one or other of the rating funds, power is granted to apply the surplus profits to the relief of either rate. So far as non-productive departments are concerned, there is also very little uniformity. In some towns the cost of parks is charged to District Fund and Rate, and in others to Borough Fund and Rate, and similarly with hospitals, baths, sewage, and many other departments. Again, several towns have recently obtained power by local Act to levy one rate only; among these may be mentioned Manchester, Leeds, Birmingham, Southampton, Lancaster, &c., and in these towns, therefore, no empirical or artificial division of separate rating funds exists such as obtains in the towns where two or more rates are levied.

11,366. (48) Very little difficulty is experienced in obtaining this power from Parliament, thus proving that Parliament recognizes a local authority as one body, and not a number of separate bodies corresponding to the number of rates levied.

11,367. (49) The artificial division of a local authority into two or more entities affects local authorities adversely in various directions in connection with the assessment to Income Tax.

11,368. (50) In the calculation of profits upon sale of commodities to non-productive departments, the sales to non-productive departments of the same fund only are deducted. [See Par. (11).] Thus, if the water undertaking is connected with the Borough Fund, and a sale is made to a department connected with the District Fund, it is regarded as a sale to another person and Income Tax is required to be paid upon the profit. It is contended that this is against the general principle of section 40 of the Income Tax Act of 1842 (now the first of the General Rules of the Income Tax Act, 1918), which is that a corporate body shall be regarded as a person.

11,369. (51) The assessments for bank interest upon the rating funds are made separately for each fund, and where there is an amount of bank interest earned upon one fund a separate assessment is made notwithstanding the fact that in respect of the other fund or funds the net position of the bank account shows that bank interest is payable. [See Par. (12).] Local authorities contend that in accordance with the principle laid down in section 40, the whole of their

accounts, irrespective of fund, should be pooled in arriving at the assessment for bank interest, exactly as in the case of an individual or company.

11,370. (52) Local authorities have the right to set off losses against profits only in respect of undertakings connected with the same rating fund, and it is contended that they should have the same right as private traders and public companies to set off against the profits of any one undertaking the losses on others, irrespective of the rating funds with which the undertakings may be associated. [See Par. (13).]

11,371. (53) Local authorities contend that in the preparation of the statements to ascertain the amount of liability (if any) to account for the tax deducted by them from interest on loans in respect of the rating funds, the whole of the accounts should be pooled irrespective of the separate funds. It is a serious anomaly that one authority which has, under its local Acts, obtained power to levy one consolidated rate should have an advantage in this direction over other authorities which have no such power; also, as previously pointed out, there is practically no uniformity in the allocation of undertakings to rating funds in the various authorities throughout the country. [See Par. (14).]

11,372. (54) No observations. [See Par. (15).]

11,373. (55) In the computation of the surplus profits, the Inland Revenue Department (following the decision in the Leeds Case) contend that all payments required to be made out of such profits, in accordance with the statutory powers under which the undertakings are established, constructed, and acquired, must be deducted from such profits, and only the balance applied towards the liability upon the interest on loans of the non-productive departments. [See Par. (16).]

11,374. (56) The Acts under which the undertakings are established and conducted, almost invariably provide for the formation of a sinking fund for the purpose of liquidating the moneys borrowed for the establishment and extension of the undertakings, and the Inland Revenue Department insist that in arriving at the "surplus profits" of productive undertakings available for "set-off" against the interest liability upon the non-productive departments, the amount of sinking fund contribution shall be deducted (or any allowance for depreciation whichever is the greater) as well as the interest, where the Acts specifically provide that such contributions are to be made out of the profits.

11,375. (57) In regard to the deduction of the sinking fund contribution, however, local authorities contend that, although this position is legally supported by the judgment of the House of Lords in the Leeds Case, it is another instance of the disadvantage of the local authority in connection with assessment to Income Tax as compared with the private taxpayer. A person who borrows money either upon the security of his property, or upon a simple note of hand, is allowed to retain the tax upon the amount of interest paid if such interest is less than the amount of tax upon his profits, no matter what his obligations (legal or otherwise) are for the repayment of the money, and apart altogether from the fact as to whether his total profits are sufficient to cover any instalment of the loan which may be due; it is felt that local authorities should not be placed in any worse position because they are under an obligation to make annual provision for the liquidation of their debt. The present position is in many cases equivalent to taxing the authorities upon the amount of their sinking fund contributions.

11,376. (58) Anomalies arise in this connection because many local Acts, particularly those of the middle of last century, do not make any specific provision for the annual payments for the liquidation of debt to be made out of the income of the undertaking, in which case, of course, no deduction is made from the profits available for "set-off." The position, therefore, arises that in one town where the Acts do not make such specific provision, the profits of an undertaking are available as a "set-off" without regard to the sinking fund contribution, whilst in another town where, in respect of a precisely similar undertaking, statutory provision is made for the payment to be made out of the profits, the net amount only is available as "set-off."

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11,277. (59) Local authorities are not allowed to treat as a set-off against liability for rating fund interest the taxed interest received by them on investments of statutory accumulating sinking funds and reserve funds. [See par. (17).] These investments are made by local authorities pending the time when the amounts must be forthcoming for the purpose for which they were contributed, and the interest thereon is paid into the respective funds concerned, to maintain them at the necessary actuarial level. The Inland Revenue Department contend that as it is in accordance with a statutory requirement that these moneys are accumulated, and that as the amounts are not, in fact, available for the payment of the rating fund interest, the taxed interest received cannot be regarded as a "set-off." A similar contention is raised in the case of statutory reserve funds in connection with productive undertakings, but in the case of a reserve fund provided other than under statutory obligation no objection is raised to the taxed interest on the investments being utilised as a "set-off," although there is no difference in the character of the two reserve funds, nor is objection raised where the interest earned by the investments of the sinking fund is applied to the payment of interest on the stock or mortgage loans.

11,278. (60) Local authorities contend that here again the Inland Revenue Department are taking advantage of the peculiar statutory provisions by which the local authorities are governed. The interest received is taxed income of the authority, irrespective of the purpose to which it is applied, and in similar circumstances an individual or company would be allowed to set off the amount against any other liability for Income Tax.

11,279. (61) The effect of the contention of the Inland Revenue Department is that the amount of sinking fund, etc., contributions at the percentage rates prescribed by Statute, or the controlling Government Department, are insufficient to provide what is actuarially necessary, because the accumulating interest is decreased by the amount of tax deducted, and it is, therefore, necessary to make a further contribution equivalent to such amount of tax.

11,280. (62) No observations. [See par. (18).]

11,281. (63) A further example of the advantage taken by the Inland Revenue Department of the provisions of the enactments relating to the activities of local authorities, arises in connection with the Schedule A assessment upon houses erected under Part I of the Housing of the Working Classes Act, 1890. [See par. (19).] By Section 24 of that Act, the receipts of the authority under Part I. are to be paid into a fund called the "Dwelling House Improvement Fund," from which the expenditure in respect of the scheme is to be defrayed. Any deficiency of the fund is to be met out of the local rates, whilst any balances of profit made by the local authority under Part I. are applicable to any purpose to which the local rate is for the time being applicable. The Inland Revenue Department claim, however, that as only the balances of profit are to be carried to the rates, all expenditure under Part I. of the Act must be charged against the net Schedule A assessment before any "set-off" may be applied against the interest on loans in respect of the non-productive departments of the fund to which the profits may be transferred; consequently if the assessment under Schedule A of the dwelling-houses is, say, £400, the interest £300, and the sinking fund contribution £300, no balance is available for "set-off" against the general interest liability of the authority. In regard to schemes under Parts II. and III. of the same Act, no such provision is made (except as regards local authorities in the Administrative County of London, and also, under certain circumstances, in the case of Rural District Councils), and consequently, where the Schedule A assessments in respect of the houses under these parts exceed the interest, the whole of the difference may be taken as a "set-off" against the general interest.

11,282. (64) In connection with the foregoing the following contentions are made on behalf of local authorities, namely:—

- (a) that a Municipal Corporation or similar local authority should be regarded for the purpose of taxation as one corporate body and

entity with powers under different Acts, and not, as a number of bodies, depending upon the number of its separate rating funds.

- (b) that the following rules (selected from those agreed between the Inland Revenue and the Institute), while necessary for carrying out the judgments of the House of Lords, show that the present arrangements are unsound in principle—

(i) the separate funds of a local authority are to be treated as a separate and distinct legal entities.

(ii) each fund is to be assessed according to the rules for the assessment of persons.

(iii) payments or transfers from one fund to another are to be treated as real transactions and not as mere book entries.

(iv) one fund can trade with another and can borrow from or lend to another at interest.

(v) the number of funds to be dealt with separately for Income Tax purposes is, as a rule, to be determined by the number of rates levied or leviable.

- (c) that the taxable income of the authority should be regarded as a whole, and its right to retain tax deducted from interest paid to its creditors should be similarly regarded; in other words, both sides of the account should be pooled.

(d) that in this respect the authority should be treated in the same manner as a private individual who, for Income Tax purposes, is allowed to aggregate all his business undertakings.

(e) that the adjustment of rating burdens among the different classes of ratepayers, or the ratepayers of different districts within the area of a local authority, is a matter internal to the local authority and should not affect its liability to Income Tax.

(f) that it is unsound in principle for the rights of the Crown to be affected by the internal rating arrangements of a local authority, which can be altered by a private Act of Parliament, and even in some cases by agreements made under existing statutory powers.

The London County Council Case (1907).

11,283. (65) Following the decision in the London County Council Case (1907) a local authority is not allowed (subject to one or two exceptions) to claim as a "set-off" against its rating fund interest the amount of Schedule A assessment upon properties in the occupation of non-productive departments. [See par. (20).]

11,284. (66) The question raised by this case was whether a local authority which occupies property purchased out of borrowed money (e.g., money raised by issue of stock or by mortgage of property or rates) has the right to deduct and retain Income Tax from the interest payable to the stockholder or mortgagee equivalent to the tax paid on the nominal value of the property occupied. In other words, is a local authority entitled to the same rights as an individual who has mortgaged the property he occupies and is allowed to retain tax deducted by him from the interest which he pays to the mortgagee.

11,285. (67) A decision given by the House of Lords in 1900, in the London County Council's earlier Income Tax case, established the Council's right to retain out of the tax deducted from the dividends paid to holders of the Council's stock sums equal to the amount of the tax deducted by local authorities when paying interest to the Council on loans advanced, and to the amount of the tax allowed to tenants of property belonging to the Council, or paid direct by the Council in respect of such property. The important question decided by the second case was whether the Council was entitled also to retain from the tax

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deducted from the dividends an amount equal to the tax paid under Schedule A on the annual value of property in its own occupation, having regard to the fact that such property had been paid for out of money raised by loan.

11,286. (68) In the former case the interest and rents received are actually applied in the payment of the dividends and interest. As regards property in the occupation of local authorities, however, there is obviously no income therefrom which could in fact be so applied. But as regards private individuals the law makes no distinction between mortgaged property which produces rent to the owner and mortgaged property in which the owner resides, and which is, therefore, incapable of producing actual income to him. In both cases the owner, when paying interest to the mortgagee, is entitled to retain so much of the tax as has been deducted by him from the interest, because he has already paid the tax under Schedule A on the full annual value of the property, either by allowing it to his tenant, or by direct payment to the tax-collector, and is liable for tax only upon the amount of his beneficial interest in the property. The Council contended that local authorities were entitled to like treatment with the private mortgagee in this respect.

11,287. (69) Mr. Justice Channell, in the King's Bench Division (28th June, 1904), decided in favour of the London County Council. His judgment was supported unanimously by the Court of Appeal (8th June, 1905), but was reversed by the House of Lords (10th March, 1907).

11,288. (70) The following illustration shows how the present law operates. Let it be assumed that a local authority rents a property worth £1,000, with an annual value of £50, for the purpose of carrying on its work. Tax would be payable under Schedule A on the £50 by the local authority as occupier, but would be deducted from the rent paid to the landlord. The landlord, not the local authority, would thus bear the burden of the tax, and the Crown would get the tax once. Let it be further assumed that the local authority, in course of time, purchases the property for £1,000, providing the money by a loan at 5 per cent, thus incurring a charge for interest of £50 a year. The local authority would still have to raise £50 a year by rate in order to pay interest (instead of rent) and, as occupier of the property, would be assessed to tax under Schedule A as before. The local authority would not, however, be in enjoyment of the annual value of the property for the possession of it would have involved a charge in favour of the person lending the money, who would, therefore, be the proper person to bear the burden of the tax. Under the provisions of the Income Tax Acts the local authority would deduct tax from the £50 interest paid to the stockholder, but would not be allowed to retain it; the tax so deducted would have to be handed over to the Crown, who thus receives tax on two sums of £50, once under Schedule A on the annual value of the property, and again on the interest paid on the loan raised to purchase the property. Thus the Crown would get the tax twice instead of once, and the local authority would have to pay value, although not really in enjoyment of the annual value of the property. In both cases the £50 payable by the local authority would be provided out of the rates, and it is contended that there is no valid reason why it should pay tax in the latter case and not in the former.

11,289. (71) The Lord Chancellor, in giving judgment said:—

"And on the rates (Qy. interest) which the Council pays over to its creditors, it is bound by the proviso at the end of section 102 of the Act of 1842, to deduct the tax and pay it over to the Crown. It is said that the effect of this conclusion will be to tax the same income twice over. I cannot see this. The County Council pays tax on £118,000 annual value of their own land which they occupy. The holders of consolidated stock pay tax on £118,000 annual interest of the debt due to them from the County Council. It seems to me that the two incomes are different, the persons who receive and enjoy

them are different, and the persons who pay Income Tax on these two incomes respectively are also different."

11,290. (72) It is submitted that these are equally "two incomes" in the ordinary case of the occupier and the mortgagee, but tax is only paid on one, viz., that of the mortgagee; the occupier does not pay because he is not the beneficial owner. Why should the local authority in like case pay tax?

11,291. (73) Lord Macnaghten, in concurring, said:—

"Take the present case: The property in hand, which is valued at £118,000 a year, has never contributed, and so long as the Council use it for their statutory purposes, never will contribute a single penny towards the payment of interest on Metropolitan Stock. The property in the actual occupation of the Council is worth to them for all practical purposes just as much as if it were not charged at all. The learned Master of the Rolls, with whom his two colleagues agreed, follows Channell, J. He rests his conclusion on Lord Davey's observations. 'It is clear,' he says, 'from Section 60, Rate X, as explained by Lord Davey, that the real income of an owner of incumbered property is the annual income of the property less the interest on the incumbrance.' So it is, if the incumbered owner pays the interest out of his own pocket. But the case is different if the interest is discharged from some other source and the owner is free. His Lordship then goes on to say, 'the Crown cannot demand the tax twice on the same income.' 'It follows, therefore,' he adds, 'that the Crown, having received Income Tax once under Schedule A on the full annual value of the property in question, can have no possible right to receive it a second time.' The answer is that the Crown does not receive it or claim to receive it a second time. It receives the tax only once. But if the contention on the part of the Council were to prevail, there might be taxable income—income plainly taxable, and yet the Crown would receive no tax upon it at all. Let me put the case. I leave out of consideration the property belonging to the Council which produces income. That does not affect the question. I will assume the dividend on Metropolitan Stock to be £100,000 a year. Then if the Council have no property in their own occupation and the dividend is raised entirely by rates, the Crown gets Income Tax on the whole of the dividend. But if the Council proceed to acquire property for their accommodation, the tax on the dividend receivable by the Crown gets less and less until it vanishes altogether, it and when the annual value of the property in hand assessed under Schedule A reaches £100,000. The property itself pays tax under Schedule A, whoever may be the owner and occupier. The point is that the Crown loses the tax on the dividend if the tax when collected goes to recoup the Council for what they pay under Schedule A. In my opinion the Crown is entitled to receive the whole of the income tax on the rates applied in or towards the satisfaction of the dividend on Metropolitan Stock. It seems to me that the judgment of the Court of Appeal must be reversed, and an order made on the information for payment of the sum claimed by the Crown, and the Council must pay the costs both here and below."

11,292. (74) It is submitted that Lord Macnaghten apparently overlooked the all-important fact that the result of the Council proceeding to acquire or construct further property for their occupation would be, *pro tanto*, to create more consolidated stock, and, consequently, to increase the dividends payable on such stock.

11,293. (75) If the Council were paying £109,000 in dividends out of money raised by rates, and were to acquire or construct property representing an

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annual value of £20,000, the Crown would, according to the Council's contention, get tax upon £120,000, i.e., on £100,000 by taxation of the dividends, and on £20,000 by taxation under Schedule A of the newly acquired or constructed property and not on £20,000 as supposed. The Council having paid tax on £20,000 by assessment under Schedule A would claim that it was entitled to retain an equivalent sum out of £120,000 dividends, paying over tax on £100,000 only. The decision of the House of Lords, however, gives the Crown tax on £20,000 and on the full £120,000 as well.

11,294. (76) The contentions put forward on behalf of local authorities, under this part of the case, are as follows:—

- (a) that local authorities should have the right possessed by the occupier of mortgaged property of retaining the tax deducted by him from interest paid to the mortgagee because they are not, to the extent of the interest so paid, the beneficial owners of the property;
- (b) that as this right does not, in the case of the private individual, depend upon whether in fact the interest on the loan is paid out of income arising from the property, the right to retain the tax deducted by local authorities from interest should not be limited to interest paid in fact out of such income;
- (c) that as the "annual value" of property in occupation is deemed to be income for the purpose of assessment to Income Tax, it should be deemed to be income for the purpose of estimating the rights of local authorities to reclaim the tax deducted from income charged thereon; in other words, for recoupment as well as for charge;
- (d) that the present position depends upon the construction of an Act of Parliament rather than upon sound principle. As the Lord Chancellor said in the Leeds Case (p. 17 of the proceedings)—"One can conceive the Act of Parliament might have said your occupation of your property is beneficial; it is equivalent to your receiving so much money";
- (e) that the fact of local authorities being the possessors of other income, viz., the rates (which are untaxed) is immaterial. (See Lord Davey's judgment in the first London County Council Case);
- (f) that the right to retain tax—which is conceded in the case of all properties occupied in connection with the undertakings of local authorities assessed under Schedule D—should be extended to all properties occupied by local authorities for other purposes on which tax under Schedule A has been paid;
- (g) that the Crown is not entitled to tax twice over upon what is the same subject matter or income;
- (h) that tax deducted from chief rents (and in Scotland feu-duties) paid in respect of unproductive property in the occupation of local authorities should be regarded precisely as tax deducted from loan interest.

Superannuation and Thrift Funds.

11,295. (77) The Institute do not desire to submit again in detail the arguments placed before the Commission by the representative of a large number of bodies interested in superannuation and thrift funds in support of the contention that these funds should be exempt from taxation; these, however, have been carefully examined by the Institute, and we endorse them so far as they affect the superannuation funds of local authorities. There does not appear to be any tangible reason why these funds should not

be brought into line with the police pension funds, which (as distinct from the individual pensions received by the beneficiaries) are free from taxation [See Par. 21.]

Summary of claims.

11,296. (78) The following is a summary of the claims made on behalf of local authorities, viz.:—

- (a) that a Municipal Corporation or similar local authority should be treated as one corporate body and entity, and not as a number of bodies depending upon the number of its separate rating funds;
- (b) that the taxable income of a local authority should be regarded as a whole, and its right to retain tax deducted from the interest paid to its creditors should be similarly regarded, and not restricted on account of statutory earmarkings;
- (c) that local authorities should have the right possessed by the owner-occupier of property, including property producing no revenue, of setting the tax paid by them under Schedule A against their liability in respect of tax on interest and chief rents (or feu-duties) paid;
- (d) that public sewers should be exempt from assessment to Income Tax;
- (e) that it should be considered whether buildings for housing administrative staffs of local authorities, and hereditaments and premises necessarily owned and occupied in connection with education and the preservation of public health, should be exempt from Income Tax, in addition to those properties which are now exempt;
- (f) that lands occupied by local authorities, which are not used either directly or indirectly for the purpose of farming, horticulture, or afforestation, should be exempt from taxation under Schedule B;
- (g) that the assessments upon profits from businesses or trades should be made upon a uniform average, and preferably such average should be that of three years;
- (h) that the cost of stamping debentures (or its equivalent), and for commission for introducing loans and stock, should be allowed as a working expense in the assessment of profits of local authorities;
- (i) that in arriving at the assessment of profits, allowance should be made for obsolescence of machinery or plant, whether such plant is replaced or not;
- (j) that the sums received for sale of grave spaces in respect of cemeteries and crematoria should not be regarded as income in arriving at the assessable profits of such undertakings;
- (k) that the income of the superannuation and thrift funds of local authorities should be free from taxation; that the contributions made by the authorities from their productive undertakings should be allowed as working expenses in arriving at the assessable profits; and that the contributions of the employees should be allowed to them as a deduction in assessment of their income.

11,297. (79) Attached are a

Statement A—with hypothetical figures—showing the present position as regards assessment of a local authority, and a

Statement B showing the operation of the claim that a local authority should be treated as a person and one entity for the purpose of liability to Income Tax, and be permitted to set against its liability in respect of interest, &c., paid, the whole of its profits and the assessments on all its properties, also a

Statement C setting out in detail the items making up the difference in the totals of the two former Statements.

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[Continued.]

11,300.

APPENDIX C.

Shewing details of the items making up to the differences in the totals of Appendices A and B.

Particulars.	Amount.	Difference in amount of "Set-off."		Remarks.
		In favour of Local Authority.	Against Local Authority.	
POOLING OF THE TWO FUNDS FOR ASSESSMENT OF BANK INTEREST (see par. 51).				(a) The Assessment under Schedule D would be £2,000, instead of £12,000 as at present; but, on the other hand, the amount available as "set-off" against Rating Fund Interest would be £2,000 only, as against £12,000.
Borough Fund—Bank Interest allowed. Now assessed separately (Appendix "A," Col. 2)	12,000			
District Fund—Bank Interest charged (Appendix "A," Col. 2)	10,000			
<i>It is contended that an Arrangement should be made only on the net amount (a).</i>	£2,000		10,000	
POOLING OF THE TWO FUNDS FOR ASSESSMENT OF INTEREST ON LOANS (see par. 53).				
Borough Fund—Surplus "set-off" (as per Appendix "A," Col. 12) o	11,300			
District Fund—Assessment up a Interest on Loans (as per Appendix "A," Col. 12) of	76,500			
<i>It is claimed that (apart from other considerations) the Assessment should be made on the net amount.</i>	£65,200		11,300	
INTEREST ON STATUTORILY ACCUMULATING SINKING FUNDS AND RESERVE FUNDS (see par. 52).				
Borough Fund (as per Appendix "A," Col. 3) £2,150 £1,000	3,150			
District Fund (as per Appendix "A," Col. 3) £250 £250	1,150			
<i>It is contended that this amount should be allowed as "set-off."</i>	£4,300		4,300	
STATUTORY CHARGES AGAINST PROFITS (see par. 55/56).				
Sinking Fund Contributions—Borough Fund—Productive (Appendix "A," Col. 2)	55,000			(b) Appendix "A," Col. 2—Tramways... 70,000 Do. "B," do. ... 30,000
Sinking Fund Contributions—District Fund—Productive (Appendix "A," Col. 2)	25,000			Allowance for Wear and Tear ... £20,000
Sinking Fund Contributions—District Fund—Working-classes' dwellings (Appendix "A," Col. 2) (Amount by which "set-off" in Appendix "A" has been made non-effective)	500			(c) Appendix "A," Col. 2—Electri- y 55,000 Do "B," do. ... 40,000
<i>Deduct Allowances for Wear and Tear, included in Profits (Col. 2) in Appendix "A," but not in Appendix "B" ...</i>	£20,500			Allowance for Wear and Tear ... £15,000
Tramways Undertaking (b) £20,000				
Electricity Undertaking (c) £15,000				
<i>It is contended that this amount should not be deducted from the amount Profits is arriving at the "set-off."</i>	£45,000		45,000	(d) Assessment upon District Fund Interest (as per Appendix "A" ... 70,500 Assessment upon Interest of both Funds (as per Appendix "B" ... 32,400
PROPERTY IN THE OCCUPATION OF THE LOCAL AUTHORITY (see par. 76).				£57,100
Borough Fund—Unproductive (Appendix "A," Col. 5)	1,000			
District Fund—Unproductive (Appendix "A," Col. 5)	5,000			
<i>It is contended that this amount should be allowed as a "set-off."</i>	£6,000		6,000	
<i>Net Amount by which Rating Fund Interest would be less than at present if the contentions put forward on behalf of Local Authorities were conceded.</i>		£57,100	10,000	
		£67,100		

[This concludes the evidence-in-chief.]

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[Continued.]

11,301. *Chairman:* There are some gentlemen from Wales sitting behind you. They wrote to ask whether they would be permitted to hear the evidence which you gentlemen are going to give to-day. This inquiry has been conducted as a private inquiry and not a public inquiry, and we have had none of the members of the public admitted to our Commission hitherto. We telegraphed to them to say that that was the condition, but unfortunately I understand they had left Wales before that telegram reached them. I felt that I should not like a number of gentlemen to have come all that distance and have the door closed on them, and so breaking the hitherto established rule, we have permitted these gentlemen to come in; but they must recognise the position that this is a Commission, and any information which they hear to-day must be kept perfectly secret; that is the honourable condition upon which you gentlemen sit behind there to listen to the evidence.

Sir Harry, I think probably you would like to address the Commission. You will be subjected to some questions afterwards, but I thought that as you represent some very important interests you would probably like to address the Commission on your main points. Usually we take the paper as it is, and then begin at once to ask questions, but I will make a little alteration to-day because you may want to amplify it or make some points to the Commission.—(Sir Harry Howard:) Thank you, my lord, but I wish to have set out the various points that we wish to make, and the contentions by which they are supported, as concisely and fully as circumstances seem to warrant, and I do not think that I can usefully add to them at this stage. I think it is possible that in answer to questions by various members of the Commission some further things may have to be said, but I think we should prefer to leave our statement, which I understand will appear upon the notes in full as it stands. There are, however, two alterations that I should like to make. They are not matters of very great moment. To paragraph 76 I should like to add at the bottom as a further contention (paragraph 76 (h)), these words: "that tax deducted from chief rents (and in Scotland feu-duties) paid in respect of unproductive property in the occupation of local authorities should be regarded precisely as tax deducted from lean interest"; and then a corresponding alteration in paragraph 78 (c) to insert the words after "interest" in the last line "and chief rents (or feu-duties)," so that it would read: "local authorities should have the right possessed by the owner-occupier of property, including property producing no revenue, of setting the tax paid by them under Schedule A against their liability in respect of tax on interest and chief rents (or feu-duties) paid." That is one addition, and the other is in paragraph 78 (c) to insert the words "education" and "after the words 'in connection with' is the third line. For some reason or other that has dropped out, it should read: "premises necessarily owned and occupied in connection with education and the preservation of public health."

11,302. *Mr. Marks:* Would you kindly read 76 (h) again?—That tax deducted from chief rents (and in Scotland feu-duties) paid in respect of unproductive property in the occupation of local authorities should be regarded precisely as tax deducted from lean interest." Would you allow me just to explain the circumstances in which we are here to-day?

11,303. *Chairman:* Yes?—With my friend, Mr. Ogden Whiteley, I have been deputed by the Council of the Institute of Municipal Treasurers to submit evidence to you, and that evidence is to be given on behalf of the Association of Municipal Corporations, the London County Council, and the Convention of Scottish Burghs—in fact, on behalf of local authorities generally. Perhaps I should in the first place, explain that the Institute is an incorporated body composed of the chief financial officers of most of the municipalities of the country. The Institute has for many years given much attention to the subject of Income Tax as it affects local authorities, and has come to various arrangements with the Inland Revenue regarding certain matters which have arisen

in connection with their assessments. When the Institute received an invitation from the Commission to tender evidence they placed themselves in communication with the Association of Municipal Corporations. The result is that the evidence-in-chief which is before the Commission to-day has been submitted to and discussed with Sir Robert Fox, the Chairman of the Law Committee of the Association of Municipal Corporations, and has been approved by him on behalf of the Association of Municipal Corporations. Then on behalf of the London County Council I am authorized to state that it associates itself generally with the views put forward by the Institute, so far as the principal matters dealt with are concerned. The Council has been and is in recess, but the three principal matters with which we dealt have at various times been before the Council. I refer of course to the 1907 case of the London County Council, the Leeds case, and the question of exemption from assessment of underground sewers. There are various minor points raised here, some of which do not directly concern the London County Council, and I do not think the Commission will be troubled by any request of the County Council to be heard separately on this subject.

11,304. Which do you call your main points that you want to press to-day?—The first is the point raised by the London County Council case of 1907 of the assessment of property in the occupation of local authorities and the right that we should be able to set the annual value of that property against the interest on loans raised by the local authority. The second point is that raised in the Leeds case that the local authority should be regarded as one body and entity and not as a number of entities depending on the number of its rating funds. The third question is the exemption from assessment of underground sewers. That is being specially pressed by the Scottish representative, and Ex-Provost Keith of Hamilton is in attendance and will specially deal with any matter of detail arising on that part of the case.

11,305. That sewage matter is the principal matter that these Welsh gentlemen have come to-day upon?—That is so, I believe.

11,306. Mr. Keith will probably deal with that a little later, because I should like to get something clear so that these gentlemen's minds will be eased?—Certainly; they are very distinctly interested in that, but it has a special bearing in Scotland, although a general bearing throughout the country.

11,307. Do you take Ireland as well?—Well, the Institute has Irish members, but the condition of Ireland is somewhat peculiar, and I think we have no more than two or three representatives.

11,308. The local authorities are not represented by you?—No. (Mr. Keith) I represent the local authorities of Scotland. (Mr. Whiteley:) May I say the City Treasurer of Belfast has been in communication with me on this matter, and has asked for a copy of the evidence which is submitted to you to-day for the information of the local authorities in Ireland, who are asking, I understand, to submit evidence to you and desire to have this as the basis of building up their evidence. So far as the Western Valleys Sewerage Board is concerned, the gentlemen who are here this morning have had copies of this evidence, and I think are in full agreement with it.

11,309. Who drafted this paper?—(Sir Harry Howard) It was drafted by a sub-committee of the Council of the Institute of Municipal Treasurers. As I say, it has been submitted to the Association of Municipal Corporations, through Sir Robert Fox, and has been approved by them, and to the Convention of Royal Scottish Burghs.

11,310. Would you like to say something more on the sewerage matter and take that case specifically first?—I would sooner the detail of the matter were dealt with by Ex-Provost Keith, but I should like to say as far as the London County Council is concerned that the Council took action some time ago in order to secure the exemption of underground sewers from rating. They approached the Local Government Board on the subject before the war. The Local Government Board then were not prepared

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to introduce a public Bill on the matter, but the Council sent representatives to a conference composed of representatives of the Association of Municipal Corporations, the Urban District Council Association, and others, with a view to considering what action should be taken, and in the end a Bill was introduced in the House by a private Member in the Session of 1914, I think, and that Bill was supported by the Association of Municipal Corporations, the London County Council and others, but for various reasons it failed to proceed; the London County Council are very strong on the subject that no useful purpose whatever is served by bringing these underground sewers into rating.

11,311. Mr. Walker Clerk: Local rating, not Imperial rating?—Yes, local rating and Imperial rating. Bringing them into the list involves a large amount of work on the local authority which in most cases very little practical result, because in most cases it means taking money from one pocket and putting it into another. In the County of London there would be very difficult questions of rating incidence arising as between one Metropolitan Borough and another owing to the fact that these sewers pass through some boroughs to a large extent and not through others. The Council felt that, as I say, no useful purpose would be served by having them brought into the rating list. The only people who would gain by it of course would be the National Exchequer. It did not seem to the Council at all fitting that, at a moment when local authorities were pressing the Government for larger grants from the Exchequer in aid of semi-national services, it was at all right that extra burdens of taxation should be put upon them through the bringing of sewers into rating. Then the Treasury have had the matter before them, and I think I ought perhaps to read this extract from a letter which was addressed by the Treasury to the Inland Revenue in July of 1914 on the subject. They said: "They are very reluctant to take any action which would conflict with the principle that whatever is a proper subject of rates is a proper subject of taxes. In those circumstances it seems to them that the situation which has arisen or may arise in consequence of the decision referred to must be approached from the point of view of rating, and not of Income Tax, and that the remedy if it is desired to find one lies in an alteration of the law of rating. For these reasons their Lordships do not feel able to propose legislation dealing with that aspect of Income Tax, and they think that for the time being at any rate underground sewers in so far as they may in fact be brought into rating as a result of the recent judgment should also be brought into assessment under Schedule A." Then a question was asked in Parliament by Mr. Harry Hone, the Member for Stirlingshire, in February, 1919. The Parliamentary Secretary for the Treasury in answering the question suggested that the matter might be brought before the Royal Commission on Income Tax which was then about to be set up. That rather suggests to us that as far as the Treasury is concerned the matter is to some extent open on its merits.

11,312. Chairman: Have you anything to say, Mr. Keith?—(Mr. Keith): Yes, my lord. We are in a worse position as regards the rating of sewers in Scotland than the local authorities are in England. The decision in the West Kent Main Sewerage Board case was that sewers in England are rateable wherever the occupation of these is valuable within the meaning of the authorities dealing with rating; but in Scotland owing to a decision of the High Court the sewers there are held to be lands and hereditaments within the meaning of the Valuation Act of 1854. Up till that decision, which was given in 1912, sewers never appeared at all upon the valuation roll. Subsequently to that decision sewers do appear upon the valuation roll everywhere, whether or not they have a value in the sense of the West Kent decision. In that case there was an income derived from outside authorities for the use of the sewers, but we have very few, if any, instances of that kind in Scotland. The result is that sewers as a matter of law now appear in the valuation roll in respect of every local authority, and in respect of their being put on the

roll at an annual valuation—I am dealing exclusively with Scotland—in respect of their being put on the valuation roll at an annual valuation we have to pay Income Tax on that annual value subject to proper and reasonable deductions. Of course, we say that sewers have really no hypothetical value at all. The arrangement has been that they are to be assumed to have a hypothetical value, that is, a value which a willing tenant would give for the occupation of them, but, it is inconceivable that there could be a tenant of sewers, and consequently we say that they have really no value within the meaning of the Valuation Act, and that they should not be there at all. As Sir Harry has said, of course the Commissioners say that this is more a question of rating than a question of Income Tax, but the fact that they are upon the valuation roll brings them within the ambit of Income Tax. We say they should not be there at all; but assuming they are left there we say that the Income Tax Commissioners should give an instruction that ground Income Tax they are not to be assessed. I could elaborate the question, but I think it is perfectly clear. I trust that you are satisfied as to the reasonableness of the demand.

11,313. Have you anything to say, Mr. Whiteley?—(Mr. Whiteley): Nothing in addition at the moment.

11,314. Chairman: The Commissioners will now ask you gentlemen questions on your evidence-in-chief.

11,315. Mr. Kerly: Sir Harry Howard, I am afraid I shall not be able to examine you in any detail upon your paper. Fortunately it appears to be a very complete and clear statement, and we shall have the opportunity, of course, of studying it. I ought to tell you at once I feel in a great deal of difficulty in dealing with it critically until I have heard the other side, which you naturally have not presented to us. That is probably entirely new to many members, if not all members of the Commission. May I ask you one or two general questions. A large part of your complaint is that you are taxed in respect of property which you have to hold for municipal purposes, but which produces no income?—(Sir Harry Howard): And against which there is a large indebtedness.

11,316. There is the further position that very often that property represents a loan, and you have to pay interest on the loan?—Yes; and therefore we are not to that extent beneficial owners of the property.

11,317. Let me take the two matters separately. Is it your contention that, apart from any question of loan interest, property which produces no income and is held for public purposes should be untaxed?—Well, we are not authorized to advocate that view; but I, personally, and, I think, some of my colleagues, feel that there is a great deal to be said for that position of local authorities, that property in their own occupation should not be brought into Income Tax assessment at all. We have pointed out here that for one reason or another there are now important exceptions to the rule by which local authorities' properties are assessed, and that quite a large amount of their property is exempt by Statute from assessment.

11,318. By special Statute?—Yes. Those properties relate mainly to matters of great importance to the general community, and I think in regard to every one of them there are considerable direct grants in aid from the national Exchequer. We are not authorized to submit the proposition that there should be a general exemption of all local authorities' property from assessment to Schedule A or Schedule D.

11,319. That prevents one from dealing with the matter on broad general grounds?—On the broadest grounds.

11,320. Is the actual position, apart from special statutory exemptions, that the municipal corporation is treated as a private owner in possession of a house which he occupies?—Yes.

11,321. And on the general grounds I was putting to you, which you do not put forward, that position would be wrong, because the municipal owner is holding the property for public purposes?—Yes.

11,322. Putting it on a narrower ground, you say if he has bought the property by a loan, to take a simple case, and has to pay interest on that loan, he should

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not be treated as the owner?—He should only be treated as the owner to the extent to which the annual value exceeds the interest.

11,323. That is to say, he should be in the position of a mortgagor who owns only the equity of redemption?—That is so.

11,324. What is the actual position? He has to pay interest; he deducts tax out of the interest?—Yes.

11,325. Do you suggest that he should retain the deduction?—Yes.

11,326. The tax deducted from the interest?—Yes.

11,327. In your paper you suggest that he should set it off against something; would you go so far as to say that he should retain the whole of it?—Yes, if the annual value exceeds the interest.

11,328. *Ex hypothesi* it has no annual value?—When I say annual value I mean the annual value for the purposes of Schedule A. It is assessed at an annual value on which tax is paid: (Mr. Keith). In Scotland it would appear upon the valuation roll, and because it was on the valuation roll it would be liable to Income Tax.

11,329. I quite appreciate that it has a value, because I know how the value is arrived at, by assuming a hypothetical tenant, or something of that sort?—Yes.

11,330. But that is merely a fictitious value, because the corporation can never receive it; the corporation is really in the position of an owner-occupier. I do not understand on what principle you suggest that having deducted from the interest upon the loan a certain tax due from the owner of the interest to the State, they should keep that sum; it appears to me to have no relation to the rest of the property?—(Sir Harry Howard). Surely it has just the same relation as it has in the case of a private individual. He deducts tax from the interest that he pays to the mortgagee, and he sticks to it.

11,331. That is because on so much he has paid property tax?—That is exactly the position that we take up; we have paid Schedule A property tax.

11,332. Why cannot you retain the tax you deduct from the interest?—Because the House of Lords decided that we are not to do so. They said that the annual value of property in the occupation of a local authority was not income to them out of which they paid interest to the stockholders or the mortgagees. They paid that interest, in fact, out of the rates, and rates are not assessable, and therefore the local authorities could not retain the tax that they had deducted from that interest.

11,333. Then they rejected the view that you are only to be treated as owners of the balance beyond the outstanding loan?—They, of course, had to interpret the law; they were not dealing necessarily with the equities of the case. We are venturing to put before this Commission the equity of the case.

11,334. I follow that position. Now is there any distinction between sewers and other property producing no income?—Well, I think there is.

11,335. In what way?—There is one distinction that we point out here, that the underground sewer does not interfere with the land as a hereditament which can be rated or taxed. You can have your sewer running under land, and the local authority can rate a building erected on the land or the national Exchequer can benefit from Income Tax under Schedule A upon a house erected upon that land, although there is a sewer running underneath. The same cannot be said of a town hall, which occupies a certain amount of ground to the exclusion of everything else. Therefore, there is a distinction, in our opinion, under that head alone between sewers and other properties, such as town halls.

11,336. The proposition, if I follow it, is that the country can give up the property tax on a sewer because the making of the sewer has not deprived it of some other property which would produce tax?—That is one point.

11,337. Is there any other?—There is another point that we make, and that is, it may be said that the sewers add to the value of the land, and that in effect when the land is assessed at its enhanced value owing to the sewers being constructed, the local authority and the Government have by rating and

assessment got the benefit of the higher value of the land.

11,338. That applies to all the industrial undertakings, does it not?—Not necessarily; it may apply to some.

11,339. I mean where they are really beneficial to the community?—Yes. (Mr. Whiteley). Might I be allowed to add something less there is a little misapprehension with regard to one of your earlier questions, where you spoke about the exemption of all properties of local authorities which are required for public health and local government purposes? May I draw attention to paragraph 78 (c) of our evidence where we say: "It should be considered whether buildings for housing administrative staffs of local authorities, and hereditaments and premises necessarily owned and occupied in connection with education and the preservation of public health, should be exempt from Income Tax, in addition to those properties which are now exempt." We point out in an earlier stage of the proof the considerable anomalies that at the present time exist; hospitals are not assessed but are exempt from Income Tax, while sewers and sewage works are liable to assessment. We point out that public elementary and secondary schools are exempt, but the offices for the administration of that education are assessed; that the offices of Poor Law Guardians are exempt, but the town hall for the carrying on of the general civic administration is assessed. Public libraries are exempt and art galleries are assessed. As a matter of fact there is now a test case, raised by the City of Birmingham, in which other local authorities are joining, which has been waiting ever for some time at the request of the Board of Inland Revenue, and which is intended, unless some pronouncement is made, I take it, by this Commission, shall be carried through the Courts to determine whether art galleries should not be excluded. We point out that there are a considerable number of services, more especially the administration and the essential hereditaments for the preservation of public health, which are semi-national in their character. The local authorities are doing the Government's work in this respect, work which is imposed upon them, and if those properties were in the occupation of the Government to carry out their duty they would be exempt.

11,340. Mr. Holland-Martin: So far we have been discussing public sewers; just now you mentioned the words "sewage works"; are they included in the term "sewers"?—Not necessarily. There is the distinction which Sir Harry Howard pointed out where sewers have if anything a stronger claim, that sewers underground do not occupy land, but sewage works do occupy land. We simply put them forward as being something necessary for the preservation of the public health, not only for the locality but of the whole community. (Mr. Keith). In Scotland we maintain that such works should have no value greater than the value of the land which they occupy, that they should not be assessed at a higher value than the value of the land. Then again in regard to sewers in Scotland—I presume the law will be the same in England—we have right of access to private lands for the laying of our sewers; the owner cannot charge a wayleave under the Public Health Act, so the sewers are laid without charge so far as the occupation of land is concerned. We have only to pay for damage done and we have to restore.

11,341. Mr. Kerly: For what it is worth, it is quite clear, I think, that the distinction between an underground sewer which occupies no surface, and other property producing no income is that there the activities of the Municipal Corporation have created new property without destroying any taxable property; that is the point, is it not?—That is right.

11,342. I do not propose myself to follow out any questions of valuation. That seems to me to be a ruling question rather than an Income Tax question. I am obliged for what Mr. Whiteley said just now. It is because I was trying to find some general principle on which to put your claims with regard to property that I made the statement which has not been adopted. I understand that generally the corporation is taxed in respect of non-revenue-producing

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[Continued.]

property except where a special exemption has been made. Are you seeking to fill up all the uncovered country as far as you can?—(Sir Harry Howard): No, we ask the Commission to consider the matter, but we are not authorized to put forward that proposition as a general proposition, that all local authorities' property should be exempt from Income Tax.

11,343. I follow that. You may not be asking for the general proposition, but you may be asking to remove all the remaining exceptions?—No, we do not go so far as that. If you will forgive me for referring to paragraph 25, after dealing in the previous paragraph with the present exemptions, we say: "It is observed that the present exemptions concern property occupied in connection with services which are semi-national in character (within the meaning of the Report of the Departmental Committee on Local Taxation), and it is a matter for consideration whether all land and buildings occupied by local authorities for the purpose of carrying out or fulfilling all such duties imposed upon them by Government, should be exempt from assessment to Income Tax. These duties are placed upon local authorities because the services, although national, or semi-national, in character, such as education, public health, main roads, &c., &c., can be more conveniently administered by local authorities than by the Government, but if the Government were to administer such services direct, the property would not be liable to assessment." We do not go further than that. We do not bring in, for instance, town halls necessarily. My personal view is that it would not be right to set up a claim that a town hall, which might conceivably be very extravagantly constructed altogether beyond the bare necessities of the case, should be exempt from Income Tax assessment altogether. It may suit the taste and desire of the local community to put it up, but that is their matter; there is no reason why the general taxpayer should suffer in consequence. That seems to me to be more a matter for the local community. Therefore we ask the Commission to consider this question of further exemptions in relation to what are called semi-national services; to make the list complete with regard to education by bringing in the administrative offices as well as the schools themselves, and all buildings or property in connection with the preservation of public health.

11,344. I may summarise it in this way, that what you propose is exemption for property occupied for certain of the operations of a Municipal Corporation—not for all their property?—Yes.

11,345. On the ground that they are for semi-national services?—Yes. But of course you will appreciate the point that if the Commission agree with our views with regard to what we call the set-off, and we are able to retain the tax deducted from the interest on the loans that are raised for these various things, then the point so far as its financial effect is concerned is not very material.

11,346. I quite appreciate that?—That is a very large counterbalancing factor.

11,347. In that connection have you anything to say about interest on contributions to the sinking fund?—Yes; that is one of our points. We think that we should be allowed to have a set-off or rebate in effect in respect of the interest on investments of the sinking fund.

11,348. That does not stand in the same position as the interest. The interest you distinguish by saying you are really only part owner?—Yes.

11,349. But as regards the sinking fund, that is somewhat similar to the savings of a private individual?—But in the case of a private individual, if he has interest on his investments which is taxed, he can set off the tax which he deducts from interest which he has to pay.

11,350. But not from repayment of capital?—The Revenue do not inquire what use he is making of the interest and how he is applying it, but they do in our case because of the law as it stands; they say that you must show that you are applying the interest on your investments to pay interest, and not to accumulate it for capital purposes. The position that is thus

brought about is very anomalous, as I will show the Commission. Take the case of the London County Council; we provide for the reduction of the whole of our debt to the stockholders by means of an equal instalment of principal every year set aside into a Consolidated Loans Fund. Supposing the period to be 60 years, we put aside one-sixtieth of the loan into the sinking fund for all our services except one, namely, the working-class dwellings. In that case we make a cumulative sinking fund, and we put aside so much money every year as with interest accumulations will amount in 60 years to the amount of the loan. That is the sole exception. For all the main services of the Council we put up one-sixtieth every year, and the interest earned by the sinking fund is carried to the income account of the Loans Fund, and therefore is in fact applicable and applied to the payment of interest on the stock. Because we do that we get the advantage of a set-off in respect of the interest on those investments of the sinking fund. Now, my friend Mr. Whiteley, of Bradford, and most of the municipalities of the country, provide for the liquidation of their debts by means of a cumulative sinking fund which takes account of the interest earned, 3 per cent. or whatever the basis is, and they carry the interest on the investments to the sinking fund, and the whole then amounts at the end of the 60 years, or whatever the period of the loan may be, to the capital sum. Because they do that the Revenue say: "No, you cannot get any refund or set-off in respect of that interest because you do not apply it to the payment of interest. You set it aside to form part of this capital fund." That is in accordance with the existing law as laid down by various judgments, and we do not dispute that it is in accordance with the law. What we say is that in equity it is not right, and it is contrary to what happens in the case of a private individual.

11,351. I do not quite follow it personally, but I do not feel competent at the moment further to consider it. I wanted to ask you about one other branch of the matter, and that is about the industrial undertakings producing profit. I understand that you desire that the whole of the industrial undertakings of a corporation should be treated as one business?—Yes.

11,352. And at present you are not able to do so?—No. They are mostly treated as two groups of businesses.

11,353. And are the groups allowed to be consolidated?—Within the group there is consolidation.

11,354. Will you tell me what is the distinction between the two groups?—The distinction is between the two rating funds, namely the Borough Fund and the District Fund; there is a different incidence of rating. In the case of one fund the ratepayers contribute on a quarter only of the assessable value of the properties. The decision in the Leeds case was that this is a fundamental fact in the constitution of a local authority, and so long as that statutory position exists their assessment to Income Tax must be determined in accordance with it.

11,355. It is taken, in fact, that the two groups of businesses belong to separate owners?—(Mr. Whiteley): That is quite right.

11,356. That seems to be right?—Might I draw your attention to Appendix A of our evidence-in-chief? There we have shown the division, with hypothetical figures, of the accounts of the local authority into these two groups: the Borough Fund group and the District Fund group, and so far as there are trading and non-trading departments attached to either one or the other of these groups then—with certain exceptions and limitations with regard to property in their own occupation and other items which are separately dealt with in our proof—we are allowed the general position of set-off, and to regard each group as one person. We desire to point out the great anomaly there, that practically there are no two towns alike. It is a mere result of local Acts of Parliament, which are as different almost as the number of local authorities. In one town gas is secured as part of the Borough Fund;

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in another it is part of the District Fund. The same applies to water, to electricity and to tramways. Exactly the same thing applies to the unproductive departments of the local authority. In Bradford we have a considerable number of our unproductive departments which are part of the Borough Fund, but which in almost every other town are part of the district fund. There is no difficulty in altering that if we go to Parliament. Leeds, Lancaster, Manchester, Birmingham and Southport and several other towns within the last two or three years have gone to Parliament and asked Parliament, and they have had no difficulty in getting Parliamentary sanction for it.

11,357. Sanction for what?—They have asked Parliament to merge their two funds into one fund, and to merge their two rates into one rate. We mention in paragraph 47 that that has been done quite recently in Manchester, Leeds, Birmingham, Southport, Lancaster and other places, and in paragraph 48 we say: "Very little difficulty is experienced in obtaining this power from Parliament, thus proving that Parliament recognizes a local authority as one body, and not a number of separate bodies corresponding to the number of rates levied." But if the whole of the local authorities were to go to Parliament now for local legislation to make their two rates and their two funds into one rate and one fund, probably 600 or 700 of them would have to go, and Parliament would very rightly say, "Why are you all coming now on this question? Had you not better go to the Royal Commission on the Income Tax and get this matter cleared up?" We put it very strongly that it is a mere stroke of the pen, often dating back to the middle of last century, as to whether a particular undertaking is attached to the Borough Fund or the District Fund. The same ratepayers pay the two rates; they get one rate demand note.

11,358. Mr. Walker (Clark): In the same proportion?—Not necessarily in the same proportion, but in the same proportion except as regards the occupiers of land.

11,359. Mr. Petyman: Agricultural property?—Take the case of Bradford: we have two rates, the Borough Rate and the District Rate, but for collection purposes we merge them, and with the exception of a small portion, the land portion, they are charged as one item at 12s. in the £. The ratepayer does not care how much in Borough Fund and how much in District Fund. On the other hand, if we go to Parliament and ask them to make us one rate as they have done in these towns that I have named—Leeds, Manchester, Southport, Birmingham, Lancaster and others—they will do that, and they will preserve an exemption for the occupiers of land by making it an average of the two rates; that is the whole difference.

11,360. Mr. Kerly: Would you tell me, please, would there be any disadvantage to either group of ratepayers if the amalgamation of these funds in your Appendix A for this purpose were to treat the trading undertakings as one?—None.

11,361. There could not be?—There could not be.

11,362. Mr. Petyman: I did not quite catch whether at present all the services under either of those funds are pooled?—They are pooled within the fund—within the group.

11,363. So that supposing on any service which is run on the District Fund or the District Rate you have a loss, and on another you have a profit, you can set them off?—We do as a matter of fact.

11,364. And the same with the Borough Fund?—The same with the Borough Fund.

11,365. So if they were both pooled together, that would be automatic?—It would be automatic for the whole thing.

11,366. Supposing you ran tramways at a very serious loss, and you had a property somewhere else which was producing a good profit, you would be able to set off one against the other?—Exactly as an ordinary individual is entitled to do. If he has a grocery business and a coal business, and he loses money on the coal business and makes a profit on the grocery business, he is entitled to set one against the

other. That is conceded to us now within the particular groups. (Mr. Keith): We say in Scotland it is the borough you are assessing, and the borough should be treated as a whole.

11,367. Chairman: That is quite clear now.

11,368. Mr. Marks: In your paragraph 27, where you refer to the West Kent decision, you say: "It was held 'that all sewers, whether overground or underground, were rateable wherever the occupation of these was valuable within the meaning of authorities dealing with rating,'" and you say that "considerable sums were received from outside authorities for the use of the sewer." Do you quarrel with that decision?—(Sir Harry Howard): I believe not, so far as that relates to cases where an actual rent is received from an outside authority, but perhaps Mr. Keith would speak as to that. (Mr. Keith): Our position, as I pointed out, is different. We do not quarrel with that. We say, if you show that there is in fact an income coming from an outside source, that income is obviously income which might be taxed; but where you are dealing with sewers which are the property of the community, and which are rather in the sense of an accommodation in the interests of public health, just as the roads are an accommodation in the interests of transport, these should not be assessed to Income Tax.

11,369. On those Appendices A and B there would be a reduction in your assessment if B were adopted, which you put forward, from £76,500 to £19,400?—(Mr. Whiteley): Yes, but these are hypothetical figures; they are not actual figures from any authority, but they are brought in in order to emphasize, and to give examples of, all the points we have raised.

11,370. That is why I asked the question; that is a sort of measure of the wrong?—No, it does not measure the wrong at all.

11,371. Why not?—We do not put forward these figures as having any actual relation at all.

11,372. The proportion between the two figures would be the measure?—Not necessarily at all. The figures we have put forward as profits, and the figures we put forward as interest, are entirely hypothetical.

11,373. As an illustration only?—An illustration only; but may I just point out this on the question that I dealt with a moment ago on Appendix A? The effect of our set-off of the taxed profits against the interest is marked to the extent that under the Borough Fund we have an excess or surplus of £11,300; we have a shortage on the District Fund, and we cannot set the one against the other. Might I also mention column 2 of that same statement? The whole of our non-trading bank interest, the whole of our departments attached to the Borough Fund, have earned interest to the amount of £12,000 on that statement. On the lower portion there is bank interest charged on the District Fund's account of £10,000. We must pay tax now on the £12,000, and have no benefit at all with regard to the £10,000. I would like again to suggest that it is a mere stroke of the pen which fund it comes under; but at present we have to pay on our £12,000, and get no benefit for our £10,000. We say our bank interest is £2,000; that we have one account net.

11,374. Sir J. Harwood-Banner: What is the general position of the sewers fund, if the principal contention is that it is an Imperial fund, and therefore ought to be free from all rating and taxation? Is not that one point—that the sewers should be taken over by the State?—(Sir Harry Howard): That is one of the points that we make; that it is a health service, which is a semi-national service, and therefore should on that ground, among others, be exempt; and, anyhow, inasmuch as a grant from the national Exchequer towards these services that are called semi-national is in nearly every case based on expenditure, the Government would pay half the Income Tax that was paid on the sewers, if they were assessed to Income Tax.

11,375. Of course you understand that is not a matter we can deal with?—Yes.

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11,376. You say that in several instances Municipal Corporations, or similar local authorities, have obtained consent from Parliament to treat all their transactions under both the Borough Rate and the District Rate in one rate, under one collection?—They have obtained much wider power, namely, to levy one consolidated rate, and that carries with it the position that you outline.

11,377. That carries with it the position that they can set off one against the other of all the funds?—Yes, that is right.

11,378. So that virtually municipal authorities, in some cases, are under very great disadvantage as compared with other municipal authorities who have not got the same power?—Yes. Leeds promptly cured the effect of the decision of the House of Lords in their case in 1911, by getting powers to levy a consolidated rate. Other towns have followed, and there seems to be no difficulty in getting these powers from Parliament.

11,379. It would be quite possible for other towns probably to obtain these, but you suggest that it should come in under this general Income Tax question without the necessity of these boroughs each going separately to Parliament?—Yes. There is not only the trouble, but the cost of applying for these powers. In fact the position is even simpler in the case of London, where there is a consolidated rate. I am speaking now in reference to the London County Council, where we are affected by this Leeds judgment, because we are unable to set off the taxed profits on the tramways against any other interest than that which relates to the special County debt, which does not affect the City of London. Now it is quite competent for the London County Council, if the City Corporation were willing to enter into an agreement with the City, under a particular section of the Local Government Act, 1888, which gives power to the two bodies to make an agreement for the cessation of the exemption of the City of London from the Special County Rate; and if we did make that agreement on general grounds, this two-entity business would fall automatically to the ground, and we should be able to set off the taxed profits of our tramways against the interest on the whole of our debt; it does not even require an Act of Parliament.

11,380. Mr. McIntosh: This question of set-off is a very important one?—Very important to municipalities generally.

11,381. In respect that you are differentiated against as compared with ordinary trading concerns?—Yes.

11,382. The example you give is not exactly of a full set-off. It is in paragraph 75. I do not quite follow these figures. You say: "If the Council were paying £100,000 in dividends out of money raised by rates, and were to acquire or construct property representing an annual value of £20,000, the Crown would, according to the Council's contention, get tax upon £120,000?"—Yes.

11,383. "On £100,000 by taxation of the dividends, and on £20,000 by taxation under Schedule A," and you go on, in the last paragraph: "The Council having paid tax on £20,000 by assessment under Schedule A, would claim that it was entitled to retain an equivalent sum out of £120,000," should not that be £100,000?—No. I think that perhaps there is a little confusion; you introduced words just now in the question that the Crown would get at present a tax on £120,000 and on £20,000. We say, according to the Council's contention, they should only have tax upon £100,000 and £20,000; that is £120,000 in all. But as the law now stands, they get tax on £140,000. That is dealt with in the last sentence of that paragraph.

11,384. How do they get that?—They get tax on £20,000, that is a new property which has been built. Schedule A: there is an extra £20,000 of dividend payable on the new stock created to build or construct the property; so that instead of £100,000 dividends payable, there are now £120,000 dividends payable.

11,385. You have got a slight gap; it is not by any means clear—I am sorry if it has misled you, but that is the position. Perhaps it arises from the fact that we say here in the second line: "the Crown

would, according to the Council's contention." That is what they ought to get—tax upon £120,000, and not tax upon £140,000. Lord Macnaghten said that they would only get tax on £20,000. This paragraph is in here only to show that, in our opinion, Lord Macnaghten—we say it, of course, with due deference—appears to have overlooked a certain fact. It is only just to show that we think there was a flaw in his reasoning.

11,386. You do not indicate anywhere in that paragraph that you pay an additional £20,000 in dividends, till you come to the last line?—If you take the last sentence but one, we say: "The Council having paid tax on £20,000 by assessment under Schedule A, would claim that it was entitled to retain an equivalent sum out of £120,000 dividends."

11,387. I quite agree, now that you explain it, but you start in the opening paragraph to deal with £100,000 dividends and £20,000 Schedule A, and then you increase your dividends, without any comment, from £100,000 to £120,000—I see what you mean; but we started with £100,000 dividends because that was Lord Macnaghten's figure.

11,388. With regard to this question of set-off, you claim that you are not treated as others are?—Are you referring now to the matter in paragraph 75?

11,389. Yes, and also with regard to the set-off on an undertaking having a large loss and one having a profit?—We are allowed that, if it is in the same rating group.

11,390. But you raise quite a number of other points in paragraphs 34 to 39. You are asking, on this question of set-off, to be treated as another trading concern would be, say which had two businesses. Then you go on and you deal with it in paragraph 35; you ask that you should have a uniform average in respect of all undertakings. As long as you have that uniform method, are you particularly anxious that it should be an average?—(Mr. Whiteley): That point only deals with the question of assessing undertakings either upon one year's account or three years' accounts.

11,391. I quite understand some of your undertakings are assessed on three years' average and some on one year, but we have had a lot of witnesses here suggesting that the present average basis should be disregarded altogether, and that the profits should be assessed on the preceding year. I want to know if your Institute is specially desirous of a three years' average, or what other form of average you advocate. You refer to it only as a uniform average here?—We do not specially press it. In our opinion, three years is better from a municipal point of view, because you get a better average in three years' accounts, but we do not specially press it beyond the fact of uniformity.

11,392. In paragraph 36 you ask for the cost of stamping debentures, and commission?—Yes.

11,393. You are aware that no trader who has the same expense, gets that. This is a different point?—We are not really aware that this is so, but we submit that at any rate from our standpoint it is equitable and fair. It is part of our revenue charges. If we go to the Ministry of Health for a sanction to borrow money for any purpose, or if we go to Parliament with a Bill for powers to borrow money, and we include in our estimate these costs, they strike them out. They say: "you must charge that to your revenue."

11,394. You are the same as other people in this respect, are you not? You are not being penalized?—Perhaps not, but we claim that is fair. (Mr. Keith): You may take it that we say that we should have it, and that the private trader should have it, too.

11,395. Then the next point is as to wasting assets. Of course, that is common to all three?—(Mr. Whiteley): Quite so. The only point that we put forward there is that the obsolescence should be allowed, whether the machinery is replaced or not.

11,396. That, of course, is another case where you are not differentially treated?—That is so.

11,397. Then you also ask this in paragraph 7 you say that premiums transferred to insurance funds are not allowed as a working expense?—No, we do not

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sak that, if you will kindly look at paragraph 38, which says that in regard to paragraphs 7, 8 and 9 we make no observations. We simply state that as a fact as to the present basis of our assessments; we do not ask for any alteration.

11,398. It is quite a reasonable method of dealing with it where you do not actually insure?—Quite so; we are quite satisfied.

11,399. On the question of the sewers; in Scotland the owner of a property is the owner of the sewers, is he not?—(Mr. Keith): No; he is merely the owner of the connecting drain, but a sewer is, in fact, an extension of all property.

11,400. When he buys a new house in the price is included the price of the actual laying of the sewer from the house down to the road, however far away it is?—That is if the arterial sewer were not within 100 yards of his house, he has to make that 100 yards of connection. But he gets the use of the arterial sewer; and in Scotland he usually pays what is called a reasonable sum for the use of that arterial sewer; so that as a matter of fact, the value of the sewer has been expressed in the value of the house which drains into the sewer, and in respect of that value the rent is higher, and in that higher rent the sewer assessment, both rating and Income Tax, has been already charged.

11,401. My point, shortly, is this: that in the annual value of a house there is reflected something for the annual value of the sewer?—That is exactly the case.

11,402. So that if you exempt them in the case of the local authority you would have to make a reduction in the annual value of all the rateable property as well, would you not?—No, because this is an entirely new charge. If the sewers were not rateable and were not assessable to Income Tax from 1854 down to 1912, the presumption is that there was no annual value there to tax. This is merely the result of case law.

11,403. I quite agree, but as a matter of fact in the cost of a new house there is the cost of the sewer, and the buyer of that house cannot, as a rule, split his price, and consequently he is very frequently rated on the cost of the dwelling-house that he buys?—Yes.

11,404. Mr. Kerly: May I ask you whether you are distinguishing between a drain which serves one house and sewers which serve houses generally?

11,405. Mr. McLintock: In Scotland as a rule you have to pay for the sewer which connects with the main sewer.

11,406. Mr. Kerly: That is the drain?—But you do not buy the taxation that is imposed subsequently upon the sewer. What you buy is the structural cost of the sewer. That cost remains whether it is taxed or not taxed.

11,407. Mr. McLintock: That cost is a factor which enters into the annual value, under Schedule A, of the house and the sewer?—Agreed, and therefore the sewer should not be taxed a second time.

11,408. On the question of this interest that you pay and from which you get no set-off for your annual value, is there any distinction, say, between your case and that of a man who owns a house and pays interest on mortgage, and whose income is derived, say, from an allowance from his father, out of which he pays his interest?—(Sir Harry Howard): We say in paragraph 76 (b): "as this right does not, in the case of the private individual, depend upon whether in fact the interest on the loan is paid out of income arising from the property, the right to retain the tax deducted by local authorities from interest should not be limited to interest paid in fact out of such income." If a person whose income is not taxable, or a person whose income was under the taxable limit, were the owner of a small house which was mortgaged, such a person, having paid tax under Schedule A, would be able to deduct and retain the tax from the interest on the mortgage. It does not depend on whether the person's income is taxable or not.

11,409. As regards others than a corporation?—(Mr. Whiteley): Quite so, and it does not depend on whether the loan on which the interest is paid is

charged on the property or not. Might I say this. Mr. McLintock was good enough to raise one or two points of distinction between the local authority and the private trader. May I point out that in paragraph 78 where the summary of our claims is put forward, paragraph 78 (b) says: "that the taxable income of a local authority should be regarded as a whole, and its right to repay tax deducted from the interest paid to its creditors should be similarly regarded, and not restricted on account of statutory earmarkings." We are at present restricted by reason of any statutory payment that we make out of our profits, for example, the contribution to our sinking fund; we contend strongly that the private trader, whatever he does with his profit, is allowed to set off his interest against his profit, and that we ought not to be put into a differential position because of our statutory contribution to a sinking fund or reserve fund; having paid tax under Schedule D and also under Schedule A, we must not also pay again upon the interest.

11,410. The examples illustrate exactly what you mean?—They do.

11,411. Mr. Walker Clark: I think Mr. Whiteley referred to paragraph 47, on the merging of the rating funds into one, as a stroke of the pen, purely accidental. Is it not a fact that in a great many cases the merging of these rating funds is a question of bargaining between the interests which are affected by the merging? Was it not so in Leeds, which you quote?—There was a matter of arrangement as to the average percentage which was to be allowed for land, that is all; but no difficulty in coming to an arrangement.

11,412. It was a question of bargaining; that is the point I want to bring out. This is not purely accidental, but it is a question of bargaining between the various interests which were affected by the merger?—When I said it was a stroke of the pen I think I was right in this sense. Take my own experience at Bradford. We have gone to Parliament over and over again, certainly right back to 1896, for all kinds of purposes of local administration and public health, and we have in Mr. Bill simply put that as a charge upon our Borough Fund, which in practically every other town in the country is a charge upon the District Fund; it is an ordinary public health service. We have our parks upon the Borough Fund, we have our hospitals upon the Borough Fund, we have our sewage works upon the Borough Fund, and quite a number of other purposes. We simply put them in as a charge on the Borough Fund; nobody ever objected, and Parliament never objected, but passed our Bill as it was; and the same thing has applied with regard to other corporations.

11,413. Have you applied to Parliament during the last five or six years?—No.

11,414. Are you aware that other corporations have applied and have had very severe opposition from certain ratepayers to merger?—I know that there has not been any difficulty. The only opposition there has been is one that you mention—as to an arrangement of the average exemption to be allowed to the occupier of land.

11,415. Railway companies and canal companies?—No; railway companies and canal companies have been on the same footing, but they have raised no objection to the principle. They have simply contended, for their own benefit, for as much exemption as they could get.

11,416. The same exemption which existed before the war?—The same average exemption; quite so.

11,417. It is not a question that it is purely accidental or a matter of a stroke of the pen. It is a matter of bargaining between the interests concerned, which would be affected?—I suggest, with all respect, that that is merely a question of detail, not of principle.

11,418. Look at paragraph 78 for a moment. I am rather interested in some of these points, because a Committee on which I acted drew up this proposal many years ago. In paragraph 78 (e) you ask for the exemption of property producing no revenue. Would you agree that the same privilege should be given to a trader who owned, say, a park in connection with

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his works—Bourneville, for example?—(Sir Harry Howard): What privilege do you refer to, Sir? A park in the case of a local authority is not assessed to Income Tax.

11,419. Yes, that I know, but would you grant the same privilege? Here you want "the right possessed by the owner-occupier of property, including property producing no revenue, of setting the tax paid by them under Schedule A against their liability in respect of tax on interest and chief rents." Would you support the same privilege to a private trader?—(Mr. Keith): Not if the property were occupied privately; but if the property were open to the public and the public had full access to it in the sense of a public park, certainly he should get the same privilege that the community gets; because after all the park would then be a communal park.

11,420. Thank you; I am quite prepared to accept yes or no. On the question of sewers, a statement was made that the rating served no useful purpose except for the national Exchequer. Well, of course, it is the national Exchequer with which we are interested here. Would you say that a large drain such as exists in the West Riding of Yorkshire or the Fen District should be equally exempt?—It would depend entirely upon its valuable occupation. If there are manufacturers coiled upon to pay a special contribution for the use of that drain—

11,421. Merely for draining the land?—If it is merely a public health convenience it should not be taxed.

11,422. Would you say that a sewer should not be taxed, which was taken over by a local authority from a neighbouring local authority, and when the smaller local authority was made to pay a rent for the use of that sewer and that rent was taxable?—Clearly, that differentiates the case. You there have a definite charge for value received, and where you have a definite charge for value received it becomes a source of income. Of course, the amount received should be liable to certain deductions; it should pay its share of maintenance and upkeep; it should pay probably its share of sinking fund, if there was a sinking fund necessary; and only the free revenue should then be taxed as income.

11,423. That payment would cease when the district was absorbed?—Then it ceases to be a rent-receiving subject and becomes merely a public convenience. We could postulate a case. You might have a road for which a toll or way-leave was charged; if that road then became a part of the public roads it would cease to be taxable, because no road is taxed. But it would be a quite reasonable proposition to say that, in respect of that road for which a way-leave was charged by the owner, to the extent of that way-leave the owner would be taxed, because he was receiving income.

11,424. A borough absorbed half-a-dozen smaller areas during the last few years. Several of these areas paid a considerable rent for the use of their sewers or sewers that passed through their districts. Now they are all absorbed into one borough. Would you say that because they are absorbed and no rent is being received, therefore the sewers, which did contribute to Imperial Revenue previous to that absorption, should be free?—Yes, I think so; certainly if rent has ceased to be paid or received. (Sir Harry Howard): I think there is possibly some little difference of opinion between us here on that particular point. The Scotch representative said he did not raise any objection to tax being paid where a rent was being received from an outside authority for the sewer. I think perhaps, if I may say so, he may have been influenced by the fact that, being a rent, it would, under the existing legislation, become taxable. But my own personal view is that if that rent represents nothing more than the interest and sinking fund, as it were, on the cost of constructing the sewer, it should not, in equity, be taxed, and therefore when that district was absorbed, as the Commissioner here suggested, in the area of the central authority (the inner authority) there would be no difference made.

I am very much of opinion that such a contribution ought not to be taxed.

11,425. Chairman: It is very interesting to find a little difference of opinion?—(Mr. Keith): I do not differ from Sir Harry, because I thought I made that explanation to you which I should have given you earlier.

11,426. Mr. Walker Clark: There is a considerable difference between the two points. However, I will leave that and go on to a further point. In the case of a private manufacturer, for example, there are many cases as you know, at any rate in Yorkshire, where a private owner owns a large property which includes the houses for his workpeople, and he owns the drains and has to maintain their upkeep, and the whole cost of it comes out of the general partnership. Would you say that such a drain should not be assessed?—No, it should not be assessed, because it is assessed in the value of the houses which drain into it.

11,427. It is a common drain for his factory?—(Mr. Whiteley): I think we should be quite agreed that a drain in that circumstance should be exempt just as much as if it was the property of a public authority. (Mr. Keith): Clearly.

11,428. Is it not a fact that the exempted properties which you enumerate, such as hospitals and schools, are regarded rather as national than local? You call attention to the fact that an education office is taxed, but that schools are exempt. Is it not a fact that the office is purely local and is very often used for more purposes than one?—(Mr. Whiteley): The office is local in its geography, and so is the school, but our contention there is that the school is semi-national in character; it has a national purpose; and our contention is that the education office is part and parcel of the educational system; you cannot run your school unless you have an administrative office.

11,429. Would you grant the same privilege for underground cables held by private owners that you ask for sewers?—Cables, no. (Mr. Keith): No, because cables have all got a commercial value, and have got a commercial income.

11,430. Chairman: I do not think we want convincing of that.

11,431. Mr. Walker Clark: Is not the real remedy for this rather to be found in quite another direction, which has been put by Sir John Harwood-Banner just lately—the transfer to Imperial charges of these costs rather than the transfer of a mere section of the Income Tax?—(Mr. Whiteley): I think our answer to that would be that you are opening up an enormously wider avenue in order to settle a small injustice.

11,432. I thought it was a large injustice?—These purposes, although national or semi-national—that is the word I will use—in their character, are administered by the local authorities and can be better administered by the local authorities, because the authority and its officers are actually on the spot. They can be better administered by the local authority than they could by the national authority.

11,433. Dr. Stamp: Take the question of assessment of a corporation in its simplest form, apart from division into funds. In the case where the interest payable on a loan borrowed on the security of the rates, we will say, is £10,000, and there is no taxable property in the possession of the authority, the assessment would be £10,000, would it not?—(Sir Harry Howard): Yes.

11,434. The whole of the tax would be deducted from people in different parts of the country who had lent the money?—Yes.

11,435. The corporation would be merely acting as a revenue-collecting agent?—Certainly.

11,436. In the event of their having some property with profits amounting to, say, £2,000 or £3,000, that would be separately assessed as first?—Yes.

11,437. And the balance between that and the £10,000 would then be separately assessed?—Yes.

11,438. But the total liability is always £10,000?—Yes.

11,439. And you do not alter the character of the corporation as a revenue-collecting agent?—No.

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11,440. They get back the whole of the tax from the interest?—(Mr. Whiteley): The Revenue would get the total tax on property and profits or the total tax on interest, whichever is the greater.

11,441. Still £10,000?—Still £10,000. It might be greater.

11,442. We will assume for the moment that the property is not greater. So long as the interest is in excess, the total liability of the Corporation is always £10,000?—Yes.

11,443. Is there a great deal of time spent in working out these liabilities on profits of property? Is it sometimes a complicated calculation for the Surveyor?—Tolerably so.

11,444. Would it make any difference whatever to the Exchequer if the assessment were still made upon the total interest paid in those cases?—Sometimes it would a little. Sometimes the total of the Schedule A and Schedule D assessments exceeds the total of the interest.

11,445. But I am taking the simple case where the interest paid is always in excess. In that case is not the whole of this work and time that is put into it, to use a common word, a wash-out?—Yes.

11,446. In many cases is there not a considerable amount of work attached to working out these separate details?—A great deal.

11,447. For a thing that does not matter at all in the long run?—Yes.

11,448. Does not that present itself to you as something of a waste of public money?—We have felt that very often and very strongly. (Sir Harry Haward): I am not quite clear; may I ask what you mean by saying that it does not matter in the long run? It does as between the corporation and the Revenue.

11,449. I am speaking now about the total liability to the Exchequer. Never mind how it is worked out in detail. If the interest exceeds the property and profits, all that work is practically no good?—Supposing that the interest exceeds the profits on one rating fund.

11,450. I am disregarding the question of funds for the moment. I am taking the simplest case first?—(Mr. Keith): Your case would be accurate if the borough were allowed to have a unit.

11,451. I am coming to that in a minute. Now, take the case where you are not quite certain whether the property and profits are less than or more than the interest to be paid. It is necessary then to go into it and work it out?—(Mr. Whiteley): Yes.

11,452. Now, take the case where the property and profits are in excess of the interest. It has to be worked out in detail in the way that you have shown us?—Yes.

11,453. We will say that it comes to £13,000. The assessment on interest paid drops then, does it not, practically?—Practically speaking. If I might take Appendix B and the figures which we have put forward, the interest there exceeds the amount of Schedule A and Schedule D assessments by £19,000. Therefore your first point, I take it, would be that we paid on £348,000, and therefore the others do not matter.

11,454. Now, take the case where these calculations come to a total in excess of the interest paid. Suppose it comes to £13,000, and you recover the tax on £10,000 from the lenders of the money, the corporation then bears the balance, the tax on £3,000?—Yes.

11,455. The corporation is really a kind of collective entity for the ratepayers?—Yes.

11,456. Therefore the ratepayers are practically paying a tax to the Exchequer on £3,000?—Yes.

11,457. If they had not to pay that tax presumably their rates might be less?—That is so.

11,458. Therefore it comes in effect to a tax on the individual ratepayers in the proportion in which they pay rates?—Yes.

11,459. That is to say, a flat Income Tax over the whole of the ratepayers?—Yes.

11,460. Are some of the ratepayers poor people?—(Mr. Keith): Yes.

11,461. Ought they to pay Income Tax if their income is below £130?—No.

11,462. Does not the method of assessing corporations virtually, in the long run, mean that some people

are being indirectly taxed to Income Tax?—That is so. (Mr. Whiteley): Without a doubt that is so.

11,463. With regard to those who ought to pay Income Tax, when they pay Income Tax to the Exchequer, they pay at various rates, do they not?—Yes.

11,464. Does not this method of indirect taxation of the ratepayer make him pay at a flat rate, and make the poorer people pay a higher rate than they ought, and the richer people pay a lower rate than they ought?—(Mr. Keith): They pay 6s. in the £ all round.

11,465. Does it appear to you that there is a good purpose served by taking money from ratepayers in a rather inequitable way to pay to themselves as taxpayers?—(Mr. Whiteley): We were not commissioned to say that. Personally, in a book I have written on the question of the Income Tax, I have put forward as my own view, rather strongly, the view that you suggest.

11,466. Now coming to the question of the division into funds, the Borough and the District Funds: is there any inherent reason in nature why there should be two funds?—None whatever.

11,467. Is it not more or less a historic accident?—That is so.

11,468. Is it not related to the development of public health legislation?—It is.

11,469. You have in the corporation a collective entity of ratepayers?—True.

11,470. But by this division of the funds, you have two collective entities of the same ratepayers?—True.

11,471. To take a simple illustration, when you are calculating the profits of the gasworks, owned, say, by the borough collective entity, they serve themselves, as the borough collective entity, with gas, and they serve themselves, as the district collective entity, also with gas?—Quite.

11,472. Is it sometimes a very nice and lengthy calculation to divide the profits of the two?—We have made reference to that, and if I might, without disrespect, say so, it is quite farcical.

11,473. Thank you for that word. I was going to put a word similar to that, and ask you whether that calculation was not also a waste of public money?—Quite.

11,474. And does it not raise a number of very difficult questions which are often the subject of long argument and discussion, quite rightly under the present state of affairs, with the Revenue?—Yes, with the Revenue authorities. They have to satisfy themselves, and we have to satisfy ourselves; it is a difficult calculation which involves a considerable amount of time, and a very considerable amount of argument, frequently, with the officers of the Revenue, to satisfy them. This very fine point has been made, that in supplying gas to the town hall we cannot make a profit on it; in supplying gas to the baths, we must make a profit and pay tax on it.

11,475. It is in fact very often, in the case of a large corporation, an exceedingly minute and disputable calculation?—It is, both in regard to gas, and (more particularly) in regard to electricity.

11,476. And a highly interesting academic exercise?—Yes.

11,477. Which brings practically no revenue to the State?—That is so.

11,478. All this is due, more or less, not to any necessity of nature or equities of the case, but more or less to historic accident—the division into two funds?—(Mr. Keith): Yes; we have there, as a matter of fact. (Mr. Whiteley): I think it is almost entirely so, as I have tried to put before, when I used the words that it was a mere stroke of the pen. My own experience of Bradford, for nearly thirty years, is that it has been a mere stroke of the pen as to which they happen to come under.

11,479. Coming now to the question of sewers: if a ratepayer has a property in his private ownership, and the ratepayer improves the drainage of it himself, supposing it is a large property, and he makes sewers and drains and improves it, the assessment on his property might be increased?—(Mr. Keith): It might be, under our practice.

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11,480. It would enhance the value of his property?—It would.

11,481. And the assessment might be put up?—It might be.

11,482. Would the assessment be made on the drains or sewers, or on the value of the house?—It would be made on the value of the house, and if an addition has been put to the valuation of the drains on the valuation roll, it would also be put on the sewers. It might be taxed twice.

11,483. Are roads which serve private houses up to the main road assessed to Income Tax?—Not as a rule.

11,484. Why not?—Just what I have said: they are treated as a public convenience for transport; and the sewers ought to be treated as a public convenience for public health.

11,485. You can find no ground in principle of distinction between sewers and roads serving private houses?—None whatever.

11,486. You would say, I take it, that there was no value of the houses or their rentals, a separate assessment of value?—Yes, except that each householder does.

11,487. There is an assessment of the full annual value of the houses or their rentals, a separate assessment either of roads or sewers would be a duplication of values?—Yes, except that each householder does pay for the maintenance of the road. He pays a rate, but he pays no Income Tax.

11,488. Apart from the buildings served, all the value in the sewers has been taken up?—We think so.

11,489. Mr. Prettymen: I gather from your paper that you accept the fact that there is a very broad distinction in principle between services which are rendered by a municipality, or a corporation, or a local authority, of a national or semi-national character, and those which are rendered purely for the advantage of the locality itself?—(Mr. Whiteley): We feel so.

11,490. I take it that your proposal is that so far as the national or semi-national services are concerned, they ought to be free from Income Tax?—We submit that for the very serious consideration of the Commission.

11,491. If I may say so, I entirely agree. You then put forward two other separate points. I suppose I should be right in saying, on that first point, that if a service is exempt in itself from Income Tax, no question arises of any deduction in respect of that service?—If we stop the tax from the lender, we should bring the interest from which we had stopped the tax into our general assessment form. The claim that we put forward is that we pay on the total profits of the property or the total interest, whichever is greater.

11,492. If that principle were accepted, it would be simple to carry out?—Yes.

11,493. If the principle were accepted that those services were exempt from Income Tax because they were national or semi-national services, then the question of interest settles itself, so far as they are concerned?—Quite so.

11,494. If you supply that class of service, you ask that you should be placed in the same position as a private individual who is providing something for himself?—Exactly.

11,495. A private individual borrows money to promote or develop an enterprise on which he is going to make a profit, or for some purpose of his own private convenience or pleasure?—Quite so.

11,496. And he thereby increases his taxable liability for that service?—That is so.

11,497. But before paying that tax, or in paying that tax, he is able to deduct tax from the interest upon the money which he has borrowed for the purpose?—He retains the tax when he is paying the interest to the mortgagee.

11,498. It is a deduction?—Yes.

11,499. He sets one off against the other?—True.

11,500. He pays the tax on the whole of the property which he possesses, but he retains that portion of the tax which he deducts from the mortgage, which represents any interest on money which he has borrowed for the provision of the object?—The mort-

gagee's share of the profits. It is only an allocation of profits.

11,501. And you ask to be put on the same footing there?—We do.

11,502. If I may say so, I entirely agree. Those are the two main principles which you put forward?—Yes.

11,503. Then you put forward a third, which I must say seems to me to interlock rather with the other two. I do not think that point has been made quite clear. Your third point is that, quite irrespective of whether the services supplied are of a national character, and therefore entirely exempt from rates, and put thereby in a privileged position—using the word "privileged" in a proper sense; a rightly privileged position—as compared with similar work, if any, done by a private individual, and the other services which are provided by the community as a convenience jointly rather than by each member of the community separately for himself, which are really private services, you suggest that the whole of those should be lumped together in treating the income of the corporation for assessment to Income Tax?—Our point, if I may put it in another way, as I am not quite sure I have followed you, is this. Our point is that the corporation is one entity and equivalent to one person.

11,504. May I put my case again, because I want you to try to see it from this point of view. You agree that your activities can be divided into two parts, national and local. The national have the privilege of paying no tax, or should have?—Under Schedule A.

11,505. Should pay no Income Tax under Schedule A. The local, you agree, should pay tax under Schedule A, subject to the same privileges for deductions in respect of borrowed money as a private individual has?—Yes.

11,506. And thereby they should be treated in the same way as a private individual would be treated?—Exactly.

11,507. Then when you come to deal with the question of Income Tax paid by the corporation as a single entity, as a whole, you depart from this division which you have proposed should be effective when it suits you, in order to enable you to avoid paying Income Tax on the national part of your work, and you take the other view, and you say: "We are a single entity, and therefore, whether our operations are national or whether they are local, they should all be lumped together, and we should be entitled to deduct our losses on the national enterprises from our profits on our private enterprises, before we pay Income Tax on the latter"?—No, with great respect, you have not just covered our point, I think. Our point on the third issue that you raise is this: We suggest that those purposes which are national in character should be exempt from Schedule A assessment, because they are of a national character. Then our next point is that we desire to be treated as an individual in this sense, that we claim to pool the whole of our interest. We do not, as I put it a moment ago, say that we want to have any exemption from handling over the tax that we have stopped from the lender in regard to those national services; but we say that we take the whole of the interest which we have paid, and from which we have stopped tax, and against that we say, if we have paid under Schedule A and Schedule D as an individual, irrespective of what are the purposes, an amount which is as large as that interest, we are entitled to retain the tax we have stopped on that interest. If, on the other hand, we have paid a less amount in the whole under Schedule A and Schedule D, we are liable, as collectors, to hand over to the Crown the balance of the total amount of the tax on the interest.

11,508. But in arriving at that calculation, you blend your national and your local services?—Decidedly.

11,509. That is exactly my point. For the purpose of finding whether Income Tax should be chargeable at all or not, you desire to separate those two services

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into two separate categories?—With great respect, I think it does not at all clash with our other claim. That is a matter of opinion, is it not?

11,510. I only want to get the facts clear?—Only that I want you to understand our position.

11,511. I want to get the facts clear. You do suggest that those two services, national and local, should be separately treated, as far as the levying of Income Tax is concerned?—For assessment under Schedule A.

11,512. You suggest that they should be lumped together, on the other hand, when it comes to considering what the total tax payable by the corporation should be?—Yes.

11,513. I think I am right in assuming that, broadly speaking, it is upon the national services that loss takes place?—No.

11,514. You get certain grants towards them, but, broadly speaking, there is much more probability of profit, and less probability of loss, on such services as gas and water and tramways, which are purely local, than on services such as education?—There is no profit at all on the services which we claim are national; there is no Schedule D assessment on them; they are entirely Schedule A assessment—the occupation tax which is paid in the first place. I will put it in this way, if I may, in order to make my position a little clearer. We say that, as an individual, the corporation is carrying out its own functions, and it is also carrying out some national Government functions. To the extent that it is carrying out Government functions, those properties that it occupies should reasonably be exonerated from a Government tax under Schedule A. Then we go a little further, and we say that as one individual we have paid our tax on Schedule A and Schedule D on our undertakings and all our other profits. On the other hand, we have paid, in the whole, a certain sum of money as interest, from which we stop the tax. If we have stopped the tax to a greater extent than we have paid tax, we are liable to hand that balance over to the Crown.

11,515. It still seems to me that you are asking not only to be, very properly and rightly, exempt from Schedule A tax upon your national work—work which you are doing for the Government—but you also want to carry the interest on the money which you have properly and necessarily borrowed for those national services, into the debit against the interest on what you have borrowed for your local services?—As an individual, as an entity.

11,516. That is my point. I cannot quite follow that. Now take it a little further. You have a town in which, as in every other town, national services are being carried out by the municipality. You happen to have there, as is the case in many towns, your gas and water provided by private enterprise?—We will assume that, yes.

11,517. It is quite a common case?—Yes.

11,518. In both those cases the income on those two companies is charged with tax, in the £ on the whole of the profits that they make?—Yes.

11,519. Then a very common change takes place, that those gas and water enterprises are taken over by the municipal authority?—Yes.

11,520. Do you suggest that the State should therefore suffer to the extent that, instead of those two enterprises paying Income Tax on their profits, as they do now, they should only pay Income Tax on such profits as remain when the interest on the money which the municipality had already previously borrowed for public national services, is deducted from it?—I do suggest that, with all seriousness. I suggest you have two persons carrying on businesses, one making a profit, and the other sustaining a loss. They form a partnership. In the first year, when they are carrying on their businesses separately, the Crown gets the tax on the whole amount of the profit made by the successful man. The following year, when you merge those businesses under one ownership, the Crown gets the tax on the difference.

11,521. But my point is that half your work is not business; it is a national service. That is just the point. Where it is a business, I entirely agree that your gas and your water should be treated as one, and if you make a loss on your gas and a profit on your water, you should be treated exactly like a private individual?—(Mr. Keith): We do not get that now.

11,522. I think you should; I am only expressing my personal opinion. But the point is this. If you

separate your services, and say: "our national service is totally apart, and we treat that national service as a separate thing for the nation, and it is not a business, and we therefore ask that we should be exempted from Income Tax altogether," then I say: very well, I agree with you. Then as regards the other half of your services—and I venture to suggest that instead of the division being, as you point out, a ludicrous division as to whether they happen to be under the Borough Fund or the District Fund, which is, of course, quite unsatisfactory, and has no kind of sanction or reason whatever, that I can see—it does seem to me that if you adopted the other principle, and instead of saying this happens to be on the Borough Fund, and that happens to be on the District Fund, and everything in the Borough Fund is to be pooled, and everything in the District Fund is to be pooled, if there was, for Income Tax purposes, a division between the national services, which have nothing whatever to do with Income Tax, and the local services which are businesses, and which should be pooled together and be treated exactly the same as similar businesses in the hands of a private individual, what would you say to that suggestion?—(Mr. Whiteley): I should say that, in circumstances of that kind, the private individual who pays interest, stops the tax, quite irrespective of what the purposes are; quite irrespective of whether a loan is charged upon his business or his property, and he is entitled to be taken in the aggregate and to set off his interest against his total profits and property.

11,523. But surely you do not suggest that there is any analogy between money borrowed by a private individual for his own purposes, and money borrowed for a statutory purpose by a local authority?—We claim that we should be regarded on the same footing as the individual.

11,524. It seems to me to be a totally different thing. You are acting for the nation, and acting for the nation as a public duty, you borrow money for a particular public service, and it seems to me that ought to be outside taxation altogether. Then, in addition to doing that purely national or public service, you do something entirely separate, and merely for the convenience of the community as a whole, you join together and carry on certain private businesses for yourselves in the aggregate instead of as individuals. Those businesses should certainly be treated together; but to see why you should mix them up with your national services, and, because you have borrowed money for a national purpose, except that that should be pooled with the other, is my difficulty?—With great respect, I cannot take your view, and I hope you will give the matter further consideration afterwards. (Sir Harry Howard): May I add just one word that occurred to me while the honourable member has been questioning my friend. That is this. It seems to me it is pushing this division between national and local too far. For, after all, the corporation is one, and any profits from gasworks or waterworks would go to reduce the charges on the rates for education. It is all available. Those taxed profits are available for reducing the charges for national services. The income of the corporation is one really as a whole; therefore, there would not be that necessity to keep the businesses of a local character and the national services in two separate boxes, as it were. I think that is the real answer to the honourable gentleman's point.

11,525. Sir W. Troscer: May I suggest to you that if a municipality takes over a prosperous gas undertaking, which is paying large revenue to the Crown, then by reason of its amalgamating it and pooling all its operations the Crown loses a very serious amount of revenue in that way?—Yes, that would be so. That is inevitable. But may I point out that, supposing the corporation, when it has the gas undertaking in its hands, chooses to reduce the charges for gas and not to make any profits at all, there again the Crown would lose.

11,526. Quite so; the Crown, by reason of municipal trading in that respect, does lose the revenue of the gas company. That is so, is it not?—Yes, but on the other hand it is permissible to point out that the lower charges which *ex hypothesi* the corporation makes for gas increase the profits of the local community, which are taxable in their hands again.

11,527. That is your answer; that is all I want to get. Then there is only one other question. I want you to consider this question, but you need not

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answer it if you do not wish. You are, in effect, asking that Income Tax should be allowed out of rates which pay no Income Tax themselves. Is not that so?—I understand that the principle at the 164th section of the old Act, the 27th section now, allows exemptions or abatements of sums paid on which Income Tax is deducted. You are now claiming to deduct the tax out of interest paid on rates which are not themselves subject to taxation?—You are referring, are you not, to the claim that we should be allowed to retain tax equal to the annual value of property in our occupation?

11,528. No, it is on the question of your being allowed to deduct interest from loans for municipalities. It is a very large point. I want to know whether you have considered it?—Yes. We claim that although that interest is, in fact, paid out of the rates, there is, on the other hand, the annual value of the property which has been created out of the loan on which the interest is payable; that annual value is equivalent to income in the case of an individual.

11,529. I do not think you follow my point. You are up against the provision of section 27 of the new Act, or section 164 of the old Act, which only allows deductions where the fund out of which interest is paid is itself liable?—(Mr. Whiteley): Precisely so; that is all we are asking.

11,530. I only wish to point out to you that it involves many other cases. You are impinging upon a principle of taxation which is a very large one?—We ask precisely for the position of the private trader. To the extent that our interest exceeds the amount of assessments upon which we have paid under

Schedule A and Schedule D we admit our liability to pay that amount over to the Crown.

11,531. You have not got my point, I think. Rates do not pay taxation?—Quite so.

11,532. Therefore you cannot pay interest and deduct Income Tax out of rates, which themselves pay no Income Tax?—We do not ask it. Our claim does not include that.

11,533. Chairman: What amount of money is involved? Take Bradford, for instance. What loss of revenue would there be if you got what you wanted?—I am afraid I cannot give you figures; I have not attempted to calculate it for Bradford. We have endeavoured, in drawing up these tables, to illustrate the whole of the principles; and the whole of the points which we claim here are not covered by Bradford, and perhaps would not be covered by any one particular place.

11,534. Do you not think the main point in the whole matter is whether there is injustice done to the poor?—(Mr. Keith): That is the point we make in Scotland. We say that at the present time the Income Tax which is paid in respect of the community is paid by people who otherwise are not liable to tax.

11,535. That point personally impressed me, but I have seen most able and intelligent men come from these bodies asking us to exempt them from Income Tax. I wish I could just get a deputation some day of the same character and capacity to show us how we can make some more money.—All that we say is that that is one strong reason for adopting this suggestion that we make, that the borough should be pooled, that it should be a unit, that it should not be split up into separate entities.

MR. MAURICE JENKS, on behalf of the Corporation of the City of London, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Mr. MAURICE JENKS will state as follows:—

11,536. (1) He is a Fellow of the Institute of Chartered Accountants and senior partner of the firm of Maurice Jenks, Percival and Co.

11,537. (2) He is Chairman of the Coal and Corn and Finance Committee of the Corporation of London, of which Corporation he has been a member since 1910.

11,538. (3) That Committee are responsible under the Court of Common Council (the executive and administrative body of the Corporation) for the general control of the expenditure from the City's Corporate Funds (known as City's Cash) as distinguished from expenditure from rates raised in the City and Trust Funds.

11,539. (4) The City Corporation differs from other Municipal Corporations throughout the country in that it is not a Municipal Corporation within the meaning of the Municipal Corporations Acts, although it performs in the City all the varied duties imposed by these and other statutes upon Municipal Corporations elsewhere.

11,540. (5) It still acts under its original charters as well as under many subsequent statutes both public and local, and as will be seen hereafter many of its activities relate to a wider area than that of the "square mile" which constitutes the City.

11,541. (6) The City's corporate income is not derived from rates, but from freehold property and the markets which it owns.

11,542. (7) There are many liabilities which it has to meet out of its income from these sources—some are imposed upon the Corporation by statute—others are voluntarily undertaken.

11,543. (8) The position of the Corporation of London is therefore different from that of any other Corporation in the Kingdom, and after carrying out its statutory obligations it is at liberty to dispose of its income in any way it chooses.

11,544. (9) There are many ways in which portions of such income are spent, one of the most important being the dispensing of public and international hospitality which for many years has almost exclusively devolved upon the Corporation. Whatever Government may be in power, the Corporation has been continually looked to, to represent not merely the City, but the nation, in this important respect; a duty, the discharge of which has without charge or burden on the taxpayers of the country or ratepayers

of London been rendered possible only by the good management and liberality of the Corporation.

11,545. (10) In addition to the foregoing, the principal outgoings from City's Cash, as shown in the Corporation's accounts which are printed and published annually, may be summarised under the following heads: Imperial taxes, magistracy and police, administration of justice, civil government which includes Mayor's Court, Lord Mayor, Sheriffs, Mansion House, Guildhall, county purposes, education, maintenance of open spaces (exclusive of interest on loans), Port Sanitary, charitable donations and donations for public purposes, library and art gallery, interest on loans (excluding market loans), officers' establishments sinking funds.

11,546. (11) The net income from the Corporation's estates after deducting expenses of management, but not Imperial taxes, interest on loans or sinking fund, in 1912 was £216,236, and in the financial year ending 31st March, 1919, £249,243.

The figures for these and the intervening years are:—

	£
1912	216,236
1913	215,904
1914	226,171
1915	232,717 1st war year.
1916	244,567
1917-18	255,283
1918-19	249,243

11,547. (12) The figures of the income from markets before the deduction of Income Tax for the corresponding period are:—

	£
1912	36,211
(After deducting £6,724 loss of Deptford.)	
1913	38,066
1914	35,679
Do. do. £6,138	45,776
1916	45,998
1917-18	43,987
1918-19	42,597

The increase in the charge for Income Tax falling on City's Cash has been as follows:—

	£
1918-19	78,117
1912	18,253
Increase	£59,864

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[Continued.]

Consequently it will be seen that the matter is of great importance to the Corporation.

11,548. (13) The points of principle which the Corporation desire to raise before the Royal Commission are set out in the following letter addressed to the Secretary of the Commission:—

Guildhall, E.C.2,
8th May, 1919.

" Sir,
" I am directed by the Corporation of London
" to apply to the Royal Commission on Income
" Tax to afford the Corporation an opportunity of
" being heard before the Commission in regard to
" the incidence of Income Tax upon such Bodies
" as the Corporation, whose corporate Income is
" largely applied for public purposes, and in
" relief of Rates.

" The main points are shortly as follows:—

" 1. That moneys specifically hypothecated
" for the execution of charter or statutory
" duties, and of which the Corporation has,
" therefore, no beneficial discretionary use,
" should be recognized as proper deductions
" and should be treated as necessary out-
" goings.

" 2. That the expenses incurred by the Cor-
" poration in carrying out certain statutory
" obligations, such as (i) Port of London
" sanitation; and (ii) the maintenance and
" upkeep of numerous open spaces, as well
" as the administration of justice, and other
" somewhat similar expenses, should, for In-
" come Tax purposes (in addition to the
" present allowances), be set off against the
" profits derived from the various markets,
" which at the present time are principally
" assessed under Schedule D of the Income
" Tax Act.

" 3. That the claim for the payment of
" Income Tax upon the income derived from
" investments on the various sinking funds
" bears very hardly upon the Corporation,
" and relief should be given.

" 4. That the payments made by members
" of the Corporation staff into the pension
" funds of the Corporation should be de-
" ductible from those persons' incomes for
" Income Tax purposes in the same way as
" Insurance Premiums are now deductible.

" The foregoing are the main points, although
" there may be other smaller questions upon
" which the Corporation desires to be heard.

" The Corporation would desire that the Chair-
" man of its Finance Committee, supported by
" one or two appropriate Officers of the Cor-
" poration, should be permitted to give evidence.

" Should this request be granted, I shall be
" much obliged if you will kindly give me as long
" notice as possible of the time at which the
" proposed evidence will be heard.

" I am, Sir,

" Your obedient Servant.

" STUART SANKEY.

Remembrances.

" ERNEST CLARK, Esq.,

" Secretary,

" Royal Commission on the Income Tax."

Point No. 1.

" That moneys specifically hypothecated for the execution of charter or statutory duties, and of which the Corporation has, therefore, no beneficial discretionary use, should be recognized as proper deductions and should be treated as necessary outgoings."

11,549. (14) This point as set out above does not, perhaps, clearly express the intention which is to seek that income hypothecated to the services hereafter mentioned should be excluded from the income liable to taxation, as being expenditure in the nature of "charities," which have been defined (per Lord Camden, *l.c.*), in *Jones v. Williams* (1767) as

" A gift to a general public use which extends to the poor as well as to the rich."

11,550. (15) Although the Preamble of the Act of 43 Elizabeth, c. 4, adopted and enacted in the Mortmain and Charitable Uses Act, 1889, specified as "charities" such objects as relief of the poor, maintenance of the sick, schools of learning, maintenance of houses of correction, relief or redemption of prisoners, the list is not deemed to be exhaustive, and has been so regarded in the foregoing and other judicial decisions, and it is submitted that the following objects upon which the Corporation expend moneys under statutory obligation or direction should be similarly regarded, viz:—

Open spaces,
Port of London sanitation,
Freemen's Orphan School,
Magistracy,
Central Criminal Court,
Sinking fund,

the particulars in regard to which follow after a brief historical account of the facts which have led up to the present arrangements between the Corporation and the Board of Inland Revenue in this matter.

History of existing arrangement between the Board of Inland Revenue and the Corporation.

11,551. (16) The question of assessing the Corporation of London for Income Tax so far as Schedule D is concerned was the subject-matter of a special case filed in the Court of Exchequer in the year 1872, and the case (*Attorney-General v. Scott*) is reported in 28 *Law Times* (N.S.) 302.

11,552. (17) Prior to the decision in that case, and as far back as the year 1810, it had been agreed between the Inland Revenue authorities and the Corporation that the accounts of the Corporation (so far as the assessment for tax under Schedule D was concerned) should be rendered upon the principle of accounting for all the sources of income received by the Corporation (except rents and interest on Government securities, which were dealt with separately) on one side, and deducting the expenses of Civil Government of the City, Courts of Justice, prisons, repairs to the Mansion House and Guildhall Justice Rooms, charges under the City Police Act and those of the Freemen's Orphan School on the other side, which gave the balance of profits liable to Income Tax under Schedule D, of which the following were the details for the year in dispute in above case, viz., 1866, viz:—

Income.	£	s.	d.
Fines paid on renewal of leases ...	12,743	18	3
Profits of markets ...	18,517	19	2
Produce of groundage and water ballage (less expenses) ...	298	19	4
Metage on corn (do.) ...	11,762	0	8
Freight metage (do.) ...	912	9	2
Stamping weights and measures ...	114	18	8
Brokers' rents (less expenses) ...	6,172	9	11
Mayor's Court fees (less expenses) ...	4,796	16	11
Fees, Judiciary (do.) ...	549	17	6
Officers' surplus fees and profits ...	17,634	1	3
Sundry and casual receipts ...	446	5	1
	£73,949	16	7

Deductions.	£	s.	d.
Salary and wages to officers and ser- vants in respect of Civil Government of City Courts of Justice, prisons, etc., ...	40,508	2	6
Repairs to Guildhall, Mansion House, Prisons, Sessions House, Justice Rooms, and other public buildings ...	6,266	10	2
Charges under City Police Act ...	17,982	19	5
Charges under 18 and 14 Vic., cap. 10, for Freemen's Orphan School ...	2,639	6	0
	£67,601	18	1
Balance of profits ...	6,267	18	6
	£73,949	16	7

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[Continued.]

11,553. (18) The account set out above was before the Court of Exchequer in the above-mentioned case of *The Attorney-General v. Scott*, and the decision in that case had the effect of upsetting the settlement arrived at in 1810, which had then been in operation for 56 years. The Court in that case having laid down a principle (which was in fact that each item should be dealt with separately, and if there was a profit—such profit was clearly taxable—but if there was a loss, such loss could not be set against a profit, but must disappear from the account), directed that the matter should, if the parties were unable to come to a settlement, be referred to the Queen's Remembrancer for adjustment, and intimated that if any difficulty should arise, the Court would try and meet it when it came before the Court again.

11,554. (19) Negotiations then ensued between the Solicitor of Inland Revenue and the then City Solicitor, with the result that there was a compromise, and the settlement then arrived at has been adopted by both sides up to 1913.

11,555. (20) In order to appreciate the change which has taken place in regard to the income and expenditure of the Corporation since the year 1866, the following explanation ought to be given. Referring to the items appearing on the credit side of the above account, it should be explained that the item "renewing fines" related to fines received by the Corporation upon the renewal of certain leases granted by it. These leases are perpetually renewable, and are usually renewed every 14 years when a fine becomes payable. Some few years since, the Corporation introduced a scheme for the commutation of fines paid on the renewal of the leases, and several of the lessees have availed themselves of that opportunity. The money derived from that source was applied by the Corporation in creating a "grain duty sinking fund," and has been so applied ever since. This fund is intended to extinguish the lease on open spaces.

11,556. (21) The next item relating to markets represented the actual profits from the markets then under the control of the Corporation, consisting of the Metropolitan Cattle Market at Islington, Leadenhall Market, Newgate Market (since abolished), Farringdon Market (since abolished), Smithfield Cattle Market (since abolished), the London Central Markets at Smithfield having taken their place, and Billingsgate Market.

11,557. (22) As to the items £298 19s. 4d., £11,762 8s. 8d. and £912 1s. 2d., all of which related to metage on corn, fruit metage, &c., no income is now derived from these sources; they were abolished many years since.

11,558. (23) As to the item £6,172 9s. 11d., this represented the net profit received by the Corporation from brokers' rents. Up to the year 1884 all brokers had to be admitted by the Court of Aldermen and sworn in before that body before they were allowed to carry on business within the City under pain of a penalty of £100 for every transaction effected by them. For this the Corporation received from each sworn broker the sum of £5 per annum, but the brokers were relieved from this payment and the other restrictions by virtue of 47 Vict., cap. IX., and since 1884 the income from this source has ceased.

11,559. (24) There are now no receipts by the Corporation in respect of the next item. All expenses incurred in connection with weights and measures in the City are paid out of the General Rate, in accordance with the Weights and Measures Acts, credit being given to that account for all fees and fines received.

11,560. (25) The next item represents the net income from fees at the Mayor's Court.

11,561. (26) The next item of £17,834, "officers' surplus fees and profits," represents the amount earned or received by various officers of the Corporation, which is returned for the purposes of Income Tax, as income.

11,562. (27) It will therefore be seen that income from the above sources, amounting to nearly £20,000, ceased to be paid to the Corporation some years since, but owing to the re-building and extension of the Corporation markets the income, which was shown in the account as £73,949, in 1816 amounted to £180,949, and this is shown on the return made for the purpose of assessment, under Schedule D.

11,563. (28) All the Corporation markets, excepting the Metropolitan Cattle Market, Islington, have either been rebuilt or acquired since 1894, and the debt upon this is now £2,801,500, made up as follows, viz.:

	£
The Metropolitan Cattle Market, Islington (opened in 1855) ...	330,600
The London Central Markets (first portion opened in 1868 and the last in 1892) ...	1,758,500
Billingsgate Market (opened in 1874) ...	274,500
Leadenhall Market (opened in 1881) ...	98,700
Foreign Cattle Market, Deptford (opened in 1872) ...	158,300
Spitalfields Market (freshhold acquired) ...	180,000
Total ...	£2,801,500.

the security being the rents, tolls, &c., of the markets and the Corporation estates and revenues.

11,564. (29) The practice of the Corporation is to pay or allow all Income Tax upon rents which they receive other than in the case of tenants in the markets or upon interest on money invested and to make a return to the Inland Revenue authorities for assessment of profits under Schedule D, but they are not permitted to make any deduction in that account excepting such as was agreed upon in 1875. Appendix A to this Statement sets out the return which the corporation has rendered in respect of the year 1916-17, and is based upon the principles agreed in the compromise of 1875. It is in regard to certain other deductions the Corporation now desires to submit certain evidence to the Royal Commissioners in the hope that relief may be afforded them.

Open spaces.

11,565. (30) The account of 1866 above referred to shows net income of £11,762 from the metage on grain. From time immemorial the Corporation had exercised the right to measure all grain of every kind and all other merchandise, wares and things brought into the Port of London, and to receive all wages, fees and profits from the same down to the year 1871, when, to enable Epping Forest to be acquired as an open space for the public benefit, the Corporation voluntarily offered to surrender its right to compulsory metage dues, and consequently in 1872 the metage on grain (Port of London) Act was passed (35 and 36 Vict., cap. 100).

11,566. (31) That Act abolished compulsory metage on grain imported into the Port of London and commuted the metage dues received by the Corporation into a fixed due and created a fund to be applied towards the preservation of open spaces near London and to other purposes connected therewith.

11,567. (32) The preamble recites the ancient chartered and prescriptive rights of the Corporation. Section 3 abolished compulsory metage and metage dues as from the 31st October, 1872, and by Section 4 the Corporation was empowered to demand and receive in lieu thereof for a period of 30 years from such date, a duty at the rate of $\frac{1}{16}$ ths of a lb. per cwt. in respect of all grain brought into the Port of London for sale to be called the City of London Grain Duty, which was to be held by the Corporation for the preservation of open spaces in the neighbourhood of London not within the Metropolis as defined by the Metropolis Management Act, 1855, Section 9 empowered the Corporation to borrow a limited sum of money "on the credit of the duty and of its corporate estates and revenues." Section 16 provided for the discharge of voluntary metage by the Corporation.

11,568. (33) The City of London (Various Powers) Act, 1877 (40 and 41 Vict., cap. 7), enlarged the borrowing powers of the above-mentioned Act of 1872.

11,569. (34) The Corporation of London (Open Spaces) Act, 1878 (41 and 42 Vict., cap. 127) authorised the Corporation to borrow on the same security further sums of money and to apply all the

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moneys borrowed under the said statutory powers, and any other moneys for the time being belonging to it, or under its control (except trust moneys), for the purpose of the preservation of any open spaces within the meaning of the said Act of 1872.

11,570. (35) Another Act was obtained in 1886, the Highgate and Kilburn Open Spaces Act (49 Vict., cap. 2), under which the Corporation was empowered to borrow money for the purposes of the Act on the credit of the proceeds of the grain duty and of their estates and revenues.

11,571. (36) The following is a complete list of the open spaces under the control and management of the Corporation, all of which are maintained out of "City's Cash," viz:—

Bunhill Fields burial ground. Acquired under 30 and 31 Vict., cap. 38. Under this Act the burial ground was preserved as an open space, and the Corporation was, at its own expense, to maintain and keep it in repair.

West Ham Park. Acquired partly by purchase and partly by gift in 1874.

Epping Forest, Wanstead Park and Higham Park. Acquired under the Epping Forest Act, 1878 (41 and 42 Vict., cap. CCXIII).

Burnham Beeches, St. Paul's Churchyard, Colindale Commons and West Wickham Commons. Acquired under 41 and 42 Vict., cap. CCXVII.

Highgate Woods and Queen's Park, Kilburn. Acquired under 49 Vict., cap. 2.

11,572. (37) The acquisition of the various open spaces cost upwards of £340,000 the balance remaining unpaid on the cessation of the mortgage on grain on the 31st October, 1902, being no less a sum than £139,000 (which is the existing debt)—together with an annual expenditure of £11,876, including £3,822 10s. interest on money borrowed. Compared, therefore, with the condition of things existing in the year 1856, in the place of an income from mortgage on grain, &c., of £12,000 per annum, the Corporation has now to meet an expenditure of about the same amount.

11,573. (38) The Chamberlain upon paying the interest, viz. £3,822 10s., deducts the Income Tax and retains it. The "grain duty sinking fund" was created with a view to the ultimate payment off of this loan. The income of this sinking fund is paid *tax free*. There is also one other point with regard to open spaces which should be mentioned, and that is that *all* tax deducted on income upon rents, &c., is afterwards allowed and repaid so that so far as income under this head is concerned no tax is paid. It will therefore be observed that an allowance for Income Tax is made to the Corporation by the Inland Revenue authorities upon anything in the nature of income which they receive and which is applied for the benefit of the open spaces, and the Corporation considers that any annual sum which is so contributed towards the maintenance of these open spaces—such amounts being the result of income from property upon which tax has already been paid—should be allowed as a deduction in the account submitted by them to the Inland Revenue authorities under Schedule D of the Income Tax Acts.

11,574. (39) The following are particulars of the recent expenditure by the Corporation upon the open spaces under its control, viz:—

	Disburse- ments.	Receipts.	Net Ex- penditure.
For year ending 31st Dec., 1915	£11,836	£313	£11,523
" " " 1916	11,873	359	11,514
" " " 1917	12,186	347	11,839
" " " 1918	11,850	385	11,465
" " 31st Mar., 1918	12,096	364	11,732
	£59,699	£1,579	£58,120
Average for 5 years	...	...	£11,694

11,575. (40) All these open spaces, with the exception of St. Paul's Churchyard, are outside the City, and most of them also beyond the Metropolitan boundaries.

Port of London sanitation.

11,576. (41) Another item to which it is desired to call attention is that relating to the expenditure incurred by the Corporation as the sanitary authority for the Port of London, which extends from Teddington to the Nore. The Corporation was legally constituted the sanitary authority of the Port of London

by the 20th Section of the Public Health Act, 1872 (35 and 36 Vict., cap. 79), and was directed to pay out of its Corporate Funds all its expenses as such Port Sanitary Authority. The Public Health Act, 1872, was repealed by the Public Health Act, 1875 (38 and 39 Vict., cap. 54), and Section 291 of the latter Act re-enacted the Section constituting the Corporation the port of London Sanitary Authority, and contained a similar provision in regard to the discharge of the expense out of Corporation Funds. The last-mentioned Section was in turn repealed by Section 142 of the Public Health (London) Act, 1891 (54 and 55 Vict., cap. 76), but such Section was practically re-enacted by Section 111 in the following terms, viz:—"The Mayor, Commonalty and Citizens of the City of London shall continue to be the Port Sanitary Authority of the Port of London as established for the purposes of the Laws relating to the Customs of the United Kingdom and shall pay out of their Corporate Funds all their expenses as such Port Sanitary Authority."

11,577. (42) The average annual expense incurred by the Corporation for the last five years has been £11,907, of which the following are the particulars, viz:—

	Disburse- ments.	Receipts.	Net Ex- penditure.
For year ending 31st Dec., 1915	£13,624	£3,092	£10,532
" " " 1916	13,864	3,598	10,266
" " " 1917	10,964	1,717	12,217
" " " 1918	15,116	1,297	13,819
" " 31st Mar., 1918	14,565	2,059	12,506
	£79,796	£11,173	£68,623
Average for 5 years	...	...	£11,907

11,578. (43) In this case there is an express statutory direction as to the fund from which the expenses are to be paid. That fund is made up by income from property, and Income Tax has already been paid upon it under Schedule A. It will therefore be obvious that with Income Tax at 6s. in the £ a *gross* sum of upwards of £17,000 is required to meet these expenses. It is suggested that the above expenses ought to be considered as a legitimate deduction from the amount upon which the Corporation should pay Income Tax under Schedule D.

Freemen's Orphan School.

11,579. (44) Further, the Corporation considers it is entitled to relief in respect of the expense incurred by it in connection with the Freemen's Orphan School at Brixton, and in respect of the maintenance of which it contributes a sum of upwards of £5,000 per annum.

11,580. (45) This school was erected by the Corporation and opened in the year 1850 under the authority of the Freemen's Orphan School Act (13 and 14 Vict., cap. 10), and was established "for the maintenance and the religious and virtuous education of Orphans of Freemen of the City of London." The school is partially supported by the rents of freehold estates, devised in former times by charitable persons connected with the Corporation, but its principal source of income is City's Cash. The property produced an income in 1915 of £912 7s. 7d., and the fees payable on admission to the Freedom of the City (which are by Section XI. of the last-mentioned Act to be applied towards the maintenance of the school) amounted to £283 18s. 8d., the balance of £5,256 2s. 8d. already referred to being met out of "City's Cash." The tax paid or allowed on income is repaid. The following particulars show the average annual expenditure to be £5,422, viz:—

	Disburse- ments.	Receipts.	Net Ex- penditure.
For year ending 31st Dec., 1915	£5,550*	£1,455	£4,095
" " " 1916	5,678*	1,421	4,257
" " " 1917	5,061*	1,255	3,806
" " " 1918	5,380*	1,194	4,186
" " 31st Mar., 1918	5,260*	1,292	3,968
	£33,917	£8,867	£25,050
Average for 5 years	...	...	£5,422

* About one-half of each of these amounts represents income from property or securities, and consequently Income Tax is not charged, as the Institution is regarded by the Inland Revenue authorities as a Charity.

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Magistracy.

11,581. (46) Another matter to which the Corporation desires to call attention is as to the expense incurred in connection with the Magistracy in the City.

11,582. (47) All the Aldermen of the City of London are Justices of the Peace for the County of that City in virtue of their office, that privilege having been conferred upon them by the Charter of 15 George II., which was the last Charter granted to the Corporation.

11,583. (48) A similar privilege had been bestowed upon some of the Aldermen under previous Charters, viz., those of 23 Henry VI., 2 Edward IV., 6 James I., 14 Charles I., and 4 William and Mary; but in consequence of the increase of magisterial business in the City, George II. acceded to the petition of the Lord Mayor and Aldermen of that day to extend the privilege to all Aldermen, whether they had passed the Chair or not.

11,584. (49) At the Mansion House Justice Room the Lord Mayor usually presides, and in his absence on official engagements his place is usually occupied by the senior Alderman available. At the Guildhall Justice Rooms a rota is formed, under which a daily attendance of the Aldermen is secured for the transaction of the large amount of magisterial business there.

11,585. (50) Very extensive powers have been conferred upon the Aldermen as Justices under various statutes. By 42 Elizabeth, cap. 2, sec. 8, every Alderman may, within his Ward, execute such duties under the Act as are appointed and allowed by the Act to be done and executed by one or two Justices of the Peace of any county.

11,586. (51) The Summary Jurisdiction Act, 1848 (11 and 12 Vict., cap. 43), gives the Lord Mayor or any Alderman power, when sitting at either of the City Justice Rooms, to do alone (in the absence of any express enactment to the contrary) any act which by any Statute (past or future) is directed to be done by more than one Justice.

11,587. (52) Sub-sec. 10 of Sec. 20 of the Summary Jurisdiction Act, 1879 (42 and 43 Vict., cap. 49), enacts that the Lord Mayor or any City Alderman, when sitting in a Court at which he is authorized by law to do alone any act authorized to be done by more than one Justice, shall be deemed to be a Court of Summary Jurisdiction consisting of two or more Justices, and also to be a Court of Summary Jurisdiction sitting in a Petty Sessions Court House.

11,588. (53) It is contended on behalf of the Corporation that the expenses incurred in connection with the execution of statutory duties are for the benefit of the public, and ought to be allowed as a proper deduction in the return which the Corporation makes for the purposes of Income Tax; for if these expenses were not borne by the Corporation, they would have to be paid out of the Imperial Exchequer, as is done in regard to all the other police courts within the Metropolis. The Aldermen of the City are alone the Magistrates having jurisdiction within the City area, and if the Aldermen refused to sit as Justices, no sittings could be held in the City, as there are no other Justices who have jurisdiction. It is obvious Justice Rooms must be provided, and that certain expenses must be incurred, such as the provision of Justices' Clerks and others to carry out the directions of the Legislature.

11,589. (54) The expenses borne by the Corporation for the past five years are as follows, viz.:-

	Disbursements.	Receipts.	Net Expenditure.
For year ending 31st Dec., 1913	£8,256	£5,382	£2,874
" " " 1914	8,660	5,612	3,048
" " " 1915	8,295	6,050	2,245
" " " 1916	8,710	5,329	3,382
" " 31st Mar., 1918	8,691	5,521	3,170
	<u>£48,262</u>	<u>£18,968</u>	<u>£29,294</u>
Average for 5 years	.. ..	.. ..	<u>£5,859</u>

11,590. (55) These are expenses of the Justices sitting at the Justice Rooms, and do not include any

expenses incurred in connection with their powers when sitting in Quarter Sessions for the County of the City of London, which are paid out of the County Rate of the City.

*Administration of Criminal Justice.
Central Criminal Court.*

11,591. (56) The present Central Criminal Court was erected under the provisions of the City of London (Central Criminal Court House) Act, 1904, (4 Edward VII., cap. 93), and the expenses connected with the buildings are borne by the ratepayers of the City of London, such expenses being met by the raising of a loan. The site upon which the building stands was provided by the Corporation. The expenses incurred in connection with the administration of Criminal Justice are borne by the Corporation, which bears the salaries of the four Commissioners who act as Judges at that Court, and the Corporation have to make the necessary provision for the trial of all prisoners brought there. The expense of the maintenance of the building also falls upon the Corporation.

11,592. (57) The principal Act of Parliament relating to this Court (which has jurisdiction over the City of London, the County of London, and certain parts of the counties of Middlesex, Essex, Kent and Surrey) was passed in the year 1834 (4 and 5 William IV., cap. 37).

11,593. (58) The general expenses of the Court, including the salaries of the officers and other expenses, are defrayed in the following proportions:-35/40ths by the County of London; 2/40ths by the County of Middlesex; 2/40ths by the County of Essex, and 1/40th by the County of Surrey.

11,594. (59) The Corporation is called upon to meet an expenditure of £11,935 per annum, as appears by the following table; and inasmuch as the Court is a Court of Assize, and has a Special Commission appointed under the Act of 1834 by which nearly all His Majesty's judges are placed upon the Commission, the expenses which are incurred by the Corporation in connection with the Court ought, it is submitted, to be admitted as a deduction in their return for the purpose of Income Tax, and relief to that extent should be granted.

11,595. (60) The following are the particulars of the expenditure for the last five years, viz.:-

For year ending 31st December, 1913	£11,787
" " " 1914	12,200
" " " 1915	11,749
" " " 1916	11,601
" " 31st March, 1918	12,337
	<u>£59,674</u>
Average for 5 years	.. .. £11,935

11,596. (61) All the foregoing objects would, but for the existence of City's Cash and the willingness of the Corporation to use that Corporate Fund for those purposes, have to be financed out of rates or from the Imperial Exchequer.

11,597. (62) All are old and established and well-recognized public services which are dealt with otherwise elsewhere, and if so dealt with as regards the City would be tax free.

Sinking fund.

11,598. (63) For many years the Corporation has raising loans for the purpose of effecting improvements or building or extending any of their markets raised money by the issue of bonds, but in the year 1897, with a view to paying off the bonds referred to, a Trust Deed was entered into on the 24th June, 1897, made between the Lord Mayor, the Governor of the Bank of England and the Chamberlain of the City, constituting and securing debenture stock, bearing interest at the rate of 24 per cent. per annum upon an amount of stock which was not to exceed four million pounds, and provision was made in such deed that the money raised should be redeemed by the creation of a sinking fund to which the Corporation undertook to contribute a sum of

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[Continued.]

£7,500 half-yearly out of its corporate income. A sum of £1,022,900 was raised about that time, but in 1905 a second deed was entered into to enable the Corporation to raise a further sum of money at a rate of 3 per cent. interest. A sum of £1,350,000 was raised in pursuance of the conditions of the second deed.

An important part of the Corporation's debt relates to the Holborn Valley Improvements, including Holborn Viaduct. To effect these and other improvements in the City the Corporation voluntarily consented to apply the net proceeds (between 1862 and 1890) of their 4d. per ton duty on coal. This duty was, by the London Coal Duties Abolition Act, 1895, abolished in 1890, and the Corporation was left to meet the remaining liabilities in respect of the Holborn Valley Improvements out of City's Cash. There is still outstanding a debt of £385,800 of which £138,000 is in terminable bonds and £247,800 in debenture stocks included in the sinking funds.

The Corporation have since 1897 set aside £15,000 per annum to the sinking fund (which with accumulated income now amounts to £434,683), and considers that they should be allowed to claim that sum as a proper deduction in making their return under Schedule D.

11,599. (64) It should be mentioned that in cases where other Municipal Corporations borrow money the loan is made upon the security of the rates. In the event of a sinking fund being created the annual sums contributed to such funds would be provided out of the rates, and would not be liable for Income Tax, and therefore the Corporation, in consideration of the fact that their income is applied for public purposes, contend that it ought to be allowed similar relief.

11,600. (65) It is submitted that sinking funds are in relation to public bodies the same in principle as Life Insurance in relation to individuals, viz., provision to ensure to posterity immunity from financial failure. In the case of the individual the capital sum insured has as part of the estate to pay Death Duty, and the Customs and Inland Revenue Act, 1885, established Corporation Duty to secure the payment by Corporations which do not die of what was deemed to be a corresponding contribution to the State revenues. In the case of the individual relief from tax is given in respect of the premiums on such insurance made for personal purposes, whilst such relief is denied to a Corporation acting for the benefit of the public.

Point No. 2.

"That the expenses incurred by the Corporation in carrying out certain statutory obligations, such as (i) Port of London sanitation, and (ii) the maintenance and upkeep of numerous open spaces, as well as the administration of justice, and other somewhat similar expenses should, for Income Tax purposes (in addition to the present allowances), be set off against the profits derived from the various markets which at the present time are principally assessed under Schedule D of the Income Tax Act."

11,601. (66) Failing the admission of the foregoing contention under point No. 1, it is submitted that the expenses incurred in the services mentioned under that point should be admitted as deductible "expenses" for Income Tax purposes.

11,602. (67) This involves treating the various undertakings of the Corporation as one, in the same way as various branches of a big commercial concern are treated, but which under the existing law as laid down by the Court of Exchequer in the above-mentioned case of the Attorney-General v. Scott (Chamberlain of London) in 1873, cannot be done.

Point No. 3.

"That the claim for the payment of Income Tax upon the income derived from investments on the various sinking funds bears very hardly upon the Corporation and relief should be given."

11,603. (68) The interest derived from the sinking fund investments is really an appropriation of Corporate income for the purpose of increasing such fund; and the arguments advanced above in support of exempting the annual payment of £15,000 apply also to the exemption from tax of the income arising from the fund.

Point No. 4.

"That the payments made by members of the Corporation's staff into the pension funds of the Corporation should be deductible from these persons' incomes for Income Tax purposes in the same way as insurance premiums are now deductible."

11,604. (69) The Secretary to the Royal Commission has pointed out that this point "appears to be already dealt with administratively by the Board of Inland Revenue, who allow deductions for compulsory contributions of the nature which you mention:—

(a) without qualification, in those cases in which the contributions do no more than secure a title to a pension.

(b) with qualification, where not only a title to a pension is secured, but also a title to a return of contributions in certain specified contingencies; the qualification being an engagement to pay Income Tax at the lowest rate in force at the time of repayment on the repaid contributions (if, and when, repaid) representing deductions from salaries exceeding £120 per annum."

11,605. (70) The Corporation have three pension funds, respectively named Nos. 1, 2 and 3. Nos. 1 and 2 are funds established under deeds, while No. 3 is a statutory fund established under the City of London (Various Powers) Act, 1912. The last of these pension funds relates to officers paid from rates, and the first two to officers paid from City's Cash. Approximately half of the officers belong to Nos. 1 and 2 and the other half to No. 3.

11,606. (71) It is a condition of service under the Corporation to join the pension fund, and members' contributions are deducted from their pay, and they receive the net amount after such deductions have been made.

11,607. (72) Income Tax is not charged as regards members of No. 3 fund. It is felt by the officers in funds Nos. 1 and 2 that it is unjust to require them to pay Income Tax upon a sum they never receive and over which they have no control.

11,608. (73) The attention of the Board of Inland Revenue has been drawn to this matter, but has resulted only in the laying down of the conditions already mentioned.

11,609. (74) All three of the pension funds of the Corporation alike give more than simply the right to a pension, all including also the right in certain contingencies to the return of contributions. Yet the Board of Inland Revenue allow as deductions contributions to No. 3 fund, but refuse such allowance in respect of funds Nos. 1 and 2 on the ground that No. 3 is a statutory fund, whereas the others were voluntary funds, although they are equally binding because under deed.

11,610. (75) It is submitted that even if this is good as the law at present stands, it is inequitable, and therefore calls for an amendment of the law so as to exempt such contributions from liability to tax.

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[Continued.]

11,613. *Chairman*: Would you like to give us the main points of your paper?—Thank you, my Lord.

11,614. You want exemptions in certain directions?—Yes.

11,615. Will you specify those and we will get straight on to them?—I want to emphasize at the outset, if I may, that I am here to-day as representing the Corporation's private funds, apart from the funds which it administers in respect of rates. The Corporation of London is a very large administrator of public funds, because the rates that it collects annually amount to about a couple of million pounds, and in respect of that part of their duty I associate myself with a very great deal which has fallen from the gentlemen who have been giving you evidence already this morning. My particular duty is to direct your attention to the incidence of Income Tax in connection with its corporate or private funds, which are derived, as I think my statement shows, partly from property, the whole of which is subject to taxation naturally under Schedule A, and partly from income from the markets. Those two heads practically comprise the whole of the Corporation's corporate income. I would also like to mention in passing that the increase in the Income Tax is a very serious matter to the Corporation in regard to the position of its corporate funds. Before the war practically the whole of its income was appropriated for beneficial uses, and this extra charge has fallen on it, amounting to some £50,000 a year, and it has no source from which it can make it up. We cannot impose a rate to make up that deficiency or anything of that kind.

11,616. What is the resulting loss?—The result is that we are showing a deficiency year by year, which is gradually eating into the Corporation's capital, or would do so, except that recently we have secured a certain amount of relief in connection with our contribution to the Police service of the City of London, which may probably be within the knowledge of some of the members of this Commission. But broadly speaking, I want to submit that in so far as moneys of the Corporation are employed for public services and charitable objects the amount of income spent in that way should be exempted from Income Tax. Now the main heads of those public services or charitable objects which are embraced in that general statement are the following. First the maintenance of open spaces, which include Burnham Beeches, West Ham Park, Epping Forest, Wanslet Park, Higham Park, Highgate Woods, and Queen's Park, Kilburn; these are not purely local to London, but by any means they extend a long way outside the City boundaries and are of great value to the public generally. Taking the average of the last five years, they cost the Corporation about £11,600 per annum to maintain. My submission is that the income which is used for that purpose should be exempted from Income Tax. Another important heading is the Port of London sanitation. The Corporation of London is the sanitary authority for the Port of London, which extends from Teddington right down to the Nore, and the Corporation is charged with the important duty of seeing that all the docks and landing places, everything on the river banks, is kept in a proper sanitary condition. That involves them in an expense, on an average of the last five years, of £11,900 per annum. Then in the case of the Freeman's Orphan School, the Corporation contributes, over and above the income that is directly derived from a fund that was left for the purpose of founding the school, a sum of £5,400 per annum, on the same average as the others. I would like to point out here that the tax upon the income from the property that was left to found this school is repaid by the Inland Revenue Department. I am reading from the statement, "The school is partially supported by the rents of freehold estates, devised in former times by charitable persons connected with the Corporation." These produce some £200 or £250 a year income, and that income is not taxed. The Inland Revenue say: "we do not claim tax on that."

11,617. Have they said that?—Not to me personally but they do not claim it. My argument is that if the income which is used to pay part of the expenses

of those schools is considered to be free from Income Tax, it is only logical to claim that any contribution which the Corporation has to supplement that with should also be treated in the same way.

11,618. *Sir W. Trower*: Is it a trust fund for that particular purpose?—The £500 or £600 that I quoted is a trust fund for that purpose.

11,619. Your contribution to the Freeman's Orphan School?—Our contribution is a voluntary one supplementing that and backed up by a Statute.

11,620. But is it not in the same position as any other gift by a private owner to any particular school?—There is a special Statute with regard to it.

11,621. Are you obliged by the Statute to pay £5,000 whether you wish to or not?—The only alternative would be to restrict the scope of the school.

11,622. You said there was a Statute in regard to it. Does the Statute compel you to pay £5,000?—I do not think it fixes any particular sum. The Statute authorizes the foundation of the Freeman's Orphan School, which was established "for the maintenance and the religious and virtuous education of Orphans of Freeman of the City of London." I cannot tell you how far the Statute determines what the total expense of it should be or the scale on which the school should be maintained.

11,623. *Mr. Mackinder*: Does the Statute compel you to maintain it?

11,624. *Mr. Petyman*: You are asking for sanction for relief from Income Tax in reference to a purely voluntary payment to a school?—It is not regarded by us as purely voluntary.

11,625. But legally speaking?—I will ask the representative from the solicitors' office if he can clear up the point.

11,626. Could you not make it into a trust?—I expect we could.

11,627. Then you would be exempt?—The solicitor has called my attention to this section in the Act: "And be it enacted that the Mayor and Commonalty and Citizens shall for ever thereafter maintain upon the said ground so to be set aside and appropriated or to be so found and provided as aforesaid, the houses and buildings to be erected thereon as a school for the maintenance and the religious and virtuous education of Orphans of Freeman of the City of London."

11,628. *Sir W. Trower*: Does that attach a liability to any particular fund?—It seems to me to attach a liability to the corporate fund of the Mayor and Commonalty of the City of London.

11,629. Then if that is so, it would come within the general law now of the charity being exempt. If it does not come within that general law it is a voluntary payment.

11,630. *Mr. Walker Clark*: Would not they get over it because of the specific object—the children of the Freeman of London?

11,631. *Sir W. Trower*: I mean the law of taxation?—That seems to be admitted as regards the income from these investments that I was referring to just now, which were a bequest.

11,632. That relates to the investment and the trust, but you are asking us to consider the question of the additional voluntary payments?—That is so. There there is the magistracy of the City of London. As you are probably aware, the Aldermen are *ex officio* magistrates of the City and that avoids the necessity for the payment of any stipendiary magistrates.

11,633. *Chairman*: That is done very often?—Yes, the maintenance of the Guildhall Justice Room and the Mansion House Justice Room costs the Corporation some £5,000 a year. We put that down as a payment for public purposes. Then the Central Criminal Court is very much on the same footing. There then comes the sinking fund, which perhaps opens a rather larger discussion.

11,634. Supposing we do not recommend any alteration, you will raise the money, will you not? How will you go on?—We shall have to restrict our usefulness; that is what is come to.

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11,635. In what form, charitable or how?—That is a matter which we must use our discretion upon. Probably it would begin with such things as these open spaces. I cannot tell you in what particular direction. But we have no means of increasing our income.

11,636. Your ground is that if you do not get relief you will have to cut off some of your charitable institutions. Is that the case?—That is so.

11,637. Mr. May: Is that seriously and deliberately put forward?

11,638. Chairman: I want to ask that question. That is the case really—that there is no means of your getting money to replace this money which is taken by the Income Tax?—No, my Lord. I put it forward quite seriously: that our income is not an elastic income. It occasionally increases just a little by rents going up, but that is more or less fortuitous. When houses fall in we are able to get a little more rent, but we have no means of adjusting the income to meet the annual expenditure, and if Income Tax increases its burden upon us, as it has done very largely during the last five years, it is bound to be reflected in a reduction of expense elsewhere.

11,639. Mr. May: And a limitation of the usefulness of this particular charity or other charities?—Yes.

11,640. You think that that is seriously contemplated by the Corporation?—I think it is one of the necessities.

11,641. One of the necessities?—It has to be paid.

11,642. Chairman: You may think over this, because you may have some examination upon the point. I want to be convinced on two points; first, if we gave you any exemptions on the grounds that you claim, I want to be convinced that they entail great hardships upon the charities that you have to control; can you make your case on that?—May I make a very short statement with a view of clearing up our position on this very point? In the past the Corporation of London found itself in the fortunate position of having a corporate income larger than its absolute necessities, and they sought opportunities of employing this surplus for the benefit of the public, and in pursuance of that policy they purchased open spaces; they undertook the burden of the Port sanitation, and things of that kind.

11,643. How did they get the money?—It was derived from their rents and the income from the markets, and they borrowed substantial sums on the security of that income for these purposes.

11,644. Could you not increase the rate if the necessity arose?—But none of these things that I am speaking of are charged upon the rates; these are things which are charged upon the Corporation's private income as distinct from the rates.

11,645. Are not they joined together? Supposing you found a less coming in the whole general income through this Income Tax that you have to pay, supposing that you had not changed a farthing of your charities, and had retained them to the full, you would be short on the other account?—We should be short on our private account.

11,646. Cannot you levy rates to make that up?—Not without the specific assent of Parliament. We have, in fact, within the last few months, secured a certain relief in that direction; I refer to the relief we have secured in connection with our contribution to the police.

11,647. Mr. Walker Clark: Is that relief by transferring to another fund?—By transferring it to a charge upon the rates. The old arrangement was that three-fourths of the cost of the City Police was borne by the rates, and that the other quarter came out of the City's own funds. We have been to Parliament within the last 12 months—in fact, the Act giving us the relief was only passed at the end of last Session. We had to show the Select Committee (I myself gave evidence before that Select Committee) that our circumstances were such that we could no longer continue.

11,648. Was one of the arguments used in that Committee this Income Tax matter?—Yes.

11,649. Was that the principal argument used?—I think I may say that was the principal argument,

but I think I ought to mention, for the information of this Commission, that there were other sources of income which we enjoyed in the past which have been taken away from us during the last 15 or 20 years by Act of Parliament, and one of those was the mortgage on all grain that came into the City, and another was the coal dues. These have vanished entirely during recent years, and the result of all this is that today, instead of finding ourselves with an income in excess of our requirements, or amply sufficient for our requirements, we find ourselves with an income which is not adequate to our requirements, and does not meet our requirements even after this police relief, and we are naturally looking round to see in what direction we can introduce some change to make both ends meet; that is the necessity that prompts us in considering this matter, and in considering the incidence of Income Tax we are putting forward those arguments to you to-day on the ground of equity, that inasmuch as we spend a certain amount for the public benefit, the income appropriated for that purpose should be free of taxation.

11,650. You have brought that prominently forward in your paper, and have done it remarkably well on that point; that is the point that you wish to put before us?—That is the point. I cannot tell how far it will meet with your sympathetic consideration, but to the best of my ability I must put it before you.

11,651. Mr. May: While we are on that point may we know whether as a matter of fact the sanitation of the Port of London was a charge on the private funds of the Corporation?—I think the answer is in the affirmative. I am quoting from paragraph 41: "The Corporation was legally constituted the sanitary authority of the Port of London by the 26th Section of the Public Health Act, 1872, and was directed to pay out of its corporate funds all its expenses as such Port Sanitary Authority."

11,652. As a matter of fact does the Corporation of the City of London pay the whole of the expense of the sanitation of the Port of London?—I think I am justified in answering in the affirmative; I do not know of anything else which it does not pay.

11,653. Mr. Mansfield: Perhaps the witness could tell us what the proportionate rates are in the City of London as compared to the rest of the country?—I can tell you what they amount to in the City of London; I cannot very well compare them with any other cities, because I have not the information here. At the present time the rates amount to 3s. 10½d. per half-year, which is equivalent to 7s. 9d. for the year, and I was informed in the rating department within the last two days that they are anticipating a substantial increase to that on the next demand of something under a shilling.

11,654. Chairman: Is that the inclusive rate?—Yes, it includes our contribution to the London County Council.

11,655. 7s. 9d. a year?—Yes.

11,656. Mr. May: What is the authority to which the Corporation delegates; is it a committee or is this sanitary work any part of the Port of London Authority?—There is a special committee, the Port of London Sanitary Committee, consisting of members of the Corporation. It is what is known as a Ward Committee. The Corporation conducts its work by means of a dozen or more committees, and there is a representative from each Ward on each of those committees.

11,657. Mr. Walker Clark: Are there any co-opted members on this Sanitary Committee?—No.

11,658. Mr. McIntosh: One point on the question of the rating of the City; what is the valuation basis on which the rates are imposed?—Do you mean the total figure?

11,659. No, the basis; is it a separate valuation, or is it the letting value?—It is a separate valuation. The assessment of the City of London is settled by the Assessment Committee, which also consists of members of the Corporation. The basis upon which they rely in fixing their assessments is the rental.

11,660. That is, the rating is based on rental?—On rental; I think it is fair to say that it is not necessarily identical with the rental.

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[Continued.]

11,661. Probably a shade lower?—Yes; I think there are certain allowances. I am told it is under the Valuation Act of 1899, which relates to the whole Metropolis.

11,662. *Chairman*: What was the last valuation; do they assess every year?—No; every five years, and every occupier or tenant has an opportunity of appealing from the assessment.

11,663. Does the Assessment Committee come from the London Guildhall?—From the City of London; from the City Corporation.

11,664. And they make their own Assessment Committee?—The process, I think, is this. There was a Union of Parishes Act a few years back in connection with the City, under which all the different parishes were amalgamated, and the Corporation was made the executive body. The Overseers' Committee of the Corporation, which is the Ward Committee appointed as I have described just now, makes the original assessment after careful consideration of the circumstances of every case, which is a very formidable business. Then notices are sent to the occupiers, and if they are dissatisfied with the assessment they have the right to appeal to the Assessment Committee, and the Surveyor of Taxes also has a right to attend. The total rateable value is just under £8,000,000 for the City of London; that is quite distinct from the City of Westminster.

11,665. *Mr. Marks*: With regard to the statements in your paragraphs 18 to 23, dealing with the basis of assessment and the returns for 1916-1917, is it not the fact that the basis of assessment has been in dispute for some years?—Yes, for two or three years past; that is why I say in paragraph 18 that the settlement then arrived at has been adopted up to 1913.

11,666. And the return referred to is not accepted by the Inland Revenue?—No, not at present.

11,667. Is part of your object here to get or to make such changes or recommendations as would deal with that?—Not necessarily. I do not want to confuse you in my mind with the Inland Revenue officials, whose duty it is only to interpret the law; and we do not intend to do so. The object of attaching that statement was so that you would see, if you cared to, the lines upon which the assessment is at present being made, and that those things for which we are claiming relief are not at present allowed. Negotiations are going on at the present moment with the Inland Revenue authorities on the Act as it stands, but we thought it would be a mistake to miss the opportunity afforded by this Commission of putting the thing before you from a commonsense point of view, with the prospect of having the Act altered in the direction we are seeking.

11,668. Then in your paragraph 12 you give figures which show that the City's Income Tax is increased by, I think, £60,000?—Yes.

11,669. In six years?—Yes.

11,670. And that the income has increased by approximately £40,000?—Yes; it is the markets and the rentals.

11,671. So that, in the end, you are about £20,000 worse off?—Yes, as regards Income Tax and the increase in income, but our expenses in other directions have been going up by leaps and bounds.

11,672. That is not quite my point; I think we all appreciate that. Is it not an inevitable result of the present conditions that, with the tax increased from 1s. or 1s. 3d. up to 6s., there should be this very large increase?—Yes.

11,673. Your case is not peculiar, so far as that is concerned?—No. We just mention that really from the feeling that if this necessity had not been forced upon us by the circumstances, we probably should not have troubled you, because this is not private money in the sense that anybody wants to spend it for his own particular good. As long as it is being spent somehow or other for the public advantage, that is the only object in view; but when we are a business-like body we must try and make both ends meet somehow.

11,674. Notwithstanding the large increase, up to the present you have been able to meet your expenses without calling upon the ratepayers?—Yes; but it has involved a deficiency on one or two of the recent accounts, which is really cutting into our capital.

11,675. You do not propose to remedy that deficiency by a further assessment on the ratepayers?—We wish to avoid that, if possible, and I do not think we have the power. In none of these cases have we the power of doing it, except by special Act of Parliament—by applying for Parliamentary sanction.

11,676. Can you give the Commission any estimate of the capital value of the city's revenue-producing estates, the freehold, leasehold and other property?—I am afraid I cannot.

11,677. Is not it the fact that the Corporation may dispose of its corporate income and alienate its corporate property in any way it thinks fit, without the consent of the Government or any other authority?—I think that is so—yes.

11,678. It rather follows, and you probably agree that, as that privilege does not extend to corporations amenable to the Municipal Corporations Act generally, the City Corporation are freer from Government control than other municipal corporations, and to some extent privileged?—Yes, as regards the income with which I am dealing. I quite acknowledge that our position is almost unique. There are very few corporations in the same position. I believe in Edinburgh there is a small private fund which is described as the Common Good, and I think there is something of the kind in Liverpool; but it is quite the exception for any corporation in the kingdom to have a large private fund of this kind.

11,679. Why did the Corporation take on the additional work and responsibility of becoming the sanitary authority for the Port of London?—I think I tried to deal with that a few moments ago, when I said in times past they found themselves with an income which was more than sufficient for the purposes which they were already committed to.

11,680. I heard that answer. There are two other reasons which suggest themselves to me; first of all, did not the City undertake to make the necessary expenditure out of the City Estate income in order to relieve the local authorities of the other areas covered by that Act from financial responsibility?—I think you are probably correct in that. I have not looked it up, but the City has always been anxious to take a public, broad-minded view, and to bear as much of the burden of the public as it could afford to do.

11,681. I was going to ask you whether the City had not taken up that responsibility and labour in order really to preserve their autonomy within the City so far as possible?—I do not think I am in a position to answer that question.

11,682. I suggest that is a possible explanation?—They have a very ancient history, and they naturally want to preserve it. Being the Corporation of the City of London, and being identified with the history of the country in a way that has not fallen to the lot of other corporations, they are very keen on preserving its privileges, and the claims to public consideration that they bring with them, and I think that is very natural.

11,683. We shall probably consider that there will be difficulties in confining to the City alone the relief which you desire?—Yes. I have no wish to exclude any others which find themselves in the same position.

11,684. Have you considered whether it might not be reasonable for taxpayers generally, to whom exemptions on the ground of charitable purposes mean an increase in the rate of tax, to raise the question whether such exemption, instead of being extended, should not be rigidly restricted to charities which are of a purely eleemosynary character?—It certainly may suggest itself, but we rather rely on this distinction of charity which is given in Section 14, which was a definition of Lord Camden in *James v. Williams* as "a gift to a general

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[Continued.]

public use which extends to the poor as well as to the rich," and under the Act of Elizabeth all moneys employed in charities were to be exempt.

11,685. One other small point. Your paragraph 65, where you draw an analogy between sinking fund and a Life Assurance premium, does not seem to me to be very convincing, if I may say so. Could you explain that analogy a little further? What I am asking you is this: whether the local authority sinking fund is not simply for the purpose of liquidating a debt, whereas a Life Assurance premium is to make provision for something which may happen at an uncertain future time, although it will in the case of a pure Life Insurance—in fact, in the case of all insurance—certainly arrive?—That may have been the original idea of Life Insurance, but as you put the question to me I think I am justified in pointing out that Life Insurance is used very much in these days as a means of borrowing money. A man takes out a Life Insurance policy for a few thousand pounds—

11,686. I cannot agree with you there. Whatever relation that class of insurance may bear to the whole, I can assure you it is infinitesimal, and I do not really think that there is any strict analogy between the sinking fund which you mention and Life Assurance.—I should have thought so.

11,687. Mr. Walker Clark: What funds bear the cost of the hospitality of the Corporation?—The City's private funds.

11,688. This same fund?—Yes.

11,689. Would it not be possible seriously to curtail that heavy expenditure, and so obviate this loss?—We regard that expenditure as one of our most legitimate expenditures, and I think it is so regarded by the Government, because a great deal of our entertainment is at the direct instance of the Government of the day. These entertainments that have taken place since the conclusion of the Armistice and the celebration of Peace have nearly all been on the initiative of the Government. It was at the instance of the Government that a distinguished visitor from abroad should be received in the City.

11,690. Would not the expenditure on the 9th of November alone more than meet this deficit?—Oh, no, the whole of that is paid by the Lord Mayor and the two Sheriffs personally. It is pointed out to me that the expenditure on entertainment has been very small during recent years, and that is so because the war has been on, but I quite agree that in normal times our expenditure is a substantial sum; in fact it is included in the current year's estimates as a matter of £15,000.

11,691. I thought it was a similar sum, and that is why I asked. Have you power to raise the tolls of the markets beyond what they are at present; or are they at the maximum now by Statute?—I am advised that they are now at the maximum.

11,692. Therefore you would have to have your statutory powers varied if you raised the market tolls?—Yes.

11,693. Is it not a fact that the power to levy 4d. a ton on coal was withdrawn because of the very large surplus of your income at that period?—I cannot speak from my own knowledge, because I was not a member of the Corporation in those days; the representative from the solicitor's office tells me that it was not so.

11,694. Chairman: You have mentioned that in your paper?—I have mentioned it in the second part of paragraph 63: "An important part of the Corporation's debt relates to the Holborn Valley Improvements, including Holborn Viaduct. To effect these and other improvements in the City the Corporation voluntarily consented to apply the net proceeds (between 1862 and 1890) of their 4d. per ton duty on coal. This duty was, by the London Coal Duties Abolition Act, 1889, abolished in 1890, and the Corporation was left to meet the remaining liabilities in respect of the Holborn Valley Improvements out of City's Cash. There is still outstanding a debt of £385,800, of which £138,000 is in terminable bonds

and £247,800 in debenture stocks included in the sinking funds."

11,695. After nearly 50 years?—Yes.

11,696. Just now you said that the basis of the rating is rental; that is the common basis. The law of rating is a very complicated one?—Yes.

11,697. May I assume that the Poor Law assessment will follow your assessment?—Yes, the Poor Law assessment is identical with ours.

11,698. It follows yours; the two are mutual?—Yes.

11,699. Are the Corporation properties assessed at their full value in the rating book?—I am sure it is so, yes.

11,700. At 4 per cent. on capital cost, or some other percentage?—Yes.

11,701. Am agreed percentage?—I am sure it is assessed, but I cannot tell you exactly on what basis; it is on an economic basis, I think. I am sorry I have not got that information.

11,702. I think there is a possibility of a very considerable margin in that direction, but I am not sure?—I do not think so. I think the Surveyor of Taxes will see that that is not so, because they claim Schedule A on that.

11,703. But it is a very generous claim as a rule. When the tax, which is now 6s., is reduced, say to 3s., the necessity for this claim would cease, would it not?—Assuming that other expenses had not gone up.

11,704. It is really to meet the emergency caused by the war?—I do not put it like that. I have explained to you what our necessities are, as the reason why we have come to you, but I put it on the ground of equity that these things we are asking are equitable, whatever the circumstances may be in the future.

11,705. So far as the equity is concerned I pay 13s. 10d. on my rates, and you in London pay 7s. 9d.; I am rated to the hilt, so there is another side to equity. Did not the Corporation undertake these charges for the sanitation of the Port largely to retain their control over the Port?—I do not think I can answer that question one way or the other; I think you are entitled to draw your own conclusion from it.

11,706. Chairman: That is a fair way of putting it. Some of these questions that are being asked may be a little outside the point, but you know the purpose for which they are being asked; it is to suggest that you should raise the revenue in other directions?—Quite so. I appreciate the courtesy of all the members of the Commission.

11,707. Mr. May: May I put Mr. Walker Clark's question in another way? In your *précis* of evidence and verbally you have quoted the Public Health Act of 1891, in which it states that the Mayor, Commonalty and Citizens of the City of London should continue to be the Port Sanitary Authority?—Yes.

11,708. I take it that you do not suggest that these words were put into that Act without the full consent of the Corporation?—No, I do not suggest that they were put in without their full consent. I agree with you they were not put in probably, without their full consent.

11,709. And when they accepted that responsibility they had good and sufficient grounds for believing that they were entering into at least a business transaction on behalf of the citizens of London?—I do not know exactly what you mean by a business transaction; there is no question of revenue coming from it.

11,710. I mean that the responsibility and expense to which they were committed brought them in some way an adequate return?—No, I would not say so necessarily. They had these funds at their disposal, and they said: "We want to employ them in some way or other for the good of the city or the surrounding district." I do not quite see what they expected to get, or that they could expect to get anything in exchange. If a corporation happens to be in possession of a substantial income it is the duty of that corporation to employ it in some way for the public good; that is the view they took.

11,711. Do you suggest it was simply because they had these funds at their disposal that they undertook this responsibility?—I do.

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11,712. Well, I suggest to you that representing the greatest commercial centre in the world they were desirous for commercial and business reasons—perfectly legitimate ones—of retaining the control (I do not want to use that word, because you objected to it in answer to Mr. Walker Clark), but at all events, to retain the Port of London as one of the chief centres, and that from a commercial point of view they were undertaking a responsibility which would return to the citizens a great deal more than anything they were likely to expend upon it?—I quite agree. I am afraid I misunderstood your reference to commercial reasons. I thought you were employing them in the restricted sense of some advantage accruing to the Corporation. I quite admit that they recognized that there were advantages accruing to the citizens generally.

11,713. And that they did not then measure the amount of expense that they would be put to in maintaining that Port, realizing that any reasonable expense that would be incurred would be more than reimbursed to them in the advantages of the Port?—Yes, but they would not have been justified in going in for it if they had not had the income available.

11,714. Do you suggest that the position has seriously grown worse since they undertook this responsibility?—Very seriously indeed.

11,715. Why do you select the years from 1913 to 1918 to show the income and expenditure?—Because they are fresh in one's mind.

11,716. But you have gone back to Elizabeth, you know, on some points. You might have gone back a little bit before the war—I did not want to be too discursive, but the main heads upon which we are worse off, apart from these last few years, are the loss of our mortgage on grain and the loss of our coal dues and broker's rents.

11,717. Within the period you have dealt with here, 1913 to 1918, is it not the fact that the war has seriously affected the returns in every way?—Do you mean our income?

11,718. Yes?—No, because the bulk of our income was from rents—property in the City—and that has not been affected.

11,719. And these receipts are from property?—The bulk of these receipts are from property.

11,720. I suggest to you, then, that at any time the receipts from rents of property, as a set-off against the expenditure that you were likely to incur for these very much larger purposes that I have already indicated, was only an adventitious circumstance, and not a business proposition with the Corporation at all; that is to say, if I do not make myself clear, the Corporation were in a position to use these rents, but they did not depend upon them at all in any sense at any time to make or mar the success of their undertaking in caring for the Port of London?—I do not want to be at cross-purposes, and I want to follow your line of thought if I can; but the only view I can take is this, that the Corporation would not have allowed itself to be saddled with the expenses of the Port of London unless they had available at that time (and had the prospect of having it in the future) the necessary income to discharge those obligations.

11,721. So, if I make myself clear on a wider basis, is it not clear that every local authority in the country has to undertake for the benefit of the community operations of various kinds out of which directly—in a balance-sheet sense, such as you put it before us here—they never expect over to make a profit, or even to meet the expenses, because the other advantages are so much greater and more important to the community as a whole; and that I suggest to you, is the position of the Corporation of the City of London in this matter?—No.

11,722. And that those figures have no value at all?—I think the difference is this, that in the case of other municipal bodies that you speak of, when they embark upon such things they do not need to consider very closely whether they will have sufficient funds to discharge those expenses or not, because they can adjust their income to meet their expenses by imposing rates. In our case this particular burden

has been saddled on the corporate funds of the Corporation, the private funds of the Corporation, and we have no means of adjusting our income to meet our expenses in that way. Your argument would be perfectly sound, and I should agree with it in every word, if this cost of the Port of London sanitation was payable out of our rates that we impose; but it is not. It is payable out of our corporate income.

11,723. Then you adhere to your plea of poverty in this respect as a claim for relief?—Yes.

11,724. You have put forward four points; may I ask to which of them you attach the most importance?—You mean these different heads of expenditure?

11,725. No, these main points which are referred to in the letter of Colonel Stuart Sankey (see paragraph 11,548)?—Nos. 1 and 2 are practically identical, because the items for which we claim relief under No. 1 are alternatively claimed in No. 2.

11,726. Under point 1, you put as charities open spaces, Port of London sanitation, the Freeman's Orphan School, Magistracy, the Central Criminal Court and the sinking fund?—Yes.

11,727. Do you think it is a practical proposition for this Commission to recommend to His Majesty's Government that these things should be regarded as charities?—I think, under the definition of charities that we have, it is a reasonable thing; but I say, in the alternative, if you do not see your way to do that, then we ask that they may be allowed as a proper deduction from our income from our markets and so on, for the purpose of assessment for Income Tax, on the ground that they are in the nature of public services.

11,728. On this question of the hospitality of the City, you said that in many recent instances the Corporation had acted upon the initiative of the Government; is that so?—Yes.

11,729. Do you mean that this is a burden imposed upon them by the Government?—I do not know how far the word burden is a correct one.

11,730. Mr. Holland-Martin: Is it not the fact that for the last 50 years it has been the practice of the Government to suggest from time to time that the City should entertain important personages?—Yes. I qualify that by saying I do not suggest that every single entertainment that has taken place has been suggested by the Government.

11,731. Mr. May: And the Government have made no contribution from public funds towards those expenses?—No, they have not—not a halfpenny.

11,732. With regard to the pension fund, will you tell us what is the nature of the pension fund that is referred to in paragraph 4 of that letter?—Yes. I am really only concerned with Nos. 1 and 2, because No. 3 is in connection with the rating department, and I am not dealing with that. It is a statutory fund. Nos. 1 and 2 are funds in connection with the officers whose salaries are paid out of the City's Cash.

11,733. That is to say one of your funds is statutory, and the other two are voluntary?—Yes, that is so.

11,734. In the case of the statutory fund you are not concerned with that, because the relief is already granted?—I think it is granted; at any rate it affects the rates, and it does not affect what I am dealing with to-day, which is the City's Cash.

11,735. Have you taken into account the very large number of similar voluntary funds in the country that would have to be relieved if the Commission were to recommend this relief to your fund?—I am afraid I have not. I venture to think that is not exactly for me to take into account; it is more for you gentlemen, if I may say so respectfully.

11,736. May I suggest to you that the terms of reference to the Commission provide that their recommendation should have in mind the necessity of maintaining the present yield of Income Tax?—Yes.

11,737. And all your suggestions up to now are directed to taking something away from it?—Yes, but if I may also say so respectfully, the reference to this Commission, as I understand it, involves endeavouring to remove a sense of injustice or inequity that undoubtedly has existed and does exist in the

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minds of the public at large, in regard to the operation and incidence of taxation.

11,738. *Mr. Marks:* May I ask what paragraph Mr. May is on?

11,739. *Mr. May:* No. 4 in the letter quoted in paragraph 13 of the evidence-in-chief. (To *Witnesses*.) I want to come back to the point which was raised before, when you told us that the failure to secure relief in regard to the Freeman's Orphan School, for example, would lead to a curtailment of the benefits of that institution to the citizens of London: is that so?—I think you have applied my answer a little too specifically. What I said, or intended to say, was that the failure to obtain relief would involve a restriction of our usefulness generally; I should not say in what particular direction it would be applied.

11,740. But I thought at the moment we were dealing particularly with the Freeman's Orphan School?—If I gave you that impression it was a mistake, and I am sorry. I would rather put it as I put it now.

11,741. You would think I was taking an extreme view if I were to suggest anything in the nature of a threat of direct action?—Quite; I did not contemplate that.

11,742. *Chairman:* I agree with the witness there; I think he was not quite on that particular point.

11,743. *Mr. Holland-Martin:* The open spaces that you refer to, for example, Epping Forest and Burnham Beeches, were really acquired in a great measure for the public; they did not concern the City more than they did London and the country round?—I think that is perfectly true, and I think that also applies to Kenley Common and Coudon. The Open Spaces Act provided for our acquiring property not within the metropolis.

11,744. That is great measure was due to the fact that you had funds which could be used for such purposes?—Yes.

11,745. With regard to the Freeman's Orphan School, in 1850 that was reconstituted, was it not?—Yes; I have the Act in front of me now.

11,746. Has it been greatly enlarged since then in numbers?—I am sure it has since then, but I forget exactly how many children it has.

11,747. You urge that the balance, apart from the money obtained from the sums specifically left to that charity, is practically a charge on your funds?—Yes; that is so under the Act which I quoted from; I do not know if you were in the room?

11,748. Yes, I was in the room when you quoted it. It seemed to me it was, as far as I could catch it?—Yes.

11,749. *Mr. Petyman:* Is not the real reason why you are subject to these Income Taxes and still have to pay them that the Corporation of the City retains full discretion as to how it shall use them, and is not the City in that matter rather in the same position as some wealthy private individual who chooses to devote his money to purposes for the public good?—I think there is a good deal of force in what you say; I have felt it myself, but I think the distinction is that the City does not really apply any of its income for its own private use and enjoyment in the same sense that a private individual does. After all, the City Corporation is a public body; it is not private property in that sense.

11,750. I do not think that really touches the argument much upon that particular point. I only spoke of the income in so far as a wealthy private individual expended it for that purpose. The difference is one of degree, and not of principle. A private individual who has a large income may devote half of his income to public purposes, and the other half to his own private use, but he pays tax on it equally?—Yes.

11,751. The Corporation, we will assume, devotes the whole of its income to benefiting the public in some way or other, directly or indirectly?—Yes.

11,752. But it does it absolutely voluntarily; you retain the voluntary principle?—Yes.

11,753. Is not that a principle of our taxation, and a very important one; and if we once depart from that would it not lead us into a very difficult region?

These exemptions which apply in the case, for instance, of public parks; it is perfectly easy to agree that, for instance, the public park at Ipswich, which belongs to the Corporation, should not be taxed, and if that park is not taxed under Schedule A of the Income Tax I do not think there can be any answer to Epping Forest, which is in exactly the same position for a much larger section of the country, being entitled to the same exemption. But the difference is this, that the public park at Ipswich is maintained out of the rates by the public under a Corporation which has no voluntary act in the matter at all, except as they express the wishes of the ratepayers as a whole; it is an elected body and deals with the ratepayers' money. You, on the other hand, are the trustees of a large private fund which you expend no doubt for public purposes, but over which you retain the principle of absolute discretion; therefore I suggest to you that the reason you are taxed is not because many of the purposes to which you apply the money are not purposes on which taxation should properly be remitted, but because you retain the principle of voluntarily disposing of your money as you like. Is not your line of remedy, if you desire, to take it, to allocate such portion of your funds as you think proper in trust for any or all of these purposes; and if you do that then you are exempt without any legislation at all, and without infringing that principle?—I think there is a great deal in what you say, but we are rather reluctant to allocate a specific portion of our property in trust for these purposes.

11,754. I entirely understand the reluctance, and I quite appreciate the feeling?—We felt that where the maintenance of these open spaces, for example, is imposed upon us by Act of Parliament, though still we were voluntary parties to it, we should be entitled to ask that the Income Tax might be remitted.

11,755. You surely realize the great importance of the principle of taxation that I have suggested to you; that as long as any individual or body, which is not an elective body collecting a rate for a particular purpose, but which is the owner of a private fund, retains the voluntary discretion of paying that money for whatever it likes, the tax must be retained upon it?—I recognize that principle for individuals, but I hoped that the position of public authorities would be looked upon in a different light.

11,756. I know it is difficult for you to know exactly what you may have to spend each year on any of these services, but you know that you will have to spend more than a certain sum, and you could allocate, at any rate, a part of it?—I think it is a very practical suggestion, for which I am grateful.

11,757. And the major part of it, if you like, retaining in your own hands a sufficient proportion to retain your voluntary principle up to a certain extent; for instance, if you are spending £11,000 a year on the Freeman's Orphan School, would it not be quite practicable to allocate a definite sum into trust for that purpose, which would yield, say, £10,000 a year, and give the rest as a voluntary subscription, if you like. Then you would only pay tax on £1,000. Instead of having, as now, only £800 free because it is in trust, and paying tax on £11,000 because it is not in trust, it is entirely at your own option to reverse the figures. When you can do that yourselves, do you not think it is rather a large order to come to this Commission and ask us to override, or suggest the overriding of, a very important principle of taxation, in order to enable you to escape a tax which you can get out of within the law as it now stands?—I hope you will exonerate me, at any rate, from deliberately asking you to override an important principle of this kind, because I did not look at it in that light.

11,758. I do not mean any bad sense in the word "overriding" at all. But that is so, is it not; to alter the law in one particular is opening a door?—Yes.

11,759. *Sir W. Trower:* About the Freeman's Orphan School: that is a school for the particular

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charity connected with the members of the Corporation, is it not?—No, not members of the Corporation.

11,760. It is for the orphans of Freemen of the City?—Yes.

11,761. Who are represented by the Corporation?—Yes, but there are Freemen of the City of London all over the Kingdom.

11,762. My only point is that it is a particular charity which affects a particular guild?—It affects all guilds.

11,763. *Chairman*: All the City Guilds?—Yes; but there are lots of men who have taken up their freedom who are not members of the City Guilds.

11,764. *Sir W. Trower*: It is a limited body connected with the City?—Yes.

11,765. You cannot become a Freeman except by election?

11,766. *Mr. May*: They have a clear right at birth, surely?—It is not election. There is a birth qualification, and then any individual who has those qualifications can go to the Chamberlain's office and take out his patent.

11,767. *Sir W. Trower*: Are there any other voluntary payments to other charities for which you ask for exemption beyond that?—Not in the ordinary sense of the word "charity."

11,768. It is confined to this particular one?—Yes.

11,769. *Mr. May*: I am sorry to interrupt, but as a matter of fact, is it not embracing the whole six?—Yes, but I said not in that sense.

11,770. The claim is made in the *precis* that the whole of the six are charities, and should be so treated?—I thought *Sir Walter Trower* was using the word "charity" in its ordinary restricted sense.

11,771. *Sir W. Trower*: I am afraid I was using it in a different sense. I meant as a voluntary payment more than as a charity. Then one other question, on paragraph 65, as regards sinking fund. There are similar cases under lands improvement companies, where there is a fund which is raised for the purpose of building or other purposes, all over the country?—Yes.

11,772. And that is divided into two: an income charge and a capital charge; and if I understand it, in the case of private individuals, in no case is the capital charge allowed as a deduction from Income Tax. Is not that so?—I do not like to contradict you, but I am under the impression that the capital charge is allowed. I am quoting from a case which I dealt with in my own office, where a client of mine took up a number of such loans some years ago, and in making his return for Income Tax, I think I am correct in saying, the annual contribution was allowed.

11,773. I have had some experience in that matter. Subject to correction, I think you will find that the principle of taxation is that no capital charge of that kind is allowed as a deduction for the purpose of Income Tax, and I know, as a matter of fact, with regard to Super-tax and Income Tax, that those capital charges are not allowed as a deduction?—You are probably correct, because you speak so definitely.

11,774. We will assume, for the purpose of argument, that I am correct in that. I know it is so as regards Super-tax. Now you are asking in effect to be placed in a different position to every other subject in the country. It is a very far-reaching question. For instance, if a clergyman builds a house, and borrows money from Queen Anne's Bounty, the repayments are partly interest and partly in capital; the capital repayment is not allowed as a deduction for either Super-tax or Income Tax; and you are asking to be put on a different footing from every other person?—I must leave it at that.

11,775. I think you have got my point?—Yes.

11,776. *Chairman*: That does not mean that you agree to that?—I cannot contest it.

11,777. *Mr. Mansfield*: With regard to the question of city hospitality, on which you have been asked some questions, is it not a fact that the hospitality of the City of London, owing to the great length of time during which it has been exercised, has, so to speak, an international reputation which makes the recipient of it more desirous of experiencing it, than, for instance, he would be of experiencing the hospitality of the Government of the country? It has a unique reputation in that way?—We claim that it has. I think the hospitality of the City of London is valued by distinguished foreigners as highly as, if not more highly than, any other honour that can be conferred upon them when they come to this country. I am speaking from experience; I am speaking from having heard the way in which they express their appreciation.

11,778. And it is never indiscriminately exercised?—No.

11,779. And somebody, the Government for example, would have to entertain these distinguished personages, if it was not done by the City of London?—That is so.

11,780. Therefore it may really be regarded as a national asset?—That is so; thank you for putting it in that way. Yet we have not asked to have that cost deducted for the purpose of Income Tax.

11,781. It comes out of the pockets of the country in some form or other?—Yes.

11,782. *Chairman*: I wish to compliment you on the particularly nice manner in which you have put your proposals; you have been non-aggressive, and you have tried to meet every question?—I am very much obliged indeed to your Lordship.

PROFESSOR FRANCIS YSIDRO EDGEWORTH, M.A., F.R.A., J.P., called and examined.

The witness handed in the following statement as his evidence-in-chief:—

11,783. The points to which I desire to direct attention are comprised under the following heads:—

I. The first principles according to which the burden of taxation should be shared by citizens differing in amount of income and other relevant circumstances;

II. The proportion of taxation which should be raised by Income Tax;

III. Discrimination with respect to Income Tax on grounds other than the amount of the taxpayer's income.

IV. Discrimination on the ground of differences in amount of income;

V. Formulae apt to represent the distribution of incomes in a country.

11,784. I. CANONS OF TAXATION.—Under the first head I have little to add to what I have said in evidence submitted to the Royal Commission on Local

Taxation* and in two articles published in the *Economic Journal*.† I transcribe some passages from these publications, referring to the contents for explanations and qualifications. The considerations adduced relate primarily to mercur† (as distinguished from beneficial), and imperial (as distinguished from local) taxation; but are readily adapted to other kinds of taxes.

An individual cannot hope to reveal new axioms of conduct. He can at most fructify principles already implanted in the mind of his contemporaries; much as one member of a committee may frame a resolution expressing the sense of the majority. In this spirit is submitted as a canon now generally

* *Memoirs on the Classification and Incidence of Taxes*, 1896 (d. 1928), p. 137.

† On the Pure Theory of Taxation, *Economic Journal*, Vol. VII. (1897), p. 550 et seq., and on *Urban Rates* *ibid.*, Vol. X. (1900), p. 175, et seq.

‡ Defined by Sidgwick as "taxation to defray expenditures" the benefit of which (if any) which accrues to the individual taxpayer is so vague and indirect that the principle of proportioning payment to benefit is inapplicable."

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[Continued.]

acceptable, that in distributing the burden of taxation regard should be had to the "wants and feelings," in Mill's phrase, of the taxpayer.

11,785. Exact uniformity in the statement of first principles is not to be expected, and there are several varieties of the doctrine which regard the subjective feeling of sacrifice as the criterion of equitable taxation.* The most important distinction is that which demarcates "equal sacrifice" from "least sacrifice" as the end to be realized. I have maintained that the principle of equal sacrifice derives its acceptance from its similarity in conception and dictates to the principle of least sacrifice.† It is significant that the leading authority on the subject, J. S. Mill, in the same breath enunciates the principle of equal sacrifice and identifies it with that of least sacrifice.‡ Other high authorities also seem to hover between the two forms. No doubt the phrase "equal sacrifice" has the advantage of fixing attention on the desirability that in general every citizen should bear some part of the burden.§

11,786. This principle of least sacrifice leads more directly than that of equal sacrifice to the practice of progressive taxation. In order that the latter principle shall lead to that practice it would be necessary to assume, with reference, for example, to a case put by Dr. Marshall, that less sacrifice is caused by taking £1,000 from an income of £10,000 than by taking £20 from an income of £900. This, as Dr. Marshall observes, is "a matter on which opinions differ."|| But there can be no difference of opinion as to the conduciveness of progressive taxation to least aggregate sacrifice. "The hurt caused by obtaining £1,000 of additional revenue by means of levies of £20 from each of fifty incomes of £900 is unquestionably greater than that caused by taking it from a single income of £10,000."¶

11,787. Both forms of the subjective criterion would carry us very far in the direction of socialism, if they were not cut into by another more objective principle, the danger of restricting production. "In considering the economic effects of taxes we have to allow weight to production and as well distributional considerations," it is well said by Sidgwick. The levelling of incomes which *prima facie* is dictated by the principle of least sacrifice is counteracted by several weighty considerations. There is the danger of driving the rich, or at least their riches, from the country; there is the danger of stimulating the predatory instincts of the poor and precipitating a revolution which would end in general impoverishment.

11,788. But productional considerations do not tell uniformly against progressive taxation. Taxation increasing with "faculty" understood in an objective sense is advisable on purely productional grounds,** especially when the total required is enormous. It is forcibly argued by Professor Pigou that the objection, on the usual productional ground, to a progressive impost is less valid in the case of "special taxes levied on an exceptional occasion for the purpose of financing an unprecedented war."††

11,789. Considering at once the distributional benefits and the productional risks of increased progression, it may be advised that only one step at a time should be taken in this direction; not to be followed by other steps, until it should be made certain that the gain in the way of distribution was not overbalanced by loss in the way of production. Steps in this direction are to be suspected when advised by those who are bent on destroying the capitalistic system without securing any equally efficacious method of providing for the future.

* They are distinguished in the writings referred to already and in an article in the *Quarterly Journal of Economics*, (1920), p. 459, *et seq.*

† *Memoranda loc. cit.*

‡ *Political Economy*, Book V, ch. II, s. 3; referred to *Economic Journal*, Vol. VII (1897), p. 965.

§ Cf. Marshall *National Taxation after the War* in Dawson's *After War Problems* (p. 219).

|| Cf. *Economic Journal*, *loc. cit.*

¶ Marshall *loc. cit.*

** Cf. Nicholson *Political Economy*, Book V, ch. VII, s. 5; referring to Seligman.

†† *Economy and Finance of the War*.

11,790. II. COMPARISON OF INCOME TAX WITH OTHER TAXES.—The Income Tax forms no exception to the general rule that no one species of tax should be preponderant. This rule is a deduction from the all-pervading law which has been described as the mutual compensation of fortuitous errors. In a system of plural taxation a tax in excess of what is equitable under one head is apt to be compensated by a deficiency under another head.*

11,791. The applicability of the general rule to an Income Tax may be confirmed by comparing it with some other taxes, namely, those (a) on commodities, (b) on inheritances, (c) on profits, (d) on capital.

(a) Mill's contention that there is no material difference between the taxation of income and that of commodities,† can only be regarded as a first approximation. It would be nearest the truth in the abstract case defined by two imaginary attributes: (i) that the system of taxes on commodities pressed equally at all points, (ii) that the dispositions of all the taxpayers with respect to expenditure were the same. Now relax the first attribute while retaining the second; on this supposition the Income Tax has an advantage over the taxation of commodities in that the taxpayer is enabled to distribute his retrenchment over a great number (theoretically over all) of the objects of expenditure; and so to minimise the privation experienced. Next relax attribute (ii) while retaining (i). At first sight it might seem that the balance would not be affected by this circumstance. It should be considered, however, that if the dispositions of the taxpayers are no longer identical, some will value provision for the future, as compared with present expenditure, more than others. Some more than others will exercise the choice which is left to them by the indirect taxation of investing instead of expending; leaving to others to make up the required amount of taxation. *A fortiori*, when we also relax the first attribute and put the concrete case of taxes on a limited set of commodities and taxpayers with varied tastes and dispositions. It appears, therefore, that the "advantage of voluntary taxation" which Sidgwick attributes to taxes on commodities, "the gain of feeling that one might avoid paying taxes if one liked"‡ is not equally experienced by all, but exclusively or principally by those who do avoid paying the indirect taxes. In the concrete case then it would seem that an Income Tax has an advantage over taxes on commodities, firstly because it minimises the loss of benefit to the individual consequent on the unequal taxation of commodities, and secondly because it minimises the loss of aggregate benefit consequent on the unequal taxation of persons. But before striking the balance it should be reflected that the second species of inequality is not always in the long run detrimental. *Prima facie* the unequal treatment of persons involves hardship; but it may be ultimately beneficial if persons are thereby deterred from noxious and directed to useful courses. Now these very results are to be anticipated from a judicious system of taxes on commodities—discouraging for instance from consumption of spirits—and from almost any system of taxes on commodities in that it forms an inducement to the taxpayer to invest rather than to expend. Thus Income Tax has not so decided an advantage over indirect taxation as appeared at first.

11,792. The considerations which have been adduced in favour of taxes on commodities may have some weight at the lower limit of the Income Tax, where there is a choice between that tax and indirect taxation. They may strengthen that argument based on the expense to the tax collector and the irritation to the taxpayer which attend the direct taxation of very small incomes. It is significant that while nearly two and a half million incomes between £100 and the now lower limit, £130, were dealt with in the year 1918-19, with

* Cf. Lévy *Revue de Science des Finances*, Vol. I, p. 263.

† *Fal. Econ.*, Book V, ch. III, s. 6.

‡ In more technical language the loss of "consumer's surplus" would be minimised; as pointed out by the present writer *Economic Journal*, Vol. VII (1897); referred to by Bastable *Public Finance*, p. 533, *et seq.*

§ From a letter to the present writer published in the *Memoirs of Henry Sidgwick*, p. 161.

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a net produce of not much more than one and a half million sterling, there was obtained from the same number of incomes above £160 nearly twenty times as large a yield.*

11,793. (b) With respect to taxation of inheritances it may be well to recall Mill's preference for this kind of taxation and his strong objection to a progressive Income Tax. He goes so far as to describe a graduated Income Tax as "graduated robbery."† If it were ever proposed to approach Mill's ideal that inheritances should be restricted to a bare minimum, that proposal might be modified by adopting some part of Professor Rignann's plan.‡ According to this plan property might be taxed to the extent of, say, one-third when inherited from the original producer, and by double that proportion at a second devolution—with reservation always of a minimum as proposed by Mill. The check to accumulation might thus be less than if either plan were adopted in its integrity.

11,794. (c) The golden rule not to check production while seeking to improve distribution applies to other substitutes for or supplements to the Income Tax. If it should be proposed to retain in peace time a tax on extraordinary profits, it should be reflected that extraordinary profits are largely compensated by extraordinary losses, if not on the part of the individuals who have been successful, yet on the part of the class who have carried risks. Adventurous entrepreneurs will be discouraged if they are to bear all the losses, and the Government to take all the gains. If, then, such an impost is at all workable, it should be adjusted so as to leave the successful business man to enjoy his success, say, for some years. But probably in general a graduated Income Tax and heavy Death Duties suffice to obtain as much revenue as is practicable from large profits in peace time.

11,795. (d) A tax on capital, if small, would work much as an Income Tax in which income derived from property is taxed differentially. A "levy on capital" for the purpose of discharging a colossal war debt might be defensible, as I have argued elsewhere,§ if it were bona fide treated as an alternative to a high Income Tax. The condition seems not likely to be fulfilled in the present mood of the country.

11,796. III. DIFFERENTIATION AND ALLOWANCES.—Differentiation in favour of temporary and precarious incomes is based by Mill on subjective grounds, the "wants and feelings" of the taxpayer who has to make provision for the future. These grounds, he thought, would be cut away if—instead of making an allowance for what the owner of a wholly earned income might be expected to lay by—we exempted what he actually laid by. The exemption from Income Tax of that part of income (whether earned or unearned) which is saved has been entertained at least as an ideal by other eminent economists.¶ It seems possible, indeed, that such a plan, if it could be carried out, might cause an undesirable diminution in the proceeds of the tax. Thus Pitt when imposing his Triple Assessment on expenditure might well apprehend that "the boards of the pious" would evade taxation.** This result might be avoided, while the spirit of Mill's proposal would be preserved, by limiting the exemption (on the ground of saving) to the lower incomes. By abolishing the present differentiation between earned and unearned income a useful simplification would be secured.

* [Cmd. 224] 1919. The number of incomes exceeding £100 and not exceeding £160 was 2,104,000; the number exceeding £160 and not exceeding £750 was 2,003,000. The net produce of the Income Tax for the former group was £1,682,000; for the latter £31,638,000. The incomes between the limits £160 and £750 produced per income about four times as much as the incomes between £160 and £100; the latter class numbered 4,490,000 and yielding £1,682,000; the former numbering 1,110,000 and yielding £31,638,000.

† Evidence before the Select Committee on Income Tax of 1911. Question 569.

‡ Referred to by Professor Pigou in his *Wealth and Welfare*, Part IV., ch. X., s. 9; and quoted by the author in the *Economic Journal* for September, 1919.

§ In a lecture published by the Oxford University Press, 1918.

¶ *Political Economy*, Book V., ch. II., s. 4, and Evidence on Income Tax before the Select Committee of 1892 and 1891.

¶ See in particular Marshall in Dawson's *After War Problems*, and Pigou *Wealth and Welfare*, p. 272.

** *Parliamentary History*, 1797, Nov. 24, Vol. XXXIII., p. 1058.

11,797. The inconvenience incident to two scales of rates does not attend some other allowances which have been adopted or suggested. Thus the allowances for wife and for children in this country are added to the minimum which is exempted from taxation. With regard to these allowances it may be observed that should they be made more considerable, consistency would require that the taxation of families below the Income Tax limit should be correspondingly alleviated. A general scheme for the endowment of motherhood, which is suggested in some quarters,* would, of course, have to be worked in connection with the Income Tax.

11,798. Other kinds of allowance which have been adopted in some countries, such as exemption from taxable income of donations to charities, and allowance for military service, or for some exceptional disaster, may deserve the consideration of the Commission.†

11,799. IV. GRADUATION.—If all allowances were effected by exemptions reducing the taxable income, the problem of graduating the tax according to the magnitude of the income would be simplified. This simplicity is indeed impaired if, as in the British system, the exempted minimum varies with the size of the income. There is much to say for the arrangement that (apart from special allowances) there should be one and the same minimum deducted from all incomes, as seems to have been Mill's intention.‡ There is something to say for Professor Cassel's proposal that the exemption limit should be higher for the larger incomes;§ largely on the ground that the conventional necessities of the professional classes are higher. His reasons may at least avail to discredit the present arrangement of an exemption diminishing with the size of income.

11,800. If the suggested simplifications are adopted, the problem of graduation is reduced to the selection of a mathematical function, assigning the tax pertaining to any amount of income. It may be prefaced that no general solution of this problem, no graduation appropriate to Income Tax at different periods and in different countries, is to be expected. For the Income Tax is but a part of the tax system; and its pressure at different points, the amount levied from incomes of different magnitudes, ought to be regulated in accordance with the pressure at those points of other imposts, in particular taxes on commodities and local taxation. The kind of simplicity which is to be desired in graduation is well exemplified by a formula which is borrowed from Professor Cassel, with some modification,† namely—

$$y = \frac{x^2}{M + x}$$

where x is the amount of taxable income (above the minimum exempted) and y is the tax, M is a properly assigned constant. This formula is found to fit the lighter Income Taxes, such as prevailed in Europe before the war, fairly well. But with respect to the heavier Income Taxes now prevalent, it may be objected that the progression ceases, the tax becomes simply proportional, at a certain point. It is more agreeable to modern sentiment that the rate of taxation should continually increase. This condition should be coupled with the proviso that the increase of taxation should nowhere be so steep as to deprive the taxpayer of motive to increase his income. This proviso secures the fulfilment of the more obvious condition that the tax should never become equal to the income.‡ These conditions are fulfilled by the use of the formula—

$$y = \alpha - \frac{\beta}{x}$$

where, as before, x is the amount of taxable income, y is the tax; α and β are numerical constants. The net income, what remains after the subtraction of the

* See article in the *Economic Journal* for 1917, and other writings by Miss Eleanor Rathbone; and the Report of the Committee, formed at her suggestion (Hedley, 1918).

† An enumeration of several kinds of allowance will be found in Robert Meyer's *Principien der direkten Besteuerung*, and in the official year book of the Commonwealth of Australia for 1901-15, p. 151.

‡ *Pol. Econ.*, Book V., ch. II., s. 8.

§ *Economic Journal*, Vol. XL (1901), p. 424.

¶ See *Economic Journal*, Vol. XXXIX (1919), p. 161.

¶ *Loc. cit.* p. 145 et seq.

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tax, has the simple form ax^{β} . The coefficient β is always less than unity; the smaller it is the more rapid is the progression. It will be observed that however large the taxable income becomes, the net income ax^{β} continues to increase. The same cannot be affirmed, so far as the writer is aware, of any other formula that has been proposed.*

In order to have at our disposal a sufficient number of constants, and for other reasons, it is desirable to supplement the proposed formula with a supplementary expression, either one of the same form (though not the same constant, as the main form, or one of the Cusnel type.†

11,801. V. FORMULA FOR DISTRIBUTION OF INCOMES. —Professor Pareto's well-known formula for the distribution of incomes is universally acknowledged to be of great service. It suffers, however, from the defect of not being applicable to the lower incomes.‡ A secondary form proposed by Professor Pareto§ may be recommended as an improvement. It may be written

$$N = \frac{A}{(x + a)^{\alpha}} a^{10 - \beta x}$$

where x denotes the amount of income and N the number of incomes at or exceeding x . This formula has some resemblance to one of the Types prescribed by Professor Pearson for the representation of statistics.¶ At first the Pearsonian type appears to have the advantage. It is simpler, and more familiar to statisticians. Moreover the formula of Professor Pareto implying that the number of incomes at each value of x (or rather between x and the adjacent value of $x + \Delta x$ continually decrease as income increases from zero)¶ assumes what is very disputable and has been much disputed.** On the other hand the Pearsonian type as ordinarily used, would involve some assumption as to the distribution of incomes below the limit for which we have accurate statistics. Also the materials for the determination of the constants by Professor Pearson's beautiful method of moments seem wanting. Altogether Professor Pareto's second formula may be recommended as a

* For a critical review of proposed formulae see the article already referred to in the *Economic Journal* for June, 1919. These were not included in that review, not being known to the writer at the time of writing, an interesting proposal made by Mr. James Glover in a pamphlet entitled *Income Tax Reform* (published in 1915 by Sheratt & Hughes), and in a paper read before the Liverpool Engineering Society (November 15, 1916). Mr. Glover's formula resembles that of the present writer in that he raises the taxable income to a power; as thus, $y = ax^{\beta}$ where x is the income, y is the tax, a and β are constants, β greater and less than unity. The formula works well for moderate taxes; but it is not proof against the dangers above indicated. For example Mr. Glover gives (in the paper read before the Engineering

Society) the formula $y = \frac{1}{4878} x^{\frac{1}{2}}$ as corresponding to the Budget Income Tax of 1915; the levy on income of £300 and of £3,000 being respectively identical for Mr. McKenna's schedule and Mr. Glover's scale. But if we apply this formula to higher incomes, we soon reach a point at which the taxpayer has no interest in increasing his income, namely about £18,616, since for that value of x the increment of the net income, $\frac{d}{dx}(x - y)$, ceases to be positive. The formula fails before when the constants are taken as that the taxation may be equivalent with that of the Budget at the points 500 and 10,000 (see, *op. cit.* p. 47). That construction does not break down until an income of some millions is reached. But a formula suited for official use should be above the liability to break down.

† The following are particularly recommended; either (a) For the lower incomes, say up to the point at which now surplus Income Tax begins $y_1 = x - x^{\beta}$ for incomes above that limit—either superposed on, or (preferably substituted for y_1) $y_2 = x - ax^{\beta}$ or (b) For the lower incomes $y_1 = x^{\beta}$ or $y_2 = x^{\beta} + (M + x)^{\beta}$ for the higher incomes (superposed on, or substituted for y_1) $y_3 = x - ax^{\beta}$. For further particulars the reader is referred to the already cited article in the *Economic Journal*.

‡ As pointed out by Professor Bowley in his evidence before the Select Committee on Income Tax, 1906, Question 1166.

§ La repartition de la Richesse (Louvain 1896, p. 304); referred to by the present writer in the *Journal of the Royal Statistical Society* for 1899, p. 433 and p. 557.

¶ The ordinate of the Pearsonian curve is to be compared with the differential coefficient of Pareto's N .

¶ This appears by forming $\frac{dy}{dx}$ where $y = \frac{dx}{x^{\beta}}$.

** It is maintained by Prof. Pareto *loc. cit.*

useful* method of representing the distribution of incomes above a limit above which it is known that the number of incomes continually diminishes as the size increases.

11,802. There remains the question how best to determine the constants pertaining to the formula. I recommend for this purpose the procedure which I have described as the method of percentiles.† It consists in determining (usually by successive approximations) the values of the constants which render the Pearsonian criterion a minimum and accordingly the closeness of fit the best obtainable.

[This concludes the evidence-in-chief.]

11,803. Chairman: We have had a copy of your statement and we will proceed at once to examine you on various points arising upon it.

11,804. Dr. Stamp: You refer, under "Differentiation," to the suggested abolition of the present discrimination between the two classes of income; and in the same paragraph you refer also to something new; the exemption of savings for, at any rate, the lower incomes. I take it that these two are connected in your mind; that is to say, you would not abolish the present differentiation unless the corresponding exemption of the savings were given?—I think the first would be best if accompanied by the second, as Mill thought. I quote Mill to say that he would not insist upon the first differentiation if you adopted the second.

11,805. The point that I really want to get from you is whether one is conditional, in your mind, on the other. For instance, supposing it is found impossible to entertain the idea of exempting savings, would you then say, "Well, never mind that; I still think you should get rid of discrimination between earned and unearned income," or would you say, "Well, then, discrimination must remain"?—I would say that I had not an important opinion on the question whether the present double scale, or some other form of discrimination, is preferable. I must leave it to practical people, experts in the Revenue Office, and so on. I think the double scale has great inconveniences, but it might be necessary to retain it.

11,806. Do you think the present kind of discrimination is specially fair or unfair?—What struck me more was its inconvenience; that you could not work a simple graduation well if you had this double scale. That is the point which principally struck me, rather than its justice.

11,807. It is associated, in your mind, then, rather with the convenience of another part of the taxation question, the question of graduation?—Yes.

11,808. But apart from the question of graduation, the reasons which guided the Government, following upon a Committee, in introducing this discrimination between two classes of income, were fairly sound reasons, were they not?—Yes, they were in accordance with Mill's opinion, which I quote with approbation. He says that the arrangement may not be perfectly just, but that we must do as much justice as we can.

11,809. That being so, I take it that, in your mind, the main reason for the discrimination is that the person with earnings from labour has to make certain savings that the other man has not?—Yes.

11,810. Is that the sole reason for discrimination? For instance, just to take one example, Did not Thorold Rogers say that, generally speaking, the man who has to earn his income is tied as to where he lives, and the other man can live where he likes, and there may be a general difference in the natural outgoings every year? Now, that is not a question of savings; that is a question of greater current expenses, is it not?—I am not prepared to say.

11,811. I think you cannot get an exact parallel between the necessity for saving and the reasons for

* That our selection should be based on mere convenience rather than on any *a priori* presumption (such as exists for groupings in the neighbourhood of the normal law of error) follows from the purely empirical character of the construction. As to the origin of shape represented by Pareto's formulae see Benini's remarks on the formula; cited by Pigou—Wolfe and Weisner, Part II, *op. cit.*, p. 3.

† See *Journal of the Royal Statistical Society*, 1914.

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discrimination?—If you mean that a man having capital and unearned income has certain privileges justifying a certain differentiation against him, certainly I must grant that.

11,812. As long as you think that the two things hang together that is the real point I wanted to get—that you would not advocate abolition of the present discrimination by itself, except that you find it inconvenient for the graduation?—That is one strong reason that I have.

11,813. The next point I wanted to ask you about was on the question of graduation itself. You are a great authority on the way of making curves and formulae for establishing particular rates of progression. Can I put it quite simply in this way, that you may start with a certain amount of tax upon £200 as a settled figure in your mind, and you may have a certain figure of tax that is just for an income of £100,000; that it is possible to have curves between those two points of varying character, throwing different burdens upon different intermediate incomes?—Yes.

11,814. One would have different formulae for establishing these curves?—Yes.

11,815. Is there anything which you can suggest which will tell us which curve really corresponds with the subjective sacrifice that we are talking about in the taxpayer's mind. Is there anything which tells us which is really the more just curve?—No, I am rather doubtful about the point at which you should tighten or lighten the tax. Certainly, from mere knowledge of curves, you cannot get any such ethical proposition as that. It must be from people who have knowledge of the facts, and make mathematics their servant to carry out their ideal. How they would get it, I am sure I do not know.

11,816. Then the recommendation of any particular formula must still rest upon the common-sense of the community and the general feeling that one is correct and the other is harsh?—Yes, but I may not be out of order in saying that I thought the suggestion of some formulae would assist common-sense, in this way, that they make the graduation depend in a very simple manner upon one or two adjustments, or constants, as mathematicians say.

11,817. I must admit that there is great value in that?—It may assist you to have only one, or perhaps two, screws to turn; you can let out here and tighten there with more facility than you otherwise could, but as to showing exactly where you should tighten or not, that is beyond my science.

11,818. It may be that one curve, which was mathematically elegant and answered to this one adjustment with one tax, might be an unfair tax; and the other, that was a cumbersome one, might be a fair one?—Quite.

11,819. Therefore the mere fact that one discovers a convenient device does not necessarily give one a just tax?—No, but I would like to think that it may have some advantages in preventing an inexpedient adjustment. There may be another principle which might satisfy your notion of justice, but is found not to work well, because when you go up to a high amount of income, it makes the tax too severe, and the formula breaks down.

11,820. I quite agree that may be so. Would you admit that amongst mathematicians generally, starting this as a new thing, there is just a tendency for them to find something that is mathematically neat and pretty, and then fancy that that is the thing that ought to be adopted?—Yes; that is one of the idols of mathematicians.

11,821. Now on the distinction that is drawn, following Dr. Marshall and others, between the principle of equal sacrifice and least aggregate sacrifice; are they not both of them in the ultimate issue derived from the same principle, that of the diminishing utility of wealth to its possessor?—Yes, that is a premise to both; but it does not mean that both are

the same because they both use that one premise. They may have the same minor premises and a different major premise, and so come to different conclusions.

11,822. One of them, in your judgment, leads with certainty to progression, and the other is a matter of opinion?—That is so.

11,823. Therefore you do feel that on the question of diminishing utility, it can be based on different principles. You prefer the one that is sure, that is, the one of least aggregate sacrifice?—I say, if your first principle is the least aggregate sacrifice, then with the law of diminishing utility you get directly to progressive taxation. But if your first principle is equal sacrifice it is a nice question; it depends on the particular rate of diminishing utility, which nobody knows much about.

11,824. Suppose this Commission is quite convinced, without any knowledge why, that progressive taxation is right, can you suggest anything for their guidance now as this distinction? I am anxious to see if there is really anything that we ought to take serious notice of in this distinction, provided we have already made up our minds that a certain degree of progression is correct?—I think, if you are determined to have progression, then a very safe formula is equal taxation. It is free from the abuse of the other kind. Minimum sacrifice is, of course, a very dangerous principle.

11,825. You would agree that that leads to a more dangerous kind of taxation? Yes, it leads to a more dangerous taxation, because, theoretically you should raise the whole of the revenue from the richest people and leave the others untouched, which of course would be most impolitic and dangerous practice.

11,826. Mr. Holland-Martin. In saying that you would limit exemption on the ground of saving to lower incomes, have you any idea at what income you would cease to give that exemption?—No, I am afraid I would have to leave it to your wisdom to point that out.

11,827. Mr. Prynne. This is a most interesting paper, but do you not think it is rather important, from the point of view of the success of a tax, that everyone who has to pay the tax should thoroughly understand the principles on which it is levied? Is there any simple way in which this mathematical formula could be explained to the public?—With regard to the first part of the question, no, I do not think that it is so important to give the grounds of the arrangement; because you can always give an arithmetical schedule which will tell the ordinary public what they have to pay. You need not give them the underlying formula by which you have arrived at those figures.

11,828. You merely give them a statement as to what they have to pay?—Yes. I do not think you could make the formula which I suggest more simple. It is simply raising a quantity to a power. There is nothing more simple. It is a case of involution.

11,829. Do not people like to know, not only what they have to pay, but why they have to pay it?—No, the principal thing is that they should know what they have to pay.

11,830. Does not an Englishman like to know why he has to pay a thing, as well as what he has to pay? Is he not rather difficult if he does not know why?—Well, even if he knew the formula, he would not know those deeper reasons which Dr. Stamp has touched upon—why it hedges here and lets him off there. That is what he would want but cannot hope to get.

11,831. You would not suggest any way in which, if some curve of this kind were adopted, it could be explained to the public in a way which would be simple to understand?—I think it might facilitate the use of a formula to any that it depended upon a single adjustment, or at least one of two adjustments, or screws, as I say, because then, when there was a debate as to whether the tax should be tightened or loosened, it would all turn upon that one consideration: shall we increase the power, or the index as I may call it, or not? Whereas when you have some twenty constants, a regular list of constants, as we have in effect, and as the Australians with all

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their mathematical science have in their tax, it does not come to so clear an issue. But that is the only explanation which I should propose.

11,832. But does not the virtual decision of the method and scope of the tax lie with the electors of the country?—Yes.

11,833. And is it not necessary to be able to explain to the electors from a platform the principle on which you are going to tax them, when you ask for their approval?—It is desirable, certainly.

11,834. If you had to talk to the electors of this country about indexes and constants—I should be rather shy of talking to my constituents about that, and hoping to get their votes upon it?—You could introduce into your electioneering address a summary of some text book on arithmetic, describing what involution means. Involution is raising to a power.*

11,835. Sir W. Trower: Is not the real difference between earned and unearned income, the fact that man is a wasting asset, and that his powers of earning money are short; he has to provide for the future?—Yes, I think many of the difficulties follow from that; for instance, his having to provide for the future, as you say.

11,836. That is the main reason?—Yes, I think that is the main reason.

11,837. Mr. Marks: Mr. Pretzman asked you just now whether you did not think it necessary to explain to the public the basis of the formula of taxation which was to be applied to them, and you did not think it was necessary. But do you not think it is necessary to explain it to the Commission?—I have done so, in writing.

11,838. It is a little difficult, some of it?—I am sorry.

11,839. May I ask you one or two questions, at any rate, to elucidate it a little in my own mind? I imagine that you have in your mind a particular scheme of taxation, and you set down in algebraic form formulae which will express that scheme?—Yes.

11,840. Which of those two equations do you think expresses the better scheme?—You mean the two formulae that I suggest. I was not so very certain about that. I was disposed to think, for one portion of income, the earlier part, the one suggested by Professor Cassel, would be the best; and for the latter part, the one which I myself propose, involving the indices, to which some people object. As this would only fall upon people in the better way of life, and of more education, and so on, it might be hoped that the grievance would not be very great, as they would be qualified to interpret the formula, while Cassel's formula would require only ordinary arithmetic, the ordinary processes of addition and subtraction, the latter very much required in taxation.

11,841. Taking the first formula, where the tax is y , and it is equal to $r \frac{M^2}{M+x}$ —where x is the taxable income above the minimum exemption, what is r ; is that the rate of tax?—Yes.

11,842. And M would be a constant which might be varied?—Yes.

11,843. And in this particular formula, it is the minimum of exemption?—No. Throughout, I suppose the exemption to be subtracted before the levy on taxable income. That is rather what I had in view in some answers. It seems to be very convenient to have nothing to do but to apply the scale to a taxable income.

11,844. So that $M+x$ is the total income?—No, I did not say that M was the exemption. M is the constant introduced for a different purpose, which I will mention if you like. M is the constant to make the thing work. x is the taxable income, meaning by that the income above the exempted

minimum. The exempted minimum is exempted on various grounds. That is necessary for the humblest necessities of life, or because people have children, or for other reasons which I suggest.

11,845. Your constant M has no reference to the exemption minimum?—No.

11,846. I did ask you, did I not, if r was the rate of tax?—Yes. Might I go back, upon that last question. My formula is derived from Professor Cassel, and in his version of the matter, M has some relation to the exempted minimum, which varies. Just to avoid being misunderstood, I should like to say that. But mine is a simplified constant, and M does not stand for any minimum there.

11,847. That formula would give a gradually increasing exemption limit, would it not?—Professor Cassel's original formula would, but I do not here use M in connection with the exemption limit at all; I use it as a mere constant. I suppose the exemption to have taken place. I have x to operate upon, and that is how I treat x ; that is all I can say; and M I would adopt on collective wisdom such as we have here.*

11,848. Dr. Stamp: M is part of x , is it not?—It is part of the formula.

11,849. It is not necessarily the minimum part?—No, there is no minimum. The minimum of x is nothing, but I admit that this is not Cassel's construction.

11,850. Could you not throw your differentiation into M by making M half as large again where it was earned income, or something of that kind?—Something of that kind might be done; but the effect might also be produced by varying the exempted minimum.

11,851. Mr. Marks: Then in the second formula, x is the same, is it not?—Yes.

11,852. Could you give us any idea how you determine α and β , or on what principles they would be determined?—I think by selecting some points at which certain amounts of Income Tax were thought to be just. Supposing you had four constants at your disposal, I would take four points, probably at wide intervals; one corresponding to a very big income, and two others in between, and the other near the taxable limit, and then I would determine the constants so that the formula should fit exactly at those points. The taxation at those points being just, the graduation between them would probably be fair.

11,853. Supposing we were to try to put into words what your formula express, in what particular form would you express them? Is it a proportion, say, of the first £500, and then another proportion of the second £500, or some other amount of income, a superimposed tax in the form of a Super-tax; or how does it work out?—I do not propose to say more than that it is a mathematical formula or function expressing the dependence of one quantity upon another, in a very simple way, certainly, but not quite so simple as elementary arithmetic, as that does not lead itself to the requirements of the proper expressions.

11,854. Mr. Mackinder: Are you proposing that that formula should go into the Act of Parliament?—I think there is no objection to that, considering that in Australia they have a parabola of four or five dimensions.

11,855. Mr. Marks: It is quite true that our attention has been called to that Australian formula—in order that it might be condemned. Do I take it that you would rather not express in words what this mathematical expression implies?—I think to do so would be to open myself to a remark which Ted-hunter made, commenting on Laplace. Instead of employing the usual symbols to express involution and differentiation, Laplace sometimes, in a philosophic essay meant for the general reader, gives a description of these processes which takes about five lines and does not make the meaning any clearer.

11,856. Chairman: That concludes our examination, and we are very much obliged to you for the trouble

* Professor Edgeworth desires to add that the interpretation of his formula might be facilitated by a consideration of the examples given in the article referred to in his evidence-in-chief (Economic Journal, June 1919, pp. 144-5).

* In a subsequent communication the witness referred to the Economic Journal, June, 1919, p. 141, as explaining the relation of his formula to that of Professor Cassel.

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PROFESSOR F. Y. EDGEWORTH.

[Continued.]

you have taken in getting up this paper. It is a very learned one. I am certain that if all the witnesses who came here had the capacity to present papers like this, I should have been only a month Chairman of this Commission. I think we ought to put this into the Report, so that it can go before the Members of Parliament; because there is nothing more likely to prevent criticism upon us than Members of Parliament having to read this document?—I am very glad to act as a lightning conductor.

11,857. *Mr. Marks:* May I, with permission, ask

one more question before you go? Could you define for the Commission "least aggregate sacrifice"?

11,858. *Chairman:* Will you think over it, Professor, and send it to us?—Very well.*

11,859. *Mr. Mackinder:* But do not define it by a formula.

11,860. *Mr. Marks:* May I say how very much obliged I am personally to Professor Edgeworth for all the references which he has given in his paper, which are extremely valuable and interesting?—Thank you.

Mr. SIDNEY YOUNG, O.B.E., called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Evidence-in-chief of *Mr. SIDNEY YOUNG, Chairman of the British and Argentine Meat Company, Limited.*

11,861. I attach copy of letter, dated 22nd September, 1915, addressed to the President of the Board of Trade, together with another letter written elsewhere bearing on the same subject, and also notes of my evidence before the Inter-departmental Committee on Meat Supplies, part of which has reference to the taxation of British companies.

11,862. (1) My company is engaged in the importation of meat from the Argentine Republic. There are at the present time eight companies engaged in this business, two of which are purely British, viz., my own company and the Smithfield and Argentine Meat Company, Limited; one is an Argentine company, four are American companies, and one is owned by Vestey Brothers, Limited, who felt themselves obliged to leave this country to avoid the payment of British taxation which was not incurred by their competitors.

11,863. (2) For some years the trading in meat from the River Plate was in the hands of Argentine and British companies, but some years ago the Americans commenced business in the Argentine by buying up some of the existing factories, since when they have built further works, and are now shipping from the River Plate about 70 per cent. of the meat exports. The principle they have worked upon has been to run their business by means of local companies registered in the Argentine and Uruguay, and in this country they have small limited liability companies who deal with the sale of the goods. All the companies are engaged in a similar business, but the whole of them, with the exception of the Smithfield and Argentine Meat Company and my own company, can escape a large portion of British taxation, both in the form of Income Tax and Excess Profits Duty. It is, of course, very difficult for the Commissioners of Income Tax to ascertain the profit of foreign companies who import meat into this country, as it is perfectly easy for those companies to invoice the meat at such a price as will show little, if any, profit on the goods disposed of in Great Britain.

11,864. (3) My evidence is being given on behalf of the Smithfield and Argentine Meat Company and my own company only, and I may say that neither of us fear fair competition, but if we have to pay more in taxation than our foreign competitors it will be very difficult for us to compete with them and keep going.

11,865. (4) I quite appreciate the difficulties there are in certain businesses in collecting British taxation from foreign companies who export goods to this country, but in my particular trade, for which alone I am competent to speak, the matter appears to be comparatively easy. We all do a similar class of business, and I would suggest, therefore, that it would be quite practicable to charge the foreign companies on the basis of the turnover of meat and by-products sold in this country. The turnovers of the British companies on goods sold in this country can be quite easily arrived at, and the profits made, and the Assessors could work out the foreign companies' profits and turnovers and so arrive at their proportion of taxation.

11,866. (5) This country is very dependent on the River Plate for supplies, as it would be quite im-

possible to obtain from British Possessions anything like the quantity of meat required, and outside the Argentine there are very few countries that export any quantity of meat worth mentioning. My own personal feeling is that, putting on one side the interests of the British companies themselves, it is very necessary from a national point of view that the British companies should be kept alive, but this can only be done if the basis of their taxation is on similar lines to their foreign competitors. The only alternative for the British companies is to act in the way Vestey's did, which was to remove the headquarters of their business from this country and direct it from elsewhere. This is a step that I would not advocate, but it appears to me that as long as we are subject to unequal taxation as compared with our competitors it is the only course to adopt.

11,867. *British and Argentine Meat Company, Ltd.,*
Cochl House, Holborn Viaduct,
London, E.C.
22nd September, 1915.

DEAR SIR,

I feel that what I am about to write ought more properly to be addressed to the Chancellor of the Exchequer, but I am taking the liberty of writing to you, as I feel sure that you, having had the subject brought prominently before you recently, will recognize the merits of my contention better than the Chancellor, and I would ask you, if you agree with what I say, whether you would be kind enough to submit my remarks to the Chancellor.

In his Budget Statement, put before the House of Commons yesterday, the Chancellor of the Exchequer proposes on certain lines to tax War Profits, by which he means profits made during the war over and above what have been made in normal times, and while I, speaking for my co-directors in the above company, perfectly agree with the principle of this tax, provided it is borne by all, I would respectfully submit to you that in the case of the Argentine Meat Companies, there are only two companies, viz., my own company and the Smithfield and Argentine Meat Company, which will contribute to this tax, and we, between us, only bring about one-quarter of the total quantity of meat that is brought from the Argentine to this country, the other three-quarters being brought over by foreign companies; and although the Chancellor stated that the tax would be payable not only by people established in England but by agencies handling business done in England, I do not see how he will be able to get at and tax the profits made by the foreign corporations that bring the other 75 per cent. of Argentine meat to this country any more than I believe he has been able to make them pay Income Tax in past years. Most of the foreign companies that bring this meat over are nominally Argentine companies registered in Buenos Aires, owned in Chicago, and with a small English registered company to handle the business on this side. It is perfectly easy for the Argentine company to invoice up to the English agency company the shipments that

* The witness subsequently submitted that he did not feel able in a short statement to express the matter more clearly than it had been expressed by Dr. Marshall in the passage which the witness had quoted in his evidence-in-chief. See paragraph 11735.

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MR. SIDNEY YOUNG.

[Continued.]

they make at a very much higher price than they actually cost. By this means they escape both Income Tax and any tax in the nature of the War Profit Tax now suggested by the Chancellor.

Again, look at it from another point of view. Most of the profits that we have earned have been earned on contracts made with His Majesty's Government at a price that was fixed after a certain amount of bargaining. Now if the profits that we make on these contracts, which were entered into in the ordinary way of business, are going to be taxed, it simply means that the price that was arranged is not the price that the shareholders in my company are going to get, although it is the price that the shareholders in the companies with which we are in competition will receive.

Please do not think that I am raising objections to the tax itself. I think it is a perfectly just one, provided it is borne equally by all competitors in any particular trade.

It has for a long time been a very serious thing for us that out of our profits we have had to bear a heavy Income Tax, whereas our competitors, I believe, have paid little or no such tax, but if the suggested legislation is carried through there is only one end that I can see.

If you or the Chancellor would like to have any further information which it is in my power to give, I am at your disposal any time you like to name.

I remain, Sir,

Your obedient Servant,
British and Argentine Meat Co., Ltd.,
(Sgd.) S. Young,
Managing Director.

The President,
The Board of Trade,
Whitehall,
London, S.W.

11,868. Cecil House, Holborn Viaduct,
London, E.C.
21st October, 1915.

DEAR SIR,

With reference to the letter that I sent to the President of the Board of Trade relative to the Excess Profits Tax, although I have not seen Mr. Runciman since I wrote that letter I have had conversations with several people about it, and while they nearly all sympathize with the position we are in, they do not see that we shall get very much relief. I presume that this reflects the opinion of those in authority. They generally say to me: "Well, how can you remedy it?" The reply that I should have made had I been asked this question by either the President of the Board of Trade or the Chancellor of the Exchequer is that, without bringing in the Tariff Reform controversy, it is quite simple to tax all foreign corporations and foreign agencies in this country on the volume of their business instead of on the results. The same that other countries do, including the Argentine. There we are assessed at a certain annual turnover, and have to pay a tax of about a half per cent, and I think the only business-like solution in this country to put English companies like ourselves on the same terms as foreign competitors is to make them pay a percentage tax on the volume of their business, made up more or less on the same lines as the tax we shall have to pay. Say, for the sake of argument, that we had to pay £100,000 on a turnover of £5,000,000 (which is 2 per cent.) then any foreign corporation that had a turnover of £20,000,000 sterling would have to pay a tax of £400,000.

I made this suggestion to a man the other day and he thought it was a very good idea and that I ought to put it forward in the proper quarter. At the present juncture I am afraid I should find it very difficult to do this, and I wondered, therefore, whether if you approved of the idea you would care to make the suggestion to Mr.

McKenna. If you would, I would give you any further information I could about the taxes paid in the Argentine, and I believe Russia and other countries do exactly the same thing.

Yours faithfully,
(Sgd.) S. Young.

11,869. EXTRACTS FROM MINUTES OF EVIDENCE OF MR. S. YOUNG, O.B.E., BEFORE THE INTER-DEPARTMENTAL COMMITTEE ON MEAT SUPPLIES.

(Q.) Your idea was to base the taxation of the Company on their turnover?—(A.) Yes.

(Q.) Would that be easy to do fairly?—(A.) I should have thought so, but I know that Mr. Sowrey has had some difficulties about it because he has been to me about it.

(Q.) Your idea is to find out what an English firm had to pay in Income Tax, then find out what their turnover was and then strike out a percentage on the turnover and make the same percentage apply to the American?—(A.) That has been my idea all the way through.

(Q.) You do not think there would be any difficulty in that?—(A.) I do not think there ought to be. I know there have been difficulties.

(Q.) What do you suppose the American would do if we proceeded to carry that out?—(A.) I suppose he would pay.

(Q.) Pay and go on?—(A.) I think so. I do not flatter myself that we work our business any better or cheaper than the Americans and if we can make a profit on a given turnover they can do the same. Whether they do it or not is another thing.

Mr. Sowrey: Would that apply to firms like Jacob Dorell and Sansinena?—(A.) It would apply to Sansinena.

(Q.) Would you suggest the same percentage for the small as well as the large ones?—(A.) Sansinena is not a small one.

(Q.) Take Dorell's or even Morris. Do you suggest the same percentage of turnover for those such as Armour and Swift?—(A.) When you speak of Morris do you include La Blanca? They own half La Blanca. They are not a small concern if you include La Blanca.

(Q.) Take Dorell's?—(A.) I do not know about them.

(Q.) If they are small, do you suggest the same percentage for a small one as for a large one?—(A.) Possibly not. I do not think they could work as cheaply. The ratio of expenses to turnover would be large.

(Q.) If you had to vary according to the size of the concern it would be more difficult to carry out?—(A.) I think it would.

(Q.) Do you think it would raise the prices?—(A.) I do not think so. After all you are only asking them to pay a certain proportion of that profit in the same way that British companies do.

11,870. (Q.) Then another point, have you given any consideration to the question of what the position is qua taxation of a British company operating here, I mean to say selling here, which is engaged in the production of beef and mutton in the Overseas Dominions as to taxation?—(A.) I know what the position is there.

(Q.) Do companies which operate in Australia and New Zealand suffer less or more from taxation than you do?—(A.) I do not know what the equivalent of excess profit taxes in the Colonies is.

(Q.) Do you know that they have excess profits there?—(A.) I did not even know that. I do not do any business in the Colonies, but of course I have rather eliminated that. I have thought about it, but I am comparing my Company and the profits it makes with the Foreign companies in exactly the same class of business. If you get to the Colonies you are on rather a different basis. It is very difficult to compare them.

(Q.) I just wanted to know whether you had considered that aspect of the question. It certainly has to be thought of?—(A.) I agree with you that it has.

(Q.) Assuming that you could apply the principle of a tax on turnover to companies engaged in the meat trade you would presumably have to apply it equally

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[Continued.]

to companies engaged in other things than meat or is there anything else than refrigerated meat?—(A.) I do not think there is. My suggestion is that you should tax Foreign companies which have only agencies or small English limited companies here as their selling agents, and that you should tax them on the basis of their turnover. I should leave the basis of taxation for any British firms or companies exactly as it is.

(Q.) You would apply the principle to all commodities, not only to meat?—(A.) I think so, because I think it is the only way to get it, whether it is meat or anything else.

11,871. (Q.) Then in dealing with the subject of Income Tax, there was some question as to how low down in the scale of the size of the company such an arrangement as that which has been suggested could be fairly applied. I suppose there is a figure below which it might not be reasonable, but equally there is a figure to which it might apply as well as to the turnover of your company?—(A.) I think so.

(Q.) What was the turnover of your company, can you give that?—(A.) About £15,000,000.

(Q.) It might apply fairly to a company having a turnover of £1,000,000, but if it got below that it might perhaps be unreasonable then?—(A.) Yes, I should think it would probably have to be adjusted before it got to £1,000,000. I do not know.

(Q.) Say £500,000?—(A.) Quite so.

(Q.) But there is a stage to which it would apply with a degree of equality?—(A.) Certainly.

(Q.) And that is a pretty wide range?—(A.) A very wide range I should think.

11,872. (Q.) In matters of local taxation?—(A.) Local taxation, there is one outside of Swifts; I should think all the other companies are on the same basis. They get a special concession which frees them from certain taxes in perpetuity, and the Argentine Government are at the present time fighting them about it.

(Q.) So that apart from that you are all on equal terms?—(A.) I think so with that exception. I think they will put them on the same basis.

11,873. (Q.) I think the American companies are exempt from taxation in the United States in respect of profits made in these companies outside the United States, if the profits are not taken into the United States?—(A.) I believe that is right.

(Q.) Is it the practice of American companies to re-invest the profits made in the Plate in the extension of the works, or in the erection of new works, and by that means retain the profits in employment without being subject to taxation?—(A.) It is to a very large extent. For instance, Armour's for the year 1917 made a profit, I think I am right in saying, of 3,000,000 dollars, and they paid no dividend at all. They simply used it for developing in the Argentine. Some of the others have paid dividends, but I mention that as the most glaring case.

(Q.) Are they accustomed to water their capital from time to time?—(A.) Yes, they have watered their capital because they have increased. I will not say watered it exactly—they have increased it without bringing fresh money into the business.

(Q.) That is increased by means of these undivided profits, as it were?—(A.) Yes.

(Q.) That of course is a process of avoiding taxation.

The Chairman: Do you mean that they have issued new shares to the existing owners?—(A.) Yes, they have used the profit for—

(Q.) Increasing the capital?—(A.) Yes. You may call it paying a dividend in shares if you like. I do not think they have actually done that, but I think they have transferred the profit to capital account and divided it up *pro rata*.

Sir Thomas Robinson: That is a means of avoiding taxation which is not possible for British companies?—(A.) Quite so.

(Q.) It was suggested by Sir W. Vestey, when he was giving us some information the other day, that as a means of preventing dumping, and checking any attempt on the part of the Americans to dump goods into this country, when they were found to be under-selling or selling below what other people would regard as cost, that a duty of 1d. per lb. should be imposed upon all their imports. Do you think that is a practical way by which dumping could be prevented?—(A.) It does not sound possible off-hand. I should not think it workable.

(Q.) Suppose such a penalty were put upon that meat, then the Americans would be at a disadvantage as compared with the British companies of 1d. a lb.?

—(A.) They would.

(Q.) That might prompt them to raise their price, or on the other hand they might be content to shoulder additional loss and continue the practice of selling at a lower figure?—(A.) It might be.

11,874. (Q.) I was trying to get at what you would rather have?—(A.) The alteration of the Income Tax?

(Q.) Yes.—(A.) I simply put that in, I think it is what we are entitled to. I think we are entitled to say that a competitor doing the same class of business should pay the same taxation.

(Q.) If you got that, would not?—(A.) It does not get over all the difficulties, it does not get over the big resources that the American companies have, and that they can at any time come in and put us out of the business.

[This concludes the evidence-in-chief.]

11,875. Chairman: You might give us a little summary of your paper?—Thank you, my Lord.

11,876. Perhaps you will tell us what your position is?—What do you want me to do, my Lord? Do you want me to enlarge upon the statement I have sent in?

11,877. No. Take just a few points that you consider important points that you want to fix on the mind of the Commission?—The chief point, to my mind, is the difference that is made in the taxation between foreign companies, or foreign firms, and British firms or British companies doing the same class of business. I cannot go very much outside my own business, because I do not profess to be an Income Tax expert; but in my own business the taxation we have to pay is a great deal more than our foreign competitors, in exactly the same business, have to pay.

11,878. Americans?—I am referring, of course, to the American firms.

11,879. Have you had any conversation with Sir William Vestey?—Yes, quite a lot.

11,880. You probably agree, do you not?—Not altogether. He was right in principle, in a way. If he had left what he did until the war was over, and then put it forward that he might have to do it, I think it would have been quite a different thing. But he was very seriously handicapped; as long as he was handicapped as he was compared with the foreign companies, I think he was bound to do something of that sort. From the point of view of the company of which I am the Chairman, it seems to me that unless we can get our competitors taxed on exactly the same basis as that on which we are taxed, we may have to do something of the same sort, or shut up business. There is only one end to it.

11,881. You are referring to the Americans?—Yes. For a great many years now they have made it very warm for us in the way of ordinary competition; but with the advantages of taxation in their favor, if we run our business on exactly the same lines as they do, they are bound to win in the end.

11,882. Have they tried to buy you up?—No; there have been tentative proposals, but nothing definite. May I just correct what I have said? I said they had not tried to buy us up. Yes, some years before the war, there was a definite try, but over and above that, there have been tentative proposals.

11,883. Are they paramount throughout the world?—There is another company in the Argentine, a

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MR. SIDNEY YOUNG.

[Continued.]

smaller one. I am speaking both for them and my own company to-day. I told them I was coming, and they said they were quite willing for me to speak for them as well.

11,884. Mr. Marks: Ought we not to have the name of that company? Is that the Smithfield and Argentine Meat Company?—Yes, Smithfield and Argentine.

11,885. Chairman: Where does the great hardship upon you come in?—The difficulty is this. They are American companies; at least, they are owned in the States. They are worked by means of companies registered in the Argentine, and they sell their products through a small English company registered over here. Now that English company can make any profit they like to show, or can show any result they like. They can invoice their goods as they like—I mean legitimately; whereas with my own company, we are a British company, and although we have a holding company on the other side, it is a British company too; and we simply show the one set of accounts for the two companies. I mean there is no juggling of figures or anything of that sort. The American companies can invoice to the English company at any cost they like, and show the profit in their company's accounts in Buenos Aires.

11,886. How can we alter that?—I think Sir William Vesley's suggestion is the best one; that they should be taxed on their turnover here. I made that suggestion when the Excess Profits Duty came out, and I suggested to Mr. McKenna that unless something of that sort were done the Americans would get the best of us, and I think it was inserted in the First Bill, the Excess Profits Duty Act. Of course, I am not technical, and I do not pretend to understand the ramifications of the Income Tax Act; but it seems to me, to take my own company for instance, that as we pay so much Income Tax on a turnover of so much, it is only a rule of three sum to show that the American ought to pay so much on his turnover.

11,887. We had Mr. Lays here some time ago, representing the American companies, and he told us that they could not give a balance sheet and could not tell what profit they made in this country; therefore the Inland Revenue put upon them a tax on turnover. What do you think about that statement—that there could be no profit shown with regard to all these companies which were exporting into this country; he said they could not tell what profit was made in this country?—I think it is only a matter of accountancy.

11,888. Mr. Mackinder: What basis would you have to take, the profits on what you call production or the profits on sale?—I think that is a matter of accountancy only.

11,889. Accountancy has to start with certain figures, has it not?—Certainly; but, to go back to their Argentine business, which I know more about than the North American business, they buy an animal in Buenos Aires; they kill it and they divide it up and it is only a matter of book-keeping to see what profit is made on every part of that animal. The bulk of that animal comes to England.

11,890. Chairman: The Inland Revenue have the power of putting the tax upon the turnover?—Yes.

11,891. Supposing they put the tax upon the turnover of this English company which they have formed here, practically for distribution, that company may not show profits here, but there would be a turnover. Now supposing that the Government taxed the turnover, would not that be satisfactory?—I think so, provided it is more or less in the same proportion in which their British competitors pay. I mean my own company, for instance.

11,892. Supposing they were over-taxed, then you and the other company would have a monopoly here, would you not?—I do not think they would be over-taxed; I think they would see to that.

11,893. Mr. Marks: Could you give us any idea what percentage of the turnover would be a fair estimate of the profits of these American companies here?—My own company for 1918 had a turnover of over 15 million pounds sterling, and we showed a net profit, after paying Excess Profits Duty and providing for Income Tax, of £400,000 odd.

11,894. Mr. Walker Clark: But the Excess Profits Duty and the Income Tax should be included.

11,895. Chairman: How much were the Excess Profits Duty and Income Tax?—Please do not tie me down absolutely to these figures; I am speaking from memory. I should say the gross profit was a million and a half or 15 millions; that is 10 per cent. That is probably near enough for your purposes.

11,896. Mr. Walker Clark: Yes, that is what we want to get at, because we want to get some idea as to what tax a turnover of that nature could stand. On 15 millions what tax could it stand irrespective of all charges. Supposing it was an Inland Revenue tax, for instance, what do you think it could stand on turnover?—Our taxation on that 15 million pounds was over one million for Excess Profits Duty and Income Tax; so that presumably the American concern could stand the same anyway.

11,897. 7½ per cent?—Yes.

11,898. Mr. Marks: The gentlemen who gave us evidence on behalf of the American companies objected to anything beyond a 1 per cent. estimate.—I have not the slightest doubt he would.

11,899. When his evidence was given I think the Inland Revenue had put it up to 4 per cent?—Yes.

11,900. Mr. Walker Clark: What proportion of this money would be made in the Argentine? Your firm would include in its profits the profits made in the Argentine?—Yes.

11,901. Their firm would have to provide for that in the Argentine; their profit would be limited to the profit made here?—Yes. I should think 90 per cent. of ours was sold in this country. The same thing applies to the Americans; not a large portion of the business is done there.

11,902. Is that the refuse or is it the most costly portion?—The best; nearly all of it comes over here.

11,903. The profitable portion of it comes here?—Yes.

11,904. Mr. Mackinder: Are you taxed out in the Argentine on the production?—Yes, there is taxation in the Argentine, but it is a consolidated tax out there; it is a turnover tax there.

11,905. Do they tax you on the whole of your turnover, 15 millions?—No, it is an estimated turnover. The public statistics show the number of cattle and sheep and that sort of thing that you buy and put through your plant, and they estimate the value of those and take that as the basis for taxation.

11,906. When you said they estimate a value, where do they assess the value? Is it value c.i.f.?—The value out there.

11,907. It is the value at the port of export?—Yes, but there is no Income Tax. As I say, it is a consolidated tax, which includes everything. They have practically the one tax. There is very little taxation outside of that.

11,908. Mr. Walker Clark: Both Imperial and local?—Yes.

11,909. Mr. Mackinder: Is there not a basis of distinction there between the value at the port of export? That is the portion of your total profit which they take as being made out in the Argentine?—Yes, quite so; there is a difference.

11,910. I wonder whether you could give us any idea of what proportion as a fact they assess?—It is rather difficult for me, without statistics, to give you the figure. I have it in my office, and I could send it to you.

11,911. You could not do it in the same rough way that you did the other things?—It seems to me that it would be our turnover over here, less our gross profit and less the freight and the other expenses after the f.o.b.—freight being the principal item.

11,912. Those are deducted?—Yes. So that 15 million pounds less a million and a half leaves 13½ millions, and then you have to take the freight and expenses, which as a rough figure I should say would be 3½ millions; that would leave 10 millions for the f.o.b. as the basis of taxation out there.

11,913. As a fact, it is really on a basis of about 10 millions that you do pay tax out there?—Roughly it is. I have not got the exact figure in my head.

11,914. Mr. Pretymas: The Americans, I suppose, pay exactly the same?—They pay exactly the same; we are all on the same basis out there.

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[Continued.]

11,915. The point raised is really one of equal treatment.

11,916. Mr. Mackinder: Yes, but we were trying to get some sort of idea of what would be the percentage charge which the turnover would bear, and from that point of view it seemed to me a little pertinent, since this basis was adopted out in the Argentine, to ascertain roughly what the facts were.

11,917. Mr. Pretymann: What percentage do they charge?—At present it is 5 per mil; it is about a quarter per cent.

11,918. Chairman: On turnover?—On turnover.

11,919. On that 10 millions?—Yes.

11,920. Mr. Mackinder: On f.o.b.?—I estimated f.o.b.

11,921. Mr. Walker Clark: That would apply equally to all companies?—Yes.

11,922. Does that include the local charges, port dues, and so on?—No, it does not include the port dues; that is a shipping charge. It is a consolidated tax for ordinary taxation; there are a few small taxes, but nothing to speak of.

11,923. Mr. Mackinder: It is a Federal State, so it would be the State tax?—That is right.

11,924. A quarter per cent. on, roughly speaking, 10 millions.

11,925. Mr. Marks: It would be a half per cent, would it not? 5 per thousand?—It is 5 per mil.; yes, it is a half per cent.

11,926. Mr. Pretymann: Then in addition to that you have to pay here full Income Tax on your whole profits?—Yes.

11,927. But you are allowed, of course, in that a deduction for the tax you have paid in the Argentine. In assessing your profits for Income Tax here, one of the deductions you make in arriving at that assessment is the tax you pay in the Argentine?—No, it is not.

11,928. Mr. Mackinder: You pay the Income Tax, do you not, on the money that you remit here?—We pay Income Tax on the whole of our profits wherever they are made.

11,929. But in assessing your profits here do you not have, as the first deduction, the actual tax that you pay in the Argentine?—No.

11,930. Chairman: You say not?—I have never heard of it.

11,931. Mr. Pretymann: But surely you do not include the money you have paid for that tax in your profits for taxation here?—We certainly do.

11,932. Chairman: Supposing you made a million in the Argentine and on that million you have already paid a certain tax there; do you pay on a million in this country?—We pay on the whole of our profits; wherever made.

11,933. That is a million plus the tax that you have already paid in the Argentine?—The tax that we have paid in the Argentine is deducted before our profits are arrived at.

11,934. Mr. Pretymann: That is exactly what I asked?—Was that your point?

11,935. Yes?—Yes, certainly, that is deducted, of course, before the profits are arrived at.

11,936. And you want to put yourself on an equality with the Americans, so that if they could be compelled to pay something similar to what you pay, they could not raise the counter suggestion that they are paying additional taxation somewhere else that you are not paying?—That is so.

11,937. Are they paying any tax in America?—I believe they only pay tax in America on the portion of the profits that they transfer from the Argentine to the United States. That is what I understand.

11,938. On the portion distributed?—Yes.

11,939. Chairman: Your main point is this. You have no objection to the position in the Argentine between American and yourself?—That is so.

11,940. The difficulty arises that in this country you pay 6s. in the £ Income Tax and they make such arrangements by their sale in this country that they do not pay the same Income Tax?—Exactly—nothing like what we pay.

11,941. And you come before the Commission to ask us to put such a tax upon them as will give

equality between you and them in this country?—That is exactly it, my lord.

11,942. Sir J. Harwood-Banner: Is it not a fact that a tax on turnover is rather apt to become a trading expense, so that you can add it to the cost of your article and make the article dearer to the consumer?—Yes, I think there is a good deal in that.

11,943. And if any other method could be found by which the tax should have a real reference to the amount of profit actually made, which would be free from that objection, it would be better?—I think it would be better if it could be done, but I do not see any way to do it. At least, it appears to me that the only way is to tax the turnover, but I quite agree with you that it is rather apt gradually to get into being called a working expense.

11,944. Mr. Mackinder: On the basis you have given us of taxation out in the Argentine, quite apart from the rate, the f.o.b. basis, it seems to me that when you add freight and other similar things, the Argentine is claiming that the greater part of the profit is made there. If you attempt to go on some other basis than turnover, if you attempt to go on the basis of actual profits, then you are at once back in the bog of trying to distinguish profits made there and profits made here—profits made on production and profits made on sale.

11,945. Sir J. Harwood-Banner: What I would suggest is that in no case should they be asked to pay taxes in this country on profits made in the Argentine. What we want to attach and make them pay on is profits which they make on the sale in this country.

11,946. Mr. Mackinder: But my point is that, on the evidence given, the American would reply that the greater part of his profits are made out in the Argentine, because the Argentine assessment, based on f.o.b., does take, if you allow for freight, the greater part of the actual profits, and they would claim that the actual profits made in this country are very small.

11,947. Chairman: They accept the position up to 1 per cent. We want to find out whether that 1 per cent. is fair, or whether it should be 4 per cent. or any other percentage.

11,948. Mr. Mackinder: I am suggesting that they, being very acute, accept the position, whether it is actually logical or not, which lets them off easily, without debating it too closely, but that if you attempted to raise larger sums from them they would then at once raise an argument.

11,949. Sir J. Harwood-Banner: Is it not the fact that it is possible to make them disclose their true profits made in the Argentine, so that they could not have the power unduly to discriminate in making up their profit and loss account?

11,950. Mr. Mackinder: With great deference, Sir John, to you, being a very expert accountant, I suggest you have still got to find a basis distinguishing between the profits of production and the profits of sale; and unless you do get that basis it is not a matter merely of income.

11,951. Sir J. Harwood-Banner: I want to ask the question whether attention has been called to American methods of dealing with all imports into America. I had a reference given by the Chairman of the London and Brazilian Bank to an instance of coffee sent into America; the moment that came into America the agent, broker, commission agent, or whoever he was who imported it, was at once called upon to declare himself as the importer and to become responsible for the duties; and then having declared himself, to make up an account setting out what the profits were that were made in Brazil and what the profits were that were made by sale in America. The question, to my mind, was whether it would not be possible in that way to do something of the same sort with regard to the American; that is, on every importation of American meat, to say to them: "Now then, who is responsible?" so that they could not get away by putting in a commission agent, broker, or merchant to intervene. "Who is responsible? Now, whoever is responsible, give us an account of profits

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MR. SIDNEY YOUNG.

[Continued.]

made in America on this meat." Then deducting that from the sale price in this country would establish the amount on which we have a right to ask for Income Tax?—Yes, of course, that sounds all right, but I think you would have difficulty in getting satisfactory figures.

11,952. I quite agree. I am told they find that difficulty already in America, but they are trying. What I was calling attention to was that a charge on turnover is very apt to become an import duty and increase the cost?—I agree it is so.

11,953. Therefore, whilst it is absolutely right that these people should pay, and most unfair that they should not pay in competition with English firms, yet it would be very desirable if we could find some method of assessing them on profits which would get rid of the objection to this taxation on turnover?—I am afraid I cannot suggest any system whereby you can assess them on profits.

11,954. You mentioned one particular case just now. That was a case where they would sell to a house, say, in London or Liverpool, charging that house with a very full cost and all British and Argentine and every profit, so that the house on this side could make no profit at all on the resale to the consumer in this country?—Yes.

11,955. Are there many such houses? There are not many, are there?—No, but of course the people that I am talking about, the North American Meat Companies, are the same ownership all the way through, but under different names.

11,956. But there would be this difference: that if there was a mercantile firm here who bought from them, paying a very high price for the meat and making only a small profit, it would be very difficult for us to touch them?—Yes, it would.

11,957. But they have not adopted that system to any great extent yet?—No, they have not.

11,958. At present it is entirely a matter of a broker, commission agent or somebody of that description, who sells and who really accounts to them for the whole profit on the transaction?—Yes, it is so.

11,959. And, whilst you and ourselves are very anxious to get at the profit, you cannot make any suggestion by which we should make them pay their fair share of contribution on the great profits they make on the sale in this country?—I am afraid I cannot.

11,960. *Chairman*: Did you say that the Americans in the Argentine and your company both pay the tax on turnover, and when they export to this country and the goods come into this country to be sold, you pay 6s. in the £ Income Tax, and they pay no Income Tax except the 1 per cent.?—Yes.

11,961. *Sir J. Harwood-Banner*: I was just going to add, other than by a tax on turnover.

11,962. *Chairman*: The whole difference centres in the Englishman paying 6s. in the £ Income Tax, and the American paying 1 per cent., which the Inland Revenue put upon the imported American produce?—Yes.

11,963. Now that 1 per cent. is not equal to 6s. in the £; that is the point?—Yes.

11,964. *Mr. Petyman*: Supposing a tax were put on turnover and it hit them hard—4 per cent. or 5 per cent. or even more—could they evade it by forming a British company here?—They have got a British company here already. Their selling agent is a British company.

11,965. They could form that British company here and they could sell to that British company.

11,966. *Chairman*: They do now.

11,967. *Mr. Petyman*: I do not see how you are going to get at that on turnover then, because that would be a British company which would be apparently on its own.

11,968. *Chairman*: That is what comes up in a great many other trades which we have to consider. It is a manifestly important matter, not only in the meat trade but in every other trade. They utilize a certain agency in this country, and sell at a price which shows no profit here at all.

11,969. *Sir J. Harwood-Banner*: It really wants emphasizing; while Mr. Young is dealing with meat companies, there are an enormous number of other companies, all sorts of companies.

11,970. *Mr. Petyman*: Then, though not actually, you are apparently putting a special tax on a British company. It is comparatively defensible, I think, that where a foreign meat company has a great turnover in this country through an agency which belongs to it here, you should say: "this is an obvious evasion and we will tax it"; but where it is a British company in law, although we may know privately that it is controlled from outside, and you say this British company is not to be taxed like other British companies upon its annual profits, but it is to be taxed upon a turnover, because we have reason to believe that it is acting for somebody outside—it is a difficult point to deal with, is it not?—Quite so.

11,971. *Chairman*: That would come under evasion, that we shall have to consider later on.—At the present time, going back to my own company again as an example, we seem to be taxed because we are a British concern, and our competitors, who are not British, get off or do not pay anything like the same taxation. That is the point that I want to emphasize.

11,972. That is what you want to put before the Commission?—Certainly.

11,973. *Sir J. Harwood-Banner*: Do you appreciate the fact that we did manage, in the Act of 1915, to get something to touch them?—Yes.

11,974. *Mr. Walker Clark*: You would prefer to be a British company, I presume?—I would much rather.

11,975. And you fear that the excessive burden of taxation will compel you to follow the example of others?—I do not like to say that. I am a Britisher, and I think 99 per cent. of our shareholders are Britishers, so I do not like to say anything of that sort; but there may come a time when we may, in self-defence, have to follow suit and make our holding company in the Argentine into an Argentine company. Then, of course, we should pay only on the portion of the profits that are brought to this country to be distributed by way of dividends.

11,976. *Mr. Marks*: Representatives of the American companies objected to 2, 3 or 4 per cent. as being an excessive percentage of the turnover on which to tax those companies. Can you suggest any way by which we can determine whether or not that is excessive, if they do not know what the profits of the business in this country are?—You have got my own company, and I told you what our turnover is and what our profits are. I do not flatter myself that we run our business any better than the Americans do theirs, so that, presumably, for a similar turnover they would have done quite as well. If that is the case, I think a percentage on the turnover is a fair thing.

11,977. *Mr. Mackinder*: Your suggestion is, is it not, a percentage tax which shall put upon them a burden equal to what the Income Tax puts upon you?—Exactly.

11,978. *Chairman*: It works out in this form, I think. Supposing you have a turnover of 15 millions, you make one million pounds profit; you pay 6s. in the £ on that; that is £300,000?—Yes.

11,979. Supposing that they have 15 million pounds of turnover in this country, if they pay 2 per cent. on that 15 million pounds turnover, that gives just the same amount?—Yes, that comes to the same thing.

11,980. Now they pay 1 per cent.?—Yes.

11,981. Their contention that 4 per cent. was excessive would in that case be right?—It would.

11,982. *Mr. Menzies*: Does the Smithfield and Argentine Company make the same rate of profit as your company?—Yes, I should think so. They are a much smaller company, but I should think the ratio would be about the same.

11,983. *Chairman*: Thank you very much for your assistance.

NINETEENTH DAY,

FRIDAY, 12TH SEPTEMBER, 1919.

PRESENT :

LORD COLWYN (*in the Chair*).

MR. PRETYMAN.

SIR W. TROWER.

MR. BIRLEY.

MR. WALKER CLARK.

MR. GRAHAM.

MR. KERLY.

MR. MACKINDER.

MR. McLINTOCK.

MR. GEOFFREY MARKS.

MR. MAY.

Commander HERBERT JAMES CRAIG, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Evidence-in-chief of Commander HERBERT JAMES CRAIG, Chairman and Managing Director of Berries, Craig & Co., Ltd., Newcastle-on-Tyne, Shipbrokers and Export Merchants.

11,984. (1) As shipbrokers my firm has been for 49 years the local agents of the Swedish steamship line trading regularly between the Tyne and Gothenburg, carrying goods, coals and passengers. Until the year 1914 the service was maintained by steamers belonging to the Angfartyg Aktiebolag Svithiod, who ran a weekly steamer each way with goods and passengers, but who also employed other steamers in the coal trade, which frequently loaded at Tyne, Blyth or Wear ports, and for which we also acted as shipbrokers in those ports. During this whole period of 49 years, when we were acting for the Svithiod Co., no attempt was made to claim Income Tax from that company. In the year 1916 the steamers of the Svithiod Company were acquired by the Svenska Lloyd Company of Gothenburg, who also acquired the steamers of the Thule Steamship Company, a Swedish company which had for many years maintained a regular service of weekly passenger and cargo steamers running between Gothenburg and London. I have been informed by the shipbrokers of the Thule Line in London that no attempt was ever made to assess the Thule Steamship Company for British Income Tax. Shortly after the beginning of the war in 1914, the Thule Steamship Company diverted the regular steamers, which had previously been maintaining the service from London, to the Tyne, and the smaller steamers which had previously maintained the Svithiod Line service, Newcastle-Gothenburg, were diverted to London and other ports.

11,985. (2) We are the shipbrokers who act for most of the Svenska Lloyd steamers at Tyne, Wear and Blyth, but the Svenska Lloyd, who own a very large fleet of steamers, also run regular traders to other British ports, and also run other tonnage on charter party, and many of their steamers have loaded coal cargoes in Tyne, Wear and Blyth, for which other shipbrokers have acted as agents. I wish to emphasize the point that not only do the Svenska Lloyd Company trade regularly with other British ports, where other British firms act as agents, but even in those ports where we are their regular and principal shipbrokers, it has happened that they have steamers addressed to other firms and that their business does not pass through us.

11,986. (3) In 1915 we received an Income Tax form asking us to make a return of the profits earned by the steamers of the Thule Line. We replied pointing out that these steamers belonged to the Thule Steamship Company, who owned many other steamships trading both regularly and irregularly with British ports, that we had no access to any accounts which would enable us to furnish a profit and loss account; that in the course of a long experience as shipbrokers we had never previously been asked to furnish a return of the profits earned by any foreign steamship company for whose steamships we acted

locally as shipbrokers. The matter was not pressed, but in succeeding years we have received the same demand, to which we have made the same reply.

11,987. (4) During the Parliamentary Session, 1917, I addressed questions to the Chancellor of the Exchequer with a view to ascertaining on what system the Inland Revenue acted in selecting foreign steamship companies for assessment to British Income Tax. I produce the questions and answers given, which show that there is no ascertainable criterion by which one can distinguish between those foreign ships which are liable to Income Tax and those which are not; it appears to rest with local Surveyors to demand returns at their individual discretion, so that a British firm of shipbrokers acting for a foreign steamship company in port A may be asked for a return, whereas in port B the shipbroker who acts for the same foreign steamship company is not asked to make a return.

11,988. (5) It is obvious that, as a matter of principle, if any foreign steamship company whose steamships trade with British ports is liable to be assessed to British Income Tax in respect of the profits earned by their steamships in the course of such trading, then every foreign steamship trading to a British port renders its owners liable for British Income Tax. It is a matter of common knowledge that no such claim has been hitherto made by the Revenue authorities.

11,989. (6) It is submitted that the mere fact that the steamships of a particular foreign line maintain a regular service with British ports cannot render the owners liable to Income Tax if other foreign steamships maintaining a less regular service do not also incur a corresponding liability. It is observed that any profits accruing from the transaction of the ships' business in British ports are, of course, included in the Income Tax returns of the British shipbrokers.

11,990. (7) It must also be pointed out that it is impossible for the British shipbroker to give a profit and loss return of the steamship for which he is acting; he has no access to the voyage accounts of the owners, and is only concerned in making disbursements, collecting freight and transacting the usual ships' business on owners' account.

11,991. (8) If, as a matter of policy, it should be desired to subsidize foreign shipping using British ports to Imperial taxation—over and above the port and other local charges which such shipping at present incurs—it is submitted that this could more fairly be done by the imposition of a tonnage tax; that there are insuperable difficulties in the way of imposing Income Tax on the foreign owners of ships calling at British ports, and that, in any case, it is desirable to lay down clearly the principles which should determine the liability of foreign shipowners to British Income Tax, and to arrange for the returns to be made by some agent who has access to the necessary data, and not to leave such an important matter at the discretion of local Surveyors of Taxes in the respective ports to demand returns from local shipbrokers, in respect of the particular steamships with which they may have to deal, irrespective of the fact that in the case of other steamships belonging to the same owners and trading to other British ports no returns may have been demanded.

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COMMANDER HERBERT JAMES CRAIG.

[Continued.]

The following are questions which have been addressed by witness to the Chancellor of the Exchequer and his replies thereto.

FOREIGN SHIPPING COMPANIES.

(Income Tax Returns.)

11,592. *Commander Herbert Craig* asked the Chancellor of the Exchequer whether he is aware that the Revenue authorities at ports on the North-East coast have recently been attempting to obtain Income Tax returns for foreign shipping companies through the British firms who happen to act as agents or shipbrokers for some of the steamers of such companies at the various North-East ports to which they trade; whether he is aware that no shipbroker in this country has access to any accounts which would enable him to render a return of the profits earned by a foreign company owning steamships, some of which are trading in this country, and that all profits arising from the transaction of ship's business while in a British port are already included in the Income Tax returns of British shipbroking firms; whether it is intended to subject the profits of all foreign companies owning ships which trade to ports in this country to British taxation; and whether in that case he will consider the greater convenience and economy of levying such taxation by means of a direct tonnage impost to be collected through the Customs Houses upon every occasion of a foreign ship clearing from a British port?

Mr. Bonar Law: Any foreigner who carries on business in this country through an agency or branch here is chargeable to British Income Tax in the name of his agent, &c., in respect of the profits earned in this country, and such agent is by law responsible for doing all acts necessary to the assessment and payment of the tax. Foreign shipping companies are in this respect in like case with all other foreigners carrying on business in the United Kingdom. I would point out that the profits of a shipbroker or other person acting as agent in the conduct of a foreigner's business are entirely separate and distinct from the profits arising to the foreigner on the business so conducted for him by the agent. It is not intended to make any distinction between foreigners carrying on business in this country but the hon. and gallant Member may not be aware that the circumstances that a foreign-owned ship clears from a British port does not of itself involve liability to British Income Tax. The mode of taxation suggested by the hon. and gallant Member could not be regarded as a suitable substitute for the existing Income Tax charge. It would apply uniformly without regard to the amount of the income derived from the business in this country or, indeed, to the question whether any income was derived at all. Also, it would affect a number of persons who are not carrying on any business here and are not in any way liable to British Income Tax.

1st May, 1917.

11,593. *Commander H. Craig* asked the Chancellor of the Exchequer (1) whether he can state the nature of the test which guides the Inland Revenue authorities in determining whether a foreign shipping company, some of whose vessels trade to ports in the United Kingdom, are foreigners carrying on business in this country and chargeable to British Income Tax in respect of profits earned in this country; whether the test hitherto applied has been the occupation of an office in this country; (2) whether he is aware that shipbrokers in this country have recently been requested to supply Income Tax returns for foreign shipping companies some of whose steamers are trading to United Kingdom ports; whether he can state the rule which determines when a British shipbroker who transacts the business of a foreign ship calling at a British port becomes an agent responsible for making Income Tax returns on behalf of the foreign shipping company for some of whose steamers he may act as shipbroker; whether he can state, in the case of foreign shipping companies whose steamers trade to more than one port in the United Kingdom and employ a different firm of British shipbrokers in the different ports of call, what principle guides the Revenue authorities in selecting the British firm of shipbrokers who shall be required to make the Income Tax returns on behalf of the foreign company?

Mr. Bonar Law: All persons carrying on business in this country are by law chargeable to British Income Tax in respect of the profits derived from such business. It devolves upon the respective bodies of Income Tax Commissioners to find the facts and, applying the relevant provisions of the law to the facts as found by them, to determine whether liability exists, and if so upon what person or persons assessments should be made. The bare fact of the occupation of an office here by a foreign shipping company would not of itself settle the question of Income Tax liability, and the hon. and gallant Member's suggestion that this isolated circumstance has hitherto been regarded as the sole criterion is based upon a misapprehension. As to the machinery for the assessment and collection of the tax in the case of foreigners trading through a branch or agency here, I would refer the hon. and gallant Member to the provisions of the Income Tax Acts, and in particular section 41 of the Income Tax Act of 1842 and to section 31 of the Finance (No. 2) Act, 1915.

9th May, 1917.

11,594. *Commander H. Craig* asked the Chancellor of the Exchequer whether he can state in the case of foreign-owned ships calling at United Kingdom ports what are the factors which determine whether the foreign owner is liable to British Income Tax in respect of the profits earned through trading to a British port; whether he is aware that many foreign companies have maintained regular sailings, both for passengers and cargo, with British ports for a great number of years without any attempt having been made to assess them to British Income Tax, and that recently an attempt has been made to obtain Income Tax returns on behalf of such foreign companies from British shipbrokers in certain ports who happen to act as shipbrokers for those ships of such companies as may be trading to the particular ports at which those shipbrokers carry on their business of shipbroking; whether he will state how it is possible for a British shipbroker to distinguish in the case of foreign-owned vessels for which he may act as shipbroker between those vessels whose owners are chargeable to British Income Tax and those which are not so chargeable; and whether it is proposed to make every British shipbroker who in the normal course of his business may act as broker or agent on behalf of a foreign-owned ship, whose owners have no place of business in this country, responsible for making Income Tax returns on behalf of foreign shipping companies to whose profit and loss accounts he has no access?

Mr. Bonar Law: As regards the first part of this question, I would refer the honourable and gallant Member to my replies to his question of yesterday on this subject. For many years past Income Tax assessments have been made upon the profits of foreign shipping lines trading regularly in this country. The question of liability in a given case depends upon the application of the law to all the relevant facts of that case. The matter has been the subject of numerous judicial decisions, and in view of the variety and intricacy of commercial activities it is not possible to summarise in a formula the criteria of liability in the case of a foreigner engaged in transactions here. If, however, any shipbroker or other agent should find himself in doubt he can obtain the most ample assistance upon laying the full facts before the local Surveyor of Taxes, who is an expert in these matters. He will not, of course, necessarily be bound by the opinion of the Surveyor. He has a right of appeal against any assessment to the appropriate body of Income Tax Commissioners, and a further right of appeal from them to the Courts upon any point of law which his case may involve.

9th May, 1917.

11,595. *Commander H. Craig* asked the Chancellor of the Exchequer (1) whether he can give any instance of an Income Tax assessment having been made upon the profits of foreign shipping companies trading to this country who have not a place of business or branch office in this country; and (2) whether, under the provisions of section 41 of the Income Tax Act of 1842 and section 31 of the Finance (No. 2) Act, 1915,

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COMMANDER HERBERT JAMES CRAIG.

[Continued.]

any assessment of British Income Tax has been made upon Messrs. Thomas Cook and Sons, Limited, or any other tourist firms in respect of the profits earned in this country by foreign shipping and railway companies who have no branch or place of business in this country, but who employ Messrs. Cook or other tourist agencies to sell tickets on their behalf.

Mr. Bonar Law: There are a number of cases of assessments to Income Tax in respect of profits of foreign shipping companies carrying on business in this country who have not a place of business of their own or a branch office here. I may remind the hon. and gallant Member that it would be inconsistent with the obligations to secrecy of the Commissioners of Inland Revenue to furnish information relative to the Income Tax assessments upon particular taxpayers.

6th June, 1917.

11,996. Commander Herbert Craig asked the Chancellor of the Exchequer whether he can state the total amount of the profits assessed to British Income Tax for the last financial year arising from foreign shipping companies other than those which have established branches or a place of business in this country?

Mr. Bonar Law: Separate annual statistics are not kept of the Income Tax assessments upon the shipping industry, and it follows that the information asked for by the hon. and gallant Member in regard to a subdivision of the industry is not available.

13th June, 1917.

11,997. Commander Herbert Craig asked the Chancellor of the Exchequer whether, having regard to the difficulty which any British shipbroker would experience in making a return of profits deemed to have been earned in this country by foreign shipping companies, some of whose ships are trading with this country and to whose accounts the British shipbroker has no access, and to the difficulty of determining, in the case of foreign ships trading to this country, which ships do and which ships do not thereby render their owners liable to British Income Tax, he will give instructions that British shipbrokers are not to be pressed to make returns on behalf of foreign owners to whose accounts they have no access, and with whom, under present conditions, postal communication is subject to interruption?

Mr. Bonar Law: I would refer the hon. and gallant Member to the replies given to his questions of the 8th and 9th May, of which I am sending him copies.

13th June, 1917.

[This concludes the evidence-in-chief.]

11,998. Chairman: You had a very interesting duel with Mr. Bonar Law?—I did not get very much more than the usual evasive departmental replies.

11,999. Perhaps you could tell us, do you know about the taxation on shipping abroad?—I do not, but I was going to suggest that one of the considerations that should be taken into account—if it goes forth that all owners of foreign shipping, trading regularly or irregularly with British ports, are liable to British Income Tax—is that Income Tax may be levied in other countries than Great Britain. You would obviously invite reprisals in the shape of Income Tax being levied on British shipping companies trading with foreign countries, which, as far as I know, does not at present occur.

12,000. Supposing we put a tax on all foreign shipping in this country, should we lose by their retaliating on the larger amount of shipping which we send to other countries?—I imagine so. Of course, I am not here to raise objections to levying Income Tax on foreign shipping if that is desired as a matter of policy; what I am here to point out is that at present it is impossible to ascertain in the case of any given foreign ship trading with this country whether her owners are rendered liable to British Income Tax or not. In the case of my firm, we were agents for a regular line of steamers trading from Gothenburg to the Tyne for 40 years, and no attempt was ever made to assess that company to British Income Tax. Mr. Bonar Law in one of his replies states: "For many years past Income Tax assessments have been made upon the profits of foreign shipping lines trading regularly in this country." Within my local experience that is not true, and it is only recently that the

Revenue authorities have attempted to obtain Income Tax returns in the case of the regular steamship lines from Scandinavia trading to the north-east coast. It may be true of the big American and German liners that were trading to British ports; I do not know as to that.

12,001. Had this Swedish line agencies?—No agencies; they employed different shipbrokers in different ports.

12,002. How do you suggest to us that we could obtain money from them?—I should suggest that the ordinary way of getting money from shipping is the way adopted by local harbour and port authorities to obtain money from shipping—levying a tonnage tax. It is impossible for any firm here acting as a shipbroker to any foreign steamer to say whether that steamer is, in the first place, running at a loss or at a profit.

12,003. It is not impossible at the present moment, is it? There is no chance of running at a loss at the present moment, is there?—That may be generally true, but it is not true in every case. For instance, only last week the steamers from Gothenburg came over to this side absolutely empty, because there is a strike of labourers on that side. They had not an ounce of cargo in them. They are getting cargo on this side. I do not know whether, on the round trip, they will make a profit or a loss, but if you only took the trip this way they must have run at a loss. And there again, on the round trip, which is the profit (even if you can distinguish it) which is earned in this country—the freight this way or the freight that way.

12,004. That is the great problem, as to where the profit is made?—It bristles with difficulties if you attempt to get an Income Tax return even from the owners, but when you attempt to make an unfortunate shipbroker give a return of profits of a trading company whose accounts he has no access to—

12,005. They change their brokers, do they not, frequently?—No, fortunately not frequently, but they use different brokers in different ports. This line for which we are agents have steamers running regularly to Manchester, to Liverpool, to London, and to Hull, in none of which ports do we act for them; therefore even if we knew, which we do not, the profits on the boats which actually come to us, we still could not give a return of profits which that shipping company is making in this country.

12,006. Mr. Kerly: Your first complaint is that the incidence of this tax is very unusual and irregular. One agent is asked to pay or to make returns, and many others in a similar position escape. That is the complaint that you put in the House of Commons?—Well, I did not put it quite like that. My main complaint is that they suddenly drop on a shipbroker's profits which is a thing he cannot comply with, because he has not the necessary data. I am not complaining so much as to the injustice of taxing one foreign ship as against another, because that does not concern me.

12,007. Let me take your complaint that the incidence on the tax is now. You are aware of course that with the rising rate of the tax it has been levied in a great many places which were always liable to tax, but hitherto escaped either because of the difficulties of collection or for other reasons—for instance, because the amount recovered was not worth the expense of recovery—so that in all quarters of recent years there has been a more successful attempt to get tax from sources which were always liable; you are aware of that?—I agree that they are screwing in the levying of the tax.

12,008. I know of no alteration of the law. Assuming that if the agent is liable now he has always been, your complaint on that head is only part of the general complaint of people who have hitherto escaped, and who now are made liable to pay tax?—No. I imagine that the mere fact that a foreign ship clears in a British port—say she is trading to Britain—does not render and never has rendered the owners of that ship liable to British Income Tax.

12,009. You imagine that because the tax has not to your knowledge been levied?—No. I imagine that because the Chancellor of the Exchequer says so.

12,010. I do not think so.—In his reply of the 1st May, 1917, he says: "The circumstances that a

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[Continued.]

foreign-owned ship clears from a British port does not of itself involve liability to British Income Tax."

12,011. It has always been the law, has it not, that a non-resident earning profits in this country is liable to pay Income Tax?—Anybody carrying on business in this country, I think is the wording.

12,012. Does not the owner of the steamship company whose ships are regularly trading here carry on business in this country?—No more than the owner of steamships whose ships are occasionally trading here.

12,013. Well, the man who is occasionally trading here is *pro tanto* carrying on business here and earning profits?—I am not here to urge anything against a desire to tax the profits of a foreign shipping company. In that event I merely ask that it may be clearly laid down how they are to be collected and returned.

12,014. That is what I thought, and that is the proposition I put to you first of all, that your real point is not that payment is now insisted on for the first time, but that it is irregularly insisted on still?—That it is impossible for the person who is asked to make the return to make the return, that one person is asked to make a return and next door a shipbroker doing exactly the same business for another foreign steamship company is not asked to make a return; that is my point.

12,015. There may be, and I understand your view is that there are, practical difficulties in getting in payment. Will you tell me please is it necessary for the sort of business we are considering that the shipowner should have an agent in every port to which he trades?—Certainly. Any foreign ship coming to a port must employ the services of a shipbroker on this side to arrange for its clearance through the Custom House, bunkers, etc.

12,016. And someone must be known as representing the ship?—Yes; it is not a regular appointment necessarily.

12,017. You mean it might change from time to time?—No. What I mean is you may not for a firm of shipowners who only occasionally have a ship in your port. They happen to have a ship coming, and they send a wire and say "the ship is expected to arrive; please attend to all the business."

12,018. Is not your answer that necessarily there should be an agent for a ship in each port to which it regularly trades?—What do you mean by an agent—a regularly constituted agent for a firm who are thereby precluded from employing any other agent in that port? In our case some of the ships belonging to the Svenska-Lloyd that come to the Tyne do not go through us at all.

12,019. Am I to understand then that it is quite possible to work this trade by engaging an agent for each voyage?—Certainly.

12,020. It is possible?—It would be very inconvenient in the case of a line maintaining regular services.

12,021. So in all cases where there are regular sailings from a particular port there must be some permanent connection between a local resident and the line?—Yes, but it does not follow that that local resident knows anything of the foreign shipowner's dealings with that port except in so far as they are represented by the ships in that regular line with regular sailings.

12,022. If a sufficient levy were put upon him he would be able to pass it on to the shipowner. It does not matter what the amount is. If a certain tax were levied upon him he would be able to pass it on to the shipowner and say, "either you must recoup me or I cannot continue to do your business"—I do not know; I do not quite appreciate that. All the shipbroker does is to make disbursements on account of the ship, for which of course he has the security of the ship, which he can seize. I do not know how it would be if he paid Income Tax on profits on behalf of the shipowner. I do not think he would have, if I may use the term, an action *in rem*; I do not think that is provided for.

12,023. I was not asking about any legal machinery, but whether in commercial practice he could recover the money from his employer?—He would certainly try to.

12,024. Now take the next point. Supposing the shipowner were told, "you have been charged various sums through your agents or brokers by way of tonnage rate"—or whatever you like—"but instead of paying the whole of these sums you can produce your accounts showing at the end of the year what your actual profits on your trading with the United Kingdom is, and pay the Income Tax appropriate to that profit," he could then get a rebate if necessary; would not that be feasible?—Then do you suggest in our own case, where a steamship line runs a regular line to the Tyne, but also have regular lines running to London, Liverpool and Manchester, that the whole of the profits made by that line in the United Kingdom should be assessed in the first instance on their Newcastle brokers as opposed to their London brokers?

12,025. No. I would suggest that an estimate be made of the proportion of profit that they made at Newcastle, and that that part should be paid by the Newcastle broker, the corresponding parts being paid by Manchester, London, and other ports. I do not know whether it is practicable or not, and that is why I am asking you?—I should imagine that some scheme could be devised, but they would have to keep their accounts in a peculiar way. I am not a shipowner, but I imagine that the ordinary shipowner has a voyage account. The ship goes out and back, and the whole freights received go against the whole expenses for the round trip. I do not know, as I say, whether you would reckon the profit on carrying goods from Sweden to England as the profit earned in this country, or the profit earned by carrying goods from England to Sweden as the profit earned in this country.

12,026. It would finally remain a matter of estimate when you have got all the voyage accounts to this country of the shipping company; the shipping company would be in a position to give all the information?—I am not an expert on ships' accounts.

12,027. I started with the suggestion that there should be some arrangement with each local agent. Now supposing that took the form of a tonnage rate on each ship coming to his port belonging to a non-resident owner, would there be any difficulty in your view in collecting such a tonnage rate on ships belonging to non-resident owners?—No trouble at all, because that is what is done at present in the case of levying the port charges, the light charges, and that sort of thing. It is done by means of a tonnage rate, and the pilotage too. The foreign owner is accustomed to that.

12,028. Does that distinguish between the ownership of the different ships?—No.

12,029. You see we do not want to include resident shipowners, because they already pay Income Tax. Our inquiry is whether we can get Income Tax from the non-resident owners trading here. In your view is there any difficulty in raising a tonnage rate at each port on the ships of non-resident owners?—None whatever. It is really a question of policy, I should think. If it was decided to do so, there would be no difficulty in levying it.

12,030. If you followed the scheme as indicated you would pay to the Customs the produce of the tonnage rate on the ships of non-resident owners that you handled, and then it would be open to the shipowner to say that all the money he has paid by way of tonnage rate is greater than the proper assessment to Income Tax on his dealings with this country, and get a return?—I would not suggest mixing it up with Income Tax. If you want to tax foreign shipping, put on a tonnage tax.

12,031. But we are dealing with Income Tax?—In so far as you are dealing with Income Tax I say it has not hitherto been as a practice levied on foreign shipping.

12,032. Well, I have dealt with that, and I will not refer to it again. I think Lord Colwyn has already asked you about the taxation of freights in foreign

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[Continued.]

countries. You make the general suggestion on grounds of policy that it would not pay us as a shipowning nation to introduce the practice of taxing foreign shipping?—I only say that that is one of the matters which would have to be considered.

12,033. Have you considered how far the balance is likely to be one way or another?—I only imagine generally that as we are the biggest shipowning country we should stand to be the heaviest hit by the levying of taxation on shipping.

12,034. That of course depends on the relative Income Tax rates, amongst other things?—Yes.

12,035. Mr. McIntosh: I was wondering whether this was an isolated case. Do you know of any others than your own?—In what way?

12,036. Claims of the same kind as have been made against your own firm?—Yes, in the case of the Norwegian mail and passenger service which is run from Bergen to the Tyne, for the first time I think in the year 1915, or about the same time as they made the attempt on us, they made an attempt there to levy Income Tax on the Bergenske Steamship Company, and I also understand that at Hull for the first time, and it is now *sub judice*, they have made an attempt to levy Income Tax on the United Shipping Company of Copenhagen, the Danish line that runs to Hull.

12,037. Do you know if any broker has ever paid the tax? Did you ever hear of any broker who has paid the Income Tax?—No. In our case these steamers, which are now running to the Tyne, formerly ran to Tilbury; I have asked the agents who act in London, and they have never been asked to pay Income Tax.

12,038. Beyond the demand nothing has come of it?—I understand not; certainly we have not paid any Income Tax ourselves.

12,039. Mr. Birley: You suggest that if this present system continues foreign countries will retaliate?—It is asking for it.

12,040. The probability is that they will retaliate?—Certainly.

12,041. In your question to the Chancellor of the Exchequer on May 1st, 1917, you suggest that it would be a greater convenience and economy to levy such taxation by means of a direct tonnage impost to be collected through the Customs House on every occasion of a foreign ship clearing from a British port. You suggest dealing differently with foreign ships from British ones; that is your suggestion, is it not?—I did not mean to point to differentiation between British and foreign shipowners; I only meant that if it is desired to levy an impost in any form whatever on foreign ships it could be more conveniently done by means of a tonnage tax than by Income Tax assessment.

12,042. Your suggestion is it should be on foreign ships?—Yes.

12,043. Otherwise of course you would tax the Britisher as well, and it is no recompense for the Income Tax?—Exactly.

12,044. But is not there the same fear of retaliation in that case, or do foreign countries now impose direct tonnage impost on British ships, or on all foreign ships entering their countries?—Ports, I understand, vary; there are what are known as expensive ports, and some are cheap.

12,045. That will be for all ships that come in, whether from the home country or a foreign one?—I do not speak with any experience on the point, but I imagine very frequently it is not levied on the home ship or on the coasting ship.

12,046. So that if this country did that it would really only be retaliation on our part for what is being done in other countries now? We should not have to fear retaliation against us because we were doing it, but we in effect would be retaliating because it was being done in foreign countries?—I would rather put it that it would be a perfectly fair way of raising revenue.

12,047. But would it be separate taxation for the foreigner? There is no use in putting it on for all ships, because you would hit the British as well?—I see your point. I think it would be a fair reply to say the British shipowner is subject to British Income Tax, which is a very heavy levy. It is not convenient to levy Income Tax on the foreign shipowner, because the necessary machinery to do it properly would be too difficult and intricate. We propose in lieu of asking him to contribute to British Income Tax to pay tonnage tax.

12,048. You suggest, and I quite agree with you, that it would be really impossible to say how much of the profit, or which part of the profit, was made by coming into the British port, and therefore you would assume a profit on the tonnage of the ship?—Exactly.

12,049. And charge in that way?—Yes, and it would be a regular expense. The foreign owner would know what it cost him each time the ship went to a British port.

12,050. But it is an assumed profit, because you cannot get at the actual profit?—It is a convenient way of levying revenue.

12,051. We are talking about Income Tax. We want to try and keep it to the Income Tax if we can?—No, in lieu of Income Tax. Clearly, if you once levied a tonnage tax you could not make any inquiry as to whether the ship was running at a profit or not.

12,052. Chairman: Mr. Birley wants to get the money and call it Income Tax?—It would be a tax in lieu of Income Tax.

12,053. Mr. Mackinder: There would be no reason why there should not be at the head of the demand note: "Percentage tax in lieu of Income Tax," or some equivalent words?—That is so.

12,054. So as to keep the fact before both our public and the foreigner?—Yes.

12,055. Mr. Walker Clark: Are agents paid on the tonnage basis or commission or an annual fee, or all three?—Agents are paid, so far as I am aware, a commission on the freight received.

12,056. And neither tonnage nor an annual allowance enters into the arrangement?—No.

12,057. So it would be quite easy for a shipping company to change its agent?—Yes.

12,058. So that there is not much more than a sentimental relationship, and of course the fact that you have held the connection for many years, between the agent on this side and the shipping company on the other side, in many cases?—Oh, certainly. Of course, in the case of steamers maintaining regular sailings, obviously they would go to the same agent for a period, but in the case of a line sending irregular steamers it is quite common that one of their steamers one month comes to one agent here, and another steamer may come another month to another agent here.

12,059. Is it not a fact that very often foreign steamers coming here, particularly in some lines, also trade to Continental and other ports on the round trip, and the round trip includes cargo picked up here and taken to a foreign port before they get back to the home port?—Exactly. I would like to give an instance. I know a very prosperous Norwegian shipping firm whose steamers regularly come over from Norway to the Tyne. They take coal and large general cargo, and they may call at several ports in the United Kingdom before going to South Africa and Madagascar. What they ultimately bring home I do not know, but when you took that owner's account and tried to work out the profit that he earned through trading in this country it would be a very difficult proposition. At present no attempt has been made, and never has been made.

12,060. You would suggest a tonnage tax as a substitute for Income Tax, and not as an alternative?—Yes.

12,061. Chairman: Thank you.

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Mr. E. L. Boory.

[Continued.]

Mr. E. L. Boory, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Statement of evidence on behalf of the Chartered Institute of Secretaries of Joint Stock Companies and other Public Bodies by Mr. E. L. Boory, Member of Council (and Treasurer 1917-18); also a Member of the Board of Referees.

12,062. The Institute numbers over 4,400 secretaries and other officials of Joint Stock Companies and other Public Bodies, Institutions and Societies. It was founded in 1891 and obtained its Royal Charter in 1902.

The Council of the Institute has taken steps to obtain views and suggestions from Members of the Institute on any amendments that experience has shown are called for in the law and practice of Income Tax, and as a result of the suggestions received the Council desires to put forward the following specific points:—

12,063. (1) The provision in the Income Tax Act, 1918, for an assessment on an average of years should cease, as it gives rise to anomalies which should not be possible under State taxation. The ideal method of taxation of profits is that individuals, firms and companies should pay taxes on the actual income of the year of assessment. If this is impracticable in administration, then a provisional assessment should be made on the basis of the preceding year's income, and adjustment made in the succeeding year when the following assessment is being made. If it is suggested that this would involve too much machinery in the Inland Revenue Department, then the assessment should be based on the preceding year's income and should be final. In either case losses in preceding years would have to be "wiped out" before the taxpayer would be called upon to pay further tax.

A new basis of assessment in substitution for that of an average which compounds itself as a sound and workable is that put forward by Sir Francis Gore, Solicitor to the Inland Revenue, to the Departmental Committee on Income Tax in 1905, when he said:—

"I would abolish absolutely the three years' system, and substitute a payment, year by year, based upon the profits of the trader's immediately preceding financial year. Thus, if the assessment in question were one for the year 1906, commencing on the 6th April of that year, the assessment should be based upon the profits of the particular trader's last preceding financial year, ending at a date not later than the preceding 6th of April. The trader would thus know at the end of his financial year the amount on which he would be required to pay duty for the following year, and he would, within a short time, also know the rate at which such payment would have to be made. He would have no difficulty, therefore, in setting aside an amount sufficient to satisfy the tax for the succeeding year, before dividing or spending his profits. Although the payment would be one made in, and for, the succeeding year, it would really represent a contribution to the State of a certain proportion of his profits during the past year."

The same idea is expressed concisely (in the words of Mr. G. H. Blunden) in the evidence which the same Departmental Committee received from Sir H. Primrose (Chairman of the Inland Revenue) as follows:—

"To charge all traders, mineowners, professional men, &c., on the profits of the year preceding the year of assessment; as is done at present in the case of railways, canals, ironworks, quarries, gasworks, waterworks, &c."

As the law stands at present, there are many different methods of assessment. Assessments in Cases I and II, Schedule D, are on an average of three years preceding the year of assessment; Case III, Schedule D, on the year preceding the year of assessment; Case IV, Schedule D, on the income arising in the year of assessment; Case V, Schedule D, on an average of three years preceding the year of assessment; Case VI, Schedule D, either on an average or on the income arising in the year of assessment. Mines are assessed on an average of the profits for five preceding years;

quarries on the profits of the preceding year; railways on the profits of the preceding year; under Schedule E on the income of the year. Super-tax is assessed on the income of the preceding year.

Under the system of taxation on an average of preceding years the taxpayer may pay on a greater amount of income than actually received. It is, of course, equally possible for a case to occur in which the Inland Revenue may suffer, and the taxpayer pay on less income than is actually received. It is obviously inequitable that any taxpayer should, under any system of taxation, pay Income Tax on any income which he has not, in fact, received.

In the case of individuals assessed under Schedule E on the actual income of the year of assessment, this is fair and equitable, but in the case of similar individuals who have, in consequence of their occupation not bringing them under the provisions of Schedule E, been assessed on an average of three years, they may, whilst enjoying a rising income, have obtained some benefit from an assessment on an average of years, but should they in advancing years receive a falling income, they are called upon to pay tax on a larger amount of income than that actually received at a time when they can less afford to do so. If assessment on an average of years under Schedule D is abolished, and assessment on the profits of the preceding year substituted, assessment under Schedule E should be abandoned, and assessment on salaries of officers, &c., be made on the same basis as provided under new provisions of Schedule D.

The Departmental Committee on Income Tax which reported to the Treasury in 1906, reviewed very fully the arguments for and against the three years' average system of assessment, and their conclusions were summarised in paragraph 105 of the Report, as follows:—

"But we have to take into account the fact that the three years' average system has been in force since the re-imposition of the Income Tax sixty years ago, and has given rise to but little complaint; and that any change would necessarily lead to some temporary confusion and disturbance, and might be unpopular. Such a change could not be attempted without public opinion, and especially the support of business men behind it, and so far the question seems never to have been seriously considered by those principally affected. The Report of this Committee may, by calling attention to the matter, lead to public consideration of the question; and if the verdict were favourable, we think the change would, on the whole, be advantageous."

It is sometimes said that the individual trader prefers the average system, but his position does not really differ from that of a company, inasmuch as both are in a better position to pay a larger amount of tax at the period immediately following that in which the profit has been made, and it might easily happen that the trader would be called upon to pay a considerable amount of tax at a period of falling profits when he would want every available penny to keep his business together.

12,064. (2) The concession in section 157 (2) of the Income Tax Act, 1918, to any individual or firm charged under Schedule D, to pay tax in two half-yearly instalments should extend also to companies. The Section provides *inter alia* that tax charged on any individual or firm under Schedules B and D shall be payable in two equal instalments on the 1st day of January and the 1st day of July, and limited liability companies are consequently excluded from this privilege. There does not appear to be any logical reason why the privilege should not extend to companies; on the contrary, the probability is that the profits of an individual or even a firm would be more nearly represented by cash at the time of payment of tax than the profits of a company. It may be generally admitted that trading companies in a large number of cases are compelled to grant longer credit than an individual trader or a partnership firm. Income Tax on a company is assessed on its profits, irrespective of their distribution. Of

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[Continued.]

those profits only a portion would usually be distributed. Deduction of tax on such distributed profits is, of course, taxation at the source, on the members of the company, but it would not alter the fact that a company should be granted the same privileges as an individual or a firm. There is no reason why the members of a company (who would in their individual or partnership capacity be entitled to the privilege) should be deprived of that privilege when their profits in a company are assessed to Income Tax.

The argument by Mr. Montagu in the House of Commons on the 25th June, 1916, when this question was raised—at the instance of the Chartered Institute of Secretaries—on section 33 of the Finance (No. 2) Act, 1915, that companies deduct the tax from interest payable to debenture holders or on interim dividends, and retain the tax in hand until they pay over to the Revenue, and therefore have a very valuable privilege, is not really relevant. In practice the company pays over the amount of liability to its debenture holders or an interim dividend less Income Tax, but often has not at the date of such payment the actual cash set aside to pay the tax. An individual or a firm is equally, with a company, entitled to retain Income Tax from interest that may have to be paid over to other persons, so that they are in exactly the same position from the point of view of privilege, and yet have been granted an additional privilege of payment of Income Tax in two instalments to equalize the burden of taxation whilst companies are left in the position of paying the whole amount of the tax in January. It appears to be unjust that companies as an aggregation of individuals should be placed in any worse position than individuals or firms. The company may sometimes have the money in hand, but so may the individual or firm. Since, however, it has been thought wise to allow the latter the possible use of the money for trading purposes for another six months, there is no reason why an aggregation of individuals in the form of a joint stock company should not be treated on the same footing.

12,065. (3) The existing law leaves it to the Commissioners to decide what is just and reasonable as regards depreciation of plant and machinery, but provides for an appeal to the Board of Referees to determine the deductions to be allowed if the Board is satisfied that the application is made by or on behalf of any considerable number of persons engaged in any class of trade or business.

It is of the utmost importance that deductions for wear and tear and obsolescence of all assets, buildings, plant and machinery employed in trade or business should be placed upon as definite a basis as possible, and the minimum deduction which the Commissioners must allow if claimed should be fixed by Statute.

In the White Paper issued by the Board of Inland Revenue on the 31st July, 1918, agreed rates of depreciation are referred to in a number of important industries. [See Enclosure B to Appendix No. 7 (4).]

In the case of the printing industry the rate is 5 per cent. on the written-down value for engines, boilers and shafting which assume a life of 60 years. The rate is 7½ per cent. on the written-down value of printing and binding machines, which assumes a life of 40 years, and the rate is 10 per cent. on the written-down value of type, which assumes a life of 30 years. It appears unreasonable that the printing trade would confirm these estimates as the life of the assets in question.

In the case of electric light undertakings and tramways, the rate is given as 3 per cent. on the written-down value of cables; this assumes a life for the cables of 100 years, which would appear to be impossible without their being completely replaced by repairs. The rates set out for other undertakings appear to be equally inadequate.

The effect of these high estimates of the life of various plant and machinery must be that too small an amount is written off for a period of years, and then a heavy charge falls on one year either under the heading of cost of repairs or as an allowance for obsolescence where the machinery is replaced by new machinery long before the assumed life of the original machinery has expired. It is obviously extremely difficult to set up a scale of depreciation covering all

kinds of machinery and plant, but, nevertheless, it ought to be possible to obtain legislation preventing the assumption of a longer life than 20 years for any plant or machinery. This would not have any ultimate detrimental effect from the Inland Revenue point of view, as the aggregate amount of deductions is limited to the actual cost of machinery and plant, but traders and business men in general who are not in a position to secure organised representation before the Board of Referees, who must be satisfied that applications are made in a representative way, would not then be left entirely in the hands of the Commissioners or have to depend upon an application being made "by or on behalf of any considerable number of persons engaged in any class of trade or business" to the Board of Referees if the minimum deduction suggested was fixed by Statute. In the case of mills, factories or other similar premises used for trade purposes the allowance under Rule 5 (2) Cases I and II of Schedule D is inadequate and should be increased so that the assumed life of such premises shall not exceed 50 years.

It is practically certain that if the majority of business men and traders had in the past realized the length of time taken to write off the expenditure on plant and machinery at the rates generally allowed by the Commissioners, they would long ago have concentrated such pressure on the Government of the day that legislation, fixing a minimum deduction which the Commissioners must allow and leaving to the discretion of the Commissioners only the allowance of any deduction in excess of such minimum, would have resulted. The inadequate rates at present allowed undoubtedly have the effect of inducing many business men and traders to make inadequate provision for wasting assets, and must have a detrimental effect upon the whole industry of the country and seriously impair the vitality in times of general trade depression of those companies whose depreciating assets have not been rigorously written-down.

12,066. (4) Under section 105 (2) the secretary or other officer (by whatever name called) is deemed to be the employer for the purposes of delivering returns of officers and employees for assessment, and under section 105 the secretary is also answerable for doing all acts required under the Income Tax Act for the purposes of assessment and payment of the tax so far as the body whose official he is concerned. It is therefore of the first importance from the point of view of the Revenue to ensure that he is a person occupying a recognized status in his profession. The official responsible under the Act must be a person not only of reliable and sound business instincts, but should be in a position of having a professional reputation to lose through possible exclusion from membership of his professional institute if his professional rectitude is not maintained. This point is properly recognized in section 187 (3) (c), where an accountant who has the right to be heard in appeals must be a person who has been admitted a member of an incorporated society of accountants. The secretary or other officer (by whatever name called) of a company or other body of persons should for the purposes of the Income Tax Act be "a person who has been admitted a member of an incorporated society."

12,067. (5) The Government Revenue year should end on the 31st March instead of on the 5th April. It would be a convenience to business generally if the Government Income Tax year were brought into line with the date, i.e., 31st March, which is usually adopted to mark the end of one of the business periods of the year, and which has already been adopted by Municipalities for the termination of the year. The historical basis for settling the 5th April should now give place to business convenience. Further, the Exchange year terminates on the 31st March.

GENERALLY.

12,068. The Institute desires to support the points urged in the evidence placed before the Commission by the Conference of Superannuation Funds through Mr. John C. Mitchell, F.C.S., asking (a) that the income from their investments should be exempt from Income Tax, and that only pensions paid should be brought into and rendered liable to assessment; (b) that the contributions of employers should be legally recognized in all cases as a deduction from assessment to Income

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Continued.

Tax; (c) that the contributions of the employees should be allowed as a reduction of income for the purposes of assessment to Income Tax. It also desires to support the points in the evidence on behalf of the Association to Protest Against the Duplication of Income Tax within the Empire through Sir Frederick Young, M.P., which urged the provision of some machinery for avoiding the double assessment to Income Tax on the same income in respect of incomes at present taxed twice within the Empire.

[This concludes the evidence-in-chief.]

12,069. Chairman: Would you tell the Commission what is the Chartered Institute of Secretaries of Joint Stock Companies?—It is a body incorporated under Royal Charter with the object of furthering the interests of secretaries of joint stock companies, and other public bodies, and ensuring their fitness for their duties by imposing an examination and a period of service.

12,070. That is the reason for its existence?—Yes.

12,071. You probably consider questions of finance and other things appertaining to secretarial work, do you not?—Yes.

12,072. That is the reason you have kindly given us this paper for our examination?—That is so.

12,073. Chairman: The Commissioners will now ask you a few questions on it, and I will ask Mr. Preyman to begin.

12,074. Mr. Preyman: With regard to your second paragraph about abolishing the average system, what is your reason for that? Why do you think it is more advantageous to assess on the previous year's profit than of the average?—I think that traders and companies have found that the three years' average was rather confusing in practice, and our opinion was that, generally speaking, as we have stated in our evidence-in-chief, the ideal method of assessment would be that all individual companies and firms should pay their tax on the actual income of the year. That in practice, I suppose, is almost impossible, and we therefore suggested that a method which might be thoroughly satisfactory in working would be that traders should pay tax on the preceding year's ascertained profits. That is already done in many cases, and, generally speaking, that was the opinion we arrived at, that it would be more satisfactory to obtain for practically everybody, in trade or not in trade, a more or less uniform system of assessment. This Commission is well aware, as we have found, that there is a very considerable amount of ignorance existing with regard to Income Tax. It is regarded as something that is very difficult to understand, although they suppose it is all right, and they have got to pay. It would be much simpler, we think, if it was based on only one year's income or assessment.

12,075. First of all, on one remark you made when you spoke of what you thought the ideal system, what you mean as the ideal system would be that the tax for each year should be paid on the whole income of the year in that very year?—Yes.

12,076. You might as well say it is an ideal thing to have a bit of the moon, might you not?—Well, I cannot quite say so.

12,077. How can you pay in the year on the income that is not known or settled until after the year is ended?—We would suggest in that event, although I think the machinery would have to be elaborate, that an assessment should be made on the income of the previous year, and that a demand should be made during the year on that assessment. When the income of the actual year of assessment is being arrived at by the Surveyor, he would arrive at the total for that year, and then he would make either an addition or a subtraction with regard to the amount to be paid, based on the rate of tax paid in the preceding year.

12,078. It would involve two operations every year instead of one?—Yes; as we state in practice we think that could not be done; the machinery would be too elaborate.

12,079. It is not much use talking about ideals which are impracticable, is it?—Of course, I do not know, nor does my Council know, what is impracticable to the Inland Revenue.

12,080. Is not that fairly obvious? It is not a question of the Inland Revenue; it is a question of ordinary common sense?—I think we have pretty well indicated in our evidence that we have come to the conclusion that it is impracticable.

12,081. If a thing is impracticable it is not much use running after it?—No, it is probably a waste of time.

12,082. Do you not realise that there is a perpetual conflict between the two desirables of simplicity and fairness?—Yes, I must say that I do recognise that; it is one of the things that I am constantly up against in business.

12,083. Is it not rather like the two hotels at Limerick?—I am afraid I am not acquainted with that.

12,084. Whichever you go to you wish you had gone to the other?—I think it is very probable.

12,085. Are you not very liable, when you concentrate on simplicity in a case like this, to ignore fairness and convenience, whereas on the other hand where you concentrate on fairness and convenience you are likely to forget simplicity?—That may be so.

12,086. The existing system is really a compromise between the two, and it must always be so, whatever system is adopted, and in order to convince the Commission of your proposal for abolishing the average and for taking the previous year, would you not have to show us that it had an advantage on balance between those two desirables, and not only on simplicity?—There is one point that I must mention, and it is that assessment on an average makes it possible for a trader to pay on more income than he has actually received. I think we pointed out in our evidence that it is equally possible for him to pay on less income than he has actually received.

12,087. Is not there an advantage to the trader in averages that his losses help him in his Income Tax, which on a system of payment by every year they would not do?—It will be essential, if the average is abolished, to carry forward losses.

12,088. Then do you not come back to the average?—Not exactly. May I take an imaginary case for the moment?

12,089. Yes.—Ignoring all questions of abatement or otherwise, let us assume, for instance, that a trader traded for six years and had an actual income in each of those six years of £1,000, and that for the succeeding six years he had an annual income of £1,600. His business then stops. You will see then that on the average system he will have paid on £1,000 more income than he has ever received.

12,090. Quite; but again it is rather like the two hotels. Whatever system you adopt you find some disadvantage in it. Supposing we took your proposal of every year. The trader might make a large profit in one year, but in many trades the profit is, as you know, very variable indeed. Take farming, for instance, than which there is nothing more variable. A farmer may make, especially with poor land, a good profit one year and a heavy loss the next year?—The farmer is assessed under a different Schedule.

12,091. Well, of course, he is an exceptional case, and he is assessed under another Schedule, but there are other trades which are very variable. Unless you carry forward the losses he would lose a great deal more; not only would he pay on more, but he would be paying at the most inconvenient time, and that really is almost more important. The great advantage is to be able to pay when you have got the money?—When you have a good year's profit you know that you have the next year to pay tax on the profits of that year, and it would be the height of folly to spend or distribute that money without having made provision for the tax that you would have to pay in the following year.

12,092. Then if you have done that, and you have got a loss the following year, the time may be very inconvenient; you would like to have money to make good your losses?—That might be so.

12,093. I do not mind what provision you make, it is very inconvenient to have to pay money when you have not got it?—Yes, most inconvenient.

12,094. Then, of course, also, would not your proposal result in a company paying tax in respect of its profits, say, of the year 1919 in January and July of 1921?—In January of 1921.

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[Continued.]

12,095. It is to be half-yearly?—Not for companies.

12,096. Yes; you ask that further down?—We are asking for it, but that is not the state of the law at the present time.

12,097. You must bear in mind I am taking it on your proposal?—I beg your pardon.

12,098. I said on the proposals made in your paper, taken as a whole, a company would be taxed on its 1919 profits in January and July, 1921?—Yes.

12,099. But meantime the shareholders would have been claiming deductions on that Income Tax which has never yet been paid?—Yes, that would be so, but to a greater extent if average is continued.

12,100. Do you think that if you take all those things into consideration there is any real advantage? Do you not think we could get a good many traders to make a plea for the average?—I can quite conceive that you could. If you could do away with the possibility of the trader paying on more income than he actually receives, then I am not sure that the objection to the average could be very strong, it having been in practice for so many years.

12,101. That is an important answer. But your real point is that you want to ensure that no trader or company, under any circumstances, should pay on more income than they actually earn?—That is so.

12,102. That is really all the point there is in it?—That is the real point behind it.

12,103. And if that can be obtained without upsetting all the machinery and giving up all the advantages of the average, that would be better, would it not?—I think perhaps it would. I would not go so far as to say that that is the only reason. I think there is something to be said for the convenience of an assessment on an individual year as opposed to calculations, which are, of course, in many cases comparatively simple when there is an expert working upon them, but there are not always experts available to deal with the matter.

12,104. After all, making a three years' average is not a very difficult operation?—No, and as time goes on we hope that everybody will be more fully conversant with the law as regards Income Tax.

12,105. On the point of the half-yearly payment instead of the annual payment by companies, as you suggest, is not the only object of the half-yearly payment to enable small individual taxpayers, or individual taxpayers who may and a difficulty in laying hands on such a large sum when the tax is so high, to divide their payment and make it more easy for them?—Does not that apply all the way up.

12,106. Does that also apply to companies?—An individual trader or firm may, I should imagine, be in receipt of a very considerable income. There are, I think, only 16,000 public companies on the register, and there are 50,000 private companies on the register. Those private companies have lost their privilege, when they became private companies, of paying tax in two instalments, though they are, to all intents and purposes, otherwise, in the position of the individual trader or firm. So that, even taking it upon the smaller incomes, the 50,000 private companies have lost that privilege, and there are only 16,000 public companies. It is not within my absolute knowledge, but I would suggest that there are a very large number of big private firms making enormous profits, who have this privilege.

12,107. But you have to draw the line somewhere, and if you take the category of individual Income Tax payers, they will include almost all the small taxpayers. If you take the category of companies, there will be some who are not as well off as certain individual firms, but, broadly speaking, companies as a whole find no difficulty in paying the tax annually?—They may or may not. Of course, companies do not always find that their profits become cash directly they have made them, from the book point of view, or from the Income Tax point of view. With regard to that question of the dividing line, I rather think that the real position was that the Government felt at that time, 1915, when this point was being considered, that there would be too large a deferment of Income Tax receipts. It seems to me that that is possibly, we may say, the fatal bar to it—that it might mean deferment. Of course, I cannot tell the amount for certain, but I assume that it might conceivably be as much as £50,000,000.

12,108. Is not that exactly the point—that where it is really essential in the interests of the taxpayer that this deferment should be allowed, it is allowed, but in view of the loss that you refer to, it can only be allowed where it is really essential? It is really essential in the case of the small payer. Also, coming back to your own principle of simplicity, you must draw a simple line; and because the individual payers are the poor payers, the big individuals get the advantage at the same time, for the sake of simplicity. The balance of advantage in the case of individuals appears to be one way; the balance of advantage in the case of companies goes the other way. Obviously an anomaly is involved?—I am not quite sure why, otherwise than on the question of deferment, a line was necessary at all—why the privilege should not be given altogether.

12,109. For the very reason you give; there would be £50,000,000 deferment?—That was in 1915, I think, when that reason was given. The pressure of money for the war was absolutely extreme. Of course, admittedly, it is extreme to-day, but the Income Tax is higher to-day.

12,110. That makes it more necessary, does it not? The higher the Income Tax and the greater the pressure, the more the principles we have been discussing apply?—And also the greater the difficulty of having the cash ready to hand over.

12,111. Then about deductions for wear and tear, obsolescence, and so on; we have had a good deal of evidence on that point. I only want to ask you just one or two questions on that. Do you suggest that that part of a fund which is for the replacement of actual capital, and is not interest, should be exempt from Income Tax?—I am afraid I do not quite follow. What we are suggesting there is mainly that the assumption of life of plant and machinery shall not be as great as it usually has been in practice up to the present. In other words, what we are asking is that the rate of depreciation on a depreciating value shall be increased up to a minimum, still leaving the right of appeal in exceptional cases; first of all, of course, to endeavour to persuade the Surveyor, then to appeal to the Commissioners; and then, if the necessary backing is obtained, to make an application to the Board of Referees. But at present, under the practice, as I understand it, it is quite possible for the same class of plant and machinery to have different rates of depreciation in different parts of the country, and the trader is not in a position to know that he can of right claim a reasonable amount for depreciation. He can only ascertain that as a result of negotiation with the Surveyor, in many cases.

12,112. Under the present Act, any considerable body of traders can go to the Board of Referees and get their case considered, and the cases that you refer to out of the White Paper are cases where there has been an actual agreement between the Revenue and the representatives of the industry?—I am not quite sure whether the Inland Revenue go so far as that in their statement—that there has been an actual agreement. If I may turn to the White Paper for a moment, it is stated that "Although no fixed scale of allowance is prescribed by law, definite rates of depreciation on different classes of machinery have been agreed upon for uniform application—subject to the concurrence of the respective bodies of Income Tax Commissioners—in a number of important industries as the result of applications by representatives of the industries to the Board of Inland Revenue." [Enclosure B to App. No. 7 (3), para. 4.] Now I notice that they are called "agreed rates." I know in one particular case that the agreement consisted of the trade desiring to obtain a greater rate for depreciation; the Inland Revenue did increase the rate to some extent, but not nearly as far as was asked. Beyond that there was no absolute agreement.

12,113. You mean they did not willingly accept it?—They did not willingly accept it; they simply had to take what they could get. Of course I am not aware whether that prevails in other cases with re-

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[Continued.]

gard to this statement; and, furthermore, it does appear to us that it is a rate of depreciation for classes of machinery, more than for classes of trade, that is required. I am not quite sure whether I shall be able to elaborate this very plainly to you. I should like to make the point very plain, if I can. I would like to see a reasonable number of classes of machinery set up, such as generating plant; probably that might have to be subdivided; and then there would be a fixed plant, machine tools, and so forth—not too elaborate a list of machinery. There, again, I am not quite sure how this could be arrived at, whether it should be as the result of an application by experts, or an argument by experts, we will say, before such a body as the Board of Referees. I only suggest that.

12,114. You are not forgetting simplicity are you?—No; I want this to be statutory. Then, having fixed an assumed life, if you like, call it a rough and ready assumed life, for each class of machine, the trader would have a statutory right to a rate of depreciation which would meet that assumed life. If he wants more, then he must make the ordinary form of appeal, or get his trade to make an application to the Board of Referees. But I suggest that if a reasonable assumption of life was set up and made statutory, the machinery would be very much lessened, and that discussions with Surveyors or appeals to the Commissioners, would be very much lessened.

12,115. The difference between what you propose and what is done now, is that you want the life made statutory, and you want the machinery classified?—Yes.

12,116. Otherwise what you propose is exactly what is done now?—And a minimum life. I would not suggest a ridiculously low life.

12,117. You suggest that a minimum life should be made statutory, and that the machinery should be classified?—Yes.

12,118. Otherwise, the present system is satisfactory?—Yes.

12,119. Of course those would be very considerable changes?—The percentage should be worked on a depreciating basis as at present; because we recognize that there would be a very serious objection from the Inland Revenue point of view, to making the depreciation based on a percentage of the actual cost. From the Inland Revenue point of view, we can see that there might be very serious objections to that; whereas under the present practice of an allowance on a depreciating basis, they can check whether a fair claim is being made, or whether there is any fraud. I should imagine they could probably check that. On the percentage of actual cost a very elaborate system would have to be set up.

12,120. You mean the cost of repairs?—Not on the cost of repairs, but with keeping a record of each machine. That could be done, that is not impossible, but it would be very elaborate.

12,121. Of course it would vary very much with the time when the machine was bought?—Yes, naturally.

12,122. It would be very expensive and difficult, I quite agree. Have you taken compound interest into account in the figures you have illustrated?—No, I have not taken compound interest into account.

12,123. Assuming that money is put aside for replacement and obsolescence, ought not that to be treated as earning compound interest?—I am not quite expert enough to know that. I imagine that that would be included in the word "reasonable"—the amount of reasonable wear and tear that is allowed; and I think that the rate allowed by the Commissioners, for instance, does take that into account, and therefore, of course, the assumption of life which is referred to in the evidence here is somewhat exaggerated.

12,124. Why do you suggest that there should be legislation presuming that there should be never a longer life than 20 years for any plant or machinery? Some last more than 20 years, does it not?—Certainly, but is it economical? Is it good for the country that plant shall be prolonged as long as it will practically last, although possibly you are losing money heavily, both in wages and efficiency, by run-

ning that plant too long? 20 years, obviously, is an arbitrary figure. Some might be worked economically very much longer, but inasmuch as the Inland Revenue, on a depreciating percentage basis, are never allowing depreciation for a greater amount than the original cost, we submit that no very great harm would be done if a mistake of a small number of years had been made in estimating the life, and if the plant did prove to be economically able to go on for a further number of years. I do not know whether I ought to go on with a line of argument such as this, but the country has been hearing a great deal of late on this question of efficiency; and I think your gentlemen must be fully aware that the practice in this country has in the past been very bad in that respect; the trader has been very lax in throwing out uneconomical machinery.

12,125. Chairman: When you have got your machinery, you do not look back and see what amount has been allowed for depreciation on it. I do not think one man in a hundred ever looks to see what the machinery has cost?—I think a Board of directors would very probably ask, when they were considering, say, installing a new generating plant, "How much does this generating plant stand at upon our books?"

12,126. I have never known it to be done in an efficient organisation. Do you suggest that they look at it and work it another year because of the depreciation?—You are speaking now obviously of a very big concern, where the question of a few thousand pounds on a new generating plant, or anything of that sort, is a matter of very little importance.

12,127. Mr. Petyman: I know something about much smaller concerns, where one or two thousand pounds is of very great importance, and I can confirm exactly what the Chairman says. Your argument, it seems to me, would have very great force if replacement was the condition of the allowance for depreciation. But replacement is not a condition in any way. You get your allowance whether you replace or whether you do not, and you get just the same allowance however long you keep your machinery?—Yes, but it is only the question of payment of Income Tax. The amount remaining standing on the books of the company at the time when scrapping takes place has to be written off that year's accounts, off that year's profits, apart from the question of their having to pay tax. They have to take that into consideration.

12,128. Yes, I know, but I do not see that it makes it in any way obligatory, or even very desirable, to replace the machines. What do they gain by it?—They gain by the fact that if the life had been, we will say, more accurately presumed, they would have such a small amount standing on their books as the value of the machine at the time, that it would be negligible.

12,129. Mr. Walker Clark: It is not necessary that the Income Tax depreciation should govern the depreciation allowed by a firm?—Certainly not; I quite understand that.

12,130. Sir W. Trower: May I put a general proposition and ask you if you think this is a fair way of stating it: that an annual allowance should be made, spread over such a number of years as would, if expressed by a sinking fund, restore the whole capital employed?—I am afraid I did not quite understand that.

12,131. I will repeat the question. I wanted to arrive at what is fair as a general principle in your opinion. Would this be a fair way of expressing it: that an annual allowance should be made to the trader, spread over such a number of years as would, if expressed by a sinking fund, restore the whole capital employed in plant and machinery?—Yes, I should think that would.

12,132. Mr. Walker Clark: In paragraph 4 you say: "The secretary or other officer (by whatever name called) of a company or other body of persons should for the purpose of the Income Tax Act be a person who has been admitted a member of an 'incorporated society.'" What exactly does that mean? I am quoting your own words?—That was intended to mean a person who has been admitted a member of a professional incorporated society or institute. I must confess that the wording is a little loose.

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[Continued.]

12,133. Then a doctor would be eligible?—I think he would.

12,134. And a lawyer?—Certainly, and an accountant.

12,135. Provided he was a member of an incorporated society?—A professional incorporated society.

12,136. But the chief accountant of a railway company, dealing with many millions, who was not a member of an incorporated society, would not be eligible?—That is so.

12,137. And you think that is desirable?—Of course this evidence is dealing with Inland Revenue matters, but very serious responsibilities are thrown upon the officials of public companies under the Companies Acts. They have all sorts of responsibilities and are liable to all sorts of penalties. I daresay some of you gentlemen have come across instances in the past where it has been considered that practically anybody could be appointed a secretary of a company. We are hoping that in the course of years that will be stopped.

12,138. May I point out that this is nothing to do with a company. It says: "or other body of persons." It may be me and my partners; and we are not dealing with the Companies' Acts, we are dealing now purely with the Income Tax Act?—You will notice, with regard to that, that you do exclude the chief accountant of a railway company when it is a question of appeal. In the case of an accountant who is entitled to appear before the Commissioners, he must be a member of an incorporated society, and that does exclude the chief accountant of a railway.

12,139. Unless he is admitted to the appeal as an employee, he is admitted as an employee whether he is a member of an incorporated society or not?—Not for the purpose of that section.

12,140. I want to point out that this is an alteration in the law of a very far-reaching description, and I want to find out whether your society and you recommend us to go as far as this paragraph goes. That is the point?—Certainly we do.

12,141. Then I shall not support you?—No, I am afraid perhaps that may be so.

12,142. Mr. McIntosh: Did I understand you to say that you considered it, on the whole, impracticable to assess on the basis of the preceding year?—No; that is certainly practicable; but it is impracticable to assess on the actual year's income.

12,143. On the question of your assumed rate for depreciation, I think you will agree that if there were an assumed rate, it would probably be lower than the general rate that is given to-day?—I am not assuming that. I am assuming that the present rates, on the whole, are on the low side; not in every case on the low side, but that as a whole they are on the low side. When you assume a life of 35, 40, or 45 years for plant or machinery, it is not economical at the end of that period, and usually it should be scrapped long before the expiration of that period. The idea would be to get rather nearer the actual life.

12,144. It is not the province of the Inland Revenue to give such a rate if the holder of plant does not think fit to scrap it?—No.

12,145. I suggest to you that if you have a statutory assumed rate, it must of necessity be a low rate, to take into account the firms who handle their plant in the most efficient way, and who repair it and take every care of it. It must be a low assumed rate?—I would suggest making an allowance for that. Supposing the argument were that for a particular classification of plant or machinery the assumed life should be 25 years, and also it was argued that the assumed life should be 35 years, obviously in such a case as that the man would meet the case of the trader who looks after the plant well and the man who looks after the plant badly. I return to the point that in no event would the Inland Revenue allow depreciation which amounts to more than the cost of the plant; so that a few years one way or the other would not make much difference.

12,146. You recognize that that is not only going to throw a very heavy burden on the Inland Revenue, but also on the taxpayer, if he has to know exactly

what piece of plant is to be taken out of his book for depreciation purposes. The average trader would find it so much trouble to keep all his plant separate for Income Tax purposes?—I was not suggesting that. I suggested that the depreciation should still continue to be calculated upon the depreciating value, so that if the plant did run on for a longer period, they would still not receive an allowance of a greater amount than the cost of the plant.

12,147. Have you considered the many thousands of undertakings at present which would have the greatest possible difficulty in getting a commencing value?—The only difficulty there, I think, would be to take the plant and machinery schedule and divide it into the classes set up by Statute; and that, I think, is not impracticable.

12,148. You think that is a practicable proposition to do that as a fresh start?—I think it would necessitate the services in many cases, undoubtedly, of accountants. I do not know whether I ought to mention this, but I happen to be connected with a big engineering concern that has been going many years; I do not want the work, but I think I would undertake to get it separated into the classes when they were set up. It would take some time to do, but I could get it done.

12,149. Present book values have probably no relation whatever to their real values?—No, but I can ascertain at what value any particular item of plant is standing in our books. I know what year it was bought, and I know what it originally cost us; therefore I do not think it is impossible to obtain such a classification as that. I quite agree that it would be difficult in some cases, where accurate records have not been kept. It would be very difficult then.

12,150. Your view is that traders would welcome a change such as you advocate?—I do not know about traders in general. I am speaking on behalf of the Chartered Institute of Secretaries and officials of fairly big companies.

12,151. Then on the question of the rate being too low, and assuming a longer life than the real life, in the event of replacement, the present obsolescence allowance goes some way to meet that difficulty?—Undoubtedly it does, but I would like to bring down the amount left to a lower value when obsolescence takes place.

12,152. That is, that the allowance for obsolescence to-day, in your view, is too high?—It may be, and I think in most cases it will be higher than it ought to be.

12,153. Still, you get it?—You get it. May I just say that, although that was thrashed out in 1897, as the result of a letter from the Treasury to the Association of Chambers of Commerce, I believe, in connection with a case in Leicester, in that letter it is stated that when other cases arose in other parts of the country, it would be made known to the Surveyors of Taxes; but it was not until 1918 that this became a statutory right, or that a very large number of traders were aware of the fact that they could obtain an allowance for obsolescence. That is why I suggest it is very important to get a statutory allowance, not resting wholly on practice.

12,154. It does not rest on the Leicester letter to-day?—No.

12,155. And those who were ignorant of the Leicester letter before it became the general practice, are still getting depreciation on plant which is no longer in use on their premises?—That may be.

12,156. Is it not so?—But it does not amount to more than the original cost.

12,157. I know, but they are still getting that measure of relief. I mean they have not been penalised?—No; they have not been penalised, I admit, but you must bear in mind that in some cases they may have written the value out, being unaware of the fact that they were entitled to go on. Ignorance of the law—or rather of the practice—I suppose, is no answer.

12,158. Mr. Kerly: It is suggested that if companies pay by half-yearly instalments, there will be a postponement of a substantial part of the tax for a particular year?—That is so.

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[Continued.]

12,159. Would there be any difficulty in offering a company the option of making its first half-yearly instalment in advance, instead of paying £1,000 in January?—Antedate the first payment?

12,160. Anticipate the first half-yearly payment, and postpone the other one. You would get at the average in that way, would you not?—Yes, but they would still not be receiving the privilege that firms and individual traders receive, and it would hardly be acceptable for them to be placed in possibly a worse position than they are in now.

12,161. You suggest that the secretary of a company (I will leave out firms) should be a member of some chartered institute?—That is so.

Mr. A. E. PIGGOTT and Mr. H. W. LITTLE, F.C.I.S., called and examined.

The witnesses handed in the following statements as their evidence-in-chief:—

Evidence-in-chief of Mr. ARTHUR EDWIN PIGGOTT, Fellow of the Society of Accountants and Auditors Incorporated, Member of the Council of the Society, Honorary Secretary to the Manchester and District Society of Incorporated Accountants, Secretary to the Manchester Home Trade Association, the Silk Association of Great Britain and Ireland Incorporated, and the Manchester Crematorium Limited. In general practice as an incorporated accountant, at No. 56, Mosley Street, Manchester, under the style or firm of Arthur E. Piggott & Co., appearing on behalf of the Cremation Society of England, the London Cremation Co., Limited, the Manchester Crematorium, Limited, the Birmingham Crematorium, Limited, the Scottish Burial Reform and Cremation Society, Limited, the South Metropolitan Cemetery Co., and on behalf of cremation authorities generally. Mr. Piggott also tenders some evidence of a general nature as a practising accountant.

In his representative capacity Mr. Piggott wishes to lay before the Commission the following:—

12,164. (1) No annual profit can arise from an undertaking until the annual wastage of those assets exhausted in earning the profit has been provided for out of revenue.

12,165. (2) That there should be some provision specifically for the allowance of all charges necessary to produce revenue.

12,166. (3) The object of Income Tax being to tax income, sound accountancy demands that net income shall be ascertained only after provision has been made for all expenses incurred, these expenses being then set against the receipts accrued or accruing during the period—the balance giving the result of the trading.

12,167. (4) The particular points in regard to crematorium undertakings arise:—

(a) in connection with the actual process of cremation, and

(b) the provision of columbaria for the reception of urns containing cremated human remains.

(a) *Repairs to furnaces.*—The cost of these should be allowed in the accounts as and when incurred, and in addition allowances for wear and tear of the furnaces, spread over the agreed estimated life.

(b) *Provision of columbaria.*—This question is becoming increasingly important because of the increase of cremation. In existing circumstances the cremation undertakings are required by the Income Tax authorities to bring in for Income Tax assessment the whole of the receipts derived from the sale of niche spaces in the columbaria, while the expenditure incurred in erecting the columbaria and providing these niche spaces is treated for revenue purposes as capital expenditure. This expenditure alone makes income from niches possible, but niches are exhausted in the process. I submit that the existing practice requires alteration. Two concrete illustrations are submitted, A and B, as typical of all crematoria that provide

12,162. Are there not a great number of companies which are formed out by a gentleman who is nominally secretary to a very great number of them?—There are a certain number, not a very large number, but there are some. As an actual fact, you have joint stock companies acting as secretaries in some cases.

12,163. You would have to deal with that possibility, if you introduced any such legislation as you suggest?—That is so; and with regard to joint stock companies acting as secretaries, they are placing themselves in a rather peculiar position as regards responsibilities already under the Companies' Acts. The Chartered Institute of Secretaries strongly object to joint stock companies acting as secretaries.

accommodation for the deposit of urns other than by means of the provision of grave spaces (which latter aspect is being dealt with by Mr. H. W. Little, F.C.I.S., on behalf of cemetery undertakings). My evidence is in regard to the provision of columbaria, of which there are two main kinds:—

- (a) a building devoted wholly to that purpose, and
- (b) an erection fitted into, or attached to, an existing building or structure.

Illustration A.

Columbarium—London Cremation Co., Ltd.

The columbarium was erected in 1919 at a cost—building and niche structures (not including cost of land or other incidental expenses, other than architects' fee)—of £3,735 3s. 2d. Pictorial illustrations of this building are produced. These show a square tower with an annex forming a staircase giving access to five separate floors or chambers, a stone ascending forming the balconies from which the niches for urns are approached. The floors are of concrete with marble paving. In the lowest floor are separate chambers, or vaults, with bronze doors. Provision is made for a total number of 1,544 niches of varying size, representing a total capacity of 2,349 units—each unit providing sufficient cubic space for the reception of one urn of standard size. The prime cost per unit of these spaces works out to £1 16s. 2d. each. The niche structures in the entire building are estimated to have a selling value of £15,100. For the 84 years ended June 30, 1919, the number of niches sold produced £12,250. Only one-half of this sum is brought into the company's profit and loss accounts, yet the whole is brought into account for Income Tax assessment, and no allowance made for the prime cost to the company of the niches sold to produce the said revenue of £12,250.

Illustration B.

Columbaria—Manchester Crematorium.

This case is in principle on all fours with that of the London Cremation Company's columbaria at Golders Green. Pictorial illustrations of the Manchester columbaria are produced. At this crematorium there are at present no columbaria separately erected, i.e., not attached to the main building, but the company has recently purchased a plot of land adjoining its own grounds and the southern cemetery of the Manchester Corporation. It is the intention of the company to devote the whole of this land to the purpose of erecting columbaria thereon and of providing grave spaces for the reception of cremated human remains, and therefore the question of the allowances for Income Tax purposes of the cost incidental to the provision of these columbaria or graves is of very great importance. The crematorium buildings at Manchester, including the additions thereto of 13 columbaria, have cost £66,920. Of this sum £288 have been expended on providing the columbaria, viz.: 4 within the Chapel and 9 in the two colonnades on the outside. In each case advantage has been taken of spaces between the buttresses of the walls and these have been filled with masonry shelves and uprights forming niches. Provision has thus been made for 164 double and 858 single niches, a total of 1,022 niches, or 10

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units of "single niches," a total of 1,186. It is not claimed that there should be an allowance for exhaustion in regard to the proportionate cost of the walls of the building against which the niches are placed, but merely allowances in respect of the cost of the columbarium itself.

12,168. (5) This concludes the evidence submitted on behalf of the cremation authorities.

General observations in regard to Income Tax.

12,169. (6) *Assessment of property, Schedule A.*—The present method of assessing property for Income Tax might be abolished, and the property assessed in the same way as profits arising under Schedule D. Owners of property let under a rental might be called upon to make a return of the actual rentals received, and they should be allowed all the expenses incidental to the management of the property, so that the net receipts only would thus be taxed. Such expenses would include rates when paid by the owner as distinct from the tenant, repairs, insurance, agents' fees, and/or management expenses. In connection with this question I desire to bring under the notice of the Commissioners the following letter.

"Dear Mr. Piggott,

"In our conversation the other day you mentioned that the Commission on Income Tax were asking for suggestions concerning it. I should be glad if you would draw their attention to those like myself who have no earned income and have only a small one from property. They told me at the Inland Revenue Office, Deansgate, that I was paying tax on £210, after deducting the £3. and £180 abatement, and also £25 allowed for maintenance of wife, but I don't really receive anything like that income, as the property tax and frightful cost of labour and materials reduce it much below what I am paying tax on. I don't know how to keep on paying my way.

"I have had to bring up and educate my seven children, by whom I have never made a penny. The four sons are in the Army and the daughters all married. Still my wife and self find it very difficult to buy clothes and food.

"I am paying considerably over £30 a year Income Tax. It is a terrible one on my little income, and being in my 70th year I don't feel strong enough to take up any other employment than looking after my property and collecting the rents. It is called unearned increment, but I had to work 12 hours a day for 36 years for it, except the little my mother left me.

"I shall be glad if these remarks are of any use to you.

"Yours sincerely,

"Signed. G. R. ASHWORTH."

12,170. (7) *Depreciation of machinery, plant, &c.*—Rates of depreciation should be established for all classes of fixed or movable assets (boilers, engines, machinery, plant, fixtures, fittings, utensils, &c.). The appropriate rates could be arrived at by an enquiry from and agreement with the various trades interested, and might be known as "Statutory Depreciation Rates." Provision could be made for the revision of these rates from time to time, in order to keep them in harmony with the requirements and developments of industry. In all cases annual depreciation should be based upon the original cost and not upon the written down value. Even a 5 per cent. depreciation would take 20 years before the assets depreciated were entirely written off. While, if based on the written down value there would be no finality. Surveyors of Income Tax can only allow the rates of depreciation that have been agreed to be taken, and these rates may not coincide with the rates adopted in the accounts, and thus it means that there are two sets of accounts—the firm's or company's account, and the Surveyor's accounts, with the result that I have known accountants showing no depreciation in the profit and loss account, because the assets had been extinguished over a period of years, yet depreciation being allowed for Income Tax purposes.

12,171. (8) *"Free of Income Tax."*—The practice of paying fees, salaries, or even dividends "free of Income Tax" should be abolished. In regard to individuals, I think every citizen should be directly assessable by the State. Payment of Income Tax for others not only alters the nature of the Income Tax, but it lessens individual responsibility and tends to create indifference as to the amount of tax paid or in questions of exemption, allowances, &c. It is the duty and privilege of every citizen to bear his or her share of direct taxation and to use the reasonable opportunities that may be afforded, of controlling such expenditure. Too much importance cannot be attached to the distinction between direct and indirect taxation, because the latter is usually an unknown quantity to the taxpayer. When applied to dividends, &c., the "free of tax" system hides the amount of the contribution to the public revenue. It increases very much the difficulty of making proper returns, but in cases of claims for repayment, the authorities, being supplied with all particulars of income by means of vouchers, correct the claims without reference to the claimant, and as in almost every case the claim which includes "free of tax" dividends, is understated, the claimants receive back more than the amount claimed, much to their satisfaction. Every dividend or interest notice should by law be compelled to disclose the capital sum involved, the rate of dividend or interest, the period for which it is paid, and the total amount, and therefrom should be deducted the tax applicable.

12,172. (9) *Extension of Schedule D. to weekly wages.*—In my opinion the assessment of income, being the principle of direct taxation, is the best and most equitable method of raising revenue, and must tend to an increase of interest in national expenditure, because it brings home to each person the knowledge of his or her proportion of contribution to the national fund. With the adoption of a system brought down to, say, all incomes of 20s. a week and over, much indirect taxation now levied should be lightened and finally abolished. I submit that the range of Schedule D. tax should be extended to include all weekly wage-earners, and in these cases (after a suitable alteration and adjustment of the rates) be collected by means of stamps, and be worked on the same lines as is now done in the matter of National Health Insurance. It should not be a flat all round rate, but based on a finely graduated scale, commencing with amounts not exceeding £1 per week and rising in steps graded according to each 10s. per week paid, up to, say, £5 per week. The employer would purchase and affix stamps, placing the same on an Income Tax card, and deducting the amount from the wages as is done in the case of workers' contributions for insurance purposes. This would mean that the present somewhat complicated system of allowances and of abatements would be done away with, but the rates of the tax could be adjusted. The advantage to the Revenue from large sums of Income Tax received weekly through the sale of stamps would be enormous, and as in such a case the employers would be doing a State service, this service might be compensated for by an allowance by way of commission on the wages paid. Its adoption would mean that certain taxpayers would have to think in terms of a week, and shillings and pence, rather than in terms of a year and pounds and shillings, applicable in other cases. I do not suggest what the rates should be. The tax might start and be so framed that every increase of 10s. per week would carry a slightly higher rate, until in the higher regions it met those incomes which would be assessed on direct personal returns.

12,173. (10) *Abolition of the office of Assessor.*—Suggestions in which I concur have been made for the abolition of these officers. In practice assessments to Income Tax are frequently settled with the Surveyor before the Assessor's forms of return are sent out. This causes unnecessary labour in that all the papers have again to be examined to enable the forms to be filled in, when matters have already been settled.

[This concludes the evidence-in-chief of Mr. A. E. Piggott.]

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Evidence-in-chief of Mr. H. W. LITTLE, Fellow of the Chartered Institute of Secretaries; Honorary Secretary to the Trade Association of the Proprietary Cemetery Companies of the Greater London Area; and Managing Director of the East London Cemetery Co., Ltd.

This evidence is submitted in conjunction with that of Mr. A. H. Piggott, Hon. Sec. of the Manchester Crematorium, Ltd., and relates to the necessity for allowances out of each year's revenue for expired capital outlay on land and buildings, &c.

12,174. (1) Cemetery companies and crematorium companies purchase land at a value midway between that of agricultural land and of land developed for building purposes. Before the land can be brought to produce revenue for cemetery or crematorium purposes, considerable expenditure is necessary upon fences, sub-soil drainage, roads, plantations, gardens, greenhouses, and possibly nurseries. In addition, caretakers' quarters, clerks' offices, chapels, and in some cases mortuaries and waiting rooms must be provided; and the licence from the Home Office to operate as a public cemetery must be obtained often at considerable expense, owing to local opposition. Further, in some cases there is the expense of consecration by the Bishop of the Diocese.

12,175. (2) The land is cut up and used for common interments, or perpetual rights of burial are granted in areas varying from 7 feet by 2 feet 6 inches to 10 feet by 6 feet 6 inches and upwards, and the charges vary first according to size, and secondly according to prominence of position in the cemetery or crematorium grounds.

12,176. (3) The companies contend that they are entitled to be allowed deductions from annual revenue equal to the cost of the area of the cemetery which is consumed or appropriated for burials in each year; the cost being the proportion of the whole value at which the land stands after it has been raised to the condition of a saleable article; it being contended that the amount of ground used in this way each year is in effect a sale of stock-in-trade or goods sold which were purchased in advance of day to day requirements.

12,177. (4) I would also point out that the buildings, the drainage, the planting, the construction of roads and boundary fences become a burden as soon as the land is exhausted by burials, and therefore these are in the nature of wasting assets, for which allowance should also be granted.

12,178. (5) The same argument applies to land sold or leased by cremation companies, except that in these cases, the buildings which constitute the crematoria might remain to some extent an asset, owing to the fact that even after the land used as burial spaces is exhausted, the crematoria may still continue to be used for the incineration of human bodies, the ashes being either scattered or deposited elsewhere.

12,179. (6) Many cemetery companies have for years been paying Income Tax on what is in reality exhausted capital outlay, that is to say revenue expenditure incurred in advance of the requirements of the moment.

12,180. (7) I would also point out that whereas the incidence in the expenditure of the various cemeteries and crematoria may be varied in the case of each individual company, the principle involved is the same throughout. We do not ask for special relief, but only for equality of treatment.

[This concludes the evidence-in-chief of Mr. H. W. Little.]

12,181. Mr. Kerly: I will ask Mr. Piggott the questions, and we will ask Mr. Little afterwards if he has anything to say by way of supplement; but if he can assist you during your evidence he is quite at liberty to do so.—(Mr. Piggott): Thank you.

12,182. The Commissioners have your statement, which they have of course read, and we only desire to ask you questions to elucidate particular points. Your first suggestion is, as I understand, that you think cemetery companies are unfairly treated because they have to sell out each year in order to

produce their income certain grave spaces and also certain things that I think you call niches?—Yes.

12,183. And they are not allowed to charge the whole proportionate cost of the grave space or the niche as the case may be to the company as an expense?—That is so.

12,184. Your suggestion is that the whole of that ought to be set off from the annual income?—Yes, because they take the whole of the receipts.

12,185. Your general proposition that no annual profit can arise from an undertaking until the annual wastage of the assets exhausted in earning it has been provided for out of revenue would go a very long way?—I take it it would.

12,186. Take, for instance, the case of a single steamship. Is any allowance made in respect of the fact that the steamship is getting older?—I have no experience of steamships.

12,187. In the case of a building, the building wears out in a certain number of years, but a trader is not allowed to set aside some part of his capital cost in providing that building against his profits?—But our contention would be that he should.

12,188. You would like the principle to be applied quite generally?—Oh, certainly.

12,189. What about the worker himself—the number of years before his is diminishing?—(Mr. Little): And the business man.

12,190. Do cemetery companies as a rule in their accounts set aside part of their receipts for the return of capital on the system you are suggesting?—Some do and some do not.

12,191. Is it general?—Yes, rather general. The newer or more modern companies do; the older ones do not, or they have only recently adopted the practice.

12,192. But do they make any allowance for the upkeep? When a payment is made for a grave space that covers the future upkeep, does it not?—No, the upkeep of graves entirely rests with the purchaser.

12,193. But the general upkeep of the cemetery?—They treat to the annual revenue being sufficient.

12,194. They charge that to the annual revenue?—The general upkeep, yes.

12,195. In fact it must be part of the payment for the grave space, because nobody would buy a space unless he anticipated the place was going to be kept in order?—No. The space itself is entirely the responsibility of the owner. The surroundings, such as roadways and that sort of thing, are the expense of the company.

12,196. How do you propose to deal with that in the annual accounts?—I do not quite follow.

12,197. I suggest to you, although you do not accept it, that the payment made for each particular grave space is in fact in part a payment in respect of some part of the future upkeep of what you call the surroundings. Are you going to deal with the whole of that payment as revenue for the particular year?—As it has been in the past.

12,198. Mr. Piggott suggests, and I think also Mr. Little, that all the annual repairs should be allowed against income before getting net taxable income?—(Mr. Piggott): Yes.

12,199. Do you ask for renewals as well as allowance for repairs?—Yes, because renewal extends the life. It is difficult to talk of renewals. I do not know how it affects my friend, but renewals with us would only be with regard to a furnace. I think the proper way to deal with a furnace would be to allow us our repairs and a depreciation based upon the probable number of years that the furnace might be in good operation; if there was a renewal it would be largely in the nature of a repair to a furnace unless the furnace was entirely rebuilt, when again the operation of depreciation would come in.

12,200. What is actually done now with regard to repairs?—We make repairs as needed, and at present a furnace which we put in some little time ago has not needed renewal, and will not need renewal for some time.

12,201. What allowance, if any, is made in respect of repairs?—None.

12,202. You are not allowed to charge any part of it to your income?—No.

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12,203. What about renewals?—Those are struck out too.

12,204. You are allowed depreciation, I suppose?—No, not on the furnaces; they call it capital, and that is the trouble.

12,205. I do not see why they do. Can you suggest that there is any general difference of principle between a cremation company having its assets wearing out or exhausted in parts, and an ordinary building of a trader in the case I put to you just now?—No, I do not think there is any difference in principle. One might wear out quicker than the other.

12,206. Apart from your special evidence you have made one or two suggestions of a general nature. In paragraph 6, profits arising under Schedule D, you suggest that there should be an allowance—in order to arrive at the not taxable income—for such things as repairs, insurance, agent's fees and management expenses. Is not that at present met under Schedule A, by the allowance of one-sixth?—Not for ordinary property owners.

12,207. Do you mean that the one-sixth is not sufficient, or that there should be other things besides the one-sixth?—I was under the impression that the one-sixth was not sufficient, but I took the trouble to take out some figures of some properties that we have in our office, and I was extremely surprised, I may say, to find that it was sufficient. It is true that those were over the last three years, when probably repairs may have been done as little as possible. The point I would wish to emphasize is this, that I think under Schedule A it ought at least to be optional for a man either to provide an ordinary profit and loss account in respect of his properties, or to have the advantage of Schedule A. I think the whole thing rather wants an inquiry on those lines, as to what the effect really is, whether or not property owners are benefitting or otherwise by the difference between the net Schedule A assessment and the gross rent, because I do not think that it can be equitable exactly on both sides. Either the Revenue or the property-holder is probably getting an advantage.

12,208. You appreciate that if you are going to take account for many, many thousands of properties, and take it year after year, that will be a long business, expensive for the Revenue, dilatory with regard to payment, and troublesome to the owners. The present practice is to take a flat rate?—Troublesome to the owners, perhaps, but I do not see why it should be dilatory.

12,209. I presume, then, you would suggest that the tax be paid as at present, and that the owner should have the opportunity of subsequent adjustment?—Or alternatively that he be assessed for the property under Schedule D or in the same manner as under Schedule A, that is to say, he must prove that he has made a profit or a loss.

12,210. Mr. Walker Clerk: At the head of your paper you say that you are a member of the Incorporated Accountants of Manchester and also the Manchester Home Trade Association?—Yes.

12,211. Do you represent them here?—No.

12,212. Then this evidence is personal?—The second portion of my evidence is entirely personal.

12,213. It was the second portion to which I wished to call attention. As I understand, in paragraph 9 you suggest that the wage-earner with 20s. a week should contribute something towards Imperial taxation?—I do.

12,214. You know that this Commission has had very different proposals submitted to it?—I have not had time to read all the evidence, but I have seen some.

12,215. And that that point has been very strongly pressed upon us from almost all sections of the community?—I am glad to hear it.

12,216. That £350 should be the limit, whereas you suggest £50?—That would depend altogether on the rate.

12,217. No, it does not depend on the rate; the pressure upon us is without reference to rate?—I do not hold with that.

12,218. Have you any support from others for the views you hold?—No, I speak only for myself, but of course I have talked with people.

12,219. You would not submit in evidence that this was a considered opinion of others besides yourself?

—No, I should very much have liked to have had the considered opinion, for instance, of our local society, but there has been no opportunity to put it before them.

12,220. Again, you say in the same paragraph that the employer would purchase and affix stamps, placing the stamp on an Income Tax card. Have you consulted any employers as to whether they were willing to do that?—No. There was a good deal of trouble when they were compelled to do it for insurance purposes.

12,221. Is not there still?—There would probably be quite as much in connection with this.

12,222. Is not there still?—I have not come across any.

12,223. Nor expense?—The expense must be nominal.

12,224. I can assure you it is not in many cases. Your views on these two matters are purely personal?—Yes.

12,225. Mr. McLintock: On the question of property, does not the new Finance Act of 1919 give a certain measure of relief?—Is not that only in connection with Excess Profits Duty?

12,226. No. The new Finance Act states that the houses to which Rule 8 of No. V in Schedule A, which concerns relief in certain cases in respect of the cost of maintenance, repairs, insurance and management of houses applies to any house the annual value of which does not exceed in the metropolitan district of London £70, in Scotland £60, and in other places £52?—Yes.

12,227. That is what you ask for under Schedule A now?—I do not know that that is exactly what I ask for, but it seems to be something towards meeting my point.

12,228. You ask that the actual outgoings for these various purposes be actually ascertained year by year, and if the net revenue is less than the net Schedule A assessment you get back tax on the difference?—Yes, that is right.

12,229. I think that goes a long way to meet that point. It was formerly restricted to certain small cottage property?—Yes. Of course, this is rather new, and it has not, perhaps, got generally known.

12,230. Mr. Kerly: Mr. Little, do you desire to add anything to the evidence that Mr. Piggott has given?—(Mr. Little): I think not, sir. Curiously enough, two points that interested me very much are two that only appear in Mr. Piggott's part of the paper, and not in mine, and perhaps I might just express my own opinion with regard to these two points. The first inquiry was with regard to the taxation of men with incomes from £1 per week upwards. I have some practical experience of a good many years of handling small cottage property, and I think that if it were possible to get any portion of the Income Tax paid direct by the smallest-paid employee its educational value from the point of view of making a man realize his responsibilities, and also to some extent his privileges, would be well worth a good deal of trouble. I want to emphasize that by stating that the ability which has been taken advantage of by very many landlords of collecting the additional rates which have fallen in the East London areas from the tenants direct has made them realize that their wild cat schemes and reckless way of demanding wages does react on their personal pocket. Although I very fully indeed realize the tremendous opposition which will be brought against any proposal to tax men down to even £1 a week, if you could bring them to realize that every increase of expenditure and every—I do not like to use the word socialistic scheme, but—unbusinesslike scheme reacts upon them, it would have a great standing influence on many of the problems that the man are recklessly dealing with to-day. That covers the first point. The second point was with regard to the one-sixth being sufficient for the smaller properties to cover management and repairs. Mr. Piggott has been most

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fortunate indeed if he has been able to find a single instance where the one-sixth has covered the average cost of the last five years. I have to deal with a small number of houses, in a purely working-class area, where we have had to reduce the amount of actual repairs to an absolute minimum. The cost of such repairs as have had to be done to keep the property habitable, plus the ordinary expenses, have far exceeded the one-sixth, which is the present allowance. I know there is that clause referred to by Mr. McLintock with regard to being able to recover a certain amount of it by bringing in an annual account, but the point is this, that it is practically impossible for an owner of property to keep each of these individual accounts that he would have to keep for each individual house before he can recover anything for the additional expense.

12,231. *Mr. Prettymen:* Have you had any experience of working that section?—I have had the management of property of that class ever since I was 17.

12,232. No doubt you have had the management of property, but have you had any experience of recovering under that particular section of the Income Tax to which you have referred?—No, I have no actual experience, but I have looked into the question of figures, and I realize there that I cannot substantiate each individual house.

12,233. That is exactly the point I was going to put to you, if it would be of any help to you. I happen to have to do with agricultural property, which has had exactly the same privileges for several years. You have not got to give the expenditure of each particular house. All you have to do is to give a schedule of the property as a whole.—Yes.

12,234. A careful schedule of the property, and the total expenditure on the lot. You do not have to

specify how much you spend on each particular house; that is an entire misapprehension.—But it is a general impression amongst men, and practically the whole of my friends who are interested in this, that we have to deal with each individual property, and they are grumbling sadly because they cannot see how they can do it.

12,235. I should rather like to refer to the section to see if it extends the same privileges as are given to agriculture: "In comparing, for the purpose of this rule, the cost of maintenance, repairs, insurance, and management of any land or houses with the annual value of the land or houses, the total cost of the maintenance, repairs, insurance and management on any land managed as one estate, or of any houses on any such land, shall be compared with the total annual value of the land or houses, as the case may be." That is absolutely clear?—Thank you.

12,236. Therefore you have not got to make any such provision as you think?—I am far from being alone in the impression that we have to deal with each individual property.

12,237. I have quoted from the original Act under which agricultural property has had the allowance for several years, and this new Act of this year extends that rule to the kind of property to which you are now referring; therefore you have not got to do anything of the kind. Do you not think it would be almost as well to look into what the law really is before you come and complain of it?—It has been rather sprung upon me; I have been trying to find out what these costs were, and I wanted to follow it up if I could closely. If I have taken up your time needlessly I am sorry.

12,238. *Mr. Kerly:* Never mind; your time has not been wasted. We are much obliged to you, gentlemen, for your assistance.

Mr. F. E. WOLSTENHOLME, Mr. F. H. NORMAN, and
Workers' Federation,

The witnesses handed in the following statement as their evidence-in-chief:—

Object of evidence.

12,239. (1) It is proposed in this memorandum to discuss the present basis of the Income Tax and to urge such changes as are necessary in order to render the incidence of the tax more equitable rather than to suggest the precise figures that should be adopted or the amount of tax that should be paid by any particular grade of income.

Pressure on middle classes.

12,240. (2) The Federation believes that there will be a general acceptance of the view that Income Tax, as at present assessed, bears with especial hardship on the middle classes. It is noteworthy that recent budgets, by the introduction and gradual extension of the system of allowances, have shown some recognition of the position, while references in the House of Commons and the Press to the position of the middle classes justify the belief that a vigorous attempt to secure more equitable treatment will receive no small measure of support. The Federation is of opinion that the main reason for the continued unfair pressure of the tax upon the classes which it represents is that hitherto they have had no means of expressing their opinion or of enforcing their views collectively.

Changed value of money.

12,241. (3) While the Federation in its evidence desires to pay regard to the more permanent aspects of the Income Tax, it is bound to emphasize the unfavourable position of the large bodies of salaried workers as a result of the conditions arising out of the war. As a general rule salaried workers have received far less assistance by way of bonuses, &c., than have other bodies of workers. Nor are they, on the other hand, in a position to compensate themselves for the rise in prices by passing the burden

Dr. ROBERT JONES, on behalf of the Professional
called and examined.

on to a consumer. Even such highly organised bodies as teachers and civil servants have had the utmost difficulty in securing a measure of relief in the shape of war bonuses, and the real value of the salaries of these and similar workers to-day can not compare with their pre-war value. There is no sign that this position is to be righted, and the present statements and allowances demand drastic revision in the light of this consideration and of present-day prices.

Taxation of salaried workers.

12,242. (4) Another preliminary consideration of importance is that salaried workers are either taxed at source or pay on their full income owing to their personal returns being checked by the employers' returns. Evasion on the part of any section or sections of the community means a loss of revenue that has to be met by a raising of rates which falls immediately on this class. The feeling that they suffer for omission by other people is a constant source of irritation to the workers represented in this Federation. Taking these factors into consideration, it must be clearly understood that the salaried workers believe that they are paying distinctly more than their share of taxation, while, on the other hand, they would certainly claim that no section of the community renders greater service or makes greater sacrifices in aiming at good citizenship.

Factors for consideration in levying tax.

12,243. (5) The Federation has considered most carefully the various proposals which have been put forward for the assessment of the Income Tax on a more equitable basis. In this consideration it has had in mind those factors which it regards as of the utmost importance, viz.: (a) that the proper bringing up of children in the healthiest possible conditions is a service rendered to the community; (b) that it is to the interest of the community that parents should be

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encouraged to give their children the best possible education; (c) that the pressure of indirect taxation varies almost directly with the size of the family (e.g., on such staple commodities as tea, sugar, cocoa, coffee). In the view of the Federation the basis of the Income Tax cannot be regarded as equitable unless it provides scope for differentiation on account of those factors on a much more substantial scale than the present system affords.

Proposals for reform.

12,244. (6) It may be said briefly that the proposals for reform fall into two groups: (a) assessment on the "family" basis; (b) an extension of the existing system of abatements and allowances. While it would no doubt be possible so to extend the present system as to afford radical relief to the taxpayer with dependants, the Federation would point out that in this country the family is the social unit, and that stress is rightly laid on the preservation and development of that unit.

"Family" basis.

12,245. (7) The "family" basis method of assessment is, therefore, very attractive in that it recognizes the family as the social unit. Moreover, the principle of making the assessment vary with the size of the family and the number of dependants therein, so as to provide adequate and proportionate remission of tax, makes a quick appeal to the sense of justice. Accordingly, the Federation has given very special attention to the possibility of adopting this method of assessment, by which the total income of all the members of a family would be divided by the number of members in that family, each portion, after division, being regarded as a separate income, receiving the abatement proper to the portion and assessable at the rate proper to the portion.

Actual revision of taxation.

12,246. (8) Difficulties arise, however, as to the definition of dependency which should be applied and on the question of bringing in the incomes of those who are earning but are not fully maintaining themselves. (The latter of these difficulties might perhaps be surmounted by the fixing of an income limit, e.g., £50, above which the income of an earning person might not be included in the total family income, but should be separately assessed.) The whole subject demands a more expert examination than this Federation is in a position to make without access to official records, &c., but it must be insisted on that the aim of the Federation is to secure relief to the middle classes by actual remission of taxation, and that, provided this end is secured, the means are of secondary importance. Incidentally, the attainment of this object would also bring relief to the working classes.

Inadequacy of abatements.

12,247. (9) It appears to the Federation that the present abatement of £25 for wife and children is entirely inadequate, from the point of view of remitting such a portion of the tax as will be a substantial contribution to the maintenance of dependants, and it must be emphasised that to state the case in this way is merely to state in a popular form the theory of taxable capacity and ability to bear. Thus, under present conditions, the man who has to support a wife out of the same earned income as keeps a bachelor or a single woman merely has a remission of £2 16s. 3d. towards the support of his wife. The Committee would point out that the recognition which tends to be accorded to the principle of "equal pay for equal work" makes this question of the proper adjustment of the burden of taxation one of the utmost importance. The present relief is an almost negligible proportion of the actual cost of maintenance, and can in no sense be said to amount to a redress by the State of the economic balance between the person whose income is available solely for his or her support and the person whose income has to maintain two or more persons. It is not within the province of the Federation to sug-

gest how far that balance should be redressed by the State, but it is evident that if it were desired to destroy the economic inequality some drastic system of allowances for maintenance would be necessary. It must, moreover, be pointed out that, at any rate in the lower ranges of income, it would be impossible to achieve this end by adjustment of taxation.

Horizontal graduation required.

12,248. (10) What is needed, in effect, is a considerable extension of the present system of horizontal graduation, by which the principle of ability to bear may be applied along the same lines of income. With the highly important consideration mentioned above in mind the Federation suggests that, for example, along the line of £500 income an endeavour should be made to adjust taxation so as to afford a relief about £10 per annum in support of each dependant.

This relief would be a welcome and substantial contribution to the actual cost of maintenance. The annexed schedule shows that it is not possible on the basis of the present figures to provide for a satisfactory amount of remission. On the other hand, the remission which the Federation has in mind is reached in the figures shown in Column B based on an arbitrary revision of the present abatements and rates of tax. It is not pretended that these revisions are put forward in a form suitable for adoption. The only purpose of the figures is to illustrate the possibilities by a much closer graduation of securing a satisfactory remission.

"Ability to bear."

12,249. (11) What the Federation proposes is, in short, an extension of the principle of "ability to bear." It urges that the present scheme of taxation should be so amended as to meet equitably what is believed to be the view of the time that, as compared with the person whose income is unfettered, the person with dependants should bear a much smaller burden.

Steeper graduation.

12,250. (12) Finally, the Federation, while not recommending specific figures, is strongly of opinion that the Income Tax should be much more steeply and evenly graduated.

COMPARISON OF INCOME TAX PAYABLE.

(A) On present scale, and

(B) On suggested amended scale of rates and abatements up to £1,000, and allowing the full abatement in respect of each dependant.

	A.			B.		
£300	£	s.	d.	£	s.	d.
M. ...	9	0	0	9	0	0
M. & W. ...	6	3	9	NIL		
M.W. & C. ...	3	7	6	NIL		
M.W. & 3C. ...	0	11	3	NIL		
£400						
M. ...	31	10	0	31	10	0
M. & W. ...	28	13	9	18	0	0
M.W. & C. ...	25	17	6	4	10	0
M.W. & 3C. ...	20	5	0	NIL		
£500						
M. ...	75	0	0	71	10	0
M. & W. ...	71	5	0	60	10	0
M.W. & C. ...	67	10	0	49	10	0
M.W. & 3C. ...	60	0	0	27	10	0
£600						
M. ...	120	0	0	120	5	0
M. & W. ...	116	5	0	110	10	0
M.W. & C. ...	112	10	0	100	15	0
M.W. & 3C. ...	106	0	0	81	5	0
£1000						
M. ...	150	0	0	180	0	0
M. & W. ...	150	0	0	172	10	0
M.W. & C. ...	150	0	0	165	0	0
M.W. & 3C. ...	146	5	0	150	0	0

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Present abatements.		Present earned rates.	
Not exceeding	£400—£120	Not exceeding	£500—2s. 3d.
"	" £600—£100	"	" £1000—3s. 6d.
"	" £700—£70		
Over	£700—Nil.		

For each child under 16—£25 (up to £800).
£25 for each eligible child in excess of two (£800—£1000).
Wife and every dependant relative £25 (up to £800).

Suggested abatements for each dependant.		Suggested rates.	
Not exceeding	£400—£120	Not exceeding	£500—2s. 3d.
"	" £600—£80	"	" £600—2s. 3d.
"	" £800—£50	"	" £800—3s. 6d.
"	" £1000—£40	"	" £1000—3s. 6d.

[This concludes the evidence-in-chief.]

12,251. *Chairman:* We have all read your paper, and although some of the suggestions it makes I am afraid are somewhat revolutionary, you will have questions asked you with the view of elucidating what you suggest, and possibly putting difficulties to you.

12,252. *Mr. Marks:* Mr. Wolstenholme, I do not think really I have much to ask you. We all realize that the pressure on the salaried classes, what between high prices and high taxation, has been very severe, but has not anything been done to mitigate that pressure by the raising of salaries?—(*Mr. Wolstenholme:*) Yes, something has been done in that way, but we maintain that the rise in salaries has not brought us even to the old level that we were at before the war.

12,253. Having regard to the rise in prices?—Yes.

12,254. Do you not think that speaking generally the remedy lies rather in employers raising the salaries of their employees than in the mitigation of the tax for a particular class of the people?—That may be good in so far as it meets the question of the salary, but we maintain that the lower-salaried workers, whose wages salaries range from £200 up to £800, whose cases we have put forward, have to bear an undue proportion of taxation. That means to say that the proportion of their income that they pay in taxation is acknowledged to be more than their fair share.

12,255. That is your answer—that what has been done in one direction is not sufficient to compensate in other directions?—Yes.

12,256. Your suggestion of certain additional allowances has been met to some extent, at any rate—I do not know whether it goes far enough to please you—by the provisions in the Finance Act, 1919?—Yes, we notice with pleasure those provisions, and they certainly go some way in our direction, but, as you say, not so far as we would desire.

12,257. You say: "The present abatement of £25 for wife and children is entirely inadequate." Have you fixed in your own mind what you would consider to be a fair sum?—Yes, we have a graduated scale which should be read in conjunction with paragraph 10 of our evidence-in-chief. It is in the table at the end of paragraph 12: "Suggested abatements for each dependant." There is a larger one for the smaller income and then it decreases; and we had in mind that abatement for each dependant on the income.

12,258. How does that compare with the present position? The wife's allowance has risen from £25 to £50. What do you suggest for the wife?—We suggest £120 in the case of an income below £400. On an income not exceeding £600 it would be £80; not exceeding £800 it would be £60; and a diminishing amount as the income increased.

12,259. And for children?—The same. We have proposed that there should be allowed an abatement of that figure for each dependant in the family. Might I draw attention to paragraph 10; then you will see why we have fixed those figures. There we ask that taxation may be adjusted so as to afford a relief of £10 in tax per annum, as a relief towards the support of each dependant; and we have worked out those figures from £120 down to £40. By that

means we found that our proposal gives, roughly, for each dependant, relief in taxation of about £10.

12,260. *Mr. Kerly:* In effect what you are asking is not for abatement but for £10 tax to be allowed?—Yes.

12,261. *Mr. Marks:* Then on the question of assessing the family income on the family basis: have you considered what loss that would cause to the Revenue?—No, we have not the figures available to allow us to enter into that question.

12,262. You will agree probably that there would be a very considerable loss?—Yes, we are quite prepared to find that there would be some loss.

12,263. I do not know what meaning you attach to "some," but it would be a very large loss?—As I have said just now, we have never been able to calculate it.

12,264. Have you any suggestion to make as to the means by which that loss might be replaced?—In paragraph 12 we draw attention to a scheme of graduation. While not recommending any specific figures, we are of opinion that the Income Tax should be more steeply and evenly graduated.

12,265. What is the exemption limit that you fix in your scheme?—We went on the present abatement figure of £120.

12,266. *Sir W. Trevelyan:* £130?—The abatement is £120; the exemption is £130.

12,267. *Mr. Marks:* I meant the exemption limit.

12,268. *Sir W. Trevelyan:* I understood the question related to exemption.

12,269. *Mr. Marks:* Do you think £130 is a fair exemption limit?—If we could get a substantial remission in taxation for dependants we should be prepared to accept the present exemption limit.

12,270. And you throw the burden of the loss on the larger incomes?—Yes. Of course, we have always had in mind the fact that this relief that we are asking for in the matter of taxation would be temporary only, until those who were dependant upon the income were sufficiently old to maintain themselves.

12,271. But in an increasing community they would be replaced by other children in other families?—Yes.

12,272. It throws the same burden on the State?—Yes, but the incidence of exemption from taxation would not be for all time for the same family; it would be for a limited number of years.

12,273. *Mr. Trevelyan:* Have you made any attempt to calculate what rates of tax would be involved in the new graduation that you propose?—No, we have not had sufficient figures at our disposal to be able to make a calculation of that sort.

12,274. I think you understand, do you not, that it is very important to maintain the yield of the tax under the present financial conditions?—Yes, we quite realize that.

12,275. It is not very difficult to propose reductions such as you propose, towards which obviously everybody must feel most sympathetic—nothing could be stronger than the ground that you give—but that is only one side of the case. It is easy to say: "put it a little higher up," without troubling to look into the question of what it would involve. Is it not necessary, before you can really put that forward as a definite proposal, to have some idea what it will actually involve?—We have considered we are justified in our application, seeing it has been admitted on all sides that small incomes in particular are subject to a very heavy burden.

12,276. Absolutely; but in itself, obviously, the levying of any Income Tax at all upon small incomes is a hardship?—Yes, I will admit that.

12,277. And you will have to go a long way up the scale until it is not felt as a hardship, at any rate at the present rates?—Yes, but you will admit also that there is a certain income that provides for, let me say, necessities, and that as you go up in the scale of incomes you have more and more what I would call free money, that is to say, it is not tied down to the necessities of life.

12,278. Certainly; and that is recognized in the graduated scale now. It is only a question of degree, is it not?—Yes.

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12,279. What we are rather apt to find is that everybody who thinks that the burden on their particular section is too heavy, comes and asks to have it reduced. They give very strong grounds for having it reduced, and they simply say: "steepen the graduation," but they do not seem to have taken the trouble to go into the question of what steepening would be required and what would be really involved, and whether the revenue could be obtained?—(Dr. Jones): On that point, can it not be quite reasonably said that so far the experiments in graduation that any Government has undertaken have been experiments in relatively large steps; and that not so much the question of steepening as the question of smoothing out by introducing many intermediate steps, would of itself produce the desired result.

12,280. I think there has been a good deal of steepening, too. The rate at the top is, Income Tax and Super-tax, nominally 10s. 6d., really about 10s. That is pretty high, is it not?—It is not a question of whether it is high or not; you have a step here assessed at a certain rate, and you have a step there assessed at a higher rate. All in between are assessed at the lower rate. By introducing other steps, you divide these incomes out into groups, only the lowest of which pays at the first rate, and all the others would pay a slightly higher rate. Your general line of steepness is not changed, there is no steepening, but there would be a greater total revenue.

12,281. You suggest a steepening?—I suggest more intermediate steps.

12,282. Steepening the whole by cutting off a little from the bottom, and adding it on a little higher up?—No; we have large steps here, and if you get the thing out in a drawing in the usual way to show the angle of steepness, that line will touch the corner of each step. Even if that line is left alone, by putting in intermediate steps you increase the total yield.

12,283. Yes, but if you draw your line steeper, you will find that in order to get your line to touch, you will have to cut off at the bottom and add on at the top?—Yes, if you steepen, but just at present I am not suggesting steepening.

12,284. Mr. Mackinder: But you would get less revenue, your way?—More revenue.

12,285. If you take an income of £2,000, above which figure the rate goes up by 9d., the moment a person has got £2,100 he is liable to that extra 9d., which applies to the top £500 of an income not exceeding £2,500. But if you insert steps at every £100, then, instead of being liable to what I call the £2,500 rate, he is liable to a less rate at £2,100. The effect of what you are suggesting would be to diminish the national revenue?—I think it would be to increase it.

12,286. Mr. Preshymer: I only put the point that we are having to try all we can to find remedies for hardships, but at the same time to maintain the revenue. It is more valuable to us to have a suggestion which covers both sides than merely a suggestion for relief. Of course it is our business to do that; I quite admit that. You would be entitled, I suppose, to say to us: "We have merely come here to tell our grievance, and it is for you to say whether our grievance is so great that it justifies adding a burden to somebody else." I quite understand that; but you are thinking people who have experience of life, and you can look at things as citizens as well as your own individual case, and if you could think of it from the national point of view and consider that point, I think it would be valuable.

12,287. Sir W. Fraser: There is only one question of figures which I should like to ask you, so as to make myself better acquainted with your scheme. On the family basis, you say: "the total income of all the members of a family would be divided by the number of members in that family, each portion, after division, being regarded as a separate income." The exemption being £130, multiply that by 5 for a man and his wife and three children. That gives you an income of £650, does it not?—(Mr. Wolstenholme): Yes.

12,288. And that would escape all taxation?—That would escape all taxation.

12,289. Then if I refer to your scheme at the end, you say on £500, a man and wife and three children would pay £37 10s. 6d.?—But for incomes up to £500, you will see we have asked for an abatement of £80, not £130.

12,290. As a matter of fact, there is a little discrepancy in the statement in the letterpress and in your figures?—(Mr. Norman): The family basis is dealt with in paragraph 7. Then paragraph 8 goes on to say that although we are attracted by that basis, in fact we see many difficulties in working it out. Our statement says: "Difficulties arise, however, as to the definition of dependency." And then we say: "The whole subject demands a more expert examination than this Federation is in a position to make without access to official records, etc., but it must be insisted on that the aim of the Federation is to secure relief to the middle classes by actual remission of taxation, and that, provided this end is secured, the means are of secondary importance." We are attracted by that family basis, but we do not feel sufficiently expert to say that it would work; in fact, we have doubts.

12,291. It does not appear quite how you make out your figures; that is all I wanted to put.

12,292. Mr. Walker Clerk: What is the Federation which you represent? Is it a very large body?—We represent a number of Teachers' bodies: The Association of University Women Teachers, the National Union of Teachers, the Association of Assistant Mistresses, the Incorporated Association of Assistant Masters; also a number of bodies of Civil Servants and others: the Customs and Excise Federation, the London County Council Staff Association, the Second Division Clerks' Association, the National Federation of Class Teachers, the Tax Clerks' Association, the London Teachers' Association, the Federation of Women Civil Servants, the National Association of Employment Department Officers, the Association of Teachers of Domestic Subjects, and the National Union of Trained Nurses.

12,293. Some of these associations that you represent have already appeared before the Committee, and their suggestions are rather different from yours?—The National Union of Teachers, I believe, was going to give evidence.

12,294. They have done so. What I want to find out is whether you represent the National Union of Teachers in your proposals?—I have not, as a matter of fact, seen the memorandum which they said they were going to put in, but we did consult together. When we found that their conference had determined to give evidence, we met together and we found there was no substantial difference in the evidence we were going to give.

12,295. Have you any resolution supporting the memorandum which you have put in evidence from each of these organisations, or some representative council in connection with these organisations?—The council of this Federation is composed of the leading representatives of each of the bodies which are named there, and they have adopted these proposals.

12,296. But the several organisations themselves, as such, have not been consulted in reference to these specific proposals?—These have all been submitted. I do not think that I could say that the organisations have formally endorsed them, but they have all been brought to the notice of the organisations.

12,297. Now one or two questions on the Schedule. You suggest that evasion on the part of any section or sections means a loss of revenue, which has to be met by other sections. Is there much evasion? We want to find out where the evasion is. It is a practical question?—(Mr. Wolstenholme): I am not in a position to say how much evasion there is, but that there is evasion is evident by the cases that are brought into the Law Courts.

12,298. But the fact that they are brought into the Law Courts shows that they are unsuccessful in their attempts?—Those that are caught are not successful, but how about those who are not caught?

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12,299. *Mr. Kerly*: Would you argue in the same way that traders do not pay their debts, because some of them have to be sued?—(*Mr. Norman*): In point of fact, I think we can tell by a very cursory study of Income Tax literature that there is a percentage of evasion, and I think that people in our own station have in mind is that we do know in fact of instances, perhaps particularly of traders and of men in the smaller kinds of business, where we feel confident that there is evasion. Of course, we know perfectly well that we cannot bring that evidence. That you have already officially, but we do say that there is in fact evasion, and that such evasion as there is throws a greater burden on the people who do not evade, or cannot evade.

12,300. I think we shall all agree with that—that some people who ought to pay Income Tax do not, and others do not pay as much as they ought to. The whole question is, what is the amount of loss to the Revenue? and this Commission has had some evidence from officials which suggests that it is very much less than members of the public, hearing of isolated instances or stories, are apt to imagine. You know the Revenue has other lines of estimation than are open to the public; for instance, there is the payment which is made at the source, which enables a very shrewd guess as to what total incomes are made; and upon those lines we have already had evidence before us.

12,301. *Mr. Walker Clark*: With reference to this definition of dependants, would you suggest that there should be an age limit in respect of the allowance for dependants?—(*Mr. Wolstenholme*): We have said that so far as children are concerned it should be continued up to the age of 18 years.

12,302. And others, of course, are dependants owing to incapacity?—Yes, if a person was incapacitated, of course he would be completely dependent.

12,303. That would depend on medical testimony, and so on?—Yes.

12,304. But there is a convenient period for the young, of 18 years?—Yes, during the period of education.

12,305. *Mr. Maackinder*: I have only one question to put, and I do not put it in any sense in a hostile way, because I am sure we are all very sympathetic with the idea you are trying to put. But I do notice—and I want your comment on it—that the effect of your combined changes in the rate and abatement is, as far as I can see, to diminish the tax to be paid by those who receive £800 and less, and to put an increased charge on all the categories—man, man and wife, man wife and one child, man wife and three children—on all the categories of a man receiving £1,000 a year?—Yes, that is quite so, because we have considered that people with incomes up to £800 are the ones who should obtain the maximum of relief, and that those above that can more easily afford to pay the tax.

12,306. Your Federation represents a group of Associations, all of whom, I imagine, contain members mainly of what I will call the less than £800 a year class?—Yes, that is a fact.

12,307. And you have accepted that fact, have you?—Yes.

12,308. You have not seriously, then, debated the question of whether you should begin at that particular point and put an increased charge on the £1,000 a year people?—We have not considered what the increased charges should be for £1,000 a year and over.

12,309. But you propose rates and abatements in regard to which you yourselves point out that the effect would be to put increased charges on the person with £1,000 a year. That is so, is it not?—Yes.

12,310. I notice that the greater number of your constituent associations (I think I am right in saying so) are connected with teaching?—(*Mr. Norman*): And the civil service.

(*Mr. Wolstenholme*): Teaching very largely, yes.

12,311. The person with £1,000 a year, and let me add the person with £1,200 or £1,500 a year, you would say, would you not, have very heavy charges in connection with education. He is a type of profes-

sional man, we will say, on the whole, who naturally, wishing to bring up his child in the same line of life as himself, has very heavy charges in regard to education, has he not?—Yes, but those with lower incomes also have heavy charges, and the man with £1,000, £1,200 or £1,500 a year has more chance of sustaining those charges.

12,312. Yes, but I notice the basis of the system which you are proposing to us is not that there is to be an absolute deduction, as I understand it, for each dependant, but that there is to be a graduated deduction in proportion to the income?—Yes, that is quite true.

12,313. If that is so, why do you start at £800, and why would you not carry your principle higher?—(*Dr. Jones*): How high?

12,314. That is not for me; I am asking you why you put it at such a point as that you exclude people with £1,000 a year, though as a matter of fact at least one half of the associations of which your Federation is formed are connected with the teaching profession and derive their incomes, or at any rate a portion of their incomes, from the people with, say, £1,000 up to £1,500 a year?—(*Mr. Norman*): I should think there are very few indeed in the associations we represent.

12,315. Then your answer is, if I may say it without offence in the least—because you, of course, come here to represent your own point of view—that you simply had in view the alleviation of the particular class that you represent, and you have not given any careful and considered thought to the situation of those who would be actually more heavily burdened under your scheme, those earning £1,000 or £1,200 or £1,500?—(*Mr. Wolstenholme*): We have given consideration to that in this respect. We have considered that the higher income was more capable of bearing that increased taxation than the smaller income is of bearing the present taxation.

12,316. I have already pointed out to you, and I think you have agreed, that your principle is not that of an absolute abatement but of a graduated abatement in proportion to the income?—Yes.

12,317. And if that is so, I think I was justified in asking you why you stopped at that particular point. But I do not want to press the matter further?—(*Mr. Norman*): I should like to add this to the answer, if I may. These figures need to be read in conjunction with paragraph 10 of our evidence-in-chief. We are arguing especially the question of a horizontal graduated relief in addition to the present vertical graduation. We say in our evidence: "the remission which the Federation has in mind is reached in the figures shown in column B based on an arbitrary revision of the present abatements and rates of tax. It is not pretended that these revisions are put forward in a form suitable for adoption. The only purpose of the figures is to illustrate the possibilities by a much closer graduation of securing a satisfactory remission." I can say that our Committee, as a matter of fact, would be perfectly prepared to argue the case of the £1,000 a year man with detailed figures before us. We have not simply said that we want to get relief for the man up to £800, and that we do not care twopenny about the man over that. We did jot down what were merely graduated rates and graduated abatements, and those columns happened to be the effect of those graduated figures, and they did show roughly a remission of £10 tax per dependant, which we had in mind. That is the explanation of the figures.

12,318. *Mr. McLintock*: I should like to clear up this question of the dependant. On an income not exceeding £400 for a man, wife, and one child you get a total abatement of £300?—(*Mr. Wolstenholme*): Yes, quite so.

12,319. He pays tax on £40?—Yes.

12,320. Then, when you come to £600, a man who is in the same position, with one child, is given £340 abatement and he would pay tax on £260. The income is only £200 different, but he is taxable in a jump from £40 to £260. Then you put 6d. on the rate of tax. Then when you come to the £800 individual you give him an abatement of £180, and he pays tax on £620, and you again increase the tax by 6d.?
—Yes.

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12,321. Do you consider that is a fair graduation, looking to the relative increase of income?—Yes, because the man with the increasing income has got the money that enables him to pay it.

12,322. Do you not think you have steepened it rather too much?—We have used the figures to illustrate the argument and, as we have said in the memorandum, we are not wedded to those exact figures.

12,323. You have worked these statements out really to correspond with your £10 relief?—Yes, we have worked these figures out so that they would give a relief of £10.

12,324. You have adjusted the tax to arrive at that result?—Yes.

12,325. Mr. Kerly: You say that there is a general view that there is a hardship on the middle classes. What do you mean by the middle classes—people earning above some figure, say, £200, and under £1,000 a year?—As we are speaking on the question of the Income Tax, we have confined our interpretation of the middle classes to the question of income, meaning, as you say, those between £200 and £1,000 a year.

12,326. Then when you speak of the general view, you mean the view, so far as you can ascertain it, of persons with that income?—No; we mean more than that. About the special hardship, it has been admitted, because we have had from time to time increasing reliefs for dependants put into the Budget with regard to Income Tax.

12,327. You cannot point to a past dealing with a particular grievance as an admission that the grievance exists after the relief has been given. Am I not right in saying that the middle classes, understood as you say, suffer, in their own opinion? Have you any reason for supposing that people with less than £200 a year think that the middle classes, so defined, are unjustly taxed?—(Mr. Norman): My impression, from studying debates in the House of Commons, for instance, is that there is a feeling among the Labour members that the middle class man has suffered, especially during the war, and that the burden of taxation on him is too great. I think I should have so difficulty in finding extracts from speeches that would bear that out.

12,328. We have had representatives of very numerous workers' unions, who seem to hold the view that a man with more than £500 a year can well afford to pay the whole of the excess in taxation. That, I take it, is not your view?—Quite.

12,329. On the other hand, have you any reason to suppose, with regard to people, say, with £1,000 to £1,500 a year, that the stratum just below them is more unfairly taxed than they are?—That I do not know, but I have heard people, with very much more than that, take that view.

12,330. Well, gentlemen, does it not really come to this: everybody feels where the shoe pinches his own class?—(Dr. Jones): Certainly.

12,331. I want to see if there is not a real question of principle behind what you are putting to us. You can, for purposes of taxation, leave a man what you regard as the absolute minimum that he will require to carry on the normal life of a citizen, before you take anything by way of Income Tax. There is another way. You can consider what, having regard to his social position, he has to expend, before you arrive at the surplus for taxation. What you have done is to take the second principle, and not the first, is it not?—The second rather than the first.

12,332. And yet you stop at £1,000 a year. Now a man with £200 a year is going to spend more on the education of his children and his maintenance, than a man with £200 a year, and so you propose to give him a larger allowance. Is not the man with £1,000 a year going to spend more than a man with £200 a year, and on the same grounds? It is so, is it not? But you do not propose to take that into account?—But, on the other hand, are you proposing to continue the argument to the man with £2,000 a year, £5,000 a year, or £10,000 a year?

12,333. I am going to see what your answer is, before I go on?—Well, that is my answer.

12,334. I want to see whether the problem is really, as you suggest, discontinuous, and, if so, where the break comes?—There can be no general agreement as to where the break comes, but I think there will be general agreement about this: that up to a certain point, on the argument with which you began your illustration—the relative amount spent on the education of his children by the man with £200 a year, as compared with the man with £200 a year—you do get parallelism, but that parallelism is not a mere mathematical thing that continues throughout. It is not true that a man with £10,000 a year spends necessarily 10 times as much upon the education of his children, supposing he has the same number of children, as the man with £1,000 a year.

12,335. I agree that when you get to very large incomes, the expenditure over a man's children is a negligible part of his personal expenses. His expenditure probably has very little that is personal about it beyond a small proportion. There is another element in the question of children. In the lower ranges of income, does not the greater part of the education fall already upon the State?—Yes.

12,336. Have you taken that into account in making your proposed allowances against tax?—Yes, I think so.

12,337. You do not refer to it in your paper?—(Mr. Norman): We had that definitely in mind.

12,338. If the man, say, with £400 a year, sends his children to the Board Schools, and a man with £200 a year sends some of them or all of them to schools for which he pays fees, then the burden on the man with £200 a year is not relatively, but actually, greater than the burden on the man with £400?—But he is not compelled, in order to give them a good education, to send them to a paying school.

12,339. That is reverting to the other principle, of allowing the man only the expenditure which he is obliged to make?—Quite, and our answer was that we prefer the second principle, but that in fact, so far as we can see, there is no divine inspiration about any of these principles.

12,340. The first principle at the present moment allows an exemption of £120 a year for everybody?—Yes.

12,341. That would be far below the range of your £200 or £250 income?—Quite.

12,342. Further than that, the actual incomes of the teaching class, whom you represent, are already raised by taxation on the community to a great extent. I think you have already dealt with the question of evasion. The suggestion in your paragraph 4, that there has been a great deal of evasion, is merely a surmise, and you have no definite facts to put before us?—Pardon me; we do not say a great deal of evasion, we say evasion. We simply refer to the fact that in so far as there is evasion, whatever the amount of the evasion may be, the loss through evasion falls on the other people. We do not say that there is a great deal. As a matter of fact we know that there are figures which show that the percentage is not a very high one.

12,343. What you say is: "The feeling that they"—that is the middle classes—"suffer for evasion by other people is a constant source of irritation"?—Quite.

12,344. There is also a constant source of irritation to be found in the fact that a very large number of artisans, earning large incomes, pay no Income Tax at all?—Quite true.

12,345. You make a reference somewhere to indirect taxation, and you make a point that the indirect taxation increases with the size of the family?—Yes.

12,346. That is in your paragraph 5. That really is not a good point, is it? The indirect taxation which counts is upon alcohol and tobacco. That does not increase with the size of the family?—(Mr. Wolstenholme): But there are other commodities which are taxed.

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[Continued.]

12,347. There are others; there are sugar and tea, for instance; but still, those are relatively small charges?—(Mr. Norman): But I understand that in the weekly budget they make up a fairly substantial charge.

12,348. We have had figures before us; if I remember the figure it is £3 out of £14 per year on a wage-earner's weekly pay?—(Dr. Jones): Surely 3 out of 14 is not a negligible proportion.

12,349. A relatively small proportion?

12,350. Mr. Mackinder: You do not mean a proportion of £3 out of £14, I think.

12,351. Mr. Marks: I have the figures here. For a family with an income of £100 a year, the total of indirect taxation, which includes the Post Office and other indirect taxation, is £13 15s. 11d., of which £12 13s. 8d. goes in tea, sugar, tobacco and alcohol. Of that amount, £3 5s. is tea and sugar and the balance, £9 odd, is tobacco and alcohol.

12,352. Mr. Kerly: That is what I meant.

12,353. Mr. Mackinder: If I may say so, the witnesses were misunderstanding you, because Mr. Norman was putting to you that 3 out of 14 was not a small proportion. I think he was taking it on the total income. I am pointing out that I think they misunderstood.

12,354. Mr. Kerly: I am obliged. Mr. Geoffrey Marks has given you the actual figures of total indirect taxation, amounting to £14 tax in the year, £11 is on optional payments, such as tobacco and alcohol, and only the balance of £3 is on necessities. That is what I meant to put. I am obliged to Mr. Mackinder.

12,355. Mr. Mackinder: And there are the subsidies to be considered.

12,356. Mr. Kerly: And there is of course, the bread subsidy. Now just a few words about family assessment. Though you do not recommend it—you do not put it forward as a representative proposal—you suggest that the family income should be divided amongst the members of the family other than those earning less than £50. You appreciate, I suppose, that that would cut at the very root of a graduated Income Tax. The millionaire, with ten members in his family, would be only too pleased, assuming the graduation went up above £100,000, that each of them should be charged on £100,000; and it would be a very practical problem when you come to the man with £5,000 a year, if he has got a dozen dependants?—(Mr. Norman): Yes, we appreciate those points, and that is why we are not sure how far the idea could be pressed.

12,357. May I suggest to you, gentlemen, it is one of the proposals which look very interesting until you come to look a little more closely at them?—We think it may be possible to put limits below which the division of income would apply. All these questions that we have been discussing are matters of degree.

12,358. Now dealing with another of your suggestions, that the graduation should be steeper; you also suggest, I gather, that a larger revenue should be raised by increasing the rate in the upper ranges?—I think certainly you can infer that.

12,359. It is obvious, is it not, that if you come to put such a high rate as would make it not worth a man's while to earn money, or take the risks which earning money involves, you will gain nothing?—Quite, but of course that might be met. Suppose these proposals or other proposals were adopted, your total result might lead to a different distribution of income.

12,360. Mr. Pretzman: Who would have to pay tax then?—I think if you have a vastly different distribution of income you would have to reconsider the matter.

12,361. Mr. Kerly: You would have a vastly different method of raising your tax?—I quite agree.

12,362. If everybody belonged to the middle classes—as they well might, because the mean figure you

have given is above the average income of each citizen of this country—if we once get to the middle class level, your suggested exemptions would have to disappear, or there would be no revenue?—Yes. (Dr. Jones): And also the problem of distribution would have disappeared.

12,363. But we would still have to have revenue?—Yes, but that is not the problem of distribution of taxation. It is the problem of the distribution of a certain required revenue that we are considering, is it not?

12,364. Mr. Pretzman: Is not the real problem, not the question of distribution, but the question of people being able to live?—That is the opposite view from the view that some of you gentlemen have been putting earlier. I rather took it that you were visualising the position, say, of a Chancellor of the Exchequer, to whom the problem is that certain revenue must be obtained somehow, and I think some of you gentlemen were putting that point.

12,365. Quite.—If this revenue must be obtained, you must start from the question of the total to be obtained.

12,366. I beg your pardon; you meant the distribution of the tax?—Yes.

12,367. I beg your pardon; I misunderstood you. I thought you were referring to the distribution of wealth in the country—that the problem would have disappeared if no one had more than £200 a year, for instance?—No. My point followed on what was said before: I think it was Mr. Kerly who pointed out that a medium figure here was practically identical with the average income, and I took it that he was imagining for a while that you had a state of affairs when your average income was equally spread all through. Well, arrived at such a state of affairs, there is no problem of distribution of taxation, because on equal incomes you would pay an equal tax.

12,368. Yes, I understand you. Everybody would pay the same then?—Yes.

12,369. Then my answer to you was quite correct. I say the real serious problem we have to deal with is not so much one of distribution, as one of being able to live?—Yes.

12,370. And of course all people would then have to pay enormously more taxation on that small income than they pay now, and they would have their problem of livelihood more difficult than it is to-day?—I am not so sure that that follows.

12,371. However, we need not go into that.

12,372. Mr. Kerly: I wanted to put to you some of the more theoretic difficulties, just to see if you could give us any assistance on what really is troubling us a good deal. One further question, and a practical one. Would it assist the people very much, in the class which you represent, if they could pay their Income Tax quarterly, instead of paying it in a single lump for the year?—Yes, in many cases, I think. I have had that very point put to me.

12,373. You do not put it forward, but I should like to know whether you accept it?—I do accept it; I think it would be welcome. (Mr. Wolstenholme): We should welcome the payment of Income Tax by quarterly instalments, if such a thing were practicable, and I can speak from experience that amongst the class of workers we represent, it has been for a long time a grievance that they have to pay it all in one lump sum.

12,374. I think we can all appreciate that to have to find a lump sum of money is often a very serious matter. Thank you, gentlemen, we are much obliged to you.—(Mr. Norman): I should like to thank you very much for hearing the Federation's evidence.

12,375. Mr. Kerly: We are all very much obliged to you; and I need not add that, in spite of the questions that I put to you as to who thinks you are hardly treated, perhaps some of us could answer it for ourselves.

TWENTIETH DAY, **WEDNESDAY, 24TH SEPTEMBER, 1919.**

PRESENT:

LORD COLWYN (in the Chair).

Mr. BOWERMAN.

Mr. PRETTYMAN.

Sir E. E. NOTT-BOWER.

Sir W. TROWER.

Mr. HOLLAND-MARTIN.

Mr. ARMITAGE-SMITH.

Mr. DIRLEY.

Mr. WALKER CLARK.

Mr. GRAHAM.

Mr. KERLY.

Mrs. KNOWLES.

Mr. MACKINDER.

Mr. MCINTOCK.

Mr. GEOFFREY MARKS.

Mr. MAY.

PROFESSOR PIGOU.

Dr. STAMP.

Mr. SYNNOTT.

Mr. E. STANFORD LONDON, C.B.E., called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Proof of evidence of E. STANFORD LONDON, C.B.E., Deputy Chief Inspector of Taxes, on the subject of evasion of Income Tax.

12,376. (1) Evasion may result from at least four causes—(a) fraud, (b) wilful withholding or mis-statement of material facts, (c) ignorance or carelessness, and (d) legal avoidance. Of these, the last-named is the subject of separate official evidence, while the saving of loss from ignorance or carelessness is part of the normal functions of the taxing authority, and calls for no detailed reference. This evidence is, therefore, concerned primarily with fraud and evasion of a wilful kind.

12,377. (2) Before dealing with the present extent of evasion and the means of combating it, two general observations seem to be called for.

12,378. (3) In the first place (leaving on one side the question of Super-tax, which is being dealt with by another witness), the system of taxation at the source confines the possibility of successful evasion to a comparatively small portion of the income liable to tax. Income derived from land and house property is safeguarded in this manner; so also (with certain exceptions, e.g., interest on 5 per cent. Inscribed War Loans) is income from public securities of all descriptions, including foreign securities and bearer securities of all kinds, except so far as they may be cashed abroad; so also is income derived by individuals from large public joint stock companies, for it would be only in exceptional cases that corporations of this character would seek to defraud the Revenue for the benefit of their shareholders. Incomes derived from employment do not, having regard to the machinery of the Income Tax Acts, lend themselves to concealment in ordinary cases. In these circumstances the field of evasion is, to a very large extent, limited to the profits of private trades, including trades carried on by private limited companies, and may be said to embrace roughly 25 per cent. of the total taxable income within the scope of the Income Tax.

At the same time it must not be overlooked that although the above sources of income may not lend themselves readily to evasion, there is always a serious risk of loss of revenue due to false claims of exemption, abatement or other relief, which disclose only a portion of the claimant's income.

12,379. (4) Secondly, the Board of Inland Revenue in no way lose sight of the fact that while there are those taxpayers who are only too ready to avail themselves of the great opportunities of concealment or falsification of profits which the conditions of private business afford, there are also those—the main body—who would not stoop to artifice or concealment, and who year by year, readily and without pressure, make their proper contribution to the Revenue. While it would do violence to the ascertained facts not to

speck of intentional evasion as existing, such expressions are used in this evidence only with this general qualification.

12,380. (5) The fact that (owing to the system of taxation at the source and the entire reliability of a large proportion of the total returns made in cases where taxation at the source does not apply) so large an area of the Income Tax is collected with accuracy, imposes, in the Board's view, the greater obligation upon them to secure by all reasonable means effective collection in the balance of cases. If, with the high rates of tax now in force, it came to be felt that a minority consisting of the least deserving citizens continually evaded their tax obligations with impunity, nothing but dissatisfaction could result.

CAUSES OF FRAUD AND EVASION.

12,381. (6) The main reasons conducing to systematic evasion are as follows:—

- (a) the absence of any serious social disgrace attaching to successful evasion. It is not uncommon for fraud to be brought to light through the taxpayer boasting openly of it to his friends. Recent prosecutions resulting in imprisonment, however, have created a radical change in this direction, and taxpayers no longer think that defrauding the Revenue is something of which to be proud.
- (b) the absence of adequate powers of investigation available to the officials.
- (c) a feeling of injustice engendered by the belief that the Income Tax contains many anomalies needing correction.
- (d) a widespread impression that other taxpayers are evading their just liability.
- (e) the high rates of tax.

12,382. (7) Frauds on the Revenue may be a corollary to frauds on partners or to attempts to conceal profits from shareholders.

METHODS ADOPTED BY EVADERS.

12,383. (8) The methods usually adopted to evade taxation are:—

- (a) omitting to make returns.
- (b) making incorrect returns.
- (c) supplying incorrect accounts, or replying incorrectly to enquiries.
- (d) falsifying books.

Methods (a) and (b) are obvious, and require no comment.

Method (c) includes cases where the accounts sent in for Income Tax are manipulated and are not correct copies of the taxpayer's own accounts.

Method (d). Apart from deliberate falsification of books, in many cases, although the books are correctly kept and the accounts furnished are correct copies of those appearing therein, it is found on investigation that material items have been concealed in the

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[Continued.]

books themselves which would not necessarily affect an ordinary audit undertaken on behalf of the trader (and not on behalf of the Revenue) for the information and protection of the proprietor himself and as a safeguard against irregularities by employees.

12,384. (9) The Appendix gives statistics for four districts in England for each of the years 1913, 1916, 1917, and shows (a) the aggregate number of trading concerns assessed, (b) the number for which returns were made and accepted, (c) the number for which no returns were made, and (d) the number for which returns were made but not accepted. A note is added giving the results of special investigations into the accuracy of returns and accounts.

These districts were not specially selected, and it is believed that the results shown may be taken as fairly representative of the country as a whole.

12,385. (10) From these statistics it will be seen that in 1917, out of 5,345 concerns only 61.6 per cent. made returns which were accepted, 9.9 per cent. made no returns, and 38.6 per cent. made returns which were not accepted.

It is not suggested that all the returns which were not accepted were deliberately false, as many small traders are in the habit of making returns on a rough estimate computed on a wrong basis. After due allowance is made for this fact, however, and for any cases in which assessments may have been made in excess of the actual liability, there remains a substantial number of cases where the difference between the amount returned and the amount assessed can only be the result of a deliberate attempt on the part of the taxpayer to evade liability.

12,386. (11) It will also be observed that the number of cases in which no return was made has been increasing. When earned income relief (the payment of a lower rate of tax on earned incomes, in cases where the total income did not exceed certain limits) was introduced in 1907, it was made a necessary condition of such relief that the taxpayer must make a return of his total income before the 30th September in the year for which the tax was charged. In 1915, however, this time limit was withdrawn, and it is believed that the absence of the necessity for making such claims before a specified date has led to an increasing tendency to make no return at all, as the taxpayer can claim the earned income relief at any time within three years on the basis of the amount assessed by the Commissioners.

12,387. (12) The serious extent to which evasion is practised will also be gathered from the following figures, which show the total amounts of unassessed Income Tax, including compounded penalties, recovered in England and Wales in the past six years:—

Year ended 31st March, 1914	£
1914	229,000
" 1915	260,000
" 1916	415,000
" 1917	929,000
" 1918	1,227,000
" 1919	1,216,000

These amounts were paid over specifically and are separately recorded, but there were considerable sums in addition, which were added to the current assessments and not so recorded, and which would materially swell these totals.

The rapid rise in the rate of tax chargeable, of course, accounts for some considerable portion of the increase shown in the latest years. It is probable, however, that the actual amount of profits concealed in the cases dealt with during the year ended 31st March, 1919, would not be less than two or three times the corresponding amount for the year ended 31st March, 1914.

MEANS OF DETECTION.

12,388. (13) I am satisfied from my own experience extending over a period of 35 years that the existing means of detecting evasion are inadequate. Many and various devices resorted to by fraudulent taxpayers are well known to the Department, but I hesitate, unless the Royal Commission so desire, to set out full particulars of those methods, many of

which are only too easy of accomplishment. The evil cannot be entirely removed by legislation, but very great advantage to the Revenue would accrue from an extension of its powers in two respects, viz. :—

- (1) to enable the Revenue to require production of accounts in support of a return before an assessment is made. At present it is only in cases of appeal, and then only by means of a precept of the General or Special Commissioners, that the production of such accounts can be required.
- (2) to empower the Board's officers to examine any books or documents necessary to verify the accuracy of any accounts furnished, inasmuch as it is found by experience that in a large number of cases such accounts are incorrect.

12,389. (14) The powers possessed by the Revenue in these respects in connection with Income Tax are much more restricted than those enjoyed under the special imposts in force during the war. Under section 44 (1) of the Finance (No. 2) Act, 1915, the Board of Inland Revenue have power, for the purposes of Excess Profits Duty, to require production of such accounts and other particulars of a business as they consider necessary to arrive at the true liability. This power has been of most material value in securing accuracy of Excess Profits Duty assessments.

12,390. (15) It will be recalled also that for a period during the war establishments controlled under the Munitions of War Acts were liable to a special impost known as the Munitions Levy. The Regulations made by the Minister of Munitions under statutory powers in connection with that Levy included a provision to the effect that all books, balance sheets, accounts and statements relating to a controlled establishment should be subject to examination by an accountant duly appointed for the purpose. Upon transfer to the Board of Inland Revenue of the assessment and collection of the Munitions Levy by the Finance Act of 1917, the duties and powers in connection with the assessment of that impost (including the power of inspection above referred to) passed to the Board of Inland Revenue, and were exercised by them in a certain number of cases in which that course was necessary in the interests of the Revenue.

It should be observed that the forms and regulations drawn up for the purposes of Munitions Levy were devised by a body of professional accountants who were engaged by the Ministry of Munitions for the specific purpose of administering that impost. It is interesting to note that, possessing a complete knowledge of the manner in which trade accounts were usually kept, they should have considered it necessary to have these facilities for inspecting books and records relating to the controlled establishments with which they were dealing.

12,391. (16) Having regard to the existing high rates of taxation, the Board of Inland Revenue are clearly of opinion that the continuance of each of these powers in the provisions relating to the assessment of the premier permanent tax is necessary to secure its efficient collection and equality of incidence as between different taxpayers.

12,392. (17) It may be added that a power of this kind is frequently found in foreign and colonial systems; e.g., in Australia, for the purposes of both the Federal and the State Income Taxes, ample powers are given by the various laws whereby the Tax Commissioner or his deputy has full and free access to all buildings, places, books, documents and other papers for the purpose of ascertaining the taxable income of any person, taking any relevant extracts or copies, and he further has the power to require any person, whether a taxpayer or not, to attend and give evidence, on oath if required, before him, or his deputy, concerning any income or assessment, and to produce all books, documents and other papers whatever in his custody, or under his control, relating thereto.

12,393. (18) It is true, of course, that a power given to the taxing authority to inspect books is one which requires to be exercised with discretion, in order to

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[Continued.]

avoid any unnecessary inconvenience to taxpayers in the conduct of their business.

12,394. (19) When it is recalled that the function of the Board in this matter is only to safeguard the interests of the Exchequer (which are identical with the interests of the general taxpayer), that at the present time they have to act with no knowledge, or only a minimum of knowledge, in cases of the kind now in question, and that they and all their officials are under oath of secrecy, it would not appear that the reasonable use of this power could be opposed.

EXISTING REFERENCES.

12,395. (20) The existing deterrents fall into two classes—(A) Criminal proceedings and (B) Pecuniary penalties.

(A) Criminal proceedings.

12,396. (21) (1) Section 5 of the Perjury Act, 1911, which, however, does not apply to Scotland or Ireland, provides that if any person knowingly and wilfully makes (otherwise than on oath) a statement false in a material particular, and the statement is made "in an abstract, account, balance sheet, book, certificate, declaration, entry, estimate, inventory, notice, report, return, or other document which he is authorised or required to make, attest, or verify," "by any public general Act of Parliament for the time being in force," he shall be guilty of a misdemeanour and be liable on conviction to imprisonment with or without hard labour for any term not exceeding two years or to a fine, or to both such imprisonment and fine.

(2) Section 227 of the Income Tax Act, 1918 (section 94 of the Finance (1909-10) Act, 1910), imposes a penalty, on summary conviction, of not exceeding six months' imprisonment with hard labour for false returns or claims, either on the person's own behalf or for another person. This course involves a prosecution within six months, and is, therefore, almost useless.

(3) Apart from the Perjury Act, the delivery to a Surveyor of Taxes for Income Tax purposes, and with intent to deceive him, or a taxing authority, of a false account or document is a misdemeanour at Common Law.

(4) Conspiracy between two or more persons to defraud the Revenue is also a misdemeanour at Common Law, rendering the parties liable to imprisonment or fine, or both.

(B) Pecuniary penalties.

12,397. (22) The pecuniary penalties imposed by the Acts may all be recovered within three years after they are incurred (section 221 of the Income Tax Act, 1918 (section 23 (1) of the Finance Act, 1907)), and are as under:—

Omission to make a return.

(1) Section 107 (1) of the Income Tax Act, 1918 (section 55 of the Act of 1942). Not exceeding £20 and treble duty if proceedings are before the General Commissioners; £50 in the High Court.

(2) Section 126 (1) of the Income Tax Act, 1918 (section 63 (1) of the Taxes Management Act, 1980). Surveyor may surcharge taxpayers not already assessed. Surcharges confirmed on appeal carry treble duty, unless, as provided by section 137 (6) of the Income Tax Act, 1918 (section 68 of the Taxes Management Act, 1980), the Commissioners are satisfied that there is no intention of fraud.

(3) Section 146 of the Income Tax Act, 1918 (section 127 of the Act of 1942). Commissioners, on appeal or on confirmation of assessment, can impose treble duty. This is equivalent to, but is not technically, a penalty.

(4) Section 100 of the Income Tax Act, 1918 (section 22 (1) of the Finance Act, 1907). Not exceeding £5 if party proceeded against proves that he is not chargeable to tax.

12,398. (23) False return.

(1) Section 107 (1) of the Income Tax Act, 1918 (section 55 of the Act of 1942). The delivery of a false return exposes a taxpayer to the penalty for failure to make a true and correct return (*Lord Advocate v. Souters*, 3 Tax Cas. 617; *Attorney-General v. Tull*, 5 Tax Cas. 440). The penalties are the same as in para. 22 (1) above.

(2) Section 132 of the Income Tax Act, 1918 (section 178 of the Act of 1942). If not already charged, assessment to be made in treble duty. If assessment insufficient, treble duty on deficiency to be charged.

(3) Section 146 of the Income Tax Act, 1918 (section 127 of the Act of 1942). The Commissioners, on appeal or on confirmation of an assessment exceeding the amount returned, can impose treble duty on the deficiency.

12,399. (24) False claim of abatement or other relief.

Section 30 of the Income Tax Act, 1918 (section 166 of the Act of 1942). £20 and treble duty on the whole income as if such claim had not been allowed. Proceedings in the High Court. The Court has no power to mitigate this penalty.

12,400. (25) The penalty for aiding and abetting a false return or claim is £50 for each offence.

12,401. (26) Section 140 of the Income Tax Act, 1918, provides power to amend statements or schedules on an appeal:—

"(1) A person who has delivered a statement "or schedule and discovers any omission "or wrong statement therein, may deliver "an additional statement or schedule "rectifying the same, and shall not there- "after be liable to any proceeding by "reason of his omission or wrong state- "ment."

"(2) A person who has not delivered a state- "ment or schedule, within the time "limited, may deliver it at any time "before proceedings for recovery of a "penalty, incurred in respect of such "non-delivery, have been commenced, and "thereafter no such proceedings shall be "taken."

The claim is frequently advanced that if an amended return is made at any time before proceedings are actually instituted no penalty can be exacted, but inasmuch as the section requires discovery on the part of the taxpayer, which is held to involve voluntary disclosure, and an absence throughout of deliberate fraud, the claim is seldom successful (*Attorney-General v. Tull*, 5 Tax Cas. 440). Moreover, where fraud can be proved, the provisions of the Perjury Act, 1911, quoted above, provide an additional remedy.

12,402. (27) The principal pecuniary penalties, other than those for false claims, must be recovered before the General Commissioners. The £50 recoverable in the High Court under section 107 of the Income Tax Act, 1918, is paltry and seldom invoked, the effective penalty being the £20 and treble duty, as to which the General Commissioners have jurisdiction.

DIFFICULTIES IN CONNECTION WITH PROCEEDINGS.

12,403. (28) A serious difficulty arises in connection with these proceedings before the General Commissioners, in that they are private, and have, consequently, no deterrent effect on the body of taxpayers in the district, as in the case with criminal prosecutions in open Court. The influence of the latter has been found to be most salutary.

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[Continued.]

12,404. (29) The Departmental Committee of 1905 (in paragraph 37 of their Report) said:—

"We entirely agree with the witnesses who have represented to us that besides the pecuniary penalties publicity would be the most effectual and appropriate penalty for fraud. Under the existing law, even when detection takes place, there is no means whatever by which the Crown can make the matter public; and the offender consequently escapes all public exposure. We recommend that the Board of Inland Revenue or the General Commissioners should be empowered to publish names and details in cases of gross fraud, wherever and in so far as they consider that course desirable."

In this connection it may be noted that the greater powers conferred by the Perjury Act have resulted in recent years in numerous prosecutions in the Criminal Courts, in cases of a serious character, and the consequent publicity has had a marked effect in a large increase in the number of voluntary disclosures by taxpayers. On the other hand, evidence is not always sufficiently strong to warrant such proceedings in the Criminal Courts. In such circumstances either proceedings for penalties are instituted before the District Commissioners (without publicity), or the cases are settled out of Court for a compromised penalty.

ACTION NORMALLY TAKEN IN CASES WHERE DUTY IS DISCOVERED TO HAVE BEEN EVADIED.

12,405. (30) Criminal proceedings are reserved for gross and flagrant cases of fraud. In less serious cases the taxpayer is usually required, as an alternative to proceedings for pecuniary penalties, to make restitution of the duty evaded over a reasonable period and to pay some pecuniary penalty in addition, within the limits of the amount of the duty which has been evaded, and is at the time legally recoverable by assessment, plus the amount of the pecuniary penalty recoverable from him by process of law.

The foregoing statement, of course, does not apply to cases which are continually coming to light, in which taxpayers, purely from ignorance or carelessness and without any intention of deliberate evasion, have under-paid Income Tax in the past. Taxpayers in these cases are generally ready, when the facts are brought to their notice, to make restitution of the duty under-paid, and that amount is accepted without the addition of any pecuniary penalty.

REMEDIES NOW PROPOSED.

12,406. (31) The following are points in respect of which legislation would appear to be desirable:—

- (1) the necessity for increased powers to call for accounts and examine books has already been touched upon;
- (2) it is suggested that section 137 (4) of the Income Tax Act, 1918, which deals with the examination of appellants by the Commissioners, should be strengthened;
- (3) all penalties for false returns should be recoverable at the option of the Board of Inland Revenue in the High Court. At the present time section 107, which renders a taxpayer liable to a penalty of £20 and treble duty if sued for before the Commissioners, imposes of penalty of only £50 if the proceedings are taken in the High Court;
- (4) it is a question for consideration whether the Board of Inland Revenue should be authorized to make public the proceedings

where penalties are imposed, as recommended by the Departmental Committee of 1905, vide para. 29 above. At present proceedings before the Commissioners are private, and there is no power to bring them before the notice of the public;

- (5) it is desirable to make it clear that a taxpayer who has rendered a false return cannot subsequently escape being penalized by simply rendering a correct return afterwards; section 140 of the Income Tax Act, 1918, is often misconstrued, and attempts are frequently made to use it to support a contention that a belated correct return will relieve a taxpayer from penalties, however fraudulent the original return may have been. It should be made clear that the section operates to relieve a taxpayer from penalty only if he can establish that the error in his original return was due to a bona fide mistake;
- (6) it is desirable to extend substantially the existing time limit of three years within which additional assessments or surcharges can be made or proceedings taken to recover penalties;
- (7) a provision is desirable to strengthen the position as regards penalties in the case of a false return of the profits of a company or a partnership, e.g., by making the penalty of £20 and treble the duty on the profits of the company or firm recoverable, in the case of a company, from the company, or the secretary or the directors in the alternative, and, in the case of a firm, from the partners jointly or from the person who, in fact, took upon himself to make the return, although not in law the person required to do so;
- (8) the present penalty for aiding and abetting, provided by section 152 (2) of the Income Tax Act, 1918, is only £20, and might reasonably be made more severe.

CONCLUSIONS.

12,407. (32) In the main, these increased powers properly exercised would meet the ordinary case of fraudulent evasion. Certain other proposals have been made to grant a special position to qualified accountants and to compel taxpayers to keep specified books and to have audited accounts. It is suggested that the good to be derived from these alterations would not compensate for their disadvantages, and the opposition with which their application would be met. Many audits at the present time are only partial, the accountant having been engaged simply to put together in the form of an account the figures appearing in the taxpayer's books. In these circumstances, it would certainly facilitate the expeditious preparation of assessments if accounts furnished by accountants for Income Tax purposes bore a certificate showing in detail the extent of the audit in each case. It is also a matter for consideration whether it would not be desirable to provide that all accounts furnished should be certified as having been audited, if such is the case, and as true copies of the accounts appearing in the trader's own books where they have not been audited.

In conclusion, if it is borne in mind, and brought home to the community, that the State is to all intents and purposes a partner in every trading venture, with a very substantial interest in the profits, and that it is essentially in the interest of honest taxpayers that the tax which dishonest taxpayers evade should not be transferred to their shoulders, little opposition need be anticipated to any provisions which give the State the right to be satisfied as to the amount of the share of the profits to which it is entitled.

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[Continued.]

Appendix.

TOTAL NUMBER OF RETURNS ASSESSED.

Year.	District A.		District B.		District C.		District D.		Total.
	Number.	Amount Assessed.	Number.	Amount Assessed.	Number.	Amount Assessed.	Number.	Amount Assessed.	
1913	898	11,131	1319	13,149	748	4,121			4,121
1914	688	10,540	1368	13,680	624	4,874			4,874
1915	1392	13,992	1396	13,960	961	7,245			7,245

(b) NUMBERS IN WHICH RETURNS WERE MADE AND ASSESSED (INCLUDING PUBLIC COMPANIES ASSESSED IN ACCORDANCE WITH THEIR ACCOUNTS).

Year.	District A.		District B.		District C.		District D.		Total.
	Number.	Amount Assessed.	Number.	Amount Assessed.	Number.	Amount Assessed.	Number.	Amount Assessed.	
1913	584	533,409	524	615,130	315	138,721	2,066	2,206,543	
1914	688	1,045,574	727	1,284,687	399	185,419	2,502	3,218,938	
1915	836	1,137,520	753	1,561,064	402	284,149	2,701	3,691,976	

NUMBERS IN WHICH NO RETURNS WERE MADE.

Year.	District A.		District B.		District C.		District D.		Total.
	Number.	Amount Assessed.	Number.	Amount Assessed.	Number.	Amount Assessed.	Number.	Amount Assessed.	
1913	40	19,545	18	8,553	47	9,480	187	64,256	
1914	48	25,882	88	33,267	94	99,691	381	126,763	
1915	162	31,993	113	59,228	113	75,456	519	29,685	

NUMBERS IN WHICH RETURNS WERE MADE BUT NOT ASSESSED.

Year.	District A.		District B.		District C.		District D.		Total.
	Number.	Amount Returned.	Number.	Amount Returned.	Number.	Amount Returned.	Number.	Amount Returned.	
1913	588	46,583	589	48,495	623	86,455	386	63,197	
1914	586	62,265	746	117,986	529	73,741	331	51,820	
1915	295	47,149	730	120,059	554	82,839	446	64,819	

RESULT OF SPECIAL INVESTIGATION LEADING TO THE DISCOVERY OF LEAKAGE OF REVENUE.

Year.	District A.		District B.		District C.		District D.		Total.
	Number.	Amount of Increase in Assessments.	Number.	Amount of Increase in Assessments.	Number.	Amount of Increase in Assessments.	Number.	Amount of Increase in Assessments.	
1913	30	1,373	32	35,302	23	6,347	29	2,092	
1914	28	7,402	15	62,326	31	13,243	74	46,813	
1915	11	2,461	20	69,677	48	13,243	91	18,048	

[This concludes the evidence-in-chief.]

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[Continued.]

12,409. *Chairman:* We will commence at once by an examination of your paper, which has been circulated. Mr. Kerly will ask some questions?—If you please.

12,410. *Mr. Kerly:* You have enumerated in paragraph 8 four methods which you say are adopted by evaders. I want to ask you about two others that have been suggested. Is there any substantial defrauding of the Revenue in taking stock unfairly in a trader's accounts?—Very many cases.

12,411. It is quite possible, is it not, if a trader writes his stock up or down in a particular year for it to make a very material difference to his apparent profits?—Certainly, in writing stock down; I do not at the moment see any advantage in writing it up, because at the time he takes his stock he cannot very well tell that there is going to be any advantage in the following year. He would be landed with a higher profit in the year in question; then he might make no profit at all in the next year; and, therefore, there is no advantage.

12,412. Take this case. There may be nothing in it. Supposing a trader has made a loss and he so manipulates his stock that that loss appears to be a great deal bigger than it really is?—By writing down his stock; that is so.

12,413. Then I suppose you would say next year he will have a big profit to show because his stock at the beginning of that year will be apparently low and he will have sold at an apparently high price?—That is so.

12,414. And that would be corrected by the three years' average?—Yes, if the stock were ultimately brought back to its proper figure.

12,415. Have you any method of checking the values put upon stocks?—It is usual to ask the trader to give a certificate as to the basis on which the stock has been taken. If we had reason to believe that that certificate was false, I can conceive methods of arriving at the true result, namely, by ascertaining what the price of the various goods was in the market at the date; and if it is substantially different from what the trader had priced his goods at, then that would be evidence against his account.

12,416. Have you ever checked an account by taking stock yourself?—No, but we have examined the stock sheets to see whether the stock sheets appear to be in order. It would be impossible, when the accounts came into the hands of the district Inspector, for him to go and check the stock, in fact, because it is then months after the date of stocktaking and the stock would not be the same. It would be a very difficult computation, following all purchases and all sales through from the date of the stocktaking. It is not impossible.

12,417. You have in fact no power to take stock, have you?—No, certainly not.

12,418. I gather you suggest that if you had power it would be no use?—I will not go as far as that, because, as I have just suggested, if you took all the purchases since the date of stocktaking and all the sales from that time, then you could see whether the stock at the date of the investigation tallied with the stock as shown by the books at the end of the last account.

12,419. Do you suggest that power might be useful in a case where you suspected extensive fraud?—Yes, I think it would be useful.

12,420. Now take an example. Take a case, say paper, where prices are continually rising as we have recently known, and a concern has a large stock of paper; is there any set practice as to the principle upon which the stock shall be valued?—Yes; the practice in a case of that kind is to take stock at cost; although you must not take me as agreeing that that is in my opinion the strictly proper method.

12,421. Do you say that that is the general practice?—That is the practice—to take stock at cost.

12,422. Do you find cases where a trader sometimes takes stock at cost and sometimes at market value or something in between?—If the market value is less than the cost, it is the common practice for traders

to take the stock at the market value, but not if the market value is in excess of the cost; the reason being that the trader does not consider that he has made a profit on his stock until he has actually realised it. He ought also to say, in addition, that he has not made a loss on his stock until he has realised it.

12,423. That is just what was occurring to me?—That is exactly it. If I may say so, the practice, as generally adopted by the trade and by accountants from that point of view, is a wrong one.

12,424. Is there anything to prevent a trader changing his method from one year to another as he pleases, or do you insist upon his sticking to one principle or the other?—No, there is nothing to prevent him changing. He would change under that practice from one year to another if the market value was above cost at the end of one accounting period and below cost at the end of another accounting period.

12,425. Then if the three years' average is abandoned the opportunity that a trader has of changing his method of stocktaking would enable him to work his profits advantageously?—I am afraid it would.

12,426. Have you heard of cases where the Revenue has been put to loss—I deliberately use that phrase—by sales to directors or shareholders in small companies, on noncommercial terms?—I cannot recall a specific instance, but it is in my mind that such cases have arisen; and further than that, the directors and friends have been allowed to have goods for nothing; which is carrying the point a stage further.

12,427. I ask you because one hears suggestions that sales, or nominal sales, have occasionally been made to friends of the company, who have been allowed to make the profit themselves instead of the company making the profit on a rising market?—I understand we have had a case of the kind. It is not common in my experience. It may have been done, but it does not follow that it has come to light.

12,428. Do you suggest any way in which it could be dealt with?—Only, if suspected, by an examination of the books and by examining the prices at which these sales were affected—unless they were cash sales.

12,429. Supposing it is avowed and there is no concealment about it and you know it, can you stop it?—Yes, if they are sold for less than cost.

12,430. Why?—Because no person is entitled to give his stock away.

12,431. Why not?—Or to give it at less than cost, because it is practically equivalent to making a charitable donation. That is not a *bona fide* trading transaction.

12,432. But how would the Revenue deal with it?—I should say this is a fraudulent transaction, it is not a sale in the open market of goods which have depreciated in value below cost, and therefore are properly sold for what they will fetch. I think the Court would hold that that was a fraud.

12,433. I can understand you might say it is no transaction, it is only a colourable transaction; but if it really is a transaction, if the company means it and the donee means it, what has the Revenue to say to it?—I should contend this. If I have certain goods and the friend on my right is willing to pay me £5 for them, and the friend on my left is a greater friend and he wants them for £3, if I let this friend have them for £3 when that friend is willing to give me £5, I say that is not trading in the ordinary sense of the term; it is giving an illegitimate advantage to a personal friend.

12,434. I am accepting that. Now how does that enable the Revenue to claim a profit?—I should refuse to allow the loss, that is the £3 loss on that fictitious transaction.

12,435. I am putting it to you to see if the Board have considered it. Perhaps it has not been thought

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[Continued.]

sufficiently important—I gather it has not—for the Board to have considered it. Now the proposals that you make are, that there should be a general obligation on all traders to make a return, and, as I gather, to accompany that return with accounts if they are asked for?—That is so.

12,436. Would you extend it beyond all traders, to all members of the community or to traders only?—Traders and other persons having income which is not taxed at the source.

12,437. That comes to this, does it not, all persons unless excused, or if required?—That would be practically it.

12,438. What accounts do you suggest should accompany the return?—You mean if they are called for?

12,439. Yes?—The trading account, profit and loss account and balance sheet.

12,440. Then you make proposals as to certain penalties. Do you think that the General Commissioners are a satisfactory body to impose penalties?—General Commissioners vary very materially; some are and some are not. Where the General Commissioners are keen in the performance of their duties they will deal with that matter in a very satisfactory way; but others, unfortunately, are, if I may say so, rather biased against the imposition of penalties.

12,441. They are, speaking generally, in no sense a judicial body either by training or by habit?—As a rule that is so.

12,442. And they have no chairman or other official who is competent to direct them?—I cannot say that always, because I have had some most excellent bodies of Commissioners who have performed their duties in an extremely judicial manner.

12,443. Am I right in saying that such cases would be exceptional?—Certainly.

12,444. They have not even the assistance of a trained magistrate's clerk?—In many cases they have; not always.

12,445. That again is exceptional?—I think I may say it is an exception.

12,446. If penalties are to be recovered do you not think that that should be by special and appropriate criminal proceedings, which should always be in public?—I am not sure whether you really mean criminal proceedings. Cannot they be civil proceedings as well as criminal proceedings?

12,447. I regard all proceedings to get a penalty by way of punishment as criminal proceedings.—Then I accept that. You suggest that all criminal proceedings of that nature should be in the High Court or before a Court consisting of magistrates or judges?

12,448. Yes, I do.—I should rather like to exclude magistrates. I do not think those proceedings should be before magistrates.

12,449. Could we not distinguish? For not making a return, which is a definite omission, would there be any objection to going to the magistrates to prove that simple matter and have the appropriate penalty inflicted?—I am not sure that I am strongly in favour of proceedings for simply making no return, unless something material lies behind that omission; in other words, unless it has resulted in a fraud on the Revenue. I do not think there is much to be gained by taking formal proceedings against a taxpayer simply because he has omitted or neglected to make a return.

12,450. I thought you wanted the return as the basis of further investigation to find whether there was anything to come or not?—This is rather a difficult point, but I may say that there are various ways in which the failure to make a return may be countered. If a person does not make a return, instead of taking proceedings against him for penalties, it is open to make an assessment. So that I should not like to suggest that we ought in all cases to take proceedings simply because a return has not been made; it would involve such an enormous

number and it would affect a great number of practically innocent persons, whose returns would be no good if they were made.

12,451. Proceedings would in any event be taken only under the direction of the Board?—That is so. We have power, I may say, at the present time to take such proceedings, and if the person proceeded against is proved to be not liable to pay tax the penalty is limited to £5.

12,452. At present there is no obligation to deliver accounts?—That is so, except on a precept by the Commissioners on appeal.

12,453. Are not a number of the points that you have suggested in your paper matters that could be provided for by rules of the Board if powers were given? Take, for instance, your paragraph 32. You say: "it would certainly facilitate the expeditious preparation of assessments if accounts furnished by accountants for Income Tax purposes bore a certificate showing in detail the extent of the audit in each case"?—I think that would be most appropriate for regulations by the Board of Inland Revenue.

12,454. I need not refer to them, but there are several other things of the same sort. Now another matter. Do you think it would be advantageous to the Revenue if bankers were required to give a return of the interest which they paid on deposits?—I have no doubt it would be productive of a considerable amount of revenue.

12,455. Does it occur to you that there would be any difficulty in getting such a return?—There would be difficulty on the part of the bankers, I have no doubt. I think banks are very jealous of their position and the secrecy attached to their business, and I think they would kick very strongly.

12,456. Having in view that probable feeling, do you think it is desirable from the point of view of the Revenue? Is it sufficiently important to be worth while raising the storm?—I should prefer to leave that to the judgment of the Royal Commission.

12,457. I should like to have your assistance as to its value. Nobody wants to do it unless it is going to be of service?—I certainly consider, as I stated just now, that it would be productive of considerable revenue; but whether it would be advisable to excite the opposition of bankers is rather a big question, which does not concern the Inland Revenue Department perhaps so much as it does the Government.

12,458. Chairman: On that point are there possibly a great number of people who have overdrafts but do not claim deduction for Income Tax, nor make a claim of repayment?—If they wish to conceal the fact. We have a great number of claims for repayment on interest paid to bankers.

12,459. But a great number would probably not make claims?—Probably, and in many cases because the amount would be small; because bankers are not keen just now on giving big overdrafts.

12,460. Mr. Ker: It is suggested that if such a return were required it would destroy the confidential relations between the banker and his customer?—That would be the objection raised by the bankers, but as far as Income Tax is concerned I do not think there is anything in that.

12,461. The customer ought already to give the information to the Surveyor?—Undoubtedly. It is one of my strongest points, which it would be appropriate to mention at this moment, that I am very keen on provision being made that every trader should be required to produce all his bank books—not one bank book if he has six accounts, and not his trading bank book only if he has private accounts.

12,462. Are you asking for the production of bank books when required?—When required.

12,463. To be included with the accounts that you have already mentioned?—I should not like to say that, because it would be subsequent to the production of accounts; we should not know whether we wished for bank books until after the accounts had been examined.

12,464. I did not mean at the same time, but as part of the same powers and if required?—Certainly.

12,465. At the present time the bank books of a litigant must be disclosed if ordered by a judge, and

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you would propose similar powers for the Income Tax authorities?—To be conferred on the Board of Inland Revenue and practically on the Commissioners also. I think it follows that the Commissioners would have similar powers.

12,466. The existing power is in the Bankers' Books Evidence Act, 1879, and it only applies at present to the case of a party to a legal proceeding?—I do not think we could hold that that gives power of the Inland Revenue Department to enforce the production of them. They can call for them, but not enforce the production of them.

12,467. It might possibly apply upon appeal, but it certainly does not apply in any other case?—That is so.

12,468. You have suggested that it is desirable to extend the time limit for making additional assessments?—Yes, I do, and there is a rather appropriate clause in the American Income Tax law. They provide that additional assessments may be made at any time within five years where there is no question of false return or fraud, but that there is no time limit within which duty can be recovered where fraud is proved.

12,469. Is there any reason why our statutory limitation period of six years in non-fraudulent cases should not apply?—That would be still more appropriate.

12,470. And the ordinary rule in cases of concealed fraud—no limitation at all?—I agree.

12,471. *Mr. McLintock*: In paragraph 12 you give a note of the unassessed Income Tax, which includes compounded penalties. I take it these are the amounts collected within these particular fiscal years?—That is so.

12,472. They do not relate to the liability for those years?—No.

12,473. Do you agree that a good deal of the evasion in past years has come to light owing to the production of accounts in connection with Excess Profits Duty?—Undoubtedly.

12,474. More so than on previous occasions?—Yes, because the powers of the Revenue have been so much stronger.

12,475. Is there not another reason?—In some cases it pays the taxpayer to produce them, to get a higher pre-war standard.

12,476. Exactly; that has caused a great many voluntary disclosures?—And it has caused in some cases people to go to jail.

12,477. I agree, but it has caused a great many disclosures?—Unquestionably.

12,478. To a very considerable extent?—Yes, I should say that is correct.

12,479. That and the special investigations by the Inland Revenue themselves and also by the Ministry of Munitions?—Yes; but please do not misunderstand me. Far more has been recovered through special investigations than through voluntary disclosures.

12,480. I quite agree; in the cases of special investigation they made their voluntary disclosures too late?—It was a voluntary disclosure under compulsion.

12,481. On the question of evasion by undervaluing stock, the form of certificate that is being asked for to-day pretty well closes the door to that form of evasion, does it not?—If it is correctly signed.

12,482. I am assuming, of course, that it is a true certificate?—Quite.

12,483. You find, do you not, that the average trader hesitates to sign that certificate?—The average trader hesitates to sign anything false in a specific form.

12,484. The request to them for the certificate has caused many disclosures as to hidden reserves of stocks?—Yes.

12,485. It is only when a reserve of some lump sum which is carried forward from year to year is increased that a further loss of duty takes place?—Yes.

12,486. That is, if a man writes off a thousand pounds once that is the extent of his evasion?—If he never increases it.

12,487. Has it been your experience that they continue to increase this reserve year by year?—Certainly, undoubtedly, and especially during the war period, when they have been making so much money.

12,488. It is the case, is it not, that prior to the war and to the Excess Profits Duty, the Inland Revenue did not trouble very much about stock certificates?—Not to any great extent for Income Tax purposes, because it was felt that in the long run it would rectify itself. But I must qualify that statement, because even before the Excess Profits Duty it was not uncommon to find that stocks were being unduly written down; in fact, I was very much amused, on one occasion, to find that the taxpayer invariably wrote 10 per cent. off his stock at the end of each year, and quite reasonably so, but he carried it forward into the next year at the undeducted figure.

12,489. That is not really a stock evasion; that is simply changing the figures?—As a matter of fact, he was perfectly innocent. He did not know what he was doing, although he had accumulated a reserve by that means of several thousand pounds, and he did not know where his money had come from, so he said, and I believe he was right.

12,490. I have known it done, too. The point is this: you have no right, at the moment, to ask for that certificate?—We have the right to ask for anything, but we have not the power to compel a man to give it.

12,491. May I put it in this way: that if you had thought fit at any time in the past, prior to the war period, to ask for that certificate, in the majority of cases you would have got it?—Yes, certainly I think we should.

12,492. Perhaps you would explain to the Commission what the practice is with regard to the present request for the production of accounts. You ask here for certain powers to compel accounts, and I think the Commission should know that in ordinary everyday practice you regularly ask for the accounts before the return is due to be made, and I think I might safely say, in 80 per cent. of the cases, you get them?—My practice, and I think it is more or less general, was to write to a taxpayer somewhat in this form: "With reference to your Income Tax return for the current year, I shall be obliged if you will let me have copies of such and such accounts in order that I may be in a position to advise the Commissioners as to the correctness of the return." But more often than not, I would ask the taxpayer for an interview.

12,493. Is there not an official form which is issued in the months of January and February of each year to every trader who they know has accounts—a stereotyped form in which they are requested to send their accounts on for the last year, and a computation of the liability?—Perhaps you may help me on that point. As regards public companies there certainly is a form, but I have been so long out of a district that I really cannot remember whether there is one for private firms.

12,494. *Dr. Stamp*: Is not the distinction between question and answer just this: that the witness's answer applies practically to getting accounts for the first time where they have not been rendered before? When they have once been rendered, it is probable that something in the nature of an official form, or a form drawn up by the Surveyor, or a hectograph letter, does go out to render this process continuous. I take it that the witness's letter that he has described, would be the one that would be sent out to a taxpayer the correctness of whose return had not been tested in that way before; but once the accounts have been put in, if it is desirable to have them rendered annually, I take it that it would be left very largely to the Surveyor to write some sort of letter within his discretion, to continue it?—I am told that in practice the form used for public companies is frequently adopted in the case of private traders.

12,495. *Mr. McLintock*: There is a regular form, and it is sent out both to private traders and to public companies. The reading of the evidence gives the impression, to those who know nothing about Income Tax, that you do not, generally speaking, get these accounts. Now, as a matter of actual practice, I put it to you that in the months of January and February of every year there is sent broadcast a polite request to traders to send along their accounts and a computation of their liability, and that these are at once sent to you by practising accountants and by many traders?—I must take exception to the

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word "broadcast." A letter is in fact sent to all firms and companies and even persons, who are in the habit of supplying accounts annually, and I do not wish the Commission to think for one moment that my evidence suggests that accounts are not obtained from a very large number of the more important traders. But there is a considerable number from whom accounts are not obtained, or, if obtained, they are only obtained spasmodically, and a considerable number, too, who object to furnish accounts if asked. I hope my answer is clear.

12,496. That objection, of course, is growing less year by year?—Of course it does not always pay.

12,497. I am not putting it on the ground of whether it pays or not, but as a matter of actual practice, are there few taxpayers who do not furnish accounts. I have the form here; it is this: "With a view to facilitate the correct assessment by the Commissioners of Income Tax of the profits of (blank), I shall be glad to receive, if ready, copy of the accounts and reports for the last financial year?"—Yes. Of course it is clear from that, that it is primarily intended for companies, because it uses the term "reports," but it is capable of being adopted for both companies and firms.

12,498. They have a different form which is sent to private individuals?—Yes?

12,499. I mean the form of letter which goes is different; they do not ask for reports?—Do they not simply cut out the word "reports"?

12,500. Probably they do?—You must not press me too much, because I do not profess to know everything that is going on in the districts.

12,501. Very well, I will leave that. The purpose of my question was with regard to your paragraph 18 (1), which says: "to enable the Revenue to require production of accounts in support of a return before an assessment is made." Now what I wanted to suggest was that in the majority of cases, as you admit, the accounts are sent before the assessment is actually made; in the case of all limited companies, it is sent as a general rule?—As a general rule, yes.

12,502. And by the majority of private traders who you know have accounts?—No, not the majority.

12,503. I can only speak from my own personal experience, and that is that we return always, before an assessment is made, a complete set of accounts and a computation, and I know that is the practice of most accountants?—Are you referring to England or Scotland?

12,504. I am referring particularly to Scotland, but also to what I know takes place in England as well?—In Scotland—

12,505. You find in Scotland they are more ready to respond?—I think in Scotland accounts are kept much more generally than they are in England.

12,506. Is it your view that if there was an increase in the expert staff of the Inland Revenue to deal with public companies in each district, you might get more accounts and have time to examine them more closely, without getting any additional powers?—To some extent, but not to the extent that is desirable, by any means. I quite admit that; and that is a point which I am very glad to have an opportunity of making. If we had increased staff, apart from increased powers, we should get a materially larger revenue; but we should still fall very far short of what we ought to have if we had the additional powers as well.

12,507. I will put it in this way. If every trader sent you his accounts to-day, your present staff would not have time to examine them?—To examine them, but not to examine them as they ought to be examined—two very different matters.

12,508. Do you agree with the view that there should be no compounding of the felony by taking lump sum payments, but that everyone who has made a fraudulent return should be prosecuted?—No, I do not, for very sound reasons, in my opinion. I do not agree that there should be no compounding—what I gather you mean by compounding—because if there were no compounding, then there would be a great deal of money lost; because, although there may be no doubt that fraud has been perpetrated, and the

taxpayer may even admit it, it does not follow, owing to the difficulties of legal procedure, that a conviction could be secured if the case were taken into a Court. But I cannot imagine that anybody would suggest that because it might not be considered advisable to institute a criminal prosecution, therefore the taxpayer should be allowed to go scot free. I ought to add a word to that. In speaking of criminal procedure, I am referring more particularly to prosecutions involving imprisonment, and not so much to a prosecution for pecuniary penalties. The objection very often to a prosecution for pecuniary penalties, where it is unnecessary as a rule to prove fraud, is that it frequently happens that the amount recovered would be disproportionate to the offence.

12,509. You refer in your proof to the three years' limit. I think you agree that in the majority of cases the tax recovered is by no means confined to a period of three years?—Certainly not. That is, where there is either fraud involved or what you might almost call criminal negligence.

12,510. That is, if you discover a case to-day where a man has been clearly fraudulent, while the Act says three years, you go back twenty years if the figures are available?—But we do not go back twenty years and accept twenty years' tax. We accept penalties in lieu of tax.

12,511. What you do, in effect, is that you go back twenty years to find out if he has been defrauding you all that time, and how much tax you have lost, and then you get a sum of money out of him?—You measure the penalty by the extent of the offence.

12,512. And it is by no means limited to three years?—As I say, the penalty has regard to the offence, and if the man has been defrauding the Revenue since 1842, he ought to be penalised much more heavily than if he had only been defrauding the Revenue for three years.

12,513. So that the three years limit does not apply in many of the worst cases?—The three years' limit does in fact apply to the power to assess and recover tax, but the penalties which may be recovered further recoup the Revenue for the duty that has been lost.

12,514. You know there is a certain amount of hardship felt by the taxpayer who innocently has overpaid tax for ten years—that he can only get recovery for the prescribed period that the Act lays down?—That is perfectly true, but the taxpayer is always in a position to know that he is overpaying, whereas the Revenue is not. If the Revenue were in an equal position to know that the taxpayer was paying too much, there would be equal responsibility on the Revenue to refund.

12,515. Of course his ignorance does not excuse him, but he does not know, or he would not have paid all those years?—Presumably not. Ignorance is no excuse.

12,516. I do not want to be putting a professional view of it before you, but there is always this question uppermost with accountants, when they discover irregularities themselves; they have a desire to put their client on the narrow path, and they are confronted with these serious penalties if they do so. Would you make any suggestion in regard to voluntary disclosures, even where the evasion has been fraudulent?—I have had numbers of cases of the kind, and my inclination—I might almost say my aversion—has always been in the direction of ensuring that the taxpayer whose fault has been voluntarily disclosed, either by himself personally or through the proper action of his accountant, shall not be subjected to a criminal prosecution. But I should never suggest that, even in a case of that kind, he should not purge his offence by paying the tax which did not belong to him.

12,517. I quite agree with you?—And also I should say with one addition, which also, I think, is extremely reasonable, that is, the interest which he has made out of the use of the money.

12,518. On the question of remedies, would it help with a body of Commissioners, whether the present body or another one, that the appellant should be put on oath?—I am not in favour of a provision that all appellants should be examined on oath. The present statutory powers are that an appellant may have his answers put into writing, and that he may then be

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sworn to them. I do think it would be advisable that there should be power for the Commissioners, if considered desirable, to put an appellant on oath before his examination.

12,519. In your conclusion, you refer to the fact that many audits at the present time are only partial?—Yes.

12,520. And that being so, the accountant's certificate or statement relating to Income Tax is not necessarily so reliable as it should be?—Yes.

12,521. Would it not be sufficient if you got some form of declaration by the accountant as to the return made, including all the items that should properly be noted for the information of the Inland Revenue. If you ask for that certificate, would it not tend to make all audits complete?—I think that is rather specious. Would not that have the effect of making the accountant the judge as to what were the items material to the computation of the Income Tax, if we had to accept the certificate of the accountant?

12,522. I do not ask it to be final; I mean, to the best of his knowledge and belief?—Are you suggesting that it would meet the requirements of the Revenue if the accountant gave a certificate to the effect that the accounts were correctly prepared and disclosed all material items? Is that your point?

12,523. Yes?—That would not state to what extent the accounts had been audited. What we so frequently find is this: an accountant is called in by a taxpayer, and the books are put before him, and the accountant is told to prepare the account from those books, and not to make an audit. Now those books may be altogether wrong. I have a number of cases under my notice at the present time; the accounts have been prepared from the books, the books do not disclose the whole of the transactions, there are very material hidden items; drawings of proprietors have been debited in the accounts. The accountant, unless he makes an audit, cannot, in my opinion, discover those errors. So that unless the accountant states to what extent he has audited the books, I cannot imagine what is the value of his certificate.

12,524. I do not think accountants generally would make up an Income Tax return by merely taking the figure in the books and sending it along to you?—But hundreds do. I have had chartered accountants, within the last few months, who have been in my office and have said: "our clients will not pay us to make an audit, and we are simply instructed to put an account together from the different accounts in the books." That is all they do, and all they are paid for.

12,525. But the Revenue does not accept that type of account?—We do not know that it is that type of account, because the nature of the account is not disclosed on the certificate.

12,526. I am surprised to hear that there are accountants who come along to you with accounts of that kind?—I am very glad you are.

12,527. Do you think it would go a long way to meet your difficulty if every trader had to make a declaration first as to the accounts he kept?—Yes, I think that would be very material.

12,528. Would you compel him to have them audited, or permit the Inland Revenue to go and examine the books for themselves?—I would not suggest that he should be compelled to have them audited, because so many traders cannot afford to pay the fees of auditors.

12,529. How do you suggest you are going to get over the difficulty if a man says, "yes, I keep accounts, and there are my figures"? Do you wish to have the right to send an Inland Revenue official to examine these books in detail, and make a complete audit?—They should have the right to do so where it is considered advisable, but in a great number of cases the returns and the accounts, so far as there were accounts, would be *prima facie* satisfactory, and there would be no reason or inclination to investigate the books. It cannot be suggested that the Revenue would be able to have every trader's books thoroughly examined by Revenue officials, or even that every trader should be required to have his books audited by a qualified accountant.

12,530. Would it not go a long way if you asked every trader to give you a declaration as to the form of accounts he kept?—Yes, certainly, it would be of great help.

12,531. And if in your opinion these accounts were not satisfactory, either that you should have liberty to examine his books or that he should bring you a certified account?—Well, in any case I think we should have liberty to examine them, even if he brought a certified account.

12,532. You agree that at present the Inland Revenue have not the skilled staff necessary to examine books?—They have a certain quantity of staff skilled for that purpose.

12,533. I know they have many, but they are very few as compared with a general examination of books such as you indicate?—A considerable number of our district Inspectors of Taxes are quite qualified and competent to examine a trader's books from beginning to end.

12,534. Do you agree that the accountancy profession generally in all parts of the United Kingdom have done a great deal of work to facilitate correct assessments of traders?—Unquestionably.

12,535. Mr. Barley: I want to ask you a question on the subject of the valuation of stocks. In answer to Mr. Kerly I understood you to suggest that there was no reason why stocks should be written down to market price if that is below the cost price, because the loss has not so far been made?—That is so. That wants to be coupled with the other question, that the stock is not written up to market price if the price has gone up. What is sauce for the goose, I think, ought to be sauce for the gander. The taxpayer may say, "I cannot show my true position on the 31st December unless I take my stock at what it would fetch, that is to say, assuming the business is sold as a going concern, because the purchaser in that case would not pay more for the stock than he could go into the market and buy it for from a merchant." Therefore to ascertain his true position a trader has to take his stock at what it is really worth at that moment, and therefore it is perfectly correct that he should write his stock down to its market value; but if we accept that as a correct proposition, and the object as I said before is to ascertain what the trader's real position was at the 31st December, if the value of the stock has gone up then for the same reason it should be taken at the increased price. You cannot have the one and not the other.

12,536. But you would not press that stock should not be written down to market price if that is below cost, for the very reason that you just mention—that a balance sheet on such valuation would not show the true position?—I do not press the point because it has been the universal practice, but, as I think I have already said, it is an unsatisfactory practice.

12,537. Surely the true position of a concern would not be shown if it showed a large stock at cost price, which was very much higher than the market price; an auditor could hardly certify such accounts, and surely directors could not submit such accounts to shareholders as showing the true position of such a concern?—I say I agree, but no more ought they to put forward an account which shows the stock at much less than its value.

12,538. Then you do not agree with the idea that no profit is made until goods are sold?—Nor any loss made until the goods are sold; there are the two points.

12,539. I quite see your point from the trading point of view. When it comes to drawing up a balance sheet to show the true position of a concern can a stock be taken in at very much higher than the market price, and still show the true position of the company?—Certainly not; nor at less.

12,540. Therefore, can you take stock properly at cost price if that cost price is higher than the market price?—Certainly not.

12,541. Therefore you would rule that out?—I do, but I say you have to face the alternative. You cannot show the true position of the trader if you take the stock at cost if it is worth very much more. We

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are faced with the two arguments, which conflict. The one is that you cannot bring in a profit until the goods are realized, and yet the trader says, "nevertheless, I can bring in a loss, although that has not been realized."

12,542. Surely he can bring in the loss, because the object of a balance sheet is to show the true position of a concern at a particular date?—That is right, and the true position must take into account accretions or appreciations, if you take into account depreciations.

12,543. I will put it to you that until those goods are sold that appreciation has not been realized?—And until those goods are sold that depreciation has not been realized.

12,544. But the true position of that concern is that the value of its holding is so much less?—We are talking in a circle, I am afraid.

12,545. Mr. Mockinder: I want to ask a question or two with regard to the possibility of estimating the amount of the evasion. I see in the Appendix to your evidence-in-chief, to which you refer in paragraph 9, you say: "These districts were not specially selected, and it is believed that the results shown may be taken as fairly representative of the country as a whole"—that is to say, the districts A, B, C and D in that Appendix?—Yes.

12,546. As regards (b), the number of assessments in which returns are made and accepted, I see the amount, taking the year 1917, is £3,891,976—that is, roughly, a little more than one per cent., is it not, of the total income—it is rather more than one per cent.; between one and two per cent.?—I accept that.

12,547. Down at the bottom of those tables, in the last line of all, you give the amount of increase of assessments for 1917 at £109,534, so that if we take it for the moment that the upper figure is one per cent., it would show an amount of evasion there detected and remedied of £10,953,400, roughly?—I do not think I follow that.

12,548. I want to ask you whether you think that is typical, and whether we can draw any inference as to the money value of the margin of taxable income which you think escapes taxation?—I am afraid you cannot take that as necessarily indicative of the evasion year by year, because those figures cover a number of years.

12,549. But you have got back duty and penalties to which I have not referred. I have referred simply to the increase of assessment presumably for the current year?—Yes, you are quite right; I was looking at the other column.

12,550. As a fact, have the Inland Revenue, do you know, attempted to form an estimate of the amount of taxable income that at present escapes taxation?—I have given very careful consideration to the point, which is an extremely difficult one. My estimate is that the result of the increased powers asked for would produce another £5,000,000 of tax. If the necessary increase of staff were also available I should estimate a further £5,000,000, and therefore my aggregate estimate of additional tax recoverable with increased staff and increased powers would be, in my opinion, not less than £10,000,000, and might be materially more.

12,551. In other words, it does come out at the figure which I was assuming from these districts, if these districts are typical?—No, you are looking at assessment, on the last line.

12,552. It is the amount of increased assessment?—Yes; but I am now speaking of duty—£10,000,000 more duty.

12,553. I beg your pardon; you mean in actual duty received?—Yes.

12,554. That is an enormous difference. In 1917 the tax was, I think, a quarter. That would point to its being, I think, a quarter of that amount—£2,500,000?—Yes, but this figure in my table is only the amount that has, in fact, been detected under present conditions, with inadequate staff, and all the difficulties arising out of the war, out of extended legislation, and the enormous additional work thrown upon us.

12,555. If I may put it in a different way without taking those figures, can you give us any idea of the basis of your estimate?—It is assumed that the profits which would come under review for the purpose of detecting evasion might be taken as £300,000,000, and

the amount of evasion 10 per cent., which at an average rate of tax of 3s. 6d. in the £ (which, I think, would be under the mark), is approximately £4,000,000 of duty.

12,556. The £300,000,000 one sees; is the 10 per cent. more than an assumption?—No. It is based partly on past results, but, as I say, it is impossible to say what will result from extended powers; inasmuch, however, as our powers are very inadequate at the present time, and notwithstanding those inadequate powers, we have got a substantial sum, it is not unreasonable to assume that with the greater powers a materially larger amount would be recovered.

12,557. I am asking you because there is a very general assumption in many quarters that the evasion is very large. I am suggesting from your figures that the evasion, although important, is not very large?—Well, I am very averse to exaggerating, and I would much rather put the amount at what I consider is well within the mark than try to make it as great as possible.

12,558. Then your estimate is that by appropriate methods we might get £10,000,000 more?—Yes, that is so. We must bear in mind that a very large proportion of the Income Tax is collected in such a way as not to lend itself to fraud. I am not disposed to quarrel with anybody who expresses the opinion that the amount of evasion is even greater.

12,559. Are you in this distinguishing between the Income Tax that is derived from the home country and Income Tax which is derived from abroad?—No, I include the whole, because to some extent undoubtedly the income arising from foreign possessions and securities may fall to be disclosed.

12,560. But your £10,000,000 includes additional taxation which, you think, may be derived from income from abroad?—Certainly; but in my estimate I am not including legal evasion; that is, legal avoidance of tax by adopting legal methods.

12,561. No; yours is evasion, not avoidance?—Yes. That is a subject to be dealt with by another witness. I might supplement what I said by saying that my figures do not include either Excess Profits Duty or Super-tax.

12,562. Mr. Armstrong-Smith: Your paragraph 29(3) says that the Surveyor may surcharge taxpayers not already assessed. Would you please tell me the exact meaning of the word surcharge?—The Additional Commissioners make assessments; the Surveyor of Taxes has power under the Act to make an assessment which is described as a surcharge, but he can only make a surcharge where no assessment has already been made. He cannot make a surcharge if there has been an assessment which in his opinion is inadequate. It is certainly desirable, among other things, that the district Inspector of Taxes should have the power to make a surcharge even in cases of under-assessments as well as omissions.

12,563. Then the word really means assessed, does it not?—Yes, in effect.

12,564. Mr. Walker Clark: In the fourth paragraph of your evidence-in-chief you pay a very considerable compliment to the taxpayers?—Well, they deserve it.

12,565. I am very glad they do, because some of the evidence which follows seems rather to suggest the other way?—We are only dealing with the minority.

12,566. You suggested to Mr. McIntock that there was considerable evasion in the method of taking stock. Do you suggest that the method is to take the stock at too low a value, or to sell it outside?—There are the two methods with regard to stock, the one method is to take it at an amount below both cost and market value, and there is also another form of evasion in that stock is sold and the selling is not passed through the books at all.

12,567. I wanted to ask you if you considered that taking it at too low a point induced fraudulent sale?—No; the two things are quite separate and distinct.

12,568. You do not think the two things go together?—No, I do not think so.

12,569. You suggested there should be power given to the Department to take stock or to check stocks?—Only as part of the general powers of investi-

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gating the taxpayer's accounts and books; it would fall in as part of that process if necessary.

12,570. You know that the fact of taking stock is not only extremely inconvenient in stopping business during the process, but also extremely costly. Would you suggest that the taxpayer paid the cost of that, or would you suggest that the Inland Revenue paid the cost?—If such a procedure were necessary I should suggest that any costs incurred should follow the result.

12,571. That is exactly what I wanted to get—if necessary by whom?—If the taxpayer's accounts were not disproved, then the cost ought to be borne by the Revenue, but if the taxpayer were detected in wrongdoing, then the cost should be borne by him.

12,572. I am coming back to the point who is to decide whether the stocktaking is necessary?—The Board of Inland Revenue through its officials, who have reason to suspect that there is something wrong with the stock.

12,573. But through its officials without any appeal to anybody?—No. In any case there would be an appeal to the constituted authority, which is at the present time the General Commissioners of Taxes.

12,574. And it would be their authority which would have to be secured before the stock could be checked?—Not necessarily; I propose that the Board of Inland Revenue should have that power.

12,575. Chairman: That is the point; there is no appeal.

12,576. Mr. Petyman: The appeal is only after taking stock.

12,577. Mr. Walker Clark: That is the point?—Quite. I say the Board of Inland Revenue should have power to call for an investigation of the books, and that investigation might—not necessarily—involve some checking of the stock.

12,578. I quite understand the procedure, but what I want to get at is whether you suggest that the Board of Inland Revenue on the ipse dixit of an official, who is, generally speaking, not a practical business man, and sometimes not even an accountant, should have the right to demand the re-checking of stock?—I should like to make this point: in my opinion the checking of stock would be very rarely necessary.

12,579. I quite agree.—If the point were put to the Board of Inland Revenue they would judge on the information available, not simply because an official said, "I think it is necessary," or "I want to check this stock"; that would not be good enough; the Board would not act on that and say, "Yes, go ahead." They would want reason why and wherefore.

12,580. Then the matter would have to be referred by the local Inspector to London?—That is so.

12,581. And it would be upon their written authority that such a procedure should be taken?—That is my view.

12,582. That process of procedure was not outlined in your paper. How can the average system influence or check evasion by writing down stock?—If you have got three accounts you can see the fluctuations in the stock much more clearly.

12,583. But you may have 23 accounts?—Not necessarily. When you begin you have only one account if there is no three years' average.

12,584. Yes, that is so, but you always have accounts?—Afterwards you have—not at the start.

12,585. The three years' average only applies to a man who has been in business at least three years?—I see you do not get my point, apparently. If it is necessary to investigate a taxpayer's liability, and, although he has been in business for some years, you can only call for one year's accounts, it is of very little use. On the three years' average you must have them for three, or even six years. Owing to the fact that you can make additional assessments for three years, you can get on the three years' average system six years' accounts, and you can detect a lot out of six years' accounts.

12,586. Still, with the additional powers which you are asking for, if those were conferred—although many of them, I think, are very unnecessary—surely it would be just as easy to recover any evasions?—

Do you mean to say if we had not got the three years' average?

12,587. Yes.—With those powers, yes.

12,588. The question of the three years' average really does not enter into this question?—It does not materially enter into the question of these powers.

12,589. Nor into the question of evasion?—Well, it enters into the question of evasion to this extent: that if you have got three years' accounts, you have got more to create suspicion.

12,590. More basis?—More basis—a better jumping-off ground; whereas if you have got the preceding year basis and the taxpayer only puts in one account, which is all that is necessary for that year, then you have got very little to work upon.

12,591. But still you would have your powers?—Yes, you have the powers, but you might not have the reason to cause you to set those powers in motion.

12,592. In paragraph 15 you deal with the complete trading accounts obtained during the Ministry of Munitions' administration. Is it not the fact that those powers were given very largely because many of the firms had dual trading, partly controlled and partly uncontrolled?—I cannot conceive that that was the intention. The reason was very largely that the Munitions Levy was to be worked by the Ministry of Munitions by means of a body of qualified trained accountants brought in from outside. Those trained accountants, knowing what accounts are, and also, I might suggest, knowing the wonderful things that they discovered when they are auditing clients' accounts, came to the conclusion that those powers were necessary, and, therefore, the elaborate forms and certificates were drawn up so as to give those officials every possible means of getting to the bottom of things.

12,593. Dr. Stamp: Arising out of that last answer, were there not also important political reasons in view of the fact that there was a so-called bargain with Labour, that they gave up certain rights, against which there were certain charges made upon the firms, and it was more or less incumbent upon that Department to assure the workers that the full tribute was being taken from the earnings?—Yes, I think that point did enter into the question to a material extent.

12,594. You hold the view, I take it, that a sequence of accounts is a much more powerful engine of discovery than single or isolated accounts?—Unquestionably.

12,595. And particularly is it necessary that they should include the balance sheets?—Yes, very necessary. I have had numerous cases where the balance sheet has disclosed very large sums of revenue not passed through the trading account. I think it would be interesting if I mentioned one particular case. A very large company in the north of England had their accounts audited by one of the first firms of auditors in the City of London. They always objected to furnishing the balance sheet, but after a time the case came into my hands, and I inquired, where is the balance sheet? It was not forthcoming, but ultimately I got it, and I found that that company had, over a long series of years, approximately £100,000 on deposit at the bank on which they were getting interest, the whole of which was placed direct to the reserve account and no tax had ever been paid on it. Only the balance sheet could disclose that fact.

12,596. Is it a fact that there is often a readiness to give the current profit and loss accounts and trading accounts, and a reluctance to give the balance sheet, or there was until recent years?—Very great reluctance.

12,597. And that the former are more or less worthless without the latter?—No trader's account is complete without both balance sheet and profit and loss account.

12,598. Would you regard it as feasible in any legislation that referred to the necessity for producing accounts, or the rights of the Revenue to require them, that balance sheets should be particularised in order to clear up any misapprehension?—I should like to suggest balance sheets, trading accounts, and all other accounts necessary or considered to be required.

12,599. The legislation of 1915 for the Excess Profits Duty introduced some new powers in the matter of getting accounts, did it not?—Yes.

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12,600. Have these powers had effect in that direction?—They have been of very material assistance, but they have not gone as far as they should have gone.

12,601. I want to take you on that point which has been brought to the Commission by a previous witness on the subject of examination of books, which is the second point of your powers, that the Revenue should have power to examine books. I will not go into the question of safeguards or reservations, but they should have that power?—That is so.

12,602. Do you remember that there was a proposal before the House of Commons in four lines of the Finance Bill?—Yes, I remember it was one of the original proposals when the Finance Bill of 1915 was introduced.

12,603. A previous witness referred to a very lengthy and heated debate, which resulted in those words being taken out?—Yes, I remember the debate quite well.

12,604. Could you give us any idea of what in your judgment is at the root of the objection to have some power of that sort—I mean the objection in Parliament and generally. Would it be this, that there is a point to which you can go in making the law too stringent and making the general taxpayer dissatisfied; is that it?—There always has been an objection on the part of the community to the so-called inquisitiveness of the Income Tax, but, in my opinion, that feeling ought to be, if it is not, dead by this day, because every taxpayer ought to know that if everyone else pays as much as he ought, he pays less, and that for every person that commits a fraud on the Revenue and escapes the payment of tax, he has to help to make good the loss. Therefore I think there should be a feeling on the part of the taxpayers of the present time that the more power the Revenue have to secure correct assessments, the less Income Tax will they themselves have to pay in the long run.

12,605. That would represent the ideal frame of mind of the average taxpayer?—Yes.

12,606. But we are faced with this fact, that this proposal has, as a matter of fact, been definitely before the Legislature for consideration under, shall we say, the most propitious circumstances—that is to say, the pressure of war, the very high rate of duty depending upon it, and the political feeling raised by so-called profiteering and so forth, and yet it was not acceptable. Can you suggest any way in which this can be re-introduced and made acceptable under circumstances of less pressure?—It seems almost to require propaganda to bring it home to the taxpayers. There is one suggestion; I think it should be made perfectly clear that it would not be within the power of the local district Inspector to require an examination of books, but it would require an order of the Board of Inland Revenue, and also it might be provided that where desired the examination should be made by a special official sent down from Somerset House, who would have no local interests.

12,607. Shortly, you would get over the difficulty by placing some quite obvious drag upon the zeal of the local official?—Certainly.

12,608. In the words which were debated, to which we have referred, the powers were given to the Commissioners of Inland Revenue, I believe; that surely ought to have reconciled the House of Commons to the fact that it would be properly used?—It ought, but apparently it did not.

12,609. If it is necessary—and I am quite in agreement with you that it is very necessary—that there should be further powers, the difficulty is to introduce them and at the same time keep the general taxpayer feeling that he is not going to be molested unnecessarily, and it is really to find what is the most practicable means of adjusting the two issues. Do you think that the taxpayer would be satisfied if it were made clear in the Act that he could not exercise those powers without first referring the matter to superior officials at Somerset House?—Undoubtedly; that was my proposition.

12,610. You think the average taxpayer would think that Somerset House would be more reluctant to apply them than the local official?—I think so. I certainly think that would be a safeguard and therefore a help in that direction.

12,611. What is the present position if the Revenue are examining a return or accounts, and they are dissatisfied with them on general grounds but cannot point to any particular thing; are they not more or less in the hands of the Additional Commissioners as to whether they will consent to make an additional assessment?—That is so, unquestionably. The Additional Commissioners very often say, "no, there is not sufficient evidence to justify us in thinking this return is not satisfactory"; and they refuse the increase.

12,612. Have you known cases where the Additional Commissioners have taken that line for years, and where ultimately by some means or other the accounts have been obtained and they have been found to reveal considerable sums?—Yes, a number of cases. I remember a case when I was in the City of London, where the Additional Commissioners said, "we are perfectly certain that there is no person carrying on business in England in this line who is making more than £5,000 a year." I had good reason for my request, and I wanted them to make an assessment in the sum of £10,000. They demurred, but ultimately they said they would make it £8,000. Fortunately, before the assessment was completed, I succeeded in getting the accounts, and I was able to go back to the Additional Commissioners and show them that the true profit was £14,000, although they had been perfectly certain there was nobody making more than £5,000.

12,613. Is it the fact, then, that except for what the official may do on his own initiative by tact and careful address to the subject, if the taxpayer is determined not to give him any assistance the official is really dependent upon the goodwill and assistance of gentlemen who are the Additional Commissioners, and who are purely local in their interests?—That is so, and in numbers of cases it has been a very great handicap. I know one district in particular where there is one Additional Commissioner who will not make any increases if he can possibly help it. Of course, that is not the rule. As a rule the Additional Commissioners are very helpful, but there certainly are cases where they are the converse.

12,614. Would you suggest that sometimes it may be lack of courage on their part, or the desire not to disturb some local interests?—Very often it is a desire not to make themselves disagreeable, and sometimes it is an excessive friendly feeling, but more often than not, I think, it is ignorance, and they look upon it as their duty not to increase an assessment unless they have got some material information before them.

12,615. The taxpayer has an option, has he not, as to whether he is assessed by the Additional Commissioners for the districts, local gentlemen, or by the Special Commissioners in London?—Certainly.

12,616. Do you think it would be of any assistance if the Crown as represented by the Inspector or the Surveyor had the same option, and in such a case as that could refer the matter to be assessed by the Special Commissioners?—It would be very helpful if it were feasible, but I cannot quite conceive that it would be practicable; if it were it certainly would be very helpful.

12,617. Still dealing with the question of the District Commissioners, but coming now to a point where some kind of fraud or irregularity has been discovered, would you say that the District Commissioners would be less or more ready to impose penalties than persons independent of the neighbourhood?—I should think about half and half. Half would be equally or more ready, and half would be less ready. You would get inequality of administration of justice.

12,618. Great inequality. You think you would get local feeling entering in to a greater extent?—I have known cases where the local feeling has gone very hot against the taxpayer, and he has had to pay for it; in other cases it has been the other way about, and he has been let off with a nominal fine.

12,619. Have you had any reason to suppose that any political feeling was behind it if the Commissioners were of one complexion?—No, I cannot say that I see much of that as regards penalties, but I have seen it sometimes as regards making assessments or hearing appeals; but I do not think that is very common.

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12,620. You have no definite feeling that the revenue is suffering in the matter of penalties by being dealt with by people who are concerned in the neighbourhood?—The great bulk of the penalties are settled by compromise, and are not taken formally before the Commissioners. It is only in exceptional cases, where it is possible that there may be some good purpose to be served, that an information is laid and a prosecution is taken before the Commissioners.

12,621. Do you not think that possibly the Revenue may do better in that way than if they allowed every case to go to the District Commissioners?—Do better by compromise? Unquestionably they do better.

12,622. That is to say, if they had not that practice of dealing with the taxpayer direct and settling the matter, as it were, out of court, they would be far worse off by allowing the law to take its ordinary course and going to the Commissioners?—Very much so, because by concentrating these cases in the hands of one or two officials at Somerset House justice is administered on a definite line, and with due regard paid in every case to the offence, the result of the offence, and the means of the offender. For instance, I have had cases where although the amount of duty lost was not very great, still the offence was so very clear and gross that a big penalty was called for. It is always the practice to say: "What burden ought the back to bear; what is the nature of the offence; how long has it been continued; is the offender repentant?" When all those factors are taken into account you get true justice administered better than you could get it if the cases were taken to a multifarious number of courts.

12,623. Does it come to this, that generally speaking there are a great many things in the present Income Tax Acts which are set out for certain formal procedure, but things are only as satisfactory as they are by that procedure being short-circuited and being rendered to some extent a dead letter?—That is so.

12,624. And in the matter of penalties and fraud generally, things are only as satisfactory as they are by the provisions of the Act being rendered as far as possible inoperative?—I do not know that I can altogether agree with that. The provisions are there.

12,625. They are there for resort to if necessary?—The provisions are there, and the penalties are incurred, and all that happens is that the taxpayer in given an opportunity, if he wishes, to confess his fault, and to offer restitution and penalty. If he elects to do that, and the result is satisfactory, all that he escapes is having to go before a body of Commissioners who hear his case in private, and it goes no further. On the other hand, the Revenue are saved, I may say, a material expenditure of money in the time of their officials, which would be virtually wasted by a prosecution before the Commissioners. These cases are frequently brought to a head in half an hour, whereas it might take one or two days to argue the case out before the Commissioners. I have been through both processes, and I know what the latter process means, and I know how very wearing it is; and the result, as often as not, is not nearly as satisfactory as it would have been if the case had been thrashed out in Somerset House.

12,626. Then it is in the interests of mercy and in the interests of justice and in the interests of the Revenue that as far as possible these cases should not go to the Local Commissioners?—Undoubtedly it is; I feel very strongly on that point.

12,627. Coming now to the question of particular fraud, certain questions have been put to you about under-valuation of stock. You take the view that the prudential reserve created by writing down from cost to market value if lower is not justified in strict principle, but is justified by universal long practice?—Yes, I do.

12,628. The practice of writing it down lower than that, creating a still further reserve, was not a matter of great concern to the Revenue when the rates of Income Tax were low and prices did not fluctuate much?—That is so, but I might say that a big taxpayer once said to me: "If you are so inquisitive I can do you; I can write my stock down." I said, "you can write it down for two or three years, but you cannot keep on writing it down, and some day it has got to go up again."

12,629. And you agree that the matter has only become acute by reason of the rise of rates during the war and the very rapid rise of prices?—That is so.

12,630. But it would be wrong to say that the Revenue had never taken any interest in the subject before?—Certainly.

12,631. Would you refer to the large reserves which were made in the cotton boom in 1907?—Yes, I remember them; it had slipped my memory. Very considerable amounts of duty were recovered owing to that very point.

12,632. Would you say that, if you had to rely on pure law in the matter of what is correct for stocks in relation to profits, the law is at any rate uncertain, if not entirely silent?—It is uncertain owing to the peculiar dicta by the judges in various cases; but if the case were specifically dealt with on its merits, in my opinion there could only be one legal result, and that is to ascertain what loss or what profit had in fact been realized at the date of the stocktaking.

12,633. Are there not very important judicial dicta which have held that not abstract principle but general commercial practice is the most influential feature in understanding what profits are?—Yes, that peculiarity has arisen.

12,634. Therefore it is very difficult to pin a particular method of writing stock down as fraud if it could be justified on general grounds?—Yes, but that would not say it was a common or legitimate commercial principle for everybody to write his stock down below both cost and market price.

12,635. Taking the so-called base stock in a base stock trade, if they could show it had been done universally in their trade it would be very difficult under the present law to say it was fraudulent at any rate?—Yes, I do not think you could say it was fraudulent, because there are certain arguments upon which it can be justified.

12,636. Would it not therefore be very much better in any legislation dealing with the matter if this question were made very much more specific and cleared up?—Yes, I think so.

12,637. Chairman: How, Dr. Stamp?

12,638. Dr. Stamp: By indicating either that the stock should be taken in a certain way by reference to market value if lower than cost; or that, if a base stock method were universal in a trade, that should be accepted; at any rate, whatever it did decide, making it perfectly specific and not leaving it open to grave question.

12,639. Chairman: And in war time when the values rush up and down is it not very difficult?

12,640. Dr. Stamp: The difficulty of it is so great that it was the subject of a special Commission which was appointed by the Minister of Reconstruction to consider the matter.

12,641. Mr. Prettymann: It could not apply to agriculture.

12,642. Dr. Stamp: I would not say it could not, but it would be very difficult.

12,643. Mr. Marks: Is it not the fact that banks and investment companies and other dealers in money are not allowed to bring into account either appreciation or depreciation unless it is realized?—Dealers in money, if they consistently write up and write down are allowed to do that, and it is not questioned, but they are not allowed to change about and adopt one principle at one time and another at another; moreover they are not allowed to write up depreciation year by year, and then when there is appreciation to say, "we are not going to give you the appreciation."

12,644. No, but is that a principle which is also applied to Life Assurance companies in the treatment of their investments, that is to say, if they consistently write up and down?—No, it has been decided in the Courts that the sale of their stocks and shares does not produce a taxable profit, and it has also been decided that the depreciation of any investments they may have is not a legitimate deduction in arriving at their surplus.

12,645. Dr. Stamp: I am not at all on the question of the merits of this at the moment; I am merely trying to see whether it is not a fact that this is a very difficult question, about which there may be

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many honest different views, and therefore before you can raise any question of fraud in relation to it it is essential that the law relating to it should be made more specific; would you agree with that view?

—Yes. There are many cases where there may be a commercial justification for the action taken, but at the same time there are also many cases where the writing down of stock can be clearly shown to have been fraudulent, with no justification, either commercial or otherwise. As regards base stocks, that is a peculiar proposition, and I agree, as you ask the question, that so far as it could be made clear by legislation how stocks should be valued it would be distinctly advantageous, but it is a very difficult proposition, when you come to try and work it out, to cover all the different points that would arise.

12,646. Is it not the fact that there was a body of accountants that advised the Government that a certain line of action with regard to the valuation of stocks was the proper line, and that their advice was repudiated by another collection of professional men who said that it was wrong?—Yes, that is so.

12,647. Would it not be impossible to have any action for fraud upon anything that is so disputable?—That is so, as far as those points which are disputable are concerned.

12,648. It has been put to the Commission, I think, by some witnesses that the Revenue ought not to have any power to make any inquiry whatever, but they ought to be almost prohibited from making an inquiry where accounts of a trader have been certified by a professional accountant; would you dissent entirely from that?—Certainly, because that would have the effect of constituting the accountants the Commissioners of the district, and the persons authorized to determine what is the legal liability; it is unthinkable.

12,649. It is suggested by the witnesses that to go into those accounts is a challenge to the professional competency of the accountant, or to his honesty; one or the other?—Not in the slightest. No such thought ever enters into the minds of the Revenue officials. No one is infallible. I should be very sorry to say that I understand all the principles of the Income Tax, or all the principles of a trader's accounts, although I think I know as much about accounts as most people. The whole point is that an accountant if he serves his life as accountants cannot learn everything relating to Income Tax. All accountants, moreover, are not infallible, nor above suspicion, and the principle I have always adopted has been that it is not my duty to be a respecter of persons. That is the only sound principle, and it is the best answer I can give to the suggestion that the accountants should be allowed to say that it should be obligatory to accept the certificate of an accountant as fixing the liability, because he happens to be a qualified accountant, however sound on theory he may be.

12,650. It has been put to the Commission that there is very great loss of revenue owing to small traders not being compelled to keep accounts. Having regard to the system of estimated assessments remaining fairly constant year in and year out, do you think that there is a great loss of revenue from that, apart from the present war profits?—Yes, I should say the loss of revenue from small traders is really material. It is perhaps not comparatively material, but in the aggregate it is a material amount; it is very difficult to arrive at their true liability.

12,651. Is it not the fact that many of the assessments come down directly they are touched?—It is so, not always because they ought to come down.

12,652. On the question of the number of people who produce accounts with fair regularity, would it not be fair to say that in an average provincial district a Surveyor or Inspector would not feel particularly comfortable with his books unless he had got accounts from everybody assessed at, say, over £700 or £800?—Yes. All the district Inspectors endeavour to get accounts to that extent.

12,653. And then every few years there would be, with regard to those lower than that, some sort of

appeal or investigation?—Well, a certain proportion of them. There is always a considerable number who are practically not worth what you call investigating.

12,654. There is a considerable number that do not keep satisfactory books and accounts at all?—That is so.

12,655. Then there is a number who keep satisfactory books and accounts?—Yes.

12,656. But do not render them to the Revenue at all?—That is right.

12,657. Is there a very large gap between the two sections?—Do you mean a large proportion?

12,658. Is there a very large scope for the Revenue to get by their present methods an extension of these regular accounts in satisfactory cases?—Yes, there is a material number of cases, certainly, where accounts could be obtained which are not obtained at the present time.

12,659. But which could be obtained, I take it, by present powers if the staff were adequate?—Yes.

12,660. Is it among your suggestions that traders should be in any sense compelled to keep books?—No, I am afraid that is quite impracticable. It would be a penalty on small people who are not earning sufficient to make it worth while; in fact if you had a statutory provision that they should keep books they simply could not do it.

12,661. They might keep them, but I take it they would not be satisfactory?—I go even further. I say in many cases they could not do it.

12,662. Chairman: Does that same class pay Income Tax?—Oh, yes.

12,663. Dr. Stemp: The fact remains, I take it, you would agree with me that 10 minutes' conversation with the Surveyor, with their bills and a few general questions about their turnover, would place the Revenue in a better position to know what they were making for Revenue purposes than they themselves could ever find out?—Yes, I have known men making a thousand pounds a year, and over, who could not read or write, but they always knew what they were doing perhaps better than men who kept books.

12,664. Come now to the questions which were put to you earlier about bankers and deposit interest, and the reluctance of bankers to render returns or to allow investigation. Is it within your official knowledge that the banks have ever been approached tentatively in the matter as to whether they would do it?—I cannot remember.

12,665. Is it not the fact that the average person of the poorer classes, or the lower middle classes, putting his deposits into a savings bank, we will say, has those facts about him revealed by the bank as a list to the Revenue?—Yes, the savings banks are required by statutory provision to make a return of all annual interest in excess of £5 per annum.

12,666. These peculiar feelings of delicacy and sympathy only arise in the case of the larger clients of the other banks?—It is probable that one reason may be the trouble involved; I should not be surprised if that goes a long way.

12,667. Can you tell us why the banks do not deduct tax from this interest?—Because they will not, and nobody has taken the trouble to compel them.

12,668. There is supposed to be a certain ground in law why they should not?—It is supposed to be non-annual interest.

12,669. Suppose this alternative were put to the banks: we have reason to suppose that there is a considerable loss to the Revenue from the present position; we put it to you as an alternative, either you give us the same returns as your poorer colleagues the savings banks do; or you deduct the tax—which do you think they would accept?—They would give us the returns, I should say.

12,670. Do you know of any reason why they should not be given those alternatives?—Not the slightest, as far as I can see. I do not see why they should be let off.

12,671. Is it not an anomalous or accidental state of the law that puts bank deposit interest in this peculiar position?—Yes, I think it is.

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12,672. And there is really no ground for this sentimental feeling of confidential relations standing in the way of reform?—I, personally, do not think there would be any very great opposition on the part of the banks if they were required to do it.

12,673. You would agree that to make it legal for them to deduct tax would throw a lot of work on everybody in the matter of repayment?—Yes; I would not recommend that.

12,674. Therefore, if that were put to them as an alternative, they would probably find it quite a satisfactory method to send in a return?—Yes, certainly; and it might be coupled with a provision that they need not return any sum below a certain amount.

12,675. Yes, in the same way as the savings banks do not return less than £5?—Yes.

12,676. Coming now to the question of the amount of the loss or the potentialities of recovery of duty by the powers that are sought, the Appendix to your evidence-in-chief has been referred to and the reasons that it conveys; would you say that one might arrive at some sort of approximate figure of possible evasion by taking the total revenue assessed under Schedule D, and deducting therefrom the known assessments on the large public companies? That would be the first deduction. You would not think there would be much fraud in regard to those very large assessments on the great companies?—No, I do not think there would.

12,677. That would reduce the area of possible fraud down to somewhere in the neighbourhood of £300,000,000?—That is right.

12,678. You could make a further substantial deduction from that for the considerable number of reliable accounts?—Yes.

12,679. So that one is then led to some figure lower than £300,000,000 as being the figure upon which a certain hypothetical percentage has to be put?—Yes.

12,680. It has been put to this Commission by one witness that the amount of income that was not assessed before the war was £70,000,000; it is probably now very much more than £100,000,000, according to the same witness; but, taking the figure of £70,000,000 before the war, would you regard that as grossly exaggerated?—Perhaps not.

12,681. Not in view of the fact that your present figure, even with the war in it, is only £30,000,000?—Yes. £70,000,000 would be very much out of the way—very extravagant.

12,682. And the true figure would probably not be very much more than £15,000,000 before the war, if the present figure is £30,000,000?—Yes, I think that would be pretty fair.

12,683. And that figure would be supported by this test examination of the year 1913 on your Appendix?—Yes.

12,684. Mr. Boverman: Leaving chartered accountants out of the question, may we take it from an answer you gave recently that every taxpayer is suspect, so far as you are concerned?—No, I do not think that every taxpayer is suspect, but I would not give a certificate that any taxpayer was innocent. I think there is a very great distinction there. I do not say to a man, "I believe you are defrauding the Revenue," if he comes to me. I say to him, "I ought to verify this return." If he says, "Oh, but you do not suppose I am defrauding the Revenue?" I say, "Of course, I do not suspect anything of the sort, but that is no reason why I should not see that your return is correct. I need not suspect you, but still, I want to see that the return is correct."

12,685. In your statement you have paid a very high tribute to the honesty and integrity of the British taxpayer?—Yes. I think the fact that he can find £600,000,000 of revenue shows that.

12,686. Have you had any opportunity of comparing notes with the Revenue officials of other countries in which Income Tax is payable?—No, I have not. I have heard a good deal about other systems; for instance, America. I find that the officials over there do not speak very enthusiastically of the integrity of their taxpayers.

12,687. I was going to ask you whether the regulations prevailing there are more stringent than in this

country; but, of course, if you have not had an opportunity of studying them I will not ask it?—I may mention one point, that they have power to make additional assessments for five years in cases where fraud is not proved, and they have power to recover unassessed tax for an unlimited period, which is much more stringent than our powers.

12,688. Mr. Petyman: Where there is fraud?—Yes, where there is fraud, an unlimited period.

12,689. Mr. Boverman: Have you considered the additional staff you would require if your suggestions were acted upon?—No. The question has been raised at Somerset House, and will be considered; but I am not in a position to express any opinion at the present moment.

12,690. Mr. Knowles: You imply that all this is found out by the sentences of Surveyors; do you not have any informers?—I did not know that I implied that. Certainly information comes from all sources, and very often it is brought to us in a private way; very often something transpires from anonymous informers.

12,691. Do you reward informers?—Moderately—slightly, sometimes, if the circumstances really justify it and if the result has been material.

12,692. Have you any system of rewarding informers and of letting people know that there is a reward for informers?—No, I think there is no definite system. Each case has to be considered on its merits.

12,693. You give a gratuity, is that it?—Call it a gratuity or a present or remuneration for services rendered.

12,694. Mr. Mockinder: Out of what funds does that remuneration come?—I suppose it is charged against the Inland Revenue vote.

12,695. Mr. McIlstock: They do not pay accountants.

12,696. Mr. Boverman: Is there any legal sanction for a payment of that kind to an informer?—Yes, it is in the Inland Revenue Regulation Act.

12,697. Mr. Knowles: Have you found more evasion amongst foreign firms in London than amongst English firms?—I think I may say that the Germans come an easy first.

12,698. Have you found any evasion in this form, that people are keeping large sums in currency notes, paying cash and not putting it through the banks; I do not see how you could trace it, and I wondered if that was common?—I would like to give you one instance. We had reason to believe that a certain taxpayer had made a very big sum of money. His solicitor said that before he commenced business he had a very big hoard in Bank of England notes which he kept in a box under his bed, and when I traced considerable sums paid into the bank and asked, "where did this come from?" he said, "Oh, out of the hoard." I said "in what form were they paid?" He said, "we do not know, and the bank cannot tell us." I said "very well, we will go to the bank and ascertain"; and it was found that those big sums stated to be paid in out of the hoard were, as a matter of fact, deposited in currency notes.

12,699. Have you any reason to believe that this is a very prevalent form of evasion by keeping large sums in currency notes, up to thousands, which are never entered in the books and never go into the banks?—It is impossible to say, and I should very much like to know how it is going to be discovered. Someone told me yesterday that a lady had kept her husband for a long time out of money she had earned as a music teacher, but she had kept it, she said, in her pocket.

12,700. Dr. Stamp: May I read section 32 of the Inland Revenue Regulation Act of 1890 upon the point of payment to informers? "The Commissioners may at their discretion reward any person who informs them of any offence against any Act relating to inland revenue or assaile in the recovery of any fine or penalty, provided that a reward exceeding fifty pounds shall not be paid in any case without the consent of the Treasury." Then section 34, as to the method of charge: "All costs, charges, and expenses payable by the Commissioners in respect of proceedings for the recovery of any fine, penalty, or forfeiture incurred under any Act relating to

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inland revenue, and all sums of money allowed as rewards, shall be deemed to be charges of collection and management."

12,701. *Mr. Mackinder*: Might I ask with reference to that if the same person has, in your experience, received rewards frequently? Have you got certain people making a practice of informing?—No, I have never come across a case of the kind. I do not think I can recall any case where the same person has had more than one reward.

12,702. *Mrs. Knowles*: Then I understand you consider it better for Somerset House to assess the penalties rather than the local people, because you get more?—No, I do not suggest that of necessity, but because you get more even justice.

12,703. Who is to decide that—you?—Somerset House decides it. I only act on behalf of the Board. They decide whether a penalty is to be accepted or not.

12,704. What qualification has the Board to assume the function of judges, and presumably administer more even justice?—It falls within the powers given to them by Act of Parliament to administer the Income Tax, and also to compound penalties if they so desire; that is section 35 of the Inland Revenue Regulation Act.

12,705. You consider that officials not trained in the law, but trained in Income Tax administration, are more suitable than lawyers or legal people?—May I say I think I am justified in saying that the Revenue officials are trained in Income Tax law, accountancy, and practically everything that applies to a man of the world.

12,706. But not the law of evidence or the practice of administering justice?—I beg your pardon, they have to be well up in the law of evidence because we are constantly taking appeals before the Commissioners, and also prosecutions, so that if we do not know the law of evidence we are not of much use.

12,707. Personally it seems to me a very dangerous thing to place in the hands of Government officials the right to assess penalties without an appeal when according to your own showing they would possibly have got less in certain cases if they had worked locally?—I do not think it should be put in that way. No taxpayer is required to pay a penalty. If he pays a penalty he does it of his own wish, and his own will and his money is accepted as an act of grace. There is no necessity for him to agree to a compromise. We cannot say to a taxpayer: "You have got to do this, that and the other." The taxpayer has only to ask that the case may be dealt with by the legal process of law, and he has got that right; therefore if he chooses not to claim that right, that is to say, of being tried by his peers, that is his own look-out.

12,708. I understood, from a question put to you by Dr. Stamp, that you said you could only work the system by not administering the law, by short-circuiting it and taking it into your own hands; was not that the gist of it?—I rather took exception to that, if you remember, as not quite in my view representing the real position; that is to say, instead of carrying out the law in one form by instituting prosecutions, we are carrying out the law in another form by accepting compromised penalties, which is specifically provided for by the Statute.

12,709. *Mr. Mackinder*: Is not that capable of being called official blackmail?—Not as long as it is statutory.

12,710. *Dr. Stamp*: May I read the sections with regard to it? I may say that my question summing up the cross-examination was this, that in the interests of money and in the interests of justice and in the interests of the Revenue it was better that the cases should be dealt with as they now are than that they should go to the Local Commissioners. The section is section 35 of the Inland Revenue Regulation Act, 1890: "The Commissioners may in their discretion mitigate any fine or penalty incurred under this Act or any other Act relating to inland revenue, or stay or compound any proceedings for recovery thereof or for the condemnation of any seizure, and may restore anything seized, and may also after judgment further mitigate or entirely remit any such fine or penalty, and order any person imprisoned for any offence

against inland revenue to be discharged before the term of his imprisonment has expired. The Treasury may mitigate or remit any such fine or penalty either before or after judgment, and may direct anything seized to be restored to the proprietor or claimer thereof."

12,711. *Mr. Bowerman*: Can it be said to be an act of mercy to get a greater sum out of a man by these means than if he was taken to Court?—Do you put that as a question?

12,712. *Chairman*: Would not 999 cases out of 1,000 prefer to be dealt with by you rather than go to Court?—Unquestionably they would. I think there is no gentleman here present who would not prefer to come to me.

12,713. *Mr. Mackinder*: The phrase used repeatedly in that Regulation Act is "mitigate the penalty." Here, as I understand it, the penalty is in the first instance assessed. Mitigate implies a lesser penalty.

12,714. *Mr. Prefryman*: The first part is mitigate and the second part is compound; to mitigate is one thing, and to compound is another.

12,715. *Mr. Mackinder*: My point is, it is official blackmail?—May I explain? There appears to be a good deal of interest taken in this point. May I show exactly how it is done? The taxpayer is given an opportunity of explaining his case. He is made acquainted with his legal position and what the penalties are. As a matter of fact, I think it is important to mention that if I am seeing a taxpayer who has committed an offence, I invariably suggest to him that he should bring his solicitor with him. When the taxpayer knows exactly what his position is, then, to put it in simple language, he is invited, one may say, to sentence himself; that is, to determine what in his opinion he ought to do to purge his offence. I may say that I have had a good many cases where it has been put to the taxpayer like that, and the taxpayer has made his suggestion, and I have said, "No, it is too much. We will not allow you to pay so much." That took place in one of the cases on the list that you will have given to you. They said they ought to pay £30,000. I said, "No, I will not recommend it. £20,000 is all I am going to recommend should be paid." So you may take it from me that we are extremely careful to see that no man is frightened into paying more than what would be a fair and just penalty.

12,716. *Mr. Bowerman*: Is not the alternative prosecution and probable imprisonment? Is it not a case of studying the social position of a person?

12,717. *Chairman*: Will you put that question to the witness, Mr. Bowerman?

12,718. *Mr. Bowerman*: I will. (To Witness): The alternative to your method—and when I say your method, of course I am not speaking of your personal method—is prosecution and probable imprisonment?—There are three courses open to the Board of Inland Revenue in a case of fraud; one is a prosecution, what I may call a criminal prosecution under the Perjury Act or for conspiracy, if there is more than one culprit; there is another, what I may call civil prosecution, for pecuniary penalties; the third alternative is composition of penalties, that is, to accept a compromised penalty. The taxpayer has got his solicitor to defend him, and the solicitor says to his client: "You have got to recognize your position. It is open to you to make a statement to the Board of Inland Revenue and ask them to accept a compromised penalty." There is no compulsion on the man, and he is specially and carefully warned that there is no necessity for him to make any statement or to make any proposition. Therefore, if he does it, he does it entirely on his own accord. But I consider I should be the worst friend of the taxpayer if I allowed him to leave my office under the impression that he had incurred no penalties, and there was nothing up against him. No man can hope to decide what he ought to do if he does not know in what position he is placed.

12,719. By this method do you not allow a person of social position to evade that which a poorer person might not be able to evade, namely, imprisonment?—No, certainly not. We are no respecter of persons, and we certainly prefer to prosecute a man in a good social position and with plenty of money behind him rather than some poor man who could scarcely

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defend himself. We are always on the look-out to get the people that you are half suggesting we let off.

12,720. *Chairman:* That is an answer to your question, Mr. Boverman, that as far as they are concerned there is no wrongdoing towards the poor man.

12,721. *Mr. Boverman:* Yes, quite so, in the last words of the witness?—We are very, very particular in that way for this reason, that we do not consider the Revenue will profit by the prosecution of a poor, insignificant taxpayer so much as by the prosecution of a more substantial person in a more or less prominent position.

12,722. It did seem rather an extraordinary position to create, that a man of wealth, knowing that imprisonment may follow prosecution, should have given to him the opportunity of getting out of it by paying a sum of money?—If the case is really a rank had case he would never get the opportunity of making an offer, or if he did make an offer he would get no answer to it.

12,723. Would you just go a step further and say what you consider a rank had case?—There have been some in the courts recently. There was a case in Newcastle a little while ago where three culprits went to prison. There was a case at Stratford a few weeks ago where a father and son went to prison.

12,724. Very well; I will not follow it further?—They were cases where the evidence was very strong that they were gross and deliberate frauds with no extenuating circumstances. There is one thing I think you might know, that mercy is extended in almost every case where the culprit is very advanced in years.

12,725. *Mr. Prettiman:* When you spoke about the valuation of stocks you were not considering agriculture, I presume?—No, that is a very delicate point.

12,726. You understand that what is called stock in an agricultural valuation includes what is relatively machinery?—You mean ploughs and so forth?

12,727. No, I do not, I mean the animals. A flock of sheep or a breeding herd of cows is really the machinery of production, is it not; it is not sold?—To a certain extent that is so, because it is simply used for the breeding. That is only part of it, of course.

12,728. If the value of a breeding herd increased between the beginning of the year and the end of the year, and if that increase had to be included in the market value—these animals would never be sold—that would be really equivalent to asking a manufacturer to increase the value of his machinery because the market value of new machinery had been increased?—When you speak of the value of the herd are you including in that the offspring of the result of the year's breeding?

12,729. No, of course not, because they come in as a new item?—They come in as the stock in trade.

12,730. Not necessarily, all of them. Some of them may be kept to replenish the herd, and others may go into the market?—So far as they added to the profits I should say they ought to be added to the valuation.

12,731. Of course they would be; I am not speaking of numbers. Numbers of course must be added. If a breeding herd increases or decreases in number it would be reflected in the valuation, but I was not speaking of that; I was only speaking of the valuation of the particular animals. The animals are entered at a certain value per head in the valuation at the beginning of the year, and the practice usually followed is to maintain that figure throughout and to keep them at that figure. Then if any of those animals are sold or any of their produce is sold at a higher price than they appear in the valuation at, the Revenue gets the advantage in the difference between the figure of the valuation and the price obtained?—I do not think that is universal. I think breeders value their stock at the end of each year.

12,732. After the value?—Up or down.

12,733. And show that as a profit?—Or a loss, according to whether it is up or down.

12,734. That practice is accepted, provided it is continuously maintained?—Yes. When dealing with the accounts of a breeder like that, if he were valuing some of the animals at cost and writing some down I should object. I should say, no, you must write up and down; you must not pick and choose.

12,735. But as long as he keeps them all at the one valuation?—At the cost; but that is not very effective, because if you buy a young animal he is worth more as he gets older up to a certain point—if you buy a yearling calf and keep him.

12,736. Of course, you increase the value in that way. That would always happen, but it is in the basis of the price that I mean. There is a pre-war basis of price, and there is a war basis of price now. The farmer who had his stock on a pre-war basis and who has maintained his valuation of stock, varying, as he did pre-war, for increased age value, and also for increased numbers, he enters those figures on the new valuation at the pre-war value, but if he sells at war value the Revenue get it in the difference?—So far as they were pre-war cattle I should not object to the pre-war value being continued, but if they were new cattle bought at very enhanced prices I should object to these.

12,737. Quite so. If they are bought at enhanced prices they must be put in at their bought value?—Yes.

12,738. When you were speaking of audit you seemed to be strongly of opinion that it would be impossible to demand an audit of all traders, and that would particularly apply to farmers, would it not?—Yes.

12,739. They could not possibly have an audit. Is it your impression that a very large number of traders who were in a very small way before the war have, through the chances of the war, made very large profits in a certain number of cases?—By profiteering?

12,740. That does not enter into my question. Very large profits have been made either by profiteering or by the particular industry in which they are engaged being one which was essential to the war?—I think so far as small traders are concerned, the excess profits have been made almost entirely by the rise in prices and the bigger profits which they have been making.

12,741. I was not so much going into the question of the cause of the profits, but as to the fact that that there are these large profits?—I have not a shadow of doubt about it. I believe there are numbers of small shopkeepers who before the war were making £250 a year and are now making £500, £750, or even £1,000.

12,742. Do you think in those cases you are really getting at the profits for Income Tax purposes?—To some extent we are. One district Inspector told me the other day he had added 1,000 names to his assessments, and made big increases in a very considerable number. He had only had time, you might almost say, to touch the fringe of it. When you bear in mind the enormous amount of work involved and the little time that district Inspectors have to devote to additional work it is wonderful how well they do.

12,743. But do you not think it is extremely important that this sudden increase of profits should be assessed?—I do, and we want the staff to do it.

12,744. Is not that an emergency question?—Unfortunately, expert staff capable for the Inland Revenue Department has to be trained. You cannot get it in a minute's notice.

12,745. Is it not possible to enable the already trained staff to increase their area of work by having partially trained people under them?—We do that, and we are doing it as fast as we can, but we shall want authority for an increased staff in addition.

12,746. Is your limitation in dealing with this emergency a limitation of authority to get the staff?—Yes.

12,747. Or is it a limitation of not being able to get the people?—It is both. We have a certain number of vacancies owing to having released so many men for the war. We are filling those vacancies up as rapidly as possible, but we also want authority for an increase in the staff beyond what is at present authorised.

12,748. Have you any difficulty in getting that?—I do not think it has been asked for yet.

12,749. Is it not an emergency question?—If we cannot fill vacancies we cannot get additional staff.

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12,750. If you do not get the money now will you ever get it?—Yes, we have got three years in which to separate.

12,751. In a great many of these cases are there any accounts at all available, in the case of many of these small traders, for instance, that you were mentioning just now?—In the bulk of the cases you can get the bank books, and you can ascertain to what extent the means of the trader have increased. That is one very good way of ascertaining what profits have been made, by comparing a man's position three years ago with his present position.

12,752. For instance, if he has bought property, or is living on a much bigger scale?—If he has got £10,000 more than he had then, it has had to come from somewhere.

12,753. You investigate all that?—Yes. I remember one case where a man was returning £250, and when I invited him to come and have a conversation with me and talked to him about anything and everything, I found out that he had two sons at Cambridge. I said, How do you do that on £250 a year? He said, I do not; it costs me £300 a year apiece for them.

12,754. There must be rather a dividing line between the question of your having in the first instance the right to obtain the proper accounts and the kind of accounts that you want, such, for instance, as the balance-sheet, the trading account, and the profit and loss account—is not there rather a dividing line between your right to obtain these accounts and your right to call for and carry out what might be considered an inquisitorial examination of the actual books of account?—Yes, they are both allied. The one may be sufficient in the bulk of cases, but if you have got accounts which are themselves false, which is very often the case, it is necessary to get down to bedrock to discover that.

12,755. That I understand, but the point I was coming to was this. Is it not rather in the interests of public confidence and the general system of Government in this or any other free country, that providing the Inland Revenue is given powers in the first instance to obtain copies of the ordinary accounts, such as I have mentioned just now, the further power—where it is suspected that an inquisitorial examination or stocktaking is necessary—should not be optional with them, that they should not be judges in their own case, because it really is a question between them and the taxpayer; but that some independent authority should order that inquisition rather than that it should rest with the Board of Inland Revenue?—I do not think so, because there is no one else who would be more competent to determine the necessity. After all, if one person has got a claim against another he can call for production of all material evidence. The Revenue has a claim against the taxpayer.

12,756. If I have a claim against you, I have no right to go and investigate your accounts unless I take you to a court of law?—Exactly. Before the case comes on for trial you can call for the evidence, when you have instituted proceedings.

12,757. Surely only as part of the proceedings before the court?—I quite agree.

12,758. But your suggestion, as I understand it, is that the Board of Inland Revenue, quite apart from any proceedings or the authority of any court whatever, should have the power of instituting these proceedings themselves, on their own authority?—With the sole object of avoiding any proceedings at all.

12,759. The point of my question is not whether the Board of Inland Revenue would not be pretty good judges as to whether it was or was not desirable to obtain this further information, but the question of public confidence, the question of principle, the question of whether the Board of Inland Revenue, however good judges they may be, should have this power. It is a question between them and a free subject of this country, and surely it is desirable that in a case of that kind, the Board having been given full power to assess the tax, and to obtain such figures as are necessary to assess the tax, where they suspect that those figures are incorrect they should have, certainly, the power, as they have now, of

asking the taxpayer to furnish more figures or more information. If he chooses to do so, well and good, but if he refuses to do so and has to be compelled to do so, is it not more in accordance with the principles of justice in this country that an independent tribunal should judge upon that point?

—Two or three points arise out of that. In the first place, no action could be taken until the evidence was forthcoming, which the production of the books is required to obtain. There might be no evidence, possibly, until the books had been examined; therefore, we should be helpless. The second point is that at the present time, or in any case, the taxpayer would be able to refuse to produce his books. He could say, "I do not care what the law is; I am not going to produce them." Therefore penalties would be necessary to meet that position. The third point is that, failing the production of books, it would be necessary to make increased assessments in every case, until, ultimately, the taxpayer would have no option but to produce them, and the mere fact that a taxpayer is required to produce his books in the first instance is ultimately to his advantage, and must save a considerable amount of trouble.

12,760. Do not all those difficulties arise now, and would not the sole difference between your proposal and the other be that instead of taking upon yourselves these powers you would have to get an order from some independent tribunal to make the investigation, and thereby the taxpayer would get protection?—I am assuming that you would not have the evidence to satisfy the independent tribunal.

12,761. If you have not got evidence to satisfy the independent tribunal where such evidence would satisfy the Commissioners, why are they better judges than the tribunal?—Because the position is very different. The Board of Inland Revenue, who are administering the tax, know what is necessary to determine liability. They may have private information which they could not disclose in open court.

12,762. I am not saying necessarily in open court?—You could not disclose it to the taxpayer; you would have to give the taxpayer the power to answer, and he would know what it was, and it would be undesirable to let him know. There are many ways in which the Board would be able to judge from their big experience that an investigation was necessary in a particular case; and finally, the mere fact that a taxpayer says: "I am not going to produce my books" is very strong evidence that he has got something to conceal.

12,763. Could they not bring that evidence before the independent tribunal instead of being judges in their own case?—My answer to that is, is it desirable that that unnecessary procedure should have to be resorted to?

12,764. Is a thing unnecessary when public confidence depends upon it?—I think the Board of Inland Revenue is so well known and so much respected that there would be plenty of confidence in them. I have never heard it suggested that the public have not confidence in the Board of Inland Revenue. I should like to differentiate between the two things which you are suggesting. I should give the district inspector the power to call for accounts, but the Board of Inland Revenue the power to call for an investigation of the books. I differentiate the two things, and that in itself would help to confer confidence.

12,765. You ask for the powers that have been given you—you say they have been extremely useful—in connection with investigations for Excess Profits Duty?—And Munitions Levy.

12,766. You wish those to be carried on and even extended?—Yes.

12,767. Were not those powers given under war conditions, when Government control and investigations into private matters were considered to be absolutely necessary under war conditions, and accepted so by the country?—So far as the Munitions Levy is concerned that had a good deal to do with it, but I think the enormous rate of tax would be the main factor.

12,768. Mr. Mackinder: I just want to make

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quite clear to the witness that I used the expression "official blackmail" without the smallest intention of implying that I have any reason at the present moment to think that there is any improper use of that power. In this country I have not the smallest doubt that the powers are used discreetly. All I wanted to draw attention to was the fact that it seemed to me there were powers there which in a tyrannous country could be abused, and that it is very necessary that our service should be above

suspicion. You may have a benevolent despotism, but we always hesitate to give the powers of despotism—I quite appreciate that; I have heard the expression so often.

12,769. *Chairman:* The Commission must see that no injury is done, and Mr. Mackinder very wisely raised the question, and followed it up by his question now. We are very much obliged to you for the manner in which you have given your evidence, and for the information you have submitted to us.

Mr. A. F. POOL, O.B.E., called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Proof of evidence of A. F. POOL, O.B.E., Assistant Chief Inspector of Taxes, on the subject of the Liability to Income Tax of local authorities.

12,770. (1) Local authorities comprise Municipal Corporations, County Councils, Urban and Rural District Councils, Burial Boards, and other similar bodies.

12,771. (2) Their liability to Income Tax is founded on the provisions of section 106 and Rule 1 of the General Rules of the Income Tax Act, 1918.

12,772. (3) The property and profits in respect of which a local authority is generally found liable to be assessed are, briefly, as follows:—

Schedule A.—Town halls and other buildings owned and/or occupied for Municipal purposes, including baths, washhouses, &c.

Schedule B.—Lands occupied by the authority, including sewage farms.

Schedule C.—Interest on Government securities.

Schedule D.—Profits of industrial concerns, e.g., tramways, waterworks, and gasworks; interest received not taxed at the source; wayleaves, and other miscellaneous sources of incomes.

12,773. (4) A local authority is also liable to pay the Income Tax which it deducts from payments of interest on borrowed money, in so far as such interest is not paid out of profits or gains charged to tax (Rule 6 of the Miscellaneous Rules applicable to Schedule D and Rule 21 of the General Rules of the Income Tax Act, 1918).

Thus, to take a simple example, ignoring various special points of difficulty dealt with in this evidence, if an authority makes profits to the amount of £1,000 (tax £300) available for payment of interest, and pays interest to the amount of £1,500 (tax deductible £450), it is assessable on £1,000 (tax £300) on its profits, and is liable to pay Income Tax on £300 (tax £150) in respect of the tax deducted from the interest not paid out of the profits (£1,000) charged to tax. The set-off of the £1,000 profits in arriving at the charge in respect of the interest paid is referred to briefly in this evidence as "the set-off."

12,774. (5) The separate funds of a local authority (e.g., the Borough Fund and District Fund of a provincial town) are regarded as distinct legal entities.

12,775. (6) Objection to the payment of Income Tax has been taken by local authorities on various occasions, and contentions have been advanced which are dealt with at length in this evidence, and may be here summarised as follows:—

- (a) that the amount of the annual value at which the property owned and occupied by an authority is assessed under Schedule A, although the property produces no revenue, should be regarded as income available for "set-off" purposes (see paragraph 4);
- (b) that a local authority should be regarded for Income Tax purposes as one legal entity notwithstanding that it may administer more than one distinct fund;
- (c) that for set-off purposes the whole of the taxed income of a fund should be regarded as

covering pro tanto any interest which is a charge on the fund, and no deduction should be made in respect of any portion of the said income earmarked by Statute for any specific purpose;

- (d) that the duties of local authorities are national in character, that such authorities are, to some extent, carrying on the government of the country, and that consequently the same relief from Income Tax should be granted in respect of their income and property as is granted to the income and property of the State;
- (e) that their industrial undertakings are carried on for the benefit of the community and the profits should be exempt from Income Tax accordingly;

- (f) that certain undertakings are essential to the health and well-being of the community, e.g., public baths and sewage works, and should not be treated as capable of beneficial occupation so as to be liable to Income Tax;

- (g) that as all municipal property is held for public purposes, it is inconsistent to charge one class, such as town halls, while others, such as police courts, are exempt;

- (h) that inasmuch as the profits of all municipal undertakings, whether essential to the national well-being or not, are applied either directly or indirectly in promoting the interests of the community, the comparatively wide interpretation placed upon the term "charitable purposes" in the Courts should be deemed to include all such undertakings, or the interpretation should be broadened to admit them, notwithstanding that trading profits are excluded from the relief granted under the present Statutes in respect of certain income applied to charitable purposes;

- (i) that lands occupied by local authorities which are not used for the purpose of husbandry should be exempt from taxation under Schedule B;

- (j) that the cost of raising loans should be allowed as working expenses in arriving at the assessments upon productive undertakings.

12,776. (7) Mention should also be made of the following claims, in support of which evidence has been presented to the Royal Commission by the City of London Corporation:—

- (a) that the City Estate income applied to the following services should be excluded from the income liable to taxation, as being expenditure in the nature of "charities":—
Open spaces,
Port of London sanitation,
Freemen's Orphan School,
Magistracy,
Central Criminal Court,
Sinking fund;
- (b) that failing the admission of the claim under (a), the expenses incurred in connection with all those services should be admitted as deductible expenses in arriving at the assessable profits of their markets.

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[Continued.]

12,777. (8) The following is a summary of the suggestions made in regard to these matters for the consideration of the Royal Commission:—

- (a) the claim that local authorities should be permitted to set off the annual value of property owned and occupied by them, and producing no revenue, against liability in respect of interest paid, is strictly equitable and might be admitted (Paras. 6 (a) and 12 and 13);
 - (b) the claim that a local authority should be regarded for Income Tax purposes as one legal entity though administering two or more funds, each of which is comparable with a separate trust, has no foundation in law, but equitably has a good deal to support it, at any rate where the areas to which the funds relate are coincident (Paras. 6 (b) and 14 to 19);
 - (c) the claim that the whole of the taxed income of a local authority should be regarded as available as a set-off against liability for interest on borrowed money, notwithstanding that part of it may be statutorily earmarked for specific purposes, has much to support it (Paras. 6 (c) and 20 to 24);
 - (d) the claim that local authorities should be exempt from Income Tax on the ground that their duties are national in character does not appear to be well founded (Paras. 6 (d) and 25 and 26);
 - (e) the admission of the claim for exemption of profits of industrial undertakings carried on by local authorities would be unfair to other trading taxpayers, and does not appear to be well founded (Paras. 6 (e) and 27 and 28);
 - (f) in general, the claim for exemption of certain undertakings essential to the health and well-being of the community, e.g., baths and washhouses, does not appear well founded, but the case of sewers and sewer mains is an exceptional one, to which exemption might be extended (Paras. 6 (f) and 29 to 33);
 - (g) there appear to be no sufficient grounds why the claim for the extension of the exemption granted in respect of police courts, &c., to all municipal property should be admitted (Paras. 6 (g) and 34 to 36);
 - (h) the claim that public purposes are charitable purposes, and that local authorities should be exempted in respect of so much of their income as is expended for public purposes does not appear to be well founded.
- It may be observed that "charities" are not entitled to exemption in respect of trading profits, nor in respect of property in their own occupation (Paras. 6 (h) and 37 to 39);
- (i) as regards the present basis of assessment under Schedule B in respect of lands used by local authorities for purposes other than husbandry there appears to be no good ground for differentiating the treatment of local authorities from that of other taxpayers (Paras. 6 (i) and 40);
 - (j) the cost of raising loans is inadmissible as a deduction from profits, and it would not appear to be desirable to make any concession in favour of local authorities (Paras. 6 (j) and 41);
 - (k) the claim of the City of London Corporation that City Estate income so far as applied to certain administrative services should be exempt from taxation, as being expenditure in the nature of "charities," does not appear to be reasonably admissible (Paras. 7 (a) and 45);
 - (l) the City's alternative claim that the expenses incurred by the Corporation in carrying out certain statutory obligations, such as Port of London sanitation, &c., should be deducted in arriving at the assessable profits from markets is in conflict with the general

principles applicable to all trading concerns (Paras. 7 (b) and 46 to 48).

12,778. (9) The principal general statutes under which local authorities act are set out in Appendix I.

12,779. (10) The present method of computing the Income Tax liability of local authorities is dependent to a great extent on decisions in the House of Lords in two cases, that of the *Attorney-General v. London County Council* (1907, 5 T.C., 242) and that of *Sugden v. Leeds Corporation* (1913, 6 T.C., 211). Both cases dealt with the liability to tax in respect of interest paid, and it is in accordance with the decisions in these cases that the claims referred to in paragraphs 6 (a) (b) and (c) cannot in existing conditions be admitted.

12,780. (11) Apart from these two important cases, difficulties of construction of the Income Tax Acts have led to a considerable amount of other litigation in which local authorities have been directly involved. These cases are quoted in Appendix II, and the general principles laid down therein may be summarised as follows:—

Premises occupied for the administration of justice are exempt, whereas those occupied for purely municipal purposes are not: all undertakings which might be carried on by a private concern are chargeable; and when once profits have been earned, their ultimate destination in no way affects liability, even when their application is provided for by Statute. Lord Blackburn's dictum in delivering judgment in the House of Lords in the *Mersey Docks* case is clear and to the point:—

"It appears that in this particular case, every one of these things is a thing in which a private person might have property, and from which a private person might receive revenue, just as the Mersey Board does; and if so, a private person would certainly be taxable upon it, and I see no reason whatever why the Mersey Board should not be taxable." (2 T.C. at page 34.)

Set-off of annual value of property producing no actual income.

12,781. (12) The liability of a local authority so far as loan interest and other annual charges are concerned, is computed on similar lines (apart from exceptions dealt with in this evidence) to those on which the liability of a private person is determined. Accountability for tax thereon exists only to the extent that such charges exceed the taxed or taxable income available for payment thereof.

12,782. (13) The amount of this available income is largely affected by the decision in the House of Lords in the case of the *Attorney-General v. London County Council* in 1907, which laid down that the Council were not entitled, when arriving at the amount due to the Crown in respect of tax debited by them from interest on loans, to set off therefrom the tax paid under Schedule A on property in their own occupation, out of which no actual income arose.

This disadvantage is peculiar to local authorities; practically it does not arise in the case of other taxpayers. It is true that the case of local authorities may be distinguished inasmuch as such authorities when unable to pay interest out of profits, pay it out of rates, a procedure not open to other taxpayers, but the Royal Commission will no doubt wish to consider how far this distinction is valid and whether the existing inequality should not be removed.

Treatment of a local authority as a single entity.

12,783. (14) Another important case, that of *Sugden v. Leeds Corporation*, was determined by the House of Lords in 1913. In substance this case affirmed that local authorities cannot set off from tax on interest paid by them tax on income which is precluded by law from being applied in payment of the interest.

12,784. (15) Many local authorities administer two quite separate funds, the General District Fund (under the Public Health Act), and the Borough Fund (under the Municipal Corporations Act).

Under the Leeds decision, each of the two (or in a comparatively few instances, more than two) main

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funds must be treated as two trusts separately administered, and any surplus of taxed income over interest paid out of one fund may not for Income Tax purposes be set off against a surplus of interest paid over taxed income of the other fund. Consequently, a local authority with more than one fund (not being regarded as a single legal entity) may not obtain all the benefit of the set-off mentioned in paragraph 4 which it might obtain if all its income were treated as coming into one purse out of which all payments were made.

12,785. (16) The Leeds decision is treated as applying not only to cities and boroughs, but to all classes of local authorities, although it affects county, urban district, and rural district councils to a much less degree. Such authorities usually levy one uniform rate over the whole of their area, but provision is made for levying "special rates" for particular purposes in certain areas in addition to the general rate. These "special rates" have to be applied by Statute for purposes peculiar to the special areas, whereas the proceeds of the general rate are applied for the general purposes of the council over the whole of their area.

12,786. (17) Although differential rating exists between the two funds, the great majority of the ratepayers within a borough area are rated on the full net annual value for both borough and district rates, and it is contended by local authorities that although there is not absolute identity of interest, yet there is a sufficient identity of interest to warrant the two funds being treated as one for Income Tax purposes.

12,787. (18) Some of our larger cities, notably Leeds, have recently obtained powers under special Acts to combine or consolidate their two funds, and from the dates from which the special Acts apply, they are in the position of local authorities administering their functions under one fund, and levying one rate, all property and income of the previously separate funds being merged into and becoming the property of the newly-constituted single fund.

12,788. (19) Whether all local authorities should not be treated upon a single basis in the matter of Imperial taxation, without regard to the technical existence or non-existence of separate funds, at any rate where the areas to which the funds relate are coincident, will probably be felt by the Royal Commission to be a matter requiring their consideration. Whilst from the logical aspect there is much to be said for maintaining the separate treatment of the two funds, at any rate where the same persons are not interested in the same degree in both of them, or where the beneficial interests differ in any other respect, yet on a broad view as opposed to a strictly logical view, the present law seems perhaps to impose upon the great majority of corporations a burden in excess of what on equitable grounds they should be called upon to bear, and the burden is by no means eased by the fact that certain corporations have been able by Local Acts to relieve themselves of some of the disadvantages still borne by others.

Treatment of statutory charges on income in arriving at "set-off."

12,789. (20) The Leeds decision also involves the corollary that the income of an undertaking is not available for payment of interest, other than in connection with the undertaking, until all charges proper to the particular undertaking, such as sinking fund, have been met: the charges, although not allowable as deductions in the computation of Income Tax profits, are a statutory liability of the fund: and the "set-off" (see paragraph 4) for Income Tax purposes must be computed accordingly.

12,790. (21) When borrowing powers are obtained by a local authority either by Statute or by Local Government Board Order, and loans raised to establish, and carry on industrial undertakings, it is usual to specify in direct terms the manner in which the revenues of the undertakings are to be applied. The terms are usually to the effect that the revenues have to be applied:

Firstly.—In payment of costs and working expenses of the undertaking.

Secondly.—In payment of interest on loans secured on the undertaking, whether or not

such loans are secured collaterally on the rates.

Thirdly.—In providing a sinking fund for repayment of the loans within the prescribed period.

Fourthly.—In establishing a reserve fund for replacements.

The balance, if any, after the foregoing obligations are satisfied, may usually be applied in relief of rates, but occasionally has to be retained in the funds of the undertakings with a view to reducing future charges.

It follows from the Leeds decision that no portion of the profits of an undertaking whose revenues are so earmarked can be deemed available for relief of rates, until all the conditions 1 to 4 have been fulfilled (with consequent reduction of the "set-off"), and, if the revenues must be retained within the fund and there is no power to transfer in aid of rates, no allowance in respect of "set-off" is possible.

12,791. (22) This question of restrictions on the disposal of industrial revenue, so far as such restrictions affect Income Tax liability, is an important one; from the point of view of the Revenue, it is believed to be of greater importance than the question of the merging of the two funds. The restrictions may in one sense be described as artificial. For, the object of the restrictions being to provide a fund for replacement of the concern or redemption of loans borrowed for the concern, it seems immaterial whether the fund is provided out of, e.g., rates (in which case the profits would be set free for purposes of set-off) or out of profits (in which case the allowance for set-off would be correspondingly restricted). Action, in fact, has been taken by a few corporations, Leeds being one of them, towards having these statutory restrictions removed.

12,792. (23) It may be pointed out that the constitution of a reserve fund as referred to in paragraph 21 has in many cases a material effect on the amount of the industrial profits available as a set-off, and here again are found certain inconsistencies in the restrictions imposed on the disposition of the industrial profits of one corporation as compared with another, entailing as a necessary consequence a difference in treatment for Income Tax purposes. In some Local Acts the provision of a reserve fund is compulsory, in others only optional. Where the provision is compulsory, the annual contribution becomes a charge on the undertakings, and therefore a deduction in arriving at the profits available for "set-off"; whereas if the provision is optional, then no such deduction is made.

12,793. (24) It follows from the foregoing that certain local authorities enjoy relief from Income Tax not shared by others, but even these more fortunate local authorities do not enjoy any relief not shared by ordinary taxpayers. In the circumstances there seems to be much to be said for providing that a local authority shall be allowed, as a set-off against the interest paid, the whole of its assessed or taxed income without any deduction on account of the statutory obligations placed on the disposal of its income, except such income as arises from endowments for specific purposes.

Exemption of local authorities on account of their public character.

12,794. (25) An obvious objection to giving general relief from taxation to local authorities is the risk of its involving the vexed question of public versus private control of industry. Until that matter has been determined in principle in other ways, tax legislation upon it would probably be considered to be inopportune. The question is most acute where industrial profits are concerned. Although in no case, so far as I am aware, do we find a municipal gas undertaking competing in the same area with a private one, yet we do find cases of public electricity undertakings competing with private concerns supplying gas in the same area.

12,795. (26) Moreover, general exemption of local authorities from Income Tax in new countries may be a simple matter, especially when granted at the inception of the tax, but it raises difficult issues in

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the United Kingdom. Already great differences exist between the rates charged in one area as compared with another. This inequality is recognized and to some extent has been provided for by the Equalisation of Rates Act, under which certain of the more highly populous of the London boroughs receive material relief from other boroughs of small populations and high rental values. Speaking generally, the more wealthy the authority the higher is the value of its property, and if this is true within the Administrative County of London, relief from taxation of corporate property would only accentuate the inequality of incidence of rating generally and to some extent nullify the provisions of the Equalisation of Rates Act. It is probable that any relief granted to corporate property would prove a greater relief *per capita* to a wealthy than to a poor borough. To take an extreme case, the relief *per capita* to the City of London in respect of its corporate property would undoubtedly be greater than a similar relief to West Ham.

Exemption of profits of local authorities as being applied for the benefit of the community.

12,796. (27) Although a claim for relief in respect of the profits of industrial undertakings can scarcely be based on the contention that the conduct of the undertaking is national in character, it is, nevertheless, suggested in certain quarters that the profits of all industrial undertakings controlled by local authorities, being for the benefit of the public, should be exempt from Income Tax. It is sometimes suggested that although the control of the undertaking is no part of the administrative duties of the municipality, it is not carried on primarily for the purpose of earning profits, and that if profits are made, they are ultimately returned to the ratepayer in the form of a credit in aid of rates.

12,797. (28) To admit such a claim would clearly involve a large departure from existing Income Tax conceptions. The argument might be extended in favour of any person performing services of a useful public character. The claim is open broadly to the same objections as are dealt with in paragraphs 25 and 26.

Exemptions in respect of certain undertakings essential to the well-being of the community.

12,798. (29) The contention that undertakings essential to the health and well-being of the community should be entitled to relief involves a large departure from previous conceptions of the scope of the Income Tax and would, it is anticipated, not commend itself to the Royal Commission. Many such undertakings may be, and indeed are, owned privately. The case of sewers, however, seems to call for special mention. The need for an efficient system of sewerage is too obvious to stress, and few other undertakings, if any, rest more on the welfare of the country in general than these. Meanwhile the treatment of sewers in relation to Income Tax is at present to some extent inconsistent.

12,799. (30) As regards sewage undertakings, all works for the disposal of sewage are rated and also assessed to Income Tax under Schedule A as being in the nature of commercial undertakings. In such works crude sewage is converted into a marketable commodity capable of utilisation, although not necessarily for the purpose of realising profits. On the other hand, the sewers and sewage drains are in a different category, and as some are rated, while others are not, liability to assessment is not so defensible. The general practice in this country is not to rate them; in Scotland they are more usually rated than not.

12,800. (31) The assessability of sewers was confirmed by the House of Lords in the case of *Ystradgynafon and Pontypridd Main Sewerage Board v. Benedit* (1907). The appellants in that case had constructed a sewer partly above, and partly below, ground, and it was unanimously held by the Lords that such hereditaments were assessable. Lord Halsbury pointed out:—"It is clear there is an occupa-

tion, and in the next place it is clear there is a beneficial occupation." (5 T.C. at page 240.) Attempts have been made by private Bills to exempt from rating underground sewers in England and Wales. A Bill was brought in by a private member on the 17th March, 1914, but was not proceeded with owing partly to the war.

12,801. (32) The position at the moment is that where sewers are rated to the poor they are also assessed to Income Tax. It follows that equality of incidence is not secured so far as the assessment on sewers is concerned, and it is suggested that either all should be exempted or all assessed. The present position is distinctly unfair to Scotland.

12,802. (33) While there seems no sufficient ground for revising the present law as regards sewage works (unless that ground be considered to lie in the extreme importance of efficient sewerage), it would seem preferable having regard to the very special character of sewers and sewer mains (which never are let) and to the desirability of not enhancing the cost to the community of the sewage system, that a general exemption of sewers and sewer mains should be conceded rather than that the charge which at present falls partially upon them should be made universal.

Alleged inconsistency of existing exemptions.

12,803. (34) It is sometimes suggested to be inconsistent that whereas police courts, public schools, workhouses, hospitals and public parks are deemed to be exempt, town halls, baths, sewage farms, and to some extent sewers and sewage drains, should be liable to tax.

12,804. (35) The inconsistency is possibly more apparent than real. Not only are police courts essentially connected with the task of civil government, but they constitute a direct charge on the Imperial Exchequer, and are exempt as being in the occupation of the Crown. Workhouses, hospitals and schools are specifically exempt by Statute as charities, and public parks are exempt, because in rating law they are not regarded as capable of beneficial occupation. The other properties, on the other hand, are capable of beneficial occupation, and cannot be readily distinguished from similar properties in private ownership.

12,805. (36) Town halls, for example, are not classes of properties that are necessarily owned by local authorities, although it may be desirable that they should be. Moreover, even if so owned, there is nothing to prevent the properties, or portions thereof, from being let by the local authorities, and such lettings do take place in a number of cases. The judgment of Lord Blackburn quoted above (paragraph 11) seems to apply to such properties, and the assessment of town halls under Schedule A appears, therefore, to be well founded.

Suggestions that local authorities should be exempted as charities.

12,806. (37) Exemption from Income Tax is given in respect of the rents and profits of lands, tenements, &c., vested in trustees for charitable purposes, and of yearly interest or other annual payments forming part of the income of any body of persons or trust established for charitable purposes only—in each case so far as the receipts are applied only to charitable purposes.

The exemption does not extend to property in the actual occupation of trustees for charitable purposes nor to trading profits.

12,807. (38) "Charitable purposes" is a phrase which was under consideration in the case *Special Commissioners v. Penson* (1891, 5 T.C. 53). According to the decision in that case, the words are to be interpreted according to their technical meaning, which includes purposes of "public utility." The Statute of 43 Elizabeth, Cap. 4, includes in the definition of charitable purposes "repair of bridges, ports, havens, causeways, churches, schools and highways," and it was indicated in the *Penson* case that relief could not be restricted to the charitable or public purposes specified in that list.

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12,808. (39) There may be ground for testing in the Courts whether some special receipts of local authorities are within the existing exemption. But the suggestion sometimes made that all public purposes are charitable purposes, and that, the whole of the expenditure of local authorities being for public purposes, exemption from taxation should be allowed in respect of the whole of their profits clearly stands in a different category. It may be held that there are grounds for giving special relief to local authorities, but in any event the "charity" ground would not appear to be sound either in law or in the light of the view commonly held as to the character of the functions of these bodies.

Exemption from tax under Schedule B.

12,809. (40) Local authorities sometimes raise the question of exemption from Income Tax, Schedule B, in respect of lands used for purposes other than husbandry. Such lands are now chargeable on the single value instead of on the double value applicable to lands used for the purposes of husbandry. The single value basis is extended to sewage farms occupied by local authorities.

It is not considered that any distinction can be reasonably drawn between local authorities and other occupiers of lands not used for purposes of husbandry. Upon the general question of the charge of Income Tax, Schedule B, in respect of the occupation of lands for purposes other than husbandry, the Board propose to offer evidence at a later date.

Cost of raising loans.

12,810. (41) Another question occasionally raised by local authorities is that of allowances for the cost of raising loans for the purpose of productive undertakings. This includes the commission for introducing loans and Stamp Duty. The argument put forward in support of the claim is that generally a local authority has of necessity to work on borrowed capital, and that the Parliamentary Committee or Government Department authorized to sanction loans will not permit inclusion of the expenses referred to in the capital sum in any estimate submitted upon an application for sanction to borrow money. The High Court in the case of *Texas Land and Mortgage Company v. Holtam* (1894, 3 T.C. 255), decided that the cost of raising debentures, such as commission paid to brokers, and other expenses, could not be deducted as trade expenses. It is clear that for Income Tax purposes the expenditure is of a capital nature, and it does not appear to be desirable to make any distinction between local authorities and other traders carrying on industrial undertakings. It may, however, be observed that the ordinary administrative and management expenses of such loans are allowed as a deduction in arriving at the profits of local authorities as being in the nature of necessary annual expenses.

12,811. (42) Certain questions of a general nature have also been raised by representatives of local authorities, e.g., wear and tear allowances, assessment on average, and superannuation fund allowances. These questions have been, or will be, dealt with by other official witnesses.

Claims by City of London Corporation.

12,812. (43) It should perhaps be explained that the duties of the Corporation may be divided roughly into two main classes:—

(a) the administration of justice and the management of the City Estate consisting of freehold property and markets.

These duties may be described as the City's duties as a corporate body. They correspond approximately to those of a

provincial corporation acting by the Borough Council under the Municipal Corporations Act. The City's income from property and markets is so large that it does not require to have recourse to rates to meet the expenses incurred in the performance of these duties.

(b) Duties as a Public Health Authority.

These duties correspond approximately with those of a provincial corporation, acting by the Borough Council as an Urban Sanitary Authority under the Public Health Act, 1875. The City's expenditure under this head is met largely out of rates.

12,813. (44) The claims made by the Corporation, and recapitulated in paragraph 7, are restricted to the City's income and expenditure as a corporate body. The City of London is in the unique position of being exempt from the Municipal Corporations Act, and is much less restricted in the application of its income than other municipalities. If the City's income were not so large, this would operate to the advantage of the City in arriving at its liability in respect of interest paid on its loans. The taxed corporate income, however, is so far in excess of the interest that, even without taking into account the effect of the City's immunity from the Municipal Corporations Act, there is no direct liability to tax on such interest. In the Board's view, however, there is nothing to warrant a distinction between the City Corporation and a provincial Municipal Corporation in so far as the question of liability to Income Tax is concerned.

12,814. (45) As regards the first alternative claim (paragraph 7 (a)), I would refer to the arguments adduced in paragraphs 25, 26, and 37 to 39 above. It may be observed that the corporate income of the City being such that it has not been necessary to levy any rate for the particular purposes to which the City Estate revenues are applicable (Income Tax on the City Estate income cannot be said to be an effective burden on the ratepayers who are enjoying the benefit of those services without any cost to themselves).

12,815. (46) With regard to the second alternative claim (paragraph 7 (b)), that expenses incurred by the Corporation in carrying out certain statutory obligations such as Port of London sanitation, &c., should be admitted as deductible expenses in arriving at the assessment on the profits from markets, the question involved, viz., the admissibility of the deduction of sums not actually and necessarily expended to earn the profits assessed, has been determined in the case of the *Attorney-General v. Scott* (Chamberlain of the City of London), (1873, 1 T.C. 55). The City Corporation, in the case referred to, claimed to deduct the whole expenditure of the Corporation for the civil government of the City in arriving at the Schedule D liability in respect of profits of markets, &c. The Court of Exchequer held that the profits from markets, &c., were liable to Income Tax under Schedule D without reference to the purposes to which they were applied; and that the proper principle upon which the assessment should be made was to take each item or head of income separately and to assess the Income Tax upon the net produce of such item, after deducting from the gross receipts the expenses incurred in earning and collecting the same.

12,816. (47) The principle laid down in this decision has been confirmed by the Courts in several other cases. It is submitted that there are no grounds for overriding the existing law.

12,817. (48) It will be readily understood that if the claim referred to in paragraph 7 (b) were admitted, it could not be confined to the City Corporation, but would make extremely serious inroads on the yield of revenue from industrial undertakings generally.

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APPENDIX I.

LIST OF PRINCIPAL GENERAL STATUTES UNDER WHICH LOCAL AUTHORITIES ACT.

General Statutes and Authorities to which the Statute applies.

Public Health Act, 1875.—Boroughs (including County Boroughs), Urban District Councils and Rural District Councils.

Municipal Corporations Act, 1882.—Boroughs, including County Boroughs, but excluding the City of London, City of Westminster and Metropolitan Boroughs.

Local Government Act, 1888.—County Councils and to some extent County Boroughs and the City of London.

Local Government Act, 1894.—Parish Councils and to some extent Urban District Councils and Rural District Councils.

London Government Act, 1899.—Metropolitan Boroughs, including the City of Westminster. It applies only slightly to the City of London.

Legislation similar in scope to that of the first four of the above Acts is in force in Scotland and Ireland.

The City of London, known in this respect as an unreformed corporation, is in the unique position of being exempt from the operation of the Municipal Corporations Act, and is much less restricted in the application of its income than other municipalities.

Each local authority, especially Borough Councils and Urban District Councils, may have local Acts or Provisional Orders to supplement the General Statutes.

12,819

APPENDIX II.

SUMMARY OF VARIOUS CASES DECIDED IN THE COURTS.

1. Cases referring to Corporate property within the General Rule No. 1 of Schedule A.

(a) Those in which the properties were held to be liable to assessment:—

Municipal Offices, occupied for the ordinary purposes of municipal administration.

Public baths, provided and maintained by a compulsory rate and yielding no rent or profit.

(Adam (Edinburgh Corporation) v. Maughan, 2 T.C. 541.)

Free library, of which one room is used for a subscription library.

(Mungrave v. Dundee Town Council, 3 T.C. 552.)

Buildings occupied for municipal purposes.

(Brown v. Smith, 4 T.C. 435.)

Public slaughterhouses debarred by Statute from making profits.

(Harris v. Edinburgh Corporation, 5 T.C. 271.)

Seats partly above and partly below ground.

(Ystradgynodwg and Pontypridd Main Sewerage Board v. Beasted, 5 T.C. 230.)

(b) Those in which the properties were held to be exempt.

Assize courts and police stations.

(Coomber v. Justices of Berks, 2 T.C. 1.)

Burgh court (police court).

(Adam (Edinburgh Corporation) v. Maughan, 2 T.C. 541.)

Buildings occupied for the administration of justice.

(Brown v. Smith, 4 T.C. 435.)

Free library.

(Mayor of Manchester v. Macadam, 3 T.C. 491.)

2. Cases referring to the liability of profits or surplus income arising from carrying on concerns in the nature of trade:—

(c) Those in which the profits were held to be liable to assessment:—

"Rate or Duty" on coal landed on the beach or otherwise brought into the town.

(Attorney-General v. Black (Brighton Corporation) 1 T.C. 52.)

Market tolls, corn and fruit metages, broker's rents, &c.

(Attorney-General v. Scott (City of London) 1 T.C. 55.)

Markets and slaughterhouses.

(Adam (Edinburgh Corporation) v. Maughan, 2 T.C. 541.)

Gasworks.

(Glasgow Corporation Gas Commissioners, 1 T.C. 122.)

Waterworks.

Surplus revenue derived from supplying water beyond the area of compulsory supply and for trade purposes and to barracks within the area.

(Glasgow Corporation v. Miller, 2 T.C. 131.)

(Allan v. Hamilton Waterworks Commissioners, 2 T.C. 194.)

(Dublin Corporation v. McAdam, 2 T.C. 387.)

Bulk supplies of water to other local authorities paid for by them out of compulsory rates in their areas.

(Harris v. Irvine Corporation, 4 T.C. 221.)

Profits of a "special rate" levied on all persons who take in water.

(Mullingar R.D.C. v. Rowles, 5 T.C. 85.)

Harbour dues.

(Sowrey v. Harbour Commissioners of King's Lynn, 2 T.C. 201.)

Bank interest credited to compensation fund.

(Glamorgan Quarter Sessions v. Wilson, 5 T.C. 537.)

Bank interest received by a County Council.

(Matthews v. Cork County Council, 5 T.C. 545.)

Cemetery profits.

(Portobello Town Council v. Sulley, 2 T.C. 647.)

(Paddington Burial Board v. Commissioners of Inland Revenue, 2 T.C. 46.)

(d) Case in which the surplus was held to be exempt:—

Waterworks—Proceeds of compulsory Water Rate.

(Glasgow Corporation Waterworks 1 T.C. 23.)

(e) Cases in which it was held that expenditure of the specified nature may not be deducted in arriving at the assessable profit:—

Expenditure on baths, parks, industrial schools and on utilisation and disposal of sewage charged against market revenues.

(Corporation of Birmingham, 1 T.C. 25.)

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Expenditure on the civil government of the City of London and on maintenance of police.

(Attorney-General v. Scott, 1 T.C. 55.)

Contributions to a sinking fund.

(Mersey Docks v. Lucas, 2 T.C. 25.)

(Surrey v. King's Lynn Harbour Commissioners, 2 T.C. 201.)

Expense of lighting public lamps.

(Dillon v. Haverfordwest Corporation, 3 T.C. 31.)

(Paddington Burial Board v. Commissioners of Inland Revenue, 2 T.C. 46.)

Profits applied to the maintenance of the affairs of the City.

(Adam (Edinburgh Corporation) v. Maughan, 2 T.C. 541.)

Profits credited to Common Good Fund which was applicable to Burgh purposes including maintenance of staff.

(Webber v. Glasgow Corporation, 3 T.C. 302.)

(f) In the following cases it was held that the ultimate destination of profits in no way affected Income Tax liability:—

Profits applied in aid of rates.

(Attorney-General v. Black (Brighton Corporation), 1 T.C. 32.)

[This concludes the evidence-in-chief.]

12,820. Chairman: Your paper is useful to us as a record and is very instructive. We shall not examine you very much on it, but it is very useful for the purpose of our investigation of the matter. There are two points you might explain to the Commission; they are on paragraph 8 (a) and 8 (b), because I think the matter centres upon 8 (a) and 8 (b)?—I think so, my Lord, and 8 (c) is material also.

12,821. Would you just explain the position on those points?—With regard to 8 (a), I think the position is this. The corporation raises loans and has to pay interest thereon. That is on one side of the account. On the other side of the account there is probably certain income that has borne tax. That income may include rents of property. In all probability also the corporation has other property from which it does not derive rents. If then the balance is struck between the two sides of that account—assuming that the only items in the account are, on one side, interest paid from which tax has been deducted, and on the other side taxed income received—the local authority would have to account to the Revenue for tax on the excess of interest paid over income received. But in the London County Council case it was contended that the tax paid on property in their own occupation, from which no rent was derived, should also be allowed to be set against the tax retained from interest.

12,822. What do you think of that?—I submit, and the Department does not disagree, that that is an equitable claim, although it is not correct in law at present; but it seems, in the opinion of the Department, that that is a claim that might very well be conceded to the corporation.

12,823. Would there be a great loss to the Revenue if it were conceded?—I ought to say that the estimates are, I am afraid, rather rough, because there is very little material available, but so far as we can estimate, the tax, estimated at 6s. in the £, is about half a million a year.

12,824. That is the loss?—Yes, the loss at the present rate of tax.

12,825. Did you see the evidence of the corporations that came before us?—Yes, I have seen it.

12,826. You do not agree with it altogether, do you?—No, except in those three main particulars, I think.

12,827. That is very interesting about paragraph 8 (a). Now about paragraph 8 (b)?—The present position is this. The local authority, speaking generally, has two funds, a Borough Fund and a District Fund. Each of these two funds is administered by the local authority as two entirely distinct trusts. It is felt that the distinction is, to some extent, artificial from an equitable point of view though not from a legal point of view; and on the ground of equity we might possibly be prepared to meet them. But, of course, in law they would have no case at all on that.

12,828. Have they a case in equity?—My own personal opinion is that they have. The great bulk of the local authorities at the beginning of all things had those two funds. Certain of them, as is pointed out by the municipal authorities themselves,

have gone to Parliament and obtained powers to unify their two funds in order to remove this disability. It does seem, on equitable grounds, rather unfair that other, possibly less wealthy, corporations should suffer the restrictions which more wealthy ones have contracted themselves out of.

12,829. But does that unification make it equitable? Does it give them any more moral right than those who do not unify?—I would suggest that all should be treated alike, and if it is possible for one to do it by going to Parliament, then it might very well be for all to do so.

12,830. Your point is that those who unify get an advantage over those who do not?—Exactly, and after all, I think it is clear that it is in no way to the prejudice of the ratepayers. I suppose the separation of the two funds was originally designed for the protection of ratepayers, but this division has resulted in the protection to ratepayers becoming a disadvantage for Income Tax purposes. Now that position is not dissimilar possibly from paragraph 8 (b). It is a legal question entirely just as the other is. In the majority of cases where you have an industrial undertaking started by a local authority for the good of the community, it obtains sanction to raise a loan. Usually the Statute or Order under which the authority is given provides that the revenue of the undertaking shall be appropriated in certain directions: it has to provide for its loan interest and for its sinking fund and probably for its reserve fund. That is possibly the more general case. Then you have another case; occasionally, if I may so term it, a more lucky corporation has not those restrictions, and the whole of its profits then are available in reduction of its debt to the Revenue in respect of tax deducted from interest paid. There again the division or distinction is a purely legal one, and I imagine if we were starting a new world and you were proposing a new tax it is quite conceivable that some of these legal restrictions would not be imposed.

12,831. Thank you. Now you will be examined on some of those points?—If you please.

12,832. Sir E. Nott-Bower: With regard to your sub-paragraph 8 (c), would not the effect of adopting the suggestion there, which you say has much to support it, be that hardly any corporations in the Kingdom would pay any Income Tax at all except on their interest, which of course is borne by the people who receive the interest. They would not pay any Income Tax on profits on their industrial concerns or their properties, would they? I suppose few corporations would receive taxable profits in excess of the total interest they pay?—You are dealing solely with paragraph 8 (c)?

12,833. Yes, I am dealing with paragraph 8 (c). At the moment it seems to me that if we were to adopt paragraph 8 (c) nothing else matters much, does it?—With paragraph 8 (c) plus 8 (b) possibly there would be something in what you say. I think the position generally is this: that on a Borough Fund of a corporation you have the liability generally, I expect, on profits; but on the District

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Fund, which is under the Public Health Act, almost invariably I think the liability is on interest.

12,834. Putting the two together, can you suggest the cost?—I have no estimates about that; I really could not offer an opinion as to how that would work out. My own suggestion of the cost would be about £600,000.

12,835. Only £600,000?—That is so far as we can estimate, at the duty on paragraph 8 (c) only.

12,836. Is that in addition to the £500,000?—That is certainly in addition to the £700,000.

12,837. *Chairman:* On paragraph 8 (b) how much?—I suggest £400,000 there, but I would like to point out that those three are not cumulative. The total relief, if you conceded the three, would not be the sum of the three. It would possibly be 1½ millions, I should think.

12,838. *Sir E. Northcote:* That is a very substantial sum to throw away. This is very intricate and unfortunately I was not present when the Municipal Corporations gave their evidence. With regard to paragraph 8 (a) you would agree, would you not, that you propose to throw over the decision of the House of Lords?—Yes, that I fear is involved in my suggestion.

12,839. You have read Lord Macnaghten's judgment, no doubt?—Yes.

12,840. Lord Macnaghten argued the case on its merits really, and said if they came to any other decision than they did the Revenue would lose tax that it ought to get. That was the substance of Lord Macnaghten's decision?—Yes.

12,841. Have you come to the conclusion that Lord Macnaghten was wrong?—Not on the existing law.

12,842. But I suggest to you that Lord Macnaghten did not base it on the ground of the existing law. He clearly stated that he thought that ought to be the law and that if it was not the law certain very unjustifiable results would follow?—When the analogy of a private individual is pressed the position of the local authority becomes a rather difficult one to defend, because of course, as you are well aware, a private individual who occupies his own house does not pay tax on mortgage interest on that house in addition to tax assessed on the house, if he is charged on that house he is allowed to retain the tax deducted from the interest and not pay it separately.

12,843. Was not that factor present to Lord Macnaghten's mind?—It should have been.

12,844. And did he not say that that was a false analogy, that the position was different?—I think the analogy is a sound one.

12,845. But Lord Macnaghten thought the analogy was false, did he not?—Yes, I presume so.

12,846. *Sir W. Fowler:* On broad principles, do you put a distinction between works which are undertaken for public purposes, and works which are undertaken for purely local purposes?—Yes, I do suggest there is a difference.

12,847. Would you admit that that was the underlying principle?—Are you referring to works and properties?

12,848. Property and works?—Yes, property.

12,849. Property and businesses?—The statutory duty that is in a way compellerly undertaken by local authorities I place in one category, and voluntary services, such as tramways and so forth, I place in another.

12,850. To illustrate it from the evidence on behalf of the City Corporation for instance, they claim the Freeman's Orphan School as an entirely local matter?—Yes.

12,851. And for that you would not give any relief, because it was purely local?—Yes, quite so, except, of course, to the extent that there are specific endowments for that school.

12,852. Of course, to that extent; but I am distinguishing between public purposes and local purposes?—Yes, quite.

12,853. You would tax corporations for purely local purposes, and not for public purposes?—Yes, broadly, I think.

12,854. Then, if you put it on that ground, why do you free the public buildings, which are purely local? You would tax the public buildings on those

grounds?—I do not think I suggested that purely local buildings should be relieved.

12,855. That local buildings should not be relieved on those grounds?—Exactly.

12,856. Then as regards setting off loss on one undertaking against another, you were speaking just now of the equity. Do you think, apart from these Acts which certain wealthy corporations have obtained, there is any equity? May I illustrate it in this way? A municipality makes a loss on one undertaking, and it buys up another which is paying a heavy Income Tax to the Crown on its profits; and the effect of municipal trading, in that way, is to make a very large loss of revenue to the Crown, is it not?—Yes.

12,857. Would you defend that proposition? Is there any equity in that?—After all, Income Tax is only a tax on income or profits, and if there is no profit, there is no tax.

12,858. I quite understand your view; I was putting it in that way?—I do not see why they should not be relieved.

12,859. Therefore you would admit that municipal trading is a danger to the Government, in that way?—Yes, I suppose it is. There would be loss of revenue. Of course, as I point out, the whole subject involves the question between public and private enterprise, which I presume is not a matter to be dealt with by Income Tax law.

12,860. In paragraph 12 of your statement, you say: "The liability of a local authority, so far as loan interest and other annual charges are concerned, is computed on similar lines (apart from exceptions dealt with in this evidence) to those on which the liability of a private person is determined. Accountability for tax thereon exists only to the extent that such charges exceed the taxed or taxable income available for payment thereof."—Yes.

12,861. Is not that putting it rather too high? Do you distinguish between a corporation and a club that has no taxable income?—I am only speaking there of the liability of a local authority so far as loan interest is concerned. Accountability for tax on loan interest is only to the extent that such charges exceed the taxable income.

12,862. I understand you put it in this way, that where an individual borrows money on mortgage on a house which he is building, he may deduct the interest; that is really what it comes to?—Yes.

12,863. I only wanted to have that quite clear. I think you have stated it a little more fully than you intended?—I see the point.

12,864. *Mr. Holland-Martin:* In paragraph 8 (a), you use the expression: "the annual value of property owned and occupied by them, and producing no revenue." Will that cover a municipality with large offices for municipal trading?—No; the offices for municipal trading would be part of the particular undertaking itself, I take it.

12,865. You would eliminate that?—Yes; I do not include that in property producing no revenue.

12,866. Then it would vary with whether a profit was produced or not?—Speaking generally, if you have an industrial undertaking, the offices of that undertaking are at the works of the undertaking; but in some cases some portion of the town hall might be set apart for that particular purpose.

12,867. *Mrs. Knowles:* I do not quite understand whether you propose to exempt, for instance, a tramway from Income Tax, and tax a corresponding private company who are running buses. Would not that be rather unfair?—Oh, no. I tried to make it clear that my idea is that all trading of a public authority, in the present state of the law, at all events, should be charged—tramways, gasworks, waterworks, and so forth; all such undertakings should be taxed, because until the general principle of private versus public enterprise is determined in some other manner, it seems to me that no relief should be given to a public trader which is not enjoyed by a private trader. If later on it becomes a settled policy of the country that public trading is to be relieved or subsidized, if you like, I would suggest that then

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might come the time for relief in respect of Income Tax; but at the moment it seems to me to be unfair to give relief from Income Tax to a public enterprise, which in effect would mean relieving public enterprise at the expense of private enterprise.

12,868. But I thought you agreed just now that if a municipality bought up an undertaking which was making a profit, and set that against one which was not making a profit, and was allowed to extinguish Income Tax in that way, that would be injuring the private trader?—That is really all in accordance with the present Income Tax law. If a man has two businesses, and one is making a profit and the other is making a loss, he is only taxed on the net result of the two; and I would suggest that a corporation should be in the same position, at all events, as a private trader, no better and no worse.

12,869. But then it does seem to me that he is allowed to extinguish Income Tax on a profitable undertaking in that case?—Yes. If there was a loss incurred on a particular business, which possibly previously was carried on by a company at a profit, that result might cause, but that is inseparable from the present law. If there are two undertakings in one fund, a gasworks and a tramway, and one is carried on at a loss and the other at a profit, we now have to allow the loss on the one against the profits of the other, and only charge Income Tax in effect on the balance.

12,870. Then you are proposing to treat local authorities in the same way; is that it?—So far as that is concerned, we are doing it at the moment, and it is not proposed to make any alteration in that.

12,871. But then the local authority is able to set up a monopoly and the private trader is not, which is a very different position?—That is true. But if you have the waterworks of an area run by a private company, or a tramway, you have really to some extent a monopoly there also, of course.

12,872. But not if someone else can run buses or motor-cars?—That is so.

12,873. I do not think that your view seems equitable here; however, that is merely my opinion.

12,874. Mr. Graham: I gather that the position generally is that you are opposed to anything in the way of taxation which penalises the private trader of the locality, and gives the municipality an advantage which it would get if it were exempt?—Might I just interrupt there. I suggest that the Royal Commission will probably assume that that is not a part of its functions.

12,875. In the case of sewers, which has been debated for a long time now, I notice that you suggest they are exceptional, and exemption might be given. Is that on the ground that there can, of course, be no competition at all in the provision of sewers?—Yes. There could be, of course, but as a matter of fact there is not, because there are no sewers in this country other than those owned by local authorities.

12,876. Let us pass to something which is not so very far away: washhouses and baths, and so on. Take a municipality which is providing that service in the absence of all private competition in that locality. Would you adhere to the view that Income Tax should be paid in those circumstances, although no private individual can be injured at all?—Yes, I think so. My test rather is this: not what it does, so much as what might be done. I admit possibly that is rather weak when you come to sewers, because you could have a sewer owned and conducted by private enterprise; but in fact you do not. The proper test, I think, is, what could be done by private enterprise; and if it can be done by private enterprise, in my opinion there is no reason why public enterprise should be relieved from taxation.

12,877. I think you will admit, without going into the argument either of public trading on the one hand or private trading on the other, the tendency is for the municipality to provide these services. Would that be admitted?—Yes, I think so.

12,878. Then in districts where there is no competition at all, why adhere to Income Tax when in point of fact the revenue from these undertakings would very likely lead to that locality making less demand on the State in other connections than it

would if the tax were levied?—I thought you were looking upon the country as a whole.

12,879. I am, of course, but I am taking the district, for a moment?—After all, I suppose competition operates throughout the whole of the country, and it does not matter much, does it, whether you have one rating unit which provides its own particular commodity or not. Have you not to look at the whole question of the country at large?

12,880. I am looking quite in that way, but my point at the moment is this. That competition having gone in this particular service, taking the locality mainly into account—I agree that from the point of view of the country the proposition is different—there is no case locally, so to speak, for continuing the tax, because private enterprise has vanished?—That is quite true.

12,881. So that, assuming that this became general, it would tend to simplify and solve itself, would it not?—Yes, I suppose it would.

12,882. Mr. Walker Clark: In paragraph 18 you refer to the Leeds Act, where Leeds got the two funds consolidated. Did the Inland Revenue appear before the House of Commons Committee when that Bill was brought forward?—I believe not.

12,883. As a matter of fact the Inland Revenue were caught asleep, were they not?

12,884. Chairman: Do you acknowledge that, Mr. Pool?—No; I do not think I should admit that.

12,885. Mr. Walker Clark: Are you aware that the distinction which you describe as an artificial distinction—between the two funds, the Borough and the District funds, was originally designed as a protection to certain ratepayers. There is a very vital distinction between those two funds?—As between one fund and the other for rating purposes.

12,886. And for Imperial Revenue purposes, too?—I think the distinction arose altogether apart from Imperial purposes; it is a purely rating one.

12,887. Certainly it did, but it arose for a very definite reason. One was a service which was confined to the borough, and the other was a service which was very largely a district service?—Yes.

12,888. And in a great number of cases—take Leeds, which is your favourite case—there is differential rating in different areas because of the combined fund?—There were, of course; not now.

12,889. There is to-day? The area is the same.

12,890. The area is the same, but there is a differential rate within the area?—Yes.

12,891. And the ratepayers affected by the amalgamation of the two rates did appear before Parliament and get relief?—Yes.

12,892. And the Inland Revenue did not appear before Parliament, and therefore got no relief?—That is so.

12,893. Therefore you were asleep. May I put another point? You stated just now, I think, that gasworks and tramways and waterworks and all trading concerns conducted by the municipality should be taxed provided they made a profit?—Yes.

12,894. But is there not a very real distinction between a municipality working these concerns, and a private company working them? The private company works them for profit; the municipality, at least when I was in a municipality, worked them for the public good, and so make no profit?—As a fact, of course, you did make profits, did you not?

12,895. I say we did not?—If you did not, then there was no tax payable.

12,896. But there ought to have been a tax payable?—You ought to have made profits.

12,897. Certainly we ought. Are you not pleading here for a remittance of tax of 1½ millions in these three classes, for people who are well able to pay, and who would pay for these very services, provided they were not municipally controlled?—Not 1½ millions.

12,898. The total of (a), (b) and (c) is 1½ millions, you said?—Some of those are what you might term semi-national properties that do not make profits, town halls, for example.

12,899. I am not sure whether they make profits or not. Take the case of a town hall. There are many town halls I know, where they have very large halls which are used for concerts and entertainments, and some for picture shows, systematically, and where a large profit is made?—I thought you were speaking

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rather more of the thoroughly industrial concerns, such as waterworks and gasworks.

12,900. I was thinking of your (a), (b) and (c).

12,901. *Chairman*: Have you got evidence that they make money?

12,902. *Mr. Walker Clark*: They do—the hall itself.

12,903. *Chairman*: Have you ever got a profit and loss account on the hall, to show that they have made money?

12,904. *Mr. Walker Clark*: I would not say they have a profit and loss account, but on the hall itself, independently of the building, there would be a profit made. I have no doubt the Inland Revenue have watched that point; but this is the suggestion of the witness, as I take it, on (a), (b) and (c). He does not definitely say it ought to be admitted; he says: "It might be admitted." "There is a good deal to support it," and "has much to support it"; that is the remission of a tax of 1½ millions; but if those were not administered by the local authority, those same things would be taxed?—Yes.

12,905. *Chairman*: On (a)?—On (a), of course, the point is rather different, I think, because if you had a gasworks conducted by a company, then (a) disappears, and all your profit would be taxed then; there would be no question of any properties being non-productive. So it is not correct, I think, to say that there is a question of a million and a quarter between us.

12,906. *Mr. Walker Clark*: It is on the three points?—(a) is absolutely inoperative when you consider that.

12,907. Just one other point, about sewers. You suggest that sewers should be outside taxation?—Yes, public sewers.

12,908. Are you aware that many public sewers pass through two or three authorities?—Yes.

12,909. And that one authority charges a heavy rental for the user by another authority?—A rental, yes.

12,910. A heavy rental, in some cases?—My experience is that the charge made is only a reasonable one to cover all expenses.

12,911. On that rent received, they are at present taxed?—In some cases. As I suggest, there is considerable inequality. Only those sewers that are rated are assessed.

12,912. I think there are two lines of argument. There is the ground of what you call equity?—Yes.

12,913. And secondly, there is the ground of uniformity between a private individual, and a corporation on the one hand, and between two different corporations, one that was smart where the Inland Revenue was not smart, and the other going jogging along in the old way. But is there not a vital difference, which has already been pointed out, between the private individual and the public authority; one is governed by Statute, and the other is not; and there are many other statutory differences between the two?—Yes.

12,914. There is no vital similarity between the private individual on the one hand and the corporation on the other?—Except that in one case you have the local authority carrying on an industrial concern, and in the next area you have a private individual carrying on the same thing.

12,915. One is carried on for profit, and the other is carried on for glory?—It is often claimed that they make big profits from these industrial undertakings, which go to relieve rates.

12,916. *Mr. Marks*: Referring to some questions which the previous Commissioner has asked, I see that not only the Corporation of Leeds but some of the other large cities have obtained these special Acts?—Yes.

12,917. Is it, or is it not, a fact that the Inland Revenue were caught napping when these Bills were before the House of Commons?—I really am not able to answer that question at all. They might not have had any *locus standi* in the matter.

12,918. Is it within your knowledge that the position was considered by the Inland Revenue authorities and that they determined not to oppose these Bills as a question of policy?—I really do not

know at all. I very much doubt whether the matter was brought to their notice.

12,919. Is it a correct statement of the views of the Inland Revenue, as set forth in this memorandum, that they desire to put the corporations on the same footing *inter se*, and that so far as they compare with the ordinary taxpayer they desire to put them on the same footing *inter se*?—Yes, I think so.

12,920. That is a correct summary of the position?—Precisely.

12,921. As regards the question of profits which the municipal authorities might make by entering on trading enterprises, is it not within their power now so to reduce their charges that they make no profit or a negligible profit?—Yes, I think so.

12,922. And in that case they would escape taxation?—On profits, yes.

12,923. On the present basis of taxation they would escape?—No, they would not entirely escape. They would be in this position. A local authority, of course, must pay its way for its undertaking, and as it was heavily encumbered probably, at the beginning by loans obtained in order to establish or purchase the undertaking, it has to provide a sinking fund. Now clearly it has got to bear its charges to recoup it for all its expenditure, so that the charges would include something for the sinking fund. Now sinking fund, as we know, is not a deduction from profits for Income Tax purposes. So that you might be in this position: that a corporation would so adjust its charges for a particular undertaking that the assessment on the profits would really be the profit plus sinking fund. You might be in that position; so there would still be an assessment; although on a commercial basis, if you like to describe it as such, there would be no real balance of profit to the corporation.

12,924. That is to say, that on a certain amount of their receipts they would have to pay Income Tax because of the statutory obligations imposed on them in the way of sinking fund?—Exactly.

12,925. Is it not the fact that supposing a tramway undertaking, for instance, were conducted at a loss, the corporation is in a position to have recourse to the rates?—Yes.

12,926. And in that case they would not only escape taxation, but they would be able to recoup themselves for any loss?—Quite.

12,927. *Mr. Birley*: In paragraph 8 (b), you say: "the admission of the claim for exemption of profits of industrial undertakings carried on by local authorities would be unfair to other trading taxpayers." Can you tell me whether, in your opinion, in principle such industrial undertakings are not co-operative undertakings with the same meaning to the word "co-operative" as in Co-operative Societies?—There is possibly an analogy between the two, but I think there is a difference. Take the tramway, for example, which is possibly a fair example. The tramway in a borough is not used solely by people in that borough.

12,928. No, but a co-operative store is not only used by the members?—Both members and non-members benefit to some extent. I understand they all get a bonus on the purchases, but non-members get a smaller bonus.

12,929. May I put it in another way? These tramways are put down primarily for the benefit of the ratepayers; they would not be put down for the benefit of outsiders?—Yes, that is true.

12,930. And gasworks are practically entirely for the benefit of the ratepayers?—Yes.

12,931. And electrical works?—Yes.

12,932. Can you defend a difference in treatment between the two, so far as the taxation of the results of trading are concerned?—I do not call them profits, because in some cases they are considered profits and in some cases they are not considered profits. Can you defend a difference in the treatment of the two?—It was necessary, of course, to have a direct Statute to exempt a Co-operative Society from Income Tax.

12,933. But I meant rather in equity?—I do not know that it is entirely in equity.

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12,934. Can you defend it in equity? Is it a reasonable thing that they should have a difference of treatment so far as the taxation of profits or results is concerned?—I certainly think that profits made by a mutual concern might very conceivably be assessable to Income Tax. As a matter of fact it is not the practice, and I suppose it is opposed to the spirit and the letter of the taxing Acts to charge purely mutual profits. But if you test for taxation in mere ability to pay, then mutual profits would be just as much assessable to Income Tax, I should think, as non-mutual profits.

12,935. The great bulk of the so-called profits of municipal industrial undertakings come from the ratepayers and are therefore mutual?—To a very great extent, I suppose, they are mutual.

12,936. Mr. MacIntosh: Have you any information as to what total amount of tax would be lost if you were to relieve municipalities and corporations altogether?—You are referring of course to profits, not to loan interest.

12,937. Except with these set-offs, which they are deprived of, such as a private individual got; I am not simply taking into account the taxes to be paid?—There again statistics are very difficult to obtain. There are no public statistics, owing to the war. I think, later than 1913 that are of any use at all, but as near as I can get at it, I think it would cost about 2½ millions at the present rate of tax if the pure profits of local authorities were not charged.

12,938. And you agree that local authorities could, if they thought fit, have no profits except the sinking fund profit of which you spoke?—I think so. Might I make one reservation? I said sinking fund; but the same might apply to certain reserve funds, which are very similar in principle to sinking funds. I think a local authority could get rid of its profits except those.

12,939. It has been suggested that it means a tremendous amount of trouble to the Revenue to deal with Municipal Corporations, and that in principle they should not be assessed at all. Do you agree with that view?—My own personal great objection to that would be that it would be subsidising or relieving public trading while you are charging private trading.

12,940. But they have the remedy in their own hands: they may apply their profits in relief of rates, in which case they are assessed as at present, or they may reduce their charges for the service, which is done by some corporations, and there is no tax payable?—Yes.

12,941. Do you approve of the principle underlying that, of abolishing taxation?—I should not like to say abolishing the taxation of profits. Reference has been made to Co-operative Societies. As you are aware, Co-operative Societies are exempt from Income Tax by Statute for certain reasons. I think it is correct that every year when the Finance Bill is introduced into the House of Commons there are any number of deputations against Co-operative Societies by private traders who are opposed to their exemption, and I should imagine, or suggest, that if you relieve the profits of municipal trading you will have private traders all over the country coming up repeatedly every year and opposing it.

12,942. It would relieve the ratepayers?—It would relieve the ratepayers, but the traders themselves I feel sure would oppose it very strongly.

12,943. Speaking generally, in gas works, tramways, waterworks and such like undertakings there is no competition?—You have cases of electric light works operating in the same area as a gas works or the converse. You have competition there. And, of course, as was suggested by a member of the Commission just now, you might have buses against trams.

12,944. Your view is that unless they like to get relief by reducing their charges and making no profit, you should continue to tax them?—Most certainly.

12,945. Mr. Kerly: It has been suggested that the Inland Revenue were caught napping when a certain private Bill came before Parliament?—Yes.

12,946. Have you any reason to suppose that the Inland Revenue would have had any locus standi to be heard upon that Bill?—I should think not.

12,947. Perhaps that is why they did not go?—Yes.

12,948. Mr. Mockinder: Is it not one of the Standing Orders that the House of Commons Committee is bound to consult the Department concerned?

12,949. Mr. Kerly: I think it is, but then, was this Department concerned?—On the face of the Bill I should say this Department was not concerned at all.

12,950. Mr. Mockinder: The Revenue is concerned?—I do not think that would be very obvious on the Bill itself; I should have thought not.

12,951. Mr. Kerly: I do not express any opinion about it, but it certainly seems to me to be very problematical whether the Inland Revenue would have any locus standi?—I should have thought not.

12,952. That may be the explanation?—Yes.

12,953. As regards trading profits made by a municipality, you suggest that they stand in a separate position from the other claims?—Yes.

12,954. If a municipality chooses to carry on business and make a profit in relief of its general rates, both from its own contributions and from outsiders, is there any reason why it should not be treated as a trader and charged Income Tax upon those profits?—None at all so far as I am aware.

12,955. If it does not make any profit then of course it pays no Income Tax?—Quite.

12,956. Is the other main head of tax, tax as owners of land?—Yes.

12,957. As an owner of land what is suggested is that it should be treated as owner of all its land, and be able to put charges in respect of one against the fact that it has to pay tax upon others?—Yes.

12,958. And that is what a private owner could do?—Quite.

12,959. As regards the trading profit, you say that, quite apart from profits in the ordinary sense, if it has a sinking fund and therefore raises a revenue in order to meet the sinking fund, it has in any event to pay Income Tax upon the amount so appropriated?—Yes.

12,960. The real position is this then: that starting with borrowed capital and being under an obligation to repay its borrowed capital, it really pays Income Tax from first to last on the whole of its capital?—Yes.

12,961. And that is the present position of a municipal trader?—Yes.

12,962. And I think it is the only trader in that position?—Yes, I suppose so.

12,963. Mr. Marks: Is that so?

12,964. Mr. Kerly: The only trader who is now taxed on capital—bound to repay. Of course if a trader chooses to repay his capital, that is another matter; he does it at the expense of paying tax upon the money so appropriated?—If you are dealing with a mine which has a definite life, you are paying tax upon your full profits there and distributing dividends; when the mine is worked out your capital has gone there also; but then that has been issued in dividends.

12,965. Of course we have the question of allowance for wasting assets, which is another matter; I do not propose to go into that now. It is suggested that in the case of *The Attorney-General v. The London County Council*, Lord Macnaghten expressed a view as to the general equity of your proposal in paragraph 9 (a). I do not think that is so. Was not this the fact? Did not the decision in that case go upon the view that although there was nominally a charge upon the property, the payment of interest was always in fact made out of the rates, and that the charge was so remote that it might be disregarded?—Yes.

12,966. Mr. Symonds: Is it a correct proposition that a municipality which pays, say, one quarter per cent. to a sinking fund does pay out of profits and nothing else? What they choose to allocate their profit to has nothing to do with Income Tax, has it?—Nothing at all.

12,967. If there is a question of wasting assets (which we are considering under other heads) I take it that it would be applied to the wasting assets of a

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corporation as well as to those of an individual?—No doubt.

12,968. Is it correct to say that there is a real analogy between the mutual relations of the municipality and the ratepayers and the public and the relation between the members of a Co-operative Society? Is not a very large amount of the benefit which results from municipal trading or municipal work for the benefit of other than ratepayers; it is for the benefit of every person who comes into the town, is it not?—Yes.

12,969. And there are a great number of these persons and inhabitants who are not ratepayers at all?—That is so.

12,970. And the benefit has no relation whatever to the amount of rates paid?—No.

12,971. Is it not a constant grievance of the present rating system that that is so; the amount paid in rates has nothing whatever to do with the benefit accruing from municipal undertakings?—I quite agree.

12,972. As regards paragraph 37 of your statement, charities are exempt by the general law?—Yes.

12,973. Are you quite correct in saying that charities and charitable purposes for the purposes of the Income Tax have that general meaning that you put upon it?—In paragraph 38—yes, I think that is quite correct.

12,974. I think that comes as a surprise to some of us.—That case which is referred to there, *Special Commissioners v. Pomsel*, was rather important.

12,975. I am surprised; I must say my professional experience goes a long way back and it is not up-to-date, but if it is now the law that charities and charitable purposes are to be interpreted in that very wide manner, is it not a case for reconsidering the whole question of the liability of charities to Income Tax?—I believe that a statement with regard to charities has been or will be presented to you by the Department.

12,976. You are aware, of course, that Mr. Gladstone, who was a charitable person, was utterly opposed on principle to the exemption of charities from Income Tax?—Yes.

12,977. As regards paragraph 40, is the local authorities' claim that they shall be totally exempted under Schedule B?—Except for land used for purely agricultural purposes.

Mr. J. P. HILTON, on behalf of the Birmingham Corporation Savings Bank, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

12,987. (1) I am the manager of the Birmingham Corporation Savings Bank.

12,988. (2) The depositors of the bank is confined to persons in the employ of some other person in the City of Birmingham and, as a consequence, may be termed a "working people's bank."

12,989. (3) The depositors were invited to enrol in the bank with the twofold object of:—

(a) assisting the country in the prosecution of the war, and

(b) providing a fund which would be of assistance to them in circumstances which it was thought might arise at the termination of the war and during the transition period.

12,990. (4) The provisions of the Income Tax Acts require an assessable person to make a declaration, *inter alia*, of the amount received or credited as interest by a savings bank. The lowering of the income at which exemption can be claimed to £130 per annum has brought within the sphere of taxation large numbers of men and women who were formerly exempt from such taxation, and as a result they are called upon to make the declaration named above.

12,991. (5) The Finance Act, 1915, provides that a savings bank shall furnish a return to the Surveyor of Taxes of all interest exceeding £5 paid or credited to depositors during the year, giving the names and addresses of such depositors if such bank itself is to be exempt from payment of the tax.

12,992. (6) The declaration to be made by the deposi-

12,978. Every other person in the Kingdom has to pay under Schedule B on the single rent, for whatever purposes, shrubberies, ornamental grounds, a lake, ornamental timber or a tennis court; we all have to pay under Schedule B there?—Yes.

12,979. I would like to test that. What is the ground claimed for exemption in that case by the municipality?—I do not know what their ground is. I am not able to defend it, but I do not agree with it. Might I add that the evidence with regard to charities has not been given, but will be given in due course, to the Commission. I am very brief here on charities because of that.

12,980. If "charity" is to be interpreted as merely public utility, a large sphere of the operations of private individuals and of public bodies would be exempt?—Yes, possibly.

12,981. Dr. Stamp: Taking up just for a moment the analogy that has been sought to be drawn between the municipality and the charity: supposing there were no exemptions for charities at all as such, but that there was substituted therefor, this roughly: the persons who are in receipt of benefit from the charity, if tax were paid by the charity as a whole, would presumably have less benefit, monetary or otherwise, and therefore they would be, to an extent, bearing the tax?—Yes.

12,982. If they were given the right that everybody else has, if their income is below a certain exemption limit, of claiming exemption, the effect would be that the charity would be practically in the same position as it is now, only it would be exempted in a larger amount if all the charitable recipients had incomes of under £130?—Yes.

12,983. Is not the true position of a municipality which is, we agree, to be treated as a charity, something on these lines: that the payment of the tax reduces the benefit which the ratepayer would get?—Yes.

12,984. But that all the ratepayers are not exempt from Income Tax in the same way as the charity would be?—Yes.

12,985. Some are rich and some are poor?—Yes.

12,986. Whether it is rich or not, to charge a municipality as a whole has this rough effect, has it not, that it is raising the tax from all the ratepayers at practically a flat rate irrespective of their wealth or whether they are exempt from Income Tax or not?—Yes, I think so.

tor (referred to in paragraph 4) and the return to be furnished by the bank (referred to in paragraph 5) are the two points which the Commission are respectfully asked to consider.

12,993. (7) The requirement of a declaration of interest received or receivable from savings, it is submitted, acts as a deterrent to thrift. The great majority of depositors in the Birmingham Corporation Savings Bank are of that section of working men and women who cannot save large sums of money annually, but who might be encouraged to persevere with the saving habit if the practice of taxing them upon such savings was not in operation. Rightly or wrongly, the working classes in Birmingham—and I do not think it is confined to that city alone—regard the practice as double taxation. They argue that they are first taxed upon their earnings and by striving to save a few pounds and thus keep off the rates and not depend upon charity when adverse circumstances arise, they are subjected to a second taxation. This source of irritation is one which helps in spreading dissatisfaction and discontent and constitutes a peg upon which to hang other grievances.

12,994. (8) During the war a new system of saving has been introduced by purchasing War Savings Certificates which are obtainable up to a value of £500 free of Income Tax, and which offer to the purchaser a much higher return than can be obtained through the medium of any savings bank if the purchaser can afford to let the certificates mature. This method of saving was introduced especially for the benefit of the working classes, but it should not be overlooked that a great many working people throughout the war have

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not been in a position to "tie up" their money for a lengthy period. Even in Birmingham all the working people have not been receiving the high wages one hears so much about.

12,995. (9) If the method of saving, referred to in paragraph 8, is considered sound—and the fact that the life of this method is to be extended rather points to that being so—then it is submitted that other forms of saving should have, at least, as fair treatment in the matter of taxation.

12,996. (10) I accordingly ask that the Commission will be pleased to recommend, as a matter of expediency, that *bond fide* savings in a recognized savings bank should be exempt from taxation up to the same limit as War Savings Certificates, viz., £500.

12,997. (11) The furnishing of the return by savings banks, referred to in paragraph 5, is a method of ascertaining information which tends to undermine the confidence of depositors in a bank. It has always been impressed upon the public and is still urged that privacy obtains in banking transactions, and upon the preservation of that impression the whole structure of the savings bank depends. Once let it be generally known—and it is becoming known—that the Income Tax authorities demand this information, and the structure will begin to crumble. I know of no more dangerous practice to set up with working

people than to have to divulge information respecting their savings.

12,998. (12) The requirement of the return places the bank in the position of informer against a depositor who may unwittingly have omitted to make a declaration as to the interest received on savings, and, in my opinion, no savings bank ought to be put in such a position. The eventual disclosure to the depositor at once sets up a suspicion or doubt which can only end prejudicially to the bank, the depositor and eventually to the State.

12,999. (13) It is submitted that the State can well afford to discard this source of information, and that, if the Income Tax authorities have reasonable grounds for suspecting the correctness of the declaration, the ordinary procedure laid down by the Bankers' Books Evidence Act, 1879, should be followed.

13,000. (14) Finally, it is submitted that the saving or thrift habit ought to be encouraged by the Government in every way; that the building-up of the people into independent members of the community rather than allowing them to remain in a state of dependency on the parish or on alms, is worth doing and doing well; that irritations such as are drawn attention to should be removed; and that the present affords an opportunity of showing a generous attitude towards the working classes in the matter of taxation.

[This concludes the evidence-in-chief.]

13,001. Chairman: I do not think your examination will take us very long; we have your evidence-in-chief before us and there are two main propositions which you will be examined upon?—If you please.

13,002. The first, I think, is the question of encouraging thrift by the exemption from Income Tax of interest on the savings of small depositors up to £500?—That is so.

13,003. Mr. Kerly: Is the trouble this: that the bank invests its money at interest and tax is deducted at the source before the bank gets it, and the bank wants to get repayment?—No; the real trouble that we find is that the depositors that we have in this bank are largely working-class depositors, and they, rightly or wrongly, as I say in my evidence, make the assertion that they have been taxed already on their earnings, and that now they are to be taxed again for saving. I am not prepared to argue their case on that ground at all; but I do say that in the interests of thrift we in Birmingham think we should have a much stronger case if we could say to them: "you will get the same facilities as you are allowed under the scheme for War Savings Certificates."

13,004. But apart from what I have just put to you, how are they taxed? A depositor, say, getting £25 a year does not have to pay any tax on that?—On the amount he gets over the £5, yes.

13,005. I do not follow it. I do not see how it is going to work?—As I understand the position, he has to declare on his ordinary form the amount of interest which he receives from a savings bank. If he is a taxable person he would then he deals with by the taxing authorities.

13,006. Is the objection that the depositor, treating the interest on his savings as part of his general income, pays at the appropriate rate for his income a tax upon that and the rest?—That is his contention.

13,007. Do you really suggest that the fact that the amounts paid by year bank to the depositors are disclosed to the Inland Revenue is any deterrent on saving?—Yes, I do. I think that is very mischievous. If it can possibly be avoided I think it would be wise. We try to encourage people—and I think it is the general practice in savings bank procedure—to believe that all their transactions are secret and private and that no one knows anything about them. A man, either wilfully or otherwise, does not state his interest on his form; the Surveyor of Taxes gets a return which I have to make, which discloses that he had, say, £5 7s. 4d. interest in the

year or something like that, and he comes to me and says: "how did they get to know this? You must have told them."

13,008. And you say it is your duty to tell them; you are obliged to?—I am obliged to, unless the Corporation were to take the action of paying the tax without making the declaration; but I do not think the Birmingham Corporation would do that for a moment. They have no desire to shirk their duties at all.

13,009. Do you really think that in view of the fact that a man has to disclose what he pays to his different servants and clerks—that is a general obligation—that this obligation here referred to is a serious matter?—I think it is more serious because you are dealing then with the sums that they were asked to save—their private savings, about which everybody is rather desirous of guarding the secrecy.

13,010. Mr. Holland-Martin: Do you feel the competition of the War Savings Certificates; is that part of the grievance?—No, not particularly. The Corporation feel that a man can get these certificates up to £500 free of tax, and he makes rather a good deal of it, speaking amongst his mates, and then he gets his 3½ per cent. from us, which is the highest rate the Treasury will allow us to pay; if it comes over the amount of £5 we have to declare it and he may be taxed upon it.

13,011. Mr. Boverman: Are the directors of the bank raising this on their own initiative, or at the suggestion of some of the depositors?—On the suggestion of the depositors.

13,012. Many of them?—Yes, many, and it is increasingly so. If I may give an illustration, this occurred only on Monday last. A man was anxious to deposit a sum of money in the bank, but his brother had been to him and made the statement that that he had already received a form requiring him to pay so much taxation—I think the matter was about 15s.—upon what he had in the bank. He collects his friends together in the workshop and they discuss it, and send a deputation to me. I point out that of course I can do nothing; it is a matter of the law, and while I sympathize with them, I cannot do anything more; and they say it is very hard that they should be taxed for this; their employers ask them to save their money, and they do so, some of them at great personal inconvenience; and then they feel it is a little irritation that they would like to remove.

13,013. Can a person deposit to an unlimited extent?—At the moment, yes. At the moment the Treasury restriction on savings banks is withdrawn; it was withdrawn during the course of the war, and

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I believe the phrase used was for six months afterwards; it has not yet been reimposed.

13,014. Prior to the war, the amount was limited?—That is so.

13,015. To what extent?—£300.

13,016. Have you reason to suppose it will revert to the pre-war position?—I have every reason to believe that.

13,017. Would that get rid of the difficulty—we will call it a difficulty?—Not with the class of depositors that we get.

13,018. *Dr. Stempel*: Do your depositors ever make it part of their grievance that if they were better off and were depositing in an ordinary bank, this revelation would not be made about them?—Yes, they do.

13,019. I had this statement made to me the other day; perhaps you will tell me whether it is paralleled in your experience, or whether it is common. A man says: "I have two sources of income; my wages, £3 a week; that is £150; and my bank deposit interest. My employer is compelled by law to reveal the amount of my wages; the savings bank is compelled by law to reveal the amount of my deposit interest; therefore the whole of my income is open. My employer, on the contrary, is under no compulsion

to show his books, and his bank deposit interest he need not return unless he likes, because the bank has to make no statement." Is that a common grievance?—That is so.

13,020. *Chairman*: How many depositors have you got?—About 35,000. Of course it was only started as a War Loan measure; we have no trustee savings bank in Birmingham.

13,021. Does the Corporation add to the interest at all; do they give any extra interest?—No, none whatever.

13,022. How much do they get?—3½ per cent.; they get 3½ per cent. from Government investments which are in the hands of the National Debt Commissioners; so that we are getting exactly what we pay to the depositors. The Corporation have to stand the loss.

13,023. *Mr. Marks*: Why do they not put all their money into War Savings Certificates?—If I may say so, I do not think a good many of those depositors can afford to tie up their money at all; they are of that class that must continually draw on their savings.

13,024. *Chairman*: We are much obliged to you for coming.

Mr. RICHARD BORROUGH HOPKINS, on behalf of the called and

National Federation of Iron and Steel Manufacturers, examined.

The witness named in the following statement as his evidence-in-chief:—

Qualification of Witness.

13,025. (1) I am legal adviser to the National Federation of Iron and Steel Manufacturers, and chairman of the Lincolnshire Ironmasters' Association.

13,026. (2) I have had many years' experience in the steel and iron industry.

Representative capacity.

13,027. (3) I have been requested by the National Federation of Iron and Steel Manufacturers to give evidence before the Royal Commission with regard to Income Tax and its bearing upon the iron and steel industry, and particularly as to the inequities which the existing Income Tax system inflicts upon our industry.

Particulars of National Federation of Iron and Steel Manufacturers.

13,028. (4) The National Federation of Iron and Steel Manufacturers is fully representative of the industry. The number of members is 252. The approximate wages bill of the members is £21,000,000 per annum. The estimated capital of members of the Federation approaches £150,000,000. The steel production of Great Britain is 9,539,000 tons, of which 8,694,000 are produced by members of the Federation. The products which are dealt with by the members of the Federation are pig iron (including ironstone mining), steel, billets, blooms, rails, joists, sections, plates, sheets, tin plates, bars and rods.

Introductory.

13,029. (5) The Federation is aware that the question of Income Tax is difficult and involved, and realizes the necessity, in consequence of the war, of raising exceptional revenue for the country's needs. It further realizes that an equitable charge upon income is a fair means of providing necessary revenue. It foresees that a high rate of Income Tax must, as a consequence, be imposed upon industry, and that the incidence of such tax, compared with the pre-war rate, will become an important factor in manufacturers' costings, instead of as previously, a more or less negligible quantity. In the national interest it is therefore increasingly important that Income Tax should be levied on an equitable basis which will not unnecessarily prejudice the development of the commercial interest of the country.

13,030. (6) The Federation believes that the tax, as levied under existing laws and regulations, presses

very inequitably on the iron and steel industry, having regard to its special features, such as the long period of deferment of yield in the establishment of new works, the rapid changes in the methods of production, and the extremely hazardous nature of the industry, owing to consequent scrapping of plant and the very serious interruptions, more particularly of a commercial nature, to which the industry in this country is specially subject. The question of a largely increased cost of plant and machinery for replacements, extensions, and adoption of improved methods, is a very important matter in considering the points referred to the Commission. The history of the steel trade clearly shows that it is very specially affected by all the points above mentioned, and it may probably be of assistance to the Commission to have a short account of the development of the industry in this country. I have therefore attached a schedule [not reproduced] giving some information on this point.

Depreciation.

13,031. (7) The essence of successful trading is the maintenance, in the balance sheet, of the capital of an industrial business at its initial figure. Adequate allowances should therefore be permitted for the annual reduction in value of all property which contributes to the earning of the profits assessable for Income Tax.

13,032. (8) The effective life of such property is strictly limited, and more particularly is this so in the case of plant and machinery. Its effective life should, it is submitted, be gauged in each industry by a properly constituted body, including accredited representatives of the particular trades concerned. Under the Customs and Inland Revenue Act, 1878, Section 12, the Commissioners are ordered to allow "such deduction as they think just and reasonable" for plant and machinery. The power for more adequate allowances therefore exists, but the Commissioners do not give a sufficiently wide consideration to the factors involved in each case, and are too ready to adopt the departmental view of the rate of allowance. Insufficient differentiation is made between the varying types of machinery and plant, hence the necessity for setting up of a body such as is suggested. It is felt that neither the Commissioners of Inland Revenue nor the Surveyors of Taxes possess sufficient technical knowledge to fairly pronounce upon this question.

13,033. (9) The effective life of plant and machinery being thus established, the allowance for depreciation should be fixed at a rate to coincide with the life, less an estimated scrap value, and be made—not on the diminishing value—but on the prime cost, other-

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wise the asset is never actually written off completely. 13,034. (10) The Federation represents that inadequacy in rates of depreciation causes the following drawbacks:—

- (a) it gives rise to an inequality between firms of equal capital and earning capacity according to the amount of plant employed in the business;
- (b) it results in the payment of Income Tax on sums in excess of the profits earned;
- (c) it causes the charge for obsolescence to be unduly heavy;
- (d) it gives no encouragement to manufacturers to replace old machinery by new when the efficiency of the old machinery is impaired; and
- (e) it becomes therefore a distinct detriment to the increase of production.

13,035. (11) Buildings, and more especially those which house plant and machinery, or are ancillary thereto, have a terminable life, but little more than the plant and machinery which they contain. Such buildings, being specially laid out and adapted for the purpose, have a life collateral with the plant itself. The provision under the Finance Act, 1918, Section 24 (4), of one-sixth of the annual value, falls far short of an equitable allowance to meet wear and tear, upkeep, and depreciation.

13,036. (12) In connection with buildings which carry plant and machinery, allowance should be made for depreciation of foundations. These are costly to construct, and of no value when discarded.

13,037. (13) Adequate depreciation should be allowed for fixtures, including office furniture and the cost of removals.

13,038. (14) No less a charge against the profits of a business is the gradual amortisation of capital outlay in the acquisition of leasehold premises, and the expenditure by lessees in adapting such premises to their requirements. Outlays of this nature should be permitted as a deduction spread over the term of the lease.

13,039. (15) In the matter of patents, enterprise is frequently retarded by foreign ownership. Progressive industrial firms who would spend large sums in the acquisition of patents are not encouraged to devote capital in this direction. The lives of patents are definitely terminable, and the absence of allowances for depreciation of the cost of purchasing, or taking out, letters patent acts detrimentally to the development of inventions and the fostering of new industries. Deductions should be permitted for such expenditure, to provide for writing off the cost concurrently with the expiry of the patent. Expenditure incurred in connection with trade-marks should similarly be allowed to be depreciated.

Obsolescence.

13,040. (16) Having regard to the necessity to encourage improved methods of production, obsolescence becomes a serious factor. The paramount problems now facing industrial enterprise are the necessity for increased output, and for labour-saving appliances.

13,041. (17) The Federation urges that obsolescence allowances should not be restricted to cases of strict replacement. Manufacturers should be encouraged to replace old machines by new, irrespective of type or similarity, and obsolescence allowances should be permitted for all plant or machinery which, in the opinion of the taxpayer, needs to be superseded.

13,042. (18) The Federation is of opinion that the present method in respect of obsolescence allowances is unsatisfactory, in that the charge falls against the profits of the year of replacement, and that should the profits be insufficient to meet the charge it cannot be carried forward to a succeeding year, as in the case of depreciation. An obsolescence allowance once agreed should be capable of being carried forward at the debit of a firm's profit and loss account until it is expended.

13,043. (19) It is evident to the Federation that industry requires a much-increased installation of modern labour-saving machinery. Machines may have to be scrapped, not for the purpose of being

replaced by similar machines, but, in the march of progress, to be replaced by machines of an entirely different type. Allowances for obsolescence, if liberally applied, are a sure means of affording the encouragement that is needed.

Wasting assets.

13,044. (20) Owners of mines and similar undertakings are of necessity compelled to spend large sums in the development of their properties, such, for example, as in sinking and driving, before the properties reach the stage of being income earning.

13,045. (21) The Federation considers that the redemption of such capital outlay for the period of dead work should be allowed on an equitable basis as a charge against the future earnings of the property.

13,046. (22) Deductions should be allowed for exhaustion in all material wasting assets, and for the annual waste of all inherently wasting assets.

13,047. (23) Terminable concessions in countries outside the United Kingdom should be granted an allowance for amortisation before the profits are assessed.

Bad and doubtful debts.

13,048. (24) Under the existing law, Surveyors cannot allow provisions for bad and doubtful debts, as a deduction from profits, unless the provision is earmarked to individual debts. Practically every company or firm makes such a provision of a general character. The Federation considers that general provisions should be allowed, subject to the Surveyor being satisfied as to their being of reasonable amount.

Subsidiary companies.

13,049. (25) Again, in the case of a parent company with subsidiary companies, of which it holds all the shares, Income Tax is assessed on each as a separate entity, with the result that the losses of one cannot be set off against the profits of another, as would be the case if the interests were consolidated in one company. This frequently inflicts great injustices, and I consider that under such circumstances the profits and losses of the companies should be aggregated to arrive at the assessable profits.

Housing.

13,050. (26) It is impossible to exaggerate the importance of the housing question at the present time, and the Federation suggests that if it were made clear that manufacturers were allowed to write off as a deduction from profits, for Income Tax purposes, the difference between the cost and economic value of the houses (that is to say, the value on which the net income would be a reasonable return), this would be an inducement to manufacturers to erect workmen's houses.

General taxation.

13,051. (27) The subject cannot be properly covered unless the total effect of taxation, whether imperial or local, is considered. To take one instance, there is considerable variation in practice in different parts of the country in the assessment of buildings, plant, and machinery. In many assessments across the putting down of new plant, with the result of providing increased employment for the inhabitants of the district, is held by the local assessment authorities as a reason for increasing assessment for local rating and thereby increasing the percentage of the cost of local administration borne by the industry, with a view to relieving the burden on the private ratepayer, or providing for big schemes of municipal expenditure, although the provision of this new machinery involves no additional expenditure by the local authority. In other countries, including America and Canada, it is generally understood that when a new industry is started in a district it is the duty of the local authorities to encourage it by exempting it from all taxation for an extended period. In my opinion all machinery and plant should be exempted from local taxation.

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Foreign competition.

13,052. (28) Further, I consider that under the existing law the British manufacturer is in respect of British Income Tax in a worse position than the agency branch, or subsidiary company, in this country of a foreign manufacturer or trader, and the Federation suggests that some relief is necessary both as to foreign countries and British Dominions, and also that an *ad valorem* duty should be levied by the Customs equivalent to the estimated charges of Imperial and local taxation on the same articles produced in this country. In this connection I desire to refer to the following extract from *The Times* of August 18, 1919:

"Effect of double taxation."

"Another company has just decided to transfer its head office from this country to Australia in order to avoid the burden of double taxation within the Empire. The name of this company is Robert Reid and Co., which purchases about £1,000,000 of goods yearly in this country and sells them in Australia. No profit is made in London, but the profits, after being subjected to Federal and State Income Tax, and war tax in Australia, then rank for assessment here. The inequity of double taxation within the Empire is recognised by the Government, and three years

[This concludes the evidence-in-chief.]

13,054. Chairman: You represent the National Federation of Iron and Steel Manufacturers?—I do.

13,055. Are there a great number of firms concerned?—We have practically the whole of the most important iron and steel firms in England. At the time my evidence-in-chief was prepared, we had 232; I think the number has slightly increased since. We represent a wage bill of £21,000,000 per annum, and a capital of about £150,000,000. Those are approximate figures that give some idea. I might explain to your Lordship that the Federation was really formed at the request of the Ministry of Munitions during the war, in order to be the medium of communication between the Government and all the many sections of the iron and steel trade; and the Government, of course, took good care to see that it was fully representative.

13,056. We have your paper, and you will be examined by members of the Commission who want to ask you questions on various points. There is no suggestion in your paper, so far as I have seen yet, about how we are to raise more money. Have you ever thought of that?—I have, my lord.

13,057. At the end, after you have gone through your examination on this matter, perhaps you will give some help to the Commissioners as to how to raise money?—I will do my best, my lord, but I cannot hold out any prospect, I am afraid, of very great help.

13,058. Dr. Stamp will ask you some questions first?—Shall I have any opportunity of adding something—not at any length, because I quite realise that many points in my evidence have been brought before you by many other witnesses; but I should like to add one or two words at some period.

13,059. If you would like to make a short statement now, that would be quite agreeable to us?—If you please, my lord, it will be quite short. It is merely to add by illustration one or two points.

13,060. Yes, if you will do that?—May I say a word with regard to depreciation, which is dealt with in the proof, to which we attach very great importance. Our two short submissions are: that Income Tax ought to be levied on actual profits, and not on an arbitrary sum which is fixed by a Statute to be profits, but which are not really profits at all. That is the first point. The second point is that it is an inherent necessity that our capital should be preserved intact, and that such allowances ought to be made as will enable that to be done. Without labouring it at all, we submit that we should be allowed to make such reserve, before being assessed to Income Tax, as will

ago it allowed a rebate of taxation here in respect of profits already taxed in the Dominions. But, owing to the high level of taxation this rebate is not enough, and one by one companies subject to the burden are transferring their head offices to the countries in which they make their profits. This country is the loser by the process, since it tends to weaken trade relations between the Dominions and the Mother Country. No doubt this aspect of double taxation will be dealt with by the Royal Commission which is now investigating the question of Income Tax reform."

Conclusion.

13,063. (29) The Federation urges upon the Royal Commission the necessity of substituting, for the present empirical system of assessment, one scientifically devised which will impose a minimum of hardship upon traders during the difficult years that are ahead. The goodwill of taxpayers is an asset of much value to the Inland Revenue. This can best be gained by a publicity in the methods of assessment for Income Tax such as will put the taxpayer in possession of all information pertaining to the system under which he is taxed. The indubitable right of the taxpayer to know how he is being taxed can be met by making public, at reasonable cost, the codes of instructions at present issued to Surveyors, and by publishing new and important official rulings as they arise

provide for the full depreciation of our plant. May I anticipate a little of your lordship's criticism by saying that we believe, if provision of that kind were made, the Revenue would not be an ultimate loser; because our plant being in a much better condition, and our works being remodelled by these reserves, they would produce larger profits, which would become liable to Income Tax when they were in operation.

12,061. Is that the suggestion that you were going to make to us at the end, or are we going to get some additional ones? You were very kindly going to help us in regard to raising the money that you are all wanting us to take away from the Revenue, and it is very pleasant for us to have any one come with that intention?—I am afraid I only promised your lordship to try. I am quite sure Dr. Stamp will tell me, but I believe I am right in saying that that principle that we ask for is, to some extent, recognized in shipping; that they are allowed to build up certain reserves on a percentage of the value of their ships for the purpose which I have mentioned. We ask for something like that. The two classes of property we ask you to deal with are the machinery and the building. With regard to our buildings, we are in rather a peculiar position. Because of the very heavy nature of our machinery, we have very large sums to spend on foundations, which are quite unusual, and we ask that some special consideration should be given with regard to that. With regard to the buildings, I want to give you two or three figures. The real depreciation we get, apart from the recent Act, is the difference between the gross value and the assessable value, which is one-sixth. Now if you take a building that cost £12,000, the gross assessment at, say, £600, and then the net Schedule A assessment, taking one-sixth off, amounts to £500, which is the value on which the duty is assessed. The allowance would therefore be £100 for that depreciation. Taking that on the capital value of £12,000, it does not amount to 1 per cent.; it is .83 per cent.

13,062. Have you had a great deal of extra depreciation during the war?—We have.

13,063. Have you made a lot of money in your district during the war?—I have every desire to answer the question, but I think the difficulty is this. Some sections of the steel trade, I should think, have; others have not; and as I say, there is very great doubt whether we ourselves know what we have done. Owing to the impossibility of keeping the plant in order, we are now being faced with so much deferred repairs; there is the uncertain question of stocks; there are so many uncertainties for the future,

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that I believe it is almost impossible for anyone in a large iron and steel works, to say for the next two or three years whether they have made money or not. For a given period, a short period, undoubtedly money has been made; but against that there are so many uncertainties that I do not believe it is possible, taking the broader view of it, to say whether we have made money or not.

13,064. With regard to the companies that you represent, have you gone into the dividend paying capacity of them?—No, we do not at all deal with any of the finances of the individual companies.

13,065. Supposing you had had great financial success in your undertakings, I was only wondering on what basis you are coming before us to get a reduction?—I do not think we have had any exceptionally great financial benefit. The Inland Revenue, of course, have all our figures. I have never heard it suggested that, taking the iron and steel trade as a whole, there has been anything in the nature of extraordinary profits. If there have been, the Government have taken it back from us very quickly, because we have had to pay Munitions Levy and Excess Profits Duty.

13,066. But have you had allowed some very large extra depreciation during the last few years?—I think we have had allowed (Dr. Stamp will correct me if I am wrong) about 15 per cent. as a maximum; I am not quite sure of that figure.

13,067. Have you not had some allowances on account of the works that you put up to carry out munition work?—Certainly. Those works have been put up for national purposes under conditions which have rendered it utterly impossible to put them up on any commercial basis.

13,068. Do you utilise these works now?—Some of them. Some of them are not quite in operation and some of them are in operation.

13,069. I was just making these general inquiries of you?—I am pleased if I can answer them. So far as I know no allowances have been made which put us in as good a position with regard to extension works as we should have been in if we had put the works up before the war and paid the whole cost ourselves.

13,070. That is quite reasonable?—Yes, I should say that. I have some experience in my own company. We have been putting up some works, but owing to the increased cost and owing to the difficulty of getting good material I should say we would have been better off decidedly before the war if we had put them up ourselves and paid the whole cost. I have been told that in some other countries the commercial interests are treated better than in England, but I have not got the information in a reliable form. They are more in the nature of trade reports, but if I might very respectfully suggest it to your lordship, no doubt you would have the means of getting that information, which might be of assistance to you. Then on the question of obsolescence, I wanted to add something. That is of vital importance to us, and you will notice that I attach to my proof a schedule [not reproduced]. I did that because I did not wish to make the evidence too long. That schedule sets out concisely some special conditions as to the steel trade. I do not propose to read it or do more than say that the object of setting it out is to enable the Commission to realize the special difficulties we have, and the reason we ask for these allowances. I will only read one point, if I may direct your attention to the last paragraph: "I believe that in any up-to-date steel works it has been necessary, owing to the special circumstances, for a long period of years to expend on the works an amount equal to the approximate initial cost on an average about once in each twelve years." The previous part of the schedule will give your lordship the history of the complete revolutions in the practice of making steel, which have led to that result. The point I want to make is that your lordship will see that an allowance of 5 per cent. depreciation is quite insufficient when you have to meet the facts of which that is a summary. These facts in this schedule have been produced to the Board of Inland Revenue, and I do not think I am saying too much when I say their accuracy has been proved to their satisfaction.

13,071. Have you concluded your personal statement now?—I am entirely in your lordship's hands; I should have liked to add one or two points.

13,072. With pleasure. We have your evidence in chief before us?—I will not repeat anything there.

13,073. If you would like to say something in addition to what you have already said it will be quite agreeable to the Commission?—If you please. There is a paragraph that deals with the rates of exchanges between different countries. The point I want to make is that the industry which has one of the best prospects of doing something in that direction is the iron and steel trade. The iron and steel trade, with its allied trades, such as shipbuilding and engineering, are amongst, if not the largest employers of labour in this country, and also pay extremely high wages to their labour. Before the war we produced about 7,000,000 tons of steel in England, of which we exported 5,000,000 tons. We are now up against enormously increased American competition. I could say a great deal upon that, but I do not want to take up your time. Also, America is the country, if I may say so, with all friendliness, that we want to deal with as to exchange, and get it down as quickly as possible for many reasons. At present we are absolutely handicapped in competing with America for reasons which are set out fully in this schedule. I am quite satisfied that we have no chance of competing or helping in the way I have mentioned unless we can practically remodel (I am speaking generally) a very large proportion of the works on the lines set out there, which I will not repeat. Income Tax is so heavy that, unless we can be helped by some allowances to build up reserves such as I have mentioned, I do not believe we can do it with the present cost of material and plant. That is the ground, shortly, on which I ventured to suggest to your lordship this central body on which there should be impartial representatives, someone having technical knowledge of this industry. I am not suggesting that any wild-cat scheme should be encouraged in that way, but I believe if the Inland Revenue had some technical advice—I have not a single word to say against our experience of the Inland Revenue, but I believe if they could in some way gather round themselves technical advice in any well-considered scheme of that kind, the result of what I am asking would be to give a national benefit in the reduction of cost of production and other matters, and would not ultimately involve a loss to the Revenue, because this would result equally in increased profits, and whatever we do the Revenue goes on for ever. I hope I have made my point clear to your lordship. Then there is another thing about obsolescence. There is at present a variation in the practice. I could give you all the details, but the net result is that in depreciation allowances if you have not enough profit one year you carry forward the loss against the next year until you can wipe it off. In obsolescence you only have a claim against the particular year, and if in that year you have not enough profit to clear off your obsolescence allowance you do not get it. We ask that obsolescence allowances should be put on the same principle as depreciation allowances, and it is even more necessary because, as your lordship will see, if you undertake a new departure in remodelling your works it is a much larger item to deal with than an ordinary annual depreciation, and you may not have enough profit to do it. We are immediately faced with that now. I believe myself we nearly all of us have to make very large alterations in the increased use of electricity, which will again involve something like one of the changes which is set out in the schedule.

After what you have said, my lord, about wasting assets, I merely adopt the evidence you have already had before you, if I may just add one illustration, because I think it brings out clearly what the position is. If a manufacturer purchases a ton of minerals from a producer's works abroad or elsewhere, he is allowed to add all the costs of transit in bringing that mineral to his factory to the prime cost of the material, and debit the whole of that cost to the finished article at his works before he is assessed for Income Tax. Your lordship sees if he buys the mineral from another producer he merely charges

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the full cost. If the manufacturer, instead of purchasing the mineral in this way, purchases in the form of mineral lying in its natural position below the ground in a foreign country—I take a foreign country because it is important to us; I do not know that there is much difference in its being abroad—he is not permitted to debit the full cost of producing his finished article. I will take a typical case, which is one in practice: supposing a firm buys a mine abroad containing a million tons of mineral for £300,000. You have got the prime cost of that mineral, 4s. a ton. The real cost when it gets to your works in England must be 4s., plus the cost of the mining, plus the cost of transport; but the present incidence of Income Tax does not allow you to include that 4s., the prime cost, if you carry on the mine yourself, but if you buy the mineral from another man, he, of course, adds to his cost enough to redeem his prime expenditure; you pay him a price for it which includes that, and then you debit it. The point I want to make is this, that you penalize the enterprising man who acts in that way instead of buying his minerals abroad and paying a profit to some foreign country, often a very large one, and also getting irregular supplies, which is very important to us. The man who is an enterprising man says, "I will get my regular supplies; I will take the risk of carrying on a mine; I will get it and bring it myself." You penalize him because you say, "we will not allow you to debit the cost of that material," whereas if he buys it from a foreigner he debits the whole lot.

13,074. What do you want us to do?—I say in that case I think that is part of the wasting asset; it is an illustration of that. When the Income Tax was very low it did not matter so much, but I assure your lordship that from a commercial point of view if the present system is going to continue it will prevent a great deal of enterprise. You cannot afford to buy mines and run them yourself and take all the risk and then be in a worse position to the extent of, it may be 4s. a ton, or the Income Tax on it, than if you got it from a foreigner. If I have made my point clear I do not want to enlarge upon it.

13,075. It is clear enough to know what you want?—If I have made that instance clear, because it is such a typical one in our industry, then I think I may leave it.

13,076. That pertains to every trade and to everybody in a similar position to yourself?—It would, my lord, if there are any, but at the moment I cannot think of any industry which requires this material. It might apply in some of the chemical trades—nitrate for instance. It would apply to any other trade which had the same conditions as we have, undoubtedly. I cannot understand some of the legal decisions on this. One of the judges with regard to a nitrate company which was working out its nitrate quickly gave a learned judgment; "The bed of stuff is bought with capital, and is capital." That would seem to involve that the bed of stuff should appear on the balance sheet of the company at its original cost, although it has been totally exhausted, and you have paid Income Tax on the money obtained by exhausting it. I confess I cannot follow the arguments. We would all be bankrupt if we did that kind of thing.

13,077. Yes, but you do not do that?—We do not, because we have to provide for it out of profit, but we submit it is an injustice, and I hope your lordship will not think we take entirely a narrow view. We say it is against the interest of the country that a system should be continued which prevents enterprise which would be of benefit to the country. The same remarks apply to leasehold property. As to patents we should have a good deal to say if time permitted. We buy foreign and English patents. If some of us told your lordship how many we buy before we get one that is worth anything, you might be surprised, but we have no means at present of writing off the cost of those; and again I submit it is a deterrent to people with the present very high Income Tax in getting them. We ask that we should be allowed to write off the cost during the life of the patents.

We especially wish to mention the question of a parent company and a subsidiary company, which

affects us a good deal. Your lordship knows that a private firm can pool all of them; if we happen to be a company we cannot. We ask that we should be put in the same position as a private firm.

I dare not do more than mention the next question, because we are very anxious to put our views before you on the housing question, and how houses are dealt with in connection with works. Your Lordship is very indulgent to me about time, and I will not do more than mention it. I have myself as Chairman in Lincolnshire a scheme in hand for putting up workmen's houses. We do attach very great importance to the possibility of some relief.

13,078. Are you doing it by yourself?—We are at the moment considering what we should do. We have bought a large area of land ourselves; we have got schemes laid out by three selected architects, the best people we could get; we have had negotiations with the local authority and have got everything ready. I do not think it would take very long to tell your lordship what I want, if you have time for it.

13,079. Chairman: Do you want some relief or some help in connection with this building scheme that the Income Tax Commission could give you?—Yes, we do, from the Commission.

13,080. What is the relief?—The relief is this, and I can give you the figures quickly. We have got tenders in now for typical houses containing a sitting room, a kitchen, three bedrooms, a bathroom and a little garden, built also 'ten to the acre. The tenders are £220 each including roads and drainage. Assuming we build them ourselves we cannot raise the money under 6 per cent. under present conditions. That means we have £55 a year to pay for the money for building each house. We have discussed it with our workpeople; I have had many meetings with them myself, and we are on entirely friendly terms with them in this matter, and they say the highest rent they can afford to pay is 10s. a week, they paying the rates. I agree with them in that myself; in many places they could not, but these are highly paid men. The position your lordship sees is this, that we get from the tenant £26 per year. We estimate that the cost of tax, repairs, management, outside painting and all that kind of thing will absorb 60 a year, giving us £20. Taking that £20 at 16 years' purchase, that represents the economic value of that house at £320, as one of our assets which has cost us £220. The point I want to make is that in these cases—and we have a great many of them up and down the country—these houses are just as much necessary for running the works as the plant or trade buildings. None of us would build houses as an investment—not for a moment. We may be influenced by a desire to give our workpeople better conditions, but apart from that it is a trade necessity. The reason for it in Lincolnshire, of which I can speak myself, is that in a district already under-housed there is upwards of 27,000,000 being spent in extension of iron and steel works to meet Government requirements. Therefore at one sweep, so to speak, you have got to provide a new town. Something like 4,000 houses will be required within the next 4, 5, 6, 7 or 8 years, and that will more than double the whole place. We must, if we do this, write down the loss out of profits; that is all we can do. We cannot allow a house that has cost £220, and which is only economically worth £320, to stand in our balance sheet at £220. The Government are extremely anxious for houses. We are quite willing to do our share, not only for commercial reasons, but we feel we ought to as they are for our workpeople. What I ask is that you would recommend that whatever the Inland Revenue are satisfied is the difference between the economic value of the houses and the cost, we should be allowed to write down out of profits before Income Tax is assessed. I put it to you, my lord—this is on the fringe of your lordship's Commission possibly, but it is one of the most important national questions, perhaps, that there is at the present moment—how are these houses going to be built if we have to face spending £220 to get £320 worth, and then pay 6s. in the £ on the money we write off to get back our loss? I cannot see how commercially this can be done, I have other figures. We

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have the option of doing this through public utility societies.

13,081. I was going to ask you about that?—I can give you the corresponding figures then. Your house costs £220. The Government lends you 75 per cent. of that; that is £165. You have to find yourselves £220. The net revenue is £30, as I have given your lordship the figure. The annual payment to the Government—we do not at present exactly know the rate—is to repay capital and interest in 50 years, and I am assuming 5½ per cent., which I am told is the probable figure; that is £38 4s. 6d. a year that you have to pay the Government on a loan of three-quarters of the cost. Of that they allow you to write off 40 per cent., that is £15 6s. 0d. That reduces the net payment to the Government to £22 18s. 6d. against a total receipt of £20, so that you not only get no interest on the £220 you put in yourself, but you have to find out of your own money something to make up the deficit on the Government's interest.

13,082. What is the economic value of this property to your works, because you might build houses (I can conceive it possible, because I know it has been done) not to bring in profit at all as an investment, but they add to the value of your works altogether by the men living there and being there. Is it to be considered solely as a question of interest upon your investment?—I agree. Your lordship's point is an absolutely good one. It is a great benefit to have them, but that benefit can only be interpreted in your increased profits, which, if they arrive, we have to pay Income Tax on.

13,083. Yes, I understand. Is there anything else you wish to say?—I hope it has not been a waste of time to put that.

13,084. Oh, no?—That really does apply all through the country to very many iron and steel works on account of the extensions.

13,085. Yes, I understand that?—Then the other matters not in my proof I may just mention. At present a taxpayer has 21 days to appeal against an assessment. It is utterly insufficient. The Surveyor, who knows infinitely more about it than we do, has 12 months after the year. I am told that that is the fact—I am sorry if it is not. I suggest that your lordship should recommend that we should have as much time as the expert. Then there is another point that we have some difficulty about—these are very simple, short points. Under the Finance Act of 1918 there is power with regard to depreciation for a considerable number of people in a trade to make a special application to the Board of Referees, but whatever a "considerable number" of people say to you must have that number before you can move. We suggest that if any individual trader chooses to go to the Referees he might be allowed to do so. I will adopt all that has been said about the double rate of Income Tax within the Empire. There have been three or four witnesses. I will only say that I am asked by the steel trade to say that that question peculiarly affects them. They wish strongly to confirm as far as they are able the evidence already given. The last point I am going to trouble your lordship on is this: we also ask that your lordship would recommend that any finished goods which come into this country from our competitors abroad should pay the same rate of Income Tax. Whoever sells them or brings them here should pay a tax equivalent to the tax in this country. Your lordship knows the point. We say they ought not to come in, but if they are goods which take the work and the opportunity of earning wages out of our people here they ought to pay the same rate of taxation; and to show that we then shall be very much worse off than other countries, may I without reading it refer your lordship, so that it will get on to the note, to the statement of import duties levied in foreign countries on iron and steel, published by the Board of Trade, dated December, 1913, pages 351 to 492, and I think that if our competitors are simply called upon to pay an amount equivalent to Income Tax on the finished goods which come in they will be a great deal better off compared with us than we shall be in their country when we have paid what we have to pay for our goods which

go there. The witnesses whose evidence I adopt, to save time, are Sir Frederick Young, Sir C. Campbell McLeod, Sir James Martin, the Right Hon. Sir A. Williamson and Sir William Vestey, who have already been examined.

13,086. You have seen their evidence?—I have read their evidence, and whilst I do not adopt the whole of it, because a good deal of it does not relate to the iron and steel industry, I do adopt the portion which is applicable to that industry, and I should only be repeating practically what they have said if I took up your lordship's time.

13,087. You adopt their suggestions?—So far as regards the portion which is applicable to our industry.

13,088. Dr. Stamp: Taking your evidence this afternoon before the printed statement, when you were referring to what you regard as the insufficiency of the present legal allowance in respect of depreciation of buildings, you gave us an interesting example; I think it ran something like this, a value of £12,000, a gross assessment to Schedule A £600 and a net assessment of £500; so that the difference between the gross and the net being £100, that represented the annual allowance, and was less than one per cent., namely, .84; was that right?—Yes.

13,089. The Schedule A assessment covers the land as well as the buildings, does it not?—Yes.

13,090. Therefore I take it that the value with which you have compared it, the £12,000, also covers the land?—I think it should do; I do not think the point had occurred to me.

13,091. Would you suggest how much on an average, on the general lines of that £12,000, might be taken to be land—one-fifth or one-sixth?—Oh, dear, no!

13,092. Not so much?—It is negligible. Steel works are never put up on expensive land, as his lordship knows. They are usually put up on land worth £15 to £20 an acre, or something like that, and the part taken up by a building is almost negligible.

13,093. Unless there is to be some special legislative provision for your particular class of buildings—is not that what you suggest?—No.

13,094. You want a share in a general provision?—I do not mind very much in what form the relief is given so long as we get it. I say it is necessary for our industry. If any other industry can show that it is necessary for it also, it ought to have it, but I do not represent them to-day.

13,095. I would suggest to you that there must be a large number of buildings that might fall under your suggestion in which the land would be an appreciable part of the £12,000?—I do not think any large proportion. I can quite see it might where you have an alteration in a steel works in the middle of a big town.

13,096. I suggest it might be as high as a quarter of the total?—I really do not think I can assent to that.

13,097. Are you acquainted with the rating methods of arriving at the values?—Yes.

13,098. I take it the gross Schedule A assessment is usually the same as the gross estimated rental?—Usually.

13,099. You have reckoned your gross assessment at 5 per cent. apparently on the total amount?—Yes.

13,100. Would that be a general figure to be adopted by a rating authority?—I myself was legal adviser to a borough for 20 years, and I have never known myself what the practice was. I can tell you the principle. The principle, of course, is what the hypothetical tenant would give for it as rent from year to year. I do not think on the true principle of local rating the capital cost is material at all.

13,101. Assume that it is not; still there must be a relationship between the two; what would that relationship be as a rule?—I do not think there is one.

13,102. There may not be a relationship which is used as a rule as a constant, but if you put a number of cases you would have a relation between the two aggregates?—I do not think there is in regard to iron and steel works the slightest relation. I admit if you have a house which is let to a tenant for a rent, then you have the evidence.

13,103. I will put it in this way: supposing you took a large number of cases and added up the total gross estimated rental, the assessment to poor rate

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and you also added up all the capital costs and got the two totals, what percentage do you think one would be of the other?—I do not think there would be any relation.

13,104. One of them must be a percentage of the other, surely?—Not necessarily. In one case it would be one percentage, and in another case another percentage.

13,105. No; I have asked you to aggregate them?—I am sure I could not do that.

13,106. I suggest it would be very much higher than 5 per cent.?—I really do not know. I have never yet heard it suggested that that was any true principle of rating.

13,107. I am not suggesting that there is any principle there. I only ask you what the relationship would be between the two aggregates?—As I say, I do not think there is any basis on which you can proceed.

I have attended the Court in a very large number of rating appeals with eminent counsel, and I never heard it suggested.

13,108. You yourself have given us an example in which you have put a relationship of 5 per cent.?—I have.

13,109. I suggest to you that that is not the relationship which would usually be found?—I do not disagree, only I do not know that there is a general or even typical relationship.

13,110. I am not asking you what the relationship is now. I suggest that your example might be rendered in this way: £12,000 the whole value; £9,600 or £10,000 for the value of the buildings, gross Schedule A £800, net Schedule A one-sixth off, giving you your allowance of £134?—Yes.

13,111. Instead of being 8 per cent. it is 1·4 per cent.?—Quite. May I answer in this way: I admit the possibility, but, on the other hand, I think you are always fair in admitting, and you will admit that it might be a case in which the land was not worth 65, and yet the buildings would be the same.

13,112. Freely?—You must test it both ways.

13,113. I am only anxious to take the mean case—nothing extreme. I suggest to you the allowance might be quite as high as 1·4 on the buildings, rather than 8 which you put to us as a typical case?—Or it might be even less than the figure I gave.

13,114. In how many cases do you think the buildings ought to be written off?—I admit the difficulty of that. The buildings are subject to such varying conditions of wear and tear according to the machinery in them, I admit that must be a matter of inquiry.

13,115. Are there, in fact, buildings that have been up to 30 years?—I dare say.

13,116. Or 60?—I dare say.

13,117. Or even 50?—Well, I do not know of any. I think it might be possible, but I would be very sorry to see them in any works that I have anything to do with.

13,118. How many years would I take to write off at compound interest?—I will accept whatever figure you give me; I am quite sure you know.

13,119. Dealing now with the question of reserve, you made a strong point that, in the particular circumstances of your industry, it is essential that you should be allowed to put on one side these considerable sums for protecting your industry?—Yes.

13,120. Is your industry peculiar in that respect? Could the same argument be put up for all other industries, perhaps not for the same reason?—My difficulty is that I do not know much about other industries. I think you will agree that our industry is peculiar in this way, that owing to the necessities of the war we have had an utterly abnormal increase of production. The only trades I have any real experience of are iron and steel and coal and certain kinds of textile trades, so I cannot answer as to the others. I wanted to make this clear, that owing to so much iron and steel being required for Government purposes, we have had an utterly abnormal increase. We have had within three or four years what would have been a normal increase in the works in perhaps 20 years. Perhaps Dr. Stamp would almost accept that. The production has increased from 7,000,000 to 14,000,000 tons, approximately; that does introduce a peculiarly difficult position for many works. Some of these works that have been put up

recently are up-to-date and well-equipped works. If we are to keep employment in the country, and if we are to be able to export our productions, we must get our old works up to the same standard of efficiency as the new ones; and whilst I cannot say that there are no other industries in the country which may be affected in the same way, I do not know of one. It could only be an industry where you have got this absolutely abnormal increase all coming at once.

13,121. Have you had large allowances from the Ministry of Munitions under the Munitions Levy or from the Board of Inland Revenue under the Excess Profits Duty for that considerable expenditure during the war? You have been allowed to write down out of your profits, have you not, a large part of the capital expenditure?—Yes.

13,122. On various grounds—obsolescence, redundancy, and the fact that they would not be so valuable after the war owing to the fact of the large production in the market?—So far as I know, the only ground has been the increased cost of putting up the works during the war. I do not remember that obsolescence entered into those discussions. I had a good many of them.

13,123. Have you had no occasions where it has been alleged that the output after the war could not be taken off the market, and therefore there was a redundancy of plant and buildings?—I can only say I do not remember them.

13,124. What sort of figure has the capital figure been written down to, from £100 down to what, in your experience for the four years of war?—There has been so much variation. Do you want an all-round figure?

13,125. Yes, roughly?—I think if I said from 40 to 50 per cent.—

13,126. By agreements with the Ministry and so on, you have got anything from 50 to 80 per cent. written off the total expenditure?—I do not know anything of 80 per cent. in the iron and steel trade.

13,127. Mr. McLintock: Seventy-five per cent.?—I do not know 75 per cent.; but I would not say it was not so. The highest I know myself is, I think, 55 per cent., but if you wish to have that, I would like to have an opportunity of correcting it if I am wrong.

13,128. Dr. Stamp: Would you accept it from me that quite commonly allowances down to 30 per cent. or 20 per cent. of the value have been made, that is to say, 70 or 80 per cent. of the whole cost has been deducted from the profits?—I cannot deny it but I have no knowledge of such cases. I wish you had told me two or three years ago that it was so.

13,129. Perhaps we did not know as much two or three years ago. I am talking about what the Ministry settled and allowed you as a deduction from the profits?—I do not know myself of anything above; 55 per cent. is the maximum that I know of.

13,130. Reverting to the same question, there might be, even with the knowledge that you have which you think is limited, in your judgment, other industries which would have something of the same claim or a similar claim to make reserves on other grounds—foreign competition?—It may be so.

13,131. Would you agree with this proposition, that if this equitable claim to put aside profits and reserves is at all general, we are very much in this position, looking at it from the point of view of the State? We have a certain amount of revenue to raise, and it has to be raised from industry. The effect of allowing anything like a general reserve is a general rise in the rate of tax upon the remaining profit?—Yes.

13,132. If you are told that you have to pay £100 and no less, does it much matter what you compare it with—whether you measure it by your height or weight or the height of St. Paul's, if you have got a certain sum to raise?—No.

13,133. Is it not real justice in your case only in so far as you can distinguish it from other trades?—I do not think so. Supposing, for instance, you were asked to pay for anything you bought from a tradesman a sum which you thought was unfair, and the tradesman answered, "Oh, well, if I charge you less I shall have to charge somebody else more," is

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it any justification—perhaps that is not an exact analogy.

13,134. That is not quite my point?—No, it is not, I agree, but I think this is the answer: assuming the matter to be unfair and against the national interest, is not the obligation on you to devise an equitable method, I put it on that ground. Then may I suggest that it does not relieve you of the obligation not to continue to perpetrate the injustice. You have to go on some equitable system in getting the increase, which will avoid injustice, if you can.

13,135. The point is this, that in so far as this claim for reserves can be generalized it is in ordinary parlance a washout. You cannot do anything with it, because the rate of tax goes up *pro tanto*; therefore if you have a claim at all it is based on distinguishing your industry from others?—Yes.

13,136. You do claim that your industry is really more entitled to this reserve than others?—I do, and I can claim from what I know of our industry that I believe it has the special grounds.

13,137. Did not you tell me a little while ago in answer to another question that you did not know anything of other industries?—That is why I want to guard myself. So far as my information goes we have special grounds. I should not like to say that there may not be some other industry which may not have similar grounds, but I do not know, and therefore I do not want to say so. I can only say, so far as my knowledge goes, I believe we have special grounds.

13,138. I will not pursue that beyond saying that it really comes to this, that you think you have special grounds in your industry, but you have no means of comparing it with others, and you cannot assert it as a fact?—I can say, and I think I have said, that I believe we have got good grounds in our industry for asking for it, and that if the Inland Revenue would concede it it would ultimately pay them very well to do so.

13,139. Coming now to your points about obsolescence, you were pointing out that obsolescence being allowed in one year as a large sum may have the effect of turning a considerable profit into a minus quantity?—Yes.

13,140. And the effect of that would be that you would lose in so far as it was a minus quantity in that you would not get the tax allowance?—That is so.

13,141. You have a three years' average generally in your business?—Yes.

13,142. Would it not be truer to say that the obsolescence must be greater than three years' profits before that effect comes about? Supposing you do get a minus quantity in one year, it is set against profits of two other years which are plus quantities before you divide by three?—Yes.

13,143. Therefore it has to turn the one year into such a large minus that it wipes out the profits of the other two years before you get a minus average?—Of course, if you say that I accept it at once.

13,144. Well, it is rather important?—I accept it at once so far as the average is concerned.

13,145. I was going to ask whether you can give us any instances of obsolescence resulting in minus averages?—I am told there have been, but I cannot give you the instances.

13,146. In recent years, with the war profits?—During the war, no—I cannot say during the war.

13,147. You think that the minus averages were before the war?—Yes, but I cannot give you them; I will get them for you if you attach importance to them—I will try to.

13,148. It is rather important to see how far this claim rests upon the misapprehension about the single year, and how far it is a real claim, and how far you have taken into consideration the real facts?—I have been told by our accountants and people that it is confined to a single year; if they are wrong I accept what you say, of course.

13,149. I only ask whether you can give instances of minus averages arising by obsolescence?—I am told we can.

13,150. Coming now to the question of the wasting asset, you refer to the difficulty you are in in

deciding upon spending money, we will say £100,000, in the purchase of minerals abroad in the ground, owing to the knowledge that you will have to suffer this peculiar burden. Supposing you were faced with the proposition that you should buy such a property at £100,000, and with the knowledge of this extraordinary burden that is on you you were to say to yourselves, "We will give £80,000 for it, and not £100,000," and now if this relief is granted to you would you go to them and offer £100,000?—I do not say that we should at all.

13,151. What I want to get at is this. Does the Income Tax burden enter into your mind at all when you are negotiating a price; do you take into consideration the big burden and the knowledge that you have to bear it?—Quite frankly, before the war the Income Tax was so small that I do not say this was an important factor.

13,152. I am coming to the present effect on your mind now?—It certainly would be an important factor now.

13,153. So if you got an allowance the result of it might be that you would be prepared to pay a higher price?—I suppose it might, yes; I think it is possible.

13,154. Do we take it that this burden being as it is, you feel that you bear it out of your profits or that you charge the consumer more?—I should say Yes to both those questions, if we can; but you know that so much of our stuff goes abroad, and we are regulated by international conditions. Of course, we naturally get the best price we can—I will not say always the highest price we can, but the best price we think it is advisable to get.

13,155. Your feeling, then, is that it would not benefit the consumer, and that you would reap the whole benefit of the change?—I would not say it would not benefit the consumer.

13,156. You think it might benefit both?—I think that allowance might. I can conceive conditions in which it might enable us to keep up an output and sell cheaper if we had that allowance. I can quite conceive those conditions, and of course the greater the output the cheaper the consumer gets it. I would like to repeat that you have always got an advantage in an allowance like that. When you say we put it into our pockets you might almost say, might not you, "put it into our partnership," because the moment we obtain a larger profit you get your share in increased tax; is not that a complete answer?

13,157. I am much more interested in finding from you what you imagine would be the effect of this change that you are talking for?—If you put us as to the mines in the same position as the foreigner who gets his profit if he sells his material to us I can quite believe that that might be a turning point in deciding whether we could go in for a certain scheme or not.

13,158. In brief, then, the effect is threefold: you think if the Income Tax burden were lightened you might be prepared to take up a particular proposition abroad at a price that you cannot look at now; another effect might be that you might get a little more profit for yourself; the third effect might be that the consumer might benefit?—Yes, it might be any of those things.

13,159. Coming briefly to the question of housing that you raised, you are really in this position, that you think you are suffering a loss in this very necessary expenditure, and you want a State subsidy for that loss?—Yes, if you put it in that way; but you would not be offended if I put it in this way, that we want to stop the Revenue taking money which does not belong to them, to which they have no right, which will aggravate our loss.

13,160. The effect of doing what you want would be to give you 6s. in the £ on that expenditure?—It would not be to give it to us at all; it would simply make us lose 6s. in the £ less, and prevent the Revenue inflicting Income Tax on our loss, which they have no legitimate right to do.

13,161. It would have this effect compared with the present way of estimating profits, that it would decrease your profits that are assessable by 6s. in the £ on this expenditure or loss?—It would decrease the figure which for assessment is called profit, but it would not increase our real profits.

13,162. Is not the effect a subsidy amounting to 6s. in the £ on the difference as compared with the present position?—With every desire in the world to

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accept your statement, I cannot accept it in that way, because I say it is not a subsidy when you do not charge something which you have no moral right to charge.

13,163. Very well, we will leave that word out. Would the effect be the same if the State were to say to you, instead of giving you this Income Tax allowance, we will give you an allowance of an amount equal to 3 of this loss; would the financial effect for your concerns be the same?—I really cannot accept the word.

13,164. I have withdrawn the word subsidy?—I cannot accept that they are giving us anything; I only accept this, that they are refraining from committing an extortion.

13,165. I am only asking for a comparison of figures. Would the net financial effect to you be the same if the State were to make you a present, or were to hand over to you an amount equal to 3 of the expenditure, as if you had this Income Tax allowance—as a matter of arithmetic, not with any names or titles?—One has to be careful. If we get it in a subsidy should we have to pay Income Tax on it?

13,166. I am assuming it would not have to pay Income tax?—I think it would. I think it would mean that we should be so much better off.

13,167. You appreciate the sort of relief you would get would fluctuate with the normal rate of tax?—Yes.

13,168. Would that be a proper form of relief for a thing like this? Do you not think it would be far better if the thing were dealt with on its merits by a fixed sum from the State rather than depend on a fluctuating rate of tax?—I think it would, but if it cannot be, I answer this: I think it is an alteration that ought to be made, because it is at present a loss which we ought to set off against our profits. You might as well ask to levy your assessment on all our profits and exclude our losses altogether. Why should you exclude this particular loss any more than a bad debt that we make, or a bad contract that we take, or any other loss? This is a loss necessary for the carrying on of our business.

13,169. I understand the distinction you are drawing, and I will ask you a general question apart from your particular case. Would you agree that it is sounder from the political point of view, from a Governmental point of view, to give all assistance to industry by direct methods rather than by hidden grants through taxation?—No, I think not, because I think it is equally sound to say, "we will allow you to set off a loss if we are satisfied." And I quite admit that I only ask this should apply where the Inland Revenue are satisfied that the houses are necessary in connection with the business.

13,170. I have taken you away from your own case. The question I was asking is a question of general policy. Is it not better in any relations the State may have with industry that the form of assistance should be given by direct methods rather than by indirect methods?—No, I do not think it is sounder, because, as I say, this is not an assistance at all. We necessarily make this loss, and in arriving at the necessary profit we ought to have the same right to write off this loss as any other loss. It does not matter to me whether I lose it in houses or lose it in a bad debt. I have lost so much money, and as long as it is a legitimate expense of a business I say it is quite sound to write it off.

13,171. I wanted to take you away from your own case, and to ask you, where the State does assist industry or private persons in any matter at all, relating to the erection of houses or anything similar to that, whether the assistance should not as a general rule and principle be by direct methods rather than by discriminations in taxation?—I hope I am not giving you the impression of quibbling—I do not want to—but I cannot accept your word assistance. I do not call it an assistance to say, we will not charge you with something we have no right to. Subject to that I agree with you—it may be.

13,172. I will not pursue it further. You refer to the question of 81 days' notice for appeal?—Yes.

13,173. What length of time do you think it should be extended to?—I can only say I have been pressed to bring that forward, but I have had a great many

appeals myself to the Inland Revenue, and have never known them take advantage of that clause.

13,174. I was going to ask you if you could give me an instance?—No, I think the practice has been very much better than the law. I never found that the Inland Revenue took advantage of it.

13,175. It is not that the appeal has to be prosecuted within 21 days; it is only that notice has to be given?—The practical difficulty is that most of our companies only meet once a month. It is quite true to say that some official may give the notice on his own account, but very often there is not a meeting within 21 days.

13,176. Double this period would satisfy you?—In practice the Inland Revenue, I believe, allow you to do it at any time during the year. I should have thought it might have been made three months or six months, and then you would not alter the present practice.

13,177. You would like three months or six months substituted for 21 days for giving notice of appeal?—If you ask me personally I do not think there has been any hardship, because it has not been acted on.

13,178. You do not really think there is anything in it in practice?—There would be if the Inland Revenue enforced the law, and probably it is not desirable to leave the law in that state; we will all agree. The Inland Revenue in practice obviously thought it was not reasonable to enforce it, and I should have thought that a period of six months would be ample, and would not increase any difficulties of the Inland Revenue.

13,179. I suggest to you that for giving notice of appeal six months is rather extensive?—I think three months would do. I think all you want is to enable your staff to bring the matter before some responsible board. At present if it was enforced it would be very difficult. You might not be able to get instructions from a board in 21 days.

13,180. You made reference to the 1918 legislation giving the right of application to the Board of Referees?—Yes.

13,181. I rather missed that from your evidence-in-chief. It looked from the printed evidence as though there were no such reference to the Board of Referees?—Yes, I think I noticed in another witness's evidence that you had called attention to it; I saw that the point had been omitted, so I purposely mentioned it to-day.

13,182. There is no mention in your evidence-in-chief of this right which has been given to you to go to a Board of Referees?—No, and I purposely mentioned it to-day.

13,183. You now raise the distinction between going as a concerted action on the part of a number of people, and as individuals?—Yes.

13,184. Do you think the Board of Referees as it is at present constituted is a Board that ought to listen to individual cases in constant session?—Will you allow me to answer that question individually, and not in a representative capacity, and then I will do so. I cannot bind a number of people, but my own idea is that the Board of Inland Revenue, strengthened a little by some expert assistance, could satisfactorily do most of this work, particularly if it could be arranged that some people from London should come down to different parts of the country occasionally to decide cases of importance. I think we all have the natural feeling that we would like to see the people who are going to decide our case. At present we go to a local Surveyor—I am not making the slightest complaint against them, and personally I have no reason to. If it is a difficult case he has to write up to London for instructions. You then go and see the Surveyor and he tells you. One always has the feeling possibly that one could have put one's case to London a bit better oneself.

13,185. You would like to have a tribunal of the standing of the Board of Referees in constant session hearing the appeals of different traders?—Personally I do not think it is necessary, although that may be the view of the Federation. I believe that if you could have a board in London, or that if a case was important someone with real power to decide it should come

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down to the different centres of the country and hear what is said—

13,186. Do not the Special Commissioners do that now?—Do they? I do not know.

13,187. They seem to me to answer exactly the class of tribunal you are speaking of?—My difficulty is that I am partly representative and partly individual.

13,188. Could you say whether the people you represent have had sufficient experience yet of the working of the Act of 1918 to say whether it is not sufficient?—No, I do not think there has been time.

13,189. Do you not think that this scheme for individual hearing is a little premature in view of the shortness of their experience?—I cannot say I do think that. Supposing a man does not wish to join an association and disclose his affairs to a meeting of a lot of other people; I think it is a right given him by law, and I do not see why he should not have as much right to go to the Referees himself as to a court of law, if he thinks he has got a claim. If he thinks he has got a good claim why should his right to have it decided depend upon a lot of other people being willing also to try it?

13,190. Would you agree that he has a case already for going by himself to the Surveyor, and then to the Additional and General Commissioners or to the Special Commissioners and then to the Board of Inland Revenue?—Yes, but is that a consolation when there is another court of Referees specially set up, and he may wish to go there? I believe I am right in saying that the Referees have considerable powers to deal with frivolous applications and that sort of thing, have they not?

13,191. You understand that the Board of Referees really only do deal with classes of cases?—Yes, I know that has been the practice.

13,192. And this would be of a great extension of their function, you realize?—I do.

13,193. Do you realize that they would have to be differently constituted from what they are now; they would have to be a travelling body also, very likely?—Yes.

13,194. Therefore it would cease to be a Board of Referees as we now know it?—Yes.

13,195. Therefore what you really want is another body of Special Commissioners, is it not?—I think there ought to be some means by which the man who thinks he has a grievance can put his own case to the person who has got to decide it, and that he should not be dependent for his result on what is transmitted by somebody else purporting to be his case. There is a great deal of grievance there, and I have heard it often. I have often heard a man say, "I have gone and told the local Surveyor this; he puts the case to London; I should have liked to have seen the people who were going to decide it, and put it myself," and I think it is a sort of inherent right which every man ought to have.

13,196. Has he not that right at present to go to the Special Commissioners?—Yes, I suppose he has, but somehow or other it is not done. My experience is not very extensive; you will have particulars as to the number of people who go to them.

13,197. I will not pursue it in that event—I have been to the Special Commissioners very rarely, but you will have knowledge of course of the number of people who go there, which would give the Commission much more information than I could as to the extent to which people do avail themselves of that right and how far it is satisfactory.

13,198. I suggest to you that the weakness of the point you make is threefold: first, it ignores the position already occupied by the Special Commissioners; secondly, it is based on insufficient experience of the working of the new legislation; and further, it would involve a complete alteration in the constitution of the very tribunal that they want to go to?—Quite; I think it might, but all the same, if there is a good ground, if the Commission think that a man ought to be able to bring his case before the Board of Referees, after all it is the Board of Referees now whom you might put as the supreme authority on this matter; and if a man wishes to go there I do not think the fact that it may require alteration ought to be conclusive against

it unless you can show that the alterations are impracticable or too extensive.

13,199. I suggest to you that the alteration you propose is impracticable, with the present Board of Referees, and you should say what kind of tribunal you really want to make it practicable. In paragraph 5 you refer to the fact that the high rate of Income Tax will become an important factor in manufacturers' costing?—Yes.

13,200. Would you tell me whether it is the custom of manufacturers to put Income Tax into their costing?—I anticipated that question. I believe as a matter of strict accountancy it is not usual, but it is perfectly obvious that it does indirectly. If it does not actually appear in their costing like any other payment you make, it must affect what you can sell for.

13,201. Could you give an illustration of how the manufacturer adds the Income Tax in practice to his costs?—You mean in his technical accounting.

13,202. You say that the high rate of Income Tax will become an important factor in manufacturers' costings. Could you give us an illustration as to how he does it?—I think the wording is a little unfortunate. What I meant is this; if I have to pay 1s. in the £ Income Tax and produce so many tons of stuff, I can sell that at a certain price per ton, if instead of that I have to pay 6s. in the £ I must get so much more for my article to get a reasonable profit.

13,203. You mean the higher the Income Tax the more the amount of profit you have to make?—The higher price we would have to get to make the same profit.

13,204. Therefore the business man passes his Income Tax on to the consumer, and does not bear the increase himself?—If you say he tries to, of course he does; but if you say he does, I say he does not, because we often make a loss. Of course, we all try, I suppose, to pass everything on we legitimately can. My grievance, if I may say so, is that the Inland Revenue seek to pass on to us a liability which is inequitable, because they do not quite see how they are to get it from someone else; that is the whole gist of my grievance.

13,205. You think that as a matter of fact they succeed in increasing the price and passing it on to the consumer?—Sometimes; it entirely depends on the condition of the market.

13,206. If they cannot do it, is it any good putting it in the cost?—I do not quite know what you mean. If we could not in one form or another pass our liabilities on to the consumer we should not make any profits, and you would get no Income Tax.

13,207. Would you not make 14s. instead of 19s. out of the full pound? I want to get at what is really in your mind. Is it impossible to tax the business man?—That always presupposes that we get the full £1, which we often do not. It is often an extremely narrow thing, and the difference between an Income Tax of 1s. 2d. and one of 6s. will turn the scale. You follow what I mean?

13,208. I think I see what you mean. What you really mean is something a little less exact than this statement about costing. It is just this, that the manufacturer will continue to get the highest price he can?—What I mean is particularly with regard to export. If we pay 6s. in the £ Income Tax in England we must have a higher price for the goods we export than if we pay 1s. 2d.

13,209. You are referring to export now?—Or what we sell at home; I think the thing is obvious. Therefore as we must export to continue our industry a higher Income Tax becomes an increasingly important factor to us.

13,210. That is in export; would you say the same in the home trade too?—In the home trade too.

13,211. Then the general tendency must be for the high Income Tax to increase prices?—Undoubtedly, I should say.

13,212. Does that not come very much to the same thing as saying that all of us live by taking in each other's washing? Do we not all pay each other's Income Tax in that way?—I do not quite follow. I know I have to pay my own myself.

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13,213. I suggest for your consideration that you cannot put it into costs?—If you are putting it on that ground you are saying we all live on each other, which I suppose is perfectly true, more or less; I do not know that it is so in any other sense.

13,214. With regard to bad and doubtful debts, you are not satisfied with the present state of the law, which allows provision for doubtful debts; is that so?—I am trying to know how to answer. I have been asked to bring that point before the Commission, and I have done so.

13,215. Frankly, I do not understand the evidence as it stands; I am trying to get at what the grievance is?—I think what some people say is that they ought to be allowed to have a general reserve for bad debts without earmarking it to the particular bad debt.

13,216. Whether it exists or not?—No, I think they would admit they must give some reason to the local Surveyor to show that they are made, but instead of making a specific reserve against an individual debt, if there are a number of debts there is some reason to make a reserve for it to apply in one sum to the whole. I do not really think there is very much in that.

13,217. I suggest to you that unless the reserve is allowed to grow steadily at the expense of the Revenue, it comes to the same thing, in the long run, as allowing the actual bad debts; do you agree with that?—Unless the ratio of the reserve to the debts is continually growing, if it is a steady ratio, it must come to the same thing, in the long run, as the allowance of the actual bad debts?—If there is a bad debt in one year that creates a big loss, and that loss is carried forward against subsequent Income Tax—would that be the case?

13,218. Yes. It would have the same effect as any other deduction from profits?—I think it would have substantially the same effect.

13,219. I suggest to you there is nothing in your paragraph 24 as a practical proposition?—I have already said I have been asked to bring it before you, and I have done so.

13,220. Mr. Boucraux: In your schedule you say, "the furnaces in Germany and America are equipped with every form of labour-saving device," and so on?—Yes.

13,221. Is the inference to be drawn from that that furnaces in this country are not equipped in the same way?—Yes; that is the inference.

13,222. Would that apply to those recently built under Government supervision with Government money?—No, I do not think it would.

13,223. Are those furnaces likely to go out of use?—Of course, it is extremely difficult to say; it depends so much on the future demand, and the cost at which the output can be produced. Some of the older works have got their costs very largely written down over a long period. I believe myself that the future of the iron and steel trade will largely depend on the cost at which the output can be produced, and that it is quite possible, if not probable, that the cost in a great many of the existing works, if they are not altered, will be so high that they will have to close.

13,224. It is the case in America, is it not, that they do more readily adopt up-to-date machinery than we appear to do here?—I do not wish to say a single word that might seem unfriendly to Labour, but I was discussing with an American manufacturer not long since why they had not quite the same objection in America to labour-saving appliances, or the same difficulty in introducing labour-saving appliances that we have found here; and his reply was rather interesting. The iron and steel trade in America has been a very rapidly expanding trade, growing very quickly. During recent years new works have been put up and existing works have been extended, and I think in practice they have always been able, if a man was displaced by a labour-saving appliance to give him a better job. They have been taking on, owing to the rapid increase, new men to a much greater extent than we have. I cannot say that is the true reason, but that was told me by an

American steel man. However, for some reason or another, they have been able to get labour-saving appliances in the American works to a higher state of perfection than we have.

13,225. Would you suggest that Labour in this country has prevented the introduction of improved labour-saving machinery?—No, I would not. I have been chairman myself of a Conciliation Board consisting of both employers and workpeople for very many years, and, putting your question in that way, I would not say so; I have found the most cordial co-operation. But I would say that there has been always some feeling in the mind of Labour, and it is very difficult to say how far it has influenced them, that there might be a fear that, if labour-saving appliances were introduced, a number of men might lose places, and it might be difficult to get other work. I wish specially to guard myself against saying that that has gone the length of active hostility. I think it has been a very natural feeling on the part of the men in England.

13,226. You do not suggest that what may be called the modern plants are likely to be thrown out of use altogether?—The modern plants—no, I think not.

13,227. They will be utilised?—They will be utilised.

13,228. They are being utilised, and will be?—I think so, as they are ready; some of them are in operation.

13,229. So there is not much force in the particular observation?—There is this force in it, that if we are to maintain the employment in this country we want to get the old works remodelled and brought up to a higher working capacity. I am afraid if we do not there will be a great deal of unemployment.

13,230. Why should not the old works have been brought up to the same standard that the new works possess?—I cannot tell you; they have not been.

13,231. And again, are not some of our manufacturers behind the manufacturer in America in that respect?—They are. There may be reasons. I think I explained that I have not much to do with the technical side of the iron and steel industry, even on the companies of which I am a director; my duties are in other parts of the business; therefore, if the Commission attach importance to this, I think someone who could deal with the technical side would be able to give you more help. I would be glad to arrange that, if it is desired.

13,232. Is the price of shares an index as to the prosperity of an industry?—I should say not an entirely reliable one.

13,233. For what reason?—I never know what does make the ordinary investor from time to time take a fancy for a particular class of shares. It almost seems that certain shares are fashionable for a time, and then you get another form of shares. It is very difficult for some of us to know the reason.

13,234. As a matter of fact the shares in your own industry have gone up tremendously?—Yes.

13,235. That is an indication of great prosperity?—Of course, but a good many of them have fallen considerably.

13,236. Is there any reason to suppose that the prosperity will not be continued?—I think there is very grave reason to fear it. I think I told you the increased production of steel in America. I am speaking from memory, but I think the figures are right. They used to make before the war something like 29,000,000 tons of steel per year, of which they exported 2,000,000 tons. Their present capacity that they have got up to during the war is something like 44,000,000 tons; that is an increase of something like 15,000,000 tons, which is three times our total exports before the war, and they are, I should say, to be on the safe side, producing to sell at considerably over £2 a ton less than we can produce at.

13,237. Although paying higher wages in America than here?—Well, I am not sure. I have heard it said that there is not much difference between the wages in America and here now, but I cannot tell you of my own knowledge.

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[Continued.]

13,238. If there is an advantage it is in favour of the American workmen?—I am not quite sure. I heard it discussed the other day, and my impression is they are very much on a level.

13,239. Mrs. Knowles: Are there no working agreements which would prevent the Americans dumping in this market, or selling very much below our costs of production? There was a Trust or an agreement in steel rails before the war by which they parolled out the world; the Americans did not sell here, and we did not sell there?—Yes.

13,240. Could we not be helped out by that?—We might be helped out a good deal if America was willing.

13,241. Is it not a fact that even the very newest works will have to be reconstructed for electricity now? Are not they smelting already by electricity in the Newcastle district?—I am afraid that is rather a technical question which I do not think I would be competent to answer.

13,242. It bore on your question of obsolescence. If plant is going to be again obsolete owing to rapid conversion to electricity, it would strengthen your claim for obsolescence, would it not?—I am quite sure that a great many of the old works will require a great deal of alteration for increased production.

13,243. Are not the newer works almost old-fashioned now, even the works built during the war?—I should not have thought so, because that has been borne in mind in making them.

13,244. Are they worked by electricity now?—Some of them.

13,245. Mr. Holland-Martin: In paragraph 6 you speak of the very serious interruptions, more particularly of a commercial nature, to which industry in this country is specially subject; what do you refer to exactly?—I do not think it has any special bearing on that point. It has been put in more as introductory information. I do not make any special point on it.

13,246. You do not think that there is anything that the industry in this country is specially subject to?—I think the main thing is that as compared with other industries the steel trade is peculiarly liable to these interruptions.

13,247. Mr. Marks: It is expanded in the schedule, I think?—I think that paragraph 8 is more introductory, and that you will find the explanation of it in the schedule. I think it was put in merely in the hope that it might be of assistance to the Commission to have some information as to the steel trade. As we are rather suggesting that some special treatment may be necessary we felt we ought to give all the particulars we could.

13,248. I understood the interruptions mentioned in your schedule to be rather technical, owing to breakdowns of plant, but here in paragraph 8 it is interruptions of a commercial nature; that is the point I was making, but apparently it is only introductory?—Yes.

13,249. Mr. McLintock: In paragraph 9 you suggest that depreciation should be on prime cost rather than on diminishing value?—Yes.

13,250. Is that put forward by the steel trade as a practical proposition?—It is.

13,251. How do you suggest that you are going to get a start?—I do not quite follow.

13,252. How are you to arrive at the value of every piece of plant and machinery to get its effective life—keep a record year by year of all these pieces of plant and all the plant that is added to it from time to time?—I agree that it is extremely difficult, because the idea of the system would be to take every item of plant in your works and fix an appropriate life and an appropriate depreciation. I agree it would be practically very difficult if not impossible.

13,253. You would have to consider the effect of insufficient repairs and what not?—Yes.

13,254. I suggest to you that the present method, while it is a little rough and ready, is a practical one. If the rate were increased would that meet the case?—I think that is possible, if the rate were increased. Of course, the important thing is that we get adequate depreciation in money. The precise method, I agree, is not of so much importance.

13,255. Is it not pretty hopeless to expect every piece of plant to be scheduled for all time and for every year?—I suppose you know in theory it is done now, only you do it by putting the whole lot together and taking a certain rate. I suppose you could apply the same method, could you not, to a depreciation which was on the prime cost?

13,256. I do not admit that it is done in theory; it is worked on the diminishing value?—Yes.

13,257. And if the rate were adequate it is quite equitable to the taxpayer one year with another?—The inequity of it is, is it not, that he never actually gets it entirely written off at all, does he?

13,258. But, on the other hand, long after it is worn out in its short life, he may be continuing to get depreciation on the value of that plant?—Yes.

13,259. Which is a set-off?—Yes, but in that event of course would he not be getting a depreciation which he ought to have had before; he has waited a long time?

13,260. It may be. One other point on obsolescence. In paragraph 17 you suggest that manufacturers should be encouraged to replace old machines by new, irrespective of type or similarity. The only point I want to draw your attention to is this, that the Act says "replacing any plant and machinery"; it does not say it must be replaced by plant of a similar type: it is sufficient if you have replacement by a totally different kind of plant to do the work which was performed by the obsolete plant?—I am told that in practice the Inland Revenue does not regard it as a replacement unless it does bear some relation to the machine which has been replaced.

13,261. The section giving right of appeal to the Board of Referees is of comparatively recent date?—Yes.

13,262. I think that the words of the section, apart from the official interpretation, cover any replacement?—If it does it seems to meet the point practically. If you get obsolescence for everything you remove or scrap as against any new machinery you put in it does meet the whole point, except that supposing you scrap a useless thing which is not entirely written off, and you do not at the moment replace, we still think we ought to have obsolescence if it has not been written off.

13,263. Your claim is two-fold; one is that you should get obsolescence when a thing is obsolete whether you replace it or not, when you have sustained the loss?—Yes.

13,264. The other one is the exact type that is used to replace a scrapped machine?—Yes.

13,265. I suggest to you that the Act as it stands would give you the second part, although it does not give you the first?—Thank you; I am much obliged to you for that information.

13,266. Mr. Walker Clerk: On the question of obsolescence, in paragraph 17, you say: "obsolescence allowances should be permitted for all plant and machinery which, in the opinion of the taxpayer, needs to be superseded"; that is a very wide suggestion, is not it?—Yes. We considered that very carefully, but you will remember that whatever he buys he has got to bear two-thirds or more of.

13,267. Yes, I quite understand that?—We thought the Inland Revenue might assume he would not throw away 12s. or more to get 6s. off his Income Tax. It might be possible in some way to guard against that, if it be desired.

13,268. Chairman: Thank you, Mr. Hopkins; that finishes your examination.

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[Continued.]

The Right Reverend GEORGE NICKSON, D.D.,

Lord Bishop of Bristol, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

THE CASE FOR THE BISHOPS.

History of episcopal incomes as fixed by Statutes.

13,309. (1) The incomes of the sees created since 1875 are fixed by Statutes relating to the formation of the sees at minima of £2,500 or £3,000 per annum, and a maximum in each case of £4,200 per annum (38 & 39 Vic., c. 34; 39 & 40 Vic., c. 54; 41 & 42 Vic., c. 63; 47 & 48 Vic., c. 66; 4 Edw. VII., c. 30; 3 & 4 Geo. V., c. 30; 7 & 8 Geo. V., c. 57).

The income of the older sees are likewise fixed by Statute or by Order in Council pursuant to Statute. The Act is 6 & 7 Will. IV., c. 77.

In the Preamble is recited the recommendation of the Church Inquiry Commissioners that steps should be taken to re-apportion the incomes of the sees so as to have:—

- An annual average income of £15,000 to the Archbishop of Canterbury.
- An annual average income of £10,000 to the Archbishop of York.
- An annual average income of £10,000 to the Bishop of London.
- An annual average income of £8,000 to the Bishop of Durham.
- An annual average income of £7,000 to the Bishop of Winchester.
- An annual average income of £5,500 to the Bishop of Ely.
- An annual average income of £5,300 to the Bishop of Bangor and St. Asaph.
- An annual average income of £5,000 to the Bishop of Worcester and Bath and Wells.
- An annual average income of not less than £4,000 nor more than £5,000 to each of the other Bishops, and

the Ecclesiastical Commissioners are directed by Sec. 10 to prepare schemes to be ratified by Order in Council to carry this (among other recommendations) into effect. The incomes of the several sees were accordingly determined in accordance with this provision by an Order in Council, dated 25th August, 1881, and published in the *London Gazette* on the 19th September, 1881.

The Report of the Church Inquiry Commissioners leading up to the foregoing recommendations contains the following passage:—

"In considering the incomes of the Archbishops and Bishops, it is proper to advert not only to the expenses necessarily incurred in journeys for the purposes of confirmations, convocation and other official duties; in maintaining ancient and extensive houses of residences; in keeping hospitality; and in contributing to all objects connected with religion and charity in a manner suitable to their station; but to a burden which presses heavily upon newly-promoted Bishops, who are seldom men of wealth. The unavoidable expenses attending their appointment are so considerable that they may be calculated at the income of one whole year in most of the sees and at much more than a year's income in the smaller sees. Upon the whole, we are of opinion that where the annual income of a Bishop amounts to £4,500, it is not necessary to make any addition, nor would we recommend any diminution unless it exceeds £5,500. But we think that the two Archbishops and the Bishops of London, Durham and Winchester ought to have a larger provision than the rest."

Some of the incomes fixed by the Act 6 & 7 Will. IV., c. 77, and the Order in Council above mentioned have since been reduced by alienations for the endowments of new sees. All these incomes are subject to a deduction equal to £1 17s. 6d. per cent. for first fruits and tenths payable to Queen Anne's Bounty. The minimum and maximum are exclusive of the value of the house of residence in each case, and the minimum is fixed on the terms that there shall be a house of residence or a fund sufficient to provide one.

Remarks on the Implications of the above Statutes.

13,270. (2) From the above statement it will be seen that the Legislature in fixing episcopal incomes had in mind, not only the personal remuneration of the Bishops, but the official duties attached to their office, and these official duties are clearly indicated in the Report of the Church Inquiry Commissioners, which led up to the Statutes. They thus become duties recognised by Parliament, and the income assigned to a Bishop for his personal use is only that portion available after the expenses incurred in carrying out those duties have been satisfied. We desire to lay great stress upon this, not merely because much misapprehension exists as to the remuneration of Bishops, but because it has a distinct bearing upon the burden of taxation which a Bishop may rightly be called upon to bear. A clear distinction ought to be drawn between that portion of a Bishop's income which must be expended for the purpose of carrying out the necessary work of his office and that portion which he receives as a stipend for his personal and family use.

To a certain extent this is recognised in the relief allowed under statements of Income Tax on certain items of expenditure, such as salaries to secretaries and chaplains, travelling, postage and the like. We contend, however, that the issue at present allowed by Surveyors are too limited. They fail to take into account many items of expenditure which are necessarily incurred in the upkeep of a house which is primarily an office and only secondarily a residence. In the case of a tradesman or professional man carrying on his trade or profession in the same building in which he lives, allowance is made for that portion in which the trade or profession is carried on. Thus so far as the rent is concerned this allowance may be made up to two-thirds of the rent paid (Finance Act, 1843, Sec. 101), while the maintenance (service, heating, lighting, &c.), is naturally part of the necessary "overhead charges" which are deducted before arriving at the profit made in the trade or profession. It would, therefore, seem equitable that similar treatment should be meted out in the case of the Bishops. Even in the case of modern bishoprics the official residence is ordinarily much in excess of the domestic requirements of the Bishop and beyond the scale of residence appropriate to the income of the see. This is necessarily so, as the house is designed to serve other needs than those of residence. It is the Bishop's diocesan office with accommodation for his staff of secretaries, chaplains and so forth, and contains the requisite accommodation for candidates for Orders, examination rooms, &c. It is clear that so far from a Bishop's palace being an addition to the Bishop's income, it is a serious burden thereon, in the sense that the Bishop would be financially relieved if instead of enjoying (and maintaining) the house he were at liberty to choose and rent a suitable house for himself for his personal occupation. The house adds to the Bishop's income only in so far as it relieves the Bishop of providing a house for occupation. To get at the truth of the position the house ought to be considered as divided into two parts, (1) residence for the Bishop and his family with household suitable to his station, and (2) Bishop's office, &c.

13,271. Under the Finance Act of 1918, Sec. 28, which relates back to the Finance Act of 1907, Sec. 28, this principle of division is admitted so far as rent is concerned. But only one-eighth of the net assessment is allowed. This, for the following reasons, is quite inadequate in the case of the Bishops. We have been at pains to ascertain from the Bishops the proportion of their houses which is used for strictly official purposes and the proportion which is partly and mainly used for these purposes. It has not been possible without a proper survey fully to distinguish between these proportions, but in the main the following table shows the proportion of the various houses which are mainly used for the work of the diocese in each case, and which unless it were available for this purpose would seriously hamper the proper carrying out of the Bishop's work. The domestic user of this proportion is occasional and slight, the official user is constant, while in every case there is a large

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exclusive official user of the proportions subjoined in the following table:—

Canterbury	...	About two-thirds of the houses (there are two).
York	...	...
Durham	...	...
Winchester	...	...
Bath and Wells	...	...
London	...	...
Worcester	...	...
Manchester	...	...
Lichfield	...	...
Southwark	...	...
Gloucester	...	...
Ely	...	...
Bristol	...	...
Salisbury	...	...
Exeter	...	...
Truro	...	...
Liverpool	...	...
Ripon	...	...

It will thus be seen how large a proportion of each house of residence is used for official purposes and how totally inadequate one-eighth is, even in the case of rent, let alone of maintenance.

Allowances for repairs

13,272. (3) Under the present law one-sixth is allowed for repairs of the gross assessment. This is inadequate for the following reasons:—

(a) the Bishop's liability under the law of dilapidations is to "maintain, and from time to time renew," a greater burden than that undertaken by an ordinary owner, who is content to do only what is sufficient to keep the premises in a sufficient state of repair to maintain the rent. It is true that the Bishop is not legally liable in respect of decorations, but he is under the same necessity of doing them as an ordinary owner residing in his own house.

(b) the Bishop's liability extends to the whole of the residence (whether "official" or "domestic") and in the case of an ancient house, in which there is a great deal that must be maintained, though it is more in the nature of an ancient monument than a structure built for the accommodation and enjoyment of the occupier, one-sixth of the rental value is clearly not a true measure of the liability, if it is true on the ordinary case where the rental value is really proportionate to the accommodation afforded. We extract the following table from the returns of Bishops showing their average annual cost of repairs in relation to their several assessments:—

See.	Assessment.	Cost of repairs.
	£	£
Canterbury	1,620	1,070
York	389	336
London	1,796	600
Durham	251	175
Winchester	608	230
Bristol	230	70
Bath and Wells	255	290
Carlisle	167	30
Ely	183	100
Gloucester	300	120
Lichfield	183	100
Liverpool	250	100
Manchester	213	100
Newcastle	257	110
Norwich	375	216
Oxford	175	100
Peterborough	320	150
Ripon	198	100
Salisbury	255	125
Sheffield	140	120
Southwark	325	150
Southwell	160	80
Truro	140	45
Wexford	200	75
Worcester	300	100

In some of these returns allowance does not seem to have been included for the quinquennial survey, and this would increase the amounts.

Private incomes and Super-tax.

13,273. (4) It is no exaggeration to say that there is not a single Bishop on the Bench, who, if he had to rely solely on his official income, would not be in an insolvent position to-day. The amounts which Bishops are contributing from private resources range, so far as our information extends, from £2,800 to £400 per annum. It is a burden in any case to have to subsidise an income which is fixed by Statute, and which cannot, as the law stands, be increased by further endowment; but the burden is made even heavier by the incidence of the Super-tax, which adds the private resources to the official income and taxes the Bishop's personal income heavier in consequence. If the ground on which this tax is levied be a personal one, then there seems good reason for relief in the case of Bishops where the personal benefit which they derive from their official income is small, or, as in some cases, is non-existent.

Official subscriptions and official hospitality.

13,274. (5) Both these items appear in the Report, mentioned above, of the Church Inquiry Commissioners, but no allowance is at present made by way of rebate. In the case of traders charitable contributions are regarded "not as a trade charge, but as a disposal of profit." An exception, however, is made where a manufacturer subscribes to an infirmary where any of his workpeople may be sent if injured. *Pari passu*, a similar exception might be made in the case of a Bishop's subscription to his Diocesan Board of Finance, the funds of which are entirely spent on the official work of the diocese, e.g., payment of clergy, pensions, support of sick or infirm clergy, buildings, &c. As regards hospitality a bishop is very much in the position of a public official, for an example, a mayor, who generally has an allowance from the corporation for the purpose of hospitality. We have evidence before us of the great charge this part of their official life costs upon the Bishops, and in particular upon the Archbishops.

Recommendations.

13,275. (6) In conclusion we beg to suggest for the consideration of the Commissioners:—

- (1) that a much larger allowance for repairs should be granted, in view of the special character of episcopal residences and the fictitious character of the Bishop's "ownership," and that this should be greatest in the case of the oldest and largest houses;
- (2) that the principle recognised in the Finance Act of 1918 by which an eighth on the net assessment is allowed on the rent should be extended so as to include "maintenance" as well as "assumed rent," and that this allowance should be proportionate to the extent of the "official character" of the house as distinguished from its "residential" character;
- (3) that in the assessment for Super-tax regard should be had to the "personal" conclusions enjoyed by the Bishop as distinguished from the income which has to be spent upon his official duties;
- (4) that some allowance should be made for "official hospitality" and "official subscriptions."

[This concludes the evidence-in-chief.]

13,276. Chairman: On account of your request a number of the Commissioners have very kindly arranged to sit later to-night?—I am extremely grateful to the Commissioners.

13,277. Do you appear for the Clergy as well as for the Bishops?—No, unless you wish to ask any questions on the statement that will be presented by Mr. Atkinson. I prefer only to give evidence on behalf of the Bishops.

13,278. I will just take the four recommendations, because you might amplify these shortly and then the Commissioners may like to ask you questions upon them afterwards?—I had prepared a very short

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presentation of the case that touches these main points as far as the Bishops are concerned.

13,270. The four points of the recommendations are all there?—They all come in. I desire, in the first place, to state emphatically that neither Bishops nor Clergy wish to escape any burden of taxation which may be justly laid upon them as citizens and they desire no exceptional treatment in any direction. What we urge is that the Clergy—and Bishops in particular—are taxed at present as though the whole of their official income was an emolument personal to themselves. A Bishop and incumbent are corporations sole, and the income they derive they have partly as a personal emolument and held partly in the administration of a trust. Hitherto, with certain limited and restricted exceptions, the whole of their income has been regarded by Surveyors as their personal emolument. What we ask is that that part of their income which is clearly used in trust for official purposes shall be exempt from Income Tax, and that only the residuum shall be regarded as liable for Income Tax, or for Super-tax if, when added to their private fortune, it is so liable. At present the whole of their official income and private fortune is lumped together for purposes of tax with the limited exceptions already mentioned. Further, that, at present, the whole of the house of residence both for rent and maintenance, with the small exception allowed under the Finance Act of 1918 of one-eighth of assessed rent, is regarded as a personal emolument. A table is given in my evidence-in-chief showing that in no case can this house be so regarded. From seven-eighths down to a quarter is used for official purposes and is, to all intents, an office for diocesan work. Further, we wish to point out that the question of allowances for repairs is a very serious one in the case of Bishops where most of the residences are ancient buildings, as for instance, Bath and Wells, 1240 A.D., and that the Law of Dilapidations bears exceptionally heavily on the holders of the office, who are regarded as owners and compelled by law not only to repair but to maintain and renew. Our main purpose, therefore, is to ask that in the assessing of Income Tax regard should be had to the heavy charge upon the statutory incomes of Bishops entailed by the obligation to fulfil official duties. We have set out particulars in the case, but it may serve to emphasize this if I give a typical example of a Bishop's expenditure. It is fairly representative and while in some cases the official expenditure may be less, in others it is considerably more. Take the case of a see whose income is £4,300 with a house of residence assessed at £300 per annum. After the deduction of Income Tax and Super-tax at present rates there is a net residue available of £2,697 10s. Half the house is given up to official work. The cost of lighting, heating, maintaining and repairing, with rates and insurances, on this portion is £365. Chaplain, secretary, travelling expenses and other charges, as at present allowed by the local Surveyor, amount to £840. Official subscriptions and official hospitality amount to £280. The total is £2,005. From this, for repairs and the one-eighth of rent for official character, the Surveyor allows £82, which leaves a net of £1,923, thus leaving a net income for personal emolument of the Bishop of £774 10s. to which must be added £192 returned Income Tax; total £966 10s. Out of this, however, he has to maintain the grounds (the Archbishop of York pays, for example, £700 per annum) attached to the house, and to incur many expenses which his position entails, and to maintain the half of a house assessed at £150 a year. This further expenditure amounts to about £300 per annum, so that there is left to him for life insurance, education of his children, and purely personal expenditure £166 10s. and this includes the cost of food for himself and his family, but not wages, board and lodging of his servants, which is included in the £300. I have taken a favourable illustration where there is a margin, in order not to prejudice my case, but it would be easy to extract from other returns, which have been made to me by Bishops, cases where but little more was left to the Bishop save housing, heating and lighting free. In his return the Bishop of Sheffield reports that he

has to find an additional £700 a year to his official income, and the Bishop of Wakefield reports that only once in 21 years has his official income sufficed. Further, all these figures relate to war-time conditions when many of the normal activities and consequent expenses of the Bishops have to be curtailed. It is obvious therefore, that the Bishop is bound to supplement his official income from private resources. We ask, therefore, that the above distinction between the portion of income which the Bishop has to administer for the purposes of his work shall be differentiated from the portion he receives as an emolument, as far as taxation is concerned. And we lay stress on the fact that, originally, the incomes of Bishops were fixed by Statute so as to provide for these official duties. (See the extract from the Report of the Church Inquiry Commissioners prior to the Act of 6 and 7 William IV., chapter 77.) And we call attention to the words used by Lord Shand in *Charlton v. Inland Revenue*, 17 R., 785, in which he says, regarding deductions which a clergyman might make by way of allowance, that they should include "such of those expenses as the Minister is either required by his Ecclesiastical superiors to incur or are expected of him by the Church or by ordinary custom and are for any of these reasons incumbent on the claimant."

13,280. Official hospitality.—This includes Ordination candidates four times a year, which, perhaps, on an average, would mean 30 in the year, although this would differ widely in the case of the various Bishops; gatherings of rural deans; official preachers at diocesan services; diocesan meetings; diocesan conferences; Clergy from the country, etc. As an illustration, the Archbishop of Canterbury has frequent gatherings of 50, 70, and even 300 at a time, in Lambeth Palace. He has always some Bishops or church officials visiting him on business and obliged to stay one or more nights. He has, three times a year, all the Diocesan Bishops to entertain in conference, and at the consecration of Bishops or the visitation of Colonial Bishops, etc. The Bishop of Lichfield speaks of 300 guests in the course of a year staying the night and sometimes more. The Bishop of Winchester reports 20 to 30 people staying at Farnham Castle at one time on several occasions in a year. The Bishop of Durham likewise. While, in the case of the Archbishops, they have not only their diocesan official hospitality but their provincial hospitality.

13,281. Method of ascertaining allowances.—I would suggest that a certificate from the Ecclesiastical Commissioners' surveyor should be accepted as evidence of the proportion of the house which may fairly be regarded as official in character. This would deal with the allowance on rent. With regard to maintenance, this might be either made in returns from the several Bishops and subject in the ordinary way to the Surveyor's examination, or an allowance might be made proportionately, based on the income of the see, having regard to the Ecclesiastical Commissioners' surveyor's certificate as to proportion of house; or certain specified items might be named, e.g. proportion of rates and insurance, heating, lighting and service. With regard to official hospitality, a fixed proportion of the income, say one-tenth, might be named. With regard to allowances for official subscriptions, subscriptions to the Diocesan Fund and possibly hospitals might be recognized. That is what I merely wish to say with regard to the presentation of the case.

13,282. Chairman: Your recommendations are: (1) "That a much larger allowance for repairs should be granted in view of the special character of episcopal residences and the fictitious character of the Bishop's 'ownership,' and that this should be greatest in the case of the oldest and largest houses?"—Yes.

13,283. That affects the Bishop of London?—It affects every Bishop. A table is set out showing that.

13,284. The suffragans?—No. There are no official suffragan houses so far as I know.

13,285. The second recommendation is: "That the principle recognized in the Finance Act of 1918, by which an eighth on the net assessment is allowed on

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the rent should be extended so as to include 'maintenance' as well as 'assumed rent,' and that this allowance should be proportionate to the extent of the 'official character' of the house as distinguished from its 'residential' character?"—Yes.

13,286. The third recommendation is: "That in the assessment for Super-tax regard should be had to the 'personal' emoluments enjoyed by the Bishop, as distinguished from the income which has to be spent upon his official duties?"—Yes.

13,287. Your fourth recommendation is: "That some allowance should be made for 'official hospitality' and 'official subscriptions'?"—Yes.

13,288. There is no doubt, and everyone knows, that the present taxation falls very heavily upon the Clergy; those of us who have rather an intimate knowledge recognize that. It is also recognizable that the hardship is on a very great number of other people?—Yes.

13,289. You do not want to evade it?—Not in the slightest.

13,290. Even to the point of hardship?—That is so.

13,291. Perhaps the Commissioners would now like to ask you a few questions, my Lord Bishop.

13,292. Mr. McLinbeck: You refer to the Report of the Church Inquiry Commissioners?—Yes.

13,293. Can you tell us which of the expenses mentioned are not allowed for Income Tax purposes?—Of those in the Report?

13,294. You refer to expenses necessarily incurred in journeys for the purpose of confirmations, convocation, and you go on and narrate them there?—After convocation I should place a stop. Other official duties are somewhat vague. Surveyors allow things like salaries, postages, and travelling expenses, but they do not allow any maintaining of the official portion of the residence; they do not allow any of the keeping of hospitality of an official character; they do not allow anything of what may be described as official contributions to objects connected with religion and charity all of which are alluded to in the Report.

13,295. With regard to the maintaining of the house of residence, the only allowance you get there is the usual deduction from the annual value of the house?—The one-eighth.

13,296. Generally speaking, you maintain that except for the expenses incurred in journeys for the purposes of confirmations and convocation, you get no allowance for those various items?—You get no allowance for those other items at all.

13,297. You refer to the fact that certain official duties become recognized by Parliament, and that incomes are fixed by reference to the duties attaching to the office?—Yes.

13,298. Is your suggestion that in so far as expenses are incurred in carrying out those duties they should be allowed as a deduction for Income Tax purposes?—That is my suggestion.

13,299. And that they are not so allowed now?—They are not so allowed at present.

13,300. Could part of a Bishop's income be definitely earmarked?—No, it requires an Act of Parliament to do it; I have inquired into that.

13,301. Would the better plan not be to make so much of the so-called income as a direct payment in connection with the official position rather than as a salary of the individual holding it?—It would require an Act of Parliament to do it.

13,302. But would that be an advantage?—I doubt it in some ways. It would be very difficult to distinguish between the different sees with the different obligations attaching to them; they vary considerably.

13,303. Would it not be possible, in your opinion, in the various sees to allocate a specific sum for the expenses as distinct from salary?—Do you mean to state it, or actually to allocate it so that it is not administered by the Bishop? Do you mean simply for the purpose of taxation, declaring what the amount was?

13,304. Yes?—I think it would be possible to declare the amount.

13,305. It would probably be something more than a mere declaration; it would have to be specifically paid to meet these expenses?—I doubt if that could be quite carried out; it would be extremely difficult.

13,306. It would be an easier way than leaving the settlement to the interpretation of an Act of Parliament, would it not?—I think the Bishops would be quite willing for the Ecclesiastical Commissioners to declare what part was really official and what part was personal emolument; whether it would actually so work out in actual practice or not is a difficult thing to say.

13,307. Still, that is the point, that while it is nominally paid as salary, a large portion of it goes in regular expenses?—Yes, the largest portion.

13,308. Attaching to the office?—Yes, but they are of a character which is sometimes a little difficult to distinguish as to what might be called personal and as to what might be called official, largely owing to the character of the house, which is not divided so definitely that you can say: "the whole of this is official and the whole of that is personal."

13,309. I quite appreciate that?—If they were so built that the official part of the residence was attached to a house, it would be very different. We are really in the position of doctors and professional men carrying on business in their own houses.

13,310. You give the proportions of the various houses of the various Bishops, including that portion which is largely used for the work of the diocese, I suppose?—Yes.

13,311. Out of what funds are these residences provided?—The new residences were provided by subscription, which had to be a certain sum satisfying the provision of the Act under which the bishopric was founded, according to the Ecclesiastical Commissioners' surveyor. The old ones come down as property of the see, some of them for centuries.

13,312. Would it not be possible to meet any of these expenses in connection with the houses out of Church funds?—No, that is quite clear.

13,313. Instead of by relief from Income Tax?—No, there are no funds for that. It applies in a less degree to the house of every clergyman.

13,314. On the cost of repairs, is the whole cost borne by the Bishop in every case?—In every case.

13,315. When the incomes are fixed, is that factor taken into account?—I suppose it was taken into account—well, it must have been taken into account when the incomes were fixed.

13,316. That is, when the income is fixed the necessarily heavy expenses are, to some extent, taken into account?—Oh, yes, they are all taken into account.

13,317. Do you not think that is an additional reason why the payment might be earmarked, so much for expenses and so much for emolument or salary?—I do not see how it is practically to be worked out. I have been discussing the matter only this morning with the Secretary of the Ecclesiastical Commissioners, Mr. Downing, and he says that it would be extremely difficult to earmark it in that way. Further, what would become of it if the expenses were more, or what would become of it if the expenses were less?

13,318. You have seriously considered it?—Yes. The Bishopric of Bradford which has just been established has tried to do that, and it has encountered, as I understand, many difficulties in the way, not the least the present provision of the Act which establishes it.

13,319. These are difficulties on the part of the Bishop in settling how to divide the amount?—Do not think it is a personal matter at all. I think it is a matter of practical working out.

13,320. You quite appreciate that what you contend for here involves very far-reaching principles in relation to Income Tax?—Well, I think that we are

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[Continued.]

only asking what is already granted in the case of professional men like doctors, dentists and others. We are not asking for more. We are asking to be put on the same level.

13,331. It is rather more limited in their case?—They may have two-thirds of the assumed rent, and certain costs of upkeep which we are not allowed at all at present.

13,332. The rent question is a small part of your case, is it not?—The rent question relatively perhaps to the maintenance is small, but it is not small in itself. We are allowed one-eighth at the present moment of assessments that range from £1,796 down to about £140.

13,333. Has the difficulty become more acute owing to the higher cost of maintenance and repair to-day?—Of course, everything has become more acute.

13,334. That is the particular objection at the moment?—No, this has always been a difficulty.

13,335. It is an old standing grievance?—It has always been a difficulty.

13,336. You agree probably that if the principles you ask for are applied to Income Tax generally it might involve a very considerable amount of tax having to be given up?—I should not be competent to say how much. We are only asking to be put on a level with other professional people who have official expenses; I want to make that very clear.

13,337. You agree, anyhow, that if to concede all you ask means a substantial loss of revenue the effect is a larger tax?—Quite possibly it may work out in that way; that is a matter for the Government.

13,338. You appreciate that is one of the difficulties this Commission has to deal with?—Quite.

13,339. To find the additional revenue to make up for all the claims?—Quite. We only ask that anomalies shall be rectified, which I think is part of the reference.

13,340. Mr. Birley: In your last two recommendations, the third and the fourth, you suggest that in the assessment for Super-tax regard should be had to the personal emoluments enjoyed by the Bishop as distinguished from the income which has to be spent upon his official duties, and that some allowance should be made for official hospitality and official subscription. Are not those two points very much what Mr. McIlindock has been suggesting, that the Bishop should divide his income and specify to some extent what those extra expenses are. You recommend that it should be done, but did you not also tell us that you do not think it can be done. Are not those two last recommendations the very things you tell us there is great difficulty in doing?—There is considerable difficulty in exactly defining these. Supposing that out of an income of £4,000 you ask that £3,000 should be regarded as official and £1,000 as personal, there would be some difficulty over it unless the responsibilities were divided differently from what they are at the present moment.

13,341. My question really is as to how you yourself would suggest that your own recommendations should be carried out. You have rather said that you do not see how your own recommendations can be carried out; perhaps if you could tell us it might help?—No, pardon me; I am sorry if I gave you that impression. What I said was I did not quite see how you were going to earmark a specific sum of, say, £4,000, £2,500 or £3,000 official, and £1,000 the Bishop's personal emolument. All I am asking for is that what actually takes place in the expenditure officially shall be regarded as an expense *pari passu* with such an expense as travelling or postage.

13,342. But without earmarking it how are you going to have regard in the assessment for Super-tax to the personal emolument after taking into account these expenses for official duties?—When the expenses for official duties have been passed by the Surveyor they are deducted from Super-tax; it is merely an extension of what actually takes place at the present moment.

13,343. Of course, if you could so earmark them that they could be allowed as expenses, there would be no tax charged on that portion?—No tax charged on that portion.

13,344. Therefore, is it really impossible to show what those amounts should be?—It is not impossible year by year to show it.

13,345. I meant to show how your own recommendations should be carried out?—What I ask is that certain things which now are not allowed by the Surveyor, maintenance and these extra allowances on repairs and so forth, should be included as an actual expense, which is then free from Income Tax and Super-tax; then we should not be as we are at present, charged on the official expenses which we have to give in the way of maintenance.

13,346. I am leaving out maintenance; that comes in No. 2 and also in Nos. 3 and 4; your recommendations are rather vague?—I am sorry.

13,347. I want to try, if I can, to bring it to a point so that you could see what part of that income was against your official duties?—We could show by a return each year.

13,348. So you think something could be done?—Certainly, in that form. What I say cannot be done, I think, is to state as a fixed sum year by year the sum that would be official.

13,349. Your point is that you could not take it year by year, but you could take it in the individual years?—Yes, certainly.

13,350. Mr. Walker Clark: How far are these expenses sentimental or optional rather than obligatory to the office?—I suppose that official hospitality is to some extent that, but I have put down what I regarded as in no sense sentimental; would you like me to state what it was?

13,351. I was rather dealing with the principle than the specific amount. Is there not a very large proportion of these charges on which you ask to be exempted from tax more or less sentimental and more or less optional?—None in No. 2; possibly in No. 4.

13,352. No. 4 considerably?—I would not say considerably. One is not asking for the whole of these extra hospitality figures. Some, no doubt, is sentimental.

13,353. Well, subscriptions?—I only ask there, with regard to the allowance for official subscriptions, that subscriptions to diocesan funds, possibly hospitals, but certainly diocesan funds, should be allowed. I have given the reasons for that in my case.

13,354. In respect of the cost of repairs set out for the different areas, is there included in those costs of repairs, painting and structural alterations, or are these merely repairs to the fabric?—These are repairs to the fabric, maintaining, renewing, in accordance with the Dilapidation Act.

13,355. The Dilapidation Act may go much further in the case of a Bishop's palace than it would in the case of an ordinary maintenance as between landlord and tenant?—Yes, it does go further; the Act distinctly goes farther.

13,356. May not some of these items which are here enumerated be fairly said to be charges against revenue rather than expenditure of capital?—I should think a very small amount, if any of these. Do you mean revenue in the sense that a wall wants further paint?

13,357. Yes.—I think there is a very small amount there.

13,358. There may be some?—It might be a hundredth part or a fiftieth part—not more.

13,359. No. 4 is opening a very wide door, is it not?—Hospitality. A mayor dispenses hospitality?—Well, he is not charged with it; he is allowed it, as a rule, by the corporation.

13,360. The corporation has to pay it if the mayor does not?—It does not come upon him personally.

13,361. We have been told that it comes upon him personally. Is not the case of the Bishops exactly on all fours with universities, and heads of grammar

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schools and many other official persons?—As far as hospitality is concerned, do you mean?

13,352. So far as dissipation are concerned?—No, I do not think so—certainly not educational, I am sure of that.

13,353. You know that in Oxford and Cambridge at the present moment there are very strenuous efforts being made to remedy the relationship between emoluments and expenses?—I gather so.

13,354. Has the same effort been made by the Bench of Bishops in the same direction?—To regulate emoluments?

13,355. To regulate the fixed expenditure attached to an office within the emoluments which accrue to the office?—Within the emoluments?

13,356. Yes?—It would be practically impossible. He cannot carry on an office except by cutting down things which would destroy a large portion of our work. I do not think it could be reduced at all below what it is at the present time without our failing to do our duties according to what is laid upon us by the Act; that is my main point.

13,357. You say in paragraph 3 (b): "We extract the following table from the returns of Bishops showing their average annual cost of repairs." Is the same average observed in each case or are there varying averages for a varying number of years?—As far as I can make out from the returns from the Bishops—I would not like to guarantee that the Bishops were accurate to sixpence—or at least some of them—these represent a five years' average.

13,358. An ordinary quinquennial average?—An ordinary quinquennial average.

13,359. For the whole of these figures?—Yes.

13,360. You recognise that if the Commission were to recommend this change a very substantial allowance is required; if they were to do this it would be a further endowment of the see really?—No; I should disagree with that entirely; it is simply a matter of justice to us.

13,361. But the practical effect would be so?—No more than the practical effect would be if you said to a doctor, "we remit your tax on necessary expenses and so you are better off."

13,362. That is exactly what I mean?—Then, of course, that is so.

13,363. There are two alternatives, are there not—there always are two—and one is that the man must cut off some of his expenditure, and the other that he must find it from his private purse?—That is how it works out at the present moment.

13,364. Are we not, every one of us, in exactly the same position?—I do not know your circumstances, sir, but if you had to maintain an office out of your personal emoluments and be charged Income Tax upon it I think you would think it very unjust.

13,365. I do.—That is our position exactly. We do not want to escape one penny of taxation so far as it may be justly laid upon us, or to be different from any other citizens, but we do ask to be put upon a level with professional people who are in the same position as ourselves.

13,366. Mr. Bouverman: I find it difficult to ask my Lord Bishop questions, because I am wondering what the ordinary British workman will say if he reads that the Bishops are applying for certain relief from Income Tax?—I am prepared for that.

13,367. I may be misunderstood, but I am inclined to ask the question whether any Bishop has ever passed through the Bankruptcy Court?—They are extremely likely to do so.

13,368. The figures you gave this afternoon caused me to ask that question.

13,369. Mr. Holland-Martin: Has any Bishop in recent years given up his see or died a richer man than when he took it on?—No Bishop that I know has ever in recent years that is, since the Reform Act, made a single penny out of his see.

13,370. And, to your knowledge, many of them have retired or died very much poorer men?—Very much,

and I should myself. At the present moment I have occupied a see for five years, and I am £5,000 out of pocket.

13,371. Mr. Bouverman: After all, is not this a matter that ought to be adjusted by the Church authorities rather than by way of seeking relief from Income Tax payments?—I do not see how the expenses are going to be any different.

13,372. I agree; accepting everything you have put very clearly it does rather show that you are running near to bankruptcy, at any rate; the margin between the two is so small that you are placed in a worse position than a good many workmen?—Yes.

13,373. That being so, should it not be a matter for the Church authorities to consider the increasing of emoluments or salaries?—Yes. On the other hand, is it fair to treat some portions of the community differently from other portions of the community? You do make professional people certain allowances, but you decline to allow them to us, though, I think, we have a case for being allowed exactly the same. Is that justice to one portion of the community? We are not asking to make it any different in our case from any other portion, but are merely asking to be put on to a level with the other professional people in our community.

13,374. If you base your claim upon that ground that is one thing.—That is the only ground we are asking it on; we are asking it on no other ground.

13,375. Have you considered what might be called the public point of view, that is to say, what the public think about it?—You mean that the poor Bishops, already nearly bankrupt, are to forego their possibilities of what they are justly entitled to for the sake of the public. If that is so we must have as much philanthropy as possible and we must endure it, but we want to represent our case.

13,376. Frankly, I have great sympathy with yourself and colleagues after what you have said, but I question whether this is the best way of providing a remedy?—I do not think it will provide a remedy sufficiently great for us. No doubt we shall have to do something sooner or later in connection with the sees to make it more possible, but meanwhile I think we have a just claim on this without injury to any portion of the community.

13,377. One reads in regard to salaries paid to curates and reverend gentlemen that they must have a very hard struggle?—They have an awful time, and if I were to enlarge on it I should have more to say than on the case of the Bishops; no doubt my colleagues will have much to say when he comes to speak about it.

13,378. When we find those who are at the head of the Church coming forward and asking for this relief it is very striking?—If it is a case of allowing any of the clergy remission of taxation I will say quite plainly as a Bishop: "allow our Clergy and disallow us."

13,379. Mr. Holland-Martin: You think it would be impossible to make any definite division. I know you could not make a division that would be suitable for everyone, but any division would be better than the present plan, and surely it would be possible to say, for example, that one-third at least must go in expenses?—You mean that if the Bishops and others were to say that one-third of our income is going in expenses, and declare that it is so going, that would be a sufficient instruction to the Surveyors for relief of taxation.

13,380. I understand you are asking that some relief should be given for what you pay in that way; the difficulty is the amount?—I think it would be possible for a proportion in that way to be done, not the way I think I understood Mr. McLintock to say. If you want a return to say that one-third or a quarter or a half, whatever it is, is official, I think we should be able to do that, but it probably would not cover what we regard as sufficient.

13,381. You could for a certain proportion make a very good case, but you would not know in every

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Bishopric on which side it fell?—The difficulty is that Surveyors, unless they were instructed from headquarters, would require to have all the details before them; one year it might be more and one year it might be less, and it would be very difficult to have the simple third, quarter or half.

13,382. *Mr. Walker Clark:* Are Bishops as a rule assessed by local Surveyors or the Special Commissioners?—By local Surveyors.

13,383. They do not apply to the Special Commissioners?—I have never done so. It is possible some may on some occasion. The difficulty is that the local Surveyors will not allow certain things which are allowed in *pari passu* cases.

13,384. Of course, you have the common right of appeal?—Yes.

13,385. *Mr. Holland-Martin:* You have instanced the case of a doctor, but surely the important difference is that the doctor can choose his residence and the Bishop cannot?—The Bishop cannot choose his residence; we are tied to the particular house by Act of Parliament.

13,386. You are tied to a house which in most instances you would not take?—I am tied to a house that I would not live in in other circumstances, and if I died to-day my executors would have to pay for the full dilapidations and renew anything which has gone as though I was the actual beneficial owner.

13,387. In your statement of allowance for repairs can you say what year that is?—The last five years in the majority of these cases.

13,388. *Mr. Marks:* You referred to the Report of the Church Inquiry Commissioners?—Yes.

13,389. Was that published about 1890?—No, that was published prior to the Act of William IV, and all the incomes of Bishops have related back to that Act of William IV.

13,390. Sometime in the thirties?—Yes.

13,391. And those salaries were fixed then presumably having regard to the conditions which existed then?—I presume so, but numbers of others have been fixed since, right up to two years ago.

13,392. Only where new sees have been created, is not that so?—Yes, and of course there have been deductions from the sees out of which they have been created.

13,393. My point being, and I think yours also, that those salaries being fixed by Act of Parliament you have had no opportunity of adjusting them to the conditions which exist now, and those conditions are much more onerous than they were when the salaries were fixed?—Very much more.

13,394. How many sees are there in all?—I suppose when Bradford is established, which it will be in a few months, about 43.

13,395. You only take 25 in this?—I have not had full return from all the Bishops; I made a request of them all.

13,396. I ask you that because I see that you do not mention Chester here, and I noticed in the paper that Dr. Paget is not going to live in his palace for reasons which I think you can appreciate?—Yes, but in that case the late Bishop of Chester is taking under another Act of Parliament £2,000 a year out of the see, which he can do. In my own case £1,000 is taken out for a pension for my predecessor; therefore he has only got half the statutory income to fulfil all the statutory duties of the see, and he has still to maintain that house even though he may go into another house, that is to say, he must keep it in repair, insure it, and have a caretaker, and must renew anything that goes wrong. His is an extremely hard case.

13,397. The salaries having been fixed by Act of Parliament I take it that they are fixed as salaries; are they paid by the Ecclesiastical Commissioners?—They are all paid by the Ecclesiastical Commissioners in the old sees from funds which the Ecclesiastical Commissioners hold as Ecclesiastical Commissioners, and in the new sees from funds subscribed which they hold in trust as specific investments.

13,398. Would it be possible for the Ecclesiastical Commissioners to say: "we will pay the Bishop £2,000 as salary and £2,000 as expenses of his office"?—That cannot be done at present without a specific Act of Parliament. That was the matter that I inquired into this morning, and even if that were possible, then there must be the relief to the Bishop from the obligations regarding the house; £2,000 would be more than sufficient for a Bishop's personal emolument, but not enough for the expenses of his office.

13,399. So that any relief which the Bishops might get from an increase in their emoluments would have to be done by one comprehensive Act, or would it require several Acts?—I think one comprehensive Act would probably do it, but it would mean the repeal or amendment of several Acts.

13,400. Have you fixed in your own mind what would be a fair proportion as an allowance for repairs?—Yes, I think one-third in the newer sees and up to a half in the older sees.

13,401. I see that the average here works out at about a half?—Yes, the newer sees do not require quite so much in that respect.

13,402. Do you know if there is any intention amongst the Ecclesiastical authorities to apply for such an Act as I suggest?—None that I know of, no.

13,403. *Mr. Bouverman:* May I ask one further question? Is the application made with the knowledge and consent of all the Archbishops and Bishops?—Yes. If you ask whether each one has been asked: "do you assent to our making this," I cannot say that. I am requested by the Archbishop of Canterbury to give evidence on behalf of the Bishops, and I can only say that those who have made returns to me have assented to the case; I cannot speak of the others who have not.

13,404. *Chairman:* I think that concludes your examination, my lord. You have put your case very fairly.

TWENTY-FIRST DAY, **THURSDAY, 25TH SEPTEMBER, 1919.**

PRESENT :

LORD COLWYN (*in the Chair*).

Mr. BOWERMAN.

Mr. PRETYMAN.

SIR E. E. NOTT-BOWER.

Mr. HOLLAND-MARTIN.

Mr. ARMITAGE-SMITH.

Mr. BIRLEY.

Mr. WALKER CLARK.

Mr. GRAHAM.

Mr. KERLY.

Mrs. KNOWLES.

Mr. MACKINDER.

Mr. McLINTOCK.

Mr. MANVILLE.

Mr. GEOFFREY MARKS.

Mr. MAY.

Mr. SYNNOTT.

Mr. G. F. HOWE, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Proof of evidence of G. F. HOWE, Presiding Commissioner for the Special Purposes of the Income Tax Acts.

13,405. (1) The Commissioners for the Special Purposes of the Income Tax Acts (herein referred to as "Special Commissioners") are a statutory body created under section 23 of the Income Tax Act, 1842 (now section 87 of the Income Tax Act, 1918).

13,406. (2) They consist (a) of the members of the Board of Inland Revenue, who are *ex officio* Special Commissioners, and (b) of other persons appointed by the Lords Commissioners of His Majesty's Treasury with salaries fixed by the Treasury. It is these "other persons" by whom the duties assigned by Statute to the Special Commissioners are performed with the exception of certain repayment work hereinafter referred to.

13,407. (3) At the present time, apart from the Solicitor of Inland Revenue for Ireland, who, although holding the appointment, takes no part in the work, there are seven "other persons," one of whom is "Presiding Commissioner." This official is appointed from among the "other persons" for the time being holding office by the Board of Inland Revenue, with the sanction of the Lords Commissioners of His Majesty's Treasury.

13,408. (4) Special Commissioners are required to give their whole time to their official duties, which, omitting many small matters, include—

- (1) the assessing under Schedule D of the profits and gains of all railways in the United Kingdom, and under Schedule E of the salaries, &c., of all officials of such railways. In this and in all other cases the duty of assessing includes the duty of hearing appeals where a right of appeal exists.
- (2) the assessing under Schedule C of all dividends payable to any persons in the United Kingdom out of any public revenue, except dividends with the payment of which the Bank of England, the Bank of Ireland, and the National Debt Commissioners are intrusted, and the collection of duty assessed.
- (3) the assessing under Schedule D of any interest, dividends, &c., payable by, any foreign or colonial company or society, &c., and of any annuities, pensions or other annual sums payable out of the funds of any institution in India, where such sums are intrusted to any person in the United Kingdom for payment to any persons in the United Kingdom, and the collection of duty assessed. Under this head are included coupons for dividends payable abroad which are realized through a banker or coupon dealer in the United Kingdom.

(4) in Ireland all work that in Great Britain is performed by the General Commissioners.

(5) the assessing under Schedule D of the profits and gains of all persons in Great Britain who elect to be so charged instead of being assessed by Local Commissioners and the collection of duty assessed, and hearing all appeals arising in connection therewith.

(6) hearing the appeals of all persons in Great Britain who, having been assessed under Schedule D, or under Number III of Schedule A, by the Local Commissioners, elect to have their appeals against such assessments heard by the Special Commissioners.

(7) the making of all assessments to Super-tax and the collection of duty assessed.

(8) hearing appeals against assessments to Excess Profits Duty under section 45 (5) of the Finance (No. 2) Act, 1915, where the taxpayers so elect.

(9) examining and adjudicating upon claims to repayment of Income Tax under various heads and issuing orders for repayment of amounts certified by General Commissioners to be repayable. This work, which is of great magnitude, is mainly carried out by the *ex officio* Special Commissioners, i.e., by the Board of Inland Revenue.

13,409. (5) As regards appeals against assessments, either the taxpayer or the Crown can appeal on a point of law from a decision of the Special Commissioners to the High Court. By far the most important and difficult part of the work imposed by Statute upon the Special Commissioners is that of hearing appeals and, where required, stating cases for the opinion of the High Court.

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13,410. (6) It has been stated in evidence before the Royal Commission that of the total number of notices of appeal sent in by Income Tax payers by far the greater part is settled by correspondence or conference with Surveyors, the Commissioners not being called upon to do more than ratify agreed results submitted to them by the Surveyors.

13,411. (7) Without in any way impugning the general accuracy of this statement I would wish to say, so far as the Special Commissioners are concerned, that they themselves often make suggestions which lead to agreed settlements between taxpayers and the Revenue, and in all cases in which they receive from the Surveyors proposals to this end such proposals are not accepted as a matter of course. Before they are ratified by the Special Commissioners the relative accounts are examined and any questions of law considered. The appeals ultimately listed for hearing by the Special Commissioners are those in which no settlement agreed upon between the Surveyor and the taxpayer and ratified by the Special Commissioners

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[Continued.]

has been possible. It follows as a general rule that only cases of difficulty come on for hearing. As to the character of these cases I may perhaps be permitted to quote a remark made by the then Master of the Rolls (Lord Esher) on 16th February, 1899, in the case of *Clerical, Medical and General Life Assurance Society v. Carter*, L.R. 22, Q.B.D. 444, 3 Tax. Cas. 437, as follows:—

"We have heard a long argument, and a most able argument, and a puzzling argument, as all arguments about this Income Tax Act seem to me to be—it is enough to puzzle one's head off nearly."

13,412. (8) It is obvious that a mere statement of the number of appeals heard by the Special Commissioners gives no adequate idea of the amount or nature of the work performed unless the character of that work is borne in mind.

13,413. (9) Statements are annexed with regard to the foregoing heads Nos. 1 to 5 (*vide* paragraph 4) showing for three financial years the number of assessments and the amount of profits and duty assessed.

13,414. (10) A further statement is annexed giving statistics with regard to Income Tax appeals to the Special Commissioners.

INCOME TAX.

Number of assessments made by the Special Commissioners.

		1916-17.	1917-18.	1918-19.
Railways—United Kingdom ...	{ (Sch. D) (Sch. E)	239 296*	245 317*	263 340*
Total		535	562	603
Foreign and colonial dividends—United Kingdom [... ..	{ (Sch. C) (Sch. D) (Coupon Act)	480 1,300 2,327	476 1,306 2,094	523 1,303 2,031
Total		4,107	3,876	3,857
Special assessments—Great Britain ...		10,115	10,106	12,662
Grand total		14,757†	14,544†	17,122†

* These figures represent the number of assessments made on the railway companies. Some of the assessments are in respect of salaries, etc., of more than 10,000 employees for each of whom the amount of duty chargeable is shown separately.

† Exclusive of Ireland, where the assessments are "made" by the Surveyors of Taxes and "signed and allowed" by the Special Commissioners.

INCOME TAX.

Aggregate income assessed by the Special Commissioners.

(These figures are partly estimated.)

		1916-17.	1917-18.	1918-19.
		£	£	£
Railways—United Kingdom ...	{ (Sch. D) (Sch. E)	48,800,000 3,420,000	50,000,000 4,000,000	52,000,000 4,400,000
Total		52,220,000	54,000,000	56,400,000
Foreign and colonial dividends—United Kingdom [... ..	{ (Sch. C) (Sch. D) (Coupon Act)	43,606,940 25,849,437 17,884,884	52,115,491 25,478,290 20,849,528	58,600,000 25,000,000 22,000,000
Total		87,338,261	98,443,309	105,600,000
Special assessments—Great Britain	(Sch. D)	42,000,000	47,000,000	56,000,000
Ireland	{ (Sch. A) (Sch. B) (Sch. C) (Sch. D)† (Sch. E)†	15,267,300 9,700,000 Bank of Ireland. 17,000,000 6,100,000	15,364,605 9,700,000 18,700,000 6,850,000	15,400,000 19,000,000 20,700,000 7,400,000
		48,067,300	50,614,605	62,500,000
Grand total		229,625,561	250,057,914	280,500,000

† Including dividends on certain British Government securities assessed by the Special Commissioners.

‡ Excluding railways, the figures under that head for Ireland being included under "Railways—United Kingdom."

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[Continued.]

INCOME TAX.
Aggregate duty assessed by the Special Commissioners.
(These figures are partly estimated.)

		1916-17.	1917-18.	1918-19.
		£	£	£
Railways, United Kingdom ...	(Sch. D) (Sch. E)	12,412,639 268,404	12,824,314 332,372	15,391,888 520,752
Total ...		12,681,043	13,156,686	15,912,640
Foreign and colonial dividends— United Kingdom.	(Sch. C) (Sch. D) (Coupon Act)	10,805,641 6,224,797 4,445,495	12,993,775 5,923,032 5,332,883	17,600,000 6,600,000 6,400,000
Total ...		21,475,933	24,249,690	30,000,000
Special assessments—Great Britain	(Sch. D)	9,486,063	10,710,492	14,751,266
Ireland ...	(Sch. A) (Sch. B) (Sch. C) (Sch. D)† (Sch. E)†	1,916,070 390,390 Bank of Ireland. 2,793,650 442,723	1,854,403 342,988 3,207,518 581,821	2,100,000 920,000 4,450,000 680,000
Total ...		5,542,833	5,986,730	8,150,000
Grand total ...		49,185,872	54,103,598	68,812,906

† Including dividends on certain British Government securities assessed by the Special Commissioners.

‡ Excluding railways, the figures under that head for Ireland being included under "Railways—United Kingdom."

INCOME TAX.
Appeals.

	1916-17.	1917-18.	1918-19.
1. Number of appeals lodged with Special Commissioners, Great Britain ...	1880	1579	1549
2. Number of cases settled without a hearing:—			
(a) London ...	268	226	189
(b) Rest of Great Britain ...	921	851	906
(c) Ireland ...		not available	
3. Number of appeals listed for hearing:—			
(a) London ...	264	199	169
(b) Rest of Great Britain ...	348	259	217
(c) Ireland ...	2,718	2,415	2,149
4. Number of cases in United Kingdom in which			
(a) Dissatisfaction expressed ...	50	53	52
(b) Case demanded ...	31	30	31
(c) Case stated ...	15	25	26

SUPER-TAX.

19,415. (11) The entire work of assessing and hearing appeals is done by the Special Comm's sioners, by whom also applications for payment of tax are issued.

13,416. (12) The following figures relate to this work:—

(a) Number of assessments to Super-tax made and amount of income and duty assessed for each of the three years ended 5th April, 1919.
(These figures are partly estimated.)

	1916-17.	1917-18.	1918-19.
Number ...	32,000	35,500	48,000
Aggregate income ...	£200,000,000	£290,000,000	£340,000,000
Aggregate duty ...	£21,400,000	£24,500,000	£38,000,000

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(b) Super-tax appeals in the three years ended 5th April, 1919.

	1916-17.	1917-18.	1918-19.
1. Number of notices of appeal from 5th April, 1916 to 5th April, 1919 : 2,503.			
2. Number of appeals listed for hearing :—			
(a) London	99	76	88
(b) Rest of Great Britain	38	35	28
(c) Ireland	6	5	24
3. Number of days on which Commissioners sat to hear appeals :			
(a) London	50	38	44
(b) Rest of Great Britain	13	11	8
(c) Ireland	3	2	6
4. Number of cases where appellant did not attend :—			
(a) London	6	5	15
(b) Rest of Great Britain	6	6	6
(c) Ireland	—	2	3
5. Number of cases settled without a hearing	505	516	442
6. Number of cases in which :—			
(a) Dissatisfaction expressed	29	24	47
(b) Case demanded	10	17	39
(c) Case stated	9	14	38

EXCESS PROFITS DUTY.

13,417. (13) The following figures relate to Excess Profits Duty appeals to the Special Commissioners in the three years ended 5 April, 1917, 5 April, 1918, and 5 April, 1919.

	1916-17.	1917-18.	1918-19.
1. Number of Excess Profits Duty appeals lodged with Special Commissioners :			
Great Britain	305	359	358
Ireland	55	65	62
2. Number of cases settled without a hearing :			
(a) London	11	14	18
(b) Rest of Great Britain	52	72	55
(c) Ireland	8	7	2
3. Number of appeals listed for hearing :			
(a) London	90	137	153
(b) Rest of Great Britain	116	111	121
(c) Ireland	45	54	48
4. Number of appeal cases in which :			
(a) Dissatisfaction expressed :			
Great Britain	64	78	74
Ireland	7	4	2
(b) Case demanded :			
Great Britain	38	49	62
Ireland	6	2	1
(c) Case stated :			
Great Britain	31	37	53
Ireland	5	2	1

13,418. (14) Further particulars (partly estimated) are appended, showing—

(a) Total revenue raised by the Special Commissioners.

	1916-17.	1917-18.	1918-19.
	£	£	£
Income Tax—Railways*	12,681,043	13,156,686	15,912,640
Foreign and colonial dividends	21,475,933	24,242,690	30,000,000
Special assessments	9,486,063	10,710,492	14,751,266
Ireland*	5,542,833	5,986,730	8,150,000
Super-tax	21,400,000	24,500,000	38,000,000
Grand Total	£70,585,872	£78,603,598	£106,813,906

* See note † to the Tables in paragraph 10.

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(b) Total number of meetings of the Special Commissioners to hear appeals.
(Income Tax, Excess Profits Duty and Super-tax.)

	1916-17.	1917-18.	1918-19.
London	157	167	169
Rest of Great Britain	94	102	89
Ireland	104	85	90
Total... ..	355	354	348

13,419. (15) My experience as a Special Commissioner (I was appointed in December, 1907) has led me to the conclusion that on certain points an alteration of the law is desirable, and I append sundry memoranda relative thereto, omitting some points that are to be brought under the notice of the Royal Commission by witnesses on behalf of the Board of Inland Revenue. Actual personal experience has led me to the conclusions indicated.

NOTE.—In the following memoranda references to sections and rules relate, unless otherwise stated, to the Income Tax Act, 1918.

13,420. (16) Although the Officers who were "Surveyors of Taxes" are now "H.M. Inspectors of Taxes," I have retained the old title in order to preserve continuity with the earlier proceedings of the Royal Commission.

INCOME TAX.

Jurisdiction in respect of claims for relief dependent on total income.

13,421. (17) Section 28, continuing earlier provisions to the same effect, provides that "all claims under the preceding provisions of this Part of this Act shall be made and proved before the general commissioners for the division in which the claimant resides."

The "preceding provisions" referred to are those relating to reliefs from tax dependent on total income (exemption, abatement, children, wife and certain relatives, earned income, unearned income, separate earnings of married women, restriction of tax where income slightly exceeds certain limits), and the underlying idea seems originally to have been that it is the Commissioners for the district in which a person resides, and those Commissioners alone, who are likely to be sufficiently acquainted with his circumstances to judge whether the statement of total income rendered by him may properly be accepted.

13,422. (18) Whether the reason just given for the provisions of section 28 is the true reason or not, its validity was not recognized when the Super-tax was imposed, the administration of that tax—which, of course, is based upon statements of total income—having been entrusted exclusively to the Special Commissioners (section 7). In these circumstances little force remains in the contention that the correctness of a statement of total income can be determined only by the authority acting in the district where the taxpayer resides.

13,423. (19) Having regard to the existing state of the law, in dealing with assessments to Income Tax, appeals against such assessments and applications in connection with various matters as regards which they have jurisdiction, it is the practice of the Special Commissioners to confine themselves to determining the amount of the assessment or other matter immediately before them but to decline to go into such consequential questions as the amount of abatement, earned income relief, &c., which may be allowable as the result of their decision. This attitude, though necessary in view of the law, is not only highly inconvenient to the taxpayer, but may, and no doubt occasionally does, saddle him with a substantial grievance. It is inconvenient, because after dealing with part of his Income Tax

liability before one set of Commissioners he is required to go before another body, perhaps located hundreds of miles away, to finish off the matter. It may lead to a grievance, because, in order to prove to the Local Commissioners the amount of his total income, it may be necessary for a taxpayer to reveal to them the amount of his trade profits as assessed by the Special Commissioners, the very thing he may be most anxious to avoid, and which the law obviously contemplates should be avoided.

13,424. (20) The difficulties just mentioned have been largely overcome in practice by the Surveyor of Taxes and the taxpayer agreeing as to the abatement, relief &c., to which the latter is entitled as the result of the determination by the Special Commissioners of the amount of his profits, thus, in fact, obviating the necessity for carrying the taxpayer before the Local Commissioners on these consequential matters. There is, however, always the risk of disagreement between the Surveyor and the taxpayer, in which case, unless the taxpayer abandons his claim, the matter in dispute is bound to go before the Local Commissioners for settlement. In these circumstances it is desirable to give to the Special Commissioners statutory power to deal with reliefs dependent on total income in so far as they arise in connection with assessments, appeals or applications as regards which such Commissioners have jurisdiction.

Dwelling-houses partly used for trade purposes (Rules applicable to Cases I and II of Schedule D).

13,425. (21) Rule (3) says that in computing the amount of the profits or gains to be charged no sum shall be deducted in respect of the rent or annual value of any dwelling-house except such part thereof as is used for the purposes of the trade or profession: provided that where any such part is so used the sum so deducted shall be such as may be determined by the Commissioners, but shall not exceed two-thirds of the annual value or of the rent bonâ fide paid for the said dwelling-house.

13,426. (22) As the law stands at present, it is impossible for the Commissioners to allow deduction of more than two-thirds, with the result that if a trader lives over his shop the most that the Commissioners can do for him is to regard two-thirds of the house as trade premises and one-third as private house, even though the trade premises may be as big as Buckingham Palace, and the part used as a dwelling no more than two small rooms.

13,427. (23) My suggestion is that hardship and often absurdity would be avoided if the words italicized were omitted altogether from the Rule and the sum to be deducted were made determinable by the Commissioners without any words limiting the amount of the deduction.

INCOME TAX.

Rights of persons chargeable under Schedule D to be assessed by the Special Commissioners.

13,428. (24) Section 123 provides as follows:—

123.—(1) A person chargeable under Schedule D, who does not claim the exemption granted in a case where the total income from all sources does not exceed one hundred and thirty pounds a year, may require that all proceedings in order to an assessment upon him under that schedule shall be taken before the special commissioners,

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instead of before the additional or the general commissioners, and in that case shall deliver a notice of his request to the assessor of the parish, together with the statement of his profits or gains, for transmission to the surveyor of the district. The notice and statement shall be delivered within the time limited by the general notice under this Act for delivery within the time limited by the general notice under this Act for delivery of lists and statements.

The last sentence of this section has reference to the following provisions of section 98:—

98.—(1) The assessors appointed to execute this Act shall, within the time, and in the manner, directed by the precept of the general commissioners, cause general notices to be given, requiring all persons who, by this Act, are required to make out and deliver any list, declaration, or statement, to make out and deliver the same to the respective assessors as therein directed within such time as shall be limited by the precept, not being later than twenty-one days from the date of the precept.

(2) General notices shall be given by affixing a notice on, or near to, the door of the church or chapel and market house or cross (if any) of the parish for which the assessors act or, if the parish has no church or chapel or market house or cross, then on or near to the door of the church or chapel nearest to the parish.

13,429. (25) The effect of the combined sections quoted is that a person chargeable under Schedule D who wishes to be assessed by the Special Commissioners is required to give notice of his wishes to the local Assessor of taxes within a period not exceeding twenty-one days from the date of a precept issued to the Assessors by the General Commissioners. The time limited for delivery of such notices is to be ascertained in particular cases by the examination of a notice which is required to be affixed on church or chapel doors, etc., but which in fact is seldom examined by anybody. In practice notice of a twenty-one day time limit is also embodied in the notices to make returns under Schedule D (Form No. 11) which are annually served on taxpayers. This time limit runs from the date on which the notice to make a return is issued and rarely agrees with the limit indicated on the church door notices.

13,430. (26) The statutory time limit for giving notice of a desire to be assessed by the Special Commissioners is known to few taxpayers and is in practice not adhered to, while in numerous cases such notice is in fact given, not to the Assessor as the Act requires, but directly to the Surveyor of Taxes. The consequence is that the Special Commissioners are frequently placed in a position of some difficulty in deciding whether it is or is not proper for them to accept for assessment by them a return which has apparently been delivered out of time. In these circumstances, in the interests of the taxpayer I suggest the following alteration in section 123 (1)—After the word "request"—

"together with the statement of his profits or gains, either to the surveyor of the district, or to the assessor of the parish for transmission to the surveyor, within the time limited by the general notice under this Act for delivery of lists and statements or within such further time as the special commissioners shall allow."

INCOME TAX.

Foreign and colonial dividends.

Power to make assessments in the absence of returns.

Power to make estimated assessments.

Appeals against assessments.

13,431. (27) The provisions which have hitherto been known as the Foreign Dividends Sections of the Income Tax Acts are now contained in the First Schedule—namely, Schedule C ("Rules as to interest, etc., with the payment of which persons other than the Bank of England, the Bank of Ireland and the National Debt Commissioners are intrusted") and Schedule D, Miscellaneous Rules, Rule 7. These

rules provide for the collection at the source of Income Tax on dividends of foreign and colonial securities and companies paid or realized through an agent in this country.

13,432. (28) An agent entrusted with the payment in this country of such dividends is required to deliver for the use of the Special Commissioners of Income Tax "accounts of the amount of all such dividends." The Special Commissioners are to "assess and charge the dividends at the rate of tax in force at the time of payment, but reduced by the amount of the exemptions (if any) allowed by them," and are to "give notice of the amount so assessed and charged to the person entrusted with payment." The person entrusted with payment is, out of the moneys in his hands, to "pay the tax on the dividends on behalf of the persons entitled thereto."

13,433. (29) The draftsman of the sections in the original Acts on which these provisions are based seems to have regarded the machinery provided as likely to work automatically without giving rise to any possible disputes as to liability. The amount of dividends paid, the amount of tax chargeable at the appropriate rate, the amount of exemptions to be allowed: all these should be easily ascertainable matters of fact, and the facts having been ascertained, nothing would remain but to make assessments on the basis of the figures supplied and to receive payment of the tax due. Accordingly there is no provision, certainly no express provision—

(a) for an assessment to be made by the Special Commissioners in the absence of an account or return;

(b) for an assessment to be made by the Special Commissioners in any amount other than the amount returned by the agent, less exemptions, if any; or

(c) for the person assessed to appeal against the amount of the assessment made upon him.

13,434. (30) Where a person entrusted with the payment of foreign or colonial dividends neglects or refuses to deliver an account of such dividends, the Special Commissioners are not helpless, since a penalty of one hundred pounds may be imposed for such neglect or refusal. It is, however, desirable that, instead of proceeding for a penalty, they should have power to make an assessment in the absence of a return. This power exists side by side with the penalty in the case of other returns, e.g., those made by traders under Schedule D; and there are numerous cases in which procedure by way of making an assessment would be not only administratively more convenient and efficacious, but also less obnoxious to the taxpayer than penalty proceedings.

13,435. (31) An express power to make an assessment in a sum in excess of the amount returned in the agent's account is also desirable. For instance, take the case of an agent who is entrusted with the payment of £1,000 in dividends, but who returns for assessment £400 only, stating that the tax on £900 has been accounted for to the Revenue under other provisions than those relating to the assessment of foreign and colonial dividends. If the Special Commissioners did not accept the agent's view, the best way of testing the question at issue would be to make an assessment in the sum of £1,000.

13,436. (32) A right of appeal against an assessment should obviously be given in all cases. Indeed, in the example given in paragraph 31, it is by means of an appeal that the question in dispute could most conveniently be determined. It is probably unnecessary to multiply illustrations in support of an obvious proposition and it is therefore necessary only to add that circumstances arise from time to time in which it is claimed by an agent that an assessment should be amended, and an appeal is necessary to enable such cases to be properly examined and decided.

13,437. (33) I suggest that it is desirable—

(a) that the Special Commissioners should have power to make assessments "according to the best of their judgment" in respect of foreign and colonial dividends paid through agents in cases where no returns or accounts of such dividends have been

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delivered or where they are not satisfied with the correctness of the amounts returned for assessment; and

- (b) that the person assessed be given a right of appeal against any assessment that may be made upon him.

13,438. (34) In a recent case in the Appeal Court the legality of the settled practice under which paying agents return for assessment the amounts actually distributable by them in the year of assessment was challenged as not being in accordance with the existing law as to "foreign possessions" being assessable on an average of the three preceding years. Any alteration of the existing practice would entail grave difficulties—no injustice is done by that practice which is universal where income is receivable under deduction of Income Tax—and I suggest that it be made unquestionably legal.

INCOME TAX.

Cessation of trade, &c.

13,439. (35) Number 3 of the Miscellaneous Rules, applicable to Schedule D, provides that where a trade, profession, employment or vocation ceases, or the person assessed dies or becomes bankrupt during the year of assessment, application may be made to the "General Commissioners" for relief.

13,440. (36) I suggest that a taxpayer who has elected to be, and has in fact been, assessed by the Special Commissioners should have the right to apply to the Special Commissioners for relief. This result could be obtained by substituting for the words "General Commissioners" the words "Commissioners by whom the assessment was made."

INCOME TAX AND SUPER-TAX.

Settlements with intention to evade taxation.

13,441. (37) This is but a corner of a field to which I understand the attention of the Royal Commission has been or will be invited by the Board of Inland Revenue.

13,442. (38) Some striking cases have occurred. A father by a revocable deed settles a sum of money in trust for his children. The annual income is to be paid to him for maintenance and education of the children, for whom, as father, he would in any case be responsible. There is no check upon him as to how he expends the income, nor as to whether he expends it at all; he is responsible to no one, and may himself be trustee. Before the date, if any, at which the estate would vest in the beneficiaries the deed can be revoked. The settlor runs no risks, as he can put an end to the whole arrangement whenever he likes, and in the meantime escapes payment of Income Tax and Super-tax.

13,443. (39) The evil seems to require some remedy. I would submit for the consideration of the Royal Commission whether the law ought not to be—

- (a) that a revocable deed should have no effect whatever upon the settlor's liability to taxation, such liability continuing to be what it would have been had the revocable deed not been executed; and
- (b) that an irrevocable deed executed by a parent during the period for which the settlor, as parent, would be responsible for the maintenance, education, &c., of any child in whose favour the deed may be executed, should not, so far as that child is concerned, be operative by way of diminution of the parent's liability to taxation.

Commissioners for the Special Purposes of the Income Tax Acts.

13,444. (40) The title "Commissioners for Special purposes" is one that in itself conveys no definite meaning to the generality of taxpayers. In all probability the majority of recipients of ordinary Income Tax return forms when they see on them a statement that they can elect to be assessed by the Special Commissioners do not at all understand in what respects they differ from the other Commissioners.

13,445. (41) I think it would be much better to substitute the term "Stipendiary Commissioners." This would at any rate convey the idea that they are men who are paid to do their work, and can be held responsible in a way that an unpaid body cannot for doing that work properly. My colleagues concur with me in making this suggestion.

INCOME TAX.

Appeals against local assessments.

13,446. (42) By section 148 an appeal against an assessment under Schedule D or Number III of Schedule A made by the Local Commissioners can be carried to the Special Commissioners. The Act is silent as to what is to follow so far as regards the manner in which the amount of liability as fixed by the Special Commissioners on appeal shall be finally assessed and brought to account.

13,447. (43) What has actually been done for 77 years is that the Special Commissioners have certified to the Local Commissioners the amount of liability as fixed by them, and that amount has been entered in the books of local assessment and brought to account as duty assessed by the General Commissioners.

13,448. (44) It has always seemed to me that this practice is fundamentally opposed to the whole spirit of the provision under which a taxpayer can remove his case from local jurisdiction, and I submit that the law should be that in such a case no entry should be made in the local assessment book beyond that of the amount assessed by the Additional Commissioners the book being marked, "transferred to Special Commissioners," that the Surveyor of Taxes should enter the case on a Special Assessment sheet, which should be forwarded by him to us; and that it should thenceforward be dealt with in all respects as an assessment made by the Special Commissioners.

SUPER-TAX.

Non-residents.

13,449. (45) By No. 5 of the General Rules applicable to Schedules A, B, C, D and E, persons not resident in the United Kingdom are assessable and chargeable in the name of any agent, &c., and where there is, resident in the United Kingdom, such an agent or other person, as is designated by the Rules, no difficulty arises. But it may be that there is no such person.

13,450. (46) It not infrequently happens that we find from searching the files of the Registry of Public Companies that very large blocks of shares in British limited liability companies are held by persons not resident in nor having agents resident in the United Kingdom, and that dividends far exceeding in amount the minimum sum entailing liability to Super-tax are annually declared and paid by the companies in respect of such shares.

To take another class of case—A and B are in partnership as bankers, carrying on business in London and Paris; the profits in London are £50,000 per annum, divisible equally between the two partners, one of whom (A) resides in London and the other (B) in Paris.

13,451. (47) If a non-resident owner in the first case or B in the second case has no agent or other person resident in the United Kingdom (assuming that the Board's legal adviser is correct in holding that A is not within the Rule) and does not at any time visit the United Kingdom, it is not, in the opinion of the Special Commissioners, possible to make valid Super-tax assessments as in neither case can the individual concerned be served with legal notice to make a return. The Board of Inland Revenue do not concur in this opinion and have demanded a Case for the opinion of the High Court upon it. Until that Case is authoritatively decided the Special Commissioners cannot but act upon the law as they regard it. But even if the High Court should determine that a notice calling for a Super-tax return sent by registered post pursuant to sections 220 (5) and 7 (6) to an address out of the United Kingdom is a valid notice there will still remain the difficulty of collecting the duty assessed. Possibly this might be effected by an Order of Court attaching while in the hands of A moneys that would

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otherwise in due course be transmitted to B, and similarly while in the hands of the companies moneys payable by them to non-resident shareholders. But no such Order has in fact ever been applied for or obtained so far as I am aware, and the question arises whether there should not be a simpler method of enforcing the claims of the Revenue.

13,452. (48) I think that where a non-resident, whether a subject of His Majesty or not, has income arising in the United Kingdom, the law should be as follows:—

- (1) As to shares in a British company owned by a non-resident the secretary of the company should be liable to make returns and be assessed as agent for the non-resident to the full extent to which dividends are declared and paid to such non-resident without any deduction on account of the duty-free portion of income allowed in cases where a correct return is made of total income from all sources. As the secretary personally might be a man of straw the duty at the maximum rate chargeable should be recoverable either from him or from the company itself, and the secretary or the company should be empowered to deduct the amount of duty paid, or payable, from the dividends payable to the non-resident.
- (2) As to partnerships. The partner resident in the United Kingdom should be put in the same position as the secretary of a company and/or the company itself, in (1), so far as regards the partnership profits of the non-resident.
- (3) As to any other income arising in the United Kingdom. Any person resident in the United Kingdom through whose hands such income passes should be made similarly liable as agent to the non-resident, so far as regards the income passing through his hands.

13,453. (49) I would add that, to avoid loss of revenue, it should be made clear that the suggested liability would attach upon receipt from the Special Commissioners of a demand for a return, no matter what may be the amount of income belonging to the non-resident that passes through the hands of the person upon whom such a demand is served. A non-resident might have (say) £500 per annum from each of ten separate British companies, only four or five of which might be known to us, or, in addition to income that we might be able to trace, there might be income, such as mortgage interest, which we should have no means of tracing. Unless the Special Commissioners had reason to think that a substantial income, possibly involving liability to Super-tax, was being drawn from the United Kingdom by a non-resident, they would not make work for themselves by raising assessments in cases of this kind. In any event, if a non-resident is not liable, the onus of making a return and proving his title to exemption should be placed on him.

INCOME TAX.

Bad and doubtful debts.

13,454. (50) By Rule 3 of the Rules applicable to Cases I and II of Schedule D it is enacted that in computing the amount of a trader's profits no sum shall be deducted in respect of (inter alia) "any debts, except *bad debts* proved to be such to the satisfaction of the commissioners and *doubtful debts* to the extent that they are respectively estimated to be bad."

13,455. (51) The Act is silent in one important respect; we are not told what is to happen when sums deducted as above are subsequently recovered. They may, or may not, be included as a part of the gross receipts of the year in which they are received—if not included then they are omitted altogether.

13,456. (52) I submit that the law should make it clear that such sums form part of the gross trading receipts of the year in which they are recovered.

"Determination" of appeals.

13,457. (53) The Special Commissioners have power under section 137 (1) to adjourn the hearing of a case which is before them on appeal; a power which enables them after they have heard all the arguments and evidence of both sides, to take time to consider what form their determination should take. Or it may be that although we are prepared to settle the question of law involved, an immediate determination is not practicable pending the receipt of further accounts or figures which in the course of hearing the appeal have proved to be indispensable. In such cases it often happens that no further hearing is necessary, but as the law stands at present the parties to the case would have to attend before the Commissioners again in order that the determination might be communicated to them.

13,458. (54) To obviate the necessity the Special Commissioners have instituted a practice of communicating such reserved determination to both sides by registered post. This is done by consent of both parties to the case, for which consent the Special Commissioners ask at the termination of the hearing when they have intimated that their determination is reserved.

13,459. (55) In my experience such consent has never been withheld by the representative of the Crown, and cases where it has been withheld by the appellants have been London cases in which slight trouble and no expense has been incurred by having a second meeting. There is, however, nothing to prevent an appellant whose case has been fully heard in (say) Aberdeen or Sligo withholding his consent, in which case the Commissioners must either make a special journey to deliver judgment or hold up their determination till they next visit the town in question, which visit might normally be twelve months later.

13,460. (56) I suggest that statutory authority be given to the Commissioners to give their determination by registered post in any case in which, having fully heard arguments and evidence, they are for any reason unable there and then to determine the appeal.

INCOME TAX.

Void properties.

13,461. (57) Schedule A, No. VII, Rule 4, enacts that no tax is leviable upon unoccupied houses.

13,462. (58) As a general rule no rent is payable for such houses, but it not infrequently happens that where a house is let on a lease the owner is entitled to, and receives, rent, notwithstanding that the house is not occupied. By the second proviso to Schedule A, No. VIII, Rule 4, it is enacted that no tenant of a tenement shall be entitled to deduct out of any rent payable by him any greater sum than the amount of tax charged in respect of such property and actually paid by him.

13,463. (59) The only Schedule of the Act under which houses in the United Kingdom are assessable is Schedule A, and as in the case of an unoccupied house no tax is leviable under that Schedule it seems to follow that no tax can be deducted from rent paid in such circumstances. This condition of affairs leads to injustice and hardship. As regards the owner of the house, he receives in respect of it an annual income, yet there is no means by which he can be made to pay Income Tax on it. Case VI of Schedule D is in general an "omnibus" Case, but it fails to catch these rents as it is expressly made applicable only to profits or gains not falling under any other Case and not charged by virtue of any other Schedule, whereas the profits and gains arising from letting a house are charged by Schedule A.

13,464. (60) A further complication arises if the tenant is a building rented by a trader for trade purposes, but not occupied and used for such purposes during a given period. The practice is, and has so far as I know always been, not to allow as a deduction in computing trade profits for Income Tax purposes any rent other than rent paid for premises actually used for the time being for the purposes of such trade. The trader in such circumstances is dealt with unjustly. He has to pay the rent; he is refused

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any deduction in respect of such payment in computing the amount of his trade profits with the result that he is, in effect, made to pay Income Tax on the amount paid by him as rent; yet the owner of the house can refuse to allow deduction of tax on payment of the rent because there has been no tax "charged in respect of such property and actually paid by (the trader)."

13,465. (61) Where the Income Tax Commissioners dealing with the case are satisfied that rent is paid under a contract entered into for trade purposes only, I think the rent so paid ought to be an allowable deduction in computing the amount of the trader's profits; and in all cases, whether the premises are or are not trade premises, the recipient of the rent, if not bound to allow deduction of Income Tax by the tenant, should be assessable therefor under Case VI of Schedule D.

INCOME TAX.

Obsolete or worn-out machinery and plant.

13,466. (62) Rule 7, Schedule D, Cases I and II, deals with obsolete machinery and plant. It does not apply to machinery and plant absolutely worn-out and scrapped, and even as to obsolescent machinery, &c., it applies only in cases where the discarded articles are replaced. If they are not replaced, and during the time they were in use for trade purposes no allowance was claimed or made under the provisions of the preceding Rule (No. 6), then, whether the machinery and plant is discarded because it is obsolete, or because it is worn-out and fit for nothing but the scrapheap, the trader gets no allowance at all for the fact that in earning the profits assessed to Income Tax in past years the money expended in acquiring the said machinery and plant has disappeared, save the small sum realized for the scrap.

13,467. (63) This is not right. For 40 years Parliament has permitted a wear and tear allowance, and it cannot now be argued that the original outlay was an outlay of capital in the sense that any allowance in respect of its gradual diminution is forbidden by section 300 (2). But if it be a proper subject for allowance, and no allowance has in fact been made—no matter for what reason—during the lifetime of the machinery and plant, it seems to me that the claim of the trader for an allowance in some way or other in respect of prime cost less scrap value is not at all affected by whether he does or does not replace what has disappeared.

13,468. (64) I think he should be entitled to an allowance by way of repayment of tax, calculated on prime cost less scrap value at the average rate of tax chargeable during the lifetime of the machinery and plant.

13,469. (65) One other point calls for consideration in connection with this subject. So long as I have been connected with the administration of the Income Tax Acts, there has always been doubt as to what should be done where, no annual allowance having been made on account of wear and tear, the cost of replacing discarded machinery and plant, owing to fluctuation of prices, is either more or less than the original prime cost. To take two concrete cases—

(1) Prime cost	£	1,000
Cost of replacement of discarded machinery and plant	£	1,200
(2) Prime cost	£	1,000
Cost of replacement of discarded machinery and plant	£	800

I think what has been done in practice is this. In (1) up to 1917 an allowance was made of £1,000, less scrap value; since June, 1917, the full £1,200, less scrap value, has been allowed, and in (2) an allowance has been made of £800, less scrap value.

13,470. (66) In my opinion, this is not right. I think that what should be allowed in each case is what has disappeared in the course of carrying on the trade or business, viz., £1,000, less the scrap value. The cost of replacement (£1,200 or £800) will affect future allowances, whether by way of wear and tear or of replacement, but should have nothing to do with fixing the amount to be allowed in respect of the discarded machinery and plant. The principle I advocate has been definitely recognized in the

before-mentioned Rule 7, so far as regards obsolete machinery and plant when replaced.

Appeal accounts.

13,471. (67) Section 139 deals with this matter. Sub-section (1) empowers the Commissioners by whom an appeal is to be heard to require the appellant to deliver to them a schedule containing such particulars, for their information, as they may demand under the authority of this Act, and sub-section (2) gives them power to make further requisitions until complete particulars have been furnished to their satisfaction.

13,472. (68) The Act does not anywhere specify precisely what particulars can be demanded, rather it would seem to have been thought inadvisable to do this. The Commissioners are given wide general powers, the only clear limitation being that whatever they demand must be something which in their discretion they consider to be necessary for the purposes mentioned in the Act.

13,473. (69) It has not infrequently happened that professional men (e.g., solicitors and chartered accountants) engaged on behalf of appellants have demurred to complying with precepts issued by the Special Commissioners, on the ground that there is no express statutory authority for demanding the specific details which those precepts required. Most of such objections have been raised, I think, as regards two particular things—

- (1) balance sheet; and
- (2) trading accounts and profit and loss accounts as made out for the traders themselves in their own books.

13,474. (70) As to (1) balance sheets, the general argument is used that all necessary information as to income is to be found in trading and profit and loss accounts (though I have known strong objection raised to production of anything beyond the trading account, as distinct from profit and loss account), and that we are not exercising our discretion in a reasonable manner in demanding copies of balance sheets.

As to (2), it is said that we have nothing to do with accounts as made for the trader himself; that what we have the right to call for are accounts made up pursuant to the provisions of the Income Tax Acts, showing purchases, sales, stock, and such expenses as the law allows to be deducted, and that whether the accounts as made out on such lines do or do not agree with the trader's own books is not our concern.

13,475. (71) The answer to these objections is that over and over again an inspection of a balance sheet has thrown light upon a trading account, and has, in fact, on many occasions led to the discovery of errors in the latter that would not, and could not have been discovered by any other means; while, as regards trading and profit and loss accounts that differ in any respect whatever from the accounts as made up for the trader himself, it is obvious that, unless we know what alterations have been made in compiling the accounts that are supplied to us, we cannot come to any decision as to whether the said alterations are such as should be sanctioned or not.

13,476. (72) My own view is that it is not desirable to mention any specific particulars for which appeal Commissioners can legally issue precepts, but I think section 139 (1) might with advantage be amended as follows:—

- (a) after the word "information" insert "as in their opinion shall be necessary for the purpose of this Act respecting. . . ."
- (b) omit the last four lines of sub-section (1).

INCOME TAX.

*Ireland.**Schedule D and E assessments.*

13,477. (73) Section 189 (1) authorizes Surveyors of Taxes to make these assessments.

13,478. (74) Section 189 (2) prescribes under three heads the duties of the Special Commissioners with reference to the assessments when they have been made by the Surveyors.

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13,479. (75) From the order in which these heads appear it is arguable that the assessments must be signed by the Special Commissioners before the notices are issued.

13,480. (76) The Special Commissioners' signatures are, however, purely formal. It is quite impracticable for them to go through the individual returns, examine them one by one and form an opinion of their own as to the liability in each case, and, although from the wording of section 190 (1) read in conjunction with section 223 (2) such a procedure, if it were practicable, would not be beyond their powers, it is highly improbable that anything of the kind was contemplated when the Income Tax was extended to Ireland in 1853. There can be little doubt that what was intended was that Surveyors of Taxes in Ireland should do what in England is done by the Additional Commissioners.

13,481. (77) As a signature by the Special Commissioner prior to issue of charge notices is of no benefit whatever to the taxpayer, in my opinion section 189 might with advantage be amended as follows:—

189. (1)—Assessments under Schedules D and E shall be made and due notice of every such assessment and the amount thereof, and of the time and place for hearing any appeal against the same, shall be given to each person assessed by such Surveyors or other officers as the Commissioners of Inland Revenue shall appoint in that behalf.

(2) (a) The special commissioners shall appoint times and places for hearing appeals against assessments; and having heard the appeals that come before them shall sign and allow the assessments;

(b) It shall be lawful for the special commissioners at the request of the surveyor or other officer appointed by the Commissioners of Inland Revenue to reduce an assessment without requiring the taxpayer to attend personally before them.

County Court Judges—Ireland.

13,482. (78) Section 196 gives a taxpayer in Ireland who is aggrieved by a determination of the Special Commissioners, upon appeal, the right, on giving notice in writing to the Surveyor within ten days after such determination, to require that his appeal shall be re-heard by the Recorder or County Court Judge.

13,483. (79) I have known many instances in which a taxpayer has sent in notice of his intention to appeal but has done nothing further and has not attended the appeal meeting, so that the appeal could not be and in fact was not heard. In such cases there was no determination by the Special Commissioners. Nevertheless the taxpayer has given notice in writing to the Surveyor, within ten days after the date of the appeal meeting, requiring his appeal to be reheard by a Recorder or County Court Judge.

13,484. (80) The practice of the Recorders or County Court Judges has varied in cases of this kind. Some of them have held that they have no jurisdiction, on the ground that where there has not been a hearing there cannot be a rehearing; but others have admitted the claim put forward by the taxpayer, and have adjudicated upon his appeal, as they would have done if it had in fact been heard and determined by the Special Commissioners.

13,485. (81) On behalf of the Special Commissioners I wish to bring this matter under the notice of the Royal Commission. I think the intention of the framers of the Act of 1853, under which the Income Tax was extended to Ireland, was that an appeal should lie to the Recorder or County Court Judge only in cases where an appellant actually attended the meeting of the Commissioners and placed before them the evidence on which he relied in support of his appeal. It is only where this is done that a "determination" by the Special

Commissioners is possible, and it is I submit clear from the wording of section 196 that the Statute does not contemplate an appeal being entertained by a Recorder or County Court Judge unless and until there has been such a "determination."

13,486. (82) I suggest that, to make the law quite clear on this point, one of two things should be done. Either section 196 should be amended as follows:—

Sub-section (3) to be:—No application for a rehearing shall be admitted or entertained by a Recorder or County Court Judge in any case in which there has not been a "determination" by the Special Commissioners within the meaning of those words as used in Section 149 of this Act.

Sub-section (4) to be the present sub-section (3),

or a proviso should be added to section 196 giving a taxpayer the right to go direct to the Recorder or County Court Judge instead of first appealing to the Special Commissioners.

13,487. (83) I have one further suggestion to make as to Recorders and County Court Judges in Ireland—it is that either the taxpayer or the Surveyor of Taxes should have a right of appeal from their decisions, on a point of law, to the High Court. This has been enacted already so far as regards Excess Profits Duty, and in my opinion it ought to be the law as to Income Tax also.

INCOME TAX AND SUPER-TAX.

Procedure by Affidavit.

13,488. (84) Section 67 (3) is as follows:—

"The special commissioners shall, in matters within their jurisdiction, have all the powers of any other commissioners under this Act, but, save when acting in the place of general commissioners or in the matter of any appeal, shall not have power to summon any person to be examined before them, but all enquiries by or before them shall be answered by affidavit, to be taken before one of the general commissioners in their respective divisions."

13,489. (85) Probably this section, when originally enacted in 1842 (section 23 of that Act), was intended to protect the taxpayer from any avoidable trouble or expense. In actual practice it has most decidedly the opposite effect.

The Special Commissioners have had to deal with a number of applications for repayment of tax on interest paid to banks, members of the Stock Exchange, and discount houses under section 26, in which the natural and simple course would have been to arrange for a meeting at which the whole question at issue could have been discussed and settled. The Special Commissioners were asked by the claimants to adopt this course, and would have been only too glad to do so had they possessed the power. But the final words of sub-section (3) are mandatory—all enquiries shall be answered by affidavits taken before the General Commissioners in their respective divisions. The result has been to inflict upon taxpayers an enormous amount of inconvenience and trouble with no corresponding advantage of any kind.

13,490. (86) I do not as all desire, in connection with the matter, to ask for any further powers to be given to the Special Commissioners. My only suggestion is that the words "shall not have power" in the existing section be amended as follows:—"Shall not, unless by consent of the person concerned, have power." The effect of the alteration would be that the taxpayer concerned could, if he wished to do so, elect to come before the Special Commissioners instead of executing affidavits before a General Commissioner.

INCOME TAX.

Wear and tear of machinery and plant.

13,491. (87) Apart from the general consideration of this important matter, there is one point to which I venture to draw attention. It relates to the

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possibility and desirability of providing legislative checks and safeguards against eventual loss accruing either to the taxpayer or the Revenue, owing to the percentage allowance being fixed either too low or too high. It might be thought that where a trader claims a wear and tear allowance he could, as a rule, readily show from his books, if the business was an old established one, what was in fact the "life" of his machinery and plant. So far is this from being the case, that in my experience where the machinery, &c., is of a solid nature, lasting for a good many years, it has been an extremely rare thing to obtain evidence founded on recorded facts—in the vast majority of cases we can get nothing but expressions of opinion and belief. Further, it has to be borne in mind that the "life" is affected by the quality of the materials and workmanship originally put into the machinery, &c., both of which are varying factors; by the varying skill and care of the men in charge of it; and by whether or not repairs are promptly and fully effected immediately they are seen to be required. In short, it may be taken as an undoubted fact that all percentage allowances are more or less leaps in the dark and can but rarely exactly meet the actual requirements of individual cases. In practically all cases either too little or too much is allowed, and in my opinion this will always be so.

13,492. (88) If too little has been allowed, the claims of equity are, I believe, generally met in practice either by allowing the shortage as a working expense of the year in which old machinery, &c., is replaced by new, or by allowing it to continue to form part of the amount on which the wear and tear allowance is calculated.

13,493. (89) But if too much has been allowed, the Revenue has no remedy. Suppose, for instance, that a ship, the prime cost of which was £100,000, has been reduced by successive allowances for wear and tear to £30,000, and is then sold for £50,000. The purchaser is entitled to a wear and tear allowance computed on the £50,000, and by the time the ship is finally worn out and discarded the Revenue has lost the tax on £20,000.

13,494. (90) It would relieve Commissioners, called on to fix the rate of wear and tear allowances in circumstances where certitude is not attainable, of a great deal of responsibility if they knew that any errors—one way or the other—would ultimately be adjusted. If I may judge others from my own feelings on the matter it would also, I think, have the effect of inducing Commissioners generally to give more liberal allowances in doubtful cases than they consider themselves at liberty to do now, knowing as they do that if they allow too much the error is irreparable.

13,495. (91) There are several ways in which circumstances may arise affording a test of the accuracy or inaccuracy of the wear and tear allowances that have been granted.

- (a) The original purchaser of machinery, &c., may continue to use it in his trade until it is absolutely worn out and has to be scrapped.

In this instance the facts may disclose any one of three things as regards the wear and tear allowance that has been given.

- (1) It may prove to have been exactly accurate. This is not probable, but it is of course possible.
- (2) It may turn out to have been excessive, and the prime cost may have been written down to less than scrap value.
- (3) It may turn out to have been inadequate, the aggregate allowances falling short of prime cost minus scrap value.

I suggest that the law should forbid any further allowance on account of wear and tear when prime cost has been written down to the amount fixed by the Commissioners as scrap value. If scrap value turns out to be less than the sum so fixed or, apart from the question, the allowance proves to have been inadequate, the taxpayer should be entitled, unless

he comes to an arrangement with the Revenue on other lines, to repayment of tax on the deficit, while in the converse case in which the scrap value exceeds the sum fixed by the Commissioners the difference should be taxable profit.

- (b) The machinery, &c., may become obsolete and on that ground be discarded before it is worn out. This contingency is to some extent provided for specially by Rule 7, Schedule D, Cases I and II, and is the subject of a separate memorandum of mine. I need therefore say no more about it here.

- (c) The trader may sell the machinery, &c., before it is worn out or obsolete. This will happen as a rule only when a business changes hands. In such cases there may or may not be a separate price put upon the machinery, &c., apart from the stock and goodwill. If a separate price is fixed, I submit that it should govern future allowances for wear and tear so far as regards the purchaser, and that the vendor should be liable to pay or entitled to receive payment of tax on the difference (if any) between such purchase price and the amount to which the prime cost has been reduced by sums allowed for wear and tear. If there has been no allowance for wear and tear the repayment would fall to be made on the difference between prime cost and the amount for which the machinery, &c., was sold.

If there is no separate price agreed upon between vendor and purchaser for the machinery, &c., the matter is simple where the vendor has had a yearly allowance for wear and tear. Obviously, the machinery, &c., should be deemed to have changed hands at the amount of its written-down value for Income Tax purposes; the purchaser should step into the shoes of the vendor and should get in future years the same allowances as the vendor would have had had he continued to carry on the trade. No adjustment would in that case be called for so far as the vendor is concerned.

A difficult point arises, however, in such cases if the vendor has not claimed or been allowed anything for wear and tear. It is not at all likely that the price at which the business as a whole, including machinery, &c., has changed hands included in respect of the machinery, &c., a sum equal to its prime cost; yet it is not possible to say precisely what has been included. In the past and at present the vendor has not had, and has no means whatever of obtaining any Income Tax allowance in respect of the wear and tear that went on during the years that the machinery, &c., was used by him in his trading operations. It was, of course, open to him to have claimed an allowance for wear and tear, and if he did not do so it may be argued that he has only himself to thank for the consequences. We are, however, considering the possibility of doing absolute justice all round, and even in such a case as this that object is not impossible of attainment. It could be readily brought about if the Commissioners were empowered to inquire into and fix the value of the machinery, &c., at the date it was sold. The vendor should be repaid tax on the amount by which that value fell short of prime cost, and the purchaser should for all Income Tax purposes be bound by that value as from the date of purchase.

13,496. (92) In the case of the Burnley Steamship Company v. Aikin (3 T.C. 275) it was decided by the Court of Exchequer in Scotland that the quantum of a wear and tear allowance is not to be measured by reference to the selling value of machinery, &c., at any given date, and at first sight it might appear that the foregoing suggestions ran counter to this principle. The facts in that case, however, were that the vessel had not been sold, but was still being used by the company, and what it would have fetched if put up to sale in open market to the highest bidder could only have been a matter of conjecture. But

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in any case I am not concerned to argue the point seeing that the present Royal Commission has been appointed to consider and advise as to what ought to be, and I submit with some confidence that where there is an actual sale (free from external considerations such as, for instance, family affection) the difference between prime cost and the sum realised by the sale does in fact, so far as the trader is concerned, represent an actual outlay by him for the purposes of his business, and that such expenditure should be an allowable deduction in computing Income Tax liability.

13,497. (93) Briefly stated, my suggestions amount simply to this: that by the time machinery and plant is worn out an allowance should be made in some way for the difference between its prime cost and its scrap value; that such allowance should neither exceed nor fall short of that difference; and that, in cases where machinery, &c., has been sold during its "life" such allowance should be apportioned between the different owners in accordance with the proportions in which the exhaustion of capital has been borne by each.

INCOME TAX AND SUPER-TAX.

Appeals to the High Court.

13,498. (94) At present, apart from the special provisions contained in sections 33 (2) and 43 (3), taxpayers have no right of appeal to the High Court except as regards appeals against assessments. As to the various "applications" for repayment or adjustment of liability the decision of the Commissioners concerned is final—vide *Brace v. Burton*, 4 Tax. Cas. 399, and *Furiado v. City of London Brewery Company, Limited*, 6 Tax. Cas. 382. This state of affairs causes considerable dissatisfaction to the public, and is not, in my opinion, justifiable. I suggest that a right of appeal to the High Court on a point of law should be given in all cases, whether the point at issue arises in connection with an appeal strictly so called or not.

[This concludes the evidence-in-chief.]

13,499. *Chairman*: What length of experience have you had in Inland Revenue matters?—I have had 44 years, all but two months.

13,500. What stages have you passed through in that period?—I entered as an Assistant Surveyor, and later on I became a Surveyor, then an Inspector, then a Superintendent Inspector, then I became a Special Commissioner, and lastly Presiding Special Commissioner.

13,501. Steps onwards?—Yes.

13,502. 44 years—it is a long time?—Yes. Not so long to look back on as it is to look forward to.

13,503. We shall commence with your examination at once, because the points you raise here are all very important points, and we have had evidence on a number of them. Your paper is a very interesting one, and we will commence at once with the questions.—I should just like to say that when I drafted this paper I did not know that these points were going to be dealt with by anybody else. Since then I have seen in the published Minutes of Evidence that there are several of my points which have already been brought before you by other witnesses.

13,504. *Chairman*: Those may be excluded from the examination if the Commissioners think it wise, but on your original paper you will kindly submit yourself to the questions which the Commissioners wish to address to you.

13,505. *Sir E. North-Bower*: I see in your paper you offer a good many suggestions for improvements in the administration of the law, and they are suggestions which your experience would tend to show would make the working of the Act easier?—That is so.

13,506. With regard to claims for relief depending on total income, I suppose the position is this, that someone comes to be assessed by the Special Commissioners?—Yes.

13,507. And his income may be such as to entitle him to relief on the ground of the lower rates given to earned income?—Yes.

13,508. You are not able to deal with those?—No.

13,509. The Special Commissioners are not technically able to deal with those at all?—No.

13,510. What you want is to settle not only the amount of the assessment on the profits which are the subject of appeal, but really to fix the rate of duty, and to allow anything, such as children's allowances, and things of that sort; do you go as far as that?—We think it would be greatly to the convenience of the taxpayer if we could deal with the whole question, and not only settle what the amount of his income is, say, from an untaxed source; but, when we have settled that, go on to say what rate of duty he is liable to pay at, and what relief of any kind he is entitled to.

13,511. That certainly would be for the convenience of the taxpayer?—That is the only thing I am thinking about in making this suggestion.

13,512. You do not anticipate that it would lead to any clash of jurisdiction as between the Special Commissioners and the General Commissioners?—I do not think so for a moment.

13,513. With regard to dwelling-houses used partly for trade purposes, the present maximum is two thirds, and you want that maximum removed, I understand, and you wish the Commissioners to have power to determine what proportion should be allowed even in excess of two-thirds?—In actual practice we have had the most glaring cases occur—the most scandalous cases.

13,514. What sort of cases?—I remember one some years ago; there was a private hotel or big boarding house which was assessed at £1,000. I think, under Schedule A, and the proprietor and his wife occupied one bedroom in the basement and nothing else. We were obliged to disallow one-third of the £1,000 in respect of that one bedroom.

13,515. I suppose the best that can be said for the two-thirds limit is that it is rather convenient?—I do not think that taxpayer thought it very convenient.

13,516. Although sometimes it does not work justice?—Of course, it saves trouble in a way, but it certainly works gross injustice.

13,517. One small point with regard to the rights of persons assessable under Schedule D to be assessed by the Special Commissioners. In your paragraph 26 you say that if a man desires to be assessed under Schedule D by the Special Commissioners the law at present requires him to give notice to the Assessor—to send his return to the Assessor with a request that it should be forwarded?—Yes.

13,518. You suggest that instead of that the return should be forwarded either to the Surveyor of the district or the Assessor of the parish. I want to ask you a question on that point. I think the suggestion is a good one, but it is necessary that the Assessor should have an early intimation that people are going to be assessed by the Special Commissioners, because it is his duty to get returns from everybody?—Yes.

13,519. Therefore if the taxpayer wishes to escape from his liability to render a return through the Assessor he ought to give notice to the Assessor, ought he not?—What I thought was in practice such a large number of returns really are sent to the Surveyor, and with regard to that particular class of case I think it would be a matter of no difficulty for the Surveyor, when he received the list 14 and the Schedule E assessments from the Assessor, to mark up any cases which he had sent to him.

13,520. The Assessor could get that notice through the Surveyor?—Yes.

13,521. He ought to have a notice?—I do not think that would be a matter of any difficulty.

13,522. No, I think not. With regard to foreign and colonial dividends, I see you make suggestions here providing for an appeal where necessary, and for an assessment to be made by the Special Commissioners in any amount other than the amount returned by the agent?—Yes.

13,523. Has real practical difficulty arisen in cases of that sort?—We have had one or two cases where there would have been an appeal if we could have heard it.

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13,524. An appeal which might possibly even involve a subsequent appeal to the Law Courts?—It might, yes.

13,525. With regard to settlements with intention to avoid taxation, I think we have had a good deal of evidence on that point, and I think the Chairman suggested that we might possibly drop that out here; in point of fact I think Mr. Harrison brought forward a suggestion very similar to yours in that connection?—Yes.

13,526. And Mr. Harrison's suggestion, I think, arises out of evidence which has been already heard.

13,527. Chairman: Yes.

13,528. *Sir E. Nott-Dower*: With regard to bad and doubtful debts, where a bad debt has been written off, or a doubtful debt has been valued and a partial allowance made for it, in the event of that debt being recovered, we always have had it brought back as a subject of profit, have we not?—I am rather interested with regard to that because I have felt doubtful myself as to whether we always do get that money back. I suppose from the very circumstances of the case, if we do not get it we do not know that we do not get it, but I see that a chartered accountant giving evidence before the Commission quite recently, in the Minutes of Evidence, at question 8358, told the Commission that he himself had actually had a case in which bad debts when recovered had not been brought into the accounts.

13,529. You think the law might be made clearer with regard to that?—I think it should be. I have always felt that it was very doubtful. A man might say that the Act does not direct him to bring it in if he does get it; that it was recovered outside the three years; and all that he has to supply are particulars of the three years' trading. Of course, very often a bad debt might not come in for considerably more than three years.

13,530. I go now to your last suggestion about appeals to the High Court. You say there is no right of appeal to the High Court except in regard to appeals against assessments. I believe there are numerous types of cases to which your suggestion applies, are there not?—There have certainly been a number that have decided that principle.

13,531. Could you tell me at all what the cases are?—I think I quote them here, if I have heard you correctly—*Bruce v. Burton*.

13,532. In which paragraph is that?—Paragraph 94. I think it would apply in the case of a business that has ceased. It would also refer to an application in connection with repayment of tax on a loss.

13,533. Do you mean that in any case which involves a personal application to the Commissioners, which many people would call an appeal, for any sort of relief or adjustment authorized by the Acts, the decision of the Commissioners on that application should be subject to appeal to the Law Courts?—I think it should be if there is a point of law involved.

13,534. *Mr. Kerly*: May I suggest, for instance, another example, the question of time, as to whether something is out of time or not depending on the construction of the Act; that is not specially provided for, and I suppose there would be no appeal?—I suppose, strictly speaking, that would be a point of law, but as a general rule I do not think there can be much doubt about that. The limitations, where there are any, in the Statute are fairly clear, and there is not often any doubt, I think, as to whether a man is in time or not.

13,535. I only gave that as a possible example.

13,536. *Sir E. Nott-Dower*: Has not a case arisen such as Mr. Kerly mentions, as to whether an appeal under the 133rd section was brought in time?

13,537. *Mr. Kerly*: I do not want to pursue it.

13,538. *Sir E. Nott-Dower*: I think a case of that sort has actually been brought before the Courts.

13,539. *Mr. Walker Clark*: In paragraph 23, under the heading of dwelling-house, are you not dealing to some extent with cases with reference to intercommunication?—Not in the cases I am thinking of—the one that I mentioned just now of a large private hotel or boarding house.

13,540. It is a very exceptional case?—It is rather surprising what a large number of those cases we come to. I had a case that actually came before me within the last two years of one of the largest private girls' schools in England. There are really four blocks, and I think the gross rent is somewhere about £5,000 a year, but there is intercommunication between the whole of them. There are three ladies carrying it on, and each of them has a bedroom, one in each block, and they have not so much as a sitting-room. It was given in evidence before us that on the evening that the school breaks up these three ladies go away, that they have done that for many years, and that they do not come back until the very day that the school re-assembles, so that they do not use the buildings at all in the way of a residence except in term time, and yet technically we should be bound to add back more than £1,600 for these three bedrooms.

13,541. Of course, it is at a lower rate?—Not in that case. In that particular case the Board of Inland Revenue said they would not attempt to push the thing to an extreme. The ladies made a very reasonable offer, and the thing was settled to the satisfaction of everybody; but if the law had been carried out (and we should have had no power but to carry the law out) it would have been simply scandalous.

13,542. As a matter of fact you really suggest that the custom in exceptional cases should be legalised?—Yes.

13,543. *Mr. Walker Clark*: I know there are cases in my own knowledge where that has been done.

13,544. *Mr. May*: Did you urge the education authorities to provide these ladies with the sitting-room that you say they were deficient of?—This was a very high-class school.

13,545. All the more reason why they should have at least a sitting-room, surely?—Yes, perhaps.

13,546. Of course, there is a difficulty even in that case. There is a common user of a common sitting-room to some extent?—There was a room in which these ladies used to see parents or transact business, but there was not so much as one room which was solely used as a sitting-room.

13,547. With regard to paragraph 59, as to bad and doubtful debts, is not the general practice exactly what you now suggest should be legalised?—I believe in the vast majority of cases it is so.

13,548. Is not the only case in which bad debts are treated outside the trading account a case where there has been a change in the partnership; I am speaking now of the general cases?—I have no means of judging that.

13,549. Do you think it is common; shall I put it in that way?—No, I do not know that I go so far as that. I should say that the general rule is that it would be brought in.

13,550. And they would be very exceptional cases where it is not brought in?—Yes. What I really suggested this far was this, that if it were the law that these debts were to be brought in, when we were hearing an appeal we might put a question to the people concerned, "have you recovered any bad or doubtful debts, and if so have you brought them in?" We hesitate to ask that question now, because if we were challenged, "where is the law for it?"—the law is silent.

13,551. As a matter of fact that question is usually put by the district Surveyor, is it not?—Well, it may be, but personally as a Commissioner I have hesitated to put it, feeling that I had not any statutory authority for it.

13,552. As a matter of fact, in common practice it is put?—I have no doubt it is.

13,553. And the answer to some extent governs the assessment?—I do not think this is a matter of any great importance.

13,554. Thank you. That is exactly what I wanted to get?—It would round the thing off if it were there.

13,555. Then, in paragraph 64, you suggest that the repayment in respect of obsolescent machinery should be at the average rate chargeable during the lifetime of the machinery and plant; would not that be an extremely difficult thing in practice to carry out—the average rate?—I do not think it would.

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13,556. But surely it is difficult to find out when the particular machine was put into the plant, and it would mean that in any one year you might have ten machines obsolescent all at varying rates—a very complicated thing. It appears to me that the present practice of allowing on the current rate assets every point fully?—Yes, but, of course, at the present time with the tax at 6s. in the £—and I do not know that there is likely to be a great drop—it would be enormously to the taxpayers' advantage to get 6s. allowed instead of what might be 6d.

13,557. Or was 6d. in the dim distant past?—Yes. 13,558. Still, would it not be a very great convenience, both to the Revenue and to the taxpayer, to have it at the current rate rather than at the average rate?—There is no doubt it would greatly simplify matters—yes, it would, undoubtedly.

13,559. In paragraph 72 you suggest an alteration. Is not the suggestion there a very wide one because of the indefiniteness of your wording?—The present law is very indefinite.

13,560. Are you improving it?—I think we are to this extent—

13,561. I have the section before me?—As I have endeavoured to explain in my evidence-in-chief, when you put the words "as they may demand under the authority of this Act," to start with, it does open the door for people to say, "well, now, show us where you are entitled to demand this particular thing."

13,562. Is not that a desirable thing?—I think not. 13,563. Do you wish to go beyond the law?—The circumstances are so various that I think it is extremely difficult to specify what should be allowed.

13,564. Under this suggested alteration you would be able to call for the most private and fiduciary books and accounts?—Only where, in our opinion, it was necessary for the purposes of this Act.

13,565. "Is our opinion"?—Yes.

13,566. The trader's opinion or the taxpayer's opinion is not to be regarded as serious?—Well, if the taxpayer's opinion were to be final in many cases we should never get to the bottom of a thing at all. 13,567. Should not the law be final?

13,568. Mr. Kerly: May I be allowed to suggest that a Judge of the High Court or any other judge has this power of dealing with all documents in his opinion relevant to the matters to be tried? Why should not judges in the position of Special Commissioners have a similar power?

13,569. Mr. Walker Clark: I was coming to that; that was going to be my next question, as to whether the qualifications of the Commissioners were to be the qualifications of the judges of the High Court; that is the real question at the back of my mind to which I was leading up. They are asking for the power, and I am asking the witness whether he considers they have the qualifications.

13,570. Chairman: It is rather difficult for him, a Special Commissioner, to say that.

13,571. Mr. Walker Clark: But he is the Chairman.

13,572. Chairman: Still, his natural modesty would prevent him saying, perhaps?—I am only asking that we should be given power to call for anything which the circumstances of the case seem, in our opinion, to render necessary. If we are going to do our duty properly and get at the correct assessment and the correct liability, I think it is necessary for us to have this authority.

13,573. Mr. Walker Clark: But the statement was made yesterday by one of the witnesses from your Department?—From my Department?

13,574. From the Inland Revenue Department?—I am not a Revenue Department witness, please.

13,575. But the statement was made that 75 per cent. of the whole of the Income Tax was collected at source?—Yes.

13,576. That leaves only a balance of 25 per cent.; the great majority of the taxpayers were honest and honourable men, and discharged their full legal obligations?—I firmly believe it, and these powers would only be necessary as to the insignificant minority; they would not oppress the majority at all.

13,577. Well, I am not sure whether they would oppress; that is the very point to which I wish to get.

13,578. Chairman: Do you want them to have any very extended powers, Mr. Walker Clark?

13,579. Mr. Walker Clark: I want to know why they should have any very extended powers. It is only a minority at present, and there is a feeling which is resented by a certain class of men that the powers are exercised beyond the law, and I think you will agree that the answers have been given show that at any rate the common custom goes to the full limit of the law, if not beyond it?—I think the law at present is indefinite. As a matter of fact the Commissioners do at the present time call for any information which is in their opinion necessary.

13,580. Under the authority of the Act?—Under the authority of this Act, and the Act itself does not specify exactly what they may ask for.*

13,581. I submit that "under the authority of this Act" is absolutely necessary for the protection of the taxpayer; would you assent to that?—No, certainly not.

13,582. Mr. Marks: Are the Special Commissioners primarily concerned with the interests of the taxpayer, or are they entirely an impartial body between the Revenue and the taxpayer?—They are an entirely impartial body between the taxpayer and the Revenue. Perhaps I ought to qualify this to this extent, that that remark of mine relates to their appeal functions. Of course, in addition to that they have administrative functions, but even there they have no interest in charging more than should be charged. They endeavour to be absolutely impartial.

13,583. Your suggestion that the balance sheets and trading accounts and profit and loss accounts should be produced is really in the interests of the Revenue and of the taxpayer, who would otherwise, dealing honestly with the position, have to pay more than he should?—Partly that, and partly this: I do feel that I entirely agree with what this gentleman just stated as evidence given yesterday, that the vast majority of taxpayers are straightforward, but I do think that when you come to deal with what we all know is the fact, that there is a small minority who would evade their just liability if they could, in justice to the great mass who pay 20s. in the £ there should be some means of making this small minority pay their full amount.

13,584. I was coming to that. It was given to us in evidence yesterday that one of the principal aids in evasion of tax was the fact that balance sheets were not always available in order to check the accounts which were sent in: do you agree with that?—It is so sometimes, yes.

* The witness is desirous that the following foot-note may appear:—

In making my suggestion as to alteration of the wording of section 139 (1) I did not consider I was asking that any power should be conferred on the Special Commissioners beyond those they already possess. In their opinion they now have power to call for balance sheets and whatever other information is in their opinion necessary. The wording of the section as it now stands is, however, not so clear as it might be, and I therefore suggested that it might be amended. As supporting the position taken up by the Special Commissioners, I rely upon the judgment of the High Court (Ireland), King's Bench Division, in the case of *Neill v. Commissioners of Inland Revenue*, heard in Dublin on 6th February, 1918. The circumstances of this case were as follows:—I sat with a colleague to hear an appeal by Mr. Neill, of Londonderry, on 24th June, 1917. Accounts prepared by a reputable firm of incorporated accountants were put in as evidence and relied upon by Mr. Neill as proving his title to have the two assessments made upon him (to Excess Profits Duty) totally discharged. No balance sheet was produced showing the appellant's position at a crucial date, and corroborative details for which we called were not forthcoming—it being stated that all the documents in question had been sold for waste paper.

We refused to accept the accounts and discharge the assessments entirely, but retained them so far as we considered right on grounds quite apart from the said accounts, and Mr. Neill went to the High Court on the point of law involved in such refusal. The case was heard by three Judges and judgment was delivered by the Lord Chief Justice of Ireland discharging the appellant. The concluding words of his judgment were:—"They" [the Special Commissioners] were not in any way bound to take the accounts as accurate in the absence of the production of the vouchers on which these accounts were made out. Under all the circumstances the Court could not possibly say that the Commissioners had exceeded their jurisdiction or gone outside the regulations in any way. They were placed in a position of great difficulty, and, in the opinion of the Court, they had taken a wise, reasonable, and proper course."

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13,585. So far as evasion is deliberately practised it is facilitated by the absence of a balance sheet?—Yes.

13,586. And that is the prime reason why you want the balance sheet produced?—Yes.

13,587. Mr. Armitage-Smith: It is the fact, is it not, that in determining what a taxpayer shall pay you act in a judicial capacity?—Yes.

13,588. You do not act under the directions of the Board of Inland Revenue?—No.

13,589. Therefore when you are asked whether your qualifications are judicial, I suggest to you the answer is that your functions are judicial?—Yes.

13,590. On the question of settlements with the intention to evade taxation, supposing the law were altered in the sense of bringing under the review of taxation sums which now escape, in your opinion would it be equitable, and is it in accordance with precedent that such legislation should be retrospective?—That is rather difficult for me to answer. As a matter of fact I have seen enormous sums escaping taxation that ought to have borne taxation, but without considering it I would hardly like to say that I thought it should be retrospective.

13,591. For instance, with respect to a given trust legally in operation at the time when the law were altered, would you advise that power should be taken to ignore that trust?—Do you mean for all future liability, or to go back?

13,592. For future liability?—I certainly should for future liability. I think as from the date of the law being altered that trust should be inoperative, notwithstanding the fact that it was created prior to the change of law.

13,593. Is there any precedent, with regard to Life Insurance for instance, of a change made in respect to the relief on Life Insurance policies?—Yes.

13,594. Which way would the precedent be inclined to lean?—If you take the Super-tax, from the moment that Life Insurance ceased to be allowable as a deduction, we did not take into account the question as to whether a man had, as a matter of fact, taken out a policy believing that he could deduct it; from the moment that the law said that Life Insurance should not be allowed we ceased to allow it.

13,595. I was thinking of Life Insurance in connection with Income Tax, not Super-tax. The full allowance, I understand, is still granted on contracts made before the date of the changing of the law?—Yes, that is so, I know. I should certainly suggest that that ought not to be done in the matter of a trust.

13,596. Mr. Mackinder: With regard to the Special Commissioners and your second and third paragraphs, you say "other persons" are at the present time seven in number?—Yes.

13,597. I take it the *ex officio* Special Commissioners do not do much of the work?—No.

13,598. The work, then, is done by those seven?—Except what I say further down in paragraph 4, No. (9). There is a very great deal of heavy work done in connection with repayments as to which it is those officials who are concerned. With that exception they do not do practically any part of the work; it is the "other persons" that do all the rest of the work.

13,599. I was a few minutes late in coming, and I do not know if the question has been asked; but with regard to these seven persons, who in fact were they before they were appointed? Of course, now they give their whole time?—Well, to take myself, the first question I was asked was as to my official life. I will take myself first, because my name comes first in the official list. I have had almost 44 years' experience in different capacities in the Inland Revenue, and as regards qualifications I was many years ago called to the Bar; those are my qualifications. The next Commissioner prior to appointment was for 15 years a practising solicitor.

13,600. Not in the Inland Revenue?—No.

13,601. In connection with the Inland Revenue?—No, quite apart from that, practising on his own account. The third one was for many years in the Inland Revenue Department. The fourth one has no

legal qualification; he was for five years Private Secretary to the Chancellor of the Exchequer and Prime Minister.

13,602. Was he a civil servant or not?—No, he was not a regular civil servant; he never was in the regular civil service. Of the next two Commissioners, Nos. 5 and 6, one of them has been called to the Bar, the other one has not. They were both of them holding appointments in Somerset House for some years before they were appointed. The most recent man to be appointed, the latest of the number, No. 7, was for 15 years a practising barrister before he was appointed.

13,603. The appointments are then in the main, I think with one exception, either from Somerset House and the Inland Revenue service or lawyers, the one exception being the private secretary?—Yes.

13,604. Would you suggest that there might be persons more known to the public and less attached to the civil service and the practice of the law appointed on this Commission, with a view—I will not say of giving confidence, but of letting the public know that the ordinary man's point of view was represented?—I think that would depend partly upon remuneration. I do not think you would get men who are known to the public at the existing rates.

13,605. Put aside remuneration. The Special Commissioners hold a unique position?—Yes.

13,606. And a very, very important position, and a position which, with the increase of taxation, becomes more important every day?—Yes.

13,607. Especially as you have the whole of the Super-tax in your hands?—Yes.

13,608. Therefore, putting aside remuneration and looking at the matter of your responsibility as presiding Commissioner with the interests of the Service in view, what would you say?—It is rather a difficult question for me to answer; in fact, I find it rather difficult to answer without attempting to blow our own trumpet. I understand you will be having before you shortly Mr. Bremner, the well-known counsel, and I think he could answer that question much better than I could.

13,609. Would you be good enough to tell me what the salaries are of these seven "other persons"?—The Presiding Commissioner has a fixed salary of £1,200, and the other Commissioners go from £850 to £1,000.

13,610. You understand I am not in any way attacking them; I am looking at it from the national standpoint?—Yes.

13,611. Mr. Synnott: Is Mr. Bremner a Special Commissioner?—No, but he is constantly before us as counsel, and I understand he is coming before you as a witness.

13,612. Mr. Kerly: Mr. Bremner is a very experienced member of the Bar, and has more experience in Income Tax cases than anybody else. I think I ought to say this, in justice to my colleagues if not to myself, that I think we may fairly claim that we do give satisfaction on the whole, otherwise counsel would not bring so many cases to us. Although I have given no statistics—I have no means of knowing—I have been told by representatives of the Chief Inspector's Department of Somerset House, who would know, that with regard to Excess Profits Duty, where it is open to the taxpayer in every case to make his own election as to whether he should go to the Local Commissioners or to us, the vast majority of appellants had elected to come to the Special Commissioners.

13,613. Mr. Mackinder: You are appointed by the Treasury?—Yes.

13,614. When there is a question of appointing a new Commissioner I take it that inquiries are made; are you consulted?—No.

13,615. Have you any idea as to how the Treasury goes to work to find the suitable person?—No.

13,616. Is there any promotion open to Special Commissioners?—No.

13,617. It is their final appointment in life normally, if they are in the civil service; is that so?—It has been so far. It does not itself open the door to anything else.

13,618. As a fact, have they been promoted?—No—I beg your pardon, I should correct that. Sir

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warren Fisher was a Special Commissioner at one time.

13,610. Ex officio?—No; he was one of my colleagues.

13,611. Is he the unique case of promotion?—I do not know of any other; I think that is the only one. He afterwards became a Commissioner of Inland Revenue, then Chairman of Inland Revenue, and now is at the Treasury.

13,612. Apart from the legal persona I was trying to find whether this is a step in a career. I gather that as a rule it is the final step?—Yes.

13,613. And in the Inland Revenue service?—Yes.

13,614. With regard to appeals, do you find that appeals come to you from special parts of the country? Can you distinguish, for instance, between town and rural districts?—No. I think as a matter of fact it is rather noticeable that from some districts we get a great many assessments and people who elect to be assessed. You are speaking of assessments?

13,615. Yes.—That is so, and in other cases we get very few. As an old Revenue official and as a Special Commissioner I have my own theory about this. I think if one made inquiry one would find that in a district in which there are a great many special assessments the probability is that at some past period either there was a Surveyor who rubbed people the wrong way to some extent, or else there happened to be a bunch of Local Commissioners that the public did not like, and then large numbers of taxpayers would come to the Special Commissioners, and having once come they stopped with us.

13,616. I put a question similar to this to an official witness, and when I suggested that possibly these assessments were removed to the Special Commissioners because of the unpopularity of a Surveyor I was told that that could hardly be the case, because the assessments had to come through the local Surveyor to the Special Commissioners, and it would rather be the unpopularity of the Local Commissioners: what do you say about that?—I think that probably would be so.

13,617. You said just now it might be traced to the Surveyor?—That may be so, but I still hold to what I said, for this reason, that again and again we have found that people in coming to us think that they are going to get out of the local Surveyor's hands; of course, they are not.

13,618. That witness put it that it was a matter of fashion, he thought, in particular districts?—I think sometimes people come because they think that they will evade all local inquiry, including that of the Surveyor, and I think that is a still larger influence would be if they do not like the Local Commissioners.

13,619. All that has to do with local assessment?—Yes.

13,620. And not appeal?—Yes.

13,621. It is a removal of the assessment?—Yes.

13,622. Is there a very marked difference between district and district in the amount of assessments?—In the number of assessments?

13,623. Yes?—Yes.

13,624. Very marked?—Well, of course the whole thing is small. I do not suppose we have got more than between 100 and 150 assessments in any one district in the country.

13,625. I am asking the question because this power of removing the assessment to the Special Commissioners is regarded as a very important safeguard for the taxpayer—theoretically at any rate. I want to know how far practically it is working in that way?—The thing I think that is most noticeable is not so much districts as the class of men that come to us. There is one class of men that come to us of all proportion to any other class of men, and that is doctors—medical men. We have certainly got an altogether disproportionate number as compared with the total number of medical men, and a considerable number of solicitors come to us; I think these would be the two classes chiefly concerned.

13,626. It is an interesting point, that doctors should come to you; can you tell us why?—No.

13,627. Is it for any reason that they do not wish to be assessed by the Local Commissioners; do you think; is there any special reason in their case?—I do not think so.

13,628. But this is a matter that has attracted your attention?—Yes, I have often been struck by the number of medical men that do come to us. Of course, they are educated men and men of considerable culture, and whether it is that they do not care to have their private concerns dealt with by a body that would mainly consist as to many of them of their own patients I do not know.

13,629. Of course, so far as education goes the same would be true of solicitors, would it not?—As I say, solicitors I think I should put in the next category.

13,630. Oh, you would?—I said so—doctors and then next solicitors.

13,631. Mr. Walker Clerk: Would they furnish accounts?—Solicitors?

13,632. The two classes to which you refer?—Yes, we frequently call upon them to do so.

13,633. And they would in the ordinary way furnish accounts?—Oh yes.

13,634. It is not because they do not furnish accounts?—Oh no.

13,635. Mr. Mockinger: We are not dealing with appeals; we are dealing with assessments at present?—Yes.

13,636. These people have come to you year after year—the same people, I take it?—Yes, in a large number of cases.

13,637. They make a practice of it—doctors and solicitors specially?—Yes.

13,638. And you have not made any inquiry specially why it should be so?—No.

13,639. Mr. Birley: In paragraphs 45 to 49 of your report you deal with the question of Super-tax from non-residents. Do I rightly understand your suggestion to be that secretaries of all companies shall make a return of all shareholders who are non-resident and shall deduct from dividends paid by that company an amount for Super-tax?—No, I do not go nearly so far as that. If you look at paragraph 49 you will see I suggest that liability of that kind should only attach upon receipt from the Special Commissioners of a demand or a return. I do not go nearly so far as to suggest that every secretary should be bound to make such a return as that.

13,640. No, but without it how are you going to ascertain who are the foreign residents who ought to pay?—Well, of course my proposal here would leave us to find that out as best we could.

13,641. Do you find it out now very satisfactorily?—I have no doubt in some cases we do not; in a great many we do.

13,642. On your proposals on the present law and suggestions in paragraph 48 (i), you say power should be taken to make the secretary of a company liable to pay the tax on non-residents' dividends?—That of course would be in certain cases, as I say here. Unless the Special Commissioners had reason to think that a substantial income, possibly involving liability to pay Super-tax, was being drawn from the United Kingdom, they would not take action.

13,643. Do you not think one of the most important things for you to get at is to find out who the people are who ought to pay Super-tax?—Undoubtedly.

13,644. Are you taking special steps to get at these people now?—I should like the Commission to consider your suggestion. Personally, I hesitate to go so far as to call upon the secretary to make a complete return, but if he had to do so there is no doubt it would be of assistance, and very considerable assistance.

13,645. I have in mind a company which is controlled in England, three of whose directors are resident abroad, where part of the business is carried on, and all three of those directors are most certainly liable to Super-tax on the income they receive from this country, but only one of those directors has ever been asked for a return for Super-tax. That is one instance which I personally know of. It gives one the impression that possibly, perhaps probably, there are many others escaping who should not escape?—I am afraid there are.

13,646. Can you make any suggestions as to how you are to get at that unless you were to carry your own suggestion further and make all secretaries liable to make a return of non-residents on their register?

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—No. I think it would be a very valuable safeguard to the Revenue if they had to do it.

13,656. Then you could make up your mind whether you would ask for a return in those cases or not?—Yes. I think that would be a much better safeguard to the Revenue than my suggestion.

13,657. At what rate do you suggest that a secretary should deduct Super-tax—at the full rate?—I think it should be at the highest rate.

13,658. Does that mean that you would then leave the onus on the foreign resident to prove that he was not liable to the full rate?—Yes.

13,659. Not that you would charge him at the full rate, as you do in the case of Income Tax, whether he is liable to it or not?—No. If he had made a return showing he was liable only at a low rate, we should only charge him at the low rate.

13,660. But you would make sure of getting the full rate, and leave the onus on the foreign resident?—Yes.

13,661. Mr. McLintock: In the heading to the first table in paragraph 10, you refer to assessments made by the Special Commissioners. You use the expression "Number of assessments made by the Special Commissioners." Then you have a footnote: "Exclusive of Ireland, where the assessments are 'made' by the Surveyors of Taxes and 'signed and allowed' by the Special Commissioners"?—Yes, that is so.

13,662. Is there any real distinction?—In this other case, for instance, railways of the United Kingdom—

13,663. They can only be assessed by you?—They are assessed by us; we make them; but in Ireland we do not technically make the assessment.

13,664. You mean the Surveyor never sees the railway assessments at all?—Yes, he deals with them the same as the others.

13,665. He goes into all the accounts, and makes out the computations?—Yes.

13,666. Is there any real distinction between the two?—Between railways and others?

13,667. Between the Surveyor making out the railway computations, and the Surveyor in Ireland. He does the same thing, and you would sign and allow the assessments?—As regards railways, all accounts are sent to us, and all the accounts are examined in our office, whether in Ireland or out of it.

13,668. I suggest to you that the General Commissioners throughout the country do exactly in all the districts what you do in Ireland?—I cannot say; I do not know what the General Commissioners throughout the country do in all districts. I do not think they do, as a matter of fact.

13,669. When you were engaged in the Inland Revenue, did you not find it the practice that the Surveyor practically made the assessments, and they were signed and allowed by the General Commissioners?—No; my experience was not that. My experience varied very much. Some Commissioners would pay a good deal more attention than others to any suggestion that I made. I am going back now to the days when I was a Surveyor.

13,670. The practice has probably changed since then?—Of course that is many years ago, but I can very well remember districts, when I was a Surveyor, where I was not allowed to make a single assessment, and very little notice was taken of any suggestion I made.

13,671. That fortunately has changed; that does not prevail to-day?—Possibly not.

13,672. I want to be quite frank. I suggest that, generally speaking, in, say, all cities, in reality it is the Surveyor who makes the assessment, and the Commissioners merely sign and allow it. Take all limited companies; the Surveyor gets the accounts sent to him months before a return is made; he goes into all the figures; he asks all the questions; he agrees with the appellant the amount of his liability, and I never knew the Commissioners to alter it?—No, they would not.

13,673. Is not that practically the same, in effect, as what you do in Ireland?—In the great majority of cases, there is no doubt it would be so; but in Ireland we do not profess that we make the assessments.

13,674. I suggest that in the rest of the country they profess to make them and do not do so?—The General Commissioners, or the Special Commissioners?

13,675. The General Commissioners?—I am not concerned to deny that proposition.

13,676. Then we come to the next point, with regard to appeals to you from these so-called assessments made by the General Commissioners. Can you hear an appeal on an assessment which has been made by the General Commissioners?—Yes. If I might just correct you a little, you mean on an assessment made by the Additional Commissioners?

13,677. Yes, quite?—When the taxpayer receives a notice of an assessment made upon him by the Additional Commissioners, he can appeal against it either to the local General Commissioners or to the Special Commissioners.

13,678. Then what about an assessment made by the General Commissioners?—It is almost non-existent. I will not go so far as to say it is non-existent, because there are certain very obscure sections dating from 1842 which speak of the Additional Commissioners referring returns to the General Commissioners, and going through a lot of routine, which as a matter of fact I never in my life knew done. Therefore I must not go so far as to say positively that in no case do the General Commissioners make an assessment. I can only say that in the whole of my experience I never knew it done—not once.

13,679. Your view is that there should be no bar whatever to the taxpayer going to the Special Commissioners for any appeal?—That is so.

13,680. Whether they actually made the assessment or not?—Yes; as a matter of fact, he can do that now.

13,681. Your experience is, however, that the appeals to you are not growing in number?—Not to any appreciable extent; in fact, I am not sure they have not dropped a little.

13,682. The figures would indicate that they are dropping, because for 1916-17, 1917-18 and 1918-19 you give the figures in the last table of your paragraph 10; the appeals in 1916-17 are 1,880; in 1917-18, although the assessments made were the same as the previous year, the appeals dropped to 1,579; the assessments increased in 1918-19, but the appeals still dropped?—I think I can give you a little information about that. Taking that 1,880, that consisted of 1,211 appeals against special assessments and 669 appeals against local assessments.

13,683. What do you mean by special assessments?—Against assessments made by the Special Commissioners. Now for 1917-18, the 1,579 consisted of 899 appeals against assessments made by Special Commissioners and 680 against local assessments. For 1918-19, the 1,549 consisted of 861 appeals against special assessments made by us and 688 against the local Commissioners. Now, if you had those figures before you so that you could look at them, you would see that notwithstanding the drop from 1,880 to 1,549, the number of cases in which there has been an appeal against local assessments carried to the Special Commissioners has slightly gone up. It was 669 in 1916, 680 in 1917, and 688 in 1918. So that the real drop has taken place in appeals against assessments made by the Special Commissioners. With regard to that I may say this. I have been looking into this matter to some extent, and up to the year 1916-17, speaking roughly, I think I might say that of the total number of assessments made by the Special Commissioners about 50 per cent. used to be in figures that were arrived at by agreement with the taxpayer before the assessment was made, and about 50 per cent. used to be in figures not agreed to by the taxpayer. Now, owing to several causes, during the period that the war was being carried on, there has been a very remarkable change in that, and for this last year, 1918-19, I think that for every one non-agreed case there would probably be between four and five cases in which there was agreement. I put that down to several things. I think the extended powers given to the Revenue authorities under the

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Excise Profits Duty Acts, with regard to calling for accounts and figures, have had a rather remarkable effect upon Income Tax matters; because, as a matter of fact, the Surveyors do see accounts now, somehow or another; they get hold of accounts before assessments are made in a very much larger number of cases than they used to be able to get them.

13,684. I quite agree with that?—I think that is really the cause of this falling off in the number of appeals.

13,685. When you speak of assessments made by the Special Commissioners, other than the railway companies, do the Special Commissioners, in these cases, do anything more in effect, before the assessment is made, than they do in Ireland?—Oh, dear, yes.

13,686. Do they look at the accounts in detail?—In Ireland we do not know how the assessment has been arrived at; it is purely perfunctory to sign and allow the back sheet of an assessment; but in England it is quite different. Within this last two or three days I have been dealing with a number of cases in my office in Kingsway. A Surveyor sent up an assessment sheet—I had one yesterday—and he proposed that the return should not be accepted. Well, I did not sign that as a matter of course. I looked carefully into it; I was not satisfied with what the Surveyor proposed, and I sent it back to him with an inquiry. I said: "why do you want to alter this?" That is done in every case. We never pass a single assessment without looking at the particulars, unless the Surveyor says that he has agreed with the taxpayer.

13,687. That was really my point. Where the Surveyor and the taxpayer have gone into the accounts together, and the liability has been agreed between them, the making of the assessment by the Special Commissioners is the same formal matter as the making of one by the General Commissioners?—Speaking generally, yes. There may be exceptions, but broadly, yes. As a general rule, I should not consider it my duty to go behind a statement agreed upon between the Surveyor and a taxpayer prior to the making of an assessment.

13,688. On the question of revocable and irrevocable deeds, your suggestion is that even in an irrevocable deed, where a parent has the burden of maintenance of a child, any income set aside for that child should be treated as the parent's?—So long as the child was a legal infant.

13,689. Under 21 years of age?—Yes.

13,690. At present that income, of course, escapes?—Altogether.

13,691. Largely for Income Tax, if it is small, and entirely for Super-tax?—Yes.

13,692. Suppose the income is accumulated and not actually spent on the child's maintenance or education under the terms of the deed, do you still suggest that that should be treated as the father's income?—I should, during the period of legal infancy. I do not see why a father should provide for his child and escape his own natural responsibilities by settlements of this sort.

13,693. On the question of bad debts, do you agree that the general practice is that where a debt has been written off and allowed as a charge, whether as a bad debt or as a doubtful debt, the sum that may be recovered in excess of the loss finds its way to the credit of the trading account?—I should say in the vast majority of cases it certainly does.

13,694. Is it not very rare to-day to find a trader, unless he does it deliberately as a fraud, placing the recovery of a bad debt to anything but the trading results of the year?—I should imagine that is so.

13,695. The point is that you want some specific words in an Act to say that they must do so?—I think it should be there, to round off the proviso.

13,696. Do you know it is a point that Surveyors inquire very closely into?—Some do; there is no doubt about it. As a Commissioner, I should not feel that I could go into that matter, in the absence of any legal provision that it should be done.

13,697. You mean if a taxpayer resisted your right to bring bad debt recovery in as a profit, you would not decide against him?—No, I mean I should not think that I could press him for information as to whether he had brought them in or not.

13,698. Why would you not do that?—Because there is no legal provision that he shall bring them in. He clearly ought to, as a matter of equity.

13,699. I should have thought it came in as a matter of course, and that it did not need any legal provision for that. Now on this question of obsolescence: I want to put to you two cases. There is the case of obsolescence where there has been an allowance for wear and tear, and there is the case of obsolescence where there has been no allowance given for wear and tear. In the case of no wear and tear allowance, would you give the full difference between the original cost and the scrap value, whether replaced or not?—I would, on the ground that the trader has actually parted with that amount of money in the course of carrying on his trade.

13,700. That is, you would not penalize him because, for some reason or other, he had omitted to claim his wear and tear allowance?—No, I would not.

13,701. I want to put to you this type of case. A trader has a considerable amount of plant, and as he is not uncommon, he does not claim wear and tear allowance. Then he puts forward a claim to get an allowance; he is asked: "how long have you had this plant?" and he says "10 years." We will say the Surveyor then proceeds to write it down by 5 per cent. for the 10 years that he has not been getting any allowance, and he starts his depreciation at the lower value. Do you think that is right?—It is in accordance with the decision of the High Court in the case of the Peninsular and Oriental Steam Navigation Company.

13,702. That the trader must bear his own depreciation?—The gist of that case was that the depreciation for any year must be only on the machinery as it exists in that year.

13,703. In other words, he gets the same allowance, starting say from this year, as a man who has been having depreciation for the last 20 years?—Just so. The object of my recommendation here is to remedy what I think are very great hardships for the taxpayer. I think it is possible to do real justice, and real justice now is not done in a great many cases.

13,704. Do you appreciate in practice it is just a little bit difficult to find the prime cost of various kinds of plant after twenty years?—It may be. I do not myself know that we have experienced so much difficulty in getting at the prime cost of existing machinery. What we have found impossible to do, or practically impossible, is to ascertain any real facts or definite information with regard to machinery that has been worn out and scrapped. I chinery that has been worn out and scrapped. I have tried for years to get some definite information with regard to the length of life of machinery and plant, say, in a brewery or any other trading concern; and I have never yet been able to get real information as to, say, a steam engine for power that was put in at a certain date, worked until it was worn out, and then scrapped.

13,705. Why is that?—I think the answer is, or so I am told, that the books are not kept. Not long ago we had an appeal before us; it was a brewer's appeal, and I myself had known this brewery for 55 years. They were raising a question of depreciation, and we wanted to ascertain what was the real length of life of the machinery in this brewery. I thought to myself, now we shall be able to get some definite information, because I know this brewery has been in existence for many years. Well, we could not. They estimated the life of the steam engine at 25 to 30 years. I asked "when was this particular steam engine put in?" They told me. I said: "was that to replace another one that was worn out?" They said "yes." Then I said: "when was that one put in?" They said they would make inquiry, and the answer we got was that the old books were no longer in existence, and they could not tell us.

13,706. Part of the difficulty is that the book value of the plant and machinery of almost every trading concern has practically no relation to the Income Tax value from year to year?—That is so.

13,707. That is, they may write off more depreciation than the Inland Revenue allow, and they may charge to revenue and never capitalize items which the Inland Revenue disallow—Just so.

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13,708. The result is that after a few years the gap widens between the two values, and when you have to go back twenty years it is almost impossible to do it. Do you think it will ever be any different?—I am afraid not; but you see the difficulty we are in now. We have engineers and experts come up, and we have been told over and over again that the life of a steam engine generating power in a brewery or anything else ought not to be put at more than somewhere between 20 or 30 years. Now, in the "Times" of a few days ago, in connection with the James Watt Centenary, I read this statement: "James Watt died in August, 1819. The Watt engines from Soho were powerful, efficient and trustworthy machines; many of them are still in operation, even within the boundaries of the City of London, and one in good order was, within ten years—no more—removed from the basement of the Bank of England."

13,709. Mr. McLintock: I quite agree; I had to investigate the life of a wagon, some years ago, and all we could discover was the nameplate.

13,710. Mr. Mackinder: How would you get a period in the case of an engine working 168 hours a week the year round in a chemical atmosphere; you would not expect it to last that time, would you?—No, I should think probably not.

13,711. Mr. Birley: Of course, they do not build steam engines to-day like James Watt's.

13,712. Mr. McLintock: On the question of balance sheets, your experience to-day is that it is an almost invariable rule that if a balance sheet and trading account exist there is no difficulty in getting them?—Yes.

13,713. And there is very little resistance by accountants, for instance, to produce the balance sheet as well as the trading account?—Comparatively, I think I might say. I think absolutely we get fairly constant objections even now, but certainly in the large majority of cases there is not any difficulty.

13,714. Just one further suggestion on wear and tear. You suggest that the scrap value should be settled by the Commissioners?—I do not know in what other way it is to be dealt with, but I do not know that it would affect my suggestion if it were fixed by the taxpayers.

13,715. I agree with you.—I do not think it really matters whether the taxpayer fixes it or whether the Commissioners fix it, provided the rest of my suggestions were allowed free play.

13,716. I suppose you agree that if there was a considerable extension of appeals to a body like the present Special Commissioners it would need to be very largely augmented?—Undoubtedly.

13,717. And would it not also be better to have, as part of your body, someone more skilled in accounts?—Yes, he would be very welcome.

13,718. It largely turns on questions of accounts in many appeals now?—It does. I think I ought to say this. Some of us are conceited enough to think that after many years' experience we do know something of accounts.

13,719. I agree; but the accessions to the body will not have that experience?—I entirely agree with the suggestion that it is very desirable that there should be, at any rate, one chartered accountant who should be a Special Commissioner.

13,720. Mr. Monville: Just to put right the steam engine question, which you have been criticising, I suggest to you that in the days when engines of the type that Watt originally made were constructed, they were made to run at very slow speeds, at very light steam pressures, and had, as you suggested, a life which was almost unlimited?—Yes.

13,721. But perhaps, like the way in which we ourselves live to-day, as compared with the way people lived then, steam engines, like steam engine users, are of an entirely different construction to-day; they run at very high speeds, at very high steam pressures, and have an infinitely greater rate of depreciation?—Certainly. I might say that personally I have never attempted to base a wear and tear allowance on a theory of a hundred years' life for a steam engine.

13,722. Mr. Synnott: Could you not get information about engines from railway companies, who do,

I think, keep accurate accounts of those matters?—They would be mostly locomotives, would they not?

13,723. Yes, but they have a great many stationary engines too.—As a matter of fact, that has never occurred to me, but possibly we might.

13,724. I wish to ask you about something specially relating to Ireland. You have no local office in Ireland or resident Special Commissioners?—With the exception of one who is alluded to in paragraph 3 of my evidence-in-chief, the Solicitor to the Inland Revenue for Ireland. He holds the appointment of a Special Commissioner, but he does nothing, and we have no office of our own either in Dublin or in any other part of Ireland.

13,725. In paragraph 73, you say: "Income Tax. Ireland. Schedule D and E assessments." As a matter of fact you deal with appeals under all the Schedules?—Yes.

13,726. Therefore it is much wider than would appear from the heading?—Yes.

13,727. Then turning to the fourth table in paragraph 10, I observe the number of appeals filed for hearing in Ireland in 1918-19 were 2,149; that is a very much larger number of cases than from the rest of the United Kingdom?—Yes.

13,728. I suppose many of those would be farmers' appeals?—They would be mainly little shopkeepers' appeals, grocers and licensed victuallers, but, of course, it would include a certain number of farmers' appeals.

13,729. Are you prepared to suggest that you should have a local office and resident Commissioners, in view of that fact?—I am very strongly tempted to, personally.

13,730. As a matter of fact, how many Special Commissioners do go to Ireland? You need not tell me now, if you will give me the information later on?—I have brought with me a statement that I thought you might like to see; I think it would give you the information you want. You will see we invariably commence appeals at a certain place on the first Thursday in September; and that is the same all through; certain appeals come on a Monday, and certain on a Tuesday, and so on. We find that useful, because people know exactly beforehand when to expect the Commissioners.

13,731. I observe that there are two Special Commissioners; apparently they take it in turn alternately for several months. I observe that they begin on September 4th, and they finish up on December 10th. If a taxpayer wants to appeal against an assessment which he has presented to him in January, he has got to wait till September to be heard, and if he lives in Dublin, he has got to wait really for eleven months. Is that so?—Practically there are no assessment notices delivered in January. The great bulk of the notices, with the exception of a chance additional assessment, are delivered long prior to the dates of the appeal sittings. Those dates are fixed so as to give a reasonable time for a taxpayer to consider whether he will appeal, and to prepare for his appeal after he has received the notice.

13,732. Take a man in Dublin who perhaps gets his assessment in November; unless he hurries up and gets in his appeal before December, he has got to wait for another twelve months, has he?—I should say that practically there is not such a thing as a man not getting his notice till November. There ought not to be.

13,733. You deal with cases, you have just told us, under Schedule B. Is there any one member of your Special Commissioners who has experience of agriculture and agricultural accounts and the system of agriculture?—No. Of course, having for many years been accustomed to see these accounts, one gets to a certain extent used to them; but there is no member of the body with any practical experience in the way of agriculture.

13,734. We know that with the extended cultivation of flax, and the extended use of machinery and so on, the system of agriculture has very largely changed in Ireland. How do the Surveyors and these Special Commissioners deal with such a question as the allowances to be made for machinery, for

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horses, and for the ordinary expenses of a farm?—With regard to making the assessments, that is fixed by Act of Parliament, because they are simply charged on twice the annual value.

13,735. But then the farmer can appeal?—Then if he appeals, we go by his account.

13,736. If he chooses to submit to twice the annual value no question arises at all, but when I say Schedule B, I mean when a man says: "I will either go under Schedule B or I will appeal under the special section," then the question arises?—I see no special difficulty in farm accounts, any more than in any other accounts. If they are properly kept, they speak for themselves.

13,737. Perhaps you will produce to the Commission the form of appeal under Schedule B for farmers' appeals. The Commission will judge as to whether an ordinary reasonable man (I do not speak of experts) would know how much an account is to be made up. However, that is your answer. Now with regard to the assessment by Surveyors; we had evidence from another witness as to the number of Surveyors in Ireland. Perhaps you do not know this personally, but it is not a fact that many of the Surveyors live in Dublin, say, and they deal with cases over a 50 mile radius from Dublin, and make all the assessments, and not only make the assessments, but choose the persons who are to be assessed, which is perhaps even more important. Is not that a fact?—I do not know whether any Dublin district would go so far as that; but I know that when I was Surveyor at Cork, many years ago, I had a district that was 120 miles long by 60 miles broad.

13,738. Is it satisfactory for anybody under the Inland Revenue, or the person assessed, that in regard to questions between a taxpayer and the assessing authority, a man should have to travel 30 or 40 miles even, to have a conversation on the matter. Is that satisfactory?—From a taxpayer's point of view, I should think not.

13,739. But is it satisfactory from the point of view of the Inland Revenue? How can the Surveyor possibly know who are the proper persons to assess, and the amount of the assessment, in small country towns, where perhaps new businesses have been erected and new people have come in?—There is no doubt that if you could have a Surveyor in every little town, it would be more convenient to the public, and it would probably mean additional revenue. Whether that is possible or not, I cannot say.

13,740. I do not want to put it too strongly from the point of view of the Inland Revenue, but has not the taxpayer a grievance that he has to go up by train—and in fact make an appointment with the Surveyor—to Kilkenny, or Cork, or Dublin, or Belfast, before he can discuss the question of his assessment?—I should have thought so.

13,741. Perhaps you will consider how that can be remedied. There are two appeals. There is an appeal from the assessment to you as Special Commissioners, and then there is a second appeal to the County Court judge?—Yes.

13,742. Is that a rehearing; that is to say, can you call fresh evidence, or must you take the facts as stated by the Surveyor?—That would be for the County Court judge to decide. The rehearing would be before the County Court judge.

13,743. There is no rehearing before you?—No; ours is the first hearing. We hear the appeal, and the County Court judge has statutory power to rehear it.

13,744. When you say it is an appeal—can a taxpayer appeal to you on a question of fact, as well as on a question of law?—Certainly, and to the County Court judge.

13,745. In paragraph 82, you suggest that in many cases the taxpayer puts down a notice of appeal to you, the Special Commissioners, and he does not appear, and then it goes before the County Court judge. You say in such a case, if he does not appear before you, he ought not to have power to go to the County Court judge at all. Is that what you suggest in paragraphs 82 and 83?—Would not a way out be this: that a taxpayer should have a right to appeal either to you or to the County Court judge?—I

suggest that is one way; I suggest to the Commission that either that should be done, or else the present position of the law should be made clear.

13,746. It turns on the other question. If your Commissioners do not sit from January to September the County Court judge will have two sittings in that time?—But the taxpayer is not at all anxious. Provided he is not called upon to pay, the longer we wait the better.

13,747. Do you not think they prefer to have it settled at once?—I have not found that.

13,748. Does not the Surveyor ask him to pay something on account and to leave the disputed matter?—No, the whole thing stands over.

13,749. A man appeals on £5 although it is a question of £200, and the whole thing stands over?—Of course that is a very exceptional thing in Ireland. The probability in Ireland is that it is only a question of a few pounds altogether.

13,750. I think you are exaggerating. I think in Belfast and Dublin you go into hundreds of thousands?—Yes, that is right enough, but as a matter of fact there is no such delay, because those dates are fixed so as to allow for plenty of time after a man gets his notice of assessment.

13,751. With regard to your powers, paragraph 84, I do not exactly understand. You wish to have the power to receive oral evidence as well as evidence by affidavit?—Yes. That suggestion is wholly and exclusively out of consideration for the public—not for us.

13,752. I may say I absolutely agree. Now about settlements—that is paragraph 89—on the point about the revocable or irrevocable deed. Following up Mr. McLintock's question, would you include in both cases this principle: that a parent should pay Income Tax on income although, whether by revocable deed or by irrevocable deed, he had parted with it and could not touch it while the deed stood? Supposing by either deed, revocable or irrevocable, it was provided that the income should go to some other person or should go to trustees, do you say in that case, where the settlor cannot touch the income, that he should pay Income Tax on that?—In so far as regards one of his own children who was legally an infant.

13,753. It is no longer his income.—No, but my view, for what it is worth, is that a man should not be allowed to divest himself in favour of a child of his own in that way.

13,754. Because he is under legal liability to support the child?—Yes.

13,755. Assume he complies with that legal liability; he has to support that child out of other income, has he not? I do not see the relevance of that matter. Is not the general principle of the Income Tax that it must be the income of the taxpayer in question? Are you not departing from that principle altogether?—I should not allow the parent to escape Income Tax by divesting himself of money in favour of a child under age.

13,756. Even if the parent has other means to support the child and does support the child?—I should make no difference.

13,757. Your principle, if it is right, should logically apply to cases whether there are children or not. Would you apply it to any case where a man divested himself of his income by an irrevocable deed?—No.

13,758. But you are going into questions outside the Income Tax, are you not?—No doubt it does go into questions outside the Income Tax.

13,759. There may be some argument in the case of a revocable deed, because it may be suggested that that is done merely to escape duty, or may be done; but surely you require something more to make it a sound argument in regard to an irrevocable deed, where income has gone, that the man should pay tax on that?—It is only my opinion, but I adhere to it, such as it is.

13,760. You are aware, of course, that Estate Duty is payable on that property made away if the settlor dies, I think within five years?—I do not know what the law is.

13,761. Mr. Kerly: Three years.

13,762. Mr. Symonds: I thought it was extended to five years now?—I thought it was three.

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13,763. Mr. *Pretyman*: Three years.

13,764. Mr. *Synott*: You want it to apply both ways?—This is my view of it: I should not allow him to do it.

13,765. Mr. *Kerly*: Upon that point, it would only be carrying a little further the common purse doctrine which is applied in the case of husband and wife?—Yes.

13,766. How many appeals under Schedule D relatively come to you and come to the General Commissioners?—I have no idea.

13,767. Are there many more to the General Commissioners than to you?—The General Commissioners throughout the whole country, you mean?

13,768. Yes?—A great many more; I think I am quite safe in saying that.

13,769. Do the more important appeals, taking them as a class, come to you?—I should think that we have a far greater percentage of really important cases than come before the General Commissioners.

13,770. May I say that, judging from my knowledge of the Bar, the present Special Commissioners have given great satisfaction, and that appeals to them are regarded as likely to be thoroughly well considered and thoroughly well decided?—Thank you.

13,771. Now, supposing an appeal to Special Commissioners in some form or other were substituted for all appeals to General Commissioners, that would require that the body should be largely increased?—Yes, very largely.

13,772. It would be necessary to have more local sittings?—Yes.

13,773. Do you think it would be practicable to work the local sittings of the Special Commissioners with legal assessors; I do not mean assessors in the Revenue sense, but in the judicial sense?—I really have not given that matter any careful thought. Of course, it would be a very extensive change. I might say that, as it is, the Special Commissioners have a circuit all over England very similar to that circuit I have given you with regard to Ireland.

13,774. They do at present hold local sittings?—Yes.

13,775. You have told us what the pay of the Special Commissioners is at present. Is there any pension?—Yes.

13,776. But there is no settled practice by which they are appointed from any particular profession?—No.

13,777. Can you express any opinion as to whether it would be a preferable appointment if the appointments were a joint one of the Treasury and the Board of Inland Revenue?—It is merely surmise on my part, but I should imagine that in practice the Board of Inland Revenue is consulted.

13,778. You make certain proposals as to allowance for wear and tear?—I do not think I am divulging anything that I ought not to divulge in connection with your last question when I say that I was told—no doubt, it was more or less a confidential matter—but I was given to understand not so very long ago that the ideal that the Board of Inland Revenue had with regard to Special Commissioners was that of the seven it was desirable that not more than three should be men who had held office in the Inland Revenue Department and that four of them should be men who possessed legal or other qualifications and were drawn from quite outside the Inland Revenue Department.

13,779. There is an understanding something to that effect?—It is not quite possible always to do that, but that is, I believe, the ideal that is aimed at at present.

13,780. Some of the work of the Special Commissioners is administrative and some of it is judicial?—It is.

13,781. Have you found in practice that there is any inconsistency in the same men being partly administrators and partly sitting judicially?—Not in practice.

13,782. When an assessment is made by the Special Commissioners to whom is the appeal?—To the Special Commissioners, and, so far as regards Income Tax, there is nothing to prevent the appeal being heard by the two men that signed the assessment; in fact for many years within my own recollection there

were only three Special Commissioners in existence; therefore it was impossible to provide two men to sign the assessment and other two men to hear the appeal. But with regard to Super-tax there was a promise made on the floor of the House of Commons, and that promise has been most religiously observed by us, that in no case should a Super-tax appeal be heard by Commissioners who had signed the assessment. We endeavour never to have an Income Tax appeal heard by the same Commissioners, although as a matter of fact it may be that certainly the second Commissioner who signs the assessment has probably done it just as a matter of routine.

13,783. So that unless you are able to make changes from within your body the real difference between the assessment and the appeal is that the appeal is really confirming the assessment after hearing objections?—Yes.

13,784. Can you tell me on what fund the salaries of the Commissioners are charged? Do you know?—They come out of the Inland Revenue vote, I think.

13,785. One word about wear and tear. Do you propose that the allowance in respect of particular machinery should apply to the machinery which is first installed when a mill, say, is set up?—Yes.

13,786. As part of the original capital?—Yes.

13,787. That is your proposal?—Yes.

13,788. Mr. *Pretyman*: In your paragraph 70, about appeal accounts, you suggest that as a court of appeal you should have the power to ask for any information you require, and you state that as a rule that information is willingly given?—Yes.

13,789. But that you ought to have the power, particularly in regard to balance sheets, to obtain it?—Yes.

13,790. And that that power is not given to you. I may say I quite agree. We have had it in evidence before us that the Board of Inland Revenue desire the same power in the first instance; that is, that they should have statutory power to call for accounts even in excess of the powers they now have under the Excess Profits Duty Acts. We had it in evidence yesterday that it should even go so far that they should be entitled to have a stocktaking of their own or a stocktaking under their supervision. That would not be on appeal; that would be for assessment?—Yes.

13,791. Can you give me your opinion about that? Assuming that the Commissioners agree that on appeal there should be a right for you, as the appeal court, to call for all this intimate information, do you think that that power should be given in the first instance to the same extent to the Inland Revenue?—I think it would enormously facilitate making correct assessments.

13,792. Obviously it would. On the other hand, is it desirable, from the point of view of public confidence, that that information, which would be regarded to some extent as inquisitorial, should in the first instance be obtainable by the taxing authority or that it should only be obtainable on appeal? What is your view?—Personally I think it should be obtainable in the first instance by the Revenue authorities.

13,793. Then it would not be required any further?—The only case in which we should want it, in that event, would be in the few instances in which the Revenue requirements had not been met.

13,794. Then as to the question of settlements, revocable and irrevocable. You have been questioned about irrevocable deeds, and you have given your answer about that; but do you think that such a provision as you suggest here would be effective? Supposing that (b) in your section 39 were enacted, why need the parent make the settlement himself? Why cannot a third party make it?—You mean that the parent might agree with a friend that the parent would give the friend £1,000 or £10,000 and the friend would make the settlement?

13,795. Exactly.—I should like to say in the first place that I fully recognize that in making this suggestion I have no right to claim that my opinion on this matter is worth any more than the opinion of any other man in the street; but if it were considered right, I take it that it would be necessary to give a power somewhat similar to the power which I believe is at present possessed by the Estate Duty

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Office in connection with the rendering of an account of an estate for settlement of Death Duties. I think they are entitled to ask and to insist on replies to questions as to what has been done, if anything, in the way, for instance, of gifts within the preceding three years; and I think you could not carry this out unless we had power to call upon a man to state whether there had been anything done, either directly or indirectly, in the way of a settlement.

13,793. I think that is quite a different thing, if I may venture to say so. Where an estate has got to be cleared for Death Duties there the State has power over the whole thing, and it is only by the authority of the State that the successor can take possession of any of the property.

13,797. You are in a totally different position. You are here in order to remedy what you consider to be an avoidance which you wish to put right. I see the word "avoidance" deliberately. You think it ought to be made impossible to avoid payments of Super-tax in this way, and you suggest a remedy. I am not questioning the morality of your suggestion; I am only questioning its practicability, and to see where it is going to carry you. Let us take the case of a parent who has a family, with one son of age, and who desires to execute an irrevocable deed for the benefit of his younger children. He is faced with legislation on the lines of this paragraph 39 (b). There is no reason whatever why he should not transfer a sum of money to his eldest son in his lifetime. If he dies, that would be subject to Death Duties, I admit, but that is another point altogether. Surely you do not suggest that it is possible that in the lifetime of living persons you are going to investigate as to whether A. has handed a certain sum to B. You would have no means of getting at it. The settlement is then made by the eldest son for the benefit of his brothers and sisters. How are you going to get at that? Is it right that you should investigate that sort of thing? It seems to me to be impossible?—I can give no other answer than this: that if you are considering the Super-tax liability of the father, in my opinion it would be possible to call upon him to state whether he had directly or indirectly parted with money for the purpose of his children for the time being under age. In the case you have mentioned, if the father answered truly he would say: "Yes, I have given my eldest son £1,000 in order that he might settle it on his younger brothers and sisters."

13,798. It need not be the eldest son; it may be to somebody else?—Well, to anybody else. Whether or not it is advisable to do that, of course, is for the Commission.

13,799. Mr. Armitage-Smith: May I ask one question in order to clear up the status of the Special Commissioners. I think you and your colleagues are appointed by the Lords of the Treasury?—Yes, by the Lords of the Treasury.

13,800. Who are also the ministerial heads of the Inland Revenue Department. The Board of Inland Revenue is subject to the Lords of the Treasury?—I take it that it would be so. Of course I cannot speak as an expert upon that, because I do not know.

13,801. I merely put that point because a suggestion was made that there might be a joint appointment between the Inland Revenue and the Treasury. Secondly, you are appointed under an Order in Council of January, 1910?—I am afraid I do not remember.

13,802. You are paid salary out of an annual vote of Parliament?—Yes, the Inland Revenue vote.

13,803. An annual vote of Parliament?—Yes.

13,804. Not the Consolidated Fund?—No.

13,805. Your tenure, like that of any other civil servant, is at the pleasure of the Crown?—Yes.

13,806. You have no life tenure?—No.

13,807. You hold at pleasure?—Yes.

13,808. And you are pensionable under the Civil Superannuation Act, 1834 to 1914?—Yes.

13,809. Which confer no legal right to pension at all?—No.

13,810. Although your status is, therefore, fully that of a professional civil servant, you perform judicial functions?—Yes.

13,811. Are you aware of any precedent for judicial functions of the importance of those discharged by your body being discharged by civil servants appointed and paid and pensioned in that manner with that tenure?—No, so far as I know there is nothing else like it at all.

13,812. Chairman: Have you any suggestion to make whereby you may become, if you can, more efficient?—No, I think not, my lord. I should just like to say one thing. I have sometimes heard it suggested that we are more or less under, I will not say exactly the orders, but under pressure from the Board of Inland Revenue. Now I have only got to say this. As I state in my evidence, by far the most important part of our work is appeal work; the rest is comparatively unimportant, because it is all subject to appeal and can be put right if there is anything wrong. Now I want most emphatically to say that during the whole time that I have been connected with the body of Special Commissioners, although in scores and hundreds of cases I have given decisions against the Revenue, I have never once had the slightest attempt made, either directly or indirectly, to influence my decision, by or on behalf of the Board of Inland Revenue.

13,813. Chairman: I am glad you have said that, because I think in justice to yourself that you should say it.

13,814. Mr. Marks: By whom is the amount of your salary regulated, and who determines if and when it shall be varied?—So far as I know, the Lords of the Treasury.

13,815. Quite independently of the Inland Revenue?—Yes, I think so. May I mention one or two matters, my lord, which I omitted to mention in my evidence. The first thing I wanted to draw attention to was this. I am not sure it has not been mentioned by another witness, but as the law at present stands, wear and tear can only be given to traders. Now it is a very constant cause of complaint by medical men who come before us, that, whereas a grocer can get wear and tear allowance on his motor car, a doctor cannot get that allowance. My suggestion is that it does not matter whether it is a profession or a trader; if plant and machinery is used, wear and tear allowance should be given.

13,816. Mr. Walker Clark: Is it given to a dentist?—No, not to a dentist.

13,817. Chairman: That is the suggestion you want to put forward?—Yes.

13,818. Mr. Synnott: Is a farmer a trader for that purpose?—I should say yes. The second point I wanted to allude to is a very curious one. I think it must be an error or an oversight of the draughtsman, if such a thing is possible. It is in Schedule D, "Rules applicable to Case IV." Without going through the whole thing, I might say that that provides, or is intended to provide, that where a man has income from abroad and is charged foreign Income Tax abroad, his assessability here shall only be on what is left of the foreign income after the foreign State has taken the Income Tax out of it. But as it is worded, if a man brings that income into this country and does not leave it abroad he cannot deduct the Income Tax that he has paid abroad. It is only deductible if he does not bring it into this country.

13,819. Chairman: Paid to whom?—Take an American investment upon which a man is charged and pays American Income Tax. If he does not bring that income into this country—what there is left of it—he is assessable notwithstanding the fact that he has not brought it into this country, but he is assessable only on the net amount after payment of the American Income Tax. But, strictly construed, he is liable to pay on the whole thing, including the Income Tax, if he brings what there is left of it into the United Kingdom.

13,820. Thank you. That will be on the notes, and an examination will be made of your point. Is there anything else?—The third thing is this. There is a very curious anomaly under Schedule E.

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which I do not think that any other witness has drawn your attention to. That is in No. 14 of the Fifth Schedule to the Income Tax Act, 1918. This is a regulation saying how a man is to make his return under Schedule E. It says that he is to return the profits of the year of assessment, or of the preceding year, or on an average of the three preceding years, as the case shall require. It does not say exactly who shall decide what the case does require, but a man may do any one of those things. Now we will suppose that he makes his return on the preceding year. If you will turn to Schedule E, Rule No. 5 enacts that if during the year the man becomes entitled to further income so that the actual income of the year exceeds the assessment or the liability at the beginning of the year, he has to pay on it by means of an additional assessment. But there is no proviso whatever to say that if his income falls during the year he can get repayment on the difference. The result, worked out in practice, is this: that if a man, say, has a variable income consisting solely of commission, and holds his appointment on these terms—I am going to put a very extreme case, suppose that one year it is £300, another year £3,000, then £300, then £3,000, in practice what does the man do? Suppose that the preceding year was £300; he is entitled to return £300, but the year itself being £3,000 there is an additional assessment of £2,700 at the end of the year, and that brings him up to the £3,000. Now if the preceding year was £3,000 it is better for him to take the average; but the average would be on £3,000, £300, and £3,000. Even then he would have to pay on £2,100, although the income of the year was going to be only £300; and there is no means of getting back the tax on the £1,800.

13,821. Mr. McIntosh: But in practice that does not prevail, does it? They will always assess you on the income of the year?—I do not know what may be done. The letter of the law is as I say.

MR. GARNETT and MR. BIRKLEY, on behalf of the Federation of Master Cotton Spinners' Associations, Limited, called and examined.

The witnesses handed in the following statement as their evidence-in-chief:—

The Federation desires to submit the following points for the consideration of the Commission:—

13,825. (1) That depreciation of buildings used for all manufacturing purposes should be an allowable charge, which at present it is not. The rate should be $\frac{1}{2}$ per cent. per annum, and should be based upon the cost price, and calculated upon the yearly diminishing value. Owing to the enormous increase in the cost of the building of a cotton mill, which is more than twice the pre-war cost, the concession made during the last few years of one-sixth of the annual value of the mill premises, has become more than ever inadequate. Apart from the justice of allowing for depreciation of mill buildings, which do unquestionably depreciate, it is in the interest of the country and for the welfare of the people that new mills should be built, therefore it is submitted that it would be unwise as well as unjust to perpetuate the present system. Further, the Federation desire to point out that apart from any question of depreciation there is a serious diminution in value of mills built for cotton spinning purposes, owing to obsolescence of the buildings. Mills built 30 years ago are nothing like so economical to work as a mill built at the present time. Again, practically all cotton spinning companies make an allowance for depreciation on buildings considerably more than the present allowance of one-sixth of the annual value, and in these circumstances the Federation consider that it is equitable as well as sound finance that an allowance should be made for depreciation of buildings.

13,826. (2) With regard to the allowance for depreciation of machinery and plant, the rates which are at present in force would appear to us to be fair, taking into consideration the fact that an allowance can be obtained for obsolescence when the plant is discarded, but the Federation ask that it shall be given legislative sanction that the amount represented

13,822. They will not give you an average as a rule?—That is the letter of the law.

13,823. Chairman: That anomaly you have pointed out to us—I think separate evidence is to be given with regard to separate assessment of husband and wife. I might say that we have found it extremely inconvenient not to have power to assess a wife apart from her husband. Unless the husband or the wife makes a claim that they shall be separately assessed, we cannot assess them separately. I remember one case where the husband had £72 a year and the wife had £39,000 a year. Now the only person we can assess is the husband, and the person we can go to for payment is the husband. At £4. in the £ on £39,000 there was something like £8,000 Super-tax due; and the poor husband was liable, but he had only got £72 a year, and we could not assess the wife. We did at one time have a section which gave us power to assess the wife if for any reason we thought it was necessary; and I think that still ought to be the law. Then lastly: I see a considerable amount of evidence has been given before you with regard to the question of taking the preceding year's profits instead of the average. Now there is one thing that I did not see that any witness pointed out to you, and that is this. Supposing that you start the new system with the year 1920, and you say to a man: "For 1920 you shall be assessed on the profits of 1919." What I did not see pointed out to you was this: that as a matter of fact those profits of 1919 have not been brought into computation at all for the purposes of assessment. For the year 1919 the assessment was on the average of 1918, 1917 and 1916. Therefore if you take the year 1919 for the 1920 assessment you are taking something which has not been dealt with at all until that time for the purposes of taxation; and I cannot see that a man should have any objection to it.

13,824. Chairman: Thank you, Mr. Howe.

by the present percentages shall be allowed to taxpayers whether they write off that amount or more, and shall apply to all districts. The rates at present in force, calculated on diminishing values are:—
Machinery and plant ... $\frac{1}{2}$ per cent. per annum.
Motive power (steam) ... 5 " "
Motive power (electric) ... $\frac{1}{2}$ " "

13,827. (3) That there ought to be an appeal allowed against the decision of the Commissioners of Income Tax if it is considered that the allowance for depreciation is not sufficient. At the present time there is no such appeal, and we suggest that a satisfactory body to whom appeals should be made would be a Board constituted somewhat on the lines of the Board of Referees under the Excess Profits Duty sections of the Finance Act.

13,828. (4) That the base stock principle of valuing stock in process in cotton mills should be admitted for Income Tax. Up to the present time under the Excess Profits Duty section of the Finance Act, it has been admitted that only the stock actually in the machines is entitled to the principle of base stock valuation. We consider that this base stock principle should be extended to include not only the stock actually in the machines, but also the stock in course of transit from machine to machine. It is quite impossible for a cotton spinning mill to keep regularly at work unless such stock is maintained.

13,829. (5) That the present office of Assessor of taxes should be dispensed with. The system would appear to be quite unnecessary, and to be more or less a duplication of work. The Federation consider that Income Tax returns should not be made to private individuals when the information contained in such returns may very often be of the most vital importance to the person making the return.

[This concludes the evidence-in-chief.]

13,830. Chairman: Mr. Garnett, are you representing the Federation of Master Cotton Spinners' Associations?—(Mr. Garnett) Yes.

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[Continued.]

13,831. You have also a statement of your own to make afterwards, have you not?—That is so, my lord.
 13,832. Your evidence-in-chief is, I think, the shortest that we have had, and I am very pleased that it is so. On the point you will now be examined by members of the Commission; it is principally upon the question of depreciation that you are here, is it not?—Principally depreciation, but base stock also is an important question.

13,833. Mr. McIntock: You evidently think that the allowance presently given for buildings, of one-sixth of the annual value is insufficient?—Yes.

13,834. And you suggest 2½ per cent. per annum, based on cost price?—Yes, based on cost price and calculated on diminishing values.

13,835. Have you had any evidence from the cotton spinners with regard to the life of existing buildings to justify a particular rate?—No, I have not any figures here.

13,836. Have you had figures taken out?—No, I do not think so.

13,837. What estimate of life do you calculate is required for this 2½ per cent. on diminishing values?—I could speak of it better by experience. Most of the mills do actually write off 2½ per cent. on diminishing values in their own books, and that has not proved too much.

13,838. Would they sell the mills at the present written-down value?—No, probably not.

13,839. What the Commission would like to know is, how far a particular rate, calculated in a particular way, is justified by past experience as to the life of mill buildings?—We say that 2½ per cent. is the amount that is written off. Of course, that is coupled with the provision in the Act that you could never get more than the whole of the cost price written off under any circumstances.

13,840. May I put it in this way: that your point is, give 2½ per cent. until the written-down value is equivalent to the scrap value, and then stop the allowance?—Yes, that is so.

13,841. It would be an advantage, however, if you could indicate what you estimate is the average life of cotton-spinning buildings; you have not got that information?—I have not got that information.

13,842. Then this is in addition to the allowance of full repairs and upkeep?—That is so.

13,843. There has been no experience yet, of course, as to how far the one-sixth of the annual value is a sufficient allowance for depreciation of buildings?—No; it has only been in operation for two years.

13,844. And you appreciate that the annual value includes more than the annual value of the buildings; it also includes the land?—Yes. It is based on the rateable value. I suppose that would be taken into consideration. The method of arriving at the annual value varies in different districts. In some places it may include some portion of the fixed machinery.

13,845. You also refer to a point here that has not been specially before the Commission, the obsolescence of buildings; have you had experience of that to any extent?—Yes. It has happened quite frequently that the buildings have become obsolete, or required alteration on account of the different machinery which has been put in the building. Mills frequently, after a time, have been too narrow, and have had to be altered on that account.

13,846. And not strong enough to carry certain kinds of plant?—Yes, but not necessarily for that cause.

13,847. With regard to the allowance for wear and tear of machinery and plant, you suggest here that the present rates are satisfactory?—Quite satisfactory.

13,848. Is there any point that you wish to make with regard to wear and tear?—Only that the same rate should apply in all districts. It has varied from time to time in some districts. In all districts at the present time, I do not think they get the same rate of 7½ per cent. on machinery and plant. If it applies at all, it must apply to all members of the industry in the same way. Perhaps I could give you an instance of what happened some years ago: in one district the depreciation was calculated on certain rates, but the amount actually allowed was not in any case to

exceed the amount written off by the company in its own books. There was no basis for any such limitation.

13,849. You do not suggest that to-day the practice is to limit the allowance to the amount that may be written off in the trader's books?—I do not. I only mean to say that it should be allowed in all districts so as to prevent such anomalies.

13,850. Are there any districts in particular that you have in mind, where the claim has been put forward and been disallowed?—Not within recent years.

13,851. So that, generally speaking, any cotton spinner who knows that the general practice is to give a certain rate may go forward to his own particular Commissioners and get that rate?—Usually.

13,852. So that there is not much point in that particular grievance?—No. Up to 1916 or 1917 there were cases in which the same rates were not being allowed in some districts. In most of the districts that I have experience of these rates are now being allowed and are sufficient.

13,853. You are aware that in the 1918 Act there is an appeal allowed to the Board of Referees?—Applying to an industry.

13,854. For a class?—Yes, for a class.

13,855. Does not that go a long way to meet any grievance that the cotton-spinning industry may have?—Yes, but I think an individual member of the industry should be allowed also to appeal to that Board.

13,856. You think that the appeal is not wide enough at present—it is too limited?—Not if it is limited to the class. Most of the class at the present time are getting it. It is the one or two who are not getting it who would have the right of appeal.

13,857. What type of case have you in mind, that should be allowed to go forward as an individual case apart from the general class?—Only the question of depreciation.

13,858. Taking cotton-spinning mills generally, do you think there are some cotton mills that should be getting higher rates than others?—No, I do not think so. They should not get higher rates except for longer hours of working. They are all running at about the same speed now.

13,859. You mean that a mill that is running more working hours than another ought to get a higher rate?—Yes, if they are working more than normal; if they are working night and day, for instance, they should get more depreciation than 7½ per cent.

13,860. Would you not get that from the Commissioners to-day if you go forward and establish your case?—I think we should.

13,861. Then you do not want to go to the Board of Referees for an individual case of that kind?—No. So long as we get those rates we should not want to go in any case.

13,862. You have no particular complaint against the appeal that is open to cotton spinners at present on the question of depreciation?—No.

13,863. You, however, raise the question that there is no appeal from the Commissioners' decision?—Not for an individual; there is for the industry. You can go to the Board of Referees.

13,864. There is no appeal from the General Commissioners' decision on depreciation?—That is right.

13,865. You now have the right to go to the Board of Referees?—Yes.

13,866. Does that meet that point?—Yes, if an individual member can go.

13,867. I suggest to you that in an industry like cotton spinning you get a greater mass of reliable evidence, taking the industry as a whole to go before the Board of Referees, than you would from an individual?—That is so.

13,868. In that an individual may neglect to repair his plant; he may not look after it properly. Do you not think the evidence from a class is the best evidence in order to fix the rate for that class?—Yes, I do, but, of course, in practically all cases they are getting it; so they have no reason to go before the Board of Referees for those who are getting it.

13,869. You raise the question about the base stock principle?—Yes.

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13,870. Do you mean that an individual company which has adopted for a period of years the base stock principle should be allowed to continue it?—Yes.

13,871. You are an accountant?—I am.

13,872. Do you think that is a sound principle?—I think it is. I do not think it should be limited to those who adopted it, but it should apply to the trade generally.

13,873. Mr. Marks: Might the witness explain what the base stock principle is; I confess I do not know.

13,874. Chairman: Will you explain to Mr. Geoffrey Marks and the Commission what the base stock principle is?—The principle of valuation on the base stock principle is the valuation of all the process stock; that is the stock after the mixing, up to the yarn at a fixed price. The cotton when it comes to the mill is in the bale, and is then mixed. Up to that time it is a raw product. It is of a certain market value to the people who have it, or to anybody else. From that time it passes into the machinery, and, after the mixing, up to the spindle point, it is a product which is required to clothe the machinery, is always there, and there has been a practice in the industry of always valuing that at a fixed price. After that point it becomes yarn.

13,875. Mr. Marks: How is the fixed price determined?—The fixed price is determined often enough by the price of the cotton at the time the mill is built.

13,876. Mr. McLintock: I suggest to you that the base price is determined according to the whim of each particular trader; in other words, it is a means of creating a secret reserve. When he has a very good year in the early years he proceeds to write down his stock values. He must start at cost when he starts his mill. At some later period he says, "all the cotton on the spindles from the time the hole is broken until it is finished cloth or yarn, I am going to value instead of at 6d. a lb. at 2d. a lb." What is the effect of that writing down; it understates the profits, does it not?—In that year, certainly.

13,877. Take the recent war period, when the price of cotton has jumped to such a high figure. If he continues his base stock valuation he again understates his profits?—Yes, he understates his profit for that particular year; but what I say is this: that particular stock is always there. It is there from the time the mill is built, and it remains there all the time. It is always there, subject to fluctuations up or down. He will never have anything except that quantity of cotton in his machinery at the same time, and it is always of the same value to him. It is not saleable, and it is never sold; when prices go up it is there, and when prices go down it is still there.

13,878. You do not include cotton in the hale?—No.

13,879. When the hale is broken and gets on to the spindles, that is the quantity of base stock?—Yes, we should be limited in quantity.

13,880. Mr. Mackinder: Is the base stock the same total, and not so much per lb.?—It is about the same total and works out to a certain quantity in each mill. You might take it roughly at about 1½ lbs. per spindle.

13,881. Mr. McLintock: You mean that they do not actually take stock of the cotton on the spindles; they assume that having so many spindles there is so much stock?—Yes. It is actually taken at stocktaking, and it is taken according to whether they consider the bobbins are half full, quarter full, or three-quarters full.

13,882. The point is that the cotton which is on the spindles may have cost you 6d., and you value it at a penny?—That is right.

13,883. You stated that that was the practice in the industry?—Yes.

13,884. Have you established your case to the Board of Inland Revenue?—Not yet; we are still engaged upon it. We have established the claim so far as it relates to fixed quantities, and what we are at present engaged upon is what has been described as loose quantities. The loose quantities are the quantities of stock in transit between the various machines. There will be a bobbin in the machine, and there will be another bobbin on the top of the

machine to replace the one that is there. Those loose quantities are again more or less fixed quantities; they vary within limits, but they must always be there if the process is to be continued.

13,885. This question has come up specially owing to the greater advance in prices due to the war?—Yes.

13,886. The effect of it, of course, will be that the profits will be very materially reduced compared with the actual profits earned?—No, I do not agree. I think that stock should be taken at a base price to arrive at your profits.

13,887. That was not quite my point. If you are allowed to continue the low base stock valuation principle when prices have gone so high, you understate the profits of the year in which the price rose?—No, I will admit that in another way, if you like, that we have replaced the cotton which originally cost us 6d. by some which has cost us more than that; that must be the fact.

13,888. It has the effect, however, of reducing the profit?—Well, I am not prepared to admit that, because I think the plan on which it is taken is the correct plan, and that the profits are correctly shown by taking the stock in a particular way. This particular plan of taking stock did not come into operation with the war; it commenced before the war. We are compelled, in order to prove our case, to prove that it was a practice which was in operation before the war; that is the basis of our claim, and we say that this plan was in operation before the war, and has merely been continued throughout the war as it would have been whether there had been a war or not.

13,889. I understand the cotton trader has some difficulty in proving the pre-war practice to be general?—At all events we have made a very considerable change in the figures that were prepared by the Department within the last few weeks.

13,890. Anyhow, I suggest to you that the effect of the base stock principle is wrong in any industry, and that it understates the profits if it is continued; you do not agree with that?—I still say it is the correct basis of valuation in this particular industry.

13,891. Chairman: Could you not evade Excess Profits Duty by your stock? Could you not carry forward a larger stock each time, and depreciate that enormously until the excess profits are done away with altogether?—Increase the quantities?

13,892. Yes?—No. There was a section in the White Paper [Cd. 8623] that was issued, that limited the claim to the minimum quantity that was in stock in any of the three years before the war.

13,893. Mr. McLintock: You are aware that it was stated at the Financial Risk Committee that, to give this concession all round—because everyone ought to get it if one industry gets it—would cost the country some hundreds of millions of pounds?—There were certain conditions that had to be complied with before the industry was entitled to it, and one was that there should have been a recognized practice of valuing on this basis before the war, and there were very few industries, I think, that could comply with that requirement.

13,894. Your suggestion is that it should be made to apply to all industries?—No, I suggest that it should apply to the cotton-spinning industry.

13,895. Why not to other industries?—Because the cotton-spinning industry was one that at all events could more clearly show a claim to the concession under the terms of the White Paper.

13,896. It practically means this: that the trader in industry generally, is to be allowed to write his stock down to any low value he likes, and retain it at that, notwithstanding that prices have risen?—I do not agree there. I agree with the general principle that stock must be valued at cost or market value, whichever is the lower. I am only dealing with the stock in process for this exceptional valuation, because that stock is always there, and must be there for the purposes of the industry.

13,897. In other words, it is part of the plant?—It is practically part of the plant; it is always there. You can vary your quantities of cotton in hale considerably; you can vary the quantity of your yarn;

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[Continued.]

you cannot vary the quantity of your process stock. It is there, and it is always there, and it will only vary very slightly within limits.

13,808. *Chairman:* The yarn you could vary enormously?—The yarn you could vary enormously. You might run your stock of yarn up to an enormous extent, but I agree that the principle of valuation there is cost or market value, whichever is the lower; that is the principle which is agreed to by the Board of Inland Revenue. Again, with regard to the cotton which is the raw material, I agree it should be valued at cost or market value, whichever is the lower.

13,809. You could really have a very great deal more yarn in stock than the amount of stock in process, could you not?—Yes, very much more.

13,900. *Mr. McLintock:* Do you suggest in paragraph 5 that the office of Assessor of taxes should be dispensed with?—Yes.

13,901. Would you state shortly your reasons for that?—Yes; because we understand he is not a civil servant, and in certain districts it is very objectionable to send a return to the Assessor, that is in small districts.

13,902. Do you agree with the view that the Surveyor of Taxes should issue all the forms?—Yes.

13,903. And receive them back?—Yes.

13,904. And make the assessments?—Yes.

13,905. Without the intervention of the General Commissioners?—I did not quite follow your point at first.

13,906. You know the practice to-day of making up returns?—Yes.

13,907. They are sent in to the Surveyor, who adjusts the figures?—Yes.

13,908. And in the majority of cases they do not go before the Commissioners at all, unless they go on appeal?—Yes.

13,909. Would you give the Surveyor the right to make assessments? At present the Commissioners are supposed to make them?—Of course, in practice the Surveyors do make the assessments. They are approved by the General Commissioners, but there are only a few cases, I think, in which the General Commissioners interfere in any way. The Surveyor, I think, suggests that he cannot accept the returns of some, and asks them if they will agree to an assessment being made for something more; but that applies, I should think, to very few cases in practice.

13,910. Your view, from your own experience, is that the Assessor really serves no particularly useful function that would not be equally well served by the Surveyor himself?—I think so.

13,911. One point on depreciation, wear and tear. Do you agree that the present method of calculating on diminishing value is the most satisfactory?—Yes, in this industry, and I think it is generally.

13,912. You mean it would be impossible to calculate it from year to year on first cost, and follow that piece of plant all the way through the years?—In practice, yes, extremely difficult, and I do not think it would be right either. I think the diminishing value correctly expresses the depreciation.

13,913. *Mr. Armitage-Smith:* Has the base stock any ascertainable market value?—It would be extremely difficult to sell in its condition, and in most cases if it were sold it would be sold as waste.

13,914. Has that any bearing on the principle of valuation?—It has.

13,915. Will you kindly indicate what bearing?—Yes. The process stock is there whilst the mill is a going concern, and could never be worked out if the mill stopped.

13,916. Supposing some disaster stopped operations at your mill, what would you realise on the stock that had ceased to be raw material and had not yet become the finished product?—You would probably realise very little. You would not get anybody who was carrying on another mill to take over the bobbins and work them out in their mill.

13,917. It would be sold as waste?—Yes, in most cases.

13,918. Do I understand that your contention is that the basis of valuation should be either the market value, which in this case is nil, or the cost price?—No, I do not suggest that the price is nil;

I suggest that the price is a price at which it was first of all put into the mill.

13,919. That is the cost price?—Yes.

13,920. But I think you said in another connection that the basis of valuation should be either the cost price or the market price, whichever was lower?—For the cotton and the yarn—the raw material and the finished product.

13,921. But not for the intermediate stock?—No. In a great many cases the cost of filling the mill has been charged as part of the cost of the machinery, and is never taken into stock; that is really how it has been regarded by many members of the industry.

13,922. With regard to the material which has ceased to be raw material and has not yet become finished product, why do you not take the value as waste, because that is what it would fetch in the market?—Regarding it as part of the cost of filling the mill, I think it is right to take it at what it costs, in the same way as you take the machinery at what it has cost.

13,923. That is purely arbitrary, is it not; it is not really worth that?—It is worth that to us as a going concern at all events; it has cost that. It is the same as the machinery. You may say after you have put in the machinery the machinery has gone down, but you would not reduce the value of the machinery. In the same way the machinery might go up in value, but you would not increase the value of the machinery because the present price is higher; you would still leave it at its cost to you.

13,924. *Mr. Walker Clark:* I presume you would have the same stock method applied to a worsted spinner as well as a cotton spinner?—I expect so.

13,925. And a silk spinner?—I am not familiar with the processes, but I should think so. I should think the process of a worsted spinner is similar.

13,926. You are not only suggesting that the stock which is actually in the machines, but that which is in transit from machine to machine, should be included?—Yes.

13,927. Which is a very considerable extension of the base stock principle, is it not?—I do not think so. That is the point we are contesting at the present time with the Board of Inland Revenue, and if we can prove that there has been a recognized practice of valuing the loose quantities, I think we shall be entitled to it, having regard to the terms of the White Paper.

13,928. That stock which is in transit from one machine to another is not broken stock; it is complete; it is a full bobbin or a full skip?—No, it is still incomplete; it comes on the card and it is then passed along to the next process.

13,929. It is a full cop from the first process to the second?—Oh, no. It is only when it gets to the bobbin at the end that it is yarn. It is only cotton up to that time, in various stages of manufacture. You take it from one machine on to another.

13,930. It is all in process except that which is passing from one machine to another?—It is not a finished article.

13,931. Do you suggest that this allowance should be given to all cotton spinners, whether they ask for it or not; that is to say, should the Surveyor point out to a man who is asking for 2½ per cent. that he is entitled to 5 or 7½ per cent.?—I think so; I think it should be applied to the industry generally.

13,932. It should be the duty of the Surveyor to point out that the allowance which the taxpayer asks for is not as much as the law will allow?—I think it should be; I think it should apply to the industry, but I do not think it matters.

13,933. That it should apply to the industry is admitted, but it is on the application of the taxpayer at present?—Yes.

13,934. Do I understand you to say it should be the duty of the Surveyor to point out to the man who is asking for too little that he ought to ask for more?—I think it should; but I do not think that will arise in practice, because if the industry gets it as a whole they will be circumscribed and all will claim it.

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[Continued.]

I do not know anybody who is not claiming these rates at the present time.

13,935. Or getting them?—Or getting them.

13,936. With regard to the appeal to the Referees for the class, you indicated that the individual should appeal to the Referees independently of the class?—Should have the right to do so.

13,937. Are not nearly all these appeals which are now made to the Local Commissioners due to very particular conditions in each mill or in each factory?—I do not think so; there are very few appeals from them, I think.

13,938. Perhaps I ought to put it in another way. Where an extra allowance is asked for from the Surveyor, is it not because of very special conditions?—Yes, it would be on account of longer hours of working or something of that sort.

13,939. Very exceptional conditions—very unusual?—Yes.

13,940. Does it not appear to you that the present method is adequate to meet those very special and unusual conditions?—Do you mean the present method of appeal to the Board of Inland Revenue?

13,941. No, to the Local Commissioners?—No; I think there should be a right of appeal further.

13,942. After they have given their decision?—Yes.

13,943. That is the point, I understand.—The point I made in the first instance, I think, was what I was giving as an illustration, that in one district the Surveyor would not allow more than the particular mill had on its own books; that was taken to appeal, and the Surveyor's view was confirmed by the General Commissioners.

13,944. Do you want an appeal from them to the Board of Inland Revenue?—Yes. There is no reason, because somebody has written off a certain amount in their own books, why the amount allowed for Income Tax purposes should be limited to that; they wrote off more and it was not allowed.

13,945. Mr. May: You did not make quite clear in your reply to Mr. McIntock, whether the reason for your objection to the Assessor did not also equally apply to the General Commissioners; would that be so?—We should not object to the General Commissioners.

13,946. Your ground for objecting to the Assessor is that he is not a civil servant?—Yes.

13,947. And you will be reverting your commercial operations or industrial operations to more or less a private individual?—Yes.

13,948. Does not that apply to the same extent to the General Commissioners?—We do not find it so in practice. At all events, generally we are quite willing to send the returns in to the General Commissioners, where we are not equally willing to send them to the local Assessor.

13,949. Is it not a fact that sometimes amongst the General Commissioners there are trade competitors?—Yes.

13,950. And you do not think that is an objection?—There is the same objection, but it does not frequently arise; at all events there has not been the same objection to the returns going in to the General Commissioners.

13,951. Does not that rather weaken your objection to the Assessor?—I do not think so. I think it is a different type. Take some of the men in the country districts, for instance, who are the Assessors of taxes.

13,952. You agree you would prefer that the Surveyor should issue and receive papers and make the assessment?—Yes. Of course, if there is any objection to the General Commissioners we do not go before them.

13,953. What do you do?—We apply to be assessed by the Special Commissioners in all cases where there is any objection.

13,954. What sort of objection?—If for any reason a trader has any objection to any of the General Commissioners, because he thinks he is in his line of business, he always applies to be assessed by the Special Commissioners, in which case it does not come before the Local Commissioners.

13,955. Would it meet your view that, in addition to the Surveyor making the assessment, the appeal

should lie only to the Special Commissioners?—Not if the Assessor still collects the returns.

13,956. Assuming that the Assessor, on your suggestion, were done away with, would it meet your view that the Surveyor should make the assessment and that any appeal against the assessment should lie directly to the Special Commissioners, who are a more responsible body?—I think generally we should prefer that the General Commissioners should be retained.

13,957. Chairman: Have you found out any things that have been divulged by an Assessor?—No, I have no knowledge of any.

13,958. You must have some ground of objection?—I cannot quote any particular case in which anything has been divulged.

13,959. But you say there might be?—Yes. Of course, in all cases we take care that the returns do not go to the Assessor if we have any reason. We apply for an assessment under a number or letter, and then it comes before the General Commissioners and does not go to the Assessor.

13,960. Of course, there is no hardship then; you are not compelled to go to the Assessor?—No, but it does seem a duplication of work; the Surveyor has to go through all the returns again.

13,961. Of course, it is no criterion to take the present prices that the spinning mills are going at. The depreciation that you have had for the last 20 years has been easily repaid by the prices which are being obtained now?—Yes.

13,962. Would you say that the small depreciation which has been allowed in past years has not been felt or considered in the sale of the spinning mills that have changed hands lately?—I think so.

13,963. Of course, these are abnormal times?—Quite, but the rate of depreciation has been sufficient to write it down to its scrap value during the period of its life.

13,964. As a rule in the sale of a cotton mill you have not lost anything?—No; I do not think we have many complaints to make in the cotton spinning industry; I think the evidence shows that.

13,965. Mr. May: What I cannot follow is the special objection to the Assessor which does not equally operate with regard to the General Commissioners.

13,966. Mr. Kerly: I think I could clear it up. The Assessor is a person appointed for a particular parish, is he not?—I think so.

13,967. The Surveyor is a person from outside who is acting for a great many parishes?—Yes.

13,968. So you have a relatively small man who is the local man?—Yes.

13,969. And further than that the work of the Assessor is almost purely clerical?—Absolutely.

13,970. To collect returns, not to adjudicate upon them?—That is so.

13,971. That is done in any event by the Surveyor?—Yes.

13,972. You think that the work is unnecessary, and you also suggest it may be objectionable because here is a person living in the immediate locality to whom you have to make a return?—Yes; I believe on some occasions that the Assessor has collected the return of his own employer.

13,973. Of course, he has only a small district, and not very important work, and his pay is not high, so that it does not attract a person of the same calibre as the Surveyor?—That is so.

13,974. With regard to the base stock, you suggest, as I understand, that the equipment of a mill with a sufficient quantity of goods in various stages of preparation is part of its original cost, because it cannot work until the shuttle and so on have been filled?—Quite so.

13,975. If that is so, the logical course would be to take the original cost?—Yes.

13,976. And to stick to that as a lump sum?—That is so.

13,977. You told one of the Commissioners that you do in fact take stock every year: why is that?

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[Continued.]

—We take the actual stock, but it is priced at the same price.

13,978. Either you might extend your mill or your rate of working might change?—Yes, or we might have more loose quantities than we had at the previous stocktaking.

13,979. If that is so, then you either have some of your original mill stock surplus which you can dispose of at the price of the day, or you have to add some more which you can take in at the price of the day?—Yes.

13,980. And you have to make your variation according to the prices when the change occurs?—You say you could sell at the price of the day, but you could not sell at the price of the day in that process. It would require to go through other processes before it was saleable at all. Necessary modifications would have to be made. If it is in process No. 3 you would have to add on the cost of doing operations No. 2 and No. 1?

13,981. Thank you: I do not want to pursue that. You suggest that there should be an appeal to a Board of Referees not only for a particular class, but in some individual cases?—Yes.

13,982. Would it meet your view if that appeal were given by leave on special grounds, for instance, where it was desired in order to secure uniformity of treatment in different districts?—Quite.

13,983. *Chairman*: Have any of your friends that are associated with you with regard to the cotton spinners anything to say that will throw further light upon the discussion?—(Mr. Brierley:) I would like to say with regard to this question of the base stock, I do not think it has quite been grasped that in the equipment of a cotton-spinning mill a certain weight of cotton in various stages of manufacture is absolutely necessary, and if that quantity or approximate quantity is not maintained the mill cannot be carried on; it will have to be shut down, or they will have to stop various machines. At the time that a mill is equipped originally the company have a sufficient quantity of cotton to equip those machines not only with the stock in the machine, but with the approximate actual spare quantity of stock carried on the machines. The course that has been followed in the cotton-spinning industry has been to take that stock at the base original price. If at any time that base price has been written down, it has been assessed for Income Tax by the Income Tax authorities. That is hardly a stock reserve, so long as it is taken in stock at its original cost price, there is no secret reserve, and it is conforming with the regulations of the Board of Inland Revenue to take stock at its cost or market price, whichever is the lower. I think on those grounds it is quite proper that the Income Tax authorities should allow the base stock principle to continue. So long as the amount is written down, then they must pay on it, but as long as the original cost is maintained there is no secret reserve of any description.

13,984. Mr. Marke: I was rather at a loss to understand how the profits might be decreased by undervaluing the process stock. Is it because having got your process stock down to say one penny a pound, you would take in from your other stock cotton which may have cost 6d. a pound, and then write it down to a penny?—No. As a matter of fact, the profits of any period of the company's existence are not reduced by reason of base stock valuation. If you buy the stock originally, and do not take it as a part of your cover against contracts that you enter into—and that is the course that is followed, I may say—then by not altering the prices you do not affect the result in the slightest degree; you show an actual result.

13,985. May I ask Mr. McLintock how it is if the stock is under-valued the profits are decreased?

13,986. Mr. McLintock: I will put it to Mr. Garnett.

13,987. Sir E. Nott-Bower: If Mr. McLintock is going to make any statement about this I have a question which perhaps he could clear up at the same time. The difficulty that has been troubling my mind is this. I understand that the amount of the base

stock, that is the cotton in process, is a fixed amount; that is if the number of spindles remains unaltered the amount of the stock remains unaltered.

13,988. Mr. Kerly: No. One of the witnesses told me it varies, and it varies according to the rate at which the mill is working, as well as according to the number of spindles which are working.

13,989. Sir E. Nott-Bower: To the extent that it is fixed, if the amount of cotton in process at the end of the year and the beginning of the year were the same, and if you valued that base stock on the same basis at the beginning and the end of the year, it really would not matter what value you put on it.

13,990. Mr. McLintock: I was going to clear up that point with Mr. Garnett. (To witness): Assuming that at the beginning and at the end of the year you have 1,000 lbs. of cotton, and you value it at 3d. though it has cost 2s. 6d. at some period during that year, the 1,000 lbs. of cotton that is on the spindle has cost 2s. 6d., and you value it at 3d.: do you suggest that you have not understated the true profits of the year? That is what has happened during the war. You started with a pre-war price of about 7d. a lb., and a base stock valuation of a penny; cotton went up to, say, 2s. 6d., and you want still to value at a penny. I suggest that during that period of the rise in price and no alteration in the base stock quantity you have understated the true profits of that period?—(Mr. Garnett:) I agree entirely with the point you are making. At the beginning of the year we have a certain quantity of stock in process which was valued at 3d.; during the year that process stock has been worked out; it has been sold and it has been replaced with other cotton which has cost us 2s. 6d. In other words, we have filled our machinery with cotton which has in practice cost us 2s. 6d. and we are taking it at 3d. The point is as to whether we are justified in doing that. We are treating it as part of the machinery, and we are right in taking that stock always at that price.

13,991. It is understating the true profit, but your point is this, that you can never sell 1,000 lbs. of cotton that is in process?—No.

13,992. Therefore, irrespective of how the market goes you could value it at any base stock price you like, or at nothing at all?—That is so; it makes no difference to us. If it goes up in price it is not worth so much more to us; if it goes down in price it is not worth so much less to us. It will go up and down, but it is always there, and it has always the same value in the same way as the machinery.

13,993. You agree it has the effect of understating the profit?—I quite agree that during the year you have put something which has cost you 2s. 6d. and valued it at 3d.

13,994. Mr. Kerly: We now know the facts; the deductions we can work out for ourselves just as well as the witnesses can?—I think so. I think it will make very little difference for Income Tax.

13,995. *Chairman*: Have you anything else to say?—(Mr. Brierley:) I wanted to mention one point on the question with regard to the Board of Referees and the appeal of the individual. Why I think there should be an appeal for an individual trader, as well as an appeal from the class, is that in our experience up to four or five years ago, in a district with which several of our witnesses were intimately connected, the Commissioners took the attitude that if the company only wrote £5,000 off in their own balance sheet and the percentages amounted to more the company should only have £5,000. We do not know how soon another body of Commissioners may take up a similar attitude, and if we get a case like that we have no appeal to anyone, because it only affects the individual. It is only one individual trader who may be in that position. Most of them will write off quite as much as is allowable, and in many cases will write off more, but there are some odd ones who will write off less, and they will have no appeal.

13,996. Mr. Kerly put that point. Is there anything else you wish to say?—No, I have nothing further to say.

13,997. *Chairman*: Thank you very much.

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MR. HENRY W. GARNETT.

[Continued.]

MR. HENRY W. GARNETT, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Evidence-in-chief of Henry W. Garnett, Chartered Accountant, Manchester.

13,998. (1) I wish to give evidence before the Royal Commission on the Income Tax on three points.

(Point 1.) *Schedule D, Cases I and II, Rule 11.*

13,999. (2) In the present Income Tax Act, 1918, there is a section (*Schedule D, Cases I and II (11)*) which provides that where a change occurs in a partnership by reason of the death or dissolution of the partnership as to all or any of the partners or by the admission of a new partner or if a person succeeds to a trade or profession the tax payable shall be computed according to the profits or gains of the trade or profession during the respective periods prescribed by the Act, notwithstanding the change or succession, unless the partners or the person succeeding proves to the satisfaction of the Commissioners that the profits or gains have fallen or will fall short from some specific cause to be alleged to them, since such change or succession took place or by reason thereof.

14,000. (3) It is, in my opinion, necessary that the last portion of the section, which at present allows a break in the average and the assessment to be made on the profits of the actual year, should be continued under any Act where the assessment must otherwise be based on past profits, whether those profits are the average of a number of preceding years or the preceding year. This particular section was in the Act of 1842 (*Cases I and II, Rule 4*) and has been continued up to the present time, and I have no reason to think that the last portion might be repealed, but its retention appears to me to be of such importance that some evidence should be given on the matter. Under normal conditions it has always been considered necessary to have such an opportunity of breaking the average, and under the abnormal conditions which have prevailed within the past few years it appears to be more necessary that it should be retained.

14,001. (4) If a change in partnership takes place during the current year the business might be continued by one or more partners who have taken in the past only a small portion of the profits, and the profits will, in all probability, have been abnormally high during the past few years. Under these circumstances if the whole of the section is retained the continuing partners would in the first instance be assessed on the profits of the whole business in a preceding period, either an average of three years or the preceding year, and it might then easily occur (and more especially if assessment on average is continued) that the continuing partners would be assessed for considerably more in Income Tax and Super-tax, even at present rates, than they have made in profits. I can best illustrate what might happen by giving the circumstances of a case upon which I am at present engaged, where the uncertainty of whether the last portion of the rule will be retained may cause the partners who were proposing to continue the business to decide that the risk is too great and give up the business. The business is at present carried on with a house in this country where there are partners resident and a house abroad where there are other partners. At present the assessments are made as follows:—

- (1) the whole of the profits of the house in this country are assessed for Income Tax and the partners resident here also pay Super-tax on their shares;
- (2) the shares of the partners resident abroad in the profits of the house abroad are not assessed for Income Tax or Super-tax, but the shares of the partners resident in this country in the profits of the house abroad are assessed both for Income Tax and Super-tax.

The partners resident abroad are retiring and also partners in this country, and the remaining partners in this country were proposing to continue both

businesses with managers abroad. The question of taxation, however, has caused them seriously to consider whether they will be able to do so. The profits of the past few years have been large, even after the payment of Excess Profits Duty, but the shares of the partners who were proposing to continue were a comparatively small proportion of the whole. If they decided to continue they would reside in this country and under present rules of Income Tax the whole of the profits both of the house abroad and of the one in this country would be assessable on an average of three years. The profits of the business in the next few years can, it is believed, be only a small portion of those of the past few years. A calculation has been made which shows that if the assessment was based on the whole of the profits of the past three years (of which the partners who propose to continue have received only a proportion) they might be assessed for Income Tax and Super-tax in the next 2 years on a sum over 4 times the amount they make in profit in those two years at present rates of tax. The partners could, of course, under the present Act, apply for an amendment of the assessment on the ground that the profits have fallen short from a specific cause since the change or succession took place or by reason thereof, and I have no doubt that the retirement of the partners and the continuance of the business abroad under managers instead of partners would be accepted as sufficient evidence, but it would have to be proved that the profits had fallen short from such specific cause.

14,002. (5) No means have yet been discovered of getting over the difficulty, although we have had an interview with the Board of Inland Revenue, and it now seems likely that the business may have to be discontinued on account of the uncertainty about the "specific cause" portion of the rule being continued, unless some means of getting over the difficulty can quickly be found. The partners who propose to continue could not wait until the report of the Commission is known and the recommendations embodied in an Act of Parliament. The house abroad buys from the house in this country and the goods are manufactured here. It is practically certain that the business in this particular market will be lost to this country if the business is given up and the turnover is a large one. Probably in most cases it would be more equitable to the Revenue and to the taxpayers if there was a clause in the Act that where a business has changed ownership by the retirement of a partner or partners or the admission of a new partner or the business has been converted into a limited company, the firm or company should be treated as if a new business had been commenced on the change of ownership.

14,003. (6) In practice it is usually not difficult to find reasons why the profits have fallen short from specific cause such as:—

- (1) the withdrawal of capital by a retiring partner and the consequent borrowing from a bank or otherwise and the payment of interest thereon;
- (2) where a limited company is formed the payment of directors' fees to a director or directors who were formerly the proprietors of the business.

Where the profits are greater than on the average the successors, of course, accept the average without question, but where the profits are less after the change they will certainly try to break the average by showing that the profits have fallen short from some "specific cause."

14,004. (7) There is one case in which there must, in my opinion, be a provision for succession in any event which is now dealt with fully in Rule 11, viz., that where a business is bought and amalgamated with another business the profits of the business taken over must be added to those of the firm or company taking over in arriving at the average. It would obviously be unfair to the Revenue to bring into average the profits of an amalgamated business and average those for a period with the profits of the absorbing firm or company only.

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MR. HENRY W. GARNETT.

[Continued.]

(Point 2.)—Rules applicable to Cases I and II,
Rule 3.

14,005. (8) In computing the amount of the profits or gains to be charged no sum shall be deducted in respect of:—

- (i) any annual interest, or any annuity, or other annual payment payable out of the profits or gains.

This rule must be read in conjunction with

"All Schedules Rule 19 (1)."

Where any yearly interest of money, annuity, or other annual payment (whether payable within or out of the United Kingdom . . .), is payable wholly out of profits or gains brought into charge to tax, no assessment shall be made upon the person entitled to such interest, annuity, or annual payment, but the whole of those profits or gains shall be assessed and charged with tax on the person liable to the interest, annuity, or annual payment, without distinguishing the same, and the person liable to make such payment, whether out of the profits or gains charged with tax or out of any annual payment liable to deduction or from which a deduction has been made, shall be entitled, on making such payment, to deduct and retain thereout a sum representing the amount of the tax thereon at the rate or rates of tax in force during the period through which the said payment was accruing due.

The person to whom such payment is made shall allow such deduction upon the receipt of the residue of the same, and the person making such deduction shall be acquitted and discharged of so much money as is represented by the deduction, as if that sum had been actually paid.

14,006. (9) There is of course no reason in itself why a payment which is unquestionably an expense of carrying on the business should not be allowed as a deduction in arriving at the profits taxable. The disallowance of such a deduction is carrying out as far as possible the principle of taxation at the source, a principle which is, in my opinion, correct and should not be departed from.

14,007. (10) There cannot, I think, be any objection to the rule where the money is payable in the United Kingdom, but the fact that the rule also applies to money payable "out of the United Kingdom" causes many injustices. There are many businesses where the whole of the trading operations are carried on abroad, but the total profits are assessable here because the business is owned by a company registered in this country or by persons resident here, in which case it can be held that there is actual control or potential control which would constitute "residence" under the Act. In many of these cases, say, in the case of a business in South America, where the circumstances frequently arise, money is borrowed in South America for the purpose of the business in that country and is used there. In such cases it is useless pointing out to the person from whom the money is borrowed that he must, under the English Income Tax Act, allow a deduction of 6s. in the £ on such interest. He is not amenable to English law and would refuse to lend money on any such understanding. He only recognizes the laws of his own country and pays his taxes there.

14,008. (11) In any business on the profits of which English Income Tax is paid, where money is borrowed abroad and used abroad, the persons owning the business must pay interest at the rate current in the country in which the money is borrowed and at the same rates as their competitors who are not assessed to English Income Tax and must also pay Income Tax on this interest without any right of recovery from the lender.

14,009. (12) The matter is carried further by Rule 21, which provides that upon payment of any interest of money, &c., not payable or wholly payable out of profits or gains brought into charge, the person by

or through whom any such payment is made shall deduct thereout a sum representing the amount of the tax thereon at the rate in force at the time of the payment, and shall forthwith render an account to the Commissioners of Inland Revenue of the amount so deducted and every such amount shall be a debt due from him to the Crown and shall be recoverable as such. Thus if such a trader makes a loss on the average of three years and has paid interest on money borrowed abroad and used abroad, on which he cannot, in practice, deduct English Income Tax, although the Act says he shall, he must, nevertheless, pay to the Revenue tax on this interest. This is inequitable whatever the rate of tax but is now a great hardship with an Income Tax of 6s. in the £. It must be borne in mind that taxation is payable in the country in which the business is carried on as well as in this country, but this cannot be avoided. The taxes paid abroad are allowed as a deduction in arriving at the taxable profits in this country but English taxes, of course, are not.

(Point 3.)—Super-tax.

14,010. (13) The charging section (Part II, section 4) reads:—

"In addition to the income tax charged at the rate prescribed for any year, there shall be charged, levied, and paid for that year in respect of the income of any individual the total of which from all sources exceeds two thousand five hundred pounds, an additional duty of income tax (in this Act referred to as super-tax) at the rate or rates prescribed by Parliament for that year." Section 5 (1) provides that "for the purposes of super-tax the total income of any individual from all sources shall be taken to be the total income of that individual from all sources for the previous year, estimated in the same manner as the total income from all sources is estimated for the purposes of exemption or abatement under this Act."

Neither of these sections refers to "residence" and a person permanently resident abroad is assessable for Super-tax if he has an income in this country of over £2,500 from which Income Tax has been deducted. There are no sections in the Act which enable the authorities to recover the amount of any Super-tax from property or investments in this country, and consequently if an assessment is made the person so assessed can pay or not as he feels inclined. Forms for return are sent to all people resident abroad who are believed to have an income of more than £2,500 in this country and if this is disregarded further forms are sent. After several forms have been sent the usual procedure is for a letter to be written stating that if there is further failure to comply with the request to make an assessment under the powers conferred by the Act to the best of their judgment. In a number of cases where such letters have been received the persons, assuming that the authorities had power to recover the tax or such a letter would not have been written, have made returns and have paid the tax. In most cases, however, I believe the letters have been disregarded, and at that point the question of assessment has been dropped. It seems to be unsatisfactory that such letters should be written where there are no means of recovering the tax if an assessment is made.

In my opinion, Super-tax, being a personal tax, should not be payable by persons resident outside the United Kingdom, and I also think it is against the interests of the country that it should be so. With the Income Tax at 6s. in the £ many people resident abroad are considering whether they are not paying too high a price for the security of their money invested in this country, and if, in addition, they were compelled to pay Super-tax by some provision with regard to recovery against property or investments in this country, it would inevitably lead to the withdrawal of capital from this country, which is undesirable.

[This concludes the evidence-in-chief.]

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MR. HENRY W. GARNETT.

[Continued.]

14,011. *Chairman*: We have your paper; will you state briefly the points that you want to lay before the Commission?—I think what I have put down expresses what I wanted to say.

14,012. If you like, it may save time if I ask Mr. Kerly to commence your examination right away, and he will take the points?—Yes, and if there is anything further that I want to comment on afterwards, perhaps I may do so.

14,013. Mr. Kerly: Your first point, as I understand it, is, you think that if the three years' average does not apply to a particular case—that is to say, where the actual income is different for what is called in the Act a "specific cause"—the taxpayer should be allowed an appeal for special treatment on that ground?—Yes.

14,014. You want that specific cause section to remain?—Yes, and to be slightly strengthened.

14,015. It is the existing law, and you want it to remain, and you merely wish to call attention to its importance?—Yes, if assessment is based on past profits, whether those profits are ascertained on a three years' average or one year.

14,016. You draw special attention in paragraph 7 to the case of amalgamated businesses?—Yes.

14,017. You suggest that some special method of assessment should be adopted where a business is amalgamated with another business?—Yes.

14,018. What is your proposal with regard to that?—That the profits of both businesses should be averaged in arriving at the returnable profits. It would not be fair to the Revenue to take two years of the absorbing business and one year of the two businesses worked together to arrive at an average. That would arise at the present time. This again is not any variation of what is the present law.

14,019. What you suggest as a normal rule is that if you have got one year of the amalgamated business and two years of separate businesses, you should take the two businesses in the two preceding years as one?—That is so.

14,020. That, of course, would have to be subject to any specific cause under section 134?—They would still have the right of specific cause.

14,021. Your next point, I think, is that where a trader pays interest abroad he should not be required

to deduct Income Tax from the interest so paid?—Yes.

14,022. You mean, of course, interest payable to a resident abroad?—Yes.

14,023. Who is not liable to pay English Income Tax?—That is so.

14,024. Do you recognise that that might enable an English trader to borrow his money more cheaply abroad?—If an English trader borrows money and uses it in the business in England he would have to deduct Income Tax; I do not suggest that he should not deduct Income Tax under those circumstances.

14,025. Would you further limit it to interest which is paid to a non-resident not liable to English Income Tax, and also borrowed for use abroad?—That is so; that is how I did intend to limit it.

14,026. Your last proposition, I think, is with regard to Super-tax recoverable from a non-resident, and your suggestion is that it should be given up?—Yes.

14,027. We are having official evidence about that, and I will not ask you any further questions upon the same point?—It is given up at the present time, of course.

14,028. It is recovered where it can be got?—In some cases.

14,029. *Chairman*: This is not on your paper, but you have had a large experience of accountancy in the North of England. Are there great evasions of Income Tax being carried on now?—I do not think so—not within my experience. I think most of the cases of evasion have been gradually brought to light and have been very much checked.

14,030. You do not know of any; you cannot give the Commission any help in that matter?—I do not think so, my lord. Of course, a great many were discovered by the operation of the Excess Profits Duty Act, because a great many people who had made wrong returns for Income Tax were very anxious to show that those returns were wrong, so that they did not have to pay so much Excess Profits Duty; that had the effect of bringing out a good many cases of evasion.

14,031. *Chairman*: That finishes your evidence. Thank you.

Mr. W. ALLEN, on behalf of the Middle

Classes' Union, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

14,032. (1) No further rise in the rate of Income Tax is possible on incomes under £2,000 a year without serious hardship, not only to the individual taxpayer, but also to the middle classes as a whole. An income of £2,000 now does not represent in purchasing power much more than an income of £1,000 did in 1914. If the tax is further raised it appears inevitable that the standard of living of all those who have incomes of only a moderate amount will have to be lowered. Their purchasing power will be seriously curtailed, and this must have a detrimental effect on the internal trade of the country.

It must also be borne in mind that there comes a limit beyond which, if taxation is raised, the incentive to work is largely destroyed on account of the small return an individual receives for his effort. It is believed that this point has now been reached, and that any rise in the present rate of tax on the income of the middle classes would result in diminution of work.

It is recommended that the maximum rates of Income Tax now in force on incomes under £2,000 a year should not be raised.

14,033. (2) *Joint assessment of the incomes of married persons*.—Legal fictions die hard, and the present system of aggregating the incomes of husband and wife for the purposes of determining the rate of Income Tax to be charged appears to be based on the law as it existed before the Married Women's Property Acts were passed. In those days a husband to a great extent had the control of his wife's property. Now he has not, and it is hard to find any reason why

the usual rule that it is the income of the individual that is to be taxed should be departed from. There is no logical reason why there should be a different rule for large and small incomes in this matter, but, having regard to the difficulty that might be experienced at the present juncture in making up the loss to the Treasury, estimated by Mr. C. G. Spry at £30,000,000 a year, it is thought that the hardships of the present system would be largely met if aggregation did not apply to cases in which the joint income was under £2,000 a year. According to Mr. Spry's table, on page 126 of the Minutes of Evidence given before the Commission (see par. 2671), the loss to the State would appear to be:—

On incomes from £131 to £500 a year	£1,500,000
From £501 to £1,000 a year	£3,500,000
From £1,001 to £2,500 a year	£7,300,000

Taking two-thirds of the last figure as the loss to the Treasury on incomes between £1,001 and £2,000 a year, the total amount involved in making such a change would amount to £9,866,000. Examples showing the effect of the present system have been put before the Commission (see pages 61, 62 and 63 of the Minutes of Evidence), and it is thought unnecessary to reproduce others, as these are sufficient to illustrate the injustice of the present system. The principle of the Income Tax Acts is that it is the income of the person which is taxed, and this is not departed from in any case except that of husband and wife. Trustees administering the incomes of children living together would only pay the rate of tax on the income of each child. The same rule would apply to the income of brother and sister, father and son, or any other persons who made up a joint household. Marriage only is taken to be a reason for aggregation.

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[Continued.]

There would have to be some safeguard against collusive arrangements between husband and wife for the sake of avoiding tax. A satisfactory one appears to be that suggested by a member of the Commission on page 131 of the Minutes of Evidence. [Question 2734.] A marriage settlement should, however, be included in the proposal, otherwise it would be possible in this way for persons having property to settle to avoid a part of the tax which could not be avoided by two persons having only earned incomes.

The question arises how loss to the State can be made up if the concession is granted. It may not be within the province of a witness to make suggestions, but, if it is, it appears that settlements are being made at the present time to avoid Income Tax, and that charges are being created in many cases for the same reason. The following is an illustration. A father has an income of £15,000 a year. Assume he has 4 children. He charges £1,000 a year on the estate for each of the two sons and £300 a year each for the two daughters, the charges to remain in force until each child reaches the age of 21. The Income Tax and Super-tax he would have to pay on the £3,000 amounts to £1,575 (6s. in the £ Income Tax and 4s. 6d. Super-tax). Under the arrangement each son would pay at the rate of 3s. 9d. in the £ or £187 10s. a year, and each daughter at the rate of 3s. in the £, or £75 a year. The total taxation for the children would thus be £597. The loss to the State through what is really a fictitious transaction amounts to £1,050 per annum. Such transactions as the above are becoming common in the case of large estates and if prohibited the sum saved would go some way towards making up the loss through abandoning joint assessment of husband and wife. Words similar to those in the Finance (No. 2) Act, 1913, relating to fictitious transactions might have the desired effect.

14,084. (3) *Recovery of overpaid tax.*—There is often considerable delay in the recovery of overpaid tax. This applies particularly to cases in which tax is deducted at the source. In the case of small unearned incomes from £250 to £300 a year as much as £45 or £50 may easily be overpaid. This is clearly a hardship, for at the present time a person having a small income has little margin above his living expenses. It is recommended that any amount overpaid should be recoverable at least every three months. The Surveyor of Taxes might also be authorized on the production of a dividend warrant showing that tax had been paid at the full to give an order on the Post Office for the repayment of the excess on the basis of the rate charged on income for the previous year. The extent of the grievance that exists at present is illustrated by the fact that officers exist for the recovery of over-paid taxes, and they charge in some cases as much as 25 per cent. on the sums recovered.

14,085. (4) *Forms of return.*—The present forms of return are difficult to understand, and many fail, even after careful perusal and consideration, to understand exactly what is required of them. They find it necessary to obtain professional assistance in making their returns which involves them in additional cost. One reason for the complicated nature of the form is that it deals with every kind of income. If forms could be issued dealing with only the class of income for which the taxpayer has made his return for the previous year, it would make for simplicity. Such a form could contain an intimation that if there was any other income a separate form should be applied for. This may not be an ideal suggestion, but it is thought it would materially help those who have only small incomes derived from one or two sources and who are not used to filling up complicated forms.

14,086. (5) *Taxation of weekly wage-earners.*—It is suggested that the present system of taxing the wages of manual workers is unsatisfactory. Under the law, as it now stands, those engaged in manual labour are assessed quarterly, while others who are also paid weekly, such as clerks and typists, come under the ordinary rule of annual assessments. There does not seem to be any reason for distinguishing between the different classes of workers, and the quarterly assessment is believed to lead to considerable loss to the

Revenue, because it is difficult, if not impossible, to trace a worker who often changes his employment.

It is recommended that in the case of all weekly wage-earners liable to pay Income Tax, the employer should deduct the tax weekly, and stamp a card or book with stamps representing the amount deducted and hand the card or book to the worker. The Surveyor for the district, before this was done, would inform the employer of the correct rate to be deducted, and if it was found at the end of the quarter that there had been an over-payment, the Surveyor should have authority to refund it at once. Such a system, it is thought, would diminish the cost of collection and would also prevent evasion. As the law stands at present, a worker often does not realize that at the end of a quarter a demand will be made on him for the tax, and consequently nothing is put on one side to meet it. The result is that when he has to pay at the end of three months he feels that an undue amount has been taken from his current week's wages, whereas a small deduction week by week would not be felt to the same extent.

The chief requirement of a person responsible for the management of the household expenses of a weekly worker is to know with certainty the amount that will be received week by week, and any considerable deduction in a particular week upsets the whole household.

14,087. (6) *Assessment on the three years' average.*—It is recommended that this should be abolished, and that all assessments should be on the amount of the person's income for the previous year. The advantage of this would be that a person would pay the tax when he had the money, and in years when little was earned little would be paid.

14,088. (7) *Abatement given for children.*—The relief given by section 21 of the Finance Act, 1919, has to some extent mitigated the hardship that was previously felt by members of the middle classes who had children to educate. It is strongly urged, however, that the section should be extended. The cost of education presses very heavily on those who have only a moderate income. Not only have they to pay for the education of their own children, but they are heavily taxed to defray the cost of the education of the children of manual wage-earners, and it is felt that a large deduction should be allowed them for educational purposes from their taxable income. Having regard to the importance to the State of the efficient education of the children of the middle classes, it is thought that a deduction should be allowed of at least 50 per cent. of the cost of the education of each child. This, at first sight, may seem excessive, but when it is remembered that the rise in the amount of tax on such incomes since 1914 represents in many cases as much as the total cost of educating a child, it does not appear to be too much, and only those who are in touch with this class can understand how great a strain is the cost of education.

14,089. (8) *Co-operative Societies.*—It is recommended that the profits of such societies should be liable for the payment of tax.

[This concludes the evidence-in-chief.]

14,090. *Chairman:* Is the Middle Classes' Union strong?—It is a comparatively new body, but since its inception I understand it has got a very considerable membership.

14,091. And the main point of its existence is to protect that middle class?—To protect the middle class and look after the interests of the middle class. I do not know that it is very easy to define exactly what the middle class is, but roughly the intention is to do what they can for all small traders and for the professional classes as a whole.

14,092. It is really an organisation which is of some moment?—Yes, I think it is.

14,093. We will examine you on your evidence-in-chief, if you will kindly answer the questions that the Commissioners put to you.

14,094. *Mr. Kerly:* Will you tell me how many members your Union has?—The information that has been just given me is that there are about 20,000.

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[Continued.]

14,045. What are the limitations; what is your definition for membership?—I think that any person can join the Union on payment of the subscription.

14,046. Except so far as the title limits the desire of persons to become members it is merely a casual collection of the community?—That is so.

14,047. What am I to understand your evidence to imply by the expression "middle classes"?—between some limits of income, do you mean?—Well, generally, incomes under £2,000 a year.

14,048. You suggest that the increased Income Tax presses heavily upon such incomes; that it is true of all incomes?—It is true it does on all incomes, but the margin on the smaller incomes is less than on the larger. When a person has a high income by cutting out certain luxuries he can get on comfortably, but when his income is smaller, when he is heavily taxed very often he has to cut out some of the necessities.

14,049. By necessities you mean conventional necessities?—I mean what have been ordinarily taken to be the necessities of life in the station in which he is living—at any rate the ordinary necessities up to the present time.

14,050. That is what I mean by conventional necessities—the customary expenditure having regard to his social position?—That is so.

14,051. The increased taxation has driven members of the middle classes to limit their expenditure upon customary conventional necessities?—Yes, I think there is no doubt about that at all.

14,052. Putting aside the very rich, it has the same operation upon the rest of the community?—It no doubt has to a certain extent, but I think to a less extent on the higher incomes.

14,053. You suggest that there comes a limit, and if taxation is raised beyond that limit the incentive to work would be largely destroyed; do you seriously suggest that, say, a professional man is likely to be less inclined to work hard and earn all he can because his taxes are increased?—Yes, I do. Assume a case where a man has a fixed income that he can live upon. If he knows that a very large amount of anything he earns after that is to be taken away, he is not likely to do the same amount of work that he otherwise would. In some cases that have come under my notice people have actually given up work because such a large proportion was taken away. I am not defending that; I do not think it is right; but still I think that is taking place.

14,054. Putting aside the exceptional case of a man who has an unearned income which he can live upon and who gets luxuries by working, I should have thought that the professional man, taking him as a type, is one of the people who has his back to the wall, and has got to work; the more you ask him for the harder he has got to work to earn it?—That is so up to a point, but if you take more than a certain amount away from a person I think that the incentive to work is destroyed. He will work to keep himself in a certain position, but he will not work as hard as he otherwise would to get a little more, I think.

14,055. Leaving the general question, your second point is about the joint assessment of married persons?—Yes.

14,056. You suggest that the wife should be assessed separately?—Yes, that is my suggestion.

14,057. And the two incomes should be treated separately to determine the rate of tax payable?—Yes.

14,058. Do you suggest that the wife allowance should still continue?—That is a difficult matter; I think that it might continue in certain cases, but not in all.

14,059. What do you mean?—I think that the wife allowance might only continue in certain cases under a certain amount, but I think the principle of the separate assessment is the important one. As long as that was granted the other is of comparatively small importance.

14,060. There seems some want of logic in continuing the wife allowance, upon the footing of a

common purse, and yet assessing the two contributors to the common purse separately?—No, I think not. I think if you have a small income—it may be all earned by one of the two partners of the marriage—a certain allowance should be given on account of the wife.

14,061. On the footing that there is a common purse with two people to draw upon it?—Two people to draw upon the same purse.

14,062. Do you suggest that if the wife's income is separately assessed she should be treated specially as a successor to her husband on his death? At present she pays a much lower rate of Estate Duty. Is that to continue, or is she to be treated as a stranger?—I do not think she should be treated as a stranger. I do not think she should have any greater benefit than a child would have.

14,063. I appreciate the exceptional case of a child you have just referred to. You would maintain the present reference to her association with her husband for the wife allowance and for the Death Duty concession, but you would nevertheless assess her separately?—I would certainly assess her separately. If you have any other common household the partners making it up are assessed separately, and I take it that the principle of the Income Tax Act is that it is the income of the individual that you tax, and not the income of the household.

14,064. At the end of paragraph 2 you suggest that there would be a saving in certain events which would go some distance towards making up the loss by abandoning the joint assessment of husband and wife; that is pure speculation, is it not, or have you any figures to support it?—I have no figures to support it. I know that charges such as I mentioned there are being created and it seems to me that it is easier for a person having a large estate to create such a charge than for other people who rely solely for their living on earned income.

14,065. Is there any reason whatever for suggesting that the saving in dealing with the fictitious arrangements that you have been suggesting would amount to millions?—I could not say the figure.

14,066. In paragraph 4 you suggest that a taxpayer should only have one form of return appropriate to his case; that is what I gather the gist of paragraph 4 is. Would it not be necessary to have some sort of general declaration in order to make sure that the taxpayer has only the income to which that particular form relates?—I quite agree; I think it would be.

14,067. Would you accept it in this form, that everybody should make one general declaration, and that then there should be four or five separate forms appropriate for each head of income?—Yes.

14,068. Or perhaps one combined form where there are several?—Yes, I quite accept that.

14,069. You think that would be simpler for the ordinary taxpayer?—I think it would. After this memorandum had been prepared this point was discussed by the Committee of the Union that is dealing with these points, and it certainly thought that a suggestion of your lines would be the best one.

14,070. If I may say so, I cordially agree with you. I think the ordinary taxpayer is only confused by having a lot of surplus matter?—I think he is.

14,071. And it would be much simpler for him if he were offered his choice of three or four instead of one combined and complete form?—Plus your general declaration.

14,072. Yes. Then you deal in paragraph 7 with a matter I have already referred to, and you suggest a much larger abatement for children. That is again judging the reasonable statement upon what I call conventional necessary expenses rather than upon a minimum of subsistence?—Yes, I accept that, but I think it is all-important that the standard of education of the children of these who have a comparatively small income should be kept up, and, if the necessities of the State will allow it, it would help to keep it up if there was some further concession in regard to abatements for children.

14,073. There is much to be said for it, no doubt, but it would be a new departure; hitherto the allowance for children, and for the wife too for that

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[Continued.]

matter, have been rather upon the footing of a minimum for subsistence, without regard to the actual circumstances of the taxpayer?—Undoubtedly.

14,074. Mr. Muckinder: I notice that you said the allowance to the wife was a comparatively small matter as compared with the separate assessment?—I said I considered the principle the important thing; I think the principle of taxing the individual is an important point.

14,075. That is rather an abstract point, is it not?—No, I do not think so.

14,076. What I am going to ask is, is that the considered opinion of your Union?—Yes, I think it is. The Union consider it a matter of great importance that there should be separate assessment: that the two incomes should not be aggregated.

14,077. You said, I think, that you regarded your clientele as being on the whole people with between £1,000 and £2,000 a year?—Under £2,000 a year.

14,078. I would like to know what you have got to say about this: I was inquiring about your Union in a totally different connection in the City of Glasgow a few days ago, and I was told that there at any rate the greater number of your members were very much smaller people than that?—That may be so.

14,079. Would you suggest in regard to people with less than £1,000 a year, say, at the present moment the matter of separate assessment is a much more important thing practically than the wife allowance?—On some incomes it is. It is a question of arithmetic in each case. Up to a certain point it is of more importance.

14,080. What proportion of your members do you think would be cases in which the wife has a private income, or earns an income?—I am afraid I could not answer that question.

14,081. I am only trying to ascertain the weight of your evidence. Has this evidence been adopted by any large representative body of your Union?—This evidence was before the Committee of the Union dealing with taxation, and it was adopted by it.

14,082. That Committee consists of special classes of people—civil servants chiefly?—I can give you a list of the Committee.

14,083. I see they are almost entirely men. That was really the point; there are only one or two ladies here?—I think the great proportion are men, yes.

14,084. And they adopted that principle. Do you think that those people, who include some rather distinguished persons, are representative of the rank and file of your Union?—I think so, yes.

14,085. Are they elected, or are they self-appointed?—They were not elected.

14,086. In other words, they were an original Committee which have collected a large body round them?—That is so, and of course they have collected the large body round them by putting out certain views.

14,087. Including this view?—I cannot say if all the details of this view were put out.

14,088. What I want to suggest to you is, supposing a plan were put out that the wife allowance was to be increased, either in proportion to the income or something of that kind, do you not think that practically that would be a more important thing than separate assessment?—I think practically it would be very useful indeed.

14,089. You laid such stress on the separate assessment, which seems to me rather a theoretical matter?—Perhaps I was giving too much expression to my own feeling there. I think generally if the wife allowance was increased to any considerable extent it would be a great relief.

14,090. Mr. Armitage-Smith: The present relief in respect of children is, I think, by law confined to incomes below £300 a year, is it not?—Yes, I think so.

14,091. Your Committee do not regard that as a suitable limit?—No, they do not think it is high enough.

14,092. You regard it as an arbitrary figure?—Yes.

14,093. You suggest that the relief should be confined to incomes not exceeding £2,000 a year?—Yes; that is an equally arbitrary figure, of course.

14,094. That is the confession I wanted to get from you. Why do you suggest that relief should be confined to those cases?—I think you cover most of the hard cases if you go up to £2,000 a year.

14,095. Is there anything illogical in a separate assessment of two incomes, where there are two incomes, instead of the aggregate combined with an allowance for the wife where there is only one income, and that the income of the husband?—No, I do not think there is.

14,096. Mr. Synnott: You say this separate assessment is a question of logical principle?—I think logically that is so.

14,097. Is not the real principle this: that separate assessments would reduce the rate of tax for both?—Separate assessments, of course, might reduce the rate of tax for both.

14,098. If the result of your principle was the other way, we should not hear anything about it, should we?—Well, people of course are not generally anxious to pay if they can help it.

14,099. Do you, in any sense, represent people with earned incomes, rather than pensioners and small annuitants, and those having unearned incomes?—Yes, certainly.

14,100. I thought we should hear from you the case of people with small pensions and small fixed incomes when the pound sterling is only worth 10s.?

—I think there is a special case there.

14,101. You do not make any difference at all. I have been labouring on this Commission, to make this distinction between earned and unearned income that during the war the people who have been earning incomes have been able to adjust these incomes to prices, but the pensioner and the small annuitant, and the man or woman or children who are living on the savings of a lifetime, have to suffer more than anybody else?—I think that probably the person with a small fixed income, who had fixed charges to meet, such as rent under a lease, has suffered as much as anyone.

14,102. Have your people considered this point at all?—Yes.

14,103. Have you considered it from this point of view that the distinction between earned income and unearned income, in regard to Income Tax, ought to be abolished?—No, I do not think we have considered it from that point of view.

14,104. Now with regard to the question put by Mr. Kerly, as to increased taxation. Your view is that increased taxation, at a certain point, abolishes the stimulus to work. Is that so?—I think that increased taxation over a certain point largely diminishes the incentive to work.

14,105. Enforcing your view, as I wish to do, may I put two other considerations to you? That is especially true where you have a highly graduated Income Tax, and where a fresh exertion may put the taxpayer into a higher grade of tax?—Yes. Of course one must remember that if the taxpayer is only just over another grade, he can pay that excess.

14,106. Yes; but generally it has that effect?—Generally it has.

14,107. It is suggested also that increased taxation will stimulate increased effort. That is the suggestion on the other side?—Quite.

14,108. But surely that is a very fatal argument. Would not that suggest that all taxation should be increased, in order to stimulate effort?—You can reduce that to an absurdity, cannot you, by saying 20s. in the £?

14,109. I quite agree, but is there not also this well-known point. Take professional men, whom you represent. Increased effort beyond a certain point does not mean necessarily an increase of income proportionate to that?—No, I quite agree.

14,110. You have a law of diminishing returns there, as you have in agriculture, and in other businesses, too; not so much in trade, but in certain classes of profession?—Yes.

14,111. You have no suggestion to make to us as to how you are going to make up this loss of income to the State, caused by your suggestion?—One suggestion was doing away with aggregation.

14,112. That would diminish the revenue?—Yes. You asked how would I make that up?

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14,113. Yes, and the others?—I do not know that it is quite within my province to suggest how these amounts should be made up.

14,114. Your people have not considered it?—I think a great deal can be done by doing away with the fictitious settlements, of which I have given an illustration in my evidence-in-chief, and also by introducing words into the Income Tax Acts similar to those used in the Finance (No. 2) Act, 1915, relating to *Excess Profits Duty*. There you are not allowed, for the sake of avoiding the tax, to enter into any artificial or fictitious transaction. Up to the present time, so long as you keep within the law, you can have any fictitious or artificial transaction to avoid the tax. I think similar words might be introduced into the Income Tax Acts. They have certainly been effective in the other Act, I think.

14,115. Would it not be rather dangerous to embody in a permanent code of the Income Tax, permission to even the most trustworthy and impartial officials to decide whether a thing is fictitious or not?—I do not think so. I have a very great deal of faith myself in the Inland Revenue officials.

14,116. You cannot say that a father providing for his children permanently is doing something in the nature of a fraud?—No; but take the case of a settlement, where money is settled.

14,117. I will not go into it, because you admit that you have no evidence that this is being done on a large scale?—I say I know it has been done on a considerable scale.

14,118. It is rather a dangerous power, is it not, that the law should come in and practically upset modes of settlement which are recognised otherwise by the law. Is it not rather dangerous? Is it not practically saying to A, B, C, and D: "You shall not, except under very severe penalties, make this or that use of your property, even for your own children"? Is it not rather a dangerous principle?—Personally, I do not think it is. I think if a transaction is merely entered into for the sake of avoiding tax, as these transactions are, it is perfectly legitimate for the State to say: "We will not recognise a transaction of that kind."

14,119. But if it is otherwise perfectly good? There must be thousands of cases in which a business is carried on in a certain way, and accounts furnished for the purpose of avoiding a tax, and they are passed over because they are within the law?—That is no doubt perfectly true, but if they are made up in a perfectly artificial way for the sake of avoiding the tax, then I think the Inland Revenue should have the right to say: "We will insist upon these accounts being made up fairly, and the person who is earning the income paying his proper proportion."

14,120. I am afraid you will not make up the deficit very much in that way. With regard to this question of weekly wage-earners: have you considered in practice how this system of cards and stamping could be worked out?—Yes; I think you could have the cards very much like the Insurance cards at the present time, that the employer stamps week by week, and be would simply put another stamp on the Income Tax card.

14,121. You suggest the employer should do it?—I suggest that the employer should put on the stamp and hand the card back to the workman each week.

14,122. At the present moment, those returns go in to the National Insurance Commissioners, do they not—the stamps for National Insurance?—That is so.

14,123. And they have a complete return of all the wage-earners whose cards are stamped, who are subject to the Act?—Yes.

14,124. Why should not these returns be used for Income Tax purposes, if it is going to be the law? Why should there be a duplicate set of returns?—You mean stamp the same card with another stamp?

14,125. No. At the present moment, I happen to know that large firms have to keep extra clerks in order to hand in to the Income Tax authorities a list of persons whose incomes exceed £130 a year. Why should they have to do that, if all this information could be had from the National Insurance Commissioners?—Of course, certain information could not be had from the Insurance Commissioners. The Insurance Commissioners have not any information in

regard to any other income that the man has. Of course, the Surveyor of Taxes would have that.

14,126. Neither would the employer, would he?—No, but the Surveyor would have it, and he would inform the employer at what rate he had to make the deduction.

14,127. You have not considered the point whether there would be sets of clerks working out those lists for the National Insurance, and also the clerks of the employers?—I do not think the National Insurance really touches it, because it does not deal with any of the income that the man has outside his wages. If he has got the rent of a cottage, or if his wife is earning, and so on, the Surveyor of Taxes has his full return; the Insurance Commissioners have not.

14,128. They have, anyhow, the names of the employees?—They have the names, but that is not sufficient to determine the rate of tax.

14,129. Mr. Walker Clark: With reference to paragraph 5, weekly wage-earners, are your members employers or are they employed?—They are both.

14,130. Do you represent any large number of employers who support this collection of the tax by employers as such?—The employers in the Union.

14,131. Your members who are employers agree?—Yes.

14,132. Would you be surprised to hear that all the evidence given by employers before the Commission up to now is in a totally different direction?—I have read a good deal of it and I see that it is.

14,133. This is the first organisation representing employers which has suggested that employers should collect the tax?—This organisation does not represent what I may call large employers.

14,134. Still, those in your organisation who are employers agree to deduct the tax weekly?—That is their view.

14,135. And in answer to Mr. Mackinder's question I gather that a considerable number of your members, in Glasgow, at any rate, are employed. They would be willing to contribute weekly?—As I said before, I have not any special knowledge of the members in Glasgow. This evidence has been considered by the General Committee of the Union and has been approved by them as representing their view. Whether a particular member in Glasgow or anywhere else agrees to that view I cannot say.

14,136. I do not mean a particular member, but the general run?—So far as the Committee can be taken to represent the general run of members they agree with this evidence.

14,137. Do you know that one of the principles of the Income Tax Act at present is that it is a secret tax?—It used to be a principle of it.

14,138. When did it cease?—I think it ceased to be so about two years ago. I can give you the case if you like. Supposing a man has an earned and an unearned income, then very properly, and I think very conveniently, if he is taxed under Schedule A, the Commissioners make certain deductions from the full amount of Income Tax that he would otherwise have to pay under it. They tax him at the lower rate that is due. The demand is sent in to his tenants, and his tenants see that his income is lower; so I think it has been departed from there.

14,139. Mr. Graham: I am not quite clear yet what you mean exactly by the middle classes. Would you include under that definition all people up to £2,000 a year, or simply people between £1,000 and £2,000, or whatever other figure you might lay down?—I think that to say all people up to £2,000 a year would be too wide. I am not including handicraftsmen.

14,140. You exclude manual workers?—Yes.

14,141. Although in point of fact their income might be very much larger than the income of other people who would be eligible for membership of your Union?—Certainly, that is true.

14,142. Is it correct to say that what you have mainly in view is a division of society into classes based on income; or is there any social distinction?—No social distinction at all.

14,143. Would it be wrong or unkind of me to suggest that in the main your membership is found in suburban districts of London and other large cities?—I am afraid I could not answer that question now. I could no doubt supply you afterwards with

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the facts of that, but I should not like to commit myself off-hand, because I do not know.

14,144. Would it be wrong on my part to suggest that, particularly within recent times, the Union has sought membership on the ground of the activity of, say, the Miners' Federation and the railwaymen and other large sections of organised labour, who were making demands on the community?—I think that is true.

14,145. That is correct?—Certainly.

14,146. It is very largely, is it not, political in its intention?—I think not.

14,147. Is it not the case that it is supported in the main by politicians of one particular party in the State?—I think not.

14,148. In the list of members of the Committee can you point to any who belong to other than one political party?—I do not think I know to which political party any of them do belong. After looking at the list I only know the political party of two, and I know that because they happen to be members of Parliament; I think they are Coalitionists. I believe so.

14,149. I do not want to press that, only I think you will not disagree that those of us who do know their faith are correct in saying that they belong to one party of the State, and that they represent suburban constituencies and are working this very largely from what I call, without any lack of respect, a suburban point of view?—I have no doubt that you know very much better than I do the political parties to which these various people belong. Personally I do not know, except the two.

14,150. I will put it in another way. For the general purpose of taxation, which, after all, is a matter of general concern, irrespective of class, do you think it is wise at all to divide society into classes, or to seek special considerations for any middle class or any other class of the community?—No; I agree with you. I think the present system of taxation of weekly wage-earners by quarterly assessments is a mistake. It is different to all others.

14,151. Is it wrong again on my part to say that the bulk of this evidence is, in the main, against, shall I say, the manual workers—the working classes as we commonly employ that phrase?—I should have thought not; I should have thought it was almost entirely in favour of them.

14,152. You are asking, are you not, for concessions for people who earn about £1,000 or £2,000 per annum?—Up to that.

14,153. And you are making certain proposals for the weekly collection of wage-earners' taxation on the ground that more money will be forthcoming on that basis. That is one of your arguments. Does not that point to a claim for consideration for the middle classes, and some rather stiffer dose, shall I put it, for the working classes?—No. I think every class ought to pay, proportionately to its ability, for the services of the State, and I do not think that this would press on the working classes for the relief of the middle classes. Take the case of aggregate income of the husband and wife, or take the case of children. If a person, as he very often can now (fortunately, I think), is earning very much higher wages than he did before, and he wants to send his child to get a better education, I think he ought to meet with special consideration and the allowance ought to be increased.

14,154. Let us take that point of education. In your outline of evidence you ask for substantial concessions in respect of the education of middle class children?—Yes.

14,155. Now do you not think, in the first place, that the increased concessions which have already been given constitute a good deal on the part of the State in that direction?—I think they are a step in the right direction, certainly, but I think education is of such great importance that if the State can possibly do it these concessions ought to be increased.

14,156. Do you ask these concessions from the point of view of the desire of the middle classes to send their children to special educational or other institu-

tions, as apart from the educational facilities provided by the State at large?—Yes.

14,157. The extra cost?—Yes.

14,158. Is there any reason, having regard to the advance of education in this country, and the broader policy of the Universities, why the middle classes should not take advantage of the State facilities in common with other members of the community?—I think there is no reason why they should not take advantage of them as far as possible, both the working classes, the manual workers, or anyone who earns his income in any way. As far as he desires to have special education to fit them better for what they have to do afterwards, I think the State ought to grant every concession it possibly can.

14,159. The State has already granted a concession, and do you think it is fair, simply because a section of the community wants an exclusive education or a special education for its children, that much larger concessions should be given, which must be made good by loss to the people who are quite content to take advantage of State facilities?—As I said before, I do not think the concession at the present time goes far enough.

14,160. That may be, but still it is a big concession, is it not?—It is a good concession; I am not belittling the concession at all; I think it is a really substantial one.

14,161. Having regard to the general position of the Income Tax and finance and all the rest of it in this country, is this the hour to ask for special legislation for any class of the community—and I am keeping all classes in view for the moment?—I quite agree that the State has to meet very heavy payments at the present time; but if the present taxes can be adjusted all round so as to save those who are certainly feeling them very much at certain points I should be very glad to see it done; and I take it that that is why this Commission has been instituted—to see if it can be done.

14,162. Would you agree with me if I state this: that in the existing position of affairs in this country, and as that position is likely to be for many years, any class which wants anything on exclusive lines should be left to pay for it. Would you say that is a fair proposition?—I should say that was a perfectly fair proposition, if you mean by "any class" people whose incomes range between certain figures. You do not mean any class in the social scale, do you? You mean any class in the Income Tax scale?

14,163. That is what I have in view. I am thinking of taxation and the return from it?—I wanted to be quite clear that I had got your meaning. I think that any concession that is made in regard to Income Tax naturally ought to be made for every person in the particular scale to which it applies.

14,164. Income Tax scale?—Yes.

14,165. You suggest the deduction by employers from the weekly wages of workers. You have no workmen, according to your own statement, in the Middle Classes' Union?—I do not think there are any manual worker members.

14,166. So that you have never consulted the workers, who deserve to be consulted on a matter of taxation, on this particular point, and you have no knowledge of their views?—I have not consulted them.

14,167. Have you consulted any representative employers either?—For the purpose of this evidence I have consulted no one outside of this Union.

14,168. Was the Union not aware of the fact that where this matter has been considered by large and important federations of employers and workers they have decided unanimously against any such collection of tax?—If you tell me that, I quite accept it, of course.

14,169. Do you not think it is rather unjust, in a way, that the whole income of the manual worker should be exposed to his employer, if that is not going to apply through the whole range of society, middle classes included?—Personally I think it would be a good thing if it applied all round.

14,170. Then would you advocate in the Middle Classes' Union that the members of that Union should show their income to their employers for the purpose of collecting Income Tax?—This must be taken to be

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only my own view, because I have not consulted the Union on it; but personally I should think that would be no hardship on the employees—for every employee to have his Income Tax deducted at source by the employer.

14,171. But you have consulted no one. That is your individual personal opinion?—Quite; I said that.

14,172. There is only one last point. Would you admit that if it is the argument of the Middle Classes' Union that its membership is suffering from pressure from below—I will use that word for a moment—on the part of the manual workers, it is at least equally true that it is suffering very considerably from pressure from above by the very wealthy classes in the community, and perhaps by a section which has profited very largely by war conditions. Is that equally true?—You have asked me a question which is very difficult to answer, but may I ask you if I understand it aright?

14,173. I will take a concrete case. Every clerk considers that he is eligible for membership of the Middle Classes' Union, no matter how small his income?—Yes.

14,174. He very often says in practice that he is suffering at the moment from dear coals, dear railway fares, and dear other things, which he attributes principally to the wage-earners' demands. Is it not the case that he also suffers from excessive charges for, say, land, houses, property, and other things which he requires, and which are not due to any appreciable extent, if any at all, to the action of wage-earners?—I think the whole cost of living, from every point of view, has gone up in the last three years. I think that is common ground, and no doubt the clerk feels that at both ends of the scale. I do not think there is any doubt about that.

14,175. But does it not follow that, if you are going to devise a scheme of taxation to protect the middle classes, you would require to attack the people above as well as to attack the people whom perhaps the Middle Classes' Union would regard as being below?—I think that if concessions are made probably those with high incomes will have to find a very large part of them.

14,176. But you do not suggest that from beginning to end of your evidence; that is not a word on that point—not a word about an extra Super-tax or anything like that, is there?—I do suggest it in one way, because I suggest preventing the fictitious transaction which is nearly always carried out by the person who pays Super-tax. I give you an example of how he succeeds at the present time in avoiding the tax.

14,177. But is not that merely a question of evasion or perhaps fraud. It is not a constructive scheme for getting more money?—It is a scheme for preventing the person who has a large income evading the tax.

14,178. Does it not come to this: that you have no real attack on the very wealthy classes for the purposes of Income Tax or Super-tax?—I think that they are better able to pay both Income Tax and Super-tax than the middle classes are at the present time.

14,179. Then you would require to amend your programme to amend that?—I should have no objection at all.

14,180. Mr. May: A good many questions have been put to you with a view to elicit the representative character of this Middle Classes' Union. I suggest to you that up to the present we have utterly failed to find any representative character, either in the Union or in the evidence that you have put before us, outside a small coterie of persons who, you have admitted, are the general committee which formed the Union and have not some members round them?—And have got 20,000 members round them.

14,181. How have they got them?—They have got them by calling public meetings and by issuing literature, and so on. The Union, of course, is a comparatively new body. It was founded only this year.

14,182. It is less than a year old?—Certainly.

14,183. What is the subscription?—The minimum subscription is 2s. 6d.

14,184. May I ask if you are an official of the Union?—No, I am not.

14,185. In what capacity do you represent it?—The Income Tax committee of the Union asked me to come and represent them here and put their case before you for them. I was then asked to serve on their Income Tax committee.

14,186. Mr. Mackinder: Are you a member of the Committee of the Union?—Of the general committee, no.

14,187. Mr. May: You are simply an ordinary member of the Union who happened to be a member of the Income Tax committee? Is that so?—I was asked to join the Income Tax committee because they thought, probably quite wrongly, that I knew something about Income Tax; and then they asked me if I would present the case before this Commission that they wished to put before it.

14,188. Who has been consulted about the points in this evidence besides the general committee?—I do not think anyone. I think it came before the general committee as representing the Union. They went through the various points and they decided that they were points that should be put forward here.

14,189. But you have admitted, in answer to questions, that on two or three of the main points that are put down in your evidence—in-chief there is nothing whatever behind the suggestion, so far as the Union is concerned, except the suggestion of the Committee—that it has never been considered by the members or any of the members that you have referred to?—There has never been a general meeting of all the Union to consider this, but a great number of letters have been received by the committee from various members of the Union, and generally, a number of the suggestions here embody what those letters contained.

14,190. I think that is sufficient for my purposes on that point. You said in answer to another question, that you did not think it was within your province to make propositions for increasing the revenue from Income Tax?—That is my view.

14,191. Have you read the terms of reference to this Commission, by any chance?—Yes.

14,192. After reading these carefully, is that the conclusion that you have come to—that it is outside your province to make suggestions except to reduce the amount of Income Tax?—I am afraid that I have not sufficient expert knowledge to make suggestions for the increase of tax.

14,193. You have directed yourself solely to the side of reducing it up to now?—I have directed myself towards certain anomalies which I think exist and towards certain hardships which I think are involved under the present Acts.

14,194. All of which if reformed according to your ideas would tend to reduce the revenue to the advantage of a narrow section of the community?—I do not accept that entirely. It would reduce the revenue but not, I think, to the advantage of a narrow section.

14,195. You admit that it would have the effect of reducing the revenue?—Certainly.

14,196. I am sorry I must repeat the point, but perhaps from a slightly different point of view to my colleagues, Mr. Graham. The only means you suggest of increasing the revenue is at the expense of two classes who do not come within your Union and who, generally speaking, are in receipt of lower wages than the people who would be regarded as middle class persons?—No, that is not so.

14,197. Is it not the fact that the only two propositions in your paper for increasing revenue are for getting it from workmen's wages, who are at present supposed to escape by certain methods, and to get it from Co-operative Societies; and are not they not only outside your membership but, generally speaking, in receipt of lower wages than the people who would be regarded as middle class persons?—No, that is not so. May I explain to you what the suggestions in my evidence are?

14,198. Certainly.—One that I have gone into at length is to do away with fictitious transactions whereby the rich are evading taxation. The second is to ensure that if the quarterly assessment now is used

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for the purposes of evasion, it should not be so used in the future, but that a person should pay at the lower end of the scale, as I advocate he should pay at the top end of the scale, what he properly ought to under the Acts.

14,199. But you do not say that it is used for evasion; you say: "if it is used for purposes of evasion?"—And my third suggestion is that the profits of Co-operative Societies should be liable to tax.

14,200. We will come to that in a minute. You say: "if this quarterly collection is used for evasion." What evidence have you that it is used for evasion?—Through the correspondence that has come to the Union. There have been a number of instances given where we are informed that workers have left and have not been traced.

14,201. Have you any official information that the Revenue has suffered?—From Somerset House, do you mean?

14,202. Not necessarily direct; any published information?—No information from any official of the Crown.

14,203. Or from any published official documents?—Nor from any Government documents.

14,204. Are you aware that the workers themselves are inclined to oppose the quarterly collection on its present basis, not because it assists them to evade but because it overcharges them and is a hardship?—I think it is a hardship at the present time. I point that out.

14,205. You say a hardship to the Revenue, do you not?—No, I point out that it is also a hardship to the worker. I think you will see that at the end of paragraph 5 of my evidence. I say there: "The result is that when he has to pay at the end of three months he feels that an undue amount has been taken from his current week's wages, whereas a small deduction week by week would not be felt to the same extent. The chief requirement of a person responsible for the management of the household expenses of a weekly worker is to know with certainty the amount that will be received week by week, and any considerable deduction in a particular week upsets the whole household."

14,206. But you say, at the beginning of this paragraph: "the quarterly assessment is believed to lead to considerable loss to the Revenue?"—Yes, I say that too.

14,207. As between the two what is the advantage you are seeking?—I think there is loss on the one side. I do not say everyone evades, of course, but where the tax has to be paid it is very often a great burden at the end of three months having to pay it in a lump sum.

14,208. It is sufficient for me if you admit that either one proposition or the other in this case is put forward without any authority?—No, I do not admit that.

14,209. What is the authority?—I have told you.

MR. O. E. BODINGTON, on behalf of the British Chamber of Commerce, Paris (Incorporated), called and examined.

The witness handed in the following statement as his evidence-in-chief:—

DUPLICATION OF INCOME TAX IN ENGLAND AND FRANCE.

Review of French legislation.

14,223. (1) It is essential for a proper understanding of the peculiar hardships encountered by British subjects living in France in respect of duplication of Income Tax that recent French legislation on the subject should be at all events briefly reviewed.

14,224. (2) Prior to the law of the 15th July, 1914, there was no Income Tax, properly so called, in existence at all, falling either upon individuals or public companies, for, although the coupons of the securities of public companies paid a tax, first at the rate of 4 per cent. and subsequently of 5 per cent., this was, strictly speaking, a dividend tax, not an Income Tax, that is to say, a tax not upon profits earned, but only upon dividends actually distributed; consequently very much easier of ascertainment.

14,210. You have told us that the people whom this concerns are not admitted to membership of your Union, and you have told us that the only authority that the evidence has is the considered opinions of members of your Union and letters from members, of whom these do not form part?—I have told you exactly that it is on that information.

14,211. Very well; I am satisfied with that. You have said you have a good deal of faith in the justice of the Inland Revenue authorities in dealing with Income Tax matters?—I have had to meet them a good many times and I have always felt they were very courteous and fair.

14,212. I only want you to tell me yes or no; do you?—Yes.

14,213. You adhere to that?—Yes.

14,214. Then you say that the profits of Co-operative Societies ought to be taxed?—Yes.

14,215. Are you aware that the officials, in whom you have faith, for the past 15 years at least have been steadily informing the public that the profits of Co-operative Societies are taxed and that they do not escape any tax?—I believe that up to a short time ago those profits were taxed, and then a case came before the Special Commissioners which was decided against the Crown and the tax was then given up. I believe that is the fact.

14,216. You may take it from me that that is not the case, that there has been no alteration in the system whatever?—Then I was misinformed.

14,217. May I repeat my question? Are you aware that the officials of the Board of Inland Revenue have been steadily informing the public or those whom it concerned, for 15 years past, that Co-operative Societies do not escape taxation?—No.

14,218. Then I would advise you to read the official document on the subject.

14,219. Mrs. Knouter: Does your union resent or have any feeling about the cost that the average middle class person has to incur before they can make their Income Tax return? I mean so many people have to go to a solicitor, or one of these agencies. A business man has to call in an accountant?—Yes; I think I make a suggestion with regard to that in my fourth suggestion. I think the present forms of return are far too complicated. A great many middle class people have to take professional advice before they can fill them up, and that involves them in cost. I quite accept Mr. Kerly's suggestion that different forms for different kinds of income, coupled with a general declaration, would simplify the whole matter.

14,220. Would you approve of giving people the option of either having the husband's and wife's income separate, or taking the wife allowance, and if they take the wife allowance, then they should be lumped as one for assessment purposes?—Yes, I should have no objection to that.

14,221. They should have a choice as to whether they would take the wife allowance or be separately assessed?—Yes.

14,222. Chairman: Thank you, Mr. Allen; that is all.

General Income Tax.

14,225. (3) The law of the 15th July, 1914, for the first time enacted a general Income Tax, described as an "Impôt Global," in the sense that it was based on the general income of the taxpayer without any distinction as to its nature or its source. This tax has recently been graduated by the Finance Law of the 29th June, 1918, and varies progressively from 1.50 to 16 per cent. for revenue between 5,000 francs and 150,000 francs, and from 16 per cent. and 20 per cent. from 150,000 francs to 550,000 francs or over. There are certain small deductions allowed which are practically negligible for present purposes.

Income Tax by Schedules.

14,226. (4) Side by side with this general or global Income Tax there is Income Tax established on a basis of schedules by the law of the 31st July, 1917. The different schedules or categories are the following:—

- 1°. Landed property, improved or unimproved, 5 per cent.
- 2°. Income of securities, 5 per cent.

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- 3°. Industrial and commercial profits, 4.50 per cent.
 4°. Agricultural profits, 3.75 per cent.
 5°. Salary, emoluments, pensions and annuities, 3.75 per cent.
 6°. Profits of liberal professions, 3.75 per cent.

Coupon Tax.

14,227. (5) Independently of these two taxes, a law of the 29th March, 1914, has enacted a tax originally of 5 per cent. and now of 6 per cent. on dividend of foreign securities, whether collected in France or abroad. It is probable that this tax may not be highly productive, as it is obviously not possible for the authorities to identify the payment as dividend except when it comes into France earmarked as such, in which case the banker through whom it is collected is responsible for its deduction. Nevertheless, it is due, and heavy penalties are enacted for its non-payment.

Illustration. (1) Individuals.

14,228. (6) To illustrate the incidence of this taxation: we will take the case of an English merchant established in France as an individual deriving at the same time income from securities in England and France. He will have to pay in France the following taxation:—

- (1) 6 per cent. on the coupons of his English securities;
 (2) 5 per cent. on the coupons of his French securities, if he has any;
 (3) he will have to include both these categories of securities as elements of his general income, together with the profits of his business, and pay the French general Income Tax on this total income, subject to a few deductions, at a rate which may amount to as much as 20 per cent. and is not likely in a business of any importance to fall much below 10 per cent. or 12 per cent. He must make a special return of the special profits of his business and pay a tax of 4.50 per cent. on these.

Now, therefore, this individual pays in any event a double tax on his British securities, for the British Income Tax is deducted therefrom at the source, and he must pay a further 6 per cent. thereon to the French Exchequer. It is also possible that he may have to pay British Income Tax on the whole of this income, notwithstanding that it has not been received within the United Kingdom, unless he can satisfy the Commissioners of Inland Revenue that he is not ordinarily resident in the United Kingdom within the sense of section 5 of the Finance Act, 1914.

Illustration. (2) Public companies.

14,229. (7) If the case illustrated is that of a British public company, and not of an individual, then this company must also pay British Income Tax, because obviously a British company is domiciled in England, and therefore pays Double Income Tax; with this reservation, that the general French Income Tax is not applicable to public companies, but only to individuals. In place of this foreign companies pay a 5 per

cent. dividend tax on their profits earned, or presumed to be earned, in France. (If their French profits are not separately calculated the Minister of Finance establishes a quota for the assessment on the basis of the French turnover.) A British company, so situated, therefore, would pay:—

- 1°. French dividend tax at 5 per cent.;
 2°. the French 6 per cent. coupon tax on its British securities, if any;
 3°. 5 per cent. dividend tax on its French securities, if any.
 4°. the French commercial profits tax at the rate of 4.50 per cent.

Such a company would also of course pay British Income Tax on its profits earned in France.

14,230. (8) The instances annexed hereto are very brief, practical illustrations of the injustice of this double taxation. It is also fair to add that the schedule Income Tax of 1917 was devised to take the place of the formerly existing "patente" or trade tax. As a matter of fact it has only superseded the principal element of that tax, or the proportion payable to the State. The "centimes additionnels," or the portion paid to the Département and Commune, are still payable. They amount, roughly, to half the tax, so that a trader established in France still has to pay, in addition to the above tax, roughly speaking, half of what he formerly paid by way of patente.

Instance 1.

14,231. (9) A British company established in the neighbourhood of Paris writes that the quota of its total profits assessed for the French Government Tax is 18%. On this proportion of its dividend it pays 5 per cent. to the French Exchequer; it also pays 5 per cent. on the interest paid on its bonds subscribed in England, and lastly 4.50 per cent. on its profits realized in France. It is obvious that this income is also assessed in England.

Instance 2.

14,232. (10) An Englishman living in France derives some income from France, but the bulk of it from securities and property in England. The French Revenue insist on his including in his return for French general Income Tax all revenue of British origin, and he is assessed on the total amount of his revenue, both French and English. English Income Tax was also deducted at the source on his revenue from securities in England. He had several Life Insurances with British companies contracted in England, and he laid claim for rebate of Income Tax on the amount of these insurance premiums, which reached about £160 per annum; this claim being made in accordance with the scale of rebates allowed on this account to people resident in England and paying premium for Life Insurance. His claim was refused on the ground that no rebates of any kind were allowed to people resident outside the United Kingdom, except for reasons which were not applicable in his case.

Instance 3.

14,233. (11) This complainant holds the following securities which pay Income Tax in England as indicated:—

Date.	Security.	Dividend.		Income Tax in England	
		£ s. d.	...	£ s. d.	...
29th May, 1918	Scotch Whisky Brands, Ltd.	60 0 0	...	nt 5 0	15 0 0
23rd Dec., 1918	Crosley Motors, Ltd.	10 0 0	...	" 5 7	2 15 10
2nd Dec., 1918	Scotch Whisky Brands, Ltd.	60 0 0	...	" 6 0	18 0 0
3rd Aug., 1918	Crosley Bros., Ltd.	6 0 0	...	" 5 6	1 13 0
1st Mar., 1918	"	7 0 0	...	" 5 0	1 15 0
1st Nov., 1918	London & Lancs. Fire Ins.	10 16 0	...	" 5 9	3 2 1
1st May, 1918	"	10 4 0	...	" 5 0	2 11 0
30th Jan., 1918	Argentine Navigation Co., Ltd.	9 0 0	...	" 5 0	2 5 0
1st July, 1918	"	4 10 0	...	" 5 0	1 2 6
19th Dec., 1918	Fraser & Chalmers, Ltd.	11 5 0	...	" 5 3	2 19 1
		£188 15 0		£51 8 6	

In France a 5 per cent. tax has to be paid on foreign coupons, viz., £51 8 6 ... 2 11 1

And the Income Tax varies up to 20 per cent., say 15 per cent. on £188 15 0 ... 28 6 3

51 3 6

Total taxes paid on dividends £188 15 0, that is to say over 43 per cent. ... £22 0 10

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Instance 4.

14,234. (12) I hold £150 5 per cent. debenture stock of the R.M. . . . Company, London. The interest on this stock is paid to me by that company after deduction of British Income Tax at the rate of 6s. in the £. I include the net dividend in my return of income to the French Inland Revenue authorities, consequently I pay a second Income Tax in accordance with the French scale. I retain these debentures from sentimental motives, seeing that I am employed by an affiliated company of the R.M. . . . Company. The amount involved is small, but if my holdings were more important I should certainly have to sell out and invest the proceeds in France to avoid this Double Income Tax, which is most onerous and, in my opinion, unjust.

Instance 5.

14,235. (13) Holding stock in England, I receive dividends with English Income Tax deducted. Then, according to the French law, I have to declare said stock here and submit to a French Income Tax, making double payment. Then a further case in point: I am an English firm having a branch office in France. The books are kept in London the head office. I pay Income Tax in London on profits of the year. In France I have to declare my profits and pay duty, thus making double income duties.

Instance 6.

14,236. (14) We are established in London as X & Sons, and in Bordeaux as X. & Fils, and pay English Income Tax on all the profits made in London and in Bordeaux. Although our Bordeaux house works quite independently and does business direct from Bordeaux all over the world, we are deemed, according to the English Commissioners, to be one and the same firm. The profits made by our Bordeaux house are now subject to French Income Tax, and after deduction of this tax the net amount of profit is transferred and added to our London profits, and English Income Tax is then assessed on the whole amount. The profit made by Bordeaux is, therefore, subject to both French and English Income Tax, which we consider a great hardship. What we, however, consider particularly unfair is the way the English Income Tax law operates in regard to Interest on Loans made to our Bordeaux house by people who are resident in France and not subject personally to English Income Tax, and this is a very important matter, indeed, which seems to us so evidently unfair that we think it should be possible to obtain relief if the case is clearly put before the authorities. Owing to the increase in cost of goods and higher working expenses more money is required in Bordeaux than can be supplied from England, and, consequently, our Bordeaux house has to borrow in France from French subjects. Our Bordeaux house has paid interest on these loans at the rate of 5 per cent. per annum without making any deduction for English Income Tax, as the depositors, being French, are not liable for English Income Tax. The English authorities, however, have made our London firm pay English Income Tax, which is now 6s. in the £, on all these loans, and we are unable to recover this tax from the depositors, and this is a very great hardship to our firm and we consider it most unfair.

Instance 7.

14,237. (15) In reference to the unfair taxation of British residents on the Continent, I have just sold a house in England because of having to pay the Income Tax in both France and England, and I shall invest the money in French War Loan. I regretted having to sell this house, as I built it myself for personal habitation before leaving England five years ago, and in another five years or so I shall be returning when I should have resumed occupation, but the unfair double payment of Income Tax has precluded my doing this.

Instance 8.

14,238. (16) I am interested in the P. . . Co., of Cardiff, and all dividend warrants which I receive from this company mention that the Income Tax has been deducted (this year, 6s. 8d. in the pound). These

dividends when presented in France for payment are again subject to a deduction of 6 per cent. French Tax. I am a British subject residing in this country since 1892, and from this date I have not earned a single penny in England. On several occasions I have made application for the Income Tax to be refunded, but, unfortunately, there seems to be no redress. My claim is made on the ground that I am a British subject living in France and earning nothing in England and, therefore, should be exempt from this tax. I am also interested in other companies, but the big stake is with my own company. If I have to go on paying the taxes in both countries, my revenue will be reduced to next-to-nothing, consequently, I shall be obliged to withdraw all capital in England and invest it over here. If every Britisher living in France does this, it will be a serious loss to the old country.

Instance 9.

14,239. (17) I have a loan on my life policy on which I pay 4 per cent. on a part and 5 per cent. on the other. It is invested in England—Vickers, Armstrong, South Durham Steel, &c. The Income Tax is deducted in England in the usual manner. I have to give the French Bureau d'Enregistrement at the end of the year a full description of investments outside France, and I pay 6 per cent. on interest received (net interest) from these investments. Formerly, I did not pay any English Income Tax, being a resident abroad, and over and above this the current Income Tax was deducted by the insurance company off the amount of interest I paid on the loan.

So I received dividends, less—
25 per cent. English Income Tax.
6 per cent. French Income Tax.
25 per cent. not deducted off interest on loan.

Instance 10.

14,240. (18) A British newspaper company abroad writes as follows:—"We arrive at the following result of net profit as to a business situated as we are on an assumed profit of £100,000:—

Assumed profit of, say	£	100,000
4½ per cent. on gross profits	£4,500	
(French Excess Taxes	£68,798)	
5 per cent. on, say, 15 per cent.		
dividend	£375	
British Income Tax at 6s. in £.	£7,899	
(British Excess Taxes	£26,456)	
	88,028	
Leaving Balance	£11,972	

This, of course, includes Excess War Profits Tax, which does not concern the present investigation, but it will be seen that this company pays a total Income or Dividend Tax in France of £4,875 and in England of £7,899.

Instance 11.

14,241. (19) A limited company, doing business in England and France, writes as follows:—

"We think we are correct in saying that, as far as (A) excess profits are concerned, we are in the first instance assessed in France, in accordance with the French excess profits legislation, for 50 per cent. of the excess profits earned in our two French factories. This you can verify. After the profits then remaining have been ascertained, we then have here in England to pay excess profits upon the profits remaining after the French Excess Profits have been paid, and, of course, Excess Profits upon the profits of our English factory at 80 per cent."

"(B) As far as Income Tax is concerned, the procedure is exactly similar. We have to pay French Income Tax and have then to pay English Income Tax upon the total profits remaining on the French factories after the French taxation has been paid, and, of course, English Income Tax upon the profits made on the English factory."

"To illustrate our meaning, let us assume that the French factories' profits amount in normal times to £2,000 and the English factory's to £1,000. Let us assume, furthermore, that in 1918 the French factories earned £4,000 and the English £2,000. Then

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the taxation payable in 1918 would be, firstly, French Excess Profits at the rate of 30 per cent. on £2,000, reducing the £2,000 to £1,000, and subsequently English Excess Profits on the £1,000 then remaining from the French factories, increased by £1,000 Excess Profits on the English factory, making in all £2,000 upon which Excess Profit has to be paid in England at the rate of 80 per cent., leaving £400 actually available. On what remains of the £400, after the French Income Tax is paid, English Income Tax would be levied at the rate of 80 per cent., leaving £400 actually available. On what remains of the £400, after the French Income Tax is paid, English Income Tax would be levied at the rate of 6s. in the £, leaving something in the neighbourhood of £250 available for shareholders, and the dividend declared would still be subject to Super-tax if any shareholders were subject by reason of their total income to Super-taxation. For practical purposes this means that all excess profits on the French factories are eaten up by first French and then English taxation."

Instance 12.

14,242. (20) Having a residence both in France and in England, I have to pay Income Tax on revenue of stocks and shares in the United Kingdom, in France, plus the 6 per cent. tax on revenue des valeurs mobilières here. As you know, this amounts to 30 per cent. in England, then a further 6 per cent. on the rest and after that 20 per cent. here.

Instance 13.

14,243. (21) A banking company, which carries on its operations in France, writes as follows:—

- "Our company first pays the following taxes:—
- (1) Centimes additionnels on the patente.
- (2) Schedule Income Tax on commercial profits.
- (3) Excess War Profits Tax.

"Lastly, as a share company, it pays on the proportion of the profits distributed to its shareholders, on the one hand, and to its directors, on the other, the tax on the revenue of securities at 5 per cent. In principle this tax of 5 per cent. should be deducted from the amount of the dividends paid to the shareholders, and from this standpoint, therefore, it might be claimed that it is the shareholder and not the company which bears the tax, but, in reality, it is the revenue of the company which is assessed. In our particular case as our company carries on all its business in France it must pay this tax on the whole of its annual profits, whereas if it only carried on a portion of its operations in France, it would only have to pay on a portion of its annual profits, which portion would be fixed by the Minister of Finance. Our case, therefore, is clearer than that of other English companies who only carry on a portion of their business in France. Then, again, on the amount of profits distributed (diminished by the French tax of 5 per cent.), our company or our shareholders, which is just the same, must also pay in England Income Tax at the rate of 6s. in the £. Thus the two taxes, French and English, are superposed; up to the present the French tax is fairly light, but when it reaches the rate of the Income Tax a dividend of 100 francs will have to bear a first reduction of 30 per cent. in France, then a second reduction of 30 per cent. in England. The inequitable character of the duplicate taxation would then be more striking.

"The remedy is a simple one, especially in the case of a company which, like ours, only carries on business in France, it would suffice to apply the system in force tending to avoid the duplication of taxes in respect of payment of dividends to foreign shareholders, the system of affidavits. The schedule Income Tax on securities (French) and the Income Tax (English) are, as a rule, borne by the shareholders; make this rule a reality, our English shareholders domiciled in England would pay Income Tax and would be exonerated from the French tax on delivery of an affidavit; similarly, our French shareholders would pay the French tax and would be exonerated from Income Tax. In a word, from the fiscal standpoint, no account would be taken of the nationality of the companies, only the place where they carry on their business would enter into calculation. As far as companies who carry on business in both France and England are concerned, the quota spoken of above

should be fixed by agreement with the Minister of Finance and the English Revenue authorities, and by applying the same principle as that which we have just indicated, we should obtain a perfectly equitable taxation in both countries."

[This concludes the evidence-in-chief.]

14,244. Chairman: You represent the British Chamber of Commerce in Paris?—Yes.

14,245. What membership have you?—Our membership in the Chamber of Commerce is about 1,500.

14,246. Who is your President now?—Mr. Housefield.

14,247. Are they all British members?—They are exclusively British; we are very rigorous, indeed, about that.

14,248. And they have asked you to come over here to represent them on this Income Tax matter?—They have.

14,249. Mr. Kerly: You have been good enough to set out for us, in the early part of your paper, the Income Tax which is payable in France by residents in France. You suggest that it is a hardship—as it undoubtedly is, whether we can remedy it or not—that in some cases a Double Income Tax should be paid by a man, either because he is partially resident in England, or because he has some property which is earning profit in England?—Yes.

14,250. Could you summarize for me what you suggest as to alterations of the law?—Speaking on behalf of our Chamber, we think that Income Tax should be a purely territorial operation, and nothing else. That is not my personal opinion, but that is the opinion of our Chamber. We recognize that if a man is enjoying the benefits of civilised society in two countries, there is no reason why he should not pay two taxes to correspond with those benefits—but not on the same property.

14,251. What is your proposal?—Do you mean what do I personally propose?—

14,252. What proposal do you put before this Commission?—We have no definite proposals to put before this Commission, because we feel that the matter is so intricate that it is impossible to formulate a definite remedy. I have my own personal view.

14,253. Will you give us that, because I may tell you that we have had a good deal of evidence already as to the grievance and as to the complication of the problem. I dare say you are quite familiar with many of its aspects. We have had very little resistance, so far, as to how that problem is to be solved. To take only one aspect of the matter, you speak, for instance, of a tax being purely territorial. Now let me put to you this case. A company with its seat in England, carrying on business in France and elsewhere, and earning a profit: where is the Income Tax to be paid?—Personally, I do not myself see any remedy, except one, and that is that every country which has an Income Tax should pool its Income Tax, and the Income Tax should be proportionately to the income which an individual or a company derives from those various countries. I have outgalled my brains over and over again over it, and I cannot see any remedy but that.

14,254. In some simple cases, perhaps in a case as between Great Britain and a Colony, something of that sort might perhaps be possible, but how could you deal with the case which I put to you, of an English company earning some part of its income in France and the rest elsewhere? What pooling arrangement can you suggest for that case?—It can be ascertained, surely, what other countries it is deriving income from. Supposing it is deriving, we will say, a quarter of its income from France, half its income from Great Britain, and a quarter from Australia; it would be perfectly easy to pool that, would it not? I mean, it is conceivably possible.

14,255. The rates of Income Tax being different in each country?—No; you would have to agree on a uniform tax.

14,256. Then, the first step towards any such arrangement as you would suggest would be a world-wide convention between all the countries where Income Tax is levied?—Yes.

14,257. We are a long way away from that, are we not?—Yes.

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14,258. Short of any such general and revolutionary step, have you any practical suggestion to make to us?—I do not see any.

14,259. Let me make one or two suggestions. Supposing we give up the attempt to levy Super-tax upon income derived from England by a non-resident—you would say that would be a relief, I suppose?—Yes.

14,260. Take the case not of Super-tax, but of Income Tax deducted in England from dividends or other income payable to a non-resident. How would you suggest that should be dealt with?—Income payable to a non-resident?

14,261. Yes, and tax deducted at source in England?—I confess I have no suggestion to make. I was not prepared for this at all.

14,262. Mr. Kerly: Then I do not think I will trouble you further. As a statement of the conditions in France, I have no doubt your evidence is perfectly accurate, and it is perfectly clear, and I have had the advantage of reading it. I will not ask any further question.

14,263. Mr. Mackinder: There is an equivalent body of Frenchmen in London, is there not?—There is a French Chamber of Commerce in London.

14,264. It is an important body, is it not?—I believe it is; I do not know what its membership is.

14,265. Have you thought of getting into connection with that body on this problem?—We have had one communication from them, I believe.

14,266. The question affects Frenchmen living here, as much as it affects you in France?—Yes, theoretically it does.

14,267. You see the bearing of my question. Would you object to a system under which the higher of the two taxes was paid as a basis for subsequent division between the countries? In the case that you have put to us it seems to me that the French taxation, even now, is lower than our taxation?—It is very difficult to say that, because there are four different classes of French taxation; there is not only one class.

14,268. In your statement you have given us the highest as 20 per cent. on incomes from 150,000 francs to 550,000 francs or over?—Yes.

14,269. 20 per cent. I gather, then, is the highest rate levied?—Yes, but then you see there are other taxes. There is the Foreign Dividend Tax.

14,270. That is a relatively small thing—6 per cent.?—There is the Commercial Profits Tax. These operate under different conditions. It is very difficult to make a comparison. They have not got a single tax. There will be as many as four, some operating on public companies and some on individuals.

14,271. But their incidence is in the nature of an Income Tax?—Income or dividend, yes.

14,272. By Commercial Profits Tax, do you mean a tax on commercial travellers?—No, the tax on commercial profits is a tax on the profits realized.

14,273. And outside this Income Tax that you have set down here?—You have the general Income Tax under the law of 1914, which is, strictly speaking, an Income Tax. Then you have the other taxes.

14,274. I gather that these are cumulative taxes. If you come under these different things, you are taxed in addition in each case?—Yes; you may be taxed. For instance, a company is taxed on its dividends, and also on its commercial profits. I say a Dividend Tax, because it is strictly a Dividend Tax, that is to say, only on profits distributed whereas the Commercial Profits Tax is an Income Tax in the sense that it is a tax on profits realized, whether distributed or not.

14,275. Is that Income Tax in your paragraph 3 payable by companies, or only by individuals?—The general Income Tax is not payable by companies.

14,276. Only by individuals?—The companies pay what is strictly a Dividend Tax, that is, on profits distributed; and they also pay the Commercial Profits Tax under the law of 1917.

14,277. All I wanted to suggest is that this is a matter probably that will continue for some time under discussion; do you not think it would be a help-ful thing if the French Chamber here and you could

get together and try to shape some suggestions?—I think it might, certainly.

14,278. Because it is obviously much easier to carry anything that is reciprocal?—Unquestionably.

14,279. If we make a suggestion, France might have all kinds of difficulties; but if it were shown that her people here were suffering in the same way, and that you had got a practical remedy to apply to the two cases, it might be of more weight?—Certainly. In illustrating these different taxes, I am simply exemplifying our difficulty in formulating a remedy, because the two things do not correspond.

14,280. You may take it that we have had a great deal of evidence as to the hardship, and I think I may say that all of us are convinced as to the hardship; but the position we are now in is that we want practical suggestions for a remedy. There is special consideration going on where the double tax affects the Empire, but what I was putting to you was that if you and the French Chamber in London could get together and really thresh out these points, and bring a practical suggestion, it might go a long way?—I think certainly it might serve some useful purpose.

14,281. Chairman: Taking an income of £2,000 in Paris, and an income of £2,000 here, could you tell us the amount of taxation payable there?—

14,282. Mr. Mackinder: If you could give us a table—not at this moment—showing the various amounts, it might be rather helpful. If you are talking about a company having £2,000 income, you would have first to distinguish whether that £2,000 was dividend or profit. If it is dividend, then the profit, which is the basis of the Commercial Profits Tax, might be larger, because the Commercial Profits Tax is on profits realized, but not necessarily distributed.

14,283. Chairman: You do not know whether you are more heavily taxed in this country or in France?—More heavily here, certainly, as a whole.

14,284. Mr. Mackinder: Then the point I was putting to you, the principle of paying the higher tax, in whichever country, with a subsequent allotment, would possibly be acceptable to you. Supposing there is a tax here amounting, let me say, to 8s., and a tax in France which, when it is all worked out to its equivalent, amounts to, say, 6s., that is a difference of 2s. Do you think your Chamber would object to pay 8s., if there were an arrangement between this country and France for allotting the money as between the two countries?—I think decidedly not, from reading the letters of complaint that we have had from our members.

14,285. You see that infringes the view that you put forward as the view of your Chamber at the beginning, when you said that your Chamber's view was that it was only the country of origin of the income which should gather the tax?—Yes; I am not now expressing my opinion on our Chamber's theoretical view, but on the tenor of the complaints we have received. I think that would satisfy them.

14,286. That is to say, pay the tax to whichever country had the higher tax, and then an allotment to be made between them?—Yes. Judging from the tenor of the complaints we have received, I should think that would be satisfactory to our members.

14,287. Chairman: Then we shall just have to take your paper, because you yourself do not represent the opinions of the Chamber, do you, personally?—No; I have my own view about it. I stated what was the theoretical view of our Chamber. Now I am taking my stand on letters which we have received from our members, complaining. We asked these to state their complaints.

14,288. Mr. Mackinder: And the complaint, I take it, is that they have to pay tax in both countries?—Yes.

14,289. If they had to pay the higher tax, whichever it was, that would be an obvious alleviation?—I think they would be satisfied with it.

14,290. I suggest that if the witness could get the French Chamber of Commerce into some sort of agreement with the British Chamber of Commerce in Paris, they might get out a scheme which might be a very useful basis to go to the two Governments.

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14,291. Mr. Armitage-Smith: Any thoroughgoing system of relief pre-supposes some kind of convention between the British and the French Governments?—It seems necessary.

14,292. Have you any idea of the ratio between the number of Englishmen and the number of Frenchmen who suffer this grievance of Double Income Tax?—No, I have not at all.

14,293. As an expedient, though not a remedy, would it go any way to meet your grievance if non-resident persons subject to British Income Tax were granted the same exemptions and abatements, and had the same relief, as residents?—A non-resident in England, do you mean?

14,294. Persons who do not reside in England, but who draw an income originating in England, and therefore taxed at the source?—How would that work? I do not quite understand.

14,295. At the present time, I understand such taxpayers do not receive the same abatements and exemptions as the British resident taxpayer does. Perhaps you are not familiar with the point?—Are you talking about non-residents in England or France? I do not understand.

14,296. I am talking of persons who do not reside in the United Kingdom, but in France, who are British subjects and who receive income originating in England and taxed at the source in England. Would it meet your grievance to any extent if those taxpayers received the same relief, whether by way of exemption or abatement, as residents in the United Kingdom receive?—They would then only pay the French tax. Is that what you mean?

14,297. Mr. Armitage-Smith: No, I do not mean that. I will leave the point.

14,298. Mr. Symonds: As to finding a basis for a convention—are there not many more Englishmen living in France and doing business and earning income there, than *vice versa*?—I should think so doubt there are.

14,299. That might be one of the difficulties in getting reciprocity, might it not? The French Government have more to lose than we have, I am afraid.

14,300. Mr. Mackinder: Would you agree to that, having regard to all the wine firms, and so forth, in London?—I have no statistics on the subject; it is only what I know myself.

14,301. Mr. Symonds: We know the number of business men there are in Paris and Bordeaux, and so on. You have a grievance, not only with regard to Income Tax, but with regard to Estate Duty, too. Are you familiar with that?—Yes.

14,302. May I suggest that if it was a question of a convention, that should be gone into also, because it is a matter of the greatest importance. Is it not a fact that in the case of an Englishman living in France and having any property there, although he is domiciled in England, although he has what is called an *onus reversendi*, if he is in fact resident in France, he is liable to Estate Duty not only here but there?—Yes, that is so.

14,303. And a great many people who have bought property there have been entirely unconscious of this, and have been caught out, have they not?—Yes, quite.

14,304. Is there not this convention between the two countries, that the Inland Revenue of each country furnish the other with all particulars of properties that are admitted to probate?—Yes, that is the Convention of 1907.

14,305. That arrangement may have been just when Estate Duty was very low and Income Tax was very low, but it may be a very considerable hardship now?—It is.

14,306. I see the French Government now do what they did not do before; they tax income although not received in France?—Yes.

14,307. If an Englishman has London & North Western debenture stock there, although the dividends are not received in France, they tax it in addition to the 6s. here?—Yes, it is a 6 per cent. tax.

14,308. They have copied our 1915 clause, have they not?—No, that was a law of the 29th March, 1914, which enacts that foreigners who live in France must pay 5 per cent. at first (it is now 6 per cent.) on their dividends, although they are not received in France.

14,309. We have a similar clause in our Finance Act?—Yes.

14,310. Mr. Holland-Martin: I do not quite understand the figures given in your instances 3 and 4 in paragraphs 11 and 12. In 3, you apparently give a gross dividend of £188 10s. 0d. and a tax of £51 3s. 6d. Then in the next line, you say: "In France a 5 per cent. tax has to be paid on foreign coupons, viz., £51 3s. 6d." How is that amount arrived at? It seems to me to be the amount of tax that is taken there, and not the gross or the net amount of dividend?—It is 5 per cent. on the foreign coupons. That is a mistake. It is our correspondent who is wrong; it is a quotation from our member's letter.

14,311. But there is a mistake there, is there not?—There is a mistake there; it should be 5 per cent. on the actual dividend.

14,312. If it is on the actual dividend, that is the gross amount. The next instance, 4, says: "I include the net dividend in my return of income." So that would seem to be a difference of practice there as to whether it is the net or the gross?—There is no doubt what the Dividend Tax is. It is 5 per cent. on the amount of the foreign dividends.

14,313. On the amount actually received in the country of origin?—If the British subject is resident in France, he must pay a 5 per cent. tax—it is now 6 per cent.; it has been increased—on the amount of his foreign dividends. The amount of his foreign dividends in that instance is £188 10s. 0d., as I read it.

14,314. But if the dividend received by him had tax deducted, as would be usual, then would it not be the amount of the dividend less the tax—the actual amount received in France?—It is on the actual dividend. There is no question about the law; it is on the actual dividend.

14,315. Is the Income Tax working in France now? I thought it was rather partially imposed?—Yes, it is working.

14,316. Working rather creakily, is it not; it is not working very well, is it?—I am no particular judge of that, but it is working.

14,317. A few months back I was reading an article in a French paper on the subject, and it seemed to imply that it was not working at all.

14,318. Mr. Mackinder: Is it working in regard to the farmers?—That I do not know.

14,319. Chairman: That concludes our examination; we are very much obliged to you for coming across.

MR. E. R. HARRISON, an Assistant Secretary to the Board of Inland Revenue, and lately Clerk to the Special Commissioners of Income Tax, recalled and examined.

The witness banded in the following statements as his evidence in-chief:—

NO. I.—ON THE SUBJECT OF THE UNDISTRIBUTED PROFITS OF COMPANIES AND AVOIDANCE OF SUPER-TAX.

Income for Super-tax purposes.

14,320. (1) Super-tax is charged on the incomes of individuals whose total incomes exceed £2,500.

14,321. (2) In computing Super-tax liability for any year income derived from shares in a joint stock company is taken to be the amount of dividends receivable by the individual in the preceding year, and, consequently, any portion of the total profit of a company which is not distributed amongst its shareholders in the form of dividends or paid to creditors as interest is automatically excluded from assessment to Super-tax.

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14,322. (3) On the other hand, income derived by an individual from carrying on business in partnership is, broadly speaking, computed for Super-tax purposes by reference to such individual's share of the partnership profits, whether such share has actually been drawn out of the business or not.

14,323. (4) The different position of a shareholder in a company as compared with that of a partner in a firm or the sole proprietor of a business may be illustrated by an example.

14,324. (5) A private company of which A owns all the shares (save one) makes profits £10,000, but declares a dividend of £2,000 only, leaving £8,000 undistributed. A is liable to include in his return for Super-tax purposes £2,000 as his income from the company, and, if he has no other income, he pays no Super-tax at all.

14,325. (6) B is the principal partner in a firm which makes profits £12,000, of which B's share amounts to £10,000. B, however, draws £2,000 only, leaving £8,000 in the business. B must return his income for Super-tax purposes as £10,000, not as £2,000.

14,326. (7) In view of the favourable position of A as compared with B in these examples, there is a distinct inducement to private firms to turn themselves into companies merely in order to escape the whole or part of what would otherwise be their liability to Super-tax.

14,327. (8) The total profits arising from a business ultimately benefit the persons interested in it according to their respective shares. If such profits, instead of being received as drawings by partners, or as dividends by shareholders, are left to accumulate in a business, the value of the interest of the individual is proportionately increased. It is obvious that the liability of an individual to taxation ought not to be limited to that portion of the total profits which he, either of his own volition, or in concert with others, decides to withdraw from the business in which he is interested, and accordingly it is suggested that any change in the basis of computation of the profits to be included in a Super-tax return should be in the direction of assimilating the position of the shareholder in a company to that of the partner in a firm, and not vice versa.

Devices for the avoidance of Super-tax.

14,328. (9) Ever since the imposition of the Super-tax for the year 1909-10, certain companies, particularly private companies controlled by a small number of persons, have held back profits from distribution as dividends, with the effect of enabling shareholders who happen to be wealthy individuals to escape Super-tax. While the device is found principally in the case of "one-man" and "family" concerns, it may also exist in the case of any company of which the profit, or any specified portion of the profit, is divisible (if at all) amongst a limited number or class of persons who have interests in common and who are so organised as to be capable of acting together.

14,329. (10) A plan which is often resorted to by "one-man" companies is for very small dividends or no dividends at all to be declared, the profits being nominally left to accumulate indefinitely in the hands of the so-called "company." The principal shareholder—the real proprietor of the business—obtains the cash equivalent of dividends by "borrowing" from his so-called "company" such amounts as seem good to him.

14,330. (11) The Special Commissioners of Income Tax have held on appeal in a case of this class that the amounts "borrowed" do not represent income for Super-tax purposes. The Board of Inland Revenue are challenging this decision in the Courts, and the question is therefore *sub judice*. Unless the Board are successful in reversing the Commissioners' decision, such a "borrower" would be able, if he thought fit, to enjoy the equivalent of a large income without paying a penny of Super-tax.

14,331. (12) Such a person can be repeated year after year for an indefinite time with consistent advantage in the way of escape from taxation. It is true that the shareholder is technically indebted

to his company for the sums he has borrowed, but as against this his company has in its hands undistributed profits which form part of the interest of the same individual and can at any time be used to satisfy his debt. If such a person wishes at any time to effect a settlement with his company—or, in plain English, with himself—he can do so by a voluntary winding-up of his company, with or without the sale of its assets to a new company with enhanced capital. The original company, in such circumstances, distributes its assets, the shareholder whose case has been under review receiving as a distribution in liquidation—not, as it is remarked, as a dividend—the amount due to him after satisfying his nominal debt to his company, or, alternatively, an allotment of shares in the new company corresponding with the value of his total interest in the original company. It is, perhaps, scarcely necessary to add that in normal circumstances a distribution in liquidation, or an allotment of shares on a reconstruction or sale, cannot be treated as income for Super-tax purposes.

14,332. (13) There are some indications that a variant of the above method of avoidance of Super-tax, namely, the formation of a company intended to take over not merely the business, but the whole of the income-producing property of the individual concerned, is beginning to be practised in certain cases. It may be illustrated by an example.

14,333. (14) A has an income of £70,000 a year derived from rents of property, dividends, or other sources. The Super-tax charged on this income (in addition to the ordinary Income Tax) at present rates amounts to £10,157. A forms a private company, all the shares in which save one are held by himself, the one share being held by his wife or some other relative. A transfers to this company the whole of his property and investments. The income which formerly belonged to A is now paid to the company of which he is practically the sole proprietor, and A's income is only the amount which he chooses to receive from the company in the form of dividends. When this position has been reached it is easy for A, if he thinks fit, to arrange to be paid no dividends, but to "borrow" annually from his company in like manner as in the case mentioned in paragraph 10 such amounts as are required to meet his expenditure.

14,334. (15) Another course which can be made use of as a device for avoiding Super-tax is the distribution of profits as capital. The plan usually adopted is the nominal declaration of a dividend or bonus, coupled with an invitation to shareholders to take up new shares and to apply the amount of the dividend or bonus in paying for such shares. The question whether the amount of such a dividend or bonus falls to be included in a return of income for Super-tax purposes is at present *sub judice*, and it is, of course, not possible to anticipate the final decision of the Courts on the subject. The Special Commissioners, who have had numerous cases of this class before them, have, in general, regarded the matter as governed by decisions of the Courts in *Bouch v. Sproule* (12 A.C. 885) and other cases. On this view the question of liability may broadly be said to turn on whether there is an unfettered option to receive the amount in cash. As the conditions imposed generally give no such option, it is impossible in the majority of cases to establish liability. The practice of declaring these bonus dividends is largely resorted to by companies at the present time, and has increased rapidly during recent years. In the majority of cases the reasons are, no doubt, legitimate—e.g., the capitalisation of necessary business reserves; it is probably only in the minority of cases that this course is taken primarily for the purpose of avoiding Super-tax.

14,335. (16) It is right to observe that in the case of companies whose shareholders are persons with small incomes, the Revenue stands to gain by the non-distribution of profits as income. For the undistributed profits of a company bear Income Tax at the standard rate of 6s. in the £, whilst the rate applicable to the incomes of individual shareholders would in numerous cases be less—often considerably less—than 6s.

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14,336. (17) Unfortunately, it is open to each particular company to consider the position of its own shareholders in relation to Super-tax when deciding what to do with its profits, and there is no doubt that this course is sometimes taken. There are certain companies whose shareholders are all within the Super-tax range, and in such cases in particular the inducement to avoidance of Super-tax with a maximum rate of 6s. 6d. in the £ is considerable.

14,337. (18) The importance of the problem and its potential magnitude are indicated by the particulars contained in Annex I.

Dominion and foreign attempts to prevent avoidance of tax.

14,338. (19) The question of preventing the legal avoidance of Super-tax by devices similar to those mentioned in the foregoing paragraphs has not only been the subject of prolonged consideration by the Board of Inland Revenue, but has also been considered by certain Dominion and foreign taxing authorities, whose attempts to find a satisfactory remedy throw into considerable relief the nature of the difficulties likely to be met with.

14,339. (20) The Federal Law of the Commonwealth of Australia provides that "where, in the opinion of the Commissioner, a company has not in any year distributed to its members or shareholders a reasonable proportion of its taxable income, the taxable income of the company shall be deemed to have been distributed to the members or shareholders in proportion to their interests in the paid-up capital of the company, if the Commissioner is satisfied that the total tax payable on it as distributed income is greater than the tax payable on it by the company."

14,340. (21) Under the Income Tax Law of the Dominion of Canada, the income of a taxpayer for Super-tax purposes includes the share of the undivided profits of any syndicate, trust, association or other body or any partnership, to which the taxpayer would be entitled if such profits were distributed, unless the Minister of Finance is of opinion that the accumulation of the undivided profits is not for the purpose of evading tax, and is not an amount unreasonable for the purposes of the business.

14,341. (22) The Income Tax Act passed in Newfoundland in 1918 contains a provision in the same terms as that of the Canadian Law.

14,342. (23) The Union of South Africa Income Tax Act of 1916 provided that where, in the opinion of the Commissioner, a company permits profits to accumulate beyond the reasonable needs of its business and does not distribute a reasonable proportion to its members, a proportion of such profits corresponding to the interest of each member or shareholder in the paid-up capital may be included in his income for Super-tax purposes. This provision was not reproduced in the Super-tax provisions of the Consolidating and Amending Act of 1917, which contains the law now in force. This latter Act, however, introduced a Dividend Tax, which is payable by companies on "all dividends distributed," and for the purpose of this tax the term "dividends distributed" is defined as including, *inter alia*:-

"Any undistributed profits which, in the opinion of the Commissioner have been allowed to accumulate beyond the reasonable needs of the business instead of being divided or distributed, the Commissioner's decision being subject to objection and appeal as provided in this Act: Provided that in the case of any company carrying on mining operations, any undistributed profits which are reinvested in the business of the company and rank as capital expenditure for the redemption allowance . . . shall not be deemed to be a dividend distributed."

14,343. (24) Under section 290 of the United States Revenue Act of 1918 it is provided that "if any corporation, however created or organized, is formed or availed of for the purpose of preventing the imposition of the surtax upon its stockholders or members through the medium of permitting its gains

and profits to accumulate instead of being divided or distributed," the corporation is not to be taxed as such, but the shareholders are to be individually charged in the same manner as members of a "personal service corporation."

14,344. (25) The previous law contained a provision with an object similar to that of section 290. This provision of the old law, however, required that fraud on the Revenue should be established in each case, and for this reason it was ineffective in practice.

14,345. (26) Under the War Revenue Act of 1917 an additional tax of 10 per cent. was imposed on so much of the total income received during the year by a company as remained undistributed for six months after the end of the year. This additional tax did not apply to any portion of the undistributed income actually invested and employed in the business, or retained for employment in the reasonable requirements of the business or invested in certain obligations of the United States. If income was declared to be retained for employment in the business, but was found not to be so employed or not to be reasonably required in the business, a tax of 15 per cent. was to be imposed.

14,346. (27) The 1918 Bill, in the form in which it left the House of Representatives, contained a provision based on the same principle of a differential rate in respect of undistributed profits, but this was removed in the Senate.

14,347. (28) The Report of the Finance Committee of the Senate states that while the Bill of the House of Representatives recognized certain essential uses of earnings for purposes other than distribution, "many other such uses of earnings equally essential, such as for additions to plant for purposes of further production, were not recognized. Failure to permit without penalty all legitimate uses of earnings for financing corporations seems inconsistent with the policy which has in the past been actually followed by well-managed corporations, and which has been urged by the War Finance Corporation and the Capital Issues Committee. To retain the differential rate while exempting from the extra tax all income used by the corporation for legitimate purposes other than distribution would, however, make the law difficult of administration, because it would involve review by the Treasury Department of too many detailed questions of the administrative policy of individual corporations. These and other considerations, among which was the fact that corporations are subject to the War Excess Profits Tax, to which individuals and partnerships are not subject, moved the Committee to restore a flat-rate system."

14,348. (29) The observations of the American Economic Association Committee on War Finance on this matter are also worth quoting fully:—"The high rates now levied upon incomes subject to the Super-tax have greatly intensified an inequality which had existed since 1913, but was comparatively unimportant prior to the present year. Individual proprietors and members of a partnership are required to account to the Government each year for the whole amount of the income resulting from the conduct of the business enterprise, and in respect of such income are subject to the Super-tax if their total incomes exceed the stated figures. Upon the other hand, the profits of a corporation become subject to the Super-tax only to the extent that they are actually distributed to stockholders, so that the undistributed earnings are liable only to the normal Income Tax. The Act of 1917 sought to reach the difficulty by imposing a special tax of 10 per cent. upon corporation profits accumulated beyond the reasonable requirements of the business; but it exempted any part of such undistributed profits that was invested in certain obligations of the United States. Since any corporation that was expanding its operations, and therefore

* A "personal service corporation" (that is, briefly, a corporation whose income is so to be ascribed primarily to the personal activities of the principal stockholders and in which capital is not a material income-producing factor) is not taxed as an entity but the members, like members of a partnership, are taxed individually in proportion to their respective shares.

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required additional capital, as well as any that had debts which could be paid or available funds that could be invested in Government obligations, could not be required to pay the tax, it proved that this provision of the Act of 1917 was of little effect. The Ways and Means Committee therefore proposed to incorporate in the pending Bill a provision imposing an additional tax of 6 per cent. upon all undistributed corporation income except such as might be devoted to the discharge of bonds or other interest-bearing obligations outstanding at the opening of the taxable year.

"But the proposed remedy was open to so many objections that it was subsequently eliminated. It would have penalized companies which, when borrowing money, had obligated themselves to maintain a stated proportion between the amount of their liquid assets and the amount of their outstanding obligations, as well as those which, for good and sufficient reasons, had agreed to pay no dividends upon the common stock until their debts had been wholly extinguished or certain other conditions had been fulfilled. During 1918, moreover, not a few concerns were obliged to increase their loans in order to pay their war taxes, and in many cases banks had required them to reduce or to suspend dividends. The difficulty is deep-seated, since it arises from a natural and inevitable difference between the methods by which incorporated companies carry on business and those followed by unincorporated concerns. It might be possible to allow the latter to set up reserves for various purposes, in respect of which the individual proprietors or partners should not be liable for assessment under the Super-tax; but such a provision would present many administrative difficulties, and would probably be found impracticable. Under an Income Tax, there seems to be no remedy that is not as bad as the disease, or even worse; and it is probable that we here face one of those unavoidable limitations to which this tax, like any other, is subject."

14,349. (30) The above-mentioned attempts to deal with the problem can all be grouped under two main heads, which, for the sake of brevity, may be called Method A and Method B respectively.

Method A.—This way of attacking the problem involves the ascertainment of the proportion of the undistributed profits of a company belonging to each individual shareholder and the treatment of such profits, for the purpose of computing his liability to taxation, as if they had been distributed. It represents the working out of the idea expressed at the end of paragraph 8—namely, the assimilation of the position of the shareholder in a company to that of a partner in a firm.

Method B.—The idea underlying this method is the special taxation of undistributed profits of companies at the source—that is, in the hands of the companies themselves. If these undistributed profits are afterwards distributed so as to form part of the incomes of individual shareholders and to be taxable in their hands, it may or may not be provided that the tax already paid by the company shall be refunded.

14,350. (31) The results of the attempts of countries other than the United Kingdom to deal with the avoidance of tax may perhaps be summed up broadly as follows:—

(a) Countries which have tried to deal with the evil under consideration have usually done so on the lines either of Method A or of Method B. In the majority of cases Method A has been tried, not always with success.

(b) Method B, whilst promising to be much more workable and generally satisfactory from a purely revenue point of view, has unfortunately reactions in other directions. This consideration seems to have led one country, the United States of America (while retaining a provision of very limited scope on the lines of Method A), to regard as almost insoluble the problem of entirely preventing the avoidance of surtax by the undue accumulation of profits in the hands of companies.

The application to the United Kingdom of a remedy based on a Dominion or foreign model.

14,351. (32) The position so far is not very encouraging to a country seeking in Dominion or foreign legislation a model on which to construct an engine capable of dealing effectively with the evil of evasion within its own borders. It is, however, worth while to pursue the methods followed with a view to the possible application of one or the other, adapted as circumstances may require, to the United Kingdom. With this object, two proposals on the model of Methods A and B have been drawn up, and are given as Scheme A and Scheme B in Annex II.

14,352. (33) These schemes are examined at some length in the following paragraphs, and, as will subsequently appear, it is contemplated that in certain contingencies it might become necessary to adopt one of them, or a combination of both, as a means of checking evasion of Super-tax in this country. It will, however, be seen that the remedy finally proposed for immediate adoption is different, and that resort to Scheme A or Scheme B is suggested only in the event of the failure of the less drastic and less complex proposals which are put forward in later paragraphs (57 *et seq.*) as a suitable present remedy.

14,353. (34) Schemes A and B require separate consideration.

Scheme A.

14,354. (35) The idea underlying this scheme has been already explained. The scheme has been framed with the object of hitting the evil aimed at without unduly disturbing shareholders in companies whose undistributed profits are small in amount, or shareholders in companies which refrain from distributing profits for legitimate business reasons unattained by the motive of evading Super-tax. The scheme is as free as possible from all avoidable complications.

14,355. (36) An objection to Scheme A is that the proposed exclusion from "distributable profits" of profits reasonably reserved from distribution for the legitimate requirements of a business would operate as an inducement to all companies to work up to the maximum figure which would normally be admitted as a reasonable reserve, and, when this position had been reached, a demand would probably be put forward by individual and partnership traders for equality of treatment—a demand which it would not be easy wholly to resist.

14,356. (37) The subject is one which bristles with difficulties, and any legislation dealing with it effectively on the lines of Scheme A would inevitably be formidable. There is also inherent in that scheme the serious practical difficulty of discovering with any approximation to accuracy the proportion of the aggregate undistributed profits of a company which should be allocated to particular shareholders or classes of shareholders in all the varying circumstances, both known and unknown, which might arise, but which *ex hypothesi* would not have arisen when the notional allocation had to be made. This obstacle is indeed so considerable that in certain cases it would render Scheme A impossible to work.

14,357. (38) For instance, suppose that M owns 1,000 £1 deferred shares in Company X, whose total capital is made up of £100,000 6 per cent. debentures, 50,000 £1 preferred shares, and 50,000 £1 deferred shares. Suppose also that after paying the interest on debentures the balance of the company's profits is divisible as follows:—

1st.—to the directors, £5,000 in fees.

2nd.—to the preferred shareholders, a dividend of 10 per cent.

3rd.—to the deferred shareholders, a dividend of 20 per cent.

After these claims have been satisfied—

4th.—any balance of profit which may be distributed to be applied (a) in paying such additional fees to the directors as the company in general meeting may determine, and (b) as to the remainder, equally between the preferred and deferred shareholders.

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14,363. (39) The company makes, say, £45,000 profit and distributes £25,000 only. The problem is to calculate M's share of the undistributed profit of £20,000. The impossibility of determining how much would have been voted to the directors in additional fees had the undistributed profits been distributed is in itself sufficient to render this problem insoluble.

14,369. (40) The conclusion is thus reached that Scheme A is, at any rate, not capable of universal application, and at this point it may be useful to leave that scheme for the time being and to turn to the consideration of Scheme B.

Scheme B.

14,360. (41) The chief characteristic of Scheme B is its comprehensiveness. It provides for the imposition on companies of a separate tax at a flat rate on all distributable profits which are not distributed as income within a specified time after they arise, coupled with a provision for repayment of the tax paid if and when the profits taxed are subsequently distributed in such a form as to be taxable as income in the hands of individuals liable to Super-tax.

14,361. (42) In order to achieve its object completely, the rate of the proposed tax (which, for the sake of brevity, is called the "Additional Tax") would require to be the maximum rate of Super-tax in force for the time being (at present 4s. 6d. in the £).

14,362. (43) Particulars of Scheme B are set out in Annex II. The rough-and-ready definition of "distributable profits" as (a) per cent. of the total profits, the precise figure being a matter of consideration if the proposal should be adopted, and the exemption of profits which accrue at a rate not exceeding, say, £1,000 per annum are intended both to make the Additional Tax as simple as possible and to limit its application to cases in which the field for avoidance of Super-tax is considerable.

Objections to Scheme B.

14,363. (44) A tax of this comprehensive character is open to the objection that it would tend to penalize companies for building up reserves at a time when it may be of national importance for reserves to be made as large as possible. The sums recently placed to reserve by companies are understood to amount, on an average, to not less than 30 per cent. of the total profits, and a tax of, say, 5s. in the £ on the reserves might be approximately equivalent to 1s. 6d. in the £ on the total profits—the figures, of course, varying greatly in particular cases.

14,364. (45) It might also be charged against the Additional Tax outlined under Scheme B that it would apply in terms to companies not one of whose shareholders had an income within the range of the Super-tax, and that almost every company would have a certain number of shareholders with small incomes who would be hit by the tax. Again, it might be said that the maximum rate of Super-tax would be applied to profits which, if distributed, would be assessed to Super-tax at a rate lower than the maximum rate.

14,365. (46) These considerations point to the desirability of limiting the application of Scheme B, if it should be adopted at all, to cases in which avoidance of tax could not be otherwise effectively checked.

Rejoinder to objections.

14,366. (47) The objections to the Additional Tax mentioned in paragraphs 44 and 45, however, need to be qualified. In the first place, it may fairly be said that the original limitation of the scope of the Super-tax to income received by individuals constituted in itself a discrimination in favour of profits of companies and corporations (as distinguished from profits made by persons trading either solely or in partnership) which do not reach individuals as income, and this discrimination—a matter of little moment at the time of its introduction—has been deliberately taken advantage of in numerous cases to build up an exemption from Super-tax of great magnitude which was never intended, and which ought not to continue, but

which, if not checked, threatens to reach alarming proportions in the near future.

14,367. (48) It would be truer to say of the Additional Tax under Scheme B that it involves, not the introduction of discrimination against undistributed profits of companies, but rather the removal of an existing discrimination in favour of such profits, in order to bring them, in relation to taxation, into line with (a) all distributed profits, and (b) undistributed profits of partnerships which are taxed as if they were all distributed.

14,368. (49) The conservation of the resources of companies might, it is true, be encouraged by the continuance of the existing discrimination in favour of their undistributed profits, but the partner in a firm might well ask why a company, and particularly a private company which in many respects closely resembles a partnership, should receive a subsidy in the form of an exemption from taxation, while a firm or individual trader in like circumstances is given no such encouragement.

14,369. (50) The charge that Scheme B is too comprehensive in its scope and application may also be met by the answer that individual shareholders do not suffer so long as profits taxed in the hands of a company remain undistributed, whilst immediately the profits are distributed so as to reach shareholders as income (and consequently to become chargeable to Super-tax in their hands) the whole of the Additional Tax collected would be repaid.

14,370. (51) Again, in favour of Scheme B it may be claimed that at a time when heavy taxation is inevitable there is a good deal to be said for a levy on profits which, as income, do not reach the individuals who are really entitled to them. Or, putting the matter in another way, if the individuals interested in certain profits take concerted action to have such profits withheld from distribution, it is fair to assume that they do not urgently need their respective shares of the aggregate undistributed profits, and consequently that the profits are a fit subject for taxation. If, on the other hand, profits are distributed as capital, or—what comes to the same thing—applied to increase capital, the State has a strong claim to take its toll—which, be it observed, it takes as a matter of course where the profits, however applied, are made by a partnership instead of by a company—before allowing such profits to be re-named "capital" and treated thereafter as capital.

Practicability of Scheme B.

14,371. (52) There seems no reason to conclude that an Additional Tax on the lines of Scheme B would not be administratively practicable. It would extend only to the profits of companies, for the profits made by persons carrying on business either solely or in partnership enter into their statements of total income whether distributed or not. The number of assessments would consequently be small, even if the tax applied to all companies, but the scope of the Additional Tax does not extend to companies satisfying certain conditions (see Annex II, Scheme B). The number of companies so exempted would constitute a large percentage of the whole.

14,372. (53) The principal materials for computing liabilities, the published accounts of the companies affected, are already supplied annually to Surveyors of Taxes, to whom would naturally be entrusted the administration of the Additional Tax, if it were adopted.

Conclusions based on the foregoing considerations.

14,373. (54) If the only considerations to be taken into account were purely revenue considerations, a comprehensive proposal on the lines of Scheme B might perhaps be suggested as a suitable remedy for the existing avoidance of Super-tax. But the objections mentioned in paragraphs 44 et seq. are weighty, even if they are in part met by the considerations mentioned in paragraphs 47 to 51. For this reason, in spite of its attractiveness in many respects, it would be with great reluctance that the Board would put forward Scheme B in an unqualified form for universal application.

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14,374. (55) This last consideration leads to a further thought. Scheme A could be effectively applied in numerous cases; and where capable of effective application it is less open to objection than Scheme B. In these circumstances a combination of Scheme A and Scheme B, involving the normal application of Scheme A with a discretionary power to the taxing authority to make use of Scheme B in cases in which Scheme A would break down in practical application, would perhaps have some advantages, for it would seem to provide an effective practical remedy for avoidance of tax without invoking the drastic provisions of Scheme B in more than a small number of cases.

14,375. (56) If every other expedient should fail, it is suggested that it might ultimately become necessary to initiate legislation on the lines of Scheme B, or a combination of Schemes A and B, for it would be regrettable if any attempt to find a solution in this country had to be given up, or if a solution were adopted which was so partial in its operation as to result merely in one form of avoidance being stifled and another substituted for it.

Suggested present remedy.

14,376. (57) In view, however, of the obvious difficulties involved in the application of a universal remedy, it is suggested that, at any rate to begin with, an attempt might be made to deal with the most serious part of the evil on narrower lines, which need not interfere with, or raise apprehension in the minds of persons using their profits in a legitimate manner. The real trouble is tax avoidance, and it is thought that the immediate problem might be approached merely from the side of preventing tax avoidance, without interfering with business transactions.

14,377. (58) Looked at in this way, it is seen that it is the private company that is mainly used as the tool of the individual who is trying to avoid his legitimate share of the tax. The principal method of avoidance employed, as already indicated (paragraph 9), is the non-distribution of profits of private companies as income, and various devices are used to make such avoidance effective.

14,378. (59) A provision on the following lines would perhaps be sufficient to bring within the scope of the Super-tax a large proportion of the undistributed profits of private companies which now escape owing to the devices mentioned:—

The amount of the income derived by an individual from shares on securities held by him, directly or indirectly, in a private company shall, if the Commissioners of Inland Revenue so direct, be calculated for the purposes of Super-tax as if the company were a partnership and not a body corporate, and as if the individual were a partner therein, having an interest corresponding with his holding of such shares or securities.

14,379. (60) This provision would not, however, by itself be sufficient to cover the case of avoidance of tax by a small group or class of shareholders operating through a company other than a private company, and taking concerted action to arrange for the company's profits to be distributed or dealt with in such a manner as not to become part of the incomes of the shareholders who are benefited by the transaction in question. In other words, it would not bring within the scope of the Super-tax (except in the case of private companies) the "bonus share distributions" of profits mentioned in paragraph 15 of this evidence, even when such methods of dealing with the profits were clearly resorted to for the purpose of avoiding the tax.

14,380. (61) The satisfactory treatment of this question is a matter of considerable difficulty. Three courses are perhaps possible.

14,381. (62) The first course would be to treat as the income of individual shareholders the undistributed profits of public companies equally with the undistributed profits of private companies and partnerships, but, as already indicated, the adoption of this course would involve so wide an interference with the legitimate business of public companies that

the position appears to be dominated by this consideration, and it is not considered practicable to recommend the course mentioned for adoption.

14,382. (63) The second course is, while dealing with the private company in the manner already suggested (paragraph 59), to take no action as regards the public company. This course would involve the escape from Super-tax of the bonus distribution of numerous companies which are now taking place in so marked a degree.

14,383. (64) The third course is to deal specially with the bonus distributions made by public companies, while taking no action as regards the remainder of their undistributed profits. This course is open to some objection on the ground of inequality of treatment. If a company has accumulated large amounts of undistributed profits in its hands, the position of the individual shareholder is nearly, though not quite, the same whether any portion of such profits is, or is not, specifically applied to the creation of additional capital in the shape of bonus shares, and it may well be asked whether there are sufficient grounds for treating the undistributed profit as the income of individual shareholders when, and only when action is taken to deal with it by the creation of such bonus shares.

14,384. (65) If regard be had to revenue considerations, the extent of the gain from the taxation of bonus shares is problematical. Whilst a good deal of revenue might be derived from additional Super-tax, yet it would not be fair to treat such distributions as income for Super-tax purposes without treating it similarly for Income Tax purposes; and if it were so treated for Income Tax purposes, repayments of Income Tax in respect of the reduced rates applicable to the incomes of particular individuals might go far to balance the additional revenue which would arise from the inclusion of these distributions as income for Super-tax purposes.

14,385. (66) If, on balance, the Royal Commission take the view that there is a case for treating as income bonus distributions made by public companies, at any rate in those cases in which there is some evidence of intention to avoid Super-tax, it is suggested that a provision on the following lines might provide a remedy for this particular evil:—

Where any company or other body corporate credits or appropriates to or for the benefit of any individual having an interest in its profits any profits or accumulated profits, whether such profits were previously held as reserves or otherwise, by the issue or distribution of shares or debentures or by way of reduction of unpaid liability or otherwise, such credits or appropriations, or the value thereof, shall, for the purposes of Super-tax, be deemed to form part of the total income of the individual entitled, directly or indirectly, to the same, unless the Commissioners of Inland Revenue, owing to any special circumstances or to the fact that the said profits, or any part thereof, arose before the interest of the individual therein commenced, otherwise direct.

14,386. (67) It is possible that if the first provision (paragraph 59) were limited, as proposed, to private companies, it might be evaded by some slight alteration of the constitution of particular companies. This difficulty might be got over, either in the legislation originally introduced, if considered desirable, or in subsequent legislation, by a definition of the expression "private company" sufficiently wide to embrace not only the private company of the Companies Acts, but also all companies which resemble private companies in that the majority of their shares or of a particular class of shares are held by a comparatively small number of persons.

14,387. (68) The two provisions together might perhaps be sufficient to deal with the evil of Super-tax avoidance by the non-distribution of profits as income as it is at present known to exist. They may or may not be a satisfactory permanent remedy for the evil, if they should be adopted and be afterwards found wanting; it might, as already indicated, become necessary to take action of a drastic character, in which case it is suggested that legislation on the lines of Scheme

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A or Scheme B, or a combination of both Schemes, would be called for.

14,388. (69) As they stand, both the provisions proposed for immediate adoption would give the Commissioners of Inland Revenue a discretion to select cases to which they should apply. Such a discretion is not unprecedented. A similar provision is to be found in Rule 5 of Part I of the Fourth Schedule of the Finance (No. 2) Act, 1915, which confers a like discretion on the Commissioners in the determination of the amount of certain deductions for the purposes of Excess Profits Duty. The discretion which it is now suggested should be given is a discretion to enable the State to stop the avoidance of Super-tax without interfering with legitimate business. The alternatives are either to allow the evil of avoidance to continue unchecked, or to provide a radical cure for tax avoidance which could hardly fail to have detrimental effects on persons with whose activities it is not desired to interfere at all.

Concluding observations.

14,389. (70) In conclusion, it may be pointed out that the problem dealt with in this evidence is not caused by the system of taxation of income at the source. It is due simply to the fact that it is necessary to tax company reserves at some flat rate which on every consideration of justice and general expediency must be less than the maximum of the graduated rates payable by individuals. The problem must therefore arise under a directly assessed tax as well as under any other system, but grows in importance as the standard rate at which company profits are taxed decreases.

14,390. (71) Another form of avoidance of Super-tax, namely the alienation of income, e.g., by the creation of trusts in favour of members of the family of the individual concerned, is not directly connected with the subject of this evidence, and will be dealt with separately.

14,391.

ANNEXE I.

(1) "BONUS DIVIDENDS" PAID OTHERWISE THAN IN CASH.

A summary of cases that have come directly or indirectly under the notice of the Special Commissioners of Income Tax.

Paid in year to 5th April.	Relating to Super-tax year.	Number.	Amount.
			£
1913	1913-14	42	3,500,000
1914	1914-15	83	7,500,000
1915	1915-16	51	3,400,000
1916	1916-17	73	2,700,000
1917	1917-18	60	9,900,000
1918	1918-19	153	17,700,000
1919	1919-20	290	37,300,000
—	—	752	£82,000,000

Notes.

1. In addition to the cases included in the above summary, there are others that have not come under notice at all. As against this, a considerable proportion—it is not possible to say how much—of the £82,000,000 would no doubt have been paid to individuals not liable to Super-tax if it had been distributed as income.

2. The summary does not deal with profits held by companies and not distributed in any form.

3. The figures given for the years 1916-17 to 1918-19 are subject to additions as fresh cases continue to arise and are considered so long as the time for making Super-tax assessments has not expired. Thus, for instance, cases giving rise to possible liability to Super-tax for 1918-19 will continue to be noted and dealt with until 1922.

14,392. (2) EXAMPLES OF RECENT DISTRIBUTIONS OF "BONUS DIVIDENDS."

Company.	Total amount of Bonus.	Super-tax Years.	Company.	Total amount of Bonus.	Super-tax Years.
	£			£	
A	383,000	1916-17	I	987,000	1915-16
	1,150,000	1918-20	K	3,000,000	1917-18
B	650,000	1918-19	L	366,000	1919-20
C	500,000	1918-19		541,000	1914-15
D	600,000	1919-20	M	558,000	1918-19
	51,000	1914-15	N	400,000	1919-20
E	102,000	1916-17	O	1,500,000	1919-20
	255,000	1917-18	P	310,000	1919-20
F	2,784,000	1917-18	Q	630,000	1919-20
	2,786,000	1918-19	R	2,178,000	1919-20
	475,000	1913-14	S	412,000	1919-20
G	1,424,000	1918-19	T	312,000	1919-20
	299,000	1917-18			
H	448,000	1913-19			

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14,393. (3) COMPARISON BETWEEN PROFITS MADE AND DIVIDENDS PAID.

(Note.—In view of the confidentiality of Income Tax matters, the figures given below have been disguised, but not to such an extent as to be misleading.)

CASE (A). "A.B." and Company, Limited. Issued Capital £55,300.

	Profits. £	Dividends. £
Year to 31st March, 1913	121,200	6,300
" " 1914	102,000	6,300
" " 1915	20,400	6,300
" " 1916	130,800	6,300
" " 1917	146,400	Nil.

The total undistributed profit at 31st March, 1917, exceeded £780,000.

CASE (B). "C.D." and Company, Limited. Issued Capital £164,080 (Preference Shares £95,080; Ordinary Shares £68,000).

	Profits. £	Dividends. £
Year to 30th June, 1915	23,200	4,800*
" " 1916	57,600	4,800*
" " 1917	54,400	4,800*

The total of the reserve fund at 30th June, 1917, was equal to the ordinary share capital issued.

CASE (C). "Q.R." and Company, Limited. Issued Capital £29,000.

	Profits. £	Dividends. £
Year to March, 1913	19,800	900
" " 1914	28,800	900
" " 1915	35,000	900
" " 1916	65,700	900
" " 1917	69,900	900
" " 1918	29,700	No information.

14,394. (4) EXAMPLES OF ACCUMULATION OF PROFITS IN CONJUNCTION WITH "LOANS" TO PRINCIPAL SHAREHOLDERS.

CASE (D). "P" is the principal shareholder in "R.S." and Company, Limited.

The following table shows the position in this case:—

Year.	Capital of the Company.	Profits.	Dividends.	Money borrowed by "P" and outstanding at the end of each year.
	£	£		£
1912	50,600	20,900	Nil	4,510
1913	do.	22,000	Nil	6,930
1914	do.	35,200	Nil	9,900
1915	do.	38,500	Nil	2,860
1916	do.	45,100	Nil	No information.

CASE (E). "E" is the principal shareholder in "F.G." Limited.

The results of the company's trading were as follows:—

	Profit. £	Loss. £
Year to 30th April, 1912	125	
" " 1913	2,875	
" " 1914		1,500
" " 1915	2,625	
" " 1916	4,750	
" " 1917	4,000	
5 months to 30th September, 1917	3,125	

No dividends were paid by the company, which has gone into liquidation.

During the year 1916 advances amounting to £7,875 were made, free of interest, to "E" by the company.

An assessment to Super-tax for the year 1917-18 was made upon "E" to include these advances as income in the nature of dividend.

The assessment was discharged on appeal by the Special Commissioners of Income Tax.

CASE (F). "L" is the principal shareholder in "M.N." and Company, Limited.

In the year 1916 the company had a balance of about £14,250 available for distribution as dividend. No dividend was, however, declared. The balance in question was advanced from time to time on loan to "L," interest being charged at 6 per cent.

"L," while including nothing in his return in respect of dividends from the company, sought to deduct the loan interest payable in the year 1916

against his income for Super-tax purposes for 1917-18.

An assessment for that year was made on the amount of "L's" income without deducting the interest, but on appeal the deduction for interest was allowed.

14,395. (5) EXAMPLE OF A PARTNERSHIP CONTROLLING PRIVATE COMPANIES WHICH PAY NO DIVIDENDS.

CASE (G). "X.Y.Z." and Company (a private firm).

Partners: "A.B."
"C.D."

The firm "X.Y.Z." has a controlling interest in two limited companies, viz.:—

(a) "M" and Company, Limited. Capital £1,225.

	Profits. £	Total of Reserve Accounts. £
Year to September, 1915	22,100	31,450
" " 1916	22,100	33,150

No dividends have been declared payable by this company since its incorporation.

In the year 1916 the firm "X.Y.Z." borrowed £46,000 from "M" and Company, Limited.

(b) "Q" and Company, Limited. Capital, £1,150.

This is a company (also controlled by "X.Y.Z.") whose business is merely that of holding investments in other companies. In the year 1917 "Q" and Company, Limited, received £58,650 net dividends, and £4,600 untaxed interest.

No dividends have been declared by this company, the whole of the profits being carried to a reserve fund, which at 31st December, 1917, amounted to £285,200.

* Preference dividend. No dividends on ordinary shares.

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ANNEXE II.

14,396.

SCHEME A.

1. The Special Commissioners of Income Tax to be empowered, at their discretion, to call on any company which does not satisfy them that it distributes at least [] per cent. of its distributable profits, to furnish them with:—

- (a) a copy of the company's accounts, together with all necessary information as to the profits made and the manner in which such profits have been dealt with; and
- (b) the names, addresses, and particulars of the respective interests of all persons entitled to any interest or share in the total profits.

2. A company failing to furnish the information called for to be liable to assessment to Super-tax at the highest current rate on every pound of its distributable but undistributed profits.

3. On receipt of the requisite information from a company the Commissioners to determine the Super-tax liability of the individual shareholders on the basis of taking their income from the company to be their respective shares or interests in the total distributable profits (undistributed as well as distributed) made by the company.

4. Any sums distributed amongst or credited or appropriated to or for the benefit of shareholders from a fund representing either current profits or accumulated profits, whether as a dividend, or bonus, or in shares or debentures of any other company, or as capital, to be deemed to be income in the hands of the recipient.

5. The Commissioners to grant relief from double assessment to Super-tax arising out of the taxation of—

- (a) distributable profits which have not been distributed; and
- (b) the same profits on their being distributed at some future date.

6. "Profit" to mean total profit from all sources as estimated for Income Tax purposes less any interest payable to creditors on money borrowed by the company, and any rent, royalties or other payments, on which Income Tax is collected at the source, made to persons other than shareholders.

7. "Distributable profits" to mean profit as defined in paragraph 6 after deducting therefrom any amount (for which allowance has not been made in arriving at the profit) which is proved to have been reasonably reserved from distribution for the legitimate requirements of the business, and not with any intent or motive of enabling any person to evade or escape taxation.

14,397.

SCHEME B.

Additional Tax.

1. Proposal: To impose a tax at the rate of [] in the pound on the distributable profits of companies which are not distributed within [twelve] months after the end of the accounting period in which such profits arose, or which, if distributed within such [twelve] months, were not distributed as income. (The tax might by special provision be made applicable, if desired, to profits which arose before, but had not been distributed as income at the date of the passing of the Act imposing the tax.)

2. By "distributed as income" is meant distributed in such manner that the amounts respectively received by any individuals entitled thereto would fall to be included by them in statements of their total incomes for all sources for the purposes of Income Tax or Super-tax.

3. The expression "distributable profits" to mean [] per cent. of the total profits as ascertained under the rules of the Income Tax Act.

4. Exemption.—The undistributed profits of any accounting period if the total profits have not accrued at a greater rate than [one thousand] pounds per annum.

5. Repayment.—If Additional Tax has been paid in respect of any profits which are subsequently distributed as income, the company to be entitled to repayment without interest of the amount of tax paid in respect of such profits.

NO. II.—ON THE AVOIDANCE OF SUPER-TAX BY PERSONS RESIDENT ABROAD BUT RECEIVING INCOME FROM THE UNITED KINGDOM.

14,398. (1) Super-tax is an additional duty of Income Tax chargeable on all individuals whose total incomes from all sources for the preceding year as computed for Income Tax purposes exceed £2,500. Liability is not dependent upon the place of residence of the individual, and individuals resident out of the United Kingdom, whose incomes arising from sources within the United Kingdom exceed £2,500 are technically chargeable to Super-tax.

14,399. (2) A certain number of persons resident outside the jurisdiction of the Courts of this country and deriving income from this country pay Super-tax without objection, but the existing machinery is inadequate to compel the making of returns of income and to enforce payment of the tax where the foreign resident has no agent in this country. Such an individual who resides permanently abroad and who seldom or never visits this country can usually, if he chooses, defy all the efforts of the assessing authority to levy Super-tax on his taxable income.

14,400. (3) The immunity of these persons from Super-tax, when looked at by itself, may be considered unfair both to the State and to persons resident in this country who have to pay the full taxes imposed by the Legislature of the United Kingdom and who may be competing in business with the very individuals who escape the tax.

If on the other hand, Super-tax is looked upon as an upward graduation of the ordinary Income Tax this is not a necessary conclusion. Such persons are liable to any Income Tax that may be in force in their own country and it may be argued that it is the business of the country of residence to graduate its tax by reference to total income from all sources so as to secure a fair contribution from the class of persons under review, and that the country where the profits arise should be content to tax at the standard rate applicable to all profits the tax on which is not graduated, as for example the undistributed profits of companies.

14,401. (4) Three courses appear to be open, namely:—

- (1) to endeavour to make the present law more effective by extending taxation at the source to Super-tax, where possible, so far as persons resident abroad are concerned;
- (2) to leave the law unaltered, and to continue the present practice of collecting Super-tax from those non-residents from whom it can be recovered; or
- (3) to be content with the payment of Income Tax at the flat rate of 6s. (or other standard rate) in the case of wealthy non-residents, and to forego any attempt to obtain payment of Super-tax from such persons.

14,402 (5) With regard to (1), collection of Super-tax at the source is already made, where possible, in certain types of case—e.g., from the marriage trustees of the wife of a person resident abroad. The resident agent of a non-resident person is also technically liable to Super-tax on behalf of his principal, but such an agent can in practice rarely be found. [Income Tax Act, 1918, section 7 (2).] In a certain class of case, which *primæ facie* is of the type that ought to be charged, namely, that of a non-resident partner in a business carried on in this country, and competing with businesses carried on by residents, it might be possible after special legislation to treat a resident partner or manager for Super-tax purposes as the agent of the non-resident, but there would remain many practical difficulties to be got over in particular cases. Effective collection of Super-tax at the source from the non-resident shareholder in a British company would be very difficult owing to the ease with which the tax could be evaded. If the shares were held in bearer form the owner could not be traced, if they were registered they could be put in the name of a nominee and it would be almost impossible, at any rate without the expenditure of a disproportionate amount of time and labour, to track down cases in which the beneficial owner was a person resident abroad.

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The Income Tax law and official Regulations of the United States of America contain provisions which are intended to make effective the taxation of non-resident aliens, but no information is at present available as to the extent to which such provisions achieve their object in practice. A summary of the provisions mentioned is given in the Annex to this Evidence.

14,403. (6) The second course suggested above—to leave the law unaltered—is obviously unsatisfactory. It leads to inequalities as between one person and another, whilst the assessing authority is placed in the anomalous position of seldom having the means of levying the tax which is legally payable.

It would of course be possible to leave things in their present position, but as between the first and the second course it is suggested that the first would be preferable—that is that, if the technical liability of non-residents is to remain, it should be made as effective as possible.

14,404. (7) Whether the third course is not on the whole preferable to either of the alternatives mentioned in paragraphs 5 and 6 is a matter for the consideration of the Royal Commission. The amount of Super-tax at present paid by persons resident abroad is inconsiderable (probably at present rates under £200,000 a year), a fact which illustrates the impotence of the assessing authorities in the circumstances in which they are placed. It is unlikely that the adoption of the course mentioned in paragraph 5 would in the long run add very greatly to the yield of the Super-tax, and on the whole the Board of Inland Revenue incline to the view that it would be best to recognize the practical limitations of the tax and to give up any attempt to collect Super-tax from persons permanently resident abroad. This course conforms to a principle, although the principle may not command universal acceptance. Any real attempt to graduate the Income Tax and Super-tax in its application to non-residents tends to break down in practice owing to one cause or another, and it is suggested that with certain limited exceptions (specified in the official evidence which has already been presented to the Royal Commission on the "Rate of Income Tax payable by Persons resident abroad"), the standard rate of Income Tax (8s.) should govern the liability of the non-resident without reference to the question of his personal circumstances.

14,405. (8) If the suggestion made in the preceding paragraph were adopted in principle the limits of the exemption from Super-tax would require to be carefully defined. It is submitted that any exemption should be confined to persons permanently resident abroad, who have no residence at all in this country and (a) have not been in this country either during the Income Tax year the income of which forms the basis of Super-tax liability (for the following year), or during such following year for which any Super-tax assessment would normally be made, or (b) if they have been in the United Kingdom during either of such years, have been there for a "temporary purpose only, and not with any view or intent of establishing a residence therein, and who have not actually resided in the United Kingdom . . . for a period equal in the whole to six months in such year." [Compare Income Tax Act, 1918, Schedule D, Miscellaneous Rules, Rule 2.]

14,406. (9) There are one or two cases which would require special treatment, e.g., Ambassadors and other persons who enjoy exemption from foreign taxation on grounds of diplomatic privilege, but these are exceptional cases and it is perhaps unnecessary to discuss them in detail.

14,407.

ANNEXE.

UNITED STATES INCOME TAX AND SURTAX.

Taxation of non-residents.

In the United States non-resident aliens are subjected to ordinary Income Tax on all income from sources within the United States, in the case of dividends from companies by the direct taxation of the profits of the companies, and in the case of other income by a provision requiring the payers of such income to deduct tax at a flat rate. This flat rate is charged on the gross amount of the income,

deduction in respect of expenses, depreciation, losses, etc., and certain abatements being allowed only if the non-resident alien makes a full return of his income from all sources in the United States.

Such a return is required from all non-resident aliens receiving income from the United States not fully taxed at the source. Responsible representatives of non-resident aliens are required, in connection with any income from sources within the United States, to make returns of such income, and to pay both ordinary Income Tax and surtax thereon to the extent to which not already borne. Agents are responsible for the return of any income accruing to non-resident principals within the purview of their agency, further responsibility depending upon the terms of their appointment. Dividends are *prima facie* income of the recorded owner of the stock who, if a resident holding for a non-resident alien, has to make a return and pay surtax for the actual owner.

In default of a return by the non-resident alien or by his representative, the Tax Commissioner is empowered for surtax purposes to assess the income in gross from all sources of which he has information, and to collect the tax from one or more of the sources of income within the United States, any stock or other property owned by the non-resident alien in the United States being subject to distraint or other process for this purpose. The method of enforcement of the tax in the absence of such stock or property in the States is not apparent.

No. III. ON THE AVOIDANCE OF SUPER-TAX BY THE ALIENATION OF INCOME.

14,408. (1) Separate evidence is being presented to the Royal Commission on the avoidance of Super-tax by the non-distribution of the profits of companies in the form of income. Another method of avoiding the tax, of which a good deal of use is made at the present time, is the settlement of income, the creation of trusts and charges, and the transfer of securities to or for the benefit of members of the family of the individual whose liability is affected. The same methods may be adopted by persons who, although not liable to Super-tax, are liable to Income Tax at one of the higher of the graduated rates in order to reduce the rate of Income Tax payable on their income. The evil is, however, most serious in connection with incomes which exceed the limit of exemption from Super-tax.

14,409. (2) The law, as it stands, imposes a liability to Super-tax upon individuals whose total incomes exceed £2,500. Nothing which is not part of the income of an individual is taxable, and in computing the liability to Super-tax of an individual, deductions are allowed for annual charges such as interest, annuities and other annual payments which are legally payable out of his income.

14,410. (3) Super-tax is a graduated tax. Not only is the amount of the Super-tax payable on a large income greater than the amount payable on a smaller income, but the rates of tax chargeable increase with the amount of the income.

14,411. (4) In these circumstances it is evident that the aggregate amount of Super-tax payable by an individual can be materially reduced by the intelligent distribution of the legal ownership of the income—for example, between himself and the members of his family.

14,412. (5) For instance, A had originally an income of £15,000 a year. The amount of Super-tax payable for 1918-19 on an income of £15,000 would be £2,312. If A has alienated or charged this income so that only £3,000 now remains to him whilst £2,000 represents the income of each of his six children, A will pay only £62 in Super-tax and his children will be totally exempt.

14,413. (6) A voluntary allowance by A to B remains for Super-tax purposes the income of A. In order to avoid Super-tax in the manner indicated A must effectively divest himself of some portion of his income or must effectively charge his income with an annuity or other annual payment in favour of some other person. The natural reluctance of a wealthy individual to give up the control over his income even to members of his own family acts as a useful deterrent,

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and to some extent protects the Revenue from loss of Super-tax.

14,414. (7) Notwithstanding the existence of the check mentioned in the preceding paragraph, the examination of returns made for Super-tax purposes makes it clear that the high rates of income taxation now and recently in force have caused many persons to take definite action to reduce their personal liability to Super-tax. This tendency may be expected to continue, and, unless limited, its effects may reduce materially the yield of the tax. As indicated above, it also affects the ordinary Income Tax, although probably in a less degree.

14,415. (8) In some cases action has taken the form of making compulsory an allowance (say, to a poor relation) which has for many years been paid voluntarily. To the creation of a charge on income in such circumstances in order to effectuate such an object it is suggested that no objection can properly be raised.

14,416. (9) A common course is the creation of an annuity in favour of a child. The equity of allowing this annuity as a deduction from the parent's income is not always apparent. If the child is living at home, and maintained by the parent, and the latter after covenanting to pay the annuity arranges for the cost of the maintenance or education of the child to be paid out of the annuity, the parent by his action has in effect obtained a deduction for the cost of such maintenance—a deduction for an expense which falls on all parents alike and for which no allowance is made by the Income Tax Acts.

14,417. (10) If a taxpayer effectively, completely and irrevocably alienates or charges his income so that the amount affected becomes for the purposes of Super-tax the income of another person, it would be only in very exceptional circumstances that the Inland Revenue could reasonably ask for powers to ignore the transaction. If the income in question has finally and irrevocably ceased to be the income of A and has become the income of B, it must normally be so treated for the purposes of taxation even if A's motive was to reduce his own tax liability, for he loses the income while gaining only the difference in tax. Moreover, it would not be practicable even if it were desirable, for the Revenue authorities to enquire into the motives which actuate settlers in all the varying circumstances of particular cases.

14,418. (11) There are cases, however, in which it is suggested that action ought to be taken to protect the Revenue. The most striking of such cases are those where the alienation of charge of income is variable or revocable by the settlor. In cases where a power of revocation or variation exists and may be exercised for the benefit of the settlor or of his wife, the alienation may be regarded as not final, and the charge as in substance a voluntary payment. Indeed, in many such cases the settlor is apparently trying to direct himself of income sufficiently to escape Super-tax liability, while retaining that power of control which is so dear to the heart of mankind. In this, as the law stands, he may be successful, for the usually accepted view is that, generally speaking, a payment made under the covenants of a deed which has not in fact been revoked is not legally a voluntary payment, and may consequently be deducted as a charge on income for the purposes of Super-tax.

14,419. (12) It is suggested for the consideration of the Royal Commission, that the Commissioners concerned should be empowered to disregard for the purposes of Income Tax and Super-tax any alienation, transfer or charge of income which is:—

- (a) made in favour of or for the benefit of an unmarried infant child of the settlor;
- (b) variable or revocable by the settlor—to the extent that it is possible for such variation or revocation to be exercised in favour of or for the benefit of the settlor, or his wife or an unmarried infant child;

and consequently, that any income so transferred should be treated as part of the income of the transferor, and not of the person for whose benefit such transfer, &c., is made.

14,420. (13) It is noteworthy in connexion with the foregoing suggestions, that, under the United States Regulations relating to the Income Tax under the

Revenue Act of 1918, "the income of a revocable trust must be included in the gross income of the grantor." (Regulations, No. 45, Revised. Article 341.)

NO. IV.—ON THE SUBJECT OF THE STEPS NECESSARY TO SECURE CORRECT ASSESSMENTS TO SUPER-TAX.

Introductory.

14,421. (1) Under section 7 of the Income Tax Act, 1918, Super-tax is to be assessed by the Special Commissioners of Income Tax. During the nine or ten years of its existence the Super-tax machinery has, on the whole, worked smoothly. Experience has, however, shown that certain amendments of the law are desirable to enable the Commissioners more effectively to check returns and to discover errors in returns as well as to prevent deliberate evasion of Super-tax in any cases in which such evasion may be attempted.

14,422. (2) Separate evidence is being presented to the Royal Commission on the legal avoidance of Super-tax by the non-distribution of company profits as income and by the alienation of income; and also on avoidance of Super-tax by persons resident abroad. The present evidence relates not to the legal avoidance of tax, but to (1) the measures necessary to promote the more effective examination and checking of Super-tax returns so as to ensure the discovery of errors and the making of correct assessments, and (2) the adequacy of penal provisions of the Acts which are intended to protect the Revenue—and therefore the honest citizen—against the deliberate evasion of Super-tax.

Power of the Commissioners to call for particulars of a taxpayer's income.

14,423. (3) The proposition need hardly be laboured that a correct assessment of a taxpayer's liability can be secured only if all the relevant particulars are available for the use of the assessing authority. Unchecked self-assessment by taxpayers is fatal to the accuracy and efficiency of a tax, and this not only because incomes may be deliberately understated, but also because bona-fide error, ignorance of the law, a tendency to give oneself the benefit of a doubt, and other causes, all operate to limit the number of cases in which returns as originally made are, in a strict sense, accurate returns.

14,424. (4) The present position of the assessing authority—the Special Commissioners—is in some respects anomalous and unsatisfactory in regard to their powers to obtain information.

14,425. (5) Under section 7 of the Income Tax Act, 1918, it is on receipt of a requirement from the Special Commissioners that a person is required to render for Super-tax purposes "a return of his total income from all sources."

14,426. (6) Whilst taxpayers with incomes under £2,500 are under necessity, in order to obtain the reliefs to which they are entitled, to give detailed particulars (with vouchers if required) of their incomes, taxpayers with incomes exceeding £2,500 are not at present under direct obligation, when making their returns for Super-tax to give any details of the several items of their incomes or to produce vouchers in support thereof.

14,427. (7) The assessing authority is not, indeed, impotent to obtain disclosure of particulars in special cases, as the Special Commissioners have power, when dissatisfied with a taxpayer's return, to make an assessment to the best of their judgment; and on any appeal against such an assessment the taxpayer would need to produce evidence of his assessable income in order to obtain any reduction of the assessment. But an assessment so made in an estimated amount is not always sufficient to cover the liability; and the person assessed may obtain from appealing because he knows that by so doing he will pay tax on a less sum than his total income.

14,428. (8) Apart, however, from the objection just mentioned, this method of procedure is imperfect and incomplete. There must be many cases in which returns being *prima-facie* reasonable, are accepted

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without enquiry in the absence of data to the contrary, although in fact they are inaccurate or deficient.

14,429. (9) The omission of a particular item of income from the return for any year may, of course, be attributable either to *bona fide* error or to other causes involving different degrees of blameworthiness. The circumstances which may lead to errors in returns are almost infinitely varied, and without multiplying instances it may be confidently asserted that incorrect returns are frequently made without the mistake being apparent or capable of detection owing to the fact that information as to the manner in which the figures have been made up has not been given.

14,430. (10) Although it is recognized that in some instances the rendering of a detailed return may involve Super-tax payers in considerable trouble, both the Board of Inland Revenue and the Special Commissioners of Income Tax are clear that the possession of the power to require detailed returns is an essential preliminary to fully effective assessment of the Super-tax, and the Board submit that, having regard to the extreme importance of effective assessment in the circumstances which will obtain in future, the time has come when Super-tax payers should be placed under the same necessity as other taxpayers to give details of their income in all cases when required.

Power of the Board of Inland Revenue to examine returns and to cause a surcharge to be made.

14,431. (11) Another defect in the existing law is of a different type, and relates to the impotence of the Crown in certain circumstances to challenge the view taken by the Special Commissioners in regard to points arising out of the examination of returns made by Super-tax payers.

14,432. (12) The general scheme of administration of the ordinary Income Tax provides for Income Tax assessments to be made by the Commissioners, but gives the Surveyor of Taxes,* an Inland Revenue official, full rights of examination of the returns made by the taxpayer and of objecting to the assessments made by the Commissioners whether the taxpayer does or does not give notice of appeal against the assessment made upon him. The position as regards Super-tax is different. Sub-section 6 of section 7 of the Income Tax Act, 1918, provides that "for the purpose of the representation of the Crown on any appeal before the Special Commissioners any person nominated in that behalf by the Commissioners of Inland Revenue shall have the same powers as and upon the determination of the appeal as a Surveyor has at and upon the determination of any appeal relating to Income Tax." This provision confers on the Revenue due powers in a case where the taxpayer has given notice of appeal against a Super-tax assessment, but there is no corresponding provision giving a Revenue representative any right to be heard on questions arising before an assessment is made, or afterwards, except in a case in which notice of appeal is given by the taxpayer. The result is that, save in appeal cases, the interests of the Revenue are entirely in the hands of the Special Commissioners, whose views as to liability in particular cases may not coincide with the views of the Inland Revenue Department.

14,433. (13) Such a position is one-sided and might conceivably prevent the Revenue from testing in the High Court a legal question of great importance. It is a position which does not appear to have been foreseen when the Finance (1909-10) Act, 1910 (the Act which originally imposed the Super-tax), was passed. It is desirable that this anomalous state of affairs should be remedied, and it is suggested that a convenient way of doing this would be to give the Board of Inland Revenue powers to examine Super-tax returns and assessments, to object to assessments,

and to make surcharges, similar to the powers conferred on Surveyors of Taxes by sections 113, 121 and 135 of the Income Tax Act, 1918, in relation to Income Tax.

14,434. (14) The effect of the suggested powers would not be to diminish the powers of the Special Commissioners in any way. That body would still be the authority for determining liabilities to Super-tax, their decisions would still be final (subject to the right of either the taxpayer or the Crown to appeal to the High Court on a point of law), but the Revenue would acquire the right in regard to Super-tax, which it has always possessed in regard to Income Tax, of objecting to an allowance or deduction which the assessing Commissioners propose to admit, in the first instance, on an *ex parte* statement, and of requiring the Special Commissioners to determine the question after hearing both sides, as in the case of appeals against assessments.

The prevention of evasion of Super-tax.

14,435. (15) In addition to the measures referred to in the foregoing paragraphs, it is submitted that the law needs strengthening as regards cases in which avoidance of Super-tax is due, not to accident or mistake or to a *bona fide* doubt as to liability, but to wilful evasion.

14,436. (16) Section 7 of the Income Tax Act, 1918, casts upon the subject the duty of starting the machinery which the Special Commissioners control, by requiring him to give notice of the fact that he is chargeable with Super-tax (sub-section (3)). On receipt of such notice it rests with the Commissioners to take the next step by calling for a return of total income from the individual concerned. On receiving from the Special Commissioners a notice to make a return of total income the taxpayer is to comply with their requisition "whether he is or is not chargeable with Super-tax" (sub-section (2)). A person who fails to make any return or to give notice of his liability is liable to a penalty not exceeding £50, and after judgment has been given for that penalty to a continuing penalty of like amount for every day during which the failure continues (sub-section (4)). Moreover, if a person fails to make a return, or if the Commissioners are not satisfied with a return, they may make an assessment to the best of their judgment (sub-section (5)).

14,437. (17) The question of the desirability of instituting proceedings to recover penalties in connection with Super-tax arises in the following circumstances:—

- (i) where the notice of chargeability to Super-tax has not been given;
- (ii) where there is a failure to make any return of income;
- (iii) where the return made is inaccurate.

14,438. (18) In the absence of aggravating circumstances it is not the general practice to institute proceedings for a penalty on the mere discovery that probable liability exists and that notice of chargeability to Super-tax has not been given. The usual course is to call upon an individual who is suspected to be liable to Super-tax to make a return of his total income. If he fails to do so, proceedings may be possible under sub-section (4) of section 7 for

- (a) failure to give notice of chargeability; or,
- (b) failure to make any return;

and resort can also be had to the powers conferred on the Commissioners by sub-section (5) and an assessment made "according to the best of their judgment."

In the vast majority of the cases in which there is a failure to make a return the last course only is taken. An assessment is made in an estimated amount against which the taxpayer has a right of appeal, and the question of penalties is not pursued.

14,439. (19) Where a return is not merely inaccurate but almost certainly deliberately incorrect, the question of instituting proceedings to recover penalties requires to be considered. Section 7 of the

* This officer is now styled "H.M. Inspector of Taxes," but in order to preserve continuity with the earlier proceedings of the Royal Commission, it is proposed to continue the use of the old title in this and other official evidence.

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Income Tax Act, 1918, provides a penalty for failure to make any return, but does not expressly impose a penalty for making a false return. The question whether proceedings can be taken "for the penalty incurred for failure to make a return when although a return has been made it is an incorrect return and therefore not a return of total income" was considered in 1914 by the Law Officers of the Crown, who advised as follows:—

"The mere fact that a return is inaccurate would not in itself expose the person making the return to a penalty, and we think that in the absence of deliberate fraud the existence of reasonable excuse for inaccuracy would readily be assumed. But every case will depend upon its own facts, and we are not prepared to say that no penalty is ever incurred unless the dividend is proved to have been deliberately fraudulent."

14,440. (20) In the early years of Super-tax administration proceedings for failure to give notice of chargeability or to make a return were instituted in a number of selected cases, and several judgments imposing penalties were obtained. But the procedure was soon found ineffective. Even when the rate of Super-tax was only 6d. in the pound the £50 penalty was often paltry compared with the duty at issue. The continuing penalty of £50 a day could not be secured, as a return would be delivered as soon as the taxpayer found that he would be brought to book. Publicity was avoided by payment of the fine immediately on the institution of proceedings.

14,441. (21) Many examples of the entire ineffectiveness of the penalty of £50 could be given.

14,442. (22) The provision of an effective penalty comparable with Income Tax penalties is, in the Board's judgment, essential. Section 107 of the Income Tax Act, 1918, provides a penalty of £20 and "treble the tax which . . . ought to be charged" for failure to make a return for Income Tax. This penalty increases automatically with the amount of the income, and it is submitted that the time has come for completing the application of this principle by applying it to the Super-tax.

14,443. (23) Section 7 (6) of the Income Tax Act, 1918, applies certain provisions of the Acts relating to Income Tax to the assessment, collection and recovery of Super-tax. Super-tax is an additional duty of Income Tax, and it is suggested for consideration that the penalty provisions relating to Income Tax might also, with the necessary modifications, be made generally applicable to Super-tax. A precedent for such a course is to be found in section 8 (2) of the Act, which applies such penalty provisions to Super-tax in the case of failure to make returns for the purposes of section 8 (which provides for the separate assessment to Super-tax of husband and wife).

14,444. (24) The existing penalties for acts and defaults committed in relation to Super-tax are recoverable only in the High Court. This limitation not only adds to the expense of proceedings, but may also be productive of delay and inconvenience. Moreover, the determination of the amount of Super-tax which an individual "ought to be charged" (on which a penalty of "treble tax" would be based) rests with the Special Commissioners alone, and cases might arise in which the High Court would be unable to fix the amount of a penalty of treble tax without assistance from the Commissioners. In these circumstances it is a matter for consideration whether Super-tax penalties should not be made recoverable, alternatively, before the Special Commissioners of Income Tax in the same way as Income Tax penalties are recoverable before the General Commissioners of Income Tax.

Power to make assessments where notice to make a return has not previously been given.

14,445. (25) A minor and probably accidental defect in the law which might with advantage be remedied is the following. By sub-section (2) of section 7 of the 1918 Act "every person upon whom notice is

served . . . " is required to make a return of his income for Super-tax purposes, and, under sub-section (5), "if any person fails to make a return" or "if the Special Commissioners are not satisfied with any return" they may make an assessment to Super-tax to the best of their judgment. The wording of the section seems to involve this, that there can be no failure to make a return in the case of a person who has not been served with a notice to make a return, and consequently that the Special Commissioners have no power to assess to Super-tax an individual who has not been first served with such a notice. In normal circumstances no difficulty arises as the taxpayer is required as a matter of course to make a return before the making of an assessment upon him is contemplated, but cases from time to time occur in which an individual may be attempting to avoid service of notice to make a return in order to evade his liability. It is therefore suggested that power ought to be conferred on the Special Commissioners to make an assessment to Super-tax in cases where it has been found impracticable to serve notice to make a return.

NO. V.—ON THE ASSESSMENT TO INCOME TAX OF FOREIGN AND COLONIAL DIVIDENDS.

Preliminary.

14,446. (1) In accordance with the principle of taxing income as near the source as possible, the Income Tax Acts provide for interest and dividends payable in this country out of any public revenue of a foreign or colonial Government or in respect of the stocks, funds, shares, etc., of any foreign or colonial company to be charged with Income Tax in the hands of the agents entrusted with payment of such dividends, etc. This evidence is not concerned with dividends, etc., paid out of the public revenue of the United Kingdom, but relates only to such dividends, etc., as are paid in this country either out of foreign or colonial public revenue or by foreign and colonial companies. The agent entrusted with payment of such foreign or colonial dividends is required to deduct the appropriate amount of Income Tax and to pay over to the Revenue the amounts deducted in satisfaction of assessments which the Special Commissioners of Income Tax are empowered to make in respect of such dividends.

14,447. (2) The relevant provisions of the Income Tax Act, 1918, are to be found in Schedule O, Third Set of Rules, and Schedule D, Miscellaneous Rules, Rule 7; and these provisions are generally known, briefly, as the "Foreign Dividends Sections."

14,448. (3) The machinery for taxation at the source of foreign and colonial dividends paid through agents in the United Kingdom applies also to coupons for such dividends which are payable abroad but are realized through bankers or coupon dealers in this country. In such circumstances the banker or coupon dealer is deemed to be "a person entrusted with the payment of dividends" and as such is bound to deduct Income Tax from the proceeds of coupons collected by him and to pay over to the Revenue the amounts so deducted in the manner already described.

14,449. (4) If the person entitled to receive foreign or colonial dividends is not resident in the United Kingdom, he is not liable to Income Tax in respect of such dividends and provision is made for him to obtain payment in full from the paying agent, on receipt of satisfactory evidence of non-residence in this country.

14,450. (5) The amount of Income Tax assessed and collected by the Special Commissioners for the year 1918-19 in respect of foreign and colonial dividends was about £91,000,000.

14,451. (6) On the whole the machinery for taxing such dividends works well. The agents entrusted with payment of the dividends understand their general duties and they are in the habit of consulting the officers of the Inland Revenue Department on points of difficulty. Experience has, however, shown that the law might be altered in certain directions with advantage, and it is with such suggested amendments that this evidence is intended to deal.

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Inspection of books and records of agents entrusted with the payment of dividends.

14,452. (7) An agent entrusted, or deemed to be entrusted, with the payment in this country of foreign and colonial dividends is required on demand to deliver "true and perfect accounts of the amount of all such dividends" for the use of the Special Commissioners of Income Tax.

14,453. (8) The efficient collection of the tax obviously depends upon the accuracy of the returns made by the agents. Such agents are normally the secretaries of London branches of foreign and colonial companies, or bankers or financial houses of considerable standing, and there is no reason to suppose that these agents make other than honest returns.

14,454. (9) Owing, however, to the limited (or non-existent) powers of examining agents' records of dividends paid, the Revenue may receive less than it is entitled to without there being any dishonesty on the part of the agent delivering an account.

Actual cases of the types mentioned hereunder have occurred from time to time:—

(a) An employee of the agent by manipulating the latter's books may falsify an entry relating to Income Tax deducted and so appropriate an amount which is due to be paid over to the Revenue.

(b) An agent may omit to deduct Income Tax from a payment in the belief that it is not technically a "dividend" or that it is payable to a non-resident person not liable to United Kingdom Income Tax; and may in consequence exclude such item from his return. The question of liability in such a case might never be raised with the officers of the Inland Revenue Department, who, if they had been consulted, might not have accepted the view that there was no liability.

14,455. (10) The weakness of the Revenue position lies in the fact that the Department has in practice to accept without question accounts rendered by agents containing little or no information beyond the amount of the lump sum returned for assessment.

14,456. (11) Rule 2 of the Third Set of Rules of Schedule C of the Income Tax Act, 1915, provides that "The Special Commissioners shall have all necessary powers in relation to the examining, auditing, checking and clearing the books and accounts of dividends delivered under the authority of this Act," but this provision relates only to the "books and accounts delivered" to the Commissioners. What is required is an express power to compare the "books and accounts delivered" with the books and accounts in the agent's hands from which the documents delivered have been prepared. Certain agents are ready to assist the officers of the Inland Revenue Department, on application, by affording them access to their books and accounts, but this permissive investigation as the result of a willingness which is not universal and which is probably not exhibited in the very cases in which investigation is most desirable, is a poor substitute for the compulsory powers which should exist, if the Revenue is to be protected from possible loss.

14,457. (12) The high rates of Income Tax now in force render this question one of considerable importance to the Exchequer. Agents entrusted with the payment of dividends are remunerated for their services in deducting and paying over Income Tax on such dividends, and it is suggested that the time has come when the Department should be equipped with such powers of inspection and examination of agents' books, accounts and records as will enable its officers to exercise an effective check upon the returns and accounts rendered to the Department, and so lead to the assessments by the Special Commissioners in respect of foreign and colonial dividends being made in sums with the correctness of which they are satisfied instead of in the amounts entered in accounts which may or may not be correct but which the Commissioners are normally not in a position to verify.

14,458. (13) Whilst the Board of Inland Revenue, and, the Board understands the Special Commis-

sioners of Income Tax, are quite clearly of opinion that the suggested powers of inspection ought to be given, they recognise that opposition to this proposal may arise in certain quarters. The Board do not anticipate that opposition would be general or widespread, and they think that any objections which might be raised by responsible persons or firms would be likely to be allayed by an explanation of the position.

Income Tax on dividends, etc., payable to persons in the United Kingdom by British registered companies controlled abroad.

14,459. (14) A company whose seat of control is in the United Kingdom is assessable to United Kingdom Income Tax on the whole of its profits. Having secured the full amount of tax due to it by taxing the profits as they arise the Revenue is not entitled and does not seek to tax as dividends or interest any sums which such a company may distribute out of profits amongst its shareholders or creditors.

14,460. (15) A company whose seat of control is abroad is not assessable to British Income Tax on the whole of its profits, but only on such part (if any) as arises from trading within the United Kingdom. Accordingly in order to secure taxation at the source of dividends or interest paid by such a company to persons residing in the United Kingdom, special provisions are necessary, and such provisions, as represented by the "Foreign Dividends Sections," are incomplete.

14,461. (16) As explained above, provision is made for the taxation by deduction of dividends, etc., paid in the United Kingdom by a foreign or colonial company, the method adopted being to require the agent (if any) entrusted with the payment of such dividends in this country to deduct and pay over to the Revenue the Income Tax applicable to the amount* of dividends passing through his hands. Where tax cannot be collected in this manner, the recipient is liable to include the dividends in his return of untaxed income for direct assessment under Schedule D of the Acts.

14,462. (17) The provisions mentioned are normally effective to secure taxation at the source of dividends paid in the United Kingdom by a foreign company. The Law Officers of the Crown, however, have advised that a company whose seat of control is abroad, but whose place of registration is British must be regarded as a British and not as a foreign company, and consequently that the "Foreign Dividends Sections" do not apply to such a company. The result is that there is no suitable machinery for taxing at the source dividends paid in this country by a company with British registration, but controlled from abroad, out of profits earned abroad, and the Revenue may be left to obtain tax in such cases by direct assessment of such recipients of dividends as can be traced. If the shares of the company in question have been issued in bearer form there is great risk of serious loss of Revenue in such cases.

14,463. (18) The question of repairing this hole in the Income Tax net has been considered from time to time, and a draft clause in the following terms was prepared in connection with the abortive Revenue Bill of 1914:—

"Where the interest, dividends, or any other annual payments payable out of or in respect of the stocks, funds, or shares of any company registered in the United Kingdom are entrusted to any person in the United Kingdom, for payment to persons in the United Kingdom, and are not paid out of profits or gains charged to Income Tax, Section 10 of the Income Tax Act, 1863 (which relates to the charge of Income Tax on the dividends of foreign companies entrusted to persons for payment in the United Kingdom) and any enactment applied by that section or extending that section shall apply thereto as they apply to interest, dividends, or other annual payments in respect of the stock, funds or shares of a foreign company."

14,464. (19) Owing to Parliamentary exigencies the Revenue Bill was not proceeded with, and since 1914 the matter has remained in abeyance.

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14,465. (20) It is not infrequently suggested that the imposition of the Excess Profits Duty and the great rise in the standard rate of Income Tax since the outbreak of the late war may induce a certain number of companies registered in this country to transfer their seat of control abroad, in order to reduce the burden of taxation. In that event, legislation to secure deduction of Income Tax from the dividends of such companies paid to shareholders in the United Kingdom must become a matter of importance.

14,466. (21) A clause on the lines indicated in paragraph 18 would enable the Inland Revenue Department to obtain Income Tax by collection at the source whenever an agent entrusted with the payment of the dividends, &c., of such a company in this country can be discovered. It would not enable tax to be so recovered in all conceivable circumstances (e.g., where there is no such agent in this country and drafts passing through banks in this country do not bear any indication that they have been drawn in payment of dividends). In cases of this type the Revenue would therefore continue to rely on the inclusion of dividends received in the return of the recipient for direct assessment under Schedule D.

Income Tax on foreign and colonial dividends, &c., paid in "paper."

14,467. (22) In normal circumstances, the interest, dividends, &c., payable in this country by an agent of a foreign or colonial State, corporation or company are paid in cash. In such cases the provisions already referred to generally secure deduction at the source of the Income Tax applicable to the dividends in question, and the payment to the Revenue of the tax so deducted.

14,468. (23) From time to time, however, cases are brought to the notice of the Inland Revenue Department in which interest or dividends are about to be paid not in cash but in "paper"—that is by means of a distribution of bonds, shares, notes or other securities. This method of payment is in some cases resorted to as a means of meeting a liability for which no cash is available. In another type of case the company, &c., concerned may hold shares in another company and may desire to distribute such holding amongst its own shareholders as a dividend.

14,469. (24) The provisions of the Income Tax Acts relating to foreign and colonial dividends were drafted to cover the case of dividends, &c., payable in cash, and are ill-adapted to secure at the source the tax on dividends paid in "paper." Accordingly, difficulties arise in connection with the latter class of payments owing to the weakness of the taxing machinery.

14,470. (25) In actual practice, as soon as the Department becomes aware of the contemplated payment of a "paper" dividend through an agent in this country, negotiations with the agent are commenced with the view of obtaining payment of Income Tax in bulk. Such negotiations, when successful, usually result in arrangements being made for the transfer to the Revenue of a proportion of the "paper" distributed varying with the current rate of Income Tax. Occasionally, instead of paying tax in "paper," an agent will pay in cash on an agreed valuation of the "paper" which is to be distributed. If the negotiations for payment of tax in bulk are unsuccessful, or if the distribution has been made before the Department is made aware of the action contemplated, it is usually—though not always—practicable to obtain a list of shareholders, &c., receiving the dividend, and in such cases the individual liabilities are dealt with by direct assessment of the recipients.

14,471. (26) The satisfaction of Income Tax liability by the transfer to the Revenue of a proportion of the "paper" distributed is usually the most advantageous arrangement, as it prevents any questions as to the value of the distribution arising. But it is open to several minor objections, viz.:—

- (a) a normally indivisible unit, e.g., a share in a company, may have to be split, or special arrangements may have to be made in order to enable the amount due to the Revenue for tax and to the individual shareholders for dividend less tax to be satisfied;

- (b) the Revenue is not always willing to accept "paper," e.g., where it takes the form of partly paid shares to which a liability for unpaid calls may attach;

- (c) difficulties (due to the different views which may be held as to the cash value of a "paper" dividend) may arise in ascertaining the amounts repayable to shareholders, &c., from whom tax has been deducted in "paper" and who are liable to bear Income Tax at less than the full standard rate.

14,472. (27) The collection in bulk of the Income Tax due in cash on the basis of an agreed valuation of the "paper" which is to be distributed, is difficult to arrange, and is only occasionally resorted to. Not only are there obstacles in the way of agreeing a valuation as between the agent of the company concerned and the Revenue, but there is the further difficulty that the agent has to collect a cash payment from each person to whom he is about to distribute "paper"—a task which is far from easy in cases where the value of the "paper" is problematical.

14,473. (28) The assessment of each of the individual recipients of a "paper" dividend, &c., is only resorted to where no better arrangement for the satisfaction of the Income Tax liability can be made. The disadvantages of this course as compared with the collection of tax in bulk—whether in "paper" or in cash—are obvious.

14,474. (29) Another problem affecting this subject goes deeper. This is the question whether a particular distribution of "paper" is a taxable dividend or a non-taxable distribution of capital. This question does not always arise—there are numerous "paper" distributions which are admittedly distributions of dividends; but at the present time it arises in a considerable—and continually increasing—number of cases in connection with Income Tax and Super-tax, and is now before the Courts in a particular case. Whether the ultimate decision will be of general application is open to doubt.

14,475. (30) In the foregoing circumstances it is suggested:—

- (1) that the provisions of the Income Tax Acts relating to foreign and colonial dividends should be expressly made applicable to foreign and colonial dividends, &c., paid in any form other than cash as well as to such dividends payable in cash;
 - (2) that the expression "dividends" as used for the purposes of such provisions should be defined so as to cover all distributions by foreign and colonial companies derived from current profits or accumulations of past profits;
 - (3) that in the case of dividends, &c., paid in "paper" (or other forms than cash) the agents should be required by law, at the option of the Revenue—
 - (i) to transfer to the Revenue the appropriate proportion of the "paper" distributed as representing Income Tax thereon;
 - (ii) to account for the Income Tax on the "paper," by a cash payment based on a valuation of the amount of "paper" distributed, with a corresponding power to the agent to recover the proper proportion of the cash payment to the Revenue from the shareholders participating in the distribution;
- or (iii) to furnish on requisition a list of the names and addresses of the persons participating in any such distribution with particulars of the amount or share payable to each.

These suggested powers (sub-paragraph (3)) would enable the Board of Inland Revenue on a consideration of the varying facts of particular cases to select the method likely to be best suited to the case under review without in any way altering the amount of the burden of the taxpayer.

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Increases in the rate of Income Tax. Collection of Income Tax on foreign and colonial dividends paid before passing in the House of Commons of the Resolution fixing the rate of Income Tax for the year.

14,476. (31) The rate of Income Tax to be deducted from foreign and colonial dividends is the rate in force at the time of payment of the dividends, and, consequently, in years in which the rate of Income Tax is raised and the Resolution of the House of Commons authorizing the increased rate is not passed until a date later than the 5th April, an insufficient amount of tax is deducted from all foreign and colonial dividends which may be paid by the agents between the 5th April and the date of the Resolution fixing the rate of tax. (In practice insufficient deduction are made until a date two or three weeks after the date of the Resolution, as dividend cheques have often to be prepared in advance of the actual dates of payment.)

14,477. (32) Provision is made by section 211 of the Income Tax Act, 1918, for recovering the balance of tax payable in respect of the dividends in question. That section enacts that where payments on account of dividends have been made before the passing of the Act imposing Income Tax for any year and tax has not been charged thereon at the rate ultimately imposed for that year, the amount not so charged shall be charged by direct assessment of the persons entitled to the dividends, and the agents entrusted with the payment of such dividends shall furnish to the Board of Inland Revenue lists containing the names and addresses of the persons to whom payments have been made and the amounts of such payments.

14,478. (33) On receipt from the agents of lists of the payments in question it is the practice to make application from Somerset House for the balances of tax payable. In the year 1918-19 a Budget Resolution raising the standard rate of Income Tax from 5s. to 6s. in the £ was passed on 22nd April, 1918, that is, about two-and-a-half weeks after the commencement of the Income Tax year; and some 10,000 applications for the balances of tax payable in respect of deductions from foreign and colonial dividends made at the 5s. rate had to be addressed to the persons receiving the dividends. This number would have been very greatly increased but for the fact that it was decided (in consequence of the shortage of staff) to take no steps to collect the balance of tax payable unless the dividend received amounted to £10 or upwards.

14,479. (34) When in the late autumn of 1914 it was proposed to raise the rate Income Tax for 1914-15 by a second Finance Act to 1s. 8d. in the £, the position was in some respects similar to that which arose in 1918. Owing, however, to the considerable portion of the year 1914-15 which had already elapsed, the task of collecting the balance of tax insufficiently deducted from recipients of foreign and colonial dividends during the preceding eight months would have been enormous, and in these circumstances other steps were taken to meet the necessities of the situation. By the provisions of the Finance Act, 1914 (Session 2), section 12, and the Statutory Regulations made thereunder, such deductions were to be made from dividends paid between the 5th December, 1914 (the date from which the Act became operative) and 5th April, 1915 (the end of the fiscal year) as would make the total amount of tax deducted equal to 1s. 8d. in the £ on the dividends paid during the whole year. Where, however, no further dividends were paid between the dates mentioned, provision was made for lists of names and addresses to be furnished to the Inland Revenue, and for the deficiency in the tax to be collected in the manner now provided by section 211 of the Income Tax Act, 1918.

14,480. (35) The collection of these balances of tax from a large number of individuals gives rise to a good deal of misunderstanding and friction. The applications for the balances of tax due cannot in ordinary circumstances be made until several months have elapsed from the date when the relative dividends were paid, by which time not only have most of the persons concerned forgotten all about the matter, but some have removed, sold their shares, or taken some other step which renders it difficult or impossible to discover the persons liable to pay the balance of tax. Moreover, as already stated, very

small amounts of tax are hardly worth the cost of collecting. These difficulties result in an appreciable leakage of revenue.

14,481. (36) In these circumstances it is suggested that statutory provision should be made for any balance of duty payable in consequence of the deduction of tax at an insufficient rate to be made good either in the manner prescribed by section 211 of the Income Tax Act, 1918, or alternatively, at the option of the Inland Revenue, by deduction from the next subsequent dividend which may be paid, that is, in the manner laid down by section 12 of the Finance Act, 1914 (Session 2), and the Statutory Regulations made under that section. A provision of this character would, it is believed, give rise to no opposition on the part of the public and would be a convenience both to taxpayers and to the administration. It may be added that the course which it is suggested should be made legal is occasionally resorted to by agents at the present time without any statutory authority, and that where such step has been taken no serious objection is known to have been raised to it.

[This concludes the evidence-in-chief.]

14,482. *Chairman:* We have had the pleasure of seeing you here a number of times?—That is so.

14,483. And we shall hope to see you again; every time that you come you add something to our knowledge?—Thank you.

14,484. *Mr. Mackinder:* On the subject of undistributed profits of companies, you refer, in paragraph 30 of your paper No. 1, to methods being adopted by other legislatures. You call them methods A. and B. I may take it you recognize the necessity for some action as soon as possible to cope with the loss of revenue?—We certainly do recognize that necessity.

14,485. May I take it that your final suggestion in regard to private companies is contained in paragraph 59 of your paper No. 1?—That is the final suggestion for an immediate remedy.

14,486. Now with regard to public companies: you would give them the option, I take it, of being treated either as private companies under your scheme A. [see par. 14,300], or that they should deal with the liabilities of their shareholders in respect of that bonus as and when those assets are distributed?—As and when those assets are distributed. Of course, speaking purely as Revenue officials, we should naturally look with considerable favour on the wider scheme that I talk about in the earlier part of the paper; but we recognize that we might interfere very much with legitimate business if we asked for those very wide powers, in the first instance at any rate.

14,487. You deal with the change in the rate of Income Tax between the time of assessment and the time of distribution, say several years?—I think if we were dealing with the distribution of bonus shares, we should normally expect the tax at the rate in force at the time of the distribution.

14,488. That is in regard to Income Tax?—And Super-tax. We should look upon that distribution as the payment of a dividend, and a dividend is taxable for Super-tax purposes when it is receivable by the shareholder, and not before.

14,489. That is to say, you would tax according to each shareholder's position under the Income Tax at the time of distribution?—Yes.

14,490. With regard to the avoidance of Super-tax by the alienation of income, the principle that you have in mind is that there must be a genuine alienation; it must actually deprive the settlor of the income of the estate from which it arises?—Yes. I think if the settlor retains any power over that income, we should be entitled to tax it. If he really finally divests himself of the income, subject to what we have said in paragraph 12 [in paper No. III.], I think we could do nothing. I think if he finally deprives himself of his income, with that exception, we are bound to accept the consequence. He has lost the income and we must lose the tax. But if he makes a settlement which is revocable, or a settlement directly or indirectly in favour of any child, then we do suggest that we should have power to disregard that settlement, and to treat it as still part of the settlor's income.

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14,491. In the case of unmarried minors, would you have it that the alienation must not merely be in line of income which the settlor would have to spend in any event?—That, of course, is the evil that we aim at.

14,492. How would you cure that?—I think possibly we should have to have powers to charge any alienation in favour of such a minor. Whether there could be a limitation so that it was not necessary for us to charge except in cases where the settlor was really evading his liability of maintaining the infant, I do not know. I am very doubtful whether such a limitation would be practicable.

14,493. It would involve a good deal of inquiry, would it not, into internal family economics?—It would, certainly, if it was limited in that way. Our suggestion rather is that we should have a rather wider power, so that we should not be asked to inquire into that. In other words, if the man gives to his children we should have power to regard the income as the father's income without inquiring into his motives. I fear that if we were restricted and had to make an inquiry into his motives the whole provision might become very nearly unworkable.

14,494. Mr. Walker Clark: You would have the power for the purpose of exercising it, not merely platonic power?—Quite. We should have the power for the purpose of exercising it.

14,495. Mr. Mackinder: Now, I want to ask you about what is a very important matter, I think, and a very practical matter at the present time. That is in regard to the steps to secure the correct assessment of Super-tax. You have given us general statements. Have you any particulars of specific cases showing the methods adopted for the avoidance of Super-tax?—As regards the question of methods, that is dealt with in my paper on non-distribution of profits and bonus shares. But I have here some tables* which I should like very much to show the Commission.

14,496. Do you wish to place any evidence before the Commission on this subject which would be useful to us, but which you think had better not be printed, because it might be a signpost to other evaders?—I was going to ask that these tables should not be printed, although my reasons were rather different. My reason is that they relate to specific cases, although names are not given. The figures are actual figures. Therefore I was going to ask, with your permission, that they should not be printed. These tables are intended to illustrate the ineffectiveness of the present penalties. The penalty at present for not making a Super-tax return, or for not giving notice of liability, as I have explained in that paper, is £50. It is perfectly true that after judgment has been obtained for that penalty of £50 for not making a return, there is power to inflict another penalty of £50 a day for the time during which the default continues. But, of course, that is useless to us in the normal case, because once you have obtained your judgment for the penalty, in comes the return, and no further penalty can be obtained. We get the £50 penalty, or we may get the £50 penalty, but the liability which the taxpayer may have escaped is a very great deal more; and in the last column of the top sheet I have given particulars of the difference between the Super-tax on the income as returned, and on the income as finally disclosed. In the first case, for three years that difference is £410, £267, and £1,471. Now, that individual, by making his false return, was really only liable to a penalty of £50, and he stood a very good chance of escaping Super-tax on those larger amounts; and so with the other cases. It would pay him to make a false return, because our penalties were so inadequate. If we had power, as we suggest here, to obtain a penalty, not only of £50, but of £50 and either double or treble (treble is the figure in the Income Tax) the duty which he has evaded, then it would no longer pay him to take that risk. Treble the amount that he has evaded is the Income Tax penalty.

14,497. Treble the amount of the Super-tax which he has evaded?—Treble the amount of the Super-tax.

14,498. That is your suggestion?—[That is the suggestion.]

* Not reproduced.

14,499. Your suggestion amounts to this; that you want a detailed return, so that the items of income may, if necessary, be specially checked, and you want that to be subject to this heavy penalty?—Yes, that is so. Of course, the first part, the details of the income, we do regard as most important.

14,500. You are only asking for the same description of powers in regard to Super-tax, as now exist in the case of Income Tax, and no more?—And no more; with just this one little addition, that there is no penalty in the Income Tax for failure to give notice of liability to Income Tax. It is hardly necessary, and as the tax begins at £131, I do not think anyone would suggest that there should be such a penalty. But there is a penalty for failing to give notice of liability to Super-tax, a £50 penalty, and we suggest that that penalty, which is a Super-tax penalty only, should be £50 and treble duty.

14,501. Your suggestion is, the same rules in the case of the Income Tax, with that addition?—With that addition.

14,502. Is that the only addition?—That is the only addition.

14,503. In other words, at the present time you have weaker powers than in the case of the Income Tax?—We have—distinctly weaker powers.

14,504. Mr. Armitage-Smith: Is the term "private company" defined by Statute at the present time?—Yes; there is a difference in the Companies' Act between a private company and a public company.

14,505. And you desire to amend that distinction?—For the purposes of this legislation which we suggest, we should desire to treat certain public companies as private companies.

14,506. Why do you think it unnecessary to have a penalty for failure to disclose liability to Income Tax?—Of course that is really a little outside my evidence, but it does seem to me that one could hardly think of imposing a penalty on a weekly wage-earner with £2 10s. a week, because he had not taken the initiative in writing to the Surveyor of Taxes and saying: "I am liable to Income Tax."

14,507. I am not quite clear what your action would be in this operation. Supposing a parent transfers money to trustees other than himself or his wife, subject to the trust that they are to apply the money for the maintenance and education of his child, leaving the question of all capital and control over the application of the interest, do you desire to bring such income under review as the income of the parent or not?—Yes, if the income is to be applied for the benefit of the infant child. I do not think we can stop this trouble without some power of that kind.

14,508. I suppose you do not want to prevent the creation of the trust, but you want to prevent the loss of revenue following thereupon?—Precisely.

14,509. Supposing there was a power to ignore, for Income Tax and Super-tax purposes, any such trust, would you make the law retrospective or not; that is to say, would you apply it to the trusts created before the legislation in question was passed?—As regards future years' liability, I think I should. I certainly do not think we should rake up past years' Super-tax; but as regards future years' liability, I see no reason why we should not treat everybody alike. But I can quite see that two views might be taken as to the desirability of going as far as that.

14,510. A parent who does such a thing at the present time is acting strictly in accordance with the law, and deserves, therefore, some consideration on that ground, does he not?—That may possibly be so. Of course another view may be that while he is acting strictly in accordance with the law, yet he is making deliberate use of the law to get out of payment of Super-tax. I do not say that is so in every case for a moment, but there are cases in which that is so, and we have as clear evidence as we can reasonably expect to get.

14,511. The law can only inquire into the facts, not into the motives?—That is so.

14,512. Mr. Marks: Your method B (in paragraph 31 of your paper No. 1), the one you suggest on the question of undistributed profits and avoidance of

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Super-tax, is worked out in greater detail in scheme B (see para 14,307), is it not?—Yes.

14,513. That is the same thing?—It is the same thing, but method B is a general method which we have discovered in the legislation of other countries, and scheme B is an attempt to apply that method to our own tax.

14,514. I will turn to scheme B—the final paragraph, Repayments. “If Additional Tax has been paid in respect of any profits which are subsequently distributed as income, the company to be entitled to repayment without interest of the amount of tax paid in respect of such profits.” The company to obtain repayment from the shareholders by deduction?—No; what I meant there was this. When the company makes the profits and refrains from distributing them, we get this Additional Tax from the company. Later on, when the company distributes these profits as an ordinary dividend, as income, we then get Super-tax from the recipient of that income in the ordinary way, and therefore we say to the company, “we will repay you that tax which we collected from you, because it has now been accounted for in the ordinary way by the person who is liable to Super-tax.” We do not want it twice.

14,515. But how would you determine the rate of tax which the company should pay?—In the first instance, I have put in a square bracket, leaving the rate open, but to prevent evasion entirely, the rate ought to be the maximum rate of Super-tax in force for the time being.

14,516. Would a shareholder have a right to repayment from the Revenue to the extent that he had been overtaxed through the company?—No. The company would have the right of repayment. The shareholder would have no right of repayment against us at all. The shareholder, when he got his dividend, would bring his dividend into his Super-tax return, and pay Super-tax upon it. At that point, the company would say to us, “This undistributed profit which you have taxed in our hands has now been distributed, and you will get your tax on it from the recipient of the dividend; therefore repay us the tax you collected from us in the first instance.”

14,517. But might not that tax which you have collected from the company in the first instance (of course it depends on the rate at which you impose it on the company) be more or less than the shareholder is actually called upon to pay?—It can never be less; it certainly might be more. In very many cases it would be more, because I suggested in answer to your last question that the rate might be 4s. 6d., the maximum rate of Super-tax, whereas of course there are many Super-tax payers who are not liable to pay at the maximum rate.

14,518. In paragraph 31 of your paper No. I, under method B, you say that method B, whilst promising to be much more workable and generally satisfactory from a purely Revenue point of view, has unfortunate reactions in other directions. Could you specify those reactions, or some of them, the more important?—The particular point I had in mind was the very great danger that we might have if what I will call the unlimited scheme B were in force, of our taxing a lot of company reserves which it might be held were really held up by the company from distribution for legitimate business purposes, and that we ought not to tax them. That is the reaction we had in mind.

14,519. In the paper on assessment of Income Tax on foreign and colonial dividends [paragraph 30 (3) of Paper No. V.], you suggest that the agents for the distribution of these foreign or colonial dividends, when the distribution has been made in paper, should be called on “to account for the Income Tax on the ‘paper’ by a cash payment based on a valuation of the amount of ‘paper’ distributed, with a corresponding power to the agent to recover the proper proportion of the cash payment to the Revenue from the shareholders participating in the distribution.” First of all, the circumstances which necessitate the payment in paper are generally such as to prevent the company having any cash resources out of which they could pay a cash tax?—That is so in many cases, and that is why, in numerous cases

at the present time, we adopt method (i) by agreement; that is, we take a portion of the paper.

14,520. But you prefer the second alternative, do you not; at least, I gather so?—I think not. We really have to decide according to the facts of particular cases, and we are constantly doing that at the present time, by arrangement. I have known numerous cases in which we have taken paper, and I have also known other cases in which we have accepted a valuation and taken cash.

14,521. Do you think those alternatives should be at the option of the Revenue and not of the company?—I certainly think that the Revenue should have the option, for this reason: the company would, I think, in a very large number of cases, say: “We will take option (iii); we will give you a list of the names and addresses of the shareholders, and you can fight it out with 10,000 people.” We want to get the tax at the source, if possible, where it is practicable to do so.

14,522. Yes, I can quite believe that, particularly in the circumstances which necessitate the exercise of one of these options. But it seems to me that it would be extremely difficult in any case to recover anything except paper from either the company or the shareholder?—May I just say, in answer to that, that there are quite a considerable number of cases in which we are able to do that, and do it—not a large number, but within my experience from time to time during the last four years in which I have been engaged on this particular work or have seen something of it, several cases have occurred. We have had a fairly considerable number of cases in which we have been able to make that arrangement with the companies.

14,523. The arrangement of a cash basis?—Yes. I think perhaps I ought to mention, in that connection, that some of those cases, and perhaps the type of case in which it is most easy to arrange for a settlement on that basis, are cases of a foreign Government loan. A foreign Government will sometimes, through its agent, make arrangements to pay us cash on a valuation, and it has money with which to do it.

14,524. Yes; I see there might be a very considerable distinction between a foreign Government and a foreign company?—There might. Of course, I quite admit that in some cases a foreign company may have no funds in hand, but in that case we should not expect a cash payment; we should recognize that we could not get it.

14,525. My point rather is that in the event of a difference of opinion between the Revenue and the company or its agents, there might be very considerable hardship imposed on the company by a collection in cash, if it afterwards turned out that the objections of the company to a cash payment were valid. I think it is dangerous, from the point of view of such companies as might come under this regulation, that the option should be with the Revenue, unless you are going to give some right of appeal to the company?—I was just about to say that I see no objection whatever to giving the company a right of appeal, say, to the Special Commissioners.

14,526. Mr. Synnott: With regard to these transfers, you propose to tax the income from a separate fund made by an irrevocable settlement, provided the charge is for the benefit of an unmarried infant child. That is paragraph 12 of your Paper No. III.?

—Yes.

14,527. And in the other case where it is taken by the settlor, either as to capital or income?—Yes.

14,528. Why do you confine it to the case of a child? I want to test the logic of this. Supposing a man made an irrevocable settlement in favour of his sons and daughters who were not under age, and supposing it had the effect of taking away some of his income for Income Tax purposes and for Super-tax purposes, what would you say as to that?—If a taxpayer parts with his income to his son or his daughter who is of full age and whom he is under no legal liability to maintain, I do not think we could go so far as to challenge that transaction.

14,529. Neither do I, but I want to test the merit of your first transaction. If you abandon the test of the object of defrauding the Revenue you are landed into a sea of difficulties, because the income

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is taken away from a man equally effectually in the first case as in the second?—Is there not a difference?

14,530. What is the difference?—There is the difference that in the first case if the child is a minor the parent is under legal liability to maintain that minor.

14,531. And the answer is: "yes, I have not only done that, but I have actually handed over a sum to trustees so that they can do it"?—But if he hands a sum over to trustees so that they may maintain his child whom he is under an obligation to maintain, then he gets out of an expense which other parents have to bear without obtaining any allowance for Super-tax purposes.

14,532. The Income Tax Acts already recognise that—and we are asked to extend it by an abatement for Income Tax in respect of the child?—Not within the Super-tax range.

14,533. But this applies to Income Tax as well as Super-tax?—In so far as that parent has a child and his income is below the required limit, he would get the children allowance; he would not be deprived of that children allowance. All that we ask is that where he transfers his income for the benefit of a child whom he is liable to maintain, the amount for the maintenance of the child should not be deducted from his income for Income Tax and Super-tax purposes, as it would be.

14,534. As you say, you see a difficulty. First of all, you extend this area of inquisition enormously—to every private family, and as circumstances change, the whole thing will fall. Take the children who are now minors; they will become men of age and then your settlement is good?—Yes, I think it is; I think it must be.

14,535. Then are you going to treat a settlement as bad one year and good the next?—I said it is good when the child is of age, because the liability to maintain the child has ceased.

14,536. We had it from another witness, and I confess the more I think of it the less can I see that for Income Tax purposes it has anything to do with the liability to support the child; and I suggest that you are pursuing a dangerous course and you are extending the inquisitorial powers in every direction, and this is quite beyond the point you should go. You want to upset a perfectly legitimate transaction, and you go so far as to upset cases that have been done in the past and upon which further settlements and family arrangements depend?—I think I said in answer to another member that as regards the past it might be possible to distinguish between the one and the other.

14,537. Super-tax is now payable on the gross income, that is to say, the income without the Income Tax deducted?—Yes, that is so.

14,538. If you treated it as a tax on the net it would be a very much higher rate, would it not, than the published rates?—If you taxed on the net and put up your rates of course it would come to the same thing.

14,539. But you do not think, for the purpose of showing people what the real rate is, it would be very desirable that the public should know what in fact that rate is—because it is a very much higher rate?

—May I respectfully suggest this? A man is liable at present to Income Tax at 6s. in the £, and to Super-tax at 4s. let us say, 4s., making a total of 10s. That really comes to this: that out of every pound of his income the State takes 10s. and he takes 10s. Now it seems to me that what we do, instead of saying: "your liability is 10s. in the £," is that we say to him: "your liability is 6s. in the £ plus 4s. in the £."

14,540. Yes, but it is 1s. 4s. in the £ on an income nearly one-third of which he does not receive at all; he never gets it; if it is deducted at the source he never touches it?—Precisely, but that argument would lead us to this: that we might conceivably collect our total tax, not in Income Tax and Super-tax, but in Income Tax and Super-tax and super Super-Tax. I suggest that the total rate in the pound is the thing to consider, and out of one sovereign the State is to take so much and the taxpayer is to be left with so much.

14,541. You are aware that Income Tax payers do feel it is rather a grievance that they are paying

a tax on income which in fact they never receive when it is deducted at the source?—I have heard that point made, of course.

14,542. And the published rates do not really give you the whole truth of the matter?—With great respect I should not take that view. I think the published rates really do give the whole truth of the matter. I think it is owing to a misapprehension of the position by the taxpayer.

14,543. There is another difficulty which may come in practice, which is this. Your Super-tax is based on your income of last year?—Yes, your income as liable to Income Tax for last year.

14,544. Now where the tax on a man's whole income, or nearly his whole income, is deducted at the source, usually he does not return his income at all, and there is no assessment?—No assessment to Income Tax; that is so.

14,545. Supposing he says: "But I am entitled to certain deductions; I have never had an opportunity of claiming them, because Income Tax is always deducted at the source," and he gets then a claim for Super-tax, and it is based on the assessment of last year; his assessment of last year is really only his income as represented by a number of dividend warrants?—Yes, but he is entitled to claim any deductions.

14,546. From whom can he claim them?—Would you tell me the sort of deduction you have in mind. Is it an annuity, shall we say, that he has to pay out of his income?

14,547. A claim for an expense to be allowed under Schedule E?—If there is an assessment to Income Tax under Schedule E, he would have been entitled to claim that expense from his Income Tax assessment, and if he has obtained it for Income Tax purposes we should allow it automatically for Super-Tax purposes.

14,548. I am sorry, but I think the case I put to you does arise in practice. Where the Surveyor of Taxes is approached on that very point he says: "This is a Super-tax point; you must go to the Commissioners."—I think there must be some misapprehension, because anything that that man can claim for Income Tax purposes from an assessment upon him is allowed automatically for Super-tax purposes; and I cannot quite see the sort of case to which you refer in which the Surveyor would refer him to the Commissioners.

14,549. The case, I have heard, was this sort of case—I was told about it—where the fact is that it was not worth the while of the man to do it under Schedule E.—it might have been overlooked—but it became of great importance under Super-tax?—He does not think it worth while getting off 6s. of Income Tax, apparently, but he does think it worth while saving 4s. 6d. of Super-tax. That is really what it comes to.

14,550. It could not be dealt with really, because there never was an assessment of the whole of his income. I assume a case where the man did not know he was liable to Super-tax. There never was an assessment of the whole of his income, and the question could not arise on his total assessment?—I suggest if he was carrying on any directorship of a company or something of that kind and wanted to claim some expenses against it, there would be an Income Tax assessment. If his income were wholly from dividends I cannot quite see what the expenses would be that you think he should deduct.

14,551. Sir E. Nott-Bower: I agree with you, Mr. Harrison. I think there must be some misunderstanding here about this case. If Mr. Symonds would send you particulars of the case I have no doubt you would look into it?—We should be delighted to look into it.

14,552. Mr. Symonds: It is not my own case.

14,553. Mr. Walker Clark: Do I understand you to advocate the continuation of the Super-tax as a separate or additional tax, not merging it in the general system of taxation by a graduated tax?—In principle I think we should have no objection to a merged tax, but it would require almost a revolution in the Income Tax in order to carry it out.

14,554. You mean it would require certain amendments or accounts and returns and penalties?—I meant something more than that. It would mean a

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MR. E. R. HARRISON.

[Continued.]

radical reform of the whole basis of the Income Tax. For instance, let me just give you one example. Supposing a man has £6,000 of income, £2,000 from a business in Manchester, £2,000 from Plymouth, and £2,000 from London. Now at the present moment, for Income Tax purposes, there are three separate assessments on him, one in Manchester, one at Plymouth, and one in London, each at 6s. In the £, the rate appropriate to his income as far as Income Tax is concerned. Now for Super-tax purposes somebody has got to pool those three sources of income together and combine them in one return of £6,000.

14,555. That is merely a change of administration, is it not?—Not quite, sir; I am just coming to the point. Then, having done that, he says to this taxpayer: Now you are liable on your £6,000. On the first £2,000 of that you will pay no Super-tax at all; on the next £500 you will pay 1s., on the next £500 you will pay 1s. 6d., and so on. Now if this is to be merged in the Income Tax it means that that central body, whoever it is, has got to refer to the Surveyor at Manchester and say: "We will call your £2,000 the first £2,000 of the income, so you will not charge any Super-tax at all on that."

14,556. Provided, of course, that you have three assessments, but you know that the suggestion before the Commission repeatedly has been that there should be only one?—That rather leads up to my first answer, that you have to reform the Income Tax first.

14,557. But you know it has been strongly urged upon us that there should be one demand setting out all the details of the assessment and the rates of tax, and so on, also setting out the allowances and abatements, and all the other set-offs, and made in one piece?—Even then you have not got to the end of the trouble.

14,558. No, I quite agree.—Because this person may have income from dividends which are taxed at the source and you must have a separate Super-tax assessment on that. You cannot combine that.

14,559. You advocate the continuation of the Super-tax as a separate tax on the present lines?—So long as the Income Tax remains on its present lines I think it is inevitable.

14,560. But as a general principle, when we are sitting here to make some recommendations to the Government for changes, would you advocate a graduated method which would merge the Super-tax into the ordinary system of taxation?—I am afraid it would be found to mean such a considerable trouble to the taxpayer (I am not speaking of the officials) that the balance in my judgment, would be against it.

14,561. You know that several taxpayers are suggesting that?—Yes, I do know that.

14,562. And you think it is due to their incomplete knowledge of the difficulties of the situation and some sentimental feeling rather than to an accurate knowledge of the facts?—Yes, that is my view.

14,563. And that, although the difficulties on the Revenue side would not be serious, the inconvenience to the taxpayer would be very serious?—I would not go so far as to say that the difficulties on the Revenue side would not be serious; I think they would; but I think the inconvenience to the taxpayer would certainly be very serious.

14,564. And more serious than any advantage it could possibly be to him otherwise?—Yes, I am inclined to think so with the Income Tax as it is at present.

14,565. Mr. Holland-Martin: You say as regards Super-tax in paragraph 68 of your paper No. 1: "If regard be had to revenue considerations, the extent of the gain from the taxation of bonus shares is uncertain, any figures? Have you, for the reasons given there, any figures? Have you worked it out at all?—Yes, we have worked that out. When Mr. Hopkins gave evidence before the Royal Commission, I think at the opening sitting, he was asked a question as to that. We had not at that time made any investigation; and he said: "Well, off-hand, perhaps a million pounds." As I say, we had not then made any investigation. His answer was based upon some rather defective knowledge we had of the recent past, but we have been investigating this question a good deal more since the Commission has been sitting, and

our information now goes to show that this kind of Super-tax avoidance is growing very rapidly; and if I had to state a figure now I think it should be put at something nearer four millions than one million. I think that our original figure was a good deal too low.

14,566. Then in that answer four millions, have you thought about the effect on the price of the shares in such an arrangement as you suggest? The shares presumably would change hands; a man with a large block might possibly try to realize if he thought some distribution was coming?—Precisely. Of course it may affect the value of his shares.

14,567. The holder might get out of them and the result might be that the shares would come into smaller holdings and you would lose a good deal of Super-tax in that way—that the smaller person would be able to buy at a somewhat reduced price?—Yes, that is of course conceivable, but it would need a very careful handling with a question of distributing, say, 100,000 shares amongst a lot of small people, especially if this had to be carried on simultaneously all over the country in the case of hundreds of companies. We should undoubtedly lose a certain amount of revenue by that sort of feeling, but at present we are losing it all.

14,568. Sir E. Nott-Bower: I see for Super-tax purposes you want to have more detailed returns than you have been getting hitherto?—We think that is very necessary.

14,569. You want a return showing how a particular income is derived from each separate source?—Yes.

14,570. I have no doubt that would be very valuable, and in many cases would not be at all oppressive to the taxpayer, but in some cases it might. I have in mind a case of large landed properties. The revenue of large landed property is often derived from an immense number of very small hereditaments, each hereditament separately assessed?—Yes, that is so.

14,571. It would be very burdensome to require a return from landowners of every detail, would it not?—I do not for a moment suggest that we should in every case call upon the taxpayer to furnish us with all these details. If we had power to call upon the taxpayer for details where we thought it necessary to do so, of course a discretion would be exercised as to carrying out that power. I do not for a moment suggest that we should wish every large landowner every year to give us hundreds and hundreds of properties in a list; similarly with dividends, we should not require him to do that every year.

14,572. Of course the difficulty would arise in connection with dividends too where a man had a number of small holdings; but the difficulty in connection with the dividends would be nothing compared with the difficulties of the owner of a large landed estate, would they?—I agree that is so.

14,573. Mrs. Knowles: Do you think that if the separation of husband and wife for Income Tax purposes took place you would have a lot of transference to avoid Super-tax?—I should have thought there was no doubt of that.

14,574. Has the evidence of transference to children been so great that you think it would be even larger in the case of the wife?—That is certainly an inference that I should personally draw.

14,575. You think there is quite a lot of transference to children?—Yes.

14,576. Then certainly there would be in regard to the wife?—Certainly.

14,577. There is a very real danger of that happening?—Yes, I think there is.

14,578. Mr. Walker Clark: A lot rather in amount than in number?—Certainly in amount. In dealing with Super-tax, of course, one sees the big cases.

14,579. Mr. Holland-Martin: Have you seen any instance of people who gave so much a year in charity making a trust to go on doing that each year, and therefore reducing their total income for Super-tax purposes?—No, we have not seen many of that class of case. We have, I think, had a few, but not a great number.

14,580. Chairman: Thank you for your evidence.

TWENTY-SECOND DAY,

FRIDAY, 26TH SEPTEMBER, 1919.

PRESENT:

LORD COLWYN (in the Chair).

MR. PRETYMAN.

SIR E. E. NOTT-BOWER.

MR. HOLLAND-MARTIN.

MR. ARMITAGE-SMITH.

MR. WALKER CLARK.

MR. KERLY.

MRS. KNOWLES.

MR. MCLENTOCK.

MR. MANVILLE.

MR. GEOFFREY MARKS.

MR. MAY.

PROFESSOR FIGOU.

DR. STAMP.

THE REVEREND A. G. B. ATKINSON, M.A., Rector of Greatstead by Ongar, Essex, and Secretary of the Curates' Augmentation Fund, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

TAXATION OF THE CLERGY.

The parochial Clergy.

14,581. (1) To ascertain the comparative pressure of taxation on different classes of the community is a task of difficulty owing to the large amount of the public revenues raised by indirect taxes. But that the burden falls more heavily upon the Clergy than on any other class has frequently been asserted by those whose opinion is entitled to respect. Thus, the Lord Chief Justice (Alverstone) in giving judgment in the Court of Appeal in the case of *Cooper v. Blakiston*¹ (so be alluded to more particularly hereafter), whilst expressing his regret that his duty compelled him to decide that Easter offerings were not exempt from Income Tax, said that: "He knew that the burden of taxation fell more heavily on the Clergy than on any other class of the community in proportion to their incomes," and Mr. Gladstone in 1852, citing Professor Jones² and Mr. Cornwall Lewis, concurred in their opinion that "the Clergy suffer cruelly by being rated for local taxation upon their gross incomes."³ Similar testimony could be easily multiplied. Historical considerations need not, perhaps, be pressed, but it may be pointed out that when the Convocations voted their subsidy separately the clerical grants were larger than those made by the temporality.⁴ It was this reason which induced the Clergy to abandon their right of taxing themselves separately in Convocation, and to submit to be taxed by Parliament. Writing in 1734, some seventy years after this great constitutional change, Swift⁵ remarks that "things are extremely altered at present. It is not now sufficient to tax them (the Clergy) in common with their fellow subjects, without imposing an additional tax upon them from which or from anything equivalent all their fellow subjects are exempt." And again: "The Clergy are content cheerfully to bear (as they now do) any burden in common with their fellow subjects, either for the support of His Majesty's Government or the enlargement of the trade of the nation, but think it very hard that they should be singled out to pay heavier taxes than others at a time when by the decrease of the value of their parishes they are less able to bear them." The Bill failed, but the subsequent exclusion of the Clergy from sitting in the House of Commons⁶ has always operated adversely to their interests, for it will hardly be denied that it is antecedently probable that a class which is unrepresented is likely to be overlooked.

The clergyman's "ability to pay."

14,582. (2) A recognized canon of taxation since Adam Smith⁷ is that all members of the community should be taxed in accordance with their ability to pay. The commonly accepted tests of ability to pay are: (1) net income,⁸ and (2) annual value of house in which the taxpayer resides. We would submit that in the case of the Clergy these commonly accepted tests are fallacious and lead to serious hardship. The income of a clergyman, even when the recognized deductions have been made, is subject to a number of claims which do not fall on other members of the community. The moral obligation upon him to the "maintenance of hospitality,"⁹ "the relief of poor people,"¹⁰ found expression in Tudor Statutes¹¹ and in other Acts of Parliament, as, for example, in the preamble to the Gilbert Act of 1777,¹² where "hospitality" is cited as amongst the "great objects in the original distribution of tithes and glebe for the endowment of Churches." "The old Church conditions of keeping hospitality"¹³ were noted by Burke as obtaining in his day. "It is true that the whole Church revenue is not always employed, and to every shilling, in charity; nor, perhaps, ought it; but something is generally so employed."¹⁴ And in our own day Lord Selborne has borne generous testimony to the way in which this obligation has been recognized at all times by the Clergy "ministering generously and liberally, not so much of their abundance, as of their poverty to the temporal as well as the spiritual necessities of the poor."¹⁵ Thus, as the result of a long tradition, the clergyman is expected by the national conscience to spend some part of his income in charitable gifts, in supporting religious efforts in his parish, and often in paying for assistance necessary in carrying on his parochial work. He must maintain a certain standard of living which is not required from others whose earnings are as great or greater than his own. He must educate his children at higher class schools, and enable them to maintain an appearance suitable to their position. A clergyman, and a clerk or artisan may be earning nominally the same salary, say £250 or £300 a year; but the demands made upon the one are vastly greater than those made upon the other and the net income, therefore, is a less reliable test of the clergyman's ability to pay.

The parsonage house.

14,583. (3) Mill, speaking of the house, says: "No part of a person's expenditure is a better criterion of his means, or bears, on the whole, more nearly the

¹ Adam Smith, "Wealth of Nations," Book V., Ch. 2, Part 2.
² Principles of Economics, Marshall, Vol. I., Ch. V.

³ B. Henry VIII., Cap. 13, Sec. 1.

⁴ Preamble to the Gilbert Act, 17 Geo. 3, C. 53.

⁵ Swift, "Some arguments against enlarging the Power of Bishops in letting of houses."

⁶ Burke, "Reflections on the Revolution in France," Vol. V., p. 184, Ed. 1823.

⁷ "A Defence of the Church of England against Dissent," by Russell, Earl of Selborne, pp. 116-119, Ed. 1887.

¹ "Law Times Reports," Dec. 21st, 1907, Vol. XCII., p. 533.
² "Hazard," Vol. 138, p. 1673.

³ Russell's "History of His Own Time," Vol. I., p. 276, Ed. 1734.

⁴ Swift, "Reasons against the Bill for settling the Tythe of Hemp, Flax, etc., by a Modus."

⁵ By 41 Geo. III., C. 53.

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THE REVEREND A. G. B. ATKINSON.

[Continued.]

same proportion to them."¹² This is certainly untrue so far as the Clergy are concerned. Clergymen's houses are in most cases too large to be maintained on the stipend of the living, and the Clergy are required, by statute,¹³ to reside in them, except in rare cases, whilst the burden of dilapidations imposed upon them by law is far greater than is the case with the ordinary occupier, and their letting value is less than normal owing to the fact that the incumbent cannot guarantee security of tenure. Very often the house is only maintained by the incumbent out of his private means. A large garden is usually attached to the house, and is a source of expense rather than of profit. No man in ordinary civil life earning the stipend of a clergyman would think of occupying so large a house. Yet the clergyman is taxed on the full value of the house with the deduction of one-eighth allowed for "study."¹⁴ The dentist and the doctor are allowed a sum not exceeding two-thirds in respect of that portion of their house used for professional purposes.¹⁵ The reduction should not be less in the case of the clergyman.

14,584. (4) Any consideration of the equity of taxes which ignores the persons who pay is fallacious. This point has been emphasized by Professor Marshall,¹⁶ and it has been further pointed out by Professor Nicholson¹⁷ that though the principle has been long recognized by economists it is still commonly obscured in popular controversy. We desire to emphasize this view throughout all these remarks and to urge that the important point to consider is whether particular classes of persons, not particular classes of property, are equitably taxed. It seems only fair, therefore, that the above-mentioned considerations should be taken into account in assessing the income of a clergyman for taxation, so that the burden imposed upon him may not remain, as at present, disproportionate to his actual financial position.

The tithe-owning Clergy. Assessment.

14,585. (5) We approach next the subject of the tithe-owning clergy, not unmindful of the fact that there are not wanting those who share the view of that eminent churchman Paley that "of all institutions adverse to cultivation and improvement none is so noxious as that of tithes."¹⁸ Whichever may have been the motive, the fact remains that the Government has recently interfered with the legally fixed income of the incumbents of about 7,000 benefices by arresting the upward progress of the tithe rent charge.¹⁹ These clergymen have thus been deprived of the considerable increase in the amount of their incomes, which they had every right to expect. We desire to adduce some reasons why this action may be suitably supplemented by a corresponding relief in the amount of their tax.

The widely-drawn terms of the reference to the Commission which suggest an inquiry into the Income Tax "in all its aspects" justify us in pointing out that the equity of a single tax can hardly be considered apart from the total aggregate of burdens which any particular class is called upon to bear. This seems especially the case as far as real property is concerned, under which heading the tithe rent charge is included, where although not conclusive on the assessor, in the majority of cases the basis of the valuation of the poor rate is adhered to in the assessment to Income Tax. Indeed, it would seem from certain sections of the Income Tax Act, 1918, that it is contemplated that this shall usually be the case.²¹ It thus follows that if the tithe rent charge is made

closely assessed to the poor rate than other hereditaments it will be bearing a greater burden of Imperial taxation. There is a consensus of agreement that since the passing of the Parochial Assessment Act, 1836, the tithe rent charge has been subjected to an excessive amount of rating disproportionate to the amount to which other hereditaments are assessed, and this is a particular hardship since as the tithe owner is not the occupier, except by a legal fiction, it is obscure why he should be taxed locally on the tithe at all. The principle that, so far as any rate as real property is concerned, national taxation cannot be considered entirely apart from local taxation was supported by both Mr. Goschen and Mr. Gladstone. It was admitted by Mr. Gladstone, in 1863, when he defended relief in the Succession Duty in the case of real property on the ground that real property had to bear special burdens in the shape of local taxation.²² And Mr. Goschen, in his report on local taxation in 1871, said: "Any view of the burdens imposed upon real property by local taxation is incomplete unless the case of real property as regards Imperial taxation is worked out at the same time."²³ The converse is equally true. If this view is accepted, it may be recalled that the Poor Law Commissioners, in their report on local taxation (1843), found that the under rating of real property entailed a loss of from 20 per cent. to 40 per cent. on the clerical owners of tithe rent charge, and that this involved a further loss to the Clergy in their assessment to Income Tax.²⁴ They say: "Nor indeed is the injustice confined to the local taxes. The valuation to the poor's rate is made also a criterion of the value of the real property liable to the Property and Income Tax under Schedules A and B. It is true that this valuation is not conclusive on the assessor; but it is certain that it must in the great majority of cases be adhered to in the assessments to that tax."²⁵

Again, the Royal Commission on Local Taxation reported in 1899: "We know of no other class of rate-payers whose basis of assessment results in the contribution of so large a proportion of their income towards local taxation."²⁶ The principle here advocated, that it is always the aggregate of pressure on any individual which must be considered, has been acknowledged in the case of the farmers, who have always been treated lightly in the payment of Income Tax on the ground that the land already bears an undue share of local burdens. Until recently most of them paid no Income Tax at all. The principle is eminently reasonable. There are two taxing authorities, the local and the Imperial, both dipping into the purse of the same body of taxpayers, and if any class is bearing more than its share of local taxation, it is thereby rendered less able to bear the national burdens. The Income Tax itself is part only of a system, and may be regarded as a code of taxes rather than a single tax. An ideal Income Tax is perhaps beyond the range of practical finance, for any one tax, considered by itself, will press unduly on some class.

Who'er expects a faultless tax to see

Expects what neither is, nor was, nor e'er shall be.²⁷

Such inequality will be tolerable only if compensation is made by a corresponding relief in other taxes.

14,586. (6) It is further submitted that the fact that the capital value of the tithe is less fluid than other forms of real property should be recognized in considering the burden to be imposed upon it. The owner of lands or stocks and shares, for example, if dissatisfied with the income derived from his property may transfer his wealth into other income-producing securities. This opportunity is denied to the tithe-owning Clergy who may be able to foresee a probable diminution in their future income but are

¹² Mill: "Principles of Political Economy," Book V, Ch. III, Sec. 4.

¹³ 1 & 2 Vict., C. 104.

¹⁴ Finance Act, 1918, Sec. 28.

¹⁵ Income Tax Act, 1918, "Rules applicable to Schedule D, Cases 1 & 2."

¹⁶ "Royal Commission on Local Taxation," Parliamentary Paper, C. 5028 of 1899, p. 112. Memorandum by Professor Marshall.

¹⁷ "Rural and Taxes as affecting Agriculture," by Professor J. S. Nicholson, p. 10.

¹⁸ Paley: "Moral and Political Philosophy," Ch. XI.

¹⁹ The Tithe Act, 1918, s. 9 Geo. V.

²⁰ Income Tax Act of 1918, Rule IV. of First Schedule and Fifth Schedule & s. 114.

²¹ "Gladstone, Financial Statements, 1863," pp. 44-46.

²² "Goschen, Reports and Speeches on Local Taxation," p. 35.

²³ Parliamentary Paper 426 of 1871, reprinted by Chivers, 1874, pp. 161, 165.

²⁴ Parliamentary Paper, 2nd Report of Local Taxation Commission, C. 2162 of 1899, Sec. 102.

²⁵ Pope: "Essay on Criticism," adapted by McCulloch, "Taxation and the Funding System," p. 160, 161 Ed.

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[Continued.]

unable in any way to obviate the contingency. Not only is the tithe unsaleable by the clergyman in the open market, but its capital value is tied down far more strictly than other forms of capital.

14,587. (7) As a result of the above considerations we urge that as tithe is reckoned as land for purposes of taxation,²⁷ any relief conceded to the landlord should be extended to the tithe also. It was recommended by the Royal Commission on Local Taxation²⁸ that the clerical tithe owner should be placed in an identical position with the owners of agricultural land, and we would urge that the same principle should be followed in the case of Imperial taxation. An abatement of one-eighth is allowed to the landlord, but for the reasons above given it is submitted that as the clerical tithe owner's ability to pay is less than that of the landowner, he should be allowed an abatement of one-seventh.

Easter offerings.

14,588. (8) It was for long doubtful whether these properly attracted any tax.²⁹ But in a test case, *Cooper v. Blakiston*, carried to the House of Lords, it was decided on December 10th, 1908, that the offerings were taxable.³⁰ The offerings are placed in the collection on Easter Sunday, and are supplemented by such voluntary gifts as absent members of the congregations may transmit to the churchwardens. Even under the decision of the House of Lords it does not appear that a present given for a particular purpose, say for taking a holiday, or a presentation made to an incumbent on the completion of a long tenure of office, being a payment distinguishable from a gift for the increase of his stipend, is taxable, and probably the gifts of non-parishioners towards whom the incumbent owes no duty by virtue of his office are in an exceptional position. The Clergy have always held that these offerings are personal non-official free-will gifts in excess of the "Ecclesiastical duties accustomed due them at that time to be paid"³¹ and their taxation is felt as a special grievance. The case is obviously one on the border line, and it is submitted that the principle of equity may be invoked to mitigate the rigidity of the general law, and the tax remitted. The total sum raised by these offerings during the year amounts to about £130,000,³² and the loss to the Revenue by the remission of the tax would not exceed £15,000.

Dilapidations.

14,589. (9) "Dilapidations" is the name given in the Ecclesiastical Law³³ to all waste, whether voluntary or permissive, and we may, perhaps, for convenience under this head, include the question of repairs and renewals. An obligation rests by law upon incumbents to keep the buildings annexed to their benefices in proper condition,³⁴ and this extends not only to the glebe houses, but to all farm buildings, walls and fences which may be attached to the glebe. It is not only the gradually increasing waste and inevitable decay, but also the whole cost of renewal which has to be defrayed by the incumbent when such renewal becomes necessary. The law suggests, though it does not enforce, a quinquennial survey and renewal. A glance at the Ecclesiastical Dilapidation Act of 1871,³⁵ will show how much more onerous are the conditions imposed upon the incumbent than is the case with the ordinary tenant for life to whose case that of the beneficed clergyman is analogous. The fees incidental to the survey payable to the diocesan surveyor and other officials add an additional

item to the expenses incurred for repairs, and as the lands, fences and buildings are often at a distance from the benefices, not always even in the same diocese, the cost of the inspection is enhanced.³⁶ The burden of repairs laid upon the Clergy has been for forty years a constant source of complaint in their Convocations.³⁷ The case of the leaseholder, who is frequently under stringent covenants as to repairs, is not forgotten, but it seems equitable that if the State singles out the houses of one class of the community for the imposition of particularly onerous conditions which are enforced by law, some further allowance may fairly be claimed beyond that to which the ordinary occupier is entitled. The present allowance of one-sixth³⁸ has proved totally inadequate, in ordinary cases, and it may frequently happen that a clergyman is obliged in addition to executing renewals to pay off a mortgage incurred for repairs by his predecessor. Fortunately figures are available which enable us to suggest a fairer proportion. Though an exact computation is difficult, it appears from figures compiled by the Queen Anne's Bounty Board over a number of years that benefices fall vacant on an average once every fourteen years, and that the amount spent annually by the Clergy on repairs to the glebe houses is about £25. If the present allowance of one-sixth is taken the figure given (£25) would lead to the inference that the rental value of the glebe house averages £150 per annum. Half this sum is considerably over their average annual value as assessed to Schedule A. We therefore suggest that the allowance for repairs in the case of glebe houses and buildings should be increased to one-third.

The parsonage gardens.

SCHEDULE B.

14,590. (10) This schedule is devised to meet the case of farmers, and it appears an undue stretching of the intention to impose it on the gardens attached to glebe houses. These gardens are usually large, seldom less than three acres in extent, and often as much as five acres. As already stated, they are a source of expense rather than of profit to the incumbent. The garden serves the same purpose as an allotment, namely, the provision of vegetables for the house, and allotments are not subject to tax. The garden has already been taxed under Schedule A and is sometimes subject also to land tax. In view of the increased attention now being given to agriculture the taxation and re-taxation of land will doubtless engage the attention of the Commission, though outside the scope of this memorandum. We suggest that as the garden is of the nature of an amenity rather than devoted exclusively to husbandry, no tax under Schedule B should be imposed upon it, or alternatively, that the acre which is at present allowed with the house should be extended to five acres.

Parochial helpers.

14,591. (11) As the law stands at present the clergyman is allowed to claim deduction for the salary of a licensed curate.³⁹ It is equitable that this principle should be extended so that he should be permitted similar deductions for other parochial helpers where, as in the case of the curate, it is certified by the Bishop that such help is necessary for the proper working of the parish. As an example of the hardships which the present law works, we may instance the case of an incumbent of a large London parish, who prior to the war employed a curate, whose salary he defrayed mostly out of his own pocket. For this deduction was allowed him. When the curate was called up on active service the Rector employed two women workers in his place, whose salary he also paid himself. For these no deduction was permissible, with the result that he came under a higher state of tax. The country clergyman is allowed to deduct in respect

²⁷ Within Section 3, Sub-section 10 of the Settled Land Act, 1882, 45 & 46 Vict. c. 38.

²⁸ Final Report of the Commission on Local Taxation, England and Wales, Parliamentary Paper, Cd. 638 of 1901, p. 38.

²⁹ Under the Act of 1897, 5 & 6 Vict. c. 35, Sec. 146, Schedule E, rr. 1-4.

³⁰ 1898, A.C. 104.

³¹ *Blakiston in Communion Series*. Bland, "Book of Church Law," p. 945, Ed. 1878.

³² Official Year Book of the Church of England, 1918," p. 426.

³³ Phillimore's "Ecclesiastical Law," Vol. II., Part V., Ch. V., Sec. 1.

³⁴ *Ayliffe Paragon*, p. 218. Coke 8 Inst. 204.

³⁵ 34 & 35 Vict. Ch. 48.

³⁶ Report of 1874 of the Committee of the Lower House of Canterbury Convocation on the Ecclesiastical Dilapidation Act of 1871," Sec. 10.

³⁷ *Chronicles of Canterbury Convocation series*.

³⁸ Income Tax Act, 1918, 1st Schedule, Rule V., 7.

³⁹ The Income Tax Act, 1918, 5 & 6 Vict. c. 35, Schedule A, No. IV., Rule 10.

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[Continued.]

of a horse, but to the clergyman of a large town parish a woman worker is at least as indispensable.

Collection of tax.

14,529. (12) We desire in this connection to direct attention to a hardship which the tithe-owning Clergy frequently suffer in the collection of the tax. Owing to the fact that the law does not allow proceedings for the recovery of tithe until it has been due for more than three months¹² the Clergy are frequently required to pay the tax before they have received the income in respect of which the tax is charged. We do not know of any other class of income which has this disability attached to it by law, where the Legislature encourages those who owe money not to pay it. If "benefit of Clergy" is no longer asked for, it seems fair to suggest that no disabilities should be attached exclusively to the income of a particular class. So long as the State imposes these arbitrary restrictions upon clerical incomes we think that a further reason is made out why some relief on the lines contained in this memorandum should be afforded.

Inspection of tax books.

14,530. (13) We have suggested above that the basis of the Poor Law valuation is frequently followed by the Assessors, though no doubt the assessments under Schedule A may in many cases approximate more closely to the true annual value. It is pointed out in the final Report of the Departmental Committee on Local Taxation¹³ that the Schedule A list is not prepared from an independent valuation but from the returns of the annual rent paid and from the poor rate valuation. As the Property Tax books are not open to public inspection, it is impossible to test by inquiry how far this is the case. We are of opinion that citizens have a right to know whether they pay taxes in even proportion with others¹⁴ and we suggest that the Property Tax books, Schedule A and B, shall be open to public inspection, just as the rate books are.

Machinery.

14,594. (14) A simple comprehensive statement should be sent to every clergyman setting out clearly the various allowances and adjustments. The form 33 E C is defective in this respect. Under the heading "tithe," for example, there is nothing to show whether the gross or the net amount is to be entered. The existence of the form 72, which deals with personal expenses exclusively and necessarily incurred in earning the income, is unknown to many clergymen. It is not sent to them unless asked for, and in some cases even then is refused. Thus when a clergyman benefited in Essex asked for the form, he received from the Surveyor the reply, "as all allowances including the statutory allowance for your study were duly made from the assessment on the income of the living, you do not need to claim any repayment, and it is not necessary to send you a form 72." A copy of this letter is appended:—

[Copy.]

INLAND REVENUE.
SURVEYOR OF TAXES.

SURVEYOR OF TAXES.
(Stratford 3rd Dist.).
5th May, 1919.

Deanery Road, Romford Road,
Stratford, E.

Dear Sir,

In reply to your letter of the 3rd inst., as all allowances including the statutory allowance for your study were duly made from the assessment on the income of the living, you do not need to claim any repayment, and it is not therefore necessary to send you a form No. 72.

If you desire any further information, please call here.

Yours faithfully,
(Sgd.) W. STUART.

REV. A. G. B. ATKINSON,
Greensted Rectory, Ongar.

¹² The Tithe Act, 1801, 54 & 55 Vict. C. 8, Sec. 2.

¹³ Final Report of the Departmental Committee on Local Taxation. Parliamentary Paper, C. 5, 7115 of 1914, § 319.

¹⁴ "Political Economy," A. L. Perry, 12th Ed., p. 696.

Some simple statement of the kind here recommended is specially requisite in the case of clergymen, who frequently pay more than their just due owing to the difficulty occasioned by the variety of sources from which their income may be derived, and of knowing what deductions are permissible. A clergyman may be deriving his income from any or all of the following sources:—grant from Ecclesiastical Commissioners, grant from Queen Anne's Bounty Board, from tithes, from glebe (perhaps in several parishes), grants from Clergy Sustentation Funds, from fees, Easter offerings, pew rents, from secretariats, from taking pupils, and from private sources.

The exemption limit.

14,595. (15) We support the plea which has already been widely advocated in other quarters for the raising of the present exemption limit of £130. If the decrease in the purchasing power of money renders this necessary in the case of other classes of the community, it is more so in the case of the poorer Clergy, and especially of assistant stipendiary curates, whose position requires them to maintain a modest standard of living. Prior to the war the average stipend of a curate was £150 per annum, and the exemption limit being then £100 the curate was in most cases free of tax. With this fact in mind we suggest that the limit be now raised to £200, which would have the same effect and exempt the greater number of assistant curates from the tax.

Recommendations.

14,596. (16) We beg to suggest for the consideration of the Commissioners:—

1. that the allowance for "study" be increased to a sum not exceeding two-thirds of the annual value of the house;
2. that an abatement of one-seventh be allowed on the Tithe Rent Charge;
3. that Easter offerings be free of tax;
4. that allowance for repairs be increased to one-third of the annual value of the house;
5. that the tax under Schedule B on the parsonage garden be remitted, or alternatively that the amount allowed with the house be extended to five acres;
6. that a deduction be allowed for all parochial helpers certified by the bishop to be necessary for the proper working of the parish;
7. that the Property Tax books Schedule A and B be open to inspection;
8. that a more simple explanatory form be prepared for the use of the Clergy in place of Forms 38 E C and 72;
9. that the exemption limit be raised to £200.

Postscript.

Mortgages.

14,597. Considerable hardship is frequently imposed upon incumbents by the operation of the Gilbert Act under which mortgages are raised upon benefices for the improvement of the buildings. The loans are spread over a term of years. The interest on the loan is paid yearly, together with a certain percentage of the capital. Allowance of tax is made for the interest, but not for the instalment of the capital. The instalment of capital is a compulsory capitalisation of a portion of the income for the improvement of the parsonage house and other property attached to the benefice. There is no capital of the benefice which can ordinarily be applied to the repayment, so that the instalments come of necessity out of income, and this expense is frequently incurred by an incumbent as the result of expenditure on the part of his predecessor. The incumbents of about one in every five benefices are penalized in this way. It is suggested that deduction shall be allowed on the capital repaid as well as on the interest.

[This concludes the evidence-in-chief.]

14,598. *Chairman:* We had the Bishop of Bristol here on the question of the Bishops' matter; do you come on behalf of the Board of Finance?—No, my lord, I represent the parochial Clergy, so far as I can do so.

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[Continued.]

14,599. Do you represent the whole of the Clergy? At whose instance are you here, and by whom nominated?—I was asked by his Grace the Archbishop of Canterbury to come here. He nominated me to appear before this Commission, and then I was asked to prepare this memorandum and give evidence.

14,600. Thank you. We shall commence at once examining you upon your evidence-in-chief?—If you please.

14,601. Mr. Kerly: Will you kindly turn to paragraph 16 of your paper; I will take your recommendations; I think that is the most convenient way. May I say the paper is so admirably clear that I do not need to elucidate it at all. Your first suggestion is that the allowance for study should be increased to a sum not exceeding two-thirds of the annual value of the house. What does a clergyman get now as a study allowance?—He gets one-eighth.

14,602. The amount that should be allowed, in any event, must vary very much according to the size of the house and the work he has to do, must it not?—Yes. I am suggesting that the same allowance shall be made to him as is made to other men engaged in professional duties.

14,603. How much does a doctor get?—Two-thirds, I think, does he not?

14,604. No; up to two-thirds?—That is so.

14,605. How much does a dentist get?—I think the same—up to two-thirds.

14,606. Would you be satisfied if a clergyman were allowed to satisfy the Inland Revenue that a certain part of his house, representing a certain proportion of the value, was wholly occupied for the purposes of his profession?—Yes; I think that so far as the house is concerned, I do not make any claim beyond that which all other professional men at this moment are enjoying.

14,607. Now take the next recommendation. You ask for an abatement of one-seventh on the tithe rent charge. In paragraph 7 you say: "as tithe is reckoned as land for purposes of taxation, any relief conceded to the landlord should be extended to the tithe also." Why do you ask more than the landlord gets?—Because I show throughout the paper that the ability to pay of a beneficed clergyman is not the ability to pay of an ordinary landlord; that his net income is not at his disposal in the same way as is the income of the landlord.

14,608. Then really your complaint is not specific with regard to tithe, but it is part of the general complaint that a clergyman has, from his position, to expend a large part of his income over matters which are other than his personal support?—Yes, that is the general point which I urge, but I think, so far as the tithe is concerned, the recent Tithe Act has raised a very special situation which might be fairly considered by this Commission. Because, you see, seven thousand beneficed clergymen have had any increase from that source of income arbitrarily arrested by action on the part of the Government.

14,609. They have been prevented from getting the increased income which would have come from the rise in value of the tithe?—That is so. I suggest that that is a point which a Commission of this kind may very fairly take into consideration.

14,610. On the comparison between the landlord and the tithe owner, the landlord gets his one-eighth on account of repairs which are supposed to fall upon him; the tithe owner has no repairs to pay?—That is so, excepting the upkeep of his chancel. He has certain repairs, certainly, which are a burden upon the tithe. The upkeep of the chancel is a burden on the tithe, if he is a rector.

14,611. If he is a rector?—Yes.

14,612. He may get the small tithes?—The rector gets the great tithes, and the rector has to keep up the chancel, whether he is a layman or a clergyman. That is, I believe, allowed at present, he can claim at present for anything expended on the chancel.

14,613. Then that would be allowed to the rector?—It is allowed to the rector.

14,614. Then, I do not appreciate why you want further allowance on that account?—No, I do not ask for further allowance on that particular account. But you stated that there was no burden of upkeep

imposed upon the tithe, and I say that is not accurate.

14,615. You have now drawn my attention to the fact that there is a particular burden on certain tithe owners, and that an allowance is made for that?—Yes.

14,616. That does not seem to be a reason for making a further allowance, or an allowance, to other tithe owners?—Not on that particular head, but, of course, the reason why I ask for the abatement of one-seventh is because I recognise that there is not an exact analogy between the landlord and the tithe owner; otherwise, I should have asked for the one-eighth which is allowed to the landlord.

14,617. One-seventh is more than one-eighth?—Yes; I am asking for more, because I say there is no exact analogy between the landlord and the tithe owner.

14,618. Then we will leave out all reference to the landowner. The only reason you have suggested so far why the clerical tithe owner should have a special allowance, is because recently the increment in the value of his tithe has been stopped?—That is one reason, but if you read paragraphs 5, 6 and 7 you will see that is not the only reason. I suggest that as the tithe rent charge is already more heavily assessed to local taxation, and that local taxation cannot be altogether considered apart from Imperial taxation, that is a further reason. That is set out in these paragraphs.

14,619. Would not the appropriate course be, if the tithe is over-rated, as I gather you suggest, that that should be altered, and not a special exemption be made in regard to Income Tax?—We are taking some steps in that direction; but I direct attention to the analogy of the farmer, because in the case of the farmers, that precise thing has been done; they have always been exempted from paying Income Tax; formerly they paid no Income Tax at all; and the reason that they were put in that favoured situation was because they were overtaxed locally, or thought to be severely overtaxed locally. Now, I say that the tithe is very much more closely assessed locally than the farmers are.

14,620. I do not think we shall get very much assistance in going into the anomalous case of farmers being specially dealt with; about that we have had separate evidence. Now, will you let me take the next point: "that Easter offerings be free of tax." Easter offerings are a regular part of a clergyman's income, are they not?—I do not quite know what you mean by "regular," but some do not get any.

14,621. It is only those who get them who have to pay tax?—Yes, that is so.

14,622. Let us deal with the case of a clergyman who is fortunate enough to get Easter offerings. They are a regular part of his income, are they not?—No, I do not think so. An Easter offering may be given by a non-parishioner, to whom the incumbent owes no parochial duties.

14,623. You will agree that they are voluntary contributions towards the clergyman's income?—I will agree that they are voluntary contributions given as a personal testimonial or free-will offering to the incumbent.

14,624. Chairman: Is that in any way different from what Mr. Kerly put to you?—Yes, I think so.

14,625. Mr. Kerly: How would you contrast them with the free-will offerings which are the sole support of most nonconformist ministers?—I do not know that I know sufficient about the position of nonconformist ministers to be able at once to draw a parallel, but I think nonconformist ministers have considerable endowments.

14,626. I should have thought it was common knowledge that that is comparatively rare; however, it may be so. Take the case of a nonconformist minister whose income is provided solely by the voluntary contributions of his congregation, and in some cases, quite a large income?—Yes.

14,627. Would you suggest that he should pay no Income Tax?—I should like to say that there is a certain class of such gentlemen who do pay no Income Tax.

14,628. There may be?—There are Roman Catholic priests in Ireland who get these offerings, and my attention has been directed to it, and I wish to direct

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[Continued.]

the attention of this Commission to it, that these Roman Catholic priests in Ireland, who get very large offerings and gifts and fees, it is alleged, pay no Income Tax upon them.

14,629. If that is so, is it not because the gift goes to the Church, and not to the individual?—Oh, no, I think not; not at all. It goes directly into the pocket of the Roman Catholic priest; and what I would suggest that this Commission might do would be to inquire as to what the returns are in Ireland.

14,630. So far as I, at any rate, have any knowledge of it, I only know that the evidence, in the case I think you are referring to, was that all the gifts went to the Church, and that the particular priest had no interest in them whatever?—I do not think that is at all in accordance with the facts, but I am only suggesting that the Commission might ask for a return of the Income Tax paid by Roman Catholic priests in Ireland, on the offerings which they get, covering a period of one year; because it seems an anomaly that one class of ministers are to pay no tax upon offerings which they get daily, and that another class of ministers, who only get these offerings once a year, should be taxed upon them.

14,631. I suppose you agree that if any exception is made, it must be of a general character: shall we say first, all ministers of religion shall pay no Income Tax in respect of such part of their income as is a voluntary contribution? You must put it as widely as that, must you not?—I would rather say that every gift of that nature should be regarded as a personal testimonial, a personal gift to themselves, unless the contrary is proved.

14,632. If it is a personal gift, if it is income, it still has to pay tax; so you would have to go further than that?—No, excuse me; I do not think that is the law.

14,633. Then I must be mistaken; part of the regular income?—But a personal gift is not a part of the regular income.

14,634. Pardon me, it may be; it altogether depends upon whether it occurs regularly, or whether it is merely casual and occasional?—That is germane, no doubt.

14,635. It is the only relevant matter, is it not?—The distinction is whether it accrues to the clergyman as the holder of an office. If it accrues to him as the holder of an office it is taxable, but if it does not accrue to him as the holder of an office, but is merely a personal gift to himself, it is not taxable.

14,636. That takes me back to my illustration of the nonconformist minister?—My suggestion would be that all these gifts of this nature should be regarded as personal to the minister himself, unless the contrary is demonstrated.

14,637. Then we have now got the proposition I put to you; general exemption of such part of a man's income as comes from voluntary gifts. Some doctors get a substantial part of their professional income by gifts from patients. Would you suggest that they also should be exempted?—I do not think a doctor holds a position at all analogous to that of a beneficed clergyman. The one is the holder of a public office, and the other is not.

14,638. Are you proposing that we should deal specially with beneficed clergymen?—On this question of Easter offerings, I suppose it would almost be restricted to beneficed clergymen.

14,639. Pardon me if I do not express myself accurately, but take the case of a clergyman in charge of a mission church, who receives a substantial part of his income from seasonal gifts; would you exempt those?—Yes, I do not think he ought to pay on those.

14,640. Then you propose to go beyond beneficed clergymen?—Yes; in that case I should.

14,641. Now at No. 4 in paragraph 16 you ask "that allowance for repairs be increased to one-third of the annual value of the house?" Do you suggest that more than the actual expenditure should be allowed?—I imagine that there would be such difficulty in settling all those things separately in each case, that I should prefer a general percentage such as that, which would cover the whole thing and save a great deal of trouble.

14,642. Have you any statistics to show us that the actual average expenditure on a clergyman's house

exceeds the normal one-sixth allowance?—I think I have mentioned that in the report. I have given the figures of the Queen Anne's Bounty Board, in paragraph 9. I show you there that the average expenditure as calculated by the Queen Anne's Bounty Board is £25 per annum. That was prior to the war, of course.

14,643. Is that on houses?—Yes.

14,644. You say £25 per house, but what is the average value of the houses?—On that I make this little suggestion. I say that at any rate the one-sixth would bring it up to £150, and I say that is certainly twice the average value of the house as assessed for Schedule A.

14,645. Then it would meet your complaint under that head, if the actual average cost of repairs were allowed, provided it were proved to the satisfaction of the authorities?—Yes, I should certainly accept that.

14,646. I quite appreciate your general suggestion, that many of the beneficed clergy are over-housed. Now recommendation No. 5: "that the tax under Schedule B on the parsonage garden be remitted." You suggest, I think, as an alternative—or perhaps it was one of the other witnesses—that the garden should be treated on the actual profit obtained under Schedule D?—That is not an alternative which I have suggested, but I believe it has been put in the memorandum of the Central Finance Board.

14,647. Thank you; that is where it is, then?—I am in favour of the abolition of Schedule B altogether. I do not see why Schedule B should exist at all, because it allows a number of persons to escape paying tax who are well able to do so.

14,648. If the garden is used wholly or in part as a pleasure garden, as lawns, flower beds, and so on—I suppose that sometimes happens?—Quite so.

14,649. Is there any reason why it should escape the tax which would normally fall upon it?—Excepting that the incumbent is compulsorily resident in it; he has not the same power of letting it, and therefore the net annual value is not the same as of a house that a man may let as long as he chooses. The lettable value of a rectory-house is very much less, because you can give no security of tenure; you cannot bind your successor in any way.

14,650. That would affect its assessment?—Yes, it should affect its assessment, but I do not think it does. It does not affect the assessment of the garden, anyway; no allowance is made for it.

14,651. The garden, of course, is assessed, not as farm land, but it is assessed upon its single value?—Yes, that is so; it has been already assessed under Schedule A.

14,652. That is where it is assessed as part of the house; it is not assessed again separately?—It pays two assessments. On Schedule A it is taxed, and then it pays again on Schedule B.

14,653. Do you mean that the garden is assessed as part of the house under Schedule A, and the same land is again assessed under Schedule B?—I imagine that is so.

14,654. I do not; I may be quite wrong?—I should like, if I may, just to get your point.

14,655. Are you actually suggesting that the same land is taxed twice?—Yes, certainly.

14,656. That seems to be a matter that should be inquired into?—But plenty of land is assessed twice, is it not—if there is an owner and an occupier?

14,657. Sir E. Nott-Bower: One is for the landlord's profit, and one is for the occupier's profit.

14,658. Mr. Kerly: I beg your pardon; I did not follow that: assessed for the landlord's profit and for the occupier's profit?—Yes, quite so.

14,659. I am not sufficiently familiar with it to deal with that; I must leave that to other members of the Commission. You ask for deduction for parochial helpers. Is the clergyman compelled to employ this help?—He may be compelled by the Bishop to employ a curate, under certain conditions, and that is the reason, no doubt, why the curate's stipend is allowed. He cannot be compelled by the Bishop to employ lady helpers, but, of course, lately this employment of lady

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helpers has extended very much, as you probably know, and a great many more have been employed; some of them even are employed to preach, I believe.

14,660. Your suggestion as to that is that where the clergyman is obliged, in order to do his work properly, to have additional help, which he pays for out of his stipend, an allowance ought to be made, on the analogy of the necessary expenses of earning the income?—Yes, I think that is fair.

14,661. I think so, too. Then in recommendation No. 7 you ask: "that the Property Tax books Schedule A and B be open to inspection." Are they not open now?—Inspection is refused by the Commissioners. As far as I know, there is nothing in law to prevent a taxpayer inspecting them, but the Commissioners refuse permission.

14,662. I understand that they can be seen and examined?—I think not.

14,663. That seems to be a matter for official regulation?—I do not quite agree that the officials should settle a matter of that importance. All this secrecy which wraps around the working of these things, I think, ought to be abolished, and I think every taxpayer should have the right of seeing that his neighbour is paying his proper share towards taxation.

14,664. The rate books are available, are they not?

—The rate books are, and therefore I say it is absurd that the Property Tax books should not be open.

14,665. Do not the rate books show the assessment values?—May I ask that you would kindly read my paragraphs 5, 6 and 7, because they deal entirely with that. My whole point is that the land is under-assessed. The rate book shows assessments which the farmers sitting round their own table, assessing their own farms, made. I want to know what an impartial authority, a Surveyor of Taxes, has valued those same farms at, and I cannot find out, because permission to inspect the books is refused.

14,666. Mr. McLintock: The assessment of a farmer is on the rent that he pays to the landlord, and no inspection of books would make it any different, and his Schedule B, of course, is twice the rest?—You are talking about the assessment to the parochial rates, on his rent.

14,667. The rent is not conclusive in point of law, but when the farmer is the owner and occupier as well, he has fixed an artificial rent himself; no rent is paid. It is rent which he has fixed himself really, an artificial rent, an estimated rent, a rent which he, being the person who has fixed it, has fixed very low.

14,668. Mr. Kerly: It seems entirely new to me that anybody being owner and occupier, as you say, is able to fix the rent on which he can be assessed. It is an entirely new suggestion?—The local assessment committee fixes the rateable value; that rateable value is, as a rule, fixed upon the rent, the rent is taken as the basis. The rent is not conclusive. Landlords have not been raising their rents very much, but the value of land has been going up very much, as you see when it comes into the market. I am speaking of the cases where the owner is also the occupier of the farm.

14,669. Where there is no rent?—There is no rent; the rental value is estimated, and it is estimated, by the farmers sitting round their table, very low.

14,670. Chairman: Do they assess the farm of a farmer who owns the land at less than other farms?—They generally assess all the land very much under its value.

14,671. Your point is that the whole assessment is under?—As far as the land is concerned, but the titles are assessed right up to the gross; that is one of the reasons why I ask for special consideration for title.

14,672. Mr. Kerly: I think we appreciate the rating point. Your next point is that a more simple explanatory form should be prepared. Your paragraph 14 goes to show that many of the Clergy do not understand how certain matters really affect them, and that some of the Surveyors are equally ignorant. Have you not connected with the Church a great many capable bodies and gentlemen who are well able

to inform their colleagues and friends? Why do you not do this very thing for yourselves?—I quite agree; but do you not think that that should have been put to the Bishop yesterday? Because I am not the person who manages these bodies.

14,673. You are the only witness I have to deal with at the moment.—Would there be any difficulty in preparing, perhaps in conjunction with the Ecclesiastical Commissioners, some simple statement thus there is at present? It is a small point, but it is important to the Clergy, because I get letters—I am crowded with letters—asking advice on all kinds of points. I do not set up to be a legal adviser to the Clergy.

14,674. It is very desirable that information in the simplest possible form should be widely disseminated?—Thank you. I think that is all I have asked for.

14,675. Now go to the postscript, headed "Mortgages." You complain that where money has been raised on loan and the loan has to be repaid over a period of years you in fact pay Income Tax on capital?—Yes.

14,676. That is common to everybody who is replacing capital or making savings?—I think I had not quite taken that point; I think I have now. You see, there is no capital in the beneficence; the payment has to come out of income. I follow the analogy which you have drawn, but there is a little difference. The repayment of the capital has to come out of income, because there is no capital attached to the benefits which can be used for the purpose.

14,677. But the structure itself is the capital?—But that simply brings me back to the point that the clergyman for the moment is not the owner of all those things. He is not in the position of the freeholder owner of all those things which you are taxing as though he was. He is merely the trustee of a charitable corporation.

14,678. His position is exactly the same as that, for instance, of ratepayers for the moment who are paying off loans, who are taxed on corporate property. It is strictly analogous, is it not?—I do not know that I can answer that for the moment.

14,679. Are you concerned at all with the case of the Bishops?—I think you have examined the Bishop of Bristol.

14,680. Very well, then I will not worry you about that.—Thank you.

14,681. Mr. McLintock: There is only one point, on this question of repairs. You state that the £25 repairs at one-sixth would be equivalent to an annual value of £150, and you say that half this sum is considerably over the average annual value of the houses?—I think so.

14,682. Would about £52 be a fair annual value taking them all over?—Yes, I should think it would be. Mine is a small house. I only pay £40 myself, but I think £52 would be a fair average.

14,683. Have you overlooked the provision that is in the last Finance Act?—No, I have looked at that. Do you mean the 1919 or the 1918 Act?

14,684. The 1919 Act.—I know there is one; you mean it is treated as earned income.

14,685. Do you know that if the owner of any house not exceeding a certain value shows that the cost to him of maintenance, repairs, insurance and management, according to the average of the preceding five years, has exceeded the one-sixth allowance, he can make a claim and can get repayment on the amount of the excess?—No, I have not seen that.

14,686. That is on the average of the previous five years, if your repairs exceed one-sixth and the annual rate of the house is £52 per annum or less you will get your actual expenses allowed?—That is not only agricultural, is it?

14,687. No. The rule reads that the houses to which Rule 8 of No. V in Schedule A (which confers relief) applies, shall be any house the annual value of which under Schedule A does not exceed £70 in London, £60 in Scotland and £52 elsewhere. Does not that meet most of your cases?—It does. That was put in the Finance Act this year only.

14,688. But it gives relief on this particular point?—Yes, it does.

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14,689. Professor Pigou: In paragraph 2 you make a claim on the ground that the Clergy have a moral obligation to maintain hospitality and relief of the poor, and so on. Is it possible to distinguish the Clergy in that from other people? Would you make a distinction?—I do not think that the distinction is a legal one, but I think that the clergyman can hardly slam his door in the face of a poor person, as the layman does, or can do.

14,690. But how would you make a distinction in the rule about his Income Tax?—We are considering the persons who are taxed, not the property owner that is taxed, and if you regard the person who is paying, on whom the burden is falling, I think you may assume that that person on this ground is entitled to some consideration.

14,691. Would you let off Mr. Carnegie on similar grounds?—No, Mr. Carnegie did not hold, I think, any office of public employment within the sense of the statutes, therefore he had no such moral obligation upon him as is imposed upon me.

14,692. Then a person who has a moral obligation to do it is to be let off and the person who does it without a moral obligation is not. Is that the position?—If I may say so, I do not think that is very much to the point. The whole point of my paragraph is that owing to this position in which the incumbent or the clergyman is placed there is an obligation upon him which is generally expected, as the result of a long tradition, which is not expected of other people. That is the whole point.

14,693. In the same way you say he must educate his children at higher class schools. Is it possible to distinguish there the clergyman from a doctor or an officer in the Army?—No, but I think that a clergyman is very much more taxed than a doctor or an officer in the Army. An officer in the Army pays only a 9d. tax.

14,694. The particular argument here is that the clergyman has to educate his children at a higher class school. Are you going to apply that argument only in regard to clergymen or in regard to all other classes?—Of course it applies to certain other classes, but the capital expended in the education of a clergyman is perhaps rather more than the capital expenditure in other professions. I do not wish to draw invidious distinctions at all.

14,695. My difficulty is that so many of these arguments for special exemption of clergymen must logically be extended to other classes, and then the amount of money that the Revenue would lose would be enormous?—Yes, I see the point. But ought they to be logically extended if the State has put the clergyman in one position and has not put the doctor or dentist in that position? Why should you logically extend it if the position in which the two men are placed by the State, as a result of national history, is not the same?

14,696. Then you distinguish between a clergyman of the Church of England and a clergyman of other denominations?—Certainly. The positions are in no way analogous.

14,697. It would be rather an unpopular proceeding to distinguish, for Income Tax, between the Clergy of the Church of England and the Clergy of other denominations?—I do not know why it should be. I think the Clergy of other denominations say they do not want State privileges. State disabilities may properly be accompanied by State privileges.

14,698. In regard to the parsonage garden, is the intention of paragraph 10, that this special treatment should apply only to clergymen's gardens or to everybody's gardens?—I think I have said I am in favour of the abolition of Schedule B altogether.

14,699. Then it would not be a special privilege to the clergyman?—No, it would not. I do not put in my evidence that I am in favour of the abolition of Schedule B altogether, because that is going outside my scope. You do not want me to give evidence about farmers.

14,700. Then with regard to these mortgages, is that also to be general or is it to be special to the Clergy?—I think it is a special case arising from the conditions which the State has chosen to place upon parsonage houses. The State has selected the houses of a

certain class of citizens for exceptional treatment, and as long as it has done that by Statute I say that there is also a ground for exceptional treatment with reference to their tax.

14,701. Then this is specially personal to clergymen?—Yes, it is personal to the Clergy.

14,702. You have not considered whether these grievances could be more fully met in some other way than by Income Tax? I mean by alterations in the Statute, for instance?—I have considered that, but then my point is that the State should recognise fairly what the State has done. It is not for me to go to the laity begging for increase of my income when it is the State which has put me in this exceptional position.

14,703. Supposing that these special privileges that you ask for are confined to the Clergy, have you any estimate of what the cost to the Revenue would be?—The Inland Revenue returns do not enable me to do that. I have only been able to estimate it under the Easter offerings point. In paragraph 8 I have given the figures.

14,704. That is quite small, is it not?—It is quite small; but, as far as I can make out, the Inland Revenue returns do not enable me to estimate the other.

14,705. Mr. Armitage-Smith: It has been suggested to you that the Easter offerings made to the Clergy are a regular source of income?—Yes.

14,706. Apart from the fact that Easter occurs at approximately regular intervals, is there any other regularity about these offerings—in amount, for instance?—No; they, of course, vary according to the popularity, if I may use the word, of the incumbent. If he is liked by his people he gets a largely increased amount, and, of course, another one might not get so much.

14,707. Is it not the fact that, at any rate in large London churches, a considerable proportion of the population attending is non-parochial and floating?—That is so in London, certainly. The parochial system tends to break down in London.

14,708. Therefore no prudent clergyman would budget in his annual accounts for any regular amount of income from this source?—No, of course he would not, because he could not say whether he would be as well liked as his predecessor.

14,709. And from year to year the amount would be variable?—Very variable.

14,710. Is there any legal means, I do not say of evading, but of avoiding this tax? For instance, if the Easter offerings were devoted to a specific purpose for the benefit of the clergyman would they still attract tax?—No. In the case of Cooper v. Blakiston all those things have been argued out, but if it was given for a specific purpose, as for taking a holiday, for example, that would not attract tax.

14,711. Therefore if the persons who attend the parish church were invited to subscribe to one or other of certain specified purposes in their Easter offerings the law would cease to impose taxation on those offerings?—That is a very nice legal point, but I am inclined to think that it would be as you say.

14,712. Have the Clergy considered the propriety or desirability of adopting that procedure?—I do not think so. Evasion would be distasteful to the Clergy.

14,713. Mr. May: Would not his financial loss be greater in that way?—It would be a distasteful thing to do, I think. You see, the rubric of the Prayer Book is what proscribes or suggests that there should be offerings, and I do not think the Clergy wish to go behind it.

14,714. Mr. Armitage-Smith: Then I understand the present position is that a clergyman can only get relief in respect of expenditure on parochial helpers when he is compelled by his Bishop to employ one particular kind of assistance, namely, that of a curate?—That is so.

14,715. Therefore the more zealous the priest the more heavily he is penalized?—That is so. I give an example here of a London clergyman who employed two ladies to help during the war, and that brought him on to a higher scale of tax.

14,716. The more zealous he is in performing a public function the more tax he has to pay?—Certainly, on this particular point it would be so.

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14,717. If you will turn to paragraph 16, the excellent summary of your recommendations, it occurs to me that those recommendations are not all of equal importance in the interests of the Church. Does the order in which you have scheduled them indicate your view of their importance?—No; no importance must be attached to the order, if you please.

14,718. Am I right in inferring from your evidence that the points to which you attach the greatest importance are those under No. 3, No. 4 and No. 1? I am referring to the list in paragraph 16 of your evidence-in-chief?—No, not quite. I should attach the greatest importance to No. 2.

14,719. I will include that; that is four?—No. 2, No. 4, No. 6 and No. 1; yes, I think that would be so, if you more specially put in No. 2. I attach the greatest importance to No. 2. The tithes have been specially dealt with by the last Act, and I think that should be taken into consideration.

14,720. I omitted that because I, for my part, do not yet fully understand the law. There seems to be some obscurity on that point. Would you be satisfied if your recommendation No. 1 were amended so that the words "not exceeding," which, I think, are ambiguous, read "up to"; in other words, if you had the same treatment as other professional men?—Yes, quite so. The words "not exceeding," I think, are very frequent in the Statutes; probably that is the reason they have crept into my statement.

14,721. Would you be satisfied if No. 4, allowance for repairs, were based upon the actual expenditure, subject to a limit not exceeding one-third?—Yes, I would be quite satisfied with that.

14,722. Mr. Marks: I have seen somewhere, recently, that the value of tithes—I do not know whether I am putting it technically correctly—before the war was 264 lbs. per acre, and that it gradually crept up with the price of corn, and was arrested by the Finance Act, or by some Act of 1918, at £109 3s. 10d., was it?—£109 3s. 11d.; that is quite correct.

14,723. Therefore by Statute the upward movement has, as you say, been arrested?—Yes.

14,724. Is that a fixed figure, or can it be varied downwards still?—It is a fixed figure till the year 1926.

14,725. And then might it vary either upwards or downwards, or only downwards?—Then the law of averages will operate again. It is a fifteen years' average. It is fixed till 1926.

14,726. Whatever the price of wheat might be, it will be fixed accordingly after 1926, on the average of fifteen years?—Yes, that is so.

14,727. On this question of Easter offerings, or perhaps the larger question of voluntary contributions, reading from Dowell's text-book, I see this: "Portions of the collections taken in church on certain Sundays were paid to the incumbent. The payments were made to him as incumbent, but would not have been made unless he had been poor:—Held, that he was not assessable to Income Tax in respect of the amount so received." The reference is *Turton v. Cooper*. I suppose you find some difficulty in your mind in distinguishing between the whole of a collection taken on a particular Sunday, paid to a clergyman because he is poor, and a portion of a collection taken on certain Sundays and paid to him as an incumbent because he is poor; or do you find no difficulty in distinguishing between those two cases?—I do not think that I find much difficulty myself, in distinguishing them. The stipends of some incumbents are paid by part of the collections taken up, regularly.

14,728. You mean that it might be quite right for those clergymen who take portions of the collection on certain Sundays, to escape tax, but not right for other clergymen who take the whole of the offerings on a particular Sunday?—No; if I follow you, I do not think that quite puts what I should say. I should say that if a clergyman takes part of the collections every Sunday as a habitual practice, that is clearly a part of his income and he should pay; but if he has a free will offering once a year, I do not think that is the same.

14,729. That is at variance with the view taken by the judges, because although this clergyman did not get part of the collection on every Sunday, he got part of the collection on every Sunday, he got held to be not assessable to Income Tax in respect of that?—But has not the case of *Cooper v. Blakiston* modified that?

14,730. I do not think you get my point. I am not going to press the case of *Cooper v. Blakiston*. Of course, it depended solely on the views which the House of Lords took of voluntary Easter offerings. That establishes the law in regard to Easter offerings. There is this other case of *Turton v. Cooper*, in which it was held, as I have already read, that portions of collections taken on certain Sundays and payable to the incumbent, although payable to him as incumbent, were not liable to tax?—I do not understand how that was, but I am glad to be reminded of the case.

14,731. I will not press the point. It seems to me very difficult to reconcile those decisions?—It is. I am much obliged to you; I will look that case up.

14,732. Mr. Walker Clark: With regard to your paragraph 2, are not these contributions many of them sentimental and optional in the same way that a mayor of a town or a prominent public man is expected to contribute?—I think the mayor of a town generally gets an allowance for doing that sort of thing, does he not, from the corporation?

14,733. Are they not sentimental or optional to a large extent?—I admit that they are not legal, of course.

14,734. Not compulsory?—Not compulsory; I admit that, of course.

14,735. You have used the phrase more than once that the State puts the clergymen in that position; is it not the fact that the clergymen accept voluntarily the position?—One particular clergyman accepts a particular position voluntarily, but the State has regulated the whole of the clergymen in the particular positions that they occupy.

14,736. Just the same as the State has regulated the positions of the postmasters and all the public officials under the State?—Quite so.

14,737. And therefore the same claims which are made by you would hold good for every other State official?—I should like to think over that a bit. Do postmasters pay any taxes at all on their official residences?

14,738. I should wonder very much if they did not?—Well, that is a question of fact. I doubt it.

14,739. Passing now to paragraph 3, the parsonage house and allowance of one-eighth, is it not a fact that there is a great difference between the occupation of a dentist and doctor and a clergyman in this sense, that the dentist and doctor use their surgeries directly and solely for business purposes or professional purposes; the public have absolute access at pretty well all hours of the day?—Well, yes. You mean to say he uses it more specially for his profession than the clergyman does his study?

14,740. I did not put that word; I said used by the public?—I think the clergyman's door is quite as freely open to the public as the dentist's or the doctor's.

14,741. Yes, the door is; but I am speaking of the use of the rooms?—Well, it is a very fine point.

14,742. You have drawn a distinct parallel between the dentist and the doctor and the clergyman?—Yes, as far as the deductions are concerned.

14,743. They are satisfied with the one-eighth?—Who—the doctor and the dentist?

14,744. With the two-thirds?—Yes. We only got one-eighth.

14,745. You think they are parallel?—Yes.

14,746. I am suggesting to you that there is no parallel between the two cases; they are totally dissimilar?—May I say that the parallel I draw is that drawn by the Statute of last year, because the clergyman's house, which prior to that was not allowed this deduction at all, is now to have a deduction made; and I think the deduction should be the same as made in the case of other professional classes.

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[Continued.]

14,747. Provided there is the same user?—Just so.
14,748. But is there the same user? I suggest to you that there is not? One other point, and a very small one, with respect to the parsonage garden. The garden has already been taxed under Schedule A, and is sometimes subject to Land Tax. Is it not the fact that the redemption of the Land Tax is the cause of not being subject to Land Tax? All land is subject to Land Tax?—Unless it has been redeemed.

14,749. And there is no grievance there?—Oh, the Land Tax is of course a burden which really does not come in; it is only incidentally mentioned here, and I will not press that.

14,750. One other point, and that is with reference to parochial helpers. Is there not a very wide door suggested here? "other parochial helpers." Would the church organist come in, and many others?—Well, if the incumbent had paid a helper out of his own pocket for the efficient carrying out of the work of the church, even if he is the organist—of course, it is very unusual to pay an organist out of his own pocket—I do not see why he should not be allowed it as part of the costs.

14,751. In paragraph 13 you say: "We have suggested above that the basis of the Poor Law valuation is frequently followed by the Assessors." I suppose you mean there by the Commissioners?—Well, the Commissioners might revise the Assessor's estimate, but the Assessor is the first man to make the valuation.

14,752. Yes. Do you suggest that that valuation is definitely fixed and accepted by the Commissioners without due inquiry?—I quote the Departmental Committee myself that they are not prepared from any independent valuation.

14,753. That Departmental Committee is on local taxation; I gave evidence before it myself?—Yes.

14,754. It has nothing to do with Imperial taxation?—I suggest in my paragraph that the point is very important, because if the Surveyor of Taxes or the Assessor of taxes follows the Poor Rate assessment, and that Poor Rate assessment is much under its value, there is also a loss.

14,755. I quite follow that. My point is, do you suggest seriously that there is no inquiry made by the Surveyor or the Assessor into the valuation—that is, into the appropriateness of the valuation?—No, I do not suggest that they do not make any at all, but I think on the whole they accept the basis of the Poor Law valuation.

14,756. That is one of the factors, undoubtedly, but still, have you ever known a case where a Surveyor has accepted a grossly unfair local assessment for Imperial purposes?—I say that as I have not been able to inspect the Property Tax books, I cannot answer that question with the explicitness which I should desire.

14,757. I am asking you if you have ever heard of a distinct case?—No, because I cannot get to the Property Tax book to compare the two.

14,758. Mr. Walker Clerk: May I suggest that very careful and full inquiry is in fact made, and that no such inequitable cases are allowed to slip through?

14,759. Mrs. Knowles: Have you got any suggestions as to how many clergymen do pay Income Tax? because it seems to me that with the wife and children allowances very few would come into the Income Tax paying ranks?—No, I have not any statistics as to the exact number that pay the tax; but I think that all benefited clergymen pay Income Tax. They must do from the very nature of the case, as they are the owners of real property, and there are of those 14,600.

14,760. But with the wife and children allowances, even if they were benefited clergy, they would get it back if they were below the limit?—I think it is very difficult for him to get back the Schedule A on the house. I never heard of anyone being able to do it. I admit, of course, as to the other points, what you say.

14,761. Is it the fact that many clergymen make a large income out of the house by letting it in the summer months?—Only in fashionable seaside places, occasionally, for a few months.

14,762. In the Lake District?—In a few fashionable resorts like that they do, for a few months.

14,763. Would not that set off a good deal against the exemption you are claiming for the house?—No, I really think the point is quite negligible as to letting the house for a month or two in the summer, because it is quite an exceptional income.

14,764. Then so many clergymen take in backward boys, and so on, and teach them, which they could not do if they had not a large house?—If he does that he has to pay Income Tax. I am not asking for any exemption for a man on that account. If he makes additional earning, of course, it is fair for him to pay.

14,765. You have spoken of the exceptional burden on the parish priest, because the poor naturally go to him for relief?—Yes, I put that.

14,766. It seems to me that I have contributed for many Sundays to the sick poor and parish expenses. Has he not got that fund to draw upon? It seems to me that I contribute every Sunday to it, but I am not sure?—I am afraid the number of parishioners who contribute regularly every Sunday to anything is extremely small.

14,767. But does he not have a considerable fund behind him to satisfy those charities?—It is helping in the direction, yes; it is fair to say that.

14,768. There is nothing incumbent upon him to give in charity beyond that of an ordinary person like myself, but he has got this fund at his back; everybody has to give in charity, or ought to?—I think we have already dealt with that point. Little points, of course, I do not wish to press, but as you put that point I simply say that in the Statutes of the Realm from the Tudor Statutes downwards, that obligation is recognized as attaching to a certain class of individuals; there is not that same recognition in the case of any other individuals.

14,769. But he meets that obligation by collecting from the congregation under the head of sick poor and parish expenses?—Yes.

14,770. Therefore he is relieved of it; that is my point?—I acknowledge your point. I must give you that point, certainly.

14,771. Sir E. Nott-Bower: I want to ask a question on No. 2 of your recommendations, that an abatement of one-seventh be allowed on the tithe rent charge?—Yes.

14,772. Do you suggest that at present the clergyman pays in respect of tithe rent charge Income Tax on a sum greater than the net amount of tithe rent charge that he receives? I cannot understand what that one-seventh is to cover?—Tithe for the purposes of taxation is reckoned as land, is it not?

14,773. Yes, it is an incorporeal hereditament?—It is reckoned as land, but when the question of the abatements allowed to land are considered it is argued that tithe is not land.

14,774. I do not think it is argued that tithe is not land. What I suggest to you is that a landowner owns land, and a tithe owner owns the tithe rent charge, and it seems to me that under the existing law the landowner gets an allowance for the expenses which fall on him, and which he has to meet out of his rent, and the tithe owner gets an allowance for the expenses which fall on him, and which have to be met out of his tithe rent charge. I do not see why the tithe owner should have a further allowance in respect of expenses which do not fall upon him but which fall upon the landowner?—Yes, that is a reason why, as I have said just now, I have not drawn a direct analogy between the landowner and the tithe owner. I ask for a greater abatement for the clergyman than for the landowner because as an individual his "ability to pay" is less.

14,775. But you do not suggest that in respect of his tithe rent charge he pays Income Tax on a greater amount than the net sum which he receives as tithe owner?—No, but I do suggest that he is much more highly assessed for the purposes of payment of tax than the landowner is. The tithe rent charge is much more closely assessed to its full value than the land is; I think that meets your point does it not?

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14,776. I understand that you do not really suggest that the tithe owner pays more Income Tax on his tithe rent charge than the net amount that he receives?—No, I do not suggest that.

14,777. Mr. Petyman: On your first point, about the study, do you not think that probably the real distinction is that the doctor or the dentist can only carry on his business by the use of those premises for business purposes, that he is obliged to use them and he cannot do his business without them; whereas the study of the clergyman, although in very many cases one knows it is constantly used for parochial purposes, and, as you say, the door of the parsonage is much more open to voluntary visitors than the doctor's or the dentist's, still, clergy are not obliged to use their studies for that purpose to the same extent. Of course, one has to look at this from a financial point of view, and a clergyman in point of fact in no way depends on whether he does or does not use his study for parish purposes, whereas the income of the doctor or the dentist does depend on whether he uses it for business purposes or not?—Yes, but, of course, the clergyman is bound to reside in the particular house, and have that particular study; but the doctor is not bound to reside in the particular house.

14,778. I do not think that alters it. He does reside in the house to the extent that he gets an exemption; I cannot see that that affects the question at all?—I see the point.

14,779. That is another point altogether?—Yes; it is another point.

14,780. I only suggest to you to comfort you, if I can, that it really is a question of the obligation to use it for business purposes or the voluntary use of it; it makes some difference?—I suggest that the law has now abolished that distinction, because prior to the Finance Act of 1918, no deduction was allowed. Now the law has allowed the deduction, and having allowed the deduction I say that the deduction should be the same. The law has taken a contrary view, I think, to what you suggest.

14,781. Not at all, if I may venture to say so. There was no deduction allowed at all. It is a new consideration that there should be any deduction?—Yes, it is new.

14,782. The deduction is allowed on one scale to the man who must use his premises for business purposes, and on another scale to the man who need not unless he likes?—I do not see how he can avoid using them if he is bound to live in them. I have made that point already. He is bound to live in and keep up, as the trustee of a charitable institution, certain premises.

14,783. With regard to recommendation No. 2, I suppose you are aware that under the new Act which fixed the tithe at £100 up to 1926, there are some additional clauses which facilitate redemption?—Yes, I am quite aware of that.

14,784. And that those clauses will very probably result in the redemption of a very large proportion of the tithe before 1926?—Possibly. I think so, because it is so very much to the interest of the landowner to do it, and detrimental to the clergyman.

14,785. Detrimental?—Yes; because no tithe will be redeemed excepting with some loss of income to the clergyman.

14,786. Have you considered whether, when the tithe, which is subject to the disabilities you have referred to here, is converted into a certain income from an investment, a good deal of these troubles of taxation that you refer to will disappear?—That is quite right.

14,787. There will be no rating of it, for instance?—I quite agree.

14,788. It is rather a serious allegation to say that the redemption of tithe is going greatly to reduce the clergyman's income, and put him in a worse position on this basis; do you say that as a considered statement?—Yes. What I do say is that in most cases redemption can only be carried through involving a loss of income to the clergyman.

14,789. When you say a loss of income, do you mean a loss of gross income or net income?—Of net income.

14,790. Even after allowing for the escaping of rates and the whole of the consequences?—I think it will.

14,791. Have you looked into that carefully?—I have looked into it fairly carefully. You only get 18½ years' purchase, you see, instead of 25.

14,792. 25½ years' purchase of what?—18½ years' purchase on the commuted value.

14,793. That is on the 100?—Yes.

14,794. Not on the 109?—No, I do not think so.

14,795. This is rather a serious matter, and I must just ask you about it. Surely when the value was fixed at 25 years' purchase the value of money was very different from what it is to-day, and the interest obtainable as income from 18½ years' purchase to-day is very often greater than would have been obtainable as income from 25 years' purchase before the war?—So has the cost of commodities, you see, increased far more.

14,796. That is another point; that is not income; it is the use of income—it is spending power?—I do think, as a result of my inquiries, that very few redemptions will be carried through without some loss of net income to the incumbent.

14,797. That is rather a milder statement than the first one that you made. To the extent that the tithe is redeemed, those difficulties as regards rate and assessment of tithe, of which you complain, will disappear?—Yes. May I say I am in favour of redemption? I hope what you say will come true, and that it will be redeemed.

14,798. Redemption, so far as it goes, will naturally abolish these grievances, because there will be no more question of tithe?—Yes, it would abolish them, certainly.

14,799. You mentioned the allowance of one-seventh. Do you not think the grounds on which you put forward the claim for that abatement really apply more to the general case of the clergyman's income than particularly to tithe, because clergyman do not all draw their income from tithe? Some draw their income from glebe and some draw their income from endowments, and from various sources. To claim a deduction of one-seventh from tithe on the ground that the clergyman has certain public duties to fulfil is rather dealing with it, is it not, on the wrong lines? You want to deal with the whole income from that point of view. So far as tithe is concerned, it is land, and must be dealt with as land. The difference between the position of the landowner and of the clergyman is this, that the land is nominally owned by the landowner, and the tithe owner, be he clergyman or layman, owns a part. The tithe owner receives the whole of the value of his land in income, and he has no responsibility whatever for the maintenance of the land; whereas the landowner has the whole responsibility for the maintenance of the land for the benefit not only of his own land but that of the tithe owner, and the allowance which is given him is in respect of that liability which the tithe owner has not got?—Quite so; I agree with what you say, if I may say so; but as a set-off against it, as I keep repeating, the land is very much under-assessed.

14,800. But surely the way to meet that is by dealing with your paragraph No. 13?—Yes.

14,801. Two wrongs do not make a right. Do you think it is logical to give an unjustifiable allowance of one-seventh—when I say unjustifiable I mean one that cannot be justified on any clear grounds to Parliament—to the clergyman for his tithe, on the ground that landowners or land occupiers generally are under-assessed? Surely the answer is at once: put the assessments right?—Yes; I wish I could put the assessments right.

14,802. In paragraph 13 you propose a means of securing that, and it seems to me a very reasonable proposition that where a clergyman thinks that the assessments are unfair, he should have the opportunity of saying so, and of calling attention to the point?—Yes.

14,803. If I may say so, I think that seems a very reasonable thing. With regard to those assessments, do you refer particularly to urban or to rural districts?—To rural. In London the assessment is quite

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[Continued.]

different, of course. You have got the Surveyor of Taxes.

14,804. You are referring purely to rural assessments for rates which are utilised for Schedule A?—Yes, that is it.

14,805. Those assessments are made in many cases by occupiers of the land, and there is a feeling, rightly or wrongly, that those assessments are sometimes rather less favourable to the clergyman and more favourable to owners and occupiers of land than they ought to be?—Yes, because the tithe rent charge is re-assessed every year with its upward progress, but you have land all over the country which has not been re-assessed for twenty years.

14,806. The upward progress of the tithe means, of course, the corresponding progress downward in the land sometimes, in the ownership?—No; I think a high tithe means prosperous times for farmers.

14,807. What about the landowners?—Of course, I sympathise with landowners, because I think the farmers ought to have paid the increased tithe.

14,808. But they do not?—I agree, but still they can look after themselves in the House of Commons, and I cannot.

14,809. All you ask is the right to look after yourself on the rate book?—I want to look after myself as well as I can, yes.

14,810. I think that is very reasonable. As to Easter offerings, that is special to the clergyman?—It is.

14,811. Is it not the fact that in the ordinary case anybody who gives an Easter offering to a clergyman has already paid Income Tax upon it?—He must have done, of course, yes.

14,812. So it means that Income Tax is paid twice?—Yes, it must be so.

14,813. On the same sum?—It must be, of course.

14,814. Is it not rather a remarkable arrangement that, supposing a parishioner knows that his clergyman is in narrow circumstances, if he makes an offering on a particular date at Easter at the same time that others do it is liable to Income Tax?—Yes.

14,815. But if he writes to the clergyman in August and says, "I know you are not at all well off, and you

look overworked, and you would like to have a holiday, I send you a cheque to enable you to take that holiday, and find somebody to do your work while you are away." Is that liable to Income Tax?—No, that certainly would not be.

14,816. Mr. May: Is this a suggestion of evasion or avoidance, or what?

14,817. Mr. Pretyman: It is no more than a present given to anybody else; that is not liable to Income Tax?—It would not be. If you are kind enough to send me £20 I shall not pay Income Tax upon it.

14,818. Mr. May: Are we under any obligation to suggest to witnesses the way in which they can avoid payment of Income Tax? Surely the question is whether it is legitimate or not.

14,819. Mr. Pretyman: The question I am asking the witness is as to under what circumstances voluntary offerings made to a clergyman are held not to be liable to tax.

14,820. Mr. May: And I am objecting to this being suggested to the witness, in what ways the tax can be evaded.

14,821. Chairman: I do not know whether it is quite that: I cannot stop anyone asking questions such as Mr. Pretyman is asking.

14,822. Mr. May: That is all right. It is too late to stop him, but it is not too late for me to protest.

14,823. Mr. Pretyman: So that these Easter offerings are specially subject to tax, whereas other gifts, so far as you know, whether given to a clergyman or to anyone else, are not subject to tax?—That is so.

14,824. With regard to parochial helpers, you will agree there would require to be some very careful safeguards?—Yes. I think I do suggest a safeguard there, that it should be certified by the Bishop to be necessary; that is the safeguard that I suggest, which is the case at present with regard to the curate.

14,825. Would you be content if, in addition to that, it were an option to the Inland Revenue to allow it, that there should be some investigation outside the Church itself?—I think so. As far as the incomes of the Clergy are concerned I am all for the fullest investigation, because I am sure it will be found that they are paying tax far in excess of others.

THE REVEREND CANON FRANK PARTRIDGE, on behalf of The Central Board of Finance of the Church of England, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

TAXATION OF THE CLERGY.

The Central Board of Finance of the Church of England have carefully considered a Memorandum as to taxation of the Clergy, prepared by the Right Rev. George Nickson, D.D., Lord Bishop of Bristol, and the Rev. A. G. B. Atkinson, M.A., Rector of Greensted by Ongar, Essex, and secretary of the Curates' Augmentation Fund, with the intention that it should be laid before the Royal Commission. The Central Board realize that the following statements contained in this memorandum indicate many respects in which the Clergy of the Church of England are not receiving equitable treatment under the Income Tax law as at present administered, and submit the following considerations leading to suggestions by the adoption of which they believe that the grievances referred to in the memorandum may be diminished without any injustice to or hardship on other taxpayers:—

14,826. (1) Exclusion of income of which the incumbent is trustee for the benefit.

Some of the most important of the grievances referred to arise from the exceptional difficulty of applying the ordinary principles of Income Tax law to the incomes of the beneficed Clergy, owing to the fact that a rector or vicar is a corporation sole, and that the individual who is for the time being the incumbent of the office is in law wholly different from the body corporate constituted in his person.

The income on which the Income Tax of the individual incumbent is based should be the net income which he enjoys as an individual and should not include any profits of the office which he receives

as incumbent and is bound by law to apply for the benefit of the corporation which he for the time being represents, such as interest and principal of loans for permanent improvements. The preservation of the property of such a corporation sole is a charitable purpose, and the incumbent who is bound to apply certain portions of the emoluments to that purpose is a trustee of those portions for that purpose, and should, pursuant to s. 37 of the Income Tax Act 1918, be granted exemption in respect of them, even where they are not, as many of them are, sums payable or chargeable on the profits of the office by virtue of any Act of Parliament so as to be deducted under the first rule of Schedule E. Individual Surveyors cannot be expected to know the very numerous provisions by which payments may be imposed on the incumbent for the benefit of the benefice, and a careful instruction should be drafted after consultation with the Ecclesiastical Commissioners and Queen Anne's Bounty showing what deductions should on this account be allowed. When such an instruction has been settled it will be comparatively easy to see whether any legislation is required to secure that the income on which the incumbent is taxed is his personal income and does not include income of which he is merely a trustee for the benefice.

14,827. (2) Measure of deductions to be allowed to clergymen.

The provision in Rule 2 of the Rules applicable to all Schedules in the Income Tax Act 1918, which allows a clergyman to deduct all sums paid or expenses incurred by him wholly, exclusively and necessarily in the performance of his duty as a clergyman, is capable of being interpreted in widely different ways by different Surveyors, and an instruction based on the words used by Lord Shand in

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Charlton v. Inland Revenue, 17 R. 783—that the deductions should include “such of those expenses as the minister is either required by his ecclesiastical superiors to incur or are expected of him by the Church or by ordinary custom and are for any of those reasons incumbent on the claimant should be allowed”—would tend to produce more uniformity in administration than at present exists, but as individual Surveyors would find difficulty in applying any rule based on the custom of the Church, it would be right to provide that a certificate by the ecclesiastical superior of a clergyman or minister to the effect that particular expenses were within the Rule should be available as evidence that they ought to be allowed under the said rule as a deduction.

14,828. (3) *Taxation and allowance in respect of house of residence.*

The provision in the same Rule 2 which enables the Commissioners by whom the assessment is made to allow a deduction of a part not exceeding one-eighth of the rent in respect of a dwelling-house used mainly and substantially for the purpose of the clergyman's duty is quite inadequate in the case of the incumbent of a benefice who is bound by Statute to occupy the house of residence without any regard to the benefit which he personally derives from such occupation.

In order that the incumbent should pay Income Tax only on that part of the income of the benefice from which he personally derives benefit, the allowance should amount to the difference between the assessable value of the premises under Schedules A and B and the value of the premises and of the occupation thereof to the individual incumbent.

Further, in order to minimise the risk that such an allowance will be inadequate in particular cases owing to difficulties of proof, adequate opportunity should be afforded of appealing against the assessments under Schedules A and B, and all assessments under Schedules A and B should be open to inspection and it should be made clear that the taxpayer is not precluded from appealing by the clause which is annually inserted in the Finance Act for the year that the annual value for the year shall be taken as the annual value for the next subsequent year (Finance Act 1913, s. 17 (3)). Such opportunities of appeal are especially requisite in the cases of parsonage houses, since the incumbent for the time being is the only possible tenant on a tenancy for a year or more and the amount of the rack-rent at which they are worth to be let by the year within Rule 1 (2) of Schedule A should be assessed with due regard to that fact.

14,829. (4) *Election to be assessed under Schedule D for profits of garden.*

In any case every incumbent should be allowed to elect to be assessed under Schedule D instead of Schedule B in respect of the lands occupied by him as incumbent although he does not occupy them for the purposes of husbandry within Rule 5 of the Schedule B Rules, so that he may not be assessed in respect of profits which he does not and cannot make out of an occupation which is forced on him, whether he wishes it or not.

14,830. (5) *Test whether voluntary gifts are to be regarded as income.*

Form 38 EC includes in the income of a clergyman “Roster and other offerings, grants from Clergy Sustentation Funds, payments by patrons, etc., towards stipends, stipends from lay impropriators and other sources.”

These headings are presumably based on the decision in *Bleakston v. Cooper* (1909 A.C. 104), but they are capable of being read as covering many voluntary donations which within the words of Lord Loreburn in that case are “peculiarly due to the personal qualities of the particular clergyman” and ought not to be assessed. The decision in *Turner v. Cuxen* (22 Q.B.D. 150) that a curate was not assessable in respect of a grant of £60 from the Curates’

Augmentation Fund in recognition of 15 years’ faithful service has never been overruled and was very carefully distinguished by Collins, M.R., in the Court of Appeal in *Herbert v. McQuodde* (1902, 2 K.B. at p. 648). The basis of assessment afforded to the Surveyor by the words quoted from Form 38 EC is therefore far too wide and grave hardship results from this fact and from the difficulty of distinguishing whether a voluntary donation to a clergyman is intended as a gift to the individual recipient or a payment to him as the holder of his office. This hardship would be to some extent obviated by an enactment that in the case of a gift to a clergyman there should be a presumption that it is a gift to him in his individual capacity, unless and until it is proved to be intended by the donor to be a gift to the holder of the office (if any) which he holds.

14,831. (6) *Improvements in procedure.*

Many of the Clergy are not familiar with legal procedure nor with the taxing Acts and are peculiarly badly qualified to assert their rights in cases where they are over assessed. It is therefore expedient that full, clear and accurate information should be supplied to them as to what those rights are and how they may assert them, and the suggestion which we are informed has already been made to the Royal Commission that the Surveyors should carry out their duties in a judicial spirit and should be expressly instructed to give the taxpayer all the assistance they can in claiming and obtaining any exemptions or abatements to which he is entitled applies to an exceptional degree in the case of the Clergy.

14,832. (7) *Recommendations.*

We beg to suggest for the consideration of the Commissioners:—

1. that such portion of the income of the benefice as the incumbents is bound to apply for the benefit of the benefice as a corporation without benefit to himself as an individual should be excluded from his income;
2. that the sums allowed to be deducted under General Rule 2 of the Income Tax Act, 1918, as expenses incurred by a clergyman in the performance of his duty should include not only all expenses which are necessary for the proper performance of the duties of the benefice but also all such expenses as he is required by his ecclesiastical superiors to incur or are expected of him by the Church or by ordinary custom and that a certificate by his ecclesiastical superior that any expense falls within that description should be evidence to that effect;
3. that provision should be made that a voluntary gift to a clergyman should be deemed to be a gift to him in his personal capacity unless and until it is proved that the donor intended it as a gift to him as the holder of an office of profit;
4. that an allowance be made from the assessments under Schedules A and B of the difference between the assessed value and the value of the premises and of the occupation thereof to the individual incumbent;
5. that the incumbent be allowed to elect to be assessed under Schedule D in respect of his occupation of any land attached to the benefice;
6. that the Property Tax books, Schedules A and B, be open to inspection and that no difficulty shall be allowed to interfere with appeals against assessments;
7. that a simple explanatory form be prepared for the use of the Clergy containing full and accurate information as to all deductions, exceptions, abatements and relief,

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and that the Surveyors be instructed to give all possible assistance to clergymen in claiming and obtaining abatement and relief;

8. that the exemption limit be raised to £900.

SELBORNE,

Chairman of the Central Board of Finance of the Church of England.

FRANK PARTRIDGE,

Secretary,

ROBT. C. NESBITT,

Legal Secretary,

} Central Board of Finance.

[This concludes the evidence-in-chief.]

14,833. *Chairman:* I am rather sorry that we did not have the last witness and yourself together, because we have gone through most of the points that arose on your paper with him, and examined him at length upon them. You will probably be examined only for a very short time, because there has been a really interesting and exhaustive inquiry into the whole matter; you will not think it is any discourtesy if we deal rather rapidly with you, as the points have already arisen.

14,834. *Dr. Stamp:* With reference to the first recommendation which you make, concerning the portion of the income of the benefice which the incumbent is bound to apply for the benefit of the benefice as a corporation, could you give us a few specific illustrations of the general character of the income referred to?—I think I should allude to the case of a benefice which has had a loan from the Governors of Queen Anne's Bounty. Such a loan may be taken up by an incumbent, who has to repay by annual instalments from the income of the benefice; he dies; his successor is saddled with the repayment of the loan to the Governors, and is not allowed to deduct it by way of abatement from the amount to which he is assessed for Income Tax.

14,835. Have you any other instances besides that class of illustration?—No, I think under head 1 that is the principal one I should bring forward.

14,836. So you could really focus recommendation No. 1 on the question of the loans from Queen Anne's Bounty?—Yes.

14,837. The evidence was framed in rather general terms, and I thought you might have something else in mind besides that particular question; but you have not?—No.

14,838. You suggest that a careful instruction should be drafted after consultation with the Ecclesiastical Commissioners. Would you imagine that the present arrangements and forms have not had the benefit of the opinion of the Ecclesiastical Commissioners?—I should imagine so, because of the omission of the case to which I have already alluded, and also, if I may refer to it, because of the Income Tax chargeable at the present time upon mining royalties which comes under the specific direction of the Ecclesiastical Commissioners, which also, I understand, has not received attention.

14,839. So that this recommendation No. 1 really comes down to dealing with the questions of Queen Anne's Bounty and mining royalties?—I think so.

14,840. In the second one you speak of the expenses incurred by the clergyman in the performance of his duty, and you suggest they should go as far as expenses which are incurred by ordinary custom. Could you give us some illustrations of that?—The expenses might be placed under the head of an incumbent who is required by ordinary custom to attend meetings of his diocesan synod, of an incumbent who is expected to provide the ministrations of a lay worker in his parish, of an incumbent who is required by his Bishop to be a member of diocesan committees who are engaged in work which is beneficial to the whole community.

14,841. There is no compulsion at all, except that of custom, I take it, in the particular instances you have in mind; it would be open to an incumbent to stop that kind of expenditure at his own will?—Yes, I think so, so far as he is willing to incur the odium which would naturally follow upon his disinclination.

14,842. Can you distinguish the case of a clergyman

from that of people in other professions and employments who have various customary ways of spending their income; if they cease their custom there might be a certain amount of talk, but it is well within their discretion and power?—I think you can distinguish in one instance, at any rate; the question of the lay workers, to which I have referred. It is practically impossible for an incumbent where it has been the custom to have a lay worker employed in a parish to discontinue the services of that lay worker. He goes to the benefice with the implication that he is going to continue the work of the benefice as it has been when he takes it over.

14,843. Do you think that the feeling of custom is so strong there that it amounts almost to an obligation—that it is almost as strong as an obligation?—I should say distinctly a moral obligation which would fall upon the shoulders of a clergyman with very great force.

14,844. Suppose that this were literally carried out by law, that anything of ordinary custom was to be admitted, do you not think it would be opening a very wide door?—Yes. I should point out, however, that the words are used by one of His Majesty's judges, and that they form only part of the sentence used. It should be taken together with "expected of him by the Church or by ordinary custom." The whole thing should be read together, I think.

14,845. I quite understand the reasonableness of your point. I only wanted to see whether you think it would not be capable of abuse?—I think it is capable of abuse.

14,846. Not intentional abuse, but abuse by process of time?—But the abuse is guarded against by the necessity of obtaining a certificate from the ecclesiastical superior.

14,847. Might it not grow to be a custom for the ecclesiastical superior gradually to extend this class of things? I am thinking now of donations and subscriptions to various causes, local charities, and so forth?—It is conceivable, and probably a guard would be necessary.

14,848. If that grew to be so, then men of other professions who did not have their personal charities allowed as deductions would have a grievance?—Yes, I say so; but I defer to the words "personal charity" in this particular case.

14,849. Suppose that from time immemorial the incumbent of a particular parish had given a subscription of £5 a year to a local hospital, would you regard that as a case that the ecclesiastical superior should pass?—Certainly not.

14,850. I should like to get, if I could, a little more clearly in my mind the sort of limit that you would draw?—The kind of limits are expenses incurred in the necessary performance of his duties. The gift to a local hospital does not fall under that category.

14,851. No. I took a wide case to see whether you would include that. You speak of things being ordinarily expected of him by custom?—For the performance of his duties; expected of him by custom in order that the work of the parish may satisfactorily be carried on; I think that is the point.

14,852. Suppose a clergyman performs the duties of his parish in a manner that is generally considered satisfactory, but he then thinks he would like to extend his activities, and he employs a lay worker; he will then be performing duties which are additional to his existing duties: would you allow that case?—I think the salary paid to the lay worker, if paid entirely by the incumbent, should be allowed to him as an abatement, certainly.

14,853. My point is this: can one define for a clergyman exactly what are his duties? He performs a certain amount of visitation service in his parish, which is regarded as fully meeting what is required of him. He then suddenly feels that he would like to do more; is it in the performance of his duties that he takes on additional responsibility?—That seems to me to be entirely a matter for his ecclesiastical superior; nobody else could define it.

14,854. With regard to recommendation No. 3, that provision should be made that a voluntary gift to a clergyman should be deemed to be a gift to him in his personal capacity unless and until it is proved to be intended by the donor to be a gift to the holder

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of the office, would the onus of proof rest upon the Revenue authority?—Yes.

14,855. Are you referring particularly there to Easter offerings, or have you those in mind?—Certainly; Easter offerings, and gifts of that character.

14,856. Are Easter offerings more or less customary to an incumbent?—No; they are put down in the Book of Common Prayer, you know, as one of the duties of the churchman.

14,857. I am not speaking about it in general, but I am speaking about a particular parish. Would you find that Easter offerings are sometimes given every two or three years, and then dropped for a whole series of years, or are they more or less customary in a parish?—Not entirely dropped, but the fluctuations might be considerable.

14,858. It might be said that a certain measure of Easter offerings would be customary in the parish?—I think so.

14,859. Therefore if you are going to have a test by custom in the case of expenses you would get back to a test by custom in the income of the benefice, and so this might be looked upon as part of the income of his benefice?—Yes.

14,860. Can you apply custom one way and not the other?—No; I should not be desirous of pressing it.

14,861. Your point would be, of course, that the Easter offering will fluctuate according, I will not say to the popularity of the incumbent, but according to the personal feelings of his parishioners towards him?—That is so.

14,862. If he is doing his work well, and working very hard, they are likely to give more?—They do in fact do so.

14,863. I know the analogy is not quite perfect in the case of employer and employee; but have you known cases where employers have been pleased with the extra hard work of their employees, and given them a bonus?—Yes, a personal bonus, certainly.

14,864. Would you consider that bonus should not be chargeable to Income Tax?—I think so.

14,865. Therefore you would generalize from this case, and make a general rule for all classes of people that where they do something over and above their contract, presents for their services for doing their work extra well should not be charged?—I think I would distinguish between a bonus which is given regularly and the bonus which is only given on one occasion and not repeated.

14,866. Let us take that point with regard to Easter offerings. The first time they were given they would not be chargeable; but when the man had received them four or five times then you think he begins to come within the ambit of charge?—I suppose that would follow, yes.

14,867. Do you not see some difficulty in having this special provision for clergymen on this ground in relation to other taxpayers?—Yes, I do see difficulties, but I think you have to remember that a very definite distinction has to be drawn between the official income which is given to a clergyman which very often is from voluntary sources, and this free gift at Easter. Very many clergymen are appointed with the guarantee on the part of the congregation that by collections made in church or by their voluntary contributions they will make his income up to a certain amount, say £250 or £300 per annum. No claim for relief is made in respect of these voluntary contributions. But here you have a case where the contribution may come altogether, or may fluctuate as I have known them fluctuate, from £10 to £150 in the same parish.

14,868. Over a period of years?—Over a period of a very few years indeed.

14,869. Due to the personality of the incumbent?—Quite. It is contended that they fall in a different category from other voluntary contributions.

14,870. Have you ever known a case where they vanished altogether?—I knew one instance where they did vanish. I am bound to say that that was not a case of personal popularity, but a case of criminal conduct.

14,871. It would appear that part of the sum received by the most popular incumbent might be regarded as customary, and only the balance regarded

as something in the nature of a free gift?—I think that follows.

14,872. It seems that the truth lies somewhere between the two?—Yes.

14,873. And there is an element of custom, of what I may call commercial bonus, about it, and also an element of the free personal gift?—I agree.

14,874. Passing to recommendation No. 4, "that an allowance be made from the assessments under Schedules A and B, of the difference between the assessed value and the value of the premises and of the occupation thereof to the individual incumbent"; how would you test the value to an individual incumbent?—I imagine that the Revenue authorities would do that.

14,875. I take it that the value to the individual incumbent would fluctuate according to whether he were married and had a large family?—Yes, quite.

14,876. Is that what you have in mind?—That is what I have in mind. In some cases the value to the incumbent is the whole of the assessable value of the house. In other cases it is a very small value indeed.

14,877. Have you known cases where the house has been very much in excess of the requirements of the incumbent, where he has let it and taken another house?—Yes, for a short period. He cannot let it for a long period, of course, because he cannot give more than 12 months' assurance to his tenant.

14,878. That is done in the most extreme cases?—Yes, it is possible.

14,879. You say you would leave the test to the Revenue; but surely you would give the Revenue some criterion by which to judge it?—Yes.

14,880. Would it be the extent to which he occupied the house, how much he left vacant, or something like that? If this is going to be accepted, some practical means of working it has to be found, and we want your suggestions?—I suggest that a parsonage house is very largely used for parish purposes. It is used very much in the nature of a parish room, to which the people of the parish are given access. It is used very much in the nature of an office, in which the work of the parish is transacted, civil work as well as ecclesiastical. It is used frequently as a club for boys and for girls, and other purposes of that kind; and in towns particularly of course it is practically the ecclesiastical office of the parish, and ceases almost entirely to be a house of residence. In the case of the unmarried man it very often comes down to the fact that he occupies two rooms, and no other part of the house, the rest being used for parish purposes.

14,881. So you would say to the extent to which he uses the house for parochial purposes and not for his own personal use, it should be exempted from charge?—Yes; that is the idea.

14,882. I wanted to get at what you really had in your mind. You want the incumbent to be assessed under Schedule D in respect of his occupation of any land attached to the benefice? Do you make that peculiar to the clergyman?—No.

14,883. You think that should be a general requirement in the law for everybody; in that it?—I think that the taxpayer should be allowed to choose whether he is assessed under D or under B.

14,884. For what we call amenity land, that has no actual produce by which you can test the profit?—A certain allowance is made already, I believe, with land of that kind.

14,885. Your suggestion really amounts to this: you are not asking for a particular concession for clergymen?—No.

14,886. Where the circumstances are similar for other people you would have a change made?—Yes.

14,887. Therefore, it really and substantially amounts to restricting the charge on Schedule B to the profits of land instead of the occupation of land?—Yes, if every taxpayer availed himself of the permission.

14,888. If I have a large garden running into two or three acres I have to pay Schedule B?—Yes.

14,889. Yet there might be tennis-courts in it, and all sorts of things. I might not be able to produce an account. You would equally with a clergyman exempt me from Schedule B?—Allow you to choose.

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14,890. That would mean an exemption, because I should say there would be no profit?—Yes.

14,891. So that this is general and not particular?—It is subject to the governing clause at the beginning, where it says: "We do not press anything which would inflict any grievance or hardship upon other taxpayers."

14,892. You are giving other taxpayers a concession at the expense of the Revenue. Would you go so far as to say this, that you would not press anything which, by being generalised, would be unduly expensive to the Revenue, and where you were only sharing a common burden? Would you be self-sacrificing enough to say that you would not press it if you are only sharing a common burden?—If the incidence of the burden is equal I should say the clergyman would be quite willing to bear it.

14,893. Would you tell me what you mean by allowing the Property Tax books to be open to inspection?—In the same way, I should say, that the ordinary rate books are open to inspection.

14,894. The rate books you can look at. Are the Property Tax assessments less than the rate assessments as a rule?—I am afraid I could not say.

14,895. I think you could say as a general rule that they are never less in most parishes?—Yes.

14,896. Do not the rating authorities use the Property Tax details in revising their rating?—I believe they do, but I should not like to dogmatise.

14,897. Is not the inspection of the rate books in most parishes pretty nearly as good as an inspection of the Property Tax assessments?—It may be, but it is not the same thing.

14,898. You are aware that the Property Tax assessments have a great deal of confidential information in them?—No, I was not aware of that.

14,899. Are you aware that if you had the inspection of the Schedule A books you would have in front of you amounts showing the abatements, exemptions, Life Insurance and other allowances that are personal to all the different owners of the property?

14,900. Mr. Walker Clark: And the mortgages.

14,901. Dr. Stamp: Yes, and the mortgages?—When you say it now, of course, I am aware of it, but I am afraid I had not considered it from that point of view in presenting recommendation No. 6.

14,902. It would be open to grave objection that such details as those should be visible?—I think it would be a serious objection.

14,903. And therefore it would be better to rely upon the inspection of the rate books. I take it you want this for the purpose of comparative information?—Yes.

14,904. Would it not be better to rely on the rate books?—I do not like to answer without further reflection on the point; I am inclined to think that it would.

14,905. The seventh point that you make is the "simple explanatory form." Do you suggest that it is possible in the present state of the law to simplify the forms that are used? Would you agree with this proposition, that you have two extraordinarily complicated things; firstly, the Income Tax law in itself, and secondly, the conditions of the income of the incumbents of the Church of England, which are very various, and full of small points, are they not?—Quite.

14,906. Would you think it was possible to combine those two complications and get a simple form?—A form of explanation, yes, I think so. The form of

explanation referred to is something which will indicate to the Clergy what their action should be under the circumstances with which they are continually confronted.

14,907. I am not speaking of general mental capacity, but particular business capacity. Would you say that the incumbents of the Church of England have not quite the same opportunity of understanding official forms that the ordinary business or professional man has?—I shrink from generalization on principle, but I should say that they are not so accustomed to the use of forms as an ordinary business man; at any rate, the country Clergy are not.

14,908. Therefore in this matter they need extra help over and above the ordinary taxpayer?—No. I think that an explanatory form would be of value to the ordinary taxpayer, too, but I am appearing here for the Clergy, and I know that they feel the lack of it.

14,909. I am wondering whether you would say that a great deal has not been done in the direction of assisting them by such memoranda and forms?—I believe a great deal has been done, and I am willing to acknowledge it, and also the help given by Surveyors; but we would like a development of that.

14,910. Would you be prepared to admit that in a country Surveyor's district these complicated interactions between the Income Tax law and the income of the benefice do take a great deal of the time of the Surveyor in personal explanation?—Yes, I suppose they would.

14,911. Probably far more in proportion than is given to any other taxpayer or any other commensurate form of revenue?—Yes.

14,912. In a country district in which there are 100 or 150 incumbents it is quite possible that a very large proportion of the Surveyor's time is already taken up in explaining these things to the incumbent?—Yes; that is the case for a form.

14,913. Which in his case is particular to him, is it not? I just want to get from you in what way you think the process of simplification and explanation can be still further continued?—I think we had in mind the document which is used in Ireland, which seemed to us simple and plain and direct, and therefore of value.

14,914. Could you for the benefit of the Commission, not necessarily now, but when you have given further thought to it, put down the particular points or the way in which you think this could be made simple?—I will try to do so.

14,915. I am particularly interested in this point, because I happen myself to know the very great difficulty that there has been in arriving at the present state of form 38 E.C., and the amount of consideration given to it by the Ecclesiastical Commissioners, and therefore if we can get any further with it I think the Commission ought to do so. It is very difficult to do it now, I admit, but if you could give your mind to it and let us have the result it would be of great assistance.

14,916. Chairman: You will do that?—I will do so.

14,917. Dr. Stamp: The raising of the exemption limit to £200, I take it, is general, and not particular?—Yes.

14,918. Chairman: As I anticipated, the examination by Dr. Stamp has satisfied the Commissioners, after the other witnesses, on the main points that have been brought before us, so we will not trouble you any further. If you will let us have the promised document to help us we shall be much obliged?—Yes.

The Hon. GEORGE COLVILLE, on behalf of the Royal National Life-Boat Institution, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

14,919. (1) I am a member of the Committee of Management of the Royal National Life-Boat Institution founded by Royal Charter in 1824.

14,920. (2) The Institution has 254 boats stationed round the coasts of the United Kingdom. It is entirely supported by voluntary contributions, receiving no grant towards its work from the national purse,

although by Statute the duty of preserving life from shipwreck on the coast is laid on the Board of Trade (by 57 and 58 Vict. c. 69). The great majority of the Institution's boats are housed in boat houses expressly built and solely used for the purpose, and without the protection of these houses it would be quite impossible to maintain the boats in a seaworthy condition. Where boat houses are not used it is impracticable to provide them.

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14,921. (3) Under clause 37 of the Income Tax Act, 1918, exemption from Tax under schedule A is granted "in respect of the rents and profits of any lands, tenements, hereditaments or heritages belonging to any hospital, public school or almshouse, or 'vested in trustees for charitable purposes, so far as the same are applied to charitable purposes.'"—but the Institution are advised that they cannot claim exemption from tax on the assessments of their boat house, and other premises under this section, and the Board of Inland Revenue, to whom application has been made, state that they have no discretionary power to remit the tax. The boat house is as much a part of the apparel and gear of the life-boat as are her sails, spars, oars or rowlocks, and it would be as reasonable to charge Income Tax on the value of these as on her house. Until some few years ago claims for Property Tax were very rare, but year by year an increasing number of assessments are being made, and tax collected.

14,922. (4) A further, and, at present, more important charge is made in respect of the Institution's office in Charing Cross Road, and its store-yard at Poplar—the tax payable by the Institution in respect of these premises for the year 1918-19 amounting to £389 10s. Both these premises are essential for the great work the Institution carries on.

14,923. (5) I submit that it is unreasonable not to allow exemption in these cases. All the monies of the Institution invested in the funds and other securities are exempt, and there seems no reason why such funds as the Committee of Management may invest in real estate should not be similarly treated.

14,924. (6) The absurdity of the situation seems to be in the fact that if the Institution were to let its premises in Charing Cross Road, its store-yard at Poplar, or its boat house, and collect the rent, it could recover the tax, but because it uses them for the purpose of its national work it cannot do so.

14,925. (7) I submit that having in view the entirely unique position of this Institution, and the great national work which is being done by it on behalf of a maritime nation, some concession should be made to meet the 2 points above referred to—and that if, for some reason, it is not possible to extend the scope of the section in this direction in favour of all charities, a saving clause should be introduced in favour of the Institution specifically, as has been done in favour of the British Museum in section 38 of the Act.

[This concludes the evidence-in-chief.]

14,926. Mr. Kerly: Your Institution has many friends. I hope we are all its friends, but still, we must ask you a few questions about your suggestions?—Might I add a few remarks to the proof which I have submitted?

14,927. You would prefer to do that first?—If I might, perhaps it might deal with one or two of the points. I am sorry I did not include them, but I did not have them before me at the time. They are as follows. I maintain that the position of this Institution is unique, and that therefore it can, and should be dealt with as an exception, if for any good reason all charities cannot have this exemption made to them. In the case of the Governors of the Rotunda Hospital v. Coman, Mr. Justice Madden said: "The law recognizes as 'charitable' only those institutions which are of a public character." This Institution goes much further. It is charitable, national and international, and carries on a public duty at private expense. As a matter of interest, I might mention that in 1910, by a coincidence, the National Life-boat service and the United States Life-boat service each had 281 boats. The United States service (which, however, includes the provision of the rocket apparatus), cost £468,000, whilst the English service cost £29,403. The legal point is, of course, controlled by the Essex Hall case, but the law cannot be said to be clear when three such eminent judges as Lord Alverstone (than whom none has had greater experience in taxing law), Mr. Justice Avey, and Mr. Justice Hamilton, hold the opposite view, and as to the merits of the case, it is only necessary to refer to the sarcastic remarks of Lord Justice Buckley.

14,928. It is quite clear, is it not, that on your general income you pay no tax?—On our investment income we pay no tax.

14,929. But you do pay tax in respect of properties which you occupy for the purpose of your work?—Which we own and occupy.

14,930. That is the gist of your complaint?—Yes.

14,931. Although you are aware that all other charities are in the same position?—I am.

14,932. You ask for exceptional treatment, because you say you are an exceptional institution?—I do.

14,933. Does not that really come to this, that you are asking for a national endowment in the form of relief from Income Tax, and limited to the Income Tax which you pay on the properties which you own and occupy?—In effect it may.

14,934. It occurs to me, and I should like to know what you have to say to that, that this matter should be dealt with directly, and that it would be better, instead of making you an exception, that an endowment should be given to you?—I looked at the next section to the section which is under consideration, which controls us, and it makes an exception there for the British Museum.

14,935. I quite appreciate the relevancy of that?—I do not quite understand why the British Museum required it, but still it does, and I hold that as we are such an entirely unique institution, and there can be no parallel to it in the way of a charity, we might be put on the same ground.

14,936. The British Museum exception is really idle, because the funds of the British Museum are provided by the State, and if the State took a little more with one hand and had to give the same amount back with the other, it would make no difference?—Still, it is a precedent.

14,937. Mr. Armitage-Smith: The British Museum is a public Department of State. I gather that you desire to be treated as such, but to retain private management?—No, I do not wish to be treated as a public department, but I take it that public departments would not pay Income Tax under any conditions.

14,938. No; and to that extent you desire to be assimilated to the position of a public department?—I do not see how the British Museum can be exactly a public department, if it is liable to Income Tax. The Crown cannot pay Income Tax.

14,939. What is the date of that exemption?—It is in the old Act of 1842.

14,940. What would happen if you ceased to carry on?—The country would have to do the work.

14,941. Under Statute?—Under Statute. Would you like the reference to the Statute?

14,942. If you have the words there I should?—I have, yes. It is the Merchant Shipping Act, 1894, Chapter 60.

14,943. Do you mind reading the section which imposes on the Board of Trade the obligation?—It is Section 677: "Subject to the provisions of this Act and to any prior charges that may be subsisting on the Mercantile Marine Fund under any Act of Parliament or otherwise there shall be charged on and payable out of that Fund the following expenses so far as they are not paid by any private person . . . such expenses for establishing and maintaining on the coasts of the United Kingdom proper life-boats with the necessary crews and equipments, and for affording assistance towards the necessary preservation of life and property in case of shipwreck and distress at sea, and for rewarding the preservation of life in such cases as the Board of Trade may direct."

14,944. Have you ever asked the Treasury to give you a grant equivalent to the Income Tax which you pay?—No, we have not. It has of course, like all questions of Income Tax, become really material during the last four or five years. We asked the Inland Revenue to deal with it, but I understand from the Inland Revenue, although they seemed to approach it most sympathetically, that they had no discretionary power.

14,945. Mr. Kerly: Thank you. We are much obliged to you for your assistance.

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MR. EDWARD EAMES.

[Continued.]

MR. EDWARD EAMES, FARMER (Occupying Owner), of Silksand Priory, Compton, near Winchester, called and examined.

The witness handed in the following statement in his evidence-in-chief:—

INCOME TAX, SCHEDULE B.

Definition of some.

14,946. (1) The Inland Revenue notices to the taxpayers state that it is "on profits arising from the occupation of lands."

Its incidence applied by the Income Tax Acts and the Inland Revenue.

14,947. (2) Is on land only, save and except in the case of a tenant farmer who rents his dwelling house and also when the sporting rights are included in the farm rent with farm lands in one and the same inclusive rent for the whole, when, in addition to the annual value of such lands, the annual value of such dwelling house, and the sporting rights when included in the farm rent, are also included in the total assessment on which such tenant farmer is called upon to pay Income Tax Schedule B.

Differentiation.

14,948. (3) Any other person, not being a farmer, whose dwelling house stands in or forms part of the holding, whether rented or not, of an area exceeding one acre, is liable to pay Income Tax Schedule B in respect of such acreage exceeding one acre on the single annual value, whereas the farmer pays on double the annual value, but the dwelling house whether rented or owned, although being part and parcel of such holding (as the farm house of the tenant farmer in part and parcel of his holding) is not liable for Income Tax Schedule B in respect of its annual value or otherwise, nor are the cottages which are let with and included in the rent of a farm liable to Income Tax Schedule B although they are dwellings. Also the owner of a farm who farms the farm himself and lives in the farm house on such said farm, is not liable to pay Income Tax Schedule B on such dwelling house. Neither is the tenant farmer nor anyone else liable to pay Income Tax Schedule B in respect of the farm dwelling house he rents with his farm and sub-lets to another. Nor is a farmer who either rents or owns a dwelling house adjoining lands he rents and farms, liable to pay Income Tax Schedule B in respect of such dwelling house, although he can and does farm the lands to as great an advantage of proximity, etc., as he would have done had he enjoyed the occupation of the farm dwelling house which formed part of the farm holding, and which latter if he sub-let would not have to pay Income Tax Schedule B.

14,949. (4) If a farmer who lives in the dwelling house he rents with his farm elects to pay under Schedule D instead of Schedule B the annual value of the farm house is not assessable to Income Tax under either Schedule D or B.

14,950. (5) The inclusion of the tenant farmer's house and exclusion of the occupying owner's house to Income Tax Schedule B, dates back to the Act of 1812, since which date the purposes to which the tenant farmer's house are put are very different.

14,951. (6) As regards the sporting rights rented by a tenant farmer and forming part of the inclusive rent of the land, the value of these should be ascertained (the local Assessment Committee could do this), set out with the annual value of the farm dwelling house and cottages, if any, and deducted from the rent paid for the whole, as the farming tenant, if he holds the sporting, only obtains for the sporting the extra value he gives in respect of the sporting rights, and there is clearly no profit in respect of the same as he only gets back what he first pays to his landlord. Neither the landlord nor his sporting tenant, if the sporting rights are reserved, pays Income Tax Schedule B thereon.

Repairs.

14,952. (7) Before 1897 the tenant farmer was assessed to Income Tax Schedule B at half his rent

and tithe less one-eighth for repairs; thus every £100 rent and tithe was assessed at £43 15s., but from 1897 to 1914 the assessment was reduced to one-third of this rent and tithe (annual value), or for every £100 rent, etc., he was assessed at £33 6s. 8d., but no allowance was made for repairs, and he was thus thirty per cent. better off in his assessment to Schedule B than previously.

14,953. (8) The landlord under Schedule A is allowed 12½ per cent. in respect of repairs, the landlord usually finding the greater part of the materials and the tenant the labour, paint, nails, &c., and cartage. To-day the tenant's liability in this respect, owing to a very great increase in cost of labour and horsepower, &c., is as much or more than the landlord's, and it appears that it would be only fair and reasonable to allow the tenant 12½ per cent. If the tenant elects to be assessed under Schedule D the cost of repairs are taken as part of the expenses of the farm and so charged.

14,954. (9) The effect of this differentiation is that the tenant farmer whose rent, for example, is £600, including the farmhouse and sporting rights, but exclusive of cottages, pays under Schedule B on the whole £600, but the occupying owner (who is treated fairly in this respect on the same lines as the general public) if he owns the same farm and lets his sporting at £80 a year and the house is of an annual value of £60, is assessed to Income Tax Schedule B on the remainder, viz.: £460, and will be called on to pay £87 less than the tenant farmer renting a farm of the same annual value (see Tables below). If this same farm is let at £520, the landlord retaining the sporting rights, the tenant farmer pays Income Tax Schedule B £195, or £57 more in respect of the farmhouse (the annual value of which is £60) than the occupier of an ordinary dwelling house or the occupying owner of a farmhouse of similar annual value; in fact, he is mulcted in that sum and is prejudiced to that extent as against the ordinary tenant of a dwelling house or occupying owner, such prejudice being generally considered by our law as intolerable and unjustifiable.

14,955. (10) The peculiar effect of this differentiation in the treatment of the occupying owner and the tenant farmer is this, that if the tenant farmer, whose Income Tax Schedule B is £225 per annum (see Tables below) buys his farm, directly he buys and becomes the occupying owner he is called upon to pay £138 instead of £225, or £87 less, and vice versa if he sells his farm and becomes tenant of it he has to pay £87 more Schedule B.

14,956. (11) If the tenant farmer is allowed 12½ per cent. for repairs his assessment will be reduced from £600 by £75 to £525 (see Tables below), and similarly the occupying owner, if allowed 12½ per cent. for repairs, will have his assessment reduced from £460 by £57 10s. to £402 10s., and he will then pay £76 less than the tenant farmer on the same farm.

14,957. (12) The tenant farmer who pays £600 a year rent has now to pay £225 Income Tax Schedule B in respect of the same farm on which four years ago at the same rent he paid as Income Tax £1 10s., that is, he has to pay for every £1 then £150 now, whilst the whole of the country's Income Tax now yields about six times as much as it did in 1914. Thus the tenant farmer's ratio of increase compared with that of the country's is as 25 to 1 (a somewhat astounding position).

14,958. (13) If Table 5 is adopted it will be eighty times as much as it was in 1914, and even this latter shows the tenant farmer's increase to be in the ratio of 13 to 1, as compared with the whole of the country's increase. This is on the assumption that the total amount of the nation's assessable wealth in 1919 was equal to what it was in 1914, but as a fact it has increased irrespective of our national indebtedness, thus showing a greater disparity.

14,959. (14) Any revision of Schedule B should in fairness cover the period which the Finance Act, 1918, governs, and onward.

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MR. EDWARD BAMES.

[Continued.]

14,960.

APPENDIX.

TABLE 1.

Assessment to Sch. B. of a tenant farmer who lives in the farm house and also has the sporting rights included in his rent of £600.

Annual value.	Assessable to Sch. B.	Rate of tax.	Total amount payable.	Amount paid for same annual value, 1914.	Increase, 1919.
£600	£1,200	3s. 9d.	£225	£1 10s. 0d.	£223 10s. 0d. or for every £1 in 1914, £150 in 1919.

TABLE 2.

Assessment to Sch. B. of an occupying owner of the same farm who lets his sporting for £80 per annum. The farm house being of the annual value of £60.

Annual value.	Assessable to Sch. B.	Rate of tax.	Total amount payable.	Amount paid for same annual value, 1914.	Increase, 1919.
Land ... £460	£920	3s. 9d.	£138	nil	£138
House ... 60	nil	nil	nil	nil	nil
Sporting ... 80	nil	nil	nil	nil	nil
£600					

TABLE 3.

Assessment to Sch. B. of a tenant (not a farmer) of a house with 6 acres of land let for £100, the land, 5 acres, taken as worth £15 annual value.

Annual value.	Assessable to Sch. B.	Rate of tax.	Total amount payable.
Land ... £15	£15	say 3s. 9d.	£2 16s. 3d.
House ... 85	nil	nil	nil
£100			

TABLE 4.

If 12½ per cent. is allowed for repairs to tenant farmers.

Annual value.	Assessable to Sch. B.	Rate of tax.	Total amount payable.	
£600 reduced to £525	£1,050	3s. 9d.	£195 17s. 0d.	being a reduction of £28 3s. 0d. from Table 1.

TABLE 5.

If 12½ per cent. is allowed for repairs to occupying owner.

Annual value.	Assessable to Sch. B.	Rate of tax.	Total amount payable.	
£460 reduced to £402 10s.	£805	3s. 9d.	£120 15s. 0d.	being a reduction of £17 5s. 0d. from Table 2.

If only the land and buildings are assessed at £460 the present tax of £225 is at the rate of 0s. 9d. of each £1 of annual value. A case is known where on this basis the tenant pays 15s. of each £1 annual value. If the tenant farmer were assessed on the same basis

as the occupying owner the tenant farmer would pay £57 less than he now does (see Tables 1 and 2). If the 12½ per cent. were allowed for repairs he would pay £104 5s. less than he now does (see Tables 1 and 3).

[This concludes the evidence-in-chief.]

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MR. EDWARD KAMER.

[Continued.]

14,961. Mr. Kery: We have had your paper, and have read it, and now you will be examined on various points in it with a view to developing it and testing how far it can assist us?—If you please.

14,962. Mr. Prestyman: Your complaint about the house and the sporting rights, refers entirely to Schedule B, does it not?—Entirely.

14,963. Do you recognise that Schedule B is a purely arbitrary assessment, which does not attempt to define the exact profit which the farmer makes, but which he has the option of paying or not, as he likes, in any year? If in any year his profits are less than his Schedule B assessment, he does not pay under Schedule B, but he pays on his actual profits?—Yes.

14,964. If, on the other hand, his profits are more than his Schedule B assessment, he only pays on Schedule B?—Yes.

14,965. Therefore the addition of the house and the sporting rights into his Schedule B assessment, does not raise his compulsory assessment for profits on which he has to pay, but only increases the arbitrary figure on which he is voluntarily assessed, which amounts to an admission that he has made more than that?—Yes, but what about the occupying owner, who stands in the same position? He is the tenant of his own land.

14,966. He is the occupier of his own land; not the tenant, but the occupier?—I beg your pardon; he is the tenant; he holds it.

14,967. He occupies it?—And he holds it.

14,968. Yes, he holds it?—I am sure I am right in that respect. He holds it on exactly the same lines as the tenant farmer. He has nothing to pay in respect of Schedule B on the house he occupies. You see, there is a difference drawn between the man who occupies on his own account, and the man who occupies as the tenant farmer; but the profits arising are exactly the same, and on exactly the same basis. I am quite sure, from what I have heard of the arguments in the House of Lords, when I have been there, that they always take the view that they will not see an advantage given to one person over another in a similar position.

14,969. So that your point is not so much that it is a hardship, as that it is an inequality?—That is my point right through; it is a hardship as well, because the man who farms the land without the house on it, makes exactly the same profits from the land, whether he has got the house there or not. If his house is across the road and it belongs to him or someone else that house is not assessed under Schedule B.

14,970. But no man is compulsorily assessed under Schedule B at all as an occupier of land—either owner or occupier?—But is not Schedule B the first law, and the other the alternative law?

14,971. I do not think it makes much difference which is the first and which is the alternative, because the occupier, whether a tenant farmer or an owner, has a right of choice?—Yes, I quite agree with that, but then you come to the question of the man who has a house and several acres surrounding it.

14,972. In which he is living, you mean?—Yes, but not a tenant farmer. He comes under Schedule B.

14,973. Compulsorily; that is quite a different thing?—But then his house is not assessed under Schedule B.

14,974. No; but then that is a compulsory assessment; he has no right of escape from it at all?—I quite agree with that. I am an occupying owner. I do not complain at all of my position, but I do say I cannot, as a Britisher, sit still and see what I call a tremendous injustice on certain men. I have been brought up to the farming and land agency all my life—I have retired from land agency for the last fifteen years—and I do know that there is an enormous number of men who have risen from the ranks, who cannot compete with this question of making accounts. Schedule B is absolutely the only thing that they can go upon.

14,975. I see what you mean. Very simple accounts are all that are required. Even the bank-book, they told us, would be accepted?—Yes, I quite agree. It can be, perhaps.

14,976. Is it not desirable that farmers should be, as far as possible, induced to keep some accounts, to know where they stand?—It might be, if you wish to increase their costs as regards accountancy.

14,977. Every farmer has to have a bank-book, has he not?—He has a bank-book. I am sorry to say we have.

14,978. Some of them look rather better than they did ten years ago, do they not?—I am afraid they will look a great deal worse this year, from what I can see of it.

14,979. I quite see your point. It is quite obvious there is an inequality?—Yes, an inequality, and such a tremendous inequality. I would draw your attention to the fact that this inequality sprang up in 1842, I believe, when this Act was passed. I rather fancy at that time there were more people in the same position that I am in, than there were tenant farmers.

14,980. Under Schedule B very few farmers paid anything then; so it did not much matter, did it?—In 1842?

14,981. Under Schedule B, when it was only one-third of the rent?—It was not one-third in 1842.

14,982. Was Schedule B imposed in 1842?—Yes; I have had extracts from that Act sent me.

14,983. What was the assessment under Schedule B then?—I could not tell you.

14,984. Was it one-third of the rent?

14,985. Sir E. North-Bower: No; it was one half of the rent less one-eighth; that is seven-sixteenths.

14,986. Mr. Prestyman: This trouble really emerges, does it not, from the very great change made in Schedule B, which instead of being as it originally was, one-half of the rent with one-eighth allowance, and then subsequently one-third of the rent, has now become twice the rent?—Yes; and as I pointed out in my evidence-in-chief, it sent up a man's assessment on a £500 annual value, £50-fold.

14,987. But unless he has made the profit, he need not pay it?—Quite so, always providing, of course, he takes the trouble.

14,988. It is worth while, is it not, taking some little trouble to avoid making such a payment as that?—You have, as I say, the occupying owner put on a different level.

14,989. Only in respect of the house and sporting rights?—Yes, and a very big item indeed. I have a case near to me where, if that was taken into account, the man would be relieved of £240 a year taxation.

14,990. Of course there is the possibility, in there not, that the Chancellor of the Exchequer might take the view that instead of equalising by taking it off one man, he might equalise by putting it on to the other?—Are you speaking of farming only?

14,991. I am speaking entirely of the house and the sporting rights. If it is only a question of an inequality, an inequality may be removed by levelling up or levelling down; and your suggestion is that the tenant occupier should be put in the same position as the occupying owner?—Yes.

14,992. But the Chancellor of the Exchequer might take the view that the occupying owner should be put in the same position as the tenant, and should pay?—If he does, we must stand that; but at the same time, it seems a very extraordinary position.

14,993. Yes, I think there is a very strong case, except for the point of its being an arbitrary tax; you must bear that in mind. It does not profess to be a real measure of income. I may tell you that we have had witnesses here who have put in very strong claims on behalf of the commercial community that a farmer ought to be made to pay on all his profits, as a trader does?—He does not object to it, in the least.

14,994. I think you would find it very difficult if you had to be assessed in the same way as a trader;

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MR. EDWARD EAMES.

[Continued.]

you would then have to keep a very different sort of accounts sometimes?—There might need to be accounts, but the result would not be different.

14,985. I think you want to be a little careful before you give that answer—that you do not object to be compulsorily assessed under Schedule D?—I do not see there is any peculiar objection in it myself. Take sporting rights—how much you might arbitrarily put those up. But you cannot put sporting rights up arbitrarily, because you cannot prove that there is any profit to the man who rents sporting rights and uses them.

14,986. And you cannot prove that there is any profit to a man from his garden, but he has to pay under Schedule B in respect of it?—It is assumed that he would not take that land unless it answers his purpose.

14,987. He would not take the shooting unless it answers his purpose?—There is no profit to that; it is an enjoyment.

14,988. So is his garden?—A lawn is, but not a kitchen garden.

14,989. You must bear that in mind—that the assessment under Schedule B is purely arbitrary, and it is for the Chancellor of the Exchequer to say at what figure he will fix it, so that the tenant farmer may have the option, if he likes, of paying what appears to be a very high figure rather than go into a very detailed account of his profits, which would be somewhat difficult. But if he chooses to give an accurate statement of his profits, and they are less than his Schedule B arbitrary assessment, he need only pay on those profits, and then neither of those two questions of the house or sporting rights arises. So I think you will agree there is no really heavy grievance so far as the compulsory over-payment of tax is concerned. There is a grievance so far as inequality is concerned?—That is it; he is prejudiced.

15,000. I do not want to repeat my questions. Now I would like to take your instance, because it is germane to what I have been saying just now. On Table 2, in the Appendix to your paper, you have made a calculation showing the case of a farm with an annual value of £800 in the hand of an owner-occupier, with the house and the shooting severed. Have you not miscalculated there in taking your rate of tax as 3s.? Have you not omitted to take into account that the owner-occupier would be assessable not only under Schedule B at £820, but also under Schedule A on the annual value of the land, and the rate of tax would therefore be higher? It would not be 3s.; it would be 4s. 6d.?—I think not as the occupying-owner.

15,001. Yes, certainly; the rate of tax depends upon his total income, Schedule A plus Schedule B?—Yes, I quite admit all that, but that does not destroy the argumentative position.

15,002. I am not discussing the argument; I am discussing your figures; and your £138, I suggest, ought to be £208?—It might possibly be so, always provided that the landlord had not mortgaged his property and got a rebate in that direction. Then it would not be so.

15,003. I do not think that affects the argument at all, does it?—Yes, certainly, because he cannot show a balance of profit if he has mortgaged it up to the hilt.

15,004. But that does not really affect the question. If a man has a mortgage on any kind of property, whether it is agricultural or other, he has to pay interest on the mortgage, and that naturally reduces his income to that extent and he pays so much less Income Tax. Here you are taking the simple case of what a man has to pay who occupies property; naturally the question of mortgage is a secondary question, which does not enter into it at all. I only suggest that on your own case here your figures are wrong; and I suggest you have made a mistake in the rate of tax, and that instead of being 3s., it should be 4s. 6d.?—I am not sure about that.

15,005. Will you look into that?—Yes, I will, but I am not at all sure about it.

15,006. Your figures show a difference as between £225 and £138, which is very large. The real difference, I suggest, is between £225 and £205, which is comparatively very small?—I am rather inclined to think, from what I know of taxation, in that case it might be impeached but I am not at all certain, as I say, if the property is mortgaged. After all, you only pay on your net income.

15,007. Then on the question of repairs. In paragraph 7 of your paper you say that a tenant before 1897 was assessed to Income Tax on Schedule B, at half his rent, and tithe, less one-eighth for repairs. Is that correct?—Yes.

15,008. I do not think there was ever one-eighth for repairs in the case of a tenant farmer. Was the one-eighth not allowed for a different reason?—We were always given to understand that that is what it was for. I do not know more than that.

15,009. *Sir E. Nott-Bower*: I think there is a misunderstanding there. If you look at the Act you will see what the one-eighth was for. Under the Act of 1843 that one-eighth that was allowed was merely to equalize matters as between land which was subject to tithes and land which was tithe free. You will see under Schedule B, that duty is to be charged by reference to the full amount of the annual value thereof as estimated under Schedule A on one half the value, provided that in all cases where lands are subject to a rent charge in lieu of tithes under the Act passed for the commutation of tithes, and in all other cases where lands in England are not subject to tithes or to any modus or composition real in lieu thereof, there shall be deducted out of the duties contained in this Schedule a sum not exceeding one-eighth part thereof. That is section 63 of the Income Tax Act, 1842, No. 7 of the Rules in Schedule B. If you look it up you will see that that is the history of the one-eighth; and I am quite sure when you look at it you will see why it was necessary to make that differentiation. It is a differentiation to obtain equality. What you will not see, I think, is why the proportion should be exactly one-eighth; I do not myself know why the proportion was taken at exactly one-eighth, but I dare say one-eighth is about the right figure.

15,010. *Mr. Prettiman*: There never was an allowance for repairs to the tenant farmer?—I was under a misapprehension, then; that is what I always understood it was for.

15,011. Probably because latterly there has been one-eighth allowed to the landlord, and then when it was remembered that one-eighth was previously allowed there may have been some confusion of ideas and it was assumed that that was also for repairs; but there never was an allowance to a tenant farmer for repairs. Is it not a fact that the question of repairs as between an owner and his tenant is really a matter which must be adjusted in the rent and as to which the taxing authority cannot have anything to say?—Of course you know the position has enormously altered from what it was before the war. It costs now probably more than double as much to do the repairs as it did before.

15,012. The cost to the landlord has also very much increased?—I admit that.

15,013. The part of the expense that the landlord has to find comes out of the rent. Is it your experience that rents have been raised since the price of corn and other farm produce went up?—Not much, only occasionally.

15,014. There has been practically no raising of rents?—There has been, where there has been more meadow land, sometimes.

15,015. But, generally speaking, the rise of rents is immaterial?—I believe it was thought there was no infringement of what Parliament wished in that.

15,016. There has been no raising of rents, whatever may have been thought or whatever the reason may have been?—When properties have been sold the rents have been raised enormously. I know of a case where the rent of a farm was raised from 2000 to £1,000.

15,017. That may have occurred where properties have been sold, very possibly, and it may be that

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[Continued.]

there have been higher rents when farms have changed hands?—Yes.

15,038. Where a farmer has voluntarily given up a farm there may be some cases in which the rents have been increased on a new tenancy?—Yes, there is no doubt about that.

15,039. But, generally speaking, apart from that, the question of repairs is a matter which has to be adjusted in rent between the landlord and the tenant. If a tenant farmer found that he could no longer carry out his obligation in respect of repairs his remedy would be to go to the landlord and ask for a reduction of rent, would it not?—Yes, no doubt it would, or quit.

15,040. The one-eighth which is allowed to the landlord, or whatever sum is allowed to the landlord for repairs, has, as you know, been extended now to the full cost?—Yes.

15,041. So that the State now allows in respect of any agricultural occupation a deduction from the tax payable on that occupation of the full cost of repairs and maintenance?—Yes.

15,042. Therefore, if an additional allowance were given to the tenant the allowance would be given twice over?—I do not quite agree with that, because a landlord finds materials as a rule and the tenant does the cartage and labour, with few exceptions.

15,043. So that what you mean is that the allowance does not really cover now the full cost?—No, it really does not. I am not saying the landlord does not deserve every bit he gets out of it, because I am too well experienced in it.

15,044. But you are saying that there is an additional cost beyond what the landlord can claim that he spends?—Yes, and a very large one.

15,045. Are you familiar with the custom of the country in various parts of England?—A great deal in the south; not much in the north.

15,046. Is it your experience that tenant farmers have been in the habit of spending considerable sums of money on maintenance and repairs of their permanent buildings?—There is a very great difference in the men.

15,047. But that is customary, is it?—No, but they got neglected in dilapidations at the end if they do not keep it up.

15,048. Is it your experience that surveyors and valuers make any considerable charge against an outgoing tenant for dilapidations?—It varies enormously. I saw a case which was brought against one of the best tenants in England for £700 odd, and he got awarded £70.

15,049. So he did not have to pay much?—No, but you asked me whether they bring claims.

15,050. I asked you whether it was your experience that valuers allowed large claims for dilapidations against outgoing tenants, and that answer would indicate that they do not?—No, not where there is a good tenant. Where there is a bad tenant they very often get large allowances.

15,051. It has not been my experience. I should rather like to have some instances of that, if you could submit them. I think it would be very valuable to us if you could let us have some evidence of actual cases within your knowledge, where large dilapidations had been allowed against an outgoing tenant for permanent buildings. This is entirely a matter of permanent buildings?—Yes.

15,052. Mr. Kerly: Anything, for instance, like the dilapidations which are allowed against the executors of a deceased incumbent. Have you ever known an outgoing tenant farmer have to pay on the same scale as an outgoing incumbent has to pay?—No, I do not think so. I must confess that. The outgoing incumbent is supposed to keep it up without any waste from effluxion of time.

15,053. Perhaps it is not strictly relevant?—I think I understood you to mean the Clergy?

15,054. Yes?—That is the ecclesiastical law, as far as I recollect. They have to maintain the thing in the state in which it should be

15,055. I was rather thinking myself that it is because the same man has time after time to value between A, who is just going out, and B, who is just coming in, and presently he will have to value between B, who is going out, and C, who is coming in, and that tends to keep a certain level?

15,056. Mr. Prettiman: I think it is generally recognised that the liability for the maintenance and repair of permanent buildings is a liability on the landlord?—Yes, it has become more so than it was.

15,057. In some districts in England the tenants do paint, for instance, and maintain gates?—I doubt whether paint is a repair.

15,058. It is maintenance?—It is maintenance, not a repair.

15,059. The same thing exactly applies; the allowance covers maintenance as well as repairs?—Yes.

15,060. If the landlord repairs a building and part of the completion of the work involves painting, that painting is allowed for, just the same as the carpentering or the masonry?—There is no doubt that the position of the landlord has become more onerous as years have gone on, because the tenants will not undertake roofs and walls, and that sort of thing, and it is quite right, I suppose, that they should not; they used to.

15,061. This allowance that you are asking for only applies to Schedule B?—Yes.

15,062. So we come back to the same point, that unless he makes a profit he need not pay on it?—He does not pay it on Schedule D, because it comes in as a deduction.

15,063. If by his expenditure on assisting in the maintenance and repair of the building he occupies his profit for the year is reduced below the arbitrary Schedule B figure, he will not pay on any more than his actual profit?—Quite so, but I think it should be clear that the value of the house is not brought in under Schedule D.

15,064. Dr. Stamp: This particular disability of the tenant farmer is quite a recent one, is it not; it existed to hardly any extent before the war?—Of course, now the tax is so tremendously heavy it is felt more heavily; the principle was always there.

15,065. Was there any real difference between the two before the war? Just take this case, and tell me how it works out. A farmer assessed on a farm at £63 before the war, when the rate was 9d., would have paid under Schedule B on one-third of that—twenty-one ninetieths?—Yes.

15,066. The very fact that he was assessed under Schedule B to include the farmhouse made him entitled to have the value of the house assessed at a lower rate for House Duty, did it not?—Yes, I suppose it would have.

15,067. It would have been assessed on £63 at 6d., instead of at 9d.?—I believe so. I could not say without the schedule prices in front of me, but I suppose that is so.

15,068. So he would have been saved 63 threepences, or 21 ninetieths, the same amount as he was assessed under Schedule B. Is it a grievance brought about entirely by the rise in rates since the war?—The rise in the Income Tax rate, yes; but the grievance was there in principle.

15,069. In that particular instance it balances out. He got an advantage out of House Duty which made up, at any rate on those figures, the disadvantage under Schedule B?—I have not gone closely into it; I suppose you have.

15,070. It is a rule, is it not, that wherever a house is included in Schedule B it ranks as a farmhouse for House Duty, and is charged at the lower rate?—Yes, that is so.

15,071. I take it that the case you put as between Table 1 and Table 2, you would really base on this ground. You have been asked a question as to the accuracy of the rate of tax in the second table. What you would say is that if you, as an individual

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[Continued.]

with a fixed amount of capital, desire to go into farming you have the choice of putting all your capital into a tenant farm, or of buying your farm mortgaged to the hilt?—Yes.

15,052. And as between two men with the same capital the one has a great advantage over the other?—Yes, that is so.

15,053. You are comparing two men with the same capital?—Yes, I am.

15,054. In the one case where the man puts the whole of his capital into the tenancy of the farm, and the other where he also puts the whole of his capital into the tenancy of the farm, and has only a nominal ownership?—Yes.

15,055. Is that a common case?—I am afraid it is getting very common now—too common.

15,056. Taking farms mortgaged to the hilt?—Yes. One of the greatest misfortunes to this country, in my opinion, is the dismemberment of the fine estates of the good landlords; the tenants, to save their homes, go and put themselves into a position which, as my father taught me, where a man has got a family, is a most dangerous position to get into.

15,057. Mr. Kerly: Let me see if I understand. Dr. Stamp has put your grievance one way, but is not there another aspect of it? A farmer, instead of being taxed as either trader or manufacturer on his actual profits, is charged on an assumed profit, which is taken to be double his rent; that is assumed unless he chooses to produce accounts and show what he has actually made; he is charged on double his rent instead of his actual profits. Is that on the assumption that that will be in the normal case a rough and ready estimate of his actual profits?—Yes, I quite agree with it, as regards the profits arising from the land, not from the house.

15,058. That is how we start charging the farmer. Then you say if the farm includes a house, that house has no relation to his profits, and it ought to be excluded?—Quite so.

15,059. And therefore you ought to take his rent, excluding so much of the rent as is paid for the house?—Quite so.

15,060. And, further, you say you can get at that result if the farmer chooses to take a farm without the farmhouse, and house himself on a separate holding?—Yes.

15,061. And if he does that, the result which seems to be logical will be actually arrived at?—Yes. Further than that, if a tenant farmer takes a farm with a house on it in one inclusive rent and lets that house to a third party, he does not pay on that house Schedule B.

15,062. That is a way of arriving at the result that I suggested?—Yes.

15,063. Is there anything further you want to say?—I want particularly that question of sporting right to be clearly understood, because no one except the tenant farmer pays under Schedule B for sporting right—not a single individual in this land.

15,064. May I ask you a question upon that? You will have to distinguish, will you not, between the value of sporting rights to the occupier and the value of sporting rights if separately let?—I think you will find I have made a note in my evidence-in-chief that that could be ascertained very easily by the local Assessment Committee.

15,065. We should all be agreed that there is a difference. Take the illustration you give of sporting rights over a farm which might be let separately for £50?—Yes.

15,066. A farmer probably would not be charged more than £20 in respect of those?—I think so; he would be charged what they considered they would reasonably let at.

15,067. What they would let separately at? I do not know, but I am told under the practice it is not so?—I am on an Assessment Committee, and we always rule that everything should be put on the basis of what it would reasonably let at from year to year.

15,068. Separately?—Whatever it would fetch. The value of a sporting right to a tenant farmer is far more than some people imagine. I will give you an illustration in my own case, if I may. I am occupying owner. I can let my shooting, and have let it, at various sums from £100 to £150 a year. It does not pay me to let it to-day.

15,069. Is that because of the inconvenience of having strangers walking over your farm?—Yes, and keepers about hindering my men and horses; I lose more than I get when I pay the extra Income Tax. That is from a man who weighs up everything on his farm to the last penny piece.

15,070. Mr. Marks: May I ask what you consider the sporting rights of your land are worth to you yourself?—Nothing whatever. I hope you perfectly understand I am absolutely disinterested in this matter. Whatever comes, I do not gain a penny piece; it is only as a lover of justice that I come here.

15,071. You come here purely from patriotic motives?—I like level pegging.

15,072. Mr. Kerly: Thank you, Mr. Enmes, we are much obliged to you.



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ON

THE INCOME TAX.

MINUTES OF EVIDENCE.

PART II.



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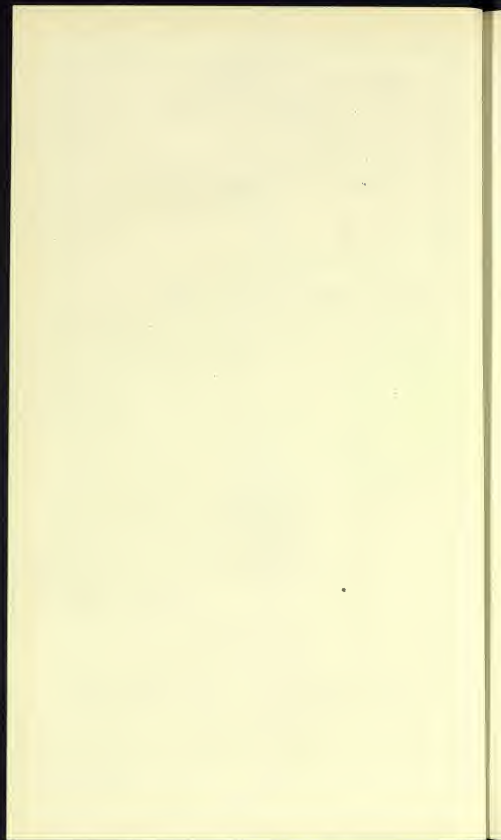
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TWENTY-THIRD DAY, **WEDNESDAY, 8TH OCTOBER, 1919.**

PRESENT :

LORD COLWYN (*in the Chair*).

SIR T. P. WHITTAKER.

MR. BRACE.

MR. PREYTMAN.

SIR K. E. NOTT-BOWER.

SIR W. TROWER.

MR. HOLLAND-MARTIN.

MR. ARMITAGE-SMITH.

MR. BIRLEY.

MR. WALKER CLARK.

MR. KERLY.

MRS. KNOWLES.

MR. MCINTOCK.

MR. MANVILLE.

MR. GEOFFREY MARKS.

MR. MAY.

PROFESSOR PIGOU.

DR. STAMP.

MR. E. R. HARRISON, an Assistant Secretary to the Board of Inland Revenue, recalled and examined.

The witness handed in the following statements as his evidence-in-chief:—

No. 1.—POINTS ARISING IN CONNECTION WITH TAXATION AT THE SOURCE.

Rate of taxation at the source.

15,073. (1) In the course of his examination by Mr. Kerly on the 18th June, 1919, Mr. Hopkins was desired to put in a memorandum stating the view of the Department on a suggestion for reducing the rate at which Income Tax is deducted at the source (see Question 4441). The following statement contains the conclusions to which the Board of Inland Revenue have come when from time to time this question has been under their consideration.

15,074. (2) By way of illustration, it is assumed in the following paragraphs that the standard rate of Income Tax (at which rate tax is now deducted at the source) is reduced from 6s. in the £ to 3s. 9d. in the £, the rate chargeable on unearned income where the total income of the taxpayer exceeds £500 but does not exceed £1,000. The statement which follows would, however, apply without large modifications if the rate were reduced to any other similar amount.

15,075. (3) The suggestion under discussion would presumably be designed to effect four principal objects—

- (a) to reduce the number of repayment claims and the amounts involved therein;
- (b) to reduce departmental work in calculating the relief to be allowed from a direct assessment in cases where part of the income of an individual has been taxed at the source by deduction at a rate higher than that to which the taxpayer is liable;
- (c) to simplify the practical problems arising in the graduation of the tax; and generally
- (d) to save cost and trouble both to taxpayers and to the taxing authority.

It is proposed, in the first instance, to examine these aspects of the matter.

Effect on repayment claims of reduction of standard rate to 3s. 9d.

15,076. (4) The proposal would not, in fact, largely reduce the number of repayment claims. The total number of persons (chiefly, but not entirely, individuals) making such claims in a year is estimated at 940,000. Of these, 560,000 are preferred by individuals entitled to a total exemption by reason of their incomes not exceeding £130. A further 50,000 are exemption claims by charities and Friendly Societies, and other claims preferred on grounds which have no reference to the rate of tax deducted. If tax were deducted at the source, at the rate of 3s. 9d. instead of at 6s., none of these 610,000 claims of repayment would be avoided, though the amount

of tax repayable would be very considerably reduced. Of the remaining 350,000 claims, only a portion have exclusive reference to the rate of tax deducted; a large proportion have reference to the allowance of the statutory abatements, admissible where the income does not exceed £700, and the allowances for wife, children, Life Insurance premiums, sundry over-charges, &c., and such claims would not as a whole be avoided (though, again, the amount repayable would be less) by reducing the rate of tax deducted at the source.

15,077. (5) The explanation of the relatively small number of repayment claims that have exclusive reference to the rate of tax deducted is, of course, that wherever possible the excess tax deducted is allowed as a set-off against direct payments of tax falling to be made by the individuals concerned. Of repayment claims that have exclusive reference to the rate of tax deducted, a considerable percentage are concerned with incomes between £130 and £500. On these tax is payable at the rate of 3s. in the £; that is, 9d. less than 3s. 9d., the rate applicable to unearned income where the total income exceeds £500 but does not exceed £1,000. These repayment claims would not be avoided unless it were proposed to institute the same rate of tax for all unearned incomes where the total income does not exceed £1,000. If this proposal were adopted, and the rate applicable to such incomes were 3s. 9d., the course taken would, in the Board's opinion, find no favour; indeed, there is evidence that there exists in certain quarters a demand not for increasing, but for reducing the unearned rate upon incomes below £500, so as to bring it nearer, or make it equal, to the earned rate. On the other hand, the adoption of so low a rate of deduction at the source as 3s. (though it would materially reduce the number of repayment claims) would bring in its train such difficulties (including the assessment to Super-tax of all persons—over 400,000 in number—with incomes lying between £500 and £2,000) that it could scarcely be seriously entertained.

15,078. (6) For the reasons above indicated, it is likely that the number of repayment claims would be reduced by only about 30 per cent. if the rate of deduction were reduced from 6s. to 3s. 9d. The amounts repayable would, of course, be substantially reduced in all cases.

15,079. (7) Serious hardship can hardly be said to be caused to taxpayers by deduction of tax at the source, save in cases in which the aggregate deduction exceeds the taxpayer's aggregate liability to Income Tax. In these last-mentioned cases (the number of which is reduced by the practice of charging income from property by deduction under Schedule A at the rate appropriate to the income of the owner, instead of at the standard rate in every case) the hardship felt is not merely (and probably not mainly)

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[Continued.]

the amount of the excess of tax deducted, but also the degree of delay and difficulty experienced in securing the proper refund. It is clear that the scheme now under consideration could not relieve the persons whose repayment claims it avoided from making statements of total income, and that the whole matter turns mainly on the undesirability of keeping claimants for a long time out of their money. With a view to diminishing this hardship, as has already been stated to the Royal Commission, the Board of Inland Revenue have for some time had plans in preparation, and only await release from the pressure of war conditions upon their staff to put them into operation, with a view to ensuring that all taxpayers may obtain repayment expeditiously—and at frequent intervals if they so desire—on the minimum evidence necessary for security. The Board hope to bring these plans into operation in from 12 to 18 months from the present time.

Reduction of departmental work.

15,080. (8) It may fairly be claimed for the proposal under consideration that it would reduce departmental work in calculating relief allowable from direct assessments in respect of tax deducted at the source at too high a rate. This reduction is referred to in paragraph 10 below.

Easier graduation.

15,081. (9) It may be suggested, thirdly, that a lowering of the rate at which tax is deducted at the source would mitigate the difficulties of graduating the tax smoothly. In paragraph 59 *et seq.* of his evidence-in-chief on graduation (Questions 4024 *et seq.*), Mr. Hopkins indicated various methods by which imperfections in the existing graduation could be dealt with, without the dangers and difficulties inherent in the introduction of the machinery of a Super-tax in the case of incomes over £1,000. For the rest, the difficulties which attend this matter are not intrinsically connected with the particular rate at which tax is deducted at the source. The difficulties are rather those indicated in Mr. Hopkins' evidence at Question 4017, and would not be materially lessened by an alteration in that rate.

Convenience to taxpayers and officials.

15,082. (10) Fourthly, it may be suggested that the lowering of the rate of deduction of tax to 3s. 9d. in the £ would, in general, be a convenience to taxpayers and to the administration. It would, in a very considerable proportion of cases, avoid the necessity of adjusting the amount of tax charged under a direct assessment so as to effect a set-off of tax deducted at the source at an excessive rate. In this way, from the departmental aspect, it would effect a very considerable clearance of labour involved in the checking of claims for relief made by reference to the total income of a taxpayer from all sources. But, on the other hand, the lowering of the standard rate of 3s. 9d. involves carrying down the Super-tax to £1,000 and bringing 165,000 more taxpayers within the scope of that special machinery. This course would add greatly both to the labour and to the cost of administration.

15,083. (11) In the Board's opinion, the additional work would definitely outweigh the saving first mentioned as regards the checking of total income claims. At the same time, the proposed system would, in their opinion be, on the whole, less convenient to taxpayers than the existing system. It will be recalled that there are large numbers of incomes which only slightly exceed £1,000 and which would therefore be liable to a very small Super-tax. The levy of a small additional duty on a large body of taxpayers would be likely, it is suggested, to create a sense of discontent. It will be recalled, also, that where Income Tax is deductible at the source from rents of landed property or house property or from remuneration assessable to Income Tax under Schedule E, the deduction is made, not at 6s. in the £, but at the rate to which the individual taxpayer is liable. Reduction of the standard rate to 3s. 9d. would be an inconvenience to taxpayers with incomes between £1,000 and £2,500 derived wholly or mainly from such source—involving, as it would, a levy of a separate direct tax

upon them, whereas they are now charged (by deduction) at the correct amount.

15,084. (12) It is also the case that of the 165,000 taxpayers whose incomes are between £1,000 and £2,500, large numbers derive a considerable part of their incomes from earned sources. In these cases any over-deduction of tax from unearned income is at present set off against the tax directly payable on earned income. This arrangement is convenient to the taxpayer, only one direct assessment being made on each item of income. To renounce this arrangement in favour of one that entailed in all these cases a further direct assessment on a part, or the whole, of the income at an additional rate of tax would, in the opinion of the Board, be troublesome both to the public and to officials.

Ultimate consequences of reduction of standard rate.

15,085. (13) The Board submit the foregoing observations on the apparent advantages which may be claimed for the suggestion. It is, however, to its ulterior consequences that they wish to invite special attention.

15,086. (14) It will be recalled that at the present time some £225,000,000 of income chargeable to Income Tax is not distributed to individuals in this country: it consists mainly of income of corporations (*e.g.*, the sums placed to reserve by companies) and to a smaller extent, of income distributed to persons (either individuals or corporations) resident abroad. This income is now automatically taxed at the standard rate at which tax is deducted at the source, viz., 6s. in the £. The yield at 6s. is £86,000,000; the yield at 3s. 9d.* would be £42,000,000. The loss of duty involved is thus roughly £24,000,000 per annum.

15,087. (15) So far as the Board are aware, there is no ground on which this surrender of £24,000,000 of revenue could be justified and certainly no advantage to be derived from the suggestion under present consideration that would justify it. As regards that part of the income in question which is distributed to residents abroad, a part, but probably not a large part, of the loss could be recouped by a special absentee tax of 3s. 9d. in the £, but the character and object of such a tax would, as it appears to the Board, be liable to be misunderstood. It might be interpreted as a special discrimination against all non-resident investors drawing income from this country, and, consequently, it might operate to discourage the investment of capital in this country by persons resident abroad. Any misunderstanding as to the nature of the tax such as that suggested might also result in attempts to evade it, *e.g.*, by the registration of shares, &c., in the names of resident nominees. So far as concerns that part of the income which is income of corporations, &c., resident in this country (and this constitutes the main part), the loss could be made good by the imposition on that income of "Super-tax" of 2s. 3d. in the £. The levying of this tax would, of course, involve labour and expense. Its imposition would be likely to give rise to misapprehensions and misgivings—and therefore to appeals for relief—which, as it appears to the Board, it would be very desirable to avoid.

15,088. (16†) In the notes which accompany the Table of Distribution of Income (Table I of the Statistical Tables furnished to the Royal Commission in June, 1919, *see* Appendix No. 11, par. 9) it is stated that the figures reveal a leakage of Super-tax. There is no doubt as to its main cause. It is clearly attributable to the weaknesses of a system of direct assessment as compared with taxation at the source. Its extent, which the best information at the command of the Board suggests is considerable, has for some time been a source of anxiety. In normal circumstances a fuller system of checks would have been applied, but the extreme pressure which war conditions have entailed for the Board's staff has up to the

* Subject to allowance for certain reliefs.

† This and the four following paragraphs relate to leakage of Super-tax upon income which is assessed to Income Tax. In addition no doubt there are taxpayers in all classes who avoid payment of Income Tax on a part or the whole of their income when the tax is not collected at the source. This question is not developed here as it is immaterial to the arguments.

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[Continued.]

present time frustrated this intention. It is, therefore, not practicable to estimate how far the present leakage can be stopped by such means.

15,089. (17) Leakage is inherent in any system of direct assessment as opposed to a system of collection at the source. Leakage of Super-tax occurs mainly in connection with income from which Income Tax is collected by deduction at the source. The causes of this leakage are twofold—either wilfully wrong returns and wilful failure to give notice of liability, or genuine error, ignorance, carelessness and a natural inclination of the individual to give himself the benefit of any doubt. It is possible, also, that leakage results not merely from the opportunity offered by self-assessment, but from a feeling, comprehensible even if illogical, that when income has already been taxed it is justifiable to avoid its being taxed a second time. The present Super-tax commences from 6s. in the £. If it commenced from 3s. 9d., not only would the leakage be increased by the addition of 2s. 3d. in the £ to the average rate of tax lost on the income undisclosed, but the greater rate of tax to be avoided by omission of income would form a stronger incentive to deliberate concealment.

15,090. (18) Moreover, in addition to a greatly increased leakage affecting nearly 60,000 incomes exceeding £2,500, the area of leakage would be extended to a further 165,000 incomes between £1,000 and £2,500. The power to evade would be reduced by the larger proportion of earned income in that range, and the incentive to evade might appear to be less in so far as the rate in the £ at which Super-tax would be leviable would be less; but there is a set-off against the latter point in that the burden of the smaller tax is felt by the smaller income as heavily as the burden of the greater tax by the greater income. The task of checking leakage, which has certainly not yet been adequately accomplished in the present Super-tax area, would be very greatly increased in difficulty by extending the area to include incomes far greater in number and, on the whole, less distinctive in character.

15,091. (19) It will be recalled, also, that duty is now lost by the adoption by taxpayers of devices not contrary to law for excluding income from the scope of legal liability to Super-tax. Except so far as it may be found possible to strengthen the law in order to minimise this leakage, the suggestion now under consideration may in some connections involve increased leakage from this source in the same manner as it would involve increased leakage from evasion which is illegal.

15,092. (20) The exceedingly difficult questions as regards income accruing to residents abroad and non-personal income generally, which are involved in the suggestion to reduce the standard rate to any such figure as 3s. 9d., the serious leakage of duty which, in the Board's judgment, it inevitably involves, and the inconveniences attaching to a greatly extended Super-tax, appear to the Board altogether to outweigh the very limited advantages which, so far as they can judge, attach to the suggestion.

Rules for the deduction of Income Tax when the rate of tax is altered.

15,093. (21) The collection of Income Tax by deduction at or near the source involves the taxation of income where it is receivable without primary reference to the ultimate destination of the income; thus, for example, business profits are taxed in the hands of the trader without deduction for amounts paid away in interest on borrowed capital or dividends on shareholdings. Persons paying interest or dividends out of taxed profits are allowed to deduct the appropriate amount of tax on payment, and in this way the aggregate amount of tax charged in respect of a particular source of income is passed on to the persons who ultimately enjoy the income.

15,094. (22) Interest, dividends and other income may, however, be paid out of funds which have not borne Income Tax. Examples of income of this class are interest on Government and municipal securities and dividends paid in this country on shares in foreign and Dominion companies. The profits of such companies, so far as they arise from trading abroad, are not subject to United Kingdom Income Tax unless the company is directed and managed

from this country. In such cases (with the exception of interest on some recent War Loans) the tax is similarly collected at the source, the law requiring the agent making the payments to deduct the appropriate amount of Income Tax and to pay over to the Revenue the amount so deducted.

15,095. (23) So long as the rate of Income Tax remains constant, no question arises as to the rate at which deduction should be made. But whenever the rate of tax is altered, different views may be taken as to the rate of tax that ought to be deducted from payments which cover a period of time extending on both sides of the date (6th April) at which the change of rate takes effect. For instance, if the rate of tax for the year 2 is 6s. in the £ and the rate for year 3 is reduced to 4s. in the £, the question will arise whether the rate to be deducted from a payment made during the year 3 which relates to a period of time running back, in whole or in part, into the year 2 should be 6s., 4s., or a figure lying between these amounts which represents the mean rate applicable to the period covered by the payment. The legal rate of deduction is at present governed by two separate rules which are respectively applicable to distinct classes of payments. These rules, and the cases to which they apply, may be summarised as follows:—

(i) payments made out of taxed income.—Income Tax is deductible at the rate, or an average of the several rates, in force during the period of accrual of the payment (the "accruing rate").

(ii) payments not made out of taxed income.—Income Tax is deductible at the rate in force at the time of payment (the "time of payment rate").

Basis of rules.

15,096. (24) Both rules, of course, rest upon a statutory foundation. The idea underlying the first rule is, no doubt, this—that the rate of tax deductible from a payment made out of taxed income should correspond with the income out of which the payment was made. As regards payments not made out of taxed income, this consideration does not apply. The natural course would be to tax at the rate in force at the time of payment, and this is, in fact, the present law.

Demand for uniformity.

15,097. (25) The deduction of Income Tax at different rates from apparently similar payments gives rise periodically to a certain amount of complaint on the part of the public, which from time to time finds expression in the Press. It is, of course, difficult for a person who is not an expert to understand why, for instance, two separate payments of interest which he receives on the same day in respect of the same year or half-year should be taxed at different rates. The position becomes still more puzzling to him when he finds that the rate of tax deducted from one of these payments is neither the rate that was in force for the past year nor the rate which is to be applicable to the current year, but is, in fact, a figure (perhaps worked out to three places of decimals of a penny) lying somewhere between these two rates. In these circumstances he not unreasonably asks for simplicity and uniformity.

* The expression "rate in force at the time of payment" is capable of having two meanings, namely, either the rate in force when a payment would be made, if made when it is due, or the rate in force when the payment is actually made in each particular case. There is little to be said for the adoption of the latter interpretation, as it would leave the rate of tax to be determined by accident, and might result in the deduction of tax at different rates from payments in respect of the same dividend, &c., which, owing, say, to shortage of clerical staff, it might be impossible to post to the recipients on precisely the same day. In these circumstances the words "time of payment" are generally understood to mean the time when the payment becomes due and payable in the sense that payment can be actually obtained on demand. An exception has to be made in the case of foreign dividends payable abroad when the actual date of payment in the United Kingdom is taken as the time of payment, since there is no particular date at which such dividends (which are payable abroad) can be said to become due and payable in this country.

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that is, for the universal adoption of a single rule governing the rate of deduction of tax from all payments.

"Accruing rates."

15,098. (26) This natural demand for uniformity makes it desirable to consider the respective merits of the two rules which have been set out above. The first rule, as already stated, provides for the deduction of tax at the rate, or average of the several rates, applicable to the period during which the income accrued. It has this advantage, that it attempts, at any rate in principle, to secure a correspondence between the amount of tax paid to the Revenue upon a particular source of income and the amount of tax deducted from such income on its being distributed. Unfortunately, this correspondence is seldom secured, owing to the fact that income derived from trading profits is taxable upon the basis of a three years' average, and consequently the amount of the assessments for any particular year may differ widely from the profits made during that year out of which dividends will be paid under deduction of Income Tax. The principle, therefore, is not capable of exact application in practice. The popular objection to the rule is that, where the period of time to which a particular payment relates extends into two Income Tax years for which different rates of tax are chargeable, the actual rate of deduction is a compound of two rates which has to be calculated separately according to the circumstances of each case, and which often gives a result that is quite unintelligible to the recipient of the income.

15,099. (27) In considering the question of adopting a single rule, it is necessary to bear in mind that the first rule (the "accruing rate") could not in practice be universally applied. Income Tax is collected at the source from (*inter alia*) coupons for dividends, &c., payable abroad. Such coupons may have been detached from bonds, &c., of foreign companies trading abroad which have no office in the United Kingdom, and of whose constitution and business activities little or nothing is known to the majority of persons in this country. The banker or other agent who cashes the coupons for a customer in this country, and who, as agent for the Revenue, is required to deduct Income Tax from the amount realized, may well be unaware of the period of accrual of such dividends, and there is no ready means of informing him. Moreover, even if the period of accrual were always ascertainable, a rule which required a person, such as a branch bank manager or a coupon dealer, to work out and deduct from foreign coupons the appropriate proportions of two rates of Income Tax applicable to the circumstances of each particular coupon which might be handed to him for realization would be very troublesome in practice, and would give rise to constant mistakes. In cases of this class, therefore, it is difficult to see how any other rule could be adopted than the "time of payment rate."

"Time of payment rate."

15,100. (28) The principal advantage of the second rule, viz., that the rate deductible is the rate in force at the time of payment of interest, &c., is its simplicity; and there is little doubt that this rule would generally be preferred to the first rule by the investing public. Moreover, it could be made universally applicable in the case of interest and dividends. It is, however, open to the objection that, in the case of payments made out of taxed income, it does not even attempt to secure an exact correspondence between the rate of tax paid (e.g., by a trading company) on a particular source of income and the rate deductible from payments for dividends, &c., made out of such income.

15,101. (29) As far as companies, &c., paying interest or dividends out of taxed profits are concerned, the adoption of the second rule might lead to considerable divergences between the rate of tax paid by a company in respect of particular profits and the rate deducted by such company from dividends paid out of such profits, but over a considerable period these differences would tend to cancel out. With a rising tax the public would benefit by the "accru-

ing rate" basis: with a falling tax the "time of payment rate" basis would give more immediate effect to the reduction of rate. It is, perhaps, not unreasonable to hope—without prejudice to the immediate future—that the general tendency of the Income Tax may be to fall, rather than to rise, in years to come.

15,102. (30) Whilst the "time of payment rate" rule could, it is suggested, be applied to all payments of interest, dividends, ground rents, royalties, &c., its application would not be entirely free from difficulty in all circumstances, and there is one class of payment in respect of which special difficulty would be met with. This is the case of income arising from rents of real property and taxed in the hands of the tenant of the property. The tenant, as is well known, recovers the landlord's Property Tax by deducting it from his rent. The annual value of property is assessed to Income Tax (Schedule A) year by year at the rate of tax in force for the year in question, and the tax payable on this assessment is collected as to one half in January (that is, three months before the end of the year) and as to the other half in July (three months after its close). The basis of charge is, in effect, the "accruing rate" basis, and it would appear quite impracticable to require the tenant to deduct from his landlord any other amount than the amount of tax actually paid by him on behalf of the landlord.

Suggestions for dealing with the foregoing question.

15,103. (31) If the Royal Commission should come to the conclusion that a change in the law is desirable, then it is suggested that the adoption of the "time of payment rate," except in the case of deductions by an occupying tenant from rent, would, on the whole, be attended with greater advantages than any other course. A clause on the following general lines* is suggested:—

- (1) any deduction in respect of Income Tax to be made from any payment under the provisions of the Income Tax Acts (other than deductions to be made by an occupying tenant from rents) shall be calculated by reference to the rate of Income Tax in force at the time when the payment becomes due.
- (2) for the purpose of any claim for exemption, abatement, or relief in respect of Income Tax, any income which is chargeable with Income Tax by way of deduction shall be deemed to be income of the year in which the income is receivable, and any deduction allowable on account of any annual sum shall be allowed in respect of the year in which they are payable, notwithstanding that the income or the annual sum, as the case may be, may have accrued in whole or in part before that year.

15,104. (32) The second paragraph of the above clause deals with a different subject matter from the first paragraph, but is almost consequential to it, in that, in conjunction with the first paragraph, it ensures that the income of any year (where taxed by deduction) shall be taxed at the rate applicable to that year. Under the law as it stands a dividend received during (say) the year 2, but relating to a period which extends into both the year 1 and the year 2, should, for the purpose of an Income Tax return of total income, be split between these two years and allocated in part to the year 1 and in part to the year 2. This rule, while logically defensible, is not very intelligible to the ordinary taxpayer or may to work in practice. Indeed, for the purposes of Super-tax a different rule is in operation, income taxed by deduction having since the inception of the tax been treated as income of the year when it is actually "receivable" without regard to the period of accrual. It is suggested that if the change in the law proposed in the first paragraph of the above draft clause is made, the second paragraph ought at the same time to be made operative—possibly with a qualification as regards certain exceptional cases in which hardship might arise (e.g., where two annual

* One or two particular cases of rare occurrence might need to be specially provided for.

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dividends become payable within the same period of twelve months).

Dividends and emoluments paid "free of tax."

15,105. (33) Several witnesses have urged before the Royal Commission the view that the payment of "free of tax" dividends and "free of tax" emoluments should be made illegal. This question is one with which the Exchequer is not primarily concerned.

15,106. (34) It is obvious that if a company has made £200 profits, of which £20 have to be paid to the Revenue as Income Tax, it is the same thing to the shareholders whether they are informed that they are to receive (a) £20 in dividends less tax deducted £20, that is, £140 net, or (b) a "free of tax" dividend of £140. In each case Income Tax has been paid to the Revenue, and in each case the income arising from such a dividend would be reckoned for Income Tax purposes not as £140, but as £200. But from the point of view of the shareholder, it would no doubt be an advantage for the dividend notice and warrant to describe such a dividend as what it really is, namely, a dividend of £200 less tax £20, and were such a description made compulsory, the taxpayer would be more easily able to ascertain the correct figures to be inserted in his return of total income. Incidentally, officers of the Inland Revenue Department would be saved a good deal of time and trouble in correcting the errors in Income Tax and Super-tax returns to which the lack of knowledge of the meaning of a so-called "free of tax" dividend gives rise.

15,107. (35) Similarly, if a company agrees to pay a director or other officer certain emoluments "free of Income Tax" or "free of Income Tax and Super-tax," the Revenue is not directly affected, since the amount to be taken as the taxable income for Income Tax and Super-tax purposes is the net amount received, plus the tax applicable thereto. But there is always some risk that only the net amount of the emoluments may, in fact, be taxed owing to lack of knowledge on the part of the Inland Revenue Department that the employer is paying his employee's Income Tax, and in such a case a leakage of revenue may occur.

15,108. (36) The aspect of the question which has recently attracted most notice, namely, a company voting fees "free of tax" to its directors, is one between the company (or the directors of the company) and its shareholders.

15,109. (37) There are some aspects of this matter to which attention does not appear to have been prominently drawn, and which the Royal Commission may wish to consider. The practice probably in some cases facilitates the raising of capital, especially abroad. The payment of salaries "free of tax" has come to be a well-known and established condition of service in many banking and insurance companies, and legislation directed against it might be keenly felt by the employees in such cases. In cases of this character, also, the practice conduces to ease of collection, though not of assessment.

15,110. (38) Looking at the matter merely from the Revenue point of view, the Board are of opinion that it would, on the whole, be of advantage—as tending to simplicity and greater accuracy in assessments—if payment of fees and other emoluments "free of tax" were prohibited. If, therefore, the Royal Commission should think fit to make a recommendation to this effect on general grounds, the Board consider that the Revenue would incidentally benefit by the alteration.

NO. II.—THE ASSESSMENT OF INCOME TAX BY REFERENCE TO THE INCOME OR PROFITS OF A PAST YEAR OR AVERAGE OF YEARS.

15,111. (1) Income Tax being largely collected at the source, the assessments which result in the substantive payments of the duty are as far as possible made, not upon the persons who ultimately receive the income, but upon the persons in whose hands the income arises or is first received in this country and who distribute under deduction of tax so much of it as does not represent their own personal shares thereof.

15,112. (2) A large proportion of the assessments on profits are made on the average system. Table A attached to this evidence (*vide* Annex A) shows the various bases adopted in respect of these classes of income which produce the major portion of the Income Tax.

15,113. (3) Owing to the system of collection at the source, this table does not afford in all cases a correct indication of the basis upon which the ultimate recipient of income is taxed; for when a particular taxpayer receives income under deduction of tax, for instance, in the important case of dividends of joint stock companies, that income, broadly speaking, is taxed at the time of receipt upon the amount actually received by him, although the profits out of which it is paid may have been taxed on an average basis. The average system, therefore, does not directly affect the ultimate recipients of income by any means to the extent which might at first sight appear. This fact is illustrated by Table B contained in Annex A.

15,114. (4) An historical note on the average system accompanies this proof. [See Appendix No. 7 (m).]

(A) THE THREE YEARS' AVERAGE FOR TRADES AND BUSINESSES.

15,115. (5) The question which has attracted most attention is the principle of assessing profits of trades and businesses on the average of the three preceding years as opposed to the possible alternative of assessing these profits by reference to the amount arising in the year preceding the year of assessment. This question was investigated by the Departmental Committee of 1905, generally known as the Ritchie Committee. The relevant portion of their Report is printed in Annex A II to this evidence, but, since 1905, conditions have so greatly changed as to render the Report to a considerable extent obsolete.

15,116. (6) From the evidence which has been presented to the Royal Commission there appears to be a general trend of opinion in favour of a change of basis to the preceding year.

The Board of Inland Revenue have no desire to oppose this change, which has many points to recommend it, if there is a general public demand for it, and if it will really better meet the interests of taxpayers. They are bound to say, however, that upon a review of the whole question they are unable to find in the proposal that signal preponderance of advantage which is sometimes claimed for it, and it is for consideration whether its advocates have had fully present to their minds all the material circumstances.

It seems significant that local authorities, having had experience of the preceding year system in connection with their gas, water and other similar undertakings (which are assessed on the profits of the preceding year), should advocate, in the evidence given on behalf of the Institute of Municipal Treasurers and Accountants, the three years' average (Question 11,253), and that the representative of the Mining Association of Great Britain (concerned with a business of which the profits fluctuate greatly) should not advocate the adoption of the preceding year (Questions 6328-34). It may be recalled also that Sir T. A. Coghlan, giving evidence before the 1906 Select Committee (the Dilke Committee), stated (Questions 1514-16) that it was a defect of the Australian Acts that there was no average system in that country, and there is reason to think that taxpayers in other countries may hold a similar view.

Arguments in favour of the change to a preceding year basis.

15,117. (7) The main points which have been made in favour of a change to a preceding year basis, together with certain observations upon these points, are given in the following paragraphs.

15,118. (8) *The time lag and inequality of taxation.*—Under the average system the produce of the tax lags when profits are increasing, and when profits are declining the tax is excessive in relation to the profits of the moment. The extent to which, on the

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average basis, the tax may fall behind the growth of the country's wealth has been remarkably demonstrated in recent years. The following is an estimate of the approximate aggregate trading profits assessable on the basis of the three years' average under Schedule D for a series of recent years (excluding the effect on such assessable profits of the reduction of the exemption limit from £180 to £130 in 1915-16, and also of the new liabilities that come in year by year to which the average principle cannot be applied in the first three years):—

Year ended on or before 5th April.	Taxable trading profits of year (in million £)
1910	370
1911	410
1912	430
1913	460
1914	550
1915	450
1916	530
1917	670
1918	690

If it be taken that in future (subject to any temporary depression after the war) the general tendency of the income of the country will be to expand, the three years' average system applying to one section of the taxable income within the scope of the Income Tax would maintain perpetually—always in favour of the trader—a very real inequality of taxation as compared with other sections of taxpayers.

Equally, if there should be a general tendency of profits to decline, there would be an inequality working in the converse way, i.e., to the disadvantage of traders assessed on the three years' average. But in this connection another consideration arises: traders suffering this disadvantage naturally seek to relieve themselves of the burden at the expense of the Exchequer. It will be recalled that up to the year 1907 a relief based upon section 133 of the Income Tax Act of 1842, as amended by the Revenue Act of 1865, was granted in any case in which at the end of any year of assessment a person assessed under Schedule D proved that his profits in the year of assessment had fallen short of the average profits of which he was assessed. His liability was reduced in practice to the average profits of the year of assessment and the two years preceding, or to the actual profits of the year of assessment if greater than that average. The principle of section 133 of the Income Tax Act of 1842, was condemned by the Ritchie Committee, and the relief was repealed by the Finance Act of 1907.* If, however, it should happen that a long period of continuously diminishing profits supervenes at some future time, vigorous appeals for the re-enactment of this relief may be heard which, however little merit they may possess, may prove exceedingly difficult to resist.

15,119. (9) *Steadiness of assessments*.—Under a preceding year system the tax upon particular profits is charged at a point of time much nearer to that at which the profits arise.

15,120. (10) *Unification of the various bases of assessment*.—The adoption of a preceding year system would make for uniformity in the basis of assessment, although this uniformity could not be fully attained without considerable difficulty and some loss of duty during the transition period. Although complete unification of the basis of assessment would be very difficult to attain under a system of taxation at the source, a move towards unification will no doubt be felt very desirable. There are already certain sources of profit charged upon the preceding year. The first category consists of railways, ironworks, gasworks, canals, docks, and the like. The second consists of untaxed interest, discounts, and other profits of an uncertain value falling into Case III of Schedule D. This category has recently assumed an importance

which did not previously attach to it owing to the fact that it includes the interest on sequestered or Inscribed Stock of the 5 per cent. War Loan and certain other war securities, which are not taxed by deduction at the source.

But in this connection a difficulty arises. In the ordinary course a change to the preceding year basis would entail, as regards the profits of trades and businesses, a provision that any business in its first year should be assessed on the basis of the profits therein arising, and that in each succeeding year (subject to reliefs for special cases) the profits should be based upon the profits of the year preceding, liability ceasing when the business ceases. This, however, is not the basis on which Case III of Schedule D at present proceeds. Under that Case no tax is chargeable in the first year in which the source of income is enjoyed, but the tax is payable for one year after the source of income has ceased. However desirable uniformity of system may be, it would, it is suggested, be purchased at too high a price if existing holders of Registered or Inscribed War Stocks escaped one year's tax thereon (through having been exempted payment in the first year) with a consequent aggregate loss to the Exchequer estimated at some £25,000,000 at present rates. This difficulty can, however, in the Board's opinion, be surmounted, and they make a specific suggestion to that end in paragraph 21 below.

15,121. (11) *Effect on Super-tax assessments*.—A person liable to Super-tax is chargeable thereto for any year by reference to the Income Tax income of the preceding year. So far as the income of a Super-tax payer is derived from a trade carried on by him, the three years' average system renders the basis of the Super-tax assessment very stable. A Super-tax payer is assessed to Super-tax for the year 5, in respect of any profits derived from trade, upon the average of the profits arising in the years 1, 2 and 3. This fact from time to time gives rise to complaint on the part of Super-tax payers.

15,122. (12) *Basis adopted in other countries*.—The legislative systems of other countries for the most part adopt a preceding year basis rather than an average system (although evidence is for the most part lacking to show how far the basis has been found satisfactory in practice).

Arguments against the change to a preceding year basis.

15,123. (13) The principal arguments against the abandonment of the average system in favour of a preceding year basis are set out in the following paragraphs.

15,124. (14) *Steadier yield and steadier liabilities*.—Under the three years' average system the produce of the tax and the taxpayer's liability are steadier from year to year.

15,125. (15) *Reaction on the scale of production*.—In the case of traders other than companies, where the profits fluctuate from year to year the average system mitigates the graduation of the duty and furnishes, it is suggested, a better test of ability to pay. This consideration has arisen recently as a result of the large extension of the graduation of the Income Tax. It is a point which does not yet seem to have been generally appreciated by taxpayers. Take the following example:—

X is the proprietor of a business the profits of which remain steady at £5,000 a year for a long period of years. Whether X is assessed on a three years' average or on a preceding year basis he will pay Income Tax and Super-tax every year on £5,000 at the effective rate applicable to an income of that amount, namely 7s. 3d. in the pound, or £1,787 tax. Total tax in three years £5,361.

Y is the proprietor of a business the profits of which over a long period of years average £5,000 a year but fluctuate widely from year to year. Y's profits for six successive years are £1,000, £10,000,

* The principle of this section has been temporarily revived with a limited application as a "war relief"—section 48 of the Income Tax Act, 1918.

* It is assumed in this example that the traders have no income from other sources than their trade.

† The Super-tax will of course be paid a year later than the Income Tax on the same profits.

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£4,000, £1,000, £10,000, £4,000. On the three years' average basis Y will pay tax for the last three years for which these profits provide averages on the same amount and at the same rate as X: under a preceding year system he will pay (for the same three years) on £4,000 at 6s. 10d. in the pound (£1,302) in the first year, on £1,000 at 3s. 8d. in the pound (£187) in the next year, and on £10,000 at 8s. 4d. in the pound (£4,188) in the year following. Total tax in three years £5,787.

The total tax paid by X in three years on £15,000 of profits is £5,361: the total tax paid by Y in three years also on £15,000 of profits is £5,787. If Y had made £15,000 in one year, and nothing at all in the two following years he would on a preceding year basis pay in tax £6,812 (£15,000 at the effective rate of 8s. 1d.).

The Board doubt whether in such a case the test of ability to pay ought to be based upon the income of a single year. There seems indeed a good deal to be said for the view that Y, whose income fluctuates violently, has less ability to pay than X, whose income remains steady.

15,126. (16) *Treatment of losses*.—It is often suggested that if the three years' average gives place to the preceding year, special provision should be made for carrying forward losses until they are exhausted by set-off against subsequent profits, and it is not clear that a preceding year basis, without this special provision, would be altogether acceptable to some of the interests concerned.

In the Board's view there is no case for so considerable an extension of the existing provision for losses (which, it is understood, is not usually given by other countries whose tax is assessed upon a preceding year basis). Losses, it is suggested, are neatly and sufficiently dealt with under the average system, which results in a loss affecting the assessments of the three years following that in which it is made, and it is submitted that any relieving provision should be so restricted as to afford no more relief than the average system now gives.

15,127. (17) *Irregular accounting periods*.—A preceding year system would introduce considerable difficulties where accounts are made up for irregular periods. Some businesses (e.g., shipping companies) habitually make up accounts for such periods (varying with the length of voyages) and many others do so occasionally with the object of changing the ending date of their accounts.

For example, an account is made up for the year to September, 1920, and, under the preceding year system, might be taken as the basis of the assessment for the year 1921-22. The next account is for six months to March, 1921, and this is followed either by a nine months' account to December, 1921, or by a twelve months' account to March, 1922. In the former case there is no definite basis for assessment for the year 1922-23: in the latter the profits of the six months to March, 1921 (which may be exceptionally high), might never be taken into account for Income Tax purposes at all.

Questions of this kind would arise under a variety of forms and would require to be the subject of special provisions. These provisions would need, *inter alia*, to include powers to deal with accounts made up for irregular periods with the special object of legal avoidance of duty.

Under the three years' average system this difficulty is not felt to any material extent.

15,128. (18) *The transition period*.—Assuming the transition to be made without any adjusting or relieving provisions in favour of taxpayers adversely affected, the effect on the Revenue would depend primarily upon the trend of profits at the time. It is, however, sometimes suggested that, to meet cases of hardship in the period of transition, the taxpayer should for three years have the option of being assessed either on the three years' average or on the preceding year. It is submitted that, especially at a time like the present when for a long period taxpayers have had the advantage of being assessed on an average in a period of ascending profits, there is no case for giving all taxpayers the best of both

worlds. Such a course might throw an extremely heavy cost on the Exchequer, and this at a time when the taxpayer may be gaining considerably by other recommendations of the Royal Commission. By way of illustration of this fact the Board have made an estimate of the Revenue results which would have followed if the change now in question had been effected in the year 1914-15.* The change, without any relieving provision, would have resulted in a Revenue gain of £3,250,000; with a relieving provision of the kind mentioned the change would have cost the Revenue some £8,500,000, these figures being in each case calculated on the rates of tax in force for 1914-15 and the two succeeding years.

It is suggested that the only case which might require to be safeguarded is that of the taxpayer whose profits in either or both of the first two of the three years preceding the change have fallen below those of a series of previous years.† Such a taxpayer might complain that after paying tax on an average of profits exceeding his actual profits, he is aggrieved by a change of system which deprives him of the right of bringing into the average the profits of his two bad years. It must, however, be remembered that these bad years will have entered into the average for one or two succeeding years even though they may not have been taken into account so fully as would have been the case had they come three times into a computation of average profits. Moreover, even in this case the taxpayer's equitable claims will have been fully met if the "war reliefs" (which entitle him to bring a bad year four times into the computation of his liability *et cetera*—where his total income has fallen off by more than ten per cent.—to pay tax on his actual instead of his average income) should continue in force until the change to a preceding year basis, supposing it to be made, takes effect. If, however, the "war reliefs" should be repealed a considerable time before a change is made to a preceding year basis, the case under consideration could be conveniently met by providing that the taxpayer might at his option have his assessments for the two years preceding the change adjusted to the new basis, *i.e.*, the amount of the profits in the year preceding the year of assessment.

A number of other suggestions with similar objects have, of course, been made, but the Board suggest that this solution is related more closely than other suggestions to the essential object to be kept in view and would be unlikely to be very costly.

15,129. (19) *Safeguard against evasion*.—Leaving those aspects of the question which primarily affect the taxpayer, there are certain undoubted advantages in the average system from the point of view of the assessing authority as the guardian of the Exchequer. Although practically all big businesses furnish accounts either year by year or at relatively short intervals, a large numerical majority of the whole number of businesses in the country do not. The cases in which accounts are seldom or never rendered call often for the exercise of great tact and discretion. It is far easier, where a return is unsatisfactory, to make an estimate of an average profit than of profit for a single year. Indeed, in cases where accounts are occasionally rendered (e.g., for appeal purposes), though not regularly furnished, the figures for either one or two of the three years entering into the average may be available for the purposes of the estimate for the current year, as having been supplied in connection with the computation of liability for a previous year. In addition, in cases where wilful evasion is suspected, accounts for three years (which can be called for under the present system) are capable of revealing irregularities that might be entirely concealed in accounts for a single year. This power of checking the present by the past is from the point of view of an assessing authority a great advantage conferred by the existing system. Indeed, if the preceding year basis were substituted for the average system, it would clearly be desirable, in order to pro-

* The course of profits is shown in paragraph 8. † *i.e.*, if the change first takes effect for the year 6, the case possibly needing relief is that where the profits of the years 1 and 4 were low as compared with the profits of previous years.

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test the Revenue against evasion, to take powers to call for accounts not merely for the year forming the basis of the assessment, but also for several previous years.

(B) CASE III OF SCHEDULE D.

15,130. (20) Reference has already been made (paragraph 10) to the special features of this Case. At present the basis of assessment is a kind of preceding year basis: no tax is chargeable in the year in which the source of income is first enjoyed, but the tax is payable for one year after the source of income has ceased.

15,131. (21) In the Board's view this basis is very inconvenient and whatever decision may be arrived at as to substituting a preceding year basis for the three years' average in the case of trades and businesses—they suggest that it should be altered. The suggestion they would make is that for the future the income arising in the first year should be taxed for that year, and that in each succeeding year the tax should be computed by reference to the income arising in the preceding year, subject to the proviso (designed to avoid the loss of duty, amounting perhaps to £25,000,000, referred to in paragraph 10) that in any case in which the source of income was enjoyed prior to this amendment of the law and tax was not in fact charged for the first year, it should (as heretofore) be charged in the year following the year in which the source of income ceases.

(C) THE AVERAGE AS AFFECTING PROFESSIONS AND EMPLOYMENTS.

15,132. (22) Part A of this evidence has been directed to the question of trades and businesses assessed to Income Tax on the three years' average. There remains the question of the profits of professions, employments and vocations assessed to Income Tax under Schedule D upon the same basis.

15,133. (23) Although the individuals affected are numerous, their taxable income is not a large part of

the total taxable income within the scope of the Income Tax. It is estimated at 3·45 per cent. of the whole.

15,134. (24) The Departmental Committee of 1905 inclined to the view (see paragraph 107 of their Report quoted in Annex I) that the assessment of these profits should be based on the preceding year.

15,135. (25) At a time when the whole basis of the Income Tax is under consideration, there seems much to be said for the adoption of this view, at least as regards employments, whether or not the average system for trades and businesses gives place to a preceding year system. It would be a natural corollary that those employments which are now assessed under Schedule E (including the pay of the Army and Navy, Government and municipal officials, and officers of public companies) should be placed upon the same basis, the whole being governed by a single body of rules. It is for consideration whether a change of this character should be accompanied by any special relief in the period of transition. On the one hand, the number of taxpayers adversely affected is likely to be considerable, but, on the other hand, these individuals have received favourable treatment in the past as compared with others who have been assessed (under Schedule E) on the basis of the current year. In any event, the extent of any additional charge placed upon the former class would usually be small.

(D) BASIS OF ASSESSMENT OF MISCELLANEOUS INCOME.

15,136. (26) If it were decided that the basis of assessment in the case of trades and businesses should be altered from the three years' average to the preceding year, it would seem desirable to make a corresponding alteration in the basis applicable to various miscellaneous items of income for which special provisions are made.

The special difficulty attaching to Case III of Schedule D has been referred to in paragraphs 20 and 21, and a suggestion there made for dealing with it.

15,137. (27) The items referred to are set out in the following table:—

Basis.	Income to which basis is applicable.	Percentage of total taxable income falling into the class named in Col. 2.	Percentage of total net produce of Income Tax derived from the income falling into the class named in Col. 2.
1.	2.	3.	4.
Current year	Foreign and colonial securities (Sch. D, Case IV, Rule 1).	2·64	4·15
Average of three preceding years.	*Tithes taken in kind (Sch. A, No. II, Rule 1).	0·01	0·01
	*Ecclesiastical dues and payments		
	*Payments in lieu of tithes not being tithes arising from lands.		
Average of five preceding years	*Tithes in Scotland (Sch. A, No. II, Rule 2).	0·02	1·42
	Foreign and colonial possessions (Sch. D, Case V, Rules 1 and 2).		
Average of seven preceding years	Mines of coal, tin, lead, copper, muddle, iron and other mines (Sch. A, No. III, Rule 2).	1·68	2·80
	*Manorial dues, royalties and profits (Sch. A, No. II, Rule 5).	0·01	0·01
Such average or basis as appears just and equitable.	*Miscellaneous profits from lands, &c., not in the occupation of the person chargeable (Sch. A, No. II, Rule 7).	0·04	0·07
	Annual profits and gains not otherwise charged (Sch. D, Case VI, Rules 1 and 2).	0·10	0·17

* See paragraph 28.

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15,138. (28) If it were decided, on the other hand, to retain the three years' average, at any rate the minor items marked* in the table immediately preceding might with advantage be transferred to Case VI of Schedule D (which deals with miscellaneous profits not otherwise provided for) and be made assessable on a uniform three years' average. The items named are for the most part survivals from an earlier time and do not require the special rules of assessment which at present attach to them. The transfer to the three years' average of railways, &c., now dealt with on the preceding year, and mines, now dealt with on a five years' average, might not be acceptable to the groups of businesses concerned, whilst the transfer to the three years' average of Case III of Schedule D raises in another form the question dealt with in paragraphs 30 and 31 above.

(F) THE SPECIAL ADJUSTMENTS ASSOCIATED WITH THE THREE YEARS' AVERAGE.

15,139. (29) The average system entails the necessity for various special provisions to meet cases of new businesses, businesses ceasing, &c. A list of the material provisions is given in Annex C III.

15,140. (30) Broadly speaking, it would appear that these provisions (except the special war reliefs which may be expected to disappear) must remain in force, whether the three years' average is retained or a preceding year basis is substituted therefor. In either event, some revision of these reliefs would appear to be desirable.

15,141. (31) At the present time whilst a taxpayer whose profits decline in the closing years of a business obtains relief, a taxpayer who makes abnormally large profits in the last year of his business escapes assessment upon his windfall altogether. There is thus a temptation to wind up a business which has had an exceptional year and to make a new start under another name. There seems to be a good deal to be said for providing that where assessment on actual profits in the last three years of a business would greatly exceed the assessment on the statutory basis, the Revenue should have the right to make a charge upon the higher basis.

15,142. (32) A similar difficulty often occurs in the case of a concern formed to work a single venture, such as the construction of a big engineering work or the development of a building estate. Often in these cases the main part of the profits is realized only in the final year, and there seems much to be said in favour of a statutory provision authorizing the spreading of the profits over the whole period of the venture (on the analogy of the provisions made in connection with the Excess Profits Duty for spreading profits derived from the execution of a contract the fulfilment of which occupies more than a single accounting period (Finance (No. 2) Act, 1915, Fourth Schedule, Part I, Rule 11)), or providing that the final assessment should embrace the balance of profits not previously assessed.

15,143. (33) Rule 3 of the Miscellaneous Rules applicable to Schedule D provides for relief in cases of cessation, death or bankruptcy during the year of assessment, or of loss from any other specific cause of the profits assessed. That a provision of this character is necessary where the earning of profits is brought to an end in this manner, appears to be obvious. There has, however, always been some doubt

as to the actual scope of this provision and it has not been possible to obtain a ruling of the Courts owing to the fact that upon a claim under this section the decision of the Local Commissioners is final. It is suggested that it would be desirable to make it clear that the right of relief applies only where there has been a cessation of profits and that it does not extend to cases in which profits have merely diminished in amount.

15,144. (34) Rule 11 of the rules applicable to Cases I and II of Schedule D provides that the assessment should be based on the usual average notwithstanding a change of ownership, unless from a specific cause a diminution of profits arising after, or by reason of the change, is proved. The rule does not however specify the extent of the relief to be allowed, and here again (for the reason mentioned in the last paragraph) some diversity of practice arises. It is suggested that it might well be provided that where a title to relief under this rule is shown, the Income Tax assessments of the three years succeeding the change should be adjusted to the actual profits of the year instead of leaving to the taxpayer, as at present, the option of taking either the three years' average or the actual year, until the year in which the change took place has passed beyond the three years entering into the average. Subject to this it would not appear that this relieving section can usefully be amended whether the three years' average stands or the preceding year basis is substituted therefor.

15,145. (35) Case V of Schedule D deals with the assessment of income from foreign and colonial possessions (other than securities). This income is assessed upon the three years' average and if that basis stands it would appear desirable that the relieving and adjusting provisions dealt with in this part of this evidence should be made applicable to this Case. At present they do not apply in all cases, and instances occur in which hardship arises under the existing law.

(F) MINES, RAILWAYS, &c. (No. III. of SCHEDULE A).

15,146. (36) The properties comprised in No. III of Schedule A include quarries, mines, gasworks, waterworks, railways, docks, canals, markets and other concerns of the like nature "having profits from or arising out of any lands, tenements, hereditaments or heritages." The history of the treatment of these concerns is dealt with in a note submitted with this proof [see App. No. 7 (n)]. Briefly, it may be said that their inclusion in the schedule dealing with lands has become an anachronism, and that, were an Income Tax now being constructed for the first time, there is little doubt that they would be included in the Schedule (Schedule D) dealing with the profits of trades, &c.

15,147. (37) As stated in the historical note, although these concerns remain nominally under Schedule A, they are assessable according to the rules of Schedule D, so far as these rules are consistent with the rules of No. III of Schedule A.

It would appear that the present is a suitable opportunity for correcting the present rather anomalous position by transferring these concerns to Schedule D, while retaining, of course, these rules of assessment and relief which are especially appropriate to concerns of this nature.

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[Continued.]

15,148.

ANNEXE I.

TABLE A.

Basis of assessments.

Basis.	Income to which basis is applicable.	Percentage of total taxable income falling into the class named in Col. 2.	Percentage of total net produce of Income Tax derived from the income falling into the class named in Col. 2.
1.	2.	3.	4.
Year of assessment	Annual value of property* (Sch. A). Profit derived from the occupation of land† (Sch. B). Interest, annuities, dividends, &c., from public funds (Sch. C). Income from foreign and colonial securities (Sch. D). Salaries, fees, &c., of public offices or employments; annuities, pensions, &c., payable by the Crown or out of public revenue (Sch. E). Profits of trades and manufactures (Sch. D). Professions, employments and vocations (Sch. D). Income from foreign and colonial possessions (Sch. D).	9.42 3.51 3.65 2.64 15.74 28.43 3.45 0.92	15.67 2.91 6.42 4.15 9.97 40.51 2.45 1.42
Average of three preceding years	Profits of railways, ironworks, gasworks, canals, docks, &c. (Sch. A No. III). Interest, discounts, &c., not taxed at the source (including Registered and Inscribed Stock of the 5 per cent. War Loan) (Sch. D). Profits of coal mines, tin mines, iron mines, &c. (Sch. A, No. III).	3.62 2.94 1.68	6.00 4.83 2.80
Preceding year			
Average of five preceding years.			

* Property is not revalued every year; the valuation arrived at in a year of revaluation is continued until the next valuation takes place.

† The assessment is made normally upon a conventional basis, viz., in the case of farmers, twice the annual value, in other cases the annual value, of the land occupied; but farmers have the option of being assessed by reference to actual profits or the average of the profits of the three preceding years as in the case of trading profits.

15,149.

TABLE B.

*Basis of the charge upon the ultimate recipients of income.**

Basis.	Income to which basis is applicable.	Percentage of total taxable income falling into the class named in Col. 2.	Percentage of total net produce of Income Tax derived from the income falling into the class named in Col. 2.
1.	2.	3.	4.
Taxed at the time of receipt by reference to the amount received.	All income of every description received under deduction of tax.†	36.12	57.82
Year of assessment	Annual value of property where the tax is paid by the owner (e.g., a house in the occupation of the owner). Income from the occupation of land. Income from foreign and colonial securities where not taxed at the source.	1.62 3.41 0.20	2.26 2.70 0.27

* The "ultimate recipients" of income may be individuals, or companies and corporations (as regards their undistributed income).

† With the exception that from income under Schedule A tax is usually deducted by the tenant at two of the four quarters only.

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TABLE B—continued.

Base	Income to which basis is applicable.	Percentage of total taxable income falling into the class named in Col. 2.	Percentage of total net produce of Income Tax derived from the income falling into the class named in Col. 2.
1. Year of Assessment—cont. ...	2. Salaries, fees, &c., of public offices or employments; annuities, pensions, &c., payable by the Crown or out of public revenue, where not taxed at the source, (e.g., salaries of officers of public companies).	3. 12·69	4. 8·78
Average of three preceding years	Profits of trades and manufactures not taxed at the source, e.g., profits of sole traders or firms, profits of professions, employments (other than public employments), and vocations.	19·24	21·29
Preceding year	Income from foreign and colonial possessions.	0·72	1·08
	Profits of railways, ironworks, gasworks, canals, docks, &c. (Sch. A, No. III), where not taxed at the source (e.g., concerns owned by firms as opposed to companies).	0·37	0·59
	Interest, discounts, &c., where not taxed at the source (including Registered or Inscribed Stock of the 5 per cent. War Loan).	1·22	1·76
Average of five preceding years	Profits of coal mines, tin mines, iron mines, &c., where not taxed at the source (e.g., mines owned by firms as opposed to companies).	0·41	0·58

ANNEXE II.

EXTRACT FROM THE REPORT OF THE DEPARTMENTAL COMMITTEE OF 1906.

VI.—THE THREE YEARS' AVERAGE SYSTEM.

15,150. (81) The present system under which (as regards a part of Schedule D) the Income Tax is levied on the average profits of the past three years is described in the Inland Revenue Memorandum in Appendix No. VI; and in the papers attached to that Memorandum. In our evidence there will be found also a full discussion of the suggestion that, for the present system, there should be substituted a plan under which the Income Tax should be levied on the actual realized profits of the preceding year.

15,151. (82) It is clear that, since, in the case of traders, the profit cannot be ascertained in advance,

the Income Tax cannot be based on the profits of the actual year in which it is due, but must be based on the profits of the preceding year or years.

15,152. (83) Incomes derived from trades, professions and such employment as comes under Schedule D are estimated on the "three years' average." In the case of mines, a five years' average is taken; in the case of railways, gasworks, ironworks, waterworks, quarries, markets and fishing rights the tax is levied on the profits of the preceding year; while in the case of colonial and foreign securities, interest secured on rates and some minor sources of income, the duty is charged on the receipts of the year of assessment.* It appears, therefore, that the three years' average system is not carried out with logical completeness.

* Statement showing for the year 1902-3 the several bases on which profits under Schedule D were assessed.

	(1) Current Year.	(2) Preceding Year.	(3) Three Years' Average.	(4) Five Years' Average.	(5) Total of Columns 3 & 4.
Gross Assessment ...	£ 29,261,000	£ 63,298,000	£ 378,828,000	£ 20,259,000	£ 399,087,000
Deductions	2,030,000	7,200,000	119,962,000	1,050,000	121,012,000
Net Assessment ...	27,231,000	56,098,000	258,866,000	19,209,000	278,075,000
Duty receivable at 1s. in £.	1,361,500	2,804,900	12,943,300	960,450	13,903,750
Total duty under Schedule D				£18,070,150	

It will be seen that out of the total duty receivable under Schedule D (about £18,000,000) nearly £14,000,000 or about 77 per cent., was assessable on

the three and five years' average. Of the total tax under all Schedules (about £30,000,000 at 1s. rate), this £14,000,000 would represent about 47 per cent.

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15,153. (84) The present system of assessment and collection for the Income Tax charged under "the three years' average" system is as follows:—The "year of assessment," i.e., the year in which the Income Tax is paid, runs from April 6th of one year to April 5th of the following year, and the Income Tax is due in the intervening January. The profits on which the Income Tax is assessed for that year are arrived at by taking the average of the actual profits of the three years preceding the year of assessment.

15,154. (85) Thus: assume the year of assessment to be April 6th, 1904, to April 5th, 1905; the tax will be due in January, 1905. The three years' profits, to give the average, will be the profits of the three years preceding the year of assessment, i.e.:—

1st year ending not later than April 5th, 1902.	
2nd " " " " " " " " 1903.	
3rd " " " " " " " " 1904.	

[The usual profit year of a business is January 1st to December 31st.]

Therefore the tax due and payable in January, 1905, is in part determined by the profits earned in the business year which ended in December, 1901.

15,155. (86) On the one year system, the tax due and payable in January, 1905, would be based entirely on the profits earned in the year ending December 31st, 1903.

15,156. (87) In order to mitigate the hardships which, when profits are falling off, would arise from the fact that the actual profits in the year of assessment would be less than those which worked out under the average system, and on which the tax would have been paid, it was thought to be necessary to introduce the relief to the taxpayer given under Section 133 of the Act of 1842.

15,157. (88) This Section provided for the adjustment of the assessment at the end of the year by dispensing with all estimates (whether based on the preceding year or on average of years) and substituting for such estimates the actual profits of the year of assessment, as soon as ascertained. But the option to adopt this course was given to the taxpayer only, and not to the Crown, and was available only when the actual profits fell short of the sum assessed.

15,158. (89) But the Section was so one-sided, and in practice worked so unfairly, that it was subsequently amended by Section 6 of the Act of 1865, which required the taxpayer to prove, as a condition, precedent to any relief, not only that his profits for the year were less than the sum assessed, but that they were less than the average of three years, including the year of assessment. In other words, he had to prove that his profits for the year of assessment itself had been abnormally and exceptionally low. It also limited the amount of relief to the difference between an average based on the profits of the three preceding years, and an average based on the profits of the year of assessment and two preceding years.

15,159. (90) The effect of these Sections has been to give the taxpayer an opportunity, at the end of the year, of reopening the assessment, and of substituting (in order to arrive at the average on which the tax is to be based) for the first year of the average the actual profits made in the year of assessment. Of this advantage he would, of course, only avail himself if the actual profits in the year of assessment were less than the profits of the first year of the average. On the other hand, the Crown is not entitled, however much the actual profits of the year of assessment may exceed the average, to reopen the question of assessment. As a result, where the liability is on a three years' average, the profits of a good year are only brought into the charging average

twice, while those of a bad year are brought in four times, for the purpose of Income Tax Assessments.

15,160. (91) The want of principle involved in this system, the injustice as between the Crown and the taxpayer, the anomalies to which it gives rise as between taxpayer and taxpayer, and the serious loss to the Revenue involved, are so lucidly set out in Sir F. Gore's Memorandum (which will be found in Appendix No. VII.),* that it is unnecessary to dwell on them.

15,161. (92) We are of opinion that the application of Section 133, even as amended, is unfair to the Revenue (i.e., to the general body of taxpayers who have to make up any deficiency); and vexatious in the case of the Income Tax payer himself. As will be seen later we recommend its abolition.

15,162. (93) Even, however, with Section 133 modified or abolished many objections have been put before us directed against the average system.

15,163. (94) It has been contended that, when profits are rising, the tax taken on average profits necessarily lags behind the growth of the wealth of the country: that under this system there is more likelihood of the tax, or a portion of it, being irrecoverable than if the tax were taken on the profits of the previous year: that the average system offers a special opportunity and temptation to obscure the figures of profit through the blending into an average of accounts for three years, and renders legal proof of evasion more difficult: that it increases the complexity of the accounts which have to be dealt with, especially on appeals.

15,164. (95) It is also contended that, under the average system, when his profits are diminishing, the trader is, each year, paying duty on more than the profits then earned, and thus at a time when he can least well afford it: while on the other hand, when profits are increasing, the trader is not at once called upon for the full tax on his increased profits: and that as a result it often appears to the taxpayer a hardship, that when profits, or income are, and have been, falling off, he should be called upon to pay Income Tax (and perhaps an increased poundage of Income Tax) on the profits of bygone and more prosperous years. On the one year system, he would be called upon to pay on his profits within a few months of the making of the profits, and the demand for payment of the tax would be less likely to arouse any sense of injustice or hardship.

15,165. (96) Further, it is alleged for most traders, and for all professional men, the ascertainment of the one year's profit or income would be simpler, and less troublesome, than the ascertainment of the average of three years. In the case of an appeal against the original assessment, the trouble and expense would be considerably less, and the likelihood of successful proof would be considerably greater, when only a single year's and not three years' accounts had to be produced and explained. Legitimate appeals against over-assessment, or on occasion of an actual loss, ought to be rendered as easy and as simple as possible.

15,166. (97) Finally, it is urged that as the Income Tax is, in theory, payable on the actual yearly income, there can be no hardship, from the point of view of the Income Tax payer, in requiring him to pay in each year on the actual realised profit of the preceding year.

15,167. (98) On the other hand, it has been argued that the average system possesses considerable advantages over the proposed alternative plan.

15,168. (99) It is contended that the three years' average system enables the tax (especially when the poundage is at a high figure) to be more easily paid than if the amount to be paid fluctuated largely every year. That if the assessments were based on the pro-

* Not reproduced.

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[Continued.]

coding year, the actual payment of tax would still be made at least a year after the profit had been earned; and, in the case of a fluctuating business, it would differ even more than at present from the actual profits of the year in which the payment was made. Further, that accounts for one year would afford little information as to the probable annual profits of a fluctuating business, and be little guide as to the sum assessable in any future year. That the fact that three years' accounts are required from the taxpayer probably tends to greater accuracy in the statements rendered.

15,169. (100) It is also argued that many private traders would greatly object to have to disclose their exact position each year, and to return, perhaps, large profits one year, & serious loss another. At present, the fluctuations under the three years' average are not disclosed. Further, this information would become known in their offices and outside; and in some cases, it is alleged the credit and standing of a firm might be seriously affected.*

15,170. (101) A further objection made to the change is that the comparative absence of fluctuation in a large portion of the revenue derived from the Income Tax, in consequence of the three years' average system, enables the Chancellor of the Exchequer to make a closer estimate of the yield of the tax. Further, when trade is falling off and the other branches of revenue are less productive, the three years' average system maintains the produce of the Income Tax at a higher figure than it would yield if based on the profits of the previous year. Thus a sort of reserve of income is formed on which the State can draw at a time when profits and trade are inelastic.

15,171. (102) In addition to this, it is argued that the transition period would involve some temporary loss to the Exchequer; for in certain cases the taxpayer would be able to show that he was being called upon to pay larger sums than he otherwise would have had to pay, and would claim some pecuniary concession.

15,172. (103) On the other hand, as regards these two points, it may be noted that not quite half of the whole Income Tax is levied on the three years' system,† and that some portion of the income so levied—the income of professional men, employees, &c.—is not greatly subject to fluctuations, while the profits derived from many of the trades themselves fluctuate very little year by year. The closeness of the annual estimate would not, therefore, be greatly disturbed. As regards the necessity of a rebate to those taxpayers who would momentarily suffer from the change when first introduced, it may be pointed out that any temporary sacrifice of revenue, though inconvenient, would possibly be more than compensated by the permanent increase in the yield of the tax.

15,173. (104) We have thus summed up the principal arguments for and against the maintenance of the three years' average system, and we think it probable that if we were starting *de novo*, the system of levying the tax on the profits of the previous year would be considered preferable to the present system.

15,174. (105) But we have to take into account the fact that the three years' average system has been in

force since the reimposition of the Income Tax sixty years ago, and has given rise to but little complaint; and that any change would necessarily lead to some temporary confusion and disturbance, and might be unpopular. Such a change could not be attempted without public opinion, and especially the support of business men behind it, and so far the question seems never to have been seriously considered by those principally affected. The report of this Committee may, by calling attention to the matter, lead to public consideration of the question; and if the verdict were favourable, we think the change would on the whole be advantageous.

15,175. (106) The position of professional men and of employees is somewhat different to that of traders, &c., and the argument in favour of the average system applied in the case of the latter, has not the same force in the case of the former. The employee is in receipt of a definite yearly salary, and to most professional men (who do not keep books like a business firm), it would probably be an advantage, because simpler and less troublesome, to return the profits of one year, rather than the average of three. It would save appeals; and, if an appeal were made, it would involve less troublesome proof.

15,176. (107) It is worthy of consideration, therefore, whether, in the case of employees and professional men, the income should not be returned on the receipt of the previous year instead of the three years' average. Some difficulty might possibly arise in defining the term "professional man." But we think that discretion on this point in each individual case might well be left in the hands of the local Commissioners guided by a general instruction from Somerset House.

15,177. (108) Assuming, however, that the average system is continued, we wish to urge most strongly that, in any case, steps should be taken to redress the anomalies due to Section 133 as amended. These anomalies have already been referred to above. We agree with the witnesses who have represented to us that the relief thus afforded is an unjustifiable concession to a particular class of taxpayers, viz., those assessed under the average system, as compared with all other taxpayers; and that within that class the relief is granted without any reference to the merits of the particular case. The application of Section 133 to those businesses which are already assessed on the profits of the preceding year (i.e., railways, &c.) is especially unreasonable.

15,178. (109) In our opinion the provisions of Section 134 of the Act of 1842 (which gives a discretion to the Commissioners in cases of loss or diminution of profits owing to specific causes), and of Section 23 of the Customs and Inland Revenue Act, 1890 (which deals with losses), would be sufficient to prevent hardship to any individual.

15,179. (110) We, therefore, recommend the repeal of Section 133 of the Act of 1842 and Section 6 of the Act of 1865.

15,180. (111) Our attention has also been called to the anomalies caused by the attempt to apply the average system during the first three years of a new business under the rules of the First Case of Schedule D. We understand that the Revenue authorities do not in practice press for the tax on amounts in excess of the actual profits; and we recommend that the law should be altered so as to provide that during the first three years of a new business, the assessment should be based on the actual profits of each year, adjusted, if necessary, at the close of the year.

* As regards the question of secrecy it may be again mentioned that any firm or person can always elect to be assessed not by the General (Local) Commissioners, but by the Special (Somerset House) Commissioners.

† See paragraph 81.

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[Continued.]

15,181.

ANNEXE III

INCOME TAX ACT, 1918.

Provisions relating to relief from Income Tax in respect of new businesses, cessations, successions, losses in trading, &c.

References to Income Tax Act, 1918.	Sources of income to which provisions apply.	Nature of provision.
Rule 8 (1) of the Rules applicable to Cases I and II of Schedule D.	Trades, professions, and vocations; also concerns in No. III, Schedule A. (<i>New businesses.</i>)	Where the business has been set up within the period of three years on which the average is based, or within the year of assessment, reduction of the assessment to the amount of the actual profits of the year may be claimed.
Rule 8 (2) of the Rules applicable to Cases I and II of Schedule D.	Trades, professions and vocations; also concerns in No. III, Schedule A. (<i>Discontinuance of business.</i>)	(1) Taxpayer may in year of discontinuance claim to be assessed upon actual results instead of usual average. (2) He may further claim repayment of any excess of tax paid in the aggregate in the three preceding years over the total tax which he would have paid if assessed in each of these years on the actual profit.
Rule 9 of the Rules applicable to Cases I and II of Schedule D.	Trades, professions and vocations; also concerns in No. III, Schedule A. (<i>Change of ownership.</i>)	(1) Surveyor to certify particulars of any change of ownership to the Commissioners. (2) Assessment to be divided; a fair proportion to be charged to the new proprietor and the person assessed to be relieved accordingly.
Rule 11 of the Rules applicable to Cases I and II of Schedule D.	Trades, professions; also concerns in No. III, Schedule A. (<i>Change of ownership or change in partnership.</i>)	Assessment to be based on usual average notwithstanding a change of ownership or in partnership unless diminution of profits from a specific cause arising after or by reason of the change is proved.
Rule 3 of the Miscellaneous Rules applicable to Schedule D.	Profits assessed under Schedule D, also concerns in No. III, Schedule A. (<i>Cessation, succession, &c.</i>)	(1) Application may be made for relief in cases of cessation, death or bankruptcy during year of assessment or of loss from any other specific cause of the profits assessed. (2) Such relief to be given as is just, but (3) Subject to Rule 9, Cases I and II (<i>vide</i> above), a successor to any trade, profession or vocation is to pay the full tax charged unless he proves diminution of profits from a specific cause since or by reason of the succession.
Rule 13 of the Rules applicable to Cases I and II of Schedule D.	Trades; also concerns in No. III, Schedule A. (<i>Loss.</i>)	A person interested in two or more trades, &c., may set losses in one against profits in others.
Section 34	Trades, professions, employments or vocations, husbandry, woodlands assessed under Schedule D. (<i>Loss.</i>)	A person sustaining a loss may apply for an adjustment by reference to the loss and to his total income for the year.
Schedule A, No. III, Rule 2 proviso.	Mine (<i>failing</i>)	Repayment of tax on amount of loss to be granted (up to amount of tax paid). Amount of loss on which tax is repaid not to be deducted in computing assessments for subsequent years.
Schedule A, No. III, Rule 7.	Mine carried on by a company of adventurers. (<i>Loss.</i>)	<i>Partial failure.</i> —Preceding year may be adopted as basis of assessment instead of five years' average. <i>Total failure</i> during year.—Assessment may be wholly discharged. An adventurer may set his share of any loss in a mine so carried on against profits in any other such mine.

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ANNEXE III.—continued.

References to Income Tax Act, 1918.	Sources of income to which provisions apply.	Nature of provision.
Section 43	Diminution of profits assessed under Schedule D. ("War relief.")	(1) The taxpayer may claim to substitute an average of three years including the year of assessment for the average of three preceding years in cases where owing to the war the profits of the year of assessment fall short of (a) the amount assessed and (b) the new average (including the year of assessment). (Where the profits of the year of assessment are less than (a) but greater than (b) the assessment is in practice reduced to the profits of the year.) (2) Taxpayers on Active Service during any portion of the year of assessment may claim reduction to the actual profits of the year.
Section 44	Total income. ("War relief.")	An individual whose actual income from all sources for the year of assessment falls short of his total statutory income by more than 10 per cent. may claim repayment of the amount paid in excess of the tax on his actual income.

[This concludes the evidence-in-chief.]

15,182. *Chairman:* The last time you were here we had not very much time in the afternoon, and I think some of us were sorry on that account, but we have the pleasure of seeing you this morning, and I think we can spend the whole morning with you. Mr. Kerly will commence the examination?—Thank you, my lord.

15,183. *Mr. Kerly:* I will take first, if you please, your paper on the suggested lower rate for deduction at the source. You point out in your third paragraph that there would be considerable advantages about that. In addition to those it would make the matter of foreign investors easier, would it not?—Non-resident investors, if they are to be entitled to a return of tax?

15,184. In any event it would relieve them by charging them a lower rate?—It would relieve them, certainly.

15,185. The simplification of the administration might be enormous, might it not?—On the whole I really doubt whether there would be any real simplification, having regard to the counterbalancing disadvantages. There would be simplification in certain directions unquestionably, but when you take it as a whole I doubt whether there would be much simplification, or any.

15,186. I should have thought there would be an immense simplification. Just let me see if this is a fair example of what has to be done by a Surveyor at present. Take a man who has £1,000 a year from business, £200 a year from property, and £200 a year from railway dividends. In the £1,000 there is no deduction at the source and you have to calculate his rate upon that, which at present would be 3s. 9d. on a total income of £1,400 a year?—Yes.

15,187. Then he has got £200 a year from property. At the present time you are making an attempt to make the deduction from that at the proper rate, are you not?—Yes, that is so.

15,188. But in order to do that you have to find what his proper rate is on his income for the year in question?—Yes.

15,189. Assuming that his income is £1,400, you would be deducting from that 4s. 6d.?—From the property, yes.

15,190. Then from his £200 from railway dividends you deduct, or the company deduct, at 6s.?—Yes.

15,191. He then comes with a claim for repayment?—No, he then comes to make a return of his earned business income.

15,192. I agree. He is going to get an allowance against it?—That is so.

15,193. In respect of the £200 from property he wants nothing if the deduction happened to be at the right rate?—That would be so.

15,194. But if in fact his income is slightly different from what was assumed when the deduction was made, he has got to have an adjustment for that?—I think under our present system I ought to object to the word "slightly," because the zones are zones of £500, and with so wide a zone it happens on very few occasions now that a man's income is carried above or below a limit so as to alter the rate. I mean that the 3s. 9d. rate applies from £1,000 to £1,500 in the case of earned income, or from £200 to £1,000 in the case of unearned income.

15,195. And to that extent the deduction from income received from property will stand and there will be no further adjustment?—I think that would represent the position.

15,196. Then as regards railway dividends he wants back, or to have credit for, the difference between 6s. and 3s. 9d.?—Between 6s. and 4s. 6d.; that is unearned income.

15,197. I beg your pardon; I find it very difficult to follow the figures?—They are rather puzzling.

15,198. He wants 1s. 6d. back on that?—That is so.

15,199. And all that has to be done with every taxpayer who is in the same position?—Yes.

15,200. I have only given him two investments, but he might well have ten?—I am not quite sure about that. If he has £200 from railway dividends that £200 may represent the investments in ten railways. I do not think you would very easily get ten different sources of income, in the sense of a different type for each source. You have dividends and property

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and business income and one or two other things, but I think you would not easily find ten separate sources in the sense in which I think you are using the term.

15,201. You say they would fall into groups?—They would fall into groups.

15,202. The property, of course, might be in several different places?—Yes.

15,203. And the deduction would have to be properly made and recorded in each case where the property was assessed?—Yes; the officer who got the return of the total income would have to communicate with the different districts where the property was situated.

15,204. I suggest to you that is quite an ordinary type of case which I have taken—an income of £1,400?—Yes, I should not regard that as an exceptional case.

15,205. Does not that mean an enormous number of calculations and correspondence with the taxpayer and the Surveyor's office?—It means a very large number of calculations certainly, but the arithmetic is not very difficult; it is a mere matter of arithmetic; I do not think the calculation is in itself a very difficult calculation.

15,206. It is not a difficult calculation, I appreciate; but it means constant communication with the taxpayer, and in the case of property, at any rate, between possibly several different Surveyors?—That may be so. Of course as regards communication with the taxpayer, in very many cases at any rate he brings in his return, the calculation is worked out in his presence, and the whole thing is settled in perhaps half-an-hour's interview.

15,207. It is the fact that the public have great difficulty in understanding what they have got to pay on?—Yes, I am afraid that is true; they frequently have.

15,208. And why they are charged different sums and different deductions are made?—Yes.

15,209. Supposing you had a flat rate up to £1,000 a year, with an allowance for earned income, and supposing you put the unearned rate at 4s.?—That, or course, is a higher rate than 3s. 9d.

15,210. Yes, slightly higher; and the earned rate at 3s. I am suggesting 4s. as a convenient round sum. And suppose you started your Super-tax above £1,000 a year, so that every pound beyond the £1,000 would have its proper charge and be taken on total income for the Super-tax. Then in addition you would want to provide for graduation below £1,000?—Yes.

15,211. That you could do by abatements?—Yes, you could do it by abatements, but it becomes more and more difficult the higher you put your flat rate, I think.

15,212. I am putting it at 4s., which is approximately the present amount?—Yes.

15,213. Supposing you take some such scale as this: I am trying to follow as nearly as possible the present rates. The total exemption at present is £130, is it not?—£130 is the present exemption.

15,214. Where does that begin?—Incomes not exceeding £130 are not taxed. I think you mean the abatement. The first abatement is £120.

15,215. What I suggest to you is that you should arrange your abatement on some such scale as this: allow an abatement of £120 up to £400; an abatement of £120 up to £600, that is between £400 and £600; an abatement of £80 between £600 and £800; and an abatement of £60 between £800 and £1,000. It has been suggested to me that if those figures are worked out they will produce tables which are very nearly the same as the present rate if you take into account the suggested allowances for wife, first child and other children. My suggestion is that the wife's allowance should be £80, with £40 for the first child and £30 for each of the other children?—Yes, I follow.

15,216. I have before me tables which have been worked out; I will not attempt to take you through them, but I suggest to you that they show that that would give results which are approximately very near the present figures?—Of course I accept that from you; I have not had an opportunity of checking it.

15,217. Would not that lead, first of all, to an immense simplification in the work?—Looking at that particular section, I think it would.

15,218. And it would have the further advantage that it would enable the taxpayer, if he applied reasonable intelligence to the matter, really to understand on what system he was being taxed?—It would certainly assist him in that direction; I should not object to that.

15,219. In paragraph 6 of your paper No. I, you say that a lower flat rate would reduce the number of repayment claims by 20 per cent., and the amounts to be repaid would be substantially reduced?—Yes.

15,220. That is its main attraction apart from simplification?—Yes. I have put the word "only" before that 20 per cent. I have suggested that the number of repayment claims would not be reduced so substantially as perhaps might at first sight be expected.

15,221. You somewhere give those figures. You have assumed a reduction to 3s. 9d. instead of to 4s., which I have suggested as a much more convenient figure?—Yes. I took 3s. 9d. because it was the actual figure.

15,222. I follow that. I think you say there are 840,000 claims, and you suggest that it would be 20 per cent. of those that would be saved?—That is what we suggest.

15,223. I make that to be 188,000 claims?—Yes, that is approximately the figure.

15,224. Now on your 900,000 claims, 540,000 are claims for total exemption?—Yes, that is the case.

15,225. So that when we are dealing with saving of calculation we have to disregard those?—I am not quite sure whether I have followed your point. 540,000 claims would be made in either case.

15,226. If we deduct those, the total number of claims that we are dealing with, what I call the adjustment claims, are not 940,000, but 400,000?—Certainly.

15,227. Of those, 50,000 are charity claims and stand by themselves?—Yes, that is the case.

15,228. So that what you have to deal with as your adjustment claims are 350,000 claims?—Yes.

15,229. And 188,000 which you are going to save is rather more than half of those?—It is rather more than half of those, but I do suggest that when you are considering the simplification that results, it is necessary to bear in mind the whole number of repayment claims.

15,230. There are a large number of repayment claims which you cannot deal with, but I suggest to you that the lower rate which is proposed will practically save half the adjustment claims?—Yes, within that limited field one half would be saved.

15,231. Then you tell us that the Commissioners have in view some new method of dealing with repayments of claims. That is in paragraph 7 of your paper No. I?—Yes.

15,232. Would you indicate what are the lines of their proposal? I gather that it is something revolutionary, which is going to make a great improvement. Will you just indicate what the lines of it are?—I think the root idea is decentralisation. At present when a taxpayer wishes to make a repayment claim on one of those grounds, abatement, or lower rate, or something of that kind, the first time he makes a claim he goes to the Surveyor of Taxes and settles with him; the Surveyor, having passed his claim, sends it to Somerset House, where the repayment is made and any further check considered necessary is instituted. After the first year the taxpayer deals direct with Somerset House; he does not go through the Surveyor at all save in exceptional cases. But the Board of Inland Revenue are quite clearly of opinion that very much would be gained by putting the whole thing into the hands of the Surveyor of Taxes, abolishing the staff of the claims branch at Somerset House for all practical purposes, and letting the taxpayer go to his local man, who is on the spot, and can see him and settle matters very quickly. When he has settled it with the Surveyor, the repayment would be almost automatic. At present, as you are aware, a good deal of complaint is made that a claim is sent in, let us say, in April, and repayment is not received until June, July or August. We have done a good deal towards remedying that, but we hope to do a very great deal more when we are able to throw the whole thing upon the Surveyor.

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15,233. At the present time it is the first repayment which is so troublesome?—The first repayment is the most troublesome.

15,234. That seems to me to be a very valuable and a somewhat obvious step. I have no doubt there were difficulties about not taking it before. Do you propose to provide for personal application to the Surveyor in any way?—We should not make that compulsory, but certainly we should encourage the taxpayer to visit the Surveyor.

15,235. I think I have already drawn attention to the analogous case of the personal application claims for Death Duties at Somerset House?—Yes, I remember that.

15,236. Something of that sort might usefully be done within the Surveyor's office, might it not?—It might be done, certainly, to some extent.

15,237. Take the case, with which many of us are familiar, of one's lady friends and relatives who come to ask for assistance in making up their claims. They are totally incapable of doing it themselves. Ought not there to be some public official to assist them—especially as they are going to pay money to the State?—Yes, I agree, but perhaps I ought to say that to a very large extent, perhaps to a larger extent than is realized, that is already done by the Surveyors. To a very considerable extent they do help these ladies at the present moment. I am not saying that it cannot be carried farther.

15,238. The Surveyors are exceedingly good, according to my small experience, though they may vary from place to place, as I hear someone suggest; and further than that, the public do not know where to go and they do not know that they can go to the Surveyor. At present they have a piece of paper which they do not understand and they do not know how to get an explanation?—I am a little surprised at the suggestion that they do not know where to go to, because they are told pretty clearly where to go to. Nearly every form that relates to a subject of this kind has a reference to the local Surveyor of Taxes.

15,239. Of course that might be made much simpler by a plain statement on the form: "If you do not understand this form, go and see your local Surveyor?"—Yes.

15,240. That is what would be done if you were selling chocolate or soap instead of extracting taxation?—Yes, I agree. What we say at the present moment, I think, is: "If you wish for any further information, apply to the Surveyor." It is not quite the same thing.

15,241. That is part of the last material on the last page of the form, is it not?—No, my recollection is that that is on the front page, but I speak now from memory; I may be wrong.

15,242. Very well; that is your present proposal. Then you point to a very serious difficulty if the rate is diminished to 4s. on company reserves?—Yes.

15,243. That would mean that payment on company reserves, unless there is to be a great loss to the State, must be maintained at a higher rate?—That would be so certainly.

15,244. There would be no administrative difficulty in requiring companies still to pay at 6s.?—No, there would be no administrative difficulty.

15,245. Would it work out in this way: that when a company distributes its dividends, from which it would be able to deduct at 4s. only, it would then have a claim for repayment at the rate of 2s. on the dividends?—Possibly that is how it would work out.

15,246. It seems to me to be right, and that it is perfectly simple?—It would mean keeping a sort of running account with each company of the state of their reserves and distribution.

15,247. I do not know whether it is in this paper or in some other part of your evidence, but do you suggest that if you rely upon Super-tax for your graduation above £1,000, there would be a loss corresponding to the present loss on Super-tax?—Yes.

15,248. Is the present loss on Super-tax really due to insufficiency of staff?—I think to a considerable extent it is.

15,249. And if you were to release, as I suggest you say—but you are less confident—the energies of a considerable number of people in regard to Surveyors'

assessments, by a simplification below £1,000, you would have that extra man power to turn on to the efficient working of the Super-tax?—I am afraid not; for this reason. It seems to me that the principal thing to bear in mind, and the principal set-off against this simplification to which you referred in your early questions, is that you would at once bring within the range of the Super-tax 165,000 more people, and I think they would completely absorb the whole of the time and energies of the present staff, and that in addition we should require more staff.

15,250. That is a very serious matter, if it is right. It has been suggested, I think, by the official evidence and by many witnesses, that as far as possible accounts should be got from everybody?—Yes.

15,251. In order to make adjustments with the taxpayer, you must take his general account and find what his total income is?—Yes. May I just say that I am not quite sure whether we are speaking of accounts in two senses? The accounts that you spoke of first of all are, I think, the trading and profit and loss accounts of a business, not the taxpayer's schedule of income.

15,252. I appreciate that; but supposing you get from every man a statement of his total income; you must do that in order to get his proper rate when he comes for any allowances?—Yes.

15,253. We were talking just now, for instance, of 3s. 9d. You must know his total income in order to find that 3s. 9d. is right?—Yes.

15,254. You would then have the materials for making your claim against him for Super-tax?—Yes, the total income return, for whatever purpose he rendered it.

15,255. If the Surveyor makes up the Super-tax claim he would have no more work to do with the 165,000 new patients. That is so, is it not?—It is just a question whether he would have a little more or a little less; but if you grant that he would not have much less, I should not press the view that he would have much more. I think perhaps the one might balance the other.

15,256. He would have the same number of people to deal with; he would have to know their total incomes in order to find the proper Super-tax; he would be relieved from all adjustments, which are got rid of by taking a flat rate up to £1,000?—That is so, but my personal opinion is that the task of working out and dealing with the Super-tax assessments takes much more time than making an allowance against a direct assessment of so many eighteenth-pences, or whatever it may be.

15,257. Of course I only want to get your view; you are much more likely to be right than any notion of mine. Now will you turn to paragraph 80 of your paper No. 1, where you deal with deductions from rent? It is not directly relevant to your paragraph, but it seems to me to be a convenient place to ask you a question about this. Do you happen to have seen the evidence of Mr. Ryde that is to be given, I think, this afternoon?—I admit having seen it, but I have not yet read it.

15,258. I want to draw your attention to paragraph 8 of Mr. Ryde's evidence. This is a summary of it. Cases arise where an improvement in value occurs during the currency of a tenancy; and under the present law a tenant can deduct tax up to an amount not exceeding the amount of the duty on the rent. This often imposes a hardship on the owner, and it is suggested by Mr. Ryde that except in the case of a repairing lease the tenant should not be allowed to claim a greater sum from the owner than the owner would have to pay had he himself paid the tax. Do you follow that?—Yes, I think I follow the suggestion.

15,259. That does seem to be an injustice, and the greater injustice because he cannot deal with it by contract with the tenant. He is forbidden to make a contract which will stop the tenant deducting a larger sum than he, the owner, ought to pay?—There is an anomaly there, certainly; we recognize that.

15,260. I thought it would be convenient to get your view of that. I think that is all I want to ask you upon your first paper. May I now take your paper on averages?—If you please.

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15,261. *Chairman:* I think it will be more convenient to take the first paper by itself; other members of the Commission will now ask questions upon it.

15,262. *Mr. McLintock:* I take it that the suggestion is to have a claims branch at all the centres. You refer to the Surveyor; would you not have an actual claims branch?—We should have what I may call a skeleton of the claims branch as compared with the present claims branch; because there would be certain claims which would still have to come to Somerset House, the charity claims, for instance.

15,263. Take the big cities; is your suggestion just to augment each existing Surveyor's staff to enable him to deal with all the claims that arise from the taxpayers in his particular district?—That is the idea.

15,264. But not to centralise the claims in each district?—No.

15,265. With a reference to the Surveyor, say, in each district?—The idea is that each Surveyor should deal with the claims arising in his own districts.

15,266. And then pass on a slip to the Collector to pay?—Then pass on a slip to the Accountant General to pay.

15,267. You do at present refer a great many claims back to the Surveyors, do you not?—A very considerable number.

15,268. That is, they have the work to do at present, even although the claim is supposed to be dealt with at Somerset House?—They do not have all the work to do. The first claim having been made and scrutinised rather closely, when the second year's claim comes up from, say for the sake of argument, a lady who has a more or less fixed income, if the items are about the same it may be possible to pass that claim without referring it to the Surveyor at all.

15,269. There is a certain amount of duplication goes on even to-day?—There is.

15,270. Which, of course, would be abolished altogether?—Yes.

15,271. On the question of a lower rate at which the flat rate is to be deducted, you refer to the evasion as it appears from Super-tax up to now?—Yes.

15,272. Is not a large part of the difficulty that you cannot compel the individual to return the details of his income?—Unquestionably that adds to the leakage.

15,273. Your view is that it would disclose a good many things which you do not otherwise know, if it were compulsory to send a detailed schedule of the various sources of income?—Yes, very definitely, I do think so.

15,274. *Mr. Bivley:* On the question of the rate of tax to be deducted, whether it should be the average of the several rates applicable to the period during which the income accrued, or the rate at the time of payment, I take it you would agree that the average rate is the more accurate?—The average rate is the more accurate.

15,275. And that the only reason to make an alteration is the difficulty on the part of the recipient in understanding the rate that is being deducted?—Yes.

15,276. Is that really a serious difficulty? Have you ever heard anyone complain about it?—We have a good deal of complaint whenever the rate of tax changes. As long as the rate of tax remains level the complaint is never heard at all, but during recent years, when the rate of tax has changed several times, complaints have been heard each time.

15,277. Might not the deduction of the rate at the time of payment lead to hardship? For instance, many companies close their books at the end of December. They prepare their accounts, and some do it quickly, and some would get their dividends paid before the 5th April and deducted at one rate, and a company not quite so quick would pay after the 5th April, and deduct at another rate?—I agree it does involve that possible discrepancy as between two companies.

15,278. Do you think the complaints from the public are serious enough to make an alteration from a strictly more accurate system?—We do not really put it very high. We do not press very hard—I do not know that we press at all—for this change. We only

say that if the public demand really is for something they can understand in connection with this particular matter, we would make this proposal.

15,279. I can quite see it would be simpler, but it does not seem that it would be accurate, and it might lead to hardship?—It certainly might lead to hardship, if you look at an isolated case by itself, but in the long run probably it would work out all right.

15,280. On the question of emoluments paid "free of tax," you say, in paragraph 35 of your paper No. 1, that payments made "free of tax" might involve some risk that only the net amount of the emoluments would be taxed—would be returned, I suppose that means, by the recipient?—Probably by the officer of the company making a return.

15,281. Where is that risk? Do you not receive from every company a list of the actual amounts paid to their servants, which would show whether they were "free of Income Tax"?—We do receive such a list, and it should give that information, but I would not like to say that that is always accurately filled up.

15,282. That is where the risk comes in?—That is where the risk comes in.

15,283. *Mr. McLintock:* Do they return the salary generally that is paid, and do not include the tax?—I think, until recently, that was very nearly universally true, and I think something has recently been put on the form to draw attention to the fact that if the tax is paid, it has to be added.

15,284. *Mr. Bivley:* If you had such a remark put on the form, it would do away with that risk?—I am not quite sure; we should get carelessness even then.

15,285. Of course it is a hopelessly inaccurate return unless it gives that?—It is, certainly.

15,286. *Mr. McLintock:* The discovery is left to the Surveyor who examines the company's account, to find out on whose behalf the Income Tax charged was paid?—Yes.

15,287. A very difficult matter?—A very difficult matter indeed.

15,288. *Mr. Marks:* With regard to this question of "accruing rate" and "time of payment rate," would not a good deal of confusion be avoided if the rate deductible were the rate in force at the time when the payment became due and payable, instead of the time of payment or the accruing time?—That is our suggestion; that if any change is made, it should be to the rate in force when the payment becomes due and payable.

15,289. I am afraid I have missed that?—You will see a footnote to paragraph 23, which I think explains that.

15,290. That is not my point, quite. Whenever the payment is made, I suggest the rate of tax which should be deducted is the rate at the time when it was due?—Yes, that really is our suggestion. May I take a case?

15,291. I will not take up any more time, if you say that is your suggestion?—Yes, that is the suggestion; I am sorry if it is not quite clear.

15,292. *Dr. Stamp:* Following up a few of the questions asked by Mr. Kerly about the comparative advantages of having Super-tax down to a lower level, and so saving repayment claims, I take it really the point at issue is this: that you have the same number of total income statements to deal with, but in the one case you are looking at them from the point of view of calculating allowances and adjustments, and either setting them off against assessments or repaying them, whereas in the other you are looking at the statement with a view to calculating a further payment and its collection?—Yes.

15,293. On this point it is entirely a matter as to which involves the greater amount of administrative work?—That is the point.

15,294. Whether the calculation of allowances, and repaying them or allowing them against other assessments, is greater than the calculation of the exact sum of a further payment and the collection of it?—Yes, that is the trouble to be considered.

15,295. And it is not entirely a matter of calculation, there is also the question of having machinery for further demands and the recovery of further tax?—Yes.

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15,296. That has also to be taken into account in considering the administrative work?—Yes.

15,297. It is not merely one of the calculations?—That is right.

15,298. Taking the calculation of a further amount due upon the total income returned—does not that involve pretty well the same number of references to other officials, for instance, in the case of property?—Precisely. If that return is to be checked, you have to refer to the different districts in which the property is situated.

15,299. The case put to you was this: that a man has £200 from property, we will say, situated in three different districts. One Surveyor has to communicate with the Surveyors there and tell them that the taxpayer making a return to him at the centre where he resides, has a property or a house in that other Surveyor's district which is to be charged at a certain rate, and the receiving Surveyor then has to make the calculation in his book. That is what happens under the present system?—Yes.

15,300. What would happen under the extended Super-tax system would be that he would still have to write to that Surveyor to find out the actual value of the property?—Yes, a similar process would have to be gone through.

15,301. May I put it in this way? That this extended method has this disadvantage, that in the first place, having advised the Surveyor that the property in his district is chargeable at, we will say, 4s. 6d., if there should be a slight alteration in the value of that property, if it should be reduced through the rent being reduced, or if it should be sold for a quarter, the allowance will at present look after itself in that Surveyor's district, and need not be communicated in the ordinary way to the central Surveyor?—That is the case.

15,302. Whereas if a calculation is being made at the centre for a further payment of duty, it has got to be calculated exactly, and every such allowance as that must be communicated to the centre?—Yes, that is the case.

15,303. Does not that lead to the view that, on the whole, there is greater administrative work in the calculation of the exact payment of further duty, than where these local allowances look after themselves?—I think it does; that is certainly my view.

15,304. On the pure question of administration only?—On the pure question of administration. I think it is only when you consider one section by itself, say people under £1,000, that you may say: "here we gain." If you consider the other sections with it, then we do not gain at all; we lose.

15,305. Coming now to the questions about the rate of deduction of tax. The present position is that if payments are made which are wholly out of profits and gains brought into charge, the accruing rate can be deducted?—Yes.

15,306. If, however, they are out of profits and gains which are not so brought into charge, the time of payment is the matter that rules the rate?—Yes, that is so.

15,307. Does not one really get various anomalies through that system?—Unquestionably.

15,308. Take the case of a Municipal Corporation which has trading profits. That corporation may be assessed upon the amount of interest that it pays as a whole?—Yes.

15,309. But if its profits from trade are in excess of that interest, then that interest assessment lapses?—Yes.

15,310. So that the borough treasurer has to make up his mind, does he not, when he is going to deduct tax, whether the payments he is making are going to be made out of the one kind of assessment or the other?—He ought to do so, but I am not sure that he does not sometimes give it up as a bad job, and deduct at the wrong rate.

15,311. It is extraordinarily difficult for him to make up his mind?—Yes.

15,312. He says: "the total interest I am going to pay here is £10,000; my profits may be £8,000, or they may be £12,000"; and if he thinks they are going to be £12,000, he can deduct at the accruing rate?—Yes, provided his opinion turns out to be correct.

15,313. But if they should be £8,000, not £10,000, then there is a balance of assessment. He cannot say that the interest is paid wholly out of profits and gains?—No.

15,314. And he should, in strictness, deduct at a higher rate?—That is the case.

15,315. Such anomalies as that run all through the system of Income Tax deduction?—Yes, they do.

15,316. If it is more natural for the ordinary man to think of the proper deduction as being at accruing rates, we should have to turn a number of the present cases of "time of payment rate" into the equivalent?—Yes.

15,317. But it breaks down when you come to payments from abroad?—That is so.

15,318. It does not break down till you get there, does it?—No, I do not think it does. I speak without considering the point very carefully, but I think it could be done in every case except in the case of payments in respect of coupons payable abroad.

15,319. Take, for instance, the case of interest paid by a Municipal Corporation. There is a period of accrual there, therefore that could be assimilated to the accruing rate?—Yes.

15,320. Take the interest which is being paid during the construction of a railway, or the sinking of a pit, before there are any profits or gains, that interest is being paid for a particular period; the accruing rate could be deducted there?—Yes.

15,321. Take the case of a business which is being run at a loss, but where debenture interest is being paid. That is another case?—Yes.

15,322. You would avoid certain anomalies in cases where payments are being made of interest which has accumulated over a number of years?—You would.

15,323. Supposing a payment has to be made representing interest that has accrued over three or four years, it is fairer, is it not, to take the accrual period, than the last date?—I certainly think it is fairer to spread the rate, as it were, over the period.

15,324. Therefore, would not a possible improvement on the present position be, not the line that you suggest, but to adopt what many people might call the more natural idea of "accrued rate" for everything when the period of accrual is known and it arises in this country, keeping the "time of payment rate" only for payment through agents in the case of foreign payments?—I think there would be considerable advantages; but there is this point: that the public would still be left in a mass, because whenever the rate of tax changes, if you are dealing with an accruing period, you have to deduct partly at one rate, and partly at another.

15,325. Could you get over that difficulty in regard to the person who pays on a dividend warrant, by showing the calculation of one quarter at 6s. and one quarter at 6s. 7d.—I think that would deal with the company case very well, but in the case of some small concerns or payment of interest, I am not sure you might not have difficulty. If a satisfactory explanation were given, I think there would be no difficulty.

15,326. Supposing your system were adopted, and you were to take the time of payment, would it not mean an upheaval in the minds of a vast number of people who have always had tax deducted from their income at the accrued rate?—Undoubtedly; they would have to get used to the change.

15,327. Do you anticipate that in future the rate of deduction of tax will diminish, rather than increase?—I think so, but I have no knowledge on that point.

15,328. In the case of a taxpayer who in the past has experienced a rising rate, when the rate began to fall a "time of payment rate" might be popular with him as being a smaller rate?—Yes; he would gain by the "time of payment rate" being adopted, in those circumstances.

15,329. The only opposition you would be likely to get from him would be if the tax continued to rise?—Yes.

15,330. He would then complain that you were not only altering the matter in a way that interfered with him legibly, having been imbued all his life with the accruing idea, but you are also altering it to his disadvantage?—Yes, that complaint would no doubt be made.

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15,331. Therefore the success of this new system really depends on how confident we can be that the tax is likely to drop. A man does not mind his life's ideas being overturned if it is a monetary gain to him?—I would rather put it in this way. I think the success would depend upon whether at the time the change was made the tax was dropping rather than rising.

15,332. That is really the point I am putting?—Yes.

15,333. But do you see any reason why the line of division that I have sketched, that wherever you know the period of accrual for payments in this country, you should disregard whether they are technically out of profits or not, and adopt what I venture to say is more natural in the taxpayer's mind, namely, the accruing rate, and resort to the other only for payments from abroad?—I see no very great objection to that, provided you have the explanation which you have suggested on your dividend warrants and other certificates. Of course you have to remember that you cannot secure uniformity by that method, and you do retain these anomalies even if you have the explanation. There is the anomaly that you get a sort of mixed rate.

15,334. But would you say that for the majority of people the idea of an accruing rate is more natural than the idea of a time of payment rate?—I think perhaps it is; I am not quite sure. I think it is a psychological question, perhaps. I think a good many people would say: "I am prepared to pay at the rate in force when this payment is made to me, or when it is due to be made to me"; a large number of other people would say: "I think we ought to relate it to the period to which the payment relates."

15,335. Do you think people receiving ground rents and mortgage interest would feel like that?—I think on the whole they would tend, perhaps, to look to the accruing period.

15,336. Taking the population as a whole, you would agree that probably a greater number of them would regard the accruing rate as the natural rate?—Yes, on the whole I think I should agree.

15,337. But there is at the present moment a case requiring remedy; there is a muddle?—Yes, a muddle.

15,338. And it could be made either in the way that I have sketched, or in the way that you have sketched?—Yes, it could be made in either of those ways.

15,339. Sir W. Travers: There is one question I should like to ask you, on administration. Is it your view that the assessment and collection of Super-tax should be transferred to the Surveyors of Taxes in the various districts?—I think that many advantages would arise from that transference, certainly.

15,340. There might be an objection on the part of the taxpayer. It would greatly simplify the business, and would greatly simplify the expense?—Yes.

15,341. Might there not be an objection on the part of the taxpayer to have the local Surveyor of Taxes investigating his affairs?—I think that possibly at first a certain number of taxpayers might feel an objection. They might get the idea that their affairs were being made known locally. But of course the reply to that would be that the Surveyor of Taxes, although he is stationed in the district in the same part of the country, is not in any way a local officer. He is a permanent civil servant in a particular place, that is all. But I quite admit that at first, at any rate, some of the taxpayers might very possibly feel that objection.

15,342. I suppose that the staff of the local Surveyor would have full knowledge of the affairs of the taxpayer which he had to investigate?—I would not like to say yes to that without any qualification, because I think the Surveyor would do as has been done in the past—he would take steps to see that the most junior members of his staff did not have access to everything in the office, if I may put it in that way.

15,343. Possibly not, but would you think it advisable to give the taxpayer the option of appealing to a body like the Special Commissioners?—I think that in any case the taxpayer should be assessed by the Special Commissioners, and that the right of

appeal to the Special Commissioners should remain, certainly.

15,344. You would still retain the present process of assessment and appeal to the Special Commissioners?—Yes. What I intended to convey was that the examination of the return and the working up to the assessment might be done by the Surveyor, but I think it would be necessary to retain the Special Commissioners as the authority.

15,345. That leads to the point that the disclosure is, in fact, to the Surveyor of Taxes of the district in any case?—It does, I agree. Of course, it might perhaps be remembered that the Surveyor of Taxes really, at the present moment, has nearly always information in his possession, and he has the whole of it in his possession in a great many cases. Returns of total income made up by people receiving under £2,500 a year must go to the Surveyor of Taxes.

15,346. He has all the knowledge at the present time?—He has all the knowledge at the present time as regards those cases.

15,347. Would it not be a good thing, and tend to simplification, if the taxpayer were allowed to settle the question of the amount of assessment with the Surveyor of Taxes?—Yes, I think it would tend to simplification.

15,348. Because in many cases where the taxpayer has to go into the question of his accounts with the local Surveyor, it would save him an enormous deal of trouble and expense if he could settle with the local Surveyor the amount of his Super-tax assessment and have that made?—Yes, if he could settle his Super-tax at the time when he was dealing with the Surveyor for Income Tax purposes.

15,349. Yes?—Of course, under the law as it stands at present the basis is not the same, but I do agree it would simplify matters if he could deal with the Super-tax in the same way as he deals with the Income Tax.

15,350. There would be only one return instead of two practically?—I am afraid I must qualify that, because the basis of the return is different for Income Tax purposes.

15,351. It would be desirable that it should be the same, would it not? I mean the distinction between Income Tax and Super-tax is very slight?—But there would be administrative difficulties in making the basis the same, particularly in the year of change—I mean to say that the Surveyor could not ascertain the total income for Super-tax purposes, on a basis later in time than the present basis, in time to get the assessment made, and there might be difficulties or loss of revenue during one year if we made a change over to another basis.

15,352. However, it has to be borne in mind whether treating the Super-tax and Income Tax as one, so that the assessment for Income Tax and the assessment for Super-tax would be carried on together, would have that simplification if the taxpayer desired it in that way?—Yes; I think I ought to add that, in the case of a taxpayer who is liable to Super-tax at the present time, in stating his Income Tax liability he is not called upon to render a return of total income to the Surveyor at all. The statement that he renders for Income Tax purposes is a statement of so much of his income as has not been taxed at the source.

15,353. That I am familiar with?—So that, in any case, the basis is different.

15,354. If you have one ideal tax, and each taxpayer has to return his whole income, it would simplify it very much to have the two together?—In that case, yes, if that were done, but of course that would involve a revolution in the Income Tax.

15,355. To bring the two into harmony?—Yes.

15,356. Mr. Prettigson: I should like to make quite clear exactly what your suggestion is about Income Tax and Super-tax. I understand your proposal, and, if I may say so, it seems to be a very sound one, that with regard to the assessment of Income Tax accruing in any district, instead of appraisals and claims going to Somerset House they should be dealt with by the local Surveyor, with a staff increased adequately to meet those requirements; is that so?—I was not

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intending to suggest that the authority for determining assessments should not be the Special Commissioners.

15,357. I am speaking of Income Tax now?—I beg your pardon.

15,358. I have not touched Super-tax yet. I am speaking of Income Tax, and I understand as regards Income Tax your suggestion is that instead of claims for repayment going up to Somerset House they should be dealt with locally by the Surveyor?—Yes. I misunderstood your question.

15,359. Whose staff would be increased proportionately?—Yes, that is so. Indeed, the Board of Inland Revenue have it in contemplation to make that change.

15,360. It would be an economy, and it would tend probably to more accurate investigations in every way?—Yes, I think it would.

15,361. Then there is a further suggestion that the local Surveyor might deal with Super-tax?—Yes.

15,362. On that, how could the Surveyor deal with Super-tax arising entirely outside his district?—It would be necessary, of course, to provide that the Super-tax return should be sent, say, to the Surveyor of Taxes of the district in which the taxpayer had his residence or his principal residence; or if he had more than one residence, he might elect to which Surveyor he would send it; there would be various means of getting over that particular difficulty.

15,363. It would mean that a local Surveyor would assess the Super-tax, and it would be a matter of arrangement. Where the Super-tax payer drew the whole of his income from one district, that Surveyor would necessarily deal with it; but where he drew his income from many sources, then there would be an arrangement as to which local Surveyor dealt with it; is not that what it comes to?—That is what it comes to. With regard to one word you used, "assess." My suggestion on that was that it would have many advantages if the one Surveyor were to receive the taxpayer's return of total income and work it up, if I may use that expression, for the Special Commissioners, instead of the return being sent straight away to the Special Commissioners for that working up to be done in London at the central office.

15,364. What advantage would there be in that where the sources of income did not arise in the particular district?—They would not be the same in that case, I agree.

15,365. Would there be any? Take the case of a man who lived in Surrey, where he had a house and 50 or 60 acres of land. He is the head of a business in the City; he has got considerable investments perhaps in different parts of the Empire; at present he sends in his return for Super-tax to the Special Commissioners covering the whole area of his investments and his property; instead of doing that he would have to send it to the local Surveyor in Surrey. What would be the gain?—The case you have taken is the case of a man who has a business in London. If you said Manchester instead of London—

15,366. Well, say Manchester?—there would be this advantage, that it would be easier to interview him in Surrey than it would be to ask him to come up to London to interview someone in the Special Commissioner's office. I agree in the case in which he has an office in London, as far as he is concerned he would say: "I am up in London. I would rather call at the Special Commissioners' office than I would call at the Surveyor's office in Surrey."

15,367. Would your proposal not be improved if every Super-tax payer still had the opportunity of being assessed directly by the Special Commissioners if he desired?—I think certainly every taxpayer should have the option of being assessed by the Special Commissioners, but I do see considerable difficulties if it were provided that in cases where he expressed this desire his return should in no circumstances be revealed to or disclosed to the Surveyor.

15,368. Do you not think it is very objectionable, where people have incomes derived from many sources, and where their business may be in many cases of a private character, that in a local district—in London, of course, things are quite different; nobody knows or troubles to know what his neighbours are doing—you get the staff in a Surveyor's office having full

knowledge of all the business and sources of income, or at any rate some of the staff; I do not say that any harm would come of it, but would it not create uneasiness; do you not think the safeguard would be preferred that Super-tax payers should continue to send their returns and deal only with central officials?—I certainly think if the change were made there would be a certain number of taxpayers who would have the feeling that you suggest, but I don't; very much whether afterwards, when the thing had been working for a short time, there would really be found to be very much in it. At the present moment—I will say again what I have said before—the Surveyors of Taxes are in no sense local officials, although they are stationed all over the country.

15,369. But no man can isolate himself nor his staff?—No, but he does not remain there all his life: he is moved from town to town. As a rule he does not remain more than two or three years even; sometimes he stays a good deal longer, and he does acquire a knowledge, I agree, not so much of total incomes of wealthy people, as a very intimate knowledge of all sources of income, and the greatest details of it.

15,370. In his district?—Yes.

15,371. But only in his district?—Only in his district, I agree. I suggest in that connection that perhaps the thing that a taxpayer most objects to is knowledge in his district of his activities in that district, the profits he is making from his business in that district.

15,372. It may be; it depends entirely on the character. In some cases that would certainly be so; in other cases it might be entirely the reverse—I agree it might.

15,373. Then as in lowering the flat rate, the effect of lowering the flat rate, say from 6s. to 4s., would be, would it not, to shift a very large body of taxpayers more on to the side of the hedge where they have got to pay something which is not deducted at the source?—Yes, and may I add, relating to your previous questions, that if that were done, then I think the transfer of the Super-tax work to the Surveyor of Taxes would become almost essential, because you would get such a large increase in the number of Super-tax payers that it would become almost impracticable to work it all from a central office.

15,374. You would shift over a very large body of people?—You would.

15,375. Who would be put in the position of the present Super-tax payers, that income which they receive is not their own and they have got to pay part of it to the State?—Yes.

15,376. Do you consider, from your experience, that it is felt as a great advantage by taxpayers that their income, especially taxpayers who have over £1,000 a year, or who draw their income from investments and dividends, that the tax should be deducted at the source, so that whatever money is actually paid to their account as dividends is their own money, and they know where they are and are not faced with the temptation of spending money which they have got, and then having a very heavy tax to pay when perhaps they have no balance left?—I think there are two main types of people, one who take the view you have just been putting forward, and the other who complain because too much tax has been deducted from them at the source.

15,377. Which of the two do you think has most reason?—Speaking as a good Revenue officer, I prefer the man who likes to have deduction at the source at a high rate.

15,378. The complaint of the latter class seems to me to be a very thin one, because he will not get any lower rate because he has to pay it himself, will he?—No.

15,379. You are thinking perhaps mainly of cases of rebates?—I am thinking of cases of rebates.

15,380. I was not referring to that at all; it is quite a different matter where people are entitled to rebates. I was putting the large body of people who would be shifted over into the Super-tax region above £1,000 a year. Is it not true to say that, with the present alteration in the value of money, that really represents a very much lower class of spending power than it used to do?—Certainly, that is so.

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[Continued.]

15,381. When we speak of £1,000 a year, those of us, at any rate, who are past middle age, is it not very difficult to clear our minds of the idea that £1,000 is what we have always looked upon as £1,000?—Yes, I think there is a very great deal of force in that.

15,382. And £1,000 a year will now, and as far as we know in the future, really only represent what used to be £500 or £600?—Yes.

15,383. It means you are shifting everybody, on this proposal to lower the rate to 4s.—which is at present about the appropriate rate for an unearned income of £500 a year?—It is rather higher.

15,384. Well, 3s. 9d. I think it is?—3s. 9d. is £500 to £1,000.

15,385. I have worked it out on Mr. Kerly's proposal which he puts before you, and worked out on his proposal it would be exactly, on £500 a year income, £120 abatement; then there would be £380 deducted for a wife (taking a man with a wife and three children), £40 for the first child and £80 for the other two children; that would make a total deduction of £300, leaving him £200 on which 4s. would be paid, that is £40?—Yes. Of course, that would mean a great rise of the rate.

15,386. I am taking the proposal put forward by Mr. Kerly?—I thought Mr. Kerly's proposal was to make the 4s. rate applicable to the man with £1,000 a year rather than to the man with £500; that, I think, corresponds more with the present scale.

15,387. I understood Mr. Kerly's proposal to be a 4s. rate for unearned, and a 3s. rate for earned, covering the whole ground, but with appropriate deductions such as I have named here?—Yes, that is so, a flat rate up to £1,000.

15,388. The rate would be 4s., and the graduation would not come by an alteration or lowering of the rate, but by abatements?—Yes.

15,389. I take his unearned rate of 4s. and his earned rate of 3s., and I take an income of £500 a year. If a man had a wife and three children, I make the deductions £300, leaving £200 on which 4s. in the £4 would be payable on unearned income?—Precisely.

15,390. On that basis, taking the 4s. tax, a man with £500 a year would pay £40?—Yes.

15,391. If you are going to shift everybody into the Super-tax region who receives over £1,000, it would mean that a very large number of people who now can claim abatements would, on the other hand, be having to make supplementary payments?—Yes.

15,392. Do you think that is desirable?—No, I do not. I think they would feel that and object to it very considerably. I think there would be a good deal of feeling on that point.

15,393. Not only on the point of feeling, but both from the point of view of the Revenue and from the point of view of the general convenience of the country and of the taxpayer, do you not think it is desirable to have the deduction point as high as you can?—I do most certainly; I am very clearly of that opinion.

15,394. And the pressure to reduce it is mainly because of the inconvenience of returns and repayments?—Yes; I think that is the main cause.

15,395. And not only inconvenience, but delay above all?—And delay, yes, certainly.

15,396. I rather gather from your evidence that you are of opinion that the best line of action is to maintain the high rate, I do not say necessarily the 6s., because that might alter as the rate of tax alters, but to maintain the highest rate of deduction you can, and to meet the objections that I have named by administrative action and improvement?—Yes, that is our view, certainly; that is the official attitude on this subject.

15,397. There is another point I did not quite understand on that same subject when Mr. Kerly put it to you, that company reserves would be taxed at 6s. still; that is what he suggested?—Yes.

15,398. Because it would make it very difficult if you reduce the rate on which you tax a company's reserves, and then they would only deduct 4s. and would be able to claim the balance of 2s. from the shareholders?—What I understood Mr. Kerly to mean was this: that the company pays 4s. on the dividends

it pays, and 6s. on the undistributed profits. If it subsequently distributes something out of the undistributed profits, then it is entitled to claim repayment from the Revenue because it deducts only 4s. We have charged at 100 much—at 6s., if it distributes those profits. I think that is Mr. Kerly's point.

15,399. I thought it was from the shareholders, and I could not understand why the 2s. should be claimed from the shareholders?—No.

15,400. Mr. Kerly: Might I be allowed just to put this right by asking a supplementary question or two. Mr. Pretymann took the marginal sum of £500?—Yes.

15,401. That would, of course, produce the greatest divergence between my system and the present system?—Yes, I think it would.

15,402. Mr. Pretymann: That was accidental, I may say.

15,403. Mr. Kerly: I thought very likely it was accidental. As a matter of fact, on the present rate a man with a wife and three children gets £240 by way of abatement, and he pays the 3s. tax, which comes to £30?—That is the man with £500 a year you are speaking of?

15,404. Yes; unearned.

15,405. Mr. Pretymann: On this he would pay £40.

15,406. Mr. Kerly: Yes.

15,407. Sir T. Whittaker: The aim of many of the suggestions that have been made is to get a lower deduction of Income Tax at the source, and one suggestion is that that should be balanced by having Super-tax commencing at £1,000?—Yes, that is the suggestion.

15,408. Would not that mean an enormous loss to the Revenue?—I think it would; in fact, we deal at length with that point, and that is the most serious aspect of it, I think.

15,409. It would mean, would it not, that you run two great risks, first, for Super-tax you are depending upon personal return?—Yes.

15,410. And all experience shows that that is far less effective in producing revenue than deduction at the source?—Yes, certainly.

15,411. Very seriously different?—Very seriously. I should agree.

15,412. The second point is, is it not, that Super-tax at present, at any rate, fails to touch anything but actually received income?—Yes.

15,413. You would very much increase the loss from that source?—Yes, I think there is no doubt about that; we should.

15,414. That is to say, supposing there is an Income Tax of 4s., that is what would be levied on the profits that a company has actually made?—Yes.

15,415. Now we get 6s.?—Yes.

15,416. You would drop 2s. there?—Yes; subject, of course, to the proposal that Mr. Kerly made, that we should have a sort of Super-tax on company reserves; that is a separate point, of course.

15,417. That we have not got, and there are practical difficulties about that?—I agree.

15,418. All this means a great risk of losing revenue?—Yes, it does, a very great risk indeed.

15,419. With regard to the inconvenience, which is admittedly serious, of a large deduction at the source, especially to persons with small income, does not that in the majority of cases practically adjust itself after the first year?—Well, in one sense it does, certainly.

15,420. I mean in this way; the deduction is made in the first year and during the following year he gets the amount returned?—Yes.

15,421. And, therefore, during that second year, if his income is about the same, the deduction is being made at the higher rate, but he gets the return from the first year?—Certainly.

15,422. That continues every year afterwards, which really means that the financial inconvenience falls on the first year?—Yes.

15,423. After that it adjusts itself?—Yes; so long as the rate of tax does not change materially.

15,424. Also, with regard to the claims for abatement and adjustment, is it not the fact that after the first one has been settled, in the vast majority of cases the claim is rapidly and easily settled, each year afterwards?—Yes. I think that is generally true of the ordinary straightforward claim.

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15,425. I may say that I have had to help a fair number of ladies who have had difficulty with their forms to get these returns, and my experience has been that after the first year the authorities deal with the thing pretty rapidly?—Yes, I agree; that is our endeavour, at any rate.

15,426. I understand that two suggestions are made which would be of great help, and that is that increased and better-known facilities should be afforded to the taxpayer to obtain help in filling in his form or her form, and in getting repayments?—Yes.

15,427. I agree, so far as my experience goes, the Inland Revenue officials are very obliging, but I do not think everybody knows and feels they are quite safe in going, also, they do not know that they will get that help?—No.

15,428. Increased facilities and better-known facilities, meaning enlarged staff, probably, would do a great deal to ease the situation?—I believe that would be so.

15,429. And if that were accompanied by the suggestion which I understand the Inland Revenue contemplates, to facilitate repayment when the claim has been made, the two together would do a great deal, would they not, to relieve the pressure?—Yes, I think they would; and might I say at this point what I should have said in answer to a previous question: that when this scheme of decentralised repayments has come into force, not only do we hope to get the money repaid more quickly, but we hope it will be repaid oftener if the taxpayer desires it. That, I think, is very important. If a taxpayer now makes a claim, generally speaking he can claim yearly or half-yearly, but we hope to extend that to quarterly, and possibly in the case of many persons we might even be able to go further than that—in any case in which there were signs of hardship.

15,430. I presume you would agree that we must look at all these questions from the point of view, first of all, that the Government must have money?—Certainly.

15,431. And that it is your business to get money?—Yes.

15,432. As conveniently as possible, but we must get money?—I should not dissent from that at all.

15,433. And therefore convenience is secondary to getting money?—Convenience, yes.

15,434. That is, we must not sacrifice income seriously to promote convenience?—I should not differ from that.

15,435. All experience has taught us, has it not, both in this country and others, that the more you can deduct at the source the more total revenue you will get?—Emphatically I think that is the answer.

15,436. And that for Income Tax, the higher the rate the more absolutely vital is collection at the source to a successful collection?—Yes, I think it is, absolutely. I believe Mr. Hopkins, when he was here, said that that was the one point on which he felt inclined to be dogmatic.

15,437. It is vital?—Vital, yes.

15,438. But the higher the tax the more difficult collection at the source becomes from the point of view of the inconvenience it causes?—Yes, that is true.

15,439. So that it follows, does it not, that we are reaching a region where, if we are not careful, the height of the tax is going to imperil collection at the source, which is vital to the success of the whole machine?—Yes, I think it is so, and it is the recognition of that fact that has led the Revenue to consider such things as these schemes of decentralisation in order to meet such a possible obstacle.

15,440. And while we may all recognise that there are difficulties and inconveniences arising from collection at the source, and while everybody would agree that we must adjust and minimise these to the utmost, we must bear in mind throughout it all that collection at the source is vital, and does involve some of these inconveniences?—I should entirely agree; that is so.

15,441. With regard to the disclosure of total income, I think you agree that the opportunity should always be available to individuals to be assessed by the Special Commissioners?—Yes, I certainly think so.

15,442. To what extent is that availed of now?—I mean roughly in number?—Roughly, as regards Schedule D, I think about 12,000 people come to the Special Commissioners every year.

15,443. For the bulk of the population we have, have we not, moved a long way in recent years in the direction of obtaining full disclosure of income?—Most decidedly.

15,444. The great majority of the Income Tax payers now, in one way or another, have to and do disclose their income?—There is only one very small section of taxpayers who have not at the present time.

15,445. An extremely small section?—Yes.

15,446. Therefore there is no new departure involved there of any importance?—Not in the slightest.

15,447. And if the opportunity is given to everybody to be assessed by the Special Commissioners, if they wish, there really is no ground of complaint?—No, I think not.

15,448. Mr. McLintock: May I ask one question. There is one point which has not been touched on, and that is the effect of deduction at the source in letting the Revenue get and keep tax which they are not entitled to?—Yes.

15,449. Have you formed any idea of the amount?—I think the amount which we get and keep are not entitled to is very much smaller now proportionately than it was years ago when the rates were lower. I think when rates were low a fair number of people, perhaps a very considerable number of people, either did not take the trouble to claim or did not understand how to claim; but I think the rise in the rate of tax has put people upon enquiry, and I think even the ladies now, when they see 6s. in the £ is deducted from them, make enquiries and say, "am I bound to pay all this tax?" I do not think there is a very considerable proportion that do not get back what they are entitled to.

15,450. Do you think it is negligible altogether?—I am inclined to say it is.

15,451. Although in earlier years it was quite a serious item?—In earlier years I have no doubt a very considerable number of people did not claim.

15,452. But you get the use of a large sum of money to which you are not entitled?—On the other hand the taxpayer gets the use of a large sum of money to which he is not entitled by not paying his duty promptly.

15,453. Dr. Stamp: In connection with the description of the proposed decentralisation that you were giving in answer to Sir Thomas Whitaker, could you tell us whether the possibility of going still further along that line has been considered? Take a case by way of illustration: a widow receives a dividend from the Midland Railway of £100 a year, and it is her sole income?—Yes.

15,454. She is now going to have the opportunity of going perhaps quarterly, or whenever she receives the dividend, to the Surveyor direct and getting repayment through him?—Yes.

15,455. Supposing she were willing that a certificate should be handed to the company saying that for a period until further advice, say for the next three or four years, the dividend should be paid her in full, and the Midland Railway Company were prepared to do it; and then at regular periods the Midland Railway sent a statement of the number of such cases and the total amount of dividend paid in full, and you repaid them direct; do you think that any extension of the American system (that is like the American system, is it not?) would be possible to assist these cases? It would obviously have to be confined to cases of stable incomes, where the circumstances were not likely to change, and the right would have to be retained to stop it at any moment, or ask for a further return. Would it not be possible in that way to prevent a claim having to come up four times a year? Could it not be done in a lump sum direct by correspondence with a large paying authority?—Extension in that direction is possible, I know. The difficulty lies, I think, probably in making the arrangements with the various companies concerned. How they would regard such a suggestion I do not know, but I think a good many of them would object.

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15,456. If they were willing there is no real administrative objection; it would be a not saving of work, would it not?—I think it would if such an arrangement could be made. It might be conceivably possible to make an arrangement of that kind in certain directions.

15,457. Is there something like it already done under arrangements "A" for building societies?—It is, and the payment of certain annuities without deduction of tax. It might be possible to extend those arrangements in certain directions.

15,458. Mr. Kerly: A suggestion on the same lines was made with regard to the deduction of tax by employers from workmen, if you remember?—Yes.

15,459. I think that is discussed somewhere in the evidence?—I remember that that suggestion has been made.

15,460. And it would be carrying out the same thing as regards income from investments, that is to say, you would let the deducting party know by certificate from the Surveyor or in some other way what the proper rate for deduction of the particular recipient should be?—Yes; of course, as you are aware, great objections have been raised to any proposal of that kind, particularly in the case of deducting tax from wages.

15,461. For workmen; but that, I think, is on other grounds?—Yes.

15,462. Mr. Walker Clark: Would not a great deal of the annoyance and irritation in respect of repayment of claims disappear if you acknowledged the receipt of the voucher and the claim?—Possibly, it had not occurred to me that that would make very much difference, but possibly it would soothe a certain number of people.

15,463. You know there is a very great delay sometimes between sending in the vouchers and hearing anything at all with regard to them?—Yes; your suggestion is that an acknowledgment should be sent?

15,464. A formal acknowledgment would remedy a great deal of friction which now exists?—I should hesitate to put it very high. I think a person who would be annoyed at not getting his money quickly would still be annoyed even if we told him we had received his claim.

15,465. My experience is that a good deal of friction would cease if that were done?—It is just a question of how high to place it. I agree to some extent it would, but I am not sure how far.

15,466. But it would be helpful?—It would be helpful.

15,467. Chairman: We will now go to your second paper.

15,468. Mr. Kerly: I gather that the Department does not take any strong view against the abandonment of the average?—Not any strong view; I think that is so.

15,469. You say that Lord Ritchie's Commission advised its continuance; they were very half-hearted about continuing the average, were they not?—Yes.

15,470. And they actually proposed to abandon it for professions and for the first three years of new businesses?—That is so, yes.

15,471. You have set out the pros and cons very effectively. Would you just turn to paragraph 8. First you point out that if there is a rising income, the tax does not show the advantage of it for some time?—Yes, we do.

15,472. Then in paragraph 10 you point out that the abandonment of the average would be a long step towards greater uniformity in the basis of assessment?—Yes.

15,473. That would be of very great value?—It would.

15,474. There is one thing which you have not put amongst your pros. Is it not highly undesirable to assess any taxpayer upon an imaginary income instead of upon the actual income for the same year?—Yes; but you would still assess him on an imaginary income if you took the preceding year and made him pay on that basis for this year.

15,475. It would be the actual income of the preceding year?—The actual income of the preceding year.

15,476. I will come to substitutes for the average in a moment, which you have discussed later on.

Further than that, if a man pays on the actual income of the year in which he pays, he is paying when he has got the money?—Pardon me, not the year in which he pays; I think that is impossible, is it not?

15,477. There must be a gap?—There must be a gap.

15,478. Yes, I appreciate that. At any rate he is likely to pay nearer the time when he has received the income upon which he is paying?—Yes, that is the case.

15,479. Is not that strikingly indicated by your contra suggestion in paragraph 15? You set up the case of a man with very varying profits for a period of years?—Yes.

15,480. Is he not in practice much better able to pay a large sum just after he has received the £10,000, than he would be in the second and third years after that, when his profits are falling?—Taking that statement by itself, yes.

15,481. Even if the average were not wholly abandoned, would not there be a very great deal to be said for abandoning it except as regards Schedule D?—If you are going to transfer to Schedule D two or three miscellaneous things which are almost in Schedule D already, there is very little outside Schedule D that is assessed on an average; and certainly as regards those items I do not think that we wish to retain the average.

15,482. May I put my question in another way. Whatever there is to be said for an average in substance is restricted to business profits or analogous profits?—Yes, I agree that is so.

15,483. Supposing you dropped the average and looked for an alternative: there must be, as you say, a gap between the period on which you are going to assess your income and the time of payment, to allow for the necessary returns and their checking?—Certainly.

15,484. You could take last year's actual income, and make payment at some period late in this year?—Yes.

15,485. Then, of course, you would have, as you would in any event, to make special arrangements for the transition period to avoid loss to the Exchequer?—Yes, we should.

15,486. Have you seen Sir Arthur Channon's letter?—Yes, I have just seen his letter.

15,487. You remember he makes this suggestion, that the period taxed should be the actual year of payment?—Yes.

15,488. Or that payment should be made in the first instance upon the basis of the year before, the income of the preceding year, and that that should be subsequently adjusted?—Yes. May I just see if I have got it clear. You mean a provisional payment based on the preceding year, followed by an adjusting payment?

15,489. An adjustment one way or the other when the actual income of the year of assessment is ascertained. I suggest that, theoretically, that is the best arrangement that could be made?—Theoretically, I should entirely agree.

15,490. But it would have the practical inconvenience that you would always have to have an adjusting payment?—Yes, it would.

15,491. As an alternative you would, in fact, sometimes, if you took a single year, only put your year somewhat further back?—Yes, sometimes.

15,492. You suggest as, I think, the chief practical difficulty of taking a particular year, that accounts might be made up by traders or companies for broken periods?—Yes.

15,493. Would there be any difficulty in dividing the profits shown by those accounts, and sending each apportioned part to its appropriate year?—An apportionment of an account very seldom gives true results, I think. Assuming the account is a six month's account, it by no means follows that half the profits shown by that account were made in the first three months, and the other half in the second three months. It would not give true results, but we have to do it from time to time now, of course.

15,494. Is there any other way of dealing with accounts for a broken period?—No, I think not; I think we are driven to do that.

15,495. Now another method. I am told that in South Africa, and you will probably be quite familiar

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with this, the system in force is that the income is assessed on the profits of the previous year, but the assessment is regarded as made in respect of the actual year when the profits arose?—Yes.

15,496. Do you follow that?—Yes, I think I follow that.

15,497. Although it is not made until after its expiration; what do you say to that as an alternative?—It seems to me that it is almost impossible in this country to make the change over, because, either we should have to give up a year's revenue, or the taxpayer would have to be asked to pay twice over for some particular year. He now understands that the tax that he paid on the 1st January and the 1st July, 1919, represented his liability up to the 5th April, 1919. If we were to make the change now at this moment, we should call on him to pay more tax for that same year ended 5th April, 1919, or alternatively, we should have to sit still for a year and do nothing, and lose a year's revenue.

15,498. He has made a payment now on the 1st January, 1919?—Yes.

15,499. Next 1st January you are asking him for a payment; it is only a question of what payment?—But that payment relates to his liability for some period; he asks, what period?

15,500. So far as he is concerned it is a payment he has got to make, in the one case for this year and in the other case for next year?—No; if I understand you rightly if we change the basis we should, in this year, 1919, in fact be ascertaining the profits of the year 1918, and having ascertained them, the taxpayer would be called upon to pay the tax on them, and if he asked to what year the tax that he was paying related, we should say it is your tax for the year 1918.

15,501. There would be a temporary moral upheaval, because the taxpayer would know that he was going to pay twice for the same year, in theory?—Previously.

15,502. But the actual payment he would have to make would be once this year and once next year?—That is so. I can imagine a very great upheaval if we attempted to make that change.

15,503. As regards professions, I think you will agree that you take the view that there is very little to be said for an average, but that it would be better to take, say, the last preceding year, or, at any rate, some definite year?—Yes, I think so. We are very clearly of that view as regards employments, and, perhaps a little less clearly, but on balance we take that view as regards professions.

15,504. You suggest, supposing the average were done away with, and provision were made for carrying losses forward, that provision should be limited so as to give no greater relief than exists at the present time?—Yes, we have made that suggestion.

15,505. Does that mean that if there is a loss in this year you should only be allowed to carry it forward for three years?—Yes, that is the idea.

15,506. That would strike the taxpayer as very inequitable?—I think you will probably agree that the line has to be drawn somewhere. May I put an illustration? Take the case of a man who starts a business and makes a loss of £10,000 in the first year. Possibly he goes bankrupt, and then begins again and makes £200 a year for 20 years, and then dies. I think it would be repugnant to the sense of almost everyone that that man should pay no tax whatever during the whole course of his life because he made a large loss in the first year he started business. I think that would be carrying it too far. Therefore you have to draw the line somewhere, and we have suggested that it should be drawn where it is drawn at present.

15,507. There would be added difficulty if you let it go on for ever, that that £10,000, which might be represented by the improvement of his goodwill, would really be embarking further capital in his concern?—Yes.

15,508. However, three years seems to be rather a short time to limit the losses to?—I do not know that we are absolutely wedded to three years, but it is the limit at the present moment and I do not know that there has been any considerable dissatisfaction with that limitation; it covers the normal case.

15,509. There is a paragraph which I do not understand; I have no doubt it is my fault. In paragraph

32 you say: "A similar difficulty often occurs in the case of a concern formed to work a single venture, such as the construction of a big engineering work or the development of a building estate." What is the difficulty? Could you explain to me what the trouble is there?—The difficulty is this: that with a concern of that kind, say a big contract for the construction of a dock, the contractor does not know until the work is finished, perhaps 10 or 15 years hence, how much profit he is going to make, and cannot in the early years, in fact he cannot until the very end, say what his profits were for any actual year. All he can say is: "I have done so much work, which is estimated to be worth so much," or "I have received such and such payments on account, and I believe my profits to be so much," or "I will agree to 10 per cent."

15,510. I follow. You say he makes an estimate and pays on that estimate during the earlier years, and then when he actually gets his profit ascertained at the end of the contract, there should be readjustment? That is the suggestion?—Yes.

15,511. A readjustment?—Throughout.

15,512. Is not that done now?—Not invariably, but as far as possible it is done by arrangement. There are difficulties, of course, largely owing to the operation of the average and the length of period. He may, of course, having carried out this big work, close down entirely, and we may never get tax on the final profits at all.

15,513. That suggests another thing to me. You suggest that in the last years of the business there may be very large profits?—Yes.

15,514. And that the average is required to give the State a fair share of them?—An adjustment is required. The average does not give the State its fair share at present.

15,515. You suggest that the State should be given the option to take the last actual years instead of the average?—Yes. I think there are cases in which that option should be allowed.

15,516. That is if the present system is maintained?—Yes.

15,517. It would be fairer, on the other hand, where the last years are years of falling profits to give a corresponding option to the taxpayer?—He has it at the present time.

15,518. Only if the fall is for a specific cause?—No. I beg your pardon, where a business is discontinued he has the right to prove that his profits were less than the average, and to obtain an adjustment not only of his assessment for the last year but for three years back.

15,519. I am much obliged; I was not aware that that existed?—Yes, there is that provision.

15,520. Mr. McLintock: With regard to the objections, "Steadier yield and steadier liabilities" in paragraph 14, that is only as it affects the State?—The steadier liability, I think, affects the taxpayer. It is partly covered, of course, by the next paragraph; it affects his graduation, but also it is perhaps a little easier for him to know where he is.

15,521. Do you not think that most taxpayers to-day, whether paying on an average or on the preceding year, set aside the tax on the profit when it is earned?—I should be very slow to believe that is true of anything but what I may call the big business. I daresay it is true of the big business, but I very much doubt whether it is true of the small business.

15,522. Do you see any objection to encouraging them in setting aside a specific provision say of 6s. in the £ on the income earned for the year, and carrying it forward as a liability to be paid in the following year?—No. On the contrary I think it would be very desirable that they should put aside a reserve to meet their liabilities.

15,523. A specific reserve which at present, on the average system, many of them do not?—I should think that many of them do not do it.

15,524. I suggest to you that the practice is more common to-day, owing to the high rate of tax and the operation of the average, of setting aside specifically each year the tax on the profits earned?—I am quite ready to accept that.

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15,525. So that really the only difficulty is the one that the yield might be a little uneven as regards the State; but you do not think that is a serious difficulty?—Not very serious. Of course, it is an advantage to have a stable yield and be able to make our estimates. An average system assists very much in estimating the national revenue.

15,526. On the reaction on the scale of graduation, of course the same thing happens now to all incomes which vary?—Yes, but the effect of the average is to modify that fluctuation—that reaction.

15,527. On the question of the carrying forward of losses at present, under what was formerly the old section 133, the provision which is now in force in relation to war losses, they in effect get four years?—That is so; they do.

15,528. That is to say, a bad year comes into the average four times?—Yes, but that 133rd section only exists as a war relief, and we hope at any rate that it will not continue much longer.

15,529. Then your view is that under the average system, as they can only recover three years' losses at present, they should be restricted to the same recovery if the basis is changed to assessment on the profits of the previous year?—On the whole I think that would be fair, yes.

15,530. I am going to suggest that it might be desirable to get in evidence a few simple examples which the average man in the street could understand on this question: he is generally rather ignorant of the method of estimating his liability on average, and you would also bring the question of this relief under section 133—it is not section 133 now. Then there is the 1890 Act, where you have a loss in the year, and there is the specific cause provision of which most taxpayers are very ignorant?—You mean you would like some examples put in evidence?

15,531. I think it would be useful for the Commission to show that with three years' average system there are certain reliefs given; there is the war relief, which is the old section 133; there is the loss in the year, and there is the specific cause. Then there is the aggregation of the last three years' profits of the business against the last three years' assessments.

15,532. Dr. Stump: You mean illustrations of all the cases mentioned by Mr. Harrison in Annex III at the end of his evidence-in-chief? [See App. No. 69.]

15,533. Mr. McIntosh: Yes.—We should be very happy to prepare some tables giving the information.

15,534. I think it would be very helpful. On the question of accounts for irregular periods, you have got over that difficulty all right, have you not, by apportionment?—That is for Excess Profits Duty. I am not very competent to say how far we have got over it, because I have had nothing to do with the working of it.

15,535. The principle of apportioning profits in order to get one complete accounting period has been adopted?—Yes, that is so; that is the principle.

15,536. And it works on the whole quite satisfactorily?—So far as I know it does, yes.

15,537. Because the Excess Profits Duty is a tax peculiarly applicable to a particular year at a particular rate of duty?—Yes, it is not necessarily an annual tax; it is often paid every year, but it is paid by reference to each accounting period.

15,538. For all practical purposes, say a man strikes a balance for nine months, another for six, he would not suffer any hardship, nor would Revenue suffer any loss, by apportioning those two periods to 12 months?—No, I think not; in the ordinary case that is what would be done. As you see from paragraph 17, there are dangers that, for instance, a six months' period, in the example I have given, might slip out altogether.

15,539. But you could have a necessary safeguard against any period slipping out?—Provided we have that safeguard.

15,540. You can safeguard it, can you not?—Yes, we can.

15,541. You refer in paragraph 19 to safeguard against evasion, and you say: that a large numerical majority of the whole number of businesses in the country do not furnish accounts either year by year

or at relatively short intervals. That is to say small businesses?—That is the small business, of course.

15,542. I suggest the profits do not vary much year by year, and that really the estimate you make for a three years' average would not differ materially from the estimate for a one year's profit?—That is broadly true; I think that would be so.

15,543. You also raise the question as to the advantage to the Revenue in getting the three years' accounts?—Yes.

15,544. That again can be got over by compelling the taxpayer on request to produce three years' accounts?—Yes, it could be got over in that way.

15,545. If a taxpayer has been in business, say, for five years, and he comes along at one period on appeal (I am assuming that there would be some alteration in the production of accounts to the Inland Revenue), there could be no difficulty in asking him to produce the accounts for three years in order that you may see that the starting point of the year in question has been properly ascertained?—Provided we had that power, of course, it would be satisfactory.

15,546. That would get over that difficulty?—Yes.

15,547. In paragraph 31 you refer to the taxpayer whose profits decline in the closing year of the business, and who claims relief, and then you go on to say that "a taxpayer who makes abnormally large profits in the last year of his business escapes assessment upon his windfall altogether." That is under the present average system?—Yes.

15,548. Even an individual who is at present on the preceding year and whose business ceases escapes also?—That is so, in the last year.

15,549. And he would escape on the basis of the preceding year just as he does on the average, unless you take steps to have an adjustment?—Certainly.

15,550. So that the change over does not mean that the Revenue would lose any more money than they do at present?—No, not on that particular point.

15,551. Now with regard to the joint adventure, it is the practice to-day, is it not, where you have an adventure such as a building operation lasting five or six years, to apportion that profit over the whole period?—Yes, I believe that is the common practice.

15,552. And again, taking the Excess Profits Duty, you know that, say, in a shipbuilding yard, the Inland Revenue under the Act ask you to apportion profit on work in progress?—Yes, I believe that is done; I have heard that that is done.

15,553. That is, if a ship takes 18 months to build, you have to apportion the profits for the accounting periods falling within that 18 months?—Yes, there is a special power which enables that to be done.

15,554. A similar power for Income Tax would meet that difficulty?—Yes, it would.

15,555. And it is not unreasonable to ask for it?—No, I submit it is not unreasonable.

15,556. When you come to paragraph 33 on this question of specific cause, I suggest that the Inland Revenue might prepare some examples and illustrate the effect of specific cause. It is usually largely in favour of the taxpayer?—Yes, that is the case.

15,557. May I put a simple illustration to you: a private firm becomes a limited company, and in the first year of the limited company a former partner gets a salary as a director, however small, that year would have been had in any case, but he claims that that salary is a specific cause, and he is allowed to depart from his average and be assessed on the profits for one year?—Yes.

15,558. That is unfair?—That is very unfair in some cases.

15,559. I suggest that this specific cause is so little known that it might be well to get it down in the evidence, and to let the Commission know how it works in practice and how one-sided it is in its operation?—We will give you some examples.

15,560. There are a great many substantial concerns at present assessed on the preceding year?—Yes.

15,561. Did you ever know of any complaints from them that they were not assessed on an average?—I do not remember hearing any considerable complaint, no.

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15,562. At present if they have to claim a relief it provides for a three years' average being taken; they have got to strike a new average of three years, although they have been assessed year by year on a single year's profits?—Yes.

15,563. That is an anomaly which ought to be removed in any event?—Yes.

15,564. Do you suggest, even if traders' profits are not assessed on the three years' average, that collieries should be brought to a three years' average and brought under Schedule D.?—I do not know that it would be fair to press that very far in the case of a colliery. Not merely a colliery but a mine of any kind represents a business which fluctuates a good deal. I am not sure whether a five years' average is not a fair basis there. They might possibly be brought to a three years' average, but certainly I think we should hesitate about pressing the view that they should be brought to the preceding year.

15,565. Why?—Because you introduce that factor of reactions on the scale of graduation, a high tax at a high rate when a high profit is made, and no tax at all in the next year.

15,566. Graduation does not apply to a limited company?—No.

15,567. The bulk of the tax-paying collieries are limited companies?—Yes.

15,568. Is there any hardship in their paying on the actual profits of the preceding year as compared with an ordinary trader. The profit is made in a particular year; why should not the tax be set aside in the case of a colliery?—I do not think there is any particular hardship provided there is an adequate provision for carrying forward losses.

15,569. With regard to the average of the seven preceding years, mentioned in your paragraph 27, what forms of royalties are assessed on a seven years' average?—May I turn up the reference?

15,570. I should put it another way. Are there many assessments on royalties on a seven years' average?—Very few indeed. I think, probably, you will find about one assessment in each country parish or each group of parishes representing a manor. They are manorial dues and that sort of thing.

15,571. You refer to manorial dues and then add "royalties and profits"?—They are manorial royalties. The words of the Act are "manors and estates"; they are taken from No. II of Schedule A royalties in the 1842 Act. They do not refer to royalties in the ordinary sense in which we understand that term.

15,572. Mr. Kerly: They are not mining royalties?—No.

15,573. Mr. Petytson: Would they be mining royalties where the mines were held in right of the lord of the manor and not in right of the ownership of the soil?—I think not. I have never heard it contended that a mining royalty should be dealt with under that head at all.

15,574. Mr. Armistage-Smith: Can you tell me why the Income Tax runs from the 6th April to the 5th?—As a matter of fact, we are hoping to give you a memorandum on that subject. It was raised, I think, at the opening sitting of the Royal Commission; Mr. Hopkins was asked some questions about it and we made a note to prepare a memorandum on the subject. That memorandum is now being prepared, and if you would allow me to reserve my answer until that is put in, I think you will find it is cleared up there. [See Appendix No. 7 (c).]

15,575. Dr. Stamp: In the case that you illustrate in paragraph 15, showing the reaction on the scale of graduation, it is quite clear that a private trader whose profits fluctuate considerably is at a disadvantage compared with one who makes the same profits in the long run evenly?—Yes, that is the point.

15,576. Probably that would be fairly quickly discovered by the private trader?—I think so; when he has to pay money out he discovers the grievance.

15,577. Therefore he would feel that he would like to make his profits, as far as possible, evenly?—Yes.

15,578. Would he not be tempted to adopt various expedients, not necessarily fraudulent, but the subject of matters of opinion, in his accounts for equating his profits?—The incentive to do so would be there, at any rate.

15,579. And would be very difficult to stop?—It would.

15,580. Such questions as the sort of value that he puts upon his unfinished manufactures?—Yes.

15,581. Which are difficult to tie down to any particular market value?—Yes.

15,582. And, therefore, we should expect to find a tendency set up amongst the people affected to, remedy this particular trouble?—Yes, I think there would be a growing tendency in that direction as years passed.

15,583. And it would apply also to indefinite contracts, everything which was not the subject, or could not be the subject, of an actual arithmetical test, but had to be an estimate, would be brought into play in order to equate his profits?—Yes.

15,584. With regard to the average system as a whole it applies almost entirely in favour of the taxpayer and against the Revenue, because while it is in his favour the Revenue must allow it to remain in his favour, but as soon as it goes against him he urges all kinds of claims for remedial sections such as those you see in Annexure III?—Quite, the average system with the remedial sections.

15,585. The average system involves remedial sections every time it is against the taxpayer?—I am afraid it does.

15,586. Therefore the system is very much against the Revenue as a whole?—Yes.

15,587. It is heads I win and tails you lose in favour of the taxpayer?—That is so.

15,588. Is it within your knowledge that the Americans, I suppose on Pope's principle that "Man never is but always to be blessed," are making inquiries about our average system and hankering after its adoption?—It certainly is within my knowledge that one eminent official, at any rate, from Washington has expressed views that our average system is greatly to be preferred to their system. I do not know how far that feeling is general.

15,589. If we adopt a one year system of assessment the question then arises about its reference to the total income?—Yes.

15,590. You can use the actual profits of 1919 in one of three ways, I take it. You can say that it is the final basis of assessment for the fiscal year 1920 not to be adjusted by anything that happens in 1920. Anything that happens in 1920 will be reflected in the assessment of 1921; that is one way of doing it?—Yes.

15,591. It involves the public being educated, does it not, along the line that deduction of tax at the source in 1920 does not really relate to their liability for that year but will be put right in the following year?—Yes. If you carry the preceding year's assessment to its logical conclusion it does involve that, and tax deducted at the source would be tax deducted on account of the following year.

15,592. Do you think that would be a very difficult idea for the public to assimilate?—I am afraid it would be rather difficult, and I think there would be a considerable outcry against paying tax so long in advance.

15,593. The second way of using the year 1919 would be, that it is to be the liability of the year 1919, but that, as you do not know it during the year when you want the payment, you must use the previous year provisionally, and then come at the end of the year and make an adjustment?—Yes, that is the point that Mr. Kerly put to me, I think.

15,594. That seems to involve two bites at the one year?—Yes, it does.

15,595. Would it necessarily in administration involve two bites if, in making the provisional assessment for the following year, you added to it or deducted from it the adjustment for the previous year?—I think there are a great many cases where in practice it would not involve two bites.

15,596. It could be worked administratively so as to work in, and there would only be one payment?—In numerous cases.

15,597. Then there is a third way of using the year 1919, and that is to wait until the year is well over and then ask what the profits were and assess them?—Yes.

15,598. But that does involve the difficulty of the break?—Yes, that does involve the great difficulty of the break.

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[Continued.]

15,650. You have to wait a year until after the end of the year 1918 before you can assess the year 1919. In the meantime you have either to lose a year's revenue or have a stop-gap. If that could once be got over by some means do you think the third method would be the best?—I think there would be a great deal to be said for the third method if you could once get over that.

15,660. The taxpayer would know that his actual income for the year 1919 was to be his liability for that year, and that it would be assessed after it was known?—Yes. I think on the whole that would have the greatest advantages in these circumstances.

15,661. In view of the fact that its only disadvantage is a temporary one applying to one year, do you think any scheme could be put forward that would be acceptable for that break?—I cannot see how it is possible for us to sacrifice a year's revenue.

15,662. No, that cannot be done?—That cannot be done. Then you have to get some device for getting your year's revenue, and one possible way of doing it is the suggestion made by Mr. Kerly, which, in the eyes of the taxpayer, would amount to taxing him twice for one year.

15,663. Supposing you did use one year's profits as a basis twice over, and for those who grumbled because it hit them give them a remedy, but let the others have the benefit of any advantage—frankly accept your loss for the year?—I am not quite sure that I follow you.

15,664. If you were to use one year's profits twice over some people would have a grievance?—A grievance to this extent, that everybody would say: "I am being asked to pay Income Tax twice over for the year 1920," if I have understood you rightly.

15,665. What you would say would be, I take it, that the profits of the year 1919 are going to be the final liability for the year 1919?—Yes.

15,666. After the end of the year?—Yes.

15,667. But as we cannot wait for a year's revenue we have got to assess you during the year 1919?—Yes.

15,668. On some basis or another?—Yes.

15,669. In order to get a year's payment in somehow?—Yes.

15,670. Would you adopt some such mode?—Yes, provisional payment.

15,671. Some people would be aggrieved by it?—Yes.

15,672. Meet their grievance, and swallow the loss you suffer on those who have the advantage; would that be a possible way of making the change?—That might be a possible way of making the change. I am not sure that it would make it very smooth.

15,673. There seems to be a very great consensus of opinion that it would be desirable to have the profits of one year as a basis for a year of tax?—Yes.

15,674. And there are those three methods?—Yes.

15,675. Do you incline to the view that if we can get over the break the last is the best?—I do.

15,676. Mr. Prynne: Do you think that the objections which are raised to the average system and the suggestions to substitute the preceding year for it are largely due to a feeling, perhaps not acknowledged, against the high rate of tax rather than against the actual system of average?—No, I do not think I should have suggested that.

15,677. Are the difficulties of the average system accentuated by the high rate of tax?—I do not think so, except in so far as bad graduation is accentuated by a high rate.

15,678. The differences involve larger sums?—I am not quite sure that I have followed your point.

15,679. What I mean is, that any difference that

would be reached by changing the system from an average system to an annual system is accentuated by the high rate of tax?—Yes, I beg your pardon—the difficulty of the change over. I agree.

15,680. In the first place, do you think that apart from the difficulties of the change over there would be any real gain in changing from the average system to the preceding year?—On the whole, our view is that it would be better to leave things alone.

15,681. That is covering the whole ground, but I wanted to ask you, supposing the difficulty of the change over could be met, eliminating that altogether, do you think that a preceding year basis is preferable to the three years' average in itself, supposing you are starting afresh. Supposing you were going to start now and had not got a three years' average—I am speaking of traders under Schedule D—would you start now on the three years' basis or on the preceding year?—I think if I thought the whole subject fully out I should just come down on the side of the average.

15,682. But in addition to that, you have got the very great difficulty that you have mentioned of the change over?—Yes.

15,683. In itself you rather prefer the average, although you think there is a great deal to be said on both sides?—Yes, I do.

15,684. But over and above that you have the very grave difficulty of changing over?—Yes.

15,685. At any change over you charge people twice on the same year. Take two opposite cases: one trader might have £10,000 taxable profit in the year and another man might have £5,000; in the following year their positions might be reversed?—Yes.

15,686. Then the man who had £10,000 the first year and £5,000 the second year would pay twice on the £10,000, and the man who had £5,000 the first year and £10,000 the second year would pay twice on the £5,000?—Yes. Of course, under the average system the £10,000 has never come in at all at present. If you make the change over it immediately comes in for the following year at what I may describe as its full figure. He pays on the £10,000 at once. If the change over had not been made he would have paid on the average of £10,000 plus the previous year and the previous year.

15,687. I do not think you quite see my point. I am speaking of paying twice in the one year, and I am taking the year 1920 as the year which is used to pay twice upon, that is to say, at the beginning of 1921 the man pays on 1920; then he pays again on 1920 the second time?—Yes. It is not the change from the average to the preceding year which would do that; it is under Dr. Stamp's proposal.

15,688. Yes. One man would pay twice at £10,000, and the other man would pay twice on £5,000, although they each had the same income in the two years of £15,000?—Yes.

15,689. Would not that be regarded as an intolerable injustice?—That, I think, would give rise to difficulties and probably we should have to take measures to meet that difficulty if Dr. Stamp's suggestion were adopted.

15,690. Would it not be very difficult to take such measures without carrying on the average system for a long period?—A number of suggestions have been made to meet the difficulty of the change, whatever the change were. In this paper we have dealt only with a change from the three years' average to the preceding year. We have not really dealt with the particular and more revolutionary change that Dr. Stamp had under consideration.

MR. ARTHUR LYON RYDE, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Evidence-in-chief of ARTHUR LYON RYDE, Esq., Past President of the Surveyors' Institution, on behalf of that body.

15,691. (1) I have been in business in Westminster as a surveyor since 1873. Generally speaking my business may be described as threefold, viz:—

(a) the making of valuations for rating purposes.

(b) the purchase or sale of property, especially under compulsory powers.

(c) the management of house property.

My business under the heading of (a) has given me a large experience as to the cost of maintaining and repairing buildings. My business under the heading of (c) has diminished. In the first part of my career my firm collected the rents of a considerable number of houses, but at the present time we only collect the rents of a small number. Our experience in the latter capacity, however, brings us

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[Continued.]

into direct contact with the actual cost of the repairs of houses. My business under the heading (b) does not perhaps directly assist in the consideration of questions connected with Income Tax, but I may mention that I have purchased over 200 sites in the metropolitan area for the Receiver of Police.

15,632. (2) *Deductions in respect of repairs, &c.*—I am of opinion that theoretically the proper way to assess property for Income Tax purposes would be to deal with income obtained from property on the same lines as that derived from a business, deductions of actual and proper expenditure being allowed from the gross income to obtain the net income, the owner being assessed upon the latter. Section 69 of the Finance (1909-10) Act, 1910, as amended by section 8 of the Finance Act, 1914, provides for this to be done in connection with any land inclusive of farm houses and other buildings, and any houses the annual value of which as adopted for the purpose of Income Tax under Schedule A does not exceed £3. This amount was increased to £12 by the Finance Act, 1914, and to a maximum of £70 by section 19 of the Finance Act, 1919. Anyone who is accustomed to collect rents from houses on behalf of the landlord who does the repairs will not deny the proposition that he pays Income Tax in the majority of cases on a much larger sum than the true net income of the property. Take the case of a house let at £72 a year under a three years' agreement, or annual tenancy. The occupier pays the Property Tax and deducts it when he pays his landlord, who may be a lessee. The latter deducts when he pays the ground rent. Under these circumstances the lessee has paid the Income Tax on all the balance left after deducting the ground rent and one-sixth of the rent. Anyone accustomed to collect the rent of houses of this description knows that on the average of years £12 does not nearly cover the cost of repairs. The principal expense is incurred on a change of tenancy, when the landlord generally has to do up the house for the incoming tenant. Prior to the war such a house used to cost about £50 to do up, but at the present time the owner is fortunate if the work can be done for £90 or £100. It is true that there is not such a frequent change of tenants at the present time, so that the doing up of the house does not occur so frequently, but the extra cost involved entirely nullifies any advantage gained in this respect and there are always small repairs to be done, even without a change of tenancy. There are thousands of houses of this description.

15,633. (3) To deal with all buildings by making a deduction of the actual expenditure might entail labour in the examination of accounts which would be too great to make such a system practicable, however correct it might be in theory. But under these circumstances, unless property owners are to be subjected to a greater burden than those possessing incomes derived from other sources, it becomes more necessary to secure that the deduction allowed in respect of repairs, insurance, &c., in order to arrive at the presumptive net income, should approximate to a fair average of the cost of those outlays. In my opinion the present allowance of one-sixth is utterly insufficient for this purpose, and I consider that it should be raised to at least one-fourth. The Report of the Committee on the Increase of Rent and Mortgage Interest, War Restrictions Act, would indicate that even this is insufficient under existing conditions. In paragraph 14 it is stated that on the average, repairs amounted before the war to approximately one-fifth of the rental, exclusive of rates, and that the cost of repairs at present (31st December, 1918) might be taken to be considerably more than double the pre-war cost and was likely to be approximately double for the next one or two years. Other costs of management were also higher, while insurers had to be considerably increased to meet the increased cost of reinstatement. Under the circumstances, therefore, a flat rate of one-fourth instead of one-sixth cannot be looked upon as excessive.

15,634. (4) There are, of course, obvious objections to a flat rate, because it is based on rental value and not on the probable cost of repairs, but the difficulty of differentiating between different classes of property is almost insuperable; while that of

dealing with all property by an extension of section 69 of the 1910 Act has already been referred to.

15,635. (5) *Empty premises.*—Empty houses are not assessed for Income Tax under Schedule A, as no income arises therefrom, but although empty they still have to be kept in repair and insured and are therefore a source of expense to the owner. There is a considerable body of opinion among the members of the Surveyors' Institution that some allowance in respect of these outgoings should be made; either in the shape of a deduction for assessment purposes from other sources of income, or by allowing the amount of the annual deduction, which has accumulated during the period the premises have been empty, to be deducted from the tax which would again become payable on the premises being re-let or occupied. The question arises what the amount of the annual deduction in respect of empty premises should be. The expenditure on repairs and supervision would as a rule be less than in the case of premises producing income, but the cost of insurance would remain the same. If, as is suggested in paragraph 3, the flat rate for deduction in the case of occupied premises were increased from one-sixth to one-fourth, the rate allowed in respect of unoccupied premises might be placed at one-sixth.

15,636. (6) Under a recent decision a tenant is not compelled to produce the receipt for the payment of tax Schedule A when claiming a deduction from his rent in respect of such payment. This decision gives rise to unnecessary complications, and entails additional and unnecessary labour upon both owner (or agent) and the Surveyor of Taxes. The former, in order to protect himself, must apply to the latter to make sure that the tax has been paid, and the Surveyor of Taxes must give a certificate of payment. If this cumbersome procedure is not followed, and the deduction is allowed without verification of the payment of the tax, the owner, in the event of the bankruptcy or the absconding of the tenant, may find himself liable for the payment of a tax which he has already paid indirectly through the tenant by means of a deduction from the rent. The production of the receipt should be made obligatory before the tenant can legally claim a deduction in respect of tax from his rent.

15,637. (7) *Flats.*—*Limited Liability companies.*—It should be pointed out that shareholders in limited liability companies owning house property or flats are in a worse position than individuals possessing similar property. The present high rate of the tax (6s. in the £) together with the increased local rates, has in many cases destroyed all possibility of a dividend being declared, and indeed has not infrequently resulted in an actual deficit. Where a dividend is declared, shareholders not liable to the highest rate of tax can claim a rebate of the difference between the 6s. in the £, payable by the company under Schedule A, and the rate at which they are liable. If, however, no dividend is paid, although the tax under Schedule A has been paid by the company, the individual shareholder is precluded from making any claim for a rebate.

15,638. (8) *Hardship* may be inflicted on an owner who has let the premises subject to a condition that he is responsible for repairs, where an improvement in value occurs during the currency of the tenancy. The property is let say at £120 per annum, the owner being responsible for repairs. Under normal conditions he would at present pay tax under Schedule A on £100, i.e., £120 less a deduction of one-sixth. During the currency of the tenancy the value of the property is increased to say £150 per annum. The receipt for payment of Schedule A tax contains the following note:—"The Landlord is bound, under a penalty of £50, to allow out of the first payment to be made on account of rent after the date of this receipt the amount of duty paid under Schedule A up to an amount for the whole year not exceeding the amount of the duty on the rent payable for the year at the rate or rates paid in respect of such rent."

The tenant would therefore be justified in deducting tax on the full £120 paid to the owner, although as the latter is responsible for repairs he ought really to pay on £100 only. This cause of complaint

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[Continued.]

arises in places where it is not customary for the tenant to do repairs, e.g., Leicester, and calls for remedy. This might be done by an alteration in the Note on the receipt, making it clear that except in repairing leases the tenant could not claim a greater sum from the owner than the latter would have had to pay had he himself paid the tax due from him.

15,638 (9) It cannot be too often repeated that anything which tends to make the holding of house property, as an investment, unpopular, aggravates the housing question which is calling so loudly for a solution. In olden days, surveyors as a body frequently invested their money in the erection of house property. My own father did so to a considerable extent. The experience gained in connection with the property has been such that nothing would induce me either to erect or purchase house property as an investment. This remark, of course, does not apply to a person purchasing a house for his own occupation.

In my opinion Income Tax on house property should be so arranged as not to fall more severely upon the owners than it does upon the owners of stocks and shares.

[This concludes the evidence in-chief.]

15,640. Chairman: You have gone very fully into the matter in your evidence-in-chief, and now we may want to examine you on a few of the points raised in your paper—I understand.

15,641. Mr. Kerly: You say, if I follow you, that theoretically the proper way to assess property would be to assess on the net income, deducting the actual expenditure on repairs from the gross rent?—Yes, on an average of years. I do not mean the actual expenditure of any one year, but the actual expenditure on an average of years.

15,642. By "gross rent" do you mean the gross rent or the valuation where the property is in the owner's occupation?—Yes, they being practically the same thing.

15,643. That is another theory, is it not—whether it is the same thing?—I mean it is intended to be the same thing.

15,644. You say, still on theory, it should be on an average?—Yes.

15,645. Not each particular year?—You would find it fluctuate so violently that it would be most inconvenient to take any one year.

15,646. Of course in some years you might spend more than in another year?—Yes.

15,647. What would be your suggestion with regard to the average; how many years?—I think three years is enough.

15,648. You say that the statutory allowance is utterly insufficient; that is one-sixth?—Yes, there is not the slightest doubt about that.

15,649. Are you able to put before us any actual figures on which you have arrived at your conclusion?—I have been in the habit of collecting rents and paying for repairs. I have a little statement here. I do not think it is possible to give you a very broad basis because the properties fluctuate so; but I can give you an instance of three little houses for six years if you like.

15,650. Perhaps you would hand that in; it is not much, good giving it to me personally, but will you hand in or send a copy of it?—Yes.

15,651. You say three little houses?—They are £36 houses. I took those as an average also.

15,652. They are houses, I suppose, falling within the Increase of Rent Act?—Yes.

15,653. So that the limitation is more hard in cases where the repairs have gone up and you cannot increase the rent?—Yes.

15,654. Is it limited to that class of property?—Is what limited to that class of property?

15,655. The insufficiency of the one-sixth allowance?—Oh, dear, no. You may take it that the one-sixth ought to be increased to very nearly twice as much.

15,656. In cases both of large and small property?—Yes. If you take the present range of cost of repairs it ought to be at least one-third, and in fact one-third would not cover the cost of repairs.

15,657. Are you speaking of repairs only or is that to cover anything for empties?—No, nothing but repairs and insurance, which are supposed to be covered by the one-sixth. The insurance is a minute quantity; you might almost neglect it.

15,658. Is it the fact that before the war, in estimating for investment purposes the value of property which was let, you deducted one-sixth?—I never deducted one-sixth, because I knew it was not enough.

15,659. It was a common calculation?—Some people deducted one-sixth, but it was never enough within the last 20 years.

15,660. Now of course we know it is more?—Yes.

15,661. As a set-off, during the war, repairs have not been done in a great many cases?—There are certain repairs which you cannot put off. Properties would become so bad in appearance that it would cost you more to put them off than to do them.

15,662. At the present time it is not necessary to do repairs of small houses in order to let them?—No, because, of course, at the present time there are no houses to let, so to speak. There is a squeeze as present; everything is absolutely abnormal.

15,663. Now pass on to the case of empty properties. You say in the case of empty properties no tax is payable and no allowance is made from the gross income. You suggest that in that case you should allow one-sixth?—Yes.

15,664. Is your proposal that that allowance should be carried on so that when there comes a year with some return you should have the one-sixth for the empty years allowed?—That is the suggestion. Of course, if there is nothing to deduct it from, you cannot do it.

15,665. How far do you propose to carry it?—Until there is something to deduct it from.

15,666. Supposing a property stands empty for six years, you would allow a deduction of the whole rent for the next year?—I think it is quite possible that you would have to put some limitation. It is very rarely that property stands empty for six years; there is not one case in 10,000.

15,667. You have no specific suggestion to make?—No.

15,668. At the present time, in the Metropolitan area, where the value of the property is £70 or under, you are allowed the actual repairs, are you not?—I find by the Act that you are.

15,669. The corresponding figures are £60 for Scotland, and £52 for the rest of the Kingdom?—Yes, I take it that you are quoting the Act.

15,670. But you do not suggest, as a practical method, that the actual repairs should be allowed. You propose some average, or preferably a flat rate?—You will find, if you read my evidence, that I do not propose that that should be adopted at all, because I think it would cost too much; but I have proposed that you should deduct a flat rate at present of 25 per cent.

15,671. I suppose you would aim at keeping your flat rate as nearly as possible to your three years' average of the actual outlay?—Yes, that is what it is intended to be.

15,672. In paragraph 7, you refer to the case of companies owning house property?—Yes.

15,673. Would you distinguish between people owning one or a small number of properties as investments, and people carrying on the business of holding and managing properties as a business?—I think they ought to be all treated alike, but at present they are not treated alike on this point. I may say that this point, in paragraph 7, is one in which I have no particular personal interest. There is hardship going on, because most shareholders in these flat companies, when they are under £250 a year, we will say, and they are therefore not liable to pay 6s. in the £, cannot get the allowance back, although the company is paying 6s. You must read this carefully to understand what the point is; it is an obscure point, rather.

15,674. Why cannot a shareholder get it allowed?—That is what we want to know.

15,675. I think I appreciate it; I did not understand it at the moment. Is it because the shareholder is getting a dividend?—No. This point only applies where the shareholder gets no dividend, partly as the result of the company having paid 6s. in the £.

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[Continued.]

Income Tax. Where he has got a dividend, the deduction of 6s. in the £ has been made, and he can produce the counterfoil of the dividend warrant and say: "I want that reduced to 3s.," or whatever he is liable for; whereas if no dividend has been paid, the company has paid 6s. in the £, and the shareholder cannot get any of it back.

15,676. The company has paid 6s. in the £ upon income produced from other property; is that it?—On income produced by the property in which the shareholder has a share.

15,677. I will leave this to members of the Commission who understand it better; I do not myself follow it?—I admit it is an obscure point, but it affects a few people very severely indeed.

15,678. You suggest that it would be a help in the housing difficulty if a better allowance were made, and if the owners of property were more lightly treated?—You see, that is a general statement. Anything which tends to make the holding of property unpopular is a disadvantage.

15,679. At the present time you cannot hold out any hope that any Income Tax allowance will make building houses to let a reasonable investment?—No, but I can hold out the hope that if you make the deduction in respect of Income Tax with regard to houses a fair one, there is more chance of people investing money in the building of houses.

15,680. You get nearer to a point that you will never reach. It would be a better way of dealing with it, to have a specific allowance from the State to reduce people's bills, would it not?—Yes, but there are always objections to specific allowances from the State. The State cannot always stand specific allowances.

15,681. Mr. Mansville: I think you said that in your opinion one-third was a proper allowance at the present time?—I said that at the present time one-third would do no more than cover the actual expense.

15,682. That arises, I think, because the present rents charged are not economic rents?—Partly, but also owing to the excessive cost of all work in the shape of repairs.

15,683. But assuming that rents in the future become economic again, the allowance will rise, will it not, in proportion to the cost of repairs?—If the rents become economic again, the percentage would fall naturally, mathematically.

15,684. Then we should get back to the 25 per cent. which you thought was the proper allowance?—Yes.

15,685. Mr. McIntock: Do you draw any distinction between various classes of property?—It would take too long to draw distinctions between various classes; it would have made my evidence much too long, if I had drawn any distinction. I must speak only in general terms.

15,686. The point I want to put to you is this. Take office property generally. Do you consider that one-sixth on the present rentals is not enough over an average of years?—If you refer to office property in the City of London.

15,687. Or in any city?—I should think that one-sixth would be sufficient there, because the rents are so high for the amount of property involved.

15,688. Would it be correct to suggest that generally speaking one-sixth is too high?—No, I do not think so.

15,689. But, in your opinion, it is enough?—I should say that in the case of the best class of office property one-sixth was enough. I am assuming, of course, very high rents, such as we have in Lombard Street, and even Parliament Street.

15,690. Take the rents that you have in all large cities, not only in London; the rents are substantial?—Yes.

15,691. Have you investigated the cost of repairs of that type of property in any big cities?—In Liverpool I have investigated the cost of repairs in such places as the Tower Building and the Liver Building, and places like that. From that experience, I say that one-sixth would be enough.

15,692. Then with regard to the smaller houses, does not the relief given under the 1919 Act go a long way to meet the difficulty?—It does, if you mean that the income is allowed to be treated as a matter of

profit and loss. I think it goes a long way to meet the difficulty.

15,693. The allowance is not merely confined to repairs, but applies to the whole cost, including insurance and management?—That goes a very long way to meet this difficulty. The effect of my evidence is that I am of opinion that theoretically the proper way to assess property for Income Tax purposes would be to deal with income obtained from property on the same lines as that derived from a business. That is at the beginning of paragraph 2 of my paper. That practically meets the difficulty, I quite admit.

15,694. But as regards grievance, so far as office property in cities is concerned, there is really none if one-sixth is ample?—There is really none if one-sixth is ample. It is a question of degree.

15,695. The 1919 Finance Act helps all properties in London up to £70, in Scotland up to £50, and in other parts up to £32?—Yes. When I speak of property in the city, I mean property in which rooms are let at £100 a year, and that kind of value. There are plenty of them.

15,696. But if you take the greater proportion of office property as you find it, the landlord seldom spends one-sixth of the rent on repairs?—No, but the landlord and tenant together do, sometimes.

15,697. If the tenant spends any money on repairs, and he is in a trade or business, he charges it as a business expense?—Yes.

15,698. So that he suffers no loss?—No; but my point is that in the generality of houses you are charging Income Tax on an income that does not exist; some of it has already gone in repairs.

15,699. So far as the houses have a rent of not more than £50 a year, you are not charged on anything but the true income?—I quite agree that goes a long way to meet it.

15,700. Then take the case of the owner-occupier who carries on business in his premises. He has no grievance at all?—I do not think he has much.

15,701. Because he charges everything as a business expense?—Yes.

15,702. Can you narrow it down to a particular type of property where there is still a grievance?—There is still a grievance in every house which is let over £70 a year. Suppose it is £72. The tenant deducts Income Tax calculated on £60, when there is no £60 going into the landlord's pocket. Fortunately I am not an owner of property; I do not feel it very much myself, but it is so.

15,703. This point has been raised by other witnesses, but we have never had any selection of various types of property, showing the rental and the repair and insurance and management expenditure, so as to indicate that there is a particular grievance in each class of property?—I cannot do it myself now because we have given up the collection of rents, but I had the collection of the rents of a number of properties at Balham at one time; I think there were 50 houses altogether, and I am certain that even in those days, 20 years ago, the repairs and insurance came to very nearly 25 per cent.

15,704. Properties with an average rental higher than £50?—Yes, they went from £30 down to £60.

15,705. Would it not be possible for your Institute to give the Commission some evidence on the point, specific rather than general?—I should think the members of the Institute have immense numbers of instances.

15,706. On this question that Mr. Kerly was dealing with, with regard to a property-owning limited company, does not that apply to every limited company which owns property—that they pay Schedule A tax on that property in full and the shareholders of that company get no relief in respect of that portion of the income?—It applies to every company which makes a business of managing and owning property and pays no dividend. There are plenty of them at the present time, where the cost of repairs and the 6s. Income Tax together have made it impossible to pay dividends. Meanwhile they have got to pay 6s. Income Tax, and the shareholders, many of whom are not liable to pay 6s. in the £ Income Tax, cannot get back the difference between the 6s. and what they are liable to pay.

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15,707. The same thing happens in any limited company which retains a portion of the profits which are taxed at 6s., if they are put to reserve?—I suppose it does.

15,708. And the same happens in the case of a Municipal Corporation who have to pay Schedule A tax on all their property, although the ratepayers, who are the real owners of that property, may be liable for no Income Tax whatever?—Yes, but it is more remote in that case.

15,709. I mean that you are not alone in this grievance?—I quite agree, but at the same time there is a distinct grievance, and it is a grievance that ought to be removed, I think.

15,710. I agree that to a property-owning company it is a little harder?—There are numbers of people who are not liable to pay 6s. Income Tax who have shares in these concerns. The company has paid the 6s. Income Tax and they cannot get any of it back.

15,711. Mr. Arwidale-Smith: In paragraph 3 you say: "In my opinion the present allowance of one-sixth is utterly insufficient for this purpose, and I consider that it should be raised to at least one-fourth." Do you distinguish between rent in respect of building and rent in respect of site?—No; we have no means of comparing the amount of repairs with anything but the rent received; or at least I have not compared anything but the amount of the repairs on the one hand and the amount of rent received on the other; and of course the rent received includes the land.

15,712. And you do not have repairs to land?—No.

15,713. Therefore, in so far as your proportion, one-sixth, represents your outgoings, it requires modification in this sense: that you have not deducted the proportion of the rent which is attributable to the site?—No, but then you must understand that it would not be the same if you eliminated the site altogether; it would be a much higher percentage.

15,714. But you have neglected that?—I have neglected that, because the site is usually about one-sixth or one-fifth of the total, and, therefore, you can neglect it without spoiling the mathematical calculation.

15,715. Do you not admit that your calculation requires modification in respect of this fact, that some portion of the rent is attributable to site?—Not the least; for this reason, that the one-sixth is allowed on the land as well as on the building, and, therefore, I keep to the comparison to compare with that.

15,716. Then, in paragraph 5, you refer to empty premises. You suggest that the rate allowed in respect of unoccupied premises might be lowered to one-fifth, is that an arbitrary figure or is that your experience?—There is no experience to back that up. You have to keep empty places in repair, but they do not suffer wear and tear to the same extent as occupied houses.

15,717. I have great sympathy with your argument, but it would very much help your argument if you supported your proposed preparation by some reasoned statement. Is it purely arbitrary?—It is purely arbitrary. There is no experience which can support that.

15,718. At the end of paragraph 6 you say: "The production of the receipt should be made obligatory before the tenant can legally claim a deduction in respect of tax from his rent."—Yes, that is a small point.

15,719. Is it not a fact that some landlords, in claiming quarterly payment of rent, state on their form of claim that no deduction in respect of Income Tax can be made except in respect of the March quarter?—I do not think it is a fact; certainly, I never saw it.

15,720. Is the fact?—I do not know of it.

15,721. Supposing that rent is payable on the 25th December, and Income Tax is payable on the 1st January, is not the result of that that the tenant has to advance his landlord's Income Tax for a period of one quarter?—No, because he never pays it so promptly as that.

15,722. Within what period do you reckon he pays?—That is a question to which one could only give a

very general answer. Some of them pay at one time and some at another. There are a large number who never pay their rent until they are obliged to.

15,723. But in so far as a tenant does pay at a prescribed date he stands out of the equivalent now of more than one quarter's rent for the period of a quarter?—Yes, but he would not do that if there was any grievance in it. He need not do it.

15,724. The Court have taken a different view of it?—I am very strongly of opinion that the receipt ought to be produced, because there have been so many instances of a man deducting the Income Tax and going away to you and it is not paid, and the landlord has to pay it.

15,725. May I put this to you? If the tenant does produce his receipts for Income Tax?—Which he never does, of course, till Lady Day.

15,726. If a tenant produced a receipt for Income Tax paid, say, on the 1st January, he ought by law to be allowed to deduct it from the quarter's rent which he next pays?—By law he is allowed to deduct the Income Tax from the next payment of rent.

15,727. But there is a catch about that: the next payment due or the next payment made?—The next payment made.

15,728. Mr. Walker Clark: In paragraph 2 you say: "The principal expense is incurred on a change of tenancy, when the landlord generally has to do up the house for the incoming tenant." Is not that a matter of custom which applies very differently in different parts of the country?—No, I do not think it is a matter of custom. You cannot let a house if it is dirty or in an ineffective state; therefore you must do up the house before you can let it.

15,729. They are paying £10 for a key in my neighbourhood?—Just at present. I quite admit there is a squeeze for accommodation.

15,730. It is a fact and I know it, but there is a great difference in the custom in the north and the south?—Yes; there is a difference between Leicester and London, for example. A man who has experience of some years in collecting rents and managing property will tell you that it is absolutely necessary to do up a house which has been vacated if you want to get a good tenant.

15,731. Of course these repairs vary very much between old property and new?—Yes.

15,732. And very much whether it is brick built or stone built?—Not so much difference between brick and stone; I do not think there is much difference in that.

15,733. There is now in the part where I come from, at all events. What would be a reasonable rate in London might be a very unreasonable rate in the country?—No doubt they vary.

15,734. Are not these percentages which you have put in here very largely applicable to London house property or suburban house property?—They are founded principally upon experience gained in London and the suburbs, but they are also supported by experience gained in Liverpool, Manchester, Birmingham, Exeter, Plymouth, and other places.

15,735. Does that hardship exist in respect to shop property or factory property?—The one-sixth hardship, do you mean?

15,736. Yes.—Not to the same extent.

15,737. It really narrows itself down to this very largely, does it not, that it is large houses, suburban houses?—They must be above £20, of course.

15,738. I mean houses over £20?—Yes.

15,739. Either suburban or in big cities?—And in the country, too—Woking, Guildford, and all those places.

15,740. And Bishops' palaces, too?—Yes; Bishops' palaces are, some of them, very old indeed.

15,741. Mr. Prynne: Has not this difficulty been very largely met by the system which began with section 69 of the 1900-10 Finance Act?—You mean the difficulty in regard to the amount of the deduction?

15,742. Yes.—It does not meet anything above £70 a year.

15,743. But it has been met in all cases below that absolutely?—I think it has been sufficiently met below that.

15,744. Absolutely met?—Yes; I mean it is the people's own fault if it is not.

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15,745. Would you not think that the better method of dealing with it would be to extend that form of relief upwards, if necessary, to cover the whole area, rather than to ask for a higher percentage?—I quite agree.

15,746. Is not that the proper line?—I think that is the proper line.

15,747. Because then you are putting the Schedule A man under exactly the same principles as you are the Schedule D man?—Yes.

15,748. That he actually pays on what he receives?—I quite agree if you can get at the actual net income, that is all that is required.

15,749. You suggest one-fourth in your evidence here?—Yes.

15,750. Is that because you think that one-fourth would be a fair average figure?—A fair average figure over a number of years; it would not be fair now.

15,751. If it is a fair average figure over a number of years it means that there would be a certain number of cases in which the taxpayers would gain and the Revenue would lose?—I do not think the Revenue would lose anything on 25 per cent.

15,752. Do you not think there are a great many properties in the country where one-fourth is not spent?—There may be places where it is not spent, but then the property simply depreciates.

15,753. Would not the Revenue lose in those cases?—The property depreciates if the money is not spent.

15,754. But not necessarily to that extent?—It must run back very much if you do not spend enough on it.

15,755. It is obviously necessary, is it not, to have a fraction which is exempt to avoid the necessity of investigating every case?—Yes.

15,756. If you agree that the proper system is that the owner should render accounts and show what he has actually spent and get an allowance, does it not follow that the exempt fraction should be below the average rather than over the average; the taxpayer has the option of sending in figures and obtaining a return of tax; he can choose the best of both worlds; whereas the Revenue has no such choice?—Yes, but you cannot argue in that way, because the trouble of sending in returns is considerable and quite sufficient to act as a deterrent.

15,757. Have you had any experience of claims under that section?—No.

15,758. How do you know that the trouble is very great?—It stands to reason; it does not require evidence.

15,759. You are assuming that it is so?—It must be so.

15,760. Why? Is not all that is necessary to have an account of what you have spent; there is nothing more?—But lots of people do not keep an account.

15,761. Is it very difficult to keep an account of what has been spent in repairs in the aggregate?—Not at all.

15,762. Are you aware that in the form of claim it is not necessary to specify what you have spent on each particular premises? Did you know that?—No, I was not aware of that.

15,763. Does not that very much modify your view that it is very difficult?—It does not modify my view that it is a good deal of trouble to send in an application and get your assessment fixed on the basis of the actual net income.

15,764. Is it any greater trouble than that of a trader?—Not a bit.

15,765. Has not the trader got to do it?—The trader has a good deal more inducement, because there is much more money in it.

15,766. There is a great deal of money involved in this, where a man has considerable property. Where the property is very small, the case is already provided for, up to £70?—But where a man has one or two houses; and there are a very large number of those cases.

15,767. Let me put it in another way. You have agreed that the hardship is met at present for houses up to £70 a year?—Yes.

15,768. That involves the sending in of accounts?—Yes.

15,769. Is it any more hardship on a man who owns a house above £70 a year to send in an account, than it is on a man who owns a house of less than that?—No. If you are suggesting that the arrangement should be produced in the upward direction, I quite agree with you.

15,770. You cannot have it both ways, can you? You cannot raise the percentage to one-fourth, if you do that?—Quite true, but I mean it does not at all follow, because people with houses below £70 a year have had the opportunity of getting their Income Tax calculated with the true deduction, but have not sent in the necessary accounts, that therefore they are treated fairly as it is.

15,771. It is at their option, is it not?—I quite agree.

15,772. If they feel the burden is unduly heavy, they can send in returns?—Yes.

15,773. Sir W. Trouser: Do you distinguish between repairs and decorations?—No.

15,774. Then it is open to a man in possession of a house which he occupies himself, to spend any amount on decorations, and deduct that?—No.

15,775. But that follows from your answer to Mr. Pretyman just now?—I would confine it to the case of people who let houses for other people to live in.

15,776. You exclude owner-occupiers altogether from your system?—I do not think that an owner of a house should be allowed to deduct everything that he spends on its decoration.

15,777. Then that narrows down your proposition that all repairs should be deducted as a matter of business?—All repairs which are legitimate repairs. There are a large number of decorations which are entered into by owner-occupiers which, perhaps, would not satisfy or would not be in accordance with the taste of any other person.

15,778. Mr. Kerly: May I say that the allowance which Mr. Pretyman spoke of is given by Section 19 of the Finance Act, 1919, and it applies to houses in the Metropolitan district up to £70, in Scotland up to £90, and elsewhere up to £52.

15,779. Chairman: Thank you for your evidence.

Major LEONARD DARWIN, President of the Eugenics Education Society, called and examined.

The witness named in the following statement as his education-in-chief:—

General aim to lessen strain of parenthood.

15,780. (1) The reform with reference to the Income Tax which is advocated by the Eugenics Education Society, of which I am the President, is that this tax should be assessed in a manner dependent on the number of persons in the family to a far greater extent than at present. The Council also urge that the same principle should be held in view in all future reforms of the Death Duties. Though the views here expressed are generally endorsed by my Council, I am only giving facts and arguments which have had weight with me personally.

The family income should count as several separate incomes.

15,781. (2) Without adopting the plan I am about to advocate, the burden of parenthood could be lessened

by increasing the deductions allowable from the assessment of Income Tax on account of children, by allowing the cost of education and maternity expenses also to be deducted, and by other similar methods. These would, however, be but palliatives, the just reform being, in our opinion, to make the total income of the family count as a number of separate incomes, the number being equal to or dependent on the number in the family. Each such income should be taxed according to the same rules in all cases.

Principle justified by unavoidable cost of parenthood.

15,782. (3) This latter principle can be defended on several grounds. Taxation should be proportionate to the ability to bear the strain. If the wife is not to earn an independent livelihood, which is often impossible and more often objectionable, marriage must frequently diminish the joint income. The more the attention devoted to the education, training, and

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health of the children, the greater is likely to be the cost involved in their upbringing, and the more value will the children be when grown up to the nation of the future. The capital of a country does not consist merely in money and goods, but also largely in the capabilities of its citizens, and national wealth benefits all classes. Parenthood, therefore, as a rule results in an increase in the national capital, and it always increases the difficulty of meeting the expenditure necessarily incurred; and for both these reasons the taxation on parents should be lower than that on the childless. As it is, the family man is more heavily taxed than the bachelor, because of the greater consumption of taxed articles by his family. The unavoidable increase of expenditure consequent on marriage bears some relationship to the number in the family, and that same relationship should influence the scale of taxation if the system is to be equitable.

The Revenue more easily raised.

15,783. (4) The suggested reform would make it easier not harder to raise a given revenue; just as a burden will be carried with least suffering if it be distributed amongst the carriers in proportion to their strengths. With the present high rate of taxation, this has become a serious consideration in regard to the Income Tax. To relatively increase the taxation on the childless would relatively decrease their normal expenditure; and this would be economic in its results; because reckless or useless expenditure is more often indulged in by the unmarried man than by the married. Again, to increase the birth rate amongst those inheriting wealth would produce a more uniform distribution of both wealth and knowledge.

Object to prevent undesirable checks on the birth-rate.

15,784. (5) The foregoing arguments in favour of Income Tax reform, though important, are not those which I am here to plead. Our object is to prevent any check on the output of children when such an output would have beneficial racial effects. Limitation in the size of families is now widely practised, doubtless in great measure with the object of avoiding the financial burden of parenthood. To lessen this financial strain would, therefore, inevitably increase the birth rate. Though we advocate a relative diminution in the amount paid by parents, to diminish the total amount raised by taxation is not our object. All taxation produces harmful effects, but, granted the necessity of raising the present revenue, the lightening of the burden on parents which we desire must carry with it an increase in the taxation on the childless.

A relative lessening of burden on parents advocated.

15,785. (6) It may be urged that a decrease in the taxation of any group would only produce a transient effect on its birth-rate; for when a state of equilibrium was reached, and when the extra taxation came to be regarded as normal and inevitable, it is disputable what would be the effect on fertility of this acquiesced-in diminution of wealth. It might, however, take a very long time before such a state of equilibrium was reached. Moreover as family limitation is practised in order to make it easier to live up to the social standard of the group to which the individual considers himself to belong, and as the unmarried and the childless are those who find it easiest to set the pace in useless expenditure, it follows that to relatively diminish the powers of expenditure of non-parents by taxing them relatively more heavily, would make it easier for parents to live up to the standard set by their companions. For this reason the fertility of parents in any economic stratum would be permanently increased by a relative decrease in the burden of taxation falling on them, whether it were an actual decrease or not.

The reform need affect no other economic stratum.

15,786. (7) Looking to each economic stratum separately, it is obviously possible, without affecting the total revenue, to make the increase in taxation on the unmarried and the childless exactly balance the de-

crease in taxation on parents. Consequently to adopt such a reform in any one economic stratum need neither increase nor decrease the burden of taxation on any other stratum. The claims of parents as compared with the childless can, therefore, be considered apart from all questions concerned with the distribution of taxation amongst the different economic strata. It is true that the recent great increase of taxation must be expected to produce a marked and immediate decrease in fertility, even if it be a slowly diminishing effect; and that if the increased burden is falling most heavily on the best stocks of the nation, it is having very serious results. This consideration, however, opens out a different set of problems from those now under consideration.

The abatement on parents should be dependent on the family incomes.

15,787. (8) Provided that other economic strata are not affected, it is right for the following reasons that any transfer of taxation from parents to non-parents should bear some relationship to their incomes; and, if this be so, the present limited and flat rate system of allowances for children in regard to assessment is faulty. If the only reform adopted were that the present fixed allowances were made applicable to persons with larger incomes, it would have but little effect on fertility, because of the insignificance of these allowances in comparison with the expenditures of the parents; yet it is very desirable that the fertility of those with incomes above £1,000 a year should be increased. The expenditure on the upbringing of children certainly varies with the income available, and if the fertility of all the economic strata of Income Tax payers is to be similarly affected, the amount of the adjustment of taxation as between parent and non-parent must bear a close relationship to their incomes. The larger expenditure on the education and training of children incurred by the more wealthy is nationally advantageous and should be encouraged by proportionately large allowances, that is, by allowances varying with the income.

Why the reform would be racially beneficial.

15,788. (9) To establish our case it is necessary to prove that the reform suggested would be racially beneficial. If the object were merely to induce bachelors and spinsters to marry, the racial benefits would be questionable; for it may be urged that those who now remain unmarried are likely on the average to be somewhat inferior to the married, as not having been subject to the same selective process, and consequently that no racial gain would result from their marriage. Though the encouragement of marriage is desirable for many reasons, yet our main aim is, therefore, to induce those who now marry to have larger families than at present, provided that they come of good stock. The qualities of grown men and women depend both on their upbringing or environment and on their constitutions or heredity; and both these factors—nurture and nature—must, therefore, have some influence when any selection is taking place by means of which human beings are being transferred from one group to another. The economic strata are not separate castes in this country; for transfers are frequently taking place between them; and from this it follows that those winning better salaries or wages must on the average be endowed with innate qualities somewhat different to those possessed by the winners of smaller incomes. No doubt the ability to make a good living is not the most important of human qualities; but it is important and moreover it is found to be associated with other good qualities. The poorest economic strata must therefore contain a somewhat higher proportion of the biologically inferior types than do the well-to-do. The average difference between the strata may not be great and there are certainly large numbers of marked individual exceptions; yet this condition of affairs ought not to be neglected. The very poorest strata are those which are multiplying most rapidly, and if they are not up to the average of the nation in innate qualities, this fact points to national deterioration. On the other hand the falling birth-rate amongst those who have acquired skill in trades and professions, from

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the skilled artisan to the college graduate, constitutes a national danger, which can only be obviated by an increase in their fertility. Our object is to bring about this desirable result in the case of Income Tax payers. They owe their position mainly to the hard work, forethought and self-restraint of themselves and their ancestors; and these qualities will in a measure be passed on to the coming generation by parental example and, as we hold, by natural inheritance.

Income from inherited wealth distinguished with difficulty.

15,789. (10) As to inherited wealth, to possess it does not directly indicate the possession of any particular qualities, good or bad. As to the indirect influence of wealth, it may be argued, on the one hand, that the well-to-do are subject to a less severe selective process than are the very poor; and, on the other hand, that wealth possessed by the young gives them a greater power of selection in marriage. In view of these opposing considerations, the correlation between inherited wealth and good natural qualities may be open to argument. But those who win good salaries can and do save more than those less conditionally capable of effective work, and interest on invested savings should, therefore, be regarded much in the same light as earned income. Were it possible to do so, earned income and interest on the investments of savings should be separated in tax assessments from incomes from inherited wealth. Possibly all that can be done is to draw a distinction between earned and unearned incomes; and this distinction is of doubtful utility, since unearned income includes the interest on money which has been earned, saved, and not squandered uselessly.

Necessary compromises if full reform impossible.

15,790. (11) If the family income were to be made to count as several separate incomes, it would necessitate making considerable changes in the present gradation of taxation. It would be practically impossible, however, to raise the rate per pound above a certain limit. This impossibility sets an upper limit to the possible taxation on the children, and therefore a limit to the possible differentiation between them and parents. If the proposed method of assessment were accepted in principle, whilst the necessity of obtaining a certain revenue, together with the above-mentioned limitation, made it now impossible to introduce this reform to the full extent held to be desirable, a compromise might be sought for in several directions. The same weight might be attached to any two children as compared with each parent; a family of two parents and one or two children being regarded as possessing three separate incomes; if with three or four children, as having four incomes; and so on; an arrangement which might well be defended on the ground of the relative cost of children and adults. An age limit for the children might be laid down, none over 16 years of age, for example, being allowed to count as part of the family; a proposal which might be advocated because above that age education might cease and wages might be earned. If such a limitation were adopted parents should at all events be permitted to deduct from Income Tax assessment all sums actually spent on the education and training of any child over that age. Lastly it might prove necessary to limit the number of the separate incomes into which the family income might be divided; for example, it might be that a family of more than six children should not be allowed to count as if having more than five separate incomes. Something might be said for such a restriction on the ground that, with suitable intervals between births, there would rarely be more than six children under sixteen in the family.

Reservations on certain points.

15,791. (12) To avoid giving false impressions, I must be permitted to safeguard myself in certain directions. An indiscriminate advocacy of increased fertility is most objectionable, for the promotion of larger families amongst the poor would increase the existing misery. It is only to be advocated where, as

in the case of Income Tax payers as a rule, the income is sufficient to make it possible to bring up a larger family in comfort, though not necessarily in luxury. Again, whilst the transfer of wealth from the childless to fit parents is desirable within limits, any transfer of wealth to the innately inferior types, which would tend to increase their fertility, would inevitably lower the qualities of the nation in the future, a consideration far too much neglected at present. Lastly, all but acknowledged paupers should knowingly contribute something towards the Revenue, and on this account it would be right that in no case should the Income Tax be reduced below say three pence in the pound.

Summary.

15,792. (13) The conclusions here arrived at are as follows:—Taxation should fall on parents and on the childless in proportion to their ability to bear the strain. To make the incidence of the Income Tax just, the amount thus now obtained from the childless should be increased and that from parents decreased, the transfer of wealth thus effected should bear some relationship to the incomes taxed, and if possible consideration should be given to the distinction between wealth which has been won by the individual taxed and wealth which he has inherited. Smaller incomes being less taxed, to allow the family income to count as several separate incomes would produce the desired differential result, though, in order not to diminish the revenue, the rate per pound would have to be raised in all grades. If such a reform cannot now be fully adopted, the principles involved should, we urge, be authoritatively sanctioned, and when in the future taxation can be lowered, it should first be materially lowered on parents before any burden is taken off the childless. The winning of a moderate income by their own work, the saving and conversion into capital of some of this income, a saving needing care and self-sacrifice, the preservation of this capital in succeeding generations in consequence of thrift, temperance, and perseverance, these have been different steps in the history of the creation of that part of the nation which would be affected by such a reform. Where any of these conditions exist, there the stock must generally be sound, and the nation demands a relatively more rapid multiplication of its soundest stocks.

[This concludes the evidence-in-chief.]

15,793. Chairmen: Major Darwin, you bear a very honoured name. I presume and believe that you are related to what we call the illustrious Darwin?—I am his son.

15,794. I am very pleased indeed to see you here this afternoon. We have your paper, and probably some of the Commissioners may ask you questions on it?—If you please.

15,795. Mr. Pretymon: I would just like to ask you one or two questions on the broad basis of this. The really important main point in this matter is the financial one. Have you had any figures before you at all to calculate, on the debit side first, what the loss would be, taking the present rate of Income Tax? I believe I am correct in saying that the average number of children in a family now is from two to three. Taking the whole area of Income Tax, the loss which would be incurred by the Revenue, in view of the very heavy graduated rates which are now imposed, would clearly be very heavy by splitting incomes into three which are now treated as one, particularly in the higher regions of Income Tax. The loss would be very much the greatest in the highest regions, and lowest in the lowest regions, where allowances already operate. The first calculation would naturally be to find the amount of the loss. Then, having found what the loss is, you would see what additional taxation would have to be imposed elsewhere to make it good. Have you made that calculation?—No, I have not actually made any calculations. I have mainly wished to put before the Royal Commission broad principles. With the knowledge I have it is almost impossible to make definite calculations. I do not think it would be possible to make the differentiation between parents and non-parents as much as I would wish it to be.

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[Continued.]

I hope that the differentiation will be made as great as it is possible to make it. I presume one of the limiting factors will be the amount by which you could raise the general rate of Income Tax. If you are to take off taxation from parents, of course it follows that it must be added to non-parents, and there is evidently a limit to the height to which it can be raised.

15,796. You used the word "differentiation." This is more than differentiation, is it not? It is a totally different principle of collecting Income Tax?—That is so.

15,797. It is differentiation in a sense, of course; in the widest sense of the word it is differentiation, I admit; but the actual proposition here is not to make a differentiation in the sense merely of allowance, but to alter the whole basis of Income Tax, and instead of charging on the individual income, to split the income according to the size of the family?—Yes, that is the proposal made. I attach much more importance to getting a very large differentiation than to any method of arriving at that result. The real point I want to get at is a large differentiation, rather than any special method; but it seemed to me a fair method, if it could be done, to split up the income.

15,798. You would call that an ideal method?—Yes, it is an ideal method.

15,799. It really indicates your objective?—The plan is proposed to indicate my objective. If it could possibly be brought in, I think it would be desirable.

15,800. But you realise that the change would be very costly in its first application, because of the splitting of large incomes in respect not only of Income Tax, but of Super-tax particularly. It would require enormous adjustments in the other direction, so much so that perhaps it could not be met without a tax exceeding 20s. in the £1?—I quite see it would necessitate an entire readjustment of scales of taxation.

15,801. Have you observed that there has been a tendency of recent years—even during the time this Commission has been sitting the Chancellor of the Exchequer has carried it further—to increase family allowances and abatements?—Yes.

15,802. That is in the direction which you advocate?—Yes, it is, but it does not give abatements in the case of larger incomes, which I am specially anxious should be done, as well as with smaller incomes.

15,803. But it goes in your direction?—Certainly.

15,804. Would you be satisfied if that system of family abatements were increased and carried higher?—I do not suppose I should be quite satisfied until you got an ideal plan but you might make a very material advance in that direction.

15,805. Would you not find a point somewhere where you would stop these allowances; would you carry them up to the highest incomes?—Personally, I should like to carry them up to the very highest. Might I give my reason very briefly; I do not think I have put it forward, and it is a reason to which I attach considerable importance. I think it is desirable for what I may call the psychological effects. Most people who have not studied marriage think that it is not very much influenced by public opinion or custom, but I believe those who have studied it will agree that marriage is immensely influenced both by religious and social influences, and therefore that it follows that public opinion might have a very material influence on the birth-rate. What we want public opinion to endorse is that it is immoral and un-patriotic for fit parents to limit the size of their families, except with a view to being able to bring up their children in comfort, though not necessarily in luxury. If rich parents who are limiting their families unduly were every year reminded by the possible abatements of the Income Tax arrangement that public opinion had endorsed this view, I believe that it would have a definite psychological effect.

15,806. Do you think that that effect would be equally produced if the allowance were a fixed figure as if it were a percentage?—Fixed with reference to the income?

15,807. No, that would be a percentage.—I do not think it would be equal.

15,808. The present system is to allow a fixed figure which is carried up to a certain distance?—Yes.

15,809. And then stops?—Just so.

15,810. I will not say it would be an objection, but it would be a very much stronger step to take to carry a fractional allowance up to the top than it would be to carry an actual figure up to the top. It is one thing to say we are giving the same allowance to a man with £10,000 as we are to a man with £1,000 or £500, and it is another thing to say we are going to give an allowance of one-tenth, which would mean £50 to a man with £500 a year and £1,000 to a man with £10,000 a year. Would you carry your percentage right up?—I would not carry the same proportion right up the scale, but I would up to a point give a larger abatement to the man with the larger income, because I think a small abatement of £25 for each child would practically have no effect in the richer strata. I decidedly think you ought to make the abatement greater, not in proportion to riches, but to some extent as the income increases.

15,811. Do you not think there would be a very strong public opinion against an allowance which was larger for the larger income than for the smaller one; it would be contrary to what we have done so far?—I am afraid there might be, but there is a strong public opinion against a great many good things that we must fight for.

15,812. You have made quite clear the grounds on which you advocate it?—Yes.

15,813. You would not carry the same percentage right up, but you would grant an increasing allowance?—Yes.

15,814. You would make good that loss either by a higher general rate of tax or by reducing exemptions on childless families and bachelors?—Yes, a general increase of the tax on the childless in order to increase the abatements of parents.

15,815. Would you put that in the form of an additional direct tax on the childless?—No. I think it could be arranged by raising the general rate of taxation and then suitably arranging the abatements on small incomes. Supposing you raised the rate of taxation from 6s. to 7s. 6d. in the £; the money thus obtained would enable you to make substantial abatements for the children through dividing the incomes.

15,816. You have not taken any area of figures, imaginary or otherwise, and worked this out to see what its actual consequence would be?—No, I can hardly say that. I have just roughed out a scheme, but do not think it is worth putting it in. I really wanted to put the broad principle before the Royal Commission.

15,817. It would be a great help to us if we had some figure which would show the actual results of what you do propose to work out your own scheme?—I have only a very rough idea. I did not intend to put this in formally but I might hand it to you, if you think it is worth anything. I hardly intended to hand it in officially, because it seemed to me rather too crude.*

15,818. Your proposal might be regarded by some people as having the effect of enabling wealthy parents to pass on their parental obligations to the State, and for the State to recompense itself by taxation of the childless?—Yes; I suppose it might be regarded in that way.

15,819. Would not that from a moral point be rather objectionable. Had you that moral objection in your mind when you were looking at the moral advantage the other way. Is it not a moral advantage to the State, that where the parent is really able to bear the full burden of educating and supporting his own child he should do so, and not ask for assistance from the State?—I think you can make all these transfers within each economic stratum, so that you can regard it that the rich parent transfers some of his burden to the rich childless person. I think you can conceive a scale so arranged that there is not a transfer between the different strata.

15,820. Do you not think the rich parent would prefer to support his own child rather than ask his childless neighbour to do it for him?—I do not know. I think most people like a reduction in taxation if they can get it.

15,821. Do you not think it is morally better that he should?—No. I cannot see any objection to a stimulus to parenthood of this kind.

* Major Darwin has since handed in a copy which is printed in Appendix No. 24.

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[Continued.]

15,822. Sir E. Nott-Bower: I see in paragraph 3 you agree that taxation should be proportionate to ability to bear the strain?—Yes.

15,823. When you come to splitting up incomes in paragraph 2 you say: "the just reform being, in our opinion, to make the total income of the family count as a number of separate incomes, the number being equal to or dependent on the number in the family." Being equal to the number in the family is the first instance?—Perhaps I should prefer to say there "dependent on" rather than "equal to."

15,824. When you get to "dependent on," if it is "dependent on" the number of the family, that leaves a very wide range open as to the amount of relief to be given?—Yes.

15,825. At any rate, you do not press the condition that it should be "equal to"?—No. Perhaps it would have been better merely to have said "dependent on."

15,826. Mr. Walker Clark: In paragraph 12 of your *perita*, do you suggest that everyone other than a pauper should pay some direct Income Tax?—I should have thought it was very desirable; that is my own opinion, not speaking from the eugenic point of view. I feel it would be very desirable that everyone should know that he is contributing to the national revenue, if possible.

15,827. A man with £1 a week?—I should like everybody to do a little.

15,828. Whether they are of age or not?—I assume it would be impracticable to do it under age.

15,829. Every citizen over 21 years of age should directly contribute towards Imperial revenue?—I am speaking now not as an eugenicist, but as an individual. I think every man should know that he does contribute.

15,830. This is a personal expression of opinion?—Quite personal, and not as a member of the Eugenic Society.

15,831. Professor Pigou: With regard to paragraph 8, Mr. Petyman put it to you that there would probably be a practical objection to giving a larger abatement to richer people than to poorer people?—Yes.

15,832. Is not that partly merely an arithmetical appearance? Might you not have an arrangement of this sort. If you put the thing into the form of an abatement, it appears that the abatement to the rich is greater, but if you say that the having of a family shall cause the Income Tax to be reduced in one proportion to the poor and in another proportion to the rich, you might get it then appearing that the rich were treated less favourably than under the abatement method of arriving at the same thing?—Yes, I imagine that would be perfectly possible to work out.

15,833. Is it not the same thing with regard to graduation? If you made the whole graduation by a system of abatements under the present graduation, it would appear that a larger abatement was allowed to the rich?—Yes.

15,834. I did the arithmetic; for instance, with a 5s. standard rate and a man with £1,500 to pay 5s. in the £, on the abatement plan he would have to have an abatement of £250?—Yes.

15,835. If the £500 man pays 4s. in the £ his abatement will only be £170. He is paying 4s. in the £ and the other man is paying 5s. £?—Yes.

15,836. So this objection really depends on not understanding the arithmetic?—It entirely depends on the way it is stated.

15,837. So it is really less formidable than it appears?—I think a system might be arranged which would not appear unjust.

15,838. It is a matter of appearance; it may appear otherwise according as you state it?—I think so.

15,839. Then with regard to paragraph 11, I gathered from your answer to Mr. Petyman that you would extend the allowance to very large incomes, but that if you count it by way of fractions the fraction would diminish?—Yes, I think you could make almost any graduation of taxation that was thought right.

15,840. Is it not important that the fraction should diminish a great deal?—A great deal, I think.

15,841. Otherwise, would there not be a danger that an indirect effect on your plan would be to transfer taxation from the richer people to the poor

people, because in order to prevent the very rich bachelor rising above 20s. in the £ you would have to tax the very rich married person at the relatively low rate?—Yes. I have worked out a rough scheme, and it seems to me it is possible to make a scheme by which you can get any degree of variation between the parents and the non-parents, and also between the different strata.

15,842. Would it be possible to confine the shift within the stratum if you made the relief to a very rich parent, as against a very rich bachelor, large?—If you made it the same proportion?

15,843. Yes?—No, it cannot be the same proportion.

15,844. If you did that it would throw the rich bachelor up to 21s.?—It cannot be made in the same proportion; it must be a very different proportion. I think by dividing the income into a number of different incomes and having a suitable gradation of rates it does so work out.

15,845. We might, for instance, have an arrangement under which, say, for a poor man six children should be counted as six, and as his income went up those six should be multiplied by an ever diminishing fraction?—Yes. What I actually worked out was a scheme, supposing that £100 was not taxed at all; from £100 to £400 was taxed at 3s. 6d.; from £400 to £700 taxed at 5s.; from £700 to £1,000 taxed at 6s. 6d., and over that at 7s. If every income is taxed on that scale you do get, as between the different strata, something not very different from the present scale of taxes.

15,846. With those incomes, how would you make the fraction different?—It becomes different if you look at the figures; each income is divided.

15,847. And you divide it by a different amount according to the size of the income?—According to the size of the family.

15,848. According to the size of the family and also according to the size of the income?—No, I have not worked it out that way. Perhaps that table of mine will help you to see. [See Appendix No. 24.]

15,849. You would agree with the main position, that if you were going to count six children as six for a poor man, then you would count them as rather less than six as the income increased?—That would be one way of making this gradation.

15,850. And it would come to the same thing?—It would come to the same thing, and I think it can be done in the other way as well.

15,851. Mr. Armitage-Smith: You are concerned rather with principles than with method?—I am—much more.

15,852. Has your Society or have you yourself considered an alternative to the eugenic system of abatements—a eugenic system of Super-tax on spinsters and bachelors?—No, I have not.

15,853. Do you think it is not worth while to consider that from the point of view of public opinion? What I mean to convey is that a Super-tax on spinsters and bachelors has a very obvious motive on the face of it?—Yes.

15,854. Whereas, from the examination to which you have been exposed, it appears that your motive might conceivably be misconstrued by inadequately informed public opinion?—Yes. But I think it is far more important myself that you should encourage parenthood rather than marriage; there is a distinction between the two.

15,855. Allow me to modify my question by saying a Super-tax on bachelors, spinsters, and childless marriages?—Would not that cease below £2,500 a year?

15,856. I mean a special Super-tax, not in any way related to the present Super-tax. Could you not get what you want by that means?—I think you could, but would not that be still more opposed to public opinion than incorporating it in the general taxation system? It is a mere matter of appearance again, as it seems to me, and I should have thought a special tax of that sort on spinsters, bachelors and the childless would be still more resented.

15,857. At any rate, it could not be represented as a device to save the rich from taxation?—Well, you might get over the difficulty in that way, possibly.

15,858. Apropos of your suggestion that every citizen in receipt of £100 and upwards should pay

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[Continued.]

some direct taxation, would you make that proposition generally, or would you couple with it any proposal to relieve the poorer citizens from indirect taxation?—My only object is that every citizen who is not an acknowledged pauper ought to know that he is himself contributing to the revenue. So long as you can bring just about, that is what I think is desirable. I do not want to press that point, because I am not here to urge it.

15,860. But it is a big supposition of your argument that those who pay indirect taxation are not fully cognisant of the fact that they pay?—Certainly; they are not sufficiently cognisant.

15,861. It would seem to follow that if you make a class of citizens, now exempt from taxation, liable to direct taxation, you could relieve them at the same time from some portion of the burden of indirect taxation?—I quite agree with that.

15,862. Mr. Marks: From the point of view of the interests which you have at heart, would not Mr. Arncliffe-Smith's proposal, that you should put a Super-tax on bachelors and spinsters, have an undesirable effect in this way, that it might drive unfit persons into marriages which could not have good results?—That is the point I should make. It is much more important to make a married couple have a larger family than to drive those who do not want to marry into matrimony.

15,863. Who do not want to marry possibly because they are unfit for marriage?—Yes.

15,864. And for begetting or bearing children?—That is so, and therefore it is far more important to encourage parenthood than to encourage marriage.

15,865. Mr. Kerly: Have you made any calculation as to what the result is in relief of taxation would be if you took the whole income of the bachelors of this country and applied it in relief of taxation?—No, I have not made calculations of that sort.

15,866. I suggest to you that it would be very small, because the unmarried are not to be found amongst the rich, and amongst the poor they are people, for the most part, who have not yet succeeded in finding a house or the means of supporting a wife even upon the scale of their class. You suggest that there should be allowances for children proportionate to the income. May I ask you whether that proposal appears to be supported on this ground: an allowance for children may be justified on the ground that every child who costs his father something is really a participant in the income which is taxed, and if you graduate your tax according to ability, and therefore put it higher on the rich, you ought to—i.e. provision for the fact that there is not one person, but two, father and son, who are sharing that income, and in estimating the father's income you should look rather at what is left than at what he had before he has provided for his son. If that is a just consideration, you ought to allow a father at least the cost of his son. That would suggest that the cost of his son will rise, and in all probability it does in fact, with the father's income?—Yes.

15,867. A man with £5,000 a year spends more over the education of his children than a man with £200 a year, and it is desirable that he should, if he is to educate them in accordance with the condition in which they are living; but that would lead to a limit, would it not, because the man with £10,000 a year probably spends no more over each child than the man with £5,000 a year?—Yes, I think that is so.

15,868. That would lead to an allowance for children which would be a percentage of the Income Tax but with an upper limit of, say, £250 per child or something of that sort?—On the system I have worked out it actually does produce an upper limit of that sort.

15,869. It seemed to me that what I am now suggesting to you was a further argument in favour of your proposals?—Yes.

15,870. Now I want to ask you something else. The idea that you have in your paper is to increase the progeny of the best stock?—Yes.

15,871. In paragraph 9 you point out that it is the people in the very poorest strata who are multiplying most rapidly?—Yes.

15,872. What you really want to do is two-fold, is it not; you want to diminish the production of the

bad and increase the production of the good. None of your proposals tend to diminish the production of the bad?—That is true in this particular instance, I do not see how it is to be done through the basis of the Income Tax.

15,873. That is the really troublesome factor in the situation, is it not?—Yes. In order to lessen fertility we must deal with a wholly different set of eugenic problems.

15,874. Now let us look at the other part of your proposition. You want to increase the production of the best stock; what do you mean by the best stock?—I have said that the power of earning good wages or a good income is not the most desirable of all characteristics, but it is desirable, and it is found to be associated with other good characters. There is a great deal of evidence to show that many different good characters are associated together, and it follows that as a rule if you pick out a man by one good characteristic, you pick him out as being above the average in other good characters as well.

15,875. By best stock, of course, you mean the stock which is most useful to the community as a whole?—Yes.

15,876. What do you say to this proposition, that the best stock in this country are the sons of the poorer intelligent classes? They are the best stock, because they have from very early years a strong incentive to work?—I am only looking at the innate qualities, and you are now dealing with the acquired qualities.

15,877. Perhaps I am a little past the date, but it used to be said that the best stock was to be found in the country vicarages?—Yes, that is an excellent stock.

15,878. Was not that the best stock because the children were brought up in an intelligent atmosphere and had a strong inducement to work from their earliest years?—No; I believe it has very much more to do with heredity than with the effect of their education. I am a great believer in heredity, and I think you will find that it is far more due to their in-born qualities than any training they have had.

15,879. I will not attempt to develop that, except that I might ask you one question upon it. You probably are aware of the extraordinary record of senior wranglers that Kingswood had, the school for the sons of Wesleyan clergymen?—I did not know it.

15,880. May I recommend it to your consideration; they beat Eton and Harrow hollow?—That may be something to do with the education of mathematics at Eton and Harrow.

15,881. Do you suggest that between the poorer educated classes and the very rich there is any balance in excellence of stock on the side of the very rich?—I think it is impossible to say whether there is or there is not. Inherited wealth prevents people falling out of that rank, and therefore keeps the unfit amongst the rich. On the other hand, the rich have a greater choice in marriage, and that is a factor that tells in their favour. I think there is little reason to suppose that the very rich are better than the intelligent artisan, or rather I think it would be difficult to prove whether they are or are not.

15,882. I am much obliged. My questions are a little detached from each other, but you will excuse that. Is there not a real danger that, if you were to introduce anything on the lines that you suggest, children might be regarded and desired merely as tax reducers. A man might marry and have children and bring them up and regard them not so much as his children as convenient accidents to reduce his tax?—As far as I can see, and I have looked a little into the figures relating to moderate incomes, the increase of cost on account of each child would be far greater than any reduction you could be given in taxation. I have got one or two figures before me, and it seems to me it would be impossible to get the reduction of taxation equal to the cost of the additional children, and that there is no chance of people being tempted to have children for the sake of becoming richer, as it were.

15,883. That seems to be saying that the results you can attain by your proposals are so slight that they are not worth striving for?—No. I think they are enough to be worth striving for, but they will be never so great as to make it an absolute profit to have a child, as far as I can see.

TWENTY-FOURTH DAY,

THURSDAY, 9TH OCTOBER, 1919.

PRESENT :

LORD COLWYN (*in the Chair*).

MR. BRACE.

MR. PRETYMAN.

SIR E. E. NOTT-BOWER.

SIR W. TROWER.

MR. HOLLAND-MARTIN.

MR. ARMITAGE-SMITH.

MR. BIRLEY.

MR. WALKER CLARK.

MR. KERLY.

MR. MCINTOCK.

MR. MANVILLE.

MR. GREGG MARKS.

MR. MAY.

PROFESSOR FIGOU.

Mr. A. M. BRENNER, Barrister-at-Law, on behalf of the General Council of the Bar of England, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

15,883. (1) The Income Tax Act, 1918, effected a considerable improvement. It brought together, and into one Act, provisions which had been contained in some fifty different Acts. The benefit resulting is obvious. A further improvement is that the long and involved sections of the principal Act of 1842, all expressed in one sentence, have been split up and divided by numerals or letters, so that it is more easy to gather and to convey the meaning and effect of the various provisions of the Act. But in my opinion it is very desirable, if not necessary, that the Act of 1918 should be repealed, and a new Act substituted for it.

Reasons for a new Act.

15,884. (2) (i) Much of the old, confused, and vague language of the Act of 1806, or earlier, which had been adopted in the Act of 1842, is continued by the Act of 1918. The latter Act is a consolidating Act, and if the wording had been extensively altered it would have been argued that by changing the language Parliament had altered the law. To effect any real improvement sweeping alterations would, in my view, have been necessary. To do this would have delayed the passing of the Act, and moreover was not intended.

(ii) In my opinion, the arrangement of the Act is bad and defective, and can be improved without difficulty.

15,885. (3) As regards the language, in *Aramayo v. Kensington Commissioners* (1916), 1 A.C. at p. 226, Lord Wrenbury, who gave the leading judgment, said: "My Lords, this case affords a striking illustration of the involved and almost unintelligible expression of the law contained in the Statutes relating to Income Tax. It is difficult to reconcile one section with another, the same word is used here in one sense and there in another. There is no sequence or orderly arrangement of matters. Your Lordships will, I hope, agree with me in thinking that a taxing Statute, particularly one upon which taxation to so large an amount is now collected, ought to be expressed in plain language, free from the defects to which I have pointed and that the matter demands, as soon as opportunity offers, the early attention of the Legislature." In *Williams v. Singer* (1918) 2 K.B., at p. 755, Sankey, J., said: "A very large number of sections in a very large number of taxing Acts and a great number of cases were referred to and I must be allowed to confess that I appreciate the position of those persons who found no end in wandering mazes lost."

I may add that, in my opinion, as matters stand, a knowledge of Income Tax law cannot be obtained by reading the Act which is supposed to state it. In order to form an opinion upon the interpretation of the material provisions of the Act, it is essential to possess a knowledge of the many important decisions which have been given in England and in Scotland during the last 40 years. These are collected in the well-known book by Mr. Dowell, and enable those

acquainted with them to express an opinion, with more or less confidence, upon the law. It should be possible so to frame an Act as to embody the effect of what is at present not to be found in the Statute, but only in the decisions of the Courts.

What the taxpayer requires to know.

15,886. (4) The taxpayer wishes to know:—

1. upon what income the tax is imposed;
2. upon what basis, and in what manner, his assessable income is to be computed.

In my opinion it is possible and is certainly expedient to give him this information in the Act of Parliament imposing the tax. While I do not think that the task would be easy, I am satisfied that it can be done. It would be strange if it were beyond the wit of man to state in clear and simple language what income is taxable, and in what manner the sum payable is to be calculated. When disputes arise, the judges have to say what the law is, and there is no reason why it should not be clearly stated in an Act. I recognize the importance of not suffering income to escape taxation, and of not losing revenue, but general and comprehensive language is not necessarily vague or obscure.

I should point out that I am not suggesting that all, or many, of the 239 sections of the Act require alteration or revision. The really important part of the Act is that which contains the Schedules, the Cases and the Rules under them, all, unfortunately, in my view, relegated to a Schedule instead of being placed in the forefront of the Act. I should estimate that, of the disputes which arise, over 90 per cent. arise out of the Schedules A, B, C, D and E, and over 90 per cent. of these disputes arise out of Schedule D.

Obscurity of the Act.

15,887. (5) The Act of 1918 impose the tax in respect of all property, profits, or gains described in the Schedules. Schedule D directs that tax under that Schedule shall be charged in respect of the annual profits or gains arising from any trade, profession, employment or vocation. There is no definition anywhere in the Act of "profits or gains," nor is there any statement of the principles according to which they are to be ascertained. The House of Lords has laid down on more than one occasion that profits and gains are to be ascertained on ordinary principles of commercial trading. This must be taken to be the correct method, but it is left in obscurity by the Act, which furnishes no guide.

15,888. (6) Rule 1 of the Rules applicable to Cases I and II of Schedule D provides that the tax shall be charged without any other deduction than is allowed by the Act. This is a provision of great importance. When the taxpayer looks to see what deductions the Act allows, he will be unable to discover any list or statement of admissible deductions. Here and there in the Rules he will find that in computing the profits or gains to be charged no sum shall be deducted in respect of certain matters, and

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Mr. A. M. BRENNER.

[Continued.]

section 209 of the Act provides that in arriving at the amount of profits or gains no other deduction shall be made than such as are expressly enumerated in the Act. There is no enumeration of permissible deductions. All that appears is that certain deductions may not be made. Again, I think that confusion is introduced by the use of the word "deductions." Expenditure incurred in earning profits must, of course, be taken into consideration in order to ascertain profits, but it is not a deduction from profits.

15,889. (7) In my opinion it is expedient to tell the taxpayer, in plain terms, by specific and intelligible directions, what expenditure he is entitled to take into consideration, and what expenditure he may not include. I may point out that if a trader is left in uncertainty as to the expenditure which he may include in making his return he will probably give himself the benefit of the doubt.

Schedule D.

15,890. (8) As regards Schedule D, I would advise the introduction of the word "business." The word is widely used, and was, no doubt, advisedly included in the Act imposing Excess Profits Duty. It is somewhat remarkable that although the word "business" is to be found in the Act of 1842, it is not in Schedule D. At present Schedule D, by Cases 1 and II, charges tax in respect of any trade, profession, employment or vocation, but there are many "businesses" which strictly cannot be brought within these words. I do not overlook Case VI, which charges the tax in respect of any annual profits or gains not falling under any of the foregoing Cases, but in practice it is not easy to determine when these general words are applicable, and further the method of assessment under Case VI is left in obscurity.

15,891. (9) On the forms for returns, certain information and directions are contained. But, obviously the forms must not differ from the Act, and any vagueness or obscurity contained in the Act must be repeated in the forms.

Advantages to the Revenue of clearness and simplicity.

15,892. (10) If the trader or other taxpayer is told in plain language how to arrive at his assessable income, he will have no excuse for understating his income. A person inclined to be fraudulent will hesitate if he is made to see plainly that he would be guilty of fraud and dishonesty, and would bring himself within the reach of the criminal law. Further, if the Surveyor could refer the taxpayer, when a question arose, to a rule which clearly decided the matter, disputes would be settled and much time and correspondence would be saved. Further defects in the Act are referred to by me later on.

Defective arrangement of Act of 1918.

15,893. (11) I have already called attention to the fact that the important part of the Act, both from the point of view of the Revenue and the taxpayer, is that containing the Schedules, and the Rules under them. A taxpayer, or other person desirous of ascertaining the law, would naturally turn to section (1) of the Act. After reading that not very illuminating section, he would see that the Act then plunges at once into Super-tax. He would, I assume, rather than he must refer to the Schedules. On so doing, he would find a number of Rules, some miscellaneous Rules applicable to Schedule D, and General Rules applicable to all the Schedules.

The various Rules do not appear to be arranged in any defined or logical order. They jump from one matter to another. Provisions with regard to the manner of ascertaining profits under Schedule D are mixed up with provisions as to assessment of partners, Life Assurance companies, residence of foreign partners, partnerships, &c. A perusal of the rules under Schedule A will show how hopeless it would be for anyone, not an expert in tax law, to feel any confidence that he understood the true meaning and effect of the Schedule and the Rules applicable to it. This is true of the other Schedules.

15,894. (12) In my opinion any future Income Tax Act should be divided into five parts. Part I should define assessable income, and how the tax upon it should be ascertained. Part II should deal with assessments. Part III should contain the provisions as to appeals. Part IV should deal with the appointment of Commissioners, Surveyors, Collectors and other such matters. Part V should deal with Ireland. The taxpayer is only interested in finding out what he has to pay. The rest of the Act has very rarely to be considered except for administrative purposes.

The Schedules should be simplified.

15,895. (13) In my opinion the Schedules could advantageously be reduced in number and simplified. I would suggest that three Schedules would suffice. Schedule A should include all income from property. This income should be divided into income from real property and income from personal property. Division 1 should include income from lands, &c., including profits from the occupation of land. Division 2 should include income from investments, including securities, discounts and interest. Schedule B should include all income from trades and businesses—quarries, mines, waterworks, railways and other like trading concerns should be included in this Schedule. Schedule C should include the income from all offices and employments of every kind. I see no ground for assessing income from one employment on a different basis from another employment. In my opinion, the present Schedules C and E might and should disappear.

15,896. (14) A further important change which I consider would be very beneficial, as tending to simplicity, would be that all income, without exception, should be assessed on the income of the previous year. At present the rule varies. A taxpayer would then know each year the liability which he would have to meet in the following year. As each year would be taken by itself, it is a matter for consideration whether a loss in any one year should affect the liability in respect of another year which resulted in a profit. I think that if the change were made it would be necessary to provide against a loss of revenue. This would not be difficult. I doubt whether if the change were made for the financial year 1920-1 there would, in fact, be any loss of revenue. This, of course, is only a surmise.

Super-tax.

15,897. (15) In my opinion, Super-tax should be dealt with separately, as it now is, and by the Special Commissioners, who are persons of great experience and having a wide knowledge of Income Tax law.

Deduction at the source.

15,898. (16) In my opinion it is essential to maintain the system of collecting tax by deduction at the source. If this system were abandoned, I feel sure that a very large loss of revenue would result. Further, it is manifest that great additional trouble and work would be occasioned, both to the taxpayer and to the Revenue officials. Any change in this respect would, I am sure, be objected to by a great number of taxpayers.

Appeals.

15,899. (17) The question of appeals, whether by the Crown or the taxpayer, is obviously one of much importance, and, in my view, deserves careful consideration. Large sums are, as a rule, directly involved. Further, a question of principle is often in dispute, affecting future assessments. Many thousands of pounds, sometimes hundreds of thousands of pounds, in tax, depend upon the result of an appeal. The claims in respect of debts, and for damages for breach of contract, which are decided by the High Court of Justice, are trivial compared with the amounts at issue in Income Tax appeals.

15,900. (18) A taxpayer aggrieved by an assessment made upon him is entitled, on giving notice in writing to the Surveyor within 21 days, to appeal to the General Commissioners, or in case of an assessment under Schedule D to the Special Commissioners. In my opinion it is very desirable that this option

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should be maintained. The taxpayer may desire to have a business question decided by business men in his own district. On the other hand, there may be various good reasons against the appeal being heard by the Local Commissioners. The appeal may involve difficult points of Income Tax law which would be more readily understood, and more effectively dealt with, by the Special Commissioners.

15,901. (19) Section 137 (1) of the Act enacts that the General Commissioners shall cause notice of the day for hearing appeals to be given to every appellant. The length of notice to be given is not specified in the Act. In my opinion at least 14 days' notice should be given to the appellant. Inconvenience is sometimes caused by the short notice given. An appellant has to secure the attendance of his witnesses, often busy professional men. Further, the facts to be ascertained and the accounts to be looked into and prepared, are often complicated. An adjournment can generally be obtained for good cause, but I see no reason why a reasonable notice, to be defined, should not be given.

15,902. (20) There is, as the law stands, no right of appeal to the High Court upon questions of fact. The Commissioners who hear the appeal are the sole judges of the facts. The Courts have laid down that they cannot, and will not, interfere with the findings of fact by the Commissioners, if there is any evidence upon which they could have arrived at such findings. As the whole of the evidence is rarely before the Court, it is hardly ever possible to show that there was no evidence to support the findings of the Commissioners.

15,903. (21) If the Surveyor, or the taxpayer, considers the decision of the Commissioners to be erroneous in point of law, he can require a case to be stated by the Commissioners for the opinion of the High Court, and the Act provides that the case shall set forth the facts and the determination of the Commissioners.

Should there be an appeal to the High Court upon the facts.

15,904. (22) After consideration, I have come to the conclusion that it is not necessary that there should be a right of appeal from the Commissioners upon the facts, either by the Crown or by the taxpayer. I think that the facts are, as a rule, rightly understood and dealt with by the Commissioners. The law in this respect has existed for many years, and has, on the whole, in my experience worked satisfactorily. If an appeal upon the facts were given, either the Court must rehear the whole of the evidence, or it must be at liberty to determine the questions of fact for itself upon the shorthand notes of what passed before the Commissioners. In either case, the hearing of an appeal would be greatly prolonged before the Courts, and much additional cost incurred. Further, the number of appeals would be much increased.

15,905. (23) Subject to what is hereafter stated as to the Court being at liberty to refer to the shorthand notes, I consider that it is not necessary or expedient to alter the law as it now stands in this respect.

Statement of the case.

15,906. (24) The case has to be stated by the Commissioners. In practice, in the case of an appeal to the General Commissioners, it is the Clerk who prepares the case. The case, as prepared, is submitted to the parties for consideration and, if thought necessary, amendment. The High Court has expressed the view that this is the proper course.

The preparation of the case is frequently a matter of considerable difficulty, especially when the facts are complicated, and in dispute. There is no rule upon the point, but I believe that the draft case is more frequently sent in the first place to the successful party, who makes in it such alterations and amendments as he considers necessary. The case is then returned to the Commissioners, who send it, as altered and amended, to the other party, who in his turn alters and revises the case. Unfortunately, the parties are seldom agreed upon the facts representing the evidence given, or on the views as to the facts entertained by the Commissioners at the hearing. The statement of the case is a matter of the greatest importance, as it often

ensures a decision one way or the other. A long and strenuous contest frequently arises as to the form of the case, which in the end, has to be settled somehow by the Commissioners. The difficulty is increased by the fact that there is often no shorthand note of what passed at the hearing. An appellant is not entitled to have a shorthand note taken, even at his own expense. Some Commissioners refuse to allow a shorthand writer to be present. Such notes as are taken by the Commissioners, or their clerk, are not available for an appellant, or, I should presume, for the Inland Revenue.

15,907. (25) In my opinion, it is desirable that an appellant should have the right to have a shorthand note taken of what passes on the hearing of an appeal. I believe that this would result in a great saving of time and cost. The Commissioners should be entitled, on payment, to a copy of the notes taken. When it is contended that there is no evidence upon which the Commissioners could arrive at their findings, I think that the Judge should be at liberty, if he thought fit, to refer to the shorthand note of the hearing before the Commissioners, a copy of which should, if the appellant desires it, be annexed to the case stated.

Appeals are too long delayed.

15,908. (26) There is much delay before the case is finally settled and signed by the Commissioners. I have already explained some of the causes of this delay, but there are others.

In my opinion, too long a period often elapses before the draft case is sent out to the parties. Complaints are also made that the Revenue authorities do not return the draft sent to them within a reasonable time. I think that much of the delay which takes place could be prevented by appropriate Rules. The Commissioners should be required to transmit a draft of the proposed case to the parties within 2 months from the request for a case. The parties should be required to return the draft case with their alterations and amendments, if any, within two months from receiving the draft case. The Commissioners should be required finally to settle and sign the case within 6 months from the request to them for a case. The Revenue Judge might have power to enlarge these times for good cause.

15,909. (27) The Act requires the party receiving the case to transmit the same to the High Court within 7 days. This does not ensure the hearing of the appeal within any particular time, or at all. Points of argument have to be exchanged between the parties. There is no time prescribed for this. Further, the cases to be heard before the Revenue Judge are, I believe, placed in the list for hearing by the Solicitor of Inland Revenue. The cases are taken by the Revenue Judge at dates arranged by the Law Officers of the Crown. In my opinion, each case should come in to the list in order of date as entered, unless both parties otherwise agree. Further, it should be understood that the Revenue Judge should hold four sittings in the year, one in each sitting and dispose of all cases entered. In view of the engagements of the Law Officers, who have the conduct of the appeals on behalf of the Crown, I think it reasonable that they should have a voice in fixing the dates of the sittings of the Revenue Judge.

Repayments of tax.

15,910. (28) A person may be entitled to repayment of tax in consequence of a right of exemption, or abatement, or the right may arise for certain other reasons, for instance, on account of his having paid Colonial Income Tax, or in respect of interest paid to a bank, or discount house, or stockbroker, or on account of expenses of management. It will be agreed that repayment should be prompt, and the method of obtaining it should be made clear, and be simple. The sections providing for repayment fail to prescribe the method in which repayment is to be obtained. Generally, the Act simply provides that the taxpayer shall be entitled to repayment. How he is to obtain it is left in obscurity. I know of only two methods by which the right to repayment can be enforced: (1) by application to the King's Bench Division of the

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High Court of Justice for a writ of mandamus, directed to the Commissioners of Inland Revenue, requiring them to make repayment, (2) by Petition of Right. Both these methods are cumbrous, costly, highly technical, and can be enforced only after much delay. If it is expressly stated in the Act that the Commissioners of Inland Revenue shall make repayment, a mandamus would, in a proper case, be granted by the King's Bench Division. Numerous sections merely state that the taxpayer shall be entitled to be repaid.

15,911. (29) In my opinion the right to repayment should be enforceable by procedure which should be simple, speedy, and inexpensive. I would suggest that any person entitled to repayment should be at liberty to enforce his right by a summons before the Revenue Judge enjoining upon the Commissioners of Inland Revenue to make repayment. In this way much time and cost would be saved.

The right to repayment should not be fettered.

15,912. (30) Another important matter which arises in connection with the right to repayment is that it is generally fettered by a condition requiring the taxpayer to prove certain matters to the satisfaction of the General or Special Commissioners. The effect is that if the Commissioners say that they are not satisfied, there is no appeal unless it is expressly given and the taxpayer loses his right to repayment. Sometimes matters are left by the Act to "the opinion of the Commissioners of Inland Revenue." Here again the effect is that there is no appeal. The taxpayer may fairly object to being concluded by the opinion of the Commissioners of Inland Revenue. I may refer to sections 36 and 55 of the Act as illustrating my objections.

15,913. (31) In my opinion, the right to repayment should not be limited, or restricted, in the manner above described. A taxpayer contending that he is entitled to repayment should have a right to make his claim to either the Special or the General Commissioners at his option, and both he and the Crown should have a right of appeal from the Commissioners to the same extent, and in the same manner, as on an appeal against an assessment. If the right to repayment were upheld, it should be enforceable in the simple manner suggested above.

15,914. (32) Another matter which I think should be set right is that the taxpayer is often unable to bring forward his right to relief and repayment upon the hearing of an appeal, but is compelled to make an independent application. The taxpayer may be appealing to the Special Commissioners, and he may have a right to relief which, under the Act, can be granted only by the General Commissioners. This involves two applications, and consequent additional trouble, and possibly further expense. I think that the Act should provide that, on the hearing of an appeal, the Commissioners should be authorized to grant to the taxpayer all such relief as he may be entitled to under the Act, and to deal with the assessment before them accordingly. Multiplicity of applications should be avoided.

APPENDIX.

Memorandum by the Right Hon. Sir ARTHUR CHANNELL.

15,915. (33) Appended to my evidence is a print of a statement prepared by the Right Hon. Sir Arthur Channell, for many years a Judge of the King's Bench Division of the High Court of Justice. Having regard to the grave importance of the matters submitted for the consideration of the Royal Commission I think it expedient that I should draw attention to the letter, the contents of which I, on the whole, support.

[cont.]

May 6th, 1919.

Dear Sir,

In case no one more competent than myself should do so, I desire to call the attention of the Royal Commissioners on Income Tax reform, to a matter which I think has much to do with the unpopularity of Income Tax and Super-tax, and to suggest what seems to me a simple remedy.

If the Commissioners desire it I am willing to give evidence, but having regard to my age and to the fact that since I resigned my office of a judge of the High Court, I may not have kept myself acquainted with all the details of alterations in the law, I would rather prefer not to do so, if the Commissioners would consider the points raised in this letter, which very probably may be brought before them also by other witnesses.

The great grievance of treating earned and unearned incomes alike, has now been at any rate partly remedied, although it seems to me unjust that the relief should not be given to all earned incomes. The larger earned incomes, equally with the smaller, carry with them the moral obligation of saving to provide for the education and maintenance of families, and in many cases (notably in the cases of judges) the larger incomes carry with them a position in which saving is not easy. Now that this grievance has been dealt with, although not, I think, fully remedied, almost every one, whether his income is large or small, in my opinion, agrees that an Income Tax graduated either by the machinery of a Super-tax or otherwise, is one of the fairest, as well as the most useful of taxes, provided that it is levied only on income which is being actually received, but it is felt to be an injustice to be taxed, as is now done in many cases, on income which is supposed to be received, but which is not so in fact—where the tax can be deducted at the source, and is so, no such grievance arises, but in other cases the present system involves the injustice of favouring rising incomes and of overtaxing incomes which are falling. Persons whose incomes are falling do not always wish to publish that fact, and it may be that their grievance is not core now, but I am satisfied that it is extensively felt. It is hard to lose income and still harder to have to pay tax as if it continued, and persons in such a position are just those who ought to receive consideration. Obviously the income of the year current at the time of taxation cannot during the year be ascertained accurately, unless the income is of a kind which can be taxed by deduction at the source, so that some kind of estimate must for the purpose of levy be resorted to, but any estimate based on former years, whether on a three years' average as in the case of traders and professional men, or on the last preceding year as in the case of Super-tax, obviously overtaxes falling incomes.

Further, the tax called Income Tax, on the occupation of land, which in the case of land owned and occupied by the same person may be fair enough, is unfair and not really an Income Tax, when the land is rented at a rack rent, as that rent is not allowed as a deduction. In such cases the occupation is often not really an income but an outgoing.

I suggest as a practical remedy for the taxation of non-existent income that any taxpayer should be at liberty to show if he can, after the expiration of the year, that he has paid tax (whether Income or Super-tax) on an income assessed at a sum in excess of the income he has in fact received (during the year) and should be allowed off the tax assessed for the then current year the amount of over payment for the previous year. The difficulty and trouble of such proof, and the expense of it in the case of the many persons who would be unable to do it without assistance would prevent claims being made except when this amount of over payment was substantial, but the right to make it would take away the sense of injustice which undoubtedly exists under the present system. If it is objected that the Revenue would suffer loss on the rising incomes, without being compensated, as it is now, by the gain on the falling incomes, power might be given to call for a return to be made after the expiration of any year of what the actual income had been and any under payment of tax might be collected. This undoubtedly would be unpopular, but it would be just. Another mode of doing the same thing would be that a return would be called for from everyone, in the second and following years of his carrying on a profession or trade, of his income for the past and also for the current year. The return, so far as the past year was concerned, would be in the nature of a calculation, but for the current year it would be an estimate (based

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possibly of necessity on the income of previous years (or the previous year) and when the calculation showed either over payment or under payment, the sum could be credited or debited against the tax on the sum estimated for the current year. Thus in continuing professions or trades everyone would pay on his actual income. As regards Super-tax, the grievance is considerable in every case of a falling income, but if a recent decision of Mr. Justice Rowlatt stands good there will be many cases of very serious hardship. In the case to which I refer the late Mr. J. D. Fitzgerald, K.C., appealed against an assessment to Super-tax on professional income in the year after he had retired from practice at the Bar. He died before the appeal came on, and his executors continued the appeal, and Mr. Justice Rowlatt affirmed the assessment and dismissed the appeal. Take my own case. I was a judge when the Super-tax was first introduced and remained so until April, 1914, which I think was about five years afterwards. I forget now the year in which the tax was introduced, but it is not material to the argument. When I retired I was assessed for Super-tax for the year April, 1914, to April, 1916, on the £5,000 salary which I had received in the previous year and not on the £3,500 pension which I was then receiving. I gave notice of my intention to appeal, but before the appeal was entered the war had broken out. I did not like in those early days of the war to put myself in the position of appearing to desire to evade taxation, so I did not appeal but paid the assessment. I did, however, state to the Commissioners that I did not abandon my contention, but paid for the sum I have mentioned. The result was that I paid on £5,000 for six years although I had only been receiving that sum for five years since the introduction of the tax. If I am in error as to the date of the introduction of the tax, it would not be six and five years but it would for one year more than I received the salary. Nothing can be clearer than that Parliament never intended to vote for a tax retrospective in that sense. If this construction is correct it would make a man's executors liable to Super-tax for a year after he had died, a construction so absurd and unjust that it has had to be met by an amending Act. But for the fact that money was badly wanted it is inconceivable that the amending Act would not have dealt with cases of income ceasing otherwise than by death, but if Mr. Justice Rowlatt's decision stands, a man becoming bankrupt would be liable for Super-tax after his bankruptcy if in the year preceding his bankruptcy he had had an income exceeding £2,500 a year. I suggest that it should be made clear that Super-tax on the sum received in the previous year is only payable when the source of that income is continuing into the year of taxation. It also would appear just that if the income ceased during the year only a proportional part should be paid.

Another case in which Income Tax has to be paid on non-existent income is in the case of falling or reduced rents. During the late war cases occurred to my knowledge, where tenants got from their landlords on the ground of alleged inability to pay, a remission of rent to the extent of as much as a half, and then deducted from that half (and were, of course, entitled so to deduct) the Property Tax which they had paid on the old assessment, so that the landlord only got one quarter's rent in the whole year, the tax then being 5s. in the £. There is, of course, machinery by which the assessment can be reduced if the value has gone down, but even if this were applicable to a case where there was no real change in the property but only in the ability of the tenant to pay, it takes time to get such an alteration made and it only takes effect after it is made. There is no provision for repayment.

The insufficiency of the allowance off the gross rent of houses of one-sixth for repairs is on present prices another instance of tax on non-existent income, but this will no doubt be considered by the Commissioners, and I need not go into it in detail.

The three years' average on professional incomes has, during the war, caused great hardship in many cases. It may be that some of these men will regain their income after the war, and thus get the benefit

of the three preceding years being lean years, but that is very uncertain, and the loss which has occurred during the war is only an illustration of what regularly happens to elderly professional men whose income so often falls off as they get older. During the war taxpayers, on proof that they have been assessed on a supposed income greater by 10 per cent. than their real income, have been allowed to postpone payment of half the tax, but mere part payment is a very insufficient remedy, and cases of loss just under 10 per cent. do not come in.

I think that there are other cases besides those which I have specified in which Income Tax and Super-tax are assessed and levied on income assumed to exist but which do not exist in fact.

My memory at my present age (over 80) is probably not so good for details as it used to be, but I have formed the opinion which I have been endeavouring to express at a time when I was quite familiar with this subject.

I am, Sir,

Your obedient servant,

(Sd.) ARTHUR M. CHANNELL.

To the Secretary to the Commission
for Income Tax Reform.

[This concludes the evidence-in-chief.]

15,916. Chairman: You have had a very long experience in Income Tax matters at the Bar, have you not? That is so.

15,917. This paper that you have prepared is on behalf of the General Council?—It is. I should like to explain that although I have prepared this statement of my evidence as the request of the Bar Council, it has not been submitted to the Bar Council. I understand that it was not the desire of the Bar Council or their intention that my evidence should be submitted to them for their consideration. As I understand, they are quite prepared to adopt and accept my views as being representative of those of the Bar.

15,918. A great many of the points in your paper we have considered, of course, in other aspects; you will submit yourself now to any examinations that the Commissioners may wish to make on your paper?—Certainly.

15,919. Mr. Kerly: Of course, we all know at the Bar that your forensic experience in this matter is quite unrivalled, and you have been good enough to give us the results of it in this paper, so far as your space allowed. Before dealing with the particular points that you have raised, I should like to ask you one or two general questions?—If you please.

15,920. First, as regards the practical administration, the present practice, as we know, is that there is an appeal to General Commissioners, who are a local body, or to the Special Commissioners, from any assessment?—Under Schedule D.

15,921. I mean Schedule D. As regards the appeal to General Commissioners, is that, in your view, a satisfactory appeal as the General Commissioners are at present constituted?—Well, I must be a little careful in my answer. I happen to be myself a General Commissioner, and I must take care how I speak of my brother General Commissioners. In the next place, a good many General Commissioners also happen to be personal friends of my own; that applies to various General Commissioners in London. I think perhaps I may answer your question in this way: if I have a case, as sometimes happens, which presents considerable complications with regard to Income Tax law, which involves my referring the tribunal to various sections of the Income Tax Acts and possibly citing various authorities to them, when I am before the Special Commissioners I am always confident that they understand what my point is. I can make them appreciate why I am there and what my case is in support of the appeal. But when I am before the General Commissioners I am not always sure, in fact, I am often very doubtful whether they really understand what I am driving at. That is fatal. Most of them, of course, are not lawyers; they are business men. I do not know how many of them

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have ever really studied the Act. They are not paid, as the Commission know, for what they do, and I have always had a strong opinion that if you want good work you must pay for it. Many of them are very busy men who naturally have very little time to give to the consideration of these Income Tax problems, and I have—not always, but frequently—been in a state of great doubt as to whether I had succeeded in conveying to the General Commissioners what my point really was. The Commission will appreciate the difficulty. It is necessary, perhaps, for me to refer the General Commissioners to two or three cases on the subject and to read them sometimes fairly long extracts from what the judges have said. It is very difficult for laymen to apply the decision of a law court. I do not know whether it is so, but sometimes it is said that we lawyers look at these decisions in a different way from what business men would look at them, but it is frequently very difficult to convey to General Commissioners what your case really is and why you think you are right. Of course, you may be wrong or you may be right, but it is extremely unsatisfactory if you come away with the conviction that you have failed to explain to your tribunal and to make them see why you really were appealing; and that has been my position sometimes.

When I go before the Special Commissioners, the great advantage is this, as I have said, that they always know what I am talking about. I say: "The question here to-day is whether I bring my case within the principles of the *Gramophone* case." They know the *Gramophone* case; that tells them at once what I am talking about. Then I proceed to develop my case, and having told them the facts first—because you must explain the facts first, which very often are not in dispute—then I come to the law and they follow it. I may be right or I may be wrong, but I have this satisfaction, that my client's case has been put and understood. Personally, when I have a case of any complication I say to my client: "now, to whom will you appeal? You have got an option to appeal to the General Commissioners or to the Special Commissioners. My view is that you will do better before the Special Commissioners"—not, of course, because I think I am going to get any advantage, or an erroneous decision; on the contrary, I am quite sure that I shall then be addressing people who, as I say, will grasp my point, which may be good or bad. That I have nothing to do with, but they will understand it, and it is most embarrassing not to be understood—to feel that you are being politely listened to, but that you have not really made yourself intelligible. Therefore, speaking quite frankly, when I get a case which involves, as I say in my statement, difficult questions of Income Tax law, and I know of no more difficult questions than those which arise out of these Acts, I then say to my client: "you had better go to the Special Commissioners"; that is my view of it.

15,922. I gather that in a complicated case you think the Special Commissioners are, at any rate, much better than the General Commissioners?—I do. I think that if you had a purely business point relating to some practice of a business—you might have a point arising out of a business in Manchester or Liverpool, and it may be that that particular business point might be better appreciated by the Manchester or Liverpool General Commissioners, who possibly would be engaged in the trade themselves or would know something about it—the General Commissioners might be better, but subject to that I prefer the Special Commissioners.

15,923. For an important case, I presume the option which is given is satisfactory, because if the case is suited for the General Commissioners you can go to them?—Certainly. I attach great importance to preserving that option, because a business man may come to me and say: "I would like to go to these people down in Manchester or Bristol, because they understand it." There is one thing I would like to say: there is extraordinary confusion and want of knowledge as to who the Special Commissioners are, and what they are. People say to me: "Who are the Special Commissioners; who appoints them? Are they not a

branch of Somerset House? What communications pass between them and the Inland Revenue?" People really do misunderstand entirely who the Special Commissioners are, and I cannot help thinking that it would be very advantageous if people were made to understand what their position is. Further, many people are wholly unaware of the option. It is printed in very small type on the notice that you get, and no one cares to devote much time to studying these notices. They just look and see how much is demanded; and I think myself it would be very desirable that the position of the Special Commissioners should be made clear in some way or another—it would not be difficult—and that the option to go to the Special Commissioners should be stated more distinctly and should be brought home to people.

15,924. In your view is the inadequacy which you have indicated of the General Commissioners to try, at any rate, some appeals, met by the option of going to the Special Commissioners? Are there not small cases which cannot be brought to London because of the undue expense, and which, therefore, must go to the General Commissioners, which are inadequately dealt with?—Yes, in a small case, undoubtedly. Of course, the Special Commissioners go on circuit, but they do not go to all the small places; they go to the larger places. I do not think that you could send the Special Commissioners to all the small places, because they might have to go for one case and it might perhaps take two days of their time getting there and back, and then possibly doing nothing, very likely the case settled when they got there; so I think that the small cases must go to the General Commissioners unless the taxpayer decides otherwise.

15,925. Supposing you had a local body with a professional head, for instance one of the Special Commissioners sent down to preside at the hearing of appeals, do you think that would be an improvement instead of the General Commissioners in their appellate jurisdiction?—Well, I think you would make a great demand on the time of the Special Commissioners.

15,926. It would be necessary to increase their number?—Undoubtedly.

15,927. Do you think the resulting public advantage would justify the expense?—I must say I have not had much experience of the small cases. In small cases people do not go to the expense of Counsel and resolving to fight the Inland Revenue very likely up to the House of Lords, because you are fighting the public purse in these cases. I do not want to talk about myself, but that is the only way I can answer the question. The cases that come before me are really the large cases involving very, very large sums indeed.

15,928. The appeal on fact is to the General or Special Commissioners only; there is a further appeal on law?—Yes, that is so.

15,929. Do you think it desirable that there should be an appeal on fact from either the General or the Special Commissioners to a properly constituted body, so that you might avoid the inconvenience of having inconsistent decisions of fact in different parts of the country?—Well, I have considered a good deal as to whether or not it is expedient to give a right of appeal on fact either from the Special Commissioners or the General Commissioners, and I have checked my own opinion by consulting some of my friends in the Temple who have similar practices. After talking it over together, we came to the conclusion, which was my own conclusion before I spoke to them, that as regards appeals on questions of fact you may leave it where it is. I have suggested that to meet extreme cases the Revenue Judge should have the right, if he thought fit, after seeing the nature of the case, to refer to the shorthand notes of what had taken place before the Commissioners. As you know, at present you cannot do that. You are tied down within the four corners of the case. The judge will not go into any questions of fact at all. He simply has to decide on the facts stated in the case.

15,930. Your proposal is that in the case of the evidence taken before the Commissioners should be attached to the case on appeal, and that if a finding of fact

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is not supported by any evidence there should be an appeal on that ground?—Yes.

15,931. Would not you go further and treat the finding of fact as equivalent to no more than the finding of a jury, and allow an appeal if in the view of the Court the finding is against the weight of the evidence?—The difficulty I feel about that is this. I go before the Revenue Judge, and I want to contend that the finding is against the weight of the evidence. The Revenue Judge must do one of two things; either he must say: "very well, I will have all the witnesses here and I will go through the whole thing for myself—I will re-try it;" or another thing would be that he should read the whole of the shorthand notes and should draw his own conclusions upon them. Either of those courses would add very much to the expense of the appeal. Thinking it all over and looking back on all the cases I have had, I think myself that on the whole you might leave any appeal on questions of fact where it is now. I think that is the best thing. Of course, occasionally one gets a disappointment; one loses a case that one thinks one should have won, because the Commissioners take what one thinks to be an erroneous view of the facts, but I am bound to say that, looking through the whole of my practice, although there have been such cases, yet I do not think that it would be expedient that you should try the whole thing over again before the Revenue Judge. I am not talking of questions of law at all.

15,932. Very well, that is your view?—That is my view.

15,933. It is very interesting to me that you should take that view. Do you recall the famous series of cases, the *Schoonhoven* and other cases about control?—Yes.

15,934. I thought you would?—I was in some of those.

15,935. In those cases the judges often said that the case stated the appellant out of Court?—Yes.

15,936. And suggested that they themselves would have found the facts differently?—Yes.

15,937. In view of those cases which I recall to your attention, do you still take the view that it is satisfactory to leave the finding of fact as stated in the case as conclusive, subject to there being some evidence to support it?—Yes, I think so.

15,938. Very well, I will not trouble you further about that. Now may I turn to a few particular points. Your paper is so clear that I am not going to attempt to go through it in any detail, but would you kindly turn to the end of paragraph 3, where you state that the Act requires much improvement, because it cannot be understood without the judicial decisions; that in fact means that you want to codify *Dowell*, does it not?—Yes, that is putting it quite shortly.

15,939. But accurately, I think?—And quite accurately, I think.

15,940. Now go to paragraph 5, where you speak of the obscurity of the Act. Is not that difficulty inherent in the difficulty of finding what are profits and gains?—Well, I agree that that would require very great skill. I should want some very experienced people and some very trained intellects on that. I myself should be very sorry to try to define profits and gains, but I think you might do better than you do. I think you might give some indication. I have a very strong view about these Income Tax Acts from beginning to end.

15,941. May I interrupt you for one moment. Your paper had for me one great disappointment. I hoped that you would have provided us with a suggested definition of profits and gains, but I do not find it anywhere; can you give us any suggestion?—No. The Long Vacation was not long enough to enable me to do that.

15,942. May I add one further thing; whatever definition you adopted you would have to follow it, if I gather your view, by an enumeration of allowable and not allowable deductions?—Certainly; I make great point of that.

15,943. Do you think if any attempt were made to define it, in both that and the other charging sections of the Act, it would be an immense advantage to add to the Act itself examples?—Yes.

15,944. As is done, for instance, in the Sale of Goods Act?—Yes, certainly.

15,945. Has it not often happened that judges, in construing a most carefully constructed abstract definition, have taken a totally different view of what it was driving at from what the draughtsman intended, particularly in the Income Tax Acts?—The difficulty is to find out what is intended in this Act; that has always been my difficulty.

15,946. I did not want to lead you off your track, but I am going to make a suggestion. Will you tell me how you would deal with the definition of profits and gains—I think you were just going to do so?—I will tell you frankly what my idea is in suggesting that you should have what, I think, is necessary—a new Act. I will tell you my scheme: I should ask Lord Wrenbury, or Mr. Justice Rowland, who has had special experience in these things, or possibly both, to be members of a Committee which should draft the new Act, and should have upon it an experienced Revenue official. Then I would have an accountant, one of the best I could get, upon this Committee.

15,947. We can supply him?—Very well, that solves that difficulty. Then I should want to have a business man on the Committee, and a barrister with a knowledge of Income Tax law, and I would get six or seven people there who would know what they were talking about, and how to express what they meant. Then in the end we should get a satisfactory Income Tax Act. It should be clear and simple, or at least expressed in clear and simple language. I do not say that you can have a simple tax. We are told that you cannot have a simple tax, but you can have a tax expressed in simple language. Make it as simple as you can. The two things are quite different. I do not mean to suggest in this paper that you can make Income Tax simple—nothing of the kind. What I am suggesting is that the Act should be expressed in clear, simple, and intelligible language.

15,948. So far as regards the charging sections of the Act, that is to say, defining the subject matter to be charged, you think it would be possible to simplify and also, I take it, to make more certain what that subject matter is?—Yes.

15,949. Of course, that is quite distinct from the administration side?—Oh, entirely.

15,950. Going on to paragraph 3, you speak of the forms for returns?—Yes.

15,951. You think that considerable simplification from the public point of view might be arrived at if a pamphlet with a proper index were drawn up and distributed to the public?—Yes, I do; that idea has occurred to me.

15,952. And to be treated as an annex to the form instead of making an attempt to put a lot of matter difficult to digest upon the form itself?—Certainly, I think that would be a great improvement. I also think these forms could be improved if you improve the Act it is easy to improve the forms. While the Act remains a mass of confused patchwork—those are rather strong expressions, but they only convey the opinion that has been forced upon me by many years' daily study of these Acts—you cannot simplify your buff form. [See Appendix No. 5.] You must not depart in the buff form from the Act, otherwise you are misleading the public. I remember not very many years ago that assessments were made upon "casual profits" under Schedule D. There are many casual profits that, as the Commission know, are not assessable under Schedule D, but assessments were made in that form. I pointed out to the City Commissioners that what purported in the notice of assessment to be an extract from the Act of Parliament contained something that was not to be found there at all. There is nothing in Schedule D about casual profits at all. I followed that up by writing a letter to "The Times" pointing out that these forms were misleading, and "casual profits" disappeared from the notices. You must in the buff forms follow the Act, otherwise it becomes the Revenue interpretation of what the Act means, and that is what many people think it is. Those buff forms were discredited many years ago. People gave them up as hopeless. They said it was a mass of confused stuff that they could not follow, and now these buff forms are very rarely referred

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to at all, and it is somewhat remarkable that, although I am in the habit of discussing these things with people very nearly all day long in my room, I cannot remember a single case when anybody said to me: "well, just look at the buff form." The truth is that the buff form has been wiped out. Nobody refers to it. It is very extraordinary. I really cannot remember a single case when any solicitor or accountant or anyone has said: "just look at the buff form"; it has never been mentioned. That is rather striking, and it shows how little attention is paid to these buff forms. As I have said, they were discredited many years ago. The public thought they simply expressed what the Surveyor wanted to get out of them; that was their idea of these instructions. Nobody looks at them now, and I think that is a great pity.

15,953. In effect, the proposal I have just put to you would be even better than writing a new and revised edition?—Yes.

15,954. Will you turn to paragraph 14?—Yes.

15,955. You see you say: "A further important change, which I consider would be very beneficial . . . would be that all income, without exception, should be assessed on the income of the previous year?"—Yes.

15,956. You propose to abandon the average?—Yes.

15,957. We have had a lot of evidence about that which you have probably seen from the reports?—Yes.

15,958. Assuming that to be done, I want your view as to what year should be taken. There must be, of course, a gap between the year which is to be the subject of taxation, and the time when the assessment is made, with consequent liability to pay. If you took the previous year, when would you make your assessment?—I should make my return about May. Generally, as you know, the business year ends on the 31st December. It might end, say, on the 1st February or the 31st January. When I made my return in May or June, I should return for assessment my profits in my preceding year, which would generally be the 31st December preceding, and I take it that most people, by May or June, have got out their accounts up to the 31st December preceding. Then on that return the assessment would be made, say, in July, August, September, or October, just as it is now. I do not think there is any fixed date when these assessments are made; it varies according to the demands on the Surveyor.

15,959. Do you say your proposal is to take the preceding calendar year?—No, not the preceding calendar year; the preceding year in the man's business.

15,960. The preceding year of the particular taxpayer?—Yes.

15,961. Supposing he made up his accounts for a short period?—I should require him to put them into one year. I should require him to give me a complete year. If he chose to make up his accounts half-yearly he would have to put the two together for me, and I should take the last completed one before he made his return. If it happened to be the 31st March, then he would have to give me that.

15,962. Do you think there would be any difficulty in bridging over the period of change. You have got to take care that the Revenue does not lose a year's income?—Certainly; I have suggested that if the change were made for this next Revenue year, the Revenue would not lose. As I say, that is only a surmise upon my part, but of course everybody in this room knows the enormous profits that have been made by people since 1914, in spite of Excess Profits Duty. Of course all that information is in the possession of the Inland Revenue, because by this time they have certainly got returns down to the 31st December, 1918, and we are now in October, 1919.

15,963. What do you propose should be taken for the year 1919-1920—that is the next year, I suppose?—The next financial year is 1920-1921.

15,964. What do you propose should be taken for that particular year?—We are in the financial year 1919-1920 now. That is the current financial year, and therefore the next year is the financial year which will begin on the 6th April next—1920. That is the year I have in contemplation, and that will continue

until the 5th April, 1921. Now, if my plan of taking the preceding year were adopted to that year—that is, as I say, only a surmise—I do not think, having regard to the enormous profits that have been made, the Revenue would be a loser. Here and there, of course, it might be that a man's profits had declined, but I think if you took the whole country round, although I do not pretend to be an authority on that, the Revenue would not be a loser.

15,965. Your proposal is that for what I call the year 1920-1921, ending on the 5th April, 1921, you would take as a basis the actual profits for the year 1919. Is that right?—Yes. I might just say this, that if the Revenue, having looked at the incomes for that year, found that there was a falling off, then I should be wrong here, because there would be a loss by taking that year. As I say, forming a surmise upon what I see around me, and what has come before me, I am inclined to think there would be no loss, but the Revenue can check that opinion of mine.

15,966. You mean no loss on Schedule D by taking a particular year instead of the average?—No loss by taking that particular year. I mean the year before the change.

15,967. If I may pass on, I will not trouble you about deduction at the source, because we have had so much evidence about it. Then you go to appeals. I took that first of all, and have already dealt with it, but there is one question I omitted. You speak of the hardship upon a particular appellant who may be taken to the House of Lords to settle for the general benefit of the community a debated point?—Yes.

15,968. Of course, that is a difficulty that anyone who comes in conflict with the public always has, but it is particularly hard in cases of Income Tax, because everybody is affected?—Yes.

15,969. Anybody may be the unfortunate litigant?—Yes.

15,970. Do you not think it would be fair if, at any rate, power were given to the Revenue authorities to pay the costs of the other side in a proper test case?—Yes, I do; that has been done by the railway companies occasionally. A man has wanted to test a question with the company, and then the Board have said: "very well, we would prefer to have this tested, and we will pay the costs of both sides to get this question of principle decided."

15,971. It is your experience that the cost of fighting the Inland Revenue, as of all other Government Departments, has been greatly increased since a change some years ago with regard to the remuneration of the Law Officers?—I do not think really that the Law Officers are at all overpaid for the Revenue work they do.

15,972. No, I am not making that suggestion?—I think they are underpaid. I am able to state their view on that. I know I should be very sorry if my fee did not occasionally exceed that of the Attorney-General or Solicitor-General who is arguing against me, but, of course, he has more cases in Court.

15,973. Is your answer to my question that you think there is no special grievance on this point?—No, I do not think there has been any increase in costs owing to the present system of marking fees at all. The Law Officers' fees are very carefully considered, certainly in Revenue cases.

15,974. Will you turn to paragraph 33, where you find Sir Arthur Channell's memorandum?—Yes.

15,975. You notice that the proposal Sir Arthur Channell makes, is that instead of taking the past year, you should pay on an estimate based upon the past year, and correct it for the actual year?—Yes.

15,976. That would lead, of course, to a great deal of adjustment?—Yes. I may say that I put this paper of Sir Arthur Channell's forward exactly as he wrote it, and it would not have been becoming in me, and it is not becoming in me, to criticise it; but I must say this, that I feel very great doubt about having this adjustment at the end of the year. I think the taxpayer likes to get rid of his tax. He knows he is called upon to pay a certain amount, and he pays it, and is very glad when it is all over. Suppose the year

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turns out to be £200 or £300 better than the preceding year, if the taxpayer is to get an allowance when the income falls short, equally he must pay when the income exceeds the previous year, and after you have thought that you had settled with the tax-collector, and had given him your cheque, to be called upon to make a return (because you must put the taxpayer under an obligation to make a return) and to be called upon to go into further figures with the Surveyors to adjust that, and then to draw another cheque on top of that, I think would be most unpopular; in fact Sir Arthur appears to have detected that. Personally I think it is much better to have done with it when you have paid your tax for the year; if you have paid on the right amount, that would make an end of it, and I think the public would greatly prefer that. I might just point this out. There are gentlemen in the room who know much more about it than I do, but I do not think that any man's income from a profession or from a trade or business is ever exactly the same two years running. It may be pretty nearly the same, but never exactly the same. You must have your adjustment, and with tax at 6s. in the £, it is worth while making the adjustment. It is necessary for the Revenue, and worth while for the taxpayer. Anybody who can get his money back will do so, and people are very glad to get money back, especially in these days. Therefore you would have a perpetual adjustment, with all the trouble and bother of previous perpetual adjustments, and personally I should deprecate that.

15,977. With regard to the Super-tax, a suggestion has been made that the assessment of Super-tax should be transferred to the Surveyors to act under the direction of the Special Commissioners, with an appeal to the Special Commissioners. Do you see any objection to that?—Well, personally, I should leave the Super-tax where it is, for several reasons. First of all, my experience is that it has worked well, and it has been going on now for ten years, and people have got used to dealing with the Special Commissioners. There has been very, very little friction and very few appeals about Super-tax. People have told me that they get the notice to make the return for Super-tax, and it is very often very puzzling. They go to the Special Commissioners' office, and they ask for information, and they have told me that they always get it. They obtain a polite hearing, and things are explained to them. They may or may not like the result, but they come away satisfied with their reception. I should leave the Super-tax where it is. Then there is another thing; people very much dislike, and for good reason, disclosing their total income. Even in families it is very often very desirable that sons and daughters, and sometimes that even wives should not know exactly the precise income of the parent or husband.

15,978. Does that extend to the Surveyor of Taxes?—I would leave it where it is; that is my view of it. I should be dead against giving Super-tax to the General Commissioners, because then all over the country everybody would know. A Commissioner would know the income to a penny of his neighbour, who might be his friend or not his friend.

15,979. There is no doubt that is a very common view. Disclosure to the Surveyor would not have the inconveniences of disclosure to the General Commissioners. Still, you object to it, for the reason, as I gather, that the present arrangement has worked well, and you see no advantage in altering it?—No, I see no advantage in its going through the Surveyor.

15,980. As a matter of fact, it does go to the Surveyor now, does it not?—I am not aware of that. I do not know what the machinery is in the Special Commissioners' office.

15,981. I am told it does not go to the Surveyor; that is a misapprehension of mine, I do not trouble you further?—I rather thought it did not.

15,982. Mr. McEldrick: You are aware that all individuals with an income under £2,500 a year must send everything to the Surveyor?—Yes.

15,983. In order to get the proper rates of tax?—Yes.

15,984. Do you draw a big distinction between a man with £2,500 and one with £3,000?—No, only this, that I do not see the necessity of passing it through the Surveyor. If it were explained to me

that there was some advantage to the Revenue or to the taxpayer by which a man with £10,000 a year returned that income, in the first instance, to the Surveyor, then I should say there is something in it; but at present, as I say, I am not acquainted with the Super-tax machinery, I only know the result of it. If there would be any practical advantage in passing it through the Surveyor, then do it; but I do not know what practical advantage would be secured by my sending in my Super-tax return to the Surveyor, who would then pass it on to be dealt with by the Special Commissioners. If I understood what the suggested advantage was, I might alter my view.

15,985. In districts other than London, the Special Commissioners are not available for consultation to answer questions, whereas the Surveyor in, say, all the other large cities is available for consultation, instead of having correspondence dealing, it may be, with rather complicated points?—Yes, you may go and ask the local Surveyor. Someone who had got his Super-tax return, and did not quite understand the view taken, could go to the Surveyor and ask him about it. I always think myself if you go to the Surveyor, and consult him, the Surveyor is in rather a difficult position. I am not talking of routine or matters of form, but this may take place: supposing a point is doubtful, I go to the Surveyor and I say: "I do not think I ought to pay this; my view is that I should not." Is the Surveyor to say: "Well, it is a doubtful point. Our people at Somerset House are doubtful about it, but I must ask you to pay"? The taxpayer would say: "Thank you, I have got quite enough. I am not going to pay if you think it is doubtful." Has the Surveyor any right (he is the officer of the Inland Revenue) to admit that it is a very passing point, and to say: "really our people are not at all sure how the matter stands"? Occasionally I believe a Surveyor has made a statement like that, but I do not quite approve of the idea of going to the Surveyor and saying to him: "ought I to pay or ought I not to pay"? because I think you put the Surveyor in a difficult position. He is bound to do his best for the Inland Revenue, and he does do his best. Very little Revenue is uncollected for want of diligence either on the part of the Surveyor or anybody else; I have the clearest view about that. Very little revenue escapes tax if the Revenue once are aware of it.

15,986. Arising out of that attitude of the Surveyor, in paragraph 10 you suggest that if the Surveyor could refer the taxpayer to some official instructions, or to some rules, that would be an advantage?—Oh, I mean my new Act. I think it should be made as plain as you could make it; I do not say you can make it perfect; I am not suggesting you could ever get an absolutely perfect Income Tax Act—I should be surprised if you could—but I think you could get a much better one.

15,987. My point is this: that you are aware that official instructions are at present issued to Surveyors of Taxes from Somerset House?—A retired Surveyor once showed me one, and therefore I know of it, but if I were to ask for them now, I do not think I should be shown them; I believe they are regarded as confidential.

15,988. They are, yes. We have had suggestions made to the Commission that these confidential instructions should be made available to the taxpayer. Do you agree with that view?—Yes, I see no objection to that. A man either ought to pay or he ought not, and if the instructions given to the Surveyors show that he ought not to pay, or raise a doubt, I do not see why he should not be told. I do not see why the public should not be told exactly what the Surveyors are told.

15,989. Your view would be this, that if the Inland Revenue have interpreted the meaning of a certain section of the Income Tax Act, that interpretation, if sent to the Surveyors generally, should also be made available to the taxpayers?—Yes, I do not see why not.

15,990. And if that were done, it would, to some extent, make clearer what is so obscure, in your view, in the Act as it stands at present?—Of course, I should like so much to simplify this Act, and I am satisfied that you could make it much plainer, much more easy to understand and to deal with.

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There is such a mass of confused verbiage in it. The rules are such a confused tangle. If you set out to make the law clear to people, I do not know that I should care to have the instructions to the Surveyor. The difficulty is that I do not know, and I cannot tell people what the law is, unless I know all that is in Dowell. I could not tell them unless I knew what the Courts had been saying for 60 years. The Income Tax is all a question of Dowell. I could not advise anybody in my room by saying, "the Act says so and so; that was the law in 1806; now make the best of it."

15,991. It would be rather an advantage to you, and to one in my profession, would it not, just to leave it as it is?—The Income Tax Acts have been my best friends, and therefore I ought not to say anything against them, but to my mind there is a great opportunity now for sweeping all this confusion away. It is now or never. Is the Income Tax Act to remain the present confused and obscure thing that it is, or is it to be made clear? You may say, "we shall get more revenue if it is left in such obscurity that nobody except trained officials can know anything about it." If that is the right view, then leave it as it is.

15,992. I suggest to you that to those who are doing the daily work of Income Tax it is not quite so confused as you suggest?—I agree with you entirely, and that is one of the things that has been passing through my mind. The Inland Revenue officials unconsciously underrated the difficulty of dealing with this Act. Why? From the time when they are quite young they begin to study the Income Tax law. They have the great advantage of being steeped in the practice, and therefore they acquire in time a very considerable knowledge of Income Tax law, and when you have a very considerable knowledge of any subject, you are apt to think it is not so difficult after all. The people who know most about the Income Tax law, after the Income Tax officials—I think I must say after them, because they do nothing else and it is their business—are the accountants. The accountants know much more about the Income Tax law than the lawyers do. It would not pay the lawyers to be daily studying Income Tax law. They have got the affairs of their clients to look after; but the accountant, by his long experience, knows exactly what the Surveyor will pass and what he will not pass.

15,993. Not always.

15,994. Chairman. You are paying a very great compliment to your examiner?—I have often said it, and when people come to me in a difficult case, I say, "you may kindly bring me the accountant?" Then the next thing I ask for is the correspondence between the accountant and the Surveyor. I attach the greatest importance—and I should like to take this opportunity of saying it—to what passes between the accountants and the Surveyors with a view to adjusting the difficulties as to figures and accounts; because if you had to try these appeals by going through every item in a profit and loss account on both sides, calling evidence as we do in a Law Court, and going through it in detail and giving the evidence on each item, the thing would never end. The great practical advantage of the accountants and the Surveyors getting together is that they do not differ except on questions of principle. Of course, they often differ, or sometimes they differ, on a question of principle, and then we have to go to the Law Courts to fight it out, but I am enormously assisted in my practice by the custom of the accountant and the Surveyor getting together and settling all the figures subject to any points of principle. That facilitates the hearing of appeals immensely. I go to the Commissioners and say, "there are some complicated figures; do not trouble about them; we can adjust those; you give your decision on the question of principle," and that facilitates things wonderfully. Personally I dislike figures very much, and I am quite unable to deal with them, and I am delighted to put the figures on to more competent shoulders, but it is a very great advantage indeed; in fact, I doubt if you could collect the Income Tax

if the Surveyor and accountant did not get together and settle the figures.

15,995. Mr. McIntock. There is just one point with regard to the evidence given on appeal. Do you know that accountants conduct a great many appeals before the General Commissioners and the Special Commissioners as well?—I do.

15,996. Do you think that is an advantage?—I do; I think that is quite right, because you may have an appeal which depends more upon figures than it does upon some principle of law; and I think it is an advantage that accountants should in such cases be able to conduct an appeal.

15,997. A point was raised by Mr. Kerly with regard to an appeal on the facts. I think your experience is that there is no careful record kept of the facts as stated either by the appellant or the Surveyor at the hearing, as a rule?—That is so.

15,998. If you appear before the Special Commissioners, who take a careful record, you have to wait patiently while they laboriously write it out in long-hand?—Yes.

15,999. In the case of the General Commissioners, I think it is the exception to find that any note whatever of a complete kind is taken?—Yes, and I attach great importance to the suggestion I have made here, that an appellant should have a right to bring a shorthand writer and have a shorthand note taken in all cases of appeal. I think that is most important. Sometimes the Commissioners say, "who is that gentleman?" and the answer is, "he is a shorthand writer"; I have not heard the objection raised quite lately, but some General Commissioners have in the past absolutely declined to allow a shorthand writer to be present.

16,000. It is quite natural, is it not?—However careful a Commissioner may be in taking a note, he cannot get it down as a shorthand writer can. Then look at the time that is occupied.

16,001. I suggest this, and you might let me know your view: that at all hearings of appeals there should be a shorthand writer present. He need not extend his notes, for the reason that if the appellant does not express dissatisfaction at the time he cannot have a stated case?—Certainly. It has often been suggested, as you know, that in all cases in the Law Courts an official shorthand writer should be present and should take a note of the hearing. It has often been suggested, but it has not been done. There you see judges taking a note. I am surprised at the speed with which they do it, but you see the judges taking a note—and a wonderful note they are able to take—of the evidence, but I am quite sure that many of them would like to have a shorthand note taken. I would certainly have an official shorthand note taken.

16,002. I think it would be useful for the Revenue sometimes to use the way the Surveyors handle appeals, and the kind of arguments they put forward?—Well, they are not wanting in zeal; every possible argument is put.

16,003. Do you hold the view that the General Commissioners, as a rule, will not state things in a case which will stultify the decision they have given?—Of course, human nature is human nature, and if you have given a decision you naturally think it is right, and you have a sort of desire to support it. Occasionally we have tremendous struggles over getting these cases stated. Prolonged wrangles take place. Really, the one side wants to put something in, and the other side objects to it. Now there you are; there is no note of what takes place at the time. Recollections differ, especially as you are often dealing with these cases more than a year, and sometimes two years, after the case has been heard.

16,004. Is it not the fact that in stated cases the argument of the appellant, and of the Crown as a rule, is wholly written up long after the case has been heard?—I think it is nearly always so. The Commissioners say to the appellant: "you may state your contentions as you like," and they say to the Crown: "you may state your contentions as you like"; but very often those contentions are absolutely different to the point as put forward at the appeal.

16,005. They are not the contentions on which the Commissioners found certain facts?—They may not be.

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[Continued]

16,006. And that would be obviated, to a very great extent, if there were a proper record of the proceedings?—Yes. I think it would be of immense importance to have a shorthand note of everything. I would have it all over the country. I am sure—at least, I think—that Somerset House would welcome it; because the Chief Inspector, or other official at Somerset House, to whom the appeal would be brought, could go through the shorthand notes, and he would see for himself exactly what had taken place, and then he would say: "that is quite right," or he might say: "I do not think that is right." I think it would be an enormous advantage; I attach the greatest importance to it, because I know the confusion and the difficulties that arise because there is often no record of what has taken place before the Special or the General Commissioners. I ought to say that the Special Commissioners will let you have a shorthand writer. If you say: "may a shorthand writer take a note?" they will say: "yes, on the terms that if we ask for a copy of the notes you will give them to us." That only means that you have to pay for another copy. I do not quite see why you should; and I have suggested, in my paper, that if the Special or General Commissioners desire a copy of the shorthand notes they should pay for it. But that is a small matter.

16,007. Your reason for having stated cases properly stated is that so much of the present law is case law, and does not depend on the Act?—Every case should be properly stated. I do not think anyone can acquire knowledge of Income Tax law unless he knows all these cases—800 pages of Dowell, to tell you what the law is.

16,008. Mr. Armitage-Smith: I observe that you wish to take power to summon the Inland Revenue?—Yes.

16,009. Might that be described as a startling innovation, and may I ask whether you are anxious at the same time to take power generally to summon the Postmaster-General, the Commissioners of Customs and Excise, the Commissioners of Woods and Forests, and possibly even the Treasury?—I will tell you what is in my mind. Over and over again you will find in this Act that in certain circumstances the taxpayer would be entitled to repayment. People ask me to advise as to the means to secure repayment. I say there are two ways of getting repayment. If there is an express direction in the particular section (which there generally is not) that the Commissioners of Inland Revenue shall make repayment, then I say: "you can apply for a Writ of Mandamus to the King's Bench Division of the High Court; then two or three judges will grant you a Rule; that Rule, if you obtain it, will then go into the Crown Paper, and at the end of six or seven months, if it suits the Law Officers to have that case taken, the Rule may come on, and you will contend as to whether the Rule for a Mandamus ought to be absolute." That is expensive, and there is great delay. The only other remedy is by Petition of Right. Well, people ask me: "how are we to get the money if we do not go for a mandamus?" I say: "I am not sure you can get a mandamus here, because the Act does not say that the Commissioners of Inland Revenue shall make repayment; therefore you are thrown back upon the constitutional remedy of a Petition of Right." Then they ask me to explain to them what a Petition of Right is, and that takes me some time, and I am not sure that it is very easy to explain exactly what it is. Then they say: "when will that Petition of Right be heard?" I say: "Oh, well, you know, you have got to get the fiat of the Home Secretary first before you can do anything."

16,010. That is a matter of form, is it not?—Yes; but it is a step to be taken, and you may be a month getting that. Then you have to go to counsel to draft your Petition of Right; then there are pleadings and possibly other things, and then eventually the Petition of Right comes on to be heard. My proposition is nothing very dreadful. A man is entitled to repayment. Well, then, he wants it. I am not assuming that the Commissioners of Inland Revenue will refuse to make it, but they may, or there may be delay over it. Now, if the Commissioners refuse, or if there has been too long delay, let the taxpayer take out a summons before the Revenue Judge, calling upon the Com-

missioners of Inland Revenue to show cause why they should not make the repayment which the Act says the taxpayer is to get. What is the objection to that? You will have the thing decided by a judge of the High Court, only at much less expense, much more speedily, and much more satisfactorily. I do not myself see that it would be derogatory to the dignity of the Commissioners of Inland Revenue to have a summons taken out before the Revenue Judge. In the end, it comes to a fight before the judge; why should you go all this way round about it?

16,011. The question I put to you was: are you prepared to generalize your principle? Are you prepared to give power to the public to adopt this system of summons against all public Departments which have hitherto been held to represent the Crown?—I think I would, but I have only considered it with regard to Income Tax. I think I would. In these days, I should like to sweep away all these mandamuses and Petitions of Right, and all that sort of thing. I do not understand what the objection to it is. The interests of the Revenue are not going to suffer, nor do I see that the dignity of the Board of Inland Revenue would suffer. I really see no objection to it. It has been done with great advantage in the Chancery Division. A question arises about the construction of an agreement, or a question arises about a will, and they have what is called an Originating Summons, and the matter comes before the judge and he disposes of it; and that would be a most useful method in this case also.

16,012. But the fact that you can take out an Originating Summons in Chancery, surely has nothing to do with the Crown?—It is so much simpler; it is only a reform in procedure.

16,013. My only point was that you do not admit that there is any constitutional objection either to your suggestion as it stands, or to your procedure if generalized?—No, I do not admit any objection to my procedure. I think it is simpler; it is certainly less expensive, and it is more speedy. I want to do away with this Petition of Right and mandamuses.

16,014. Mr. Marks: On that paragraph 29, in the reformed procedure which you advocate, in its generalization and extension beyond Income Tax, you see nothing whatever repugnant to the Constitution?—No, I do not.

16,015. Mr. Walker Clerk: You have had some experience of Local Commissioners, and you find them useful and valuable?—In certain cases, certainly.

16,016. And you would not suggest their abolition?—No.

16,017. In reference to shorthand notes in appeal cases, is it not a fact that there are very few cases which are carried beyond the General Commissioners?—I do not know; I would not say that. As I have explained, I have had to deal mostly with important cases; and there is so much money at stake now that if I win, the Crown appeals, and if the Crown wins, I appeal.

16,018. But is it not a fact that the vast majority of appeals which come before the General Commissioners, at any rate, are small matters, which deal not so much with a question of principle, as a question of local usage and custom, and questions of depreciation, wear and tear, and that kind of thing? Perhaps you have had no experience in these small cases?—No, not the small cases. My idea is that the small disputes are generally settled between the Surveyor and the taxpayer.

16,019. There are some which must have the confirmation of the Commissioners?—Yes, but that confirmation is formal, is it not?

16,020. My point really was that if there was a shorthand record taken it would be an unnecessary expense in the vast majority of cases, and should only be taken where a request came from either side?—Yes, I would agree with that, on a request from either side.

16,021. You would honour a request from either side, but you would not make it compulsory unless there was a request from either side?—Yes, I should quite accept that.

16,022. I do not myself remember any appeal from the decision of our Local Commissioners, and it appears to me that the addition of the shorthand

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report in that case would be quite unnecessary?—Yes, I entirely accept that.

16,023. *Sir W. Fowler*: One question with reference to what passed with regard to Super-tax. Would it not be a great convenience to the public, and would there be any detriment, in your opinion, if it was in the option of the Super-tax payer to get his claim settled by the Surveyor of Taxes? He would have the option either to go to the Special Commissioners, or to have his claim settled by the Surveyor of Taxes?—Yes, I do not see any objection to that at all.

16,024. You see no objection to that?—No.

16,025. *Sir E. Nott-Bower*: I see you make some comments, not altogether favourable, on the last Consolidation Act of the Income Tax?—Yes.

16,026. Is not a good deal of the obscurity of language that you have remarked on, due to the necessity of keeping the Act plainly a Consolidation Act?—Yes, but that was exactly it. I gave evidence before the Joint Committee of the House of Lords and the House of Commons which settled this Act, and put it into shape. The question arose as to whether it was expedient to change the language at all. I very strongly expressed the view that, as the Committee was merely settling a Consolidating Act, it would be unwise to attempt to change the language; because, as I said, if you change the language in the Consolidating Act, it is sure to be suggested that you have done so for some reason, and that you have changed the law. Lord Loreburn, who was presiding, said: "yes, we have often had that argument addressed to us"; and he turned to his colleagues, and said: "we must remember that we are not legislating, but consolidating." They were very eminent men who considered this Act, but they did not arrange it as I wanted them to arrange it; I have still got my opinion about that.

16,027. May I say, with regard to the question of the arrangement of the Act, that I most cordially agree with you, but people of more influence than myself thought otherwise?—I am very glad to hear that. Of course the draft on which the Joint Committee acted, had been prepared by Mr. Bertram Cox, the very experienced solicitor of Inland Revenue, and he had got a different arrangement, which was the same arrangement as I should have made. He did not put all the important part of the Act in this Schedule at the end, where it is printed in small type. He put in the forefront of the Act, the Schedules and the Rules under them. Then a long contest arose because the Parliamentary draftsman thought that you could have a schedule only in a schedule, and it was impossible to persuade him to the contrary. Then I was asked whether, if the schedules were put in a schedule, I could still work the Act. I said: "well, it does not much matter to me whether I look at page 31 of Dowell, or page 731." I would sooner look at page 31—there is less to turn over, for one thing—and I have got an absolutely clear opinion that the best thing for everybody is to put in the beginning of the Act what income you are taxing, and how you are going to calculate what has to be paid. And really that is all the taxpayer wants to know, and it is the main thing the Revenue wants to know. It must be so. You are out to collect tax.

16,028. If that had been done, and supposing that the real substance of the Act had been put into the first 30 or 40 pages, most people would never have had to read the Income Tax Act beyond that?—No, they would not; but there is such confusion in the Act—such wonderful confusion—which arises largely from the fact that it goes back to 1906 or earlier. The idea in those days was to get an enormously long section, perhaps two or three pages, all in one sentence, with provisos and limitations, and then further provisos, but all in one sentence always. The draftsman put in every word he could possibly think of, and then when he had got later on to deal with the same subject, he often changed half the words and put in other words. Now just let me take this Act and give you an example of it. If you look at section 132 of the Act of 1918, you find what is very important; you find "provisions against fraudulent practices." Now when you read that, you would think that that collected together all the information that anybody wanted with regard to fraudulent practices; because it is headed, in my copy:

"Provisions against fraudulent practices"; but when you turn over on to the following page—the language of it is almost comic—you find: "Where a person . . . has (a) fraudulently changed his place of residence or fraudulently converted, or fraudulently released, assigned, or conveyed any of his property; or (b) made and delivered any statement or schedule which is false or fraudulent; or (c) fraudulently converted any of his property, which was chargeable, by altering any security relating thereto or by fraudulently rendering it temporarily unproductive in order not to be charged for the same or any part thereof; or (d) been guilty of any falsehood, wilful neglect"—which is not fraud at all; you may have both, but wilful neglect is not fraud—"fraud, covin, art or contrivance whatsoever." Now, what is being guilty of any art? I am sure I do not know, but you are liable to trouble duty if you have been guilty of any art. But it does not stop there. I do not want to make fun of it, but really this is quite a fair specimen of the condition of this Act. There are four other provisions in the Act dealing with fraud—although this is supposed to be the "Provision against fraudulent practices." Now we go on, and when you get a long way further on, you discover section 237, a very important section: "If any person, for the purpose of obtaining any allowance, reduction, rebate, or repayment in respect of tax, either for himself or for any other person, or in any return made with reference to tax, knowingly makes any false statement or false representation, he shall be liable, on summary conviction, to imprisonment for a term not exceeding six months with hard labour." I will not occupy the time of the Commission, but in addition to those two sections there are three other provisions scattered about somewhere, all exposing a man to various penalties if he makes a fraudulent claim or makes a fraudulent return. There is no order, there is no sequence, there is no collection of matters; it is all scattered about, and you have to find it if you can. It is not easy. I do not know my way about this Act as I used to know my way about Dowell, but I suppose in time I shall. But this is a very important provision. Now all you really want is two sections. First of all you want a section that if a man has been guilty of making any fraudulent return, or giving fraudulent information or making a fraudulent claim he shall be liable to imprisonment. And I would not limit it to six months, because the real way to prevent fraud, and I think the only way, is that fraud should be punished by terms of imprisonment; that is the way to stop it. It will never be stopped in any other way; the temptation is so great now. People must be made to understand that if they defraud the Revenue they are committing a mean and despicable offence against every one of their fellow taxpayers; and, to my mind, that should be understood, and I think this Commission—I only venture to suggest it—might well recommend that in cases of fraud (of course I mean deliberate fraud, like keeping two sets of books, and things of that kind), if a man is guilty of that, he should be sent to prison, and he should be made to feel the ignominy and disgrace attaching to the crime he has committed. That is my view about it, and that is the only way to stop it among certain people. I do not say that fraud is very widely spread; but there always has been some, and there always will be, and the temptation has never been anything like so great as it is now. Then you want a section imposing treble duty in certain cases.

16,029. My point was that a good deal, at any rate, of the obscurity of the language of the Act was rendered necessary really by the necessity of keeping within the limits of a Consolidating Act?—Yes.

16,030. If we had not had a Consolidation Act, if it had not been pure consolidation, we should probably have got no change at all?—Absolutely; and here you have got the old confused language of 1906, and no order and no arrangement, as Lord Wrenbury points out in the case of *Armstrong*, where Lord Wrenbury says what I have set out in paragraph 3 of my statement. Lord Wrenbury, in the House of Lords, had to look exhaustively into the Income Tax Acts. When a man with the clear logical mind of Lord Wrenbury had to study the Act, and found out how confused it was, then he delivered himself of those words.

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16,031. An Act, such as you have in mind, altering so much of the old language, would perhaps hardly pass muster as a Consolidation Act?—No; you must have a new Act.

16,032. In the meantime, until we can get a new Act and an improved Act, it is just as well for most people, is it not, although I understand not for you, that we should have a Consolidation Act which replaces scores of old Acts scattered all over the Statute Book?—Yes, I do not think the Joint Committee could have changed the wording of the Act; in fact, I asked them not to do so, in the interests of everyone concerned. I suggested that the whole thing would be thrown into confusion if you were to make an attempt to alter the Act. You must do one thing or the other; either keep the old Act or have an entirely new Act. I am most strongly in favour of having a new Act; I am satisfied that it can be done if you put the right men on to do it; but you must have men who know the pitfalls. It is of no use anyone taking a pen and writing down what he thinks is a satisfactory Income Tax section unless he has got in his mind what is likely to occur. You can get the right men; the Inland Revenue people know all the pitfalls and they know all the difficulties and the doubts, just as they come before me. I know them; I do not say I could avoid them all; but if you get the right men I am quite satisfied you can get a proper Act and simplify the law. I want to have the whole thing plain so that any man of ordinary intelligence can look at the Act himself or can look at a pamphlet concerning it and understand it. That would be a splendid thing. I do not think we hear enough from the Commissioners of Inland Revenue. There is a thing on which the public are always in difficulty, and that is the question of deduction when you make a payment and you have to deduct tax. There is enormous confusion as to what rate you are to deduct. The Commissioners do publish, I think once a year, a statement as to what rates you are to deduct at. That is very useful, but it appears in a corner of "The Times," and you may miss it. Sometimes I have missed it, and then I have had to hunt for it afterwards. But I think the more you tell the public the better for the Revenue and the better for the public and the plainer you make it for them. That is my view. I should like to see it done. Then there is another small matter that I might mention, which is this. I should like the Commissioners of Inland Revenue to be called the Board of Inland Revenue. There is such confusion between the three sets of Commissioners. There are Commissioners of Inland Revenue, who are very often called the Board, there are the Special Commissioners, and the General Commissioners, and really the Commission would be carried at the way they are all mixed up together. Now I should have thought that there was no objection to calling the Commissioners of Inland Revenue the Board of Inland Revenue. You have the Board of Trade; it is a dignified title enough, and you have the Board of Agriculture; you understand that. Then people would know what they are talking about. But constantly I have to explain to people the difference between the Commissioners of Inland Revenue, the Special Commissioners, and the General Commissioners. There is extraordinary confusion—more than you would believe possible—about it. I think that in some Act the Commissioners of Inland Revenue are described as the Board of Inland Revenue. I tried to find it; I rather think there is such an Act but I could not find it yesterday. I think that would tend to simplify things; because in many of these sections sometimes you have to prove a thing to the satisfaction of the Special Commissioners, sometimes to the satisfaction of the General Commissioners, and sometimes to the satisfaction of the Commissioners of Inland Revenue. Many people will read the section and they will not note the difference. And sometimes the thing is split in two; half a section has to be dealt with by the Commissioners of Inland Revenue and the other half has to be dealt with either by the Special Commissioners or the General Commissioners. The whole thing is a tangle from first to last; and I think it

would tend to simplify it, unless there is some objection to it, which does not occur to me. Call them the Board of Inland Revenue, and then people would know who they are and where to find them and what they are, and you would distinguish them from the other Commissioners; and of course there is all the difference in the world in the different positions. I do not see why it should not be done.

16,033. Mr. Pretymon: I only want to ask you one question—you have partly dealt with it in what you have just said. In your paragraph 30 on the right of repayment, you refer to the taxpayer being fettered by the condition that he must prove certain matters to the satisfaction of the General or Special Commissioners, and then afterwards possibly to the satisfaction of the Commissioners of Inland Revenue?—Yes.

16,034. Do you not regard the General and Special Commissioners as to some extent independent bodies of a judicial character?—Yes, I do.

16,035. Is not that rather a different thing? If you have to prove something to the satisfaction of the General or Special Commissioners, it is rather in the nature of proving it to a Court, whereas if you have to prove it to the satisfaction of the Board of Inland Revenue, if I may use your phrase in anticipation, you have to satisfy your opponent?—Yes.

16,036. Is there not a difference?—Certainly. My objection to being required to prove things to the satisfaction of the Special Commissioners or the satisfaction of the General Commissioners is that if they go wrong I have no appeal; because if a thing has to be proved to their satisfaction, I cannot go to the King's Bench Division and to the Revenue Judge and say they ought to have been satisfied. He would say: "well, you may satisfy me but I am not the Commissioners. You ought to have satisfied them." Therefore there is no appeal in those cases.

16,037. But is there not a very considerable difference between the question whether there is any appeal and whether in principle the thing is right or wrong? In the case case it is merely a question of how far it should be carried. You have got a judicial decision. Is it not most important that the taxpayer should be able to get a judicial decision?—Yes.

16,038. And he does get in the one case a judicial decision and in the other case he does not; and in the one case it is merely a question of whether that judicial decision should be final or whether he should have a final appeal to another court. In the other case there is no judicial decision at all. Is not that the position?—I should not like to be thought to say that where a matter is left to the Commissioners of Inland Revenue they do not carefully consider it.

16,039. I am sure they do?—I have no doubt they do; but I do see an objection from the taxpayer's point of view to being concluded by what the people on the other side of the table think. You are fighting the Commissioners of Inland Revenue in these cases, and I do not think that the taxpayer should be bound by their view. But he is bound by their view.

16,040. You would give an appeal to the High Court?—Yes, I would.

16,041. In both cases?—In both cases. I would strike out these words "to the satisfaction of," because that takes away the right of appeal and it may involve the most important consequences and it may be on a pure point of law. If you give a man a right to relief, give it to him; do not fetter it by making him prove it to the satisfaction of somebody. Equally important questions arise on this right to what is called relief as arise on assessments; and why in the one case the taxpayer should be deprived of his appeal and have it in the other, I am sure I do not know. All these things have been put in piecemeal; one year one section has been put in, and then another year another section has been put in, and it has become the custom to introduce those words, qualifying the relief. You have to prove it to the satisfaction of somebody.

16,042. Would you not say that the effect of those words is rather to make the repayment an act of grace than a right?—That is exactly it, because

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these are what are called the relief sections. I would do away with all that.

16,043. It is in principle that you object to this. You think that right of repayment should be a right?—I do.

16,044. And that the repayment should not be an act of grace from the Crown?—Certainly.

16,045. I suppose behind that is the principle that Parliament has only granted the Crown the tax subject to certain repayments, and that therefore the right of repayment is as much a right of the subject as the right of levying the tax is a right of the Crown?—Yes.

16,046. Is that correct?—That is so. I say if you give a man a right to relief, give it to him, and let him have his appeal upon it; but do not give him a qualified right to relief. Do not fetter it by saying: "you must satisfy the Commissioners." The Commissioners may be wrong; they are often right, but they may be wrong, and it may involve very large sums of money. Why the right to repayment should be fettered in this way I am wholly unable to see. There is a very important section, section 36 of this Act, which gives a man a right to repayment in respect of interest paid on an advance from a bank. There he has got to prove the facts to the satisfaction of the Special Commissioners. If he does he is entitled to repayment of tax on the amount of the interest. I do not see why he should not have his right to appeal. In the next sub-section he has got to satisfy the Commissioners of Inland Revenue of something. In the next sub-section in the very same section you find it. It comes to this. If a man borrows money from a banker he has got to satisfy the Special Commissioners; if he borrows money from a stockbroker or a discount house he has got to satisfy the Commissioners of Inland Revenue. Why is that? Nobody on earth can tell, except that one sub-section was drawn one year and the other sub-section was drawn another year, and the draughtsman did not take the trouble to refer to the previous section about the bank, but having put in the words "to the satisfaction of the Special Commissioners" in the earlier section, the next time it is "to the satisfaction of the Commissioners of Inland Revenue." I see no ground for it; it only introduces confusion.

16,047. I think we quite understand that, and there is great force in what you say; but that brings you, does it not, to the further and almost larger constitutional question, that, if there is to be an appeal, it is an appeal against the Crown and that there ought to be very different provisions from what there are now?—Yes.

16,048. That, on the general question of any appeal against the Crown, there is certain very cumbersome

difficult procedure which is supposed to guard the dignity of the Crown against any offence; but do you consider that now the Crown no longer acts as the Crown, but there are a large number of public departments, who have very close and intimate relations with the daily lives of the subjects, and with whom a subject much more often has a difference of opinion than he has with another subject?—Yes.

16,049. Therefore, under those circumstances the right of litigation against a public department ought not to be treated on the old principle of litigation against the Crown? Is that your view?—Certainly. I quite agree. My view is this. If you give a man a right to relief you should not fetter it or qualify it and take away his appeal with regard to that right. Give him the right to relief and then if he does not prove it in one place let him have the opportunity of proving it in another. But the Act cuts him short if he does not satisfy the Commissioners; that is the point.

16,050. Mr. Marks: Will you allow me to ask you whether your experience would enable you to say whether there would or would not be any advantage in making the fiscal year identical with the calendar year?—I should prefer the opinion of the Inland Revenue officials on that really. I do not think I am qualified to express an opinion on that.

16,051. In dealing with the cases that have come before you, you have not found any particular difficulty as to that point?—I have got so used to the 5th April that I do not find it difficult.

16,052. I was thinking of it more from the point of view of the public than from the point of view of an expert like yourself, or of the Inland Revenue people?—But I am only supposed to be an expert on what this Act means, you see. On the practical part of it I should far prefer the opinion of the Inland Revenue to my own.

16,053. Mr. Kerly: There are various questions which come up before the General Commissioners, the Special Commissioners and the Commissioners of Inland Revenue. Do you not think it right that wherever a decision of any of these bodies involves a question of law there should be an appeal?—I do, most decidedly.

16,054. Any question?—Most decidedly, I do.

16,055. And that might be met by a general provision in the Act?—Yes.

16,056. Chairman: That concludes our examination. You have been a very valuable witness for us and have given us a great deal of information; we are very much obliged to you?—I am very much obliged to the Commission. It really has been a pleasure to me to come here.

Mr. MAX MUSPRATT, Mr. THOMAS BIGGART, and British Industries,

Mr. S. E. CASH, on behalf of the Federation of called and examined.

The witnesses handed in the following statements as their evidence-in-chief:—

Evidence-in-chief of Mr. MAX MUSPRATT and Mr. THOMAS BIGGART.

Introduction.

16,057. (1) The Federation of British Industries, representing directly and through its affiliated associations, approximately 18,000 manufacturers, has nominated the following representatives to give evidence on its behalf on the subjects of depreciation, obsolescence and wasting assets:—

Mr. MAX MUSPRATT, Chairman of the United Alkali Company, Ltd., Member of the Grand Council of the F.B.I., Member of the Executive Committee of the F.B.I., Member of the Committee of Associations of Controlled Establishments.

Mr. THOMAS BIGGART, Solicitor, of the firm of Messrs. Biggart, Lumsden & Co., Glasgow, Member of the Grand Council of the F.B.I., Member of the Executive Committee of the F.B.I., Member of the Committee of Associations of Controlled Establishments.

Mr. Biggart is also appearing on behalf of the Shipbuilding Employers' Federation in giving this evidence.

16,058. (2) Manufacturers realize the necessity, in consequence of the war, of raising exceptional revenue for the country's needs. They further realize that an equitable charge upon income is a fair means of providing necessary revenue. They foresee that a high rate of Income Tax must as a consequence be imposed upon industry, and that the incidence of such tax, compared with the pre-war rate, has reached a point where it will may be a determining factor in the prosperity of many industries.

16,059. (3) To the State, however, falls the dual obligation of ensuring equality in the treatment of taxpayers, and of reducing the burden of taxation on the industries of the country to a minimum.

Depreciation.

16,060. (4) An essential feature of successful manufacture is the maintenance of capital intact. Adequate allowances should therefore be permitted for the annual reduction in value of all property which contributes to the earning of the profits assessable for Income Tax.

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MR. MAX MURPHY, MR. THOMAS BIGGART AND MR. S. E. CASH.

[Continued.]

16,061. (5) The effective life of such property is strictly limited, and more particularly is this so in the case of plant and machinery. Under the Customs and Inland Revenue Act, 1878, sec. 12, the Commissioners are ordered to allow "such deduction as they think just and reasonable" for plant and machinery. The power of making adequate allowances therefore exists, but the Commissioners in practice do not give a sufficiently wide consideration to the factors involved in each case, and are too ready to adopt a departmental view of the rate of allowance. Insufficient differentiation is made between the varying types of machinery and plant, and different practices exist in different districts. It is felt that neither Commissioners of Inland Revenue nor the Surveyors of Taxes possess sufficient technical knowledge to pronounce upon this question.

16,062. (6) The allowance for depreciation should be made at a fixed annual rate to coincide with the effective life, less an estimated scrap value, and he made, not on the written-down value as at present, but on the prime cost, otherwise the asset is never completely written off.

16,063. (7) Buildings in all industries have a terminable life; in certain cases the same as, or but little more than, that of the plant and machinery. The provision under the Finance Act, 1918, sec. 24 (4) of one-sixth of the annual value, falls far short of an equitable allowance to meet depreciation.

For example, assume the case of a building where the gross assessment is £600, and the building is worth, say, £12,000. Schedule A assessment would be £500, and the allowance would be £100, which on a building worth £12,000 is 0.83 per cent. Manufacturers feel strongly that 0.83 per cent. depreciation on buildings is not sufficient in any case.

16,064. (8) In connection with buildings which carry plant and machinery, and fundamental structures, allowance should be made for depreciation of foundations. These are costly to construct, and of no value when discarded.

16,065. (9) Adequate depreciation should be allowed for fixtures, the realisable value of which is small, and for office furniture, and the cost of removals.

16,066. (10) No less a charge against the profits of a business is the gradual amortisation of capital outlay in the acquisition of leasehold premises, and the expenditure by lessees in adapting such premises to their requirements. Outlays of this nature should be permitted as a deduction spread over the term of the lease. Terminable concessions in countries outside the United Kingdom should be granted an allowance for amortisation before the profits are assessed.

16,067. (11) In the matter of patents enterprise is frequently retarded by foreign ownership. Progressive industrial firms, who would spend large sums in the acquisition of patents, are not encouraged to devote capital to this direction. The lives of patents are definitely terminable and the absence of allowance for depreciation of the cost of purchasing or taking out letters patent acts detrimentally to the development of inventions and the fostering of new industries. Deductions should be permitted for such expenditure, to provide for writing off the cost concurrently with the expiry of the patent.

16,068. (12) The present position in regard to depreciation is open to the following objections:—

- it gives rise to an inequality between manufacturers of equal capital and earning capacity according to the amount of plant employed in the business;
- it gives rise to inequality between manufacturers in different districts;
- it results in the payment of Income Tax on sums in excess of the true profits earned;
- it causes the charge for obsolescence to be unduly heavy;
- it gives no encouragement to manufacturers to replace machinery by new types.

Insufficient depreciation becomes therefore a distinct detriment to the increase of production.

Obsolescence.

16,069. (13) Industry requires a much increased installation of modern labour-saving machinery.

Machines may have to be scrapped, not for the purpose of being replaced by similar machines, but in the march of progress to be replaced by machines of an entirely different type. Whether or not the particular plant or machinery is replaced, an obsolescence allowance should be granted. Adequate allowances for obsolescence are essential for the development so urgent and so necessary in industry.

16,070. (14) An obsolescence allowance once agreed should be capable of being carried forward at the debit of a firm's profit and loss account until it is expunged in a similar manner to that adopted in the case of depreciation.

Renewal system for depreciation and obsolescence.

16,071. (15) The Federation does not propose in the suggestions given above that the renewal system as set out in the White Paper, 31st July, 1918, Cd. 9134, page 4, should be superseded. [See Enclosure B to Appendix No. 7 (i), paragraph (8).]

Wasting assets.

16,072. (16) Manufacturers acquiring mines and similar undertakings for the purposes of their business are of necessity compelled to spend large sums in the acquisition of such properties and in their development, such as sinking and driving.

16,073. (17) Deductions on an equitable basis should be allowed for the exhaustion of all such wasting assets as a charge against the profits of the business.

Fair publicity wanted.

16,074. (18) In conclusion it is essential and only fair and reasonable that there should be publicity in the departmental methods of making allowances for Income Tax in respect of depreciation, obsolescence, and wasting assets such as will put every taxpayer in the same possession of all information, pertaining to the system under which he is taxed. It is an indubitable right of the taxpayer to know how he is being taxed.

[This concludes the evidence-in-chief of Mr. Murphy and Mr. Biggart.]

Evidence-in-chief of Mr. S. E. CASH.

Introductory.

16,075. (1) The Federation of British Industries, representing, directly and through its affiliated associations, approximately 15,000 firms of manufacturers, has, by a special committee appointed for the purpose, elicited the views of members of the Federation, and as a result the statement which follows has been compiled. While the Federation realises that a large yield is necessary from Income Tax, it feels that all of the suggestions given below, which may be held to affect that yield, can be justified on the grounds of fairness and expediency.

16,076. (2) The Federation has nominated the following representative to give evidence on its behalf on the subjects which follow:—Mr. S. E. Cash, Solicitor, of the firm of Messrs. Vinard, Oakham, Crowder & Cash, 51, Lincoln's Inn Fields, London, W.C.2, Solicitors to the Federation of British Industries.

Officials.

16,077. (3) There seems to be a general feeling amongst the manufacturers of the country that the present method of assessment for Income Tax might be considerably simplified. The generally approved suggestion is that the Assessor should be eliminated, and that the preliminary work at present carried out by him should be concentrated in the hands of the Surveyor of Taxes. The assessment should then be made by the Surveyor of Taxes, in place of the Additional Commissioners, who would be dispensed with, and the General Commissioners, instead of being an appeal tribunal, should be more in the position of a Board of Referees to whom any dispute between the Surveyor and the taxpayer would be submitted.

Period of assessment.

16,078. (4) The existing methods of having the assessments on different periods, in some cases on the current year, in some cases on the preceding year,

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in some cases on three, and in some cases on five years, should, it is suggested, be done away with, and a uniform practice in all cases introduced, whereby the assessment should be made on the figures of the preceding year. All income assessable under Schedules D and E, which is not taxable by deduction at the source, should be assessed upon the preceding year's basis. It would, of course, be necessary, if this change were made, in order to avoid injustice either to the Revenue or to the taxpayer. Where loss is incurred in any particular year, provision would also have to be made whereby this loss could be carried forward against subsequent profits. A further concession should be allowed in the early and closing years of a business, and it is suggested that during the first three years of a new concern and in the last three years prior to winding up of a concern, the taxpayer should be permitted to pay on the actual figures rather than on those of the preceding year.

Time limit for appeals.

16,079. (5) Under the existing statute 21 days is given to the taxpayer within which to appeal against his assessment, but in practice this period is very largely extended, and where a specific error can be proved to have affected the assessment, the taxpayer is sometimes allowed up to a year after the end of the year affected. On the other hand, the Surveyor of Taxes is permitted to re-open the question of taxation for a period of three years from the end of the period of assessment. It is generally felt that this inequality is unreasonable. This also applies where a legal decision has been given which settles a principle over-riding the method on which other assessments have been made. In other words, if a decision on a question of principle is given in favour of the Crown, the Surveyor of Taxes can re-open assessments, whereas if a decision is given in favour of the taxpayer, he is not in a position to have the matter re-opened. It is felt generally, that in respect of all these points, the period given to the Surveyor and the taxpayer should be co-extensive. This appears more important at the present time than in the past, having regard to the high rate of taxation, and to the fact that the yield of the tax must to some extent depend upon the mental attitude of the taxpayer.

Deductions from profits.

16,080. (6) A very strong feeling exists that the Income Tax, being a tax on income, should be paid on the real net income, as nearly as may be, rather than as happens in many cases, at present, on what is really to some extent a fictitious profit. There is, for example, a number of matters which, in the opinion of manufacturers, ought to be properly allowed as deductions from profits before arriving at the figure of assessment. At the present time the test appears to be how far the particular expense is resultant in profit connected with buying and selling, or the similar ultimate objects of trading, whereas it is suggested the true test should be whether the amount is spent in any operation belonging to the carrying on of the business or the increase of its efficiency. The expense would only be allowed in so far as no specific capital value remained. Amongst matters which it is thought should be allowed as a deduction for Income Tax purposes, the following illustrate the principle advocated by the Federation:—

- (a) subscriptions to trade organisations, irrespective of the trade associations' obligation to the tax;
- (b) research work is well known to be of the utmost importance, and in the event of a manufacturer conducting such work as a part of his own organisation, the expense is permitted for Income Tax purposes. On the other hand, if he contributes, in company with other manufacturers, for purposes of joint research, such expenditure is not permitted unless it is a subscription to a Government Research Association.

This case has forcibly arisen recently in connection with the Research Department of the Sheffield University;

- (c) sums spent in legal expenses in connection with the trading of a concern, where no specific capital value results from the expenditure;
- (d) removal expenses, whether incurred compulsorily or otherwise;
- (e) the Commissioners are, of course, aware of the case of *Strong & Co., Ltd. v. Woodfield*, where it was decided that the brewery company were not at liberty to deduct for Income Tax purposes, damages to an inmate of one of their inns. It is felt that an expenditure of this nature, which must have been in reference to the trading of the concern, should properly be allowed, and that the decision should be over-ruled by statute.

Quasi capital expenditure.

16,081. (7) A further question on somewhat different lines arises with regard to what is normally capital expenditure. Capital expenditure should of course only be incurred where there is a reasonable expectation of a proper return being obtained by the manufacturers making the expenditure, but at certain times cases may arise where, for other reasons, such expenditure may, in the interests of the State, be desirable, although from an economic point of view it could not be justified. The extreme case which is in the minds of all persons at the present time is the housing problem. As is well known, under the existing housing schemes, the expenditure by a local authority promoting the scheme, is limited to a penny rate, and the difference between the economic value of the houses erected and the interest and sinking fund upon the amount expended over and above that penny rate is borne by the Government, and therefore by the general body of taxpayers. It is believed that if a firm were allowed for taxation purposes to write off out of its profits the difference between the actual cost of working-class houses and the economic value based on the rental which could be obtained for the houses when erected, a number of manufacturers would be prepared to erect houses and thus satisfy the need which must otherwise be met by a housing scheme of the local authority.

Agent for foreign trader.

16,082. (8) At the present time there is no power given to the Surveyor of Taxes to enquire whether a British resident is acting as agent for a foreign trader, and it is only by accident that the Surveyor becomes aware of the position. It is suggested that the powers of the Surveyor should be increased so that he may require any resident to state whether he acts as agent for a foreign concern, and if so, to give particulars.

Information to taxpayers.

16,083. (9) It has been a matter of comment in a number of quarters that full information as to concessions to which the taxpayer is entitled is not brought to his knowledge, and that therefore assessments are frequently wrongly issued. It is difficult to see exactly how this can be prevented, but the suggestion is made that it should be the duty of the Surveyor to call the taxpayer's attention to the fact of his being entitled to a concession in all cases where it is apparent that such concession has not been claimed, and it is felt that if this were regularly pressed upon Surveyors, the practice would be improved.

Double Income Tax.

16,084. (10) A matter which appears to be very material to manufacturers, and it is suggested to all classes, is that of Double Income Tax, and this would seem equally important both as regards the Crown Colonies, Dependencies, and self-governing Dominions, and foreign countries. The view of the Federation is that the matter ought to be regarded from a much wider aspect than that of a mere collection of taxation, and that the general economic situation, and the loss to this country owing to the

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high rate of taxation aggravated by foreign taxation, should be recognised as points to be dealt with on very broad lines. In considering the matter it is important to take into account the financial position of this country in relation to other countries, as having been for so long the financial centre of the world, and the risk that may be involved, owing to higher taxation, of this financial centre shifting elsewhere. It is also clearly desirable that for the benefit of British enterprise as much foreign capital as possible should be attracted from the foreign investor into British concerns, and the Federation wishes to impress, therefore, the view that although from a purely Income Tax question the concessions suggested may be expensive, yet from the broader standpoint such concessions will not only be justified, but are extraordinarily desirable. In making these suggestions the point should, of course, not be lost sight of that they may be only temporarily necessary, having regard to the fact that the Government might be able to make a bargain with the self-governing Dominions through the Imperial Conference, and with foreign countries either through the League of Nations or through diplomatic channels, whereby some relief might be given from the colonial and foreign taxation which would, of course, automatically benefit the British Exchequer. It is not suggested that any distinction should be made between the Overseas Dominions and foreign countries in the concessions to be granted. The three propositions, on broad lines are as follows:—

(1) In the case of

- (a) capital invested abroad in a concern controlled in the United Kingdom;
- (b) trade activities abroad of British residents.

that the British Income Tax be reduced by the amount of the tax paid in the foreign country.

(2) In the case of colonial and foreign capital invested in a concern controlled in the United Kingdom

that the British Income Tax deducted at the source be returned to the extent of the tax paid in the Colony or foreign country.

(3) In the case of

- (a) colonial and foreign capital invested in a concern not controlled in the United Kingdom;
- (b) colonial or foreign trade activities in this country,

that no remission of British Income Tax be granted.

Super-tax on bonus shares.

16,085. (11) A question which has been very largely discussed recently, and is at the moment *sub judice*, is the question of shares issued as fully paid to shareholders in a company out of reserves (such reserves being capitalised in the company's hands), and distributed to the individual shareholders. Following the decision in *Bouch v. Sproule* as between a tenant for life and a remainder-man, such shares have been regarded as capital, but the Inland Revenue has claimed that Super-tax is payable by shareholders on the distribution of such shares. It is the view of the Federation that such a course is not strictly correct, having regard to the fact that the intrinsic value of the entire share capital is unaffected by such distribution, the proportionate part of each shareholder being exactly the same in the re-arranged capital as it was in the first instance. To make such shares subject to Super-tax would therefore in effect be a tax upon capital.

[This concludes the evidence-in-chief of Mr. Cash.]

16,086. Chairman: Mr. Muspratt, we have the paper that you have put before us. I think we will take the papers separately. You are first, then Mr. Cash comes on later, does he not?—(Mr. Muspratt): That is so.

16,087. Mr. Cash, did you not come before us in another matter?—(Mr. Cash): No, my Lord, that was my brother, Mr. William Cash.

16,088. We have had a good deal of evidence with regard to depreciation and wasting assets, and it is very interesting to hear what you have to say about

it. You will now be examined by the Commissioners?—(Mr. Muspratt): Might I put in a paper that I have prepared with regard to wasting assets? This is a statement which I think will interest the Commissioners. It is a specific instance.

16,089. Is it prepared by the Federation of British Industries?—No, by the United Alkali Company. It is a specific instance, showing wasting assets. [See Appendix No. 25.]

16,090. Mr. Pretymon: We have had a great deal of evidence before us about wasting assets and depreciation; the subject is not at all new to us. Of course, it is a very difficult one, and naturally, I suppose, you realise that it becomes more burdensome with the increased rate of the tax?—Very much so.

16,091. Is it not possible to regard it as to some extent part of the rate of the tax? It covers such an enormous area. Would you not say that the question of depreciation really covers almost the whole area of the Income Tax? What particular taxed property would you say is entirely free from the element of depreciation?—Of merchants?

16,092. No—even a professional salary or anything. Would you say anything was free from the element of depreciation?—I would not say absolutely free, though very much freer than industry. Industry is the particular one that is hit hardest.

16,093. Would you not say that the human machine wears out? And yet the professional man is taxed on his whole income without any allowance at all for depreciation, knowing that he will have perhaps 30 years of effective life, subject to temporary stoppages for repairs, like a machine? Would you not admit that the element of depreciation there is a large one?—That is an interesting point; but exactly the same would apply to the people who are drawing salaries from industry.

16,094. Certainly?—I think it is driving a theoretical analogy to an absolutely impossible extreme. The salaries would vanish if the industry vanished.

16,095. You must remember the object of my question. The purport of my question merely was, does not this element really enter into the whole area of the tax?—If you take the wearing of the human machine, yes. That is an excellent theoretical point, but I think it is driving the thing a great deal too far.

16,096. I believe if you will think it over you will hardly say it is entirely theoretical. It may not be put forward under the term "depreciation"; I do not think it is, but is there not a grievance felt by the professional man or by the business man whose business depends entirely upon his own vitality, that he should pay the same tax, except on a very low standard of income, as the man who is drawing a similar income from investments which do not perish with his own personal capacity?—But he does not pay the same tax unless his income is over £2,000 a year.

16,097. When we are dealing with large businesses such as you are dealing with here I do not think it is an unfair comparison. When you are asking for depreciation to be dealt with in such a business, for instance, as your United Alkali Company, I do not think it is unfair to compare you with professional and business men with incomes of over £2,000 a year?—I am not comparing business men and professional men; I am talking of business as such upon which both the business man and the professional man have to subsist. If we had no industry there would not be much for the professional man.

16,098. In the case of incomes below £2,000 a year an allowance is made for depreciation, in the form of a lower rate of tax upon earned income which may be regarded in another sense as a depreciation allowance?—Yes.

16,099. Above £2,000 there is no allowance at all?—No.

16,100. In the case of businesses there is an allowance also made for depreciation, is there not, which covers the whole ground; I mean for machinery?—The allowance upon the human being for depreciation is half his income. I think that is correct, under £2,000 a year the individual only pays on half the income.

16,101. Oh, no.—Then I have not followed the figures.

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16,102. Nothing in the least approaching to it. His rate is only 9d. in the £ lower than the rate on unearned income?—On the £2,000 a year man?

16,103. Yes. At the lowest stage it is 2s. 3d. as against 3s., that is a difference of 8d. And above £2,000 and up to £2,600 it is 3s. 3d. as against 6s., again a difference of 8d. That is comparatively small?—The manufacturer, for absolutely proved depreciation, gets nothing like that in most cases.

16,104. Take one item that you mention here, depreciation on his buildings?—What do you suggest there under Schedule A upon his buildings? What remedy do you suggest? You say that the allowance of one-sixth is too little?—Certainly—one-sixth of the annual value.

16,105. What do you suggest?—It will vary very much according to the industry, but it ought to follow the conditions of the industry. For instance, take my own industry, the chemical industry. We are allowed depreciation upon the plant; but the building has no longer life than the plant—including the foundations. We expect that we shall get something between 10 and 15 per cent. depreciation upon chemical plant; certain firms get it already; and it ought to be something approximating to that on the building in which that plant is contained.

16,106. Are you aware of the relief that has already been given arising out of section 69 of the Act of 1909-10, and carried on and extended by the Act of this year?—to agricultural buildings of all kinds and also all houses up to the value of £70 a year in London and £53 a year in other places. Are you aware of that?—But it is only the one-sixth of the annual value.

16,107. No, it is the total expenditure. What I want to call your attention to is that there are two possible lines. Your reply rather indicates that your mind is running on the line of an attempt to have a schedule of a fixed depreciation, varying with every industry; that one industry would be regarded as entitled to a 5 per cent. depreciation, another to 10 per cent., another to 15 per cent., another to 20 per cent., and so on?—Yes.

16,108. That is one line?—Yes.

16,109. Do you not think that would be extraordinarily difficult and would give rise to a good deal of feeling and difficulty and examination and trouble, and that there is another line which is already being adopted; you do not seem to be aware of it?—I am afraid I do not know it.

16,110. Which has been adopted by Parliament ever since 1910; which started in 1910 with agricultural property and which has been gradually extended as it is found to work properly, and which takes a totally different line; which says that the fixed allowance will be one-sixth, but where it may be shown that more than the one-sixth has been actually spent properly upon repairs and maintenance the full amount that has been actually spent shall be allowed. Is that a line which will satisfy you?—I see a great difficulty immediately. I am contemplating a plant which has a life of ten years and the building has not a longer life than ten years. I cannot imagine under your formula that anything approaching a satisfactory allowance could be obtained.

16,111. Mr. Kerly: Pardon me one moment. You mean that under Rule 8 of No. V. of Schedule A the allowance is the actual cost of repairs. I rather think you are talking about depreciation and treating it as the same as repairs.

16,112. Mr. Prefymon: It goes further than repairs, I think. It is an expense for maintenance and renewal, including new work which is necessary to maintain the existing rent?—That does not help us when at the end of, say, ten or fifteen years we have a plant which is valueless and upon which we have had no depreciation. The fact that we have been allowed to patch it to keep it going over the ten or fifteen years does not help us at all. At the end of ten or fifteen years that plant has gone.

16,113. Mr. Kerly: It is really obsolescence?—Depreciation leading up to obsolescence.

16,114. Mr. Prefymon: At the same time if the replacement of the plant was an allowance, that would meet your case—replacement of the building and the plant?—If the replacement of the building were a charge that would quite meet my case.

16,115. Supposing an agricultural owner rebuilds a tumble-down pair of cottages which have fallen completely out of repair, the whole cost of the completely new pair of cottages is a deduction which is allowed?—With all respect, for industrial purposes I am perfectly certain that that is not understood nor ever has been applied.

16,116. No, it does not apply; it is only applied a certain way up. As I have told you, it is applied to all agricultural property; but, of course, in ordinary house property the rebuilding of a house would not come into it? That is applied to agricultural property—anything which does not add to the rent?—Is the question whether, if a similar principle were applied to industry, that would satisfy us? Is that the question?

16,117. Yes?—I think it would.

16,118. Mr. McLintock: Industry gets all those allowances to-day. This new Act has not made any difference to them. The firms who occupy their own premises have always had the full allowance which this recent provision in the Act gives to property up to a rental of £70 in London. They have always had that.

16,119. Mr. Kerly: Including the cost of replacement?

16,120. Mr. McLintock: No, but the cost of replacement is not given in respect of any property except farm buildings.

16,121. Mr. Kerly: It is rule 8 (2) of No. V. of Schedule A. You are quite right. It is this: In the case of farms the owner is allowed, if he pleases, the actual cost of maintenance, repairs, insurance and management, according to the average of the preceding five years; and "maintenance" includes "the replacement of farmhouses, farm buildings, cottages, fences and other works where the replacement is necessary to maintain the existing rent."

16,122. Mr. Prefymon: My question to you was, when you know that line of legislation which is actually in force now, do you or do you not think that that line of relief is preferable to the line of giving a different percentage to different industries? Which do you prefer?—The only difficulty I see is that the whole of the charge for, say, 10 to 15 years, instead of being spread over the 10 or 15 years, would come in one year, when you rebuild.

16,123. There is a five years' average?—Yes, but when you rebuild.

16,124. Yes, but there is a five years' average. The other years' expenditure on rebuilding would be spread over five years' average?—Yes, I quite realize that; but, say I have a building worth £100,000 which lasts 15 years, I am afraid I should rather frighten the Inland Revenue Department if I come in with a claim for £100,000 when I have to rebuild that building.

16,125. I quite agree, but still if that were the law, if it is a just claim, it seems to me that it is worth consideration whether you are not on stronger ground in claiming an exact figure of expenditure rather than an allowance that you find very difficult to justify, and which would vary really in each individual case?—But I still do not see how I could get an average of what that building cost to rebuild until I rebuilt it. The case would not be met, surely. I have £100,000 of plant and building which is working for 15 years, and at the end of that time it is done, and I have to rebuild it. I cannot see under that formula where I would start to get my claim in.

16,126. If this formula were carried out I take it that what would happen would be that, assuming that during the 15 years you spent nothing at all on it but simply let it go, and then at the end of the fifteenth year it was worn out and you entirely replaced it and it cost £100,000 to replace it, you would, I presume, pay the full value without deduction beyond the one-sixth allowance for the first 15 years; then you would say that in the sixteenth year you spent £100,000. The excess of that above the one-sixth allowance would be your claim. That would be averaged over the past four years—the twelfth, the thirteenth, the fourteenth and fifteenth years, and you would get that allowance which would proportionally be, I suppose, one-fifth of the excess of the £100,000 over the one-sixth, averaged back over five years. Then the following year you would again

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get the benefit of that, and so on until, instead of getting the whole amount in one year, you would get it spread over five years. If that principle were carried out that is exactly what would happen?—The principle might meet the case, but still I think the other principle would be simpler, of letting the building follow the plant. Already you have got these varying rates for various classes of plant; it seems to me it would be much simpler for the buildings to follow the plant than to have this other method.

16,127. But you are dealing now with a building for a very special kind of trade, which in a very few years destroys buildings which in most trades would last for a great many years. It is a very special case; would not that very special case be bettered perhaps by treating it as plant?—I do not think it is such a very special case as you think, with all respect. For instance, for the last 50 years factories have been run mainly upon steam, with isolated boilers as often as not. The whole modern tendency is to get them on to electricity; and that must apply to almost every single industry. The shed that has housed the boiler is entirely unsuitable for a modern power plant; and in another 30, 40 or 50 years the position may be entirely different again.

16,128. It is obvious, is it not, that there is an infinite variety of cases?—Yes.

16,129. If you are to have a definite legal right, percentage seems to offer an enormous difficulty, in that it can only be an average. The average will mean that many people will get much too little and many people will get much too much?—I do not think so. I do not see that you are increasing any of the difficulties that you have at present with depreciation.

16,130. What is your idea of a figure—that every trade should have its own figure?—No, that each building should be separately assessed according to the circumstances of the case.

16,131. You mean that there should be an individual inquiry into every case?—Yes.

16,132. How do you propose that that should be embodied in law? Does not that proposal amount to making it a question which the Commissioners would have to decide on its merits in each particular case?—That is so; they do so at present on the plant. You only want a very short clause saying that in assessing for depreciation the buildings containing the wasting plant shall be taken into account.

16,133. Would you be prepared to leave the allowance in each individual case entirely to the discretion of the Commissioners, which would practically mean that it would be settled by the local Surveyor?—With the usual rights of appeal, yes.

16,134. Mr. Kerly: May I sum it up that what you propose is that you should treat buildings containing plant, as plant?—That is so.

16,135. Mr. Petyman: But would you be prepared to accept that the question of depreciation and obsolescence of the whole of the buildings and plant should be dealt with by the Commissioners?—Certainly, with the present rights of appeal.

16,136. Without any fixed fraction at all?—Yes, undoubtedly; that is the whole of our claim.

16,137. You would be satisfied that they should deal with it?—Yes.

16,138. Mr. Walker Clark: The General Commissioners or Special Commissioners?

16,139. Mr. Petyman: Which Commissioners do you suggest?—The appeal should proceed just as at present.

16,140. An appeal to the Special Commissioners?—Yes, if necessary.

16,141. And beyond them?—And to the Board of Referees too.

16,142. But not to a court of law?—No; to the Board of Referees.

16,143. Under the ordinary present procedure?—Yes, under the ordinary present procedure, with any alterations in procedure that may be suggested from other quarters.

16,144. What you object to is the limit by law. You want absolute discretion under the present procedure?—We object to the whole method of dealing with it by the assessment basis.

16,145. Sir E. Nott-Bower: We have had a great deal of evidence on the subject of allowances for wasting assets; I do not want to go over the whole ground again. I notice in your paragraphs 10 and 11 you mention the depreciation of leasehold premises and the depreciation of purchased patents?—Yes.

16,146. With regard to those, some of the witnesses we have had before us hitherto have ruled out depreciation of patents as a subject matter for allowance. I do not know whether you have had any opportunity of seeing the evidence?—I have read a good deal of the evidence, but I do not remember this particular point.

16,147. You were not aware that patents were being deliberately set aside, that no claim was put forward in respect of depreciation of patents, by some witnesses? I do not want to bind you to it at all?—Do you mean they are at present allowed?

16,148. No; not only are they not allowed, but I mean that our Commission here were not asked to extend any allowance to depreciation of patents. You were not aware of it?—Certainly I do not think anyone was authorised by manufacturers as a body to make that statement.

16,149. Mr. Kerly: Some of the witnesses asked for it, and other witnesses who asked for some of the reliefs that you want said they did not think it was just in regard to patents. That is the position?—I do not agree with them.

16,150. Sir E. Nott-Bower: Have you considered that when a manufacturer purchases a patent and pays a lump sum down, that sum really is a profit to the patentee; he is buying the future income of the patentee?—Yes.

16,151. If, instead of buying the future income of the patentee, he paid the patentee royalties, so much per ton or so much per article turned out, the patentee would receive his profits from the patent in an annual form and he would be taxed upon them?—Yes.

16,152. What would be done in that case would be that the manufacturer would pay tax on the whole profit arising from the patent and when he paid the annual royalty to the patentee he would deduct the patentee's portion?—Yes.

16,153. Then the manufacturer has no grievance and I think the patentee has no grievance; he has got a profit and an annual profit and he has paid on it. But your suggestion here is that if the manufacturer buys the patent right out for a lump sum down, the Exchequer should lose the tax on the patentee's share of the profit altogether. Is not that so?—No. In the first place, might I suggest that that is a question between the patentee and the Inland Revenue Department. But I would point out this. The manufacturer has parted with a certain amount of his capital to the inventor. That capital is not destroyed. The inventor invests that and the income upon that capital is taxable for all time.

16,154. That is so?—So the Revenue would get the full amount that it is entitled to. At present it really gets it twice over.

16,155. You say he invests it. He may or may not invest it. If he does invest it, certainly the income on what the patentee saves would be taxed. He may not invest it at all, but whether he invests it or whether he does not, supposing the purchase price is £20,000, the £20,000 has never paid Income Tax, and it really is practically an accumulation out of profits?—I do not see why Income Tax should not be charged upon that. That is, as between the inventor and the Revenue. But I am pointing out that as far as the manufacturer is concerned, his capital has been transferred to the inventor, and he has to make good that capital if he is not going to be in a difficult position at the end of the period of the patent.

16,156. Are you sure that the patentee is not taxed under the present system indirectly? What I mean is this. When the manufacturer buys a patent he knows that he has to pay Income Tax at 6s. in the £ on all his profits. Is not that an element when the £20,000 is fixed as the price of the patent?—I have had a good number of taxpayers with inventors and have known of far more, and I have never heard

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the question of Income Tax raised in these bargains. An inventor asks for £100,000 to start with and perhaps finally accepts £50,000. The question of Income Tax never comes up.

16,157. I do not suppose it would come up overtly?—That type of bargaining is never worked to the case point of the £2 upon a possible writing-off of capital value.

16,158. Your view, I suppose, is rather this: that the Crown ought to have Income Tax on the patentee's profit, they ought to deal with the patentee?—Yes, they ought to get it from the inventor.

16,159. You have considered it?—Yes, undoubtedly.

16,160. I merely want to get your views, because this is a very difficult question that we have to consider?—Yes. It is not satisfied with the Income Tax upon the income from the capital, if they are afraid the capital will be destroyed, they might charge Income Tax at once. I do not know whether it would be possible to charge that capital sum to Income Tax and then again charge Income Tax upon the revenue from the capital. That is a question between the inventor and the Revenue.

16,161. But all capital, broadly speaking, has been saved out of income, but that income has been taxed?—Yes, that is right.

16,162. I think I will leave the question of patents there. I would just like to ask you a question with regard to depreciation of leaseholds?—Do you mind asking Mr. Biggart that; he is more experienced in that than I am.

16,163. A claim was put forward in regard to depreciation of purchased leaseholds. Have you considered the evidence and Report of the Committee of 1905 in that matter?—(Mr. Biggart): Yes.

16,164. They came down very heavily, I think, against the propriety of any allowance in respect of depreciation of leaseholds?—They did report to that effect.

16,165. But you are still unconvinced?—Yes.

16,166. Supposing a private individual, not a trader, buys a leasehold property, he may live in it or he may let it, but not as part of a business; the value of his property is depreciating every year; would you grant him any allowance or is your application confined simply to houses used for the purposes of trade?—We are appearing on behalf of those who are putting these leasehold premises to trade purposes.

16,167. In principle, do you think that could be allowed without allowing the depreciation of a leasehold property purchased by a private individual?—It depends on the circumstances under which the private individual is owning the premises. We are putting forward a purchase by a manufacturer who develops the premises to trading purposes, and are asking that the additional sum that has been paid to get possession of the property, or the expenditure that has been made upon the property to adapt it to the trading purposes, should be allowed by way of deduction during the time of the lease.

16,168. If that were admitted, you would probably have a claim from a private individual who had bought a house, who would say: "My property is going down every year; you must allow me something for that." What are we to say to him?—He is not increasing the return from that property in any way.

16,169. Mr. Kerly: He may or may not be. Is that your distinction—that the trader does it with a view of making a property more valuable, but the private owner does not?—Keeping in view that the trader is acquiring this property and requiring it for the purpose of earning profits.

16,170. That is a perfectly clear answer. You say that there should be allowances in favour of traders because they are traders. That is what it comes to, is it not?—I would rather put it that in producing the profits it is one of the expenditures that have been incurred to obtain those profits and should therefore be allowed. The other is personal enjoyment.

16,171. Mr. Kerly: I appreciate that distinction.

16,172. Mr. Pellyman: Would not an allowance of that kind, if it were satisfactory, be reflected in the price? Supposing a trader was going to buy premises, and knows that they are leasehold premises

and knows that he will have to spend a certain amount of money on them; he is prepared to pay a certain figure and he takes Income Tax into account in that, and if there are statutory allowances which would cheapen it to him, would not he and his competitors be willing to pay so much more, and would it not simply enter into the price?—He has to bear much the larger proportion and that is always a safeguard from anything that is too extreme. The greatest safeguard of all is that in acquiring some physical subject for the production of a manufacture he has to keep in view the production of that manufacture at the lowest possible cost price, and he has always competition outside to face.

16,173. Sir E. Nott-Bower: If a manufacturer buys the leasehold interest in a house or in a building, of course the value of his interest in a building is declining year by year; but the value of the interest of the reversioner is increasing year by year, as his reversion draws near to falling in. If an allowance is to be made to the man who has bought the leasehold interest, ought not an assessment to be made on the reversioner because his capital is increasing?—That may be a new source of revenue that you are suggesting, but I have not followed it out in that direction.

16,174. If that be so, is not the course at present pursued far simpler, namely, to charge the full annual value of the property, not to divide it between the reversioner and the leaseholder as all, but to charge the whole value of the property in the hands of the man who has got the enjoyment of the property?—I do not quite follow the point you are making. Would you kindly repeat it?

16,175. You have a building which is worth, let us say, £1,000 a year, with a capital value of £20,000, over and above the ground rent. A man purchases the leasehold interest over 20 years for £20,000. Every year the value of his interest grows less and less until it finally reaches nil, and you want an allowance for that diminution in value. But equally the reversion of the man who sold the property is growing more valuable year by year, and if one man suffers a diminution the other has an increase?—I do not quite follow that point.

16,176. Mr. Kerly: I do not think you two gentlemen are really understanding each other. It is the proposition that you are dealing with, Sir Edmund, where a man has paid a fine, paying a constant rent during the currency of the lease, or are you dealing with the case where he pays no fine but is paying the full rack rent value throughout the lease? Because it seems to me you seem to be talking about different things?—I am afraid there is some misunderstanding between us.

16,177. What is it that you are asking an allowance for in the case of a lease?—The outlay that we have incurred in acquiring the subjects and the expenditure of adapting them to the trading purposes.

16,178. Then you are asking for the price that you paid for the leasehold, in the first instance, and, secondly, any expenditure you have made over the property which you will lose at the end?—That is so, as manufacturers.

16,179. Is has nothing to do with the current rent?—Nothing.

16,180. Very well; now that is the problem. Why should a business man, because he is going to use a property for the purposes of trade, be allowed to get some allowance to amortise his initial expenditure in acquiring the leasehold, whereas if a man purchases a house for his own occupation or has an investment to let at a rent he is not to have any such allowance?—It is a corollary to the position we put forward elsewhere, that trading premises should be depreciated; that is, in other words, depreciation should be allowed.

16,181. That is what I put to you some time ago—that you suggested that it should be a special indulgence given to a man because he is doing that operation for the purpose of making profits?—Yes, and without incurring that expenditure he could not make the profits. The same principle is being

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applied to both classes of property. I am reminded by my colleague that of course beyond it all is the fact that we are going into industry with these properties, thereby increasing the taxable capacity of the country.

16,182. *Sir E. Nott-Bower*: You are aware that when a building is used for the purposes of trade the full annual value of that building is allowed as a deduction in assessing the trading profits?—The rent is.

16,183. The rent, or the annual value where no rent is paid?—I presume you are referring to the allowance of one-sixth under Schedule A?

16,184. No, supposing the building is assessed at £1,200 less one-sixth, that is net £1,000, and is used solely for trading purposes; £1,000 is allowed as a deduction in assessing your trade profits, is it not?—But we pay tax upon it; it is allowed, because otherwise it would be double taxation as far as that £1,000 is concerned; but in addition there has now been introduced the further one-sixth allowance, the further £200 that you refer to.

16,185. I was aware of that, but I was dealing merely with the allowance of the Schedule A assessment. Supposing the actual cash trade profits were £10,000 and net annual value of the building is £1,000. You pay duty on the building on £1,000. You pay under Schedule D on your profits, on £11,000, that is £12,000 less £1,000. But you have your cash profits, which you could divide if you like, of £12,000?—Yes, but we have paid the tax upon the £1,000 which is being allowed for.

16,186. If you then get this allowance for amortisation of capital which you are asking for, the allowance of £1,000 would have to be taken off, would it not?—Not if we are paying it separately for the purpose of annual rentals.

16,187. It seems so to me now, but I do not want to take up time. I think you will find that it is so if you will consider it, otherwise you will be getting, I think, a double allowance in respect of the depreciation of the leasehold?—I do not think we get a double allowance.

16,188. *Mr. Kerly*: It is getting a little late and we have other witnesses this afternoon. May I just remind the Commission, if they will excuse my doing so, that this evidence is only corroboration of evidence which we have had in great detail before. It will have its value as corroboration, but it appears to me not to be necessary to examine it so thoroughly as we have the previous evidence, because they are only the same considerations, but with further support from the gentlemen who are here represented.

16,189. *Mr. Walker Clark*: With reference to your suggestion in paragraph 6 that the allowance for depreciation should be made not on the written-down value but on prime cost, we have had a great deal of evidence before the Commission in the exactly opposite direction. Is there something special in your evidence which requires this method rather than the existing method?—(*Mr. Muspratt*): No; and it is not particularly applicable to my business. I think I am speaking for all manufacturers, or the bulk of the manufacturers, in this. The two ideas are, simplicity for the one thing, and also to put the burden on each year.

16,190. But as a matter of fact simplicity would be enormously lost by this method. You would have to have an inventory of every machine in the establishment, its exact life and cost and everything?—There ought to be no difficulty about that at all. We consulted with chartered accountants as practical book-keepers and there is no difficulty about that at all.

16,191. And you still maintain that that is the proper method?—A desirable method.

16,192. With reference to your paragraph No. 7, have you any figures to show that one-sixth of the annual value is insufficient for buildings?—I have not here, but I could certainly give them. I should be very pleased to show any Commissioner some of our works and what has been done in a certain number of years.

16,193. *Mr. Kerly*: We have asked several witnesses if they will be kind enough to send us actual figures showing the depreciation. We only want the figures,

and if you can collect such figures from different parts of the country, in different industries, we could collate them ourselves and they would be valuable?—Yes, I will make a note of that.

16,194. *Mr. Walker Clark*: These figures ought to be complete, that is to say, they ought not to be selected figures; they ought to be complete for a whole factory and not for a specific building in the factory?—An average chemical factory has about half a dozen entirely different processes with entirely different rates of wear and tear.

16,195. So I am aware, but still the figures ought to be complete; they ought to mean something. They ought not to be cooked, shall I say?—Yes.

16,196. Then with regard to paragraph 9, "adequate depreciation," what is adequate depreciation? You are aware, of course, that many industries have met together and have agreed with the Inland Revenue upon rates of depreciation?—Yes.

16,197. Some of the industries which are represented by your Association have met and decided?—Yes.

16,198. Do you suggest something different here?—No, but particularly the question of office furniture and cost of removals. Office furniture is a small point. The cost of removal of offices cannot at present be deducted from income.

16,199. That is not "adequate depreciation"; that is quite another matter, is it not?—We claim we ought to have that right.

16,200. Cost of removals has nothing to do with depreciation?—No, except that you want to write it off over a term of years.

16,201. It is a deduction, really?—Yes.

16,202. It ought to be included in the deductions, but it is not a question of depreciation?—That is so.

16,203. You are aware that now, if your industry, or any industry, is dissatisfied with the depreciation locally allowed, there is machinery available for getting a fixed rate for the industry?—For office fixtures?

16,204. No. I mean for the whole question of depreciation?—This line is only dealing with some of the smaller matters; that means office fixtures.

16,205. *Mr. McLintock*: There is one point on the question of depreciation. You know you have the right of appeal as a trade, or class of trade, to another tribunal than the General Commissioners?—Yes, to the Board of Referees.

16,206. Do you not think, if the view as expressed by you is the one generally held, that the rates vary in districts and are inadequate, the various classes of trades represented in your Association could gather together the material over a wide range for a particular industry, either the chemical or engineering, and endeavour to justify your rate on evidence given?—That is what we are doing at present in a great number of industries. We find that the practices are so different in different parts of the country that it is very difficult. We have been over a year trying to get out the case for the sulphuric acid industry. I think Somerset House and ourselves are agreed that the allowance for sulphuric acid is not sufficient; but when it comes to putting a case for the whole trade, it takes an enormous amount of time and consideration. Of course, it has to be gone through. But when that has once been done, we want to make sure that it is widely known by everyone in that trade. At the present time, there is a little too much of a contest between the Inland Revenue Department and the individual trader. It is only quite lately that individual traders have started acting together.

16,207. They have the right now to act together?—Yes.

16,208. And if they exercise that right under the existing Act, it will solve the difficulty?—Yes, but we want simplification, if possible.

16,209. You cannot simplify beyond a point. You must prepare evidence in support of a rate of depreciation for, say, the chemical industry, or the engineering industry, or the boot-making industry; you must come with a mass of evidence?—That is so, and we are doing that; but I would draw your attention to paragraph 18: "full publicity wanted." At the present time it is a dragging out of information, first here and then there, and you may easily go with an incomplete case, because there is something that you do not know, that you ought to know.

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16,210. Certain trades have rates at present?—Yes.

16,211. Tramways have certain rates?—Yes.

16,212. Gasworks have certain rates?—Yes.

16,213. Other undertakings have agreed rates; and I suggest to you that these are known to every individual who carries on that particular business, and they are all getting the one rate to-day?—Yes, but other people do not know what the various industries have got.

16,214. The industries differ?—They do, but one can often tell by analogy. For instance, if I am getting 5 per cent. depreciation, and I hear that somebody who I know has nothing like the same depreciation, is getting 75 per cent., I can go with a certain amount of right. I know that my industry is one where there is very severe depreciation. If I raise the question as an individual I am told: "Oh, you have got ample depreciation allowed." I have nothing to check that by at all.

16,215. I suggest that the means available now to classes of trade will get over this difficulty?—Yes, it can be done, but this Commission could probably do an enormous amount to oil the wheels by laying down principles.

16,216. I suggest to you that it is up to the traders themselves to set the machinery going. They must make the first move?—Yes, we are making moves.

16,217. On the question of prime cost as against written-down value, do you seriously suggest that prime cost is capable of ascertainment in anything but a trifling number of the undertakings of this country. Take the United Alkali Company as an example. Supposing you were asked to state the prime cost of your engines and boilers and all the various grades of plant as against the lump sum on which you calculate your depreciation from year to year, do you suggest that it could be done?—We have huge schedules.

16,218. Of prime cost?—Of plant.

16,219. I suggest that the trade would be anything but thankful if we introduced the prime cost system?—I think it would be an absolutely reasonable condition to make, that proper books should be kept; and if proper books were not kept, then the trader would not get the advantage of it.

16,220. Would not an increase in the rate calculated on the diminishing value, on the whole meet the difficulty?—If it is big enough it will be a compensation for the difficulty not being met; shall I put it that way?

16,221. Would you like to have every penny of your repairs scrutinized by the Inland Revenue—every penny you expend; have it produced, and the details of how the expenditure is made up? If you are going to have depreciation on this strictly accurate basis of prime cost and the effective life of a piece of plant, it means that every penny you expend on that plant which is going to prolong its life by a year beyond the original settled period, will have to be treated as capital?—I should not mind that. I think anything that would get us upon a sound basis, where we know where we were, would be satisfactory.

16,222. On paragraph 14 there is simply a slight slip in the proof, I think. What you say is that an obsolescence allowance, once agreed, should be carried forward until it is expended in a similar manner to that adopted in the case of depreciation. Your depreciation allowances are not carried forward to the debit of your profit and loss account if they are not exhausted?—The main point about it is that we want to have the right to expand.

16,223. Mr. Kerly: Exchange that half line?—I do not mind taking that out.

16,224. Thank you, Mr. Muspratt and Mr. Biggart, for your evidence?—(Mr. Muspratt): I hope every member of the Commission has had a copy of this paper. [See Appendix No. 25.]

16,225. It has been distributed. We shall no doubt, consider it. Now, Mr. Cash, your evidence covers much the same ground as that of the other two gentlemen. You have also a number of separate points, which I have noted. Nearly everything that is in your evidence has been before us, not once, but several times?—(Mr. Cash): I have no doubt that is so.

16,226. I do not say it is not of considerable value, because we want to know how far a particular matter

has weight of opinion behind it. You have given us very valuable assistance upon that. Now does any Commissioner wish to ask Mr. Cash any question?

16,227. Mr. McIntock: I think all the points have been covered.

16,228. Mr. Kerly: I think Mr. Cash's statement is quite plain in itself.

16,229. Mr. Walker Clark: There is one question I should like to ask; that is your reference to Additional Commissioners in your third paragraph. Have you much experience of Additional Commissioners?—I have not personally, but this evidence is obtained from a large body of information which we have gathered together.

16,230. What is the objection to them?—The view was rather that it would simplify matters considerably. At the present time the Assessors and the Additional Commissioners are very largely persons who do not really in fact do anything. The Surveyor in fact does the work; and it was thought that if the Surveyor in fact made the assessment himself, and there was an appeal to the General Commissioners or to the Special Commissioners, as the case might be, that would quite meet the point, and it would be possible then to do away with the Additional Commissioners and the Assessors.

16,231. Do you think the Additional Commissioners stand between the taxpayer and the Inland Revenue?—That was not the feeling.

16,232. That they do not?—That they are of no particular advantage to anybody, I might say.

16,233. Mr. McIntock: On the question of the period of assessment: you suggest, as a great many witnesses have done, that the average system be abolished and that the assessment should be on the preceding year's income?—Yes, of course that does not apply to income deducted at the source.

16,234. Traders' income already assessed on the average?—Yes.

16,235. You also refer to the carrying forward of losses against subsequent profits?—I think that would be necessary if you take away the average, because it might result in very great hardship to the taxpayers otherwise.

16,236. At present, with the three years' average, for how long a period can you carry forward losses?—I am not quite sure that I can answer that.

16,237. I suggest it is three years?—Yes.

16,238. Now why extend the period beyond three years?—No, I think that might be fair.

16,239. That is, that you should have the simple basis of the preceding year, and the losses to be carried forward over three years. Do you think that would be a satisfactory solution?—I think it would. I have not personally considered that. Of course you have to consider the question that in some cases under the existing practice you have a longer average than three years. In that case, you want to extend it to a similar period to what you have at present.

16,240. You might want some variation, but, generally speaking, the great bulk of business income is assessed on the three years' average?—Yes.

16,241. Do you think it would be satisfactory if the carrying forward of the loss were limited to a period of three years?—I am inclined to think so. I have not very carefully considered such a point.

16,242. Rather than for ever and ever. I mean, many difficulties will arise if a loss is to be carried forward for all time. Business change hands?—Yes. Of course that might occur even in the three years.

16,243. There are reliefs given at present?—Yes, exactly.

16,244. Mr. Kerly: Just one question on the last paragraph in your paper, about Super-tax on bonus shares. Bonus shares represent accumulated profit, do they not, in the case you put?—Yes.

16,245. Why should not the accumulated profit be Super-taxed?—From this point of view: that accumulated profit, of course, could be distributed; it is not distributed, and it is in fact capitalised and cannot be distributed.

16,246. That is all you mean—that the company has chosen, instead of distributing it each year, to

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save it up for a number of years and then distribute it in a lump?—No, it does not in fact distribute it in cash. It stays to its shareholders: "this money is now going to be regarded for all time as capital, we will give you a piece of paper to show that it is now regarded as capital." Might I just add this? If it were treated as income, it would be a very difficult matter to ascertain what exactly the income is to be; because clearly it must be a distribution of dividend free of Income Tax, if it is to be regarded as a dividend at all; because clearly the company has paid Income Tax; the share must be at least of par value, otherwise it would not be fully paid, and the actual distribution therefore would be of the amount of par value of the share plus the Income Tax which has been paid upon it. But that involves this somewhat difficult proposition: that in so many cases you have a very large number of small shareholders, and those small shareholders, on the bonus distribution, would be entitled to go to the Revenue and say: "we want a return of the tax which has been paid on this distribution *qua* Income Tax."

16,247. Mr. Kerly: I appreciate that, and it is a matter that I think so far has been overlooked; I think it has not been discussed.

16,248. Mr. Petyman: We did have that point discussed.

16,249. Mr. McLintock: Yes, we did have it, with one of the witnesses.

16,250. Mr. Kerly: I was not aware of that. What you say is that if you treat it as a payment of income to the shareholder, he must be allowed, according to his grade, a repayment in respect of the tax which has already been paid?—Yes.

16,251. And that must be taken into account?—Yes.

16,252. But, subject to that, there is no reason why it should not be treated as income?—I should like to add something on that. I think there is, for this reason. Assuming, for a moment, the case of a company with a capital of £100,000, and you distribute share for share by way of bonus. It is quite clear that you are at the same time reducing the capital value of your original £100,000 capital; because a shareholder holding £1,000 has a one-hundredth part of the capital. You double your capital and double his shareholding, and he still has one-hundredth part of the capital; but if that capital was worth to him before, say, £5,000, his original shares are only worth £3,000 of him instead of £5,000.

16,253. Mr. Petyman: That means that your money is dispersed into the blue, does it not, sooner than pay tax upon it?—No.

16,254. Mr. Kerly: It is sufficient to say that that is the exactly corresponding position before and after a declaration of dividend every year?—No, I do not think so. The value of your share depends upon the reserve contained in the business. Now, on the distribution of bonus shares, the reserves still remain in the business. It is only that power is taken away from the directors and from the company ever to declare that sum in dividends, and it remains as permanent capital in the business.

16,255. You are entitled to say that, although money is distributed as a dividend, it is coupled with a condition that it must be re-invested in the company?—Yes, and the shareholder is not given an option to take it in cash.

16,256. Mr. Kerly: Thank you for your evidence.

MR. P. D. LEAKE, F.C.A., on behalf of the Institution of Mining and Metallurgy, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

16,257. (1) The interests represented include the development and working of all minerals, under British control, except coal. The properties are situated in the United Kingdom, in the Overseas Dominions, and in foreign countries.

16,258. (2) The importance of the Income Tax as an instrument of national revenue is so great, that in the interests both of the State and the taxpayer, it has now become urgently necessary that annual Income Tax shall be assessed on the nearest possible approximation to annual profits as they arise year by year. The present principles upon which Income Tax is assessed involve the taxing of profits plus further amounts equal to the annual depreciation (expired capital outlay) of inherently wasting assets such as, in the case of mining companies, natural raw material and the cost of shaft sinking and access.

16,259. (3) It will be convenient in the first place to set out in summary form a description of the inherently wasting assets of mining companies, and of the annual deductions, in the nature of depreciation (expired capital outlay), claimed by mining companies, and then shortly to explain the meaning of the term "base value of mining rights" and the methods suggested for measuring the annual amounts of the deductions so claimed.

16,260. (4) The inherently wasting assets of a mining company, in regard to which deduction for annual depreciation (expired capital outlay) is claimed, may be described as follows:—

Base value of mining rights.—Deduction should be allowed of a measured amount either per ton of minerals raised or otherwise.

Cost of shaft sinking and access.—Deduction should be allowed of a measured amount either per ton of minerals raised or otherwise.

Cost of plant other than shaft sinking and access.—Deduction should be allowed of a measured amount determined by reference to the efficient life of each class of plant.

Cost of development.—Deduction is already allowable.

16,261. (5) It is recognized that in assessing to Income Tax annual profits as they actually arise year by year, the deductions which can properly be claimed, must be strictly limited to the economic expenditure necessarily incurred within each year in earning the revenue of that year. This economic expenditure includes not only current cash outlays, such as salaries and wages, rent, and the cost of consumable stores needed for the working of a mine, but it also includes the expired portion of capital outlay incurred for the purposes of the industry and inevitably wasted in the course of the year's operations.

Base value of mining rights.

16,262. (6) The meaning of the term "base value of mining rights" may be defined as an amount equal to the present value of any expected annual surplus, after providing all economic expenditure incidental to production and marketing (excluding depreciation on base value) and providing for the payment of a normal rate of interest on the capital invested (excluding base value). To illustrate this, two cases may be stated:—

(a) In a tin mine in the United Kingdom, the estimated product of which at fair long-period average market value would yield not more than sufficient to provide all economic expenditure incidental to production and marketing and to pay a normal interest on capital invested, may have only a nominal base value, which may be compared with the well-known "peppercorn" legal consideration;

(b) a copper mine in the United Kingdom, the estimated product of which would yield a surplus of £2 per ton of ore, after providing all economic expenditure and paying a normal interest on capital invested, may have a base value equal to the present value of the amount of £2 per ton on the estimated contents of the mine.

16,263. (7) The term "normal rate of interest on capital invested" as here used means a rate just sufficient to attract and hold the capital needed for each class of mining industry. If future probabili-

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ties can be estimated with sufficient exactness to induce adventurers to risk their capital in a mining venture it would not be reasonable to say that future probabilities cannot be estimated for the purpose of determining questions arising in regard to the proper division of the profits which may arise out of the adventure.

16,264. (8) The term "long-period average market value" means the average value computed by smoothing the market-price curves due to seasonal or abnormal demands and to recurring boom-periods or cycles affecting particular minerals, while giving due weight to the fact that a general rise in prices and wages, causing increased cost of production, may tend to raise the market value of the product.

16,265. (9) Important factors in determining base value would obviously include average quality of mineral and accessibility both in regard to distance from the earth's surface and from the world's markets.

16,266. (10) The computation of the annual profits of many profit-seeking undertakings for the purpose of an annual Income Tax must differ in one very important particular from the computation of the amount of profits properly available for distribution, because of the custom of forestalling profits by selling them in advance of their arising. Thus it is a common practice in commerce and industry to transfer by sale and purchase from one individual to another, for valuable consideration, rights to the enjoyment of pure profits expected to arise in future years. The consideration paid is the present value of such expected future profits, but, except in cases similar to that mentioned in the next paragraph, that consideration is not assessable to British Income Tax in the hands of the seller as profits at the date of transfer. It will be assessable only if and as and when the profits arise in future years. The position as it affects the mining industry is that if mining rights, the base value of which amounts to, say, £100,000, are sold to a mining company for £150,000, the mining company has paid £50,000 in addition to the base value, as the present value of rights to the expected profits of future years. In computing annual profits for distribution in such case, the mining company should—if its capital is to be kept intact—deduct from its annual revenue the annual expired capital outlay on the whole purchase consideration, which includes the base value of mining rights together with rights to future profits, but for the purposes of British Income Tax, which purports to tax annual profits, only as and when they arise, the company should only claim deduction of the expired capital outlay on the base value of the mining rights, which is £100,000.

16,267. (11) In the case of a dealer in mining properties who has purchased such a property for £100,000 in cash and who then sells it to a mining company for £150,000 in cash, the present Income Tax practice may cause the dealer to be assessed to British Income Tax on the sum of £50,000 being his profit on the deal. Assuming in the case here given that the base value of the property is found to be £100,000 and that the vendor from whom the company purchased the property, being a dealer in such property, has in fact been assessed to Income Tax on £50,000, it is contended that the company should, for Income Tax purposes, be allowed deduction from its revenue over the years of its life of £100,000 the base value, and of £50,000 the vendor's profit, on the ground that that part of the profits expected to arise in the hands of the company in future years, which has been paid to the vendor in advance of its arising, and upon which he has paid Income Tax, should not be assessed a second time to Income Tax in the hands of the company. The facts in each case will be easily ascertainable and a company should have the right to bring the matter for adjudication before the hereinafter suggested permanent Commission.

16,268. (12) It is submitted that in the case of mining companies the capital outlay of a wasting character includes what may be called the base value of mining rights. As already stated it may happen that mining rights are sold and bought at prices which after deducting the base value may leave considerable profits in the hands of intermediate owners. In computing, for Income Tax purposes, annual pro-

fits arising out of the mining industry it is not claimed that a company is entitled to deduct from its annual revenue a measured amount per ton raised, based on the cost of the mining rights to that company, if the cost is greater than the base value—unless the mining rights have been purchased from an overseas vendor not subject to British Income Tax or from a dealer who pays British Income Tax on his profits. In such case it is claimed that deduction should be allowed on the cost to the company, provided of course in the case of an overseas vendor there has been no intermediate owner domiciled in the United Kingdom and therefore liable to pay British Income Tax. The history of each property is easily ascertainable and each case should be considered and dealt with according to the facts.

16,269. (13) It will be observed that in claiming only to be allowed deduction of expired capital outlay on the base value of mining rights all questions of prior profits arising out of transactions in the nature of sales and purchases of rights, between one person and another, are avoided, except in the cases of overseas vendors not subject to British Income Tax, and dealers in mining property who have paid British Income Tax.

16,270. (14) It is sometimes alleged with reference to mining companies in the United Kingdom that minerals *in situ* having cost nothing to the owner of the land under which they lie, no deduction can properly be claimed in computing the profits arising out of the working of those minerals in respect of the annual decrease of the mass or source of the minerals. It is said they cost nothing. The answer is that the minerals belong to the owner of the land; that the minerals *in situ* have an exchangeable value, which may be nominal or otherwise; that exchangeable value is capital, and when capital is dedicated to be destroyed in the process of seeking profits it becomes capital outlay; and that no profits can emerge from an undertaking until the cost of earning these profits, which includes expired capital outlay, has been provided out of revenue.

16,271. (15) The contention that in computing profits for Income Tax purposes, deduction should be allowed for expired capital outlay on the base value of mining rights is unaffected by political questions as to whether or not the value of minerals which may be discovered on lands within the United Kingdom belongs to the particular individual upon whose lands the discovery is made, or whether it belongs to the State. If it belongs to the individual, it will be a windfall to him, and therefore not an annual profit, and if it belongs to the State, it will be a windfall to the Crown, but this question is apart altogether from the clear and logical claim that in computing, for Income Tax purposes, annual profits arising from the mining industry, deduction must be allowed for expired capital outlay on all inherently wasting assets, including the base value of mining rights.

16,272. (16) With Income Tax at the rate of 6s. in the £, it is true to say that the State has, in effect, assumed the position of a partner in all profit-seeking undertakings, including the mining industry. The State takes three-tenths of the whole profits and leaves seven-tenths to the adventurers. The State is in a privileged position in that it takes three-tenths of the profits, but in the case of unprofitable enterprise, it does not bear three-tenths of the losses. In view of the position of the State as a preferred partner, taking three-tenths of the profits arising from the mining industry, it is not too much for the adventurer companies to ask for the setting-up of a competent and unbiased permanent Commission to determine in each case the base value of the mining rights for the purpose of fixing the amount, per ton of ore raised, to be deducted from the revenue before computing the profits for division between the State and the proprietors—the State's share being levied as Income Tax.

16,273. (17) On the determination of this question will often depend the answer to another question as to whether or not, having regard to the risk involved, the particular enterprise is worth undertaking. Unprejudiced consideration will clearly show that the new conditions consequent upon the State having assumed the position of a large-share preferential partner in profit-seeking enterprise, and taking no

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risk, render necessary the setting up of new methods and suitable administrative equipment.

16,274. (18) It seems clear, therefore, that as the principles upon which base value should be computed can be defined, and as for all commercial purposes the exchangeable value of mineral fields can be estimated, each adventurer company should be entitled, falling agreement with the taxing authority, to make application to a suitably constituted permanent Commission to determine the base value of the mining rights after considering the evidence applicable to the particular case, and thereafter either party (the State or the taxpayer) should have the option of applying again with a view to obtaining any subsequent adjustment of the base value which may be rendered necessary by after-acquired knowledge. Statistical records, in regard to all classes of mining enterprise, are already available, and could speedily be collected and developed on scientific lines. Such statistics would be of great use in estimating fair long-period average market values of the various minerals, and average cost of production and marketing in relation to average quality of ore and accessibility, normal rate of interest on capital, &c.

16,275. (19) According to an announcement made by the American Institute of Mining and Metallurgical Engineers (Incorporated), dated the 28th August, 1919, the United States Internal Revenue Bureau has established in the Income Tax Branch a Section of Mine Valuation, in which all questions of particular complication and difficulty relating to the wasting assets of mines will be handled by competent engineers.

16,276. (20) In the case of minerals overseas, worked by a company which has bought mining rights not previously owned by a person domiciled in the United Kingdom, or which has located minerals by exploratory work, the cost to the company will probably measure the base value; but all such questions would have to be dealt with by agreements with the taxing authorities according to the facts in each case, or falling agreement, by reference to a permanent Commission of technical advisers, the appointment of which, it is submitted, is necessary to assist the Revenue authorities to arrive at a satisfactory settlement in cases requiring adjudication.

16,277. (21) Where royalties are paid on overseas minerals to persons overseas not domiciled in the United Kingdom and therefore not liable to British Income Tax, these should be allowed as a deduction from revenue receipts before assessing profits to Income Tax.

16,278. (22) The fact that the English law permits of the distribution in dividends of an amount equal to the whole surplus of the annual revenue of mining undertakings, without first deducting the annual expired capital outlay on natural raw material, does not affect the soundness of the argument that in computing annual profits for Income Tax purposes the true annual profits only must be taken.

16,279. (23) The fact that there is considerable divergence in the practice of different companies in the methods of drawing up their annual profit and loss accounts and balance sheets, and that some companies may make provision for expired capital outlay which is more or less accurately measured, while others may carry unmeasured sums to reserve, is no reason for refusing the legitimate and necessary claim that for Income Tax purposes the proper deduction shall be allowed in respect of the annual expired capital outlay on natural raw material. The amount of this deduction would always be a question of fact to be determined in each case on definitely and carefully considered lines of policy which should be consistently followed year by year in computing profits for Income Tax purposes.

16,280. (24) The fact that for Income Tax purposes deduction must be allowed for the gradual exhaustion of mineral deposits is recognized in other countries, thus:—

16,281. (25) The United States Government recognizes the fact that mineral deposits are not reproductive, and allows a charge for exhaustion in computing the profits of a mining concern for the purposes of Income Tax.

16,282. (26) The United States Revenue Act of 1918 provides that in computing net income there shall be allowed as deductions in the case of mines, oil and gas wells, other natural deposits, and timber, a reasonable allowance for depletion. The methods of measuring this allowance are set out in Articles 201-233 inclusive, of a publication called "Treasury Department, United States Internal Revenue, Regulations 45, relating to the Income Tax and War Profits and Excess Profits Tax under the Revenue Act of 1918." This is published at Washington—Government Printing Office, 1919.

16,283. (27) These regulations provide, *inter alia*, that in determining the fair market value of mineral deposits as a basis for depreciation deductions such value must be determined in the light of the conditions and circumstances known at the time. No rule or method of determining the fair market value of mineral property is prescribed, but the Commissioner will lend due weight and consideration to any and all factors and evidence having a bearing on the market value. (Part 1, Article 206.)

16,284. (28) The regulations also provide that in determining the quantity of mineral in a mine for purposes of depletion allowance, the property must be considered in the condition in which it was within 30 days after the date of discovery, but if subsequently—additional recoverable mineral deposits have been discovered or developed which were not taken into account in estimating the number of units for purposes of depletion, or if it shall be discovered by working development, or exploration, that ground previously estimated to contain commercially recoverable mineral is barren or contains only commercially unworkable mineral, a new estimate of the recoverable units of ores or minerals shall be made, and when made shall thereafter constitute a basis for depletion. (Part 1, Article 208.)

16,285. (29) With regard to the discovery of a mine or a natural deposit of mineral, it is provided that whether it be made by an owner of the land, or by a lessee, discovery shall be deemed to mean:—

(a) the bona fide discovery of a commercially valuable deposit of ore or mineral of a value materially in excess of the cost of discovery in natural exposure or by drilling or other exploration conducted above or below the ground, or

(b) the development and proving of a mineral or ore deposit which has been abandoned or apparently worked out or sold, leased or otherwise disposed of by an owner or lessee prior to the development of a body of ore or mineral of sufficient size, quality, and character to determine it, in connection with the physical and geological condition of its occurrence, to be a mineable deposit of ore or mineral having a value materially in excess of the cost or of the proving and development . . . and every taxpayer claiming the value of a mineral deposit on the date of discovery or within 30 days thereafter for purposes of depletion, will be required to attach to his return a statement setting forth the conditions and circumstances of the discovery and the size, character, and location of the deposit, together with the cost of discovery, its value and the precise method used in determining the value. (Part 1, Article 219.)

16,286. (30) The New Zealand Government also recognizes the position and exempts from taxation 50 per cent. of the distribution made by gold and scheelite mining companies. The New Zealand Land and Income Tax Act, 1916, an Act to consolidate and amend the law relating to Land Tax and Income Tax provides as under:—

97. (1) Notwithstanding anything to the contrary in this Act if the Commissioner is satisfied that the sole or principal source of the income of a Company whether incorporated in New Zealand or elsewhere, is the business of gold-mining or scheelite-mining in New Zealand, the taxable income derived by that company in any year shall be deemed to be one-half of the total sum

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paid as dividends during that year to the shareholders of the Company and the Company shall be assessed and liable accordingly.

(2) The term "dividends" includes all sums distributed in any manner and under any name among shareholders of a Company on account of profits made by the Company.

16,287. (31) The British Government fully recognizes the capital value of minerals in situ in the Finance (1909-10) Act, 1910, sec. 20 of which imposes mineral rights duty on the rental value of all rights to work minerals.

16,288. (32) Section 23 of the Act defines the term "capital value of minerals," as follows:

23. (1) For the purposes of this part of this Act, the total value of minerals means the amount which the fee simple of the minerals, if sold in the open market by a willing seller in their then condition, might be expected to realise, and the capital value of minerals means the total value, after allowing such deduction (if any) as the Commissioners may allow for any works executed or expenditure of a capital nature incurred bona fide by or on behalf of any person interested in the minerals for the purpose of bringing the minerals into working, or where the minerals have been partly worked, such deduction as is, in the opinion of the Commissioners, proportionate to the amount of minerals which have not been worked.

(2) For the purposes of valuation under this part of this Act, all minerals shall be treated as a separate parcel of land; but, where the minerals are not comprised in a mining lease or being worked, they shall be treated as having no value as minerals, unless the proprietor of the minerals, in his return furnished to the Commissioners, specifies the nature of the minerals and his estimate of their capital value.

Minerals which are comprised in a mining lease or are being worked shall be treated as a separate parcel of land, not only for the purposes of valuation, but also for the purposes of assessment of duty under this Part of this Act.

Rough illustration of base value.

16,289. (33) Where minerals are of such a nature and are so situated as to offer the opportunity of yielding profits or increase over and above the cost of production and marketing, and a normal rate of interest on the capital invested, these minerals have a base value other than nominal. The base value is exchangeable value, and therefore capital.

16,290. (34) Supposing a mining proposition, the estimated life of which is twenty years, and the estimated average capital outlay on which, exclusive of base value, amounts to £100,000, made up as under:—

	£
Shaft sinking and access ...	25,000
Plant ...	25,000
Development ...	50,000
	<hr/> £100,000

16,291. (35) Suppose the normal rate of interest necessary to attract and retain the average capital required for such an enterprise is 10 per cent; then, if it is estimated that the annual sales of the product, less the cost of production and marketing, will leave a balance of no more than £10,000, this being sufficient to pay only the normal rate of interest on capital, the base value of the mining rights will be a nominal sum of, say, £1.

16,292. (36) But supposing that, on a rough-and-ready computation of the estimated average results over the expected twenty years' life, there is a considerable surplus over the amount of £10,000 per annum, then there exists a base value depending upon the amount of the surplus. This base value may be computed as equal to the present value of the annual surplus over the period of twenty years discounted at 10 per cent., and thus the estimated

annual surplus would roughly measure the base value as under:—

	£
Surplus ...	10,000
Base value ...	85,000
Surplus ...	50,000
Base value ...	425,000
Surplus ...	150,000
Base value ...	1,275,000

16,293. (37) This suggests a reasoned method of estimating base values. In each case the estimated life of the proposition is twenty years, and therefore, in computing the annual profits for Income Tax purposes, expired capital outlay on the base value should be charged against revenue and allowed as a deduction for Income Tax purposes equal to one-twentieth of the base value, namely, either £4,250, £21,250, or £63,750, as the case may be.

16,294. (38) In drawing up the profit and loss account showing the amount of profit available for division among the proprietors, due regard must be had to the question of the amount which has been paid to the vendors by the company for the mining rights, and which amount may be either more or less than the computed base value. This is merely a question of finance, and the proper determination of the proportion in which the annual profits, as they actually arise year by year, are to be allocated. Income Tax is assessable on true economic profit as it arises year by year, and, as already stated, this must differ from the amount of annual profits which are properly available for division among the proprietors of a mining enterprise, whenever the vendor has received an amount which is either more or less than the base value.

16,295. (39) The *pro forma* balance sheets and profit and loss accounts, set out below, illustrate four mining propositions—A, B, C and D—each having a different base value. In each case the estimated average capital outlay, exclusive of base value, is the same, namely, £100,000.

16,296. (40) It will be observed in column A that the estimated average annual results over the estimated life period of 20 years provide no surplus, being only sufficient to pay the normal rate of interest on capital which is here assumed to be 10 per cent. In this case therefore the base value was nominal, and for Income Tax purposes no effective deduction of expired capital outlay on base value would have been claimed in computing the profits. The company carrying on undertaking A might have paid £20,000 (not shown on the *pro forma* balance sheet) for the mining rights, and in such case there should be deducted from revenue each year, in computing the amount available for distribution (but not for Income Tax purposes), a sum to refund to the company the £20,000 so paid to the vendor, this being, in fact, a payment by the company in advance out of the profits expected to arise during the 20 years from the venture, and, therefore, as these profits arise, a portion of these should be applied in reduction of the payment so made in advance.

16,297. (41) In columns B, C and D, the amount actually paid for mining rights by an undertaking carrying on either of the enterprises here illustrated may be either more or less than the computed base value of the mining rights. In any case, where an undertaking has paid less than the computed base value, it will be in a position to distribute to the proprietors a larger sum as profits each year than the profits upon which it should pay Income Tax; but when an undertaking has paid to the vendor for mining rights an amount greater than the base value it should, if soundly financed, distribute a less sum out of the profits of each year than the amount upon which it will properly be assessed to Income Tax.

Cost of shaft sinking and access.

16,298. (42) Main shafts, main adits, and other underground works and surface developments fall strictly under the head of "plant," but, for the purposes of measuring annual depreciation thereon this kind of property should be treated separately and

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the outlay should be gradually refunded out of revenue receipts in the proportion which the quantity of the product won each year bears to the estimated total quantity to which access is expected to be gained by such works.

Cost of plant other than shaft sinking and access.

16,299. (43) The legal definition of plant in Income Tax practice has hitherto been far too narrow. Plant comprises in fact all perishable material property applied to the purpose of seeking profits other than that primarily intended for resale. It therefore includes all buildings, plant, machinery, fixtures and furniture and all surface works, reservoirs, water service, railways and railway sidings, roads, bridges, works, stations, and, as stated above, main shafts, and adits, fall strictly within the definition of plant. The cost of plant includes, of course, freight, foundations and installation.

16,300. (44) In measuring the annual depreciation (expired capital outlay) of plant by far the nearest approach to accuracy is obtained by estimating the efficient whole-life period in years of each class of plant with due regard to all known facts as well as to future probabilities and distributing the cost, less the estimated remainder value, to future revenue accounts in equal instalments over each year of the estimated whole-life period. The cost of all renewals would then be charged to plant account and not to revenue account. The cost of current maintenance and repairs would be charged to revenue account each year. It is claimed that the present principles of Income Tax should be so modified as to admit the definition of plant as stated above, and that the annual depreciation of plant should be measured by reference to the cost and efficient whole-life period and not by reference to a percentage applied to the reducing balance of cost.

Cost of development.

16,301. (45) The cost of development of ore is already allowable as a deduction in computing annual

profits for Income Tax purposes, but the present practice is not satisfactory.

Amortisation and material wasting assets.

16,302. (46) In measuring the annual deduction to be allowed for expired capital outlay on all material wasting assets the method known as "amortisation" should never be used. Amortisation means to redeem by a sinking fund, which entails the provision of a minimum annual sum which, if invested annually to accumulate at compound interest, will produce the amount required at the end of the given period. In the case of value locked up in material wasting assets, no interest is in fact earned, and deduction on this basis is unsound and inadequate.

Three years' average system.

16,303. (47) In computing the annual profits to be assessed to Income Tax the method of determining these by reference to an amount equal to the average of the profits of the past three years should be abolished, and the actual profits of the last complete year ended prior to the commencement of the year of assessment should be substituted. Annual losses should be cumulative and should be deducted from the profits of subsequent years, the balance of such profits only being chargeable with Income Tax.

Payment of annual Income Tax in two instalments.

16,304. (48) In view of the high rate of Income Tax, the payment of the whole amount of the assessment in one sum in or about the month of January each year is often found to be inconvenient by mining companies. It is suggested that the Income Tax should be payable half-yearly in two equal instalments falling due in January and July. This would correspond with the common practice of paying the annual dividend in two amounts, one being an interim and the other a balance dividend.

PRO FORMA BALANCE SHEET.

	A.	B.	C.	D.		A.	B.	C.	D.
Capital required (exclusive of base value)	£100,000	£100,000	£100,000	£100,000	Mining rights base value	£1	£285,000	£425,000	£1,275,000
Reserve	...	1	85,000	425,000	Shaft sinking and access	25,000	25,000	25,000	25,000
Creditors	...	50,000	50,000	50,000	Plant	...	25,000	25,000	25,000
					Development	...	50,000	50,000	50,000
					Stocks, debts and cash...	50,000	50,000	50,000	50,000
	£150,001	£235,000	£575,000	£1,425,000		£150,001	£235,000	£575,000	£1,425,000

PRO FORMA PROFIT AND LOSS ACCOUNT.

Estimated average annual results over estimated life period of twenty years.

		£100,000	£110,000	£150,000	£250,000
Cost of production and marketing after adjusting unsold stocks, excluding depreciation on base value	£90,000	£90,000	£90,000	£90,000	
Interest on capital, 10%	10,000	10,000	10,000	10,000	
Surplus	...	10,000	50,000	150,000	130,000
	£100,000	£110,000	£150,000	£250,000	
The base value computed as equal to present value of the annual surplus over the period of twenty years discounted at 10% per annum	—	£85,000	£125,000	£1,275,000	
					£100,000 £110,000 £150,000 £250,000

[This concludes the evidence-in-chief.]

16,305. Mr. Kerly: You are familiar with our practice, Mr. Leake. We have had the advantage of your assistance before. I understand the gentlemen who are sitting with you will assist you on any particular point which may arise on the cross-examination, and then we will ask them separately if they wish to add anything, when your examination is completed. We

have your paper, which we have considered, and, in the usual way, you will be asked such questions as may occur to the members of the Commission?—Might I make a short statement by way of supplementing one or two points, first?

16,306. Very well?—I wanted to say that the interests represented by us this afternoon cover some hundreds of millions of pounds of capital; they are very extensive. It will be seen, from the nature of the evidence which has been put in, that it is fully

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recognised by the Institution that there is need of efficient safeguards against the evasion of Income Tax which might be practised if, in computing annual profits for the purpose of assessment to Income Tax, deduction is allowed for depreciation of mining rights, without some drastic check on the value put upon those rights. The consideration paid by a company to a vendor purports to be the value of the mining rights, and this may generally be so, but there is nothing to prevent an amount of consideration being paid by rash and over credulous speculators sufficient to include the "base-value" as defined plus a large sum on account of expected future profits. Any amount by which the consideration paid to the vendor exceeds the base value must be presumed to be the present value of part of the expected profits of future years. This excess, although pure profits in the hands of the vendor, would not be chargeable with British Income Tax in his hands unless he is a dealer in mining properties, but if and when the expected profits (of which part may have been so paid to the vendor in advance of arising) are actually earned by the company, they will, to the extent that the vendor has not been assessed thereon, be properly chargeable in the hands of the company with Income Tax. In speaking of pure profits, the amount is, of course, after providing for depreciation of base value. It often happens that the consideration paid to a vendor consists partly of cash and partly of fully paid shares, or it may consist wholly of fully paid shares, which, again, may be either preference, ordinary, or deferred. How then is the value of this consideration to be determined, except by having regard to the base value to be estimated by reference to all the known facts? At any time, in any difference of opinion, one is always driven back on to the facts in any particular case, and on to the question of what is the base value. I should like to refer for a moment to the rough illustration of base value which is contained in the evidence-in-chief. In the illustration of the method of computing the base value of mining rights set out in the evidence-in-chief, the estimated annual surplus has in each case been simply discounted at 10 per cent. per annum. This method provides for the payment of interest at 10 per cent. per annum on the capital represented by the base value over the life of the mine, and it also provides for the replacement of the base value by a sinking fund accumulating also at 10 per cent. Will you please notice, in the case that we have taken in our illustration, the rates are 10 per cent. and 10 per cent.—the same rates? An alternative method is to provide for interest at 10 per cent. per annum on the capital, and for the accumulation of a sinking fund at a lower rate, say, 5 per cent. per annum. These alternative methods in the case of a mining proposition with an estimated average annual surplus of £10,000, which is the second illustration given, I think under column B in the evidence, where also there is an expected life of 20 years, give the following results—

16,307. I am afraid you are embarking upon something we shall find it very difficult to follow. You seem to me to be not merely adding a little bit to your evidence, but, unless I misapprehend what is happening, you are really adding a new mass of evidence-in-chief which we cannot possibly follow, especially as you read it out. You seem to have it written before you. We cannot follow it; we have not had an opportunity of considering it, and we shall hardly have an opportunity of testing it. It is very unfortunate that you should desire to supplement your already somewhat voluminous evidence on this scale?—I submit that though this is somewhat difficult to follow, I am afraid, in a spoken statement, it is likely to clear up and shorten the necessary cross-examination, because this point that I am now endeavouring to deal with is a point which is likely to be raised in cross-examination, and if it is not raised, I think it is material really to explain our case in the clearest possible way, so that it may receive consideration when it is available in its full and printed form.

16,308. How was it that it was not put in as part of the proof?—As you say, we already had, unfortunately, a very long statement, and we wanted as much as possible to avoid overloading it. If I may venture to say so, I am putting carefully considered

statements, which we think will be of use to the Commission in clearing up what we regard as quite important points. These are not statements which are likely to prove of no particular use.

16,309. No, I am not suggesting that, but what I am suggesting is that, having furnished us with a proof, you now appear to me, so far as I have followed you, to be about to supplement it with something of considerable length which is to a great extent new matter?—This is on a very important matter.

16,310. Perhaps then we had better leave this and proceed to the discussion of what you have supplied us with, and then we will see if there is an opportunity, or if you still desire to add something at the end of the examination?—As you please, but if you could give me 10 minutes, I think we should save half an hour or more in cross-examination.

16,311. I have had the advantage of listening to you before, and I do not think that 10 minutes will get you any considerable way?—I can assure you that it will not be long, because, as you say, I have it in notes here.

16,312. Mr. Walker Clark: Would it be possible to have it sent in to the Commission afterwards, and printed?—My point is that I am sure it will shorten our meeting.

16,313. Mr. Kerly: Cannot you, instead of reading to us an address, just tell us the points which you want to add to what we have already got? I tell you frankly that, although I am accustomed to following statements, I could not follow it as you were reading it, and if I am in that position I do not think my fellow members are likely to be better off?—It is a very obscure point, but it is a point that we cannot avoid if we are to understand this subject. Perhaps I might say this. Whether we discount the estimated annual surplus at 10 per cent. simply, as we have done, or whether we discount it at 10 per cent. and provide for the accumulation of a sinking fund at 5 per cent., we regard as immaterial for the purpose of illustration. We have taken the simplest method of discounting it at 10 per cent. to show the principle.

16,314. I want to save time if I can. I will give you still ten minutes past three, which will be seven minutes more, and we will see how far we can get with your statement?—Thank you. I leave that point now and go on to another point, the last point, which is very important, and that is this: that in mining valuation the question of the use of annual interest is a difficult subject. In roughly measuring the base value of a mining proposition or mass-unit, the interest element must be brought in. It is clear that the present value of a mining proposition expected to yield an average annual surplus of £10,000, amounting over a period of 20 years to £200,000, is nearer to £85,000 than it is to £200,000. This £85,000 is an approximation to the present exchangeable value of the whole mass-unit, and is capital. Having once agreed upon the exchangeable or base value of a mining proposition or mass-unit, either for the purpose of sale and purchase, or for the purpose of computing the future annual profits for division between parties interested, the base value so agreed should be treated as the purchase price at so much per ton of the mineral contents estimated to be contained in the mass-unit. When the proposition becomes, as it has now become after sale and purchase, a profit-seeking undertaking, different considerations apply, and no question of annual interest can arise. The mine owner has bought the mass-unit and taken it off the market to be gradually destroyed, or used up in the process of profit-seeking. That mass-unit is no more on the market for sale and purchase as such. It has now become a store of material forming part of the capital of the profit-seeking undertaking, and the profit earned over the whole period of working the venture, which may extend to a number of years, will represent the only possible interest. Profit is interest. In computing his annual profit the profit-seeker recognises the fact that in earning his annual revenue over the period, he has to deal with buyers on the metal market, and that the metal which he wins in the last year of the 20 years' period will, other things remaining equal, command no lower price than metal which he wins in the first year of the period. The metal broker pays the same price

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for metal whether the profit-seeker is working a mine which is 20 years old or one year old. An example may be given of this essential difference between the exchangeable value of a mass-unit which is for sale on the market, and the surviving value as a material wasting asset after it is definitely dedicated to profit-seeking and is being used up. In the one case the time of possible recovery is an important factor in determining the value to the purchaser of the mass-unit; in the other case it is immaterial to the purchaser of the won metal whether the product offered to him is taken from a new mine or from a mine twenty years old. Suppose that instead of a mine estimated to produce—after providing all economic expenditure—an average annual surplus of £10,000 over a period of 20 years, and to contain 200,000 tons of mineral, the proposition is a vault estimated to contain mineral in the form of 200,000 gold sovereigns. It is expected that 10,000 sovereigns and no more can be recovered each year during a period of 20 years. The quantity of sovereigns contained in the vault can only be estimated, and there are many unknown factors of risk connected with their future recovery. In these circumstances an adventurous profit-seeker might be found willing to pay £85,000 for what may be called the base value of the rights to seek recovery. This base value is equal to £s. 6d. for each sovereign supposed to be contained in the vault. If 10,000 sovereigns are in fact recovered each year they will represent an annual surplus of £10,000. This £10,000 should be applied first as to £4,250 to refund the cost of 10,000 sovereigns at £s. 6d. each. The balance only, amounting to £5,750, can be properly computed as profit. Under the plan of amortising the capital of £85,136 by means of a sinking fund the £10,000 surplus might be applied as to £1,487, the annual instalment of a sinking fund which if invested and accumulated at 10 per cent. would amount at the end of 20 years to £88,136, and as to the balance of £8,513 as profit. But the exchangeable value of 10,000 sovereigns does not increase with the lapse of time, and therefore the profits expected to be earned from the recovery of the sovereigns in later years must not be thus appropriated in advance of their arising.

16,315. Your time is up, and I am sorry to say that with the best will in the world, I think my original suggestion was right. I have tried to follow you, but I have not yet made out what proposition it is you are putting before us by way of supplement?—I am sorry to hear that, but I think that that statement is material and is what I wanted to say, and therefore I am quite willing to leave it at that. I think in considering the evidence that further statement will be of use.

16,316. We shall have it on the notes. The fact is, as it seems to me, speaking for my own part, your argument is of a character that one can only appreciate in print?—I think that is so. I fully understand that.

16,317. Mr. Kerly: We have got some eleven pages of considering and shall have an opportunity of considering again.

16,318. Mr. McLintock: Before coming to the main part of your paper there are two points. You refer to the three years' average system; under that system at present how many years' losses do you recover?—Without calculating I could hardly tell you.

16,319. I suggest three?—Three years' loss?

16,320. Yes, that is the result of the three years' average system?—I should rather have thought two, but I am not sure without making the calculation.

16,321. You suggest in adopting the previous years' basis that losses should be cumulative for all time?—Yes.

16,322. I suggest to you that on the preceding year basis three years' losses would be a reasonable thing?—I am unable to see why you should limit it to three years' losses.

16,323. You are asking for a departure from the three years' average system which at present only gives you three years' losses. There has never been any complaint so far under the three years' average system that losses were not made up for a longer period?—I would suggest this: that if the losses are

allowed to be cumulative over an unlimited period we should still be taxing all annual profits.

16,324. Your view is then that to allow three years' losses and take the preceding year as the basis of assessment is not reasonable?—I think that that might operate to cause Income Tax to be levied upon something more than the profits of the taxpayer.

16,325. Then you refer to the payment of the tax in two instalments. Take the year 1919; on the payment of dividends, say half-yearly in June and December of 1919, the company retains the tax?—Yes.

16,326. And it pays on the average profits of the years 1916, 1917 and 1918?—Yes.

16,327. Do you suggest that a further year's credit is desirable, or an extension of credit—an extension of the time for payment?—I think so, because it may be that the payment due to be made for Income Tax in January is on an average of profits very much greater than the dividends which are being paid during the current two half-years and which enable the company to deduct Income Tax on the amount of those dividends.

16,328. The profits which are assessed and for which the tax is demanded in the year 1920 are the profits of the years 1916, 1917 and 1918?—Yes, and may be much greater than the profits which the company has distributed in two half-yearly instalments at the present time.

16,329. Yes. On the other hand, the profits actually earned in the year 1919 may be very much greater than the assessment on which the tax is demanded in 1920?—Yes. That works out on the operation of the law of average, but I suggest that because the statutory profits for the current year are based on the average of past years it does not suggest for a moment that the taxpayer is in arrears in paying his Income Tax; it is merely that this is the measure for the current year.

16,330. But the fact remains that the profits which enter into the computation have been in the hands of the taxpayer for a considerable period of time before he is asked to pay, and in addition he has deducted tax for the current financial year from all payments of dividends and interest during that year. He has a substantial portion of the tax in hand if he has paid dividends before he is asked to pay the full Land Revenue?—I cannot follow that; I do not agree with that. I disagree with it because when a new company starts it does not wait two or three years before it begins to pay Income Tax.

16,331. I suggest to you that a new company never pays any tax on its first year's profits until a considerable time has elapsed after they have been earned, and in the second year it pays on the preceding year's results, while in the third year it pays on the average of the first two?—The tax for the year ended 5th April, 1919, for instance, is due three months in advance of the end of the year.

16,332. Did you ever know a new company pay its tax in advance of the period of earning its profit?—But I cannot help thinking that it operates to cause the tax to be paid in that way. The tax on every year of the existence of a company very soon comes to be paid three months before the expiration of that year. It may be that there is a little delay in the beginning in the case of a new company.

16,333. Assume the year is the calendar year ending the 31st December, and you are asked to pay the tax in January. Do you still suggest it is paid three months in advance?—I would rather, if I may, in order to understand it, stick to the Government year.

16,334. But you cannot; it is not reasonable to stick to the Government year when the company's year or which the assessment is based is the 31st December?—I think the difference between us is that I am looking at the fact that the Income Tax is payable for a current year upon income measured by reference to something back; and you are, you are not, regarding the position as though tax was only being paid on the income of those back years in the later year? That I do not agree with.

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16,335. Still it is the case, nevertheless—I will leave that point. In your paper you object to the sinking-fund basis?—Yes, as applied to material wasting assets.

16,336. Would you consider that the assets of a municipality differ in any way from what you term material wasting assets?—I should have to ask what they consisted of, exactly.

16,337. Well, what is the basis of your objection to the sinking fund?—My objection to the sinking fund in the case of material wasting assets is that it operates to write them off at a retarded rate during the earlier years of the life and at an accelerating rate during the later years.

16,338. That is your objection?—Yes, that is caused by the use of interest.

16,339. But the result is the same at the end of the life?—Yes, at the end.

16,340. With regard to your main question you set forth three elements as entering into the value or the price paid for a mine?—Yes; are there three?

16,341. You refer to the sum paid for its future earning power and also for what you term its mining rights base value?—Yes.

16,342. Is that a description entirely of your own?—Base value?

16,343. Mining rights. Base value?—It is a description adopted as a result of consideration by the Institution of Mining and Metallurgy, acting through a joint committee representing the mining industry.

16,344. Let us take your illustration B. What do you suggest has been paid for that mine?—The amount paid for it is not shown here, but we have shown what may be computed, for the reasons given, as the base value.

16,345. Let us put this more in line with an ordinary everyday transaction such as we are concerned with. In the illustration B was there nothing paid for the mine?—Well, if an amount equal to its base value was paid for it, then £85,000 would have been paid.

16,346. We will assume that the right to work this mine cost £85,000?—Yes, probably, it did.

16,347. What is that £85,000 exactly; will you just tell us?—That is the present exchangeable value of the mining rights of the proposition.

16,348. In other words, the right to earn future profits?—The right to seek for the minerals for profit-earning purposes.

16,349. You mean the right to seek for minerals which may or may not be there?—Certainly.

16,350. Then we will assume they find them, and and they proceed to work and, as shown in the table in paragraph 39, you give a pro forma mining account?—Yes.

16,351. In which, after payment of outgoings, excluding this depreciation on this base value, you are left with £20,000 of profit?—Yes, balance of revenue, not net profit.

16,352. What exactly is your suggestion for taxation purposes with regard to that £20,000?—It is clear that the £10,000 interest on capital plus something else will be taxed.

16,353. £10,000 is interest on £100,000, but the capital sunk in this mine, of course, is the £185,000?—You asked what was my suggestion with regard to the £20,000 surplus. It is this: that first there will be deducted the depletion of the base value.

16,354. What is that in these figures?—That would be at the rate of so much a ton on the mineral extracted, that rate of so much a ton being arrived at by reference to the computed exchangeable value. £85,000 divided by the estimated number of tons of minerals which are contained in your mine.

16,355. Still we want to get at some practical proposal which can be put into operation for the purpose of levying Income Tax?—Certainly; that is what we are endeavouring to suggest.

16,356. Mr. Kerly: I do not know. An unkind critic might say that this is an elaborate scheme for preventing any mine ever in any circumstances paying Income Tax?—I am sorry to hear that remark. That is certainly not the intention, and I do not think if this method could be a little more fully explained you would take that view at all.

16,357. I did not say I took that view; please do not misunderstand me; but that is what you have

got to deal with. You have got to show, and I take it Mr. McLintock is cross-examining you to see whether there is any practicable method of applying your scheme so as to make a mine, which ought to pay Income Tax, pay it?—Certainly.

16,358. Mr. McLintock: Neither of these figures that you have given us there, the two amounts of £10,000, have any relation to what you maintain is the taxable profit after allowing for the amortisation of the wasting asset?—Those figures will represent the taxable profit after the depletion of the mine has been deducted. That is exactly it.

16,359. Which of those figures represent it?—The amount of them, £20,000, less the depletion allowance.

16,360. In other words, there is another calculation still to be made to arrive at the amount to be taken off the £20,000, the balance to be taxable?—Certainly, there is the depletion which has not yet been included in the economic cost of producing the revenue; that is so.

16,361. I gather from these figures that the only profits which would be taxed would be the profits representing this 10 per cent. return on capital?—No, that is not the intention at all.

16,362. Unless, of course, the mine turned out to be worth more than your estimated base value?—No. Assuming that the mine turned out to be exactly as estimated, the amount of surplus expected to be extracted over the 20 years is £200,000, and if during each year of the twenty years one-twentieth of the total tonnage is extracted, then one-twentieth of the estimated base value, or £4,250, would be the depletion allowance according to our view. Therefore on these figures—which unfortunately are not worked out in such detail as perhaps they should have been to illustrate the very important point you are raising—the net profit which would be taxable is £20,000 less £4,250.

16,363. May I put it like this? Assume that column B represents the trading results of a mining undertaking and that at the end of the year there is £20,000 profit?—Surplus revenue, not profit.

16,364. All right; surplus revenue. You meanwhile have arrived by this peculiar method of yours at what is termed mining rights base value and it is £85,000?—Yes.

16,365. And you have bought the mine on that basis?—Yes.

16,366. You wish to charge against the £20,000 each year for 20 years, £4,250, and pay tax on the balance?—Yes, assuming that we get an equal proportion of the whole contents each year.

16,367. Then would your base value alter from time to time in the light of the further knowledge?—Certainly the base value might require adjustment—I mean that if there were sufficiently important fresh discoveries or acquisition of further knowledge the facts might be the subject of a review of the base value by the authorities who would adjudge upon those subjects.

16,368. Then you would set up some special court of experts to consider all mining propositions and to go into this mining rights base value, I suppose, once a year?—We have suggested in the course of the evidence the great importance and the necessity of setting up a permanent Commission of technical advisers to consider these important questions which must be determined before we can measure the profits which we have not to divide with the State.

16,369. Could you not suggest some simpler and more easily understood method of giving an allowance for wasting assets?—I think it is admitted that this class of wasting assets is undoubtedly the most difficult even among wasting assets which are in themselves very difficult to deal with. This is an attempt at a logical method of computing what undoubtedly is exchangeable value, and is capital relating to these enterprises, and it is put forward by the Institution after the most careful consideration. We think, if we may say so, that it is a considerable advance at any rate as a beginning, upon any suggestions that have been made up to the present time.

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16,370. That is assuming an allowance for wasting assets for Income Tax purposes is admitted in principle, this is your considered suggestion as to how it should be carried out?—That is so.

16,371. Take, for example, your \$85,000 of mining rights base value. Would it not be equally satisfactory to suggest that a sum should accumulate, say at the rate of interest of 6 per cent., during the life of the mine, would not that work quite as well?—No, I cannot see any logical data upon which you could found such a method of estimating base value. We are proposing to use this method, in conjunction with all the facts and the reports and the use of all the accumulated statistics which would be available.

16,372. You do seriously suggest that the ascertainment of the mining rights base value is something that can be easily arrived at annually?—Not annually, but which can be arrived at approximately and sufficiently nearly for the purpose, and we are glad to be able in furtherance of that view to point to the fact that in the United States they have got a provision recognizing that that base value is ascertainable and that the depletion of the base value is to be allowed as a deduction before charging Income Tax.

16,373. You have got a statement anyhow in the United States Revenue Act; you do not know how it works in practice?—We do not know at present how it has worked out in practice. Information of that sort, of course, would be sought and we should perhaps gain some valuable information upon that.

16,374. Your mining rights base value, I take it, approximates to what they term in the American Act the fair market value?—That is so, of course.

16,375. Professor Pigou: I did not gather, in reading your evidence, that the base value was to change; that rather modifies the questions that I wanted to ask. I understand that the base value which is to depend on the estimated average capital outlay and on the estimated life of the mine is to be calculated differently each year?—No, that is not intended at all. We think that in practice it would be perhaps rarely necessary for either side to apply for an adjustment of the base value, but it is undoubtedly necessary to contemplate that adjustments might have to be made. In dealing with questions of this kind I think that one is always apt to fear more difficulties as likely to arise than do in fact arise in practice. For instance, in the case of the Excess Profits Duty the pre-war standard is frequently altered, but it has worked admirably, and Mr. Kerly is very familiar with that question. I do not think, as far as I am aware, that any serious difficulties have arisen in dealing with these necessary adjustments, and I think that the pre-war standard, as influenced by increase or decrease of statutory capital, and so on, is far more likely to cause constant recourse to the Board of Referees than would be adjustments in the base value of mining rights to the proposed permanent Commission. A substantial alteration in the outlook of a mine would no doubt be likely to cause it to be necessary to go before the permanent Commission which we have suggested.

16,376. Your answer to my question put more shortly is that the base value is not to be recalculated every year but at intervals?—To be recalculated if and when fresh discoveries or greater knowledge render it necessary.

16,377. It would then have to be recalculated often if a mine were sold in a very early stage before anybody knew much about it and new information came along?—Probably is would.

16,378. When the recalculation took place the result would be, would it not, that if a mine were discovered to be much more valuable than had been expected the amount of tax that the mine would pay would be diminished because the allowance for base value would be increased?—But if the base value increased the balance of profit would also increase because the two things are computed to run parallel.

16,379. Not necessarily, if the base value is partly dependent on the estimated length of life of the mine. Information might suggest that the life would be longer while the current profits remained the same?—I follow, but if the life is likely to be longer, that means a larger content, and therefore as the claim for

depletion is based on the number of tons extracted, it would not increase the charge for depletion for the year, but merely extend it over a longer number of years.

16,380. Then when the recalculation was made would an allowance be made in the case of a coal mine for changes in the price of coal?—For ordinary ups and downs in the market due to the factors mentioned in the evidence-in-chief no allowance would be made; it would only be a question of a permanent alteration in the general level of prices.

16,381. But for a permanent alteration in the price of coal the base value would be changed?—I think so, if it was a permanent alteration—if there was a permanent alteration since the date when the base value was fixed, yes.

16,382. Supposing that the price of coal, for example, were to double, would you not get a rather excessive allowance, because profits would presumably double when the price of coal doubled. Would it not mean that your allowance would be increased very extensively?—I think that if we contemplate the possibility of the price of coal, for instance, doubling permanently it alters the whole economic value of everything, and I am not at all sure, in order to do the same justice that you did before, that it would not involve the increase of other values including the base value.

16,383. But the base value would increase on your system; it would double. My point is that if the base value were doubled and therefore the allowance were doubled, and owners' profits were not doubled, presumably you would obtain a larger proportionate allowance of tax?—I think that would be a matter which would have to be considered by the permanent Commission, but I am not quite clear; if there was a permanent doubling in the price of coal, I am inclined to think that it would mean that all other commodities and all prices and values would tend to double.

16,384. That may be or may not be, of course. You admit the difficulty?—I quite admit that. That is one of the things that would have to be considered by the permanent Commission.

16,385. And a thing that complicates the problem?—It does, undoubtedly.

16,386. Another point: when your revision of the base value took place that would imply, of course, that the base value as calculated before was wrong?—Yes, from lack of knowledge.

16,387. Would you in the allowance made in the future make any adjustment to correct those previous errors?—No. I imagine that a permanent Commission, such as we suggest, would have to consider the matter from that point onwards.

16,388. There would be no adjustment for the errors?—I should think not, but these are matters that we were suggesting should be in the power of the permanent Commission to deal with.

16,389. Of course, the drift of my question is rather to suggest the extremely complicated part that the Commission would have to undertake. Passing from that, besides the allowance for base value you also propose that when a mine has been sold for £150,000 by a dealer who paid £100,000 for it, and that £50,000 profit of the dealer bore tax, then the future mine owner should get off the corresponding amount of taxation?—Yes.

16,390. And your argument is that the £50,000 that the dealer gets is discounted in future profits of the mine?—That it is included in future profits of the mine.

16,391. And therefore they must not be taxed twice?—Yes.

16,392. If one pursues that a little, of course the dealer's profit might be counted as payment for the work and risk he undertook?—Yes.

16,393. If you admit that, how do you distinguish the case of a mine from such a case as this: supposing a hotel company gets a builder to build a hotel for them, would you allow the hotel company to get off tax in respect of the profits paid to the builder for his work in building the hotel?—I should certainly say that before computing the profits of the hotel company they must be allowed depletion or depreciation on their hotel, which cost them a sum including the builder's profits.

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16,394. That is a different point. Would you say that if the builder's profits were £50,000 the hotel company was to be allowed to deduct from its taxation basis the interest on £50,000?—I think it would come out in that way. That £50,000 of profit made by the builder would be part of the cost of the hotel, which is a wasting asset, and before arriving at the profits of the hotel company for taxation the depreciation of that wasting asset should be allowed.

16,395. But would you distinguish between the case of a hotel company that built its own hotel and a hotel company which bought its hotel from a dealer, as you do in the case of a mine; the two things are really analogous?—I cannot very clearly see the issue there. If the hotel company built the hotel it would be undertaking a builder's business and would presumably have made £50,000 of profit. In that case, I suppose, it might be taxed on the £50,000 instead of the builder.

16,396. Mr. Kerly: No, because the profit is not realized by anybody.

16,397. Professor Pigeon: Take another case. Supposing that I buy from a stock and share broker stocks and shares for so much. He makes a profit of so much on the sale of those shares. Am I going to say that the future interest that I get on those stocks and shares ought to be let off taxation because they have already been taxed in the profits that this stockbroker gets?—No, but I venture to think that the two things are not parallel.

16,398. Your argument is that those future profits have already been taxed once on the taxation of the profits of the dealer?—Yes.

16,399. Surely the same thing holds whether it is a dealer in mines or a dealer in stocks and shares, or a dealer in anything else?—To go back to the hotel company, where a builder has made £50,000 we tax the builder on that £50,000, but we ought not to tax the hotel company on its receipts until all costs of carrying on the hotel, which includes the £50,000, have been allowed for in the form of annual depreciation.

16,400. But you are proposing to treat the £50,000 profit differently from the part of the cost of the hotel that is not builder's profit?—In the case of the mine our suggestion is that *prima facie* the cost to the buyer will be the base value, but we must have some means of checking that, and that is why we have endeavoured to outline the method by which the base value can be arrived at. In the case that you spoke of, £150,000 has been paid to the vendor, but it is proved that the base value is only £100,000; therefore somebody must pay, we admit, Income Tax on the £50,000, either the vendor, if he be a dealer in such property and is therefore assessable under the Income Tax Acts, or otherwise the company. If the vendor receives the £50,000 as a casual profit he will not have paid Income Tax upon it, and therefore we do not ask in that case that the purchaser, being the company, should be allowed depletion on any more than £100,000.

16,401. I fully see your argument, but what I am suggesting to you is that your argument logically should be extended, and that if it was extended to other things than mines it would not commend itself to common sense?—I must confess I cannot see that; I cannot follow that, and with submission I do not think it is so.

16,402. Very well, pass to another point. Would this proposal be retro-active? Supposing you have got a mine which has already been bought from a dealer, the dealer getting £50,000. Would you now proceed to let off that mine in respect of that £50,000, or would it only apply to mines that are going to be bought from dealers in the future?—I think that under our proposals every mining enterprise would have the right to claim to prove its base value, and I think that in each case where there is a claim it would be necessary to consider the whole of the facts. Those facts that you speak of would have to be gone into at that time.

16,403. Supposing you have two mines, both of which paid £150,000 for their property; one bought from a dealer and the other bought from an owner. We will assume they are exactly similar and at

present they pay the same taxation. Would you proceed to reduce the taxation on the mine that was bought from the dealer?—I should inquire in such cases along the lines set out in the evidence-in-chief, what was the base value in each case.

16,404. But granting the base value is £100,000 in each case but that one was bought from a dealer and the other was bought from the owner?—Then I should say that the one who bought it from the owner could only be allowed depletion on £100,000.

16,405. Then in fact you would proceed to reduce the taxation on the one that had been bought from the dealer?—On the ground that the dealer had already paid Income Tax, certainly.

16,406. But, of course, that is an event of the past. Would it not be rather paradoxical to do that if those two mines were exactly the same, on the mere fact that 50 years ago one was bought from a dealer and the other was bought from an owner?—I think not, because the fact that the owner, who was not liable for Income Tax, had refused to take less than £150,000, upon which he knew he would not have to pay Income Tax, and that the dealer, though he had to pay Income Tax, was willing to accept £150,000, shows that the two mines were not of equal value.

16,407. Not necessarily?—That I think we must assume, because one got the amount net and the other did not. I think that is a fair answer.

16,408. Anyway that only refers to a small part of the sum?—Yes.

16,409. You have got two mines exactly alike. On your argument it seems to me that the one which perhaps 100 years ago happened to be bought from a dealer while the other was bought from an owner, would now suddenly get a kind of present which the other would not get; that would surely be unnecessary?—But I plead for this answer. It seems to me that if one had paid Income Tax on the amount he received and the other did not have to pay Income Tax, then, if they both received the same amount, it would show that the value of the mines was not identical, because it is theoretically, at any rate, a question of the net amount that each of the vendors received. They did not receive the same net amount.

16,410. Mr. Kerly: If I may interrupt for one moment, your proposition seems to come to this, that although two mines are sold for the same sum, where the vendor of one carries on the business of selling the mines and the vendor of the other does not, you are to infer that they are of different values?—Yes, because one receives a less net sum than the other.

16,411. Does not that really dispose of the matter?

16,412. Professor Pigeon: It explains the argument, but I do not think it warrants a difference of treatment. I do not think I want to pursue that any further.

16,413. Mr. Birley: Following out what Professor Pigeon has been saying, assume a mine has been bought on the assumption that it has a 20 years' life, and assume that some arrangement has been made for not taxing some of your surplus revenue, so as to pay for the wasting asset. Say five years have gone by, and during those five years this allowance has been made, that is to say, so much of the surplus profit has not been taxed to allow for the amortisation?—Yes.

16,414. Then it is found that a miscalculation was made, and there are a further 20 years of life. The first company then sells to another company on the assumption that there is another 20 years. The second company under your scheme, I take it, would be equally justified in asking for the same allowance on the assumption of 20 years as the first company?—Probably, because the fact is that the original computation of its value was too small.

16,415. But my point really is this, where does the Inland Revenue come in?—They would be getting their tax upon the profits.

16,416. But they would have made allowances for more than the original amount. They would have made five years' allowances for the first company and then have to begin all over again?—I think not, because the discovery of the longer life means the discovery of a greater value, out of which more profits will arise.

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[Continued]

16,417. I assume that at the end of the five years it is found that there is the same life, and, therefore, the same value as there was in the beginning?—Yes.

16,418. The first company sells to another company, so that the second company has to arrange for its life over 20 years?—Yes.

16,419. It seems to me, according to your scheme, there is nothing for it but for the Inland Revenue to lose pretty heavily over the transaction?—I do not think so, because it means that the proposition was really a 25 years' proposition instead of a 20 years' proposition.

16,420. But the allowance was not made on that assumption?—It was first made on 20 years' life; but the fact that the mine is likely to be a longer-lived mine, means that the contents are greater.

16,421. Yes, but it also means that a greater allowance than the full base value at the beginning is made by the end of the whole period?—I am afraid I do not follow that; I do not think that would be so.

16,422. Mr. Kerly: I want to ask you one question, and I think it is the only question. The actual cost paid for a mine is to be a factor in determining your base value?—I think an important factor, yes.

16,423. And the greater the sum paid for the mine the greater the allowance against any actual profits before you arrive at assessable profits?—Provided that the sum paid is found to be the base value.

16,424. It will be a distinct advantage to sell a mine which is worth £100,000 for £200,000, payable to the vendor in shares?—I do not see why it should be an advantage.

16,425. Yes, because it is nominally of double the value?—But that would be knocked to pieces when it came before the permanent Commission.

16,426. Very well. In some cases, at any rate, you are to disregard the actual cost?—You always disregard the actual cost.

16,427. No, pardon me, I think you began by saying that. If you say you disregard the actual cost, then the point I have in mind disappears. I thought the actual cost was a very important factor in your base value?—May I explain. I think that *prima facie* the cost paid to the vendor is the present exchangeable or base value, but, knowing as we do that it is quite possible to inflate that amount, we should only say that in honest concerns, if I may put it in that way, it would probably be the base value, but it would always be a question of going behind that.

16,428. It really does not assist us to talk about honesty where you are dealing with an essentially speculative proposition, does it?—I quite agree; we do not want to use that word. I only suggest that *prima facie* the amount paid for a thing is its exchangeable value, but we do not want to take that at too much weight in this case.

16,429. In most of the cases which you are dealing with so far as the cost of the property is concerned you are dealing first with a property which is highly

speculative, and secondly with a purchase price paid in shares to the vendor?—Yes.

16,430. And I suggest to you that in those circumstances the purchase price is very little to do with any actual value?—Well, that is rather a reflection upon the mining industry, which I think is rather sweeping.

16,431. Will you agree to this, that if instead of having shares of one denomination you have shares of a different denomination with a beneficial result on your future Income Tax you are likely to have such a selection made as will be most beneficial for your future Income Tax?—I think that no such arrangement which might be made with an eye upon the question of Income Tax would prevail to the advantage of the parties, because they would always have to prove the reasonableness of their claim for base value.

16,432. Very well. Then is this involved in the practical working of your scheme, that some independent body is to be employed to estimate the value of a mine, the probable amount of mineral remaining to be gained from the mine, and the probable number of years it will take to get it all out?—That is so, and the necessary evidence is obtainable from the engineers concerned with the mine.

16,433. Do you really suggest to this Commission that those three problems can be satisfactorily solved with regard to the average mine?—We think that if they can be so well solved as to induce people to risk their capital in such enterprises it does not lie with those who share in the profits of the enterprises to say that the problems are unsolvable for the purpose of measuring the annual profits.

16,434. Very well, an argumentative answer, at any rate. Does any of the other gentlemen desire to add anything to any of your evidence?—They say not, thank you. With regard to one question, might I just mention the cost of development which we have not referred to to-day?

16,435. Where do you deal with that?—It is in paragraph 45 in the evidence of the Institution. Professor Louis, who was before you recently, has developed that subject very considerably.

16,436. Yes, we had him, as you know?—We should like to say that we are in entire agreement with what he has said on that subject. I should like also as likely to be of use to the Commission, to put in a short statement by Mr. G. F. Dawkins, of the Consolidated Gold Fields of South Africa, Ltd., which shows in illustrated form the view of the Institution as to how the annual allowance for development should be dealt with. [See Appendix No. 26.]

16,437. Very well, we will put that in as an appendix to your evidence. We are always glad to have such matters in writing. It is, as you will understand, difficult, as I told you earlier, where we have a verbal supplement to evidence, to deal with it at all?—I quite understand.

16,438. Mr. Kerly: We are very much obliged to you.

DR. G. E. HASLIP, on behalf of the British Medical Association, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

16,439. (1) Innumerable accretions, legislative and administrative, have led to such complication in the return for assessment of Income Tax that it is almost impossible for the busy medical practitioner to make the return unaided. Form No. 11—Itself a four-page document—is accompanied by four closely printed, small type, footsized pages of explanation.

To fill in the usual claim for exemption, statement or reduction of tax a doctor's professional income must be returned on the average of the three preceding years.

His income from any public office must be returned on the actual income of the year. His income from property must be returned at the amount of the Schedule A assessment on the property concerned. His income from occupation of land must be returned at double the annual value of the land. His income from taxed dividends must be returned at the actual income of the year of assessment (as

unknown quantity). His income from untaxed dividends and interest must be returned at the amount received in the year preceding the year of assessment. And the charges on his income must be returned at the actual charges for the year of assessment.

16,440. (2) Further complication arises from the number of forms which many taxpayers are asked to fill up. Thus many doctors are asked to fill up a Schedule D return, and a Schedule E return, and may be requested to make a Super-tax return, should the doctor be entitled to repayment for any cause, he may be required to fill in many other forms before repayment is obtained. Owing to want of acquaintance with the technicalities of Income Tax law and administration, the returns made by individuals may be erroneous in either direction, leading in the one case to loss of revenue to the Government, and in the other to excessive assessment of the individual.

16,441. (3) In practice the complicated procedure leads to inequality of assessment and injustice, and involves many taxpayers in the expense of employing

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an accountant. In the case of medical practitioners inequalities in assessment arise from:—

(a) The "three years' average" for professional incomes. The inequalities due to different modes of assessment have already been pointed out. The income of the previous year can easily be ascertained; further the year following a year when profits were high is more favourable for the payment of a large Income Tax, and vice versa.

(b) The "Depreciation" allowances. Schedule D is divided into six cases. Case I refers to profits derived from trade, manufacture, adventure or concern. Case II relates to profits derived from any profession, employment or vocation not contained in any other schedule. Thus professional men are assessed under Case II. Rule 6 of Schedule D, Cases I and II of the Income Tax Act, 1918, provides that "in charging the profits or gains of a trade under this Schedule, such deduction may be allowed as the commissioners having jurisdiction in the matter may consider just and reasonable, so representing the diminished value by reason of wear and tear during the year of any machinery or plant used for the purpose of the trade, and belonging to the person by whom it is carried on." The Inland Revenue have always held that this Rule only applies to Case I, and that it is not applicable to Case II. This is a distinct hardship as between one taxpayer and another, since many professional men now use a considerable amount of machinery, such as motor cars, and X-ray and other costly electrical apparatus. Allowances for renewals and replacements do not meet the case. A man setting up in practice spends a considerable sum on the purchase of a car, on apparatus and on fittings for his surgery. No allowance can be claimed at a time when he is building up a practice, and requires all the relief and assistance he can obtain. And if for any reason he retires from practice before renewals are necessary, for example in five years, he obtains no relief whatever for the diminished value of a car by reason of wear and tear over the period. It is submitted that Case II should be treated in the same way as Case I, in this matter of depreciation.

(c) The depreciation of wasting assets. At present there is no provision in Income Tax law for granting to any taxpayer an allowance in respect of depreciation of wasting assets. This hardship particularly affects doctors who have to pay a heavy premium for their leases, as in the case in certain areas.

(d) The joint assessment of partnerships. Partners are practically compelled to obtain full particulars of the assessment of the partnership from the Surveyor, and to ask him to allocate between the partners the net duty charged, according to their individual liability. At the present time, when there are varying rates of tax according to the individual's total income, and various reliefs on each partner's taxed income allowed against the assessment on the firm, each partner is practically compelled to disclose to the other partners full details of his private income, thus doing away more or less with the confidential nature of the returns. It would be greatly to the convenience of the taxpayer if each partner were assessed separately.

(e) The deduction of a proportion, not exceeding two-thirds, of the rent of a dwelling house for purposes of business. Inequality arises from the fact that the amount allowed in each area is determined by Local Commissioners, between whom no common standard exists.

(f) Relief in respect of children. In view of the heavy cost of professional education and training, considerable extension is needed both in the sum upon which relief is allowed and with regard to the income limit. A professional man who wishes to do justice to his children, and to bring them up in his own station in life is particularly hard hit. The trader has a business, with equipment and stock, etc., to leave for his children; the professional man must invest his savings in their education. A further but subsidiary point in this connection is that the trader's own business capital yields a rate of interest which forms part of his business profits; the whole of these profits are treated as "earned" income, whereas the professional man's savings being invested outside his business are treated as unearned.

16,442. (4) The Council of the British Medical Association strongly supports the proposals of the Board of Education with regard to relief in respect of children.

16,443. (5) To sum up, the British Medical Association submits the following suggestions:—

- (1) that the filling up of return forms would be much simplified if the income were returned on the basis of the income received for the year preceding the year of assessment. The basis to be uniform, as far as possible, for all sources of income;
- (2) that one form only should serve for assessment under any Schedule, for Super-tax, and also for repayment where the taxpayer is so entitled;
- (3) that depreciation of machinery—such as motor cars and electrical plant—should be allowed in Case II as in Case I;
- (4) that partners should have the right to be separately assessed;
- (5) that there should be uniformity of treatment in the deduction of a proportion of the rent of a dwelling house used for purposes of business;
- (6) that relief in respect of children should be allowed in the manner recommended by the Board of Education.

[This concludes the evidence-in-chief.]

16,444. Mr. Kerly: You are giving evidence on behalf of the British Medical Association?—Yes.

16,445. As we all know, that practically represents all doctors, I suppose?—Our membership is about 22,000, with about 16,000 in the United Kingdom. Every medical man is not a member of it, but it largely represents medical men.

16,446. Has your paper, which is quite short and perfectly plain, been approved on behalf of the Association?—Yes; the Council of the Association deputed four members, the editor of the Journal, by whom many inquiries about these questions are naturally received, and three other members of the Council; we having power to act.

16,447. Mr. Walker Clark: In paragraph 3 (a) with regard to taking the previous year rather than the three years' average, you suggest the income of the previous year can easily be ascertained?—We are speaking from our point of view—much more easily ascertained.

16,448. Is it not a fact that sometimes the previous year's income has not been actually received?—Some of the debts are not received, but one's experience is that money that is not received within a short time, is not received at all. Our bad debts are very heavy.

16,449. My point was really this. It is your considered opinion that the previous year's income would be a fair thing, rather than the average?—Yes.

16,450. Notwithstanding the fact that so large a proportion of debts are in account?—Yes.

16,451. It would need adjustment in many cases, would it not?—I may tell you that in certain districts the average of money received has been accepted from doctors by Surveyors of Taxes.

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[Continued.]

16,452. That was the very point I wanted to come to?—It may seem to be unbusinesslike, but I was rather surprised at evidence given to us that that was a fact.

16,453. My point is whether it is the one year's cash receipts, or whether it is the one year's income?—Here we suggest the one year's income, but in going into this question, one was really surprised to hear from one doctor, who was in a large partnership with three partners, that as a matter of fact what they actually received was accepted on an average from year to year by the Surveyor.

16,454. Is your proposal the income, or the cash receipts?—Our experience is this. I can speak very strongly from my own experience. What I do not receive within the first month or two months, I would sell at a very large discount; I would take a very small amount for it. What we find is this. When a professional man has made a very good year, he would much sooner pay a large Income Tax the following year, when he has got the money, than to have it carried over.

16,455. That is, his receipts rather than his income?—Yes, that is on his receipts more than on his income.

16,456. The point with me is whether it would not be a hardship in many cases to have the Income Tax levied upon the previous year immediately, because of the lengthy credit which is necessarily given by some men. Have your Council considered that point?—They have considered it, and they still adhere to that; they were very strong on that point.

16,457. In paragraph 3 (b), you suggest that allowances for renewals and replacements do not meet the case, taking into account all the elaborate apparatus and machinery which is now required in doctors' laboratories and surgeries?—Yes.

16,458. Is there no allowance now made?—Only for replacements and renewals.

16,459. There is an actual allowance made for replacements and renewals?—Yes.

16,460. When they do not exceed a very excessive amount?—A young doctor starting practice has depreciation of those appliances, but he does not get any redress until he has to renew them. Take a motor-car; a man has his motor-car; he runs that motor-car for six years. Allowing a motor-car to cost £500, and allowing £100 a year for depreciation, he receives nothing annually for that depreciation, but at the end of six years, when he is taking another car, he is allowed so much for the renewal minus scrap value; and then that is distributed over three years; the average of three years comes in again.

16,461. If he had hired a car from someone else, who had had to stand that charge, he would have included the hire in his expenses?—Yes.

16,462. It is grossly unfair as against the private owner, compared with the hirer?—I do not know that I have thought of that point.

16,463. But it is so, is it not? The hirer of the car has the advantage of deducting the expenses?—Yes.

16,464. Whereas the owner of the car has no such corresponding advantage?—That is so. We suggest that we should be treated exactly the same as others.

16,465. You suggest in paragraph 3 (d) that it is a great difficulty to the taxpayer that each partner is not assessed separately. Of course, at present each partner can be assessed separately, but the partnership is lumped together in order to allocate the proper rate of tax?—The partners are assessed jointly.

16,466. Do you mean that the partnership is divided into two, and the income is equally divided, or divided according to the terms of the partnership?—According to the terms of the partnership. Under the present position, the junior may know exactly the private income of his senior. It is felt that that is not right. Income Tax is supposed to be a private question.

16,467. Mr. Armitage-Smith: If a doctor keeps a motor-car, and it costs him £200 a year to run, he is allowed to deduct that £200 from his assessable income, is he not?—The actual running costs of it, yes; for the chauffeur and the petrol, certainly.

16,468. In your paragraph 5 (5) you suggest that there should be uniformity of treatment in the deduction of a proportion of the cost of a dwelling-house used for purposes of business. Do you say that there should be a fixed proportion?—What we have found is that in certain districts some doctors are allowed so much—two-thirds—for their rent, and others are allowed only one-third of the expenses of their houses.

16,469. You suggest a fixed proportion?—I think it should be uniform, and not necessarily left to the views of the local Surveyor.

16,470. But do not circumstances vary very greatly? For instance, you can conceive of a doctor who spends his week-ends in the country, who has only one small sleeping room and a large consulting room, and another doctor who has a consulting room of the same size and a large house in which he resides?—Suppose he has a separate consulting room away from his residence. I take it that the cost of that consulting room would be entirely a cost to his practice. Take a Harley Street man; the man living in Harley Street will pay a large rent because he has his business premises with his residence. Another man will have his consulting room in Harley Street, and perhaps live out in St. John's Wood or Hampstead, as many do; his expenses are not so great.

16,471. I am puzzled by your request for uniformity of treatment, if uniformity is to be interpreted as a fixed ratio of rent.

16,472. Mr. Kerly: Your suggestion means the exact contrary, does it not? You want some general principle. You do not want to have a fixed proportion of the rent?—I must confess that there are various views as to that.

16,473. Mr. Armitage-Smith: The point I am trying to put is that uniformity of treatment leads to the exactly opposite result to fixed ratio, but the witness tells me that a fixed ratio is what he desires.

16,474. Mr. Kerly: I quite follow you, but I thought Dr. Haslip was not following you.

16,475. Mr. Armitage-Smith: I think that is so, and I am trying to help him. (To Witness): Will you tell me what you do want? Would it meet your difficulty if the exact allowance was left to be determined by the Inland Revenue, within a prescribed limit?—I think so; I think that would be satisfactory.

16,476. Mr. Walker Clark: Is not that the practice now?

16,477. Mr. Kerly: The allowance may be up to two-thirds.

16,478. Mr. Walker Clark: The practice, at any rate, in our district is that in the case of a man whose residence has his consulting-room attached, a very much larger allowance is made than if the consulting-room is apart from his residence. If it is apart from his residence, the actual rent is clear, but if it is part of his domestic residence, it is up to two-thirds, varying with the circumstances in each case. We have had several appeals on that very ground?—There has been dissatisfaction over it.

16,479. Mr. Walker Clark: Yes, there has.

16,480. Mr. Armitage-Smith: Do you really desire a fixed ratio, or the other?—I think there should be uniformity of treatment to some extent.

16,481. Professor Pigou: In paragraph 3 (f), "relief in respect of children," it is rather suggested by your subsidiary point at the end that you are asking for a different relief in respect of the children of professional men than of traders. I suppose that is not intended?—That is not intended. Where do you find that?

16,482. You say: "A further but subsidiary point in this connection is that the trader's own business capital yields a rate of interest which forms part of his business profits"—I think what was meant was that generally all a professional man can do for his children is to give them a good education.

16,483. But you do not ask that the professional man's children should be treated differently?—Certainly not.

16,484. Then in paragraph 3 (c), you say: "This hardship particularly affects doctors, who have to

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[Continued.]

pay a heavy premium for their leases." I do not quite understand what that means. Would you explain that?—I know this question of depreciation of wasting assets is a big economic question, and I do not profess to be cognizant of all the points, but it was brought forward as applying specially to men taking a house in, say, Harley Street, where they perhaps have had to pay £8,000 or £10,000 for the lease. They buy the lease with a small ground rent.

16,485. It means the lease of the house?—The lease of their house; that is what it means. If they simply rented that house, say, at £300 a year, without paying any money for the lease, they would receive the landlord's tax back under Schedule A, they would be able to deduct it from their rent.

16,486. I see the argument, and this argument, of course, would not apply only to professional men?—No.

16,487. You would wish to give this rebate in respect of all?—Yes, that was a point that was brought forward. I do not wish to press it.

16,488. Would it not have to be considered whether the Income Tax had been discounted already?—I quite follow that this is rather a question between the landlord and the tenant, than between the purchaser of the lease and the Government.

16,489. Anyway, you do not specially wish to press it?—No, I do not wish to press it.

16,490. Mr. Petyman: Just one question about paragraph 3 (d), with regard to the joint assessment of partnerships. That refers, I suppose, to income really outside the partnership, mainly?—Yes; a senior partner, or any partner, with private income, would practically have to make that known to his partners.

16,491. You know, do you not, that he can avoid that, if he likes, under the present arrangement, by paying 6s., and then, if he is entitled to any rebate, he can obtain it by a private application for a return?—Yes, I know he can do that.

16,492. And it is practically necessary, is it not, that the accounts should be kept in one single set of books?—Yes.

16,493. You cannot have a separate account for each partner?—No.

16,494. And each partner's share would be what he gets under the terms of partnership out of the total joint profit?—Yes.

16,495. And the only way that the Commissioners have of testing the return in case of difficulty is by examining the books?—But if each partner returned his own share separately, that would give the same idea to the Surveyor.

16,496. What you want is that they can return separately, but that in respect of that part of the return which affects the partnership profits, that would stand as it is?—Yes.

16,497. There does not seem to be much difficulty about that?—I believe it was altered in 1907, was it not? Partners could make separate returns before 1907. We are not quite clear why that was altered.

16,498. Mr. Petyman: On the face of it, I cannot see why it should have been altered.

16,499. Mr. Marks: It was the introduction of graduation, I think.

16,500. Mr. Kerly: Even so, as Mr. Petyman has already put to the witness, the partnership pays, because the partnership is the payer, of course, of the tax on the partnership profit; and the difficulty is, at what rate should the partnership pay? It cannot be more than 6s., at least presumably not, unless they are also Super-tax payers. If the partnership pays at 6s., then each partner separately can go and have his account adjusted, without information to his partners. That is the proposal, but I do not know that it would work properly.

16,501. Mr. Petyman: I should like just to get this clear; it is a rather important point. I cannot see why a separate return should not be sent in, even with graduation. Take the case of two partners; let us say one has an outside income and the other has not. The one who has no outside income is entitled to a rebate, and the other is not, because his total income is above the rebate limit. They return separately. They have an equal share in the partnership, and they each return £300 as their equal share of a

total partnership profit of £600. I do not see why those two returns should not be sent in quite separately. A sends his return in, £300 from the partnership. B sends in his return of £1,000, £300 from the partnership and £700 from other sources; and they are assessed accordingly. If the Revenue Department wishes to test the accuracy of that return, all they have to do is to call for the books in respect of the two amounts of £300. When they have called for the books in respect of the two amounts of £300, and have verified that, it seems to me that that is all that is necessary. I do not see why the partner who has only £300 should necessarily have any knowledge of the remaining £700 which belongs to the other partner. That is your point, is it not?—That is my point.

16,502. Mr. May: The evidence seems to imply that that is not practicable at present. Can we have that point cleared up?

16,503. Mr. Petyman: That is what I want to get at. Why is it not practicable?

16,504. Sir W. Travers: I think you cannot interfere with the liability of the partnership as a whole for the amount of taxation of the partnership.

16,505. Mr. Petyman: No, not the least, because they each return their £300 from the partnership. One returns an additional sum, and the other returns only £300. If the Revenue Department, from knowledge which they possess, think the partnership might have produced more than £600, which is the figure returned, they can call for the partnership books, and if they find that it is £700 instead of £600, they will then say: "You must pay on £350, and you must pay on £1,050." But the fact of the two having sent in totally separate returns does not seem to me to affect that opportunity of the Revenue in the least. I cannot see any necessity for a joint return of the total income.

16,506. Mr. May: Is there anything in this point relating to the method of collecting at the source, and that a partnership has to be dealt with as a whole first?

16,507. Mr. Kerly: I do not think there is; I am just looking at the rule. The rule says that "where a trade or profession is carried on by two or more persons jointly, the tax in respect thereof shall be computed and stated jointly, and in one sum." [Schedule D: Cases I and II, Rule 10 (1).]

16,508. Mr. Petyman: "In respect thereof."

16,509. Mr. Kerly: That is in respect thereof. That is to say, the tax which is due from the partnership profit. It might be, of course, that the partners would say: "We are all people to be taxed at 3s. 9d., and therefore the partnership has got to pay only 3s. 9d." The partnership cannot be taxable, as it seems to me, at more than 6s.; but if the partnership wants to pay on a smaller sum than 6s. on its profits, then it has to go into the question of what each partner is individually to be rated at in respect of his share. That may very well be. One partner may have to show the other partners that he is getting £1,000, while each of them is getting £300 from the partnership, when they are all before the 6s. level.

16,510. Mr. Petyman: A partner who is individually entitled to a rebate, gets it, irrespective of what the other partners get.

16,511. Mr. Kerly: Quite true, he does, but then you have to ascertain the figure at which the partnership is liable to pay tax upon the partnership income. The only comment that is suggested is that somebody has to be responsible for the partnership return of the total partnership profits?—There is no objection to the responsibility.

16,512. Mr. Petyman: Some partner must be responsible for sending in a return of the total partnership profits. Then they would make a separate return from each partner of his total liability, including the share of the partnership. Their test would be then, does the sum of the three returns in respect of the profits of the partnership coincide with the total partnership return sent in on their behalf by the senior partner?—Yes, that is so.

16,513. If that agrees, the thing is settled, unless they have reason to suppose that the return is inaccurate?—Quite.

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16,514. In which case they can examine the books?—Yes.

16,515. *Mr. Kerly*: Subject to one thing more: that it is out of the partnership fund which they have to pay the total of the assessments?—Yes, the partnership is liable for the total amount; that would not be objected to.

16,516. As the present law stands, if you are going to tell each of the partners what the total assessment is, they will be able to divide it among themselves and get the very information you want to conceal. What you want to do is to leave each partner responsible for his own Income Tax only, and to do away with the liability of the firm to pay Income Tax upon income received by the partnership. That seems to me the only change involved; and, personally, I do not see why that should not be done?—That is so.

16,517. *Mr. W. Truett*: Then you get up against this, that if one partner defaults the other partners must pay—and ought to pay, because it is the profits of the partnership.

16,518. *Mr. Walker Clark*: It is so now.

16,519. *Mr. Kerly*: That is a matter we can discuss amongst ourselves. Dr. Harlip sees what the difficulty is?—Yes, I see that.

16,520. *Mr. Petyman*: You suggest here that the same form should be sufficient for assessment of Income Tax and Super-tax, and for repayment?—That is what we thought. I am afraid members of the medical profession do not quite appreciate the various questions in the complicated form which they have to fill up. It ought to be quite simple.

16,521. But do you realize that the difficulty is one of chronology, that a Super-tax return can only be made in respect of a completed year?—Yes.

16,522. And if the only taxable income concerned was the income of a partnership, and if your suggestion was adopted that that should also be taxed as regards Income Tax on the previous year, it would be quite possible to send in one return for both; but you have to remember, going to the same case as before, that one of the partners may have, and probably does have, certainly if he is entitled to Super-tax, investments, and those investments are taxed at the source, and the taxing at the source can be done only in the actual year of accrual, whereas Super-tax must apply to the previous year?—Yes.

16,523. So that you get the difficulty on chronology, and unless you have two returns for each year instead of one, that is to say, one return of an estimate, and a supplementary return in the following year to correct it, you cannot do that, and you would almost be in a worse position than having to make a single return now. You realize that?—Yes, I follow that point.

16,524. *Mr. May*: With regard to the depreciation of a motor car, as far as I can gather from your evidence, it is really based on sentimental grounds?—No, Sir, it is not. I will give you a case in point. Take a doctor who has been in practice for four years. He had this motor car; say he paid £600 for it. He is given no allowance for depreciation although his car is depreciating at the rate of £100 a year; a motor car is supposed to last for five or six years; so for the four years he has lost £100 each year. Then that man retires from practice. He loses the whole amount of that £400 for the wear and tear.

16,525. But he has already had an allowance for the running and the working of the car?—He has had an allowance only for the petrol and the cost of working, but not for the depreciation of the machine; whereas if he had a yearly allowance he would have received so much on the depreciation of that machine each year.

16,526. Can you suggest any analogous case?—The same as you get in a trade. You have a machine going in a workshop; so much is allowed on the depreciation of that machine each year.

16,527. *Mr. Walker Clark*: Or on a motor lorry?—Yes. A motor lorry would meet the case. You get so much allowed for a motor lorry each year, but a doctor does not receive that for his motor car.

16,528. *Mr. May*: Your suggestion is that depreciation should be allowed on a car in exactly the same way as on the machinery of an industry?—Yes.

16,529. Whether he goes out of business or not?—Yes, for the professional man.

16,530. *Mr. Kerly*: Upon that point, the difficulty, as I understand, is this: that Rule 6 provides that in dealing with the profits or gains of a trade the Commissioners may make an allowance in respect of wear and tear. What you say is, that instead of saying "a trade" it ought to say "a trade, profession, or business"?—Yes.

16,531. So as to put them all on the same footing?—Yes.

16,532. Upon the question of the allowance in respect of a dwelling house which is used for the purpose of the business, do you ask that a doctor should have, say, two-thirds in all cases because he uses his private house for professional purposes?—We should like two-thirds in all cases.

16,533. But it would be very unfair, would it not?—Speaking quite frankly, I quite see in certain cases and in certain districts that it would be very unfair.

16,534. It would be very inequitable to make the same allowance to a country doctor, who perhaps uses his dining room or his study without affecting the amenity of his house as a dwelling-house, as to the Harley Street doctor, who has gone to Harley Street so as to live at his place of business?—I follow that.

16,535. We need not say anything more about a proportionate allowance then?—No, I quite see the difficulty.

16,536. I think this touches another of your proposals about the purchase of leaseholds. Is it a factor in a doctor's position that he is obliged to house himself sometimes in an expensive neighbourhood?—Undoubtedly.

16,537. As a matter of business? There are certain neighbourhoods in which you can get only an expensive house. And sometimes I have heard that it is almost essential for him to choose a prominent house, such as a corner house?—Yes, it has been surmised; but, independently of that, take most men practising in Mayfair or Belgrave. They cannot practise there unless they are overhoused.

16,538. And that should be taken into account in estimating the cost as a business expense of the doctor?—Yes. One's experience amongst doctors is this. It is not so much the income that a doctor makes, as the expenses that he incurs. The man who has smaller expenses is sometimes far better off at the end of the year than the man who really makes a large income but has large expenses.

16,539. In comparison with other professional men a doctor's expenses are very heavy?—We think so. Then we have had several letters on the question of education. What men write is this: that in the case of a man with an income of £1,000 or £1,200 or £1,500 a year, if he has two or three boys within two or three years of the same age, if he wants to give them the same education that he has had, it is thought that he should have some help, such as the Board of Education suggested, in that way. We contend that there are several hardships that a medical man has. If in his first five years of practice he has saved £500 he invests it and immediately he is taxed on his income from it as unearned income, whereas a business man in his first five years would undoubtedly put that £500 into his business and probably make a bigger percentage, but yet it would only be taxed as earned income. One knows we cannot help it. It is one of those things you cannot help, but we think the only thing that can be done for a medical or professional man is to have help in respect of the education of his child.

16,540. You say it is hard that a man should pay tax upon his savings and again pay tax upon the produce of his savings?—Yes.

16,541. If behind his savings you have, say, ten or a dozen years of unremunerative work there would be something to be said on the ground of justice for treating that as a loss to be set off against his subsequent gains?—Yes.

16,542. I am afraid we shall have to live a long time before we come to that point?—I quite appreciate that.

TWENTY-FIFTH DAY,

FRIDAY, 10TH OCTOBER, 1919.

PRESENT:

Mr. PRETTYMAN (*in the Chair*).

SIR T. P. WHITTAKER.

MR. BOWERMAN.

SIR E. E. NOTT-BOWER.

SIR W. TROWER.

MR. HOLLAND-MARTIN.

MR. ARMITAGE-SMITH.

MR. WALKER CLARK.

MR. KERLY.

MRS. KNOWLES.

MR. MCINTOCK.

MR. GEOFFREY MARKS.

MR. MAY.

PROFESSOR PIGOU.

DR. STAMP.

Mr. LEWIS FREDERICK HOVL, Mr. GEORGE M. LOW and Mr. STEWART MACNAUGHTEN, called and examined.

Mr. Lewis Frederick Hovl on behalf of the Life Offices' Association, handed in the following statement as his evidence-in-chief:—

NOTE.—THIS EVIDENCE APPLIES ONLY TO THOSE OFFICES, OR THE BRANCHES THEREOF, WHICH TRANSACT THE BUSINESS OF ORDINARY LIFE ASSURANCE AS DISTINGUISHED FROM INDUSTRIAL LIFE ASSURANCE.

Definition of Life Assurance.

16,543. (1) The contract of Life Assurance is a promise by the assuring office to pay a given sum of money on the happening of a certain event (usually contingent on the duration of a given life or lives), in consideration of the immediate payment of a smaller sum or certain equivalent periodical payments (commonly called the "premium" or "premiums").

Distinction between Life Assurance and fire and other forms of assurance.

16,544. (2) In most forms of assurance other than Life Assurance, the contract is made for one year, and may or may not be renewed at the option of the office. The premium received by the office covers the risk only during the year of assurance, and no portion of it need be accumulated to meet the risk in future years. The premiums may, accordingly, be said to be earned year by year, and the profit or loss from the business can be ascertained by a comparison of the premiums received in any year with the outgo in respect of that year on account of claims and expenses, due allowance being made for risk unexpired at the close of the financial year. A contract of Life Assurance, on the other hand, is a promise to pay the sum assured not merely in the event of death within the year of assurance, but in the case of what is known as a "whole life policy" whenever it may occur. The most popular form of Life Assurance contract at the present day is that known as the Endowment Assurance which provides for the payment of the sum assured on the expiration of an agreed term or on the previous death of the life assured. The payment for both classes of risk may be made in the form of a lump sum, or of a series of payments spread over a fixed number of years, or in the more general form of a series of level annual payments continuing until the risk matures by the death of the life assured, or the attainment of the specified age in the case of the Endowment Assurance. The premiums, therefore, received by a Life Office in any one year do not necessarily bear any relation to the claims, experienced in that year. This essential difference between Life Assurance and other forms of assurance has been clearly laid down by Lord President Inglis in the case of "The Scottish Union & National" v. Smiles (2 Tax Cases 551). The Lord President in delivering the opinion of the Court said:—

"... Seeing that fire insurance policies are contracts for one year only, the premiums received for the year of assessment or an average of three years, deducting losses by fire during

"the same period and ordinary expenses, may be fairly taken as the profits and gains of the company... this rule is not applicable to the ascertaining of profits and gains on the life business. Life policies are contracts of most variable endurance, and the premiums are in many cases not annual payments. The contract may endure for the policy holder's life, or for a certain number of years stated, or till the holder attains a certain age, and the company may be bound, on the expiry of the fixed number of years, or on the attainment of a certain age by the policy holder, either to pay a lump sum or an annuity for the remainder of the policy holder's life.

"The premiums paid for such insurance may be paid all in one sum, or by instalments during a fixed number of years, or annually during the holder's life or during the subsistence of the policy. The premiums, therefore, do in no sense represent the annual profits and gains of the company. In like manner the amount of claims in any one year arising on the death of persons insured, or otherwise, as a deduction from the company's receipts for the year cannot afford any criterion for ascertaining profits. A recently established company will receive a large amount of premiums, and have few or no claims to meet. The profits and gains can be ascertained only by actuarial calculation, and this actuarial calculation may be obtained by taking the result of the quinquennial investigation prescribed by Statute, or the periodical investigation in use in companies established before the Statute, or by an investigation covering the three years prescribed by schedule D of the Income Tax Acts."

Why large accumulated funds are necessary.

16,545. (3) The risk of death naturally increases with the age of the life assured, but this risk is paid for, not by a correspondingly increasing premium, but by a "level" premium, that is by one of equal amount payable throughout an agreed term, generally the duration of the policy. It follows, therefore, that in the earlier years of assurance the "level" premiums are larger, while in the later years they are smaller, than the amounts which are required to meet from year to year the current risk of death. The excess of the "level" premium over the cost of the current yearly risk, in the early years of assurance, must be kept in hand by the office, in order to provide against the time when the cost of the current risk becomes larger than the "level" premium. The total of the excess premiums so retained, after providing for claims that have arisen, forms the Life Assurance fund, and must be accumulated at compound interest at the rate assumed in its calculations if the office is to meet its future claims, or, in other words, to continue in a state of solvency.

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The level premiums are calculated by mathematical formulae which assume that the office will

- (a) encounter a given rate of mortality among its assured lives, based on tables calculated from experience;
- (b) spend a certain proportion of its premiums in expenses of management;
- (c) earn a given net rate of interest on its Life Assurance fund, which is formed out of the premiums, as explained above.

Profit on Life Assurance business.

16,546. (4) If, therefore, the assuring office obtains a trading profit, it is because the combined effect of the mortality which it experiences, the rate of expense at which it conducts its business, and the rate of interest at which it invests its funds, is more favourable than the assumptions on which its calculations are based. This profit is ascertained at intervals by a comparison of the funds in hand with the estimated liability under existing contracts, obtained by an actuarial valuation, as prescribed by the Assurance Companies Act, 1909. The valuation (as appears above, paragraph (2)) is a mathematical process, and not a mere balancing of receipts and expenditure, as in the case of an ordinary commercial business.

Interest earned is not wholly profit.

16,547. (5) It follows that in no sense is the whole of the interest earned by a Life Assurance office on its invested funds a trading profit. The bulk of it is required to enable the office to meet its liabilities. An office may, in fact, be in receipt of a large income from interest on its funds, and yet be earning no profit or even making a loss, either because the net rate of interest (after deducting tax) realized from its investments does not exceed or is even less than that assumed in its calculations, or because the rates of expense or mortality are less favourable than those assumed.

16,548. (6) It will be evident from the foregoing considerations that the business of Life Assurance is unique in its character and methods, and cannot, therefore, be compared properly with any other form of saving or trading.

How Life Assurance business is taxed.

16,549. (7) In 1889 the Court of Appeal decided that all annual interest was taxable as such. The Life Offices have never ceased to contend that the application of this principle to their business entailed upon them and their policyholders special and inequitable hardship, partly on account of the unique character of their business and partly because there is no machinery by which policyholders entitled to exemption or abatement can obtain a return of that proportion of the standard rate of Income Tax for which they are not liable. As a result of their protests certain relief was granted to Life Assurance companies by the Finance Act, 1915, section 14 (Income Tax Act, 1918, section 33). This Act allows to Life Assurance companies a rebate in respect of expenses of management, provided that the relief does not reduce their assessment below the amount in respect of which they would have to bear Income Tax if charged on the profits basis under Case 1. of Schedule D.

Rule 15 (1) of Cases I. and II. of the Income Tax Act, 1918, provides that "Where an assurance company carries on life assurance business in conjunction with assurance business of any other class, the life assurance business of the company shall for the purposes of this Act be treated as a separate business from any other class of business carried on by the company."

At the present time, therefore, any company transacting Life Assurance business whether alone or in conjunction with assurance business of any other class is assessed for Income Tax in respect of its life business either on

- (a) interest income less expenses of management; or
- (b) profits under Case I. of Schedule D, whichever may be the greater

Further, if the company is assessed under (a) it is also taxed on fines, fees and profits arising from reversions, just as if it were assessed on its trading profits. This additional taxation is effected by deducting the amount of these profits from the allowance for expenses.

The Commissioners will, therefore, see that it is admitted by the Inland Revenue that in certain circumstances, which do not affect the principle involved, Life Offices can be properly and effectively assessed on a profits basis.

Bulk of profits go to policyholders.

16,550. (8) The profits of a Life Office are divided solely among policyholders in the case of a mutual office, and in the case of a proprietary office the shareholders receive only a small percentage of the sum to be divided, usually 10 per cent., the remaining 90 per cent. going to the participating policyholders.

First modification requested.

16,551. (9) The Commissioners will have noticed from paragraph 7 that the Inland Revenue at present claim the option of selecting either of the quantum (interest less expenses or profits) as the basis for the taxation of Life Offices. In the case of the great majority of the Offices interest less expenses almost invariably exceeds profits, but it is the practice of the Inland Revenue to ascertain which will be the more profitable quantum, and to assess the office accordingly. This naturally means that the offices pay more Income Tax than if the option were not allowed. The Life Offices ask that the basis for their assessment should be defined, and the option eliminated, so that the Inland Revenue should no longer have the power to change the basis of assessment from time to time.

Which quantum should be discarded.

16,552. (10) The application for a single quantum necessitates the consideration by the Commissioners of the relative equities of the two at present used, and the Life Offices recognise that these must be considered apart from the question of which method involves the heavier taxation. The "Interest less expense" quantum is, it is believed, that approved by the Inland Revenue authorities, and for the reason stated in paragraph 9 it is the quantum almost invariably in use.

On the other hand the adoption of profits as a sole basis has been advocated by the Life Offices over a long period of years, as the equitable method of assessment. The main argument in support of this method is that interest received by Life Offices is, as shown in paragraphs 5, never wholly a profit or gain as in the case of most companies transacting other forms of business, where all interest on investments is in the nature of "profits or gains" and is, therefore, properly assessed to Income Tax.

Compound interest is the raw material of Life Assurance and unless the income of an office after paying claims and expenses can be accumulated at compound interest it cannot meet its obligations. An office assessed on a profits basis, even with a tax of 20s. in the £ would be deprived only of its surplus and would still be left with the bare reserves necessary to meet its future liabilities. Half that rate of tax assessed on the interest income might reduce the same office to insolvency. Interest as received by the Life Office is but an item in its trading operations, and it is only the net result of the whole of such trading operations that is true profit from a commercial point of view.

Taxation of banking business.

16,553. (11) The business of banking is in a similar position, to the extent that the interest earned on investments is not clear profit but is in part required to pay interest on money received on deposit. Before the war the profits of a bank nearly always exceeded its interest. It was assessed on its trading profits, and was entitled, in ascertaining those profits, to set off all interest on which tax had already been paid. The application of the principle, that all interest is liable to tax, did not inflict any hardship.

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During the war, owing to their large subscriptions to War Loans, the position was reversed. Interest receipts exceeded their trading profits, or there was the danger that this would be the case. The banks, therefore, on behalf of their shareholders (traders for profit) appealed to the Government, and immediately obtained the relief granted by Finance (No. 2) Act, 1915, Section 30 (Income Tax Act, 1913, Rule 3, Schedule C), whereby interest from War Loans was exempted from Income Tax to the extent by which it caused interest receipts to exceed trading profits.

How difficulties resulting from adoption of profits method of assessment can be met.

16,554. (12) There might be certain difficulties to be met if the profits basis were to be the sole quantum for the future. For instance, it is possible that the Inland Revenue authorities would wish to guard against undue loss of revenue in the case of (1) young offices, and (2) existing offices, who might conceivably reduce their profits by some change in the present methods of conducting business. Proper safeguards could no doubt be instituted and the Life Offices' Association would readily offer its services for this purpose.

Principal modification requested.

16,555. (13) The Life Offices submit that for the purpose of assessment in respect of the quantum referred to in paragraph 7 regard must be paid to the Income Tax liability of each individual policyholder in the absence of any machinery for repayment. It is suggested that this necessity would be fairly and sufficiently met by the application of a differential rate in which allowance is made for the vast number of cases entitled to abatement and the substantial number entitled to exemption under the present law. The principle of a differential rate is already recognized by the Inland Revenue as the Building Societies have secured the privilege of paying Income Tax at half the full rate upon the assumption that the majority of their members are only on the average liable to such a rate (see Murray & Carter, 8th Edition, page 286). The following considerations are put forward in support of the adoption of what may be called the differential rate method as an equitable one to apply to the assessment of a Life Office.

By the system of deduction of tax at the source the Life Office is subject to the payment of tax at the full normal or standard rate, and as already stated, there is no means by which the policyholder can claim relief so that the rate may be adjusted to the proper one applicable to his scale of income. The shareholder in a trading company, on the other hand, is able to obtain from the Inland Revenue any refund that may be due to him.

It is clear that to meet this difficulty an office whose policyholders are all receiving incomes below the minimum that attracts tax would have to be classed with the Friendly Societies and be freed from tax altogether. On the other hand, if there were an office whose policyholders were all subject to the tax at the full standard rate, no differential rate would be necessary.

The case of the ordinary Life Office lies between these two extreme cases, but is not very far distant from the case first named. From various estimates it is clear that the average sum assured in the ordinary companies is under £200. Allowance has, however, also to be made for duplicate policies and policies on lives effected in more than one office, and for the fact that a small proportion of policyholders is liable for Super-tax. Taking all these factors into consideration, the Life Offices have every reason to think that, if the differential method is adopted, a rate not exceeding three-fourths of the standard rate of tax would be a fair one to apply as the tax to be charged on the agreed quantum. Such a rate pre-supposes that the average policyholder has an unearned income exceeding £1,000 but not exceeding £1,500 a year, an unduly favourable estimate from the Revenue point of view on all ascertainable evidence.

It may be urged as an objection that a flat differential rate only does rough justice between the different classes of policyholders. But the whole essence of Life Assurance is that the individual throws in his lot with others in order that the law of average may apply to their mutual advantage. That the burden of Income Tax should be shared proportionately among them without regard to the amount of their individual incomes is quite in accordance with the principle of equal treatment which is carried all through Life Assurance business. This principle almost invariably operates to the benefit of the poor man. For instance, a man with a small income insured for £100 may be charged a premium of £2, while the man of the same age insuring for £10,000 is charged £300, although the cost of the smaller class of business is much greater. Further, they both share in strict proportion in all bonus allotments or other benefits attaching to their policies.

Then again, it is not right to consider the burden of Income Tax as applied to the individual apart from the question of Death Duties. The individual policyholder insures for a definite sum payable at death or for a sum payable during his lifetime, the investment of which usually forms part of his estate at his death. Whatever Income Tax payments are associated with a policy during its currency, it is the large policyholder who has to pay the heavy Death Duties, which make serious inroads into the sum which he has provided for at death.

Life Offices' case.

16,556. (14) The case which the Life Offices desire to present to the Royal Commission may be summed up as follows:—

- (a) that the equities of the two methods of assessment (on interest less expenses, or on profits) be considered by the Commissioners, but that whichever method is selected the Life Offices should not be taxed at the full standard rate;
- (b) that the option between the two methods claimed by the Inland Revenue be disallowed.

Industrial Assurance business.

16,557. (15) The above evidence and arguments do not necessarily apply to industrial assurance. The Commissioners will, it is assumed, receive evidence as to what modifications would be requisite in respect of that class of business.

Abatement of tax in respect of premium payments.

16,558. (16) The evidence of the Life Offices purposely excludes any reference to the relief of tax granted in respect of the payment of life premiums. It confines itself to the question of the taxation of the offices which it is submitted must be settled upon an equitable basis quite apart from other considerations. The Life Offices do not seek to avoid payment of their full share of taxation, but they do contend that the present basis of assessment is inequitable. It is specially important to them at the present time that the basis of tax should be equitably determined as they realize that tax concessions in other directions and other burdens on the State may conceivably result in the imposition of a yet higher standard rate. They will always cheerfully pay tax at any rate that is necessary for the purposes of the government of the country provided the method of assessment is fair and equitable.

16,559. (17) The principles embodied in this case have been approved by the members of the Association at a general meeting specially called for the purpose.

[This concludes the evidence-in-chief of Mr. Hovil.]

Mr. GEORGE M. LOW, on behalf of the Associated Scottish Life Offices, banded in the following statement as his evidence-in-chief:—

I. INCOME TAX ON THE ASSURED.

Burden at present unduly heavy.

16,560. (1) The Life Assurance offices have long felt that the Income Tax regulations impose on their policyholders an unduly heavy burden.

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[Continued.]

Optional basis of taxation.

16,561. (2) Until recently the Inland Revenue claimed the right to levy the tax in their option either (a) on the whole amount of interest received by the companies, or (b) on the "profits" earned by them, as ascertained in accordance with the rules applicable to Case I. of Schedule D. By a provision in the Finance Act, 1915 (now clause 33 of the Income Tax Act, 1918), Parliament has ordained that the Life Assurance offices, along with investment companies and savings banks, shall be allowed a rebate of tax on the amount of their expenses of management when the tax has been charged on interest revenue by way of deduction or otherwise, and not charged in respect of profits under Schedule D. As it most commonly happens that the interest less expenses exceeds the amount of the "profits," tax is usually levied on the former basis, but the Inland Revenue still maintain their right to charge on "profits" if these should yield a larger amount of tax. The Offices feel that it is unfair to exercise against their constituents an option which results in their being subjected to a larger amount of tax, on the whole, than they would have to bear if one suitable basis were fixed and consistently adhered to.

Hardship of maximum rate.

16,562. (3) A still graver hardship is that the taxable income of the offices continues to be charged at the maximum rate of tax, without consideration of the rates to which the persons interested are liable, and without any means of adjustment to those rates.

Measure of "profits."

16,563. (4) There having been the above two alternatives—taxation on interest without deduction, and taxation on "profits" as in the case of a trading company—the offices advocated the latter as being fairer to them than the taxing of all the interest on which they relied in fixing their rates of premium, and they suggested the actuarial surplus, ascertained at their periodical investigations, as a suitable measure of the profit they had earned. With the allowance for expenses, however, there has been introduced a new measure of "profit" which on the following grounds may be regarded as not inappropriate.

Nature of Life Assurance.

16,564. (5) Life Assurance differs from other kinds of business in respect that it can only be carried on by aggregating the contributions of a large body of persons whose numbers form a sufficient basis for the operation of averages in the rate of mortality among them. Their contributions are carried into a common fund which is accumulated at interest, less expenses, and this fund is employed in meeting claims as they arise on the occurrence of the events contemplated in the policies. The business in fact consists in the collection, accumulation at interest, and redistribution of the contributions or premiums paid by the policyholders. The sums assured by the policies are the sums which the office guarantees in such redistribution, but besides these fixed sums the policyholders are also entitled to potential benefits which are not fixed in amount but depend on the surplus ascertained from time to time as having arisen from contributions in excess of actual requirements.

Mutual offices.

16,565. (6) The matter will appear more clearly if the case be considered first of a Mutual Life Assurance Society, whose membership consists of the insured persons themselves without any separate body of shareholders. The affairs of such a society are conducted by a board of directors, who are in effect a committee of the members, and are subject to the control and authority of the members in general meeting. The rates of premium or contribution are adjusted on a basis which makes a necessary provision for contingencies but in ordinary circumstances yields some margin or surplus after providing for the sums actually "assured"—that is, for the fixed

sums guaranteed by the members to each other. The cumulative amount of this surplus is divisible among the members according to the rules of the society, and this is the return of excess contributions already referred to. There is a class of policyholders who do not share in the surplus, but these are members of the general body who have agreed to compound for their share by being insured at a reduced rate of premium.

What gain they make.

16,566. (7) In the operations of such a society the members are only dealing among themselves with their own contributions, and the profit or gain which they as a body make is just the interest or other produce of the funds they themselves have built up, less the expenses incurred in carrying on the concern. As already stated, this is substantially the basis on which Life Assurance offices are at present taxed. They pay tax either by reduction or by assessment on the whole interest or produce of their funds, and they receive a rebate on the amount of their expenses of management.

Proprietary offices.

16,567. (8) The case described above is that of a Mutual Assurance Society, but other offices are constituted on a different principle. They are proprietary companies carried on and controlled by shareholders, who in respect of the guarantee afforded by their capital take a small proportion (usually not more than one-tenth) of the periodical surplus. But for this, and for the fact that the control is in the hands of shareholders, the position of the policyholders is the same as in a mutual office. Their contributions create the fund out of which the liabilities are met, and the interest or produce of the fund, less expenses—and less, in this instance, any portion of surplus taken by the proprietors—is what they as a body gain from the employment of their united contributions.

Basis applicable to both classes.

16,568. (9) Practically, therefore, the present basis of taxation on interest, less expenses, is as suitable in its application of proprietary companies as to mutual societies; with this qualification in the former case, that anything the shareholders may take out of the concern must bear its appropriate share of tax.

Offices content with basis of interest less expenses, if other points be conceded.

16,569. (10) The offices represented in this Association are content that interest less expenses of management shall continue to be the basis of taxation, but they urge (1) that this basis if now confirmed should be adhered to, and no option should be retained by the Inland Revenue to a tax on a different footing; and (2) that the overhead rate of tax should be adjusted to correspond with the individual liability of the policyholders.

Rate of tax to be considered.

16,570. (11) Assuming, then, that the subject of taxation in the case of a Life Assurance office—or, let it rather be said, in the case of a body of assured persons—is to be the income created by the investment of the funds, less the expenses of management, the question remains, at what rate or rates the tax is to be charged.

Problem created by graduation.

16,571. (12) If Income Tax were as formerly at a uniform rate, save for the distinction between earned and unearned income, this question would not arise. The rate would without doubt be the rate charged on what is known as "unearned income." The system of graduation introduced into the tax in recent times, however, creates a problem which in this case cannot receive the same solution as in the case, for example, of a body of shareholders. An ordinary trading or investment company is charged by deduction or otherwise at the maximum rate of tax, but the charge upon the company is only a convenient though indirect way of reaching the individual. When the

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[Continued]

profits of such a company are divided each member receives his share under deduction of tax at that rate, and if he as an individual is not liable to the maximum rate of tax he recovers the difference between that and the rate (if any) to which he is properly liable by applying to the Inland Revenue Department for a refund. In the case of insured persons the opportunity for such an adjustment does not arise. The interest earnings go at once into the common fund, and ultimately come out in the form of capital as part of the sums assured by the policies. There being no separate allocation or payment of interest to individuals, no one can say that he has received so much, and that this having borne tax at the maximum rate he is entitled to a return of the difference between such tax and the amount with which he was properly chargeable. Equality of treatment, however, as between one set of persons and another, requires that the constituents of a Life Office shall in some way have a corresponding relief afforded to them.

Essence of the case on graduation.

16,572. (13) The essence of the case which the offices respectfully submit to the Commission on this point is that a remedy should be found for the defect in existing legislation which leaves a particular set of persons to bear a higher rate of tax than that to which as individuals they are liable, while it properly affords a means of relief to other persons whose taxable revenue is disposed of in a different manner.

Insured persons liable to all grades of tax.

16,573. (14) A body of insured persons is an aggregation of individuals having all grades of income, and liable therefore to all the different grades of tax. It follows from this that when monies contributed by them are aggregated and invested for the ultimate benefit of the whole body, the amount of tax payable on the net yearly produce should be as nearly as possible approximate to that which would be charged if the individual shares were dealt with. At present the full maximum rate of tax is levied, with the obvious result that the policyholders as a body have to bear a larger amount of tax than they ought.

Individual relief impracticable.

16,574. (15) It has been suggested that a means of relief might be found by furnishing annually to each policyholder a certificate of the amount of the proportionate share of his policy in the taxed income of the assurance office and treating that as the basis of a claim for refund. There are grave objections to this in theory, and in practice it would be an exceedingly clumsy and roundabout process, and would entail both upon the assurance offices and the Inland Revenue an immense amount of labour which would be quite incommensurate with any advantage gained.

Adjustment can only be in the aggregate.

16,575. (16) In a system of direct taxation at fixed rates justice can only be done in the aggregate, and the conclusion seems inevitable that in the present case any adjustment must take place as between (a) the Inland Revenue and (b) each individual assurance office representing its policyholders as a whole.

An average rate of tax proposed.

16,576. (17) The obvious way to effect such an adjustment is to make an approximation to the average rate of tax to which the policyholders would be liable, and let that rate regulate the amount of tax to be levied upon them as a body. In this way substantial justice would be done.

What should be the measure.

16,577. (18) There is unfortunately no means by which the assurance offices can obtain an accurate measure of the individual incomes of their policyholders, and the extent of abatement or relief to which they are entitled. Recent concessions in favour of married persons and parents will tend to bring down to a still lower level the rates of tax chargeable on smaller incomes and to increase the number of those entitled to exemption, so that the average rate leviable from a body of insured persons will be still further removed from the maximum.

What that average rate may be the assurance offices are not able to estimate precisely, but, judging by the individual amounts assured and the outward circumstances of the bulk of their members, the offices believe it safe to conclude that the incomes are on the average much below the amount on which the maximum rate of tax is leviable. Taxation corresponding to an average income of £1,000 to £1,500 would, it is believed, be above rather than below the mark.

Objection that richer class would benefit.

16,578. (19) It has been said that if a modified rate were charged the richer policyholders would benefit, while those with smaller incomes would still be contributing more than their proper share of tax. This objection only brings into greater prominence the injustice of the present system, which makes rich and poor alike bear a burden that is designed only for the rich. Under a properly averaged tax the persons with the smaller incomes would at least have a partial measure of relief afforded to them, and it would clearly be unfair to refuse this instalment of justice to the great majority of policyholders because in its application a different and much smaller class of persons would incidentally benefit. But on other grounds the objection is not sound. So far as the Revenue is concerned—always assuming the modified rate to be a fair one, having regard to the average of cases—the result would be the same as if the share of each individual could be ascertained. The Revenue would receive the rich man's maximum and the poor man's minimum in the shape of an equalized rate, and it need have no concern with the distribution of the burden over the different classes of policyholders. These would rightly benefit as a body by any modification of the maximum rate at present charged, and the matter would fall to be adjusted by the general principle of average which runs all through the system of insurance, generally to the advantage of the smaller policyholder. In this connection it may fairly be pointed out that while in Life Assurance all cases, large and small, commonly bear the same rate of premium according to age, the expense of management is proportionately less in the case of large insurances than in that of a number of small insurances reaching the same amount in the aggregate and contributing the same amount of premium revenue. It is therefore to the advantage of those insured for the smaller sums that they have associated with them the holders of large policies who would share the benefit of an equitable adjustment of the overhead rate of tax.

Conclusion.

16,579. (20) To sum up, The offices submit:—

- that their basis of taxation once determined should be adhered to, and there should be no option to the Inland Revenue to change from time to time to another basis;
- that they should not have to bear the maximum rate of tax, seeing their constituents are not as a whole liable to such rate;
- that the form of relief best suited to their case is to charge a modified rate of tax corresponding as nearly as may be to the average liability of their constituents.

II. INCOME TAX ON ANNUITIES.

Present position.

16,580. (1) Subject to the statutory abatements and allowances applicable to income of all kinds, a life annuity is at present charged with tax on its full amount.

Inequity of present system.

16,581. (2) The Life Offices submit on behalf of their annuitants that such an annuity is in reality a return of capital with interest, and that the tax being charged upon capital as well as upon interest is an unfair charge on the annuitant upon whom it falls. They submit that on grounds of justice the tax should be restricted to what can fairly be regarded as the income element in the annuity.

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Class of persons affected.

16,582. (3) For the most part, annuitants belong to a class with very limited incomes, the annuities having in most cases been bought specially to clear out otherwise insufficient incomes. When the rate of tax was low and the exemption limit higher, the inequity was not of so much importance, although it was always there, but nowadays, when the lowest rate of tax on unearned incomes is 3s. in the £, an inequitable charge presses very hardly on life annuitants, who are many of them elderly persons in anything but affluent circumstances. Take the example of a woman of 70 who invests £1,000 in an annuity of say £120 a year. She would have to pay tax amounting to £18 in respect of her annuity. If she had continued to invest the £1,000 in ordinary securities yielding, say, 5 per cent., her income from those would have been £50 a year, the tax on which would be only £7 10s., or £11 10s. per annum less than she would be charged if she invested in a life annuity.

Alternative of using up capital.

16,583. (4) If there were a sufficient number of such annuitants, and they combined to retain their money in their own hands, taking out of capital each year enough to make up the £120 which they felt they needed to live upon, they would, as a body, all have died off just when the money was used up. If such a course were followed, tax would be paid only on the income arising from the balance of capital remaining from year to year, and this, of course, would grow less and less as time went on until it disappeared. No single annuitant can, however, afford to take the risk of being left with all his or her capital so expended, so recourse is had to a Life Office, or the Post Office, with the result that the State is a gainer to a large extent at the expense of the annuitant, who is thus mulcted in an inequitable way.

Only a proportion of annuity actual income.

16,584. (5) It is urged that, in the case of life annuitants, only a proportion of the annuity should be reckoned as income for Income Tax purposes, and the suggestion is made that the basis of the amount to be so reckoned as income should be what would be a reasonable interest return on the purchase money of the annuity, say 5 per cent. thereof.

Trouble involved inconsiderable.

16,585. (6) Some trouble, no doubt, would be involved in the first instance both to the Inland Revenue and to the Life Offices in fixing the amount to be reckoned as income; but after the first year the matter would be a simple one, and life annuitants would be relieved from an injustice which presses hardly on them at any time, but especially in times like these.

Dispersal of capital.

16,586. (7) It has been suggested that an annuitant disperses his or her capital, and therefore, to the loss of the Revenue, leaves no estate at death on which Death Duties can be levied, and it is argued that any capital so dispersed is a fair subject for Income Tax as a set-off. This reasoning, however, appears inconsistent with the theory of Income Tax, which is essentially a tax on income and not on capital. Life annuitants are usually elderly people whose earning days are over, and who have no alternative but to buy an annuity in order to provide an income upon which they can live. It is difficult to see any reason why they should be taxed upon the capital they spend in this way, while other persons who disperse their capital, say, by extravagance or speculation are not taxed on the capital so disappearing. Besides, the amount of Income Tax paid under the present system on an annuity during its currency is, at the rate now obtaining, in most cases much in excess of the sum that would fall to be paid by way of Death Duty on the purchase money. The rate of Death Duty would in the great majority of cases be low, as annuitants are, as a class, persons of small

means. On an estate of £1,000 to £5,000, invested in ordinary securities, the rate of Death Duty would be 3 per cent., and the State would benefit to the extent of £30 on £1,000 at the death of the owner. On the other hand, if £1,000 were invested in an annuity, the Revenue authorities would, as matters now stand, collect £11 10s. of Income Tax each year over and above the tax on the 5 per cent. assumed as the normal interest yield of the £1,000.

Argument of Departmental Committee in 1905 should not prevent remedy now.

16,587. (8) When the subject was before a Departmental Committee in 1905, the argument was accepted by the Committee that as existing annuities had been created during the existence of the Income Tax it must be assumed that the contracting parties had taken the tax into consideration, and that therefore holders of existing annuities had no equitable title to relief. The argument, however, deals in no way with the justice or injustice of the method of assessment, and the Commission, it is hoped, will not allow such an argument to weigh against the equitable right of life annuitants to have their grievance remedied. It is one which some of them feel very keenly. No doubt they accepted the position as it stood when they purchased their annuities, but the lowering of the limit of exemption and the great increase in the rate of tax make it necessary that the injustice of the present system as applied to life annuitants be again most carefully considered. It is hoped that one of the results of the Commission's labours will be to remedy grievances such as this which exist under the present Income Tax laws.

[This concludes the evidence-in-chief of Mr. Low.]

MR. STEUART MACNAGHTEN, on behalf of the Standard Life Assurance Company, the Gresham Life Assurance Society, Limited, the Norwich Union Mutual Life Insurance Society, and the Star Assurance Society (now incorporated with the Eagle, Star and British Dominions Insurance Company, Ltd.), the Life Companies principally concerned in the transaction of foreign Life Assurance business, handed in the following statement as his evidence-in-chief:—

N.B.—THIS MEMORANDUM RELATES ONLY TO THE FOREIGN FUNDS OF BRITISH COMPANIES TRANSACTING BUSINESS THROUGH BRANCHES OR AGENCIES OUTSIDE THE UNITED KINGDOM.

16,588. (1) The funds of a British company transacting foreign business may be classified under the following heads—viz., the home fund, the foreign fund and also, in the case of a proprietary company, the shareholders' fund.

16,589. (2) The home fund represents the assets belonging to the policyholders, wherever resident, who affected policies through a branch or agency in the United Kingdom.

16,590. (3) The foreign fund represents the assets belonging to policyholders resident abroad who affected their policies through a branch or agency outside the United Kingdom.

16,591. (4) The shareholders' fund represents the assets belonging to shareholders wherever resident.

16,592. (5) Under the present law, if a company is assessed on an "interest" basis the foreign fund is exempt from taxation provided the assets comprising that fund are invested in securities outside the United Kingdom or in certain British Government securities. If the company is assessed on a "profits" basis under Case I. Schedule D, the assessment is made on the actuarial surplus arising from the whole funds inclusive of the surplus arising from the foreign fund. In practice, owing to the fact that all British companies transacting life business abroad do also a considerable home business, the "interest" assessment on the home fund usually exceeds the "profits" assessment on the whole funds, and taxation is therefore confined to the home fund.

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16,593. (6) The companies submit that, whatever basis of taxation be adopted for Life Assurance companies generally, the foreign fund should continue to be exempt from all British taxation. If the foreign fund and therefore the foreign policyholders were made the subject of British taxation, it is obvious that British companies would not be able to compete abroad with native companies not subject to such taxation, and it would probably involve the sale or transfer of existing foreign business to foreign companies.

[This concludes the evidence-in-chief of Mr. Macnaughten.]

16,594. Mr. Pretymon: We have had your printed proofs of evidence which I think we have all read, and I propose to deal with you gentlemen separately; that will probably be a saving of time and convenient to both. If you each hear the evidence of the others it may not be necessary to ask the same questions in all cases. Unless there is anything special you wish to add at this stage to your evidence-in-chief we propose to take that as having been read and understood by the Commissioners, and the Commissioners will ask you any questions that they wish?—(Mr. Hovl) If you please.

16,595. Have you anything you wish to add?—No, I have nothing specially I want to say in addition to what appears in the evidence-in-chief.

16,596. Sir E. Nott-Bower: I think the evidence is much on the same lines in each case. I think there are two points of difference; I think that the Scottish Life Office do not ask for an assessment based on profits, and that they also make a special claim as to annuities. I think in other respects your evidence is on the same lines?—Yes.

16,597. Mr. Pretymon: Therefore it will not be necessary to repeat the questions, beyond the general question that I shall perhaps ask when we come to the Scottish offices, whether they agree generally with the evidence given on the points on which their proofs coincide.

16,598. Dr. Stamp: I will refer first to the evidence of the English Life Offices. You speak in paragraph 5 of the circumstances in which a Life Office would make a loss?—Yes.

16,599. A company may make a loss because the net rate of interest realised from their investments, or their rate of expenses, or the conditions of mortality, are less favourable than those which have been assumed. Now do you mean an actual loss, or a loss by relation to the assumptions that you have made?—A loss by relation to the assumptions we have made.

16,600. You would only make an actual loss, I take it, if as a fact your premiums and interest did not actually meet the liabilities as an actual result of the working?—Yes, that is so, but of course that is assuming that we laid down a basis that we consider a right and proper and safe one to work on. If our funds do not amount to the sum necessary to meet liabilities calculated in that particular manner, of course we consider we have made a loss.

16,601. Is the method of calculating that liability identical throughout all companies?—Certainly not.

16,602. You have different expenses, you reckon upon different net rates of interest, and you take different mortality experience?—That is so.

16,603. Therefore if there were to be any suggestion that your liability was to be calculated by reference to profits, would it not be necessary, in fairness, to standardise, for revenue purposes at any rate, the whole of your methods of valuation?—I do not think so at all; because in the past, prior to 1915, the life branches of composite offices were taxed on their profits for many years, and no standard of valuation was considered necessary then.

16,604. I am speaking now of circumstances in which the alternative liability upon interest is given up and you then come upon what we might call a commercial basis. Now I ask whether there is already existing the possibility of a commercial basis without some kind of standardisation? I will just put a simple illustration. One company shows a profit on its valuation of, we will say, £100,000, because in its

valuation it has made certain assumptions. Another company, which makes more rigid or more stringent assumptions, shows a profit of £50,000. Would it not be possible for one company to build up what I may call an inner reserve on the three factors in the valuation, which might get strengthened from year to year so far as Income Tax is concerned, if you did not have some kind of uniformity introduced?—You are assuming that that is done for the sake of escaping Income Tax.

16,605. No, I do not assume that. I would merely assume that one company continues its more stringent method. You will say, I imagine, that in so far as the business remains constant and the method of valuation remains constant, whatever inner reserve there may be in one company as compared with another, will remain constant?—Yes.

16,606. But I take it that the tendency of Life Assurance is to increase, and that it does increase, with the increase of population?—Yes.

16,607. Therefore that inner reserve which the more cautious office has over the less cautious office would tend to increase with the ratio of business?—Yes, I think that is a fair assumption.

16,608. Do you not think that if there is any attempt to assess them on a commercial basis they should be equalised?—I do not think it is necessary at all.

16,609. Suppose it were considered to be necessary, would it be feasible?—Yes, quite practicable.

16,610. You could continue your present valuation for commercial purposes, but you could turn these three factors on to a common basis without much trouble?—I do not think the Life Offices would welcome any standard method of valuation, because a standard method of valuation involves a good deal of work, and they would prefer not to have it; it has not been necessary in the past prior to 1915, and they would hope that it would not be necessary now, even if they were taxed on a profit basis.

16,611. Might it have a tendency to make those companies which have taken a less cautious view standardise themselves up to the others?—I do not think so.

16,612. Not with a heavy rate of tax, like 6s. in the £?—No, I do not think so.

16,613. Supposing they are already considering the desirability of taking a more stringent table of mortality, would not this encourage these?—I should not think so; that is my personal view.

16,614. You think it would be too small a factor?

—Yes. Of course I do not know the idea at the back of your mind in asking the question, but if it is a question of enabling the Inland Revenue to get the proper amount of tax, I should like to point out that they would not necessarily get an increased tax because they introduced a standardised, or if you like to call it a commercial, method of valuation.

16,615. No, I am not thinking of increased tax; I am thinking merely of justice as between different companies, so that they should not be assessed on a mere accident. I want to know how you would overcome that difficulty. Would you admit that there is a difficulty?—I would not admit that the various offices would feel any sense of injustice because they were taxed in respect of their own varying methods of valuation; shall I put it like that?

16,616. You think that those who saw themselves bearing an extra burden simply owing to the difference of valuation would not make themselves heard on the subject?—Not at all. Those offices who are increasing their reserves would be laying up funds which would produce profit which would be subject to taxation in future periods.

16,617. Possibly so, always subject to this, that at every succeeding valuation they score over that quinquennium compared with other people, by the assumed rate?—Yes, if you can call it a score.

16,618. At any rate the difficulty exists in theory, but you think there is nothing in it in practice?—I do not think that is a difficulty which could be put in the way of adopting a profits method of valuation.

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16,619. You think that 6s. in the £ Income Tax is not what you might call a dynamic factor as between two companies to tend to bring them on to the same lines?—No.

16,620. It is not sufficient to worry about?—I do not think it is sufficient to induce them to adopt less stringent methods of valuation for the moment.

16,621. If you think that it is not a very important item in the valuation of net interest does it not rather weaken your whole claim? Is not the whole of your claim based now on the inequities brought about by a high rate of tax? You cannot have it both ways—that it is first a big grievance and then that it is too small a matter?—We are not here at all because the rate of Income Tax happens to be 6s.

16,622. But I suggest to you that the very height of the Income Tax makes the difference whether it is a big grievance or not?—Of course that is natural, but the point I want to make is that this question of a profits basis has been to the front for 20 years past or more than that—long before the Income Tax was more than a 1s.

16,623. How many companies do you think are assessed on a profits basis as compared with the interest basis; what percentage?—At the present time I should think five or six. I should like to consider that.

16,624. Is it a large proportion of the total that are assessed on profits as distinct from total interest?—No, quite a small proportion.

16,625. Therefore the question of being assessed on profits has not been really anything more than an occasional one?—That is so.

16,626. Therefore to put everybody on profits brings out new issues that have been covered up and cloaked hitherto. Is it any answer to the point I am making now to say that it has never mattered in the past, when the profits liability has never really been an urgent matter?—But I think it has mattered in the past. Our point is that the profits basis, when the Commission is considering the merits of the two quantum, is the more equitable one.

16,627. Shall I put it to you in this way: that if out of 100 assessments only five or even ten, we will say, have been on the profits basis, any little anomaly existing owing to the profits basis in the past has been a negligible question compared with what it would be if you were going to put the whole 100 on it?—But I do not think there are any questions of the difficulties that would be likely to arise by putting these other offices on to a profits basis.

16,628. You answered one question of mine by saying that there has never been any difficulty in the past. I suggest to you that there need never have been any difficulty, because the matter was too small then, but that if everybody came on a profits basis these anomalies might be more important?—I think you misunderstood me then. When I said there was no difficulty in the past I meant that before 1915 all the life branches of composite offices, which amounted to a great deal more than half a dozen, were for a long series of years taxed on a profits basis without any standard method of valuation.

16,629. And not by reference to total interest?—Not by reference to total interest.

16,630. In the past there has been a large number of assessments upon profits and not upon interest?—Yes, and they were quite important offices, the life branches of some of the big composite offices.

16,631. What proportion of the total Life Offices was so assessed; have you any idea?—One-third or a half, I should say.

16,632. At any rate, if there is a theoretical or practical difficulty arising out of the lack of uniformity of valuation it would be more important in the future than in the past. Shall we put it as high as that—more important?—I am not quite sure that I am prepared to admit that.

16,633. Then I will pass that. Now come down to the question of principle involved in the suggestion for charging on the interest basis at a lower rate of tax, a sort of compromised rate of tax. The principal difference I understand to be this: that where payments are made under a policy, we get at the present time the full tax on the interest

that has been earned, that accumulates to the policyholder; and that if he were an investor direct, without the interposition or agency of the Life Office, the enormity of the system would be apparent, because a comparatively poor man would be seen to be bearing the full rate of 6s. on the interest on his investment?—Yes, that is so.

16,634. Your suggestion is that if we could look at the thing as between a policyholder and the man who makes an investment without the interposition of the Life Office, and take the average of the rates of all the people who invest their money in that way, that would be the fair and equitable method of assessment?—Yes.

16,635. And you suggest a rate something less than 6s.?—Something not exceeding three-fourths of the present standard rate.

16,636. 4s. 6d.?—That would be 4s. 6d. at the present time.

16,637. Will you tell us whether you have any kind of calculation as to the actual tax that would be borne by people as investors if the Life Assurance companies were removed from view—whether it would work out to 4s. 6d.?—In our case it would work out at a figure considerably under 4s. 6d., most distinctly.

16,638. Have you taken Super-tax into consideration?—Yes, even taking Super-tax into consideration. We state that in our memorandum.

16,639. It is rather important that we should know that that has been taken into account. I suppose some of your business, or a great part of your business, is in large assurances amongst people who are liable to Super-tax?—No, not a great part. If a great part of our business was with people who are liable to Super-tax you would see it in a very much larger average policy than we state to be the fact, namely, £300.

16,640. You mean that you never get policies as small as that amongst well-to-do people. Is that the idea? I can imagine a well-to-do man having a number of policies. If you are going to take the amount of the average policy I think it is a rather doubtful calculation, because I can quite understand that a wealthy man would not have one single policy but would have a number of policies, we will say of £1,000 each?—Yes, but we have taken that into consideration in asking for a rate not exceeding three-fourths. Of course, it is not a matter susceptible of exact calculation.

16,641. I agree; we only want to know what you have taken into consideration?—We have taken the average policy. Of course, the average policy amongst all Life Offices is a factor that we can pretty easily get at.

16,642. Mr. Pretyman: You do not know the incomes of the people who have taken out the policies. What means have you of ascertaining that?—We do not know; we quite freely admit that; and I say it is not a matter of exact calculation; but from general observation and from our knowledge of the total sum assured in respect of our own policyholders we can see, if you like to put it, that £600 is quite an average amount per life in all offices; that is to say, that the average assured person is not assured for more than £600, whether he is assured more than once in one office or in several offices.

16,643. Sir E. Nott-Bower: Take my case, for instance, which I think is quite an average sort of case. My Life Assurance comes to over £7,000 altogether, but it is split up into eleven policies, and it is divided between four or five companies. The average amount of those policies is £600 or £700. Have you taken factors like that into consideration?—Yes, we have taken these into consideration.

16,644. Dr. Stamp: What have you taken as the average number of policies per person? If the average policy is £300, what have you taken as the average number of policies per person?—If you put it at half as high again I think that would be a fair figure.

16,645. That is to say, three policies between two people. That is the figure you have taken?—One of the methods adopted, I might explain to the Commission, is to see how many duplicate policies there

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are in respect of any one individual office. There I have found that every life assured with one particular office had 14 policies in existence.

16,646. Do you think it is sufficient to raise it by another quarter for different offices?—I say raise it by another one and double the £300; you still get only £600.

16,647. That is to say, three policies amongst two people. That has led you to a certain figure of income as the average figure by reference to which you should take your rate?—Not that alone. Perhaps I may tell you that there was another body of statistics brought to my knowledge by the Inland Revenue Department. It was in the Reports of the Inland Revenue Commissioners. The particular volume I had was the 58th Report. In that, at page 23, you will find that they set out the amount of Life Assurances included in the estates of people who died. If you look at that you will find that the total policies in that particular year amounted to £12,800,000. Now, of that £12,800,000, £6,800,000 referred to estates not exceeding £10,000; and there is a further correction to be made upon that, that I do not think was apparent to the mind of the Inland Revenue official to whom I was talking at the time, which my committee have thought of since, that is, that it does not in any way give effect to the number of Endowment Assurances that are in force, that of course only appears in that statement if the lives assured by those Endowment Assurance policies have died. If you take Endowment Assurance policies, for every person that dies four persons live to draw their money when they become 55 or 60, or whatever the age is. And, of course, the proceeds of those policies are invested, and appear in other columns among those estates. If Endowment Assurance policies were of the same average amount as ordinary whole life policies there would be nothing in it; but you will find, if you refer to the assurance companies' returns, that the Endowment Assurance policies average something under £200 against an average of something under £500 on the whole life policies. So you see a very much larger amount of the proceeds of Endowment Assurance policies which mature during the lifetime of the lives involved would be included in the estates under £10,000. So there again it indicated that the average policyholder was not the very wealthy man.

16,648. Those figures would indicate that the ratio of Life Assurance falling into the rich group and the poorer group would be a satisfactory ratio, or on the excess side for endowment policies also, supposing that they could be shown?—I want to indicate, of course, that the Endowment Assurances would be more generally in the smaller estates.

16,649. In bulk?—In bulk, yes.

16,650. You think that is so?—Yes.

16,651. Would you then infer from that, that amongst wealthy people a whole life policy is a more popular thing than an endowment policy?—On the whole, yes.

16,652. That the endowment policies are to be found more amongst the smaller people?—Yes.

16,653. So you would conclude from the Inland Revenue statistics, modified in that way, that the figure that you have taken is well within the mark?—Yes.

16,654. In reckoning what the average total policies per person are, have you then turned that policy into terms of income? You have found that the average policy is so much. Have you said that the average policy is held by a certain average income?—No. We cannot do that; that is impossible.

16,655. In considering the question of rate have you also considered this? If you could show year by year, on the policyholder's Income Tax return, the hidden value of the interest that has accrued to him in the office, it would increase his Income Tax, would it not? It would increase his total income?—If you could, yes.

16,656. In the case of a man with £500 a year, if you could give him a certificate, as you say in your evidence here, of the amount of, we will say, £20 interest that has accrued on his life policy with the tax deducted at 6s. we should see the enormity of

not allowing him a return; it would be clear to us?—Yes.

16,657. You have considered the tax upon the £20 and the amount that the Revenue would have to return to him if it were an investment?—Yes.

16,658. Have you also reflected on the fact that although he may have been overcharged on that as an investment, yet the fact that he omits it from his form keeps the amount of his total income lower than it would otherwise be. In other words that if the interest were included in his return the rate of tax on his whole income might have to be raised?—We are starting, are we not, with the assumption that we are talking about an average assurance on everybody's life of £600, say, as a maximum. The extra income produced from the interest on the reserves and so on in connection with that average policy would be, I will not say negligible, but very nearly negligible.

16,659. If it is nearly negligible, is not the grievance nearly negligible?

16,660. Professor Pigou: Is not the point that it is negligible with reference to the gap between the two—the difference of the rate?

16,661. Dr. Stamp: True, but I wanted to know whether any credit had been given for the fact that the rate of tax on a man's income might be increased if he had to show the interest as though it were interest from an investment. I have not suggested that it is very large?—That might be so in some particular cases.

16,662. It would throw all the rates up, would it not, on a graduated line, if we had a graduated tax?—It would throw them up some little degree.

16,663. The whole lot?—Obviously I am bound to say yes to that, but not to any large degree.

16,664. It would throw up a considerable amount at every step in the present scheme of graduation in the case of certain people. I think that is Professor Pigou's point. Certain people near the margin would be thrown up to a higher rate, but the people in between the zones would not be thrown up. But if a system of taxation as has been urged upon us, of a smooth graduation, were adopted, it would throw everybody's tax up?—I think I ought to say this. You are talking now about interest on reserves. You must remember that our memorandum says that the whole of the interest is not profit and should not bear tax at all.

16,665. I am simply reverting to the simple thesis that by the intervention of the office between the man and his investment, there is a tax being borne by him, consolidated at the end when he receives the lump sum, if you like. There is a tax being borne by him in excess of what an ordinary investment would bear?—Yes.

16,666. Supposing you could remedy that in the way that has been referred to in your evidence, by giving him a certificate, I am putting it that that would have the effect, in many instances, of raising the whole tax that he had to pay, to a larger extent than the amount of the repayment due?—But we do not say anything in our memorandum about giving the man a certificate. We are not suggesting that.

16,667. It is referred to in some of the evidence?—In Mr. Schoaling's evidence, yes.

16,668. Let me say that it has been referred to in evidence that if that could be done—bringing the annual increment of interest on to the man's total income form, and showing that he should have borne 4s. 6d., and that as he has borne 6s. therefore he is entitled to a repayment of 1s. 6d.—my point is now to ask whether you have taken into account at all, in getting that compromised rate of yours, the fact that on a graduated scheme of taxation the very inclusion of that interest would throw up his rate?—Yes. I think we have fully met that, because, as I pointed out just now, our figures, as far as we can vouch for them, certainly show that we should be justified in asking for a smaller differential rate than is represented by three-fourths of the standard rate; there is quite a margin for allowing for any little loss to the Revenue by methods such as you suggest, that the man's interest on his policy might possibly increase his rate, and so on.

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16,669. That is what I want—that you have allowed a margin?—There is plenty of margin to allow for that.

16,670. That is all I want to know—whether in getting at it you allowed that margin?—Yes.

16,671. Now, let us come back again to your root principle that this to the policyholder is really an investment which piles up and is paid to him in a lump sum, and that as such the interest has paid a higher rate of tax than, if it had been openly shown, it should have paid—is that contingent in any way on a withdrawal of the existing concessions with regard to Life Assurance premiums?—No, not at all.

16,672. You want the two?—Yes; we say nothing in our memorandum about the allowance for premiums. We think that is a matter more particularly between the community in general and the Government.

16,673. I would like to know what your view on this point are, because the whole of your case, as I understand it, rests on this. You want us to assimilate the Life Assurance method to the ordinary investment in order that we may see the easiness that rests on the poorer policyholders?—Yes.

16,674. We have done that; we have assimilated it, and we have looked at it in the light of an ordinary investment. Now, if a man puts aside so much out of his income for an ordinary investment, he has paid tax on it before he puts it aside?—Yes.

16,675. Life Assurance is in a special position.

16,676. Mr. Marks: I may point out that that is the contention of the Scottish office, not the English office.

16,677. Dr. Stamp: I want to get from this witness whether he made the compromised rate depend in any way upon the continuation of the present position. (To Witness): The compromised rate, I understand from you, depends in the last resort on this assimilation of Life Assurance to the position of an ordinary investment?—Yes.

16,678. I ask, can you assimilate the position to an ordinary investment unless you do it right through? Why should you assimilate it to an ordinary investment in this particular respect, and yet have it different from an ordinary investment in respect of the premium paid?—You are referring to the premium rebate now, I take it. Of course, that is a concession granted by Government because they think it is in the interests of the State to foster thrift, and as far as I have read the evidence, there has been a practically unanimous opinion that that is a very good thing for the State.

16,679. In so far as you are appealing to the comparison between this and an ordinary investment, I suggest that you should make it go beyond the point where it works against the man to the point where it works for him; and if you are going to have a complete assimilation why should not the deduction for Life Assurance premiums be abolished? If it were abolished, and you had this compromised rate allowed for everybody, then I think you have a complete comparison with an ordinary investment. Do you not think so?—Well, we have to confine ourselves to our side of the case. The assessment of a Life Office is quite apart from the premium rebate.

16,680. But I suggest to you that the principle upon which you are basing it, if logically followed out, involves the abolition of the premium allowance?—We do not think that.

16,681. You think that it is consistent in principle that you should assimilate it to a certain extent and not go further?—Yes.

16,682. You can do it, but would you admit that it is not a complete assimilation to an ordinary investment?—One of the reasons which, I think, justifies me in saying that is this: that the assessment of Life Offices has never been taken into consideration and readjusted when for other reasons you have altered the premium allowance. In 1915 and 1916 you made alterations in the premium allowance. You did not on that account say: "as we have done this we must reduce the assessment of Life Offices."

16,683. Mr. Pretyman: But do you not put this grievance of yours forward as a grievance to the individual policyholder whose income is below the £5 limit; and this exemption which is given to him on the amount of his premium is a direct relief to him of

exactly the same character?—We look upon it as a grievance to the offices who are looking after the interests of their beneficiaries.

16,684. It is not really a question for the offices, is it? It is a question for the individual policyholders and shareholders; it is not the office?—The shareholders are out of the case, if I may say so.

16,685. We will leave the shareholders out altogether; it is the policyholders who are the people concerned?—Yes.

16,686. The policyholders have already got a very large remission through paying no Income Tax on their premiums, and now you ask for a still further remission for them, and you say the first has no bearing on it. Can you really maintain that?—I could understand the Commission suggesting, for instance, that they should adopt the Canadian precedent, and not tax Life Offices at all, and not give them any rebate. That would be one method of solving the difficulty—not that I am urging it.

16,687. Dr. Stamp: You mean repay the tax on the whole of the interest that you get from your investment?—Yes, that is what they do in Canada.

16,688. Then that would be a double remission to a taxpayer, would it not?—In Canada they do not get any rebate on the premium, but the life policyholders pay no Income Tax.

16,689. Mr. Pretyman: We do it the other way. We have no tax on the premiums, and the Life Offices do pay. You cannot have it both ways?—No; but we say we are paying too much. We are quite willing to pay, but we say we are paying too much.

16,690. Even allowing for remission on premiums?—Yes.

16,691. I understood you to say just now, in answer to Dr. Stamp, that you did not take those premium remissions into consideration at all, because you thought it was a different thing?—It is a matter between the Government and the community whether they make any particular concessions in support of thrift.

16,692. Dr. Stamp: Shall I just summarize it in this way: that if the allowance for premiums were discontinued, and you had your true rate upon the investors' interest, in a compromised form, if you like, then you would have completely assimilated the position of the Life Assurance investor to that of any other investor?—I dare say some questions will be asked me by the other Commissioners as to the analogy between the individual investor and the assessment of Life Offices on a profits basis.

16,693. After all, your claim for the compromised rate rests, in the last resort, on the position of the average individual investor in respect of his investment?—It rests there.

16,694. You have presented to us a hardship, and at the same time you do not like to put against it any boon. Now I say, if you withdraw the boon, and you withdraw the hardship, you have then completely assimilated the Life Assurance investor to the other investors?—What I cannot quite understand is why the position could not be understood that it is quite equitable to consider an assessment of Life Offices on an equitable basis, quite apart from this premium rebate.

16,695. Because you yourself have appealed on the position of the individual investor? You have gone behind the Life Assurance office as such, and asked us to look at the position vis-à-vis the Income Tax of the average individual, and what would happen as compared with this method we are taking?—But do you want to stop at the Life Offices, and not go past the Life Office to the policyholder?

16,696. We are doing that. We say we will look at the position in regard to the average policyholder, but we want to look at his whole position in reference to his investment, and not at half of the point. If you appeal to us on this ground of the position of the individual investor, to get your average lower rate, then we say we want to look at his whole position. Now is there anything unfair or illogical about that?—Of course we are here to deal with the question of the proper equitable method of assessing Life Offices. Our feeling is on an entirely different footing. It is for a different purpose altogether.

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16,697. *Mr. Petyman*: You have given your view; we quite understand your view about it; it is for us to form our own view?—Yes.

16,698. *Sir W. Trevelyan*: I would like to ask one question from a practical business point of view. Have you any statistics to show how many persons take the relief referred to in paragraph 16 of your evidence?—I have no statistics, but I dare say the Inland Revenue would be able to give you some.

16,699. My reason for asking the question is this: it might be put as a practical question to you, whether you would prefer the relief now granted, which is referred to in that paragraph, or whether you would prefer to have your alternative relief asked for in your paper?—The premium rebate is not relief allowed to Life Offices.

16,700. I mean to put it from a practical point of view. In asking for this additional relief, are you not putting the relief referred to in paragraph 16 in jeopardy?—I do not think so, necessarily.

16,701. Not necessarily, but is it not possible that you may do so, to the great detriment of the assurance companies?—No, I do not think so.

16,702. I only wanted to bring that to your attention?—Obviously the Life Offices Association do not want to submit evidence that would be in detriment to the interest of Life Assurance offices in general.

16,703. That is not the question. The question was: does not in effect your asking for a further concession put in jeopardy the concession which you already have?—That is for the Commissioners to say, surely.

16,704. As long as you are fully aware of what is before you—what is possible in the case—I have my answer?—Yes.

16,705. *Sir E. Nott-Bower*: Just one question with regard to the result of the adoption of a profits basis. As you know, some of the largest and most successful assurance companies are mutual companies, and they have vast accumulated funds. If they were charged on their profits, the loss would be very great, would it not?—The mutual companies, if a profits basis were adopted, would agree to legislation that would prevent that being the case. I understand your point.

16,706. They would ask the Legislature to regard as profits what the courts of the country have decided are not profits?—Of course the mutual companies would not expect to pay no tax at all.

16,707. I think the Scottish offices are at one with you in this, that whichever basis is chosen, profits or interest, there should be no, what you call, option?—Yes, that is in the memorandum.

16,708. If the profits of an average insurance company exceed the interest they receive, why should they not be taxed on the difference as profit?—They would, if they were assessed on a profits basis.

16,709. I am asking you for information, really. There may be some reason for it which is hidden from me at present. Everyone has to pay on his profits. I know there are exceptional cases, but supposing the profits of a Life Assurance company are £100,000, and, in arriving at those profits, you have included a sum of £80,000 of interest which has been taxed at the source; now the Life Assurance company has a profit of £100,000, it has paid on £80,000 interest, why should it not pay on the remainder of the profits?—They would do so, if they were taxed on a profits basis.

16,710. I was assuming, for the moment, that the interest basis had been adopted. Supposing you retain only the interest basis, why should not a company which, for some exceptional reason, has made a profit which exceeds its liability on the interest basis, pay on its full profits? I do not understand it.—May I give our reasons for asking for that?

16,711. If you please?—In support of our application that there should be one quantum only—which ever the Commissioners think is the equitable one—we cite some of the exceptional cases which you no doubt had in your mind when you spoke just now. The bankers have a single quantum. They are assessed on profits, and on profits only.

16,712. I do not think that bankers have a single quantum. As long as I can remember bankers have been assessable on profits or interest, whichever may be the higher. They are treated in an exceptional way with regard to their subscriptions to War Loan. Is that your point?—Well, will the Inland Revenue give us that concession?

16,713. Are the cases comparable at all? I rather think that the bankers' case is one quite exceptional?—I was not going to stop at the instance of the bankers. It has already been stated in evidence before the Commission that bill broken are in a special position, and I was going further than that. I was going to suggest that if you look at every instance of legislation on Income Tax matters, as regards Overseas Dominions, in almost every instance they have got a single quantum, definite legislation showing exactly how they are to be assessed, and with no duplicate methods.

16,714. Of course we have had a great experience of Income Tax in this country, probably more than anybody else, and I think possibly that there may be quite as much reason as the back of our method of taxation as there is at the back of the methods of taxation of people who have not had our experience?—Yes, but do you not think it is a very strong thing for young countries, you may say, in face of the precedent of English methods, to adopt a single quantum, and not to follow the same method as the English Government? Do you not think it is some evidence that there is some equity in favour of the single quantum?

16,715. I do not know; I do not want to go into it too much; I could say a good deal about that, but I am afraid to commence. At any rate, you cannot assist me at all to understand in what way equity would be outraged by the retention of what you call this option, which really is no option, which merely is that you make a calculation of two sums, and you assess on the higher of the two?—I could give other instances, if you would like, quite apart from Colonial precedent. During the war there were instances of distinct hardship on individual offices, who, in the middle of the war—when their war losses were very heavy indeed, and they were certainly making no kind of profit whatsoever, owing to the position of their interest income at the time—suddenly found they were assessed on a profits basis in respect of the five years ending 1914 or 1913, which was quite a profitable period. Those few offices that were assessed on a profits basis in that way, owing to the existence of the double option, felt a little hardship. That is a fact that will be confirmed by the Inland Revenue Department.

16,716. *Mr. Petyman*: But if the system is generally equitable, in times such as those we went through in 1914 and since, even the most equitable system is bound to be temporarily upset. You would not necessarily alter it because of a case like that?—I grant you that in quoting that particular case. It was due to conditions that we hope will not recur. But still it is the fact that some offices do hover around between the profits basis and the interest basis. They cannot tell from year to year on which basis they are going to be assessed, and it causes a good deal of extra trouble and work, both to the Inland Revenue Department and to the offices in question. I think that taking one year with the other the Inland Revenue would be as well served as regards Revenue by adhering to one basis, as by charging us on the double basis, as they do at present.

16,717. But surely the different companies may vary very considerably. Some offices are deriving a very much larger proportion of their income or profits than others from things like reversions and so on, which would not be brought in on the interest basis; they would be taxed then on a different footing to the companies which derive almost the whole of their income from interest and premiums. Surely what you really want to tax is the profit; and it is not quite fair, is it, to say that you are taking two standards. Supposing you were to say that the real standard is the net interest; assuming that to be

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the standard, there are certain cases where, owing to reversion business and other resources, the company makes a profit considerably in excess of its net interest. In that case it ought to pay on that excess. It is not a new standard; it is an excess over the existing standard. Is not that a fair way of looking at it?—I can quite conceive, if an office only invests its money in reversions (as an outside case), and therefore has practically no net interest to be assessed, in that case there should be some method by which they should pay tax.

16,718. Mr. Marks: There is a method?—There is a method, to some extent, of course, for that particular office does not have the full allowance as regards expenses of management. It has to bring in its profits from reversions, and those are set off.

16,719. Mr. Petyman: Then you admit that reversions ought to be subject to tax?—Reversions create a special case that has to be met.

16,720. And there may be other forms of income which may create the same special case. Surely that must be dealt with?—Yes; of course we hold that all these special cases would be dealt with under a profits basis.

16,721. But assuming that on the whole, generally speaking, the quantum basis is perfect for the general area of Life Offices, then surely it is equitable, and it does not mean that you are taking another basis altogether, if you say that, even accepting that, probably there are special cases where, owing to the particular character of the income, we have to make an addition for reversion and other forms of profit which are outside the accepted quantum basis. Is there anything inequitable in that?—No, that sounds equitable, as stated in that way.

16,722. Sir E. Nott-Bower: Now I am going on to the question of the reduced rate of charge. Have you made any estimate of what the cost would be of reducing the chargeability of the Life Assurance companies from 6s. to 4s. 6d. in the £?—I have made an estimate, because I thought that question might be put to me; but in giving the figures, I hope you will realize that we should prefer that estimate to come from the Inland Revenue Department. No doubt it will be confirmed by the Inland Revenue Department. As far as I can see, the increased cost of a three-fourths differential rate is—

16,723. Mr. Petyman: What do you mean by "increased cost"?—The relief to Life Offices.

16,724. Loss to the Revenue, you mean?—Yes; the loss to the Revenue would be this. The figures are roughly £1,000,000 on an interest basis, increased to £2,000,000 on a profits basis. The exact figures that I have worked out are, £1,100,000 on the interest basis, and £2,300,000 on the profits basis; but those figures must be subject to some deduction, because I included all the foreign business of the English established companies. That ought to come off. But, on the other hand, the smaller amount of English business of foreign companies would have to come in. On the whole, therefore, the £1,100,000 and the £2,300,000 exaggerate it to some extent.

16,725. I only wanted a rough idea?—I think you will find that is fairly accurate.

16,726. The cost, then, would be about £1,000,000, or £2,000,000, according to which basis you take. That would be a loss of revenue in connection with Life Assurance companies. I think you must be aware that this request for relief opens up vistas of possible claims to relief in other directions. If Life Offices get this relief, there are vast amounts of undistributed profits in the country in other places, and I imagine that at once other people would come in and say: "well, now, you have given a lower rate to Life Assurance companies; we want relief"; and some of those undistributed profits bulk very largely. It is an alarming thing. I think you would agree that hitherto what the Legislature has done for the relief of the poorest investor is this. It has said: so far as concerns your income from investments, the tax is deducted from the interest, and this income we will free from payment; but where money is simply held up between earth and sky, where the

investor does not receive any profits, then they get no benefit at all. Your suggestion opens up a prospect that I view with some alarm?—I rather gather, from your observations, that you think it may lead to claims from other forms of commercial companies.

16,727. Yes?—We distinctly urge that Life Assurance is a thing that must be treated by itself, and we point to Colonial legislation as showing that in most other countries, in the British Overseas Dominions, at any rate, there is special legislation dealing with Life Offices as an unique form of commercial undertaking; and I do not think their case should lead to applications from other quarters.

16,728. You think it could be differentiated?—I think so.

16,729. Sir T. Whittaker: Whether it should be differentiated or not, it is not clearly inequitable that a man's interest on his investments really in an assurance company should be charged at a higher rate than he is liable to?—Decidedly.

16,730. Then if it is inequitable, even if it leads to some difficulty, equity should be done?—Certainly.

16,731. Even if it costs something?—Even if it costs something.

16,732. It is a question really of equity and justice?—Yes, it is a question of equity, not the amount of the tax, or anything of that sort.

16,733. And the fact that a man happens to make his provision and investment through an assurance company, should not lead him to be penalized by paying a higher tax than he would have paid if he had made the investment elsewhere?—That is so.

16,734. And the Government must take the consequences?—Yes.

16,735. With regard to paragraph 4 of your statement, you speak of assurance offices making a trading profit. May I suggest to you that mutual offices, except in the most minute degree on non-profit policies, which in some are a very small proportion, do not make a profit?—That is so.

16,736. That really in a mutual office, or in small offices you charge premiums higher than are necessary for the bare assurance, to cover contingencies. Some contracts (that is insurance policies) have been in existence for 70 years, and they run 20, 30, 40, 50, or 60 years, and therefore your premiums are possibly higher than would be strictly necessary, but you have to face contingencies, and you prepare for that. It is not in reality a profit at all, but a return of excess premiums charged?—Yes; that has been laid down in the case of *The New York Assurance v. Styles*.

16,737. It has been laid down in the Law Courts?—Yes.

16,738. A number of people combine together for mutual insurance. They pay certain premiums. They find that the premium has been more than was really required, and it is returned; it is not a profit at all?—That is so.

16,739. Then how can you ask that Income Tax should be assessed on profits? There is no profit in those cases?—The Life Offices' Association represents both mutual and proprietary companies, and the mutual offices, not on this occasion only, but on several occasions in the past, when they have approached the Government with a similar application, have said that of course they would be prepared to come in with proprietary companies and pay on profits, although in their case they really make no profits at all.

16,740. If it is laid down as just by the law that taxation shall be on profits, and these mutual offices do not make profits, you must not tell me that mutual offices will agree to be taxed on something else?—I am afraid the mutual offices have to be taxed on something.

16,741. It means that the proposal, so far as mutual offices are concerned, is not a logical and practical one, does it not? And you get out of it by asking them to submit to a process of being taxed on profits which do not really exist?—I think the majority of the mutual offices—a very large majority, I think you might say—would be quite prepared to welcome a method of assessment on a profits basis at a differential rate.

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16,742. But if you once get a profit basis, would they not require it to be logically carried through and to escape from taxation?—I do not think they could expect to escape from taxation.

16,743. Then they must be taxed on some logical basis?—Yes.

16,744. There are no profits; you cannot tax them upon profits?—No.

16,745. You are going to set up an artificial basis of supposed profits?—Yes, for the purpose of the Income Tax Act, we will call them profits.

16,746. Now come to the proprietary offices. Is it not a fact that so far as they are concerned, on their life branch it is almost entirely mutual?—Yes.

16,747. And the tendency is becoming entirely so?—The tendency is in that direction.

16,748. Years ago possibly four-fifths of the surplus went to the policyholders; then it became usual for nine-tenths to go; then some had 95 per cent., and there are some proprietary offices which have now made their life business entirely mutual?—Yes, I know that is so.

16,749. The tendency is in that direction?—Yes.

16,750. And really, within the proprietary offices, the life business is practically mutual business?—Yes.

16,751. Therefore you cannot call the surplus, in their case, profit?—But the Courts would.

16,752. It really is becoming similar now to the mutual offices?—Yes.

16,753. And the same difficulty arises there, does it not?—No, I do not think so.

16,754. There is another tendency, I think you will recognize, at the moment—I do not know whether it is permanent or not—to develop what is called without-profit business?—Yes.

16,755. Non-profit policies are being largely taken?—Yes.

16,756. It would be possible, would it not, for an office to lay itself out for without-profit business?—Yes.

16,757. And to fix those rates so low that on a valuation very little surplus would be shown?—Yes.

16,758. Especially if your suggestion, that there should be no standard of valuation, were adopted?—Yes.

16,759. I suggest that the real check upon offices adopting a rate of valuation that would not show a surplus, would be that their bonuses would then be so small that they could not do business?—Yes.

16,760. But that would not apply to non-profit business, would it; they would not lose non-profit business because there was a small bonus?—I am inclined to think that they might to some extent, because after all people do not like taking out even non-profit policies in companies unless there is a strong financial backing. They prefer to take out a non-profit policy in a company where a very large amount of with-profit business is done, so that they have got all the security of the higher premiums paid by the with-profit policies.

16,761. I think they should have such a valuation as would show a very substantial financial security for the policies, but would you not run this risk, that if taxation were to be on profits (and the Income Tax remains at anything like its present rate) there would be a strong inducement to run on to without-profit business, to keep the profits down by a method of valuation and low premiums and in various ways to a very small figure, and you would really have immense investments in this country paying practically no Income Tax?—Well, we suggest at the end of our memorandum in paragraph 12 that if there are difficulties, and there may be difficulties in the direction you suggest, for instance, we think they are difficulties that can be got over. The Inland Revenue are very clever in providing means of preventing other portions of the community from escaping taxation, and I think there would be means of preventing the loss of revenue owing to any change in the character of the business of the office.

16,762. Does it not really mean that you are suggesting an illogical and fallacious method, and that as a result of doing so you are creating difficulties that would arise in every direction and would have to be specially dealt with?—No, I do not think it is at all as bad as that. There are difficulties whatever

method of assessment you have, which would have to be dealt with from time to time, as we have seen in recent years.

16,763. You mentioned, I think, in your memorandum, and as you know it is the case, that there is an enormous development now of what are known as Endowment Assurances?—Yes.

16,764. That is the class of policy that, at any rate, in number is becoming the more important item of Life Assurance?—Yes.

16,765. That class of assurance is, to a very limited extent of the premium, Life Assurance. For short-term policies the bulk of it is an accumulation of a fund to pay a sum at a given date?—Yes.

16,766. It is practically an investment?—To some extent, yes.

16,767. For, say, a ten-year endowment, nearly 90 per cent. of the premium is investment?—Yes.

16,768. And not much more than 10 per cent. of it is Life Assurance?—Yes.

16,769. Is it feasible to allow a man who is making what is really an investment—nine-tenths is an investment—to escape Income Tax altogether on it?—But in what way is he going to escape Income Tax on the other?

16,770. If he is going to be taxed on profits there may be no profit about the transaction at all, and I doubt whether there would be any on your method of speaking of profits?—I think if you take the Endowment Assurance class as a whole there is plenty of profit in it. Of course, you can pick out some short-term transaction that does not show much profit, but if you take the whole bulk of the policies under the Endowment Assurance section they show a very substantial amount of profit.

16,771. There are a great many of these short-term endowments issued and very many of them without profit?—Yes.

16,772. There would be very little so-called profit issued for taxing purposes?—Yes, but a great many of those short-term policies were issued in recent years in connection with War Loan schemes, and I do not think they are so likely to recur in the future as in the past. I do not think any Life Office particularly hankers after issuing a five-year Endowment Assurance policy at all, but for the sake of supporting the War Loans, and so on, some of them did to a very considerable extent.

16,773. If you take longer ones, in many cases the investment portion of the premium represents two-thirds of it?—Yes.

16,774. Is it really feasible that a man should make that investment for himself and be relieved of Income Tax on the interest on the investment?—How is he going to be relieved?

16,775. Because according to your proposal he is not to be taxed except on the profits that it shows. Now the office pays tax on the interest on the accumulation of his premiums. You wish to have him relieved of that, that is, the office relieved of that, which is relieving the man?—No. We only ask for relief to the extent of the difference between the total interest accumulations and the amount of interest required actually to meet the face value of our policies.

16,776. Yes. You ask that no tax should be levied on the interest; that, I understand, is your suggestion?—Oh, no, not at all, because, of course, in our profits which we suggest as a substitute there is a large amount of interest.

16,777. You suggest that you should not be taxed on interest as now, but taxed on the profit, which does, of course, include some interest?—Yes, a very large amount.

16,778. But the difference between what are called profits, which you have admitted are not profits, and interest would be very large?—Not so large as you might think.

16,779. But it is large?—In many cases there is not such an enormous difference.

16,780. But it is a large difference. Would not the tendency be, as could easily be managed, to reduce that profit?—There is bound to be a tendency.

16,781. I do not think I need pursue the case with regard to the banks; that is obviously a very special matter. They were practically almost compelled to put their money into War Loans, making investments which in the ordinary way of their business they would

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not have done, and under that pressure they were taking steps that were going to involve them in a serious Income Tax payment that they otherwise would not have made, and the Government had to meet that difficulty. It was purely a special case?—It was a bargain.

16,782. It was a special case, and I really do not think it applies; I do not think it is parallel to the permanent position of Life Offices. Now with regard to the differential rate which I venture to suggest is your strong point; you have been questioned as to the average amount of policies?—Yes.

16,783. When you take the average as being policies held by men with incomes of £1,000 to £1,500 a year, you are getting to a class who would have policies very much above £300?—Yes.

16,784. And, therefore, you are really meeting the objection that has been made that that is too low an average for the total assurance?—Yes, we think there is a large margin there.

16,785. And that three-fourths of the rate would be a reasonable compromise?—Well, we say not exceeding three-fourths because we think we might even argue that a lower rate would be fair.

16,786. Mr. Pretymas: I think it would be interesting to know, if you would tell us, which factor is the largest contributor to the policies on the average; is it the premiums or is it the interest? Can you tell us anything about the proportion in which premiums and interest figure in your business?—The premium income of a Life Office is in excess of its interest.

16,787. In what sort of proportion?—I can give you the proportion in respect of one particular office. The premium income is £235,000, say, and the interest income is £300,000 odd; it depends on the age of the office.

16,788. There is no fixed proportion?—No.

16,789. The older the office the larger the accumulated funds become in proportion?—Yes.

16,790. With regard to the question asked you by Sir Thomas Whittaker about bonuses paid being excess premiums and not profits, which I think you were agreed upon, those premiums have escaped Income Tax on the ground that they were assurance? Certain bonuses are declared in the quinquennial valuation?—Yes.

16,791. Is Income Tax paid on those bonuses?—No.

16,792. They are paid out of excess premiums, are they not?—Partly.

16,793. They are not profits; they are excess premiums—you have agreed that?—We were arguing the case of the mutual office, and we were agreed that in the case of a mutual office you cannot say that a mutual policyholder makes any profit at all.

16,794. Whether it is a mutual office or a proprietary office makes no difference. Let us take, if you like, the case of a mutual office; they are not profits but excess premiums?—Yes.

16,795. And the excess premium is returned in the form of bonus on the quinquennial valuation?—Yes.

16,796. But the whole of those excess premiums were exempted from Income Tax at the time that they were paid, on the ground that they were purely assurance?—The interest income of the life fund, of course, has paid tax.

16,797. But those particular premiums were exempted from Income Tax at the time they were paid, on the ground that they were for assurance only?—Some of them were.

16,798. Well, all of them?—No, I believe it is a fact that you can ascertain from the assurance companies' returns the premium income of the Life Offices, but that if you go to the Inland Revenue Department and ask what amount of premiums have been put in as a claim for rebate you will find that it is a very much smaller figure.

16,799. People may neglect to claim?—They do.

16,800. Therefore I do not think we can go into that.

16,801. Dr. Stowp: It is owing to the operation of the one-sixth restriction?—Various causes. I think that the 6s. tax is stimulating people to make their claims.

16,802. Mr. Pretymas: There may be some who are so small that they are not Income Tax payers, and

there is a certain limitation recently introduced for very large assurances, but broadly speaking those premiums in the normal case have been exempted from Income Tax, because they are premiums for Life Assurance?—Yes.

16,803. But there is a certain proportion of those premiums which turns out in the end not to be Life Assurance but to be excess premiums, as you have agreed?—Yes.

16,804. That is returned in the form of a bonus, and it does not pay Income Tax then?—It has paid Income Tax.

16,805. Not when paid in as premiums; only the interest upon it has paid?—The interest has borne tax, yes.

16,806. That is a different matter. If a man had put his premium into an investment he would pay tax on the interest?—Yes.

16,807. He would pay Income Tax upon the interest?—Yes.

16,808. But if he puts his premium into a Life Office he escapes payment, he pays no Income Tax at all on the premium which he pays?—That is so.

16,809. That is part of his savings?—Yes.

16,810. I am speaking of the original sum?—Yes, but then, of course, the man who takes out the life policy and pays premiums loses all control of his investment.

16,811. Yes, that is another point. I think you see my point?—Yes.

16,812. Dr. Stowp: Possibly they are better controlled for him than he could do it for himself?—Very possibly.

16,813. Mr. Pretymas: Do you suggest that the control of the office is inferior to the control if he retained it himself?—No.

16,814. Then he does not lose by it?—No.

16,815. Then is that any reason why he should escape tax?—No, but that is one of the points, that interest in the hands of the Life Office is not trouser-pocket money; it is not spendable income at all.

16,816. An investment is not pocket money either?—Yes. If a man invests £1,000 in War Loan he can buy pictures or anything else he likes with the interest he gets every half-year; it is on quite a different footing.

16,817. Mr. McLintock: Sir Thomas Whittaker put to you that the present system of assessing the interest at the full rate of 6s. was inequitable?—Yes.

16,818. And that it was the duty of the State to redress the injustice and that you agreed?—Yes.

16,819. To whom is it inequitable?—To the policyholder.

16,820. You gave the case in answer to Sir Thomas Whittaker of an endowment policy where about 90 per cent. of the sum payable when the policy matures is premium and 10 per cent. is interest?—Yes.

16,821. Will you just take a policyholder like that, and take a policy of £1,000. He pays £300 premium, on which he pays no Income Tax. You accumulate £100 interest for him and you are charged for him 6s., which is £30; is that not right? You are charged tax on the £100 interest at the rate of 6s.?—£100 a year at the rate of 6s.?

16,822. No. I take a sum assured of £1,000 on an endowment policy of which 90 per cent. of the sum was premium and 10 per cent. of it was interest?—Yes.

16,823. The only tax paid on that £1,000 is 6s. on the £100.

16,824. Mr. Pretymas: £10 a year for 10 years.

16,825. Mr. McLintock: That is the total amount of interest accumulated on that policy, and that interest has borne tax at 6s.?—Yes.

16,826. As and when you collected it and accumulated it?—Yes.

16,827. Therefore the total tax borne by the policyholder is 6s. on £100. His premium, of course, he gets a deduction for?—Yes.

16,828. He pays £30—6s. on £100; do you agree to that?—6s. on £100 is £30, I quite agree to that.

16,829. Assume that he had invested the £300 himself and accumulated £100 interest, and that he had been liable to Income Tax only at 4s. all the time;

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he would have paid £200 of Income Tax?—In how many years?

16,830. In the period of years in which he paid £200 of premium and accumulated £100 of interest. I am assuming that he is liable at the rate you suggest, 4s. 2.—Yes.

16,831. Then £1,000 would have borne 4s. tax as compared with the assurance; is that right?—It is rather difficult to follow these little sums, so I do not want to say yes to something I should like to say no to when I saw it written down.

16,832. If, instead of spending £200 in assurance premiums for which he gets relief of tax, he had invested £200, and the rate of tax at which he was liable was 4s., the result would be that he would have paid £200 Income Tax in the period that his endowment policy was running as against £20 that he would have paid through the Life Office if he had been assured?—In what number of years?

16,833. I do not care how many years you take. Take any number of years you like. The number of years does not affect it; it is the sum of money which he pays. In other words I want to ask: where is the inequity to the policyholder, because after all they are the people you are looking after?—Have you taken the tax on the capital and not the interest?

16,834. I have taken the tax on an amount equivalent to the premium, and considered what the position would have been if he had invested it instead of paying it in assurance?—If he has invested £200 or £1,000, call it, the interest would be £20, would it not?

16,835. At the end it might be. He might not be able to get £100 of interest by compounding it himself year by year as he put aside the equivalent amount of the premium, but I suggest to you that there is no inequity requiring redress on this particular question by lowering the rate of tax?—That is where we join issue.

16,836. Where is the inequity? It is so great that it is the duty of the State, Sir Thomas Whittaker says, to redress it whatever it costs. Where is the inequity from an Income Tax point of view?—The inequity is that the average policyholder is paying through his Life Office the full standard rate, whereas as an individual he would on the average certainly not be paying a larger rate than the 4s. 6d.

16,837. And another individual who invests his own money and gets no relief?—Yes, he does, most decidedly.

16,838. I suggest to you that you are getting a far bigger relief?—No, that is our whole point. The ordinary man who invests has channels by which he can get the proper relief, so that if he is below the limit he gets the whole of the tax refunded to him.

16,839. Exactly, and after he has got all the relief he is entitled to he still pays far more Income Tax than the man who puts his investments into the form of an Endowment Assurance policy, the commoner type of policy to-day. I leave you to work it out anyway you like?—I should like to see your little sum.

16,840. It is quite a simple sum. I take it the assurance offices are aware that many claims have been made to the Commission for relief?—Yes.

16,841. Many of them have a very good title to be met in some way. I suggest that yours should come at the very end, if at all, on the point of inequity to the taxpayer; do you agree with that?—No, I do not agree with that at all.

16,842. You do not agree with that?—No, most decidedly not. May I just interpose a remark about the previous case you put. My friends behind, who perhaps followed you more accurately than I did, suggest that your little sum about the £200 as compared with the £20 involves some error.

16,843. I will grant you that, there may be a trifling error; I will give you a present of that?—They think you are taking tax on the capital instead of the interest, which seems to be rather a fundamental error.

16,844. A man who has paid an assurance premium gets relief from tax on the amount of his premium; the man who invests the same sum gets no such relief. Do you agree with that?—The man who invests his sum gets the exact proper relief to which he is entitled.

16,845. On the sum he invests?—On the interest on the sum he invests.

16,846. I invest a hundred pounds, say, in an industrial security, and you put £100 in a Life Assurance premium; which of us pays the most Income Tax, assuming our receipts are the same for the current year?—As regards Income Tax itself the same rate becomes due, but of course you are bringing in the abatement question.

16,847. No, I am not. I am assuming we are not entitled to any abatements.

16,848. Dr. Stamp: He means the assurance abatement?—Yes, you are bringing that in.

16,849. Mr. McIlstock: Naturally?—I say that one memorandum does not take that into account at all.

16,850. I suggest that you are bound to take that into account when you come to ask for relief and propose a tax on other taxpayers to make it up?—In 1915 and 1916 when alterations were made in that deduction for premiums the Government did not suggest any adjustment of the method of assessment of Life Offices. They treated it as a thing quite apart from the assessment of Life Offices.

16,851. And similarly when the rate of tax went up from 8d. to 3s. they did not offer to make any change then, although policyholders were getting a very big advantage?—They did later on.

16,852. If you got this relief it will increase your houses?—It will all go to increase profits—obviously.

16,853. Will it increase the houses to policyholders?—It certainly will, yes.

16,854. I suggest to you that policyholders at present stand in a privileged position, and they should not ask for any more relief. Leave the Life Office out of account for the moment and simply look at the policyholder as an individual. Do you think at a time like this, when the demands on the Revenue are so great, that he really has anything but a very far off claim to get any further relief?—As I have previously stated in my evidence, we think it is a point to be considered that this claim, for taxation at all events on a profit basis, started long before the tax was at its present amount. I think it is only fair to bear that in consideration when you cast any semi-reflection upon us for coming forward at the present time.

16,855. I am not casting any reflection. I am asking you a simple question, whether the needs of the State are not so great that you are the last people who should expect relief in the form in which you ask it?—No, not at all. We quite realize that the needs of the State, as we have said in one of our paragraphs, might lead to an increased rate of Income Tax, and on any new basis we should welcome that. We might pay quite as much taxation and we might pay a great deal more, but we want to have the method of assessment in the form that we consider an equitable one; then tax us as much as you like.

16,856. After all, the assurance office does not bear the tax; it is the policyholder. There is no getting away from the fact that your main claim is based on the rights of the policyholder?—Yes, as regards the differential rates, certainly.

16,857. Therefore it comes back to relief to the policyholder?—Yes.

16,858. I take it your final view is that you think the policyholder is fully entitled to the relief you ask?—You seem to think that it is surprising that our policyholders should ask for this differential rate, but, although, of course, the case is drawn up by the Life Offices' Association, I have had an instance in my own office of policyholders writing us and quoting one of the cases referred to in our memorandum, the building society case, and saying: "how is it that the Life Offices have not got a differential rate; what are they about? Is there not any association that would enable them to put their case before the Government and get a differential rate?"

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16,859. Did you not reply to his letter and remind him that he got a deduction for his premium?—I do not know whether he had a deduction or not.

16,860. Very well, I will leave it.

16,861. *Professor Pigou*: At the end of paragraph 10, you begin by saying: "Compound interest is the raw material of Life Assurance." Indeed, people who invest in an assurance company are analogous to people who have invested in an investment company in that respect; the company in which they invest itself makes investments?—I am inclined to think that the Life Offices should stand by themselves as a thing apart.

16,862. But they are analogous in respect of compound interest being the raw material of their business?—Not to nearly the same extent—not to the same essential extent as in the case of Life Offices.

16,863. No, I grant that, but putting that analogy, I want to get clear the exact nature of your grievance. Is it this: that the shareholders in an investment company would, if they were liable to less than 6s., be able to get back the difference between the 6s. and their proper rate?—Yes.

16,864. Whereas in Life Assurance they would not?—No.

16,865. That is the essence of the grievance?—That is 16, yes.

16,866. Of course, you have to set against that the fact that a Super-tax man who had invested in an investment company would have to pay more than the 6s. rate, whereas a Super-tax man who had put his money into a Life Assurance company would not?—Yes, we have referred to that.

16,867. So that the Super-tax man gains under the present arrangement?—For him, of course, the 6s. is already a differential rate.

16,868. Then in paragraph 11 you draw an analogy with banks, and you make the distinction that a part of the interest earned on investment by banks is required to pay the interest on deposits?—Yes.

16,869. But is there not an important difference there, that when this interest on deposits gets into the depositor's hands it pays tax, whereas when the money comes back to the policyholder it does not pay tax?—Do you mind repeating that; I did not quite follow it?

16,870. The money that the bank pays to its depositors as interest is subject to Income Tax in the hands of the depositor?—Yes.

16,871. Whereas the money paid by the assurance company to its policyholders is not subject to Income Tax, and therefore the two are quite apart?—In the banks' case we are talking about investments, and the interest on deposits is paid very largely out of short interest which they receive in respect of day to day loans, is it not?

16,872. But does that matter? Is not the fundamental distinction between the case of the banks that their payment to their depositors is subject to Income Tax, but in the case of the assurance companies it is not?—I think it is an analogous case, except that as Sir Thomas Whittaker reminded us the exceptional treatment that they got was in the nature of a bargain with the Government.

16,873. I do not want to press that. Passing on to paragraph 13 where you speak about the differential rate, you have advocated it on the grounds of equity. Of course, it is not equity to a particular kind of individual but equity to a kind of average?—It is equity to an average, because any other method by which we could deal strictly in equity with the individual would be so terribly cumbersome and involve such an enormous amount of labour not only to the Life Offices but to the Inland Revenue that it is practically impossible. So we say: "Instead of that deal with the company and charge them a fair differential rate," and then between the company and the policyholders we can tell you very decidedly that the policyholders in the company would be quite content with that general treatment, by which they would benefit, generally speaking; there would be some relief from taxation, the indirect benefits of which they would enjoy.

16,874. I quite see the point, but is there not this difficulty, that on your system, though some of the

poorer people would cease to pay more than they ought to pay, a number of the richer people would pay a great deal less than they ought to pay. You would be correcting an injustice to the poor policyholders at the expense of creating a very great favour to certain rich policyholders?—Yes, but I do not think the poor people would mind this average method, though incidentally it might confer some benefits on some of the richer policyholders; because they realise that when they enter into a Life Office and pay their money into a Life Office they join with a number of other people and receive average treatment throughout; and certainly in all the names of Life Assurance it is the small policyholder who really gains benefits at, you might almost say, the expense of the larger policyholder.

16,875. Of course the small policyholder would not complain, because he would gain; he would not object to the rich policyholder gaining more. But my point is that the State should object to the rich policyholder gaining more?—I do not think the State would mind at all, if I may say so, because as far as the State is concerned, that is the Inland Revenue, they would get the exact correct amount of revenue from that body of individuals.

16,876. But they would not?—Yes.

16,877. But they would not get the right amount from the rich policyholders?—They would not get the exact rate from the rich people, but if they could deal with each individual and total the results they would get no more revenue; they would get exactly the same as they would if they dealt with the offices on the average by giving the differential rate.

16,878. But is it not rather difficult to give a relief, a considerable part of which would go to give certain rich people more than they are admittedly entitled to?—Yes, well then you are thrown back on this: we say it is not equitable that the investors in Life Assurance should pay the full standard rate, but we find that it is impossible to redress that grievance by adjustment in each individual case.

16,879. Is it clearly impossible? Has an attempt been made to work out the adjustment?—You remember the evidence given by Mr. William Schoaling. In cross-examination by Mr. Protyman he acknowledged at the end of his evidence that any question of refund was impracticable, and Mr. Protyman was evidently of the same opinion.

16,880. What would happen to this money, supposing the rate is reduced to 4s. 6d. as against 6s.?—There is a fund of money which the Life Insurance office would not pay; that will happen to that money? Will it go in bonuses, or will it go in reducing premiums on future insurance?—It would go into the general funds of the office, which, of course, would go out in the form of increased bonuses.

16,881. It would take the form of bonuses and not the form of reduced premiums for the future?—All the surplus of Life Offices is divided by way of bonus; that is the only way of distributing it.

16,882. Would an ordinary mutual society, when it found itself in that position, reduce the premiums for Life Assurance or would it simply pay this out as bonuses?—Simply pay it out as bonuses.

16,883. It makes a difference as to whether the relief will benefit future holders at the expense of the Government, and if it means the reduction of premiums to future policyholders?—No, because the existing policies would get exactly the same relief, in fact more, because they would be the older policyholders.

16,884. But they would also get it from the bonuses?—Yes.

16,885. Do you also represent the Standard Life Assurance Company?—No, I do not. Mr. Macnaghten is going to give evidence later on.

16,886. *Mr. Arncliffe-Smith*: If, as the result of the recommendations of this Commission, changes are made in the law of Income Tax but none of your alleged grievances are remedied and some of your existing advantages are taken away from you, do you not think that on the whole you will be very lucky?—I think the Life Offices would be disappointed.

16,887. But you do think the policyholders whom you in a sense represent, though not, as I understand,

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at their request, will be sorry?—They will be disappointed.

16,888. Do you not think they will rather say: "what a pity not to leave us alone, Heaven save us from our friends!"—No, I do not think so; in fact, I have already quoted a letter from one of my policyholders which asked why we did not stir and get them a differential rate.

16,889. Does that represent public opinion on the part of the policyholders?—Public opinion of those who take an interest in the matter. Of course, the policyholders on the whole are rather lethargic. They insure their lives, and they do not bother you again.

16,890. They have no means of becoming vocal?—Yes, most decidedly; in the case of mutual offices they are invited to attend the meetings every year.

16,891. Mr. Marks: Dr. Stamp suggested that it might be possible to withdraw from the cognisance of the Inland Revenue secret reserves or reserves which might be in some way or another accumulated by the offices in connection with the valuation for the purpose of ascertaining profits. Do you think that would be possible, in view of the methods of account prescribed by the Insurance Companies' Act of 1909?—No, I do not, and I am very glad the question is addressed to me, because I think I ought to have reminded Dr. Stamp that the valuation returns of Life Offices are made in a very detailed form under the terms of the Insurance Companies' Acts. They are made in such a form that there is sufficient material for making test valuations from the figures returned.

16,892. Dr. Stamp: I should like to say that I never had any idea in my mind that you were making any kind of reserve to be withdrawn from the Inland Revenue; I only suggested that two methods of valuation would give one company a reserve as compared with another; that is all.

16,893. Mr. Marks: May I ask Dr. Stamp, would he suggest that two offices of equal status can adopt such methods of valuation that a different surplus would appear in each?

16,894. Dr. Stamp: Yes. I think that, according to the methods of valuation adopted, you might have in one case a profit of £100,000 and in the other of £80,000.

16,895. Mr. Marks: And that if a less surplus were shown by one office than the other, that might result in less taxation being paid by that office?

16,896. Dr. Stamp: It would tend to make those who before had £100,000 adopt such methods of valuation as would show £80,000. The Inland Revenue would have to accept any recognized method of valuation; that is the point.

16,897. Mr. Marks: I see your point. What I rather had in mind was, that if a recognised standard basis of valuation were imposed on the offices, it would rather cramp the opportunities of the Inland Revenue that assist them in determining the real taxable basis of the office. However, if there is a conflict of opinion, there is not much time, and I will not pursue that point. (To Witness) Sir Edmund Nott-Bower suggested that the adoption of a differential rate would involve applications for a similar indulgence in other directions. Do you know of any other case in which a person, interested either as a shareholder or other form of investor, cannot get the rate of tax imposed on his company adjusted in his own case to the rate of tax which he ought to bear?—No, I do not.

16,898. Neither do I. Sir Edmund Nott-Bower suggested that undistributed profits were an instance of non-adjustment, but if those profits are subsequently distributed, having already borne tax at the full rate, it is quite possible that the adjustment could then be made?—As far as I am aware.

16,899. I would like to ask you, as endeavouring to obtain the impression that the cross-examination which you have so far undergone has made on your mind, whether it is not clear to you that there is a certain amount of confusion in the minds of the Commissioners between the offices as taxable entities, if we may so describe them, and the policyholders as taxable entities; that is to say, it has not been made clear to me, at any rate, that the Commission

has in mind whether the Life Office should be regarded as the taxable entity or the policyholder. Has it been made clear to you?—Well, the expression "taxable entity" is rather a technical one, and I am never sure of my ground when I am either referring to it or answering questions about it.

16,900. I mention that point, because it is of some importance. I think you were a member of the deputation which waited on Mr. McKenna when he was Chancellor of the Exchequer, at which the suggestion of a differential rate was first put forward, were you not?—Yes, I was.

16,901. I will just read it. You will remember it was said to him "all we are asking for now is an adjustment of the method of assessing Income Tax on the Life Insurance companies in order to bring it into line with the theory upon which the tax is assessed, namely, that it shall fall on the individual," and the Chancellor said "that is not the principle of the Income Tax Act." I could make other quotations, but I will not trouble having regard to the desirability of saving time; but it was made very clear to the offices on the occasion of that deputation that the Treasury, at any rate, regarded the Life Office as the taxable entity or taxable unit, whatever you like to call it?—Yes, I remember the general impression left on my mind was that the Chancellor thought there were unheeded difficulties.

16,902. Are not the whole of the arguments or the questions which have been addressed to you by the Commission founded on the conception that it is not the office which is the taxable entity but the policyholder, particularly those questions which involve the confusion of the policyholder as the holder of the life policy and as a person paying premiums which under Statute entitle him to relief in the matter of Income Tax?—Yes, that is so.

16,903. Have you any indication at all whether the Inland Revenue regards the office or the policyholder as the person at whom they are trying to get?—I think the Inland Revenue regards the matter from the policyholder's point of view.

16,904. Is there any conflict of opinion, do you think, between the Treasury and the Inland Revenue on that matter; perhaps I had better ask the official witness that?—Yes.

16,905. Sir Edmund Nott-Bower, in speaking of mutual offices, suggested that there was no reason why the Inland Revenue should not be allowed their option to tax either on profits or on interest less expenses, and said that everybody was assessed on profits. Is not the whole point of your representation here to day that you cannot compare the Life Offices with everybody, and that there is no other form of business or no other form of taxpayer who is in the same case or category as the Life Office?—Yes. We do urge that the Life Office occupy an entirely unique position, and should have legislation as regards Income Tax entirely and definitely directed towards them.

16,906. Incidentally, is not the contention of the Inland Revenue that they should have the option to tax on profits, a strong argument in favour, at any rate, of the feasibility of the profits basis?—I do not think the feasibility can be denied, because, as I said, before 1915 the life branches of the composite offices were charged on a profits basis.

16,907. Yes. I will just call your attention to the last sentence in paragraph 7, in which you say: "The Commissioners will, therefore, see that it is admitted by the Inland Revenue that in certain circumstances, which do not affect the principle involved, Life Offices can be properly and effectively assessed on a profits basis," like any other business which has been admitted by the Inland Revenue, because on their own showing it yields a larger revenue?—Yes.

16,908. The instances which Mr. Prettiman gave show, do they not, that so long as the assessment is on an interest basis questions of difficulty such as he mentioned must arise. Most of the instances which he put to you arose out of the anomalies which are introduced by taxation on the interest basis. Well, I will not press the point, because it is on record, but what I was going to say is this: when they have arisen in other cases the only other comparable cases, the banks and the bill-brokers, they have immediately

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been remedied by legislation; that is so, is it not?—When the difficulty arose in connection with the application for the War Loans and so on, it was remedied as regards the banks.

16,900. These are the only comparable instances in which a similar difficulty has arisen, and they were immediately remedied by legislation?—Yes.

16,910. Is there any reason that you know of why the same indulgence should not have been extended to the Life Offices, which, in spite of anything that may be said to the contrary, were heavily pressed by the Government to put much more of their funds than they would have done in the ordinary case into War Loans. Do you know of any reason why a relief similar to that given to the banks and the bill-brokers should not have been extended to the Life Offices?—No. The reason given was that there was going to be a Royal Commission after the war and we must wait till then; that was the reason officially given to us.

16,911. You will agree with me that those difficulties would not have arisen at all if the Life Offices had been taxed on their surplus?—No, it would remove a bit of minor difficulties.

16,912. I do not at the moment propose to ask you questions on Mr. McIntock's cross-examination, which arose entirely out of the conception that the policyholder is the taxable entity and not the office. As regards his suggestion to the effect that the Life Offices desired to get out of the payment of Income Tax on account of the large amount of that tax at the moment, is it not true—in fact, I think you have stated it and we know that it is true—that this agitation has been going on at least for 30 years, ever since the decision in the Clerical, Medical, and General Life Assurance Society v. Carter, and has been going on when the Income Tax was a comparatively unimportant part of the expenses of a Life Office?—Yes, that is so.

16,913. Is it not also the fact that over this series of years the offices have in one way or another got certain concessions out of the Inland Revenue in exchange for certain advantages, we will say, that they have abandoned either for themselves or their policyholders, as, for instance, in 1915 when the relief in the matter of the expenses was made contingent on restrictions as to the deduction of premiums and the inclusion in taxation of profits on reversions and fines and fees, and so on?—I do not know that it was actually made contingent. I was not very prominently connected with the Life Offices' Association at that time.

16,914. Anyhow, as a result of hargaining it did so appear?—It all happened at the same time, at all events.

16,915. Just one word on what Professor Pigou put to you to the effect that the differential rate while lessening the injustice to the poor policyholder gives an undue advantage to the rich one. Is not that absolutely correct? Do you agree that it lessens the injustice to the poor policyholder—it does not do away with it—and increases the advantage to the rich one?—That is so, of course; I admitted that.

16,916. If we do admit it, does not that constitute the ground of a very formidable claim on the Government, that they must devise some method by which the policyholder can get the return of taxation to which he is entitled, if they do not give him such relief as you suggest in your differential rate?—Yes, that is what we suggest. It may not be the best method, but it is the only method we can put forward to get average justice.

16,917. That is the position you take up; that you put the Government in the dilemma of having to provide some means of doing justice to the policyholder or accepting your suggestion of a rough and ready way of doing it?—Without using the word "dilemma" I would agree with you; I do not want to put the Government in a dilemma.

16,918. Mr. Walter Clark: In reference to Mr. McIntock's sum, is the premium of an endowment policy allowable as a deduction?—Only to a certain extent.

16,919. Mr. McIntock: It is only allowed up to £7 per cent.

16,920. Mr. Petyman: Would you welcome a solution which gave you what you asked for in the matter of a reduced rate, say 4s. 6d. instead of 6s., and abolished altogether the exemption of insurance premiums?—That question has never been considered by my committee in dealing with this evidence, so I must answer that purely in my personal capacity. On the whole I should say I should not welcome it; that is my personal opinion.

16,921. With regard to what Mr. Marks said to you about taxable entity that is an expression which wants a little definition, is it not? A taxable entity may be merely a matter of machinery as for the collection of a tax?—Yes.

16,922. What we have to consider is the incidence of the tax and who ultimately pays it?—Yes. As I explained, that was a term of which I do not understand the full significance.

16,923. But speaking from what you know of the position of the policyholder, and speaking personally, you would not welcome the abolition of the present relief and the granting in lieu of it the relief which you now ask for?—That is my personal opinion.

16,924. So it does amount, does it not, to an admission that the policyholder is now getting something which is of greater value than what you suggest he should have?—Well, of course, you have undoubtedly to consider the question of allowance for premiums as an indirect means of bringing business to Life Offices.

16,925. If you could just come straight to my point, because it is really rather important from my point of view—you say you prefer the present form of relief to the one that you ask for, and that you would not sacrifice the present for the other. That is an admission, is it not, that the present relief is a greater one than the one you ask for?—Well, they are two different things.

16,926. I know, but they are both reliefs to the policyholder. The policyholder benefits from them both. I quite understand that they are different, and that they are allowed in different ways, but look at the thing from a plain common sense and not from a technical point of view; look at it from the Income Tax payer's point of view. The policyholders as Income Tax payers are now getting a certain form of relief to a certain amount?—Yes.

16,927. You come and ask for a further form of relief of a different character?—Yes.

16,928. I ask you whether you would welcome the granting of the form of relief you now ask for, conditionally on the abandonment of the relief now given, and you say, no?—I say, no.

16,929. I say that is an admission that the present form of relief is greater than the form of relief which you ask for; apart from technicalities it is, otherwise you would wish to surrender it?—Of course, the concession granted to the general public is a valuable support of Life Assurance.

16,930. To insurers, not to the general public?—To insurers. Anybody can have it who insures his life.

16,931. Do you think your putting forward this claim in the way you do jeopardises very much the relief you are now getting?—We hope not.

16,932. I ask you seriously to consider that matter, because I do not think the general taxpayer would assent to the proposition that the insured people should have it both ways. The claim is that everybody should be treated alike, and I think you might find that there would be a strong demand, in the case of this suggestion of yours, that the insurer should receive exactly similar treatment to other people in the direction you now ask for, that you should receive exactly the same treatment in the matter of premiums that anyone else does in the matter of his investment. I only ask that you should think of that very seriously before you press that?—May I suggest one consideration that I think should be in the minds of the Commission, and that is this. It is suggested that this relief of £1,000,000, or whatever it is, that would be granted to the Life Offices is an increased burden on the general taxpayer. May I point out to you that there is an annual saving being effected

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by the Government in respect of the premium rebate, because the full 6s. in the £, for those who are entitled to it, is allowed in respect of policies issued up to a certain date in 1916, and only 3s. in respect of policies issued after that time. That means that by policies going off by death, and by the maturity of Endowment Assurance, a very large sum each year is going off at a 6s. rate, and the new business that is coming on is coming on at a 3s. rate; the result is an annual saving to the Government which will very quickly wipe out that million.

16,933. Do you not think the Government requires every annual saving and every penny of saving it can get in every direction, and if we can get that million pounds equitably, according to existing legislation, that is no reason why we should give away another million pounds, unless we think it is absolutely equitable in proportion to the burden on the other taxpayers?—No, of course, you will not grant any concessions that you do not consider equitable.

16,934. It may be possible, may it not, to say to an applicant for equity: "very well, we will give you equity," and he goes away wishing he had not asked for it?—Yes.

16,935. Mr. Marks: I really think I must ask another question arising out of what you say. When you suggest that the policyholder gets it both ways—

16,936. Mr. Petyman: Not gets it both ways now, but would get it both ways if the two concessions were given.

16,937. Mr. Marks: He would get it both ways if he got the differential rate and if he still got his deduction in respect of premiums from time to time?—That is what is suggested.

16,938. The whole of the argument here to-day, so far as I can judge, has proceeded on the assumption that every policyholder in the office gets the benefit of this allowance for premium. It is not the fact. All those who are entitled to total exemption from Income Tax, of course, get no benefit whatever from it, although their funds in the hands of the office are taxed at 6s.; and all those who are entitled to an abatement, although they get the advantage of the premium allowance, are still taxed at a much higher rate than that to which individually they are liable.

16,939. Mr. Petyman: Perfectly, but it was with these considerations in my mind that I asked Mr. Howe the question which he would prefer. I did not express an opinion which of the two was preferable, but I asked Mr. Howe which he preferred, and he, no doubt, had all that in his mind.

16,940. Mr. Marks: As the witness did not make it clear that there was that existing condition, I thought it might perhaps be put before the Commission.

16,941. Mr. Petyman: Certainly, it is a very important point.

16,942. Mr. Bowerman: I understood the witness to admit without any reservation that the existing allowance has been of advantage to the Life Offices?—Yes, I did say that.

16,943. And that the question has been raised on behalf of policyholders, because one or two letters have been received suggesting that some alteration might be made?—Yes, as regards the differential rate, I said one or two letters had been received.

16,944. Mr. Bowerman: There has been no representation from the general body of the policyholders.

16,945. Mr. Petyman: Quite so.—(To Witness).—Mr. Low, you have heard the cross-examination in respect of the English case?—(Mr. Low): Yes.

16,946. Your two statements seem to be in general agreement, except in regard to two matters; there is one point of difference on the question of the method of assessment, whether it should be on profits or net income, where you differ from the English case; and there is one point, not a different but a quite additional point, which you raise on the matter of annuities?—Yes.

16,947. Otherwise your cases cover the same ground?—Yes.

16,948. You have heard the discussion this morning; it will not be necessary probably for us to go over

the whole of the same ground again, although, of course, any Commissioner may ask you any question covering the ground which was covered this morning, if he wishes to have your view upon it. I should like to ask whether you are in general agreement with the evidence given on behalf of the English offices, or whether you have any particular comments to make on their evidence?—I think I should not care to make any comment on their evidence.

16,949. I am speaking apart from the point on which we know that you differ; but on the general evidence, where you agree in your statements, have you any comment to make, or do you differ generally from their evidence?—I agree generally with their evidence. Perhaps on some small points if I had been asked the questions, I would have given a different answer, but I do not wish to set up anything against the answers that have been given.

16,950. Sir W. Trevelyan: With regard to the question of the two methods of taxation by the Government, you come down decidedly on the side that they ought to tax on the income from investments, less expenses, plus the income derived from reversionary interests?—I think the question of taxation upon reversionary interests permits of being resolved into a matter of interest; because after all what the office gets when it gets its capital out of the reversion, is its own capital, the price paid for the reversion, plus the interest upon that, taking it broadly. It loses in some cases and gains in others, but on the average it gets so much interest upon its capital. I think it admits of being worked in in that way.

16,951. Then with regard to the Crown not having the choice, that, I think, is entitled to very much sympathy. It really comes to this: that there is no certainty about it if the Crown has the choice and taxes the taxpayer on a different basis at different periods, and therefore it leads to uncertainty, and no one has a right to choose between two systems which differentiate in their incidence. You put it on those grounds, do you not?—I should put it rather on this ground. Net interest being taken as the basis of taxation, if an office, outside its ordinary assurance operations, investing money and re-distributing it amongst the policyholders, makes a profit which in the hands of other people would be a taxable profit, then I do not see that there is any injustice in its being taxed upon such profit. I have some difficulty in putting to myself in what circumstances it would make such a profit; but if there is such a thing, I do not see why the office should not be taxed upon it.

16,952. Then you think, that on general grounds, it is better for the office, and better for their constituents, that that system should be adopted—taxation upon net interest?—Yes; we have considered that very carefully in Scotland, and we have come to the conclusion that, while in all probability the taxation of profits would be most instances be in favour of the office, the taxation of net interest was much more easily defended upon theoretical grounds; in fact we could see no flaw in the case for taxation upon net interest.

16,953. Now turning to the other question, that is the question of annuities, is it not the fact that the annuitant, when he or she buys an annuity, takes into consideration the question of taxation? I am putting aside for one moment the question of the rate of taxation. An annuitant has always had to consider the question when embarking capital?—Yes, unfortunately the annuitant has always had to consider that he or she—most commonly she—would have to bear Income Tax upon his or her annuity, and has bought the annuity in spite of that, feeling all the while that it was an injustice to have to pay upon the full amount of the annuity.

16,954. Then you put it on the ground that that was the only provision that she could make for herself?—Or, at all events, that it was a necessary supplement to what other provisions could be made.

16,955. That is the ground you put it upon?—Yes.

16,956. And you differentiate that from, for instance, leaseholds, because the leaseholder has a definite life and a man takes that into consideration in buying?—Yes.

16,957. You distinguish between the two?—Yes.

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16,958. Mr. Kerly: I was not here this morning, so I will not trouble you with going over what may be ground already touched. You say that the profit you make in dealing in reversions is really equivalent to interest, because you got your money back, and that is partly capital and partly interest?—Yes.

16,959. Have you not left out of account two things: the fact that dealing in reversions is to some extent speculative; and secondly, that the difference between what you pay and what you get is greater or less according to the successful exercise of judgment by the buyer of the reversion?—That is, that you may get more or less capital than you anticipated in your calculation, I take it. Well, of course, you may gain or you may lose.

16,960. There is a real trading element in it, just as there is in any other trading operation?—Yes; but if you make a profit upon that, or make a loss, that is capital, and not income.

16,961. I am afraid I cannot appreciate that. A stock and share dealer, a jobber, buying and selling, makes a profit, does he not? You would not regard him as earning interest on his capital?—If that was his whole business, that is so.

16,962. This is the business of assurance companies dealing in reversions?—But in the same way it is our business to invest in ordinary securities. We may make a profit, or we may make a loss; that is a capital profit or a capital loss.

16,963. We are quite familiar with the distinction between an investor and a speculator?—Is not every investor more or less a speculator?

16,964. We have no practical difficulty in defining the two classes?—No.

16,965. But every dealer in reversions is to a much more serious extent a person exercising judgment in what he buys, in the sense that the trader does?—Then your point would be, I take it, that a company dealing in reversions would be dealing in a thing that would yield such extraneous profit as I have referred to in a previous answer?

16,966. Yes. Therefore I suggest that to you for your consideration?—That, of course, is a question apart from the general question of the basis of taxation.

16,967. I agree entirely; only I suggest to you that it may be worth considering; that if you are going on to pursue a course which is strictly analogous to that of traders, you ought to separate the pure assurance business of a particular company from any profit it makes upon dealing in reversions?—Of course, you have to be very careful not to mix up profit and interest there. In my view, I think it admits of being very nearly practically resolved into a matter of interest.

16,968. That is because of your assumption, which may be warranted by actual practice of a well-conducted office, that the speculative gains and losses, as I put it, balance each other?—They probably balance each other.

16,969. Mr. Pretymas: In the purchase of a reversion, is not part of the return in the increasing value of the reversion, as well as in interest; is it not deferred income?—The difference between the price you pay and the sum you ultimately receive is deferred income.

16,970. Is not that a ground on which it might be liable to taxation?—The difference, yes.

16,971. There would be a difference, would there not? You would pay normally more for a property with a reversion than for a property without one?—We are talking of two different kinds of reversion, I think. I take it the question previously put to me about reversions referred to reversions to sums payable on the decease of persons.

16,972. Not property reversions?—No, not property reversions.

16,973. But you do purchase property reversions, do you not?—No, I am not familiar with that at all. There is no such thing in Scotland.

16,974. Are not ground rents one of the forms of investment in the case of Life Offices?—Yes, some of them do that.

16,975. That is what was in my mind. That form of reversion would be deferred income, would it not?—In one view it is, certainly.

16,976. And would therefore be an extraneous profit such as you think ought to be taxed, if it is worth while, and if it can properly be ascertained?—If I might be excused, I would rather not, at this point, discuss what are to be considered as extraneous profits. I have stated I feel great difficulty in knowing what they would be; but that would be a point for determination later.

16,977. Mr. Kerly: You rightly followed me as intending to deal with reversions depending upon an uncertain contingency; such as the duration of a life?—Yes.

16,978. I ought to have said so, so as to make it clear. You have also given us some evidence about annuities. The matter, of course, has been discussed by a previous Committee, as you are aware. I think you have no new argument to bring forward against the present rule?—We have no argument beyond what is in our memorandum.

16,979. The matter has become a great hardship upon annuitants because of the recent great rise of the tax?—Yes.

16,980. That is what has once more brought the matter into prominence?—Yes, and because of the coincident rise in the cost of living.

16,981. Professor Pigou: Will you turn to paragraph 15. I take it that you recognise the difficulties in the way of a differential rate, but that you prefer it to individual adjustment, on the practical ground that the other could not be worked. Would it be possible to explain why it could not be worked?—In connection with Mr. Schofield's evidence before the Commission, I think this matter was pretty well discussed.

16,982. You accept his evidence?—I accept what seems to be the gist of his evidence.

16,983. There is just one point in connection with that. You spoke about the "clumsy and roundabout process" and difficulties. Would these difficulties be all at the beginning? I mean, if you could once start this thing, would it become easier or would it always be difficult?—It would always be difficult; a recurring enormous difficulty.

16,984. It is not the sort of thing with which you have great trouble at first, but which gets better later?—No, it is not so.

16,985. Then with regard to annuities. The point has been put to you that an objection to relieving annuitants is that when they took their annuities originally they reckoned upon the tax?—Yes.

16,986. Have you considered at all the possibility of leaving things as they are in respect of existing annuities, and making a change in respect of new annuities?—That would be very partial relief to the people whose case is in our minds—people of limited incomes who are being taxed upon the capital that has been accumulated either by themselves or by their predecessors for their declining years. Of course it is enormously aggravated by the increase in the rate of tax; but it has always been a grievance with these people. They have come to us and said: "If I had invested this money, I should have got so much for it; I give it to you, and you will give me an annuity, but I never see my money again, and I am taxed upon what is really the capital and not the income, and that is not fair." I do not know what answer there is to that.

16,987. I quite see the point; but of course the argument against releasing existing annuitants who reckoned on the Income Tax when they bought their annuity?—But they did not reckon on 6s.; and it is ruinous for some people.

16,988. I am not disputing that; but my point is that there is a different argument there from what there is in the case of new annuities?—I quite agree there is a point there.

16,989. What I was asking was this. Supposing it applied, for example, to annuities as bought from now, would not that be some relief?—Of course on the principle that half a loaf is better than no bread we should be quite glad to have that; but we should regard it as only an instalment of what we should expect to get from a Commission like this.

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16,990. Mr. Marks: How many Scottish offices do you represent?—In our Association we have 14 offices.

16,991. Are they unanimous in regard to this?—I do not think you are entitled to ask me that question, if I may say so. The resolution putting forward our case on this basis was submitted to a meeting and was passed without any dissent.

16,992. A general meeting of the Association?—A general meeting of the Association.

16,993. Thank you; that is all I wanted to know. You are, of course, aware that the evidence tendered by the Scottish offices now is in entire contradiction to that which they have put up in the past?—Yes; I think we have come to a better mind, if I may say so.

16,994. Since when?—I cannot give you the date, but the tendency of opinion in Scotland has been growing in this direction for some time past. Of course if you ask me for my individual opinion, it has never altered.

16,995. I am aware of that?—But I am speaking now not for myself.

16,996. The main difference between your evidence and that of the English offices relates to the basis of assessment?—Yes.

16,997. And I take it you would say, in answer to the question which I raised this morning, that the proper taxable entity to be considered in this connection is the policyholder and not the office?—If you would define to me exactly what you mean by the "taxable entity" I should be able to answer that question. Do you mean by "taxable entity" the person who has to pay the tax or the person upon whom it is ultimately to fall?

16,998. I mean the person or body on whom the Inland Revenue place the charge?—Of course it is absurd to say that the Inland Revenue place the charge directly on the policyholders, because that would mean that they must collect from some millions of men a number of small sums. The Inland Revenue collect through the office.

16,999. You are no doubt aware of the judgments which have been given dealing with this particular point, in the cases of *The Mersey Docks and Harbour Board v. Lucas*, and *The Grisham Life Assurance Society v. Styles*. Perhaps I may be allowed to read this for the information of the Commission. It was held, in the case of *The Mersey Docks and Harbour Board v. Lucas*, that "where profit is made, it is immaterial what is the destination of that profit"; and in the other case, *The Grisham Life Assurance Society v. Styles*: "but when once an individual or a company has in that proper sense ascertained what are the profits of his business or his trade, the destination of these profits or a charge which has been made on these profits by previous agreement or otherwise is immaterial." Those judgments seem to me to be pretty conclusive as to the charge stopping at the office. Do you agree with that?—No.

17,000. Can you give me any reason why you disagree?—Yes. Take the case of a mutual assurance office. There you have a body of persons who have paid in capital sums to achieve a certain object, who are not trading as a body, who are earning net interest upon the sums they have paid in. They are, as a body, liable to be taxed, but the tax, of course, falls upon the individual; he gets less out of the society than he would get if there were no tax.

17,001. I agree, but I think, if I may say so without any discourtesy, that is rather an evasion of the point on which we are at the moment?—I do not wish to evade any point at all.

17,002. All I am concerned with at the moment is what your views are as to the point at which the charge by the Inland Revenue falls in fact?—In fact it falls upon the policyholder.

17,003. I gather, further, from your evidence, that you assume that there is a correct analogy between the man who places his money in Life Assurance and an investor in any other form of security?—A correct analogy, to the extent that each of them is laying out his money at interest.

17,004. But you would agree, of course, that the investor in a joint stock company retains to a very large extent his control of his capital, and entirely his control of his interest?—Yes.

17,005. And that the investor in a Life Assurance company abandons his control over both?—To a large extent he does.

17,006. What is your limitation?—The limitation is that he has got something that he can sell, can dispose of, himself.

17,007. He has got something which he can sell, but surely invariably, and in the nature of the case, at a loss?—Now, is that the case? Would you, as an actuary, say that is the case? He has had his insurance. He has got the value for his money.

17,008. But I am looking at it purely from the point of view of investment, distinguishing the case of the investor in Life Assurance, from the investor in any other form of investment?—Quite clearly, a man who insures his life cannot at any moment come and draw his capital. If that is what you want me to admit, I admit that readily.

17,009. And if he does withdraw his capital, he withdraws only a part of it?—Well, he has spent some of it.

17,010. He has, as we know, spent some of it in providing for a risk: which further distinguishes his case from that of the other investor, because the other investor has not got the same risk?—That is so.

17,011. There is, at any rate, a very considerable distinction between the investor in the Life Assurance form, and the investor in the other form of investment, so far as that is concerned?—Clearly.

17,012. Is there not at least one other essential difference, which is this: that in the case of the investor in Life Assurance, the longer he lives, and the more he pays in, the less his individual benefit is?—That is so.

17,013. Is not that a very strong distinction between his case and that of the other investor?—Clearly, but we seem to me to be getting very far away from the question of Income Tax, if you will pardon me saying so.

17,014. Pardon me, I think not. You are trying to establish, for the purposes of taxation, an analogy between the investor in Life Assurance and the investor in other forms of securities?—I do not know that I am. I am trying to establish an analogy between interest derived from Life Assurance funds and interest derived from anything else, dealing, as I say, with income here. I cannot conceive of anything that is more truly and absolutely income than the return from invested money, whether it is invested in insurance or invested in anything else.

17,015. You are resting your contention on the judgment in the case of *The Clerical, Medical and General Assurance Society v. Carter*?—I am not resting it upon anything of that kind; I am resting it upon matter of fact.

17,016. Let me put it in this way. The basis upon which Life Offices are assessed at the present time rests entirely on the judgment in the case of *The Clerical, Medical and General Life Assurance Society v. Carter*?—I do not admit that at all.

17,017. That is your answer—that you do not admit it. Let me pass from that. You say in paragraph 7 that "the profit or gain which they as a body"—that is, the members of the society—"make is just the interest or other produce of the funds they themselves have built up, less the expenses incurred in carrying on the concern"?—Yes.

17,018. And you exclude from your consideration what we regard as other sources of surplus at any rate, if not profit, that is to say, what we ordinarily call profit from mortality and from miscellaneous sources?—I do not exclude it. I think the two things are entirely different. I think that actuarial surplus and taxable profit are two entirely different things. We have pointed out in this memorandum that in a mutual society there is no such thing as profit, apart from the produce of the funds and apart from such possible extraneous sources as have been referred to; that is a different matter. The produce of the funds

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is the profit that the body as a body makes. If there is a surplus from the expenses being less than the provision that was made for them, then that is because the members put in more capital than was required. But that is no profit at all. If there is a surplus from the rate of mortality being less than the rate that was assumed, or from the rate of interest being higher than the rate that was assumed, then that surplus arises because the members paid in more capital than was necessary. There is no profit; it is their own money.

17,019. That puts at greater length what I had in mind: that you do, in your argument, exclude from consideration what actuaries designate as profit on mortality, in their dealing with Life Assurance offices?—Certainly.

17,020. And you regard as the profit or gain, to use the word of the Act, which is liable to taxation, only the interest on the funds?—Yes, the net interest on the funds. It seems to me quite clear.

17,021. I think in answer to Sir Walter Trower you suggested that if the office makes other profit it should be taxed?—If the office, outside the operations of ordinary Life Assurance, makes profits which in the hands of other persons would be taxable profits, then they ought to be taxed, whether they are mutual or proprietary.

17,022. What other source of profit could it have?—That is what puzzles me to know.

17,023. You do not agree that dealing with reversions, for instance, would be outside the scope of a Life Office?—As I have already said, I think the great part of the profit upon reversions is the interest part. If a company makes it its business to deal in reversions, it is conceivable that it might make a speculative profit outside of the interest. I have already said that I would rather not be asked to discuss at this stage what would be a taxable profit outside ordinary assurance business. If there is a taxable profit outside ordinary assurance business I do not see why assurance companies should be exempt.

17,024. Would you agree that if it made losses in similar dealing they should be allowed as a set-off?—Yes, I think the loss should be set against the profit.

17,025. That is to say, if it deals in those securities and made a loss, it should be allowed to set that loss off against its taxed income?—Against its taxed income? That is a different thing. That is going a step farther. I think profit and loss ought to be taken together if you are going to take them as extraneous matters.

17,026. Then I do not follow you. Perhaps you mean it in this sense: that transactions outside the ordinary scope of a Life Office, if there are any such, should be dealt with as entirely separate matters?—Yes. I put this as an admission rather than as an assertion.

17,027. I was going to call your attention to Section 23 of the Customs and Inland Revenue Act, 1890, with which no doubt you are familiar, which was incorporated in the Act of 1918 in Section 34. You will perhaps remember that a special provision was inserted in the rules, which excluded Life Offices from the benefit of that section?—I do not remember that.

17,028. You may take it from me that it is so?—Yes.

17,029. But, as your point of view is that those things are entirely outside the scope of this question, I do not think I need pursue it. Now, on the matter of reversions. A reversion would always show in the books of the office a profit, whenever it fell in, would it not?—I think not.

17,030. At any rate, we will say an absolute reversion?—It depends on how it is treated in the accounts. Some offices treat it in one way and some treat it in another.

17,031. Assuming that the fund in reversion remains at its original value—it is a large assumption, I admit, but assuming that it does—you would gradually value it as the life tenant got older, and you would value it on such a basis that whenever it fell in there would be some profit?—If you keep your

accounts in that form, that is so. Another way of keeping the account, of course, would eliminate that.

17,032. You mean to say bringing in interest from time to time?—Either bringing in interest from time to time or making a cross entry at the time of the purchase of the reversion.

17,033. That is just the point I was coming to. It would depend on the way in which the reversion was treated in the books of the office whether or not it showed a profit?—That is so; but I take it that, whatever the way of keeping the accounts might be, the Inland Revenue, if this were considered a taxable matter, would get at the true facts of the case. You are not allowed to keep your accounts in such a way as to prevent the Inland Revenue getting its proper amount of tax.

17,034. I was going to ask you, are you aware whether or not the Inland Revenue does as a matter of fact adopt its own method of estimating profit or loss on reversions?—Personally, I have so little experience of reversionary business that I am not able to answer that question.

17,035. On Paragraph 15, Professor Pilon asked you as to the impossibility of giving to the individual policyholder the relief to which he might be entitled?—Yes.

17,036. Would the difficulty which you foresee in regard to ordinary cases arise—or arise to the same extent—in those offices which make an annual valuation and distribution?—I think the difference between the one case and the other, the case of an office making an annual valuation and the case of an office, making, we will say, a quinquennial valuation, would not appreciably affect the question.

17,037. Supposing an office made an annual valuation and distributed its surplus as a cash bonus, convertible into the usual options, would there be any difficulty then, or should there be any more difficulty, than in distributing the profits of an ordinary joint stock company amongst the shareholders?—Yes; you would have to tell how much of this was due to interest; you would have to give each person a certificate that upon the reserve value of his policy so much interest had been earned. It would be an intolerable burden.

17,038. In your paragraph 16, where you suggest that these adjustments can only be done in the aggregate, you say: "the conclusion seems inevitable that in the present case any adjustment must take place as between (a) the Inland Revenue and (b) each individual assurance office representing its policyholders as a whole." Does not that rather contradict your general assumption that the policyholder is the proper person to tax?—I think you will find that what we are dealing with here is purely the question of the rate of tax; and it is the adjustment of the rate of tax that we are speaking of here. There being no other way of doing it, what we suggest is that this is a feasible way and a very suitable way.

17,039. That is to say, under the pressure of particular circumstances you revert to a consideration which you have abandoned in another connection?—I think not; because the effect of giving as this modified rate of tax would be that each one of the members would get so much more out of the concern.

17,040. Now a question more to point out what I think must be an oversight in your evidence on the matter of annuities. In your paragraph 3 in the second part of your memorandum dealing with Income Tax on annuities you say: "Take the example of a woman of 70 who invests £1,000 in an annuity of, say, £120 a year." and you assume a tax of 3s. in the £, and bring out the tax in respect of her annuity as £18?—Yes.

17,041. You must assume that she has other income too, because the £120 a year would be exempt, would it not, if that was her only income?—Yes. We have said in the first paragraph of Part II, you will observe, "subject to the statutory abatements and allowances applicable to income of all kinds, a life annuity is at present charged with tax on its full amount." Of course, these questions of abatements and allowances complicate the thing very much, but we wanted to put the broad issue.

17,042. Sir W. Trower: Referring to this question of reversions, in section 33 (c) of the consolidating Act,

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it says "in calculating profits arising from reversions, the company may set off against those profits any loss arising from reversions for any previous year during which any enactment granting this relief was in operation." Ought not that relief to be extended to the income from investments; that is, in favour of the assurance company?—I do not at the moment apprehend what the point is.

17,043. Perhaps you will just look at the Act?—I am assuming that taxation is to be on the basis of net interest. I do not quite see how loss on investments would come in there.

17,044. Sir W. Trower: The relief given might be deferred for a very great number of years.

17,045. Mr. Petyman: I am not quite sure what you mean by a loss on investments. Do you mean loss of capital?

17,046. Sir W. Trower: You will see in a moment from this section—loss on reversion.

17,047. Mr. Petyman: But a reversion is different to an investment. A reversion is to some extent speculative.

17,048. Sir W. Trower: Will you look at the previous section? It brings in reversion. You are allowed to deduct one from the other.

17,049. Mr. Petyman: That is rather a speculative loss or a speculative profit on the reversion.

17,050. Sir W. Trower: Yes. I do not see why the income on investment should not be brought in.

17,051. Mr. Petyman: Do you mean the speculative loss on the capital? Do you mean to say if an investment is bought at one price and sold at another?

17,052. Sir W. Trower: There are very serious losses sometimes of income on reversion. It seemed to me equitable, if you are dealing with the whole question, that this should be also deducted from the interest on your investments.

17,053. Mr. Petyman: Yes, I understand that.

17,054. Sir W. Trower: That is what I meant. If you bring in accretion to the income ought you not to take the other, not only out of the reversion, but out of the income also?

17,055. Mr. Petyman: Mr. Marks asked that question and the witness answered it.

17,056. Mr. Marks: Does it meet your point, Sir Walter, if I say that the profits which the office bring into account in the matter of reversion are the net profits after deducting losses?

17,057. Sir W. Trower: Yes, but you might have very great losses in one year. You might have to wait a long time before you could recoup them.

17,058. Mr. Marks: I think there is a provision which enables you to carry those losses forward. I am speaking now without the book.

17,059. Sir W. Trower: Yes. Of course, if we were to be taxed upon the profit from investments, clearly this same provision ought to apply to losses upon ordinary investments; but I am assuming the taxation to be on the basis of net interest, and that we are left as at present to bear our profits and losses upon our investments.

17,060. I have your answer. That is all I wanted to make clear.

17,061. Mr. Petyman: I should like to ask you a question which I think you heard Mr. Hovil answer. If it were a question between the present relief to the policyholder on the premium or the relief which you suggest here of the reduced rate charged on your interest, which of the two would you prefer?—Well, sir, with all respect, I should incline to answer that by saying it is hardly a fair question to put to me, representing the offices who are aiming at an inequity being removed. I cannot conceive that this Commission would want to make it a condition of removing an inequity that they should take away a privilege that has been granted by Parliament. I think the inequity ought to be dealt with by itself. As to the other matter, I would only submit that Parliament, which, for reasons of its own, which were no doubt good reasons, granted this concession that policyholders could get a rebate upon their premiums for purposes which clearly are to the advantage of the State, would no doubt pause before taking away the concession; and I cannot conceive that Parliament would wish to make it a condition of removing an

inequity that it should at the same time take away that concession.

17,062. You would understand the reason for my question if you were aware that it has been put before us in evidence that there is a case for the abolition of the present relief. We have had that put before us. I think also that when an inequity is pointed out from which a certain particular class of individuals are suffering, it is to some extent at any rate an answer to say that that very same class of persons are receiving a privilege, and they must set the one off against the other. At any rate, I think I can fairly say that that is the kind of consideration which would reasonably be in the minds of this Commission. From whatever point of view you may look at it, when you come to ask for the removal of an inequity from which a certain class is suffering, it must be present in our minds that that very same class, within exactly the same limits, is receiving a privilege. That is the reason why I put it to you?—I quite see that, but I would submit that the one thing ought to be dealt with apart from the other. If there is no good reason for the privilege, then by all means abolish it; but I think there are good reasons for its being retained. It is an encouragement to thrift, for one thing, which is good in itself. It is also the means of building up capital upon which the Death Duties, which we are told are going to press more heavily in the future than in the past, will be leviable.

17,063. We quite understand all those points, I think, but we are subject to pressure of opinion from witnesses in both directions; and clearly it must be in our minds, if we are to suggest the removal of the inequity of which you complain; that surely would strengthen the hands of those who demand the removal of the privilege, and that is the point of view from which I ask the question. We find ourselves in this position: that we are very much pressed by witnesses to remove what they regard as an unfair privilege. Their case would be very much strengthened if we were to remove a balancing inequity. It was on that ground that I asked you the question. Supposing we were subject to that pressure and we had to adopt one of the alternatives, either of leaving both the inequity and the privilege, or of dealing with both, which should you prefer? I think it is a fair question to ask on that point?—I would rather not be pressed to answer that.

17,064. Mr. Kerly: I am going to put to you a question that I think ought to be put, because it presents it from a quite different aspect. Supposing you consider an assurance company as a trader dealing in the business of selling assurance policies; then if it makes a profit it should be taxed as a trader is taxed upon his profit. Then you suggest that the people concerned are the people amongst whom the profits are distributed. Its real shareholders are the people who are assured?—Of course the case I am presenting is not the case of taxation upon profits at all. I regard the profit not as the profit which a company such as you have just suggested would make; I regard the profit as the net interest earned upon the funds. These funds are contributed by the policyholders. In a mutual office the whole of the interest goes back to them and is a properly taxable subject. In the case of a proprietary office it comes to practically the same thing, because the shareholders only get a small proportion of the profits.

17,065. I follow you. You say you may practically deal with the whole thing as though they were all mutual offices. Treating it as a mutual office, I suggest to you that the real analogy is with a co-operative store?—I think it is.

17,066. Then if the real analogy with you is a co-operative store, can there be any case for basing the taxation on the income of the office at a particular stage when received an interest?—I think so. I think that while you cannot properly tax a co-operative store upon the surplus on its transactions with its own members, clearly if the co-operative store has invested money, and is deriving income from it outside of its trading, it ought to be taxed on its interest, like anybody else.

17,067. Mr. Marks: Can Mr. May tell us whether in fact Co-operative Societies are so taxed?

17,068. Mr. May: On their investments?

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[Continued.]

17,069. *Mr. Marks:* On the interest on their investments?

17,070. *Mr. May:* Yes.

17,071. *Mr. Petyman:* Thank you very much; it has been very interesting evidence.

17,072. *Mr. Kerly:* Mr. Macnaghten, your evidence deals only with the foreign funds of British companies transacting business through agencies abroad?—(Mr. Macnaghten): That is so.

17,073. And you want to present to us some difficulties which you have set out in your very short paper. It is suggested to me that I may put it to you in this way: you are quite satisfied with the present law, but you are somewhat afraid that alterations may be made to your detriment?—May I put it like this? The offices that I represent, as a matter of fact, would be satisfied with the present position, I think, but I would like to point out to you that there is a very great anomaly under the present law. There is a great restraint on us at the present time. My office, the Standard, does not suffer, because we are taxed on an interest basis; we are just on the border line. We are taxed on our home fund only, but supposing I did a great deal more foreign business, then at once the law would be hopelessly inequitable. In my opinion, and in the opinion of the offices I represent, it would be impossible for a British company to exist at the present time and to do only foreign business.

17,074. Why is that?—At the present time, we are taxed on our home funds, just like any other British company that only does home business. We can bear tax on our home fund in just the same way as any other purely home company can bear a tax on its home fund. We are quite prepared and able to do that, but if we did no home business at all, but did all our business abroad, the Inland Revenue would at once say: "Oh, we are going to tax you on a profits basis." In that case, it would mean really that the foreign policyholder would be taxed—I am assuming that there is no home fund. The whole of the tax would fall on the foreign policyholder, and it would be impossible for us to do business at all.

17,075. That is really the story that we have heard in quite a different connection, that a foreigner, if taxed on profits he makes as business done in this country, would cease to do his business here?—Well, if you like to put it like that; but I do not admit that there is any analogy between an ordinary trader and a Life Assurance office. I think Mr. Low and Mr. Hovl have pointed out that there are very great differences; there must be, and Mr. Marks has also pointed out the great differences between them. I would like this case to rest on its own merits, if the Commission would be so good as to consider it. I say seriously that it is quite impossible for a British Life Assurance company which does only foreign business to carry on at all. If you will allow me, I will give you an example which I think will put the whole case very shortly. I was asked to make a quotation for a large firm which was operating abroad over a very big country. They asked me to quote for ordinary with-profit policies payable at death for all their employees. I made the calculations. I worked out what the mortality was in that country, and what the expenses were, or were likely to be, I found out what rate of interest was obtainable—there on investments, and what the local taxation was. The resulting rates had to compare with the rates charged by the other native companies. I sent in my quotation. As a matter of fact, I may say that I did not get the business, but if I had, it would have been a very great advantage to the British Government, because it would have meant that so much profit, that is to say real profit, would have gone to my shareholders, and through the shareholders it would have been taxable by the British Government. That case was lost, and lost perfectly fairly, for my rates were somewhat higher than a local company's, although I made no allowance whatever, in quoting the rates, for any possible tax by the British Government, because at the present time we are not taxed. If, however, in making that quotation, I had had to allow for any sort of tax whatever

which would be claimed by the British Government on the foreign policyholders, it would have been quite useless for me to make any quotation at all. My point is this: if any tax is put on the foreign fund of any nature, it will simply mean that we would get no more business at all. We could not transact any new business at all, and what is more, as regards the existing funds, I may say, for my own company, that my directors could not continue the business in this country and pay a tax on the foreign fund; it would be impossible. It would simply mean that the control would have to go abroad, or else the different branches would have to be split up into separate entities.

17,076. I did not understand your example. You are only contemplating if there is a change, that you should be charged upon the profits of your foreign business?—What exactly do you mean by "profits"?

17,077. It was your own expression?—Profits?

17,078. Yes; you started by speaking of the profits that would be coming from the transaction, upon which you said you would be taxed, and then you said those profits, or what remained of them, would go to your shareholders?—Quite.

17,079. Not to the policyholders, but to your shareholders?—Those profits certainly would be taxable that went to the shareholders.

17,080. Then you would not deny that if by certain foreign business you are making profits which will go to your own shareholders in this country, you ought to pay tax?—Undoubtedly, I quite agree.

17,081. Then I fail to follow you. I thought you were now objecting that you ought not to pay any tax upon those profits?—I quite agree that any profits that go to the shareholders in respect of any foreign business that we transact, should be taxed.

17,082. Then what is it that you fear?—What I fear is that supposing you put taxation on the profits basis, any actuarial surplus that arises in respect of the foreign policyholders would then be taxed.

17,083. *Mr. Marks:* May I suggest this. The difficulty arises in connection with the option, as it has been called, of the Inland Revenue to tax on interest or profits. If Mr. Macnaghten's office as a home office came to be taxed on its profits, then this difficulty would arise in respect of their foreign business, and the heavy British tax would fall on their foreign business. Is not that the position?—Yes, thank you very much.

17,084. And to that extent would put them out of business in competition with native offices, and would prevent the remittance to this country of certain profits which do come into the revenue of the country.

17,085. *Mr. Kerly:* I will leave Mr. Macnaghten with one further question. I could have understood his difficulty if it had been that he was afraid of being taxed upon an interest basis in respect of his foreign business, but he has, perhaps by accident, repeatedly told me that what he is afraid of is being taxed upon a profits basis with regard to his foreign business; and if there is a profit on his foreign business, I do not see how he can be worse off by getting that profit less the tax upon it than by not having it at all; you see my difficulty?—I think I see your point.

17,086. If you can clear it up, do so; if not, I will leave you to the Commission?—I think the difficulty rather arises in this way. We really are confusing two things, and perhaps it is my fault. When you have a foreign fund, a certain actuarial surplus arises from it. In the way proprietary companies are constituted at the present time, the shareholders in this country are entitled to a certain portion of that surplus, and that is what I referred to as profit. That profit, I think quite rightly, should be taxed; but what I am fearing is that the actuarial surplus that arises in respect of the foreign fund, which goes to the policyholders, will be taxed in some way.

17,087. *Mr. Marks:* I have only one question, which may elucidate this a little further. The situation, as I understand it, is this, that so long as your profits, as we have called them hitherto, do not exceed your taxable interest, you are taxed on your interest?—Quite.

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17,088. And under the law as it stands the interest on your foreign fund is exempt from taxation?—Yes.
17,089. But if in the course of things, or under the exercise of the Inland Revenue option, you were taxed on your profits here, you would immediately be taxed on the profits of your foreign business, which, in the existing state of the law, are not exempt like the interest?—Quite; that is the exact point.

17,090. May I ask Mr. Hovil one more question?

17,091. Mr. Pretymon: Yes, certainly.

17,092. Mr. Marks: Mr. Hovil, you did state, I think, in the course of your evidence-in-chief, that

the systems of taxation applied in the Dominions and foreign countries when there is an Income Tax did recognise a difference between Life Assurance as an industry, if we may call it so, and any other form of industry?—(Mr. Hovil): In the great majority of countries.

17,093. Do you know of any country or Dominion where the same basis of assessment is used as is used here?—I think South Africa is very much on the lines of the English taxation methods.

17,094. Mr. Marks: The question will come up when the official representative of the Inland Revenue comes.

MR. ARTHUR BECK, called and examined.

The witnesses handed in the following statement as his evidence-in-chief:—

Scheme of combined Income Tax and National Insurance, proposed by ARTHUR EDWARD BECK, Esq., M.I.Mech.E., Vice-Chairman, Midland Council of National Union of Manufacturers, Member of Board of Referees to Lords of the Treasury under Finance Acts, 1915-18, and a close student for years of the conditions of the producing classes.

OBJECTS OF THE PROPOSAL.

17,095. (1) To make even the smallest income producer willing to pay Income Tax.

(2) To make the Income Tax more productive of revenue by broadening its base.

(3) To prevent the separation of the people into two alien groups—the voters and the payers.

(4) To consolidate the State by making every earner directly interested in its Acts.

(5) To make every man and every woman concerned in national economy, national finance, and national solvency.

(6) To bring every woman in the State into intelligent contact with the State and to realize that her future security lies in national stability.

(7) To remove from the minds of the intelligent and provident the fear of family ruin following the death of the bread winner.

(8) To improve the outlook on life of the best elements of our people and their mental, moral and physical condition.

(9) To improve the average standard of the race by removing the cause of abstention from marriage and family amongst the thoughtful of the younger manhood in the middle and working classes.

(10) To prevent the ruin of the orphan and the widow and to ensure the bringing up of the orphan in the parents' home.

(11) To make the future more certain and life more tolerable to the great masses of the British people.

(12) To do all this and at the same time create an added income to the State.

SUGGESTED MEANS.

17,096. Every earner of income should pay Income Tax from the first pound to the last.

17,097. The rate to be graduated, the lowest payment being sufficient to more than cover the full costs of the benefits returned to the taxpayer by the Government under this scheme.

17,098. Earned incomes under £100 a year should pay 1s. in the £. Over £100 and under £200 a year should pay 1s. 3d. in the £. Over £200 and under £300 a year should pay 1s. 6d. in the £. Over £300 and under £400 a year should pay 1s. 9d. in the £. Over £400 and under £500 a year should pay 2s. 3d. in the £. (It is suggested that this rate of increase might be continued up to incomes of £2,000 a year, but that forms no integral part of the scheme.)

17,099. No abatements of any kind to be allowed except in the following:—Life Assurance as at present; maintaining an elderly dependant as at present; widows who have not received benefit under this scheme to be free of tax where income does not reach £150

17,100. Unearned income should be taxed three-pence in the £ more than earned income on incomes below £500. Sixpence in the £ more on incomes between £500 and £1,000, and ninepence in the £ more on incomes above £1,000.

17,101. The Government would in the event of the death of any married male Income Tax payer continue at once to his widow one half of the amount of the average earned income upon which he had paid tax—so long as she had children below 16 years of age, or one-third if she be childless or have no children under that age, such payment to be continued until she dies or re-marries.

17,102. Childless widows whose marriage has lasted under one year should receive only one-third benefit; above one year, but less than 2 years, two-thirds benefit; above two years full benefit.

17,103. The Government would continue to every spinster arriving at the age of 60 years, one half of the average yearly earned income upon which she had paid tax.

17,104. The limit of such payment to any widow or spinster is to be £250 per annum.

17,105. The average earned income upon which tax has been paid during the years of such payments shall be reckoned as the income of the taxpayer for the purpose of this scheme, but when the inclusion of payments made under 20 years of age would reduce the average they shall not be reckoned.

17,106. The benefits shall accrue at the rate of one-third for each completed year's payments (up to 3 years) made after the passing of the Act.

ACTUARIAL STATEMENT CALCULATED UPON EACH POUND OF THE AVERAGE YEARLY EARNED INCOME UPON WHICH THE SPINSTER OR DECREASED HUSBAND HAS PAID TAX.

17,107. The total number of widows at the last census (1911), of all ages and conditions in England and Wales was 1,264,894, whose condition and the payment to whom would be as follows:—

	£	s.	d.
Widows under 55 with children,			
259,183 at 10s.	179,591	10	0
Widows under 55 without children,			
69,863 at 6s. 8d.	19,954	6	8
Widows over 55 without children,			
945,848 at 6s. 8d.	315,282	13	4
Spinsters over 60, 54,412 at 10s.	27,306	0	0
Total	254,034	10	0

17,108. For the purpose of this calculation it is estimated that:—

- the average age of women having their last child is between 39 and 40, i.e., 39 in census and that on average the last child would reach 16 when the mother was 55;
- one-seventh of marriages are childless, or have children who do not live to 16 years of age;
- 60 per cent. of all spinsters only earn their own living.

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MR. ARTHUR BECK.

[Continued.]

17,109. The total payers from whom taxes would be received calculated on the same year were—

Wages earners under £160 or manual workers—men paying to National Health Fund	7,484,000
Women ditto.	3,313,000
Persons paying Income Tax on earnings and profits not included in the above	1,000,000
Army and Navy abroad. (Statesman's Year Book.)	145,729

Total income producers 11,942,729

17,110. The sum of 10-89 pence (or slightly under 11d.) in the pound would meet the costs of the benefits—all tax raised above this sum would be profit to the State.

17,111. This sum of 10-89 pence would be the outside cost, but would be reduced by the following factors:—

- (1) the interest on the capital accrued during the first three years;
- (2) the total widows are taken as a liability, but a proportion were wives of men who lived on their means and paid no earned Income Tax;
- (3) the difference between full benefit and partial benefit to childless widows of under 2 years' marriage;
- (4) tax upon unearned incomes which are at present subject to abatement.

[This concludes the evidence-in-chief.]

17,112. Mr. Kerly: We have read your interesting and suggestive paper, but I am afraid we are of opinion that a great part of it is outside the business which this Commission has had entrusted to it. So far as you are spending income, that is not our concern at all. All that we are concerned with is raising Income Tax, and the greater part of your paper, and we have no doubt the part of it that you are most interested in, is concerned with the expenditure of money when raised. Some of your proposals, of course, are strictly relevant to what we have to consider. You propose, for instance, to make the Income Tax apply to all incomes?—Yes.

17,113. That is on general political grounds?—Yes.

17,114. Have you considered whether it is practicable to make a man in receipt of a very small income pay anything?—Yes, and I have come to the conclusion that under present circumstances it would be impossible.

17,115. Then I suppose you would say, if you told him that his money is going to be expended on the lines you suggest, or part of it, you hope that he would be converted and desire to pay?—I do; that is the basis of my proposition.

17,116. Then you propose that the tax should be graduated from the lowest payment upwards?—That is so.

17,117. We have had a good many suggestions upon that basis, but that is really dependent upon your first assumption, that it is possible to make people in receipt of small incomes pay?—Under the circumstances which I set out.

17,118. Mr. Kerly: I am much obliged. I am sorry that we are not able to consider and discuss what I call your endowment proposal.

17,119. Mr. Marks: Do you rule that what you have called the endowment proposals are outside the scope of this Inquiry?

17,120. Mr. Kerly: I think they are, but I should not object if you like to spend two or three minutes over the matter.

17,121. Mr. Marks: I am inclined to agree with you, but I think there are just two questions I might put to Mr. Beck.

17,122. Mr. Kerly: Very well; ask your two questions, as we have got Mr. Beck here.

17,123. Mr. Marks: You have assumed, I think, in the figures which you give, that the population is stationary, and there will always be the same number of taxpayers and widows, or, at any rate, that the proportion between widows and taxpayers will always remain the same?—That is so. I have taken it that the proportion would be the same, even though the population increased, unless the whole state of society altered.

17,124. Have not all your calculations as to widows been upset by the war? Your figures are based on the returns of 1911, I think?—So far as war widows are concerned, I take it that they, having already been widowed, there would be no claims under my proposition, and therefore the number of male deaths during the last four or five years would not affect the future calculation. If we were entering into a war it would do so.

17,125. Your scheme, as it stands, is not concerned with existing widows at all?—No.

17,126. Then the only money figures you give relate to widows and spinsters, and the figures in relation to Income Tax payers are numbers and not amounts?—That is so.

17,127. Still, I see that 11d. in each pound that is received by nearly 12 million income producers would provide something over £562,000 a year; that is how you get at that figure?—That is so.

17,128. Is not what you want to know, the total amount of pensions and the total amount of taxpayers' income, before you can say what tax will be required to pay the pensions?—No, because the amount of benefit of pension is dependent upon the number of pounds upon which the individual has himself paid tax, and if each pound constitutes not only an income but a liability, so long as that is determined in pounds it applies to all, that is to say, if 10-80d., or 11d. in the £, will provide for this risk in one sovereign, it will in one hundred sovereigns, or it will in any number.

17,129. Yes, I see that; but what I want to know is how you get at the actual amount of the risk, that is to say, what the total of the pensions might be?—I have calculated what the pension would be in the event of each widow receiving one sovereign, that is to say, in the event of each widow receiving benefit on the death of the husband, having paid tax upon one sovereign during his life.

17,130. Mr. Marks: I will not pursue the point, because you have ruled it out of order, Mr. Chairman; but I think it is one that wants clearing up; it certainly does for me.

17,131. Mr. Boverman: Are you giving evidence on behalf of the Midland Council of the National Union of Manufacturers?—The National Union of Manufacturers have had the scheme submitted to them, and they very heartily approved it, and they were very hopeful that I should have the opportunity of placing it in its entirety before this Royal Commission.

17,132. Then you are representing this scheme with the full support of this Council?—I am. Do I take it, then, that the whole proposition falls to the ground because of your ruling, Sir?

17,133. Mr. Kerly: No, not at all; it will go into the evidence, and be considered with the rest?—Unfortunately, the printed matter as submitted by me is by no means complete, because of the trouble there was a week or two ago when I was trying to get the information in a concise form for printing. May I be permitted to add to that?

17,134. Certainly. I am afraid we cannot undertake to give you a further opportunity of oral statement, but if you will send the Secretary any written or printed supplement, it will be considered?—I thank you.

* Mr. Beck has since handed in the statement that is reproduced in Appendix No 37.

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Mr. E. C. PRICE.

[Continued]

Mr. E. C. PRICE, on behalf of the Charity Organisation Society, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

17,135. (1) The Income Tax, 1918 (8 & 9 Geo. V. c. 40 S. 37) provides certain exemptions to charitable and quasi-charitable institutions under rules applying to Schedules A, C, and D, and, following the nomenclature of an earlier Act (5 & 6 Vict. c. 35), specifies certain types of institutions, which at that earlier date corresponded fairly to the field covered by charitable enterprise. Both Acts extend the exemptions to rents and profits of lands, tenements, &c., vested in trustees, so far as the same are applied solely to charitable purposes or to the purposes of the institutions concerned.

17,136. (2) The types of institution specified no longer cover the field of charitable enterprise and relief has been refused to institutions which appear to fall within the meaning and intention of the extension to rents and profits "vested in charitable trustees for charitable purposes."

17,137. (3) While charitable institutions are freed from Property or Income Tax in respect of the rents and profits derived from lands and houses, which they let to a tenant, and from income derived from investments, they are required to pay the tax upon the same lands or houses, if occupied by themselves for the purposes of the institution. The inequity of this position was commented upon by Lord Wrenbury in his judgment in the Essex Hall case (1911, 2 K.B. 430) in the following terms:—

"I cannot forbear pointing out the extraordinary result to which this conclusion leads. Suppose the trustees for charitable purposes being the owners of Blackacre demise it for a term of years to a lessee who pays a rent and that the trustees prove that the rent is applied to charitable purposes, they will be entitled to allowance. Suppose that upon the expiration of that lease the trustees cannot find a new tenant, that they go into occupation of the land themselves and farm it for the time being and use the proceeds in assisting in the maintenance of the persons maintained in their charitable institution, it results that the trustees will be assessable on the annual value and can claim no allowance. Such a conclusion is repugnant to common sense. Further, it results from adopting the contention of the Crown that the incidence of taxation depends not upon the substance but upon the form of the transaction."

It has been suggested that this inequality might be remedied by a provision that lands, tenements or hereditaments (whether freehold or leasehold) occupied by charitable corporations, institutions, societies, or by trustees for charitable or religious purposes may be exempted from Property or Income Tax except so far as any ground rent may be payable thereout to persons other than such corporations, institutions, societies, or trustees as aforesaid.

17,138. (4) Some charitable or scientific institutions in the execution of their ordinary purposes, engage in farming or other trading operations and apply the proceeds solely to the upkeep of the institution or the benefit of its clients. These are subject to taxation as annual profits and gains under Schedule D, and it is suggested that they might be relieved from taxation like other income of charitable and scientific societies, subject of course to satisfactory proof that they have been applied solely to the purposes of the institutions concerned.

17,139. (5) In view of the increasing difficulty of raising funds for charitable purposes, it seems desirable to extend relief as far as possible to income applied solely to charitable purposes; interpreting the term "charitable purposes" in a liberal sense to correspond with modern charitable enterprise.

[This concludes the evidence-in-chief.]

17,140. Mr. Kerly: We have your short paper before us, and we do not complain of it for being short. Your main view is that the relief of taxation

already given to charities should be increased?—Yes, I think that is so.

17,141. Have you any idea what the income of the charities which are subject to the Charity Commissioners is in bulk?—No, I could not tell you; I suppose you could get it from the Digest of Endowed Charities.

17,142. You are not able to give us the figures?—No, I could not give you the figures.

17,143. And equally, I suppose, you are not able to give us the gross income of charities which are not subject to the Charity Commissioners?—I should think that would be almost an impossible figure; it must fluctuate from time to time.

17,144. It is a fact that what are called charities include what are called charitable objects?—Yes.

17,145. And include objects of very very different kinds?—Yes.

17,146. Especially if "charity" is held to include public purposes?—Yes.

17,147. And there is some reason for supposing that is its proper legal meaning?—Yes. I do not venture upon a definition.

17,148. Amongst the charities, though many, and, let us hope, most of them, are working for quite estimable objects from everybody's point of view, there are a considerable number of others of which that cannot be predicated?—Yes, I am afraid that is true.

17,149. You know that suggestions have been made that the exemptions from taxation already allowed to charities are wrong in principle and ought to be abolished?—I did not know it, but I take it from you.

17,150. One difficulty in maintaining those exemptions is the very mixed character of charitable objects, which you have already accepted?—Yes—of maintaining the present position, you mean?

17,151. Mr. Kerly: Yes.

17,152. Sir E. Nott-Bower: I suppose the addition that you want made to those charity exemptions would be a small addition?—I should think so.

17,153. Am I right in this? I think your point is that a charitable institution which is already exempt in respect of the funds which it devotes to charitable purposes, may not be exempt in respect of property which is occupied by itself, and you want to have the exemption extended to cover the property in its own occupation?—Yes.

17,154. Certain specified properties of charities are already exempt?—Yes.

17,155. Such as hospitals and almshouses?—My suggestion is, for what it is worth, that it was rather a limited definition originally.

17,156. May I suggest, with regard to that, that it is very probable that the people who put in the general exemption had no idea what a wide scope would be given to it. I think for many years it was regarded as being confined to eleemosynary charities, and it was not until a decision in the House of Lords some time ago that people fully awoke to the fact that all charities which were charities within the Chancery definition came in?—No doubt the burden has been felt as stringency of administration has increased, and as the rate of tax has risen; I dare say the point was not raised until the burden was felt.

17,157. Considering the wide scope that has recently been given to the exemption in respect of rents and profits applied to charitable purposes, and the feeling that possibly the exemption ought to be restricted, rather than extended, I do not think the time is a very propitious one, is it, for charities to step in and ask for further extension? Is it not possible, if public attention were called to the matter, that there might be an inclination rather to restrict than to extend, especially in view of the great need of the State for money at the present time?—May I say one word as to my own position here? The Charity Organisation Society, which I represent, is making no claim on its own behalf, but it was asked to present a general statement on behalf of charitable and quasi-charitable institutions for the convenience of this Commission, with the idea that it might reduce the number of witnesses. The task was allotted to me to come as a witness, and I have been very anxious that

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[Continued.]

the Institutions should not be prejudiced by any imperfect advocacy on my part, and therefore I have been rather careful to include in my proof all points that have been raised. I only just want to explain my own personal position in the matter.

17,158. *Mr. Kerly*: Could you go a bit further, and tell us which of your other propositions the Charity Organisation Society itself regards as really crying for a change?—That is a very difficult question to answer. The task was put upon me, and I was given rather a free hand in the matter. I might say perhaps that the point that has been most frequently raised is the assessment for Property Tax.

17,159. On property owned and occupied by the charity for its own purposes?—Yes.

17,160. We had a striking case, the Little-bent Institution, here the other day?—Yes; that case is complicated by its public service, but that is the point that has been most frequently raised. I have indicated the other points which have been raised, in case you wish to ask any questions upon them.

17,161. *Sir E. Nott-Bower*: In addition to the point about property owned and occupied by the charity, I think you further raise the question as to farming or other trading operations conducted by a charitable institution. Apparently you would like an exemption in respect of the profits of farming or other trading operations carried on by a charitable institution?—You want me to state what I had in my mind?

17,162. Might not that be regarded as especially open to objection, because here you have a body of trustees who, for charitable purposes, carry on a trade or business in competition with other people who are liable to Income Tax. Might not their trade competitors reasonably object to charitable trustees being allowed to carry on the same business in competition with them, free from Income Tax?—I can understand the objection, and one knows, of course, that the objection has been raised, but I do not know that it particularly affects this question.

17,163. *Mr. Kerly*: It is a difficulty?—It is a difficulty, I quite grant. If I may say so, sometimes a concrete case helps one. Take a colony for epileptics. Part of the essential treatment would be to give the men light work in the open air upon the land; they are forced to do farming operations. They do them in the main for the supply of the Institution, but it is almost impossible for them to stop short just at that point. They are almost forced to do a certain amount of supply outside, but I do not think they are tempted to do it at lower prices; I think in practice you will find they are able to charge as much as other people.

17,164. It astonishes me, because, like other people, I am interested in some such institutions, to hear that they ever farm at a profit?—I do not think they do farm at a profit. I think very likely they may escape on Schedule D.

17,165. *Sir W. Trower*: One question on your paragraph 2. You say: "The types of institution specified no longer cover the field of charitable enterprise." Will you kindly give us an instance of what is suggested?—The types of institution specified were hospitals and almshouses supplying free treatment and free maintenance, and I think that was the sort of governing idea—that they were dealing with almost destitute people.

17,166. Are you talking of Schedule A, now, or generally?—I mean the exemptions in the Act of 1842. I should say that the tendency of modern charity is to act in co-operation with the beneficiaries, and to be rather complementary to their efforts and resources; that is a broad definition. For instance, there are such things as hostels and lodges for the protection of young women and girls engaged in industry or domestic service. They are charged something, but not the full price as a rule. There is any number of institutions for social and physical improvement which are not primarily giving material benefits. I should have thought that was the broad distinction.

17,167. Would you define them as for public purposes, or for a particular class?—For public purposes. I am thinking of institutions that do get exemption

on the income that they derive from dividends. They are recognized as charities for that purpose, but they are sometimes not recognized as charities when they have to approximate to an almshouse or a hospital.

17,168. Would it be possible for you to give us a definition of charitable purposes?—No, I am afraid not. The term has been used, I understand, to cover what you may call public purposes. It is a loose phrase.

17,169. It is desirable in a taxing Act, to have it definite?—I think a definition would be very desirable.

17,170. A definition possibly limiting as well as extending?—Yes, I do not object to that.

17,171. But you cannot give us any definition?—I am afraid I cannot. The use of the phrase "quasi-charitable institutions," almost gives away the idea of having a definition, does it not?

17,172. *Mr. Bowerman*: The question I wished to put has already been answered, but perhaps I may follow it up, just for a moment. With regard to your paragraph 5, in drafting this paragraph you must presumably have had in your mind an interpretation of these two words "charitable purposes." I understand you to say you would find it very difficult to give an interpretation?—Voluntary gifts for some purpose that does not produce profit to the giver; I do not know that I can get very much nearer than that.

17,173. It would raise a very confusing point, in dealing with Income Tax, if those words were used?—I was under the impression that I was using words that were already in use; I thought the thing already existed in that loose way.

17,174. You suggest that it should be interpreted in a liberal sense; could you tell the Commission what you mean by that?—One of the cases put to me, for instance, was a village institute provided by what we should call charitable gifts, that is, voluntary gifts for the benefit of people who could not provide the thing for themselves. That was ruled out as not a charity. Another instance occurs to me, quite a small thing, in the North of London, is rather a bad part; some people wished to improve it, and they joined together and formed an association, a trust, and they acquired a public house, and turned it into something they thought was better; in the same way that was ruled out as not coming within the exemptions.

17,175. *Mr. Walker Clark*: Both those would be trading institutions, more or less?—Trading as a loss.

17,176. Still, they were carrying on a trade?—Well, a village institute—I suppose it would, yes.

17,177. *Mr. Bowerman*: And the charitable side was lost in the trading side?—No, I should say not. I should have thought that the trading side was an accident. It is a matter of words, if I may say so, rather than anything else. The real thing was the desire to give something to the people that they could not provide for themselves.

17,178. Quite so, but as *Mr. Walker Clark* has put it, they were really run for trading purposes, for profit and so on?—I dare say I am stupid, but I am afraid your definition does not commend itself to me.

17,179. *Mr. Walker Clark*: The definition given to *Mr. Bowerman*, voluntary gifts for some purpose that does not make profit to the donor, would manifestly be a very wide door, because it might be a gift from me to one of my children.

17,180. *Mr. Kerly*: I am afraid it would need further consideration, especially if you were going to proceed from the source of income to the purposes for which that income is applied.

17,181. *Mr. Marks*: Could you tell me whether Toyahbee Hall and the Eton Settlement at Hoxton are regarded as charitable organisations within this definition?—I do not really know, but I should think it is probable.

17,182. *Mr. Armstrong-Smith*: Who interprets the exempting words at the present time? Is it the Board of Inland Revenue, subject to an appeal to the Courts?—I think so, yes. There have been several appeals at different times. I looked through the cases decided, as far as I could, and the only general principle that seemed to emerge in any sort of way

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was whether the thing was wholly self-supporting or not.

17,183. Do I understand that you are definitely dissatisfied with the existing position, which is that the Department interprets these words subject to appeal to the Courts?—The complaint, I think, that I am representing is that the law is against the decisions. In the case I quoted in my third paragraph, you notice that the Judge, Lord Wrenbury, in giving his decision against Essex Hall, said he could not refrain from pointing out the absurdity of the conclusion to which it led.

17,184. Very well, you want a change in the nomenclature of the law?—Yes.

17,185. You are not prepared to suggest amended phraseology yourself?—Not on the spur of the moment, no.

17,186. Perhaps you would send one in, if you are inclined to; but if you are not prepared to leave the thing as it is, and if you are not prepared to suggest the precise alteration that you want, are you prepared to send in a list of institutions at present excluded which you think ought to be included, sufficiently comprehensive to allow the Commission to frame the words for itself, assuming the Commission

to take your view?—I will try to do that; at any rate. *Classes of institutions?*

17,187. Mr. Kerly: Typical institutions?—I will try to do that, if it would be of any help.

17,188. Mr. Armistead-Smith: I think the alternatives before you are either to acquiesce in a Departmental discretion, or to suggest a form of words, or to supply us with material for framing a form of words?—Quite so; that is fair, I think.

17,189. Mr. Kerly: Summing up the discussion, it seems to me you suggest to us three possible grievances. First, there are things which ought to be regarded as charities which are at present excluded, secondly, recognized charities occupying their own premises for their charitable purposes ought to be exempted from taxation under Schedule A., and thirdly, you suggest that where a charity, in the course of its charitable operations, which as a rule are carried on at a loss, is incidentally doing something which is regarded as trading, which, if treated separately, might be regarded as making a profit, you ought to look at the whole of the operations, and say that that profit is really absorbed and there is in fact none; that is the gist of it?—I am very grateful to you for that statement.

MR. SIDNEY STANLEY DAWSON, J.P., M.Com., F.C.A., and MR. ALFRED HUTCHISON, on behalf of the Association of Trade Protection Societies of the United Kingdom, called and examined.

The witnesses handed in the following statements as their evidence-in-chief:—

17,190. (1) Mr. SIDNEY STANLEY DAWSON will say:—

I am a Fellow of the Institute of Chartered Accountants. I have had nearly 30 years' experience in accountancy and for over 21 years have been the senior partner of the firm of Dawson, Chevalier & Graves, carrying on business at 51, North John Street, Liverpool. I am Master of Commerce, Birmingham University, and ex-Professor of Accounting of such University. I am giving evidence on behalf of the Association of Trade Protection Societies of the United Kingdom.

17,191. (2) The views of the various Trade Protection Societies throughout the Kingdom were ascertained by resolutions passed at the annual meeting, and by correspondence.

17,192. (3) A special committee was formed to consider and collate the various views, and as Vice-President of the Liverpool Guardian Trade Protection Society, I was elected to that committee, and subsequently selected, with my colleague, to tender evidence.

17,193. (4) Having perused a substantial portion of the evidence already tendered to the Commission, my proof is to some extent shortened, and perhaps it is sufficient to state that our Association approves of the suggestions:—

- (a) that a three years' average as a basis of assessment should be abolished and that the losses incurred should be carried forward without limit as to period for adjustment with profits subsequently assessable;
- (b) that a reasonable allowance for depreciation for depleted value be made in the case of wasting assets, which wastage is at present regarded as of a capital nature, e.g., brick pits, stone quarries, etc.;
- (c) that Co-operative Societies be rendered liable to tax on their trading profits.

The Legislature regards such as trading profits (not returned discounts) for the purposes of Excess Profits Duty. To be exempt from Income Tax a society (1) must not sell to non-members, and (2) must not limit the number of its shares. A breach of either condition will not suffice to render the society liable—both must be infringed. Therefore, a society which is prepared to issue shares of a merely nominal value to an unlimited extent can trade with non-members and the dividends paid exclusively to members are free from tax, although they may include profits from trading with such non-members. The only difference between a limited company's profits and those of a Co-operative Society is the basis

of their distribution among the investing shareholders and the society members respectively.

A local authority is a co-operative society of ratepayers, and it works undertakings for the common good, such as tramways, and gas and electricity. Like Co-operative Societies, it makes a profit and distributes it among the ratepayers by way of relief of rates. It is true that in some cases, such as tramways, some profit is made out of non-ratepayers, just as Co-operative Societies make a profit out of non-members. Why, therefore, should a local authority's trading profits be subject to tax, and a Co-operative Society's profits be exempt therefrom?

System of collection.

17,194. (5) In small districts where a whole-time service Collector is not necessary and a local man at present acts, the collection be made through the agency of the Excise or Post Office, it being considered undesirable that local part-time men should have information as to their neighbours' income in these small districts.

17,195. (6) All assessments should be made upon the taxpayer at his principal place of business, or, should he so elect, at his residence. This can be effected more readily with the abolition of the three years' average system and the fusion of Schedules D. and E.

Under the present system, witness himself has to pay on Schedule E. in several different towns, and on Schedule D. at his Liverpool office, although the Schedule E. income (directors' fees) is divisible among witness's partners in the same manner as ordinary accountancy fees. As the three partners in question pay Income Tax at different rates, three different assessments are made at the registered office of each of the companies where witness is a director, thus the first part of the partnership profits is assessed under Schedule D. (on the average of three years) and the remaining part under Schedule E. (the income of the specific year)—consequently, my two partners are called upon to make separate returns of their income in respect of their partnership shares (my directors' fees) and declare it as being their income from the various companies, although they have no connection with such companies at all.

Abatements and allowances.

17,196. (7) Abatements and allowances for wife, children and "relative" dependants should be increased and extended to higher incomes than at present. The extent to which the allowances should be increased is left to the Commission, but it is suggested that the allowance should extend as far as incomes of £1,000.

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[Continued.]

Depreciation.

17,197. (8) (a) Buildings, machinery and plant.—The rate per cent. to be allowed (and the base upon which such allowance should be computed) should, in the event of disagreement between the Surveyor and taxpayer, be fixed by a permanent tribunal consisting of three Commissioners, and two local expert valuers. Decisions to be open to revision every five years.

(b) *Leases*.—Premiums or fines paid for lease or extensions thereof, and moneys expended to improve, or, on the expiration of leasehold properties, to meet dilapidation claims, be regarded as deductible by annual instalments as a charge against profits based either upon expenditure actually incurred, or that is estimated will be incurred at a future date.

(c) *Patents*.—Expenditure in respect of patents, whether by way of purchase or development, be regarded as deductible by annual instalments as a charge against profits.

General matters.

17,198. (9) (a) Minors should be directly liable to pay Income Tax and Super-tax, as though they were of full age.

(b) Differentiation between earned and unearned income should be discontinued, because of the difficulty of defining what is included in each category, comparing one taxpayer with another, e.g., two partners are deemed to earn profits, but their dividends from the same business are deemed unearned if they transfer it to a private limited company and act as directors, just as they previously acted as partners.

My Association supports the contention that such differentiation for taxation purposes operates against thrift and often presses unfairly on persons with small incomes. If the present basis of distinction is to be continued, it ought not to apply to cases where the total income does not exceed £1,000.

[This concludes the evidence-in-chief of Mr. Dawson.]

MR. ALFRED HUTCHISON will say:—

17,199. (1) I am a solicitor, practising at 6, Stone Buildings, Lincoln's Inn, W.C. 2, as the senior partner in the firm of Hutchison & Cuff, & Member of the Faculty of Law in Paris, honorary legal adviser to the Association of Trade Protection Societies of the United Kingdom, the London Association for Protection of Trade, Ltd., and various other similar Mutual Associations.

17,200. (2) The existing practice of the Surveyors of Taxes of obtaining by negotiation agreements for the collection and payment of Income Tax upon subscriptions and levies paid by members of mutual trade associations generally, irrespective of their constitutions and the character of their operations, and of disallowing in the traders' accounts deductions from income in respect of such subscriptions and levies, results in great injustice, and, in effect, the collection of a large sum of money for Income Tax which, by law, is not payable, and it is submitted, should not be collected in future.

17,201. (3) All subscriptions and levies paid by a member to a mutual association, whether registered or unregistered, for the purpose of assisting him to make business profits on which Income Tax is paid, should, where no part of such subscriptions and levies are repayable, and where no part of the income or capital of such association is distributable or payable to its members, be allowed as a proper deduction in his accounts.

17,202. (4) Where any part of such payments is returned to, or any money is received by such member out of profits or income during the existence or upon the winding up of the association, such sums so returned or received should be brought into account by the member in his own profit and loss account when received.

17,203. (5) The liability of an association to assessment for Income Tax does not depend upon its constitution in view of Section 40 of the Income Tax Act of 1842, and its liability to assessment by Act of Parliament or by negotiation, should be determined

according to the rules of law now existing based upon its actual operations.

[This concludes the evidence-in-chief of Mr. Hutchison.]

17,204. Mr. Kerly: Mr. Dawson, you are an accountant, and in your paper you have covered a good many topics upon which we have already had a good deal of detailed evidence. We have read your paper, of course, and we take it as adding to the weight of that evidence by showing that the kind of people you represent hold the opinions which have already been put forward and discussed here?—(Mr. Dawson): That is so.

17,205. You will understand it is not necessary, or at least it does not seem to me to be necessary, to go further into the discussion of those matters?—We agree.

17,206. Just allow me to summarise. You think the three years' average should be abolished. We have had a great deal of discussion over that, and one great difficulty about it is bridging over the period of transition?—Yes.

17,207. You appreciate there would be a period of transition where either you would have to take the same year twice as a basis, or you would have to adopt some other more complicated plan?—Yes; we advocate the principle, and we leave it to the administration to deal with what you refer to.

17,208. If you please. Just upon that, without going further into it, you suggest that losses should be carried forward, you say without limit; at present they are practically carried forward for three years?—I see no reason why there should be any limit at all. 17,209. Very well, that is your view: that they should be carried forward indefinitely?—It is the view, not only of the Association which I represent, but it is my own view, from long experience.

17,210. Then depreciation. We need not go further into that for the moment. Then you suggest that Co-operative Societies should be liable to tax on their trading profits. Have you considered whether they are at present taxed on their trading profits?—Well, we know the extent to which they are taxed, because the Statute tells us. I think that Co-operative Societies ought to be taxed as an entity, even if there was a compromise in the rate, such as the lowest rate, or even a lower rate than that, without any right of recovery from the separate shareholders or members.

17,211. Then you suggest, in paragraph 5, that the system of collection should be more localised, and you make a proposal that the Post Office should be used in some districts as the collecting agency?—Only in very small country districts, where everybody seems to know everybody's business.

17,212. You appreciate that that would be adding one, and it is an important addition, to the multifarious activities of the local postmaster?—Well, that may be, but it is not very nice for the village blacksmith to collect the Income Tax from the lady at the Hall.

17,213. Mr. May: What about reversing the operation?

17,214. Mr. Kerly: Your turn will come, Mr. May?—I can deal with it, when it comes.

17,215. Mr. Walker Clerk: The point is, you want the man to be a civil servant?—Not an uncivil servant, do you mean?

17,216. You want him to be the postmaster, a civil servant?—I want him to be a civil servant, using the word "civil" in the full sense of the word.

17,217. Mr. Kerly: You suggest with regard to depreciation that there should be a permanent tribunal consisting of three Commissioners and two local expert valuers. Are you suggesting that there should be a separate assessment for each particular business in substitution for flat rates for particular classes of business?—No, we would prefer a flat rate for the classes rather. You could not differentiate between every business.

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17,218. Are you dissatisfied with the present arrangements by which flat rates for particular trades, manufacturing trades in particular, are agreed upon, with an appeal to the Board of Referees?—We are not satisfied that there has been sufficient experience of that. We are more affected in our minds with the experience of the last 20 years. We are dissatisfied with the allowances generally.

17,219. But you appreciate that within the last two or three years a new system has been set up, which has produced a considerable number of agreements up to the present time, and has not yet led to a single difference being referred to the Board of Referees. Does that strike you as such a fault of the system as would induce you to say that the system itself is ineffective, and therefore should have something else substituted for it?—I do not think the present system has met with approval, and it has not been taken advantage of.

17,220. It needs further advertisement?—Well, you may put it in that way; it needs further advertisement, and it needs further proof of its efficiency.

17,221. *Mr. Armitage-Smith:* It is suggested that allowances for wives, children and relative dependants should be increased up to the limit of £1,000 a year?—Yes.

17,222. How do you suggest that we should arrive at our limit?—I have rather suggested the limit—a thousand pounds a year.

17,223. Very well. As a matter of fact, you said you suggested that the extent should be left to the Commission; but, if you are making a suggestion, so much the better?—It is only our polite way of putting it.

17,224. I appreciate your politeness, but I want to get some guidance from you. How do you arrive at the principle where these reliefs should rest?—If children are being kept at secondary schools or kept at a university I think that ought to weigh with the Income Tax authorities in making the allowance.

17,225. If children are kept at universities by persons whose incomes are £1,100, £1,200, £1,300, £1,600, £1,500, and so on?—We all know you have to draw the line somewhere, and there is always a hardship where it is a little over that line.

17,226. In other words, your thousand pounds is an arbitrary figure?—An arbitrary figure, yes. I thought it was a comfortable figure.

17,227. *Mr. Walker Clark:* With regard to abatements and allowances for wives and children, these have recently been increased; do you suggest a further increase?—No, I do not.

17,228. The present increase is sufficient?—It appears to me so, except that they ought to go up to a higher figure as regards salary.

17,229. The abatement itself is sufficient, only it stops too early?—It stops too early, yes.

17,230. On the question of minors being directly liable to pay Income Tax and Super-tax, how would it be recoverable from a minor?—I see no difficulty in an Act of Parliament making a minor liable in law for his Income Tax. If he is competent to recover his income, surely he ought to be competent to restore to the State that share of the income which is its due. I put to you the case of a jockey who is under age, and is earning £5,000 a year. Why should his father, a stable lad, be held liable in law for his tax?

17,231. *Mr. Kerly:* You are perhaps aware that the actual case of a jockey has come before the Courts, and the jockey was held liable to pay?—But the Statute does not say so. He is held liable to pay, but it says if the son being an infant does not pay his parent shall pay. I know a case of a parent who is a stable boy getting £3 a week, and his son, a jockey, is getting £5,000 a year. That is his son, aged 17. If he does not pay his Income Tax his father has got to pay. How is he to do it?

17,232. You thought the proposition you were putting was so startling that we should require some little time to recover from it?—Not at all.

17,233. Do you infer from the fact that there is an alternative liability upon the father that we are prevented from taking proceedings against the son or his property?—I have got section 161 of the 1918 Act before me, and it says if a person chargeable to tax

is an infant the parent is liable for the tax in default of the payment by the infant.

17,234. Quite so; "in default." Supposing you make the infant pay?—In my evidence the word is "directly" liable.

17,235. There is no question, I think; you desire that it should be made plain that a minor is liable?—Yes, we are living in a precocious day and we must legislate for it.

17,236. *Mr. Walker Clark:* Would this refer to all minors or would it refer only to minors who are in trade?—When you say "minors" of course you mean infants?

17,237. I am using your own word. Does it refer to all minors, or does it refer only to those in trade?—If they have an income they ought to be directly liable for it. Though they cannot be sued nor sue for certain things, I think for the purposes of Income Tax if they have had income coming to them they ought to be responsible individually and directly to the State.

17,238. That is your view?—That is my view.

17,239. One point on your last paragraph. You say: "My Association support the contention that such differentiation for taxation purposes operates against thrift." That is the differentiation between earned and unearned income?—Yes.

17,240. You would suggest that the differentiation should not exist both in respect to Schedule D and the other Schedules in the Act?—Well, I would not say that the differentiation should not exist with regard to Schedule A.

17,241. But your differentiation really refers to Schedule D?—Yes. I do distinctly think that if I derive interest from money I have put into War Loan as the result of my own savings and earnings it ought not to be called unearned because it is only the reflection of my past earnings.

17,242. Which have already paid tax or been liable to pay tax?—Yes.

17,243. *Mr. May:* Would you explain to us a little more fully the constitution and objects of your Association?—I am afraid I did not come here to give evidence on that point. The constitution and objects of our Association are fully set out in our published book of the constitution and our rules; I think we had better put that in; I could not improve upon it.

17,244. Surely you could tell me what a trade protection society is?—Yes, I think I could. I have the Memorandum of Association of the London Association for the Protection of Trade. It is a registered company, and the documents can be seen at Somerset House for a shilling; it is all here.

17,245. *Mr. Kerly:* You can tell Mr. May in answer to his question?—I could not; it covers pages.

17,246. We do not want the words of the Memorandum. What is the general object of such a trade association as you represent?—We make inquiries as to the calibre of people, the status of people with whom our members are proposing to deal. We give them advice, so that they will not make mistakes and deal with people who are not fit to be dealt with on credit; we give various advice as to the status of foreign people, and assist our members with regard to relations with other towns and countries which they could not deal with without this help.

17,247. We all understand credit inquiry; is that the main business of the trade association?—That and debt collection, when they have gone into the trough first and consulted us afterwards.

17,248. Credit inquiry, debt collecting—what else? Is that its main business?—Then we meet together and we diffuse information as to commerce between each other in different towns. The representatives of the different associations meet together and discuss things. It is simply on the same lines as the Chambers of Commerce of the country.

17,249. *Mr. May:* What kind of persons are eligible for membership and are actually members?—Traders of all kinds, retailers, and wholesalers—mostly retailers, I should think.

17,250. *Mr. Walker Clark:* Manufacturers?—Manufacturers, yes, and traders, wholesale and retail, but I should think mostly retail.

17,251. *Mr. May:* How many protection societies are there in your Association?—I would suggest *that you ask the next witness that, because he is an

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official connected with the Society. I am an honorary official, and I have not the data available.

17,252. *Mr. Kerly:* Very well.

17,253. *Mr. May:* The point I want you to appreciate is that in your evidence you say you appear on behalf of the Association of Trade Protection Societies of the United Kingdom, and I suggest to you it is a perfectly relevant question to ask who are the people that you represent.

17,254. *Mr. Kerly:* So it is, but then there are two representatives here, and Mr. Dawson suggests that you should ask the other witness, Mr. Hutchison.

17,255. *Mr. May:* I quite appreciate that, but Mr. Dawson appeared to resent my question, and I want to make my point clear; that is all. I will come straight to my point. There is only one section of your evidence that I wish to ask you about, and that is under 4 (c), Co-operative Societies. What do you mean in this connection by trading profits?—The surplus of your receipts over your expenditure.

17,256. *Mr. May:* You mean a Co-operative Society's receipts?—Yes, the same trading profits as if you changed your name and were a limited company, and I were the auditor.

17,257. *Mr. May:* I must ask, Mr. Chairman, that these questions should not be answered in a personal sense. It is not my profits.

17,258. *Mr. Kerly:* No doubt Mr. Dawson will avoid any such method of reply.

17,259. *Mr. May:* In answer to the Chairman, at the beginning, you suggested that Co-operative Societies should each be taxed as entities?—Yes.

17,260. What did you mean by that?—I mean to say that they should be taxed as though they were companies to avoid any claims for repayment by the members afterwards.

17,261. Do the members or the shareholders of public companies not enjoy the right to reclaim when they are not liable to pay?—Yes, they do.

17,262. You propose to deny that to members of Co-operative Societies?—That is because I consider that the members of Co-operative Societies have amalgamated to avoid the tax.

17,263. Do you really think that that enters seriously into the head of the ordinary member of the Co-operative Society?—I do. I have had a lot to do with them. I have publicly debated this before Co-operative Societies with hundreds present. I have a strong feeling about it.

17,264. You propose that they should be taxed outside the present provisions of the law for ordinary citizens, and differently treated from ordinary citizens, because you attribute this motive to them in joining Co-operative Societies?—Yes. I think they have gone out of their way to avoid the tax in this way, and the Legislature ought to follow them.

17,265. You think that this Commission should seriously consider punishing a certain section of the community?—No, it is not punishment.

17,266. Would not an unjust tax be punishment?—But to rectify an endeavour to avoid tax is not a punishment.

17,267. Do you say you want them to pay a tax which in any other capacity they would not be liable to pay?—They get a better profit without any capital involved.

17,268. Are you aware that the official documents and reports of the previous Committee have declared that they do not make these trading profits?—I have heard them called discounts and all kinds of names other than profits, but as an accountant and an economist I submit you cannot avoid the fact that they are profits.

17,269. Are you aware that a very large number of economists and the principal economists, do avoid it, and do declare that they are not profits?—They would have been liable for tax in the ordinary way but for a special provision in the 1893 Act. If they were not liable as profits why did you pass a special law in 1893 to exempt them?

17,270. *Mr. Kerly:* May I remind you, Mr. May, that we are going to deal with the co-operative case specifically, with special witnesses, who will come only on the co-operative case? You may prefer to thresh it out then. We do not want to go over it again (of course, it is for you to consider) with a witness who

only deals with the matter incidentally, who is concerned with a lot of other matter.

17,271. *Mr. May:* I am quite willing to accept your suggestion, and the object of my first question, which has not been answered yet, was to ascertain how far this witness represented the general trading interests that are concerned, and if that had been shown to be small I would have deferred my questions, because, in my opinion, the printed evidence here bears its own answer.

17,272. *Mr. Kerly:* Whether you examine the reasons which have led Mr. Dawson to his conclusion or not, and I am suggesting that you should defer it for the full-dress debate upon the matter that we are going to have later on, you were quite entitled to ask your first question in order to see how far, apart from the reasons, Mr. Dawson's proposals have general support behind them. You have done that, and you are going to supplement it by a question to Mr. Hutchison. Do you think it necessary to go further?

17,273. *Mr. May:* No, I am not desirous of going further; I will leave it at that?—My point is this, and I am not restricted to the trade association that I am representing to-day, that outside the Co-operative Societies themselves the whole country is against the principle of the Co-operative Societies being exempt.

17,274. *Mr. Kerly:* Very well. We will test that more carefully when we have the special witnesses about it?—And you will have it proved.

17,275. *Mr. Bourman:* I understand Mr. Dawson to say that the Co-operative Societies had gone out of their way to avoid taxation; I think those were the words you used. Will you explain what you mean by going out of their way to avoid taxation?—They have created these organisations in order to come within the exemption provisions of the Act of 1893 to benefit themselves to the prejudice of ordinary traders and leave the ordinary traders to pay extra Income Tax because they are exempt.

17,276. If any body of workmen choose to combine to do a little trading on their own account, from your point of view they are going out of their way to avoid taxation?—My point is that if the co-operative principle went on there would be no one left at the finish to pay the tax.

17,277. That is your view?—That is the mathematical view. You have to come to that. If we were all co-operators there would be no taxpayers and no necessity to have a new Income Tax Act.

17,278. If we are to take your answer literally there is only one object in view, and that is to avoid taxation?—No, I put it the other way, that if co-operation free from Income Tax were to be carried on to an unlimited extent, I put it to you, where would there be anybody left in the trading community to pay any taxes at all?

17,279. I only wanted to get your view of the co-operative movement, and I have got it?—You have had it before.

17,280. *Mrs. Knowles:* I think the idea of co-operation as a successful thing started in 1844, which is practically 80 years before the Act exempting them came in. Has the movement grown since 1893 considerably?—A great deal, has it not?

17,281. I do not know. I was asking you?—According to the reports, they are dealing in millions now where they used to deal in thousands, and the higher Income Tax gets the more co-operation will grow, because the high Income Tax induces co-operation to avoid tax and to leave the tax as a burden on the other traders.

17,282. You think the increase since 1893 is due to the tax and not to co-operative objects, the elimination of capital?—It is partly due to the tax.

17,283. *Sir E. Nott-Bower:* I merely wish to say, just to clear it up, that the Income Tax relief did not start in 1893. There were similar clauses in a much earlier Act—I remember them certainly back to 1867, and Mr. May will say that they went back further than that even.

17,284. *Mr. May:* I could easily have shown that, only I do not think it is worth while to proceed; that

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is all.—In fairness to myself, when you are talking of 1867 and such dates, when Gladstone and others were talking about having no Income Tax at all, it did not matter. We are talking about a time when Income Tax is 6s. in the £. You are bound to have co-operation if you can get out of tax when it is 6s. in the £.

17,285. Sir W. Trower: One point on the question of minors. The 161st section, which you are dealing with, provides for the liability of parents and guardians. You would like to limit that to the amount of income which reaches their hands?—Yes.

17,286. Leaving the minor responsible for any moneys which are paid direct to him; that is all?—That is right.

17,287. Can you assist me with regard to the last paragraph in your evidence by explaining a little more fully how differentiation between earned and unearned income "operates against thrift and often presses unfairly on persons with small incomes"? I am asking for a little further assistance there?—If a man finds that he saves £100 and the income upon that £100 is going to be taxed at a greater rate than the £100 itself was taxed, it discourages thrift. I do not want any verification in this, but the gentleman who attended here representing the Institute of Chartered Accountants, Mr. Cook, said the same thing, and I support it entirely. There is a kind of feeling "what is the good of saving if you have to pay more Income Tax upon the yield than you paid upon the savings themselves?"

17,288. Is not the relief afforded by the differentiation greater than the other?—No, only it ought all to be treated as earned, just as you treat a man's pension as deferred pay. The interest upon his savings is nothing more than a part of his savings which is earned.

17,289. Then you really wish to treat as earned income the income of savings?—Yes. There is no unearned income except that which comes from what has been bequeathed to a man.

17,290. You wish to extend the differentiation to the savings of the person who has only an income from his earnings?—The Dilke Committee were not by any means clear about this, because they waver in their conclusions. They recognised it was very difficult, and they said it was a rough division, and it is a very rough division; it is a very inequitable division.

17,291. Mr. Kerly: On that last point it is all a question of where you put your zero, is it not? You say you pay more upon the income from your savings than you paid upon the saving itself. You are in favour, are you not, of exempting saving from taxation?—Yes.

17,292. Now put it the other way. You pay less upon your earnings, so that you have got part of what you desire; instead of the £100 paying nothing, it pays at a lower rate?—No.

17,293. That is the proper way to look at it, is it not?—At the present time a man will be paying at a higher rate upon the interest upon his savings than he is upon his present earnings.

17,294. He is paying at a lower rate upon his earnings than he is paying upon the interest upon his savings; that is the real position; because the general rate is fixed, and then there is a special allowance for earned income. And, as a matter of fact, the difference is only 3s. 9d. a year upon the income from each £100 earned?—Yes. It does not matter how small it is; the differentiation is not justified.

17,295. You suggest, although the amount is so very small—because it is liable, as I put it to you, to be misunderstood—that it has a discouraging effect upon thrift?—I do say so.

17,296. Mr. Hutchison, the main point, I think, of your paper is to suggest that subscriptions to trade protection associations should be exempt from payment of tax?—(Mr. Hutchison): Yes.

17,297. At the present time the trade association itself is not taxable if it makes profits?—The trade protection society, I submit, is taxable if it makes profits.

17,298. The view is taken by the Revenue that it is not taxable?—I differ from the Revenue. I have had

a case with them recently in which the matter has been seriously discussed.

17,299. Then I take it that, in your view, a trade protection society is liable upon its profits, if it makes any?—I think that, if it conducts a business, and has gains within the meaning of schedule D, that society is liable for Income Tax in respect of that business.

17,300. At present the Revenue allow any trader to deduct his subscription to a trade protection association from his income before assessment, provided that that protection society will undertake to pay tax upon its profits, if it makes any?—Yes; and that, I say, is an abuse. It creates great injustice.

17,301. What harm is done in the trade protection society undertaking to do that which you say it is already liable to do?—I submit that the tax that they endeavour to collect is upon the surplus of the subscriptions and levies paid into a common fund belonging to the society, which has to be expended in accordance with its objects, and that it has nothing whatever to do with any trading at all.

17,302. You ask that the subscription to a trade protection association should be exempt from taxation. Do you propose to put any limit upon the amount of such a subscription?—No. The only limit is, I think, already provided by the law. If the payments be made in the course of a business and for the purposes of making the profits on which the tax is payable by the trader, I think, whether it is paid to a trade protection society or any other mutual society, that amount should be allowed in full in the accounts, subject to two conditions. If by reason of the constitution of the mutual society any payments are made back again to the trader, all the payments that are made back to the trader should be brought into the profit and loss account when received. That principle, I submit, has been discussed before the Courts, and I submit has been established.

17,303. That is your first condition; what is the next?—With regard to what point?

17,304. You said subject to two conditions, and you have told us one. What is the other one?—I think you were talking about the limits.

17,305. I thought you said that your proposal was that all payments to a trade protection association by a trader should be excluded from tax subject to two conditions, the first of which conditions was that if the association paid anything back to the trader he should bring that into his accounts; now I want to know if that is all?—If I said two conditions I meant one condition.

17,306. Thank you; I think that is all?—The point is one of very grave consideration from the public point of view, and the questions that have been asked have, not, I submit, been sufficient to bring out the main point of consideration, and I was rather anxious, in the interests I think of the public as well as of the mutual societies concerned, that perhaps a further statement might be made. There has been a wrong impression, I submit, with regard to the character of this Association, and I submit that that is really the one grave and serious trouble that we have had in connection with the administration of the Income Tax laws as they stand, for some time past. There has not been a sufficient appreciation of either the constitution or the character of the work of the various associations who have been approached by the Inland Revenue authorities for the purpose of negotiating by agreement the payment of the tax, and my grave point is this: I think that the law as it stands with regard to the payment of Income Tax for all mutual societies is sound and just to-day, but I do consider that there is a misconception of the work and character of mutual societies generally amongst the Surveyors, with the result that very grave injustice is done. The only point of consideration, I submit, for the Royal Commission is the future legislation, and I am only urging my point because in arranging any new laws I think the difficulties which exist to-day in the minds of the Surveyors can be avoided by a clearer expression in the future Acts that may come about.

17,307. I do not know whether you are going to give us a long discourse?—I have finished; I think that is sufficient.

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17,306. Allow me, please. Up to now you seem to have addressed yourself to the proposition that the object of a trade protection society ought to be better understood. Had not you better tell us what it is just shortly?—That is the first point I wish to answer Mr. May upon.

17,309. Get to business, if you do not mind, and tell us what it is?—The Association of Trade Protection Societies, that I represent as an honorary adviser, was founded in 1848 for the purpose of gathering together the great societies throughout the Kingdom, which were then known as trade protection societies. Those trade protection societies had as their objects the same objects that have been had from time immemorial amongst the collection of traders in each town, when they met together for the purpose of discussing important matters of legislation, and also the question of their particular trade and municipal affairs. The primary object, I submit, of the trade protection society, as originally established, was for the purpose of exchanging views with regard to the Acts of Parliament that affected trade, and, as an illustration, in 1838 they were instrumental in passing an Act for the benefit of trade.

17,310. I am very sorry to interrupt you again, but really we are not a public meeting?—No, it is not admitted.

17,311. Would you kindly listen to me. It is not necessary to deliver to us a long address as though you were addressing a public meeting. We quite understand a proposition or a definition, and we want one or the other. Now what is the object of a trade protection association?—To assist in all matters of legislation that affect trade; to extend trade throughout the Kingdom and abroad; to give information to any of the traders throughout the Kingdom and abroad in connection with their status, and inquiries; those are the main points. The question of debt collection has been mentioned, but I submit it is not the main point at all; it is an incidental matter of minor importance.

17,312. Now have we got all the objects for which the trade protection associations exist?—Yes. Then the Association of Trade Protection Societies is an association to which all these societies are affiliated, for the purpose of gathering together the views from various centres upon matters of legislation and matters affecting trade, and discussing them at annual meetings to which delegates are sent from all parts of the Kingdom.

17,313. Mr. Kerly: Thank you.

17,314. Mr. Bowerman: What is the membership qualification?—The return was sent to the Board of Trade as follows: the number of societies in 1917 was 93, that is, in England, Wales, Scotland and Ireland, the number of members 39,288; the total income £63,954, and the total reserve funds £86,200.

17,315. What was the qualification for membership?—Each society has a proper constitution and defines in its district the qualifications of membership, but generally speaking, they are manufacturers, agriculturists, wholesale dealers and retailers, and when I speak of retailers they are large stores mostly, such as Harrods, and stores of that character. There is a small class of bankers and professional men, and that composes the whole of them.

17,316. Mr. May: I should like to ask one question. Can you tell us, or give us any idea as to how far the membership of these associations is duplicated in such organisations as the Traders' Defence Association, and the National Chamber of Trade, and the British Association of Chambers of Commerce?—They are quite distinct. All these societies are of recent origin. Unfortunately, there are many

trade protection societies now that are not in any way of the same character as those I represent.

17,317. And the membership is not duplicated?—I think not, in this sense, that the objects are different. In our particular case we have registers containing millions of entries that cannot be obtained by any new society. The Chambers of Commerce cannot obtain it except by purchase or by years of collection. These registers are kept, and the information circulated amongst the whole. It is the interest of the trading community to join these mutual societies to get the advantage of that mass of information which has been collected, as I say, in this particular case, since 1842 in London, and 1848 generally.

17,318. Sir E. Nott-Bower: I would just like to put one question, which I think would enable me personally to understand the position better. You take exception to the liability to pay tax which is undertaken by agreement; to pay tax upon what?—I have been asked to pay tax upon the surplus of the subscriptions and levies over and above the actual expenditure of the year.

17,319. So that the result is, as soon as the money is spent the allowance is made?—I agree.

17,320. If the manufacturer did these things for himself he would be allowed the expenses when the expenditure was incurred?—I agree.

17,321. Does not this simply take it a step further; instead of that he hands over his money to an association and as soon as that association spends the money it gets the allowance?—By this agreement, yes. It has now been decided, because I have had the test that we are not liable as an association to Income Tax.

17,322. Mr. Kerly: Rightly or wrongly, this is the view taken. A trader desires certain services. Instead of performing them for himself he enters into an agreement with a mutual society by which they perform them for him. So far as the subscription he makes is required for the purpose of those services, he is offered exemption from tax because he is told that if the society will treat all surplus as profit and pay tax upon it then he may deduct his payment from his profits; but if the society will not treat that surplus as profit then he is told that he must pay the tax upon his own subscription; it is a logical position, but it may be wrong?—I submit that it is neither logical nor right in this sense: at the same time to the same trader the Inland Revenue authorities say: "we will allow you to deduct the whole of the guinea paid to a proprietary concern, but we will not allow you to deduct the guinea paid to a mutual society." The answer that they gave me when I had an interview upon it was that the proprietary concern pays tax and the mutual society does not. My argument is this: that that is entirely wrong, owing to the fact that the association is a different entity from the trader. The trader's payment stands on its own basis. As the law now stands, and I hope as the law will be in the future, if he pays that amount for the purposes of the profit in the ordinary course of trade he is allowed it. That does not interfere at all with the association. When we take the association itself the law has also decided that certain of them shall be liable for tax and certain of them shall not, and I say that it is absolutely incorrect for that purpose to say: "we will support the proprietary concerns by allowing all traders to pay their guinea and have it deducted; we will not support the mutual societies because the mutual societies do not pay tax, although by law they have not got to pay a tax."

17,323. Mr. Kerly: Thank you.

TWENTY-SIXTH DAY, WEDNESDAY, 22ND OCTOBER, 1919.

PRESENT :

LORD COLWYN (*in the Chair*).

MR. PRETYMAN.

SIR E. E. NOTT-BOWER.

SIR J. S. HARMOOD-BANNER.

SIR W. TROWER.

MR. HOLLAND-MARTIN.

MR. ARMITAGE-SMITH.

MR. BIRLEY.

MR. WALKER CLARK.

MR. KERLY.

MRS. KNOWLES.

MR. MACKINDER.

MR. MCINTOCK.

MR. GEOFFREY MARKS.

MR. MAY.

PROFESSOR PIGOU.

DR. STAMP.

MR. SYNNOTT.

Mr. ROBERT WALKER, on behalf of the National Traders' Defence League, called and examined.

The witness handed in the following statement as his evidence-in-chief :—

17,324. (1) The National Traders' Defence League is representative of the regular traders of the country, the membership being composed of wholesale and retail merchants in all trades, also of manufacturers and employers of labour.

17,325. In addition, the League represents a number of other traders' organisations associated with the League in their work of defence of individual enterprise trading.

17,326. (2) The principal object of the National Traders' Defence League is defence of individual enterprise trading against the aggression of the co-operative store movement—also to inform the public by lectures, literature, &c., in regard to the injurious effects of co-operative, &c., stores and municipal trading on the trade of the country—to use every legitimate means to bring before the Legislature the unjust burden which traders have to bear in comparison with co-operative stores in reference to Income Tax and other parliamentary privileges—protection of the interests of its members in connection with parliamentary Acts affecting traders, &c., &c.

17,327. (3) The head office of the League is at 61, Corn Exchange Buildings, Manchester; general secretary, Mr. Robert Walker.

17,328. (4) In leading evidence before your Commission the League protests generally against the freedom from payment of Income Tax enjoyed by the co-operative store movement.

17,329. (5) A large volume of the trade of the country is transacted by these trading concerns, and the freedom referred to is the cause of serious loss to the Revenue; while it is a gross injustice to the regular traders of the country and to other Income Tax payers.

17,330. (6) In submitting the following evidence we base our figures on the annual returns as published by the Co-operative Union. Although these returns do not include the whole of the Co-operative Societies, the figures given are sufficient for the purpose.

17,331. (7) We submit :—

(a) That the Income Tax, while nominally a personal tax, is, so far as our trade and commerce is concerned, a tax on the trade of the country or the resultant produce of trade.

(b) That doing in round figures, two hundred and fifty millions sterling trade per annum, the co-operative store movement ought to contribute that two hundred and fifty millions' proper share towards the maintenance of the State.

(c) That this large volume of trade passes through their hands without contributing a penny to this Imperial taxation.

(d) That for the year 1916 they declared sales amounting to £197,295,332, and declared a net profit of £19,250,621, and placed to reserve funds £681,188; and in 1917 the corresponding figures were £224,913,796, £18,194,600, and £1,346,963. An increase in sales of £27,618,473 and in amount placed to reserve of £665,775, but a decrease in net profit of £1,055,421. Had they been assessed to Income Tax (unearned rate) they would for the year 1916 have been charged about £4,800,000, and for the year 1917 about £5,500,000. This profit is an unearned increment. It is got apart from the member's daily employment, and is gained by interfering with and reducing the regular trade of the country.

(e) That their trade, in common with that of all the regular traders of the country, is only safely conducted by and through the defence rendered by our Navy and Army, and by their having all the machinery of State at their service equally with the regular traders, yet, so far as trade taxation is concerned, the whole burden of Income Tax is thrown upon the regular traders; which means that the regular trading community have not only their own taxation to pay, but, in addition thereto, on say about two hundred and thirty millions less trade than otherwise would have been theirs, have to pay a part of the taxation which ought to be paid by the Co-operative Societies, but is not.

(f) This freedom from the burden of Income Tax, coupled with the additional contribution the regular traders are thus called upon to pay, constitute a double injustice which calls for long delayed remedy. This injustice is all the more clamant when it is taken into consideration that the openly avowed object of the co-operative movement is, as declared in a manifesto they issued broadcast all over the United Kingdom, as follows :—“The object of our enterprise is to eliminate the principle of individualism from trade and commerce . . . it is admitted that private enterprise has in the past stimulated effort and conferred many benefits upon the country, but it has also been the source of much that is evil. We propose to eliminate it, and to do so certain changes are necessary. As hand

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labour has been all but entirely superseded by machinery, with universal advantage, so private enterprise will be compelled to give place to a better and more perfect system, of which co-operation is the pioneer;" or, as it was later declared by Mr. W. Lander, a director of the Co-operative Wholesale Society, when he said, "I make no secret of the fact that we are out to absolutely do away with the private individual in trade and production."

- (g) As a further injustice, the sums annually placed to reserve funds (£681,188 in 1916 and £1,346,963 in 1917) are not assessed to Income Tax, whereas sums so placed by the regular traders of the country are assessed.
- (h) This freedom from assessment to Income Tax is practically equivalent to the Government giving them a bounty of five or five and a half millions per annum, the better to enable them to carry out their object of exterminating the traders of the country.
- (i) In connection with the Excess Profits Duty we submit that the manner in which they were allowed to escape payment of this (partially or totally) after the distinct understanding and arrangements come to between the Inland Revenue authorities and the co-operative representatives, is a further grievance, as also is the manner in which they have been left entirely free from prosecutions and penalties, when indulging in procedure to evade payment of the Excess Profits Duty by committing acts which were in contravention of the penal clauses of the Finance (No. 2) Act, 1915.

17,332. (8) In the endeavour to escape payment of their just share of the taxation of the country they are now seeking to drop the use of the term "profit" and substituting other terms such as "surplus" and "savings," &c., whereas the fact is that one of the principal inducements they have held out to the public to join the stores has been that, in the dividends declared, they would receive the profits of their trading which would go into their own pockets instead of into the pockets of the traders.

17,333. (9) In connection with the fact that the Inland Revenue authorities do not now consider that co-operative profits or dividends are taxable income, we respectfully submit that there is no legal authority for this, and that the instructions they have issued regarding this should be withdrawn. We call the attention of the Royal Commission to the fact that municipalities are charged Income Tax on the resultant produce of their trading operations.

17,334. (10) We also submit that the manner in which the Co-operative Societies have enjoyed privileges over traders, especially of late years, is a grievance, and that no privileges should be granted to those societies that are not also fully granted to the regular traders of the country. And in like manner that all disabilities and disadvantages imposed upon the regular traders should be also imposed upon the Co-operative Societies.

17,335. (11) The Co-operative Societies are simply concerns trading for profit and do not confine themselves to dealing only with their members. They also deal with non-members. They are now desirous of minimising this and professing to be very willing to give up dealing with non-members if they are left free from assessment to Income Tax; but in the following extract from a pamphlet entitled "The Wholesale of to-day," published by the Co-operative Wholesale Society, they said "that the ordinary retail store is open to the general public, is merely evidence that co-operators are anxious that everybody should join them, and non-member trading is a most efficient system of propaganda.

17,336. (12) They also tender for public and other contracts and execute same and as their accounts in the departments are generally massed, it is not shown whether there has been profit or loss on these contracts.

17,337. (13) As a further spread of these societies, if accomplished, is calculated to displace more of the Income Tax paying traders of the country they should be compelled to replace the taxation they displace.

17,338. (14) As the co-operative store movement has reduced, and, should it spread, will still further reduce, the rateable value of shop and other property, thereby increasing rates and throwing a heavier burden of rates on the traders, which again is calculated to reduce the number of Locomotive Tax paying traders, and also the amount of Income Tax payable by those who will still be liable to assessment, they should be assessed to Income Tax to replace what they displace.

17,339. (15) Should the avowed aim of the co-operative movement, viz.: the extermination of the traders be achieved, the revenue at present derived from Income Tax on traders will be entirely done away with, and, the trade being all conducted by the co-operative movement, the Chancellor of the Exchequer would then be compelled to impose taxation of some kind on the co-operative movement to maintain the revenue of the nation. As the co-operators have accomplished this object to the extent of two hundred and fifty millions annually, we submit that the Chancellor of the Exchequer should at once deal with this two hundred and fifty millions of their trade in the way in which he would be compelled to deal with the then volume of their trade in the event of their gaining their aim.

17,340. (16) One reason given by the Co-operative Societies why they should not be assessed, is because they cater for the poor. This we emphatically deny. They do not do anything for the poor, and never have done anything, except, so far as we are aware, in one instance which only lasted for a few months.

17,341. (17) Another argument the co-operators advance is that the call for their being assessed to Income Tax is the outcome of a desire to tax the poor man's income. This we deny, for the reason given in foregoing paragraph, No. 16, and for the further reason that we have no desire to tax any man's income, but only the unearned increment as detailed in clause 7, section (d).

[This concludes the evidence-in-chief.]

17,342. Chairman: Your evidence-in-chief has been before the Commissioners, and we shall commence at once an examination of your statement. Dr. Stamp will be the first examiner.—Will there be any explanation allowed of these paragraphs in our evidence?

17,343. You will be allowed every opportunity to elucidate your points. You will find that in the examination all the points that are down here will be pretty well looked into by the Commissioners, and if there is anything in addition that you want to say to the Commission it will be quite agreeable to us.—Thank you.

17,344. Dr. Stamp: From your evidence we understand that you consider the fact that the co-operative movement is free from taxation in the nature of Income Tax is unjust?—We do, that is, as regards Schedules C and D.

17,345. Is it your view that these co-operators are already within the charge, or that for some reason or other they have been allowed to escape so that they are not within the charge and ought to be brought within it by law?—They are not within the charge, in this way, that the Inland Revenue authorities take the case of the City of New York Life Insurance Company v. Styles (heard some considerable time ago, without the Co-operative Societies having been mentioned in that case) as covering co-operative dividends, and since then the Inland Revenue authorities have not assessed co-operative dividends; so as it stands at present, presuming a man had £200 a year income and in addition to that

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has £10 or £20 of dividend from the Co-operative Societies, he can refuse to pay Income Tax on that £10 or £20, and if it is charged and tax is paid all that he has to do is to apply to the Inland Revenue authorities and have the money refunded. The Inland Revenue authorities hold now that the Co-operative Societies' dividends are not taxable.

17,346. The point I want to get at is this: is the ground of your evidence that the Inland Revenue have wrongly construed the law and that the co-operative profits are already within the charge; or do you acknowledge that they are not within the charge but say that there should be a change in the law, and that they ought to be brought within the charge?—We say that they are really within the charge, and that in connection with the first Acts that were passed in connection with Industrial and Provident Societies their dividends were chargeable.

17,347. As profits upon the company, or as dividends received by the recipients?—Dividends received by the recipients.

17,348. Under what Case of Schedule D would they be chargeable?—It was in one of the earlier Acts in connection with Industrial and Provident Societies; in fact, I think in two of the earlier Acts. Shall I read the section?

17,349. No, thank you. I only want to know what your view is. Your view is that they are already within the law, but by administrative action they have been allowed to escape?—Yes. We hold that the Inland Revenue authorities in taking that decision of the House of Lords and making it applicable to the co-operative dividends are going outside, if I may be allowed the use of the word, the scope of what they should do. It is now being held by them to exempt the Co-operative Societies from Income Tax under Schedules C and D.

17,350. Do you think that any alteration is required in the law in order to effect the charge?—The alteration is required because of section 24 of the Industrial and Provident Societies Act, which distinctly states that no Co-operative Society shall be assessable to Income Tax under Schedules C and D, unless the number of its shares is limited and it sells to non-members; one of the alterations in the law will be the deletion of that section 24 of the Industrial and Provident Societies Act.

17,351. When that alteration of the law is given effect to, if it is, then the Co-operative Society as a whole will be chargeable?—Yes.

17,352. I want to get clearly from you whether you think an alteration in the law is required, or merely that we are to understand that they are already charged by law, but have been allowed to escape by the administration?—Our idea is that they are assessable to Income Tax in the spirit of the Industrial and Provident Societies Act; but from what has been taking place of late years through the Inland Revenue office we hold that there will have to be a definite alteration to make it fixed and definite that these Co-operative Societies, on the £250,000,000 of trade that they are doing, ought to pay their fair share of the upkeep of the State.

17,353. Do you think the law on the matter is doubtful; is that why you want a change in the law?—It is not exactly doubtful, because it is decided in the Industrial and Provident Societies Act, section 24, that they shall not be assessed unless they do both of these two things, that is, limit the number of their shares and sell to non-members.

17,354. Therefore at the present time it is outside the Act to charge them; it would be illegal to charge them at present?—It would be illegal to charge them at present unless they did both of these two things mentioned in the Industrial and Provident Societies Act.

17,355. Therefore you are not basing your evidence this morning on the ground that they are already within the law and have been allowed to escape by the administration, but you admit that the law is against the charge and wants altering?—The law as it is in these Acts is against the charge.

17,356. At present it is illegal to charge the surplus or profit of a Co-operative Society?—Unless they do both of these things.

17,357. Apart from that it is illegal?—Yes, because of this Act of 1893; that section was not altered by the amending Act of 1913.

17,358. The evidence that is being given by one and another on this subject is a little confusing, for this reason: some say the law wants altering because they are not already chargeable, and others say they are chargeable, but they have been allowed to escape by administration. I want to have it clear from you which your view is. I take it your view is that it would be illegal to charge them at present, but the law should be altered?—So long as that section stands.

17,359. Let us pursue that. Suppose that a charge can be made upon them and is made upon a Co-operative Society upon the whole of its surplus or dividends, I suppose you would admit that the calculation of the profit should be made in the same way as for a limited company?—We are in this position: I may say we are not submitting any scheme. We considered the matter in a conference of all the numerous organisations that we are representing here to-day besides our own organisation, and we decided not to submit any scheme, for this reason, that we understand that the whole question of the Income Tax is to be put into the melting pot and something of an equitable character is to be devised. That being so, and not having any idea of what is going to be the upshot of this inquiry, not knowing any thing about what is going to be the alteration, if any alterations are to be made, we felt it would be invidious on our part to submit any scheme until we have some idea of what the basis of the future Income Tax is to be. As soon as that is done we are at the service of this Royal Commission or the Chancellor of the Exchequer to assist in every possible way we can to devise an equitable scheme for the assessment of these societies; but we do not submit any scheme at present. We heard afterwards that it would be advisable to submit a scheme, and we called another conference of representatives from all these different organisations, at the same time asking them for ideas with regard to it. They sent us in those ideas; different proposals were sent in to us. We sent these proposals out to all our organisations, but they decided to re-affirm their former decision that it would not be the right thing to submit any scheme just now until it was known to a certain extent what the basis of the Income Tax, or whatever the tax is going to be called in the future, is to be. Immediately that is done we will do all that we possibly can to assist either this Royal Commission or the Chancellor of the Exchequer in devising a thoroughly equitable scheme for the assessment of the societies.

17,360. I will not ask you for a scheme but I will ask you if you will tell me how in your opinion it would work out compared with, we will say, a limited company. You say now that it is illegal to charge a Co-operative Society under Schedules C and D, and in order that the Inland Revenue should be within the law in charging it an alteration in the law is required; that is at present your position, is not it?—Yes. I think we have arrived at that on the basis of section 24.

17,361. Therefore do you still stand by paragraph 9 of your evidence: "In connection with the fact that the Inland Revenue authorities do not now consider that co-operative profits or dividends are taxable income, we respectfully submit that there is no legal authority for this, and that the instructions they have issued regarding this should be withdrawn"?—Yes.

17,362. What you have said I think rather supersedes that, does it not?—Not exactly. In inserting this paragraph 9 in our summary of evidence we intended to give expression to our feeling that the Inland Revenue authorities in acting as they have done, in considering these dividends as non-taxable income, in our opinion have been making a mistake

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17,863. Let us suppose that the Inland Revenue office withdraws any instructions that it has issued, will that in itself enable assessments to be made if it is illegal to make them?—Not until that section is withdrawn from the Act.

17,864. The first thing to do is to get the section withdrawn?—If the section is withdrawn this falls.

17,865. Then the Inland Revenue will simply follow the law in the ordinary way?—That is so.

17,866. It looks from your paragraph 9 as if the only thing standing in the way of getting what you want is an Inland Revenue instruction?—No, the Inland Revenue instruction is, shall I say, an outcome of that case which was tried in the House of Lords.

17,867. Is that not case law?—Yes, but it was only in connection with that particular case of the Mutual Life Insurance Company. This is a trading company.

17,868. The position is this, is it not, that if it is illegal to charge a Co-operative Society the instructions of the Inland Revenue cannot make any difference either way; it is still illegal?—Yes, that would be so long as that section remains.

17,869. Therefore what your paragraph really amounts to is not that "we respectfully submit there is no legal authority for this," but "we respectfully submit that they are acting in accordance with the law, but they should, by a change in the law, be empowered to act otherwise"; that is really what you mean, is it not?—But, pardon me, the reason why we put that in is that at the time the Inland Revenue authorities made this first statement regarding Co-operative Societies it was not because of section 8 of the Customs and Revenue Act, but because of this case that was decided in the House of Lords, and we are referring to that. As the Co-operative Societies were not mentioned at all in connection with that case, therefore the instructions that have been sent out by the Revenue authorities on the basis of that case ought to be withdrawn; but that is entirely apart from section 24.

17,870. Have the Inland Revenue authorities issued any instructions on the authority of that case?—They have.

17,871. Have you not told us that, while there is that section in the Act, which is in fact there, they cannot charge them; it is illegal to charge them? What difference can an instruction, or a reason, make if the Act is there? The Act is against the Inland Revenue making the charge, is it not?—Yes.

17,872. What difference at all can any instruction that they may give make to the situation?—Well, it might not. I am referring to this, and we are only pointing out how the Inland Revenue did that.

17,873. I suggest to you it all comes to this, that you really want a change in the law; it is not something the Inland Revenue can do. The Inland Revenue cannot withdraw that section; it must be done by the House of Commons.

17,874. Thank you; that is the point I want to get on paragraph 9. Assuming that that change in the law is made, will you follow through this parallel? You have a limited company with, say, 100 shareholders. Their shops make a profit, and are assessed to Income Tax, and a dividend is paid out of that profit to those shareholders. We will say 90 out of the 100 are people who are not liable to Income Tax, because their total incomes from all sources, including these dividends, are below the exemption, plus the wives' and children's allowances—below the effective charge to the tax—and therefore they come to the Revenue and they get back the tax on their dividends; that is clear, is it not? That is the practice?—That is so.

17,875. The Co-operative Society under your proposed change of the law also consists of 100 members, and in the same in all other respects; these members receive, not a dividend on the capital they have got in the society, but a so-called dividend on their purchases? That is the point, is it not?—That is so.

17,876. Assuming for the moment that the law makes that dividend or surplus parallel to or similar to the dividend on the capital that the other people

have in their company, then out of this 100 members a certain proportion, we will say 80 or 90, would be entitled to come to the Revenue, would they not, for similar treatment?—Nothing like that percentage now.

17,877. What percentage is it?—Nothing at all like that percentage, because they have not got poor people in the Co-operative Societies; they have got the better-paid workers, and they have got a certain section of the middle-class, and with the enormous increase of wages in late years, and the reduction from £160 to £130, the proportion of actual co-operators who would be left out, that is, who would be able to claim repayment, is nothing at all like that percentage.

17,878. Is that an expression of opinion, or have you actual sample figures to show what proportion of a given society would be liable?—My statement is based upon knowing in a number of different districts the quality, if I may use the term, of the members of those districts.

17,879. The average member, I take it, is a married man with a wife and family?—Yes.

17,880. What do you take to be the average level of income that such a unit would have before it is liable to Income Tax?—It depends on whether the man's wife is living and on the number of children that he has.

17,881. That is the normal case, is it not—a wife and family?—Yes.

17,882. What would be the average level?—I should say the average would run about £180 to £200.

17,883. You think that the majority of the members of the Co-operative Societies, or a very large percentage of them, have a higher income than that?—Yes.

17,884. What proportion?—I could not exactly say the proportion. At the last inquiry with regard to Income Tax the co-operators put it out that only 2 per cent. of the members of the Co-operative Societies would be liable to payment of the assessment; that the others, about 98 per cent., would be entitled to rebate. They based that upon a most flimsy and ridiculous set of statements that were got out by the secretaries of the various Co-operative Societies, who replied that they guessed this, they judged that, and they thought the other thing, and they mentioned that there were so many. Upon that the Co-operative Union based the direct statement to the Income Tax Committee that about 2 per cent. only would be assessable to Income Tax. That view was not worth any credence whatever, because there was nothing behind it. The actual facts are that they have not got the poor; it is the better class of workers that they have. They do not want the poor, and will not have them in at all if they can help it.

17,885. In fact, the co-operators have given us a lot of surmises, and you are going to give us the actual facts?—I am going to give you the actual facts so far as our observation is concerned.

17,886. Did not they give us the actual facts so far as their observation was concerned?—They gave it as a fact, but at the same time they gave copies of the letters that were returned by the secretaries, in which there was not a single definite statement; it was all guessing and thinking and imagining.

17,887. You have got something better than guessing, thinking, and imagining to give us as evidence of the fact that the large proportion of co-operators effectively pay Income Tax?—Should pay.

17,888. Effectively are liable?—Yes.

17,889. Can you tell us the nature of that evidence?—The nature of that evidence is our knowledge and observation of the quality of the members of the Co-operative Societies in the different districts of the country.

17,890. When you speak of "our," have you had a kind of circular sent to a large number of people?—By "our" I mean our Federation and our members all over the country.

17,891. Surely the co-operators gave the results of their opinions and observations; is there any reason why your opinions and observations should be regarded as of a higher order of fact than theirs?—In

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sending in those returns we are going upon actual observation on our part; they were going upon guesses and imaginations of other people who sent them in to them.

17,892. Did they say that in their answer they were guessing or imagining?—Most distinctly; I have it here.

17,898. So far as we are concerned it is just a question of one statement of opinion against another unless you can show us some collected evidence?—Of course you understand it is impossible for us to give you figures regarding them, because not only do the co-operators keep their own counsel, which they are quite entitled to do, but also, instead of giving a list to the Registrar in their annual returns of the names, business and addresses of all the members of the societies, they only give numbers so you can understand how difficult it is for people outside to bring up a definite statement regarding the income; so that we are forced back upon our own observation.

17,894. From your observation what is the average wage of the members of Co-operative Societies?—Well, it is hard for me to say anything of that kind.

17,895. Put it in another way. What proportion of the total members do you think are effectively liable to Income Tax?—Or will be liable.

17,896. At the present time, or were last year?—That is, presuming that that section were away?

17,897. Yes?—I would say I would very nearly reverse the figures; instead of saying that about 70 or 80 per cent. would be able to claim repayment, I would reverse the percentage, and that would be very much nearer the point.

17,898. You think only some 20 per cent. are below the effective level of Income Tax liability?—20 to 30 per cent.

17,899. And 70 to 80 per cent. are above the limit?—Yes.

17,900. There are some 3,000,000 odd members of the Co-operative Societies?—Yes.

17,901. What is the average wage of the workers at the present time?—In the 3,000,000 odd you must remember they have open membership now, and this was done to evade the payment of Excess Profits Duty. Before that as a rule in the Co-operative Societies only the father or the mother could be a member—only one out of the household; now the father and the mother and all the children can be members.

17,902. I will not follow that. Tell us what the total number of members was before that operation?—I take it roughly at 3,000,000 as a round figure.

17,903. Of that 3,000,000, about 800,000 to 900,000 would in your opinion be people whose incomes were below the effective limit of charge?—Yes.

17,904. And the balance of 2,100,000 to 2,400,000 would be people whose incomes were above the effective level of charge?—About that.

17,905. The effective level of charge in your judgment is somewhere between £180 and £200?—Yes, about that.

17,906. What is the average wage at the present time of the working classes?—I could not say as to that, but their wages are very considerably increased from what they were pre-war.

17,907. But what would they be, taking them right through?—Well, it all depends on the grade of work that they were doing.

17,908. You have taken here a very large section of the wage-earning classes, and unless you can show that the average wage of the working classes is rather above this level of effective liability the onus of proof is rather severely upon you to show that you have such an exceptional sample of the working classes?—The basis of our contention is this: apart altogether from what income individual members of the societies may possess, the rock bottom of our contention is that the Co-operative Societies are doing £250,000,000 of the trade of the country. That trade is only safely carried on through the protection and defence of our Navy and Army, and having all the machinery of the State at their beck and call the same as the traders have, and they do not pay one single penny of this Imperial taxation towards that.

17,909. We will come to that. May I follow through the parallel I was making between the limited company and the Co-operative Society. We will assume for a moment, that after a revision of the law, the total profit is now chargeable and is charged by the Inland Revenue under the new section. Some of the members at least—20 to 30 per cent. in your judgment, but a much larger percentage in the judgment of other people—are below the effective level of liability and can come to the Inland Revenue for a return of the tax deducted from their dividends. Is that so?—That is so unless an alteration in the law is made that no such relief will be allowed; that is quite on the cards.

17,910. In the case of a limited company, if its profits were £10,000 as shown in its accounts, for the purposes of Income Tax that would be divided into two parts. You would take away first of all the Schedule A value on any property that it owned, say £3,000. It would be charged on £2,000 under Schedule A, and on the balance of £5,000 under Schedule D. But if every shareholder of that limited company were exempt from Income Tax the Inland Revenue would have to repay the tax on the whole of the £10,000, both the £2,000 assessed under Schedule D and the £2,000 assessed under Schedule A, would it not?—I do not know about the £2,000 under Schedule A.

17,911. If £10,000 were paid out in dividends, and everyone who received them was exempt, they would get back the whole of the tax?—Yes.

17,912. That tax would have been paid to the Revenue in two forms, Schedule D and Schedule A. The Co-operative Societies pay under Schedule A?—They do.

17,913. Have you any idea how much they pay?—I do not know.

17,914. Do you imagine that if the exempt co-operators came up for repayment of the tax deducted from their dividends it might be possible that the whole of the Schedule D would be repaid to them, and a part of Schedule A?—The whole of Schedule D certainly.

17,915. And a part of Schedule A possibly?—Possibly; I am not aware of that.

17,916. You know at the present time that the Revenue gets a very large sum under Schedule A from Co-operative Societies of which they have to repay nothing?—That is so.

17,917. If your clause were brought in it might very likely have to repay part of the Schedule A?—That could be prevented.

17,918. Why should it be if they are to be made comparable to a limited company? Do you want them to be worse off than the shareholders in a limited company?—No, I do not want them to be worse off than anyone who is carrying on a similar trade.

17,919. I suggest to you that the amount of Income Tax which is already paid by the Co-operative Societies at 6s. in the £ under Schedule A, of which not a penny is returned, would be ample to cover the liability of the co-operators?—I cannot say as to that.

17,920. Is it not rather an important point? Does it not mean, if your section were brought in and they were made exactly parallel to a limited company, that the Inland Revenue instead of getting more out of them would, after an infinity of work, have to repay something that they are now actually getting?—The Inland Revenue is quite capable of making suggestions to prevent a thing of that kind.

17,921. Would it be fair to prevent it? If it is repayable to the shareholders of the limited company in those circumstances, would it not be fair in the same circumstances to the members of the Co-operative Societies to repay the tax paid under Schedule A, or part of it?—As regards Schedule A, as I stated at the start, we are only here giving evidence in connection with Schedules C and D.

17,922. But can you look at the thing from the point of view of equity without taking into account the burden which the Co-operative Societies are already bearing?—If we have an idea of what is likely to be the Income Tax basis of the future, then we

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will be able to give you a clear and definite statement regarding that; until we know that we are not in a position to state anything definite regarding that.

17,423. I have only asked you to give us your idea as to the equitable parallel that you think should be established between an ordinary company with its shareholders and a Co-operative Society with its dividend receivers. I think you would admit their title to repayment if their income warranted it?—As the law at present stands.

17,424. I suggest to you that if that parallel were established an encroachment would be made upon that tax which is already being received by the State in full. First of all I suggest to you that the people who are exempt would have to be repaid entirely, and then there would be the people who might be above your level of liability, this 70 or 80 per cent. you speak of, who are not liable at 6s. The Revenue would have had the tax under Schedule A at 6s. and to practically the whole of that liable number—I suppose you would not think that many co-operators are liable to Super-tax?—No.

17,425. Therefore every one of the remainder of your co-operators would be entitled to some repayment of the 6s. deducted?—That is so.

17,426. And the Revenue would have to repay the whole of the 6s. to the exempt shareholders, and a part of it to all the people who were liable to lesser rates of tax than 6s.?—Yes, if the law is to remain practically as it is just now.

17,427. I am assuming that the law is altered in the way you want it altered to make these people exactly parallel to a limited company?—Yes.

17,428. I have made that assumption not because I agree with it, but for the purpose of seeing where it leads?—That is, leaving the right of repayment.

17,429. Do you suggest that the co-operator who is exempt from tax by reason of the amount of his total income should not have the right of repayment upon his dividend when the tax has been deducted?—Well, that is a question for decision, whether it may be allowed or not. We must not forget this matter, that this dividend that is got by the members of the co-operative stores is gained by them entirely apart from their daily employment and income. It is an unearned increment. It is gained apart entirely from their employment, and it is gained by interfering with and reducing the taxpaying trade of the country. We submit as a general principle that doing £250,000,000 worth of trade they ought to pay a £250,000,000 share of the upkeep of the State.

17,430. Come back to my example of the small limited company that made £10,000 profit divided amongst a number of shareholders. The shareholders are all entitled to exemption, and they all obtain repayment of the tax. Where is the taxpaying power of that company if all the shareholders are exempt?—That lies in the hands of the Government. The Government can compel them to pay Income Tax without rebate if they choose.

17,431. You think there should be a universal rule that nobody should be entitled to get back Income Tax deducted from dividends, however small their income?—I am not saying there should be a universal rule, but it lies with the House of Commons to decide how they should pay their proper share.

17,432. But have they a proper share to pay if, parallel with other people, their incomes are below the taxable limit?—In the instance you have given of the limited company paying £10,000 of profit they are having the defence and protection of our Navy and Army. We hold that this Income Tax so far as trade and commerce are concerned is a tax on trade, and they are being allowed to transact a large amount of trade without paying their fair share towards the upkeep of the State.

17,433. The limited company is?—Both; take the limited company you refer to making £70,000, every one of whose shareholders is under the limit and can claim back his proportion of the Income Tax paid by the company.

17,434. Do I understand that your proposition comes to this, that if there is a man with a wage of £3 a week who receives £10 from a limited company from which the tax has been deducted, his present right of getting that tax back should be cancelled?—

I do not say it should, but I beg to submit that that is a matter that Parliament can decide for itself. If it is necessary for the maintenance of the State that that should be done, it is an easy matter for the House of Commons to do so, but it is for the Chancellor of the Exchequer and the Revenue authorities advising the House of Commons to take the precaution to secure to the Revenue some return from all the trade that is done in the country.

17,435. You mean there should be a charge on the business irrespective of the shareholders; the tax should not be all repaid if the shareholders are all exempt?—It is unjust to those traders who are left to pay the Income Tax, because it means they have not only to pay their own share of the Income Tax, but a proportion of what should be paid by these companies.

17,436. Is not this rather a revolutionary proposal of yours, that people who are below the exemption limit should be made to pay on any money they receive which is taxed by deduction?—We are not concerned to touch their income at all; we are leaving that entirely alone—that is, their wages or salaries or whatever it may be. I am leaving it entirely to the Chancellor of the Exchequer to do what he pleases with it. We are dealing with this as a trade matter.

17,437. I will leave that line altogether, because I do not think we are going to get any further with you on that. Do you wish a discrimination to be made between ordinary traders and co-operators? Or do you want the co-operators to be charged in exactly the same way as a limited company on the trading profits, as you call them?—All that we wish to do is to bring before the Royal Commission the fact that these Co-operative Societies are doing £250,000,000 worth of trade a year, and they are not paying a single penny of Income Tax on that.

17,438. Do you not recognize Schedule A as a payment of Income Tax?—No, I stated at the beginning of my evidence that we are only dealing with Schedules C and D.

17,439. You say they are not paying a penny of Income Tax?—On Schedules C and D.

17,440. But the Schedule A tax surely ranks as a payment out of their profits?—It most undoubtedly comes out of the profits unless they pay it out of capital.

17,441. Supposing an ordinary trading company makes £2,000 profits, and its assessment under Schedule A is £2,500, is it charged anything under Schedule D?—No.

17,442. Not if the Schedule A is in excess?—Not if the whole of the profits are taken out of it.

17,443. If the Schedule A covers the profits, nothing further is charged?—That is so.

17,444. If the Schedule A that a Co-operative Society pays is in excess of the profits equally there should be no charge there?—I cannot say as to that, because I have not it before me.

17,445. I am putting a hypothetical case before you where the profits shown in the accounts show £2,000, but they have paid already on £2,500 under Schedule A; could there be any charge under Schedule D?—But I cannot understand the case of a Co-operative Society being in that position. I know of no single one of which the profits are less than the Schedule A.

17,446. It is quite conceivable, and I should hesitate to say that there is not such a case; but I want to get the principle from you. You say they are not paying a penny in Income Tax?—Under Schedules C and D.

17,447. I suggest to you that the division between Schedule A and Schedules C and D is for the purposes of equity an arbitrary division, and that you must look at Schedule A?—I have not done so. We are dealing entirely with Schedules C and D.

17,448. I suggest to you that your argument is quite illogical until you do. You accept that it is reasonable to look at the Schedule A that a company pays as well as Schedule D?—In the way that you are putting it.

17,449. And therefore the parallel that I am drawing between a limited company and a Co-operative Society is supported to this extent. You do not wish any discrimination to be made between them in future. You wish the Co-operative Society to be charged on its profits after the deduction of Schedule

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A, like a limited company?—Schedule A is deducted before they declare profits, of course.

17,450. You wish it to be done in both cases?—It is done just now.

17,451. Although you doubt whether the existing right of repayment for exempt shareholders should continue, if it does continue, you think that it should apply to both concerns?—That is for the Chancellor of the Exchequer and the Revenue authorities to decide.

17,452. I am not on the merits of whether they should or should not, but if it does continue it should apply to both concerns?—That is in the way of either assessing them or not assessing them?

17,453. May I put a very plain question to you. Do you want the recipient of the co-operative dividend to be treated more harshly than the recipient of the ordinary trading dividend?—The Co-operative Societies' members are in a different position from the shareholders in these companies.

17,454. You want them to be discouraged, do you not; you want them to be punished?—Which?

17,455. The co-operative holders?—No, not at all; we do not want to punish them.

17,456. Then you do not want any discrimination between them and the shareholders in a limited company?—We want to make them pay their share.

17,457. On the same basis as other people?—On the same basis to a certain extent.

17,458. With the same privileges?—To a certain extent; but you must not forget that this is that they are getting which they themselves call a benefit is got by interfering with and reducing the taxpaying trade of the country.

17,459. I do not want to go off on that. I want to take you on your assumption that this dividend is a chargeable dividend. I do not say I agree with that, but I am accepting your assumption for the moment, and I want to ask you, in reference to what you percolate as a chargeable dividend, if the recipients should have the same privileges as other people or not?—In the meantime, as things are, I say yes.

17,460. Having the same privileges they are entitled to pay at the same rate and get repayment?—Yes, no, one moment; allow me to withdraw that reply. They are not assessed at all just now.

17,461. I am assuming that you get your alteration. When they are assessed they will be entitled to the same privileges as an ordinary taxpayer?—Yes.

17,462. I suggest that you should get supplementary evidence to prove to us that there would not be a loss to the Revenue under your proposals as compared with the present time?—That is, taking Schedule A into account?

17,463. Yes?—Will you authorize the Co-operative Societies to supply me with all the documents and figures that I require for that?

17,464. It is not for me, certainly, and I do not know whether it is for the Commission to authorize that. You are putting to me that there is a large leakage of what should be the proper revenue to the country from these Co-operative Societies. I suggest to you that that is quite wrong?—I put it to you in that way just to show the difficulty of acceding to your request to supply supplementary evidence; unless the co-operators are prepared to give us full satisfaction as to all the figures we require in connection with it I cannot do that. You see my position.

17,465. I am afraid I cannot get further. It leaves your evidence rather in the air if you cannot show that there would be an increase of revenue by adopting what you want us to adopt. I suggest to you if we adopted your course the situation would be worse than it is instead of better?—Of course, I am not aware that that is the case.

17,466. Mr. May: I do not propose to question you on the main part of your case against Co-operative Societies. I had intended to do that, but Dr. Stamp has completely covered the ground. I just want to ask you one or two points arising out of your replies to him. You say that you need authority to obtain particulars from the Co-operative Societies of what they pay under Schedule A: is that so?—Certainly; we have not got that information.

17,467. How did you obtain a large number of figures that you have in this statement of evidence of their trade?—Which figures do you refer to? There are several sets of figures.

17,468. Take the block in paragraph 7 (d)?—Quite.

17,469. How did you obtain those figures?—You are Mr. May, are you not?

17,470. Yes, that is my name?—By your own published reports—by you I mean the co-operators.

17,471. Cannot you obtain the particulars as to Schedule A from the same source?—Not from those returns that we have had.

17,472. Are you sure?—I do not think so.

17,473. I recommend you to look again, and if you fail, then may I make this further suggestion, that you obtain from the Secretary at a later stage the evidence of the Co-operative Societies, which you will be glad to see, and I think you will find it there?—Can you point out just to save time where it is in these returns?

17,474. There are other returns than that. I will deal with that afterwards, but I say it is published in the returns. You say that you do not think a case can be found of a Co-operative Society whose assessment under Schedule A exceeds its profits in any period?—I said I could not conceive of one.

17,475. Let me recommend you to look at the last half-yearly balance sheet of the Co-operative Wholesale Society; that made nearly £200,000 loss; you will find the answer there?—I am quite aware that the Wholesale Society during the last two half years has had to declare a loss, on each of the last half years; but if I may be allowed to say so, I do not think that requires the sympathy of this Royal Commission or anyone else in connection with the loss.

17,476. You may take it from me that they are not asking for it. They are rather proud of the transaction than otherwise. I only give it to you as evidence of what you say is inconceivable. You say that Co-operative Societies have adopted open membership to evade Excess Profits Duty: is that a statement of fact?—That is a statement of fact.

17,477. What do you base it on?—I base it on the numerous statements that were made at co-operative meetings after the Excess Profits Duty was imposed. They began to look about immediately—after having come to a definite arrangement with Mr. McKenna, the Chancellor of the Exchequer—to find ways and means of avoiding the payment of the tax in the way that had been arranged with Mr. McKenna that it should be done.

17,478. The question of Excess Profits Duty and its operation is outside the scope of our inquiry, but what I am putting to you is the question of open membership, as to when it was adopted.

17,479. Chairman: That is the point. The other point regarding Excess Profits Duty is irrelevant?—Our reason for introducing that clause about the Excess Profits Duty was to caution the Royal Commission that in any proposals they may make for assessing the Co-operative Societies in regard to Income Tax they should be careful to make the conditions clear, definite and binding, otherwise they will be evading the Income Tax just in the same manner as they set about to evade the Excess Profits Duty.

17,480. The Commission will watch that?—Well, at the same time we think we were quite within our rights in giving to the Royal Commission a warning that was within our own knowledge.

17,481. But I would like you, if you will, to answer the questions that are addressed to you by the Commissioners, and if you have any point afterwards we shall be very glad to hear what you have to say?—Thank you.

17,482. Mr. May: Regarding open membership?—That is one of the three ways they were evading the Excess Profits Duty, and it was done distinctly with that idea, and at various meetings of the Co-operative Societies where open membership was being urged, the statement was made regarding that, and the Excess Profits Duty was referred to. Another way was by reducing the prices, which the Co-operative Society was the first to do, and was complimented by the Co-operative News upon starting to reduce the prices so that there would be no

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Excess Profits Duty. The third way of doing it was by giving back a cash bonus to the members immediately on purchase of the goods, and that made a considerably less dividend to be declared at the end of the quarter or the half year. These were the three ways in which they sought to evade payment of Excess Profits Duty.

17,483. How many cases could you produce where a cash bonus was paid back direct to the members?—Well, supposing that we can produce one?

17,484. I will leave it at that?—Supposing that I produce one, it does not follow that that was the only one, and it shows the spirit of the co-operative movement in connection with taxation.

17,485. I suggest to you that you cannot produce a single official document which has ever given encouragement to the suggestion of such a thing?—I mention the Northern Co-operative Society, Atherstone, as having done that. They had posted up in the stores of the Northern Society the amount of cash dividend to be given on the purchases, according to what the value of the purchase was.

17,486. Does not this happen to be a co-operative organisation registered, until quite recently at all events, under the Companies Act, and liable to Income Tax?—That is so, but it is now a member of the Co-operative Union.

17,487. We will leave out of account that company, and it is only one out of 1,500. It is an exceptional case within the co-operative movement, even if it happened?—Even presuming these misunderstandings, it shows the spirit of the movement. You know as well as I do that all the other societies have been reducing their prices for that purpose, and explaining to people the reason why they were getting a lesser dividend, and getting them to agree to a reduced dividend.

17,488. There is only one point I wish to make on the question of open membership—I suggest to you that it is not true, but absolutely untrue to say that open membership has been adopted generally, or even partially, during the war; and that it is a general condition in the co-operative movement?—Might I in answer to that say that you have it in your annual reports that it was to be done. It was recommended by your Annual Congress to the societies to do that, and it was perfectly well known that by increasing the number of members in that way, supposing that at first only the father or the mother was a member of the stores, instead of that the father and the mother and say a couple of children were members, that was going to increase largely the number of members among whom the dividend was to be divided, and in that way evading Excess Profits Duty. In spite of what you have said, I am still of the same opinion, and I am expressing my utter conviction.

17,489. *Chairman:* I do not want you to get into an argument if you can avoid it. I want you to answer the questions that are addressed to you by the Commission. I know you want to get in every point you can, but I should just like you to answer the questions; that will suit us very much better?—I was just replying to Mr. May's assertion that my statement was untrue.

17,490. I do not want to get into these difficulties, which do not mean anything.

17,491. *Mr. May:* I will not pursue that point. You say the Co-operative Societies were chargeable originally to Income Tax. Under which Act?—No. I did not say that. In answer to Dr. Stamp I said the individual members were.

17,492. No; I think I am right in saying that you said that under an early Act they had no exemption from assessment under Schedules C and D?—No, pardon me, Dr. Stamp in questioning me put the words that the societies were liable to pay, and I said the individual members.

17,493. *Dr. Stamp:* Then I asked you under which Case of Schedule D the individual members were liable, and I could not get a clear answer from you on that?—I offered to read the Act, and you said no.

17,494. I wanted to know what Case they were liable under.

17,495. *Mr. May:* Do you admit that Co-operative Societies have always enjoyed exemption under Schedules C and D?—Since 1876 I think it is.

17,496. That is my point. What was the position before 1876?—The position before 1876 was that the members were liable on dividends that they received.

17,497. Do you say that that is contained in any Act of Parliament?—I do, in the Industrial and Provident Societies Act.

17,498. Is it not a fact that the early Co-operative Societies were registered under the Friendly Societies Act?—That is so, under certain clauses of the Friendly Societies Act only.

17,499. And that in the earlier Industrial and Provident Societies Acts provision was made that the advantages, or privileges as they were called, that were enjoyed by Friendly Societies should also be enjoyed by Co-operative Societies?—Only as regards the work that they were doing as regards the Industrial and Provident Societies Act.

17,500. I suggest to you that the Acts do not limit it in that way?—Leaving them open to all the benefits of the Friendly Societies Act?

17,501. All that were applicable to their operation, certainly?—Against that we give you the evidence that was laid before the Income Tax Committee by the representatives of the co-operators, by the General Secretary Mr. Gray, and Mr. Broderick, in which they state that they were never Friendly Societies. From the beginning they were trading societies pure and simple, and while there were certain clauses of the Friendly Societies Act used in connection with them until they got their own Act, yet they never were Friendly Societies, but were simply trading concerns from beginning to end.

17,502. I have not suggested that they were Friendly Societies. I say they enjoyed the privileges with regard to taxation and stamp duties and so on which were enjoyed by the Friendly Societies, and that is specifically provided for in all the Acts of Parliament; my point being that they have always been exempted, and not for a limited period as you suggested?—The exemption from certain stamp duties was taken away in one of the Industrial and Provident Societies Acts; however, that is apart from Income Tax.

17,503. I will not pursue that point. Now just a question or two about your organisation. How many members has your organisation?—I respectfully decline to answer.

17,504. *Chairman:* If you come on behalf of an organisation I think you ought to answer that question. Supposing you really did not represent anybody except perhaps two or three people, I think it is the proper thing for you to give us an answer, because we shall have to ask the co-operative people when they come questions of a similar nature. I think it is a fair question to ask you?—I may say regarding that, my clerk has put in the wrong paper here, but you will receive immediately after I get back a completed list of ourselves and the various organisations that we represent here. In that you will get the information that is required. It is only a partial list that you have already.

17,505. *Mr. May:* Do you publish a report?—We do publish reports.

17,506. How often?—Annually. We publish reports generally during the year, but there is always an annual report.

17,507. And that contains a financial statement?—It does not contain a financial statement. The only report is a report of the work done. A financial statement is submitted to the annual general meeting and to all the sectional meetings that are held all over the country in different districts in our different sections.

17,508. Would you be prepared to hand in to the Commission a financial statement for the past year?—I do not know that it is required. I do not think it has anything to do with Income Tax. It certainly has to do with Income Tax, but—

17,509. I am suggesting that it has something to do with how we are to appreciate your evidence?—In what respect?

17,510. I think the Chairman has just indicated that to you?—I shall have something to say about that a little later on.

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17,511. The members of your League are traders, I presume?—You will find it there in the first clause: "composed of wholesale and retail merchants in all trades; also of manufacturers and employers of labour."

17,512. Large traders?—Large and small.

17,513. Have you estimated what contribution they make towards the Revenue in the shape of Income Tax?—No.

17,514. Have you any idea?—I have not. I could not be expected to have an idea of hundreds of men's returns, or thousands, as the case may be.

17,515. But you expect the Co-operative Societies to have it if there are a thousand or more?—The Co-operative Societies publish these returns for their own purposes.

17,516. In paragraph 7 (a) you say that the Income Tax is "nominally a personal tax"; is it not actually a personal tax?—No, we hold to this, that it is nominally a personal tax. Might I say in explanation of our position regarding that, that while of course it is the person that is assessed to the Income Tax, still you must read that in connection with the remainder of the clause.

17,517. Have you not, in reply to Dr. Stamp, already admitted the individual character of the tax when you admit that shareholders in public companies can reclaim if they are not within the assessable limit?—Yes; but might I respectfully say that this has nothing to do with this idea? We say that while nominally a personal tax, it is, so far as our trade and commerce is concerned, a tax on the trade of the country or the resultant produce of trade.

17,518. I suggest to you that that is an entirely inaccurate statement so far as it affects the Income Tax?—That may be, but we do not think so. Might I explain our reason for putting it in so? Supposing A and B are in trade, exactly the same class of trade, and as the resultant produce of A's trade he shows a credit balance of £500. He is assessed on that £500. If B only shows £300, B is assessed on that £300; if they were reversed A would be assessed on £300 and B on the £500. It is the person that is taxed, and he is taxed on what has been the resultant produce of his trade. If the resultant produce of his trade had been that he had made no profit, or made a loss, then he would not have been assessed at all. Therefore we say that while it is nominally a personal tax it is so far as trade and commerce is concerned a tax on the resultant produce of trade. Take a man who has no income except the income from his business; it is exactly the amount of the resultant produce of his trade on which he is assessed. He is assessed as an individual certainly, but it is only an assessment on what has been the actual produce of the trade in which he is engaged.

17,519. Do you think that that is peculiar to trade and commerce?—I am dealing only with trade and commerce.

17,520. Could not your argument be equally well applied to every kind of income in the country?—In what way?

17,521. If I earn my living by writing articles for the newspapers or preparing speeches and delivering them, which you have had some experience of in this matter, and I make my income out of that, is it not the resultant produce of my energy?—The produce of your brain.

17,522. Then it does not alter the character of the tax, surely?—No, but this is solely referring to trade and commerce.

17,523. Let us go to paragraph 11. You say, "They also"—that is Co-operative Societies—"deal with non-members. They are now desirous of minimising this and professing to be very willing to give up dealing with non-members." You have some ground for that statement, I suppose?—I am taking the statements made by the witnesses at the Income Tax Inquiry in 1914, and the statements that have been made repeatedly in conference meetings and by others of the co-operators. The reason why they were doing that, we take it, is because they have minimised this dealing with non-members in the hope of getting a little sympathy in this Income Tax ques-

tion. The statement was made by the co-operators' representative at the last inquiry, that they did not want to trade with non-members, and would be glad to cut it off. Here is a document: "The Wholesale of to-day."

17,524. I only want a simple answer?—Well, I do not require to read it, because I have printed it there; but this is the actual document.

17,525. You may take it that I know that book from beginning to end, and I will undertake to get a copy for all the Commissioners, if you like?—I produce the document there.

17,526. What I want to point out to you is that while you make the statement that they profess to be willing to give up dealing with non-members, a gentleman with whom I think you have had some dealings, and who is coming before the Commission later on in the day, has made exactly the contrary statement, and says that they will not give it up under any circumstances. Which do you think is correct?—Both.

17,527. That they are willing to give it up, and that they will not give it up under any circumstances?—No, pardon me, I did not say that. I am referring to the statements made by the witnesses before the last Income Tax Inquiry.

17,528. In paragraph 14 you say, "the co-operative store movement has reduced, and, should it spread, will still further reduce, the rateable value of shop and other property." How has that been brought about?—In this way. Co-operative stores by the manner in which they serve their customers can do and actually do in one large building possibly what might take 20, 30, 40 or 50 shops. By doing that and having a number of members, I think they in a great many districts have been the means of ruining traders and putting them out of existence, and their shops are vacant. The more shops, of course, that there are vacant, the more is the deteriorative effect on the rents which are paid for the others which may be engaged in trade, because in that case the supply is greater than the demand, and in a number of places all over the country the result of the co-operative movement has been the reduction of the number of shops that have been occupied by traders. I am sure you know that yourself.

17,529. Do you seriously suggest that that is an evil that ought to be cured by the application of Income Tax or any other means?—Well, you must not take that as an isolated sentence, but you must take it in conjunction with the remainder of the paragraph. You stopped at the two lines: "As the co-operative store movement has reduced, and, should it spread, will still further reduce, the rateable value of shop and other property,"—that is merely the initial statement; the clause goes on to say—"thereby increasing rates and throwing a heavier burden of rates on the traders, which again is calculated to reduce the number of Income Tax paying traders, and also the amount of Income Tax payable by those who will still be liable to assessment, they should be assessed to Income Tax to replace what they displace." You must not take the first two lines apart from the remainder of the clause.

17,530. I do not think it matters.—Possibly you do not, but it is certainly an important point in the consideration of the non-assessment to Income Tax of the Co-operative Societies. My lord, now that Mr. May has finished his examination, I have been instructed to read this letter and to hand it in to the Commission: "Co-operative Societies and Income Tax. To the Chairman and Members of the Royal Commission on Income Tax. My lord and gentlemen, my Council earnestly protest against Mr. H. J. May, Parliamentary Secretary to the Co-operative Union, being allowed to take any part in the discussion by the members of this Commission when considering the question of Co-operative Societies."

17,531. Chairman: I do not think it is wise for you to proceed in that matter. I must say this: Mr. May is not here as a co-operator; he is here as a Commissioner and a judge in the questions he asks you, and I do not want to get those personal things coming in. If you have a protest against the action

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of Mr. May on this Commission, that is a different matter, but I do not like to hear of things of that nature coming up. He is a member of this Commission, and a judge in that sense.—Added to the Commission after the Commission was fully appointed.

17,532. Mr. May: No, that is not so.

17,533. Chairman: No.

17,534. Mr. May: I beg your pardon, but it is not a fact.

17,535. Mr. Petyman: I want to ask you one or two questions on the general root of this matter on a different basis altogether. Do you know why Schedule A is charged in full on Co-operative Societies?—I presume in the same way as on other bodies.

17,536. Why is it charged in full? Why do they get back no deduction?—I have paid no attention to that.

17,537. You have not gone into the question of Schedule A at all?—Not in that way.

17,538. Are you aware that where Schedule A and Schedule D are both chargeable, over the whole area of Income Tax they are taken together?—I accept that.

17,539. Then how is it possible to consider Schedule D without considering Schedule A, or to consider Schedule A without considering Schedule D?—May I explain that our idea was this. We are here giving evidence against the non-assessment of Co-operative Societies under Schedules C and D, and, as regards the other Schedules, that is a matter for them and the Inland Revenue authorities to look after, with which we do not want to interfere.

17,540. As over the whole area of Income Tax Schedule D is dependent upon Schedule A, and Schedule A upon Schedule D, do you not think that it would be better to have considered the two together, and that it would have rather strengthened your evidence and brought your case more into the realms of reality?—That might be so, but our intention was to bring this matter as clearly as we could before the Commission, and we thought the Revenue authorities could decide those matters themselves.

17,541. Am I right in saying that there are three methods in which Co-operative Societies' profits might be taxed? The first one would be to tax the whole of the profit at the source; the second one would be to tax the sums annually accumulated to reserve; the third one would be to tax the dividend received by members. Or there might be a combination of 2 and 3. You might apply both methods 2 and 3, or you might apply only method 1, which is to tax all the profits at the source. Which of those three methods do you advocate?—I am not here to advocate any; I could hand you in the various proposals that have been sent to us when we asked for proposals; but I have not any instructions to recommend any of these proposals. As I explained before, not knowing what the basis of the Income Tax was to be in the future, we decided not to submit a scheme, but to assist the Commission or the Chancellor of the Exchequer in the future in every way that we possibly could, once the basis of the Income Tax was decided upon.

17,542. Then I am right in supposing that your case is that Co-operative Societies ought to be taxed as nearly as possible on the same basis as other people, but that you leave it to the Revenue authorities and the Government to consider what that basis ought to be?—That is practically what our position is just now.

17,543. And do you not attempt to lay down whether they should be taxed on all their profits at the source, or on the dividend to the members, or on their reserves; you leave that quite open?—We are making no definite suggestion as to one or the other.

17,544. You leave that entirely to the authorities?—Yes.

17,545. And you have not made any attempt to make any calculation as to the effect of any of those methods of taxation, either financial or administrative, upon the Revenue?—In paragraph 7 (d) you will notice we say: "Had they been assessed to Income Tax (unearned rate) they would for the year 1916 have

been charged about £4,800,000, and for the year 1917 about £5,500,000."

17,546. I asked you if you had made a calculation of the actual effect on the Revenue. That would be the apparent sum which they would pay if the first method I suggested here, of taxation on all profits at the source, were adopted. In calculating the actual effect on the Revenue you would first of all deduct from that amount all the sums which they paid under Schedule A, which would be worked in with Schedule D; and, secondly, you would have to deduct all the sums which would have to be repaid to individual members who were subject either to exemption or to abatement; and, thirdly, you would have to deduct the extra costs of administration. Therefore, unless those calculations had been made the figures would be more or less meaningless. Have you made any such calculations?—We have not, because we are not in possession of the basis figures upon which we could do that, and in making these statements or suggestions we are confident the Inland Revenue are in a position to complete those statements.

17,547. What your paragraph 7 (d) would amount to would be to call the attention of the Commission to the fact that if the whole of the profits were taxed at the source that would be the taxable basis; but you leave it entirely to the evidence of the Revenue authorities, which I presume we shall shortly hear as to what the actual financial effect would be?—They are in a position to state that; we are not.

17,548. So that you do not suggest, I suppose, for a moment that the actual tax obtainable would be anything approaching to the tax on such a figure as you have shown for 1917?—Of course it depends on how it is decided to be done, and on what the actual total amount would be; there are so many different proposals.

17,549. Mr. Birley: Leaving out of question for a moment whether it would be worth while to deduct tax from members of Co-operative Societies because of their small incomes, I want to ask you about the undivided profits. Is it not a fact that a limited company pays the full rate of 6s. in the £ on its undivided profits, and it does this even if no shareholder is liable to Income Tax?—Yes.

17,550. If, therefore, the surplus or profit of the Co-operative Society were liable to tax would it not be worth while taxing the undivided profits?—Certainly; that would always be something towards helping the State.

17,551. If they were put on the same basis as a limited company their undivided profits would be taxed at the full rate, whether the members themselves were liable to tax or not?—That is one thing that could be done. Regarding that, I should like to point out that, premising on the one hand a Co-operative Society, and, on the other hand, a firm of individual traders, and that both lay aside £10,000 for the extension of their business, as the thing stands at the present time, the co-operators have got the whole of that £10,000 to work upon, but the traders have only £7,000 to work upon, because the 6s. in the £ takes away the other £3,000. We think that is a gross injustice to traders; and, to bring it down to a personal matter in one way, the Co-operative Societies a short time ago started getting up a £100,000 special propaganda campaign fund. We got up an opposition fund to that opposition in this way, that we were going to work in our own defence against what they were going to spend that money on. Last year, as you know, in November and December, the general election came on, which prevented us doing our campaign work.

17,552. Chairman: Is this an answer to Mr. Birley's question?—It is in connection with the reserve funds.

17,553. I do not want you to get on to an argument because if you do that there will come other questions upon your statement. I want you to keep, if you can, to the questions put to you; I do not want you to get into a general debate on these points. If

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you will kindly answer the question definitely I think that will be sufficient. I do not want to have further questions addressed to you on the statement which you are now making or we shall never finish.

17,564. Mr. Birley: I thought the answer I received was, if put shortly, "yes."

17,565. Chairman: Mr. Birley was satisfied with that answer, so you will accept that as being sufficient?—There is just this one thing: that there was a balance of that special fund, and that we have been taxed, and the co-operators have not been taxed, on the balance of theirs.

17,566. Professor Pigou: You lay a great deal of stress in your evidence on the statement that though nominally a personal tax the tax is really a tax on trade and commerce. I would like to ask you a little about that. Is it a tax on trade and commerce in proportion to the turnover?—It is not in proportion to the turnover.

17,567. Is it in proportion to the profit?—It is, the whole profit.

17,568. Is it in proportion to the profit?—The tax is paid upon the profit.

17,569. Is it in proportion to the profit?—Not a proportion—on the whole net profit.

17,569. How is the rate that is assessed on profits determined?—According to the amount.

17,561. Only according to the amount of profits?—With whatever deductions, of course, the person may be able to claim.

17,562. It depends on the amount of income of the individuals among whom the profit is shared, does it not?—The rate, yes.

17,563. So it does not depend on the amount of profits exclusively?—No, but the amount of the profits is the basis of the taxation; that is the original sum.

17,564. Supposing the individual has an income from other places besides his company?—Then, of course, that has got to be added on.

17,565. Then the rate does not depend on the amount of profits from your particular company?—Not from one particular source. If a person has income from several sources then, of course, they have all got to be added together, and the total sum then is the one upon which the rate is calculated.

17,566. Then we have it that the rate of tax does not depend on the turnover, and does not depend really on the amount of the profit, but on the income of the individuals among whom it is shared?—If he has an income apart from his business.

17,567. In these circumstances it is not rather straining things to speak of Income Tax as a tax upon trade and commerce?—I do not think so, because whatever resulting profit he has from his trade is calculated in his Income Tax, and so far as Income Tax is concerned that tax is a tax upon his trade.

17,568. I gather you adhere to that. There is a point in paragraph 7 (d). You say: "This profit is an unearned increment. It is got apart from the member's daily employment." Do you distinguish there between the profit or surplus of a Co-operative Society and the income from shares of a shareholder in a company?—That is dealing entirely with co-operators. We are referring solely and entirely to Co-operative Societies.

17,569. But is the income which I get from holding shares in an ordinary company unearned increment?—That is so.

17,570. So the position of the income that the co-operative shareholder gets is exactly the same as the position of an income that I get from an ordinary company?—Not exactly. An ordinary company may be carrying on the general business of the nation, and it requires capital to carry that on, and every shareholder provided the capital to enable that company to be carried on and to give employment to people in the general trade of the country.

17,571. They are both unearned increments. I wanted to know the sense in which you use that term?—That is what I was saying regarding the shareholder of a limited liability company carrying on the general trade of the country. The other matter, the co-operative dividend that is got, is got by interfering with the taxpaying trade of the

country. It is an unearned income, and is gained entirely apart from his daily employment.

17,572. Then if one firm is assessed and another firm by doing business more effectively, turns that other firm out of business, would the same objection hold?—No.

17,573. That also is interfering with the trade of the country?—No, it is not interfering; that is still carrying on the trade of the country.

17,574. And do not co-operators carry on the trade of the country?—They carry it on to the exclusion of payment to the State for what they ought to pay for the maintenance of the State.

17,575. I rather think this point is put in paragraph 18, is it not, that these societies, if they extended, would displace more of the Income Tax paying trade of the country. That is the point, is it not?—Yes.

17,576. But do you suggest that if the Co-operative Societies extend, these persons who are now engaged in retail trade would earn nothing?—Regarding that, the statement by the co-operators is that if they gained their end, that is, the extermination of the traders and the institution of universal co-operation, all the parties at present engaged in trade would be engaged by the Co-operative Societies. There is no statement more fallacious than that; because supposing it were the case—take the Co-operative Societies at the present time; they do not employ 4 per cent. of their members in their wholesale, retail, and productive business; and to say that they would be able to give them all employment in the stores is a statement that cannot be proved to the satisfaction of any person who has acquaintance with the matter. Therefore, if the co-operative movement displaces traders in that way, they are throwing them out in the street and offering them nothing in exchange for the business they have taken away; and they are leaving them to the mercy of the cold world.

17,577. But if you take the thing from a rather longer point of view, surely if one kind of retail trading supplants another, these other people will presumably train their children to other sorts of work?—Pardon me, I did not hear your question.

17,578. Is not your objection really analogous to the objection which the people who owned coaches made to the introduction of railways? Is it not really exactly the same thing?—No. There is an enormous difference between them. By introducing railways they increased the trade of the country; they introduced new industries into the country, thereby giving an enormous amount of employment to a very considerable number of people. But the co-operative movement is reducing employment, which is the very opposite of what was done in the case of the railways superseding the coaches—the very opposite entirely.

17,579. Then is your argument that Co-operative Societies do the same amount of work with a less employment of labour and capital?—They do.

17,580. Is not that an argument strongly in their favour?—No, because now you are coming to the question of prices and quality of goods. The fact is that although Co-operative Societies do their work with far fewer employees than individual traders would engage—traders who pay more in rates and wages, and employ more employees, can beat every co-operative store hollow in price and quality of the goods in which they are dealing.

17,581. I have only one more question. You have suggested that the co-operative stores, in order to escape Income Tax, might reduce their prices and so get rid of the difficulty?—Not get rid of it, but reduce it.

17,582. It is exactly the same, from the point of view of the members of the Co-operative Societies, whether they buy their things cheaper or pay more for them and get the dividend back?—Am I right in taking it that you mean that if they drop the dividend altogether and sell at cost price, plus the cost of distribution, there would be nothing to tax?

17,583. I am suggesting to you that it is in their power to do that?—Yes, it is in their power to do that.

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17,584. And if they did that, is it not the case that there will then be no profits to tax?—There will be no profit to tax; but we come back to our bedrock principle, and that is that they are doing 250 millions of the trade of the country, which costs the country a great deal for its protection and maintenance, and that if there is no profit then it comes to that portion in our evidence where we say that their object is to exterminate the traders, and that if they gain that and the Chancellor of the Exchequer would then be compelled to tax them in some way or another to maintain the expenses of the State; and we say why should the Chancellor of the Exchequer not begin now with the £250,000,000?

17,585. What I want to get at is this. You say it is open to these co-operators, if they choose, to get round the tax by destroying their profits and giving what you call the profits in cheaper prices. My question is, if that is so, what would you gain by your course?—There is one thing we would gain, and that is apart entirely from this inquiry. One thing we would gain would be that within nine or twelve months thereafter there would be no Co-operative Societies.

17,586. I will not ask you how that follows.—Because it is the dividend that keeps them together, and the dividend alone.

17,587. That is clearly a matter of opinion, but would you prohibit them from doing this?—You cannot.

17,588. You would not?—You cannot prohibit them.

17,589. So that except by their demise to which you look forward as the result, you would really get no remedy for your policy?—No, but I think the Chancellor of the Exchequer would then find some other means of getting at them to make them pay for what they were getting and what they were costing the country.

17,590. Dr. Stamp: But on your supposition they would be dead.

17,591. Mr. Ainslie-Smith: Supposing that every totalist organisation combined with the manufacturers of totalist drinks to extinguish the drinking of wine in this country—as you are aware a large revenue is now derived by the State from the duty on wine—would you transfer the whole of the burden of taxation on alcoholic liquors to the soda-water manufacturers, &c.?—Well, that is rather a puzzling question. It would make it that the soda-water manufacturers, I think, would very soon have to go out of business. My answer to that would be that I think in the event of such an extraordinary occurrence happening, the Chancellor of the Exchequer would find out more than one way of getting his revenue and would not look to the soda-water manufacturers entirely.

17,592. He would lose so many millions and he would look round to see how to raise them. But in the case of the Co-operative Societies, in paragraphs 13, 14 and 15, you say explicitly that those societies are to be made to bear the whole burden of taxation which is lost by the extinction of their competitors. How do you reconcile your proposals in paragraphs 13, 14 and 15 with your former answer?—The statement that we make in these paragraphs is that they ought to replace what they displace.

17,593. But soda-water is not to replace wine. Your principle in paragraphs 13, 14 and 15 is incapable of generalization. Is that it?—No, not exactly. If you are taking it in a general way, by destroying the businesses of certain traders who have been carrying on a legitimate system of trade, they have destroyed that and taken it over without the imperial burdens that were imposed upon those traders; and we say that doing that to their own benefit, or to their own imaginary benefit, whichever way you like to put it, they ought to take upon their shoulders, or have forced upon their shoulders, the burdens that had been borne by the parties whose business they have destroyed, and the benefit of whose business they are now having.

17,594. That is your solution with the Co-operative Societies, but when the same principle is put to you with regard to any other business that displaces any

other business you refuse to apply it?—We do not say that. The value of the soda-water trade compared with the value of the liquor trade is like a drop compared with the whole of the rest of a bucketful, and to impose the whole bucketful of taxation upon a drop, of course means absolute extinction at once. Of course it may be my denseness, but I hardly think the two cases are analogous.

17,595. Do you realise that the principle applied in paragraphs 13, 14 and 15 of a Super-tax, or rather a penal tax, on Co-operative Societies is entirely inconsistent with your answers to Dr. Stamp?—We are not asking for any Super-tax.

17,596. You are asking for a special tax on Co-operative Societies to make up the loss of revenue?—No. In the first place we are asking them to replace what they displace, and then referring to the statement that the co-operators have made, that their object is the extermination of the traders and having universal Co-operative Societies, we point out that if that were done, the Chancellor of the Exchequer would then have to tax them in some way or other to maintain the revenue of the country; and then we go on to ask why could not the Chancellor of the Exchequer do that now?

17,597. What I asked you was whether you realise that the principle implied in paragraphs 13, 14 and 15 is inconsistent with the whole of your answers to Dr. Stamp, who elicited from you that you did not want to treat Co-operative Societies in a different way from limited companies?—Pardon me; I do not think one clashes with the other at all.

17,598. Mr. Symcott: May I suggest to you that I could put your argument in a way which would be perhaps more politic and more logical. Would you kindly drop the phrase "legitimate trade," or "illegitimate trade," and "ordinary traders." Is not your argument this: that both private persons and private companies are trading, and you want them to be put on the same basis? Now will you assume for the moment that a Co-operative Society is a legitimate form of trading?—It is quite legal.

17,599. All you want is that they should be taxed on the same basis. Is not that all you want?—In the meantime.

17,600. Do you want something more than that?—In the meantime, and we will see how that works out.

17,601. Now is not the bottom of the whole thing, whether the Co-operative Societies make a profit in the ordinary sense of the word and in the sense of the Income Tax Acts? Is not that the real point?—That is a question that has given rise to a good deal of discussion.

17,602. I observe that in the report of the 1905 Committee, which was adopted, I think, in some paper issued from the Inland Revenue, they say this, speaking of what they call Co-operative Societies: "This dividend is clearly not profit but merely a return to members of sums which they have paid for their own goods in excess of the cost price." Is that correct?—Even supposing that were correct, they are in the position of being shopkeepers, and as shopkeepers they are then receiving profit on their trade.

17,603. But is there not a better answer? Is it correct to say that the members have paid for those goods at all? It is not the members at all; it is the society, which is an entity absolutely distinct from the members, is it not?—The society is the members; or rather I am wrong; I will put it that the members are the society; they are the shareholders.

17,604. But it is an absolutely different legal entity altogether. The society is not the members at all?—The members form the society.

17,605. The members do not pay for the goods?—It is the members' money that pays for them.*

* The witness wishes to add this footnote:—

He regrets having misunderstood the questions put to him by Mr. Symcott referring to buying and paying for the goods. He unfortunately, at the time, took it that the questions were asked regarding the purchases retail by the members; but he now sees that the questions referred to the goods produced for the Society. Had it not been for this misunderstanding, his answer would have been that the goods certainly were purchased by and paid for by the Society.

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17,606. I want to help you, and you will not let me. If it is to be a question of profit, is your point this: that the profit, whether it is a return by reduction of price or not, comes within this sort of definition of profit, that it is an excess of receipts over expenditure? It is that, is it not?—It is that.

17,607. And your point is that that is so, whether a member buys or not. I was suggesting it was not the member who buys at all or the group of members, but something different, namely, the society. Now about the other point; it is really important to us. Do you happen to know to what extent the membership of these societies is composed of persons in excess of the Income Tax limit? Do you say there is no registration of members of these Industrial and

Provident Societies as there is of companies?—You refer to the registration of the name and business and address of the members. They have that, but they keep it to themselves.

17,608. Cannot you get it?—No.

17,609. Is it not public property?—No, and even the Registrar General does not get it, because in the return that the Registrar General gets from them, instead of "John Robinson" and "Peter Dixon" it is "No. 5" and "No. 6."

17,610. You cannot get at the names and addresses as you can get at the names and addresses of limited liability companies?—You cannot.

17,611. Chairmen: Thank you, Mr. Walker.

MR. JOHN MONTGOMERIE, on behalf of the Imperial Commercial Association, the National Association of Master Bakers, &c., &c., called and examined.

The witness handed in, as his evidence-in-chief, a paper, certain paragraphs of which are printed below. The remaining paragraphs are printed in Appendix No. 28.

17,612. The Imperial Commercial Association is composed of members representing traders, manufacturers, shipowners, affiliated Associations and other industries in this country and the Colonies. I am a member of this Association and have been asked to give evidence on its behalf regarding the question of the exemption of Co-operative Societies registered under the Industrial and Provident Societies Act, 1893, from payment of Income Tax under Schedules C and D. I am a member of the National Association of Master Bakers, the Irish Association of Master Bakers, and the Scottish Association of Master Bakers, and represent them as well as the Associations enumerated in the list attached.

The evidence to be submitted is divided into three parts, viz.:—

- (1) to show that societies are ordinary traders, and are not entitled to exemption from payment of Income Tax under Schedules C and D;
- (2) to show that societies make ordinary trading profits, and to show the methods adopted to obscure the fact by the substitution of "surplus" for "profits" in their balance sheets and rules; and correspondence with the Board of Inland Revenue on this question;
- (3) to show that societies have rendered themselves liable to payment of Income Tax under Schedules C and D by limiting their shares and selling to non-members.

In addition there is appended for reference purposes:—

- (4) A Supplementary Appendix* containing: correspondence between the Rt. Hon. R. McKenna and myself on the question whether societies make profits; excerpts from Parliamentary Debates in connection with the taxation of Co-operative Societies; a historical sketch of the enactments relating to societies registered under the Industrial and Provident Societies Acts since 1862; and excerpts from the rules of various societies.

PART I.

To show that societies trading under the Industrial and Provident Societies Act, 1893-1913, are ordinary traders and are not entitled to exemption from payment of Income Tax under Schedules C and D.

17,613. (1) In preparing my evidence I have gone very carefully into this question with a view to ascertaining whether Industrial and Provident Societies registered under the Industrial and Provident Societies Act, 1893-1913, are entitled to exemption from payment of Income Tax under Schedules C and D, and more especially to the exemption granted to societies in terms of section 24 of the Industrial and Provident Societies Act, and section 39, subsection 4, of the Inland Revenue Act, 1913.

17,614. (2) I submit that societies registered under

* Not reproduced.

the Industrial and Provident Societies Act, by their constitution, their registered rules, and their methods of trading, are not entitled to, and should not have been granted exemption from payment of Income Tax under Schedules C and D of the Income Tax Act.

17,615. (3) In the first place I shall refer to the constitution of societies to show that, as constituted, they are trading in every respect similar to companies registered under the Companies Act, as will be seen from section 21 of the Industrial and Provident Societies Act, 1893, which reads as follows:—

The registration of a society shall render it a body corporate by the name described in the acknowledgment of registry, by which it may sue and be sued, with perpetual succession and a common seal, and with limited liability, and shall vest in the society all property for the time being vested in any person in trust for the society; . .

17,616. (4) It will be observed that under section 21 the registration of a society renders it a body corporate with perpetual succession and a common seal, and with limited liability.

17,617. (5) I direct the attention of the Commission to the similarity between the constitution of societies and the constitution of companies registered under the Companies Act. The following is an excerpt from the Companies Consolidation Act, 1908, section 16, subsection 2:—

From the date of incorporation mentioned in the certificate of incorporation, the subscribers of the memorandum together with such other persons as may from time to time become members of the company, shall be a body corporate by the name contained in the memorandum, capable forthwith of exercising all the functions of an incorporated company, and having perpetual succession and a common seal, with power to hold lands.

17,618. (6) The objects for which a society may be formed are stated in section 4 of the Industrial and Provident Societies Act, 1893, viz.:—

A society which may be registered under this Act (herein called an Industrial and Provident Society) is a society for carrying on any industries, businesses or trades specified in or authorised by its rules, whether wholesale or retail, and including dealings of any description with land. Provided that (a) no member other than a registered society shall have or claim any interest in the shares of the society exceeding Two hundred pounds. . . .

17,619. (7) It is important at this stage that I should explain my views regarding what seems to be the only difference between a society registered under the Industrial and Provident Societies Act and a company registered under the Companies Act, viz., that the members of a society (according to section 4) shall have no claim or interest in the shares of a society exceeding two hundred pounds. It will be observed that the member's holding is restricted to a limit of two hundred pounds, but there is no limit to the amount the society can borrow on loan.

17,620. (8) As evidence of the above, I quote from section 55 of the Industrial and Provident Societies Act, 1893, relating to the conversion of a company registered under the Companies Act into a society

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registered under the Industrial and Provident Societies Act, which is to the following effect:—

- (1) A company registered under the Companies Act may by a special resolution, determine to convert itself into a registered society, and for this purpose, in any case where the nominal value of its shares held by any member other than a registered society exceed Two hundred pounds, may, by such resolution, provide for the conversion of the excess of such share capital over Two hundred pounds into a transferable loan stock bearing such rate of interest as may be thereby fixed, and repayable on such conditions only as are in such resolution determined.
- (2) A resolution for the conversion of a company into a registered society shall be accompanied by a copy of the rules of the society therein referred to, and shall appoint seven persons, members of the company, who, together with the secretary, shall sign the rules, and who may either be authorised to accept any alteration made by the registrar therein, without further consulting the company, or may be required to lay all such alterations before the company in general meeting for acceptance as the resolution may direct.

17,621. (9) From the foregoing it will be seen that provision has been made in the Industrial and Provident Societies Act to enable a company registered under the Companies Act to convert into a society by a simple resolution. All that is necessary is to limit the amount a former shareholder held to two hundred pounds and convert the balance of the holding into a transferable loan stock bearing such rate of interest as may be fixed.

17,622. (10) The same privilege of conversion from a society registered under the Industrial and Provident Societies Act into a company registered under the Companies Act, is given in section 64 of the Industrial and Provident Societies Act, 1893, viz.:—

A registered society may by special resolution determine to convert itself into a company under the Companies Act, or to amalgamate with or transfer its engagements to any such company.

17,623. (11) Before going further I should like to express my views on what is required to place societies on an equitable basis with companies registered under the Companies Act, and with all private traders. It would appear from the foregoing that the only difference which stands in the way of a proper adjustment in the question of the restriction of the shares held by members of societies to two hundred pounds, and the question of societies being unrestricted as to the amount of capital they can borrow from members or others, I submit that a simple remedy would be to repeal the limiting of the share capital the individual members of a society are allowed to hold, to limit the share capital the society is allowed to issue, to issue any loan capital in the form of debentures, and to place a restriction on the amount societies should be allowed to borrow in comparison to its share capital.

17,624. (12) I submit that along with the foregoing, section 24 of the Industrial and Provident Societies Act, 1893, should be repealed, and Income Tax under Schedules C and D collected from the society at the source. By this means societies, private traders, and companies trading under the Companies Act would be placed on an equal basis of taxation, and it would result in a valuable addition to the funds of State.

17,625. (13) I submit evidence from the registered rules of societies, to prove that they are trading as ordinary traders and have no right or title to claim exemption under Schedules C and D of the Income Tax Act. I respectfully direct your attention to the following excerpts from rules of various Societies, which show the object for which they were established.

(14) [See Appendix No. 28, par. 1.]

(15) [See Appendix No. 28, par. 2.]

(16) [See Appendix No. 28, par. 3.]

17,626. (17) It will be observed that from the establishment of the branch wholesale society till the for-

mation of the retail society, they have not one single member dealing with them. They trade entirely with the outside public.

17,627. (18) The injustice of this mode of conducting business is obvious. They have power under their rules to use their accumulated wealth in order to attack private and public traders in any district where they choose to establish a branch. The income derived from these private and public traders in the form of Income Tax may amount to several thousands of pounds per annum, and when they are ousted out of business this income is lost to the State. Not only so, but the Treasury loses the Income Tax on the profit made by the private wholesale traders who supplied the retailers.

17,628. (19) It is therefore not only the Income Tax on the retail profit which is lost to the State, but the Income Tax on the wholesale profit also.

17,629. (20) Societies carrying on business under such rules can decide at any time to drive the public or private traders out of a district. The wholesale society can afford to make a loss for several years, and they are further subsidised by freedom from payment of Income Tax. If this rule means anything, it means that the Government is assisting them to capture businesses which public and private traders have legitimately built up. It is not a question of members of the public forming themselves into a society or asking to be supplied with goods by the wholesale society. The question of becoming members of a society only arises when the wholesale branch has secured in a district a sufficient number of customers who formerly dealt with other traders. On the face of such rules, can it be contended that such societies are not ordinary traders?

17,630. (21) *The Plymouth Co-operative Society, Ltd.*—Rule 4.—Objects:—The objects of this society are to carry on the trades or businesses of general dealers, manufacturers, builders, and insurers of property against risks of every description and shall also include dealings of every description with land. The society shall have full powers to do all things necessary or expedient for the accomplishment of all objects specified in its rules.

17,631. (22) *The York Equitable Industrial Society, Ltd.*—Rule 3.—Objects:—The objects of the society are to carry on the trades of general dealers, both wholesale and retail, also of farmers and builders, and of manufacturers of any article dealt in by the society.

17,632. (23) The foregoing specimens of the rules and the objects and methods of trading establish the fact that these societies are ordinary traders and carry on business as general dealers, both wholesale and retail.

(24) [See Appendix No. 28, par. 4.]

(25) [See Appendix No. 28, par. 5.]

(26) [See Appendix No. 28, par. 6.]

(27) [See Appendix No. 28, par. 7.]

(28) [See Appendix No. 28, par. 8.]

(29) [See Appendix No. 28, par. 9.]

(30) [See Appendix No. 28, par. 10.]

17,633. (31) In his Inaugural Address to the 50th Annual Co-operative Congress (page 87 of the Report), Mr. T. Killon, President, said:—

Taxation of workers' savings from mutual trading would be one of the most pernicious acts of legislation ever enacted against the desires of the working classes to improve their economic conditions. We are a law-abiding body of citizens, and being wage-earners we have to meet our taxation responsibilities to the State if our incomes come within the present claims of the Chancellor of the Exchequer, whilst we have no means of evading the full demand of Income Tax, as is the case with many profit-makers.

17,634. (32) This statement is not in keeping with the claims made in co-operative advertisements regarding the class of persons who are members of societies, and the invitation held out to everyone to join so that they will be in the best of company; but the fact which I wish to emphasise is this—that there is no law in existence relating to "mutual traders." The words "mutual traders," "co-

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operative," or "co-operator" are never once mentioned from the beginning to the end of the Industrial and Provident Societies Act, and the fact that Co-operative Societies have the power to convert into limited companies by a simple resolution just as companies have power to convert into societies, proves the absurdity of the statements regarding "mutual traders" made by co-operators.

(33) [See Appendix No. 28, par. 11.]

17,635. (34) Dealing with the question of reserve funds the Central Board reported to the 30th Annual Co-operative Congress in 1918 (page 239) as follows:—

The Committee further suggest that reserve funds should be increased. They suggest that the minimum of the reserve fund of a society should be 20 per cent. of the share and loan capital; and not only should the reserve fund be increased by yearly allocations, but interest on the amount of the reserve fund should be added to such funds. Reserve funds are established, primarily, to provide a surplus of assets over liabilities to meet unexpected calls or realisations; but they are also collectively-owned capital; and the bigger the reserve funds the less need there is for securing capital from members and others. If societies increased their reserve funds sufficiently, they would be able to work with a smaller proportion of borrowed capital, and by thus saving interest charges reduce their working expenses and their prices. This would enable societies to develop their business considerably and meet competition more effectively. For this reason also, we therefore recommend an increase of reserve funds.

17,636. (35) It is an injustice to ordinary traders that Co-operative Societies have for years been escaping taxation on all sums carried to reserve funds of various kinds. Most societies explicitly state in their rules that their members shall have no right or interest in these funds. It is unfair to allow these reserve funds to accumulate to their present vast figures without payment of one penny of Income Tax—funds which can largely be used for the avowed purpose of eliminating private enterprise.

17,637. (36) The following is an excerpt from a pamphlet issued by the Co-operative Union, Limited, relating to the scheme for Co-operative Parliamentary representation:—

Policy.

- (1) To safeguard effectually the interest of voluntary co-operation and to resist any legislative or administrative inequality which would hamper its progress.
- (2) That eventually the processes of production, distribution, and exchange (including the land) shall be organised on co-operative lines in the interests of the whole community.

17,638. (37) It will be seen that co-operators are not even antithetical with being ordinary traders, but that they aim at controlling all processes of production, distribution, and exchange, and the question therefore becomes—where is Income Tax to be derived from, for the support of the State, should they achieve the object they have in view?

PART II.

To show that societies trading under the Industrial and Provident Societies Act, 1893-1913, make ordinary trading profits, which ought to be made liable to Income Tax; and to show the methods adopted by societies to obscure the fact by substituting the word "surplus" for "profits" in their balance sheets and rules; and correspondence with the Board of Inland Revenue on this question.

17,639. (38) The following excerpt from the Scottish Co-operator of 22nd September, 1916, will show the methods used to foster the idea that Co-operative Societies do not make profits despite the fact that the Act stipulates that they shall provide in their rules "A mode for the application of profits":—

The half-yearly meeting of the United Co-operative Baking Society, Ltd., was held in the Saint Mungo Hall, Glasgow, on Saturday, Mr. D. H. Gerrard, J.P., presiding. . . . After the auditors had reported the balance sheet all in order, the Chairman pointed out that the Board had dropped the word "profit" and inserted the word "surplus" right through on this occasion.

17,640. (39) It is important to quote the terms of section 65 of the Industrial and Provident Societies Act, 1893, to understand the provisions of the Act relating to the *assurance* or omission from the balance sheet of a society or the falsification of any documents for the purpose of evading any of the provisions of the Act:—

If any person wilfully makes, orders, or allows to be made any entry or erasure in, or omission from, any balance sheet of a registered society, or any contribution or collecting book, or any return or document required to be sent, produced or delivered for the purposes of this Act, with intent to falsify the same, or to evade any of the provisions of this Act, he shall be liable to a fine not exceeding Fifty Pounds.

17,641. (40) I produce the balance sheet* of this society for the half-year ended 26th January, 1913, which shows that the word "profits" is used. I also produce the balance sheet* of the same society for the half-year ended 28th July, 1917, from which you will see that the word "profits" is not used, but that it is substituted by the word "surplus."

17,642. (41) I also produce the balance sheet* of the Kinning Park Co-operative Society, Ltd., Glasgow, for the half-year ended 1st December, 1913, which shows that the word "profit," or "profits," is used. I also produce the balance sheet* of the same society for the half-year ended 4th June, 1919, showing that the word "surplus" has been substituted for the word "profits."

17,643. (42) That Co-operative Societies realize their untenable position with regard to their liability to Income Tax is proved by their recent anxiety to drop the word "profit" from their rules and balance sheets and substitute such words as "surplus."

(43) [See Appendix No. 28, par. 12.]

(44) [See Appendix No. 28, par. 13.]

(45) [See Appendix No. 28, par. 14.]

17,644. (46) It is necessary at this point to call the attention of the Commissioners to the provisions of the Act of 1893 in regard to the word "profits." I have already quoted the section regarding penalties for erasure from or falsification of balance sheets or documents which societies are bound to provide, and I will now quote from the Act, section 10:—

- (1) The Rules of a Society registered under this Act shall contain provisions in respect of the several matters mentioned in the second schedule to this Act.
- (2) The Rules of every Society registered under this Act shall provide for the profits being appropriated in any purpose stated therein or determined in such manner as the rules direct.

Schedule II.

Matters to be provided for by the Rules of Societies registered under this Act:—

(10) Mode of Application of Profits.

17,645. (47) It will be seen from the foregoing that according to the Act of 1893, Industrial and Provident Societies do make profits no matter what means they may take to explain that it is not profit they make, but surplus. The very fact that after trading under the Industrial and Provident Societies Act for twenty years, and only when the question of Income Tax has become acute, they take steps to substitute the word "surplus" for "profits," should prove clearly that societies realize themselves that they are doing something to evade the provisions of the Indus-

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trial and Provident Societies Act, 1893, with a view to exempting taxation.

17,646. (48) I shall now quote from the rules to show that the unaltered rules of societies contain "A mode for the application of profits" in terms of the Act.

(49) [See Appendix No. 28, par. 15.]

(50) [See Appendix No. 28, par. 16.]

(51) [See Appendix No. 28, par. 17.]

(52) [See Appendix No. 28, par. 18.]

(53) [See Appendix No. 28, par. 19.]

(54) [See Appendix No. 28, par. 20.]

(55) [See Appendix No. 28, par. 21.]

(56) [See Appendix No. 28, par. 22.]

(57) [See Appendix No. 28, par. 23.]

(58) [See Appendix No. 28, par. 24.]

(59) [See Appendix No. 28, par. 25.]

17,647. (60) I submit that in dealing with this question, it is necessary to keep in view the use of the word "surplus" for "profits" as the word "surpluses" might be used to nullify any alteration made in section 24 of the Industrial and Provident Societies Act, 1893. It is apparent to anyone that the object in view in substituting the word "surplus" is to defeat any legislation bringing societies within the scope of Schedules C and D of the Income Tax Act, and to endeavour to have Income Tax paid only on the interest on the so-called share capital.

17,648. (61) Further evidence on this question is to be found in the following correspondence with the Board of Inland Revenue.

(62) [See Appendix No. 28, par. 26.]

(63) [See Appendix No. 28, par. 27.]

(64) [See Appendix No. 28, par. 28.]

(65) [See Appendix No. 28, par. 29.]

17,649. (66) The instructions issued to taxpayers by the Board of Inland Revenue not to include dividends received from Co-operative Societies when making Income Tax returns is, in my view, illegal, and outwith the powers of the Board. In this connection, I submit that if it is decided to withdraw the present exemption granted to Co-operative Societies, the Commission should keep in view the possibility of their decision being nullified by the Board of Inland Revenue.

17,650. (67) In connection with the registration of new rules containing the substitution of the word "surplus" for "profits" my firm wrote to the Chief Registrar and the Assistant Registrar of Industrial and Provident Societies on 22nd May, 1919, as follows.

(68) [See Appendix No. 28, par. 30.]

17,651. (69) I also refer to correspondence* which took place between the Rt. Hon. R. McKenna, Ex-Chancellor of the Exchequer, and myself, regarding the question of profits made by Co-operative Societies.

17,652. (70) At this stage I would like to draw attention to the fact that Mr. Pollock, M.P., speaking in the House of Commons on 21st June, 1915, in reference to this Act (the Industrial and Provident Societies Act, 1893), made the following statement:—

In the year 1893, however, another Act was passed, and I have taken the trouble to see how that Act came to be passed. It is rather a curious story, and may have some relation to the system of those days. The Act was never discussed at all in this House. The immunity thus given under Section 24 never received even a passing observation from any member in this House. The whole matter was dealt with by a small Select Committee.

17,653. (71) I also refer to excerpts* taken from the Parliamentary Debates in the House of Commons, which show that co-operators were obtaining concessions which they had no right to get.

17,654. (72) An illustration of the effect of the exemption from payment of Income Tax can be furnished from the published accounts of the St. Catharine's Co-operative Association, Limited, Edinburgh, whose profits, as per the balance sheet produced, amount to over £400,000 per annum. According to the instructions issued by the Inland Revenue authorities, members of Co-operative Societies, irrespective of their income, are not to make a return of the dividends received from such societies. It there-

fore follows that this huge profit, amounting to over £400,000 per annum, does not contribute one penny to the State in the form of Income Tax under Schedules C and D.

PART III.

To show that societies have rendered themselves liable to payment of Income Tax under Schedules C and D by reason of their limiting their shares by their rules and practice, and selling to non-members.

17,655. (73) In the first place I beg to draw the attention of the Commissioners to the following correspondence between myself and the Chief Registrar of Industrial and Provident Societies which speaks for itself, and contains my views on this question.

(74) [See Appendix No. 28, par. 31.]

(75) [See Appendix No. 28, par. 32.]

(76) [See Appendix No. 28, par. 33.]

(77) [See Appendix No. 28, par. 34.]

17,656. (78) The evidence submitted will go to prove that the methods described in their rules for paying out and extinguishing shares, together with their supplying non-members, bring societies within the terms of section 24 of the Industrial and Provident Societies Act, 1893, and render them liable to payment of Income Tax under Schedules C and D.

17,657. (79) The paying out of the shares of members is a limitation of the shares of the society, and this, coupled with the fact that they sell to non-members, renders these societies liable to payment of Income Tax under Schedules C and D.

17,658. (80) In dealing with this question I should like to submit specimen rules to show how members are admitted to membership, and how the share capital is limited by the repayment and reduction of shares, and that societies sell to non-members.

(81) [See Appendix No. 28, par. 35.]

(82) [See Appendix No. 28, par. 36.]

(83) [See Appendix No. 28, par. 37.]

17,659. (84) It will be seen that this practice of limiting the shares of societies by paying out and extinguishing shares, is general.

Suggestions for the taxation of societies trading under the Industrial and Provident Societies Act, 1893-1913.

17,660. (85) By carefully studying the Industrial and Provident Societies Act, and from the fact that under section 56 of the Act of 1893, a company registered under the Companies Act can convert itself into a society by a simple resolution (all that is necessary being to register rules and limit the shares to £200 per member), it will be seen that the only difference between a society registered under the Industrial and Provident Societies Act and a limited company is the restriction of the so-called share capital to £200 per member, whilst there is no limit to the amount of capital a society can borrow. For example, supposing a shareholder in a company which was converting into a society held £1,000 in shares, £200 of the share capital would be registered as shares in the society and the balance of £800 would be converted into a transferable loan stock, repayable on the conditions laid down in the registered rules. *Vice versa*, according to section 54, a society can convert into a company under the Companies Act by a simple resolution.

17,661. (86) It would therefore appear that the simplest and most businesslike method would be to repeal subsection (a) of section 4 of the Industrial and Provident Societies Act, 1893, restricting the share capital to £200 per member; limit the share capital issued by the society and the amount of loan capital in relation to the share capital; make provision for the proper allotment and registration of shares and for the payment of shares in cash when allotted; and prohibit the compulsory paying out of members and the extinguishing of shares. It will also be necessary to repeal the second part of section 4 of the Industrial and Provident Societies Act, 1913 (beginning at the word "provided"), which gives societies power to designate their members by numbers when making returns to the registrar, and provide a new clause compelling societies to record

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in their share registers and returns to the registrar, the names, addresses and occupations of the members. It will then be necessary to repeal section 24 of the Industrial and Provident Societies Act, 1893, and section 39 (4) of the Income Tax Act, 1918 (which is similar to section 24 of the Industrial and Provident Societies Act, 1893).

17,662. (87) It is laid down by the Act of 1893 that every society registered under that Act shall provide in their rules "a mode for the application of profits," and the law relating to societies as it at present stands shows that they do make profits. That being the case, and the sections granting exemption from Income Tax under Schedules C and D repealed, all societies would fall to be taxed on their profits at the source; which would include all sums carried to reserve funds of whatever nature, etc. Alternatively, if there is any difficulty in collecting the tax on the whole profits at the source, then the profits retained in the society, including reserves, etc., could be taxed at the source, and all the individual members whose income brings them above the exemption limit could be compelled to include their dividends in the returns which they require to make for Income Tax purposes. This would overcome the difficulty of collection raised by the Inland Revenue authorities from time to time, and place societies on the same conditions in this respect as those under which they traded for ten years, in terms of the Act of 1887, which was repealed by the Act of 1876. This would place societies, companies and private traders on an equal footing. With regard to the restriction of share capital to £200 per member, the Report of the Co-operative Conference at Liverpool shows that the necessity for removing this restriction was discussed. There can, therefore, be no just reason for differentiating between Co-operative Societies and companies and other traders in the matter of taxation. The adoption of suggestions on the above lines would meet the case in a manner which could only be looked upon as fair and just.

[This concludes the evidence-in-chief.]

17,663. Chairman: You have put a very elaborate document before us. The main points in your paper have been dealt with already this morning by the previous witnesses. The Commissioners will wish to ask you some questions upon your paper, but your attendance will not, I think, be required for very long, because you have given, as I say, a most voluminous paper, which is in the hands of the Commission. I may tell you that if you had been the first witness, your examination would probably have been very much longer, but the examination of the previous witness has been very lengthy, and the points in your paper, which are of a similar nature, you will not be examined upon?—Would it not be advisable that I should give you a short summary? I have prepared a very short summary.

17,664. Can you hand it in?—I could go over it, if you wish.

17,665. I think it would be better for you to be examined on your paper, and then to hand in the summary. That will be of great value to us to add to our papers?—I might explain that I have dealt entirely with the laws and rules connected with the societies, and it is very difficult to answer questions on these facts. I have dealt with facts, and it is quite different from giving a general opinion. I could quite well see how the essence of my evidence would be lost in that way; because the opinions given, in my view, do not bring out the evidence as it should be brought out. I have a very short summary, and, in fact, 20 minutes or so would cover it.

17,666. Then there would be no time for examination on that. We are adjourning at half-past one, and other witnesses are coming at half-past two. I should think the better plan, if you would allow me to advise you, would be to let us have this summary, and have it printed, and we will circulate it to the Commissioners?—Very well; I will be agreeable to that.

17,667. Or I might make this arrangement with you, if you prefer, to let you read your summary and close at half-past one, whether you are examined or not. If you prefer to do that, I am agreeable.

But I think that will take a long time?—A very short time would do it. May I read this at the finish?

17,668. Will you prefer to read that and have no examination—which you cannot have with the time now at our disposal?—I am prepared to read this. I think it will be more effective. I have dealt with this question very minutely, and have gone deeply into it.

17,669. We allow every witness to have an opportunity of making himself heard in the most effective manner, and, if you think you can do it in that way, you may read that paper; but we will adjourn at half-past one?—I am obliged to you. I have given a list of all the associations, numbering thirty, which I represent. I understand that the Commissioners wish to hear evidence from parties who have made a study of the subject with which they deal. When asked to give evidence on behalf of the various associations whom I represent, I concentrated my mind on the laws relating to societies registered under the Industrial and Provident Societies Act, 1893 to 1913, and on the rules which they have registered in terms of those Acts. The work entailed a great amount of research and study, and although the evidence looks bulky, it is largely composed of documentary evidence which I consider it necessary to submit in an enquiry of this kind. I have confined my evidence to matters relating to Industrial and Provident Societies, that is, to societies which are carrying on the trade of general merchants, wholesale and retail, as specified in the excerpts from the rules which are embodied in the evidence and appendix. Arising out of this, I have dealt with the instructions issued by the Board of Inland Revenue to members of Co-operative Societies not to include in their returns the dividends which they receive from their societies; also with correspondence between the Board of Inland Revenue and myself on this question; together with correspondence with the Chief Registrar of Friendly Societies regarding powers which he has allowed societies to register in their rules; and correspondence between the Right Hon. R. McKenna and myself as to whether societies make profits on their trading. I should like to make a brief survey of my evidence, and shall refer you, as I proceed, to the number of the paragraphs to which I wish to direct your attention. In the first place, perhaps you will kindly allow me to read the introduction to my evidence.

"The Imperial Commercial Association is composed of members representing traders, manufacturers, shipowners, affiliated associations and other industries in this country and the Colonies. I am a member of this association and have been asked to give evidence on its behalf regarding the question of the exemption of Co-operative Societies registered under the Industrial and Provident Societies Act, 1893, from payment of Income Tax under Schedules C and D. I am a member of the National Association of Master Bakers, the Irish Association of Master Bakers, and the Scottish Association of Master Bakers, and represent them as well as the associations enumerated in the list attached. The evidence to be submitted is divided into three parts, viz.:—(1) to show that societies are ordinary traders, and are not entitled to exemption from payment of Income Tax under Schedules C and D; (2) to show that societies make ordinary trading profits, and to show the methods adopted to obscure the fact by the substitution of 'surplus' for 'profits' in their balance sheets and rules; and correspondence with the Board of Inland Revenue on this question; (3) to show that societies have rendered themselves liable to payment of Income Tax under Schedules C and D by limiting their shares and selling to non-members. In addition there is appended, for reference purposes:—(4) A Supplemental Appendix* containing: correspondence between the Right Hon. R. McKenna and myself on the question whether societies make profits; excerpts from Parliamentary Debates in connection with the taxation of Co-operative Societies; a historical sketch of the enactments relating to societies registered under the Industrial and Provident Societies Acts since 1852; and excerpts from the rules of various societies."

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You will see that Part I is to show that societies trading under the Industrial and Provident Societies Acts, 1893 to 1913, are ordinary traders and are not entitled to exemption from payment of Income Tax under Schedules C and D. My contention under this heading is shown in paragraph 2, namely, that these societies, by their constitution, by their registered rules, and by their methods of trading, are not entitled to exemption from payment of Income Tax under Schedules C and D. Paragraphs 3 to 5 show the similarity between the constitution of societies registered under the Industrial and Provident Societies Acts, and companies registered under the Companies (Consolidation) Act, 1906. Paragraph 6 shows the objects for which societies may be formed, namely, to carry on any industries, businesses or trades specified in or authorized by the rules, whether wholesale or retail, and including dealings of every description with land. Paragraph 8 describes the method for the conversion of a company into a society, and paragraph 10 shows that a registered society may convert into a company. Paragraphs 11 and 12 give my views on what is required to place societies on an equitable basis with companies. Paragraph 13 directs your attention to excerpts from the rules of various societies to prove that they are ordinary traders. These excerpts are given in paragraphs 14 and 15 and show the wide powers taken by the wholesale societies. I wish specially to direct your attention to the excerpts from the rules of the Scottish Wholesale Society, in paragraph 15, which I should like to have your permission to read, as they prove that they are ordinary traders in every sense of the word.

17,670. We have that before us in paragraph 15; you need not read it through?—As you please. Remarks on these rules are made in paragraphs 16 to 20, to show the injustice of their mode of conducting business. Passing over paragraphs 21, 22 and 23, which also deal with the objects of societies, we come to paragraph 24, which shows that there is a distinct benefit enjoyed by Co-operative Societies over other traders, and so this is one of the first cases of a company converting into a society since the great increase in the rate of Income Tax, I attach importance to it, and would have been pleased to read it with your permission. The same would apply there, Mr. Chairman; it is already in the print. Paragraphs 25 and 26 show that it is the well-to-do class of customers for whom Co-operative Societies cater. Paragraph 27 deals with the action by the Inland Revenue against the Plymouth Co-operative Society in connection with Excess Profits Duty, the decision in that case being in favour of the Crown. Paragraph 29 shows the enormous contracts carried through by the Scottish Wholesale Society with non-members. Paragraph 30 gives the views of Professor Hall as to the value attached to trade with non-members. Paragraphs 31 and 32 refer to the erroneous views held regarding what are termed "mutual traders." There is no law in existence relating to mutual traders. The words "mutual traders," "co-operative," or "co-operator" are never mentioned from the beginning to the end of the Industrial and Provident Societies Act. Paragraph 33 deals with an excerpt from the "Times" Trade Supplement, and is proof that Co-operative Societies ought to bear their fair share of taxation like other traders. Paragraphs 34 and 35 deal with the question of reserve funds, which are free of Income Tax; and paragraphs 36 and 37 deal with co-operative policy, from which you will see that they aim at controlling all processes of production, distribution and exchange (including the land).

Then comes Part II. This section of the evidence is to show that societies trading under the Industrial and Provident Societies Act, 1893, make ordinary trading profits, and to show the methods adopted to obscure the fact by substituting the word "surplus" for "profits" in their balance sheets and rules. It also deals with correspondence with the Board of Inland Revenue on this question.

I should like to read from paragraph 38: "The half-yearly meeting of the United Co-operative Baking Society, Limited, was held in the Saint Mungo Hall, Glasgow, on Saturday, Mr. D. H.

Gerrard, J.P., presiding. . . . After the auditors had reported the balance sheet all in order, the Chairman pointed out that the Board had dropped the word 'profit' and inserted the word 'surplus' right through on this occasion." In my view, this action is illegal. With your permission, I would like to read paragraph 39:—"It is important to quote the terms of section 65 of the Industrial and Provident Societies Act, 1893, to understand the provisions of the Act relating to the erasure or omission from the balance sheet of a society or the falsification of any document for the purpose of evading any of the provisions of the Act:—'If any person wilfully makes, orders, or allows to be made any entry or erasure in, or omission from, any balance sheet of a registered society, or any contribution or collecting book, or any return or document required to be sent, produced or delivered for the purposes of this Act, with intent to falsify the same, or to evade any of the provisions of this Act, he shall be liable to a fine not exceeding Fifty Pounds.'"

17,671. You say that that is an illegal thing that they do?—To make any alteration in the balance sheet after it has been passed by the auditors.

17,672. Nothing has arisen from that, has there?—The fact of an alteration in the balance sheet, when it is laid down by law that it is illegal to do it, makes it illegal, I think. I submit that is so. I produce the balance sheet of this society, and also of the Kinning Park Society, which shows the substitution of the word "surplus" for "profits." I will leave those with the Commission. Paragraphs 43, 44 and 45 deal with rules in which the word "surplus" has been used instead of "profits." Paragraph 46 is very important, and I wish to direct your special attention to it. This is paragraph 46: "It is necessary, at this point, to call the attention of the Commissioners to the provisions of the Act of 1893 in regard to the word 'profits.' I have already quoted the section regarding penalties for erasure from or falsification of balance sheets or documents which societies are bound to provide, and I will now quote from the Act, section 10:—'(1) The Rules of a Society registered under this Act shall contain provisions in respect of the several matters mentioned in the second schedule to this Act. (2) The Rules of every Society registered under this Act shall provide for the profits being appropriated in any purpose stated therein or determined in such manner as the rules direct. Schedule II. Matters to be provided for by the Rules of Societies registered under this Act:—(10) Mode of Application of Profits.'"

So you will see that they are bound to provide a mode for the application of the "profits," and it is not provided that they are bound to deal with "net surpluses" or anything of that sort. That is a point to which I wish to call the attention of the Commissioners.

Paragraphs 48 to 59 show that it is the general practice to provide in their rules "a mode for the application of profits" in terms of the Act. Paragraphs 60, 61, 62 and 63 deal with the instructions issued by the Board of Inland Revenue to taxpayers not to include in their returns the dividends which they receive from Co-operative Societies. That means that all and sundry are not to include the dividends they get from Co-operative Societies, when they are making their returns for Income Tax; they are allowed to go scot free. That has been put in this year for the first time, to my knowledge. In filling up the return, every taxpayer is told not to include those dividends in making return for Income Tax purposes.

I specially direct your attention to paragraph 64 and paragraph 65, and would have been glad to read these letters had time permitted, as the memorandum which I have referred to by the Board of Inland Revenue in connection with the Departmental Committee in 1904 gives a clear statement of the law relating to the taxation of societies and other traders. I will just pass over those letters; I have referred to them.

17,673. Yes; I have read those letters.—I will pass them over, as they are pretty lengthy. Paragraphs

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[Continued.]

67 and 68 refer to correspondence between the Chief Registrar and myself regarding the substitution of the word "surplus" for "profits" in the rules of Societies. Reference is made in paragraph 89 to correspondence between myself and Mr. McKenna. Paragraph 70 draws attention to the statement by Mr. Pollock in the House of Commons that the exemption given under section 24 never received even a passing observation from any member in the House. That was when the Act was passed.

17,674. Do you want to refer to Part III, now?—If you please. Coming to Part III, this is to show that societies have rendered themselves liable to payment of Income Tax under Schedules C and D, by reason of their limiting their shares by their rules and practice, and selling to non-members. This is a very important point, and I wish the Commissioners to take special note of it. The particulars are in the evidence; the rules are printed in the appendix. Paragraphs 74 and 75 contain correspondence between the Chief Registrar and myself with regard to his allowing societies to pass rules giving them power, when they have more money than they can profitably invest, to pay out members' shares, and reduce the number of shares by their rules and practice. This, coupled with the fact that they sell to non-members renders them liable to Income Tax under Schedules C and D.

Now I will just read my concluding remarks. In conclusion, perhaps it would be advisable to recapitulate briefly the principal points on which my evidence is based. (1) I submit that according to the constitution and rules of societies registered under the Industrial and Provident Societies Act, 1893, they are ordinary traders. According to the Act, these societies can carry on any industries, businesses, or trades, specified in or authorized by their rules, whether wholesale or retail, including dealings of any description with land. Wholesale societies take power in their rules to carry on the trades or businesses of wholesale dealers, bankers, shippers, carriers, manufacturers, merchants, cultivators of land, workers of mines, and insurers of persons and property. The constitution of societies registered under the Industrial and Provident Societies Act is almost identical with the constitution of companies registered under the Companies Act, and these societies should not be granted exemption from payment of Income Tax under Schedules C and D of the Income Tax Act. (2) I have dealt exhaustively with the Industrial and Provident Societies Act, 1893 to 1913, with a view to proving that according to section 10 of the Act of 1893 every registered society is bound to provide in its registered rules "a mode for the application of its profits," that is, of the profit earned by the society. No distinction of any kind is laid down in the Act between the profits earned from the members and the profits earned from non-members, and I therefore submit that the true interpretation of the Act is that the entire result of co-operative trading is profit, and nothing but profit. This is confirmed by their own registered rules which are embodied in my evidence. (3) I submit that these societies who sell to non-members and adopt the practice of limiting their shares by expelling or paying out members, reducing their shares, and extinguishing shares by a vote of their committee, bring them within the terms of section 24 of the Industrial and Provident Societies Act, 1893, and render them liable to payment of Income Tax under Schedules C and D. In my view, the Registrar should be instructed to furnish to the Board of Inland Revenue a list of the dates of registration of the rules containing those powers, with a view to steps being taken to recover the Income Tax under Schedules C and D from societies owing to their having by their rules and practice limited the shares of the society and sold to non-members. I further submit that it is proved by the registered rules embodied in the evidence and by the excerpt from the Report of the Chief Registrar of Friendly Societies for the year ended 31st December, 1916, that their methods of trading can only be looked upon as deception; persons who have not even paid one penny for admission or one penny towards their share capital are treated as members. I submit they are

not bona fide members, and therefore the statement that their trade with non-members only amounts to about one-half per cent. of their turnover is misleading.

I think that has run over it all as briefly as I can. I am obliged to you for allowing me to go over it; I spent a good few hours over it myself.

17,675. You have gone to a great deal of trouble in preparing this evidence, have you not?—I thought I would be doing the country a good turn if I did something in the way of helping to get funds to recoup the loss during the war period.

17,676. Mr. Synnott: This is a really important point; there is nothing in the world to prevent these Co-operative Societies reducing their profits?—No.

17,677. They can all do that?—Yes, there is nothing to object to in that at all. We would be on firmer grounds then.

17,678. In that case, there would be no tax?—There is no fear of them selling below the ordinary trader. They are out for profits all along the line. They do not cut the profits in any way.

17,679. But they could reduce the profits by reducing the prices of the goods sold?—Yes, but any merchant could do the same thing, in competition. That does not affect us in the slightest.

17,680. Do the societies now pay under Schedules A and B?—Schedule A has nothing to do with Schedules C and D, so far as Income Tax is concerned.

17,681. The point has been made that indirectly the members do pay under Schedules A and B?—They pay under Schedule A; Schedule B I am not so conversant with.

17,682. Mr. May: You say, in reply to Mr. Synnott, that if the Co-operative Societies did reduce their prices so as not to make a profit, that is the kind of competition an ordinary merchant could meet?—If they pay their taxes, like the ordinary merchant, then we are quite prepared for them.

17,683. If there is no profit, there is no question of tax. I am putting to you the point that Mr. Synnott put to you, and I want to make sure of your answer. I understood you to say, that if the Co-operative Societies made their profits disappear, that is to say, lowered the price of their goods, so that there was no surplus or profit, that is a kind of competition that the ordinary trader could meet by a similar course?—Yes. If say the ordinary trader should be put on the same level under the same conditions, as they are practically trading under the same constitution. There is no such thing in existence as mutual traders dividing profits. That is where I hold that the whole matter has been confused. When the question was before the Departmental Committee in 1904, that Committee must have been very much misled by the statements about mutual traders, and how they could divide the profits.

17,684. This is nothing at all to do with the question I have put to you. It is a question whether you said, or whether you hold, that the ordinary trader could meet that form of competition by reducing his prices similarly?—Yes; if the Industrial and Provident Societies are made to pay their taxes in the same way.

17,685. The tax does not arise if there is no profit; if there is no profit there is no tax?—We would test that; that would work out its own salvation later on; we are not afraid of it.

17,686. Chairman: Mr. Synnott asked you whether, if the societies reduced their prices and made no profits at all, that would be satisfactory to you as a trader?—We are not afraid of it. We are quite prepared for that. There would be nothing for these societies to carry to recover.

17,687. Mr. May: Then is it not a fact that on at least one occasion you, as the managing Director of your company, have excused the loss of the results on the ground of the co-operative competition in Glasgow?—No, I have never done anything of the kind.

17,688. Is not that in the speech which you made, and which you afterwards had inserted in the "Times" newspaper as an advertisement, and which you then circulated to Members of Parliament and others, to support your case against Co-operative Societies?—No, I think you are wrong. I there refer

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to the Co-operative Societies that ought to be taxed and pay their taxes like others, but, so far as saying that we lost money through the Co-operative Societies, I never used such words.

17,689. I suggest to you that that is contained fully in the speech that I referred to?—Well, I should like to hear it. Will you kindly read that, before you pass from it?

17,690. Not now, because I have only got a minute left?—Read it from my speech. I want to get the evidence. I believe in documentary evidence, the same as what is here.

17,691. I will undertake to put in a copy to the Chairman?—You may attribute a different meaning to it. I cannot remember, just now, exactly what I said, but you have misconstrued it.

17,692. There is a formidable list of associations on whose behalf you say you appear?—Yes.

17,693. Has this evidence of yours been submitted to each of those associations?—Those are allied with the Imperial Commercial Association, and they got copies.

17,694. But there is a list here?—I know there is a list there.

17,695. They have each had a copy of your evidence?—Yes, I believe they have.

17,696. And have approved it?—Yes, they have approved it.

17,697. How was it prepared? Did you prepare it, or was there a committee appointed to prepare the evidence?—No man had anything to do with the evidence but myself and one other person who assisted me. I do not require a committee for preparing evidence. I know how to go about that business myself.

17,698. Is it the fact that the method has been that you have prepared your own evidence and submitted it to those associations for their support?—The Imperial Commercial Association got copies from me, and they submitted them to the associations who are affiliated with them; and as far as the preparation of that evidence is concerned, I can inform you, Mr. May, you are the party who made me start this.

In a correspondence which appeared in the "Glasgow Herald," in 1916, you challenged or doubted the accuracy of my interpretation of the Statutes. You remember that?

17,699. Yes?—The result was that I published "The Nation's Loss," and then I published a Supplement to "The Nation's Loss," and when the question of appointing a Royal Commission arose, I said to myself: I will be doing the country a good turn if I carry this further and go deeper into it, and be able to put a proper document on record before this Commission and the Government, which would help to make clear the point relating to Co-operative Societies; because I say deliberately that a greater fraud has never been perpetrated in any country in the world than the hoodwinking that has been carried on by Co-operative Societies as to whether they make profits or surplus in their trading.

17,700. Is that your complete answer to my question?—To what question?

17,701. To the question I put to you. I thought you had forgotten the question. I had finished with that, but, in view of your last observation, may I call your attention to this. This is an official Government publication, issued by a Government Department within the last few weeks, and it says this, with regard to Co-operative Societies and co-operation, that all its varieties are based on confidence, loyalty to principle, and friendly service one to another. I only put that to you—that that is the Government's view, as against yours, that it is a fraud?—Well, I know what is put into a lot of these Reports.

17,702. This is not a Report; it is literature issued by a Government Department?—Anything does for that purpose, you know. That is a bit of advertising.

17,703. Mr. McIntock: You contend that a Co-operative Society should be assessed in the same way as any other traders?—Yes.

17,704. Is it for the purpose of bringing more revenue to the State that you chiefly advocate that?—That is one reason, and the other reason is in the interests of honest and upright trading and fair competition.

17,705. *Chairman:* Thank you for your evidence.

Mr. F. W. Cook, J.P., on behalf of the Drapers' Chamber of Trade, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

17,706. (1) The witness will advocate the repeal of the present accumulated and antiquated Income Tax Acts, and the institution of a simplified form of Income Tax which can be clearly understood by the man in the street, namely, a graduated system which would cover every earner of wages and receiver of income above the bare limit of subsistence as ascertained by the Board of Trade on a yearly average.

17,707. (2) Income Tax for workers should be deducted from the wages and paid by the employer to the Income Tax Collector. A statement of the deduction made should be given to the employees.

17,708. (3) Income Tax should be collected weekly, monthly, quarterly or half-yearly. Where deductions are made by employers they should be remitted regularly every week, month, quarter or half-year, so that there would be a regular income flowing to the Exchequer.

17,709. (4) Super-tax and Excess Profits Duty should be abolished, and in order to make up the deficiency the Income Tax should be more steeply graded.

17,710. (5) All traders, whether co-operative stores, mutual stores, or any other society of trade should be subject to the same conditions of taxation, and no preference should be given in any way to traders in any particular line.

17,711. (6) In order to stabilise prices and values the national financial policy and budgets should be fixed for a series of years, so that industries and commerce would know how to fix their estimates for future contracts of trading.

17,712. (7) All traders should be licensed. Their competency to keep a proper set of books should be one of the conditions of the granting of a trading licence.

Forms of return.

17,713. (8) Returns should be simplified. They are too complicated, so that the majority of taxpayers are unable to fill in the returns themselves. The Surveyors of Taxes should be instructed to advise taxpayers in the taxpayer's interest. They are now too diligent in securing all for the Crown. The Board of Inland Revenue should instruct Surveyors to give the public the advantage of their experience, and draw attention to any alteration or claim which may be in the taxpayer's favour.

Books of account.

17,714. (9) All traders should be compelled by law to keep books. Many traders escape paying their proper share of Income Tax through keeping no books. In cases where they do not, when the time for assessment comes round, the figures for Income Tax are generally based by the Surveyor of Taxes upon some arbitrary method, such as percentage on turnover, or where this is unknown the basis is sometimes purely guess-work. Many traders deliberately fail to keep books because they know that their accounts would show larger profits than those upon which they are assessed.

Declarations.

17,715. (10) Forms of return contain declarations to be signed by the taxpayer, that it is true to the best of his knowledge and belief. The Surveyor fre-

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quently requires further declarations relating to such things as:—

- the valuation of stock;
- reserve accounts created but not clearly shown on the face of the balance-sheet;
- salaries of partners or directors;
- entries as to bad and doubtful debts, &c., &c.

Each trader should sign a comprehensive declaration when making his return.

Many traders by undervaluing stocks—omitting goods from stock—overstating liabilities—writing off bad debts known to be good, escape Income Tax or Excess Profits Duty. It is not fair that some should escape their proper share of taxation, while others pay up to the hilt.

Taxation of foreigners.

17,716. (11) Foreigners trading in this country and making profits, should contribute to British taxation. At present the taxation of foreigners trading in this country is on an unsatisfactory basis. Some are assessed because their selling contracts are made in this country; others because the actual delivery of the goods takes place in this country; others because payment for the goods is received in this country.

Some foreigners escape payment of Income Tax on their profits in this country, although it would appear that the course of their business is exactly similar to that of another foreigner who is brought into the Income Tax net. This frequently depends upon the personality of the Surveyor.

Taxation of foreigners is very difficult, and is a question which requires careful consideration. Their taxation should depend upon the actual facts of each case instead of upon legal subtleties as at present. Foreigners complain loudly when they have to pay English Income Tax, because there is no corresponding levy upon English trading in a foreign country unless the analogy of import duty can be accepted. The import duties levied by foreign countries do not appear to a foreigner to be of such importance as our Income Tax owing to the present high rate of the latter on profits. Further, the import duty analogy falls to the ground in connection with the assessment of some of the French firms in the champagne trade which pay import duty on their products sent here, and also British Income Tax.

The simplest method from a purely business point of view would be to impose a duty, but this suggestion would arouse political feeling immediately. It is very difficult to suggest what amendment should be made to place the taxation of foreigners on an equitable basis. Whatever he pays he will put on the price of his goods, and the British public would eventually pay.

Wasting assets.

17,717. (12) For Income Tax purposes nothing is allowed to be charged against profits in respect of depreciation of wasting assets, such as leaseholds, buildings, etc. In all cases where the value of an asset disappears after a lapse of years, the cost should be allowed as a charge against profits during the life of the asset. Important items of this nature in the drapery trade are buildings and leases. No allowance whatever is made for either of these items. It may be difficult to fix the allowance to be made on account of a freehold building, but there should be no difficulty in assessing the allowance of a lease, because it is well-known at the expiration of a lease the asset is worth nothing. The Inland Revenue standpoint is that such assets are capital, and that no charges affecting capital are allowable against revenue.

Replacing wasting capital should be allowed out of revenue. The fallacy of the Inland Revenue point of view is seen very clearly in connection with annuities. If a person pays a lump sum to an Insurance Company to provide an annuity, the whole of the annuity received is considered by the Inland Revenue as income and taxed accordingly, although a proportion of each payment is clearly a repayment of the original capital sum invested.

Super-tax.

17,718. (13) This tax operates inequitably as regards partners in private firms as compared with shareholders in companies. The basis for Super-tax in any year is the Income Tax assessment of the previous year.

The taxable income of the owner of a private firm is the total profit of the firm, and the owner pays Income Tax on a certain figure of adjusted profits in one year, and Super-tax upon the same figure in the following year. If the same business were carried on by a company, the profits would be assessed to Income Tax as in the case of a firm, but the only items which would be assessable to Super-tax would be the dividends paid. Thus for Super-tax purposes a private trader receives no allowance in respect of depreciation of his plant and machinery, or for the depreciation of his leases and buildings, or for the depreciation of his plant and machinery, which may be required in excess of the amounts allowed by the Revenue, and he receives no consideration in regard to reserve accounts or profits which have to be left in the business as additional working capital. These are all allowed to a shareholder in a company, because they are provided in the company's accounts before the dividend is paid.

This matter is now more important than it was before the war owing to increased requirements of businesses as regards working capital and impossibility in many cases of the partner drawing out the profits which are made.

Three years' (in some trades five years') average.

17,719. (14) The assessment on the three years' average is clumsy and unsatisfactory. The Revenue authorities like the system because it obviates violent fluctuations in the yield of the tax, and enables the Chancellor of the Exchequer to make fairly close estimates beforehand. It sometimes works hard on the business concerned. A business on the upward grade pays Income Tax on something less than its actual profits, whereas a business that is declining pays upon more than its actual profits. The one case is just as undesirable as the other. The profits to be taxed should be those of the previous year. If a business has a good year, it can afford to pay its Income Tax immediately, but if a bad one the Income Tax will be correspondingly reduced.

It might be an advantage to do away in Income Tax calculations with April 5th date, and assess every trader on his profits yearly according to his own date of closing his accounts. This has been found to operate quite well in practice in connection with Excess Profits Duty.

It is perplexing to the lay mind to find that some incomes are assessed upon the three years' average, others upon the five years' average. Other items are assessed on the amounts received during the preceding year, whilst other items are assessed upon the amounts expected to be received during the year of assessment then current.

Super-tax should be paid on the same income yearly as an income which suffers assessment to Income Tax. At present interest received without deduction of tax (e.g., 5 per cent. War Loan interest) is received in one year, is assessable to Income Tax in the next year, and is assessable to Super-tax in the third year.

General Commissioners.

17,720. (15) There is a belief that it is intended to dispense with the General Commissioners, and for assessments to be made by a body appointed by the Inland Revenue. If any such move on the part of the Revenue authorities is suggested it should be strenuously opposed. General Commissioners are the only appeal tribunal who approach their problems from the point of view of general commercial business men, and it would be regrettable if the appeal tribunal on Income Tax matters consisted of men whose whole training was "tax work," and who could not be expected to appreciate everyday commercial problems.

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Payment by instalments.

17,721. (16) An individual is allowed to pay his Income Tax in two instalments. This concession is refused to a company. A company's working capital requirements may be quite as onerous as those of a private individual, and the concession should be extended to all taxpayers.

Privacy of total return.

17,722. (17) At present partners in a private firm are assessed through the firm. The rate of tax paid by each partner is known to the other partners. This is frequently an index to the total income of each partner, and many people object to their partners knowing their incomes. The difficulty could be met by reviving the previous practice of assessing partners individually when they so desire.

Internal improvements.

17,723. (18) These should be charged against profits. The improvements are undertaken solely with a purpose of facilitating shopping and making it more attractive. They form part of the expenses of selling, and as such should certainly be allowed as a charge against profits.

Co-operative Societies.

17,724. (19) These should be made to pay Income Tax on their trading profits and invested funds exactly in the same way as other trading concerns, and it is a great injustice to permit them to escape payment of the tax. Mr. Robert Walker, of Manchester, on behalf of the National Traders' Association, is dealing very exhaustively with this matter, so in order to prevent the overlapping of evidence, I am not enlarging on the subject.

Rating of income.

17,725. (20) Now that the purchasing power of the sovereign has so greatly depreciated, either the abatement of £120 should be increased or the amount below which the tax would not be charged should be raised. It presses too severely upon the smaller salaried men and women.

Subscriptions to trade associations and societies.

17,726. (21) These are generally disallowed for purposes of Income Tax. This would appear to be unjust seeing that the expenditure is incurred with the object of carrying on the business more efficiently, and should be considered as a necessary trade expense.

Annual value of business premises.

17,727. (22) Under Schedule A, where a trader who is the owner of his premises also occupies them, he is allowed to charge at present against his trading profits, only one-third of the total Schedule A assessment. This should be materially increased, because in the case of the owner and occupier of extensive premises, this is a very heavy imposition.

Allowances for wife, children and dependants.

17,728. (23) These should be increased, having regard to the increased cost of living.

[This concludes the evidence-in-chief.]

17,729. *Chairman:* We have your paper before us, and we shall commence the examination at once.—Thank you.

17,730. *Mr. Kerly:* Will you take your first paragraph? You suggest that there should be a simplified form of Income Tax. What you have in view is a simplified graduated rate?—Yes.

17,731. Of course, that would not do very much to simplify the administration; still, that is what you mean?—Yes.

17,732. You suggest that means should be found to make every earner of wages above the bare limit of subsistence, pay. How do you propose to make wage-earners pay? Do you suggest that there should be a personal levy, or that there should be a sum

deducted from their wages?—Charge it on their wages.

17,733. Make the employer pay?—No; it should be taken off when the wages are paid.

17,734. Deducted by the employer?—Yes, deducted by the employer.

17,735. It is the only practical way of getting the wage-earner to pay, is it not?—Certainly. I have in view the German system, by which they do that.

17,736. Some of us are familiar with that. Before the war they went very low down indeed?—One per cent., I believe, upon £20 incomes.

17,737. What do you mean by the bare limit of subsistence—just enough to keep body and soul together?—I think the Board of Trade issue what is called a living limit, or they fix some kind of limit of living. The present rate of wages, I think, is based on that. That would vary from time to time.

17,738. Then you say a yearly average. Do you suggest that the exemption limit should change every year with the average?—I was thinking of the present conditions. In pre-war days, of course, it would be almost always the same.

17,739. Supposing your Board of Trade allowance is that in 1920, £120 a year was the limit of subsistence of a man, and the next year it is £130, are you going to alter your exemption limit?—Certainly.

17,740. Year by year?—Yes.

17,741. Now will you please skip down to paragraph 6. You say: "In order to stabilise prices and values, the national financial policy and budgets should be fixed for a series of years." As regards the scale of graduation, in which I mean to include the exemption limit and allowances, that might be done, and that might be done for a number of years?—Yes.

17,742. It would be necessary to deal with the unit to which that was to be applied from year to year, according to national needs. Is that what you contemplate?—Yes.

17,743. I suppose you would say that if you did what you propose, and fixed your scale for a long period, you would remove from the political sphere such questions as steepening the graduation for the larger incomes and questions of that kind?—That was not at the back of my mind. What was at the back of my mind, in regard to this taxation, was this: that viewing, say, the present abnormal conditions with the heavy expenditure, this should be fixed in the light, not of one year, but of a series of years, so that manufacturers and others, who have to place their contracts, should be in a position to some extent to know exactly where they were going to stand for some time.

17,744. That rather conflicts with what I understood before. Your notion is that the man should be able to say exactly how much his Income Tax will be?—What the rate of his Income Tax will be, at any rate.

17,745. Then in the next paragraph, you say: "All traders should be licensed. Their competency to keep a proper set of books should be one of the conditions." Do you mean that to apply to the small shopkeeper?—Yes.

17,746. You would not let a man keep a shop until he has satisfied someone that he can keep books, too?—No. Very often he does not keep a set of books, and he will not keep a set of books, because he escapes Income Tax.

17,747. Do you propose to enforce the obligation to keep books by withdrawing his licence if he does not keep them?—Yes; it is unfair to the other traders.

17,748. Now go to paragraph 10. You say that many traders, by undervaluing stocks, omitting goods from stocks, and so on, escape Income Tax or Excess Profits Duty. What evidence have you got of that? Is that a mere suspicion?—Yes.

17,749. Can you tell me anything upon which it is based?—Except the living conditions of some of these traders—or the luxury conditions—which they display.

17,750. Does that mean that you contrast their apparent means, as shown by their apparent expenditure, with their Income Tax returns?—Yes.

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17,751. Do you know what their Income Tax returns are?—No.

17,752. Then I do not see how you can complete your syllogism. Now turn to the next paragraph: "Taxation of foreigners is very difficult . . . Their taxation should depend upon the actual facts of each case, instead of upon legal subtleties, as at present." What do you mean by that—anything?—Yes. I take it that in this case there are difficulties, but the difficulty is in the interpretation of the Act and the conditions that apply, rather than, I will say, the actual facts.

17,753. You have to have a proposition of law embodied in a Statute in order to tax people?—Yes.

17,754. That proposition has got to be interpreted by judges?—Yes.

17,755. Is that what you mean by legal subtleties?—Certainly.

17,756. Then what are you going to substitute? Do you not mean this: that you think that the proposition should be a plain and simple one?—Yes.

17,757. Have you any suggestion to make as to what it should be with regard to the taxing of foreigners?—No, I have no suggestion.

17,758. Then in paragraph 12, with regard to wasting assets, you suggest that there should be an allowance in the case of a lease for the cost of the lease?—Yes.

17,759. Do you mean where a fine is paid or a lease is purchased that should be treated as an expenditure, and spread over a certain number of years as a working expense?—That is it.

17,760. You know what I mean by a fine—a sum paid when the lease is granted?—Yes.

17,761. In the case of a fine, that is really an anticipation of rent, is it not?—Yes.

17,762. So that if that were allowed, you would expect the landlord to be charged Income Tax upon it. If it is really rent paid in advance, it should be part of the landlord's income?—Yes.

17,763. You seem to me, in paragraph 13, to use what is a new point to me. You suggest that there is an inequality between partners and a company, because partners have to pay Super-tax on the whole of their profits, but a company may keep some in reserve, not distributing it as dividend, and then no Super-tax is paid?—Yes.

17,764. It is open to any firm to get rid of that disadvantage by forming their firm into a private company?—Yes.

17,765. I suppose that has some inconvenience?—I believe it has.

17,766. It is very commonly done, is it not?—It is.

17,767. The contrast that you draw might be an argument either for taxing the reserves of companies to Super-tax or for relieving partners?—Yes.

17,768. It does not carry you further than that?—No.

17,769. You propose, in paragraph 17, that partners should be assessed separately?—Yes.

17,770. Do you think that that would be satisfactory to traders—that they should be assessed separately?—That is in a private firm only.

17,771. I am speaking of firms as contrasted with companies. The firm, I suppose you would agree, or the senior partner, on behalf of the firm, should make a return of the firm's profits?—Yes.

17,772. I will not trouble you about Co-operative Societies, because that is dealt with by other witnesses. Then in paragraph 22 you say: "Under Schedule A, where a trader who is the owner of his premises also occupies them"—you mean occupies them for the purpose of his trade, of course?—Yes.

17,773.—"he is allowed to charge at present against his trading profits only one-third of the total Schedule A assessment." What is your proposal? Is it that an assessment should be made as to how much of his premises he occupies for business purposes, and how much for his private purposes, and the annual charge should be divided proportionately?—Yes.

17,774. Do you suggest that there should be some sort of flat rate for each trade or that it should be a matter of assessment in each individual case?—According to the premises occupied.

17,775. That means each individual case?—Yes.

17,776. A flat rate, I presume, for a whole trade would be impracticable? Take, for instance, your own trade. A little draper may have a business house, and use it principally as his private dwelling?—Yes.

17,777. Messrs. Marshall and Snelgrove, we will say, do not occupy personally any part of the premises, though a director might have a private room there. That is the sort of contrast that you would find in your particular trade?—Yes, especially in this country.

17,778. And that could only be met by a special division of the assessment of the premises of each particular trader?—Yes.

17,779. Sir J. Harwood-Banner: With reference to your paragraph 10 on declarations, you are aware that the Surveyors require certain declarations? What you ask is that those declarations should be made compulsory in every case?—Yes.

17,780. That in every case a man should state the basis on which he has valued his stocks, what his reserves are, and the salaries of the partners; they do it now in many cases, and it would be a good thing to have it done in all cases?—Yes.

17,781. At the end of paragraph 11 you say: "Whatever he pays he will put on the price of his goods, and the British public would eventually pay." If their tax was paid on turnover, would you then think it would fall on the British public?—No, except so far as all taxation falls on the consumer.

17,782. But by putting a tax on turnover it would not be possible to relieve the foreign importer?—No.

17,783. So that if we could arrange a tax on turnover it would be a means of getting what we want without imposing a special tax on the British public?—Certainly.

17,784. Mr. McIntock: Just one point on the average. In paragraph 14 your suggestion is to depart entirely from the average, and assess on the profits of the preceding year?—Yes.

17,785. Then, in the second paragraph of No. 14, you go on to say: "and assess every trader on his profits yearly according to his own date of closing his accounts"?—Yes.

17,786. You are aware that at present, on the average system, they take the trader's own year, whether it ends in December or September or June?—No, I was not aware of that.

17,787. So that your suggestion would simply be, that if the tax is assessed on the income of the preceding year and the trader balances in December his assessment for, say, the current fiscal year, 1918-20, will be based on the year ending December, 1918?—Yes.

17,788. On the question of the annual value of business premises, paragraph 22, you are aware that an allowance can be given at present not exceeding two-thirds?—Yes.

17,789. What you want is to have the limit removed?—Yes, I want the value of the business premises divided.

17,790. What sort of trader are you referring to—one who lives on the premises?—Yes.

17,791. It is only that trader?—That is all.

17,792. Then you really want the limit that at present exists, an amount not exceeding two-thirds, removed?—Yes.

17,793. Mr. Mackinder: With regard to paragraph No. 6, do I understand that your difficulty is of this nature: that a trading firm finds it difficult to make a contract, say, for a year ahead, with the present high rates of taxation, because in the middle of that year the taxation may be raised?—Yes.

17,794. What you are contemplating, then, is that whereas trading budgets, the budgets of firms, would continue to be for the year, you are asking that the national budget should be for a period, let us say, of five years?—Yes.

17,795. Do you not think that practically, you would get the advantage balanced adversely by the fact that as you approach the end of the quinquennial period (I assume five years for the sake of argument) the disturbance would be greater? You would have in front of you an adjustment which might be a very

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much bigger adjustment than the annual adjustment. Do you not think that would be a greater disturbance of trade?—No.

17,796. You do not think so?—No.

17,797. Why not?—Looking at the question broadly from the budget point of view, my own idea is that things to-day are so extraordinary and will be for many years to come with regard to finance, that in order to stabilise prices and contracts and the rest we must have a financial policy going over a series of years instead of annually. I do not say there would not be slight adjustments each year; but it seems to me that financial propositions must look to a series of years.

17,798. I recognize that your difficulty is a real difficulty. Do you not think your object would be gained by giving longer notice of the change of taxation than at present you get?—No; my own idea is that what we are likely to suffer from is political considerations entering into budget proposals.

17,799. Then I have not understood you. That was the point Mr. Kerly put to you. I understood you then, but you have shifted your ground a little bit. You have evidently got two ideas in your mind, which I should rather like to separate. The one idea, I take it, is the sheer difficulty of adjusting the finances of a firm when you are liable to an increase of taxation, say, six months hence, and you have to make a contract for a year?—Certainly; that is in my mind.

17,800. You then used the expression which you also used to Mr. Kerly, that you had in mind the political possibilities?—Yes.

17,801. What are you thinking of?—What I am thinking of is that a political party might come in and, shall I say, without due consideration make certain proposals to alter the financial condition of the country considerably.

17,802. But if a new political party came in, that political party, with the constitution of our country as it is, could overthrow any arrangement as regards finance that had been made for a period of years, could it not?—I suppose so.

17,803. So that you would not by laying down a policy get over that difficulty, would you?—We have done so in the past. The financial policy of the country has been arranged for a series of years.

17,804. Let me give you a case in point. There was a sinking fund for the National Debt which was arranged, if I remember rightly, at £28,000,000 a year, and the idea was that that was to last over a long period of years. But as a matter of fact when other Governments came in they made what is called an incursion on that fund. You could not stop any Parliament, could you, from overthrowing such a policy as you have indicated? You would have no protection from that, would you?—You would have a greater knowledge of that than I should.

17,805. I suggest that you would have no protection?—The point I want to make is that in order to save the rise in values which is going to be continual we want some kind of financial policy.

17,806. *Professor Pigou:* May I put to you a further point? Do you think that a trader is justified in taking Income Tax as an item of cost?—Yes; he must do so.

17,807. The idea of the tax is, is it not, that it is a tax on profits?—Yes.

17,808. And that a higher tax would reduce the proportion of his profits which would be available for his private expenditure?—Yes.

17,809. That is a different idea from the idea of taking the tax as an element in his costs. That is a matter of book-keeping?—Yes, but I think in all commercial transactions the total of his expenditure with regard to his business is bound to be brought in, whatever it might be.

17,810. Let me take the case you were putting just now. You were asking that the taxation of partners should be separated on the ground that it reveals to one partner the fact that the others may have private income in addition to their business profits. It does reveal this to the others because of the difference of rate at which they pay, does it not?

—Yes; it may not be essential to the partners to do so.

17,811. But my point is that if you take a private firm, that private firm will pay Income Tax at varying rates for its different partners, will it not?—Yes.

17,812. Then how can you take Income Tax as an element of cost in that case? How would a partnership make up its accounts? Would you have it put down the Income Tax according to very varying rates? We will say it has a partner of large means and a partner of small means; would you have it put down the Income Tax paid by those two partners, the one, we will say, at the rate of 3s. in the £, and the other at the rate, let us say, including Super-tax, of 10s. in the £? Would you add those two together and put them down as costs?—I think they will enter into the transaction. I think they are essential in the transaction, the same as the rates are. A man looks at what he actually gets net.

17,813. Let me put this case to you. We will take a small draper and a large draper. The small draper, we will say, pays tax at 2s. 3d. in the £. We will say that the large draper, including Super-tax, pays tax at 8s. 6d. in the £. Are both those drapers to take the tax as an element of cost?—I think they will do so.

17,814. In other words, the large draper will charge a much higher price for his goods than the small draper?—I would not say that.

17,815. But if it is taken in as an element of cost?—It depends altogether on his other expenses, as to whether he charges higher or not. It is not the only element entering in.

17,816. I put it to you that the practical way in which accounts are kept is that the firm aims at a total of gross profit and does not take Income Tax into account?—It comes in in order to bring his gross profit down to his net profits.

17,817. What it comes to is this. You mean that you can charge Income Tax up to such a point that you would render it impossible for a small draper to carry on?—Yes.

17,818. But do you think that he would be better by having the possibility every four or five years of a sudden great jump as opposed to annual smaller jumps in the amount that he is assessed at. I am putting it to you because I am impressed with the reality of your difficulty, namely, that as things stand at the present moment a fairly small man who is called upon to make a contract for a year ahead is probably, whatever the bookkeeping rights and wrongs may be, in a practical difficulty because he does not know what the Revenue requirements will be next spring?—Besides being the Chairman of the Drapers' Chamber of Trade, I am connected with the Chamber of Commerce, and I have to do with very large concerns as well. I was looking outside our own firm when I was dealing with this matter. With some firms the material they put in this year could not possibly come out for sale till twelve months later. All the way through they must be able to take a contract for their goods to be produced at the end of that time; it will be twelve months before the raw product comes out as a finished article, by the nature of the manufacture. The man must make his contracts in that way, and it is very essential to-day that he should make his contracts on a good basis. To-day he has to take a risk and the consequence is very often a higher price is charged because of the risk he is taking. He does not know what taxation or rates are coming in nor what advances in wages. It is in order to stabilise those that I have made this suggestion, which I think, in the national interest, is necessary.

17,819. I think you are putting a very real practical difficulty. I wanted to get help from you as to how you should get over it?—The position, I take it, is this. If we have a Debt of £8,000,000,000 to meet for certain essential services, it is quite essential that all parties in the nation should come together, in order to effect a great abundance of output. It is not a party issue, it is a national issue, and for that purpose so much money should be laid aside each year, so that we should know the ground

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on which we are going, and that that basis should be made for a series of years. That is the only way that I see prices are going to be stabilised, instead of advancing all the time.

17,820. If I understand it, you put it that it is a very real big difficulty, because large concerns purchasing goods which they are going to sell months hence—?—12 months.

17,821. —as a practical matter, do put higher prices than they otherwise would on their goods?—They are bound to do so, in order to cover themselves.

17,822. Of course they will make a bigger profit in the favourable case, and will have to pay taxation on that?—They may lose. An element of risk comes in.

17,823. And you would not be satisfied by simply having a longer notice of the change?—No.

17,824. Of course, in the case of Income Tax, there are not the same reasons against giving notice, that there are in the case of Customs duties?—No.

17,825. That is obvious?—Yes.

17,826. You would not be satisfied, say, with 18 months' notice of any change in the rate of Income Tax, or a year's notice; but at the present time you get no notice?—No, we do not get any notice.

17,827. You get three months' notice?—Yes, but that is not sufficient to stabilise conditions.

17,828. You get nine months before you pay; in fact, you get fifteen months before you pay the second half, but that is not sufficient?—No, I think we want something more.

17,829. Was there any serious discussion in your body over paragraph No. 6?—Is it a really felt difficulty, or is it simply one of a series?—There is a serious difficulty in our body with regard to stabilising prices. We are in great trouble to-day. We have had a meeting to-day, and we had a meeting yesterday, and we are in great trouble, in regard to what we call stabilising prices in the dry goods trade, not only here, but right through the world. It is had in America, it is had in France, and in Italy, and in Germany. We are all in the same condition.

17,830. One of the large elements in your difficulty is taxation?—That does enter in.

17,831. Of course, there are others?—Yes, a great many others.

17,832. *Chairman:* But all forms of contract are subject to all these conditions, are they not, and always have been?—Yes, but I may say, in the dry goods trade, we have to honour all our contracts; we have had to do it this year at a loss of thousands of pounds.

17,833. But you have also made thousands of pounds in other things?—I dare say we have made something to cover it, but we never anticipated the other.

17,834. Instead of the ordinary risk of a 12 months' contract, you want to have it made that there shall be no risk?—We shall always have an element of risk, but the more we remove the risk, and the more we remove anything of that character operating, the nearer we shall get to a stabilised price.

17,835. It would be a very good idea, if you could get a guarantee, on your 12 months' contracts, that there should be no loss; that would be a very good way of doing business?—Yes.

17,836. *Professor Pigou:* At any rate, your argument seems to suggest that if a trader knows in advance what the Income Tax is going to be, he can throw the whole of it on to his customer. Is that what you mean?—No, I do not think I said that.

17,837. You say so in so many words, later on—that the whole of the duties fall on the British public?—The rates and taxes eventually fall on the consumer.

17,838. Including Income Tax?—Yes.

17,839. In other words, if a trader knows in advance what his Income Tax is going to be, he can throw it on to the consumer. I want to know if that is your argument?—My argument is that if he knows what his Income Tax is actually going to be, he will not put on a larger rate than is necessary, because competition compels him to sell at as low a rate as he possibly can.

17,840. Is it your argument that he will throw that Income Tax on to the consumer?—I think he does, eventually.

17,841. Then he is not very much interested in how big the Income Tax is?—Oh, yes, he is interested; that enters into his calculations with regard to working out his basis of profit.

17,842. But if he throws it all on to somebody else, does it much matter to him?—Yes. It enters into his price. In the making of his gross profit he must take into consideration all elements of expense, whatever they may be, rents, rates, taxes, fire insurance, staff, carriage, and everything he has to deal with.

17,843. I am still not quite clear as to your answer. Do you mean that he passes it all on?—I think it is passed on.

17,844. But if it is all passed on, it is nothing to him?—From the point of view that he must sell his goods—he must enter into competition in respect of his goods, and therefore it is an element. His price will be higher if he does not.

17,845. You seem to say one moment that he does pass it on, and the next that he does not. Perhaps I need not press that. May I suggest that when you are speaking about contracts you are really suggesting something that is varied in regard to indirect taxes—that it is very important to have them stable, but that this same thing does not really hold with Income Tax. That applies to what you argue about contracts. Of course, if a person is going to buy raw material and suddenly the tax on that is changed, the position is one of great difficulty, but I suggest that position does not hold with regard to Income Tax. Will you accept that distinction between the two?—No, I do not think I should accept that.

17,846. You would say that the trader was in equal difficulty if he did not know what was going to happen with regard to Income Tax as he is if he does not know what is going to happen with regard to the tax on some material that he uses?—Yes; for instance, if the Income Tax is only 5s. in the £ and it goes up to 10s. in the £, I think it is an essential element in his contract.

17,847. I will pass to only one other thing. In paragraph 4 you want to abolish the Super-tax and make up the deficiency by a graduated Income Tax?—A steeper Income Tax.

17,848. How would you work that practically? I mean as to deduction at the source?—I think I put it down here that where the tax can be collected by the employers from the workers they should do that.

17,849. You have not got my point. At present the Income Tax is collected at the source, at the full Income Tax rate of 6s.?—Yes.

17,850. The Super-tax people are then assessed personally?—Yes.

17,851. When you speak about abolishing the Super-tax, do you mean that everybody should pay a higher rate and then get an abatement?—No.

17,852. How otherwise would you distinguish it? I want to know what exactly it is that is in your mind?—What is in my mind is this, for instance. I think in the German system it ran from one per cent. up to about 10 per cent. when I was in Cologne. If it was necessary I would put an Income Tax from one per cent. to 60 per cent. and abolish the Super-tax and Excess Profits Duty. Income Tax would be the basis.

17,853. Surely it is a mere matter of name, so long as you do not alter the machinery. It does not matter whether you call it Income Tax or Super-tax if it is the same rate?—That is so.

17,854. What I am on is this. The convenience of the present method of assessing Super-tax is that it enables 6s. to be deducted at the source. Would you alter that? Would you make the amount deducted at the source something different, or how would you work it?—I am afraid I do not sufficiently understand your question.

17,855. *Professor Pigou:* I will not press it.

17,856. *Mr. Symonds:* Is not your point about the instability of the future tax this: that you have to add an insurance premium to your price for your risk?—Yes.

17,857. If you throw it on the consumer it makes the goods dearer for him than they otherwise would be?—Yes.

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17,858. That is sufficient even of itself, is it not?—Yes.

17,859. Does not an Income Tax of a varying rate also affect your trade in this way, that you do not know how much you may be able to put to your reserve?—Yes.

17,860. That is quite apart from what you may personally pay?—Yes.

17,861. And that, in fact, has been a very serious difficulty, has it not, since the high rate?—Yes.

17,862. In regard to your very wide proposal in paragraph 6, I wish you would think it over at your Chambers of Commerce and see how it could be done. Does it not in effect amount to this, that the control of the financial policy, not merely the method of raising revenue, but the methods and objects of expenditure, would be to a certain extent taken out of the hands of Parliament? Is not that the logical result of the proposal?—I do not want it taken out of the control of Parliament.

17,863. But it has been put to you that a future Parliament can always repeal the policy of a previous Parliament, because Parliament is omnipotent?—Yes.

17,864. Then must you not take it out of the control of Parliament?—Parliament goes in for five or six years.

17,865. Have you considered at all the method which, I believe, they have in France, under which there is a Budget Committee or Commission which really does control finance in a very considerable way?

17,866. Mr. Mackinder: But the Budget Commission is a portion of Parliament.

17,867. Mr. Symonds: Yes, but they can veto, or I think so. (To Witness): However, you have not considered the matter?—No, I have not considered that matter; I have only taken the broad outline of it.

17,868. Do you represent a large body of employers?—Yes.

17,869. You are not against collecting tax by means of a stamp, are you?—No.

17,870. Mr. Walker Clark: In reference to paragraph 1, the wage-earners' tax to be collected by employers, that is the view of the Chamber, is it?—No, I cannot say that.

17,871. It is your personal view?—Yes.

17,872. Have you consulted your own employees or any number of your own employees to see whether they would be willing to pay the tax in that way?—No, we have not. We are today collecting War Savings, and I think no fewer than four different items, and we have not the slightest trouble; in fact, we find War Savings have been going up every week.

17,873. And you do not anticipate any trouble in regard to Income Tax?—No, I believe our people would be very pleased with it.

17,874. You are speaking personally now?—Yes.

17,875. Would you suggest that the deduction of the tax should be at a flat rate, that is, at a low rate, and that there should be no deductions and no abatements?—Yes.

17,876. And should apply universally, based on the wages received?—Yes. For instance, the German system, I think, was 1 per cent. on a £40 income in a house. That was pre-war.

17,877. Not in a house, but a family?—Yes, a family.

17,878. Now paragraph 9, books of account. You say: "All traders should be compelled by law to keep books." It would be extremely difficult in some cases, would it not; say, a horse dealer or a cattle dealer?—I do not know. They all go to school.

17,879. A cabman?—They all go to school.

17,880. They did once?—Well, they ought to go now.

17,881. You would adhere to that proposal?—Certainly.

17,882. That it should be a condition of trading that a man should keep books?—Yes.

17,883. What do you consider should be the exemption limit for the payment of these weekly taxes?—I should let the Board of Trade fix that, according to the rate.

17,884. I want your idea. We have had a good deal of evidence given to the Commission on different exemption limits. What is your idea?—I have not thought of that.

17,885. Not whether it would be the present limit or doubling the present limit or reducing it?—I have not studied it sufficiently to give an answer that I should like you to take.

17,886. Then on paragraph 14, as to doing away with the three years' average. At present losses can be brought forward, at any rate, for two years?—Yes.

17,887. Would you tax a business on the profit of the previous year, and if there was a loss would that free them from tax that year, or would you bring forward the loss?—I think the idea behind this is that a man, if he has a good year, is then ready and willing and more able to pay. He may go for three years and perhaps may be in a very bad position, and it may affect him a great deal more.

17,888. What about the loss; would you bring forward the loss? At present he can bring forward his loss for two years?—No, I think I should let each year work out itself.

17,889. That is your proposal?—Yes.

17,890. Then I am rather interested in paragraph 15. You suggest the retention of General Commissioners?—Yes.

17,891. Are you a General Commissioner yourself?—No.

17,892. Your experience of them is satisfactory on the whole?—Yes.

17,893. And that applies to your Chamber?—Yes.

17,894. Then paragraph 17 is with regard to assessing partners individually. You consider that there is a real disadvantage in the present method of one partner knowing what another partner's income is?—Paragraph 17 is put in on behalf of the Chamber; it is put in by the secretary of the Chamber.

17,895. You consider there is a real disadvantage in the want of privacy?—Yes, and I think this has come to the secretary of the Chamber privately in connection with firms.

17,896. Is there also another difficulty as well that is not expressed here, namely, that sometimes it is difficult for the partners to understand their relative liability for tax?—I do not know that.

17,897. Where there are two or three partners with varying rates. The point has not been brought to your notice?—No. I understand that partners are not always very friendly.

17,898. Dr. Stamp: Just one question on your paragraph 22. Do you think that the allowance under Schedule A as a deduction from the profits in respect of part of the premises used for business should be increased?—Yes.

17,899. What do you think it ought to be?—I think it should be in proportion to the part of the premises used. It is a varying amount in different cases. I have been in the country very recently, and I can say that in the case of small drapers some of them have tremendous houses and gardens and very small shops, another man will have a very small house indeed, and his business premises are very much larger.

17,900. Take the case of an ordinary London shop where the proprietor lives over it—an ordinary retail shop making about £300 or £400 a year. What proportion do you think in that case?—I think it may be small there, but the thing varies all through the country.

17,901. You would give him half and half?—Yes.

17,902. What does he get now?—I do not know.

17,903. You say in paragraph 22: "he is allowed to charge at present against his trading profits, only one-third of the total Schedule A assessment"?—Yes.

17,904. Should not that be two-thirds?—I do not know.

17,905. Would you admit that 95 per cent. of the traders of the country in this position get a two-thirds allowance?—I cannot answer that.

17,906. It is rather material if you are asking for it to be materially increased, is it not?—Yes.

17,907. Chairman: Where do you get your figure from?

17,908. Dr. Stamp: Where do you get the one-third from?—This was prepared by my secretary, so I am rather in a difficulty. This was prepared by the secretary and he ought to be here.

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17,909. *Mr. Walker Clark:* The secretary is engaged, is he not, and could not be here?—That is so.

17,910. *Dr. Stamp:* If we substitute two-thirds, would you withdraw that then?—No, I would rather have nothing to do with it. We have a big conference on to-day at the Drapers' Hall; there are about 500 of us there; and this is rather unfortunate. I would rather the secretary came down and took some of these questions himself.

17,911. *Chairman:* I have been rather sympathizing with you for some time.

17,912. *Dr. Stamp:* Would you accept it from us that two-thirds is generally allowed?—Yes.

17,913. And on your own showing, since an average case would be half and half, that is liberal?—Yes.

17,914. *Mr. May:* I would like to be clear about what you propose as to the taxation of wages by employers. I understood from your previous answer that you propose a new form of taxation; that you do not propose that the workman should have the same relief as the ordinary taxpayer; you would tax him at a flat rate upon his wages?—Yes; I want to do away with all the exemptions, after the living limit everybody should be placed on the same basis. The difference I should make would be by graduating the tax.

17,915. Do you want to do away with all these allowances for every citizen?—Yes.

17,916. Irrespective of income?—Yes.

17,917. There is only one other point, and that is as to the collection. You say that you now collect

War Savings and other things without any difficulty?—Yes.

17,918. Do you think there would be the same agreement on the part of the employee in collecting tax from him from his wages?—I do not know that anybody pays taxes very willingly.

17,919. Then there is no real analogy between your present practice and what you propose?—I think they would do it just as willingly as they would do the other.

17,920. I think you are a sanguine man?—Possibly so.

17,921. *Chairman:* Thank you for your evidence. I do not know whether I may say that the whole of our textile trade is in a very peculiar position, especially with regard to Income Tax, and with regard to taxation generally. Our capital employed in the business to-day has to be $3\frac{1}{2}$ times what it was before the war. The difficulty is that the taxation exacted from the trade—Income Tax and Excess Profits Duty—does not allow that money to remain in our business. The consequence is that right through our trade, the textile trade, right through the City of London, and right through the country, a large amount of money has to be withdrawn from the banks in order to finance our business.

17,922. The banks have not made any objection to that, have they?—They may do so.

17,923. *Chairman:* That is everybody's case; I do not think you can claim that as being peculiar to your own; you have to grin and bear it.

Mr. MICHAEL FREDERICK C-JILL, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Memorandum of evidence submitted by MICHAEL FREDERICK C-JILL on behalf of THE UNITED KINGDOM ASSOCIATION OF MULTIPLE SHOP PROPRIETORS and THE HOME AND FOREIGN PRODUCE EXCHANGE, LIMITED, and THE RETAIL DISTRIBUTORS' ASSOCIATION.

Bodies represented.

17,924. (1) The United Kingdom Association of Multiple Shop Proprietors of Oxford Court, Cannon Street, E.C., consists of the greatest of the multiple shop proprietors of the United Kingdom, having an aggregate capital of approximately twenty million pounds and possessed collectively of approximately 5,000 retail shops, in addition to numerous factories and productive establishments.

The Home and Foreign Produce Exchange, Limited, is an association of all the leading importing and distributing firms engaged in the provision trade (bacon, lard, ham, cheese, butter, eggs, canned goods, etc.) in London and the Home Counties, representing approximately an aggregate capital of £80,000,000.

The Retail Distributors' Association is an association of all the leading London stores, with an aggregate capital of approximately £20,000,000.

Taken collectively the members of the three associations represent approximately a capital of £120,000,000 and comprise approximately several million shareholders.

Qualifications of witness.

17,925. (2) I am solicitor to the Multiple Shop Association, admitted in 1909, but having upwards of 25 years' legal experience in London. Throughout the whole of the food control until I took up my present appointment I acted as staff solicitor and executive food officer to one of the larger multiple shop firms, and I have become proportionately acquainted with all trades affected by the food control. I am also a member of the Retail Grocers' Advisory Board as the Ministry of Food, and I possess both legal and trade knowledge, and in particular I have been brought largely into contact with the co-operative trading and its activities, and I have made a

thorough study of the subject of my evidence, endeavouring to go back to the commencement of the 19th century thereon. I submit therefore, that I am well qualified to represent, as I do, the three associations above-mentioned upon the subject of the non-payment of Income Tax by Co-operative Societies to which alone my evidence is confined.

Errors of authorities.

17,926. (3) I desire to submit that the exemption of Co-operative Societies from tax under Schedules C and D rests upon errors of fact and law on the part of the authorities. Indeed had it not been for these errors it would in my judgment have been impossible for the Inland Revenue views to have been continuously so divergent from the views of the entire business community other than the Co-operative representatives.

The same errors vitiate the public statements of various Chancellors of the Exchequer and the Report of the Departmental Committee on Income Tax of 1905, and also the memorandum of the Deputy Chairman of the Board of Inland Revenue, furnished to the 1905 Committee on this subject which I shall respectfully urge is erroneous for the reasons hereafter given. It would indeed have been extraordinary if (as alleged by him) the Legislature had granted this tax exemption for the sake of "administrative convenience" in 1852, as at that time the abolition of the tax was almost immediately expected. Further, if that had been the reason, it is strange the exemption did not also extend to Schedules A and B and to other bodies. The only other reason alleged by him, viz: a House of Lords decision more than 36 years subsequent to 1852 obviously was not conceived by Parliament.

The errors mentioned are as follows:—

- that the dividends paid by societies are not profits within the meaning of the Income Tax Act; but (*vide* 1905 Committee's Report) are "merely a return to members of sums which they have paid for their own goods in excess of the cost price";
- that it is idle for the societies to pay tax as the whole of the tax (except perhaps a minute portion) would be reclaimable by

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the members, the immense majority of whom are in receipt of incomes below the taxable limit.

I shall respectfully but strongly submit that for the reasons hereafter given these statements are contrary to fact and law. I desire to lay particular stress upon these errors as I earnestly wish the Commission to discharge me from all suspicion of presumption or lack of deference to the eminent persons whom I am arraigning; and I respectfully point out that as their opinions were founded upon errors of fact it follows that those opinions are of no authority and that I may without presumption ask the Commission to consider the matter completely afresh.

Nature of Co-operative Societies.

17,927. (4) The expression "Co-operative Societies" is merely another name for Industrial and Provident Societies formed under the Industrial and Provident Societies' Acts. They are not now Friendly Societies, and Friendly Societies are not within the present subject.

Industrial and Provident Societies (hereinafter called Co-operative Societies) are purely and simply trading associations formed under the Industrial and Provident Societies' Acts (co-operative evidence 1905 Committee, Answer 3714). They are statutory trading corporations having perpetual succession and a common seal under the Statutes on which they rely entirely for their existence; they are separate legal entities and they are regulated wholly by the provisions of the Statutes and the rules of the societies which are compulsorily registered with the registrar of these societies, pursuant to the Statutes. They are precisely analogous to the limited trading companies registered under the Companies' Acts, the registered rules fulfilling a like purpose to the articles of association of a limited company. Apart from the tax exemption and certain internal privileges (not here material) which have been conferred upon Co-operative Societies the comparative positions of limited companies and Co-operative Societies are absolutely identical with one exception, namely, the capital of limited companies is fixed and permanent, but there is no limit to the share holding of any individual member, whereas the capital of Co-operative Societies is unlimited and variable, but no individual member (other than a Co-operative Society) may hold more than £200 worth of shares. Other Co-operative Societies may have an unlimited holding, and both individuals and other societies may and do lend money to the society in addition.

And I shall earnestly submit that the profits of Co-operative Societies are precisely the same in composition, and are obtained by the same means, as the profits of limited companies, and should be similarly treated for the purpose of Income Tax. I shall further submit that the position of shareholding customers (an enormous number) in limited companies is directly analogous to that of member customers in a Co-operative Society: that the dividends respectively paid to each are alike in origin and composition, and that they should be treated alike for taxation purposes.

Evidence to be used.

17,928. (5) The evidence concerning the nature and trading operations of Co-operative Societies is to be sought in the Statutes creating and governing them, in their registered rules under those Statutes, and in the audited accounts published by them and annual trading returns compulsorily filed by them with the official registrar; and it is to the authentic evidence comprised in these sources that I respectfully crave the most earnest attention of the Commission, because notwithstanding the most diligent search, I cannot find that this evidence has ever hitherto received attention from any committee or official watcher.

Societies' present exemption.

17,929. (6) The exemption of Co-operative Societies from tax is now contained in section 39 (4) of the Income Tax Act, 1918, which is as follows:—

"A society registered under the Industrial and Provident Societies Act, 1893, shall be entitled to exemption from tax under Schedules C and D, unless it sells to persons not members thereof, and the number of its shares is limited by its rules or practice, but no member of or person employed by the society shall be exempt from charge to the tax to which he would otherwise be liable."

The Statute merely codified the law and repeated previous enactments to the like effect. The effect of the Statute is that provided a society does not (either by its rules or practice) limit the number of its shares (a matter entirely within its own power), it may (as it does) trade freely with all persons, members or otherwise, without liability to tax under Schedules C and D.

Repeal desired.

17,930. (7) The associations for whom I speak respectfully ask that the foregoing exemption shall be wholly repealed.

Societies affected.

17,931. (8) There are more than 4,000 Co-operative Societies registered; but the societies who object to this repeal, I believe, comprise only the 1,400 odd societies included in what is known as the Co-operative Union, and I propose to direct my evidence particularly to them. I produce a list of the societies in question, about 1,400 in number, contained in the Co-operative Directory issued by the Co-operative Union.

Extent of annual profits escaping taxation.

17,932. (9) The societies comprised in the Union may be roughly classified as follows:—

Distributive (i.e., retail) societies ...	1,306
do. federations ...	5
Productive societies (manufacturing) ...	97
Supply associations ...	3
Special societies ...	4
Wholesale societies ...	3
	<hr/> 1,478

The share and loan capital of these societies with their sales and profits for the year 1917 are stated as follows:—

Union societies.

Union societies.	Capital.	Sales.	Profits.
	£	£	£
Distributive societies ...	46,746,483	142,093,612	15,961,591
Do. federations ...	29,724	129,139	8,632
Productive societies ...	1,804,504	5,145,452	539,740
Supply associations ...	488,888	1,712,748	58,692
Special societies ...	56,703	480,334	29,384
Wholesale societies ...	11,578,800	75,641,542	1,821,647
	<hr/> £69,205,198	<hr/> £224,813,795	<hr/> £18,394,686

During 1918 these figures are stated to have increased.

A comparatively trivial portion of the profits should have borne tax under Schedules A and B: but except for that the whole of this £18,394,686 has not paid any tax whatever. It does not pay tax while in the possession of the society because of the statutory exemption: and the portion distributed as dividends to the co-operative members does not pay any tax in the hands of the members because of the express direction of the Inland Revenue (see Form Q1, Quarterly Assessment, page 2) that the same are not profits and are not to be brought into account by co-operative members for any purpose either for taxation or for ascertaining whether the member is liable to tax at all, or for assessing the rate of tax applicable to his income.

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The considerable sums retained by the societies and applied to reserve fund and other purposes also completely escape taxation because of the Statute; whereas a limited company does pay tax upon its undistributed profits and the shareholders pay tax on the distributed profits by deduction from their dividend. It is erroneous therefore to say (as on page 62, 1905 Appendix) that there is no real exemption of the co-operative profits from tax since the tax is paid by the assessable members thereon when they receive them; because firstly this is not the fact (see above) and secondly the statement omits all reference to the considerable profits which are not distributed but retained by the societies.

Other societies.

17,933. (10) In addition to the 1,478 societies comprised in the Union there are some 2,500 other registered societies of various kinds who also escape taxation within the limits of the exemption. These other societies have annual sales amounting approximately to £150,000,000, but I do not know the amount of the profits thereon.

Preference not desired by societies.

17,934. (11) The Co-operative Union societies "ask for no exceptional treatment by way of exemption." (Co-operative Union memorandum, page 67 of Appendix to Report of 1905 Committee.) They do not claim any special treatment or privilege but assert (vide page 61, the said memorandum) that they have not enjoyed any exemption from tax beyond that which is enjoyed by every other citizen; and they scarcely see (answer 2774, Appendix, 1905 Report) that the exempting section "gives us any advantage that we would not have if it had never been passed." These statements are not in accordance with historical fact, and indeed it would have been singular if Parliament had repeatedly enacted an exemption for the purpose of making no difference; but in view of these statements it is only necessary for me to deal with the present day objections to the repeal of the exemption.

Sole objections to repeal.

17,935. (12) Those objections, as I have before stated, are two in number (vide 1905 Committee's Report, co-operative memorandum, page 61 of its Appendix and Inland Revenue statement, page 44):—

- (1) that the "dividends" paid by societies are not profits within the meaning of the Income Tax Acts; but (vide Committee's Report) are "merely a return to members of sums which they have paid for their own goods in excess of the cost price";
- (2) that it is idle for the society to pay tax, as the whole of the tax (except perhaps a minute portion) would be reclaimable by the members, "the immense majority" of whom are in receipt of incomes below the taxable limit.

These objections are curious, for if the first objection be valid, there would be no real exemption at all (vide co-operative evidence Q. 2774, 1905 Committee and statement of Deputy Chairman of Inland Revenue, page 45); and if that were so, the second objection could not arise.

Second objection (collection).

17,936. (13) The second objection is, however, wholly immaterial. It relates primarily to the general method of collection of tax, and it is an objection to the cardinal principle of Income Tax collection at the source, and all the reasons in support of that principle may be cited against it. There is no reason why members of Co-operative Societies should be an exception to the universal method of collection applied to members of limited companies, railways, building societies and other associations, all of whom might make the like objection with greater, equal or less force according to the incomes of their respective members. It is ridiculous and contrary to fact to consider that

because a man is a member of a Co-operative Society his income is below the taxable limit, and that because a man is a member of a limited company or building society he has an income above such limit. On the contrary I respectfully submit that the shares of limited trading companies, such as I represent, comprise a very considerable part of the savings of the poor and middle classes; and that if Co-operative Societies are to be free from taxation at the source, because some of their members may have non-taxable incomes, then there is no valid reason why limited companies should not be given the same freedom, which in fact is a material advantage, as it means that undistributed profits escape taxation. It is in my judgment not the fact that the majority of co-operative members have incomes below the limit of assessment. I myself am aware of contrary instances, and apart from this I observe that the Union societies are not qualified to speak of the incomes of the members of non-union societies. Neither can they speak with any certain knowledge even of union members.

I see also that the membership of the Co-operative Union societies alone was 1,944,427 in 1905, but that in 1917 the membership had increased to 3,835,376, which again increased in 1918. Moreover any person, rich or poor, alien or British, may become a member of a Co-operative Society, and it is the declared aim of the movement to unite everybody within its fold. The whole community therefore are to be regarded as potential members, and it is not true to describe those societies as societies composed only of working men or of the poorer classes. On the contrary, by reason of their prices and other causes, they are generally unable to cater for and do not include the poorer classes, and I have before me publications admitting and regretting this.

In fact therefore the administrative convenience lies in bringing them within the general rule, as it is much more convenient to collect tax in one amount and repay any excess collected than it is to peruse 3,835,376 individual returns and make separate assessments for the several portions of the tax found payable. Indeed, administrative convenience in fact never did have anything to do with the original enactment of this exemption. Had it done so the exemption would, I submit, undoubtedly have been extended to other bodies (e.g., building societies) and also to Schedules A and B, for if the members of the societies are not assessable to tax under C and D neither can they be assessable under A and B. Hence what they consider a positive injustice to them will be rectified by bringing them within the general method of collection. In truth this second objection is a mere afterthought and belated argument adduced to bolster up the case for the co-operative exemption, just as the first objection itself is likewise mere afterthought founded on a House of Lords decision of 1889, and mistakenly applied by the Inland Revenue to co-operative dividends in 1901.

Undistributed profits should be taxed.

17,937. (14) Before proceeding to the first objection I point out that both the first and second objections pass over without mention the large sums which each society since its institution has retained and not distributed at all either as dividends or otherwise. Many of the societies are of long standing, and it is not too much to say that the undistributed profits, extending in some cases back for 50 years, together with the accumulated income therefrom, represent a large portion of the capital assets of the Co-operative Societies at the present time. Under the rules of the societies these undistributed profits are, as a general rule, not distributable at all, nor is it intended that they shall be; with the result that millions of capital have now accrued to the societies in the course of years, to a great part of which no existing member has contributed even a penny, and practically the whole of which, and the annually recurring income on which has not paid and does not pay a penny of Income Tax. I am not able to conceive any reason why these undistributed profits should not be taxed.

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Those undistributed sums generally comprise, at least, the following items:—

- (a) an annual 10 per cent. reduction of the value of the fixed stock;
- (b) an annual depreciation allowance on shops, warehouses, trade buildings, land, houses and dwellings;
- (c) an allocation to reserve fund.

The effect of these provisions is that the assets of the Co-operative Societies are of much greater value than the sums at which their value is stated in their accounts. Owing to the constitution of these societies, every member on death, or withdrawal, or removal, merely receives the amount of his share capital or other amount standing to his credit. He does not receive or get any payment for any interests he may have in the undistributed profits which accrued while he was a member; and the result therefore in the course of years is to accumulate (and annually to increase) a large corporate fund in the hands of the society to which the existing members have no moral claim and which, with its income may, I submit, be taxed without hardship to anyone.

I respectfully urge upon the Commission the fullest consideration of this paragraph and that with regard both to the wholesale and retail societies.

First objection: profits not chargeable.

17,838. (15) Turning now to the first objection, namely:—

That the co-operative dividends are "clearly not profit but merely a return to members of sums which they have paid for their own goods in excess of the cost price."

Non-members' trade is chargeable and is of large extent.

17,839. (16) I point out first that this objection applies and is expressed to apply only to dealings with *members* and profits paid to members. Dealings with non-members are admitted to be chargeable (*vide* 1905 Committee's Report). The objection therefore limits itself in practice to the extent to which members buy the goods of their own society, that is in practice mainly the wholesale and retail distributive societies of the Co-operative Union. Where a society is a productive society and therefore aims at producing for consumption or use by others, its transactions must obviously consist (*vide* Inland Revenue memorandum, page 47, Appendix 1905) of sales to non-members, for otherwise the society would be distributive as well as productive.

But while the 1905 Committee rightly held and the Co-operative Union rightly admit that profit on dealings with non-members is chargeable they are both wrong in considering such profit very small in amount.

Their errors were three:—

(a) They overlooked the societies outside the Co-operative Union. There are, I believe, at the present time more than 2,500 of such societies, and, I believe, the majority of them are "productive" in their nature and do not in any way pretend to sell to members only. It is notorious that during the war numerous food-producing societies (e.g., agriculture and fisheries) have been formed. These societies obviously are not, and were never intended to be, associations of consumers. Here, therefore, would appear to be a large amount of non-members' trade. The Registrar-General of Friendly Societies' Report for 1917 gives at page 82 the following figures (amongst others) for the year 1916:—

—	No. of Members.	Annual Sales or Income from Business.
		£
1,208 Agricultural societies ..	158,947	11,127,744
151 Productive do.	58,557	5,295,490
703 "Business" ..	116,468	142,545,941
211 Land societies ..	25,311	439,597
15 General development societies.	8,472	28,432
		£158,946,280

For fear of inaccuracy I do not attempt to give the profit on this annual trade, because it is not clearly ascertainable from the Reports, but inasmuch as all these societies are registered under the Act, they are entitled to the Income Tax exemption mentioned. The foregoing figures do not include the wholesale and retail distributive trading societies for the year 1916. Had they been included, the total of the annual sales for 1916 would have been £351,622,129.

(b) They overlooked the non-members' trade of the "productive societies" and "supply associations" given above. As these societies are "productive," obviously the bulk of their trade must be with non-members, as it would be ridiculous, for instance, to imagine a boot factory producing boots for itself alone. The profit for 1917 of these societies is given as £418,342.

(c) They under-estimated the non-members' trade of the wholesale and retail societies of the Co-operative Union. The amount of sales in, and dealings with, non-members by the wholesale societies is considerable. (The Scottish Wholesale Society alone shows an admitted sale to non-members for the half year ending December, 1918, of £1,103,705 14s. 3d.)

The non-members' trade of the retail societies is also extensive, for instance, the sales of the Plymouth society to non-members during the half year ending March 1st, 1919, amounted to over £80,000. Similarly, the Leeds society sold to non-members during the half year ending June 10th, 1919, £70,346, and other societies respectively show other totals.

Members' trade is chargeable.

17,840. (17) Turning now to trade with members, I deal directly with the objection made and meet it by a flat and absolute denial, and I say that it is wholly and directly contrary to the fact, and I prove this by the audited accounts and reports and official annual returns of the societies themselves.

I select at random one account as an example of all, and I take the half-yearly accounts of the Plymouth society to March 1st, 1919. The society is both distributive and productive; as distributive it carries on the business of grocers, drapers, boot and shoe dealers, butchers, furniture dealers, hardware dealers, tailors, coal merchants, ironmongers, earthenware dealers, jewellers, milliners, flour dealers, restaurant proprietors, milk sellers, oil merchants, greengrocers and outfitters. As productive it has factories as follows:—Baking, boots and shoes, flour mill, farms, market garden, saddlery, firewood, works department, dressmaking, millinery, tailoring, laundry, window cleaning and a jam factory. It has selling branches at Plymouth, Devonport, Stonehouse, Millbrook and Torpoint. Its grocery shops number 34, its butchers' shops 27, its boot and shoe shops 8, its dairies 22, its drapers' shops 5, its furniture, ironmongery, tailoring and coal each two departments, its greengrocers' shops 24, its hatters' shops 13, making in all, approximately, 141 departments or shops. I emphasize particularly (a) the different nature of the different businesses; (b) their great number; (c) their distribution over a wide area, though other societies have branches much more widely scattered; (d) the numerous and widely differing articles dealt in.

17,841. The accounts show separately the profits on each of the various shops and businesses. The total profit from all businesses was £85,978 17s. 8d. This was earned in different proportions by the different businesses; the 34 grocery shops, for instance, earned in different proportions £23,730 10s. 5d., and the accounts show that while the grocery order department made a loss of £100 10s. 7d. the individual shops respectively made different sums as profits, and the given rates of profit per £ sales at each individual grocery shop vary from 8d. to 1s. 11d. in the £. The shops also being situated in different localities the customers of the different shops are not the same (as indeed would be impossible under the food control

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so far as concerns registered customers). The 27 butchers' shops likewise show different sums and different rates of profit, and similar remarks apply to the other businesses and shops of the society, except that the following departments show the following losses on trading:—

	£	s.	d.
Grocery order department	100	10	7
Devonport prices dairy (rounds)	172	9	9
Peverell greengrocery shop	3	18	5
Cattedown Road do.	18	14	7
Laira do	21	14	7
Whymington House	252	8	3
Valletort Place and Notte Street kitchens	168	7	4

17,942. The aggregate sales receipts from all trades appear in the general trade accounts as £980,243 6s. 5d., and the net balance of the trade account is carried to profits and loss. The profit and loss account includes the trade profit plus certain additions arising from insurance commission and investments, and a net disposable profit for the half year is shown of £82,197 3s. 7d. £4,109 odd of this is placed to reserve fund and education, certain other deductions are made, and a sum of £77,963 10s. is distributed by way of dividend on members' purchases at a uniform rate of 1s. 9d. in the £. It will be noted that this £77,963 10s. represents the aggregate profit of the society from every source for the half year, and that there is absolutely no difference in the method of acquisition of these profits between the Co-operative Society and a limited company.

All the purchasing members of every business of the society and at every shop wherever situated received this 1s. 9d. dividend for the half year, irrespective of and notwithstanding the facts:—

- that the grocery or other customer may not have been a customer during the whole of the half year or for more than one article or at more than one shop or in more than one business (nor is it likely that a Devonport customer would have gone to Plymouth for supplies obtainable at Devonport);
- that the shop or business at which the customer bought actually made a loss on trading in some seven instances;
- that the article bought by the customer may have been actually bought at less than its cost price; an occurrence which within my own personal knowledge not infrequently happened during the food control;
- that the rate of profit on the customers trading was frequently considerably less than 1s. 9d. in the £, as is shown by the said accounts varying from 1½d. in the £ at Patna Place greengrocery to 4s. 7½d. in the £ on the Plymouth drapery department.

17,943. I accept in the fullest manner the co-operative statement (page 62 of 1905 Appendix) that "It has always been understood and also carried out in practice that the object of the Income Tax is to charge the income of each individual citizen," &c., and the same is confirmed by the Inland Revenue memorandum (page 45, Appendix, 1905). Accepting this statement, is it not clear that the 1s. 9d. dividend is not in any sense a return to the individual member "of a sum which he has paid for his own goods in excess of the cost price" (as stated by the 1905 Committee)?

Surely such a statement is not only wrong, but it is obvious that it must be wrong, for the cost price and cost of distribution varies in every business and in every locality (even if only by reason of the different freight), and in every business the cost prices and cost of distribution and rates or profits vary on each and every article, and this particularly was so during the food control, when within my own knowledge various articles of food were sold at an actual loss; and yet it seems to be seriously asserted that the buyer of goods sold to him by the society at a loss to them receives back as dividend the non-existent excess over their cost which he did not pay, and that although those goods

may have been the only goods bought by him. What in actual fact the purchaser does receive is a portion of a periodical (in this case half-yearly) dividend arising out of the aggregate profits and receipts of the society from the numerous different businesses of the society and the widespread shops and establishments where the same are carried on, plus the income and profits arising from its investments and occupations of all kinds. If the objection now in question were well-founded in fact, how remarkable and extraordinary a thing would it be that everyone of the buyers of the £980,243 worth of goods sold by the Plymouth society had uniformly paid one and the same rate of excess in the £ on the cost of their respective purchases, and how profitable for instance for the member in February, 1919, to have bought canned salmon at a price much below cost (pursuant to the Food Controller's order) and receive a dividend upon the purchase in March.

Whether the dividend be treated for the business as a whole (as I have treated it above) or distributively in respect of any particular business or individual shop the same result invariably appears, for the cost and profit and expenses on every kind of goods vary with the trade and locality; and how may it be said that the profit on (say) tea may be returned to (say) the buyer of margarine as an overpayment by him for margarine purchased below cost.

17,944. Turning now to the large wholesale transactions, corresponding remarks apply to the case of the large profits and dividends which have been paid by the wholesale societies to the retail societies who (apart from certain employees) form their only members.

I produce the Co-operative Wholesale Society's annual report for the year 1918, and I direct attention to the great number of the businesses of these societies, their British and foreign businesses and their numerous factories: and I respectfully point out that in addition to being importers, manufacturers and dealers in commodities of almost every kind, they carry on the business of baking, insurance, milling, engineering, mining, shipowners, wharfingers, farmers, carriers, cutlers, bleaders, tin-plate workers, felloesmen, sockcrushers, printers, publishers, architects, book binders, box makers, lithographers, and all the other numerous businesses set out in the work referred to. I call attention to their balance sheet set out in the book showing their enormous investments, reserve funds, &c., and again I respectfully urge and insist that the fund which the wholesale societies distribute by way of dividends is in its turn the composite aggregate of all the profits arising from all its innumerable activities and the income of its enormous investments. And yet here also it is asserted that the dividend paid is merely a return to the retail society of a sum which they paid for their own goods in excess of the cost price, as if, forsooth, the income derived by the wholesale societies from their enormous investments and the profits of businesses, of which the retail society bought nothing (and which are often established long before the retail society was formed) were returns to the retail society of an excess cost price paid by it for something it never bought.

The effect to the Revenue is that as to the retail society tax is lost on the retail profit, and as to the wholesale society tax is lost on the wholesale and manufacturing or importing profit in addition. If foreign countries insist upon the societies paying tax in respect of their foreign businesses, the curious spectacle is presented of societies supporting foreign nations and objecting to support their own country. The consideration of the foregoing will, I think, substantiate that the co-operative dividend is not a return to any member of a sum paid by him for his own goods in excess of the cost price and that the conclusion of the 1905 Committee in this respect was erroneous.

Misconceptions.

17,945. (18) As I understand I shall have the pleasure of an audience before the Commission, I

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strive to be brief, but the matter is of such importance and subject to such widespread misconceptions that I beg to be allowed to dispel the more important.

Distribution at cost is not attempted.

17,946. (a) And first I remark that with regard to the Co-operative Societies now in question it is directly contrary to the fact to suggest that the idea of co-operation of course is "that certain persons shall join together for the purpose of purchasing at cost price and distributing to the members the goods at the cost price plus the cost of distribution." (Question 2708, by Lord Ritchie, Appendix to 1905 Committee Report.) This statement is wholly imaginary, and has at the present day no relation to fact. I cannot find any such agreement, and I have sought in vain to know when, and between whom, such contract was made and what were its terms, and how such contract if made provided for the return of a (non-existent) excess price on goods sold at a loss, or for the distribution of the profit and income of enormous outside investments and extraneous businesses, and for ascertaining the precise excess returnable to the individual contractors on the individual articles bought by them. Nor can I see what application such fictitious and imaginary contract has to the actual facts concerning the co-operative trade.

Island Revenue legal error (1901), that dividends are not profits.

17,947. (b) Secondly, I refer to the remarkable error made by the Island Revenue in June, 1901, when it expressed the following opinion: "In the case of a Co-operative Society in the strict sense of the term, which sells goods only to its own members and returns any surplus of receipts over expenditure to the members in proportion to their respective purchases, the Board consider that it would be inconsistent with the decision of the House of Lords in the case of the New York Life Insurance Society v. Styles to hold that the proportion of purchase money so returned constitutes a profit chargeable with Income Tax; but any sums paid by way of interest or dividend on share capital would be chargeable, and in the case of a society which deals with non-members any portion of a dividend attributable to the profit derived from the sale of goods to persons who are not members would also be chargeable."

This opinion contains the following erroneous assumptions:—

- (1) that there are societies who sell to members only (a statement substantially untrue);
- (2) that the dividend paid on purchases is a "proportion of purchase money returned," an assumption which I have urged is not the fact;
- (3) that the sale of goods is the only occupation of the society dealing with members only, and that the receipts from such sales alone constitute its profit, assumptions which are not accurate;
- (4) that the case of New York Life Insurance Society v. Styles applies to the question, an assumption wholly wrong for the reasons hereafter given; and
- (5) that therefore the dividend paid by Co-operative Societies to members or non-members is not a profit chargeable with Income Tax in the hands of the members.

17,948. I have endeavoured to show above that as regards each purchaser the dividend paid to him by societies on his purchases is not a return of a portion of the purchase money paid by him, but on the contrary is a share of the surpluses or profits derived by the society from all its numerous trades or businesses, from its investments and property and from dividends on purchases or otherwise received by the society from other Co-operative Societies. I have shown that even (as is not infrequently the fact) if the price paid for the customer's purchases

were below the cost to the society, and even if an actual loss is made by the society on the individual customer's trade, that customer gets the dividend notwithstanding, from the profits of the other branches and businesses of the society, and with deference I assume that I have substantiated that the second and third assumptions named were erroneous.

17,949. With regard to the fourth assumption, the decision of New York Life Insurance v. Styles related to the case of a mutual insurance society, in which all the policyholders *ipso facto* constituted the members, and the only members, and there was but one subject-matter, namely, the insured risk, which was but one risk alone common to all the members; the decision was that in these circumstances where the members paid in advance premiums of an estimated amount required to cover the risks for the year and the necessary expenses of the company, any surplus of such premiums returned to members was not income but a "saved expense." In this case there was but one business, namely insurance; there was but one risk, namely death; the members were co-incident with the company and each member was equally interested with each of the others. Paraphrasing the case in co-operative terms, it is exactly as if a Co-operative Society were formed for the sole and only purpose of buying sugar (or some other single divisible commodity) and of dividing up the same equally between its members and to others, the sole fund for buying the sugar being an advanced sum equally contributed by the members and no others and the excess of which is returned to them. The parallel is exact, and I submit completely disposes of the suggested application of the case to Co-operative Societies, as no such society exists and no such transaction ever in fact takes or has taken place. The decision could only apply if at all to Co-operative Societies if the Insurance Company had carried on numerous other businesses with large investments and traded with numerous other persons in all its businesses, in which circumstances the case of *East v. London Assurance Company* (10 A.C., page 438) shows that the House of Lords would have come to exactly the opposite conclusion.

17,950. That the fifth assumption was erroneous appears. I submit from what I have already said and from the dicta of the judges in the decision already mentioned and in the other decisions therein cited. "Profit is the excess of receipts over expenditure." The fact that "this surplus is to be applied in any particular way does not make it cease to be profit" (*East v. London Assurance Co.*, 10 A.C., page 438). In *Meesey Dock v. Lucas* (8 A.C., page 891, 903, 904, 905 and 912) the word "profits" is defined as meaning the income of the concern after deducting the expenses of earning them: "the gains of a trade are what is gained by the trading for whatever purpose it is used." Applying these definitions it is not clear that the composite funds from which dividends on purchases are paid are trade profits in the clearest and most ordinary sense of the word?

Buyer and seller are not identical.

17,951. (c) I beg leave, thirdly, to refer to the statement in *Income Tax Practice*, page 147, by W. R. Snelling of the Island Revenue, and repeated by the Co-operative Societies in their pamphlets on this subject, that "there is no liability to Income Tax in respect of any surplus realized. The principle underlying this is that there must be two parties to a trading transaction. When the buyer and the seller are identical there is no trading, and any so-called surplus is not the profit of the trade." This passage differs from the Departmental Committee's Report, but so far as intelligible is directly contrary to the fact, as it loses sight of the cardinal fact that the Co-operative Society is an independent legal entity and the exclusive owner of the business and its assets, and that the sale and purchase of goods is an independent and valid sale by the corporation to the member. It might almost as well be argued that on a sale by a limited company to a shareholder the parties were identical and if the argument were legally true no debt would be created and the society could not recover its money.

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[Continued.]

Societies would not trade without profit.

17,902. (d) I hesitate to dignify by notice many of the unfounded arguments by which this exemption is supported, but at the risk of being tedious I venture to refer to two more of them, and fourthly I refer to the statement by the Deputy Chairman of the Board of Inland Revenue, at page 48 of the Appendix to the 1905 Report: that "if the societies instead of charging (as they do) something like ordinary retail prices, and distributing the savings in the form of 'dividend,' were to reduce their prices so that their takings just balanced their outgoings. There would then be no profit which could possibly be assessed." This statement shows a non-acquaintance with trade and co-operative accounts, but the meaning is intelligible and the answer is that the suggested reduction in price by the Co-operative Societies is quite impracticable as a business proposition, but that if it did occur the reduction would at the present day be a remarkable public benefit and reimburse the public (or some of them) for the undue share of taxation they now pay by reason of the co-operative exemption.

Dividend is not a discount.

17,903. (c) Fifthly, I refer to the co-operative statement (page 64 of Appendix to 1905 Report) that the dividend is really a rebate or discount allowed in proportion to purchases. This is another form of the statement that the dividend is a return to the customer of an excess payment by him, since a discount is always a deduction from the account of the customer, and with that statement I have already dealt. The matter is however conclusively settled against the societies by the terms of the Statutes and the societies' rules, all of which declare the money as profits, and provide for its application and disposal, and by the actual fact that the money is in positive truth, profits and income derived from the numerous sources before mentioned.

Profits from services should be taxed.

17,954. (19) The foregoing remarks apply particularly to sales of goods, but the argument seems stronger where the societies earn money, as they largely do, for services rendered, where it has never been suggested that they should work for nothing, or that the sums earned are not profits pure and simple after deduction of the expense of earning the same, e.g., printing, building, engineering and electrical work, carting, insurance, banking. If the sums so earned by the societies are to be free of tax, it seems difficult to see why the employees who do the work have to pay tax on their salaries where they are not below the exemption limit.

Schedule C.

17,955. (20) With regard to tax under Schedule C the societies also escape tax under this Schedule on their public investments of which the English Wholesale Society alone possessed £1,370,544 odd at December 23rd, 1916, and investments of considerable sums are I understand invested in the public funds by the other wholesale societies and by the retail societies of the three Kingdoms taken collectively. The exemption under Schedule C seems continuously to have escaped attention and discussion, but I earnestly submit that there can be no possible justification why the income of these enormous sums should escape Income Tax and that especially at a time when unearned income (such as is this income) is now taxed at a higher rate than earned. The investments of the societies in the public funds amount to many millions and I refer expressly to them as being in Schedule C, but the aggregate investments of the societies in other securities, the income of which comes under Schedule D, are many millions greater. I draw attention also to the enormous interest annually received by the collective societies from loans on mortgage of dwelling houses, &c., by their members to them and to loans by one society to another, and I point out in passing that though this interest escapes

tax the 1,800 building societies of the Kingdom which lend money for the same purposes are subject to income taxation.

Income from investments and loans should be taxed.

17,956. (21) Finally, I remark that even if it were true (as it is not, but was wrongly thought by the 1905 Committee and the Deputy Chairman of the Board of Inland Revenue, page 47 of 1905 Appendix) that Co-operative Societies do not make profit and "are not primarily associations trading for profit in the ordinary sense of the word"; then Co-operative Societies as non-profit-making associations should be subject to the payment of Corporation Duty like other non-profit-making associations; but at present they escape both Corporation Duty and Schedule C and D Income Tax and receive for nothing their very existence, their liberty to trade and all the enormous benefits they have received in the past from incorporation (*vide Holyoake, History of Co-operation*). I call attention also to the large and continually increasing volume of trade done by trading associations registered under the Industrial and Provident Societies' Acts, with its consequent diminution of the taxable area of the country, and the great loss of tax to be apprehended from its extension; and I respectfully urge that the Industrial and Provident Societies' Acts, in their Income Tax exemption, form a very formidable gap in the tax defences of the United Kingdom.

[This concludes the evidence-in-chief.]

17,957. Chairman: Mr. Cahill, you have a formidable lot of books before you?—That is only in case you should question any of my statements; I want to have them so that I can show them to you.

17,958. We have your paper. You will now submit yourself to the examination of the Commissioners, and then, as you requested, if there is anything at the end of your examination that is new, it will be quite permissible for you to make a further statement. You will have the pleasure of being examined by Dr. Stamp first?—Thank you, my lord.

17,959. Dr. Stamp: Your paper, in the main, rests upon the two contentions which are stated in paragraph 3, and also restated in various parts. You refer to errors that have run through the previous consideration of this subject—first the error that the dividends paid by the societies have not been regarded as profits, and then again the error that even if they were regarded as profits, nothing would be finally paid on them because of the exemption of the members. You go on to say that you "strongly submit that for the reasons hereafter given these statements are contrary to fact and law." Then in the first part of paragraph 13, you develop the second of those points. I would like to take the second first if you would not mind. You say: "It is, in my judgment, not the fact that the majority of co-operative members have incomes below the limit of assessment." Will you tell us what was in your mind as to the limit of assessment there?—The present limit.

17,960. What do you regard as the present limit?—£130.

17,961. That is the limit of exemption for an individual, is it not?—At the moment, yes.

17,962. But, of course, there are allowances for wife and children. You agree that the average co-operative member is a householder—a working man with a wife and two or three children?—I should not agree with that at the present day. I think it probably was so in the past, and it might have been so in 1880 and about that time.

17,963. I am more interested in the present moment. The Commissioners regard it as very important that we should get what your idea on this particular point is. We know that the effective limit of liability is, on the average, very much higher than £130, owing to these allowances for wife and children, and it is probably in the neighbourhood of £200. I ask you to take the average household as consisting of a husband and wife and two and a half children, or thereabouts. If you are going to take the

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[Continued.]

limit of effective liability in the region of £200, or a little over, perhaps, do you still hold to the point that the majority of co-operative members have incomes above that?—I should hardly say the majority, in that case; I should feel inclined to say about half.

17,964. You think that 50 per cent. of the members would have incomes over £4 a week?—About £4 a week, I think.

17,965. At the present moment?—Yes, I think so.

17,966. On what do you rest that?—I rest that upon the co-operators whom I have met, and practically nothing else.

17,967. Would you say that the co-operative members are a fair sample, taken right through, of the working classes?—So far as I have met the co-operators, co-operative trading has not been exclusively working class, neither has it aimed at the working classes. I have friends, and I have one in particular, who is high in the Customs, at present, who has been a member of Co-operative Societies for years; and we all go to the co-operatives for anything that they may sell that is pleasing to us.

17,968. I think we all of us know, we will say, members of the lower middle class, if you like; some of us may even know Super-tax payers, who are members of Co-operative Societies; but, after all, one swallow does not make a summer. The wage-earning classes are so enormously preponderant in the population, are they not, that even those cases you speak of would only form a small proportion of the total membership?—The cases that I have in mind would only form a small proportion, undoubtedly.

17,969. The members of the Co-operative Societies would not be a fair sample of the community as a whole, would they? They would not have their proportion of Super-tax payers among them; they would be rather lower in the matter of income than a sample of the whole community?—I think that is so.

17,970. But you think they are not a sample of the wage-earners only?—I should say that your expression just now, the lower middle class and middle class, would about hit it. They do not comprise the top, and they do not comprise the bottom.

17,971. The whole number of Income Tax payers over £160, in proportion to people with less than £160, is about one in nine, or one in ten, so that when we are talking of an average section of the whole population, you are undoubtedly very low down in the lower middle class and the working classes. What we want to get at is whether you have any facts to give us in support of your estimate of 50 per cent. What are the impressions in your mind as to the sample?—I should say the lower middle class, to put it that way; at this time the incomes of these people would range, I imagine, from £180 to £250 or £300.

17,972. Would you think three million people have incomes between those limits at the present time?—I should say not.

17,973. What is the average wage of the working classes at the present time?—I should say about £3 10s. to £4 a week.

17,974. So that the average wage is rather below the limit of effective liability?—Taking it from you, yes.

17,975. We are very anxious, if we cannot get facts, to see how close we can get to the facts as to the proportion of members that are liable, because it is rather vital for the consideration of the whole matter?—What I am complaining about here is that there is a difference between a member of a Co-operative Society and an investor in a limited company.

17,976. I am coming to that in a minute. I want you to confine yourself for a moment to your statement that you disagree with the expressed view that the immense majority of the members of Co-operative Societies have incomes below the effective taxable limit?—That is so.

17,977. I want to refer to your paragraph 13, where you say that in your judgment that is not the

fact, and I want to find what that rests on, and whether you have any kind of evidence to support it?—I cannot give you any facts in support of that, except my own opinion.

17,978. You know that the Co-operative Societies hold the view that probably 90 per cent. of their members are below the effective taxable limit?—I knew they do.

17,979. You think that is wrong?—I do.

17,980. But you have nothing except your own personal judgment to put against it?—Exactly.

17,981. You have no figures at all to put before us?—I am sorry, I have not.

17,982. Supposing, for the moment, that there is a certain unknown proportion that are below the effective taxable limit; now consider the proportion that are above the effective limit. They are taxable at various rates, are they not, beginning at 2s. 3d., 3s., and so on?—Quite.

17,983. And very few, almost a negligible number, are taxable at 8s.?—I should imagine that is so.

17,984. So that if one comes down to what the taxes to be taken from them would be on their individual dividends, supposing they were to be taxable, you would have a very large part of them not taxable at all, and the remaining part taxable at rates far lower than 6s.?—Exactly the same thing would apply to shareholders in the limited companies which I represent.

17,985. I am coming to those in a moment. Now let us take the comparison that you have given us of a limited company, in paragraph 17. You say: "It will be noticed that this £77,362 represents the aggregate profit of the society from every source for the half year, and that there is absolutely no difference in the method of acquisition of these profits between the Co-operative Society and a limited company." Now Income Tax is, really, a personal tax, is it not, in the last resort?—Quite.

17,986. Therefore our concern is in regard to the personal receipt, rather than the way in which the profits are made by the business?—Yes.

17,987. Suppose that you have a limited company in which there is a shareholder with one share in a hundred, but as a customer he buys the whole of the goods and the company makes a substantial profit out of his purchase. What he gets eventually, on his share of the capital, is the hundredth part of the profits, is it not?—Quite.

17,988. Suppose you have a Co-operative Society where one member out of one hundred buys the whole of the goods, supposing such a case could be, what he would get out of these profits would be the whole surplus, would it not?—That is so.

17,989. Can you say that there is absolutely no difference between the two cases?—There is no difference whatever in the method of acquisition of the profits. The manner in which they are made and obtained is exactly the same. You are regarding more the method of distribution—the method of division of the profits—and, if I am permitted, I should like to say that the method of division of the profits, when made between the members, is purely an arbitrary matter, and I am not able at the moment to see that it has any bearing on the liability to Income Tax.

17,990. Assuming that these profits are comparable—profits made in the hands of the business—when you come to consider the question of a personal tax there is a very radical difference, is there not, in the method of distribution?—In the method of division, yes.

17,991. One of them receives a dividend on the capital he has put in and the other receives a discount on the goods that he has bought?—Yes, but in both cases the sums received by the individual investor are the same in character, although the amount received is different; because if I have a certain number of shares in a limited company, and I receive my dividends upon them, those dividends, in fact, represent a return to me for the use of my capital, and a share of the profits made by the company in trading; and the co-operative member is in exactly the same position, although the method of division of the profits between the co-operative members is different from that pursued by a limited company.

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[Continued.]

17,992. So that you adhere to the view that even in the hands of the individual these two profits are analogous?—Undoubtedly.

17,993. Despite the immense disparity there might be in the method of distribution?—Exactly.

17,994. That is your convinced view after considering the matter?—Yes.

17,995. Just another question or two upon that. Suppose that Brown, Jones and Robinson decided that green-grocery was very expensive; they have got good big gardens, and they decide they will grow their own potatoes, and they say we will employ a man to do the digging for us and pay him his wage, and after that we will have the produce ourselves. Then they say we are not certain that we are going to take it equally; we had better have some method of adjusting the arrangement. Then they say: "let us supply ourselves at cost price." One of them says: "I will advance the money until such time as we have worked the gardens for three months and we know what the cost price is"; and when they meet one evening, he says: "now, the cost price of all these articles is so much, and you have to pay so much, and you have to pay so much, and I have to pay the balance." Have they made a profit?—Undoubtedly they have, and I am going to show it, if I may, in this way. That is the whole fallacy of the co-operative movement from start to finish. If Brown, Jones and Robinson agree to buy goods at a certain price, that is a joint adventure on their part. They combine together as a combination, or partnership, a different entity to the individuals. If Brown takes something out of what is bought, then as a general rule it is impossible to assess the portion that he takes, because it has no particular apportionable value attached to it. Therefore, if the partnership sells that portion to him at a price, there may or there may not, but there probably is ultimately, and in point of fact, as I shall hereafter be able to show, there must be, a profit on the transaction; and then the mere fact that the three ultimately divide the balance of the profit between them, makes no difference.

17,996. No, I did not come to that. I postulated this: that somebody lent them the money to go on with, or that they did not pay their bills, if you like. No money passed. They ascertained the cost price of the goods, and then each of them pays up his share of the cost price of the goods. Have they made a profit?—If they have merely shared expenses, they have made no profit; but in the ordinary case it is not possible to do what you are suggesting should be done.

17,997. I am coming presently to the next case; I merely wanted to take you on the first case to begin with?—I should like to add that, in point of fact, those are not the facts in the case of Co-operative Societies.

17,998. I am not suggesting that they are; I am only trying to get at the principle of profits in your mind.

17,999. Mr. Kerly: Do you mind if I put a question? Would it be correct if you had answered Dr. Stamp that they made a profit, but that if they divided in kind, the profit is not ascertained?—That would be a perfectly correct statement.

18,000. Dr. Stamp: I want to know what the profit is, if they made a profit.

18,001. Mr. Kerly: The difference between the value of the things and what they bought them for?—That is, if I may say so, the great point in this matter. If you make your profit in kind, no tax accrues, but once the element of price does come in, then the tax comes in.

18,002. Dr. Stamp: I have not raised the question of price. Perhaps the market is a long way off, and we do not know what prices are, and we are not very much concerned; we supply our own vegetables and then we divide them between Brown, Jones and Robinson. In that case is there a profit?—No, in that case there is simply a division of expenses.

18,003. Now take the second case. They say: "we will do it in that way, but we will put up any fictitious figure for the moment as a price that will cover the cost; and when we find when we make up our accounts that there is a bit in excess, we say there is a bit due back to each of us for what we have taken out of the pool." Is that profit?—I do not think that is profit.

18,004. The difference between cost and some conventional or quite arbitrary figure—is that profit?—Technically, I think it would be profit, just as much as if you had sold it to somebody else, and very particularly so if some of the goods were only sold to one or two, and the third one joined in the profits, which is exactly the case of the Co-operative Societies.

18,005. In my case, that I am speaking of, if you like, they each take one-third part of the goods, and they find that they had put up too much money in the beginning, and so they had some to be returned. Do you think that the excess that they put up by an over-estimate of what their expenses would be, must be a profit?—I think that is so. It is a profit made by the joint adventure and the joint partnership, and I do not see how you are going to distinguish that from the joint adventure of three merchants buying a cargo of sugar.

18,006. I am interested in the case of Brown, Jones and Robinson to see where it is a profit and where it is not, and particularly what the amount of the profit is. By your method of judgment, does not the amount of profit depend upon how accurately we can ascertain or estimate in advance what the cost is going to be?—Yes, it does.

18,007. You have not suggested that the amount of profit must be invariable, whatever we do?—No.

18,008. You think that the profit depends on the mere accident of how we keep our books. If we were wise?—If you were wise, you would not have sold at that price.

18,009. If we were wise, we should have said "we are not going to put up any money at all until we see what it will cost, and then we will put up the exact figure"?—Quite.

18,010. But if we have over-estimated the amount, the over-estimate is a profit?—Quite.

18,011. Not the difference between what it has cost and the market value 10 miles away? You do not want us to call that the profit in all cases?—I want you to call a profit the difference between the price you paid and the price you received from your members.

18,012. I could have accepted your answer if you had said that the profit is invariable, namely, the difference between what it has cost and the general market price, but I cannot understand the profit depending on the arbitrary and accidental figure in between those two that we happen to have hit upon.

18,013. Mr. Mackinder: Is not the witness's point that your three people together have become a fourth person?

18,014. Dr. Stamp: I am coming to that in a minute. It is not the point we are on at present. The point is whether the profit that may be made can be an accidental one, whether it must not be constant right through, and whether it can depend on this mere accident of what our estimate happens to have been of what would be wanted?—The profit would depend upon your estimate or upon your price; but I should like to add that the example you are putting to me is one which is physically impossible to take place in this world; because I tried it myself during the war. I would like to give you an instance, if I may. When meat was so short in the country, I and several others said we would buy a pig. It was quite impossible. The pig was divisible, but the values of the different parts of the pig were perfectly different. Who was to have the hams? Who was to have the hocks; and who was to have this, that and the other—the parts of inferior quality; and how could we have divided that pig amongst us, except by selling it at a price, and a profit which we had approximated to its value? Then there were difficulties as to how we should divide the expense; and then there would be further difficulties as to how we should divide the rest; whether to make a resale of portions of the

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animal; with the result that we found it quite impracticable. With regard to these Co-operative Societies, they were only able to start in this way, because they started with tea and sugar of the same respective qualities, and they started with two or three limited people. In that case, if you buy a hundredweight of sugar of the same quality and divide it up between your members, then you take your profit in kind and you share the expense.

18,015. I do not want to take you to a complicated example; I would rather get it simply, if you will. We will presume that those difficulties do not arise, because Brown, Jones and Robinson are supplying themselves only with potatoes. This is the point. A single individual cultivating his garden and getting his potatoes at cost price, or getting a man to do it for him, if you like, cannot make a profit on that?—That is so.

18,016. But if two do it together, that is the point at which a profit is made?—That is so. Now you come to an entirely different entity; you come to a partnership, or, in the case of a Co-operative Society, you come to a corporate body created by the law; and you probably will remember that that is a distinction pointed out by the Court of Appeal in 1890, in distinguishing that case of *The New York Life Assurance v. Styles*.

18,017. You do not believe in the principle of mutuality wiping out the element of profit. As long as you get two people doing the thing together for each other, they make a profit?—I think it is there, undoubtedly, whether you take it as regards land or goods, or anything of that kind whatever. If you take the case of land, say you have three trustees of their father's will, and they wish to divide up a house belonging to their father between them, there has to be a deed of release by two of the trustees to the third one, of the house to part of which he is entitled.

18,018. The whole of my question was this. I wanted to see whether you thought mutuality was destroyed the moment an outsider was allowed to have a transaction with you, or whether you thought that mutuality itself did not destroy the element of profit?—The latter.

18,019. You do not depend upon an outsider coming in?—No.

18,020. You think, if the ring is complete, and there is nobody outside, there must be still a profit?—I do, and that is the beauty of the Income Tax. The whole idea of the tax, as I understand it, was that once you bring in the element of price, then the tax attaches; but if the tax does not attach to that, you might regard the whole of England as a community, and, apart from foreign trade, we should be able to say we do not make any profit, because we are merely getting back what we put up ourselves.

18,021. It is a question of degree?—Yes.

18,022. It would be mutuality to the whole of the nation?—Yes.

18,023. You go from two people to the whole of the nation; it is all alike except on the question of degree?—Yes.

18,024. We understand that what you think is that that is a class of profit which ought to be brought within the Income Tax Act?—Undoubtedly, and I believe, in point of fact, in certain circumstances it is already brought within the tax. Where you find two persons, say, on the Stock Exchange, who dispose of some partnership stock of shares to one of the partners, you find a profit is made, and I believe tax is chargeable upon it. I have known in law, at all events, a case in which one of the partners made a return of profit from selling something to the other partner.

18,025. Now passing from that point, and assuming that it is conceded that the class of profit is a profit which either is within the Income Tax Acts already, or ought to be brought within them—we are not greatly concerned with that, we are here not so much to interpret the past as to consider what has ought to be done in the future, and it is immaterial whether it is already there or whether

it has got to be brought within the Acts; we will assume that is done, and that you have got the kind of parallel that you want between the trading of the limited company and the trading of the Co-operative Society. Of course, you realize that if the Co-operative Society likes to lower its prices and have smaller dividends its tax will get less and less?—That is quite impracticable; I mean, in point of practical business, they could not do it. In theory, I agree it might be done.

18,026. We have had it put to us in evidence that it was one method of evading Excess Profits Duty?—I do not wish to speak about Excess Profits Duty, but I wish to say as a practical business matter it is rather humorous, because the idea that they would give up the whole for the sake of a part does not appear to me to be business.

18,027. Would not an individual purchaser be in the same position if he got his goods for a net price instead of waiting till later on to get the discount?—He would, but in point of fact, the Co-operative Society cannot let him have it at net price, because they cannot tell him what the net price is.

18,028. Supposing they got very much nearer to net price than they do now, then their dividend would be very much less and there would be far less tax, would there not?—That is so, but then you see you are going into an impossible state of things, because if a Co-operative Society put their goods down to wholesale price you have the price as much lower than the prevailing prices in the town that they would be speedily bought up, and in fact they would be bought up by the trade.

18,029. By non-members?—By the trade themselves, and they would be obliged then to do as the Civil Service Stores in Queen Victoria Street did, namely, impose the regulation of having a ticket.

18,030. Supposing they want to guard against that; suppose they did not like the Income Tax when it was imposed, and they wanted to make it less, and they said: "we will not sell to non-members at all; we will only sell to our members"; it would be conceivable that they could reduce the amount of the so-called profit or surplus very considerably by selling at a lower price?—They could reduce it, but they could not reduce it considerably at the present moment. So far as the grocery and provision trade is concerned, with which I am mainly acquainted, they could not reduce their prices very much more than at present.

18,031. Could they not reduce them by the amount of the surplus, or nearly so?—They could reduce it by a part of the surplus.

18,032. Could they not in the long run reduce it by the whole of the surplus, with a little bit of error either way each year, straightening it out over a series of years?—In theory it might be done, but in practice I very much doubt it.

18,033. They know all their costs in the previous twelve months. Surely it would be possible to arrive at a figure in their prices which would make it generally somewhere near the cost price?—I think that would be right; they would work out that price from the accounts from which they derive the cost.

18,034. So that it would be more or less possible, even if you brought them nominally within the scope of the Income Tax Acts, for them so to arrange their prices as to escape, and to let the members have their goods at exactly the same price that they are getting them at now—the net price?—No, they could not eliminate the tax in all circumstances, although they might reduce the amount of it. It is not business.

18,035. The tax would be so small that it would not be worth having?—I do not think I could accept that.

18,036. We will assume they are brought within the Act, and the ordinary provisions of the Income Tax Act are going to apply to individual recipients of the dividend. You tell us you think the dividend received in relation to the goods that they bought is similar, for tax purposes, and should be put on the Income Tax return just as if it were a dividend from capital. That is the point, is it not?—Exactly.

18,037. You have already said in evidence, I think, that a large part of the recipients, or a considerable

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number of them, are not liable at all, and that the rest are liable at various rates, but not at 6s. 7d.—Exactly the same as limited liability companies.

18,038. Suppose we now assume that the view that you take about dividends being chargeable as profits is accepted, and that the assessment of the Co-operative Society is now assimilated to that of a limited company. Let us proceed from that. We are very anxious now to see what would be the effect upon the revenue—what tax we should get out of it and what the effect would be upon the recipients. I look first at a table of yours in paragraph 9, in which we have capital, sales and profits. You have distributive societies at the top, sales £142,000,000, and wholesale societies at the bottom with sales £75,000,000. Would it be right to say that those two are absolutely distinct? Is there not a certain amount of duplication between them? I mean, the wholesale societies sell to the distributive societies, do they not, and the distributive societies resell?—There is a partial duplication in the sales, but not in the profits.

18,039. You mean the £15,961,000 does not include all the £1,821,000?—Obviously, not.

18,040. Why not?—Because different persons receive them.

18,041. Do not the so-called profits of the wholesale societies go back to the purchasers, namely, the distributive societies, in proportion to their purchases?—No, indeed, they do not. That is one of our great complaints. If I may just pursue this matter a moment, the profits which are shown here, first of all, are very much less than the profits which would be shown by the Co-operative societies if their accounts were made out according to the Income Tax Statute.

18,042. By reference to the reserves, and so on?—Reserves and depreciations, and other things, which are not allowed to a limited company. Secondly, you have an undistributed profit reserve fund, and so on, which amounts to a very considerable sum.

18,043. How much is that annually?—I am not able to give you exact figures, but I am able to give you some figures from the Registrar General of Friendly Societies' Report as regards accumulations. If you refer to the Report for 1916, the Registrar General gives the net balance of profit and reserves or loans at the end of the year—that is the amount that is now invested in these societies by way of reserve funds—at £14,784,851.

18,044. Which has been accumulated over a long number of years, has it not?—Over a great number of years, indeed; but I take it that that itself is not accurate, because those assets stated in the account are only so stated after the depreciation allowances have been written off; and if you ask the Registrar General I think you will find that some time ago the Co-operative Societies endeavoured to write off their assets to nothing. Now you will find in these accounts that those assets are written down in a most extraordinary way. Here is an asset in the Scottish Co-operative Society, worth about two millions, and the depreciation is £1,869,000.

18,045. What kind of asset is it?—I will give it to you. They are all written down very considerably.

18,046. Your point, of course, is that the profits shown here, £15,961,000, were not the full commercial profits that would be chargeable to Income Tax if you could compel the Co-operative Societies to go on as they are now, and not reduce prices?—That is the point. In addition to that, I say that by reason of the death or withdrawal or removal of members those undistributed profits become vested in the society collectively, and have no legal owner other than the society. If I may come back to your first question, about what benefit this would be to the Co-operative Societies and to the Revenue, I should like to say that I am quite convinced that it would be to the benefit of the members of the Co-operative Societies, and that, I think, they would willingly accept it. In point of fact, at the present time I believe that among the co-operative members there is a party who are in favour of paying tax, because they think that if the tax is imposed the prices will be reduced, and they will get their goods cheaper. Furthermore, if taxes are imposed, the undistributed

profits will diminish, and, therefore, the dividends will become larger.

18,047. If tax is imposed on the profits, the prices will be less?—They will undoubtedly reduce them to some extent.

18,048. In order not to pay so much tax?—Exactly; similarly, if tax is imposed at the source and the undistributed profits are taxed as well as the distributed profits, then they will not set so much aside to reserve; they will increase their dividend.

18,049. Apart from that particular question of how much the reserve is, it is the fact, is it not, that in so far as wholesale societies are distributing, they are distributing mainly to distributive societies?—I do not think that is quite right. So far as the Co-operative Union is concerned it is right, but I do not think it applies to societies that are outside the Union.

18,050. I am speaking now of your table in paragraph 9.

18,051. Mr. Mackinder: May I just ask a question on that? Normally, I take it, if we were talking of companies, assuming that the whole £1,800,000 were distributed as dividends to the shareholder companies, it would be treated as interest on investments and not as a trading profit.

18,052. Dr. Stamp: That is a point I am coming to.

18,053. Mr. Mackinder: I want to know with regard to the table, whether that is so.

18,054. Dr. Stamp: What I am trying to get is that the £15,961,000, apart from the question of reserve, would be a redistribution of the receipts from the distributive societies from surplus from all sources, part of which is its discount, or return, from the wholesale side?—That is so.

18,055. So that, always keeping on one side this question of reserves, it does not follow that addition of all those together does not involve a duplication; and it may be that the total apart from reserves is less than £8 millions. It must be so, surely. If one passes on the profit that he has received, it would be like adding all the capitals of the joint stock companies together and saying that is the capital invested, whereas, of course, one company holds capital in another?—Yes, except that I do not know how these figures are arrived at. They are figures obtained by me from a publication of the Co-operative Societies, and I do not know how they have arrived at them.

18,056. I suggest to you that they have arrived at them in the case of the distributive societies, the larger item, £15,961,000, by taking the actual surplus they have made after bringing into account any discount that they have received from the wholesale societies, and that therefore as between those two the profits are about 16 millions assessable for Income Tax?—I should not accept that view. I would rather take the Registrar General's figures. He puts them higher than that. And furthermore, these figures themselves, as I know, are arrived at after these depreciation allowances; and, in addition to that, after debiting to the society as an expense the taxable interest, upon which I believe tax is paid, on the shareholding capital.

18,057. I was just going to ask you whether the profits include the interest on share capital and loans and deposits?—I understand not.

18,058. Mr. May: May I point out that the difference between these figures which are given as the Union figures and the figures of the Registrar General arises from the fact that the Registrar is able to compel a return and the Union is only able to ask for it, and that the return of the Registrar represents a slightly larger number of societies.

18,059. Dr. Stamp: May we assume for the moment that the profits that would be assessable under this arrangement as between those two classes would be somewhere about 16 millions, apart from the question of excessive depreciation or other items that are charged?—Quite.

18,060. You go on to say: "A comparatively trivial portion of the profits should have borne tax under Schedules A and B." You say, "should have

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borne"; you mean "have borne," do you not?—I do not know the facts. It ought to have borne the tax.

18,061. What would you call trivial?—When I say "trivial" I mean having regard to the magnitude of the concern I am dealing with, in itself it would be a considerable sum.

18,062. You say: "But except for that, the whole of this £18,194,600 has not paid any tax whatever." First of all, the tax has been paid on all interest on share capital and loans and deposits, as far as the recipients are liable, before getting at these figures. That is the first point—I accept that.

18,063. The figures, owing to some duplication, are not quite £18,000,000; we will call them, for the sake of argument, £16,000,000 or £17,000,000. What proportion of that would you treat as trivial?—I take the Registrar's report and I find that the value of buildings, fixtures and land used in trade is £30,000,000. If the value of that is 20 millions, then the annual value of that should have borne tax under Schedules A and B. What the annual value may be I have no figures to show.

18,064. It might be as large as a million and a quarter or a million and a half?—It would be a considerable sum.

18,065. You would regard a million and a quarter or a million and a half as a trivial portion of 16 millions?—I think I am justified in regarding it as a trivial portion of the profits, because I do not agree that the 18 millions does represent the full profits, by any means. I think if the full profits were ascertained according to the Income Tax Acts in the same way as a limited company makes out its accounts, you would probably have another six millions a year added on to this 18 millions.

18,066. Supposing that under Schedules A and B tax is paid on a million and a half, just for the sake of argument, we are already receiving under the existing law 6s. in the £ on a million and a half?—Quite.

18,067. If you are going to assimilate this to a limited company, what is the Revenue going to get, after all the repayments have been made, and the whole thing has been made exactly like a limited company? How much is it going to get? Now, let us see what it will get: it will get the tax on the reserves at 6s. in the £, whatever that may be?—And depreciation.

18,068. Some depreciation will be allowed, will it not?—Not the depreciation which you set on one side. You make no allowance in the tax for educational purposes, by which they mean co-operative educational purposes; neither do you get an exemption grant on buildings and premises, and so on. The exemptions they set aside are very limited at the present time.

18,069. Will you tell us what sum you think we should get at 6s. on the undistributed profits?—The undistributed profits of the year assessed to Income Tax? Assuming their trade continued without reducing prices, I should imagine that you would get the tax on about £5,000,000 or £6,000,000 per annum, including the depreciation, remember.

18,070. Did you not tell us just now that the whole of the reserves came to £14,000,000 over a long period of years?—But these societies have a very large hidden asset in the depreciation which they have written off their land and buildings; so that their land and buildings and their total assets stand at £31,000,000; in fact, they have so written them down that I fancy they would be worth, perhaps, at the very lowest, one-fifth in addition to that; I have not the figures quite, to guide me.

18,071. How much would that be?—That would be another £12,000,000; I am putting it very low.

18,072. That is built up over a long period, is it not?—That is built up over a long period of years, and, of course, it refers to three countries, because in Scotland, I believe, the control has not been so great as it has been here. In Scotland they have written down quite freely. I believe in England the Registrar exercises some control over a society; and

as regards what happens in Ireland, I am sorry I am not able to say.

18,073. I suggest to you that the evidence as to the inner reserves, of which you are speaking, the writing down of assets, and the actual open reserves built up over a long period of years, seems to indicate that the amount on which the Revenue would get tax, would not exceed more than about half a million a year on the undistributed profits?—I do not think I could accept that. I should be very pleased to put an accountant upon those figures, to give you a thorough estimate, if you wish, but I do not think I can accept that.

18,074. We cannot go any further than at the moment. If you will not mind making the assumption that that is so, for the moment, if we are going under the new order of things to get a tax at 6s. on half a million a year, as compared with the present tax on a million and a half (which is another assumption), that leaves a million to be considered—whether we are going to get tax on a million under the new system. We have already had in evidence that a large number of the recipients of dividend would be exempt, and that even those that were not exempt would not be liable to tax at 6s.; it would be levied on them at a much lower rate. The point is whether the total tax paid by the liable people at those lower rates than 6s. would, in all, come to more than 6s. on a million?—I agree that is the question, but the same question arises as regards limited companies; and where is the justice in distinguishing between them? If you are not going to tax a Co-operative Society at the source, then I say, do not tax me at the source.

18,075. I am making this deliberate suggestion: that when we come to examine the facts and the figures, it will probably be found that less money would be got by the Revenue out of Co-operative Societies if they are assimilated to limited companies?—Then I think the answer must be that the analogy of limited companies is directly the opposite; because everything you have said applies distinctly to these great companies whom I represent. One company has a million of shareholders, I think, and everything you have said would apply to those shareholders in that company. Large numbers of them are under the limit, others are assessable at different rates.

18,076. I suggest to you that the members of a Co-operative Society are, on the whole, on the average, not as well off as the shareholders of the large limited companies to which you refer?—Not to-day, by any means; quite the contrary. The changes brought about by the war, in the present circumstances, are these. They are small shareholders for whom I speak—because taking these millions of shareholders, they really comprise the new poor of the new community—and here you have tradesmen, small people, small shareholders, mixed. I agree, with a few large, but none the less, if you take my shareholders in the aggregate, we are infinitely more hurt than the Co-operative Societies would be. Besides, you must remember that although I appear nominally for certain companies, I really represent the class of companies throughout the Kingdom, and I represent, in addition to that, the shareholders of the Kingdom. I represent the limited company principle, and furthermore, these co-operative shareholders themselves would be largely in favour of what I am saying, because many co-operative enterprises have taken the form of a limited company; and why should you make a distinction between a co-operative member in a limited company, and a co-operative member in a Co-operative Society?

18,077. Is there not a very important distinction between the shareholders in an average company, and the members of a Co-operative Society, in the extent of the holdings that they may have?—No, there is not. There used to be, but in 1876 it was altered. Originally, the limit of interest which a member could have in a Co-operative Society was £200, whether in funds or shares or in any manner whatever. Under the provisions of the Statute under which they originally went, the dividend of a co-operative member had to be placed to his

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account; so that you always knew when the limit of £200 was reached. But that limit was destroyed in 1876 by altering the word "funds" in the Statute to "shares".

18,078. I am not referring to that. You have a certain criterion of holding or capital interest upon which a man receives his dividends now. Can you find such large extremes in the case of Co-operative Societies as you get in shareholders of limited companies?—If you will promise not to alter the law, I will promise to register all the limited companies in the kingdom, and divide their profits up in such a way that you cannot attach tax upon them. I could do that myself. If this tax continues, it will be quite a simple matter so to register limited companies in the form of Co-operative Societies that we shall all avoid the tax. There is nothing impossible to human ingenuity so far as human arrangements are concerned.

18,079. That is what I fear about bringing Co-operative Societies in. The first thing that will happen will be that a large portion of profits will disappear by reducing prices, and the second thing that will happen will be that we shall find that something like 70 per cent., or even more, of the co-operative people would be below the effective line of liability, and would be entitled to repayment, and that the remainder would be entitled to reduction of the tax that they have borne at 6s.; and after we have taken off the amount that is put to reserve, the remaining million that is paid under Schedule A will disappear, and on the whole, we are not likely to get more than we are getting now, if as much. After all, this Commission is concerned with not lessening the Revenue?—Precisely, but you are also concerned with justice.

18,080. I have conceded that we are going to treat this as profit; I only want to know what will be the effect of that. So far I have not got from you that there is going to be any net profit?—There will be just as much net profit, taking it trade for trade, in Co-operative Societies, as there is in limited companies, or at all events the limited companies which I represent, namely, the multiple shop companies, because the prices at which the multiple shop companies sell are very low. It seems to be one of the cardinal principles of these companies to cut prices.

18,081. I am on the principle of the economic station of the shareholders. Now you would not admit that the economic station of the shareholders of these limited companies is that they are liable to as low rates of tax as the co-operatives?—I should, certainly.

18,082. You think that the vast majority of the capital of limited liability companies is held by comparatively poor people?—I do, indeed; and moreover, it is held by people who are not so well able to help themselves as the co-operative members. You find large quantities held by trustees for widows, orphans and children.*

18,083. On that point, do you know what is the extent of the claim for repayment of tax, between the rates of 3s. and 6s. for people with smaller incomes, that is now made against the Inland Revenue, as compared with the total amount paid at 6s.?—I do not. I think some paper was issued by the authorities about the matter, but I do not recall the figure.

18,084. If you examine that, I think you will find that the bulk of the dividends paid by limited companies does not go to the class of people to whom you say co-operatives belong. If you examine the statistics, you will find it is quite an untenable position so take up, that shareholders in limited companies are, on the average, no better off than co-operatives.

18,085. Mr. Mackinder: But does not that leave out of account adjustments where they are earning income from other investments?

18,086. Dr. Stansup: I am talking of the whole adjustment that is made by reference to the total amount of income of small people. I think you have a table showing the distribution of unearned income amongst the different classes according to their income.

18,087. Mr. Synnott: Is not this witness speaking principally of the supply companies, and not of companies in general?

18,088. Dr. Stamp: You are talking now of the particular class of company that you are representing?—Quite. If I may say so, I do not think your analogy quite applies, because you see the co-operative profits are not fully declared. The accounts are not made out on the same basis in each case, and you must bear in mind that the co-operative members do not bring into account as part of their income the dividends which they receive from the societies.

18,089. I am assuming that they are compelled to do so now by law, and that it comes to them as a taxed receipt, and I am asking what claims would be made against the Revenue for repayment of the whole 6s., or part of it, and I suggest there would be a much larger proportion of claims than there is in the average limited company, so large, in fact, that the greater part of the 6s. that would be got on the 16 millions or 18 millions, if it were maintained, would disappear?—I think that would be a correct statement, but you have to bear in mind that the number of limited companies is so infinitely greater than the number of Co-operative Societies, and there are so many private limited companies at the present time, that I think a comparison is unfair.

18,090. I am really concerned to find whether we are going to get more tax than we get at the present time, by reference, first of all, to the point that I was suggesting, that the profit, either by law or by some other method, is maintained at its present level, and I want to know whether we are finally going to have remaining in the Exchequer more than the tax on Schedule A?—I think so, undoubtedly.

18,091. Assuming it is to be the same, now I come to the question of administrative convenience, to which you refer in paragraph 13. You would admit, I suppose, that there would have to be a vast number of repayment claims on small amounts of dividend?—I believe that is so at present, and I do not see that the number of repayment claims would be increased to any material extent if you made Co-operative Societies liable to tax.

18,092. Do you mean that the proportion would not be great, or do you mean that we should not have new claims?—I think you would have some new claims, but I do not think you would have any material increase in the claims. You have got your machinery for dealing with these claims now: you have a large number of claims every year, and I think a little extra trouble on the part of the authorities to get in some more tax, in these times, would be very well worth while.

18,093. I suggest to you that out of the 3,800,000, there might be 3,000,000 people who would be entitled either to repayment of the whole of the 6s. on their profits, or to a partial return, and out of that 3,000,000 there would be a very large number who are not at present making claims under that head?—There would be some, but I do not think a large number, and I think for this reason: I did not know it at the time my evidence-in-chief was written, and I ought to correct it. In the last two years the Co-operative Societies have been very anxious indeed to extend their capital, and inasmuch as there is a technical limit of £200 per share for each member, they have advocated what they call open membership. So that instead of having the father alone a member in the society, they may take out a share for every one of the members of the family, with the result that the co-operative membership is increased, and it enables a family to put in a larger quantity of capital than they otherwise would; so that the number of effective members in my paragraph 13 ought really to be somewhat reduced. On this question of claims for repayment, I might remind you that the Co-

* The witness wishes to add that he could not have understood this question. What he meant was that the majority of shareholders were the smaller people, not that the majority of the capital was held by the small shareholders.

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operative Societies, I believe only this year or at the end of last year, in fact issued £2,000,000 in bonds to their members. Now that has all been taken up I understand; and that is a very effective test upon this question of Income Tax and as to the possibility of the number of claims you would get.

18,064. I suggest to you that the proportion of the people who have share capital and interest on loans, that are liable to Income Tax, is very small, and that is an indication that the number of members of the societies who would be liable would be very small?—I could not accept, at the present moment, that the number of members of Co-operative Societies who would be liable to tax under the present law would be very small.

18,065. We will try to get that from the official witnesses; we will not pursue it now?—What the number may be under the new law, I cannot tell; neither am I particularly concerned with it at the moment, because what I want is this. I want the shareholders in my companies to be treated in the same way as, neither worse nor better than, the members of Co-operative Societies.

18,066. I have assumed that that will be the case, and then I have asked two points; first, what Revenue will be got out of it; and, secondly, the amount of administrative and public inconvenience that would be caused by the change? Now I will pass from that to the last sentence in your paragraph 13. I was going to ask you a few questions about what you say there: "In truth this second objection is a mere afterthought and belated argument adduced to bolster up the case for the co-operative exemption." Presumably, you mean that the Inland Revenue Department have been engaged in a task of bolstering something up?—The objection does not apply to the Inland Revenue Department. I should not dream of using such words about the Inland Revenue Department.

18,067. Thank you; that is all I want. I understood that an argument had been put forward to bolster up the case, and I wanted to know who had done that?—Not the Inland Revenue.

18,068. Then in paragraph 14, you say: "These undistributed sums generally comprise at least the following items: (a) as annual 10 per cent. reduction of the value of the fixed stock." Will you tell us what is the effect of that? Do you mean that every year there is added to reserve a tenth of the value of the fixed stock? Do you mean by "fixed stock," the trading stock?—I mean the fixtures and fittings in the shops.

18,069. You do not mean the stock-in-trade?—No, not the stock-in-trade at all.

18,100. You mean the fixtures. There is a depreciation rate of 10 per cent. on cost?—Yes.

18,101. They charge the renewals to capital, then?—They may do so, but I am not able to say whether that is so or not.

18,102. I suggest to you that it comes to the same in the long run, however you do it, and that if these societies were brought under charge to tax, and were allowed renewals, it would come to the same thing as this in the long run?—That is a matter upon which you would be a better judge than I am.

18,103. There are some rather important figures in your paragraph 16, which I think we ought to examine. When you begin to deal with other societies, you say 703 businesses with 216,068 members, and annual sales or income from business, £142,855,041?—Quite. I might explain that I did not appreciate at the time, but I have since ascertained, that the £142,855,041 includes the receipts of the Co-operative Wholesale Banking Societies, and that the actual profit for the year in question on these 703 businesses was only £175,637.

18,104. The greater part of the £142,855,041, I think, includes the actual deposits received by these banking societies?—So I understand.

18,105. So, from the point of view of anything other than sales, it would be quite erroneous?—Quite erroneous, but, of course, I am quoting, copying out another document here.

18,106. The surplus of that is only £175,000?—Yes.

18,107. Of which £65,000 is distributed as interest on share capital, and is charged?—I accept that from you.

18,108. The bulk of that £142,855,041 includes the money received on deposits and current accounts of banks and loan societies?—That is so.

18,109. The bulk of that represents what you may call the gross deposits and current accounts of a bank?—Yes.

18,110. And on that the surplus is only £175,000, of which £65,000 is distributed as interest and share capital, and is taxable?—Yes.

18,111. Would you agree that on that there are no dividends whatever paid?—I have not been into the accounts to that extent. If you say it is so, I should accept that.

18,112. In paragraph 17, you refer to the large profits and dividends which have been paid by the wholesale societies to the retail societies. In 1917 were not the Wholesale Co-operative dividends 3d. and the Scottish dividends 5½d?—I believe they were.

18,113. Would you call that a large dividend?—In the aggregate, yes.

18,114. A little lower down, you refer to the enormous investments of the wholesale society. The amount would be approximately £4,000,000, would it not?—I should like to refer, if you please, to the balance sheet for that.

18,115. We will not bother about that now. It is mainly, is it not, a reinvestment of the share capital of loans from the members of the distributing societies?—I should not accept even that. If you take the Co-operative Wholesale Society's balance sheet, they have a distinct surplus of accumulated reserves or undistributed profit, or whatever you may like to call it, over their liabilities.

18,116. What tax is borne by those large investments?—I understand that the large investments of the Co-operative Wholesale Society are exempt from tax under Schedule C and under Schedule D.

18,117. A good part of the reserves are invested in lands and buildings, are they not?—A great part of the reserves, but not so great as the other part, because, if you take the balance sheet itself, you will find £4,370,544 odd on December 23rd, 1916, investments apart from loans.

18,118. I want to see what money the Revenue is already getting out of it. As a matter of fact it may come under Schedule C, but it filters through, does it not, to their own share capital and their loans to members, upon which everybody who is liable is charged; or else it is in real property, which is charged in full?—If these people are chargeable to tax, please let them be charged to tax in the same way as everybody else. If they are not chargeable under Schedules C and D, I do not see why they should be charged under Schedules A and B. It is not a question with me whether the State would get more by an unjust taxation under A and B than they would if this exemption were disposed of.

18,119. It is just this point. We are being invited to extend the present conception of the word "profit" or "income" to cover a conception that it does not at present cover, on the ground of justice. Now, before that is done we have two points to look at: how much trouble is involved, and how much revenue that we do tax it; I suggest there is not much revenue to be got out of it, and I suggest there is a lot of trouble to be got out of it. That is all?—I am sorry; I do not agree. I do not accept that the present definition of "profits" is inadequate to include the profits of Co-operative Societies, because we have never been allowed, and we have never had an opportunity of taking the matter to the Courts to decide, because of the Inland Revenue decision in 1901. Speaking with deference, they seem to have taken upon themselves the function of the Courts, and taken upon themselves to decide a question which ought to have gone to the Courts.

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18,120. At what date?—In 1901.

18,121. Was there any change in the Inland Revenue attitude to those particular dividends at that date? Were the dividends chargeable before that, and not afterwards?—What happened, I think, was this. It occurred with a co-operative member in Scotland. There was a dispute with a Surveyor as to whether a co-operative dividend should be brought into his Income Tax return or not, and it was referred to Somerset House, and then they gave the decision which I have just mentioned.

18,122. There existed no general practice of charging it before that date? There was then a decision which effectively decided the point—the case of Styles?—My case is that it did not, and I am going to ask leave soon to mention the opinions of certain great founders of Co-operative Societies in support of the view that they ought to pay tax, which would go to show that they agreed with the view that I am now arguing.

18,123. Supposing the Inland Revenue were to accept that they were to make a charge, and then it was taken to the Courts, your view is that the Revenue view would prevail, and the case of Styles would fail?—I think so, undoubtedly.

18,124. And that therefore no Act of Parliament is necessary?—Undoubtedly you must have an Act of Parliament, because you are not treating them the same as us. You are exempting them from tax upon their undistributed profits by reason of the exemption in the Act. They say that exemption makes no difference. I say, very well, if it does not, repeal it; then you are not hurt. Then I shall have the satisfaction that they are assessed on their undistributed profits, and then if the Inland Revenue decision of 1901 were reversed I should be able to take a test case to the Courts with Mr. A., B. or C., and lay an information that he has not returned his dividends, and then I could get a decision myself. I am quite prepared to do that.

18,125. *Dr. Stamp:* It does involve having something in the Statute itself.

18,126. *Mr. Kerly:* May I suggest that having regard to this section, it involves it in the case where there are sales to members only, but it does not involve any statutory change where the society sells to outsiders.

18,127. *Mr. May:* And limits the number of its shares.

18,128. *Dr. Stamp:* There are two conditions.

18,129. *Mr. Kerly:* Yes, the second of them is always complied with; the first sometimes is and sometimes is not.

18,130. *Dr. Stamp:* Both conditions have got to apply before the charge exists.

18,131. *Mr. Kerly:* Before there is an exemption.

18,132. *Mr. May:* Which is the one which is always complied with, Mr. Kerly?

18,133. *Mr. Kerly:* Limiting the number of shares. Is not that right—that every society limits the number of shares held by members?

18,134. *Mr. May:* No.

18,135. *Mr. Kerly:* I thought it was.

18,136. *Dr. Stamp:* I do not think it is worth pursuing; I only want to show the importance, before one asks for a change of the law, of seeing whether there is any money to be gained and whether there is a lot of trouble to be taken, before arriving at a practically negligible result of theoretical justice?—I do not agree at all. You certainly will get a large amount of tax and the mere fact that there is trouble in getting it does not matter; it is the duty of the authorities.

18,137. I would not place much store on the second point, but assuming there is little revenue or none at all, then you would agree that one ought to look at it very carefully before one incurs administrative expense?—In that event I should agree, but I do not agree that the result of the tax would be small. If I might go back to a previous question for a moment, although the Inland Revenue decision applies in terms to societies which sell to members exclu-

sively, in point of actual practice, certainly according to the quarterly assessment form, the Inland Revenue opinion has been extended to all societies, whether they sell exclusively to members or to non-members also. I want to correct that.

18,138. *Mr. May:* First as to this point raised by Mr. Kerly, I would like that to be clear, and I would like to know your view. The Statute at present says that a Co-operative Society shall have exemption under Schedules C and D if it does not limit its shares or sell to non-members?—Quite.

18,139. With regard to limiting its shares, section 24 does not mean that the number of shares to an individual should be limited, because that is already provided for by Statute, but it refers to the total number of shares issued by the society?—Yes; that you would know, Sir.

18,140. It is a point that has arisen in the evidence, and I wanted to make that clear.

18,141. *Dr. Stamp:* I do not quite follow that.

18,142. *Mr. May:* The meaning of section 24 is not that the number of each member's shares shall be limited; that is settled by another provision in the Statute; they are limited to 4200 each; the limitation of the shares of the society referred to in section 24 is a limitation of the total number of shares issued by the society; in other words, taking power to refuse the admission of a new member because the share list is full?—If I may say so, I quite agree with what Mr. May has said, that that is so; and the reason of it is this. In 1879 a great question arose as to whether the Civil Service Supply Association ought to pay tax or not, and a number of co-operative members gave evidence on the subject; and the distinction between the Civil Service Supply Association and the Co-operative Societies now in question was that the Civil Service Supply Association limited the aggregate number of their shares and the present Co-operative Societies did not.

18,143. *Mr. May:* That is so. As a result the Civil Service Supply Association does not enjoy the benefits of that section, but is directly assessed to Income Tax, because it limits its share list; it only admits members or shareholders at its option, and it also sells to non-members. The vast majority of Co-operative Societies do not limit the number of their shareholders or members; they are always willing to take in fresh shareholders, each of whom however is limited to a holding of £200 in the society, by another section of the Statute.

18,144. *Mr. Marks:* May I ask this in order to elucidate this point a little further. If the number of shares is unlimited in any of these societies, can they sell goods without limit to non-members?

18,145. *Mr. May:* Yes, there is no limitation of that. I am not in the witness chair, but perhaps I may answer this. Owing to the constitution of the societies it is not to the advantage of a non-member to trade to any extent, and in fact they do not. (To Witness): I gather from your answers to Dr. Stamp that you agree that what you propose cannot be brought about except by an alteration of the law?—Only partly. An alteration of the law is necessary to reach the profits which are retained and not distributed by the societies, but if it were not for the Inland Revenue opinion of 1901 declaring that co-operative dividends were not profits, then I should take steps against some individual co-operator and get a judicial declaration whether they were profits or not.

18,146. You are aware that that opinion of 1901 was affirmed by the Departmental Committee in 1904, which was a responsible and expert committee?—I have urged that they were wrong in that.

18,147. We will come to that, but you are aware that they did definitely and explicitly affirm it?—They did do so.

18,148. The main contention underlying all your paper, I think you will admit, is that you think that that Departmental Committee as well as the Inland Revenue authorities, including the Chairman of the Board of Inland Revenue and the Treasury, were all wrong?—They were quite wrong, because they

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did not know the facts; and they were acquainted only, as I imagine, with the Civil Service Co-operative Societies in London, and they thought that the principles attaching to the London co-operation were the same as those attaching to the Rochdale co-operation, and that led them astray. Furthermore, they did not know the trade.

18,149. But is it not a fact that they had co-operative witnesses before them and a full statement of the evidence?—They had co-operative witnesses before them and a full statement of the evidence, but I do not agree that the evidence was quite accurate. If this question of tax were merely a question of taking the statements of the co-operative witnesses as accurate, the question would be decided in my favour right away, because of other statements by the leaders of your societies, which I wish to produce hereafter.

18,150. Do you suggest that the same limit of error crept into the memorandums of Sir Laurence Guillemard, which was presented to the Committee, and which took into account the whole of the Co-operative Societies in the country explicitly?—I have the greatest respect for the Chairman of the Board of Inland Revenue, but, with the greatest deference in the world, I have never been able to understand fully what that statement referred to.

18,151. You have given us your opinion in your paper, but the point I asked you was, whether you thought he was ignorant of the societies and their constitution and operations in the same way that you suggest that the Committee generally were ignorant?—I do suggest it, yes.

18,152. That he was ignorant?—That he was ignorant.

18,153. In spite of the fact that he deals almost solely with them and their constitution?—In spite of that.

18,154. I am not going into the theoretical case; that has been exhausted, I suggest; and these are one or two general points. You are aware, are you not, that the British Association of Chambers of Commerce and various other responsible representatives of companies trading generally in the country have given evidence which is totally opposed to yours on this point?—I know they have given evidence, but I am not sure that it is totally opposed to my own. On the contrary, I have read the evidence very carefully, and while they all agree in the objection I urge, that the Co-operative Societies should pay tax, if you will refer to the evidence of the witnesses I think you will find that Sir James Martin said he had not made a study of the question, Mr. Currie said he was not very well acquainted with the matter, and Mr. Cash also qualified his own personal opinions, although it is quite true that Mr. Currie did say that he accepted the view that these were not profits in the ordinary sense.

18,155. Is not that all that is material—that he does accept as authoritative and conclusive the finding of the Departmental Committee?—No.

18,156. I mean material to my question—that they were opposed to your evidence?—I think it is all qualified by this statement about the vagueness of his own information and not having studied the matter.

18,157. I suggest to you that when it comes to a practical question of legislation for dealing with this matter you are making rather a large draft upon your judgment when you ask the Commission to set aside the considered opinions of every Chancellor of the Exchequer, irrespective of Party, of every official of the Board of Inland Revenue, of the Departmental Committee that was set up, of the associations of trade that have given their evidence here, and of the views on the economical point of professors of political economy of standing in the country?—It all sounds very formidable, but I do not know that one statement gains any force if it is repeated by 20 people; and if it originates from one man who was under a misapprehension of fact, it does not seem to me to carry any authority whatever.

18,158. That sounds a very nice rounded answer, but I suggest to you that those conclusions have been

arrived at by, say, at least 20 different people approaching it quite independently, and many of them outside of official circles, and that they do in fact represent the general body of considered opinion on this matter, even of people who are not interested in Co-operative Societies?—The common every-day opinion of the public at large or persons who have gone into the matter and considered it.—

18,159. Not the public at large?—Although I attach the greatest possible respect to it, and a great deal more respect to it probably than many other people do, on account of my long professional training, yet notwithstanding all that, I persist most respectfully in everything I have said in this statement, and, with the Chairman's kind permission, I want to emphasize that with some new matter before the meeting closes.

18,160. Chairman: The statement you wish to make I think you had better make now, because you may be examined on that?—Thank you very much. What I want to say is this. I want to say how this exemption came about, that when it came about it was granted subject to certain conditions which have disappeared, and that in the opinions of the founders of the Co-operative Societies themselves the exemption is no longer tenable. I attempt to show that in this way. The legislation for Co-operative Societies was initiated and brought about by certain legal gentlemen, Mr. Vansittart Neale, Mr. J. M. Ludlow, Mr. R. A. Stanley, and, I believe, Judge Hughes. It was brought about in consequence of a report on the savings of the middle working classes in 1850, of which I have a copy here. The idea underlying the whole of the Act at that time was that individual working men should be entitled to enter into a working partnership amongst themselves notwithstanding that their numbers exceeded 25, and that they should devote their individual labour to their business, and that the profits of the business resulting from the sale of their labour should be applied in forming a provident fund for the benefit of themselves, their wives, their families and their dependants, after the analogy of a Friendly Society; and it was only when that provident fund was formed that the balance was to be divided amongst the members. The reason that that came about was because at that date, under the Companies Act, 1844, associations of more than 25 members were not recognized by the law; and therefore there was no protection to their property, and they could take no proceedings to protect themselves. It was brought about by those benevolent legal gentlemen because mainly by an association of working tailors—in Castle Street, Bloomsbury, I believe, the address was. The objects at which they aimed were most admirable. The whole idea was from start to finish that an industrial working partnership of men without capital should be able to be constituted at law without much expense. That was the whole idea, and it is all set out in this report at great length. But when it came to the question of applying the benefits of the Friendly Societies Act to this combination, everybody was quite agreed except the Chancellor of the Exchequer, and when it came to the Industrial and Provident Societies Act of 1852 he inserted limitations which prevented this society getting any exemption from Income Tax and from stamp duty, and it is only by a side wind or a decision of the Inland Revenue that the Income Tax exemption ever came into force at all; in this way: that in 1842 the Friendly Societies got exemption from Income Tax upon their investments under Schedule C. The reason that I need not go into at the moment, but they got exemption under Schedule C in 1842, and therefore the Industrial and Provident Societies Act, 1852, said a society under this Act shall not invest in the public funds. That took away the whole benefit of exemption from Income Tax. Then you have the argument about stamp duty, and it is said by clause 19: "No exemption from stamp duties allowed by the laws relating to Friendly Societies shall apply to any society constituted under the provisions of this Act." I may mention that

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at that date stamp duties was the technical name for Probate and Legacy Duty, under the Stamp Act of 1815. I gather from the evidence in this report that the origin of the limit of £200 imposed by the Act of 1852 rested also with the Chancellor of the Exchequer, because Mr. H. B. Ker, at page 66, says: "It so happens that a Friendly Society may establish an insurance company and the parties may designate a nominee, that is, a person who, when a life dies, receives the money and does not pay the Probate or Legacy Duty." Of course, the Chancellor of the Exchequer gets hold of that and says: "If you alter the Friendly Societies Act, you must prevent any further insurance beyond £200 because I lose the Legacy and Probate Duty to that extent after £200."

18,161. For what purpose are you reading this?—I want to show you that this exemption was granted to these societies because they were at that date intended to be Friendly Societies, and that they got the benefit as a Friendly Society and not as traders at all; on the contrary, the Chancellor of the Exchequer refused it as traders.

18,162. That is your contention of the origin of this?—That is my contention of the origin of this. Then you may say at once, if the exemption was not granted by the Act of 1852, why was it granted? There I quote Sir Laurence Guillemard's report of 1905: "The Income Tax Act of 1853 gave exemption under Schedules C and D to any Friendly Society legally established under any Act of Parliament relating to Friendly Societies." That was the case with these societies, and it was under the 1853 Act that these societies got exemption.

18,163. Mr. May: The Friendly Societies?—No, the Co-operative Societies. They all got exemption under the 1853 Act, and not under the 1852 Act at all. Then Sir Laurence Guillemard goes on and he quotes again: "At that time Friendly Societies enjoyed an exemption under Schedule C, and this was extended to Schedule D by section 49 of the 1853 Act." I have just referred to the position under that Act, and it is because of the interpretation placed upon that Act, and I think rightly placed upon that Act, that the Co-operative Societies got this exemption at the start. Then Sir Laurence Guillemard says: "These exemptions in favour of Friendly Societies were regarded as applicable also to Industrial and Provident Societies by virtue of the provisions of section 3 above referred to." That is the Act of 1852, which gave the benefits of Friendly Societies generally to all these societies. So that if you read the Savings of the Middle Classes report of 1850 it is impossible not to come to the conclusion that this exemption from tax originated because of their provident and friendly character, because they were of the nature of Friendly Societies; and I am not quarrelling with that decision at that time in the slightest degree, because I agree with it in every way. Under that Act they were subject to all the restrictions of Friendly Societies. They could not hold more than one acre of land and there were certain other restrictions, and amongst other things they were subject to a condition that no insurance could be granted by the society to any member or other person of any sum exceeding £200 or any annuity exceeding £30.

18,164. Chairman: Is there any value in going farther into this? You have given the general position why you bring this up, but is it anything of deep interest to the Commission that you should continue this summary now?—There is one point which I regard as of very great importance, but I can skip a great deal of this, and I will do so.

18,165. The members of the Commission do not want to go into any question which is not directly before us?—You have it explained that the interest of a member of a Co-operative Society was limited to £200. It was limited to £200 in the funds of the society, and that limit was put in, as I gather, in order to save Legacy and Probate Duty on sums exceeding £200. It was because under the Friendly Societies Act people could make a nomination of

the funds in the society to anybody they liked, and you could get the money out of the society without taking out probate or administration. Other societies did not have the right of nomination and there was no question of losing Legacy or Probate Duty in that case; therefore the Act of 1857 said that another registered society might hold any interest of shareholding in the society. Then matters developed very considerably, and the trading of these people increased very largely—and I think they deserve every credit for it—and then you had the question arise in 1871 of how they could get rid of this limit of £200. The opinion of Mr. Vansittart Neale, a founder of the societies, given to the Co-operative Congress in 1871, was as follows.

18,166. What is the point now of going further?—It is of very great importance to my distinction between Co-operative Societies and limited liability companies; because he takes exactly the same attitude that I have taken to-day, and I should very much like to read it, if you please. He says: "An attempt to enlarge the limit to which investors in Industrial and Provident Societies are now confined would be inevitably accompanied by the condition of abandoning the exemptions from taxation which these societies now possess, since, if these exemptions were retained, it is plain that joint stock companies would be generally formed under the Industrial and Provident Societies Act, while if the same charges are imposed in both cases, the question would certainly be raised why a double machinery for creating commercial corporations should be kept up, and there would be a likelihood of the Industrial Societies being brought under the general system of registration applied to commercial bodies, a change which would be a very doubtful benefit to them. The present law puts no restriction on the amount which one society may invest as a body in the funds of another, and thus makes it possible for large and wealthy societies to add to any required degree the development of other societies, and to offer definite advantages for investing large amounts of capital which they possess; also individuals who desire to invest more than £200 in any Industrial Society may now do so by lending money to societies desirous of borrowing it, and the present Acts give facilities for the transformation of an industrial company into a joint stock company, if it feels itself to have attained a magnitude where the limit to the amount of investment becomes a fetter while the additional cost of belonging to the joint stock system is immaterial; but to those societies which have not attained this stage, the exemptions which they enjoy under the present law offer no inconsiderable advantage. Therefore I cannot but think that any attempts to alter the law in this respect are likely to be injurious to co-operative progress, and should not be made." The limit of £200 has long since gone by the board, by reason of the permission to lend money freely; they issued two million bonds this year. It has also gone by the board by the device of open membership and putting shares into the names of wife and children. It has also gone by the board by the declaration of policy of the Co-operative Societies this year and last year that they are out to do away with the £200 limit of exemption altogether in their societies. That is a settled part of their policy, declared by their Congress. Therefore you see the attitude I am taking to-day, which is this. We feel that if these exemptions are to continue, the very existence of all limited companies is at stake; and we say: abolish the £200 exemption; it does not matter twopenny, because they have already abolished it themselves in practice long since, and therefore they are perfectly reasonable in their attitude; but then bring them under the Companies Acts and let them pay tax on such profits as they may be judicially declared to make. That is all I want to say, thank you.

18,167. Mr. May: I would remind the Commission that the point that Mr. Cahill has brought out as to the origin of the exemption of Co-operative Societies, I put before you this morning in the examination of Mr. Walker. But the point I want to put to Mr. Cahill is this. However it crept into

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the original Act, if he had gone on with his resumé of the legislation, he would have told us that in 1867, and in 1880, and in 1893, legislation expressly for Industrial and Provident Societies was passed, in which this matter was reviewed and re-emitted in a more definite form.—That is perfectly correct, but I have not been able to find any discussion in Parliament on the point; and most of these Statutes are codifying Statutes.

18,166. I suggest to you that the fact that you can find no discussion in Parliament is immaterial, and that at this period, and with the methods of legislation which operate to-day, it has not very much bearing, when we get legislation of a most drastic character affecting the whole community, passed in two days; and, further, I presume you are on the point of the Select Committee which dealt with this Act. That Select Committee was appointed by the House of Commons to deal with that particular legislation, as Committees are to-day appointed to deal with legislation; which is obviously necessary for carrying on the business of the House, and no complaint lies against the Act, against Parliament, or the co-operative movement, on the ground of it having been dealt with by a Select Committee?—No complaint at all lies against the Co-operative Societies.

18,169. Nor against Parliament?—No complaint ever does lie against Parliament.

18,170. Chairman: Do you accept that—that this position was carried out in these particular clauses?—I have no knowledge of any Committee sitting on any of these Acts.

18,171. You do not know that?—I do not know that.

18,172. Mr. May: I will remind you that it has been put in evidence to-day that one of these Acts—for the moment I forget the date—did not receive a moment's discussion in Parliament, and that it was dealt with by a Select Committee. The point that I am putting is that that is no objection to the legislation, because heaps of enactments are placed upon the Statute Book in exactly the same way, and their authority is not questioned on the ground that they were dealt with, with the consent of the House, by a Select Committee?—I quite agree.

18,173. Now to come back to the point that you have just last mentioned—open membership. Even admitting that open membership has increased recently, I suggest to you that it is not a recent innovation in Co-operative Societies, but it has been an established custom and practice with a large number of societies for many years—for thirty years?—It may be so.

18,174. And that, therefore, it is not a new feature in the methods of propaganda of the co-operative movement. With regard to the two million bonds, you would admit that those two millions have been subscribed, not by individuals, but by societies?

18,175. Mr. Prynne: Could you tell us what you mean exactly by "open," there? I understood just now that the share capital had to be unlimited, so that anybody might be able to join.

18,176. Mr. May: The point is that it is frequently stated that each shareholding member is the head of a household, and in some societies, at the present time, particularly in Scotland, a second member in one family is refused. If a man is a member, his wife may not be a member, and vice versa; but a different practice now obtains. As a matter of fact, my wife and I are both members of our local Co-operative Society, and always have been. That is open membership—admitting as many members of the family as you wish. (To Witness.) As I was saying, the two million bonds have been subscribed by societies, and they do not necessarily represent any large accretion of wealth to individual co-operators?—I did not know that. In reading the Co-operative News, I saw advertisements offering these bonds, and I thought of taking some of them myself.

18,177. So did I, but I missed it. With regard to raising the limit, that, I admit, is a fixed policy. You might have reminded the Commission that it was

included in the proposals for amending the Act of 1893. Some questions that I wanted to ask you have been covered by your supplemental statement. With regard to Mr. Neale, who is probably the most venerated of our Founders, I suggest that Mr. Neale is dead, and that what he said 50 years ago is no more apropos than what Mr. Gladstone said in 1868. In your paragraph 8, you say there are more than 4,000 Co-operative Societies registered. I do not want to make much point on that, except that I suggest to the Commission generally that your statement gives rather a wrong impression. Is it not a fact that of the societies comprised in the Co-operative Union, practically the whole of the societies are included which come under the provisions of this section?—I am not sure whether that is so or not, but it is quite certain that the societies comprised in the Co-operative Union do nearly the whole of the trade affected by this section.

18,178. The figures I put to you are that the societies in the Co-operative Union include three and a half million members, while the societies included in the remainder that go to make up that 4,000, do not reach the total of a quarter of a million?—I believe that is so.

18,179. And that, generally speaking, the societies comprised in that quarter of a million, carry on their operations in such a way as to be liable to Income Tax, and not to enjoy the benefits of the section?—The societies not comprised in the Union.

18,180. A large proportion of them; not all of them, but a large proportion—the agricultural and productive societies?—I have no knowledge of that, but in making up my figures I have relied on the Registrar's Reports, and I do not feel justified in attempting to go outside.

18,181. You say that there are many co-operators in favour of Income Tax. I confess that was news to me. Can you give us any evidence of that?—The statement was made to me by a gentleman of some authority in the Co-operative Union. The reason which he gave for it was because, if the tax were imposed, you would so reduce the prices that there would be no tax to collect. That was his reason.

18,182. And that was probably his individual opinion?—It may very well have been so.

18,183. You do not suggest that there is any general body of people in the co-operative movement who are making themselves vocal or active in urging Income Tax in order to get lower prices?—No; I do not suppose any of them want to pay tax, any more than I do.

18,184. Now with regard to the point of reducing the price of goods so as to make no profit, and therefore incur no liability to the tax. You think that that is impracticable?—I do, and for this reason: that the Civil Service Supply Association was formed for that express purpose, and in six years they accumulated £93,000. I got the figures from the 1879 Report on Co-operative Stores. They were formed for that very object, and yet accumulated £93,000 in six years. Does it not go without saying?

18,185. I suggest to you again, that the Civil Service Supply Association was of a special and peculiar type, and probably the only one in the country that answers to your early description of co-operators as being largely below the middle class, and that, therefore, the operations of the society were at that period, at all events, very considerably limited?—I can hardly accept that, and I do not think the Civil Service would like you to speak of them in that way.

18,186. I suggest to you that there was a considerable limitation, and that if that condition of things operated—you have quoted the Stratford Society and the Plymouth Society, and I have quoted the Woolwich Society—particularly if it operated in those societies, it would be of real assistance to their extension?—Do you mean if they reduced prices, they would get more members?

18,187. I understood you to say that the Civil Service Supply Association were in the difficulty that at the end of a few years they accumulated £93,000?—That is so.

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18,188. And I suggest that they would not have accumulated that large amount of money if they had had the same opportunities of extension that the ordinary Co-operative Societies have?—The only authority I have to speak about the matter is the Report of 1879 on Co-operative Stores and the evidence given there; so far as that evidence goes, I should not be able to accept it.

18,189. *Chairman:* I do not think we need go into that.

18,190. *Mr. May:* A good deal has been made of the accumulated reserves of the Co-operative Societies, and you admitted, in reply to Dr. Stamp, that they had been accumulated over a large number of years?—A great number of years.

18,191. But I gather that you suggest that reserves are being accumulated at a very rapid rate at the present time, and they ought to be subject to Income Tax?—I do not say reserves are being accumulated at a rapid rate now, and I am not saying that the accumulation of reserves by Co-operative Societies was not a very proper policy on their part. I think it was, because their shares are withdrawable at any time, and if the societies wish to avoid ruin, it is necessary to have a capital and to have a fixed capital, if they can get it. As regards accumulated reserves now, what I say is that the accumulated reserves, together with the hidden assets, would probably come to about 20 millions, and that that 20 millions does not pay a halfpenny Income Tax or Death Duties.

18,192. And you think it should?—I undoubtedly think it should, because in the case of limited companies the limited companies' reserve profit does bear Income Tax, and the value of the capital which is put aside by the limited company appreciates the value of the shares of the company in the market, and the shareholder pays Death Duties upon it when he dies.

18,193. In your paragraph 17 you appear to lay great stress upon the balance-sheet results of a society which you say you have taken as random. I suggest to you, first of all, that it was a very fortunate shot that got you on to Plymouth?—No; I will tell you how I did it. I read Mr. Holyoake's "History of Co-operation," and at the end he has a chapter about certain societies, and I thought the best way of getting at the nature of those societies was to write to every one of those societies and get their accounts; and I did so. So that you see I had quite a number of accounts at the time, and it was only necessary to take one of them.

18,194. What I want to draw your attention to is an observation you make about the variable amount of profit, and you suggest that the members do not receive back the excess that they have paid, because of the profit variation in different shops or different departments?—Quite.

18,195. Do you think it is practicable as a business proposition to make out each member's share, or each purchaser's share of the profit?—No; it is quite impossible, and that is the very reason why I say that their method of business must inevitably bring the tax into operation. It is only when you can take the profit in kind that you can escape the tax at all.

18,196. But is it not a fact that, generally speaking, the members of Co-operative Societies do represent households, and that those households obtain practically the whole of their commodities from the Co-operative Societies?—Roughly and generally speaking, I should say that is so.

18,197. Then, roughly and generally speaking, do you not get a fair approximation by lumping the profits and distributing them on the amount of their purchase?—Yes, of course you do, and I think you deserve every credit for doing it, in a proper way. But I am saying that you cannot do it without liability to tax.

18,198. Simply because of the differential amount of the profits of different departments?—No, not quite. You do not all buy an equal, or any, quantity of the same article. The purchasers of groceries are one community. The purchasers of furniture are another.

18,199. Another community—within the society, you mean?—I say in the Co-operative Society you have a number of little circles. The purchasers of groceries are different from the purchasers of jewellery; the purchasers of furniture are different from the purchasers of beer, or anything of that kind; and the profits which are made within the internal working of the society are made from different bodies of members, who, in many cases, where the society is scattered over a large area, have no communication whatever with one another, and know nothing at all about each other. If that is not profit, you might as well say that I cannot make profit by dealing with my brother. If I can make profit by dealing with my own family, just in the same way the Co-operative Societies can do so, and they do so.

18,200. Does not that only show that the want of particular goods, other than foodstuffs, perhaps, occurs at various dates, and tends over a reasonably short period, to adjust itself fairly equitably over the whole membership?—I do not know how you could possibly justify that. You might get that on a small scale in some trivial society. But take Plymouth. What connection is there between an oil merchant and a jeweller?

18,201. I am not in the witness chair now, but I will answer your question. The connection that I see is that the members of the society will each want a jeweller, and will each want the oilman, at some time. They may not want them on the same day?—I should not agree. Surely there is no value attached to any article of jewellery except its price; it has no intrinsic value that you can assess.

18,202. *Mr. Prettiman:* Would you say that there are three ways in which your suggestion of securing Income Tax payment from Co-operative Societies could be carried out. One would be by taxing the whole profit at the source; another would be by taxing only the reserves and dividends received by members. You are aware, are you not, that at present there are securities of which the dividends are taxed at the source, and certain securities which are not?—Quite.

18,203. Have you considered the possibility of saying that it is not worth while to tax Co-operative Societies at the source and incur all the expense of the abatements and exemptions, but that it might be worth the trouble to enact that all co-operators should include any dividends that they receive, in their returns for Income Tax, and that also the reserves accumulated should be taxable just as Schedule A is now taxable; and, further than that, will you tell me why is it that Schedule A, payable by a Co-operative Society, gets no abatement? Will you answer that first? Why is it that when Schedule A is charged against a Co-operative Society it has to be paid in full without abatement?—Because the statutory exemption does not apply to it.

18,204. Exactly; that is the point. In other words, because they do not pay under Schedule D?—Exactly.

18,205. Schedule A and Schedule D are really, for practical purposes, one, are they not, in a trading society?—In a business sense, yes.

18,206. In a trading society, Schedules A and D are practically one; that is to say, if you lose under Schedule D you can get repayment of Schedule A?—That is so.

18,207. Therefore you cannot separate Schedule A from Schedule D in considering this question?—Quite so.

18,208. And the fact is that where a Co-operative Society has made a loss and gets no set-off for that loss in paying Schedule A, it is to that extent a set-off against their not paying on any profit they make under Schedule D in addition to what they paid under Schedule A?—That is so.

18,209. Would you consider it a practicable proposal that they should continue to pay the whole under Schedule A, and that they should also pay on their reserves which are not distributed, and that, further than that, any sums paid to members, which you call dividend, should also be taxed, not at the source but on receipt by the member. What is your

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view about that?—I think that would be a little unfair to the Co-operative Societies, because they would be paying more tax under Schedule A; they would be paying a higher rate than in fact than they probably ought to do when you consider the income of all their members. But there is a third method of taxing these societies which you have not mentioned, and which it occurred to me I might possibly put forward, and that is this. If the difficulty arises on account of members who have small incomes, then it is quite feasible to say that a society which has only a turnover per annum shall not be subject to the Income Tax law, but shall be exempt from Income Tax, but that all other societies shall be brought within the law. In that way the rich societies would be made to pay for the smaller ones.

18,210. Would you make a proportionate to membership or independent of membership? Would you say where the turnover is only £ per member, or would you say £ in the aggregate?—I should say £ in the aggregate, but it would have to be limited, because you would not want to have a myriad of small societies springing up, and it would be somewhat limited according to locality.

18,211. Would it not be more equitable to have a limited per member?—I am not sure about that; I should like to think about that.

18,212. At any rate, you have made the suggestion?—I may say that you have very much the same sort of thing as regards the group of societies of which this is one; because if you take Friendly Societies proper, the largest Friendly Societies have no exemption from tax; it is only some societies—the small ones—that have exemption from tax, and it is just the same in the trade unions; they only have exemption of tax so far as their provident purposes are concerned. But if you consider the whole matter and take the whole group of these societies together, you will see that this exemption from tax on the part of Co-operative Societies is, as I imagine, the only one in which the tax exemption is free and unlimited.

18,213. Your main proposition is that Co-operative Societies should be taxed at the source just the same as limited companies?—That is so. I have asked that because they themselves said before the 1905 Committee that they saw no difference in their position in regard to that exemption.

18,214. You do not mean to say that that is your real reason for asking it. Your reason for asking it is, is it not, that you think it is equitable and just?—Quite.

18,215. And that money is to be made out of it?—Quite.

18,216. That is really the important point, is it not?—That is really the important point.

18,217. In answer to Dr. Stamp, you said you were of opinion that there would be money made out of it?—Quite.

18,218. That is to say, that if the co-operators were taxed at the source, the Revenue would obtain a considerably larger sum than it obtains now by taxing under Schedule A?—Quite.

18,219. But you could not support that by definite evidence. Would you go so far as to say that you put that forward as an opinion which is an honest one, but that you would prefer that the Inland Revenue Department should give evidence on that point?—I should certainly prefer that, because I think it is a matter upon which you ought to take that course, if I may say so.

18,220. You would be content to rest your case on the general statement. Would you go so far as to say, if the figures presented by the Inland Revenue Department showed that there was little or no profit to be obtained from making the change, you would not advocate making it?—I do not think I should say that, because one has constantly to bear in mind that I represent limited companies. Are these companies to continue to exist or not? If you are going to tax limited companies at the source and Co-operative Societies not at the source, you may as well burn the company law books at once.

18,221. What evil would follow from that—not as between Co-operative Societies and limited companies; we are here on national grounds?—The evil would be that the limited companies would speedily turn themselves into Co-operative Societies, and you would lose the tax upon the amount of trade which they do, and you could not get that tax back in any other way, because the money is spent.

18,222. What you mean, in other words, is that Co-operative Societies are now given such an advantage that the same system would be followed on a constantly increasing scale in order to avoid tax?—Yes, that is so.

18,223. And that therefore the Revenue would lose so much that it would be forced to impose some other method of taxation which would cover the ground?—That is so; that is what I mean.

18,224. I suppose you would say, in spite of whatever may have happened in the past, one of your reasons for coming here is that the situation is very much altered, first by the great increase in the trading operations of co-operators, and, secondly, by the very much higher rate of tax which is now imposed, which alters the situation and increases the disparity?—That is so, and add to that the Excess Profits Duty.

18,225. That is only a temporary thing. There is one other point I want to make clear. One of your main grounds is that the bonuses distributed on purchases are not really bonuses on the actual purchases made?—That is so.

18,226. But it is really a distribution of profits not in respect of capital but based upon the proportion of purchases?—Quite.

18,227. If a profit is made by two trading societies, one being a limited company and the other a Co-operative Society, and each makes a profit of £100,000, one company divides its profits in relation to the share capital held, and the other divides its profits in relation to the purchases made. Is that the point?—That is so.

18,228. And therefore your point is that there is no real difference between them and that it is not really a bonus on the particular purchases; it is a division of profits in relation to the amount of the purchases, but the profit is made in the general trading operations of the society. Is that your point?—That is it, exactly.

18,229. We have a good deal of discussion on the suggestion that if Co-operative Societies were taxed at the source they would meet that by lowering their prices in order to escape the tax, and we also understand that Co-operative Societies admit purchases by non-members. Would not the effect of lowering prices to cost, or practically cost, be to give non-members as much advantage as members?—Yes, it would.

18,230. Would not that have a very remarkable effect on trading? If anybody could go into a co-operative store and buy things at cost, there would not be much chance to sell anything?—It would have this effect, that you could not carry on trading at all, because when once you started selling goods at actual cost, not only would the public go to you, but all the small retail traders in the district would buy you out in half an hour.

18,231. Mr. Merks: Can any non-member go to a co-operative store?

18,232. Mr. Petyman: That is what I understood to be the effect of it.

18,233. Mr. May: I do not think it is conceivable that Co-operative Societies would continue to sell to non-members if they were to adopt that method; and on the other point, as to their being brought out by retail traders, Mr. Cahill says in his evidence that he has had a lot of experience at the Food Control, at the Ministry. He will know that under Food Control even that difficulty has been got over?—That is so, sir, as regards food.

18,234. Mr. Kerry: Your contention as I understand it, is that the so-called surplus is profit, averaged on the profit of all the members' dealings. Let me put it in another way. The suggestion that there are no profits, which is now put forward, is that it is only a return of the excess which a man

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pays for the things which he buys. You say that is not so, because it is not a return on his purchases; it is a proportion of the profit made on the average surplus of the whole trade?—Yes, with members and non-members.

18,235. On the whole average turnover?—That is so.

18,236. You say that in fact until you come to distribution there is no distinction between the trading of a co-operative store and the trading of any other trader?—That is so.

18,237. And when you come to distribution, the methods of distribution differ as between a co-operative store and a company; neither of them takes the form of returning to a particular purchaser the surplus paid by him?—That is so.

18,238. In the one case the distribution is based upon interest on the capital, and in the other case it is based upon the total trading of the particular member with the society, whether or not that trading has shown by itself a profit?—That is so.

18,239. Do you further say that this whole argument rests upon the hypothesis that the society bases its prices upon a constant increase on the cost—a percentage of profit which is constant throughout all its transactions?—I am not sure that I understand that. The prices charged by the societies are the common market prices in the localities.

18,240. That is just what I thought. If it were the fact that the societies systematically based their selling prices upon cost plus a percentage, say 20 per cent., then the hypothesis of the argument would be right, because a man who purchased would represent a corresponding proportion of the gross profit made by the society. But if the addition to cost in order to get selling price varies from one department to another and from one class of goods to another, then you lose any direct relation between a particular member's purchases and the profit made upon his dealing with the society?—If I may say so, that is exactly the position. But you have this further point: That the societies were, I believe, urged by Mr. Vansittart. Needs to adopt the first course mentioned by you and to put a uniform rate of profit upon every article; but they have not done it; and I think you will find that if I opened a shop to-morrow and tried to sell articles on those lines, I should find it impossible to do business.

18,241. Amongst other things, you cannot always tell how long you would have to keep the stock before you sell it. That is a difficulty, is it not? Some things are sold quickly and other things are sold slowly?—That is so.

18,242. And, of course, there are variations from day to day, I suppose, in the cost price of things you are buying?—That is so.

18,243. And you have to have a constant price for selling, at any rate, between one catalogue and the next?—Yes.

18,244. So that the thing is impracticable?—That is what I say.

18,245. Now let me see where that leads us to?

18,246. Mr. May: May I put the one point here; that the difficulty that you are dealing with is sometimes met by different rates of dividends for different departments.

18,247. Mr. Kerly: That might bring it a little nearer to fact.

18,248. Mr. May: With regard to the particular department it would bring it exactly, I submit.

18,249. Mr. Kerly: That is with regard to departments, but I am upon the particular member. (To Mr. May.) I suppose you also say that section 30 (4) of the Income Tax Act, 1918, which contains the exemption, proceeds upon the assumption that what is now called surplus would be taxable profit but for the exemption?—I do say that.

18,250. You suggest also that there are hidden reserves and that by depreciating their buildings and land the societies are in fact representing those assets in their books as worth much less than they are really worth?—That is so, subject to one qualification, which is this: that I believe the Registrar of Friendly Societies compelled them to alter their practice and

to show in their accounts the amount of depreciation written off in the past. I am speaking about England.

18,251. The importance of this consideration is that at present they pay tax under Schedule A upon their buildings. They do not pay that upon their own book values, but they pay that upon an outside assessment, do they not?—They do.

18,252. Any excessive depreciation in that way does not diminish their tax liability under Schedule A?—No, it does not. I was wishing to emphasize the accumulation of these reserves because it is so much more capital in the society, and the income from the capital in the society forms part of its aggregate profits, and therefore escapes tax under the Statute.

18,253. I quite follow your suggestion that they may hide surplus just as they please, because the surplus is not criticized by any Surveyor of Taxes to see whether it is the real profit or anything else; and it may be that officials of a society desire to make that surplus small for the purposes of distribution, and they may make it unduly small. On the other hand, I am pointing out to you that if substantially the saving is represented by writing down buildings, as I understood you to put it, that must be checked by the assessment, which has nothing to do with book values?—The book values have nothing whatever to with the Income Tax upon those buildings.

18,254. It is put on the other side to you that the co-operative stores already pay something like as much as should be got from them under Schedule A?—Yes.

18,255. The point is this, is it not—let me see if I follow it—that the tax which is returned to a shareholder in a company, which company pays under Schedule D, includes the proportion of the tax which has been paid under Schedule A?—That is so.

18,256. You have put before us a somewhat alarming suggestion, that if the extension of co-operative trading goes on the whole income made by, say, the retail shopkeepers in this country, which is now subject to tax, may disappear. That leads to this, does it not, argumentatively: that the people in this country might arrange their trading so as to produce no taxable profit?—So as to produce, practically no taxable profit—on trade, of course.

18,257. And that would drive the Chancellor of the Exchequer to find new sources of income?—That is so.

18,258. Now taking it a step further, what you, representing the shopkeepers who do pay Income Tax, really want is to prevent people trading with one another in such a way as to produce no taxable profit?—I do not say that I object to that at all, as a trader. As a trader, I say I do not mind a hit. As traders, we merely want equal treatment with Co-operative Societies. If they choose to carry on their business so that they make no profit, we are quite prepared to meet the resulting competition, and we think we can meet it substantially.

18,259. With the ultimate result of driving the people into your shop instead of into the co-operative stores.

18,260. Mr. Mackinder: If I may say so, you are a gentleman of considerable literary power, and therefore I venture to draw your attention, with a view to getting your exact meaning, to one phrase in your memorandum. At the end of paragraph 1 you say: "Taken collectively, the members of the three associations represent approximately a capital of £120,000,000, and comprise"—and then there follows a rather curious phrase, it seems to me—"approximately several million shareholders." I think you will agree that the word "approximately" is not often attached to the word "several." I want to see whether you can give me any nearer estimate than is indicated by those words. If I may say so, it is the only expression which I venture to mention in the whole of your memorandum?—I tried to get exact evidence of the members of all these companies, but I was not able to do so. What I wanted to convey was that we had shareholders at least equal in number to the members of these Co-operative Societies; and I think, in saying that, I am putting it fairly.

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18,261. Of course, your opinion is of great value, because you know these companies intimately. You know what the number of members of the distributing Co-operative Societies are?—We have that number, 3,835,000, and I think that the members of the limited companies that are comprised in these associations would be possibly equal to that 3,835,000; I did not want to exaggerate.

18,262. Being limited companies, all their shareholders or approximately all of them, are down at Somerset House, are they not?—They should be so.

18,263. I mean they would be registered at Somerset House?—Yes.

18,264. I assume, then, that those words, though they are, if I may venture to say so, somewhat loose in their literary meaning, are based on a very careful judgment—I cannot say calculation—but judgment on your part?—No, you cannot say that. All you can say is that that is my estimate. As regards the United Kingdom Association of Multiple Shops, there I know the companies; the London Stores, I know the companies there; the Home and Foreign Produce Exchange has 250 firms or companies in it; therefore if you take these people together, I suppose you have got something like 300 exceedingly large companies, and I have not been to search those at Somerset House.

18,265. Could you say how many thousand shareholders there are in one company?—I should say that one company now has more than a million shareholders.

18,266. If that is so, for the sake of rounding the figures let me assume that you have something like four million shareholders altogether; if you say it is not less than the number of members of Co-operative Societies, it must be something of that kind?—I should not think that it is less.

18,267. That would give you an average holding of about £30 a head, would it not?—Quite.

18,268. I think you would say that there are some very large shareholders?—I should say so.

18,269. So that if we eliminate the very large shareholders we might say that your average holding, on your assumption, was somewhere about £20 a head?—You might say that, but I think it would give you a rather misleading impression, because some of these companies, of course, have very large shareholders in them and some of the shareholders in these companies are very rich and powerful men. But when you take the majority—take the small holdings and the large together—that is where we come in with the others.

18,270. Then your suggestion is that if you eliminate these large shareholders, the average holding would be less than £30?—I could not tell you what the average is.

18,271. Or something of that kind would follow. I am really trying to get at this. You are arguing all the time on justice?—Yes.

18,272. And you are met by Dr. Stamp on the question of expedience?—Quite.

18,273. As I understand your argument—and I was trying to take the measure of it—your argument is that no more would be involved in the way of reimbursement either of the whole or part of the tax in the case of Co-operative Societies than is already involved in the case of your societies?—That is the argument.

18,274. You see the importance of my taking up these words "approximately several," because if you allow four million shareholders then I confess I think that your argument is established so far as regards its assumptions, but it is only established if that phrase "approximately several" has some meaning?—I want to be perfectly fair and I am not sure that, putting that argument as strongly as you like, it takes you sufficiently far, because although I appear only for these associations, in actual fact I am merely one of a very much larger class of shareholders throughout the kingdom, and I think Dr. Stamp was trying to take limited companies as a whole in the kingdom and not merely my societies.

18,275. Still, for practical purposes if you translate the phrase "approximately several" as meaning not less than four millions, it does, so far as it goes, I venture to suggest to you, establish your general proposition?—That was my intention in putting it there.

18,276. The second point is this. With regard to the question which was put to you by Mr. Kerly just now with regard to Schedule A, I admit that when you were answering I did at the time take the same meaning that he apparently attached to your answer, but on reference to the memorandum I see that clearly your meaning was the accumulation of funds. Would you say that even if full tax of the Co-operative Societies under Schedule A does, on examination of the facts which are in the possession of the Inland Revenue at the present time, give rough justice, you none the less would plead for a similar method of taxation in the case of Co-operative Societies and your societies?—Yes, I should, because, accepting your statement to the very fullest, even although not a penny of extra tax came into the Revenue by putting these people upon an equal footing, you would remove a very large sense of injustice which now pervades the community, although upon that basis it may be wrongful.

18,277. In other words, you say that if, even at the present time, we do obtain as much money as we should get by adopting the same method in the two cases, the community, and especially the part of the community which you represent, regards the thing with such suspicion that you would not get satisfaction unless the same methods are adopted?—There is a constant feeling throughout the country in all these trades that the co-operators are getting an unjust preference, and if that feeling is properly remedied and we are placed on an equal footing I do not see we should have anything to complain of at all. If the co-operators are placed upon the same footing as ourselves I think the grievance would disappear.

18,278. It has been suggested that the Co-operative Societies were put on the same footing as trading companies they would tend to put their prices down and sacrifice their profits. Would you agree that there is a known limit to that process, established by three facts: first, that which you pointed out, that you might get purchases at wholesale prices by the local tradesmen; secondly, that the diminution of prices would diminish the dividends paid by the Co-operative Societies, and if dividends were not paid there would not be the same motive for belonging to a Co-operative Society, and therefore a Co-operative Society would lose; and, thirdly, that a certain amount of profit is necessary to the continuance of the society, since that profit is the sum out of which, under the varying conditions of different years, the working capital is obtained. Would you say that, if they were reduced to such a point that you effect any of those three things, or all three of them, the Co-operative Societies could not continue? Do I understand you that that is the limitation?—I agree with all the three statements which you made except the second one. I am not quite sure that even if you did diminish the dividends the co-operative trade would go down. It may be so, and a large number of people believe that it would, but I am not sure about it personally. I think that the Co-operative Societies will, in any case, continue whatever course you adopt with regard to the tax. As a practical matter, there is this enormous organisation throughout the Kingdom, and I should think it is impossible to destroy it, and I should not want to destroy it.

18,279. Your practical answer on that point would be what you have said—that your companies would practically become Co-operative Societies?—Exactly.

18,280. On this question of there being no difference between profits paid by a Co-operative Society and profits paid by you, so far as the machinery is concerned, you say that there are the same elements in both cases. Would you agree with a description of that in this way: eliminating special skill in particular cases in buying and selling, taking average results in both cases, you have in the first place interest on the necessary capital put aside in both

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ences; you have in the second place the necessary capital for working. Now, the capital actually employed in the working will vary from year to year. Therefore, in a trading concern you cannot afford to take out your profit until you have ascertained your requirements in the way of working capital during a particular year?—That is so.

18,281. The Co-operative Society also cannot afford to take out its dividend and to pay it over to its members until it has ascertained its requirements for working capital at that time?—That is so.

18,282. In other words, that the profit element, while it is still in the hands of the society or company and has not been distributed, in whatever way, to the members, is a reserve during that time against contingencies, and you distribute profits or dividends at the end according to what your contingencies have been?—That is so.

18,283. You would agree to that statement?—I should.

18,284. And therefore there is no difference, inasmuch as the function of the profit is the same in both cases?—That is so.

18,285. Mr. Synnott: I only want to ask you two or three questions of principle. Is not your position roughly represented by a variation of the old Latin tag: *flat jactura rusti revenue*; in other words, is not your case this: irrespective of the millions of shareholders, you say that you are on the same lines, making profit which is really a profit in the same way, but the machinery is different, the method of distribution is different, and you want to be treated in the same way. Otherwise there is not temptation, from the point of view of the Revenue, that the ordinary trader may be less scrupulous in his return for paying Income Tax, if he finds another body of traders who are let off by Statute. Do you appreciate that?—You seem, if I understand you, to be putting rather a low character on traders.

18,286. No, I am not putting it on your traders. We have had official evidence here that there is a very large amount of evasion, I will not say falsification of accounts, but one might say doctoring of accounts, and adopting legitimate means, perhaps, within the law, to evade tax. Those methods are likely to be more pursued if there is not absolute justice as between one trade and another?—That may be so, but it certainly would not be so as regards the traders whom I represent.

18,287. I see under the Income Tax Act, 1918, there is a statutory exemption from tax under Schedules C and D to Industrial and Provident Societies, provided they fall under certain conditions?—That is so.

18,288. Is it not quite clear that when the Legislature, in their wisdom, passed that Act, they thought that if those conditions were not complied with, they would be certainly liable to Schedule C and Schedule D assessment, and therefore there was a profit made?—Certainly.

18,289. Does not that clearly show that the Legislature, in spite of the opinion of the wise men who sat in 1905, thought that there was a profit?—That is certainly my statement.

18,290. Is not the real point of the whole thing whether it is an Income Tax profit? That is one of the main points, is it not?—That is one of the main points, but I do not think it is the main point.

18,291. It is the first step?—It is one step. The other point is this: that if this exemption from tax continues, I think it will divert business from the limited company form of trading into the Co-operative Society form.

18,292. I quite see that if it is held that this is not profit, many forms of trade will take this form, and there will be no profit?—There will be no profit upon the money expended in that trading.

18,293. Is not the best test that it is profit, this, that human nature being what it is, people would not go on working these Co-operative Societies unless there was a pecuniary gain? Is not that really the test?—I think that is a very good test.

18,294. Dr. Stamp gave us an interesting illustration by way of the mutual running of a cabbage garden, and I think he suggested that in the case that where there was no division of money but an attempt to value the stock at the end, there was no profit. Let me point out this. Take the case of a farmer. Perhaps you know that some of these Co-operative Societies do farming operations. Is not a farmer made to account for a result which is treated as profit where there is no money passing at all? Take the case of any man, myself if you like, or anybody who supplies eggs and who supplies cabbages and fruit from his garden to his own household, and not a penny of money passes, but he is asked to account for that profit at the value of the day. In a way, a household is a mutual concern, but it is treated as profit although no money whatever passes. Is there not some analogy there? Does it not tend to show that this Report of 1905 was completely wrong in saying that it was not profit because one member sold to another, I think the phrase was?—I think so, decidedly.

18,295. Is there not also this distinction, that it is utterly wrong to say that they do sell to each other? The society, which is a separate entity, sells to the members, and the society, although made up of its members, is quite different from its members. The members cannot be sued for its debt for instance; the society alone can be sued?—That is so.

18,296. Is there not also this very remarkable fact, which you bring out for another purpose in paragraph 14 of your memorandum, that a shareholder in these societies can only withdraw his share capital at death or withdrawal. He cannot sell his share, can he?—In some societies he can.

18,297. If there is a sum in reserve in a Co-operative Society, has he any right to that reserve at all?—No.

18,298. Then does not that show that the society is quite different from the whole bulk of its members? If an individual cannot claim a right in the reserve, neither can the whole number of them. It belongs to the society as a separate entity?—That is so.

18,299. This is on the mutual point. It is mutual in a sense, and in another sense it is not mutual trade at all?—That is so.

18,300. Chairman: Is that point agreed to, Mr. May? The witness is asked, supporting reserves are held by a Co-operative Society, has a shareholder any right in those reserves? The witness says no.

18,301. Mr. May: I think that is correct, except, of course, in the case of the liquidation of the society. That really does occur.

18,302. Mr. Kerly: Only one question, arising out of what Dr. Stamp asked you as to the fact that, on the whole, the change that you advocate would make little or no increase in revenue. He did say that, I think; and that implies that it would make little or no difference to Co-operative Societies; no increase in revenue, and therefore no additional payment made by the Co-operative Societies, or nothing worth mentioning. I think that is on record. Dr. Stamp further went on, as I imagine, to deduce from that, the consideration that it was not worth while to make any change at all. But is not a sounder deduction this, that it is worth while to make the change because Co-operative Societies would then be placed on the same footing as ordinary limited companies and a very large body of dissatisfied taxpayers would be conciliated?—Yes, that is so, and of course a further point is this. I cannot see how Dr. Stamp's figures will go to help him, or can show that there is no great tax to be got out of Co-operative Societies, because their accounts have not been made out on the Income Tax basis.

18,303. If that is proved to be the fact, of course that would be an additional argument for making a change?—Yes.

18,304. Mr. Walker Clark: No reference has been yet made to other similar classes of trade which pay

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MR. MICHAEL FREDERICK CAHILL.

[Continued.]

tax, for example, Municipal Corporations have their own gasworks, and tax is paid upon the profit earned by those gasworks, although many of the citizens, who are shareholders because they are ratepayers, are below the Income Tax limit?—That is so.

18,305. And tax is charged on them at the full rate?—Quite so. In the case of municipal authorities, the authorities pay tax upon the profits of the sale of their gas or water to the citizens, but where the municipal authority takes its profit in kind and uses it in municipal works, then on that portion of its profit there is no tax payable.

18,306. But, still, there is a greater correspondence between the trading done by a municipality and the enforcement of the tax upon the municipality and the companies you represent, than there is between the general rule of your companies and Co-operative Societies. There is a greater injustice, may I say, in the demand for the tax from a corporation than there would be in the case of a Co-operative Society?—I think my traders feel it more.

18,307. You know that building societies pay a commuted tax, because many of their shareholders are supposed to be below the taxable limit?—That is so.

18,308. Would you agree that if tax is leviable under Schedule D on co-operative trading, a similar procedure should operate—a lower rate of tax non-returnable; I mean in order to save Revenue difficulties of collection, and so on?—You mean a lower rate of tax?

18,309. A flat rate; or would you prefer the method you have suggested?—You have really raised two methods, both of which might be considered by the Commission; because you have raised this suggestion that a lower flat rate should be imposed, whereas the method adopted as regards building societies is alternative. They make a compromise by taking half.

18,310. It is a commuted rate?—Yes.

18,311. I am asking you your opinion on that suggestion. Would you prefer the ordinary method as between your companies and the Co-operative Societies, or the method of collection of tax from building societies? Would you allow that alternative, if the other is refused?—I think it is a matter which the Commission ought to consider, but so far as our companies are concerned, all we want is equal treatment.

18,312. Mr. Marks: Does not the acceptance of Mr. Walker Clark's suggestion involve the abandonment of your contention that the taxable entity is the company or society, and not the member?—I am afraid it would.

18,313. Mr. Walker Clark: And, therefore, you prefer your own plan, rather than mine?—Yes.

18,314. Chairman: Are you correct in your statement about the number of shareholders in the companies you represent? You know, it is a very startling figure that you gave us?—I cannot speak with any accuracy as to the number of shareholders in these companies.

18,315. But you put it into millions, did you not?—I said: "approximately several millions"; that is an estimate, because these companies which I represent comprise some of the largest companies in the United Kingdom, and they comprise, I understand, about 300 firms altogether.

18,316. Do you not think that those figures are very startling in their enormity?—It may be so. I prefer to place them, therefore, as merely an estimate on my part. But if one considers that, although I appear for these particular associations, I really represent a class, the class of shareholders throughout the kingdom, then the figures would undoubtedly be well within the mark, because there must be more than several million shareholders in the United Kingdom.

18,317. But you are taking nearly the whole adult population between the co-operators and yourselves? In point of fact, I think they largely overlap, just

in the same way as the co-operative customers come to our shops, and our shareholders go to their shops.

18,318. I wanted to find out, because the figure struck me as being very large, and I wondered whether you had any real ground for making the statement?—It is merely my estimate; I have no actual data to go upon.

18,319. Mr. May: But is it not possible for them to be obtained officially?—We have had very exact figures put in on the other side.

18,320. Chairman: I should like that. It would influence me very much in my own mind, if you could prove that there were three million people; if you could give any proof of that, it would make a very great impression?—I will send a circular out, and ask for precise returns of the number of people, but, as I say, it is merely my estimate; I tried to get particulars, and I could not get any information at all.

18,321. Mr. Mackinder: It seems fairly obvious, without any special knowledge of your case, that if you have companies on such a different footing from ordinary companies with a much smaller average shareholding, you must have some different method of obtaining shareholders to the ordinary method of offering to public subscription, with a prospectus, and so on.

18,322. Mr. Walker Clark: Many of them will be customers.

18,323. Mr. Mackinder: That is what I am trying to find out from the witness. In the case of these multiple shops, to take that case alone, you appeal for shares in a different way from what an ordinary company does? You recruit your shareholders in a different way?—I should hardly be able to say that; on the contrary, I think, when we have got the shareholders we try and turn them into customers.

18,324. Chairman: You might supplement that. Will you send a statement to us on that point?

18,325. Mr. Marks: Supposing that this number of shareholders turns out to be more or less than you estimate, that would not affect the principle for which you are contending, would it?—It would not affect the principle, in my mind, in the slightest degree. Suppose the number of shareholders came down to 10,000; then, for the sake of argument, it would not affect the principle.

18,326. Mr. Mackinder: May I go a bit further, and add that it would in my mind, for this reason. It would not only affect the question of practicability, but the question of justice; because as the thing stands at the present moment, when we take the big idea of justice, the action being involved, it would be unjust to throw on to the nation the cost of administration, and all the rest of it, in that case; but if already the thing is being done, the question of justice does come in. If the nation is willing to do it in the one case, the nation ought to be willing to do it in the other case?—I wanted to say that although I appear as representing these companies, I really represent the class of shareholders, and that the number of shareholders in the United Kingdom, I imagine, must be, at the very lowest, equal to the four million co-operative members.

18,327.—It is a very difficult thing to answer, because of course they overlap so much. I know a company where the average shareholding would be perhaps £200, but then a very great number of those shareholders have investments elsewhere; so if you are trying to find the total number of shareholders it is a very difficult question?—Yes.

18,328. Chairman: You say in your paper "and comprises approximately several million shareholders"?—Yes.

18,329. I regard your memorandum as a very valuable and important paper, and we are very much obliged to you for coming here.—Thank you.

TWENTY-SEVENTH DAY,

THURSDAY, 23RD OCTOBER, 1919.

PRESENT:

LORD COLWYN (*in the Chair*).

SIR T. P. WHITTAKER.

MR. BRACE.

MR. PRETTYMAN.

SIR E. E. NOTT-BOWER.

SIR J. S. HARMOOD-BANNER.

MR. HOLLAND-MARTIN.

MR. ARMITAGE-SMITH.

MR. BIRLEY.

MR. WALKER CLARK.

MR. GRAHAM.

MR. KERLY.

MRS. KNOWLES.

MR. MACKINDER.

MR. MANVILLE.

MR. GEOFFREY MARKS.

MR. MAY.

PROFESSOR FIGOU.

MR. SYNNOTT.

Mr. E. R. THOMPSON, President of the Federation of Grocers' Associations of the United Kingdom, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

18,330. I have been appointed by my Federation to give evidence on their behalf. Our organisation was established in 1891, and its members are retail grocers, provision dealers, Italian warehousemen, and household stores proprietors. Our membership is about 16,000, covering about 60,000 shops. They desire me to give evidence on some points in reference to the application of the Income Tax Acts as follows:

1. Depreciation.

18,331. (a) *Fixtures (Fast)*. In this matter, in our opinion, the rate of 5 per cent. now allowed is too low, and we suggest it should be at least 10 per cent.

(b) *Plant and utensils*. At present the practice is not to allow depreciation, but merely to allow for renewals and replacements. In our opinion this is not satisfactory. It would be fairer if all were written down annually at a rate of 10 per cent. We also suggest that there should be an allowance of 20 per cent. for depreciation on horses, motor vans and lorries, and 10 per cent. on other rolling stock.

(c) *Buildings*. Under section 24 of the Finance Act, 1918, it is provided that an owner-occupier of trade premises is allowed in the case of buildings which are peculiarly subjected to depreciation, such as mills, factories, &c., to deduct the whole of the annual value in computing his profits under Schedule D, instead of the five-sixths he has paid under Schedule A. We suggest that grocers' shops, stables, &c., are also subject to extra depreciation, and that therefore the above quoted section of the Act of 1918 should be extended to such premises as we have indicated.

2. Leases.

18,332. In our opinion the cost of a lease should be written down over the length of such lease by annual instalments. The actual depreciation in the premises has to be made good by the lessees at the end of the lease. Further, should a lease not be renewed at the end of its term, or should the business be discontinued, the trader has thus to bear a heavy loss. The trader, therefore, should be allowed to write this prospective loss off as suggested by annual instalments.

3. Subscriptions to trade associations.

18,333. Our Federation is strongly of opinion that these should be allowed as part of a trader's expenses. About four years ago it was suggested to us that we should, as a Federation, enter into agreement with the Inland Revenue to submit our rules, annual balance sheets, and lists of members, to the

Surveyors, and that we should pay tax under Schedule D on the excess of the income over expenditure. We were also invited to get all our affiliated societies to enter into similar agreements and undertakings. Most of them did so. It was pointed out to us that trade associations such as ours were under obligation to pay the tax under Schedule D as set forth in the case of the Commissioners of Inland Revenue v. the Old Monkland Conservative Association. We were also informed that by our Federation and its affiliated societies entering into this form of agreement with the Inland Revenue, the individual members of all such societies would be allowed to be free of tax upon their annual subscriptions. Subsequently, owing to the great increase in the tax, and to a decision in the case of the London Trade Protection Society, we decided to withdraw from that agreement. We are now informed that all our members will no longer be allowed to be free from the payment of Income Tax on their annual subscriptions. This we believe to be unfair. These trade associations are not in any way trading for profit. What-over excess of income over expenditure may arise is used solely for the trade protection purposes of the members. We are therefore of opinion that neither the association nor its individual members should be called upon to pay Income Tax on their annual subscriptions to their trade associations.

4. Schedule A.

18,334. We are of opinion that where a trader is the owner as well as occupier of his premises he should be allowed to charge against his trading profits the actual value of the business portion of the premises in relation to that portion used as a dwelling house.

5. Assessment under Schedule D.

18,335. We are of opinion that the basis of three years' average now in operation is, broadly speaking, acceptable. In this connection we also agree that some systematic method of book-keeping, even in the case of small traders, should be encouraged so that a true statement of their profits and losses should be regularly set forth, alike in their own interests and those of the State. We would also urge that where the wife is assisting in the business and has to engage help for household duties, there should be an allowance made for her services which would cover the cost of such help in the domestic work.

6. Payment of Income Tax under Schedule D by Co-operative Societies.

18,336. We are of opinion that in justice to all other taxpayers, the Industrial and Provident

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[Continued.]

Societies Act, section 24, should be amended so that Co-operative Societies should bear their proper share of the national burden. We go further than Sir James Martin in Q. 5824 of the Minutes of Evidence of this Commission, in which he suggests "the case would be met by making liable to Income Tax such Co-operative Societies as trade with anyone outside their registered list of members." We are of opinion that they should pay tax equivalent to the protection they receive from the State. We respectfully submit that the development of the trading of these societies, both wholesale and retail, is such that their whole position in relation to the payment of Income Tax should be reconsidered from the national point of view.

[This concludes the evidence-in-chief.]

18,337. *Chairman*: Your evidence-in-chief has been circulated, and the members of the Commission have read it, and you will now be asked a few questions on your paper.

18,338. *Sir E. Nott-Bosser*: Several of your points have been before us already. The question, for instance, of subscription to trade associations; I think we have considered that pretty fully. There is one small point I wanted to ask you about, and that is on paragraph 4, where you ask for an allowance against trading profits of the actual value of the business portion of the premises in relation to that portion used as a dwelling house. You get some allowance now, do you not, in those cases?—Yes; I think the usual allowance is two-thirds.

18,339. Yes, not exceeding two-thirds. What you want is that that two-thirds should be done away with, and you want it settled in each individual case what the proper proportion of the premises is which is used for trading purposes, and what is the proportion which is used as a dwelling house?—We think that would be better, because we have cases before us in which there is undoubtedly a hardship through that hard and fast two-thirds arrangement.

18,340. I understand that point. It has been brought before us before.

18,341. *Chairman*: We have had a great many of these points brought before us by other witnesses.

18,342. *Mr. Holland-Martin*: In paragraph 1 (c) you say that grocers' shops and stables are also subject to extra depreciation; in what way do you mean?—We think there is quite a heavy wear and tear of grocers' shops and buildings, and our point is that if it is reasonable that mills should have certain treatment, we think it ought also to be applied to grocers' shops. We cannot differentiate between them in that respect as to wear and tear. The floors wear out very quickly; the walls are often injured by the nature of the goods, which are heavy, as regards their storage, and so on. It has been put forward by the people that I represent that really we ought to be brought into the same category as mills and factories, and get this extra allowance.

18,343. You think it ought to apply to grocers more than, we will say, to linen drapers?—Yes, I contend it does, on account of the nature of the goods.

18,344. Then, in paragraph 5, you say: "where the wife is assisting in the business and has to engage help for household duties, there should be an allowance made for her services." How far up in the scale of shops would you allow that? It is obvious it would be quite a small shop and a small man whose wife might be engaged otherwise in household duties, but who helps him in the shop and has to engage help. A little further up the wife would probably have to have help, and it would be very difficult to say, I think, where it is necessary for her to engage help for the house?—I think it would have to be proved that she had engaged help to take her place while she attended to the business.

18,345. *Mr. May*: Only one small point, but I am sure Mr. Thompson would be disappointed if I did not ask a question on paragraph 6. The bulk of the case has already been dealt with, and I only want to ask the meaning of the sentence: "We are of

opinion that they should pay tax equivalent to the protection they receive from the State?"—We feel that it would not be possible to carry on business without the protection of the State—that is, without the services which the State renders, and that we pay through Schedule D a certain proportion of that expense, and we think that a competing trader ought really to bear his fair share, too.

18,346. Would you be prepared to accept the findings of the Commission if, after due consideration, they are able to compute what they think is the tax equivalent to the protection the Co-operative Societies enjoy from the State?—Yes. I have confidence that if the Commission deal with this matter they will arrive at a fair proportion. If they deal with it at all, if they find it possible to deal with it, I am sure they will arrive at a fair conclusion.

18,347. I think there is no doubt that they will deal with it, and you will accept that?—Will I accept the Commission's findings?

18,348. I do not mean that you should bind yourself, but generally you would be prepared to leave to the Commission to estimate what was the equivalent to the protection they receive from the State?—Certainly I would.

18,349. You realise that the Co-operative Societies' members are mostly the working classes?—I do not accept that altogether.

18,350. I did not say altogether the working classes, but they are mainly the working classes. If you will admit that they include some of the poor, I will admit that they include some of the middle class, but they are mainly of the working classes?—Of course, you want a definition of working classes. I would claim to be a working man in a sense.

18,351. I will accept your own definition of yourself as a working man. Do you think that if we include all the people in Co-operative Societies who are in no better circumstances than yourself we have got the bulk of the working men?—Quite possibly, yes.

18,352. I only want to know if you have taken into account in suggesting their equivalent in protection by the State, the very large proportion of personal service that they give in the protection of the State as compared to any other section of the community?—I do not think they should have any particular preference because they happen to be members of a Co-operative Society.

18,353. But I am suggesting now the point that they do provide the protection for the State?—I am sorry; I could not accept that.

18,354. That is all; I only wanted to ask if you have taken that into account?—Oh, yes.

18,355. *Mr. Symonds*: As to depreciation of buildings, do you realise that if you were allowed to be put in the same position as regards depreciation as mills, factories, and so on, that principle must have an enormously wide extension, and would affect the Revenue; you cannot confine it to grocers' shops, can you?—Perhaps not, but as traders I am charged to put forward the view that we cannot see why there should be any treatment of our shops different from mills and factories.

18,356. But you do not suggest that the depreciation in a grocers' shop is the same as in a factory where there is working machinery, vibration and so on?—It might be a matter of degree, but we still can tend—

18,357. Have you considered that in a farmer's premises, for instance, there must be an enormous depreciation too? Do you not see, if you claim this and get it, it must be very widely extended, and will affect the tax, and it must be raised in some other way, and possibly by an increased rate of tax, which would ultimately fall upon you?—I think we are entitled to look at it as traders from our particular point of view.

18,358. You have not looked at it from the general point of view?—I do not think we are bound to look at it from that point of view, or we might look at a great many more things. We take it entirely from our point of view as traders.

18,359. *Chairman*: Is there any other point that you specially want to put before the Commission?—I want to emphasize the point of paragraph 3, subscriptions to trade associations.

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[Continued.]

18,360. Yes?—We feel that we contribute to trade associations purely and simply from the point of view of the benefit to our trade.

18,361. *Sir T. Whitaker*: May I ask what is the amount of the subscription—roughly?—In the case of some associations perhaps from 5s. to a guinea.

18,362. Is that really worth bothering about—the tax on 5s. or the tax on a guinea?—Well, a man might be a member of more than one association, and now that the Income Tax is so high, of course, it is a heavier item. It comes to this. We have these complaints, and we are charged to bring them before the Commission, and the people who pay the tax seem to think it is quite an appreciable item.

18,363. *Mr. May*: There is one question I would like to put to the witness, my lord. I should respect their opinion upon this. I have raised in the case of other witnesses the point as to how far the membership of the many traders' organisations that have been before this Commission is duplicated. I suggest that it is very very largely the case. For example, we have had the British Association of Chambers of Commerce, and we have had certain Chambers of Commerce. There are Chambers of Trade to come, and the Traders' Defence League, and I suggest that they do not in each case represent a separate and distinct membership. I think it is rather important

that the Commission should know how far the membership is duplicated in these representations.

18,364. *Chairman*: Have you been represented by any of the associations that have been before this Commission?—To a very small extent, my lord. I may say on that point we come in constant contact with our members in various ways, and we would hear if they were members of other bodies.

18,365. *Mr. May*: Do the members not generally in their own districts belong to the Chamber of Commerce, for example, or Chambers of Trade?—No. With respect to the trade we are engaged in, the Chambers of Commerce are rather above our level; their membership is more of the merchant type.

18,366. *Chairman*: That is so, I think, *Mr. May*.

18,367. *Mr. Manville*: I think I am in a position to make a statement about that. There are retail sections to most Chambers of Commerce representing as a rule a very small minority of the Chamber.—Within my knowledge, for instance, they do not have a section for retailers at all.

18,368. *Mr. Manville*: They do in some cases.

18,369. *Mr. May*: It is not my desire in the slightest degree to make capital out of this point. I simply want to get at the facts.

18,370. *Chairman*: It is quite a proper question (*To Witnesses*) Is there anything else you want to say?—I think not, my lord.

18,371. *Chairman*: We are much obliged to you.

MR. NEWMAN HALL COOPER, MR. THOMAS GOODWIN, and MR. ROBERT MACINTOSH, on behalf of the Co-operative Union of Great Britain and Ireland, called and examined.

The witnesses handed in the following statement as their evidence-in-chief:—

18,372. Evidence-in-chief submitted on behalf of the Co-operative Union of Great Britain and Ireland by MR. NEWMAN HALL COOPER, accountant to the Co-operative Union Limited, who will deal with the general and distributive movement, by MR. THOMAS GOODWIN, bank manager, Co-operative Wholesale Society Limited, who will deal with the English Co-operative Wholesale Society Limited, by MR. ROBERT MACINTOSH, accountant to the Scottish Co-operative Wholesale Society Limited, who will deal with the Scottish Co-operative Wholesale Society Limited and the distributive movement in Scotland.

18,373. (1) The Co-operative Union Limited is an organisation which officially represents registered Co-operative Societies and their work in the United Kingdom. It comprises 1,307 Co-operative Societies, including the English and Scottish Co-operative Wholesale Societies, with 3,814,437 share-holding members, mainly heads of families; it thus represents, approximately, twelve million persons, equal to about one-fourth of the population. The trade of the distributive societies for 1918 was £158,157,965, that of the English Co-operative Wholesale Society £65,167,960, and that of the Scottish Co-operative Wholesale Society £19,221,095.

18,374. (2) The Co-operative Union represents only what are generally known as *Working Men's Industrial or Co-operative Societies*. Owing to various causes, there are several other forms and kinds of societies and organisations registered under the Industrial and Provident Societies Acts, but the Co-operative Union only takes cognisance of that kind of society for which the Act was originally intended, viz., associations or societies of working men formed to carry on in common the trade or business of dealers in provisions and other necessities of life, and to produce or manufacture any of the goods or articles so dealt in.

18,375. (3) These societies, in some form or other, date back to the early part of the last century, and became more generally established about the middle of that century. They have from time to time formed the subject of legislation in Parliament on the ground that it was wise and prudent to encourage the growth of habits of thrift and business economy amongst the working classes, for whose benefit the societies were established.

Industrial and Provident Societies Acts.

18,376. (4) The co-operative position in this respect, as in others, has gradually emerged from the legislation on which the Friendly Societies were at first established, and in this connection it may be noted that the work of registration of societies originally carried out under the Friendly Societies Acts, in a more or less perfunctory manner by the justices, is still under the control of the Chief Registrar of Friendly Societies.

18,377. (5) Industrial and Provident, as distinct from Friendly Societies, were first legalised under the Act of 1852, which made provision for the main points constituting the present rules of our societies. That Act did not contain any specific exemption from Income Tax, but it enacted that all the provisions of the laws relating to Friendly Societies should apply to every society constituted under the Act. At that time Friendly Societies enjoyed an exemption under Schedule C of the Income Tax Acts which was extended to interest and other profits chargeable under Schedule D. The limitation of the interest of any member in the funds of any society was fixed at £100, plus any annuity not exceeding £30. The Act of 1883 raised this limit to an exclusive total of £300. It also enacted that the provisions of the Friendly Societies Acts in respect of exemption from stamp duties and Income Tax, &c., should apply to Industrial and Provident Societies.

18,378. (6) The Act of 1887 is the first Industrial and Provident Societies Act which mentions the question of Income Tax, and provides that the Co-operative Societies registered under that Act shall not be chargeable with the duty under Schedules C and D of the Income Tax Acts. The section expressly states, as do all subsequent Acts, that such exemption shall not relieve any member or employee of such society of any payment of the tax in any case in which his total income, inclusive of his portion of the "profits" amounts to the sum of £100 or upwards. This provision is limited to the condition imposed by the Industrial and Provident Societies Acts limiting a member's holding to £200, thus clearly indicating in its earliest provision that no real exemption was being given, but that simply a different method of collection was being adopted in view of the small sums involved and the consequent non-liability of most of the members. Moreover, it should be noted that at that time the exemption allowed by the Income Tax Acts was £30 below the present standard, at which figure it remained for the following nine years.

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[Continued.]

18,379. (7) A consolidating Act was passed in 1876, in which the whole of the provisions for the constitution and control of Co-operative Societies was elaborated and extended. The Income Tax clause, however, was continued in a briefer and more concise form, expressing the same exemption as the Act of 1867, subject, of course, to the exemption limit of the Finance Acts, which in that year raised the exemption to £150.

18,380. (8) The Industrial and Provident Societies Act, 1893, which is the charter of the movement at the present time, contains, in section 24, the considered statement of the position on which we rely, with its official interpretations, for the justification of our case.

18,381. (9) It may be well to reproduce the section here exactly as it stands:—

"A registered society shall not be chargeable under Schedules C and D of the Income Tax Acts unless it sells to persons not members thereof, and the number of shares of the society is limited either by its rules or its practice. But no member of, or person employed by the society, shall be exempt from any assessment to the said duties to which he would be otherwise liable."

The present position.

18,382. (10) It is impossible to define the actual relationship of our society to the Income Tax law with greater clearness or accuracy than the Treasury and the Board of Inland Revenue have done in various official memoranda and documents. Where the governmental authorities, who are chiefly responsible for obtaining revenue for the State, so unanimously justify our position, it seems futile to do more than quote their considered pronouncements.

18,383. (11) In a memorandum printed for general circulation, and issued by the Treasury, the first sentence in a "General Statement of the Law" affecting Co-operative Societies declares that "Industrial and Provident Societies enjoy no real exemption from Income Tax."

18,384. (12) The memorandum proceeds:—"It is true that societies registered under the Industrial and Provident Societies Acts are by Statute, under certain conditions, exempt from direct assessment to Income Tax under Schedules C and D; but this is a mere matter of administrative convenience. The exemption is not an exemption from Income Tax on profits. It is merely an exemption from the liability which the Income Tax Acts impose on companies, &c., to account for the Income Tax on behalf of their shareholders. It is, in fact, merely a variation in the machinery of collection, not in the principle of the tax. It is expressly stated in the law that the exemption does not relieve a single member of such a society from any assessment to which he would be otherwise liable."

18,385. (13) Again, the same authority says: "It makes no real difference whether a Co-operative Society is assessed directly to Income Tax or not; the distinction simply is, that if the society is assessed directly, Income Tax is deducted from each member's share of the profits before he receives it, but he can claim repayment afterwards if he is not individually liable. If the society is not assessed directly each member receives his share in full without any deduction, but he has to pay Income Tax upon it afterwards if he is individually liable."

18,386. (14) This statement of the law is largely based on an exhaustive memorandum presented to the Departmental Committee on Income Tax in 1904 by the Deputy Chairman of the Board of Inland Revenue.

18,387. (15) It should also be remembered that all the so-called Co-operative Societies (some of which are registered as joint stock and limited liability companies) which do not fall under the head of exempted Industrial and Provident Societies are liable to direct assessment to Income Tax. The Army and Navy Co-operative Society Limited, the Army and Navy Auxiliary Co-operative Society Limited, the Junior Army and Navy Stores Limited, the New Civil Service Co-operative Society Limited, and the Civil Service Co-operative Society Limited are directly assessed.

18,388. (16) The Civil Service Supply Association Limited, though registered under the Industrial and Provident Acts, is directly assessed to Income Tax because, while it sells to non-members, the number of its shares is limited.

18,389. (17) The question as to "whether Co-operative Societies enjoy . . . any undue exemption from liability to Income Tax" was made the subject of a special inquiry by a Departmental Committee appointed by the Chancellor of the Exchequer in 1904. The original terms of reference to this committee contained no mention of Co-operative Societies. The first point on which the committee were instructed to inquire into and report upon was: "the prevention of fraud and evasion" in the working of the Income Tax Acts amongst the general body of the people.

18,390. (18) It is significant that it was while this part of the inquiry was developing that the committee thought it desirable that their reference should be extended so as to embrace the question of the position of Co-operative Societies in connection with the Income Tax. The matter was referred to the Chancellor, who agreed, and the reference to Co-operative Societies quoted above was given to the committee.

18,391. (19) The Report says: "There is, no doubt, some leakage in the assessment and collection of the small sums that become payable under these circumstances. This is inevitable under any system, and is not peculiar to incomes derived from Co-operative Societies. The leakage, moreover, is in this case, we are satisfied, very trifling in amount as compared with evasion elsewhere."

18,392. (20) It further says: "In so far as members of Co-operative Societies are in receipt of incomes not exceeding £160 a year, and the immense majority of members are in this class, it cannot be seriously contended that they are not as fully entitled to relief as other persons in receipt of small incomes. It follows that if the tax were collected at the source, the great bulk of the members would in any case be entitled to repayment, and the procedure of first collecting and then repaying the tax would involve a large amount of useless and costly labour on the part of the Revenue officials, and of unnecessary trouble to the taxpayer."

18,393. (21) In connection with this last sentence we refer to an extract from a judgment of Lord Blackburn, given in the House of Lords on an Income Tax Appeal case in 1881: "The object of those framing a tax is to grant to Her Majesty a revenue. No doubt they would prefer, if it were possible, to raise that revenue equally from all, and, as that cannot be done, to raise it from those upon whom the tax falls with as little trouble and annoyance and as equally as can be contrived; and, when any enactments for the purpose can bear two interpretations, it is reasonable to put that construction on them which will produce these effects." [1 Tax Cases, p. 316.]

18,394. (22) To return to the Departmental Committee's Report, it further says: "But this is not all. We also think it clearly established that, in a society of the Rochdale type, the dealings of the society with its own members do not result in anything which can be treated as 'profit' within the meaning of the present Income Tax Acts or which could in fairness be so treated under any amendment of the law."

18,395. (23) Again, the Report says, dealing with the "so-called dividend": "The suggestions made to us that the 'dividend' which is paid to members of these societies constitutes a profit which would properly be taxable, rest, we think, on a misapprehension of the nature of the 'dividend.' The so-called 'dividend' arises from the fact that the prices charged by the society to its members are in excess of cost price. If the goods were distributed at the exact cost price, there would be no 'dividend,' and it follows that no question of Income Tax could arise. But the societies, for what they consider good reasons, prefer to fix a scale of prices which leaves a margin over and above cost. Thus an adjustment has to be made periodically, and the balance between cost

price and distributing price is divided among the members in proportion to the value of their purchases. This 'dividend' is clearly not profit, but merely a return to members of sums which they have paid for their own goods in excess of the cost price. There can be no doubt that the procedure which we have described—resulting, as it does, in periodical returns to members—is conducive to thrift, and we see no reason for discouraging it."

18,396. (24) Finally, we have their definite and considered conclusion, which should satisfy the most persistent of the opponents of co-operation. "We do not think, therefore, that any case for alteration of the Income Tax law was made out by the Traders' Associations; certainly none is required in the interests of the Revenue. Indeed, the particular proposals which have been put before us would not only on general grounds be inequitable or impracticable, but also, by reason of the expense they would entail, actually disadvantageous to the Treasury."

18,397. (25) On the contrary we propose to show later in this evidence how, instead of enjoying any exemption, co-operators are at present paying more than their fair share of taxation in comparison with other citizens.

18,398. (26) Before dealing with Income Tax in relation to Co-operative Societies, we submit the following proposals on some Income Tax questions which are not peculiar to Co-operative Societies, but which concern our members as citizens.

Limit of exemption and abatement.

18,399. (27) In relation to the limit of exemptions, we support the demand put forward that such limit should be raised to £250, which, as shown by the National Insurance (Rates of Remuneration) Act, 1919, represents at the present time the former £160.

18,400. (28) The Co-operative Congress has on various occasions passed resolutions advocating the abolition of taxes on food and other indirect taxation, and the substitution thereof of direct taxation. As far as possible the needs of the country should be met by direct taxation.

18,401. (29) In view of the present indirect taxation, we accept Mr. Herbert Samuel's estimate that persons in receipt of £150 a year are already paying their fair share, or more, of taxation without the imposition of Income Tax. Taking into account the purchasing power of money, we favour the raising of the limit of exemption to £250. We are also of opinion that the limit of exemption and abatement should be fixed at the same figure.

Three years' average.

18,402. (30) This should be abolished and assessment made upon the profits of the previous year. We make this suggestion for the reasons which led the Income Tax Committee of 1905 to state that such change would on the whole be advantageous.

Wage-earners' assessments.

18,403. (31) Such assessments should be made under the same rules and regulations as apply to other taxpayers, the assessment being made on the income earned during the previous year. Payments should be made as easy as possible, say, quarterly, and the use of Inland Revenue stamps should be encouraged by the sale of same at all post offices.

Traders and accounts.

18,404. (32) All traders, including farmers, should present proper accounts, to be certified, if so required by the Inspector who should have the right to verify by inspection of books; and in the case of traders, an estimate of the goods used for home consumption should be included as is now done with farmers' accounts.

Working-class organisations.

18,405. (33) Where the funds of working-class organisations is found by wage-earners, the greater number of whom after making the usual allowance for wife and children are entitled to exemption from the

payment of Income Tax, the income of such organisations in our opinion should not be taxed at the source, but members liable to payment of tax should be taxed directly on the income they receive.

18,406. (34) Among such organisations are trade unions, Friendly Societies, and Co-operative Societies. If, instead of one Schedule for the payment of tax, the present Schedules are retained, then in such cases all Schedules should be dealt with in the same manner.

Position of Co-operative Societies.

18,407. (35) At the end of 1918 there were 1,365 retail trading Co-operative Societies in Great Britain and Ireland recognised by the Co-operative Union in its statistics, with a membership of 3,846,531, a share capital of £54,039,225, and a loan capital of £7,355,483. The interest on share capital paid for 1918 was £2,230,375.

18,408. (36) These societies possess land, buildings, and house property to the extent of £23,162,580, on all of which Income Tax under Schedules A and B is paid where the land for agricultural purposes is in the occupation of the society. During 1918 the trade of these 1,365 societies amounted to £155,157,963, being an average of a little over £40 per member.

18,409. (37) The societies take from their members share capital varying in amount from £1 (one share) up to £200 (200 shares), the limit fixed by Act of Parliament.

18,410. (38) A fixed rate of interest is paid by each society to its members on the capital which they have respectively invested or allowed to accrue. The rate of interest varies in different societies, but it is fixed by each in its rules, and normally does not exceed 5 per cent.

Methods of working.

18,411. (39) After providing for all working expenses, the payment of the interest agreed to be paid on loans, and the interest stipulated by the rules to be paid on shares, the accounts of the society are made up, and any surplus arising from carrying on the business of the society is divided amongst the members in proportion to their purchases from the society during the period to which the accounts relate. This in ordinary co-operative language is called a "dividend," but it is really a return to the members of the sums which they have paid for their own goods in excess of cost price.

Trade with non-members.

18,412. (40) We have gone to some trouble to ascertain to what extent this prevails, and from the figures hereinafter given, it is found that non-members' trade is a mere fraction of the total trade of a society, and has in fact very little bearing whatever on the profits or losses. In some societies the non-members are allowed a rebate equal to about half the rate in the pound of that accruing to members.

18,413. (41) The total trade of 830 retail societies which have made returns in answer to our inquiry is £127,275,019, and the non-members' trade done by these societies is £266,312, which is about 0·2 per cent. of the total turnover. The surplus from this trade available for dividend is £14,000,825, which is reduced by £1,837,569, paid as interest on share capital, to £12,163,256, and 0·2 per cent. of this is £24,330 profit on non-members' trade; this is again reduced by the dividend paid to non-members.

18,414. (42) Non-members' trade is therefore so small that for Income Tax purposes it is entirely negligible, and, as the authorities say, would not produce revenue, but rather involve expense to the State if any attempt were made to collect it.

Schedules A and B.

Co-operative Societies do not escape taxation, but are in fact overtaxed.

18,415. (43) For the purposes of this evidence, we have circularized the whole of the societies as recognised by the Co-operative Union, and have received returns from some 832 societies, giving particulars

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of tax paid by them in respect of assessments under Schedules A and B for the years as follows:—

830 retail societies:

	1914-15.	1917-18.
Schedule A ...	£61,062 ...	£183,546
" B ...	£1,125 ...	£6,333

18,416. (44) The membership of these societies was 5,155,994 at the end of 1918, with a turnover of £187,275,919, which includes sales to non-members of £266,312, being about 0.2 per cent. of the total turnover.

18,417. (45) The surplus from this trading was £14,000,825, and the interest on shares held by the members was £1,957,569.

Two wholesale societies:

	1914-15.	1917-18.
Schedule A ...	£11,540 ...	£43,487
" B ...	£101 ...	£1,695

18,418. (46) The individual membership represented by these two societies was 3,413,763 at the end of 1918, with a trade of £84,389,045, including £6,417,287 with non-members, the latter being about 7½ per cent. of the total.

18,419. (47) The sales to non-members were materially increased owing to war contracts, which were forced upon the societies and which will not recur.

18,420. (48) The total amount of tax paid was £234,061 for the financial year 1917-18, when the rate of tax was 5s. in the pound, and if one-fifth is added to this amount, a sum of £230,873 will be paid for the financial year 1918-19, against an amount of £74,428 paid for the financial year 1914-15.

18,421. (49) There has been no change in the method of working Co-operative Societies since the Report of the Committee on Income Tax which reported in 1905 that the surplus arising out of the mutual trading is purely deferred discount. The taxable surplus, if any, of Co-operative Societies, therefore, is represented by the interest paid to members on share capital and loans.

18,422. (50) In view of the fact that such interest is taxed in the hands of such of the recipients as are liable to Income Tax, all tax now charged upon Co-operative Societies in respect of Schedules A and B is already paid by the members, and the charging of the same against the societies is to levy the tax twice, and such double taxation is ultimately borne by the members. In view of the difficulties attendant on redemptions and the small sums individually involved (the average of capital invested per member being £17) no reclaim or statement has ever been made by or to members in respect of such payments under Schedules A and B. The 830 retail societies previously mentioned paid tax in 1917-18 under Schedules A and B of £188,879, and if one-fifth be added this will give an estimated taxation of £220,657 payable for the current year. The interest payable to members was £1,957,569, which represented almost the whole of the true profits of the societies. The tax payable under Schedules A and B is equal to 2s. 4d. in the pound on the aggregate interest paid by such societies. As very few of our members have incomes exceeding £500, and it is estimated that about 90 per cent. of our members are exempt, it is evident that such interest has already paid more than its full tax before it is received by the members and again taxed.

18,423. (51) In our view, the reasons which have in the past led to taxation of the income in members' hands instead of at the source still exist, and such form of taxation is the most convenient. As all income is taxed in the hands of the members there should be no taxation of the same income in the hands of the societies, and societies should not be assessed under Schedules A and B.

18,424. (52) We contend that in respect to the sale of farm produce we should not be assessed under Schedule B, as our farming operations are an extension of the mutual trading which exists amongst the members, inasmuch as we till the ground to produce food, instead of purchasing the food ready grown.

The benefits arising from the occupation of land by Co-operative Societies is not an economic profit, and, therefore, we ought not to be assessed under Schedule B.

18,425. (53) We are compelled by law to prepare and issue balance sheets to our members. We also collect and publish particulars of the trade, etc., for each year of all our societies, and the information supplied is far more detailed than that required from any public company.

Summary.

18,426. (54) On the whole question of Co-operative Societies and Income Tax we summarize the points:—

1. Co-operative Societies enjoy no real exemption from Income Tax;
2. that surpluses arising from the mutual trading of co-operators are not profits and should not be assessed for Income Tax;
3. to tax dividend or surplus on purchases would therefore be to impose upon working men a charge which is not demanded from any other section of the community, and would therefore be unjust;
4. their "profits" from non-members' trade is so small as to make the collection of the tax upon it a positive expense to the State instead of a revenue;
5. that co-operators, by paying tax upon share and loan interest and by the payment by their societies of taxation under Schedules A and B, pay too much Income Tax, and that the present exemption from taxation at the source, in the case of Schedules C and D, should be extended to the other Schedules;
6. that the present method of taxing the members of Co-operative Societies instead of taxing the societies at the source is most equitable and convenient, and should be retained.

[This concludes the evidence-in-chief.]

18,427. *Chairman:* You are probably aware, gentlemen, of the usual custom that we have in regard to taking evidence. You have submitted a very valuable paper to us, and on that paper you will be examined by the Commissioners. In this instance the commencement of the examination comes from Mr. Walker Clark.

18,428. *Mr. Walker Clark:* Do you agree with the statement made in paragraphs 12 and 13 that the real difference is a question of direct assessment?—*(Mr. Cooper):* That is what we pin our faith to, that we should continue as we are already being assessed.

18,429. The point I want to ascertain is whether you agree that the only difference between you and the ordinary limited company is the question of direct assessment?—No, not entirely.

18,430. Then this statement here is not accurate?—If you will allow me, we do not entirely agree with that, but still at the same time both apply.

18,431. I quite agree that something else applies, but I am asking you whether this is the only difference in your judgment between you and an ordinary trading company?—No, it is not.

18,432. Then we will pass on to paragraph 23, where you deal with the question of dividends.—Yes.

18,433. Your operations are very numerous, are they not?—Yes.

18,434. They include banking, insurance and shipping?—Yes.

18,435. And quite a number of operations?—Yes.

18,436. The dividend is distributed to purchasers *pro rata* to purchases made?—Yes.

18,437. But the earnings are spread over a very large variety of operations?—Yes.

18,438. And the return to the individual is an average of the total earnings in connection with the whole of the operations of the company?—Yes.

18,439. The profit is earned not by the individual or the individual capital, but by the company as a whole?—The surplus, as we call it, is earned by the purchaser making his purchase at the store, and we divide the surplus *pro rata* to the purchases made.

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18,440. But you have one department which is earning a very small profit; you may have another which is earning a very large profit; do you distinguish between the amount earned in each department, and repay to the individual customer the profit made on that specific department alone?—The practice is to average the total surplus amongst the purchases, but some societies do it by a differential rate of dividend.

18,441. For one or two departments?—Yes, for the grocery, say.

18,442. But speaking generally the average profits of the entire trade are returned to the individual?—Yes.

18,443. The average profits made by a society for trading purposes returned to an individual?—Yes.

18,444. The specific purchase may produce an actual loss, but it still receives a pro rata dividend?—Yes, that may be so.

18,445. In the aggregation of your trading for many years you have accumulated a very large reserve fund?—Yes.

18,446. Sometimes the fund is in cash, sometimes it is in real property and sometimes in other things—stock?—Well, it spreads itself amongst the assets of the society.

18,447. But still, you have accumulated an enormous reserve?—Yes.

18,448. And the accumulation of that reserve has not paid Income Tax under Schedules C or D?—No, because it is part of the surplus that arises from the mutual trading of our members.

18,449. But still those reserves have not paid tax under Schedules C and D?—No.

18,450. Therefore if you are going to buy an estate out of your reserve, the accumulated funds, and a private trader is going to buy an estate out of his accumulated funds, you have accumulations plus tax which the private trader has first of all had to pay on his accumulations?—We look upon our reserve fund as being unallocated capital of the members. The members meet in quarterly meeting and they decide how the surplus shall be distributed. A certain percentage goes back to the purchaser, and the balance is divided according to the general wishes of the members.

18,451. The general wishes of the members present?—Yes. Of course all members are entitled to come to the meeting. Then if the members decide that they shall distribute amongst themselves 2s. out of every 2s. 6d. surplus that they have deposited, they may decide that the 6d. shall accumulate to a collective capital not appropriated or allocated to each individual; in that sense it is capital or deposits made by the members in excess of the requirements to get the goods.

18,452. Your reserves have not paid tax under Schedules C and D, whereas the private trader has paid tax under Schedules C and D on his reserves, and when you go to purchase an estate you have your reserves plus what the private trader has paid in tax?—We do not admit that our surplus is on the same footing as the profit made by a business.

18,453. In what way does it differ?—Because in our case the sovereign paid for a sovereign's worth of goods is a deposit on account of goods. When we come to balance up we find that the sovereign is 2s. 6d. in excess of the requirements.

18,454. You have already admitted that in some cases that sovereign has not earned you a farthing?—Yes, I am trying to point out to you that our reserve fund is accumulated out of surplus deposits made when purchasing goods.

18,455. Is it not made on the general trading?—We put it down to trading amongst ourselves and putting down one sovereign for £1 worth of goods.

18,456. But still the surplus is created by general trading, and the reserves you have accumulated enter very largely into the effect of your general trading, supplying to a large extent the capital?—Yes. There is no cost to the society by that capital being used.

18,457. I do not follow that?—There is no cost to the society as a society for using that reserve fund.

18,458. No?—It is the members' wishes that they should reserve capital that has no cost to the trading operations.

18,459. Let me put another point. A member's share will in many companies be of the value of a sovereign; what happens on the member's death to the sovereign invested as capital?—It is payable to his next of kin by nomination generally.

18,460. What happens if there is no claim for it or no allocation?—We do not know of any case in which that arises.

18,461. In paragraph 28 you state that the Co-operative Congress advocates the abolition of taxes on food and indirect taxation, and the needs of the country should be met by direct taxation; are those your opinions?—This paragraph has been put into the evidence simply to carry out the wishes of the annual congress that has passed these resolutions from time to time.

18,462. Does that paragraph meet with your approval?—I am not here to give my personal approval. What I am here for is to answer for the committee, and that has been put in by their express wish that they should insert the principle of the congress resolutions.

18,463. If the whole trade of the country were done by Co-operative Societies, how could the Chancellor of the Exchequer reduce or abolish taxes on food or indirect taxation?—If we ever got to that happy date.

18,464. Or unhappy state?—But it would be a happy state, because there would be no dissensions. If we got to that state of things we should have a co-operative Government to commence with, because all the citizens would be co-operators. Therefore the Government of that day would find some ways and means of obtaining revenue for the country. We may possibly in the co-operative movement run a small village; and it may be the desire of the members that they should run it from the Co-operative Society. In the same way when we come to that state of things we may find that the Government desires that all trade of the co-operative movement should bear the costs of the country, but not as a tax on income.

18,465. I do not quite understand all that answer, but there is a possibility in your mind of a period when it will be necessary for the Co-operative Societies to pay a larger share of the taxation of the country than they do at present; is that what you wish us to understand?—No. We contend that they pay their quota now, and in some cases more than their quota, because the Income Tax is assessed on an individual's income, and our trading transactions are the spending of that income.

18,466. So are those of most of us?—We do not increase our income by combining to trade. If we trade with one individual and he is making a profit out of us we are increasing his income; but in the co-operative movement nothing like that happens. We might say to the man who enters one of our shops that instead of charging him the full sovereign we are going to supply him at cost price plus expenses; we are going to show no profits. Therefore, there can be nothing which can be construed to say that your income has been increased.

18,467. So the whole private trade of the country might be carried on, might it not?—That is so.

18,468. You are not peculiar in that sense?—Only the trouble would be when the private trader wanted his living. He would make no income if he did his trade on that basis.

18,469. Would you?—We should not make profit. We rely on our incomes as workers, not traders.

18,470. Therefore this is a side-line altogether?—Oh, yes, in a sense, only it is a system whereby—

18,471. —£250,000,000 of trade is done in the year?—Yes, it is a system of self-help conducive to thrift.

18,472. On paragraph 33, have you any figures which would give the Commissioners guidance as to the number of those who are entitled to exemption?—In this clause we are speaking generally.

18,473. Have you any figures?—No, we have not.

18,474. Have you ever attempted to get figures?—Not of recent date, but in another paragraph we estimate 90 per cent.

18,475. I know that estimate; have you ever tried to get actual figures?—Not on this particular clause.

18,476. I mean the figures of wage-earners who are below the exemption limit.—No.

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18,477. Are you aware that some time ago a request was made that you should supply figures?—I never mind of it.

18,478. What method is adopted to ascertain the amount of non-members' purchases?—By the check system in vogue.

18,479. As you know, check systems vary much in different districts?—Yes.

18,480. Will you explain to the Commission what method is generally adopted?—The general method adopted by the Climax check system, we will take that as an instance, is that every purchaser that goes into the shop has to state the number of his share holding, and that number on a check proves that it is a members' purchase. If a non-member were to go in there would be "NM" put on the check. Both of them are recorded, proving the members' and the non-members' sales.

18,481. How can you allocate the individual purchases to the individual purchasers?—We do not try to do that.

18,482. You trust to the honour of the purchaser?—As I said previously, we combine the purchases and the surplus and divide them.

18,483. Yes. I am speaking now of the check; the Climax check system is not universally adopted, is it?—Not entirely; but there are many of the check systems which have the members' number on them in addition to the Climax.

18,484. You know that in some districts there has been a trade carried on in the advance of money upon purchasers' tickets, and to some extent there is still?—We know that in the past there have been such transactions.

18,485. I do not know whether it has been done with your consent or approval, but you know it has been done?—At the present moment we know of none, and in addition to that we take cases to the Courts in order to prosecute anyone we find doing that.

18,486. Where you have the evidence?—Yes.

18,487. It is not with your knowledge and approval when you do know that such has been done; and it may be done illicitly even still?—In years gone by; hence the reason of our adopting these new check systems whereby no such trade can be entered into.

18,488. As far as possible?—It is impossible.

18,489. Does the trading here described as trading with non-members include all the trading that is done with non-members—contracts, for instance?—The amount there given is the difference which is forced into a non-members' account. As I have told you, we get the members by the checks, and the balance is non-members. During 1918, some societies in the smaller towns were made wholesalers of margarine under the Food Control; that sale is in the total.

18,490. That of course would not be subject to the ordinary bonus?—That is so, and I might add that the difference that was allowed to the society was 1d. per pound, equal to 1d. on 84d. Some societies were almost compelled to run canteens for soldiers in their neighbourhood. They were allowed 10 per cent. to cover all expenses in doing that. Another society that I have in mind had to carry out the baking for the army in that district. In that case they were allowed just the expenses and the cost of flour for doing that.

18,491. And all amounts are included in there?—Yes.

18,492. And so far as you know all the outside trade is included here?—In so far as these 850 societies are concerned.

18,493. Those are the only societies that have made returns to you?—Yes.

18,494. And the others have not made returns because the trading was too small or because the accounts were not made up, or for some other reason of that kind?—I think it was owing to shortage of staff chiefly.

18,495. It has not been cooking in any sense of the word?—No.

18,496. It has merely been an accident that they have not been collected?—Shortage of staff was the reason given by many secretaries why they could not send in a return.

18,497. In our district many of your societies build houses, and sell them, and carry on considerable work in insurance and banking, and in other ways. Would banking profits and insurance profits and profits on the erection of houses be included here?—Mr. Goodwin will deal with the question of banks, but the question of profits on housing is on a par with our question of surplus earnings on trade. The houses are let to members of the societies, if you are dealing with the tenant side of it.

18,498. Are they invariably?—Yes. We do not usually build houses for the accommodation of non-members.

18,499. They must be for members?—Yes.

18,500. And not non-members. Some societies manufacture goods?—Yes.

18,501. Is the whole of the output done with other societies?—The societies generally take up production in order to further the saving in the distribution of goods.

18,502. Is the whole output sold to members?—It is conducted for that purpose, but there may be by-products that cannot be disposed of to the members; then we have to sell those for the best price we can get.

18,503. And that would be included in this sum?—Yes.

18,504. Or distributed in the ordinary way to non-members; it would be in one or other of the funds?—Yes.

18,505. But, generally speaking, would it not be put into the funds which are distributed to members?—Yes, the whole of the profits go into one fund, but we may sell those by-products at a less price than what we purchase at.

18,506. A loss sum?—Yes.

18,507. I am thinking of the butchering departments, where you sell hides quite independently of your ordinary retail trade?—Yes.

18,508. The profit and loss on the sale of those hides would go into the general profit and loss accounts, and would not be included in the non-members' trading?—In regard to the hides we look upon the sale of hides as being a reduction of the cost price of the beast.

18,509. I see, it goes into the general profit and loss account, and not to the non-members?—Not exactly profit and loss; it reduces the cost price; it affects it in the same way.

18,510. Chairman: Are all three of you gentlemen going to give us evidence?—Yes.

18,511. Would it not be a good plan, if any question addressed to you by the Commissioners is in the department of one of the other gentlemen with you, that the gentleman concerned should answer? I do not know whether we could examine first one and then the other and then the third on the same points. Which would you rather do?—(Mr. Goodwin): Mr. Cooper is dealing with the co-operative movement generally and the retail societies. I am dealing with any questions with regard to the English Co-operative Wholesale Society, and Mr. Macintosh with the Scottish Co-operative Wholesale Society.

18,512. Chairman: The witness we have got now has possibly been answering some of the questions which you would have answered in ordinary circumstances.

18,513. Mr. May: No, not yet.

18,514. Chairman: If the Commission know that the questions asked will be answered just as you like to answer them, that is, any single member of you three will answer any question that appertains to his own department, I think that will shorten matters.

18,515. Mr. May: There is one question of Mr. Walker Clark's that has been reserved on banking.

18,516. Chairman: That is what brought it to my mind. I want you to have full expression of your views on every question asked by the Commissioners, so that with regard to the question of Mr. Walker Clark relating to banking, perhaps you would like to answer that now; it would save the time of us all.

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18,517. *Mr. Walker Clark*: I would rather pursue this question I am on, if you will allow me for a minute. I am quite correct in saying, am I not, that by-products in the case of manufacture or purchase and sale are not included in the figures given for trading with non-members?—(*Mr. Cooper*): No; they are included in those sales.

18,518. In the sales to non-members?—Yes.

18,519. I was dealing rather with the profit than with the actual sales. The profit and loss really goes into the general profit and loss account?—Yes.

18,520. This figure of £24,390 might be increased or reduced if those sales were included?—But they are included. This I say is purely an estimate of profit. What I was wishing to explain was that the wholesale margarine sales gave us a profit of about 7 or 8 per cent. Canteens that were conducted by the societies gave us no profit at all. Baking for the Army gave us no profit. In this connection we have assumed that this non-members' trade has made the same amount of profit as members' trade, which is not so. Probably this £24,000 is greatly in excess of anything that we could have made out of such sales.

18,521. That destroys the value of the figures?—Yes. We put this argument in at its top value against ourselves.

18,522. Philanthropist?

18,523. *Mr. May*: We are always that.

18,524. *Mr. Walker Clark*: We all are. That has rather disturbed my argument. I was going to try to follow up this trade with non-members and try to ascertain whether there is not a very much larger proportion of the business than you have yet admitted done with non-members. I have indicated just now butchering; there are several other departments where the same kind of thing applies?—Yes.

18,525. Is not the very much larger proportion of your business done with the general trading public than the figures here show?—No.

18,526. You think not?—Take a beast; a beast may cost you £60, but what is the value of the hide? A very small proportion. That is the whole of the non-members' trade in the butchering department.

18,527. I think not?—Unless necessarily forced upon us.

18,528. *Mr. Walker Clark*: There are a good many other articles in a bullock besides the hide and the beef, as you know. I only gave that as an example. I could give you many others, as you know quite well. However, if you have no figures I do not know whether it is any use pursuing it.

18,529. *Mr. Marks*: As Mr. Cooper is the accountant, could I ask a question which was put before us yesterday to elucidate the position?

18,530. *Chairman*: Yes, certainly.

18,531. *Mr. Marks*: We had before us yesterday some figures which I take it were extracted from the returns of the Registrar General of Friendly Societies, in which were given the sales and profits of the distributive societies, and so on, and the wholesale societies.

18,532. *Mr. May*: Those figures are not taken from the Registrar; those are taken from the report of the Co-operative Union.

18,533. *Mr. Marks*: That is better still, and Mr. Cooper will be familiar with it and give me the figures. The point I want some information about is this. I see that the profit on the sales of the wholesale societies is only 2·4 per cent. of the sales, and the profit on the sales of the distributive societies is about 11½ per cent., if I remember rightly. What is the reason for the large difference; is that an incident of ordinary trading?—I think you may take it as an incident of ordinary trade; as regards the distributive I will answer that portion. In the distributive we give back to the members a larger discount or dividend at the balancing period than the wholesale society. All the trade is done by the distributives, but it is owing to the extra surplus that is deposited by the individual member as an individual store that it shows the greater margin.

18,534. Does that imply that the risks of the retail distributive trade are greater than those of the wholesale trade?—No; the price of our goods is based on the outside market prices.

18,535. I will not pursue the point; probably it is not of any importance.—(*Mr. Goodwin*): May I say that the wholesale trade is generally conducted, because of its large volume, on a much less percentage of profit than the retail trade. The wholesale society comes under the category of wholesale dealers.

18,536. *Chairman*: You could not get 11 per cent. profit on the wholesale, could you?—Oh, dear, no.

18,537. *Mr. Marks*: Turning to your evidence-in-chief, Mr. Cooper, I was rather interested in the replies you gave to Mr. Walker Clark. May I refer to paragraph 10, "The present position." Mr. Walker Clark called your attention to the memorandum issued by the Treasury in which they state that there is practically no difference in the result arising from the method of assessing ordinary companies and that which is employed in regard to Co-operative Societies; that is a fair summary of the statements contained in your paragraphs 12 and 13, is it not?—(*Mr. Cooper*): Yes. We take for our basis and support the Departmental Committee's Report of 1905.

18,538. Let us go back to paragraph 10. You say there: "It is impossible to define the actual relationship of our societies to the Income Tax law with greater clearness or accuracy than the Treasury and the Board of Inland Revenue have done in various official memoranda and documents." Then you go on to quote what I imagine is the leading memorandum on the subject?—Yes.

18,539. It certainly shows, I think, as clearly as it can do that the only difference arises in the method of assessment, and the result, whichever method is applied, apply to Co-operative Societies, would be the same in the long run?—Yes.

18,540. It says that the societies "are by Statute under certain conditions, exempt from direct assessment to Income Tax under Schedules C and D; but this is a mere matter of administrative convenience. The exemption is not an exemption from Income Tax on profits. It is merely an exemption from the liability which the Income Tax Acts impose on companies, etc., to account for the Income Tax on behalf of their shareholders. It is, in fact, merely a variation in the machinery of collection, not in the principle of the tax. It is expressly stated in the law that the exemption does not relieve a single member of such a society from any assessment to which he would otherwise be liable." That is to say the result must be the same, must it not, to the Inland Revenue?—If you will refer to paragraph 23, it goes on to deal with dividends.

18,541. No, that is not the point at all, and I must try and get you to see it from my point of view. I am simply asking you whether the memorandum which you quote in paragraphs 12 and 13 is or is not an accurate statement of the position?—Yes, that is so.

18,542. I want to ask you, if that is an accurate statement of the position, why does the co-operative movement as a whole oppose the contention which is put up now against them that they should be treated in the ordinary way instead of being treated in the manner in which they are now treated?—Because of the great percentage of their members that are not liable for tax.

18,543. But that does not affect the societies. As Mr. Symonds suggests, that is entirely a matter of administrative convenience?—Yes.

18,544. Although that may have value in this connection, it is not the deciding factor, or it certainly should not be the deciding factor in the minds of any Commission which is enquiring into the all-round justice of the position?—At the end of paragraph 13, "If the society is not assessed directly each member receives his share in full without any deduction, but he has to pay Income Tax upon it afterwards if he is individually liable."

18,545. Yes, I know; that is my whole point, that it makes no difference which way it is done; yet there is a very strong opposition on the part of the Co-operative Societies to its being done in one of these two particular ways?—I quite understand that point, but we have come to the conclusion that direct assessment would hit our poorer members more than

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it ought to do in the necessity for getting assistance to reclaim the small amount back; we think it would be an injustice to them to go through that ordeal to get a few coppers back.

18,546. That is an argument which would apply to any poor shareholder in any limited company, would not it?—Yes, that is so.

18,547. And provided that it could be shown that any particular company or any particular group of companies consisted mainly of poor shareholders, you would advocate the extension of this principle to them?—Well, not exactly.

18,548. Very well, we will not pursue that point any more. Then you quote again in paragraph 23 from the Departmental Committee's Report dealing with the so-called dividends, and the Committee's Report says: "The suggestions made to us that the 'dividend' which is paid to members of these societies constitutes a profit which would properly be taxable, rest, we think, on a misapprehension of the nature of the 'dividend'." Would you agree that the whole value of that Report would be destroyed, or at any rate very much discounted, if it could be shown that it was founded on a misapprehension on the part of the Committee of what constituted taxable profit?—We should be surprised if a conclusion was reached proving that our surplus was actual taxable profit.

18,549. That is not my point. I am trying to get at how far you rely on this Report, and I suggest that if it could be shown in argument or otherwise that the Committee was wrong in its idea of what constituted taxable profit, that would knock the whole bottom out of your case, would it not?—We rely upon this Report, but at the same time if it were to be shown that the idea was wrong, and that the dividend is not a deposit, or that the surplus is not a deposit, we could immediately adopt the practice of selling our goods at cost price and do away with any surplus.

18,550. I know that what you suggest is a possibility, but that is rather another matter; I will not press that. I may perhaps tell you that it is suggested that the whole of that Committee's Report is founded on a misapprehension as to what constitutes taxable profit—I would like to add to my previous answer that Chief Baron Pollock said in a case, *Dublin Corporation v. McAdam*, "I think it is perfectly clear that in order to bring this case within the operation of the Income Tax Act it is necessary that there shall be this trading in its strict true sense. There must be at least two parties—one supplying water and the other to whom it should be supplied, and who should pay for it. If these two parties are identical, in my opinion there can be no trading. No man in my opinion can trade with himself; he cannot in my opinion make in what is its true sense or meaning taxable profit by dealing with himself. . . . I think the true ground of decision is that the body to pay is a distinct and separate body from the body to receive." And Lord Macnaghten in the case of the *New York Life Assurance Company v. Styles* also said: "I do not understand how persons contributing to a common fund in pursuance of a scheme for their mutual benefit, having no dealings or relations with any outside body, can be said to have made a profit when they find that they have overcharged themselves, and that some portion of their contributions may be safely refunded."

18,551. I think we rather agree with that, and we are all familiar with it.—(Mr. Goodwin): May I make an observation here? Mr. Marks puts the case assuming that this decision were wrong, and that the dividend is really taxable, would it alter our ground in any way? We say that the average purchases from the stores by an individual member are about £60 per annum, on which on an average he would get £4 dividend; therefore a member would have only £4 extra income even if he had to pay on those profits, which we say are not taxable. If they were to be taxable it would mean £4 each on an average; therefore it would have very little

bearing on the question of exemption on the Income Tax limit; it would not have a big bearing but only a small bearing.

18,552. *Chairman*: That is the average.
18,553. *Mr. Marks*: That is not really my point. I am considering whether or not what you call surplus is taxable profit in the hands of the societies who make it, and I suggest to you that if that could be shown to be taxable profit it would knock the whole bottom out of that report on which you rely. Just, by the way, with regard to wage-earners' assessments, you say: "Payments should be made as easy as possible, say quarterly, and the use of Inland Revenue stamps should be encouraged by the sale of same at all post offices." You can get Inland Revenue stamps now at most post offices anyhow, but would you go so far as to say that the tax might be deducted from wages when they are paid, on the same principle as the National Health Insurance contributions?—(Mr. Cooper): No.

18,554. Would not you make it as easy as possible?—No; we adhere to the first portion.

18,555. But would not it make it as easy as possible if that course were adopted?—It may make it easy, but we do not altogether think it would be equitable to the man to pay in that way.

18,556. You say the sales to non-members were materially increased owing to war contracts which were forced upon the societies, and which will not recur. Were those the contracts for baking bread for the Army in a particular district and so on, to which you referred when you were examined by Mr. Walker Clark?—Not in one district only. In my dealings with societies for Excess Profits Duty I have come across three or four different societies in different localities doing such trade; therefore it has had to be dealt with as a non-members' trade.

18,557. You know that one of the complaints against the Co-operative Societies by the retailers, and by wholesalers too, I imagine, is that they did take large Government contracts during the war. Do you say those were forced on them?—Yes, in the one case; I particularly stated that both for the canteen work and the baking the bakers were exempt from military service on those grounds alone, that they were doing that trade.

18,558. Were there any other contracts?—Not in that particular society.

18,559. No, I mean generally?—Yes generally up and down the country we have had all manner of contracts.

18,560. War contracts?—Yes.

18,561. Were many contracts made by the Government directly with the Co-operative Wholesale Society itself for the supply of goods on a wholesale scale?—(Mr. Goodwin): In the main the Co-operative Wholesale Society supplied goods on compulsion. That is to say, in connection with margarine we supplied nearly £1,000,000 worth of margarine to private traders' shops, we had to send the goods where they were ordered to be sent; we had no option. Our leather and hosiery were commandeered, and those large firms have gone through our books as non-members' sales. I may say, generally speaking, that these transactions have been done at a price which only covers the expenses, and if there is any margin over it would be a very slight one, so that on our Government business we have practically made no profit. We have just secured ourselves from loss as near as we possibly could.

18,562. It is quite true, then, to say if you that those contracts were forced on you; you did not seek them in any way at all?—No.

18,563. And there were no contracts that you did seek?—None were sought. There were some which we did enter into which we were not compelled to enter into, but which we were implored on many occasions to enter into.

18,564. You did not tender at all, or anything of that sort?—No, we did not tender for them.

18,565. Although they forced the contracts on you they did not force any profits on you?—No.

18,566. You say there were practically no profits made?—No, and we were very sorry, indeed, to have

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to give up these goods, because they were very badly wanted by our members. (Mr. Macintosh): I want to make the same statement as Mr. Goodwin has made, for the Scottish Wholesale Society. Many contracts were forced on us, we were compelled to supply large numbers of pairs of boots for the British Army, and a certain quantity of hosiery goods were commandeered. We had to give them at a fixed price, and in many cases our books were closely examined by Government auditors to arrive at the actual price of those goods.

18,567. Mr. May: And foodstuffs as well?—And foodstuffs as well.

18,568. Mr. Marks: And the Scottish Society made no profit out of them?—No. If any profit, it would be a very small margin of profit. The amount of sales for the year 1918 on Government contracts with the Scottish Wholesale Society amounted to £379,000.

18,569. Mr. Symott: I just want to ask a question about the wholesale societies for the purpose of seeing whether there is any difference in principle in their case. Do the wholesale societies supply goods to the retail societies?—(Mr. Goodwin): Yes.

18,570. Or do they supply goods to their own members?—The only members of the Co-operative Wholesale Society are the retail societies. The wholesale society is a federation of those retail societies, and each retail society must hold a certain number of shares in the wholesale society in accordance with the number of its members.

18,571. Does the wholesale society sell to the retail society at cost price plus expenses only?—No, plus a certain profit, which was referred to a short time ago as being a small profit—the wholesale profit.

18,572. Very well; small or large, there is a profit?—Yes; what we call a surplus.

18,573. Where does it go?—It goes back again to the retail societies in proportion to their purchases from the wholesale.

18,574. It does go back to the retail societies?—Yes.

18,575. Never mind what they do with it; is not that a trading profit?—No.

18,576. Why not?—Because the wholesale society is not an institution imposed on the movement. It has grown up from the movement. Its basis is the individual membership; it comprises the membership of retail societies, and it is an expansion of the working of the retail societies.

18,577. Pardon me; in that particular transaction I am referring to—I know you have very large transactions in Ireland, buying eggs and all sorts of things, and in those cases the wholesale society have no dealings with the members at all—you had no dealing with the members of the retail societies?—We supplied to the retail societies.

18,578. I leave it there, then; that is the transaction, and I submit to you it is a trading profit?—No; I distinctly disagree.

18,579. Mr. Armitage-Smith: Is it not a fact that the relation of the wholesale society to the retail society is similar to the relation of the retail society to the individual member?—Exactly.

18,580. Mr. May: Mr. Symott is confusing buying and selling.

18,581. Mr. Symott: Let us come to that. I am not going to deal with the assessment of the members. Understand that I am going to deal with the question of whether the wholesaler or retailer as a society makes a profit. The society, as a separate legal entity, a statutory corporation, buys goods, does it not?—(Mr. Cooper): Yes.

18,582. And it buys goods at a price, and sells at a price?—Yes.

18,583. It sells to a great number of different persons?—Societies or members.

18,584. So far, the transaction is exactly the same as if it were a company under the Companies' Acts?—Oh, no.

18,585. So far it is. I know your point is that because those people happen to be members of the society it makes a difference?—Certainly.

18,586. Does it make any difference?—The wholesale buyers are there acting in the capacity of agents for the distributive societies. The distributive societies act as agents for the collective membership.

and in that way the buying done by the wholesale is simply by buyers sent from the distributive societies.

18,587. I am asking you a general question, which applies to the working of the retail societies as much as to the wholesale societies. The society as a corporation buys goods and sells them at a profit. Would you put out of your mind for the moment how that profit is distributed. It does make a profit and you show a gross profit in the year?—(Mr. Goodwin): Is that the wholesale society?

18,588. And the retail too?—(Mr. Cooper): Yes; call it a profit.

18,589. Distributed half-yearly or yearly to the members?—Yes; or quarterly.

18,590. Before you distribute that you must know what your general expenses are, must you not?—Yes.

18,591. I suggest to you that the transaction up to that point is a mere transaction of purchase and sale, and you are aware, of course, that profits and gains are not defined in any Income Tax Act?—That is so.

18,592. You quoted a case to me. Are you aware that it has been decided in a whole series of cases—you can see them in Dorell—that the application of a profit, whether in charity or for any other purpose, whether under statutory obligation or otherwise, has nothing whatever to do with the question as to whether profits are made or not? You may take it from me that is the principle. I suggest to you the same principle here—that you are confusing the making of the profit and its distribution?—No, we say it is an extension of our mutual trading.

18,593. Who are the parties to the mutual trading?—The distributive societies are the medium between the wholesale and the consumer.

18,594. I asked you to put aside the question of the members. Is not the entity that trades the society, and nothing else?—We cannot leave the members out of the question. (Mr. Goodwin): It is with itself it is mutual. (Mr. Cooper): It is part of the whole transaction.

18,595. We have had this matter before. I will test that by your question of the reserve fund. You said it was unallocated capital. When you were asked a question about the reserve fund you went on the question of surplus, which is a different matter altogether. The surplus is distributed, is it not?—No; the surplus is the fund that we are distributing and apportioning to reserve fund.

18,596. Some to reserve and some to the members?—Yes.

18,597. Does not that prove that it is the society that makes the profit, and makes the allocation, and not the members at all?—No; it is the wish of the members that they shall not withdraw the whole of that surplus.

18,598. Is not that so in the case of the other statutory company, that the corporate body is guided by the wish of the members?—That may be so, but a trading company is dealing with a different matter altogether. The Co-operative movement is dealing with surplus, and the trading body is dealing with economic profits out of trade. (Mr. Goodwin): Made out of someone else.

18,599. Very well, let us get to the question of the reserve fund. You allocate a certain amount to reserve fund; have the members any right to that?—(Mr. Cooper): Yes.

18,600. When?—If it were to be shown that the balance of trading for any period were short, then they would draw on that reserve fund.

18,601. The society would draw?—Yes, the society would draw.

18,602. When a man dies or withdraws, does he get any share of the reserve fund?—No, not in that case.

18,603. It is only in case the society is liquidated that the members would get the reserve fund?—Yes, but I might add here, to be fair, that the reserve fund is accumulated for any unforeseen depreciation of its assets. If we were to distribute that to every deceased member's share, the living members would suffer, as the deceased member's trade has partly worn out those assets, and if they are not going to leave a quota—

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18,604. I say you are perfectly right, but I only wish to say that it proves clearly that the body that is trading, which I submit to you trades in the ordinary way, is really not the members, but this corporate body, the society?—We cannot agree to that.

18,605. Mr. Goodwin said that on £40 trading the individual would get about £4?—(Mr. Goodwin): Yes.

18,606. Do you calculate the benefits to the members at about 10 per cent. on the turnover?—I was taking an average roughly for the purpose of illustrating my point. It was an average of £40, on which they would receive a dividend of £4 during the year.

18,607. That would be an average?—Yes.

18,608. And that would be in addition to the unallocated profits of the reserve fund?—Yes.

18,609. Professor Pigou: I should like to ask a general question, and it is convenient, I think, to distinguish under three heads, first of all the question of profits from trading with non-members, then the reserve fund, and then the dividend. First, with regard to the profits of trading with non-members: I take it you would agree that if it were possible to distinguish those they would be a proper subject for Income Tax?—(Mr. Cooper): Yes.

18,610. So there is really no dispute about that?—No.

18,611. It is just a question of whether it is worth doing, owing to its small size?—Yes.

18,612. Then, with regard to the reserve fund, which seems to me really the most difficult point, does the reserve fund belong to the members, or does it belong to the shareholders?—They are one and the same, the members and the shareholders.

18,613. That makes the difficulty, because, in so far as it belongs to the shareholders, it is surely very difficult to distinguish it from the undistributed profits of a company, and of course the undistributed profits of a company are liable to tax?—Yes; but, as I pointed out previously, one is out of an economic profit, and the other is surplus deposits.

18,614. But so far as it belongs to the shareholders you cannot maintain that, can you? You have to regard it as their property, and so put aside by them?—No. We might go so far as to allocate that reserve fund into shares without any interest chargeable; then it would be apportioned to them.

18,615. But if they were apportioned to the shareholders, they would pay Income Tax?—Yes, on the income from such shares allocated to themselves out of the surplus in proportion to the trade done.

18,616. But when you put up the reserve fund do you divide it in that way? My difficulty is as to the relation between the shareholders, as shareholders, and the members, as members, in respect of that reserve fund?—(Mr. Goodwin): Shareholders and members are exactly the same; there is no difference.

18,617. They are the same people?—The shareholder is a member.

18,618. He is a member, but he does not occupy the same proportionate position as a shareholder as he does as a member?—You mean as a purchaser?

18,619. As a purchaser?—If you will allow me to make this observation, I contend, as to the surplus, which we show as a profit, that you cannot say it alters its nature by being put to a reserve fund, or by being distributed to the members. It is the same exactly. The members can say: "we will put so much aside, and we will take so much." They might say, "we will put it all aside." But the nature of that surplus is just the same, and whatever way it is divided does not alter it; that is my contention. Therefore it is no more liable to tax if it were put to reserve than if it were being distributed to the members.

18,620. But of course the interest paid to the shareholders is taxed?—Yes, it is taxed not at the source but by the member himself making his return.

18,621. So that in so far as the reserve fund is a sort of defence for the shareholders, it is not in a different position?—No, I do not see it at all; I say it is exactly the same.

18,622. Now pass from that to what is really the main thing, and that is the dividend; that is much

the most important part of the whole thing—the question of whether it should be taxed?—That is the profit or surplus; never mind whether it is dividend or reserve.

18,623. Anyway, the part that is distributed is much more important than the part which goes to reserve?—It is larger.

18,624. That is the main thing?—Yes.

18,625. With regard to this dividend, there are really two questions, first the question, which is really an administrative question, whether it is to be taxed it should be taxed at the source, and secondly the question of principle, whether it is taxable at all?—Yes. We say it is not taxable.

18,626. So you really do get two contentions. First, as a matter of convenience, it had better not be taxed at the source, even if it is taxed at all, because of the inconvenience of return and so on; and, secondly, it ought not to be taxed?—Yes.

18,627. The second is the main thing. Your contention is that the dividend is not taxable profit?—Yes.

18,628. Before coming to the main point, it has been put to us that a part of this dividend results from funds invested by wholesale societies and others; a part of it is really the proceeds of the investment; is that so in fact?—(Mr. Cooper): Yes, a portion may find its way into the surplus divisible.

18,629. And if you could in practice distinguish it, you would admit that is a taxable profit?—Yes.

18,630. And the reason for not doing it is that it is very little, and not worth it?—At the present time the Act gives us exemption under Schedules C and D; therefore the income arising from the investments is exempt, but we are liable under Schedules A and B. We would admit that there is, or there may be, some little liability attached to investments, and probably non-members' trade, but to get over the difficulty we think we should put all our liabilities together, and show that we have paid under Schedule A, and that the members are expected to pay again on their interest; if we could prove that they were paying more than these small liabilities admitted under income from investments and non-members' trade, we should be paying in excess of our liability even then.

18,631. The point I want to get from you is that there is a distinction in principle between the two things?—Yes, the income from the investments. (Mr. Goodwin): I should like to make a remark on that. The interest from investments is not a net income; it is a gross income, and you have to set against that income the interest which you pay to your members for your share capital, which is 5 per cent., and the interest from investments will come very little over that. It is a question whether there is any margin at all, when you consider that you pay 5 per cent. for your money.

18,632. I quite see that, but there is a distinction in principle. Then we come on to the main thing, the question whether the dividend itself, what you call surplus, is properly taxable. With regard to that, how would you analyse the profits of a company? You would take it, I suppose, that there would be first what the shareholders want to induce them to put in their money, and then the expenses of the management and the general costs of running the thing; those two things are already provided for in a Co-operative Society in the interest on shares, and in the expenses of management?—Yes. (Mr. Cooper): For convenience sake we charge in the expenses account that rate of interest as an expense, but then it is brought back into the profit and loss to be distributed with the other surplus.

18,633. If that is so, there would be nothing left over besides two things to correspond to any profit in an ordinary company?—No, with the exception of the share interest; that would correspond with the profit.

18,634. But if that is so, this surplus that has to be distributed will be an excess over and above the profit that an ordinary company gets. It is not a profit in the same sense?—No, it is the saving in the purchases; that seems to be the real difference

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between a trading company and a Co-operative Society, because we can carry on without any surplus if necessary.

18,635. And if you carried on without any surplus, there would still be the profits in the sense that the company's profits would still be there, represented in the expenses of management and in the payments made to the shareholders?—If it were to be that way, then we could probably be directly assessed on the interest, but then we should have the right of deducting from our members. As we have pointed out previously, the bigger proportion of our members will not be liable; therefore we think it far better for us to assist the Revenue in getting the taxation on what is real taxable profit coming to our members, by assisting them in taxing the share interest in the members' hands.

18,636. Yes. Perhaps you have not got my point. I am not suggesting any change about the share interest. My point is that what is paid to the managers and what goes to the shareholders makes up the whole of what corresponds to profit in an ordinary company?—Yes.

18,637. If that is so, it has been put to us that if you do not tax the dividends, and if the co-operative method extends over the whole industry, there would be no profit left to tax. I am suggesting to you that the profit left to tax would be exactly the same as it is at present, because this dividend is something over and above what an ordinary company calls profit?—Yes, it is the saving to the member. If you were to get to that point when there is no other trading, we could ask for a levy from our members for contribution to the upkeep of the country out of that saving, by our method of providing them with goods at cost price.

18,638. Yes; I want to come to that in a moment. There is another point that I wanted to ask you about. It has been put to us that a statement corresponding to your statement in paragraph 30 will not hold. This is the statement, that in ordinary co-operation what is called the dividend is really a return to the members of the sums which they have paid for their own goods in excess cost price?—Yes.

18,639. It has been suggested that that will not hold, because a Co-operative Society has a great number of different sorts of work. It sells all sorts of things?—Yes.

18,640. And that the individual member gets his dividend in proportion to the whole thing, and not in proportion to the particular thing. The surplus on the particular thing is in a different proportion. There may be a loss on one and a gain on another?—Yes. It would be cutting it very very fine to make a profit and loss account out of every article that we sell, and then we should not be getting any nearer, we think, because a member may purchase one thing that makes a loss and another that makes a profit, and one set against the other would balance. But the mutual consent of the members is taken into consideration when these divisions are made; therefore there is no complaint from one member to another that they have been making profit out of someone else. We do not admit that they are in that sense, because they could trade at different shops, and vary the return of the purchases. That has already been mentioned, the differential rate of dividend to a certain extent would get over that difficulty, but it would not get over the difficulty in a grocer's shop where one profit may be 12½ per cent. and the other may be 25 per cent.

18,641. Mr. Walker Clark: And one 5 per cent.?—And one 5 per cent. I think it would be stretching the point too far to expect us to do that, seeing that the members mutually agree that the profits shall be distributed in that way. I think we could not attach any liability to a profit made out of each other in that way.

18,642. Your real answer would be that this arrangement is a matter for the convenience of the members and does not affect the nature of the surplus?—Yes, that is so.

18,643. The point has been put to us that it would not be practicable for the society to adopt the policy you referred to just now, and to sell at cost. It has

been said that would not be practicable. What do you say to that?—We do not wish to adopt that course, because we say that the system of co-operative trading is conducive to thrift. If we were to do away with that surplus deposit, there would be no incentive probably to the members to save those few coppers. Therefore we prefer to go on in the same way as we do, but the result is practically the same, in effect.

18,644. On the question of practicability—not the question of desirability—the point put to us was that it would not be practicable in any way?—Yes, it would be practicable. One society already does it. The point arising is, how are they to get capital in that case? The Progress Society in Glasgow in 1902 had 803 members, and its shares were £1,750; no dividend is ever paid on the purchases. In 1914 the members had grown to 3,053, and the share capital had grown to £31,741. In 1918, the members had increased to 5,487, and the shares to £73,058. Therefore that case proves to us that it could be done. But we would rather continue as we are.

18,645. Mr. Marks: Has it been doing that all these years?—Yes, all these years.

18,646. How many years?—We started with 1902, just to get a few figures out, but they have been in existence longer.

18,647. Professor Pigou: There is no real difficulty about so adjusting prices that it shall work out at cost?—No.

18,648. In fact, you say it is a practicable thing to do?—In fixing prices we take the outside market price as really the basis, but at the same time we have to take into consideration something like the dividend that is being paid by the society, as well.

(Mr. Goodwin:) May I just make one observation on this point. As a rule, the retail societies work to a certain dividend. Societies pay 2s. 6d., or 3s., or 4s., as the case may be, and they really work their prices in order to produce that dividend and a little over for the reserve. The prices in the various departments are arranged accordingly. But it is not always practicable to ensure in every department an absolute equality of result, because there are certain circumstances in the particular period of a trading, which might upset one department. One department, for instance, might one half-year have some old stock or bad stock; another department might not have it, and so on; there are various circumstances which affect the result; but on the whole it averages to what they aim at, and they pay almost a fixed dividend half-yearly, or from quarter to quarter.

18,649. That more or less proves it; if they can adjust prices to a particular dividend, it shows they could adjust the prices to cost?—That is so.

18,650. Then the thing being practicable, the question is whether it is desirable; and you say it is not desirable, because the whole policy of the co-operative arrangement has been to use its dividends?—Yes, that is the point.

18,651. So that if the dividends were made taxable, there would be a danger that the Revenue would not be getting anything, but that you would be driven to abandon that policy, and so do away with the incentive to thrift?—(Mr. Cooper:) Yes.

18,652. Mr. Mackinder: I have only two small points to put to you. The first is on your paragraph 50; that deals with non-deduction of tax when you are paying interest on loans and deposits?—Yes.

18,653. Can you tell me under what legal right you do that—that you do not make the deduction?—Only by arrangement with the Inland Revenue.

18,654. But is that the whole of the arrangement between you and the Inland Revenue? May I put it in this way? Is there any understanding in the arrangement that the responsible officers of your societies will help the Surveyor of Taxes in the matter of giving information as to those persons to whom you pay interest, who probably have more than £130 a year?—Yes.

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18,655. That is a part of the arrangement?—Yes; that is, in respect to the loans; but if we could get some other alternative basis of being taxed under Schedule A, then we would extend that to the matter of share interest.

18,656. But I am asking whether as a fact it is not part of the arrangement between you and the Inland Revenue that the responsible officers of your societies shall help the Revenue in the matter of pointing out those persons who probably have incomes of more than £130 a year?—Yes.

18,657. That is a part of the understanding?—Yes.

18,658. I take it that is an understanding between your Union and the Inland Revenue?—Yes.

18,659. Do you issue to the component societies any circular or any instructions which shall keep before the responsible officers the duty (because I take it that having made a bargain, you wish it to be honourably observed) of assisting the Surveyors in that matter?—Yes, we have repeated that in the present Quarterly Review that is just about being distributed to the societies.

18,660. I merely wanted to get the fact. As you know, taxation at the source is a very valuable means to prevent evasion; I do not mean fraudulent evasion; I am putting to you whether you do as a matter of fact try to ensure that the compromise shall be carried out?—Yes, and we have issued thousands of leaflets informing the members that they must include the amount of share interest received from the society, in their Income Tax returns.

18,661. Supposing we take the case of, let me say, a pig, which one of your hatchery departments kills, and let me assume for a moment that you sell, shall we say, the bristles to an outsider, and a question of breach of contract arises. Will the remedy of the outsider be against the society or against the members?—It will be against the society as a whole.

18,662. In other words, for that purpose the society is a legal person?—Yes.

18,663. And something distinct from the constituent members?—Yes, to that extent.

18,664. So that I put it to you that it is not an incorrect statement to make to say that you want to have the best of both worlds. You wish to be not a society but component members, when it suits you, when you are dealing with Revenue; and you wish your members to have the advantage of being relieved from individual liability by the fact that when they are sued by an outsider, your society is a person apart from them?—Yes, but we do not wish to put the idea forward that we wish to evade any tax.

18,665. No, I am not on that. My point is, when it comes to a question of a contract with an outsider. We will take three brothers who might own a pig. If those three brothers owned the pig and there was a question of suing, if one of them became bankrupt, I take it the other two would be liable?—Yes.

18,666. In the case of your society, however, the members of the society are protected, are they not, against that contingency by the fact that your society is a legal person?—Yes, but any liability would have its effect on the distribution of surplus.

18,667. But which would you say was the greater advantage: to have a certain effect on the distribution, or to be liable to have one of your members, by bankruptcy, fall right out in a small mutual arrangement?—I think that has been brought about, to give the society a legal entity, from the outsider's point of view, to ensure them getting their lawful rights against the society as a body.

18,668. I do not want to spend time on this, but I suggest to you it is not an unfair statement to make that where you can get advantage you are a legal person, and where you can get advantage otherwise, you are not a legal person?—(Mr. Goodwin): I suggest it is just a matter of practicability and convenience altogether.

18,669. Mr. Birley: I want to refer to paragraph 41. Mr. Walker Clark asked you questions as to the profit on the trade with non-members. You give there particulars from 830 retail societies which have made returns, and they give the trade done with non-members at £266,812; but what of the other retail

societies and of the wholesale societies? Have you any information?—(Mr. Cooper): We cannot answer for the other distributive societies, but in order to show that we tried to do our best, we have got 60 per cent. of the societies to send in returns, and you will find that we have got a very big proportion of the trade represented by those societies. Those other societies may be proportionately less, or they may be the opposite, but we could not say one way or the other.

18,670. But you give a total of £127,000,000 out of a total which you give in your first paragraph of the retail and wholesale of £239,000,000?—The £127,000,000 refers only to 830 retail societies, whereas the total distributive trade for 1918 of the 1207 societies was just over £155,000,000.

18,671. You do not give much more than half, and you leave out the wholesale altogether?—We have dealt with the distributives entirely, because the wholesale have a more direct statement of their non-members' trade; but we could not assume or estimate the portion that the other societies have not supplied us with.

18,672. You do not give us that information for the wholesale?—(Mr. Goodwin): The non-members' trade for the English wholesale for the last year amounted to £4,000,000. Of that, £2,000,000 was goods supplied to the Government under stress or by application for goods, as has already been explained. The other £2,000,000 is made up of the sale of by-products from our productive factories, spoiled stock, and also sales to non-member societies. The sales to non-member societies come to something like £537,000, and the sale of by-products and of various articles, unsuitable and inferior commodities, which are not suitable for our trade, £1,432,000, making together nearly £2,000,000. That is how the non-members' trade is made up for the wholesale.

18,673. Can you give us the rate of profit on that? You give us in paragraph 41 a rate of profit of 0·2 per cent, which rather leads one to think you suggest that that is the usual rate over all; but can you give us the rate on the wholesale?—(Mr. Cooper): The percentage there is the percentage of non-members' trade to the total trade.

18,674. Not to the total trade, I put to you?—The total trade in that column applying to 830 societies.

18,675. Can you give us the profit on non-members' trade on the remainder beyond the £127,000,000, or on the wholesale?—(Mr. Goodwin): I submit that it would be absolutely impossible to say what profit was made on by-products. Personally, I should contend that it was not a sale for profit, but really a reduction of cost; because you cannot say what profit you have made; you do not know what your raw material has cost you.

18,676. But do you not think it is very essential that we should get to know really what this profit on non-members' trade is?—We could not say what the profit on non-members' trade is, as far as it refers to the sale of by-products and residuals. I contend that it is absolutely impossible to say what profits you do make. If we want to make flour we have to make by-products at the same time, bran and offals. The sale of the bran and offals reduces the price of the flour. I say that the whole operation is expressed in the price of the flour, but you cannot say definitely what profit, if any, you make on the offals.

18,677. You have already stated that you quite agree that it is a proper thing that Co-operative Societies should pay Income Tax on the profits they make on trade outside their members?—Yes.

18,678. Do you not think, therefore, that we ought to know what that profit is? It has been said that it is so small that it is not worth dealing with; but you cannot give us the figures?—The sales to Co-operative Societies who are non-members amount to £537,000. Now that is quite an easy thing, because we sell to them at the same price as we do to our members; but in the return of the surplus we only give them half the surplus against the full surplus to members. In that case it would be quite easy; the profit would be at the same rate as our general profit to the members, only we give half back, so that it would be half the profit.

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18,679. *Mr. Walker Clark:* Provided the purchases were the same.

18,680. *Mr. Birley:* I quite appreciate your difficulties, but it seems to me that it is a very important point that we should know what those profits are. They seem to be small, but there seems to be no evidence put forward as to what they are?—The only suggestion that one could make with regard to that would be that you should treat it on the same lines as our general profit, and show the whole of the profit done on those lines. I defy anyone to say what profit they make on the sale of by-products.

18,681. I say I quite see your difficulty, but there is a large trade. You have your dye works, and you have your African mills, and things of that sort; you must make some outside profit; and if you agree, as I believe you do, that Income Tax should be paid on that outside profit, it seems to me that to arrive at whether it is worth while or not, it ought to be possible to get some figures?—(Mr. Cooper): If that assessment were to be made upon us, then we should have to put ourselves in order, to arrive at some estimate or at some exact idea. (Mr. Goodwin): Some basis as to how it should be arrived at.

18,682. Now turn to paragraph 50, where you speak of Schedules A and B. You say: "In view of the difficulties attendant on reclaiming and the small sums individually involved (the average of capital invested per member being £17) no reclaim or abatement has ever been made by or to members in respect of such payments under Schedules A and B." That is only putting you in the same position as any company which has shareholders who are not liable to tax. Is that not so?—(Mr. Cooper): Yes.

18,683. So you are only on the same footing as others there; there is no grievance?—The difficulty with us is to attach liability to the member on Schedule A.

18,684. Suppose a limited company, none of whose shareholders are liable to tax, that limited company has to pay on Schedule A at the full rate?—Yes.

18,685. And it gets no repayment because the shareholders are not liable to tax?—That is so.

18,686. You are in no worse position than that company?—We could deduct tax, say, in lieu of the amount that we pay under Schedule A, but by doing so we should be deducting more than we had actually paid. The point would be then, what are we to do with the difference?

18,687. My only point is that you have no real grievance there beyond the grievance that all limited companies have?—We have a real grievance because of this fact, that the annual values under Schedules A and B are assessed as though each individual shareholder were getting £2,500 a year.

18,688. As it is in limited companies?—Yes. If we could take this to the individual members, the individual members then would be in a position to reclaim the excess paid on their account.

18,689. As in limited companies?—Yes; but the trouble with us is of attaching the proportion to the member in order to show to him what we have paid on his behalf. If we could do this, the interest that we now pay to shareholders would be free of Income Tax, but we are advising members to include that in their Income Tax returns. We have already paid 6s. in the £ on it. Individual members, when they include it again, pay at their rate. Now we say that we pay 9s. in the £ on the same earning capacity of interest.

18,690. My only point is that you are in the same position as limited companies?—No, I do not think so, not to that extent. I would like to put forward the case of a society registered under the Industrial and Provident Societies Act that actually pays tax and does not make a profit. The North-Western Convalescent Homes Association have two homes, one at Blackpool and one at Otley, in Yorkshire. The shares held by societies are almost £24,000; no interest is paid on those shares, it is understood. In 1916 the accounts showed a surplus of £26; in 1917 the accounts showed a loss of £98; in 1918 a loss of £169. In each of those years tax was paid under Schedule A: in 1916, £98 13s. 6d.; in 1917, £93 12s. 6d.; in 1918, £112 7s. Now we contend that if

that association had been registered as a company, we should have been able to reclaim that Schedule A tax, because there had been no profit made by the company; but we cannot deal with it as under Schedule D, because we are not assessable under that Schedule; therefore the tax is paid and left there, and at the rate of 6s. in the £.

18,691. I take it that those are mutual in the same way as your others?—Yes, only the tax is not mutual.

18,692. Those are mutual, and the members, I take it, have had the advantage of lower charges, which have caused that loss?—No, not in that sense altogether, but we are assessed on the annual value under Schedule A, whether we make a surplus or a loss. (Mr. Goodwin): May I suggest, in regard to that one point, a view of the whole question? That is, that the individual member only is liable for the tax. If these individual members pay their tax in accordance with their liability on the whole of the interest they receive from the Co-operative Society, that should satisfy the whole question of taxes, and you should not look for any further taxes inside the movement, but should be satisfied with the payment of the tax by the member on their portion of the interest.

18,693. I will now ask you to turn to the first three items in your summary: "(1) Co-operative Societies enjoy no real exemption from Income Tax; (2) That surpluses arising from the mutual trading of co-operators are not profits, and should not be assessed for Income Tax; (3) to tax dividend or surplus on purchases would therefore be to impose upon working-men a charge which is not demanded from any other section of the community." Are you aware that municipalities are charged Income Tax on the surpluses or profits of their trading departments?—(Mr. Cooper): Yes.

18,694. Is not this trading of these departments mutual trading?—Yes.

18,695. Tax is paid at the full rate of 6s., in spite of the fact that a very large number of ratepayers are not liable to that rate?—Yes.

18,696. If it is fair to charge tax on the result of the mutual trading of municipalities, would it not be equally fair to tax Co-operative Societies on the result of their mutual trading?—The point that we arrive at is that Municipal Corporations should not be taxed as they are.

18,697. May I put it to you in this way: that you consider that municipalities and co-operators should be dealt with equally in the same way?—Somewhat equally.

18,698. In the same way?—You would come back to the direct assessment of interest on capital, and in that way we do not say "exactly in the same way."

18,699. I am talking of the result of the mutual trading. If it is right to do it in one case, is it not right to do it in the other; and if it is wrong to do it in one case, is it not wrong to do it in the other?—We say that corporations, on their mutual trading should be on a par with ourselves.

18,700. But that both should be treated equally?—Yes.

18,701. Then there is just one other question. I will ask you to turn to paragraphs 10, 11, 12, and 13. There you appear to adopt the official view?—Yes.

18,702. It is really merely a question of whether it is worth while to deduct tax, according to the official view?—Yes.

18,703. Is it not a fact that a limited company pays the full rate of 6s. in the £ on its undivided profits?—Yes.

18,704. And does not this happen, even if there is no shareholder who is liable to Income Tax?—Yes, that would be so.

18,705. If, therefore, the surplus or profits of the Co-operative Society were to be made liable to tax, it would be well worth taxing the undivided profits?—There are none in a Co-operative Society.

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18,706. Where there are any undivided profits it would be worth while, would it not?—There are no taxable profits in a Co-operative Society.

18,707. May I ask you to turn to paragraph 12 again? It says: "It is expressly stated in the law that the exemption does not relieve a single member of such a society from any assessment to which he would be otherwise liable." It speaks there as if you were exempt from direct taxation to Income Tax because it is not worth while?—We take that last sentence to refer to our surplus arising out of trade.

18,708. Then may I put it to you in this way: that if the dividends were liable to tax, it would be worth while taxing the reserve?—No. As previously stated, the amount of surplus, we contend, is not taxable profit; therefore whatever we wish to do with it, it must be treated the same in both cases, whether we dispose of it or keep it collectively. (Mr. Goodwin): I would suggest that a limited liability company is not taxed on its business; it is the persons who compose that company that are taxed. In the case of a reserve fund, assuming you put £1,000 to the reserve fund this year, and next year you say you will divide it, you divide and deduct tax. If you have paid on £1,000 as tax, in the 2, you only distribute £700, and you have £300 left in the company.

18,709. But the company pays tax, even though none of its shareholders is liable to a tax rate?—But it deducts it from the returns to the shareholders, and the shareholders can get it back from the Government according to the rate that they have to pay.

18,710. Only when it is distributed?—When it is distributed.

18,711. I take it that you do not distribute much of your reserve funds?—Yes, we do occasionally. We have to call upon them sometimes. (Mr. Cooper): The reserve fund in a company, as you know, has its effect on the Stock Exchange. Now ours does not. Our shares are always worth a sovereign. There is no making a profit out of selling shares to each other; therefore shareholders in companies get their compensation in that way, which is untaxed profit although looked upon as increase of capital.

18,712. Mr. Mansell: How would you view, from the co-operative point of view, a tax on business turnover?—We could not agree to that in any way if it applied to ourselves only.

18,713. I mean as a general tax?—If it was brought forward as a general tax on the trading of the country we should fall in with the idea.

18,714. Sir J. Harwood-Banner: At the end of paragraph 62 you say that your land ought not to be assessed under Schedule B. On what ground do you contend that land is not to be assessed under Schedule B?—We place this on a par with the surplus arising out of transactions with members. We take it that Schedule B is a measure to assess the farmer on the supposed income that he ought to make. Now he does this in order to obtain an income. But the co-operative movement do not do it for that purpose; we do it to extend our mutual trading and to make a saving of cost in production. We say that Schedule B is the same as Schedule D; only, knowing that farmers have not been in the practice of keeping accounts, the Government have had to frame some measure whereby to estimate what a farmer's income ought to be; that is, we take it, the reason why Schedule B is put on that basis, and we apply this to ourselves on the same principle as in the case of trading with members.

18,715. Co-operators have bought a good deal of land lately?—Yes.

18,716. A good many large estates. Your contention would be that if you bought the whole of Kent you should pay no tax and you ought not to be assessed on the whole of Kent?—We say that we ought not to be assessed under Schedule B, but at the present moment we are paying it. But it would only be the same as our buying up a trading company. If we buy up a trading company, they have been making economic profits, but we take them over and by mutual trading we dispose of economic profits. The same thing would apply to land in our view—that we have taken over the land in Kent, we have displaced the economic profit arising to an individual,

and it becomes surplus to us out of mutual transactions.

18,717. You are rather asking that the privileges which you now have should be extended with regard to the purchase of land?—We have no privileges. But we say that it does not apply to us in the same manner as to an individual. If an individual owns a farm of £200 per annum and he proves that that farm does not make £200, then his tax is lowered.

18,718. Mr. Prefsman: A private individual who has a garden and who trades with himself, which is the highest form of mutual trading, because it is concentrated in the one individual, who does not sell for profit but merely cultivates the garden for his own use, has to pay under Schedule B, and he gets no option?—If he proves that his profits from that land are less?

18,719. No; he has no option. If he has a garden which he cultivates for his own use, there is no question about it any more than there is in your case. If I have a garden of five acres, and I cultivate that garden for my own use and for the use of my own household, I have to pay under Schedule B, and I have no option?—I agree in that case.

18,720. That is exactly your position, is it not?

—No. Land attached to a house over an acre I look upon more as a matter of pleasure, i.e., as not used for income purposes. Now the farmer who occupies a farm does that in order to get an income. If he proves that his income is less than the assessment—that would be £400 at the present time—he is assessed at that less income; he is assessed on his actual income as proved by accounts. Co-operative Societies cannot do this, and at the same time we say it is only on a par with the trading profit arising under Schedule D.

18,721. But surely your whole contention is that you are not trading for profit, but that you are cultivating this land for your own mutual benefit?—Yes.

18,722. Therefore you are not on a par with the farmer who is trading for a profit; you are on a par with the private individual who is cultivating a garden for his own consumption?—Yes, that is so.

18,723. And he has to pay under Schedule B without any option, just the same as you have. Where is the hardship? It is nothing to do with the farmer. He is trading for profit. Your contention is that you are not trading for profit; you are therefore not on a par with the farmer, but you are on a par with the private individual who is cultivating for himself. You contend that you are cultivating for yourself?—Yes.

18,724. Then where is the hardship? You have no option, and he has no option.—The hardship would come on the rate of tax. We pay tax rate whether our individual members are liable or not, at that rate. We think that we have a right to have some mode of assessing it according to the liability of our individual members, and we are open to come to some sort of arrangement whereby we can get that different rate of assessment.

18,725. Sir J. Harwood-Banner: You do not consider that you ought to pay under Schedule B because of the fact that all profits made in connection with your various businesses must be brought back to their relation to the man who has paid profit on his original purchase?—Yes.

18,726. For instance, I believe you are shipowners, are you not?—(Mr. Goodwin): Yes, the wholesale society is.

18,727. I suppose you have been obliged to quote the freights named by the Government?—No, we have not stuck to any maximum rate. Our rates have been on the whole less than others.

18,728. You have made considerable profits out of shipping?—Yes.

18,729. Then what have the wholesale societies done with the profits on those ships? Have they passed those profits over to the retail societies?—They have come into the general fund of profits; and of course this point touches on the question of non-members' trade. In so far as we carry goods for other people and make profit out of that, and that profit comes into the society, we do not contend that we are not liable for tax on non-members' trade. But in ship-

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ping it is necessary that we should do some carrying for outsiders if we are to fill up our boats, because our business is mainly imports, and our exports have almost entirely to be made up of goods not belonging to the societies. Consequently there is a certain amount that comes under the heading of non-members' trade.

18,730. And you pay Income Tax on that just the same as the ordinary shipowner?—No. That comes into our ordinary funds; it is non-members' trade.

18,731. And it is finally used in relief of the man who has paid so much on account of his purchase?—Or put to reserve.

18,732. In the same way, you are largely interested in soap, are you not?—Yes, we have soap works.

18,733. And your glycerine has been sold to the Government?—Yes.

18,734. Will the same thing occur there? All the profits made, for instance, in those soap works will have been used finally in reduction of the purchase price paid by the original purchaser in the retail?—Yes, just as all soapmakers do. The sale of glycerine reduces the price of the soap, consequently the profit of any soap works is expressed in the sale of the soap eventually.

18,735. Mr. Synnott: Is there a profit or is there not in the hy-products?—It is a hy-product. As I have argued before, you cannot say what profit you have made on a hy-product; you must take the whole of the operation, and it is all expressed in the price of the manufactured article sold.

18,736. Sir J. Hornwood-Buxner: Then the wholesale society makes it, and does not pay Income Tax on that particular soap works?—No.

18,737. They pay so much to the retail societies, relieving the purchaser who has paid something in connection with bread and bacon, for instance?—Just in the same way if we make a good purchase it benefits the societies. We are just on the same lines as an ordinary soapmaker in this respect.

18,738. The purchaser will get a relief from the profits on soap in regard to his purchase of bread and bacon?—All our profits are pooled and they are divided in proportion to the sales to members.

18,739. Then the same will apply to you as coal-owners and your profit on coal. The profits you have made on coal go from the wholesaler to the retailer, and then from the retailer to the consumer, who may not have bought coal, but who may have bought bread and bacon?—The profits on coal are different from the shipping, because coal is supplied solely to the retail Co-operative Societies by the wholesale societies for sale to their members, and consequently any profit arising is passed on to the retail societies and in turn to the individual member who has bought the coal. He gets his dividend on his coal purchases.

18,740. As regards bacon, for instance, you are very large purchasers of bacon in Chicago?—Yes, we have a large bacon trade.

18,741. Have the prices of bacon bought in Chicago been the prices fixed by the Ministry?—I could not say.

18,742. Does the Ministry fix the price at which you are entitled to buy?—I do not know whether it fixed the price we are entitled to buy at in America; I should think not, because the returns show that a purchase is made at one price one day and at another price another day in accordance with the market.

18,743. But did not the Ministry fix the price at which merchants and producers are entitled to buy bacon?—I do not think so.

18,744. Then as regards the sale of bacon, the Ministry fixes the price at which you have to sell your bacon?—Yes.

18,745. And you do not sell it below that price?—I think not.

18,746. So that on that bacon you make a very considerable profit?—We only make our ordinary profit.

18,747. I am not emphasizing the profit; but you cannot help yourself?—We do not make profit in the ordinary sense; we make a surplus.

18,748. On that you will not pay any Income Tax, but there, like the other matters that you have spoken of, the benefit goes from the wholesale to the retail and from the retail you relieve the purchasers?—Yes, but it is not taxable profit.

18,749. Now a question in reference to the outside trade which you do, for instance, with a farmer. Farmers are very large buyers of the Co-operative Societies for seeds and manures, because they know they get the very best article. On that they get their return, which is a very considerable return, whether you call it dividend or return or discount?—We do not sell to farmers direct, but only to their registered societies.

18,750. I know; but does a farmer getting this return pay any Income Tax on that?—(Mr. Cooper): No.

18,751. Why not?—It is looked upon as though it had been a private trader who had allowed him a cash discount. It is on a par with that.

18,752. For instance, in making up his accounts for the Income Tax, where a farmer keeps accounts he would charge the purchases that he made from you as the invoice cost to him, would he not?—Yes, if he did that.

18,753. When he gets these dividends returned from you free of Income Tax does he not in that way get a considerable return upon which he does not pay Income Tax, which really ought to be collected from him, and not only from the farmer but the traders that you supply with bacon and various other things; they all get a very considerable return?—No. I should say that the farmer is paying more Income Tax on the accounts, because if he were to go to a trader and buy a sack of bran for a sovereign, he would charge that through his accounts as a sovereign. If he goes to the store and buys it for a sovereign less his dividend, it is charged at 18s; therefore the farmer is going to prove that he is making 2s. profit by trading at the store as against trading with a private trader.

18,754. Yes, but he does not get the 2s. at once. You send him a debit note for £1, and the 2s. comes in later?—Yes.

18,755. Then what is to prevent him not crediting that to his account and so getting a very considerable amount free of Income Tax?—If I were in the farmer's place I should charge it up at the sovereign and not at the reduced price, so far as it affects my mutual trading as a member.

18,756. I rather think there is a great opening there for money paid free of Income Tax not being included in the Income Tax return?—In opposition to that, could we not look back and say the same of the ordinary individual—that he is evading tax on the same lines. He goes to a friend for a suit of clothes. This friend says: "I will sell you this suit of clothes for £8; I should charge someone else £10." The trader is avoiding showing a profit by allowing his friend £2. The purchaser is evading showing it too. Now he is getting a benefit. In the same sense I think that one can be set against the other very considerably.

18,757. Mr. Bruce: Professor Pigou has very largely put the questions that I intended putting, but there are just one or two I should like to put to you. Is not the surplus which is used to pay the dividends made up of money which has been overpaid by the members of your society?—Yes, that is so.

18,758. That being so, if you could calculate with certainty the fluctuations of the market there is no reason why you could not carry on your business, selling at cost and having no dividend to pay to your members at all?—That is so.

18,759. The point I want to put to you is this. If this Commission recommended, and the Government accepted, a system of taxing Co-operative Societies, and you adopted the method of business of selling at cost, then the Exchequer would be in exactly the same position as it is to-day so far as Co-operative Societies are concerned?—Yes.

18,760. Reduced down to the bottom, is there more in it than this point, that the paying of dividend is an instrument for the encouragement of theft among

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the working-classes? Is there more in it than that?—No, it comes to that. That is the basis of the co-operative system of trading.

18,761. Therefore to alter your system of trade by the abolition of the payment of dividends from your surplus would simply result, not in any advantage to the Exchequer, but in taking away an inducement which now exists for encouraging members of the working classes to save?—Yes, that is so.

18,762. Sir T. Whittaker: I think we have got a little confused, because we do not keep our minds clear on the distinct issues. I suggest to you that there are three separate points. The first is, whether your societies are in reality mutual, and consequently on their mutual trading do not make a profit; then, that on the outside profit that you make you ought, theoretically, to be taxed, but you are exempt simply because in the past they have been so small and the majority of your members were non-taxpayers, so that it was not worth while. That is an entirely distinct point from the mutual point?—Yes.

18,763. Then the third point, which should be kept clear, and which is the only one that has a bearing upon large amounts and large figures, is whether you ought not to be taxed in some form or other. They are separate points, are they not?—Yes.

18,764. And unless we keep them clear we get into confusion?—With respect to non-members' trade, we may say that we discourage that as much as ever we can.

18,765. We shall get into confusion again. I have not put any question to you as to whether you discourage it or not, and that is where we get into confusion from one point to another. Will you kindly keep to the points I put to you?—Yes.

18,766. I understand you are agreed that any profit arising from outside trading with non-members should theoretically be taxed?—Yes.

18,767. And the reason why it is not, is that it is comparatively trivial in amount and that the enormous majority of your members are not Income Tax payers, or were not until this last year or two?—Yes.

18,768. That was really the reason?—Yes, and, of course, the exemption under Schedules C and D.

18,769. When it is suggested that the administrative difficulties which would result from taxing you do not affect the societies, is not that overlooking altogether the fact that if you were taxed you would have to allocate the proportion of the tax to each member, and then each member would have to claim it back?—Yes.

18,770. Therefore it is not only an administrative difficulty confined to the Inland Revenue; it would cast an enormous burden on you?—That would be so.

18,771. Without any advantageous result to anybody?—Yes. The point with us is the amount of deduction. If we made £1,000 a year profit on non-members' trade, and we paid tax upon it, we could not deduct the tax at 6s. in the £ from £5,000's worth of taxable income to our members. Then, if we were to deduct any specific proportion, we should come up against the difficulty of the member reclaiming because he ought not to pay at the full rate.

18,772. That is to say, it is not the fact that the administrative difficulties would not affect the societies? They would affect the societies very much indeed?—Yes.

18,773. A great deal has been said about this surplus—that it is on the average, and that really the member does not get back precisely the surplus on his own particular purchases. He gets it on the average?—That is so.

18,774. Does that fact alter the nature of the principle in the slightest degree? Is it not a return of surplus all the same?—Most certainly it is the same thing.

18,775. It does not make it a profit?—No.

18,776. Because the members amongst themselves prefer a return, as a matter of convenience, on the average, rather than a distinct allocation on the particular items, it does not alter the fact that it is a surplus, and does not a profit?—No.

18,777. Then, with regard to the reserve fund, the reserve fund is part of the surplus?—Yes.

18,778. If the surplus be but the return of the excess price charged, and therefore not a profit, the surplus retained as a reserve fund is exactly the same in principle?—Yes.

18,779. And not a profit?—And not a profit.

18,780. That is to say, if it is not a profit when distributed it cannot be a profit simply because it is retained?—That is our idea of it.

18,781. It must obviously be so, must it not?—Quite.

18,782. With regard to this mutual phase, I think your societies originally started, or we can suppose they did (and I think they did), in a very small way—a few persons meeting together to buy, say, a chest of tea, or one or two things of that kind, and distributing them amongst themselves. Everybody would admit that that is mutual trading?—Yes.

18,783. And not making a profit?—No.

18,784. When this arrangement became so extensive that you had large undertakings, have you heard anybody suggest at what point and at what period it ceases to be mutual?—No.

18,785. You never heard anybody who could suggest it?—No.

18,786. Surely it is the same in principle right away through?—The same in principle.

18,787. When it is said that you rely on these extracts in this Report for your contention, I would suggest to you that is not really what you mean. What really happened was that the Report of that Committee supported and confirmed your view?—Yes.

18,788. Your view has not originated from their Report?—No.

18,789. In their Report, after hearing the whole thing, they arrived at the conclusion that your view and the view of the Inland Revenue was the sound one?—Yes.

18,790. That is rather a different way of putting it, is it not?—Yes, it is.

18,791. Then you come to the wholesale societies. Your retail societies are made up of members who have joined together for mutual supply?—Yes.

18,792. Those societies again joined together for mutual supply by the wholesale societies?—Yes.

18,793. The principle is surely precisely the same for the wholesale as for the retail?—Yes.

18,794. And if one is mutual the other must be?—That is our contention.

18,795. It has been suggested that you get some advantage in regard to being sued as a society. Supposing the members could be sued as individual members for anything that had been done by the society, the society would stand by the individual member?—Yes.

18,796. There is no advantage in it?—No advantage.

18,797. Except a little personal inconvenience?—That is so. But the Acts were so framed as to give us a legal entity for being claimed against, and to make us a corporate body, for the benefit of those having a claim against us.

18,798. It was suggested to you that, if a limited liability company paid tax under Schedules A and B, and every one of the shareholders was not liable to tax, they could not get that tax back. I suggest to you they could?—Yes.

18,799. I suggest that, if a shareholder was not liable to tax, and the company in which he was a shareholder had paid under Schedules A and B he could recover that tax?—Yes.

18,800. Mr. May: That has actually happened.

18,801. Sir T. Whittaker: There is no doubt about it; it is the law. (To Whittaker.) Then, with regard to this trade in by-products. If you buy an animal, of which you require the greater part for your members, and you have to buy the whole animal in order to get that part, and you sell off the portions which you do not require, I suggest to you it cannot be said that you are making a profit. You are simply reducing the price of the animal, and the balance that remains is the cost price of the portion that you require?—Yes, that is our idea.

18,802. It is your idea?—Yes.

18,803. It is not a question of making a profit?—No.

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18,804. Your aim is to make the whole community co-operators?—Yes, that would be the outcome of our co-operative trading.

18,805. It is perfectly clear, as has been suggested to you, that if that ideal came about, some method other than the present one of raising revenue would have to be devised?—Yes.

18,806. That is, you could not look to escape from taxation?—Certainly.

18,807. The truth is, you would have to bear the whole of the taxation then?—Yes, but when we get to that state of things the co-operative movement would be the State. We should have a co-operative commonwealth, purely and simply, and nothing more.

18,808. Just so, but you as individuals would have to bear your share of the taxation of the community?—Yes.

18,809. I have been putting these points to you up to now, from the point of view of the bearing of the present law; that is, that under the law as it now stands, apart from the special legislation for you, under the principles of the Income Tax and the policy of working it, the practice of the Inland Revenue has been the right one—it is no use attempting to tax you; and that as members of mutual societies you are not liable on the profits of your mutual trading, and that the other profit from outside trading was so small as not to be worth levying, then, if it were levied, it would have to be returned. That was all right when your trading was comparatively small, and when the tax was comparatively small, and when the financial condition of the country was very different from what it is to-day. But as your trading becomes large and a very important part of the trading of the country, and as the financial needs of the country have become very great, I ask you if your members are beginning to recognize that, although under the present system and on the present principles you have been justly and fairly dealt with, the time is coming when some revenue will have to be derived from you?—If co-operators were going to be taxed on savings, then we should have to agree that the same would apply to non-co-operators. By taxing co-operators on their mutual trading, you would simply be taxing savings. Income Tax is a tax on income, but if we require more than a tax on income, then we must commence to tax savings, not only in the co-operative movement, but in the hands of other people also.

18,810. I quite agree it would not have to apply to co-operators only, but it may be that the basis on which we have levied this particular tax has now not become wide enough to cover the national need?—Yes.

18,811. And as, if the whole country became co-operative, you realize that you would have to find the whole revenue, it follows from that, does it not, that as you increase in your trade and become a larger proportion of the trade of the country, the time must come when you will have to bear some portion of the taxation of the country?—We should still have income in the co-operative movement, but we should have done away with trading profits. But trading profit does not constitute the whole of the income of this country. It is a supplement in most cases to an income that is earned. When you come to look at the trading companies, you find that most of them have members or shareholders investing their savings. Now that is an addition to their income. We should still have income, but we should have it more levelled than probably it is now.

18,812. There would not be much left?—We should pay them for their services, I mean. Every worker in the State would be an employee of the co-operative movement; that would follow from us having all the trade. We should pay them their earnings, and they would be assessed upon them. But before then we may have one or two more Income Tax Commissions, and I think it is safe to suggest that there would have to be one, when that came about. But when we come to that state of things, it would be quite simple for the co-operative movement to say that we will have a tax on the value of your house

for State purposes—not for local purposes, but for State purposes—and in that way they may find the revenue for the country.

18,813. But the bulk of the Income Tax comes from Schedule D?—Yes.

18,814. Which, broadly speaking, represents trading?—Yes, and salaries, sometimes.

18,815. Not salaries so much. It represents, broadly speaking, trading?—Yes, and that is income to the recipient.

18,816. It represents trading, and if the trading develops in such a way through Co-operative Societies, and under the present law escapes taxation, shall we not so undermine an important source of revenue as to render it necessary for some re-arrangement to be made by which we also get a tax from trading—yours, which now escapes?—I think there would be a levelling up if we were to come to that state of things, because when we have done and said all, the profit arising out of trade assessable under Schedule D, is income to someone. Now it is assessed on the income, and if the co-operative movement did all the trade, it may be possible that we would increase the salaries in the co-operative movement as against the present time, and therefore increase income.

18,817. On the view that your societies seem to express with regard to raising the limit of exemption and the lowering of the big incomes which would result from trading being done through Co-operative Societies, would not that so deplete the Income Tax receipts as to render them altogether insufficient?—Our case is that our surplus arising out of trade is not a taxable profit; and all we wish to put forward is that we think this surplus should not be taxed. Now we do not wish to offer suggestions to the Commission as to how they are to find the revenue when we have stated our points.

18,818. I was merely going to remark that you are like everybody else who has come before the Commission: they all come to plead that they should be exempt, but when we ask them to suggest where the money is to be got, they are very unwilling to help us; but it must be clear to you that in the present financial condition of the country it would be very difficult indeed to leave a large proportion of this trading, for which the mechanism of the State exists—it is protected by the State—without asking it to make some considerable contribution to the Revenue?—We do not come to you to plead that we do not wish to pay any tax, but we come here to plead that we should pay tax on an equality with other people; and that is on the basis of our income. That is the real sum and substance of our arguments—that it is income that we want taxed, in accordance with the Income Tax laws, but not a special tax upon co-operators because they are doing something upon which other people would pay tax if they made profits.

18,819. Mr. Petyman: In answer to Mr. Brace, you said that you would be able to carry on your trade at absolute cost, in case an Income Tax were imposed upon you?—Yes.

18,820. You said you could sell at absolute cost?—Yes.

18,821. Do you think that you could in real practice do that?—We could get to it very nearly.

18,822. If you had to do that, would it involve your excluding entirely any trade with non-members?—Yes.

18,823. You would have to abolish entirely your trade with non-members?—Yes.

18,824. How would that affect your wholesale societies? Would it be possible to carry on your wholesale work, and the sale of necessary by-products, and shipping, and so on? I thought I understood you to say just now that the shipping, particularly, you could not carry on without non-members?—(Mr. Goodwin:) In regard to by-products, I may say that that is a trade which is gradually getting into the co-operative movement. As the movement extends, it is found there is a greater demand for by-products than in years past. Consequently those by-products are getting more and more into members' trade

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rather than non-members, but there may possibly be a certain amount which we cannot dispose of in the movement.

18,825. You gave in evidence just now that in your shipping trade, in export business, for instance, you had mainly to rely on non-members as customers?—Yes.

18,826. Then I put it to you that in many ways it would be practically impossible for you to expand, as you are doing, if you limited your trade wholly and entirely to members?—In regard to the shipping.

18,827. Would it not hamper you, not only there, but in many directions, particularly in your wholesale trade?—In regard to the shipping, we should probably have to meet the circumstances of the time. For instance, international co-operative trading is growing, and we shall have eventually not only inward cargo but outward cargo for our own business.

18,828. In the end?—Yes.

18,829. And when you have done that, you will start something else, will you not?—Probably.

18,830. Your ambition, and a very wise and proper ambition, is to extend the movement in which you believe?—Yes; to give the benefits of the movement to all.

18,831. If you are going to extend it, is not one of the most hopeful methods of extending it to bring non-members in, in the hope that they will subsequently become members?—Yes, that is what is very often done. Non-members, by a little experience of trading as non-members, become members.

18,832. Then if you were to attempt to deal with everyone at absolute cost, you would obviously have to exclude non-members entirely, would you not?—(Mr. Cooper): Yes. We should do that, doubtless, because the non-member would be coming and getting a big advantage over the member.

18,833. We know the reason; that has already been set out. I want to save time. I only put it to you as a fact that you could not, as wholesale traders particularly, sell at cost without absolutely excluding non-members from all transactions?—(Mr. Goodwin): Only by giving non-members the same benefits as members.

18,834. Then everybody would come to you?—Yes.

18,835. You could not carry on; the thing is obviously impossible, is it not? Then I think I am rather driven to the conclusion that your answer to Mr. Brace was not very well considered—that you could deal at cost. I do not think you could in practice; there are other reasons why you could not?—(Mr. Cooper): I was speaking from the distributive societies' point of view, and we can do it.

18,836. Is it not absolutely necessary, in any well conducted business, for security, to have reserves?—Yes.

18,837. Can any business be carried on in these days at cost?—We have to look on ourselves as different to ordinary traders. If we traded with our own members and made no surplus we should simply go to our members and say we wanted more capital. We should not reduce our assets in that way. We should say: "We want more capital; you must find it, or otherwise we cannot carry on."

18,838. Would not that greatly increase your difficulties? Would it not be much better and more business-like to have a surplus out of your profits, if I may use the expression? There are profits; there is no question that the purchase of an article at one price, and the sale of it at another, is a profit in itself. You do not deny that?—(Mr. Goodwin): For mutual trading, we do deny it.

18,839. But the purchase of an article at one price, and the sale of it at another, is a profit?—It is a surplus.

18,840. In itself, it is a profit. It ceases to be technically a profit when it is mutual trading. That is your point?—(Mr. Cooper): Yes.

18,841. I am not trying to corner you. I say the sale of an article at one price, and the purchase of it at a lower one, involves a profit; and technically in mutual trading you claim that that is not a taxable profit, but it is a surplus?—That is so.

18,842. But for the purposes of a reserve, it may be applied exactly in the same way as a trading profit which is taxable, and the same business

principles absolutely apply to the carrying on of a co-operative business as to an ordinary trading business or limited company? You would not deny that?—But the objects are different.

18,843. The objects may be different, but the method of carrying on the business in the matter of reserves, and in the matter of capital, and in the matter of the whole of the business, is absolutely identical, is it not?—Yes.

18,844. The only difference is in the application of the surplus when it has arisen?—Yes.

18,845. And the purposes for which you use it?—Yes.

18,846. But the principles of the business are the same; and one of the principles is that it is desirable, out of your profits, to maintain a reserve. You would have to surrender that, if you were to sell at cost?—Yes.

18,847. Therefore, I, for one, am driven to the conclusion that you could not, as a matter of actual practice, sell at cost, or anything near it?—We could do so, but we are not pushing the point that we wish to do so. We wish to carry on as we are, in so far as we can make it quite clear that our surplus is not taxable, whether retained as reserve or distributed.

18,848. Then you claim that your surplus is not profit, but that it is a surplus on mutual trading?—Yes.

18,849. You claim that it covers reserves just as much as the bonuses which are returned?—Yes.

18,850. And that it is the same in principle right through, and that it covers also the wholesale societies?—Yes.

18,851. That is a matter of principle which would affect all trading carried on as you carry on yours—mutually?—Yes.

18,852. At present the Income Tax is a very large factor indeed in financial business, is it not?—Yes.

18,853. A most vital factor?—Yes. (Mr. Goodwin): The Income Tax is not a tax on the business really; it is a tax on the individual income.

18,854. Theoretically, but as the business is equally theoretically carried on by the individuals it comes to the same thing. Whether the income arises from business carried on by the individual or by a company, it makes no difference. "You take my life, when you do take the means whereby I live"; and the business lives by the support of its members. If this is a principle, as you contend it is, it would apply to all businesses carried on mutually?—Yes.

18,855. On the same principle, profits in a limited company ought to be exempt from tax to the extent that it carries on business with its own shareholders?—(Mr. Cooper): If it could be proved that the majority of the profits were made from trading with its own shareholders.

18,856. What has the majority got to do with it? In your case you admit that the minority of your profits is gained by trading with outsiders?—Yes.

18,857. And a very large majority is gained by trading amongst yourselves?—Yes.

18,858. In a limited company the division might or might not be the other way. One limited company might have an enormous number of shareholders, and might do the majority of its business with its shareholders; another limited company might be the opposite. The principle is the same. Let us take your own position of the majority. We had it in evidence yesterday that there are certain multiple businesses where there are a very large number of small shareholders, where presumably a large proportion of the business would be done with those shareholders. Do you consider that they should be exempt, in respect of that mutual business, from Income Tax?—We would like a case proven where there is such a state of things as that. We will take the Maypole Company. We will say it has got many shareholders; but surely we are not going to say that the majority of the customers in every village where they open a shop are shareholders.

18,859. I am really not questioning you on the fact; I am questioning you on the principle. Take your case of the Maypole Company. You say in a particular village the majority of their customers are not shareholders, but they could easily become

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so; and if in that village the majority of the customers were shareholders, would you say they ought to be exempt from tax, as you are?—(Mr. Goodwin): No.

18,860. Why?—If these multiple shops are really co-operative in character, if the members' capital is limited to the £200, if the interest on their shares is limited, if the members have the control of the business in a democratic way in the same way as in the case of Co-operative Societies, if they can remove their directors, and so on, they will probably then be entitled to the same benefits as a Co-operative Society. But if the great bulk of the capital is held by a few shareholders, and if the management is in their hands, if the members cannot move them, then I say that the limited company is their proper sphere, and they have no connection at all with the principle of co-operation.

18,861. But you are rather going away now from the principle that no surplus on mutual trading is profit. You are going now into other considerations—that if they assimilate themselves entirely and become Co-operative Societies they would escape under the present law. We all know that; but you have claimed that all mutual trading by members of one association is not taxable profit. I will not press you any further; I have got my answer; I do not want to argue it with you. There is the one further small point: you were asking about the farming co-operative associations, and about sums which were returned to a farmer purchaser, and you said that would be similar to a discount?—(Mr. Cooper): Yes.

18,862. I suppose you are aware that, when a farmer makes up his return for Income Tax, on his debit side he puts down the price he paid for any article?—Yes.

18,863. If he received a discount, he would have to put down the price less the discount?—Yes.

18,864. He would not do the same in the case that you refer to?—Not in the Co-operative Society, no.

18,865. Then there is a clear difference?—Yes; in the Co-operative Society he would put in his bills, but, of course, it would accumulate to him in his share account in that sense. But in trading with many farmers in the co-operative movement they simply allow them their discount straight away, rather than for them to appear in the profits at the end.

18,866. Then that is exactly similar to ordinary trading?—Yes.

18,867. That you merely sell at a lower price because he is a member of a Co-operative Society?—Yes.

18,868. That is perfectly legitimate; that is exactly the same as an ordinary trader; but the point is, that where a farmer receives, not as a direct and immediate discount, but as part of what you call surplus, and what traders call profit, he receives, separately from his actual purchase, a certain sum from the society proportionate to what he has bought: so does not bring that in as a credit in his accounts?—No.

18,869. The contention that I think Sir John Harwood-Banner put to you was that he ought to do so, and your answer was that it was only a discount?—It would be a point left with the farmer to decide now he would deal with it. I could not state here a general rule that would apply to every farmer.

18,870. Surely the Income Tax payer does not enter any sum as liable to Income Tax unless by law he must do so. You are not so quixotic as to suggest that he does that unless the law obliges him to do so?—I would not like to go into the details of the making up of accounts for Income Tax, because one man's honour may allow him to do one thing, and another man's honour allow him to do another.

18,871. Mrs. Knowles: Would it not be true that if Co-operative Societies did not exist the things could be bought at other shops, and your £200,000,000 of sales would go to enrich other traders and would bear Income Tax?—Yes.

18,872. Therefore you are preventing the State getting what would be its lawful due from other traders out of a profit of £200,000,000 by your very existence?—The system of co-operative trading is to do away with making a profit on trading.

18,873. But that is it; then the State gets nothing?

—But then the income of the individual is taxed. Now if he does not make any profit, he has not got an income arising out of the transactions; therefore there is no tax payable. Let me put a case. A few weeks ago a Co-operative Society carried out a big contract for a corporation. It did not make a farthing profit on the transaction, but it saved the rate-payers of that city £500, which was equal almost to a penny rate. If that £500 had gone to a company they would have paid on £500 at 6s. But why should that town be taxed with £500 in order to allow someone whose income has been increased, to hand over to the Government a 6s. out of every pound? We say, as members of a society, we are there to benefit all our consumers, and everyone can come and join in. If we do away with profit-making, we should certainly do away with Income Tax and income to that extent.

18,874. I put it to you that you get three advantages because you do not pay Income Tax. In the first place, you have not got all the administrative expense that an ordinary business has to bear, of deducting at the source. You do not have to do that, except on a small proportion of your income. Is not that so?—We do not make any deduction of Income Tax whatever.

18,875. Therefore you have not got to keep the clerks that an ordinary business has to keep in order to do part of the Revenue's work for it?—We keep a bigger staff of clerks than any other trading organisation.

18,876. But you do not keep an extra staff of clerks to do the Inland Revenue people's work?—The method of Co-operative Societies' work necessitates a larger staff of clerks than in the case of an ordinary trading company.

18,877. But you do not do any of the Revenue's work. Under the system of deduction at the source, ordinary businesses have to keep some clerk to make the deduction at the source. That is one advantage you get?—I do not think it goes to any great extent.

18,878. One advantage is that you do not have to assist the Revenue by keeping a staff which does part of the collection for it. Then, secondly, you do not have to calculate what a gentleman spoke to us about yesterday. He said that in the drapery trade they have to calculate Income Tax in making all their purchases, and therefore that they stand to lose (or possibly gain, but he did not say gain) a great deal if their calculation is not right, that is, if their Income Tax should go up, and they have paid on the anticipation of its being level. You can trade at a great advantage because you have not got to take the Income Tax into your calculations?—We do not trouble about Income Tax at all.

18,879. You have an enormous advantage in trading on that account?—Yes, that may appear so.

18,880. Then, thirdly, you have an enormous advantage over other people, because those people have to pay so much in taxation at once that they must have large overdrafts at the banks to pay off. You do not have to do that?—No, we do not do it.

18,881. Therefore you have got three great advantages?—We do not agree.

18,882. Chairman: I think some of your questions, Mrs. Knowles, would lead to interminable debate.

18,883. Mrs. Knowles: May I put one other question? You get certain advantages from not paying Income Tax, besides not actually paying the tax itself. Then you say that you can easily make the dividend vanish, and that therefore there would be nothing to pay on except reserves?—Yes.

18,884. But is it not true that the bulk of your purchases are women; they do the shopping?—Yes, they make the purchases.

18,885. Do you think you would get women to shop at the distributive stores if they did not get a dividend?—Well, I could not say.

18,886. I mean psychologically that that money is money which the women handles and the man does not touch. That is what attracts me. That is your great attraction?—We generally find that a woman purchasing is attracted by the lowest prices. If we were to do away with dividend, then we should certainly attract her, because we should have no profits and we should have lower prices.

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18,887. They complain bitterly to me of the time they are kept waiting, and all the disadvantages, but they say: "We got a dividend; my old man don't touch that; I get the boost out of it." I have been told that hopes of times. It does seem to me that if you do away with dividends you would knock the bottom out of your credit. I do not think psychologically you could do it?—We do not want to do it.

18,888. You say the State would get very little, as there would be very many reclaims on it; but are you quite sure about that—that there would be a very small proportion retained?—We think so. Taking the normal family, say, of three, we take it at the present exemption rate it would be £270; that is over £5 a week. When we get out of the manufacturing towns, we find that the wages are not £5 a week, and a big proportion of our members are in districts where the wages will be less than the taxable amount. Therefore we base our assumption on that, that we have a big percentage of members not drawing anything like £5 a week.

18,889. Chairman: We shall have some evidence from the Inland Revenue which will probably satisfy you, Mrs. Knowles, on that.

18,890. Mrs. Knowles: My point is that the better-class artisan is the co-operator, and he has a pretty good income now.

18,891. Chairman: We shall hear some evidence from the Inland Revenue on that point.

18,892. Mr. May: On this question of the possibility or the practicability of selling at cost price, you gave us an instance, earlier in your evidence, where it had actually been carried out over a period of years. I suggest to you that the conclusions of Captain Pretymann, which he has put to you, are entirely fallacious, and that it is demonstrable from actual cases, and on the lines of principle and theory, so he would suggest, that you could easily adopt the principle of cost price in the co-operative movement?—Yes.

18,893. That that was, in fact, his original intention?—Yes.

18,894. And that the system of paying dividends was simply adopted, in addition, of course, to the inducement that it offered to thrift, as a more easy method of adjusting accounts at the end of the balancing period?—Yes.

18,895. I suggest to you that it is quite practicable to exclude non-members and non-members' trade?—Yes, in the distributive societies.

18,896. If co-operators did have that system, and excluded non-members, there would be no difficulty about getting customers; you would probably require them to pay a premium for permission to deal at the stores?—That is so.

18,897. Because of the increased advantages that they would get, direct and immediate?—Yes.

18,898. Do you not think that in the case put to you by Captain Pretymann with respect to non-members' trade in by-products there was considerable confusion of thought; that is to say, that the sale of by-products is not the ordinary trading or the main business of Co-operative Societies, any more than, for instance, to sell waste paper in my house would be the ordinary business of my life?—It is merely incidental.

18,899. And the use of the term "non-members' trade" with respect to by-products is merely a convenient method of dealing with it in its relation to its assessment for Income Tax?—Yes.

18,900. That it has no real relation to the main use of the term "non-members' trade" as understood as part of co-operative trading?—That is so.

18,901. Now, with reference to this question of non-members as customers for shipping; perhaps Mr. Goodwin will answer this question: Is it not a fact that the shipping is only carried on by the wholesale society, and has been considerably reduced, partly to avoid the necessity of seeking freights outside our own co-operative movement?—(Mr. Goodwin): Yes.

18,902. And that, as you said, it will probably get its true revival when international co-operative trading relations are established?—That is so.

18,903. Further, that at any time, either now or when the shipping fleet was at its largest, the non-members' trade was the result solely of the necessity

of bringing back or taking out, as the case might be, certain goods, in order that the ship should not go empty?—That is so. That is exactly the position.

18,904. Again, that it was comparable, not to an ordinary trading transaction, but it might be put in the category of the by-products?—Yes, just the same.

18,905. You probably learned—I think you undoubtedly did—from some of the questions that you heard earlier, that there was a Daniel come to judgment yesterday, who challenged the law and the prophets on this question of what is the nature of the surplus made by the Co-operative Societies; and you have even learned that even the law lords have not escaped under that challenge; and the quotations that you have given scarcely cover the ground so far as the co-operative position is concerned. I want a clear answer from you with regard to these paragraphs 12 and 13. I think when the question was put to you first you did not clearly understand the purport of it; I would like to make sure. These paragraphs 12 and 13 of your evidence are a statement of the exact position of Co-operative Societies in relation to Income Tax. Is that so?—(Mr. Cooper): Yes.

18,906. And they point out that the only difference between private trading organisations and Co-operative Societies in this matter is that the one has the tax collected at the source, while the Co-operative Societies have the tax collected, so far as it is due, from the individual members. Is that so?—Yes.

18,907. Then in that sense—and that is all that these paragraphs apply to—you stand absolutely upon those two paragraphs?—Yes.

18,908. Now come to paragraph 23. Paragraph 23 is a little more complicated because, as I have told you, the law and the Inland Revenue Department and everybody else have been challenged by another section of trade on the economic basis of this paragraph. When you were asked whether you relied upon this paragraph or upon this and other paragraphs in the report for the co-operative case you gave an affirmative answer?—Yes.

18,909. Did you not mean, rather, that you accept the statement of the economic character of co-operative surplus which is included in that report and not that you rely solely on that report as the authority?—Yes, that is so.

18,910. That has been partly covered by Sir Thomas Whittaker?—Yes.

18,911. But I suggest that it goes further even than Sir Thomas Whittaker suggested; that it rests upon a very broad basis, which has been only partially indicated here to-day?—Yes.

18,912. Can you give us any instance of any particular society showing that the amount paid to the members in interest on shares is according to the total return of the income on investments and profit from trading with non-members, and that in order to pay that share interest they had to draw upon the reserve fund?—We have gone into a case similar to the one you are now asking for, and we have summarised the sum and substance here to-day. We admit that, as regards all income that the society derives from other sources than mutual trading, such income should pay Income Tax either in the hands of the members or at the source. In practice, however, the sum on which the members pay Income Tax exceeds the amount of income which the society thus receives, and in order to pay the members' interest a draw has to be made on the surplus arising from the mutual trading. Therefore any other undivided surplus arising from mutual trading is not liable to tax. As a typical case, we have taken that of the Manchester and Salford Equitable Society. The whole income of such society, other than that arising from mutual trade, is as follows: Income from investments other than land, £8,750; income under Schedule A, £5,350; making a total taxable income of £14,100. The amount paid to members as interest on their share capital, on which members are liable for tax, is £15,310, giving an excess sum on which tax has been paid between the £15,310 and the £14,100 of £1,210, plus the tax paid

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by the society under Schedule A, £1,600, showing a total excess on which tax is chargeable of £2,810 in that one society.

18,913. Professor Pigou, in questioning you, drew a quite proper distinction between shareholders and members. I want just to emphasize that a little, because I suggest that the difference, so far as it exists between shareholders and members in Co-operative Societies, exactly illustrates the difference between Co-operative Societies and public companies. I do not want to misquote, but I think it was put to you that there was a difficulty in dealing with the funds of the society because some were shareholders and some were members, and certain accretions of reserve capital would belong to the shareholders and not to the members?—I do not understand any difference between shareholders and members in Co-operative Societies, because they all own capital and they all do trade.

18,914. Is not the difference this: that while the shareholders in a public company absolutely control the funds and have more or less unlimited holdings, and have only their power in respect of their capital, in the Co-operative Society their capital has no relation at all to their power, but their power is exercised as members of the society?—That is so.

18,915. And that they have full control over the society's funds and all its affairs as purchasing members?—Yes.

18,916. And that the shareholding is only a nominal thing which is necessary for the carrying on of the business?—That is so.

18,917. Would you not agree that that is an important as well as an essential difference between a Co-operative Society and a public company?—Yes; the ordinary member has the same vote in the management if he only holds £1 as another member who has £200.

18,918. And that would be one of your objections to multiple shops being included in the list of mutual traders?—(Mr. Goodwin): Yes.

18,919. I was going to ask about the point of making the best of both worlds, but I think that has been disposed of by Sir Thomas Whittaker. The question of municipalities was put to you as to whether, so far as mutual trading is concerned, they should not equally be free of assessment to Income

Tax. Is it not a fact that certain operations of municipalities are at present exempt from Income Tax, as mutual trading?—(Mr. Cooper): Yes, it is done amongst themselves.

18,920. Where it is done both within the corporation and for the whole of the constituents?—Yes.

18,921. And where it is extended to the outside, that portion which is done within the corporation area, is exempt?—Yes.

18,922. I suggest to you that that is so, and you accept that; but it would probably be answered, if there was anyone to follow me, that that was chiefly with regard to water. I mention that, because I want to get out this point: that the very nature of co-operative trade has been put to you as an argument against the return of the excess over cost price?—Yes.

18,923. And the admission of the principle of mutual trading?—Yes.

18,924. If you want to get it down to this line point as to what profit you make in one shop or in another, does it not in fact operate as much in the case of water in a town? For example, if my neighbour does not have a bath regularly every morning, and I do, am I not having it at his expense, when it is a question of water?—Yes, that is so.

18,925. And is not that comparable to the variation, in principle? I emphasize the principle, because it is so often put to us. In principle there is no difference between the two?—That is so.

18,926. Finally, you may not be aware, but it is a fact, nevertheless, that the Commission has been threatened by the same authority that has already been quoted to you, that if this exemption from tax is continued to Co-operative Societies, the multiple shops of this country will immediately organise themselves as ordinary Co-operative Societies. What have you got to say to that?—(Mr. Goodwin): I think I stated that a short time ago; my view was that if they became real Co-operative Societies, with real control and management and the power of removing directors, just as in a Co-operative Society, I should say they would be entitled to register as Co-operative Societies, and become Co-operative Societies. There is no reason why they should not.

18,927. Chairman: Thank you very much for your evidence.

COUNCILLOR JAMES WALKER and Mr. HUGH LYON, on behalf of the Parliamentary Committee of the Scottish Trades Union Congress, called and examined.

The witnesses handed in the following statement as their evidence-in-chief:—

18,928. We are members of the Parliamentary Committee of the Scottish Trades Union Congress, and give evidence on their behalf. The Congress represents approximately 500,000 trade unionists in Scotland. The question of the Income Tax has been repeatedly before the Congress, and we therefore have had an opportunity of obtaining the views of Scottish trade unionists in this matter.

18,929. (1) We believe in direct taxation, which should be based on the doctrine of "ability to pay."

18,930. (2) Indirect taxation violates this principle because it takes an individual on the consumption of commodities by those who are dependent on him or her for their subsistence. The greater the dependence on an individual the more the individual has to pay, whether he has ability to pay or not. If he is not able to pay, then it merely means a reduction in the standard of life of the individual and those dependent on him. We urge that those whose income is less than necessary to keep up a standard of efficiency should be exempt from all taxation, believing that the first duty of the nation is to produce a healthy race.

18,931. (3) All indirect taxation should be abolished with the exception of those taxes of a purely reformative or prohibitive nature. There should be no taxation on the necessities of life.

18,932. (4) The bulk of the national revenue should be raised by taxation on incomes, as this would secure a more equitable application of the doctrine of "taxation according to ability to pay."

18,933. (5) There should be no increase in the present £130 exemption limit allowed for an individual, as that represents a subsistence level, and what is required for subsistence should not be taxed, in order that a decent minimum of individual human existence may be secured.

18,934. (6) The abatement for a wife (without income) should be at least £120, with £40 for each child. A married man with children dependent on him is performing a service to the State which should be recognized by abatements from his Income Tax. A single man with no dependents should pay more tax in respect of the same income than a married man. There should also be an abatement in respect of parents dependent on the individual. Deductions for expense incidental to trades, as at present allowed, should be continued.

18,935. (7) Taxation should commence on the first £ over the exemption limit.

18,936. (8) Taxation should be graded; that is, the higher incomes should bear a proportionately heavier tax. Unearned income should bear a heavier tax than earned and should also be graded as the income increases.

18,937. (9) The collection of the tax is one of the most serious problems that the Inland Revenue

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Department has to face, and in our opinion the only satisfactory method of securing the maximum return is to tax at the source of income. This would mean probably that a scheme would require to be worked out of taxing all earnings on a small percentage basis. It would then be up to each individual to claim a rebate from the Inland Revenue Department on the basis of dependency or on the ground that they had not earned the £130 per annum named in a foregoing paragraph, which should be exempt from taxation. This would apply to the wage-earning and salaried classes in the country. The recipients of dividends are already taxed at the source, and it would only leave then a scheme to be evolved of taxing people in business for themselves.

[This concludes the evidence-in-chief.]

18,938. *Chairman:* We have before us your very interesting little paper, and we will examine you upon it at once. Mr. Mackinder will begin the examination.—(Mr. Walker:) If you please.

18,939. Mr. Mackinder: If I may venture to say so, your paper is both concise and helpful, because it is constructive to some extent as well as destructive. May we take it that under each of these nine heads you are expressing the carefully considered view of your Parliamentary Committee?—Yes.

18,940. I gather from what you say here that that Committee has arrived at its view after there have been various discussions on the Income Tax in the Scottish Trades Union Congress?—Yes.

18,941. Have those discussions touched on all these points, do you think?—Yes, over a period of years.

18,942. So that this is an opinion that has grown?—It has grown.

18,943. That is a fair way of putting it?—Yes.

18,944. How far is the Scottish Trades Union Congress completely representative of Scottish Trade Unions? Are there large unions outside?—There are very few unless you take the Amalgamated Society of Engineers; that is outside.

18,945. Is that the only important union outside?—The Boilermakers, the engineering trades in Scotland.

18,946. But the miners, for instance, are in?—The miners are in.

18,947. I notice in paragraph 5 that you express very definitely the view that there should be no Income Tax below £130; that is, 22 10s. a week—in the case of a single man or a single woman?—Yes.

18,948. And you think that that is the proper limit at which to begin Income Tax?—Yes.

18,949. That is the general view of your organisation?—Yes, providing first of all that the point is conceded of the abolition of indirect taxation such as taxation of necessities.

18,950. That is in paragraph 3?—Yes.

18,951. I do not want to take you very far into that, because it would take us away from our inquiry. But I think it is necessary just to ask one or two questions on it. You use the phrase "of a purely reformative or prohibitive nature." Will you in a few words explain that and say concretely what you mean?—There is room for great diversity of opinion as to what is a reformative or prohibitive tax. Some people are of opinion, for instance, that liquor taxes are reformative and prohibitive; others think that they are merely for revenue raising purposes. There is a diversity there. Some of these taxes were in our mind when we framed that. There may be a case where the Government would find it difficult to prohibit the use of a thing, but might find it easier to prevent the use of it by taxation.

18,952. You go on with another sentence: "There should be no taxation on the necessities of life."—Such as tea.

18,953. Would you include tobacco?—Tobacco is a working-man's luxury, but we consider that the taxation of tobacco, for instance, is a heavy tax upon the working man as compared with other taxes.

18,954. However, you would not consider it a necessary, would you? I do not want to press that. My

object in asking you those two or three questions was simply this. At the present time you would recognise, would you not, that by far the greater part of the national revenue is derived either from direct taxation more or less in the nature of Income Tax, or from taxation on such things as alcohol and possibly tobacco (I will not go into that question) that might come under your reservation in paragraph 3?—Yes.

18,955. So that your reservation that paragraph 3 must be granted before we take paragraph 5, which I think is a fair way of putting your case, does not under present conditions amount to a very great deal, does it? The percentage of the total national revenue that is derived from the taxation you would include is only a small percentage, is it not?—I understood that the indirect taxation was not so small.

18,956. No doubt some time before the war there was a principle that direct and indirect taxation should be more or less equal; but we are long past that, are we not?—What we recognize is that indirect taxation is not equitable.

18,957. I am not going into that question. My object is simply to make sure that we have your views. I am not seeking to traverse the expression of your view at all, and I do not challenge that point. That is your opinion, and I do not want to challenge it at this moment. All I am after is this. You have arrived at the conclusion, which you express very clearly, that £130 is the proper exemption limit?—Yes.

18,958. The only proviso you put in is the proviso in paragraph 3. My aim was simply to ascertain whether that was a very large proviso; therefore I asked you these questions with regard to the meaning of your phrase. For that reason I put to you the question that after all, the taxation that you would include in your proviso is not a very large element in the total national taxation to-day?—It might not be at the present time, but it was at one time.

18,959. Changing over from that subject now, you have arrived then clearly at the conclusion which you have expressed here, that in order that there may be a decent minimum of individual human existence, the taxation limit for a single man or a single woman should be £130 a year?—Yes.

18,960. In other words, you ask us in that respect to recommend that the law should not be changed?—Not exactly that.

18,961. In that respect—taking that one point?—Not exactly that, because the law to-day is that if you earn £131 you are taxed back to £130.

18,962. I am going to take that point directly, but let us deal with the first point on the £130. You ask us not to recommend a change of the law on that individual point?—Yes.

18,963. Then you go on to ask that the wife abatement shall be increased from £50 to £120?—Yes.

18,964. That is to say, that for a married couple without children you ask for a limit of £200?—Yes.

18,965. You also ask that for the first child we shall make no change—the present allowance is £40—but that we shall raise the subsequent allowances from £25 to £40?—Yes.

18,966. So far as that is concerned, therefore, I am justified in saying that what you are asking us to do is to increase the wife allowance from £50 to £120 and the second and subsequent children allowance from £25 to £40?—Yes.

18,967. And you think that that would be a fair position to have arrived at?—We do.

18,968. You are aware, of course, that we have had evidence from similar organisations which is at variance with that?—Yes.

18,969. You probably have read the epitome of that evidence?—Yes.

18,970. Or have you read the verbatim report of that evidence?—I have not read exactly the verbatim report, but I know what has been put forward.

18,971. By the English Trades Union Congress and by the South Wales miners?—Yes.

18,972. Although you are aware of that, you adhere to these views?—We do.

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18,973. Now I want to take you on the very interesting point you have put in paragraph 7—the point that you put just now, namely, that taxation should commence on the first pound over the exemption limit. I take it that your idea (you will correct me if I express it wrongly) is that before you start to tax you will mark off the allowances, that is to say, not only the £130, but, in the case of the married man, the further £120, and the allowances in the case of children?—Yes.

18,974. You then start your datum, instead of starting at the beginning of the income?—Yes.

18,975. That is what you are asking for?—Yes.

18,976. Would you apply that principle to all incomes, large as well as small?—Yes.

18,977. So that what you are asking for is a general simple system whereby, from all incomes that are taxable, whether of the wage-earner or of the millionaire, you would start by deducting these allowances, and then you would have a taxable income which you would, of course, tax according to your paragraph 8, on a graduated system?—Yes.

18,978. That is what you are asking?—Yes.

18,979. Now, in paragraph 9, I notice that you again offer to us a constructive suggestion. You recognise that the Inland Revenue Department is faced with serious problems in the matter of collection of a tax on wages?—Yes.

18,980. And you advocate deduction at the source?—Yes.

18,981. That is the considered opinion of your organisation?—Yes.

18,982. I am not going into the question of exactly by what machinery it is to be done, but if employers are also willing, you think that your members would be willing to agree to the principle that the employers should deduct from their wages a certain rate for Income Tax?—They have not disagreed generally with the tax already existing for insurance.

18,983. Are you basing yourself on anything more than the fact that they have not disagreed in the case of the insurance money?—I couple something else with this, that would be of value to the State, and that is that it would act as a machinery for saving, as well as a machinery for the better collection of the tax. To-day a man is informed by the Inland Revenue that he has earned so much in the quarter, and he is therefore liable to pay so much tax; which, we quite readily confess, the Inland Revenue have a great deal of trouble in getting, and the less they get the more the people who pay have to pay; we recognise that. We think that if some scheme can be devised of taxing at the source, all that the Inland Revenue people would have to do would be to inform the man at the end of the quarter that he had earned so much money, and so much had been deducted for tax; they would ask him to fill up his paper as to the abatements that he claimed and so on, and then he would either be told that he had nothing to come back, or that he had to call and collect a certain sum.

18,984. Now let me ask you a few questions of a more precise nature with regard to that. You are very helpful in this, in that you are expressing a thought-out view which is at variance, as you know, with the views of other organisations of a similar character. Does your claim suggest a flat rate of deduction approximating to the average liability, say, where a man has a wife and two children, or something of that kind, or would you make the deduction without any personal allowances?—The deduction would require, in the first place, I think, to be made without making any allowances, but at the end of the quarter the individual would get a statement from the Inland Revenue people (as he gets one now) stating what he has earned and what he is liable to pay. He would get a statement then as to what he has paid and what he has earned, and the man would then have a form to fill up, claiming his abatements and allowances, because of having paid too much.

18,985. You are contemplating that in every case he will have paid too much?—Not necessarily so,

but in every case he will have paid the same amount.

18,986. I am afraid you have not followed me?—Let me give an illustration. Let us take two men earning £3 per week and working the same time for the quarter. They would each have deducted from them the same amount; but one of them is a single man, and as a consequence would have to pay more tax than the married man. The married man, therefore, would have something to come back, while the single man would probably have nothing to come back.

18,987. Let me take the case in this way. You are contemplating clearly, if there is something to come back in the case of the married man, that you will have deducted more than at the rate for the single man?—No, I cannot be contemplating that, because I only contemplate something coming back to the married man, because you base your tax on the individual. I am only contemplating something coming back to the married man because of the allowances he gets.

18,988. I do not know whether you caught the significance of the word "flat" that I used in the question I originally put to you. May I put it to you in this way? One of the objections, as I understand, which the workmen have to deduction by the employer is that if the tax is deducted at different rates according to the family circumstances of the different men the employer will know the circumstances, whether of family or of private means, which affect each of his employees. That is objected to. Do you assent to that?—As a matter of fact, I never thought that anything else should be done, but that the same rate would be deducted from each man. The employer would never know what the man's responsibilities were at all.

18,989. Then inasmuch as the same amount has to be deducted from each man, and your married man is to get a return of the amount that he is entitled to under his allowances, you will have to deduct at the married rate, will you not, in the case of the single man?—No. They would deduct from both at the single rate. If you assess a man on everything that he is earning over £130, then the man claims his allowances at the end of the quarter.

18,990. I am afraid I was reading into it your paragraph 7 as well. I was assuming that the tax started from the point where you made the exemptions?—In collecting you are dealing with a different thing from taxation. In the first part of this you are dealing with the question of the amount of the tax that should be put on; in the last one you are dealing with problems that the Inland Revenue people have to face. I see them on every hand. According to the way they are going on in some of the districts, the Government will require to open a furniture store. There is a great amount of evasion not only among the working classes, but amongst the salaried and other classes as well, and the Inland Revenue has to find some way of getting a more accurate return. We suggest that taxation at the source is the best. Now, on the question of a flat rate, it would merely mean that the individual would be taxed on a certain percentage per pound, which could be worked out, and at the end of the quarter he would be informed the amount he had earned and the amount he had paid. He would then make his claim and he might get something back or he might not.

18,991. Your method would be that, for every man or woman who is earning a wage of more than so much a week, a certain statutory deduction would be made per pound?—Yes.

18,992. And that then he would have, as it were, banked with the Surveyor of Taxes, or the Inland Revenue a certain sum of money, and he would arrange with that official as to how much had to come back to him by virtue of the abatements?—According to the law.

18,993. Assuming an Income Tax at the present rate, is, in the £ standard rate, and assuming that you had made your deductions for family circumstances beforehand, have you formed any idea of the amount that you think could be practically deducted per pound from wages for that purpose?—No; it is extremely difficult to make a calculation on the subject.

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18,994. I will not take it further; I will simply ask you this. What you have said is very valuable. Your idea is that you would promote saving in exactly the same way as Co-operative Societies promote saving where they ask for a deposit and then make a return of dividends at the end?—Yes.

18,995. You would ask for a deposit of so much in the pound deducted from the wage, and then you would leave the matter to be adjusted with the local Surveyor?—Yes, we are strongly in favour of that, because of this: that even salaried people, who should not have any trouble in paying the tax, find it very difficult to pay it when it falls due, and it is very much more difficult in the case of people who are living on the margin. If the tax is not due until the end of a quarter, or something like that, they find they have not the means to pay it, and therefore you see so many prosecutions taking place.

18,996. Then you would apply this system to small salaries as well as to wages?—I think it should be applied to all salaried people. I think the Government apply it to Members of Parliament, do they not? Does not the Government deduct the tax from the salary of a Member of Parliament before he gets his salary?

18,997. They do, as a matter of fact?—I think it is a very good idea, and ought to be applied all round.

18,998. The principle is there; the tax is deducted at the source in the case of a payment to a Member of Parliament. I know it as a fact myself?—Yes.

18,999. And you are suggesting that if there is a £400 salary with a deduction at the source, the salary, even if it is paid weekly, or if it is paid monthly, of a slightly less amount, should have the tax equally deducted at the source?—I think that the Government would get a better return on the tax if it were all done that way.

19,000. The only point I have to put to you is this: that the deduction in the case of the Member of Parliament is after assessment and is at the rate appropriate to his peculiar family circumstances. You are not proposing that; you are proposing something different?—I expect that the Government find it easier because of the small number of Members of Parliament as against the others. The trouble of the collecting system amongst workers is that a man may be working here to-day and there to-morrow.

19,001. You really think that in Scotland the working men who constitute your organisation would not object to a deduction at a flat rate from their wages and an adjustment at intervals with the local taxation authority?—I think the great majority would agree; there would be objectors, of course.

19,002. That implies, I take it, that you would have to have greater facilities for repayment than at present?—Yes.

19,003. Mr. Graham: I gather that what you propose is a deduction from wages, with an adjustment at the end of the quarter. That does not involve, in your opinion, any act on the part of the employer in collecting the Income Tax due by the workman?—It would. It would have to be deducted at the source—which is the employer.

19,004. Is it correct on my part to suggest that what you propose is collection by the employer and adjustment with the Income Tax authorities at the end of the quarter?—Yes.

19,005. That clears the way for me. Can you tell me any large trade union in Scotland that has considered that proposition and has passed any resolution in favour of it?—The association to which I belong, the Iron and Steel Trades Federation, the members of which body paid Income Tax prior to the war, have always been in favour of it.

19,006. But is it not the case that where you got support for that proposal it was largely in the light of war experience? I mean in munition and other centres where the tax was collected in that way. It was not a permanent proposal, was it?—We were instructed by the Congress to take into consideration the whole question of taxation, direct and indirect, and to put proposals before the Government. As there was a Commission sitting here, we took the opportunity of bringing it here.

19,007. But strictly speaking, did the Scottish Trades Union Congress pass any resolution in favour of the collection of this tax by the employer, or by a definite act on the part of the employer?—No; they did not pass any definite resolution on the subject. The Parliamentary Committee have passed that.

19,008. And the Congress consider it at all from that point of view?—Yes, it was discussed at the Congress under the heading of a general resolution for a revision of the whole system of taxation.

19,009. But there was no proposal before the Congress for collection by the employer?—Only the general resolution and the speakers taking part in the debate, myself for instance, outlining suggestions like this.

19,010. You have a wide experience of trade unions; would you agree with me if I suggested that the great majority of trade unionists, and many employers too for that matter, are quite opposed to the proposal of collection by the employers?—No, I would not agree. I would just return the question to you and ask when did they pass their resolution against it?

19,011. Do you know that it has been considered by trades unions and employers?—Neither employers nor their workmen have ever passed a resolution against it.

19,012. But you know that large trade unions have considered it?—I do not know that the subject has been put down in a concrete resolution and a vote taken for or against. (Mr. Lyon): I would just like to say a word with regard to that. I think it is only fair to say that there were two resolutions passed at the last Scottish Congress. One was advising the Parliamentary Committee to reconsider the whole question of taxation, and the other separately was that we should demand that no Income Tax should be payable until 1920. When the Parliamentary Committee came to consider the question we took into consideration the first resolution and dealt with the whole question of taxation. You referred to the question, would the employers be agreeable to collect or would the men be agreeable to allow the employers to do that. When we agreed that Income Tax should be taken from the source we also had in our mind that the whole question of taxation should be put on the basis of income; that is to say, that local taxation as well as Imperial taxation should come from income and from income only. That is the reason that we believe that to make it easy both for workmen to pay and the Government to collect, it should be taken from the wages at the source. Now so far as regards the question, would the worker be agreeable and would the employer be agreeable, we will take two things that happened. We had the Insurance Act put into force, and so far as I am concerned I do not remember that the workers were consulted whether they would allow the employers to deduct 4d. per week off their wages or not; but they submitted to it. Then we have local taxation where the people used to go and pay their rates, and now the landlord collects the tax on the rent. You know that to be the case in Scotland. These are cases that have proved that by degrees, I think, workers possibly have learned that it is a more easy method of paying, and it simplifies the collecting, and it is cheaper in the long run.

19,013. Surely you would admit at once that neither of the cases you have cited touches in any way the income of the individual; I mean, except indirectly. In the one case it is the rental of the house, and in the other case it is simply a minimum line which is drawn for the purposes of National Insurance. Above that line people are not insured compulsorily?—(Mr. Walker): I do not think that affects the principle. Several large trade unions of this country have asked the employers to deduct the contributions of their members to the union from their wages, and in a number of cases the employers have agreed; so the contributions to the trade unions are deducted from their wages in the office before being handed over to the men.

19,014. I will put it just in one single sentence. Do you think that there would be no objection on the part of the great body of workers to any system of tax collection which involved the revelation of their

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whole income to the employers with whom they were engaged?—As a matter of fact, how would the employer get to know any income that was not derived from that employer, under the system we suggest? And the employer would know all the income that was derived from his source, because it is he who pays it.

19,015. Probably I misunderstood you. You are confusing your attack, so to speak, to the worker's relations with his employer?—Yes.

19,016. You are not going outside to any other matter?—No.

19,017. Then you are leaving it for adjustment with the Income Tax authority?—Yes, with the Surveyor.

19,018. There is only one small point I should like to ask; it is rather important. You any allowance for necessary expenses. Is that a reference to tools?—Yes.

19,019. Might I ask if the Scottish Trade Union Congress has thought out any policy that would be uniform more or less in the matter of tools and similar necessary expenses on the part of the workers?—No, for the reason that the matter has only been really in existence for about eighteen months or two years at the most, and the various trade unions have approached the Surveyors here in London and have fixed up for the various industries their own allowances; and it is much easier for them to do that, because the necessary expenses in each industry are different. For instance, they are heavier in the iron and steel trade than they are in the engineering, and the Surveyors recognise that and different sums are allowed. (Mr. Lyon:) That would be a question outside the Parliamentary Committee of the Congress; each trade would have to deal with it by itself.

19,020. Mr. May: I would like to be clear on one point, Mr. Lyon. Do I understand correctly that your proposal as to the amount of exemption limit, and also as to the method of collection is dependent upon the other part of your statement, the abolition of indirect taxation?—Yes.

19,021. Then supposing no immediate means were found to abolish indirect taxation, would you still adhere to the exemption limit of £130?—I do not know that I should like to answer that question.

19,022. I suggest to you that it has a very important bearing upon your evidence, especially in view of the point that has been put to you, that it is at variance with other evidence which has been given, and which I may remind you does not take indirect taxation into account?—I would rather Mr. Walker answered that. (Mr. Walker:) We based our evidence entirely on a resolution passed for a revision of the whole taxation. Our answer to that would be that the Parliamentary Committee would no doubt ask that the £130 limit should be raised if no relief was given so far as indirect taxation is concerned. What the figure is we would need to consult about.

19,023. You say you have not yet considered what the figure should be if indirect taxation were continued?—I say that the Parliamentary Committee based its evidence on the resolution passed, namely, for the revision of the whole system of taxation.

19,024. Including the abolition of indirect taxation?—Yes, and if no relief is given on that score of indirect taxation, then the Parliamentary Committee would probably want to revise that figure of £130.

19,025. Can you give me any reason why you suggest that the exemption limit for an individual should be £130, and when you come to a married man it should be only £120?—You mean a married woman. For a man's wife it is £120.

19,026. Mr. May: I beg your pardon; I misread that.

19,027. Mr. Pridgmore: On the whole I rather gather from this evidence that you do not quarrel with the present basis of Income Tax, which is very nearly on these lines. You would say that the present system of Income Tax follows the right line, but does not go quite far enough?—We are of opinion, as we state, that the bulk of the taxation of the country should be raised from incomes.

19,028. I think everybody would agree with you, if it could be done fairly over the whole area. I think everybody would agree with you that indirect taxation has clearly the objection that you name

here. But have you worked out at all as to what rate of tax would produce the whole revenue of the country if it were all put upon income?—No, because at the present moment there are people more expert than I am, dealing with Income Tax, who seem to be in a fog as to what the exact national position is going to be in respect of finance. One does not know what is going to be required; it is very difficult.

19,029. It is difficult, but is it not rather a vital matter. Before such a powerful body as you are advocate such an important change as this, ought you not to have some sort of idea in your mind as to what sort of rate would be involved all the way up, before you could advocate it wholeheartedly?—It is utterly impossible. Even the Chancellor of the Exchequer to-day could not tell you. The only persons who can give you anything approximate are the persons who are right in the heart of the business and know the national income from one year's end to another. It is almost impossible for outsiders and laymen to know.

19,030. Would you not say that while you lay this down as a principle to which you would ask everybody to agree, the application of it must depend upon the rate of tax which would be involved in it?—The rate of tax would not make any difference, because the country will require to find revenue, and it has got to base its tax upon the ability of the people to pay it; it is a very difficult thing to say as to whether it should be 1s. in the £, or 2s. in the £. I mean there is no fixed standard; 1s. in the £ might be sufficient to-day, and it might take 1s. 6d. in the £ next year; it is variable.

19,031. But you realise that there is no such thing as a fixed standard now. There is only, for convenience, a certain basis of 6s., which is the point for deduction at the source; but the people who actually pay 6s. are very few; 6s. is not the rate of Income Tax at all; the rate of Income Tax is somewhere between 2s. 3d. and 10s.; and everybody who is liable to Income Tax pays somewhere between 2s. 3d. and 10s. When I spoke of the rate, perhaps you misunderstood me; I did not mean the rate of 6s., what is called the basis rate, in the least; I meant the graduated rate which would have to be paid all up the line to get the required revenue. You speak of ability to pay. You know, of course, a good deal about ability to pay at one end. Have you ever considered ability to pay at the other end? Have you ever considered up to what top limit you would put the tax?—On the higher incomes? Do you mean the new grading?

19,032. How far would you go?—You would require to go right to the top, but you could not go to any more than 50 per cent. of the incomes.

19,033. That is reached now?—If you go any more than that it does not pay a man to earn income.

19,034. I think you and I will get pretty close together. If your principle is that all the required revenue of the country should be raised by an Income Tax graduated up to 10s. in the £ (of course, I include Super-tax in that) and from that downwards according to ability to pay, I think I am with you there. I think it is very sound—if you can do it?—Yes, but it would require to be governed also by the amount that you require.

19,035. Absolutely?—You would not tax people just for amusement.

19,036. You have given me two limits. If your scheme is carried out you say that a hachelor earning over £130 should pay something?—Yes.

19,037. That is one end; that is the bottom. Then you say that at the top, the largest income should only be taxed 10s. in the £. We have now got our figure complete?—I do not say they should only be, but I am pointing out that if you are taxing a man, say, 100 per cent. of his income, then he does not earn any. You get to a point when it does not pay to tax. You reach the limit there, naturally.

19,038. I do not take you to mean that you would not, if it were possible and practicable, put it at more than 10s. in the £, but your point is that it is not practicable; that you would not get any more money in doing it. It is not that it is infeasible; I am not on the point of equity or whether it is just or unjust to pay more or less in the case of this parti-

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cular individual or class. I am simply on the point of getting revenue, and I think we agree that you would not get more revenue, on the whole, by increasing your Income Tax beyond 30s. in the £. I take that to be your view?—Roughly.

19,039. Then that is the top. The bottom is £130. Therefore you have to obtain your whole income between those two points?—Yes.

19,040. I quite agree that is as far as you can be expected to go. I think you are prepared to say, and you are perfectly justified in saying, that between those limits it is a matter for the Revenue authorities to say what the scale ought to be and how the revenue could be obtained. There is another point. You want to include in this very local expenditure as well as national; that is to say, you want to abolish rating and to substitute local Income Tax?—Yes.

19,041. Are you aware that a committee once sat for a very long time and took evidence on that?—Yes.

19,042. Have you read that evidence?—Not all of it.

19,043. Have you looked into the question of practicability as to how a local Income Tax could be levied and distributed?—Yes; I understand there is a great amount of difficulty about it, but difficulties can be overcome. Of course we did not expect you were going to deal with that here. In our minds that is for the future.

19,044. You think difficulties can be overcome, but you do not see any way in which they could be overcome?—No, I cannot say that.

19,045. Where a man has property or sources of income in several places, as an enormous number of taxpayers have, how is that to be allocated between the different places which might set up a claim to tax him for local purposes?—How is it done to-day?

19,046. It is not done?—It is done.

19,047. Only by grants; it is only done to the extent of grants?—If a man has property in Glasgow, property in Lanarkshire, property in Renfrewshire, and property in Dumbartonshire, he is taxed on all those properties. The ability to possess those properties is determined by the amount of income that he has—the ability to keep him going. So that in a rough way he is being taxed according to his income, and it would simply mean that if you had a local Income Tax, Glasgow would tax him so much according to his income, so would Dumbarton and so would Renfrew and the other places.

19,048. Only on the income which he derived from that locality?—You would have to tax an individual on the income that he had, no matter in what locality he earned it, if the individual had property or lived and moved in those particular places, if he had a habitation there.

19,049. But supposing he had property and a habitation in two or three places, and an office in one town and a house in another, and property in two or three more, and also sources of income from investments abroad?—He would have a total income, and he would be required to pay in each of the places he had that habitation or property.

19,050. Chairman: How would you do supposing in one county the local taxation was 4s. and in another county it was 6s. and in another county 3s.? How would you manage in that case?—The man would be taxed on his income in each of those places, just in the same way as to-day the rates in Glasgow may be 4s. in the £, and 5s. in the £ in Renfrewshire.

19,051. Mr. Petyman: Would he pay tax on his whole income in each place?—Yes, but the more of the income you bring into the ambit of taxation, the less the man has to pay per pound.

19,052. Take two men, each having an income of £500 a year. One man resides and has the whole of his property arising in one locality; the other man has his property and receipts in two different localities. In each case the local tax is 4s. in the £. One man would be taxed 4s. in the £ in one place on his whole income of £500. Would you suggest the other man should be taxed twice over 4s. in the £?—He is to-day.

19,053. Excuse me; he is only taxed on that part of the property which is in that place, not on the rest?—If he has got two places to-day and one man

has an income of £500, and he lives in Glasgow and the other man has an income of £500, and he has a place in Glasgow and a place in Edinburgh, he is taxed in Glasgow and in Edinburgh.

19,054. But not on £500?—He is taxed on his total value.

19,055. One man has £500 in Glasgow alone, and another man has £250 in Glasgow and £250 in Edinburgh. At present the first man is rated, as we call it, or taxed, if you like, on the £500 in Glasgow, and the other man is taxed on the £250 in Glasgow and on the other £250 in Edinburgh; therefore they each pay on the same basis?—Yes.

19,056. But under your system the man would be taxed on his whole income of £500 both in Edinburgh and in Glasgow, and he would therefore pay twice over. He would pay 8s. in the £ instead of 4s.?—He might.

19,057. He could not; he might have to pay 25s. in the £. Supposing his property was in six places?—It would all depend on where the man's property was; and we are paying to-day.

19,058. Do you know that this Commission is now considering double taxation within the Empire, which has created an immense difficulty, because people are taxed twice because part of their property is in a Dominion and part is here. That is the very same problem; and this would be ten times worse?—(Mr. Lyon): But we also hold, at the present time, that the faultiness of the present taxation allows a man, for instance, to come to Glasgow and take an office and earn possibly £2,000 or £3,000 a year and pay a rental of possibly £25, and then he leaves Glasgow at night and resides in the suburbs and pays no taxation in Glasgow beyond taxation in respect of the £25. We say that is even a worse case under the present system than you are trying to point out to us.

19,059. There may be an evil, in that direction, which might be dealt with, but I do not think you would mind matters much, because you would be imposing a form of tax which would be absolutely impossible that because a man's property was in two or three places he should pay two or three times the amount of the tax that another man pays who has all his property in one place?—We believe there are people in the country who can find a remedy for that.

19,060. It is for you to defend your own proposition, is it not?—(Mr. Walker): We are quite ready to defend that, but we did not come here to defend local taxation on an Income Tax basis. (Mr. Lyon): If you will allow me, we did not come here to go into details with people who are paid high salaries for finding a method of dealing with a problem of that kind, and tell them something that they do not know; but we believe that if they applied their brains to it they could deal with it.

19,061. Mr. Auldridge-Smith: It has been suggested to us that there is an objection both on the part of the employer and on the part of the workman to deduction of tax from wages. So far as concerns the objection of the workman, is there anything more in that than the natural objection to the disclosure of the workman's whole income from all sources?—(Mr. Walker): We have already been asked that question and our answer was that under what we are suggesting the man would not disclose that to the employer.

19,062. That is the very point I want to bring out. What I asked you was, is there any objection on the part of the workman other than disclosure of his whole income?—We know of none other.

19,063. And your proposal is not obnoxious to that objection?—We do not think so.

19,064. Mr. Synnott: Does paragraph 6 in your statement mean that if a man is married, his income would be £250 before he would pay any tax?—Yes.

19,065. If he had a child, it would be £200?—Yes.

19,066. It is really £250 for the married man, and £130 for the bachelor?—Yes.

19,067. Your test is ability to pay. Have you considered at all any modification of that in the case where there is a household. Supposing there is a man earning £3 a week, and he has a daughter earn-

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ing £2 a week, and a son earning £2 10s. a week; that is £7 10s. in all. Would you apply the test of ability to pay to that household?—Your taxation is not based on groups; it is based on the individual. 19,068. If you find those individuals living together in a combined household, is not the ability of the individual to pay rather enlarged?—You could apply the same argument to a group of families living together in a big establishment, where they reduced all their cooking and laundry bills to a fine art, and reduced them to the lowest point.

19,069. I am only dealing with a state of things that you know exists as a fact?—Yes, but your taxation is all on the individual; it is not on groups.

19,070. In the case of collecting by the employer would it be easier, instead of having a tax based on a poundage of the income, that you should have say, 6d. a week from, say, £130 to £200, or 1s. a week from £200 to £250, and so on. Would not that make the accounts easier, and the collection easier, if you get roughly the same result?—All that we state is that

a system would have to be devised. Of course you would naturally devise the most simple system you could.

19,071. You know the objection to applying a percentage rate to small incomes. You get into very small figures?—Yes, there is that difficulty.

19,072. Is there not also this objection; we have had evidence given before us that certain persons absolutely decline to work and earn wages beyond the Income Tax limit, for the purpose of avoiding payment of the tax. You would get rid of that, would you not, if you did it that way?—Yes.

19,073. When they adopted the National Insurance scheme, they advisedly adopted what I may call flat rates, in order to avoid this difficulty of percentages?—We are not wedded to a percentage.

19,074. Chairman: I think that the whole of the Commission are quite gratified that you two gentlemen have been thinking over this matter. We are very much obliged to you for coming here this afternoon.—Thank you.

MR. GEORGE BARKER, and MR. FRANK HALL, on behalf of the Miners' Federation of Great Britain, called and examined.

The witnesses handed in the following statements as their evidence-in-chief:—

Evidence-in-chief of MR. GEORGE BARKER, Member of the National Executive of the Miners' Federation of Great Britain, on behalf of the Miners' Federation.

19,075. (1) During the last three years many resolutions have been passed at the Miners' Conferences protesting against the taxing of income at the point immediately above £120, when the income exceeds £130 per annum. The miners contend with much force that the assessable point is much too low at which to begin to tax income.

19,076. (2) On at least three occasions Mr. Bonar Law, while Chancellor of the Exchequer, was approached by deputations upon this question. On one occasion the deputation represented the whole of the organised workers of Great Britain, which shows that the discontent is very general in its character. Abatement has been made from time to time, but the position is still very unsatisfactory. This is not because our members are opposed to the principle of direct taxation; it is because the taxable point is below the margin of income necessary for a reasonable standard of subsistence, and is, therefore, injurious to the individual and detrimental to the national well-being.

19,077. (3) Many efforts have been made to get the taxable point raised, but it still remains at £120. This amount, the Commission will know, is only equal in purchasing power to about £55 16s. 3d. before the war, owing to the cost of living having increased to 115 per cent, as at August 1st, 1919, according to a statement made in the "Labour Gazette" for August last. This means that the pre-war 20s. is now only equal to about 9s. 4d.

19,078. (4) The taxable point for a married man is £170, but his economic position is worse than that of a single man. If £120 is insufficient for the adequate maintenance of one person, then £170 is still less adequate for the upkeep of two persons, hence the more dependants a wage-earner has, the worse his financial position becomes, even if he does get an abatement of £50 for his wife. Therefore, we are driven back to the main issue, namely, the point at which taxation should begin for the wage-earner.

19,079. (5) Before the outbreak of war in 1914, incomes up to £160 were free from Income Tax. Above that point, and up to £200, the tax was 8d. in the £. This gave the wage-earner exemption if his average wage did not exceed £2 1s. 6d. per week. No one ever thought this untaxed sum too high, or even thought of taxing it direct. If the war basis of value were in operation to-day, and allowance were made for the increase in the cost of living, the amount of income exempt from the tax would be £344, or £6 12s. 4d. per week, and the tax would

be 9d. in the £ instead of 2s. 3d. as at present, or an increase of 200 per cent. above the 1914 figure. It is noteworthy that, compared with the year 1914, 33 per cent. more income is brought within the ambit of taxation, even if the value of the £ 2 were the same instead of only being worth 18s. 4d.

19,080. (6) It is contended in defence of the present assessment that the taxable point of £120 only applies to single men. In reply, we say that the amount is too little to enable a single man to live in decency. Take the case of a single man whose wages are £131 per year. This is only equal to 500 18s. 7d. pre-war wage, or about £1 3s. 5d. per week. Yet the Government tax this man £1 per year. Our workmen are in rebellion against it, and are going to prison rather than pay it. I state this is no intimidatory sum, but as a simple fact.

19,081. (7) Further, in regard to workmen having persons dependent upon them, the exemption figure is the important matter for them. The abatement is calculated from there. A married man gets an abatement of £50 for his wife. This reduces the amount of his tax by £5 12s. 6d. If he earns £181 in a year, this is equivalent to £84 2s. 9d., or £1 12s. 4d. per week in 1914. Out of this meagre sum two adult persons have to be maintained, rent and rates have to be paid, and he has to pay £1 4s. 9d. Income Tax per annum.

19,082. (8) It is no exaggeration to say that the tax as now levied is unreasonably burdensome; it weighs very heavily on the life of the working people, and plays a large part in causing and intensifying the present condition of unrest.

19,083. (9) The Miners' Federation, therefore, strongly urge that no tax should be levied on incomes below, at least, £250 per year. This sum is only equivalent to £116 5s. 7d. before the war, or £2 4s. 10d. per week, as compared with £3 1s. 6d. in 1914. The present statements should be so increased that workers maintaining dependants should have an income at least equivalent to £5 pre-war wage per week before being called upon to pay Income Tax.

19,084. (10) The Miners' Federation considers that these proposals are reasonable and just, and believe they will commend themselves to the judgment of the Commission.

[This concludes the evidence-in-chief of Mr. G. Barker.]

Evidence-in-chief of MR. FRANK HALL, on behalf of the Miners' Federation of Great Britain.

19,085. (1) I am appointed by the Executive of the Miners' Federation of Great Britain to give evidence on behalf of its members. The last occasion on which it was considered was in July, at their Annual Conference at Kew, when the following resolution was passed:—

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"That this Federation urges the Government to so amend the Income Tax law so that no incomes under £200 be subject to taxation, and that all other allowances for dependants, tools, clothing, etc., be continued."

19,086. (2) Deputations from the Federation have united on the Chancellor of the Exchequer in conjunction with other bodies. On the last occasion it consisted of the Executive Committees of the three bodies forming the Triple Alliance. There is no mistaking the bitter feeling amongst the workers in the mining districts against the tax at the limit of £130.

19,087. (3) Very few miners were called upon to pay Income Tax in 1914; indeed the average wage was only £82 per annum. The inflation of wages at the present time, consisting of a war bonus, war wage and Sankey Award, is due entirely to increased cost of living. Exemption may be taken to the Sankey Award of 2s. per day. I must remind the Commission that it is, a day was offered by the Premier as due to the miners since the previous war wage increase. Hence the tax on wages is on the increase given to meet the increased cost of living.

19,088. (4) In September, 1918, the average earnings were £163 per annum. The men in consequence of what they regard as unreasonable, recent very strongly this imposition of a tax on a wage secured to meet the extra cost of living. The wage consists of the following amounts: War Bonus, 2s. per day; Fiat Rate War Wage, 3s. per day; Sankey Award (half) 1s. per day = 36s. per week = £93 12s. per annum. This added to the pre-war limit of £160 makes a total of £253 12s. The contention of the men is well founded in asking that these increases should not be taxed. In other words, after the limit to £250, when the men would be placed approximately in the pre-war position.

19,089. (5) The men further contend that they spend a large percentage of their wages in commodities which have been specially taxed for war purposes: 1918/14: Tea, duty 5d. lb., revenue £6.5 millions; 1918/19: duty 1s. lb., revenue, £14 millions; 1918/14: Sugar, duty 9s. 4d. cwt., revenue, £3.8 millions; 1918/19: duty 25s. 8d. lb., revenue, £28.2 millions; Coffee and Cocoa, very small increases. Total revenue in 1918-14 from tea, sugar, cocoa, chicory and coffee, £10.8 millions. Total revenue in 1918/19 from tea, sugar, cocoa, chicory and coffee, £45 millions. Increase, £34.2 millions. Tobacco, 1918/14: 3s. 8d. per lb. duty; 1918/19: 8s. 2d. duty; revenue, 1918/14: £18.3 millions; 1918/19: £40.5 millions; increase, £22.2 millions. Total increase, £56.4 millions.

19,090. (6) The working classes are taxed equally with the millionaire in purchasing these commodities: the lower the wage the greater the contribution in proportion to income. The worker should therefore be relieved from any direct tax on income until a point is reached above subsistence level; unless this is done, productive energy will suffer and output go down. The level of taxation must be one that will allow a reasonable standard of comfort. £130 does not provide that standard. The men feel they are taxed unfairly and out of proportion to the wealthy classes. It is this that is responsible for workmen playing to keep down income just below the taxable amount.

19,091. (7) The increase in the cost of living is 115 per cent.; in other words, the £1 only equals 8s. 4d. pre-war value. The workmen have a habit of dividing their wages by two and contend they would be paying on a wage only equal to £74 8s. 4d. per annum. Even if the pre-war limit of £160 had remained now, they say they are paying on a pre-war basis of 23s. per week.

19,092. (8) The workmen believe there has been a great increase of wealth in recent years. I may point out that in

March, 1914—29,900 persons had incomes =

£298,000,000.

March, 1917—31,780 persons had incomes =

£258,600,000.

March, 1918—33,000 persons had incomes =

£290,000,000.

In two years there is an increase in the wealthier

classes by 3,800 persons, and in the annual income of each person by £700. The subscriptions to new capital during recent years indicate the injustice of the tax the workmen complain of, as these subscriptions are not from the workers.

		£
1914	...	512,222,600
1915	...	685,241,700
1916	...	685,436,400
1917	...	1,318,896,000
1918	...	1,398,381,400

The new savings effected in this country during the war cannot be put at less than £5,000 millions. The bonuses, or share distribution, rank as addition to capital and not income. In this way, immense increment of capital value has been created and passed into the possession of the capitalist class, contributing nothing to taxation. Dr. J. C. Stamp places the net addition to individual wealth at £5,250 millions.

19,093. (9) I understand that the Revenue authorities estimate the loss to the Exchequer by raising the limit from £130 to £250 to be approximately £8 millions. After deducting the cost of collecting, the amount cannot be more than £7 millions. There is enormous wealth in the country, much of it arising from war profits. It is from this source that the amount could be drawn. In order to impress on the Commission the strong objection amongst the workers through the existing order of things, a resolution has been sent on from one of the largest districts of the Federation asking for joint action to be taken and not to pay any further taxes under £250 limit.

[This concludes the evidence-in-chief of Mr. F. Hall.]

19,094. Chairman: If it is quite agreeable to you, we will take your two papers together, because we have had other evidence of a similar character to the matters that you have brought before the Commission; and I think you can be examined on the two papers, and you will answer according to whichever of you can answer the particular question that is put.

19,095. Mr. Kerly: Mr. Barker, your point is that the taxation limit of exemption should be raised to £250 for a single man, with further allowances for wife and children?—(Mr. Barker): That is so.

19,096. You fix upon that by suggesting that £250 is the minimum for a reasonable subsistence?—That is so.

19,097. What do you mean by subsistence—to provide food, clothing, lodging; anything else?—I think a man should have a little cheerfulness in his life; I think he ought to have a little luxury, too.

19,098. Food, clothing, lodging and a little luxury?—Yes, a moderate luxury.

19,099. How much goes to luxury?—I do not think he will get much out of the £250.

19,100. I want to know how you get at your calculation. How did you in fact get at the figure £250?—In the first place the Miners' Federation saw the representatives of the Government upon a much lower figure; I think in the first place it was £160, but the cost of living kept going up, until eventually the Labour Party and the Miners' Federation fixed upon £250.

19,101. I want to know if there was any calculation to arrive at the figure of £250. If so, I should like to know what the calculation was, so that I can see if I follow it?—In my paper you will see I give the reasons for it.

19,102. You make general observations, with which, as general observations, we all agree, but I do not see anywhere any reasoning which leads to £250 rather than £200, or, for that matter, £300?—The £250 is only equal, at the present time, to £106 5s., which is equal to about £2 per week pre-war value of money, and I say that that is a very low figure, even for an individual to exist upon decently.

19,103. It all depends, then, upon your assumption—which may be perfectly right—that £108 a year before the war was a very low figure, and not more than sufficient?—Yes.

19,104. That is for a bachelor?—Yes.

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19,105. What is the average family of the people you represent? May I take it to be man, wife, and three children?—Yes, I should say five altogether.

19,106. Before the war the average family were able to live, were they not?—Well, they had to live, or else they would not have been in existence, I suppose.

19,107. Did they live at a reasonable standard of subsistence?—Yes.

19,108. Had they got £106 on an average?—The average before the Commission that investigated the matter, I think, was considerably less than £100.

19,109. It was £82, according to your own figure?—Yes.

19,110. Then, before the war, they managed to live in a state of reasonable subsistence at £82 for a family of five?—Are you not examining me upon Mr. Hall's evidence?

19,111. I am taking them both together. You gave me a figure that it was considerably less than £106?—Yes, that is so.

19,112. I do not want to catch you in any way, I want to get at the truth?—Quite so.

19,113. Because I am testing your evidence, please do not assume that I am hostile, or that I do not accept it.—No, I will not.

19,114. I want to show you the position you have got into; because, quite frankly, I believe this £250 was arrived at as a sort of comfortable round sum, without any consideration of the actual figures of the problem. I may be wrong. So far, we have got it that before the war £82 kept an average family of five up to, perhaps not a desirable, but a reasonable, level of existence?—Not very reasonable. I think.

19,115. But you said so. I asked you, and you said they lived, and their level of subsistence was reasonable. Do you wish to modify that?—I thought you were referring to the single man.

19,116. No, I said the family, quite plainly, I think: the family of man, wife, and three children. Let us go back, because this seems to me to be important, and I do not want there to be any misapprehension. In fact, before the war, the average family of man, wife, and three children did live on an average income of £82?—Yes.

19,117. That is right?—I suppose it is right.

19,118. Is it true, or is it not true, that before the war the average bachelor could live on substantially less than £82?—It all depends upon what you call live. The Chinese live, and the Hindoos live. "Living" is a very vague term.

19,119. I know it is, and that is the difficulty I have in your paper; there is so much that is vague. Before the war, what was the comparison of the cost of the reasonable necessities of existence for a bachelor, and a man and a wife and three children?—I have not gone into that matter.

19,120. It is necessary to go into it, if you are to say that a particular sum is not enough for a bachelor, is it not?—If my paper is taken in its entirety, it explains.

19,121. Give me the explanation now, because I do not find it. I want to know, before the war, what proportion of the cost of keeping a man, his wife, and three children was necessary for a bachelor living alone?—That is a question which I do not feel competent to answer.

19,122. Have you not any idea?—Well, I have been a bachelor, and I have been a married man, and I found that I could spend quite as much money as a bachelor as I could as a married man; and I have not had a very luxurious time.

19,123. Let me just go to another point. Putting aside the rather unhappy people who remain bachelors until late in life, the bulk of the bachelors we have to deal with are unmarried sons living at home, are they not?—I suppose so.

19,124. And, therefore, bringing part of their earnings into the family exchequer, and adding one more to the family cost?—That depends upon circumstances.

19,125. I think you can really help us upon this. Supposing before the war we had a grown-up son, a full-grown young man earning full wages, £82, and living at home; how much did he generally

give to his mother for his keep?—That depends upon the disposition of the son.

19,126. Supposing he was a good son?—If he was perhaps a model son, he would give the whole, and he would take something back that the parent gave him.

19,127. Let us put aside archangels, and let us have a good average son?—There is no uniform figure. (Mr. Hall): 16s. or 18s. a week. (Mr. Barker): Mr. Hall says, if he was paying his board, he would pay 16s. or 18s. a week.

19,128. That is what I want. May I take that as a fair sum?—(Mr. Hall): Yes, I should say so.

19,129. May I tell you that I happen to have heard a great deal of evidence from people who were going to be sent into the Army so, to what they paid their mothers, and how they helped their mothers, and that seems to me to be a somewhat liberal allowance. Do you think I may take that as right?—16s. to 18s. I should say so.

19,130. Mr. Petyman: Before the war?

19,131. Mr. Kerly: Before the war, say 15s. Then I may take it, if you add a couple of shillings for such personal expenses as he would consider necessary when he was married, that he might live on, say, about 17s. 6d.?—Not possible; he would want more than that for tobacco money.

19,132. More than 2s. 6d. a week?—He would not be able to go to a single picture palace on that, when he had paid for his tobacco; and then you must remember that there is insurance, and there are Friendly Societies, and trade unions, and various other little matters of that sort.

19,133. Mr. Petyman: His clothes?—Yes; but these are the small things.

19,134. Mr. Kerly: Would Mr. Hall tell me this? He had got to give his mother 15s.; how much more would he want for his necessities, including tobacco?—That is a varying amount. A great deal depends upon the disposition of the young fellow.

19,135. Can you not give me a suggestion?—You see, he has only 15s. left, and if ever that man has any idea whatever of having a house for himself, well, naturally, he will probably be a bit more careful than others.

19,136. And he says?—Yes, it may be so.

19,137. There must be something left, because presently he is going to have a wife and three young children, and keep them all out of the 30s. What is the addition that his wife and three children are going to make to his expenses?—And then you must remember that we are dealing with an average figure, rather than with the earnings of a particular person. This average figure, I understand, includes all the workers about the mine; that would of course include the lads as well, so that I should take it that in the case of a man of full age, probably his wages would be a little higher.

19,138. Suppose you took it at £2 a week, that would be a generous figure, would it not?—Probably, yes.

19,139. Mr. Bruce: It all depends. If he is a collier, he would earn more than £2 a week?—Wages vary very considerably.

19,140. Mr. Marks: This is all pre-war?—Yes.

19,141. Mr. Kerly: We have now got some information on two things. First of all, the relative expenses of a single man, and the relative expenses of a married man with three children, and also what they actually lived on before the war. The next thing I want to get is, what is the proper multiplier to bring these workers up to the present date? You suggest it is 24. You say 50s. now is only the same as £1 before the war?—(Mr. Barker): I think that is not quite correct. £1 now is equal to 18s. before the war.

19,142. You put it that £250 is equal to £112 before the war?—Yes.

19,143. I have taken it, for convenience, to be 24 to 1?—Yes.

19,144. Then you suggest that you must multiply the pre-war figures by roughly 24 to bring them up to the present date?—Yes.

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19,145. Now I want to test that. That is rather more than the difference in the cost of food and clothing, is it not?—I had better take the figures given by the Government, I think.

19,146. I think you will find that I am somewhere about right. Have you taken into account that rents have not risen?—I think we had better take the figures given by the Government. There is a great deal of grumbling about the loose way in which the Government has ascertained the actual increase in the cost of living.

19,147. It would help us a great deal if you would give us some better method of calculation. We know about the rise in particular commodities; the difficulty is to find how much of each commodity you have to take into the consideration of the problem?—In the "Labour Gazette" for October—I dare say you are familiar with this paragraph that I am going to read—it says this: "The average level of house rents has only increased slightly, but the prices of other items have advanced very substantially, prices of clothing especially having increased proportionately much more than those of food; but the general increase in the prices of all the items ordinarily entering into the working-class family budget, including food, rent, clothing, fuel, light, &c., between July, 1914, and the 1st October, 1919, is estimated at about 120 per cent."

19,148. That makes the figure, not £250 to £100, but £290 to £100. Now let us apply that to miners. That is general for the whole of the country, is it not?—As regards the cost of living, I do not know whether it would be accurate for the whole of the country; it has been taken from a certain number of returns which are supposed to have been typical returns.

19,149. I suggest to you that for the miners it is not so much. First of all, the miners' rent is as it was, is it not; it has not increased?—Oh, yes, it has.

19,150. How much?—It has increased in proportion to the increase in local government taxation.

19,151. He pays something more in rates now?—Yes.

19,152. How much?—He pays it through his rent. Our people pay rates only through their rent.

19,153. I know the landlord is now allowed to add, not the whole of the rates, but the addition of the rates during the war, to the rent, and that is all he can add to the rent?—Yes.

19,154. How much does that come to in the district you represent?—Is that relevant? Because the rent is in the 120 per cent. that I have referred to.

19,155. In some districts the rents have increased; I suggest to you they have not increased amongst the miners. May I explain that in the district where I live, a great many people have had to get new houses, or houses which have been new for their purposes, and they have had to pay much higher rents than people of their class used to pay before. I suggest to you that miners, as a whole, pay the same rents as they did before with the very slight addition of something extra for rates. Is that right?—My answer is that it is included in the 120 per cent. Whatever it may be, it is in this figure.

19,156. I am wanting to analyse that figure. Can you tell me how many miners there are within your knowledge, who pay for the same house, sixpence a week extra for rent?—I have not gone into that matter; I have taken the figures as published by the Government; as I thought they would not be disputed, and I do not think they ought to be, because they are not too favourable, I am certain.

19,157. I am only a seeker after knowledge. Does the miner pay more for his fuel?—In some cases, yes.

19,158. How much?—According to the percentage of increases in his wages—not upon the war wage.

19,159. Does he not get a certain amount of fuel allowed?—In some cases he does; in some cases he does not; it is a matter of contract.

19,160. He generally gets his fuel allowed for nothing does he not, as part of his wages, of course?—No, not to my knowledge. There may be cases in the north of England where that is so.

19,161. When he has to pay for his fuel, he pays at a low rate. How much a ton does he pay for his

fuel, amongst the miners that you know?—The rate varies, perhaps more than you would imagine. Within a mile of my own house it varies from 10s. per ton to 19s. 6d. per ton.

19,162. To a miner?—Yes.

19,163. A miner pays 12s. 6d. a ton for his coal?—Yes.

19,164. What is the average price, can you tell me?—We have never got averages. I could not tell you the average. It varies. There are plenty of miners who pay 5s. a ton for coal plus what we call the haulage, which will make about 7s. a ton, but Mr. Hall will say something about this point, because he has cases where the haulage has been double. (Mr. Hall): Perhaps I may clear that up now, if you do not mind. I come from Derbyshire, really, although I am representing the Federation. Mr. Barker is quite right in saying that the miners' coals vary in the amount that they have to pay for them. In some cases it is absolutely free; in other cases there is an allowance made on the basis, that is, in the weight of the tram when it goes over the weighing machine. There is probably half a hundred-weight allowed on every tram, which causes an accumulation, and by that process they allow the men coals at the end of four or five weeks, as the case may be. In that case it would be regarded as free, although the men allow for it in that way. In other cases, they pay up to 17s., 18s., and 19s. a ton. I can give you the companies, if you wish.

19,165. No; I accept that?—Then in all cases they have to pay for loading to a distance. What I mean by "loading" is the cartage from the colliery. That is probably double or treble in some cases. Where they used to pay, say, 2s., they will now be paying 4s. or 5s. so that of course some allowance must be made in that respect.

19,166. It still remains true that the miner, even paying the highest rates, gets his coal a great deal cheaper than the general public?—He gets it cheap as compared with the general public.

19,167. You say 18s. is the highest figure?—I do not know of any higher than that.

19,168. In the district I am familiar with, the cost of coal is 5s. per ton?—Of course it is all a matter of comparison with pre-war rates. My point would be this: that in the case of a man who is to-day paying 18s., probably in pre-war days he would get that for 7s. 6d.

19,169. Now I will pass from that. You both base your figure of £290 for a bachelor on the question of the high cost of living?—You will notice in my paper that I arrive at £290 really by a process of reasoning.

19,170. Yes, I have followed your process of reasoning. It starts with certain assumed premises, which I wish to investigate?—I started with £160, which was the pre-war Income Tax limit. That was not assumed.

19,171. £160 was the exemption limit when 1s. 3d. was the rate of tax?—That is so.

19,172. National exigencies have demanded greater sacrifices. It may be a question whether those greater sacrifices should be confined, as far as Income Tax goes, to the people who paid tax before, or whether they do not also require that people who did not pay tax before should now begin to pay. There is that point to be considered. You say in Mr. Barker's paper that your workmen are almost in rebellion against the tax?—(Mr. Barker): I do.

19,173. The tax is very unpopular, we know. It is unpopular outside the miners. Is not one reason because of the great inconvenience to a workman, who gets his money week by week and spends it week by week, that at every quarter he has got to find a lump sum to pay, and he may not have made any saving against it?—I think that aggravates the situation, but it is not the real cause of it.

19,174. That is part of it?—The real cause, in my opinion, is that the man has not got a reasonable standard of subsistence at the present time, when the tax commences at £130.

19,175. Would you agree that the fact that he is called upon to make a quarterly payment is an aggravation?—I think that that acts, of course, very

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awkwardly sometimes to the man that has to pay, because at the time he has to pay he may not be getting anything like the money that he made when he was taxed upon his income.

19,176. It is as inconvenient as it would be for a man who now pays his rent weekly to have to pay it quarterly. It is the same thing, is it not?—I think there is a great deal in what you say, but if he paid his Income Tax every week, he would still be a malcontent at the point that his tax is now.

19,177. Supposing, because of national necessities, he has got to pay Income Tax, and that cannot be helped, would it not be much better for him that he should pay his Income Tax weekly?—I am not prepared to endorse a weekly payment of Income Tax.

19,178. What do you say to a deduction of Income Tax from wages, provided it is so arranged that the deduction is a proportionate sum of his wages and will not disclose his position to his employer?—I think it would be worse than the present system.

19,179. Why?—To forcibly take the money off him, instead of him voluntarily paying it; it would be reducing him to the level of a serf.

19,180. *Chairman:* Supposing they agreed; if the matter was agreed, he would not be a serf, would he?—Not if he agreed to it, but I am certain he would not agree.

19,181. *Mr. Kerly:* All taxes are compulsory, are they not?—Yes.

19,182. Is a man a serf because he is obliged to pay taxes?—If I may say so, you are speaking about the method of collecting the tax, not the tax itself; and you do not apply this rule to anybody in the way you are applying it to the miner.

19,183. Pardon me; surely you are aware that as regards all income from investments it is now universally applied. You know that. It is deducted before the interest or dividend is paid. You know that?—Yes, I must correct myself there.

19,184. Do you know that in the civil service, before a man's salary is paid, the Income Tax is deducted?—But do you deduct it out of the man's salary?

19,185. Yes, certainly. And it is deducted before the wages of a Member of Parliament are paid?—Then I must correct myself, and I do correct myself. I have never been in that fortunate position, so I am not speaking from experience.

19,186. I rather infer from our little conversation together that a good deal of the dissatisfaction of the workmen with the Income Tax is due to misapprehension, and I hope that when the new method, whatever it is, is adopted, when they have got used to it and got to understand it, a great deal of the dissatisfaction will disappear?—May I just read from my evidence in paragraph 6 about the case of the single man. I think I have put it in a very condensed form there. "Take the case of a single man whose wages are £131 per year. This is only equal to £69 18s. 7d. pre-war wage, or about £13s. 5d. per week. Yet the Government taxes this man £1 per year."

19,187. But you have to divide that by 52, you know. £1 now is only equivalent to two-fifths of that before the war. You have forgotten that. If you are going to bring one thing down to £1 3s. 5d., you have to bring the other down to less than 10s. a year?—I cannot dispute that. I must admit that you are right there; but I am taking the £131; I am converting it first of all into pre-war value, because we must have some standard of value.

19,188. I only suggest that if you convert one sum, you must convert the other?—Yes, I quite agree.

19,189. You did not do it in your evidence-in-chief?—If he had to pay 10s. even, I say it is wrong to tax a man at all who has only got twenty-three shillings a week to maintain himself upon. I say it is wrong to do it, and I say, at the end of that—and I say it in a very friendly way—"our workmen are in rebellion against it, and are going to prison rather than pay it." Now this is a fact. It is confirmed. Every day in South Wales there is someone going to prison rather than pay a tax upon a basis of this character.

19,190. *Mr. Bruce:* Are you in favour of taxation by a direct or an indirect method of taxation?—I am in favour of a direct method of taxation.

19,191. Then do you know of any better or fairer system, if you are going to raise the revenue of the country by way of direct taxation, than upon income?—No, I do not; it is the fairest way I know.

19,192. Upon that ground I presume that unless you have income you do not pay taxes. If you have you pay taxes. That is the basis of it?—That is it.

19,193. If you are in favour of direct taxation as a principle, the next question comes as to whether you are in favour of workmen paying their proportion of the taxes for the maintenance of the civil position which we all enjoy?—Yes, I certainly am in favour of them paying their just proportion of tax according to their income.

19,194. Then we come to what is a just proportion, and your point is to arrive at what is the just proportion that the workmen ought to pay?—Yes.

19,195. You are not here making a special case for the miners as such, are you?—I am representing the Miners' Federation of Great Britain, but the Trades Union Congress, in September, also passed a resolution similar to the one that the Miners' Federation have passed, that the minimum taxable figure should be £250; so, in that sense, I am speaking for the whole of the workers of the country.

19,196. You are not here to ask for preferential treatment for the miners?—No.

19,197. You realize that if this Commission makes a recommendation, it cannot make a recommendation to exempt the miners from any taxation, leaving other workmen to pay; therefore it must be general in its application, must it not?—Yes.

19,198. *Mr. Kerly* has been putting to you some searching questions as to how you arrive at the £250, and, if I may say so, I think either yourself or he has got you into a rather awkward knot about it. Is it not the fact that workmen take this view: that inasmuch as there was an exemption of £160 before the war, it is unfair that there should be anything other than at least as good a relative exemption now? Is not that the gravamen of their accusation?—Yes, that is so; I state that practically in my paper.

19,199. You do; I have been looking at it; but you are not putting it quite like you are putting it now, if I may say so. If £160 was a fair exemption limit before the war, do not the workmen say that, talking in present-day value language, they should have at least that as their exemption allowance now?—That is so.

19,200. And is not the groundwork upon which you have been working, as the Miners' Federation, to arrive at this £250, giving the State a large margin in favour of the State?—Yes, a very large margin, because the £250 is only equal to £166, instead of £160. There is a very large margin in favour of the State.

19,201. That is the point that I was expecting you would be putting to Mr. Kerly, but you have not put it to him, therefore I am asking you now. My Commissioner colleagues will quite understand I put these questions to you with knowledge, because I have been in this business with you; and I did not quite understand how you allowed Mr. Kerly to get you into that channel. You have admitted that it is a fair thing for workmen to pay their share; you have admitted that the principle of the Income Tax is fair, conditionally that we get a fair basis to start from. Am I right in assuming that the workmen say that the minimum fair basis for starting this is £250 a year, not because £250 a year in these days is of equal value to £160 before the war?—That is so.

19,202. And the reason why they have taken £250, instead of reducing the £160 down to the present day level is because they feel that they must bear a share of the extra charge necessary to meet the taxes which the nation needs in these days?—Yes.

19,203. I understand that is the case that you are presenting?—That is so.

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19,204. You are making a demand, on behalf of the Federation, for £250 as the limit, both for single and married men?—Yes.

19,205. Will you tell the Commission why you do not differentiate between the single and the married man?—In paragraph 4 I deal with that point. I say: "The taxable point for a married man is £170, but his economic position is worse than that of a single man. If £190 is insufficient for the adequate maintenance of one person, then £170 is still less adequate for the upkeep of two persons; hence the more dependants a wage-earner has, the worse his financial position becomes, even if he does get an abatement of £50 for his wife. Therefore, we are driven back to the main issue, namely, the point at which taxation should begin for the wage-earner."

19,206. Do I gather from that, that whether a man is single, or whether he is married, it is the considered judgment of the Miners' Federation that there ought to be an exemption allowance of £250 a year?—Yes, it is.

19,207. It does not mean, from that, that you do not think that in addition to that, the married man ought to have exemption for his wife and children?—No; I have dealt with that point, also. I think that the abatements should be really increased, because the more dependants a man has the worse his financial position becomes. I take the £250 as being really the minimum upon which a single man should be reasonably expected to maintain himself in anything like decency.

19,208. As the lowest existence limit; that is what you take for that?—Yes, I should fix it at that, at any rate, whether I can metaphysically justify the thing or not.

19,209. In reply to Mr. Kerly, you said that before the war the workman had a reasonable standard of life?—No.

19,210. Do you not want to alter that view?—If I said that, I said it under an entire misapprehension. I said they existed, but I said, also, the Chinese existed, and the Hindus; that the term "existence" was a very vague term, and we wanted a reasonable existence. And that would not, before the war, give a man a reasonable existence.

19,211. Are you suggesting to the Commission that the standard of existence which prevailed among the working classes of Britain in general, and the miners in particular, before the war, is not a standard of existence that will bring contentment among three sections of the community now?—Yes, and that it should not, at any rate, be worsened by taxation.

19,212. And it is for that reason that you take the £250 as the exemption limit, in place of the £100 which prevailed before the war?—Yes.

19,213. About the workman's house coal; it differs in many districts, as you say?—Yes.

19,214. But there is a limit, is there not, to the quantity that he is permitted to have at that rate?—Yes.

19,215. It is limited to a low amount, which may be 18 cwt. or 16 cwt.?—The amount varies. In some cases it is 10 cwt., in some it is 16 cwt., and some it is up to 20 cwt. per month per family.

19,216. If that family require more than that quantity of coal, then they have to go into the open market and buy coal at the same price as the general public, have they not?—Yes, that is so.

19,217. In illness, or if a man is working in a wet place, so that he has to dry his clothes at night, does the amount of coal at the cheap rate cover all that he requires at his home?—Under certain circumstances it does not.

19,218. Is it unusual for a workman to have to buy coal at the market rates, upon occasion?—No; taking it generally throughout the mining area, it is not unusual.

19,219. Mr. Kerly put to you the proposition that as the needs of the nation are now greater than they were before the war, it is not an unfair proposition that the workmen should be prepared to take their share of the sacrifice necessary to meet the national necessity. You said you did not think it was unfair?—It is not unfair—after he has been allowed an amount for a reasonable subsistence.

19,220. Is the workman paying any more in taxes now, indirectly or directly, than he paid before the war?—He is paying very much more.

19,221. It seemed to be *new* to you that an amount of money was collected by way of Income Tax through the system of taxation at the source. If I tell you that 70 per cent. or more is collected at the source, what would you say about that as a principle? I am assuming all the time that you agree that the Income Tax is fair as a principle, and that it is fair that the workmen should pay their reasonable proportion.

Now I come to the point as to what is the best system to save trouble and difficulty in collecting what would be a fair amount under a fair system. Is there anything wrong in collecting it at the source?—I dare say it would be advantageous from the standpoint of cost of collection it would probably be much less irksome than the present method, but I can only say that I have not been instructed to speak for the Federation upon that principle of forcibly taking taxes from a man's wages. Personally, I should myself prefer that it should be done that way, than to be taken quarterly, but I am not instructed by the Federation to give evidence upon that matter.

19,222. You may take it from me that it is the fact that before we got our salary as Members of Parliament, small as it is, they deducted the Income Tax before they hand it over. Working on that basis, that 70 per cent. or more of the Income Tax is collected at the source, you see nothing wrong in the principle, do you? I am assuming every time that the principle of Income Tax is fair, and that we have arrived at a fair exemption allowance; therefore the only point involved is the point of collection. Would it not be more convenient for the workman to have a weekly deduction of what they owed by way of Income Tax, than to wait until the end of the quarter, when they would have to pay a lump sum?—Yes, I think so. That is how I pay my tax; I put so much by every month for it.

19,223. The trouble is this. You have no difficulty yourself, because you are a careful, prudent man, and you have a margin; but suppose a workman and his family are right on the border line, is there not a temptation that they should live right up to that harder line, with the result that at the end of three months they may find it difficult to provide the necessary amount for the tax?—That is so; I think I have answered that as fully as I can in my previous answer.

19,224. I only want to put this principle to you. You do agree that there is nothing wrong in the principle under which the tax has to be paid, and the basis on which it has to be paid; you see nothing wrong in deducting it at the source; but you are not authorised, you say, by the Federation to agree to this point?—That is so.

19,225. Does it occur to you as being a point of sufficient importance that you would remit it back to the Federation, and let the Commission have the Federation's view upon that matter?—(Mr. Hall): I should like to point out, if I may, that it would be extremely difficult. As you say, wages vary very considerably at collieries, and I should imagine that, supposing that our suggestion of a £250 limit was accepted, there would be times when the man had practically nothing to draw; and to deduct a tax weekly off a man would be in some cases a very great hardship.

19,226. Pardon me; let me put it to you again. We are at cross purposes, I see. Supposing that the man does not pay Income Tax until he earns an income of £250. If he does not earn more than £250, he pays no Income Tax, but if he earns more than £250 he pays Income Tax. Is there any difficulty in working in averages with such a system?—I should say there are enormous difficulties.

19,227. Taking a period of three or five years, working in averages, would there be very much between the man and the State over that period?—If he was paying during one quarter for some other quarter, that could possibly be done; but I can imagine enormous difficulties arising in it; because you must first get the man's average, and prove

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that he is exceeding the £230, plus all the necessary rebates that he would be entitled to; then you would have to send that all back to the employer; then he would have to regulate it, and deduct it, probably, weekly for a given quarter. It could be done, but I can see enormous difficulties.

19,228. You see nothing wrong in the principle, conditionally with the administrative difficulties being overcome?—Only that it would be one of those things that I should say the workmen ought to express an opinion about, through the Federation.

19,229. I am saying that. What I am trying to get from you gentlemen is this. Granted that the principle of Income Tax is proper, and that the basis is just; in the method of collection is it or is it not more advisable for the man to pay his obligation under this tax, which is fair and justly based, weekly, sooner than wait for an accumulated tax to be due, which he may find difficulties in meeting when the time for payment comes?—He has those facilities now; he can take stamps, I believe, from the post office, to the amount which he believes he has to pay at the end of the quarter, and they accumulate; so that he has all those facilities.

19,230. There is nothing in the point, if the man desires?—If the man desires.

19,231. Supposing he does not desire?—If he does not desire, there it is.

19,232. I put the point to you. There is nothing wrong in my asking you to carry this back to the Federation executive, and ask for a discussion upon it, with a view to letting us know what would be the considered judgment of the Federation men, is there?—None whatever.

19,233. Are you prepared to do that?—Yes.

19,234. *Sir J. Harcourt-Barker*: You have spoken entirely about the colliers, in regard to your paper?—(Mr. Barker): Yes; I am instructed by the Miners' Federation to give evidence on their behalf.

19,235. As being men living on a very small margin. Do not the colliers in most districts compare very favourably with the wages, the expenditure, and the comforts of agricultural labourers, engineers, ironfounders, cobblers, tailors, shop people, and clerks in the districts in which they reside?—They have looked after themselves in that sense through their organisation.

19,236. The colliers have looked after themselves?—Yes, the colliers have looked after themselves through their organisation, so that they have kept themselves as well off, probably, as the average artisan.

19,237. So that if you were to be freed from any contribution towards expenses connected with the present difficulties, you would also have to free all the other people who really are not at present quite as well off as yourselves?—Yes; there would be a very much stronger reason why they should be freed, if they were worse off than the collier. I think that the collier has got nothing to spare even now.

19,238. You have said a good deal about the expense of dependants; but is it not rather a fact that in colliery districts, dependants, after a certain age, are a source of considerable wealth to the collier?—Between the ages of, say, 15 and 19 or 20, if a son in a good son, the family certainly gets some recompense for what they have spent in training and rearing the son up to the point when he begins to work. That is evident.

19,239. And you can really, in a colliery district, point to very many houses where they are getting very considerable incomes, in the family together, towards the necessities of the home?—I dare say there are families of that character amongst the miners; and there are families of quite a different character, people with a lot of little children to keep, and they are people who are hit very heavily by this business.

19,240. I only put to you the fact, because it has been suggested that a widow with children is a very desirable person in a colliery district, because of the additional wealth she brings into her home when she marries?—I should like to put this point on behalf

of the much despised single man. When I have been talking to single men on this question, they say they have potential responsibilities; they have to prepare for the day when they get married; and they have in many cases to help old and infirm parents and other relatives. The single man is not altogether in the ideal position that he is pointed, very often.

19,241. Is it not the fact that the collier really is better off than almost every other class of the community, in having an outlet for those dependant upon him, in the shape of wages which commences at a high point, so that he has a very considerable revenue for his dependants and his children, much more than any other class of the community?—No, there are plenty of classes better off than the collier now. He is not really the millionaire yet that he is depicted to be, and he does not get those pianos and motor-cars, and all that kind of thing, that some of the papers have said he has. He is not so well off as that.

19,242. We are not putting that; we are putting it that he is not the ill-fed, ill-dod, miserable individual that I would rather suggest you were putting his position to be?—There is plenty of hardship amongst the miners now—men who are earning low wages, with heavy families. A man who has three or four children to-day has nothing to spare, with the present cost of living.

19,243. *Mr. Markinder*: There is only one point, and I want to address it to Mr. Hall. I want to take this one step further, if I may, in the discussion that went on between you and Mr. Bruce just now. You have very usefully undertaken to address a question to your organisation in regard to the weekly deduction at the source of Income Tax from wages. I imagine—you will tell me if it is not so—that the discussion will turn a good deal on the machinery for collection, and the difficulties of that?—(Mr. Hall): At the present time, do you mean?

19,244. No. You have undertaken to ask your organisation whether they would object to the collection of Income Tax at the source; I mean by deduction from weekly wages?—Yes.

19,245. If I understood your conversation with Mr. Bruce correctly, the chief difficulty that you have in your mind is not one of principle at all, but it arises on the details of the machinery, namely, that there would be different rates for the different men?—That is so.

19,246. I am correct, am I not, in this supposition; I imagine I am, but you will tell me whether you think I am or not: that the discussion in your organisation is likely to turn precisely on the points that suggest themselves to your mind, namely, the difficulties in regard to the different rates of collection for the different men?—I do not know whether that would be so. I think we would have to deal with it as one of principle; but the other matter of collecting it is one of detail and would have to be met between the local Surveyor and the colliery themselves.

19,247. I want to ask your personal opinion on a constructive suggestion that has been made to us by a great organisation of working men. Their suggestion is that you should deduct the allowance before you start taxation; that is to say, that instead of taxing a man who has got £131 (if you take the present rates) on the first £11, you would tax him on the first £1. At the present moment you deduct £120, and you tax him on £11?—That is so.

19,248. Instead of that, they propose that you should take the £130 right off, and tax him on £1; or, if he had got a wife allowance—I take the present allowance of £20; that would give him £170—they propose it should be a considerably larger sum than that—that having added the wife allowance, you should then start taxing the first pound after that. That is their first thing. Then they say they would deduct by a flat rate, so much in the pound from all wages. Then they would give something in the nature of a ticket, or a receipt, for that. On the other hand, you would have the Surveyor's office like a counter, always open, and instead of the present long delays, you would have a prompt settlement with the Surveyor; that is to say, the Surveyor

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would take into account what deductions, and so on, you are entitled to, and he would say: "there is so much which would be due," and he would cash so many of your tickets as you are entitled to have cashed after you have paid your Income Tax. You can see that, without going into all the details of the thing, you may have a system like that. It has been suggested to us by a great organisation of working men that you may have a system devised such that the employer would never have to go into the difference of the family situation and the money situation of different men; and, in the second place, that the workman himself would never have to wait long in order to recover whatever money he is entitled to. I need not fill in all the details. How would you view the proposition put to you by Mr. Bruce if you could have some total reconstruction in the direction of simplicity of that kind?—I think I should prefer Mr. Bruce's suggestion.

19,245. I do not understand that Mr. Bruce's suggestion differs from mine. What I understand Mr. Bruce's position with you to be is that you did not disagree on principle; you only saw the difficulties of a practical character?—That is so.

19,250. I was putting to you a suggestion that has been made to us by a great organisation of working men for overcoming the practical difficulties?—Not having that scheme before me, and not having considered it, I do not think it would be wise to suggest things about it.

19,251. May I suggest that when our evidence is printed, you will find the whole of the scheme set out in this morning's evidence, and if you will look at that, it will be helpful?—Thank you.

19,252. Mr. Armitage-Smith: You have given us the exemption which you, in your judgment, think proper, and you have arrived at it by transmuting the previous exemption limit into terms of modern currency?—(Mr. Barker): Yes.

19,253. Have you taken into account that before the war the exemption limit of £100 was a family limit, and that there was no wife allowance at that time?—Yes, I have taken it in.

19,254. Before the war the limit for a married man was £100, and for a married man with one child it was £170?—Before the war there was no tax upon an income below £100.

19,255. There was an allowance of £10 for a child?—And the tax was 9d. in the £.

19,256. I am only on the allowance now. There was an allowance of £10 for a child, but no allowance for a wife?—Yes, I think you are right there.

19,257. Now a man gets an allowance for, say, three children and for a wife, so that his exemption limit is not £130, but £200?—With a wife and three children, that is so.

19,258. You are aware of that fact?—Yes, I am aware of that.

19,259. In suggesting this exemption limit which you think proper, you had in mind the present burden of indirect taxation, had you not?—I had.

19,260. Supposing that that burden of indirect taxation, as it is at present, were lightened, would that affect your judgment as to the proper exemption limit?—It would affect it, but I still contend that £250 is really the lowest, in the present circumstances.

19,261. It depends on how much the cost of living went down. Of course my argument is based upon the present cost of living. The position would be more favourable to the payer of taxes if the cost of living went down. Other things remaining the same, if indirect taxation were reduced, *pro tanto*, it would be an argument for depressing the exemption limit. Do you admit that?—I admit that the argument for the £250 would be thereby very much weakened.

19,262. You really agree, do you not?—Yes.

19,263. That if and in so far as the burden of indirect taxation may be decreased, the exemption limit may justly be lowered?—I say that the argument for £250 is based upon the present cost of living.

19,264. In which indirect taxation is a very great factor?—Yes.

19,265. Then there is a very good reason, if indirect taxation is decreased, for reconsidering the exemption limit and lowering it?—If you made the cost of

living lower than what it was before the war, I still think that £120 is too little for a person. I am not imagining a drab, miserable, poverty-stricken life as a typical life for a working man.

19,266. Let me put the thing the other way round. Supposing that the burden of indirect taxation were doubled, would you still stick to your exemption limits?—No, I should not; I should raise it.

19,267. Then, by parity of reasoning, if the burden of indirect taxation were lowered, would you not lower the exemption limit?—I think you are entitled to put it that way. I could not argue against that, I think.

19,268. Mr. Symonds: With regard to your paragraph 6, the example you have given is of a man before the war who had £131 a year, and the claim on him by the Government is £1, on existing taxation. That is less than sixpence a week. Are you prepared to say that, having regard to the extraordinarily difficult financial position that this country has been thrown into by the war, sixpence a week is an unfair contribution to the State in direct taxation, by a man who is getting £2 10s. a week?—I do. I think that a man who gets such a wage as that, cannot afford to pay it. He cannot get a reasonable living out of it, never mind about the taxes. I should not like to live on it.

19,269. Would not that man spend at least, shall I say, five to ten times that sixpence, in luxuries?—Out of that income?

19,270. I do not say that he is not entitled to spend it; I am very far from saying that; but would he not do so?—Out of this income?

19,271. I am taking it that you are arguing it on a pre-war basis, and in the next step I will go to the post-war basis; but that is your proposition in paragraph 6, that sixpence a week is a monstrous thing to ask a man to pay out of a wage of £2 10s. a week?

—The present wage is only equal to £20 18s. 7d. pre-war. I must have some standard of calculation, and I have stuck to this standard all the way through.

19,272. But the man has now £131 a year, and he is asked to pay sixpence a week. Do you think that is an unreasonable claim by the State?—I do.

19,273. With regard to the limit, some questions were put by Mr. Bruce. Is your point that £250 is the limit of reasonable subsistence?—My point is that it is the very lowest.

19,274. The limit of reasonable subsistence?—And I do not think it would be very reasonable at that point, either.

19,275. For a single man. That is about £5 a week?—Yes.

19,276. You do not confine that to miners, do you?—I do not. I think with the present cost of living, no man would have very much to spare with an income of £5 a week.

19,277. I confine myself always, as far as possible, to direct questions, and I should like you to confine yourself to direct answers. We are not going to discuss the merits of it at all; will you kindly just confine yourself to direct answers?—Will you kindly repeat the question, and then I will answer it.

19,278. If you say that is the proper limit of subsistence, you cannot confine it, on principle, to miners?—No, I would not expect anyone to-day to live under that figure.

19,279. Then the principle is that no workman should get less than £5 a week?—That is my contention.

19,280. That applies to all clerks, and to everybody?—Yes, everybody, agricultural labourers, too.

19,281. Has your Federation considered how that would affect the cost of living, if applied to agriculture?—The Federation has not considered specifically the point that you have raised; there is no doubt it would add materially to the cost of production.

19,282. If you support this principle, and ask us to accept it, in the particular case to which you apply it, you are legally asking us to apply it in other directions. If you ask us to admit the principle that £5 a week is the limit of subsistence wages, you see what the effect would be?—The answer that the miner, I think, would make to your question, is that

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there should be a higher Super-tax, that there should be increased taxation upon those that have got very large incomes.

19,283. Pardon me; you are going to a different point altogether?—That is the answer to it.

19,294. Your limit is £250 in the case of a bachelor. Now, just let me work it out in figures. What would your limit be for the typical case put to us of a married man with three children: £50 off for the wife, £40 for the first child, £25 each for the next two; that comes to £160. You must add that on to the £250 limit, must you not? You put the limit at £250 for a bachelor; what would be the limit of taxable income in the case of a married man with three children? It would be £290, would it not?—Yes.

19,285. Would you say that a family man with an income of £390 a year—that is more than £7 a week—should not pay one single penny in direct taxation to the State?—I do. I say if you divide that by five, the income per head is barely adequate to give a reasonable existence.

19,286. You apply that, and you must apply it, to all classes of the community?—Yes.

19,287. Have you considered how many people would be free from direct taxation in that case?—I dare say it would free the great bulk of the working classes from Income Tax, and, I believe, it ought to.

19,288. Taking up to £250 alone, it would free a total number of individuals subject to tax, of 4,069,000; so what it would be up to £390, I do not know?—What I say with reference to that is, that the larger the family becomes, the worse the financial position of the working man is. I think that is incontrovertible.

19,289. Mr. Marks: I did not gather whether or not you advocate the abolition of indirect taxation?—(Mr. Hall): No, we do not suggest it.

19,290. Neither in Mr. Hall's paper nor in Mr. Barker's can I see that you have taken any account of the rise in wages which has accompanied the rise in prices?—I am surprised at that.

19,291. Could you point me to anywhere?—Is it not paragraph 4 of my evidence-in-chief?

19,292. But you only take into account that increase in order to urge it as not being a thing subject to taxation?—Decidedly, but still, I am admitting that wages are more.

19,293. A witness that the Commission had before them, some time ago, agreed that, approximately, the rise in wages had followed the rise in the cost of living, and therefore, speaking relatively, the position of the wage-earner, so far as taxation is concerned, is about the same now as it was pre-war?—Now, would that be so?

19,294. I think so?—On the £160?

19,295. I am not taking into account any question of exemption limit; but the actual amount of his earnings as compared with the cost of living?—Economically we will say it is about on a par.

19,296. The exemption limit before the war was £160; it is now £130. Would you consider it unreasonable, in view of the present condition of national finances, that that limit should be proportionately much lower now than it was before the war?—Not lower in the actual sense, but we have taken into consideration the working man's total payments in tax, direct and indirect; we have to take the two things together.

19,297. And you think that his capacity for taxation is less than it was pre-war?—I think so.

19,298. Would you admit that the working man before the war had any taxable margin?—No, not the ordinary working man.

19,299. He could not even pay 6d. or whatever it might be per week?—I think he was insolvent.

19,300. I think you quote somewhere something from Mr. Herbert Samuel's address to the Statistical Society, do you not?—I quote Dr. Stamp.

19,301. You know that the Right Hon. Herbert Samuel did in the early part of the year make a very careful study in relation to taxation of various classes of people, and came to a certain conclusion in regard to direct and indirect taxation. I will not bother you with the whole of it, but he did come to the conclusion that a family with an income

of £100 a year was taxed indirectly to the amount of £13 15s. 11d.?—That was pre-war.

19,302. No, 1918-19?—I have not seen that.

19,303. Say £13 16s. 0d. And out of that £13 16s. 0d., which includes his post office contribution and other indirect taxation, £9 2s. 10d., is in respect of tobacco and alcohol. Do you not think there is some taxable margin there for direct taxation?—Well, yes, certainly. We do not bother about what he is paying in the shape of taxes on beer and tobacco. We know very well that if the working man drinks anything at all, it is beer, and of course he is taxed on it.

19,304. There is a taxable margin, you agree?—Yes.

19,305. And, if his wages are doubled, the taxable margin which he had before the war is also doubled. Is that not so? Suppose his wages consist of two parts, the part which he requires to keep him going, and the part which he has over as a taxable margin. His wages have doubled, so has the part of them doubled which is required to keep him going. The margin of his income has also doubled?—Yes, but you must also bear in mind that a large part of the working classes in pre-war days were not solvent.

19,306. Chairman: What do you mean by not being solvent?—I mean that they could not pay their way, and they were in debt.

19,307. Mr. Holland-Martin: Do you mean that they died in debt?—If you take the number of cases of appeals to the County Court judge you will find there are a number of cases where there have to be compositions, and debts which may have been £30 or £40 have been reduced to £20. Take great Co-operative Societies; of course I am not going to say they have not some dividend standing to their account; but I know that a large percentage of the members of Co-operative Societies are in debt, though not probably beyond the amount standing to their credit in the books.

19,308. Mr. Marks: You do not admit that there was any taxable margin and you go further than that, and you say that the working man was largely insolvent?—When I said there was a taxable margin, you were speaking about a particular class.

19,309. No.—I understood it was a particular class.

19,310. Do not misunderstand me; that was not a particular case. That was the average result of an inquiry by Mr. Samuel into a very large number of cases?—But you do not see this, Sir, that a large number of working men, irrespective of what they take into the home, will have drink, and of course you must take that into consideration.

19,311. Would it not be a fair assumption to make, in these times, that it is only reasonable that, having regard to the desperate condition of the country, the working man along with other classes of the community should give up some portion of that income which he now spends on drink, if you like, or tobacco, or whatever is the corresponding luxury in any other class of life?—I think you have also taxed him indirectly on his tea and on his coffee.

19,312. If we give up some portion of that and put it on to direct taxation, it would give him a greater sense of responsibility to the country?—There is not the slightest doubt that if it was changed and all indirect taxation wiped off he would feel a greater responsibility in the country.

19,313. We have not time to go into it fully, but you agree with me that in certain circumstances, at any rate, it would be proper to tax the workman directly?—Yes, beyond the £250 limit.

19,314. You put that limitation upon it, but I think you would say, as I suggested to you just now, that if a man's wages have doubled as well as the cost of living, and there was some taxable margin before, there would still be some taxable margin which could be utilised for the benefit of himself and the country?—Which you have taken already indirectly.

19,315. I do not agree. Now, as to the question of collection at the source. I saw the report of a colliery company's meeting in the paper the other day, in which the chairman, on this point, said the men would not pay Income Tax, and at the present time they were just working to the extent that they did not

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[Continued.]

come on to Income Tax. "If the Government would allow the Income Tax to be paid by the company it would be readily collected and the man would not grumble, but where a collier had to find £6 or £7 or even £10 or £12 for his Income Tax he resented it; he had not got it; he had spent it all, and there was always trouble when the Income Tax collector came round. Rather than breed trouble the collier neglected his work. He was patriotic enough, but he did not like to be bothered with it." That was Mr. Arthur Markham at a meeting of the Staveley Company?—Mr. Charles Markham.

19,316. Do you agree that the difficulty in collecting Income Tax from the wage-earner would be got over like that?—It is not insuperable.

19,317. You agree, also, that it is the difficulty of finding these big sums at a particular time which makes the Income Tax unpopular?—There is no doubt about that, and I believe it is perfectly correct that a large number of men do take holidays and days off in order to keep down their wages to about Income Tax level.

19,318. And if some convenient means of collecting the Income Tax from the collier were mutually devised, that would be a stimulus to him to greater output?—I think that if it were collected weekly and in small sums the man would not miss the amount, and I think it would have a tendency to wipe off those holidays that he now has in order to keep his wages down.

19,319. Mr. Walker Clark: Following up the conversation with Mr. Brace on the collier's coal allowance: at present, whether it is at a low price or whether it is free, the collier's allowance is very frequently in excess of the ration which is allowed to the general public?—I think that is so because of the peculiar nature of the position.

19,320. You need not develop it. I am quite correct in saying that it is?—That is so; the miners were exempt from the rationing scheme; that is a public fact.

19,321. You have indicated that £250 should be the lowest starting point for the tax?—Yes.

19,322. How much do you think ought to be the amount in the pound for the other end of the scale?—I do not quite follow you. What do you mean by "the other end of the scale"?

19,323. The richest man; how much in the pound ought he to pay?—If he goes beyond—I would put it fairly liberally—say, £5,000 a year, I think he ought to pay it all.

19,324. Would you say that the workman pays more now in tax than he did before the war?—He does.

19,325. How does he do that?—Because you have taxed many necessary articles that they did not tax before the war.

19,326. And they have also allowed something?—The abatement that they have allowed is very meagre compared with what they charge.

19,327. 50 millions in the bread dole. Are you aware that the allowance made for the bread subsidy would pay all the indirect taxation that a man with a wife and three children and an income of £250 a year now contributes except what he contributes in alcohol and tobacco. Are you aware of that?—No, I am not aware of it.

19,328. Well, that is a fact; you may take it from me that that is so?—But that is all in the £120 increase in the cost of living; the cost of living would be much higher than 120 per cent. for that.

19,329. I do not want to get into an argument about it?—But you want to get the facts on the record.

19,330. The fact is that the contribution made by the State in the bread tax pays all the indirect taxes (except those on alcohol and tobacco) of a man with £250 a year and three children?—You say that. I have not the knowledge.

19,331. That is a fact; you may take it from me. Do you think it is just and right that six millions of people should be free from any contribution by direct taxation to the war and still retain the full franchise?—I do not think franchise should depend upon wealth.

19,332. That is the German method. Should it depend upon some contribution to national expenditure?—No, it should depend upon his citizenship. I cannot agree with you there.

19,333. Mr. May: About the bread subsidy and its relief to the worker at present; you are aware that the bread subsidy is not only a temporary matter, but at the present moment we are threatened with the reduction of the subsidy?—That is so; and do not the other classes besides the working classes get some of the benefit of the £50,000,000; that is a thought that has occurred to me.

19,334. That is your suggestion?—Yes.

19,335. We are supposed to be considering here the Income Tax for normal conditions, when that bread subsidy will have entirely disappeared?—Yes.

19,336. And its disappearance will rather make your case more acute than relieve it?—It will intensify the grievance, I think.

MR. ALEXANDER JOHNSTON, on behalf of the National Union of Manufacturers (Incorporated), called and examined.

The witness handed in the following statement as his evidence-in-chief:—

19,337. (1) Tax on subsidiary companies acting as distributing branches of foreign manufacturing concerns.—At present many such concerns form subsidiary companies under British laws for the distribution of their products in this country and other European markets. Generally speaking, these subsidiary companies pay little or no Income Tax, as the parent companies arrange their invoice prices to the subsidiary companies on such a basis that practically no profit is made. Such subsidiary companies should be taxed on their turnover on the basis of the net profit to turnover shown by the parent company. For example, if the parent company showed a turnover of £2,000,000 and a net profit of £200,000 (i.e., 10 per cent.) and the subsidiary company had a turnover of £100,000, it would be taxed on a profit of £10,000. I believe this basis is adopted in several foreign countries.

Items generally disallowed by Surveyors as charges against revenue.

19,338. (2) (a) Subscriptions to charities.—These should be allowed as an ordinary trade expense provided they do not represent more than a certain reasonable percentage of the profit. At present they

are only allowed when they are given to secure certain clearly defined benefits to workpeople. Gifts to great national funds and to charities in the neighbourhood where the company's works and offices are situated should be particularly allowed.

19,339. (3) (b) Subscriptions to trade associations, manufacturers' associations, &c.—These should definitely be allowed. Trade associations are a necessity of business at the present day and improve the efficiency and profit-earning capacity of the individual manufacturer. Such associations collectively in fact frequently carry on essential parts of the manufacturers' business, as, for instance, on wage questions.

Manufacturers' general associations similarly carry on a vast amount of useful work in respect of general and national questions, organised efforts to advance British trade and similar matters. At the present time it is the practice of the Revenue authorities to allow such subscriptions as a trading expense provided the association concerned agrees to its surplus of revenue over expenditure being taxed. There appears to be no reason, however, why this should be done.

19,340. (4) (c) Legal and professional charges in respect of capital matters.—It is the practice of Surveyors to examine closely all legal and professional charges and to insist on the disallowance of any charges having any remote bearing on capital matters,

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[Continued.]

such as issues of capital, applications to local authorities in respect of buildings, patent and trade mark questions. This presupposes that these charges should properly be charged to capital, but needless to say, the payment of these charges cannot in any way be considered to have the effect of increasing the value of any asset.

19,341. (5) (d) *Patent and trade mark charges.*—These expenses are always disallowed with the exception of renewal fees. It should be pointed out that up-to-date concerns are continually taking out what might be called precautionary patents, which may contain the germs of valuable ideas but which frequently have no eventual value. The cost of such patents should be allowed to be charged against revenue. In the case of trade marks, the expense of protecting trade marks is an ordinary business precaution taken to protect the firm's business name, and should certainly be allowed as a charge against revenue.

Depreciation questions.

19,342. (6) *Basis of depreciation generally.*—Except in the case of one or two specific industries, the percentage allowed for depreciation on plant and machinery is taken on the reduced value instead of on the original cost, so that whatever rate of depreciation is allowed it is practically impossible ever to eliminate the entire value until the machinery is scrapped and replaced, when the obsolescence claim can be made. It is a cumbersome and unbusinesslike measure, and it is maintained that the percentage should be allowed to be claimed on the original value, thus permitting the complete and automatic elimination of value in a series of years.

19,343. (7) *Depreciation of buildings.* There seems to be no logical reason why depreciation of buildings should not be allowed as a charge against revenue. It is submitted that the concession made under section 24 sub-section 4 of the Finance Act, 1918, is trifling and does not in any way meet the requirements of the case. This question of depreciation of buildings is likely to become an even more crying one in the near future owing to the probable eventual reduction in cost of buildings from the present ruling high basis. If an all round percentage could not be allowed on buildings in the same way as on machinery and plant, it is suggested that on all new buildings a certain specified depreciation should be allowed for a certain specific number of years.

19,344. (8) *Extra depreciation on plant, machinery and buildings owing to existing high values.*—It is submitted that owing to the extraordinary high prices of plant and buildings at the present time it will be necessary to provide in future Finance Acts for the writing off against revenue of the reduction in value of plant and buildings brought about by falling prices in the future. In many cases to-day the costs of machines are from three to four times their pre-war values, and firms increasing their output at this stage will find themselves loaded with assets standing in their balance sheets at prices which may have no relationship to value in the course of a few years time. It is submitted that such firms as decide to write off amounts bringing their new buildings and plant down to market values should be allowed these amounts as a charge against revenue for Income Tax purposes.

19,345. (9) *Depreciation allowed for Excess Profits Duty.*—It is submitted that where special depreciation and writings off are allowed for Excess Profits Duty there should be no question about these being allowed also for Income Tax purposes. It is understood that in a number of cases allowances which have been made for Excess Profits Duty purposes have not been conceded on ordinary Income Tax.

19,346. (10) *Rate of depreciation generally.*—It is submitted that apart altogether from the powers granted to the Board of Referees, a statutory rate for businesses carrying on business under normal conditions should be established and that this rate should be materially higher than the present allowance, which is considered inadequate. It is also suggested that such a rate should be based on a certain specified working week, and that where

it can be proved that a factory is regularly working longer hours than the established working week it should be entitled to write off a relatively greater total of depreciation.

19,347. (11) *Evasion of Income Tax.*—As it is, knowledge that at the present time many small firms evade payment of Income Tax altogether, or else pay very much less than on their proper profits, thus increasing the burden on the larger firms, it is considered that drastic steps should be taken to amend this state of affairs. It is suggested that recommendation should be made to the Government that a Bill should be brought in providing that no firm or individual is entitled to start business until it is entered on a commercial register, and that the permit to start or continue business should only be given when the registrar is satisfied that proper books of account are to be kept, and such books have been passed and recorded at the registry: that such books should be submitted from time to time and stamped by the registrar and that he should have power to withdraw the business licence if he is satisfied that the books of account are not being properly kept. Such books would form the basis for any law actions, and it would be impossible to sue for business debts without the production of such duly stamped books. Under such conditions it would be impossible for individuals and firms to state as at present that they do not keep books and therefore have no record of their profits. It is suggested also that it should be a statutory offence to fail to return particulars of amount of profits assessable for tax, i.e., the onus of intimating liability to tax should be on the taxpayer, and it would not be necessary for the Assessor to make the assessment.

19,348. (12) *Earned and unearned incomes.*—It is suggested that distinction should be made between earned and unearned incomes to a much higher point of income than provided by the recent Finance Acts. It is pointed out that even in the case of very high incomes there is a great difference between the case of an official earning a large salary, which he can only enjoy for a certain short number of years, and an income derived entirely from investments. In the first case the recipient of the income has, generally speaking, to provide out of this income for his family, while in the latter case the income will be continuing and devolve on his family after his death.

19,349. (13) *Issues of bonus shares out of reserves or other surpluses.*—It is considered that it should be made clear in the interest of industry generally that bonus shares, issued to existing shareholders of a company as fully paid by way of distributions of reserves or surpluses, are not liable for Super-tax. It is understood that cases have recently come before the Courts in which this view is upheld, but it is desirable that the position should be made quite clear in future legislation.

[This concludes the evidence-in-chief.]

19,350. *Chairman:* I know, from having your acquaintance, that what you say is always worthy of attention; and on the paper which you have put before us you will probably have a little examination by the Commissioners. This will be in support of the great work which the Commission has to undertake. I will ask Mr. Kerly to examine you, in the first instance, and you may have other questions addressed to you by members of the Commission.

19,351. *Mr. Kerly:* Let me take your paragraph 13, first of all. You only suggest that what is now assumed to be a decision of the Courts, that bonus shares representing paid reserves from income undistributed, and now distributed in the form of bonus shares, should not be liable to Super-tax?—Precisely.

19,352. Of course you know the decision you are referring to is under appeal to the House of Lords?—I understand so.

19,353. It followed a decision which had nothing to do with Income Tax; but the question whether the bonus share is income or capital depends upon the form in which the company chose to distribute it?—Precisely.

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19,354. That, of course, is not a critical question in order to determine whether it should be taxable or not?—Precisely.

19,355. So that this decision is thoroughly unsatisfactory, because it followed another decision arrived at for reasons which are irrelevant to the present discussion?—Precisely.

19,356. Let us disregard that. Is your view that where an accumulated surplus from past income is distributed, it should be treated as capital and not as income for the purpose of Super-tax?—Precisely; that is my view—for the purpose of Super-tax or any other purpose, as a matter of fact.

19,357. Do you see that that will be the means of enabling shareholders controlling a company to evade Super-tax?—That is not my view. It would depend entirely on the particular circumstances in each case.

19,358. I ask you whether it would enable shareholders liable to Super-tax and controlling a company to avoid Super-tax. Obviously it would, would it not?—I do not agree with that. It would not enable them to evade Super-tax. If the profits put to reserve were distributed as a cash dividend they undoubtedly would have to pay Super-tax on it; but it is no evasion of the tax to retain the surplus in the form of capital by way of bonus shares.

19,359. With all respect, that seems to be rather juggling with the proposition. Supposing the money were distributed as cash and reinvested in taking further shares of the company, it would then be properly liable to Super-tax?—Undoubtedly.

19,360. And if the same transaction was carried through in another form it would not be available for Super-tax?—Undoubtedly, but I think the two proposals are quite different.

19,361. In any event, the matter has to be dealt with on its merits—Undoubtedly.

19,362. Now, will you come back to your paragraph 1? I understand that your proposition is that a subsidiary company acting in substance as a selling branch for a foreign manufacturing company, should be charged, not upon the rate appropriate to its own profits, but at a rate appropriate to the profits if you treat it as part of the whole concern?—Yes, in substance that probably is the position.

19,363. Take this example: We will say an American oil company, making on its total turnover a profit of 20 per cent. You would charge upon its average turnover as if it made a profit of 20 per cent, although the subsidiary company may, in fact, show 5 per cent?—Undoubtedly.

19,364. That is the proposition?—Yes.

19,365. There is a practical difficulty about that, is there not, in ascertaining what the profit of the foreign company is upon its total turnover?—Not, I take it, if they have the power to ask for accounts of the parent company.

19,366. How are you to get the accounts of the parent company?—I take it under the existing legislation, under the 1915 Act, the Commissioners are empowered to ask for the accounts of a non-resident company having a resident agent.

19,367. The only power they have is by making some assumption for the purpose of the assessment of the resident company?—The suggestion is that in any new legislation powers should obviously be taken for the purpose of obtaining, in respect of any resident company, accounts of its non-resident principal.

19,368. You are no doubt familiar with what has happened in America where the corporations have been broken up nominally into separate units?—Yes.

19,369. Do you propose to treat with one of those units, or to treat them, as in fact they are, as a number of associated units and so take the profits of the whole?—In effect you would be taxing the business done in this country purely.

19,370. But you want to get the foreigner's accounts in order to get the profit on his total turnover?—Undoubtedly.

19,371. You will not get that from the accounts of the English company. I suggest to you that the thing is impracticable?—I do not agree with that. It seems to me that it should be quite possible to

provide machinery by which the profits of the parent companies could be ascertained.

19,372. First you have to find the parent company; next you have to find the profit made by that parent company upon its turnover?—Undoubtedly.

19,373. Just one word about charities. Why should a trader be exempt in respect of payments made to a charity, while an individual is not exempt in respect of his payments to charity?—The suggestion is that a number of these charities are really doing to some extent work in connection with the industry.

19,374. You do not suggest that that is really a business expense?—I think that they could be quite reasonably allowed as such.

19,375. Do all businesses pay charities in the same proportion?—No. My suggestion is that a certain percentage should be regarded as reasonable as a business expense.

19,376. Then with regard to legal and professional charges in respect of capital matters, you suggest that all legal and professional charges which are really business expenses, even though they may be for the protection of capital, should be allowed?—Yes, either for the protection or even for the production of further capital; they should be allowed.

19,377. You would say, I suppose, that even though they may look like expenses for the purpose of preserving or producing capital, as a matter of business they are paid out of income?—Yes, and they have no capital value.

19,378. And they are necessary in order to protect the income?—Yes. My view is that they could not be correctly charged to an asset; that is, form an addition to an asset, because they have no real value. If they should be chargeable to capital, then they should have the effect of increasing the value of the capital or whatever they are charged to.

19,379. Next about trade mark charges; trade marks are an important part of the goodwill of a company, are they not?—Undoubtedly.

19,380. Essentially a trade mark is part of the goodwill?—It is part of the goodwill and it is also a part of a certain protection.

19,381. Protection for the goodwill?—Protection of the business as a whole.

19,382. I dare say you know that in point of law a trade mark is attached to the goodwill and passes, and can only pass, along with the goodwill?—Undoubtedly.

19,383. Advertisements are generally, in many cases at any rate, for the purpose of protecting and increasing the goodwill?—Yes.

19,384. The advertisement normally does not exhaust its value by increasing the income, certainly for the year in which it is made, or even for the following year?—Precisely.

19,385. And advertisements are allowed as part of the business expenses?—Undoubtedly.

19,386. I presume you would say that the costs of developing and protecting trade marks stand on the same footing?—A very similar footing.

19,387. Are not trade mark expenses generally charged to the advertising account?—I think they are generally charged to a special patents and trade marks account in the books of most firms who have a considerable expenditure under that head.

19,388. I skip over patents, because their position varies so much?—Undoubtedly.

19,389. Whether they are matters of detail, or, again, whether they are matters of proportion?—I was making the claim rather in respect of those numerous patents which a large and up-to-date firm has to take out as precautionary patents, which may have no value whatever.

19,390. Some of us are familiar with the practice of the great manufacturing firms of buying patents in anticipation of changes in the trade and locking them up until it is useful to introduce the invention?—Yes, that is a practice in some quarters.

19,391. It would be one of the difficulties of making an allowance on patents or upon charges as business expenses?—I quite agree.

19,392. Next, the depreciation of buildings; do you propose to make your alteration of the law with regard to the cost of all buildings, or only of business

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buildings?—We are, of course, only claiming more in respect of business buildings, because they are the only class of buildings that interests us.

19,503. It would be a hardship to distinguish, would it not?—That is a question of opinion. I have not gone into that from the point of view of domestic buildings at all. The point is that in a business the depreciation that does take place in one's buildings should be a business expense.

19,504. Now pass on to paragraph 10, rate of depreciation. The recent practice has been for the Board of Inland Revenue to agree with particular trades a flat rate of depreciation for that trade, with a possibility of a reference to the Board of Referees if the parties cannot agree?—Yes. This is more particularly directed to the suggestion that the normal rate of depreciation should be put on a more satisfactory basis. The feeling in manufacturing circles generally is that the normal rate of depreciation allowed is probably 5 per cent. and the idea as any rate prevailing is that one would have to show some special set of circumstances in going to the Board of Referees to get an increase on what might be called the normal rate.

19,505. And further, the Board of Referees would only deal with a rate for a class of business and not with the rate of an individual trader?—Undoubtedly.

19,506. Are you suggesting that there should be any special body to deal with the rate for an individual trader?—No. Our suggestion there is that a specified higher rate, differentiating between the different classes of machinery, etc., should be understood to be the normal rate for a normal type of business, and that any taxpayer or class of taxpayers disatisfied with the rate or who considered that their business was entitled to a special rate, would go, under the existing machinery to the Board of Referees.

19,507. That is to say, you want a higher basis to start variations from for a particular trade, or possibly for a particular individual?—Precisely.

19,508. Then paragraph 11 is about evasion of Income Tax. You make a suggestion that we have heard from a few other witnesses, that practically every man or every firm carrying on business should have a licence?—Precisely.

19,509. Do you think there would be a great deal of difficulty in enforcing that provision upon the innumerable small traders in this country?—I do not see any real practical difficulty in the matter.

19,510. Perhaps you might put it in this way; that the smallest trader of all, the hawkers, has to have a licence at present?—Yes.

19,511. Though he is not required to keep books?—No.

19,512. And you would go up from that?—My suggestion is that it should be made statutory that all traders must keep books before they are entitled to trade.

19,513. What would you do with the casual trader, the man who does an occasional horse deal, for instance?—I think probably an occasional transaction would not need to be dealt with in the same way, as Income Tax is probably not collectible on an occasional transaction of business.

19,514. Where it is not an operation of trade?—Where it is not an operation of trade.

19,515. Of course, this would have to be enforced by penalties?—Yes. I think, although one does not like to quote German law, the German commercial code in force before the war was very clear on the question of the keeping of books, and I believe it is correct that no one was entitled to start business until his name was entered in the register.

19,516. I do not know that we quarrel so much with the German machines as with the man behind them?—Precisely.

19,517. Now on earned and unearned income; you suggest that a distinction should be made between earned and unearned income. Is your view that the

earned income should be rated at a lower rate up to much higher levels?—Yes. The point of view is that if there is to be a distinction between earned and unearned income those people in receipt of much higher salaries than the present limit of differentiation would logically appear to be entitled to consideration.

19,518. You have probably considered that in the case of large earned incomes it is at any rate suggested that they are really, as regards a great part of the income, analogous to unearned income, because they represent capital?—Undoubtedly.

19,519. Something other than the earner's personal exertions?—Yes. I would look at it in this way also: that the man in receipt of an earned income—take the official of a big company who is receiving a very high salary, say, £5,000 a year—is only in receipt of it for a few years, and out of that he probably has to make provision for his dependants, while the person in the same position with unearned income is receiving it as a return on capital, and the return will go on after his death. That is merely, perhaps, a sentimental reason for it, but that is the ground on which it is urged.

19,520. Of course, the unearned income pays its contribution to the State on the death of the owner?—Yes, but not to the same extent.

19,521. Mr. Synnott: Are there not a very large number of so-called earned incomes getting exemption now (and you want to extend it) which are really, many of them, two-thirds or 50 per cent. dependent on goodwill and shares in a business which will go on long after the man's death? Take a private trader who has a public-house. There are many businesses which depend on goodwill; for instance, a grocer's shop; the grocer can leave it to his family; he has a considerable amount of money from it; it is all earned as profit, and it is treated as earned income, but it does not stop at his death?—There are possibilities that it would not stop at his death.

19,522. Are there not thousands of cases of that kind?—There are many cases, undoubtedly.

19,523. You want to extend the anomaly?—Yes. Perhaps it might be put that we are making the point specially in the interests of those with income assessable under Schedule E. The point is really raised in the interests of those people who are dependent on a salary.

19,524. If you confine your point to income earned in a professional capacity I think there is a great deal to be said for it, but I point out to you that that is not the definition in the Act?—That is so.

19,525. Also, it is not the fact that, while private partnerships get the benefit of this earned income clause, companies do not?—That is in the case of the director of a company who owns a great portion of the shares, undoubtedly. There are bound to be anomalies in the case.

19,526. You make your point as to Schedule E?—Yes, people in receipt of salaries.

19,527. Sir E. North-Bowler: With regard to that last point that Mr. Synnott was questioning you about, I think the very reason the differentiation was stopped at a comparatively early point was because of the anomalies that arise when you get to incomes over £3,000 a year. Assuming incomes which you have to treat as earned incomes are really mixed incomes partly due to capital, if your proposition were adopted, and the differentiation were carried to a higher point, would you not exceed the total of actually earned incomes very much?—In the instance given by Mr. Synnott undoubtedly you would, but I think in the case of a great number of earned incomes the income is generally a perfectly bona fide earned income, and not really a return on capital.

19,528. Chairman: We thank you very much for your evidence.

TWENTY-EIGHTH DAY,

FRIDAY, 24TH OCTOBER, 1919.

PRESENT:

Mr. KERLY (*in the Chair*).

SIR T. P. WHITTAKER.

MR. PRETTYMAN.

SIR E. E. NOTT-BOWER.

SIR J. S. HARMOOD-BANNER.

SIR W. TROWER.

MR. HOLLAND-MARTIN.

MR. ARMITAGE-SMITH.

MR. WALKER CLARK.

MR. GRAHAM.

MR. MCINTOCK.

MR. GEOFFREY MARKS.

MR. MAY.

DR. STAMP.

MR. SYNNOTT.

Mr. E. STANFORD LONDON, C.B.E., recalled and examined.

The witness handed in the following statement as his evidence-in-chief:—

Proof of evidence of E. STANFORD LONDON, C.B.E., Deputy Chief Inspector of Taxes, on the subject of the liability to Income Tax of Co-operative Societies.

19,419. (1) Co-operative Societies include all agricultural, productive, wholesale and distributive societies that work on the co-operative principle, and are registered under the Industrial and Provident Societies Act, 1893, and subsequent enactments.

19,420. (2) These societies are primarily mutual bodies, the members combining to produce or buy goods in quantity to be distributed by sale amongst themselves. They also lend money on mortgage to members to enable them to become owners of their houses.

19,421. (3) Most societies also make sales to non-members, but this part of their business, from the information before the Board of Inland Revenue, appears to be very small. (See sub-head III of paragraph 39 below.)

19,422. (4) The trading capital of a Co-operative Society consists of share capital subscribed by the members, moneys deposited with the society at interest, loans from members, non-members, or other societies, and the reserves and undistributed balances.

19,423. (5) There is no statutory limit to the number of shares which a Co-operative Society may issue, but no member, other than a registered society, may have any interest in the shares of the society exceeding £200.

19,424. (6) Every member of a Co-operative Society is required by its rules to take up and hold one or more shares. A person can become a member by deposit of one shilling, and the balance of the share capital (minimum amount usually £1 or £5) is automatically made up out of the subsequent rebates on purchases unless the member elects to pay up in full. (See paragraphs 8 and 10.)

19,425. (7) On making a purchase, each customer is usually supplied with a ticket or voucher stating the amount of his purchase.

19,426. (8) At the end of each quarter or half-year, accounts are prepared by the society showing the balance in hand on the working of the period, and this balance, after making provision for depreciation

and reserves, and providing for interest on share capital, is distributed amongst the members in proportion to the amount of their purchases as represented by the tickets or vouchers above mentioned.

19,427. (9) Other purchasers who are not members usually also receive a portion of the surplus, but at a lower rate, and this, too, is distributed in proportion to the amount of their purchases. The rate is usually half that applicable to members.

19,428. (10) This distribution, which is usually known as "dividend" may, at the option of the member, be taken in cash or credited to his share capital account. If, however, he has not yet contributed the minimum amount of capital required by the society, the "dividend" must ordinarily be credited to his share capital account; if, on the other hand, the maximum holding (which in no case may exceed £200, and in some cases is fixed at a lower sum by the rules) has already been contributed, he must take the "dividend" in cash, although he may lend it to the society as a deposit or loan.

19,429. (11) The rate of the "dividend" varies for each distribution according as the societies fix the selling prices at high or low figures above actual cost, but the interest on share capital is at a fixed rate which does not vary from year to year.

19,430. (12) Some companies which are popularly known as Co-operative Societies (e.g., The Army and Navy Stores) are trading concerns making commercial profits as ordinarily understood. The special provisions of the Income Tax relating to Industrial and Provident Societies do not extend to these companies, which pay Income Tax under the normal rules of the Act.

19,431. (13) It is the practice for Co-operative Societies to take up shares in and lend money to other Co-operative Societies; and the bulk of the share capital, of loans and deposits with, the wholesale and productive societies are subscribed or lent by the distributive trading societies, comparatively few shares, &c., in the wholesale and productive societies being held by individuals.

19,432. (14) The last published report of the Chief Registrar of Friendly Societies discloses the following information with reference to Co-operative Societies registered under the Industrial and Provident Societies' Acts for the year 1916:—

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	Agricultural societies.	Distributive trading societies.	Productive societies.	Wholesale societies.
Number of members	158,917	3,547,567	58,247	2,106
Share capital	£ 408,474	£ 47,984,742	£ 956,245	£ 3,176,228
Loan capital	26,082	2,841,264	71,879	4,042,183
Deposits	519,847	3,136,339	808,999	4,452,586
Reserves and surpluses	550,522	9,091,848	489,209	3,243,321
Totals	1,504,925	63,054,293	2,326,432	14,915,318
Less invested in other Co-operative Societies	28,197	14,089,002	464,203	854,948
Net working capital	1,476,728	49,015,291	1,862,229	14,059,370

Statutory provisions relating to Co-operative Societies and their Income Tax liability.

19,433. (15) The first Act for the Registration of Industrial and Provident Societies was passed in 1852 (15 & 16 Vict., cap. 31). Until that date, although Co-operative Societies existed, they had neither legal rights nor legal status. The law gave no protection to their funds, or against dishonesty on the part of employees or members.

19,434. (16) This Act contained no specific exemption from Income Tax, but as section 8 conferred on Co-operative Societies all the privileges pertaining to Friendly Societies, it was held that they were entitled to the exemption from Income Tax under Schedule C (in respect of interest on Government securities and the like) which at that time the Friendly Societies enjoyed.

19,435. (17) The Friendly Societies' exemption being extended in 1853 to interest and other profits and gains chargeable under Schedule D, the Act of 1852 was repealed and replaced by the Industrial and Provident Societies Act of 1862 (25 & 26 Vict., cap. 87), which in section 15 provided that registered Industrial and Provident Societies should enjoy a relief from Income Tax similar to that accorded to Friendly Societies. This Act thus extended the relief in favour of Industrial and Provident Societies so as to include Schedule D.

19,436. (18) Incidentally, the Act of 1862 gave every society a legal right to take up and hold shares in other societies, and thus the existence of wholesale societies became legally possible. "The Co-operative Wholesale Society, Limited," under the name of the "North of England Co-operative Wholesale Industrial and Provident Society, Limited," was formed in 1868 and "The Scottish Co-operative Wholesale Society, Limited," in 1868.

19,437. (19) Section 15 of the Act of 1862 was repealed in 1867, and replaced by section 12 of the Industrial and Provident Societies Act of 1867 (30 & 31 Vict., cap. 117). This section exempted in express terms societies registered under the Industrial and Provident Societies Act, from liability to Income Tax under Schedules C or D of the Income Tax Acts, but with the limitation that the exemption should not be construed to relieve any members of such societies, or any persons employed by them who were in receipt of a total income of chargeable amount, from liability to assessment in respect of any portion of the profits of the society paid to them.

19,438. (20) Section 13 of the same Act also provided for the furnishing to the Revenue authorities of lists containing the names and addresses of persons to whom profits made by any society were paid, with a view to the assessment of such as were liable.

19,439. (21) The labour of preparing these returns was so great, and they were found to be of so little value that, with Mr. Gladstone's approval, they were dispensed with, and in 1876, when the law regulating these societies was once more consolidated, this provision was omitted.

19,440. (22) By section 8 of the Customs and Inland Revenue Act of 1890 (43 and 44 Vict., cap. 14),

the exemption from direct assessment previously granted to all registered societies was withdrawn in the case of those which both

- 1, sold to persons who were not members, and
- 2, limited the number of their shares either by their rules or their practice.

19,441. (23) The law relating to Industrial and Provident Societies was again consolidated in the Industrial and Provident Societies Act of 1899 (66 and 67 Vict., cap. 39), section 24 of which referred to the charge of Income Tax on such societies in the following words:—

"A registered society shall not be chargeable under Schedules C and D of the Income Tax Acts unless it sells to persons not members thereof and the number of shares of the society is limited either by its rules or its practice. But no member of or person employed by the society shall be exempt from any assessment to the said duties to which he would be otherwise liable."

19,442. (24) This section was repealed on the consolidation of the Income Tax Acts in 1918, and re-enacted in section 39 (4) of the Income Tax Act, 1918 (8 and 9 Geo. V, cap. 40), as follows:—

"A society registered under the Industrial and Provident Societies Act, 1893, shall be entitled to exemption from tax under Schedules C and D, unless it sells to persons not members thereof, and the number of its shares is limited by its rules or practice, but no member of or person employed by the society shall be exempt from charge to the tax to which he would otherwise be liable."

19,443. (25) There were other Industrial and Provident Societies Acts in 1894, 1895, and 1913, but these in no way altered the Income Tax law, so that at the present time, in accordance with section 39 (4) of the Income Tax Act, 1918, all registered Co-operative Societies conforming with the conditions laid down in the Act are exempt from Income Tax under Schedules C and D, but are liable to pay Income Tax under Schedules A and B at the highest rate. A Co-operative Society is also required (in common with all other taxpayers) to account to the Revenue for any tax it may deduct from interest paid otherwise than out of profits or gains charged to Income Tax. (See paragraphs 28 et seq.)

The Report of the Departmental Committee of 1906.

19,444. (26) In 1904 evidence was heard by the Departmental Committee on Income Tax (the Ritchie Committee) and inter alia the question of the liability of Co-operative Societies to Income Tax was considered.

19,445. (27) The result can best be summed up in the words of paragraphs 136 to 139 of the Report of the Committee, which are as follow:—

"136. The suggestions made to us that the 'dividend' which is paid to members of these societies constitutes a profit which would properly be taxable, rest, we think, on a misapprehension of the nature of the 'dividend.' The so-called 'dividend' arises from the fact that the prices charged by the society to its

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"members are in excess of cost price. If the goods were distributed at the exact cost price, there would be no 'dividend,' and it follows that no question of Income Tax could arise. But the societies, for what they consider good reasons, prefer to fix a scale of prices which leaves a margin over and above cost. Thus an adjustment has to be made periodically, and the balance between cost price and distributing price is divided among the members in proportion to the value of their purchases. This 'dividend' is clearly not profit, but merely a return to members of sums which they have paid for their own goods in excess of the cost price. There can be no doubt that the procedure which we have described—resulting, as it does, in periodical returns to members—is conducive to thrift, and we see no reason for discouraging it.

"137. A society may, however, of course, make profit on dealings with non-members. This profit is, in the case of most ordinary societies, very small in amount. But so far as any such profit is made, and so far as any interest is paid on capital, if that profit or interest comes into the hands of any person whose income is over £150, it ought to be, and it is, taxable. There is, no doubt, some leakage in the assessment and collection of the small sums that become payable under these circumstances. This is inevitable under any system, and is not peculiar to incomes derived from Co-operative Societies. The leakage moreover, is in this case, we are satisfied, very trifling in amount as compared with evasion elsewhere, and will be, we hope, diminished by the proposals made earlier in this Report.

"138. We do not think, therefore, that any case for alteration of the Income Tax law was made out by the Traders' Associations; certainly none is required in the interests of the Revenue. Indeed, the particular proposals which have been put before us would not only on general grounds be inequitable or impracticable, but also, by reason of the expense they would entail, actually disadvantageous to the Treasury.

"139. The question whether societies registered under the Provident and Industrial Societies' Act ought to be subjected to any limitations with regard to their dealings with non-members was not referred to us, and we express no opinion upon it. But it has been brought to our notice that very large and varied enterprises in the way of manufacture, shipping, insurance and banking—enterprises which in some cases involve considerable and regular dealings with the outside public—are now carried on under the Industrial and Provident Societies' Act; and it may be worth consideration whether further enquiry should be made into the conditions under which the privilege of registration under that Act is conferred."

The present position.

19,448. (28) The broad position under existing enactments is as follows: tax is paid and borne by the societies at the highest rate (now 6s. in the £) under the following headings:—

- (a) under Schedule A, on land and buildings in the occupation, and used for the purposes, of the societies,
- (b) under Schedule A, on land and buildings owned by them and let to tenants,
- (c) under Schedule B, in respect of land in their own occupation.

In addition, Co-operative Societies are liable to deduct and pay over to the Revenue, Income Tax on any payment of interest on loans and deposits due by them, except in so far as such interest is paid out of profits or gains brought into charge to such tax.

19,447. (29) Some years ago, attention was drawn to the fact that a large majority of the persons

receiving interest from Co-operative Societies were exempt altogether from Income Tax, and representations were made that it would be to the advantage of the societies, of the Revenue Department, and of the recipients of the interest, if deduction of tax on payment of interest were discontinued and provision made in lieu thereof for the direct assessment of any recipient actually liable to tax.

19,448. (30) An arrangement was made accordingly between the Revenue Department and the Co-operative Union to the following effect:—

A society, being a member of the Union, may, in lieu of deducting tax on payment of interest, furnish yearly to the Surveyor of Taxes copies of its printed accounts and returns of the amounts of interest paid or credited to such individuals having fixed loans, or having moneys on deposit with the society, as, in the opinion of the responsible officer of the society, are in receipt of incomes exceeding £150 a year, together with their names and addresses. The liability of the recipients of the interest is thereupon dealt with by direct assessment.

A society desiring to take advantage of this arrangement notifies the Surveyor to that effect and submits copies of its rules and accounts.

19,449. (31) The effect of this arrangement is that instead of the Income Tax upon the interest in question being paid under deduction of tax at the highest rate and repayments being subsequently made to the various recipients of the income who are entitled to exemption or relief, the net amount of tax to which the Revenue is ultimately entitled from the recipients of the income is collected by direct assessment upon those persons.

19,450. (32) Although it is true that any system of direct assessment inevitably involves some small leakage of duty, it is suggested that the convenience of this arrangement, which obviates the necessity of making literally millions of adjustments of tax on behalf of persons of whom the great majority are entirely relieved from tax is of such magnitude as many times to compensate for the small loss of duty which is probably suffered.

19,451. (33) The method by which Income Tax is levied upon Co-operative Societies (see paragraph 28) is of course an exceptional one, but in the opinion of the Board of Inland Revenue, it is, apart from its practical convenience, effective in securing to the Revenue at least the amount of tax which upon existing general Income Tax principles is due to be collected from the societies.

19,452. (34) Under the principles of the Income Tax Acts the surplus which arises in a mutual concern from transactions with members (though it is sometimes described as a profit) is not a profit chargeable to Income Tax.

19,453. (35) The Board of Inland Revenue are aware that this fact has at times been challenged. But the question is one of law and as such, the Board are advised, in the light of decided cases, it admits of no reasonable doubt.*

19,454. (36) In the Excess Profits Duty Act (the Finance (No. 2) Act, 1915), in which the Legislature imposed a charge of Excess Profits Duty in respect of the increased surpluses of Industrial and Provident Societies, express words were introduced into the Statute to bring such surpluses within the term "profit" as used in that Act.

19,455. (37) This being the case, the Board of Inland Revenue base their view, expressed in paragraph 33 above, upon the following calculation.

19,456. (38) At least seven-eighths of the four million members of the various Co-operative Societies are shareholders in the distributive trading societies and in the productive and wholesale societies†; the statistics which follow have therefore (in order to

* The available surplus of an Industrial and Provident Society is described in the Industrial and Provident Societies Act by the term "profit." This does not of course affect the question of the liability to Income Tax. The question which arises in connection with that duty is not whether a particular margin or surplus is described as profit or otherwise but whether, as a question of law, it is a profit or gain chargeable with Income Tax under the Income Tax Acts.

† The productive and wholesale societies are practically owned by the distributive societies.

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amit labour) been confined to these particular classes of societies. The income tax liability of the balance would in any case be small. The aggregate income of these Co-operative Societies within the scope of the existing income tax charged is estimated as follows:—

I. in respect of annual value of property and occupation of land (Schedules A and B) ...	1,321,000
II. In respect of interest received on investments (Schedules C and D) ...	700,000
III. in respect of profits of trade with non-members (Schedule D) ...	250,000
19,457. (39) These estimates have been computed as follows:—	
I. Net annual value assessed under Schedule A, after deduction of the normal one-sixth allowance for repairs:—	£
(a) property owned by, and in the occupation of, the societies ...	1,029,000
(b) property owned by the societies, but let to tenants ...	288,000
total ...	1,317,000
assessed under Schedule B on the double rent basis ...	108,000
total amount assessed under Schedules A and B ...	1,425,000
less ground rent, feu duties and mortgage interest ...	104,000
	1,321,000

II. The investments, which consist mainly of mortgages on property and of War Loans, amount to £14,000,000 and accordingly £700,000 may be adopted as a near approximation to the interest thereon.

III. As to the trade with non-members, an investigation from the accounts of the societies has been made and indicates that not more than 2 per cent. of the total turnover of Co-operative Societies represents trade with non-members, and that the profit thereon, after deduction of the discount or rebate on purchases allowed to non-members, is about 7 per cent. on the sales to such non-members. In the year to 31st December, 1917, the sales to non-members were about £3,500,000 and the profits therefrom are estimated as £250,000.

19,458. (40) Upon the first of these items (No. I in paragraph 39) Income Tax is paid by societies under Schedules A and B at the rate of 6s. in the £, without adjustment or deduction.

19,459. (41) As regards the other items (Nos. II and III in paragraph 39), the societies are called upon to pay interest to the amount of some £2,350,000 per annum in respect of shares, deposits and loans, which amount to about £54,000,000. This, as has been explained above (see paragraphs 29 to 32), bears income tax in the hands of liable recipients at the appropriate rates. Under the existing principles of the income tax as they are applied to taxpayers in general, where the taxpayer is liable to pay interest and possesses profits or gains within the scope of the income tax available for making that payment, the income so available is set off against a corresponding amount of interest paid. Thus when the interest exceeds the taxable profits, the total liability to the Revenue is represented by the tax on the interest. It follows, therefore, that the Revenue, having received tax at the proper rates upon the interest (amounting to £2,350,000) upon shares, loans and deposits, has no further claim to tax upon the profits (£950,000 representing interest on investments and profits from trading with non-members) available for payment of the interest.

19,460. (42) Reference should perhaps also be made to the amount which, year by year, Co-operative

Societies place to reserve. In the main this surplus is a surplus arising from transactions with members, and therefore as above explained (see paragraph 34), it is not within the scope of that duty. It may, however, be noted in passing that, even if it were within the scope of that duty, the tax on this sum, together with the tax on profits of trade with non-members and on income from investments, would still be covered by the tax on interest paid.

19,461. (43) From another point of view it might be urged that Co-operative Societies should at least pay income tax upon the interest on the capital actively employed by them. This capital might be taken at £75,000,000. In fact, the Revenue does obtain tax in respect of the interest on share capital, deposits and loans—subject, of course, to the exemptions and allowances to which the individual recipients are entitled by reference to the amount of their total incomes—while the interest on surpluses and reserves, totalling £24,000,000, is more than covered by the tax under Schedule A paid on the annual value of property represented by buildings, fixtures and lands, totalling £35,000,000.

19,462. (44) In the foregoing paragraphs it has been taken as an assumption that the profits arising from trade with non-members and from investments may be treated as available for payment of interest which the societies are called upon to pay. This view is in conformity with income tax law as interpreted in particular in the decisions of the House of Lords in *London County Council v. Attorney-General* (1901, 4 Tax Cases, 205) and *Sugden v. Leeds Corporation* (1913, 6 Tax Cases, 211).

Revenue results if the law were so altered that any surplus derived from mutual transactions were treated as taxable profits.

19,463. (45) So far this evidence has proceeded by reference to the interpretation of income tax law under which any surplus arising in a mutual concern from transactions with members is not a taxable profit (see paragraph 34). The view is taken in some quarters that this principle ought to be reversed and that henceforth it should be prescribed by Statute that the total surplus of a mutual concern should be regarded as profit liable to income tax, and the charge computed by the same methods as are applied to the assessment of the profits of any commercial trader.

19,464. (46) In that event, mutual concerns would, no doubt, consider whether they would continue to conduct their business upon the same lines as at present, or whether they should so alter their course of business as to eliminate or greatly to reduce the surplus and thus to avoid liability to income tax.

19,465. (47) For the purpose of indicating the extent of the problem and the amount of revenue that might accrue in the event of the adoption of principles differing from those up to now in force, the Board of Inland Revenue have made estimates of the amount of tax which might be received in respect of Co-operative Societies (which are a species of mutual concern) supposing that the surplus of a mutual concern were prescribed to be a profit liable to income tax, upon the assumption that no diminution in the surpluses of mutual concerns resulted. These estimates, as given below, are subject to a margin of error of perhaps 10 per cent. They proceed upon the hypothesis that the existing special provision dealing with Co-operative Societies would be repealed, as being no longer apposite, and that Co-operative Societies would be charged upon the same methods as companies or other corporate bodies.

19,466. (48) The revenue now received in respect of Co-operative Societies is estimated at £465,000—Appendix V.

19,467. (49) If it were decided to consider as a profit liable to income tax all surpluses arising from mutual transactions so far as the same are not distributed, it is estimated that the Revenue would receive £619,000—Appendix VI.

19,468. (50) If, on the other hand, it were decided that the whole surplus whether distributed amongst the members or not is to be taxed, the corresponding resulting revenue is estimated at £1,094,000—Appendix VII.

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[Continued.]

CO-OPERATIVE SOCIETIES.

19,469.

APPENDICES.

- APPENDIX I.—Statement showing 5 years' operations of agricultural societies.
 " II.— " " " " " distributive trading societies.
 " III.— " " " " " productive societies.
 " IV.— " " " " " wholesale societies.
 " V.—Statement showing aggregate net tax at present payable to the Revenue, £466,000.
 " VI & VII.—Computation of Income Tax which would be payable on certain hypotheses.

19,470.

APPENDIX No. I.

AGRICULTURAL CO-OPERATIVE SOCIETIES.

Statement prepared from Reports by the Chief Registrar of Friendly Societies showing particulars as to the operations, &c., of agricultural societies, from 1912 to 1916.

	1912.	1913.	1914.	1915.	1916.
1. Number of members at end of year.	120,450	123,243	127,250	143,898	158,917
	£	£	£	£	£
2. Sales during year ...	5,080,729	5,487,003	6,047,864	8,456,849	11,127,741
3. Surplus on year's working.	44,995	2,966	95,181	162,657	184,086
<i>Allocation of surplus.</i>					
4. Interest on share capital	7,846	7,633	8,217	9,336	12,221
5. Dividends on purchases	10,867	12,049	13,369	15,080	19,609
6. Interest on loans and deposits.	Deducted	in arriving	at surplus	on year's	working.
<i>Liabilities at end of year.</i>					
7. Share capital ...	303,611	317,326	329,915	365,832	408,474
8. Deposits ...	16,576	18,857	15,439	16,777	26,082
9. Loans ...	355,463	401,065	431,685	491,275	519,847
10. Other liabilities ...	343,742	358,427	444,135	618,702	935,926
11. Balance of surplus and reserve.	212,763	231,505	307,743	439,633	550,522
<i>Assets at end of year.</i>					
12. Stock-in-trade ...	132,020	149,783	167,303	270,874	320,190
13. Buildings, fixtures and land used in trade.	444,690	506,903	553,136	613,376	628,621
14. Investments and other assets.	655,445	670,494	808,468	1,047,969	1,422,040

19,471.

APPENDIX No. II.

DISTRIBUTIVE TRADING CO-OPERATIVE SOCIETIES.

Statement prepared from Reports by the Chief Registrar of Friendly Societies showing particulars as to the operations, &c., of distributive societies, from 1912 to 1916.

	1912.	1913.	1914.	1915.	1916.
1. Number of members at end of year.	2,766,241	2,900,997	3,066,971	3,299,588	3,547,567
	£	£	£	£	£
2. Sales during year ...	80,789,348	85,787,203	89,861,869	106,803,439	125,363,364
3. Surplus on year's working.	11,774,494	12,882,216	13,539,016	14,924,511	16,650,576
<i>Allocation of surplus.</i>					
4. Interest on share capital	1,421,761	1,447,354	1,543,325	1,690,843	1,867,259
5. Dividends on purchases	9,905,496	10,278,874	10,967,580	11,891,685	13,394,854
6. Interest on loans and deposits.	Deducted	in arriving	at surplus	on year's	working.
<i>Liabilities at end of year.</i>					
7. Share capital ...	35,455,838	37,901,326	40,274,461	43,842,196	47,984,742
8. Deposits ...	2,015,062	2,079,355	2,116,386	2,498,427	2,841,364
9. Loans ...	2,874,350	3,150,225	3,166,940	3,201,812	3,136,339
10. Other liabilities ...	3,112,216	1,757,690	2,057,883	2,686,946	3,205,111
11. Balance of surplus and reserve.	4,518,988	6,663,969	7,337,384	8,206,166	9,091,848
<i>Assets at end of year.</i>					
12. Stock-in-trade ...	9,014,295	9,419,101	10,363,499	12,630,356	15,440,461
13. Buildings, fixtures and land used in trade.	13,771,354	13,853,947	14,564,896	15,112,430	15,333,002
14. Investments and other assets.	25,188,745	28,279,517	30,024,659	32,692,161	35,285,941

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[Continued.]

19,472.

APPENDIX No. III.

PRODUCTIVE CO-OPERATIVE SOCIETIES.

Statement prepared from Reports by the Chief Registrar of Friendly Societies showing particulars as to the operations, &c., of productive societies, from 1912 to 1916.

	1912.	1913.	1914.	1915.	1916.
1. Number of members at end of year.	47,821	52,376	49,865	51,740	58,247
2. Sales during year ...	£ 4,064,288	£ 4,327,932	£ 4,402,017	£ 5,281,110	£ 5,295,489
3. Surplus on year's working.	236,362	242,663	280,225	380,676	353,749
<i>Allocation of surplus.</i>					
4. Interest on share capital	49,635	48,971	46,273	54,908	52,688
5. Dividends on purchases	127,341	126,822	121,603	165,799	158,594
6. Interest on loans and deposits.	Deducted in arriving at surplus on year's working.				
<i>Liabilities at end of year.</i>					
7. Share capital	1,032,953	1,067,003	1,091,486	1,133,861	956,245
8. Deposits... ..	215,488	226,015	75,189	76,973	71,879
9. Loans	406,594	526,299	712,989	735,339	808,999
10. Other liabilities ...	224,119	204,943	212,271	187,539	242,562
11. Balance of surplus and reserve.	222,050	267,538	330,974	433,964	489,309
<i>Assets at end of year.</i>					
12. Stock-in-trade	522,143	569,352	639,685	560,585	710,836
13. Buildings, fixtures and land used in trade.	780,616	819,627	842,934	826,086	792,289
14. Investments and other assets.	797,445	912,819	940,290	1,181,005	1,065,879

19,473.

APPENDIX No. IV.

THREE CO-OPERATIVE WHOLESALE SOCIETIES.

Statement prepared from Reports by the Chief Registrar of Friendly Societies showing particulars as to the operations, &c., of the wholesale societies, from 1912 to 1916.

—	1912.	1913.	1914.	1915.	1916.
1. Number of members at end of year.	1,432	2,022	2,057	2,105	2,106
2. Sales during year ...	£ 38,126,329	£ 40,340,349	£ 44,342,506	£ 54,470,111	£ 66,732,485
3. Surplus on year's working.	1,030,281	1,205,956	1,376,650	1,709,084	2,265,141
<i>Allocation of surplus.</i>					
4. Interest on share capital	116,087	121,364	116,562	134,441	149,587
5. Dividends on purchases	731,488	745,903	963,454	1,267,660	1,420,709
6. Interest on loans and deposits.	Deducted in arriving at surplus on year's working.				
<i>Liabilities at end of year.</i>					
7. Share capital	2,369,504	2,504,766	2,608,043	2,786,339	3,176,228
8. Deposits... ..	2,868,237	3,233,446	3,654,543	3,904,629	4,042,183
9. Loans	3,134,715	4,250,021	4,147,499	4,349,854	4,452,586
10. Other liabilities ...	2,011,298	1,529,304	1,669,633	2,434,432	3,304,331
11. Balance of surplus and reserve.	2,243,747	2,333,882	2,713,275	2,988,311	3,343,321
<i>Assets at end of year.</i>					
12. Stock-in-trade	3,772,675	4,334,158	4,547,308	5,460,478	7,044,549
13. Buildings, fixtures and land used in trade.	2,097,674	2,095,200	2,202,207	2,962,819	3,019,601
14. Investments and other assets.	3,942,420	4,977,541	5,901,148	5,905,096	6,982,613

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[Continued.]

19,474.

APPENDIX No. V.

Aggregate amount of tax payable, year 1919-20, under existing conditions in respect of distributive trading, productive, and wholesale Co-operative Societies in the United Kingdom.

In this and the following Appendices the proportion of the interest on share capital, loans and deposits received by persons entirely relieved from Income Tax has, after investigation, been taken at 80 per cent.

Tax payable under Schedule A.	£
At 6s. in the £1 on £1,213,000 (i.e., on £1,317,000 less £104,000 for ground rents, &c.)	363,900

Tax payable under Schedule B.	
At 6s. in the £1 on £108,000	32,400

Tax paid on interest on share capital, loans and deposits, assuming that 20 per cent. of the total interest is liable to bear Income Tax, at an average rate of 6s. in the £, and that the balance is received by persons entirely relieved from Income Tax	69,831
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Aggregate amount of tax payable under existing arrangements	466,131
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say 466,000

The duty is payable in part by the societies themselves and in part by their members.

19,475.

APPENDIX No. VI.

Computation showing what would be the aggregate liability to Income Tax, year 1919-20 (payable in part by the societies and in part by their members), based on the combined results of the distributive trading, productive and wholesale Co-operative Societies, assuming:—

(a) that it has been prescribed by law that the surpluses not distributed, but allocated to reserves, including depreciation of buildings, and interest on share capital are profits or gains liable to Income Tax,

(b) that it has been prescribed that Co-operative Societies should be dealt with upon the same methods as companies or other bodies corporate, and

(c) that the results of the year to 31st December, 1917, may be regarded as equivalent to the average of the results of the years 1916, 1917 and 1918, on the basis of which years the computation under Case I of Schedule D falls to be made.

The computation proceeds upon the hypothesis that surpluses of mutual concerns would not tend to be reduced through being brought within the scope of the Income Tax.

Computation of the liability to Income Tax Schedule D, for the year 1919-20, starting from the balances shown in the societies' accounts and making the necessary adjustments for Income Tax purposes

	£
1. Surplus	13,900,000
Less "dividends" on purchases	13,500,000
	400,000
2. Interest or dividends on share capital	2,019,000
2. Interest on loans and deposits	303,000
4. Interest on mortgages	4,000
5. Transfers to reserves, including depreciation of buildings	1,150,000
6. Ground rents, feu duties, &c., not more than	100,000
7. Income Tax paid under Schedules A & B, estimated at	340,000
	4,321,700

Less

8. Assessed under Schedules A and B	1,425,000
9. Allowance of one-sixth for depreciation under Rule 5 (1) and (2) of Cases I and II. of Schedule D of the Income Tax Act, 1918	60,000
	1,485,000

Assessable profits under Case I. of Schedule D, year 1919-20	2,836,700
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The total tax payable under Schedules A, B and D would be:—

(i) Schedule D as above at 6s. in the £	851,010
(ii) Schedule A at 6s. in the £	363,900
(iii) Schedule B at 6s. in the £	32,400

Aggregate tax payable, subject to repayments	1,247,310
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The total amount that would be repayable to persons not liable to pay any tax (reckoned as in Appendix No. V at 80 per cent.) and to persons liable to Income Tax at the reduced rate of 3s. in the £ (computed on so much of the surplus only as is distributed by the societies)

628,479

Difference representing the tax retainable by the Revenue including tax at 6s. in the £ on any sums allocated to reserves, &c., and not distributed by the societies

618,831

say 619,000

APPENDIX No. VII.

19,476. Modification of the computation in Appendix No. VI, which would result, if it be assumed to have been prescribed by law that the surplus distributed by Co-operative Societies should be treated as profits chargeable to Income Tax, as well as the undistributed surplus.

This calculation also proceeds upon the hypothesis that surpluses of mutual concerns would not tend to be reduced if they were brought within the scope of the Income Tax.

Aggregate net tax retainable after repayments have been made as in computation in Appendix VI.	£ 619,000
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Net tax payable on the surplus and distributed as "dividends" on purchases and amounting to £13,500,000 at 6s. in the £	£4,060,000
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Less due to be repaid to persons not liable to pay any tax (reckoned as in Appendix No. V. at 80 per cent.) and to persons liable to pay Income Tax at the reduced rate of 3s. in the £	3,645,000
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Leaving a net sum payable amounting to	405,000
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Aggregate net tax retainable by the Exchequer	£1,024,000
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It should be noted that the estimates in Appendices No. VI and No. VII deal with the whole body of Co-operative Societies above specified as if they

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were one taxable entity, whereas, in fact, each Society would be separately assessable. In the result, there would be sundry minor adjustments which it is considered would affect the estimated tax receivable to an extent not exceeding 10 per cent. either way.

[This concludes the evidence-in-chief.]

19,477. Mr. Kerly: We have had the pleasure of seeing you before. You have given us some evidence which is of course of great importance, having regard to the question that has been raised, and it deals with the probable results of suggested changes in the law. You are familiar with our procedure?—Yes.

19,478. Mr. McLintock: In paragraph 24 you refer to the section which is now in operation with regard to the assessment of Co-operative Societies, which reads: "A society registered under the Industrial and Provident Societies Act, 1893, shall be entitled to exemption from tax under Schedules C and D, unless it sells to persons not members thereof, and the number of its shares is limited by its rules or practice, but no member or person employed by the society shall be exempt from charge to the tax to which he would otherwise be liable." I take an extreme case; if there was a Co-operative Society whose membership was unlimited, who had one member and 99 non-members, it would still not be liable to tax?—That is so, yes.

19,479. Mr. May: It cannot have less than seven members.

19,480. Mr. McLintock: Well, then, I will say seven and 83.

19,481. Mr. May: It is a provision of the Act that the minimum number to form a society is seven.

19,482. Mr. McLintock: I will put it in another way, then, that a society whose actual members were limited to the minimum number required by law, namely, seven, out of 100 customers had seven members and 93 non-members?—Then it would be making a profit out of its non-members far in excess of what it would be making from its members. As regards the profits made from its members, the society would fall within the exemption. If the number of its shareholders was unlimited, but in fact was only seven, it would still fall within the exemption as regards the profits made by the seven members trading with one another.

19,483. I am assuming its membership was unlimited?—Yes, I follow.

19,484. But that the relative proportions of non-members' trade and members' trade is preponderatingly in favour of non-members?—Yes.

19,485. Are they not exempt?—Undoubtedly they are exempt from direct assessment under this exemption.

19,486. Mr. Kerly: Does it not come to this, that on the terms of this section the society, if it complies with both conditions, is not as a society to pay under Schedules C and D?—That is so.

19,487. That is Mr. McLintock's point?—Yes.

19,488. Mr. McLintock: That is my point—however extreme the position may be?—Yes, however extreme.

19,489. Mr. Kerly: But it must comply with both conditions?—Undoubtedly.

19,490. Mr. McLintock: Arising out of a position like that, you refer to the Report of the Departmental Committee that a society may of course make a profit on dealings with non-members. It is suggested that the profit is small; that is in your paragraph 27 (paragraph 137 of the Report): "But so far as any such profit is made, and so far as any interest is paid on capital, if that profit or interest comes into the hands of any person whose income is over £100, it ought to be, and it is, taxable." Is that statement correct to-day?—Those profits, so far as they are distributed as interest on share capital and interest on loans and deposits, are taxable in the hands of the recipients, and are taxed.

19,491. Is it only the interest on loans or on capital that is referred to there? You say, "A

society may, however, of course make profit on dealings with non-members"?—Yes.

19,492. I am assuming the non-member has no share capital in the concern, and he has no loans?—A non-member cannot have share capital.

19,493. Quite; he has neither?—No.

19,494. Therefore the expression "profit on dealings" must mean the profit on the sales made to him?—That would be so. I assume the question will be whether they are profits or are not profits. If the non-member receives any portion of the so-called profit, it is treated not as a profit, but as a discount; that is the present position.

19,495. In other words, if a non-member, say, gets half the dividend or deferred discount, or whatever else you like to call it, paid to him at the end of a given period, that is not considered profit?—That is not considered profit, no.

19,496. Then assuming that on the sales of the society as a whole 3s. in the £ is repayable to members, and the non-member gets 1s. 6d., is it a fair assumption that the society have made 1s. 6d. profit off the non-member's trade?—No, it is not a fair assumption, because as a rule I should assume that what is purchased by the non-member will produce a smaller profit, because the non-member would not be likely to trade with the society unless he saw some advantage in so doing, and therefore he would in all probability be purchasing those goods which were cheapest and showed the least profit; that is how it strikes me.

19,497. Is it reasonable to make any such assumption as that in a great mass of sales, say in a grocery department, that a non-member's purchases are held to be of goods which carry the minimum rate of profit?—I think to a great extent, because otherwise I see no inducement to the non-member to go and trade with the Co-operative Society.

19,498. He gets his half discount or half dividend?—He might even then get greater advantage, because, for instance, some Co-operative Societies have sold bread at practically cost price, as evidenced by the fact that they have given no dividends or discounts in respect of those purchases. It is only an assumption; I cannot say more, and I cannot say definitely.

19,499. The point I want to make is this: while there is supposed to be an assessment of the profit of non-members, as a matter of actual practice there is never any?—Because the law does not allow it.

19,500. This statement here is: "so far as any such profit is made"—Is it not "by the members"?—

19,501. No, it is paragraph 137 of the Report of the Departmental Committee of 1905, quoted in your paragraph 27.—Yes, you are perfectly right, it does say so. "If that profit or interest comes into the hands of any person whose income is over £100 it ought to be, and is, taxable"; but then that is profit.

19,502. The only thing that could ever come into the hands of a non-member buyer from a Co-operative Society is his dividend?—That is so, but that is not profit.

19,503. You have decided that that is not a dividend, but a deferred discount or rebate; therefore there never can be any profit?—That is so; the so-called profit, even when received by the non-member, is really a discount on his purchases.

19,504. The whole agitation as to taxing co-operators is not on the question of their interest or their dividends on the capital, but on the profit made on sales?—That is so.

19,505. I suggest it is just a little bit misleading, not on your part, but in the quotation of a paragraph like this, to suggest that there is ever any assessment of profit, as it is generally understood?—I almost think it would elucidate the point very clearly if I mentioned a fact that has come under my notice. There are a number of private traders carrying on their businesses and calling them dividend stores. These traders give their customers—they are not members, of course, they are customers—a so-called dividend at the end of each quarter or half-year.

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Apropos of the question as to whether the so-called dividend can be a profit (I will put this in afterwards if you desire), I got this peculiar result, that five traders have a turnover of £177,694; they distributed in dividend to customers £26,841; they had a profit left to themselves of £2,628 only, that is only one-tenth. The difficulty appears to be this, that if those dividends were taxable profits, it would either be necessary to tax the proprietor of the business for them, or to follow them into the hands of the customers, of which there is and can be no record; and we should be landed in this position, that we must either penalize (I suggest it is penalize; I hope I am not using too strong a term) the proprietor of the business and make him pay on 10 times the profits that go into his own pocket, or we must follow the sales into the hands of a customer and try and get the tax from him. It seems to me that the same difficulty arises in the case of a Co-operative Society, if the dividend paid to a non-member is a profit. Inasmuch as those non-members are not recorded and we could not tell who they were and how much they got, we should find it impossible to get the tax.

19,506. I appreciate that, and the point I really wanted to make was that, while that statement appears and gives one the impression that there is a tax imposed on that portion of the Co-operative Societies' profits, as a matter of fact there is none?—No.

19,507. And there cannot be as things stand at present?—As things stand at present it is not regarded as a profit; but please do not take it from me that I want to suggest that this Commission might not come to the conclusion that it ought to be regarded as a profit, and that steps ought to be taken to tax it. I am only trying to explain what is the present practice and what is regarded as the present legal liability.

19,508. May I give you a much bigger instance which you are probably familiar with, that of the Imperial Tobacco Company, who give regular bonuses to the buyers of their goods? The practice is for the Imperial Tobacco Company, I believe, not to charge that payment as a business expense, as these multiple shop people did in the instance you have given, and consequently it comes into the coffers of the various buyers of their goods and is included in their accounts as a taxable profit. Is not that a parallel case exactly as to what does happen, in effect, with co-operators?—No, I am not quite sure that it is altogether parallel; to a certain extent it is.

19,509. To take a figure, the Imperial Tobacco Company pay £100,000 of bonuses to the buyers of their goods.

19,510. Mr. Walker Clark: Is not the parallel better with the Wholesale Co-operative Society than with the distributing society.

19,511. Mr. McLintock: I would rather stick to the retail. The recipient of that bonus would have to pay the tax on it as part of his profits if the Imperial Tobacco Company wished to treat it as an expense of their trade?—May I put that perhaps in a different form, as it appeals to me. I should say that the customer of the Imperial Tobacco Company, inasmuch as he is a trader himself, in effect would pay the tax on that, because it would be a diminution of the cost of his goods, and he would only be entitled to charge in his accounts what he paid for his goods less this discount or bonus which he received at the end of the year. Therefore I should justify the inclusion of that bonus in the trader's accounts as a taxable profit, but by mutual agreement with the Imperial Tobacco Company a good deal of labour and unnecessary work has been obtained by the Imperial Tobacco Company agreeing to account for the tax themselves.

19,512. You draw a distinction between the mutual trader and the two trading concerns such as the Imperial Tobacco Company and its customers?—Yes because one customer is a dealer trading in the goods he purchases and the other is merely a consumer, and therefore he makes no profit after he purchases his goods.

19,513. I agree. In paragraph 30 you refer to an arrangement which was made between the Revenue Department and the Co-operative Union with regard to the assessment of tax on the recipients of interest from the Co-operative Societies. How do you suggest that the responsible officer of any Co-operative Society is able to determine the incomes of all the great mass of three million members?—He cannot do it completely, but inasmuch as the number of members of the Co-operative Societies who are liable to pay tax is very small he cannot go far wrong if he exercises a reasonable discretion and returns all those that he thinks are likely to be liable. The exercise of a reasonable discretion will result in his returning far more than will actually be liable, because so many of the people he knows who have got decent incomes will not be liable to pay tax owing to the numerous reliefs which they are entitled to under the Acts; and coupled with that is the fact that the Surveyor of Taxes has the right to question the list and to satisfy himself as far as he considers necessary as to whether any names have been omitted.

19,514. Mr. Walker Clark: To examine the list of the shareholders?—I forget what it says as to that—"submit copies of his rules and accounts"—and he would naturally examine the list of shareholders if he thought it was necessary.

19,515. Mr. McLintock: Do you suggest that that is a satisfactory method of getting at that portion of the members of Co-operative Societies who may be liable?—Well, it is probably as satisfactory as anything I can conceive, because the members are so numerous that if the Surveyor had to go through the whole list it would be an enormous job, and he would, in order to arrive at an absolutely accurate result, have to serve forms on thousands of members with no result in revenue.

19,516. I suggest that in any given district it is not quite such a formidable task as it would appear. The Surveyor has a return, from all the employers of labour in the district, of the employees whose salaries or whose remuneration exceeds £130, and by putting the two sets of lists in alphabetical order he could easily pick them out from the smaller one, the employers' return, which contains actual figures, instead of the mere guess-work of the secretary of the Co-operative Society?—He could, but I think it would be only fair to look at results. The members themselves are liable to return their interests, whether from share capital or loans. They do, in fact, make returns in great numbers, and if any do omit to return, the amounts in the great bulk of cases are so infinitesimal that they certainly would not be worth the trouble of hunting for; consequently, in my opinion, the amount of tax which is lost by omission to make returns, and it must be admitted there is some loss, would not be sufficiently material to justify embarking on an alternative system which would involve so much labour.

19,517. Your last answer was just leading up to the last question, that, in your opinion, the Revenue do not lose by this method, which is not, I think, in force anywhere else; there is no other outside individual allowed to determine the possibility of a man's taxable capacity in any other group of persons?—No, but I must make this point, that as the law stands at present, assuming our view of the law is the correct one, the Revenue is at the present time getting more tax from Co-operative Societies than it would get if a Co-operative Society was taxed on the same basis as a private trader, and therefore we have nothing to worry about.

19,518. One question in order to get an explanation with regard to some figures in your paper Appendix No. II, "distributive trading Co-operative Societies." The "surplus on year's working" under heading No. 3, is, I suppose, what you would term in the case of a trader the profit of the year. I merely want to know if that figure corresponds with what in a trader's accounts would be the year's profits?—No, I think not, because this figure corresponds with the gross amount that I referred to in the case of the private individual running his business as a dividend store.

19,519. That is profit before charging interest on share capital or dividends to purchasers?—That is

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so; it is the profit of the business subject to the ordinary Income Tax adjustments.

19,520. The point I wanted to make was this: the total of that surplus for 1916 is £16,660,576, and you then charge against it the interest on the share capital and the dividends on the purchases, which amount to £16,200,000 odd. Where has the balance gone; can you tell me? Part of it has gone to reserve, presumably?—Part of it will represent the dividend for the last quarter, which in this year in particular will be in excess of the dividend of the last quarter of the preceding year it came in; in some cases it includes reserve for Excess Profits Duty, and it will also include the sums set aside to permanent reserve.

19,521. That, of course, appears?—Apparently there is an increase in the last quarter's dividend of £440,000?

19,522. I assumed that the dividends applicable to that year were all included under line 5, because you refer to that as the allocation of the surplus?—That is the way in which the Registrar draws it up.

19,523. The point I wanted to make was that on those figures there is a difference of, roughly, £1,350,000 between the allocation you give and the surplus itself?—Yes, that is right.

19,524. In line 11 you get the balance of surplus and reserve, which has been increased, apparently, by £385,000, but there is still a half million missing?—£440,000 of that is the increased dividend for the last quarter of the year not paid away.

19,525. Does "dividend on purchases" include only nine months' dividends?—Plus one quarter of the preceding year, and as the trade and surplus was greater in this year so there was a considerable increase in the last quarter's dividends.

19,526. These are the Registrar's figures as you get them to make any necessary adjustments to balance?—That is so, yes.

19,527. It was a large sum, and I wondered where it had disappeared to?—As a matter of fact, there are some very serious errors in the Registrar's figures which he reported he had discovered, and which will be corrected in the future returns.

19,528. I take it 1916 is the last return the Registrar has available?—Yes, the last that is complete. We have got information for 1917, but it is not published yet.

19,529. Mr. Armitage-Smith: I would like to know what the view of the Inland Revenue is on the suggestion put forward by the co-operative movement that they are actually overtaxed at the present time. I will read the fifth point in the summary of their evidence in-chief [see Q. 13,426]: "that co-operators, by paying tax on share and loan interest, and by the payment by their societies of taxation under Schedules A and B, pay too much Income Tax," and the proposal is "that the present exemption from taxation at the source in the case of Schedules C and D should be extended to the other Schedules"?—It is a very awkward question to answer. It is a question really for the Royal Commission. If a Co-operative Society is to be treated like an ordinary trader you have only to look at the statements that I have put in showing what the profits are and what tax we are already receiving under Schedule A to see that their statement cannot be controverted, viz.:—that the Revenue is receiving more tax than it would receive, assuming that dividends on purchases are regarded as non-taxable; but the present practice, which I do not question or defend, I assume is a practice which has been approved by the Co-operative Societies among themselves and by the Legislature.

The Revenue has no cause under the existing conditions to find fault with it, but that is not a question for me; it is a question for the Royal Commission. I am not an advocate for either side. I can only answer the definite question.

19,530. Mr. Kerly: Your answer is yes, as appears from your table?—That is so.

19,531. Mr. Symonds: You said yes, assuming, I think the words were, the dividends payable were not treated as profits?—Certainly.

19,532. That is a very important qualification, is it not? You say the Legislature says that those dividends are not profits within the meaning of the

Income Tax Acts?—No, pardon me, I do not say that the Legislature has said that.

19,533. Well, who has said it? Let me put my question in a definite form. I refer to paragraph 34 of your statement and paragraph 27, which quotes the Departmental Committee, and the footnote to paragraph 35: "(34) Under the principles of the Income Tax Acts the surplus which arises in a mutual concern from transactions with members (though it is sometimes described as a profit) is not a profit chargeable to Income Tax." In mentioning the words "mutual concern," is not that equivalent to saying, and do you not intend to state, that the profits made by the Co-operative Societies are not profits under the Income Tax Act?—So far as distributed in dividend, I do say so.

19,534. What is the authority for that statement; has the Legislature ever said so?—The Legislature cannot legislate for every individual point, and it is the administrators of an Act of Parliament, with the assistance of the Courts, who have to interpret these Acts, and this is the interpretation of the Act.

19,535. Have the Courts said so?—I submit so.

19,536. When?—Because they have repeatedly stated that the so-called profits or the profits of a mutual body are not taxable.

19,537. That is the ground on which you say it?—Yes.

19,538. In a sense is this strictly mutual trading? Who makes the profit, if any, in the first instance? Is not the society as a corporate entity a statutory body?—That is so, yes.

19,539. They do not distribute the gains until the end of the year or half-year?—Or quarter.

19,540. Part of the money goes as a cash payment to the member, and part to reserve?—Yes, after paying various interests.

19,541. Yes; we will leave out that point and stick to the one point. Will you tell me what is the difference between that form of trading and the trading of the limited liability company doing the same sort of business, distributing cash dividends and placing moneys to reserve?—A limited liability company has shareholders who invest their money for the purpose of earning profit or dividend. The shareholders of a limited liability company may or may not buy. If they buy goods they pay the price and they get no return. Any return they get is dividend on their capital.

19,542. Would you kindly eliminate the mode of distribution; I want your answer to confine itself entirely to the method of earning the profit, not to the method of distribution. Before you come to that, are you not aware that the method of distribution of profit does not make any difference whatever to liability to Income Tax?—Except so far as it is distributed to the members of a mutual body.

19,543. You are still going back?—But I must answer the question.

19,544. To what extent is it strictly mutual; it is not the members who make the contracts, is it?—Certainly.

19,545. Is it the members who make the contracts for the purchase of the goods?—For their own purchases, yes.

19,546. Is not it the society?—There are two contracts; the society buys the goods to sell.

19,547. The society buys the goods and the society sells them?—Yes.

19,548. Therefore the society is the trader?—The society is the trader, yes.

19,549. Well, that is not mutual, is it?—I am afraid I cannot admit that.

19,550. Why?—If you ask me my opinion I can only—

19,551. Let us test this by the question of the reserves. The reserves of a limited liability company undistributed are taxable, are they not? Take the Army and Navy Stores, which certainly until recently was confined to members. Their reserves, if any, are taxable, are they not?—There is no exemption at all for the Army and Navy Stores.

19,552. That is because it is under the Limited Liability Acts?—Or rather because it is not under the Industrial and Provident Societies Acts, and its shares are limited in number.

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19,553. Taking the Army and Navy Stores, is not that just as much mutual trading as an ordinary Co-operative Society?—There is no mutual trading with the Army and Navy Stores for this purpose, because they do not give dividends on purchases, and it is admitted that so far as the members of the Co-operative Society are concerned—

19,554. If they did would they be taxable?—I submit not, under the present conditions, because they are discounts on purchases.

19,555. Mr. Kerly: Mr. Synnott, need we go over this again and again? May I suggest to you that the distinction was, I thought, agreed yesterday to be that the so-called profits is distributed in a limited company according to the interest of the participants in the capital; in a Co-operative Society the only difference is the method of distribution—it is distributed according to their share in the turnover.

19,556. Mr. Synnott: But my point, which goes to the whole root of the matter, is that the method of distribution of profit according to all the authorities has nothing to do with the test question as to whether a taxable profit is made or not.

19,557. Mr. May: But you will not allow the witness to answer your questions.

19,558. Mr. Kerly: I thought I was assisting. The answer left open the argument as to whether method of distribution made any difference; if I cannot help I will not pursue it.

19,559. Mr. Synnott: I will only ask one more question. As regards those reserves, the members are not entitled to them at all, are they, except on liquidation. If a member withdraws or dies, he does not get any share in these reserves?—I am very much afraid you are trying to make me appear as an advocate for one side or the other, which I am not.

19,560. I should not have said so but for your definite statement in paragraph 34, which I confess I am surprised at?—I must point out this, that the members of a Co-operative Society are the society, and if you ask me—

19,561. Pardon me, is that your answer?—No, let me finish, please. The question I understood you to ask was: are the reserves the property of the members? I must say that if the members like they can pass a resolution to distribute these reserves in the shape of increased discounts; they have the power to do it, but I do not suppose they would.

19,562. I have only one more question, and that is, if it be the fact in law and common-sense that the members are not the society, the root of your argument goes?—Yes, if the members are not the society, I think so.

19,563. Mr. Kerly: It is the fact that for some years past, the Inland Revenue have acted upon what is stated in your paragraph 34. The matter that we are discussing "has at times been challenged. But the question is one of law and as such, the Board are advised, in the light of decided cases, it admits of no reasonable doubt." I must say, speaking not as an expert in this part of the law at all, that that strikes me as a most extraordinary result to have arrived at. I should have thought that section 39, sub-section 4, assumed that the Legislature contemplated that those were profits, otherwise there would be no taxation under Schedules C and D. That may be quite wrong, but the view that the Board are acting upon, and have acted upon, is that they are not profits because of the element of mutuality?—Absolutely.

19,564. Very well, we have not that quite clear; it is not a matter for discussion; it may be right or wrong.

19,565. Mr. Walker Clark: On paragraphs 32 and 33, do you not there admit both leakage and exceptional treatment?—Exceptional treatment in collecting tax from the recipients rather than at the source, that is so.

19,566. And also in paragraph 32, leakage?—Yes, there must be some leakage in all assessments.

19,567. Can you indicate to the Commission in any way the extent of the leakage?—I am afraid I cannot, but I do know that we receive a considerable number of returns from recipients, and having regard to the large proportion of the amount distributed in interest which is undoubtedly exempt from taxation,

and to the amount that we get returned, I do not think the leakage can be really material.

19,568. Is it not rather a suggestive thing, and does it not suggest conniving, shall I say, on the part of the Inland Revenue, to admit leakage and exceptional treatment and take no strong steps to remove it?—Well, the reason for that would be that the amount—

19,569. That the game was not worth the candle?—Exactly, that the game is not worth the candle. The leakage would be much less than the expense.

19,570. But still, as a matter of principle, you admit both exceptional treatment and leakage. Is it not a fact that Municipal Corporations do, on their trading profits, pay tax which would, in the ordinary circumstances of a limited company, be returnable to those who are below the assessable limit?—Municipal Corporations, do you mean?

19,571. Yes, on their trading concerns?—Yes.

19,572. It is a fact, is it not?—Yes, if they went to the individual.

19,573. And it is a fact also that building societies, because of the number of their members who are below the limit, pay a commuted rate of tax on their trading?—Yes.

19,574. And under Schedules C and D, Co-operative Societies do not pay either commuted tax, or any tax at all?—Not directly, that is perfectly true.

19,575. In paragraph 36, you allude to the Excess Profits Duty. Does not the imposition of the Excess Profits Duty admit the principle of a taxable profit?—Yes, it does.

19,576. In paragraph 42 you deal with non-members' trading. Have you any means of ascertaining the amount of trading with non-members?—Yes; it has been investigated, and I am satisfied myself that it will not be more than 2 per cent. of the total.

19,577. Does that include the enormous trading that is done with non-members in connection with, for instance, the two examples that were discussed yesterday, the shipping of cargoes of private traders which were carried in vessels owned by the societies, and also what might be called by-products?—That refers to the wholesale society.

19,578. Not exclusively. The purchase of bullocks is in the butchering department.

19,579. Mr. May: It applies exclusively to the wholesale society as far as shipping is concerned, which is easily run at a loss. Is it not a fact that the distributing societies purchase in quantities, but they do not resell in quantities to non-members?

19,580. Mr. Walker Clark: Yes. They must sell the hides, for example, and a great many other things. If you buy a live bullock, there is an enormous portion which is not usable?—Excuse me, that is not selling in quantities like shiploads. The wholesale societies have bought in very large quantities and sold in very large quantities to non-members, but the distributing societies do not make any bulk sales, that I am aware of, to non-members. The hides are practically the offal.

19,581. You regard that not as a sale?—Certainly, it is a sale, and I included it in my 2 per cent.

19,582. Have you ascertained any figures from either the ship-owning organisation or the organisation as a whole, of the amount in value of those sales?—Yes. In the case of the wholesale societies—

19,583. I am speaking of retail societies, distributive societies?—We have collected from a large number of societies all over the country, and have got the actual facts.

19,584. Certified facts?—From the societies.

19,585. On this question of profit, you know that in many cases stores have departments which earn a large profit, others which earn a small profit, and others which earn no profit. A member's purchases may be in any one of the three classes?—That is perfectly right, yes.

19,586. And the distribution of the profit is a pro rata average according to his purchases?—That is so.

19,587. And not on the individual purchases of the individual member?—No.

19,588. Can such trading be distinctly called mutual trading?—It is my own opinion, and I say it with all deference, undoubtedly yes, but—

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19,589. That is quite enough for me?—You do not want to know my foundation?

19,590. No, that is quite enough for me. Is there any intimate relationship between the Registrar General and the Inland Revenue so far as membership is concerned?—None whatever, so far as I am aware.

19,591. The figures supplied to him are sent on to you?—No, they are not. We have to get the blue book like any other person.

19,592. There is no intimate relationship between the Registrar General and the Revenue?—Absolutely none; I am not aware of any whatsoever.

19,593. So far as his returns are concerned?—None whatsoever.

19,594. And you receive no returns except what are asked for as to the members who are likely to be liable for Income Tax?—The Registrar does not know that.

19,595. I say you receive none?—From whom?

19,596. From the societies?—The only returns we have from the societies are the returns which they undertake to make of the interest paid to liable members.

19,597. But that is the only relationship. You have no means of ascertaining from personal investigation.

19,598. Mr. Kerly: Their returns are never made, and consequently they are never criticised by the Surveyors.

19,599. Mr. Walker Clark: That is the point, thank you. (To Witness): Is there not a very distinct difference between the class of profit to which you alluded as an example of the dividend-paying grocer, the five together of £177,000, who returned £26,000 in bonus and dividends to the customers and made a profit of £2,000 for the five firms, and that of a Co-operative Society? Is there not a genuine difference in their class of relationship to the Revenue?—The only difference is that the private individual pays tax on what is left for himself.

19,600. Under Schedule D?—He certainly pays tax on what is left to himself; he does not pay tax on these discounts.

19,601. He pays tax under every one of the heads?—Yes.

19,602. So that there is actually no analogy?—There is no analogy between the two except so far as the discounts are concerned.

19,603. And you think there is an analogy in the discounts?—Certainly, because they are sums returned to their customers, or the purchasers of the goods, at the end of the quarter in each case; I cannot see any distinction.

19,604. May I point out there is a vital distinction? The man who conducts that class of business enters into a contract with every customer that he will return a fixed sum?—No, pardon me, I must correct that; he says he will return something at the end of the quarter; he does not know how much it will be until he makes up his accounts.

19,605. I have never heard of accounts of that kind. He must return a fixed sum irrespective of dividend?—And wait till the next year to correct himself?

19,606. No, they do not correct themselves at all. It is a fixed sum?—No, I never heard of it.

19,607. Well, that is so in our record.

19,608. Sir E. Nott-Bower: I want to ask you a question or two on paragraphs 43 and 35, which really are the most important element in the whole case. On the question whether the surplus arising from dealings between a mutual company and its own members is capable of being called a profit or not, I see you say here in paragraph 35: "The Board of Inland Revenue are aware that this fact has at times been challenged. But the question is one of law and as such, the Board are advised, in the light of the decided cases, it admits of no reasonable doubt." It has been suggested by witnesses who have come before the Commission that the Board of Inland Revenue were wrong in adopting that view,

and reference was made especially to the case of the New York Life Assurance Company v. Styles, which, I expect, is one of the cases to which you refer in section 35?—It is.

19,609. The suggestion was put to the Commission that the Inland Revenue Department have been wrong in thinking that the New York Life case applies to the co-operative case, because in the New York Life case they were dealing simply with one thing, life policies, whereas in the Co-operative Societies they are dealing with many things. If the Co-operative Societies dealt only with sugar or with tea, then the New York Life case might apply, because in that case the return to the member would be a return of his own contribution, and would not be part of a payment out of the general fund. You buy so many pounds of sugar and get a return back. The return that you get back, which came out of the general surplus, would be actually the excess of the payment over the cost of the particular article bought?—That is so.

19,610. I think that is an argument which, on its merits, apart from the construction of the Courts, seems to gain a good deal of support?—Yes, there is a great deal to be said for that point, undoubtedly.

19,611. The question I wanted to put to you is this. Could it be said in the New York Life case—it certainly cannot be said, can it—that the excess contribution returned in the shape of bonus to the participating policyholder is in any sense a return to him of his own excess contribution?—I think there is a very great distinction. I cannot help feeling that the principle of mutuality is less pronounced from that point of view in the case of participating policyholders.

19,612. I agree. I think the co-operative case is a *fortiori*.—A policyholder who pays one premium and then dies is, in more senses than one, better off.

19,613. In point of fact, in the case of the participating policyholder, the man himself, if he dies the next day, reaps an enormous profit?—In both worlds.

19,614. So you carry the point a little further. Supposing he lived beyond the first distribution of bonus; supposing he lived six or seven years, when the bonus was first distributed he would get a share of the profits. He would have a share of the profits assigned to him, although nobody knows at that time whether his particular contract is going to be a source of profit or of loss. If having received that share of bonus, he dies, he gets the amount assigned to him under his contract; he gets the bonus which is a share of the profits, and yet the transaction as between him and the company has been one of pure gain to him and pure loss to the company?—Unquestionably, and I cannot see how mutuality involves equal or exactly proportionate gain to each. I think it is a case of one for all, and all for the same. Rightly or wrongly, I am only trying to justify the view we have held.

19,615. I agree. I have great sympathy with people who think that that judgment goes a great deal too far, because I was in the Inland Revenue before the decision of the House of Lords in the New York Life case. I remember that we fought that case right up to the House of Lords. Our view throughout was that the profit was chargeable, but the highest Courts of the land have said that it was not, but that the mutuality covered them?—That is the whole trouble that we have been faced with.

19,616. The Board of Inland Revenue could not have carried the point any further. They have got a judgment of the House of Lords; what more could they do? That is the law of the land.

19,617. Mr. Synnott: Can we have that case. Mr. Chairman?—Styles v. New York Life Assurance Company.

19,618. Mr. Kerly: It is reported in 2, Tax Cases, and it is also in the Law Reports, 14, Appeal Cases. May I make this suggestion. After all, it is not a question of what the existing law is. Any observations of the learned Lords in that case are only useful to us as reasoning to suggest whether we should

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declare whether the law is one way or the other, or that it shall be one way in the future in unmistakable terms.

19,619. *Sir E. Nott-Bower*: Of course, what we have to consider is, assuming that the New York Life case does apply to the Co-operative Societies, whether that is right, and whether any change in the law is required. It would follow from that, would it not, that if we want to change the present position of affairs, and to make that surplus chargeable, it would be necessary not merely to repeal the exemption, which at present stands on the Statute Book, of the Co-operative Society as an entity under Schedules C and D, but it would be necessary, if you want to charge that surplus, to invent some new definition of profit?—I agree absolutely.

19,620. I think it would be a very difficult matter, would it not, to arrive at that new definition of profit without doing a great many other things than we have in our mind at present?—It would create difficulties in various directions. I submit it would practically involve legislation *ad hoc*, not general legislation which would involve the extension of the principle to sun cases as I have already mentioned, or to the general trader who gives a discount at the end of three or six months. It would have to be made perfectly clear.

19,621. You would not suggest a clause, would you that a fund which, in the hands of anybody else, is not profit, should be regarded in the hands of a Co-operative Society as being a profit?—Of course I cannot suggest that.

19,622. It has been suggested to the Commission that the mere fact that the exemption from Schedules C and D stands on the Statute Book would be an inference that in the minds of the Legislature, when that exemption was put on the Statute Book, this surplus would have been chargeable if that exemption had not been put in. The exemption extends to Schedule C as well as to Schedule D?—I do not think it involves a suggestion that the so-called profits or "dividends" would have been liable to tax without that provision.

19,623. You do not think so?—I do not think so; I cannot think so.

19,624. I think, for several reasons, the exemption was wanted for other purposes; it was transplanted really from the Friendly Society Acts?—Yes.

19,625. And the Co-operative Society was given the same exemption as a Friendly Society. It certainly extends to something other than this surplus, because Schedule C is mentioned. The Co-operative Society might have investments under Schedule D; it might affect other things?—I think it would probably help the Commission very much if I gave you a few words out of the report of the Registrar of Friendly Societies of 1879; it is only a few words, and I only discovered it last night: "The use of what is called co-operation has, however, extended participation in trade to the working class, and associations have been formed for carrying on a co-operative trade which numbers thousands of members, only a very small proportion of whom have incomes reaching the assessable limit. Where this is the case, it is simply absurd to adopt the old method of assessment. Nothing can be more onerous than to attempt to reach the few individuals whom the tax would really affect through the body at large. It is simply to invite a flood of applications for exemption. It is thus altogether in ease of the Revenue that the enactment in question was inserted in the Industrial and Provident Societies Act of 1875. The effect is simply to say that only that portion of the profits of the societies which is really assessable shall be assessed." That was the view taken at the time the specific exemption was inserted.

19,626. *Mr. Marks*: That has all been challenged, *Mr. Chairman*, as we know.—I am only giving that as ancient history, and as showing the view at the time.

19,627. *Mr. Symonds*: It was the view of the Co-operative Societies; it does not necessarily express the views of other sections.

19,628. *Sir E. Nott-Bower*: Avowedly, this view of the Board is based on judicial decisions, and, I

understand, mainly on this New York Life decision to which the witnesses have referred.—That is so.

19,629. Before the decision of the New York Life case, if the Board had been asked whether, if it had not been for the Statute in question, the surplus of a Co-operative Society was chargeable, they would probably have replied "Yes," would they not?—I think it is perfectly right to say that they were of that opinion until the New York Life decision was given.

19,630. It shows how necessary, in view of such doubts as that, that exemption under Schedule C and D was, in order to save the surplus from being charged, on the assumption that they desired to save it from being charged?—May I add one word as showing how very controversial the point was. It came before eight judges in the three Courts, and the final result was that four judges held one view, and four the other, and it was in the House of Lords decision, two to one, that carried the final result, which, as I submit, has bound us ever since.

19,631. *Mr. Preyman*: I should like to ask two or three questions to see exactly where we stand about this. Most of this examination has turned on the question of profits?—Yes.

19,632. What is really in question is not profits, but profits liable to Income Tax?—Quite.

19,633. Which is a different point, is it not? Taxable trading profits, that is to say trading profits liable to Income Tax are normally the profits which one man makes, or may make, by trading with other men.—Yes.

19,634. No man can be said to make a profit by trading with himself.—Quite.

19,635. Does not mutual trading lie somewhere between those two extremes?—Yes, I think it does.

19,636. Is not that really the source of the difficulty, very largely?—It is, certainly.

19,637. Either mutual traders must be treated as trading with other people and making a taxable profit, or they must be treated as trading only with themselves, like a single man trading with himself, and although his trading with himself may be profitable to him, and in that sense may have a profit, it is not a taxable profit?—No.

19,638. Is that correct?—It is perfectly correct.

19,639. These Co-operative Societies have to be treated in one way or the other, (1) I will call the method of trading for profit, which is taxable, and I will call (2) where a man trades with himself. Mutual trading must be treated for taxing purposes either as (1) or as (2). The Legislature has decided, as interpreted in the Courts, that it is to be treated as (2), that is to say, like one man trading with himself?—Yes.

19,640. And, therefore, it is not taxable?—Quite.

19,641. If the other principle were adopted, and it were treated as (1), I understand that would create very great difficulties, in that it would bring in clubs and all kinds of things, such, for instance, as the dining-room of the House of Commons, and everywhere where people incurred a common expense for their mutual benefit. If the definition of profit in the taxing statutes were altered so as to cover (2) as well as (1), you would bring in not only Co-operative Societies, but also a very large area of other mutual associations.—That must be so unless you have specific legislation to obviate it.

19,642. That means to say that you would have specific legislation for taxing Co-operative Societies; I am coming to that presently?—I am afraid so.

19,643. Your answer is that it would not be practicable, without creating enormous difficulties, to alter the definition of profit from its present definition in order to bring in Co-operative Societies?—I think that is so.

19,644. Is it not true that the same difficulty arises to some extent, in the occupation of land and of premises which a man occupies for his own purposes?—I do not follow that.

19,645. If a man himself occupies premises or a house, his occupation is profitable to him, but he does not trade with other people over it; still, he has to pay a tax, has he not?—Because the house he occupies is in itself property representing income.

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19,646. Only representing income because it is held by the Legislature to be profitable?—Yes. Of course, it saves rent. If a man occupies his own house, he has no rent to pay, and he is to that extent better off.

19,647. Surely the principle is the same. A man who is dealing with a Co-operative Society saves expense in the same way. It is profitable to him to be a member of a Co-operative Society, just as it is profitable to him to have a garden. I do not know whether the cases are absolutely parallel?—I am afraid there is a fallacy there.

19,648. Well, let us hear it?—A man who buys from a Co-operative Society gets goods, and makes no profit. He is only getting what he pays for. The man who occupies his house is paying nothing for it. He has already got it, and it represents so much income.

19,649. A man who has a garden?—He has got to make a profit on that. He does not make a profit, because he cannot make a profit out of himself.

19,650. Mr. Kerly: The difference is that he takes it in kind?—That is another answer.

19,651. Mr. Pretymann: So is the man's interest in a Co-operative Society, an investment, to some extent?—If a man occupies a garden, he is taxable whether he makes a profit by selling the produce to someone else or not, assuming it is big enough to be brought within Schedule B.

19,652. But the Co-operative Societies themselves said that although for administrative reasons, which everyone agrees with, they are not taxable on the trade with somebody else, they think they ought to pay tax. If the tax could be properly arranged, they would be perfectly prepared to pay tax on the trade which they are doing with outsiders?—Quite so, and that is our view.

19,653. That is the same as the man with the garden?—Only they are taxed on that at present individually.

19,654. They are paying another tax which may be equivalent to that?—Individually.

19,655. So is the man with the garden, and that is my point; he is paying under Schedule B?—He pays on a statutory basis.

19,656. I suggest to you that in principle Schedule B is a composition for the profitable occupation of a garden?—Quite; in law it is recognized as the complete assessment of profits realized.

19,657. But because a man is trading with himself, those profits cannot be assessed, and therefore Schedule B is adopted in place of an assessment, on actual profits. In the same way a Co-operative Society is profitable to its members, and the difficulty is to assess those profits?—A Co-operative Society pays under Schedule B also, irrespective of whether it makes a profit or not.

19,658. I quite understand that. My point is not at present whether a Co-operative Society pays too much or too little, but that there is some analogy between the position under Schedule B and the position which now arises with the Co-operative Societies, namely, that they are engaged in trading, which in many directions is of a profitable character, and that it is extraordinarily difficult to assess them; I do not carry it any further than that; is that not an analogy?—Yes, that is so.

19,659. Very well then, we get as far as that. Is it not true that co-operative trading has reached a point of such magnitude that it has been realized for some time that some tax should be paid, and a rough solution has been reached by taxing them under Schedule A in a manner which is more onerous than that which is paid by other people, because they do not get the same opportunities of abatement, and also by taxing them under Schedule B, and also by taxing them to some extent under Schedule D?—The members.

19,660. I mean that all these taxes are not the full due; they may be more or less than the full due?—It is a sort of compromise.

19,661. That is what I mean; it is all compromise. Is it not also true, and is it not apparent from the questions which have been asked you, that there is a strong feeling amongst traders as to the trade which is being done by Co-operative Societies not being taxed on the same principle as the taxation which they pay?—Certainly.

19,662. Is that not, in your opinion, largely because neither side really knows the actual relation which the taxation bears to the trade done? It is a matter as much of appearance as of fact?—That is so.

19,663. Would it not be very desirable, if possible, to put an end to that? Would it not be very desirable that there should be some method of taxing Co-operative Societies, which might not result in their paying any more than they do now, but which would, at any rate in appearance, bring their method of paying tax into some relation to the business they do, as a trader pays tax in relation to the business that he does?—That is to say, legislation to remove the impression of unfair preference?

19,664. Yes, that is so. We have had cross-examination of witnesses on both sides, and of you as an impartial witness, and I do not think any of you have been able to state definitely, or to make it clear, and I do not think it is possible to know, whether there is an unfair preference or whether there is not. There is clearly an appearance of unfair preference in the trader's opinion. In the opinion of the co-operators, there is no unfair preference, and we have no possible means of judging for certain which side is right. At any rate, it is clear that it would be very desirable to remove that impression of unfair preference?—I may say, from the most searching investigations we have made, if it is admitted that the present view of the law is correct, there is no doubt.

19,665. As the Chairman told us just now, we have nothing to do with the present law, it is a most important point. What we have to consider is whether there is an unfair preference, or whether there is not?—Having regard to the point you have discussed.

19,666. We confine ourselves to that. We are here to recommend alterations in the law if it is unfair. The Courts say what the law is, and the whole point for us is, is there an unfair preference, or is there not?—I follow now.

19,667. I, so far, have failed to make up my own mind clearly whether there is an unfair preference or whether there is not, and I think a good many members of the Commission will find themselves in the same position, but I am perfectly certain that there is an appearance of unfair preference in the opinion of a large number of persons, and it would be very desirable to remove that?—The wording of the exemption gives the impression of unfair preference.

19,668. Is it not natural that the reasoning against this appearance of unfair preference should simply take the form of trying to get the present tax on traders' profits put on to the Co-operative Societies? If that is, as you seem to think it is, impracticable for the reasons we have already been discussing, is it not necessary to find some alternative?—I should not like to say that I consider it impracticable, but I do see very great difficulties involved. I have not considered the question from that point of view sufficiently to say whether or not it is impracticable.

19,669. Well, undesirable then?—Yes, as an off-hand expression of opinion, I think it would be undesirable owing to the complications that would result.

19,670. Then do you think it would be possible—just as in the case of garden ground, for instance, there is Schedule B—to arrive at some measure, some kind of schedule, or which mutual trading of this character, when it reaches this magnitude, could pay tax which might not be greater than is paid now, but which would in appearance tally more with the taxation paid by ordinary traders?—If it were provided that half the surplus should be taxed, I think the outsiders would still think that only taxing half was an undue preference.

19,671. Mr. Kerly: It would make it worse, would it not?—Yes, it would make it worse.

19,672. Mr. Pretymann: I did not suggest taxing half the surplus?—I was only giving that as an instance.

19,673. I wanted to ask you whether some kind of schedule could not be invented or suggested which would put them more on a par with the ordinary trader; that would involve give as well as take.

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You would not tax them in full on Schedule A and Schedule B without deductions as you do now. You would have a schedule which would approximate in some form or another to having the same kind of advantages and disadvantages which a trader gets, and bring them more into consonance with the general tax?—The only thing which strikes me at the moment would be something in the form of taxing them on their full profits, including the so-called dividends, and then administratively accepting such amount of tax as would approximately represent the liability of the recipient members.

19,674. And allow a deduction from Schedule A and so forth?—Yes, computing the whole of the profits in the normal course, including the so-called dividends if the Commission come to that conclusion, and then saying: "We have evidence to show that such and such a portion of the members are liable, and therefore administratively we are content to accept tax on a diminished proportion"; that is the only thing that strikes me at the moment.

19,675. Then you would allow from that assessment a deduction equal to the assessment under Schedule A?—Yes, that would be deducted in arriving at the profits assessable.

19,676. And Schedule B, the same as a trader?—Yes.

19,677. Do you think that would be a feasible plan?—I think it would be feasible, but I should not like to commit myself at the moment. I think that is a matter which the Board of Inland Revenue ought to have some opportunity of considering. I have never thought of suggesting a method of effecting any remedy of any kind.

19,678. Sir T. Whittaker: Am I right in thinking that you really come here to tell us what is the actual position to-day, and what are the reasons for it?—Absolutely, as an unbiased witness in every respect.

19,679. You have come to tell us what the Department has considered to be the effect of the decisions in the Law Courts, and the practice which you have adopted in accordance therewith?—That is so.

19,680. And also to give us the reasons for that?—Quite.

19,681. That does not mean that you come here as an advocate of a particular system; you come here as an expositor of a system?—Quite so.

19,682. The difference is vital?—Naturally.

19,683. As a matter of fact, I gather from what you have told us that the view of the Department was not the view which the House of Lords took?—Certainly not; that is perfectly clear from the *Styless* case. I think it emerges in that case that the Revenue took up the position that the amounts equivalent to the so-called dividends were taxable and should be taxed, but the Courts took the other view.

19,684. Therefore to-day you are simply expounding to us the law as you understand it, and the practice of the Department which has resulted from those decisions?—Quite so.

19,685. Mr. Kerly: Perhaps you have never looked at the argument that was put up for the Crown in that case. It seems to me to have made the case for less valuable than it would have been because of what appears to me to be the extraordinary admissions upon which it was based. They did not discuss the mutuality question; they admitted it?—The Courts did not discuss it?

19,686. No, counsel for the Crown, who were arguing that the Assurance Company should be taxed. It may have been quite right, or quite wrong, but the matter was not put forward by the Department as you rather suggested it was, or at any rate by the Law Officers, that mutuality prevented trading profit. That was assumed. It may have been right or wrong, but I do not want to say any more about that?—I think so, but the Lords in their judgment referred very positively to the mutuality question, and bring out that point that there could not be profits.

19,687. Again, speaking only as a lawyer, the Lords seem to me to have founded themselves upon a most strange proposition. They forget that they are dealing with the question of whether the corporation is

liable, and their conclusion is that the traders are not traders, which is not the same question?—Quite so.

19,688. Mr. Kerly: Again, I say, it may be right or wrong.

19,689. Mr. Synnott: May I ask this question, which follows upon that: Is it not a fact that, taking the illustration of a garden, the owner of a garden can be charged under Schedule D, in case he appeals from Schedule B, on trading with himself?—No.

19,690. Is it not a fact that on the form which an occupier of land has to fill up and send in he has to state what amount of produce from his land has been supplied to himself and to his family?—Yes.

19,691. Is that not trading with himself?—No, that is for the purpose of ascertaining the profits of a person occupying land; he cannot take produce off the land and use it himself without accounting for it.

19,692. Does he not pay tax then on trading with himself?—No; but the expenses of producing what he has eaten cannot be allowed unless he accounts for what he has eaten.

19,693. And he is charged for it at the market value?—No.

19,694. Sir T. Whittaker: I do not want to discuss the merits of the decision. I am trying to elucidate the fact that the witness is here giving us what the Department understood to be the decision of the Law Courts, and the administrative results that followed therefrom. I am not now discussing whether they were right or wrong, but they have a very important bearing because the witness gives us the reasons for their action, and they will be useful in guiding us in the future?—May I say, in connection with that, as representing the Board of Inland Revenue, we have no leaning one way or the other. I am not here to put forward any views in favour of one side or the other, but simply to state facts as far as I am in a position to do so.

19,695. If I may say so, I very strongly feel that that is the proper attitude for you to adopt. Now with regard to this question of taxing on trading with outsiders. Am I right in assuming that it has always been agreed by everybody, the Revenue, the Co-operative Societies, and others, that as a matter of theoretical justice tax should be paid on the profits arising from trading with outsiders?—Unquestionably.

19,696. And that the non-levying of that tax has been resorted to purely as a matter of expediency and convenience?—Not so much the non-levying as the legislation which prevented the levying.

19,697. Well, that is a non-levy—that the tax has not been charged is purely a matter of expediency and convenience?—That is so, I understand.

19,698. Therefore, when Mr. McLintock put the case of seven members out of a hundred and asks what would you do with seven members out of a hundred customers, it is perfectly clear that if that had represented anything like the normal condition of things, there never would have been the legislation or the practice?—Certainly not.

19,699. That would never have occurred, because expediency would then have required you to tax, but it is not an actual case; such a case does not exist?—Oh no!

19,700. Mr. McLintock: I said it was an extreme case.

19,701. Sir T. Whittaker: It has been suggested that wherever there is a purchase of a thing at one price, and a sale of it at another, it is trading at a profit. I suggest to you that you do not now tax the Pall Mall clubs on the sale of, say, liquor to their members?—No, because we consider we have no power to.

19,702. They sell at a higher price than they pay for it?—They do.

19,703. It is assumed to be a profit?—No.

19,704. A profit so-called. The surplus derived therefrom goes to the benefit of the club. I am a member of one of those clubs. As I do not drink or smoke, I derive benefit in the club from the surplus.

19,705. Mr. May: On liquor?

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19,706. *Sir T. Whittaker:* That is so?—Yes, absolutely.

19,707. It has been said here that because that is so, it becomes a profit, and should be taxed, but you do not tax the clubs?—No, we do not because we have no power to, so we say.

19,708. And it has never been suggested that they should be taxed?—It is not that we should not like to.

19,709. What it really amounts to is this. There is a wide-spread feeling throughout the country that co-operative trading has reached such an amount that in justice to the community generally some contribution to the Revenue should be made, but that under the present condition of the law and of the principles on which the law is based, it cannot be made on this Income Tax basis?—Quite, beyond what we are already receiving.

19,710. The Excess Profits Duty was levied on co-operative trading, was it not?—Yes.

19,711. Clearly if there is no profit for Income Tax, there could be no profit for Excess Profits Duty?—Quite.

19,712. Therefore it was an illogical position, but it was acquiesced in, I believe I am correct in saying, by the Co-operative Societies largely on patriotic grounds. I think that was so; it was acquiesced in, although recognised to be illogical.

19,713. *Mr. May:* And since admitted to be so by the Chancellor?—Of course, to a certain extent, there is no doubt the Co-operative Societies during the war were doing a large business, and so far as they do make profits, they were making increased profits, but it does not follow that the basis of payment of Excess Profits Duty had regard to the true Income Tax profits.

19,714. *Sir T. Whittaker:* No, only we had it in evidence yesterday that the actual profit derived from what you may call the war trade with the Government, and that sort of thing, was very small. My point really was this, that there was an attempt there to get to something like equity, but it was very illogical. I do not wish to ask you for any suggestion as to what should be done, but merely to put it to you in this way. If it be decided that there ought to be some contribution, is it your view, as the result of your experience in studying this question, that the Commission will have to face it, so to speak, *de novo*?—That is absolutely my opinion; that is what I wish to be understood. I am only expounding the position, and I feel that the Royal Commission have to decide as to whether or not that present position should be altered.

19,715. And if they do come to a decision that there ought to be some method of taxing, then would be the time to ask the authorities whether they can help them in devising a method, and what their view may be of any method which is suggested?—I have no doubt we could.

19,716. *Mr. Kerly:* Here is, of course, the grave question of whether on the ground of mutuality, Co-operative Societies, as distinct from their members, ought to be exempted from taxation under Schedule D. That is a question of policy. On the other hand, there is the question whether it is worth while if we come to the conclusion that the policy should be changed. You have given us some figures suggesting what the results would be if we took two different courses, tax all the profits, or tax the undistributed profits, and there are two important factors in that. You say, in Appendix No. V to your evidence-in-chief, that deposits received by persons entirely relieved from Income Tax have, after investigation, been taken at 80 per cent. I want you to tell me two things about that. First of all, how do you get at that 80 per cent.?—I have two calculations which are the result, I may say, of a great deal of labour, including personal investigation in a number of important districts. One calculation prepared by the statistical department at Somerset House shows 9 per cent. of the members to be liable to Income Tax. My own estimate is 124 per cent., arrived at, I might almost say, on common sense and absolute facts ascertained in these

districts. The statistical department admit and agree that my 124 per cent. is perfectly fair but extreme. Would you like me to explain? I do not need to do this in figures; I can explain this verbally, showing how I have arrived at my conclusions. The written page is my personal calculation [see Appendix No. 29].

19,717. I happen to be looking at the other one [see Appendix No. 29]; will you take that first? The other system is this; you know the total male population of 13 millions, of which the calculator says 4½ millions, say one-third, are not exempt, the remainder are exempt. Then you apply that proportion to the membership of the co-operative stores; is that it?—Yes, except that I took a half.

19,718. You assume that half of the members of the co-operative stores would be liable to tax until you come to allowances?—Yes.

19,719. Then you make a calculation that 25 per cent. of them have various allowances for wife, children, insurance and so on. 25 per cent. remain liable after the deduction for wife and children?—Yes.

19,720. That gives you a quarter of your half, which gives one-eighth of the whole members liable to Income Tax?—That is so.

19,721. Then from those you deduct bachelors; that is 124 per cent. But pardon me, you have got to deduct from that one-eighth bachelors, which brings it down to three-thirty seconds, or 9 per cent. You have to continue below where you have got to.

19,722. Practically you have taken the males of the population. You have got some view as to how many males pay tax, and how many would pay tax but for the exemptions. Do you get those figures from your general experience at Somerset House?—From statistics; from actually verified facts.

19,723. You put these papers in?—I do.

19,724. Now a further question. In Appendix No. VI to your evidence-in-chief, you say: "The total amount which would be repayable to persons not liable to pay any tax, and to persons liable to Income Tax at the reduced rate of 3s. in the £" would be so much. You estimate that a certain proportion of the co-operative members who would be liable to tax would be liable only at 3s.?—Practically all. The number of members in Co-operative Societies who would be taxed above 3s. would be negligible.

19,725. Where do you get that from?—From practical experience.

19,726. It was suggested to us by a witness, who was taking the view that the Co-operative Societies should be taxed as societies, that in fact their accounts do not represent their real profits. He suggested that very large sums were put to reserve, and that the value of their buildings and so on are written down year by year by heavy depreciation, which would not be allowed if their accounts were criticised?—That is perfectly true.

19,727. And you have no means of judging by how much?—Yes, I have done so, and I have provided for that in my figures. Transfers to reserve, including depreciation of plant, £1,150,000.

19,728. You have brought that into calculation?—Yes.

19,729. Are those actual figures or are they estimates?—They are approximate figures, got by applying the actual results of a considerable number of societies to the whole. I am quite prepared to stand by the figures as being correct within a negligible amount.

19,730. Whether the book values of the buildings and so on of the societies are right or not, when they are assessed under Schedule A, they do not pay upon their book values, do they; they pay upon an outside assessment?—They pay on the annual value, less an allowance of one-sixth for repairs.

19,731. Which has nothing to do with their book values?—No.

19,732. *Sir J. Harwood-Banner:* Referring to Appendices Nos. VI and VII of your evidence-in-chief, I want to have it quite clear in my mind that

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those two amounts are on two different bases—the amounts which the nation loses by adopting the co-operative principle; that is to say, under No. VI, if there was no co-operative principle, the nation would undoubtedly get £619,000 more, or, adopting the principle of Appendix No. VII, would get a million more in taxes than they now get?—Assuming that the so-called dividends are a profit subject to Income Tax.

19,733. That is Appendix No. VII. But for No. VI you do treat the dividends on purchases as a deduction. But according to your calculation No. VI, the nation undoubtedly loses £619,000 by carrying out the present co-operative principle?—Yes, to the extent of those dividends.

19,734. I wanted to get that quite clear. Is the nation losing £619,000 by adopting that principle?—No; I beg your pardon; I must correct that. It is the difference between £466,000 and £619,000.

19,735. Where is the £466,000?

19,736. Mr. Kerly: That is No. V. We get £666,000 at present, that is No. V, and if you tax the reserve, which is No. VI, we should get £619,000.

19,737. Sir J. Harwood-Banner: But that still would leave the fact that under the co-operative principle there is a very considerable difference, £150,000 under Appendix No. VI and £600,000 under Appendix No. VII?—I think there is one point I ought to put before the Commission and that is that the figures are based on the assumption that the undistributed profits are taxed at 6s. in the £, and that no regard whatsoever is had to the fact that the members of a Co-operative Society are small people and not like ordinary company people with substantial incomes.

19,738. That is a proviso you put?—Yes, I do not make any point of that, only I think it ought not to be lost sight of.

19,739. You mentioned the speech of the Registrar of Friendly Societies in 1876. At the time when he made those remarks the business of co-operatives was entirely distributive; it was not productive or wholesale?—I think you are right. I must take your word for that; I cannot answer that question at the moment.

19,740. There was no productive or wholesale business at that time?—I think that is not right. The Co-operative Wholesale Society was constituted in 1863 and the Scottish Co-operative Wholesale in 1868.

19,741. What was the volume of their transactions at that time?—I have no record.

19,742. They were very small?—They were all very much smaller than they are now.

19,743. Then you mention the fact that the members of these Co-operative Societies are all men of small means. Is that strictly true?—That is so, the great mass. There are exceptions, but the number of exceptions would be trifling so far as my experience goes.

19,744. Amongst the agricultural co-operatives there are a great number of large farmers who deal with Co-operative Societies?—I cannot say that. I should think that the number of agricultural members in the whole would be comparatively small.

19,745. Mr. May: The number is small, but there are large ones?—There are only 188,000 members in all in the agricultural societies.

19,746. As against 34 millions in the distributive societies?—I do not want to be misunderstood. In the distributive societies there must be a number of agricultural members.

19,747. Sir J. Harwood-Banner: The wholesale societies act only for the distributive societies?—That is right; the members of the wholesale societies are the distributive societies, and the distributive societies take as many shares as they have members, so that the members of the distributive societies are the members, one stage removed, of the wholesale societies.

19,748. There are no members in the wholesale or productive societies, except the distributive societies?—That is so.

19,749. Then in the distributive societies there are a great many trading concerns as well, are there not?—No, not that I am aware of. Do you mean as members of the distributive societies?

19,750. Yes?—I should not like to say that. I should not think that is so.

19,751. The point I want to make is that, for instance, in making up their accounts in the case of farmers especially, where they would charge their seeds, manures and everything that they buy from the co-operatives, at a co-operative price, and debit that in their trading accounts for the purpose of profit and loss account, when the distribution comes in, that distribution is treated as a dividend free of Income Tax, and is not credited in reduction of the cost?—I should not like to say that. If I discovered a farmer not crediting his so-called dividend, I should want to know the reason why. I should expect it to be credited.

19,752. It is not a dividend free of tax?—It is not a dividend at all in the Income Tax sense; that is my point.

19,753. The distribution is entirely something that ought to be taken off the cost?—That is right; that is my view.

19,754. But do you take any steps to see that that is done? It is quite possible that a large amount of that distribution is not applied in reduction of the cost?—I have had cases of the kind, but those mostly arise with the agricultural societies. The point has come before me, and I have insisted on it being brought in; I could not do otherwise, logically.

19,755. Yesterday we had put forward the contention that the Co-operative Societies were claiming to be relieved, on their purchases of land, of the charge under Schedule B. Are you aware of that?—The point has been raised that they should be allowed to elect to return under Schedule D, and return a loss, and pay no tax. I think that is the point; and that has been objected to.

19,756. So far, but they are claiming that they have a right to be relieved of Schedule B as against the ordinary landowner?—I think that is a question for the Royal Commission in conjunction with all the other points. At the present moment, the position is in the sense of a compromise, and if they want to alter the compromise the whole question must be reconsidered, I think.

19,757. The contention, if accepted, if they purchased the whole land of this country, would relieve the whole land of this country of the charge under Schedule B?—I should like to suggest, as a counterblast to that proposal, that the exemption in respect of Schedule C should be withdrawn. I do not see why Schedule C should ever have been exempted.

19,758. The reason I put that question to you is this. Would it not be the fact that supposing the whole work of the distribution of commodities was to be effected by co-operative machinery, the Inland Revenue would be very much alarmed at the result, and would have to look elsewhere for the revenue of the country?—The remedy is very simple; have a tax on turnover, then.

19,759. Mr. Kerly: Those tables in your Appendices V, VI and VII are of very great importance, so I want to ask you to clear up a point upon them. In your Appendix No. VI are you quite sure that you have not included what was already in Appendix No. V? Have you allowed sufficiently for Schedule A? Just see what you have done. You first take the gross profit.

19,760. Sir J. Harwood-Banner: That is what I suggested. £363,000 is deducted twice over?—Is not this the point: that the £831,010 is the tax on the profits assessable under Case 1 of Schedule D, which profits have been arrived at by deducting Schedule A? Now to get at the total tax payable, you have to add that on again to the £831,000.

19,761. Then you get it that the total tax upon Schedule D is £1,297,000?—That is Schedules A, B and D.

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19,762. I agree that is Schedules A, B and D. Of that you take practically half, because you say half would be returned?—Yes.

19,763. And so you get at £619,000, which, as I understand you to say, the Revenue would get instead of the £466,000 under Appendix No. V?—That is right.

19,764. If it did get £619,000, it would not get any part of the £466,000 in addition?—No.

19,765. Mr. Kerly: I think that is right, Sir John.

19,766. Sir J. Harwood-Banner: It only strikes me that we get the £466,000 as well.

19,767. Mr. Kerly: I think this matter ought to be cleared up. Perhaps Mr. Geoffrey Marks would put a question or two upon that.

19,768. Mr. Marks: I am only asking for information. This is how it looks to me, and perhaps you will correct me if I am wrong. Looking at the table in Appendix No. VI, you take the whole of the assessable income, which you make £4,321,700?—That is right.

19,769. You then deduct Schedules A and B, and the allowance of one-sixth, and you get £2,836,700 taxable under Case 1 of Schedule D?—That is right.

19,770. And tax on that at 6s. is £851,000?—Yes.

19,771. But then, to get the total tax, having deducted the assessable income under Schedules A and B, you have to bring in the tax again?—Yes.

19,772. Then you get a net result, which does not matter for the moment, of £619,000?—Yes.

19,773. Then you say that the gain to the Revenue under this arrangement is only the difference between £466,000 and £619,000; and that is where I cannot follow you?—Because at the present time we are getting £466,000.

19,774. Sir J. Harwood-Banner: But that would go against the £2,836,000?—No.

19,775. Mr. Symonds: You would get it again in another form?—We get £466,000 at the present time, but in getting £619,000 we should get our tax on a totally different basis; what we should then get would amount to £619,000.

19,776. Mr. Walker Clerk: £150,000 more, which is an actual loss?—Yes.

19,777. Mr. Kerly: Mr. Geoffrey Marks, are you satisfied as to that?

19,778. Mr. Marks: I will consider it farther.

19,779. Mr. May: One question arising out of Mr. Kerly's question to Mr. London with reference to

secrection by reserve funds or hidden funds for depreciation, without power of examination. I want to ask you whether it is not a fact that practically universally in the Co-operative Societies' rules the amount of all that depreciation is fixed?—The depreciation of what—of the buildings?

19,780. Of fixed stock, and land, and buildings, and so on, which is a large portion of the fund that is said to be hidden?—Yes; you usually have a fixed rule as a maximum.

19,781. No, not a maximum, but a fixed rule?—But you do not always carry it out.

19,782. I understood that the complaint was that it was carried to excess?—Yes; if you ask me, I agree that the depreciation is not excessive, but my point is that the societies do not always write off what they profess they should, because they cannot always afford to do it.

19,783. That is sufficient for my purpose, because the representations so far have been in exactly the contrary direction. I wanted to put the point that these are provided for in the rules. These are the model rules. The Chief Registrar now issues model rules for Co-operative Societies. Are you aware that these model rules issued by the Registrar are based on the model rules which were originally issued by the Co-operative Union to their own societies?—No, I am not; I am afraid I am not interested.

19,784. Mr. Kerly: Do you want to ask the witness anything further? Do you want to put any rule?

19,785. Mr. Holland-Martin: May we hear what the amount of percentage is?

19,786. Mr. May: I have sufficient for my point, but this is for the information of the Commissioners, if they wish it. In reduction of the value of fixed stock and plant of the Society, there is a rate of 10 per cent on fixtures, and 2½ per cent, on shops, warehouses and other buildings. At the same time, the interest on the shares is limited to 5 per cent. In the same rule. I want to ask you one more question—whether you are aware that from the foundation of the societies, the provision of this reserve by depreciation and by direct contribution to reserve funds, has not only been encouraged, but practically enforced officially upon the societies as a protection to the members?—You mean by the Registrar?

19,787. By the Registrar?—I am not aware of that; I take it from you.

19,788. Mr. Kerly: Thank you for your evidence.

Mr. C. HEWATSON NELSON, J.P., called and examined.

The witness handed in the following statement as his evidence-in-chief:—

19,789. (1) I am a member of the Board of Referees in relation to Excess Profits Duty, chairman of the commercial law committee and special committee on Income Tax of the Liverpool Chamber of Commerce. A director of the United Alkali Company Limited, external examiner in Accountancy (National University of Ireland), Fellow and an Ex-President of the Society of Incorporated Accountants and Auditors, and senior partner of the firm of C. Hewatson Nelson, Robson & Company, Liverpool.

19,790. (2) In view of the exhaustive evidence which has already been received by the Commission, I propose to confine myself, almost exclusively, to specific questions of administration and procedure.

BASIS OF ASSESSMENT.

19,791. (3) I am of opinion that the most important step towards simplification would be achieved by the assessments under Sch. D being based on the previous year's income, which already obtains in respect of railways, waterworks, gasworks, salt mines, and other concerns, with a right of set-off in respect of previous losses within an agreed limit.

19,792. (4) As regards carrying forward losses, obviously a time limit is necessary. Income Tax is an annual tax, and though equity requires that we

should not ignore a £20,000 loss one year and assess a £20,000 profit the next year, we cannot "equat" the tax to limit it to the total profits less total losses of the life of an individual, or of a mine, or of a trading company. At present the allowance for losses is erratic, e.g., take these two sequences in the case of a concern assessed on three years' average:—

	A	B
1990 ...	10,000 profit.	19,000 profit.
1991 ...	10,000 "	1,000 "
1992 ...	20,000 loss.	20,000 loss.
1993 ...	15,000 profit.	5,000 profit.
1994 ...	15,000 "	5,000 "
1995 ...	5,000 "	25,000 "
Total ...	35,000 profit.	35,000 profit.

On the three years' average system A gets the total loss of £20,000 allowed, B gets only £12,000 allowed. Examples might be multiplied indefinitely. With fluctuating profits there is no certainty of getting the whole of the loss allowed under the present system. A fair compromise would be to carry forward loss for three years; a generous compromise would be to carry it forward for five years.

Super-tax in relation to Sch. D.

19,793. (5) The adoption of the previous year's income would greatly simplify the rendering of Super-tax returns and would bring the levying of

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the tax nearer the point at which the profits taxed were earned, whereas under existing procedure the assessment, for 1919/20, being, as far as Sch. D is concerned, upon the Income Tax assessment 1918/19, is actually on the average profits for the years 1913, 1916, 1917. An actual case will illustrate the complexity of the present system.

Income Tax assessment, 1918/19 £22,000
 Profits, 1918 £12,000
 Super-tax assessment, 1919/20 (Sch. D) £22,000

Although it is true that provision exists for adjustment of the Income Tax assessment under section 43, when the fall in profits is due to circumstances directly or indirectly connected with the war, or under section 44, in cases where the actual income from all sources in the year of assessment is less by more than 10 per cent. than the income on which he has been assessed, or for postponement under section 35, the fact remains that the system is cumbersome and the method involved.

19,794. (6) It appears to me that the system as it exists contravenes at least two of the four famous maxims of Adam Smith: (a) the system is not "clear and plain to the contributor and every other person"; (b) the tax is not "levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it."

19,795. (7) It will be remembered that the Departmental Committee of 1905 stated: "we think it probable that if we were starting *de novo*, the system of levying the tax on the profits of the previous year would be considered preferable to the present system."

In considering the difficult question of "bridging the gap," I submit the following figures, which indicate some of the problems to be dealt with.

CASE I. ASSESSED ON THREE YEARS' AVERAGE.

Statutory profits.	Assessment on 3 years' average.	Assessment if on previous year's profits.
£	£	£
2,472	2,482	2,472
2,344	2,441	2,344
2,424	2,413	2,424
6,026	3,598	6,026
7,163	5,204	7,163

Actual amount on which tax paid, £16,118; amount tax would have been paid on, on basis of previous year, £20,429; profits untaxed, £4,311.

CASE II. ASSESSMENT ON FIVE YEARS' AVERAGE.

Statutory profits.	Assessment on 5 years' average.	Assessment if on previous year's profits.
£	£	£
3,276	8,309	3,276
9,923	9,945	9,923
23,110	11,908	23,110
26,089	15,117	26,089
22,440	17,327	22,440

Actual amount on which tax paid, £62,606; amount tax would have been paid on, on basis of previous year, £86,748; profits untaxed, £24,142.

CASE III. ASSESSED ON PREVIOUS YEAR'S PROFITS.

Statutory profits.	Assessment if on 3 years' average.
£	£
19,407	Nil.
56,764	26,940
274,616	116,920
304,458	211,946
372,690	317,243
1,027,385	676,063

Had the company been assessed on the usual three years' average, it would have paid tax on £252,872 less than it paid on under previous year's assessment.

I suggest that it would be equitable in cases I. and II., before bringing them on to the suggested new basis of the previous year's profits, that they should be taxed on that portion of past profits which

has not yet been brought under taxation during the past five years, at the average rate of tax for the five years.

In cases of an opposite character, if a taxpayer proved that on the average basis he has paid more during the past five years than he would have paid if assessed on the previous year's basis, he would be entitled to a corresponding rebate.

Schedule E.

19,796. (8) The anomaly of salaried officers employed by limited companies being assessed under Schedule E (current year's income) while similar officials in the service of an individual or firm are assessable under Schedule D (on a three years' average) would cease to exist if all assessments of profits were brought under Schedule D on the previous year's income. The fact must not be overlooked that companies are prone to vote their directors bonuses, etc., after the result of the year's trading is known. If a director of a company received £1000 salary in the year and for the year ended 31st December, 1918, and at the annual meeting on 1st June, 1919, he was voted a bonus of £250 for the year 1918, which bonus was actually paid on 30th June, 1919, the question arises whether on the "preceding year" basis he should be assessed on the receipts in the year or the receipts for the year. Additional assessments on company officials would only cease if a rule was made that in the case of all officials and employees the remuneration actually paid in the preceding year should be assessed irrespective of the period in respect of which it was paid.

SUGGESTIONS AS TO OFFICIALS.

Assessors.

19,797. (9) I am of opinion that Assessors of Taxes should be abolished, as their existence leads to a confusion of the taxpayer, who is forced to deal with more officials than is necessary. In so far as it is necessary to maintain any part of the work at present undertaken by Assessors it should be transferred to the Surveyors.

The separate appointment of an Assessor appears to multiply tax officials needlessly, and multiplicity of officials leads to confusion of the public. An individual is called upon to furnish a return of his income to one man at a certain address (the Assessor), if he wishes to discuss or to justify his return he must go to another man in another office (the Surveyor), and finally he must pay the tax to another man in another office (the Collector). In so far as the Assessor's work is not purely mechanical clerical work which could be done by the clerical staff of the Surveyor, its value is supposed to be derived from the local knowledge possessed by the Assessor which enables him (a) to include in his lists every individual and every concern which is liable to tax; (b) to detect inadequate returns and to estimate the correct assessment where the returns are inadequate or where no return is delivered.

As regards (a), the sources of information open to the Surveyor (directories, rating assessments, personal survey of his district, etc.) are such that the omission of liable persons from Income Tax assessment is not rendered more likely to occur by the abolition of the office of Assessor. As regards (b), the power of the Assessor to make a reasonable guess at the profits made by any individual or any business concern is practically non-existent. Whether he takes as the basis for his guess an individual's style of living, the size and position of his business premises, the gossip current about him, or the outward and visible signs of actual business transacted, or a combination of all or any of these factors, his guess is invariably liable to a very wide margin of error.

Assessing should be placed in the hands of the Surveyor, who should be empowered to request the production of properly certified accounts. Even in small country towns, where the local knowledge of the Assessor is sometimes supposed to count for so much, by a comparison of the returns of tradesmen

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who furnish accounts with the returns of similar tradesmen who do not, the Surveyor is likely to arrive at a better result than that shown by the guesswork of the Assessor.

Commissioners.

19,798. (10) (a) I am of opinion that General Commissioners should be abolished, and that all appeals should be heard by a body of commissioners consisting of the present Special Commissioners with possibly the addition of one accountant-commissioner at each sitting (a practice adopted by the Board of Referees under the Finance (No. 2) Act, 1915).

(b) I have formed this view as the result of many years' experience in Income Tax practice, which experience has led me of late years, almost consistently, to recommend my clients to appeal to the Special Commissioners.

(c) Apart from the increasing gravity of the tax as an item of trading expense, and the complexity of the points one usually takes to appeal (which obviously are only those points which have proved incapable of agreement with the Surveyor), I have found that the Special Commissioners generally give a more patient hearing to an applicant. Additional Commissioners should also, in my view, be abolished, and the very nominal work undertaken by them transferred to the Surveyor.

General Commissioners.

19,799. (11) No special qualification is required of the General Commissioner other than a property qualification. On general grounds it would seem that a body like the Special Commissioners (who are chosen presumably by reason of their experience and suitability for the position) would form a more satisfactory appellate body than the General Commissioners. No doubt it may be said that a body of General Commissioners is equally capable of giving as correct a decision on a point of fact as is a panel of Special Commissioners; but in Income Tax matters fact and law are often closely intertwined. The fact that every person assessed under Schedule D could, if he wished, appeal to the Special Commissioners, while in actual practice appeals are usually heard by the General Commissioners must not be given undue weight. If all appeals were normally heard by the Special Commissioners (except on special election by the taxpayer to be heard by the General Commissioners) no doubt the Special Commissioners would hear the majority of appeals. The facts which have to be determined in Income Tax appeals are not such that any local knowledge possessed by the General Commissioners is a material aid to a correct decision, e.g., on so important a matter as the correct amount of depreciation to be allowed, the Legislature has formed a new central appellate body (the Board of Referees) with no special local knowledge. For all questions of fact concerning the correct amount of profits, accounts are the only reliable guide, and failing accounts local knowledge is a poor substitute.

Additional Commissioners.

19,800. (12) The sole function of the Additional Commissioners is to consider and confirm (or amend) the assessments suggested under Schedule D by the Assessor. Why the Assessor should be competent actually to assess the employee of a limited liability company, while he can only suggest an assessment (to be actually made by the Additional Commissioners) on an employee of a private firm passes comprehension. In both instances the employer is bound to furnish details of the remuneration paid to his employee. The same considerations which suggest that the Surveyor should take over the duties performed by the Assessor apply to the duties performed by the Additional Commissioners. So far as trades and professions are concerned, the only guarantee of accurate assessment is properly prepared accounts. So far as complete accounts are not available, the only satisfactory solution appears to be the work of a properly trained official authorized to demand the production of such figures as exist (e.g., gross turnover) for the purpose of comparison. Obviously such

work demands time and training, and it does not appear likely that it can be satisfactorily performed by an unpaid body of commissioners which meets at rare intervals.

Clerks to Commissioners.

19,801. (13) (a) I am of opinion that Clerks to Commissioners should, if retained, be whole-time officials, and not, as at present, practising solicitors. (b) If retained, they should be retained as legal advisers on appeal only, the purely clerical work being transferred to the office of the Surveyor of Taxes.

Collectors.

19,802. (14) I am strongly of opinion that Collectors of Income Tax in all centres of commercial importance should be whole-time officials. (At present one finds Collectors who are carrying on business as estate agents.) At present the offices of the Collector in a borough known to me (population, 98,000) are only open for receipt of money two days in each week, although the Surveyor's office is open each week-day.

Surveyors.

19,803. (15) (a) Greater uniformity of policy is desirable on the part of Surveyors of Taxes. Nothing is calculated to irritate the commercial taxpayer more than the practice of newly appointed Surveyors reopening matters which have been settled and agreed with their predecessors.

(b) The more completely the work incidental to the administration is centralized in the office of the Surveyor, the better it will be for the convenience of the taxpayer.

SUGGESTIONS AS TO FORMS, ACCOUNTS, &c.

Forms of return.

19,804. (16) I support the proposition that all forms of return should be sent out in duplicate, so that the taxpayer can keep an exact copy of the return he has made.

Effective rate of tax.

19,805. (17) I consider that it should assist an intelligent appreciation of the tax if the effective rate (in typical cases) was set out in the memorandum which accompanies the annual form of return.

Accounts.

19,806. (18) I favour the production of balance sheets, in addition to trading and profit and loss accounts, on the grounds:—

(a) that the balance sheet is necessary to establish the figures in the trading and profit and loss account; (b) that the production of a properly drawn balance sheet ought to reduce the number of queries raised by the Surveyor.

Verification of stock-in-trade.

19,807. (19) I have found no difficulty in obtaining the signature of clients to the certificate as to the basis on which stock has been valued.

Payment by instalments.

19,808. (20) I see no reason why companies should not be conceded the same privilege as private individuals and firms, of payment by two instalments, subject to the tax deducted from any dividends paid being paid over as and when deducted.

Taxation at the source.

19,809. (21) I am entirely in harmony with the opinion that taxation at the source should be maintained.

Tax free dividends.

19,810. (22) I am of opinion that it would make for simplification and relieve Surveyors of a good deal of unnecessary work if the payment of dividends "free of Income Tax" (to use the colloquial, but inaccurate phrase) was prohibited.

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Husband and wife.

19,511. (23) As I accept "ability to pay" as a fundamental principle of taxation, I see no satisfactory reason for alteration of the present system.

Life Insurance allowances.

19,512. (24) Although I appreciate the fact that this allowance works prejudicially to those who cannot insure and who ought, in justice, to get a compensating bounty if the allowance continues (and no alteration should affect policies already taken out under legal sanction), I am of opinion that the allowance should only be made in respect of genuine policies, and that it should cease when a policy is utilized for obtaining loans. In order to ascertain the facts a new column could be added to Section E, p. 4, of Form 11a, with suitable heading.

DIFFERENTIAL RATES FOR EARNED AND UNEARNED INCOME.*Earned and unearned rates.*

19,513. (25) Although the definition is debatable, it is now so thoroughly understood as relating to the "earned" and "unearned" income of the year of assessment that it should, in my view, be maintained.

(a) In order to endeavour to secure a more scientific treatment of earned and unearned income, I suggest that in cases of income exceeding £500, assessed under Schedule D, it might be practicable to distinguish the profits attributable to the capital employed and charge that profit at the unearned rate.

As it is the practice in nearly all cases which come within the limit (£2,500) to credit capital with 5 per cent. interest before arriving at the profits, the income charged at the unearned rate would be calculated at some such rate as the reward of capital. The fact that in many cases the capital has already been ascertained through the medium of the levying of the Excess Profits Duty would facilitate such a scheme, and the production of balance sheets would, of course, be necessary.

(b) I have considered the question of taxing as "earned" income the income derived from capital invested out of savings. The problem presents itself more particularly in connection with the savings of the taxpayer of small income, who, being ineligible for Life Insurance, at present receives no encouragement towards thrift. It is argued that the system of investment made by Life Insurance companies is beneficial to the State in so far as their funds are invested in Government securities. It appears to me that some scheme might be inaugurated whereby taxpayers who are unable to take advantage of the Life Insurance allowance might, within defined limits, be granted the earned rate on savings invested in Government stock. Apart from this concession I should doubt the practicability of taxing as earned income the income derived from capital invested out of savings. Even the limited benefit suggested above would require to be carefully safeguarded.

Partnership assessments.

19,514. (26) Partners should be assessed separately, subject to the return being made by the senior partner, and to the Revenue being empowered to recover from the firm in the event of a partner failing to discharge his obligation.

*Deductions from assessable income.**Law costs.*

19,515. (27) I consider that a more generous interpretation should be placed by the Revenue upon charges allowable. For example, it appears to me untenable to contend that the law costs and stamp duties incidental to the creation of a partnership are not essential to the making of the profits, and they should therefore be allowed as a charge, say, in equal instalments over the period of partnership.

Preliminary expenses.

19,516. (28) Preliminary expenses should, in my view, be allowed over a period of three or five years.

Wear and tear allowances.

19,517. (29) (a) The arrangement contained in sec. 24 of the Finance Act, 1918, under which "classes" of trade are granted the right of application to the Board of Referees in order to secure a uniform rate of allowance should prove beneficial to traders.

(b) Apart from this concession, the present system of allowance under which the General Commissioners in one district allow 7½ per cent., whereas in a different area the General Commissioners will not exceed an allowance of 5 per cent. for the same class of plant or machinery, needs amendment, if standardization is to be secured.

(c) As to the method of allowance, I favour the allowance being made on the annual instalment system (at present adopted in the case of ships) rather than the present system by which the allowance is calculated on diminishing balances. Although it may be contended that the "written-down" method has the merit of never losing the asset entirely (owing no doubt to the fact that to reach a residual value of 10 per cent., something like 44 years is required, on an allowance of 5 per cent.), my experience is that large traders and manufacturers would have little difficulty in meeting the requirements of the Board of Inland Revenue so far as statistical record is concerned, and the filing of such could be made conditional of the right to take the annual instalment system. Obviously the true test as to the rate of allowance is the life of the asset. If the life is 10 years (with 10 per cent. scrap value) I want on the diminishing balances system, an allowance of something like 20 per cent., and the figure seems so high that it naturally provokes opposition.

Wasting assets.

19,518. (30) In view of the evidence already put in, I desire simply to furnish one illustration from my own experience, which indicates the manner in which an English company may be handicapped in relation to its foreign mines.

(a) For some years the company purchased the particular raw material in Italy or the United States. Under these circumstances, it was permitted, for taxation purposes, to debit trading account with the cost of:—

- (1) the raw material;
- (2) costs of transport.

(b) About 1903 in order to secure its supplies at a reasonable rate, it bought a mine from a foreign company (not assessable to British Income Tax). Since that date, although setting aside 6s. per ton as the value of the raw material exhausted, and charging the same against trading, this amount is disallowed for taxation purposes.

(c) When the company buys its raw material in the form of a mine in order to secure sufficient supplies, and to lessen the cost of the same, thereby increasing its profit and taxable capacity, it is penalized for taxation purposes by the disallowance of the value of the raw material (wasting asset) which was allowable so long as the company purchased it from a third party.

(d) If, instead of buying the mine outright, the company had obtained it on a royalty basis, the company, not being entitled to deduct Income Tax from the royalty paid to the foreigner, the royalty would in practice be allowed as a deduction. There seems to be no reason why this administrative concession should not be legalized, and if this is done the claim to write off annually a proportion of the purchase price of the mine becomes a very strong case. The difference, of course, between the purchase of an English mine and of a foreign mine is that in the one case the right to an income subject to tax has been purchased, and in the other case the right to an income not taxable at all has been purchased.

[This concludes the evidence-in-chief.]

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19,819. *Mr. Kerly*: May I say at once that it strikes me your paper is likely to be of great value to us. Only it strikes me that it is so clearly expressed, and the aspects of it are so familiar to us, that I do not think we shall have so trouble you for much verbal evidence; but that is rather a matter for the other Commissioners?—Thank you.

19,820. *Mr. Walker Clark*: In paragraph 4 you suggest the carrying forward of losses for three or five years, and doing away with the average system?—Quite.

19,821. May I ask whether this evidence is personal, or whether it has been before some committee?—The evidence is personal in the strict sense of the word, although as a matter of fact, that particular part of it has been assented to by the council of the Liverpool Chamber of Commerce; but I do not come here to-day as their representative.

19,822. But still on the whole you are the mouth-piece of a large number of people in Liverpool who would assent?—I think I may say that that is so.

19,823. With regard to paragraph 10, why are General Commissioners so very undesirable?—The expression of opinion to which I have given utterance in this paragraph is based upon my own personal experience before the Commissioners, and I should like to say it is not limited to Lancashire Commissioners at all. The view that I have come to is that now that so many complex and difficult matters arise in connection with Income Tax—and in fact, as I have expressed here, are the only matters that you take to appeal—you must have for your appellate tribunal a tribunal which is constituted of persons who are well equipped with the knowledge required.

19,824. But the appellants always has the option of appealing to the Special Commissioners?—Yes, I agree; he does not often exercise it though.

19,825. *Mr. Kerly*: According to some evidence we have had, he goes to the Special Commissioners in the majority of cases, where the matter is involved, or the amount is large?—I agree.

19,826. *Mr. Walker Clark*: Is it not a fact that, speaking generally, the General Commissioners are the only lay element between the officials of the Inland Revenue and the taxpayer?—Yes, I think that is so.

19,827. And is it not a desirable thing that there should be a lay element between the taxpayer and the permanent officials?—Yes, so long as your lay element is sufficiently well educated on the particular point to appreciate the problems that are put before them.

19,828. Has your experience of appeals before General Commissioners been considerable and unfortunate?—It has been considerable. In many cases it has been distinctly—I will not use the word "unfortunate," but it has been characterised by distinct impatience on the part of the Commissioners.

19,829. I quite appreciate that. Then with regard to paragraph 13, you suggest that Clerks to Commissioners should be civil servants?—I suggest that the Clerks to the Commissioners should, if retained, be whole time officials.

19,830. That is civil servants?—Yes, it comes to that.

19,831. Then you say that if retained, they should be retained as legal advisers on appeal only?—Quite.

19,832. Is not that their function now?—No; they do a very large amount of clerical work.

19,833. You would abolish that?—I think it is absolutely useless their doing that clerical work. You do not want a trained solicitor to do merely copying of statistics and schedules.

19,834. Then on paragraph 15, with reference to Surveyors re-opening matters. You quite understand, and you will agree, that there are questions which require accounts to be re-opened from time to time?—I am not speaking merely of accounts; I am speaking more of matters of principle.

19,835. Even matters of principle; do they not require further attention—new legislation, for example?—I agree in the case of new legislation. I am thinking more of the view a new Surveyor takes on the same point, as compared with the Surveyor who has been removed.

19,836. In other words, Surveyors are human, I suppose?—Absolutely.

19,837. In paragraph 20, you speak of partnership assessments. You see no disadvantage in the proposals which you suggest, of a separate assessment being made for dissenting partners in the firm?—No.

19,838. Would you do that in every case, or would you only do it where there was a request for it to be done?—I should be inclined to do it in every case. It is simply reverting to the old system which was in operation previously.

19,839. You would incorporate that in legislation?—Yes, I think so.

19,840. It has been suggested to the Commission several times that this should be done only at the request of one or more of the partners?—Of course that is a matter for the consideration of the Commission.

19,841. You have no feeling as regards that yourself?—No.

19,842. *Mr. Marks*: In paragraph 24, Life Insurance allowances, you say: "I am of opinion that the allowance should only be made in respect of genuine policies, and that it should cease when a policy is utilised for obtaining loans." You mean that policies taken out for the purpose of security should not be given this allowance?—Yes, that is so.

19,843. Would you include in policies which should not claim allowance a policy taken out in connection with a loan on the life interest in an entailed estate, in order to enable the holder of the life interest to pay the Death Duties falling due on the death of his predecessor?—I should not like to bring them within the clause. I had not that in mind when I drafted the clause.

19,844. Of course you are aware that a great many policies, after they are effected, do become collateral security in various transactions?—Quite.

19,845. You would not exclude those from benefit?—No; my object would be to exclude only those which are really bogus policies.

19,846. *Sir J. Harwood-Banner*: On this question of tax-free dividend, if Surveyors of Income Tax said that it gave them no trouble, would that alter your objection?—I have made enquiries from a number of my friends who are Surveyors, and that is the testimony I get.

19,847. The testimony here was to that effect.

19,848. *Mr. Kerly*: You suggest going to the previous year, instead of the three years' average?—Yes.

19,849. And you suggest that that would involve some carrying forward of losses, and you propose five years. Do you think there would be any great hardship in limiting it to three years, the present rule?—You have the colliers to deal with on a five years' average, and that might have to be taken into consideration.

19,850. There would be a difficulty, of course, in the change over from one system to the other?—Quite so.

19,851. The difficulty might be practically got over, if you did not mind using the same year twice, might it not? That is one difficulty?—That is a matter I have not considered, and I should not like to express a definite opinion upon it, without consideration, but it is a suggestion.

19,852. Supposing you said that next year, 1921, everybody should pay on 1920, although 1920 has been taken in already in the three years' average, do you think that that would cause any dissatisfaction?—It just depends how far it succeeds in picking up the untaxed income. On the average you have three years brought in. The first year has been brought in three times in any one year, the second twice, and the third once, and as long as any system picks up the untaxed revenue, I should see no objection to it.

19,853. To take in the last year of an average again as the single year, would be to the advantage of the Revenue, because the taxable income of the country has been rising?—Yes; I think, if any change is to be made, this is the psychological moment to make it, for that reason.

19,854. You suggest that the Assessors should be abolished. We have had a lot of evidence about that. Now with regard to General Commissioners; you have told us your view. Do you think that where people do go to General Commissioners, it is very often

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because they hope to get something from the sympathy of General Commissioners dealing with an individual hard case, which perhaps is not authorized by the strict letter of the law?—I should not like to make that assertion. My experience is that the first reference they have in their tax papers is the information that they can go to the General Commissioners. If it so happened that the tax paper was drawn differently, and they were told they could go to the Special Commissioners or to the General Commissioners, I think it would operate in precisely the opposite manner.

19,855. Then you think that half the business of the General Commissioners, as an appellate tribunal, is due to ignorance of their rights on the part of the taxpayers?—I do.

19,856. Do you think that the local element which is represented by General Commissioners is really of much value?—None whatever.

19,857. In paragraph 15, you say that greater uniformity of policy is desirable on the part of Surveyors of Rates, and then you point to the difference between the late Surveyor and the newcomer. How are you practically to get over that? Are you to provide, by departmental instructions, that the Surveyor is not to disturb decisions already recorded in the office?—No; I think the Surveyor should be given a certain amount of latitude; but there are cases, which I have recently come across, of decisions which have been assented to by a number of Surveyors following each other, in regard to a principle so far as a certain account was concerned, and then a new man comes along and upsets the whole thing, although it has been acted upon for a number of years. I quite appreciate the point of view of the Surveyor, and he is quite entitled to raise the point; but the commercial world very much dislikes the unsettlement which results from that treatment.

19,858. I appreciate that. I want to know how you are to stop it?—I should think by instructions from Somerset House.

19,859. Then this is addressed rather to Somerset House, than to this Commission, except that we might express a pious opinion that it ought to be done?—Yes.

19,860. Then you mention forms of return in duplicate. That seems to be an excellent suggestion. Then the effective rate of tax; I do not think I need ask you anything further about that. In paragraph 25 there is an interesting suggestion. Do you think it would be practicable to distinguish, in the case of every business, between how much is really due to capital and how much is really earned income? Would you adopt, say, the partnership practice of putting down 5 per cent. on the partner's capital to start with?—That was my view, or some such sum.

19,861. So that in the case of a limited company, you would first pay everybody 5 per cent.?—A limited company would not come within the purview of this. They are already assessed at the unearned rate all through.

19,862. Then in paragraph 27, you mention law costs—a very important matter; that a more generous interpretation should be given, and you would allow the law costs, and stamp duties, incidental to the creation of a partnership?—Yes.

19,863. Would you go further, and say generally, although the law costs may be incurred in protecting capital, as they are necessarily paid out of incomes that depend on future incomes, they ought to be allowed as a working expense?—That is my view.

19,864. I will not ask you anything further about paragraph 29 and the mining cases, because we have had so much evidence upon those matters before?—Thank you.

19,865. Mr. Prestemon: In regard to paragraph 25, which has already been referred to, do you not think that the term "unearned" is a very unfortunate one?—We have got accustomed to it now. We might have used better language when the question was initiated.

19,866. Does not a man necessarily feel a grievance if money that he has earned by hard work all through his life and has saved, is treated as unearned?—I cannot say that I have experienced that. I have had no complaints.

19,867. I think if you had been a Member of Parliament you would have?—I am an accountant, and I come across a good many traders, and I have not had that complaint brought to my notice.

19,868. It is not so much among traders; it is among workers and professional men, who have worked all their lives and have created a little capital by their own labour, and the income from their savings is treated as unearned. That is the point?—Even the professional men that my firm act for, have not made any complaint under that heading.

19,869. You have not heard any complaint?—No.

19,870. Then you do not think it matters?—I do not think it is material. That is my view.

19,871. Dr. Stamp: With regard to your interesting suggestion for bridging the gap, you consider on the whole, in view of the trend of profits, that money would come into the Revenue as regards the expedient of picking up by the five years' scheme?—I have drawn a certain number of conclusions from actual cases, and my view is that this scheme which I suggest would be highly beneficial to the Treasury.

19,872. If it should be otherwise, if it should mean a net repayment, this is hardly the time in the finances of the country when we should adopt that expedient?—I quite agree.

19,873. If, on the other hand, there is a balance due to the Revenue, does it not take on an aspect which is so much objected to, of retrospective taxation? Do you not think people might say they understood in 1919 that they were to be taxed on a certain method, and now we are going back on it? Do you not think it might have some political objections?—Yes. I think there may be some political objections, but on the whole I think the commercial community would be satisfied with an arrangement of that sort.

19,874. Probably those who were going to get some back; but do you not think if you were going to make a bridge it would be better to throw it all into the future?—Then, of course, you throw it into the problematical.

19,875. There is a risk to the taxpayers that they may be hit, or they may be benefited?—Yes.

19,876. Could not that risk be in some way compounded or halved? A suggestion has been before the Commission that the taxpayer might pay for three years on the mean between the two methods. What do you think of that?—In that case I think the Revenue would lose, so far as I have been able to work out examples. Take the case in the papers of yesterday of an issue of Evans, Sons, Leacher & Webb, and work out on the average between the two.

19,877. You mean they would lose as compared with the full operation of a single year?—They would lose as compared with the suggestions contained in paragraph 7 of my memorandum.

19,878. They would be only losing something which they have not yet got. Here is a modification which is going to give them a large addition because of the recent heavy year?—Yes.

19,879. You say that for three years the Revenue should be content with not quite that large addition, but a compromise?—If the Board of Inland Revenue were content to take the mean between the average of the three years and of the previous year I should not have the slightest objection as a commercial person.

19,880. On the point in paragraph 15 about Surveyors, would you say it was the practice to upset settlements of actual fact, or only of principle?—That is a difficulty. By actual fact I should understand that a computation which was made by the Surveyor and submitted to the accountants, and agreed to by the accountants, ought not to be upset. Such computations are upset.

19,881. Would you mean that for a specific year one Surveyor would agree that he would allow such an amount at such a rate? I can understand you would find such a practice as a Surveyor altering the principle for future years; but would he go back as a

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practice on a case which had been settled?—I have a case where it is fixed to go back now.

19,882. Are such cases sufficiently numerous to be called a practice?—It will affect the whole of the business of the country in that particular line.

19,883. I would like, if possible, to distinguish between principle and fact. Mr. Kerly's question to you was, how would you alter it? Now, if you have this rule all along, that a principle once settled should not be tampered with, should we not be stereotyped to whatever was done in 1842?—Yes, I quite agree.

19,884. Would any reinvestigation of the thing be possible?—What I mean is that if commercial men between themselves agree accounts, and it so happens that there is something in those accounts which, upon a great deal of reflection, might have been altered, they do not go back on it; they stand to their bargain.

19,885. Your point is that if a specific point has been under investigation and a settlement has been arrived at by a Surveyor, his successor is not likely to touch that, but there might be a point which had not been talked about, which formed part of the general statement, and the Surveyor would then reopen it?—No. I will state what I have in my mind, which will make it clear. It is a case of stock and share brokers. In the computation originally as prepared by the accountants there were included certain items of casual profit. Those items were deleted by the Surveyor, and a settlement was made. Subsequently, twelve months later, the Surveyor brought in a new computation, re-inserting the items which he himself had deleted from the original computation sent in by the accountants, and that is under appeal at the present moment.

19,886. I can understand almost anything happening as an isolated fact, but I would like to know whether you consider it is a general practice?—We have had a good many cases where it has occurred. I should say, in fairness to the Surveyors, that I wish to make it perfectly clear that they have been heavily pressed during the war, and one cannot expect that perfection of organisation from them that you get in peace time.

19,887. Does not the second part of your paragraph largely arise out of the first line? Supposing you are striving to get great uniformity of policy and an instruction goes out, does it not rather throw the onus upon the Surveyor to try to get as much as possible on those lines?—I quite agree.

19,888. It seems to me that the very desire to get a uniform policy brings about these cases?—I agree it does.

19,889. Mr. Marks: Before you pass from that, as a matter of information, may I ask has a taxpayer a reciprocal right of reopening these questions with

the Surveyor?—I should prefer that Dr. Stamp answered that question.

19,890. Mr. Marks: Perhaps, Dr. Stamp, you could answer it, with your experience.

19,891. Dr. Stamp: My experience is that it depends entirely on the subject matter. In some cases the Surveyor could not do it, because he is Statute barred; in other cases, where the Surveyor is not Statute barred from reopening it, it is done very frequently.

19,892. Mr. Marks: My point was, has a taxpayer also the right of reopening these cases?

19,893. Dr. Stamp: If a settlement has been arrived at between the Surveyor and the taxpayer on some particular point on which the Surveyor was not Statute barred the Surveyor would certainly put it right for him, and possibly for three years.—I should like to add to that, if I may, that one frequently finds in the practice of an accountant that, although it is not within the strict letter of the law, the Surveyor and the officials at the Head Office in London are most reasonable in meeting an obvious slip of that sort.

19,894. Mr. Marks: There is no real hardship in the want of reciprocal arrangements?

19,895. Dr. Stamp: My final question is on paragraph 29. Could you give the Commissioners any idea as to the proportion or percentage of the total number of traders who at the present time so keep their books that the Revenue could, without risk of loss or muddle, allow them on that basis of cost price? It has been put to the Commission that this method cannot be adopted in the present state of the commercial world; that it is a Utopian thing, and must wait until the time when they themselves keep their books in such a way that this can be enacted. Would you accept that view?—In that paragraph I have stated that what I ask for is to be conditioned by the necessary statistical information being supplied. My experience is that it has become increasingly common for the larger commercial concerns—I do not say it is so for the smaller, I do not think it is—but for the larger commercial companies to give a great deal more attention to the proper registration of their plant and machinery than in past years. I am sure it would be for the good of the country if that could be encouraged by saying they could have the wear and tear allowance on the annual instalment principle (upon which commercial men and accountants are all agreed) if they can show that they keep the necessary data to enable it to be done on a systematic basis.

19,896. But you have no idea as to the proportion that could do it now. You think if that were enacted as a business alternative it might encourage it?—There is no doubt about it.

19,897. Mr. Kerly: We are very much obliged to you.

MR. COUNCILLOR PRATT, MR. COUNCILLOR CHARLES AVELING, J.P., and MR. FELIX J. BLAKEMORE, F.G.I., on behalf of the National Chamber of Trade, called and examined.

The witnesses handed in the following statements as their evidence-in-chief:—

Evidence-in-chief of Mr. COUNCILLOR PRATT.

19,898. I am president of the Chamber; governing director of Christopher Pratt & Sons, Ltd., house furnishers, &c., Bradford; and a member of the Corporation of the City of Bradford.

My evidence is based, as far as possible, upon the replies received by the Chamber to its questionnaire, but I desire to make it clear that it also reflects my personal views grounded upon such experience as has been available to me as a trader.

Exemption limit.

19,899. (1) The Chamber has suggested £120 as the limit, but it is only because the members consider that a man with so small an income is already through indirect taxation paying his share. We believe that everybody who has a voice in the government of the country should bear some portion of the cost.

Graduation.

19,900. (2) There should be graduation in assessing the amount of tax, and the assessment should be strictly in accordance with ability to pay.

Allowances.

19,901. (3) Generally speaking, satisfaction is expressed with the existing allowances for wives, children and dependants. We consider that these should be continued and determined with due regard to increase in the cost of living.

Differentiation.

19,902. (4) Persons who by the exercise of thrift have carefully saved and invested a portion of their earnings labour under a very real sense of grievance in being compelled to pay tax upon an increased scale on incomes derived therefrom.

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Super-tax.

19,903. (5) The Super-tax should be abolished as a separate tax, thus saving unnecessary expenditure in duplication caused by the Special Commissioners dealing with this tax. If everybody were compelled to make a return of total income, the separate department which now deals with Super-tax might be abolished and the Super-tax assessment be made concurrently with the Income Tax assessment on the basis of the preceding year's profits and not on the basis of the preceding year's Income Tax assessment.

Payment by instalments.

19,904. (6) It would be an advantage to the retail trader if the payment of Income Tax might be made quarterly.

Collection by employers.

19,905. (7) It would not be to the best interests of trade and its smooth working for employers to have to collect from employees the amount due from them for Income Tax.

Formers.

19,906. (8) Farmers ought not to have special advantages and terms. If a shopkeeper and small trader is obliged to keep books and present accounts, there appears to be no reason why farmers should not do the same.

Imperial charges resting upon local revenue.

19,907. (9) The burden that the retailer feels heaviest in taxation is that, in addition to being taxed on his profits in accordance with his ability to pay, he is also taxed heavily through local rates for Imperial taxation. He considers that the entire cost of lunacy, old age pensions, main roads and county bridges should be borne by Imperial funds, and that the State should contribute at least 75 per cent. of the expenditure of—

Police and criminal prosecution and conveyance and maintenance of prisoners;
Poor relief and other services administered by Poor Law authorities;
Education.

If this were done, about one-third of the present very heavy rates would be taken off his shoulders, and he would be better able to meet the necessary demands to Imperial funds.

[This concludes the evidence-in-chief of Mr. Pratt.]

Evidence-in-chief of Mr. COUNSELLOR CHARLES AVELING, J.P.

19,908. I am ex-president of the Chamber, governing director of Robinson's Belfast Linen Warehouse, Ltd., Southport, Manchester and Preston, a Justice of the Peace for the Borough of Southport and a member of the Corporation.

My evidence is based as far as possible upon the replies received by the Chamber to its questionnaire, but I desire to make it clear that it also reflects my personal views grounded upon such experience as has been available to me as a trader.

Basis of assessment.

19,909. (1) There is a substantial proportion of trade opinion in favour of the average system being abolished, and the basis of assessment being the accounts of the preceding year, on the understanding that when losses are incurred these should be carried forward from year to year until neutralized by deduction from subsequent profits, thus following the method adopted in connection with the Excess Profits Duty.

Inclusive assessment.

19,910. (2) We advocate one aggregate assessment on total income setting out each class of income, e.g., trading profits, directors' fees, interest, rents, &c., and one demand note showing in full detail the classes and rates just as an ordinary business invoice, such demand note to be sent to an address selected by the taxpayer.

Partners.

19,911. (3) In the case of partners there should be separate demands furnished although these could all be made out to the firm if the authorities deem it necessary to make each separate assessment on or through the firm. At present each partner is made liable for tax at the highest earned rate and has to seek adjustment, or his income between certain limits becomes known to his partner or partners on account of a different rate of tax being applied.

Prohibition of payment of dividends "free of tax."

19,912. (4) The phrase "free of tax" is a misnomer and should be abolished. At present many taxpayers fail to claim relief in respect of over-charged Income Tax owing to a misunderstanding with regard to "tax free" dividends, and with the present varying rates of tax the records of any company are much more difficult to interpret when dividends are paid "free of tax." The same remarks apply to salaries paid "free of tax," which frequently leads to hardship in cases where salaries are nominally similar but are actually very different through the varying amount of tax payable in respect of individuals.

Depreciation and wasting assets.

19,913. (5) The scope of the present allowance for depreciation should be extended to all wasting assets instead of being restricted to plant and machinery, and there ought to be a compulsory provision for the fixing by an independent body, of depreciation percentages for all classes of trade, which percentages should be made conclusive except on proof of abnormal circumstances. There should be varying rates for different classes of businesses but not for districts.

Allowance should be made for Income Tax purposes for assets which the taxpayer himself has to write down in the exercise of ordinary commercial prudence and this particularly applies to leases.

Removal of a business and costs of leases.

19,914. (6) The legal cost involved in connection with leases, and the expenses of removal of a business should be chargeable as trade expenses and allowable for Income Tax.

Statutory obligation to keep accounts.

19,915. (7) Everyone engaged in a trade, business, or profession, should keep proper books of account showing their transactions in clear and complete form. It might be necessary to institute a system of registration of all upon whom this obligation was placed.

Standardized form of certificate.

19,916. (8) It would be a safeguard against evasion that accounts certified by a properly qualified accountant should be compulsory in every trade, business or profession, and that a standard form of certificate should be employed which when duly completed and signed should be accepted by the Surveyor.

Board of Referees.

19,917. (9) Generally, Local Commissioners are not in practice, a satisfactory body. An alternative could probably be found in an extension of the principle of the Excess Profits Duty Board of Referees in the selection of whom commercial knowledge is a test of fitness.

Collectors and Assessors.

19,918. (10) Local Collectors and Assessors should be whole-time civil servants.

If the practice detailed in No. 2 were adopted, payment of tax would be made in every district at one office, and would lead to a better understanding of the position on both sides.

[This concludes the evidence-in-chief of Mr. Aveling.]

Evidence-in-chief of Mr. FRANK J. BLAKEMORE, F.G.I.

19,919. I am a vice-president of the Chamber, chairman of the board of directors of Messrs. Edwin

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Blakemore and Sons, Ltd., Wolverhampton, wholesale provision merchants, &c., and Fellow of the Institute of Certificated Grocers.

My evidence is based as far as possible upon the replies received by the Chamber to its questionnaire, but I desire to make it clear that it also reflects my personal views grounded upon such experience as has been available to me as a trader.

Co-operative Societies.

19,920. (1) The policy of the Chamber as defined at its Conference in 1900 and affirmed each year since, is as follows:—

"That trading organisations registered under the Industrial and Provident Societies Acts should be registered under the Companies Acts, and pay the same fees and taxes, and observe the same provisions as other Limited Liability Companies."

The questionnaire sent out by the Chamber contained the following:—

No. 31.—Do you support the abolition of the exemption of Co-operative Trading Societies from the payment of Income Tax under Schedules C and D?

The unanimous reply to this question was, *Yes*.

19,921. (2) In placing the case before the Royal Commission in support of the taxation of Co-operative Societies under Schedules C and D I submit the following arguments:—

(i) Because it is the very antithesis of common justice that in the same state, one portion of the community, whether employed in mutual trading or not, should be able to carry on its ramifications without contributing its due quota in taxation, for the services rendered by the State, while another portion has to bear a heavier burden of taxation in consequence.

(ii) Because this immunity from taxation under Schedules C and D of co-operative trading is gradually but surely eliminating the taxable trading unit, and when you eliminate a tax-paying unit and replace it by a non-tax-paying co-operative store, you are increasing the taxable burden, not only of the next trading unit and expediting his elimination, but also the general body of taxpayers.

In support of this contention I desire to quote from Sir Ernest Pollock's speech in the House when the Finance Bill, 1916, was in Committee. *Hansard*, Vol. 83, No. 56, Column 241:—

"What is the outstanding fact that emerges from those huge figures? It means this, that so far as those sales take place—and let me take a mean figure, therefore, of £138,000,000 for 1914 and £165,000,000 for 1915, and call it £150,000,000—you will find sales to the extent of £150,000,000 which are withdrawn from the area of taxation by Income Tax. I speak on behalf of smaller people in the community, persons who ought not to have their incentive taken away, persons who, with a small capital, are endeavouring very honestly, very helpfully, and very usefully to the community at large, to earn a livelihood for themselves and for their families by retail trade. I am going to trouble the Committee, if I may, with just one figure which was given me with regard to a populous Midland town. Fifteen years ago there were in that town 121 grocers, employing one or more assistants. Owing to the Co-operative movement, that has been reduced in the fifteen years to 23. What does that mean? From the point of view of the Chancellor of the Exchequer, whereas fifteen years ago he

had 121 persons who would have to make their return for Income Tax, and be more or less liable for some portion of Income Tax, he has now got only 23. You cannot regard those figures without some misgivings as to whether or not we have allowed this movement to grow up to such an extent that it is becoming something of a danger to the Chancellor of the Exchequer himself. Let me contrast those figures with the position in 1893. When this immunity was given under Section 24 in 1893, the trade that was done was £52,000,000. I have given the figure now at £150,000,000, which is an inside figure. It has, therefore, trebled. I could develop that by giving some other figures, but let me only call attention to the fact that the membership now stands at over 3,200,000 persons. The effect of all this is that you have got, as I have already said, an imperium in imperio, a number of persons who are immune from taxation, and who have happily demonstrated by their vigorous progress, and by what I may call their fertile increase, that they are by no means dependent upon any artificial assistance from the State itself."

(iii) Because this immunity from taxation is causing the price of food to be enhanced under control and enabling the co-operative movement to compete in the purchase of farms and lands on a much more favourable footing than the ordinary taxpayer.

(iv) Because the enormous growth of the co-operative movement during recent years as shown in the Reports of the Chief Registrar of Friendly Societies for the year ending 31st December, 1917, page 33, shows that an ever-increasing volume of trade is yearly passing out of the taxable area and becoming a menace to the State by making it more and more difficult for the Chancellor of the Exchequer to balance the nation's accounts.

[This concludes the evidence-in-chief of Mr. Blakemore.]

19,922. Mr. Kerly: The practice is that we take your papers as read; they have been distributed amongst us and read by us; and we shall only ask you such further questions as any member of the Commission desires to put with regard to matters which may require elucidation. I will take you, if you please, in the order in which you sit, but we will deal with all three papers together. The first paper I have before me is Mr. Aveling's paper.—(Mr. Aveling): I would prefer that you would take Mr. Pratt's paper first.

19,923. Very well. All you three gentlemen appear on behalf of the National Chamber of Trade?—(Mr. Pratt): That is so.

19,924. Will you just tell me, in order that we may get it on the notes, what is the National Chamber of Trade?—It is a combination of, at the moment, 260 associations, with over 100,000 members, consisting of traders to a large extent in the retail trade, but including craftsmen who sell their wares direct to the consumer.

19,925. It is a combination of separate associations. What are the separate unit associations?—They are mainly Chambers of Trade of the different neighbourhoods and localities in which they exist. They are local Chambers of Trade.

19,926. That is something different from the Chambers of Commerce?—That is so. The Chambers of Commerce deal mainly with large manufacturing concerns and shipping. We deal with the smaller trading of the community.

19,927. Are your ultimate members principally retailers?—The bulk of our members are shopkeepers.

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19,928. Your first point, Mr. Pratt, is that £120 should be the maximum limit for total exemption?—That is so.

19,929. And you are satisfied with the existing allowances for wife, children and dependants?—Yes.

19,930. That means, I presume, the present allowances with the recent extensions made by the Chancellor of the Exchequer?—Yes, that is so.

19,931. In paragraph 4 you say: "Persons who by the exercise of thrift have carefully saved and invested a portion of their earnings labour under a very real sense of grievance in being compelled to pay tax upon an increased scale of incomes derived therefrom."—That is so.

19,932. Can you suggest any way in which that can be avoided?—We do not mean that they object to pay, but on an increased scale over the earned rate.

19,933. Supposing you have a graduated tax, as we have and must have, it is graduated above a certain point by the Super-tax and below that by the allowances and exemptions, so that we have, in some sort, a graduation, though on a different system, throughout the scale from top to bottom; now, supposing you have a graduated tax, how will it be possible to distinguish such part of the income as represents interest on a man's own savings from any other unearned income which he may have?—I am afraid we have not thoroughly worked that out. Among many of the members of our Associations there is an objection to there being a difference between earned and unearned income. We have tested this matter pretty well with a questionnaire, and we find that there are differences of opinion, but in every case a man objects to be charged the extra tax on the higher scale for the money which he has saved. Take it that a retail trader has saved money, and he has invested some of that money, he has to pay a different rate on the income from that investment from what he pays on his ordinary earnings. Naturally he objects to it; I do not know how it can be altered.

19,934. It operates in two ways: first upon the income from his own saved capital he has got to pay at the unearned rate instead of at the earned rate; but in addition to that, the mere addition to his income may push up his general rate?—That is so.

19,935. I gather that it is the first of the two consequences to which your members object?—Yes, that is so.

19,936. Can that be met except by doing away with the distinction between earned and unearned income?—I do not know. If you want my own personal opinion, I object to the differentiation between the two.

19,937. Is not this one of the numerous matters where everybody would desire to reach a result if it could be practically done without introducing further difficulties?—Yes, I think you are right.

19,938. You say Super-tax should be abolished as a separate tax. That is for convenience, you mean?—That is so.

19,939. Do you appreciate that the difficulty there is that you must have some fixed rate for deducting at the source. It is so at present?—Yes.

19,940. If you are going to begin your Super-tax from the bottom then you will have to determine at what rate you are to deduct at the source?—Our point in regard to that is the need of a separate establishment for Super-tax. We do not think that it is necessary; we think that it is unnecessary expense.

19,941. It has been suggested that instead of the Special Commissioners dealing with Super-tax the ordinary Surveyor should deal with it. Do you see any objection to that?—No; that is the point.

19,942. Then you suggest payment of tax quarterly?—That is so; it would be a great convenience for retailers, as you can see.

19,943. You also suggest deduction by employers of the tax payable on the salaries and other payments that they make to their employees?—No, we object to that.

19,944. I beg your pardon; I have missed the word "not." Do you not think it would facilitate collection?—It is easy for the Government, but it is very difficult for the employer.

19,945. Why?—There are many reasons.

19,946. Tell me some of them?—The employer comes to imagine that the employer is taking off his money, and it becomes his aim to recover the amount to cover the difference. In other words, it creates difficulties between the employer and the employee.

19,947. Has the National Insurance led to any difficulties?—Yes, that is exactly the ground on which we are going. Some of us, besides being shopkeepers, are large employers of labour and we find very great objections even so far as National Health Insurance is concerned, it creates friction continually between employer and employee; to put another tax on will create more. It means a lot of trouble, too, to the employer.

19,948. Then you suggest that there should be further contribution from Imperial sources towards local revenue?—Yes. We have a very strong argument for that; I do not know whether you would like to hear it.

19,949. Mr. Aveling, may I take you next? You suggest in your first paragraph doing away with the average system?—(Mr. Aveling): Yes.

19,950. And you think that would involve carrying losses forward?—I do.

19,951. For how long?—I do not see any difficulty in carrying them forward until they are abolished.

19,952. Indefinitely?—Indefinitely.

19,953. At present you can carry losses forward practically three years?—For practically three years.

19,954. The country cannot afford luxuries now. Do you not think it would be a fair thing if the change were introduced that the loss should be carried forward three years only?—I think that would have to be dealt with to a great extent by the condition of the country. If you are in a condition of great depression I think it should be carried on to a further period.

19,955. All your other points have been fully dealt with by other witnesses. One question about paragraph 9 of your evidence—in-chief, the Board of Reference. You say the Local Commissioners are not in practice a satisfactory body. Why is that?—In most cases they have no experience. They are appointed to a great extent from local benches of magistrates, who are not always appointed because of their great experience in trade matters but from political and other reasons; and we think there should be more experienced persons to deal with this sort of subject.

19,956. What is the suggested alternative as an appellate body? What do you suggest instead of the General Commissioners?—Our suggestion is made in paragraph 9, the extension of the principle of the Excess Profits Duty Board of Reference.

19,957. Do you mean for each locality or a general body?—It could be for each locality, so far as I can see, although possibly it would be preferable to do it in areas.

19,958. If you had a special body for each area the area would generally have to be large, would it not?—It would have to be very large.

19,959. Would you be any better off than you are at present with the right of coming up to the Special Commissioners who sit in London and who have also local sittings?—I think it would be better done in fairly large areas.

19,960. How would you select the members of your Board for any particular area?—I think experience in trade matters should be taken into consideration in appointing Commissioners.

19,961. Do you mean that you would have a body of traders?—Not necessarily traders. I should bring in professional gentlemen as well, such as accountants and so on.

19,962. You would probably have some accountants?—Probably some accountants.

19,963. And possibly you would have one or more members with legal experience who are practised in judicial work in order to give continuity to the decisions?—I do not think any trader objects to go before any Committee when he knows that those sitting round know what they are talking about.

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19,964. You say local Collectors and Assessors should be whole-time civil servants?—I am very strong on that. At the present time, as you are probably aware, some of them are engaged in a profession themselves and possibly are even accountants. There is no doubt members round the table will know that there are instances where they are accountants. That seems to be unfair both to the country and to the general traders.

19,965. Now, Mr. Blakemore, substantially your evidence is with regard to co-operative trading?—(Mr. Blakemore): Yes.

19,966. We have the advantage of having your considered statement here, and we have had two whole days' evidence about a similar matter. So I will not trouble you further than the assistance you have already given us. Before any other members of the Commission question you, do any of you gentlemen wish to add anything?—(Mr. Pratt): I think not.

19,967. Mr. Walker Clark: Mr. Pratt, you referred to a questionnaire in the first paragraph?—That is so.

19,968. Are you prepared to put in the questionnaire and its results?—Yes, if you wish it.

19,969. Have you got it with you?—Yes, we have it.

19,970. Then paragraph 3, allowances; would you suggest to the Commission that the allowances for wife and children should be extended beyond the present limit—that is, £800 at present?—We consider that this should be continued and determined with due regard to increase in the cost of living, so I presume we should.

19,971. It would go beyond the present £800?—Yes.

19,972. Indefinitely, or is there a sum which you would suggest as the highest limit?—We have not considered that.

19,973. Then paragraph 4, differentiation; would you exempt all savings from the higher rate which is now put upon unearned income?—I think really the idea was confined to the savings of the person himself or herself, apart from what he or she had inherited.

19,974. A trader who is successful and who increases the capital of his business by his savings now pays on the earned rate; but the trader whose savings are just the same in amount, and whose living expenses are the same, and who invests his capital outside his business, pays on a higher rate?—Yes.

19,975. You think they ought to be at one rate?—Yes.

19,976. And in the event of his demise would his widow, becoming his heiress, be expected to pay at the same rate as the husband?—I think it was intended that it should apply only to the man who makes the money.

19,977. And stop with him?—That is the idea.

19,978. I gather you are opposed both personally and on behalf of the Chamber to the collection by employers of the tax on their employees under any condition?—That is so.

19,979. Although some employers and some organisations have expressed willingness to collect it?—Yes, but there is a majority against.

19,980. Your members are against?—That is so.

19,981. Mr. Aveling, in reference to paragraph 3 in your memorandum—partners and the furnishing of separate demands—is the idea that a partner should be absolutely separately assessed, that is to say, that each individual member of a firm should receive a separate assessment independent of the one assessment for the whole firm?—(Mr. Aveling): He should receive an independent assessment which should include everything. At the present moment you are liable to have three or four different lots of Income Tax demands; and I was going to say it is a physical impossibility to make an account out. I do object to pay money away when I do not know how the account has been made out. For instance, I receive four or five different sets.

19,982. That is in paragraph 2, is it not; you indicate that you want one only?—Yes, it is. Of course paragraphs 2 and 3 are part and parcel of the same thing.

19,983. Would you agree that the senior partner should be liable to the Revenue for the collection of tax if there was a default on the part of any other member?—Most certainly.

19,984. Then, Mr. Blakemore, just one question. The gravamen of your proposal is that the private trader is disadvantaged by the freedom from payment under Schedules C and D of the Co-operative Societies?—(Mr. Blakemore): Yes.

19,985. Can you supply any facts to justify that statement?—Yes. Provided the Commission will not print the name of the firm, I should like to hand in two certified balance sheets of a private limited company to illustrate the disadvantage to which a private trader is subjected by this immunity from taxation under Schedules C and D of the co-operative movement. These balance sheets are of a small limited company with a paid-up capital of £1,000, and an authorised share capital of £2,000. I have the statement from the auditor here, which I will hand in if you wish. The Income Tax under Schedule D paid for the year 1917-18 was £322 10s.; the Income Tax for the year 1918-19 was £119 8s.; and the Income Tax under Schedule D for 1919-20 (this is to the 31st March last), which has not yet been dealt with by the Surveyor owing to stress of work, is worked out at £290 by our auditor, but the Commissioners have sent in a demand for £390. The auditor says he thinks it will probably be £290. For those three years you see on a share capital of £1,000 there has been paid in taxation under Schedule D a sum of £691 18s. Now that means that when we go into the market to compete in the purchase of goods we go in with £691 18s. less than a co-operative organisation of the same size as this, to purchase goods with, and the result is that we are considerably handicapped in that respect, and we suffer a disadvantage.

19,986. But that tax is upon the profits, is it not; it does not interfere with the capacity of the firm to purchase or carry on business?—True, but in the case of the co-operative organisation the overcharges are not all distributed, some of them are placed to reserve, and consequently these reserves work automatically to our disadvantage.

19,987. In paragraph 2, sub-paragraph (iii), you state: "This immunity from taxation is causing the price of food to be enhanced." Would not the statement you have now made rather prove the opposite?—No, because by virtue of restricting the channels of competition it is working altogether disadvantageously to the private trader. I will give you an instance. One part of my military duties was to arrange a hilling survey in the County of Cheshire, and in doing that I had to visit farm houses and other places for the purpose of securing billets accommodation for troops; and I came across farms that had been purchased by the co-operative organisation of Manchester, and from some of those farms I ascertained from one of our buyers we had at some time previously been purchasing cheese. Now that area of production for the private trader had been transferred from the private trader to the co-operative association. The result was that if there should be a shortage of cheese the co-operative organisation would have their cheese produced on their own farms, and distributed to their own customers, to the disadvantage of the private trader, who could not get that cheese. That may become very important if the rate of exchange goes very high after control is removed. It will mean practically that the English private trader will have to buy in a foreign market, because the co-operative organisations are gradually getting control of the whole of the English production.

19,988. Mr. Kerr: That is looking rather a long way ahead, is it not?—If you look in the report of the Registrar-General they already own 15,000 acres, I believe it is, of farm lands in Great Britain.

19,989. Mr. Walker Clark: Mr. Aveling, in paragraph 8 you speak of the standardized form of certificate. This paragraph suggests that there should be a standard form of certificate, which should be signed, I presume, by the taxpayer on the one

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hand, and by some responsible person, a chartered accountant or some other responsible person, on the other hand, and accepted by the Surveyor?—Yes.

19,000. You do not mean, I suppose, that *ipso facto* that should be accepted; it should be open to inquiry, I presume?—(Mr. Aveling): Certainly it should be open to any inquiry, but at the same time if the chartered accountant puts his name to a statement, and the trader himself puts his name to it, I think there is too much to lose for them to sign a false statement.

19,001. But unless there was some examination it could not possibly be proved that the statements were false, and therefore it would be a premium upon those who were willing to make a false statement?—Of course you have always dishonest people in what ever country it may be, but at the same time I think the standard, both in the accountancy profession and I also suggest the standard so far as the retail trade is concerned, is very high in this country. I do not think there are more rogues than honest men.

19,002. Mr. Symonds: You suggest that farmers should be compelled to keep accounts?—(Mr. Pratt): Yes.

19,003. All farmers?—Just as much all farmers as all tradesmen.

19,004. Do you mean by that, that a man should not be allowed to keep a farm unless he can keep accounts? You do not go so far as that, do you?—I do not quite say that, any more than I say a man should not be an ironmonger, which is just the same thing.

19,005. I come from the sister side, where there are 300,000 small farmers, and they have a statutory right to their holdings and fixity of tenure. You are not seriously going to suggest that each one of those men should be compelled to keep accounts?—I am going to suggest that a farmer has no right to immunity. That is the real position.

19,006. But try to treat it as a practical problem. Could you confine that suggestion to farmers over a certain valuation?—Yes, I should not mind that. Our only point is that as retail traders we have to prepare accounts, however small we are.

19,007. You are not obliged to prepare accounts?—At any rate we are suggesting that we should. That is one of the points that we have put here. We are suggesting that everybody should prepare accounts. Surely in these days of education it is possible to do that.

19,008. I quite sympathize with you in regard to the extra taxation imposed upon the savings of traders. But do you not think you should go a little further? In the long result all unearned income is the result of savings at some time or other, is it not?—I think I have pointed that out—that it should apply only to the person who does save, and not to his descendants.

19,009. But is not the origin of the saving the same?—The origin, but the man is not the same.

19,010. Do you not think it would be very hard to distinguish between a personal saving and the saving of a progenitor?—I think it would. I do not know whether you are asking me personally, because I said just now really my own feeling is that there should be no difference in rate between earned and unearned incomes; but I am speaking for the Chamber, and the attitude of the Chamber I have given you.

19,011. Give me your personal view. Do you or do you not think that logically there should not be this advantage with regard to earned income as compared with unearned income?—I do personally.

19,012. We have had it in evidence that by the abolition of this differentiation the State would gain 12½ millions of money, and that could be taken off other burdens. That is what the actual difference would be?—I am pleased to hear it.

19,013. Mr. Graham: You indicate a figure of £120 per annum as the limit of exemption?—Yes.

19,014. Might I ask how the Chamber has arrived at that figure?—We have discussed this question a long time. Our figure was £80 a year; that is 30s. a week; and we thought that anybody who got over 30s. a week should pay something towards Imperial taxation in some way. Of course, the cost of living has very much

increased, and at our meeting at Chester last year the amount was raised from £80 to £120. That is the only reason. Really, we believe, as a Chamber, that everybody ought to be taxed, but we recognize that a man who has only got £120 a year is already paying a good deal in indirect taxation, and to tax him on top of that would hardly be fair.

19,015. The figure of £120 was not based, was it, on any investigation of social conditions or of the standard of life? Was any evidence of that kind taken before you laid down the figure of £120?—I may say, in answer to that, that at the time we fixed on £120, that was our estimate of the standard that a man could live respectably upon. Some of our associations in their answers to our questionnaire have raised the amount because the cost of living to-day is considerably more.

19,016. Would you agree with this suggestion of mine: that if we had a low figure of, say, £120, and it was clearly shown that such a figure endangered a moderate standard of life among large masses of people, it would not be in the interests of the State ultimately to tax at that level?—Yes, that is our point. We should put no limit at all, only we do not want to squeeze blood out of a man. We feel that all ought to pay, but our suggestion here is accompanied by another suggestion, namely, that the Imperial taxes that are at present collected in the local rates should be transferred, and in that case the man who is taxed would have no more to pay than he has now. About one-third of his local rates really goes for Imperial services. So that if you took the difference he would be really in pocket if that were done.

19,017. Would it be correct on my part to suggest that what the Chamber has really in view is not so much any investigation of social conditions or of a standard of life as an effort to bring home to the masses of the people their responsibility to the State through direct as opposed to indirect taxation?—That is the point. We believe if they have the vote they ought to do something towards the providing of the means of carrying out their vote. In other words, the man who calls the tune should pay the piper.

19,018. That is the gravamen of your case rather than a standard of life or rational minimum?—That is so.

19,019. Sir W. Tyrer: With regard to Mr. Pratt's statement about farmers, I assume that it would involve a valuation of stock?—Yes, I presume it would.

19,020. At the beginning of the year and at the end of the year?—Yes.

19,021. Would you impose that upon all farmers by Statute?—I do not see any reason why it should not be.

19,022. I am only asking you the question?—I would.

19,023. You would impose that upon every farmer if his income consisted partly of cash receipts and partly in the valuation of his stock at the beginning of the financial year and at the end of the year?—Yes, that is so.

19,024. Then it would be necessary to impose by Statute an obligation upon each farmer in this country to have a valuation of his stock-in-trade made at least once a year?—Yes.

19,025. With regard to paragraph 5 as to Super-tax, do you not think there would be some objection by some traders to return the whole of their income to the local Surveyor? It is sometimes thought advisable, and an opportunity is given with regard to Super-tax, to refer to the Special Commissioners because it is thought undesirable to return to the local people the whole of a man's income?—I do not think there would be any objection whatever if the Surveyor of Taxes was a whole-time paid man.

19,026. I think he is that now, is he not? The Surveyor is a whole-time paid man now?—I mean the Assessor.

19,027. I am not talking of the Assessor. I think you suggest that the whole of the assessment of Super-tax and Income Tax should be local—should be in the same hands?—We are speaking to a large extent for the retail trade, and I do not think there would be any objection whatever on their part.

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20,018. Then with regard to Mr. Blakemore's paper, there is one question I want to ask. It was said by some of the previous witnesses that with regard to mutual trading, Co-operative Societies were on the same basis as clubs. Is it not a fact that a club is not a legal entity and cannot be sued? The object of my question is to show that there is an entire

difference between clubs and Co-operative Societies. Do you agree about that?—(Mr. Blakemore): Yes, quite.

20,019. You agree they are on an entirely different basis?—Yes.

20,020. Mr. Kerly: Thank you, gentlemen; we are much obliged to you.

MR. ALBERT E. K. WHEERY, on behalf of the National Association of Corn and Agricultural Merchants and the Agricultural Seed Trade Association, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

AGRICULTURAL CO-OPERATIVE TRADING SOCIETIES.

Evidence of Mr. ALBERT E. K. WHEERY, Member, WHEERY & SONS, Limited, Corn Merchants, Bourne, Lincs.

(1) Disclaimer.

20,021. In submitting my evidence to the Income Tax Commission, I wish it to be clearly understood that I am confining my remarks strictly to Agricultural Co-operative Trading Societies established under the auspices of the Agricultural Organisation Society, and that I am not referring either to the industrial co-operative movement or to co-operative or co-partnership farming.

2 Interests represented.

20,022. I represent the National Association of Corn and Agricultural Merchants, which has a membership of practically 2,300 persons and firms carrying on business in the United Kingdom. The business of these merchants comprises:—

1. purchase, storage and sale of farmers' grain and re-sale to manufacturers;
2. purchase and re-sale of hay, straw and roots;
3. purchase, and in some cases manufacture, of feeding stuffs and sale to farmers;
4. purchase, compounding and sale of fertilisers;
5. purchase of grass, clover, and cereal seeds and occasionally "seed" potatoes, purchase of root seed under contract from growers;
6. cleaning and testing of seeds and sale to farmers;
7. purchase, stocking, maintenance and hiring out of agricultural machinery and implements;
8. wholesale and retail trade in coal, oil and petrol;
9. purchase, grading, packing and re-sale of wool;
10. road and water transport of agricultural supplies;
11. stock hiring;
12. the financing both of sale of crops and of purchase of farmers' supplies.

In addition to the direct membership referred to, several Retail Associations are affiliated with us, so that our virtual membership is nearly 3,000.

(3) Interests to which preferential treatment is given.

20,023. The Agricultural Organisation Society, which is in the enjoyment of grants from the Development Commissioners, is conducting a propaganda campaign throughout the country for the purpose of grouping all farmers into Co-operative Societies registered under the Industrial and Provident Societies' Act for eliminating middlemen, and bridging the gap now filled by ourselves between the producer and the consumer. These Co-operative Societies are trading concerns, and it is the object of the Agricultural Organisation Society to replace the private traders, who pay Income Tax in the ordinary way, by societies which will perform the functions of the distributor and manufacturer, and, being registered under the Industrial and Provident Societies' Act, will not pay Income Tax.

(4) Comparison with true co-operation.

20,024. Whatever may be said in defence of the exemption from Income Tax enjoyed by the industrial co-

operative movement cannot, with any sense of equity, be applied to farmers' trading societies. If a group of persons combined together to purchase the amenities of existence out of their taxed incomes, and any saving which is effected by such co-operation is retained in the form of bonus, this is true co-operation in accordance with the principles originally laid down at Oldham. Such is not the case with farmers' Co-operative Societies, because each individual co-operator is a taxed unit, and it would be just as reasonable for a group of cotton mills operating in Lancashire to make their purchases through a co-operative purchasing agency and claim exemption from Income Tax as for a group of taxed farmers to claim exemption from Income Tax on the purchase, through a trading corporation, of the raw materials of their business in the form of seeds, feeding stuffs and fertilisers, or on the sale of their finished articles in the form of grain, vegetables, meat and dairy products. The fundamental difference is obvious, the units of a farmers' Co-operative Society are taxed units, whereas the units of industrial co-operation are private individuals co-operating for the purpose of reducing the cost of living. The latter co-operate for the purpose of effecting a saving in the expenditure of their incomes; the former co-operate in order to increase their trading profits.

(5) Method of trading.

20,025. So far as the operations of farmers' trading societies are concerned, they recognize the necessity of having, in common with private traders, a margin on all their transactions, sufficient to cover trading risks, and if a profit can be made by this method of trading it is returned to the individual shareholders in the form of a bonus. This bonus is nothing more or less than a dividend paid out of profits to the shareholders in the concern, that is, the individual members of the Co-operative Society.

It is stated by these societies that farmers who are members do not receive profits, but receive back, in the shape of a bonus, the difference between the amount they have paid for their supplies, and the actual cost of them, after payment of administrative expenses. Such bonus is therefore a reduction in price of the goods purchased. This is not the case. For the year 1917 the Eastern Counties Co-operative Society paid a dividend of 4d. in the £ to members in respect of their purchases through the corn and machinery departments of the Association. The profits on the corn side of the business were considerably less than on the machinery side. For instance, the profit on grain sold to the farmer would be about 1s. per quarter, or approximately 2 per cent. Profits on feeding stuffs would be 5s. per ton, approximately 2 per cent., but the profits on agricultural machinery were 17½ per cent. The profits on uncontrolled commodities were probably more, but the farmer who buys uncontrolled commodities or agricultural machinery, where the profit is great, receives the same bonus as the farmer who purchases controlled commodities like feeding stuffs and grain, where the profits are barely sufficient to pay working expenses. It is obvious, therefore, that the bonus can only have been paid to the latter, at the expense of and by resorting to the profits of the former.

The societies handle the farmers' grain, and have made great play with the fact that under the Grain (Prices) Order 1917/18 a commission of 1s. could be added to the maximum price paid to the producer. This commission only being allowed to recognized

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dealers, the societies have therefore said to the farmers, "we can give you as much as any merchant, and you will get a portion of the 1s. back again."

Strong protests were sent in to the Ministry of Food that by this procedure farmers were receiving more than the maximum producer's price, and the answer received was to the effect that if a group of persons combined and subscribed capital for the purpose of marketing their products, they were in effect complying with the interpretation of Clause 12 of the Order, which states:—"Recognised dealer shall mean a person who, in the ordinary way of business, deals in grain for the purpose of his livelihood."

Surely a person who "deals in grain for the purpose of his livelihood" is not a co-operator, but a trader subject to the ordinary provisions of the Income Tax Act.

(6) Accumulated reserves.

30,026. The entire profits of these societies are not distributed as refunds in the trading accounts, because large sums are set on one side as accumulated reserves or devoted to purposes other than administrative, such as the purchase of plant, mills, stores, &c. Such purchases should only be made out of subscribed capital, because, unless the entire profits are distributed, it is impossible for the members to comply with section 24 of the Industrial Provident Societies' Act, 1893, which enacts:—"No member of or person employed by the society shall be exempt from any assessment to the said duties to which he would be otherwise liable." Undistributed reserves, therefore, constitute a large proportion of trading profits, which profits have paid no tax and can, by a stroke of the pen, become untaxable capital by converting the concern into a joint stock company as soon as sufficient capital has been acquired.

(7) Taxation under Schedule B.

30,027. It has been urged that Income Tax is a personal tax, and that these individuals would, if they paid Income Tax on their farms under Schedule D, be liable to assessment under the same Schedule for Income Tax on their dividends, but as the majority of farmers pay Income Tax under Schedule B, they have, therefore, paid Income Tax which covers anything they may receive back in the form of bonus from their Co-operative Societies. This argument, however, will not bear investigation. So far as Co-operative Societies are, with their boasted organisation, able to return better prices to the farmers, or to sell more cheaply to the farmers, I have no criticism to offer. Any saving so effected is certainly part of the profit of husbandry, and assessable under Schedule B.

So far, however, as the farmer receives a bonus or dividend, this should be taxable under Schedule D, and the position of the farmers at the present day is such that there no longer is any reason why this bonus should not be taxed at the source, as in the case of ordinary joint stock company taxation, with power to claim refund in case of need. There is, therefore, no reason why the privileges granted to Industrial Co-operative Societies, or even to co-partnership farming, should be extended to Co-operative Societies trading in agricultural produce and supplies, and carrying on the business of merchants and manufacturers.

(8) Arguments in refutation of taxation under Schedule B.

30,028. It is admitted that Schedule B is clearly limited to profits arising from the occupation of land, that is, from the cultivation and production of crops. It cannot by any stretch of imagination be extended to manufacturing or trading operations.

By the Finance (No. 2) Act, 1915, section 39, certain persons were exempt from the payment of Excess Profits Duty, including the occupation of husbandry. As a matter of fact, the Farmers' Trading Societies do pay Excess Profits Duty. If the

surplus of profits was assessable under Schedule B, as profits arising from husbandry, they would not be liable to Excess Profits Duty. The fact that they are liable, and pay the duty, supports my argument.

"By Schedule B of the Income Tax Act, 1883, provision is made for taxation in respect of occupation of lands, and there then follow provisions in Schedule D which secure that further duties under that Schedule are to be extended in respect of any trade adventure or concern in the nature of a trade, not contained in any other Schedule, or in the case of duties to be charged under any of the foregoing rules. There can be no question therefore that the profits of these Societies are liable to taxation unless it can be ascertained that they are received through and in respect of the occupation of the lands which the appellant holds as his farm."

The above is a quotation from the dictum of Lord Buckmaster in the recent case in the House of Lords, *Malcolm v. Lockhart*, reported in the Law Reports, Appeal Cases, 1919, on page 466.

An example of the operations of these societies is shown by reference to the Report for the year 1918, issued by the Eastern Counties Co-operative Society, in which it is stated that the Association "has been acting as a Government authorised slaughter-house agent, and the turnover in connection with this business, which was undertaken on a commission basis, amounted to £98,167 5s. 9d." It is a far cry from the occupation of land to acting as a commission agent.

A further example from the same balance sheet:—

"During the past year a grist mill with good ware-house accommodation has been purchased and . . . is already receiving good support."

A grist mill deals with such commodities as maize, beans and barley that have been produced by the cultivation of land in this and other countries, but is in no sense connected with the occupation of land.

It is commonly assumed that farmers are assessable under Schedule B in respect of the whole of their businesses. This is not correct. By section 100 of the Income Tax Act, 1842, dealers in cattle and sellers of milk may be assessed under Schedule D if the lands which have been charged on the rent or annual value in Schedule B are insufficient for the keep of cattle brought on the said lands, so that the rent or annual value affords no just estimate of the profits.

Applying these enactments to these Co-operative Societies which are largely interested in the production of cheese and butter, and distribution of cream and milk, it is obvious that by the erection of plant on a big scale they are going beyond the actual profits derived from the occupation of lands, they are becoming, in fact, milk sellers or cheese manufacturers within this section, and should be charged under Schedule D.

I have already shown (par. 5) that they carry on the trade of being "recognised dealers in grain for the purpose of their livelihood." It is permitted to merchants, who are also farmers, where they can keep their businesses distinct to charge the extra price on grain produced by them, but they have to pay Income Tax under Schedule D on their business as corn merchants, and under Schedule B in respect of the occupation of the land. Two distinct assessments are made therefore, and in dealing with the grain through Co-operative Societies the same course should be adopted.

(9) Trading only with members.

30,029. Section 24 of the Industrial and Provident Societies' Act enacts as follows:—"A registered society shall not be chargeable under Schedule C and D of the Income Tax Acts unless it sells to persons not members thereof, and the number of shares of the society is limited either by its rules or its practice."

Now, it is a well known fact that the societies are ready to sell feeding stuffs to anybody whether members or not. So far as my experience goes, and it is considerable, they are as ready to trade with farmers who are not members as with farmers who are. They are equally ready to sell to non-farmers. Indeed, they prefer to have a mixed business of this sort,

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because the profit which accrues in dealing with the non-member goes to swell the bonus paid to the farmer who is a member.

Further, when a society sells grain to millers or maltsters it does not sell to persons who are members, rather it sells to anybody who is prepared to buy. It would be obviously impossible for the societies to sell only to members. They would, in that case, so restrict their capacity for business as to deprive them of their connection. They have never pretended to confine their dealings to members, and I submit that Surveyors of Taxes have been very remiss in not assessing the societies on this ground.

(10) Summary.

20,030. I am not here to attack co-operative trading as such—indeed, I can cite instances where co-operation is being carried on most successfully—but in the form of joint stock companies having farmers as shareholders, and paying their just share of the taxation of the country. Many of the firms which I represent have farmer shareholders, and I would like in particular to mention two most successful co-operative concerns. I refer to the West Norfolk Farmers' Manure Company at King's Lynn and the Western Counties Farmers' Trading Company, Limited, at Plymouth.

If co-operative trading is superior to private trading it ought to be left to prove its superiority in a fair field with no favour.

If agriculture is to be progressive it must be served by progressive methods, and there is nothing in the history of the Agricultural Organisation Society to show that it is equal to such a task.

[This concludes the evidence-in-chief.]

20,031. Mr. Kerly: You are a member of a firm of corn merchants, and your evidence is directed to the operations of agricultural Co-operative Trading Societies and to the fact that they have, as you suggest, a certain privileged position with regard to Income Tax? We have had a great deal of evidence about the general co-operative movement, which we have been discussing for a great many hours, and a great many of the matters which you have dealt with have been before us; so that some part of your paper may probably be taken for granted as already familiar to us. Then you give special evidence with regard to one particular trade. You will be asked questions about that?—If you please.

20,032. Mr. Prynne: I see you make a great point of there being a very wide difference between the agricultural Co-operative Trading Societies and the industrial Co-operative Societies, and in your paragraphs 4 and 5 you specify that, and you say that that co-operative movement is distinguishable from industrial co-operation in that each individual co-operator is a taxed unit; but surely each individual co-operator in an industrial society is also a taxable unit, at any rate?—I should have said a taxed trading unit.

20,033. Not necessarily; there are farmers who are exempt from tax owing to the smallness of their income just as much as a co-operator?—Precisely, they are; I grant that.

20,034. I cannot see the difference in principle. I quite agree that there is a difference in degree; that is to say, that probably the majority of the members of a farmers' co-operative association are actual taxpayers, whereas only a small minority comparatively of the industrial co-operators would be actual taxpayers; but in the matter of principle, I cannot see where the difference is?—That is really the whole of my case—the difference in principle between the two forms of co-operation.

20,035. What is the difference of principle?—Supposing each of us in this room had an income of £500 a year; we pay taxation on that income whatever we may be liable to pay, and out of what remains after taxation we purchase through a Co-operative Society, our groceries, our boots and our shoes; anything which we get returned to us through having the advantage of purchasing in that way is a reduction of the amount which we have expended

out of our already taxed incomes. If, on the other hand, we are occupiers of land, upon which it is assessed under Schedule B that our income is £500 a year, and we join a Co-operative Society for the purpose of increasing that income to £550 or £600, by becoming manufacturers, traders, and importers, we are not paying tax on the whole of our taxable income.

20,036. But no man who pays tax under Schedule B is paying tax on any of his whole taxable income. It is an arrangement to avoid that?—Yes, exactly.

20,037. It does not seem to me that what you have said takes this question of profits that he may make through a Co-operative Society into a different category from any profits he may make in any other part of his business. He pays under Schedule B to cover them all?—The Income Tax Act specifically says that the income for which he is taxed under Schedule B is in respect of the occupation of land; that is to say, the occupation of husbandry, and I have cited a case where the travelling of a stallion was carried to the House of Lords, and a decision was given by Lord Buckmaster, in which he said that so far as that stallion served the mares on the farm, it was part of the occupation of husbandry, and taxable under Schedule B, but in so far as it travelled on to other farms and earned large fees for serving mares on other farms it was taxable under Schedule D. That is my case. Applied to trading and manufacturing societies, so far as these societies can give better prices to farmers or sell more cheaply to farmers, the movement is perfectly legitimate, and there is no injustice; but so far as the farmer's operation of husbandry is carried into the trading departments it should be taxable under Schedule D; and I still maintain, if you will excuse my saying so, that there is a vital difference between such trading and the fact that we as individuals may co-operate to save something by buying, say, a truck of coal between us.

20,038. The difference, you really mean, is that one profit is carried into the trade and the other is domestic. Is that what you mean?—Precisely; that is so.

20,039. What you said just now was that in so far as it was carried into the trade it was already compounded for under Schedule B?—Only so far as they as traders can pay less and take more, it is Schedule B.

20,040. Schedule B is a compounded rate instead of Schedule D, and there is an option?—But Schedule B is strictly limited to the process of husbandry.

20,041. Surely any advantage which the farmer gets through the lower price at which he gets some commodity which he is going to use in his business is reflected in his accounts, and would come into Schedule D if he elected to be taxed under Schedule D? That is to say, supposing he used to purchase artificial manure from an ordinary trader at a certain price; supposing that by purchasing through his Co-operative Society he can buy that consignment of artificial manure at £10 less, that will go into his trading account at the lower figure?—That is so.

20,042. Therefore, if he was taxed under Schedule D the deduction on account of expenses would be £10 less?—Yes, that is so.

20,043. Therefore it does come into his trading account under Schedule D; and as Schedule B is a compounded rate for all tax that he would pay under Schedule D, and may pay under Schedule D if he likes, it seems to me to be covered?—Yes, but surely there is a difference. If these societies find it necessary to retain a trading margin and they afterwards return it in the form of dividend, it is another matter. If they sell at cost price I have no objection to offer; let them do so, that is Schedule B; but if they must keep a margin to cover trading contingencies, had debts, fluctuations of the market, working expenses, and similar matters to those incurred by any firm and other private firms, then I say anything that is returnable as profit should be assessable under Schedule D as trading profit and not as husbandry.

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[Continued.]

20,044. But in principle one covers the other does it not? That is exactly the same as industrial co-operatives; they have a reserve and they distribute dividend in proportion to purchases, and that is held to be included in the rule of law that that surplus is not taxable profit; it is a profit but it is not a profit liable to Income Tax, because it is made by mutual trading?—But this profit is liable to Excess Profits Duty.

20,045. So is the industrial societies' profit liable to Excess Profits Duty; they pay that too?—But husbandry is exempt from Excess Profits Duty.

20,046. Excess Profits Duty is different from Income Tax, and we have had it in evidence that charging Excess Profits Duty was an admitted remedy. In the case of industrial Co-operative Societies it has been admitted or stated in evidence that the charging of Excess Profits Duty was an anomaly, and I presume it would be the same in this case?—Yes.

20,047. I am not saying that it is wrong that they should pay; I am only putting it to you that on principle it is very difficult really to differentiate them from industrial and Provident Societies?—I must say I fail to see the resemblance; I am sorry. I think the difference is vital.

20,048. You think there is a difference?—I think there is a vital difference between the two.

20,049. How should you proceed to deal with that? You say there is a vital difference. In what way would you bring them under the tax without bringing an industrial society under the tax?—I would tax them at the source.

20,050. On the ground that it was profit?—On the ground that it was profit. They also do a very large business with non-members.

20,051. That is exactly the same claim that is made against the Industrial and Provident Societies?—But in that case the units are different.

20,052. You mean to say that you would simply assess that agricultural societies should be assessed at the source?—Yes.

20,053. On all their trading profits?—Yes.

20,054. And that industrial associations should be exempted?—That agricultural societies should no longer enjoy the benefit which they have under the Industrial and Provident Societies Act, because they have gone outside the four walls of that Act. They trade with anyone that comes along, and in very large quantities.

20,055. Industrial societies trade with outsiders, too?—Yes, but I am not here to argue the case of industrial societies.

20,056. But you must remember that you found your case on the difference which you state exists between the two. My examination is solely directed to try and get a clear understanding of where that difference really lies in the principle.

20,057. Mr. Kerly: I think if Mr. Wherry will allow me, I may say this. I have gathered that his difficulties are two; the first is that the agriculturist is normally taxed not upon Schedule D, but by the compounding system, in which Mr. Pretyman says this would now be included. Mr. Wherry proposes specifically to exclude it; and secondly, that the dealings of agricultural co-operatives are very much larger than the dealings of ordinary co-operatives with outsiders; and on those two grounds he proposes to deal specifically with agricultural Co-operative Societies, and provide that any exemption allowed to ordinary Co-operative Societies from payment under Schedule D should not extend to them. Is that right?—That is so.

20,058. Mr. May: I suggest there is a further difference, which I will endeavour to elucidate by questions presently?—It is based on the vital difference that the units of one are trading units, and the units of the other are individuals.

20,059. That is the whole point.

20,060. Mr. Kerly: That applies, of course, to the Wholesale Co-operative Society?—No, because in the long run its profits come down to the individuals. The Agricultural Wholesale Society stands in the same relation to the children of the Agricultural Organisation Society as the Wholesale Co-operative Society does to the individual society.

20,061. Mr. Pretyman: I thought I had already dealt with that point—that one deals with traders and the other with individuals. The farmer does not deal only as a trader; he deals as an individual with an agricultural Co-operative Society, and, just as an individual is taxable on one basis, so the farmer, as a trader, is taxable on another?—But I think where the farmer trades as an individual it is in some of the small societies that deal in groceries, &c., which were set up to replace the gableman in Ireland, but I do not think that is so in your own county, Mr. Pretyman.

20,062. Mr. May: I do not know whether this point is clear, sir.

20,063. Mr. Kerly: It is quite clear to me now. I had left out of account that also the Wholesale Co-operative Society deals with the retail Co-operative Societies, whose members are individual consumers.

20,064. Mr. May: I submit to Mr. Wherry that there is no question of mutual trading in the agricultural society such as exists in the Industrial Co-operative Society?—None at all.

20,065. That each member of the agricultural Co-operative Society is in fact a trader, and it is as a trader that he is a member, and not as a consumer?—That is so.

20,066. That he, on his part, produces for the open market, quite outside any question of mutual trading?—Yes.

20,067. And that the agricultural society of which he is a member, in its turn, while it may co-operate to provide for him some of the raw materials of his business, and some of the machinery, markets his produce in the open market?—That is so.

20,068. And that, as you have correctly said and stated in your paper, that is a vital difference between the agricultural and the industrial Co-operative Society?—That is so.

20,069. Mr. Graham: I am not quite clear about one point. I gather that you do not attack the industrial co-operative movement, nor yet do you attack co-operative farming. What you attack—I use that word, of course, quite inoffensively—is really the Agricultural Organisation Society, is it not?—Not the society, but its children.

20,070. I am correct, I think, in assuming that you do not in any way, by your proposals in this paper, seek to undermine the value of co-operative enterprise in the rural districts, or such assistance to the smaller agriculturists as comes from a society of this kind. I mean by bringing within their reach implements, and so on, which otherwise they would never obtain?—Not at all; I do not attack co-operation as co-operation. I say that they enjoy advantages which other people, private individuals, fulfilling precisely the same functions, the village blacksmith included, have to pay taxation for.

20,071. Mr. Kerly: Like other witnesses, you only complain of the shoe when it pinches you?—I think we all look after our own interests.

20,072. Mr. Walker Clark: In paragraph 3, you say: "The Agricultural Organisation Society, which is in the enjoyment of grants from the Development Commissioners." Is that from Imperial funds?—I have tried to confine my remarks, so far as I can, to the reference of your Commission. But I had the honour of giving evidence before the Development Commissioners on this very point. The Agricultural Organisation Society get £17,000 a year from the Development Commissioners for the purpose of setting up co-operative trading societies, and the Development Commissioners were under the impression that it was largely for educational purposes that that grant was made, and not for the establishment of trading societies.

20,073. The point is, from whom does that fund of £17,000 a year come?—From the taxpayers. Part of my money has to go to eliminate us. But I did not think that evidence was within the purview of your jurisdiction; that is the reason why I did not labour it here.

20,074. They have the enjoyment of a grant, and is not that an additional twist, shall I say, to the screw that is pinching you?—It is a very sore twist.

20,075. Mr. McIntosh: Do you seek to draw a distinction between what are termed the profits of

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[Continued.]

husbandry and the profits which may be made from selling that same produce in a different way to the ordinary farmer who disposes of it himself? Let me illustrate the point. The ordinary farmer who sends his milk in to some centre, probably obtains a better price for that milk by selling it retail than he would if he had sold it in bulk. Do you suggest that there are two profits there?—In effect where a farmer carries on a milk business, and sells milk which is not the produce of his own farm, he does have to pay Income Tax at the present time. But so far as concerns the co-operative collection of milk—and I grant you that milk is their best case—so far as by co-operating they can return the man a price of, say, 1s. 4d. a gallon, that is part of husbandry. If they can give him 1s. 5d. a gallon, that is still husbandry. But if they have to retain a margin which covers milk which goes wrong en route, milk which gets lost and wastage, and had debts, and that sort of thing, and if by doing so, milk makes 1s. 8d., part of which additional profit is retained in the form of a trading profit, that has ceased to be husbandry.

20,076. You are simply concerned with the other side of the farmer's account. I take it—his expense side, namely, all the measure, and seeds, and other things, that he has to buy?—I am concerned both ways, both with the selling and the supply. I am interested in both transactions.

20,077. You evidently draw a distinction. Do you think that the getting of an enhanced profit through handling milk co-operatively is not quite legitimate?

—No, excuse me, I do not say so. I say, if, by co-operation, they can actually buy and sell the stuff on better terms, the private trader will just sit back and take his beating. But a margin has to be retained to cover trading risks, and that margin the private individual has to retain to cover trading risks. If the private individual succeeds in making a profit after that margin has been covered, he is taxed on it. If the Co-operative Society succeeds in making a profit, they return it, but without deduction of tax.

20,078. But that profit goes back to the farmer ultimately, does it not?—Yes, but it is not made by husbandry.

20,079. Take the case of a body of farmers who purchase a deposit of manure in order to get that manure brought to this country very much cheaper. Do you think that the carrying on of that trading business is not profit of husbandry at all?—I would not say so.

20,080. Then, if the Co-operative Society did not retain this margin, you would have no objection to it being free from Income Tax?—No, I have no objection. They will not have made any profits, so, therefore, I have nothing to say. If they do not make any profits, they would have nothing to be taxed on.

20,081. But your case would be no easier?—I am quite willing to take that chance.

20,082. *Sir W. Trouser*: I want to get quite clear about the distinction between selling himself and selling through an agent, a Co-operative Society. Is there any difference in his profits?—Supposing the farmer sells his barley through an agent, he has to pay that agent a commission. The commission agent has to return what he earns in that way, and has to pay Income Tax upon it; it is part of the commission business. If he sells through a Co-operative Society, he probably has a portion of that commission returned to him which was earned through the carrying on of a corn merchant's business, and not by husbandry, but he does not pay taxation on it.

20,083. If the farmer sells either himself or through an agent, it is his profit, which is compounded for under Schedule B?—I do not think I quite follow your point.

20,084. The farmer may either sell himself or through an agent?—Yes.

20,085. That agent may be a Co-operative Society?—Yes.

20,086. What he receives is part of his profits which reaches his hands?—Yes.

20,087. That is compounded for under Schedule B, is it not?—Yes.

20,088. Then I do not understand your contention. 20,089. *Mr. Kerly*: It seems plain enough. This business has come up since the compounding. It is something new which is given to the farmer which was not allowed for when the compounding was set up.

20,090. *Mr. Petyman*: Schedule B, on its present basis, has only been set up about a year.

20,091. *Mr. Kerly*: I gather from Mr. Wherry that this particular part of his case is that this uncompounded-for profit should be treated as outside Schedule B, and the farmer, if he gets it, should pay tax upon it in addition to paying his Schedule B.

20,092. *Sir W. Trouser*: I understand the contention, but I do not understand the reason for it.

20,093. *Mr. Petyman*: The whole question of the principle of compounding is quite old. But what has to be considered is not the principle of compounding, but the rate at which the compounding takes place; and, as a fact, when the compounded rate of twice the rent was so very recently fixed, all the circumstances were taken into consideration.

20,094. *Mr. Kerly*: Including the fact that some farmers, and perhaps a good many farmers, work through Co-operative Societies.

20,095. *Mr. Petyman*: Quite; that was taken into account.

20,096. *Mr. Kerly*: That may be. I am not suggesting whether Mr. Wherry is right or wrong. I am only saying that I understood him.

MRS. ARBUTHNOT, on behalf of the Girls' Friendly Society and the Stead Memorial Fund, called and examined.

The witness handed in the following statements as her evidence-in-chief:—

Evidence-in-chief of Mrs. ARBUTHNOT, on behalf of the Girls' Friendly Society.

20,097. (1) The Girls' Friendly Society has a number of freehold and leasehold lodges and homes of rest, which are used chiefly by girls and women of the working, business and professional classes, belonging to the society for the most part, but also by others when accommodation allows it.

20,098. (2) The lodges are for the most part in large cities, such as London, Manchester, Birmingham, Leicester, Coventry, Leeds, &c., where suitable accommodation for women and girl workers is urgently needed. The homes of rest are in country and seaside health resorts, such as Brighton, Llandudno, St. Leonards, Shanklin, Morecambe, Llandudno Wells, Malvern, &c., and are of the utmost value to tired workers who are in need of a holiday

or change of air. Both lodges and homes of rest are hereinafter included in the term "lodges."

20,099. (3) During the war the society was approached by the Ministry of Munitions and the Board of Agriculture and Fisheries with a view to its assisting by allowing these lodges to be used by both munition and land workers. The society willingly complied with the request and did all in its power to assist the Government and to lodge as many of these workers as possible, and by this means the provision of hostels in some places at Government expense was avoided.

20,100. (4) The society makes no profit out of the lodges. Scales of charges are fixed to meet the circumstances of the district in which a lodge is situated and of girls using them, and by these payments the large lodges can be made self-supporting. In most instances they are run at a loss, and the deficiency has to be met by subscriptions and donations. In certain cases where a large lodge is run at a slight

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[Continued.]

profit, such profit is applied either towards improving the accommodation offered, as for instance by securing a recreation room for the use of girls' clubs, &c., or towards paying off initial expenses incurred in starting the lodge, or paying off a mortgage, &c., &c.

20,101. (5) The freehold lodges have, for the most part, been purchased with funds raised by means of public subscriptions or legacies from persons interested in the welfare of girls. They are held either by private trustees or by the Incorporated Central Council of the Girls' Friendly Society, but remain under the management of local Girls' Friendly Society Committees, who occupy them by their managers and servants. Twenty-five of the lodges are owned and legally occupied by the society.

20,102. (6) It would appear that the existing legislation does not exempt institutions of the above kind from the payment of Income Tax under Schedule A.

20,103. (7) The society considers that the lodge committees should not be called upon to pay such tax on freehold lodges. The society contends that if it were to lease its freehold lodges and apply the rents received towards the charitable objects of the society, no property tax would be payable, and that the occupation of the lodges for philanthropic and charitable purposes is equivalent to the application of the rents to such purposes.

20,104. (8) The payment of the tax at the maximum rate forms a serious obstacle in carrying out the philanthropic and charitable objects of the society.

20,105. (9) The lodges of the Girls' Friendly Society have not hitherto been treated as coming within the definition of "an almshouse" or "a house provided for the reception or relief of poor persons" in spite of the wide interpretation of the terms given in "Trustees of the Mary Clark House v. Anderson" (1904), 2 K.B., p. 645, and the society has repeatedly been refused exemption for the real property in occupation.

20,106. (10) On behalf of the society I therefore submit for your consideration that provision be made in subsequent legislation on Income Tax to remove the existing anomaly and to exempt from such tax those charitable and philanthropic institutions which exist entirely for charitable and philanthropic purposes and are not run for profit.

Evidence-in-chief of Mrs. ARBUTHNOT, on behalf of the Stend Memorial Fund.

20,107. (1) The Stend Memorial Fund was founded shortly after Mr. W. T. Stend's tragic death in 1913, in honour of one who had waged a strenuous fight for the cause of womanhood, who sympathized with every effort to lessen the dearth of hostel accommodation for girl workers, and had called conferences to his house for discussing the possibility of providing very large towns with at least one girls' hostel.

20,108. (2) At the end of that year a start was made by purchasing a large house at No. 131, St. George's Road, Westminster. It was equipped for the reception of 29 girls engaged in business (clerks, shop-saleswomen, nurses, probationers for the W.P.F., &c.). This hostel opened in April, 1914; it has since been quite full, and indeed applicants are refused daily. Other hostels at Bath, Leeds, Rochdale and Hoxton (under construction) are affiliated to the fund, and receive subsidies from it to meet extraordinary expenditure.

20,109. (3) None of them is conducted with a view to commercial profit, and all that the Committee desire is that they should be self-supporting. This ideal would have been attained but for the enormous rise in prices caused by war, and in every case the hostels depend on a subscription list for existence. For example, the tariff for cubicle and board at the London Stend Hostel runs from 14s. to £1 a week. It is in proportion to the average earnings of the girls, which do not exceed 35s., but at current prices there is no margin whatever. On the contrary, we have worked at a loss during the quinquennium. The chartered accountants, who audit our books, certify receipts during that period aggregating £3,678 10s., expenditure £5,832 8s. 4d., and a loss on five years' working of £153 18s. 4d. The certified balance sheet for 1918-19 shows an excess

of expenditure over income of £215 10s. 3d. Despite these financial results the local Collector has yearly demanded Income Tax from the committee, and enforced payment. In 1917 we appealed to the Board of Inland Revenue against an assessment of £20 0s. 6d. In support of our contention that the hostel was exempt as coming within the exemptions specified in No. VI of Schedule A of the Act of 1842, we cited *Mary Clark House Trustees v. Anderson* (2 K.B., 645), in which Mr. Justice Channell held that a home for persons of limited means, partly supported by an endowment, was an "almshouse" within the meaning of the section, and exempted it from taxation. It was urged that the hostel's circumstances were on all fours with the plaintiffs' in that case, and that the word "almshouse" should be construed in a modern sense, embracing institutions which were undreamt of 77 years ago. The Board of Inland Revenue, however, rejected our appeal, and our contention is that the Statute law ought to be modified in the interests of the girls' hostel movement, which will be seriously affected by taxation on a wholly imaginary income.

20,110. (4) It is somewhat anomalous that, while struggling philanthropic institutions suffer in pursuance of the strict application of an old Act of Parliament, such wealthy learned societies as the Royal Historical Society should be wholly exempt from taxation under No. VI of Schedule A, of the Income Tax Act, 1842.

[This concludes the evidence-in-chief.]

20,111. Mr. Kerly: You appear here on behalf of a very excellent institution, with which some of us are familiar, that is the Girls' Friendly Society?—Yes.

20,112. Just let me see if this sums up your case. I am reading to you a summation that was put to representatives of another charitable institution, and I want to see if it covers your case, too. Three possible grievances are suggested. First, that there are things which ought to be regarded as charities which are at present excluded; secondly, recognized charities occupying their own premises (I think that is your particular case) for their charitable purposes ought to be exempted from taxation under Schedule A (that is the Property Tax), and then, thirdly, where a charity, in the course of its charitable operations, which as a rule are carried on at a loss, is incidentally doing something which is regarded as trading, which if treated separately, might be regarded as making a profit, you ought to look at the whole of the operations, and say that that profit is really absorbed and in fact there is nothing to pay Income Tax upon. I have read you that, because that goes a little further than you do, and brings in some other grounds; but it is part of the general trouble that we have to deal with in the case of charities?—Yes.

20,113. Mr. Kerly: We have your paper; I need not assure you of our general friendliness to the objects that your Society has in view: but one of the difficulties is how to distinguish such a case from others.

20,114. Mr. Graham: Is the Society in any sense a profit-making body?—No, not at all. With regard to these lodges, it is only large lodges, which are capable of taking over 30 boarders, and are full, that can possibly run at any sort of a profit. If there is a profit, it is all devoted to the part of the Society's work which cannot be profitable, such as club work, and recreation work.

20,115. Then you do not embark on enterprise similar to that undertaken by the Young Men's Christian Association?—What particular sort of enterprise do you refer to?

20,116. I mean what you might describe as trade; it is trading, in a sense?—You mean they have these hostels.

20,117. Places of reception, and provision for meals, and all the rest of it?—No. As I say, the money that is paid by boarders, or by persons coming for meals, is not sufficient for the overhead charges as well as the ordinary housekeeping charges, unless there is a very large number. Most of these hostels of ours do not contain as many as 30 beds. They are mostly

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from 15 to 20. I am Chairman of three Lodge Committees, and only one of the three lodges has more than 30 beds. At that one, which is in Coventry, and where we had as many as 39 regularly during the war—we were very full—we were able to make a small profit, which was devoted to paying off a small mortgage, and also to running a club for girls where the payments for the club will not run it. Consequently there is no personal profit, and no profit to the Society as such. It is all spent on the institution itself.

20,118. *Mr. Walker Clark:* According to the rule?—It is so extremely seldom that there is anything in the nature of a profit, that these lodges have subscription lists, and they have all been started by the donations of philanthropic and charitable persons. I myself raised over £3,000 for the one in Coventry, which was opened at the beginning of the war.

20,119. *Mr. Graham:* Is it the case that what you really set out to provide, as regards hostels, is a home for girls of very limited income, on which you do not expect to make a profit, and for the maintenance of which you must rely, to some extent, on subscriptions?—Yes. Am I allowed to read an extract from one of our publications?

20,120. *Mr. Kerly:* Certainly?—This is out of the guide for workers of the society, under the heading: "Department for lodgings of women." It says: "To provide safe lodgings of a good class at a moderate charge for members at work in large towns or those in need of a temporary home, also homes of rest where members can stay for holidays or to recruit after illness. The society has 85 homes, towards the maintenance of which associates and members are asked to contribute."

20,121. *Sir W. Trower:* Any surplus profits which you make may be given to charitable objects within your control?—Yes.

20,122. They are not given to outside bodies?—No, certainly not; and, if you will allow me to press that home, it is very rare that there are any surpluses at all.

20,123. They are very rare, but when there are any, they are devoted to your own purposes?—Certainly. In the case of the one at Coventry, we have paid off £100 of the mortgage, and placed a little money to an extension fund, entirely because we were a large number, and always full.

20,124. *Mr. Synnott:* Is your society registered under the Friendly Societies Act?—It is incorporated. Do you mean for the purpose of a war charity? We were registered under the Act which made all societies, which asked for funds for war purposes, register.

20,125. Has the Board of Inland Revenue decided that your purposes are not charitable purposes under the Income Tax Act?—No; we recover Income Tax.

20,126. Under Schedule A there is a distinct exemption for charitable purposes in respect of land, as far as the same is applied to charitable purposes?—That is only headed for almshouses. We have contended this frequently, but we have always been told that if a freehold house is in the legal occupation of the trustees, it cannot be exempt; whereas, if rent was paid to us, we could recover Income Tax on that, but if we inhabit the house, we must pay.

20,127. *Mr. Kerly:* That is undoubtedly the general rule?—I have tried it in connection with three separate hostels, but without any success.

20,128. *Sir W. Trower:* What is the section, Mr. Kerly?

20,129. *Mr. Kerly:* It is Section 39. We have considered this matter, but we have come to no conclusion about it. We have considered it with regard to lifeboats. They are in the curious position that if they have got a life-boat house and let it to someone else, they have not to pay tax on the rent they get; they can use that rent to hire another place for them-

selves, and they have to pay tax on that, which seems to be absurd. You are in much the same position?—It is an anomaly. And may I ask, is it not the case that at the time the Income Tax law was instituted, these hostels were not in existence? So that one would suppose that had they been in existence, they would have been provided for.

20,130. I think you are perfectly safe in saying they have not been deliberately excluded from any special provisions for charitable purposes. Of course, you appreciate that if you are occupying a building which would pay Property Tax, and you take possession of it and are let off Property Tax, you are in fact making the State—that is, the general body of taxpayers—contributors towards your charitable purposes?—Yes, I quite appreciate that. On the other hand, our society was definitely applied to, as mentioned in the evidence, by both the Ministry of Munitions and the Ministry of Agriculture, to save the country a considerable amount of expense in the recent war; and, if I may say so, further, in the case of Coventry, with which I am very closely connected, we had at the outbreak of war raised over £2,000 for the purpose of opening a hostel. We were delayed for a few months, but in the spring of 1915 we made a gigantic effort to open on the 1st May, because we were informed by the Ministry of Munitions that a large number of girls were coming to Coventry. It is difficult to carry one's mind back to that day. We opened, and we remained open for some time before girls came; they were not ready with the girls' hostels, and our place was full long before they had any of their own hostels there, which afterwards, of course, sprang up in abundance.

20,131. Had you been wise in your generation, you would have said: "We will be delighted to serve you, if you will give us £500 a year"; then you would have had something to pay Income Tax on. We are very much obliged to you, and we shall have to consider your evidence with the rest.—With regard to the Stend Memorial Fund, do you wish to have any evidence?

20,132. Do you wish to add anything; I did not think that was different?—I understood you only wished to bare one witness, and it is entirely skin to ours.

20,133. We have all read the two papers together. If you have anything further you want to draw our attention to, pray do so?—Only to the extreme hardship of it, because in the case of a lodge which contains 20 beds, and cannot on this cover the cost, the assessment is rather high. It has to pay £20 a year, and that is a very serious item.

20,134. *Mr. Prettymann:* That is on one lodge alone, is it?—On one lodge alone in the City of Worcester.

20,135. Do you pay on all lodges?—All that are freehold. Of course, in the case of the rented buildings, Income Tax is paid by the occupier but deducted from the rent, so we do not pay for the leasehold lodges, only on our freehold ones.

20,136. Of course, it is the same thing, in a way, is it not?—No; if it is deducted from the rent we pay less rent, and then if the persons to whom we pay the rent are exempt, of course they get it back on their own account. In those cases we do not pay; but we have 25 freehold lodges, and in the case of the Birmingham Lodge, over £50 is paid in Income Tax; at Worcester over £30, and various others. It is a very hard thing, in the case of an institution which has to have a subscription list, and is constantly making appeals to the workers and members of the society, who are not well-off people. In the old days of the law, Income Tax was not so much noticed, but with the heavy Income Tax at the maximum rate, 6s., it is a very serious blow to the hostel movement.

20,137. *Mr. Kerly:* We are very much obliged to you, Mrs. Arduthnot.—Thank you, sir.

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MR. GEORGE R. CARTER.

[Continued.]

MR. GEORGE R. CARTER, M.A., on behalf of the Labour Party, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Evidence-in-chief of GEORGE R. CARTER, M.A. (Editor of *Handbook and Guide dealing with the Income Tax on Wage-earners*), on behalf of the Labour Party.

20,138. (1) The suggestions for reform which are made in this Memorandum can be divided broadly into three sections, first, those which if carried out will at once help the individual taxpayer more equitably to bear his proportion of taxation. These are in the nature of deductions from the assessment of his income, and follow the line which is recognised in principle by the Chancellor of the Exchequer in his grant of the allowances for wives and dependent relatives. This method is particularly suitable for immediate use, because the wage-earners are bearing a disproportionate share of taxation, and individuals with small incomes in many cases are being seriously affected by having to pay direct taxes when they cannot afford it. Further suggestions are made as regards administration and general policy in levying taxation on wage-earners.

20,139. (2) With regard to the suggestions for immediate reform—at the present time the exemption limit must broadly be determined by circumstances common to a group of individuals. One man may have to support himself only, while another may have a number of others, wife, children, invalids, relatives all having a claim to support from his earnings. The allowances already made do not go far enough. To give one instance, and this is typical, much to the concern of the witness, who has had to deal with hundreds of cases—in estimating the ability of a citizen to pay Income Tax no account is taken of sickness or maternity expenses, or provision for unemployment. In present circumstances it is generally admitted that provision for the above must be made while in health. The portion of the income allotted for this purpose is taxable. These instances serve to show that the allowances given do not represent a successful attempt to deal with the desirable and necessary expenses which are common to a large number of people; and these expenses considerably and necessarily affect the income of the person concerned. The lower the limit of income, the more glaring the injustice of the arbitrary figure fixed by the Government as representing "statutory" income. Income Tax in its administration admits some enquiry into family budgets, and "outgo" is to some extent brought under review in fixing the "statutory" income. Thus in principle and practice Income Tax should have regard to individual circumstances. The extension of this principle leads to reforms of first importance through a gradual centering of the attention of the Government and the nation on the conditions of life and its uncertainties. So that, although the contribution of those with small incomes is in the aggregate a small proportion of the national revenue, the effect of direct payment and the incidence of direct taxation is far-reaching. It creates a sense of responsibility and need for enquiry and control when earned wages are taken to be used for the purpose of Government expenditure, and the principles of economic and political expediency have bearing on the question of the taxation of the wage-earner. It is suggested, therefore, that the following are details which need immediate attention if the desirable features of direct taxation as a democratic system are to be preserved, and unfair indirect taxation abolished.

20,140. (3) *The fixing of the exemption limit (and if so fixing the abatement at the same amount) for taxation purposes more closely in relation to the conditions of life.* The prices of necessary commodities—for food, clothing and shelter, plus a margin for comforts—are so well defined that a period of three months ending conveniently in each year could well be taken, and the average cost of commodities worked out for that period. This average would not necessarily be the exemption limit for taxation purposes, but it would form the basis for fixing that limit. Throughout the whole world of organised labour it is

strongly felt that £250 is the figure of individual income below which Income Tax should not be levied. Allowing for the relation of the pre-war limit of £160 and the post-war purchasing value of money wages, the £250 is only a fair basis to maintain efficiency standards.

20,141. (4) *The lowering of the limit at which the highest taxation (Income Tax plus Super-tax) should be borne.* At present this limit is £10,000 per annum—a much kinder treatment to the wealthy than is the limit of £150 per annum to the poor. In 1914-15, the most typical year for which figures are available, the number of persons who would have been liable for the present maximum tax was 2,561; of these 90 returned an income exceeding £100,000 per annum. The official estimate of the population in 1914 was nearly 46,100,000. The gross income brought under review in 1915-16 was officially estimated at £1,238,318,397. The average family in 1911 consisted of 4.60 persons. From these data, although they do not coincide with regard to date, it is possible to estimate the average income of a family at £150 per annum pre-war basis, as a working estimate.

The figures also show the greatness of the disproportion of tax-bearing income, and the need for some adjustment of the £10,000 maximum; the war has increased the big incomes.

In 1914-15, 30,211 persons in the United Kingdom brought under review for Income Tax purposes had incomes over £3,000 per annum. The minority is so small that the figures of £3,000 could at first be taken as the point at which the highest taxation would have to be paid. When the income limit was lowered from £160 to £130 it is said to have brought within taxation limits nearly two million persons—and there was hardly a protest considering the conditions.

In fixing this limit the requirements of the State might have to be considered as having the main claim upon various forms of social rent and unearned increment; they are considered for the purpose of adjusting the relations between earned and unearned income.

20,142. (5) *Wife's income should be treated separately.* Earned and unearned income alike of wife received other than from the husband should be treated as a separate income, and he exempted or taxed accordingly under a separate assessment for husband and wife.

20,143. (6) *The assessment of "income" on the basis of a family.* The number of persons an income has to support is sparsely recognized in the allowances for children, wife, and dependants. The principle should be extended to make the income to be brought under assessment stand in direct relation to the number of persons such income has to support. The fairness of this method is so obvious that the principle has been accepted for many years in some European countries, outside the United Kingdom, where Income Tax is collected. Norway furnishes a good illustration. In that country persons liable to taxation are divided into (a) those who have no one to support, e.g., companies, etc., (b) those who have from one to three persons to support, (c) those who have four to six persons to support, and (d) those who have seven or more persons to support. The amount of income actually taxed is in proportion to the liability of the taxpayer as expressed by those classes. Those who are counted as "dependent" are his children (own or adopted), his parents, brothers, sisters, and other relations and connections by marriage who might have a reasonable claim to his support. In one form or another this principle of the taxation of a family, i.e., on the family unit, is recognized both here and elsewhere. The logical conclusion is to tax family income in relation to the number of persons such income has to maintain. A useful precedent has been created by the system of State allowances for dependants and the amounts fixed for that purpose might be the amounts allowed as *rebates* from payments of Income Tax other and above the initial £250 individual exemption limit.

20,144. (7) *Sick, accident, and provident contributions of any kind should be deducted from the assessment.* At the present time, as has been stated, an

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[Continued.]

allowances are made for contributions for payment of sick benefit to a trade union, Friendly Society or insurance company. These contributions are part of the expenses of most householders with small incomes, and should be recognized as a necessary and desirable deduction from income.

20,145. (8) *A more general and liberal interpretation of "expenses necessarily and exclusively incurred for the purposes of the employment."* At the present time there is general dissatisfaction with the narrow interpretation placed on these words, and the variations in practice are not such as would occur if local conditions only were taken into account, e.g., travelling expenses to and from work are a necessary item of expenditure for a wage-earner, and should receive more generous and uniform treatment. In every case where travelling expenses are necessary to take a person to his place of employment, and such expenses are not paid by the employer, there should be an allowance of the full amount paid. With regard to tools, clothes and other items, flat rates on a minimum basis should be definitely fixed and notified to taxpayers through trade unions and other organisations.

The present flat rates have been fixed by haggling, and the variations made have been those which could be expected where the last word lies with the Income Tax authorities. *Viva voce* evidence can be submitted showing the variety of the allowances now made. The employees themselves or their representatives should have more voice in determining these allowances as general minima.

20,146. (9) *Insurance premiums.* There is at present a maximum ratio of 7 per cent. between premium and capital sum for death or endowment benefit. Legally a Surveyor could refuse to allow a premium as a deduction from an Income Tax assessment, if the premium was more than 7 per cent. of the amount insured. The provision for this percentage is a practical difficulty as far as quarterly assessments are concerned, and it does not appear to be adhered to in practice. The section of the Act should be repealed for all incomes below £700, i.e., the limit fixed for insurance allowance. Also premiums should be deductible by statutory right whether paid in periods less than one year or not.

20,147. (10) *Trade union contributions.* The full contribution should be allowed as a deduction from income. Many employers can and do charge an item for contributions to an employers' association by including the item under "trade expenses" in their trading accounts.

20,148. (11) *The apportionment of children allowance according to date of birth.* It is assumed that the same principle should be adopted with regard to dependants and wife allowances, i.e., of making the allowance in proportion as the maintenance has been incurred in one whole Income Tax year. No allowance for the year 1918-19 is made if a child is born, in any, May, 1918, but if born in March, i.e., before the 6th of April, the allowance is made. It is true that 16 annual allowances finally are made, but as circumstances and conditions of allowances may vary so much in 16 years its effective meaning is uncertain. The fairest way, in the case of small incomes, would be to apportion the benefit according to the time during which a child was maintained in any Income Tax year, e.g., in the first year to which the allowance applies to give 3 months' allowance for a child born in January, &c. This should apply also to the wife, housekeeper, and dependant's allowances. Also a child should be allowed for whether illegitimate or not.

20,149. (12) *The exemption of "unearned" income up to a marginal amount.* This is to give relief to those who are receiving interest on their small savings. "Unearned" income in such cases generally representing the income from invested savings and thrift. It is suggested that all "unearned" income below, say, £20 per annum should be exempt, e.g., rental of an owner-tenant's house bought by thrift.

20,150. (13) Also something should be done to reduce the irritation created by the quarterly tax and its ill effects upon productive efforts of the wage-

earner, as regards over-time, efficiency and other bonuses.

20,151. (14) *Administration.* The wage-earner finds himself confronted with new and strange difficulties in presenting his case for Income Tax charges and reliefs. A number of these difficulties should be removed by minor changes in administration of the quarterly assessments. The changes themselves would also introduce essential representative methods of assessments and collection. The following are the changes suggested under this head:—

1. the assessment of wages annually instead of quarterly, and collection modified accordingly;
2. the official recognition of workers' organisations by the Inland Revenue authorities for the purposes of forming tribunals to:—
 - (a) fix flat-rate allowances for tools, clothes, and other expenses incurred for the purposes of the employment as minima;
 - (b) hear appeals;
 - (c) exempt necessitous cases from legal proceedings for recovery of tax by summary jurisdiction;
 - (d) decide the methods of notifying wage-earners of their liability for return of income and payment of tax; and, in this connection, to obtain information as to allowances which should be claimed, and to make other allowances whether claimed or not on a certificate from a trade union;
 - (e) certify allowances to be made by the Surveyor for expenses, &c.;
 - (f) to prevent the loss of income suffered by the wage-earner in attending to deal with disputed facts.

It is suggested that the tribunals should consist of an equal number of District Commissioners of Income Tax and the representatives of workers' organisations concerned.

[Note.—The Finance (No. 2) Act, 1915, section 29, sub-section 5, already provides for co-optation, by the District Commissioners hearing appeals, of persons able to give skilled advice for the requirements of their particular trades.]

20,152. (15) With regard to the more general question of policy—assuming some form of Income Tax to be the fairest and most efficient machine with which to adjust contributions of the individual for State purposes—the following suggestions are made as representing the lines on which such policy could be based.

20,153. (16) The extension of differentiation and graduation and the abolition of indirect taxation on food and stomachs. The gradient at present is not steep enough, and does not reach "excess income," thus causing a relatively heavier burden on small incomes. At present its minimum exemption point is £130 per annum (even then the abatement allowed is £120 and not £130 per annum, and should be £130), which should, according to taxation principles, represent the "limit of subsistence." The word subsistence has evidently come to mean, as regards the taxpayer, the bare limit of income which permits of existence instead of striving to raise the minimum standard of life. £130 per annum, according to pre-war standard would be £65 per annum. Thus 25% a week (pre-war value) is the minimum amount fixed on which it is estimated to be possible to feed, clothe and shelter an individual. As soon as the individual gets to a week more (still pre-war standard of value) he is considered capable of direct contribution to the Revenue of the country. Some responsible estimates have even based £130 as sufficient for a man, wife, and two children. The amount fixed as the limit is, therefore, obviously arbitrary and undoubtedly on the low side, to say the least. At the present time an individual who has an income of £131 per annum is liable to pay on it to the State the 21 plus, in principle preventing higher standards or luxuries, and leaving him to "subsist." If he earns more he must pay more, or get married and

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have children (adopted or otherwise), or support his aged or infirm parents, insure his life, or make some arrangement which, from a business point of view, lowers his spending power more than if he submitted quietly to taxation on the gross income. What of the individual with, say, £5,000 a year? He would have to pay, assuming it was "earned," as he is in the £ on £5,000, i.e., £1,500 and Super-tax £287 10s., thus leaving him £3,212 10s. per annum on which to subsist. Taking higher incomes still, the proportion would vary a little, especially if part of such higher income were "unearned"; but—and this is the point of view to which attention is drawn—there is no sumptuary maximum limit of "subsistence," or rather "living conditions."

20,154. (17) The fixing of a maximum income seems to be the natural and logical result of fixing a "subsistence" income. The first step in the process of graduation is to fix that maximum, and this is what the increased Super-tax should lead to. The highest possible rate of tax, say 18s. in the £, should be the pivotal point of a system of graduation, especially for unearned income so as to relieve incomes near the limit of subsistence. It is suggested that the limits for the present Super-tax should be lowered and all income above these figures should be taxed at a sharply rising scale, especially for "unearned."

The existing provisions with regard to "marginal" income to apply as now—a person to have the choice of paying over to the Income Tax authorities the margin which makes him liable for a higher rate of tax.

20,155. (18) Unearned Income.—The above relates chiefly to earned income. On unearned income the rates should be raised and the present state of affairs whereby at a certain limit earned income has to pay the same tax as unearned income should be altered so as to develop the principle of differentiation. Also attention should be directed to securing for the national revenue the wealth of social increment, unfair war profits, and the large increase of interest, all of which must tend to depress the source of true national wealth—including national revenue—viz., productive effort. As things are moving, an increasing class is being enabled to live without work at the expense of those least able to do so. Much of the unrest of the masses is probably due to the feeling that the proportion of burden is heavier upon them and the sacrifice involved greater than with the richer and leisured classes receiving large sums of "unearned" income.

20,156. (19) As regards general policy for applying direct taxation to the wage-earners, subject to the considerations indicated above, several important circumstances might be noted. These are selected from the witness's direct experience of the quarterly assessment from the wage-earners' point of view.

20,157. (a) After the reduction of the limit of exemption to £130 the quarterly assessment was introduced without sufficient preparation. A new charge was placed upon the wage-earner with which he had formerly been unfamiliar, in too abrupt a fashion. The system has not yet been able to live down the irritation created by the circumstances of its introduction.

20,158. (b) The wage-earner has been unable to appreciate as should be done that direct taxation is more desirable than indirect, that the latter concealed charge is more burdensome than the direct tax. The authorities missed a great opportunity of educational work among the masses in regard to matters of national finance and its omission has left a great legacy of suspicion, misunderstanding, and irritation. Although such educational work may be against civil service traditions, in the above matter it is essential.

20,159. (c) The rise of "nominal" wages, that is, cash earnings, subsequent to the lowering of the limit of Income Tax has made many liable to taxation in an almost artificial manner. For example, "war bonuses" were added to a person's wage not to increase the real value of the earnings, but explicitly to keep wages more able to cover the advancing prices of commodities and the costs of living. The wage-earners allege that a fictitious or nominal advance in their earnings should not be considered as regards their relation to Income Tax limits.

20,160. (d) The Surveyors of Taxes and their staff applying the quarterly assessment in various parts of the country are in most cases anxious to assist the new taxpaying wage-earner with information, but they do not always appreciate the differences of this new type of taxpayer as compared with the former professional man or trader who previously received the bulk of their attention. For one thing sufficient time, staff, and accommodation has not been given to the Surveyors of Taxes to ensure smooth working of the system. The average wage-earner does not appreciate the fact that the Surveyor of Taxes administers the law and cannot in his own discretion deal with cases of hardship. There is a sense of injustice or irritation where a large number of aggrieved persons work together. Neither do the authorities appreciate always the actual conditions of life and work among the industrial wage-earning population.

20,161. (e) Insufficient provision is made for cases of individual hardship. This is especially the case where sickness, unemployment, casual work, death of the family breadwinner occurs, &c.

20,162. (f) Quarterly assessment is deprecated in many cases as a system of class legislation whereby the wage-earning manual working class is set apart for differential treatment compared with other sections of the community.

20,163. (g) It would seem an advantage if the system of annual assessment was adopted so that the annoyance of receiving assessments and communications relating thereto four times a year could be avoided; especially as in many cases tax is due and paid in one or more quarters although through unemployment in the fourth quarter the whole of the amounts paid must be refunded, allowing for adjustment on the annual basis.

20,164. (h) The most thrifty section of the wage-earners has been irritated by the fact that their former thrift in saving, purchasing a house, accumulating small savings, or a small pension, is penalized in that such prejudice them in becoming income charged as "unearned" income. It is rightly alleged that such savings as the wage-earner manages to obtain after a lifetime of work is "earned" income in the strictest sense of the word. The original method of charging such savings at the highest or standard rate leaving the wage-earner to claim repayment at the rate to which he is liable has also been a source of considerable irritation. This taxation of unearned income is particularly objected to where it is received by any, a wage-earner's wife from a small payment of interest from savings in a Co-operative Society or savings bank. When such interest is added to the husband's earned income for taxation purposes thrift is directly discouraged. The same applies to taxation on "unearned" income on the net annual value of a house purchased after years of thrift and instalment payments. Some means should be devised to encourage rather than discourage these desirable forms of thrift. The irritation resulting as above would only be increased very much were any attempt made to tax the surplus on mutual trade of Co-operative Societies. Such would be a special tax on what is with many working people the only form of thrift they are able to practice and would be resisted most strenuously by the masses of the working population. The close relation between the wage-earner and the co-operative member in this matter, especially in industrial England, should not be disregarded.

20,165. (i) Where extra payment is received for overtime, efficiency bonuses, extra effort, &c., the additional payment should not be taxed on the full amount received. A deduction should be made from the gross earnings as representing the extra intensity involved in obtaining the additional earnings. For example, an engine driver is subject to tax upon bonuses received for economy in coal, double trips, or good running. A miner working in water can be charged tax on the extra payment made for this disagreeable work. Although it is not always logical a disinclination develops among the wage-earners who do extra work "to pay increased taxation through increased intensity of effort." Sometimes a wage-earner is also assessed under Schedule B or Schedule

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D, on account of side lines serving as supplementary income. Rarely is the net income of any considerable amount and in many cases great irritation is produced in assessing the same. For example, a wage-earner owning a greenhouse was to the witness's knowledge assessed under Schedule D on the profits of tomatoes produced therefrom. So also was a signman similarly situated. An engineer who in any spare time bred poultry was assessed under Schedule B upon the small plot of land used for the purpose. Although technically such assessments are strictly lawful it is repeatedly emphasized by groups of wage-earners who have become cognizant of these facts that the Inland Revenue authorities would be better and more economically employed in tapping a large revenue obtainable in, say, the Excess Profits Duty. A particular example of this petty annoyance is where very small earnings from part-time work in connection with trade union duties are made subject to assessment, even although the total sum involved may not exceed £1 in the whole year.

20.166. (j) Uniformity in regard to allowances for clothes, tools, boots, travelling, &c., i.e., "expenses incurred necessarily and exclusively for the purposes of the employment," is not always applied on a satisfactory system at present. The flat rates should obviously be a minimum as there are the result only of averaged figures, and need have no direct relation whatever to the heavy essential and necessary expenses incurred by the wage-earner directly for the purposes of earning his wages at his particular trade. With the advancing level of such necessary expenses the wage-earner should be allowed the whole amount of reasonable expenses proved to be incurred for the purposes of his employment. Suggested provisions which might be arranged for the above purpose include:—

- 1st. uniform flat rates of allowances for expenses should be made for uniform clothes of workers based upon local conditions and regarded as minimum deductions due to the wage-earner whether claimed formally or not;
- 2nd. exceptional expenditure in particular trades or cases should be allowed on the basis of claim;
- 3rd. a representative committee of the employees in a particular trade and locality should be consulted as an advisory body in regard to allowances for expenses;
- 4th. the stamp of an organisation representing the wage-earners should be taken as sufficient proof of the genuine character of the claim for allowances.

20.167. (k) In many cases the wage-earner is not in regular receipt of income through fluctuations in employment. In such cases provision for wage-earners' income to be averaged over a longer period should be developed.

20.168. (l) The line of demarcation between the class of "weekly wage-earners employed by manual labour" and subject to quarterly assessment and the wage-earners not regarded as manual and therefore subject to annual assessment works out in a very arbitrary fashion in practice; for example, a ticket collector and storekeeper are regarded as non-manual but an assistant foreman is classed as a manual worker. The arbitrary nature of the demarcation is more evident because the prejudice is against making the allowances for expenses except for those liable to quarterly assessment.

20.169. (m) Experience with regard to complaints concerning quarterly assessments reveals a very large number of cases where invalid members of working class families are directly maintained by their immediate relatives. The maintenance of such invalids is extremely expensive and some recognition of this additional expenditure should be made in the allowance for dependants' relatives who are confirmed invalids.

20.170. (n) As regards the collection of tax assessed quarterly it is believed that the instalment systems of payment, especially by means of post office stamps is a

great facility, and there is no reason why those convenient methods of payment should be displaced even if the annual system of assessment is substituted for the present quarterly assessment. At the same time some means should be arranged for modifying the present "summary" methods under which deduction for non-payment can be enforced. It is quite certain that the payment of the tax should remain an individual matter for the taxpayer. Deductions through the employer would be greatly resented if only on grounds of privacy and the differences between payment for taxation purposes and payments for health insurance. It is believed also that collection should be entirely in the hands of an official "collector" serving wholly under the Crown. For many reasons the system of sub-collection by workmen from their fellow employees is not desirable.

[This concludes the evidence-in-chief.]

20.171. Mr. Kerly: You appear on behalf of the Labour Party?—Yes.

20.172. In what way have you been instructed on behalf of the Labour Party?—I was requested, a considerable period ago, to attend before the advisory committee of the Labour Party dealing with trade and finance, in order to consider the whole question of the policy with regard to certain matters regarding Income Tax upon wages. Since that period, I have advised on different occasions on the same matter, and within the last three weeks I have received a formal request on their behalf to appear before the Commissioners here to give evidence.

20.173. I want to know first, what do you mean by the Labour Party? You do not mean the Parliamentary Labour Party, I suppose?—No, the organisation. I have a letter here, if you would care to see it, and also a telegram that has been sent to me and to the Secretary of the Commission.

20.174. Will you show me the letter, first?—If I may hand this in, perhaps it will confirm my authority.

20.175. This is the telegram: "Please wire" so and so "to add to your evidence that it is given on behalf of the Labour Party." Signed "Davies." Who is Mr. Davies?—Alderman Emil Davies.

20.176. What is his official position?—He is a member of the Labour Party advisory committee.

20.177. Has there been any resolution as to your evidence?—I would like, if you will allow me, to make this statement. It is material, or it is necessary, that I should before this Commission give particulars of conferences that took place between the Labour Party and any other associated bodies?

20.178. I am only asking you these questions in order to see, first, whom it is you represent, and secondly, to what extent the people whom you ultimately represent have considered the matters which you are putting before us?—If you please: only I asked the question for the reason that I have, within the last three weeks on request made to me, attended a joint conference at which the whole question was discussed; and I would like to know whether the arrangements and suggestions and instructions given there are treated as private to that joint conference, or whether I am at liberty or desired to disclose them. I take it they relate to that conference alone.

20.179. What you are at liberty to disclose is entirely a matter for you. If you do not desire to answer questions that I put to you, please say so?—It is no desire not to answer them, but a question of whether I am authorized to go into the details of how these suggestions contained in my evidence-in-chief have been arrived at. I should like you to consider that telegram, and also the correspondence that is in the possession of the Secretary, as explaining, as far as lies in my power to do so, the circumstances under which I appear here.

20.180. Mr. Walker Clerk: Is the Labour Party the I.L.P.?—No.

20.181. Mr. May: I submit that Mr. Carter appears on behalf of the organised Labour Party, of which Mr. Arthur Henderson is the Secretary, and which consists of the trade unions, trade councils and social organisations throughout the country.

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20,182. Mr. Kerly: Is that so, Mr. Carter?—That is so.

20,183. Do not imagine that I am disputing your right to appear; I only want to know?—Exactly. If you will pardon me, the point I had in mind was this. I did not wish to disclose the manner in which these resolutions have been arrived at, but I am perfectly at the disposal of the Commission to explain, as far as lies in my power, the official basis of my appearing here, which I take it is explained by that telegram and letter, and also to explain, as fully as I possibly can, my views, and to develop what is stated in my evidence-in-chief.

20,184. Now, without discussing the proposals that you put before us, I want to be sure that I understand these. Before the war, a man with a wife and three children was exempt if he had £190 a year; that is £160 exemption, and three children's allowance of £10 each?—Yes.

20,185. What you propose is that, again taking the man with a wife and three children, he should have, first, an exemption allowance of £250?—As exemption and abatement limit.

20,186. Yes; I am getting at the exemption limit on your footing for a man with a wife and three children. What exemption for the wife do you suggest?—At least £50.

20,187. Do you say £50, or more than £50?—At least £50.

20,188. Why "at least"? Is it to vary?—Because of this reason. When the allowance for the wife is spoken of as £50, really the advantage to the taxpayer of that £50 is not the value of £50, but the amount of the tax upon £50. Assuming it to be, say, at the rate of 2s. 3d. in the £, the saving, or the increased purchasing power, left with the taxpayer is not £50, but 50 times 2s. 3d. So that I submit that to speak of the taxpayer as having a £50 allowance for his wife is misleading and a misnomer.

20,189. Of course we all know what we are talking about. We are talking, not of the amount of tax which is excluded, but the amount of taxable income which is excluded?—Exactly; therefore when you ask, when I consider £50 as a minimum, or when I state £50 at least, what I mean by that, I relate it immediately to the relative position of a married man maintaining a wife, as compared with the relative position of a single man who has not a wife to maintain. In such comparison, £50 at least should be the amount of allowance added to the exemption limit.

20,190. Will you tell me whether you suggest that in any event the extra allowance for the wife should be more than £50?—In cases where a wife is an invalid, for example—and a large number of cases of that kind do arise—it should certainly be increased.

20,191. We will deal with sickness allowances, and so on, subsequently. How much do you ask for each of the three children?—The present allowance of £40 for one child, and also an allowance of £25 for other children beyond the first, should be maintained as a minimum.

20,192. Three children will be an additional £90?—Yes, £90 as a minimum which certainly should be maintained. A good deal of discussion has, since the granting of the £40 for the first child, centred upon the question as to whether a differentiation should be made between the first and subsequent children—why each child should not be allowed at the same rate of £40.

20,193. Cannot you follow me? I said I did not want to discuss the matter; I only wanted to get a statement of what you were proposing?—Yes.

20,194. Please do not make me a speech on every item in your paper, when we are enumerating what the items are. In addition to this, you suggest that if a man has made savings, he should be allowed his income on those savings up to a certain figure. I—that figure £25, or is it more?—As the point arises mainly and with most urgency in connection with the savings that a man invests in the form of house purchase, I relate it to the average annual value of a

dwelling-house for one man, and as such a figure, I suggest £25.

20,195. The answer is £25. There are no other fixed allowances that you ask for, beyond those, but there are various other contingent allowances, dependent upon the matters which you have mentioned, in paragraphs 7, 8, 9, and 10 of your memorandum; for instance, sick, accident, and provident contributions are to be deducted; insurance premiums, if paid, are to be deducted; trade union contributions are to be deducted; I think those are all that are specified. Do you notice that the figures that you have given now come to £415? So, as against a pre-war exemption of £190, you now suggest, in the case where there are savings, an allowance of £415 before any Income Tax is payable at all?—Your figures are quite correct, but I would suggest you must introduce an adjustment, owing to the decreased value of money.

20,196. I am coming to that; I only want to get the figure. In addition to that £415, there are various exemptions that I have enumerated—sick fund, trade union contributions, and insurance premiums—which will increase the £415 in appropriate cases. You also suggest that the desirable end is that there should be no other tax except the Income Tax. Is that right?—Personally, I believe that the most democratic form of taxation is direct taxation; not necessarily Income Tax alone.

20,197. What other form of direct taxation than Income Tax have you in mind?—Various other forms of direct taxation, some of which are applied at present additional to Income Tax.

20,198. What are they?—Death Duties; what else?—Various direct charges upon persons in the form of Excise duties. There are charges that are made in the nature of stamp duty charges.

20,199. What are they?—Say the charge upon maintenance of men-servants.

20,200. Licences, you mean?—Licences.

20,201. They are a very trifling amount at present, are they not?—But a very lucrative source of Revenue; I mean a possibly very lucrative source of Revenue.

20,202. Very well. You suggest that as a possibility. But do you follow that if you are going to raise the whole revenue of the country by direct taxation, and you are going to exempt incomes up to £415, you are going to exempt an enormous proportion of the community from any payment towards the expense of carrying on?—I am not prepared to admit that the aim of taxation is to see that everyone contributes, but rather that everyone contributes according to their ability to pay.

20,203. That is not at all an answer to my question. Do you appreciate that if you have direct taxation only, and such an exemption as I have indicated, you are going to exempt from any contribution towards the taxation of the country the enormous majority of its citizens?—If such did happen incidentally, I do not believe it would prejudice the position, because I think that if such did occur, it would simply be incidental to securing the best aim of taxation, namely, to make the levy rest upon those who are most able to bear it.

20,204. Have you considered whether, with such an exemption, it would be possible to raise the national revenue that is necessary?—Judging by the returns of revenue and the returns of incomes assessed to tax, and also judging by the millions of people at present below the really very low rate of wages compared with the cost of living, I believe it is possible.

20,205. I do not at the moment follow your reasons?—For example, I take it that during the war, the number of people with large incomes has increased very greatly.

20,206. Why do you take that?—I take it, for one example, from the published statistics; some of them of the Inland Revenue themselves, some from other sources—that the war has resulted in an increase in the number of large incomes.

20,207. Can you give me any calculation from published figures?—I think you will find some of these figures in the evidence presented before this Commission.

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20,208. If you have no analysis of figures applying to this case, we will leave that, and do it for ourselves. Your proposal for raising the revenue that will be necessary, really depends on what you say in paragraph 17: that you would tax the highest incomes by a much steeper graduation, going up to, say, 19s. in the £?—If it is assumed that a compulsory limit of income is desirable in the interests not only of economy but of Revenue, I certainly think that the graduation should be steeper at a much lower limit than the one which at present rules.

20,209. It is your proposal, is it not, to raise the necessary money by a steep graduation of the larger incomes, going up to 19s. in the £?—Yes, "pivoted" on this as indicated in my paragraph 17, on the ground that the marginal value of money to a person decreases as the amount of it increases; that a very rich person misses far less a larger rate of tax, than does, say, a relatively poor person a smaller rate of tax.

20,210. It is a question of degree, is it not?—It is a question of progressive rate of taxation and graduation. It is a question not of how much the person pays, but of how much the person has left as free income after he has met his various necessary liabilities. I am speaking from the very large number of really hard and necessitous cases that I have come across in the course of the last two years, of wage-earners, not seeking to avoid their share of taxation, but really necessitous cases where the tax that they have had to pay has injured their social, let alone their economic efficiency; whereas in the case of an extremely rich man, if he lost the whole of his income beyond, we will say, £10,000, it would not have the same relative effect upon his social and economic efficiency, and it would be more in conformity with Adam Smith's main canon of taxation, namely pay ment according to ability to bear sacrifice.

20,211. Have you considered how far such an extreme taxation of the large incomes would tend to prevent these large incomes occurring?—I take it that a very large proportion of the large incomes consist of unearned income; that is, they are not earned by direct personal productive effort. Therefore to tax that income which is not earned by such effort, cannot injuriously affect either the effort or the production resulting from it; because the direct effort employed to raise the unearned income is nil.

20,212. You say you "take it." Am I to understand that you assume it is so, or that you have studied the matter, and are able to indicate to us to what degree the larger incomes are earned or unearned?—I have endeavoured to obtain the best possible source of information, both in the matter of the views of various economists, the public statistics, and my own observations on the matter, and I am prepared to say, as a general statement—as a generalisation, at any rate, that the larger incomes derived from unearned sources are not the result of direct productive effort; and that the nearer one gets to those earnings from effort, that is to wages, the more one gets to the result of direct personal productive effort. The higher one gets in income, the nearer one gets to the various forms of rent and social increment, the more one gets away from direct productive effort, or personal effort on the part of the recipient of the income.

20,213. Of course there is no question as regards wages; they are all the result of direct effort; we do not need any discussion about that. The question is when you get up to incomes of—we will take your own limit of £3,000 a year. Now I want to know what material you have, apart from any personal opinion, which may be a vague impression, for supposing that the incomes above £3,000 a year in this country, are for the most part unearned incomes, and not the result of personal effort?—First on these grounds, if I may give two examples. The larger the income of a person, generally speaking, the more able he is to accumulate a surplus in the form of capital for investment. The recipient of the small income rarely has a surplus left above the amount needed to meet his immediate and essential needs. He cannot build up a surplus fund which we call capital, yielding an unearned income. The richer the individual in regard to income beyond this necessary amount of income, the greater the facility with which

he builds up his surplus from which unearned income is received. That process proceeds at a cumulative rate.

20,214. That is the reasoning on an *a priori* ground. I had hoped for some statistical reasoning?—A second example is this. During the war, the process of mortgaging, first, second, and so on, not necessarily of material capital, but in many cases of credit, has enabled a large number of people to obtain unearned income, not necessarily upon a basis of material assets, but by the very prodigal method of inflation of credit. For example, I am given to understand that in certain cases, by a first, second, or third mortgage of assets, holding after holding can be obtained in the War Loan, not representing outlay or the placing at the disposal of the State of new money. That simply means a multiplication of the charges on the State in the form of interest, and of the receipt by that particular recipient of amount after amount of unearned income.

20,215. Do I understand that to mean that the same bulk of assets can be mortgaged three or four times over, money raised to three or four times its mortgageable margin of value, and War Loans obtained for each of those sums; so that in effect the people who are fortunate enough to be able to mortgage this asset have been able to get several times its value in War Loan without paying for it?—I have had that stated to me by an individual in the course of the last month.

20,216. But do you believe it?—Judging by the proportion which the published returns of money paid to the Exchequer out of various loans bears to the conversion of former advances, and of credit inflations to real assets, I feel that I am bound to believe it.

20,217. I see in a statement which has been put forward by other representatives of workers a suggestion that they ought not to pay any Income Tax in respect of what they earn by working overtime or for extra effort. Do you seriously suggest that if a man works harder or works longer and so increases his income or adds to his savings he ought not to be charged Income Tax in respect of that?—I do not suggest that any income should be exempted from tax solely on account of the manner in which it is earned; but I do suggest that it would be an advantage to the nation and to national economy if some reduction upon the amount of the assessment so laid could be given from the gross receipt in respect of overtime or efficiency bonus or charges of that kind. I believe it would pay the State as well as encourage a person to put forward extra effort at those periods of the day when he is most exhausted in the course of his work. It is hardly right that such extra effort to obtain extra remuneration should not receive some recognition in the form of it being taxed at a net ratio rather than at the present gross amount.

20,218. Why that particular form of recognition: a man gets his extra payment and he generally gets payment for overtime at a greater rate, does he not?—As a matter of action arising out of human nature, it seems hardly defensible always on logical grounds; but a person's inducement or incentive to do this extra work is seriously prejudiced by the fact that oftentimes it may just bring him above the limit of exemption. For example, it is not always the actual amount of earnings that comes into question, but the question as to whether the small odd amount brings him over a limit of exemption, or whether but for that odd amount he would have remained below the limit of exemption.

20,219. Then we are to take it that so reluctant are the workmen, whom you are at this moment representing to contribute towards the expenses of carrying on the State, that they will not earn money, of which by far the greater proportion will go into their own pocket, because some part of it will go into the coffers of the State?—I would like to point out that in suggesting the relation of taxation to productive effort I do not apply it by any means to a "workman" alone. I apply it to every form of productive effort. The more a charge is upon personal productive effort, the more likely is the incentive to production to be reduced; but I ex-

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explicitly wish to state that I do not believe that this is human instinct which is peculiar to what you convey by the term "workman." I believe it is common to every individual.

20,220. I used the expression "workman" because I understood you appear for the Labour Party?—But the Labour Party is not a party of workmen alone or of wage-earners alone. For example, very many members and some of its Parliamentary representatives are not workmen in the sense in which you use the term.

20,221. Mr. Synnott: Taking the point that Mr. Keely referred to, payment in respect of overtime and proficiency bonus and extra effort, you say that should not be taxed. Do you seriously suggest that there is any class of the community outside those that you represent, who would be hindered from that extra effort and that aim at higher efficiency by the idea that in earning that increased amount they would be liable to extra tax?—I suggest that the experience of the economic development of Turkey, as a glaring example, shows that.

20,222. Do not tell me about Turkey. Tell me about England?—I suggest that the experience of every taxation system in the world shows that taxation of the result of effort tends to diminish the desire to put forward that effort, and that such is not peculiar to any particular class of the community whatsoever. When I suggest in this memorandum that efficiency bonuses and payments for extra work and overtime should have some recognition, I do not mean that the whole of the income therefrom should be exempt, but that some recognition should be made of the fact of extraordinary efforts or circumstances involved. I have one example now in my mind. A man works up to the waist in water, or water drops down on his back while he is working; he receives an extra allowance—you may call it a water allowance—for that. It is felt as a hardship that money earned under conditions should be taxed at the gross amount of the receipt. It is felt that some additional allowance should be made. In proof of the fact that the principle is recognized, when machinery is run double time the owner of the machinery receives an additional allowance for wear and tear.

20,223. That is because there is more wear and tear?—Equally so with a man who works in water.

20,224. You put that as a principle and you apply it to where there is a limitation of hours, and so on; but if it is a good principle it should be applied all round. How are you going to apply that to the professional class, some of whom work for 14 or 15 hours? You cannot apply it all round, can you?—I would not like to say that the Inland Revenue authorities could not devise some means of applying it.

20,225. You have no means to suggest to us? Take your own principle—if you apply the principle to the higher incomes. Your point is that effort ceases if Income Tax is imposed upon it. Is not that ten times as true where you have the tax up to 50 per cent. of the income?—Yes, but I have already stated that I consider that the larger incomes which should and would suffer this high rate of graduated tax are not the result of direct productive effort.

20,226. You have stated so, and I ask you if you have figures; I shall be very glad to see them because I only want to get at the truth. If you have any figures to prove that, will you kindly produce them as a separate memorandum?—Yes.

20,227. But I want to know on that point, do you include mental effort, the result of education, intelligence, and so on as effort at all?—Most certainly. I would think it extremely undesirable to separate them from manual efforts.

20,228. When you are making out your memorandum will you kindly allow for that sort of effort in respect of the higher incomes?—Yes, but I have in mind the various forms of rent which are strictly unearned and bear no relation to effort.

20,229. You have made some statement with regard to figures. I have here before me the returns supplied to this Commission by the Inland Revenue, and I find this. I will give you the reference. It is in Table I of

Appendix No. 11. The total taxable income of persons from £130 a year to £250 a year, which would include the wage-earners, but does not include persons who pay any Income Tax at all, was 530 millions a year. The total amount of taxable income from all persons from £2,500 a year—that is, below your £3,000—up to and over £100,000 a year is 417 millions, which is considerably less. I need not pursue that, but I could go on to other figures. Now, with regard to ability to pay. Do you suggest that the typical father of a household, for whom your figure, I think, after allowing the abatements, was £410—that is, a man with wife and three children—has no ability to pay anything in direct taxation?—So long as the present cost of living rules and the prices that are charged for necessary things like food, house-room, clothes and boots, and allowing for incidentals like sickness, a man in such a position is most deservedly exempt from tax.

20,230. But do you say he has no ability to pay?—I believe also he is necessarily exempted from tax if his social and economic efficiency as a citizen and a producer is to be maintained.

20,231. You have that on the fact that the £250 is the limit of subsistence wage for a bachelor wage-earner. Is that your proposal?—I cannot accept the word "subsistence."

20,232. It is the word that was put before us by several other representatives of organisations?—I cannot put that.

20,233. Reasonable subsistence?—No.

20,234. What is your limit?—I do not think any system of taxation should be built up on the idea of taxing a man on what is not essential for him to "exist" or "subsist."

20,235. That is the point that I am putting to you?—I believe the basis should be what is necessary to the man or to the average family to maintain his social and economic efficiency, and I believe that to erect a system of taxation where tax is levied upon what is above sheer subsistence is wrong.

20,236. I will put it in your own way. £250 is the minimum limit for social and economic efficiency. Is that so?—I do not believe, allowing for present prices and the fall in the value of money, that £250 is too high.

20,237. Do you apply that all round?—Yes.

20,238. To all wage-earners?—To all classes of earned income receivers.

20,239. All wage-earners?—Included as part of the general classes of income receivers.

20,240. Do you apply it to agricultural wage-earners?—To all classes of wage-earners.

20,241. Do you apply it to agricultural wage-earners?—Yes.

20,242. Then have you considered if it was so applied what the increased cost of production would be?—But cheap labour is inevitably dear labour.

20,243. Have you considered it?—I have considered it, and I have come to the conclusion that it does not necessarily follow that the cost of production goes up as wages rise.

20,244. Is that your proposition? Do you suggest seriously that the price of the necessities of life has no relation to the wages necessary for the production of those necessities?—I do suggest that wages should at least cover as a minimum wage the cost of subsistence, and I believe that prices can and do rise for reasons quite unconnected with costs of production.

20,245. You say that, but you do not follow my second proposition. Have you or your body considered what the effect of your minimum subsistence and social economic efficiency wage would be on the production of the necessities of life?—I have considered it, and I consider that the efficiency of the labourer, of the worker, manual and mental, increases with the better class of labour and the rate of wages paid; cheap labour is inevitably dear labour.

20,246. Mr. Keely: You answer by an abstract proposition suggesting a particular tendency. Mr. Synnott asks you how far is that represented by figures?—The figures of production of the various industries show that those industries which are the greatest industries having the lowest wages are the most inefficient. I do not think any figures are needed to prove such a self-evident fact.

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20,247. If Mr. Synnott will allow me for one moment, I will tell you that I am totally unacquainted with any such figures with regard to agriculture; on the other hand, I seem to remember from my economic reading that there is a different principle with regard to agriculture; there is a law of diminishing returns?—Which applies also, I take it, to mining and to quarrying and to fisheries.

20,248. I do not know about mining, but do you suggest that if you were to treble the wages of an agricultural labourer he would produce so much in consequence of his better standard of life that the farmer employing him would be able to sell his produce as cheaply as at present?—I believe a more efficient class of labourer would be attracted to the land, and that the farmer would be obliged to develop more efficient methods of production, that might in many cases cause a fall in the cost of production.

20,249. You say a fall. You have got to bring your agricultural labourer up to 2415 a year or something of the sort, which a witness yesterday accepted as about what you have got to do. Do you suggest that by any conceivable increase in efficiency the labourer could produce food so that its price would not normally rise?—Yes, I do.

20,250. If the price rises you get the whole vicious circle again; the exemption limit has got to go up as well?—But that is assuming that wages is the only factor which enters into the selling price of a commodity, whereas you know from your experience that in many cases commodities are sold at a figure which bears no relation whatsoever to their labour, or in some cases even total cost of production.

20,251. Mr. Synnott: That is why I confine my question to agriculture, about which I do know something. Do you suggest that, if the wages of the agricultural labourer were doubled or trebled, the gross produce from agriculture would be doubled or trebled, by any conceivable means? Will you answer me yes or no? Have you considered the question?—I believe that a rise in agricultural wages would increase agricultural efficiency; so also does the Agricultural Wages Board.

20,252. Mr. Kerly: Mr. Carter will not answer questions.—I wish to answer; I am endeavouring to do so.

20,253. But you are not able to answer a question except by expressing your belief in an abstract proposition.—The question put to me is a general question in itself.

20,254. No, it was with reference to a definite figure.

20,255. Mr. Synnott: It was only with reference to a definite figure. I notice at the end of paragraph 2 you say that in the case of direct taxation: "It creates a sense of responsibility and need for enquiry and control when earned wages are taken to be used for the purposes of Government expenditure, and the principles of economic and political expediency have bearing on the question of the taxation of the wage-earner."—Yes.

20,256. I take it that is a suggestion to this Commission, is it not—that we should act under a sense of responsibility and have regard to these economic effects? You do suggest that?—Most decidedly. The interests of the country should be considered.

20,257. That cuts both ways, does it not? Have you considered at all whether the relieving of what probably would be a large body of voters altogether of direct taxation would tend to economy in the system of government? You desire public economy, do you not?—Provided indirect taxation of foodstuffs were remitted and removed; I believe it is vitally undesirable to maintain indirect taxation of foodstuffs.

20,258. Economy in public expenditure, other things being equal, would enable you, to the extent of that economy, to reduce indirect taxation, would it not?—That is true.

20,259. You must desire that there should be an economic Government if indirect taxation is reduced, do you not?—That is so.

20,260. Do you think that the relief of taxation of the millions which your scheme suggests would result in a more economic Government?—I hardly

consider that that is putting the matter in its right light, because you leave out of consideration so many questions.

20,261. I would not have asked you the question if you had not brought it on yourself by making this suggestion that we should consider the political and economic effects?—But while admitting that direct taxation is the fairest and I believe the most economical and efficient method of all taxation, I would not be prepared to admit that, in order to get at some kind of direct tax, you therefore must make the limit of exemption sufficiently low to attain that end.

20,262. Mr. Marks: On the question of the collection of the tax, you say, in paragraph 14 (1): "The assessment of wages annually instead of quarterly, and collection modified accordingly." What do you mean by "collection modified accordingly"?—I am very pleased you raise that point, for this reason. My experience is that the system of quarterly collection is a great convenience to the wage-earner, especially as it enables him to make his payments in certain cases weekly, while the annual assessment is desirable, if only to take the tremendous burden of correspondence of the various Inland Revenue departments. What I mean by the modification of the collection is that the same would be assessed annually, the amount due would be ascertained on an annual basis, and demanded from the wage-earner accordingly. At present a man assessed annually in a sense pays his tax in arrears a longer period than the person who is assessed quarterly.

20,263. Is he assessed at the beginning of the year or on an average of three years, or what?—Where a person is now assessed quarterly he pays, say, during the first quarter owing to his being liable; for the second quarter—through fluctuation of employment which is a big factor in the wage-earner's life, through being out of work or some similar reason reducing earnings—he is not liable for tax. In the third quarter his liability comes on again and he pays. In the fourth quarter it may be off. The whole business of collection in that way being based upon a quarterly assessment, should be modified so that where the assessment is made annually the charge should not actually lie against the wage-earner until it is shown that he is liable for it on the basis of the whole year. At present a man is liable for tax, or at least charged with tax, on a quarterly assessment, when owing even in some cases to death, on an annual basis there would be no legal liability, taking £130 per year as a basis, for tax upon that person.

20,264. Would it meet your views if the suggestion which has been made to us were adopted, namely, that the tax should be deducted at some flat rate from the wage-earner's wages week by week, and that he would be given some certificate of payment which would enable him to go to the Surveyor or other officer at the end of the year or stated period, and have the correct amount due from him to the Government assessed?—That would always presume that the wage-earner or the person concerned would ultimately have some tax liability. The other alternative suggestion that can be made is that a certain sum might be charged as a flat rate, as you suggest, on the wage-earner, but left as his own property to his credit, say, as on a savings bank book. It would encourage thrift incidentally; it would be his own money at his disposal in, say, some post office savings book or savings bank arrangement, and liable to be charged with a deduction equal to the amount of tax which at the end of the year he is shown to be subject to.

20,265. Mr. Kerly: That is just the same thing, is it not?—Except this, that all the difficulties connected with claims for repayment would be obviated.

20,266. Mr. Marks: I think you would only shift the difficulties, but I do not think that is important, because you will agree it is only a question of machinery between your suggestion and that which I put to you?—Yes. If I might draw your attention to it, the Chancellor of the Exchequer has promised new machinery for this method of repayment.

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20,267. I had that in mind.—So it evidently is a thing necessary to be considered.

20,268. *Mr. Kerly*: That seems to me to be quite a valuable suggestion, if that would meet the workers' objection to deduction by the employer—that the deduction, as I understand, is to be made at a flat rate, the sum is to be carried to the credit of the particular worker, and accumulated against his liability, if any, to Income Tax?—It would be a nice little nest egg for the wage-earner to meet the eventualities of sickness. It might encourage thrift. It would be savings at the disposal of the nation, and the wage-earner would always feel that it was there to meet the tax, or for other purposes. If the tax liability did not arise it would not suffer any deduction against him in favour of the State; it would relieve the Income Tax authorities of some of the tremendous burden of work that they are undertaking at present in quarterly assessments which is, honestly, I believe, on an absolutely uneconomic basis. I believe the State is losing money on the work involved in the collection; and I do not think the burden of work that is placed on the Surveyors is fair.

20,269. It is a new suggestion, and it seems one which might be very useful.

20,270. *Mr. Marks*: Then in regard to what Mr. Synnott asked you. A very large number of voters would be exempt from any taxation under your scheme; I take it you do agree with the old canon that there should be no taxation without representation?—Yes.

20,271. But you do not agree that there should be no representation without taxation?—Some of these questions are dangerous to answer directly. The point I want to make is that I believe indirect taxation of foodstuffs and necessities should be remitted; its unfairness is quite obvious, it is a tax on the stomach. It taxes the widow equally with the millionaire; it is an obviously rotten system of taxation.

20,272. Let us accept that you object altogether to indirect taxation on foodstuffs?—I believe that if such indirect taxation was taken off there would be more justification then for increased direct taxation by Income Tax, and it would be accepted more willingly by the mass of the people, not merely the wage-earners. It is not the wage-earners only who are affected in this matter, but I believe that direct taxation would be accepted with better feeling by the whole of the population, and it would be a democratic development in taxation.

20,273. *Mr. Kerly*: You are not getting within a hundred miles of the question that is put to you. You were not asked anything about indirect taxation.

20,274. *Mr. Marks*: May I put it like this: that you would accept a statement that there should be no representation without taxation provided that the taxation were only direct taxation?—And provided that taxation was equitable in its nature; that is the point. I do not think it would be fair to accept any taxation without the qualification that it was equitable.

20,275. *Mr. Kerly*: You mean provided that taxation exempted all those people who, you say, should be exempted because they have not sufficient income?—Provided that taxation did not trench upon the amount of income essential to maintain the social and economic efficiency of every citizen, manual or brain worker.

20,276. Then you would have representation without taxation, putting it your way, where the voter is too poor to pay taxes, according to your view?—Not necessarily.

20,277. That is right, is it not?—I do not think it follows necessarily; because the wage-earner pays a great deal of contribution towards the State, for example, through local rates.

20,278. *Sir W. Fysser*: That is not the State?—Towards the maintenance of the fabric of the State. I would not for one moment try to distinguish

between the parts of the State as central and local; and also that the average individual, whether or not he is exempt from Income Tax at present, is also exempt from all other forms of taxation.

20,279. *Mr. Marks*: You say that a very large proportion of higher incomes are derived from unearned sources, and it was put to you that the same propositions as to the deterrent to production which hold with low wage-earners, also apply to the earners of large incomes?—To the earners of large earned incomes.

20,280. Would you accept the proposition that as far as large earned incomes are concerned, very high taxation on them would destroy the incentive to accumulation from those incomes?—If taxation reached this point of deterrence, I agree.

20,281. Suppose a man had an income of £100,000, and you tax it, as you suggested, at 15s. in the £, that would leave the man with £5,000 a year. That is the fact, is it not?—I believe that the earned income.

20,282. Well, I despair; you will not give me a direct answer: as I will not ask you any more questions?—It probably would have the same deterrent effect upon him as it would have upon the recipient of a smaller income; but it would still leave the man with a larger income to maintain himself and his family.

20,283. *Mr. Graham*: One or two questions were asked you with reference to the capacity in which you appear to-day before the Commission. Am I correct in supposing that the Labour Party is a very comprehensive body of trade unions and all manner of associations and congresses and trade councils, and so on, and that some time ago it appointed as headquarters advisory committees on education, finance, trade, and other subjects, and that your evidence to-day is the result of efforts on the part of the advisory committee dealing with trade and finance?—The whole train of the evidence originated, I believe, in an advisory committee of that character.

20,284. That advisory committee contains representatives of the Executive of the Labour Party, members of the Parliamentary Labour Party, and one or two others who have specialized in subjects of this kind?—That is so.

20,285. In your large movement, the number in the aggregate of bodies included being some millions of members, you would agree at once that uniformity of policy with regard to taxation—Income Tax in particular—is not to be expected. There is a very large difference of opinion within the movement itself?—Yes, as regards the details of application, but not always as regards the general principles.

20,286. I am coming to principles, but there is a good deal of difference of opinion, for example, with reference to a limit for Income Tax purposes?—The remarkable feature, I think, is the uniformity with which, on this question of limit, they regard £250 as the minimum. Otherwise there is, of course, a good deal of variation in opinion as regards both detail and principle.

20,287. You would agree, would you not, with this proposition, that the Labour Party stand for direct taxation, as far as possible, provided you safeguard the minimum, and that the loss which would result from, say, a generous minimum or limit for the purposes of Income Tax, should be met by stiffer taxation of the higher grades. Is that a correct statement?—Exactly; and in support of that, is the fact that in a large number of meetings of wage-earners themselves in many districts, they often lay more emphasis upon the removal of indirect taxation of foodstuffs and necessities than they do upon the alleviation of direct taxation.

20,288. And it has been commonly argued for years in the movement that if indirect taxation were much easier than it is to-day, there would not be the slightest objection—other things being fair and reasonable—to Income Tax or direct taxation, down to quite a low sum?—That is quite true. The feeling is not against direct taxation *per se*, but the feeling is that where the limit of income is low, and barely meets the needs of the individual, direct taxation and indirect taxation cannot be stood together, especially

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while the rates of both are advancing at the same time.

20,289. You make a proposal in your paper that money earned by extra effort, particularly in occupations which are highly injurious to health, should receive some preferential treatment as regards taxation?—Should not, at any rate, be taxed at the gross amount of that extra earning. I have not been able to get absolute substantiation of it, but I understand that in certain coalfields, and in certain other cases, a deduction from the gross earnings from such extra effort has already been granted in principle.

20,290. Is it not the case that what is really behind that request is a desire to improve the position of the worker in industries which make an enormous drain upon health and strength, and in which the industrial life, so to speak, of the worker is comparatively short? That is the class you have in view, is it not?—Exactly. It is the cases where the extra earnings are obtained by an extra intensity of effort that is a drain upon the physical, social, and economic efficiency of the worker himself.

20,291. And one of the suggestions is that that might be recognized by some easier form of taxation?—By allowing at least a deduction off the gross amount received for such extra effort.

20,292. One or two questions were asked you with reference to increased wages and production. The principle which you are arguing is simply the old principle. It is true of all economic industry that very low wages are no economy, and no real gain to any state; in short, that cheap labour is dear labour, in the long run?—I think that all practical experience and also practical employers will bear out that.

20,293. Then you were asked for figures or illustrations of cases in which conditions had been improved which had led to increased production. Is it not the case that there is a great deal of evidence in the so-called sweated industries—chain-making, lace-making, and one or two others, which were investigated in this country, to the effect that when conditions were improved the production greatly increased?—Exactly, and also the relative position, say, of the highly-paid engineering trades, as compared with a sweated trade like nail-making.

20,294. That is really the principle which you were trying to bring out under cross-examination by Mr. Synnott?—Exactly.

20,295. You used the phrase "unearned sources," and you suggested, on behalf of the Labour party, something resembling penal taxation, if I may so describe it, on those very large incomes. Is it the case that what the Labour movement has in mind in connection with those incomes is really a large sum which accrues annually to people as the result of what is really monopoly in the State; that is, their interests in what is a combine or a trust or a monopoly of a more or less powerful character?—It arises essentially in the nature of an economic rent, of an increment that is due to no earnings or personal effort of the recipient, but rather of the community, which is prejudiced again by the fact that this charge of unearned income is levied upon their efforts.

20,296. You have seen the Report of the Committee on Trusts, and various books on that question?—Yes.

20,297. I think it is a fact, is it not, that the Labour movement has taken considerable interest in that from the point of view of the very large income of a monopolistic character which flows to a limited class of the community?—Exactly, and I believe that such surplus that arises in the nature of events from such monopoly is the most prejudicial form of un-

earned income in relation to the community, and also the best field for the activities of the taxation authorities.

20,288. In short it comes to this, that to a large extent the proposal to penalize, by way of taxation, these enormous incomes, is simply another way of getting back for the people what has been taken from them under a monopoly existing and operating within the State?—Exactly; and incidentally it protects the community at large from the operation of such monopolies.

20,299. But a clear distinction is drawn between that class of incomes and a large income which may be earned by a man of exceptional ability or talent?—Exactly.

20,300. There can be no confusion on that issue; there is a clear distinction between a gain from monopoly, and a reward for exceptional skill or ability?—Exactly.

20,301. You have already dealt with the attitude of the workers to the quarterly assessment. Could you give us any information, in the light of your experience, which I believe was in an industrial district, regarding difficulties in connection with travelling expenses. Have you any constructive proposal to make on that head?—Yes. The practice of Surveyors of Taxes in this matter is not uniform. That is one of the main sources of grievance. Only last night I had two men present to ask them personally their experience in this matter. Those two men came from the same works and districts; one man was allowed the travelling expenses to and from his work; the other man was not allowed them. In certain districts men will not be allowed the amount of the cost of travelling to and from their work, even although it is a distance which is prohibitive as regards walking, while at the same time, in other districts men are allowed even the cost of upkeep of cycles. A most important point I would like to bring before the Commission is this. In many cases travelling to work is a direct advantage as a means of prevented absenteeism. A man walking to work on a winter's morning is drenched to the skin very often when he arrives here. Surveyors of Taxes may say the men can walk to work, but it is an advantage to the country, if the man can travel to work and have his travelling expenses allowed as a necessary part of his employment.

20,302. Mr. Kerly: I think you need not pursue this. I may tell you that personally I think travelling expenses to a man's work should be part of his working expenses, and I think we should all be of that view; only it would be difficult of application.

20,303. Mr. Graham: As a result of your experience in an industrial district, would you say that the existing system as regards Income Tax among the workers is contributory to industrial unrest?—During the investigation of the Commission on Industrial Unrest, I think you will find that it was stated by witnesses before that Commission, in a number of districts, in particular Yorkshire and South Wales, that it was one of the causes. The reason is not so much that the men are averse from contributing their share towards the Revenue of the country, but rather the circumstances under which this new form of taxation was introduced. Without sufficient preparation without any kind of educational policy, it was simply placed down upon the community, bringing in at least two million additional taxpayers without as much as "by your leave"; while at the same time the obvious fact is open to everyone that the huge accumulations of war profit, offering a tremendous source of revenue for the country, remain unutilized in anything like a sufficiently adequate proportion.

20,304. Mr. Kerly: We are obliged to you for your evidence.

TWENTY-NINTH DAY,

WEDNESDAY, 5TH NOVEMBER, 1919.

PRESENT:

LORD COLWYN (*in the Chair*).

SIR T. P. WHITTAKER.

MR. BRACE.

MR. PRETTYMAN.

SIR E. E. NOTT-BOWER.

SIR J. S. HARMOOD-BANNER.

SIR W. TROWER.

MR. HOLLAND-MARTIN.

MRS. KNOWLES.

MR. McLINTOCK.

MR. GEOFFREY MARKS.

MR. MAY.

PROFESSOR PIGOU.

DR. STAMP.

MR. EDWIN EVANS, J.P., on behalf of the National Federation of Property Owners and Ratepayers, and
MR. ROBERT DUNLOP, J.P., on behalf of the Belfast Property Owners' Association, called and examined.

The witnesses handed in the following statements as their evidence-in-chief:—

Evidence-in-chief of EDWIN EVANS, Member of London County Council (South Battersea), (Vice-Chairman of the Housing of the Working Classes Committee), J.P. for the County of London, President of the National Federation of Property Owners and Ratepayers, embodying over 50 Property Owners' Associations with an aggregate membership of 25,000, also President of the Property Owners' Protection Association of London with a membership of over 3,000. Estimated total value of property represented is between 500 and 600 millions.

Insufficient allowance for repairs in Schedule A
GASHAM CLEGG.

20,305. (1) It is submitted that the statutory allowance for repairs in order to arrive at the assessment for Income Tax under Schedule A, viz., one-sixth from the gross rental, is inadequate under existing conditions, and the conditions likely to prevail for many years to come, for the following reasons:—

Assuming (though it is not admitted by property owners) that the deduction of one-sixth for repairs, insurance and management expenses was arrived at upon a fair basis of calculation in times before the war, it would only appear to be necessary to prove that pre-war conditions have entirely altered, and to what extent, in order to justify a revision of the basis of assessment.

20,306. (2) In this connection, it may be stated that a Committee was appointed in April last year by the Ministry of Reconstruction, "To consider the legislation embodied in the Increase of Rent and Mortgage Interest (War Restrictions) Act, 1915, as amended, . . . and to recommend what steps, if any, should be taken to remove any difficulties, &c." (known as the Lord Hunter Committee). This Committee, of which I was a member, sat for about eight months, and the evidence of many witnesses was taken and carefully considered. Amongst the difficulties arising was the question of the incidence of taxation under Schedule A. Page 4, para. 8, of the Report says that since 1915 "the cost of repairs has rapidly increased. . . . It is true that in many cases, repairs have not been done (often because labour and materials were not available), but it is a truism that postponed repairs eventually cost more." Again, page 11, para. 49:—"One very general cause of complaint of the owners was the inadequacy of the present allowance for repairs and management under Schedule A of the Income Tax Acts. The present allowance is one-sixth of the gross value. The general effect of the evidence was that even before the war repairs to the cheaper class of property absorbed up to 25 per cent. of the rental, and the amount now will be much greater.

We think that a more generous allowance should be made than at present. . . . It seems to us that the matter might be met by allowing a greater deduction in respect of the cheaper houses. The figure suggested to us as fair is one-fourth or one-fifth."

20,307. (3) The following recommendation was made:—

"As the present deduction in respect of the cost of repairs and management for the purposes of income tax under Schedule A appears to us to be inadequate, at any rate, in the case of small house property, a larger deduction should be allowed to owners of houses falling within the Acts. Some provision should, however, be made to ensure that this larger allowance should not be obtained in cases where proper repairs have not been done."

As a member of that Committee, I did not agree that the suggestion of one-fourth or one-fifth would be adequate.

20,308. (4) The evidence given proved that the increase in the cost of repairs, insurance, management, &c., was from 100 to 200 per cent. The result of estimates for house building, both for public bodies and private enterprise, recently made public, disclose an increase in cost of 130 per cent. at least. Taking, therefore, the lowest figure, viz., 100 per cent., the deduction should be one-third from the gross rent clear of rates, or as follows:—

House let at £20 per annum, clear of rates; present allowance, one-sixth, or	£5 per annum.
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The increased cost of maintenance, insurance, management, &c., taken only at 100 per cent., is now

as much as	£10 "
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Therefore, the deduction should be one-third, or £10, per annum, instead of one-sixth, or £5 per annum, and the assessable value £20 instead of £25. There would therefore appear to be little margin for argument as to the total inadequacy of the one-sixth allowance. It may be said that repairs have not been executed. On the other hand, certain repairs must be carried out, and have been so carried out. Evidence will, if required, be produced that the cost of such compulsory repairs has so enormously increased, that to carry out these alone the whole one-sixth allowance has been swallowed up, leaving property owners with arrears of repairs, which will not only cost double, but a substantial increase on this, owing to neglect and delay.

20,309. (5) No serious question can arise as to 100 per cent. extra insurance premiums. It is now the custom in all well conducted estate offices to double the amount for insurance risks, which, of course, means double premiums.

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MR. EDWIN EVANS AND MR. ROBERT DUNLOP.

[Continued.]

As to management expenses.

20,310. (6) A very considerable amount of property is in the hands of people who make a business of property owning, and keep offices, a staff of clerks, collectors, &c. The expense of these has enormously increased—stationery, &c., for instance, some 300 per cent., double postage, increased rates, and so on. It has been a source of great discontent for years that whilst ordinary traders are allowed all establishment expenses before arriving at the net assessment for Income Tax under Schedule D, the man who makes a business of house owning and runs an office and staff in order the more successfully to carry on, gets no allowance at all beyond the one-sixth. In the same way, an owner who employs an agent to manage has to provide the commission and expenses out of the present one-sixth, which it has been shown is quite inadequate for maintenance alone.

20,311. (7) I am prepared, if necessary, to submit balance sheets showing the very large over-payments made under Schedule A in consequence of the inadequate allowance before referred to, but no one of any experience in these days could say that £5 a year is sufficient to keep a £30 a year house in repair, or proportionately for any other rental.

20,312. (8) I respectfully submit that the minimum allowance should be as follows:—

£40 and under, gross value	One-third.
Between £40 and £60	One-fourth.
Over £60	One-fifth.

Argument.

20,313. (9) I put it to the Commission that property owners should only pay Income Tax upon the actual income received, and that the deductions in order to ascertain as near as possible what the net income is, should be based upon up-to-date figures, as to which there can be little controversy. In the case of ordinary business, if no income or profit is made, no tax is levied upon it, and all legitimate outlay in order to produce income is allowed for before the amount of the assessment is arrived at, the principle being—no income, no tax. Property owners have no desire to avoid their just share of Imperial taxes, and would be willing to be assessed upon the basis of Schedule D. No system will automatically work out consistently fair for both sides in all cases, but to continue a system based upon pre-war conditions must be manifestly unfair to that useful section of the public who have in the past provided houses for the people, and who, with fair treatment, will in the future continue to provide such houses. It will be a great encouragement to private enterprise house provision if the Government of the day will deal with this question of deduction for repairs in a fair and equitable manner. Whilst Income Tax was at a moderate figure, say, of 1s. or 1s. 2d. in the £, the hardship and unfairness to which the Commission's attention is now drawn was a comparatively unimportant matter. At present rates, however, the imposition becomes unbearable, and discloses an overcharge of 6s. in the £ on 25s. or 30s. per house, equal to an Income Tax at the rate of 7s. 6d. in the £ instead of 6s. Of course, proportionately less on lower grades of total incomes from all sources, and in the case of mortgaged properties, equals Income Tax at 10s. in the £, as shown under the next heading.

Super-tax.

20,314. (10) The case for relief becomes more insistent than ever in these cases. The total income from a large number of houses based upon the lines now adopted frequently works out at a sum which brings this class of taxpayer under liability for Super-tax, whilst if the actual figures for net income were adopted instead of the gross rent (less one-sixth) no liability for Super-tax would be disclosed. This condition of things is most serious and calls for immediate relief, and in many cases works out as a heavy penalty for owning a particular kind of investment, thus discouraging the provision of houses upon a wholesale scale.

Example.

It is anticipated that members of the Commission will appreciate the position, but I may, perhaps, venture an illustration:—

	£ s. d.	£ s. d.
Take the case of a property owner with say, 300 freehold houses, average rents each per annum	...	30 0 0
On present basis assessed under Schedule A at £25 each.	...	
Actual outgoings.		
Repairs, insurance, management, &c., per annum	10 0 0	
Mortgage, say £250 at 5 per cent.	12 10 0	
		22 10 0

He therefore receives an actual net income of per annum each ... 7 10 0
Or, for the 300 houses a total net income of per annum ... 2,250 0 0

Under present basis of assessment he pays 6s. in the £ Income Tax on £25 per house, or	7 10 0
Less deducted from mortgage interest at 6s. in the £	3 15 0
Net amount of tax paid per house	3 15 0

Or for the 300 houses a total of per annum ... 1,125 0 0

which is equal to Income Tax at the rate of 10s. in the £ upon the actual income received, instead of 6s. in the £. Under the present basis of taxation, the net income works out at £12 10s. a house, or a total for the 300 houses of £3,750 per annum instead of the actual income of £2,250 as shown above, under Schedule A the owner becomes liable to Super-tax owing to the net income exceeding £2,500, and therefore pays—
On first £500 above £2,000, 1s. in the £, or ... 25 0 0
On next £500 above £2,000, 1s. 6d. in the £, or ... 37 10 0
On next £750, 2s. in the £, or ... 75 0 0

Total Super-tax payable ... 137 10 0

Or a total of Income Tax and Super-tax of per annum ... 1,262 10 0

which works out at a total tax of about 11s. 3d. in the £ on the actual income received, instead of 6s. in the £, which would only amount to £675, showing an overcharge of £575 10s. per annum on a net income of £2,250 per annum (see example and proof)*

** Example.*

	£ s. d.
Tax paid on present assessment, 6s. in the £ on £25 ...	7 10 0
Actual net income, £30. Tax paid equals 7s. 6d. in the £. Net income of £25 divided as follows:— Mortgage, £12 10s. Over £7 10s. Proportion of tax paid by mortgage = 6s. in the £ on £12 10s. ...	3 15 0
Remainder paid by owner ...	3 15 0

Rate on £7 10s. equals 10s. in the £.

Proof.

	£ s. d.
£7 10s. tax represents 7s. 6d. in the £ on actual net income or £30 per annum. Mortgagee receives this, owner receives 12s. Mortgagee pays tax on this at 6s. in the £ equals ... 3 15 0	
Owner pays this at 7s. 6d. plus this at 1s. 6d., i.e., £7 10s. at 7s. 6d. plus £12 10s. at 1s. 6d., equals £12 10s. 10d. plus 18s. 9d. equals ... 3 15 0	

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[Continued.]

Revision of assessments under Schedule A.

20,315. (11) It would appear that the periodical revision of assessments owing to war pressure has been seriously retarded, and is some years in arrears. In some districts outside London Metropolitan Boroughs the rates have gone up 25 per cent. or more, yet the Schedule A assessments remain, thus creating a further burden upon property owners. Quite apart from the insufficient allowance for repairs as above stated, it has been proved that this omission or delay in revision of assessments has brought the tax of 6s. in the £ up to 7s. and over. Property owners ask that these overpayments should be refunded, and the assessments where inaccurate, be revised.

The great loss and unfairness of taxation under Schedule A inflicted upon owners of short leaseholds.

20,316. (12) Purchasers of this class of security before heavily increased war taxation purchased to pay a fair market rate of interest on the outlay during the term of the lease, and provide a sinking or redemption fund for replacing the capital invested and to provide also for payment of Income Tax on the interest earned at say, pre-war rate of 1s. in the £. The abnormal rise in the rate of Income Tax penalizes investors in short leaseholds unduly and unfairly as compared with investors in other kinds of property.

Example.—Seven years ago, A. bought a short leasehold house having 10 years to run. It was under-leased for the whole term at £100 per annum and subject to a ground rent of £10 per annum. He gave 7 years purchase for it, or £630, which upon the tables provides interest at the rate of 7 per cent. per annum, and a surplus income accumulating for the 10 years sufficient to replace the capital invested, viz.: £630. His Income Tax under Schedule A was 1s. in the £ on £90, or £4 10s. per annum. To-day he pays 6s. in the £ or £27 10s. per annum, thus reducing his £90 income to £62 10s. per annum.

	£	s.	d.
In order to pay him 7 per cent. on the £630 invested he requires per annum	44	4	0
And to provide return of capital in 10 years he must set aside and re-invest out of the net income per annum	45	16	0
	£90	0	0
	£	s.	d.
But under war conditions he pays Income Tax	27	10	0
Instead of	4	10	0
Reducing his income per annum by	23	0	0

or less than $3\frac{1}{2}$ per cent. on £630 invested, instead of 7 per cent., thus taxing him to the extent of practically 10s. in the £ on his £44 4s. income instead of 6s. in the £. In short, he is taxed on the necessary provision put by each year to replace capital on a wasting or early terminating investment. If he had invested in any other class of security he would pay Income Tax on his investment only, preserving his capital intact.

Argument.

20,317. (13) It is contended that the present system is in the nature of specialized taxation against a particular class of investment which calls for immediate revision and relief in the interests of fair play for all investors alike. This condition of things applies to short leaseholds and all other descriptions of wasting securities. Surely some provision should be made in such cases and the tax levied upon the income after making provision for replacing the capital, and indeed for depreciation and reinstatement of the building out of which the tax arises. It cannot be contended that the one-sixth allowance could possibly

have contemplated the inclusion of such necessary provision.

Note.

20,318. (14) Since this case was originally prepared a new clause has been added to this year's Finance Bill making further provision as to allowance for repairs, extending the relief given under Rule 8 of No. V in Schedule A to houses up to £70 in London, Scotland £60, and £52 elsewhere. On behalf of property owners, I submit this form of relief does not meet the case for the following reasons:—

- (1) Under the new Bill, if more than one-sixth of the gross assessment is spent on repairs, maintenance, management, insurance, &c., the tax on such amount may be reclaimed, but any repayment has to be based on the average expenditure of the five preceding years.
- (2) In order to make a claim, a large amount of work would be involved which would in a great number of cases require professional aid; moreover, proof of such expenditure would be very difficult, especially in the case of small owners, to whom such relief is of vital importance.
- (3) It is always troublesome and a great source of dissatisfaction generally for a taxpayer to be asked to pay every year excessive taxes and have to reclaim afterwards, instead of having it adjusted before actual payment.
- (4) Again, the clause referred to does not deal with the revision of assessments, the case of short leaseholds, or wasting securities.

[This concludes the evidence-in-chief of Mr. Evans.]

Evidence-in-chief of Mr. ROBERT DUNLOP, J.P., on behalf of the Belfast Property Owners' Association.

20,319. (1) I am a Justice of the Peace for the City of Belfast, a member of the Belfast Corporation and Chairman of its Police Committee. I am also a Vice President of the Belfast Property Owners' Association, which is affiliated with the National Federation of Property Owners and Ratepayers.

20,320. (2) I am the owner of a considerable amount of property in the City of Belfast consisting largely of house property of all descriptions and of land in the neighbourhood of the city, some of which has been temporarily occupied during the war and is awaiting development. I have therefore large experience of the demands made upon property owners both in the matter of Imperial and local taxation, and I am also intimately acquainted with the demands made upon property owners for the upkeep of their properties and the expense incident to the management thereof.

20,321. (3) I have read the statement of evidence intended to be submitted by Mr. Edwin Evans, President of the National Federation of Property Owners and Ratepayers, on the question of the insufficient allowance for repairs in assessments made under Schedule A of the Income Tax Acts and I agree with him that the one-sixth which is at present allowed in respect of the cost of maintenance, insurance, and management is altogether inadequate in view of the increased cost which such maintenance, insurance, and management expenses entail at the present time.

20,322. (4) This subject has engaged my attention for many years, and I am of opinion that even prior to the war the allowance of one-sixth was an inadequate allowance in respect of these charges, but it is a matter of common knowledge that the cost of labour and material, as well as the additional cost of insurance and management, has more than doubled in recent years.

20,323. (5) I have a considerable amount of small house property in the City of Belfast. I think all property owners will agree that under normal conditions it is more costly to maintain small house property than it is to maintain the better class property, and from this point of view I am of opinion

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[Continued.]

that property of small valuation would be entitled as against mere cost of maintenance and upkeep to a higher allowance than the better class property. On the other hand it is necessary to take into consideration the fact that a property owner dealing with houses of the better class stands to lose more in respect of vacancies of houses of a larger valuation than he would on a poorer class. Take, for example, a house of a smaller valuation which would let at from 3s. to 6s. per week, there is little or no difficulty in obtaining a tenant to go into occupation as soon as the house is vacant, and in most cases two or three days would be adequate to effect any repairs that were necessary, whereas in the case of property of larger valuation let at from, say, £50 to £75 or £100 per annum at least a quarter's rent is lost between the tenancies while the house is being prepared for the new tenant. The cost of such preparation is seldom less than a year's rent. In this connection it is important to bear in mind that the owner of such a house is obliged to pay Income Tax under Schedule A in respect of nine months' occupancy, although by reason of the three months' vacancy and the larger expenditure in preparation of the house for the new tenant, his income from the house for that year is nil and often a minus quantity.

20,324. (6) I think, in view of the facts I have mentioned and of the greater difficulty there would be in assessing and collecting the tax based on a graded scale of allowance, I am strongly of opinion that a flat rate of not less than one-fourth instead of the one-sixth at present allowed would be fairer all round, and that this increased allowance is absolutely necessary if justice is to be done to property owners.

20,325. (7) There is another aspect of the unfairness of the present system of assessing Income Tax which has come under my notice. I have on the outskirts of the City of Belfast a number of small holdings which have not been developed, and in respect of which temporary lettings have been made. I have been assessed in respect of these holdings both under Schedule A and Schedule B. I will give one small case which will serve as an illustration of what I mean. In one holding in Chichester Park, Belfast, the Poor Law valuation of which is 10s., and in respect of which I had made a temporary letting, I was assessed under Schedule A on a reduced assessment of 8s. at 2s. 8d. and under Schedule B on 20s. at 6s., or a total of 8s. 8d. on a valuation of 10s. When local taxation is added to this I am out of pocket on the transaction, which, I think, is altogether unreasonable and indefensible. I have merely quoted one out of a number of cases of this kind.

[This concludes the evidence-in-chief of Mr. Dunlop.]

20,326. Chairman: Both your papers relate to exactly the same matters, do they not?—(Mr. Evans): Yes, I see they do, my lord.

20,327. You will have to answer questions put by the Commissioners as best you can on the various points; if one perhaps cannot answer, or does not want to answer, the other can?—If you please.

20,328. Mr. McLintock: Mr. Evans, your paper does not take any account of the possible increase in existing rents by reason of the increased cost of building and the increased cost of upkeep. Do you contemplate that rents will remain at the present level or that they will be raised in future?—I hardly thought it was necessary to deal with that point, because of course I am anticipating a gradual increase of rents and a corresponding increase, of course, of taxable value. I am contemplating that.

20,329. Is your view that even with an increase in rent, the existing allowance of one-sixth will not go some way towards meeting the increased cost of repairs?—In so far as the rent increased I agree that it would go towards meeting the case we are dealing with to-day. I ought to say, if you will allow me, that I cannot possibly hope, and I am not budgeting for, anything like the sum that would have been necessary. For instance, I should not anticipate more than, say, 30 per cent. during the next few years in the increase of rent. I am speaking principally of small property now.

20,330. You do agree that the Commission must take into account almost the certainty of rents all round being increased?—Yes, I think so.

20,331. And to that extent the present allowance of one-sixth will be nearer meeting the actual expenditure than it does at present?—My answer to that is that it just depends upon the proportion. I agree that it is a matter for consideration, certainly.

20,332. You agree that the rents of all property should probably have been increased or now to meet the new conditions. You have a grievance in so far as rents have been kept practically at a pre-war level?—I would not like to say that. I have been one of those who have seen the necessity for some restriction. My grievance is not that there is a restriction upon rent, but that there is not a sufficient corresponding increased allowance to meet our increased costs. That is my point—not on taxation, but generally upon property.

20,333. Do you draw any distinction between the various classes of property, such as small house property and property occupied as offices in cities?—Yes, I certainly should.

20,334. What is the distinction?—I think probably I would deal with it somewhat upon these lines: £40 or under, and then afterwards £40 to £60, and then over £60. I have not very carefully considered the question of allowance for offices.

20,335. Is it not so much a question of rental; I am more concerned with the use to which the property is put. Do you consider that the present allowance of one-sixth is inadequate for property occupied as offices, say, in cities?—I have not considered that very much, but I am inclined to say that it would not be reasonable to expect the same allowance in respect of office property as in respect of the smaller class of house property.

20,336. Have you taken out over any fair selection, particulars to show the present allowance in regard to property let as offices, as distinct from property let for small dwellings?—No, I have not.

20,337. Have you taken out any data of any kind in regard to either class of property?—I have merely dealt with the ordinary house and shop property at rents from 8s. or 4s. a week up to £100 a year or more.

20,338. Do you draw a distinction between house and shop property?—That depends entirely upon the terms of letting.

20,339. Is it not correct to say that the burden of the landlord in shop property for repairs is not quite so heavy as for small dwellings?—I would say that in fairly decent shop property the outlay for repairs is not so much as it is for the smaller property.

20,340. But you cannot say how far it exceeds the present one-sixth allowance?—No. I should consider that one-fourth would be a fair thing for that kind of property; of course always bearing in mind that the best class of property is let upon lease; that brings you under a different category altogether.

20,341. Is it not possible for you to submit detailed evidence, summarized of course, for the various classes of property, showing how far the present allowance is inadequate?—It would not be possible this morning to do so, but there would be no difficulty in doing it later.

20,342. You have access, or can get access, to that information?—Yes; I represent a very large number of property owners, and I can get that from the provinces and from London; I can get data if necessary, certainly.

20,343. In paragraph 2 of your paper you refer to the fact that in many cases repairs have not been done?—Yes.

20,344. You have been, of course, receiving the allowance all the time?—I have not said that the one-sixth expenditure upon repairs has not been expended; in fact my experience is that it has been expended. That does not mean that all the repairs have been done; because we should have spent at least one-third during this war period if we had carried out the repairs.

20,345. There has been on the part of landlords, and probably quite rightly so, extreme reluctance to carry out repairs during the war period; and tenants are told: "Well, you have not had your rent raised;

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[Continued.]

if you want these things done you must do them yourselves. I—I would not like to put it as extreme assistance, if I may say so. I would say extreme difficulty in getting either the labour or the material to do the repairs. For instance, with regard to the outside repairs to property; I have taken the figures out. The outside repairs to property have, during the last two years, any cost as much as the whole of the repairs to property inside and out did in pre-war time.

20,346. Even the modified repairs with the increased cost?—I am suggesting the modified repairs. I am going to admit this: that landlords, owing to the larger cost, heavier taxation, and so on, have during this war strain done practically what they felt they were obliged to and have not laboured to be generous, having regard to the difficulties about labour and material and cost.

20,347. You suggest that a fair figure would be one-fourth or one-fifth, and you also quote a recommendation that some provision should be made to ensure that the larger allowance should not be obtained in cases where proper repairs have not been done?—That was in the Lord Hunter Committee Report. I am quoting a report there; that is not my evidence.

20,348. You have quoted the suggestion in that Report?—Yes, I give that, not as my own, but simply as a quotation.

20,349. Do you not think both of these conditions are fulfilled under the provisions of the Finance Act, 1919, which allowed the actual expenditure in respect of all repairs in all houses in London, for example, up to £70 a year?—I am much obliged to you for that question; it is very important. What we feel about it is this. Take, for instance, the case of a man who has purchased property during this last year or two. He has no data to be able to give you a five years' average for repairs. He cannot supply the information. Let me give you another case if I may. Take the case of a man who does his own repairs—these small builders who, buy a few houses here and there; their name is legion in London; there are no end of them. They buy a few houses and carry out their own repairs. Now how are they going to prove, and how are the Government going to check, some statement that is brought in as to the cost of these repairs that have been carried out? I see a very grave difficulty in that. I see an opportunity for dodging taxes in that way; and I can see, on the other hand, that the small owner who has a few houses will find a great difficulty in keeping these accounts and satisfying the Surveyor of Taxes with regard to the expenditure. I find the greatest difficulty now in claiming relief, in getting receipts. In our office, in order to get those allowances, to get one allowance sometimes on an estate we have to write to all the tenants to get the receipts back. The tenants, for instance, pay the usual Income Tax, and hold the receipts. In order to make this claim we have to get these receipts back from the tenants. The whole thing is a most difficult operation even as it is now. When you come to talk about averaging repairs over five years I see grave difficulties.

20,350. The point you make in your paragraph 14 (1), with regard to the average expenditure in five years, is quite a different one from the main point that you make?—Yes.

20,351. In the case of owners of small amounts of property of course the difficulty is so much the less; where the property he owns is small or the number of houses is few, the average small owner has a pretty good idea of what he spends?—If the small owners were methodical and kept proper accounts of the repairs they did, and books, and all that kind of thing, I suppose they could make these claims easily enough; but in practice they do not do it. They find out all at once that they are entitled to something and they come to someone or other, and then everything has to be raked up for five years.

20,352. There has not been a great deal of selling of property during the past five years, has there? I mean property has not been changing hands; it has not been very attractive to anyone to purchase it?—I should say the shrinkage in the sale of investment properties would not be more than 30 per cent.

20,353. Chairman: Has not a great mass of property passed on account of people buying houses?

20,354. Mr. McIntock: That is rather single houses?—Yes.

20,355. I am referring to other properties?—You are referring to investment properties and I agree there has been a shrinkage. Of course in occupation properties there has been a very considerable increase in the number of sales and also the figures at which they have changed hands.

20,356. What alternative suggestion do you put forward as against the average of five years that is in the 1919 Act? Is it the length of time or the principle of the average that you specially object to?—My special objection is that it does not in practice relieve the people, who, I will not say must require it, but who at any rate ought to have the allowance.

20,357. I admit in the past there may have been a difficulty in getting the records, but surely it is not too much trouble for a small property owner. I am not speaking of the large property owners; usually they have the records; but where they have not got them surely it is not too much to ask them to keep a note year by year of what the amount of expenditure is?—No, and one would have thought that it would be in their own interest to do so. In practice I am sorry to say they do not.

20,358. You ask for a one-fourth allowance or a one-fifth allowance?—I ask for one-third.

20,359. The rents go up?—Yes.

20,360. And consequently the amount of the allowance you ask for is greater; and if the cost of repairs goes down, it is asking the State a good deal to give a maximum allowance, and to put no burden on the property owner to show that the flat allowance is too little?—I think my reply to that is that even then, if we had got an increased flat rate we should have had to wait for it. If rents are going to be doubled for the same class of house, the State can very soon put that right, and they will probably do it very much quicker than the relief they are going to give to us; because we have suffered under this now for the last two or three years.

20,361. There is a large point to be considered. If the case of a new property you get your one-sixth allowance, and you probably spend practically none of it on repairs for a certain period of years. And you get the allowance whether you expend the money or not, even in an old property. Now the Commission has had no reliable figures put before it showing for various classes of property—where you agree the expenditure differs—how far the one-sixth allowance in each class is deficient. There is no body of property owners who have ever come before us and given us anything that you might really term reliable data as to the exact effect of this allowance or as to the expenditure?—My answer to that is this. I have made a suggestion in my evidence that if figures are required I shall be quite prepared to supply them; and I should like the opportunity even now, if the Commission think it necessary, at a later stage to give evidence and bring facts and figures; because we are only trying to get what is fair. I see the difficulties of these things, and if the Commission think that it is desirable, I shall be very glad to have an opportunity of doing that. I am afraid you will be sitting for some time yet.

20,362. You could send along a selection of different types of property, showing the actual expenditure on repairs?—Yes.

20,363. Chairman: And over a long period of years.

20,364. Mr. McIntock: I was going to put a point on the period of time. Is one of your complaints against the five years' average—any the last five years—that the repairs have been at a gradually increasing cost for the same amount of repairs?—I think an average for the last five years will never give us the true figure—and that will be my difficulty in getting these figures—owing to deferred and delayed repairs, and also the extra cost of repairs. I shall have to consider that very carefully. I hardly know whether we shall get any data. We have had an extraordinary period during the last three or four years. I am very doubtful whether we shall get data that will help us in regard to normal times. However, I do not want to shrink from the point. I shall be very glad to give

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it very careful attention and to put the whole thing before you with figures and accounts from estates, and so on, and various kinds of properties, if it is so desired; but it will not be very reliable, because the whole conditions of the last few years have been absolutely abnormal.

20,365. *Chairman*: We shall be very glad if you will put that paper in.—Very many thanks; I will, my lord.

20,366. The pre-war figures as well—not just the last three years. Perhaps you can give the last six or seven years?—I was just wondering what would be the best period.

20,367. *Mr. Freeman*: The only really conclusive thing would be a period which covered the time from the actual completion of the new property over, say, 20 or 30 years. In that 20 or 30 years the owner would show not necessarily one property but a block of property. In the case of a man who had built a block of property and had perhaps owned it, or successive people had owned it, accounts could be obtained during the 20 or 30 years during which the owners had had an allowance of one-sixth, and showing what they had spent over that period. That would be more conclusive than anything else, and it would cover Mr. McIntock's point that for a few years very little is spent and nothing is said. Then comes a period later on when more than one-sixth has to be spent, and then a good deal is said?—Yes.

20,368. *Mr. McIntock*: We have had a witness before us who said he was surprised, when he took the actual data, that the total did not exceed the one-sixth allowance?—For what period was that?

20,369. He was not very definite as to the exact period covered, but he came forward on the same point as you are on to-day as to the inadequacy of the one-sixth allowance, and he said he was surprised to find, when he took out from actual cases the expenditure incurred, that it did not seriously exceed the one-sixth allowance?—I should very much like to know what period that was for. And let me say this. Before coming here to-day, during the last month or two I have taken out several of our estates; for instance, in my neighbourhood I have 120 houses at 8s., 9s., 10s., 11s., and 12s. a week—a very good test, because they are a little different in description, and so on. Exactly the same thing occurred over that. It was a shade under the one-sixth for a period of three years, taking, I think, the first year of the war or two years of the war and one before. The owner of the property died some six or nine months ago, and I am now writing to the trustees. The local authorities know me very well in the district, and they said: "I think you ought to do something with this estate." I said: "Yes, I agree with you." They said: "We do not want to make a house to house inspection; we are going to do so, but we shall not come to you for three or four months; now you had better set about getting things in order." I am just now commencing a specification which will approximately, I should think, run out for the 100 houses at £20 a house, that is £2,000—arises on repairs—neglected work.

20,370. *Mr. Marks*: Do you manage this property for the trustees?—I manage this property for the trustees, and I have been unable to get the repairs done. Of course you may say one can do anything that is wanted; and I know I could have got all those repairs done, but it would have been at about 300 per cent. more. I have rather been living in hope that I should be able to save something by the delay, and I have done only what is absolutely necessary; I am pleading guilty to that.

20,371. *Mr. McIntock*: Have you contrasted your one-sixth allowance and the amount you have actually spent?—Yes, the one-sixth has covered what I have actually spent: but what I am going to spend in consequence—to keep that to the one-sixth is another matter altogether.

20,372. It will take your margin?—There will be over £2,000; it will swamp my margin. If I were allowed one-third, as I am asking, for that class of property, I should not average more than I am entitled to over ten years.

20,373. Supposing you get an increase in rent as a result of all this contemplated expenditure, will not

that go a long way to meet you?—That will help me, of course; that is one reason, I may say, why I am suggesting to the trustees that they should instruct me to make out a specification and put the property in repair; because the suggestion is that we shall get a 10 per cent. increase subject to the property being kept in decent repair; and I think it is desirable in all cases that property should be kept in repair. If I had had my will I would have made the allowance very much more, in order to encourage people to do it, especially in cases where property is mortgaged. I am glad to say in this case it is not a poor estate, but I have dozens of cases in my office where it is absolutely impossible. When the mortgage interest is paid, and the rates at 11s. or 12s. in the £, I have over 100 accounts in my ledger that are absolutely in debit, the people have never had a penny for years. I hope you will not think that that is because there is a bad agent; but there it is; that is the fact.

20,374. It is not always the one-sixth allowance that is a determining factor in causing the landlord not to do the repairs?—May I say that it is a part of it, with respect.

20,375. On the question of management, do you think that should be allowed for all properties? There are some properties, such as those you have been referring to, where there is a management charge—a commission on the rent?—Yes.

20,376. There are others where the owner collects his own rent?—Yes.

20,377. Do you suggest that they should all get it?—I do not think you could distinguish.

20,378. You would give an all-round allowance?—I should contemplate that, in the figures you are going to consider, if you are going to consider a flat rate at all.

20,379. There is no allowance, for example, given for management in the ordinary rating charge?—No, I should not like to say that; I do not agree with that; because I have had many arguments with rating people, and they have said: "well, you know, Mr. Evans, you get a bit; we allow a margin for management." They have admitted it to me when we have been discussing the question of rating assessments.

20,380. There is one point, Mr. Dunlop, in your paper on which I would like to ask a question. You give the illustration of a house of a certain rent, and you practically get nine months' rent, and the burden of repair is very heavy. This type of house, I suggest you will agree, is usually let for a term of three or five or seven years?—(Mr. Dunlop): That is so.

20,381. Generally, I suppose, you agree that the experience is that having done your initial repair when you grant a lease, you do not do very much more, until the end of the term?—It all depends on the type of tenant. Where there is a large family I frequently have had to do up certain rooms in the house.

20,382. Does it not depend on the lease rather than on the size of the family?—No, I should say the family has a good deal to do with whether I have repairs to do. I am speaking of internal repairs. Of course in all cases I keep up the house externally, irrespective of the lease, and in the case of burst pipes on the inside and general repairs that are necessary to the running of the home, I always do those.

20,383. You do expend, one knows, a substantial amount, at the beginning of a lease, on a house such as you indicate. Have you contrasted the actual expenditure on repairs over, say, a seven years' lease with the one-sixth allowance which is allowed year by year?—I have not put it down in actual figures.

20,384. It is hardly fair, is it, to take the initial expenditure in a particular year in tonies of this kind and contrast that with the one-sixth allowance for one year?—In the first year of that term of five years, say, I am actually at a misus quality. In the first year I have actually no income at all from the house.

20,385. I agree that in the first year your repair bill is heavy, and it is probably far in excess of the one-sixth allowance, but assuming you have got six years to run in which you still get the one-sixth and have very little repairs to do, have you worked it out to see the result over the period?—My experience is that in the first year of the occupancy the cost of

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repairs is more than one-sixth, in a period of five years.

20,386. You know that your repairs expenditure to a house of this kind is largely determined by the length of the lease. You say to the tenant, "I am not going to do all this unless you take a lease at such and such a rent for a given period of years?" That is so.

20,387. What I wanted to ask you was if it is quite reasonable to put up this illustration that you give, as a reason for the one-sixth allowance being so inadequate as you make out?—I think so.

20,388. But you have not contrasted the allowance for the remaining years of the lease, when the repairs are small?—From my experience of property of £70 rental or thereabouts, five years is the average length of the tenancy for a given series of properties.

20,389. You refer in paragraph 7 to a holding in Chichester Park, Belfast, the Poor Law valuation of which is 10s., and you go on to show the amount of tax charged on it. What rent do you get for that?—It is let at a grazing rent. It is a series of bits of undeveloped ground we fenced in and let for grazing.

20,390. What rent do you get?—I would get perhaps a matter of £2.

20,391. And you are rated at 10s. 6d.—Yes. It all depends on circumstances. Sometimes I may get perhaps only 30s.

20,392. And you are assessed under Schedule A on a reduced assessment of 5s. at 2s. 8d. and under Schedule B at 6s., a total of 8s. 8d. on a valuation of 10s.—Yes.

20,393. After all, with regard to the rent that is received, that is the figure to be considered?—I pay in addition to that, the municipal tax.

20,394. You know you get a deduction in respect of rates from your Schedule A?—Yes.

20,395. And generally it should correspond with the rates that the owner pays?—Of course, in a case like these bits of undeveloped ground the rent that we receive is a fluctuating quantity.

20,396. Mr. Petyman: Is it let by auction?—Sometimes. I have let it by auction this year. Previous to that I have not let it by auction.

20,397. Mr. McLintock: What rent are you getting today?—For this particular ground I think this year I got £2.

20,398. And you are still rated at 10s. 6d.—Yes; in other years for this particular bit I think I have only got £1 or thereabouts.

20,399. Why did you put up a case like this; there is no great hardship here?—The taxation is equal to the valuation.

20,400. Assume that a man had an income of £1,000, and he was assessed as if he had £250—on £250, to get the correct analogy—would you suggest that it was fair to contrast the tax paid on the £250 as being an amount charged on the £1,000?—Well, I do not suppose I would.

20,401. Do you think it would be fair?—On this undeveloped ground the income we receive is a perfectly undecided quantity. It is a thing that comes year by year. This year, on account of the scarcity of grazing I suppose people were prepared to give more. I could not tell you what I have got other years; I think it is a very small sum. That bit of ground should really be left open, and then I would have no tax to pay. It was more to keep the district decent, and not have it overrun by people playing football on it that it was closed in, for the purpose of making the district respectable.

20,402. Your one point in your illustration is to contrast a charge of 8s. 8d. with a rent of 10s. 6d.—With a valuation of 10s.

20,403. Whereas for that particular small subject you get a rent of £2 a year?—An exceptional rent this year.

20,404. You had last year, did you not?—No, I did not get it last year.

20,405. Have you experience of other parts of Ireland than Belfast?—Only Belfast.

20,406. Mr. Marks: Mr. Evans in regard to that property which you manage, where I think you said

there were about 120 houses at rents of 10s. to 12s. a week, why do you not get an allowance for the whole of those repairs?—(Mr. Evans): Because my gross assessable value is over £12, and I am not entitled to it, until the new Act.

20,407. I mean under this year's Act?—First of all, I have to give five years' average.

20,408. Is it because of the operation of the five years' average and the neglect of repairs in the interval?—To put it quite plainly, I have no case today. I shall have a very good case when I have spent £1,000 in making up my arrears.

20,409. I just wanted to understand what the reason was?—If you please, that is the reason.

20,410. Dr. Stamp: Mr. Evans, you referred a few minutes ago to the fact that you had in mind fairly decent houses and shop property?—Yes.

20,411. Would you agree that over a large part of the field of fairly decent houses and shop property there is no grievance at all on the subject of repairs?—No, I should not agree.

20,412. Divide it into two classes: it is generally either owned by the occupiers or it is let on lease?—Yes.

20,413. If it is let on lease the person who is occupying the shop property or warehouse property, or whatever it may be, is entitled to charge in his trading accounts for Schedule D the full lease rent and all his repairs?—Yes.

20,414. The landlord gets the lease rent, and has no expense to bear out of that to speak of?—That is so.

20,415. There is no grievance there on either of them in the case of a lease rent, is there?—There is no grievance, of course, in the case of the landlord, because he gets his net rent.

20,416. Is there any grievance in the case of the occupier? Is he not allowed to charge the rent and his full repairs as a trading expense?—As apart from the deduction he is allowed?

20,417. I suggest to you that it does not make a scrap of difference to his total liability under Schedule A and Schedule D what you allow; whether you allow one-sixth or one-fifth or one-third, or whatever it is; it comes out in the wash?—I think that is so in the case of a man keeping his own shop.

20,418. I am speaking of a man who is paying a lease rent?—Yes. Your point is this, I think; that under Schedule D, in calculating his trading profits, he can claim a deduction for his expenditure on repairs as a trading expenditure?

20,419. That is right; and he does?—Yes, I think that is so.

20,420. Therefore your evidence does not apply to that large part of the field which is covered by decent shop property?—No, I certainly should not ask for an allowance which a man has already got, and it would appear he has got it in the case of shops let upon lease. I think that is so.

20,421. Now, take the case of a man who owns his own business premises, who makes a certain total profit?—Yes.

20,422. Then there is the Income Tax under two Schedules, namely, Schedule D and Schedule A, and the total of the two always comes to his total profit?—Yes.

20,423. If you reduce his Schedule A assessment by some increased allowance of this sort, it increases his Schedule D?—It is a similar case to the last one, really; he gets it under a trade allowance.

20,424. He gets a deduction from the bulk of his profit of the actual amount upon which he has paid under Schedule A?—Yes.

20,425. Therefore it cannot make any difference to him what he has paid under Schedule A. Therefore you would have to cut out those cases from what you are claiming?—I think you would.

20,426. At any rate, there is no grievance in regard to that?—I do not think there is a grievance. I should not like to put it that this is a very large proportion; I would like to say it is a very small proportion.

20,427. The leased shop property?—Very small

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20,428. You are thinking more of dwelling-houses?—I am thinking more of dwelling-houses and ordinary shop property. Probably the worst sufferers are the owners of small shop property.

20,429. I only want to get it clear in the evidence that there are certain important exceptions?—Yes.

20,430. You refer here to an allowance as high as one-third?—Yes.

20,431. Now let us deal with that. Where it is effective in the class of case that you have in mind, I take it that is what you regard as a broad average?—Yes.

20,432. That in some cases it might not be enough and in others it may be too much?—Quite.

20,433. Or are you asking that everybody should be treated as worst cases?—No; I am putting an average based upon this principle: that it was generally accepted that the one-sixth allowance was fair before the war. Everyone has to admit that the cost of repairs and management and insurance is more than 100 per cent. more. Now, how is it possible to get out of the argument that the allowance should be proportionate, except upon the ground of an increase in the rent? With regard to the cost of repairs and maintenance, I have suggested here a round figure of 100 per cent. But the Lord Hunter Committee, 12 months ago, went into that; I was a member of that Committee, and it was agreed practically by all sides that 180 per cent. was then the right amount. We sat for eight months and had evidence upon it. Since that, we have had estimates for building houses, just the same work, building material, labour, and so on, and there is not an estimate—and I am speaking by the book, because I have carefully watched them all—there is not an estimate for building new houses that is not at least 200 per cent. over pre-war charges. I am not talking about wooden houses, and all sorts of new schemes that I have very little faith in, but I am speaking of bricks and mortar. The minimum is 200 per cent. At Hendon, a four-roomed house reached £860—a similar class of house that I built for £290, pre-war. Now, can we get away from that? To talk about 100 per cent. does appear to me well under the mark. I mention that because I can see we are drifting to higher rents, and that suggestion is to be a consideration, and I think it must be a consideration for the reason I mention, that the 100 per cent. is very low.

20,434. You will agree that raising the allowance from one-sixth to one-third is such a large addition that it wants to be scrutinized carefully?—Very.

20,435. As to whether, in applying a general overhead average, there may not be anomalies on both sides?—Yes.

20,436. They are much more important than when you are dealing with a small proportion?—Yes.

20,437. Schedule A, upon which this allowance is to be granted, includes the value of the site, does it not?—Yes.

20,438. Are there any repairs to the site?—I should say not. There are drains on the site.

20,439. Supposing you have premises situated in the centre of a town, it is quite possible for the site part of the annual value to be half, is it not?—Yes.

20,440. Of course, when you get right away from the centre of the town the site value may be only one-eighth or even less?—It might; they vary very much.

20,441. If you are thinking of the actual cost of repairs to the building, in the former case your one-third would work out to 65 per cent. of the annual value of the building?—Yes.

20,442. And in the second case it would work out to only 38 per cent. on the building?—Yes.

20,443. So that, surely, the overhead allowance of one-third is very inequitable as between the two cases; it gives far too much, does it not, to a building which has a very valuable site?—I do not think the question of site comes in at all. It is a question of the rental value of the premises.

20,444. The rental value includes the value of the land?—You may have a very small house at a very large rent.

20,445. I suggest to you that where the annual value is loaded with a very heavy charge for the site, your one-third for the whole gives a very dis-

proportionate amount to the repairs for the building?—I am much obliged to you. The cost would really be the test. Premises quite near a town might fetch in rental value £1 a week that four miles out would only fetch 10s. a week, because of the extra value of the site.

20,446. I suggest to you that it was unimportant when it was one-sixth, but now that you are suggesting one-third, it is a fact that you ought to bear in mind, that if you are taking one-third of the site, too, you are making a present?—I think they are very small cases, and I want, if I may, to draw your attention to another thing in regard to that. Dealing with that question of the value of the site, you must bear in mind that with regard to small property near towns, the new Act, which provides for acquisition, very much reduces the value of land; for instance, land taken, we will say, in the east of London can now be taken based upon cottage value.

20,447. In your paragraph 11 you say: "It would appear that the periodical revision of assessments owing to war pressure has been seriously retarded, and is some years in arrears." Then you go on further: "Quite apart from the insufficient allowance for repairs as above stated, it has been proved that this omission or delay in revision of assessments has brought the tax of 6s. in the £ up to 7s. and over." That is the question of the rise in the rates, is it not?—Yes.

20,448. Then you say: "Property owners ask that these overpayments should be refunded, and the assessments, where inaccurate, be revised." You are referring there to districts outside the London Metropolitan area?—Yes.

20,449. You are referring to the fact that there has been no so-called quinquennial assessment for some years?—Yes.

20,450. But is not that only a question of re-assessment in favour of the Revenue? Is it not a fact that assessments are continually reviewed during the whole of the period between the two re-assessments? Supposing an owner has an increase in the rent, he has the benefit of that increase, free from tax, for the whole period until the next re-assessment?—Yes, but I must interpose there; the owner does not get an increase in rent.

20,451. But supposing he is re-letting and gets an increase in rent?—My point is, that is not being done at the present time, under the Rent Restriction Act, which does not allow us to increase the rent.

20,452. I am only saying if a man does get an increase he does not have to pay Income Tax on that increase until the next assessment?—That is triennial, I believe.

20,453. It started as triennial, and it has become quinquennial. Now it seems to be becoming much longer. But the fact remains that where he has lost rent he is allowed to come up to the Revenue and get a reduction, is he not?—In the intervening period, yes.

20,454. So that there is a constant steady drag against the Revenue, whereas the Revenue has nothing to put against it in the way of increase. All the properties that go down, they have to give effect to; all the properties that go up, they cannot. Is that so?—That is during a period. You are really dealing with something that is going to happen later.

20,455. Let me take a concrete case. Take a property in which the expenses of rates are more; is it not a fact that the owner can go to the Revenue now and get a reduced assessment?—Only recently. He has been told almost all over London that he has no remedy.

20,456. But you are talking about outside London?—Yes, I am speaking about outside London. Our attention was drawn to this, and we examined several cases and found that they were paying 7s. and 7s. 6d. in the £. My association made a representation to the Revenue, and I met the authorities upon it, and we discussed the whole matter, and they said: "you can tell your members that if they have any grievance they may bring up their papers and we will examine into it and put the thing right."

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20,457. Can you give any actual cases in which there has been a reduction of the net rent below the assessments, and in which the Revenue or the Local Commissioners have refused an adjustment?—Yes, I think I can. It was in consequence of these complaints that we raised the point, and it was gone into. I am not objecting to this matter, and if people do not come and ask for it, it is their look-out and we cannot help that. As a matter of fact, we have got adjustments during the last 12 or 18 months as the result of the representation to the Commissioners.

20,458. So that this really is something quite exceptional; it is not a general principle that you cannot get reductions?—Have I said that you cannot get reductions? I do not know that I put it in that way, because I have well in mind that where complaints have been made they have been allowed. What I complain about is that you have got rapidly increasing rates, and you have had them rapidly increasing for some time, and no allowance has been made, and for eight or nine years there has been no revision of assessments, and I do not think that is fair to property owners; and because a dozen or 20 or 30 belong to an association who get some information which enables them to get an allowance, it does not seem fair that the others should remain in this condition.

20,459. Chairman: You are on paragraph 11, are you not, Dr. Stamp?

20,460. Dr. Stamp: Yes, paragraph 11.

20,461. Chairman: And you are asking him as to his remedy on that?

20,462. Dr. Stamp: He is asking for a remedy which I say already exists. (To Witness.) Is it not a fact that if any owner of weekly property brings in a statement showing what his rates in the past years have been, he can get an adjustment practically to the net figure?—Yes, in the outside boroughs to-day.

20,463. Has not that been done for some years?—No, it has not.

20,464. Can you give us the date when it started?—I can only tell you that it had been refused over and over again, and it was in consequence of those refusals that I obtained an interview with the Commissioners, and this matter was put right.

20,465. How long ago?—I should say 12 months ago now.

20,466. I suggest to you it is a much longer period than that?—No, I do not think so.

20,467. Would you prefer that the Revenue should be asked as to the fact, or that you should give it to us in a supplementary statement?—I can find out the date by some means or other. It was no doubt on the agenda of our meetings, but if you are going to suggest that it is 18 months I will accept that.

20,468. I suggest that the remedy has existed for a long time?—You may suggest that the remedy existed.

20,469. It has been actively used?—All I can tell you is that in practice we did not get it; that is all; and it was because of that that those interviews were arranged and the adjustment took place.

20,470. I suggest to you that with regard to paragraph 11 the grievance does not exist, and therefore no remedy is required?—I do not admit that, of course.

20,471. Will you now look at the next paragraph, relating to leasehold property? As I understand that, your suggestion is that wherever property is held on lease the amount charged as the net value should be reduced by some allowance for the wasting character of a leasehold. Suppose you had two properties of identical annual value side by side, just put up; we will say they are each worth £50 a year. One is bought outright; it will pay on its annual value £50. But the other is held under a lease, and the tax to be got in respect of that will be considerably less by this allowance that you propose?—I see the point exactly.

20,472. That means that on all leasehold property the Revenue loses, although the values are identical?—Yes.

20,473. Somebody has got the extra value. Who has got it? I suppose it is got by the reversioner when the lease falls in?—Yes.

20,474. Would you suggest that when the allowance is made by the Government to the leaseholder the balance should be charged upon the reversioner year by year?—No.

20,475. Should it be charged when the lease falls in, in a lump sum?—No.

20,476. Who has to stand the loss? The properties being identical in value, why should there be a loss because one is let in this form?—It is a very difficult matter to deal with, but I should like to put my case, if I may, as shortly as possible?

20,477. Certainly.—I am not dealing with the justice of taxing a short leasehold, because I apprehend that whatever the income or rental from a property is, it should bear its fair share of Imperial taxation. The case I am presenting to the Commission is the hardship of a man who has invested his money in a short leasehold property. You may say: "well, you must allow for the variation in taxation." This is quite exceptional; no one would have anticipated that the Income Tax under Schedule A would ever reach 6s. in the £. The case I put is not against taxing leaseholds, because I think every prudent man who buys a leasehold property, whether long or short, should provide a capital redemption fund, and I do not wish to distinguish for that purpose between a long or a short leasehold. I am only putting the hardship, and the great hardship, in the case of a man who has bought a short leasehold when the tax was, we will say, 1s. in the £. I put the case here, that man pays much more than he ought to.

20,478. I think I quite appreciate the position you are putting, and I understand the difficulty quite well; but there is this to be considered. If the Revenue is to receive a substantially smaller amount on all property let on lease, independently of its annual value, one can foresee all the property in the country being let on short leases?—But I am not suggesting they are.

That is not my case; and I want to differentiate; I am not suggesting that. I have quite a great respect for payment of taxation and a proper proportion of tax, if I may say so. I want to ask you if you can see your way clear to meet such a case as I have put, where a man does, because of special war taxation, find himself in a great difficulty, and his percentage, apart from taxation, reduced to pretty well half because of the difference between 1s. in the £ and 6s. in the £; but not as a general principle.

20,479. This is a temporary remedy. Is that so?—If you please.

20,480. Therefore you do not think it carries any corollary with it of anything to make up the loss to the Exchequer by going to the other party to the annual value, namely, the reversioner?—I do not think you can do that. You take it in reversion duty or you may take it in increment duty, and in other ways. I do not suggest you should break the covenants of the lease. What a hardship it would be upon the reversioner who has bought it. You would be lifting the hardship from the leaseholder man to the freehold man, which would be exceedingly unfair.

20,481. Then you would limit this to leases of certain duration?—Yes.

20,482. You would put a certain limit of time upon them?—Yes.

20,483. And they must have been entered upon prior to the big rise in taxation?—Yes.

20,484. And you would not extend it to leases that are now entered upon with a full knowledge of the heavy burden?—No. My complaint is of the hardship in those particular cases; I am only dealing with those particular cases.

20,485. I gathered from your paragraph 18 that you generalised that, and that it was not a particular remedy for a definite thing. You say: "It is contended that the present system is in the nature of specialised taxation against a particular class of investment which calls for immediate revision and relief in the interests of fair play for all investors alike. This condition of things applies to short leaseholds and all other descriptions of wasting securities." I

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did not know that you were going to limit it to leases which have a limited period and were taken up in the past before the present great rise in the rates of tax?—I may say I have been a little converted even since this paper was written. I have been very carefully considering this matter, and I have come to the conclusion that that is all that short leaseholders could fairly ask for. They must make their own provision in future as to allowance for taxes.

20,485. Apart from the special reason raised, you do not think that there is any special grievance in the ordinary building lease and the ordinary rate of tax that a man can foresee?—No.

20,487. He knows the term?—He knows the term and he can make provision for it if he is wise. We make arrangements for capital redemption and get our capital back at the end of the time; but that does not meet this particular point.

20,488. There is no such thing, therefore, as a differential tax upon this particular class of investment, because the investor knows what he is doing?—No, I think I should perhaps modify that. I am glad to have the opportunity of making that clear.

20,489. Mr. Holland-Martin: In paragraph 3 you quote from the Report of the Lord Hunter Committee, of which you were a member. It says at the end: "Some provision should, however, be made to ensure that this larger allowance should not be obtained in cases where proper repairs have not been done."—Yes.

20,490. I suppose by your quoting that report you are in favour of that suggestion, and I should like to know how you would propose to ensure that the proper repairs have been done?—First of all, the local authorities, under the direction of the Health Ministry, are being pressed, and will continue to be pressed—and very properly so—to see that these repairs are done. To my knowledge, in my district and in other districts, there is now a house to house inspection going on, and I am quite satisfied in my own mind that there are people who would not do the repairs if they could help it; but I am glad to say they will not escape the liability to do so in the future. I am glad to have been asked that question, because there was a good deal of discussion on this before the Lord Hunter Committee, and we had evidence there which did go to show that in some cases no repairs had been done for a very long time; and it was because of some of that evidence that this provision was put in. But I am quite sure that it is an unwise policy to leave repairs undone. Take painting, for instance; if you do not paint your place year after year, it has got to be done in the end. Now with a flat rate, and having regard to the precautions that are being taken and the position taken up by the Ministry of Health with regard to keeping places in repair, there may be a little dodging, but, generally speaking, it is not done; I think the repairs will have to be made.

20,491. What you really mean is that such allowance should be made if the Ministry of Health do not report adversely on that house?—But we have got another provision. We do not get certain allowances. Take our 10 per cent., which, by the by, we have not got yet. We do not get it until six months after some Order in Council has been issued saying that peace has been declared or that the war is over. We only get that allowance in the case of a house being fit for habitation. That is the action which was taken with regard to the 10 per cent. increase of rent. I do not suggest it is necessary, and I did not suggest it was necessary then, to do that, because my experience is it has got to be done. May I say I am speaking with considerable experience. I have over 2,000 houses in the south and south-west, and over 1,000 houses on the other side of the Thames, none of which are over £28 a year rateable value; they are flats and weekly property and so on; so that I am speaking quite by the book over that. I have advised all my owners and the people they act for that they will have to keep their property up, and they will have to be prepared for a large expenditure; I do not think there will be much in this.

20,492. Sir W. Fowler: In the case of a tenant for life, between the two systems of allowing actual repairs and the large percentage which you ask, may it not be that the tenant for life will get a large fixed allowance and neglect the repairs, which will then fall on the remainderman?—I think the reply to that is very much the same as my reply to the last question. I suppose it would be possible in larger property to neglect repairs, but I say it is quite impossible in smaller property to do so, and will be more impossible in the future to do so.

20,493. But you will admit that it illustrates the difficulty of a large percentage in those cases to which I have referred?—Oh, yes, that would be so. That is really one reason why I differentiated between the properties in the allowance.

20,494. Mr. Petyt: Do you not think that in principle, on the whole, it is better if the allowance can really be proportionate to the actual expenditure?—If it was possible at all to get a perfect scheme I should like it, but it is so difficult to get it.

20,495. It does approximate more nearly to Schedule D, does it not?—Yes, undoubtedly.

20,496. As long as you are under a different basis altogether from other people, does it not raise a feeling of unfairness on both sides? Does not the property owner feel that in many cases he is paying a good deal too much, and are not other taxpayers liable to take the view that he very often pays too little?—Yes, there is that difficulty, of course, I agree.

20,497. The sooner you can approximate to the position of other taxpayers who pay under Schedule D on their actual profits, with a deduction for actual expenditure, the better it is for the future, is it not?—Yes, I must agree with that, of course.

20,498. Are we not rather dealing here, if I may put it so, with dynamics rather than statics; we have to look ahead as well as for the moment?—Yes.

20,499. And we have to look at future tendencies?—Yes.

20,500. And we have got to try and devise schemes which will carry on in future, and which will not require another Income Tax Commission to sit, and more revision?—That is so.

20,501. If you could get people to accept an allowance on the lines of that which has been given to agriculture, it would be, you will admit, theoretically better; but the practical difficulty is where you quarrel with it, is it not?—Yes, it is so difficult. The principle, may I say, and I think this will answer your question, of taxing the man as nearly as possible upon the real income, is what we want to get at; the details and the way of doing it are so difficult.

20,502. Do you not think that as time goes on the pressure of this provision will make people keep more accounts? Is not the reason largely that when the tax was so low it really was not worth while? Now the tax is very high, and it has only been very high through two or three war years when everything has been quite abnormal; now when things have become normal and we can see that we are settling down to a period of very high taxation, will not people find it necessary in their own interests to keep such accounts?—Yes; I so will enable them to secure this allowance?—Yes; I have no doubt the neglect of the whole thing, if there has been any, has been due to the smallness of the amount; it is now a very much more important matter. I know, so far as the members of my association are concerned, they will be well instructed how to deal with this. They will be told to keep their accounts, and all that kind of thing, but even then great difficulty will arise in getting fair adjustments in this matter. In short, the people who know most will get most, and those who know the least will not get the allowance.

20,503. Will it not induce them to learn something?—Yes: there will be some of them more anxious about it in the future, I have no doubt; I quite agree with that.

20,504. You realize, do you not, that to obtain this allowance for actual expenditure it is not necessary to state in your schedule what you spend on each house?—I quite understand. In my case, with 120 houses, I should simply say: "I spent that on the estate," and I should take out the figures as they

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appear in my ledger. To those of us who keep books it is all right. Personally, I have no complaints about this; I think it is absolutely clear. You say to me: "prove to me what you spent, and I will make the allowance"; you could not have anything fairer than that. But it is not so in the case of the ordinary property owner, as I find him. And a great number of them are ladies. I may tell you that after a meeting 150 of these people come up wanting information how to do this and how to do the other, I am sorry to say some of them quite stupid questions which appear to us simple.

20,505. If you admit that by keeping proper accounts an absolutely fair assessment is obtainable which quite satisfies you—you do admit that?—I cannot get away from it; I do not want more than I have spent.

20,506. You are being fairly treated, because you deal intelligently with the law?—Yes.

20,507. But is it reasonable to ask that these people who do not take the trouble to deal intelligently with the law should receive an allowance so large that it quite protects them against any loss from their own neglect?—Well, I raise other objections to it; I mean to say there is the question of the five years' accounts, for instance, and changes in the ownership during that time. I take it, for instance, if I had bought a property last year I should not be able to bring in any accounts for four years.

20,508. Do you not think you could get some particulars, and if you went to Somerset House with a statement about that you would be reasonably met?—I have no reason to suppose not, but after all I do not think it would be any evidence for me to say that Mr. Jones, from whom I bought the property, told me he had spent so much. I do not think the Commissioners would be satisfied with evidence of that kind.

20,509. It would be a question of detail, but that is all really on the same point?—Yes.

20,510. It is the practical difficulty. Admitting at once that there is a practical difficulty, does it not seem a reasonable policy to put the allowance rather on the lower limit than on the higher limit of expenditure, and say that if you want more you have got proper means of getting it?—I will tell you what I do think would be a very reasonable thing, and that is to make the allowance perhaps not as much as I ask for, but some midway amount, with the alternative that if you get your proof you can get the further allowance; I should not object to that.

20,511. That is what you have got; you have got the alternative, have you not?—Up to now I think

we have got to be satisfied with our one-sixth allowance, have we not?

20,512. If you prove you have spent more you can get it?—But you have to get the actual figure and prove it; that is the position, is it not?

20,513. Yes, that is it?—My objection to that is what I have said, that the larger number of small property owners, people who own a few houses, are not able to deal with this matter satisfactorily; that is the difficulty. Could you not give them an alternative plan; that would help, I think.

20,514. Sir J. Harwood-Bosner: Did you consider this new section in the 1919 Finance Act a very big addition to the previous rights?—Yes. Let me say at once, please, that I welcomed it very much, certainly.

20,515. And as soon as you got that you asked for more?—No, I asked for what I did ask for first. If I may say so, my paper was drawn up before the announcement was made in the House as to this. I am glad you asked that question, because I am glad to make it clear.

20,516. I suppose you have no grievance whatever for the clause you represent as regards the assessment of manufactories or places used for business?—For Imperial taxation?

20,517. Yes, under Schedule A. You are quite satisfied that there is fair dealing for the premises which are used for business purposes?—I think so, yes. I have not given very much consideration to that.

20,518. I will not ask you anything more on that, as we are going to have a witness later on. You have nothing whatever to say about the assessment of ground values as a fairer method of dealing with this than the present method?—Oh, no; I think that is much too wide a subject to go into. I have no faith in it, and I have nothing to propose in that direction. I should say it is impossible.

20,519. Chairman: We are very much obliged to you?—I think it would be very useful if I were to get out some statement. Could you let me know what time might be reasonable?

20,520. I cannot tell you the final time, but if it would be convenient to you any time within three weeks or a month will do?—Thank you. I am anxious to have as long as I possibly can.

20,521. It will be very interesting to get your further figures, and if you can do so we shall be very much obliged to you if you will send them in to our Secretary?—Yes.

MR. JAMES STEEL, M.A., F.S.I., F.A.I., on behalf of the Property Owners' and Factors' Association (Glasgow), Limited, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

20,522. (1) I am a Fellow of the Surveyors' Institution, and a Fellow of the Auctioneers' and Estate Agents' Institute. I carry on business as a property agent and house factor in Glasgow, and have had a long and extensive business experience.

20,523. (2) I am here as President of the Property Owners' and Factors' Association (Glasgow), Ltd., an organisation with a membership of over 5,000, all of whom are owners or factors of real or heritable property in Glasgow and district. The Association exists for the protection of the interests of owners of such property. I put in a print of its Memorandum and Articles, and would refer to Article III. (c) as defining its functions in this respect. The members of the Association are about one-sixth in number of the owners of real property in Glasgow, and represent about £4,000,000 capital value. In addition to owners, nearly all the property agents in Glasgow and district are members. Property agents are, of course, responsible for the management of almost all the real prop-

erty in the city. The Association is also federated with the National Federation of Property Owners of Great Britain. I am a member of the Executive of the latter body.*

20,524. (3) I am also President of a body called the National Federation of Property Owners' and Factors' of Scotland, in which are united, by federal union, most of the Property Owners' and Factors' Associations in Scotland. I put in a print of the constitution of that body.

20,525. (4) By far the greatest mass of dwelling-house property in cities in Scotland consists of blocks of what is known as tenement property, and in this class of property the largest portion of the population is housed. According to technical definition in Scotland, a tenement is not a single house, but refers to blocks of buildings including numbers of separate dwelling-houses under one roof. There is a common entry passage from the street, and the building rises to

* The witness desires to add that his evidence is to be accepted on behalf of the Surveyors' Institution as far as urban property in Scotland is concerned.

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three or four storeys or flats, there being two or three, and in some cases four, separate dwellings let to individual tenants on each floor. Each of these separate dwelling houses has its own front door entering from a common passage. Such tenements or blocks of property are most frequently constructed so as to have a number of shops on the ground floor entering from the street. This has long formed a composite investment which has always been attractive to investors and mortgagees or bondholders. It has almost all been built by private enterprise, builders before the war freely obtaining loans of two-thirds value on a valuation by a surveyor, from trustees, banks, insurance companies, and private lenders.

20,529. (5) For about 10 years before the war property had been in a very depressed condition, owing to overbuilding, and naturally new building greatly fell off. During this period also there was a marked upward tendency in wages and price of materials as well as in the imposition of rates and taxes which, combined with the large amount of unlet property and considerable reduction in rents, largely increased the annual charges and diminished the income obtainable from this class of investment. The new taxes under the Finance (1909-10) Act, 1910, Part I., also adversely affected real property, and the uncertainty as to their incidence and amount tended to sap the market value of property and stopped new building almost entirely.

20,537. (6) I have dealt particularly with the case of tenement dwelling-house property, in view of the gigantic housing problem, which is at present costing the nation so much anxiety and expense, and which, unless private industry can be induced by amelioration of the present oppressive fiscal and other charges on property to resume its activities, will infallibly lead to the ruin of existing investors, and the compulsory devolution upon the State of the duty of housing the people. My remarks, however, concern the supply of commercial or business property as well, which is also inequitably treated in the same manner as other classes of real property occupied by dwellings.

20,528. (7) I desire now to refer to certain specific features in the existing levy of the Income or Property Tax, Schedule A, which, in the opinion of owners, seriously and prejudicially affect them, and are, as they consider, inequitable as throwing a larger relative burden upon the owners of real property than is borne by owners of other investments which are subject to the tax under Schedule D.

20,529. (8) I assume that, at least in theory, the Income Tax Schedule A, just as in the case of the similar tax levied under Schedule D, is intended to be a tax on real profits or gains. In this view I am supported by the opinions of the Judges in the House of Lords in the case of the London County Council and Attorney-General, Appeal cases H.L. 1901, where Lord Macnaghten expressed himself in his judgment as follows:—

"Income Tax is a tax on income.

"It is one tax, not a collection of taxes essentially distinct. In every case the tax is a tax on income, whatever may be the standard by which the income is measured. It is a tax on profits or gains in the case of duties chargeable under Schedule (A), and the expression 'profits or gains' is constantly applied without distinction to the subjects of charge under all the Schedules."

Lord Davesy also expressed himself in the same sense.

Mr. Hubbard, the Chairman of a Committee appointed in 1891 to "inquire into the present mode of assessing and collecting the Income and Property Tax and whether any mode of levying the same, so as to render the Tax more equitable" can be adopted," in a Memorandum presented to the Committee refers thus to the nomenclature of the tax. "The existing tax is called the 'Property and Income Tax.' Why it is so called is not apparent. It does truly, in many instances tax both property and the income arising from that property, but it is not probable that to declare the special vice of the tax was the intention of its

"double name. Obviously, however, the same tax should not be a Property and Income Tax, and while a tax on the transfer of property may rightly be a Property Tax, occurring as it would at intervals of many years, so an annual tax necessarily payable out of income should be an Income Tax."

20,530. (9) My submission is that the Income Tax Acts, while applying a standard for the calculation of profits or gains assessed under Schedule D which substantially corresponds with actual profits earned, do not by any means bring out a similar correspondence in regard to the levy upon heritable property. In Scotland the sum from which the calculation of assessable value springs is the gross annual rent or value of the property as determined by the Assessor for each district under the Lands Valuation (Scotland) Act, 1854, and as it appears on the Valuation Roll which is made up annually. In the case of ordinary urban property of houses and buildings, there was allowed under the Finance Act, 1894 (57 and 58 Vic., c. 30), a deduction of one-sixth of the gross annual value of the assessable rental. This allowance is supposed to represent outlay on maintenance, repairs, insurance, and management. A further deduction was made in Scotland in terms of the Taxes Act, 1856 (19 and 20 Vic., c. 80, sec. 1), in respect of local rates imposed on the owners so as to equalize the position of the Scottish owner with that of owners in other parts of the United Kingdom where no such rates are charged against the owner. This latter allowance varies with the burden of rates from year to year. Both these deductions are carried into the Income Tax Act, 1918. In view of the fact that "voids or empties" in a property are excluded in assessment to Property Tax, both of the above allowances are calculated only on the proportion of the gross annual value which represents actual occupancies, although owners' rates are charged on the annual value without any deduction for "voids," and the investment as a whole requires to be kept in good repair. To illustrate this by a concrete example there may be assumed a property consisting of various separate occupancies the annual gross annual value of which is ... £180 0 0 of which £30 is "voids or empties" ... 30 0 0

the basis is thus reduced to	£150 0 0
This sum of £150 is subject to the statutory deduction of one-sixth	£25 0 0
plus the allowance for owners' rates, say 15 per cent.	£22 10 0
	£47 10 0

bringing out the net assessable value of £102 10 0

20,531. (10) Such being the system under the Income Tax Acts, I have to submit that the result is to bring out as assessable value a sum which is in every case considerably in excess of the actual income derived from the property; and in regard to the case of small rented dwelling-house property, where the cost of repairs is high, the discrepancy is more pronounced. This results mainly from the fact that the allowance of one-sixth is not sufficient and does not nearly represent the average normal expenditure upon maintenance, repairs and management of property.

20,532. (11) Previous to 1914 the cost of upkeep of dwelling-houses of the smaller class in accordance with statistics submitted to Lord Hunter, Chairman of a Departmental Committee appointed in October, 1915, by the Secretary for Scotland to enquire into the circumstances connected with an alleged recent increase in the rental of small dwelling-houses in industrial districts in Scotland, exceeded 25 per cent. of the net rental. The present statutory allowance for such cost of one-sixth, or sixteen and two-thirds per cent. is, therefore, obviously insufficient at the present time.

20,533. (12) In assessing Income Tax under Schedule A, there is no doubt a provision under the Finance

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Act, and now embodied in the Income Tax Act, 1918, that in the case of dwelling-houses with a rental or annual value not exceeding £12, extended by the Finance Act of 1919 to £60, a return of Income Tax to a certain extent will be made by the Inland Revenue in respect of the costs of maintenance and repairs, when these exceed the one-sixth allowed. This was originated in 1909 by Mr. Lloyd George, who proposed in the case of real property that a special 5 per cent. allowance be made for cost of management in addition to the existing allowance of one-sixth and one-eighth for repairs. In the case of Schedule A it was provided that if the owner of any land including farm-houses and buildings or any house, the annual value of which does not exceed £5, showed that the cost of maintenance, repairs, management and insurance, on the average of the preceding five years, had exceeded in the case of land one-eighth part of the annual value and in the case of houses one-sixth part of the annual value, he shall be entitled to a repayment of the tax on the excess, not exceeding in the case of land one-eighth part and in the case of houses one-twelfth part of the tax on the annual value. This brought the maximum total allowance for repairs and maintenance up to 25 per cent. of the annual value of the property in both cases. For farm property there was the old allowance of one-eighth plus the new allowance of one-eighth, equals one-quarter or 25 per cent.; for houses correspondingly one-sixth plus one-twelfth equals one-quarter or 25 per cent. By the Finance Act of 1914 the rental limit was extended to houses of £12, increased by the Finance Act for the current year to £60, and reclaim could be on the excess expenditure without limit.

20,534. (13) This concession, however, is subject to so many conditions and is so complicated that it has been of little real benefit to owners, and when taken advantage of, involves much clerical labour and work by the factors and by the Inland Revenue officials, and in practice does not meet or only very partially meets the grievance. As an illustration showing the inadequacy of the present allowance, it was found by a member of the Association on making up claims (which have been now admitted and paid) under section 69 of the Finance Act (1909-10) 1910, as amended by section 8 of the Finance Act, 1914, for the owners of 103 ordinary Glasgow tenement properties which included some premises outwith the rent limit of £12, but with a proportion of houses within that limit, of a total assessable annual rental of £11,236 9s. that over a period of five years the average yearly cost of maintenance was 20½ per cent., that he could reclaim Property Tax on the excess expenditure only of £7,833 15s. (the rental within the limit), but that the average cost of maintenance per annum on the rents outwith the limit was £181 17s. 6d., on which the one-sixth allowance was only £267 2s. 4d., and there was thus paid on the difference of £3,841 15s. 1d. at 5s. in the £ as Property Tax, £293 3s. 9d. in excess of the actual income, which was irrecoverable. These tenements belonged to a number of different owners.

20,535. (14) The house rental limit obtaining at the date of the aforementioned claims was £12, but has been extended by the Finance Act of 1919 to £60. So far, therefore, as these claims certain houses within the increased limit, the owners will be able, in future, by means of the intricate and complex system adopted by the Inland Revenue, to reclaim the Income Tax upon the non-existent hypothetical income on which they have been assessed. It has further to be noted that this new arrangement is applicable to houses only, and in Scotland the many composite subjects, i.e., tenements of houses with shops on the ground flat, do not receive the same benefit as subjects composed solely of houses, with, of course, the added complexity of claim calculation in such cases.

20,536. (15) It has also to be observed that when the increases granted under sections 14 (a) and 19 (b) of the 1919 Act are fully operative, houses now assessed at from £52 5s. to £60 per annum will exceed the limit of £60 and will be excluded accordingly from the benefit of this recent concession. This could have been avoided, if, in Scotland, the rental limit of the

Finance Act of 1919 had been made to synchronise with the rental limit of the Rent Restriction Act of 1919, i.e., the concession would have applied to all houses the standard rent of which did not exceed £60.

20,537. (16) In 1894, when Sir William Harcourt provided for the deduction of one-sixth from the rack-rent value of buildings as an allowance to cover maintenance and repairs, it appears that this allowance was intended to cover also the eventual replacement of buildings, as he referred to Mr. Hubbard's recommendation of 1861, and from Mr. Hubbard's argument it appears that he adopted the figure of one-sixth as calculated to cover the "ultimate renewal of the fabric when decayed by age," as well as current repairs. The one-sixth is hopelessly inadequate even for upkeep, and if the allowance is to cover wear and tear so as to provide for replacement, even one-fourth of the gross rack-rent would be insufficient. It has been calculated that the houses in the United Kingdom are worth (irrespective of the land) about £2,300,000,000. Supposing these houses last on an average even so long as 100 years, there is, on the present basis of assessment, a loss of capital every year of £23,000,000, for which there is no deduction at all.

20,538. (17) With regard both to the allowance of one-sixth, even were it itself adequate (which it is far from being) and the allowance for owner's rates, I would further point out that these deductions are not allowed in respect of voids or empties, but merely from such part of the annual value as represents occupation. The technical reason, no doubt, is that voids or empties are excluded in assessment, but equitably regarded, that appears to me an absurd and fallacious argument. Taking the case of flatted property, whether of offices or dwelling-houses where many separate occupancies exist under one roof, and all form in combination one investment (a state of matters all but universal in Scotland), it is obvious that whether any separate part of the house or building be let or not, the owner has still to repair, maintain, and manage the same as an integral part of his investment, and in Scotland generally—and certainly in Glasgow—he is rated as owner for local assessments on the annual value of his premises, whether occupied or not.

20,539. (18) Applying these remarks to the above concrete case of a property, the result is that the owner, instead of receiving one-sixth (inadequate as it itself is) on £190—his full annual value—or £30, only receives a deduction of one-sixth on £150, or £25. Instead also of receiving 15 per cent. on £180, or £27, he receives only 15 per cent. on £150, or £22 10s. He is thus assessed on outlays for maintenance, repairs, and management, and for owner's rates on £9 10s., entailing a payment at the present rate of tax of £2 17s., which is paid on disbursements and not profits. The result is that wherever there are voids the owner is penalised, and not allowed any deduction for necessary outlays on his investment, which must be kept up whether tenanted or not, on which owners' rates must be paid whether tenanted or not, and which is built, valued, bought and sold as a single and indivisible investment.

20,540. (19) If each building were treated as a "unum quid" which is done so far as the portions are concerned, Scottish owners would get relief in respect of cost of repairs, &c., and rates levied on empty premises. The Surveyors get round this difficulty by not assessing empties, and stating that the correct method of assessment is to take separately each entry in the valuation roll, and on that basis, to grant any relief in the case of empty premises, would mean on the single transaction a deficit to the Revenue and that they have no power to incur such a debit charge. While the Assessors may be legally right the method adopted nullifies in the case of unoccupied premises the relief presumed to be given in terms of the provisions above referred to.

20,541. (20) It may also be pointed out that in deciding the rate of tax leviable under other Schedules, of which the most important is Schedule D, the whole income including that from property liable to assessment under Schedule A is considered, and it would, therefore, be only fair to consider

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also the whole outgoings required to earn the income. Under the present system the owner of real property suffers owing to the conventional standard of deduction being insufficient to cover the necessary outlays before net rent is arrived at. Moreover a taxpayer is frequently on this account drawn into a higher category of assessment under Schedule D than is justified by his actual profits.

20,542. (21) I respectfully suggest the following alternative proposals for remedying the aforesaid inequitable conditions under which Income Tax, Schedule A, is levied, viz.:-

1. that the owner be assessed upon the actual returns from his property, as owners of other classes of property are; or
2. that the statutory allowance of one-sixth be raised to one-fourth, and that that allowance and the allowance in respect of owners' rates be allowed as deductions from the gross annual value of the property in order to arrive at net assessable value, with power to reclaim in respect of all properties where the cost of management, repairs, and maintenance exceeds the suggested allowance of one-fourth.

It might be possible to give the owners the option of selecting either of the above modes of making his returns, but if, to ensure uniformity, one or other of the two were adopted by the Legislature, the owners' grievance would have been substantially removed and a more equitable levy assured.

20,543. (22) I cannot but express the opinion that unless some relief is given to owners of real property which is covered with buildings, and to a large extent dwelling-houses for the working class, there is no hope of private industry being tempted to resume its former activities and the result will be a more terrible house famine than exists at present. Investors have been hardly hit by the inequitable levy of the Income Tax and with some justice call for an immediate reform.

[This concludes the evidence-in-chief.]

20,544. *Chairman:* We have just had two witnesses who have dealt with a great many of the points which you have brought up in your paper; that will save you some examination, which I think probably will be a pleasure to you?—Yes, my lord, it will.

20,545. At the same time the Commissioners have your paper before them, and there are some questions which no doubt they would like to ask you.

20,546. *Dr. Stamp:* You refer in the opening part of your proof to a particular type of property that is commoner in Scotland than in England?—Yes, that is the composite tenement.

20,547. Yes. You speak of that as being an investment which has been attractive to investors and mortgagees or bondholders. Do I understand that the attractions are now vanishing?—They have practically vanished.

20,548. Do you anticipate that that will remain the case in the future?—It is impossible to answer definitely until we have some more accurate guidance as to the action of the Government in the housing problem generally.

20,549. You speak of the marked upward tendency of wages and material, and the increase of building costs generally. I suppose you anticipate a marked increase in rent when there is a free market?—Yes, we do.

20,550. Will not that to a very great extent offset the disabilities which you are now speaking of, and bring those properties back to the position of a good investment?—Not necessarily.

20,551. Can you have a remedy applied now in the present exceptional state of affairs—it may be altogether out of harmony with the facts in a few years?—You mean a remedy as far as Property Tax is concerned?

20,552. Yes?—Well, we think we can.

20,553. You see you come, on the crest of a particular difficulty, for a particular remedy for a state of affairs that by your own showing may pass away?

—That is quite correct, but this particular defect or disability has always been insistent even during good times in Scotland.

20,554. How could that be so? How could it have been a form of investment always attractive to investors and mortgagees, if it has suffered under peculiar difficulties?—It has become accentuated during the depression, but it has always been a difficulty that has been recognized. It certainly was not so acute during the period when this type of investment was attractive.

20,555. If it has been a disability in the past, when the rate of tax was low, there have been such counteracting advantages as still to leave it a very attractive form of investment?—Well, sufficiently good to be termed attractive.

20,556. Would you term it a disability if you could get the full market price of the disability returned to you in your investment?—One could hardly in that case.

20,557. I think what you are referring to is the great rise in taxation which has taken place since the investment was entered upon, and which was not foreseen?—That is correct. The difficulty has always existed, but it has been exceptionally accentuated during recent years.

20,558. Then you have no faith in the future rise in rents bringing the investment back to the normal state?—As I said, the data that we have for forecasting the future are so vague that it is impossible to state definitely, but it would have that tendency if we had an absolutely free hand.

20,559. Would you admit that as compared with England, Scotland has had a considerable advantage in the allowance for repairs?—I am not acquainted with the English system.

20,560. You know that the gross value in Scotland is upon the gross rent including the owner's share of the rates?—That is correct.

20,561. To get it into the identical position of an English property you would have to deduct the owner's share of rates to get at what we call the English rent?—Yes.

20,562. The English one-sixth is allowed on the English rent, and the Scottish one-sixth is allowed on the Scottish gross rental?—Yes.

20,563. Therefore the one-sixth for repairs in Scotland would exceed the one-sixth for repairs in England on the same house by one-sixth of the owner's rates?—Yes.

20,564. Therefore Scotland has an important advantage in that respect?—It is a distinct benefit.

20,565. *Chairman:* It is very nice to hear that Scotland enjoys that benefit.

20,566. *Mr. McIntock:* Is the valuation all over England the same as in Scotland?—Entirely different.

20,567. *Dr. Stamp:* My point is, assuming both houses are assessed on their rack rental value—the definitions of annual value are not greatly different. You may reassess more often than they do in England, but the house is assessed on its full annual value?—Quite. We have an annual valuation roll. The house is assessed every year according to the rent at which it is let. I understand in England you have or ought to have a quinquennial assessment roll. We have an annual roll absolutely up to date every year.

20,568. But all other things being equal, in Scotland the one-sixth is calculated also upon the owner's rates?—Yes.

20,569. You have that advantage?—We have that advantage. Of course it has its disadvantages, because we are rated upon that gross value, which includes the owner's rates; so that we are rated upon the owner's rates.

20,570. Fortunately this Commission is not enquiring into the rating system in Scotland?—I do not want the Commission to have the impression that Scotland has a tremendous benefit.

20,571. *Chairman:* I thought you would qualify that; but it is very interesting to hear that you have a very much better system in Scotland?—It is the general impression, because, as I say, we make every Whitsuntide a return to the local Surveyor or Assessor of the rents at which the various premises

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are let for the year starting from Whitsunday: we are always up to date.

20,573. *Dr. Stamp:* To what do you attribute the superiority of the Scotch system over the English system of valuation?—Well, that is rather a delicate question for a Scotsman to answer.

20,574. Shall I suggest to you the answer?—If you will get me out of the difficulty.

20,575. Shall I suggest to you that it is the association of the central representatives of the Government in the valuation with the local Assessors, instead of the value for rating being left entirely to local authorities?—Well, that probably is the explanation, but would not that rather reflect on the English want of system?

20,576. In Scotland you have a close association between the value for local purposes and the value for Imperial purposes represented by the position taken up by the Surveyor of Taxes?—Yes.

20,577. *Mr. McLintock:* In Glasgow the Assessor is not a Surveyor of Taxes?—That is so; any city or borough can appoint its own Assessor for making up this annual valuation roll, and in other cases the Surveyor of Taxes has the double persona; he is a Government official.

20,578. *Dr. Stamp:* We shall have statistics before us showing the areas in Scotland which enjoy this advantage and those which are deprived of it. I am suggesting to you, broadly speaking, that when we speak of the Scotch valuation we are speaking of the areas where the Surveyor of Taxes is the centre of both?—Yes.

20,579. And in that probably lies the advantage over the ordinary English system, where the valuations are purely local, and where the Surveyor has no standing for local purposes?—That is quite correct. That is probably the origin. Of course there is a further distinction, that where the Government official is also the local Assessor he must use his own roll for valuation purposes. Where there is a separate Assessor as in Glasgow, Edinburgh and Dundee, the Imperial taxes need not be charged on the local Assessor's roll.

20,580. The Imperial authorities will never commit themselves entirely to the local valuation unless they are themselves concerned in it?—Exactly so.

20,581. And therefore the Scotch system approximates more closely to that of the Metropolis, of London?—So I understand.

20,582. Coming back to your proof, in paragraph 16 you refer to the loss of capital in the wastage or the decay of property?—Yes.

20,583. And you suggest that if the property lasts for 100 years it is necessary to put aside 1 per cent. per annum for its exhaustion?—That is what is suggested. There is a slight mistake in the printing there.

20,584. Yes, I noticed that. It is meant for £2,300,000,000?—Yes.

20,585. All you are suggesting is that you have to put on one side 1 per cent. per annum to provide for expenses?—Yes, that is correct.

20,586. Have you worked that out as a sinking fund?—No. What we are really wanting to bring in there is that the one-sixth allowance when originally granted was intended to cover not only maintenance, insurance, management and repairs, but also depreciation; that was the original intention when the one-sixth was allowed.

20,587. You refer here to 1 per cent. of the capital value?—Yes.

20,588. Have you worked out what proportion that is of the annual value?—I think approximately, taking the typical Somerset case which was submitted to Lord Hunter's Departmental Committee last year, 15 per cent.

20,589. So that 15 per cent. of the rent has got to be set aside every year to provide for the eventual decay of the building?—Yes.

20,590. I suggest to you that that method would be doing violence to every accepted actuarial and commercial method of providing for such wastage?—It might be so; I do not know.

20,591. I suggest to you that one-eighth of 1 per cent. would be absolutely adequate as a sinking fund for 100 years?—I am afraid, being Scotch, I could hardly admit that until I have worked it out.

20,592. Would you be inclined to admit that 15 per cent. for 100 years is *prima facie* wrong when you consider that money put aside will double in anything from 15 years upwards?—It appears to be so.

20,593. *Mr. McLintock:* Is it 15 per cent. of the rent or 15 per cent. of the land and buildings?—15 per cent. of the annual rent.

20,594. *Dr. Stamp:* 1 per cent. of the capital value, the witness said, would be 15 per cent. of the rental. At any rate, whatever the actual figure may be, if you are presented with a figure that would amount in 100 years to the value of the building, that would content you?—Yes, I expect so.

20,595. So that we will waive the arithmetic and consider the principle?—Thank you.

20,596. Have you thought of what the principle would involve in other directions? If you make an allowance for properties lasting 100 years, what would you do for income from human effort lasting say 30 years?—I am afraid I do not follow.

20,597. You propose to provide for wastage lasting 100 years?—Yes.

20,598. House property is at any rate as stable as most kinds of embodiments of capital; is that so?—Yes, especially Scotch property, which is very much more substantially built.

20,599. You would represent it as the most stable type, more stable than the goodwill of a business?—Probably.

20,600. So if you paid for the goodwill of a business you would have to provide all the more for that wastage at the end of the time?—Probably.

20,601. What about a doctor who has had an expensive education, which may be regarded as his initial capital. He could only expect to earn from that capital for 30 years; would you provide for that wastage?—Probably he does in his charges.

20,602. If you are going to give it for a house lasting 100 years then you have got to give it for every kind of yield from an investment?—I should think so.

20,603. When everybody has got it, when everybody is standing on a box to see over everybody else's head, are they not all in the same position?—It depends on the height of the box.

20,604. If everybody got that allowance the revenue would be correspondingly reduced?—Yes.

20,605. And if you have to maintain the full yield the rates will have to go up for everybody?—Necessarily so.

20,606. I suggest to you that if you allow the most extreme case of a house lasting 100 years, you have to make allowance for everybody?—Yes. I understand you make allowances in other spheres for depreciation.

20,607. Yes, possibly under certain circumstances; but coming to this particular point, if you allow for the 100 years' wastage you have got to allow for everybody; there is wastage in almost everything?—Practically.

20,608. Then are we not all pretty much in the same position as before?—Not necessarily so; there would be different rates of wastage.

20,609. *Sir W. Trower:* I do not think you explained in reference to paragraph 17 how you deal with the owner of one house which is vacant?—There is a peculiar difficulty. We pay owner's rates upon all the Scotch difficulty. We pay owner's rates upon all the rental, whether it is let or unlet, but the Inland Revenue in making their deduction for owner's rates and for repairs takes it only from the let portion; that is to say if you had premises which were valued at £120, and there was £100 let, and £20 empty, you would get those deductions only upon the £100.

20,610. I am talking of the owner of one house only, which is vacant?—Well, we have got to pay our owner's rates in full, whether the house is let or unlet.

20,611. This is as regards the Income Tax on property?—There is no assessment made in that case.

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20,611. And you ask for an allowance?—Only in the case where there is more than one subject treated together, i.e., under one roof.

20,612. Only in the case where the taxpayer owns more than one house?—Yes, that is correct, such as a block of offices.

20,613. Yes, I quite understand your answer. The owner of one house which was vacant would be in a worse position than the owner of several houses some of which were vacant; the one would get an allowance and the other would not?—No, he would get no allowance for the empty premises.

20,614. Very well, I have got your answer. You speak in the last paragraph of your proof of the house famine that exists at present?—Yes.

20,615. Are there in fact voids or empties in workmen's dwellings in Scotland?—Practically none.

20,616. Mr. McLintock: You mean none at present?—None at the present time.

20,617. There have been many in the past?—Within 10 years we had slightly over 20,000 in Glasgow.

20,618. Of ulet tenement houses?—Ulet houses—small working class houses.

20,619. In your paragraph 8 you refer to the theory that Income Tax is intended to be a tax on real profits or gains?—Yes.

20,620. Do you suggest that the best method of assessing the revenue from property is to arrive at the actual amount year by year?—We do.

20,621. Have you considered the practical difficulties in the way of such an assessment?—No, but I have heard a good deal of them from various friends who are connected with the Inland Revenue.

20,622. You have a fairly wide experience. When you think of all the various types of property owners all over the Kingdom, do you think it is a practical suggestion to put forward to ask each of those individuals to make a return of the rent he receives and his repair expenditure and insurance and all other charges?—Yes, I do.

20,623. You do seriously put that forward?—Yes, I seriously put that forward. I cannot see that there is any more difficulty than in the very divergent types that come under Schedule D. It would certainly be very difficult to get into working order, but I do not think it is impossible.

20,624. Assuming that the allowance that has to be given takes into consideration first any increase in present rates and secondly the undoubted increase in the costs of upkeep, and assuming that a proportion can be found, do you not think generally that rough justice would be done all round?—Yes, provided you give us the concession in such cases of making application for excess maintenance charges. Suppose the allowance for repairs, &c., were increased to some sum which was approximately fair, we would desire in addition to that, where we have excessive upkeep, to have the power to reclaim as we have at present in the case of houses up to £60.

20,625. Then would you give the Revenue the power to ask for additional tax where the one-sixth had not been expended?—That would hardly be necessary if you gave us a fair allowance.

20,626. You want an allowance that is always going to keep you on the right side?—No, I do not say that.

20,627. But that is generally the point.

20,628. Chairman: You want it in that way.

20,629. Mr. McLintock: That is so, is it not?—We want a fair allowance with the power to reclaim where we spend more than the sum allowed.

20,630. Let me give you the case of a man who buys a new tenement property just when it is built. This is not uncommon in Glasgow, at any rate, or was not uncommon. He holds that property for five years, and during that five years he gets his allowance for repairs and he spends practically nothing; then he sells it?—Yes.

20,631. What have you to say to that?—I say that that is the inherent fault of an average. One man's continual benefit is not counterbalanced by another man's continual loss. You cannot get away from that if you give an average. Some people are bound to benefit unfairly, and others lose unfairly.

20,632. There is no average about this. Year by year he is drawing a revenue from the property, and he is getting an allowance for an expenditure he does not make?—Quite.

20,633. You would not give the Revenue any rights in a case like that?—That would be overcome by the first suggestion, of making each person pay on what he gets. There would be no risk whatever for the Revenue there.

20,634. Your view from the knowledge you have of properties in Scotland and elsewhere is that it is a practical proposition to-day to assess every property owner on the same basis as you would assess a trader, on the net revenue derived?—I think so. That I think has already been put in some of your previous evidence—the abolition of Schedule A.

20,635. You said in reply to Dr. Stamp with regard to tenement property in Scotland that it is still an attractive investment?—No, I intended to indicate that it might be an attractive investment again if we had a free hand.

20,636. I suggest to you that the only attraction about buying a tenement property in Glasgow now is because the man who is holding it is so sick that he practically throws it away?—That might be the case.

20,637. It is not that there is anything in it to-day to attract any investor?—No, that is perfectly correct at the present time, which of course is abnormal.

20,638. In other words the man who buys to-day is speculating on a substantial increase in rent coming along, and he buys very cheap?—That is generally correct.

20,639. But even at the prices to-day there are not many sales; the yield is very small, 3 or 4 per cent?—Yes, generally speaking that is correct.

20,640. As against the normal yield in pre-war times of 7 to 9 per cent, according to the age of the property?—7 to 9 per cent, with a mortgage, yes, that is correct.

20,641. Chairman: We thank you for your attendance here this morning. Thank you for your courtesy in hearing me.

MR. JAMES DUNDAS WHITE, LL.D., called and examined.

Evidence-in-chief of JAMES DUNDAS WHITE, LL.D., Barrister-at-Law; formerly a Member of the House of Commons and one of the Joint Select Committee of Both Houses on the Income Tax Consolidation Bill, which became the Income Tax Act, 1918.

Memorandum deals with Schedules A and B.

20,642. (1) This memorandum deals with Schedules A and B of the Income Tax. It calls attention to some serious defects in the taxation of landed property under these Schedules, and proposes that these Schedules should be removed from the Income Tax, and that there should be substituted for them a tax

on the capital value of land apart from improvements, at such a rate as would produce at least as much revenue as the revenue obtained from them at the time of the change.

Yield of Schedules A and B.

20,643. (2) As regards the amount of this revenue, the estimated yield in the United Kingdom for the present financial year (1919-20) under Schedule A is £40,000,000, and under Schedule B is £8,500,000, the two together amounting to £48,500,000 (see answer to a question asked by Mr. Ruffan in the House of Commons, 14th July, 1919; 118 H.C. Deb. 41).

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Quarries, mines, etc., are under Schedule D.

20,544. (3) It is to be observed that these figures do not include the revenue obtained in respect of quarries, mines, and the various properties mentioned in Rules 1, 2, and 3, respectively, of Schedule A, No. III., of the Income Tax Act, 1918. These properties, under Rule 8 of No. III., are assessed and charged according to the Rules of Schedule D; and the resulting revenue is treated for statistical purposes as revenue under Schedule D (see answer to a question asked by Mr. Ruffin in the House of Commons, 22nd July, 1919; 118 H.C. Deb. 407). Thus those properties, though mentioned in Schedule A, No. III., are for all practical purposes within Schedule D and outside Schedule A.

General character of Schedule A.

20,645. (4) Schedule A (frequently called the Landlord's Property Tax) is the Schedule which deals with income tax "in respect of the property in all lands, tenements, hereditaments, and heritages in the United Kingdom" (see the opening paragraph of the Schedule) on the basis of their annual values. The General Rule (No. 1) provides that (except for tithes and certain other cases dealt with in No. II, and for the cases in No. III. already mentioned)—

"the annual value shall be understood to be:—

(1) The amount of the rent by the year at which they are let, if they are let at rack-rent and the amount of that rent has been fixed by agreement commencing within the period of seven years preceding the fifth day of April next before the time of making the assessment; or

(2) If they are not let at a rack-rent so fixed, then the rack-rent at which they are worth to be let by the year."

Observations on Schedule A.

20,646. (5) With regard to these definitions, it may be observed—

(1) "Rack-rent is only a rent of the full value of the tenement, or near it." (Blackstone, Comm. ii., 43). In *Stevens v. Bishop*, 1888, 57 L.J.Q.B. 283, at p. 286, which related to an assessment under Schedule A, *Lopes, L.J.*, said "Rack-rent is the full annual value of the tenement on which the rent is charged, or as near it as possible." In an Irish case, *ex parte Connolly and Russell*, 1900, 1 Irish Reports, 1, at p. 6, *Holmes, L.J.*, said "A rack-rent in legal language means a rent that represents the full annual value of the holding." The special definitions of "rack-rent" in the Poor Law Amendment Act, 1834, s. 109, the Land Drainage Act, 1861, s. 39 (3), and several other Acts, are for the purposes of those respective Acts alone, and do not affect the interpretation of the word in the Income Tax Act.

(2) The rent contemplated is a rent which represents the full value of the holding on the assumption of the tenant paying all public local rates, taxes and assessments which are charged by law on the occupier; and if the lease or agreement arranges for the tenant to pay an inclusive rent and for the landlord to pay the rates, etc., a corresponding deduction is made from the rent for the purposes of ascertaining the annual value for the purposes of Schedule A (see Nos. IV. and V. (4) of that Schedule).

(3) The subject matter of valuation is the property as it stands; the land, the house and any other improvements being lumped together as a single subject, subject to certain deductions and allowances.

Schedule A operates as a tax on houses.

20,647. (6) Schedule A operates as a tax on houses, because the annual value on which it is charged is the annual value of the property as it stands, including both land and house. As soon as a new house is built, the valuation is increased correspondingly, and the charge under Schedule A is increased correspondingly also. The same thing happens when an existing house is enlarged or improved so as to increase its letting value, or when, for instance, the

letting value is increased by converting a large dwelling house into residential flats. Thus Schedule A is a direct tax on the building of houses and on the increase of accommodation. This tax on houses, always wrong in principle, is a particularly serious matter now that Income Tax stands at 6s. in the £; as it means that any new house which may be built will be taxed at about this rate on its annual value, and that any enlargements, etc., of existing houses will be penalised in the same way. The prospect of having to pay this penalty for building and improving houses is a deterrent to building operations everywhere. In the interests of better housing, houses ought to be exempted from taxation.

Schedule A discourages agricultural improvements.

20,648. (7) Besides taxing dwelling-houses, Schedule A also taxes in the same way farm buildings (including stables, byres, haystacks, etc.) and glass-houses, and thus imposes a penalty on the development both of agriculture, of stock raising, and of intensive cultivation. In these cases also the tax ought to be removed, and those who make these improvements ought not to be penalised for so doing.

Note as to deductions and allowances.

20,649. (8) The deductions and allowances in respect of certain buildings and the maintenance, repair, etc., of them—see particularly No. V, Rules 7 and 8, and No. VI—are quite inadequate to meet these grave evils, and they do little more than indicate the direction in which we should proceed to encourage the building of dwelling houses, farmsteads, and the like, namely, to exempt these improvements from taxation. Several attempts have been made to extend the present exemptions. Thus, for instance, when the Finance Bill, 1917, was in Committee, the present writer moved an amendment to s. 69 of the Finance (1909-10) Act, 1910—see now No. V, Rule 8, of the 1918 Act—proposing to extend the scope of that exemption by applying it to all agricultural and horticultural structures in respect not only of maintenance and replacement, but also of improvement, extension and new buildings; but the Secretary to the Treasury (Mr. Stanley Baldwin) said that, however desirable any advance in this direction might be, "it is a subject that must wait for settlement when we take into consideration the whole of the Income Tax question, as we propose to do at the end of the War." (5th July, 1917; 95 H.C. Deb. 1365.)

Schedule A does not tax land satisfactorily.

20,650. (9) While Schedule A taxes houses which ought not to be taxed, it fails to tax a considerable amount of land at its true value, and lets values escape that ought to be subjects of taxation. This result follows from the policy of taxing on the basis of actual yield instead of on market value. It may be illustrated by some familiar instances.

Accommodation land around towns.

20,651. (10) Land which is wanted for housing around our towns, though its selling value is high, is taxed on the basis of the rent obtained or obtainable for it if let in its present condition for a year, which is often much less than any reasonable percentage on its selling value or reserve price, and in some cases is a merely nominal amount. This practice enables the owners of such land to hold it back from its proper use and to part with only small quantities at prices or rents based on an artificial scarcity of land. This artificial scarcity, moreover, leads to congestion and overcrowding in the town, and the excessive prices of the building sites are an obstacle to better housing. Meanwhile, the increase of the population and their expenditure on tramways and other municipal improvements is increasing the price obtainable for the land, though its actual yield for the time being is not increased thereby; and the fact that the owners of it are taxed only upon the latter enables them to escape their fair share of taxation, and to hold up the land in the hope that they will be more than compensated for any present loss by higher prices later on.

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Rule of minimum valuation.

20,652. (11) The remedy is simple. We ought to adopt what may be called the rule of minimum valuation, by providing that no property shall be assessed at less than, say, 5 per cent. of the selling value of the land, irrespective of any buildings upon it. The pressure of having to pay tax on 5 per cent. of the selling value of this land, whether it were being used or not, would make the owners of it contribute their proper share of taxation, and would make it unprofitable to withhold land from use in the expectation of a rise in value—the more so because any rise in value would lead to a rise in the valuation and an increase in the amount of the tax. By the adoption of the rule of minimum valuation a considerable amount of land which is now withheld from use would be made available on fair terms for housing or other purposes.

Precedents for this rule.

20,653. (12) It may be observed here that the application of this Rule to rating valuations (which are closely akin to valuations under Schedule A), along these lines are recommended for three reasons by the Majority Report of the Royal Commission on the Housing of the Working Classes in 1885 (Bluebook C. 4402, at p. 42), and that a similar rule has been applied in Australia and New Zealand, in so far as valuations are not yet on the basis of capital land-value and are still on the basis of annual value of land and improvements together. In New Zealand, for instance, there is a proviso that the annual value of a property "shall in no case be less than 5 per centum of the value of the fee simple thereof" (Rating Act, 1908, No. 163, s. 2), and in New South Wales there is a proviso that it "shall not be less than 5 per centum of the unimproved capital value of the land, whether improved or unimproved" (Local Government Act, 1906, No. 56, s. 134). But this reform, useful as it would be, does not go far enough. We ought to adopt the more comprehensive policy of land taxation, which has been adopted increasingly both in Australia and New Zealand, of taxing all landed property on the unimproved value of the land, and of untaxing houses and other improvements.

Land with obsolete and inadequate buildings.

20,654. (13) Where land is occupied by buildings that are too obsolete and inadequate for its proper development, the valuing of the property as a whole on the basis of its value, if let by the year, leads to the property being undervalued so far as the land is concerned, and in some cases to the whole property being valued at less than 5 per cent. of the selling value of the bare land; so that in this respect also, values escape taxation that ought to be taken into account. In these cases also, the rule of minimum valuation would have beneficial effects; while further benefit would result if, besides taxing the land on the basis of its selling value, the building of houses adequate to the sites were facilitated by the untaxing of improvements.

Land with unoccupied houses.

20,655. (14) Owing to the land and the house being lumped together as a single subject, the exemption of unoccupied houses from taxation under Schedule A (No. VII, Rule 4), also operates as an exemption of the land on which the house is built and of any other land included in the same valuation. Whatever may be said in favour of the exemption of the house—whether unoccupied or occupied—from taxation, the land should be valued and taxed on the basis of its market value.

Case of slum properties.

20,656. (15) The adoption of these proposals would have an important effect on the treatment of slum property. At present, if houses are condemned and the occupiers cleared out, the landlord is relieved from taxation and can hold up the land for a high price. If he had to pay tax on 5 per cent. of the selling value of the land, he would soon be induced either to pull down the houses and build new ones, or to dispose of the land on reasonable terms for that purpose. Moreover, the untaxing of houses would encourage re-building.

Schedule B discourages agricultural improvements.

20,657. (16) Schedule B, which may be described as a tax on the occupier of agricultural land in respect of its occupation value, is based in each case on the Schedule A valuation, subject to certain modifications. It tends, like the other, to discourage the development of land and to favour negligence. This effect can be seen if we take the case of two properties of which the unimproved value of the land is the same, but one is furnished with farm buildings and is well farmed, while the other is comparatively neglected; the former is valued and taxed on a higher valuation than the latter; and this disadvantage to the former is increased by the recent provision that makes the assessable value under Schedule B an amount equal to twice the annual value (see now Schedule B, para. 3), and thus doubles the difference between them. It is true that the assessments under Schedule B have been unduly low compared with other assessments, that the farmer's alternative of coming under Schedule D removes any personal grievance, and that improvements are by no means the only factors in the valuations; but a system of taxation which operates to discourage good farming and to favour bad farming cannot be regarded as satisfactory.

Joint effects of Schedules A and B.

20,658. (17) Mention has already been made of the way in which the taxation of farm-buildings under Schedule A discourages the erection of them, and it will be seen that the taxation of them under Schedule B aggravates this evil. Take the ordinary case of agricultural land let on short lease, with buildings provided by, and the property of the landlord. If he puts up new buildings, the result is to increase the annual value and to cause him to be taxed directly at about 6s. in the £ on that increase. But he is also taxed indirectly under Schedule B, because the occupier is taxed at about the same rate on about twice the annual value, and the additional tax which the occupier has to pay in respect of the resulting increase of the annual value tends to reduce the extra return that the landlord might otherwise get for the extra improvements. Thus the landlord who makes improvements is subjected to a double penalty for so doing, while the landlord who does not make improvements is favoured by comparison; and under both these Schedules the making of agricultural improvements is discouraged. The interests of agriculture, like those of housing, require that buildings and other improvements should be untaxed, and that the taxation of landed property should be based on the selling value of the land alone.

[The remaining paragraphs of the evidence-in-chief have been omitted in accordance with the Chairman's ruling; see Q. 20,689.]

20,659. *Chairman:* We have your evidence-in-chief; there will probably be points which will arise in the examination on your paper that we may have to decide cannot be heard, but that will come out in the examination. I only wanted to warn you of that; you quite understand the reasons, do you not?—Quite.

20,660. *Dr. Stamp:* Taking paragraph 10 of your proof first, you are making a suggestion there for a modification of the present method of assessing certain classes of lands—classes of lands whose immediate yield is very considerably below their potential yield, because they are not in a state of development, or are being withheld?—Yes.

20,661. The suggestion is that for the immediate yield you should substitute a percentage of their capital value—a kind of conventional income for the purposes of Income Tax. That is what you suggest?—A certain percentage of the capital value.

20,662. That should be deemed to be the man's income, instead of the actual receipts from that property; that is your suggestion?—I would not have put it that it should be deemed to be his income, but that the standard on which he should be taxed on it for Income Tax purposes should be 5 per cent. of its selling value.

20,663. When he makes a statement of his total income from all sources, for the purpose of graduation or for other purposes, he has to put in a certain

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[Continued.]

figure for a particular piece of land; does he put in the actual yield from it, or the value upon which he has paid Schedule A under this conventional system that you would substitute?—I think, in order to answer that question, I should perhaps turn to another paragraph, in which I have suggested that for Schedules A and B there should be substituted this tax which I have called a land-value tax.

20,664. So in paragraph 10 you are not merely suggesting that we shall alter the basis of one of the Schedules so as to compute income in a different way; you are really taking it right out of the Income Tax, and putting another kind of tax. Is that the answer?

—Yes. As regards paragraph 10, that is one of the paragraphs in which I show that the present system of taxation does not adequately tax certain land; the land dealt with in paragraph 10 is the accommodation land round our towns.

20,665. Then your point is this: not that we should find another way of getting that man's income from this land, but that a method of Income Tax by itself is not adequate to test the whole taxpaying ability of that man?—I am not on the taxpaying ability of the man; I am rather upon the principle that the man should pay the nation a rent, or something in the nature of a rent, in proportion to the value of the land that he holds.

20,666. And you do not reach that by an Income Tax?—No, for the reasons stated.

20,667. In paragraph 6, where you refer to Schedule A operating as a tax on houses, will you tell me whether you have this in mind. Perhaps I can put it best by an illustration. We will suppose that I own a house, and I have, say, £500, and I am thinking about how to invest it. I can put it either in War Loan, in which case I shall receive 5 per cent. less tax, in the £ tax, or I can improve that house by building another wing to it, and so increase the rent. Your suggestion is that if I take the latter course, that investment of my £500 should not be subject to Income Tax?—My suggestion is that the basis of the taxation of landed property should be altered so that as far as it is financially possible, not only a new building, but, by parity of reasoning, existing buildings, should be relieved from taxation.

20,668. Take my particular case. I have the alternative of putting it into an ordinary investment or of increasing the rent of the house by improving it. That will not be subject to Income Tax, whatever other tax it may be subject to in your scheme. That is so, is it not?—Yes.

20,669. Therefore you really want to take out a certain part of the present form of investment return, or return on fixed capital, out of the scope of the Income Tax altogether, and deal with it in some other way?—Yes; as far as possible to take houses and other improvements out of the Income Tax, not merely with a view to relieving the existing houses, but primarily with a view to encouraging the building of houses by letting people who build houses know that they will not be penalized on them.

20,670. By exempting my interest on that £500 put into bricks and mortar, you will be encouraging that particular form of investment?—Yes, encouraging building.

20,671. Therefore you are suggesting that the Income Tax system should be modified in such a way as to favor differentially a particular type of investment. That is what it comes to. You want to encourage me to put my money into a form that will not come under Income Tax?—I want to encourage the application of capital to building.

20,672. And you would do so by a differentiation in Income Tax, by exempting that particular class of investment from Income Tax?—Yes, as far as possible. On that point, I may perhaps be allowed to point out, that houses and buildings are not only taxed, but rated also, and that the net result, even if my scheme were carried out, would be that the penalizing of houses by rating would probably still be heavier than the penalizing of investment of capital in any other form by taxation.

20,673. The differential treatment of investment of that character by way of rates, is, of course, rather beyond our scope?—Quite so.

20,674. I understand exactly what you mean. You say that this is an urgent problem, and it is to be dealt with by way of differentiation with regard to Income Tax. We understand now your evidence really amounts to that. Now, coming to that part of the paragraph which deals with the site, there would be no such exemption from taxation of the site, except that you would take it out of Income Tax, and put some other kind of tax on it?—I am afraid I do not quite follow your question. Which paragraph are you referring to?

20,675. Paragraph 6, and the other paragraphs dependent thereon. I have just been dealing with an investment in which there was no question of dealing with a site, but I put it in bricks and mortar; and I have your answer, and I clearly understand what you mean. Now I buy a piece of land with my £500, and it may or may not have an adequate market return of interest at the moment. Your point is that all that also comes out of the Income Tax, and is dealt with by another arrangement. If I buy that site, I do not have to pay under Schedule A on it, under your scheme, but I pay something else?—According to what I am proposing you would be taxed.

20,676. Chairman: Can you answer Dr. Stamp's question?—I am afraid I cannot answer it yes or no; it is not a question which, from my point of view, admits of an answer yes or no.

20,677. Dr. Stamp: Assuming that I invest my £500 in a site, and I get some rent for it, if you like; the question is, does that come under Schedule A or not, under your scheme. You would abolish Schedule A. I take it?—I am substituting something else for Schedule A.

20,678. Do I have to put anything on my total income return in respect of that 5 per cent. on the capital value, or anything like that?—When you say for the purpose of total income return—we are dealing with it theoretically, of course—you are speaking of the total return for Super-tax?

20,679. For any purpose for which we require a total income statement. Supposing, quite simply, that I have a house which gives me a rent of £100, but that 5 per cent. on the capital value, or whatever it may be that you have adopted, is £30. I pay your substituted tax in respect of £30. Now, when I am filling up my total income return, what do I put into it? Do I put £100, or £30, or nothing?—I have dealt with that question, I think, in paragraph 22—"Aggregation for Super-tax."

20,680. Would you make that aggregation for the purpose of an abatement claim?—Quite so. What I have said in regard to aggregation for Super-tax would also apply to the ordinary Income Tax return, to determine the rate at which one should be taxed.

20,681. So that when I fill up my total income return, I should put in something that had not borne tax, in the £, namely, the difference between £30 and £100?—I suggest that in that case—I am speaking, as I understand to be the question, of a site that has been bought.

20,682. I have given you the simpler case now; a house that is yielding the man £100 a year, but the value of the site, at 5 per cent. on the capital value, is £30. What do I put into my total income statement?—For what I may call substituted Schedule A.

20,683. I take it that you have removed Schedule A, and I pay something else on the basis of £30. Now what do I put as my total income, for an abatement claim?—You mean your income from that particular property?

20,684. In respect of that property?—Your income from that particular property, I would put as 5 per cent. of the land value.

20,685. So that although I am actually receiving, in the ordinary conception of income, £100, I put in some other figure—the figure upon which I have paid this substituted tax?—Yes; that other figure may be more or less.

20,686. Then that substituted tax does not actually have any relation to my income; it does not go up or down with it?—No, not necessarily.

20,687. And the substitute has no definite connection with the total rent that I receive?—No; that follows from the fact that the basis of taxation is the market value of the land alone.

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[Continued.]

20,688. *Dr. Stamp*: I feel some difficulty, Mr. Chairman, on this point, for this reason: That while one can freely discuss, we will say, a conventional way of arriving at a particular kind of income, or one can discuss a modification of the Income Tax, here we seem to have got on to the discussion of something that is not Income Tax, that has no relation to income, and does not go into the Income Tax form, and cannot be connected with Income Tax in any way. Supposing that the witness were to suggest that we should not tax a particular type of income at all, but that we should have a tariff on imports, or we should not tax farms at all, but that we should have a tariff on imported corn: I am in that sort of difficulty; I do not know where we are under our terms of reference.

20,689. *Chairman*: There were certain matters in your paper originally that I thought should not be admitted; it would only mean that we should have interminable discussions in our Commission, on all those issues, some of which you raise in your paper. I gave way in admitting a number of things, but *Dr. Stamp* asked you a question just now which is the real crux of the position. On that question which he has put to you, and which you could not answer except by saying that the duty was a totally fresh tax, I am sorry that I shall have to rule you out on those points. That is the ruling that I must make, and you quite understand why I do it. It is not out of any discourtesy or any unkindness to you, but it is only that I must so rule, and all that follows on that point will be eliminated?—Do I understand that you rule the whole of my evidence out?

20,690. *No*, I do not. I think that up to paragraph 18 we could deal with it with pleasure.

20,691. *Dr. Stamp*: So far as I am concerned, Mr. Chairman, I have elicited all that I think I want to in these two things: that in paragraph 10 there is a kind of substitute for the existing Income Tax on certain classes of land, which might be called a conventional kind of income, namely, a percentage on capital; and that certain very large modifications of the Income Tax system are asked for—the taking out of everything that is brought under Schedules A and B because something else is to be substituted for it; and that substitute it does not seem that we are competent to discuss. But the principle behind the evidence seems to be that the Income Tax, as it is generally understood, does not reach all those elements of tax-paying ability that the witness desires. That seems to me to be as far as we can get.

20,692. *Chairman*: That is so. Are there any more questions?

20,693. *Mr. Petyman*: I do not think I have anything to ask, because up to paragraph 18 it is really preparatory. The only ground on which I understand the witness criticises and proposes to abolish Schedules A and B is in order to substitute something else for them. It seems to me to be only wasting his time if I were to cross-examine him on why he wants to do away with Schedules A and B,

because it is quite obvious he thinks another form of taxation would be preferable, which it would be outside our reference to discuss; therefore I really do not think it is worth while examining him on it.

20,694. *Sir E. Nott-Bower*: I do not know whether you will admit this, but I gather that the object of bringing this paper before the Commission is not so much to improve the Income Tax as to substitute for a part of it something that you think would be better still?—One might put it in either of two ways. The way that I would be inclined to put it is that so far as the Income Tax on landed property is concerned, for Schedules A and B, based on actual income, there should be substituted a new tax based on the land-value of the property. But I am prepared to accept the phrase "conventional income" if it is taken to mean a certain percentage of the selling value of the land, apart from the improvements.

20,695. *Chairman*: Yes, we quite understand that.

20,696. *Sir E. Nott-Bower*: Of course, the Income Tax, you will agree at present at any rate, is a general tax on annual profits, and all the evidence that we have had, which we have to consider very carefully, is what changes in the structure of the tax are desirable in order to make the tax approximate more closely to a tax on annual profits. You do not want to make the Income Tax approximate more closely to a tax on annual profits, do you? You want to exempt a large body of annual profits from the tax and substitute something else?—Yes. My proposition would be that so far as landed property is concerned the conventional income from the land alone is a truer standard of taxation than the actual income from the property alone.

20,697. *Chairman*: Yes; that is the answer. I am very much obliged to you for coming. I am sorry the ruling has been against you, but I am convinced in my judgment that is the proper ruling.—For my guidance may I be allowed to ask—the evidence is excluded after paragraph 18, is it?

20,698. *Paragraph 18 and the following paragraphs.*

20,699. *Mr. Petyman*: It is after paragraph 17.

20,700. *Chairman*: If you like to have the reason I will give it to you as it is written down: "The substitution of a tax other than an Income Tax as generally conceived is outside the terms of our reference"; that is the reason for which I have had unfortunately to reject your evidence.—There was one other point, if I am not trespassing on the time of the Commission.

20,701. With pleasure; you may say anything you want to say to the Commission.—It was only with reference to the proposal for the rule of minimum valuation in paragraph 11 with the precedents for it in paragraph 12.

20,702. I think your reference will be quite satisfactory there. Is there anything else that you want to say, because I want to be perfectly fair to you?—No. I have tried to cover the ground as far as possible in the evidence.

MR. ERNEST J. CHURCHMAN, J.P., on behalf of the Manchester, Salford and Counties Property Owners' Association, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Statement of evidence to be given by Mr. ERNEST J. CHURCHMAN, J.P., chairman of the Manchester, Salford and Counties Property Owners' Association, member of the executive committee of the National Federation of Property Owners, member of the Manchester Board of Overseers.

It is submitted:—

20,703. (1) That the present method of assessing income under Schedule A is unjust and prejudicially affects owners of property upon whom that tax is imposed as compared to those who pay Income Tax under the other Schedules.

20,704. (2) That owners of property now pay Income Tax on an amount considerably in excess of the actual income received from the property. This arises mainly from the fact that the present statutory allowance of one-sixth is not now sufficient to meet the cost for repairs, insurance, and management.

20,705. (3) No better evidence can be adduced in proof of the inadequacy of the allowance of one-sixth than the Report of the Committee on the Increase of Rent and Mortgage Interest (War Restrictions) Acts appointed by the Minister of Reconstruction and presided over by Lord Hunter. Page 4, paragraph 5, of the Report reads:—

"Since the passing of the Act in 1915 the cost of repairs has rapidly increased. The cost of management generally, including insurance, has also in-

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[Continued.]

crossed. Under the Act no increase in rent can be made to cover these extra outgoings. It is true that in many cases repairs have not been done (often because the materials and labour were not obtainable), but it is a truism that postponed repairs eventually cost more."

Again page 11, paragraph 49, reads:—

"One very general cause of complaint of the owners was the inadequacy of the present allowance for repairs and management under Schedule A of the Income Tax Acts. The present allowance is one-sixth of the gross value. The general effect of the evidence was that even before the war repairs to the cheaper class of property absorbed up to 25 per cent. of the rental, and the amount now will be much greater. This was not so important when the income tax was 1s. 2d. in the £, but at the present rate it is serious. It is true that repayment of tax can be claimed in respect of dwellings of a rental not exceeding £12 where expenditure in excess of the allowance is proved to have been made, but the preparation of the necessary claim is a difficult and expensive matter. We think that a more generous allowance should be made than at present. It would probably involve a very great deal of labour to assess houses separately on the actual profits, even if the necessary figures could be obtained, and it seems to us that the matter might be met by allowing a greater deduction in respect of the cheaper houses. The figure suggested to us as fair is one-fourth or one-fifth. We recommend therefore that as the present deduction in respect of the cost of repairs and management for the purposes of Income Tax under Schedule A appears to us to be inadequate, at any rate, in the case of small house property, a larger deduction should be allowed to owners of houses falling within the Acts. Some provision should, however, be made to ensure that this larger allowance should not be obtained in cases where proper repairs have not been done."

20,706. (4) The suggested figure of one-fourth or one-fifth is obviously insufficient. The increased cost of labour and material over pre-war cost is about 150 per cent. Wise property owners have increased their insured amounts for risks by 100 per cent. Consequently, even if an allowance of one-sixth was sufficient before the war, and by many it is contended that it was not, an allowance of at least one-third is now required to give a fair amount assessable for Income Tax.

20,707. (5) The provision in the Finance Act, 1919, which confers further relief in respect of the cost of maintenance, repairs, insurance and management, in the case of houses, the annual value of which does not exceed seventy pounds (£70) in the Metropolitan Police District including the City of London, sixty pounds (£60) in Scotland, and fifty-two pounds (£52) elsewhere, involves considerable clerical work and trouble both on the part of the property owner and the Inland Revenue official. It is, therefore, suggested that a fixed rate of deduction on a fair basis is desirable.

20,708. (6) An adjustment should be made in the method of arriving at the allowance for "voids and empties." The present practice is to allow the net amount assessable on each house, whereas the expenses of maintenance, repairs, insurance and management still go on, although the house is empty. Therefore the allowance made for each house, empty, should in fairness be the gross annual value.

20,709. (7) The present allowance of one-sixth does not, nor would the suggested allowance of one-third, allow anything for agents' commission where an agent is employed. The property owner employing an agent is therefore over-assessed as compared to investors in all other securities. In all businesses the salaries, commissions and expenses paid to managers, agents, or travellers are allowed.

20,710. (8) An investor in war bonds, corporation stock or an industrial concern receives his interest or dividend half-yearly without any effort on his part. All salaries and expenses incurred in producing that dividend are allowed in arriving at the

assessment for Income Tax. Why should investors in property be differently treated?

20,711. (9) Income Tax is intended to be a tax on real profit or gain. It is, however, abundantly clear that owners of property are taxed on an amount higher than that gained; hence they suffer an injustice which is helping to destroy what little confidence still remains in property as an investment.

20,712. (10) It is felt that if the statutory deduction of one-sixth be increased to one-third, plus an allowance for commission where an agent is employed, it would remove the injustice complained of, and tend to restore confidence in house property as an investment when post-war normal conditions obtain.

[This concludes the evidence-in-chief.]

20,713. CHAIRMAN. You are representing the Manchester, Salford and Counties Property Owners' Association?—Yes.

20,714. You know that many other property owners have been before us?—Yes.

20,715. A considerable number?—I was only aware of London and Glasgow.

20,716. Well, that is a considerable number?—The conditions obtaining in London and Glasgow are totally different from those obtaining in Manchester.

20,717. CHAIRMAN. You will now be asked questions; but a number of the points which you raise in your paper have been very closely examined into during the examination of the previous witnesses. However, there will be some points in your paper that the Commissioners will like to question you upon.

20,718. Mr. PRETYMAN. You said just now to the Chairman that conditions in Manchester differed very materially from those in London and Glasgow. Could you specify how that is so, because I do not see anything in the paper that bears on that?—As compared with London, in Manchester houses are ridiculously low-rented, and it is the custom for the owners there to do all the repairs, not only to the structure itself, but to do all inside repairs, even the cleaning—that is beautifying; therefore our expenses in repairs in Manchester are, generally speaking, much heavier than they are in London or in Glasgow. In Glasgow there is the difference, too, that there is a lot of property which is let on lease where they have a tenant's repairing clause, but that is not generally adopted in Manchester.

20,719. So that you get lower rents and spend more on the houses?—It almost amounts to that, but then the class of property is totally different. We have in Manchester thousands of self-contained houses as low as 5s. a week; that does not obtain in London or in Glasgow.

20,720. And that involves more repairs, of course, in proportion to the rent?—Yes, that is so.

20,721. But Manchester people are pretty hard-headed, are they not? They have a reputation of being so. How is it that they put their money into such a bad investment?—In Manchester more than in London and in Glasgow you have the small property owner—the man who has acquired a small block of property through the Co-operative Society or the building society—and the bulk of the property outside the city is owned by that class of owner, and not by large owners.

20,722. The very small investor who perhaps buys the house he lives in and one other?—Generally a row of about six. They generally start with one or two from a Co-operative Society or a building society, and as they work their lease off then they get one or two more.

20,723. In the case of the man who occupies his own house the grievance does not exist?—The grievance that the allowance is not sufficient?

20,724. Yes—I should say it obtained there.

20,725. Is he not allowed his deduction from any other source of income that he has, as part of his trading expenditure?—No. In arriving at the total income the assessable value is stated, which, of course,

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is the gross assessable value less the one-sixth deduction. He does not get the cost of repairs in any other way.

20,726. If it was a shop he would get it in his Schedule D?—No.

20,727. Yes, I think so. I think if the man is the owner and occupier of a small business premises and is paying tax under Schedule D any expenditure on the maintenance and repair of the premises can be a deduction; Schedules A and D are merged?—He could do so, but the small shopkeeper would never think of such a thing, and he would certainly not be assisted in thinking of it. It is customary for the net assessment to be taken as income, and that is the way he is advised to make his return by the Surveyor.

20,728. Are you the secretary of this association?—No, I am the chairman of the association.

20,729. Is not one of the objects of your association to inform property owners of their rights under the law?—If they came to us we should certainly do so, but the majority of them unfortunately are not members of our association.

20,730. If the members of your association got the advantage of this knowledge the others would join it perhaps?—The association, I am glad to say, is making very great headway with the advantages which are now becoming known to the members.

20,731. It is not much use coming to us to suggest altering the law in these cases where the law already gives an allowance which the taxpayer does not choose to avail himself of?—One must admit that the shop owner is a very small proportion of property owners generally, and the grievance is on the part of property owners generally. I must admit, if I am to voice my own opinion in this matter, that there is not so great a hardship in the case of the man in business who owns his own premises compared to the man who owns property as an investment. It is a different case altogether.

20,732. There is no hardship in his case?—No, not in his case.

20,733. You refer in your paragraph 5 to the Finance Act of this year?—Yes.

20,734. Which, in the case of the class of house to which you are referring, allows the deduction of the full cost of repairs, whatever it may be?—Yes.

20,735. Is not that satisfactory?—Well, I should at once admit that to assess the actual income is the ideal, but to do that would involve a tremendous lot of trouble on the part of the property owner, and also the Income Tax authorities. As regards the large property owner, who employs a staff to manage his property, or the man who employs an agent, it would not be a difficult matter, but I should say that the bulk of the property in Manchester outside the city itself is owned by small owners who cannot keep and who do not keep the necessary accounts.

20,736. But is it necessary to keep accounts? Surely any property owner, however small, who employs somebody to do work on his house pays the bill and gets the receipts, and that is all that is required. Take the class of man that you refer to; if such a man owns half a dozen houses, and in the course of the year he has, we will say, a dozen repair jobs to carry out, he will get a dozen bills and he will pay each of those bills, and will receive a receipt; he will keep those receipts, and that involves no accounts. He has not got to give, as you are aware, a separate statement in regard to each house. All that he has got to do is to say that in respect of his total ownership of house property a certain sum has been actually expended, for which he can produce vouchers. He has not got to say how much has been spent on putting in carpentering, how much has been spent on painting and grating, or how much has been spent on plumbing and splicing. All he has to do is to produce the actual receipts if called for to show that he has expended during the year on those six houses, let us say, £20 or £30, or whatever it may be, and if his one-sixth allowance does not amount to that figure he can claim on the difference; does that involve keeping accounts?—It involves him keeping his accounts together for the five years.

20,737. Not accounts?—Well, his bills or invoices.

20,738. His receipts?—Yes, for the five years, in order to demonstrate what the average has been for the five preceding years.

20,739. For each year from which the average is deducted?—Yes. That is not what the average property owner is in the habit of doing, though I quite admit that he ought to do so.

20,740. Is not that largely because the trouble was not worth taking when the Income Tax was so low; but now that the Income Tax has reached such a very high figure it is very well worth doing, and do not you think that people will do it?—I quite appreciate it is well worth doing, and we have advised our members to do it. Then, of course, we have a good many property owners who have got a number of equities, who employ labour themselves and buy the material; it would necessitate keeping books in a case of that sort. We have quite a large number of owners in Manchester who exist on equities, and who will get a brick-setter who is out of work, or a joiner who is out of work, or a painter who is out of work, and pay him his wage at the end of the week, and will buy all the material.

20,741. Or you might have a man who is in a small way himself as a builder?—Yes.

20,742. And he would put his own men on when they are not doing something else?—Yes.

20,743. That would also require accounts?—Yes.

20,744. Those are not difficult kinds of accounts to keep?—To me, personally, they would present no difficulty at all, but the ignorance displayed by the small property owner is amazing.

20,745. Does not it really present itself to you in this way: if a man avails himself of the legal rights which he has, he need not pay Income Tax on one penny more than he actually receives as income. I agree with you that it is a position which requires some little trouble and difficulty to attend to, but he has a right to do it. Then he has an alternative; he can escape that trouble if he likes by accepting the flat allowance. In view of the existence of that alternative, is it not fair that the flat allowance should be something rather below the average than above it; then you have an additional allowance which will induce a man to take this trouble if he wants to; but if he does not choose to take it, then he must pay more?—If you make the allowance something like fair, one could not object to it. As the allowance to-day is not more than one-half of the cost of keeping the property to which I refer in a proper state of repair, I think there is some objection to it.

20,746. One of the questions which was asked of a previous witness on exactly the same point—I am pretty familiar with this question myself, and I know the great force of what you say—was that the allowance of one-sixth is for the whole period of the existence of the property, and when a property is new, when it is first erected, for a short period, at any rate, there is very little in the way of repairs required?—Yes.

20,747. And although in the course of the life of the property there will be particular years in which the one-sixth will be very largely exceeded, it has got to be looked at as an allowance which is made every year over the whole period of the existence of the property?—Yes.

20,748. And to enable us really to judge of the actual position we should want to have facts before us showing what was the actual expenditure on a given block of property from the time it was first erected for some period of years, say, 20 or 30 years, or any longer period of years if you could find it, and what the total of the one-sixth allowance came to in the same time, and to contrast the two figures; have you any figures of that kind?—No, I have not, and I venture to say you would have a different average for every property, and then you have changes of ownership to contend with.

20,749. You do not think it would be possible to get any figures of that kind?—No, I do not think it would.

20,750. It would be very helpful to your case?—To take a new owner, a man who has had the property for a few years, the cost of his repairs will be at the present time nearer one-third than one-sixth.

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[Continued.]

20,751. They will now?—Yes.

20,752. But if he chooses to claim, he can claim?—Yes, but my idea is, as you said at the first, to get somewhere near. My contention is, as far as we are concerned in Manchester, that the one-sixth is nowhere nearly sufficient. May I just give you an illustration? We have, for instance, in Manchester thousands of houses let at 6s. per week, and the allowance there by the local authority and by the Surveyor is £1 10s. per house for repairs. We are in the habit of painting the exterior of those houses at least once every six years—generally once every five years.

20,753. Yes; that is necessary?—Once every six years, we will say, and to-day that costs about £3 15s. Divide that by six, and we will say it is 12s. per annum. Those same houses we were in the habit of cleaning inside every three years, which cost £3 10s., that is £1 3s. 4d. per annum. You there have £1 15s. 4d. for painting and cleaning alone, and at the present time you only get an allowance of £1 10s. In addition to that you have the plumbing and the joinery work and the boilers and the grates. The boilers and grates in Manchester and in Lancashire generally are a heavy expense, because the people go in so much for baking and washing. To-day it will cost something like 30s., or more than 30s.—It costs nearer £2—to replace an ordinary washing boiler.

20,754. A copper, you mean?—Yes, you call them coppers. I have prepared a statement giving the cost of repairs. I prepared these figures for Lord Hunter's Commission in 1913, and I have brought them up to date.

STATEMENT showing the comparison of wholesale cost of building material and labour in August, 1914; March, 1918; and November, 1919.

	Prices in 1914.	Prices in 1918.	Increase per cent. in 1918.	November 1, 1919.
Wash boilers ...	5s. gall.	1/14	176	2/2
Castings ...	6/6 cwt.	17/6	251	26/-
Fire bricks ...	4/8 per 100	24/-	135	23/-
Common bricks ...	3/- per 1,000	4s.-	150	20/-
Glass (15 oz.) ...	1/2d.	—	—	1d.
Mortar ...	5/- ton	12/6	150	17/6
Brickbatter ...	10s. 4.	12/6	43	1/10
Brick labourer ...	6d.	11d.	83	1/3
Lead ...	15/- cw't.	41/6	173	44/-
Rainwater pipes, 8 ins.	1/- ft.	2/10	141	4/-
Plumber ...	11d.	3/4	45	1/10
Floor boards ...	14d. half ft.	54d.	440	4/6d.
Screens ...	4d.	5/-	833	1/6
Wood guttering ...	4d.	—	—	1/-
Ironmongery ...	—	—	109	200 per cent.
Joiner ...	10s. 4.	1/3	43	1/10
Wallpaper ...	—	—	273	275 per cent.
Tarpetline ...	3/6 gall.	10/11	212	11/9
Oil ...	3/-	6/6	116	9/8
Painter ...	2/6d.	1/3	61	1/8

Average increase of considerably over 100 per cent. in 1918.

These repairs are still going up in cost. The increase of wages which has been agreed between the masters and the operatives will put another 15 per cent. on to the cost of repairs.

20,755. These figures you give are very valuable, because they do run from year to year; that is on the lines of what I asked you?—Yes.

20,756. That is a current expense, which goes on during the whole life of the property?—Yes.

20,757. Your evidence does not confine itself to showing, I understand, so much in this particular year, and only getting so much allowed. You have shown that you are spending from year to year during the whole currency of the property more than you are allowed?—That is so.

20,758. We have to deal with the general law, have we not? You have stated that Manchester is quite an exception; do you suggest that the allowance

to Manchester and that district should be different from the allowance elsewhere?—No, I do not suggest that, and from the information that I have the one-sixth is not sufficient in any part of the country except where they have repairing leases.

20,759. In the centre of Manchester, where the land is of very high value indeed, and where an office might be situated somewhere in a very central business part of the town—is it given there on the whole of the assessment?—Yes.

20,760. The one-sixth applies to the whole, although perhaps half the assessment at least will be due to the situation, and only half to the actual structural value of the property. That really doubles the allowance so far as repairs go?—Yes.

20,761. Bearing that in mind, would you not say that in respect of that kind of centrally-situated property, at any rate the one-sixth allowance was quite adequate?—I should not say that it is so to-day. The repairs to property in the city of Manchester are, comparatively speaking, much more expensive than in the out districts, because of the difficulty of doing work in the city. If you are doing anything in the nature of painting or repairs which require a ladder, you must have somebody at the bottom and somebody at the top. If you take a hand-cart into the town, you have to bring it back again, so that, generally speaking, the repairs in the city in normal times will be quite 25 per cent. more than they are on the outskirts of the city.

20,762. More than 25 per cent. of the assessment may be due to site, which requires no repair?—Yes, I should admit there is a great deal in what you say.

20,763. And also in the matter of use there is a very great difference between an inhabited house with all the appurtenances which you have described, and an office which merely consists of two or three rooms where there is no cooking done, and where the general repairs are of a much less expensive character?—I should say, generally speaking, the repairs on office property and on warehouses are less than they are on house property. Of course I am speaking as a house property owner more than anything else.

20,764. I was putting to you whether—in view of your own case being exceptional, because you are dealing with the kind of house which requires the largest expenditure for repairs generally, and also in a district where you undertake the largest area of repairing—such an allowance as would meet your particular case could hardly be applied to the whole country?—I think myself there should be some distinction, and I have always claimed that there should. The smaller class property is more expensive to keep in repair, I think it is generally admitted, than the larger class property.

20,765. Does not that again point to it being much more in the interests of people in circumstances such as your members are to take advantage of this opportunity of getting all they spend, where they spend more than other people; and of having the general allowance, if it is to be a general allowance, only to cover the cases of those people who spend less? Put the allowance at a minimum, and let anybody who spends more than that be entitled to get an allowance for all he has spent?—As I say, that is the ideal position, but it will involve a tremendous amount of trouble on the part of the owner, and also of the Income Tax authorities. My idea is that it would be better to get nearer a fair average flat rate in the interests of all than to have so low a rate as one-sixth.

20,766. In view of the answers to the questions and in view of this discussion, do you desire to make any modification in the figure which you have suggested here?—No.

20,767. You ask for one-third?—Yes. From a property owner's standpoint that is quite little enough.

20,768. Would you apply the one-third universally, even to offices?—No, I would not.

20,769. You would limit it?—Yes. I should make a special allowance in the case of house property.

20,770. Residential house property?—Yes.

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20,771. Would you in the case of house property impose a limit of assessment, or would you carry it up to the residential house, however large?—I should carry it up to all, because as far as we are concerned in Manchester even in the larger house property it is customary when a house becomes vacant before it is relet to do the house through, and that involves a tremendous lot of money.

20,772. *Sir E. Nott-Bower*: I gather from paragraph 4 of your evidence that you really base your figures to a considerable extent on the prices which now rule with regard to the cost of material, which you say has increased 150 per cent?—Yes.

20,773. With regard to that, it seems to me we may make two assumptions; the first is that the increased cost is a temporary thing which will pass away, in which case it would be perhaps a pity to legislate to meet it by an increased flat rate; the other assumption is that those increased prices have come to stay, and if the increased prices have come to stay would you agree that if the cost of repairs and so on is increased by 150 per cent. the cost of building is also increased in the same ratio? If that be so, the rents would have to go up. Of course, rents are restricted now, but they would have to go up. Then the percentage allowed would be calculated on a higher value. My point is, would not the result be either way that a flat rate which may be fair now would not be fair in three or four years' time, or seven years' time?—I was going to say I should like to think that the price of labour and material will come down during the next three years or seven years. In many things the tendency is still in the opposite direction. Labour is going up, and a good many materials are going up in cost. As regards rents, my conception of the position is this, that we shall be restricted for a considerable number of years; I do not think we shall have a free hand. *Dr. Addison* talks about seven years, and says that at any rate in seven years we shall be able to obtain an economic rent; but I do not agree with him.

20,774. Then who is going to build houses for the next seven or eight years?—I cannot see any property owner building houses during the next seven years, and all the trouble that you give him, even in the way of making claims in order to get something like a fair assessable value, is going to deter people from placing their money in property. The yield on his investment now is very small as compared with some other investments that you can get, from which you get your return without trouble; now you propose to put additional trouble upon the owner, and that militates against the—

20,775. The substantial relief?—No, it militates against any private individual coming into the property world and providing houses.

20,776. There is one other thing which I want to ask you, upon which I am not sure that you did not give two conflicting replies to *Mr. Prettiman*. With regard to the smaller house property, say up to £20 or £30 in value, do you consider that the cost of repairs and of maintaining those houses is higher or the same as in the case of the larger houses, say up to £70, £80, or £90?—Well, £70 and £80 is almost an outside figure in Manchester. We have a very few houses comparatively speaking of so high a value as £70 or £80. £50 is considered a very good rent in the Manchester area. The bulk of the Manchester property is property for the industrial classes.

20,777. Comparing a house at £25 with a house of £50, if an allowance of one-sixth is inadequate for a house of £25 a year, does it follow that it would be equally inadequate in the case of a house that carries £50 a year?—No, it does not necessarily follow, but you have to bear in mind that generally speaking the nature of the repairs is more expensive in the larger house than in the smaller house. Take the chimneys, for instance; if there is a case of repair to a chimney the chimney is of a more ornamental character in the case of a larger house than it is in a smaller house. It will have larger gutters; it will have different fascia boards; it will probably have more leadwork about it than the smaller house. There are many things that increase the cost of repairs materially with a larger house as compared with a smaller house.

20,778. What I have in mind is this, and I expect you are quite aware of it, that in the Valuation (Metropolis) Act, 1893, under which all properties in the metropolis are valued for the purposes of the Poor Rate, the deduction from the gross Poor Rate valuation, which is a deduction to include repairs and so on, in order to arrive at the rateable value, is larger in the case of houses under £20, and under £40, than it is in the case of larger houses?—It is not so in Manchester.

20,779. Well, that is so in the Valuation (Metropolis) Act, and you know, I dare say, that from time to time a number of Valuation Bills have been introduced—but finally dropped—for extending a similar system throughout the country, and in all those bills one of the features was a table of deductions from gross valuation to arrive at the rateable value, and in all those bills the smaller house was allowed a larger percentage than the larger one?—Yes, I am aware of that.

20,780. You do not quite agree with that?—I can quite see that it is a reasonable contention, but, as I say, the circumstances here in London are so totally different from what they are in Manchester; we have not the class of property in Manchester which you have here in London; all our houses are self-contained in Manchester, and we have very few larger houses.

20,781. *Sir W. Fowler*: Have you taken into consideration the site value?—In arriving at an assessment?

20,782. Yes?—Where a house is tenanted in Manchester we take the rent. If the owner lives in the house then we take into consideration the cost of the house and the site value, and we also take into consideration what a hypothetical tenant would pay for the house.

20,783. My question is in reference to this. There may be house property assessed of which three parts of the value is in reference to the site, and one part only to the house; for instance in Lombard Street or Bond Street; therefore you get a position in which one-sixth is very much too much?—You would have in that case, yes.

20,784. The point of my observation is simply this, that you are giving evidence as to a particular locality, which is not of universal application?—Yes. I wish it to be clearly known that I am speaking of the circumstances in Manchester; I am not conversant with the circumstances in London.

20,785. Therefore the circumstances in each locality differ; that is what you wanted to say?—Yes.

20,786. That, I think we must agree?—Yes.

20,787. *Mr. Holland-Martin*: You were quoting from the Hunter Report that some provision should be made to ensure that larger allowance should not be obtainable in cases where the proper repairs have not been done. A witness said this morning that that would work out in practice that a larger allowance would be allowable unless a competent local health authority complained that the house was out of repair. Do you think that would be the best way of arriving at whether the house was repaired or not?—Well, from a property owner's standpoint that is a very doubtful position. There are so many standards of what is a proper state of repair. Of course, the local authorities have every means of insisting that a house should be in a proper state of repair.

20,788. But it would be a very difficult thing unless you had some authority to say whether the house was in repair or not. It would be a very difficult thing to work on a mere statement that proper things have not been done. It leaves it so vague. The tenant might say the house was not in proper repair?—Of course, you have the provision in the Rents Restriction Act. In all the rent books we must insert a clause saying the responsible person for keeping the house in a fit and proper state of repair is so-and-so, and the medical officer of health is so-and-so. That must be done from the 1st of January next. In connection with the 10 per cent. increase which we are allowed, we have to insert in the notice for the 10 per cent. increase a note informing the tenant that they can apply to the local authority for a certificate stating that it is not in a fit and proper

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state of repair, in which case the 10 per cent. is not allowed, and the fee which has been paid by the tenant for the certificate can be deducted from the rent.

20,789. In making the calculation for taxation purposes would you ask the owner to get that certificate?—No, I should not suggest that. Is the point you suggest that in the event of an increase being made to meet this increased cost of repairs, such a condition should be imposed as a sort of safeguard?

20,790. That is the suggestion of the Hunter Report, but I cannot quite see it working in practice, or who the authority is to be. Is the taxing authority to ask for some certificate if the higher amount is claimed?—That is the finding of the Hunter Committee.

20,791. Yes, it is?—But it does not say that that is my opinion.

20,792. No, I quite agree; only I thought by your putting it in there you approved it, and I wanted to know what the authority would be to decide whether the house was in proper repair or not?—I simply

put it in so that I should not be charged with withholding some recommendation of the Hunter Report in the event of the additional allowance being given. I take it it would have prejudiced my evidence if somebody had asked me why I did not mention the recommendation of the Hunter Committee as to a safeguard.

20,793. You have not thought of the working of it in practice?—No, I see there is a difficulty. There is not the difficulty in the increase of rent, because you have to put it in the notice. The tenant does not know anything about the collection of the tax.

20,794. Sir J. Harwood-Banner: Would it meet your requirements if instead of an average of years you were allowed to charge actual expenses in the year under the present Finance Act?—From my own standpoint that is the ideal—that we should be charged on the actual income; but I see it involves a tremendous lot of difficulty with the class of people that owns property in Manchester. From my own standpoint I say that is the ideal—tax a man on his net income.

20,795. Chairman: Thank you.

MR. J. RALPH DAGO, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Evidence-in-chief of J. RALPH DAGO, Dp.Ec., Trinity College, Dublin, J.P. for Co. Wicklow.

20,796. (1) I am Clerk to the District Councils of Balingglass, Nos. 1, 2, and 3. Having been constantly consulted by persons assessed for Income Tax, I have acquired some practical knowledge of the law relating to certain aspects of the question.

20,797. (2) In Ireland many occupiers of land are now being brought under the scope of the Income Tax law under Schedules A and B. The Finance Act, 1917, provides that the income of an occupier of land shall be estimated under Schedule B to be twice the Poor Law valuation, the rent, or the purchase annuity, whichever is the lowest. A farmer paying £105 a year rent for a valuation of £100 has to pay £3 7s. 6d. Income Tax, under Schedule B; but another farmer holding the same valuation, bought under the Land Acts, whose purchase annuity is £85, has to pay none under Schedule B, and only £2 6s. 8d. under Schedule A.

Example:—

Tenant farmer: Valuation, £100; Rent, £105.	
Tenant purchaser: Valuation, £100; Annuity, £85.	
(Each has a wife and one child.)	
	Tax.
Schedule A assessments.	£ s. d.
Tenant farmer: (Tax paid by landlord)	None.
Tenant purchaser: £100 minus	
£84 8s. 6d.—£15 11s. 6d. at 3s. ...	2 6 9
Schedule B assessments.	
Tenant farmer: £900 minus £170	
—£30 at 2s. 3d. ...	3 7 6
Tenant purchaser: £170 minus £170	
—nil ...	None.
Burden on poorer greater by ...	£1 0 9

Thus a man who has £30 a year less to pay in rent charge has to pay £1 0s. 9d. less than the man paying a perpetual rent. The appended examples show that as the valuation increases the discrepancy becomes more accentuated. (This proviso, initiated by an Irish M.P., is characteristically Irish.) For instance, take the case of Mr. Y. and Mr. F., both having farms of the same Poor Law valuation. Mr. Y. has purchased and is vested under the Land Acts, but Mr. F. has not.

20,798. (3) Example of assessment:—
Mr. Y. Valuation, £200; Annuity, £130.
Mr. F. Valuation, £200; Rent, £200.

Mr. Y., Vested purchaser.

Schedule A gross assessment	£200
Less $\frac{1}{10}$ of £200 for repairs	£25
Less $\frac{1}{10}$ th of £130 for interest to Land Commission	£110
	£135
Net assessment, Schedule A	£65 (at 2s. 3d.)
Schedule B assessment.	
Gross annuity, £130 x 2 ...	£260
Less abatement ...	£120
Less wife and 1 child ...	£50
	£170
Net assessment, Schedule B	£90 (at 2s. 3d.)
Income Tax payable by vested purchaser:—	
Schedule A, £65 at 2s. 3d. ...	£ s. d.
Schedule B, £90 at 2s. 3d. ...	9 15 0
	10 2 6
Total tax ...	19 17 6

Mr. F., Tenant farmer.

Schedule A assessment: (Paid by landlord)	None.
Schedule B assessment.	
Gross valuation, £200 x 2 ...	£400
Less abatement ...	£120
Less wife and child ...	£50
	£170
Net assessment, Schedule B	£230 (at 2s. 3d.)
Income Tax payable by tenant farmer on	
£230 at 2s. 3d. ...	£25 17s. 6d.

Therefore the tenant farmer (who has to pay for ever a rent of £70 a year more than the yeoman) has to pay £6 a year more in Income Tax than the latter, who has a better chance of making a similar income.

In the case of a non-vested purchaser paying interest in lieu of rent, for such a holding his assessment will be less, viz.:—

	£ s. d.
Total tax on vested purchaser as	
above ...	19 17 6
Deduct tax on £20; sinking fund at 3s. 3d. ...	3 0 0

Net tax payable by non-vested purchaser ... 16 17 6

20,799. (4) Example illustrating a vested purchaser versus a tenant farmer:—
Valuation, £200; Annuity, £170.

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[Continued.]

Vested purchaser.		£	s.	d.
Schedule A gross assessment	...	200	0	0
Less 1/4th £300 for repairs	£25 0 0			
Less 1/4th of interest £170				
to Land Commission	143 17 0			
		168	17	0
Net assessment, Schedule A		£31	3	0
Schedule B gross assessment	£170 x 2	340	0	0
Less abatement	...	190	0	0
Net assessment, Schedule B		£230	0	0
Income Tax payable:—		£	s.	d.
Schedule A £31 3s. 0d. at 3s. ...	...	4	13	6
Schedule B £230 0s. 0d. at 2s. 3d. ...	...	24	15	0
Total payable by vested purchaser under both Schedules	...	£29	8	6
Tenant farmer.		£	s.	d.
Schedule A tax paid by landlord	...	None.		
Schedule B gross assessment £300 x 2	...	400	0	0
Less abatement	...	190	0	0
Net assessment, Schedule B		£280	0	0
Income Tax payable:—		£	s.	d.
£280 at 2s. 3d. ...	...	£31	10	0
In the case of a non-vested purchaser the assessment will be less, viz.:—		£	s.	d.
Total tax on vested purchaser as above	...	29	8	6
Deduct tax on £36 3s. 0d. sinking fund at 3s. ...	...	5	8	6
Net tax	...	£24	0	0
20,800. (5) Example illustrating the case of a Fee Farm Grantee possessed of a farm, Poor Law valuation £443. Fee Farm rent £184. Tithe £25. Annuity £130, making a total of £329.				
Schedule A assessment.		£	s.	d.
£443-£329=Net £113 at 4s. 6d. ...	...	25	8	6
Schedule B assessment.				
£443 x 2=£884 at 3s. 9d. ...	...	165	15	0
Total tax under both Schedules	...	£191	3	6
A vested tenant purchaser of such a holding paying a purchase annuity of £340 a year would be assessed as follows:—				
Schedule A gross assessment	...	£	s.	d.
Less repairs 1/4th of £443 ...	£55 5 0			
Less interest 1/4th of £340	203 0 0			
		238	5	0
Net assessment, Schedule A		£183	15	0
Schedule B gross assessment	£340 x 2	480	0	0
Less abatement	...			
Net assessment Schedule B	...	480	0	0
Tax payable by yeoman.				
Schedule A. £183 15s. 0d. at 3s. 9d. =	...	34	9	0
Schedule B. £480 0s. 0d. at 3s. =	...	72	0	0
Total tax payable under both Schedules	...	£106	9	0

The non-vested purchaser would be assessed on £37, less at 3s. 9d., reducing his Income Tax by £6 18s. 9d.

20,801. (6) The amount of rating determining liability should be fixed by law. For this purpose persons occupying land, the aggregate valuation of

which does not exceed £30, might be excluded, and Income Tax assessed at the "earned" rate upon the surplus valuation over £30. A farmer holding a £30 valuation is in a better pecuniary position than an employee earning £4 a week, according to the prices at which land is now letting on the 11 months' system, namely, from £10 to £20 an acre. An employee living in a town has to buy the necessities of life at the highest rate. The farmer has them at first cost. The occupier of land is in the more favoured position. A holding of £30 valuation should produce an income of £300 a year. The prices realised by the sale of the occupation interest prove this. The tenant's interest in 1 acre of land a mile from the local town was sold for £180, rent is a year, valuation £1 10s., or, say, 120 years' purchase; 25 acres near a village sold for £2,250, rent £14, valuation £35, or, say, 50 years' purchase; 176 acres one mile from village sold for £6,555, rent £140, valuation £154, or, say, 42 years' purchase.

20,802. (7) The mode of collection is not business-like. The Collector's district may extend into three counties. The assessment books are years old. The Collector may have no local knowledge. An enormous amount of correspondence is thereby entailed which could be avoided.

Schedule B tax could be efficiently and economically collected by the local collectors of Poor Rate, instead of by one Income Tax Collector living in a distant town. To do this all that is necessary is to add two columns to the rate book. The tax could be collected half-yearly with the county rate from each person liable.

20,803. (8) Taxation under Schedule D (trades and professions) should be put upon a definite basis. Evasion is general. Traders have bought, say oats at 8s. a barrel in October, 1914, and sold in March, 1915, at 24s. a barrel; the accruing profits have run into thousands, but the lucky speculators often escaped scot free of Income Tax. The profits of such traders should be accurately ascertained and duly assessed, so that the gains of profiteers may be got at.

20,804. (9) Taxes under Schedule E should be collected at the source. "Emoluments of office" should be calculated to be the same amount as the beneficiary is entitled to claim for pension purposes. The amount of the tax could be deducted from the wages or salaries, weekly, monthly, or quarterly, as the case may be, and remitted at once to the Government. There would thus be a regular stream of revenue flowing into the Exchequer. Payment in this manner would be more convenient and less burdensome than the present system.

20,805. (10) Gigantic incomes are amassed by the exploitation of labour, and there can be no valid objection to their being "conscripted" to relieve the burdens of the community.

The taxation of small incomes will be calculated to prevent war and promote peace; for if people realize that war will entail a heavy burden, they will hesitate before having recourse to arms. Then indirect taxation on the necessities of life, such as tea, should be reduced to compensate them. They would probably gain more by cheap tea than they would pay in Income Tax. A cup of tea containing a purper's allowance of 1/4 oz. costs 1d.; being 1d. for tea and 1d. for duty. Thus the poor family is charged at the same rate, namely per month, as the rich family, which is evidently unjust. Food was rationed, and its hoarding prevented as a war measure, and the exigencies created by the war demand the application of a similar principle to money.

20,806. (11) The appended progressive scale of Income Tax is tentative, and is based on the Prussian Income Tax Act of 1891, which Professor Plehn states in his book on Public Finance approaches an near perfection as possible. The maximum scale can be applied at a lower limit than £100,000 a year, and a pro rata increase made in the rate of the tax from a lower limit up, should it be demanded by the necessities of the State.

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[Continued.]

20,897.

SUGGESTED SCALE OF PROGRESSIVE TAX.

Graded Income.	Total Income.	Progressive Rate per cent.	Tax.	Total Tax.	Per cent. of Income.
£	£		£ s. d.	£ s. d.	
50	50	1	0 10 0	0 10 0	1
50	100	2	1 0 0	1 10 0	1½
50	150	3	1 10 0	3 0 0	2
50	200	4	2 0 0	5 0 0	2½
50	250	5	2 10 0	7 10 0	3
50	300	6	3 0 0	10 10 0	3½
50	350	7	3 10 0	14 0 0	4
50	400	8	4 0 0	18 0 0	4½
50	450	9	4 10 0	22 10 0	5
50	500	10	5 0 0	27 10 0	5½
100	600	12	12 0 0	39 10 0	6½
100	700	14	14 0 0	53 10 0	7½
100	800	16	16 0 0	69 10 0	8½
100	900	18	18 0 0	87 10 0	9½
100	1,000	20	20 0 0	107 10 0	10½
1,000	2,000	25	250 0 0	382 0 0	16½
1,000	3,000	27½	275 0 0	657 0 0	19½
1,000	4,000	30	300 0 0	957 0 0	21½
1,000	5,000	32½	325 0 0	1,282 0 0	23
1,000	6,000	35	350 0 0	1,632 0 0	24½
1,000	7,000	40	400 0 0	2,032 0 0	26
1,000	8,000	45	450 0 0	2,482 0 0	27
1,000	9,000	50	500 0 0	2,982 0 0	28
10,000	20,000	55	5,500 0 0	14,482 0 0	43
10,000	30,000	60	6,000 0 0	20,482 0 0	48
10,000	40,000	65	6,500 0 0	26,982 0 0	50
10,000	50,000	70	7,000 0 0	33,982 0 0	56
10,000	60,000	75	7,500 0 0	41,482 0 0	59
10,000	70,000	80	8,000 0 0	49,482 0 0	62
10,000	80,000	85	8,500 0 0	57,982 0 0	66
10,000	90,000	90	9,000 0 0	66,982 0 0	68
10,000	100,000	100	10,000 0 0	76,982 0 0	71
100,000	200,000	"	100,000 0 0	176,982 0 0	85

[This concludes the evidence-in-chief.]

20,808. *Chairman*: You have prepared for us a very elaborate paper?—I did my best.

20,809. It must have caused you a deal of trouble?—Well, I took a little time over the calculations.

20,810. You will now submit yourself to examination by the Commissioners on your paper?—Yes.

20,811. *Mr. Marks*: The examples which you give in paragraphs 2 to 6 of your paper are directed to showing that the basis of assessment in Ireland under Schedule B is wrong?—Yes.

20,812. Are the instances which you give actual instances or are they some which you have evolved?—The instances which I gave were typical instances, and they were taken from a leaflet published by the Department of Agriculture for the information of farmers who are in these particular circumstances. I think I sent a copy of the leaflet to your Secretary.

20,813. Then they are not actual instances, or you do not know that they are?—In my experience I have found similar cases, that is to say, a case of a tenant purchaser valuation £100—

20,814. I do not want to go into the details at the moment, if you will forgive me; I just wanted to know whether they were actual instances of which you were personally aware, or whether they were suggestions of what might be?—The only way I can answer that question is, that I believe they represent actual instances, though I had not definite cases in my mind when quoting them.

20,815. *Chairman*: You copied them from a pamphlet?—From a leaflet issued by the Irish Board of Agriculture.

20,816. Are they given as actual cases in that leaflet that is issued?—They were given for the instruction of farmers.

20,817. They were hypothetical cases?—They were hypothetical cases, of course, but in my experience I have found similar cases.

20,818. *Mr. Marks*: With regard to the holdings which are purchased under the Land Purchase Acts, what is the process? Are the valuations fixed by the

Land Courts and then converted into a rent charge on the holding?—No. An agreement is made between the landlord to sell and tenant to buy at so many years purchase on the existing rent; that is converted into a mortgage for a terminable annuity bearing interest at 3½ per cent., 2½ of which is interest and 10s. sinking fund. The greatest number of years purchase in Ireland was 24. The late Mr. John Redmond got it and the late Earl Fitzwilliam got it, but it varied from 24 down to 18. The consequence has been that the annual rent charge is in most instances now about half the Government valuation for rateable purposes.

20,819. The Schedule B assessments are not invariably based on the Poor Law valuation, are they?—No, they are based on a lower scale than the Poor Law valuation; that is the material point.

20,820. Sometimes on the judicial rent or on the interest in lieu of rent?—Whichever is lower.

20,821. Or the annuity payable?—Yes, whichever is the lowest. In the case of tenants who are still paying rent, the majority have got two or three reductions, what are called first term, second term or third term rents. The rent of a holding may be varied at the end of each 15 years, and as a matter of fact they were always on the declining side before the war. As a rule, for holdings held by tenant farmers in Ireland now, the rent is less than the Government valuation for rateable purposes, and if they became purchasers the terminable annuity is less still.

20,822. Then it is true that the purchase annuity is generally less than the rental, and you go so far as to say it is 50 per cent. less?—It is 50 per cent. less in many instances.

20,823. Have you any sort of idea what the average difference would be—not as much as 50 per cent.?—Not as much.

20,824. Would you say 30 per cent. or 25 per cent.?—It is certainly 25 per cent., because you see that followed consequently; when tenants gave 24 years' purchase and got the money at 3½ per cent., it

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naturally meant a reduction in the annuity of 25 per cent. as compared with the rent. For instance, a man paying £100 a year in rent who agreed with his landlord to buy at 20 years' purchase, which would be a very fair average, has acquired his holding for £2,000 carrying a mortgage of 34 per cent., that is to say he became owner *de jure* at a terminable annuity of £85 a year, instead of £100 a year rent. On purchase the burden on the occupier was reduced by at least 25 per cent.

20,825. The net effect of your proposals is to do away with the purchase annuity or interest in lieu of rent as a test of actual value for Schedule B, and to charge on the real value measured by the Poor Law valuation?—Yes, and that would entail, in my mind, the abolition of "scale abatements."

20,826. And you consider that the Poor Law valuation is nearer the true annual value than the other forms?—Is it not absurd to have a scale abatement of £120? You assess a farmer having a farm valued at £90 a year, and assume that his income is £120, and then the "scale abatement" blows that out, and he pays nothing. It leads to any amount of trouble and confusion under the existing law. I will give you an example of it. A man came to me with this demand note for £13 6s. 9d. which he had got from the Income Tax Commissioners.

20,827. Chairman: Was he filling up that paper?—Yes; he asked me to fill up for him a form demanding exemption. The valuation of the holding was only £61, and his rent was £80—that is, a judicial rent. Therefore his income was only £120 as the law stands at present, which of course is wrong. This form was sent to him, so valuation put in, and £13 6s. 9d. was illegally demanded from that farmer, and he was threatened with the usual pains and penalties if he did not comply.

20,828. What did he say to the threat?—I filled up the form for him, and I pointed out that his income was assessed by law to be twice his rent of £80, that is £120, and he was entitled to abatement of £120, so that he had no legal liability.

20,829. Mr. Marks: Is that the same point as this, that as it is the practice in Ireland to assess only those whose valuation or annuity is one half the exemption limit, all farmers under £85 valuation are not assessed, or practically all of them?—They are not assessed. This was a case that was on the borderline. His valuation was £61, but in law a farmer whose valuation does not exceed £85 is not assessed.

20,830. Chairman: Who makes the valuation?—The valuation was made by Sir Richard Griffith in 1848; the valuation of land in Ireland has never been changed. The revision of valuation only applies to houses. There was some defect in the Act, and there has been no re-valuation of land; it has remained the same since 1848. For rating purposes probably it does not matter very much. Supposing even that the land were twice as valuable now as then, it would make no difference in striking a rate; it would only affect the poundage rate. Is, in the £ at the present valuation would be equal to 6d. in the £ on a valuation double the existing valuation.

20,831. Mr. Marks: Is it true to say that the farmer would escape taxation although his profits might be considerably in excess of the exemption limit?—Yes. I will give you an example of that. I have dealt partly with it in paragraph 6. Owing to this unfortunate war there must be very large profits made by farmers, and that is evidenced by the very large increase in the value of farms. I have here for your information a list of recent authentic sales by Edwin Hammond, published in the local press in my neighbourhood, and I am personally aware of the facts. County Wexford, 1 acre 3 rods 13 perches, statute measure, tenant's interest sold for £75. The names are given, and the town and so on. County of Wexford, 55 acres statute, annuity £13 17s. 8d., sold to Mr. Joseph Warren for £1,325. At 5 per cent. that would represent £85 a year, whereas the annuity was only £13.

20,832. Chairman: Are those flax farms?—No, there is no flax grown in Wexford; it is grown in the North. These are ordinary tillage farms. Duffery, near Coolmann, 21 acres, judicial rent £14 6s. Sold for £800. Mountain Farm, near Tinsahely, area 11 acres, subject to an annuity of £4 13s., price £170. I could give you direct information that I had from a friend of mine who was the holder of a mountain farm under Trinity College containing 355 acres.

20,833. Does he own that farm?—No, he paid £20 a year to Trinity College for it.

20,834. £50 a year rent?—Yes.

20,835. Mr. Petyman: That is an annuity?—A permanent rent—a fee-farm rent.

20,836. It cannot be raised?—No, it cannot be increased; it is a fee-farm rent. He told me that his profit on that farm was £400 a year before the war. He used to go to Scotland to get his stock. He went to Dumfries and got Scotch "hornies," small Scotch sheep, for 18s. 6d. each in those days. He had them home for less than £1. He bought 900. There was a run for 300 sheep on that mountain. Then these ewes had 450 lambs. The average was a lamb and a half each. He said to me: "those Scotch hornies ewes are wonderful for rearing their lambs."

After a few weeks you would see the ewe with two lambs nearly as big as herself. He said that he got £1 apiece for those lambs, so that he made £450; and he said: "£50 pays the rent, and I have £400 profit." I said, "what do you do about paying the herd?" and he said, "the wool pays the herd."

20,837. Sir E. Nott-Bower: Can you say what is the Poor Law valuation of that holding?—£55.

20,838. Chairman: Were you going to tell us the value of that now?—That farm was sold cheap when he died. It was bought in by his nephew, and there was no opposition; but a farm of that class would easily go to £1,000.

20,839. That £1,000 is the tenant-right?—The tenant-right.

20,840. That means only 5 per cent., does not it—£50?—Yes, and £50 rent also.

20,841. Mr. Petyman: Supposing that man wished to quit his farm and there was no relation who wished to have it, and no political question arose about it at all, and it was in the open market for somebody to come and see him, and he had the right of nominating his successor, somebody would have given him £1,000; is that what you mean?—Yes. Here is a somewhat similar case. Michael Keene's farm at Tickmoock, containing 65 acres, annuity £27 15s., sold to Mr. McCormack for £1,010. I think I am under-estimating the mountain farm. When they are selling these farms they always put down English acres, but when they are talking of them at home they are Irish. Then the same vendor sold another part of Tickmoock, containing 48 acres, annuity £20 15s., to Mr. Thomas Molloy for £1,250. The same vendor sold Crossnacole, County Wicklow, area 39 acres, judicial rent £23 15s., which was purchased by Mr. Cross for £800. Mr. Keene sold these three farms to buy a larger one, for which he gave over £6,000, and the rent received by the landlady, Mrs. de Montmorency, is only £120. Miss Smith's farm at Kilmaree, 48 acres statute, judicial rent £15 15s., sold to Mr. Langrell for £500. Then the farm at Tickmoock was re-sold, 65 acres for £2,120. Then Mr. Thomas Keene's farm at Unrigar, near Carnew, containing 40 acres, annuity £14 6s., sold to Mr. Tobias Kinsella for £1,700.

20,842. Mr. Marks: Speaking generally, the effect of your evidence is that, owing to the value of the tenant-right, the interest in lieu of rent or the annuity—the landlord's interest—does not fairly represent the full annual value of the land?—No. There is the beneficial interest that the occupier has.

20,843. Sir J. Harwood-Baxner: Is it not the fact that these tenant-rights are given as security for borrowing from the bank, so that, for instance, a man having one of these assessments of £50 where there is 20 years' purchase, can go to his banker and

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obtain a very large loan?—Yes. I am aware that probably some of these purchasers up to £2,000 borrowed a considerable sum from the bank, of course on the security of the tenant-right.

20,844. So that the landlord cannot get any more money for his land?—No.

20,845. And yet the tenant can borrow up to a very large sum on the value of the property?—The State, rightly or wrongly, took away the unearned increment from the landlord and gave it to the tenant. In both cases they did what was wrong; they should have secured it for the community at large.

20,846. In your paragraph 8 you speak of speculations in oats. Do you mean that it is farmers who made these very large profits, paying 8s. a barrel for oats and selling at 24s.?—No, not farmers.

20,847. If they are not farmers, how do they manage to escape Income Tax upon their ordinary shopkeeping or mercantile transactions?—Evasion is a fine art.

20,848. Is it not rather a reflection on the Irish Income Tax authorities that they should allow evasion like this where a man can make such high profits without paying Income Tax upon them?—There have been huge profits made by traders in all commodities owing to the war.

20,849. Upon which they have not paid any Income Tax?—Upon which they have not paid Income Tax; they have not been got at. Some system should be devised by the authorities having power to look into the invoices of goods received, and looking at their bank balances to see that the charges they make for outlay are bona fide and just. You can have a proprietor of a concern working it with his own family and charging £100 a year each for the services of his sons and daughters. The daughter may be a nominal manager of one particular department, and the son nominally manager of another, and so on.

20,850. I am sure this will be very useful information for the Income Tax authorities in Ireland. In para. 10 you say: "Gigantic incomes are amassed by the exploitation of labour." What do you mean by that? That is a new phrase?—I mean that it is, to my mind, self-evident that a person cannot become a millionaire by the unaided labour of his own hands. It is by employing others and acquiring wealth by that means. I could give you cases in point. Any case of a millionaire is a case in point. I had better not give you the individual cases that I have in my mind.

20,851. Mr. May: There are too many of them?—There are too many of them.

20,852. Sir J. Harwood-Bonser: But if there is a method of getting income, I should like to have evidence of it for the Income Tax authorities?—I grant you that some persons are gifted with better brains than others and can better manage and organise, and are justly entitled to an ample reward for it; but I think it has worked out unsatisfactorily to the community as a whole.

20,853. Do you mean that they pay wages at one rate and then charge a higher rate, and so make a profit?—Yes, by the efforts of labour, granting that they have ability, they have been able to amass gigantic incomes. There is no harm in mentioning Mr. Carnegie's name; he is dead. He said "a man who dies rich dies disgraced," and he did his best not to be disgraced.

20,854. Chairman: Are there any living people that you can put us on the track of?—I am sure there are living people. I think it is up to this Commission, and I make the suggestion with all humility, to ask the wealthy people to do what they have asked our sons to do. You asked our sons to volunteer their lives to fight for their King and country, and I do not see why the millionaires should not volunteer some of their money when the State is in such a position.

20,855. Are you speaking of people in Ireland that you know of?—Well, I know a man who, 40 years ago, was a very humble man like myself. He was in

fact secretary to a building society of which I was a member. I saw that he was possessed of six figures (866,666) in shares in a very important company here in London.

20,856. When you speak of these great profits, do you mean in Ireland? When you say exploited out of labour, do you mean by the farmers or the merchants in Ireland?—Both farmers and merchants in Ireland have profited considerably by the war. It is not uncommon now in Ireland for what you would call in England a yeoman farmer to drive to fair in a motor car.

20,857. That is the reason you make the suggestion—because they are driving motor cars?—Yes, and another reason is that the deposits in the bank have increased from £15,000,000 to £60,000,000. Who put it in except those who had it?

20,858. Do you say that the Irish people evade the payment of Income Tax?—Yes, I have known cases of purchasers valued at over £200, who went up to an expert in Dublin, an ex-Inland Revenue man who was conversant with the subject, and he got them out of it.

20,859. Mr. Petyman: In your paragraph 6 you point out how very low the assessments are, and you suggest that on account of these very low assessments people are not paying Income Tax at all who really are in a position to pay it; is not that the point?—I do not follow.

20,860. The assessment on which Income Tax under Schedule B is paid is really on a much lower valuation and is not really based on the profits now made?—Yes, it is very low, because at the present time £65 is the limit fixed by law, but that is rendered nugatory by the scale of abatement.

20,861. The reason why these people who really are making sufficient profits to justify charging them with Income Tax do not pay Income Tax at all is because their assessment is so low that they escape; is not that the point?—You may take it to a certain extent as being correct.

20,862. That is, broadly speaking, the effect of your paragraph 6?—It is. I suggest there that the limit should be reduced to £20.

20,863. Chairman: You understand that all your evidence will be published?—Yes. I have been before a Commission on a former occasion.

20,864. I did not want you to hold back from giving us any information, because it is very good of you to give us all the information you can faithfully and truthfully, but I wanted you to know that it would be published?—Yes. I believe that everybody, farmer and labourer, should pay Income Tax according to their ability.

20,865. Mr. Petyman: In your paragraph 3 you suggest that these assessments are so out of proportion to the actual earnings that instead of a man beginning to pay Income Tax on the present basis he should begin to pay Income Tax when the assessment is above £20?—Yes.

20,866. That is what you suggest?—Yes.

20,867. In order to enforce that would you have a different Income Tax law in Ireland from what you have in England?—I cannot make any suggestion as to that.

20,868. May I put it to you that there is only one Income Tax law at present for the whole United Kingdom, and that the basis of assessment in England is on the whole a fair basis, both for farmers and for traders, and that the assessment on which they pay, broadly speaking, bears a proper relation to the profits which they make and which are liable to Income Tax. If your remedy were applied over the whole area it would bring in people in other parts of the Kingdom outside Ireland who would have to pay on assessments of over £20 when they are not making an income over £20. Would you not say that the proper remedy rather for this state of things, on these facts that you state to us, is not to tax the Irishman on a different figure from that on which

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he is taxed, but to raise his assessment to the proper figure as is done in England, and let him be taxed on the same basis as an English farmer?—I think an Englishman and an Irishman should pay on the same basis.

20,859. Does not that point to raising the Irishman's assessment instead of taxing him on £30, because when he calls himself £30 you may know he is really making £200. Instead of doing that, when he is really making £200, assess him on £200; is not that a preferable method?—That would raise this difficulty. In order to arrive at his income, debit and credit accounts should be kept, and they are never kept in Ireland.

20,870. Excuse me, I do not think so. If you take Schedule B, it does not involve keeping accounts. What you complain of is that the assessment is too low and if the assessment in Ireland were raised to the same point as the assessment in England and represented the true letting value of the farm that would put matters right, would it not?—Yes.

20,871. Would not that be a preferable way of putting matters right rather than having, first of all, a system of false assessment compensated for by a system of false rate of tax?—I was not aware of the difference between the system of valuing land in England and in Ireland for rateable purposes. The value of our land has been stereotyped since 1848.

20,872. And it is not the true value?—The idea that was in my head when I was drafting that paragraph was to show this Commission that people that were called at one time middle class people, such as clerks in large commercial concerns and banks, earning what was looked upon before the war as a pretty good living wage of £4 a week, are bound to pay Income Tax minus the abatement of £120, and they are in an inferior position to a farmer holding 30 acres of land at £30 valuation.

20,873. That is because his valuation is too low?—Yes.

20,874. I will get at it from another point. In this paragraph 6 you state here in so many words: "The prices realized by the sale of the occupation interest prove this. The tenant's interest in one acre of land a mile from the local town was sold for £150—rent 1s. a year, valuation £1 10s.—or, say, 120 years purchase." Is that an actual fact?—Yes, an actual fact a mile from where I live.

20,875. Within your knowledge?—Yes, I know it.

20,876. And these instances given in this paragraph are actual facts within your knowledge?—Yes, within my knowledge.

20,877. Taking these as facts, would you say that those large payments for tenant right represent the capitalized difference between the rack rent and the judicial rent?—In a great many cases it does; probably it may exceed it.

20,878. What else could it represent?—A person may give more than the capitalized amount if it would square his farm.

20,879. It is the capitalized difference between the value to the tenant and the capital value of the actual judicial rent?—Yes.

20,880. Then would it not be true to say that the sum of these two values would really represent the value of the farm, or, to put it in another way, that the annual value of one of these payments together with the rent would be some guide—I do not say it would be actual—but it would be some guide towards what the actual annual rateable value of the farm was?—It is very difficult for me to form an opinion on the matter, as in order to arrive at the true value I suppose it would mean further legislation and another Commission to re-value the whole thing. I have a case in my mind where the Land Commission were applied to by the landlord to fix the redemption value of the farm, and they fixed it at £650. It could not be got before the war; you could get three or four times £650 for it now. That was a tribunal appointed by the Government—the Land Commission.

20,881. You understand that valuations ought to be altered theoretically as often as necessary—what I mean to say is that the annual valuation of a farm or of a business depends on circumstances which may change?—Yes.

20,882. And you have pointed out here that you have got a valuation which is nearly 100 years old and which has never been altered at all?—It has never been altered since 1848.

20,883. Of course, you cannot alter your valuation every year?—No, it would be undesirable.

20,884. I do not want to press you to say that the annual assessment value of a farm should be arrived at by taking the rent plus the annual value of the tenant right, but in a concrete case would it not be some guide? Take here one of these actual cases of yours. Here are 25 acres of land near a village sold for £2,250, rent £14, valuation £250?—Yes.

20,885. I will not take you further about the 90 years purchase because that has got nothing to do with it; take those figures?—That farm is adjacent to a village and it is bought by a local grocer who probably gave more for it than a *bond fide* tenant farmer would give.

20,886. That was because he could make more profit. All I say is, is not that a guide. The valuation of those 25 acres is £25, is it not?—Yes.

20,887. The rent is £14?—Yes.

20,888. The tenant right fetched £2,250?—Yes.

20,889. Take that for the sake of argument at 4 per cent; that would be roughly £90, would it not?—Yes.

20,890. Supposing you were going to try and arrive at what was the fair annual value of that farm for assessment, would you not say that those were two very material factors, that it was worth that man's while who was going to take that farm to pay £14 a year rent and also to be out of the interest, namely, £90, on £2,250?—Yes.

20,891. And therefore the man who is now occupying that farm really stands not at a rent of £14 but at a rent of £104?—That is so.

20,892. Would you not say that that was a very important factor in arriving at the annual value of that farm on which a man should pay?—Yes, I should, for the tribunal appointed to determine the value for rateable purposes.

20,893. I do not press you to say that it is final; I only ask you to say that it is material?—Yes, it is material.

20,894. What is there in Irish law which prevents the Assessor of taxes raising that issue now?—That clause which I refer to here as the characteristically Irish one.

20,895. Where are you now?—In paragraph 2. I say under Schedule B the income is assumed to be twice the Poor Law valuation, the rent, or the purchase annuity, whichever is the lowest.

20,896. Yes, I see; so you have to get rid of that?—Yes.

20,897. Would it not meet your case better to deal with the thing in that way than by having a differential rate of tax to cover the present differential rate of assessment?—I think the present valuation being known, you would have less heart-burning, and there would be less objection to putting the law in force on the existing valuation rather than going in for the other.

20,898. That would involve separate legislation for Ireland, would it not?—I am afraid I cannot answer that.

20,899. There is no such system as this in England, and therefore to deal with this in your way would involve a basis of Income Tax assessment on land in Ireland totally different from that in England?—I had in my mind at the same time to make the suggestion that the scale abatements should cease, and then you would bring a large number within the Income

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Tax net, but while making that suggestion I also intended to suggest concurrently that the tax on tea and sugar should be reduced so as to compensate the poorer workers for what they pay in Income Tax.

20,900. That is on the principle that two wrongs make a right, is it not?—No. I think it is very unjust that a poor man earning £1 a week has to pay as much revenue in drinking tea as his lordship does, because he pays through his mouth.

20,901. I am not on that point at all. When I say two wrongs do not make a right, what I mean is that you have a wrong assessment, and you are trying to put that right by doing away with an abatement which in itself is right if it is properly applied?—It is theoretically right. I know the "allowance for subsistence" theory. The progressive rates of Income Tax set forth in my evidence would be more accurate in operation than the clumsy expedients of "scale abatements."

20,902. Has it ever occurred to you that the object of the Irish land legislation was to enable occupiers of land to hold it at rather low rents?—Yes.

20,903. Is not what has happened now, through the enormous prices paid for tenant rights, that when the farms have changed hands once they stand at rents at least as high or higher than they did before?—The English Parliament proceeded on wrong lines altogether in the matter. Fixity of tenure was right, and fair rent was right, but free sale cut its throat. Free sale simply transferred the power of rack-renting from the landlord to the outgoing tenant. It simply transferred the increased increment from one person to another.

20,904. I should like to follow that up, but it is rather outside our scope. In the last part of your evidence you have put down a rather interesting scale of taxation which you propose. Take the large incomes of £30,000 or £40,000 a year. You realise that the scale you propose is almost identical with the present rate of tax?—In my own case I believe it is.

20,905. On an income of £30,000 a year your total tax is £14,682, which is 48 per cent?—Yes.

20,906. That almost exactly corresponds with the present Income Tax at 10s. in the £. Income Tax and Super-tax on that income is 10s. in the £?—I did

not make the comparison generally. I looked at the scale to see how I was affected myself.

20,907. Sir E. Nott Bower: With regard to Griffith's valuation, that was fixed about 70 years ago, do you consider that that includes the value of the tenant right?—No. The Griffith valuation was based upon prices expressly mentioned in the section of the Act of Parliament dealing with the matter. The price of hedges, wheat, and all agricultural produce was mentioned at infinitely less prices than now obtain.

20,908. In paragraphs 2 to 6 you give instances of some of the anomalies that occur through the Schedule B assessment being based either on the valuation, or on the purchase annuity, or interest in lieu of purchase annuity?—The higher the rent the more burden of Income Tax there is on the tenant; the richer he is looked upon by that section, strange to say.

20,909. But those inequalities that you call attention to in paragraphs 2 to 6 are small comparatively. Supposing you were to make Schedule B chargeable on the Poor Law valuation, the anomaly would still remain?—I think not to the same extent.

20,910. Let me take a case of yours in paragraph 6, where £2,250 was paid for the tenant right of a farm in which the rent was £14, and valuation was £25. That only allows £11 for the valuation of a tenant right which sold for £2,250?—Yes.

20,911. Take the next case, 175 acres sold for £6,555; the rent was £140, and the valuation was £154?—Yes.

20,912. There is only £14 a year there to represent the annual value of the tenant right, which sold for £6,555?—Yes. If a re-valuation were made similar to Griffith's, but on current prices, the valuation, I am afraid, would be doubled.

20,913. Chairman: We are very much obliged to you for your evidence?—There was one point I intended to mention, and that was the defects of the present system of issuing demand notices. I collect rents of an estate, and I am furnished with an account for tenants that have been dead for forty years.

20,914. May we have that?—Yes, you may have that. They claim £27 4s. 1d., and they were reduced to £11 8s.

THIRTIETH DAY, THURSDAY, 6TH NOVEMBER, 1919.

PRESENT :

LORD COLWYN (*in the Chair*).

MR. PRETYMAN
SIR E. E. NOTT-BOWER.
SIR J. S. HARMOOD-BANNER.
SIR W. TROWER.
MR. ARMITAGE-SMITH.
MR. BIRLEY.
MR. WALKER CLARK.
MR. GRAHAM.

MR. KERLY.
MRS. KNOWLES
MR. McLINTOCK.
MR. GEOFFREY MARKS
MR. MAY.
PROFESSOR PIGOU.
DR. STAMP.

Mr. W. SHANLAND, an Assistant Chief Inspector of Taxes, called and examined.

The witness handed in the following statements as his evidence-in-chief:—

No. I.—INCOME TAX CHARGED UNDER SCHEDULE A ON LANDS AND HOUSE PROPERTY, AND THE ALLOWANCE FOR REPAIRS MADE IN THE COLLECTION OF THE TAX UNDER THAT SCHEDULE.

A. ASSESSMENT OF PROPERTY FOR THE PURPOSES OF INCOME TAX, SCHEDULE A.

20,915. (1) Under the provisions of the Income Tax Acts the measure of the profit arising from the ownership of lands and house property is, for the purposes of taxation under Schedule A, the annual value of the property, which is defined to be—

- (i) the amount of the rent by the year at which properties are let, if they are let at rack rent and the amount of that rent has been fixed by agreement commencing within the period of seven years preceding the 5th day of April next before the time of making the Income Tax assessment; or
- (ii) if the properties are not let at a rack rent so fixed, then the rack rent at which they are worth to be let by the year.

20,916. (2) The question of the Schedule A assessments in Scotland and Ireland will be dealt with separately. As regards England and Wales (subject to certain reservations affecting the Administrative County of London which are mentioned in paragraph 3 below) the duty of assessing the annual value for the purpose of Schedule A is primarily placed, in a year of re-assessment, upon the Assessor, who, according to the letter of the law (which has been in force since the year 1842 and reflects the conditions of that period), is the authority by whom the assessment is to be made. In practice, however, the force of circumstances has to a large extent placed this duty in the hands of the Surveyor of Taxes (see the evidence of Sir Thomas Collins: paragraphs 16 to 21 of Appendix No. 4).

20,917. (3) In the past, re-assessments have ordinarily been made every three, or in more recent times every five years, the annual value so assessed being continued in force for intervening years by a special legislative enactment. A general re-assessment was last made for the year 1910-11 and in the ordinary course of events there would have been a re-assessment for the year 1915-16, but war conditions—the effects of which have not yet passed away—have up to the present rendered it undesirable as well as impracticable to undertake this duty.

As regards the Administrative County of London the gross value in the Valuation List under the Valuation of Property (Metropolis) Act, 1860, is by that Act made conclusive for the purposes of Income

Tax (and Inhabited House Duty). These special provisions for London are referred to in the Rules applicable to Schedule A, First Schedule to the Income Tax Act, 1918.

20,918. (4) In regard to the machinery for making a re-assessment for the purposes of the Income Tax Schedule A, the Board of Inland Revenue have three suggestions to make.

20,919. (5) In the first place they would point out that, having regard to the staleness of the existing assessments, it is desirable that the interval between the commencement and the completion of the next re-assessment should be as short as possible. There is, however, one consideration which may render impracticable the attainment of this ideal. The position as regards available staff renders it highly improbable that the Department will be able to undertake in the near future a work of such magnitude in addition to its other duties. In these circumstances the Board of Inland Revenue suggest that in order to avoid delay, it is desirable that the work of re-assessment should not be undertaken for the country as a whole at one and the same time, but should be spread over a series of years (not exceeding five), the area re-assessed each year to be scheduled, and the Schedule to be laid before Parliament.

After the next re-assessment of the whole country has been completed, the Board of Inland Revenue consider that from the practical point of view the best course would be to re-assess every succeeding year a portion of each tax district on such a basis that the whole district (and consequently the whole country) would be re-assessed once in every five years. Such a course, however, has the attendant drawback that it might give rise to complaints of inequality of treatment as between contiguous areas. If the Royal Commission should come to the conclusion that this objection would be fatal to the proposal, the Board would suggest that, instead of re-assessing annually a fraction (say one-fifth) of each tax district, the country as a whole should be divided into areas (about five in number) and that one of each such area should be re-assessed annually. This latter course, while not so convenient administratively as the former proposal, would at least have the advantage that it would be distinctly superior to the present system of attempting to re-assess the whole country simultaneously.

Even under normal conditions in the past, a general re-assessment of the country as a whole has imposed upon the Tax Surveying Staff a burden which they could carry only with great difficulty. Under conditions which obtain now and are likely to obtain in the near future, the general commitments of the Staff are far heavier. In addition, since the last re-assessment in 1910, the gradation of the Income Tax has been greatly extended, and allowances

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for wife, children, &c., have been introduced, and these complications of the Income Tax scheme will involve a great increase in the work of revising allowances, rates of Income Tax, &c. (so far as they affect the charge upon income derived from property), which are consequential upon a re-assessment. In these circumstances the Board are clear that a re-assessment of the whole country at one and the same time could not in future be performed in a reasonably satisfactory manner.

One point further arises. Under the provisions hitherto in force a re-assessment is operative in the year in which it is made, and as a result the whole work of re-assessment, including the work of making the consequential adjustments of allowances, &c., referred to above, has to be carried out within a period of less than a year. Whether it be decided that re-assessment of different areas should be undertaken at different times, or whether it is felt that the re-assessment of the country as a whole must continue to be made as one and the same time, the Board are convinced that some method must be devised to enable the work (in any area in which re-assessment is taking place) to be spread over a longer period than has been provided in the past. The strain would be eased to a considerable extent if the re-assessment of any area begun during a particular year were not to become effective until the year following. Such a course would in effect separate the element of valuation from the consequential element of ascertaining and giving effect to personal allowances for abatement, wife, children, &c., and determining the rate of duty to be charged. The Board accordingly suggest that in future it should be provided that the re-assessment of any area begun during a particular year should not become effective until the year following.

20,920. (6) The second suggestion is concerned with bringing into line with modern conditions the provisions, inherited from a past age, for the division of functions between different officials. This question, which forms part of the general question of the administrative provisions of the Income Tax Act, will be dealt with later by another official witness.

20,921. (7) The third suggestion relates to the improvement of the means of arriving at the correct valuation of properties in England and Wales (outside the Administrative County of London). As the rack rent is the legal measure of annual value in the case of rack rented properties and as these constitute the great majority of properties, it is only in a limited number of cases that the process of valuation presents technical difficulties of a serious character. In these special cases, however (e.g., licensed premises, premises held on long leases, and premises in the occupation of the owner), it may be desirable that the Surveyor of Taxes should have the assistance of the technical staff of the Land Valuation Office in order to secure a satisfactory valuation.

At present there exists no legal machinery under which the services of the Board's Valuers can be enlisted in the making of re-assessments for the purposes of Income Tax, Schedule A, and it is desirable that this defect should be remedied. It is suggested that the Surveyor of Taxes, the official upon whom in fact, though not in theory, the duty of re-assessment falls, should have power to enlist the services of the Board's Valuer in cases involving difficulty and requiring expert knowledge, and to call in such Valuer as a witness in the event of an appeal being preferred by the taxpayer against the Income Tax assessment when made. The taxpayer must also, of course, be allowed to bring in a valuer as an expert witness on his behalf, if he wishes to do so.

Such a provision might appropriately replace sections 116 and 138 of the Income Tax Act, 1918, the effect of which is as follows. Section 116 empowers the Assessor or Surveyor, after obtaining an order of the General Commissioners, to take with him a valuer to be named in the order and to inspect and value the property. This relates, however, only to cases—

- (i) where no return of rent or annual value has been received, or

- (ii) where the Commissioners are not satisfied with the return.

Section 138 empowers the General Commissioners, either of their own motion or on the demand of the appellant, if on appeal against an assessment under Schedule A or Schedule B a dispute arises as to annual value, to direct the appellant to cause a valuation to be made by a "person of skill" to be named by the Commissioners. The valuation so made must be adopted. It will be seen that neither of these sections meets the case: the former applies in a limited number of instances only, and involves an application to the General Commissioners for an order, while the latter obviously does not remove the possibility of inaccurate assessment under present conditions in the cases referred to in the foregoing paragraphs.

20,922. (8) The proposal is sometimes made that the general method of assessment of land and house property should be radically altered and that in future the income derived from these sources should be assessed to Income Tax under the Rules of Schedule D. That proposal is dealt with in paragraphs 26 and 27 below.

It ought perhaps to be added that in the event of the introduction of a general Valuation Bill for Imperial and local purposes the whole question of the basis of assessment of Income Tax, Schedule A, would need to be reconsidered as an integral part of any such contemplated scheme. It is submitted, however, that unless and until that contingency arises no useful purpose would be served by an attempt to forecast the line of action which would require to be taken.

B. THE ALLOWANCE FOR REPAIRS, &c.

20,923. (9) I am putting in a separate note on the history of the allowance for repairs, maintenance, insurance and management of property [see Appendix No. 7 (a)] in regard to which the existing statutory provisions are as follows:—

Income Tax Act, 1918, Schedule A, No. V., Rule 7.

- "(1) Where tax is charged upon annual value estimated otherwise than by relation to profits, the following provisions shall have effect:—

(a) In the case of an assessment on lands inclusive of the farmhouse and other buildings (if any), the amount of the assessment shall, for the purposes of collection, be reduced by a sum equal to one-eighth part thereof; and

(b) In the case of an assessment upon any house or building (except a farmhouse or building included with lands in assessment), the amount of the assessment shall, for the purposes of collection, be reduced—

- (i) Where the owner is occupier or chargeable as landlord, or where a tenant is occupier and the landlord undertook to bear the cost of repairs, by a sum equal to one-sixth part of that amount; and
- (ii) Where a tenant is occupier and undertook to bear the cost of repairs, by such a sum, not exceeding one-sixth part of that amount, as may be necessary to reduce it to the amount of rent payable by him.

- "(2) Where the amount of the assessment in the case of lands (inclusive of the farmhouse and other buildings) is more than one-eighth, and in the case of any house or building (except a farmhouse or building included with lands in assessment) is more than one-sixth below the rent, after deducting from such rent any outgoing which should by law be deducted in making the assessment, this rule shall not apply."

[These allowances are annual. In practice, however, they are not revised from year to year, except on application by the taxpayer, as no information as to alterations of rents or conditions of tenancy is available.]

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Income Tax Act, 1918, Schedule A, No. V., Rule 8.

20,924. (1) If the owner of any land or houses to which this rule applies shows that the cost to him of maintenance, repairs, insurance, and management, according to the average of the preceding five years, has exceeded, in the case of land, one-eighth part of the annual value of the land as adopted under this Schedule, and, in the case of houses, one-sixth part of that value, he shall be entitled, in addition to any reduction of the assessment for the purposes of collection, on making a claim for the purpose, to repayment of the amount of the tax on the excess.

(2) For the purposes of this rule, the term 'maintenance' shall include the replacement of farmhouses, farm buildings, cottages, fences, and other works where the replacement is necessary to maintain the existing rent.

(3) This rule shall apply to any land (inclusive of farmhouses and other buildings, if any, the assessment on which is reduced for the purpose of collection, and to any house the annual value of which, as adopted under this Schedule, does not exceed twelve pounds, and the assessment on which is so reduced.

(4) In comparing, for the purpose of this rule, the cost of maintenance, repairs, insurance, and management of any land or houses with the annual value of the land or houses, the total cost of the maintenance, repairs, insurance and management on any land managed as one estate, or of any houses on any such land, shall be compared with the total annual value of the land or houses, as the case may be.

(5) All the provisions of this Act which relate to claims for exemption, abatement, or relief, or the proof to be given with respect to those claims, shall apply to claims for repayment under this rule and the proof to be given with respect to those claims:

Provided that, if the owner of any land or house makes and delivers to the surveyor of any district in which the land or house is wholly or partly situate, a declaration as to the cost to him of maintenance, repairs, insurance, and management, and the surveyor is satisfied as to the correctness of the declaration, the amount of the allowance to which the owner is entitled under this rule shall be certified by the surveyor, and repayment shall thereupon be made in accordance with his certificate.

(6) In computing the five-year average for the purposes of this rule, the year shall be taken to be the year ending on the thirty-first day of March, or such other date as may be adopted by the owner of the land or houses with the consent of the surveyor of the district, and the five preceding years shall be taken to be those preceding the commencement of the year for which the tax in respect of which a claim for repayment is made is charged."

Finance Act, 1919, Sec. 19.

20,925. "The houses to which Rule 8 of No. V. in Schedule A (which confers relief in certain cases in respect of the cost of maintenance, repairs, insurance, and management of houses) applies, shall be any house the annual value of which, as adopted under Schedule A, does not exceed—

(a) where the house is situate in the Metropolitan police district, including the City of London, seventy pounds;

(b) where the house is situate in Scotland, sixty pounds; and

(c) where the house is situate elsewhere, fifty-two pounds;

and sub-section (3) of the said Rule 8 shall be amended accordingly: Provided that no repayment of tax shall be made under the said Rule 8 in respect of the cost of maintenance, repairs, insurance, or management, if or to such extent as the said cost has been otherwise allowed as a deduction in computing income for the purposes of Income Tax."

20,926. (10) Broadly speaking, therefore, the present position as regards the repairs allowance is as follows:—

(i) an allowance is made of one-eighth of the annual value in the case of land;

(ii) an allowance may be made of one-sixth of the annual value in the case of houses and buildings.

In addition to this, in the case of land (inclusive of farm houses and other buildings) and in the case of houses the annual value of which does not exceed £70 (Metropolis), £60 (Scotland), or £52 (elsewhere), the landlord is entitled to relief, if in any case the tax charged exceeds the amount applicable to the net income derived from the property, i.e., the rents less the average cost of repairs and maintenance.

20,927. (11) The first question which arises is whether in those cases in which the owner cannot claim relief beyond the statutory deduction of one-sixth or one-eighth that deduction is adequate.

The cases mainly affected are houses exceeding the annual values of £70, £60 or £52 alluded to in the previous paragraph.

Large houses.

20,928. (12) At the moment conditions are abnormal. The cost of repairs is very high, and to some extent postponed repairs are being executed, while in the immediate past repairs have been executed only to a small extent, and expenditure has been restricted accordingly. Any judgment based upon the conditions of to-day might prove quite inequitable if applied to the conditions of the future.

20,929. (13) In the case of houses of an annual value greater than the limits indicated in paragraph 11 above, it is a matter for consideration whether, when rents and the cost of repairs shall have settled down in a condition approaching stability, the present allowance of one-sixth year by year may not be adequate to meet the average cost of repairs over a period of years. It will be borne in mind that an increased rent carries with it an increase in the amount of the repairs allowance, e.g., if a house is now of the annual rental value of £90 and hereafter increases in value to £120, the repairs allowance will automatically increase from £15 to £20 (the latter amount representing between one-fifth and one-fourth of the present annual value).

20,930. (14) If a case for an increase of the existing allowance is to be made out, it will be necessary to show that the cost of repairs in these cases will increase disproportionately to the future increase of rent. So far as the Board of Inland Revenue are aware, no definite evidence has yet been forthcoming to prove the existing allowance of one-sixth to be, in fact, inadequate over a period of years for this class of property, even taking into account the present abnormal conditions.

It should be remembered also that in the case of the larger houses changes of occupier involve the landlord in expenditure on internal repairs less frequently than in the case of houses of less value. A considerable proportion of the large houses are either let upon full repairing leases and leases throwing the cost of internal repairs upon the occupier (no portion, or only a small part, of the cost of repairs falling upon the owner), or are in the occupation of the owner, who is thus spared the cost of redecoration, &c., necessary upon a change of occupancy.

As regards premises which are used for the purposes of some business undertaking, the profits of which are assessable under the Rules of Schedule D, it is generally the case that the premises, when not in the occupation of the owner, are let on lease and the

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burden of repairs falls upon the occupier. In such circumstances, and also in the case of an occupying owner, the cost of repairs is allowed as a deduction in the computation of the profits for Schedule D purposes, and accordingly the question of a further allowance does not arise.

Small houses.

20,931. (15) The complaints which have in the past reached the Board of Inland Revenue on the subject of the inadequacy of the repairs allowance have mainly had reference to the smaller dwelling-house. This grievance has now been met by the extension of the limit of annual value within which claims can be made for adjustment by reference to actual average repairs. Section 19 of the Finance Act, 1919, which granted this extension has only recently become law and no claims have yet been received thereunder; it is, therefore, impossible to say at present to what extent the facts will prove that this extension was necessary.

Objections to present system of allowance for repairs in the case of the smaller houses.

20,932. (16) Objections have been raised to the present system on two grounds:—

- (i) that to obtain the allowance granted by Rule 8 of No. V, Schedule A, as extended by Section 19 of the Finance Act, 1919, by reference to actual average repairs, a claim of repayment difficult to prepare must be formulated; and
- (ii) that with a rapidly rising cost of repairs a five years' average is inequitable and the allowance should be on a basis which will give a result more nearly approaching the present "probable average cost of repairs."

20,933. (17) As regards the first objection it may be pointed out that the average system of claim, which has been in force for ten years, has been confirmed by Parliament only a few months ago when the present annual value limits were fixed by section 19 of the Finance Act, 1919 (see paragraph 9). Any general increase in the rate of the statutory allowance such as would do away with the necessity of claims is open to the serious, and perhaps fatal, objection that a grant of relief adequate in the case of the good landlord who thoroughly maintains his property would equally enure to the benefit of the bad landlord whose expenditure is inadequate and far less on the average than the amount of the allowance.

20,934. (18) The second objection (see (ii) in paragraph 16 above) is in its nature temporary and arises from the abnormal conditions which have obtained during the past few years. It is true that when postponed repairs are being executed the average system is for the time unfavourable to the taxpayer, but this disadvantage may be expected to disappear when the years of heavy expenditure come into the average. Moreover, whilst repairs during the war years have necessarily been reduced to a minimum, the statutory allowance of one-sixth has been granted year by year irrespective of the actual amount expended on repairs, which must frequently have been less than the statutory allowance or, in fact, nothing at all.

The circumstances of the case clearly demand that the relief to be granted should be on the basis of average expenditure over a considerable period, as otherwise an owner would be able to alternate between actual expenditure and the statutory allowance of one-sixth, as might best suit his advantage.

The question of a variation in the present flat rate of allowances for repairs, &c., in the case of the smaller houses.

20,935. (19) It is, of course, true that at the moment the cost of any repairs that are being executed is high, but there is no collected information to show how far the existing uniform allowance for repairs is adequate in the case of the smaller houses. A deputation which was received by the Board of

Inland Revenue at the end of 1915 suggested an increase from the one-sixth to one-fourth on houses up to £20 annual value. An even higher rate of allowance has been recently suggested, while various witnesses who have appeared before the Royal Commission have suggested increasing the existing allowance of one-sixth to one-fifth or one-fourth, but no reasoned argument based on actual figures produced has been advanced in support of these claims.

20,936. (20) A report issued early in the present year by a Committee appointed by the Minister of Reconstruction in connection with the Increase of Rent and Mortgage Interest (War Restrictions) Act, in relation to the housing of the working classes after the war, contains the following statements which are relevant to the question dealt with in this proof of evidence.

Paragraph 13. "All the property owners emphasized the great increase in cost of repairs (which was put at 100 per cent. to 200 per cent. according to the district) and in management (generally including insurance) . . ."

Paragraph 14. "There was considerable variation as to exact figures, but the general effect of the evidence was that, on the average, repairs amounted before the war to approximately 20 per cent. of the rental (exclusive of rates), and that the cost of repairs at present might be taken to be considerably more than double the pre-war cost, and was likely to be approximately double for the next one or two years."

Paragraph 49. "One very general cause of complaint of the owners was the inadequacy of the present allowance for repairs and management under Schedule A of the Income Tax Acts . . . The general effect of the evidence was that even before the war repairs to the cheaper class of property absorbed up to 25 per cent. of the rental, and the amount now will be much greater . . . We think that a more generous allowance should be made than at present . . . it seems to us that the matter might be met by allowing a greater deduction in respect of the cheaper houses. The figure suggested to us as fair is one-fourth or one-fifth."

The Committee recommended that:

"As the present deduction in respect of the cost of repairs and management for the purposes of income tax under Schedule A appears to us to be inadequate, at any rate, in the case of small house property, a larger deduction should be allowed to owners of houses falling within the Act.* Some provision should, however, be made to ensure that this larger allowance should not be obtained in cases where proper repairs have not been done."

The concluding sentence of the recommendation emphasizes the danger of too high a flat rate of allowance. It would be quite impracticable for the Board of Inland Revenue to ascertain whether or not adequate repairs had been executed before making the flat rate allowance.

20,937. (21) Suggestions have been made that differential rates of allowance for repairs, varying with annual value, should be introduced. On this question it will be generally agreed that a rate of allowance which is reasonable in the case of better class property may be inadequate where small weekly property is concerned, particularly when such property is in a poor neighbourhood. Property of this kind is subject to abnormally rough usage by tenants, and constant changes of tenants involve the necessity of repairs and renovations at short intervals.

The Board, as subsequently stated (paragraph 23), are not in a position to submit for consideration any specific change in the existing general rates of allowance, but in principle they are not disposed to regard

* Note.—The houses which fall within the Act referred to, i.e., the Act of 1915, were houses the standard rent or rateable value of which did not exceed, in London, £35; in Scotland, £30; elsewhere, £25.

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as unreasonable some differentiation between the rates granted to small houses, say under £30 or under £40, as compared with that given in the case of larger houses.

Adequacy of the existing flat rate of allowances for repairs.

20,938. (22) In considering the adequacy of the existing uniform rate of allowance for repairs the question of the annual value of the site as distinct from the annual value of the actual building erected thereon is one of importance. In the determination of full annual value for the purpose of Income Tax, Schedule A, site value is frequently an important factor, although on the other hand in the case of small property this factor is often of little importance. It normally grows in importance as the annual value of the property under consideration increases, so that in the case of valuable property in an important centre the site value factor is sometimes of greater importance even than the value of the building itself. In such circumstances the allowance of one-sixth for repairs is computed on an amount which is considerably in excess of the annual value of the actual building, i.e., the element which alone requires expenditure on repairs. The other aspects of the site value question are discussed in paragraphs 28 and 29 below.

20,939. (23) The Board of Inland Revenue are not in possession of any reliable material evidence as to

the actual relation of cost of upkeep to rent in various classes of property. These figures do not come before their Surveyors of Taxes, and the facts could probably only be satisfactorily ascertained by a definite enquiry *ad hoc*, the results of which, however, undertaken at the moment might prove wholly misleading in determining a course of action to govern the future.

Having regard to the fact that the cost of repairs is at present abnormal, that it is impossible to forecast its future course, and that the rental position is artificial in consequence of the Rent Restriction Act, it is suggested for consideration whether it is desirable to propose at the present time a specific variation in the general flat rate of allowance, which will become effective and remain in force after a date when the cost of repairs may be expected to have become stabilised at a rate lower than the present cost, and the rents to have settled, as the result of freedom of contract, on a higher basis, which it may be assumed will reflect to some extent any increased cost of upkeep.

Estimates of cost of increases in the flat rate of allowance for repairs.

20,940. (24) It is estimated that, calculated at the present rates of duty, the cost of any increase in the general rate of allowance would be as follows:—

Houses under £20.		Houses £20 and under £40.		All houses and premises.	
General rate increased to		General rate increased to		General rate increased to	
One-fifth	One-fourth	One-fifth	One-fourth	One-fifth	One-fourth
£60,000	£150,000	£60,000	£150,000	£600,000 (a)	£1,500,000 (b)

The consequential loss of Super-tax is estimated, at current rates, at (a) £130,000; (b) £350,000.

The Annex to this evidence shows the deduction for repairs, &c., made from gross value in order to arrive at rateable value, under the provisions of the Valuation of Property (Metropolis) Act, 1909.

Suggestion that the actual cost of repairs should be allowed in all cases.

20,941. (25) The suggestion has been made by several witnesses who have appeared before the Royal Commission that in lieu of a flat rate of allowance for repairs, the actual cost of repairs might be allowed. When it is remembered that there are about 12,000,000 properties within the purview of the Income Tax and some 2,000,000 owners, it will be realised that—apart from other objections—there are insuperable objections from the administrative point of view to this suggestion, which would in the first place involve a great increase in the cost of administration.

Proposal to assess income from property under the rules of Schedule D.

20,942. (26) Proposals have from time to time been adumbrated that income from land and house property should be assessed under Schedule D or according to the rules of Schedule D. (See paragraph 7 of the Historical Note as to the allowance for repairs.) [Appendix No. 7 (q).]

20,943. (27) Apart from the paramount objection that the proposal would involve an important departure from the principle of taxation at the source, which it is so essential to preserve intact, the administrative difficulties mentioned in paragraph 25 would all be present. Moreover, in addition to the great increase in administrative expenditure involved,

there would undoubtedly be a considerable leakage of revenue if income from property were charged under Schedule D, *e.g.*, owing to omissions of properties from returns, absence of returns, deduction of capital expenditure, &c. The State would thus lose revenue in two ways—by increase in the cost of administration and by decrease in actual revenue. There is the further difficulty that there are many classes of cases where the amount of profit or benefit derived from the ownership of property is not represented by a money payment, but is measured by valuation, *e.g.*, property in the occupation of an owner, beneficial interests in leasehold property, licensed house property, &c.

Site value and the allowance for repairs.

20,944. (28) As has been mentioned above in another connection (*see* paragraph 22), the deduction of one-sixth for repairs of buildings is computed on the full annual value, *i.e.*, on the aggregate annual value of the building and of the site. The expenses which are intended to be covered by the deduction relate to the building only. In the case of small property or property in a district where land is of little value this question is not of great importance, but where the value of the building forms only a small proportion of the aggregate value the deduction of one-sixth may be greatly in excess of the actual expenditure.

Not only so, but inequality arises from the existing state of affairs. Assume two similar buildings, one on a valuable site and assessed at £3,000 (annual ground value £2,000), the other on an unimportant site and assessed at £1,200 (annual ground value £300). In each case the portion of the assessment which relates to the building is £1,000, but in the former case an allowance of £500 is made for repairs,

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in the latter £200, although on *hypothesis*, the outlay on repairs is the same in both instances. A somewhat similar position arises with licensed houses, where the monopoly value of the licence is included in the Schedule A assessment.

20,945. (29) A provision that where the District Commissioners are satisfied that the value of the site exceeds a percentage, to be defined, of the total assessed value, the repairs allowance, suitably adjusted, should be calculated by reference to the apportioned value of the structure only, would assist in removing the anomaly, but the practical application of such a provision would involve great difficulty, and for this reason the Board of Inland Revenue hesitate to recommend an amendment of the law in this direction.

Repairs of empty property.

20,946. (30) Rule 4 of No. VII of Schedule A directs that tax under Schedule A shall be charged on all lands, tenements and hereditaments whether occupied or not, and that tax shall not be levied on any house for the period during which it is unoccupied, but that the General Commissioners on proof shall discharge the tax in respect of that period. In practice, except in case of dispute, the matter does not come before the General Commissioners, but the local Collector of Taxes, on receipt of a certificate as to the void period, furnished by the owner or his agent, makes an allowance of tax applicable to the period during which the property was empty. Since tax for the whole year has been computed on the net assessment (i.e., on the full annual value less the flat rate allowance for repairs), and the tax eventually collected is tax on a proportionate part of such net sum, it follows that the allowance which the owner receives is only the corresponding proportionate part of the flat rate allowance for repairs for the whole year.

20,947. (31) It was suggested by Mr. A. L. Rydo, appearing on behalf of the Surveyors' Institution (Question 15,635), that premises which are empty have nevertheless to be kept in repair and insured, and that therefore an allowance for repairs (but less than the full fractional rate) should be made in respect for the period during which the premises are unoccupied.

20,948. (32) The Board of Inland Revenue are unable to associate themselves with this suggestion, which in principle amounts to a proposal to carry forward from year to year a loss arising from property. The circumstance that property may from time to time be unoccupied is a factor which must be presumed to have been taken into account in determining the present flat rate allowance for repairs. It may be added that this question of an allowance in respect of repairs on property unoccupied has not in the past been a prominent subject of complaint, and it is possible that, since in the case of property unlet for a comparatively short period repairs are as a rule deferred until the premises are relet, from which time the statutory allowance recommences, the normal fractional allowance has been recognized as a compromise which reasonably meets the contingency of casual voids.

ANNEXE.

20,949. The Valuation of Property (Metropolis) Act of 1899 (Third Schedule) prescribes the maximum deductions to be made from the gross value to obtain the rateable value, in respect of "the probable average annual cost of the repairs, insurance and other expenses, if any, necessary to maintain the hereditament in a state to command that rent" (i.e., the gross value). These deductions, with the corresponding Income Tax (flat rate) allowances, are as follows:—

Class.	Description.	Metropolitan Valuation. Maximum rate of deductions.	Income Tax allowance (flat rate).
1.	2.	3.	4.
1.	Houses and buildings, or either of them, without land other than gardens where the gross value is under £20.	Per cent. or proportion. 25 or $\frac{1}{4}$ th.	Proportion. $\frac{1}{4}$ th.
2.	Houses and buildings without land other than gardens and pleasure grounds valued therewith for the purpose of Inhabited House Duty where the gross value is £20 and under £40.	20 or $\frac{1}{4}$ th.	$\frac{1}{4}$ th.
3.	Houses and buildings without land other than gardens and pleasure grounds valued therewith for the purpose of Inhabited House Duty where the gross value is £40 or upwards.	$16\frac{2}{3}$ or $\frac{1}{4}$ th.	$\frac{1}{4}$ th.
4.	Buildings without land which are not liable to Inhabited House Duty and are of a gross value of £20 and under £40.	20 or $\frac{1}{4}$ th.	$\frac{1}{4}$ th.
5.	Buildings without land which are not liable to Inhabited House Duty and are of a gross value of £40 or upwards.	$16\frac{2}{3}$ or $\frac{1}{4}$ th.	$\frac{1}{4}$ th.
6.	Land with buildings not house	10 or $\frac{1}{4}$ th.	$\frac{1}{4}$ th.
7.	Land without buildings	5 or $\frac{1}{8}$ th.	$\frac{1}{4}$ th.
8.	Mills and manufactories	$33\frac{1}{3}$ or $\frac{1}{3}$ rd.	$\frac{1}{4}$ th.
9.	Tithes, tithe commutation rent-charge, and other payments in lieu of tithe.	To be determined in each case according to the circumstances and the general principles of law.	—
10.	Railways, canals, docks, tolls, waterworks, and geworks.		—
11.	Rateable hereditaments not included in any of the foregoing classes.		—

The maximum rate of deductions prescribed under the Valuation of Property (Metropolis) Act does not apply to houses or buildings let out in separate tenements, but the rate of deductions in such cases is determined as in classes 9, 10 and 11.

NOTE. The Valuation Bill introduced into Parliament in 1904, which it was proposed should extend to the whole of England and Wales outside the Metropolis, adopted the allowances set out in Column 3 in their entirety, making, however, the deductions

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absolute and not merely the maximum. The Bill did not become law. Under this Bill the gross valuation only would have been binding for the purposes of Income Tax, Schedule A, and Inhabited House Duty.

Na. II. ASSESSMENT OF PROFITS FROM THE OCCUPATION OF LAND.

20,950. (1) I am putting in a separate note as to the history of the assessment under Schedule B of profits from the occupation of land [see Appendix No. 7 (r)]. Under the provisions of the existing law (Income Tax Act, 1918, Schedule B.) an occupier of land is, in the ordinary course, assessed in respect of the occupation under the following rule:—

"Tax under Schedule B shall be charged in respect of the occupation of all lands, tenements, hereditaments and heritages in the United Kingdom for every twenty shillings of the assessable value thereof estimated in accordance with the rules of this Schedule."

"In this Act the expression 'assessable value' means in relation to tax under this Schedule an amount equal to twice the annual value of the lands, tenements, hereditaments, or heritages, or, in any case in which it is proved to the satisfaction of the Commissioners concerned that any person occupying any lands and assessed to tax in respect of them is not occupying those lands for the purpose of husbandry only, or mainly for those purposes, and the Board of Agriculture and Fisheries, on a reference to the Board by the Commissioners of Inland Revenue, do not certify that the use of the lands by the occupier thereof for a purpose other than the purpose of husbandry is unreasonable, an amount equal to the annual value."

Rule 3 permits any person occupying lands for the purposes of husbandry only to elect to be assessed and charged under Schedule D, and in accordance with the provisions and rules applicable thereto, instead of under this Schedule.

(This right of election, which must be exercised within two months of the commencement of the year of assessment, is reserved to in a comparatively small number of cases.)

Rule 6 admits an alternative basis of charge by way of relief.

"If a person who occupies, either as owner or otherwise, any lands for the purposes of husbandry only, shows at the end of any year of assessment, to the satisfaction of the General Commissioners, that the profits or gains arising from that occupation during that year fall short of the assessable value of the lands under this Schedule, the income arising from that occupation shall be taken at the actual amount of those profits or gains, and if the whole of the tax has been paid, the amount overpaid shall be certified and repaid in like manner as tax is repaid under Rule 6 of No. V. of Schedule A."

By section 34 of the Income Tax Act, 1918, relief in respect of actual loss sustained is provided—

"(1) Where any person sustains a loss . . . in the occupation of lands for the purpose of husbandry only . . . he may, upon giving notice in writing to the Surveyor within six months after the year of assessment, apply to the General Commissioners or to the Special Commissioners for an adjustment of his liability by reference to the loss and to the aggregate amount of his income for that year estimated according to this Act."

20,951. (2) It must be assumed that when the method of assessing Income Tax, Schedule B, on the basis of rent was originally adopted the Legislature, in deciding upon annual value as the criterion of farming profits, intended to establish and believed that it had established, a rough equality of burden not only as between farmers themselves but also as between farmers and other taxpayers.

20,952. (3) The practical effect of these provisions is, however, to produce an undoubted inequality.

Profits from husbandry are liable to sharp fluctuations, and do not in fact conform normally to a fixed standard in relation to annual value. When they are less the taxpayer can secure relief by substituting for the assessed value the actual amount of profits realised. When they are more, there is no corresponding right on the part of the Crown to obtain an increase in the assessment to the amount of the actual profits. It is, therefore, impossible under the present law to secure for the Exchequer tax upon the aggregate profits made by a farmer, except in those cases where the profits are consistently not more than the amount of the statutory Schedule B assessment. Loss of revenue will arise unless the statutory ratio of assessable value to annual value is fixed so high that it equals or exceeds in every case the profits actually realised—a course obviously far practicable inasmuch as it would involve claims for relief in almost every case.

20,953. (4) The main assumption involved in the present basis of assessment (viz., that the profits arising from the occupation of land vary directly with its rental value) is economically unsound, since at the margin of cultivation there is no rental value, although profit may arise from the use of the occupier's capital and labour. It also leaves out of consideration a number of important factors. Amongst the principal factors are:—

(1) variations in the ability and industry of the occupier;

(2) the amount of capital invested by him;

(3) the nature of the cultivation, which may be of a more or less intensive character, involving the use of very varying amounts of labour and capital.

20,954. (5) The importance of these factors will be obvious. With reference to the first, the implication in the statutory basis of assessment that the profit to the occupier is uninfluenced by considerations of personal capacity, training, &c., does not appear to merit serious consideration. The second and third are to a certain extent related. If the statutory basis were satisfactory it would appear that the farmer, alone amongst business men, is prepared to invest additional capital in his undertaking without any hope or possibility of reward. Such a contention would be obviously unsound. Other things being equal, an able man with plenty of funds for development of his farm may expect to realise a much larger profit than one of equal ability hampered by lack of capital.

20,955. (6) As pointed out in the historical note [see Appendix No. 7 (r)], the Legislature very early in the history of the Income Tax seems to have been impressed with the necessity for making some special provision in order to tax adequately the most obvious instances of lands devoted to the production of special produce requiring exceptional capital and labour.

20,956. (7) The provisions made with this object as regards nurseries and market gardens are sufficient to secure due assessment of the profits thereof, where the nursery or market garden is carried on as a separate industry, but are inadequate in other cases.

Assessment of the profits of nurseries and market gardens.

20,957. (8) The statutory rule of assessment as existing to-day is as follows:—

"The profits arising from lands occupied as 'nurseries or gardens for the sale of the produce (other than lands used for the growth of hops) shall be estimated according to the provisions and rules applicable to Schedule D, but shall be assessed and charged under this Schedule as profits arising from the occupation of lands' (Income Tax Act, 1918, Schedule B, Rule 8.)"

20,958. (9) Probably at the time of passing of the Act of 1896 (where a provision in the above sense was first introduced), the intention was to differentiate between ordinary farming and the special forms of cultivation then to be met with in the case of land devoted to vegetable and fruit growing on the outskirts of large towns. But the development

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of means of easy and rapid communication and the growth of population have resulted in large-scale enterprises embracing in one holding not only considerable areas devoted to fruit and vegetable culture, the ordinary object of market gardening, but also other land farmed on ordinary lines. It would be difficult to bring the whole of such holdings within the definition of a "garden," and impossible to delimit and charge separately such portion of the holding as is in any particular year devoted specially to vegetable or fruit culture. In practice the whole of such holdings are charged under the ordinary rules of Schedule B.

20,959. (10) Among other classes in which the special character of the industry renders rental value an inadequate test of profits may be mentioned:—

- (a) the cultivation of other forms of household produce where the land is mainly devoted to such purpose;
- (b) the breeding of pedigree or other high-class cattle; and
- (c) the growth of hops.

Assessment of farmers on a profit basis.

20,960. (11) The foregoing evidence has been directed mainly to showing that the existing basis of assessment of the profits from the occupation of land for the purpose of husbandry does not secure strict justice as between the taxpayers and the Revenue, and is therefore inequitable. Compared with taxation on a profits basis, it may safely be asserted that it has resulted in a considerable loss of revenue.

20,961. (12) If it be decided to depart from the existing basis of assessment the question of an alternative which is practical in its operation arises. The remedy which must obviously suggest itself is that occupiers of land for the purpose of husbandry should in future be required, in common with other business men, to disclose and pay tax upon their actual profits—in other words, that in future the assessment should be made upon them under Schedule D.

20,962. (13) The main objections to assessment on a profit basis which have been usually urged on the part of the farmer taxpayer are:—

- (1) that the heavy burden of local taxation in proportion to profits borne by farmers is a counterbalance to any advantage they may derive from under-assessment to Income Tax;
- (2) that farmers do not keep accounts, or that they find it difficult or impossible to do so.

The burden of local rates on farmers.

20,963. (14) The suggestion that some alleviation of the burden of Income Tax on farmers is due as a counterpoise to the undue weight of local taxation raises an important issue of principle.

20,964. (15) The Agricultural Policy Sub-committee of the Reconstruction Committee refer to the matter in their report (Cd. 9079), where they state that until recently the special incidence of the cost of rateable services on agricultural holdings has been set off by special relief from Income Tax, a rough and unequal arrangement that has recently become less effective owing to the increase in amount of Schedule B assessments.

20,965. (16) The idea underlying this suggestion that relief from over-pressure of local taxation may be properly afforded by an alleviation of Income Tax is, it is suggested, open to serious objections upon several grounds. *Inter alia*—

- (1) The weight of expert economic opinion would seem to be in favour of the view that the incidence of local rates tends to be rather upon the owner than the occupier, except in so far as increases in rates have been made since the commencement of the tenancy. The prospective tenant-farmer presumably takes into account all the factors that go to make the holding attractive or otherwise, and it would be unreasonable to suggest that where two

farms are in other respects equally suitable, but one is in a high-rated and the other in a low-rated area, this factor will not carry weight.

- (2) It is impossible, it is suggested, to admit the proposition that inefficiency of assessment to Imperial taxation should be continued in order to rectify the inequality of the burden of local rating. Such relief is, in effect, a concealed subsidy on no definite basis, and entirely without regard to the justice of individual claims. If the incidence of the burden of local rating on farmers be unfair, the proper course of rectification is, it is submitted, by way of re-arrangement of the rating system.

Farmers and accounts.

20,966. (17) In the early years of the Income Tax it was probably unusual for a farmer to keep satisfactory—or indeed any—accounts, and on this ground the objection to a charge on a profit basis had, no doubt, at that time a sufficient foundation. This objection, it is submitted, has no longer the strength it had. Farming has tended to develop as a business, and the need for accounts has become recognized. Whilst it may be the case that many farmers are not in the habit of keeping books which disclose their true profit, it is probable that most of the larger farmers, whose income is of importance in connection with Income Tax, do already keep such records as will enable them to make a correct return of their profits.

20,967. (18) It may be added that the Board of Agriculture has for some years been taking action with a view to inducing every farmer to keep accounts, and has issued a leaflet (No. 26) not only emphasising this advice, but also containing ample instructions as to the records to be kept and the method of preparing the necessary profit and loss account.

20,968. (19) Reference may here be made to the report of the Committee of Enquiry appointed by the Union of South Africa regarding Taxation of Income derived from Farming Operations, published in the early part of this year. Income Tax on farmers is, in the Union of South Africa, charged upon actual profits, and difficulty has apparently arisen as to the adequacy of the accounts. Some particulars of the findings are included in the Appendix to this evidence. (See App. No. 14 (f).)

20,969. (20) It is recognized that the determination of farming profits presents certain special problems which are not easily susceptible of entirely satisfactory solution. The difficulties are, however, it is suggested, by no means insurmountable, and the Royal Commission will no doubt consider whether the present arrangements are justified or whether the taxation of farming profits should, at any rate, approximate in method to that of all other classes of business.

20,970. (21) In considering the question of the practicability of an alteration in the basis of assessment of farming profits, the Royal Commission may desire to examine the following three alternatives.

- (1) The immediate transfer of all farming profits to a Schedule D basis.

Equitably this may appear desirable, although, in the case particularly of the smaller farmers, determination of the liability might be difficult. Administratively such a drastic step would place a very great strain upon the staff of the Department. It is estimated that there are some 200,000 farmers within the scope of the Income Tax assessment, and appeals in these cases would undoubtedly be more troublesome than in the case of the ordinary Schedule D assessment. The difficulty may be expected to diminish in time, but in the early stages of the change and until an adequate trained staff (which cannot be improvised) has been provided the situation

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would, from the point of view of administration, be one of great difficulty.

- (2) The transfer to a Schedule D basis to be restricted to farmers the annual value of whose holdings exceeds a certain rental (i.e., the larger farmers). This might be considered as a tentative measure only, the scope of the transfer to be extended at subsequent dates as experience suggests.

There are no statistical statements available which give a classification of farms according to rental, but on the best estimate that can be formed the Board consider that farms exceeding £200 per annum rent can be classified as follows:—

	Number.
Exceeding a yearly rental of £200	50,000
" " " £100	30,000
" " " £50	15,000
" " " £20	6,000

- (3) The transfer to a Schedule D basis of those concerns only which are referred to in paragraph 10.

This measure, however, it is submitted, is inadequate to meet the needs of the case.

CONSIDERATION OF CERTAIN ANOMALIES IN THE EXISTING RULES FOR CHARGING INCOME TAX, SCHEDULE B.

20,971. (22) Unless the assessment of the profits of husbandry is transferred bodily to Schedule D, the following points in the existing Schedule B rules seem to call for consideration:—

A farmer may in any year

- (1) under Rule 5, claim assessment under Schedule D on the three years' average (vide paragraph 1).
(2) under Rule 6, if assessed under the ordinary rules of Schedule B, obtain a reduction of the assessment to the profits of the year (vide paragraph 1).

He may also claim in respect of any actual loss a refund of a corresponding amount of Income Tax paid on other sources of income (vide paragraph 1). He can, therefore, pay tax on the Schedule B assessment if his profits exceed it, and can elect to pay tax on his profits if they are less than that assessment. In no case can he be required to pay tax on profits in excess of the Schedule B assessment. Again, whilst in bad years he can claim to pay tax on the actual year's results, he can, when his profits improve, elect to be assessed under Schedule D on the average profits of the past unfavourable years, reverting to the actual year's basis when profits again fall.

20,972. (23) It is suggested that the objection would be met if:—

- (1) election to be assessed under Schedule D were made irrevocable as in the case of woodlands (Schedule B, Rule 7); and
(2) the right to appeal at the end of the year of assessment (Schedule B Rule 6) were accompanied by a requirement that in all subsequent years the assessment on the appellant in respect of the profits of the same holding should be under the rules of Schedule D.

Annual value of farmhouses and the Schedule B assessment.

20,973. (24) A proviso to Rule 1 of Schedule B (the charging rule) directs that there should not be charged under this Schedule:—

- "(a) any dwelling-house or the domestic offices thereunto belonging, unless occupied by virtue of one and the same demise, together with a farm of lands, or with a farm of tithes, for the purpose of farming the same."

20,974. (25) The position appears to be anomalous in that whilst the tenant-farmer is required to pay tax under Schedule B on the value of his farmhouse, if rented with the land, the value of the dwelling-house is excluded from the Schedule B assessment if

it is not so rented or if the owner himself farms the land. In the past with a low rate of Income Tax charged upon an assessment which was but a fraction of the rent, the difference was largely nullified by a lower rate of Inhabited House Duty charged in the case of the tenant-farmer. With the altered basis of assessment and the higher rate of Income Tax this is no longer the case. It is difficult to find any justification for continuing this differential treatment of farmhouses, and it is submitted for consideration whether the annual value of all farmhouses and offices occupied with a farm (whether under the same demise or not) used for the purposes of such farm should not be included in the annual value on which the Schedule B liability is computed. The farmhouse, buildings and land, looked at together, form in normal circumstances a single entity. They would ordinarily be let together or sold together, and if some fraction or multiple of annual value is adopted as the criterion of profits, it is the annual value of the whole hereinafter which naturally falls to be adopted for this purpose.

The alternative course of excluding from the Schedule B assessment farmhouses now included therein does not appear, for the reason above indicated, to have anything to recommend it. It would involve a revenue loss estimated at £700,000 per annum.

Lands occupied as ancillary to a trade assessed under Schedule D.

20,975. (26) Certain lands are occupied as ancillary to a trade, e.g., accommodation land used by a butcher, grazing lands for pit ponies at a colliery, &c. The only object of occupying these lands is in ordinary cases the making of a profit, the amount of which it is impossible to delimit in the general accounts of the trade. It appears desirable, therefore, to give the option to the District Commissioners to make an inclusive assessment under Schedule D upon the trade profits and to refrain from making an assessment on the lands under Schedule B.

AMENITY AND OTHER LANDS.

20,976. (27) The evidence so far has been directed mainly to the question of the assessment of the profits of land used solely for the purposes of husbandry. It remains to consider the case of lands not so used.

20,977. (28) Section 21 of the Finance Act, 1918, which increased the basis of the Schedule B assessment from a sum equal to the annual value to twice the annual value, discriminated in favour of such lands as follows:—

- "Provided that where it is proved to the satisfaction of the Income Tax Commissioners concerned that any person occupying any lands and assessed to Income Tax in respect thereof under Schedule B is not occupying those lands for the purpose of husbandry only, or mainly for those purposes, the above provision shall, unless the Board of Agriculture and Fisheries on a reference to the Board by the Commissioners of Inland Revenue certify that the use of the lands by that person for purposes other than purposes of husbandry is unreasonable, apply in relation to those lands as if for the reference to an amount equal to twice the annual value there were substituted a reference to an amount equal to the annual value."

This section is reproduced in the Consolidating Act of 1918, Schedule B.

20,978. (29) Income Tax under Schedule B, according to the present charging section, is a charge in respect of the occupation of "lands," &c., irrespective of the use to which the lands are put. It is, therefore, not necessarily a charge upon the profits of occupation. For example, the occupier of a private park is charged to Income Tax, Schedule B, in respect of the occupation of the park on a sum equal to its annual value. This charge is, of course, distinct from and additional to the charge under Schedule A, which falls upon the owner and relates to the ownership (not the occupation) of the park.

20,979. (30) The occupation of land has frequently a dual aspect, and the manner in which such occupation is exercised may be determined by something

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which, whilst it affords the maximum amount of personal satisfaction to the occupier, includes no opportunity of pecuniary profit. The Legislature has from the initiation of the Income Tax chosen to treat as income, both for the purposes of assessing duty and also in estimating total income for the purposes of relief, a potential profit (measured by annual value) of the occupier, and has consistently declined to forego the tax thereon where the occupation has been of such a nature as to preclude such a potential profit being fully realised. The provisions for reducing an assessment based on annual value down to the actual profit realized have invariably been conditional on the land being used for the purpose of husbandry only. Section 21 of the Finance Act of 1918 quoted above is the first instance of any differentiation in favour of land not used for such purposes.

20,980. (31) The question will necessarily arise whether the principle by which the Revenue still receives tax in respect of the occupation, notwithstanding that the occupier has diverted himself of the possibility of obtaining a commercial profit, should be generally maintained, and whether a transfer of the liability under Schedule B to a profit basis should therefore extend only to lands occupied solely for the purpose of husbandry.

20,981. (32) It may be maintained there is good reason to consider that it would be directly contrary to the tendency of public opinion of the present day to treat such use of land as one to which the rules of Schedule D should be applied, with the result that the contribution to the Exchequer in respect of the benefits of occupation would be limited to the tax on the profits (if any) realized.

20,982. (33) The Revenue, it will be urged, must not be deprived of tax on the benefit of occupation because the occupier has elected to use the land less for the purpose of profit-making than for the purpose of personal enjoyment and the only available measure of charge is the rental value of the property for the purpose to which it is put.

20,983. (34) On the other hand, it is sometimes urged that no Income Tax should be payable unless the taxpayer in fact derives an income from the operation or transaction in respect of which the charge is made, and that it is contrary to the general principles of the Act to assume a fictitious income and require the taxpayer not only to pay an Income Tax and Super-tax thereon, but also to treat it as income in any statement of total income for the purpose of determining the rate of tax payable.

20,984. (35) It is estimated that the effect of exempting land of this nature from assessment under Schedule B would, at present rates, be a loss of £200,000 in Income Tax apart from some further loss of Super tax.

20,985. (36) In connection with the question of the liability of lands occupied for purposes other than husbandry, it is understood that a special class of case will be brought to the notice of the Royal Commission, viz., that of lands occupied by societies formed for the purpose of providing, without view to profit, recreation grounds for the playing of games, &c.

20,986. (37) An effort was made during the passage of the Finance Bill, 1918, to extend Rule 5 of Schedule B (which permits an occupier of land for the purpose of husbandry only to be assessed on his actual profits under Schedule D) to lands occupied by trustees for charitable purposes, for the playing of cricket, &c.—where no gate money is charged. The effect of this amendment, if accepted, would have been, it may readily be assumed, that there would have been no assessment at all, for no profit would in ordinary circumstances be realized. The amendment was not accepted.

20,987. (38) Public parks and recreation grounds, whether belonging to corporations or not, used solely by and held in trust for the public, are not assessed either under Schedule A or Schedule B on their annual value. Any profit derived is brought into assessment. The case of such parks, &c., is, however, differentiated from that of the trust now in question,

for the lands in the latter case are not open to the public at large.

20,988. (39) A memorandum on the general question of the liability of charities to Income Tax will at a subsequent date be placed before the Royal Commission for consideration. [See Appendix No. 31.] The question whether a trust of the present nature should receive special relief as being a trust for charitable purposes could perhaps best be considered in that connection at a later date. Any relief to the trust, except upon this ground, would, it appears, impair the principle upon which Income Tax, Schedule B, has been in the past charged on amenity lands as explained in paragraph 30 above.

20,989. (40) A separate memorandum will be submitted later in regard to the assessment of woodlands and of sporting rights. [See Appendix No. 32.]

NO. III. CERTAIN POINTS IN RELATION TO INCOME TAX, SCHEDULES A AND B, IN WHICH THE LAW AND PRACTICE IN IRELAND DIFFER FROM THOSE WHICH OBTAIN IN ENGLAND.

20,990. (1) When in 1853 Income Tax was extended to Ireland, the regulations and provisions contained in previous Income Tax Acts which referred to Great Britain were applied to Ireland, so far as they were consistent with the express provisions contained in the new Act. (16 & 17 Vict., c. 34, sec. 5).

20,991. (2) The variations introduced by the express provisions were necessitated mainly by:—

(1) the adoption of the existing valuations of property for the time being in force for Poor Rate purposes as the basis of assessment of the tax under Schedules A and B; and

(2) the absence of the machinery of the Land Tax Acts, which existed in Great Britain, on which a system of assessment through Local Commissioners could be based.

Poor Law Valuation.

20,992. (3) The Poor Law Valuation being the measure (with some few exceptions) of the Schedules A and B liabilities in Ireland, some information as to the basis of the original valuation and as to the existing machinery for bringing it into line with present conditions may be desirable.

20,993. (4) The existing valuations for Poor Rate purposes date from the year 1852, and are known as Griffith's Valuation. An Act passed in that year directed the making of a uniform valuation of lands and tenements which might be used for all public and local assessments. [Valuation (Ireland) Act, 1852 (preamble).]

20,994. (5) Land was to be valued on an estimate of the net annual value with reference to the fixed price of eight commodities, viz., wheat, oats, barley, flax, butter, beef, mutton and pork (*Ibid* sec. 11). The prices fixed were taken from the general averages of 40 market towns in Ireland during the years 1849, 1850 and 1851.

20,995. (6) Houses and buildings were to be valued at the rent for which, taking one year with another, they might in their actual state be reasonably expected to let from year to year if the probable average annual cost of repairs, insurance and other expenses (if any) necessary to maintain the hereditament in its actual state, and all rates, taxes and public charges (if any), except tithe, were paid by the tenant.

20,996. (7) It may be desirable to point out here:—

(1) that rent did not serve as the basis for the valuation of land as in Great Britain (where assessments under Schedules A and B are made upon the rack rent), but the Legislature appears to have looked rather to an estimate of the productivity of the land;

(2) that the valuation of houses and buildings corresponds, in effect, to the rateable value (i.e., the annual value after deducting the

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cost of repairs, &c.), and not to the gross estimated rental of the English Poor Rate (which represents the annual value before such deduction).

20,997. (8) The unit of valuation was the townland, and under no circumstances, unless clerical error is discovered, may the total valuation of the land independently of the buildings within each respective townland as fixed by the original valuation be increased or diminished. These totals remain, therefore, constant at the present time. The valuation may be redistributed in consequence of changes in the area of holdings.

20,998. (9) The hereditaments rateable are practically the same as in England. (See, however, paragraph 53 (1) as to exemptions.)

20,999. (10) The valuation, which commenced in the south of Ireland, was completed in 1855.

21,000. (11) The original Valuation Act (Valuation (Ireland) Act, 1852, sec. 34) appears to have contemplated a periodical revision of the valuations, power being given to the Lord Lieutenant on application of the Grand Jury of the County (now the County Council) to order a general revision of the valuation for any Poor Law Union, County or Barony (now County, County Borough or County District) at the expiration of 14 years from the completion either of the original valuation or of any such general revision, but this power appears never to have been exercised. Except in the County Boroughs of Belfast and Dublin, where a revaluation was made under the provisions of section 65 of the Local Government (Ireland) Act, 1898, there has been no general revision of valuations since the original valuation made by Griffith in 1852-1865.

21,001. (12) Any necessary revision from time to time of the Valuation Lists arising from:—

1. alterations in farm boundaries, division of tenements, &c.;
2. the erection of new buildings or buildings structurally altered or altered in value owing to fall in rental value, or dilapidations;
3. valuations to be struck out;
4. alterations in value of railways, canals or other such properties valued on net receipts;

is made by the Valuation Department, which is not a Branch of the Inland Revenue Valuation Office but an independent Government Department centralized in Dublin under a Commissioner of Valuation appointed by the Treasury.

21,002. (13) As a result of the absence of any periodical revision of the valuation as a whole, the valuations of buildings, except in the case of structural alterations, do not come under the notice of the Valuation Department, and many houses, which have increased greatly in rental value since 1852-1865, remain at their old valuation. Decreases in value, however, are promptly brought to notice by the owner or occupier and given effect to by the Valuation Department.

21,003. (14) It follows from this that, in valuing new buildings or buildings structurally altered, the Commissioner of Valuation finds it necessary to make large deductions from their true rateable value in order to bring the new valuations into line with those of other rateable property in the same area.

21,004. (15) By section 65 of the Local Government (Ireland) Act of 1898 the Council of any of the six County Boroughs (Belfast, Cork, Dublin, Limerick, Londonderry and Waterford) may apply for a revaluation. At present Belfast and Dublin are the only County Boroughs which have been revalued. Belfast was revalued in 1906, and the Schedules A and B assessments made in 1910, and still in force, were based on such revaluation. The valuation of Dublin became operative for rating purposes from 1st March, 1910, but has not yet been adopted for Income Tax purposes, no Income Tax re-assessment having since taken place.

21,005. (16) It remains to point out the chief points of difference between the Irish Poor Law

Valuation and the English Property Tax Assessment:—

Ireland.	England.
(1) The valuation of land is based on productive capacity rather than on rent.	The valuation of land is based on actual rack rent or on estimated rack rent.
(2) The valuation of houses is on the basis of net rent after deduction of repairs and maintenance expenses (equivalent to English rateable value).	The valuation of houses is on rack rental value—before deduction of the cost of repairs, &c.
(3) The valuation of land remains as in 1852-55 (except in certain County Boroughs which have been revalued). The valuation of houses (except in Dublin and Belfast) is admitted from 10 per cent. to 30 per cent. below the true rateable value.	The revaluation of lands and houses in England is made periodically on the basis of rack rental. (The last revaluation was made in 1910.)

Schedule A assessments.

21,006. (17) Schedule A assessments in Ireland are directed to be made upon the amount of the valuation in force for Poor Rates (Income Tax Act, 1918, sec. 187 (1)), with the proviso that should the annual rent payable be less than the valuation the landlord shall be required to pay tax only on the annual rent, whilst the occupier, if liable, shall pay tax under Schedule A upon the excess of the valuation over the rent. (Sec. 187 (5).)

21,007. (18) Provision exists for an appeal to the Special Commissioners (and following that for a rehearing by a County Court Judge) by a person aggrieved by an assessment on valuation, but this provision is seldom resorted to. (Sec. 187 (4).)

21,008. (19) The Board of Inland Revenue, if they consider a valuation is "not correct (having reference to the principles according to which the same ought by law to have been made)," may direct the Commissioner of Valuation to make a revaluation for the purposes of Income Tax. (Sec. 193.) Such revaluation is to be made on "poor rate" principles, and it follows that so long as a Poor Rate valuation, correctly made as such, falls below full annual value, the inequality of the Irish assessment, as compared with that in England, cannot be removed by any exercise of the powers granted under this section.

21,009. (20) In effect, the combined results of the above provisions are that, assuming the Legislature to have intended to levy a tax throughout the United Kingdom under Schedule A on the full annual value of property, the Revenue obtains its due meed of tax in Ireland in those cases only where the valuation represents the real annual value.

Land.

21,010. (21) It is difficult to determine the true relation of the present Poor Law valuation of land in Ireland to the rack rental value. As a result of custom and the various Land Acts, a tenant's interest has been created which is not reflected in the rents paid, and a comparison between the rents paid for particular holdings and the valuations thereof affords, therefore, no reliable test of the sufficiency of the latter.

21,011. (22) This tenant's interest, or "tenant-right," is recognized in sections 1 and 2 of the Landlord and Tenant (Ireland) Act of 1870, (33 & 34 Vict. cap. 46, secs. 1 and 2), and the right of free sale of this interest is established by the Land Act of 1881 (44 & 45 Vict. cap. 49, sec. 1), which also provides for fixing by the intervention of the Courts a rent

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(known as "judicial rent") from which any consideration for improvements made by the tenant or his predecessor in title is definitely excluded. (*Ibid* see. 8 (sub-sec. 9).)

21,012. (23) It will probably be contended, and it must be admitted not without reason, that the very large sums paid in many instances for the tenant-right of farms are not conclusive evidence on which to base an estimate of the rental value of such tenant-right. "Land hunger"—the desire of tenant farmers to increase the size of their holdings—the fact that agriculture in most parts of Ireland is the sole means of livelihood, and wild competitions at auctions frequently unduly swell the price. But even so, the very large amounts frequently realized on sale of tenant-right are, it is submitted, unquestionable evidence that the rent paid by a tenant of agricultural land in Ireland is not conclusive of the full annual value of the land.

21,013. (24) The extent to which the true net value has fluctuated, in comparison with Griffith's value, is very clearly shown in the graph on page 159 of Dr. J. C. Stamp's work, "British Income and Property." The position and fluctuations as shown by the graph are as follows:—

1842	true net value	12½ per cent.	above valuation.
1853	"	"	level with valuation.
1870	"	"	20 per cent. above valuation.
1881	"	"	30 " " "
1891	"	"	20 " " "
1903	"	"	2 " " below "
1914	"	"	10 " " above "

21,014. (25) But even on the assumption, which, in view of the foregoing statement, it is extremely difficult to make, that the aggregate valuation of agricultural land is approximately adequate, great anomalies must exist as between the various valuations. The growth of large industrial areas creating markets, improved means of communication and the drainage of large tracts of country must inevitably have considerably altered the letting value of the lands affected. Yet the valuations remain as fixed in 1852-1865. It is held that no addition to the valuation can be made for land drained or improved by reclamation, and it is stated on good authority that the valuation of large quantities of such land remains at, say, 8d. an acre, although the real value may have increased to 10s. or even more per acre.

21,015. (26) The Royal Commission may wish to consider whether in the circumstances set forth any change in the system of assessing agricultural lands to Income Tax, Schedule A, in Ireland, is desirable. In this connection it should be pointed out:—

(1) That the ownership of agricultural land in Ireland is passing into the hands of tenant occupiers, the majority of whom are exempt on the present basis of computing liability. It is estimated that of the total agricultural land in Ireland 60 per cent. is in the occupation of persons exempt from Income Tax, an increase in the valuation of those holdings would have very little effect on the yield of Revenue, as such increases would fall to be exempted in all cases except tenancies (the minority) where the rent exceeds the valuation. Any increase in the exemption limit or in allowances which operate effectively to increase the exemption limit would *pro tanto* increase this percentage.

(2) That since rent in Ireland is no criterion of full annual value within the general meaning of the Income Tax Acts, a re-assessment, on the basis of full annual value, would necessitate survey and inspection, for which no machinery is available under such Acts.

(3) That in the possible event of a change in the mode of assessment of agricultural profits from a fixed basis of valuation to actual profits, any undercharge of Schedule A on land used for agricultural purposes will be reflected in an increased liability on profits, except in the infrequent cases of

actual rent paid exceeding the Poor Law valuation.

Houses, buildings, &c.

21,016. (27) So far the question of the assessment of agricultural land has been dealt with. Turning to the question of the valuation of houses and buildings the position is entirely different. It is admitted that except in Belfast and Dublin the valuations are out of date.

21,017. (28) The Select Committee on the Irish Valuation Acts in 1903 stated in their draft report (Cd. 337), paragraph 16 (1): "It has been, so far as we can see, a practice never to alter a valuation on a building unless there has been some structural addition. . . . The result has been that not only according to the testimony of everyone has the valuation got very much out of date and full of anomalies, but so strongly has the Commissioner felt the inequality of the situation that even in cases where he has had to make an alteration of the valuations he has not taken the true value as he would find it if he had had a clean slate, but has had to invent a system of deductions 'to make relative,' not justifiable in itself, but introduced from obvious equitable considerations. The consequence is that a revaluation is needed in order to put affairs on a proper basis."

21,018. (29) In paragraph 6 the Committee state that "they see no greater difficulty in applying the criterion of actual rent (or where actual rent is either not got or from various reasons does not represent the true annual value, the rent as supposed to be paid by the hypothetical tenant) to the circumstances of Ireland than has been found in its application to England or Scotland."

21,019. (30) The Committee made no final report, and no action appears to have been taken on the suggestions in their draft report.

21,020. (31) The deduction "to make relative," referred to by the Committee in paragraph 16 (1), has already been explained (paragraph 14). The present rates of deduction vary from "nil" in Belfast to 33 per cent. in Kerry, Mayo and Clare.

21,021. (32) It follows, therefore, that whilst an owner of a house or building in Belfast is called upon to contribute to the Exchequer Income Tax on full rental value (less a varying deduction, in some cases as much as three-eighths), a landlord of a similar house in Cork will pay on an 80 per cent. basis, or in Kerry on a basis of 66 per cent. of the value only, subject to the same proportionate deduction for repairs.

21,022. (33) The inequality between the taxation of Irish property owners and property owners in the rest of the United Kingdom which may arise from a low valuation is even more marked. This inequality becomes more remarkable when the system of abatements and reliefs is taken into consideration:—

	£
<i>e.g.</i> , Gross rent	300
Repairs	250
Mortgage interest	230
	80
Actual net income (ex hypothesi the total income)	220
	£
Valuation	150
Mortgage interest	30
Net income for Income Tax purposes	120

In Ireland the owner would be exempt. In England his liability would be on £220 less £120 abatement, net £100 at 3s. in £ = £15 tax.

21,023. (34) A further striking anomaly arises from the adoption as annual value for Income Tax purposes of a valuation arrived at after an allowance for the cost of repairs. By Rule 7 of No. V, Schedule A, a deduction from the assessment of houses and buildings of one-sixth of the annual value is allowed in all

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cases of owner occupiers. In such cases in Ireland, therefore, a double allowance for repairs is made. A similar allowance is due in cases of tenancies where the landlord repairs, but as this allowance cannot be claimed where the assessment is already one-sixth below the rent, the allowance in the case of tenancies is not often claimable.

21,024. (35) It will be seen from the foregoing remarks that the position in regard to the basis of assessment, both of land and houses, under Schedule A in Ireland is anomalous and calls for amendment.

21,025. (36) Whether a general revaluation of land is at the present moment desirable is a matter for consideration. The conditions are unsettled while sales to tenants under the Land Act are in progress, and, as far as Income Tax is concerned, it is probable that the question is not one of serious importance, at any rate in connection with Schedule A.

21,026. (37) The objections to a revaluation at the present time of lands are absent in the case of houses and buildings, and a revaluation on the basis of full annual rental value (or letting value in the absence of rack rent) of all houses and buildings should, it is suggested, be provided for at the first opportunity, and such revaluation should, when made, be adopted for purposes of Imperial Taxes. Its adoption for the purposes of local taxation could, if necessary to the equitable treatment of agricultural and urban ratepayers, be considered apart. Power should be given to the Commissioner of Valuation for the purpose of this revaluation to demand returns of particulars of rent and conditions of tenancy. Provision should also be made for periodical revision of the valuation.

Schedule B assessments.

21,027. (38) Prior to the passing of the Finance (No. 2) Act, 1915, the liability to Income Tax of occupiers of land in Ireland in respect of the benefits of occupation, was, as in the rest of the United Kingdom, taken at one-third of the annual value, i.e., at one-third of the Poor Law valuation. By that Act the liability was increased to the full annual value, and subsequently by the Finance Act of 1918 (except in the case of lands not occupied mainly for the purpose of husbandry) to twice the annual value. The inequalities and defects of the valuation of Irish land, already referred to in connection with the Schedule A assessments, are, of course, repeated in the Schedule B assessments. Attention must, however, be drawn to a still more serious anomaly.

21,028. (39) The Finance (No. 2) Act of 1915 contained a clause, inserted during the passing of the Bill through the House of Commons, and reproduced in section 187 (1) of the Income Tax Act, 1918, which gives the occupier of land the option of taking as the annual value (Income Tax Act, 1918, sec. 187 (1)):

- (a) the judicial rent fixed under the Land Law (Ireland) Acts or any of them; or
- (b) the annual interest payable to the Irish Land Commission in lieu of rent under the Land Purchase (Ireland) Acts or any of them; or
- (c) the purchase annuity payable under the Land Purchase (Ireland) Acts or any of them;

where such rent, interest, or annuity is less than the Poor Law valuation.

21,030. (40) It must be assumed that it is the intention of the Legislature that the liability of the occupiers of land in Ireland should be based, as in the rest of the United Kingdom, on the full annual value of the land, and that there is no intention to discriminate in favour of a tenant under judicial rent or tenant purchaser as compared with other occupiers of land in Ireland. It is important, therefore, to emphasize the following facts:

- (1) The judicial rent does not purport to represent such annual value, inasmuch as by express provision of the Land Acts, an important factor, viz., the value of the tenant's interest, is omitted therefrom. The Land Act of 1870 legalised the Ulster Tenant Rights and corresponding usages throughout Ireland for agricultural and pastoral holdings. The Land Act of 1881

established "the three f's: free sale of tenant-right—fair rent—and fixity of tenure," and empowered a tenant to apply to the Courts to fix a "fair rent" for his tenancy, which remains constant for a term of 15 years. (Land Act, 1881, sec. 8 (1).) A rent so fixed is the "judicial rent" here referred to. In fixing the "fair rent" no rent is to be allowed "in respect of improvements made by the tenant or his predecessor in title and for which the tenant or his predecessor shall not have been paid or otherwise compensated by the landlord or his predecessor." (Ibid., sec. 8 (9).) This disallowance includes the letting value due to improvement. (Adams v. Dencaath.)

In the majority of agricultural tenancies in Ireland practically all repairs are done by the tenant and all improvements have been effected by him or by his predecessors. In fact, in many cases the landlord's interest is little more than the prairie value of the land, and it is the landlord's interest alone that the judicial rent represents. The value of a tenant's interest has been referred to in the section dealing with the Schedule A (paragraph 23).

- (2) Neither the interest in lieu of rent (which is interest at an agreed rate per cent. on the purchase money, paid by the tenant to the Land Commissioners on behalf of the owner during the period intervening between the agreement to purchase and the completion of the purchase); nor the amount of the purchase annuity can represent more than the landlord's interest.

21,030. (41) Ignoring as it does the portion of the annual value arising from the tenant's interest (vide par. 39), the option given leads to inequalities, in that:—

- (a) it discriminates in favour of certain Irish farmers as compared with Irish farmers, who are owners in fee or hold their lands under non-judicial rents; and
- (b) it discriminates in favour of certain Irish farmers as compared with farmers in Scotland and England.

21,031. (42) As an illustration, assume five precisely similar farms rated at £100 each—No. 1 freehold; No. 2 rented at £88 under an ordinary tenancy; No. 3 held under a judicial rent of £79; No. 4 paying interest in lieu of rent £41; No. 5 subject to a purchase annuity of £58. These figures, it may be added, are reasonably proportionate, and arrived at after examination of a number of cases where estates have been sold through the Land Commission under the Land Act of 1903.

The respective occupiers are chargeable with tax under Schedule B on an assumed profit of:—

No. 1.	No. 2.	No. 3.	No. 4	No. 5
£200	£200	£158	£122	£116

whilst ex hypothesi the profits which may be expected to arise from the farms are equal.

21,032. (43) Apart from the general question of inequity, the proviso is defective in that it does not define the expression "purchase annuity" payable, beyond requiring that it shall be payable under "the Land Purchase Acts or any of them."

21,033. (44) It has been held by the High Court, in the case of *Corcoran v. Judge* (Court of King's Bench, Ireland, 18th June, 1912), that the annuity on which the Schedule B assessment is to be based is the amount payable in the year of assessment. Since under the earlier Land Acts the annuity payable is reduced every ten years by amortisation of the principal, it follows that in such a case the Schedule B assessment will continue to decrease until the capital loan is paid off, when the assessment will suddenly revert to the Poor Law valuation as a basis of liability.

21,034. (45) Again, under any of the Land Acts the whole or part of the purchase money may be paid in cash either at the time when the lands are vested in the purchasing tenant or at any subsequent period.

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The annuity and consequently the Schedule B assessment may thereby be diminished.

21,035. (46) Again, the term "purchase annuity" is held to include purchase annuities paid to the Board of Works under the Landlord and Tenant (Ireland) Act, 1870. But under this Act the purchaser was required to find at least one-third of the purchase money in cash, and the annuity represents, therefore, at a maximum only two-thirds of the purchase price.

21,036. (47) There is the further objection that a purchasing tenant may have held under a long lease or a free farm grant at a small rent, and his purchase annuity will be based on the capital value of this small rent, or the lands may have been sold under the older Land Acts subject to existing charges, and the purchase price and the annuity will have been diminished by reason thereof.

21,037. (48) It is clear, therefore, that a whole series of different charges under Schedule B may arise from land of the same value, depending solely on the conditions under which they were purchased or held.

21,038. (49) It is estimated that the effect of this proviso in 1918-19 was to reduce the Schedule B gross assessments, when compared with the double valuation, by rather more than £1,000,000, the loss in duty at the current rates being estimated at £80,000 per annum.

21,039. (50) The proviso appears to have been based on the presumption that where the judicial rent, the interest in lieu of rent, or the purchase annuity, is less than the Poor Law valuation, the valuation is in excess of the true annual value of the holding. The facts do not warrant this presumption. The effects of the proviso have been in some respects unexpected, and the result has been to produce serious inequalities as between one taxpayer and another. In these circumstances it is suggested for consideration that the law requires amendment by the repeal of the proviso.

Assessment of property not included in a Valuation List.

21,040. (51) Rule 4 of No. VII Schedule A, one of the general provisions of the Income Tax Act, 1915, directs that tax shall be charged on all lands, tenements and hereditaments, whether occupied at the time of assessment or not. Section 186 applies the general provisions of the Act to Ireland, so far as is consistent with the special provisions as to Ireland contained in the Act.

Section 187 (1) of the Act, which applies to Ireland only, reads as follows:—

"The annual value of all tenements and rateable hereditaments with reference to which tax is to be charged under Schedules A and B shall be ascertained according to the respective surveys and valuations from time to time in force for the purposes of Poor Rates."

21,041. (52) It follows from section 187 (1) that in making a Schedule A assessment in Ireland no property not included in a valuation list is in force, although liable under Rule 4 of No. VII, can be brought into charge.

21,042. (53) There are two sources of leakage arising from this.

(1) Property exempt from rating which would be liable to Income Tax.

As pointed out by Sir John Barton, late Commissioner of Valuation, in Appendix I to the Report of the Select Committee on the Irish Valuation Act, "An immense amount of property which in England would be taxed is in Ireland freed from rating," e.g., Harbour Commissioners' property. No assessment on property thus freed can be made under Schedule A.

(2) Delay in including property in a Valuation List.

The new property which is included in the Valuation List which comes into force each year on the 1st March, and is effective for Income Tax purposes from the following 8th April, is that which was listed by the local authorities in the return to be delivered on the previous 15th June,

or notified in a supplementary list prior to the commencement of the actual revision. New properties may, therefore, escape assessment to Income Tax for a year or even more, i.e., property completed in January may first appear in the Valuation List which comes into force in the following March twelve months and is effective for Income Tax purposes from the subsequent 5th April.

21,043. (54) It is suggested that it is desirable to give power to assess according to the general rules of Schedule A any lands, tenements, &c., liable under that Schedule and not included in a Valuation List in force. The Valuation of Property (Metropolis) Act of 1859, the only other instance in which the valuation for local purposes is made binding for Income Tax, provides in Section 75 power to value and tax property not included in a Valuation List.

[This concludes the evidence-in-chief.]

21,044. Chairman: You have prepared as three very valuable papers, and they will be of very great use to the Commission. I have read them, and they are very clear indeed, but there are some of the points in your papers that the Commissioners may wish to examine you upon. I will ask Sir Edmund Nott-Bower to examine you first.

21,045. Sir E. Nott-Bower: I want to ask you first one or two questions on your paper No. I., with regard to the assessments under Schedule A. You refer here to the periodic re-valuation of land and houses for the purposes of Schedule A, and you point out the great pressure that is caused by the practice which has been observed hitherto of making a simultaneous re-valuation of the whole country under Schedule A. The present assessments have been in force for some nine or ten years. I do not feel quite clear whether you propose that the next valuation should be a re-valuation of the whole country simultaneously?—We propose that the first re-valuation of the whole country shall be a valuation that shall be made within as short a time as possible, but we consider it would be necessary, or, if not necessary, desirable in the interests of the Department that that work should be spread over more than one year, say, two or three years.

21,046. The assessments are already very stale, are they not?—Very.

21,047. And any further postponement of re-valuation should, if possible, be avoided?—Yes.

21,048. Speaking for myself, I do see the great advantages of making it our normal procedure in the future to spread the work over several years?—Yes.

21,049. But in view of the very great staleness of the assessments now, it would be very desirable, would it not, to complete the first valuation in as short a time as possible?—We are desirous of completing it in as short a time as possible, but, as I say here, we think it would be extremely difficult for the Department to complete this work within one year, and we suggest that it should be spread over at least two years.

21,050. I think you do propose, do you not, to avail yourselves as far as possible of the services of the Inland Revenue valuation staff?—Only for the purpose of dealing with any cases of special difficulty.

21,051. Cases mainly, I suppose, arising out of a valuation where you have not a rack rent to guide you?—Where we have not a rack rent to guide us. I refer to that in paragraph 7 of my paper No. I., for instance, licensed premises, premises held on long lease, or premises in the occupation of the owner, where we have no rack rent to guide us; in those cases we hope the Commission will recommend that we shall have the assistance of the Lands Valuation Department or of a valuer in connection with the Lands Valuation Department.

21,052. Apart from the periodic valuation, would it not be advisable to get some increased powers to alter valuations during the interval? I will tell you what I have in mind—cases where there have been structural alterations to properties. A difficulty does

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arise sometimes, does it not, in increasing an assessment during the quinquennium, when it ought to be increased?—Yes.

21,053. I put it in this way, and I think I am right. There are cases where it undoubtedly could and would be increased in the Metropolis?—In cases even outside the Metropolis, where there is a structural alteration, we do as a matter of fact revise the assessment during the currency of the quinquennial assessment.

21,054. Does it not depend on the nature of the structural alteration; are there not difficulties sometimes?—If the structural alteration is such that we consider the new property is no longer the property that was assessed when the original assessment was made, we then make a re-assessment.

21,055. Do you not think the law wants a little strengthening in that direction?—It might be desirable.

21,056. Now as to the allowance for repairs, do you think, in regard to the present system of allowing the actual repairs by repayment, it would be practicable to extend it to all properties?—It would be practicable, but it would place a considerable strain upon the Department.

21,057. There would be a difficulty in distinguishing improvements and decorations from repairs, at any rate in the case of property occupied by owners?—Yes.

21,058. Now with regard to the assessment of the profits from the occupation of land: you would favour, if it were practicable, the assessment of farmers under Schedule D on their actual profits?—I should favour it.

21,059. That is undoubtedly the ideal system, is it not?—I think so.

21,060. Do you think that the necessary information is now available? Do you think it would be practicable to effect the change at once on those lines?—I think in the early stages there would be very considerable difficulties, particularly with the smaller farmers.

21,061. Would you be in favour of proceeding in a more tentative way; for instance, would you begin by withholding the present option from farms in excess of a certain rent?—Yes.

21,062. That has been suggested sometimes. In the case of large farms with a rent of, say, £400, would it not be possible to put them under Schedule D without any option?—Yes.

21,063. And proceed gradually?—Yes.

21,064. Then, of course, you could extend the area by degrees when the £400 farm has been brought in and worked satisfactorily; you could extend downwards by degrees?—Yes.

21,065. In regard to your Irish paper (your paper No. III.), first of all with regard to land in Ireland; the main difficulty, I suppose, arises in connection with tenant rights?—Yes.

21,066. Speaking now of agricultural land, I suppose in Ireland really you have not got a land system involving lettings at rack rent such as we have in the rest of the United Kingdom?—No.

21,067. Where there are lettings at rack rent the course is easy. We can assess at something like rental value. In Great Britain, where the system is to let land at the full rent—I do not like the term "rack rent"—exactly, because it suggests an unpleasant idea—and where the letting is really a commercial letting, we have no difficulty in assessing Schedule A, because we have got the rental value to guide us?—Yes.

21,068. But in Ireland there is not that system, so we are rather at sea, are we not?—Yes. The tenant right introduces the difficulty.

21,069. What we do fall back on, I understand, is an assessment on the Poor Law valuation, Griffith's valuation, a valuation which was made about 60 or 70 years ago?—Yes.

21,070. And it obviously cannot be expected to coincide with existing conditions at all?—No.

21,071. Have you any suggestion to make as to any really satisfactory substitute for the Griffith valuation in assessing lands under Schedule A?—I am afraid not, because any attempt at assessing lands in Ireland under Schedule A would necessitate a valuation in order to arrive at the actual annual value of the tenant's interest.

21,072. And a new valuation without any rents to afford assistance to a valuation authority would be a very heavy task, would it not?—Yes.

21,073. But with regard to houses, the difficulty is not the same, is it?—No.

21,074. I suppose the system in Ireland in regard to houses is very much the same as in England; there are lettings at rack rent, and there would be pretty much the same information available as there is in the rest of the United Kingdom?—Yes.

21,075. Would you see any great difficulty in removing the assessment of houses in Ireland from the present basis, the Griffith valuation, to a basis similar to that which prevails in the rest of the country?—No.

21,076. I suppose you would agree with this, your paper shows that you do agree, that under the present system house property in Ireland is assessed very much below its value?—Yes.

21,077. I see that with regard to the Schedule B assessment in Ireland it used to be based entirely on the Griffith valuation, but then there was some change in the law in 1915, was there not?—Yes.

21,078. Which gives an option of charging on the judicial rent or the purchase annuity, and you think that that has really introduced fresh anomalies into the Income Tax system in Ireland?—Yes.

21,079. You think really it was not justified?—I do.

21,080. And that it would have been better to have left it on the Poor Law valuation, although that is a very unsatisfactory basis in itself?—Yes.

21,081. I think you say in your evidence that in the assessment of land the Poor Law valuation does theoretically include something at any rate for tenant right?—For tenant right as it existed in 1889 to 1895.

21,082. We had some evidence yesterday on this subject, and the extent to which tenant right can have entered into the Griffith valuation must have been very small, judging from the instances which were quoted to us, instances of prices obtained on the actual sales of tenant rights. For instance, I have here a case that was quoted to us as an actual case of a holding of 176 acres, the rent was £140, the valuation was £154, only £14 above the rent, you will observe. The tenant right sold for £5,500?—Yes.

21,083. So that whatever the basis of valuation may be it really cannot be said in any full sense to include the tenant right?—Probably not, in a very large number of cases. I do not think that I should be inclined to suggest that the price obtained for the tenant right is necessarily a clue to the annual value of the tenant right; I think in many cases that the purchase price of the tenant right has been forced up by what one might call extraneous causes.

21,084. Land hunger?—By land hunger.

21,085. Of course, that is only one of several cases that were quoted to us?—Oh, there are many instances.

21,086. Very likely there is a great deal of force in what you say, but still, allowing an enormous margin there, you have only got £14 a year valuation to cover a tenant right of £5,500?—Yes.

21,087. Mr. Pinfold: There are three papers of yours here. The first paper on Schedule A practically deals, does it not, largely with the question of allowances for repairs?—Yes.

21,088. That is really the main point?—Practically.

21,089. I suppose that means that otherwise you are satisfied with the Schedule A basis; you have no criticism to make on it except on that point?—No.

21,090. I see in one of your paragraphs, 27 I think it is, you point out that any departure from the present Schedule A system would involve departing from the principle of taxation at the source?—Yes.

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[Continued.]

21,061. You are aware that owners have the right of paying the tax themselves; it is not always deducted at the source?—It is not always deducted at the source, but the assessment remains upon the individual property.

21,062. The assessment is made on the rent?—The assessment is made on the rent, yes.

21,063. But the owner has the option if he chooses of taking the rents in full and paying the tax himself?—Yes.

21,064. Is that freely exercised?—I think not.

21,065. Not on agricultural properties?—I think not. Of course, the owner very often does, as a matter of fact, pay the tax direct, but not as the result of having given notice for a direct assessment under the provisions of the Act; it is merely as an arrangement between himself and the local Collector.

21,066. Well, it comes to the same thing, does it not?—Yes, it does.

21,067. When you say it is not generally made use of, do you cover both those conditions, or only one of them?—I cover the condition as to assessment being made upon the owner in lieu of the tenant under the provisions of the Act.

21,068. Quite. That would probably be small. Should I be right in thinking that in a very considerable number of cases in agricultural properties, by arrangement with the local Collector, the tax is paid direct by the owner?—I think probably yes.

21,069. Is not that a convenience when it comes to the question of allowances?—Yes.

21,100. Particularly in this very matter of repairs and maintenance of an agricultural estate?—I do not know that it affects that question.

21,101. It affects matters of set-off, does it not?—If there is a set-off, yes.

21,102. There is very often a set-off in agricultural estate matters of allowances for special expenses such as drainage rates and upkeep of sea walls, and matters of that kind, which are made a set-off?—Those deductions are made in making the assessment and not in the course of the settlement of the payment of the tax between the Collector and the owner of the estate.

21,103. It facilitates that, does it not, if the tax is paid in one lump by the owner rather than in a great many pieces by the tenant?—I do not see that it affords any extra facility.

21,104. What I mean is in the case where the owner pays it himself the set-off is arrived at before the tax is paid. Where he does not pay the tax himself, when it is paid for him, the tax has to be paid in full in small pieces by the occupier and then the owner has to recover it; he does not get the set-off?—The allowances are made in the course of the assessment, and not in the course of the collection.

21,105. It facilitates adjustment for changes which arise after the assessment is made?—Yes, I have no doubt it would.

21,106. There is no objection on the part of the Inland Revenue to those arrangements at all, I assume?—No.

21,107. On the question of repairs there are three possible courses, one is to increase the allowance, the second is, to put everybody on a Schedule D. basis in the matter of repairs, and the third is to leave it as it is now, a flat allowance with a right of recovery for an expenditure beyond the sum allowed?—Yes.

21,108. Which of those three courses do you prefer?—I prefer the course which is at present in existence.

21,109. That is the third course?—Yes, the third course.

21,110. You think that is preferable to having no definite fraction for the allowance?—Yes.

21,111. I think I agree with you. We have had witnesses before us who have very strongly emphasized the trouble and difficulty to owners of small house property, particularly small owners, in getting recovery of the additional expenditure that they are entitled to?—Yes.

21,112. Would you say that every facility and help is given in those cases?—Yes. I have here, if the

Commission would require them, particulars of the actual number of cases where repayments have been made within the last nine years with the amounts refunded.

21,113. I think it would be very valuable if we could have that. That is just the sort of thing we want. It shows the number of cases and the sums involved?—Yes. I should say that these are the amounts repaid each year. They do not show to which year the repayment related; they are repayments made in the particular year. The amount of Income Tax repaid on account of maintenance, repairs, insurance, and management of lands and houses under section 63, Finance (1909-10) Act, 1910, as amended by section 8, Finance Act, 1914, in each of the undermentioned years is as follows:—

	£	No of Cases.
Income Tax repaid in 1910-11 ...	5,122	673
1911-12 ...	48,929	2,538
1912-13 ...	65,686	2,283
1913-14 ...	71,234	2,106
1914-15 ...	68,449	2,085
1915-16 ...	145,992	2,345
1916-17 ...	290,279	5,931
1917-18 ...	448,191	8,661
1918-19 ...	473,511	9,671

21,114. If I may say so, my own experience is that every facility and help is given in those cases. That was the whole spirit in which the concession was offered by the Prime Minister in the House?—May I add that I understand I am right in saying that the Board of Inland Revenue are making a concession by which the amount of any claim which is made will be set off against the amount of the tax demanded if the claim is made in time to make that set-off without any delay to the collection; that is, in order to avoid the complaints which have been raised that it is necessary to pay the money in full first, and get a refund.

21,115. It is a very large sum in some cases?—Sometimes.

21,116. Of course, that would adjust itself if another allowance came against the following year; you would only be out one year?—The intention is to make the adjustment against the tax of the year itself.

21,117. On the actual year?—From the actual year. If the claim were made too late to be adjusted at the time the collection for the current year was being made it would then be given effect to by repayment and not by setting it against the tax due for a subsequent year.

21,118. Now I come to your paper No. II., on Schedule B, which is a much more difficult question than Schedule A. Your paper points out the advantages which the occupier of land gets in comparison with other taxpayers in having an alternative that he can use annually to his own advantage and to the disadvantage of the Revenue?—Yes.

21,119. You discuss some of the grounds on which that is justified. For instance, in your paragraph 14 you speak about the rates which the tenant has to pay. You rather scout the suggestion that the farmer is entitled to any Income Tax relief or advantage as a set-off against his heavy payment of rates?—Yes.

21,120. Do you not think it is better to get a little rough justice than to wait for a very long time until you get some ideal scheme of adjustment which makes things fair all round?—I do not think so.

21,121. Well, I am afraid the farmer does. I am afraid the taxpayer generally is more concerned with what he actually has to pay than with the principle upon which his payments are arrived at. You do realize, do you not, that there is a very heavy burden of rates upon the occupier of land?—Yes.

21,122. That that is an increasing figure?—I take it that it is so.

21,123. And that a large proportion of that money goes for national purposes?—Well, that is a point that I have not considered.

21,124. But it is very material to your argument here. If you have not considered that I do not think

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your argument would have quite so much value, would it?—I think if the present system of local rating is such that an undue burden is placed upon the farmer any relief should be given him by a rectification of the method of local rating, and not by an inadequate assessment for Income Tax.

21,125. Would you prefer that he should pay to the full on both, however unjust it might be, rather than that ideal should be reached?—I think if the burden of the local rating is excessive that should be relieved by re-arranging the local rating, but not by making him any adjustment or allowing him to escape any proper payment that he should make for Income Tax.

21,126. But meantime, until it is adjusted, would you alter the present assessment of Income Tax and still leave him the additional burden of rates?—I would not retain the present system of Income Tax.

21,127. Until the rates are adjusted?—I would alter the present system to put him on the proper basis of payment of Income Tax.

21,128. Even before you give him any reasonable relief on his rates?—Yes. I do not think that I should allow the two to react one upon the other at all.

21,129. All you are concerned in is to get the proper amount of Income Tax from him?—The proper assessment of Income Tax.

21,130. And you would entirely disregard the fact that he is paying a large sum in local taxation for national purposes?—Yes, I would.

21,131. You advocate putting, at any rate, a portion of the occupiers on to Schedule D?—I have put that proposal. I have put three proposals before the Commission for their consideration; one is that the whole of them should be so put, another is that a portion should be as a tentative measure, and the other (which I do not recommend) is that the transfer should be confined to certain concerns of a special nature.

21,132. That is what I say. You suggest that a proportion of the farmers, at any rate, should be put on Schedule D?—That is one of the alternatives, and that is the proposal that I should prefer.

21,133. Have you considered how the valuations upon farms affect the assessment of profits for a Schedule D tax?—Yes, I have.

21,134. Do you think that it is practicable to deal with those on exactly the same basis as you deal with the profits of an ordinary industrial trade?—Probably not.

21,135. Have you got any scheme in your mind by which you could deal fairly as between the State and the farmer on the question of valuation?—As far as that portion of his stock is concerned, which is somewhat in the nature of plant, I should allow him to retain that at a standardized valuation. With anything else which is of a saleable character I think the valuation should be varied from time to time, probably in accordance with the fluctuations of the market.

21,136. Would you consider a breeding flock of sheep in the nature of plant to be standardized?—I think in the case of the breeding flock I should consider it probable that if a standardized value were taken it would meet the circumstances of the case.

21,137. You are aware that a breeding flock has to be added to every year? About one-fifth or one-sixth of the breeding flock pass out as cwt ewes at the end of the breeding season, and a corresponding number of ewes are brought in to make the flock up; you know that?—Yes.

21,138. Those may be bred on the farm, but in many cases—and it is very often preferable—they are bought in in order to secure a change of blood?—Yes.

21,139. And they will have to be bought in at the market price of the day?—Yes.

21,140. When they are put into the flock which is at a standardized price, and when the market price at which they have been bought will vary and necessarily vary from the standardized price, either higher or lower, how would you treat that?—I think the ewes that are bought in to replace those that pass out should be treated as replacements and valued at cost.

21,141. Then you would not retain your standardized value for the flock; you would alter your standardized value for the flock every year? A man has got a flock of 300 ewes, and he brings in, let us say, 50; the standardized figure of his flock you would retain, I assume, at which his first valuation stood?—Yes.

21,142. That is what you would have. It would not necessarily be a standardized figure for everyone?—No.

21,143. The right of the farmer would be to keep as between himself and the Revenue whatever figure his flock was entered at in the first valuation under which he came under Schedule D; he would retain that figure?—Yes.

21,144. Then there could be no alteration either way; nobody could gain or lose?—No.

21,145. Supposing the standardized figure of his flock is 60s. per head, and supposing he subsequently buys in 50 ewes in a particular year, and he pays 70s., would you alter the value of the flock the following year by increasing its value in proportion to the price that he paid for the ewes that he bought in, or would you not?—I think I should keep the flock of sheep, the breeding flock that is, at the standardized price.

21,146. I may say that if that is adopted that would be a reasonable attitude. In the same way, of course, if he bought it in a very cheap time at 50s. he would still have to retain the value of his whole flock at 60s.?—I assume so.

21,147. And whatever price he paid for making up the flock he would still retain it at 60s. Assuming that the price that he paid for his additional ewes would represent an increased value in sheep stock there should be an increased value in the quality of his particular flock; when sold they would fetch more money?—Yes.

21,148. And you get your return there?—Yes.

21,149. That would apply to a pedigree stock and a breeding stock of every kind?—I presume so.

21,150. Horses, for instance. A man has a breeding stud of cart-horses working on a farm. I am not speaking of a farm of the pedigree breeder, which you deal with here separately, which is purely a pedigree matter. It is a common thing for a man who is farming on a considerable scale to keep pedigree mares which he works on his farm in the normal manner, and he breeds pedigree foals from these mares, and if he has a sufficient number of mares for it to be worth his while he purchases a stallion, and that would be part of his breeding stud?—Yes.

21,151. How would you deal with that, supposing his stallion were out and he bought a new one and paid £100 more than he had paid for the old one?—I think if he paid £100 to replace the old stallion I should charge the difference between the old and the new stallions, allowing it to him as a working expense, and keep the stallion at the standardized price in the valuation.

21,152. That would involve in his previous valuations his not having lowered the value of the old stallion as he got older. He would have to keep the standardized figure; he could not have it both ways?—Hardly.

21,153. But you would accept a standardized figure for a stallion—what he paid for it?—Under ordinary circumstances, yes.

21,154. You can see that there is considerable difficulty?—Yes, there is a difficulty, but that difficulty I take it would not be so apparent if a farmer were transferred to a system under which he continued to pay on actual profits. The difficulty is more apparent where he pays upon profits in one year and upon the Schedule B assessment in another year.

21,155. Then, on the same consideration, take corn grown on the farm and consumed there; take oats, for instance?—Yes.

21,156. Oats at the beginning of the war were worth 25s. a quarter, were they not?—I will take it from you that they were.

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21,157. You may take it from me that that is so. Oats now are worth 76s. a quarter, are not they?—I will take it so.

21,158. On arable farms a very large proportion of the oats grown, you are aware, have to be consumed on the farm?—Yes.

21,159. Especially in these times when no artificial feeding stuffs are available?—Yes.

21,160. A man may grow a very large acreage of oats and he may have no oats to sell at all?—Yes.

21,161. Supposing a man in his original valuation had his oats still standing at 25s. a quarter and oats were now worth 76s., should you suggest that he ought to put up the valuation at the end of the year—put his oats up to 76s. or to any sum above 25s., when all those oats were going to be consumed on the farm?—I am afraid I do not follow.

21,162. A farmer makes up his accounts by four items. What you have to consider are four items, two credit items which are the valuation at the end of the year and his receipts during the year?—Yes.

21,163. And there are two debit items which are his valuation at the beginning of the year, and his outgoings in money during the year?—Yes.

21,164. Therefore his valuation at the end of the year is an asset which comes in for Income Tax?—Yes.

21,165. If he has grown a crop of oats and if at the beginning of the year those oats are entered at a certain figure, 25s., which was the pre-war figure, and if during the year the price of oats rises to a much higher figure—I will not take 76s., which is the present value—and the end of his year, as it is commonly known in many farms, is Michaelmas?—Yes.

21,166. He has got on the farm his entire crop of oats for the year in stock?—Yes.

21,167. The market value of those oats last year is 50s.?—Yes.

21,168. They are entered in his valuation at the beginning of the year at 25s., a similar crop; that is what he had at the beginning of the year. We will assume the same quantity, although he would not grow exactly the same quantity; it is near enough. He has the same quantity of oats from the previous harvest the year before, which were valued at 25s.?—Yes.

21,169. He did not sell any of them; he consumed them all on the farm?—Yes.

21,170. At the end of the year he has a similar quantity of oats worth 50s. if he sold them in the market?—Yes.

21,171. But he will consume them all on the farm again; how would you deal with that?—I think in such a case as that, if it were absolutely certain that they were to be consumed upon the farm, in the subsequent year there would be no objection to taking those oats at standardised value.

21,172. Retaining them, you mean, at the original figure of 25s.?—At a fair standardised figure.

21,173. May I suggest to you that the fact of whether they are consumed on the farm or not you need not trouble yourself with, because if they are sold they will come in in the other item of profit, namely, the receipt. Supposing you allow the whole of those oats to stand still at 25s.?—Yes.

21,174. And suppose instead of consuming those oats on the farm the farmer buys artificial to a certain extent and sells half of them?—Yes.

21,175. Then you will get your Income Tax fairly on the difference between the 25s. at which those oats are entered at the beginning of the year and the 50s. at which they are actually sold?—In the succeeding year.

21,176. Yes, quite. They could not be sold until they are harvested?—I quite agree, if that farmer continues to pay tax on actual profits, but if that farmer one year elects to be assessed on the actual profits and in the succeeding year claims to be assessed on the Schedule B assessment, as he can do at the present time, we then lose.

21,177. Certainly, but what I am trying to get at is this: I am assuming that your suggestion is adopted of taxing on Schedule D.—Every year?

21,178. In a particular case. I am taking you on your own suggestion, not that every farmer, little and big, should be taxed on Schedule D, but supposing only one farmer is to be taxed on Schedule D, I want to ascertain on what system you would arrive at his profits in the matter of valuation, and that is why I am asking you these questions. So far, you have answered me perfectly clearly, and my objections to any change would be considerably removed if I am perfectly certain that there will be no attempt to tax the farmer on the increased value of his breeding stock and of his crops, and of what he has consumed and used on the farm?—Yes. I should like to point out that if the farmer is to continue to be taxed on the actual profits shown by his accounts one year with another the question of valuation is not one of such very great importance. The question of valuation is of the greatest importance when a farmer changes about from one system to another, and by a method of valuation is enabled to show his profits in a particular year when he elects to be assessed upon the ordinary Schedule B basis and not on the basis of profits.

21,179. You see, you and I look at that from opposite points of view. You say it is not of great importance if it is Schedule D, and that is true; it is not of much importance to the Revenue but it would be of great importance to farmers. The other way on the opposite applies; it would be of the greatest importance to the farmer under Schedule D if after that change had been accepted by the agricultural industry the Revenue were to set up a claim that they should charge as profit to put in the value of two successive crops when garnered and entered in the valuation at the beginning and end of the year. If they did that it would make it impossible, because a man would have to pay twice over, and it would be in the hands of the Revenue to do it. What guarantees have we that they will not be pressed, and say: "here is a man with a crop of oats worth 35s., and his next crop is worth 50s. Why should he not be charged on that just the same as a merchant on his stock-in-trade?—I do not see that he would be charged twice over. Assuming that the Revenue contended that the oats should be brought in at the end of the year at 50s., there would be a debit of the same amount in the succeeding year.

21,180. That would not help him. You are getting the farmer into exactly the same position that you claim you are in now. Supposing that year were, rather a good year, the farmer would pay twice in that year. Where one item of agricultural produce is high it means generally that they are all high. Where one agricultural price rises it generally means that all agricultural prices are rising, not exactly in proportion, but probably so; if corn is high, stock is high, and so on. If he paid on the increased value of his oats, and he fed those oats to his stock, and his stock were sold at the increased price, he would pay twice over, first of all on the increased value that he got for his stock, and, secondly, on the increased valuation on the oats that he fed to his stock?—But those oats were no longer in existence; they do not come into his second valuation at all.

21,181. They are not in existence after the stock has eaten them, but he has paid on them?—They do not appear in his valuation at the end of the second year.

21,182. Yes, it is absolutely so. The man has paid on the difference between the two crops of oats. He has a crop of oats one year and another crop the next year. The first crop goes into his valuation at the beginning of the year as a debit; the second crop goes into the valuation at the end of the year as a credit, and there is a difference of £200 between the value of those two crops. If he had to enter them at market value he would be credited with £200 profit, on which he would have to pay Income Tax, and he would then feed those same oats during that second year to his stock, and some of that stock might be sold, and probably all that would have been in his valuation at the beginning of the year also, and that

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also would have increased in value. Then he would feed his valued up stock with his valued up oats, and he would sell them at an increased price, and he would be charged on the difference between that increased price and the low valuation at the beginning of the year, and therefore he would pay twice over?—But the oats that had been written up at the end of the first year disappear from his valuation in the second year, he gets credit for their written-up value.

21,183. I do not think he gets any credit for it whatever. Supposing the next year the price of oats fell again; and he has a very bad year, and pays no Income Tax at all; he gets nothing back. Supposing the first year he makes a profit of £2,000?

21,184. *Sir J. Harwood-Banner*: I should like to interpose something that I think, if I might say so, you omit, that is to say, he would commence the year, when he sold his stock at the high price, with the oats at the high price at which they had been put in the previous year so it would not come in twice. He debits the stock at the higher value to start his account with. I am only speaking as a master of book-keeping; it is not a question of paying twice over. He would have to start his debit with a high price.

21,185. *Mr. Petyman*: I think you would find it is so, because at the time of the high price of oats, you omit, that is to say, he would also be selling stock at a high price which were fed with the cheap oats of the year before. He would have to pay on the difference between the high price at the time he sold and the low price of the valuation at the beginning of the year, and he would also have to pay on the increased price of the oats; the oats would have been rising in price all that year.

21,186. *Sir J. Harwood-Banner*: For that year, but the next year he would start his year with the high price oats as a debit. He puts his animals in at that price, and it would only come in once, and not twice over.

21,187. *Mr. Petyman*: I did not mean twice in two succeeding years. I am glad that you put that point. When I said twice I meant that he would pay twice on the increased value of the oats, once on the increased value of the oats themselves, and once on the increased value in the animal which they were fed to.

21,188. *Sir J. Harwood-Banner*: But he gets the benefit of the heavier cost as a debit to reduce the high cost of the animal.

21,189. *Mr. Petyman*: That is exactly the point I was coming to when you interrupted me; that is exactly where the Revenue would find themselves in the position that the farmer is in now. In that year of the rising price the farmer makes a profit. I suggest that he pays twice over on his oats, once on their valuation value and once on their value fed to the stock which he has sold. He pays, we will say, on £2,000 profit, which he has made in that year. The next year is a year of falling prices. It is quite true that he gets in his valuation the benefit of the fall in the price of oats and the benefit in the fall in the price of stock, and the probability is he will have no Income Tax to pay at all.

21,190. *Mr. Birley*: Is not that exactly the same as any trader?

21,191. *Mr. Petyman*: No, it is not the same as any trader, because there is not the same mixture. However, perhaps I may go on with the witness.

(*To Witness*): The next year he makes a loss?—Yes.

21,192. You cannot take it beyond the position of his having no Income Tax to pay in the year of loss, unless you charge him on an average of years. He will get no compensation for the heavy over-payment he has made on the sum of the two years?—That depends very largely on the attitude that the Commission take as to writing off losses in subsequent years. If they transfer the method of assessment under Schedule D, from a three years' average to one year, I assume they will make provision for writing off losses.

21,193. Then, on the question of the amenity rents, I should like to ask you a question of administration. It says in paragraph 26 of your second paper:

"where it is proved to the satisfaction of the Income Tax Commissioners concerned that any person occupying any lands and assessed to Income Tax in respect thereof under Schedule B is not occupying those lands for the purpose of husbandry only, or mainly for those purposes." That has a double action, because there are a good many parks which are used in connection with farms, either an adjoining farmstead, which is let to a tenant, or a home-farm, which is occupied by the owner. The park is very often a very valuable part of the grazing of that farm?—Yes.

21,194. In that case it should be assessed with the farm under the existing Schedule B and D arrangements?—I am afraid I do not quite follow that.

21,195. Where the grazing of a park is let with a farm as part of a farm?—And included in the rent of a farm?

21,196. And included in the rent of the farm—or where the owner gets it as part of the home farm, are they entitled then to treat it as part of the farm and take it under the same conditions as you outline under Schedule B?—And to claim to be assessed under Schedule D?

21,197. Yes?—I think not.

21,198. Why?—Because there has been some benefit derived from the land which is not covered by the profits which are made by the farm. The land is really being occupied in a dual capacity, partly for pleasure purposes and partly for the purposes of farming.

21,199. How is it being occupied for pleasure purposes?—I understood you to say it was a park, and I assume from that that it is a park that is used partly for other purposes than purposes of agriculture.

21,200. What other purposes would it be used for? A park which is attached to a mansion can be grazed and used as part of a farm and is often just as good as any other part of the farm?—It can, but I take it in addition to that there is a use being made of it as one of the amenities attached to the house.

21,201. That use would require some definition, would it not?—I do not know that I can say that there is any definition required. The occupier of the place is deriving two benefits from it, partly the grazing which he uses in connection with the farm, and partly the occupation of pleasure or, as it was described in one of the cases, "profit of enjoyment."

21,202. As regards kitchen gardens, what is the law about that? Is there not a certain limit—beyond a certain acreage, is it not?—One acre is included with the Inhabited House Duty.

21,203. And then after that it is charged on occupation value under Schedule B?—Yes.

21,204. Once the valuation and not twice?—I suppose it would be.

21,205. Well, it is so, is it not?—Yes.

21,206. That is the occupation value which the man has in trading with himself?—Practically.

21,207. It is rather outside the principle of the Income Tax, is it not?—Hardly.

21,208. *Mr. Walker Clark*: In reference to paragraph 11 of your paper No. II. on the heavy burden of local taxation to some extent compensating for the advantage to the farmer, that heavy burden of local taxation is not peculiar to farmers, is it?—It is not peculiar to farmers.

21,209. Nor is it worse in the case of farmers than it is in the case of shops?

21,210. *Mr. Petyman*: I should like to ask a question on that, if that is pressed?—I would rather not express an opinion on that.

21,211. *Mr. Walker Clark*: One point with reference to the farmer's stock; you suggest that a certain proportion of his stock should be standardized stock?—Yes.

21,212. That is done at present under Schedule D in other industries?—In the case of a plant, yes.

21,213. Would you allow wear and tear allowance or an equivalent to wear and tear allowance?—No, I think not.

21,214. Do you not think that the question raised by Capt. Petyman would be met absolutely if the same principles were allowed in farming stock that you have now in the stock of the spinner or manu-

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[Continued.]

factor?—I think the two are hardly parallel, because in the case of the breeding stock we are constantly allowing replacements.

21,215. You suggest, in one of the paragraphs of your second paper, that certain exceptions might be allowed. In paragraph 21, you suggest three alternative methods?—Yes.

21,216. In the first sub-paragraph, you suggest that below a certain rental Schedule D should operate, and above that rental the old method of doubling the rate?—No, the reverse: above the certain rental, Schedule D, and below the rental, the other. This is as a tentative measure.

21,217. What do you suggest would be a fair thing to commence Schedule D at? At present it is £65, is it not?—This is not exemption; this is assessment.

21,218. Below £65 he would be exempt?—Yes.

21,219. At what figure would you commence on Schedule D? You put in here 50,000 at a rental exceeding £200 a year?—I have the figure also for farmers exceeding £100 a year, which we estimate at 150,000 in number.

21,220. Would you begin there?—I would begin higher than that.

21,221. £200?—I think I would rather leave that to the Commission to determine. I would rather express no opinion on that point; it is a matter for the Commission to determine.

21,222. There are a very large number of men who are using land in their occupation who are already paying under Schedule D, where they are cattle dealers, or butchers, or market gardeners?—Yes.

21,223. Many of them pay a much smaller rent than £200 a year?—Yes.

21,224. And they have to submit to you a trading account already?—Yes.

21,225. Therefore the option given to farmers of rendering a trading account is already met, to some extent?—Every farmer has the option of submitting a trading account and claiming to be assessed under Schedule D, if he thinks fit.

21,226. But if it was made obligatory to come under Schedule D, you have already a very large number of men who are supplying you with that information?—Not a very large number.

21,227. Mr. Mark: Assuming that farmers cannot be assessed under Schedule D, can you suggest any better method of assessing them than the existing one, namely, twice the annual value?—No.

21,228. On the matter of Ireland, do you agree speaking generally, that Ireland is much more leniently treated in the matter of income taxation than any other part of the United Kingdom?—Yes.

21,229. And that owing to the conditions under which the Irish Income Tax payer is assessed, the application of the general rules creates anomalies as between various taxpayers in Ireland?—Yes.

21,230. That is to say, you consider that the Income Tax, as applied to Ireland, requires readjustment, both as regards the relations between Ireland and the rest of the United Kingdom, and as regards relations between Irishmen themselves?—Yes.

21,231. Is there a limit of valuation for assessment in Ireland?—Only the limits that are implied by the exemption limit as in England.

21,232. That is what I had in mind; the limit is half the limit of exemption, is it not?—In the present case, £65 a year?—The same limits apply to Ireland as to England, as regards Schedule B.

21,233. Is nobody assessed unless he is assumed to receive more than half the exemption limit?—The exemption limit is the same in Ireland as in England; and in the case of farms, double the valuation is the basis of the limit of exemption, assuming that a man has no other assessable income.

21,234. It is not the same system as is used in England, is it?—Yes.

21,235. The effect of the method in Ireland is that practically all farmers under a valuation of £65 a year escape Income Tax altogether, do they not?—Yes. To the double valuation is added, however, the annual value of any tenant right assessable under Schedule A.

21,236. I am afraid I do not quite follow that?—May I give an example? Assuming a man with a valuation of £70 and a beneficial interest—I am leaving out of the question the variation that is brought in by the later Act—take an ordinary rent, assume a man with a valuation of £70, and paying a rent of £40, we should charge him on double the valuation under Schedule B, that is, £140, and also on the difference between the valuation and the rent, £30; so that the total assessment would be £170.

21,237. Supposing his valuation were £90, would it be exactly the same?—Yes.

21,238. Are you sure that he does not escape assessment in that case?—If the rental was still £40, he would not escape taxation, because of the beneficial interest.

21,239. What I really want to get at is this. Does not this arrangement, by which the limit of valuation for assessments is only one half the exemption limit, enable a great many farmers in Ireland who ought to pay tax to escape it, if we say that the same class of farmer in Ireland should pay tax as in England?—No, I think not, apart from the general question of inadequate valuation.

21,240. Sir J. Harwood-Basser: You were dealing with stocks just now. Is it not a fact that a White Paper has been issued by Somerset House which deals with that, and which, subject to certain provisions as regards the basis of stocks, directs that stocks should be valued at cost or market value, whichever is lower?—Yes.

21,241. And that valuing them on that basis, would have prevented the injustice which was put to you as a farmer having to value his stocks at a high market price, to the detriment of his profit and loss account?—Yes, but I take it the difficulty with the farmer is that he is unable to ascertain, as a rule, the cost.

21,242. Mr. Peetymon: Where he is breeding.

21,243. Sir J. Harwood-Basser: Is it not the fact that he can make up the cost of his costs pretty much in the same way as an ironmaster can make up his costs? I think you will find it comes to the same thing. With regard to the questions which were put to you about the farmer, is there any difference really between a farmer and any other trader, in the making up of his costs and profit and loss account, except the fact that he has a right to come under Schedule B?—I take it the difference between the two is that, in the case of the farmer, he has very great difficulty in arriving at the cost of any particular portion of the stock.

21,244. I was venturing to suggest that a manufacturer has very much the same difficulties in arriving at his cost as well. I see you put in a clause here about timber, and also about farmers' Schedule B and Schedule D. Under "Timber" there is a right of election, Schedule B or Schedule D; but once having made that election, the owner of the woodlands is tied to that selection?—Yes.

21,245. Does not the farmer get enormous privileges in being able, when he is making a big profit, to go under Schedule B, and when he is making a small profit, to go under Schedule D?—Yes.

21,246. I see you make the suggestion that the only way to remedy this is that he should be tied in the same manner as in the case of woodlands; having once made his selection, he should be bound by that selection for the rest of his trading?—Yes.

21,247. When he has selected Schedule D, when he can make up his accounts for his own advantage by keeping accounts suitable for that purpose, he should be compelled to stick to Schedule D for the rest of his days?—Yes.

21,248. Have you any return you can give us to show how many selections have been made from Schedule B to Schedule D, and then back again from Schedule D to Schedule B? Are there many variations of that description? You do not give us the numbers here as to how far farmers use that great privilege of going from one to the other, according to their profit and loss accounts?—Those figures can be obtained, but I have not them now.

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21,249. *Sir J. Harwood-Banner*: I think it might be of interest if we had them, to show how far the farmers use this. Then I do not put any questions about Ireland, because it seems so full of anomalies.

21,250. *Chairman*: Mr. Geoffrey Marks examined on that.

21,251. *Sir J. Harwood-Banner*: Yes. There are so many anomalies once we start. As regards Schedule A, you do not mention at all, as regards valuations, how far you could use the Assessment Committee, say, of the Parish Council, or the County Council, or of the Local Government Board? Do you not make use of them to a very great extent in basing your assessment for Schedule A?—In preparing our Schedule A assessments, the Assessor is provided with a copy of the most recent Poor Rate, and he works upon that; when making his assessment he has of course before him the values which have been placed upon the various properties by the Assessment Committee, and which are at that time in force.

21,252. So that when you make your suggestions here about difficulties in getting it through, do not those rate books help you much, and would not they lighten your work, or enable you to do it within a limited period?—They are only the groundwork which we have always had. They are only the foundation on which we build. I think our position in the future will be just the same as it was in the past.

21,253. You use the foundation a very great deal, do you not?—Only as the groundwork on which we build our own valuation.

21,254. Speaking from some experience, I have found the rate book and assessment under Schedule A nearly always tally?—That does not entirely accord with my own experience. It may be that in some very well-rated towns the gross estimated rental is often very similar to our Schedule A assessment, but those are the exceptions.

21,255. Do you find that there are considerable differences between your assessments and the rate book assessments?—Very frequently.

21,256. In what way do you deal with the big houses which are owned by proprietors? Is it not the fact that when changes are made, and those houses are let, it very frequently happens that the new tenant is at once assessed at a much higher rate than the old proprietor of that house was assessed at? Take a big house; it is assessed perhaps at £200 a year—nothing approaching the amount based on cost; it is let to someone who takes it at £500 a year; then the assessment is at once put up to £500 a year, naturally; but I want to call your attention to the fact that you have allowed it for many years in many cases to remain at a very low rent in the hands of the original proprietor, and no rise has taken place until it is let?—We hope to get over that difficulty in the future by the suggestion that we are making, that in those cases we shall be able to call to our assistance the Valuation Department of the Board of Inland Revenue. I make that suggestion, I think, in paragraph 7 of my paper No. 1, on Schedule A.

21,257. Whereabouts in paragraph 7?—In the second sub-paragraph.

21,258. *Mr. McIntock*: You generally speak of the one-sixth allowance as being for repairs alone?—Yes.

21,259. There are, of course, additional burdens on the owner of the property, in the shape of insurance and management?—Yes.

21,260. And owners look upon that one-sixth as an allowance to cover all three. Do you suggest that in the smaller class of property generally, the present one-sixth is not inadequate?—No, I think that in the case of the smaller property it probably is inadequate,

but I am unable to make any definite suggestion in the absence of any exact figures.

21,261. You would agree that the average of the past five years—if there are deferred repairs, as you indicate there have been—will give anything but a true measure of the normal annual repair charge?—Probably.

21,262. Especially when the costs are so high as compared with the average of the five years?—Probably.

21,263. Do you hold the view that, in the smaller property particularly, the one-sixth allowance should be increased?—I think it is at present probably inadequate.

21,264. Therefore the taxable income is generally in excess of the net income?—Probably.

21,265. Would you draw a distinction between small houses and other classes of property, and suggest that the one-sixth is adequate for such property as larger houses, office property, and shop property?—There is no evidence that has come before us at present, in the case of large property, to show that it is, over a series of years, inadequate.

21,266. In these cases, the present allowance is adequate to cover repairs, insurance and management, but in the smaller dwellings, of rents, say, from £30 downwards, the one-sixth is inadequate, and likely to remain so?—I should think it is probable that it is inadequate in the case of small-house property.

21,267. And likely to remain so?—It is rather difficult to forecast the future.

21,268. *Mr. Petyman*: I think we have not any other official witness about woodlands. You state in paragraph 23 of your Schedule B paper: "It is suggested the objection will be met if an election to be assessed under Schedule D were made irrevocable, as in the case of woodlands."—Yes.

21,269. Do you suggest there is a free choice as between Schedule B and Schedule D in the owner of woodlands?—Yes.

21,270. That is not so in practice, I may say. I will give you my own experience. I happen to own woodlands in two counties. The condition of the choice is, of course, that those woodlands must be carried on on a commercial basis?—Yes.

21,271. I carry on my woodlands in both cases on an absolutely commercial basis. In one county the acreage is large; in the other county the acreage is small. The management is identical. I was refused Schedule D in the small case, and granted it in the large one; and the ground given was that the Inland Revenue Commissioners refuse to allow any woodlands to be put under Schedule D, where the acreage is below a certain figure?—I find nothing of that kind in the Act.

21,272. Is that a ruling of the Inland Revenue?—I am not aware of such a ruling.

21,273. I have experienced that myself; so that there is no free choice, apparently, at present?—I was not aware of such a ruling. I shall be very pleased to look into it.

21,274. You do not know of any ruling to that effect?—I do not.

21,275. Merely on the ground that the acreage was below a certain figure?—I am not aware of that; I can look into it.

21,276. *Sir W. Trower*: Would it be desirable that we should have a note sent about that?

21,277. *Chairman*: You will make inquiry in regard to Mr. Petyman's question?—I will, my lord.

21,278. Thank you for your evidence.

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[Continued.]

Mr. F. S. TOWLE and Mr. W. S. BEST, on behalf of the Association of Tax Surveying Officers, called and examined.

The witnesses handed in the following statement as their evidence-in-chief:—

Proof of evidence to be given on behalf of the Association of Tax Surveying Officers by W. S. BEST, a Superintending Inspector of Taxes and a Vice-president of the Association, and F. S. TOWLE, an Inspector of Taxes, on the subject of evasion of Income Tax.

Introductory.

21,279. (1) The Association of Tax Surveying Officers was founded in 1901. Its principal object is to consider all matters, whether legislative or administrative, affecting H.M. Inspectors of Taxes. These officers were until recently designated Surveyors of Taxes, and they are so referred to throughout this evidence. The membership of the Association consists of more than 90 per cent. of the total surveying staff.

21,280. (2) An outstanding feature of the Association's organisation is its highly developed machinery for ensuring full discussion of the varied technical and administrative problems which constantly arise out of the complex duties entrusted to Surveyors of Taxes, and for ascertaining the considered judgment, with regard to these matters, of the Service as a whole. Every member of the Association throughout the United Kingdom is allocated to a particular Advisory Council, according to the locality in which his district is situated. Meetings of these Advisory Councils are held at frequent intervals, and at these meetings all matters of moment affecting the Service are debated. The conclusions arrived at are communicated to the other Advisory Councils and to the General Committee of the Association (a body elected annually). A general meeting of the Association is held every year, and when required special general meetings also are held. At these meetings the policy of the Association on the major matters coming up for discussion is determined, and the necessary action decided upon for carrying these decisions into effect.

A powerful aid to discussion and to the formation of considered opinion is also afforded by a confidential periodical known as the "Quarterly Record." This publication is the official organ of the Association, and, as its name implies, is issued quarterly to all members. To the pages of this periodical articles are contributed on subjects of technical or administrative interest by Surveyors who have made a special study of them, a prominent feature being the discussion of all High Court decisions that bear on the work of Surveyors.

The evidence which follows has been prepared by a special Committee of which both witnesses are members. Mr. Best's service in the Taxes Branch extends over a period of 21 years, of which 20 years have been spent in districts and one year on the Head Office relief staff. Mr. Towle has served over 17 years, of which 15 have been spent in districts and two as a member of the Head Office investigation staff.

General.

21,281. (3) From the nature of their work, Surveyors of Taxes are aware that the evil of fraudulent evasion of tax is widespread, and that there is, in consequence, a grave loss of revenue to the Exchequer.

21,282. (4) The detection and investigation of fraud depend mainly upon the vigilance of the Surveyors, and the purpose of the Association's present evidence is:—

- (a) to deal with the opportunities available to Surveyors for the discovery of fraud, and the powers possessed by them for dealing with fraud when detected;
- (b) to submit for the consideration of the Royal Commission a number of suggestions having for their object the better safeguarding of the Revenue.

21,283. (5) We agree generally with the evidence-in-chief on the subject of evasion of tax given on behalf of the Board of Inland Revenue by Mr. E. Stanford London.

21,284. (6) Ordinarily, the Surveyor of Taxes, when he discovers a case of fraud, investigates it to the extent of his powers, and then submits to the Board of Inland Revenue a report, showing the loss of duty, the nature of the frauds, the statutory penalties incurred, and his suggestions for dealing with it.

21,285. (7) In all but a few cases, in which either civil or criminal proceedings are instituted, the Board accept in settlement a sum of money, never more than, and usually much less than the statutory penalties incurred. The Board have no power and make no attempt to insist on such a settlement, and in every case in which they agree to it, it is a concession chosen by the offender in lieu of the more severe statutory penalties which might be sued for.

Various forms of fraud and evasion.

21,286. (8) There is a considerable amount of evasion under Schedule E, particularly by those concerned in the management of private limited liability companies. Evasion also occurs through incorrect statements of total income submitted for the purpose of obtaining relief.

The total amount of duty lost, though important, is small in comparison with that lost under Schedule D, and the greater part of this evasion would be checked by the augmented powers of obtaining information and inspecting books proposed in connection with the latter Schedule, and the balance can, to a large extent, be dealt with administratively when adequate staff is available.

21,287. (9) Evasion exists in varying degrees under all the Cases of Schedule D. Deposit interest is very often omitted from returns, frequently through ignorance or carelessness. The only means of enabling such omissions to be detected would be to require banks to supply annually lists of depositors with the amounts of interest credited to each. The checking of returns of foreign income presents special difficulties. Employers' returns, being checked with lists of emoluments supplied by employers, afford little scope for fraud except in comparatively rare cases of collusion.

The most serious evasion occurs in connection with the profits of trade. It is proposed to deal with this in two parts: (1) inadequate returns, (2) fraud in connection with accounts.

Inadequate returns of profits under Schedule D.

21,288. (10) The Surveyor of Taxes is expected to avail himself of every legitimate source of information relating to the profits and income of persons within his district, and thereby he frequently discovers that returns are inadequate, or that traders, previously regarded as exempt, are liable to pay tax. In the main, however, he depends upon special enquiries made by him in selected cases. The extent to which he can exercise either form of investigation is limited by the time and staff at his disposal.

21,289. (11) The Chief Inspector of Taxes, in his evidence, described the procedure of making assessments, and it will be within the recollection of the Commission that, after the returns under Schedule D have been entered by the Clerk to Commissioners into the assessment books, the books and returns are delivered to the Surveyor. He examines the returns, makes such enquiries as seem to him to be desirable, and afterwards, in conjunction with the Assessor, enters into the assessment books—in readiness for consideration by the Additional Commissioners—the amounts of profits which he considers to be correctly assessable.

21,290. (12) The ideal state of affairs would be for the returns to be so accurate that, as regards the

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ascertainment of the amount of taxable profit, the Surveyor's duties would be restricted to enquiring into obvious slips or omissions, and to assisting taxpayers in computing their liability. While such a state of affairs is not likely to be attained, some remedial measures can be taken, and it is towards this end that our proposals are mainly directed.

21,291. (13) The examination of the returns made on behalf of the larger businesses is a formality. Usually the liability either has been or will be agreed with the taxpayer on the figures disclosed by his annual accounts. It is estimated that the number of cases in which accounts are produced (including all limited liability companies) amounts roughly to 30 per cent. of the total number of businesses assessed. These "accounts cases" are dealt with separately in paragraphs 25 to 28 hereunder. The "non-accounts cases" amount to 70 per cent. of the total number, but in aggregate duty to a much smaller proportion. Although the imposition of the Excess Profits Duty, with enlarged powers of enforcing the production of accounts, has resulted in accounts—audited or otherwise—being furnished by large numbers of traders and manufacturers who have previously refused to supply them, there are still numbers of important businesses, where there is no *prima facie* liability to Excess Profits Duty, in respect of which adequate accounts are not supplied. With the cessation of Excess Profits Duty, this number may be expected to increase if the relevant provisions of the Income Tax Acts remain unchanged.

21,292. (14) In endeavouring to weigh the value of returns that are unsupported by accounts, the Surveyor (except in isolated cases) does not know:

- (a) whether or not the trader keeps proper books;
- (b) whether or not he prepares periodical accounts of his trading;
- (c) whether or not he employs an auditor or accountant;
- (d) if so, whether or not he has consulted him in preparing his return;
- (e) whether his return is based on an average of three years' profits, or one year's profits, or on any considered basis at all;
- (f) whether he has complied with the requirements of the Income Tax Acts in calculating the profits returned, or has simply entered the year's savings, drawings, or balance of trading account; or perhaps has entered the sum on which he is willing to pay tax.

21,293. (15) When it is remembered that a Surveyor, in addition to multifarious other duties, has to deal with hundreds of "non-accounts" cases each year in the comparatively short and often utterly inadequate space of time between the date on which he receives the books and returns from the Clerk to Commissioners and the date of the Additional Commissioners' meeting, the impossibility, in present circumstances, of dealing adequately with these returns will be evident. Our Association hopes, at a later date, to place before the Royal Commission proposals which, if adopted, would have the effect of extending the time available for this work.

21,294. (16) Apart from enquiries relating to obvious defects in the returns, the Surveyor usually selects a certain number of cases which appear to call for special enquiry. In making his selection he is materially helped by the large volume of information relating to persons resident in his district which passes through his office. The number of cases selected varies with the pressure of other work. Under the conditions now prevailing only an inadequate percentage of those requiring investigation can be dealt with each year.

21,295. (17) The Surveyor's preliminary enquiries are usually directed towards ascertaining what accounts, if any, the trader can produce (*see* (a), (b) and (c) in paragraph 14). Cases in which accounts are forthcoming are dealt with in paragraphs 25 to 28. If, however, the trader says he has

no books or accounts—a statement which may not be true, but cannot be verified—the Surveyor endeavours to ascertain the true profits by means other than the examination of accounts, *e.g.*, he may request production of the trader's bank pass book, record of takings, &c., and will ask such questions as circumstances suggest. Evidence and information may be refused or false replies given, and the Surveyor has power neither to enforce production of the necessary evidence nor to verify it. The net result is that, as regards the cases investigated, the honest trader discloses everything with satisfactory results, the weakly dishonest one is found out, made to pay his arrears of tax and punished; the thoroughly dishonest one aggravates his offence by lying and deceit and not infrequently evades detection.

21,296. (18) Although in most of the cases referred to above the assessment is comparatively small, it frequently happens that the true liability is greater than that of many concerns producing accounts. It is not uncommon, especially in large towns, to discover that a trader assessed at £400 or £500 is making an annual profit of several thousand pounds. Cases could be quoted where for years a trader earning very considerable profits has not been assessed at all, the nature of his business being such as to make no outward show and his mode of life being unostentatious.

Proposed remedies for inaccurate returns.

21,297. (19) We are of opinion that the statutory return form for the declaration of profits should be drawn up in such a way as to require from the taxpayer a clear statement of the basis of the return and the nature of any accounts and records from which it is computed. It is, however, not desirable so to frame the form that a taxpayer may be led to think—or may be in a position to plead that he thought—that his duty is restricted to making certain specified additions to the balance of profit shown by his trading account. He must remain responsible for the completeness of his return, otherwise the way of the dishonest taxpayer would be rendered safer.

21,298. (20) Three considerable advantages would accrue from this proposed alteration: (1) a very large number of taxpayers would devote more care to the making of their returns, which would therefore be more accurate; (2) the Surveyor would be able better to judge of the value of the returns; (3) inaccuracies in returns would be more specific, mistakes could be localized, and any offence committed could be better weighed and blame better apportioned. All this would be unmixt benefit; it would help the honest taxpayer and assist in the proper condemnation of the dishonest one. There are many taxpayers who see little harm in putting up what they regard as a piece of bluff in the shape of an inefficient return calculated on no particular basis, but are not willing to write or tell falsehoods on specific points. Others who might have no scruples in so doing are often afraid to write false statements because they thereby commit themselves beyond recovery.

21,299. (21) No alteration in the return form, however, will yield entirely satisfactory results unless the taxpayer knows that the Revenue officials have the power to check in all essential particulars the returns and statements made. It is submitted, therefore, that a general authority should be given to the Board of Inland Revenue to require a taxpayer to produce such accounts, books, records and other evidence as are available and may be necessary for that purpose.

21,300. (22) It would also be a valuable safeguard if returns by firms were required to be signed by each acting partner resident in the United Kingdom, and returns by companies by the managing director or chairman of directors as well as by the secretary. Many men will take advantage of another's fraud who would not themselves accept responsibility for it.

21,301. (23) In order to ensure that taxpayers made accurate statements as to the accounts avail-

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able it would be of considerable assistance to Surveyors if practising accountants were required to supply annually a list of concerns for which they had prepared accounts during the preceding year. Meet accountants we think would gladly render this assistance to the Revenue if it were made compulsory, so that no invidious comparisons could be drawn between one accountant and another.

21,302. (24) In addition to the present obligation on employers to supply a list of employees and their emoluments, it would be helpful if there existed a similar obligation to supply a list of payments for services rendered made to persons other than employees.

This provision would cover many commissions, retaining fees, &c., some of which, at present, are not returned for assessment by the recipient.

Accounts cases.

21,303. (25) On an appeal, the General or Special Commissioners may require the appellant to produce accounts. The Board of Inland Revenue and their Surveyors have no power to require their production for Income Tax purposes at any time. The knowledge of the power possessed by the Commissioners, and also in many cases a genuine desire for correct assessment, induce a large number of taxpayers to produce them voluntarily to the Surveyor either for the purpose of agreeing the assessable liability before the return is made, or else in order to satisfy a Surveyor who is making an enquiry into the accuracy of a return. The accounts, for whatever purpose produced, are examined by the Surveyor, who addresses to the taxpayer or his representative such enquiries relating thereto as appear to him to be necessary for ascertaining the correct taxable profit, but has no power to compel replies to his questions relating to Income Tax liability. The replies obtained are as important as the accounts themselves.

21,304. (26) There are three loopholes for evasion here: (1) the accounts may not be true copies of those possessed by the trader; (2) the accounts may be true copies and accurately represent the profits shown by the books, but the books themselves may be inaccurate; (3) the accounts may not disclose on the face of them the full taxable profits and the supplementary information supplied to the Surveyor may be inaccurate or incomplete. In all these respects numerous and large frauds are being carried out all over the country, involving an annual loss to the Revenue of many millions of pounds.

21,305. (27) To meet fraud of this deliberate and calculated type the power to inspect books, &c., is necessary—only in rare cases can it be detected otherwise. Even where it is suspected and searching enquiries are addressed to the taxpayer or his representatives, guilty persons will usually avail themselves of every possible means to prevent detection.

21,306. (28) Another power is necessary in order to render effective the inspection of books, viz., that of obtaining information from Government Departments, public bodies of all kinds, and banks.

There should be a regular flow from other Government Departments to the Inland Revenue Department of information likely to be helpful to the latter in verifying taxpayers' returns, and the fact should be well known and freely announced, so that there could be no repetition of the state of affairs obtaining during the last five years, when men making tens of thousands of pounds' profits out of one Government Department have been returning their profits for taxation purposes to another Government Department at insignificant amounts. In the same way it would be helpful if the Revenue had power to demand information from all public bodies. As regards both Government Departments and public bodies the information normally required would have reference to contracts, and payments made, to others than employees, for services rendered.

21,307. (29) The position of banks is different. Our Association is well aware of the repugnance with which many people will view the proposal to compel banks to disclose information respecting their customers' accounts; on the other hand it is well aware that

traders disclose their bank pass books relating to their business accounts to their auditors, and many produce their pass books both of their business and private accounts to Surveyors of Taxes. Clearly, in an investigation of books, this production of the pass book relating to the business account is as valuable to a Revenue investigator as to an auditor, and in the detection of those numerous cases of fraud in which traders deceive their auditor, access to their private pass books is essential. Furthermore, where fraud of this kind is suspected it is necessary to find out, if possible, what private bank accounts these traders possess.

From our experience, we are of opinion that no powers to check deliberate fraud will be adequate unless they include power—

- (a) to require any bank to state whether or not a particular taxpayer has an account there;
- (b) in case of refusal by any taxpayer to produce his bank pass books, to require the bank either to supply a copy of, or to permit an officer of the Department to inspect, the taxpayer's account in the bank ledger.

This power could be exercised by means of a requisition from the Board of Inland Revenue to the head office of the bank. We believe that there would be no need to exercise it frequently.

Summary of proposals.

21,308. (30) Ignoring temporary defects in administration due to the present inadequacy of the staff, the additional statutory powers suggested may be summarized as follows:—

1. the form for a return of profits should require a statement as to whether books are kept, balanced, and audited (and, if so, by whom), and a copy of the taxpayer's calculations in arriving at the amount returned;
2. a firm's return form should be signed by each acting partner who is resident in the United Kingdom, and a company's return form by the managing director or chairman of directors as well as by the secretary;
3. the Board of Inland Revenue should have the power—
 - (a) to require production of complete accounts where available;
 - (b) to inspect a trader's books, including bank pass books, and documents relating to his business; and also his private bank pass books;
 - (c) to obtain information from banks on the lines specified in paragraph 29;
 - (d) to obtain annually from banks, lists of customers to whom interest is credited and the amount thereof;
 - (e) to obtain from practising accountants lists of accounts prepared by them;
 - (f) to require employers to supply lists of payments for services rendered, made to persons other than employees;
 - (g) to obtain from Government Departments and public bodies particulars of contracts and payments made for services rendered.

21,309. (31) It is suggested that the Board should pay reasonable sums to banks and public bodies for the work done by them in supplying information.

21,310. (32) If these proposals are adopted it is a matter for consideration whether a short period of grace should be allowed within which taxpayers should be invited by some announcement of wide publicity to make voluntary confessions of incorrect returns, and, having made good the loss to the Revenue with compound interest, to be free from any penalty or other punishment.

Effect of proposals.

21,311. (33) The position of the honest taxpayer as a rule, be changed for the better. Usually he is willing to permit inspection of his books and to supply to the Revenue all the details that could be required under the enlarged powers. Under con-

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pulsion he would rarely be asked for anything which he does not now supply voluntarily, and the more ample information at the disposal of the Surveyors would obviate many enquiries which at present cannot be dispensed with. Moreover, even in those cases where he was put to extra inconvenience or trouble, the taxpayer would be compensated by the knowledge that no longer was a part of his heavy burden of taxation being applied as an indirect subsidy to his dishonest neighbours.

21,312. (34) The taxpayer, who now takes advantage of the severe limitations to the information at the disposal of the Surveyor of Taxes and makes incorrect statements, would no longer be able to do so with impunity, and, realising the greatly increased risks attaching thereto, would, in the large majority of cases, cease his malpractices and render true accounts and returns without any particular action in his case by the Revenue officials.

21,313. (35) The thoroughly dishonest taxpayer will remain dishonest, but his opportunities would be much restricted and the risk of discovery largely increased. This class will always exist and, it is submitted, should receive no sympathy.

21,314. (36) Fortunately the class of persons referred to in paragraph 35 is much smaller than the classes dealt with in the two preceding paragraphs, and it is felt that broadly speaking these additional powers would serve more as a preventive than a penal measure. To give oneself the benefit of the doubt in taxation matters and perhaps not to trouble very much whether there really is a doubt or not is more or less instinctive with a great number of people who in other relations of life are strictly honest. If the Revenue officials have right of access to the full facts this type of evasion should soon be reduced to insignificant proportions.

21,315. (37) Our Association is of opinion that the existence of the proposed powers, exercised sufficiently to demonstrate that they are not a dead letter, would in itself bring about a large measure of the desired result for the future. A picture may be drawn of a body of officials raiding every trader's office and dislocating the industry of the country. It is purely fanciful.

The detection and prevention of fraud represent only one phase of a Surveyor's work and, amid his other most complex, arduous and difficult duties, one that is extremely disagreeable. His duty is to see that all taxpayers within his district pay their proper quota to the Revenue. He has neither incentive nor desire to do more than is necessary for this purpose.

21,316. (38) While, doubtless, in many cases taxpayers would prefer the local Surveyor, with whom they are accustomed to deal, to make any necessary inspections of their books, &c., in others a central investigation staff, of which the nucleus already exists, would doubtless be utilised.

Conclusion.

21,317. (39) In their official capacity the members of our Association are concerned only to carry out their duties in an efficient manner within the limits laid down for them by those in authority. Whether their powers are wider or narrower affects them only to the extent of increasing or diminishing the difficulty of their work and the extent of their responsibilities. Their experience has, however, provided them with much information on this subject and the Association has proffered this evidence in the hope that it may be of assistance to the Royal Commission.

21,318. (40) We feel that it cannot be too clearly stated that fraudulent evasion by taxpayers is a crime, not against the Board of Inland Revenue or its officials, who are merely the channel through which the tax reaches the National Exchequer, but against the great mass of honest and conscientious citizens, whether Income Tax payers or not, who must inevitably make good the default of the dishonest minority. It is certain that, if fraud is to be successfully countered, the powers of the Department must be strengthened; the only alternative to the strengthening of

these powers is the continued imposition on the honest taxpayer of an excess of taxation that in effect is devoted to the subsidisation of the dishonest. There is no other choice.

21,319. (41) One further aspect of the matter may be mentioned. Within the last few years—years still within the effective reach of the Government—vast sums have escaped taxation; the aggregate loss of Income Tax, Excess Profits Duty and Super-tax during that period may well exceed £100,000,000. The proposals outlined in this evidence are designed to deal rather with the future than the past, but doubtless a considerable proportion of these arrears can be recovered if the augmented powers suggested are granted.

[This concludes the evidence-in-chief.]

21,320. *Chairman:* In your examination by the Commission, members may probably ask you—and it not I shall ask you—to give the Commission the important cases of evasion; but these will not appear on the notes.—(Mr. Towle): Yes, my lord.

21,321. So when that comes, you will just remark, when you are answering any question, that it is not in the public interest for it to go down on the notes; and it will not be taken down?—If you please.

21,322. *Sir J. Harwood-Banner:* You have given us very valuable information, which I think is fairly well summarised in paragraph 30: "Summary of proposals." I should like to ask you how you get a return of all the people who ought to be under your observation?—The procedure is that a general church-door notice is posted up. It is supposed to be posted on the doors of all churches, and on that general notice, every person who is liable is supposed to make a return. In addition to that notice, the Assessors draw up lists. There is an Assessor for every parish, and he draws up a list of all the persons in that parish who, in his opinion, are liable, and that is supposed to cover the whole ground.

21,323. As regards the church door, I am bound to say that, though I go regularly to church, I have never seen it on the church door. Is that so in Scotland and Ireland?—I could not speak of the procedure in Scotland and Ireland on that point.

21,324. Is it on every church, or only parish churches?—It is supposed to be put on all parish church doors.

21,325. Cannot you suggest some better method of checking the population in some way so as to get at everybody who should pay Income Tax?—We do periodically check local directories; every name is gone through; those who apparently are exempt are struck out, but all the others are served with forms, and an attempt is then made to deal with them thoroughly.

21,326. Even with that sieve to go through, is it not the fact that a good many people are omitted who live in lodgings, or who live in small houses, or hotels, or who are not in the directory, but who do very large trading, say, in the buying and selling of cotton or corn, and speculating generally in matters of trade?—There is a provision which enables us to get a return from all lodging-house keepers and hotels of persons who are resident there. Whether or not that is applied as far as it might be, I should not like to express an opinion. Of course, the trouble is that during the war we have not been able to carry out these duties thoroughly, and there is no doubt that at the present time there is a very large number of people who escape assessment altogether.

21,327. You think there is a very large number who are escaping assessment?—Undoubtedly.

21,328. That is a very serious question, looking at the amount of tax required for the purpose of the nation?—I think it is a very serious question.

21,329. You mention all these things which, when you have got hold of the man, are very complete; but the point is, can you make us any suggestion further than what you have mentioned, for getting hold of him?—It is mostly a matter of administration. Given sufficient staff, I think it can be done fairly well. You notice there is one suggestion here—a list of payments for services rendered by persons

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other than employees? That is in paragraph 30 (3) (f), and (g) also, is designed to the same end.

21,330. *Chairman*: What does that 30 (3) (f) really mean?—It is really aimed at commissions. There is, we will say, a debit in an account for "commissions," which are paid to people who are not employees in the strict sense of the word. We can only call upon an employer to give information in respect of employees. The result is that we have no method of getting at the particulars of that debit for commissions.

21,331. To agents?—Yes.

21,332. That is a very big item, sometimes?—Sometimes it is a very big item.

21,333. *Sir J. Harwood-Baxter*: Take the case of a man who may be sent specially to Buenos Aires to do some special work for a firm. How would you get that? That would not come into the list of services rendered, would it?—I think it would, undoubtedly. I am not certain whether he would be included at present by most people, but certainly he would under this extended power.

21,334. Could you supplement that list in any way by asking them to supply lists of profits on speculations made? That is rather a large order, but, still, looking at what you say, and with the knowledge of what is going on at present, would it not be possible in some way?—I think the question of speculation is a very dangerous one from our point of view, because it is extremely difficult to get any information about successful speculations, whereas we should have a perfect stream of people who had made bad speculations, and who had made losses. We should have to allow all the losses, and we should not get assessments on the profits, speaking generally.

21,335. That is speaking generally, but looking to the tendency of the last two or three years, it would be the other way, would it not?—If we could get the full information, it would; but we should not get the information, I am afraid. I mean there is no external evidence of a successful speculation; certainly there is none that we could get at. I could not suggest any powers, personally, which would enable us to get at that successfully.

21,336. *Chairman*: Do you get any information about the Stock Exchange?—I think not; so far as I know, we get no information there.

21,337. *Sir J. Harwood-Baxter*: When you get information or suggestions, how do you sort it out, in some of these recent changes that have been made in the commercial world, as to whether it is capital profits or revenue?—It is a problem which often presents very considerable difficulty. Have you in mind rather the question of casual profits, as we call them; I mean an isolated transaction as against an annual profit? Is that what you have in mind?

21,338. Take an instance. B. buys a big works at a certain price, a very large sum; then L. comes along and buys from B. those works at a very enhanced price. They are both in a particular trade, and very large profits are made upon the purchase of the property. Now how do you deal with that, in order to get some share of the profits?—At the present time we should not assess a profit on that purchase, unless the vendor made a practice of buying and selling factories. So far as I know, we should not attempt to assess it.

21,339. As you understand, matters of that description are creating a great deal of feeling at present, and a great deal of criticism, and inquiries are made to the Commissioners as to what steps they are taking to see that they get a share of the profits of that sort, of which there are a great number. But you say nothing is being done. I quite understand the difficulty, but I want to see if we cannot find some method of getting some portion of those profits into the Exchequer?—Personally, I can suggest no method; because, after all, that is only a case of a realized increment as distinct from an unrealized one. If the original owner of the factory simply sticks to it, and the factory goes up in value, it is an unrealized increment. When he sells it, it is a realized one. At present we have no method, so far as I know, of taxing the realized one.

21,340. In the case I put to you, he has realized it?—Yes; we have no method at the present, so far as I know. I may say this is a point on which the Board of Inland Revenue are offering evidence.

21,341. They are offering evidence to the Commission, are they?—Yes.

21,342. *Mr. McLintock*: Have you both been Surveyors in the same districts?—No.

21,343. What districts have you covered, Mr. Best? Is this paper generally the result of your personal experience?—(*Mr. Best*): It is the result of the general experience of the members of the Association that we represent.

21,344. That is the Surveyors generally?—Yes.

21,345. The reason I ask it is that it seems to me that, according to this paper, the average taxpayer is a little bit more unscrupulous than anyone has believed him to be. For instance, in paragraph 3, you say: "From the nature of their work, Surveyors of Taxes are aware that the evil of fraudulent evasion of tax is widespread."—(*Mr. Towle*): Yes.

21,346. I suggest that reflects partly on the Surveyors?—In what way?

21,347. If it is so widespread as you suggest. You have fairly ample powers at the moment at least to prevent it being "widespread"?—I think not.

21,348. Would you be a little more definite with regard to that paragraph? What type of fraudulent evasion is most widespread—fraudulent evasion, remember?—There is obviously a difficulty here, because we can only speak of what is discovered. We hear rumours, of course, of other things.

21,349. It is not rumours you speak of here in your paper?—No. If you ask which is the commonest form of fraud, I cannot answer. If you ask which is the commonest form detected, of course that is a different matter.

21,350. Then tell us that?

21,351. *Chairman*: Is this information that will teach someone else how to do the same thing, because if it is we will not have it put down?—I do not think this particular point will be of much value.

21,352. You will watch that, because it is essential?—Yes.

21,353. *Mr. McLintock*: Would it help you if you took classes of taxpayers?—We divided the paper purposely into two parts, dealing first with inadequate returns, which is probably the commonest, though the particular fraud underlying that may, of course, take a dozen different forms. If you ask me as to frauds in accounts or books, I will give you what my information is.

21,354. We will take it on evasion by a man keeping, we will say, a false set of books. Is that common?—It is fairly common.

21,355. Have you had many cases within your own experience?—Yes.

21,356. How many?—I could not tell you, offhand.

21,357. Half a dozen?—I should say half a dozen within my own experience.

21,358. Over how many years?—I have been 17 years, I think, in the Department.

21,359. Is that "widespread"?—No, but that is only one particular form.

21,360. We will take the case of a man who produces accounts which have all the appearance of being accurate, but which are not in accordance with the books. Is that a common practice?—We have had a number of cases.

21,361. Still, that is not within the "widespread" yet. Then there is the small shopkeeper who produces no accounts?—Yes.

21,362. Is it fraudulent evasion on his part or ignorance?—It is half and half, I think.

21,363. Do you not think he is as often as not over-assessed as under-assessed?—No, certainly not at the present time.

21,364. In what districts does this apply?—I should say almost universally.

21,365. City districts?—The type of small shopkeeper does not occur much in the City districts.

21,366. The Commission is naturally very anxious to know about this widespread evasion, in order that they may help to give you power to check it; but I

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think we want something a little more specific as to its existence?—We have here a copy of one of the issues of our "Quarterly Record." It is referred to in the opening of our paper, and we have, I think, sufficient copies to go round the Commission. Is that issue there is an article which was drawn up jointly by a chartered accountant who was in the service of the Revenue at the time, Mr. Bell, and myself, on cases within our own knowledge, and mostly cases that we had dealt with on investigation. He was in the Munitions Levy Department and most of his work was in connection with cases under the Munitions Levy.

21,367. He had no great tax experience, it was purely controlled establishments' accounts?—Yes.

21,368. Is this paragraph founded on the evidence of an accountant whose whole experience was gained in the two years he was in the Munitions Levy Department?—Most certainly not; he had no hand in drawing up this paragraph. The article in this magazine was drawn up jointly. Now that sets out the most prevalent forms of fraud, certainly as connected with accounts, and it gives instances within our own knowledge.

21,369. I agree instances may be fairly numerous, but they are not widespread; they are the exception, not the rule?—We can only draw an inference from what we find. During the last few years we have not been able to do more than just scratch the surface, and we have found such a great deal of it that we can only conclude that there is a very great deal of it going on.

21,370. I quite agree that a great deal of the evasion amongst bigger concerns has come to light as a result of the Excess Profits Duty and the Munitions Levy special investigation—especially the Munitions Levy; but with regard to the general administration of the tax, you say later on in your paper, in paragraph 16, that you can only select a small number of cases every year for investigation. You say: "The Surveyor usually selects a certain number of cases which appear to call for special inquiry," and then: "The number of cases selected varies with the pressure of other work. Under the conditions now prevailing only an inadequate percentage of those requiring investigation can be dealt with each year." Is it as the result of those investigations that you discovered this widespread evasion?—To such extent as we are able to do it, yes.

21,371. There is a very inadequate percentage of investigation at all?—That is so.

21,372. Can you give us any idea what percentage of the percentage investigated you find fraudulently evading the tax?—If it were a normal time I think I might be able to give you some idea. At the present time it is very difficult, because I should say the majority of Surveyors have made no special inquiries for the last three or four years, because they have had no time.

21,373. Do you agree that generally speaking in limited companies there is very little evasion at all?—In private limited companies there is a great deal.

21,374. Do you still think that?—I do, undoubtedly.

21,375. Can you give us some evidence of that? It is rather important. Have you anything specific with regard to fraudulent evasion on the part of private limited companies? What form does it take?—It takes the form of fraudulent accounts. Sometimes fraudulent books. There is Schedule E evasion in the case of private companies.

21,376. How is Schedule E evasion worked?—Managing directors' salaries and remuneration generally.

21,377. Do you mean collusion between the secretary and the directors as to the return of salaries paid?—Yes.

21,378. Is that common to-day?—I should think I have had at least six cases of it in the last two years myself. We prosecuted at Newcastle in one of those cases. I investigated a case recently in the Midlands where a man had been drawing £3,000 or £3,500 a year since 1905, and never returned a penny of it. It was put down as nil, nil, every year, and never returned for Super-tax or for anything at all. To give specific cases is rather a memory test. Even semi-public companies' accounts are subject to a great deal of fraud.

21,379. I quite agree these things happen, but I suggest to you they are not widespread. I do not suppose they represent one in a thousand?—I think you are entirely wrong—absolutely and entirely wrong. Surveyors have been so busy doing what they can to get in the tax during the last three or four years that they could not do this work.

21,380. On the question of the detection and investigation of fraud, you say in paragraph 4: "The detection and investigation of fraud depend mainly upon the vigilance of the Surveyors." I quite agree with that; it does depend almost entirely upon that?—It does.

21,381. Then you go on in paragraph 7 to refer to what happens when you discover a case. You say "the Board accept in settlement a sum of money, never more than, and usually much less than the statutory penalties incurred"?—Yes.

21,382. You have heard of cases where they do take a great deal more than the penalties, have you not?—No. I have known at least two cases within my own experience where they have refused to take more.

21,383. I might be able to furnish you with some?—Your experience may have been unfortunate.

21,384. I do not say they should not take more. I think they should take all they can get?—They have a rule, which is quite universally known throughout the Department, that they will not take it.

21,385. Where the man knows the alternative is probably to run the chance of going to gaol, of course he will pay any sum of money. It is only that the Department will not take it?—That is the rule of the Department, which, so far as I know, is honoured scrupulously.

21,386. You have given that sentence a sort of twist, as if the taxpayer came along and said: "I will give you so much," and they said: "No, it is too much"?—I think I am justified in saying that, seeing that within my experience there have been two such cases.

21,387. With regard to paragraph 8, I was going to ask you the nature of the evasion under Schedule E. I would not have thought that was common. Would you suggest it is widespread?—No, not under Schedule E.

21,388. The secretary and the managing director, you say—both the recipient of the salary and the man who returns the form to the Inland Revenue—must be in collusion?—Yes, but in the case of a private concern, as a rule the secretary is simply a clerk who has to obey the orders of the managing director, who is the virtual proprietor. That is the trouble. I do not estimate the loss under Schedule E at one per cent.

21,389. And of course all the accounts of private limited companies have to be certified?—Yes, but the statutory obligations are not very strict as regards private companies. The sort of audit that takes place in many of them is perfunctory.

21,390. Would you say it was perfunctory generally?—In many of them it is.

21,391. You do not suggest it is so because it is a private company, do you?—In many cases it is.

21,392. Is it not as a rule just as complete an audit as in the case of a public limited company?—Not in my experience.

21,393. I suggest to you that in private companies the audit that is usually performed is in every respect almost as complete as in the case of a public limited company?—(Mr. Beev.) That is not my experience (Mr. Towle): It is certainly not my experience.

21,394. You cannot tell from the certificate the nature of the audit that has been performed?—No.

21,395. That is discovered as the result of special inquiry?—Yes. I think the real reason is that a private company is usually a one man concern or a two men concern; the shareholders do not really count in that case, to a large extent. It is generally a family concern. In a public company they naturally require a far better audit. I think that is the reason.

21,396. As a rule, in a one man company the man does not keep his own books; he has a cashier

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and a secretary and the audit is to safeguard him against his employees?—I agree.

21,387. And there is no reason that it should be more perfunctory than in the case of public limited companies?—My experience is that it is.

21,388. In paragraph 11 you refer to the books and returns being delivered to the Surveyor, who makes such inquiries as seem to him desirable, in conjunction with the Assessor. What do the Assessors do in those cases, as you tell us shortly?—I think the practice varies a good deal. I think in one town, that is Liverpool, the Assessors put in a good deal of work on the books.

21,390. I am not talking of the work on the books; I am assuming that you have got a batch of returns under Schedule D. The Surveyor examines those carefully. Does the Assessor examine the returns to consider whether they are adequate or inadequate? I do not mean how much clerical work he does in writing the name in a book?—Obviously the practice varies to some extent. My own practice has been when examining the returns, to enter my estimate of the profits, either accepting the return or putting a figure which I thought was reasonable. Afterwards where I had an Assessor whom I regarded as a valuable and competent man, I should go through the assessment book with him and bring to his notice those cases where I thought he might be able to give us some useful advice or help.

21,400. As a general rule does the Assessor accept your view as to the adequacy or otherwise of a return?—Yes, except when he knows the people personally.

21,401. Is that the exception?—Yes. You are now referring to his knowing the people personally?

21,402. Yes, as to whether the return made by the man he knew was proper or otherwise?—Yes, he would very likely know something about his private circumstances, and the way he lived, and that sort of thing.

21,403. That would apply to a very few cases only?—A small proportion, except in a country parish where, of course, there are very few taxpayers.

21,404. On the church door notice question, I suppose it is only a formality; nobody ever looks at the notices?—I agree; I think it is most unsatisfactory.

21,405. It is not that their consciences might trouble these widespread evaders when they are entering the church?—(Mr. Best): Perhaps the evaders do not go to church.

21,406. Oh, they go to church. In paragraph 13 you refer to non-accounts cases?—(Mr. Towle): Yes.

21,407. You point out there that while the proportion in numbers is greater for non-accounts cases, the duty is in quite a different proportion?—Yes, quite.

21,408. You cannot give us the aggregate duty for that?—No, I really could not.

21,409. In paragraph 15 you deal with the question of the Commissioners' assistance. Do you get much assistance generally from Commissioners in connection with non-accounts cases? What is your experience and that of your Association?—We are hoping to put in some separate evidence on this question.

21,410. Then I will leave that. You imply that the main bulk of the work all the way through falls on the Surveyor?—Yes, inevitably.

21,411. Paragraph 18 is really the same thing again. You say: "It is not uncommon, especially in large towns, to discover that a trader assessed at £400 or £500 is making an annual profit of several thousand pounds"?—Yes.

21,412. What kind of people are they?—Retailers, very often.

21,413. Retail shopkeepers?—Yes.

21,414. When that definite statement is made, what evidence is there behind it to support it?—There would only be the evidence of our cumulative experience.

21,415. Within recent times or over a period of years?—I think I have already explained our present difficulty is that we have not been able to make investigations recently. I have an instance here which I think would bear on this. A Surveyor in

the North of England investigated during this year twelve cases; that was all he had time for.

21,416. Out of how many?—I should think he had 3,000 or 4,000 altogether. Of course, a great many of those were accounts cases, and so on; I could not say what was the effective field. He took twelve cases. In each case the assessment ranged from £200 to £350. In each case he found that the profit for 1918 was over £1,000. As regards one case, the return was £160, the assessment was £230, and the average profit for the last five years turned out to be £2,000.

21,417. You suggest, anyhow, that without further powers you are not able to check this type of evasion. In other words, you want to have the right to go and examine his books?—Yes.

21,418. And to get a declaration as to whether books are kept?—Yes.

21,419. And generally to get the fullest access to all the records that a trader keeps?—Yes.

21,420. You suggest that practising accountants should supply annually a list of concerns for which they have prepared accounts during the preceding year?—Yes.

21,421. You agree, of course, that accountants do supply generally to-day; wherever they do prepare accounts, as a rule they reach the Revenue?—No, I think there is a very substantial proportion that do not. I am now talking of what I call the middle class practitioner—the man who practises among the middle-sized concerns; and we miss a good many of those. We are finding rather a large number of cases.

21,422. Do you mean the practitioner is middle class?—No, I mean a practitioner who practises among middle-class concerns.

21,423. Being a good practitioner with the middle class, he prepares proper accounts?—He does.

21,424. And the taxpayer, with this in front of him, deliberately makes up his return for a less amount?—He sends in an account which often bears no relation at all to the audited accounts.

21,425. Do you agree that, generally speaking, one reason for the middle class, as you call them, having an audit at all is to enable them to make a correct return; otherwise they would not bother with an audit?—I think in a good many cases that is so.

21,426. But in the majority of cases they get accounts for their own private information, in order to see exactly how far they can do the Revenue?—I do not know for what purpose they have the accounts prepared, but they certainly send us something which bears no relation at all to them. (Mr. Best): May I add something here? It is becoming the practice, or at any rate some cases have occurred, in which a taxpayer, as well as keeping two sets of accounts, keeps two sets of accountants.

21,427. You do not ask us to accept that seriously, do you? I agree there are people who employ at times two different accountants, but your suggestion is that they keep two sets of accountants to prepare accounts in order to enable them to take advantage of the Inland Revenue?—The second accountant, of course, would not be of the repute of Chartered Accountants or members of those societies. He would merely be practising as a public accountant or something of that sort.

21,428. You suggest this is common?—I did not say it was common; I said it was beginning, in the East End of London especially.

21,429. You mean they keep a tame accountant who does exactly as he is told and who falsifies the accounts and signs them, and then they have a more reputable individual who prepares accounts for their own information?—Exactly.

21,430. These are private traders?—Yes.

21,431. How many cases have you heard of that kind?—It is just beginning. I think; I do not suggest it is widespread.

21,432. How many have you ever heard of?—I have heard from two Surveyors whose districts are in the East End of London. I have a case in my own district where two accountants were kept.

21,433. Did their accounts differ from one another?—No; their views on Income Tax law did

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21,434. That is another story; that applies to Surveyors of Taxes also, does it not?—It does.

21,435. Is that all that is in it—that the two accountants held opposing views as to whether certain things should be disallowed or allowed as a charge?—Not at all. My last observation was merely an aside. It is a fact that people are commencing to keep two sets of accountants.

21,436. In these cases that you have seen, did the accounts prepared by two sets of accountants differ materially in the result shown?—I do not quite follow you.

21,437. A prepares an account and he shows £1,000 profit. B, another accountant, prepares an account and shows £3,000 profit for the same business and for the same period. Do you know that that is the effect of the two sets of accounts?—I am not able to give you any details.

21,438. Then you also wish to compel banks to disclose information respecting their customers' accounts. Will you just tell me what you expect the bank to give you? Are the Surveyors to have a free run?—(Mr. Towle): We have specified that very clearly in paragraph 29. At the end of paragraph 29 under (a) and (b) there are two specific proposals made. The first one is "to require any bank to state whether or not a particular taxpayer has an account there"; then (b) is, "in case of refusal by any taxpayer to produce his bank pass books, to require the bank either to supply a copy of, or to permit an officer of the Department to inspect, the taxpayer's account in the bank ledger." Of course, there is the further point of deposit interest, which is a rather separate matter from those two.

21,439. Your view is that there is a considerable evasion of tax, not necessarily fraudulent, by a failure to supply proper returns?—Yes, I think there is no doubt of that.

21,440. I agree with you on that point, but it is more carelessness?—In many cases it is carelessness.

21,441. Chairman: Is not that practically counterbalanced by a number who pay interest to a bank but who do not ask for repayment of tax on that interest?—I should not think so at present.

21,442. Mr. McLintock: That was very common until, say, three years ago?—Yes, I agree.

21,443. But now the relief is statutory where formerly it was a concession, and everyone did not know about the concession; now it is in the Act of Parliament they can all see it and claim it.

21,444. Mr. Petyman: It is so large in amount too—so much more worth claiming.

21,445. Mr. McLintock: Yes, Quite so. (To Witness.) Do you not think it would be sufficient for the purpose of Inland Revenue if they could get a declaration from every taxpayer who is in business? You could do that, could you not?—Yes, we could do that.

21,446. Get a declaration from him as to whether he has kept books or not?—We are making a suggestion on that point.

21,447. You are asking for very drastic powers to meet things, which I suggest you have exaggerated just a little bit?—Of course I do not agree with that.

21,448. And having ascertained that he does keep accounts, you then compel him to give you a declaration that the statements are correct, and whether or not he has them verified by an accountant, and if so, that that accountant should give you his certificate in such complete form as the Inland Revenue know how to ask for?—In that case you mean you will only get the checking evidence in cases where the accountant is employed.

21,449. I go further: where there is no accountant employed, I would give you the right within certain limitations to call for the production of the books, but I suggest to you that with the average small trader you would not be very much further on?—But why do you limit it to cases where no accountant is employed? If you limit it to cases where a complete and full audit is not made, that is a different matter.

21,450. You can decide as to whether you would accept these accounts signed by an accountant, if

he is not prepared to sign that he has made a true audit. I suggest the machinery is all there, and would be much more readily accepted by the traders than to permit the Inland Revenue to have a roving commission practically to walk into a man's premises and to ask him to produce all his books. And, with all respect, you have not got the trained staff, and I do not think you are likely to get it within the next ten or fifteen years, who can go in and examine books wholesale. They do not exist?

—If I may say so, I think there are several points which you have just put to me which are entirely wrong. In the first place, there is no suggestion that we should have power to walk into a man's office and demand to see his books. Our proposal is made most specific that the only power to compel it should rest in the Board of Inland Revenue, who would consider the cases and make an order; that is the first thing. The second thing is that we are losing, I should think, more money through partial audits made by good accountants than from any other cause of evasion. I can quote you cases in my own experience.

21,451. I quite agree these cases are very serious, but they are not widespread?—I wish I could agree with you. In this evidence we have been trying to suggest a way of stopping it. We do not want this, and we do not want to have to detect it. We want to stop it if we can. That is the thing we are aiming at.

21,452. You think if you had the powers you would not need to exercise them. All of these fraudulent people would become very honest at once?—No, but I think it would stop what I call the weekly dishonesty; we do not want to prosecute them; we do not want to penalize them; we want to stop them.

21,453. Chairman: We have got to a considerable point with you, and Mr. McLintock has been examining you to get you to qualify the word "widespread" by some other term; and you gave some particular cases of evasion?—(Mr. Towle): Yes, my lord.

21,454. Now can we continue that?—I should like, if I might, to hand round to the members of the Commission these copies of our "Quarterly Record."

There is a statement on page 191 of cases within my own knowledge, in which I have listed most of the prevalent forms of fraud in connection with accounts and books.

21,455. You spoke about retailers as being particularly prone to evade taxation. I was wondering whether it would be possible for the Government to make an assessment on all retail traders of double the assessment that has been paid by them previously. With the increase of profits in the case of all retailers throughout the country, would it be possible simply to take these Income Tax papers and just double all the assessments?—I do not think it would, because in a good many cases it probably would not be necessary, and in other cases it ought to be four-fold or six-fold. You would get great inequality, and you would cause a great many appeals from people who ought not to have been troubled, and at the same time you would not get sufficiently high for people who ought to be troubled. It would be equitable only in perhaps one quarter of the cases.

21,456. A great many foreigners have come over lately to do business; are you watching that very closely?—I am afraid that really we are suffering so much from lack of staff, the men are so overworked, and it is so difficult to get experienced men—it takes so long to train them—that for the moment things are rather in abeyance in that respect. In the case of small shopkeepers I am not suggesting that that is all fraudulent evasion. They are under-assessed in most cases, there is no question about that; but it is carelessness and slackness in a great many cases.

21,457. Now you will be prepared to answer any other questions that may be put?—May I just draw your attention to page 191 of this little book that has been handed round, or perhaps 193 is the first page that is really of any importance?

21,458. Is that about the manipulation of the tax?—Yes; we set out there eleven irregularities which occur frequently and which practically embrace the ordinary forms of irregularities in books and accounts.

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21,459. Mr. Walker Clark: Are not all these eleven points questions which invariably the Surveyor puts to a taxpayer when he brings his accounts in?—I do not think so. For instance, no Surveyor would dream of asking a taxpayer whether he had overstated his purchases.

21,460. You say no Surveyor would dream of asking such a question?—I think not.

21,461. I have heard the question asked many times?—It would not be part of the ordinary procedure of a Surveyor.

21,462. In cases of appeal I have heard the question put many a time?—I think perhaps you are thinking of cases of appeal only. It is not a question which a Surveyor would put to a taxpayer who had sent in an account: "have you overstated your purchases?" It would be regarded as insulting as a rule in a case like that, unless the Surveyor has some ground for it. The same with regard to omission of sales. It is not a question which you could put universally.

21,463. These are actual frauds?—Yes.

21,464. A representative of the Inland Revenue has stated here that 70 per cent. of the Income Tax is collected at the source, which does not lend itself to these things, so we are only dealing with 30 per cent.; and of that 30 per cent. the same gentleman said that the vast majority of taxpayers are honest?—I think you have to take into consideration that he dealt only with Income Tax and not Excess Profits Duty, which is part of the same thing.

21,465. We have nothing to do here with that?—But in any question of understatement of profits the loss of Excess Profits Duty is far greater than the loss of Income Tax.

21,466. But that is not within our scope?—Is that quite so? Because when the Excess Profits Duty comes the profit will be assessable again to Income Tax; so that although Mr. London said the field for active evasion might be taken at 300 millions, from that there has been deducted something like 200 millions Excess Profits Duty; so that the whole field for evasion of tax would be 100 millions; that is for active evasion.

21,467. And of that, you suggest in the last clause, a loss of 100 millions during the last few years, which I take to be three years?—I take the whole period of Excess Profits Duty.

21,468. Four years?—Yes, and about three years for Income Tax.

21,469. Your charges are very astonishing to me?—I think you can take it on all the figures that have been given officially, and you will find it works out exactly. If you would like me to go into it, of course, I can tell you.

21,470. There is rather a surprising point at the end of your paragraph 10. You say: "The extent to which he" (that is the Surveyor) "can exercise either form of investigation is limited by the time and staff at his disposal." You do not suggest there that any new legislation is needed but merely an increase in the staff?—That only applies to the investigations that the Surveyor can make; that does not, of course, cover what he could do with increased powers. That is the point there.

21,471. You want both power and staff?—Yes, undoubtedly, and the more power you have, the less staff you will need. I think that is so, because the more drastic the powers, the less you have to apply them, and the very fact that the powers exist would check an enormous amount of faint-hearted evasion which goes on at present.

21,472. I must confess that the statements you have made are very alarming, and very different from those of any other witness?—Might I take this case? If a trader's profits which are liable to Excess Profits Duty in 1917 have been understated by £1,000 the result is something like this in an ordinary case. The loss of Excess Profits Duty is £800, the loss of Income Tax is £20 for each of the next three years. In other words, the loss of Excess Profits Duty is 40 times the loss of Income Tax in the first year.

21,473. But that is outside our scope?—I know, but if you notice in my last paragraph I quote a figure expressly to include Excess Profits Duty.

21,474. In paragraph 31 you say: "It is suggested that the Board should pay reasonable sums to banks and public bodies for the work done by them in supplying information"?—Yes.

21,475. Is that to overcome their scruples in respect of the fiduciary position they occupy towards their clients?—No; it is obviously some payment for the services rendered. It is nothing to them, but it is not fair to put a burden upon them as regards other people's incomes, without paying them for it.

21,476. But is it perfectly fair to put the burden on to an employer with regard to services rendered and the salaries of his employees and everything of that kind—to put him to an enormous amount of trouble and pay him nothing?—Of course, that is a very old established thing; I do not exclude the question of payment to them if you wish to raise it.

21,477. It is not very old established, is it?—They always had to give a list of names, but they had not to state the salaries. I think that was the position.

21,478. It is a very different thing now: calculating a man's wages for twelve months, and with all the intricacies of varying rates of wages during the period. It is a very serious thing?—Yes, I know it is a very serious thing, especially in respect of quarterly assessments.

21,479. There is no suggestion of paying anything to the employer who is put to an enormous amount of expense and trouble, but there is a suggestion to pay something to the banks that are put to a very slight amount of trouble?—Do you not think that it might be rather a benefit to the employer?

21,480. You are really serious in suggesting to us that there is an enormous amount of evasion, which is different from avoidance?—Yes.

21,481. And that retailers are special sinners?—No, I do not say so.

21,482. You single them out specially. I took it down: "A trader assessed to £400 or £500 is making an annual profit of several thousand pounds." Mr. McIntock asked who those traders were, and you said retailers?—I think the point is this: that it is in numbers only. Obviously there are more retailers than any other class, and the number of retailers avoiding or evading would be greater; we do not say the proportion is greater.

21,483. Chairman: You do not mean that they are worse than anybody else?—Of course not, my lord.

21,484. Mr. Walker Clark: They are really very decent people, but there are a great many of them, and a few of them sin. Is that it?—Yes.

21,485. Then there are the suggestions you make in the summary of proposals here. Of course, these are very rough suggestions, I take it; they are not drawn up with the accuracy that you would expect in a Statute?—Certainly not; they are raised for consideration.

21,486. You suggest inspection of a trader's books. If a trader makes up his mind that he is going to defraud the Revenue could an ordinary Inland Revenue inspection, such as you could make in a month, detect the fraud which you thought existed as shown by his books?—If we had the additional power to obtain from the banks the names of their customers in cases where we wanted to do so, I should think we could do any ordinary case in a fortnight, and probably in a week.

21,487. I suggest to you that it would be a very cursory examination of books?—Well, I have made a good many.

21,488. And you have discovered a good many things in doing so?—I have.

21,489. That is when you had restricted powers and when you had a man who would understand questions intelligently, and answered them fairly correctly?—Yes, the type of case where a man invites you to see his books because he is so satisfied that he has made them detection-proof that he does not mind who sees them.

21,490. I quite understand that type of individual. You would not suggest that we should adopt in England the method which was adopted in some countries, that there should be an absolute record of all profits made and handed out to every individual,

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docketed and numbered and traced?—Profits or payments?

21,491. Both profits and payments?—No. Personally I should not.

21,492. You would not go to that length?—No.

21,493. You know to what I allude. But you think that the suggestions you make in your paragraph 30 (3) (a) to (g) would be quite sufficient?—They would not deal with the question of evasion on income from abroad. Apart from that, I think they would make the system fairly water-tight.

21,494. Can you not now obtain from the Government particulars of all contracts and payments for services rendered?—No; we get a certain amount of information—usually a small amount—handed out to us voluntarily; but we have no power to get it.

21,495. You only request it?—We do request it at times, but we do not always get it.

21,496. Mr. Marks: With regard to your suggestion that the Board of Inland Revenue be empowered to requisition information from the banks and possibly a copy of a particular person's account which you wish to investigate, can you tell me whether you are asking for the Board of Inland Revenue any more power than is now possessed by the Courts of law?—I am not certain if a Court would have the power to ask a bank whether a particular trader had an account there or not. I am not quite clear on that point. The second part—getting a copy of an account—of course, is done generally.

21,497. For this particular purpose, the prevention of fraudulent evasion, you want the Board of Inland Revenue to have the same powers as a judge of the High Court?—If he has the power to require a bank to state whether a particular trader has an account there or not. I value that power rather more than the other.

21,498. And in addition you require the Board to be granted that particular power?—Yes.

21,499. As you state in your proof, you realize there would be a very great opposition on the part of bankers?—One must realize that.

21,500. Mr. Walker Clark: You just now stated, in reply to the Chairman, that the small trader was generally under-assessed?—Yes.

21,501. Do you think that is accurate?—I should think it is at the present time. Before the war I do not say so; but the Surveyors have been so busy with the big account cases, and Excess Profits Duty, that they have not had time to look after the small cases. You remember what I quoted this morning about that North of England case; I am afraid that is typical.

21,502. I suggest to you that if small traders are generally under-assessed, there is a very lax Surveyor and there is a very lax Assessor?—It really is not so. He has had no chance.

21,503. Sir J. Hornwood-Banner: Would it not be a very important addition to require that where accounts have been audited by a chartered accountant the Income Tax authorities should have access to the chartered accountant where the firm insists on making up its own return?—Our trouble in those cases is that we do not know that an accountant has been employed. We have had cases after cases recently where we have had accounts from a trader made up by himself, while he has audited accounts all the time showing two or three times the profit. It probably comes up by means of an informer.

21,504. Then you would not strengthen paragraph (c): "to obtain from practising accountants lists of accounts prepared by them," by adding that where they do that, you should have access to those chartered accountants, to know whether their certificate for a limited company also applies to the return made for Income Tax?—We have considered that point and we think that if we knew that this man had audited accounts prepared by an accountant, we should get them; and then we should, if necessary, get the accountant's certificate on them as to the extent of the audit. I do not think statutory powers are necessary. I think we could do it if once we knew where the audited accounts were.

21,505. Most limited companies have audited accounts?—Yes.

21,506. But they do not necessarily employ their chartered accountants in making up their Income Tax?—I agree.

21,507. It is very important that the two things should be, as far as possible, made together?—Yes. We have tried to avoid making any suggestions which would incur expense on the taxpayer, and possibly it would do so in some cases.

21,508. With a big limited company the expense would be immaterial?—I agree.

21,509. And it would be a great addition to your power if you had access to the chartered accountants?—Rightly or wrongly we thought that our proposals would meet our purpose.

21,510. Mr. Graham: I am sorry I did not hear your evidence this morning, and I am rather ignorant on this part of the subject. I gather that the Department is understaffed?—Yes.

21,511. I know, from many meetings I have met, that they are working against heavy odds for the most part. I think that is correct?—It is correct.

21,512. That points to this: that they have to tackle the work in hand as quickly as they can, and there cannot in the aggregate be very much opportunity for a real study or investigation of evasion and fraud and avoidance, and all the rest of it?—There has been very little opportunity in the last three or four years.

21,513. Am I correct in saying that there is no Department dealing specially with this? You have no organisation specially devoted to that part of Income Tax or Super-tax?—We are just starting it. The Board have engaged 12 accountants now, and personally I am engaged on nothing else, and several other men are engaged for part of their time upon this work of investigation.

21,514. What is your view of the proposal that, in view of the fact that Income Tax is likely for the future to apply to a very much larger portion of the population than in the past, with new ramifications, such a Department should be established, adequately staffed, to make what I would call a scientific investigation of the whole question of avoidance and evasion, and everything connected with it?—I think it is extremely necessary.

21,515. Are you satisfied that that would result in very large return to the State in these hard-up times?—Yes. I think the utility of that staff would depend to some extent on the powers you give it. Obviously the investigation of books, for instance, at present is limited to those cases where it is voluntarily agreed to by the taxpayer. The whole consideration of fraud, of course, is a wider subject than that really, and I think such a branch would be valuable in any case.

21,516. Bearing on that point, do you think we will ever get rid of avoidance or evasion in this country while a very large number of traders and others keep no books or accounts at all?—I do not think you will ever get the thing watertight. I do not think that is feasible.

21,517. What do you think of the idea that if a party is in business and, clearly arising from that, he has obligations to the State, he or she should be compelled to keep some form of book, however simple, to record the transactions?—Like the Continental method, where he must keep a journal?

21,518. Any system; I do not commit myself to the Continent?—I would not like to press it. Obviously it would be very valuable, from our point of view, but it would put a very heavy burden upon a lot of small people who are really hardly capable of keeping books.

21,519. But against the burden on the small people there is, of course, the obvious consideration that the State will lose what the State should obtain makes that form of compulsion were introduced?—My own feeling is that, as regards those small people, when we have reasonable time to deal with them, we deal with them fairly and effectively at present. Before the war I do not think there was a great deal of evasion there.

21,520. Not among the small people?—No, I do not think so.

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21,521. As a business proposition, is it not desirable to keep books, even from the point of view of finding out what trade is being done within the State?—Of course that is rather outside my scope. I realise the advisability of it, but I am not quite sure as to the practicability of it.

21,522. *Dr. Stamp:* Asking out of one or two of the answers given to Mr. Walker Clark: When a trader submits his accounts do you usually ask him to sign that they are correct?—Yes.

21,523. You would not, naturally, follow up his signature by asking the question: "are these accounts false?"—No, you could not very well do that.

21,524. And if you ask: "are your purchases overstated?" that would be practically tantamount to saying: "are your accounts false?"—Yes, that is so.

21,525. *Mr. Walker Clark:* As a rule they do say: "are these accounts correct?"

21,526. *Dr. Stamp:* Having obtained the signature I take it that such point blank questions "are the accounts false in any particular?" are hardly the best way of conducting an inquiry?—I should not do that myself.

21,527. When a man has committed himself in writing to say that they are correct, he is not likely to stop at much in speech, is he?—No.

21,528. You are dealing with accounts that yield both Excess Profits Duty and Income Tax at the present time?—Yes.

21,529. And these two taxes are very much interlocked?—Yes.

21,530. One bears to some extent on the other?—Yes.

21,531. Therefore it is impossible to differentiate them in our consideration of the subject?—That is my opinion; I do not see how you possibly could.

21,532. And although the Excess Profits Duty may not be mentioned in our Terms of Reference, in relation to this subject one can hardly help looking at it?—That is my view.

21,533. And your view is that when the Excess Profits Duty is dropped, and the powers in connection with it have dropped, the Inland Revenue will have lost an important engine of investigation?—Yes; and might I say also that the field for evasion of Income Tax will be widely extended.

21,534. You have just expressed the view that amongst traders generally there was not before the

war a very great amount of revenue lost?—No, there was not much in it.

21,535. And the evasion has grown during the war with the rapid increase in profits and the difficulty of the Surveyors following them up?—Yes; we have been taking the big lumps where we could get them.

21,536. Would you agree that in this estimate of yours at the end a large part of it is Excess Profits Duty?—Yes.

21,537. Some witnesses have put to us that there has been a great loss because of the inability or neglect of traders to keep books. Do you think there is more loss where books are kept than where books are not kept?—Where books are kept.

21,538. So that there is not a great deal of evasion now in the case of a trader who does not keep books?—There is a great deal of it, but the amounts are not very large as compared with the total revenue.

21,539. I am thinking of the amount of revenue involved?—Perhaps £200 or £300 tax would cover three or four cases.

21,540. Do you think before the war the greater part of any duty that was evaded was not amongst the retailers, whose activities are more obvious, but amongst the small factories that are rising into prosperity?—Yes. Certain classes of retailers can do it very easily if they wish to do it, but generally it was on the more substantial profits.

21,541. I have been asked by one of the Commissioners, who has had to leave, to put this question to you in relation to your paragraph 30 (3) (f): "to require employers to supply lists of payments for services rendered, made to persons other than employees." Does that refer principally to tests for Stock Exchange business, the sale of wines, insurance on lives, and so on, and as to whether the brokers employed could not be made to give a record of commissions?—The proposal was largely designed to hit that.

21,542. The Commissioner asked me to put it specifically to you whether you would wish that to be included?—Yes, commissions and such like cases. My lord, might I just put in a suggested return form [see App. No. 33]. I have copies here; it is embodying these proposals for asking certain questions?

21,543. *Chairman:* Yes. Thank you.

MR. COPLEY DELISLE HEWITT, Clerk and Counsel to the Commissioners of Taxes for the City of London, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

21,544. (1) I have had 26 years' experience of Income Tax administration in the City of London, first as Assistant Clerk, and subsequently as Clerk and Counsel to the Commissioners. I am also President of the Association of Clerks to Commissioners of Taxes for England and Wales. The views expressed except in so far as they refer in particular to the City of London, are the views of the Executive Committee of the Association.

History.

21,545. (2) As a preliminary to the evidence I propose to give, I desire to draw attention to the impermanence of the principle upon which the Income Tax Acts were framed. This principle was that Local Commissioners and their officials, the Assessors and Collectors, should constitute the taxing authority for the purposes of the assessment and collection of Income Tax, and the hearing of all appeals in connection therewith. I wish particularly to emphasize this point, as there appears to exist in some quarters a mistaken impression that the Inland Revenue are the taxing authority. The point is made clear by the Income Tax Act, 1842, which assigns to the Commis-

sioners the execution of "all matters and things relating to" Income Tax (s. 22), including the appointment of Assessors to assess and Collectors to collect (s. 36), and the hearing of appeals (s. 118), while the Commissioners of Inland Revenue, as representing the Crown, are limited to "the direction and management of the duties" granted (s. 3).

21,546. (3) The administration of Income Tax was purposely put under two jurisdictions:

(a) *Local Commissioners*—an independent and unpaid body designed to stand between the Crown and the taxpayer, to take an independent and impartial position, carrying, on the one hand, undue severity, zeal and harshness, and, on the other, seeing that the fair requirements of the Crown are duly complied with. Mr. Pitt, when introducing his Bill in 1798, said with regard to the Local Commissioners: "It will occur to everyone to enquire what species of Commissioners shall be vested with the power of fixing the rate of assessment under a measure which must leave considerable discretionary power in such Commissioners. Several qualifications are in a particular measure desirable. They ought to be persons of respectable situation in life; as far as possible removed from any suspicion of partiality, or any kind of undue influence; men of integrity and independence." (Hansard, vol. 34, p. 6.)

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[Continued.]

This body is appointed on behalf of the public, and consists of—

- (1) The General (or appeal) Commissioners.
- (2) The Additional (or assessment) Commissioners with their officials, the Assessors and Collectors.

(b) *The Inland Revenue.*—To this department, as representing the Crown, is given a general right of supervision in order that the interests of the Crown may be adequately safeguarded and the correct amount of duty assessed and collected.

21,547. (4) This is the main principle underlying the imposition of the Income Tax, and holds good equally to-day as in the year 1842, when Sir Robert Peel said that it would be liable to great exception if Government had proposed to supersede the local tribunals and to appoint officials of their own. He said: "I propose to retain the Commissioners, because the policy of the law with respect to assessed taxes, as it was with the property tax, is not to make the collection of that tax depending on the mere will of the Government. It is thought more consistent with the principles of the Constitution that parties locally known to those who were to be taxed should be employed in its collection, and I propose to leave those provisions of the law untouched, as it is thought more consistent with constitutional usage to employ parties who have local weight and authority in the assessment and collection of the tax." (*Times Report*, 19th March, 1842.) Mr. Joseph Hume also insisted that: "it is more consistent to leave the local tribunals in the hands of the local authorities, and those of the Government in the hands of the Government. I object to place the duties under the management of the Commissioners of Stamps and Taxes" (now Inland Revenue).

21,548. (5) That the public fully recognized and jealously guarded the importance of the principle that the people who assessed the tax should be an unpaid local body of Commissioners, and independent of control on the part of the Crown, who ultimately received the duties assessed, is clearly shown throughout the history of the Income Tax Acts and Finance Bills on attempts being made to lessen the power of the local authorities, or to bring the officials under the direct or indirect influence of a Government department. To quote a few instances: in 1864 a Bill was introduced by the Government to empower the Inland Revenue to appoint their officers to be the Collectors of Taxes in lieu of Collectors appointed by the General Commissioners. The Bill was opposed and did not pass.

In 1879, on the introduction by the Government of the Inland Revenue Bill for this year, it was proposed to collect the Income Tax under Schedules D and E by officers appointed by the Inland Revenue. A large number of petitions were presented, and considerable agitation having prevailed throughout the country, the proposals were withdrawn.

In 1883 the Government, by the Customs and Inland Revenue Bill, proposed to give power to the Inland Revenue Board, with the sanction of the Treasury, after notice to the Local Commissioners, to remove the collection of duties under Schedules D and E from the hands of the local Collectors and to appoint officers of Inland Revenue to be Collectors. This proposal met with general opposition throughout the country on the ground that the proposed change was fraught with mischief and likely to do the tax itself unnecessary damage. It was entirely opposed to the principle that there should be Commissioners representing districts who should appoint their own Clerks, Assessors, and Collectors, and that the Commissioners of Inland Revenue should have their Surveyors and Inspectors to see that the Crown received no damage in the way their duties were realized. The proposal was rejected.

In 1887, by the Inland Revenue Bill introduced by the Government, it was proposed that no vacancies occurred in the office of Assessor of Income Tax, power should be given to the Inland Revenue to make the Inland Revenue Surveyor the Assessor of the

Income Tax for the district. Grave objections were urged to the proposal, in which many important bodies took part, on the ground of the constitutional right of taxpayers to assess themselves, and in the result the Bill was withdrawn.

21,549. (6) In the year 1905 a Committee, with Lord Ritchie as Chairman, was appointed to enquire into and report whether it was desirable to effect any alterations in the system of the Income Tax. The Commissioners reported (*inter alia*) as follows:—
"We are glad to state that no very drastic alterations seem to us to be necessary in the administration of the Income Tax. Indeed, we desire to place on record our opinion that the tax appears on the whole to be levied with a minimum of friction and a maximum of result."

21,550. (7) Notwithstanding the above attempts, the principles as enunciated by Sir Robert Peel in 1842 still remain effective to-day. From time to time, however, clauses have been inserted in Finance Bills which have tended to destroy the balance between the two bodies concerned in the administration, and always at the expense of the Local Commissioners, who, although the taxing authority, have never been considered or consulted when amendments affecting their own powers have been proposed.

21,551. (8) The consequence is that a dual administration has in part gradually grown up, to the confusion of the taxpayer, and generally tending to obscure the true position. Many instances might be quoted, such as:—

- (i) The character of many of the forms for return of income prepared by the Inland Revenue for use by the Local Commissioners or their Assessors under powers given them by the Taxes Management Act, 1880.
- (ii) Right to appoint Collectors under certain circumstances (Taxes Management Act).
- (iii) The taking over of the assessment of the weekly wage-earner.
- (iv) The Super-tax.

Under these circumstances it can be readily understood that the Local Commissioners and their officials experience increasing difficulties in adequately maintaining their position and carrying out their duties in accordance with the intention of the Income Tax Acts.

21,552. (9) The proper balance between the two parties to the administration should be restored. By changing the present system, so wisely devised by eminent statesmen in the past, and removing the buffer which the Commissioners represent and were appointed to represent between the State and the Income Tax payer, or by lessening their authority and discretion, it is felt that not only would considerable friction arise, but loss would result to the State. It is better, as was thought in 1842, and has been approved since, that local areas should be managed by local authorities and their officials, thereby giving time and opportunity for consideration of individual cases and questions which may arise, both in assessing and collecting, than that there should be one central authority to deal with the taxpayer as a whole.

21,553. (10) It is recognized that the position has always been one of some difficulty for the Inland Revenue, owing to the necessarily decentralised character of the Local Commissioners, comprising, as they do, 725 divisions throughout the country. It is consequently not possible for their assistance to be invoked in settling new forms of procedure from time to time found to be necessary, with the result that the Board of Inland Revenue may have had no other course but to act on their own initiative. At the same time the labours and devotion of the Local Commissioners are apt sometimes to be overlooked, and it does not appear to be asking too much for them to be referred to upon matters intimately connected with their duties—for example, they should have some say in the settlement of the forms and documents which are required to be issued under their signatures or those of their officials.

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21,554. (11) Speaking for myself, I should have been glad if the two parties to the administration could have agreed together for the purpose of presenting a joint proof to the Commission, by which means any changes or modifications considered desirable could have been laid before the Commission as the outcome of the co-ordinated experience of both branches of the administration. For the purpose of keeping each branch on an even balance for the future, I do suggest that some machinery could without difficulty, and should, be set up in the form of a Central Committee, comprising representatives from each branch, for the purpose of considering and reporting upon every reform of procedure which future legislation may from time to time render expedient or desirable.

Administration.

21,555. (12) With regard to administration generally, I desire to put forward the following general propositions, which I give as the results of my experience:

I. That this, the largest source of revenue to the country, is usually assessed and collected with a minimum of friction and complaint. That this should be so, notwithstanding the personal nature of the tax and the intimate enquiries necessary, is truly remarkable, and suggests that the present system, with its sanction of experience of nearly 80 years, and with its spirit of compromise so suited to the British temperament, should in no wise be disturbed in favour of untried experiments in administration, the adoption of which might well have far-reaching effects with possible loss to the Revenue.

II. That the small taxpayers, who constitute the great majority, are satisfied with the present administration. Suggestions for change, if any, appear to arise only in cases where, owing to large and complicated accounts, taxpayers or their professional representative naturally deal with the Surveyor of Taxes as the Income Tax expert, with whom they must come to an agreement prior to making their returns for assessment. They do not require to avail themselves of the machinery provided for the assistance of the general taxpayers, as they can well take care of themselves. These cases form only a small minority. The voice of the great majority of taxpayers who are satisfied is naturally not heard.

III. That the large sums of Income Tax are assessed and collected at a lower cost than would be possible if the Board of Inland Revenue were alone responsible. The Commissioners are altogether unpaid. In most cases the Assessors undertake, in addition, the duties of Collector at an inclusive salary. Some Assessors and Collectors work with no clerk at all, and few with more than one, while the permanent staff of the Clerk to Commissioners is also very small, this being augmented when needed by temporary assistance only at busy periods of the year. As will be seen in the Report annexed, the cost of the local administration for the City of London last year did not exceed one-eighth of a penny in the £. I suggest, as a general proposition, that work which is undertaken by a civilian body is invariably, and for reasons of necessity, simplified to the utmost extent and conducted with the assistance of as small a staff as necessary. Incidentally and consequently, it is accomplished at the lowest possible expense. Transference of that work to a Government department, in my opinion, must inevitably result in a considerable increase of expense to the community for carrying out precisely the same duties. Government departments tend to become complicated in their methods, and very heavily staffed. In this case there is no natural inclination to save either time or expense.

IV. That the local assessment of Income Tax is greatly to the advantage of the taxpayer. The taxpayer can obtain on the spot assistance and explanation of any difficulty that arises, and sympathy with local conditions by reason of local knowledge. In matters of Income Tax in which the personal element predominates, decentralisation is most necessary.

21,556. (13) As the City of London for the financial year 1918-19 was responsible for Income Tax

amounting to £64,000,000, representing one quarter of the Income Tax, excluding Super-tax, returned as collected for the whole of the United Kingdom, it is thought that the work of the Commissioners of the City of London involved in arriving at this large sum will be of value as a serviceable illustration of the practical working of the administration under present conditions. I accordingly propose, with the approval of the City Commissioners, to annex as part of my evidence the report adopted by them upon the work of the last financial year, 1918-19, as a more convenient method of explanation of the administration as it at present exists. [See Appendix No. 34.]

21,557. (14) Before leaving the question of administration, I desire to take this opportunity to deal with suggestions, made by some witnesses to the Commission, that the office of Assessor might be taken over by the Inland Revenue. Although not elaborated in detail, the following points were referred to.

21,558. (15) Assessor unnecessary, as the Surveyor of Taxes could do the work.—I think this suggestion cannot be maintained in the light of an exact statement of the duties of the various parties concerned in an assessment. These duties are, shortly, as follows. The Assessor sends out forms and collects the necessary information. The Surveyor checks it and agrees or objects, to the return on behalf of the Inland Revenue. The Commissioners then proceed to make an assessment, either on the figure agreed upon between the parties, or upon a figure arrived at after considering the estimate proposed by their Assessor. This is logical and works well, for it will be seen that the Surveyor in reality endeavours to reach an agreement, if possible, before the figures are submitted to the Commissioners for assessment.

In my opinion it is certain that the Assessor is indispensable, not only to the taxpayer, but also to the Additional Commissioners and the Surveyors of Taxes themselves. He is indispensable to the taxpayer because he is the only permanent official resident in the district. He is in personal touch with the taxpayer, and is the obvious and proper person to whom he should—and to whom, in fact, he does—apply for information and assistance. He is indispensable to the Additional Commissioners because he collects the information upon which the assessments can be based, and especially in those cases where no return is made and an estimate is required. Without him the usefulness of the Additional Commissioners as an independent taxing authority would be at an end, and they would become merely registering bodies for assessments already made. Furthermore, he is also indispensable to the Surveyor of Taxes for much information that the Surveyor could not otherwise acquire, owing to the Assessor's permanent position, his knowledge of the district, and his personal acquaintance with the taxpayer. It must also be remembered that the Assessor has many other duties in addition to the issue of returns—for example, duties of correspondence, interviews, &c. All these duties, under other circumstances, would have to be added to the heavy duties already laid upon the Surveyor of Taxes. It would therefore appear unreasonable to abolish the present officials, who are especially appointed for particular duties, in favour of other officials whose time is already very fully occupied. The result would almost certainly be that a new host of Government officials, necessarily unacquainted with the work, would at once be appointed to cope with the emergency that would arise.

In my opinion, the personal relationship between the taxpayer and the man on the spot, who is responsible for the assessment, is the most essential part of the administration of the Income Tax Acts.

21,559. (16) Multiplication of forms.—I must draw attention to the fact that every form for issue is prepared by the Board of Inland Revenue. It is obvious that the issue of the majority of forms is unavoidable and essential, e.g., forms for personal and return of income, returns for companies, firms, and employees, &c. Other forms for which the Assessor is responsible consist principally of reminders where

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his first application has not been attended to. The Board of Inland Revenue themselves attach importance to these, and in many cases issue their own reminders in addition. It is hardly necessary to lay stress on the importance of taking every step in an endeavour to obtain returns in every case, to the ultimate advantage of all parties. These reminders, among others, are sent to companies and large firms whose accounts may be in the hands of accountants who are in communication with the Surveyor of Taxes as to figures. In cases such as these the receipt of further forms may possibly cause irritation, but it can be appreciated that this course does not relieve the company or firm from making their return for the purpose of their assessment. Moreover, it is the official view that it is not desirable for the Assessors to withhold their reminders for returns until agreement is come to on accounts, as these often expedite the work of accountants on the accounts and the consequent agreement thereon. Further importance is attached to the fact that rendering returns is a statutory duty which is not superseded by sending in accounts, and that companies and firms must in the first place be responsible for the accuracy of their returns.

RECOMMENDATIONS FOR CONSIDERATION.

(a) Whole-time officials.

21,500. (17) In view of the present-day importance of the Income Tax, its complexity, and its large contribution towards the revenue of the country, it is considered that, where possible and advisable, appointments by the Local Commissioners of whole-time officials should be made. This result could be effected either by (a) appointment of whole-time officials, with adequate remuneration, on the retirement of a present official, or (b) gradual redistribution of areas, with compensation.

(b) Permanent appointments.

21,561. (18) As the Income Tax is now recognized as a permanent tax, there appears to be no substantial reason for the renewal annually of appointments. This would save a large amount of routine work, including the issue of various notices and statutory forms.

(c) Income Tax year.

21,562. (19) That the expiration of the Income Tax year (5th April) be altered to coincide with the Treasury year (31st March). It does not appear that any useful purpose is now served by the difference in date, which arose under the Public and Consolidation Fund Charges Act, 1854, by the alteration of the date of the Treasury year from the 5th April to the 31st March, whereas the Income Tax year still remains unaltered (*vide* s. 176, Income Tax Act, 1842, and Taxes Management Act, 1890, s. 48).

(d) Basis of assessment.

21,563. (20) That the income of the year preceding the year of assessment should be substituted for the three years' average (Schedule D) and the current year (Schedule E). Some of the reasons and advantages of this proposal may be enumerated as follows:—

- (i.) it is a hardship that on a falling business the taxpayer is required to pay a higher tax, although he is less able to afford it, whereas, on a rising business, he is not asked for so much when he is better able to pay it;
- (ii.) with a rising business it is manifest that the Crown frequently lies out of the tax on the increased income for two or three years, and in certain events it may become irrecoverable;
- (iii.) this is the principle already in force for Super-tax purposes, and it would have the advantage of bringing into line one method of assessment when dealing with all income for Income Tax purposes (*see* recommendation (e) below);

(iv.) labour and expense to the taxpayer and the administration would be considerably reduced, including all appeals connected with the rectification of average;

(v.) it would be easier for the taxpayer to make his return with accuracy without the necessity of employing expert assistance; he would also be relieved of much explanatory correspondence, as many calculate the average incorrectly, or return the last year's income;

(vi.) the present anomaly of assessing some taxpayers on the three years' average and some on the current year would be done away with;

(vii.) it would be possible to arrive at once at an accurate total gross assessment, including increases and houses and any Income Tax paid on behalf of employees;

(viii.) the necessity for many additional assessments and all the work in connection therewith to rectify incomplete first assessments would be obviated;

(ix.) applications to the Commissioners for repayment of tax arising in connection with the three years' average, with its exceptional reliefs where the profits of the year are less than the sum assessed, would become unnecessary.

During the period of transition involved by abandoning the three years' average system, the provisions of s. 24 (3) of the Finance Act, 1907, could be applied as if the trade or business had been discontinued when the new method of assessment comes into force. In the case of a new trader, I would assess him upon the profits of the first year. In the second year I would assess him on the profits of the first year, with the proviso that, should the profits be less than the profits of the first year, the assessment should be adjusted to the actual profits of the second year.

(e) The inclusion of Super-tax in the general Income Tax assessment.

21,564. (21) Apart from the question of graduation or otherwise, there would appear to be no reason that any income that exceeds a certain figure should require different administrative treatment. Under the present methods of assessment, the incomes below the standard rate are already treated in the general assessment at the appropriate rates, and incomes exceeding the standard rate could also, without difficulty, be included in the general assessment. This would result in more economical administration. The taxpayer would receive an inclusive charge only, thus obviating the necessity of returning his ordinary income to one body and his Super-tax to another, involving duplication throughout. Moreover, the Super-tax payer would have the additional advantage of a right of appeal to his Local Commissioners, which he does not now possess, and the Crown would also obtain the advantage of the Commissioners' local knowledge should the accuracy of any return be called in question.

(f) Basis of return.

21,565. (22) That the income to be returned under Schedules D and E should be the income received from 1st January to the 31st December prior to the year of assessment. This would allow taxpayers time to prepare their accounts in time to make their returns when required for the following financial year.

(g) Assimilation of Schedules D and E.

21,566. (23) That the assessment of every individual should be made under one Schedule and on the same basis. The present distinction between the assessment of an employee of a firm on a three years' average under Schedule D and an employee of a public company under Schedule E on the current year's income (although in certain cases the three

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years' average is allowed by concession) should be abolished. As an illustration of the extra work entailed owing to the existence of the two Schedules at present, I might give the following. An employee of a limited company, drawing a small salary and possessing some War Loan, and under Schedule D in respect of his salary, and under Schedule E in regard to his War Loan. As this is a fact in very many cases in small assessments, the work is in every case duplicated at every step.

(h) Assessment of partnerships.

21,567. (24) That the partners of a firm should be assessed individually, and not as a firm, though the firm should make the return as at present. These are at the present time by far the most complicated forms of assessment, necessitating in almost every case upon the issue of the notice of charge to the firm much explanatory correspondence, involving the ultimate disclosure to the other members of the firm of the private income, with charges (if any), of each partner. This is naturally open to much objection.

(i) Directors' fees.

21,568. (25) Income Tax on the fees paid to directors should be deducted by the company. This would secure a large saving of work in the issue of several notices to one individual, and possible annoyance to the taxpayer, who may happen to be a director of several companies, each assessed in a different district, in respect of which he would receive a separate notice of charge and a demand for payment in each case.

(j) Discounts.

21,569. (26) That discount be allowed in every case, and not only under Schedule D, as at present, and that the rate be raised from the present rate of 24 per cent. to 5 per cent. to correspond with the discount allowed for prepayment of Excess Profits Duty.

(k) Power to charge interest.

21,570. (27) As discount is allowed on prepayment of Income Tax, it is suggested that, in fairness to the prompt taxpayer, the Local Commissioners should be given power to charge interest in cases of tax long overdue without sufficient reason.

(l) Books of assessment.

21,571. (28) Where the Assessor and Collector are one, his duplicate should include detailed particulars of the assessment. Practical experience shows that much correspondence between Assessor and Surveyor could in this way be avoided, and the enquiries of taxpayers could be dealt with by the Assessor more expeditiously and to his satisfaction.

(m) Notice of charge and demand note.

21,572. (29) It is suggested that these should be issued simultaneously, and preferably in one form. The receipt of a demand note generally puts the taxpayer on his enquiry, whereas, if he had the information before him at the same time which a notice of charge contains, many letters and interviews with the Assessor would be avoided, with the consequent expense.

(n) Signing of assessments.

21,573. (30) That the signature of the Additional Commissioners, who make the assessments, should suffice without that of the General Commissioners, who subsequently hear the appeals. At the present time the General Commissioners sign the books on the assumption that all appeals have been heard.

(o) Notice of appeal.

21,574. (31) The time for giving notice of appeal—at present 21 days—should be considerably increased, say, to six weeks. The time is at present too short for many taxpayers to consider their position before lodging their appeals.

(p) Repayments.

21,575. (32) That in cases where the Local Commissioners are empowered to sign certificates for repayment of tax, they should be allowed to sign a warrant for repayment of the amount of the claim in lieu of the certificate. As every amount certified for repayment by the Commissioners has been the subject of agreement between the Surveyor and the taxpayer, it is thought unnecessary that payment should be delayed for the further investigation of a certificate which cannot be disturbed.

(q) Revision of dates.

21,576. (33) That the dates specified in the Act for the various stages of procedure should be revised throughout and brought into line with present conditions.

(r) Number or letter assessments.

21,577. (34) The necessity for these assessments, which entail special forms and procedure, should be abolished, as they no longer serve any useful purpose. There are only two assessments of this kind at the present time in the City of London.

21,578. (35) The foregoing suggestions are put forward from the light of personal experience, in the hope that in a considerable measure they will tend to simplify procedure, as far as is possible in a matter so complicated as Income Tax, both in the interests of the taxpayer and to secure the smoother working of the administration.

[This concludes the evidence-in-chief.]

21,579. Chairman: There are a great many points in your paper which will be of assistance to the Commission, and you have got them together in an extremely able way?—Thank you, my lord. I hope it is a fair statement of facts.

21,580. Your evidence has been circulated, and the Commissioners have read it, and now you will be examined by them upon the points in your paper?—May I with submission suggest that I might add a further statement with regard to my position here?

21,581. Would you like to make that statement now?—Yes, my lord. I wished to say that I am here to represent the local administrative authorities throughout the country. I am, however, placed in a somewhat difficult position, because I find that certain witnesses have given their opinions generally on the administration, and suggest that some duties that are expressly given by the Acts to the Local Commissioners to carry out could be perhaps just as well carried out by another body. I am, therefore, in this rather difficult position, that I am unable to gather whether the Inland Revenue, who with us are necessarily the only body who can really understand the great intricacies of the administration, themselves desire to make any change. I must in my evidence proceed upon that assumption, and I therefore desire to draw particular attention to the very real importance of the principle laid down in the framing of all taxing Acts, that the administrative authority should, as we all know, lie with the Local Commissioners for the purposes of assessment, collection and appeal, and that the Inland Revenue rightly as a supervisory authority should have requisite powers to safeguard the interests of the Crown and see that the right amount of tax is assessed. I wish to submit that those two duties are entirely separate and distinct.

21,582. That is your point?—That is my point. I should like to add that for this purpose 725 bodies were expressly appointed by Statute to carry out these administrative duties, because I submit it was felt that it was more in accordance with constitutional usage that taxpayers should assess themselves or be assessed by their fellow taxpayers, than that a Government Department should be responsible for assessing the subject and at the same time be in receipt of the duties assessed.

21,583. But you are always, of course, under the criticism of efficiency, are you not?—Yes, but I only

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wanted from my place here, if I might, to urge that the two principles are entirely distinct, and there would be a danger in mixing them.

21,584. I quite understand your contention, but you will be examined on that as well?—Thank you.

21,585. Mr. McIntock: Are we to understand that the views and the practice of the City of London Commissioners are pretty much on all fours with the practice of Commissioners all over the Kingdom?—I think I may fairly say that is so. Of course the amounts of duty are considerably greater.

21,586. But you think the general practice followed by the City of London Commissioners is the practice that is followed throughout the country?—Yes; I have no reason to think otherwise.

21,587. A suggestion has been made that while nominally the Commissioners do a considerable amount of work, in reality it is performed by the Surveyors of Taxes?—Of course I would not admit that at all. I should, however, like to say that we in the City, and I am talking for the moment particularly of the City, are very fortunate in having a body of very able and competent Inland Revenue Surveyors with whom we work in very close co-operation, each in his own well-defined sphere. It acts very well, and to the distinct advantage of the administration and the taxpayer.

21,588. You have appointed recently a committee of the Commissioners, have you not?—No, not that I am aware of.

21,589. I understand you to refer to them here in paragraph 13?—I beg your pardon; it is a sub-committee of the General Commissioners appointed to prepare a report.

21,590. "To report upon the present administration by the office of the Commissioners of Taxes for the City of London, with such retrospect as may be necessary for purposes of comparison"?—Yes.

21,591. Is that committee just a recent creation?—No. We have the practice from time to time of issuing annual reports of work done by the City Commissioners, and it was done in this case in March last.

21,592. This committee which is referred to in paragraph 13 is a committee which has been in existence for years, is it not?—No, not this particular committee.

21,593. Or a committee similar to it?—Committees similar to that have been created for the purpose of issuing reports from time to time.

21,594. There are one or two points I would like to ask you about. With regard to the application for reduction and discharge of assessments, I think it is in paragraph 10 of your Report [see Appendix, No. 34] you refer to these applications being allowed by the Board, and you refer further on to the fact that they are only formal adjustments of assessments on application by the taxpayer to the Assessor?—Yes.

21,595. Is it to the Assessor that the taxpayer applies?—In a great many cases they apply to the Assessor, who, if he is not able to help the taxpayer himself, sends him on to the Surveyor of Taxes.

21,596. I would have thought that the commoner practice was for the taxpayer to go to the individual that he is told to go to in the notice, namely the Surveyor?—In the City it is so in the notice, but as a matter of practice they come very often in great numbers in fact to the Assessors themselves. I understand that the Assessors will be before you shortly, and they will be able to tell you the exact procedure in their own offices.

21,597. Here is a definite statement: "are in the great majority of cases formal adjustments of assessments on application by the taxpayer to the Assessor." Should that word not be "Surveyor"?—No; I think perhaps we might add the words "Assessor or Surveyor." This is a City report, and you will have evidence that they do go in great numbers to the Assessor in the City, because they know him personally, he having been in the district many years, and the taxpayer would be able to get advice and assistance in the direction which he desired.

21,598. I personally was always of opinion when he was told to go to the Surveyor the average taxpayer made his way there, and it was the Surveyor and the taxpayer who adjusted these various applications?—Yes, that is so, I will agree; and I will agree that it is quite right that it should be so. I might amplify that a little. It is the duty of the Surveyor of Taxes on behalf of the Crown to get at the right amount that should be returned for assessment, but I submit that is not making the assessment. Of course, our contention is that these notices of charge, which you rightly say have the name of the Surveyor on them, should, in fact, have the Assessor's name on them, but it is unfortunately an Inland Revenue form.

21,599. I am not making any observation with regard to the names which should be on them, but merely this: the Surveyor's name happens to be on them, and yet you say that the taxpayers, in spite of that explicit instruction, go to the Assessor?—In a great number of cases.

21,600. Well, I would have thought they would naturally have gone where they were told to go, and to the individual who is best qualified to deal with the matter?—They all ultimately do go to the Surveyor of Taxes.

21,601. Your statement here is that in the first place they go to the Assessor?—They go to the Assessor in numerous cases, but I will qualify that by saying, now that you draw my attention to it, "to the Assessor and the Surveyor of Taxes."

21,602. You do not say "numerous," you say "majority"?—No. I think if you will look at it it is that the majority of the cases are formal adjustments. I do not say that the majority of them go to the Assessor.

21,603. In paragraph 10 of the Report you make this reference: "Each of the above applications and certificates, before being recommended to the Board for confirmation, is considered personally by the Clerk to the Commissioners on questions of principle, and the figures are examined by a staff clerk specially detailed for the purpose." How do you manage to deal with such a large number of cases?—Because the great majority of them being formal adjustments there is no question of principle attached.

21,604. Could you tell us the exact procedure?—Starting from what point?

21,605. I mean with reference to this paragraph here?—After a request for an adjustment has been received by a Surveyor, or before it arrives to the Surveyor?

21,606. You can deal with it at any point you like: "Each of the above applications and certificates, before being recommended to the Board for confirmation, is considered personally by the Clerk to the Commissioners on questions of principle." Would you tell us exactly the procedure which you adopt with regard to questions of principle, for example?—Yes, that is my special department. I receive any correspondence for the day, which includes what are called submissions for relief received from the Surveyors of Taxes, and those are the cases to which I refer here. That submission for relief has the name of the taxpayer, his address and the amount at which he is assessed, the nature of the relief required, and a statement on the back of that document stating the reason why that reduction should be made. I look at those reasons at the back of this submission, and in any difficult case I remit it back to the Surveyor for further information if necessary, and we are in such close collaboration that sometimes the Surveyor comes and sees me himself. It is sometimes necessary to return many during a day for various reasons of that kind. Attached to the submission is a relief note on which is made out the name of the man and the amount of relief; that should go to the Commissioners' Collector to note up in his duplicate and make a demand for the balance due.

21,607. That is not quite my point. I want to know how with such a huge number of cases you get at the questions of principle. Do you have the

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accounts, for example, and the correspondence relating to a particular assessment before you?—No, I do not; they would only come in if called for.

21,608. I take it the Surveyor sends you in some printed report in which he has settled everything with the taxpayer?—No, I will not go so far as that. He sends me in a submission to ask for a relief which is headed: "It is submitted to the Commissioners that in the foregoing circumstances a relief of such and such an amount should be made." He gets all the papers, and if there are any further questions to be asked the papers would be asked for.

21,609. I have a difficulty in understanding your practice when you say that each of the above applications and certificates is considered personally by the Clerk on questions of principle. Do you have the accounts that have been submitted by the taxpayer to the Surveyor?—No.

21,610. Or the correspondence which has passed between them?—No, not unless it is called for, but on each submission all the reasons for the relief are set out, and I examine the reasons to see whether there is any principle attached to them. In the vast majority of cases the taxpayer has omitted to claim for wife's allowance, Life Assurance, or unearned income relief, and there are no principles attached to it; but I am sure to see if there is any question of principle that further information must be produced.

21,611. You do not examine the accounts?—I do not examine the accounts.

21,612. You do not examine the correspondence?—No. They are very nearly all of them individually small taxpayers who have rightly tried to come to a proper figure with the Inspector of Taxes before the relief is granted by the Commissioners.

21,613. Then it means this, does it not, that practically the Surveyor and the taxpayer have settled these cases, and as a matter of form there is a return made to you which you approve—14,000 of them?—I will not go so far as that, but I will go so far as to say that the great bulk of them are formal submissions for adjustment, because they are statutory allowances.

21,614. Then this last paragraph might have read: "Most of the above applications contain no questions of principle, and the few that do"—tell us what you do with them?—I think that is perhaps a fact. I do not know whether it would be the proper way of putting it. I personally examine every one of them, but 10 per cent. of them perhaps go back for further information to the Surveyor.

21,615. Then you get the accounts brought along to you?—It is no question of accounts.

21,616. In connection with appeals?—No.

21,617. Take the applications under what was known as the 1890 Act, a loss in the year of assessment. Must you not see the accounts before you can determine the final settlement of that appeal?—We see the taxpayer personally on these repayments.

21,618. When?—At an appeal meeting.

21,619. I will give you an illustration from my own experience of an appeal meeting on that section?—In the City?

21,620. Yes. I had correspondence and interviews extending over the best part of a year with the Surveyor in the City, and after a great deal of trouble on his part and mine, we agreed between us what the repayment was to be. When writing finally confirming the figures, I asked when the repayment would be made. He said "you must appear before the Commissioners." In Scotland the Commissioners never ask any appellant to appear on a claim under that section when he has agreed it with the Surveyor. The Surveyor in the City told me that the City of London Commissioners insist on an appearance before they will formally pass this claim. I had to come from Scotland specially and meet my client in London. We spent the best part of a couple of hours waiting out in the street, and we were then summoned before the Commissioners. The Commissioners said: "you appear for Mr. So-and-so; your name is Mr. So-and-so." I said yes. They asked the Surveyor on the other side, "do you agree?"

He had already agreed in writing. He said "yes," and the appeal was passed. That is my actual experience of a claim under the Act of 1890 involving a question of considerable principle. I never was asked to discuss any principles. Is that a common type of case?—That is not included in those you are referring to here. Those applicants have nothing to do with it.

21,621. No, but that is one type of appeal?—It does not appear in paragraph 10, of the Report in the 14,415 applications.

21,622. Dr. Stamp: It is the 185.

21,623. Mr. McLintock: You say: "185 certificates were issued after hearing the applicants in person and the Surveyors of Taxes"?—Yes.

21,624. Do you suggest that the hearing of me and the Surveyor of Taxes on that occasion was anything but the merest formality?—No. I suggest it was a formality which the Commissioners feel that they should do for their own sake.

21,625. For their own what?—Because the Act says that the loss must be proved before them.

21,626. But it was not?—Well, except in so far as we got the personal assurance of the taxpayer that it was so.

21,627. I was the taxpayer's accountant; the taxpayer was not even there?—But you knew whether a loss had been made.

21,628. I did, certainly?—And you personally assured the Commissioners that a loss had been made. I am very sorry to hear that you were brought all the way from Scotland, because I do sometimes have those cases, and I always make a point of putting the taxpayer to as little trouble as possible, and try to take another occasion when the proof could be made more to his convenience.

21,629. I would suggest that in those cases the City of London Commissioners might safely follow the practice of Commissioners in other parts of the country—when the Surveyor has settled the whole matter at issue he sends forward his formal report and you sign it, and that is all there is to it?—I think there is a good deal in what you say. I should like the Commissioners to be empowered to issue a warrant for payment instead of the certificate; that is where the delay comes in. I can recognise that from your point of view there might be a delay until there was a meeting of the Commissioners, and I can quite conceive that that would be to the convenience perhaps of the taxpayer or his accountant; but I think for a matter of speed in getting the legitimate money back into the taxpayer's hands it would help very much if when it is felt necessary that the taxpayer should attend he should have a cheque handed to him on the spot.

21,630. I quite agree with that.

21,631. Chairman: Would that take out of their hands a large number of the cases practically if we adopted such a system?

21,632. Mr. McLintock: Really the point I was seeking to put to Mr. Hewitt was this, that the Commissioners' duties are extremely formal, and that in reality all this work is done, and effectively done and finished by the Surveyor of Taxes?—Yes.

21,633. Do you agree with that?—Yes, I do agree with that.

21,634. Then I think you will also agree that with regard to paragraph 10 of the Report, that each is personally examined by Commissioners on questions of principle, is not quite correct?—Oh, no; everything that I say there is correct. When you say "personally by the Commissioners," they are not examined personally by the Commissioners; they are examined by me.

21,635. "Examined personally by the Clerk to the Commissioners"?—Yes.

21,636. On questions of principle?—Yes.

21,637. Even including that case of mine?—Oh, no. I want to make quite clear that your case is not included in the cases in which I say it is examined on questions of principle.

21,638. Oh, yes, it is. You say: "Each of the above applications and certificates"?—Yes. You will see the certificates are the 845; those are the removal certificates.

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21,639. You are not referring to the other certificates?—I am not referring to the other certificates, I want to make that quite clear.

21,640. I have one or two points on Table B [see Appendix No. 34]. In Table B for 1918, you refer to appeals under Schedule D. I assume they are: 219 appeals personally heard by the General Commissioners?—Yes; that includes the 185 certificates.

21,641. So that the number of appeals other than the purely formal appeals was 34?—That is quite right, and they were very important. I may say with regard to those appeals, as you can see in the body of the report, they were very important cases that extended sometimes to three days' hearing—in one case.

21,642. There is a big difference between 34 cases and 219. The 185 were formal?—They were formal. I had to put that down in my report because they were personally heard by the Commissioners and personally summoned. They were meetings specially summoned for that particular purpose. They had actual attendance of the Commissioners summoned for this particular purpose on four occasions.

21,643. I remember there was quite an army outside on that day?—Of course I might say there is a difficulty attached to your suggestion that the services of the Commissioners should be dispensed with.

21,644. I did not say that. I am merely taking some of the duties they perform, to try and see if they are really done by the Surveyor of Taxes to-day?—No.

21,645. I mean the real work is done?—No; I find it very difficult to admit that. I submit that what the Surveyor does is his duty, which is the duty imposed upon him actually by Statute; it is what he has got to do. He has got to protect the Revenue, to see that the right amount comes to the Revenue, and the only way he can do that is by meeting the taxpayers personally and coming to a compromise.

21,646. Coming to what?—Coming either to a compromise, which is very often what happens and is most advisable, or coming to an actually agreed figure in accordance with the law.

21,647. Does that statement apply to these formal meetings as well?—It applies to all taxation.

21,648. But in those cases the Commissioners, I suppose I may safely say, never attempt to overturn a settlement with a Surveyor in an agreed case—take the 189 Act?—As a matter of fact, although I do agree with you—I am not trying to go back upon that—that they are formal in a great majority of the cases, there have been several cases which have been turned down; that is, nearly every meeting there is one.

21,649. Cases agreed between the taxpayer and the Surveyor?—Yes, supposed to be agreed, and when they have been before the Commissioners it is found ultimately that they are not at one. I do not want to urge that, because they are not numerous, but I want to qualify the question of formal adjustments by the fact that in all these appeals before the Commissioners specially summoned for the purpose, there is generally one case which turns out to be unsatisfactory, and has to be remitted back for further particulars and further agreement between the Surveyor and the taxpayer.

21,650. That is one little grain of wheat. In paragraph 12 of the Report you refer to the number of meetings?—If I might interrupt for a moment, what I find is this, that the Commissioners ask the taxpayer what amount of tax it is that he claims, and it is there that we find the difference between the Surveyor and the taxpayer, at the meeting.

21,651. You mean the arithmetic?—No, the amount of money that he has expected to get back.

21,652. You mean after he has agreed it with the Surveyor?—With the Surveyor of Taxes.

21,653. The taxpayer comes along and says, "I expect so much"?—Yes, and the Surveyor says "I make it so much."

21,654. Will you give us an illustration of one of these cases?—It is found that there might be possibly a repayment due under another Act which does not come personally before the Commissioners. There are nine different applications for repayment of tax, two

of which come personally before the Commissioners. It might be on one of these certificates which does not come personally before the Commissioners.

21,655. I am afraid I do not quite follow?—He claims the whole amount, and the Surveyor only claims a certain portion. I will go so far as to say this, that even upon questions of account when it has come before the Commissioners, there has been a little variation; I am not pressing it.

21,656. I was putting agreed cases, mark you, not cases in which there is dispute on a matter of account, or as to the exact amount to be repaid?—Even in agreed cases this happens.

21,657. They are overturned quite frequently?—No, not quite frequently. It is rare that they do this, but it is done—I should say perhaps one a meeting.

21,658. And if it is done it is owing to some misunderstanding on the part of either the taxpayer or the Surveyor?—That is so.

21,659. In paragraph 11 of the Report you refer to the Additional Commissioners?—Yes.

21,660. And you refer to the number of meetings at various periods of the year. You deal with first assessments, and March and July additional assessments. How long do these meetings generally last?—About 2 hours.

21,661. They included "no less than 9,413 individual assessments extracted for their special consideration and only allowed after discussion with the Surveyor in person and full disclosure of the particulars in each case." Is it fair to divide these assessments over 20 meetings?—I should say so, yes.

21,662. If you divide 940 by 2 you get 470; that is near enough. That is, 470 cases are dealt with at every meeting?—I should say so, yes.

21,663. And the meetings last about two hours; that is about 235 assessments per hour?—This is an actuarial calculation which I find it very difficult to combat.

21,664. No, it is simple arithmetic, I do not pretend to be doing anything actuarial?—I may say this, that perhaps you are not aware that the Commissioners split themselves up into committees for this purpose, and therefore there are sometimes four to six meetings going on at the same time.

21,665. How many Commissioners sit as a rule at these meetings?—It is very difficult to say, because they vary so much; I should say four or five.

21,666. Chairman: Do they have a minute book?—Yes.

21,667. Mr. McIntock: I take it you have records of your proceedings?—Oh, yes; I will bring them here with pleasure.

21,668. Take it on your own figure, probably about four or five?—I think that is about right.

21,669. I will show you that it is not anything actuarial. If you divide 940 by 2 you get 470?—Yes.

21,670. And you get probably four Commissioners dealing with these cases. You may take the arithmetic from me. It works out at about 59 per hour, assuming you have four Commissioners.

21,671. Dr. Stamp: Sitting separately?

21,672. Mr. McIntock: Yes.

21,673. Mr. Walker Clark: Four members for two hours.

21,674. Mr. McIntock: Yes. It works out at about 59 assessments per hour for each Commissioner. My calculation is correct, I think. In any case, I make out that each Commissioner gets through about one assessment per minute; do you accept that?—Yes.

21,675. Chairman: Do the figures rather startle you, Mr. Hewitt?—No, not a bit.

21,676. Mr. McIntock: I worked it out to see how expeditiously they get through their work. I have other figures, but if you split the duties between four members, instead of assuming that several Commissioners sit together, they get through about one assessment per minute?—Yes.

21,677. Do the Surveyors know beforehand which cases are to come before the Additional Commissioners?—I think they can gather which cases do come before the Commissioners, because they are cases that require an estimate or else an increase on an original return. They can always calculate what

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are the cases that come before the Commissioners. I and my staff personally extract all these cases for their consideration.

21,678. You say here: "The Board held 20 meetings at various periods of the year to deal with first assessments, and March and July additional assessments. Two hundred and eight Schedule D books of assessment were signed and allowed, including no less than 9,413 individual assessments extracted for their special consideration"; who extracts them?—My staff.

21,679. Then do they tell the Surveyors beforehand, "we have extracted 9,000 cases"? Do all the various Surveyors in the City bring along the particulars to enable you to consider these cases?—Yes, I think I can say that they do during the 20 meetings. They know the cases that are going to be extracted, and they come fully furnished with the facts, having personally treated with them.

21,680. Does the Surveyor bring the taxpayer's return with him if he has made one?—In most of the cases they are questions of no returns being made.

21,681. Accounts or documents of any kind?—Certainly they do.

21,682. Chairmen: Is that really correct, that they do attend on all those cases?—The Surveyors, yes. On the 20 meetings the cases that refer to the district where the Surveyor deals with the assessment the Surveyor is asked to attend to explain them.

21,683. Nine thousand four hundred?—Nine thousand four hundred cases.

21,684. Mr. McLintock: Yet you get through them at the rate of one per minute, examining the documents, and the Surveyor giving explanations?—These are, in the great majority of cases, estimates where there has already been collaboration between the Assessor and the Surveyor of Taxes.

21,685. But will you look at the words you use: "and only allowed after discussion with the Surveyor in person"?—That is true.

21,686. Now look at the next phrase: "and a full disclosure of the particulars of each case"?—Yes. Most of them are estimates. One must remember on this assessment there are full notes of all the particulars and all these notes are examined and corroborated by the Surveyor, who also has been in communication with the Assessor.

21,687. Chairmen: At one per minute?—Yes, I think that can be done.

21,688. Mr. McLintock: It is not "can be done," but it has been done?—If I brought you an assessment book I think I should be able to find that you would be able to do it quite easily.

21,689. Chairmen: Examine all the particulars with full disclosure at the rate of one per minute?—You are pinning me down to every observation, like "full disclosure." The particulars are disclosed and the full disclosure is that there has been no return made of any kind.

21,690. It does not mean quite what you have had printed there?—I say that I think is done. If a man has refused to make a return and an estimate has been made as between the Surveyor and the Assessor of taxes, and there are all the notes as to how this is arrived at in the assessment taken from previous years, I think it is fair to say that it is a full disclosure. I am quite willing to take out the word "full."

21,691. Dr. Stamp: Is there an estimate before you in each case either by the Assessor or the Surveyor?—Yes, always.

21,692. And is the Surveyor asked to comment on it?—In every case.

21,693. On the estimate made?—Yes.

21,694. And to discuss it with you?—Yes.

21,695. Chairmen: The reason I asked you about that was to give you an opportunity if you wished to make any amendment of that statement, because we shall naturally have to ask the Surveyors about the method in which this is done, their attendance and all that sort of thing.

21,696. Mr. McLintock: The whole point in this statement is that it is only "after discussion . . . and full disclosure." After all, that is the function of the Commissioners, to have a full discussion and a

full disclosure before they come to decisions. I do suggest seriously that it is a physical impossibility to do this work with so many assessments in the time at your disposal if you have a full discussion and disclosure. You ought to look at the accounts?—Assuming that a great number of these cases, which is the fact, are estimates, the Additional Commissioners' official—

21,697. Which official?—The Assessor—has been sent out for that particular purpose in his particular district to make discoveries, and these are the results of the discoveries of the Commissioners' official agreed to after collaboration with the Surveyor.

21,698. Then, are the whole 9,413 assessments which are considered the cases in which you have had a special inquiry and sent out your official to make his inquiry for you and come back to tell you the results?—No. A great many of these cases, as you can appreciate, will be adjustment of averages. A man has made a return, and he has returned for the previous year, which he has forgotten.

21,699. The Surveyor has adjusted that?—No.

21,700. I suggest to you that this also is a very formal duty which is performed and is got through in record time as hard as you can go?—No. I wish you were one of our Additional Commissioners. I am quite sure that you would appreciate that at the end of 20 meetings you had done very good work.

21,701. I agree that many of the appeals get long and patient hearing, but I am now speaking of the number of the individual assessments that you take out for consideration?—You are quite clear in your own mind, I am sure, that those are not the appeals before the General Commissioners?

21,702. Quite—These are the Additional Commissioners sitting for a particular purpose.

21,703. Yes, I am quite clear on that point.—The others, of course, are long and difficult appeals. I can assure you from my personal experience that the work which the Additional Commissioners put in is worthy of all praise, and it would be supported by the Inland Revenue; on my own responsibility I say that.

21,704. Would they support this particular paragraph upon which I have been asking you these questions?—I think they would.

21,705. Including the last line of it?—I do not think the Surveyor would be willing to admit that he had only partially disclosed the circumstances to the Commissioners.

21,706. I suggest to you that he has no time to disclose them?—It is all written down in front of the Commissioner.

21,707. Dr. Stamp: Is there room in the assessment books for all the details?—Yes, there is.

21,708. And the accounts, and the points of principle?—Of the three years' average, and of the accounts. The points of principle are explained by the Surveyor himself.

21,709. Mr. McLintock: You have told the Surveyor beforehand which cases are coming forward?—No, I have not.

21,710. I thought you said you did?—No, but he knows. What I do is, I extract them for the Commissioners, and when the Surveyor attends the meeting he finds the extracts there; but, of course, he knows that because he knows the cases which are likely to be brought before the Commissioners, because they are unaccepted returns.

21,711. You mean he comes along to these meetings, and he knows the cases that are going to come up for consideration?—Yes.

21,712. Does he bring the papers with him?—He brings the paper with him.

21,713. And if there are accounts or documents he brings the accounts or documents?—In any difficult case that wants particular attention. Would you like to see an assessment? I wish I had brought an assessment for the Commission to see.

21,714. You can lodge one if you wish later?—It is only for the Commission's convenience, if necessary.

21,715. Chairmen: Yes, will you send one?

21,716. Mr. McLintock: You say here your Committee desire to add their testimony to the special knowledge which they are able to bring to a solution

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of the various problems presented to them. Will you tell me does each Commissioner at this investigation take an assessment book?—Yes.

21,717. Are there in that book cases in which that Commissioner happens to have special knowledge?—Not exactly.

21,718. Then how does he bring his special knowledge to bear?—In all these big cases because there are a good many of them, cases which affect large amounts, the firm or the company and the circumstances are personally known to him, and also he has the advantage of the other Commissioners who no doubt have got special knowledge of that particular district which is being examined.

21,719. Then when they sit and come to a case in book No. 1 with Commissioner No. 1; does he refer it to Commissioner No. 2, 3, or 4 to get his expert knowledge if he has not got it himself?—Occasionally.

21,720. Do you gather all the special cases in one particular branch out of the various books, and put it before him?—No.

21,721. Then how does he apply his special knowledge? If he gets a book given to him at random with a few hundred cases in it, how does he bring his special knowledge to bear, looking to the method by which you carry this out?—Because he has got a knowledge of the company or the firm that is under consideration.

21,722. How can he have it? He gets a book given to him indiscriminately?—They are the leading business men, to a great extent, in the City, and they have got their great knowledge of the City commerce and business, and when these names are brought before them cases do come up before a Commissioner of the facts of which he may have personal knowledge. Is he possibly dealt with them himself.

21,723. Is this what happens: here is a name in a book, and this man carries on a certain trade, and you are assessing him at £10,000. He says, "from my special knowledge that is a fair amount to put on."—Yes, in cases that might be so. I do not say that he has got a special knowledge of every case that comes up before him, but you must remember his Assessor has had the special advantage by his long residence in the particular district of that special knowledge.

21,724. It is the Assessor who has the special knowledge?—No. I say that they both have the special knowledge, but an Assessor has more individual knowledge of the particular taxpayer; the Commissioner has probably a more general knowledge of the transactions.

21,725. What transactions?—That have resulted in the assessment.

21,726. That resulted in the alleged profit or in the assessment?—Yes.

21,727. Which?—In the assessment proposed. I submit that the word "special knowledge" is absolutely accurate.

21,728. I do not deny that they have special knowledge, but I do not quite see how they get a chance of applying it by the method you adopt and the speed with which you go through the list?—The special knowledge is of a man who has got very great commercial interest in the City. These cases that come up times without number are cases in which he can apply his special knowledge.

21,729. But do not they need in addition to their special knowledge and interest in the City some Income Tax knowledge?—No.

21,730. After all, commercial profit as generally understood and taxable profit are not the same thing?—Quite, but that is not for those assessing. I think. You must remember the cases that we are mentioning are not on figures at all, but on estimates.

21,731. Estimated figures?—Estimated figures. It is not the discussion as to whether there is a particular figure under consideration; it is the general nature of the business, as to whether it is likely that a man has made or the company has made or could have made a profit.

21,732. You suggest that each Commissioner has such an expert knowledge that in all the particular estimates in the particular book which happens to be allotted to him that day, and which he has never had an opportunity of considering before, he is

capable right off of disposing of them and applying his knowledge and going through them at the rate of one per minute?—Yes.

21,733. Mr. Armistage-Smith: Is not the explanation of the speed at which this work is done partly at any rate that the Assessor and you or your staff have spent very much longer periods of time in preparing the work?—Yes.

21,734. I want you to look at your recommendations. There is one in paragraph 20 of your evidence-in-chief, "Basis of assessment." You suggest that the basis of assessment should be the preceding year, and, in paragraph 22, that year should be the calendar year, 1st January to 31st December?—Yes.

21,735. A witness on behalf of the Bar proposed that the Schedules should be re-arranged, and there should be one Schedule for property, real and personal, a second Schedule for trading profits, and a third Schedule for salaried employment?—Yes.

21,736. Would that meet your point, if your calendar year preceding the beginning of the Income Tax year were taken as the basis for property and salaries, and the three years' average kept for trading profits; would that be a reasonable compromise?—That would be a reasonable compromise. I would rather like to supplement that, if I may. I think it would be a very advisable and excellent thing from the administration point of view if we could get as few Schedules as possible. It would be too long to go into the ramifications of the administration and the number of signatures that would be obviated, and other matters of that kind, but if you would like to have my special experience it would be very advisable that there should be as few Schedules as possible. I have read the proposals of the General Council of the Bar, which I think are excellent in that respect, subject to these qualifications. I should suggest that one might take Schedule A to cover tax on the annual value on real property, including profits from the occupation of land if still assessed on the annual value, and not under the present Schedule D; that Schedule B should take the position of the present Schedules D and E to cover all tax on companies, firms and individuals. There does not seem to be any special reason so far as I can see why they should be divided. As Schedule C is a special matter of public funds, I would suggest perhaps from an administrative point of view that that might be left as it is.

21,737. I rather gather from your evidence that the Assessors give a considerable amount of assistance to the public, the taxpayers. Do you think that any form of public inquiry office for taxpayers would be useful, or do you think that the Assessor is the proper person to give such information and assistance?—I think that any public inquiry office, if such is proposed, is quite unnecessary, because they have already I should say between 6,000 and 8,000 Assessors' offices throughout the country which could answer the purpose, and it is the duty of the Assessors there to give the information required.

21,738. That is 8,000 Assessors' offices?—Yes, I take 8,000 tentatively.

21,739. Not the Surveyors' offices?—Not the Surveyors' offices. I submit that the right person to give that information is the Assessor, who knows the district, and I may say as far as the City is concerned that a great part of the Assessors' time is taken up with giving that information which is so necessary with complex forms.

21,740. The first question put to you was whether the procedure in the City of London was the same as that of the country generally. We all know you have great knowledge of the procedure in the City of London. Have you equally intimate knowledge of the procedure outside?—No, I cannot say that I have got an equally intimate knowledge beyond just the general principles of the outside administration, but I have got my friends here from the country who would be able probably to corroborate what I have said.

21,741. You do qualify your answer to that extent, that your experience has been gained in the City?—My experience has been gained in the City.

21,742. And if we want to know more about the practice elsewhere we should ask someone else?—I

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want to make quite clear that my proof has been submitted to every Clerk to the Commissioners throughout the Kingdom.

21,743. Mr. McLintock: That was really the purpose of my first question?—And I have my replies here, which as far as they go, subject to a few natural small qualifications, give unqualified assent to what I propose.

21,744. Mr. Armitage-Smith: My point was that there is a difference between the City of London procedure and the rest; perhaps someone else will take that up. You say it is very important to preserve a balance between centralised bureaucratic control and local control, and you throw out the hint of I think you call it a joint central committee for considering any common reforms?—Yes.

21,745. Have you anything to add to that?—Yes. I throw it out as a suggestion with submission to the Inland Revenue. I think it would be a very excellent thing. The Revenue want from the Local Commissioners a uniformity of practice; the Local Commissioners want from the Inland Revenue closer co-operation; both those could be effected in some such manner as I suggest to the great advantage of the administration, and I think probably ultimately of the taxpayer. Hitherto the Local Commissioners if ever they have found that there is anything that is reacting to the disadvantage of the taxpayers that they know so well in their own particular districts have only one thing they can do, that is to go to the country, or rather to Parliament, and I think you will find that in every case where they have been obliged to do that they have gained their point.

21,746. Some witnesses have suggested to us virtually that the Assessor is the fifth wheel on a coach; I gather you do not assent to that?—By no manner of means. I have endeavoured to make it clear in my proof that I am quite certain that the Assessor is the most important part of the administration, and I would go so far as to say that if there was a proposal for doing without his services the bottom would be knocked out of the entire local administration.

21,747. From other sources the impression has been conveyed that the accountant is really the essence of the whole machine, and that the bottom would be knocked out of it without the accountant. Can it be that there is any possible jealousy between these two bodies of people?—Well, I do not know. The accountant should most essentially deal with large concerns like public companies, and they are most useful to meet the Surveyor on behalf of their clients.

With regard to the latter part of your question, I might say that there is sometimes a difficulty in the Assessors doing what they rightly consider their work. I will take an instance: one of my Assessors bound his forms to his City ward, and in accordance with his duties, as instructed by his Commissioners, he thought it was a proper thing to do to enclose with his forms a printed statement that he got out to say that he would be very glad for the return of that form, and if owing to the complexity of the Income Tax Acts at the present time there was any difficulty he would be pleased to help with his assistance and advice, which the Commissioners think is the proper thing for their Assessors to do. In due course I received a notification from the Inland Revenue to say that they had received the enclosed notice from a firm of accountants asking the Secretary of the Inland Revenue whether such a document had official sanction. Of course it has nothing to do with the Inland Revenue, and the Inland Revenue rightly referred it to me, but I do submit that it has everything to do with the Assessor, and nothing to do with the particular accountant. I suggest this as an instance that the Assessor feels that it is his duty to assist as far as possible—I am only talking of the small taxpayer—and he recognises that about 90 per cent. of his men are comparatively small taxpayers; but of course with regard to the 10 per cent. I think no doubt the accountants are essential, although as I have said in my proof it is quite possible that the accountants may be worried with extra forms that they may possibly think not necessary; but as a matter of fact they are necessary. It carries up the accounts, and also there is a statutory duty imposed on the person to make out the

return; I think that is obvious. The Inland Revenue make a special point of requiring it in every case, even after the assessments have been agreed. I am only mentioning this because I want to take the position of the Assessor which you have raised.

21,748. In a perfect world there might be room for both accountants and Assessors?—That is so.

21,749. Mr. Marks: On this point of full disclosure of particulars, are the particulars referred to supplied beforehand in anticipation of the meetings?—Not to the Commissioners, no.

21,750. To you?—No.

21,751. They come straight from the—?—From the assessment book. The assessment book has all the particulars.

21,752. Then it has been put forward as something of a reproach to the proceedings of the Additional Commissioners that they are unusually expeditious in disposing of the matters that come before them. To whom is it suggested that they are transferred—do you know at all?—Beyond the general suggestions of some witnesses, I gather the suggestion is that it would save time and trouble to certain bodies supposing the Surveyor undertook what was called the assessment.

21,753. The Surveyor being an Inland Revenue servant?—The Surveyor being an Inland Revenue servant. Of course, I submit that assuming the Surveyor of Taxes did become what is called the Assessor, that does not necessarily mean that everything would go without any friction. If I might say so, it affects me personally. Within the last week I have received personally a notice from a Surveyor of Taxes who in this case is an Assessor, because it appears to be an additional assessment. He says: "Unless I receive"—a certain sum of money; I will not say the amount—"in respect of the balance of director's fees due to Sir Thomas Hewitt, K.C., deceased," I shall be proceeded against at my private house, and I presume sold up. As a matter of fact, I am very glad to say that my father is very much alive, but whether he was alive or not I do not know that I ought to be proceeded against at my private house for an assessment which has nothing whatever to do with me. I simply take that as a possible instance that, supposing the Surveyors did undertake the assessment, it is possible that there would be friction in other ways.

21,754. There is no reason to suppose, is there, that the effectiveness of the Additional Commissioners has suffered at all by their expedition in your opinion?—No.

21,755. And if their duties were transferred, say, to a Government Department, do you think there is any probability that those duties would be performed as expeditiously as they are by the Additional Commissioners?—No, I do not think they could be.

21,756. In paragraph 19 of your evidence-in-chief, you suggest that the expiration of the Income Tax year, the 5th April, should be altered to coincide with the Treasury year, the 31st March?—Yes.

21,757. Can you say from your experience whether it is or is not desirable that the Income Tax year should be made contemporaneous with the calendar year?—I think it would be, for the purpose of assessment.

21,758. For all purposes of the Income Tax?—I think it would be convenient that it should be the 31st March from my point of view, provided accounts are taken to the previous 31st of December, because that would give an extra three months in order to consider the accounts of the previous year.

21,759. Is not that rather a different point. My point is this, that if the Income Tax year were made, as I say, contemporaneous with the calendar year it would be much more convenient for the general taxpayer, and particularly so if he were assessed as you suggest on the income of the preceding year. That would still give you the opportunity between the 31st December and the 31st March of considering assessments or any other business which might arise in connection with the previous year's income?—I think it might be convenient.

21,760. Do you think it would be convenient specially for the taxpayer?—I do think it would be

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particularly convenient to the taxpayer provided he was allowed to make a return for the calendar year from the 1st January to the 31st December, or "to the time when his accounts are usually made up," in respect of his assessment for the Income Tax year commencing on the 31st March following.*

21,761. Mr. Walker Clark: You desire, and the whole of your evidence is, that the Local Commissioners should be retained not merely as a Court of Appeal but in their full administrative capacity?—Yes.

21,762. You should still retain the powers of appeal plus the administrative powers you now possess?—Certainly.

21,763. In full?—In full.

21,764. From your knowledge of London and your friends' knowledge in the country?—Yes.

21,765. Just in reference to the expedition with which the Commissioners get through their work, is it not a fact that a Commissioner who gets the assessment book to which allusion has already been made has on the opposite page the two years previous to the year which is then a matter of discussion. He has the figures for the two previous years before him, has he not?—That is quite correct.

21,766. And what is wanted really is a general knowledge as to whether that specific trade has done better or worse in the preceding twelve months?—Yes.

21,767. And it is an adjustment, in accordance with that knowledge, of figures which the Surveyor has put in and to which the taxpayer objects?—Yes.

21,768. Is not that the actual course of procedure in 99 cases out of 100?—I would qualify it by this, not what the Surveyor has put in but what the Assessor has put in, and the taxpayer has not yet had an opportunity of objecting to it.

21,769. It really is quite an easy and expeditious method and does not require any prolonged investigation?—No. The taxpayer is always going to have his opportunity to appeal very shortly.

21,770. By and by, which is quite another matter?—Yes.

21,771. This need not take more than the small space of time that you indicate?—No, not necessarily. Of course, there are some cases that do take quite a little time; I have had in fact a whole meeting on one case.

21,772. But that has been when full accounts have been presented?—For the Additional Commissioners.

21,773. Dr. Stamp: Dealing with some comparisons, that have been made in previous questions, in paragraph 10, adjustment of appeals, in the second part of the Report of the Committee, you refer there to the great majority of cases of formal adjustment, 14,415?—Yes.

21,774. On application by the taxpayer to the Assessor; does the Assessor in fact in those cases make adjustments?—No, the Commissioners do.

21,775. But does he ever submit adjustments to the Commissioners?—I think he submits them to the Surveyor in the first place.

21,776. On the notice of charge?—On the notice of charge or on a demand note or on any call throughout the day from the taxpayer himself. He is on the spot, and he sees that this is a right case for adjustment, and he sends a note to the Surveyor and probably the taxpayer with it.

21,777. Mr. McIntock referred to the fact that the taxpayer is told on the notice to go to the Surveyor, and you said you thought he ought to be told to go to the Assessor. Do you mean that it is wrong to have the Surveyor's name there; that it should be the Assessor?—Of course, I do not suggest that it is wrong, because the Inland Revenue have power to send out what forms they like.

21,778. Does not the Act say that the Surveyor is the person to whom they have to go?—No, I do not think the Act does say so.

21,779. Section 136, sub-section 1. Does he not have to give notice in writing to the Surveyor?—Yes.

21,780. Therefore a notice of charge is correct in law in putting the Surveyor on, and it would be incorrect to put the Assessor on.

21,781. Mr. Walker Clark: The assessment is made.

21,782. Dr. Stamp: The assessment is made; it is a notice of the assessment.

21,783. Mr. Walker Clark: This may be before the assessment?—No, the assessment is made.

21,784. Dr. Stamp: "It must be understood that these applications, although rightly called 'appeals' inasmuch as they vary assessments already made"?

21,785. I take it that they vary assessments after the issue of a notice of charge, and I ask you whether it would not be illegal to put the Assessor's name on that notice as the person to whom the taxpayer should go?—No, I would not say it is illegal.

21,786. It is legal, at any rate, to put the Surveyor's on?—He has got to give notice to the Surveyor of Taxes.

21,787. And does he in 99 cases out of 100 send his case with the notice of charge to the Surveyor—with his Life Assurance receipts or whatever it may be?—I dare say he does in a good many cases, but not in so many as that. I got a good many, and I know my Assessors get a lot.

21,788. As an actual fact, I take it, the Assessor does not submit these reductions on the notices of charge to the Commissioners; it is the Surveyor who submits them?—He sends it to the Surveyor who submits them. The Assessor sends these inquiries with these notices of charge to the Surveyor, and the Surveyor submits them.

21,789. Take the simplest possible case. You could have a man who has not had on his notice of charge the necessary allowance for Life Assurance. Perhaps he has got a new policy; he has some receipts. Suppose he did send them to the Assessor, despite what it said on the notice about sending them to the Surveyor, what would the Assessor do with them? Would he send the Life Assurance receipts back to the taxpayer, or would he send them on to the Surveyor?—He would rightly send them on to the Surveyor.

21,790. Is it not a fact that he merely acts as a channel? If the thing happens to come to him he sends the whole thing to the Surveyor?—It is an actual fact, yes.

21,791. Does the Assessor allow anything on his own responsibility except allowance for voids under Schedule A?—Of course not; it is not his duty that he should do so.

21,792. But is it put upon him to take the initiative in the matter?—Yes. He takes his district, and the taxpayers come and call upon him, and he gives them advice and says: "My dear fellow, in this matter you have got to see that the Surveyor agrees with your contention that this Life Assurance policy should be allowed; go and see the Surveyor."

21,793. When he has spent a long time talking about the Life Assurance case with the taxpayer, he sends him to the Surveyor to say: "I recommend that this be allowed"?—Yes. You will have very shortly before you Assessors who will come here and say that the majority of their work in the early part of the year is taken up with these inquiries and advice given.

21,794. You are talking about adjustments made upon the demand note?—No.

21,795. On the notice of charge?—On the notice of charge.

21,796. In the early part of the year?—Yes.

21,797. You think that the Assessor does more than act merely as an agent for sending them on to the Surveyor?—A great deal more.

21,798. How long has that been the case?—Probably since 1842.

* The witness wishes it to be understood that his view is that the year by which the income is to be measured should be the calendar year ending 31st December, and that the income so measured should be assessed for the year beginning on the 1st April following.

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21,799. In the City of London?—Well, I cannot speak of that, but I can speak for 25 years. They are of the greatest value to the taxpayers of the City.

21,800. The point of this paragraph: "in the great majority of cases formal adjustments of assessments on application by the taxpayer to the Assessor"—"by" or the Surveyor?; may I qualify that?

21,801. May we take it still further by saying: "in the majority of cases to the Surveyor"?—I think perhaps the Assessor would be able to answer you as to that.

21,802. Would you say in your experience in the City of London whether out of every 100 notices of charge that get amended the Assessor has not seen more than five?—I could not possibly tell you that, because if they have not seen five it is in accordance with the Acts that the Surveyor must be able to satisfy himself that the correct amount has been arrived at.

21,803. The duty is on the Surveyor?—To satisfy himself that the proper amount of revenue is reaching the Inland Revenue, because I want, if I may, to make clear the position; my position is that the mere fact that the taxpayer and the Surveyor come to an agreement has nothing whatever to do with the assessment or administration.

21,804. I quite understand that. I am now on this point as to who does the real work of these adjustments, the Assessor or the Surveyor, by which I mean the talking to the taxpayer and the certifying of the documents?—The Assessor. I should say half his year is taken up certainly in talking to the taxpayers.

21,805. I am talking about adjustments on the notice of charge after the assessment is made?—The demand notes, certainly.

21,806. I am not talking about the demand notes for the moment. I am talking about the thing you pinned me to at first, the notice of charge, in which the taxpayer is directed to go to the Surveyor?—Yes.

21,807. A certain number of them stray or go to the Assessor?—Yes, but I say a good many of them go to the Assessor, and I will also say if they do go to the Assessor, after the Assessor has given the best advice he can, probably to a man he knows personally, he says: "my dear fellow, go to the Surveyor of Taxes and settle with him, because that is what you have got to do, and it is right that you should do it."

21,808. He either sends on the correspondence to the Surveyor or he sends the taxpayer?—Yes.

21,809. And he does nothing effective himself on this notice of charge?—He is not empowered to do it.

21,810. Therefore, he does not make the adjustment; the Surveyor makes the adjustment?—No, the Surveyor does not make the adjustment; the Commissioners make the adjustment.

21,811. I put it to you that the Assessor is merely a signpost in cases of notices of charge and sends the man to the Surveyor, and it is in the Surveyor's office that the work is done?—Yes, I should say that that was so.

21,812. On one phrase in paragraph 10 of the Report I am not sure about the syntax, or is it the grammar?—I am sorry.

21,813. In the words, "as unopposed by the Surveyor of Taxes," do the words, "by the Surveyor of Taxes," refer to "unopposed" or to the forwarding?—"Unopposed."

21,814. So that we may take it then that the meaning of the sentence is "formal adjustments of assessment on application by the taxpayer to the Assessor"?—Or the Surveyor.

21,815. As it reads?—"and forwarded by the Surveyor of Taxes as unopposed."

21,816. The word "by" applies both to "forwarded" and "unopposed"?—Yes.

21,817. So we may take it that the meaning of this is, not that it is forwarded by the Assessor but by the Surveyor?—Yes.

21,818. The word "unopposed" really means that the Surveyor is sending something that he himself has done, and not what somebody else has done, and that he is not objecting to?—Not that he has done, but he has agreed on behalf of the Crown.

21,819. Whether intentionally or not, I suggest that the way the sentence reads is, that the adjustment is made with the Assessor, it is sent through the Surveyor, and the Surveyor looks at it, and says: "that seems to be all right; I have no objection to that," and sends it on?—No, that is not what is meant, of course. A taxpayer receives a notice of charge which he does not understand. He sometimes does not look at the notice of charge; he has had so many during his lifetime; and he does not appreciate what names there are on that notice of charge, Surveyor's or Clerk's to the Commissioners, because those are the two names. He says: "I am going to see my friend," whatever the Assessor's name is. He discusses the matter with him. He looks at it and says: "what you have to do is to go back home and get your Life Assurance receipts, send them to me if you like, and I will treat direct with the Surveyor of Taxes; otherwise, if you like to go to Telegraph Street, the Surveyor will see that the thing is put right." He goes to the Surveyor of Taxes at Telegraph Street; he is asked to produce these insurance receipts; the thing is all in order and the Surveyor makes a note on it for a formal submission for adjustment to the Commissioners of Taxes. I submit that that is quite the proper position.

21,820. The Surveyor fills up that form, or it is done in his office?—Yes.

21,821. It is never filled up by the Assessor?—Never; of course not.

21,822. The Surveyor takes the responsibility for filling up the form and signing it?—Certainly, agreeing to a relief on behalf of the Crown.

21,823. Referring again to the question of adjustment on appeal, you have told us that a large number of the cases that come forward do not involve any serious question of principle?—No.

21,824. They do not involve anything that it is necessary for you to go into?—I think I might just say they mostly refer to abatements, Life Insurance, allowance for wife and children, dependant's allowance, unearned income relief, and adjustments on the three years' average.

21,825. And there is no question of principle, nor is there much arithmetic to check for your purpose?—No.

21,826. I understood you to say in answer to a previous question that something like 10 per cent. of the cases were sent back to the Surveyor for further information or amendment?—Yes.

21,827. That would be 1441?—I could not say how many; I should say a few every day; probably it would be more than that.

21,828. You think it would be more than 1441?—Please do not pin me down to a number, if you can help it.

21,829. It strikes me as a very large proportion in view of the very informal or simple character of many of the cases?—No doubt they would be right in substance, but it is the way they have been presented; they are not quite intelligible; I assume that in some cases.

21,830. Would that he recent experience or would it be the average of years?—The average of years.

21,831. Would it be possible to get more exact figures?—When I send them back they endorse their reasons and the answers to my questions on the back, so I dare say a great many of those come in, perhaps half-a-dozen to a dozen a day.

21,832. That you would send back?—Send back for further information. They may be quite correct, or there may be a correction of figures or a correction of the relief note underneath.

21,833. You would not ask, of course, in the ordinary case of a Life Assurance allowance, or children's allowance, or wife's allowance, or dependant's allowance, or unearned income relief, for further explanation?—No.

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21,834. It would be the more important case?—They would be the majority of cases.

21,835. It would be the more important cases that you send back?—Yes.

21,836. Therefore, is it not 10 per cent. of the more important cases rather than 10 per cent. of the whole bulk that you were thinking of?—I do not think so.

21,837. Shall I give you a class of case, a reduction of an assessment on the production of accounts, the accounts have been produced to the Surveyor, and there is a formal submission to you with those details; it is possible that you might send 10 per cent. of those back?—Yes. For instance, supposing a Schedule E man is going to have the advantage of the average, and the Surveyor has omitted in making the submission to me to put an explanation of that kind on. I would remit it back to him, and he would probably give the three years' average.

21,838. He has not quite reached your formal requirements?—Not quite.

21,839. You have not put to him a specific question of principle?—No.

21,840. Now take the more important class of cases, the reduction of a Schedule D assessment; I take it that the information given upon the back of the form that he sends to you is usually: "year so and so, such and such a profit," three times repeated and then a division?—Yes.

21,841. Saying: "accounts have been produced showing the following liability"; would that be right?—Yes.

21,842. There might be some very important point of principle between the Surveyor and the taxpayer that had been the subject of correspondence and discussion for a long time?—Yes.

21,843. The taxpayer might have overreached the Surveyor or have hypnotised him and convinced him against the interests of the Crown on a particular point of principle?—Yes.

21,844. All you see, I take it, is the figure that remits?—No. In those very important cases I most likely see the Surveyor himself before he submits it. We are in such close collaboration that he comes across to me and discusses the question and says: "now what is your view about it; shall we put it down for appeal; it is a very debatable question." We have a regular discussion, and the results of the discussion will probably come in the form of a submission.

21,845. I understand that where that has not taken place before it comes to a submission you have no means of learning what questions of principle are involved from the details which you require the Surveyor to put on the back?—No. It is an agreed amount, you see.

21,846. With regard to the position of the Assessor that we heard so much of this afternoon, you think that the Assessors as a whole should be encouraged to place their services at the disposal of the taxpayer, and the taxpayer should be encouraged to go to them?—Yes.

21,847. Would you regard the Assessors in the City of London as being the very best of their type?—Yes.

21,848. That is to say, very much above the average of the Assessors throughout the country?—I do not know the Assessors in the country.

21,849. Would you think that they are possibly superior?—I cannot say that.

21,850. Would you think they were possibly superior to the Assessors, we will say, in Herefordshire?—I could not possibly say that; I do not know the Assessors in Herefordshire. I believe that you are going to have the benefit of having the Assessors before you shortly, but speaking for my own Assessors, I know that they are a competent lot of men.

21,851. You have told us that you think the Assessors are the backbone, I think you said, of the administration or the scheme—I cannot remember whether it was the backbone or the foundation—it

was some part of the structure or the anatomy?—Yes, I think they are the foundation of the principle upon which the Income Tax Acts are framed.

21,852. I understood it was more than the foundation of a theoretical principle; it was the foundation of the actual administration as it exists to-day?—Yes, it is.

21,853. And in speaking of that, are you speaking only of the City or of the country as a whole?—Of the country as a whole. It is all right at present, but I can see that if the assessing is touched at all the whole thing will go by the board. If there should be any levelling done, I suggest it should be levelling up and not levelling down.

21,854. I understand that. You do know enough about the Assessors throughout the country to regard them as occupying this very important position, almost the keystone of the arch?—Certainly.

21,855. Is it within your knowledge that the Assessors, we will say, in a county like Herefordshire or Dorsetshire, are mainly farmers?—I do not know.

21,856. Do you include those in your keystone or your foundation or your backbone?—Yes, certainly.

21,857. Is the Income Tax scheme a very complicated scheme of law and practice?—It is a complicated scheme, yes.

21,858. Do the Assessors throughout the country have any legal training?—No.

21,859. Are they required to study for any examination?—No.

21,860. Are they men expert in business and accounts?—I should say a good many of them were.

21,861. The farmers, for instance?—I do not know.

21,862. Would a farmer, who comes from the class of farmers who cannot keep accounts, be a good adviser on accounts?—Probably not; but he has not got to advise on accounts.

21,863. He has got to advise the taxpayer of the technicalities of his return?—He is the taxpayer's friend to advise him as to the best way to proceed, which, obviously, is not advising on accounts, because he is not the man who has the final say in the matter. He has got to agree with the man who has got to receive the money.

21,864. You would distinguish? If it is advice in the matter of arriving at the taxpayer's liability, that is to say, the sum that a man should put in his Income Tax return—the Assessor is not in your judgment competent to do that?—Are you asking about the farming districts?

21,865. I am talking about the Assessors?—The Surveyor is the Assessor in farming districts under Schedules A and B, I understand.

21,866. I am not referring to Schedules A and B; I am referring to Schedule D in the provinces?—I thought you were talking particularly about farming.

21,867. No. I asked you whether it was not a fact that a great number of Assessors in the country are farmers?—In a farming county I daresay it is so.

21,868. Assessors for Schedules D and E assessments?—I suppose there are very few of them in farming districts—not so many as Schedule A.

21,869. Taking the country right through they would aggregate a considerable number?—I daresay.

21,870. You refer to the Assessors of the whole country as occupying this important position in the administration, and the fact that they ought to be advisers of the public?—Yes.

21,871. I ask you whether they are fitted by nature or by training for that post?—I do not know about the country; I know that my men are unquestionably fitted for it.

21,872. They may be, you think, in the City of London?—Yes, I do think so.

21,873. Before you appoint Assessors, are they required to have any course of legal training or training in the intricacies of Income Tax law?—A good many of them are solicitors.

21,874. Are some of them retired military men?—Yes.

21,875. Are those retired military men required to undergo any course of legal training before they become the advisers of the public in a difficult branch of the law?—No, it is not a difficult branch of

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the law to the small taxpayer. The importance of the Assessor is not actual expert knowledge of the Income Tax; the importance of the Assessor is his being the representative of the small taxpayer.

21,876. That is to say, he puts everybody on good terms with himself?—He is the representative of the small taxpayer. It makes very much for the smooth working of the assessment and collection.

21,877. You are thinking of the Assessor as being the backbone of the scheme, so far as the small taxpayers are concerned?—Yes.

21,878. But so far as the big taxpayers are concerned?—I think they can well be left in the hands of expert accountants to look after them.

21,879. In the City of London, if you had to make the dreadful choice between all your Assessors going on strike and all your Surveyors going on strike, which would be the worst for the Revenue?—I think it would be very much worse for the Revenue, because they would not receive £84,000,000 from the City of London.

21,880. But if one of those bodies, the Surveyors or Assessors, had to be suddenly cut out of the administration, which would you rather drop out?—I think if one goes the other might go.

21,881. I am asking you which one of them?—Well, I want to say that one is absolutely a component part of the other, if I might go so far as to say that.

21,882. What is really comes to is, that this creature has got two backbones?—No, I do not think it has got two backbones.

21,883. Will you answer the question, which would you regard as the more serious to the Revenue: the Surveyors going on strike or the Assessors?—I should say it would be most serious for the Revenue if the Surveyors went on strike, but for the public it would not be so serious, and the Commissioners represent the public.

21,884. The Commissioners represent the public?—Yes.

21,885. Just a moment upon that theory: as to the origin and reasons of the original policy of making the District Commissioners occupy the position they do. Do you not think it would be correct to say that the administration of the Income Tax was originally intended to be placed in the hands of the Local Commissioners?—Yes.

21,886. And that the Revenue official was put there to see that they did their duty and their work?—I would not say that. I would say that he was put there to see that the interests of the Crown did not suffer.

21,887. And now the position has rather evolved into this, that the Surveyor does that work, it falls into his hands, but the Commissioners are there to see that he does not work improperly?—No, by no manner of means, if I might, with submission, say so. As the Income Tax has got more complex, it is natural that the Surveyors have more work to do in the consideration of arriving at the right amount of money that the Inland Revenue will require to receive.

21,888. You define the Local Commissioners as "an independent and unpaid body designed to stand between the Crown and the taxpayer, to take an independent and impartial position, curbing, on the one hand, undue severity, real and harshness, and on the other, seeing that the fair requirements of the Crown are duly complied with."—Yes.

21,889. We are merely discussing, as a digression, a matter of history. I suggest to you that the correct way of looking at it is that the administration was placed in the hands of the Local Commissioners and the Surveyor was put there as a watchdog?—Oh, no; that goes to the root and foundations of the principle, as we understand it.

21,890. I am only referring to the origin. Now let us come back to the existing provision. In the figures in your Table C [see Appendix No. 34] you refer at the bottom to the appendix as amounting to 17,898 under Schedule D. What relation has that to the figure we have been talking about—14,600? Does it cover those?—Yes, it covers those.

21,891. What is the reason for the difference?—When you have spent months over those figures, as I have done, it is very difficult at the moment to find out a particular thing.

21,892. I only ask as a matter of reconciliation?—I think you may take it from me that as great care as possible was taken on these figures. If you like to give me a minute I shall certainly be able to answer.

21,893. No, I will not bother you; I only wanted to reconcile it in case there was some explanation. I will not base anything on it.—I could give you the correct answer to that to-morrow if necessary; I will send it to you.*

21,894. Do you remember I put a figure—I will deal with it as 14,415. Quite a limited proportion of those are cases in which you have raised questions of principle?—Yes.

21,895. You only know it is a question of principle when it is exhibited on the form by the Surveyor when he sends it to you?—Yes.

21,896. Otherwise they might cloak underneath the resultant figure some very important settlement?—They might.

21,897. If the Surveyor has not told you about it you know nothing about it?—I approach these all from the point of view of the taxpayer, as I think I ought to do. They are reductions, small or otherwise, from the taxpayer's assessment. I always approach it from that point of view.

21,898. Your desire is to see the adjustment is a large one?—In favour of the taxpayer; not larger than is equitable or right, of course.

21,899. To see that the Surveyor has not been unduly zealous in cutting him down from his rights. Is that it?—Yes.

21,900. When you are examining the Surveyor's reports do you have in front of you the assessment book?—No.

21,901. Do you call for the accounts and correspondence on which the settlement has been arrived at?—No.

21,902. Then you rely generally on the Surveyor's reports?—Which cases are you talking about?

21,903. I am talking about those cases which are not merely formal cases of Life Assurance and so on, but which involve a reduction of the gross amount of the assessment on an average. We have already elicited in our talk together that you have on the back of the submission the three years of the average?—And a great deal more.

21,904. And the statement by the Surveyor that it is in accordance with accounts, and so on?—In some cases those would not be cases of principle.

21,905. I thought we had already agreed that in the cases where the amounts of the liability are set out on the back there may be cloaked underneath the resultant figure important settlements on principle?—There may be.

21,906. If you do not call for the accounts you do not go into those questions of principle?—Except they are stated at the back. The principle would be stated at the back, or in a great many cases the principle would already have been threshed out between the Inspector of Taxes and myself, which ultimately results in a submission, which I submit is the same thing.

21,907. But if you have not been approached by the Surveyor beforehand, and the submissions come to you in this form, you are not able to discern any question of principle in a plain average?—Not in a plain average, but they do not take only the cases of average. There are a lot of statements on the back of a submission other than the plain fact of three years' average.

21,908. In the great majority of cases you do not have before you the documents and correspondence upon which you might see how those questions of principle have been dealt with by the Surveyor?—

* The witness adds: "17,898 is correct; it is the figure brought to a later date."

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[Continued.]

If there is a question of principle, then I ask for the documents and the correspondence.

21,909. If you can see it?—Yes, but I have quite sufficient confidence in the Inspectors of Taxes to believe that on any question of principle they would wish and would take care to bring them specially to my notice.

21,910. So that really this statement in paragraph 10 of your report [see Appendix No. 34] should read that on questions of principle upon which you have been informed by the Surveyor, you go into them personally. That is how it should read, is it not?—I will not even go so far as to say that is how it should read. I will say that you are correct in the way you put it.

21,911. You are speaking also for the rest of the country?—With the help of my colleagues at my back.

21,912. I understood from your answer to Mr. McIntock that you regard the City as at least equal to the rest of the country in the efficiency of the Commissioners and the care they take over their work?—Yes.

21,913. You would regard them as rather superior?—That is rather an invidious question to ask.

21,914. I am afraid we have to ask such questions sometimes?—I have not any personal knowledge of the way that all the divisions throughout the country do transact their business. I only know that we go so far as to say we are rather proud of the way that we do our work in the City and we take a certain amount of pride in it.

21,915. Would your knowledge extend to agreeing that probably in 90 per cent. of the divisions throughout the country formal submissions to the Commissioners are not made on forms for each case, on those matters of Life Assurance, and so on?—I take it from you that that is so.

21,916. And there is no reason to suppose that it does not work very successfully throughout the country—leaving it to the Surveyor. The only knowledge that the Commissioners would ever have of that, I take it, would be when they signed a final schedule of allowances. The Surveyor would issue the order of discharge to the Collector?—I will take that as your statement.

21,917. And the Commissioners never bother their heads about these formal matters; and have no reason to suppose that the work is not done as well?—No.

21,918. Then I suggest to you that the greater part of these 14,415 submissions that are sent in to you by the Surveyor for the formal signing of your sanction to the allowance, is absolutely wasted work; it is a dog on the machine?—It is a check and it enables me to get into communication with my own colleagues, the Assessors.

21,919. In 90 per cent. of the divisions of the country this so-called check does not exist; the work is done without it. The Commissioners frankly leave the Revenue official to carry out adjustments between himself and the Collector, and they do not bother themselves about it?—Very good, sir; statutory allowances and kindred subjects like that have to go whether the Commissioners agree to it or not.

21,920. I am not hothousing my head about whether it is in exact accordance with the law now. This is on the practical working of it. I ask you as to the great bulk of those 14,415 forms?—In the main, being statutory allowances, they go without question.

21,921. I will conclude that part of the subject by asking you whether you do not think you might conform to the standard of the rest of the country and save a lot of work?—No, I do not think so. I think we could well relieve the Surveyors of it if they find it a trouble.

21,922. I am not suggesting that they find the work that they do throughout the country a trouble; I am suggesting that the additional work you require from them in the City in sending you a purely formal document is an unnecessary part of the administration?—No. I think you will find that the Commissioners would rather set store by that; because what is the result? How am I to com-

municate with my Assessor if I have no knowledge as to whether a Surveyor has agreed on behalf of the Crown to certain statutory allowances?

21,923. You mean, how are you going to issue a notice of discharge unless you know the particulars of the case? Your system, I take it, differs from the great majority of the systems throughout the country and you are now defending your system?—Certainly.

21,924. Is your suggestion that the administration of the rest of the country ought to be made like yours?—I agree so far as to say that the beauty of the administration is that, being so many decentralized bodies, each body will take the administration that best suits that locality.

21,925. You think that there is room for variation on this point?—I dare say. I am sure it acts well in the City. It might lead to all sorts of things. It would put the Collector in a very great difficulty. It is quite possible that they would not receive a notice as to how much on an amended demand note ought to be sent to the taxpayer.

21,926. What happens in the other districts in the country? Does not the Surveyor issue a discharge note to the Collector?—If he does, it is quite wrong.

21,927. The practice throughout the country is quite wrong?—Certainly, if that is so.

21,928. Quite wrong in law, but is it wrong as a business proposition?—I think as a business proposition it is wrong.

21,929. As a business proposition you like to duplicate the work; let the Surveyor do it and then you do it formally again?—No, there is no duplication of work.

21,930. There is no duplication of the work, for the Surveyor to have to write the thing out for you specially and for you to pass it as a matter of routine? It takes time and it takes trouble, does it not? It is duplication of the work for the whole administrative machine?—No, I think it is rather an important part of the administrative machine. It is absolutely bound to go in stages. To my mind this is intimately bound up with the principle of it. I am on the principle, and I am here to stick as far as I possibly can to the principle. In this case it would be the Surveyor of Taxes varying the Commissioner's assessments.

21,931. I will ask you whether as a class the Commissioners throughout the country would welcome an extension of their work by considering all these cases—work that they do not do now? Would they welcome that as a recognition of a principle?—I cannot answer for them. I say it is essential.

21,932. But the other Clerks to Commissioners throughout the country have not so far discovered that it is essential?—I think perhaps one of the reasons is that owing to lack of encouragement, and certainly lack of remuneration in country districts, it has made some Clerks to Commissioners and their officials glad to be relieved of any extra responsibility that other bodies are quite willing to undertake.

21,933. In the City of London you have referred to you, before the final decision is made for reduction of assessments, certain particulars?—Yes.

21,934. That is not the general practice throughout the country, is it?—I take it from you.

21,935. Would it be within your knowledge that the practice throughout the country is for the Surveyor to make formal statements from time to time of a large number of cases of appeal that have been agreed?—I understand from my friends at the bank that they do.

21,936. Which are passed and signed by the Commissioners as a matter of routine?—Yes.

21,937. Do you suggest that the more cumbersome system in vogue in the City of London has any great advantages to the Revenue or the taxpayers?—I do not admit it is a cumbersome system; it has been especially provided for special reasons.

21,938. Coming now to Additional Commissioners' meetings, about which we have heard so much as to the extraordinary expedition with which the work is done; the practice, I understand, is for the Surveyor to be there with the Commissioner who has the book, and for the particulars names that have been extracted

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to be read out, and for the Surveyor to say: "I think that should be increased to £1,000," or whatever the facts would be?—Whatever the facts may be.

21,939. He is cross-examined upon them and a disclosure is made of the facts to the Commissioner?—Yes, together with any information that may bear on the assessment itself.

21,940. Is the Surveyor required to bring all relevant documents in defence of his view?—In difficult cases he does; I have seen them.

21,941. You dispose of these cases at the rate of one a minute with the Surveyor. That has been the arithmetical calculation?—That is the arithmetical calculation.

21,942. In what number of cases would the Additional Commissioners either put the Surveyor's figure up—or the Assessor's, whichever you think fitted that column up?—The Assessor has filled the column up.

21,943. In how many cases out of that 9,413 would the Additional Commissioners vary the figure?—Again I cannot give you an estimate.

21,944. Shall I give you one?—Certainly.

21,945. Would you think that 50 would cover it easily?—Oh, no; as a matter of fact a month ago I think we varied very nearly 50 at one meeting.

21,946. Has that been a sign of recent activity of the Commissioners, or does it represent a fair average?—Let us assume that at some meetings there are six Commissioners. Have you made allowance for that?

21,947. Fear, I think?—I said there were six Commissioners at some meetings.

21,948. We will not go over that old arithmetic. There is extraordinary expedition; we have elicited that?—Yes.

21,949. I only wanted to know on this point whether that extraordinary expedition was secured by agreeing in the main with the view put forward by the Surveyor, without discussion?—Put forward by the Additional Commissioners' own official, the Assessor.

21,950. Then you have the Assessor there with the Surveyor?—No; he used to come; he does not come now, but he sees the Surveyor first.

21,951. He is a more important official, apparently, than the Surveyor?—He is the Commissioners' Assessor, and he has been through these particular cases himself.

21,952. Why do you dispense with the knowledge that can be given by your own official, and have somebody who is less efficient and knows less about it?—These are figures of the Assessor which the Assessor has justified to the Surveyor, and he does not object to them.

21,953. The Surveyor says: "The Assessor thinks £1,000, and I think £1,000," and the Additional Commissioner says "Right" and passes that?—Yes.

21,954. I suppose it is the unanimity with which he gets those agreements which enables him to get along so quickly?—Yes.

21,955. Will you tell me in what number of cases in a year the Additional Commissioners will vary the figure put forward by the Assessor and agreed by the Surveyor?—I could not say.

21,956. I suggest to you that up till quite recently at any rate 50 would cover it easily?—It does not approach it.

21,957. Could you give us statistics of that?—I could go through all the books that up to the present have been passed this year, if you like. It will take some time, but it would be a very great many more than 50.

21,958. I want to know the variations made at the meetings, not all the variations that have been made in the column, but at the 20 meetings; I suggested 50 was the total number?—Two a meeting—never.

21,959. Can you give us the figures?—No, I am afraid I cannot. I approach that with doubt; I am not a good mathematician.

21,960. We have had the method of procedure in the City. Now will you tell us whether the procedure in making assessments is more thorough or less thorough in the provinces?—I have never been to an Additional Commissioners' meeting in the provinces.

I want you to appreciate the difficulty that we are rather up against, and that is that we are 725 bodies, each one doing its job in the way that they think especially adaptable to their particular locality.

21,961. Chairman: I quite understand; if you cannot answer, if the information is not in your possession, just say so, and that will be quite sufficient.

21,962. Mr. May: But it must be remembered that at the beginning my lord, the witness impressed upon us that he represented the 725 bodies, and spoke for them. If he cannot give the information there ought to be some way of getting it, because it seems to me that all the information we are getting is about the City of London.

21,963. Chairman: I do not know that he quite meant that, did he? He said 725, I think, had approved.

21,964. Mr. May: And he spoke for the whole of them?—I will say it again, if I may. I say that my proof has been sent to every individual, and it has been passed and approved by the executive.

21,965. Chairman: Did you say you represent them?—I represent them on the question of principle.

21,966. Mr. Marks: And within the limits of the witness' proof, my lord, I cannot possibly enter into the details of some body up in Northumberland as to how the business of that particular meeting is carried on. I come here rather to support, as far as I possibly can, what I consider a very important principle.

21,967. Chairman: If you say you cannot answer, that will be sufficient.

21,968. Dr. Stamp: I only want to elicit from you, if it is within your knowledge, or to the extent to which it is within your knowledge, whether the procedure in the provinces is on the whole more thorough or less thorough than in the City of London?—It is not within my knowledge.

21,969. Would this be within your knowledge: that in 90 per cent. of the divisions there is no such formal consideration of cases extracted in the assessment as all?—It is not in my knowledge, and I should say, if I were asked that it is not so. I know of many cases in the country where they take very great trouble over the assessments. I happen to know a few cases, but as to the majority of the 725 bodies, I am not able to say.

21,970. Would it be within your knowledge that in quite a number of cases the requirements of the law and efficient administration are considered to be sufficiently complied with if the Clerk to the Commissioners goes over the figures put in by the Surveyor in the Additional Commissioners' column, and then the Additional Commissioners are brought in to sign the assessment; and the Clerk to the Commissioners is mortally offended if they wish to know any of the details?—Personally, I should be astonished if that was so, and I should say that if it is so, there is more than ever a necessity for a joint central committee.

21,971. You would regard the Commissioners of the City of London as the best type of Commissioners for the work?—Yes.

21,972. And therefore we may take it that they represent the high water mark of administration by the Commissioners?—In London. I am talking about London, and I should say that it is done in as good a way as possible; I am speaking of London generally.

21,973. You would agree that the actual intricacy of the Income Tax and the adjustment of all the different appeals falls in the main upon the Revenue officials, and that the District Commissioners know very little about what is going on?—I should say absolutely not—that that is not the fact. I should say this. I have read the evidence upon the administration since the Commission sat, and I have seen nothing that has been alleged that the Surveyor does which he should not do and ought not to do under the Act. All his duty that he is endeavouring to carry out very competently is to try and arrange the figures—enough if you like—and that is the important object, and in everything that he does you will find that is the main object. When that is the main object it is right that the Surveyor should have every facility.

21,974. Then you do not agree that the bulk of the real work of the tax administration falls upon the

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Revenue officials?—I say that they have a very great deal of work to do. I go so far as to say that the Surveyor is indispensable. I should say he is absolutely indispensable to the Commissioners of Taxes.

21,975. As well as the Assessor?—To the Assessor and to the Revenue and to everybody he is indispensable, just as the Commissioners are absolutely indispensable to the Surveyors of Taxes. One is absolutely connected with the other, and it is our great desire that there should be close collaboration, and that they may get even closer together. But each in his own distinctive sphere is indispensable, one as supervising and the other as administrative.

21,976. We will suppose a district in which the only thing that the Commissioners know about the work is that they sign the book when the assessments have been entered and they hear perhaps half a dozen appeals, and everything else in connection with the administration of taxes and the collection of them in that district is outside their knowledge. Would you say they are indispensable in that case?—I should say they were indispensable, but I should also say that they should certainly, with a little encouragement, and probably extra remuneration be levelled up.

21,977. I am talking about the Commissioners?—I am talking about the Commissioners, and their Assessors, in the performance of their duties generally.

21,978. I am not talking about the Assessors now; I am talking about District Commissioners. You say they are indispensable to the Surveyors?—Yes.

21,979. I suggest to you that the indispensability is limited to the hearing of a few appeals?—When I say the Commissioners are indispensable to the Surveyors, I mean particularly the administrative staff of the Commissioners; that is the Commissioners' Clerks; the Commissioners and their officers, and especially the Assessors and the Collectors.

21,980. Do you think it would be the general opinion of the Surveyors that the Assessors were indispensable to them?—I do not know that, but I am quite sure it would be the general opinion of the taxpayer. It would in the City. I can only speak for the City.

21,981. I am speaking of the provinces. In paragraph 12, sub-paragraph IV., under the heading "Administration," you say: "The taxpayer can obtain on the spot assistance and explanation of any difficulty that arises." Do you claim that the great bulk of the assistance and explanation is given by the Local Commissioners' officials?—In the City, yes.

21,982. Do you claim that is the position that all the Clerks to the Commissioners have accepted?—Yes.

21,983. You are speaking of them, and you claim that that is true of the country generally?—Yes.

21,984. You are aware, of course, that the great bulk of the Assessors, as we have already said, are not particularly well educated men, and certainly have never passed any test in Income Tax administration or law, and yet you think as a matter of fact they are giving the bulk of the advice of the country?—If it is alleged that they are not efficient, steps should be taken to make them efficient.

21,985. I am only on the facts now?—That is not a reason, with submission, for altering the basis of the Income Tax.

21,986. I am not suggesting it is, for a minute. I am only asking you what is the position to-day. Is it a fact that this body of Assessors, numbering 7,000 or 8,000 I presume, with their training and experience—and a very large number of them farmers—are giving the bulk of the advice to the taxpayers in this country?—Yes, I should say so.

21,987. Do you know that that conflicts with the evidence of the Chief Inspector of Taxes, Sir Thomas Collins?—It may be so.

21,988. Would you definitely challenge his opinion and statement?—I have not got his evidence in front of me.

21,989. You have read his evidence?—I have read his evidence, but I cannot remember the particular matters.

21,990. He gave the Commission clearly to understand that the bulk of the explanatory work and the advice that a taxpayer requires is got from the Revenue officer, from the Surveyor of Taxes, and not from the Assessor?—Speaking from my experience, I should say that that was not so. I say that naturally both sides have a great deal to do with that. What we find is that the Assessor may not be an expert, but the taxpayer feels that he is his friend. It is very probable that 50 per cent. of the taxpayers that have gone ultimately to the Surveyor, have been in some way or other through the Assessor, even though he is a farmer; it may be that he may have done it walking out on a Sunday morning.

21,991. You think they have more confidence in a man they know. That is your meaning?—Yes; they are very much more approachable.

21,992. I had a letter last night from a lady in Devonshire, in which she objected to filling up a certain repayment form for claiming back the tax on a dividend, because she said it would have to go to Mr. So-and-so, who is a small shopkeeper in the town, and she did not like it. She said if it had to go to the Surveyor in the neighbouring town, she should be happy about it. That seems to convey a different impression from the one you are giving us?—You are quoting a repayment claim that would go to the Surveyor, are you not?

21,993. I hope to be able to write to her and say I could allay her anxiety because it would have to go to the Surveyor?—They do, in fact.

21,994. Your point is that the average taxpayer is delighted if he can get the advice of the Assessor, and he prefers that to the advice of the Surveyor?—Yes.

21,995. I suggest to you that in the majority of cases the reverse is the case?—No. Before I leave that, I do not know whether I am in order, my lord, but I might put to Dr. Stamp an alternative proposition that has just occurred to me, on Assessors.

21,996. Chairman: Would you rather do that at the end of your examination?—I thought we were just going to leave the question of Assessors, and I was going to suggest an alternative proposition; but it is as you think best.

21,997. Dr. Stamp: I am going on to the recommendations now.

21,998. Chairman: Put it in now.—I was only quite shortly going to suggest this: the Surveyors of Taxes are the Assessors for Schedule A. The rating authorities do all the work. Supposing it was suggested by the rating authorities that they should approach the Surveyor of Taxes and say: "Well, look here, we know you have powers of being present, and that sort of thing, but in fact we do all the work, and you copy these figures into your assessment; we consider that we do the Schedule A assessment, and you are nobody." The Surveyor would naturally say: "Oh, no, not at all; we are there to protect the interests of the Crown." Very well, we say that the Assessor is there to protect the interests of the taxpayer.

21,999. That is what you wanted to put?—Yes, that is all. I just wanted to mention that.

22,000. Dr. Stamp: Were you referring there to the provinces?—I think I was. I was referring more particularly to the City, but I made inquiries about the provinces, and I found that as a fact the assessments made by the rating authorities there are adopted by the Surveyors.

22,001. If I might make the statement, that is absolutely wrong. I suggest to you that the Surveyor is not the Assessor for Schedule A in the year of re-assessment, which is the only year that we need bother about; and I suggest to you that although he has the Poor Rate book upon which to go as a ground plan, he is at liberty to ignore every rating, and he does in fact make absolutely new assessments; and I

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ask you whether it is within your knowledge that in the vast majority of Unions, the Guardians are only too glad to ask the Surveyor to supply them, or his clerk in his spare time, with a copy of his assessments, in order that they may put their valuations right?—I can only speak, at the present moment, for the City. I was only throwing it out as a suggestion.

22,002. I suppose to you that your suggestion is based on insufficient knowledge of the facts?—Not of the City.

22,003. The City is governed by the Metropolitan Valuation Act?—Yes, the Metropolitan Valuation Act, 1869. I should prefer to confine it to the City.

22,004. In paragraph 17 of your evidence-in-chief Recommendation (A) you say: "In view of the present-day importance of the Income Tax . . . and its large contribution towards the revenue of the country, it is considered that, where possible and advisable, appointments by the Local Commissioners of whole-time officials should be made. This result could be effected either by: (a) appointment of whole-time officials, with adequate remuneration, on the retirement of a present official, or (b) gradual redistribution of areas, with compensation." That is a suggestion that appeals to me as a very sensible and businesslike one, if I may say so, and one with which I have a lot of sympathy. You have the theory that the local Assessor is extraordinarily useful by reason of his intimate local knowledge?—Yes.

22,005. Will it not be difficult in practice to reconcile the whole-time official in a rural area—who, to make it worth his while to give his whole time, must have a very large area indeed—with that intimate local knowledge?—Quite right.

22,006. I am torn between the two extremes, and I want you to help me out?—Yes; you have hit the point on the head at once. I was going to qualify the suggestion of the whole-time official. My proof has been circulated among all Clerks to Commissioners, and it is all agreed to in substance. Of course, naturally, there are certain Clerks in country districts who rather deprecate the question of whole-time appointments on the ground that for small areas there would not be enough work, and if you distribute scattered areas to make whole-time employment the districts will be so large that all the advantages of the local knowledge of the Assessor might be lost. I want to call attention to that criticism, although it is probably covered by the words in my proof "where possible and advisable." I think in a great many districts it might be done.

22,007. We have to go further in that direction?—We have to go further in that direction. We come here very anxious to be able to get into closer collaboration with the Inland Revenue, because we do recognize the difficulties of the Inland Revenue.

22,008. It is because of the complexity of the tax that you really want an expert on it—a man who can give his whole time to it?—I think you do; from the point of view of the Inland Revenue it is essential to have an expert. But I think, from the administrative point of view, it is not anything like so necessary. All you have to do is to have a man that you can go to when your back is up against the wall, or when you think it is up against the wall. You just want the protection of the appeals and the local Assessors. I would suggest that there are five million small taxpayers, probably men who will not have the great advantage of accountants to do their accounts. It is more particularly the small taxpayer that we want to stand up for, if necessary; and it does not require expert knowledge to do that.

22,009. If this local knowledge on the part of the Assessor, and the goodwill that exists between him and the taxpayer seeking for guidance and information, is such an important feature, it does tend to be lost if you have whole-time men with large areas?—I think so. I have suggested that that might be so. But I think we might go a long way towards it. I think you would agree with me there, perhaps.

22,010. I appreciate the point of local knowledge, particularly in large rural areas, but I am not so sure

that I appreciate the advantages that the taxpayer feels in the goodwill of somebody local. I am quite sure that I agree with the lady who wrote to me that she would rather go to the Surveyor?—I would suggest that the people who are satisfied are the people that you do not hear from. It is only the dissatisfied that you hear from, and I think it is a most extraordinary thing that those letters that one receives are so comparatively few.

22,011. I think there is a good deal in that.—In your particular case, I take it, the lady had got the choice, and she took the Surveyor of Taxes.

22,012. It rather struck me she hesitated to reveal her own affairs to a rather intimate acquaintance in the district?—I think that is natural.

22,013. Quite an analogous point is in your suggestion (B), which is one of the most important things that the Commission have before them. That is, your suggestion that the Super-tax should be thrown into the general Income Tax?—Yes.

22,014. Do you think that the Super-tax payer will welcome having to make his total income return to the District Commissioners?—I do not think that he will look upon it very adversely; I do not think he would be very adverse to it. He would have the option, you must remember, of going to the Special Commissioners, if he wanted to, and he can send it either from his business premises or from his residence. In the hope that it might help the Commission, I have got out an assessment form with it all drawn out, to see how easily it can be done.

22,015. I have no doubt that on the administrative side it could be done; I am not on the question of how easily it might be done.

22,016. Chairman: Will you put that in?—Perhaps you would like just to look at it.

22,017. Dr. Stamp: I would not question the ease with which you may cope with it in practice. I am only speaking now of whether it would be a welcome change to the taxpayers?—Yes.

22,018. At any rate, we understand that the Inland Revenue think that the present system is rather more in accordance with the wishes of the Super-tax payers themselves?—Of course, nobody could be in the position of saying that, because the other has not been tried yet. I mean, they have not had the choice; they have only had a choice, if I may say so, of one evil at present. I do know that most people object to making two returns. I have the case of a taxpayer who comes to my Assessor's office and tosses down a cheque to the Collector, whom he knows very well, and says: "here you are; here are my payments for the whole of my taxes, including Super-tax and Excess Profits Duty"; and the Assessor has to sort them out.

22,019. Chairman: This examination has naturally been very stringent; I was wondering whether the propositions which I have just scribbled down here are the points that we want to elucidate as regards the position of the Clerks to the Commissioners: "whether the office of the Clerks to the Commissioners is useful to the taxpayer; whether it is superfluous; whether the work done is efficient; whether the results are worth the cost of administration; whether this acts as a safeguard to the taxpayer against the Government authorities?" Now, those are the points that have been in my mind, and the cross-examination which you have been undergoing really bears upon them?—Yes, my lord.

22,020. Mrs. Knowles: You say that the Commissioners are representative of the taxpayers?—Yes.

22,021. As a representative body, who elects them?—If you look at my report, you will see how the City of London representatives are elected. They are elected, seven by the Land Tax Commissioners—

22,022. Then do the Land Tax Commissioners represent the taxpayers?—I should say so.

22,023. You mean it is a little narrow inner circle of Land Tax Commissioners who elect this body, who are the backbone of the public defence?—I submit that it is not a narrow circle of Land Tax Commissioners.

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22,024. You say seven Land Tax Commissioners?—But the Land Tax Commissioners comprise practically all Justices of the Peace and anybody who likes to have his name in the Name Act, without qualification now. So it is a very representative of the country. The men who, in the first place, are elected to the General Commissioners Board, are seven in number.

22,025. What chance have they of being elected? Are they told that there is an election going on, and that they can take part in it?—They get notice of it.

22,026. And they are able to inform their seven, and the seven act according to their votes?—Yes.

22,027. Then, having been elected, how do these Commissioners appoint their Clerk? He is a paid official?—Yes.

22,028. How do they appoint him; is it for knowledge?—Yes, I should say knowledge, certainly.

22,029. What test do they make of that knowledge? Is there any examination?—There is no examination.

22,030. Is it patronage?—Oh, no.

22,031. Is it hereditary?—No.

22,032. And could no son follow his father in this business?—I should say that probably sometimes it would be so.

22,033. In which case it is hereditary, is it not?—In my case, I followed my father.

22,034. I did not know that; I am sorry.—But I refuse to admit that I am not competent.

22,035. Then of course there would be a predisposition to choose the last Clerk's son, if the last Clerk was a nice man, and he had a nice son. Is not that so?—Not necessarily.

22,036. There is no test of knowledge, except that the Commissioners might know that this man had a nice son?—Oh, no. The one who probably is elected is the one who has been in the office for a very long time, and is more or less steeped in Income Tax. Take my own case. I started at 30s. a week, in the year 1893, I think it was, and I worked steadily up for 25 years under my father.

22,037. Then there is a regular promotion, is there?—There was in my case.

22,038. Does that promotion go further down; I mean, will your Collectors rise to be Assessors, and your Assessors rise to be Clerks to Commissioners?—The Assessors and the Collectors are generally the same person; it is more economical.

22,039. Then your Assessor or Collector might rise to be a Clerk?—Certainly.

22,040. There is a by-law in the City of London, I was told, that no second in command can be appointed to the office of Assessor or Collector in the event of anything happening to the acting Assessor; and in consequence of such a by-law, the clerk to an Assessor is delinquent from getting such a position, notwithstanding his years of service and his knowledge of the work. Is that true?—We have appointed, subject to the Revenue, a Surveyor's clerk to a position as Assessor.

22,041. This point has been raised: that no second in command can be appointed to the office of an Assessor and Collector, in the event of anything happening to the acting Assessor?—He could be.

22,042. Is he?—I do not think, as a fact, he is.

22,043. I am told that there is a by-law actually preventing it. Is there such a by-law?—I do not think there is a by-law; there is the discretion of the Commissioners and I think there is some substance in what you say there. I think the Commissioners are anxious that the appointments, in the City particularly, should not go from one Assessor to the Assessor's clerk, and from the Assessor's clerk, when he becomes Assessor, to his clerk, and so on. I think they are anxious to be able to retain a free hand.

22,044. Mr. May: But they do not object to father and son?—I do not know whether they do or not. They did not object to me.

22,045. I am not making that remark personally.

22,046. Mrs. Knowles: There is no test of knowledge in appointing a Clerk. There is, I suppose, no test of knowledge in appointing a Collector or Assessor?—Except general ability and knowledge of accounts.

22,047. Who decides that ability and knowledge?—The Commissioners.

22,048. The Commissioners, who themselves have little knowledge of Income Tax law, mostly?—I do not think it would be absolutely necessary. They nominate; they come before the Commissioners with the highest testimonials.

22,049. Would you approve of there being an examination, somewhat similar to a civil service examination, to ensure efficiency?—I think from our point of view that is quite unnecessary. I am talking about the Collectors. The person that must have the expert knowledge is the Inland Revenue official. Owing to the complexity of the Acts now, he must have expert knowledge; he deals with very complex matters and accounts, and it is absolutely necessary for him to be an expert accountant.

22,050. Then on your side it is a body of mere amateurs appointed to safeguard the taxpayer by the Land Tax Commissioners?—Not appointed by the Land Tax Commissioners necessarily. So far as the City is concerned, they are elected by the Land Tax Commissioners, the Bank of England, the Royal Exchange, the London Assurance, the Port of London Authority and the Corporation of London. These are the people who elect the General Commissioners.

22,051. Then the Collector once elected or appointed?—He is appointed for one year.

22,052. But with no chance, I understand you to say, of promotion to anything very much higher. There is nothing therefore to ensure his devotion to the service. He is an annual person and without promotion. Is that so?—By "promotion" you mean an increase of salary?

22,053. I think he might rise to be a Clerk to the Commissioners?—Yes, there is no reason why he should not.

22,054. Because there is no qualification for a Clerk to the Commissioners there is no reason why an Assessor should not rise to that?—I have never heard of a case in the City.

22,055. You do appear to have this short-circuiting?—It is not meant to be short-circuiting. I think the Commissioners simply desire to have a free hand to elect really, on sufficient testimonials, the best man for the job.

22,056. But they do not apparently, according to this by-law, have a free hand because they are not allowed to appoint the second in command even if he is the best man for the job, because the by-law prevents it. It says: "no second in command can be appointed to the office of Assessor or Collector." Then you do not have a free hand?—We appointed one the other day, and I am very glad that technically "he" was a lady.

22,057. What qualification had the lady got?—She had the qualification of knowing as much about Income Tax law as probably anybody in the City of London.

22,058. She had been a Collector or Assessor, had she?—No; she had been an Assessor's clerk.

22,059. There would be a saving if you were abolished. I mean a saving in the actual administrative expenditure. You would abolish 725 Clerks and their salaries, would you not?—I should say there would be no saving in expenditure.

22,060. Who pays the Clerks?—The Inland Revenue pay.

22,061. They therefore are officers in that they are paid by the Government?—Yes.

22,062. And the administration, therefore, would save 725 Clerks' money, would they not?—Who is going to take their place?

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[Continued.]

22,063. The Surveyor?—Then who is going to take the Surveyor's duties at the present time? There must be 725 other appointments; and my opinion is that probably it would result in more expense still. I should like to put on record that I think—and I think the majority of members will agree—that the local administration is about the cheapest of its kind in England.

22,064. Have you any idea as to what that local administration costs for the whole of England for this branch?—A previous witness said that the cost of the administration throughout the Kingdom (I am speaking subject to correction) was one per cent. of the collection. Assuming that £300,000,000 or thereabouts is collected to Income Tax, that would mean £3,000,000 a year is spent on the administration for Income Tax purposes. I find from the Blue Books that the local administration accounts for about £700,000 a year (I am again speaking subject to correction), with the result that the balance, £2,300,000 a year, is paid to the Inland Revenue people in order to see that we do our job.

22,065. I suppose you have offices?—Yes.

22,066. Then, of course, there would be a saving of rent, and there would be a saving of light, firing and stationery?—We pay for our own office, lighting and firing.

22,067. Who pays for it? Where does it come from?—It is in the inclusive salary, which is very inadequate.

22,068. Do you not think the historical reason for your existence is not quite the historical reason you have given? You have said that you were put in to safeguard the interests of the taxpayer, and I have no doubt you were; but you were put in at a time when the civil service was about as inefficient as it could very well be—in 1708 and again in 1842. The great reform of the civil service came after 1870. That is so, is it not, and it seems to me that your continued existence with a really efficient civil service is not of anything like the same importance?—Might I say that it is probably much more important because the Inland Revenue are so efficient, it requires the taxpayer more than ever to be protected.

22,069. Mr. Kerly: You are Clerk and Counsel to the Commissioners. You went into your father's office in 1893, I think you said?—Yes.

22,070. Did you continue working in your father's office until now?—Yes.

22,071. Have you ever had any training at the Bar?—I have gone to the Bar, and I have been on circuit.

22,072. I did not ask you if you had passed your examination?—I have not done any practice at the Bar.

22,073. Have you ever been in a barrister's chambers; I mean to learn the work?—Yes.

22,074. You have read in chambers?—Yes; I was there for a few years.

22,075. You understand what I mean? You really did read in chambers as a student?—Yes; I read in my father's chambers.

22,076. Your father was exclusively employed as an official?—I did not read under a barrister. I studied, myself, in chambers.

22,077. I am not, of course, disputing for a moment that you are a member of the Bar, but you are not a practising member of the Bar in the ordinary way?—No.

22,078. You appear here and you give evidence as an official?—Of the Commissioners, yes.

22,079. With regard to the question Mrs. Knowles asked you, is it not a fact that the General Commissioners have ruled out as a candidate for succession to a particular Assessor and Collector his own assistant who has had experience in his district and in his work?—I should like to have the facts

obtained; I cannot remember; we have so many of them.

22,080. Is not that the general practice—that a man is barred because when there comes a question of succession to a particular Assessor and Collector dealing with a particular assistant it is treated as a disqualification that the candidate has been the second in command in that office?—I would not go so far as that. I should say that the Commissioners are disinclined to elect a clerk of the Assessor or Collector second in command, for obvious reasons.

22,081. I am not saying whether it is good or bad?—But, apart from that, we have appointed clerks in offices; we have done so, so one cannot say that it is a disqualification.

22,082. Very well; not an absolute bar, but a handicap?—Yes, it is a handicap.

22,083. Is it not often given as an answer to a candidate: "we cannot appoint you because you were employed in this office"?—I would not say that, because so very few come before the Commissioners.

22,084. Perhaps they know of the rule?—Possibly.

22,085. Does not that at once put an end to the suggestion of local knowledge?—No.

22,086. Where does the gentleman who has learned his work in District A put the knowledge he has acquired into practice?—I presume they would elect somebody else from the locality.

22,087. But where does the man who has got his knowledge as the result of years of work go to utilise it in the public interest?—But it is the knowledge of the taxpayer that is required.

22,088. Please try to answer my question. If a man has been employed for 20 years in a particular district in dealing with taxpayers in that district, and his principal dies, where does that man go to put his knowledge at the public service?—He stops where he is.

22,089. Stops where he is as second in command?—Yes. He can apply for a collectorship anywhere.

22,090. In another district?—Yes.

22,091. Then he would not have the local knowledge that he has gained?—Of course a man has got to start some time.

22,092. Does it mean that in every new appointment the head of the district has got to learn his work by being inefficient for the first few years of his appointment?—No, I would not go so far as that. He has got assistants; he has got to learn his work.

22,093. I will tell you the inference I draw from this rule. It is set up to protect the Commissioners, shall we say, from the risk of making a bad appointment?—What is? I did not catch your question.

22,094. The rule which handicaps the man who is already there as an assistant, so that they may be free, without having claims from a particular person, to appoint whomsoever they please?—Yes.

22,095. Instead of appointing a man who is likely to be the most suitable?—Not necessarily the most suitable.

22,096. Is it a fact that the Additional Commissioners of the City of London do not examine any assessment of a person assessed to less than £500 a year?—Yes, personally.

22,097. What is the justification for that limitation?—Because we would not be able to get through the work.

22,098. And so the small taxpayer does not get the great advantage of the Additional Commissioners?—Yes, he does; he gets the advantage of the assistance of the Additional Commissioners' official, the Assessor.

22,099. He gets the assistance of their staff, but he does not have the consideration of themselves?—Yes.

22,100. Then to such persons the Additional Commissioners themselves, apart from their staff, are not

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[Continued.]

of very much importance?—No, they do not deal with those cases.

22,101. Can you give us any figure to show what proportion the people assessed at less than £500 are?—I do not know the number. They are probably questions of salary.

22,102. The staff of Clerks to Commissioners in the autumn is augmented by temporary assistants, is it not?—Yes.

22,103. And very largely augmented?—Yes.

22,104. The people who are taken on for a short period are very numerous?—Yes.

22,105. Are they the same year after year?—Not necessarily. A good many of them are. Some of them are and some of them are not.

22,106. What sort of people are they that you get casually to take on a job for a few months?—We have made a point of getting disabled soldiers and sailors.

22,107. What do they do when they are not employed?—They have no employment.

22,108. They are out of employment?—Yes.

22,109. How are they supported?—By unemployment pension, I suppose.

22,110. How many of those did you get before the war?—None.

22,111. Then that is only a new rule. How take your mind back before the war. What sort of people did you get to do this casual work before the war?—We have advertised; we have applied to the Chamber of Commerce; we have got a good many from the Chamber of Commerce, and we have advertised in the papers for them.

22,112. What sort of people were they—clerks out of employment and glad of a temporary job?—Yes.

22,113. And those were the persons to whom this highly confidential information about people's incomes and means are committed?—They were all sworn to secrecy, of course.

22,114. I suppose anybody who is employed would be sworn to secrecy?—Yes.

22,115. But I thought the great advantage of having your system and your staff was that they were reliable persons to whom confidential information would be committed?—They are employed after full examination of testimonials, and there is no reason to think that they are dishonest.

22,116. I am not suggesting that?—Every one of them, of course, comes with satisfactory references. There are a number of girls who are employed in Surveyors' offices, from about 17 years upwards.

22,117. Mr. Kerly: We are dealing, not with a comparison between your work and that of the Surveyors, but with the question of whether you have an advantage which the Surveyors do not offer.

22,118. Mr. Marks: My lord, on this question of the appointments of the second in command, may we go into that a little more; because I confess I do not appreciate the reasons? There may be some reasons. May I ask one or two questions?

22,119. Chairman: Yes.

22,120. Mr. Marks: Who appoints the Assessors' clerks?—The Assessors themselves.

22,121. And the Commissioners have no authority at all over this appointment?—No.

22,122. Then, if the second in command were as a matter of fact appointed to succeed a retiring Assessor, that would mean, would it not, that the appointment of the Assessor really rested in the hands of the existing man?—That is so, and this is the opinion of the Commissioners. They are not very often appointed.

22,123. Mr. Armitage-Smith: It was put to you that the Clerks to Commissioners of Taxes are public officials. It is the fact that the salaries of Clerks to Commissioners of Taxes are borne on the Revenue estimates, is it not?—I take it that is so.

22,124. And on each annual estimate rendered to Parliament by the Revenue Department there is a lump sum, is there not?—I understand that is so.

22,125. And the fact that this payment is provided by the Revenue Department more or less exhausts your position as public servants?—Yes.

22,126. You are not civil servants in the ordinary acceptance of the term?—No.

22,127. You are not pensionable?—No.

22,128. You have no security of tenure?—No, only an annual payment.

22,129. And Parliament votes a lump sum for the use?—Yes.

22,130. Then the Treasury or the Inland Revenue determine the conditions of employment?—Yes, the Inland Revenue determine the amount of the remuneration for the Treasury to act upon.

22,131. They fix the salaries?—I think that is so; they have been considering at the present time certain salaries in the City which certain Assessors and Collectors allege are going to hit them very hardly.

22,132. You come under the category of temporary lump-summers?—Yes.

22,133. Chairman: We are much obliged to you for your evidence?—Thank you, my lord.

THIRTY-FIRST DAY, FRIDAY, 7TH NOVEMBER, 1919.

PRESENT :

MR. KERLY (in the Chair).

MR. PRETTYMAN.

MR. E. K. NOIT-BOWER.

MR. J. S. HARMOOD-BANNER.

MR. W. TROWER.

MR. WALKER CLARK.

MR. GRAHAM.

MRS. KNOWLES

MR. McINTOCK.

MR. GEOFFREY MARKS.

MR. MAY.

MR. TROTTER.

MR. R. E. FISHER and MR. STANLEY BROWN, on behalf of the National Association of Assessors and Collectors of Government Taxes, and MR. J. C. FERGUSON, on behalf of the Assessors and Collectors for the City of London, called and examined.

The witnesses handed in the following statements as their evidence-in-chief:—

Evidence-in-chief of Mr. R. E. FISHER, Assessor, Liverpool.

Appointment of Assessor.

22,134. (1) An Assessor is appointed for each parish under the Income Tax Act, 1918 (8 and 9 George V), Ch. 40, section 76.

22,135. (2) He is appointed by the General Commissioners of Income Tax from the inhabitants of the parish, or of an adjoining one, and holds office for the year of assessment and until another Assessor is appointed.

22,136. (3) The amount of his remuneration is fixed and paid by the Board of Inland Revenue.

The duties of an Assessor.

22,137. (4) An Assessor is a purely local officer selected because of his possession of local knowledge of the area. His duties are:

(5) To prepare lists of all persons chargeable to Income Tax under Schedule D and E.

(6) To issue forms for individual returns of income.

(7) To issue forms to employers for lists of employees liable.

(8) To issue forms to trustees for return of untaxed income of trusts.

(9) To receive the forms when filled and register their receipt.

(10) To examine and obtain proper completion of the return for assessment and of the claims for allowances for abatement, Life Assurance, wife, children and dependent relatives.

(11) To estimate the person's liability where no return is made under Schedule D.

(12) To make assessments on all persons chargeable under Schedule E and to insert allowances.

(13) To issue notices of assessment and precepts requiring accounts, and give notice of days fixed for hearing appeals.

(14) He is responsible for affixing all public notices relating to assessments and appeals.

(15) He may attend meetings of Commissioners when they are making assessments and at appeals.

(16) In many districts the Assessor sits with the Surveyor when estimated assessments are inserted for submission to the Additional Commissioners.

(17) In any year in which a new assessment is made for Income Tax, Schedules A and B, and Inhabited House Duty, an Assessor is to issue all return forms, enter particulars from returns into the assessment, amend names of persons chargeable and description of properties, insert all properties omitted from the copy of Poor Rate book supplied to him in assessment book form, and to make assessments in all cases (marking cases of exemption), and after the assessments have been allowed by the General Commissioners, to issue notices of assessment and of appeal.

(18) In a year in which the amount of annual value as assessed in the preceding year is prescribed by enactment to be taken as the annual value for that year, the Surveyor of Taxes acts as Assessor. Surveyors are also Assessors for Schedule A for all years in the administrative County of London.

Scope and character of the duties.

22,138. (19) An Assessor's work is of a highly technical and confidential character, the Revenue being largely dependent on his intimate local knowledge and of his knowledge of the taxpayers in his district, in order to secure adequate and equitable assessments. In the course of his duty he is entrusted with private and confidential information as to the income and financial position of the taxpayers.

22,139. (20) The constantly developing system of administration which has become so thorough in its aim for efficiency in recent years, has so altered the original system of working that the duties of Assessors in town parishes can now only be efficiently carried out by trained and experienced men.

22,140. (21) Before the Departmental Committee of 1896 Mr. Chief Inspector Gayler when asked the question (Q. 68), "Do you find many complaints against local Assessors on the ground of breach of secrecy?" replied, "No, I know of no such case."

22,141. (22) As to the special qualifications of local Assessors for their particular duties, Mr. McKenna, Financial Secretary to the Treasury, in 1906, stated in reply to a question in the House of Commons:—"That the employment of local Assessors of Income Tax was based on the advantage which their local knowledge gave to them in assisting the Commissioners of Income Tax to make proper assessments. The Board of Inland Revenue were of opinion that this advantage much outweighed any drawbacks that the system might have and they had never recommended its discontinuance. The Board had no reason to suppose that Assessors were in the habit of delegating their duties to others."

22,142. (23) That the appointment of local men is acceptable to taxpayers generally is shown by the large number who, dealing personally with their own assessments, call upon the Assessors rather than on the Surveyors, preferring to discuss their affairs and difficulties with local officers with whom they are in regular touch and who are acquainted with their business and its history. That the local Assessors have the confidence of the taxpayers is clearly shown by the very small number of cases in which objection is made for assessment by the Special Commissioners.

22,143. (24) Notwithstanding the importance to the Revenue of Assessors' work in that it is the foundation upon which the assessment depends, it may be stated unhesitatingly that throughout the past its efficiency has been sacrificed to a false sense of economy.

22,144. (25) From 1891 to 1906, though there had been constant development both in the administration

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work and in the number of people to be dealt with, there was no power under which the Board of Inland Revenue could pay a corresponding increase in remuneration, owing to the limitation of the Taxes (Regulation of Remuneration) Act, 1891, and in spite of repeated appeals from Assessors to the Treasury, this limitation of remuneration to the amount as fixed in 1891 was maintained for seventeen years. In the Finance Act, 1908, a section was inserted, giving to the Commissioners of Inland Revenue power to fix increased remuneration proportionate to the work performed.

Performance of the duties.

22,145. (26) In England and Wales the appointment of Assessor is usually held in conjunction with that of Collector, and where a high standard of work has not been obtained the main reasons are as follows.

22,146. (27) The time at which the work of Assessor falls to be performed, viz., immediately on the close of a collection, during which the men as Collectors have for months been forced to work abnormal hours.

22,147. (28) The uncertainty and delay in the supply of forms and stationery which has prevented anticipatory work.

22,148. (29) The failure to pay proper remuneration (in too many cases the amount is nominal) which has discouraged zeal and interest.

22,149. (30) The time at which the delivery of the Schedule E assessments to the Commissioners is required, usually in June, before there has been proper time allowed for the return forms to have been obtained completed.

22,150. (31) The distinct encouragement, and in some cases by request of Surveyors, for the delivery of the Schedule E assessments in an incomplete condition, i.e., before charges have been inserted by the Assessor.

22,151. (32) The limitation of the time for the efficient performance of the duties, 5th April–20th July, which is too short for the present-day complex system and the increased number of taxpayers to be dealt with, as compared with the conditions of 1892, when that period was fixed.

22,152. (33) The late passing of Finance Acts in recent years, most of which imposed changes affecting the making of assessments or allowances, rendering it impossible for Assessors who had to complete their assessments by July 20th to make the charges and allowances correctly.*

22,153. (34) The failure to supply Assessors with suitable instruction books, and copies of Finance Acts, with explanations of the changes arising out of them.

Assessors as whole-time officers.

22,154. (35) In Liverpool, Edinburgh, Glasgow and other large towns in Scotland for many years separate officers have been appointed as Assessors only, who have been required to give their whole time to the duties of their office. This system has proved an unqualified success. It has been possible in these areas to carry out the work in a systematic and methodical manner, preliminary work being taken in hand not after 5th April in the year of assessment, as laid down in the instruction book, but eight months before that date, that is, immediately after the delivery of the Schedule E assessments of the preceding year.

22,155. (36) A thorough survey of the whole area is made each year with Income Tax liability as the distinct objective; city directories are examined and compared with the Assessors' survey books and assessments; trade publications, telephone directory and daily press are made the best use of; taxpayers are interviewed both at their own addresses and at the Assessors' offices, and advice and assistance in solving their many difficulties with their return forms is freely given.

22,156. (37) Return forms have been thoroughly examined and their completion obtained, thus leaving Surveyors of Taxes free to engage in examination of trading accounts and to have fair time to examine and check the Schedule D returns without undue haste, before the time fixed for the making of assessments by the Additional Commissioners.

22,157. (38) Estimates have been entered in the Schedule D assessment throughout for the information of the Additional Commissioners.

22,158. (39) Schedule E returns have been entered and assessments made and the allowances entered as far as possible, having regard to the latest date on which they can be delivered (20th July).

22,159. (40) This system has helped to secure satisfactory assessments, fair both to the Revenue and the taxpayer, with a minimum amount of friction.

22,160. (41) In years in which new Schedule A assessments have been made (1903 and 1910) the work has been done by the Assessors thoroughly and expeditiously and in a satisfactory manner.

22,161. (42) In addition to the procedure above outlined, a systematic survey for the adjustment of the names of occupiers (persons assessed) in the Schedule A and House Duty assessments should be made at the beginning of each financial year. This is necessary work which, although Schedule A assessing has been the work of Surveyors of Taxes for fourteen out of the last sixteen years, has not had, as a general rule, the attention given to it that it demands.

22,162. (43) The work in connection with removals of persons chargeable under Schedule D and E from one district to another and the issue of references now done in Surveyors' offices on Forms 48, 48a, and 48c, should form part of the Assessor's duty and as a result would be done, in the majority of cases, months earlier than at present, and save much additional assessment work.

22,163. (44) No matter how zealous a Surveyor may be, under the present system he does not remain long enough in a district to acquire local knowledge, and his duties in his own office, examining assessments, accounts, appeals, etc., do not permit him the time necessary for outdoor work. This also applies to Surveyors' clerks, who are also now moved from one survey to another. Thus, the only officer who remains with an always increasing local knowledge is the Assessor, and that the Revenue may have the full benefit of his experience, he should remain in the same or immediately adjoining areas, promotion being given not by transfer to distant areas, but by a progressive scheme of remuneration, increasing periodically to a fixed maximum, with superannuation similar to that obtaining in most local services.

Grouping of parishes.

22,164. (45) A number of adjoining parishes could be so grouped (or an Assessor's area could be so confined to that covered by a survey) that there would be full-time occupation for an Assessor according to the plan of work detailed above, which has been in operation for many years and proved satisfactory in Liverpool and large towns in Scotland.

22,165. (46) To fill the appointments in the first instance, a selection of men with the necessary local knowledge and theoretical knowledge of Income Tax law and practice, should be made from among the present holders of appointments.

22,166. (47) In the carrying out of an improved scheme of this kind, many who have held office as Assessor for a long term of years might be deprived of their appointment, and we would urge that reasonable compensation be provided, either of direct consideration of loss of office or by the addition of their present remuneration as Assessor (which, as a rule, is small in amount) to that which they receive as Collectors of Taxes. In these cases revision of Collectors' remuneration, should it be thought necessary, could be made on the cessation of the tenure of the present holder.

Clerical assistants.

22,167. (48) Clerks, where necessary at present, are employed by Assessors out of their own allowances. They should, we submit, be employees of the Govern-

* Finance Act, 1909–10 was passed 29th April, 1910.

do.	1910	do.	31st July, 1914.
do.	1915	do.	29th July, 1915.
do.	1915 (No. 2)	do.	23rd December, 1915.
do.	1916	do.	19th July, 1916.
do.	1917	do.	2nd August, 1917.
do.	1918	do.	30th July, 1918.

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ment, and should be recruited in the first instance from those at present in the employ of Assessors, then from boy clerks, if entry by examination is considered advisable, but it should be borne in mind that tact and ability to deal satisfactorily with the public are in this work of greater value than high scholastic attainments.

22,168. (49) From among these assistants, selection should be made to fill vacancies in the appointments of Assessors as they arise, and thus a continuous highly-trained service would be assured.

Provision of offices.

22,169. (50) The offices used by Assessors should be public offices, provided by the Government, at places convenient for the public, and rent, rates, cleaning, lighting and furnishing should be the care of the Government. Each office should be provided with a telephone.

Assessors' instructions.

22,170. (51) The instructions issued to Assessors should be complete and entirely different from the trivial book of five pages issued at present, which is totally inadequate to provide satisfactory guidance in carrying out Assessors' work under the present complex system of Surveyors. A book similar to that supplied to Surveyors should be in the hands of every Assessor. A copy of each Finance Act as it is passed should be supplied, with explanatory circulars explaining the changes arising out of the Act of Parliament. Scales showing abatements and allowances, and tables of the various rates of duty should also be supplied. Where a local directory is published a copy should be provided for every Assessor's office as often as the book is re-published.

Earlier commencement of year's work.

22,171. (52) To attempt to crush the necessary work into the period set out in the Income Tax Act, 1918, (6th April to 20th July), is to invite failure. In areas where the work is most satisfactorily performed it will be found that the earlier date (6th April) has been ignored and preparatory work commenced in some cases eight months before the commencement of the fiscal year. The introduction of continuous appointments (i.e., without the necessity of annual re-appointment in April of each year) is necessary to make a real improvement by securing the preparatory work being carried through much earlier than at present. An Assessor has no security that he will be re-appointed in the following April, and this disability has tended to discourage the performance of preparatory work for which he might never be remunerated.

22,172. (53) Arrangements should be made for the issue of survey books (for outdoor work) by June in the preceding year, for stationery and forms to be ordered direct from the stores by the Assessors, the Schedule E assessment paper should be in their hands before December and all return forms supplied to them early in January preceding the year of assessment.

22,173. (54) The fact that changes in any new Finance Act might necessitate alterations in the forms would have no more bearing than under the present system, since forms are now issued to Assessors in March and April immediately before the introduction of the Finance Act.

22,174. (55) Had an arrangement been permitted in the past for an earlier printing of the necessary stationery and forms, work of a much higher standard would have been possible.

22,175. (56) With the varying abatements, allowances and rates of duty chargeable, all dependent on claims being received from taxpayers, the date fixed for the completion of Schedules A, B, and E assessments in 1920 (viz. 30th July in England and Wales, and first Wednesday in August in Scotland) does not leave sufficient time for the whole of the necessary work to be completely done, and it is submitted that a later date, say 31st August, would be more practicable and still allow sufficient time for the examination of returns and any necessary amendment of

assessment to be made by Surveyors before the time fixed for the allowance of assessments by the General Commissioners.

Local knowledge.

22,176. (57) For the foundation work of assessments under Schedules A, B, D, and E, local knowledge is an absolute necessity. An Assessor brings into his work a knowledge of the values of properties in his area, of the traders carrying on business and of the methods, conditions and profits of those trades, manufactures and industries which frequently, owing to climatic conditions, geographical position and suitable labour supply, are peculiar to certain localities, as for instance the cotton weaving industries of Lancashire and boot manufactures of Northampton (many other instances of purely local industries could be given).

22,177. (58) In country (rural) parishes where there are no directories, street numbers or clearly defined addresses, local knowledge in locating properties and persons carrying on business is an absolute necessity if complete and equitable assessments are to be obtained. This knowledge can best be supplied by those acting as Collectors of Schedules A and B, who now act as Assessors for Schedules D and E, and who also frequently hold the appointment of assistant overseer. For Schedule A their knowledge of rents and annual values in their own area is unequalled, and for Schedules D and E their services might well continue to be utilised for preparation of lists, service and receipt of forms, and for the issue of notices of assessment.

Remuneration.

22,178. (59) At present the remuneration paid to Assessors in these areas, although there was a revision of remuneration in 1916-17, is almost negligible. Advantage appears to have been taken of the fact that the office is an obligatory one, and also that the same individual held an appointment as Collector. A return of the amounts paid to the individuals as Assessors would be found interesting, for cases exist where the total sum received is not even sufficient to pay the travelling expenses necessary to attend the meetings of Commissioners for appointment and delivery of forms and assessments.

Assessors in Scotland.

22,179. (60) In Scotland, there are many parishes where local Assessors of Income Tax are appointed by the General Commissioners of Income Tax, and we desire to submit that under the Income Tax Act, 1918, s. 76, 88, (5), a grave injustice may be done to these officers.

22,180. (61) If in parishes where such Assessors are now appointed, the local authorities (i.e., County Councils and Town Councils—who have nothing to do with Income Tax) avail themselves of the power given under the Lands Valuation (Scotland) Act, 1854, and appoint an officer of Inland Revenue to be the Valuation Assessor, the present local Assessors for Income Tax (officers who, in many cases, have given many years of loyal and efficient service of great value from a Revenue point of view) would be deprived of their employment.

Recommendations.

22,181. (62) Since its formation in 1903, one of the main aims of this Association has been to influence increased efficiency in the work of Assessors and Collectors. While its efforts have been attended with much success, more particularly in the Collectors' side of the work, progress has been hindered by the conditions of tenure of office, which could only be improved by legislation, and many Members of Parliament have expressed sympathy and readiness to support the legislative changes desired by this Association.

22,182. (63) Latterly, appeals to the Treasury have been answered by a reference to this Royal Commission, whose report is evidently expected to advise the Government in respect to the particular alterations, permanency of appointment and superannuation, urgently desired by this Association.

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22,183. (64) In submitting our considered views on the amendments necessary in the conditions governing the tenure and duties of the office of Assessor of Taxes, we would respectfully submit that the Report of the Commissioners should contain such recommendations as will, in the immediate future, ensure to the Assessors and their assistants those improved conditions of service which will lead to a higher standard and efficiency of the work and thereby so materially help towards the successful administration of the Income Tax Act.

22,184. (65) This Association desires to submit for the consideration of the Royal Commission the following changes which we believe will help to secure a service more efficient than in the past and to obtain greater results for the Revenue:—

22,185. (66) That in towns and residential areas:

(a) Officers should be appointed solely for the work of assessing and should give their whole time to the duties. These appointments should be of a permanent character (subject to revocation for neglect of duty or misconduct) and held during the will and pleasure of the appointing authority with suitable superannuation at the end of service.

(b) Parishes should be grouped into such areas as can be efficiently worked by one Assessor with clerical assistance.

(c) The clerical assistance should be provided by the Government and not by the Assessors as at present.

(d) Office should be provided by the Department.

(e) Complete instructions should be provided for the guidance of the Assessor and staff.

(f) The earlier commencement of the work of the financial year and a later date than the present one (20th July) for the completion of the Schedule E assessments.

22,186. (67) That in country (rural) parishes the services of Assessors should be utilised as at present.

22,187. (68) That section 76 (3) of the Income Tax Act, 1913, should be so amended that the appointment of Assessors of Income Tax in Scotland by the General Commissioners shall be continuous and permanent.

[This concludes the evidence-in-chief of Mr. Fisher.]

Evidence-in-chief of Mr. STANLEY BROWN, Collector, Finsbury, London.

Collection of Income Tax.

Appointment of Collectors and conditions of service.

Appointment.

22,188. (1) The method of appointment of Collectors and the appointing authority vary in different parts of the kingdom, but, with the exception of Scotland, the appointment is only for the Income Tax year of assessment, without any certainty of its continuance for subsequent years.

22,189. (2) In England the General Commissioners acting in the various divisions make the appointments, except in certain cases where the right of appointment has passed to the Commissioners of Inland Revenue. In Scotland the appointments are in the hands of the Treasury, while in Ireland the Commissioners for Special Purposes exercise the right.

Security and secrecy.

22,190. (3) The General Commissioners may require a Collector on his appointment to give security to their satisfaction, and the Commissioners of Inland Revenue may, wherever they think fit, require a Collector, whether appointed by them or by the General Commissioners, to give security, by bond to the Crown, in such sum as they may determine.

22,191. (4) Every person appointed Collector shall before he begins to act in the execution of this Act, make and subscribe the declaration contained in Schedule 4, in respect of his office.

Remuneration.

22,192. (5) A Collector receives such remuneration as the Commissioners of Inland Revenue, with the approval of the Treasury, may direct, and is paid in such manner and under such regulations as by them may be prescribed, with the proviso that the amount shall not be less than that paid to the Collector for the same area for the year which commenced on 6th April, 1890. It is further provided that in the event of a change in any area of collection the General Commissioners for the division may adjust and apportion the amount receivable as they think fit. For the year commencing 6th April 1890, and previous thereto, the Collector received an allowance of one penny halfpenny per pound of what money of the duties he paid to the Revenue.

22,193. (6) The remuneration is arrived at by methods only known to the Commissioners of Inland Revenue and their officers, who, in no case, have any personal knowledge or connection with the work involved. It has to bear all the expenses incidental to the office such as rent, clerical assistance (permanent and casual), office expenses and guarantee premium, the remuneration being calculated without reference to or consideration of these charges, which naturally vary according to the situation of the collecting area and the complexities of the work.

Unit of area.

22,194. (7) The parishes for which Collectors are appointed are, in England, the parishes for the time being for the purposes of Poor Law administration, but there is provision for the aggregation or division of such areas as the Commissioners of Inland Revenue may deem desirable.

Status of Collectors.

22,195. (8) Having regard to the divided system of control existing in the majority of cases under which the appointment is in the hands of one authority while the remuneration is in those of another, it is difficult to define the status of Collectors.

22,196. (9) When claims are put forward on behalf of Collectors for concessions or benefits, the Treasury objects with the statement that Collectors are the temporary employees of the General Commissioners, notwithstanding the fact that the Commissioners of Inland Revenue are responsible for the appointment of at least a quarter of their number.

22,197. (10) When, however, the Commissioners of Inland Revenue desired to render Collectors exempt from the operations of the various Military Service Act they claimed that all Collectors were in their employ and issued certificates to that effect accordingly.

22,198. (11) A Collector only reaches the status of a civil servant when he is guilty of a misdemeanour as Collector.

Duties of Collectors.

Method of collection and recovery.

22,199. (12) As soon as the assessments have been confirmed by the General Commissioners a duplicate thereof is delivered to the Collector for the parish to which the assessments arise, together with a warrant for collecting and levying the tax charged, and it is the duty of the Collector to demand the respective sums contained in the duplicate from the persons charged therewith.

22,200. (13) In assessments for Schedule A (Property Tax), which comprise the larger number of the assessments to Income Tax, and in some other cases, the Collector has in practice to ascertain the individual liable before making application, in consequence of that information not being found either in the assessments or duplicates. This is due to the fact that new assessments under Schedule A are normally made at intervals of five years with no revision of the names of persons liable in the intervening years. Even in the quinquennial years the Collectors only find in their duplicate the names of occupiers as set out in the Poor Rate books for the previous year.

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22,201. (14) The issue of the demand notice produces a heavy crop of objections and claims for allowances, with which the Collector has to deal, either by correspondence or personal explanations or adjustments in the office. He has to ascertain changes of occupiers, conditions of tenancy, and allocate the amount of tax due after making allowances for empty periods and lost rent.

22,202. (15) The public generally regard the Collector as the one human element in the Revenue machinery, and rely upon him in a very great measure to provide them with assistance and guidance in their difficulty to appreciate the application of, to them, a complicated form of taxation.

22,203. (16) As the formal demand for payment does not produce a settlement in the majority of cases, the Collector has to make further applications, either written or personal, and ultimately if the person liable continues to ignore the demands made upon him, has to distrain the person charged or upon the premises or lands in respect of which the tax is charged without further authority.

22,204. (17) Where no sufficient distress can be found whereby the sum may be levied, the General Commissioners may commit the person charged to prison, but this is rarely, if ever, resorted to.

22,205. (18) In such cases, when the Collector has exerted all his energy to secure payment and failed, he issues a certificate to that effect. This certificate is referred from one office to another as follows:

- (a) Collector to the Surveyor for his district;
- (b) Surveyor for his district to the Surveyor for the district in which the person charged has effects;
- (c) second Surveyor to the Collector for the last-named district.

22,206. (19) In the event of the payment not being made on application, the certificate makes the return roundabout journey, and is referred to the General Commissioners for the division in which the charge originated to attach their warrant for recovery. The certificate again goes through the previous channels with a deviation on the way to the General Commissioners for the division in which the person charged has effects, for the addition of their warrant to the Collector in that division to recover by distraint.

22,207. (20) These proceedings, and also those which may be taken by the Commissioners of Inland Revenue in the High Court, give the person several extra months during which he can defer payment and thereby gain an unfair advantage.

22,208. (21) In the case of any tax assessed quarterly in respect of weekly wage-earners the Collector has in addition to the procedure applicable to other assessments, the right to take summary proceedings as a civil debt.

Method of accounting.

22,209. (22) The Collector has to pay all moneys received by him into an official account at an approved bank, from which the total payments in each week are transferred to Revenue account.

22,210. (23) The Commissioners of Inland Revenue appoint a day on or before which any Collector shall pay over all moneys received by him as Collector and shall deliver a schedule of arrears, in the prescribed form and verified on oath, setting forth the respective sums collected.

22,211. (24) The dates on which Collectors are to submit their accounts to the Commissioners of Inland Revenue vary in different districts, with the result that taxpayers are pressed to pay at different times according to the districts in which by accident they find themselves located. Further, these dates are fixed without reference to the dates on which Collectors receive their duplicates of assessment, which should be in their hands in November each year, but which are not, on occasions, until the following January. The dates are also fixed without reference to the duties to be previously undertaken by other officials. This results in Collectors having on all occasions to make good any time previously lost in other departments.

Defects of the present system.

22,212. (25) The annual appointment of Collectors has long been regarded as an irksome and handicapping survival of the early days of the tax which, in view of its now admitted permanence, should be abandoned.

22,213. (26) The appointment is made at the commencement of the financial year, but as an assessment may be made at any time within three years after the expiration of the year of assessment, the Collector is liable to set for an extended period of four years while his remuneration only applies to one year.

22,214. (27) It is by good fortune rather than by design that the services of such an efficient body of Collectors has been secured. These officers have used every constitutional means to obtain an amendment of the law in this respect without success.

22,215. (28) The exercise of the powers of appointment by different authorities has led to a dissipation of energies to such a marked degree that a loss of efficiency has resulted therefrom, and has been coupled with increased cost of collection.

22,216. (29) When the appointment is made by the General Commissioners one official collects the tax arising under all Schedules (except Schedule C) as well as the tax arising from quarterly assessments, and it is the general practice to appoint the same person as Assessor also.

22,217. (30) Where the appointment has passed to or been placed in the hands of the Commissioners of Inland Revenue, the collection of the tax under Schedules A and B has been entrusted to one person, while the collection of the tax under Schedules D and E has been entrusted to the officers of Customs and Excise.

22,218. (31) The Commissioners of Inland Revenue have further divided the duties of collection by appointing on occasion yet another person to collect the quarterly assessments.

22,219. (32) Payment of Super-tax reaches the Revenue by direct application at the instance of the Special Commissioners.

22,220. (33) From the public point of view this duplication of Collectors is a cause of considerable irritation and annoyance to the taxpayers, who receive separate demands payable to various officials for a tax which, as originally designed, should all be made by one Collector.

22,221. (34) Where the security is required it is usually given by bond entered into with an approved Guarantee Society, but Collectors have long felt that the security should in every case be provided by way of contributions by them to a fund specially created for this purpose and administered jointly by the Commissioners of Inland Revenue and Collectors. Defalcations by Collectors are so rare that Guarantee Societies accept the risk at the rate of 3s. per £100, which is the lowest rate imposed on any body of officials. In view of the fact that a large proportion of such premium is absorbed in establishment and other charges, it is calculated that contributions at a similar rate to a departmental fund would rapidly provide assets sufficiently large to relieve Collectors after a few years from the necessity for further contributions.

22,222. (35) There is no definite scale of remuneration in force or prospect of increase in remuneration on ground of efficiency or experience. The work of Collectors is still regarded as of a contractual character and is paid for as such. It is now paid at monthly or quarterly intervals, but it is clearly laid down by the Commissioners of Inland Revenue that these are simply instalments of the contract amount awarded for the year's work. If the Collector falls ill, he, himself, has to pay a deputy to carry on his duties. No provision is made for a Collector while on leave or holidays. These must be taken as and when possible. No consideration is shown for the number of hours that are worked in the day, or even the number of days that are worked in a week. Many Collectors, to cope with the rush of work, have to devote twelve and fourteen hours daily for weeks, and with little variation on Saturdays and Sundays.

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22,223. (36) Should it be necessary to divide a parish for collecting purposes on account of an increase in the number of assessments arising in such parish, the Commissioners of Inland Revenue have power to carry out the division, but in that event the remuneration attached to the parish is also divided in like proportion to the division of assessments. No similar procedure is followed, so far as is known, by any other body (Government, municipal or commercial).

22,224. (37) An illustration of the lack of appreciation shown by the Commissioners of Inland Revenue, with regard to the extent of the work falling on Collectors, is afforded by the recent revision of remuneration consequent on the extension of the principle of payment by instalments to the charges under Schedule A. Hitherto, Collectors have worked inordinately long hours during several months of the year, in order to promptly and efficiently secure payment of the tax. They have relied on the easier time during the later months of the year to provide the opportunity to build up the wastage of human energy and to recuperate from the strain of the earlier months. The Commissioners of Inland Revenue have erroneously assumed that Collectors will be able to reproduce in the July collection the exceptional efforts put forth in the January collection without relaxation. This too many will be an impossibility, and they thereby have imposed upon them additional clerical expenses which are not covered by the increase in the remuneration which has been granted by the Commissioners of Inland Revenue.

22,225. (38) The parish being the unit of area, it follows that in most country districts the duties arising therein are insufficient to require the whole or, in some cases, even an appreciable part of the time of the persons appointed. This has necessitated the holding of other appointments or the following of other occupations. This state of affairs also exists in some of the larger parishes, due to the insecurity of tenure provided by annual appointments and the desire on the part of the Collector to maintain a sheet anchor in case of failure to be reappointed.

22,226. (39) While the parish unit may have been desirable in the inception of the tax, on account of the temporary character of the impost, it is clear that it was contemplated that in practice a larger area would be found on occasion to be necessary. Little or nothing has been done to remedy this weakness, although the disability has long been apparent. Surveyors of Taxes, under the direction of the Commissioners of Inland Revenue, have areas assigned to them which claim their whole time. A re-arrangement of Collectors' areas could be made to have the same result.

22,227. (40) The time allotted to a Collector is frequently not sufficient to permit of the prompt and efficient discharge of his duties without the devotion thereto of inordinately long hours. It is submitted that the date fixed by the Commissioners of Inland Revenue for rendering accounts should be calculated from the date on which the Collector receives the duplicate of assessment.

22,228. (41) The powers of recovery, either by distraint or by proceedings in the High Court, are inadequate and cumbersome, and the responsibility on the Collector who has to distraint without further authority is very severe, and he is liable to many pitfalls caused by faulty assessments.

22,229. (42) In the cases of tenements or small property, the owner (usually non-resident) is liable for the tax under Schedule A, but distraint can only be made on the property, that is, on the goods of the tenants who pay the owner an inclusive rent to include all rates and taxes.

22,230. (43) Where the total amount to be recovered does not exceed £20, the scale of expenses, as fixed by law, must not exceed 2s. for levying distress and 2s. 6d. per day for the man in possession. Collectors are now unable to secure the services of reliable men at these rates.

22,231. (44) Collectors take exception to the growing tendency on the part of the Commissioners of Inland Revenue through their Surveyors to unfairly interfere with the work of collection. Surveyors

have thereby been encouraged to make demands upon Collectors for which they have neither legislative or administrative authority.

22,232. (45) It is not intended that this should be construed as an adverse reflection upon Surveyors, but as a suggestion that the characteristics of initiative, persistence and forcefulness, which it is desirable and indeed necessary that Collectors should possess and exhibit for the effective execution of their powers, are just those which are calculated to make them restive and little amenable to instructions and directions which are frequently issued by a Surveyor, who, in many instances, is junior in years and experience to the Collector whom he seeks to advise.

22,233. (46) There is no one, either at the Head Office of the Commissioners of Inland Revenue or among their Surveyors, who has the slightest personal knowledge of the work and responsibility of Collectors or of the ramifications and details of their methods of work.

Recommendations.

22,234. (47) That the limitations of the existing Act on the period of appointment enjoyed by Collectors should be superseded by appointments of a more permanent and attractive character to be held at the will and pleasure of the appointing authority.

22,235. (48) That subject to the interest of the present holders of the appointments being fully safeguarded, steps should be steadily and persistently taken to secure such grouping of parishes or re-arrangement of the collecting areas as will in the end afford full time occupation.

22,236. (49) That all taxes based on incomes or profits, whether Income Tax, Super-tax, Excess Profits Duty or other levies charged in any parish or collecting area should be payable to one Collector.

22,237. (50) That Collectors should be paid a salary without liability for any expenses connected with the office.

22,238. (51) That provision should be made for the later years of a Collector's life when, after many years of faithful service, the powers of human energy and ability fail. If this cannot be granted on the basis adopted in the civil service generally, it should be comparable with the provision made for Poor Law officials.

22,239. (52) That the Commissioners of Inland Revenue should seek direct information as to the operations of Collectors and take advantage of their practical experience by attaching one or more of them to their staff in a directorial capacity.

22,240. (53) That, having regard to the fact that the duplicates of assessments provide for the insertion of the amount and date of payment, and also for a record of the sums uncollected and the reasons for non-payment with the whole correctly balanced, it should be sufficient for Collectors to certify to the correctness of same without the necessity of preparing a separate list of arrears.

22,241. (54) That the expenses of distraint should be at least doubled.

22,242. (55) That the power to take summary proceedings—now confined to the recovery of quarterly assessments—should be extended to include all charges appearing in any duplicates handed to Collectors, who would by this means be provided, with an alternative to that of distraint.

[This concludes the evidence-in-chief of Mr. Brown.]

Evidence-in-chief of Mr. J. C. FERGUSON, on behalf of the Assessors and Collectors for the City of London.

22,243. I have had thirty years' experience as an Assessor and Collector of Income Tax in the City of London, and am appointed by my colleagues to offer the following evidence on their behalf. A considerable portion of the evidence which affects Assessors and Collectors generally has been given by Mr. Brown. The Collectors for the City of London have asked me to put forward their views, as they think that, although a small body, the amount of duty for whose collection they are responsible entitles them to be separately heard by this Commission. In view of

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Mr. Brown's evidence, I have not thought it necessary to dilate on the various duties of the Collectors, but I give from the point of view of an Assessor and Collector, in an abbreviated form, a resumé of the duties which in the course of the year he is called upon to perform. I am speaking from the point of view of an Assessor and Collector of the City of London, and the details may vary from those of duties undertaken in other places, more especially in smaller towns or in country divisions. Apart from the duties of an Assessor and Collector, I put forward certain suggestions for the consideration of the Commissioners, not so much as our personal views, but as expressing the opinions we have formed as a result of constant association with the public whose grievances we hear and whose suggestions we receive.

(1) Appointment.

22,244. In the City of London the Assessor also acts as the Collector. He is appointed annually by the General Commissioners for a ward or wards. The appointment is annual, but is almost invariably held continuously, and many of the present officials have held office for over 20 years.

(2) Office and salary.

22,245. A fixed remuneration is paid in respect of the work as Assessor and Collector, out of which the entire cost of office rental, clerks' salaries, and the various expenses incidental to the office are borne. The office of the Collector is required to be situated within the area to which he is posted, in order that he may be easily accessible to the taxpayer, his instructions on appointment being, "it is his duty to consider the interests of the taxpayer, subject to the legitimate interests of the Crown."

(3) Duties as Assessor.

22,246. As the heavy clerical work and responsibilities of an Assessor may not be fully realized, they are set forth in detail:

- (a) 14 List.—A list, named the "14 list," must be prepared and kept up to date, showing the names and addresses of all companies and firms, including partners and employees and all other persons liable to assessment under Schedule D, and it is necessary that the Assessor should have a thorough knowledge of the district in order that this list may be properly prepared.

- (b) Forms of return.—One or more of the following forms must be served upon those taxpayers whose names appear in the 14 list:—

- | | |
|---------|--------------------------------------|
| Form 1. | Upon companies and firms. |
| " 11. | Upon individuals. |
| " 8. | Upon private firms. |
| " 46. | Upon companies and corporate bodies. |
| " 12 } | Upon employees. |
| " 38 } | |
| " 8a. | Upon trustees or agents for others. |

- (c) Church door notices.—On the 7th day after issue of the above forms, the appropriate church door notices are required to be posted in the ward.

- (d) Examination of forms.—On return of the forms from the taxpayers they are examined, and if duly completed a record of receipt is made in the 14 list or equivalent Schedule E list. If incomplete, they are returned with a notification as to what is required. If the forms are not returned within 21 days reminders are sent out.

- (e) Assessment books.—Books containing the names of every person liable to be assessed are prepared yearly by the Assessor, the entries being based upon the 14 list and returns as follows:—

Schedule D, separate books prepared for limited companies and corporate bodies.

Schedule D, separate books prepared for firms and other businesses.

Schedule D, separate books prepared for employees under Schedule D.

Schedule E, separate books prepared for employees under Schedule E.

In the last case, the figures given by the company on the form 46, and also those returned by the individual, are posted.

- (f) Completed returns.—The completed returns and books are delivered to the Commissioners, or by their order sent to the Surveyor of Taxes, after which, where reliable information is not available from accounts, the Assessor, in consultation with the Surveyor, goes through the books, agreeing the amount on which duty will be charged, subject to confirmation by the Additional Commissioners. In the case of removals the Assessor must ascertain the new address, and note it in the assessment book. Newcomers into the ward also have to be noted by the Assessor.

- (g) Failure to render returns.—Before final submission the Assessor should estimate the income in all cases where the taxpayer has failed to render a return.

- (h) Interviews and correspondence.—Practically throughout the year much of the Assessor and Collector's time is taken up with interviewing taxpayers, who seek his advice and assistance in every detail connected with the compilation of their returns—claims for relief and repayment, Excess Profits Duty, Super-tax, and his ward Schedule A assessment. In spite of the explicit notes, the present forms of return appear to present difficulty to the ordinary individual.

- (i) Notices of charge.—Notices of charge, showing details of assessment in the majority of cases, are sent to the Assessor; these he forwards to the taxpayer concerned, noting every case.

(4) Duties as Collector.

- 22,247. (a) Duplicates.—Books called duplicates are received from the Commissioners, giving the final amount of assessed duty to be collected from each taxpayer. From the date of receipt of these books the Assessor's duties as Collector begin.

- (b) 1st demand notes: 1st instalment.—On receipt of the duplicates of charges a demand note is issued for the payment of the instalment due on 1st January.

- (c) Interviews and correspondence.—For some weeks especially, and generally throughout the year, his time is taken up with interviews and correspondence with the taxpayers, settling differences due to errors or omissions in their returns. It is not exceptional for him to have 400 or 500 such interviews in the months of January and February, as frequently the taxpayer ignores the Notice of Charge, only becoming active when a demand note for payment reaches him.

- (d) 2nd demand notes.—Twenty-one days after the issue of the 1st demand notes, a second demand should be made for outstanding accounts.

- (e) 3rd demand notes and forms 102.—If a second demand and personal application does not produce the desired settlement, a form 102 is issued and sent to the Surveyor of Taxes. This procedure transfers the charge on the taxpayer to his private residence.

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[Continued.]

- (f) Demand notes for 2nd instalment and additional assessments.—In addition to the 1st January collection, there are the following:—

- (1) March additional assessments.
- (2) 2nd instalment of main assessment, due 1st July.
- (3) July additional assessments.

(4) Land Tax.

Each of these collections necessitate similar procedure as above. The additional assessments are a frequent source of annoyance and confusion to the taxpayer, and generally call for detailed explanation.

- (g) Property Tax and Inhabited House Duty.—

The Collector is not an Assessor for Schedule A and Inhabited House Duty, but he is responsible for the duty arising under that head in his ward, and he also deals with the enquiries arising therefrom.

- (h) Procedure as to payments.—Official receipts

are issued for all payments, which are duly entered in an analytical cash book and posted against the corresponding charge in the duplicates. All moneys collected are paid daily into the bank. In the City of London a very large amount of Income Tax is paid in advance; the Collector accepts and reports payment, although he may not hold a warrant to cover the duty.

- (i) Appropriation sheets.—Each Wednesday an appropriation sheet is prepared, being a weekly statement of the daily transactions of collection. This is forwarded to the Surveyor of Taxes, and shows in addition to the sums collected; full details of any arrears collected after schedules of deficiencies have been sworn; full details of payments made in advance.

A short summary of the above statement is also sent to the Clerk to the Commissioners.

- (j) Relief notes and amended demand notes.—

Notices are received from the Clerk to the Commissioners when an assessment has been amended. These notices are treated as credit notes and recorded in the duplicates.

- (k) Schedules of arrears and deficiencies.—When

called upon, he submits a schedule of arrears and deficiencies for each duplicate issued to him. This schedule will comprise in detail all sums not collected, whether due to relief notes (as paragraph 4 (f)), or duty held over under instructions, or merely unpaid duty. The total of this schedule, plus the cash payments, must balance his total charge. In the City of London an enormous amount of work is caused owing to so many limited companies failing to pay all or part of fees due to their directors. It is necessary to treat the Income Tax based upon these fees as arrears, and from time to time raise the question with the companies as to whether the fees have yet been paid. In many cases it takes years before final settlement can be made. Although schedules of defaults and deficiencies have been delivered, the Collector continues the collection, and to enable him to do this a copy of all payable amounts is retained by him.

RECOMMENDATIONS.

(5) Basis of assessment.

22,248. The statutory income of the current fiscal year to be based on the actual income of the preceding year. It is realised that the change over may involve personal hardships in many cases, but we feel that a judicious application of rule 8 (1), 1913, would meet the majority of hardships. In all cases where the preceding year's figures cannot be ascertained in

time for assessment, an estimate based on the last agreed accounts to be taken. Any adjustments due can be made as soon as the current figure is produced.

(6) Return form.

22,249. The present form, No. 11, accompanied as it is with a concise epitome of the Finance Acts, should present no difficulty, but in practice it is found that the majority of the taxpayers do not grasp the intricacies of the instructions. If the recommendations of this basis of assessment be approved, we consider that form 11 and form 1 should be retained, only in a simpler form. One form, one signature, is advocated to serve for all individuals for Income Tax and Super-tax purposes.

(7) Partnerships.

22,250. Each partner in a firm to be separately assessed. The senior partner to be held responsible for the return and its appropriation. Powers of recovery from the firm should be retained.

(8) Directors' and trustees' fees.

22,251. Tax to be deducted before payment at the highest rate. Fees could be treated in the same way as dividends, and any necessary adjustment could be made in the general returns made by the recipients, as is now being done in the case of taxed income. This would obviate the cause for the complaints at present being made—that private particulars of liability are being divulged to officials of the various companies.

(9) Payment of duty.

22,252. The Finance Act should fix the rate of discount for payment in advance, and *vice versa* interest for late payments. Various reasons are given for non-payment of duty:—

1. Funds abroad, and rate of exchange unfavourable.
2. Dividend payments due.
3. Assessment on appeal, and accounts still with the auditors.
4. Excess Profits Duty just paid (which often means that this duty has been paid, under discount, with money rightfully due to the Crown, without rebate, for ordinary Income Tax).
5. Duty is not due before April 5th, and you cannot legally recover before that date.

The Crown allows discount for Income Tax, Schedule D, if paid before the due date, at the rate of 2½ per cent. per annum for the period paid in advance, but the discount for similar advance payments in Excess Profits Duty is at a higher rate. Representations have been made that Income Tax is not fairly collected, owing to the delay in obtaining payment in some cases. Two firms competing in business, one pays in January, the other refuses to pay until April, the latter having the use of money due to the Crown for three months or more, longer than the former. A liability to interest would correct this.

When a notice of appeal has been lodged, the Collector receives a form, 41a, this being an authority not to collect without further instructions. It is noticed that appeals are sometimes lodged but not proceeded with, whereby the Crown stands out of the duty for a considerable time. It is suggested that interest should be chargeable, or the present legal right of enacting full duty to be paid before the appeal is heard should be enforced.

22,253. It is understood that proposals have been made for changing the present system, to the effect that an Assessor and Collector of taxes should be relieved of his duties as Assessor, and the work of assessment be placed in the hands of the Crown Surveyor or Inspector of Taxes.

In theory this proposed change may appear sound, yet in practice many objections present themselves.

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That personal touch which has been present between the Assessor and taxpayer, and has proved of such great advantage both to the Crown and the taxpayer, would cease to exist. It is largely owing to the personal touch that the collection and assessing has been carried on with smoothness and satisfactory results in the City of London. The majority of assessments are upon individuals who cannot command the services of accountants. City Surveyors are more than fully occupied as it is, and the duty of dealing with this large class of taxpayers would fall upon their subordinates. The taxpayer would be unable to see the Surveyor personally, and although we know that his subordinates are generally most efficient and courteous, yet the taxpayer would labour under the grievance that he was too unimportant for the Surveyor's personal attention. This feeling exists at present, and would be accentuated.

In the interests of the taxpayer we consider that too much power should not be vested in one official, and it is advisable that the Assessor and Surveyor

[This concludes the evidence-in-chief of Mr. Ferguson.]

22,254. Mr. Kerly: Gentlemen, you represent the Assessors and Collectors of Government Taxes. Mr. Ferguson, I understand, specially represents the City Collectors?—(Mr. Ferguson): Yes.

22,255. Mr. Fisher comes from Liverpool?—(Mr. Fisher): Yes.

22,256. And Mr. Brown, you will tell me where you come from?—(Mr. Brown): London.

22,257. You are also a Londoner, Mr. Brown?—Yes.

22,258. We have had, of course, a good deal of evidence about the matters you deal with, but you are able to make a number of practical suggestions, for which we are obliged. I will take, if you please, Mr. Fisher's paper first. Mr. Fisher, you set out the duties of an Assessor?—(Mr. Fisher): Yes.

22,259. I want to put this to you. You are quite aware that suggestions have been made that the Assessor's work should be transferred to the Surveyor?—Yes.

22,260. You have no doubt seen the evidence, and you have seen that suggestion?—Yes, I have.

22,261. The suggestion is made on this ground. It is said that practically the work is done by the Surveyor; that the Assessor's work is to a great extent formal or clerical, that the discretion and judgment, and so on, is exercised by the Surveyor; and it is suggested that there would be a saving of unnecessary duplication of work if the nominal duty, as well as the practical work, is thrown upon the Surveyor. Now, you have given us, in your paper, the duties of the Assessor, and, so far as I can see, a large number of these are of a formal character?—Yes.

22,262. Would you like to say anything to us generally on the suggestion that I have made to you?—I think I might speak on the position of Assessors as local officers, bearing in mind the fact that the bulk of the taxpayers are the smaller traders and people in employment. The Assessor is the only man who comes in close touch and contact with them.

22,263. You say that the Assessor has special advantages in the performance of his duty, from his local knowledge and his knowledge of the taxpayer?—Yes.

22,264. Is there anything further you wish to say on that?—The point I wished to make was that it was the Assessor who comes in close touch with the majority of the taxpayers. His first duty in the preparation of a list in one that needs discretion and the use of his local knowledge in selecting; he must know his area and know the people that are in it, so that he can put them in. Then there is the advantage to the Crown, in that when he does that, it brings in cases which otherwise would be missed. This has been found already in the Isle of Man with their new Income Tax. Only this last year I heard of a small place there where a local man had been asked if he would supply a list of traders likely to be liable, and of residents likely to be liable, because it had been found, in the last year's working, that there were many people omitted from the list as it

had been worked. Then, as regards making inquiries; the Assessor is used by the Surveyor to make inquiries, and to supply him with information in settling cases, or in dealing with claims, or obtaining the information necessary for him to decide in cases of appeal as to whether there is liability or not, as to the man's position and standing. But I think the advantage to the public of the present system is, that the public can come to a man who is on the spot, who knows the history of the businesses, who knows the people himself—a man whom the public can approach, and from whom they can receive advice and help. That is of great value to the public generally. I know that in our city, where there are three of us, for practically three months of the year we are seeing the public all day long, advising them on their forms, telling them how they should draw them up, hearing their difficulties, explaining to them and helping them generally to get through what is to them a very difficult matter. Because the forms are most complex to the uneducated man. The instructions with the forms, certainly, are very complete; they are very helpful to a man who does not need them, but to the public generally they add materially to the confusion, and we find they come in and tell us that they cannot understand them, and ask what they must do?

22,265. So far as you suggest that there should be some officer to whom the public can resort for assistance and advice, of course, we all agree. Is there any reason why the Surveyor should not do that as well as the Assessor?—Yes, I think so. As a matter of fact, the people, when they apply to the Surveyor's office, are not able to see the Surveyor, and they complain that they do not get the attention that they need.

22,266. You mean because the Surveyor is too busy?—The Surveyor is too busy.

22,267. Now, leaving that point, you come from a great town, Liverpool, where the work is very well done?—Thank you, sir, for the compliment.

22,268. And you have separate Assessors and Collectors there?—We have.

22,269. That is not common over the country generally?—No. It occurs in Scotland and in one or two places in a smaller way.

22,270. I want to test what you say about the advantage of local knowledge. Do you suggest that in a great town like Liverpool it is possible for the Assessor to have any real personal knowledge of anything but a tithe of the number of persons to be taxed?—I think so, from observation.

22,271. Do you really think that he has a useful personal knowledge of a large number of the people who have to pay taxes?—Emphatically.

22,272. You suggest, throughout your paper, that the Assessors have been starved—and they seem to be paid very insufficient remuneration for really valuable work—and they have suffered under a great many difficulties in the past. Notwithstanding that, do you think they have been efficient for the work that you have indicated?—There have been varying degrees of efficiency.

22,273. Varying from competency to—nothing?—To practically a poor service; but I think you would recognize the position if you had a list of the amounts of remuneration paid for assessing work. Perhaps I might just give one case, of a man who is Assessor of eight country parishes. He prepares lists and serves forms in 400 cases; he examines these forms and gets them back and sends them in; he attends two Commissioners' meetings, to receive and deliver the forms, at a place five miles away from his home. He tells me he needs to keep a pony and trap to get about his district. His remuneration is 36s. 6d. Now, that is typical of the remuneration paid in the country area.

22,274. Mr. Marks: 36s. 6d. per week?—36s. 6d. a year.

22,275. Mr. Kerly: Does he do the work of collecting taxes?—He is the Collector of taxes as well.

22,276. What does he get as Collector?—I do not know, but it would be a small amount.

22,277. That seems to be wholly insufficient?—Then if I may go to another class of area—urban areas close to large towns, on the outskirts of large towns.

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where there are works and trading areas; I have one in mind where there are about 3,000 or 4,000 entries in the Assessor's list. He issues those forms and examines them, and, to my certain knowledge, he does the work well. He is engaged in inquiry work practically all the year round, because it is an area where there is constant change. His remuneration is £50 a year.

22,278. Is he also a Collector?—He is a Collector.

22,279. What does he get as Collector?—He is Collector for the ordinary assessments and Collector for the quarterly assessments; he would get £300, probably, for the general assessments.

22,280. You must take the two things together, must you not?—The Board have always kept them separate.

22,281. In judging whether it is worth a man's while, you must take the whole pay he gets, must you not, if the offices are in fact united?—They have always been treated and regarded as separate.

22,282. Now I want to ask you a question about paragraph 34. You suggest that the Assessors should have suitable instruction books. Do you think that the majority of Assessors are capable of making use of elaborate instruction books?—In all towns, certainly. Have you seen the instruction book that the Assessor receives? May I submit it to you?

22,283. Certainly. (Book handed in.) You suggest that these are insufficient?—Very insufficient; very inadequate.

22,284. I understand it is your view that the urban Assessors would be capable of making use of a more elaborate document?—Yes, certainly. May I suggest that in many cases, prior to the establishment of the Surveyors' clerks, many Surveyors' clerks became Collectors, and they have theoretical knowledge just the same as in the Surveyor's office, and they are fully capable of understanding the whole of the instructions for the proper working of the Income Tax Acts.

22,285. I should like to know whether the case of the competent Assessor, who might profit by such a book as you suggest, is not a very unusual one, taking the country throughout?—The bulk of the taxpayers are dealt with by those Assessors, because they are the men in the large centres.

22,286. You are not quite answering my question. I asked you whether, taking the Assessors throughout the country, the bulk of them would be capable of using, or would in fact use, more elaborate instructions?—Not in the country areas, but in the town areas, certainly.

22,287. It seems an obvious step, and certainly a very inexpensive one, to supply the workman with the best tools which he is capable of using?—We have always contended that.

22,288. There are many of your questions which need no discussion, because some of them are obviously reasonable, and others we have had discussed a great deal already. Will you turn to paragraph 52? You suggest an earlier commencement of the year's work. That and a good many of your other suggestions might be carried out by the Inland Revenue making appropriate rules for the purpose?—I do not think so.

22,289. Do you think that legislative changes are necessary?—Legislative changes are necessary which will permit the Assessor's appointment to be permanent. At the present time he is appointed in April, between the 5th and the 15th, and legally he is not supposed to commence his work until he is appointed. I have heard of a case where the forms were ready to be handed to the Assessor and were withheld; he was not permitted to receive them until he had been appointed, and that was in the case of a man who had been Assessor in the preceding years, and therefore had made the necessary declaration of secrecy and good service in the earlier years.

22,290. It seems obviously foolish to make those appointments, which are in fact continuous, nominally annual?—Yes.

22,291. The appointment is at present made by the Local Commissioners?—Yes, by the General Commissioners.

22,292. Do you think it would be an improvement if the appointment were put in the hands of the Inland Revenue?—Personally, I come from a town where the system of appointment under the Local Commissioners has been a thorough success.

22,293. At present the Inland Revenue appoint a considerable number of the Assessors, do they not?—No, not one.

22,294. It is the Collectors; I beg your pardon. They appoint a quarter of the Collectors, do they not?—Yes.

22,295. Then I suppose the Local Commissioners generally appoint those Collectors as Assessors, too?—As a rule. They do not in Liverpool.

22,296. We understand that Liverpool, and perhaps some Scotch towns, are quite exceptional?—And that is the reason for our offering the suggestion that the same principle should be extended to all large towns.

22,297. Now with regard to your recommendations. I think they are sufficiently clear; I do not think I need to ask you anything specifically about those. I will take next Mr. Brown, if you please. I only want to ask a couple of questions. In paragraph 6, you say: "The remuneration is arrived at by methods only known to the Commissioners of Inland Revenue and their officers, who, in no case, have any personal knowledge or connection with the work involved. It has to bear all the expenses incidental to the office, such as rent, clerical assistance"—and so on—"the remuneration being calculated without reference to or consideration of these charges, which naturally vary according to the situation of the collecting area." Is it your view that the Assessors and Collectors, where the offices are united, are generally underpaid?—(Mr. Brown): It is.

22,298. How do you suggest a proper remuneration should be arrived at for any given district?—That the present contractual character of the remuneration should give place to that of a salary commensurate with the duties performed by the Assessors and Collectors.

22,299. You say the Inland Revenue do not know what the duties are. How are they to ascertain them? I want a practical answer to it; how are the Inland Revenue to ascertain?—By closer intercourse with the Collectors themselves, and association with Collectors.

22,300. From that point of view, it would be much better, would it not, that the Inland Revenue should appoint the officer?—If the present conditions remain, it would not be so. If the conditions of service were such that they were attractive, it follows that the appointments by the Board would be desirable.

22,301. You say that the public regard the Collector as the one human element in the Revenue machinery. Why is that? What do you mean by that?—If I might be allowed to speak of the Assessor and Collector as one man, the public know him from the beginning to end of the proceedings. He has been a considerable time, as a rule, in the district, and his help is sought by them. They know him as an individual in the locality, and they feel that they are known also personally to him, and that they are not regarded as mere numbers or files to be dealt with. We continually have the taxpayers calling upon us first, before they will proceed to a Surveyor's office, with a view to adjustment of any assessment they may consider inaccurate.

22,302. The point is that the Collector is relatively permanent and locally resident?—That is so. The Surveyor and his officers, of course, are moved about with great frequency, and do not become personally known to the majority of the taxpayers in their districts.

22,303. Of course, if you gave Collectors and Assessors substantial salaries, and increased their areas so as to give them a substantial amount of work in the country districts, for instance, you would in some degree lose the advantage of local knowledge?—

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The grouping of areas would not have that effect, because they would never increase to the size of the districts now administered by Surveyors of Taxes. Assessors and Collectors would still retain that local knowledge, only over a more extended area.

22,304. Then you say there is no one at all at the head office of the Commissioners of Inland Revenue or amongst their Surveyors who has the slightest personal knowledge of the work and responsibility of the Collectors. If that be true, that is very undesirable, is it not, that the ultimate taxing authority, and particularly the Surveyor to whom questions are referred, should not know how the work is done?—I am referring there to the practical work of Collectors and the ramifications and peculiarities of their duties. In that connection, in regard to questions of detail, I do maintain the point that there is no close association between the officers of the Board of Inland Revenue and the Collectors who are responsible for the collection of the duties.

22,305. With that no doubt you take your recommendation that the Inland Revenue should seek direct information as to the operation of Collectors and take advantage of their practical experience by attaching one or more of them to their staff in a directorial capacity. Do you think that would be a desirable change?—I think it would be very desirable to secure greater efficiency among the Collectors, and it would be an advantage to the Revenue and the administration if it had closer knowledge of the detail work and peculiarities that arise in the work of the Collectors.

22,306. Do you mean that there should be attached to the Inland Revenue in some way an inspecting Collector, who should go round and see how things are going on in different Collectors' offices?—That would be desirable.

22,307. It could not be done in any other way, could it, to arrive at the result that you suggest in your paragraph 52?—That is a logical step that would be desirable.

22,308. It would be perfectly useless to take an odd man, say, from Wrexham—a name that occurs to me—who has been a Collector or Assessor there, and bring him up to Somerset House. You would not improve things in that way, would you?—No; the natural step should follow.

22,309. Mr. Ferguson, is there anything that you desire to add on general points to the evidence that has already been given? Of course we have your evidence here, and those of us who have not already done so will read it?—(Mr. Ferguson): Speaking as an Assessor in the City of London, our office, as no doubt is the case with other offices, are situated in the middle of the ward. Taxpayers come to us in very great numbers in preference to going to the Crown Surveyor, because he is at a distance, and if the taxpayer goes there he is quite unable to see the Surveyor, because the Surveyor is too busy. He probably sees very often somebody who has not been there very long, and he does not get the satisfaction that he wants; and although we send him down there very often and say: "Oh, you had better go and see the Surveyor about this," he will come back to us, and we have to deal with the matter ourselves. In fact it happens so often, in the majority of cases, questions are answered in our offices, and if any returns are wrong or any alteration is required we do it. We do it by correspondence, in this way. The taxpayer will call; we will ask him what it is, or he will tell us exactly what he has come about. We then write a note to the Surveyor, if we have not got the particulars before us; because we have only got a copy of the amounts that a taxpayer has to pay; we have none of the particulars; if we had it would be much easier. I will send that note to the Surveyor and get the reply back in 24 hours. I will then write to the taxpayer and explain the matter, and he will pay. It happens that in 1916-17 I kept a diary of the callers that called on me with questions that I could not answer without getting information from the Surveyor. In 1916-17 I kept a note of 392 callers. Of course there were many more that I

dealt with in the office, but in the case of the 392 callers I sent down and asked for the particulars that the taxpayers wanted. I got the answers back, and they were all settled in a very short time and the duty paid. If these 392 people, together with all the others that had come to see me, and that I had settled the cases for, had gone down to the Surveyor he could never deal with them.

22,310. The inference that suggests itself to me is that you ought to have been in the Surveyor's office?—It would be a great convenience if we were nearer one another.

22,311. Next door?—Even next door. It would be a great convenience to the taxpayer, and it would be of very great assistance to me.

22,312. In substance you lay stress on the same point as the other gentlemen. You say: for the assistance of the taxpayer we want someone who is local and someone who is permanently there so that they may get to know him?—And somebody who is sympathetic.

22,313. Mr. Kerly: Yes, we assume that.

22,314. Sir J. Harwood-Bonner: May I ask, just to make it clear to myself, do the Collectors collect under Schedule A as well?—Yes, they do.

22,315. So that in addition to the remuneration under Schedule D they will get a remuneration under Schedule A as well?—No. In the City a lump sum is paid to us for everything.

22,316. Is that so in the provinces as well?—(Mr. Fisher): As Collectors. There is separate remuneration as Assessors.

22,317. Under Schedule A?—Schedule A assessment occurs very infrequently. In the old days it used to occur every three years. Then it got to five years, but 1910 was the last re-assessment when the local Assessors had work on the Schedule A assessment. Before that there was an interval of seven years.

22,318. Do the Collectors under Schedule A get paid separately or in a lump sum, which covers everything?—(Mr. Brown): They receive one sum, but if they collect the tax for the quarterly assessment there is separate remuneration for that. There is no distinction between Schedules A, B, D and E.

22,319. I am quite aware how well the work is done in Liverpool. There is so much to do there that they naturally have nothing to do with the business of collecting rates, but in the country do not some of the same Assessors, in addition to doing this work, also act as rate collectors?—(Mr. Fisher): Yes.

22,320. And Poor Rate collectors?—As assistant overseers and Poor Rate collectors and often enough as schoolmasters.

22,321. So that, speaking about remuneration—and we all admit there ought to be proper remuneration for services—in the country they are a combination of officials, and they get, I suppose, a combination of payments?—Yes, but we have a feeling sometimes that they collect taxes almost from patriotic motives. I have come across many country Collectors (this was three years ago) where the remuneration was only about £10. Naturally it should have gone up now because of the alteration in Schedule B and the double collection; the remuneration should have increased. That is one difficulty that we hear from very many Collectors at the present time—that with the increased work a corresponding increase in remuneration has not been made.

22,322. This does not apply to London and Liverpool and such towns; it is only in the country places where the combined business of schoolmaster and Collector, Schedule A, and Schedule D, all come under one heading?—It would apply to all cases of Collectors, because of the two instalments, and collections taking place twice now.

22,323. It applies to London and Liverpool as well as to country places?—Yes, it does.

22,324. Then the only other thing I would like to ask is this. There is a sort of general idea that the Collectors get a bigger remuneration if they get the money in in January and February than if they are

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more merciful and let it stand over till March or April. Is there anything in that statement?—(Mr. Brown): The only basis for such a suggestion is now non-existent, but it was quite the reverse; if the Collector did not secure certain percentages in the months of January and February and so on, his remuneration was entirely stopped. If he did qualify according to a certain arbitrary scale his remuneration was paid to him practically on the same basis. But the Board of Inland Revenue now pay all Assessors and Collectors regular monthly instalments of the lump sum that they award to them for a year. They still do not enjoy a salary.

22,325. So there is no truth in the suggestion now that excessive pressure is put on generally at the end of February, that you must pay before the end of the month, and that a message was sent out to everybody: "you must let me have this money by the end of the month"?—There is one point that does affect the taxpayer—

22,326. There is nothing in the shape of extra remuneration for early collection or heavy pressure?—There is no financial benefit to any Collector, but attention has been drawn to the fact that according to the Collector's area and number of charges to duty, so his date for closing his accounts varies. The result is that in the small areas a taxpayer who, fortunately or unfortunately, happens to be located there, through pressure in the Department has to pay his tax at a much earlier date than is necessary according to the regulations in the larger areas. In small areas the Collectors must be clear by the 28th February, but in a large city or urban district they have twice as long—to the 31st April. There are some who have to close their accounts by the 31st March. To comply with these regulations the Collectors must bring pressure to bear upon the taxpayers at varying times.

22,327. If there was a whole-time appointment, would not that interfere with the collection of the other taxes; would it not interfere with the position of the man who occupies the joint appointment of schoolmaster and rate collector?—Our point is that the changes in the methods of collection by instalments and quarterly assessments have made greater demands upon the time of those Collectors who hitherto only gave part of their time to the duties of the office, and it is not in the interests of the Revenue or the taxpayer that those part-time appointments should continue any longer than can be avoided.

22,328. So you ask that it should be made a whole-time appointment?—As vacancies arise, but not to the detriment of the men who have performed their duties efficiently in the past under the vicious system that obtains.

22,329. The system would be that you would virtually become Inland Revenue officials to the extent of having their duties only to consider?—That is so.

22,330. Mr. McLintock: I should like to ask Mr. Fisher one or two questions on the duties of an Assessor. I take it you are speaking generally for the Assessors of the big towns?—(Mr. Fisher): Yes.

22,331. Not for the country districts?—I have divided them in these notes into two classes. They have their uses in the country district, but they may be somewhat different from the towns. For instance, there are no directories in the country districts, and there are no clearly defined addresses. There is a necessity for a man who knows where certain people live, and where certain trades are carried on, and can promptly reply to inquiries from the Surveyor as to which property is referred to in certain correspondence.

22,332. Take the cities as illustrating what I want to ask you. In paragraphs 4 to 18 you narrate the duties, and when you come to paragraph 9 you say: "To receive the forms when filled, and registers their receipt." That is when the taxpayer returns his form?—Its receipt is noted in the list.

22,333. It is passed on then to the Surveyor?—No; we examine it, and if it is not complete we send it back to the taxpayer with a note telling him where it is incomplete, and asking him to complete it.

22,334. For instance, if in the particular space where he ought to put "nil" he leaves it blank?—That looks rather a simple thing, but if you go back

you will find that no exemption was made unless the claim was properly completed; therefore those "nils" are necessary. The form, which is a form submitted to Parliament and becomes the legal form, is headed: "In this space if no income is to be entered, 'nil' is to be stated." We have no alternative but to send it back, and as a matter of fact it is in the taxpayer's own interest to have it right. Then there is another point in that connection, as to the writing of the word "nil"; frequently before a man writes it he thinks in a way that he does not think it he leaves the space blank. We frequently find when we are going through a claim with a man at our desk such small things as bank interest and War Loan interest are forgotten. It would surprise you how little men seem to have a grasp of their own affairs so far as investments are concerned; we frequently have to ask them to get particulars.

22,335. It is not so much the grasp of their own investments as the grasp of the necessity to put them in the Income Tax returns?—That is so, and when you ask them to put them in they have to make inquiry to find what it is. With regard to such a small thing as bank interest, if you saw the assessments for that you would find that a large number of those had practically been obtained by personal inquiry when men have been filling up their forms, and by the sending of the forms back to have those amounts entered. It realises a material amount of revenue.

22,336. In the case of all traders who have accounts, is it correct to say that the Assessor's duties are extremely formal?—Do you mean the traders who furnish accounts?

22,337. Yes?—Practically, but they are small in number in comparison to the whole of the taxpayers.

22,338. The revenue, however, is very large compared with the total revenue?—It is; it is a large percentage of the revenue, but at the same time what is left beyond that is also large.

22,339. You do not anywhere in your paper, of course, suggest that it actually happens that the very large proportion of the total revenue collected under Schedule D is assessed and collected on the basis of accounts produced?—No, we do not.

22,340. But it is a fact, nevertheless?—But the accounts produced are something in excess of what is required by law; it is the returns that are required. When accounts have been furnished we have to deal with the returns of the firms where they are private firms, and we have almost as much trouble in dealing with those returns as we would have if there were no accounts, because the Surveyor receiving the accounts goes through them, agrees the figure for the assessment, but that figure has to be divided on page 3 of the forms between the various partners of the firm for the purpose of determining the rate of tax. It is as great a difficulty to most firms to divide the income on that page as to arrive at the figure. I had a chartered accountant who came to me and said, "how shall I do this? I fill up hundreds of these, but I have never been able to understand page 3." It was his own firm's return.

22,341. I quite agree it is rather difficult at times, but as a matter of actual practice is it not the case that the returns based on accounts are in very large numbers, settled and agreed with the Surveyor of Taxes, and the income divided between the partners, before even you issue your first form?—Not income divided.

22,342. Is it not the case that there is sent out annually in the months of January and February by the Surveyors a request to all the people who are in the habit of producing accounts?—Yes.

22,343. They send in those accounts as soon as they are ready, and the chances are that before your yellow form arrives in the month of May or June everything is settled with the Surveyor?—Only the liability on the average of the three years.

22,344. And in the case of a public company, and these contribute a large portion of the revenue, the liability is determined, and all that is necessary is to state a total on page 3 of the yellow form, and sign it and send it in; the Assessor has practically no work?—He has to get the form.

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22,345. He has to get the form, but as a matter of fact all the real essential work to get the revenue in has been already done by the Surveyor?—In this particular case.

22,346. And it is from those cases that the bulk of the revenue under Schedule D comes?—Yes.

22,347. You say here that an Assessor's work is of a highly technical and confidential character, the Revenue being largely dependent on his intimate local knowledge, and so on. I suggest it is the smaller taxpayer who keeps no accounts, and has no accurate idea of how much he is making, who comes along and has a chat with you about it, but you do not settle that liability; it is really the Surveyor, is it not?—In the case of the small taxpayer?

22,348. In the case of these estimated assessments?—In the case of the estimates the taxpayer makes his return, and after the return has been examined and the Surveyor has had an opportunity to take it up and make an inquiry that he considers necessary, we enter in assessments before the books go to the Additional Commissioners.

22,349. The Assessor by himself enters the assessments?—Yes.

22,350. Without consulting the Surveyor?—I was going to follow on with that. We hand the books back to the Surveyor, who goes through our estimates. We then go with him through any cases in which he considers there is room for alteration, and then the books go to the Additional Commissioners who exercise their right of making the assessments, altering our figures as they think fit. In that case there is a help or a protection to the public in that there is no assessment made on one man's judgment only. We express an opinion, the Surveyor supervises it, confirms or objects, and then again the Additional Commissioners finally decide.

22,351. Does the Surveyor usually have the last word?—No, the Additional Commissioners have the last word.

22,352. I mean as between the Surveyor and the Assessor?—We usually agree.

22,353. Mr. Kerly: What you have just told Mr. McLintock is the practice in Liverpool; is it not a wholly exceptional practice, almost peculiar to Liverpool?—I have been a junior Assessor in Liverpool for 12 years, and prior to that for 17 years I was Assessor in one of the outside districts. The same practice existed there, and I believe that a similar practice is carried on in Glasgow.

22,354. What was your other district?—Kirkby; and it is done in London.

22,355. Mr. McLintock: Under paragraph 13 you refer to the issue of notices of assessment, and precepts requiring accounts; what do you mean by precepts requiring accounts?—In cases of appeal the Surveyor sends a list to the Clerk to the Commissioners of cases where the Commissioners require accounts for appeal purposes. They are prepared and they are sent to us to issue to the appellants.

22,356. Is it not the duty of the Clerk to the Commissioners to issue those?—No. Under the Act the Assessor has to issue all notices and precepts issued by the Commissioners.

22,357. In all the large cities, Glasgow for example, do you know who issues them?—No, I do not, but I know in Liverpool we issue them.

22,358. In Liverpool the Assessor issues them under the signature of the Clerk to the Commissioners?—Yes.

22,359. It is merely a question of sending out a printed slip requesting accounts for a given period?—Yes.

22,360. You mean you post them?—Yes, register them.

22,361. Your statement might mislead people generally into thinking that the duty of getting these accounts devolves on the Assessor. These are only the cases of appeal where the taxpayer has not thought fit to send accounts in support of it, and the Commissioners issue a precept that he should produce accounts, and the Assessor despatches that notice to the taxpayer?—Yes.

22,362. With regard to the responsibility for affixing public notices, do you not think that publishing notices on the parish church door is rather a waste

of time?—Yes, I do. If I might make a suggestion I think that an advertisement in the local Press would be of far more service than the church door notice.

22,363. Then on the question of appeals, an appellant must already have agreed as a rule with the Surveyor or the Clerk to the Commissioners as to the date on which his appeal will be heard?—No.

22,364. I mean that there is due notice given to an appellant?—Of a fixed date, yes.

22,365. And he comes along on the date fixed for his appeal by personal notice to him?—By the notice that is sent out with the precept for accounts.

22,366. The general notice that the Commissioners are sitting to hear appeals does not amount to anything, because only those come who are invited to come?—Yes.

22,367. Any taxpayer cannot walk in off the street and ask for his appeal to be heard?—He could; the general notice gives him the right.

22,368. Is it ever done; did you ever know of a case?—

22,369. Mr. Kerly: It would not be any good if he did?—He would not have given notice.

22,370. Mr. McLintock: In paragraph 24 you refer to the importance to the Revenue of the Assessor's work, and you state that its efficiency has been sacrificed to a false sense of economy?—I am speaking there chiefly of the small amounts of remuneration paid to the Assessors generally, and also the need of proper instructions and advice.

22,371. Do you mean the efficiency of the Assessor's work?—Yes.

22,372. You do not suggest that the work has suffered because the Assessor has been inefficient?—If the Assessor is inefficient the work does suffer—the Revenue suffers.

22,373. Have not the Inland Revenue themselves got to make up these deficiencies at present where they exist? I think you will agree that probably in all parts except the cities there do exist deficiencies on the part of Assessors, because you relate somewhere the duties that should be entrusted to them, which involve a pretty full knowledge of Income Tax law and practice?—Yes.

22,374. You do not suggest that over the country generally the present body of Assessors are capable of tackling the duties you say they ought to perform?—In small country areas they would not be, but there is not much that is difficult to work there. There is not much in the way of trade or business carried on.

22,375. For instance, have they any knowledge of accounts to speak of?—Simple accounts only.

22,376. I will not pursue with you what simple accounts are. Your view is that the present body of Assessors throughout the country generally, excluding a few in the big towns, are not competent to carry out duties such as you would entrust to them?—I would not say that. There are some that I know of who are probably incompetent, but in all the places where the work is necessary I believe there are men who would be competent.

22,377. Do you suggest that even in the big towns the Assessors who hold the offices at present have made themselves thoroughly familiar with all the Income Tax law and practice necessary to advise a taxpayer when he comes along, produces his accounts, and discusses intricate points of accounting and the application of them for Income Tax purposes?—With the exception of accounts. As a rule a large taxpayer with intricate accounts does not come to the Assessor; he has his accountants.

22,378. Mr. Marks: Mr. Brown, in paragraph 62 of your paper you suggest "that the Commissioners of Inland Revenue should seek direct information as to the operations of Collectors, and take advantage of their practical experience by attaching one or more of them to their staff in a directorial capacity." What do you mean by "directorial"?—(Mr. Brown): I might preface it by stating that my experience is—

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22,379. I see what you point is. I will put it to you in another way. Do you mean by "directorial" something analogous to the duties of a Commissioner of Inland Revenue, or do you simply mean a consultative or advisory capacity?—The latter, and directing the working of Collectors.

22,380. Perhaps all three of you gentlemen might have views on this next point. Do you agree that it would be an advantage that the Income Tax year should be made to coincide with the Treasury year, the fiscal year—that is to say, that it should end on the 31st of March instead of the 5th of April?—Yes. (Mr. Ferguson): Yes.

22,381. You all agree with that?—(Mr. Fisher): Yes.

22,382. Would your experience lead you to think that might be carried further, and that the Income Tax year might be made to coincide with the calendar year; would there be any advantage in that either from the point of view of the Department or of the taxpayer?—If it was made obligatory there would be a difficulty with traders. At the present time their year is taken up to any date in the preceding year at which they balance their accounts.

22,383. We will say that there would be a saving for those taxpayers who make up their accounts at any other date than the 31st December?—I should agree if the basis of assessment was the preceding year's income. It would provide the means of work being done earlier and being done better. As a rule among the public we have never heard anyone object, but rather they would welcome, I think, as a whole, the assessment on the preceding year's income as a basis; your idea seems to lead me to that.

22,384. Do you other gentlemen agree with that?—(Mr. Brown): Yes. (Mr. Ferguson): Yes.

22,385. Mrs. Knowles: Does the Inland Revenue fix the salaries of Collectors according to the amount that they collect?—(Mr. Brown): No.

22,386. It does not vary according to the amount collected?—We are unable to say what basis or what scale the Board of Inland Revenue adopt in fixing our remuneration, which is contractual, but it is certainly not fixed on the amount of the duty collected.

22,387. It has no relation whatever to the amount collected, and therefore you are perfectly free to be the friend of the taxpayer?—That is so.

22,388. Your two interests do not conflict?—Perhaps you are thinking it may be in the interest of an Assessor or Collector to secure a higher assessment because he would financially benefit.

22,389. That is what I meant. If he was a friend to the public on the one hand, and gets his salary reduced if he lets them off on the other?—He would never obtain any financial benefit because of

the increase in the actual duty paid in his district. (Mr. Fisher): That ceased entirely in 1891.

22,390. But I did not know if that, or something of that kind, was taken as the basis for the lump sum remuneration?—(Mr. Brown): No.

22,391. Mr. Kerly: Mr. Ferguson, you told us about the 302 cases in which in the year 1917 you had to refer to the Surveyor?—(Mr. Ferguson): Yes.

22,392. About how many callers a day do you have at your office?—To ask questions or get amounts corrected in one day I had 110 people in my office, and I suppose 30 or 40 of those came to query the assessment, and the rest would come to pay the tax.

22,393. Twenty or 30—that was a very exceptional day?—Yes, it would be for the total number.

22,394. I am not asking about people who merely came to pay; that is the Collector's duty; I am asking about people who came to you as Assessors?—I should say about 30 out of that number would.

22,395. That was an exceptional day?—Yes.

22,396. The Surveyor has 40 or 50 a day, has he not, all through the year? It is suggested to me that is what happens in the City of London?—I am sure of this, that more people come in to query and ask as questions than go to the Surveyors.

22,397. Thank you; it was merely to test that I asked you the question. We are much obliged to you gentlemen, and may I say this, that in spite of the somewhat unsatisfactory account you have given of the position of Assessors and Collectors over the country generally, with their poor pay and their naturally poor competence and poor instruction, if we could think that you three gentlemen represented them all we might form a somewhat different opinion. —Thank you, sir. Might I just mention this, although I may not be in order. I do not think the Super-tax department has an office in the City; if they have I do not know, where it is, neither do the Super-tax payers.

22,398. That is the Special Commissioners' business now?—That is the Special Commissioners' business. The Super-tax payers use our office in very great numbers. It may sound strange, but they do not keep copies of their returns, and the questions that are put to us and the work we do for the Super-tax department is really sometimes very heavy indeed, because Super-tax is a thing that you cannot do in two or three minutes. On one occasion I said to the taxpayer: "this is not my department; would you mind going up to Kingway?" He went away, and wrote and said "if you would help me you could." So I helped him. There are a great many cases like that.

22,399. Mr. Kerly: Thank you, gentlemen. We have not questioned you about the Super-tax, because we have heard a great deal of evidence on that subject from other people.

MR. W. A. HATFIELD AND MR. LESLIE S. WOOD, called and examined.

The witnesses handed in the following statements as their evidence-in-chief:—

No. 1. Evidence-in-chief of Mr. LESLIE S. WOOD and Mr. W. A. HATFIELD, on behalf of The Central Landowners' Association, The Land Union, and The Land Agents' Society.

22,400. (1) Our evidence will be directed to the general question of Income Tax as it affects the owners of agricultural land. We do not propose to deal with Income Tax on the profits arising from the occupation of land used for the purpose of husbandry only, as this is a subject which we suggest could more fully and appropriately be dealt with by the witnesses on behalf of the organisations representing the farming interests. Nor do we now wish to give evidence with regard to Income Tax on the profits arising from the occupation of woodlands, as this is a difficult and technical subject upon which we propose to give separate evidence not only on behalf of the three bodies we are now representing, but also on behalf of other organisations specially interested in forestry.

Income Tax under Schedule A.

22,401. (2) There is no doubt but that in the majority of cases owners of agricultural land pay Income Tax under Schedule A on an assessment which much exceeds their net income from the land. Income from the ownership of land is not assessed to Income Tax like that derived from other forms of property and from commercial undertakings, at its net amount, but is assessed under Schedule A at its gross amount less certain statutory deductions which in no way represent the annual expenditure for purposes necessary to maintain such income. The tax is payable on the "annual value," which is the rack rent at which the property is let, or if not let, is worth to be let by the year, the occupier undertaking to pay such rates and taxes and other burdens as are by law a charge upon him, and the owner doing the necessary repairs. The amount of the tithe and land tax paid in respect of the premises should be deducted from the rack rent in arriving at the "annual value," and if the owner pays rates and taxes which are by law a charge upon the occupier, the amounts of these should also be deducted.

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22,402. (3) The "annual value" thus arrived at was, until 1894, the amount upon which Income Tax was levied, no allowance being made for the cost of ordinary repairs and general upkeep. This imposed a great injustice upon landowners, as they were called upon to pay Income Tax, not on the net income from their rents, but upon the amount of their gross receipts, less only the amount of the land tax and the tithe, which latter, of course, they merely collected for the tithe-owner. The Finance Act of 1894 afforded them some measure of relief, in that it provided that one-sixth of the annual value in the case of houses and one-eighth in the case of lands (including farm-houses and buildings, if any) should be allowed in respect of the cost of repairs, &c., in determining the amount on which the duty was chargeable. The relief afforded by the Act of 1894 to some extent relieved the landowner from the injustice under which he had been suffering, as may be gathered from the fact that the deductions amounted in 1908-9 to £6,000,000 in the case of land and to nearly £39,000,000 in the case of houses and buildings, but the amount allowed for the cost of upkeep fell far short, in the case of agricultural estates, of the actual sums expended upon them.

22,403. (4) Section 69 of the Finance (1909-10) Act, 1910, gave further relief, in that it provided that where an owner of lands (including farm houses) or of houses the assessment of which for the purpose of Income Tax Schedule A did not exceed £8, showed that the cost of maintenance, repairs, insurance, and management, according to the average of the preceding five years, had exceeded the one-eighth and one-sixth, respectively, of their annual value, (that is, the amount which had been allowed in arriving at the assessable value), he should be entitled on making a claim for the purpose, to repayment of the amount of the tax paid on the excess, on a further allowance of one-eighth of the annual value in the case of lands, and one-twelfth in the case of houses. An allowance for the cost of upkeep thus being made, on proof of expenditure, up to a limit of one-fourth of the annual value, in the case of lands, and of houses of an annual value not exceeding £8.

Under section 8 of the Finance Act, 1914, the limit of the amount on which the duty might be repaid in respect of the cost of maintenance, &c., was removed; and £12 was substituted for £8 as the annual value limit for houses to which the concession applied.

And under the Finance Act, 1919, the concession has been extended to all houses not exceeding £70 in the Metropolitan Police District, £60 in Scotland, and £50 elsewhere.

The concession granted by section 69 of the Finance (1909-10) Act, 1910, as amended by the subsequent Acts already mentioned, has undoubtedly removed much of the injustice under which landowners previously suffered. It is a concession which though fair and equitable from the point of view of the Exchequer is of great value to owners of agricultural estates, and small houses, and goes far to meet their grievance that they have hitherto been assessed on amounts which greatly exceeded the net income from their property.

22,404. (5) A grave objection, however, to the arrangement is that Income Tax has in the first place to be paid on the full annual value less the statutory deductions referred to above, and the amount of the tax on the further allowance for maintenance, &c., has to be recovered at a later date. At the present high rate of Income Tax this involves in some cases a heavy, and in all cases unnecessary outlay on the part of the owner, pending recovery.

22,405. (6) We suggest, therefore, that, in all cases, the landowner should be given the option of being assessed in respect of his income from land and houses under Schedule D, viz., on his average net income therefrom during the three years preceding the year of assessment.

22,406. (7) We would point out also that the one-sixth and one-eighth now allowed as statutory deductions in the case of houses and lands, respectively, are quite insufficient proportions of the rent to meet the cost of maintenance, &c. Even in pre-war days the cost of upkeep on an average

agricultural estate far exceeded these proportions, and with the cost of repairs more than doubled, and rents in most cases remaining at their old level, the allowance has become entirely inadequate.

22,407. (8) We recommend, therefore, as an ideal, that the owner should be given the option of assessment under Schedule D, on the average income for the preceding three years, and in the event of this proving to be impracticable that the statutory deductions for the cost of maintenance should be largely increased.

Profits from the occupation of lands.

22,408. (9) As already stated, we do not propose to give evidence in respect of Income Tax on the profits arising from the occupation of lands used for the purposes of husbandry only, and we are dealing separately with the question as it affects woodlands managed on a commercial basis.

There are, however, other lands such as pleasure grounds, waste lands, moor lands, &c., which do not come within the definition of lands used for the purposes of husbandry only. And there are woodlands in respect of which it cannot be claimed that they are, or even can be, managed on a commercial basis.

22,409. (10) There is no option in the case of such lands of their being assessed under Schedule D on the actual profits derived therefrom.

22,410. (11) Previous to the passing of the Finance Act, 1915, all such lands (together with the lands to which the option of assessment under Schedule D applied, but where such option had not been exercised) were assessed under Schedule B at one-third of their full annual value. Under the Finance Act, 1915, and since the passing of that Act, they are assessed at their full annual value.

In the case of such lands, while in most cases there is and can be little or no profit arising from their occupation, owing to their nature and character, the occupier (who is usually also the owner) is called upon to pay Income Tax, under Schedule B (and possibly also Super-tax) on their full annual value in respect of profits which are assumed to arise from their occupation but which do not in fact exist.

22,411. (12) There would be comparatively little injustice in this, if he were given the option of assessment under Schedule D, on the basis of actual profits, but he does not enjoy this option. It may not be practicable to relieve the occupier entirely of his obligation to pay Income Tax in respect of his occupation of such lands, but we claim that the full annual value is far too high a value to put upon the profits from such occupation, and we suggest that in all cases where the occupier has no option of being assessed under Schedule D on his actual profits, the assessment under Schedule B should not exceed one-third of the annual value, as was the case before the Finance Act, 1915, was passed.

No. II. Evidence-in-chief of Mr. LESLIE S. WOOD and Mr. W. A. HAYLAND on behalf of The Central Landowners' Association; The Surveyors' Institution; The Land Agents' Society; The Royal English Arboricultural Society; The Scottish Arboricultural Society; The English Forestry Association; and The Landowners' Co-operative Forestry Society, Ltd.

22,412. (1) We wish in the first place to point out what appear to us to be five essential points to be considered in connection with the assessment of woodlands for the purpose of Income Tax.

(a) It is in the interest of the nation that landowners should be encouraged in every possible way to plant woods. It may be said that hitherto most owners have only planted as a source of pleasure and pride in their estates, or as a duty to their successors, and it is desirable to encourage planting for the sake of profit. For this reason we ask that every consideration may be given to the subject, so that owners may be assured that they suffer no injustice in the payment of Income Tax.

(b) No existing capital, as represented by timber, should be subject to tax.

(c) The Government are proposing to carry out extensive planting and forestry operations, and in respect of their plantations they will not be subject

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to taxes or Death Duties. They will, therefore, be competing in the open market against the landowner on favoured terms.

(d) Once an owner has planted land, the cost of grubbing is so great that financially speaking the land is permanently dedicated to forestry.

(e) The production of timber involves a long period during which the owner receives no income from the land, in respect of which, nevertheless, rates and taxes have to be paid; and the burden of these rates and taxes, coupled with the loss of rent from other sources, and the initial cost of planting and the subsequent annual expenditure on upkeep, involve a large outlay on the part of the owner for which he gets no return whatever for at least twenty years.

22,413. (2) Woodlands, like all other lands, are charged with Income Tax under Schedule A on their full annual value, less certain statutory deductions, and in certain cases other allowances, in respect of the cost of maintenance, etc. It is customary for the rating assessment to be taken as the basis for the assessment for Income Tax. It is believed, however, that there is no authority for this: in fact, in the Report of the Departmental Committee on Forestry in 1906, it was stated that the Commissioners had instructed their Surveyors of Taxes to assess woodlands for Property Tax at the rents which the lands in their natural state might reasonably be expected to bring in as pasture or grazing land. We consider that it is desirable that this instruction should be repeated and that it should not be necessary to obtain a reduction in the rating assessment in order to get the Income Tax assessment reduced to its proper level.

22,414. (3) It is, however, with regard to the Income Tax in respect of the occupation of woodlands, that we wish particularly to give evidence and to point out the injustice under which occupiers (who are in almost all cases the owners) suffer.

22,415. (4) Prior to the passing of the Finance (No. 2) Act, 1915, profits arising from the occupation of woodlands were in all cases assessed under Schedule B at one-third of the annual value of such woodlands, and there was no option of assessment under Schedule D on the actual net income therefrom, as in the case of lands used for the purposes of husbandry only.

22,416. (5) Under the provisions of the Finance (No. 2) Act, 1915, the assessment under Schedule B was raised from one-third of the annual value to the full annual value, and the option was granted to occupiers of woodlands, who proved to the satisfaction of the Commissioners that such woodlands were managed by them on a commercial basis and with a view to the realization of profits, to be charged to Income Tax under Schedule D, subject to certain conditions which have been somewhat modified by subsequent legislation.

22,417. (6) Admittedly a genuine effort was made at the time to arrive at a practicable and equitable basis for assessing the profits arising from the occupation of woodlands on the actual net income derived therefrom.

22,418. (7) As, however, the method adopted for assessment under Schedule D was based on the average annual net income (i.e., gross receipts less expenditure) for the three years preceding the year of assessment, no account being taken of the expenditure prior to, or the capital value of the timber at the commencement of the three years' period, it is entirely inequitable in the case of woods or plantations which contained timber of several years' growth at the commencement of that period. It is of value only, and has as a rule only been adopted, in the cases of woodlands which have been planted or replanted within three years of the election to be assessed under Schedule D.

22,419. (8) Owners who have not hitherto exercised their option of being assessed under Schedule D have already paid full Income Tax (under Schedule B) to date, and many, probably most of them, have paid a sum quite out of proportion to the profit they have derived or to the increment which has accrued in the value of their timber. So that to bring into the account in any future year of assessment the receipts from the sale of timber which had been grow-

ing, it may be, for many years before the election to be assessed under Schedule D was exercised, would be to tax them on the capital value of their timber, on part of the expenses of growing, which, they have already paid Income Tax under Schedule B.

22,420. (9) We much regret that though very careful consideration has been given to the matter by the organisations on behalf of whom we are giving evidence, it has not been possible so far to arrive at any practicable and equitable basis for the assessments on actual profit, which would be generally applicable to the various kinds of woodlands in different parts of the country.

22,421. (10) While the present basis is (for the reasons already stated) wholly inapplicable in the case of timber plantations of several years' growth, we believe that with certain modifications it would work fairly well in the case of underwoods, and of newly planted woodlands generally.

22,422. (11) We would suggest, however, that the owner should be allowed to select the woods which should come under Schedule D, with the retention of the proviso that when once they have come under that Schedule, they cannot revert to Schedule B, so long as they remain in the occupation of the person who made the election.

22,423. (12) We would suggest also that in the case of exceptional fellings, which have taken place since April, 1915, an owner may produce evidence before the Commissioners that he has felled timber in excess of the total increment which would have accrued if such timber had not been felled, and if they are satisfied as to the correctness of his figures, the amount of the tax on the excess shall be remitted. And we would recommend that from April, 1923, the net income should be based on the average of the preceding five years—instead of three years as at present.

22,424. (13) With regard to the present Schedule B assessment on the full annual value of the woodlands, we are of opinion that this much exceeds the net income, and is therefore inequitable. The owner, who is in practically all cases also the occupier, pays Income Tax under Schedule A in respect of the annual value of the land. In very few cases does he receive an average net income equal to the amount upon which he pays under this Schedule, and in still fewer cases is there any profit (after deducting the annual value) for assessment under Schedule B or D.

22,425. (14) We claim that no injustice would be done to the national exchequer if Schedules B and D were waived so far as woodlands are concerned, and the occupying-owners were charged only under Schedule A on the annual value of the land.

22,426. (15) If this is held to be impracticable, we would strongly urge that the Schedule B assessment should be reduced to one-third of the annual value, as formerly. There is reason for believing that the chief argument in favour of increasing the Schedule B assessments of all lands in 1915, was that the profits derived from the occupation of agricultural land might reasonably be assumed to exceed one-third of the rent, and that if they did not, the occupier of such land could elect to be assessed under Schedule D. We would point out that the position as regards woodlands is not analogous to that of agricultural land, and that as there is no equitable method by which the occupier of the former can be assessed on his net profits, it must not be assumed that he remains under Schedule B only because it is more profitable for him to do so.

22,427. (16) On an average, the Schedule A assessment on woodlands is at least 3s. 6d. per acre, so that the Schedule A and the Schedule B assessments amount to 7s. per acre, which we consider much exceeds the average net annual income received from woodlands throughout the country. Indeed there are large areas of poor woodlands which, through poverty of soil and other reasons, bring in little or no revenue, and in many cases they are a source of annual loss to the owners.

22,428. (17) It may be undesirable to have a flat rate per acre through the country, as even the unimproved or prairie value of land varies in different parts. But if the principle of a flat rate were adopted, it should, in our opinion, be on the low side

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of the average and should not exceed 4s. per acre, and one tax only, viz., under Schedule A, should be levied on it.

22,429. (18) In the event of it being held that Schedule B must be continued (where there is no election to be assessed under Schedule D) we would suggest an assessment for Schedule A at the rate of 3s. in the £ and that the Schedule B assessment should be on one-third of the Schedule A assessment.

22,430. (19) One other point to which we would draw attention is the fact that if woodlands are in hand, and the sporting rights are included in the Schedule A assessment, it is customary for the Schedule B assessment to follow the Schedule A assessment, and consequently, double tax is levied on the sporting rights. Under Rule 1 of Schedule B of the Income Tax Act, 1918, Schedule B is to be charged on all the properties in the Act directed to be charged according to the General Rule of No. 1 of Schedule A. This General Rule only includes property "capable of actual occupation," so that there seems to be no authority for the custom. It is more-over an injustice, as there can be no profit from the occupation of the sporting rights, apart from their annual value, upon which they are rightly assessed under Schedule A.

[This concludes the evidence-in-chief.]

22,431. Mr. Kerly: I propose that we should deal with the evidence of these two gentlemen, excluding the woodlands, in the first instance. We have some other witnesses on woodlands, and it seems to me convenient to take the woodland question by itself, and have all the witnesses on that subject together. One reason for doing that is that on the general question dealt with in this first paper we have had so much evidence already that we probably shall not find it necessary to ask many questions.

22,432. Mr. Fretyanov: I rather gather from paragraph 4 of your first paper that on the whole you consider the relief given by section 69 of 1909-10 as extended by the subsequent Acts to have very great value?—(Mr. Haviland): Undoubtedly.

22,433. It has gone a long way?—It has gone a long way, yes.

22,434. And more so in the case of agricultural estates of considerable size than in the case of small house property, for the reason that accounts are better understood and kept?—Yes; more so in the case of agricultural estates than in house property, and no doubt, as a rule, the larger the estates the better the accounts are kept.

22,435. An agricultural estate with an agent, I mean; the agent's business is to keep estate accounts?—Yes.

22,436. And on the whole it is easier for them to get this return than it is for small owners of small house property, who are not in the habit of keeping any accounts at all?—That is so.

22,437. So it is really a better thing for them, although for the reasons you point out the return is made so far behind that it involves a very large payment of tax, and then you have to wait some months to get it back again?—Yes.

22,438. That is the objection to it?—Yes.

22,439. Would it be satisfactory to you if arrangements could be made by the Revenue that the claim should be so promptly dealt with that it should operate as an actual deduction from the tax itself in the year of assessment?—It would undoubtedly be an improvement, as the owner would then only pay the reduced amount.

22,440. That is so?—It would be a great help, undoubtedly.

22,441. We had it in evidence yesterday from the Inland Revenue that they hoped to be able to arrange that?—I think it would be a great improvement.

22,442. It would then mean that, supposing on a large estate there was £1,000 of actual tax to be returned, the payment of tax for that very year of assessment would be reduced by £1,000?—Yes.

22,443. Instead of having to wait to get the £1,000 back again some months later?—I quite follow. It

would undoubtedly be a great improvement; but it might prove difficult to get the accounts out in time.

22,444. Of course, you know you do not have to give a specific statement as to what you spend on this or that particular property; it is only the aggregate expenditure on the whole?—That is so.

22,445. And your schedule remains practically unaltered from year to year. There is a very elaborate schedule of the particular hereditaments affected, is there not?—Yes.

22,446. It practically remains uniform, does it not?—There need be no delay about that at all, because it could be prepared and checked before.

22,447. The schedule of hereditaments, which is really the whole matter of the return, looks very complicated, but it is merely a list of the hereditaments affected?—Yes.

22,448. That is very easily prepared and really is repeated from year to year?—There is no difficulty about that. I am a land agent myself, and in my own experience the Surveyor of Taxes practically does it for me—checks it, at all events.

22,449. All you have to do is to give a statement of the actual cost of repair, maintenance, and management, give such details as are necessary, and supply further details if required?—Yes.

22,450. And that need not take very long?—No. You have to get out the figures for the one year. You have to give the five years' figures, but you have four figures in the previous return.

22,451. When it has been running for a time it is not so difficult as it appears at first sight?—That is so.

22,452. That would go a long way to meet your difficulty?—It would go a long way to meet that difficulty, certainly.

22,453. Do you not think that as a matter of principle it is really far better if a system of that kind could be adopted, where the men who really did spend money on the property got the Income Tax back in proportion, rather than by increasing the flat allowance which would accrue equally to the man who neglected his property and the man who spent money on it?—I agree it would be much more equitable, not only for the reason you have mentioned, but also because the proportion of the rents which have to be spent on repairs varies greatly according to the materials that are used. For instance, with brick-built buildings it may be a small proportion, but with timber-built buildings it is a very large proportion.

22,454. If you can get the tax back on the actual figure it is really fair all round?—I agree.

22,455. If it can be worked in that way, so far as agricultural property is concerned, the Central Land Owners' Association would prefer an equitable and rapid method of getting a reduction in the tax in the actual year on the basis of what they were spending rather than an increased percentage?—Yes, I think they would.

22,456. Take then paragraph 6 of your first paper; would not that be an approximation then to Schedule D?—It would.

22,457. And is it not undesirable for national reasons to put landed property on to Schedule D, because you depart from the very important principle of taxation at the source wherever you can get it?—I do not think that is a question that I could answer. I should have thought that Schedule D was an ideal, but I agree if you amend what we always call section 69 in the manner you have suggested it would come to very much the same thing.

22,458. As far as the repairs and maintenance are concerned, and really that is the principal point?—Yes.

22,459. You have not given us any evidence that Schedule A is defective in any other way except in the matter of this allowance?—Every owner of a large estate, even if it is a purely rural estate, has some house property to which section 69 does not apply.

22,460. Yes, he has, and you have given evidence on that, that it ought to be extended?—Yes.

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22,461. That would be in most rural properties a very small fraction of the total revenue of the estate?—It would be a small proportion.

22,462. It would hardly be worth special legislation to alter the whole basis of the Income Tax?—I do not think that *qua* agricultural land owners we have much grievance in that matter.

22,463. You would take your share of any alteration there with other owners?—Quite.

22,464. That is a matter really for owners of that kind of property at large to try and get the present extension carried over further?—Yes.

22,465. You notice that since 1910 that principle has been carried further?—Yes.

22,466. In successive Acts?—Yes.

22,467. On the question of profit from the occupation of lands, with regard to parks and pleasure grounds and so on, I suppose your feeling is that this tax on the occupation of lands of that character really goes outside the area of the Income Tax altogether, or rather the principle of the Income Tax?—Yes, because there is no income from the occupation of those lands.

22,468. A man might have a magnificent work of art which might be worth a very large sum of money, and might be capable of sale at a very large price?—Yes.

22,469. But he is not charged Income Tax upon it?—No, he gets no income from it.

22,470. Exactly in the same way a man may have a pleasure ground from seeing which he derives very great pleasure, even more than he would from a picture, and his neighbours may derive pleasure from seeing it too—so they might also from seeing his picture—but he is charged Income Tax upon it?—Yes.

22,471. Do you know on what principle that is done?—No. I suppose the principle is this: that the position of this class of land is something on all fours with the position of land used for the purpose of husbandry, and they say: "if you do not make a profit from it you should make a profit. We do not know what it is; so we will assess you on the basis of the annual value."

22,472. "Because the profits of agricultural land have gone up, therefore you could make more profit on that land, and we will charge you accordingly."?—The Schedule B assessment used to be one-third of the annual value. It was raised to the full annual value and we did not protest; when it was proposed to raise it to twice the annual value we did protest, and, as in the case of woodlands, we got it left at the full annual value.

22,473. Are you satisfied with it as it is?—No, I think it is too much. The principle, of course, was wrong when you paid on the one-third, but the amount was so small that it was not worth bothering about, but when they multiplied it by three it became a real burden.

22,474. Are you aware of any cases where there is a difficulty in getting parks or pleasure grounds which are let with farms or occupied as home farms put under Schedule D with the farms?—No, not if they are used for the purpose of husbandry only. I fancy the test generally is whether the land is rated as agricultural land.

22,475. Sir W. Trower: The question which was put to you just now was, is not a park or a pleasure ground in the same category as a picture?—Yes.

22,476. I take it the distinction is that the one might produce income and the other could not?—In some cases it might, but there are a great many lands, and I think you must go wider than actual pleasure grounds, and include, for instance, unremunerative moorlands, and so forth, which are incapable of being remunerative, and exactly the same principle applies to them as to the pleasure ground.

22,477. Mr. Petyman: If I might interpose, might you not get a large number of people who would be willing to pay 2s. 6d. apiece to see a picture; then you might derive income from it?

22,478. Mr. Kerly: I think this is wandering somewhat away from the area in which the witness can help us?—If I might reply to Mr. Petyman what I

feel about that is, that in that case I take it he would be assessed in respect of the profits from his picture under Schedule D. My whole point is that the owner of these lands has not got the option of being assessed under Schedule D.

22,479. Mr. Petyman: That is my point.

22,480. Mr. Kerly: You suggest that pleasure grounds, waste lands, moorlands, and so on, should be assessed under Schedule D, and then you say there is no profit; that is the same as saying that they should not pay any tax, is it not?—I think on principle they should not be assessed at all under Schedule B.

22,481. You suggest Schedule D at the end of your paper?—I think there would be comparatively little injustice in this if he were given the option of assessment under Schedule D on the basis of actual profits, but he does not enjoy this option.

22,482. I am putting to you that that is only a roundabout way of saying he should not pay any tax, because there are not any profits on your hypothesis?—That is so.

22,483. Now as regards taxation under Schedule A or Schedule B, your real objection is that they are not properly assessed, is it not—the pleasure lands but the moorlands—they are over-assessed?—No.

I am not objecting to their assessment under Schedule A, because I think they would have some value as unimproved prairie land, and if they are assessed at that unimproved prairie land value under Schedule A I do not think there is any grievance. What I am protesting against is the Schedule B assessment, not the Schedule A assessment.

22,484. The Schedule B is the supposed value to a tenant who is paying rent equivalent to the Schedule A assessment, is it not?—Yes.

22,485. If they have none, the proper assessment is nil?—Yes.

22,486. And you would have no objection to that?—None whatever.

22,487. Mr. Kerly: That is all I think we want to ask with regard to the first part of your evidence, and I think we will now go on with woodlands. We cannot do as I suggested at the beginning, because we have not got the Scottish witnesses here, so we must deal with your second paper by itself.

22,488. Mr. Petyman: In your first paragraph under (b), you say: "No existing capital as represented by timber should be subject to tax." Do you mean Income Tax?—(Mr. Wood): Yes, that is so.

22,489. You do not mean any tax; you make that correction?—Yes.

22,490. They are subject to Death Duties like any other capital?—Yes, quite so.

22,491. In paragraph 2, do you mean that you suggest that there should be an assessment on one basis for rates and on a different basis for Income Tax?—Dealing with Schedule A?

22,492. In your paragraph 2, you suggest that there should be an assessment on a totally different basis than at present for woodlands. Do you mean that rates should still continue to be assessed on the present basis and that woodlands should be assessed on the other basis for Income Tax?—No, that was not the point we make there. The point is this: suppose we think the woodlands over-assessed for Income Tax and we go to the Surveyor of Taxes and ask him to reduce it, he says: "I cannot reduce it because your rates are higher than the figure you say."

22,493. Your rating assessment, you mean?—Yes; he says: "your rating assessment is higher than the figure that you ask Schedule A to be reduced to." Then we have to go through the process of going to the Assessment Committee and getting the rating assessment reduced before we can get the Schedule A assessment reduced, and sometimes when we get to the Assessment Committee they will not reduce it.

22,494. I know the practice varies very much?—Quite so, from various circumstances, and therefore you are tied to your rating assessment for Schedule A.

22,495. It would be rather a difficult thing, would it not, to depart from the rating assessment?—I do

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not think so, because, as mentioned in our evidence-in-chief, in the Departmental Committee on Forestry Mr. Minchia giving evidence there said there were definite instructions sent out to surveyors of Taxes as to the basis on which they were to take the Schedule A assessment, and if they would keep to their rule there would be no need for the rating to come into the question at all.

22,496. You suggest that the Income Tax assessment should disregard the rating assessment?—Yes, entirely.

22,497. You do suggest that?—Yes.

22,498. We shall have to have some evidence about that. I do not know what effect that would have on Income Tax law, but it is not impracticable. A great deal of your evidence turns on the point of the difference between Schedule B and Schedule D—the option of going between Schedules B and D on woodlands—and you point out that the different ages of woodlands, and their ripeness and maturity, have a very considerable effect upon the question of the transfer to Schedule D?—Yes.

22,499. Is not that to some extent discounted by the fact that with considerable estates there are woodlands in every stage of development?—Yes; it does not cover the point, though.

22,500. It does to some extent meet it, does it not. Take an estate on which there are, let us say, 500 acres of woodlands, that is not a 500-acre wood normally in one stage of development; it might consist of 20 or 30 different plantations in all kinds of different stages?—Yes, but the bulk of them is the larger stage.

22,501. They might or might not be?—Well, taking it as an average all through, the proportion of plantation is comparatively small. Take, for instance, the whole of the Sussex woods or take the whole of the woods on the Chiltern Hills, you there get areas which are never clear cut, that is to say, they always reproduce by natural generation, and it is only when you come to planted woods that your argument would apply.

22,502. Surely your case there goes altogether, because if you have a woodland which is regenerated naturally you have trees there in every stage of growth and you take out every year over a given area of that wood a certain percentage—you take a 14 years' rotation, or whatever rotation you like, for going round your wood?—Yes.

22,503. In that percentage you fell the ripe timber and you leave the young timber to grow; the next year you take the same percentage in the next piece, and so on, so that every year you are taking the same profit out of your woodland and it is always regenerating behind you. In that case every year is the same as every other year, so I do not think your case arises on regeneration?—If it is all carried out on that very scientific basis, but as a matter of fact—

22,504. Surely that is the only way in which a regenerating wood can be dealt with. I have had to deal with a regenerating wood, and that was a wood of about 300 acres. It was not my own property, but I was very intimately acquainted with it. I shot in it for a very great number of years, and exactly that process was carried out. The underwood is felled in one quarter of the wood—I do not mean one-fourth—but a particular quarter of the wood is taken and the timber that is ripe is felled and the underwood, and that is not touched again until it comes round in, say, 14 years, or whatever the course may be, and every year that wood should yield a more or less even revenue; so the question of maturity or non-maturity does not arise when you have a regenerating system?—No; I think if all woods had a perfect rotation the whole Income Tax trouble would disappear.

22,505. Quite. I was only dealing with your answer to me, and in these regenerating woods your argument would not apply?—I was replying to your argument that in many cases the woods would be equalized out by reason of the fact that they were small woods, but taking it as a whole all through England that is not so; the young plantations do not equalize out the older stuff.

22,506. Quite so. There may be estates on which there is a considerable area of old woodland on a clean cut system?—Yes, and on every estate you get a large area of woodland that is called woodland but really is very inferior indeed and is not young plantation.

22,507. Inferior, why? Because rabbits have been encouraged, perhaps?—No, simply from the nature of the ground. It is an inherent property of woodland, as a rule, that it is woodland because it would not produce a sufficient margin of profit to use as agricultural land.

22,508. If you plant the right sort of tree almost any land can be made to grow something?—I should doubt that.

22,509. Except very heavy clay?—No. In the very exposed parts it is extraordinarily difficult to get up trees at all.

22,510. There may be a few places?—On the high ground, sea swept land, and so forth, and on all south-west exposures it is very difficult to get plantations up and there is a lot of land where it is perfectly impossible, or you get a very poor inferior growth of timber. It is not the fault of the owner at all; he has struggled to do his best.

22,511. Of course, no owner can make a woodland in his own lifetime?—No, that is so—except with fast-growing conifers.

22,512. If woods are neglected and are suffering now, it was the neglect of our predecessors?—I am afraid it was.

22,513. I think you would agree that many thousands of acres of inferior woodland, if they had been properly dealt with, would be very valuable to-day?—Undoubtedly that is so, but we have unfortunately not had the knowledge or the skill or the confidence of the owner to develop them.

22,514. On that principle of taking also into account that woodlands are often planted purely for pleasure and sporting purposes, not only planted for that purpose but treated as though that were their main user, is it not desirable that taxation should encourage the proper development of woodland?—I should like to say in that connection that it is owing to the fact that woodlands are looked upon for a certain amount of pleasure and for a certain amount of sport that we have got woodlands at all. It has been the salvation of the country. There has been absolutely no profit on them. Owners have planted because it has been a pleasure and a pride to them to have their woods—and a certain amount of duty to their successors. I have never heard in all my life of anyone suggesting that he should plant woodlands for profit.

22,515. Oh come!—I have never heard an owner come to me and say: "I intend to plant these woods as a matter of profit."

22,516. I have planted many many acres for profit myself and made a profit on them?—I think if you had gone to an agent and said to him: "will this be a profitable scheme for me to put money down into that woodland," he would say, no.

22,517. Plant large plantations on poor light land and see whether you cannot make something out of it?—You can make a profit in certain circumstances, but undoubtedly taking the majority of woodlands they have never been planted for profit. I have never known an owner definitely say: "look here, as a matter of business I intend to plant that land." He has always come to me and said: "we will plant up that land, because it is a waste piece and we cannot do anything with it." That is invariably the reason why we plant, or because it is a corner piece.

22,518. Let us take that a little further. He plants it because it is waste, because he thinks he can make a better use of it by planting it?—Not necessarily. It very often rounds off the estate better and gives a better appearance to the estate. He does not like to see the land in the horrible state that it is. It is a better use in that sense, but it is not a profitable use that he has in mind at all.

22,519. Yes, I quite understand. His pride in his estate does not like to see land lying derelict, and he will plant it to see something growing on it even if it does not pay him?—Yes, and having done that

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he says: "what is the best thing to put there?" He does not come to us and say: "I intend to plant larch, because it is profitable, and we will find some land for the larch."

22,520. I do not want to take you into the whole of the principles of forestry, because it is only on the question of Income Tax here, and perhaps I have gone rather far. On the question of Schedule B would you not say that the reason the increased Schedule B assessment was applied to woodlands was simply because it had been applied to agricultural land?—I take it that is so.

22,521. To your knowledge was it ever suggested or attempted to be proved that there was any increased value in woodlands corresponding to the increased value of agricultural land?—Not that I know of.

22,522. So that it was purely consequential?—I think merely consequential, that is so; because originally when it was proposed—I was not in England at the time, but I think I am right—the idea was that it should all go in at twice the rate to follow the same procedure as agricultural land. Then it was pointed out, I think, in the House that it was not on the same basis, and they reduced it, but the whole thing was consequential.

22,523. Mr. Kerly: I want to ask you a question or two, because I am a good deal puzzled about this matter. The difficulty seems to be that woodlands, and I am speaking of woodlands as distinguished from pleasure grounds, are assessed on a system which has been adopted for agricultural land. They are assessed, I understand, in this way: although this is woodland, in fact if it were cultivated it would produce a certain rent, and the sum so arrived at is treated as its assessable value for Schedule A—P—May I interrupt for one moment.

22,524. Yes.—That is not quite so; it is not so at all in fact. For rating purposes, to put it into plain language, a wood is rated on its prairie value without the timber at all. When you get a woodland it has to be rated on what the land would let as prairie.

22,525. I said for agricultural purposes. What do you mean by "let as prairie"?—Simply for what it is worth, to turn stock on to for feeding purposes.

22,526. It is treated as a possible subject of agricultural exploitation?—Yes, if we are clear on that.

22,527. Very well, that is what I mean.—I beg your pardon for interrupting.

22,528. That is what you start with, a hypothetical tenant taking it not for what it is used for in fact but for something else, and that gives you your Schedule A assessment. Then you get your Schedule B assessment by taking some proportion of that as being the assumed profit that the farmer who has got it would make out of it; that is the system, is it not?—Yes.

22,529. Well, it is wholly wrong, because it is not applicable to woodlands?—That is so.

22,530. Is not that the root of the difficulty, that you are starting by taxing your woodlands on an assumption which is probably too high, and that in any event is arrived at by a fictitious process?—That is so, yes; it is because practically the whole of the woodlands are in the hand of the owners and are divided between Schedule A and Schedule B.

22,531. Now let me suggest to you another basis. Suppose you treat such woodlands (as it is in the national interest to maintain woodlands) as woodlands and not as prairie land, and then try and assess their annual value as woodlands, would you not get rid of most of your difficulties?—When you say as woodland, that is the land with timber growing on it or the timber included?

22,532. Treating the whole thing. You would say over a period of years: "what revenue will this bring in being woodlands?" It is possible to assess it, it is not?—It is quite possible if one can arrive at it, and that is the ideal.

22,533. I know nothing about it myself, I am putting it to you to see how it strikes a practical man. Would not that get rid of a great deal of the

difficulty about the taxing of woodlands, and incidentally the rating of woodlands?—It would not in the case of the rating of woodlands.

22,534. Why not? Would not the rating assessment also start from the real annual value of the subject?—No; the actual basis of the rating should be what the land would let at.

22,535. That is not the hypothesis I offer to you. However, I pass on from that to make another suggestion to you: there is a difficulty about allowing the owner of what I will call commercial woodlands, that is to say, woodlands treated as woodlands for the purposes of profit under Schedule D, because the timber is in various stages of growth?—That is so.

22,536. If it is half-grown, for instance, and you wait until it is fully grown and cut then, what is supposed to be profit earned in the period of years you are looking at is really capital?—That is so.

22,537. Supposing when we are introducing a new system of treating woodlands we started by assessing its present value and treated its present value as having paid its Income Tax in the past, and having to pay no more as Income Tax, why should you not bring that in as stock in any future year if you got the proper present assessment?—Well, we have considered that very fully; that is absolutely the ideal, but because of the great cost of the valuation, and the great difficulty of the valuation, and the great difficulty again of dealing with woodlands that are divided on the sale of estates, we have come to the conclusion that it is impracticable.

22,538. You think it is impracticable?—But it is absolutely the ideal; we are all agreed on that.

22,539. Of course, if you did value and, as I suggest to you, record the value to be used when the realisation comes, you would have to value it at pre-war prices; it would not be fair to treat the present price which is an exceptionally inflated price as the right one?—But we have paid the Income Tax right up to the present moment.

22,540. No. No Income Tax has come in on the profits basis, because we are assuming the wood is growing and has not been cut?—But it has paid its Schedule A and Schedule B.

22,541. But it has not paid its Schedule A and Schedule B on the woodland basis. I started on the agricultural basis?—But it makes no difference whatever; the basis we have submitted to we have paid on.

I would point out that there is no question whatever of taking the compound interest into account in the original cost of the woodland. There has been in the bulk of cases no profit. We have wiped out our liability for Income Tax to date.

22,542. That I was assuming. You told me the matter has been carefully considered. It is simply a notion that occurred to me when I read your paper, and I wanted to hear what as a practical man you said about it?—Yes. (Mr. Haviland:) May I say a word to make it clear by analogy. I suggest you would get almost exactly an analogous position to the farmer under Schedule D, who, of course, has his stock valued at the beginning of the period, but he has his stock valued at post-war prices now, and I suggest that the valuation of woodlands should be on the same basis.

22,543. Mr. Kerly: With all respect, I think this is leading us a little off the woodland matter, and as my suggestion does not seem to commend itself to you I do not think we can usefully go into the other matter. Of course, Mr. Haviland's suggestion will be recorded.

22,544. Sir E. Nott-Bower: For my own information, perhaps you could give this to me: with regard to the principle upon which the rating of woodlands is founded, I should like information as to what the basis really is. I think the woodlands are rated, are they not, on the assumed rent at which they could be let in their natural conditions as rough pasture?—(Mr. Wood:) Yes.

22,545. Do you know under what authority that is done? Is there any special provision under a rating Act establishing that standard for woodlands?—Well, it is really the Local Government Board's interpretation of the Act of 1871. When the Rating

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Act was passed the Local Government Board issued a circular giving the basis and they have repeated it since. That gives the whole basis under which it is assessed.

22,546. Generally speaking, rating is based purely on the value of property in its existing condition?—No, not even as much as that; it has to be in its original unimproved state, when it will have no fences. A woodland at present may have fences round it.

22,547. I am not speaking now with reference to woodlands only, but the general principle of rating law is that you value a thing in its existing condition?—Yes.

22,548. *Rebus sic stantibus* one often hears. Is that general principle departed from in the case of woodlands, and if so is it under any special provision?—Yes, it is under the Act of 1874. Mr. Haviland reminds me of one thing, that paragraph 19 is some-

thing rather apart from the rest of the subject, and it may have escaped notice. I should rather like to draw special attention to that fact.

22,549. Mr. Kelly: You are referring to paragraph 19 of your second paper, to the fact that if the woodlands in hand and sporting rights are included in the Schedule A assessment it is customary for Schedule B to follow Schedule A?—That is so. It is customary, of course, to charge Schedule A in many cases on the sporting, that is to say, charge it with the Schedule A assessment, and then the Schedule B follows the Schedule A, and then one gets charged twice over for the sporting. You cannot have landlord and tenant both having the same profit out of the same thing, so it is clearly a point that should be remedied.

22,550. Not even where a man has a double share of shooting over his own land?—It is two people who have it jointly.

Mr. J. M. MATTHEWS, Mr. G. J. RAWES and Mr. E. J. KELLY, on behalf of the Association of Tax Clerks, called and examined.

The witnesses handed in the following statement as their evidence-in-chief:—

Recruitment of staff.

22,551. (1) The Association is of the opinion that the best method of recruitment is by way of one open competitive examination. The examination should be such as would appeal to an intelligent youth between the ages of 17 and 19 years, and of a nature to attract candidates who would be suitable for promotion in due course to the surveying grade. By this means an opportunity would be provided for each entrant who shows ability to rise to the highest posts in the Department.

22,552. (2) It should be incumbent upon an officer to qualify in a departmental examination in passing from one grade to another, such examination to be held as vacancies arise in the higher grade. At the end of five years' service, or earlier, where exceptional merit is exhibited, an officer should be eligible for examination on elementary subjects of Income Tax and office routine for appointment as Assistant Surveyor of Taxes.

Women clerks.

22,553. (3) The Association is of opinion that it is essential to progress that the services of any inefficient temporary clerks who were engaged during the period of the war should be dispensed with, and that the women clerks to be established should be recruited by way of an open competitive examination.

Commissioners and Clerks to Commissioners.

22,554. (4) The Association is of opinion that the functions of the Commissioners should be those of an appellate body only, and the whole of the work in connection with the making of assessments should be transferred to the Surveyor.

22,555. (5) The duties of the Clerk to Commissioners as legal adviser to the Commissioners should remain as at present, but his purely clerical duties should be transferred to the Surveyor to be performed by his staff.

Assessors.

22,556. (6) The Association recommends that the duties of the Assessors in serving forms and estimating liabilities shall be transferred to the Surveyor. The services of the Collectors should be co-opted for the purpose of obtaining local information.

Collectors.

22,557. (7) The Association recommends that the appointment of Collectors should be vested in the Board of Inland Revenue, and that whole-time Collectors should be established civil servants, responsible for the collection of the whole of the duties.

Super-tax.

22,558. (8) The Association is of opinion that the present working of the Super-tax should be revised, and that, with a view to simplification of administration, it should be merged in the routine of the Surveyor's office. It is considered that the majority of the public would appreciate the facility with which they could obtain advice and assistance in the local Surveyor's office.

Repayment claims.

22,559. (9) The Association understands that the decentralisation of the work of the Claims Branch is in contemplation, and is clearly of opinion that such decentralisation will tend to the greater convenience of the public and to economy in time and labour.

[This concludes the evidence-in-chief.]

22,560. Mr. Kelly: Will you just explain to us with regard to your Association of Tax Clerks, what clerks are they? Does that include Somerset House and Surveyors' assistants?—(Mr. Matthews): It includes all the established male tax clerks engaged in the offices of Surveyors of Taxes, and in addition some men attached to the Somerset House relief staff. The offices are spread all over the four countries of the British Isles and we represent each of these countries in one combined Association.

22,561. Your first point is that you think there should be appointment by open competitive examination?—Yes. Might I make a very brief statement regarding some of the duties performed by these men. I will pass over many items of departmental procedure and classify the remainder of the work under four headings. Work in connection with taxation at the source, the detective system employed, the making of assessments, and dealing with the public. The work in connection with tax at the source is mainly original claims, referred claims, and claims for relief under Schedule A. These original claims, for instance, are exceedingly important, and very often intricate and difficult to work, especially in connection with trust estates. Trusts are more common the further you go north in Britain. There are some very great complications there. We receive these claims in the case of trusts, especially from solicitors and accountants, and even there we find many errors; they have to be examined very carefully, especially in cases where beneficiaries have peculiar portions. Even in referred claims we require a competent person to deal with this so-called minor work, because dependent upon that person there is the checking of vouchers, and in the case of limited company accounts we actually find certain matters which lead to the collection of duty which otherwise would have escaped assessment. With regard to the claims for relief under Schedule A, we charge Schedule A, as is well-known, and various people who are not directly assessed under Schedules

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[Continued.]

D and E are called upon to complete a return form which is sent in to us. That has to be dealt with, and while on this subject I should like to point out that in certain areas we are having very considerable trouble over some of the charges. Mortgagees in possession are endeavouring to shift the burden of taxation on to other people's shoulders, and we after all, in dealing with the public, have a right I think to point out to the Commission that this thing is going on. I can give fuller details later. I will now turn to what we might call the detective system. Unfortunately the Board of Inland Revenue have no powers to introduce a dossier system, but at the same time there are many things working in these offices which can be bracketed and called a detective system. I shall omit such things as what we call 48's; broadly speaking these are extracts from the returns of employers which are sent up and down the country, and also of course the removals to other districts of persons already assessed. I will now mention inventories of estates of deceased persons. We find that through getting these inventories down from Somerset House it leads to the detection, not only of interest which has been unassessed, but in addition, business profits, even after the person is dead, of course. I should like to point out here that in cross-examination I would like to be asked the difference between the Scotch system with the solicitors and the English system; it ought to be applied to England. In addition to that, we have bank interest cases. Since 1915 we have had a return of interest over a certain figure from savings banks, and to all the purists in the Department who have believed in doing away with taxation at the source, this has been an eye-opener. It has led to the detection of a considerable amount of evasion—I will put it in that way—and we have recovered a large sum of duty which otherwise would have avoided assessment. In my own district, in one small box of cards, we have recovered about £4,000 duty. In addition to that we are now getting from Somerset House intimations of holdings in Government securities, the interest on which has been paid without deduction of tax, and we do find in very many cases that we have no return whatever of this interest. We have a peculiar difficulty in dealing with Super-tax payers. They make a return on Schedule E, on what we call Form 12, which does not compel them to make a full return of their income. They make a Super-tax return to Somerset House, and if we ask them about their particular interest they very often endeavour to shirk the question by saying, "I make a return to Somerset House." Unfortunately the Super-tax returns are not available for the general districts, and we miss this interest except by very judicious inquiry indeed. Eton accountants do not know what holding their clients have in these particular investments.

22,562. When you spoke of a return to Somerset House, did you mean to the Special Commissioners?—Yes, Super-tax returns. Up to 1915 there was a system in vogue (it has been held in abeyance since 1915) which we call the private returns' system. I could explain this in detail, but I wish simply to convey that over a certain figure of rental or annual value of the residence we get returns from everyone whom we could not trace in our ordinary assessments. We found many commission agents in this manner, and in addition of course we found very many other things.

22,563. I understood you are giving us an account intended to show, in fact showing, the very important work that such officers as you represent have to do?—Yes.

22,564. I do not think we want any further discussion about that; we are all aware of the fact that the work is very important and needs skilled artists to do it effectively. We do not want you to go on with your statement for that purpose. Is there anything else you wish to say?—Might I mention under Schedule A the trouble in some areas over the Lady Day tenancy agreement?

22,565. Well, just indicate what it is?—In the rural areas especially, we have considerable difficulty both under Schedule A and Schedule B. Some of the agreements contain terms and obligations other than rent, which seem to date back to the days of feudalism. Therefore when it comes to dealing with

appeals under Schedule B, we find a consequent loss of revenue under the Lady Day tenancy. I may be cross-examined on that point later, and give fuller details. These duties are now being performed by the clerks in all these rural areas.

22,566. Mr. McIntock: By the Surveyors?—No, the clerks.

22,567. Mr. Kerly: Do you mean they are doing it as Surveyors' or Inspectors' clerks?—Doing it as Surveyors' or Inspectors' clerks.

22,568. We have not got this in print before us. These are points which are really outside your proof, and you seem to have a memorandum of further suggestions?—Headings only.

22,569. I think the best course will be for you to send up a further statement. We shall not necessarily recall you, but it will be considered. We are not prepared to deal with these matters to-day. You suggest that there should be a competitive examination?—I do.

22,570. And that there should be a further examination for successive advances in the office?—Yes.

22,571. You further suggest that the women clerks should not be taken on without local and competitive examination?—We suggest the recruitment should be by way of open competitive examination.

22,572. But where there are women clerks already employed is it your suggestion that they should be dismissed even though the women clerks are wanted and they are competent?—No.

22,573. I just wanted to get that clear.—We suggest that instead of leaving it to the individual Surveyor the examination should be conducted by a departmental committee on account of the haphazard method of recruitment during the war.

22,574. The suggestion is that under pressure a number of women who are not competent have been taken on, and you would have those weeded out?—That is so.

22,575. You further suggest that the General Commissioners should only be retained for appellate work?—My colleague is dealing with this question, so I will leave it to him.

22,576. Very well. Have you anything further to say beyond the suggestions?—(Mr. Rawes): I should just like to say we submit that the system of dual control at present in vogue is unbusinesslike.

22,577. What do you mean by dual control—the Surveyor and Assessor, or what?—No, this is not the point. The administrative body is the Board of Inland Revenue, and it is the fact that the District Commissioners have certain powers allotted to them, and the Board of Inland Revenue have no overriding authority over the District Commissioners. Our suggestion is that this dual control is unbusinesslike, and that the whole control of the work of the Department should be vested in the Board of Inland Revenue.

22,578. Now with regard to the Collectors, what do you mean by saying the services of Collectors should be co-opted for the purpose of obtaining local information; what is the proposal?—The proposal is that if we have the Assessors in the Surveyor's office it may be necessary to obtain certain information from the Collectors also, and that their services should be at the disposal of the Department, as well as those of the Assessor.

22,579. I do not quite follow. First, are you suggesting that the Collector should be appointed by the Inland Revenue?—Yes, we submit that all such officers should be appointed by the Inland Revenue.

22,580. Then the Collector would be appointed as a local resident for the purposes of collection?—Yes.

22,581. Is it your idea that as a local resident he would get local information, and that his knowledge should be at the command of the Surveyor, who should have a right to call upon him for assistance?—I am afraid I have not quite made my point clear. We think it is desirable that he should be appointed not merely as a local resident, but that the Collector who was appointed by the Board should be attached to a certain district, and would thereby become a local resident, and that in that event his services as knowing the locality would be of value to the Surveyor, who if our suggestion is adopted would be the Assessor for the district.

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[Continued.]

22,582. Is it the view of your body that the present Assessors are a useful body who should be retained, or would you have them transferred to the Surveyors' office?—In our opinion they should be transferred to the Surveyors' offices. Although there may be one or two instances in the country where the work is satisfactorily performed by the present Assessors, taking the country as a whole they are a most unsatisfactory body of officials, especially in the country districts. They are men who have practically no knowledge of Income Tax matters; they are engaged in businesses of their own which we think is very undesirable in Income Tax matters, and generally they are not at all satisfactory for our purpose.

22,583. Mr. Walker Clark: With regard to the recruitment by competitive examination by a central authority, what relationship would the central authority which passed the competitors have to the local Surveyor? Would he simply write up that he wants a man and have one sent down to him.—No, Sir.—(Mr. Matthews): It would come through the Civil Service Commission in just the same way as all other examinations.

22,584. There would be no opportunity for individual selection by the Surveyor?—No.

22,585. You know that Surveyors in many districts very much appreciate the opportunity of individual selection?—We endeavour as much as possible to do away with anything in the civil service in the nature of personal selection.

22,586. Making a machine and turning him out by number. Your friend made a remark just now that the Inland Revenue were administrative?—(Mr. Rawes): Yes.

22,587. Is that so?—I think so—the management.

22,588. That is not as I understand it, but I may be incorrect. As I understand it the Commissioners are the administrators, and the Inland Revenue are a collecting body?—We are very much more than a collecting body, I think. The whole responsibility for the management of the Acts—

22,589. What clause in the Act states that?—I am afraid I have not got the Act here.

22,590. I will give you a copy if you like?—Section 47 of the Act of 1918: "All duties of income tax shall be under the care and management of the Commissioners of Inland Revenue"—that is really the Board of Inland Revenue.

22,591. The Commissioners?—That is the Board of Inland Revenue. It is simply another word for the same body. The Commissioners of Inland Revenue means the Board of Inland Revenue that sits at Somerset House.

22,592. Where does it say so?—Because later on it goes on to discriminate the duties of the General Commissioners and the Additional Commissioners, and we find in section 67: "The said Commissioners may do all such acts as may be deemed necessary and expedient for raising, collecting, receiving and accounting for the tax in the like and as full and ample a manner as they are authorized to do with relation to any other duties under their care and management, and unless the Treasury otherwise direct—"

22,593. But who is the responsible authority for administration?—The Commissioners of Inland Revenue.

22,594. Certainly they are, and not the Inland Revenue.—But that is the Board of Inland Revenue.

22,595. I say the Commissioners—the General and the Additional Commissioners.—The Commissioners of Inland Revenue, but when I use the word Board I only use the common term in which we speak of them—the short term.

22,596. You would suggest that the Additional and General Commissioners, usually spoken of as the Local Commissioners, should be under the control of the Board of Inland Revenue. I think you used the expression that you regretted there was no overriding control by the Board of Inland Revenue.

22,597. Mr. Kelly: The witness did except their appellate work.—Yes. Our Association submits that the General Commissioners' functions, that is the local bodies, should cease to operate at all except in

so far as they may be possibly retained as an appeal body, but we would even go so far as to submit that as an appellate body it would be in these days more desirable that we should have an elected body.

22,598. Elected by whom?—Our suggestion is that the members of such a body might be one or two members from each of the following: the local Chamber of Commerce, the solicitors of the district, the accountants of the district, and the Trades Council of the district.

22,599. The Trades Council—why?—Because the appellate body would be hearing appeals from tradesmen and from wage-earners, and it seems desirable therefore, to give them confidence in that body, that some of the members elected should be elected by their own representatives.

22,600. With the sole exception of their appellate powers the whole machinery is to be under the control of the Inland Revenue officials?—The officials of the Inland Revenue.

22,601. Bureaucracy!

22,602. Mr. Kelly: Very well.

22,603. Mr. Walker Clark: Who is to stand between the taxpayer and this bureaucracy?—The appellate body that we suggest.

22,604. Composed of representatives of these highly and duly qualified individuals?—Yes, that is so.

22,605. Solicitors, accountants, Chamber of Commerce and Trades Council?—Yes. I would beg to submit to the Commission that really that is what, except in so far as control is concerned, is going on at the present day. The functions of the Commissioners, barring the decision of cases submitted to them for appeal, have mostly been allowed to be performed by the Surveyors of Taxes up to the present time. The Additional Commissioners now hardly ever go through the assessment that they sign; they may look at one or two cases, but the bulk of the submissions for assessment are made by the Surveyor himself.

22,606. The bulk of the submissions you say?—Yes.

22,607. To whom does he submit?—They are submitted to the Additional Commissioners, but as I say, they cannot go through them at the present day.

22,608. Why?—With the numbers that go before them they would be unable to examine into every case, and they would not have any special knowledge of those cases in these days in large areas.

22,609. Would you be surprised to know that I have gone personally through the whole of the assessments in a large industrial district?—I am venturing to suggest to you, sir, that that is exceptional.

22,610. So far as our Commissioners are concerned it is usual.—But it is exceptional as regards the country at large, I would submit.

22,611. What experience have you in making these statements? Have you had a wide experience in the country?—We have had reports from the whole of the country as to what is going on.

22,612. On these specific points?—Many of them on these specific points.

22,613. On that specific point?—Yes, on that point very largely.

22,614. That the General Commissioners and the Additional Commissioners, the Local Commissioners, are wholly unsatisfactory except as an appellate court?—No, I did not say they were wholly unsatisfactory, but that it is more desirable that the work should be centralized.

22,615. Because they are unsatisfactory?—No, I did not say necessarily unsatisfactory—that their functions in many cases have lapsed, if I may put it in that way.

22,616. And taking the country as a whole, the Assessors are also wholly unsatisfactory?—Yes; that is the general consensus of opinion.

22,617. And I suppose Collectors will be equally unsatisfactory?—In the country districts, yes.

22,618. And the only satisfactory people are civil servants—bureaucracy! Prussianism!

22,619. Mr. Kelly: Never mind; that is addressed not to you but to the Commission, and you are not expected to deal with it. Do you gentlemen desire to add anything further to what you have said?—(Mr. Kelly): I should like to add a little to what

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[Continued.]

already appears with regard to Super-tax and repayment claims. The Super-tax was first imposed by the Finance Act of 1909-10, section 66. Therein it is described as an additional duty on Income Tax at the rate of 6d. in every £ above £3,000, when the total income of the individual exceeds £5,000. The basis of assessment to Super-tax is laid down as being the total income of the previous year estimated according to the rules of the Income Tax Acts. It follows, therefore, that the amounts of the actual Income Tax assessments for one year become the amounts assessable to Super-tax in the following year. The Act provides that Super-tax assessments should be made by the Special Commissioners, who are empowered to issue forms requiring a return of total income. At the present day Income Tax and Super-tax are intimately connected, and this connection has been emphasized by the progress of legislation since Super-tax was imposed. Income Tax is charged at graduated rates up to £2,500, at which figure of income the flat rate of 6s. in the £ is introduced, and at which figure also the rates of Super-tax commence to apply. Super-tax also is charged at graduated rates. Both taxes are therefore in theory one coherent whole, a system of graduated tax embracing the whole range

of incomes worked by similar machinery, and based on cognate principles. Then regarding the question of the decentralization of the work in connection with repayment claims, my Association is clearly of opinion that the whole of the work in connection with the certifying of repayment should be performed in the Surveyor's office. The Accountant and Comptroller General should be notified by the Surveyor to repay the sum due, and the claim should be filed in the Surveyor's office. This method of repayment works quite satisfactorily in the case of quarterly assessments. The method of dealing with claims in law is as follows—

22,620. I do not think we need have that.—Then I think that is all I have to add.

22,621. Mr. Kelly: We are much obliged to you, and hope it is not a disappointment to you that we have not felt ourselves at liberty to enter into a good many interesting matters which you were perhaps anxious to tell us about; but you must remember that we have got information from other quarters upon so many of these matters, and some of them are really matters outside our purview; such things, for instance, as re-arrangement of work inside the office do not require the finding of a Royal Commission to deal with; we have got quite enough to do.

MR. J. H. MILNE HOME AND MR. A. W. ROBERTSON DURHAM, C.A., F.F.A., on behalf of the Scottish Land and Property Federation, called and examined.

The witnesses handed in the following statements as their evidence-in-chief:—

Evidence-in-chief of Mr. J. H. MILNE HOME.

22,622. I have been connected with the management of land in the south of Scotland for the past twenty-two years, and at the present time have charge of estates extending to 240,000 acres, belonging to the Duke of Buccleuch, in the counties of Dumfries, Roxburgh, Selkirk, and Midlothian.

Nature and scope of evidence.

22,623. (1) The evidence which I have to tender is given on behalf of the Scottish Land and Property Federation, a body which is representative of practically all the landowners in Scotland, its members being drawn from every county and including landed estates of every size and character. The Scottish Land and Property Federation have recently obtained schedules from a number of representative estates in Scotland showing certain particulars for a period of ten years. The results of these inquiries have been tabulated, and are submitted by my colleague, Mr. A. W. Robertson Durham, C.A. The figures submitted amply support the contention that on the average well-managed estate the expenditure on maintenance and management always exceeds the statutory allowances of one-eighth and one-sixth, and that in the future, with the greatly increased cost of material and labour, the percentage of rental expended on maintenance will be higher than in the past. It seems only fair, therefore, that some means may be found whereby the sums actually assessed for Income Tax should more nearly approximate to the ultimate burden, and that a repayment claim should be abolished. It should be noted that the figures quoted take no account of either Super-tax or Death Duties, which, in many instances, swallow up the whole surplus income over long periods of years.

Schedule A.

22,624. (2) It was our intention to make some reference to the method of levying Income Tax upon lands and heritages since the Income Tax Act of 1842, but this aspect of the question has been so fully and accurately dealt with by Mr. R. V. N. Hopkins in Appendices Nos. 1, 2 and 3 of the Minutes of Evidence before the Royal Commission, that it is unnecessary to take up time in the repetition of these details. Mr. Hopkins' memoranda relate, however, to the administration of the Income Tax Acts

in Great Britain and Ireland as a whole, and there are certain methods of procedure in Scotland which differ somewhat from those in England. As the evidence now tendered relates solely to Scotland, reference requires to be made to such differences in method of collection, &c. In Appendix 2, paragraph 23, Mr. Hopkins states that the gross annual value for the purpose of assessment to "Schedule A" is determined afresh periodically, provision being made in the Finance Act for each year for which a new valuation is not to be made for the existing values to be continued for a further year." It is understood that the English practice is a revision every five years, but in Scotland, where a printed valuation roll of lands and heritages in each county is made up annually, it is the practice to take the gross assessable value for Income Tax from the valuation roll, which also forms the basis for local rating. The deductions allowed are one-eighth for lands and one-sixth for houses, and also an allowance for "rates." Here again the practice in Scotland differs from that in England for the reason that county and parish rates are in Scotland (with certain trifling modifications) paid equally by owners and occupiers, instead of falling wholly on occupiers. Burgh rates, although for the most part payable by occupiers, are also partly payable by owners. The allowance for "rates" in assessment for Income Tax is, strictly speaking, in respect of the owner's rates for the year corresponding with the year of Income Tax assessment, but in practice, as a matter of convenience, the amount of owner's rates actually paid in the year previous to the Income Tax assessment year is often taken. The burdens which are allowed as deductions under "rates" are:—

- (1) County rates payable as owner.
- (2) Parish rates payable as owner.
- (3) Burgh rates payable as owner.
- (4) Land Tax.
- (5) Heritor's assessment.

Nos. (4) and (5) are both obligations which are wholly payable by owners, and do not fall upon occupiers at all. One of the heaviest burdens falling upon land in Scotland is very commonly the minister's stipend and surplus teind, but as Income Tax is deducted in paying the stipend or surplus teind, these obligations do not form a deduction under "rates" on the Income Tax assessment notices. The position of feu-duties or ground rents is similar, Income Tax being deducted by the vassal in making payment of the amount due.

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[Continued.]

Deductions and "maintenance claim."

22,625. (3) The deductions of one-eighth on lands and one-sixth on houses in respect of the estimated cost of repairs, management and insurance, were for long recognised as quite inadequate in most instances to meet these charges. So long as the rate of Income Tax was comparatively low, the inequality between assessed income and net actual income was not of such great importance. Recognition of the need of some further allowance was first given in the Finance (1908-10) Act, 1910, where, under section 68, certain additional allowances were made when actual expenditure was shown to have exceeded the statutory allowance, but such increased allowance was limited to a total of one-fourth—that is to say, an additional one-eighth on lands and one-twelfth on houses, and the allowance was only given for houses where the rental did not exceed £8. The principle has since been extended by the removal of the limit of 25 per cent. and by the extension in the rental of houses from £8 to £12. By the Finance Act, 1919 (section 15) the rental limit of houses in respect of which additional deductions can be claimed is raised to £90 in Scotland. The amount repaid is not based on the proved expenditure for the year of assessment, but on the five years' average expenditure up to the year preceding the year of assessment. To take an actual example, the Income Tax payable for the financial year ending 1st April, 1919, is collected one-half in January, 1919, and one-half in July, 1919. The maintenance claim based on the average expenditure of the five years ending 1917 is then lodged in April, 1919, and is repaid after being examined and passed by the Surveyor of Taxes for the district and the Head Office of Inland Revenue in Edinburgh. This process usually occupies a few months. The inquiries of the Federation have clearly shown that on all well-managed estates, where the equipment is well maintained, a "maintenance claim" of substantial amount can regularly be made. In such cases, therefore, which are the majority, the owner in the first place pays a considerably larger sum in Income Tax than his ultimate obligation requires, and then goes through a process of lodging a claim in somewhat elaborate detail for recovery of the balance of tax overpaid. It is true that by the introduction of half-yearly payments in January and July, instead of yearly payments in January, the injustice is to some extent relieved, but, nevertheless, the system seems cumbersome and capable of improvement from the point of view of the Inland Revenue quite as much as the Income Tax payer.

We also desire to suggest that the limit of £90 rental for houses in Scotland for expenditure exceeding one-sixth of the rental should be removed as regards all subjects which are let, and should only apply to houses which are occupied by the owner. The cost of maintaining a house of £100 rental is proportionately just as great as in the case of a house of £20 rental, and so long as a house is let, it must be assumed that the best rent obtainable is being got, and that the repairs and maintenance expenditure is only such as is actually required in order to maintain rent.

Woodlands.

22,626. (4) We desire, on behalf of the Federation, to draw special attention to the present method of assessing woodlands for Income Tax. Unlike other classes of property capable of being let at an annual rent which is more or less easily defined, woodlands must necessarily remain in the occupation of the owner, and be worked by him. Where woodlands are fully stocked and worked in regular rotation, as on the Continent of Europe, a fairly even and regular annual income is obtainable, but owing to the past neglect of forestry in this country, very few, if any, estates have been worked on regular system over a long period of years, which is essential for a sustained yield. Income Tax is levied on woodlands in Scotland on the basis of the rental in the valuation roll, which rental is based on the estimated value of the land in its natural state as pasture. Upon this valuation Schedule A tax is levied, subject to the allowance of one-eighth and "rates," Schedule B

is levied on the gross annual value without any deductions, instead of upon one-third of the annual value, as was formerly the case. The owner has, it is true, the option of going under Schedule D, and paying tax on the basis of the average profits for the three previous years where the woods are shown to be worked on a commercial basis. This alternative may be of some little use as regards young plantations, but to accept the alternative of Schedule D in the case of woodlands which are mature, or are about to become mature, is obviously to pay Income Tax twice over, such woods having for a long series of years paid Schedule A and Schedule B tax, while there were no returns, and then again paying under Schedule D when the timber comes to be realised. We desire to point out that the profits derived from woodlands are one and indivisible, and should be assessed under a single Schedule and not under two Schedules. This matter has been fully investigated by the committee of the Royal Scottish Arboricultural Society, a society having a very large membership of all those interested in forestry in Scotland, and we desire to endorse the recommendations of this committee, which are as under:—

(1) Any owner of woodlands to have the right to elect to be charged to Income Tax under Schedule D in place of Schedule B.

(2) Any owner electing, to be assessed under Schedule D, as aforesaid, to furnish the National Forest Authority with a schedule showing the total acreage of the woodlands owned by him, and the description of these woodlands in age-classes of, say, ten years up to fifty years, and twenty years above fifty years.

Note.—A distinction would probably have to be made between conifers and hardwoods.

(3) Income Tax (Schedules A and B) already paid in respect of the woodlands included in the above schedule to be determined according to a scale to be framed jointly by the Inland Revenue and the Forest Authority as applicable to all cases and allowed as a deduction prior to assessment to Schedule D.

(4) The amount of the above deduction to be arrived at on a percentage basis according to the ages and extents of the woodlands detailed in the Schedule, and decrease at the rate of 2 per cent. per annum as from the date of the first assessment.

Note.—It is assumed that in fifty years the whole of the timber which has previously paid Income Tax under Schedules A and B would have been realised.

(5) Income Tax (Schedule D) to be levied on the basis of five years' average, or preferably seven years' average.

22,627. The following is a simple illustration of the working out of the above scheme:—

1	2.	3.	4.
Age of woods.	Extent Acres.	Percentage of total area (excluding unstocked ground).	Percentage deduction for Income Tax, say
Unstocked	15	—	—
1-10 years	110	16.7 per cent.	7
11-20 "	70	11.7 "	22
21-30 "	30	5.0 "	37
31-40 "	—	—	—
41-50 "	66	8.8 "	47
51-60 "	150	25.0 "	80
71 years and over	200	30.0 "	100
	611	100.0 per cent.	

Note.—The percentages in column 4 are merely estimated, but have been inserted in order to illustrate the principle.

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In the above illustration the abatements in the Schedule D assessment would be as follows:—

1st year	... 64.5 %
2nd year	... 63.2 % i.e., 64.5 % $\rightarrow \frac{1}{10}$ th.

and so on thereafter, the amount of the abatement being reduced by $\frac{1}{10}$ th each year until exhausted.

22,628. The above claim would involve a certain amount of initial trouble both to the Inland Revenue and the owner of the woodlands, but the particulars required are only such as would be available on any well-managed estate with proper records, and once ascertained, no further trouble is involved, except the slight annual readjustment in the percentage deduction.

The incidence of the burdens of Income Tax, Super-tax, and rates on woodlands, with actual examples, are given in an article published in the "Transactions of the Royal Scottish Arboricultural Society," Vol. XXXII, 1918, p. 169. In the two examples there stated the burdens per £ of rental were as follows:—

	Income Tax and Super-tax.	Rates and other burdens.	Total.
(1) Estate in Dumfriesshire and Roxburghshire...	16/10.7	7/6	24/4.7
(2) Estate in Midlothian.	15/1.1	11/3.8	26/5

Income Tax on minerals.

22,629. (5) With regard to the deductions allowed in assessing Income Tax on mineral rental, we desire to suggest that the fees and expenses of mining engineers employed by an owner should be a competent charge. It is essential for the best development of any mineral field that the owner should take skilled advice, not only when first letting the minerals, but at all times thereafter in checking surveys and generally advising as to development work. Such advice is as essential as skilled management of land, and as a deduction from Schedule A is allowed for land management, so it is contended a corresponding allowance should be made under Schedule D for the management and supervision of minerals.

Schedule B.

22,630. (6) Our observations on Schedule B as it affects lands are brief. We recognise that in recent years the assessment of lands under Schedule B in respect of occupancy was below the profits actually earned, and the increase from one-third to the full rental was probably necessary. We are, however, very doubtful whether the further doubling of the assessment to a charge of twice the rental of agricultural lands is justified, and it will almost certainly involve the lodging of a large number of claims for repayment of Income Tax. It is true that the occupier of agricultural land has the option of going under Schedule D, but so long as this remains optional it is unlikely that the majority of farmers will elect to come under Schedule D, not because their profits are in excess of twice the rental, but through reluctance to keep accounts and to make valuations such as would be essential if Schedule D is to be compulsory. If, however, Schedule D was compulsory and not optional, it is probable that a uniform system of book-keeping and valuation would sooner or later be adopted, and would be of advantage both to the Inland Revenue and to the farming community. If Schedule B is to be continued, we desire to suggest that it should revert for agricultural subjects to an assessment on the full rental instead of on twice the rental. The Schedule B assessment upon woodlands is limited to the full rental only, instead of twice the rental, in recognition of the fact that the double assessment on the same individual under Schedules A and B already bears heavily enough on this class of property.

Alterations recommended.

22,631. (7) To summarise the foregoing proposals, the Federation desire to recommend the following alterations in the Income Tax law and administration:—

- that any owner of lands and heritages assessed under Schedule A should have the option of assessment under Schedule D, and the expenditure on repairs, maintenance, management, and insurance forming a deduction from the gross assessment should be based as at present on a five years' average immediately preceding the year of assessment;
- that all improvement outlay be admitted as a ground for claim, whether necessary to maintain rent or not. If there is any increase in rent, there is an increase in assessable value for Income Tax. This question is one of considerable importance in view of the prospective substantial outlays on the improvement and reconstruction of cottages;
- the limit of £50 rental for houses in Scotland, in respect of which outlay beyond one-sixth can be reclaimed, should be removed as regards all subjects which are let, and should only apply to houses which are occupied by the owner;
- the woodlands should be assessed upon a new and more equitable basis under a single Schedule, either on the lines suggested by the Royal Scottish Arboricultural Society or in a similar way;
- that the fees and expenses payable to mining engineers be allowed as a competent deduction in assessing Income Tax upon mineral rentals;
- that Schedule B should be levied on the basis of the valuation roll rental of agricultural lands, instead of upon twice the rental.

[This concludes the evidence-in-chief of Mr. Milne Home.]

Evidence-in-chief of Mr. A. W. ROBERTSON DURHAM.
C.A., F.F.A.

22,632. (1) I am a Chartered Accountant in Edinburgh, a Fellow of the Faculty of Actuaries, and a partner of the firm of A. and J. Robertson, C.A., Edinburgh. I was invited by the Scottish Land and Property Federation to go over the returns which they had obtained from their members, showing the gross rental of agricultural lands, and of houses connected therewith, and the amounts chargeable thereon.

22,633. (2) The membership of the Federation numbers 479, and it includes most of the principal landowners in Scotland. Schedules were issued to 150 members of representative estates in different counties in Scotland, and of these 17 schedules were returned completed, out of which 10 typical cases were selected in as varied districts as possible, and the figures relating to these are submitted (see Appendix No. 35 (a)).

22,634. (3) The schedules, as issued, called for the following information for the ten years from 1909 to 1918.

- Gross rental of agricultural lands as assessed for Schedule A.
- Public and parochial burdens, including county, parish, and burgh rates assessed on owners, Land Tax, heritor's assessment, minister's stipend, surplus toid, Crown duties, and feu duties.
- Annual charges for management and insurance.
- Renewals, repairs, and improvements.
- Surplus after deducting (2), (3) and (4), from (1).
- Net amount assessed for Income Tax under Schedule A.
- Income Tax paid.
- Amount of tax recovered under maintenance claim.

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22,635. (4) A noticeable feature of the returns was that in many of the schedules the repairs in the last five years, and particularly in the years 1916, 1917, and 1918, show a very considerable decrease from the average, and this is due almost entirely to the difficulty of getting repairs carried through during the later years of the war. The probability is, therefore, that in future the deferred repairs and necessary annual repairs will, without taking into account in-

creased cost, show a considerably higher percentage of the gross rents. The statement appended hereto shows the results of the 16 selected examples, grouped in a concise form for the five years 1909 to 1913, and 1914 to 1918. The average for each of the five years is also shown as a percentage of the gross rents.

22,636. (5) From the statement appended, the following results are shown:—

Lands—Percentage of public burdens to gross rental.

Estate.	A	B	C	D	E	F	G	H	I	J
1908-13	17.9	14.1	15.8	19.0	19.4	15.9	16.7	10.9	16.2	14.5
1914-18	24.1	18.6	21.4	24.7	12.2	24.4	21.8	11.6	21.3	16.4

Percentage of management expenses and renewals to gross rental.

Estate.	A	B	C	D	E	F	G	H	I	J
1908-13	48.2	65.9	21.8	42.7	37.3	28.8	38.7	41.4	25.8	37.5
1914-18	46.6	55.6	15.7	53.0	20.4	21.1	33.6	26.2	26.6	26.1

Percentage of surplus, and of original assessment to gross rental.

Estate.	A	B	C	D	E	F	G	H	I	J
1908-13—										
Surplus	33.8	21.9	62.9	38.2	62.1	55.2	44.6	47.6	57.8	48.0
Assessment	73.3	92.4	87.6	82.2	80.2	79.9	81.8	79.2	76.5	77.2
1914-18—										
Surplus	29.3	25.6	62.9	42.4	67.2	51.9	41.6	62.2	52.1	57.4
Assessment	75.1	77.4	87.7	73.4	79.7	78.5	79.7	78.1	76.4	76.1

Houses—Percentage of surplus, and of original assessment to gross rental.

Estate.	A	C	E	F	G	H	I	J
1908-13—								
Surplus	—	40.0	48.4	62.8	—	50.0	—	52.0
Assessment	70.8	84.0	79.0	76.0	89.0	73.1	61.9	72.8
1914-18—								
Surplus	6.8	56.8	55.1	59.3	—	35.1	20.2	47.1
Assessment	80.3	83.6	79.4	78.0	79.8	74.1	84.0	71.5

From the above figures it will be seen that in every case the original assessment is in excess of the surplus falling to the proprietor, varying from 70 per cent. in estate B, to 12 per cent. in estate E. Mr. Milne Home, who is giving the principal evidence on behalf of the Federation, has exhibited a copy of his evidence to me, and I concur in the views as put forward by him.

[This concludes the evidence-in-chief of Mr. Robertson Durham.]

22,637. Mr. Kerly: There are a few questions I would like to put to you, and then gentlemen who understand it better, I expect, will follow. Will you turn to paragraph 2 of Mr. Home's proof? You say that the Scottish practice is to have an annual valuation?—(Mr. Home): Yes.

22,638. Would you just tell me, is that valuation done on the English basis of assuming what a hypothetical tenant would give for the property?—You mean in the case of an unlet subject.

22,639. Yes.—Yes, it is.

22,640. Where it is actually let, of course, you are guided by the rent received?—Which is entered in the printed valuation roll in Scotland.

22,641. Is this actually altered year by year?—It is corrected every year by the Assessor.

22,642. Is the Assessor an Income Tax official, or is it taken from the local rate books?—He need not be

an Income Tax official, but in nearly every case he is the local Surveyor of Taxes. In order to get the best possible advice in preparing the valuation roll, for which the county councils are responsible, they always endeavour to employ the Surveyor of Taxes and the Inland Revenue permit them to do so.

22,643. Now, will you turn to the middle of paragraph 3, where you speak of the allowances? Special arrangements were introduced, limited to land and houses of a certain value, in the Act of 1910?—That is with regard to houses?

22,644. Yes, I understand it is with regard to houses. Do you object to the principle of that Act?—The principle of restricting the rental?

22,645. No, the principle of basing your allowance for maintenance on actual expenditure taken on an average?—I beg your pardon; you refer to section 69 of the 1909-10 Act.

22,646. I beg your pardon; I had the wrong Act. It was section 69 of the Act of 1909-10?—Yes.

22,647. The principle there adopted is to make the allowance on actual expenditure?—Quite.

22,648. Taking it on an average of five years?—That is right.

22,649. Are you satisfied or dissatisfied with that?—Perfectly satisfied, subject to the removal of the restriction on houses; I think it is perfectly fair in principle.

22,650. Would not that involve, if adopted throughout the country, an enormous amount of work?—Do

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you mean it would involve an enormous amount of work at the basis of assessment was practically put on to Schedule D basis instead of Schedule A; at present it is open to anybody to make a maintenance claim; therefore, there would be no increase of work in that respect.

22,651. But in the case of houses it is limited to houses of a particular value?—I see your point now. It is that if that limit of rent of houses were taken off it would bring in a lot more maintenance claims, is it not?

22,652. Yes.—I do not think so; I should very much doubt it. I should not think that the increased number of claims would be very large.

22,653. You suggest at the end of paragraph 3 that the limit of £60 rental for houses in Scotland should be removed?—Where the houses are let.

22,654. And you would retain it where the house is occupied?—Where the owner is occupying the house, I think that would be reasonable, because it often happens that an owner spends a good deal more for his own comfort or convenience on a house than would be justified for maintaining the rent, and I think it would be perfectly reasonable that he should not be able to claim a deduction from Income Tax in respect of such expenditure.

22,655. That is exactly what I had in mind. Turn now to paragraph 4. You gave a table there, and you suggest in column 4 that there should be certain percentage deductions allowed—deductions from what?—The percentages in column 4 are merely estimates which have been inserted in order to illustrate the principle. The deductions in percentage are 7, 22, and so on. You follow that those figures are deductions from what would, under present circumstances, be the valuation of those particular areas for Income Tax purposes.

22,656. Deductions from the assessment which is supposed to be the yearly value?—Of the land, yes.

22,657. How are you going to arrive at your table of percentage deductions? Do you propose that the forest authority should set up a general rate for each particular class of timber which is indicated in column 1, according to age?—I think there would be very little difficulty in adjusting that table between the national forest authority and the Inland Revenue and the subject.

22,658. Then you would have a table fixed?—Yes.

22,659. And that would remain in operation for a number of years?—Until it ran off.

22,660. But it would be a standard table?—I think so.

22,661. That is the idea?—Yes.

22,662. Mr. Walker Clark: For all classes of timber?—The Scottish Arboricultural Society made a distinction between hard woods and soft woods, and I think the idea there was that the average period of growth of the one group is longer than the other; but for the sake of simplicity I do not think, taking into account the proportion of each, it would really be necessary to make the distinction; that is my personal opinion.

22,663. Mr. Kerly: Are there cases where there are mixed woods?—I should say, speaking for Scotland, to which Mr. Robertson Durham and myself are really referring only now, that the percentage of hard woods is extremely small, probably 15 per cent., and that the greater part of that is mixed.

22,664. Would you disregard that?—Speaking as far as Scotland is concerned I would disregard that. I recognise in England it might not be possible to disregard that, but we are not speaking with regard to England at the moment.

22,665. Now just turn to your suggested alterations in paragraph 7. They are all plain enough, except with regard to (b): "that all improvement outlay be admitted as a ground for claim, whether necessary to maintain rent or not"?—Yes.

22,666. You appreciate that some improvements might only add to the amenity of the estate without adding to its rental value?—Hardly, I think, as regards the ordinary estate expenditure. I am not at the moment able to think of any expenditure which the owner is entitled to make and reclaim

under the maintenance claim, which is an expenditure of that nature, not amenity expenditure.

22,667. But you are dealing with what he is entitled to at present, and you are suggesting an alteration?—Not with regard to class of expenditure.

22,668. I do not follow that?—Perhaps I do not quite grasp the point. Could you quote some instance of what you mean—what class of expenditure?

22,669. I took it as you put it here: "that all improvement outlay be admitted as a ground for claim"?—Perhaps I should have amplified that.

22,670. Decorative planting?—That could not be claimed, because you cannot put planting into the maintenance claim now.

22,671. I see; you are limiting it to the existing subject matter?—Yes. Perhaps to have made it clearer, I should have said: "all agricultural subjects or all house property."

22,672. It is suggested to me that I might have asked you about building new farmhouses?—Yes, quite.

22,673. Would you propose to allow expenditure in building new farmhouses, although it was not done for the purpose of maintaining rent?—I have no experience in any estates which I have had to deal with of such a question arising as building a home beyond the requirements of the farm. I quite admit that if such a case did arise that would not be a proper thing to include. If someone wanted a twenty-roomed house where a seven-roomed house was perfectly adequate for the particular farm, that would certainly be an improper charge, because it was being built for some reason other than the proper carrying on of that farm, but as far as any district of Scotland which I am acquainted with is concerned, I have not come across that case, although I can conceive it happening.

22,674. I want to put something to you that we were discussing with other witnesses this morning. As regards woodlands, is not the real trouble about the over-taxation of woodlands that they are assessed at too high a rate?—In many cases that is so, but here again, speaking personally, and not with reference to these expressions by the Arboricultural Society, I think the real trouble is that they are not assessed on the net income, which, after all, to my mind should be the object.

22,675. The net income of them as woodlands?—They are assessed on the value of the land in its natural state for pasture.

22,676. You say that in paragraph 4.—That may be in certain cases too low; there may be certain cases where the profits are larger than would be so derived. It seems to me illogical and unreasonable to assess woodlands on the basis of a grass crop when the produce is timber. That, to my mind, is the root of the whole difficulty.

22,677. That is really what I was suggesting to you, that you assess the woodlands at present, as I understand it, on a fictitious basis?—Yes, quite.

22,678. As though they were something else and not woodlands?—Yes.

22,679. There may be some excuse for that, it seems to me, where they are woodlands planted or kept for amenity?—Certainly.

22,680. But where they are kept as the best thing to do with the land, or where the wood is grown in the national interest, then you ought to deal with it as woodland?—Certainly.

22,681. And so you should arrive at the best annual value you can upon that actual basis?—Yes, I quite agree.

22,682. And if you did that, would not that get rid of a great deal of the difficulty?—I think it would, and it is with a view of attaining some such object that this suggestion has been put forward by the Arboricultural Society.

22,683. Another suggestion was put to some of the witnesses this morning for getting over the alternative suggestion of taxing woodlands under Schedule D. The difficulty with regard to Schedule D is that you have partly grown woodlands to deal with. What

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do you say to the suggestion that you should treat the partly grown woodland as stock, as a trader does his stock which is brought into his account, and open the account now when the change in the law is made; value the existing woodland and take that as stock-in-hand in considering any future profit at the time when the woodland is cut and realized?—The only practical difficulty in dealing with that aspect of the question is, supposing you have got, say, 5,000 acres of wood in, perhaps, 100 different ages, you must deal with the whole as a unit of crop. You cannot separate out each patch and say, "this is 50 years old and this is 60 years old," and so on, and deal with each as a separate unit. I quite admit that it would be possible, and that figures are available on certain estates to enable one to say to-day there are two million cubic feet growing in those woodlands, and to say a year hence that there are 2,900,000 cubic feet. That is perfectly possible and practicable, I do not say to a foot or two, but it is perfectly possible with accurate estimating, although it would not be possible to deal with age classes in order to arrive at each separately. The whole area would have to be taken as one unit.

22,684. I do not quite see why you could not divide it up into different units, not with different classes of timber, in the same locality. Take different patches of woodland and treat them as a trader does when he takes different items of his stock, or his stock in different warehouses; why should you not deal with it in that way?—That, of course, is the way the total would be arrived at in estimating the stock in a big area of woodland. Plantation in the area is put down, and the total number of cubic feet per acre, and the total carried out.

22,685. Why not record for each item what its present value is; is it practicable?—It is impracticable in this sense, that a very large part of the crop would not at the moment of making the valuation be marketable, as it was immature.

22,686. You can estimate its value, can you not?—You can estimate its value, but, if I understand your proposal correctly, it would mean that, supposing the crop which was worth £50 an acre was valued at £52 an acre a year hence, the owner should pay on that increase.

22,687. Only when he realizes?—Only when realized.

22,688. My suggestion is this: you value a particular wood; its value now is £1,000; ten years hence the wood is cut and realizes £1,500; the profit made is £500?—Less the intermediate expenses.

22,689. Oh, yes, less the intermediate expenses. In the meanwhile, as he has realized nothing, he has had nothing to pay under Schedule D; but when ten years hence he gets £500 he will pay on £500, less the intermediate expenses?—Quite. There would be certain difficulties in carrying it out, but I admit it is not impossible, and it would be perfectly fair.

22,690. The witnesses this morning said it would be quite fair, but quite impracticable. They said they had considered it and came to the conclusion that, having regard to the difficulty of assessing the present value, it was not a practical suggestion?—It would be extremely difficult, I admit; there are certain estates where it could be done with very little trouble, but not in the majority.

22,691. You do not think it would be practicable to offer an owner that option of coming in under Schedule D on that basis?—I am afraid very few would be able to take advantage of it.

22,692. Then I need not trouble you with the further problem as to what the basis of the present valuation should be, whether it should be present prices or pre-war prices?—No.

22,693. Mr. Petyouas: Before I come to anything else I should like to ask you on the last point about the possibility of valuing timber now and paying on the difference when it is sold. Would not the unit be the difficulty—that you are valuing one unit now and that you would not sell the same unit at a later time?—Yes, that is one difficulty, and another

difficulty is that parts would be removed; there might be windfalls or dead trees, and so on.

22,694. That is exactly the difficulty which has wrecked the land taxation of the Budget of 1909-10, that you value one particular unit at a particular date, and then there is absolute freedom to the owner or any interest in it to alter the unit and to deal with it in different items?—Precisely.

22,695. And then when you come to the moment for collecting the tax you get a difference between the two valuations. You have got a valuation on one unit as a basis, and now you have another totally different unit at the moment of assessment?—Exactly.

22,696. And it is impossible to obtain an accurate comparison?—It would be extremely difficult in regard to woods to do so; I do not know whether it is impossible, but it would be extremely difficult.

22,697. It would be really impossible, would it not, in an ordinary case where the wood had been valued as a whole and where the final clearance felling might take place 30 years later; but where during that 30 years there had been windfalls, timber taken for estate purposes and used on the estate, and so on, so that the number of trees finally felled would be quite different from the number of trees originally valued?—That would be so.

22,698. In order to obtain accuracy you would have to have a tree-to-tree valuation?—You would have to have an exact record of when material was taken out of that wood, and the quantity taken.

22,699. The only way it could be made absolutely accurate would be a valuation of every tree?—I do not go that length quite, but it would certainly be necessary to have an exact record of every tree that was removed, and the contents.

22,700. Then the Revenue would not get payment until the end of the whole thing?—No.

22,701. Long deferred, and the money might be spent. Supposing in the 30 years that I have spoken of half the wood had been used up, and the final clearance takes place at the end of 30 years. The people who have used up the half have had the money and spent it?—Yes.

22,702. And the man who felled the last bit, it might not be as much as a half, would have to pay the tax on the difference between the total value realized finally and the original valuation?—Yes.

22,703. Is it practicable?—It would be extremely difficult. I cannot imagine the Inland Revenue wishing to have any such proposal.

22,704. On the first part of your paper, about Schedule A, we have had a great deal of evidence, but I must put to you the same question as I did to the Central Land Association. You are satisfied on the whole with the deductions given under section 69 of the 1909-10 Act—the system is fair?—The system I think is perfectly fair.

22,705. And it is preferable, is it not, if it can be advantageously applied, to an increase in the fractional allowance?—I think so. My objection to an increase in the fractional allowance is that people would benefit who do not deserve to benefit—the people who spend least on upkeep.

22,706. Also it was put to us that the character of different buildings and the duration of life and the relative cost of repair varies very much?—Very much.

22,707. So that one man would get too much and another man might get too little; but your objection to the present system is that you do not get repayments back quick enough?—That is so.

22,708. We have had evidence given us by the Inland Revenue, that they had considered that question, and that they are of opinion that the returns might be simplified and arranged so that a claim might be made at the same time as Income Tax is assessed; and that you might actually pay your tax for a particular year minus this deduction?—That is exactly what we ask for.

22,709. The Inland Revenue believe that that could be done. Have you any reason for thinking that that is not practicable?—I am quite satisfied that it is practicable, because in speaking from an experience of some years of dealing with these claims, the claim which I would require to lodge on the 1st April next

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is ready now; it could have been ready some months ago, and I am quite able to give it to the Surveyor of Taxes in order that it might form a deduction from the assessment notices which he is just going to issue.

22,710. The schedule which you send in from year to year is practically a repetition?—It is, with one year knocked off and a farther year added on.

22,711. It is simply a new year of total expenditure?—It is simply a new year of total expenditure with one year dropped out.

22,712. And although it appears to people who do not understand it to be complicated, it really is not so?—No, it is really simple in form.

22,713. And once you have got in the way of rendering it, it can be rendered very promptly?—Yes.

22,714. On an estate where accounts are kept?—Yes.

22,715. That was really your only point on Schedule A, was it not?—I think so, except with regard to the question of the removal of the limit on houses that were let.

22,716. Yes, we have had evidence on that. Would you not be content there to take your stand with all other property owners? We have had similar evidence from property owners in towns and so on asking for that extension; it is not particularly a matter for agricultural property?—No, not so much, but there were several cases quoted by members of the Land Federation of Scotland where they let houses at £50 to £100 rent, and where they had expenditure considerably beyond the one-sixth which was merely a legitimate expenditure to maintain rent; there was no fancy expenditure about it. They were getting the highest rent they could, and they were not spending more than was necessary to maintain the house, and they thought it was a distinct hardship that they had to pay Income Tax on a sum greater than what they were actually receiving.

22,717. Under that they would suffer in common with all other owners of similar house property?—Undoubtedly.

22,718. It is not a special grievance of agricultural land owners?—Certainly not, and it is less so to an owner of agricultural land than it is to an owner of house property.

22,719. So that you would not ask for special exemption for houses of that character on an agricultural estate?—Certainly not.

22,720. You would take your stand with the other owners?—Certainly.

22,721. You have noticed, have you not, that these allowances given by legislation have been progressive?—Yes.

22,722. I think the present Prime Minister in his Budget of 1909-10 proposed that it should be progressive and tentative?—That is beginning with the limit of £5.

22,723. Yes?—Yes.

22,724. And it has been carried forward since?—Yes.

22,725. And it might be carried on in the same way, and the agricultural land owners would benefit with the others?—I agree.

22,726. On your point (b) in paragraph 7, what I understand you really to mean there is not that the character of the improvement for which you claim allowance should be altered, but that even if it might be of the nature of capital expenditure it should be deducted from income?—That is so. What was more particularly in view is the very large expenditure that even with well managed estates, where housing is fairly good, is in prospect in the immediate future in bringing cottages up to the new housing standards.

22,727. But that is allowed, is it not—new cottages are allowed?—So long as they do not increase rent, but the difficulty that is anticipated in the future is this, that farmers in many cases will be quite ready and willing and able to pay an increased rent, say, if three or four cottages are entirely rebuilt or renewed. As interpreted by the Surveyors of Taxes I think expenditure of that nature, if there was any increase of rent, would be excluded from the maintenance claim.

22,728. This is the section in the new Consolidated Act; Schedule A, No. V., section 8, subsection 2:

"For the purposes of this rule the term 'maintenance' shall include the replacement of farm houses, farm buildings, cottages, fences, and other work where the replacement is necessary to maintain the existing rent."—Yes.

22,729. That is the present position?—I may just quote an actual case of a property in the East of Scotland of which I happen to be one of the trustees. There was a case last year where four farm cottages had to be replaced with four new ones. They were built I think in the year the war broke out, and they were finally finished and paid for in 1916. They first appeared in the maintenance claim last year. The Surveyor of Taxes in the first place struck out the item, which was, if I recollect rightly, about £800, because he said that the accommodation provided in these new cottages was better than the accommodation provided in the old ones which they had replaced; he struck out the item on that ground. I told the agents concerned to protest against any such suggestion, and that there were not additional cottages to the old ones; they were to replace the old ones. It seemed very extraordinary when all owners were being urged to improve housing that such an attitude as that should be taken up by the Surveyor of Taxes. The Surveyor of Taxes told me personally that he quite sympathised, but he had to obey his instructions. I said, "You had better write to London about it, because I am going to protest," and he got special instructions from London to give way in that individual case, without admitting the principle. You see what I mean.

22,730. Was the rental increased?—The rental had been increased—that was the point—because the tenant in the farm had died, his representatives had given up the farm, the farm had been advertised and it happened to be re-let for an increased rent.

22,731. But there was no specific increase in respect of the replacement of these cottages?—Of course there was not. That was the Surveyor's point. He said under his instructions he was bound to strike out the item. That is exactly the case that I refer to in (b) in paragraph 7.

22,732. On this question of woodlands, is it not the fact that when you are assessed under Schedule A and Schedule D it really amounts, apart from the point of the maturing timber, to an actual assessment of your profits from the woods from year to year?—Yes, if all your woods are young I admit that it is quite fair.

22,733. Schedule A fades into nothing, does it not?—Because it is deducted in arriving at Schedule D.

22,734. That is what I mean. If in a given year you have expended rather more on your woodlands than you receive, and if your tax payable under Schedule A were £500, you would not only wipe out the whole of that £500, but you would be allowed to deduct the balance of £500 from some other part of your assessment?—From other income, yes.

22,735. Is not that a very satisfactory situation from that point of view?—It is for anyone that has only young plantations.

22,736. Is it not a position that it would be rather dangerous to depart from?—I quite admit that; it is perfectly fair as regards an estate such as you describe, where the woods are young.

22,737. Do you not think you may have attached a rather exaggerated importance to the question of the growing timber, in view of the fact that on most considerable estates there are plantations of all ages? The war period is a different matter altogether and I will come to that presently, but taken year in and year out over a period of years the 5 years' average, allowing Schedules A and D to operate in the method I have mentioned, works out pretty evenly all round. You sell one place one year and another year another place, and you try to maintain some kind of balance of revenue year by year for the estate?—If the woods were in regular ages all through I quite agree that even there, although there would be a hardship, it would not be worth while taking into account, but, speaking certainly for the South of Scotland more particularly than the North, if the woods on any given estate are divided into age classes such as are indicated in that table in paragraph 4, I think you would almost invariably find

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that there was a large preponderance of old wood. It is exactly there that the hardship comes in; to go under Schedule D means there to pay Income Tax on that again, so to speak.

22,736. That would be rather accentuated now, would it not, owing to the felling that has taken place during the war?—Yes.

22,739. Mr. Kerly. In respect of past years?

22,740. Mr. Pretyma: Yes, on your average. During the war period people have felled timber which they would not otherwise have felled, and which would come into their five years' average?—Yes.

22,741. Is it not also true that in the coming year there will be comparatively very little felling, and a great deal of expensive replanting?—Yes.

22,742. It has only occurred to me in looking at this since I heard the evidence upon it this morning to ask your opinion: would it not be possible to encourage replanting—instead of adopting such a table as you have adopted here (you would have to apply it to England as well)—by leaving A and D to operate as they operate now, and if you incurred the overpayment which you have to make now, and were allowed in the next five years of replanting a rebate and a return for larger expenditure taken in conjunction with your sales during the war—could something on those lines be done?—It could certainly be done, and quite simply done.

22,743. Would it go some way to meet your case?—I think it would go some way to meet it, but I would not like to express a definite opinion without working out an example.

22,744. I do not think it would absolutely, but it would at any rate go some way to meet it?—It would, I agree.

22,745. And it would encourage replanting?—Yes.

22,746. Replanting is now very costly?—It is at least double what it was.

22,747. And it is very desirable to replant. Managing a large property with a great deal of wood on it, would you not rather feel that it would be an encouragement to you to advise replanting if all that expenditure would involve a return of the Income Tax which you have previously paid?—Undoubtedly, if it covered replanting as well. In my own case the whole of the war felling has been replanted.

22,748. That would come in anyhow?—Yes.

22,749. I entirely agree; I should have added new planting, which it is equally desirable to encourage?—Yes.

22,750. The years of the war have been years of felling; the years succeeding the war it is hoped will be years of planting, and if you could get an allowance for this as against what you have paid for the years of felling, it would help?—It would, undoubtedly.

22,751. On Mr. Durham's paper, which is a most astonishing paper, it seems to me, does this appendix [see Appendix No. 35 (a)] mean that these figures in the last two columns of the statement—take the first one, for instance, Argyllshire, and the first figure—show that over a period of five years the actual profit received by the owner was £11,535, and that he actually paid tax on £25,698?—(Mr. Durham): Is the first instance, yes, but of course he had his maintenance claim thereafter.

22,752. Is there anything here to show what he got back?—No. We have not shown that.

22,753. Surely that would be very material, would it not? The real point is what he did actually pay?—Our whole point is that he is assessed in the first instance on too large a figure; we grant that he gets it back later.

22,754. You grant that he gets it all back?—Not the whole of it.

22,755. Why does he not?—Because he is only entitled to get back the expenditure which gives him no return in new rent.

22,756. That is the same point as we have had?—Yes.

22,757. The answers that Mr. Milne Home has given to me on the point, that if these returns were made

actually in the year of assessment and deducted from the tax payable, and if the question of expenditure on what might increase rent and improve the property were also dealt with, your point would be met?—That is so. This figure assessed on is the original assessment, and he thereafter makes a claim.

22,758. Quite so, but if these repayments were made in the year of assessment, in fact were not repayments at all—you agree with what Mr. Home has said, that the returns can be rendered in sufficient time?—Yes.

22,759. If that were done as the Inland Revenue propose it should be done, and if therefore you paid on the reduced figures instead of paying on the full figure and having the return, and if the extension referred to in (b) in paragraph 7 of Mr. Milne Home's paper were granted, you would be satisfied?—Quite satisfied.

22,760. Sir S. Nott-Bower: On the point that Mr. Pretyma was questioning you on just now, about the discrepancy between the amount on which the Scottish landlord is assessed upon and the surplus which remains to him—I will stick to the Argyllshire instance; it will do just as well as any other—is the amount assessed on after the one-eighth deduction has been made?—Yes, that is the net assessment under Schedule A.

22,761. That is the net assessment after the allowance of one-eighth?—After the allowance of one-eighth for repairs.

22,762. You knew that allowance is described as for the purposes of collection only, and I wanted to be clear how you treated it there?—Perhaps you would like to see the schedule that was sent out; I have some copies here.

22,763. No, thank you. I would rather ask you one or two questions, because you understand it much better than I do; I rather anticipated that that would be your answer; it is the net assessment after the one-eighth has been allowed. Keeping to the same instance, the burdens during this five years are described as £25,110. Then I go back to your paragraph 3, and I see that the burdens which are referred to there include public and parochial burdens, and so on, and they also include heritor's assessment, minister's stipend, and feu duties. Some of these payments are payments surely from which the land owner would deduct Income Tax?—Yes.

22,764. Take, for instance, feu duties; he would get back part of the tax in that way?—The stipend percentage is 5 per cent.

22,765. That is the minister's stipend?—Yes.

22,766. He deducts a proportion of the Income Tax paid by him on paying the stipend?—Yes.

22,767. Would that apply also to the heritor's assessment?—Minister's stipend forms no part of the maintenance claim, because he is entitled to keep tax off the minister.

22,768. I dare say you see what my point is. Mr. Pretyma was puzzled by the discrepancy between the Income Tax payment and the amount which he could get back. Part, very likely the whole for anything I know, of that discrepancy is covered, is it not, by these payments which the landlord makes, and from which he deducts a proportion of the Income Tax which has been paid by him. The net Income Tax paid by the landlord would not be on £25,000, would it?—The landlord pays on £25,000 originally.

22,769. But he does not bear the whole of that. He deducts some of that from the person who receives the feu duties or the minister's stipend?—Yes. I can give you the total for the whole estates.

22,770. Mr. Kerly: I think it would be useful if we could have something to show as what it is the landlord has ultimately to bear—I think I can give you that over the whole period of 10 years and for the whole estates.

22,771. What paragraph are you going to deal with now, paragraph 5?—This will be in paragraph 5, a new figure of surplus, combining the whole 10 estates, and for the whole period of 10 years, for the surplus on the aggregate on which the landlord receives 51 per cent.

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22,772. The net surplus and the assessable value; is that it?—No, the actual cash he gets into his pocket is 51 per cent. of the gross rents on the average, and we have to add to that the stipend which has been mentioned, which amounts to 7 per cent., so that on any question of assessment he receives 58 per cent. into his pocket, he is assessed on 79 per cent., and it is the difference that we want deducted in the first instance.

22,773. I see now. The real figures we have got to deal with are the comparison of 59 with 78.—That is so, and that difference represents roughly the amount for maintenance claim.

22,774. 19 per cent.—Roughly 19 per cent.

22,775. Then you say that his maintenance claim disallowed money spent in actual maintenance amounting to 19 per cent. of the gross rental, and you ask that this shall be allowed; is that right?—No, he is entitled to claim up to the whole 19 per cent. if he can satisfy the Surveyor that no part of that is expended on obtaining an increased rent; he can get the whole of it now.

22,776. May I state it again to see if I have got it right: he is assessed on 78 per cent. of his gross rental?—Yes.

22,777. He actually receives 59 per cent.—Yes.

22,778. If we can satisfy the Inland Revenue under the existing law he can get further allowance and so receive tax on the difference of 19 per cent.—That is right.

22,779. To get that he must show that that represents expenditure not for the purpose of increasing rent?—That is exactly right.

22,780. So that what you want to do is to allow him to re-claim it although it is for the purpose of increasing rent?—I grant that we want him to be allowed to deduct it prior to the first assessment.

22,781. Well, that is the machinery?—Yes.

22,782. That might be met by Mr. Prymman's suggestion of deducting against your next year's payments?—It would, yes.

22,783. Is not the real objection to refusing to allow a deduction where an expenditure is made with a view to increasing rent that it is exactly like a man who invests his savings: his savings are going to bring in an income, but he is nevertheless taxed upon them before they are available for investment?—It would certainly seem like that, yes.

22,784. Now may I put the case that appeals to me of a professional man, and I will put it as what strikes some professional men as a very hard case. A man does not until he is 45 years of age perhaps in certain professions get to such an income as will allow him to make any substantial savings. He then has the chance, if he is fortunate, for 15 years of saving to replace the expenditure he had made in preparation in early youth and in keeping himself, and to provide for his old age and his family. All that he saves he invests, and it produces income upon which he has to pay tax, but he also has to pay upon the income from which the savings are secured. That is the common case, is it not, of every taxpayer?—Yes.

22,785. Why should a man whose income happens to come from land be in a different position?—It is a very difficult question to answer, I think.

22,786. Very well, that is a fair answer.—(Mr. Home): Might I just be allowed to say a word in answer to that question. That very point was considered and was put forward when this evidence was being prepared, and the reason given by several owners of land was that the difference between expenditure of this sort and an investment was in the first place that it was the certainty of a wasting investment, it was always depreciating after it was made, and also that there was upkeep and repair of it all the time.

22,787. Now you pass to the next stage, the treatment of the investment. If I, having made my professional savings, choose to invest them in house property, the position is just the same?—I admit that.

22,788. Mr. Kerly: If I choose to invest them in mining shares I am really getting back part of my capital all the time, which is another trouble. Very

well, we have now got the real environment of your particular problem, I think.

22,789. Sir W. Travers: May I ask what is the meaning of the word "improvement"—it does not mean building further houses?—Not always. The three words used I think are repairs, improvements and renewals; that is the point you mean.

22,790. It is confined to those?—Yes.

22,791. You very often, I dare say, have had a large farm split up into two or three smaller farms, and in that case you have had to build fresh farm houses for the smaller farms?—Yes, I have known such cases.

22,792. What I was merely asking there was that the word "improvement" does not include those new buildings?—Not for the maintenance claim.

22,793. Not for the maintenance claim, but for your paragraph 7 (b)?—It would for paragraph 7 (b), but not at present.

22,794. It raised the same question which Mr. Kerly put to you, that really so far as it is fresh investment it increases income. It is the same as an investment in an annuity, for instance?—It is not strictly parallel, but it is fairly parallel.

22,795. Mr. Marks: Greatly daring, because I do not understand anything about it, is not that scheme propounded by the Scottish Arboricultural Society very much that which Mr. Kerly put to you, with the exception that they suggest taking the total acreage of the woodland and dividing the wood into blocks of various stages of growth?—Yes.

22,796. The difference rather between particularising, and taking the whole thing on the average?—Yes. The only difference is that for the purpose of this proposal there would be an annual assessment.

22,797. For the purpose of the Scottish proposal?—Yes. There would be an annual assessment subject to a yearly decreasing deduction.

22,798. It seems to me if there is any injustice it might be remedied by some sort of combination of Mr. Kerly's suggestion with this suggestion of the Arboricultural Society?—I do think if a workable and practicable scheme could be worked out on those lines it would satisfy owners.

22,799. Presumably the Scottish scheme is practicable; it is put forward by practical men?—It was thought to be perfectly practicable from the owners' point of view who supplied the information. Of course we quite anticipated that the Inland Revenue might say they saw difficulty from the administrative point of view.

22,800. The value of Mr. Kerly's suggestion is that it would make this scheme rather more easy in working from the Inland Revenue point of view, but perhaps it might be left at that. I want to ask one question of Mr. Robertson Durham. Somewhere I think you said you had got about 47 returns to your inquiries?—(Mr. Durham): Yes.

22,801. From which you selected these 10 as being typical?—Yes.

22,802. I gather from what you also said that you had worked out the averages so far as the 10 estates are concerned?—Yes.

22,803. Have you also worked that out in regard to the whole number of 47?—No, we did not. The difficulty we had was that we first of all selected the 150 and sent them to people whom we knew kept proper accounts, and then when we got in the 47 schedules we again had to sift through and pick the ones whose figures we could rely on, and then we further made a selection according to counties, so although it looks as if we are selecting against the Commission there was no idea of that sort.

22,804. I did not mean to make any suggestion of that sort. I have no doubt you satisfied yourself that the inclusion of the whole number would not make any great difference even if their records were kept in such a form as to enable you readily to get the figures?—They were very similar to the examples given.

22,805. Mr. Marks: Might we ask Mr. Robertson Durham if he could put in the figures of the average? I think it is better from our point of view that we should have a general idea of the situation rather than examine the details.

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22,806. *Mr. Kerly*: Can you do that?—Certainly. I am sorry I was not able to do it before. [See Appendix No. 35 (b).]

22,807. If you will forward your figures to the Secretary of the Commission we shall not want to further examine you.—The average of the 10 estates under each head?

22,808. *Mr. Marks*: Yes, put your figures in the form of an average for the 10 estates.—Yes. (*Mr. Home*): Might I be allowed to add one point? Since the evidence was printed, I refer to paragraph 6, "Schedule B," it has been pointed out to me, a matter of which I have not personal experience, but several members of the Federation who have properties in the Highlands have referred to it, that with regard to deer forests they are assessed at present I am informed under both Schedules A and B. If the deer forest is let Schedule A of course is paid by the owner on the rent. Schedule B is not as a rule paid by the tenant; it comes on to the owner too. Of course that is simply an extra burden on his pocket. The point is this, that where a deer forest is unlet or cannot be let, as happened during the war in most cases, they had to pay 12s. in the £ when the Income Tax reached 6s. on a property where there were no Schedule B profits at all, and cannot in the circumstances ever be any Schedule B profits. I was so astonished that such was the case—it was new to me, as I had nothing to do with deer forests—that I wrote to make quite certain that that was being done, because Schedule B is supposed to be levied on the occupier's profits, and admittedly there are no occupier's profits in this case. I was assured that it is regularly done, and that particular owners are bound to pay Schedule A and Schedule B on land occupied as deer forests. I merely wished to put that point in as one which appears undoubtedly to cause a grievance to owners of land in the Highlands.

22,809. *Mr. Kerly*: Has anybody appealed on the question?—Well, there were two or three cases appealed. I understand. One of them appealed about three years ago, and the Inland Revenue, without conceding the principle, agreed not to claim the Schedule B as a temporary measure during the war, when it was impossible to let forests.

22,810. Thus I suppose has been general, not only in the particular cases of the appellants, but they have not claimed it generally from the owners of deer forests in hand?—I understand not, but they anticipated that this current year they will again be assessed.

22,811. And I should think the proper tribunal to appeal to is the Court with regard to that. I cannot myself understand the proposition that you put forward?—Nor can I. I could hardly believe it when it was sent to me in writing, but I am assured it is the case, although I cannot speak from first-hand experience, because I know nothing about deer forests. I merely wish to put the point in.

22,812. *Mr. Marks*: Does the provision apply only to vacant forests?—It applies equally to let ones, I understand, to this extent.

22,813. If they were let would not the fact that the owner also has to bear the burden of Schedule B be taken into account when he fixes the rent to his tenant?—They tell me he is not allowed to deduct Schedule B for Income Tax; that is the point.

22,814. But he would probably ask a higher rent?—If he could get it, but they are at a discount at the moment.

22,815. *Mr. Kerly*: That probably would bring down the assessment?—He does not get it as a deduction as he would for occupier's rates, and therefore he pays Income Tax on it.

22,816. *Sir W. Trouser*: Is it really the fact that there were any deer forests unlet this current year?—So I am told.

22,817. I am told there were none.—In the past season?

22,818. Yes.—There would not be many that were unlet because a tenant could not be found; there were a certain number unlet because the owner was occupying them.

22,819. I was only asking for information, because I have been told that there was not a deer forest to be obtained under any circumstances?—There certainly was not a grouse moor unlet; I could not say as regards deer forests.

22,820. *Mr. Kerly*: The assessment of deer forests is a figure spreading over a series of years?—Yes.

22,821. If it is let it is not so?—It is on the net rent received in that particular year.

22,822. Supposing you have got to go on the valuation. The valuation for Schedule B is not on the rental actually received in any particular year, but it is on a calculation or estimation of its value taken over a series of years, is it not?—But my difficulty is that it can to an occupier have no value, because there cannot in the circumstances of the case be any profit. Schedule B is supposed to be an occupier's profit, but there can in the circumstances be no occupier's profit in this case; the expenses must always far exceed any possible receipts.

22,823. The owner cannot enjoy it himself?—If he did he would no doubt quite rightly pay Schedule A, but I cannot see why he should pay Schedule B as well.

22,824. Let me put it in another way. Are not voids or the possibility of voids taken into account in arriving at the assessment?—I am not certain about that.

22,825. If they are, it makes a very considerable difference to the grievance?—I could not answer that question yes or no, because I do not know.

22,826. *Mr. Kerly*: Very well, we shall ascertain.

22,827. *Sir W. Trouser*: Your contention is, I understand, that Schedule B is not applicable at all to deer forests whether let or unlet?—Precisely.

22,828. That they produce no profit whatever to the occupier or to the owner?—To the occupier. They produce profit to the owner under Schedule A.

22,829. That is equivalent to the rent he receives?—The net rent that he receives.

22,830. But there is no profit derived from deer forests from occupation at all?—No.

22,831. *Mr. Kerly*: You would accept the metaphor that was offered to us this morning, that it is like the ownership of a valuable picture; you have the pleasure of looking at it, or in the other case of seeking for deer to shoot, but you get no commercial profit?—To a certain extent I quite admit that under Schedule A you can get a revenue from it, but in the case of pictures you cannot.

MR. T. HALL HALL, on behalf of the London Playing Fields Society, and MR. C. E. CLIFFE, on behalf of the Manchester and Salford Playing Fields Society, called and examined.

The witnesses handed in the following statements as their evidence-in-chief:—

Evidence-in-chief of Mr. T. HALL HALL, Deputy Chairman, on behalf of the London Playing Fields Society.

22,832. (1) The Society has four grievances in respect of Income Tax:—(1) that it has to pay Income Tax in respect of land which produces no income out of which to pay the tax; (2) that the law should make a charity pay Income Tax under Schedule A in

respect of profits of lands in the occupation of the charity, and used for its charitable purposes; (3) that the assessment of annual value is in some cases fanciful and far beyond what would be the rack rent which anyone would give for the land, in its present condition from year to year; (4) that it lies to pay Income Tax at all seeing that it is a charity which at no cost to the public renders services to the public of exactly the same nature as those rendered by local authorities who at the public expense provide grounds for cricket, football, lawn

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tennis and other games, and are exempt from Income tax in respect of such land.

I have to urge that the law be altered so as to remove all these four grievances.

22,833. (2) The Society was founded in 1891. I was one of the founders and have always been actively concerned in the management. The late Sir Charles Leigh was Chairman, but he died during the war and the chairmanship has not yet been succeeded by Sir Edward North Buxton is the Vice-Chairman and Treasurer but though he continues to take great interest in the Society and to work for it, he has been unable to attend its meetings for many years.

22,834. (3) The Society's main object is to encourage and develop the playing of cricket and football and other like games by the clerks, working men and boys of London with a view to the physical and moral welfare of the population. The Society is a charity in the legal sense. The Charity Commissioners have made orders in respect of the Society's property. In 1913 it had eight playing fields in and around London, comprising in the whole about 272 acres, besides a number of pitches laid out by it in three localities in Epping Forest by permission of the Corporation of London. This space was sufficient to accommodate about 7,000 cricketers at a time.

22,835. (4) The Society's practice is to let or license pitches for the season for cricket and lawn tennis in the summer, and football and hockey in the winter to clubs which, although not able to give the high rent necessarily demanded by persons who let for profit, can yet pay a moderate charge and thus reduce the competition for the limited space available in the public parks and open spaces and leave them free for the poorest players. It is a great point in the Society's view that the parks and commons should be kept available for poor clubs and schools without any charge. About 1912 the Society also turned its attention to the provision of miniature rifle ranges. Two had already been established prior to the outbreak of war, and one more was added soon after.

22,836. (5) The Society has acquired the freehold of four fields comprising 164 acres—three purchased by public subscriptions, and one out of the funds of the Society. Part of the purchase money has in some cases remained on mortgage. The freehold of another field of nearly 40 acres was purchased by the Goldsmiths' Company in order that the field might be used by the Society who holds it under a lease at the nominal rent of 10s. a year. It was intended that this fine field being occupied rent-free by the Society would be worked at a profit which would provide means for running other grounds in respect of which rent or mortgage interest has to be paid, but these expectations have been entirely quenched by the enormous and quite unjustifiable assessment of Income Tax which has been placed on this field, so that instead of being the cheapest it has been one of the most expensive to run of the Society's fields.

22,837. (6) The whole of the clubs using the grounds consist of clerks, working men and boys, and some women and girls. Except for a few benevolent clergy and other persons interested in the clubs, the players are not persons individually chargeable with Income Tax unless the present high wages have brought some of them above the Income Tax assessment limit.

22,838. (7) Grounds are often lent without payment to L.C.C. Schools, both for school sports and games. This is entirely gratuitous, and during the last few years grounds have also been lent to soldiers to play on without payment, and grounds have been used for drill even before the war.

22,839. (8) The aim of the Society has been since after the grounds have been acquired and laid out from the funds of the Society, they should be self-supporting, and that if possible the balance should be on the right side, so as to go some little way towards recouping the general expenses of management of the Society, and some of the expenses of laying out. But, in practice, the annual income from the grounds in pre-war days about balanced the expenditure. Some years there was a small surplus—thus in 1913 the receipts from grounds were £4,025 11s. 9d., and the

expenses were £3,849 12s. 4d., leaving a credit balance of £175 18s. 5d., and in 1914 there was a credit balance of £14. These credit balances of course are not profit, as office and other general expenses of the Society are not included in these amounts. The members of the Society work entirely without payment, except that there is a secretary at £240 a year (framed in July, 1919, to £300), which is not a full salary for a gentleman of his position and experience.

22,840. (9) Each year during the war deficit balances have been very heavy, as interest on the mortgages and the rents remain as before and the expense of management of such grounds as were kept open for play increased largely. Rates remain about the same, but Income Tax has become overwhelmingly increased. All the Society's fields were closed for play except two, of which parts were taken for allotments. One field was taken for an aerodrome. The two largest were let to farmers and will again be available for football in September.

22,841. (10) The present state and future prospects of the Society are stated in the Annual Report for 1918, a copy of which is handed in as well as a copy of the Annual Report for 1919, which contains a fuller statement of the Society's constitution and shows its working in peace time. A statement of the Income Tax on the Society's fields is also handed in. [Not reproduced.]

22,842. (11) The Income Tax under Schedule A does not at present fall as a burden on the Society since its freehold lands are for the most part mortgaged so that the Society pays the tax only on behalf of the mortgagees and similarly one field is a leasehold, and the Society deducts the tax from the rent. But it does fall with great severity on the Goldsmiths' playing field which is a leasehold held at a nominal rent.

22,843. (12) As a charity the Society should be exempt from Income Tax under Schedule A. This question has been discussed with the Inland Revenue authorities, but as it is not yet of practical importance they have not yet settled the Society on their list of exempted charities. But at present there is a curious and unjustifiable anomaly in the law. Though a charity is exempt from Income Tax under Schedule A in respect of the rents and profits received by it from its lands which are let to tenants, it has been held by the Court of Appeal in England and by the Scottish Courts, that a charity is not exempt in respect of the profits of land in its own occupation whether used for its own charitable purposes or otherwise. I am supported in calling this unjustifiable by the even stronger language used by the Lord Justices in the *Essex Hall* case reported in the *Law Reports* C.A. 1911, 2 K.B. p. 434, where they held that the charity was liable to Income Tax, but then considered the result so iniquitous that in their judgment they suggested a way by which the burden of the tax could be avoided. In my long experience as a barrister I do not recollect any other case in which judges from the Bench have been so impressed by the hardship of the law that they have pointed out to litigants how they could escape from its clutches.

22,844. (13) I find it somewhat difficult to understand the report in the case in the Scottish Courts above referred to—*Mongan v. Free Church of Scotland*. No profits had in fact been received by the charity, so there seems not to have been any subject matter to decide on otherwise than hypothetically. It was only on the special wording of the Income Tax Acts that in the *Essex Hall* case it was held that the "profits" meant money received from the tenant. The ordinary meaning of the word "profits" in law is rather the contrary. Rent is received from a tenant, but profits are money or advantages received by a landlord or occupier from land, such as money received for taking in cattle or sheep, or sale of gravel, or licences to fish, shoot or play games, or such licence to sell books on the premises as was given in the *Essex Hall* case. I submit that the law should be altered in this respect so as to exempt this Society and other charities from coming under Schedule A, in respect of the money received by it from licences to play games, or for taking in sheep which act as mowing machines.

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[Continued.]

22,845. (14) It is the occupiers' Income Tax under Schedule B which is the main grievance of the society. In 1913 this was payable at the rate of 1s. 2d. in the £ on one-third of the hypothetical annual value of the land. Now it is 6s. in the £ on the full annual value i.e., fifteen times what it was before the war. Two concrete examples will it is hoped suffice to show the overvaluing of the present taxes. (1) The Elms Playing Field, at Walthamstow, which contains about 34 acres, was and is assessed at £216. This assessment is grossly excessive, and far beyond what any tenant would give for the land in the open market as tenant from year to year. The land could not by any means in its present state be made to yield an income at all approaching the assessed yearly value. If used for cricket and football it could not produce more income than if used for agricultural purposes, in fact not so much. The occupiers' Income Tax on this in 1913 was £4 4s. At present it is £64 16s. though the land has not been yielding any income but has been run at a loss. This is one of the fields which was kept open during the war for games and for purposes of drill and shooting, and has been largely used by soldiers and munition workers. The sum of £14 was returned to the Secretary in 1918 by way of reduction of tax, although the assessment has not been formally reduced. (2) The Goldsmiths' Playing Field, near Eltham, contains nearly 40 acres, but of this about 16 acres which have not yet been laid out for the playing of games remain rough meadow land, and are fenced off from the cricket ground. This field as a whole has been assessed at £319 for Income Tax and for rates at £290. The taxes and rates payable by the society on this land are remarkable, viz.:—Schedule B, 6s. in the £ on the hypothetical annual value; Schedule A, 5s. 3d. (i.e., 6s. less one-eighth allowance) in the £; rates, 5s. 10d. in the £, making a total in the £ of 17s. 1d. in respect of land which, in fact, yields no income. At present owing to the fact that the field has only been used during the war by soldiers without payment and for sheep, the assessment has been reduced temporarily to what was considered to be the agricultural value of the land, viz.: £78, but the Society was given to understand that this reduction was only temporary, and that directly the field returned to its normal use the former assessment would be re-imposed. In that case the Income Tax would be increased from the 1913 figure of £17 10s. for Schedule A, and £6 10s. for Schedule B, to £21 18s. for Schedule A, and £29 12s. for Schedule B. The effect would be that the land would be taxed at the rate of 4s. in the £ of its agricultural hypothetical rack rental for Income Tax alone—plus about 18s. in the £ for rates making a total of rates and taxes of 63s. in the £ on the agricultural rack rent, although the land in fact yields little or no income.

22,846. (15) The third grievance of the Society is that, though the Income Tax Act lays it down in Schedule A, Nos. I. and II. that the annual value is to be understood to be the rack rent at which the land is worth to be let by the year, some of the assessment committees fix the annual value in a fanciful way at a sum far exceeding what anyone would give for the land in its actual state as a tenant from year to year. This results partly from the loose wording of the Statutes, but principally from the incompetence of some of the local committees and their disregard for the directions given by Statute.

22,847. (16) The two cases of the Elms and the Goldsmiths' playing fields illustrate this. At the Elms 34½ acres of land is assessed for purpose of Schedule A at £219, and for purpose of Schedule B at £216, and the Goldsmiths' playing field of about 40 acres, of which 16 is merely rough meadow land is assessed at £312 gross, which is at the rate of £8 an acre for the whole including the part not laid out, whereas the agricultural value of this land is considered by the local authorities to be £78 or £2 an acre, a rate at which agricultural land is believed to be generally assessed round London. For instance, the Society's Prince Edward's playing field at Edgware of 60 acres is assessed at £75. Twenty acres of this latter field has not yet been developed, and remains meadow land in the hands of a farmer. This is assessed at about

the same rate as the cricket ground which, however is rather better land and more accessible. This field appears to be assessed in a proper way, if it is proper that the land used for the purpose of the Society should be subject to Income Tax at all.

22,848. (17) It is believed that the local assessment committee of Bromley fixed the assessment of the Goldsmiths' field on the precedent of a sports ground where gate money was taken. No doubt in some instances such grounds do yield a large income. But to assess sports grounds of private clubs or of this Society on the same basis is quite erroneous, since by no possibility can such grounds command rental exceeding agricultural value. They are not furnished with stands and expensive buildings which are necessary for gate money meetings.

22,849. (18) By the Budget of 1918 it was proposed to subject all land to a tax assessed at double the annual value. This was based on the ground that farmers were making great profits and that ninety per cent. of them do not keep accounts. At the same time exceptions were introduced in their favour to prevent overcharge of land which did not in fact yield high profits. The exceptions applied only to land occupied for the purpose of husbandry. They have the right to elect to be assessed under Schedule D, or might by showing to the satisfaction of the Commissioners that the profits or gains for the year had fallen short of the assessable value, be assessed under Schedule B on the actual profits or gains. But these concessions were not extended to any other than agricultural land. That is to say the argument for heavy taxation was this: farm lands have recently made high profits and so must be highly taxed, but farmers are such meritorious persons that two ways of escape must be provided for any of them who have not in fact made high profits. But all other occupiers of land must be taxed as highly as or even higher than farmers, because all land without exception ought to be devoted to producing food, so that even though it could be shown that a particular piece of land did not and could not in its present state produce any income, that is irrelevant and to devote land to any purpose but production of food is such an odious thing that there must be no way of escape. Land must not be used to keep the working classes in good health but only to provide them with potatoes. Moreover it is not enough that the land should be taxed as if it were agricultural land yielding a high profit. It is left to local committees to put a fantastic annual value on it, far beyond what it could yield in the hands of the most avaricious occupier, even though it is shown to yield little or no income. Further, to tax any land on the basis then proposed would be unfair. The annual value is ex hypothesi what the land will yield. To tax it on double annual value is to tax it on double what the tenant can make of it in a year, and that basis presupposes that the assessment is not in fact the true annual value.

22,850. (19) There is another anomaly in the present law under which sports grounds used for the health of the people are heavily taxed and often on a non-existent income, while sports grounds used to provide an income for the occupiers are let off lightly, as the proceeds of gate money must in some cases be very large, and the profits of gate money grounds far in excess of the assessed annual value.

22,851. (20) The proposal of 1918 would speedily have put an end not only to the work of this Society, but to the bulk of the cricket and sports grounds in the country, leaving only a few clubs of the rich, and large gate money grounds and grounds which form a necessary part of the educational machinery of schools and must therefore be kept open and be paid for by the schoolmasters or indirectly by the parents.

22,852. (21) The Society promoted debates on these proposals in the House of Commons which took place on June 3rd and 13th, 1918, and are reported in the Parliamentary Debates, vol. 106, columns 1286 to 1297, and in the end an amendment was moved by the Chancellor of the Exchequer and was agreed to by the House which reduced the assessment, in certain cases including this Society, to the single annual value. This left the tax under Schedule B at fifteen

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times what it was before the war, instead of thirty times as proposed by the Budget. High appreciation of the work of the Society was expressed by Mr. Bonar Law and other members. Indeed Mr. Bonar Law seems to have been under the impression that his amendment left the Society in exactly the position it was in two or three years previously. But that in fact was not the case, nor as seems to have been supposed by him and Sir Charles Hothhouse are charities exempt from this tax. Charities in general are exempt from Income Tax under Schedule A in respect of land owned by them, but not in their occupation, but there is no exemption for charities from taxation under Schedule B, nor under Schedule A, for land occupied by them whether for the purpose of the charity or otherwise. That was decided in the East Hall case referred to above. I submit that the law should be altered on this point. Land occupied by charities is used in nearly all cases for the poor, and in every case for a purpose which is considered of public utility. This is eminently so in the case of the land of this Society. The physical development of the population is nowadays recognized as of national importance and takes a prominent place in the scheme of education of the President of the Board of Education.

22,853. (25) The Society has been at this work for 29 years. It claims to have done good national work in preparing for the struggle thousands of the young men who have gone forth from these fields to the war. If the taxes continue at anything like their present level it is at least doubtful whether the useful work of the Society can be continued, and in like manner most of the private cricket, football and sports grounds round London, which are occupied by clubs only a few of which can be called rich, would probably have to be discontinued. If the land now so occupied were to be handed over for building purposes it would be a national misfortune, and if the land were handed over as recreation grounds to Government or local authorities great expense would be involved, as at present the Society and the clubs carry on at their private expense, while if handed over, the maintenance would fall on the rates or taxes. Moreover the Government would be deprived of the whole of the Income Tax payable in respect of these lands as the recreation grounds of public and local authorities are entirely exempt from the payment of taxes both under Schedule A and Schedule B, and are exempt from rates.

22,854. (26) That these lands should remain in the occupation of this Society, and the similar Manchester Society and private clubs in general, is in fact the most economical way of providing the means of outdoor recreation for the population. Indeed there seems a good case for putting at all events the charitable societies on the same footing of exemption as the local authorities in respect of exemption from rates and taxes. It is no doubt a difficult matter to frame amendments which will cover the societies and clubs who ought to be relieved without including others who might fairly be called on to contribute to taxation. The following amendments to the Finance Bill, 1919, were moved in the House of Commons by Mr. Rawlinson, K.C., on behalf of this Society, though with a view to the preservation of the means of physical recreation for the whole population, the proposed modification of present taxation might well be extended much further:—(1) "The Trustees for charitable purposes occupying lands used for the playing of cricket, football, or other games or athletic sports, rifle ranges, or drill, where no gate money is charged for admission to the ground, may elect to be assessed and charged under Schedule D of the Income Tax Act, 1918, and in accordance with the provisions and rules applicable thereto, instead of under Schedule B in the same way as if the lands were occupied for the purposes of husbandry only." (2) "In estimating the annual value for Income Tax of lands occupied by trustees

for charitable purposes, occupying lands used for the playing of cricket, football, or other games or athletic sports, rifle ranges, or drill, where no gate money is charged for admission to the ground, the annual value of the land shall not exceed the value of the land for purposes of agriculture."

The Debate is reported in Parliamentary Debates Vol. 118, cap. 250-254. 16th July, 1919.

The object of the second amendment was to prevent excessive assessments in case the first amendment was not accepted.

22,855. (24) The Chancellor of the Exchequer refused to accept the amendments. Owing to the only partial success of the amendment moved in 1918, and in view of the sitting of this Commission the amendments of 1919 were cut down by us to the narrowest limit so as to provide a *modus vivendi* till the whole case could be considered and dealt with by this Commission. These amendments merely covered the case of this Society and similar charitable bodies, although with a view to the preservation of the means of physical recreation for the whole of the population, the modification of present taxation might well be extended to other lands in the hands of clubs and schools and individuals who maintain sports grounds without any view to making money by them. For these we are not seeking any privilege. We only want the principles of taxation applied in a fair way. In order to make Income Tax fairly payable, two things are requisite: (1) Income out of which the tax can be paid; (2) that the person taxed should be subject to Income Tax. In the case of this Society both these requisites are not-existent. Further the operations of the Society and of private clubs in carrying on sports grounds is, in fact, a business, though not a business carried on with a view to money profit. There are many businesses carried on not for money profit, e.g., the Society for the Promotion of Christian Knowledge, and other propaganda businesses, or the late East London Recreation Ground Company, Ltd., and many which, though they aim at making a profit, yet limit their dividends, e.g., the Artisans' and Workmen's Dwellings, Ltd., and others which aim at but do not succeed in making a profit. All these are, it is believed, assessed under Schedule D. This society, and all other societies, companies, clubs, and individuals who carry on the business of sports grounds should be assessed like other businesses under Schedule D on their profits.

22,856. (25) The occupation of land has been exceptionally treated for two reasons, first because the bulk of the land is occupied by farmers who do not keep accounts, and secondly, because in farming operations, and in some other cases such as growing timber, cedars, and other crops which take years to mature, it is not easy to arrive at a fair assessment of profits of any particular year.

22,857. (26) In cases of sports grounds neither of these reasons for exceptional treatment apply. Accounts are kept and the yearly income is easily ascertainable. It seems absurd to extend the exceptional treatment to cases to which the reasons for the exception do not apply. By taxing sports grounds under Schedule D, the real income would be taxed. In some cases it might be small, while in respect of gate money grounds where 29 men play and thousands of spectators pay to see them play but do not themselves get the benefit of physical recreation, the yield might be very large. Under the present system tax is charged where there are no profits, and no more where the profits are large. This is not fair, but so far as this Society and the Manchester and Salford Playing Fields Society are concerned, they stand on higher ground than private clubs and as doing a public work in the cheapest and most advantageous way for the public, their grounds should be entirely exempt from Income Tax in the same way as sports grounds run by local authorities.

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[Continued.]

22,858.

TABLE SHOWING INCIDENCE OF TAXATION ON THE PLAYING FIELDS.*

		ASSESSMENT.			AMOUNT PAID.		
		A.	B.	Rates.	A.	B.	Rates.
The Elms, Walthamstow—3½ acres	1913/14	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
	1917/18	317 10 0	179 0 0	263 0 0	18 4 8	4 4 0	—
	1918/19	317 10 0	179 0 0	263 0 0	18 4 8	4 4 0	—
	1919/20	317 10 0	179 0 0	263 0 0	18 4 8	4 4 0	—
Prince Edward's, Edgware—60 acres	1913/14	76 10 0	79 0 0	—	4 13 6	0 17 10	—
	1917/18	76 10 0	79 0 0	—	18 13 6	19 15 0	11 7 2
	1918/19	76 10 0	79 0 0	—	22 7 0	23 14 0	12 0 0
	1919/20	76 10 0	79 0 0	—	22 7 0	23 14 0	12 0 0
St. Quintin's, Notting Hill—2½ acres	1913/14	78 0 0	79 0 0	—	4 17 6	1 12 6	6 5 2
	1917/18	78 0 0	79 0 0	—	19 10 0	19 15 0	27 16 8
	1918/19	78 0 0	79 0 0	—	23 8 0	23 14 0	30 14 0
	1919/20	78 0 0	79 0 0	—	23 8 0	23 14 0	30 14 0
Prince George's, Raynes Park—50 acres	1913/14	178 0 0	178 0 0	18 0 0	9 1 2	8 2 1	38 15 0
	1917/18	114 0 0	114 0 0	18 0 0	25 0 0*	28 10 0	—
	1918/19	178 0 0	178 0 0	18 0 0	30 0 0*	34 4 0	—
	1919/20	178 0 0	178 0 0	18 0 0	30 0 0*	34 4 0	—
Mogden, Earlsfield—8½ acres	1913/14	81 0 0	81 0 0	42 0 0	4 1 8	1 11 6	14 10 0†
	1917/18	81 0 0	81 0 0	40 0 0	10 10 0	12 5 0	15 3 4†
	1918/19	81 0 0	81 0 0	40 0 0	20 0 0	20 0 0	7 4 8†
	1919/20	81 0 0	81 0 0	40 0 0	20 0 0	20 0 0	7 4 8†
The Goldsmith's, Nottingham—60 acres	1913/14	312 0 0	312 0 0	250 0 0	17 1 8	4 10 0	79 3 4
	1917/18	78 0 0	78 0 0	48 10 0	17 1 2	18 10 0	14 2 0
	1918/19	78 0 0	78 0 0	48 10 0	30 10 0	20 2 0	15 12 0
	1919/20	78 0 0	78 0 0	48 10 0	30 10 0	20 2 0	15 12 0

* Excess borne by tenant.

† Borne by tenant.

† This field was given up in 1917.

[This concludes the evidence-in-chief of Mr. Hall Hall.]

Evidence-in-chief of MR. C. E. CLIFF, on behalf of the Manchester and Salford Playing Fields Society.

22,859. (1) This Society was formed in 1907. It has as objects:—

- To increase the existing supply of public and private playing fields and other open spaces, and particularly to purchase, take on lease, or otherwise to acquire land suitable for this purpose.
- To arrange for the use of such playing fields by clubs and others, either gratuitously or otherwise, as may from time to time be deemed advisable.
- To endeavour to influence public and private bodies, with a view to the provision of sufficient playing fields to meet the requirements of the various districts.

22,860. (2) The Society's practice is to let pitches for the season for football, hockey and cricket to clubs consisting of working boys and girls, although not able to give the high rent necessarily demanded by persons who let for profit, can yet pay a moderate charge and thus reduce the competition for the limited space available in the public parks and open spaces and so leave them free for the poorest players.

22,861. (3) The Society has acquired the freehold of four fields, comprising 93 acres or thereabouts, and in addition, has the free use of a small ground of 2 acres. Part of the purchase moneys has remained on mortgage. There are practically no management expenses entailed in conducting the affairs of the Society, as all services are rendered free. In spite of this, owing to the heavy item of interest on mortgages, there has always been an annual loss by the Society as the rents paid by the players are only just about sufficient to pay the cost of the upkeep of the grounds.

22,862. (4) A copy of the Annual Report for 1918 is handed in, as is also a fuller report for the year 1913,* a statement of the Income Tax and rates on the Society's fields is also handed in. (See Annex I.)

It should be explained that the Society does not actually let portions of its fields to individual clubs, but merely gives them permission, or in legal lan-

guage, "licenses" them to play games on a specified portion of one of its fields. The importance of this point is that, if it let the land and applied the rents received for the purposes of the Society (which are admittedly charitable purposes), it would be entitled to reclaim the Income Tax deducted by the tenants on paying their rents, but the Society is, in fact, treated as if the Society itself occupied its fields, and hence it becomes liable to pay Income Tax under Schedule A by virtue of the anomalous rule that the land and buildings of a charity, when let to third parties, are free from Income Tax, but are subject to Income Tax if occupied by the charity for its own purposes.

22,863. (5) The Society has really two objections to the present system of Income Tax:—

- That charities are liable to pay Income Tax under Schedule A on land and buildings occupied for their own purposes. This charity is specially hard hit by this rule, because all its funds are invested in lands owned, and for Income Tax purposes occupied by the Society.
- That the charity has to pay Income Tax under Schedule B. This is a tax payable by the occupier of land on the profits derived, or which could be derived, from its use. It seems unfair that charities of this nature should be liable to Income Tax on income which they voluntarily forgo in carrying out the charitable objects for which they are constituted, while charities which derive their income from investments are exempt. It is only fair to add that at present the Society's lands are so heavily mortgaged that in practice it recovers the tax that it pays by deducting it from the mortgage interest, but this practical exemption will shortly cease to exist, as the Society has been promised handsome donations which will enable it to pay off the bulk, if not the whole, of its mortgage debt.

22,864. (6) Finally, this Society feels that it stands on a totally different footing from private sports clubs, and that it is doing a very necessary public work in

* Not reproduced.

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[Continued.]

the cheapest and most advantageous way for the boys and girls of the city, that it may be truly styled "a charity" and, that, therefore, it should be entirely exempt from Income Tax.

It has never been the aim of the Society to make any substantial profit, but so far from this, its operations, as pointed out above, have always resulted in a yearly loss. It would much like to be in a position to reduce the rentals of its football and cricket grounds rather than to increase them, as it may be forced to do in the near future through lack of funds.

ANNEXE I.

DEAR SIRS,

Manchester and Salford Playing Fields Society.

Henceforth we send a letter which gives the information you require regarding the rates and taxes paid by the Society in the year 1918-19.

You are, no doubt, aware that in the year 1919-20 a reduction has been made in the rateable value of the Melland Fields from £83 5s. to £50, and there will therefore be a consequent reduction in the amount of rates, and probably also in the taxes.

You are also aware that so long as the mortgages which were owing on the 31st August, 1918, remain unpaid, the Income Tax deductible from the interest payable on such mortgages will slightly exceed the tax payable under Schedule A and B of the Income Tax.

The position set forth in the letter enclosed herewith is therefore that which will exist when all the mortgages are paid off.

Yours faithfully,

(Signed) DAVID SMITH, GARNETT & Co.,
Chartered Accountants.

TAXES.

		£ s. d.	£ s. d.	£ s. d.
Melland Fields	Schedule A.	83 10 0		
	" B.	100 0 0		
Pendleton	" A.	40 0 0	187 30 0 at 6s.	56 5 0
	" B.	40 0 0		
Christie	" A.	33 25 0	10 0 0	24 0 0
	" A.	4 22 0		
	" B.	26 0 0		
New Cawley Fields	" A.	17 10 0	53 7 0	36 0 1
	" B.	20 0 0		
Newton Heath	" B.	37 10 0		11 5 0
		20 0 0		3 0 0
		238 7 0		210 10 1

The rates paid by the Society for the year 1918-19 and the rateable value of each of the Fields were as follows:—

	Rateable Value.	Total Rates Paid.
	£ s. d.	£ s. d.
Melland Fields	83 5 0	39 3 11
Pendleton	88 0 0	19 10 0
Christie	43 0 0	3 2 7
New Cawley Fields	21 25 0	12 17 4
Newton Heath Fields	19 0 0	5 12 6
	8 5 0	4 11 7
	274 15 0	81 12 10

[This concludes the evidence-in-chief of Mr. Cliff.]

22,866. Mr. Kerly: You represent the London Playing Fields Society?—(Mr. Hall Hall): Yes.

22,867. Mr. Cliff, who comes instead of Mr. Melland, represents the Manchester and Salford Playing Fields Society?—Yes.

22,868. Lord Colwyn, who is not here to-day, asked me when you came, Mr. Cliff, to express his personal appreciation of the excellent work that your society has done in Manchester and its neighbourhood.—(Mr. Cliff): Thank you, sir.

22,869. We have all carefully considered your evidence. I do not think you need trouble to inform us of the excellent work that both your societies are

doing. We are all fully alive to that, as we have been very fully alive to the excellent work of other charitable institutions, for instance, the Lifecost Institution, whom we have had before us, raising really very much the same questions, or very closely analogous questions. The question is whether you ought to be relieved from Income Tax, which is practically giving you a subvention at the State expense, and, if so, whether that can be done without introducing other claimants with whose activities we may not be so much in sympathy. That is the trouble of the position?—(Mr. Hall Hall): I do not know if you want to go through my evidence-in-chief.

22,870. No, we take it as read, we have already read it, and you will now be asked questions upon it.

22,871. Mr. Marks: You say in paragraph 19: "sports grounds used to provide an income for the occupiers are let off lightly, and the proceeds of gate money must in some cases be very large, and the profits of gate-money grounds far in excess of the assessed annual value." Are not those sports grounds which yield an income from gate money assessed under Schedule D?—I do not know.

22,872. Why I ask you is this, because many years ago, when I was playing football myself, we used to make profit on the gate money as a club?—Yes.

22,873. My recollection is, although I cannot be perfectly certain of it, that we were assessed on the net profits under Schedule D?—I am afraid that is a thing I cannot answer. My Society do not charge gate money, and they are not assessed under Schedule D; they do not make profits.

22,874. If these companies—they generally are companies—were assessed under Schedule D, they would pay an adequate Income Tax, and that would rather knock the bottom out of your contention, would it not?—I do not think it would knock the bottom out of my contention, but it would show that the Government got all the revenue they ought to get from them.

22,875. There is no comparison between your position and that of the companies or other persons who own a gate-money concern?—If they are charged under Schedule D, no, I suppose not.

22,876. Sir E. North-Bower: With regard to the question that has just been put to you, it is within my knowledge, and I have made inquiry, and I think you may take it that those sports grounds where large amounts of gate money are received have assessments made supplementary to the assessments under Schedule A?—Yes.

22,877. Your sufferings need not be added to by any reflection that they do not pay the full amount; but it does not knock the bottom out of your case, because your grievance is that you are assessed although you do not make any profits?—That is no.

22,878. Mr. Marks: I did not mean that it knocked the bottom out of their case.

22,879. Sir E. North-Bower: Out of that paragraph?—They are let off lightly for Income Tax under these Schedules. Of course, Income Tax under all the Schedules is Income Tax, whether A, B, D, or E.

22,880. I think where those large amounts of gate money are received the Inland Revenue are quite aware of it, and get their due. Have you any invested funds?—No, except that at the present moment we have an investment in War Loan of some money which was received in May and will have to be spent at the end of November. Rather than leave it on deposit at the bank for six months we invested it in War Loan; it is £2,000, I think, but that is merely temporary.

22,881. Does your Society have investments, Mr. Cliff?—(Mr. Cliff): No; the Manchester Society has not.

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[Continued.]

22,882. You rest your case here on an anomaly or an inconsistency; I did not know whether you were a complete exhibition of the anomaly yourself?—(Mr. Hall Hall): Yes.

22,883. That is that there are such institutions as the National Lifeboat Institution, which the Chairman has mentioned, that have large investments, and who are entitled to exemption in respect of the investments, but are not allowed exemption in respect of the property which they occupy for the purpose of the charity. I think it must be admitted that it is anomalous, and that anomaly was commented upon by the judges in the Essex Hall case, which I see is quoted in your statement here?—Yes. I think until the Essex Hall case there was no case in England which decided the point whether a charity in actual occupation of its ground was subject to Schedule A tax or not. The Essex Hall case decided that a charity is not entitled to any return in respect of property in its own occupation.

22,884. I suppose it is partly because these charity exemptions of the Income Tax Acts were put in and added to in rather a piecemeal way?—Very likely; and the judges commented on it as to the extraordinary decision they were obliged to come to, particularly Lord Justice Buckley, who talked of it even as contrary to common sense.

22,885. I am inclined to think that the scope of some of the exemptions put in proved ultimately to be much wider than was ever expected at the time. I dare say you know that there was a case that went up to the House of Lords some 20 or 30 years ago, the *Pemsel* case, which really for the first time established generally what had not been admitted before, that the term "charity trustees" in the Income Tax Acts had as wide a scope as the meaning which the Court of Chancery had attached to it when it was considering whether a gift was void under the Mortmain Acts—I think the decision there was that the word "charity" in the Income Tax Acts is to be interpreted in exactly the same way as in the Charitable Trusts Acts.

22,886. Mr. Kerly: It is difficult if that is so to understand why it does not comprise a playing field?—Well, it does, no doubt, but that only affects Schedule A, the owner's tax. Schedule B there is no exemption for at all. Any charity in occupation of its own land under the present law as laid down in the Essex Hall case has no exemption whatever. Essex Hall had only to do with Schedule A.

22,887. Yes. I beg your pardon; I had forgotten that for the moment.

22,888. Sir E. Nott-Bower: The exemption under Schedule A is not complete, because you are not exempt from Schedule A on your playing fields?—Yes. I think we are, but at present there is no money in that, so we have not tried it; but we have discussed it with the Inland Revenue. You see it comes to this, that all our fields, which are freehold fields, and are subject to Schedule A, are also subject to mortgage. We deduct the tax from the mortgage interest, and the Revenue does not exact from the same land Income Tax both on the mortgage interest and on the freehold.

22,889. If you have an amount of mortgage interest sufficient to enable you to deduct the whole of the Income Tax which you pay under Schedule A, your foot is not pinched?—No, but when the mortgage is paid off, as we hope it will be, it will become a very serious matter with us, so the point is of great interest to the Society, although at present of no money importance this year. If we have a lucky and can pay off the mortgage, we should have to get put on the Inland Revenue's list of exempted charities. I do not think we should have any difficulty in doing it under the present law.

22,890. The Essex Hall people did not get exemption, did they?—In the Essex Hall case they had land in their own occupation.

22,891. Are not the playing fields in your own occupation?—Yes.

22,892. However, that question has not apparently arisen yet; it is only Schedule B—Schedule B is the important present money question for us, but we do strongly object in theory, and it will afterwards be of great practical importance to us if we are subject to Schedule A.

22,893. You represent Manchester and Salford Playing Fields, Mr. Cliff?—(Mr. Cliff): Yes.

22,894. Does the Schedule A question affect you?—Yes, I think acutely and immediately, although we do not in fact pay it at present. We recover it from the deductions on mortgage interest, but it is hoped very shortly to pay off the mortgages on those fields in order that we may let the fields to the quite poor boys at nominal rentals. The result will be that we shall immediately have to pay Schedule A duty.

22,895. I am afraid that does not help me very much. You are not in a position to tell me yet whether Somerset House would give you relief under Schedule A in respect of your playing fields?—I feel quite sure that they would not, because our accountants have tried to get it. The legal position, I think, is stated in my evidence-in-chief.

22,896. Would not they be in the same position as the Essex Hall people were? Is not the position this? Under Schedule A there is a general exemption for lands and profits of land which are vested in trustees for charitable purposes, and which are applied to charitable purposes. That is a general exemption; if you receive these profits of lands and apply them to charitable purposes you get exemption?—Quite.

22,897. But with regard to property in the occupation of a charity, you do not get off unless you come within one of the specific cases mentioned in Schedule A, of a university, a hospital, a public school or almshouse, and sundry others; but there is no general exemption under Schedule A, is there, for property in the occupation of a charity?—No. I suppose it is a question of definition of what is occupation. The question of the Lifeboat Institution is analogous. Although they get exemption as far as their investments are concerned, they get no exemption for property which they occupy. We have no investments except in our land.

22,898. It is because they are not a college, university, almshouse or public school, nor any of the specially exempted classes under Schedule A?—No. I suppose legally we do not occupy the land for our own purposes. I think the parallel is that the Lifeboat people do not occupy their lifeboat houses.

22,899. Sir E. Nott-Bower: I think that is the present law. It does seem to be rather anomalous, but if we are to recommend any alteration in the law I suppose we should have to consider not only the anomalies in the present law, not only what is exempted now, but we should have to consider whether we should recommend an extension of the exemptions, or a narrowing of them. I believe Mr. Gladstone in 1863 wanted to repeal the charity exemptions altogether. May I say I have complete sympathy with your Society, and everyone must have that; it is an excellent body; but whether it ought to be recognised by remission of taxation is another question. You think that the Society should be recognized as existing for charitable purposes solely, notwithstanding that you help people to help themselves?—(Mr. Hall Hall): Yes, I think so. It is a charity all the same. For instance, the London County Council can charge for lawn tennis and bowls, and do charge.

22,900. And you think that where an organisation is recognized as a charity it should be allowed to escape tax on the annual value of the premises in its own occupation, just as much as it would do on its invested funds, which were applied for that purpose?—Yes, just as much as a hospital is exempt. We claim, of course, that these societies relieve the hospitals by keeping people in health.

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[Continued.]

22,901. The hospital is not only exempt on the interest of its invested funds, but it is exempt also on its hospital buildings?—Yes.

22,902. By specific enactment?—Yes. Our fields clear the hospitals by keeping people in health: that is our point. We are just as much entitled as the hospitals.

22,903. Then further than that, you think anyhow they should not be assessed under Schedule B on the value of the lands which are so used as to produce no profit?—Yes.

22,904. With regard to that third point, I may say that is rather a general point, and a great many people besides yourselves are interested in it. We have had a good deal of evidence from people who are dissatisfied with the provisions of the Income Tax Act under which duty is chargeable under Schedule B in respect of amenity land. It might be amenity value for sporting or for gardens or pleasure grounds, or various other purposes?—Those, I suppose, are all for individual benefit.

22,905. Yes?—You have got an individual taxpayer there, but in our case they are working men who are not Income Tax payers.

22,906. Probably most of them are not—I do not know, I am sure, in these days?—Probably most of them are not; but perhaps more ought to be than are.

22,907. You complain of over-assessment. I do not quite see how this Commission can deal with that, because that is a question to be settled on appeal before the proper authorities?—Our contention is that the provisions of the law are not satisfactory in that respect. They want amending so as to secure proper assessments. For instance, as I read the law there is one assessment to be made for all purposes. A and B, but as a matter of fact some of the authorities make quite a different assessment for Schedule B from what they do for Schedule A. It is very difficult indeed for an individual to challenge the assessment, and it rather "heads I win tails you lose," in suing the Government. We want some effective means of assessment provided, and not too expensive means of appeal.

22,908. With regard to the difference between Schedule A and Schedule B, I think a little inquiry might possibly enlighten you on the matter. I dare say you know that there are certain deductions allowed under Schedule A, which are not allowed under Schedule B?—Yes.

22,909. Is it not to be accounted for in that way?—No, not at all. For instance, take the Elms Playing Field, Walthamstow.

22,910. Is that in your printed paper?—Yes. The assessment for Schedule A is £317 10s., and for Schedule B it is £179. Schedule B was altered without Schedule A being altered. It is nothing to do with the deduction of one-eighth under Schedule A. Again, take Prince George's Playing Field, Raynes Park; they assessed the field at £178 under Schedule A, and £230 under Schedule B, £178 is the gross assessment. The sum on which the Schedule A tax is fixed is £155, and some shillings.

22,911. Is there any tithe rent charge on that land?—No.

22,912. That will not account for it, then?—No.

22,913. I dare say you very likely know that when tithe rent charge is payable on land, if the tithe owner prefers a direct assessment on himself, then the land owner's assessment under Schedule A is reduced by a corresponding amount?—Yes, but there is no tithe here.

22,914. If these differences are entirely unaccounted for, surely the proper way of dealing with the matter would be by way of appeal?—I think probably we shall have to appeal, but an appeal is a very serious tax in itself, even if we win it.

22,915. The general rule of law is that the annual value charged under Schedule A is the annual value charged under Schedule B?—Yes.

22,916. And the discrepancies are due to the fact not merely that the annual value charged under these Schedules is diverse, but certain deductions are charged in one case for very good reasons which are not allowed in the other, and sometimes the Schedule A is split in two?—Yes, but it does not account for that Prince George's case, nor for that at The Elms. The difference in the latter case, perhaps I ought to tell you, is based on this, that the land is subject to a mortgage, and therefore the Schedule A tax is deductible from interest paid on the mortgage. The mortgage is for a large amount, and is being paid off by annual instalments, so that the interest gets less every year. The local Assessors for some convenience or other have left a very high assessment in Schedule A, incorrect in point of law, so that it shall cover the mortgage interest, and have told us—not me, personally, but I think I can speak as being Deputy Chairman of the Society; they have told our local Secretary—that they will reduce it when the mortgage interest is reduced; which is a very rule-of-thumb method of procedure.

22,917. Still, as you get all the tax back from the mortgagee, you are not damaged?—We are not damaged there. Moreover, in that case the mortgagees pay us a sum which covers the interest to pay themselves; they are a charity, and they give us a good donation.

22,918. Mr. Kerly: If they are a charity and this is an investment, they do not have to pay any tax?—They recover it. There is an immense amount of machinery set in motion, and after waiting a year it all comes back again.

22,919. When the wheel is turned right round you find that the axis has been stationary?—Yes.

22,920. With regard to those assessments under Schedule B, you do not suggest that the lands you occupy are charged more than one half the rate they would be if used for agricultural purposes?—Yes, they are charged more.

22,921. They are charged at the single rent value and not the double rent value?—Yes. We took that to the House of Commons in 1918 and got a concession.

22,922. Apart from the question of your position as a charity, or quasi-charity, you do not suggest, and it is not necessary that you should, that all lands usually called amenity lands which are occupied but which produce no rental should pay no tax?—No, I do not argue that at all. I can only argue for the Society, which is a charity, and is doing a public work, and which, I may point out, is doing public work at no cost to the public, whereas if it is vested in local authorities they take a good deal of public money in keeping them up.

22,923. You base yourself on the fact that you are a charity?—Yes.

22,924. You do not go beyond that for this purpose?—No. Not for the Society, but in general, I think some attention ought to be paid to small private cricket clubs on the ground of the great public value they are in keeping. Leadeners and townsmen in health, but I do not officially appear for anybody but my Society.

22,925. Mr. W. Trevor: Is it quite clear that the playing fields are devoted to those people who are not subject to Income Tax? I make that remark because you have given us a very interesting report, in which there are some very pretty pictures, which seem to show that the people who are using the playing fields have a certain extent of money. If you look at those pictures, you see the people in flannels, and that kind of thing. They all seem to me from the pictures in your book to be people who do pay or ought to pay

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Income Tax?—Those were pre-war pictures, and flannel trousers did not cost much before the war; the very poorest boys had them.

22,926. You are quite clear that the people for whom you enter are not subject to Income Tax?—Quite clear. I will not say 100 per cent., because there are the curates—but perhaps even they are not subject to Income Tax—and there are people in charge of settlements and so on, who very often play with the boys.

22,927. I only wanted to make it quite clear; I have every sympathy with you?—I am speaking broadly there. I may say that the Goldsmiths' Company, who provide the field for us, which we call after their name, made a very great point that the fields are only to be used for the very poorest classes, and so they are.

22,928. You have answered my question. You are satisfied that it is only the people who do not pay Income Tax. Are you not practically asking, as is the case with all other societies like yourself, that the Government should give you a contribution of 6s. in the £ for the purpose of supporting your Society?—I do not look at it in that way myself.

22,929. But is it not the fact?—Until I came into this room I had never heard it suggested before, and it is a proposition which would require a good deal of consideration.

22,930. Perhaps you will think it over, and I will leave it there?—I do not know that it would not work out in this way, that every penny left to a taxpayer is a gift by the Government, to look at the proposition from the other point of view.

22,931. Every tax remitted by the Government on property of this kind, which you let to other people for a rent which is equivalent to the assessment is a contribution?—I quite agree that if a tax is restricted, it would bring in so much less.

22,932. I limit my observation in that way?—Might I on that allude to what was said by the judges in the House of Lords in the case of the Attorney-General against the London County Council, which is no doubt familiar to all the members of the Commission? Reported Law Reports, 1901, A.C. 36: "Income Tax, if I may be permitted to say so, is a tax on income; it is not meant to be anything else." That is Lord Macnaghten. Then Lord Davey said: "The Income Tax is intended to be a tax upon a person's income or annual profits, and although (for conceivable and, no doubt, good reasons) it is imposed in respect of

the annual value of land, that arrangement is hut the means or machinery devised by the Legislature for getting at the profits." I want to make the point that we do not make much profit; we do not make money anything like the hypothetical annual value out of the land, and therefore we are assessed not on the profits, as Lord Davey says we ought to be, but on a hypothetical standard. (Mr. Clift): May I take it, from the fact that the last member did not address similar questions to me, that he and the rest of the Commission are satisfied from the pictures in the Manchester report that those using the fields do not pay Income Tax?

22,933. Mr. Kerly: I think Sir Walter's question was only directed to getting upon the minutes a statement from Mr. Hall Hall on a matter which he knows?—I should like, if I might, to state that in the case of the Manchester Fields, they are used almost entirely by boys up to the age of 18 or 19.

22,934. I really said all I had to say in opening, but, logically, I presume you agree that if this claim were admitted we should have to go farther and exempt working men's clubs, similar village institutions, and a host of other similar things from Income Tax?—(Mr. Hall Hall): I do not know that; I do not think I should admit that myself. For instance, working men's clubs, to a considerable extent, are drinking places; which are not public houses.

22,935. I did not mean that; I meant clubs which are run by collective funds for the benefit of the working people?—The working men's clubs on the form of their rules are so, although in practice a great many of them are merely drinking places.

22,936. Does not that bring us up against one of the difficulties of the position? You could not well frame an exemption, not treating the playing fields as a particular form of charity, but containing a logical definition of a class of charitable occupations to be exempted, without also including a working men's club, which is formed for the purpose of providing means of recreation for working men?—I used to be Assistant Registrar of Friendly Societies, and as such had a good deal to do with working men's clubs, and they are institutions for the benefit of the members; they are not charities in any sense at all.

22,937. You are saying that some of those might be distinguished because the benefit is limited to members, but not necessarily all—a village reading room, for instance?—A village reading room may be a charity, very likely.

THIRTY-SECOND DAY, WEDNESDAY, 19TH NOVEMBER, 1919.

PRESENT:

LORD COLWYN (*in the Chair*).

Mr. PRETYMAN.

Sir E. E. NOTT-BOWER.

Sir J. S. HARMOOD-BANNER.

Sir W. TROWER.

Mr. HOLLAND-MARTIN.

Mr. BIRLEY.

Mr. WALKER CLARK.

Mr. KERLY.

Mrs. KNOWLES.

Mr. McJINTOCK.

Mr. MANVILLE.

Mr. GEOFFREY MARKS.

Mr. MAY.

Professor PIGOU.

Dr. STAMP.

Mr. SYNNOTT.

Mr. TROTTER.

Mr. A. BINNS, Deputy Chief Inspector of Taxes, called and examined.

The witness handed in the following statements as his evidence-in-chief:—

No. 1.—THE CONSTITUTION AND FUNCTIONS OF THE LOCAL COMMISSIONERS OF INCOME TAX.

22,938. (1) During the course of the proceedings before the Royal Commission, various questions have been raised and suggestions put forward with regard to the constitution and functions of the General and Additional Commissioners of Income Tax.

22,939. (2) In the following paragraphs it is proposed to deal briefly with the matters that have been raised and to submit on behalf of the Board of Inland Revenue certain suggestions for the consideration of the Royal Commission.

22,940. (3) The references throughout this evidence are to the Income Tax Act, 1918, except where otherwise stated.

CONSTITUTION OF THE LOCAL COMMISSIONERS.

22,941. (4) Sir Thomas Collins has already explained to the Royal Commission (Questions 204-295) that the General Commissioners for each Income Tax division are, as a rule, appointed from amongst the Land Tax Commissioners for the corresponding Land Tax division.

Land Tax Commissioners.

22,942. (5) Some questions were asked by members of the Royal Commission with regard to the appointment of Land Tax Commissioners. The position is that these Commissioners are appointed, as occasion requires, by special Acts of Parliament called Land Tax Commissioners' Names Acts, which are usually, but not invariably, passed early in each Parliament. The last such Act was passed in 1906.

22,943. (6) The procedure adopted is as follows.

22,944. (7) Following an old established practice, the Board of Inland Revenue, on the introduction into Parliament of a Land Tax Commissioners' Names Bill, send a circular to each Clerk to Land Tax Commissioners suggesting that the Land Tax Commissioners for his Division should draw up and forward to the Member of Parliament for the Division a list of suitable persons to act as Land Tax Commissioners, paying due regard in their selection to the fact that one of the most important functions of Land Tax Commissioners is the selection, from amongst their body, of persons to act as General Commissioners of Income Tax. When the Bill has passed its second reading in the House of Commons,

a resolution is passed ordering that Members of Parliament for counties and boroughs respectively shall prepare lists of the names of Commissioners for executing the Land Tax Acts in their respective counties and boroughs. Thereupon, if the Member of Parliament approves of the list sent to him by the Clerk to the Land Tax Commissioners, he signs it and delivers it to the Public Bill Office. The latter office embodies the lists so received in a Schedule to the Bill, and as soon as the Bill has been passed into law the Schedule is printed in the *London Gazette*.

22,945. (8) Although under the foregoing procedure it is believed that Members of Parliament usually put forward the lists of names as received by them from the Land Tax Commissioners, it should be understood that a Member of Parliament has absolute discretion with regard to accepting or rejecting such a list. He may, if he chooses, strike out names or insert additional names or make out a completely fresh list.

22,946. (9) Under the provisions of the Land Tax Commissioners' Acts of 1827 and 1906, all Justices of the Peace for any county or borough are constituted Land Tax Commissioners within their respective counties or divisions. It follows, therefore, that the body of Land Tax Commissioners for any county or "place of exclusive jurisdiction" consists of (a) persons who have been directly appointed to the office by the inclusion of their names in a Land Tax Commissioners' Names Act, and (b) persons who are *ex officio* Commissioners by virtue of their office of Justice of the Peace.

General Commissioners.

22,947. (10) The number of General Commissioners appointed to act for any division is normally not to exceed seven or be less than three. The Board of Inland Revenue may, however, if they think fit, authorize an increase to any number not exceeding fourteen in each case respectively. (Sec. 50 (3).) Two Commissioners form a quorum. (Sec. 230 (2).)

22,948. (11) When, in any Income Tax division, the list of persons to supply vacancies needs to be replenished, a notification to that effect should be sent to the Board of Inland Revenue by the Clerk to the General Commissioners. (Sec. 59 (6).) The Board, by notice in the *London Gazette*, then convene a meeting of the Land Tax Commissioners for the county to which the division belongs, a separate notice of such meeting being sent by the Clerk to the Land Tax Commissioners to each of the Land Tax Commissioners for the corresponding Land Tax division. At this meeting the Land Tax Commissioners choose from amongst their number persons

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who are believed to possess the prescribed property qualification (see paragraph 13) and who are considered to be proper persons to act as General Commissioners of Income Tax.

22,949. (12) Vacancies occurring amongst the General Commissioners for the division are to be filled by the acting General Commissioners from amongst the persons who have been so chosen by the Land Tax Commissioners. (Sec. 59 (9).) There is, however, a provision that if, when vacancies occur, the list for supplying vacancies is defective, so that the due number of Commissioners cannot be supplied from it, the list may be completed by the acting General Commissioners for the division where the failure has happened. (Sec. 59 (8).)

22,950. (13) The property qualification prescribed in the case of General Commissioners appointed to act for county divisions in England is the possession of real or personal estate producing not less than £200 per annum. In certain "City" divisions in England, and in all divisions in Wales and Scotland, the qualification is on a lower scale. (Sec. 65 (i) and Third Schedule.)

Additional Commissioners.

22,951. (14) Additional Commissioners of Income Tax are appointed by the General Commissioners for each division from amongst suitable residents in the division who possess the prescribed property qualification. (Sec. 61.) The latter is one-half of that required of a General Commissioner. (Sec. 65 (2).) If the General Commissioners think fit they may appoint certain of their own number to act as Additional Commissioners, but in such cases the Commissioners by whom assessments are made are precluded from hearing appeals relating to such assessments. (Sec. 61 (3).)

22,952. (15) No limit is placed upon the number of Additional Commissioners to be appointed for each division, the General Commissioners being empowered to appoint such number as in their discretion they consider requisite, having regard to the size and character of the division. (Sec. 61 (3).) Two Commissioners form a quorum. (Sec. 62 (5).)

FUNCTIONS OF THE LOCAL COMMISSIONERS.

General Commissioners.

22,953. (16) The statutory functions of the General Commissioners may be divided into two classes:—

First.—Administrative functions, e.g., the appointment of Additional Commissioners, Assessors, and Collectors; the general oversight of the work allotted to the persons so appointed; the signing and allowing of the assessments and Collectors' duplicates under Schedules A, B, D, and E; the allowance of claims of relief; and the signing of such formal documents as Charge Duplicates and Schedules of Discharge and Default.

Second.—Judicial functions, namely, the hearing of appeals, the stating of cases for the opinion of the High Court where so required, and the imposition of penalties in certain cases.

22,954. (17) The present position, as it exists in actual practice, has been fully explained by Sir Thomas Collins in his Memorandum on the functions of Surveys of Taxes. (See Appendix No. 4.)

22,955. (18) With regard to the administrative functions of the General Commissioners it may be said, speaking generally, that the passage of time has witnessed an increasing tendency for these functions (with the exception of those relating to the appointment of their local officials) either to fall practically into abeyance, as in the case of the allowance of repayment claims, or to become more and more of a formality, as in the case of the signing and allowing of the assessment books and Collectors' duplicates.

22,956. (19) With regard to the Commissioners' judicial functions, on the other hand, although the great majority of appeals are now adjusted by the Surveyor in agreement with the taxpayer, the agreed

settlements being laid before the General Commissioners for their formal approval, the position is that an important minority of appeals do actually come before the General Commissioners for their determination, and that the latter therefore still continue actively to discharge their judicial functions.

22,957. (20) In view of the enormous expansion that has occurred in the volume and complexity of the work of raising the tax since the existing law was framed, this result has been inevitable. The everyday working of the tax is now a task of such magnitude as to absorb the continuous services of a large body of specially trained civil servants, and in the nature of the case many functions which, when the tax was first imposed, were naturally and properly entrusted to local bodies of Commissioners, have, in practice, fallen upon the State officials.

Additional Commissioners.

22,958. (21) The statutory functions of the Additional Commissioners are purely executive, and consist, broadly, in considering taxpayers' returns of profits under Schedule D and in making assessments upon all persons chargeable under that Schedule within their division, whether such persons have made returns or not.

22,959. (22) No less than in the case of the General Commissioners, and from much the same causes, the passage of time has brought about a great difference between the nominal and the actual functions of the Additional Commissioners. In many thousands of cases taxpayers (including the most important concerns in the country) now furnish annually trading and profit and loss accounts and balance sheets, the detailed investigation of which involves an expert knowledge both of Income Tax law and of accountancy. It is obvious that bodies of Commissioners meeting only at intervals are not in a position to undertake large amounts of work of this character, and, in practice, the whole of the work of investigating a taxpayer's return and of computing his liability from his business accounts has devolved upon the Surveyor for the district.

In another class of case, namely, that of employments, the need for the intervention of Additional Commissioners has ceased to exist owing to the introduction in 1907 of a provision requiring employers to make returns of the salaries, &c., paid to their liable employees.

The result is that, as a rule, the Additional Commissioners confine themselves to the consideration of important cases brought to their notice by the Surveyor where satisfactory information has not been supplied to him, or where their own personal knowledge may be of special service in estimating liabilities.

REVIEW OF CERTAIN CRITICISMS AND SUGGESTIONS WHICH HAVE BEEN PUT BEFORE THE ROYAL COMMISSION.

22,960. (23) In the circumstances indicated in paragraphs 18 to 22 it has been evident for some years past that in order to bring the existing legal framework of the system of Income Tax administration into harmony with modern conditions a readjustment would become essential.

22,961. (24) Certain witnesses who have appeared before the Royal Commission have proposed that the General Commissioners should be abolished and their place taken either by the Special Commissioners or by some corresponding body. [Cash, 8280 (with reservations), Rayner, 8842.]

22,962. (25) The Board of Inland Revenue are unable to associate themselves with this suggestion. Their view (which was indicated by Sir Thomas Collins at the beginning of the proceedings of the Royal Commission, and to which they still adhere) is that the General Commissioners not only form a useful and convenient appellate body and one that is acceptable to a large number of taxpayers, but are also exceptionally qualified by reason of their personal standing and local knowledge to act in that capacity. It will be remembered in this connection that any appellant who desires to have his case heard

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by an expert body of Commissioners has the option of appealing to the Special Commissioners.

22,963. (26) Farther, in the opinion of the Board of Inland Revenue, the abolition of the General Commissioners would militate seriously against the principle of decentralisation upon which the successful working of the Income Tax has hitherto depended to no inconsiderable extent. At present the work of hearing appeals goes on practically simultaneously in some hundreds of divisions throughout the country. If the General Commissioners were abolished, the speed of the Income Tax machine would almost certainly be diminished, since, unless a very large increase were made in the *personnel* of the Special Commissioners (or whatever central appeal tribunal might be set up) it would not be practicable for the various panels to cope with appeals with the celerity attained under the existing system.

22,964. (27) It has also been suggested that the Additional Commissioners should be abolished. (Webb, 7117; Hayer, 8842.) This again is a suggestion which the Board of Inland Revenue are unable to support. In their view it is desirable that the local knowledge of the bodies of Additional Commissioners throughout the country should continue to be utilised, though it may be that improvements can be made in the actual machinery which will help to bring the procedure into greater accord with present-day conditions.

22,965. (28) Other witnesses have suggested that the functions of the General Commissioners should be limited to those of acting as an appeal tribunal (Ereaut, 4785, 4787, 4788, 4856 (by inference); Webb, 7116), and that the functions of Additional Commissioners should be limited to those of making the Schedule D assessments on profits arising from trades and professions (Ereaut, 4788). These suggestions, in the opinion of the Board of Inland Revenue, have much to commend them.

22,966. (29) On the question of the constitution of the General Commissioners, certain witnesses have by inference adversely criticised the existing method of appointment as resulting either in a body not thoroughly representative of the different classes of taxpayers, e.g., the wage-earning class, or in a body which does not include one or more persons chosen specifically on the ground of their expert knowledge, e.g., an accountant. (Parsons, 1555; Webb, 8802; Lakin-Smith, 7710, 8187.)

22,967. (30) The view of the Board of Inland Revenue is that, whilst the appeal tribunal should be fully representative of all classes of taxpayers, its members should be selected primarily by virtue of their high character, capacity and impartiality and should command the general confidence of the public.

The suggestions which follow are made by the Board not in any way in the desire to derogate from the essential functions of the General Commissioners and the Additional Commissioners. On the contrary, as above indicated, the Board consider that these powers should be continued in full force and the constitution of the Commissioners should be so far remodelled as to enable these powers to be exercised under the most favourable conditions.

On the other hand the Board feel that as part of an ordered scheme for bringing Income Tax administration into line with modern conditions and with the principles of business organisation, certain subsidiary duties, the local performance of which has long ceased to have practical significance, should now be otherwise provided for.

SUGGESTED MODIFICATIONS OF THE EXISTING SYSTEM.

22,968. (31) To a considerable extent the present system of local Income Tax administration is obsolete, and its future efficiency must largely depend upon whether it is practicable, without dislocating the whole organisation, to discard the parts which in the course of time have ceased to be practically useful.

22,969. (32) With regard to the functions of the General Commissioners, the Board of Inland Revenue suggest that those Commissioners should act solely

as an appeal tribunal; and that they should continue to appoint their own Clerk, to stake cases for the opinion of the High Court where so required, and to deal as at present with questions of penalties.

22,970. (33) As a consequence of this change it would be necessary to give formal legal sanction to the existing actual practice under which the Surveyor, for example, either allows from the assessments, or certifies for repayment, claims in respect of all the various forms of relief provided by the Income Tax Act, with the safeguard to the taxpayer that any matter of dispute between the Surveyor and the claimant should be determined by the General or Special Commissioners as the case might be.

22,971. (34) With regard to the functions of the Additional Commissioners, the Board of Inland Revenue suggest that these should be the considering of returns and the making of assessments in respect of all income assessable under Schedule D, with the exception of income derived from employments and untaxed interest. The assessments in respect of employments and interest should, it is suggested, be made by the Surveyor.

22,972. (35) With regard to the constitution of the General Commissioners, the procedure under which Income Tax Commissioners are appointed to their office through the medium of the Land Tax Commissioners is an anachronism and it is suggested that an amendment of the law in this respect should be no longer deferred.

22,973. (36) The provision of an alternative method of appointment which would command universal approval is a difficult and perhaps an insoluble problem. In putting before the Royal Commission the following tentative proposals the Board of Inland Revenue recognize that those proposals may be susceptible of improvement in detail, but they suggest that in broad-outline they are greatly to be preferred to the existing system.

The Board propose that the number of General Commissioners for each division should be twelve, with, in addition, a list of six Commissioners to supply vacancies, and that these Commissioners should be appointed as follows:—

- (a) one-third by the Crown (possibly acting through the Lord Chancellor, from lists supplied by Lords Lieutenant of Counties);
- (b) one-third by the magistrates meeting at Quarter Sessions;
- (c) one-third by the local authority (e.g., County Councils and the larger City and Borough Councils).

It is also suggested that vacancies in the number of Commissioners should be filled in equal proportions by the appointing authorities every six years. If at any time the list to supply vacancies should become exhausted and the number of acting Commissioners should fall below twelve, the acting General Commissioners should have power to bring the number of General Commissioners up to twelve by co-optation.

22,974. (37) The persons appointed should be taxpayers who are either resident in the division or who carry on business in the division.

22,975. (38) There should, it is suggested, be no property qualification, and women should be eligible for appointment. The persons appointed should hold their office normally for life (subject, of course, to disqualification in the event of bankruptcy, misdeemeanour, &c.), but persons ceasing to reside or to carry on business in the division should *ipso facto* cease to be Commissioners, as should also Commissioners who for a period of two years attend none of the meetings to which they have been summoned and whose absence has not been due to illness or other unavoidable cause.

22,976. (39) With regard to the Additional Commissioners, the primary requisite in their case is the possession of local knowledge which will enable them to make fair estimates of profit in the case of persons from whom satisfactory evidence of their true liability is not forthcoming. In these circumstances, the Board of Inland Revenue suggest that the Additional Commissioners should continue to be appointed

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by the General Commissioners. As in the case of the latter Commissioners, the persons appointed should be taxpayers who are either resident in the division or who carry on business in the division. There should be no property qualification; women should be eligible for appointment; and Commissioners ceasing to reside or to carry on business in the division should *ipso facto* cease to hold their office. The number of Commissioners in each division should be twelve. The General Commissioners should, as at present, have the power of dividing the Additional Commissioners into committees to deal with different portions of the division, where such a course is considered necessary.

22,977. (40) With regard to the period of appointment, the Board of Inland Revenue suggest that at the end of each period of four years one-third of the Additional Commissioners should retire in rotation and should not be eligible for re-appointment. The Board make this suggestion on the ground that it is desirable to ensure that the greatest possible benefit should be obtained from local knowledge of Additional Commissioners. After a period of service of some years the usefulness of particular Commissioners may have largely diminished, and it is therefore desirable that means should be provided for securing a regular infusion of new members.

22,978. (41) So far as the transitional stage is concerned, the Board suggest that all existing General Commissioners should be continued in office and should act for the divisions in which they reside or carry on business. If in any division the number of General Commissioners is found to be less than twelve it is suggested that the vacancies should be filled in approximately equal proportions by the several persons or bodies named in paragraph 36, who should also nominate six persons to be Commissioners to supply vacancies. If, in any division, the number of Commissioners is found to exceed twelve, the whole of the Commissioners should continue to act.

22,979. (42) In the case of Additional Commissioners, all existing Commissioners should be likewise continued in office and any deficiency below the authorized number of twelve should be filled by the General Commissioners. At the end of the first period of four years the four Commissioners to retire should be chosen by lot from amongst the original Commissioners and the same procedure should be followed at the end of each succeeding four-year period until the whole of the original Commissioners have retired. The newly appointed Commissioners would then retire automatically in rotation.

NO. II.—THE POSITION IN THE SCHEME OF INCOME TAX ADMINISTRATION OF THE CLERKS TO LOCAL COMMISSIONERS OF TAXES.

INTRODUCTORY.

22,980 (1) The Chief Inspector of Taxes, Sir Thomas Collins, has already explained to the Royal Commission (Questions 275-285) the system of administration under which a separate body of General Commissioners is appointed for each of the divisions into which the counties of Great Britain are generally divided for Income Tax purposes. Each of these bodies of Commissioners annually appoints a salaried Clerk to whom various duties are assigned by Statute. As there are no General Commissioners in Ireland, no Clerks to Commissioners are appointed in that country.

22,981. (2) The main purpose of this evidence is:—

- (a) to explain the functions of Clerks to Commissioners as prescribed by law;
- (b) to examine the present position as found in actual practice; and
- (c) to suggest for the consideration of the Royal Commission certain modifications which in the judgment of the Board of Inland Revenue, experience has shown to be desirable in the public interest.

22,982. (3) The references throughout this evidence are to the Income Tax Act of 1918, except where otherwise stated.

MEANS OF APPOINTMENT, NUMBER AND REMUNERATION OF CLERKS TO COMMISSIONERS.

Method of appointment.

22,983. (4) The appointment of Clerk to Commissioners is an annual one, and is made in all cases by the General Commissioners, (Sec. 66), to whom alone the Clerk is responsible. No professional qualification is prescribed by the Act, the Commissioners being simply enjoined to elect at their first meeting in each year "a fit person" to be their Clerk for such year. Once appointed for a particular year, the Clerk cannot be removed from his office during that year except for just cause.

22,984. (5) Although the appointment is an annual one, the same person is generally continued in office from year to year.

22,985. (6) The General Commissioners are empowered, where they consider it necessary, to elect neither "fit person" to act as assistant to the person appointed as Clerk. (Sec. 66 (2).)

22,986. (7) Either the Clerk or his Assistant is also appointed Clerk to the Additional Commissioners for the Division. (Sec. 66 (3).)

22,987. (8) Every Clerk or Assistant Clerk is required under a penalty of £100 to make a declaration of secrecy before he begins to act in relation to tax assessed under Schedule D. (Sec. 89.)

22,988. (9) As the jurisdiction in regard to Inhabited House Duty is entrusted to the General Commissioners, the Clerk exercises in connection with that tax practically similar functions to those exercised by him in relation to the Income Tax. A Clerk for each division is also separately appointed, by the Land Tax Commissioners. With rare exceptions, the same person is chosen as Clerk by both the General Commissioners and the Land Tax Commissioners. (Taxes Management Act, 1889, secs. 27 & 41.)

Number of Clerks.

22,989. (10) The number of Income Tax divisions in England and Wales is 651 and in Scotland 66, making a total for Great Britain of 717. Owing, however, to the fact that in a number of cases the same person is appointed for more than one division, the total number of individual Clerks is 610.

Remuneration.

22,990. (11) The remuneration of Clerks to Commissioners is a gross remuneration covering all office and clerical expenses. Until the year 1891-2 Clerks to Commissioners were remunerated by a poundage at the rate of twopenny in the pound on the amount of Income Tax charged in the Collectors' duplicates, subject to the provision that, after an allowance of £500 had been reached, the rate of poundage was to be reduced to one penny in the pound. (Taxes Management Act, 1889, sec. 41 & 1st Schedule.)

22,991. (12) Where the aggregate allowances, including those payable in respect of Inhabited House Duty and Land Tax, to which any Clerk was entitled would exceed £1,200, the Treasury were empowered to substitute for those allowances such an amount not being less than £1,200, exclusive of necessary office expenses as the Board of Inland Revenue might certify. (Taxes Management Act, 1889, 1st Schedule.)

22,992. (13) Where in any case the poundage allowance afforded insufficient remuneration, the Board were empowered, with the consent of the Treasury, to grant such further sums, either on account of expenses other than necessary office expenses, or as additional remuneration, as they might consider expedient. (Revenue Act, 1889, sec. 13.)

22,993. (14) In the year 1891-2 poundage was abolished, and it was provided that the remuneration of a Clerk to Commissioners should not be less than the poundage paid in 1890-1. The provision mentioned in paragraph 13 remained in force. (Taxes (Regulation of Remuneration) Act, 1891, secs. 1, 2, & 5.)

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22,994. (15) No change in the law has been made since 1891-2 and the present position, therefore, is that the remuneration of a Clerk to Commissioners for any division consists of:—

(a) the amount paid for that division in 1890-1;

(b) such further sum as may have been since granted by the Board of Inland Revenue with the consent of the Treasury in respect of increases of work. (Sec. 66 (9).)

22,995. (16) A war bonus has been granted to assist in meeting the increased cost of living, clerical expenses, &c.

22,996. (17) The aggregate remuneration, including that for House Duty and Land Tax, but excluding war bonus, paid to Clerks to Commissioners for the year 1918-19 was about £124,000. A statement (see Annex) showing the classification of this amount is attached. It will be seen from this statement that of the 610 Clerks about 350 received less than £100 per annum, whilst only about 64 received more than £500 per annum (in both cases exclusive of war bonus). As a matter of fact, the office of Clerk to Commissioners is usually only one of the sources of the Clerk's income. He is frequently a solicitor and it often happens that, in comparison with his private practice or with his other public appointments, his emoluments as Clerk to Commissioners are relatively small.

FUNCTIONS OF CLERKS TO COMMISSIONERS.

22,997. (18) The functions of a Clerk to Commissioners fall into two distinct categories. His primary function is to act as the legal and general adviser of the General and Additional Commissioners. (Sec. 149 (1).) For this purpose he arranges for and attends all meetings of those Commissioners, and where, on the determination of an appeal, a case is demanded for the opinion of the High Court he usually prepares the draft case on behalf of the Commissioners. In addition, however, the existing law, which was framed to deal with the very different conditions prevailing more than a hundred years ago, assigns to the Clerk certain clerical functions—for the most part of a routine character—in connection with the preparation of assessment books, duplicates, warrants, notices of assessment, certificates and certain other documents required in the course of the assessment and collection procedure. He also issues precepts to Assessors and Collectors, prepares church door notices relating to appeals, and summons appellants to appeal meetings.

22,998. (19) The primary duties of the Clerk as the legal and general adviser of the Commissioners appear to call for no special mention—their importance speaks for itself. His principal clerical duties and the stages of the procedure at which they occur are as follows:—

Schedules A and B.

22,999. (20) The Assessors having brought in their certificates of assessment under Schedules A and B to the General Commissioners, the latter forthwith deliver the assessments to the Surveyor for examination and revision. (Sec. 113.) On the return of the assessments from the Surveyor, the General Commissioners, if they are satisfied, sign and allow them, and cause notices of assessment to be given to the taxpayers concerned. (Sec. 120.) These notices are prepared by the Clerk to Commissioners. (Sec. 134.)

23,000. (21) The appeals are then heard, following which the Clerk finally completes the books of assessment. This involves:—

- (1) entering the gross values, the total of the allowances for repairs, &c., and the net assessment;
- (2) calculating the tax at the appropriate rate or rates;
- (3) entering one-half of this amount in each of the two columns provided for the first and second instalments;
- (4) totalling and summarising the books.

23,001. (22) In addition, the Clerk is required to prepare on the prescribed forms two "duplicates" of the assessments, giving particulars of the names of the occupier and owner of the address of the property assessed, the net assessment and the tax charged (in two instalments). (Sec. 153.) One duplicate is to be delivered to the Surveyor, and the other to the Collector, together with a warrant for collecting and levying the tax charged, but in practice, the original assessments are handed to the Surveyor and the duplicate prescribed for his use is dispensed with.

23,002. (23) It should, however, be explained that the procedure outlined in paragraphs 20 to 22 is applicable in its entirety only in "re-assessment" years, when entirely fresh assessments are made under Schedules A and B. A re-assessment is, if practicable, made every fifth year, and the books of assessment are so arranged as to last for at least five years. In the intervening four years the Surveyor acts as Assessor, and the work of the Clerk to Commissioners is restricted to carrying out the net assessments, calculating and entering the tax, and totalling and summarising the assessments. The work on the duplicates is similarly restricted.

Schedule D.

23,003. (24) On the appointed date the Assessors deliver to the General Commissioners the returns, &c., received from taxpayers in their several parishes (Sec. 113), and it is the duty of the Clerk to the Commissioners "with all convenient speed" to abstract the particulars contained in such returns into books provided for the purpose and according to the forms prescribed by the Board of Inland Revenue (Sec. 118). These abstracts contain the names of the persons delivering the returns and the several amounts of profits returned by them respectively, and are to be delivered to the Commissioners as soon as completed.

23,004. (25) The Surveyor is to be allowed free access to these books of abstract and to the returns delivered by the taxpayers (Sec. 121), and, within a reasonable time after he has made his examination, the returns are to be laid before the Additional Commissioners who make the assessments, as already explained to the Royal Commission by Sir Thomas Collins (see Appendix 4, paragraphs 41 to 43).

23,005. (26) The Additional Commissioners are to cause certificates of assessments to be made out in books provided for the purpose, showing the name of the parish, the names, surnames and addresses of the persons assessed, progressively distinguished by numbers or letters, and the amounts of tax payable (Sec. 122.) These certificates are to be prepared by the Clerk to Commissioners, and after being signed by the Additional Commissioners are to be delivered to the General Commissioners. (In practice, the same book is used both for the entry of the returns and for the certificates of assessments by the Additional Commissioners.)

23,006. (27) Following the delivery of the assessments to the General Commissioners, notices of assessment are prepared by the Clerk to Commissioners for delivery to the persons assessed. (Sec. 122 (3).)

23,007. (28) The appeals are then heard and any necessary amendments are made, after which the books of assessment are signed and allowed by the General Commissioners and are completed by the Clerk to Commissioners in such the same manner as in the case of the Schedule A assessments, except that the books are more complicated by reason of the larger number of allowances dealt with, e.g., abatement, Life Assurance, wife, children, depreciation, and the allowance in respect of unearned income relief on such income as dividends, interest, &c., taxed at the source. (Sec. 122 (3).)

23,008. (29) The Clerk is also required to prepare two duplicates of the assessment, one for the Surveyor and one for the Collector, but in practice the original assessment is handed to the Surveyor and his duplicate is dispensed with. (Sec. 153.)

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Schedule E.

23,009. (30) On the appointed date the Assessors deliver to the General Commissioners their certificates of assessments under Schedule E. (Sec. 113.) These are delivered to the Surveyor for examination and revision, after which the General Commissioners, if satisfied, sign and allow them. (Sec. 120.) Notices of assessment are then prepared by the Clerk to Commissioners for delivery to the persons assessed.

23,010. (31) After any appeals have been heard, the books of assessment are made up by the Clerk to Commissioners, as explained under Schedule D, and a duplicate is prepared for the use of the Collector, the Surveyor's duplicate being dispensed with in this case also. (Secs. 120 & 153.)

*GENERAL.**Charge duplicates.*

23,011. (32) The Clerk to Commissioners makes out two duplicates of the amount of the charge by all the assessments made for the Division in the year. These duplicates are required to show the names of the respective Assessors and Collectors for each parish, and the full amount of the sums given in charge to each Collector throughout the year, including penalties, if any. The duplicates are to be signed by the General Commissioners and sent to the Board of Inland Revenue. (Sec. 152.)

Schedules of discharge and default.

23,012. (33) The Clerk to Commissioners also prepares schedules of discharge containing the aggregate amount of all sums given in charge to the Collectors but discharged by the Commissioners, and schedules of defaulters containing detailed particulars of the sums due from the several defaulters. These schedules, after signature by the General Commissioners, are sent to the Board of Inland Revenue. (Sec. 175.)

Certificates of removal.

23,013. (34) Where a person does not reside in or remove from the parish in which he is assessed and leaves any duties unpaid, the General Commissioners for the parish of assessment are empowered to issue a certificate, through the Board of Inland Revenue, to the Commissioners for the parish of residence certifying the arrear, and the latter Commissioners are then to cause the sum assessed to be collected by the Collector for the parish of residence. (Sec. 168.) The Commissioners' certificates are prepared by the Clerk to Commissioners.

Number or letter assessments.

23,014. (35) Under Schedule D a person may elect to pay his tax not under his own name but under a number or letter to the proper officer within the time limited for payment. In such case, the Clerk to Commissioners supplies to the taxpayer a certificate certifying the amount of tax to be paid, and, later, on production of the certificate of the officer for receipt that the tax has been paid, the Clerk issues a formal receipt. (Sec. 156.)

THE PRESENT POSITION IN ACTUAL PRACTICE.

23,015. (36) Sir Thomas Collins has already explained to the Royal Commission (see Appendix 4, paragraph 118) that owing to the great expansion, both in volume and complexity, of the work attending the raising of the Income Tax, the everyday working administration of the tax has in the nature of things centred primarily in the office of the Surveyor of Taxes. Despite this change in the actual procedure, the clerical duties that were originally allotted to the Clerk to Commissioners under the widely different conditions prevailing a hundred years ago, have never been reviewed. These duties, as the preceding paragraphs indicate, affect the progress of the work throughout its course, with the result that there is now in operation a system of dual management which, it is submitted, in however

fall a spirit of co-operation the system may be worked, is inherently wasteful and unbusinesslike.

23,016. (37) The position may be illustrated by considering the actual course of the work on the Schedule D assessments. In broad outline, the procedure is as follows. One official (the local Assessor) issues forms of return to the taxpayers in his parish and on a given date delivers the completed returns to a second official (the Clerk to Commissioners), who enters them in the books of assessment and then transfers them, together with the assessment books, to a third official (the Surveyor of Taxes) who examines them. Official No. 3 then returns the books to official No. 2, who prepares and issues to the taxpayers concerned notices of the assessments made by the Additional Commissioners. The taxpayers are required to address any objections to official No. 3, to whom the books have again been sent by official No. 2. Official No. 3 later returns the books to official No. 2, who proceeds to complete the clerical entries required in them and to make a copy of the principal particulars for the use of a fourth official (the local Collector). The books are then again sent to official No. 3 for reference during the collection. They are later returned to official No. 2 in order that he may prepare the draft assessment for the following year, and are then sent back finally to official No. 3.

23,017. (38) The vital part of the work consists:—

- (a) in the skilled examination by the Surveyor of the returns made by taxpayers;
- (b) in his prosecution of the enquiries arising out of that examination;
- (c) in his highly technical examination of the trading accounts, profit and loss accounts, balance sheets, &c., with which he is annually furnished by companies, firms and others, and upon which his computations of liability are based.

23,018. (39) As the tax is payable either as to the whole or as to one-half on 1st January, it is necessary to arrange that all the various operations affecting the work of assessment which begins in April shall be completed in time to enable the duplicates to be delivered to the Collectors at the end of November or early in December. Unless this is done, the Collectors are unable to prepare their demand notes in time to ensure the commencement of the collection by the due date, 1st January.

23,019. (40) As a rule, the returns and assessment books are not delivered to the Surveyor for examination before June, and if, from any cause, their delivery is delayed until July or August, the time available for bringing to bear upon the returns the skill and experience of the Surveyor is dangerously curtailed. Moreover, the whole of the proceedings in connection with the work of assessment from their commencement with the issue of the forms of return to the taxpayers to their completion with the delivery of the duplicates to the Collectors ought to go forward without a break. It is, therefore, extremely inconvenient that this work should be repeatedly interrupted in consequence of the necessity, under the present system, for sending the assessment books at stated intervals to the Clerks to Commissioners, by whom they are retained for varying periods. Especially is this the case where, as frequently happens, the Clerk to Commissioners does not reside in the same town as the Surveyor. Correspondence with taxpayers is delayed owing to the absence of books of assessment containing needed information, and the work generally is hampered.

23,020. (41) Under the most favourable circumstances, therefore, where the Clerk to Commissioners is in a position to undertake his particular sections of the work at the appropriate times and to complete them with despatch, the present system necessarily produces inconvenience and delay. Frequently, however, the Clerk is not in such a position. As mentioned in paragraph 17, in the case of about 260 Clerks to Commissioners the annual remuneration attaching to the office does not exceed £100. This

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means that in each of these cases the whole of the clerical work of the division is insufficient to occupy the time of even one member of the Clerk's staff. Even, however, where the total remuneration substantially exceeds £100 per annum the intermittent character of the work precludes the Clerk to Commissioners, except in the largest divisions, from engaging a clerk or a staff of clerks specifically for his Income Tax work. The consequence is that the Clerk to Commissioners is not always able to arrange that a member of his clerical staff shall be available to proceed with the Income Tax work immediately the occasion arises. Whenever this happens, the inconvenience and delay, which are inseparable from the system in any circumstances, are at once increased. If the delay in the Clerk's office occurs in the issue of the notices of assessment or in the closing of the books of assessment and the preparation of the Collectors' duplicates, the result is to prevent the commencement of the collection by the prescribed date, thus delaying the receipt of tax by the Exchequer and generally disorganising the machinery of collection.

23,021. (42) In view of these difficulties a number of Clerks to Commissioners, instead of entrusting the clerical work to members of their own staff, rely upon being able to arrange with the clerks in Surveyors' offices to do the work for them in overtime.

23,022. (43) Although Schedule D has been selected for the purposes of illustration, the position is equally inconvenient in regard to Schedules A, B and E. It is perhaps unnecessary to set out in detail the particular inconveniences which arise under those Schedules, but it may be mentioned that the inconvenience in connection with Schedule A work is so considerable that in practice the whole of the work on the assessment books is in England generally done in the Surveyors' Offices.

SUGGESTED MODIFICATION OF THE EXISTING SYSTEM.

23,023. (44) Experience shows the importance of securing the longest possible period during each year for carrying out the complicated technical work of investigating returns and prosecuting enquiries, upon which work the security of the Revenue largely depends. The present system, which was framed long ago to meet the conditions of a very different age, and which involves the frequent sending of the assessment books backwards and forwards between two officials, prevents the achievement of that aim. The remedy which the Board of Inland Revenue suggest should be adopted is that the clerical functions* which now attach to the office of Clerk to Commissioners should be transferred to the Surveyor of Taxes and that the Clerk to the Commissioners, relieved of these subsidiary duties, should in future act in his primary rôle as the legal and general adviser of the General and Additional Commissioners.

23,024. (45) With regard to Schedule D, as a safeguard against delay, it would be advisable to prescribe a limit of time within which the Additional Commissioners should meet to consider and sign the Schedule D assessments after the Surveyor had given notice to the Clerk to Commissioners that his examination of the Schedule D returns has been completed.

23,025. (46) The adoption of the foregoing proposal, together with the transfer to the Surveyor of certain functions now entrusted to the Assessor (as to which I am putting in a separate proof of evidence), would result in the whole of the clerical and routine work

in connection with the assessment procedure being controlled and carried out by the pivotal official, namely, the Surveyor of Taxes. This would not only increase very materially the time available for the essential technical work of investigating returns and prosecuting enquiries, but would also promote the economical and expeditious despatch of business generally, since the permanent trained staffs of the tax districts under the control of the Board of Inland Revenue are better fitted to cope with large quantities of detailed clerical work than the staffs of Clerks to Commissioners who are usually engaged to a large extent on the private work of their employers.

23,026. (47) The proposed change would be beneficial in another direction. It is unnecessary to labour the importance of securing that there shall be no disclosure of the highly confidential information contained in taxpayers' returns. In recent years the importance of this matter has been accentuated owing to the fact that the number of statements of total income has very largely increased as a result of the graduation of the tax. Varying rates of tax now apply to incomes up to a limit of £2,500, as compared with the limit of £700 in force until 1907. It is not for a moment suggested that leakage of information actually occurs under the existing system, but as a business arrangement and to fortify public confidence, it is clearly preferable that this great mass of confidential information should be handled under the conditions which obtain in a Government office.

23,027. (48) So far as Super-tax returns are concerned, the strictest measures are taken to ensure complete secrecy, and having regard to the fact that statements of total income up to a limit of £2,500 are now required where relief is claimed in respect of earned income, there does not seem to be any justification for taking less effective measures to ensure the secrecy of all returns of total income.

23,028. (49) If the proposal now put forward is adopted, the question of compensation may arise in some cases, and will presumably be left to be dealt with by the Treasury. It would be necessary to revise the remuneration to correspond with the new conditions, and the law would require to be amended accordingly.

23,029. (50) There is another question relating to the remuneration of Clerks to Commissioners to which the attention of the Royal Commission should be drawn, namely, the course to be followed when changes are made in the areas of divisions. The circumstances in which such changes occur are described in a separate proof of evidence on the subject of areas of Income Tax administration.

23,030. (51) At present there is no statutory provision under which the aggregate remuneration of the Clerks to Commissioners for divisions, the areas of which have been altered, can be apportioned in accordance with the new conditions. In these circumstances it is suggested that, where the area for which any General Commissioners act is altered, the Board of Inland Revenue, with the consent of the Treasury, should be empowered to increase or reduce the remuneration of the Clerk to Commissioners for the altered division, as the case may require, or to fix the remuneration of the Clerk to Commissioners for a newly constituted division.

23,031. (52) Although the matter may not be strictly within the purview of the Royal Commission, it should, perhaps, be added that a natural corollary to any change in the functions of Clerks to Commissioners as regards Income Tax would be a corresponding change in their analogous functions in relation to Inhabited House Duty. The procedure in connection with that duty now follows closely the procedure for Income Tax, Schedule A, the assessments being made in the same books, and the inconvenience which would arise from a divergent procedure for the two duties needs no emphasis.

* The clerical functions in question, stated in detail, are:—

(1) the preparation in draft of the Schedule D assessment books and the entry in those books of the Schedule D returns;
(2) the preparation of the notices of charge and the completion of the books of assessment under all Schedules;
(3) the preparation of the Collectors' duplicates, charge duplicates, schedules of discharge and default, certificates of removal, and certificates under a number or letter, Schedule D (assuming that the option of assessment under a number or letter is retained).

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23,032.

ANNEKE.

CLERKS TO COMMISSIONERS, GREAT BRITAIN.

Statement of Remuneration, as at 24th April, 1919.

Scale of remuneration.				Number of individual Clerks.	Aggregate remuneration.
					£
Not exceeding	£25	...	...	58	1,018
£26 to	£50	...	...	131	5,072
£51 "	£100	...	...	172	12,506
£101 "	£200	...	...	122	16,911
£201 "	£300	...	...	35	8,583
£301 "	£400	...	...	17	5,798
£401 "	£500	...	...	11	4,851
£501 "	£600	...	...	10	5,413
£601 "	£700	...	...	10	6,358
£701 "	£800	...	...	8	6,039
£801 "	£900	...	...	6	4,963
£901 "	£1,000	...	...	9	8,571
£1,001 "	£1,100	...	...	3	3,182
£1,101 "	£1,200	...	...	2	2,263
£1,201 "	£1,300	...	...	4	5,054
£1,301 "	£1,400	...	...	1	1,315
£1,401 "	£1,500	...	...	1	1,440
£1,501 "	£1,600	...	...	1	1,582
£1,601 "	£1,700	...	...	2	3,338
£1,701 "	£1,800	...	...	—	—
£1,801 "	£1,900	...	...	—	—
£1,901 "	£2,000	...	...	1	1,943
Over £2,000	...	...	...	6	18,025
				610	£124,295

NOTE.—Where the Clerk to the General Commissioners also acts as Clerk to the Land Tax Commissioners, the remuneration stated above includes that relating to Land Tax.

The list does not include particulars of the remuneration of persons who are appointed solely as Clerks to the Land Tax Commissioners, nor does it include the remuneration attaching to three divisions which exist for Land Tax purposes only.

NO. III.—THE POSITION IN THE SCHEME OF INCOME TAX ADMINISTRATION OF THE ASSESSORS OF TAXES.

INTRODUCTORY.

23,033. (1) In England and Scotland the General Commissioners for each division appoint annually for each parish in the division two or more Assessors of Income Tax. There is no provision for the appointment of Assessors in Ireland, the duties which are carried out by Assessors in Great Britain being in that country performed by the Surveyors of Taxes.

23,034. (2) The main purpose of this evidence is:—

- to explain the functions of Assessors of Taxes as prescribed by law;
- to examine the present position as found in actual practice;
- to suggest, for the consideration of the Royal Commission, certain modifications which, in the judgment of the Board of Inland Revenue, experience has shown to be desirable in the public interest.

23,035. (3) The references throughout this evidence are to the Income Tax Act of 1918, except where otherwise stated.

METHOD OF APPOINTMENT, NUMBER, AND REMUNERATION OF ASSESSORS OF TAXES.

Method of appointment.

23,036. (4) For the purpose of appointing Assessors, the General Commissioners, in England before April 10th, and in Scotland before April 30th, in each year, direct their precepts to as many of the inhabitants of each parish as they think most convenient, requiring them to appear before the Commissioners at a time

not exceeding ten days after the date of the precept. (Sec. 76 (1).)

23,037. (5) At the meeting so fixed, Assessors are appointed by the Commissioners to act for each parish. It is customary for two Assessors to be appointed for each parish, but though both are required to sign the formal certificates of assessment, it is the general practice for the whole of the work to be performed by one Assessor. (Sec. 76 (2).)

23,038. (6) In Scotland, where the Surveyor of Taxes has been appointed Lands Valuation Assessor for any area under the Lands Valuation (Scotland) Act, 1854, no other person can be appointed Assessor for the purposes of Income Tax for that area, except that an Income Tax Assessor who held office at the time of the passing of the Revenue Act of 1884 may continue to be re-appointed. (Sec. 76 (3).)

23,039. (7) At the meeting the Commissioners issue to the Assessors their warrants of appointment and any necessary instructions, and appoint another day, not later in England than July 20th, and in Scotland than the first Wednesday in August, for them to appear again and deliver their assessments. (Sec. 76 (3).)

23,040. (8) The appointment of an Assessor is for the year commencing on April 6th in each year, and continues until other Assessors are appointed for the same parish. (Sec. 76 (3).) The General Commissioners or the Surveyor of Taxes may give notice to an Assessor that he is to continue in office. (Sec. 76 (4).)

23,041. (9) Where two "able and sufficient" inhabitants cannot be found in a parish the General Commissioners are to appoint fit persons residing near to that parish to be Assessor. No person who inhabits any city, borough or town corporate can be

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compelled to be an Assessor for any place outside its limits. (Sec. 76 (5) & (6).)

23,042. (10) Where there has been a failure by the General Commissioners to appoint Assessors, and the assessment of the tax is likely to be delayed, the magistrates or justices having administration in or over the parish are, on notice from the Surveyor of Taxes, to appoint Assessors. (Sec. 76 (7).)

23,043. (11) Assessors are responsible to the General Commissioners for the proper execution of their duties. In practice, the oversight of the Assessors almost invariably devolves upon the Surveyor of Taxes, who, with the Commissioners' consent, makes arrangements for the proper performance of the Assessor's work.

23,044. (12) Every Assessor is required, under a penalty of £100, to make a declaration of secrecy before he begins to act in relation to the tax assessed under Schedule D. (Sec. 89.) He is also required, under a penalty of £30, before commencing to act, to make the declaration of office contained in Part II of the Fourth Schedule of the Act. (Sec. 79.) Penalties are also provided for refusal to submit to be appointed or to act when appointed.

Where Surveyors of Taxes act as Assessors in England and Wales.

23,045. (13) If Assessors for any parish are not appointed or fail to act, the Surveyor of Taxes may execute the duties of an Assessor until Assessors have been appointed and act. (Sec. 77 (1).) For the tax chargeable under Schedules A and B the Surveyor of Taxes is the Assessor within the Administrative County of London. Outside this area the Surveyor is Assessor in years other than those of general re-assessment. A re-assessment is made, if practicable, every fifth year. (Sec. 77 (2) & (3).)

Number of Assessors.

23,046. (14) The number of parishes in England and Wales is 15,000, but many of these have been "united" for Income Tax purposes, in which case each group of "united" parishes is treated in all respects as if it were one parish. (Sec. 93.) The number of assessment areas has thus been reduced to about 6,700. Owing, however, to the fact that in a number of cases the same person is appointed as Assessor for more than one area, the total number of active individual Assessors in England and Wales is about 4,400. The number of Assessors in Scotland—other than Surveyors of Taxes—is 14.

Remuneration.

23,047. (15) Until the year 1891-2 Assessors were remunerated by a poundage of 1½d. in the £ on the amount of Income Tax collected. (Taxes Management Act, 1880, sec. 47 & First Schedule.) With few exceptions, persons appointed as Assessors of Income Tax in England are also appointed as Collectors of Income Tax and act also as Assessors and Collectors of Inhabited House Duty and Land Tax. Where the total remuneration in respect of all three taxes exceeded a sum which, in the opinion of the General Commissioners for the division, represented fair remuneration, those Commissioners were empowered to fix the amount of the remuneration. The maximum allowable was fixed at £1,000, exclusive of necessary office expenses. (Customs and Inland Revenue Act, 1885, sec. 25.)

23,048. (16) In the year 1891-2 poundage was abolished, and in place of it a fixed remuneration equal to the poundage paid in 1890-1 in respect of assessments under Schedules D and E was directed to be paid annually to Assessors, but the power of the General Commissioners to reduce the remuneration (as explained in paragraph 15) was retained. As regards assessments under Schedules A and B, the remuneration in years of new assessments was to be a fixed amount of not less than the poundage paid in 1888-9. (Sec. 88. Taxes (Regulation of Remuneration) Act, 1891, secs. 1, 3 & 5.)

23,049. (17) Since 1906 the Board of Inland Revenue have been empowered, with the approval of the Treasury, to increase the amount of remuneration, and under this provision the remuneration of a large number of Assessors has, from time to time, been revised. (Sec. 78.)

23,050. (18) The remuneration has been increased by a war bonus to meet the increased cost of living, clerical expenses, &c.

23,051. (19) Excluding war bonus, the aggregate annual amount of remuneration to Assessors is about £41,000. A statement showing the classification of the combined aggregate remuneration payable to Assessors and Collectors forms part of the evidence on the subject of Collection of Taxes.

23,052. (20) In the event of a change in any area of assessment the General Commissioners for the division may apportion the remuneration as they think fit. (Sec. 78.)

STATUTORY FUNCTIONS OF ASSESSORS OF TAXES.

23,053. (21) The statutory duties of an Assessor may be divided into two classes, namely:—

(a) *clerical and general*, consisting of the preparation and issue of forms of return under Schedules A and B in each re-assessment year and under Schedules D and E every year; the entry of the particulars contained in the returns under Schedules A, B and E into the assessment books; the delivery of notices of assessment; and the fixing of church door notices relating to appeals, &c.,

(b) *technical*, consisting of the making of the assessments under Schedules A and B in each re-assessment year and under Schedule E every year; the preparation of a list of persons liable to assessment under Schedule D; and the making of estimates of liability under Schedule D in cases where taxpayers fail to make returns.

23,054. (22) In greater detail the nature of the Assessor's statutory duties under the various Schedules of charge and the stages of the procedure at which they occur are as follows:—

SCHEDULES A AND B, ENGLAND AND WALES.

Issue of forms of return.

23,055. (23) A copy of the Poor Rate for his parish is supplied to the Assessor by the Surveyor, together with a supply of forms of return and of public notices. (Sec. 114.) The Assessor proceeds to issue the appropriate forms of return to the occupiers of lands and dwelling houses and to owners of tithe rent charge, manorial rights, &c., requiring such persons to make a return of the rent or annual value of the property specified. (Sec. 99.)

Posting up of church door notices.

23,056. (24) The Assessor also affixes to the church doors the public general notices requiring every person in the parish who is liable under the Act to make a return to forward the return to him within the time (not being more than 21 days) limited by the notice. (Sec. 98.)

Making assessments.

23,057. (25) On receipt of the returns from taxpayers the Assessor is required to examine them, to enter the necessary particulars into the books of assessment, and to make the assessments. (Sec. 110.)

23,058. (26) On the appointed day the Assessor delivers to the General Commissioners the forms of return received by him, together with his certificate of assessment. The returns and assessments are then handed to the Surveyor of Taxes for examination and amendment where necessary. (Sec. 113.)

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Service of notices of assessment.

23,059. (27) Following the Surveyor's examination and revision, the assessments are signed and allowed by the Commissioners, and (where necessary) notices of assessment are prepared by the Clerk to Commissioners. (Secs. 130 and 134.) These notices were formerly delivered personally by the Assessors but are now usually sent by post. The Assessor is also required to affix church door notices giving general notice of the day appointed for hearing appeals. (Sec. 134 (3).)

23,060. (28) As already mentioned, the procedure indicated in paragraphs 23 to 27 is applicable only to years of re-assessment. During the intervening years the Surveyor is the Assessor.

SCHEDULES A AND B, SCOTLAND.

23,061. (29) The procedure in Scotland is the same as in England and Wales with the exception that in practice the valuations included in the valuation roll prepared under the Valuation of Lands (Scotland) Act of 1854 are usually adopted even though the Surveyor is not the Lands Valuation Assessor. Where the Surveyor of Taxes is also Lands Valuation Assessor, the valuations are in fact binding for Income Tax purposes. It is, therefore, necessary to issue forms of return only in the relatively small number of cases in which liability to tax exists in respect of property (e.g., casualties of superiority and duplications) not included in the valuation roll. The notices of assessment are sent through the post.

SCHEDULE D, GREAT BRITAIN.

23,062. (30) The Assessor affixes to the church doors the public general notices calling upon all persons chargeable under Schedule D to make returns. (Sec. 98.) He also sends through the post the appropriate forms of return to all persons whom he believes to be chargeable under that Schedule (Sec. 99), and to certain persons (e.g., employers) who are required to furnish particulars regarding other persons (e.g., employees). (Secs. 101, 103-106.)

23,063. (31) He is required (Sec. 106 (1)) to make out and deliver to the Surveyor a list containing the names—

- (a) of all persons served with notices;
- (b) of all persons chargeable within the area for which he acts, distinguishing those who have made returns and those who have elected to be assessed by the Special Commissioners;
- (c) of all persons returned as lodgers;
- (d) of all employees returned by employers.

23,064. (32) He is required, under a penalty for neglect, to take oath before the Commissioners that the general notices have been duly affixed, that all return forms have been duly served, and that the list delivered by him to the Surveyor of Taxes contains the names of all persons on whom notices should be served. (Sec. 108 (2).)

23,065. (33) In the case of all persons who have not made a return the Assessor is required to make an estimate of the amounts on which such persons should be charged. (Sec. 112.)

23,066. (34) On or before the appointed day, the Assessor delivers to the General Commissioners the forms of return received by him. Subsequently he forwards to them any returns received by him after the appointed day. (Sec. 113 (1).)

23,067. (35) At a later stage, when the assessments have been made by the Additional Commissioners, the Assessor may be called upon to serve notices of assessments (prepared by the Clerk to Commissioners) upon the persons assessed, but, as a rule, these notices are sent through the post. He is also required to affix to the church doors the public general notices relating to the holding of meetings for the purpose of hearing appeals. (Sec. 134 (3).)

SCHEDULE E, GREAT BRITAIN.

23,068. (36) As in the case of Schedule D, the Assessor affixes the church door notices and issues the appropriate forms of return to the persons chargeable and to companies and other bodies who are required to make a return of salaries, fees, &c., paid to their employees. (Secs. 98 and 99.)

23,069. (37) On receipt of the returns from the taxpayers concerned, he is required to examine them, to enter the necessary particulars in the books of assessment, and to make the assessments.

23,070. (38) On the appointed day he delivers the returns, together with his certificate of assessment, to the General Commissioners, by whom they are handed to the Surveyor of Taxes for examination and revision. (Sec. 113.)

23,071. (39) Later, when the assessments have been signed and allowed by the General Commissioners, the Assessor may be required to serve the individual notices of assessment upon the persons assessed, and, as under Schedule D, he affixes the church door notices giving public notice of appeal meetings. In practice, the individual notices are sent through the post.

THE PRESENT POSITION IN ACTUAL PRACTICE.

23,072. (40) The position as it actually exists today has been fully explained by Sir Thomas Collins in his Memorandum on the functions of Surveyors of Taxes—(see Appendix No. 4, paragraphs 16-43).

23,073. (41) It will be seen from that memorandum that although the Assessor continues to carry out what are described in paragraph 21 above as his clerical and general duties—chiefly the issue and gathering-in of the forms of return—he has ceased in effect to carry out the greater part of his technical duties, i.e., the making of the assessments under Schedules A, B and E. The explanation, as pointed out by Sir Thomas Collins, is that the work of making the assessments in question has become a highly technical matter requiring the expert knowledge of a whole-time official devoted to Income Tax administration.

23,074. (42) In order that the position may be fully understood one further point must be explained. The duty of the Assessor as regards Schedules A, B and E is to make the assessments, that is to say, he is to insert in the assessment book the gross amount at which the taxpayer is to be charged in respect of his profits from a particular property or from salary, fees, &c. It is no part of his duty to make the various allowances prescribed by the Act in respect, for example, of repairs to property, abatement, Life Assurance, wife and children. In law these allowances are to be made by the General Commissioners (Secs. 16 and 27 (3)), but in practice they are made by the Surveyor of Taxes, who, after examination of the taxpayer's claim, enters in the various columns provided the amounts of the several allowances found to be due.

23,075. (43) In the evidence regarding Clerks to Commissioners it has been explained how a procedure devised a hundred years ago to meet the conditions of a different age now clogs the machine and renders administration wasteful and unbusinesslike. In substance these observations apply as regards many of the functions of the Assessors. Whilst the whole responsibility for the accuracy of the assessments and allowances falls in practice upon the Surveyor of Taxes, the time consumed by the procedure connected with the mainly nominal performance by the Assessor of the duties allotted to him by law results in a serious reduction of the time available for the application to the returns and statements of total income of the Surveyor's technical skill and experience.

SUGGESTED MODIFICATIONS OF THE EXISTING SYSTEM.

23,076. (44) In the opinion of the Board of Inland Revenue the convenience of the taxpayer and the interests of efficiency and economy would both be served if the bulk of the duties now entrusted by law to the Assessor were transferred to the Surveyor. The duties so to be transferred should include:—

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(a) the issue of forms of return under Schedules A, B, D and E;

(b) the making of assessments under Schedules A, B and E.

23,077. (45) The duties which, if this proposal were adopted, would still attach to the office of Assessor would be—

(a) affixing the public general notice calling upon taxpayers to make returns or giving particulars of appeal meetings (assuming that this method of giving notice is retained); and serving particular return forms and notices in occasional cases in which service by post is impracticable;

(b) compiling and delivering annually to the Surveyor a list of all persons in the Assessor's area chargeable under Schedule D;

(c) affording the Surveyor information as to removals, deaths, retirements and other similar changes in the Assessor's area, and generally acting as an informant and adviser with regard to local conditions.

23,078. (46) In the evidence on the subject of Collectors of Taxes a suggestion has been put forward that the appointment of Collectors should be made in all cases by the Board of Inland Revenue. As is explained in paragraph 15 above, the persons appointed as Assessors in England are with rare exceptions also appointed as Collectors. The Board, therefore, suggest that the appointment of Assessors should likewise be made by them, and that the law should be amended accordingly. It would be necessary to revise the remuneration of Assessors to correspond with the new conditions and the law would require to be amended accordingly.

23,079. (47) At present the office of Assessor is compulsory. This is an anachronism and in practice compulsion is never resorted to. It is suggested that the power of compulsion should be abolished.

23,080. (48) As has been explained in the evidence on the subject of Clerks to Commissioners, the adoption of the foregoing proposals, together with the transfer to the Surveyor of Taxes of certain functions now entrusted to the Clerk to the Commissioners, would result in the whole of the clerical and routine work in connection with the assessment procedure, as well as the whole of the technical work in connection with the making of assessments under Schedules A, B, D and E (with the exception of the compilation of the list of persons chargeable under Schedule D—see paragraph 45 (b)), being carried out by the Surveyor as the pivotal official.

23,081. (49) The advantages which would result from such a unified procedure have already been enumerated in the evidence regarding Clerks to Commissioners. The simplification of administration would result in a further gain to the taxpaying public, inasmuch as, instead of receiving forms of return from one official (the Assessor), having to answer the enquiries of a second official (the Surveyor), and receiving notices of assessment from a third official (the Clerk to Commissioners), the taxpayer would be required, in regard to these matters, to deal solely with a single official (the Surveyor) except in the very small number of cases in which a personal appeal to the General Commissioners proved to be necessary. In addition, as explained in the official evidence presented by Mr. Harrison, this reform would facilitate improvements in the character of the general return form which the present system precludes. An instance of this is to be found in the simplified form of return issued by the Surveyor to weekly wage-earners.

23,082. (50) On the question of the preservation of the secrecy of the returns made by taxpayers, it is not at all uncommon for taxpayers who are reluctant to disclose to the local Assessor particulars of their profits or of their total income, to send their returns direct to the Surveyor. Bearing in mind that it is no part of the Assessor's duty to make allowances which depend upon the amount of the total income, it is highly desirable that in all cases returns of profits and statements of total income should be sent

direct by taxpayers to Government offices where full precautions can be observed with a view to ensuring secrecy.

23,083. (51) Should the suggested transfer of duties be made the question of compensation may arise in some cases and would presumably be left to be dealt with by the Treasury.

23,084. (52) As in the case of Clerks to Commissioners, any change in the position of Assessors in regard to Income Tax would involve, as a corollary, a corresponding change in regard to Inhabited House Duty. As the Assessor of Income Tax is frequently the Assessor of Land Tax, the position of the Assessor of Land Tax will require consideration: the point is merely mentioned as it perhaps does not fall within the terms of reference of the Royal Commission.

NO. IV.—THE POSITION IN THE SCHEME OF INCOME TAX ADMINISTRATION OF THE COLLECTORS OF TAXES.

INTRODUCTION.

23,085. (1) A Collector of Taxes is appointed to act for each parish or collection area in the United Kingdom. In England and Wales about four-fifths of the Collectors are appointed by the General Commissioners for the various divisions. The remaining one-fifth—including the Collectors for many of the most important cities and towns in the country—are appointed by the Board of Inland Revenue. In Scotland all the Collectors are appointed by the Treasury. In Ireland they are appointed by the Special Commissioners.

23,086. (2) The main purpose of this evidence is:—

- (a) to explain the method of appointment of Collectors of Taxes;
- (b) to explain the functions of Collectors of Taxes, and the system of accounting and control actually adopted;
- (c) to suggest for the consideration of the Royal Commission certain modifications in the method of appointment, control and recruitment of Collectors which, in the judgment of the Board of Inland Revenue, experience has shown to be desirable in the public interest.

23,087. (3) The references throughout this evidence are to the Income Tax Act of 1918, except where otherwise stated.

METHOD OF APPOINTMENT, NUMBER, AND REMUNERATION OF COLLECTORS OF TAXES.

Appointment.—Historical note.

23,088. (4) Prior to 1879, Collectors of Taxes for each parish or assessment area in England and Wales were nominated by the Assessors for the respective parishes. The General Commissioners, however, were not bound to appoint the persons so nominated, but could, if they thought fit, appoint other suitable persons.

23,089. (5) The office of Collector was compulsory, and as a result many persons were compelled to serve the office against their inclination. The twenty-third report of the Board of Inland Revenue for the year ended 31st March, 1890 (page 47), records that "complaints were constantly made in consequence of the appointment of persons whose social position or business engagements rendered them unwilling to perform the duties. In some instances the persons appointed preferred to be fined rather than act, and in others they paid deputies (for whose acts or defaults they were responsible) to collect the taxes for them; and even when neither of these courses was adopted a considerable amount of discontent was frequently caused by the appointment of persons to whom the office was more or less distasteful."

23,090. (6) By the Customs and Inland Revenue Act of 1879 the nomination of Collectors by the Assessors was abolished and the persons nominated

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to the office of Collector by the General Commissioners were given the right of refusal. In these circumstances the District Commissioners being no longer in a position to compel the services of Collectors, it became necessary to provide against any failure in the appointment of suitable persons. The Act of 1879 accordingly directed that, in case Collectors for any parish should not be appointed on or before the 31st May in any year, the power of appointing Collectors for such parish for that year and every subsequent year should vest in the Board of Inland Revenue.

Present position.

23,001. (7) The position as it exists to-day is shown in the following paragraphs 8 to 18.

Appointment of General Commissioners.

23,002. (8) The General Commissioners in England and Wales are required annually, during the month of April, to nominate for each parish in the division one or more "able and sufficient" inhabitants to act as Collectors of Income Tax. The persons nominated may, within fourteen days after receipt of the notice of nomination, intimate their refusal to accept office. In the case of any parish in which there is no resident who is willing to accept the office, the Commissioners may nominate a resident in a neighbouring parish. On the expiration of the fourteen days allowed for notice of refusal of office the Commissioners proceed to appoint for each parish Collectors from amongst such of the persons nominated as have not intimated their intention to refuse office. (Sec. 80.)

Appointment by Board of Inland Revenue.

23,003. (9) If, in the case of any parish, the General Commissioners fail to appoint a Collector on or before the 31st May, the power to appoint a Collector for the parish in question, both for that year and for all subsequent years, becomes vested in the Board of Inland Revenue. (Sec. 84 (1).) So far, this has actually happened in the case of about 1,100 parishes or unions of parishes.

23,004. (10) Further, in the case of parishes in which the power of appointment remains with the General Commissioners, the Board of Inland Revenue may, if they think fit, before the 31st July in any year of assessment, give notice to those Commissioners that they intend to appoint a Collector of quarterly assessments on weekly wage-earners. (Sec. 131 & Statutory Regulations.) In such circumstances the Collector appointed by the General Commissioners has no power to act in regard to quarterly assessments. The Board of Inland Revenue have so far exercised this right of appointment in the case of about 550 parishes.

23,005. (11) If a Collector appointed by the General Commissioners dies, and the vacancy is not filled by those Commissioners within 40 days from the date of death, the power of appointment for that year (but not for subsequent years) falls to the Board of Inland Revenue. (Sec. 84 (2).)

23,006. (12) In the case of any parish for which a Collector is to be appointed by the General Commissioners, the Board of Inland Revenue may, whenever they think fit, give notice to those Commissioners that they require security to be given. If, in these circumstances, there is neglect or delay in appointing a Collector who has given the required security, the power of appointment for that year (but not for subsequent years) may be exercised by the Board of Inland Revenue. If any person previously nominated or appointed Collector for that year by the General Commissioners fails to give security within the time limited in the Board's notice, his nomination or appointment lapses. (Secs. 81 & 84 (3).)

23,007. (13) Collectors appointed by the Board of Inland Revenue have precisely the same powers as Collectors appointed by the General Commissioners. (Sec. 84 (4).)

Collectors of Customs and Excise.

23,008. (14) When, in 1879, the power of appointment of Collectors in the circumstances explained in paragraph 6 was vested in the Board of Inland Revenue, that Board had under its control, as part of its Excise Branch, a body of permanent officials known as Collectors of Inland Revenue, who were stationed in the most important centres of population throughout the country.

23,009. (15) As the result of experiments in various parts of the country the Board, in 1883-4, adopted as their general policy the plan of appointing the Collectors of Inland Revenue as the Collectors of Income Tax under Schedules D and E for any parish for which the appointment became vested in the Board, and of appointing local Collectors to collect the Income Tax under Schedules A and B, the Inhabited House Duty and the Land Tax. Where this was done the Collector of Inland Revenue performed the duties of an ordinary Collector, except that all *personal* applications for payment of the tax were made by officers of Inland Revenue (Excise Officers), who for this purpose were known as "Associated Officers," being associated by name with the Collector of Inland Revenue in the warrant of appointment issued by the Board.

23,101. (16) In 1909 the management of duties of Excise was transferred from the Board of Inland Revenue to the Board of Customs, now known as the Board of Customs and Excise. The Collectors of Inland Revenue thus became Collectors of Customs and Excise, and ceased to be under the jurisdiction of the Board of Inland Revenue. Arrangements were nevertheless made, despite the administrative difficulties inseparable from dual control, by which the Collectors in question continued to act as Collectors of Income Tax under Schedules D and E. Since 1909, however, the Board have in a number of cases appointed local persons to collect the Income Tax under Schedules D and E as well as under Schedules A and B. In all, there are now about 72 local Collectors (acting for 102 parishes or collecting areas) who are appointed by the Board to collect the tax under Schedules A, B, D and E.

Scotland.

23,101. (17) In Scotland, over the greater part of the country, the Collectors of Customs and Excise collect the Income Tax under Schedules A and B as well as under Schedules D and E. In the remainder of the country the tax under Schedules A, B, D and E is collected by local Collectors. These latter Collectors, who are sometimes Distributors of Stamps, hold their appointments, which are unestablished, at the pleasure of the Treasury.

Ireland.

23,102. (18) In Ireland the Collectors of Customs and Excise collect the Income Tax under Schedules D and E throughout the country, the collection of the tax under Schedules A and B being entrusted to local Collectors. The latter Collectors are appointed annually by the Special Commissioners.

Security.—Historical note.

23,103. (19) Prior to 1854, parishes in England and Wales were in all cases answerable for the defaults of their Collectors. In that year, as is explained in the Twenty-third Report of the Board of Inland Revenue, the question of security was dealt with in the Act 17 and 18 Victoria, cap. 85, the preamble of which recited that, under the Acts relating to Land Tax, Income Tax and Inhabited House Duty, the respective Commissioners acting in the execution of the said Acts were authorized to require Collectors to give good and sufficient security, but that, owing to the omission of those Commissioners to require such security, or owing to the inability of the persons appointed Collectors to furnish the security, the inhabitants of many parishes had suffered by being subjected to re-assessment for monies collected and misappropriated by their Collectors. To provide a

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remedy for this state of things the Act of 1854 enacted that the Board of Inland Revenue might, whenever they should think fit, require that any Collector should give security to their satisfaction for the due payment of moneys to be collected by him, and in the event of a failure to furnish such security they were authorized to appoint such persons as they thought fit to be Collectors. Where either security was taken or the Collector was appointed by the Board of Inland Revenue, the parish was absolved from all responsibility.

23,104. (20) The Report goes on to state that, as the interests of the Revenue were not involved, the Board had not made it their practice to call for security unless requested to do so by the District Commissioners or by other persons having an interest in the relief of the parish from its liability to re-assessment, and that in the year 1879-80 advantage had been taken of the provisions in question in the case of only 470 parishes.

Security to General Commissioners.

23,105. (21) The present position is that the General Commissioners may require Collectors on their appointment to give security. Any two or more taxpayers in a parish may also, by notice in writing, require the Commissioners to take security, and after such request the Commissioners may not appoint a person who has not given security. The security may be by a joint and several bond with at least two sureties and may be in a sum equal to the whole of the tax charged in the collection. (Sec. 83.)

Security to Board of Inland Revenue.

23,106. (22) The Board of Inland Revenue also may (as explained in paragraph 12) require security to be given, in which event the security is to be either by bond to the Crown with approved sureties or by such security as the Board may determine. (Sec. 82 (1).)

Scotland.

23,107. (23) In Scotland security is to be given by the persons appointed by the Treasury before they act as Collectors. (Sec. 85 (4).)

Ireland.

23,108. (24) In Ireland security is in practice required to be given by the Collectors though there is no specific provision to that effect.

Generally.

23,109. (25) In practice the common form of giving security to the Crown is for the Collector to take out a policy of guarantee with a society approved by the Board, though personal bonds with sureties are not unusual.

23,110. (26) Where a Collector has been required to give security the duplicates of the assessments and the warrants to collect the tax shown therein are not to be delivered to him until he has given security. (Sec. 153 (3).)

Declaration of secrecy.

23,111. (27) Before a Collector begins to act in regard to Income Tax, Schedule D, he is required to make a declaration of secrecy. (Sec. 89.)

Revocation of appointment.

23,112. (28) The General Commissioners, or the Board of Inland Revenue respectively, may revoke the appointment of a Collector appointed by them whenever, through wilful neglect on his part, delay or failure has occurred in the collection, and may appoint a successor. (Sec. 178 (1), (2).)

Number of Collectors.

23,113. (29) As explained in the evidence on the subject of Assessors of Taxes, although there are 15,000 parishes in England and Wales the number of assessment and collection areas has been reduced to about 6,700. In certain cases the same person is appointed to act as Collector for more than one

collection area, and the total number of active individual Collectors in England, including Collectors of quarterly assessments, is now about 4,400. Of this number the General Commissioners appoint about 3,300 and the Board of Inland Revenue about 800. The remaining 300 are appointed for part of their area by the District Commissioners and for another part by the Board. The appointments made by the Board include those for many of the most important cities and towns in the country. A list of these places is given in Annex I. In Scotland the number of Collectors, including 40 who collect quarterly assessments only, but excluding Collectors of Customs and Excise, is 56. In Ireland the number of local Collectors, including Collectors of quarterly assessments, is 129.

Remuneration.

23,114. (30) Until the year 1891-2 the Collectors of Income Tax, like the Assessors, were in England remunerated by a poundage of 1½d. in the £ on the amount of Income Tax collected. (Taxes Management Act, 1880, Sec. 80.)

23,115. (31) With few exceptions the persons appointed Collectors in England and Wales are also appointed Assessors for the same area and usually also act as Assessors and Collectors of Inhabited House Duty and Land Tax. Where the total remuneration in respect of all three taxes exceeded a sum which, in the opinion of the General Commissioners for the division, represented fair remuneration, those Commissioners were empowered to fix the amount of the remuneration. The maximum allowable was fixed at £1,000, exclusive of necessary office expenses. (Customs and Inland Revenue Act, 1885, Sec. 25.)

23,116. (32) In the year 1891-2 poundage was abolished and it was enacted that a Collector should receive such remuneration, not being less than the amount paid for the year 1890-1, as the Board of Inland Revenue, with the approval of the Treasury, might direct, but the power of the General Commissioners (see paragraph 31) to reduce that amount, where they thought fit, was retained. (Secs. 87 and 88.)

23,117. (33) In the event of a change in any area of assessment the General Commissioners for the division may apportion the remuneration as they think fit. (Sec. 87.)

23,118. (34) In Scotland such salaries and allowances are granted to Collectors as the Treasury think fit. (Sec. 85 (3).)

23,119. (35) In Ireland Collectors receive such reasonable remuneration for their services as the Treasury may grant. (Sec. 198.)

23,120. (36) A war bonus has been granted to Collectors to meet the increased cost of living, clerical expenses, &c.

23,121. (37) Excluding war bonus, the aggregate remuneration payable to Collectors (other than Collectors of Customs and Excise and Associated Officers) in England and Wales for the year 1919-20 in respect of Income Tax is estimated at about £672,000. A statement is attached (Annex II.) showing the classification of the combined aggregate remuneration (namely £661,000) payable to Assessors and Collectors of Income Tax, Inhabited House Duty and Land Tax in England and Wales for 1919-20. Statements are also attached (Annexes III. and IV.) showing the remuneration payable to local Collectors in Scotland and Ireland respectively. The aggregate remuneration of Collectors in England and Wales appointed by the General Commissioners is about £400,000, while that of Collectors appointed by the Board of Inland Revenue is about £234,000.

23,122. (38) In considering these figures it should be remembered that the remuneration is a gross amount intended to cover not only the Collector's personal services but also the cost of:—

- (a) office accommodation;
- (b) travelling and incidental expenses;
- (c) any clerical assistance which it may be found necessary to engage.

In the great majority of cases the Collector uses a room in his residence as his office—it is only in a

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small minority of cases (about ten per cent.) that a separate office is required.

FUNCTIONS OF COLLECTORS OF TAXES.

Duplicates of assessment.

23,123. (38) As soon as the assessments have been allowed by the General Commissioners and the time for hearing appeals has expired, the Clerk to Commissioners prepares a duplicate of the assessments for delivery to the Collector. The duplicate is signed by two Commissioners, and, where they have appointed the Collector, contains a warrant authorizing him to proceed with the collection. Where the Collector has been appointed by the Board of Inland Revenue, the warrant is a separate document and is signed by two members of that Board. (Sec. 163 (1).)

23,124. (40) The duplicate shows the total amount of tax given thereby in charge for the Collector to collect, together with particulars of the assessments in such form as the Board of Inland Revenue may prescribe. (Sec. 215 and Sixth Schedule.)

23,125. (41) The main delivery of duplicates to the Collectors takes place yearly in November and December in preparation for the collection of tax due on the following 1st January.

First demand notes.

23,126. (42) On receipt of his duplicates, the Collector proceeds to prepare what are termed first demand notes, which are issued through the post to the taxpayers named in the duplicates. The demand note sets forth that the tax applied for is due on the 1st January and is payable on or before that date. (Secs. 158 (1) and 220 (8) (a).)

23,127. (43) The preparation of the demand notes is largely a matter of simple transcription of the particulars appearing in the duplicates, but in the case of Income Tax, Schedule A, it is customary for the Collector to group together on the same demand note particulars of properties belonging to the same owner.

Issue of receipts.

23,128. (44) On receiving payment of tax the Collector is bound to give a receipt on the prescribed form and to enter particulars of the payment in his duplicate. He is also required to enter the amount in an official cash book, where the date and importance of the collection warrant the use of this book. (Secs. 128 (3) and 172 (3).)

Second demand notes.

23,129. (45) Where the tax charged has not been paid by the 21st January, or within twenty-one days after the issue of the first demand note, whichever date is the later, the Collector proceeds to call personally upon each taxpayer in arrears. Where the duty is not then paid or where an assurance of early payment cannot be obtained, the Collector leaves at the taxpayer's address a second demand note. This demand note refers to the previous application and requests that the tax overdue may be remitted within ten days.

Final demand notes.

23,130. (46) The next formal stage in the Collector's proceedings is not reached before the 29th February, when, if the Collector is satisfied that the tax will not be paid except under compulsion, he is authorized to serve a third and final demand which gives notice that, unless the tax due is paid within seven days, he will take proceedings for its recovery by distraint.

Distraint.

23,131. (47) Where it finally proves necessary to resort, in England and Wales or Ireland, to recovery by distraint the distress is levied:—

- (1) for arrears in respect of lands and houses assessed under Schedule A—upon goods found upon the property charged;

- (2) for other arrears under Schedule A, and for arrears assessed under Schedules B, D and E—upon the goods of the person assessed.

The Collector must be present at and direct the proceedings at any levy of distress. (Sec. 162.)

Second instalment collection.

23,132. (48) The procedure in regard to the collection of the instalment of tax due on 1st July is on similar lines to those above stated for the January collection. (Sec. 162 (3).)

Miscellaneous work of Collector.

23,133. (49) During the course of each collection, the Collectors in England and Ireland are required to verify all claims to allowances on account of properties being unoccupied during the year by obtaining certificates in the prescribed form from the owners or agents concerned or other satisfactory evidence. Where a tenant has left without paying his rent, and the owner is unable to recover it, the Collector obtains from the owner a certificate of the rent lost, which certificate he then transmits to the Surveyor in order that the necessary adjustment may be made. (In Scotland, the adjustments in respect of empty properties and lost rents are dealt with by the Surveyor, not by the Collector.)

23,134. (50) The Collector is expected to deal, as far as practicable, with simple enquiries addressed to him by taxpayers. Where a taxpayer wishes to claim an allowance (e.g., in respect of children, wife, or Life Assurance), previously omitted to be claimed by him, the Collector furnishes him with the appropriate form and assists him with any necessary explanation, the completed form being then forwarded to the Surveyor. Where, however, the taxpayer objects on some specific ground, e.g., overcharge, to the amount of tax charged upon him, the Collector refers him to the Surveyor. In all cases in which an allowance or reduction is found to be due (except those relating to empty properties which the Collector is authorized to make on his own responsibility), the Surveyor issues an order to the Collector showing the amount to be allowed and thereupon, but not until then, the Collector issues an amended demand note to the taxpayer. (This procedure is slightly varied in the City of London where the order, though prepared by the Surveyor, is actually issued by the Clerk to Commissioners.)

Certificates of removal.

23,135. (51) Another part of the Collector's duties consists in tracing persons who have removed and in sending the necessary notifications to the Surveyor. (Sec. 168.) Conversely, in addition to collecting the tax charged in the duplicates of assessment for his own parish, a Collector is required to collect any tax left unpaid by persons who are assessed in other parishes but who reside in or have removed to his parish. When payment is obtained the amount is remitted by the receiving Collector to the Collector for the parish in which the arrear was assessed.

Collectors of Customs and Excise.

23,136. (52) In England, where the Collector of Customs and Excise acts as Collector of the tax under Schedules D and E, and throughout Ireland, the second demand notes in respect of the tax under those Schedules are sent through the post before steps are taken to have personal application made by "Associated Officers." The latter officers also carry out any necessary distraints.

Scotland.

23,137. (53) In Scotland the Clerk to Commissioners issues in the autumn a notice of assessment. This notice is so drafted as to serve also as a first demand note in respect of the tax due on 1st January where no appeal is made against the assessment. In these circumstances, the first application actually issued by the Collector is practically a second demand and

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is not issued until after 21st January. So far as Income Tax due on 1st July is concerned, however, first demand notes are issued in the ordinary course by Collectors other than Collectors of Customs and Excise. In the case of areas for which the latter act, the notices are issued by the Surveyor. A further variation in Scotland relates to the distraint procedure. Any distress is levied not by the Collector, but by the Sheriff Officer on a warrant obtained by the Collector from the Sheriff or General Commissioners.

Assessments on weekly wage-earners.

23,138. (54) In the case of tax assessed quarterly on the wages of weekly wage-earners a like procedure, with some necessary modifications, is adopted. The quarterly notice of assessment issued by the Surveyor serves also as a first demand note. In certain cases the Collector supplies the taxpayer with a special card, to which to affix Income Tax stamps if the taxpayer wishes to adopt that method of payment. Where payment cannot be obtained, the liability is enforced usually by summary proceedings in Court, these proceedings being instituted by the Collector.

ACCOUNTING PROCEDURE, CONTROL, &c.

Banking arrangements.

23,139. (55) The Board of Inland Revenue are empowered to prescribe regulations to be observed by all Collectors as regards the method of remittance to the Exchequer of the moneys collected by them. (Sec. 172 (1) (c).)

23,140. (56) Briefly, the plan adopted is to open with a local bank an account in the name of the Board of Inland Revenue, into which the Collector is required to pay the proceeds of his collection daily or at frequent intervals and on which he is not empowered to draw. These lodgments accumulate at the bank during the period of a week (usually ending on a Wednesday). On the Wednesday following the end of each "week of accumulation" the head office of the bank remits the sum so accumulated at its various branches to the Bank of England on behalf of the Exchequer. The bank and the Collector each report independently to the Surveyor the amount lodged during the week of accumulation, and the Surveyor, after settlement of any discrepancy between the Collector's figures and the bank's figures, reports to the Accountant General at Somerset House the aggregate amount of the lodgments made by all the Collectors in his district for the particular week. No money passes at any time through the hands of the Surveyor or his staff.

Ledger accounts.

23,141. (57.) A ledger account is kept by the Surveyor against each Collector in his district. In this account the Collector is debited with the total amount of tax charged in the duplicates delivered to him, and is credited week by week with the amounts lodged in the official banking account.

Delivery of schedules of arrears and deficiencies.

23,142. (58) The Board of Inland Revenue are empowered to appoint a day on or before which the Collector shall pay over all tax collected by him, and shall deliver to the Surveyor schedules of arrears, verified on oath, showing the name of every person in the parish from whom he has not received the tax charged, together with the amount in arrear. (Sec. 172 (1) (a), (b).)

23,143. (59) The Collector is also required (Sec. 175) to deliver to the General Commissioners schedules of deficiencies containing particulars of:—

- (1) sums discharged as not payable;
- (2) sums charged upon and remaining unpaid by every defaulter with the particular reason for returning such sum in default.

23,144. (60) In practice, the Board of Inland Revenue prescribe dates (which vary according to the size of the collection) on or before which each local Collector is required to deliver schedules of deficiencies, relating respectively to the tax due on 1st January and 1st July. For the January collection the dates fixed are February 28th, March 31st and April 30th. For the July collection the corresponding dates are August 31st, September 30th and October 31st. The preparation of schedules of arrears (which are applicable where an interim balancing of the Collector's accounts is desirable) in addition to schedules of deficiencies (which are delivered on the date for closing the Collector's accounts) is not required except in cases where, owing to exceptional circumstances, such a course is necessary in order to safeguard the Revenue.

23,145. (61) The sums referred to as discharged and not payable are the numerous allowances made during the course of the collection in respect of empty properties, reductions in rent, overcharges, cessations of businesses and other causes. With regard to the sums due but not paid to the Collector, each of these items is investigated by the Surveyor and steps are taken to ensure their prompt collection or to establish the fact that they are finally irrecoverable.

Supervision by Surveyor.

23,146. (62) It is the duty of the Surveyor during the course of the collection to satisfy himself that each Collector in his district is carrying out his duties satisfactorily. (Sec. 174.) Where he is dissatisfied with the conduct of any Collector, whether appointed by the General Commissioners or by the Board of Inland Revenue, he is empowered to report to the General Commissioners. The latter are thereupon required to call the Collector before them, to examine him on oath as to the state of his accounts and collection, and to make an order for payment of any sum found to be due. (Sec. 173.)

Work of collection now practically continuous throughout the year.

23,147. (63) Prior to 1915-16, Income Tax was collected in one sum on the 1st January in the year of assessment, and in consequence the great bulk of the Collector's work had to be compressed into a period varying from two months to five months, according to the size of his collection. Although, therefore, the remuneration paid to the Collectors in the larger cities and towns was frequently equal to that paid to "whole-time" officials of a similar grade, there was a great difference between the two classes inasmuch as the Collector's work was not continuous throughout the year—a period of comparatively quiet months following a period of intense activity during which it was usually only possible for the Collector to keep pace with the demands upon him by working overtime and engaging temporary assistance.

23,148. (64) This state of affairs has been radically altered by the introduction of the method of collection of a large part of the tax by instalments. The whole of the tax under Schedules A, B, and E, and a considerable part of the tax under Schedule D is now collected in two half-yearly instalments on 1st January and 1st July, whilst in the case of weekly wage-earners the tax on their wages is collected quarterly. Of the total number of charges to tax, not less than 95 per cent.* are now collectible either in two instalments or in four instalments, with the result that in the case of a collection the remuneration for which amounts to £900 per annum or upwards, the work normally requires the continuous services of a "whole-time" official.

* The proportion of the aggregate fee which is payable in instalments is, however, much smaller.

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Collection of special assessments and letter assessments.

23,149. (65) Before passing on to the recommendations of the Board of Inland Revenue, it may be useful to explain the procedure with regard to the collection of Income Tax, Schedule D, assessed in Great Britain by the Special Commissioners. For the year 1918-19 the number of such assessments was 12,662, and the amount of tax £14,751,306.

23,150. (66) Notices of assessment (which also serve as first demand notes where no appeal is lodged) are issued by the Special Commissioners directing the taxpayer to remit the tax due on the 1st January to the Accountant General at Somerset House (or to the Comptroller, Edinburgh, in the case of Scotch assessments). As payments are received at the Head Office, notifications are sent to the Surveyors concerned, who record them in their ledgers. If the tax remains unpaid on 21st January, the Surveyor then sends the taxpayer a reminder. Towards the middle of February, if payment is still outstanding, the Surveyor issues, on behalf of the Special Commissioners, a special letter warning the taxpayer that unless payment is made by a given date the case will be put into the hands of the local Collector for collection—by distraint if necessary. If payment is still delayed, the Special Commissioners issue a warrant addressed to the local Collector or "Associated Officer," as the case may require. The Surveyor informs the taxpayer that the warrant has been received, and if payment is not received within four days the warrant is handed to the Collector with instructions to serve a final notice prior to taking steps for recovery. At the same time, the taxpayer is informed by the Surveyor that this has been done and that payment can now be made only to the local Collector—not to the Head Office. In practice, the proportion of cases in which it is found necessary to issue warrants for collection locally is very small, whilst the number of cases in which it is necessary actually to resort to distraint is negligible. A similar course is followed in connection with the instalment due on 1st July.

23,151. (67) It will be seen from the foregoing that the cost of collection of special assessments is very largely reduced to the cost of the clerical work involved in preparing and issuing the various forms of application, recording the payments received, and preparing and issuing official receipts.

23,152. (68) The tax assessed by the General Commissioners under a "number or letter" is also payable direct to the Accountant General at Somerset House, the procedure followed being analogous to that in the case of special assessments. Less than 1,000 cases are so assessed.

23,153. (69) It may also be mentioned here that the local Collectors are not concerned in the collection either of Super-tax or Excess Profits Duty, which are paid direct to the Accountant General of Inland Revenue.

23,154. (70) Before leaving the question of the functions and method of control of Collectors, I desire to state that I have had an opportunity of reading the evidence-in-chief submitted to the Royal Commission by Mr. Stanley Brown on behalf of the National Association of Assessors and Collectors of Government Taxes, and that there are several statements in that evidence with which I am not in agreement, e.g., paragraphs 37 and 48.

*SUGGESTED MODIFICATIONS OF THE EXISTING SYSTEM.**Summary of present position.*

23,155. (71) The present position may be summarised as follows:—In England and Wales the collection of Income Tax assessed by the General Commissioners is organised primarily on a parochial basis, and is in the hands of a body of about 4,400 local Collectors receiving an aggregate remuneration, excluding war bonus, of £572,000. Although the whole of these Collectors are to all intents and purposes in the employment of the State and receive their remuneration directly from the Exchequer,

they do not form part of the civil service, and the appointment of about four-fifths of their number is vested in some 650 local bodies of Commissioners. In other words, the appointment to posts involving a direct annual charge upon the State of over £400,000 is carried out by local bodies on a basis which, however, appropriate to the past conditions in which the basis was prescribed by law, has now ceased to accord with modern principles of appointment to Government service. Further, whilst in law the Local Commissioners act as the disciplinary authority in regard to all Collectors, the effective control depends in practice almost wholly upon the supervision exercised over the Collectors by the Surveyors of Taxes acting under the instructions of the Board of Inland Revenue.

Recommendations.

23,156. (72) In these circumstances, the Board of Inland Revenue suggest that, owing largely to the rapid developments in the Income Tax during recent years, the time has come when it is necessary, in the public interest, that the organisation of the collection of Income Tax should be definitely removed from the existing parochial basis to a national basis, involving the transfer to the State of the power of appointment and control of all persons employed in the collection of the tax. In short, the Board suggest that the State should be given full control over the expenditure which it is required to defray.

23,157. (73) In greater detail the Board's suggestions may be stated thus:—

- (1) that all Collectors of Taxes should be appointed directly by, and be under the sole control of, the Board of Inland Revenue;
- (2) that, as far as practicable, Collectors of Taxes should be "whole-time" officials forming part of the regular civil service and recruited by civil service methods;
- (3) that, as far as practicable, the same principles should govern the employment of clerks to Collectors of Taxes.

23,158. (74) In the opinion of the Board, the adoption of these recommendations is necessary in the interests both of efficiency and economy. At present there are more than 1,500 Collectors, whose total emoluments, both as Assessor and Collector, do not exceed £285 per annum, and a further 770, whose total emoluments do not exceed £203 per annum, in each case exclusive of war bonus. That is to say, the pay of more than one-half of the existing body of Collectors is less than £1 a week (exclusive of war bonus). In these circumstances it is inevitable that in a large number of cases difficulty is experienced in obtaining the services of satisfactory Collectors, whilst the position is rendered worse by the frequency with which changes occur. Under a scheme by which the whole of the Collectors throughout the country were appointed by a central authority it would be possible to amalgamate into one collecting area, irrespective of the present boundaries of the divisions in which separate bodies of Local Commissioners have jurisdiction, such parishes as were adjacent to one another and could properly be worked together. The increased remuneration which would attach to the larger collection would materially assist in securing a more efficient type of Collector. By this means the number of Collectors would gradually be substantially diminished whilst the standard of efficiency would be raised.

23,159. (75) The suggested scheme would still further promote efficiency by rendering it possible to give all new entrants a systematic training in their duties and instruction in the elements of Income Tax law, and to recognise merit and experience by means of promotion from less important to more important collections.

23,160. (76) It has been shown that a considerable proportion of every Collector's duties consists of clerical work of a simple character, and the allocation of this work to clerks of a suitable grade would result in economy in the larger collectingships. A further considerable economy might be effected in the larger cities and towns, where several Collectors

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are at present employed, if the work of collection were centralised and conducted from one office by a single staff.

Impending withdrawal of the services of Collectors of Customs and Excise.

23,161. (77) It is necessary in this connection to consider the arrangements under which (as explained in paragraph 16) the Collectors of Customs and Excise have hitherto continued to collect the Income Tax under Schedules D and E in respect of the great majority of the parishes for which Collectors are appointed by the Board of Inland Revenue. The number of charges to tax (including second instalment charges) in the United Kingdom dealt with by Collectors of Customs and Excise for 1918-19 is estimated at about 2,000,000, and the amount of tax at about £76,000,000.

The estimated remuneration for Income Tax work performed by the Customs and Excise Department is about £60,000, of which £40,000 is borne on the Customs and Excise Vote and £20,000 on the Inland Revenue Vote. The latter figure includes a sum of £6,000 paid to the "Associated Officers." The number of "Associated Officers" concerned in the collection of Income Tax is about 800, the periods of time devoted by them to Income Tax work varying from less than one week to several weeks according to the number of arrears falling to be collected in their respective areas.

23,162. (78) The collection of Income Tax by officials of the Customs and Excise Department has during recent years become inconvenient both to that Department and to the Inland Revenue Department, but it was not practicable to disturb the arrangement in the stress of war conditions. The present position is conveniently summarised in a question and answer in the House of Commons on 18th February, 1919, when Sir Kingsley Wood asked the Chancellor of the Exchequer "whether in view of the transfer of the Excise Department to the Board of Customs and Excise he will cease the collection of that part of the Income Tax, which has been for some time and still is collected by the Excise officers, to be transferred to officers appointed by or under the control of the Board of Inland Revenue, who are responsible for the assessment and collection of these duties." To this Mr. Baldwin (Financial Secretary to the Treasury) replied that "the suggestion which my Hon. Friend makes has, in principle, been accepted by the respective Departments concerned. In view, however, of the considerable re-arrangements which will be involved it will not be practicable to effect the change at the present moment."

23,163. (79) So far, no active steps have been taken to give effect to the proposed change. The re-arrangements involved may be affected by the recommendations of the Royal Commission on the question of collection arrangements generally, and it has therefore been deemed desirable to continue the present system until those recommendations have been made.

LIABILITY OF PARISHES TO RE-ASSESSMENT.

23,164. (80) If the suggestion that the appointment of all Collectors should be made by the Board of Inland Revenue be adopted, the necessity for the existing provision in the Income Tax Act of 1915, (sec. 181), under which, in certain circumstances, the parish in England is liable to re-assessment by reason of the default of a locally appointed Collector, will disappear. The procedure prescribed by law is to apportion the amount of the default amongst the taxpayers in the particular parish concerned in proportion to the amount of the assessments made upon them for the year in respect of which the default occurred.

23,165. (81) The theory of making each parish liable for the defaults of its Collector has long been

obsolete. It will be generally agreed that the institution of a properly safeguarded system of collection is a matter of national—not parochial—concern, and that any loss arising from the default of a Collector should be borne by the general body of taxpayers and not by a particular small section of them who happen to be within the area for which the defaulting Collector is appointed. In point of fact, no re-assessment has actually been made for many years past. In any event, therefore, it is suggested that the provisions which saddle taxpayers in particular parishes with responsibility for the defaults of the Collectors for those parishes should be repealed.

COLLECTORS' SECURITIES.

23,166. (82) There remains the question of Collector's securities. As explained in paragraph 12, in the case of Collectors appointed by the General Commissioners the Board may require security to be given to the Crown, and this is done in the case of about 1,700 Collectors. In the remaining cases the General Commissioners may themselves require Collectors appointed by them to give security, and are obliged to do so if so requested by two or more taxpayers in the parish. In practice, the General Commissioners take security from about 1,000 Collectors. As regards Collectors in England appointed by the Board, and Collectors in Scotland and Ireland, practically the whole of these, with the exception of Collectors of quarterly assessments, are required to give security to the Crown.

23,167. (83) In the year 1900 (prior to which practically all guarantee premiums were paid by the Collector personally) the rate of tax was raised from 8d. to 1s. in the £, and security was required in increased amounts. In these circumstances the Board agreed in a certain number of cases to bear the cost of the new premium or additional premium as the case might be. This plan was followed until 1914-15, when, owing to the war, the rate of tax was again very largely increased. On the ground that if a proportionate increase in security were to be insisted upon, the additional premiums (the whole cost of which would fall upon the Board) would greatly exceed any probable loss by defaults, it was decided not to require any such increase. An assurance was accordingly given to the General Commissioners that if any loss were incurred as a result of this restriction the liability of the parish to re-assessment would not be enforced. In conformity with this decision no security has been taken in respect of quarterly assessments.

23,168. (84) The average annual amount of guarantee premiums paid by Collectors who give security to the Crown has for many years much exceeded the average amount annually recovered from Guarantee Societies in respect of such Collectors.

23,169. (85) The whole subject of Collectors' securities now calls for reconsideration. Although at present only a small proportion of the total amount of guarantee premiums is paid directly by the Board, that fact that a Collector has to pay such a premium is an element to be considered in fixing his remuneration, and theoretically the full burden of the guarantee premiums falls ultimately upon the State. If it were decided to abolish the present system of Collectors' securities, and if it were practicable at the same time to reduce each Collector's remuneration by the amount of premium now paid by him personally, the State would stand to gain, since, judging by experience, not only would the average loss arising from Collectors' defaults be much less than the amounts saved in guarantee premiums, but there would also be an appreciable annual saving in respect of the cost of the clerical labour, stationery, etc., now necessary in connection with ensuring the due completion of nearly 2,600 securities. In view, however, of the fact that in many cases the premium is very small—frequently less than £1—it would in practice be difficult to make a specific deduction from the

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Collector's remuneration of the amount of the premium paid by him. Nevertheless, although the immediate saving would be limited to the amount of the premiums now paid by the Board direct (£232 in 1918), ultimately the fact that the liability of Collectors to pay a guarantee premium had been abolished would be fully reflected in the total remuneration as varied from time to time.

23,170. (86) It is both unsound in principle and wasteful in practice, for the State to insure its own employees, and in view of the Board of Inland Revenue, the system of requiring Collectors to give security should be abolished.

PERIOD OF APPOINTMENT.

23,171. (87) Under the existing law (sec. 80), a Collector's appointment, except in Scotland, is an annual one (see paragraphs 8, 17 and 18), and in substance a Collector appointed for a particular year of assessment could probably be held responsible for the collection of the whole of the tax assessed for that year. Formerly, when the tax was collectible in one sum, and when additional assessments could not be made except within four months after the end of the year of assessment, this was a convenient course. The changes made in recent years, however, under which additional assessments may be made within three years after the end of the year of assessment, and under which the tax is collectible in two half-yearly instalments, have given rise to difficulties.

23,172. (88) A Collector's appointment may be revoked whenever, through his wilful neglect, there occurs delay or failure in the collection of the tax (sec. 178.) It may happen, however, that although there is no wilful neglect, a particular Collector proves to be incompetent. Take the case of such a Collector who had been appointed for the year 1918-19 and whom it was desired to supersede on 5th April, 1919. The position is that one-half of the tax assessed for 1918-19 did not become payable until 1st July, 1919, whilst additional assessments for the year 1918-19 may continue to be made until 5th April, 1922. If in these circumstances the Collector refused to resign and it was not possible to show wilful neglect on his part, he might still claim to be entitled to carry out the collection of the tax which fell due on 1st July and of any tax for the year 1918-19 assessed by way of additional assessment. In practice, the difficulty would be overcome by appointing an additional Collector for 1918-19 and entrusting to him the duplicates of assessment for collection.

23,173. (89) If the power of appointment of all Collectors were transferred to the Board of Inland Revenue as part of a scheme having as its ultimate object the establishment of Collectors of Taxes as a branch of the civil service, this particular difficulty would be avoided, since the Collector would hold his appointment at the pleasure of the Crown, as is at present the case with regard to Collectors of quarterly assessments who are appointed by the Board of Inland Revenue.

TRANSITIONAL STAGES.

23,174. (90) If the Royal Commission should decide to recommend changes in the method of appointment, control and recruitment of Collectors involving ultimately the transfer of the duties of collection to a body of civil servants, the question would arise as to the course to be followed with regard to the existing body of Collectors. In the case of Collectors who are in receipt of a salary equal to that payable on a whole-time scale and who can be certified by the Board of Inland Revenue as fully competent to perform their duties, it is suggested that the accept-

ance of establishment as permanent civil servants should be optional.

A number of such Collectors hold other appointments (e.g., as Assistant Overseers) or carry on business as auctioneers, estate agents, etc., and if they desired to acquire the status of civil servants it would be a condition that they should relinquish their outside appointments. In many cases it is extremely probable that, in order to retain the whole of their present emoluments, they would prefer to continue as unestablished Collectors. The scheme would thus come into operation gradually, since so long as the Collectors in question continued to perform their duties satisfactorily, there would be no desire on the part of the Board of Inland Revenue to dispense with their services.

23,175. (91) In the case of existing "part-time" Collectors, it is not suggested that they should be made established civil servants, but that all those who were certified as competent should come into the direct service of the State. As changes occurred, and it was found possible to amalgamate suitable areas, the number of "part-time" Collectors would gradually diminish.

23,176. (92) As in the case of Assessors, whatever changes in the position of Collectors are adopted in regard to Income Tax would involve as a corollary corresponding changes in regard to Inhabited House Duty and Land Tax.

23,177.

ANNEXE I.

(1) LIST OF CITIES AND TOWNS IN ENGLAND AND WALES IN WHICH ALL THE COLLECTORS OF TAXES ARE APPOINTED BY THE BOARD OF INLAND REVENUE.

Accrington.	Huddersfield.
Ashton-under-Lyne.	Hull.
Barnsley.	Jarrow-on-Tyne.
Batley-in-Furness.	Keighley.
Barry.	Leeds.
Birmingham.	Liverpool.
Blackburn.	Llandudno.
Bolton.	Lowestoft.
Bournemouth.	Maidstone.
Bradford.	Manchester.
Bridgewater.	Newcastle.
Bristol.	Newport (Mon.).
Burnley.	Nottingham.
Bury (Lancs.).	Oldham.
Cardiff.	Pennarth.
Chatham.	Pontypool.
Chesterfield.	Rochdale.
Claughton-on-Sea.	Salford.
Darwen.	Sheffield.
Dealey.	Southampton.
Eastbourne.	Southport.
Eastleigh.	South Shields.
Exeter.	Stockton-on-Tees.
Farnham.	Swindon.
Folkestone.	Warrington.
Gateshead.	West Hartlepool.
Halifax.	Weston-super-Mare.
Hereford.	Wolverhampton.

(2) LIST OF CITIES AND TOWNS IN WHICH ABOUT SIX SEVENTHS OF THE AGGREGATE DUTY IS COLLECTED BY COLLECTORS APPOINTED BY THE BOARD OF INLAND REVENUE, AND ONE SEVENTH BY COLLECTORS APPOINTED BY THE LOCAL COMMISSIONERS.

Doncaster.	Middlesbrough.
Grimby.	Plymouth.
Liverpool.	Portsmouth.

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23,178.

ANNEXE II.

CLASSIFICATION OF THE REMUNERATION OF ASSESSORS AND COLLECTORS OF TAXES.

ENGLAND AND WALES.

YEAR 1919-20.

Range of remuneration.	Local Commissioners' appointments of Assessors and Collectors.		Board's appointments of Collectors.		Total number of appointments [cols. 2 and 4].	Total remuneration [cols. 3 and 5].
	Number appointed.	Remuneration, excluding War Bonus.	Number appointed.	Remuneration, excluding War Bonus.		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
£25 and under	1,442	£ 19,406	114	£ 1,780	1,556	£ 21,186
£26 to £50	674	24,525	99	3,667	773	28,192
£51 " £100	487	36,512	127	9,331	614	45,843
£101 " £200	344	49,444	126	19,161	470	68,605
£201 " £300	172	42,138	78	19,717	250	61,855
£301 " £400	116	40,405	71	24,837	187	65,242
£401 " £500	115	52,072	62	28,602	177	80,074
£501 " £600	86	46,894	43	25,602	129	70,496
£601 " £700	59	38,043	46	30,097	105	68,140
£701 " £800	33	24,778	25	19,033	58	43,811
£801 " £900	22	17,976	28	23,460	50	41,436
£901 " £1,000	8	7,565	18	17,121	26	24,686
£1,001 and over	21	21,751	14	16,567	35	41,318
	3,579*	£424,509	851*	£236,375	4,430	£660,884

* In some cases the same person is appointed for one area by the Local Commissioners and for another area by the Board of Inland Revenue. In compiling this classification, if the greater part of such a Collector's remuneration related to the Local Commissioners' area, the Collector has been treated as appointed by the Local Commissioners, but, if not, he has been treated as appointed by the Board. As explained in paragraph 38, the remuneration shown above is gross remuneration covering all expenses incurred by the Collector.

23,179.

ANNEXE III.

CLASSIFICATION OF THE REMUNERATION OF COLLECTORS IN SCOTLAND.

YEAR 1918-19.

Range of remuneration.		Number of Collectors.	Aggregate remuneration, excluding War Bonus.
Not exceeding	£25	3	£ 54
£26 to	£50	8	293
£51 " £100	8	619	1,826
£101 " £200	12	2,400	1,295
£201 " £300	9	1,975	2,800
£301 " £400	4	-	-
£401 " £500	4	720	1,672
£501 " £600	5	-	-
£601 " £700	-	-	-
£701 " £800	1	-	-
£801 " £900	2	-	-
		56	£13,654

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ANNEXE IV.

CLASSIFICATION OF THE REMUNERATION OF COLLECTORS IN IRELAND.
YEAR 1918-19.

Range of remuneration.		Number of Collectors.	Aggregate remuneration, excluding War Bonus.
Not exceeding	£25	11	£ 179
£26 to	£50	20	808
£51 "	£100	44	3,240
£101 "	£200	38	5,426
£201 "	£300	2	453
£301 "	£400	6	1,960
£401 "	£500	3	1,325
£501 "	£600	1	537
£601 "	£700	2	1,348
£701 "	£800	-	-
£801 "	£900	1	834
£901 "	£1,000	-	-
£1,001 "	£1,100	-	-
£1,101 "	£1,200	-	-
£1,201 "	£1,300	-	-
£1,301 "	£1,400	1	1,389
		129	£17,499

No. V.—INCOME TAX AREAS OF ADMINISTRATION.

23,181. (1) The purpose of my evidence is to explain the present position with regard to the territorial organisation of the Income Tax and to submit for the consideration of the Royal Commission certain modifications of the existing system which, in the judgment of the Board of Inland Revenue, experience has shown to be desirable in the public interest.

23,182. (2) The references throughout this evidence are to the Income Tax Act of 1918, except where otherwise stated.

ENGLAND AND WALES.

Origin of Income Tax divisions.

23,183. (3) England and Wales are divided for the purposes of Income Tax administration into a number of areas known as "divisions," the boundaries of which were originally coincident with, and are to-day substantially the same as, those of the Land Tax divisions existing at the date of the introduction of the Income Tax.

23,184. (4) The territorial organisation of the Income Tax was explicitly based on that of the Assessed Taxes,* which, in turn, was based upon the Land Tax organisation.

Under the Land Tax Acts (as Sir Thomas Collins has explained, questions 276, 277 and 282), the geographical county was adopted as the unit of area for administrative purposes and a separate body of Commissioners was appointed to act for each county. Each county was subdivided into a number of Land Tax divisions corresponding to the several areas into which under the names of hundreds, rapes, lathes, wards, wapentakes, &c., the counties of England had been divided from very ancient times. In addition certain cities, boroughs, cinque ports, liberties, and other places, a list of which is given in the Annex, were constituted separate Land Tax divisions, the Commissioners for which were separately nominated. The total number of divisions is 651.

23,185. (5) The boundaries of Land Tax divisions were originally fixed in 1693, the date of the original Land Tax Act. Between 1693 and the introduction of the Income Tax in 1798 there were a number of

modifications in the divisions, but, taken as a whole, the boundaries of the Land Tax divisions largely retained their old character, and the adoption of the Land Tax organisation in 1798 for the purposes of Income Tax accordingly resulted in the territorial organisation of the Income Tax following the ancient division of the geographical counties.

23,186. (6) Owing to the adoption of the Poor Law parish as the unit of assessment and collection for Income Tax (see paragraphs 9 and 10), the boundaries of many Income Tax divisions are no longer identical with those of the corresponding Land Tax divisions, but there is still a very large measure of identity between the two, with the result that to-day, with relatively few exceptions, Income Tax divisions are not co-terminous with any other areas of administration. For the purposes of local government, parliamentary representation, &c., the areas originally adopted have been periodically altered and re-altered to meet the changing conditions of the national life, but the boundaries of Income Tax divisions have remained practically fixed, and in consequence, in a large number of cases, they have ceased to be convenient as they do not correspond to the present-day distribution of the population or to modern means of communication.

For example, Norfolk, with a population of 499,000 and an area of 2,055 square miles, is divided into 31 divisions; the West Riding of Yorkshire, with a population of 3,045,000 and an area of 2,771 square miles, is divided into only 20 divisions. Some divisions have, in the course of time, diminished so much in importance that their existence is no longer justified, whilst others have grown to the extent that they are unwieldy and should be broken up.

23,187. (7) While the Income Tax divisions correspond to ancient conditions, the districts of the Surveyor of Taxes have been as far as practicable arranged in accordance with present-day conditions with the result that certain tax districts comprise as many as ten divisions. This not only entails a heavy drain on the Surveyor's time in attending the various meetings of the Commissioners, but also involves a considerable increase in the clerical work owing to the necessity for keeping the assessments, accounts, and statistics for each division separate and distinct.

23,188. (8) Another extremely inconvenient feature is that in the case of about 70 divisions one or more of the parishes constituting the division are geographically detached from the main body of the division

* As explained in the Minutes of Evidence's Appendix No. 1, paragraph 1, "Assessed Taxes" included taxes on carriages, horses, non-servants, &c., also the Window Tax, and the duty on inhabited houses.

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and are surrounded by parishes forming part of another division. The number of parishes so detached is about 140. This archaic territorial organisation is often inconvenient for the public as it frequently happens that taxpayers who wish to appeal in person to the General Commissioners are obliged to travel several miles to the place of meeting, although they may be within easy reach of the town in which meetings are held for a neighbouring division.

Income Tax parishes.

23,180. (9) The Land Tax division comprised one or more Land Tax parishes, on each of which a specific "quota" of Land Tax was charged, and these Land Tax parishes were originally adopted as the unit of area for the purposes of Income Tax assessment and collection. The Revenue Act of 1884, sec. 6, however, enacted that, in future, except in the City of London, the parishes for which Income Tax assessments should be made and for which Income Tax Assessors and Collectors should be appointed, should be the Poor Law parish.

23,190. (10) Both the Land Tax parish and the Poor Law parish were originally derived from the ecclesiastical parish, but for a long period prior to 1884 the impossibility of altering Land Tax parishes and the facilities for altering Poor Law parishes had led to an increasing number of divergences between the two. When, therefore, in 1884 the Poor Law parish was adopted for Income Tax purposes, the boundaries of the new Income Tax parishes did not, in a considerable number of cases, coincide exactly with the boundaries of the Land Tax parishes and it sometimes happened that parts of certain Poor Law parishes were within one Land Tax division whilst other parts were within other Land Tax divisions. To meet this, the Revenue Act of 1884 provided that the Board of Inland Revenue should determine to which division the whole of the Poor Law parish should be assigned for Income Tax purposes, and under this provision a considerable number of assignments has been made, with the result that the boundaries of the Income Tax divisions in question are not coincident with those of the corresponding Land Tax divisions.

Anomalous position of Land Tax Commissioners.

23,191. (11) Not alone was the Land Tax territorial organisation adopted for Income Tax purposes, but the Land Tax Commissioners were made *ex parte* in several matters affecting areas, the plan followed being to enact that when transfers, unions, or groupings of parishes were made, they were to take effect for the purposes of Income Tax and House Duty as well as for Land Tax. (Taxes Management Act, 1890, secs. 36 & 37.)

23,192. (12) So long as the Land Tax parish remained in effect the unit of area for the purposes of Income Tax assessment and collection, there may have been something to be said for this arrangement, but when, in 1884, the Poor Law parish was made the Income Tax unit of area, the logical course would have been to make the Income Tax administration as regards areas completely independent of the Land Tax administration by formally recognizing the Income Tax divisions as separate entities and divesting the Land Tax Commissioners of the power to transfer, unite and group the parishes forming such divisions. This, however, was not done and there is at present the anomaly that the Land Tax Commissioners are vested with important powers with regard to Income Tax areas of administration (see Income Tax Act 1918, sections 93 and 95).

Transfer of parishes.

23,193. (13) The jurisdiction over any parish may be transferred by the Land Tax Commissioners for the County from the division to which it belongs to any other division in the same county, or to a new division of the same county, which division the Land Tax Commissioners are empowered to create. (Sec. 93.) The Land Tax Commissioners are required to certify the transfer to the Board of Inland Revenue for the approval of the Treasury. Thereafter, the

Board certify the transfer to the General Commissioners and fix a date as from which the General Commissioners for the extended division, or for the new division (as the case may be), are to have jurisdiction in the transferred area.

23,194. (14) The power to create new divisions has been rarely used for many years past, but a recent instance was the formation in 1914 of the Woolwich division out of part of the Blackheath division of Kent.

Union of parishes.

23,195. (15) Any two or more parishes in a division may be united by the Land Tax Commissioners for the division at a meeting called for the purpose, the procedure being similar to that in connection with transfers. Parishes which have been united are treated for all Income Tax purposes as one parish. Proposals for unions are initiated almost invariably by the Surveyor of Taxes. (sec. 93.) If a union proves to be inconvenient, it may be dissolved as to any or all of the parishes concerned, on receipt of a resolution passed by the Land Tax Commissioners for the division at a meeting convened for the purpose. (sec. 93 (5).)

23,196. (16) The power to unite parishes is an extremely useful one as many Poor Law parishes are small or sparsely populated, and their union is obviously a businesslike and economical arrangement.

23,197. (17) The extent to which this power has been used may be judged from the fact that whilst the total number of Poor Law parishes in England and Wales is about 15,000, the number of actual assessing and collecting areas has been reduced to about 6,700; but further use could be made of it with advantage as the actual number of individual Assessors and Collectors is only 4,400, the same person in many cases acting for more than one parish or union.

Grouping of parishes.

23,198. (18) The Land Tax Commissioners for a division may, with the consent of the Board of Inland Revenue, group parishes together for the purposes of collection. In such cases each parish in the group continues to be separate and distinct for the purposes of assessment. (sec. 95 (1).)

23,199. (19) Where a group proves to be inconvenient, the Land Tax Commissioners, again with the consent of the Board of Inland Revenue, may dissolve the group as regards all or any of the parishes. (sec. 95 (2).)

23,200. (20) The power to group parishes for the purposes of collection only, as distinct from the power to unite parishes for all purposes, is now rarely resorted to.

Division of parishes.

23,201. (21) Where a Poor Law parish is so large that in the opinion of the Board of Inland Revenue it ought to be divided into districts for which separate Assessors and Collectors should be appointed, the Board may divide the parish accordingly. Any such division may subsequently be cancelled or altered by the Board. (sec. 90 (3).)

23,202. (22) The provision for dividing large parishes is constantly resorted to in connection with urban areas, as many large boroughs and towns now consist of only one Poor Law parish. In the case of large towns the division is now invariably made by reference to the municipal wards.

Assignment of parishes.

23,203. (23) Where a parish falls partly within the jurisdiction of one body of General Commissioners and partly within the jurisdiction of another, the Board of Inland Revenue, as already mentioned in paragraph 10, are to determine which body of Commissioners shall have jurisdiction. The necessity for this provision arises from the fact that when a Poor Law parish is extended by the addition of the whole or part of another Poor Law parish or parishes, the added area is sometimes in a different Income Tax division or divisions. (sec. 90 (2).) Changes in the boundaries of Poor Law parishes are frequently

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made, but it is provided that such changes shall not be given effect to for Income Tax purposes until the following "re-assessment" year. (sec. 90 (1).)

Extra-parochial lands.

23,204. (24) If a doubt arises as to the particular parish in which lands are situate, or if any lands are found to be extra-parochial, the Board of Inland Revenue may direct within which parish and division such lands shall be dealt with for Income Tax purposes. The Board may also at any time revoke any such order and substitute a fresh order. With the exception of certain small islands, there are now practically no extra-parochial lands in England and Wales. (sec. 97.)

SCOTLAND.

23,205. (25) Out of a total of 33 counties in Scotland 23 are each treated as constituting a single division. The total number of separate divisions is 46.

23,206. (26) The provisions of the Revenue Act of 1884, under which in England the Poor Law parish was made the unit of assessment and collection for Income Tax purposes, did not apply to Scotland. The provisions of the Income Tax Act of 1918 relating to the transfer, union, grouping and division of parishes also do not apply to Scotland, but it is provided that, where any lands or heritages are partly in the jurisdiction of one body of General Commissioners and partly in the jurisdiction of another such body, or where it is desirable for the convenience of assessment to transfer any lands, &c., from the jurisdiction of one body of General Commissioners to another such body, the Board of Inland Revenue shall, at the request of the General Commissioners concerned, determine which body of Commissioners shall have jurisdiction.

23,207. (27) In practice, the whole of an Income Tax division is usually treated, for the purpose of preparing the Commissioners' charge duplicates, as a single parish, but if part of the division is in one Surveyor's district and part is in another each part is usually treated as a single parish. In making the assessments for the division the several Poor Law parishes comprised therein are separately distinguished, as are also the separate wards in the larger harghs.

IRELAND.

23,208. (28) There are no "divisions" in Ireland. In practice, assessments under Schedules A and B are made for "assessment districts," the areas of which are fixed by the Board of Inland Revenue. The assessments under Schedules D and E are made for county districts or administrative county boroughs.

SUGGESTED MODIFICATIONS OF THE EXISTING SYSTEM.

23,209. (29) Before submitting the suggestions of the Board of Inland Revenue for modifications of the existing system, it is desirable that I should explain the system of tax districts.

23,210. (30) The whole of the United Kingdom has been divided by the Board of Inland Revenue into a number of districts to each of which a Surveyor is appointed. At present there are just over 600 of such districts, but the number tends steadily to increase with the increasing volume of work. The distribution of the districts is as follows:—

England and Wales	...	...	511
Scotland	...	...	61
Ireland	...	...	29
			601

23,211. (31) In fixing the boundaries of the Surveyor's district and the location of his office the guiding considerations are the convenience of the public and the economical distribution of staff. In each of the larger cities the very large number of the assessments and the complexity of the work render it necessary to have several districts. For example, the City of London has 34 districts, Liverpool has 14, Glasgow has 18. In cases of this type the

area of the district may consist of one or more municipal wards or even of part only of a ward. On the other hand, in the rural portions of the country a district may cover a wide area.

23,212. (32) Owing to the antiquated character of a very large number of the divisions in England and Wales considerable difficulty is experienced, under present conditions, in so arranging the boundaries of tax districts as to reconcile regard for the public convenience with the necessity for making economical administrative arrangements. It is perhaps not necessary to go into the difficulties in detail. They are generally due to the fact that the boundaries of Income Tax divisions no longer correspond to the distribution of the population, and their effect is to cause a diminution in the available facilities for meeting the public convenience and at the same time to cause an increase in the cost of administration.

23,213. (33) In the opinion of the Board of Inland Revenue it is very desirable that steps should be taken both to bring the areas of Income Tax administration into harmony with modern conditions and to provide machinery by means of which the organisation can be adapted to changing conditions as occasion arises.

23,214. (34) The Report of the Boundary Commission (England and Wales) appointed to determine, for the purpose of the Representation of the People Act, 1918, the boundaries and divisions of Parliamentary Counties and Boroughs in England and Wales may be of help in dealing with the question.

23,215. (35) Rule 7 of the Instructions to the Boundary Commissioners required "that the boundaries of Parliamentary Constituencies shall, as far as practicable, coincide with the boundaries of administrative areas," and the Commissioners in their Report state that they have endeavoured to give the fullest possible effect to this rule for the reason that "it is generally recognised that at the present time much confusion and inconvenience are caused by overlapping boundaries."

23,216. (36) The Report proceeds: "In the case of Parliamentary Counties we have adhered generally to the boundaries of the administrative County. In the case of Parliamentary Boroughs, the area of the existing Parliamentary Borough has usually been either reduced or extended so as to be coterminous with the Municipal Borough, or (in London) the Metropolitan Borough; but in some instances it has been found desirable to unite two or more Municipal Boroughs or to add an adjacent Urban District or Urban Districts to a Borough.

"In connection with the formation of Parliamentary Divisions of Counties, it became necessary for us at the outset of our work to determine what administrative areas should be chosen as the unit. After a careful consideration of the relative advantages and disadvantages of the several possible courses open to us, it appeared to us that the most suitable administrative areas would be the Urban and Rural Districts as constituted for Local Government purposes. We have found that this arrangement has worked well, and it has been, we believe, very generally welcomed by local authorities and persons interested in electoral matters. In 98 instances, however, out of a total of 662 Rural Districts we have had to divide a District, but we have only done this in cases where we deemed a division necessary or desirable in order to give effect to our general instructions, or with the view of meeting local objections. In only one case have we had to divide a parish. The number of Urban Districts (including Boroughs) is 1,156, and in the formation of County Divisions and Parliamentary Boroughs we have not had occasion to intersect the boundaries of any of these."

23,217. (37) It will be seen, therefore, that the unit of area which has been chosen as being most suitable for Parliamentary purposes for areas outside the Municipal Boroughs is the Urban District or Rural District, as the case may be.

23,218. (38) The Board of Inland Revenue are of opinion that in delimiting the boundaries of Income Tax divisions the units of area to be adopted should, as in the case of Parliamentary divisions, be in England and Wales, the Municipal Borough,

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[Continued.]

Urban District and Rural District, and in Scotland the corresponding areas. These areas are subject to modification for Local Government purposes as changes occur in the distribution of the population, and if power were taken to give effect to such modifications for Income Tax purposes it would automatically follow that the boundaries of Income Tax divisions would be adjusted to changing conditions.

23,219. (39) It is accordingly suggested that there should be a redistribution of Income Tax divisions broadly on the following lines:—

- (1) The City of London and each Municipal Borough, Metropolitan Borough or Urban District in England, or the equivalent area in Scotland, having a population of 50,000 or over shall constitute a separate Income Tax division.
- (2) Each Administrative County (after excluding therefrom Boroughs and Urban Districts which form separate Income Tax divisions) shall be divided into separate Income Tax divisions on the basis of one division for each 50,000 of population, provided that in furnishing such County divisions the Urban District and Rural District respectively shall be taken as the unit of area.
- (3) Where found more convenient, an Urban District contiguous to a Borough that forms a separate Income Tax division shall be included in such division instead of being included in one of the County divisions.

23,220. (40) It is suggested that this re-arrangement of the Income Tax divisions should be carried out by the Board of Inland Revenue, who would consult with the local authorities concerned.

23,221. (41) If these suggestions are adopted, power should be taken to constitute as a separate division any Municipal Borough or Urban District which, at the date of the determination of the new division boundaries, had a population of less than 50,000, but which subsequently passes that figure. The Board of Inland Revenue should be empowered to fix the date of constitution of the new division and to make the consequential adjustments in the County divisions affected. Corresponding provision should be made to meet the case of Boroughs or Urban Districts, the population of which declines below 50,000, and also of County divisions the population of which may in future either fall below 50,000 or exceed that limit.

23,222. (42) It would also be necessary to make the administration of the Income Tax completely independent of that of the Land Tax, a measure which, in the opinion of the Board of Inland Revenue, has long been desirable and ought in any event to be carried out.

23,223. (43) There remains the question of the powers relating to the transfer, union, grouping, division, and assigning of whatever areas are adopted as the unit of assessment and collection. It is suggested that these powers should be retained, but should be vested solely in the Board of Inland Revenue as the authority responsible for the general care and management of the Income Tax administration.

23,224.

ANNEXE.

AREAS OF ADMINISTRATION.

LIST OF CITIES, BOROUGHES, TOWNS AND PLACES OF ENGLAND, WALES AND BERWICK-UPON-TWEED UPON WHICH A SEPARATE QUOTA OF LAND TAX WAS IMPOSED BY 38 GEO. III. CAP. 5.

New Windsor.

Buckingham with Borton, Borton-hold Prebendary, Gawcott and Lendborough.

Wicomb.

University of Cambridge.

Cambridge.

Isle of Ely.

Chester.

Exon (Devon).

Poole.

York.

Kingston-upon-Hull.

Malden (Essex).

Colchester.

Harwich and Dovercourt.

Gloucester.

Hereford.

Leominster.

St. Albans.

Huntingdon.

Canterbury.

Dover.

Folkestone.

Fordwich.

Faversham.

Tenterden.

Sandwich.

New Romney.

Lydd.

Hithe and West Hithe.

Leicester.

City of London.

Serjeant's Inn in Chancery Lane.

Inner Temple and Inns of Chancery thereto belonging.

Middle Temple and Inns of Chancery thereto belonging.

Society of Lincoln's Inn and Inns of Chancery thereto belonging.

Gray's Inn and Inns of Chancery thereto belonging.

Palaces of Whitehall and St. James.

Westminster and Westminster Hall.

Norwich.

Great Yarmouth.

Kings Lynn.

That part of the Borough of Thetford in the County of Norfolk.

Northampton.

Newcastle-upon-Tyne.

Berwick-upon-Tweed.

Nottingham.

University of Oxon.

Oxon.

Ludlow.

Bristol.

Bath.

Wells.

Bridgwater and Haygrove Tything.

Southampton.

Isle of Wight.

Lichfield.

Ipswich.

Bury St. Edmunds.

Dunwich.

Eye.

Sudbury.

That part of the Borough of Thetford in Suffolk.

Hastings.

Seaford.

Poremscy.

Rye.

Winchelsea.

Coventry.

Worcester.

New Sarum, the close of the same and Clarendon Park.

Isle of Anglesa.

Brecon.

Carmarthen.

Haverford West.

NO. VI.—THE ASSESSMENT OF SALARIES AND OTHER EMOLUMENTS DERIVED FROM PUBLIC DEPARTMENTS.

23,225. (1) The evidence which the Board of Inland Revenue have laid before the Royal Commission on the position of the General and Additional Commissioners, Clerks to Commissioners, Assessors, and Collectors in the scheme of Income Tax administration dealt with the procedure in relation to the general taxpaying public. The law makes special provision for the assessment

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of salaries and emoluments payable out of the Public Revenue, and the purpose of the present evidence is to suggest for the consideration of the Royal Commission that the procedure in regard thereto should be altered on lines similar to those advocated by the Board of Inland Revenue for the country generally.

23,226. (2) All persons holding any public office or employment under the Crown are assessable under Schedule E in respect of their salaries and emoluments, and the assessment and collection of the tax are effected in the Public Departments concerned, the principle underlying the procedure being that those who pay the salaries and emoluments are made responsible for the charging of tax thereon and for ensuring payment by way of deduction from salary. In some cases casual fees and the salaries of temporary or unestablished employees are not assessed departmentally but locally, on information furnished by the Department.

Departmental Commissioners.

23,227. (3) The machinery of assessment is provided for by the constitution for Public Departments of Departmental Commissioners who appoint officers of the Department to act as Clerks to Commissioners and Assessors. The collection is provided for by the requirement that tax is to be deducted on payment of salary, with a provision that where tax cannot be deducted and the person charged refuses to pay, the Departmental Commissioners may certify the arrear to the General Commissioners for the division in which the person resides, and the latter Commissioners can authorize its recovery by the local Collector of Taxes in the ordinary way.

23,228. (4) The Departmental Commissioners are also to act as Commissioners for the assessment of any interest, annuities, dividends, and shares of annuities, chargeable under Schedule C and payable by the Department concerned out of the Public Revenue.

23,229. (5) The Departmental Commissioners are appointed by the Heads of Departments from among the officers of the Departments.

23,230. (6) Notices of assessment are not issued to the officials charged and there is no express right of appeal against a departmental assessment. The amounts of salaries, &c., assessable being definite, no question ordinarily arises of determining the amount of the assessments. In the absence of appeals, therefore, the Departmental Commissioners are not charged with the important judicial duties entrusted to the local Commissioners of Taxes, and in practice their duties amount to little more than such formal acts as signing assessments. Where any dispute arises as to the amount of tax payable the practice is to refer the case to the Board of Inland Revenue for decision.

Clerk to the Commissioners.

23,231. (7) In the absence of appeals the Departmental Clerk to Commissioners has not the duty of legal and general adviser on appeals, &c., which is the essential and most important duty of the ordinary Clerk to Commissioners. The duties of the Departmental Clerk are simple in character and mainly routine, such as the preparation of charge duplicates for transmission to the Board of Inland Revenue.

Assessor.

23,232. (8) The Departmental Assessor takes as the basis of assessment the lists of salaries, &c., furnished by the paying officer of the Department and the Income Tax returns of the officials, which include statements of total income. If the official has no income beyond his official income the Assessor makes the assessment and allows the abatement, &c.; if other income exists, the practice is to refer the return for examination to the Surveyors of Taxes who deal with the Public Departments. The Surveyors of Taxes for Public Departments arrange for the liability in respect of the other income to be dealt with locally and certify to the Assessor the amount of any relief which falls to be allowed from the departmental

assessment upon the official. Particulars are given in the Annexes hereto of the various Public Departments or quasi Public Departments showing the number of assessments made in 1917-18 and the number of cases referred to the Surveyors for Public Departments.

Suggested modifications of the existing system.

23,233. (9) In the opinion of the Board of Inland Revenue the many complications which have been introduced into the Income Tax during the past twelve years, combined with the great increase in the rate of tax, have rendered necessary a modification in the existing method of assessing departmental salaries—a method which was framed to meet the very much simpler conditions prevailing a century ago when the departmental assessments amounted to little more than an arithmetical calculation of the tax applicable to a known salary.

23,234. (10) In conformity with the principle underlying the proposals which they have made in regard to the general administration of the Income Tax the Board of Inland Revenue suggest:—

- (a) that the Departmental Assessors should be abolished and their duties in relation to the issue of forms of return and the assessment of official salaries should be transferred to the Surveyors of Taxes;
- (b) that the Departmental Commissioners and Clerks to Commissioners should be abolished and that the power of assessment in accordance with statements of salaries, &c., furnished by the various Departments should be vested in the Surveyors of Taxes;
- (c) that the method of departmental assessment, with deduction of tax from salaries, &c., should be applied uniformly to all temporary or unestablished employees of the various Public Departments (excluding all weekly wage-earners charged by quarterly assessment);
- (d) that notices of assessment should be issued to all persons assessed departmentally, who should have a right of appeal to the Special Commissioners.

23,235. (11) With regard to the duties of assessing interest, &c., payable by the Departments out of the Public Revenue and assessable under Schedule C, it would be sufficient to enact that the principal accounting officer of each Department should be responsible for accounting to the Revenue for the tax on all such interest.

23,236. (12) The existing legal provisions for the recovery of arrears are not satisfactory as they do not appear to authorize the deduction of any arrears of tax which were not deducted at the proper time, and the Board of Inland Revenue suggest that the law should be amended so as to make it clear that the right of deduction of tax from any instalment of official pay is not restricted to the tax relating to such instalment.

Commissioners for municipalities.

23,237. (13) Mention must be made of the provision (Income Tax Act, 1918, section 70) under which the Mayor and members of the Corporation of every corporate city or borough are to be Commissioners in relation to the assessment of the salaries, &c., arising from the public offices or employments of profit under the Corporation or under companies or societies within the city or borough.

23,238. (14) In practice, this provision is acted upon only by the Corporation of London and (so far as their own officials are concerned) by the Corporation of Liverpool, and if the suggestions of the Board of Inland Revenue to the effect that, in future, assessments on salaries should in all cases be made by the Surveyor of Taxes, subject to a right of appeal to the General Commissioners (or to the Special Commissioners in the case of Public Departments) were accepted by the Royal Commission, it would be desirable that a similar course should be followed with regard to salaries at present assessable by Corporations.

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[Continued.]

23,239.

ANNEXE.

LIST OF PUBLIC DEPARTMENTS AND CERTAIN OTHER DEPARTMENTS, WITH APPROXIMATE
NUMBER OF ASSESSMENTS, ETC., YEAR, 1917-18.
ENGLAND—PUBLIC DEPARTMENTS.

Name of Department.	Number of assessments.	Number of claims referred to Surveyors for Public Departments.
1. Admiralty	65,000 (a)	19,640
2. Air Ministry	50,000 (b)	"
3. Bankruptcy	170	"
4. Board of Education	1,300	1,100
5. Board of Trade	2,000	860
6. British Museum	240	"
7. College of Arms	12	"
8. Colonial Office	60	"
9. County Courts	2,000	1,100
10. Criminal Lunatic Asylums	50	"
11. Customs and Excise	9,500	5,900
12. Foreign Office	100	"
13. General Post Office	67,000	21,090
14. General Register Office	750	"
15. India Office	9,000	6,200
16. Inland Revenue	7,000	"
17. Lord Chamberlain	280	"
18. Lord Steward	75	"
19. Master of Horse	30	"
20. Ministry of Labour	4,000	680
21. Ordnance Survey	750	"
22. Parliament Office	11	"
23. Paymaster-General	48,000 (c)	17,800
24. Principal Probate Registry	15	"
25. Prison Commission	850	650
26. Public Works Loan Commission	25	"
27. Research Department	500	"
28. Royal Mint	400	"
29. Trinity House	800	"
30. War Office	250,000 (d)	23,000
31. Office of Woods	70	"
32. Office of Works	2,000	800
33. Public Trustee	200	"
34. Miscellaneous	—	6,000
Totals	522,188	104,820
ENGLAND—OTHER DEPARTMENTS.		
35. Agent-General, New South Wales	20	"
36. " Queensland	20	"
37. " Tasmania	4	"
38. " West Australia	12	"
39. Bank of England	2,300	250
40. Consistory Court	5	"
41. Court of Faculties	4	"
42. Crown Agents	150	100
43. Duchy of Cornwall	39	"
44. " Lancaster	50	"
45. Ecclesiastical Commissioners	160	"
46. National Debt Office	40	"
47. Metropolitan Police—Force	20,000	"
48. " Pensions	1,100	"
49. " Salaries	200	"
50. Queen Anne's Bounty	40	"
51. University of London	30	"
52. Vicar-General's Office	4	"
Totals	24,169	350
" as above	522,188	104,820
Grand Totals	546,357	105,170

(a) This figure includes about 55,000 officers and men, and will be largely reduced on demobilisation.

(b) This figure includes about 40,000 officers, and will be largely reduced on demobilisation.

(c) In this office a large number of miscellaneous liabilities are dealt with, e.g., retired pay and half-pay to officers in the Army, Navy and Air Force, and pay of House of Commons' officials.

(d) This figure includes about 240,000 officers, and will be largely reduced on demobilisation.

* Included in item (34), Miscellaneous.

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[Continued.]

SCOTLAND.

Name of Department.	Number of Assessments.
53. Exchequer and Court of Session	1,223

IRELAND—PUBLIC DEPARTMENTS.

54. Board of Public Works	157
55. Irish Lights Office	129
56. National Education Office	310
57. Paymaster-General (Dublin)	3,322
58. Registrar of Petty Sessions Clerks	520
59. Supreme Court, Dublin	30
Total	4,468

IRELAND—OTHER DEPARTMENTS.

60. Bank of Ireland	857
61. Dublin Metropolitan Police	340
62. Dublin Port and Docks Board	48
63. Representative Body of the Church of Ireland	1,532
Total	2,777
" as above	4,468
Ireland, Grand Total	7,245

[This concludes the evidence-in-chief.]

23,240. *Chairman:* You have given us a very complete set of papers; they are excellent. You will be examined on the points that strike the Commissioners, who have read your papers, and I will ask Mr. Kerly to begin your examination.

23,241. *Mr. Kerly:* The first paper I take is on the Commissioners. Will you turn to paragraph 19 of your first paper: "With regard to the Commissioners' judicial functions, on the other hand, although the great majority of appeals are now adjusted by the Surveyor in agreement with the taxpayer, the agreed settlements being laid before the General Commissioners for their formal approval, the position is that an important minority of appeals do actually come before the General Commissioners for their determination." The view you put forward is that that appeal to the General Commissioners should be continued?—That is so.

23,242. And that the General Commissioners' work should be limited to hearing appeals?—Quite; that is our proposition.

23,243. You agree, I think, that for that purpose, if they are continued, it is necessary that they should have a competent clerk to advise them?—Certainly.

23,244. Do you think that it is practicable all over the country to get a competent Clerk who is a part-time officer?—I see no reason why the Commissioners should not be able to get a competent Clerk.

23,245. Do you propose to leave the appointment of the Clerk to the Commissioners?—Yes, to the Commissioners.

23,246. As regards the Additional Commissioners, you propose to continue them for some purposes, I think?—Yes, to have their duties somewhat less broad than they are to-day—to deal with certain classes of assessments.

23,247. Do you think that the Additional Commissioners really fulfil any useful purpose?—On the whole, I think they do.

23,248. In some of the big towns we have had evidence that they really do their job in many cases?—Undoubtedly; that is my experience.

23,249. Is that general all over the country?—Well, speaking generally, I should say that in many of the country divisions they may not take their duties as seriously as they do in the towns, but we are suggesting certain improvements, as we think, in the constitution of the Additional Commissioners, which would

probably tend to make an improvement by the introduction of new blood from time to time.

23,250. It has been suggested by many witnesses that the Additional Commissioners are a protection to the small taxpayer: is that so in your view?—No, I do not know that they are any particular protection; it has not been so in my experience, and I should say it is not so generally.

23,251. According to the evidence we have had, they do not consider assessments of less than £500 a year in the City of London?—That is so, I believe, and to a certain extent that applies in many of the large towns where they have a large number of assessments to deal with.

23,252. Could you just indicate quite shortly what real advantage you think would be gained by retaining the Additional Commissioners?—I think that we can get help from the local Additional Commissioners, and that we have done so in the past. We want as a Department to get such light and such help as we can from other sources, and I think that experience has shown that we have undoubtedly had help from the Additional Commissioners, and that they have brought liabilities to light in cases that have come up. We have had material help in some cases from the Additional Commissioners, and we think it would be a pity not to make use of that help even if it is somewhat limited in its result.

23,253. Does that mean that you think in some proportion of cases the local knowledge of the Additional Commissioners is really valuable?—Yes.

23,254. Is that the only advantage you expect to gain from continuing them?—I think so; that is really the main purpose of their existence.

23,255. You have given us a very important paper on areas of administration, your paper No. V. The conclusions are so plain that I need not say anything about them. I suppose you would attach importance to the proposal that the Inland Revenue should have power to change the areas and modify the areas from time to time as they may find advisable?—Yes, I think so, to meet changing conditions and changes in the population.

23,256. Always maintaining the rule, for the normal case at any rate, that the area selected should be either a local government unit or a combination of local government units?—That is so.

23,257. As we can see from the maps on the board, the present areas may be, as I ventured to describe them just now, an historical joke, but they are nothing else?—Quite.

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[Continued.]

23,258. It is very wonderful that they have continued so long?—We are a very conservative race.

23,259. Going back to the question of local assistance, you propose to retain an Assessor?—Yes, in the way described in the report.

23,260. Yes—with limited powers. Would it not be important, in order to get any real assistance from the Assessor, that he should be an official permanently resident within the district? The Surveyor, as I understand, changes somewhat rapidly, or is apt to change somewhat rapidly?—In some cases.

23,261. In some cases, naturally. There is promotion from a small district to a large one, and I dare say there are other departmental reasons for it, but it would be desirable, would it not, if you do retain an Assessor so as to get any benefit from him, that he should reside for long periods within the district so as to get local knowledge, and get known to the taxpayers?—I agree; and that is the case at present.

23,262. Mr. McIntosh: It was the question of the Assessor I was going to ask you about first. You suggest in your third paper that he should be contained for certain purposes, namely, the issue of forms, and the making of assessments under Schedules A, B and E?—No, that is not so—only to do clerical work and to do certain things specified in paragraph 45 of paper No. III.

23,263. I beg your pardon, in paragraph 44 you suggest taking these duties from him?—Yes.

23,264. And you leave him the duty of affixing public notices?—If that is continued.

23,265. Compiling and delivering to the Surveyor a list of persons, and completing the Surveyor's information as to removals, deaths, retirements and so on?—Yes.

23,266. I suppose you wanted to leave him something?—We leave him what we think he can most usefully do within the general limits.

23,267. I suggest that what you do leave him could be as well done, probably better done, by someone in the Surveyor's office acting under his instructions; to put it quite bluntly, is there any reason why the Assessor should not be abolished altogether?—I think there is. I think that in the wide country districts you want a man on the spot to give the Surveyor for the district information about the changes, retirements, deaths and various other matters, and also to compile from his local knowledge the list of persons chargeable.

23,268. Take paragraph 45 (c), the affixing of the notices; you do not need an Assessor for that; anyone can stick up the notices at the appointed places?—Yes; that could be done, I have no doubt, by arrangement.

23,269. "Compiling and delivering annually to the Surveyor the list of all persons in the Assessor's area." I take it the Surveyor has access fairly well, either through himself or his staff, to these lists of persons?—He has the lists of persons that have been dealt with in the past, but he does not know all the changes that take place in the localities, or the newcomers. He cannot, of course, have his eyes everywhere, and he must rely to a certain extent on people in the parish at a distance to report changes, and they would include those in their list.

23,270. Have Assessors in the past given much material help in the way of furnishing the names of people to the Surveyor, that the Surveyor could not equally have got for himself if it had been his duty to get it?—I think they have, especially in the large areas, not so much in the small country districts where changes are not frequent. But in the big towns, if you have an Assessor who is trying to do his work, he does go round and he does pick up names in various ways, and include them in his list from year to year.

23,271. In the large towns the Assessor's local knowledge is not of anything like the value that it is in a country district, and yet you suggest it is only in the towns that you get these additional names?—May I point out that the Assessor practically in every case except in three large towns in Great Britain is also the Collector, and in the

course of his duties as Collector he goes round the district for which he acts, and if he keeps his eyes open he picks up information and picks up the names of newcomers, and he is, to a certain extent, looking after the work of compiling this return before he actually starts. He makes notes in a book, and he gets information during the course of the collection.

23,272. I take it you agree it is desirable to separate, if possible, the office of Assessor and Collector. After all, the Collector's duty is to receive payment of sums of tax, the liability for which has already been determined, and he should not need to have a house-to-house visitation to collect the money; they should send it to the Collector. In all the big cities there is no collection made of tax; you go and pay it at the office set apart for the purpose?—That may be.

23,273. And in many of the country districts the same thing applies?—I think that there is more real collecting than you would imagine; it may not be so in Glasgow.

23,274. I am not referring to Glasgow; I am referring to other parts. Take Ireland, for example—they do not go and pay to the Collector; they have to send their tax hundreds of miles. For instance, in Sligo they send it to Derry, I think; is not that so?—I really do not know.

23,275. Well, they do as a matter of fact. The Collector is not in the town. Still, your view is that the Assessor should still be left to perform these more or less formal duties, some of which, in (a), (b) and (c) of paragraph 45 of your paper No. III, could be done as well by the Surveyor's assistants?—I think as regards (b) I should not agree with that statement. I think we should get help from an Assessor with regard to the compiling of the lists of persons in the Assessor's area chargeable under Schedule D.

23,276. Would you have a whole-time official to do these duties?—No, there would not be sufficient work. I think that where a Collector has not too large an area that little extra work would naturally fall to him, and he would do that quite well along with his work as Collector, as he does to-day.

23,277. Then on the question of the Clerks to Commissioners, you give the scale of their remuneration, I think, somewhere?—At the end of the second paper.

23,278. The hearing of appeals is, in effect, the main function that you leave to the Commissioners?—That is so.

23,279. And their adviser would need to be one fairly well skilled in the law and practice of Income Tax?—He should be.

23,280. Of course, you will not get him for £35 a year, will you?—It would depend how many meetings he had to attend, surely.

23,281. I do not know; he has to have an accumulation of knowledge even if he has to impart it only twice a year. I see the present scale of remuneration for the first 500 in the table at the end of your second paper is fairly low?—Yes.

23,282. You have no idea, I suppose, of how many Clerks to Commissioners are practising solicitors?—We have some figures which show that, of the number we have knowledge of, five-sixths are solicitors and one-sixth are not. You could probably take that as the proportion right through.

23,283. You would agree that some of them are not very well versed in Income Tax?—I mean they take their duties very casually?—Yes, I think that is so to a certain extent.

23,284. They would rather take the law from the Surveyor of Taxes than apply their own minds to it?—Yes, I think that is probably the case in some instances.

23,285. And that is part of the public grievance against Commissioners in general?—It depends to a great extent on whether a Clerk to the Commissioners really takes an interest in his work.

23,286. And is competent to discharge the duties?—That follows, I think.

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[Continued.]

23,287. I see you make a suggestion that the new bodies of Commissioners should be recruited in a certain way; that is in paragraph 36 of paper No. 1.F—Yes, that is so.

23,288. One-third by the Crown, one-third by magistrates and one-third by the local authority?—Yes.

23,289. That is to say you consider the present system of drawing them from Land Tax Commissioners should be entirely swept away?—That is so.

23,290. And particularly the property qualification should be abolished?—Yes.

23,291. You do not suggest any scheme for the retirement of Commissioners?—Not of the General Commissioners; only of the Additional Commissioners.

23,292. Why do you draw the distinction?—The General Commissioners at present are appointed for life, or until they resign. We do suggest some limit, we say that if he leaves the division or ceases to carry on business in the division he should cease to be a Commissioner. That is the only limitation that is suggested at the moment.

23,293. The General Commissioners are the body who at present hear all the appeals?—Yes.

23,294. I suppose you have experience of some Commissioners who have reached a very great age, and should have retired before their usefulness has practically come to an end?—Yes, that is so.

23,295. Would it not be an advantage if they retired? You suggest there should be 12 of them, with an additional list of six. Do you not think it would be an advantage if they were also to retire in the same manner as you lay down for the Additional Commissioners?—Well, I am not sure with regard to a body of that kind, because they acquire experience in the course of time in hearing appeals. Practically you might describe their functions as judicial functions, and they do accumulate knowledge in dealing with the cases that come before them. At the same time it might be a matter for consideration whether there should be any age limit or other means of making a change; but I would like to say, and I would like to emphasize this point, that the Board in putting these proposals forward realize the difficulties, and they are put forward as purely tentative suggestions as to what the Board think might be the mode of appointing the Commissioners.

23,296. Has your experience been that the Commissioners in the past are inclined to get into a groove, and that they simply scamp through the appeals? They have a limited length of time in which to hear the appeals; they have their trains to catch, and their lunch to get, and so on, and they really rush the work very often at the appeal hearings?—I think that would depend to a great extent on the class of case that comes up for appeal. My experience is that if the Commissioners have a really important case they give a very careful hearing, but it is quite possible that in the small cases they may not consider it necessary to spend such a long time over them.

23,297. My experience is that the more complicated and difficult the case, they are inclined to become impatient; that is not your experience?—No. I have had experience sometimes of cases where counsel have been employed and of others where there has been no one but the appellant and the Surveyor, and the Commissioners have listened very patiently and taken great pains.

23,298. With regard to the duties of the Commissioners as they exist at present, the reviewing of the assessments and dealing annually with the selected cases that have to be brought under review, do you agree that these duties are very formal?—You mean the Additional Commissioners now?

23,299. Yes, the Additional Commissioners.—It is difficult to give a categorical answer to that. In some divisions the Commissioners undoubtedly take their duties much more seriously and do better work than in others. In some divisions they may look upon it as a more or less formal matter, whilst in other divisions the Commissioners are alive to the position, and they give more or less valuable help.

23,300. We have had suggested to us by the Clerk to the Commissioners for the City of London, for example, that the Commissioners there do an enormous mass of detailed work in reviewing assessments and reviewing repayment claims, and points of that kind. Is it not the case that the bulk of the work is done by the Surveyors, and that it is merely a formality putting it before the Commissioners?—No; I think that they do exercise, within a limited range, their functions.

23,301. I quite agree they do within a limited range. Have you read Mr. Copley Hewitt's evidence?—I have.

23,302. And generally do you agree with what runs all through it—the enormous amount of detail work that is done by the Commissioners in getting down to the assessments themselves?—No, I do not.

23,303. Whatever may be the practice in the City of London, it does not prevail elsewhere?—It does not.

23,304. He was asked at the beginning if he spoke for all Clerks to Commissioners, and he stated that he did?—Yes, I know he said so.

23,305. Your view is, if that does prevail in the City of London—I am not quite sure that it does to the extent set forth and detailed—the duties are not carried on in that way in other parts of the country?

—May I say from my own experience that in some of the big towns in the country the Additional Commissioners do as much work as the City Commissioners did when I was in the City of London; I do not think they have done more.

23,306. And you have told us that in the other parts of the country they do very little?—No.

23,307. I mean of the real work?—They give very valuable help in some cases, undoubtedly, and I think it would be a pity not to have that help.

23,308. I quite agree with you that there should be a body of Commissioners, but I think that their functions should be entirely altered to meet the changed conditions that now prevail, and that is generally your evidence, as well, is it not?—Yes, because we are suggesting that they should only deal with certain classes of cases.

23,309. In other words, that their functions to-day should be merely those of an appeal body, with a competent Clerk to advise them on points of law which may arise in the course of an appeal?—That is the General Commissioners you are referring to now.

23,310. Yes, the General Commissioners?—Just now we were speaking of the Additional Commissioners, who are a separate body.

23,311. Yes?—The Additional Commissioners are the assessing Commissioners, if you like to call them so.

23,312. Quite. The two bodies really ought to be differently constituted; their functions are different. The Additional Commissioners are really required for having some kind of local knowledge?—Quite.

23,313. In the case of individuals who make no returns, or of an individual who makes an incomplete return, or in the Surveyor's opinion an insufficient return, you want someone who has the knowledge as to whether he should be put up or down?—That is so.

23,314. That is a different type altogether from the individual who has to sit on the appeal body?—Yes. You want a man, of course, who has a knowledge of what is going on in the district, and who is an active man in many ways.

23,315. And that is not so essential for the General Commissioners who hear appeals?—That is so.

23,316. Mr. Synnott: Have you any special knowledge of the practice in Ireland?—I have made some inquiry into the matter, but I have not served in Ireland myself.

23,317. There is no local assessment there at all?—No; our Surveyors are the Assessors.

23,318. The Surveyors are the Assessors, and there are 29 areas?—Twenty-nine tax districts, yes.

23,319. And how many Surveyors?—Each tax district is in charge of a Surveyor with a staff.

23,320. Of those Surveyors about 12 are in the large towns, are they not?—That is so; in Dublin, Belfast and Cork.

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23,321. That would be less than one Surveyor for each country district; subtract 12 from 29 and you have it. I took down your phrase, I think it was in answer to Mr. McLintock. You said "In wide country districts we want a man on the spot." If Assessors are necessary for the reason that you suggest in England, would you kindly tell me, especially in regard to the country districts, how you get your local knowledge in Ireland where there are no Assessors? We have 129 Collectors, of whom nearly 40 are full-time men, and our Surveyors make inquiries through them. In addition to that I may say that in pre-war days it was the custom for our Surveyors to go on personal survey, as we call it, annually, in the different parts of their areas, and in that way they picked up new cases of liabilities or new cases for inquiry.

23,322. But that is not done now?—That could not be done during the war, because of the shortage of staff. We were not able to recruit because the men were wanted in the Army.

23,323. I go to your two points first. You say the Collector really does in Ireland, or many of the Collectors do, the work of Assessors?—No. They answer the Surveyor's inquiries, and they make—

23,324. Who performs the necessary duties of informing a Surveyor as to removals, informing the Surveyor as to deaths, and informing the Surveyor as to new business in Ireland?—The Surveyor would make inquiries of local people, probably, chiefly the Collector.

23,325. By local people you do not mean that he would go outside?—Chiefly the Collector, I say.

23,326. But do you say he would go outside the officials? Would he ask local people—private persons?—He would ask local officials as regards retirements and deaths and changes of that kind, which do not involve questions of assessing.

23,327. I need not go into it, but can you tell me historically or for any reason why there is this difference in Ireland? I am not expressing any opinion, but why?—When the Income Tax was introduced into Ireland there was no territorial organisation; there were no divisions and no Land Tax Commissioners to found the thing upon, and it was organised on the basis as it exists to-day, of Surveyors and Special Commissioners and Collectors.

23,328. Do you say before the war the Surveyor used to go on these tours to inquire?—Yes, he did.

23,329. But the Surveyor is constantly leaving, is he not? In my personal experience I have known a particular district in Dublin where there have been four Surveyors in about the last 15 years?—That may be so.

23,330. How can a Surveyor by any kind of touring acquire that local knowledge which is necessary?—I think it is possible for a Surveyor who is wide awake to do so, and that as a matter of fact they have found out many cases for investigation.

23,331. Are you aware that the Surveyor for Dublin has a considerable area of rural district within 30 or 40 miles of Dublin, and that that district is practically never visited?—That is with regard to Schedule B, I suppose you mean.

23,332. Schedules A, B and D, where there are appeals on farms?—Quite so.

23,333. You have no special knowledge of that, so I will not ask you further. You did say that the Collectors evidently have some other duties than collection in Ireland?—There would be subsidiary duties.

23,334. Who appoints them?—The Crown—the Special Commissioners are the actual appointing authority.

23,335. But the Special Commissioners have no local knowledge whatever, have they? There is not an Irishman amongst them, is there?—But the Collectors whom they appoint are local men.

23,336. But how do they know anything about these men? They pay a five months' visit. Who are the Special Commissioners?—It is the Surveyor on the spot who finds out the actual man who is suitable for the appointment.

23,337. He recommends?—He recommends to the Special Commissioners to make the appointment, if they are satisfied.

23,338. Do you know anything about the practice of collecting? In many cases is not the collection made by visits and paid in hard cash?—You mean the taxpayer?

23,339. He does not pay by cheque in many country districts, and he does not pay except when he is called upon to pay, does he?—I am not quite sure what the practice is at the present moment in Ireland. I should say that as in the country districts in England they pay by cash or money order in many cases.

23,340. In your paper on the administration of the Collectors of Taxes (paper No. IV) you deal in paragraphs 55 and 56 with the banking arrangements?—That is the Collector's.

23,341. Yes. Do you seriously suggest that it is the practice in Ireland, that there is a special account on which he cannot draw to the credit of the Inland Revenue?—The arrangements in paragraph 56 in the proof apply only to England and Wales.

23,342. In Ireland you pay your cheque direct to and in the name of the Collector?—So they do in England.

23,343. I have always done so. Is it not a very wrong practice?—The taxpayer is asked to cross the cheque to the account of the Commissioners of Inland Revenue.

23,344. Pardon me; I do not like to give evidence, but I think you ought to inquire about that. You suggest that this practice should be made universal, that the cheque should be drawn in favour of the Commissioners of Inland Revenue?—No, we do not suggest that. The point has been raised from time to time, and has been under consideration.

23,345. Is the Collector paid a percentage?—No; he is paid a salary.

23,346. It is not his money at all, then. Why should it go to the credit of his private account?—I think he does not pay it into his private account. He pays it into a bank that has been selected.

23,347. But he may pay it into his private account if he likes?—But if he does so he disobeys the Regulations.

23,348. Would you turn to your paper No. VI on the Public Departments, paragraphs 9 to 12? In the case of these Public Departments the Commissioners do all the assessing, do they not, through their Assessors?—Yes; through the Assessors appointed by the Departmental Commissioners.

23,349. Returns are made as to whether a man is married and so on, and as to his private means, and the Commissioners deduct the appropriate tax?—Quite so.

23,350. You suggest in paragraph 10 that the Departmental Assessors should be abolished, and their duties in relation to the issue of forms and the assessment of official salaries should be transferred to the Surveyor of Taxes. Do you confine that only to the assessment of official salaries, or do you extend it to the deduction of Income Tax from the interest on public funds? I am speaking for the Bank of Ireland now?—We confine our suggestion to the tax on the official salaries only.

23,351. May I ask why you propose that alteration?—Because we think that it is in effect an extension of the suggestion put forward by the Board that all Schedule E assessments should be dealt with by the Surveyors. We see no reason why a civil servant should not be dealt with in the same way. He should have a notice of charge, and he should be dealt with by an experienced official. By doing that we should save an enormous amount of circumlocution. At the present time about one-fifth of the returns made by civil servants have to be sent to the Public Departments' Surveyors to be examined, because they contain other income; they have to be sent backwards and forwards, and registered at both ends, so that the work is really being done twice over.

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23,352. You would confine the Public Department's duties to sending a proper return of the amount of the salaries only?—And the deduction of the tax, of course. The Accounting Officer of the Department would be required to deduct the appropriate tax, and account for it to the Inland Revenue.

23,353. He would deduct the tax at the 6s. rate?—No; at the appropriate rate always.

23,354. How can he know the appropriate rate unless he knows all the particulars, unless he makes the assessment?—He would be advised as to the amount to deduct.

23,355. Oh, I see. With regard to these church-door notices, do you not really think that is a very archaic and out-of-date method of giving notice of tax?—Undoubtedly it is old-fashioned.

23,356. Is it not more honoured in the breach than in the observance in the country that I come from?—I do not know about Ireland.

23,357. Do you not think there should be a proper notice—in the newspaper or by some other method?—It is a matter for consideration as to whether some other method should not be adopted, either through the Press or the post office, or some other method.

With regard to the question that you raised about the Collectors' banking arrangements, I have got here a copy of the Collectors' Instructions, issued by the Board of Inland Revenue officially. Paragraph 85 says: "If you are under banking arrangements prescribed by the Board of Inland Revenue, such arrangements must be strictly observed," and it goes on to show the manner in which they shall carry this out. I thought it was desirable, in view of what you said about the Collectors in Ireland, that you should know that.

23,358. Will you kindly look at the form which is handed to the Collector with the demand for the payment of the tax, and see whether it does not provide that the money is to be paid to the Collector personally?—Yes; by a crossed cheque.

23,359. Would you look at the form now and see whether you are right or I am right?—All cheques sent have to be crossed "Bank of Ireland" and "not negotiable." That is put in the official instructions. I thought I had better mention that.

23,360. Chairman: Yes; quite right.

23,361. Mr. Marks: With regard to the Additional Commissioners, in your paper No. 1 on Commissioners generally, I cannot quite reconcile paragraph 22 and paragraph 34. You suggest in paragraph 22 that there is a great difference between their nominal and their actual functions, and that their nominal functions have become rather more than they can actually perform?—I think that is so.

23,362. Then you go on in paragraph 34 and say that the Board of Inland Revenue suggest that the functions of the Additional Commissioners "should be the considering of returns and the making of the assessments in respect of all income assessable under Schedule D." That includes all those returns which you have suggested previously that they are not fit to cope with?—No, I do not say they are not fit to cope with them. I think if they took their duties seriously they probably would go through the ordinary trades and professions.

23,363. Frankly, I rather suggested to my mind that the Board of Inland Revenue said, "well, after all, these Additional Commissioners are not doing much harm; we will keep them on."—No, I think they do a certain amount of positive good. It is not a negative but it is a positive help that they give to us in certain cases, and we ought not to lose the benefit of that.

23,364. There is one thing with which I strongly agree, and I would like to know if you would emphasize it a little further. You say that both the General Commissioners and Additional Commissioners should be taxpayers. Would you agree with me that that should be an absolute condition?—Which paragraph is that?

23,365. Paragraphs 37 and 39?—The persons appointed should be taxpayers.

23,366. That is the General Commissioners, and in 39 you say that the Additional Commissioners should be taxpayers?—"Who are either resident in the division or who carry on business in the division."

23,367. I am only on the taxpayers' point at the moment. I suggest to you that it should be put as strongly as possible that it should be an absolute condition of their appointment that they should be payers of taxes. I presume you mean direct taxes?—They are taxpayers whether they are paying direct or indirect.

23,368. You do not limit it to that?—You have a man resident in the division who, though retired from business, might yet be in touch with the business world, who would have no direct assessment, but whose income would be such as would be taxed at the source.

23,369. You are sticking to what I said a different meaning from that which I attach to it. When I say direct taxes, I am speaking of Income Tax as opposed to indirect taxes, such as the tax on sugar?—You mean that he should be a taxpayer in the sense that he is an Income Tax payer, either directly or indirectly.

23,370. Would you agree further that he must continue to be an Income Tax payer, and if he did not continue to be an Income Tax payer he should lose his commission—he should always be an Income Tax payer?—That would introduce a qualification.

23,371. It is a qualification that I want to be introduced?—I should say that that would be a fair and reasonable proposition.

23,372. Mr. Walker Clark: If a Commissioner at present, either a General Commissioner or an Additional Commissioner, ceases to pay the appropriate amount of tax, that is, ceases to have the proper qualification, he ceases to be a Commissioner, does he not?—No, because at the present time a property qualification is required, as mentioned in paragraph 38.

23,373. If he ceases to hold that qualification?—Then he would cease to be entitled to act as a Commissioner.

23,374. And he would be taken off the Commission?—Yes, if he became bankrupt or something of that kind.

23,375. In reference to Clerks to the Commissioners, would you agree that the Clerk should be, to some extent, a Government official, that is to say, he should be the adviser to the Customs, or to the Board of Trade, or to the Home Office, or the Post Office?—No. If he is to act as the legal and general adviser of the General Commissioners I think he should be appointed by them; they would appoint someone in the neighbourhood who is a fit person.

23,376. You would absolutely trust their discretion in appointing their Clerk?—I think we should have to.

23,377. You know at present there is a tendency to employ ex-Surveyors as Clerks?—There has been on the part of a few bodies of Commissioners, about five or six in all.

23,378. Does the Inland Revenue Department approve of that procedure?—We have not been able to help it.

23,379. Do you think that they are suitable persons for the post? That is the point I wanted to get at?—With their legal and general training some of them might be. As a matter of fact most of the men you refer to were retired officials.

23,380. Not all?—No, all but two, I think.

23,381. In your paper No. 1, dealing with Commissioners, paragraph 38, it is proposed by the Board that 12 should be appointed?—Yes.

23,382. Would not the practical effect of the three suggestions (a), (b), and (c) in that paragraph be to appoint the very type of men that are appointed now? One kind by the Crown, possibly acting through the Lord Chancellor or the Lord-Lieutenant of the County—those would be justices, would they not?—Not necessarily. The Lord-Lieutenant would have the whole field of selection in his area, and he would take advice.

23,383. But the result would be that they would be justices, would it not?—It might possibly be so. It would depend on the Lord-Lieutenant's view of the matter. I think he would probably select a certain number who were justices of the peace.

23,384. And (b) would certainly be justices?—I think that probably that would be so.

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23,385. And (c) would very largely be justices?—I do not think so. I think that the local authority might appoint six who were none of them justices.

23,386. But there are only four to be appointed?—I am speaking of the 18, including the six to supply vacancies.

23,387. May I suggest that a very much better method of appointing these would be to ask the Law Society to nominate a certain number, and the local organisation of accountants to nominate one or more, and the Chamber of Commerce one or more, and the Chamber of Trade one or more rather than these bodies?—But you would have many districts where there was neither a Chamber of Commerce nor a Chamber of Trade.

23,388. I do not think so?—Surely there are no Chambers of Commerce in the rural districts?

23,389. Oh, yes, I think so?—Not Chambers of Commerce.

23,390. Organisations of employers?—It seems to me that if you are going to suggest nomination by all these different bodies you would have an immense number of appointing authorities; in fact, you would be sure to leave somebody out if you tried that.

23,391. In the City of London you have that principle at present, have you not?—The principle is to appoint by the different authorities prescribed in the Act—the Bank of England, the Port of London Authority, and so on.

23,392. You have the principle there already, have you not?—Yes; that has, of course, come down from the beginning.

23,393. From time immemorial?—Yes.

23,394. Chairman: What do you want him to confess to, Mr. Walker Clark?

23,395. Mr. Walker Clark: I want to suggest that the principle which is adopted in the case of the City of London should be extended rather than have an absolutely new principle, as here introduced. I wondered whether the Board had considered that point?—The Board's proposals, as I stated in the proof, are tentative proposals. The different ideas mentioned have been considered, but it was thought that the main qualifications should be high character, impartiality and general intelligence; it was not thought desirable that the bodies of Commissioners should be representative of different interests or trades and professions, and so on, but that they should be representative of the community at large.

23,396. Is not that exactly the type of man you have at present?—No, I do not think so.

23,397. I am glad that you pay a compliment to the division from which I come—that the body are first-rate. You suggest that West Yorkshire is a suitable model for the country?—You are thinking of the West Morley Division.

23,398. Not particularly West Morley?—That comes to me familiarly.

23,399. At present, I think it requires the sign manual of Commissioners to make the schedules a legal instrument?—They have to be sealed.

23,400. Would you suggest that that should be abolished? Do you not think it is quite unnecessary that the charge duplicate should be sealed?—Personally, I do not see that it is essential.

23,401. In reference to the Public Departments, you suggest that the weekly wage-earners should be excluded specially; that is in paragraph 10 (c) of your paper No. VI?—"Excluding all weekly wage-earners charged by quarterly assessment."

23,402. Why should they be specially excluded?—Because they are excluded now, and you would be treating the weekly wage-earners who are employed by the Crown differently from those employed by ordinary firms. That would create trouble.

23,403. One question on the administration of Collectors of Taxes, paragraph 79 of the fourth paper. You say no actual steps have been taken to give effect to the proposed change. That is doing away with the Customs and Excise officers collecting taxes in many districts?—Yes.

23,404. I am not quite sure whether the Board recognize that that course should be adopted or whether they do not?—It has been agreed, as stated

by Mr. Baldwin in Parliament, that as soon as possible after the war the Customs and Excise officials should be relieved from collecting Income Tax.

23,405. I was not clear whether that was to be a general relief or a special relief in certain cases where there is a great deal of work for the Customs and Excise officers to do?—It was to be a general relief, that they were to be cut off from us, and that ultimately they would cease to act as Collectors for our Department.

23,406. That would lead to the necessity, would it not, of having full-time civil servants as Collectors?—It would involve that, undoubtedly; a new organisation would have to be set up.

23,407. Pensionable and having all the advantages which many of them now do not possess?—That is the recommendation No. 2 in paragraph 73.

23,408. Dr. Stamp: Some of the Commissioners are rather anxious to get a more exact idea as to the actual procedure in practice of the Additional Commissioners. We have had in evidence at some length what happens in the City of London, but when the Commissioners have tried to ascertain how far the City of London practice is characteristic of the country as a whole, all that we have got so far is that, generally speaking, the country does not go into matters quite so thoroughly, or is a little less formal. We have it from you that in some divisions quite as much attention is given by, and also that valuable information is gained from time to time from, Additional Commissioners, but that in other cases the proceedings are more or less formal. I would like to ask one or two questions to try to give a more precise form to this matter. What actually happens in practice? Would you say that there has grown up in each division some recognised method of dealing with the matter, which is not very greatly altered from year to year?—Yes, that is so, I think.

23,409. That is to say, if they have a particularly formal method they will not be very informal the following year; they will follow that practice through?—Quite.

23,410. So it might be possible to classify the divisions of the country under various heads of practice?—That is so.

23,411. May I ask you whether you would agree broadly with some such classification as this, so being a classification of what actually happens in the country. I propose to put seven classes, fairly distinct. First, where the Commissioners hear every case read over, including even cases where the liability has already been practically settled with the taxpayer on his accounts; secondly, where the Commissioners have cases over a certain figure read out—a certain standard of their own; thirdly, where the Commissioners consider cases extracted by prior consultation between the Clerks to the Commissioners and the Surveyors; fourthly, a class of divisions where the Commissioners think of cases themselves and ask for them to be turned up and discuss them; fifthly, the class of cases where the Surveyor is asked by the Commissioners to mention cases or to bring them up; sixthly, a class of cases where the Surveyor meets the Clerk beforehand and decides the cases that are in question in his mind, and the Clerks to the Commissioners then get signatures after the meeting, or at the end of it, to what has been done; then, finally, the seventh class, where formal dates are fixed for the meeting, to comply with the Act where the Surveyor simply gives the Clerks to the Commissioners the book with the Additional Commissioners' column practically completed, and the Clerk then gets the signatures at such dates and times afterwards as may be convenient to him?—Yes, I think I can agree that all those are distinct ways of dealing with the matter.

23,412. Those represent the seven classes of the actual practice to-day?—Yes, I think they do.

23,413. Would you say that the bulk of the number of divisions throughout the country fall into the latter classes, that is, the fifth, sixth and seventh classes; the fifth class, where the Surveyor is asked

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by them to mention the cases; the sixth class, where he meets the Clerk and decides the cases and the Commissioners just pop in and sign the book; and the seventh class, where there is no actual meeting of Commissioners at all, but they sign the book at such dates as may be convenient? Do you agree that, taking the divisions in numbers, apart from the number of assessments in them, the majority of them would fall into the last three classes?—Yes, I think they would. Of those last three classes, I think the first would be the one that would be most common.

23,414. Where the Surveyor is asked to mention the cases?—The cases that he wants to have considered.

23,415. But there would be a considerable number of cases where the matter was the very extreme of formality?—Undoubtedly.

23,416. Mr. McLintock: It is the fifth case, not the first.

23,417. Dr. Stamp: I asked whether the bulk of the cases might not be considered to fall within the last three classes?—It is the fifth class that I am speaking of.

23,418. The cases where the Commissioners would hear every case read over would be quite few, would they not?—Very few.

23,419. Would it be within your experience that they have sometimes started very religiously to read them over and then got very tired, if it was a long book, and that the rest went by the board?—I have never known a case of that kind where the Commissioners have made such a start; but if they did they would probably find that their meeting was getting rather too prolonged.

23,420. Have you ever known of Commissioners who have had so little idea of what they were doing that they could not be induced to make a distinction between an assessment under Schedule D and a man's total income; that is to say, when it has been put to them that a man is assessed at £400 they say, "That is preposterous; he is living at the rate of £1,000," and it has been put to them: "You must not think of the man's other property; you must only think of his business in Queen Street"—I think that is very likely.

23,421. We have heard that the Commissioners have been useful in certain respects. Have the Commissioners sometimes been a very great hindrance to the liability being put on the proper basis? Has it ever been within your knowledge that a Surveyor has had reasons why an assessment should be altered and in one of these "formal" divisions he would give reasons year after year why it should be altered, and he has been opposed, and then ultimately, when accounts have been secured, his insistence has been justified?—Yes, I have known cases, if I might mention them. I do not suppose the Commission would wish to have many special cases, but I have one in mind. The Surveyor tried to get an assessment increased—it was round about £20,000. The Additional Commissioners refused, but ultimately it was found that the taxpayer's return was quite incorrect, and he paid a large sum of money for arrears, and the Commissioners realized that they had been protecting him. That is a typical case.

23,422. Chairman: Was he a friend of the Commissioners?—No, I think not in any way. They thought that his return should be accepted, because he was in a large way of business.

23,423. Mr. Symcott: Did you say that was a typical case? I thought I heard you say that?—It is a case that crops up from time to time in every district.

23,424. Dr. Stamp: Is it not a fact that it is very difficult, whatever the local knowledge of the man may be, to decide from mere external observation of a business whether it is making £20,000 or £30,000?—Very difficult in some cases.

23,425. One may judge whether a baker's shop is making £200 or £400, but it is very difficult to judge from the outside of administrative offices and some warehouses, whether a business is making £20,000 or £30,000?—Very difficult. I have a case in mind of a man who had a small office; he was in the wool trade and his turnover was nearly two millions a

year, and he was making at that time nearly £20,000 a year, but there was no evidence whatever on the outside that he was in a large way of business.

23,426. Therefore the value of the Additional Commissioners, in your judgment, is very largely confined to what I might call medium cases?—Cases where there is something within their own knowledge, where they may have personal knowledge, or where on the appearance of the thing a man is in a large way of business, employing a lot of people.

23,427. I heard of a case—perhaps you will tell me whether you have ever met a similar one. It was a certain case in which accounts had been rendered, a large case, it was a brewery, and despite the fact that they were very straightforward and honourable people and everybody believed them, yet so intricate were the features of the liability, that the Surveyor doubted whether they could have made up their return properly. He brought it to the notice of the Additional Commissioners year after year, because the accounts were refused, to increase the assessment with a view to bringing the matter to an issue; and year after year the Additional Commissioners said, "No, these people are perfectly straightforward and they have competent people to deal with this; we will not interfere." But after about six years, accounts were secured and it was found that, in quite good faith, all kinds of errors of principle had been made. Would that surprise you?—Not in the least.

23,428. So that it would be true to say that, while certain bodies of Commissioners have given useful information from time to time, they also have been a clog on the wheel?—I am afraid that is correct.

23,429. With regard to Clerks to the Commissioners, the majority of them are solicitors, are they not?—Yes, about five-sixths, as near as we can tell.

23,430. But there is a small minority that have no legal knowledge at all?—Yes, absolutely none, I should say.

23,431. And they would number in their ranks a seed merchant or a manure merchant or a timber merchant or a grocer?—Yes, or a wine and spirit merchant.

23,432. Men who, unless they had set out specially to get it, had no real legal or technical training for the work?—That is so.

23,433. Coming now to the District Commissioners, would you think that in many divisions many of them are also not well equipped for the class of case that comes before them?—The Additional Commissioners, do you mean?

23,434. The General Commissioners, who hear appeals?—They are not specially equipped for the difficult cases.

23,435. Is it within your knowledge that in one division at least, quite recently, for many years every Commissioner was a Clerk in Holy Orders—a vicar in a neighbouring parish?—No, I do not know that, but I do know that I have met clergymen on different bodies of Commissioners.

23,436. But you do not know a particular division where that was a fact?—I do not know one where they were entirely represented by clergymen.

23,437. The cases that come before Commissioners on appeal would be cases involving facts; we will assume that no satisfactory account had been produced, or could be produced, and it was a matter of judgment as to whether a man's liability should be £300 or £500. That is a class of case which the General Commissioners, with their local knowledge, would be very competent to consider, and the Revenue would be very sorry not to have their assistance?—That is the class, I think, where they would be most useful.

23,438. Their local knowledge is, of course, essential to deal with a case like that?—Yes.

23,439. They have another class of case, have they not, where there is no question of dispute about the facts, but the point is one of law, and often a difficult point of law; and therefore you have six or seven hundred tribunals, not very well equipped for considering points of law, before any one of which a point of law may come, and who may decide that differently from another body of Commissioners deal-

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ing with the same point somewhere else?—Yes, that is so.

23,440. Have you considered whether it might not be possible in some way to divide the classes of cases that come before them, and so to secure that you get all the advantages of their local knowledge in the one class of case where facts only are in dispute, and to have some modified tribunal—if you like, adding to their number somebody who has legal knowledge and training to consider cases in which points of law are involved?—No, that has not been considered, because in those difficult cases the taxpayer has always the right to go to the Special Commissioners at present, and he will have that right still.

23,441. But the fact remains that under the present practice the District Commissioners do hear a great many arguments on points of law, for which they are not properly equipped?—They are not as fully equipped as they might be, I admit. If they have a competent Clerk to assist them with advice, I think some of the bodies of Commissioners are quite capable of dealing with the ordinary class of case involving a point of law.

23,442. In the case of some Commissioners, even though they may be valuable from the point of view of their local knowledge, do they not find a temperamental difficulty in dissociating their feelings about a case from the dry legal aspect of it?—I have no doubt there are Commissioners who answer to that description.

23,443. Suppose it was suggested that, wherever the Clerk to the Commissioners agreed that a point of law was involved, the case should be considered by so many of the ordinary Commissioners, but that there should be added thereto two extra Commissioners chosen by reason of their legal standing or attainments, do you not think that would lead to rather more useful results?—If it were found to be practicable, I think it would. The difficulty is that it might be rather awkward if the Clerk to the Commissioners was a solicitor of standing; it would be rather derogatory to his position as adviser to the Commissioners to bring in outsiders.

23,444. Mr. McIntosh: Is it not the case that in Scotland they call in the Sheriff—the local judge—on special cases, though he never sits on any other cases?—In Scotland, the Sheriff Depute and the Sheriff Substitute are ex-officio General Commissioners.

23,445. Dr. Stamp: With your long experience have you not known instances where a Clerk has told the Commissioners that a difficult point of law was coming up, and that they have said, "We must have Judge So-and-so"—a retired County Court Judge or somebody with legal training? Could not a system be made of what is there done voluntarily?—You mean if he happened to be a member of the Board of Commissioners?

23,446. Yes?—Yes, I have known instances where the Commissioners have known that a difficult case was coming up, and there has been a Commissioner with special knowledge of the law, and they have secured his attendance.

23,447. In your long experience in the Revenue in various capacities, you have taken many appeals before District Commissioners?—I have.

23,448. Have you taken appeals on points of law?—Yes.

23,449. Have you sometimes found that the whole of your work upon legal points has been practically useless, that is to say, it has not been appreciated at its proper worth?—Well, that may have been my feeling.

23,450. Coming now to the question of Collectors, some questions were raised about Ireland. I would like to ask you whether, even in England, a great deal of the local knowledge which you regard as the useful knowledge that you get from an Assessor is gained from him in his dual capacity as Collector?—Undoubtedly.

23,451. In the great majority of cases the posts of Assessor and Collector are held by the same person, are they not?—Practically all.

23,452. Therefore you would still have practically the same local knowledge at your disposal if you

abolished the office of Assessor, but you would ask the Collector the questions that you now ask him as Assessor?—That is so, except where there might be a very large collecting area and the Collector would not have an intimate personal knowledge of the whole of that area; there might be some odd cases.

23,453. But in the ordinary parish?—In the ordinary parish he would have the knowledge.

23,454. You would get the same local knowledge from him, and he would be up to date by reason of his activities as a Collector?—I think he would.

23,455. Certain questions have come before the Royal Commission on the subject of Collectors and certain statements have been made by the representatives of the National Association of Assessors and Collectors, with which, I gather from paragraph 70 of your fourth paper, you are not altogether in agreement. The Commission would very much like to know a little more as to your views upon particular points. You specially mention paragraphs 37 and 46 of the Assessors' and Collectors' evidence. Will you tell us where you consider the Collectors either are wrong or have overstated the facts in their paragraph?—May I deal first with paragraph 46?

23,456. By all means?—Paragraph 46 states that "there is no one, either at the Head Office of the Commissioners of Inland Revenue or among their Surveyors, who has the slightest personal knowledge of the work and responsibility of Collectors or of the ramifications and details of the methods of their work."

23,457. What do you say about that?—I should like to point out, first, that there is no secret about a Collector's work and responsibility. His functions are clearly laid down by Statute; and the Collectors' Instruction Book, which lays down the whole collection procedure in detail, is prepared by the Board of Inland Revenue. Modifications of procedure which from time to time become necessary are effected by means of a periodical revision of these instructions by the Board. As a matter of fact many persons are appointed as Collectors who have had no previous training or experience, but who succeed from the outset in carrying out their duties satisfactorily. It is part of the duty of the Board's Surveyors periodically to inspect the books of Collectors in their districts and to satisfy themselves at the end of each collection that every Collector has accounted fully for all the tax given in charge to him to collect. When, as does unfortunately happen occasionally, a Collector's accounts are found to be unsatisfactory, and a default is suspected, it becomes necessary to go through every item in the Collector's proceedings in minute detail. As a matter of fact, several very exhaustive investigations have been made during the past few years. In these circumstances I suggest that the statement that none of us has the "slightest personal knowledge" of a Collector's work and responsibility is not in accordance with the facts.

23,458. But possibly when the Collectors use the words "slightest personal knowledge" they mean that no member of the Board of Inland Revenue and no Surveyor has ever himself been a Collector?—May I say this, that, assuming that the words are used in that sense, I still consider that they are misleading; because obviously it is not necessary to act as a Collector in order to obtain personal knowledge of a Collector's methods of work. As I have just mentioned, the procedure generally is indicated in the official book of Collectors' Instructions prepared by the Board, whilst the Board are also empowered by Statute to prescribe the accounting arrangements. I may also say that a substantial part of the tax is collected by Collectors of Customs and Excise, who, until a few years ago, were the Board's own officers; so that really the Collectors' statement is tantamount to affirming that the Board have no knowledge of the work of their own officers.

23,459. Will you look at paragraph 37 in their proof of evidence? That is another of their paragraphs that you say you are not in agreement with. Will you tell us to what extent you are not in agreement

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with it?—Paragraph 37 states that the Board have imposed upon certain Collectors additional clerical expenses which are not covered by the increase in the remuneration granted by the Board. I think this is rather an important statement to make and rather a serious allegation by the Collectors. The facts are briefly these: when the method of payment by two instalments was extended to Income Tax under Schedule A, it became necessary, in view of the millions of assessments affected, to revise the collectors' remuneration. A very large amount of public money was involved, not far short of £200,000 per annum, and in order to ensure that the remuneration should be dealt with on a systematic basis the Board ordered an investigation to be made into the whole matter. This investigation was a thorough one, and revealed the fact that as between one Collector and another there were serious differences in the rate of remuneration which could not be justified. The reason for this was that the basis of remuneration originally fixed by the Act was a poundage basis. It followed, therefore, that in a collection which contained a relatively small number of charges, but a large amount of tax, the Collector's remuneration was comparatively high; whilst in a collection where the number of charges was much larger (or where the taxpayers were scattered over a much wider area), but where the amount of tax was relatively small, the remuneration tended to be low.

23,460. What did you do in the way of adjusting that?—What happened was this. An effort was made to arrange that the remuneration paid to each Collector should be fair and reasonable, having regard to the whole of the circumstances relating to his particular collection, including, of course, such factors as office accommodation, any necessary clerical assistance, and travelling expenses. The result was that in a large number of cases a greater addition was made to the Collector's remuneration than would have been justified simply by the amount of the additional work entailed by the second collection under Schedule A. In a smaller number of cases, however, a less addition was made in consideration of the second collection than would have been justified by the additional work entailed by the second collection if that had been the sole consideration. In a few cases—and this is the point I think Mr. Brown refers to—no addition whatever was made, since it was proved that the remuneration already payable was fully adequate, and in some cases more than adequate, for the total work, including that on the second instalment. In all cases of this class, when the time comes to appoint a new Collector, the remuneration will be reduced to an amount appropriate to the work of the particular collection. I submit, therefore, that, in asking the Royal Commission to consider solely the additional remuneration granted since the introduction of the second instalment system, the Collectors are losing sight of one of the principal factors in the case. What should be looked at is the total remuneration in comparison with the total work.

23,461. So you took advantage of that particular opportunity to remedy an anomaly?—Yes, we were not in a position to say that he was entitled to further pay than he was getting, because that was ample for the full work of the second collection as well as the first.

23,462. Suppose the Collector disagrees with the amount of the remuneration allowed to him, has he any means of securing further consideration of his case?—Yes. That has happened in quite a number of cases within my own knowledge. What happens in this. The Collector can, and does, make representations to the Board, pointing out any special features in his case, if there are any. These representations are carefully considered, and, if necessary, a senior officer of the Department is sent down to interview the Collector and make an investigation on the spot. If, as a result of this reconsideration,

a further increase is found to be due it is granted. Moreover, no difficulty is experienced, where there is a change of Collector, in obtaining a competent man at the remuneration fixed by the Board.

23,463. Are there any other points in the Collectors' evidence to which you wish to call attention?—There are a few statements, chiefly on matters of detail, which are not quite correct, but with which I do not propose to trouble the Royal Commission. I may, however, refer to paragraphs 32 and 33 [Q. 23,219 and 23,220] of the Collectors' evidence, in which they refer to the fact that Super-tax is paid on a direct application from the Special Commissioners. The Collectors rather suggest that there is duplication of work here, which causes irritation and annoyance to the taxpayers concerned, and which would be avoided if all the tax were made payable to one Collector. There are two things to be said on this. One is that the present system of collecting the Super-tax is extremely economical, the expense being restricted practically to the pay of a few clerks and the cost of the necessary postages and stationery; the other is that, in the experience of the Department, Super-tax payers are distinctly averse to having their affairs dealt with by the local officials. We have no doubt at all that so long as the present system of appointing Collectors is continued the central collection of Super-tax from Somerset House will not only be by far the most economical method, but will also be greatly preferred by the taxpayers concerned.

23,464. We had certain evidence from Mr. Copley Hewitt, on behalf of the Clerks & Commissioners, but dealing specially with the City of London. Have you had an opportunity of reading that evidence?—I have.

23,465. There are certain differences between his evidence and yours, and I want to clear up one or two points. We had a lot of talk about cases being disposed of, roughly, at the rate of one a minute. Can you tell us as to the rest of the Metropolis, and in the provinces?—Yes. In March last we called for statistics relating to the year 1917-18 in the case of 21 important and representative divisions throughout Great Britain, with the following results. In those 21 divisions the total number of Schedule D assessments for the year 1917-18 was 317,000. In the case of one or two divisions no cases were considered by the Additional Commissioners, who simply contented themselves with formally signing the assessment books, but in the case of one division (a country division, which in practice is dealt with by two virtually separate bodies of Commissioners) the Commissioners for one side of the division considered every case, whilst the Commissioners for the other side of the division considered only 3 per cent. of the cases. In the case of no other division did the number of assessments considered exceed 10 per cent., whilst the average for the whole of the 21 divisions was less than 3 per cent., namely, 8,600 assessments out of 317,000. In the case of only four divisions were the returns relating to the assessments to be considered by the Additional Commissioners taken to the meeting. Of the 8,600 cases considered by the Additional Commissioners, 8,000 were accepted as submitted by the Surveyor, 370 cases were decreased, and 230 were increased. In addition, in the case of three out of the 21 divisions, assessments were made in 25 new cases on the initiative of the Additional Commissioners. The average rate at which cases were considered by the Additional Commissioners was about 30 per hour.

23,466. Chairman: In Mr. Hewitt's evidence it got up to 60 an hour in the City; that is one a minute.

23,467. Dr. Stamp: It was put to us, and I cross-examined Mr. Copley Hewitt on it, that when the extracted cases in the City were brought to the meeting a considerable number of changes were made, and I asked for information as to how many cases were increased and how many were decreased, compared with the Surveyor's suggestions. Mr.

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Hewitt would not give an exact reply. I suggested to him that it would be covered by 50, and he thought that that figure was preposterously low. Could you give us your idea?—We have the figures for the year 1917-18. In that year less than 30 cases were decreased and about 20 cases were increased. No new cases were initiated by the Additional Commissioners. That was for the financial year 1917-18.

23,468. Can you tell me if it is the general practice outside the City of London for Surveyors to take with them to the meetings of the Additional Commissioners accounts and documents relating to the cases which the Additional Commissioners are going to consider?—I can say quite definitely that there is no such general practice. In many divisions the Surveyor does not know beforehand which cases the Commissioners will look at, and in dealing with any inquiries made by the Commissioners he has to rely upon his own knowledge of the proposed assessments. It may occasionally happen that in a specially important case he may take with him the documents or accounts as a precaution.

23,469. I notice that you say that in 21 divisions outside the City of London 370 cases were decreased by the Additional Commissioners. Is it your experience that particular bodies of Additional Commissioners are specially disinclined to grant increases asked for by the Surveyor?—Undoubtedly that does happen in certain divisions. For instance, of the 370 cases of decrease I find that 140 were made by one particular body of Additional Commissioners. On the other hand, the number of cases in which that same body of Commissioners increased the assessments submitted to them was 10.

23,470. Will you look at the second part of paragraph 15 of Mr. Hewitt's evidence-in-chief in which he states that in his opinion "the Assessor is indispensable, not only to the taxpayer, but also to the Additional Commissioners and the Surveyors of Taxes themselves. He is indispensable to the taxpayer because he is the only permanent official resident in the district. He is in personal touch with the taxpayer, and is the obvious and proper person to whom he should—and to whom in fact he does—apply for information and assistance." As that statement does not agree with the general trend of your evidence, perhaps you would like to comment upon it?—I disagree entirely with Mr. Hewitt's suggestion that the majority of taxpayers do in fact apply to the Assessor for information and assistance. I have shown in my proof of evidence on Collectors (paper No. IV) that of the 4,600 Assessors and Collectors in England and Wales the remuneration of more than one-half of them does not exceed £1 per week, whilst in the case of nearly three-fourths of the total number the remuneration does not exceed £2 per week. This means that the majority of the Assessors are part-time officials and that they do not have the opportunity of obtaining a sufficient grasp of Income Tax law to enable them to deal with any questions other than those relating to the most rudimentary points. Their office hours, even through the period of collection, are frequently restricted to two hours per day on two days of each week. The Surveyor's office is open to callers every week-day, and in the aggregate the Surveyors and their staffs deal every year with hundreds of thousands of callers and with an immense amount of correspondence from the tax-paying public.

23,471. On the question of the Assessors one of the witnesses who appeared before us gave evidence with particular reference to the conditions in Liverpool. Would you say that the conditions there are fairly representative?—On the contrary, Liverpool is the only place in England and Wales in which whole-time Assessors, who are not also appointed as Collectors, are engaged.

23,472. What is the position in Scotland?—Only in Edinburgh and Glasgow are whole-time Assessors appointed.

23,473. So that throughout Great Britain there are only three places in which whole-time Assessors are appointed?—That is so.

23,474. It was represented to us that in Liverpool, for instance, it is a great convenience to the public to be able to go to the Assessor as the "man on the spot" from whom they could obtain help which it is suggested to us the Surveyor is too busy to give. If the proposals put forward on behalf of the Board of Inland Revenue were adopted would there be any diminution in the facilities at present afforded to the public?—None whatever. The effect would be in the direction of simplification and increased facilities. The position now is that a taxpayer receives a formal return from the Assessor, and though the form contains an intimation that further information may be obtained from the Surveyor, the taxpayer frequently, in the first instance, calls upon the official by whom the form was issued and to whom it must be returned. If the points upon which information is required is a simple one the Assessor may be able to deal with it, but if not, he can only refer the caller to the Surveyor. The taxpayer must, therefore, then call at the Surveyor's office and state his case over again. If the form of return were issued by the Surveyor, the taxpayer would go to him direct and would at once obtain the necessary assistance.

23,475. I gather that there are three Assessors in Liverpool. How many Surveyors have you there?—I ought to explain that the city of Liverpool is dealt with by two bodies of Commissioners. The centre of the city makes up the division of Liverpool, corresponding to the ancient parish of Liverpool. The remainder of the city is in the Prescot division of Lancashire. The three whole-time Assessors deal solely with the division of Liverpool. The number of tax districts which take a part of the division of Liverpool is 8. In these 8 districts we have a staff of about 18 Surveyors and Assistant Surveyors and a clerical staff of about 70. This compares with the staff of 3 Assessors and probably 3 or 4 Assessor's clerks.

23,476. But we are told that the Surveyor is too busy to see many of the people who call upon him?—I am very glad of the opportunity of dealing with that point. Let us take, for example, the district which we know as Liverpool 1. We have in charge of that district a senior Surveyor of great experience upon whom devolves not only the general administration of his district, but also the duty of dealing with the extremely complicated questions arising out of the returns and accounts furnished by the great shipping and other concerns within this area. He is assisted by two Assistant Surveyors and by a staff of clerks. Many people who call at the Surveyor's office endeavour to insist upon seeing the Surveyor personally. But obviously, if the point upon which they are seeking information is one that can be satisfactorily dealt with by a member of the Surveyor's staff, it would be most unbusinesslike to allow the time of a highly paid official to be diverted from the difficult technical work upon which he is chiefly engaged in order to answer questions on relatively simple points. In practice, therefore, unless a caller has an appointment with the Surveyor personally he would not normally be shown into the Surveyor's room unless it proved on inquiry that the case was one for the Surveyor's personal attention. We have been suffering, as Sir Thomas Collins has pointed out, from a shortage of trained staff as a result of the war, but every effort is being made to make good the deficiency with the least possible delay.

23,477. It was also put to us that the remuneration of Assessors—not in Liverpool but in the country—is inadequate. We are told of one case where the Assessor for 8 country parishes, who served forms in 400 cases, who keeps a pony and trap to get about his district, and who is required to attend two meetings of Commissioners, is paid less than £2 per annum. That is said to be typical. Can you throw any light on the matter?—May I say first that, as the Assessor is authorised to send all the forms of return by post, and as each form is accompanied by a franked envelope for its return, the Assessor certainly does not require a pony and trap in order to enable him to carry out this part of his assessing duties. As to meetings he would, as a rule, be required to attend them in any case in his capacity as Collector.

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For an Assessor who issues 400 forms of return a remuneration of £2 per annum is certainly inadequate, but he has a very simple remedy, and that is to make an application for a revision of his remuneration. We are well aware that in consequence of the old poundage basis there are inequalities as between one Assessor and another, and during the past two years we have reviewed the remuneration of several hundreds of Assessors.

23,478. One of the suggestions made to us on behalf of the Collectors was that the Board of Inland Revenue would do well to attach one or more Collectors to their staff in a "directorial" capacity. Have you thought of that in connection with the proposals you have laid before us?—Yes. One of the drawbacks of the present system is that there is no organised provision for carrying on the work of a Collector who falls ill. Now that the Collector's work has become practically continuous throughout the year that is a drawback which will tend to become more serious. At present, if a Collector is incapacitated through illness and has no clerk, his work at once falls into arrears and the collection is delayed. If the illness is such as to necessitate a prolonged absence from duty, measures are improvised to meet the emergency—for example, arrangements may be made that the neighbouring Collector should carry on the collection. If the plan suggested by the Board were adopted it would in time be possible to arrange for the provision of a small relief staff, and this staff would naturally be attached to the Head Office. As the Collectors would be under the control of the Surveyors for the various districts, acting under the direct instructions of the Board, I think it would be unnecessary to have a "Director" of Collectors at the Head Office.

23,479. It was put to us by the Assessors' representative that one of the services they render to the taxpayer is explaining to a firm how the total liability is agreed with the Surveyor is to be divided amongst the various partners for the purpose of their claims to relief. The suggestion was that the Surveyor contented himself with computing the liability on the firm as a whole.—I cannot help thinking that the witness must have been under some misapprehension. The apportionment of the liability of a firm amongst the several partners is frequently a most intricate operation, requiring a knowledge of the factors upon which the liability itself has been built up. I am well within the mark when I say that not one Assessor out of 50 has the requisite technical knowledge to enable him to give accurate advice on a complicated partnership apportionment. The Surveyor knows that he will at a later stage have to settle the rate of tax at which the component parts of the firm's assessments are to be charged, and in cases where there is any complication the usual course is for the apportionment to be agreed between the Surveyor and the accountant or taxpayer, as the case may be.

23,480. There is just one other small point upon which I am not quite clear. We were informed that in Liverpool the Assessors issue precepts prepared by the Clerk to Commissioners requiring applicants to furnish accounts. Can you explain that procedure?—Liverpool is one of the divisions respecting which we have had specific reports, and the actual procedure is that when a taxpayer gives notice of appeal and the case is one in which accounts are required the Surveyor sends him a formal printed letter in the name of the Clerk to Commissioners requesting that accounts shall be sent to the Surveyor. That is the ordinary procedure, and I can only imagine that the Assessors are referring to some isolated cases in which accounts have not been furnished and the case has been put down for personal hearing. In any event the procedure illustrates some of the useless formalities inherent in the present system. Accounts are required by official No. 1 (the Surveyor of Taxes), but instead of the Surveyor making application for them direct, the request for accounts is prepared by official No. 2 (the Clerk to Commissioners) and is actually posted by official No. 3 (the Assessor). We think such a system stands self-condemned.

23,481. Then I have only one more question to ask. That relates to what would happen on a reduction of the number of divisions in sparsely populated districts. You would get a very large redundancy in the number of Commissioners to act for a few divisions. Would you have those 30 or 40 Commissioners select, say, twelve, from among their number to act in the consolidated division?—Yes, that is a reasonable suggestion—that they should choose from amongst themselves the number that would be required in the new division.

23,482. Would they not tend to choose by seniority? Is not the idea of seniority very prevalent with General Commissioners—in the matter of who takes the chair, and so on?—Yes, the senior Commissioner does usually take the chair.

23,483. And is not that rather a disastrous fact sometimes in the case of an aged and deaf chairman?—Not always. I have known many cases where the man who presided at the meeting was the most capable man and not the oldest.

23,484. But there are cases where prerogatives are insisted upon?—Yes.

23,485. Chairman: Dr. Stamp asked you about the deaf man, and I think you said it did not make much difference. Is that so?—I think there is no doubt that as a rule the senior Commissioner expects to preside.

23,486. Dr. Stamp: And he may be very aged and very deaf?—Yes, he may be if he has gone on long enough.

23,487. Would it be within your knowledge and experience that it would be possible to have an argument for a quarter of an hour or for half an hour, and then for the Chairman to say: "what does the Surveyor say it ought to be and what does the appellant say it ought to be? I think we will split the difference"?—I think that might be so; I do not know whether it is so now; it used to be so.

23,488. Do you think it would be satisfactory to leave the choice of the 12 surviving Commissioners to the 30 or 40 existing Commissioners?—I do not think it would be satisfactory from the point of view of getting the best men.

23,489. Sir W. Trouser: I think we all agreed that nothing could be more able or more concise or clearer than your six papers, but I think they are required, are they not, to explain an elaborate and complicated system which has grown up over 100 years?—Yes, that is so.

23,490. May I ask you to do a very hard thing, and forget that system for a moment entirely, and treat the question *de novo*. If you would kindly address your mind to that, I think that four things would be required; four main questions have to be dealt with. First, you have to have a return from the taxpayer of his source of income?—Yes.

23,491. Secondly, you have the assessment of the income?—Yes.

23,492. Thirdly, you have the collection of the Income Tax?—Yes.

23,493. And fourthly, you have an appeal?—The appeal would come before the collection.

23,494. I put it in the wrong order for the moment, but you will have to have provision for an appeal?—Yes.

23,495. I put it to you that, first, the Surveyor of Taxes can ask for the return?—Yes.

23,496. Then if the Government have an official to make an assessment, the Surveyor of Taxes is the person to make the assessment. I am asking you to deal with this as a proposition *de novo*, as if you were starting the collection of Income Tax. You would first have a notice to the taxpayer, then you would have an official who would assess, subject to appeal. Then you would have a Collector. Now do you not think that the Surveyor could send out the notices of return; that when he gets them he could make the assessment in all cases subject to appeal; and that then there should be a separate official who could collect the duty? Does not the whole question resolve itself into that?—Not entirely, according to our view, though it is mainly that. We propose that

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[Continued.]

the Surveyor should send out the forms of return, that he should examine these returns, and that he should apply himself to ascertaining whether they are correct or not and amend the figures as far as may be necessary. But we think that, within a limited range, there may be an advantage to us as a Department, and to the country, from the point of view of revenue, of utilising the local knowledge of the Additional Commissioners, who are frequently business men.

23,497. But is that really a business proposition?—If you can get the right type of men who are willing to give their services in that way, I think it is.

23,498. Surely the Government have to do their duty, to assess the tax and collect the tax. Does not the proposition really reduce itself to the four things I have put?—Of course it could be done like that. Our point is that we want the work to be done as efficiently as possible, and that all leakage, so far as it is possible to do it, should be stopped.

23,499. Sir W. Trevelyan: I have put my point to you. I am obliged to you.

23,500. Sir E. Nott-Bower: Dr. Stamp put to you just now that sometimes the Additional Commissioners were a hindrance rather than a help, and you quoted one or two cases where, in your knowledge, the Additional Commissioners had refused to raise an assessment when a Surveyor wanted it raised, and where it was ultimately proved that they were quite wrong and the Surveyor was right?—That is so.

23,501. I have no doubt there are cases of that sort from time to time. Under the law as it existed before the consolidation effected by the Taxes Management Act in 1880, would not the Surveyor in those cases to which you refer have had power to raise a surcharge?—He would, but that is not in his power to-day.

23,502. He lost that power of surcharge quite unintentionally and accidentally, owing to a blunder in an Act which was supposed to be a consolidation Act?—In the Taxes Management Act.

23,503. Ought not that power to be restored to the Surveyor?—I think it is a power that he should have.

23,504. It was originally part of the Income Tax law, and that power was only lost by accident?—

Yes, it would help us to deal with those special cases which I have mentioned, and which often involve a great deal of revenue.

23,505. Apart from those comparatively few cases, do you not think that it might be said that really the Additional Commissioners, in addition to being of advantage to the taxpayer, are of advantage to the Surveyor; I mean in this way. A number of assessments, I suppose, are made without any return?—There is a proportion of such cases.

23,506. Numbers of assessments are increased by the Surveyors?—Yes.

23,507. Before those increases by the Surveyor take effect at present he has the further warrant of the assessment of the Additional Commissioners, who are responsible for the assessments and who examine them as far as they think necessary; but is it not very easy to raise an outcry that vexatious charges are being made in a district when a new and active Surveyor goes into a district, and he finds that a number of assessments want looking into?—I agree.

23,508. Is it not very easy, in those circumstances, when he does his duty, for an outcry to be raised that vexatious charges are being made?—Yes, it might happen, undoubtedly.

23,509. Questions might be asked in the House about it, and so on?—Yes.

23,510. Is it quite fair to leave to one single individual the whole odium of raising all these charges?—which I assume to be proper charges—when an unreasonable outcry might be raised about them? Is it not very advantageous that the Additional Commissioners should share that responsibility with the Surveyors?—I agree; I think that is one of their useful functions.

23,511. Chairman: Do you think that if we got a great many more Surveyors we should increase the Income Tax receipts enormously?—I do.

23,512. Is that one of your real recommendations?—Yes. At the present time we are looking forward to an increase in our numbers. That is a step in the right direction; if we have more men we shall get better results.

23,513. It would mean that, although the cost of increasing the number of Surveyors might be large, you would get a great deal more money?—I think there would be a very handsome return on the investment.

23,514. Chairman: Thank you for your evidence.

MR. PHILIP SULLEY, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Evidence-in-chief of PHILIP SULLEY, Elgin (late Surveyor of Taxes).

23,515. (1) In the earlier days, and particularly when the tax ran from 6d. to 7d. in the £, without differentiation, points of balance, allowance for wife and child, etc., the attitude of the public was partly one of annoyance at an imposition into private affairs, at the complicated forms issued, and at the inequalities. Income Tax also formed a staple for jest and derision, and to evade it was regarded as venal, if not a mark of cleverness. More precise working and insistence on accounts in all important businesses to some extent stopped the leaks, but in no way diminished public antagonism. The enormous growth in recent and war years has converted it from a grievance to a heavy burden, and it is beyond question that deliberate evasion, suppression of facts, omission of extra and casual sources of income, are seriously rife, and that the public is not to-day paying its full dues.

23,516. (2) My suggestions are mainly directed towards impressing on the taxpayer his responsibility to the nation, and the obligation for absolute honesty. By calling it "The National Tax," the thoughtful section will certainly be impressed. By this, and by making demands requiring a solemn declaration, with the certainty that omission or evasion will result in public exposure and a penalty, I believe the general attitude will be improved, and greatly

improved returns and statements will result. The word "demand" seems to be imperatively necessary in this direction, as also a solemn declaration that the return is true in every necessary particular. One such declaration to the truth of every detail in the form, and its various sections, will be far more effective than the existing requirement of a number of scattered signatures.

23,517. (3) Penalties must be made real, effective and certain of enforcement. The existing penalty, not exceeding £20, for omission to make a return is seldom or never enforced. When a man knows that failure to send in the form issued by the Assessor (after receipt of a reminder from the district Inspector) will certainly cost him a sum of £20, or £10, as the result of a summary conviction, the first year will be the only one in which there will be any number of omissions.

23,518. (4) As the object of the tax, and its administration, is to secure a return and payment of duty from everyone in the nation who is liable, the widest publicity is called for. To effect this, use of the post office is essential. A poster or placard, such as suggested,* would bring the matter before practically every man or woman in the Kingdom, and, as a consequence, forms of return must be available in each post office. A note that the person must enter his, or her, full name, address and designation on the blank form supplied, would be sufficient to secure identification, and the form could

* See Appendix No 36.

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MR. PHILIP SULLY.

[Continued.]

either be handed over the counter of the office in an envelope, addressed to the proper officer, or sent free by post. Franked and addressed envelopes would be supplied with the forms. Seeing how widely Income Tax returns are now issued by Assessors, the number of forms needed and issued by the post offices would not be very great, especially after the first year. But in no other way can a personal, individual demand be brought home to every one who may be liable.

23,519. (5) I suggest that the tax year end at 31st March instead of the old Exchequer date of 5th April. This would simplify matters and would lead in many cases to a regular balance at 31st March. Where people are made to keep accounts, or to balance accounts for tax purposes, this date would certainly be adopted.

Form No. 11.

23,520. (6) The existing form* for a return for assessment under Schedule D is an effort to cover the whole ground of the Acts, and to reach every possible form of liability. In aiming at including the odd 1,000th case, it overlooks the value of giving full and clear information to the 999. Not one man in a hundred tries to study the specialized information in it, not one in a thousand reads the four-page sheet, No. 11-1, "Notes, Explanations and Instructions." Give the 999 as clearly, simply, and prominently as possible the information they need.

23,521. (7) In spite of all efforts to make No. 11 complete, the existing form does not contain a space for adopted children, or for an unmarried man with a female relative taking charge of a brother or sister. For these, and also for dependent relatives, incapacitated by age, etc., a separate form should be provided on application by the very few to whom these reliefs are applicable. Attention should be directed to these by a note. Similarly, the declaration by a person not domiciled in the United Kingdom should be omitted, as a special form is required. Give the necessary information in another note.

23,522. (8) Pages 2 and 3 may be held to be necessary, in their present form, to comply with the Statute, though it is not impossible to simplify them. In any case, the chief item, the demand for a return of income from trade, profession, employment or vocation, should be in distinctive type, with smaller type for interest, etc., colonial and foreign securities and possessions, and other profits. The supersession of the declarations on pages 2 and 3 will reduce the complexities and give further space.

23,523. (9) The following further notes and instructions should be included in Form No. 11:—

(1) Persons not domiciled or not ordinarily resident in the United Kingdom should send in a declaration in writing, when the proper form will be sent. (In place of Declaration B. on the existing form.)

(2) *Clauses for relief*.—Application should be made for a separate form to claim relief for—

(a) Dependent relatives;

(b) Dependent children;

(c) Female relative in charge of brother or sister for whom an unmarried man is responsible;

(d) Person not domiciled or not ordinarily resident in the United Kingdom.

(This note might be printed on page 4.)

23,524. (10) The following extracts from the sheet of instructions No. 11-1 are essential for the correct filling up of the return, and to inform the taxpayer as to his total liability and every possible relief:—

(1) Part I (9)—Mode of assessment.

(2) Part III (32) (f)—Wife's income.

(3) Part III (32) (g)—Charges on income.

(4) Part II (30)—Marginal relief.

(A reference to this latter note on the front page of the suggested new Form No. 11 is essential. It is ludicrous to set forth that abatements and concessions end at £400, £600, £700, £800 and £1,000, when 17 this piece of ingenuity they actually do not.)†

* See Appendix No. 5.

† The first page of this suggested form is given in Appendix No. 67.

Form 11-1. Notes, Explanations and Instructions

23,525. (11) The four-page sheet of instructions, No. 11-1 (in three parts),§ defeats itself by its effort to cover every portion of the tax area, and it is at present unread and practically useless. In its stead there should be *Leaflets*—one for universal use, with details required by every person who has to make up a return; another with the necessary directions to traders and business people (rules for calculating profits); another on depreciation, for issue to the manufacturing section; one on interest and dividends; and one as to foreign and colonial income. Yet another could be made out of Parts II and III, directions for personal concessions, if considered necessary.

23,526. (12) As already stated, the information as to mode of assessment, wife's income, charges on income, and the concession known as marginal relief, should be printed on the actual form of return, so as to give the public the fullest possible information as to liability, and assist in the production of a true and correct return. These are essential to the solemn declaration called for, and will prevent any plea or defence of lack of sufficient information.

The Assessor in issuing his return forms will be readily able in nearly every case to put in leaflets 2, 3, or 4, as required.

23,527. (13) *Leaflet No. 1*.—This should be enclosed with every return form, and should include:—

(a) Particulars as to exemption, abatement and rates of tax, all as stated on the amended return form, supplemented by notes on the allowances (applicable to so few cases) for adopted children, dependent relatives, and female relative living with unmarried man for the purpose of having charge of any brother or sister under 16. (It should be made clear that these allowances must be claimed on a separate form which could be obtained at any post office or the local Tax Office.)

(b) Particulars as to allowances for Life Insurance—see (15) on page 3 of Form 11-1—which should be translated into simple language.

(c) Notes as to income from property and charges thereon—see (22) (c) on page 4 of Form 11-1 and (22) (g) on the same page.

(d) Particulars of special allowances to soldiers, sailors, etc.—see (14) on page 3 of Form 11-1.

(e) Note as to income from the occupation of land—see (29) (d) on page 4 of Form 11-1.

(f) Note as to taxed income—see (3) (v) on page I of Form 11-1.

(g) Note as to concerns in No. III, Schedule A and the special form required—see (3) (iv) on page I of Form 11-1.

23,528. (14) *Leaflet No. 2* should contain in simplified language notes as to the return to be made in respect of profits of trade, profession, employment or vocation—see (4) on page I of Form 11-1—and notes as to the allowance in respect of mills, factories, etc.

23,529. (5) *Leaflet No. 3* should contain notes on the allowance for wear and tear of machinery and plant used for the purposes of a trade—see (8) on page 2 of Form 11-1—and the rates which have been agreed with special trades.

23,530. (16) *Leaflet No. 4* should contain notes as to the return to be made in respect of profits from interest, colonial and foreign securities and possessions, etc.—see (5) on page 2 and (22) (e) on page 4 of Form 11-1.

23,531. (17) *Form No. 1-1* wish to advocate the change of name from Income Tax to National Tax, a change in the demand for the return on the first page, in the declarations on pages 2 and 3, and in the note on penalties on page I.

23,532. (18) *Form No. 12, Schedule E*.—Later on in my evidence I make a suggestion which would result in this form being abolished. Otherwise it should be simplified on the lines of the new No. 11.

§ See Appendix No. 5.

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MR. PHILIP SOLLEY.

[Continued.]

It should be noted that the existing form gives no clear or intelligible basis on which the return should be made.

23,533. (19) *Repayment Claim No. 40.*—The various claims for repayment which can be made by the taxpayer should be stated either on the form or in a separate sheet.

The payment of tax-free dividends, interest, etc., should be made illegal, except in those cases, e.g., War Loans, in which a specially defined contract is made with the Government, and a less rate of interest thereby given.

Forms of claim should be obtainable at every Postal Money Order Office, together with a franked envelope addressed to the proper officer or branch. It is the taxpayer's own money that has been withheld or charged owing to the exigencies of the Revenue, and consequently every facility should be given for its recovery free of all expense.

SUGGESTIONS.

23,534. (20) In lieu of Schedules A, B, C, D, E there should be only two:—

First.—Property.

Lands, heritages, and other income arising from land, No. II., Schedule A.

[No. III. of Schedule A—earned profits from land; mines, quarries, gasworks, &c. to be transferred to Second Schedule.]

23,535. (21) As regards Schedule A, or Property, there should be a yearly valuation as in the Metropolis and in Scotland. The valuation for rating in England and Wales is very far behind, while in Ireland the system (old Irish Poor Law Valuation) is antiquarian, and results in great inequalities and loss to the Revenue. As regards Scotland, the system of quinquennial assessment—at present prolonged to seven or eight years—prevents the full benefit of the yearly valuation. There is no clause in the Scottish Act, as in the Metropolitan one, applying it to Income Tax, so that increases made after the commencement of the quinquennium, unless for additions or improvements, are lost to the Revenue.

Second.—*Profits and earnings*—at present in Schedules B, C, D, E.

23,536. (22) Farmers should be transferred to Schedule D at any rate. Farming is a lottery, and the results vary enormously in different areas. The result of a flat charge of twice the rent, while not excessive in the aggregate, acts unfairly and harshly on the average farmer, and leaves untouched the great profits of the large or well-situated man and of the stock breeder. Breeding horses for sale ought not to be included as ordinary profits. Fees from stallions, &c., are separately dealt with (in a small way), but not the rearing and sale of horses, which are not intended or required for ordinary farm purposes and are in excess of the working capacity of the farm.

23,537. (23) This applies far more to the breeding of high-class cattle, from which, in the case of fashionable herds, enormous profits are yearly realised. A few particulars as to this, from one corner of the Kingdom, are given in the next two paragraphs. A few days earlier the same paper reported the sale of an 11 months old bull-calf for £5,000, and the owner in all secured £33,000 for 24 young animals.

23,538. (24) Extract from the "Aberdeen Journal," 18th October, 1919:—

Balcainr Bull Calves.	Gns.
Balcainr Druid, red roan, s. Collynie Golden Knight—Mr. D. Anderson, N. Lornston, Nigg	700
Balcainr Gordon, red and little white, s. Edgemoor Hero—Earl of Rosebery	2,200
Balcainr Victory, red, s. Earl of Kingston—Mr. M. Marshall, Stranraer	420
Balcainr Boy, red, s. do.—Mr. Cherry, Ireland	430
Balcainr Warrior, roan, s. Collynie Golden Knight—Mr. R. Copland, Milton Ardethen, Ellon	600
Balcainr Crusader, red, s. Earl of Kingston—Mr. J. J. Moubrey of Nemoore	2,300

Balcainr Emilius, roan, s. Collynie Golden Knight—Mr. Ingram Middleton of Troop	320
Balcainr Favourite, red and little white, s. Edgemoor Hero—Mr. Joseph Shepherd, London	4,600
Balcainr Admiral, roan, s. Earl of Kingston—Mr. R. Anderson, Fingask House, Oldmeldrum	1,100
Balcainr Imperial, red roan, s. Earl of Kingston—Mr. Stevenson, Cheltenham	600
Balcainr Imperial, red roan, s. Earl of Kingston—Mr. R. Anderson, Fingask House, Oldmeldrum	1,100
Balcainr Rocket, red, s. Edgemoor Martial Law—Mr. Stevenson, Cheltenham	600
Balcainr Comet, white, s. Earl of Kingston—Mr. Connon, Nether Coullie	680
Balcainr Eclipse, red, s. Collynie Bold Knight—Messrs. Strachan and Sons, Hill of Wells, Rothiemorham	400
Balcainr Secret, roan, s. Edgemoor Martial Law—Mr. W. M. Caradoc, Kent	450
Balcainr White Eagle, white, s. Collynie Golden Knight—Mr. J. Duthie Webster, Tarves	2,300
Balcainr Butterfly, red roan, s. Collynie Golden Sun—Mr. J. Coey, Lorne, Ireland	570
Balcainr Bard, roan, s. Collynie Golden Knight—Mr. Blackstock, Co. Tyrone, Ireland	400
Balcainr Baronet, roan, s. Edgemoor Baronet—Mr. Matthew Marshall	3,300
Balcainr Count, roan, s. Earl of Kingston—Mr. Reid of Hillhead, Elton	2,400
Balcainr Goldie, red, s. Collynie Golden Sun—Mr. Raphael of Porter's Park, London	350
Balcainr Judge, roan, s. Collynie Golden Knight—Mr. O'Connor, Wexford	100
Balcainr Clipper, red and little white, s. Edgemoor Martial Law—Earl of Manservants	1,600
Balcainr Prince, red, s. Collynie Golden Sun—Mr. Law, Maids of Sanguhar, Forres	550
Balcainr Rover, red and little white, s. Collynie Golden Knight—Mr. Ritchie	90
Balcainr Orion, red, s. Collynie Golden Sun—Mr. W. P. Turner, Cairnton Portsoy	530
Balcainr Dandy, red roan, s. Collynie Golden Sun—Mr. A. Murray, Old Manse, Banff	490

23,539. (25) Extract from the "Aberdeen Journal," 28th October, 1919:—

Shorthorns.

Sellers of shorthorns had a great run of success. Four herds during the year were dispersed. These were the ones belonging to the late Mr. Douglas, Meikle Rhynie, Ross-shire; the late Col. A. T. Gordon of Newton; and those of Col. Johnston of Leamurdie and Mr. Murray, Fairfields. At the spring sales the top figure for the breed was 4,000 guineas, given by Mr. William Duthie, Collynie, at Perth, for the Augusta champion sire belonging to Lady Cathcart of Cluny Castle. And it is fresh in the recollection of all that Mr. Duthie this month secured 5,000 guineas for a bull calf, and Mr. James Durno, Uppermill, 2,000 guineas for a heifer calf.

The following is a snapshot of the sales:—

Turriff	...	(70)	£1,750	1	6
Maud	...	(37)	1,096	15	0
Wick	...	(13)	762	6	0
Inverness	...	(29)	2,716	19	0
Perth (two days)	...	(512)	163,213	19	0
Aberdeen (Spring)	...	(319)	38,799	13	0
Elgin	...	(36)	1,864	16	0
Rhynie (Ross-shire)	...	(21)	4,614	15	0
Fairfields (dispersion)	...	(37)	1,371	5	6
Aberdeen (Central Mart)	...	(49)	2,196	14	0
Collynie	...	(38)	40,194	0	0
Uppermill	...	(19)	10,631	5	0
J. D. Webster	...	(11)	2,325	15	0
Aberdeen (Joint)	...	(401)	88,953	6	0
Linkfield (dispersion)	...	(69)	31,883	14	0
Balcainr	...	(26)	23,728	0	0
Newton (dispersion)	...	(41)	12,781	13	0
			1748	2963,884	17 9

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MR. PHILIP SULLY.

[Continued.]

The following table gives the number sold and the general averages since 1882—

Year.	No. sold.	Average.	Year.	No. sold.	Average.
1882	749	£25 10	1911	1039	£29 10 0
1883	754	29 8 5	1912	1043	29 10 0
1884	782	30 10 2	1913	1044	29 10 0
1885	863	24 9 6	1914	1135	31 00 1
1886	882	21 9 8	1915	1282	32 0 0
1887	702	21 5 9	1916	1491	30 10 0
1888	821	21 7 7	1917	1274	31 7 2
1889	715	24 6 8	1918	1559	30 6 5
1890	1102	28 7 5	1919	1444	30 10 4
1891	1172	28 8 2	1920	1389	30 11 1
1892	1175	28 8 2	1921	1795	35 11 0
1893	851	29 6 8	1922	1758	46 9 5
1894	1227	34 6 0	1923	1608	45 18 0
1895	1140	32 8 9	1924	1403	34 17 0
1896	1111	27 9 0	1925	1552	35 16 1
1897	1145	26 17 0	1926	1510	35 9 7
1898	1171	25 13 4	1927	1463	34 10 1
1899	1000	32 16 3	1928	1749	36 5 5
1900	995	31 3 8	1929		

Aberdeen-Angus.

The "doddies" have greatly improved their position not only in this country, but in practically every stock-producing country overseas. For animals suitable for export the demand is very spirited. At the autumn sale the other day quite a number of the best specimens of the breed were purchased for the United States. The outlook is cheery for raisers of the best "kacks."

At the spring sales, Mr. P. L. Wallace of CandaCraig and Balaizin paid at Perth 500 guineas for a yearling heifer from Mr. Peter D. Robertson, CastleCraig, Nigg, Ross-shire, and for bulls Mr. Kerr of Harriestown got 2,800 guineas, and he also gave that figure for one of the Ballindalloch aristocrats. The champion from Mr. J. F. Cumming, Kilmernony, went out at 2,100 guineas to Mr. Cochrane, Alyth. At the autumn sale of Aberdeen the other day Mr. William Grant, The Dell, Aviemore, sold two heifer calves at 400 guineas each.

The following is a summary of the sales—

Tariff	...	...	(75)	£3,086	2 6
Maud	...	...	(73)	2,612	12 0
Wick	...	...	(21)	1,411	4 0
Perth (two days)	...	...	(381)	41,354	3 6
Aberdeen (Spring)	...	...	(406)	30,241	7 6
Laveress	...	...	(129)	5,385	0 0
Elgin	...	...	(203)	8,243	1 0
Kirkton (dispersion)	...	...	(47)	2,463	6 0
Aberdeen (Central Mart)	...	...	(87)	2,645	6 6
Aberdeen (Autumn)	...	...	(335)	22,255	8 6

1757 £110,410 14 6

The table below shows the numbers sold and average prices since 1882—

Year.	No. sold.	Average.	Year.	No. sold.	Average.
1882	439	£15 12 10	1911	1283	£29 12 8
1883	395	14 11 1	1912	1378	29 16 0
1884	719	30 5 4	1913	1405	35 4 4
1885	779	30 10 1	1914	1429	35 17 1
1886	844	24 10 5	1915	1410	32 12 11
1887	849	17 1 10	1916	1485	31 0
1888	997	20 8 10	1917	1337	22 11 2
1889	1173	21 6 4	1918	1154	32 7 5
1890	1158	20 9 2	1919	1210	35 8 11
1891	1072	20 15 10	1920	1394	34 17 2
1892	1013	32 13 8	1921	1490	34 1 6
1893	1243	25 1 1	1922	1235	27 12 8
1894	1168	21 3 2	1923	1401	36 4 4
1895	1262	19 17 7	1924	1322	26 8 11
1896	1142	23 14 4	1925	1433	30 2 1
1897	1105	20 11 13	1926	1449	30 5 39
1898	1041	23 10 10	1927	1527	30 10 2
1899	1003	27 0 17 5	1928	1514	31 3 4
1900	1008	28 16 11	1929	1787	32 10 8

23,540. (26) Schedule C. is merely a branch of Schedule D, and the sub-division is not essential.

23,541. (27) Schedule E, which covers special classes of employment, does not by any actual result justify the division of employment into two classes and the complication that arises therefrom. To secure a return of income on a single form is an advantage that will outweigh all other considerations. Furthermore, the withholding of the average is a grievance and annoyance, to which attention has been often directed.

MAKING ASSESSMENTS.

23,542. (28) Local Assessors are not necessary. In Scotland, Surveyors act, and have acted for many years. Their work is more expeditious and brings

better results. Surveyors should make all assessments, and have full power to call for accounts and particulars. Additional Commissioners are not necessary, and except in rare cases, are of little practical value.

APPEALS.

23,543. (29) If General Commissioners are to be retained, and to hear appeals, a barrister or solicitor should be associated with them to deal with points of law. An ordinary bench, especially a country one, is dreadfully at sea in these matters. Possibly travelling Legal Commissioners, not to act in areas in which they live or practise, would be better.

Notices of assessment should show clearly the various grounds on which appeals can be made, e.g., change, cessation, diminution, loss, death, etc.

COLLECTION.

23,544. (30) Prompt payment should be more stringently enforced. Discount at 1 per cent. per month for all advance payments should be granted and a fine of 1 per cent. per month levied for all sums in arrear. Where money has to be recovered elsewhere, owing to removal, 5 per cent. extra should be charged.

PENALTIES.

23,545. (31) A new penny should be imposed for supplying fraudulent accounts with intent to conceal or deceive, viz.:—imprisonment without option of a fine for each person concerned, including accountant.

[This concludes the evidence-in-chief.]

23,546. Chairman: You have been a Surveyor of Taxes?—Yes; for forty years.

23,547. So you know the whole business, do you not?—I think so.

23,548. These are your recommendations, with that experience?—Yes, in the direction of simplification.

23,549. The members of the Commission will ask you certain questions on your paper, if you will kindly answer them.—Quite so. If you will allow me, I could put my position to you in a few sentences.

23,550. We are quite agreeable.—In regard to Income Tax the taxpaying nation has to be divided into three parts. The first is that which cannot help itself, which suffers deduction of Income Tax because its income consists of revenue from property or from taxed investments. Naturally, that section of the public deserves the utmost consideration and assistance, for the special reason that the greatest numerical portion of that class consists of retired people, widows and orphans with means, and they have no little information because they receive their tax notices and their dividend warrants, and do not understand their position. That is the first class. The second class is fortunately a great one—those who mean well to the Revenue, who are intending honestly to make a decent return so far as they know; and if you increase their knowledge and put greater facilities in their way for making a correct return you gain a great advantage. They go out with the idea of making an honest return, but they do not understand the forms, and they do not understand the full measure of their responsibility and liability. They are very apt (it is human nature) to withhold certain items which they ought to return—little private items of income, extra fees, extra earnings, small pieces of interest and things of that kind. If you increase the knowledge of the well-disposed you do them a service, because they wish to make an honest return.

23,551. How do you increase that knowledge?—By giving them forms that they understand, and by giving them more information. The ordinary man or woman cannot get the information that they want in a simple way from the forms supplied by the Inland Revenue.

23,552. That is your view from experience?—It is the view of the general public and of the officials with whom I am acquainted. I have had a wide and exceptional public experience, because in addition to

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MR. PHILIP SULLEY.

[Continued.]

being a Surveyor of Taxes (now called an Inspector) for over 30 years I have held appointments in Scotland as Land Valuation and Registration Assessor of 11 counties and over 100 burghs, which brings me into more intimate connection with the public than my ordinary tax work, which would confine me to a certain extent to the office; so I venture to speak from this wide experience of the public. Then you come to the other section, a very large and growing one, which does not mean well by the Revenue.

23,553. By-the-by, have you drafted anything for simplicity?—Yes, I have. There is my proposed new form of return which is before you. (See App. No. 37.)

23,554. You will put that in?—Yes, and a poster (see App. No. 38) but I will come to that. If you cannot put the fear of death into these people you must increase their responsibility. You must put before the British public its responsibility. I propose to do that, as you will see, by putting a poster into every post office, on the door of every place of worship, and on every public hall in the country, pointing out that this is what I call in my evidence a National Tax. I lay special stress on that, because I think it would bring home to the public the fact that this is not Income Tax to be evaded and derided—it is used to be derided and is now evaded—but it is a National Tax. This would have a substantial effect on very many, and it would make those who make honest returns more alive and alert to see that their neighbours follow suit. The National Tax will help and make a demand. Lay it down in the clearest manner possible, that any man who comes within the limits of liability to Income Tax must get a form either from the local official or from the post office, and make a return. Failure to make a return on the part of any man liable, involves him at once in a penalty to be paid for and recovered by summary process. The penalty for not making a return at the present time is, as you are aware, £20, or less at the option of the judge or the Sheriff in Scotland. Make it a fixed sum of £10, absolute. Say to him, "If you do not make a return and you are proved to be liable—£10. If you did not make a return the year before and you were liable—another £10." Make it retrospective. In the same way, when you deal with a man who has made a return, but has not returned what he should return, you can deal with him very promptly. The penalty is £20, or £50 if sued in the High Court. Make it a fixed £20 in the county court in England, or the Sheriff court in Scotland, and add to that treble the duty found to have been unpaid for any number of years. If you are sufficiently firm with the public you will get many millions in the first year, and an immense increase in the future. The public requires more firmness, and it requires equal handling. The public needs to know that everybody will get like treatment, that there will be no advantage to a man that he is in a big position, and having held back statements, can come to a private adjustment if he has failed to make his full return. As you know, ignorance of the law is no plea in law, and if you put matters into this form so that they are within the actual knowledge of everybody there should be no ignorance, so that there is no excuse, and there should be no what is known as "back duty"—that is, private terms between a defaulting taxpayer and the local Income Tax official and the Board of Inland Revenue. That should be absolutely done away with, and there should be a definite penalty put upon great or small, no matter what the influence may be, no matter what the man's position may be, and added to that what would be a reasonable option, in addition to the £20 (it will be affected by circumstances, of course), treble the duty for which there is power already in the Statute, but which is not enforced except in rare cases. It is quite a usual thing for a firm, or somebody of position, who has defaulted, to say, "you know what Income Tax is; I did not understand it." Or they get someone of influence to say, "this man is all right. He has made a muddle of things," when as a matter of fact he has not, he has done it most deliberately, and he shields himself behind that, and makes private terms with a public official,

which are passed by the Board. Put a stop to that, and let the public know that any failure or evasion will result in a conviction, and a definite fine, in addition to treble the duty, and you will then increase the public's responsibility and their knowledge, and the more you increase that knowledge the more firmly you will get the general public and the better class of the public to look after the others who at the present time have no interest. If they got to know that, that will spread in another direction. You have now a very important branch of the Income Tax payers, the weekly wage-earner. He is a very difficult man to deal with. You know more about it than I do. He is striking at the present time in Wales, I see, and I hope you will allow him to strike.

23,555. Mr. Menzies: Not yet?—But he is going to, and threatens go a long way. He is a very difficult man to deal with. If you deal with him firmly, and say to him that you are going to deal with him firmly, as with the better class man, he will not be able to answer, as at present, any threat you may make to him or any intercourse you may have with him: "the company has returned my wages. What about ordinary people who are making money in shops? They do what they like. We are not going to pay." If you increase the public knowledge generally these men will be tied up, and also the man who is making an average wage, and paying on it, will be very quick to see that the man who is making some of these exorbitant extortionate wages also pays up.

23,556. Mr. Kerly: You have developed a good many things that you might have been asked questions about, and your paper itself is very clear. You really think that to change the name of the tax would increase its popularity with the public at large?—Well, it would never increase its popularity; that is an expression I could not possibly use; but it would increase the public sense of responsibility to the nation.

23,557. That must be a matter of personal estimate?—Quite.

23,558. Why should this be the national tax any more than any other tax?—I know of no other tax at the present time which affects the United Kingdom in the same way as the Income Tax, because everyone does not drink beer or smoke tobacco. This is the only direct national tax that I know of.

23,559. Very well; that is your reason. You suggest that there should be a penalty if no return is made?—Yes. There is at the present time a nominal one of £20 which is not enforced. I say make it a certain £10.

23,560. Yes, you have developed that. Do you suggest that that penalty should be applicable to every person who has an income above the minimum limit?—I do, provided that through the post office and other channels the public is notified in a way which it cannot avoid.

23,561. You would notify that every man and every unmarried woman who has an income exceeding £130 a year should be subject to a penalty if he or she does not make a return?—Yes, if he or she does not go to the post office or apply locally for a form.

23,562. You appreciate the difficulty of bringing a very large number of the members of the community into the criminal class?—Well, I do not know that for a man to be fined for Income Tax is considered very criminal. The question is, are you going to get from every member of the nation what is due? I say the first year you would have many prosecutions, but as soon as the people knew you meant to do this the trouble would cease, except when deliberately trying to evade.

23,563. It may be so, but you probably appreciate that a very large part of the deterrent effect of a penalty is that it is rare. If it becomes the fashionable thing to be fined £20, people will regret the £20, but they will not mind the fact that it is a penalty?—Well, there have been so very few prosecutions in my lifetime in Income Tax matters.

23,564. You appreciate that you are suggesting hundreds of thousands of prosecutions?—No.

23,565. Do not you?—Because through the weekly wage-earners' own returns and through the returns

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made by employers and through the work of the Assessors and Surveyors there is only a fringe; in the United Kingdom there might be hundreds of thousands, but the mere fact of announcing that would bring in two-thirds of those people.

23,566. It is not to be broken fulsome; you are actually going to apply this?—Quite so.

23,567. Do I understand that you would except wage-earners for whom the employer makes a return?—Most absolutely, because his responsibility is met by the Act of Parliament.

23,568. Very well; you did not explain that?—He receives his form afterwards.

23,569. Very well, I will take that answer. Supposing a wage-earner has some savings or something outside his wages, is he then to make a return?—He is to make a return as a result of the return sent in by his employer. He receives the form on which to claim allowances, and on which to make a return of any other income.

23,570. You would limit his case to defaults where a return is demanded?—That would be the second; it would have to be a fraudulent return.

23,571. Where are these penalties to be recovered—by the magistrates?—In the shortest possible way, in the county court in England and in the Sheriff court in Scotland.

23,572. Why not before the magistrate?—That is for the Commission. Although I was in England for some years, I have been so long in Scotland that I am not acquainted with English legal procedure. It does not matter where you recover it so long as you do it quickly.

23,573. You suggest wide advertisement, which seems to be a very excellent thing. Advertisement in the Press would be the most useful way, would it not?—Quite. It has never been done yet, but there is no reason why it should not be.

23,574. I gather that your general view is this: if you give a man a complicated statement he will not appreciate it?—That is so.

23,575. I may tell you it is the experience of many people in my profession that some educated people can bear three things in mind at once, but very few people can bear more, and here in the Income Tax paper you have got a very much larger number. You suggest that instead of giving everybody a form which is suitable for anybody, you should take what I will call the normal case and prepare your normal form for that case only?—Exactly, with a printed note, which a man can find, instructing him in the extra case—the one case in 1,000 or 10,000—how to proceed to meet his liability.

23,576. But from your normal form you omit a great many particular cases inevitably?—Yes, foreign profits and things of that kind; I go for the 999 out of the 1,000.

23,577. A suggestion has been made that the Income Tax authorities should distribute a pamphlet of instructions somewhat similar to those that the unofficial people distribute for their own advertisements now?—Yes.

23,578. If that were clearly indexed and arranged under headings which a man could turn over rapidly until he came to every case which might possibly touch himself, do you think that would be satisfactory?—I think it would be much better met by a leaflet, one leaflet for the general public, the man under 1,000 who gets the allowances, because if you complicate it and put a lot of stuff in, the ordinary man, if he sees something he does not understand, stops.

23,579. And he gets very tired before he has got down many lines of small print?—That is so, but I think a leaflet in the post office, giving the concessions up to £1,000, would be a magnificent idea.

23,580. Your form perhaps might have printed on the back of it a list of the leaflets?—Yes. Of course, this form which I sent in is only a suggestion for the first page of the yellow form No. 11.

23,581. I quite appreciate that?—But you can put anything else you like.

23,582. Provided you do not lose sight of the end in view by pitting too much?—That is so. Reduce the amount of information, and also put the salient things that appeal to the bulk of the public in larger type.

23,583. You suggest that the Schedules should be re-arranged, and that you should have two, one for property and one for income?—That is the idea. Of course, I am not going largely into that, because that is a matter of administration.

23,584. You know, of course, that the assessments at present are made by different persons?—Oh, quite.

23,585. Did you mean to carry your suggestion further, or do you make no suggestion as to who should be the assessing authority?—I do. In paragraph 28 I say in making assessments local Assessors are not necessary; they are advisable.

23,586. How would you value property, for instance?—You have had this, I see, many times before you.

23,587. I do not want you to develop it, if you will kindly answer my question. I thought perhaps your answer would be that except as regards your paragraph 28 your evidence does not extend to dealing with assessments?—I did not wish to, because it is a matter of administration.

23,588. I just wanted to make it clear?—I indicated my idea, but my suggestions are only general, because you have had all these things before you.

23,589. They are very valuable. Now one word about the farmers' accounts. From your experience do you think it would be possible to get farmers to keep accounts in all cases?—Most certainly. You could make up a farmer's pocket book that he could keep from day to day and he would have no difficulty.

23,590. It might perhaps tend to educate the farmer to the value of accounts?—It would be a simple pocket book which could be devised for him to put down the items in a simple way. Of course, you would have great difficulty because I may tell you the farmer's profit is what he has left over after all his household and family expenses are paid. A simple farmer's pocket book in which he enters his receipts and his outlay could he devised without any trouble, always on the understanding that there must be a personal section into which he must put his personal expenses.

23,591. Mr. McIntock: Do you say a simple farmer or a simple farmer's account?—A simple farmer's account. I do not know any simple farmers in Scotland. If you meet a simple farmer you have to watch out.

23,592. Mr. Kerly: The farmer himself lives, to a great extent, I presume, out of what he produces?—He says not.

23,593. Do you suggest there should be any charge for his maintenance?—There is in the form which is used for a repayment claim: "Produce used in the household," which he generally estimates at £10 to £16, including butter and eggs for the family. You cannot get beyond £26 in any of these.

23,594. He has to make a shot. Does the £26 vary with the number of persons in the household?—£26 is about the limit you can get a man to admit, if he makes a claim for repayment under Schedule B.

23,595. In the case of the small trader there is a corresponding difficulty about payments made out of the till, is not there?—Yes, quite so.

23,596. It very often happens that when the man has lived out of the till there is nothing more in it at the end of the year than there was at the beginning?—From an Income Tax point of view you are quite correct.

23,597. Then he says he has no income?—That is so; he has no profit.

23,598. Would it not be advisable if you were making accounts compulsory for farmers to begin with the larger farmers?—The larger farms may not pay; it all depends on the area. The best farmers I have known and the most flourishing farmers I have known are men with a rental of under £200 a year, and they never paid any Income Tax at all. Before the war they would keep their cars and send

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their sons to the university and their daughters to boarding school.

23,599. They are profitable farms?—They are. All those are the kind of farms that are very profitable to-day.

23,600. Are you right in saying that there are no Assessors in Scotland? Are there not Assessors in Edinburgh and Glasgow?—I do not think I say there are none; but I say it is the usual thing in Scotland for the Surveyor to do that work; I think I make that reservation.

23,601. You make a suggestion about discount payments?—That is technical, but it might be effective.

23,602. You suggest a very high rate, do you not?—It is a general suggestion. Of course, the details are in competent hands at Somerset House.

23,603. Just consider for one moment, with your experience, this suggestion; supposing a man could go to a post office or through his bank to the Treasury at any time during the year and buy, under discount, vouchers which he could send in for his payment of Income Tax on the 1st of January, when it became payable, do you not think that would be a practical way of meeting the difficulty?—If it were not too great a concession. The concession would have to be kept within bounds to satisfy the Treasury and the Revenue.

23,604. It is the fact, is it not, that some people who are very cautious or very prudent begin to save up for their Income Tax sometimes quite early in the year?—I have never come across anybody.

23,605. I have been more fortunate. I can tell you of gentlemen of my acquaintance whose banking account in the second half of the year is always swollen because they not only provide for their Income Tax, but hopefully provide for very much more than they want; is that unfamiliar to you?—Quite.

23,606. Mr. Mansville: With regard to paragraph 19 of your paper as to repayment claims, I suppose you are suggesting that "tax free" dividends and interest should be made illegal in order to simplify the question of repayment?—I have all my life been very strong on the point that "tax free" dividends should be abolished. It is a terrible loss to the public. They know a little more to-day, but take the case of a woman; somebody leaves her £100 a year from bank stock in one of the Scotch banks, which was always "tax free" dividend. She thinks she is getting £100 clear and clean, and she never makes a claim. There is any quantity to-day who do not know. They think, when they get "tax free" money, that they have paid no Income Tax. They believe what is said on the face of it, and they lose the money. The Revenue gets millions remaining in its coffers every year which should be returned to people who own it, and who are entitled to it. It is the biggest scandal I know in connection with Income Tax.

23,607. I thought I heard you say a short time ago that ignorance of the law could not be pleaded in matters of this sort?—The law does not order. The law did not order the secretary of a company who had to divide £120,000 in dividend to say: "I will pay off £20,000 and pay £100,000, and tell the people I have paid no tax for them." I think it is contrary to the spirit of the law and the Statute.

23,608. But the lady in question ought to know that she has to pay Income Tax?—Oh dear me, no. She is told it is "tax free," and being simple-minded she accepts that statement to her own loss.

23,609. Do you think that the Government should go on in a superior position in that respect, as compared with limited liability companies?—But it only needs a short clause in the Act that every deduction of Income Tax from a payment of dividend or interest must be shown. Look at it to-day; £100 "free of tax" represents £142 17s. and not one person in a hundred thousand knows that till they go to the tax office.

23,610. I should like to suggest this to you, that in these days of very high Income Tax, industrial concerns issuing prior securities like preference shares, and every year paying an Income Tax up to a certain amount, do so with the object of getting the automatic reduction which they would obtain if and when the Income Tax comes down. If your suggestion is

carried out it means that shares of that sort, paid "free of Income Tax" up to a certain amount, would for ever be muted in that rate or in the corresponding rate, I should say, to the interest they pay?—Excuse me, the sum of money that this industrial company pays out is charged every year at the appropriate rate or, if the rates vary between the 5th April and their particular date, the two rates, or a fraction between the two. They are paying, and they always will pay. I have been thinking about this a good deal, and when I was last in London, a month ago, I saw in one of the financial papers "tax-free investments," and I wondered what was the advantage of that, so I made some inquiry and was told it was simply a Stock Exchange affair, because when the "tax free" stock becomes "ex div." it does not fall so much as when the Income Tax deducted is absolutely shown and is clear to the people; that is one reason why they keep it up, but they pay the tax; there is no such thing as "tax free" dividend, and the tax is apportioned if the rates change.

23,611. I am afraid you did not understand my question?—I am sorry.

23,612. What I tried to make clear was that in shares of that description paid "free of Income Tax" up to a certain amount, if the Income Tax is reduced the company gets the advantage of that, which it would not otherwise get if they had to pay a higher rate of Income Tax than the present rates?—I quite understand that.

23,613. Let me put it in this way: to-day they would pay 5 per cent. without Income Tax and 6 per cent. if the investor took the speculation in regard to the present and future rate of Income Tax?—I quite follow that.

23,614. You would remove that ultimate benefit to the company if they were not in a position to issue preference shares "free of Income Tax" up to a certain amount?—That is a highly technical point for the benefit of a limited section of the community. I quite see the point, but the thing still holds that the people who receive that preference dividend are entitled still to recover the tax at the current rate.

23,615. Mr. McLintock: Do you seriously suggest to the Commission that to-day there are millions of revenue being kept in hand that should be repaid, owing to this "free of tax" declaration of dividends, using that in its ordinary meaning, and not in regard to Mr. Mansville's point of compounding the tax?—The sum that is lost by retired people, by private people and by women is very large. I may have used the expression too freely, but it does amount to a very great sum.

23,616. How do you know?—By my experience among the public, and what I have heard in all my life with regard to this. People do not understand and do not make claims.

23,617. Where have you been a Surveyor for the last 20 years, any?—I have been a Surveyor in Fife, which is a very large and populous county, and three border counties, and three northern counties.

23,618. Give us the counties?—Fife for 10 years, which includes a great number of colliery districts, Roxburgh, Selkirk and Berwick, and Banff, Elgin and Nairn, and, of course, I have always been in contact with Income Tax.

23,619. I take it you have told all the taxpayers you have come into contact with, who have applied to you for advice, that the "free of Income Tax" is a misuse of words, and that they are getting a bigger dividend in reality than appears on the form?—They are getting a dividend which is a misrepresentation. As I mentioned a few moments ago, if they receive £100, "free of Income Tax" their true dividend is £142 17s.

23,620. But if they go to the Revenue they get it back?—They do, but unfortunately there is a large number of people who do not go to the Revenue every year.

23,621. Still, to-day?—Still, to-day.

23,622. I am asking you what evidence you have of that?—My general knowledge of the public and what I have always heard from my colleagues, and from everybody connected with Income Tax. The number of claims to-day, although steadily increas-

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ing, is nothing like what it should be if they were all aware of the circumstances, and also there is the inevitable diffidence to showing their private affairs to anybody, even if they are going to get money back by it.

23,623. The diffidence to go and reclaim £s. in the £?—Yes, it still exists, and it is most astonishing. It exists to-day, I am firmly convinced, and so are my colleagues.

23,624. I do not think there would be any diffidence about claiming £s.—In one section of the public I think it does still exist. I sincerely hope it does not, because I want to treat the public honestly, but at the same time I am afraid it does.

23,625. You know that on dividend warrants issued by most companies, there appears at the foot of them, words to the effect that this portion of the warrant will be accepted by the Inland Revenue as a voucher for repayment of tax?—Absolutely; it is compulsory.

23,626. Does not that at once put a recipient on inquiry as to what it means?—You would say there is no excuse then.

23,627. *Mrs. Knowles*: Perhaps it is paid into a bank. Most of these things are paid into a bank.

23,628. *Mr. McLintock*: The point is that with regard to every warrant which is issued to-day, even if it is a dividend paid "free of tax," the companies do issue a voucher.

23,629. *Mrs. Knowles*: But if the banks collect it you do not see it.

23,630. *Mr. McLintock*: If the banks collect it they will give you a notice stating on the face of it they have collected a dividend of so much, and, as a rule, the bank agent, if he collects that, sees that he recovers the tax for his client?—To some extent.

23,631. In all the districts in Scotland in which you have been Surveyor, have you also been the Assessor in every case?—The valuation Assessor—in every one except my first one, nearly 40 years ago, Argyllshire.

23,632. Valuation Assessor carries with it Income Tax Surveyor?—Yes.

23,633. You are Assessor and Surveyor?—Until six months ago, when I retired.

23,634. Your considered opinion is, that by not having a separate Assessor the collection of the revenue in the district does not suffer?—It is a very great deal improved.

23,635. Then you could not have derived any benefit at all from the local knowledge of an Assessor, say, who had been there longer than you had been as Surveyor in a district?—I do not think so. Of course, it is to a certain extent personal as to the amount of acquaintance you get with your district.

23,636. But the fact remains that in your experience you have always been, except in Argyllshire, the Income Tax Assessor?—The Income Tax Assessor for the district in which I serve—no, I must withdraw that, because for three years I was in Edinburgh, where, of course, there is an independent Assessor. For part of my district I was Assessor, but not for any part of the city and suburbs of Edinburgh.

23,637. The purely Assessor's work was done as part of the ordinary routine of your office?—That is so.

23,638. I gather from the counties you have given us you have been in more or less, what we might term country, as opposed to city districts?—Yes. Of course, Fife is a big mining and general manufacturing district.

23,639. And your opinion of General Commissioners, I suppose, is drawn from your experience?—Yes. I have had some quaint experiences. I was trained in Edinburgh; I was in Glasgow for a time one year, and I was back in Edinburgh as a Surveyor. In Fife you have a good class of Commissioners.

23,640. This discount that you suggest?—It is merely a suggestion.

23,641. It amounts to 12 per cent., does it not?—Well, that shows that my arithmetic is very deficient. 23,642. What did you mean; you say 1 per cent. per month?—I was thinking, of course, about getting

the payment on the 1st January instead of it being held up. The Scotch used to pay their tax wonderfully; lastly they do not; they held up as long as they possibly can. I have evidently gone wrong in that; arithmetic is not my strong point. I had no idea of 12 per cent. It is merely a suggestion that if you could give the public some slight inducement to pay up quickly it would be of great advantage all round; I should think so especially in England from what I know of English methods, for I have been in England.

23,643. You do not seriously suggest 12 per cent.?—No, I withdraw the arithmetical portion, with apologies.

23,644. Your point is, that certain people wait until they get the third notice in March before they pay, at least that is so in Scotland, anyhow?—They wait a good deal longer; they wait until the Sheriff Officer calls along the fishing coast.

23,645. I say they wait until the third notice, the one that gives them eight days?—We give them 24 hours' notice in Scotland, and they tear it up.

23,646. That is the exception, not the rule?—Along the fishing coast it is the rule, because they always wait for the Sheriff Officer.

23,647. Have you ever seen a queue outside the tax Collector's office on the last day in December?—Yes, you see a mighty one in Edinburgh always—nowhere else.

23,648. In the latter days of December?—Yes.

23,649. Waiting to pay?—Waiting to pay in Edinburgh.

23,650. You say that only applies to Scotland?—To Edinburgh; that is the only place where I have seen it, but I have seen it there often.

23,651. I see in your last paragraph that you want also to put the accountant in gear?—Yes, I should very much like to put some of them there.

23,652. *Mr. Moy*: From Scotland?—Well, I am not going too deeply into that.

23,653. *Mr. McLintock*: You have evidently had an unfortunate experience in your districts?—Yes, with one particular class of accountants. I do not say that these were qualified accountants, of course. I am not making any reflection on the Society of Accountants; I am referring to people who profess to be accountants.

23,654. You mean a turf accountant or something like that?—No. I have never had any transaction from an Income Tax point of view with them.

23,655. Still you will agree that of recent years it has become a much more common practice for traders, even in the country, to produce accounts in support of their case?—Yes, that is so. We do our utmost to send people to accountants.

23,656. I am not questioning the sending of them to accountants. You are finding that it is much more common to-day even in these districts that you have been in, and for a long period, that you are getting accounts in very much more frequently than you used to 20 years ago?—Yes, that is the whole system in the last 20 years.

23,657. Your point is that it should be made compulsory for every one to produce accounts?—Yes.

23,658. *Mr. Synnott*: With regard to farmers' profits, you cannot seriously suggest that, say, farmers under £20 or £30 valuation should be compelled to keep accounts?—No, it would apply to those over £65.

23,659. In order to test whether a man comes over the limit of £130, what valuation do you take?—A man whose rent is over £65 to-day is liable to Income Tax.

23,660. But what would be your lower limit?—Would not that be the limit?

23,661. What would be your lower limit of valuation?—£65; start with that as long as the exemption limit remains at £130.

23,662. No, wait for a moment. Under Schedule B it is 130?—That is £65 rental—twice that.

23,663. Would you not make any farmer pay under a valuation of £65?—He does not have to pay if he is a farmer pure and simple. Of course, the £65 is the present statutory limit; that means £130.

23,664. No, pardon me, the limit is a limit of income, not a limit of farmer's valuation?—Well, in practice.

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23,605. Very well, I leave that. With regard to your paragraphs 22 to 26, profits made out of thoroughbred stock and people keeping breeding horses, and so on, do you suggest that they are not liable now?—Certainly.

23,606. They are not liable at all?—Not at all.

23,607. And they are not assessed?—They are not assessed.

23,608. Will you give us the reason for that; is it because that is treated as capital profit or in the nature of capital?—No, it is regarded as the trading profit of a farmer, covered by twice the assessment, because this stock is fed on the farm and goes from his farm to three sales.

23,609. Mr. Walker Clark: It is because he has the option?—Of course, he keeps the option naturally. A man who is making £100,000 or £70,000 a year out of stock farms is not going to pay on more than £2,900 if he can help it.

23,610. Mr. Synnott: You say that in Scotland you have your Inspectors of Taxes. Do you act without local Assessors in Scotland?—Where the Surveyor of Taxes, as he was always called, is appointed under the Scottish Valuation Act, for the valuation and registration and making up of the roll on which all property is taxed, it is not competent to appoint anyone else as Income Tax Assessor, and also it is possible for the Commissioners to exercise an option even where he is not, if they choose to appoint the Surveyor.

23,611. Then you have the same system as in Ireland, no Assessors and the Surveyor does the work?—I do not know much about Ireland.

23,612. But is it so?—It is so, I believe, but I do not know much about it.

23,613. No Assessors and the Surveyor does the work?—Yes.

23,614. Can you tell me how does the Surveyor, who is a fleeing personage, sometimes get that local knowledge to ascertain the number of persons who are liable to be assessed, having regard to death, change of occupation, and new arrivals, and so on?—First of all, he has the assessment of the previous year; then when the valuation roll is made up he goes over that, and he notes the changes. In the case of a change in business he sends to the successor in the business; in the case of a new business started he sends a form to the person starting the new business.

23,615. How does he know all that?—From the valuation roll, in which every house and every tenement is entered, and the owner and occupier.

23,616. That is Schedules A and B?—No. We take the valuation roll for the purposes of Schedule D, and go through it in that way. We take all the changes and the new people, and the people who have come to occupy a house in the district over a certain rental, and they are scheduled. It is a more direct way than the Assessor would have of arriving at it.

23,617. I only want to get information, because a very big business may be done in very small premises?—Quite.

23,618. How do you get to know about the nature of the man's new business?—It may take time.

23,619. What I want to get at is, how do you get that with a Surveyor who has, I suppose, nine days out of ten in the year to sit in his office; how does he get the local knowledge when he is not a peripatetic gentleman at all; he has to stick to his office?—He acquires outside knowledge, and he has as much knowledge as an Assessor would have. The Assessor does not go about more than he does. The Surveyor is out and about; he lives in the town and the community, and he is in close touch with the people.

23,620. To go to another matter, with regard to this deduction of tax you dropped a phrase about it being against the spirit or the letter of the Income Tax not to express on the dividend warrant the amount of the tax when it is paid "free of tax." Could you tell me what section in the Income Tax Acts you refer to, except the general one requiring deduction?—That is the section, and the deduction must be shown.

23,621. You cannot point to any particular section?—The general spirit of that section is that in any payment, from which Income Tax is retained, the deduction must be shown.

23,622. That I know.—I think that is sufficiently broad to cover my point.

23,623. Is it quite clear that in the dividend warrant or in the counterfoil where the dividend is "free of tax" there is any express duty on the company to put at the bottom that this is to be a warrant of the payment of tax. That is a question which one of the gentlemen put to you, I think.

23,624. Mr. McIntock: I put the question, but I did not say it was a duty; I said it was usually found on every dividend warrant?—That is so.

23,625. Mr. Synnott: But it would not show what the amount was?—It does not show it.

23,626. Then it would be quite useless.

23,627. Mr. McIntock: I did not suggest that it showed the amount, but with regard to those who had not the knowledge to claim, I said they were put on inquiry by having a note that it was accepted as a voucher.

23,628. Mr. Synnott: Do you not think that would be a very remote form of suggestion to a person who wanted to claim, to find a note in general terms, where the amount of the Income Tax was not expressed at all?—Is not that the point that the Income Tax should be expressed.

23,629. Mr. Sully, I am with you.—I thank you.

23,630. In paragraph 20, why do you want two Schedules only?—Because I think if you put all earnings into one Schedule, any form of earning, apart from property, it would be so much simpler in the working; it would be simpler to make a return and simpler to deal with, and for the public to understand. I am not going into these at any length, because they are questions of policy. I might say I have heard a very strong opinion expressed by my colleagues for one Schedule; I can never see that, because property is so different.

23,631. I want to know why you have two?—Because they are different.

23,632. Really, in the first place, the individual taxed in very many cases will have a combination of property earnings and profits of earnings?—Yes.

23,633. The Income Tax Acts do not contemplate a tax on property at all, do they? The word "property" does not occur from one end of the Income Tax Acts to the other, does it?—With regard to Schedule A?

23,634. It is "profits and gains," is it not?—"Arising from land and heritages."

23,635. "Profits and gains"?—Yes, you are quite right.

23,636. Is not that the whole basis of the Income Tax Acts, and not "property"?—Well, it may be that the basis is the property, the rental, of course.

23,637. In the basis of your suggestion a matter of principle or a matter of convenience or of administration?—Administration would be simpler and more direct, that is so. I am not pressing these suggestions; I only indicate them.

23,638. Mr. Marks: On your paragraph 5, it would be a convenience if the tax year ended on the 31st March?—Yes.

23,639. Do you think there would be any additional convenience, at any rate, for the taxpayer if the tax year were made co-extensive with the calendar year, the first of January to the 31st December?—No.

23,700. Considering that the majority of business, and certainly, I think, most people individually regard that as their financial year?—I certainly think the 31st December would be the best, but I would not suggest that, because of the great dislocation that would happen in the first year.

23,701. Mr. Walker Clark: It has been suggested to the Commission that there should be a general information officer to give these particulars, such as you indicate; would you agree with that?—Yes, certainly.

23,702. Would you agree that the Surveyor, or some person in the Surveyor's office, should have it as his duty to give information as to the method of filling up forms and that sort of thing?—The difficulty would be, that you would get a clerk doing that, because you could not pay anybody bigger who would be able to give information about filling up forms.

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[Continued.]

but almost on the instant would come some technical question.

23,703. He would refer to his superior officer?—Then, of course, the Surveyor's time is taken up, and there would be no hope for the Surveyor.

23,704. You would not favour that so much?—Not as a practical thing.

23,705. You have not dealt with this in your evidence at all, but from your wide experience do you think the present exemption limit is an appropriate one?—No, not with the present price of living.

23,706. You think it ought to be raised?—Yes.

23,707. *Sir E. Nott-Bower*: Mr. Synnott asked you just now whether the Income Tax was imposed on anything but profits or gains; does not the word "property" occur in the Income Tax Acts?—Schedule A is on the profits or gains arising from lands and heritages.

23,708. Is it not the case that the section which imposes the charge of Income Tax imposes it in respect of all property, profits, or gains described or comprised in the Schedules A, B, C, D, and E; property is mentioned?—Property is mentioned. Mr. Synnott told me positively it did not appear, so I accepted that.

23,709. *Mr. Synnott*: Sir Edmund Nott-Bower has

very rightly called my attention to the fact that the word "property" does occur in the Income Tax Acts. I am afraid I cannot withdraw my suggestion, which was this, that the whole of the Income Tax Act is a duty on profits, and it is no more a tax on property than it is a tax on professions, trades and offices. These are only the heads of the Schedules. I see that the Consolidation Act is really only a consolidation of the sections; it does not give the charging section. The charging section is given in the Act of 1842, the original Act, which is an Act for granting to Her Majesty duties on profits arising from property, professions, trades and offices, and therefore it is a tax on profits. The reason I say this is, it is so very important that it should be clearly known, and it is not generally known that we have nothing to do except with profits and gains. On page 37 of Dewell's book he quotes both Lord Macnaghten and Lord Davey, who are acknowledged authorities: "Income Tax is a tax on income. . . . In every case it is a tax on income whatever may be the standard by which the income is measured," and Lord Davey says: "The Income Tax is intended to be a tax on a person's income or annual profits, and although it is imposed in respect of the annual value of land, that arrangement is but the means or machinery devised by the Legislature for getting at the profits." That is what I meant.

MR. JOHN STEWART, on behalf of the National Farmers' Union of Scotland, called and examined:—

The witness handed in the following statement as his evidence-in-chief:—

Précis of evidence to be given on behalf of the National Farmers' Union of Scotland by JOHN STEWART, solicitor, Dunblane, secretary and treasurer to West Perthshire Area Executive of the Union.

23,710. The question of the Income Tax has on various occasions been considered by the Union. For years farmers were taxed in respect of the farm profits on one-third of their rents while they had the alternative of submitting a balance sheet. During the course of the war this was altered and the farm profits were taken at a year's rent of the farm with the alternative of submitting a balance sheet. Later on this was again altered, and the farmers' profits in respect of the farms were taken as equivalent to two years' rental, with the alternative as before.

23,711. Many farmers are for the first time being assessed on their profits as appearing in their profit and loss accounts and balance sheets, and as there is a great probability that farmers will in increasing numbers submit accounts to the Assessor, they call for more effective representation on the district courts of Commissioners of appeal.

23,712. These courts are at present not popularly elected, and it is feared that members are being appointed in rather a slipshod method. The dates of election have not been made known generally, and in many cases members have been elected and appointed to the court without any special fitness for the position. The Union therefore calls for a more popular appointment of these courts. As it stands in some agricultural districts the court is composed of merchants, etc., who have no knowledge of agriculture, and farmers have been seriously prejudiced through the ignorance of such men in dealing with agricultural accounts.

23,713. It is submitted that if these district courts are to be continued the agricultural community should have an opportunity of being directly represented, as agricultural accounts are admittedly the most difficult accounts with which the ordinary District Commissioners have to deal. It is therefore considered that there is urgent need for radically reforming the constitution of the present courts of Commissioners, particularly in rural districts, where frequently the public have not the requisite knowledge and power to make alterations which are called for in the public interest.

23,714. At a meeting of the central executive committee of the Union, held on 15th October, 1918, it was resolved that the present courts of appeal Commissioners be abolished and that new courts be constituted by election by the County Council. Further, that each County Council at the beginning of their period of office should make a new election of Commissioners; that this number should be restricted to the number actually required, and that casual vacancies should be filled up from time to time by the County Council. It is thought that by this means an opportunity will be given to agriculturists to have representation on the district courts.

23,715. The Union further considers that an alteration should be made in the case of Clerks to Income Tax appeal Commissioners. These come into very intimate relationship with the Surveyor of Taxes, and indeed in many cases the Surveyor of Taxes is indebted to them for his information. It is therefore of primary importance that these should be entirely neutral and unprejudiced and unconnected with local affairs. The farmers in the Union strongly object to the Clerk to the Income Tax Commissioners holding the position of factor or vice versa. They urge that, in a matter affecting their private interests so much, it is unfair to ask them to submit accounts to a district court where the clerk of that court is the factor and the party to whom they pay their rents. A mere statement of this shows the absurdity of the position.

23,716. They submit, too, that in the case of Clerks to Income Tax courts restrictions should be put upon the terms of their appointment. In the case of most public officials now who are clerks to public bodies these are precluded from acting before their own courts, and it is unreasonable that a Clerk to a district Income Tax appeal court should be acting for private clients prior to the court in attempting to adjust questions of Income Tax with the Surveyor. Such a Clerk, to whom the Surveyor is indebted for much of his information, must be in the confidence of the Surveyor, and might thus be in a position to secure concessions which the ordinary agent acting for his clients could not get.

23,717. The Union further strongly represent to the Commission that, in view of the prohibitive expense of appeals to the Courts of law under the present system, provision should be made that in all cases where the amount of income for assessment does not exceed £2,500 an appeal should lie in the first instance to the Sheriff Principal of the County.

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[Continued.]

Further, that in the event of the assessed appellant being successful before the Sheriff Principal and of the Crown taking the case further, i.e., to the Court of Session and the House of Lords, it should be provided that the assessed appellant should not be found liable for costs in the Court of Session or the House of Lords in the event of his not appearing in these Courts to oppose the Crown. The Commissioners are respectfully asked to give their favourable consideration to these points.

[This concludes the evidence-in-chief.]

23,718. *Chairman*: Is the organisation that you represent a large one?—Yes. Most of the farmers in Scotland are members of this Union now, though there is a large number who are not members.

23,719. You are their representative?—I am representing the Union here to-day.

23,720. *Mr. Walker Clerk*: Are they large farmers or small ones?—All kinds of farmers.

23,721. *Chairman*: We will just ask you some questions on your paper which, I am glad to see, is commendably short.

23,722. *Mr. Petyman*: Your paper is mainly, in fact almost entirely, on the question of the machinery of assessment, is it not?—That is so.

23,723. Not on the question of the fairness of the Schedules, and so on?—I quite agree.

23,724. You suggest that the Commissioners should be elected by a county council?—Yes.

23,725. They are a judicial body, are they not?—The county council?

23,726. No, the Commissioners?—The Commissioners are a judicial body.

23,727. Is it not rather contrary to our practice and principle in this country, that a judicial body should be popularly elected, or appointed by a popularly elected body?—Well, the idea was to make as little alteration as possible in the present system to bring it into line with modern day requirements. If I may cite the example of the military tribunals, which worked well over the country, these were largely elected or appointed through the county councils, and we found that they worked very satisfactorily in the rural districts in Scotland. They were in a way a judicial body, and I think if something analogous to that were adopted here it would be much better than the present system.

23,728. I do not know if you are aware, but in the evidence we have had put to us very strongly that these Local Commissioners are not necessary at all, and that the Surveyor of Taxes could do the work quite well without their assistance?—The Union does not agree. It thinks it very important that there should be a body of local men interposed between the Surveyor of Taxes and the taxpayer.

23,729. That is a point which has been very much pressed upon us by many witnesses, that the real decision and the whole machinery should really be dealt with by the Surveyor of Taxes?—The Farmers' Union do not agree with that.

23,730. Have you ever heard any complaints from taxpayers that Local Commissioners in their assessments are unduly favourable to their own particular class of farms?—I have heard that mentioned, but I do not agree with that opinion. In my own practice I think the Local Commissioners have acted fairly as between both parties hitherto.

23,731. Of course, when you come to compare the questions that come before them with the questions which the military tribunals had to decide, it is a little different, I think?—I quite agree; there is a great difference.

23,732. You want a certain amount of legal training possibly in the matter of assessment of taxes; it is a very complicated and difficult question?—They are largely guided by the Clerk or the Assessor who sits along with them, and I think in the way of legal assistance that is quite sufficient.

23,733. You think that the knowledge of a particular trade is advantageous to them?—I think it would be, particularly in the rural districts.

23,734. As to the Clerks to the Commissioners, you suggest that their functions should not be confused either with their other activities or those of their clients; how would you arrive at that in a country district?—I do not quite follow your question.

23,735. Would you have a Clerk from a neighbouring town acting as legal adviser to the Commissioners?—No, not necessarily. I think they should appoint a Clerk in a regular way, possibly a local solicitor who should act as Clerk and Assessor to the Court.

Possibly, it would need to be that the districts were somewhat enlarged. For instance, in Perthshire, there are no less than eight districts. I submit that in a county like Perth, if those were reduced to, say, two it would be quite sufficient.

23,736. I see your point. When you say the factor, the factor in Scotland is what we call in England an estate agent?—Yes.

23,737. And a factor who has a good deal to do as agent with the tenants?—I ought not to sit in judgment on their accounts.

23,738. I quite think so. Is that common?—It is occasionally the case; in several cases I know it is so.

23,739. You know of several cases where the Clerk to the Commissioners is also factor on an estate?—Yes.

23,740. Does not that arise owing to the very different practice in Scotland from England? It is a very rare thing in England for a local solicitor to be factor; it is practically unknown; but in Scotland it is the general practice?—It is very often the case that a local solicitor is factor or estate agent for the neighbouring proprietor.

23,741. That is how it arises?—That may be the cause of the distinction.

23,742. It arises in Scotland because the local solicitor is commonly a factor?—Yes.

23,743. Whereas in England you may take it from me that is not so?—Quite so.

23,744. As the local solicitor is a class from which the Clerk is drawn it does naturally follow that in many cases he would occupy the same function?—Quite so.

23,745. Take a county town in Scotland such as Inverness or even Aberdeen. Out of the reputable firms of solicitors (they are not called solicitors, I fancy, in Scotland, but what I call solicitors) would there be any considerable proportion of them who were not acting as factors?—Yes, there would be a very considerable number.

23,746. You would get plenty of choice?—You would get plenty of choice.

23,747. Even if you had factors?—Yes, quite so.

23,748. Then you suggest that there should be a further appeal to the Sheriff Principal of the county; that is really introducing another stage in the right of appeal?—Exactly, but I think in the end it might save trouble, because it would save an appeal to the higher Courts, if the matter were decided by the Sheriff.

23,749. Do you think people are always satisfied with anything less than the highest decision they can obtain?—I would possibly be inclined to put a certain limit on the figure beyond which they could not appeal past the Sheriff.

23,750. Can you give us any idea of the number of appeals there are now made to the higher Court?—I could not say.

23,751. *Mr. McLintock*: The Sheriff in Scotland is *ex officio* a Commissioner himself, so you could not very well have appeals to him.

23,752. *Mr. Petyman*: Perhaps you would kindly put that to the witness.

23,753. *Mr. McLintock*: You are aware that the Sheriff is *ex officio* a Commissioner?—Yes, I understand so.

23,754. And does on odd occasions sit?—I was not aware of that. Under the suggested scheme of Commissioners he would not be an *ex-officio* member.

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[Continued.]

23,755. You would take him away from that?—I would take him away from that.

23,756. You are aware that he is one just now?—I am aware that he is one just now, but in my own practice I have not known of the Sheriff sitting.

23,757. *Sir E. Nott-Bower*: With regard to the point about the appeal to the Sheriff Principal, of course the same object would be attained, would it not, if a rule were laid down that when an appellant got a decision of the Commissioners on a point of principle, and the Inland Revenue or the Crown wanted to take the case to the Court, the appellant might be allowed to go free of cost?—Yes, quite. As long as he was absolved from paying any part of the cost, an appeal would not have the existing terrors for the taxpayer.

23,758. Because a decision on an individual small case may very often involve a principle?—Quite so.

23,759. Which the Department might think it necessary to have settled?—Quite so.

23,760. *Sir W. Trower*: It has been suggested to us with regard to the appointment of the Commissioners that one-third should be appointed by the Crown from lists supplied by Lords Lieutenant of counties, one-third by the magistrates meeting at Quarter Sessions, and one-third by the local authority, that is, county councils, and the larger city and borough councils. Do you not think that would be preferable to their being appointed entirely by the county councils?—Would that be a permanent body? Do you mean that would sit as a permanent body or be elected every year?

23,761. A permanent body, I understand. It would have the advantage of necessarily introducing skilled people?—Yes.

23,762. My question to you is, do you not think that that would be a better system than appointing them entirely as you suggested, by the local county council?—I think I would prefer the election by the members of the county council. They are possibly more in touch with local opinion and have more local knowledge than the Court suggested.

23,763. *Chairman*: It is the judicial position that *Sir Walter* wants to put to you?—I agree that, at any rate, it would be an improvement on the existing system.

23,764. *Sir W. Trower*: You see that it is locally selected. It is one-third by the Crown from lists supplied by Lords Lieutenant of the counties?—Would those members be resident in the county?

23,765. They would be local people?—Yes.

23,766. Then the next is one-third by the magistrates meeting at Quarter Sessions; again that would be local?—Yes.

23,767. And one-third by the local authority, so that you would get a popular election with due regard to skill and local knowledge?—Yes.

23,768. Do you not think that that would be a better system?—Speaking without having hitherto considered that, I think that is quite a good suggestion.

23,769. It is quite possible?—Yes, I think so.

23,770. *Mr. Walker Clark*: The Clerk to the Commissioners, you suggest, should be a solicitor?—Yes, if the Court is composed of laymen.

23,771. Would you suggest that he should be a full-time officer?—No, not necessarily. If I may be allowed to enlarge my answer to that question, I would suggest that as in the Licensing (Scotland) Act, 1903, section 106, there ought to be in any new proposal, a section somewhat like this: "No solicitor or other person being a clerk to a licensing court or a court of appeal, and no procurator fiscal or other person entrusted with the prosecution of offences against this Act, shall, by himself, his partner or clerk as solicitor or agent for any person, conduct or act in any application for or in respect of a certificate, or any other proceedings whatsoever under this Act, &c., &c." I suggest that similar wording in that should be inserted in any new Act or Regulation regulating Income Tax procedure.

23,772. Excuse my asking you a personal question, are you an accountant?—No, a solicitor.

23,773. Have you had a wide experience of Income Tax matters in different areas in Scotland?—No, just in my own area in Perthshire; I have had a little outside, but not a wide experience.

23,774. Do you regard, both personally and on behalf of the farmers, Local Commissioners as important and necessary?—We do.

23,775. *Mr. McIntock*: Your main reason for calling for a change in the Commissioners is owing to their inability to understand accounts?—Yes.

23,776. Agricultural accounts?—If I may say so, the Commissioners in sitting, of course, only see one or two accounts in the year, and naturally they have very little experience of Income Tax matters, and they are largely dependent on the officials of the Court, that is, on the Surveyor of Taxes and the Clerk.

23,777. I would have thought that the increasing tendency to submit accounts was lessening appeals, because as a rule when you submit accounts there is not much difficulty in settling the liability with the Surveyor?—My answer to that is, that as the farmers have hitherto paid on the rental there has been no question of, or room, for appeal. Nowadays they are submitting accounts in increasing numbers, and there is a larger number of appeals to the local Court than there was previously.

23,778. The point I wish to put to you is this, that as the tendency to submit accounts increases so will the appeals decrease, because the Surveyor and the taxpayer as a rule, if accounts are submitted, settle the liability and they never need to go to the Commissioners?—I am afraid it would be that the larger the number of accounts that are submitted, the larger the number of disputes there will be regarding proper assessment, and therefore the larger the number of cases in which it will be necessary for the Court to intervene.

23,779. Then you differ from other trades entirely, where there are practically few appeals where accounts are submitted, because the Surveyor and the taxpayer can usually agree the liability between them?—Possibly the reason of that is that the farmers have been treated exceptionally in paying on their rent.

23,780. You mean there is a difference of opinion between the Surveyor and the taxpayer as to the accuracy of the accounts?—Yes, that is what I mean.

23,781. *Mr. Kerly*: Are you suggesting that the local Court you propose to set up shall take over all the work of the Commissioners, or only hear appeals?—I am suggesting that the present Commissioners are to be replaced by a body appointed by the county council.

23,782. Is that body nominally to make the assessments?—Their principal duty would be to act as a court of appeal between the Assessor and the taxpayer.

23,783. Put that aside for the moment: are they to have any function in making the assessment itself?—No. I would be inclined to leave that entirely to the Surveyor, and if the taxpayer and the Surveyor can agree, that is an end to the matter.

23,784. Then it would be merely a court of appeal?—It would be merely a court of appeal.

23,785. For what period do you suggest the members should be appointed?—Any time there is an election of a new county council—every three years, I suggest. It should be at the same time.

23,786. One-third of the county council is replaced every three years?—No, it is the whole county council in Scotland.

23,787. Very well, do you propose that this new court should be re-elected every three years along with the county council?—Yes. I suggest that the county council at their first meeting should elect a sufficient number to act as Commissioners.

23,788. In fact, it should be a committee of the county council?—Quite; that is what I suggest.

23,789. Do you think that would be a satisfactory judicial body?—I think so, but I would go further

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[Continued.]

than that even, and suggest that if they knew of any person specially qualified in the district they would be entitled to nominate him.

23,790. It might become quite an important matter in the election of the county councils—"Put the farmers' assessments up," or "Put the farmers' assessments down;" is it not obvious that that is the sort of trouble you might be landed in?—Well, it might come to be, but I can hardly anticipate that.

23,791. Who is to appoint the Clerk, the new court?—Yes, the court themselves.

23,792. What is the tenure of office to be?—I should make it a permanent appointment.

23,793. So that when there is a new county council and a new court they have got to be saddled with the old Clerk?—Yes. That is quite the case with a

number of public bodies in Scotland at the present time. Take a town clerk, for instance; he holds office even although the town council go out of office, and the new county council at the beginning of their office do not re-appoint the county clerk.

23,794. Your proposal with regard to the Clerk is that factors should be barred, and that the Clerk should not be allowed to act in Income Tax matters?—Quite so.

23,795. One word about costs. Do you agree that it would be a fair thing that where the Inland Revenue chooses to appeal the respondent should be under no liability to pay costs?—I think that would be fair in at least the smaller cases.

23,796. Mr. Kerly: I will go further than that; I think it would be fair in all cases.

MR. AYTHOL CAMPBELL and MR. W. LEONARD STAINES, on behalf of the Central Association of Accountants, called and examined.

The witnesses handed in the following statement as their evidence-in-chief:—

Additional Commissioners.

23,797. (1) As the Surveyor of Taxes, to all intents and purposes, now makes the assessments, except in the few cases where no returns are made, we are of opinion that Additional Commissioners should be dispensed with, and all assessments made by the Surveyor of Taxes. At present, where no returns are made, or where the Additional Commissioners consider the return is less than the assessable income, it appears that they use local knowledge in order to assess. This local knowledge can only result in a haphazard assessment, and in raising the enormous revenue that is now required, this method of assessment should be discarded, as it gives a large scope for evasion of tax. Evaders may purposely make no return so that if the assessment is below the assessable income they pay on an insufficient amount, while, on the other hand, if the assessment is more than the assessable income, they appeal and produce the necessary statements. The Revenue is out to lose in either case. Further, we consider that local knowledge cannot possibly be used to any extent in large towns.

From the taxpayer's point of view it is undesirable that the returns of total income, and possibly the financial standing of taxpayers should be accessible to Local Commissioners, some of whom may be in the same class of business. If the suggested course were adopted, there would be no necessity for "letter" assessments, and the saving of time in registration, etc., must necessarily result in economy.

23,798. We suggest that the present unofficial character of the tribunal appointed to deal with appeals should be maintained but the Local Commissioners should not have permanent possession of the papers, documents and accounts which have been submitted by appellants on appeal. These papers and documents at the present time are the property of the Local Commissioners, and they and their Clerks have access to them as and when they choose. In view of the fact that Local Commissioners are often people engaged in business, and their Clerk is only a part-time official and usually carries on a private practice as a solicitor, it is undesirable that such documents and accounts should (except for the purpose of the appeal) be either in the possession of, or open to inspection by the Local Commissioners or their Clerks. We suggest that all such documents should be the property of the Inland Revenue and, after the appeal to which they relate has been disposed of, accessible only to permanent officials of that Department.

General Commissioners.

23,799. (2) We consider that as an appellate body these Commissioners are not strong, but we propose that in any amendment of their constitution, their non-official character should be maintained. We also suggest that the right of appeal to the Special Commissioners should be preserved to the taxpayer.

It is often stated that Local Commissioners are more competent to deal with questions of fact, but we do not agree with that view, as we cannot conceive that a trained body of men, well guided, would be unable to weigh up the evidence and give an equitable decision on questions of fact.

Special Commissioners.

23,800. (3) We suggest that this body should be relieved of the duty of making assessments for Super-tax, and that this work should be undertaken by the Surveyors of Taxes. We consider this would greatly minimise the work, save public money and also add to the revenue. It has been represented to us that several cases have occurred where the Income Tax return rendered to the Surveyor of Taxes pointed to liability to Super-tax, and the taxpayer had, in fact, given notice of two years' liability, yet no application for a return of Super-tax was made. It therefore appears that Departmental co-ordination is lacking which we submit could not possibly occur if the Super-tax assessment were made in the same office to which the Income Tax return was rendered.

Clerks to the Commissioners.

23,801. (4) We are of opinion that a Clerk to the Commissioners should be a whole-time serrant, well versed in the Income Tax law, to enable him to advise on legal points and to act in an advisory capacity similar to that of a clerk to the justices. The result of making this a whole-time appointment would be, in our opinion, greater efficiency, as there would be no outside interests to detract attention or distract the mind.

Assessors.

23,802. (5) We are of opinion that much economy would result if our suggestions were adopted and the assessing done in the office of the Surveyor of Taxes. The following instances are given in which it is considered that waste of time results from the dual administration:—

- (1) Assessors send reminders and special reminders for returns while the Surveyor of Taxes and the taxpayer are still corresponding with a view to arriving at an agreed figure. (This also is an annoyance to the public.)
- (2) The preparation and delivery to the Surveyor of Taxes of lists of persons to whom returns have already been delivered to the Assessor.
- (3) The passing of the returns to the Surveyor of Taxes for examination.
- (4) The necessary inter-departmental registration.

The office of Assessor, it is submitted, should be abolished. In most cases these officials are of little or no help to the public. If reference is made to them upon matters arising out of assessments made

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by them, e.g., an assessment, the amount of which is disputed, they do not deal with and dispose of it themselves, but refer the taxpayer to the Surveyor. If the assessments were made by permanent officials of the Inland Revenue, who have authority to deal definitely and finally with the assessments, a great deal of work and trouble would be avoided. Professional accountants rarely have difficulty in agreeing a correct and proper assessment by going direct to the Surveyor with their clients' accounts; and this saves a great deal of useless (useless because the Assessor does not finally dispose of the matter—it is still subject to revision by the Surveyor) intermediate work in the way of answering questions from the Assessors.

Appeals from the decision of the appellate body.

23,803. (6) We are of opinion that the right of appeal to the High Court on a point of fact, as well as on a point of law, should be granted to both parties. The present system, which requires that dissatisfaction with a decision should be expressed at once, is undesirable, and we consider a period of time should be allowed in which either side could express dissatisfaction and lodge an appeal. This would enable either side to consider carefully the decision, especially as cases are often cited with which the appellant is not familiar, and before coming to a decision he might possibly wish to consult a professional man.

Collectors.

23,804. (7) It is suggested that Collectors of Income Tax should be permanent officials of the Board of Inland Revenue. Under the present system, especially in country districts, the Collector may carry on business as an estate or house agent; sometimes that of a village shop-keeper, and in agricultural districts he sometimes follows an occupation on the land. In his capacity as Collector he obtains information respecting the income of neighbours and residents, who object to their private affairs being known to a person who is not a permanent official.

It is also suggested that Collectors of Taxes should always pay in direct the money collected by them to a bank account which can only be operated upon by the Inland Revenue permanent officials, and that no Collector should be allowed to bank taxes collected in his own name, to an account controlled by his own signature and out of which he makes weekly, monthly or other periodical settlement (which may have been arranged by the Local Commissioners). The suggestion is that he should account direct to the Inland Revenue and not have a banking account under his control, of the taxpayers' money.

Schedule D assessments.

23,805. (8) It is suggested that separate assessments under Schedule D should be made on each partner in a firm. Under the present practice only one assessment is made upon the firm for its profits, and each partner is therefore able to ascertain approximately the financial position of the other partners. This is a position which is very keenly resented by business men. The notice of charge merely divides the duty payable into various amounts without showing to which partner they relate or how the figures are arrived at. It is frequently necessary for the firm to ascertain from their accountant how the figures have been made out and how much of the duty is payable by each partner. We suggest that assessments should be made on the profits of the year preceding the year of assessment, and that all losses made should be carried forward until exhausted. This system would give much greater satisfaction than the present one of the three years' average.

Erosion of tax.

23,806. (9) The State undoubtedly loses a considerable sum each year through the non-assessment of profits which should be assessed. This fact is well

within the knowledge of many practising accountants, but if they were asked to give proof it would place them in a difficult position. The loss arises in many ways, but in our opinion it could be minimised if the State demanded that accounts should be kept by all responsible business people, and that accounts properly certified by professional accountants should be lodged with the Inland Revenue authorities when required.

For example, if a trader has been assessed on, say, £500 and wishes to appeal, he may consult a professional accountant who may on investigation find that instead of the £500 being an excessive assessment it is actually below the profits shown by the accounts. In the absence of the books it might be possible to certify the profits as exceeding the assessment, but on the other hand it very frequently happens that the taxpayer when conferring with his accountant will state that he is not altogether surprised to find that he is making a larger profit, but for some reason or other thought it worth while to contest the assessment. What can an accountant do in a case like this? The taxpayer pays his accountant's charges, the appeal is not proceeded with, he pays on the £500 basis, and thus the State is losing tax.

Take another example; the Surveyor makes an assessment of say a few hundred pounds on a trader who has perhaps never been assessed before. The trader gives notice of appeal, and the Surveyor calls for accounts. For the first time in his commercial career this taxpayer employs an accountant, who gets into communication with the Surveyor, and for the purpose of settling the liability for the last three years prepares accounts for the six preceding years. It not infrequently happens that each of the accounts for the preceding six years shows profits considerably in excess of the amount of the disputed assessment, and obviously the State is losing in this case also.

Take a further example; a professional accountant prepares accounts for a firm who keep proper books, and in accordance with the usual practice he charges up interest on partners' capital and Income Tax paid, showing the net balance of profit and loss much smaller than the Income Tax balance of profit and loss. In such a case the accountants may have explicit instructions to do no Income Tax work at all; the partners fill in their own returns, utilising for that purpose the net balance of the profit and loss account, after charging partners' interest and Income Tax. The assessments are made on the partners' returns, and the State is again a loser. This latter case is, in our opinion, of rare occurrence, but not at all an impossible one.

23,807. There is another class of men who frequently escape assessment, e.g., men dealing in commissions and keeping all the accounts they require in a memorandum book which they carry about in their pockets.

In our opinion there is perhaps much less tax lost to the State from business firms who have accounts properly kept and annually audited by professional accountants than from those businesses which have not yet been brought into assessment, or which have not at all events been asked to produce certified accounts. Our experience is that in most big towns there are usually people carrying on a trade of some kind or other, more or less profitable, who seem to have escaped assessment to a very considerable extent; e.g., people of foreign nationality who run "working tailoring businesses," the lower grade "furnishing business," businesses in connection with "waste" and "scrap" material, etc. The profits arising from businesses such as these are often considerable, but owing to the very unpretentious manner in which most of them are carried on, as a rule in a poor and perhaps dilapidated part of the town, they seem to escape the attention of the taxing authorities more often than those businesses which are carried on in the more prominent thoroughfares.

If all traders were compelled to supply the Surveyors of Taxes with trading and profit and loss accounts, we are of opinion that increased revenue would result. Traders are apt to deduct from their profits, expenses which are not allowable for Income Tax purposes. A trading and profit and loss

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account would disclose this, or, if these expenses were embodied in other items of expenditure, they would probably be disclosed by the Surveyor's inquiries.

Greater attention should be given to the necessity of obtaining from an employer a return in respect of payments for services rendered, commissions, etc. We fear that a large number of payments, commissions, insurance commissions, etc., may be unintentionally or otherwise omitted from these returns, and we therefore suggest that every person in business should be required to fill up the form.

Points of inequity.

23,808. (10) (a) Losses of subsidiary companies should be allowed against the profits of the parent company before assessment. The equity of this allowance has already been admitted for *Excess Profits Duty—see Finance (No. 2) Act, 1915, 4th Sch. Part I, section 6.*

(b) Considerable dissatisfaction arises in respect of the non-allowance of a deduction for wasting assets. We think that it would be advisable for committees representing each class of industry affected to be allowed to make recommendations on this point to the appeal bodies, not oftener than, say, three or five years, in order to effect any change that circumstances might suggest. An appeal from the decision of the appeal bodies should also be allowed.

(c) Losses should be allowed to be carried forward and deducted from future profits before assessment. The equity of this has been admitted for *Excess Profits Duty*. It is also admitted for *Income Tax* purposes in regard to the allowance for wear and tear.

[This concludes the evidence-in-chief.]

23,809. *Chairman:* Is this paper the result of the deliberations of a committee?—(Mr. Campbell): Yes. I am a member of the Council of the Central Association of Accountants, and this evidence-in-chief is a summary of the opinions and recommendations of the Council.

23,810. *Mr. Holland-Martin:* In the third part of paragraph 1, you talk about the papers and documents being the property of the Local Commissioners, and you rather suggest that the Commissioners allow them to be seen by other people when they get back to the Clerk's office. You say: "These papers and documents at the present time are the property of the Local Commissioners", and you suggest that they should be the property of the Inland Revenue, and shall not be visible?—Yes.

23,811. Have you any cases in which they have been made public?—We have no actual case in which they have been made public, but we think it is quite possible for them to be made public.

23,812. But you have no case in which you think they have been made public?—I cannot give you any concrete case.

23,813. *Mr. Kery:* I should like a little more information as to how this paper came to be drawn up. First will you tell me this. You represent the Central Association of Accountants?—Yes.

23,814. Are they accountants who belong to neither of the familiar bodies—neither the Chartered Accountants nor the Incorporated Accountants?—This is a third Association of Accountants, formed upon similar lines to the Institute and the Incorporated Society.

23,815. Then it is a society of practising accountants?—Principally practising accountants. There are some who, you can quite understand, are chief clerks to practising accountants, and others are in important positions in public companies.

23,816. Is really is a professional society that you represent?—Yes, undoubtedly.

23,817. Is it controlled by some council or committee?—It is controlled by a council elected by the members of the Association.

23,818. Has this evidence been considered by that council?—Yes.

23,819. Has your evidence-in-chief, as it appears before us, been considered and approved by the council? Is that right?—That is so.

23,820. Will you just tell me roughly how many members your Association has?—About 800.

23,821. Practising in London and throughout the United Kingdom?—Throughout the United Kingdom. I myself come from the north of England.

23,822. You suggest that the Additional Commissioners should be done away with?—That is our suggestion.

23,823. So that the Surveyor would in all cases make, and be responsible for, the assessment?—That is our recommendation.

23,824. Do you suggest that the Surveyor should also make the valuation in cases under Schedules A and B?—In cases where there is a doubt, I think the valuation might be made by the Commissioners. Schedule A is pretty generally regulated—I do not know about London, but it is round my part of the country—by the local assessors.

23,825. Do you mean by the Poor Law valuation?—By the Poor Law valuation; or, in other words, the gross estimated rental, less one-sixth.

23,826. When you say that in cases of doubt the Commissioners might intervene, do you mean the General Commissioners?—I mean the General Commissioners.

23,827. You are going to do away with the Additional Commissioners altogether?—Yes.

23,828. Have you any suggestion to make as to the appointment of General Commissioners?—That point was not discussed, to my knowledge.

23,829. Then I will pass on. You suggest there should be appeals from the General Commissioners on points of fact as well as on points of law?—Yes.

23,830. At present the evidence taken before them is not before the High Court when the case goes to them on a point of law. How far would it meet your views if a shorthand note of the evidence were taken in all cases, and was before the Court on the hearing of an appeal, so as to leave open to an appellant the contention that some finding of fact is not warranted by anything in the evidence?—I am not sure that I heard you correctly; would you mind just repeating that question?

23,831. At present the evidence taken before the General Commissioners is not before the Court on an appeal?—That is so.

23,832. And sometimes it is said that the finding of fact of the General Commissioners is contrary to law, because there was no evidence to support it. Do you follow that?—Yes.

23,833. Very often that cannot be dealt with because the Court does not know what the evidence is?—That is so.

23,834. How far would it meet your objection if the evidence were, in all cases, available for the Court?—That would meet our objection entirely—if the evidence submitted to the Commissioners were available to the Court.

23,835. It leaves open this: that where there is evidence both ways the Commissioners would remain the final judges as to the weight of the evidence?—Yes.

23,836. If your proposal is to allow the Court to deal with questions of weight of evidence, you appreciate you would be throwing open the Court to an enormously increased number of appeals?—Well, sir, that is what the Court is there for, is it not?

23,837. That is your answer; I do not know that it is complete. You also suggest that either side should be able to appeal, on giving notice within a reasonable time, whether or not they had expressed their dissent?—Yes.

23,838. As a matter of fact, everyone expresses his dissent at once when the decision is against him, as a matter of precaution, does he not?—Not to my knowledge; that has not been my experience.

23,839. That is because people who do not do it do not know that it may be useful?—Yes.

23,840. Very well; that might be left in that way. You propose that people should be required to keep and produce books in all cases. I follow that is your proposal?—Yes, that is our proposal.

23,841. Everybody engaged in business should be required to keep books and accounts?—Yes.

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23,842. Do you think that would be practicable in the case of the small shopkeeper and the small farmer?—I think it is possible with all of them. In my experience there is nothing to prevent that, particularly with the small shopkeeper. If you want an analysis of his accounts it becomes a very serious matter with him, but in most cases it is only a question of receipts and payments.

23,843. I will ask you personally: are you in practice yourself as an accountant?—I have been in practice for the last 20 years.

23,844. Have you personally had any experience of the small trader?—Yes, down to the marine store dealer, and you cannot get much lower than that.

23,845. So far as your experience goes you think that it is possible for the trader to keep accounts?—It is quite possible for him to keep sufficient record of the transactions to enable a qualified and practical accountant to prepare satisfactory accounts which will meet the requirements of the Surveyor, and enable him to form a just assessment.

23,846. Here is one item in those accounts: where the man takes money from his till for his living expenses. I suppose you would say that might be met by keeping a record of what he takes out of the till?—If he records correctly his receipts over the counter that is bound to include what he uses for himself.

23,847. But supposing he consumes some of the product that he deals in?—Then, as a rule, it is brought into the credit side of his trading account, or household consumption.

23,848. Do not say "as a rule," because, as a rule, we know that no accounts are kept in the case of the small man?—I am referring to my own experience.

23,849. You think it would be practicable, for instance, for a baker to put down the number of loaves he uses for his family?—Shall I give you an illustration? Assuming a hotel proprietor is living on the premises, and he owns them himself, and carries on the business, it would be an utter impossibility to say how much his household consumed; but you can, by an equitable calculation, arrive at a sum which would be acceptable to everybody.

23,850. Mr. Kerly: No doubt in the case of a hotel proprietor you could charge a normal boarding fee. Very well, I just wanted to get your view.

23,851. Mr. Synnott: In the third part of your paragraph 1, that Mr. Holland-Martin asked you about, you say these documents are kept by the local Commissioners and their Clerk?—Yes.

23,852. And that the solicitor, who is the Clerk, may be carrying on private business. Is it not possible that that solicitor may himself be engaged in Income Tax cases? I mean the Commissioners would have no control, would they, over that solicitor, as to the kind of business that he would be doing in his private practice?—That is so; they have no control.

23,853. Then what is your alternative? Who do you suggest should be appointed Clerk to the Commissioners?—An independent, paid, permanent official. I suggest that a permanent official not holding any outside appointment should be appointed Clerk to the Commissioners.

23,854. He would have to be a local resident, would he not?—We find that in the case of Clerks to Justices, a Clerk to Justices living in Newcastle is a Clerk to Justices for places like Belford or Bedlington, or other outlying places; he may be a Clerk to Justices for several outlying districts.

23,855. In paragraph 9, you raise a very nice question, namely, where an accountant is employed to go into accounts, and there is a conflict of duties as between the client who employs him and his duty to the State. You just ask the questions there, but

you do not answer them?—That is a point that we have had under discussion and it is perhaps unfortunately put.

23,856. No, you put it quite clearly?—What should have been read into that part of the paragraph is: what can an accountant do in a case like this? He can do nothing, because, in the first place, he is engaged by his client to prepare an account if there is no appeal pending. If there is an appeal pending, then the Surveyor demands a certified statement, and that is exhibited. But if in the preparation of the account, after his client had agreed to pay or an assumed assessment of £500, he finds he has made £750, it is not the duty of his accountant to go and tell the Inland Revenue that the man is under-assessed. The point that we raise here is that it is placing the accountant in a very awkward position. He is a confidential servant, and to go and tell the Inland Revenue Commissioners that his client was making £750 and only paying on £500 would be a breach of confidence.

23,857. You want the abolition of the Assessors, do you not?—Yes.

23,858. If you abolish the Assessors how are you going to get at these small trades done in secret, and done on very small premises, that you mention in paragraph 9? I have asked this question of others and I really want to get to know. If you have only a Surveyor how is he, in his office, possibly able to find out and assess these small people who are always moving?—I admit, with regard to the people who are always moving, that there is a difficulty, but with regard to the smaller people there should be no difficulty at all.

23,859. There would be no difficulty if they kept the accounts that you suggest?—If the Surveyor adopted the same principle with the small trader as he adopts with the larger one who sends him in no return, namely, kept on increasing his assessment, you would possibly find that that small trader would drop into it very quickly.

23,860. With regard to Collectors, we have had in evidence that there are directions to the Collectors that the cheque should be crossed to the account of the Inland Revenue?—Yes.

23,861. Have you found cases in which the Collector's demand note asks for a payment to him in person?—I have not found any case where the demand note omits the instruction to cross to the Inland Revenue account, but I have found dozens of cases where the receiver of the notice has never observed it. But apart from the cheque and the postal order, it is the money payment that you must think of.

23,862. Do you suggest that the cheque should always be made payable to the Inland Revenue?—I do; and all payments made direct to the Inland Revenue account.

23,863. Mr. Walker Clerk: As to the Clerk to the Commissioners, who is to appoint him?—The Inland Revenue is our suggestion.

23,864. Therefore the Commissioners would have no control over the man who was the Clerk?—The Commissioners would have no control over the Clerk.

23,865. And he would be a peripatetic individual who travels about from one end of the country to the other?—He would not be in a town like Newcastle or a town like Gateshead.

23,866. The Commissioners would only meet once a month, even in Newcastle?—I take it that there would be plenty of work for the Clerk.

23,867. To do what?—To do the work of the Clerk to the Commissioners. The Clerk to the Commissioners sends out all the notices of assessment.

23,868. And you would retain that duty for him still?—Yes.

23,869. Chairman: Thank you for your evidence.

THIRTY-THIRD DAY, THURSDAY, 20TH NOVEMBER, 1919.

PRESENT:

LORD COLWYN (*in the Chair*).

MR. PRETYMAN,
SIR E. E. NOTT-BOWER,
SIR W. TROWER,
MR. HOLLAND-MARTIN,
MR. BIRLEY,
MR. WALKER CLARK,
MR. KERLY,
MRS. KNOWLES.

MR. McLINTOCK.
MR. MANVILLE.
MR. GEOFFREY MARKS.
MR. MAY.
PROFESSOR PIGOU.
MR. SYNNOTT.
MR. TROTTER.

MR. JOHN W. BUDD and MR. RANDOLPH F. W. HOLME, on behalf of the Law Society, called and examined.

The witnesses handed in the following statements as their evidence-in-chief:—

Notes by JOHN W. BUDD, 24, Austin Friars, London, senior member of the firm of Budd, Johnson, Jacks, and Colclough, and Past President of the Law Society.

23,870. (1) I have been in practice as a solicitor in the City of London for over fifty years, and during that period have been largely consulted professionally by individuals, firms, and companies with regard to matters arising under the Income Tax Acts. I am not dealing personally with matters of administration and procedure, which will be dealt with by another member of the Law Society, but I should like to say that I have found the Surveyors, Assessors, and Collectors with whom I have had to deal competent and efficient.

23,871. (2) I consider that in the City of London we are exceptionally fortunate in that we have and have had very able Surveyors of Taxes to deal with. They as a rule are well versed in the legal aspects of the cases with which they have to deal. They are also very tactful and conciliatory in the handling of difficulties which arise. In fact, the greater number of them are very competent men who look after the interests of the Government and at the same time bear in mind the views of the taxpayer, and my experience has been that except in particular cases which the higher powers have decided to fight in the interests of the Revenue, it has never been difficult in a proper case to arrange matters satisfactorily with the Surveyors of Taxes in the City.

23,872. (3) We have also had the advantage in the City for a long period of years of a thoroughly competent Clerk to the Commissioners (who has recently retired), and is now succeeded by his son who gained his experience in his father's office and is carrying on the work on the same lines as his father did, and both of whom in dealing with appeals requiring decision in the Courts have always striven to see that the view of the taxpayer (as well as that of the Crown) was put properly before the Court. Then again, being so close to headquarters at Somerset House, we have always found the Inspectors of Taxes amenable, ready to see one and to deal with special cases.

23,873. (4) From a technical point of view, it is, I think, unfortunate that the Special Commissioners are the absolute judges of fact, as I have now and again found that from facts and documents inferences of fact have been recorded and acted upon which would never have been made had the admitted facts and documents instead of the inferred facts been submitted to the Court. In any revision of the Income Tax Act it would, I think, be expedient to have this point set right, but personally I consider that administration and procedure are of minor importance as compared with the effect on the general business and prosperity of the country of the present heavy taxation in this country of non-residents.

23,874. (5) In the past an immense business in this country has been attached to companies established in this country to own and work foreign undertakings such as railways, mines, waterworks, and others, to the undertakings of which large proportions of capital held by foreigners, colonials, and others resident abroad have been brought in and have become represented by shares in such companies.

23,875. (6) The supply of plant, rolling stock, and other necessities and the banking business and the chartering of or arranging for freight in ships for goods to be sent abroad has naturally followed the domicile of the company, and so long as the rate of tax was low the non-residents were willing to bear the moderate amount of Income Tax chargeable before the war, but the war has altered matters to an alarming extent, and as the tax is not likely to be diminished in the immediate future the control and management of these large undertakings, and in many instances the substitution of a company abroad for the company at home to carry on the undertaking, has been going on and to an extent which people not behind the scenes are perhaps unable to estimate. With the passing of the control of the companies from the United Kingdom to abroad all the available business attached to it in most cases passes away, and, although the loss to the Revenue by an allowance to non-residents on Income Tax would, of course, involve a large diminution of the revenue from tax, the tax on the profits made in and retained in this country would it is hoped compensate for it. But there is another reason which is at the moment of greater importance, and that is that the indirect effect of this high taxation on non-residents has diminished and will continue to diminish the export trade of the country, which is so important to us at this time.

23,876. (7) Another cause at the present moment which is keeping off a large mass of good business from the country is the provisions of the Income Tax Act under which foreigners are unable to appoint a general agent in this country without, as a consequence, having to meet a large Income Tax in this country, and to have difficult points to settle in connection therewith. I have known several cases in which foreign firms and foreign companies have been desirous of establishing in this country a general agency, the effect of which would be to attract to this country orders for goods, banking business, chartering, etc., but when the consequences with regard to taxation at the present rate have been realized such projects have been abandoned. I do not believe that it is generally realized how great is the loss in this respect to this country from the provisions of the Income Tax Acts at the present high rate of that tax.

23,877. (8) The practice of taxing non-residents, British or foreign, on their trading profits earned

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[Continued.]

by the sale of their goods here has largely increased during the last twenty-five years. This practice depends upon a finding of fact, viz.:—that the non-resident is through his English agent exercising his trade in this country. The question where a trade is exercised is a question of fact, and does not depend on any legal principle. But by a series of judicial decisions on this question of fact it has been established that if a manufacturer or purveyor resident abroad habitually sells his manufactures or produce to consumers in this country, either through agents resident here or by direct communication with the customers, he exercises a trade in this country, and renders himself liable to English Income Tax if the contracts for the sale of his produce are made in this country.

23,878. (9) The distinction between the cases where the contracts are made here and those where the contracts are made abroad cannot be justified. There is no trade exercised here by non-residents in either case, and no profits are earned by them here. The trade is exercised and the profits of the non-residents are earned at the place where the goods are manufactured or produced, and where the brains and control of the business are at work. The only trade exercised here is the trade of the agent, who, of course, pays tax in respect of his remuneration as agent.

23,879. (10) The practical difficulty of ascertaining what portion (if any) of the profit is earned in this country, on the assumption that in these cases a trade is exercised here, is insurmountable. For instance, if a man grows hops on the Pacific Coast and harvests them and presses them there, and then ships them to England to an agent for sale, how is it possible to ascertain whether any and what part of the profit of the entire transaction is earned in this country? I think that none of it is earned here, but the Inland Revenue authorities have got embodied in legislation the expedient of estimating the profits at a percentage of the turnover (Rule 8 of General Rules, Income Tax Act, 1918). That enactment appears to be a confession that the principle upon which the tax is based is unsound and impracticable. It is a rule of thumb which has no necessary relation to realities, and is, in my judgment, wholly wrong in principle.

23,880. (11) It must be borne in mind that Income Tax will in future be much more frequently imposed in civilized countries than it has been in the past. Probably few countries which have been involved in the war will be able to pay their way without an Income Tax, and the practice of taxing non-residents through their resident selling agents is one which is likely to lead to retaliation, and the balance will be largely against us. The argument to the contrary is that unless a non-resident manufacturer or merchant selling his goods here pays tax here he would be competing on unfair terms with a resident producing a similar article. This argument was used unsuccessfully in the House of Lords in the case of *Grainger v. Gough*, and was dealt with by Lord Herschell in the following words:—

"I do not think that such considerations can legitimately influence our decision, but if they are to be introduced I think it would be much more prejudicial to British traders if we were to lay down that although the sale and delivery of their goods takes place in this country only they carry on business in every other country for which they obtain orders for their goods through solicitation by an agent, or indeed in any other way. For I do not think it can logically or reasonably make any difference in principle what the method of soliciting the custom may be."

23,881. (12) I suggest that an enactment with regard to Income Tax somewhat to the following effect would be just, and in the interest of this country, as promoting international trade:—

"The fact that a manufacturer or merchant resident out of the United Kingdom habitually

"sells in this country either by direct communication with the buyers or through an agent resident in the United Kingdom his goods manufactured or acquired by him outside the United Kingdom, whether the contracts for the sale of such goods are made in the United Kingdom or not, shall not by itself constitute the exercise of a trade or vocation by him within the United Kingdom."

23,882. (13) In the case of firms carrying on business both in England and abroad, the control of such businesses abroad is now in course of being taken away from the United Kingdom, with the natural result that beneficial contracts in many cases follow the control of the business.

23,883. (14) One of the great difficulties of the Income Tax Acts in regard to trades, manufactures, and other businesses, which are always coming to my notice, is that what is taxed is in no sense of the word "profits," or in any way available for spending as "income." There are two things under the Income Tax Acts which prevent the profits which are taxed as such from being anything like what any business man would dare to deal with in the conduct of his own finance as profits. This arises more especially from the way in which wasting assets are dealt with and the way in which moneys expended with the view of earning profits are treated as capital expenditure. I have read Mr. Leake's evidence given before the Commission with regard to wasting assets, and the evidence on the same subject of Sir Archibald Williamson and the Hon. Herbert Gibbs, and I do not think that I can usefully add anything to what these witnesses have put before the Commission so clearly on the subject.

23,884. (15) I may say that in the large number of Income Tax cases which have come before me during my practice I have rarely known a case in which a business man endeavouring to ascertain what profits he has made in his business would have been content with (among other things) the allowances for depreciation and the way in which such allowance as is permitted is measured. Acting as I do as adviser for very many nitrate-producing companies, I can only emphasize what the Hon. Herbert Gibbs said in his evidence as to the grievances felt by manufacturers of nitrate and iodine as to no allowance from their gross profits being made in respect of the using up of their caliche in the manufacture of nitrate, the extent and volume of which can be so nearly accurately measured, and a proper allowance in respect of which would be a matter of no difficulty to determine, and there are numerous instances of this kind which could be brought forward.

23,885. (16) Numerous grievances have also arisen from the way in which the provisions of Schedule D have been dealt with in so far as it provides that in estimating profits no allowance is to be deducted on account of "any capital withdrawn from the business" or in respect of any sum employed or intended to be employed as capital in any trade, manufacture, adventure, or concern.

23,886. (17) Subsidiary companies are established by firms and companies with the view of protecting or increasing the profits of their own business, and in many cases such companies are established with the knowledge that they will not in themselves produce profits, and, on the contrary, are likely to make losses. Notwithstanding that this is done, and in many cases for very good reasons (such, for instance, as cutting down foreign competition), no such losses can be set off against the gains of what I may call the "parent" business. I have known cases of English companies in which businesses have been established in Germany, and where interests to a commanding extent have been acquired in German companies carrying on business in Germany, with the view of cutting down the German competition in England of a parent business, and in the cases in which my advice has been sought it has, of course, for Inland Revenue purposes in England been im-

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possible to have the losses in this respect of a parent business considered in setting the Income Tax in respect of that business, notwithstanding that the moneys so employed have been in effect taken out of what otherwise would have been the profits of the parent business. The cases to which I am alluding are those of English manufacturers who have felt and suffered by the competition of German manufacturers dumping their wares in England at a price greatly under the cost of production of the article here. Companies which have been affected by this competition have, in my knowledge, gone into the adversary's country, spent a large amount in building a manufactory there or acquiring the control of an established business, and underselling the German in his own country, and have thus cut the competition in England, and yet, having lost all the money expended for this purpose, and expended out of what otherwise would have been profits in their own business, no part of the loss (on the ground that it is a capital expenditure for the purpose of Income Tax) is allowed to be written off against their profits, and they have, in fact, to pay tax upon this part of their losses, as well as upon a sum which in the reasons which I have given above is itself a sum in excess of what are really profits.

23,587. (18) In reading the printed proceedings of the Commission I see it is suggested that the paramount matter for consideration is in taxation the pecuniary ability to pay of the person taxed, but, in my judgment, in a free country, like England, there is another matter which also deserves very serious consideration on the part of the Government, and that is whether the subject who is taxed is satisfied that he is fairly taxed in comparison with other taxpayers. In my experience there is a very strong opinion among persons with whom I have in a long business life come in contact as to the inequality under which persons suffer who are called upon to pay the same rate of tax upon incomes which they are earning as that paid in respect of income coming from investments, and I consider that the allowances in this respect now in force are wholly inadequate, and believe that the grievances will never be got rid of until without limit the rate of taxation on income earned personally is reduced to one-half of that on income from investments.

23,588. (19) In my experience I have also found a very strong feeling among married persons against having their respective incomes aggregated for assessment for Income Tax. It is contended that this is altogether inconsistent with the legislation in reference to the separate property of married women, and that if aggregation of income for the purpose of the Income Tax Act is supported on the grounds of each party being available for common expenses this should be made to apply to all cases where persons having separate incomes (such as brothers and sisters, parents and children, and others) live together.

[This concludes the evidence-in-chief of Mr. Budd.]

RANDLE F. W. HOLME will say:—

23,589. I am a solicitor and a member of the firm of Godden, Holme and Ward, of 34, Old Jerry, London, E.C. 2. I have given some attention in recent years to Income Tax law and practice. I was invited to give evidence before the Consolidation Committee on consideration of the Consolidating Bill which became the Income Tax Act, 1918, and I attended all the meetings of that Committee. I was co-opted a member of the Committee of the Council of the Law Society appointed to consider the evidence to be submitted to the Royal Commission, and the views I express have their general approval.

I do not propose to offer any evidence on the important questions which already have been considered at such length by the Commission, and on some of which (such as Double Income Tax within the Empire) evidence will be offered by a member of the Council of the Law Society, beyond saying that, in the opinion of the Committee, some means ought to be found to give relief to hardships which undoubtedly exist. I

desire rather to direct my evidence to matters of administration and procedure, which are often as vital to the taxpayer as the substantive principles of taxation themselves.

(1) *General and Additional Commissioners, Assessors, and Collectors.*

23,590. We disagree with the suggestions which have been made by some of the witnesses who have already given evidence for the abolition of some or all of these functionaries. This suggestion, we submit, goes to the root of the principle on which the assessment and collection of the tax is based, and owing to which its collection, judging from our experience, has hitherto been effected with so little friction. That principle is that the assessment of the tax is not made by the Commissioners of Inland Revenue, whose function it is to receive the tax when assessed and collected. It is made by the General Commissioners, the Additional Commissioners and their staff, the Assessors, and Collectors. None of these are servants of the Inland Revenue, except in so far as advantage has been taken of a section (now section 84 of the Income Tax Act, 1918), which gives them the power of appointing Collectors under certain circumstances.

Suggestions have been made before the Commission for the setting up of some official to advise and assist taxpayers in making their returns. The witnesses who made that suggestion were evidently not aware that the Assessors already exist for (inter alia) that very purpose. It is more particularly the small taxpayers, whose voices, though numerous, are weak and seldom heard, to whom the Assessors are essential. The large taxpayers, such as important companies and traders, have their accountants, who settle their Income Tax returns direct with the Surveyor of Taxes if they can, and, if they cannot, give notice of appeal and fight the case out with solicitors and counsel. They and their clients are quite able to take care of themselves. If the office of Assessor is to be combined with any other it should be combined with that of Collector, as is already the case in many places, including the City of London. Possibly in country districts it might be combined with the office of Clerk to the Local Commissioners.

As regards the appellate jurisdiction of General Commissioners, we consider it absolutely essential that this should be retained in the interests of the taxpayer.

(2) *The Special Commissioners.*

23,591. Rather analogous to the above is the anomalous position of the Special Commissioners under sec. 67 of the Income Tax Act, 1918. As is well known, a taxpayer has the option of appealing on most Income Tax questions to the Special Commissioners instead of to the General Commissioners, and in many cases the option is a valuable one. The General Commissioners may be rivals in the trade of the appellant; intricate questions of law may be involved, for which the Special Commissioners, as experts, may be the most suitable tribunal. Although exercising this important judicial function, standing, as appellant tribunal without appeal from their decisions on questions of fact, between the Inland Revenue and the taxpayer, and called upon frequently to decide questions involving enormous sums of money, the same men also exercise other functions in the capacity of Inland Revenue officials. I urge that these conflicting duties should not be reposed in one set of men. Those who exercise judicial should not also be called upon to exercise administrative functions—a distinction which, so far as I know, is carefully preserved in all other judicial bodies in this country.

Then as to their selection: I should like to preface what I am about to say by stating that we are fortunate in the present occupants of the bench of Special Commissioners, of whom I have no criticism to make. This fact, however, should not blind us to the defects which I suggest exist in the method of their appointment. It seems illogical that there should be stringent provisions as to the qualification of, e.g., a county court judge, whose jurisdiction is

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limited to quite small sums, whereas the Special Commissioners, who have jurisdiction of unlimited amount, require no qualification at all. They have the rights and duties of a judge and jury, and decide questions of fact and law subject to an appeal to the High Court on questions of law only. Many Special Commissioners are appointed from the ranks of Surveyors or Inspectors of Taxes, which is undesirable, seeing that the litigants before them are always a Surveyor or Inspector of Taxes or his representative on one side and the taxpayer or his representative on the other. In our opinion no one should be eligible for such an appointment but a solicitor or barrister of, say, ten years standing.

(3) Clerks to General Commissioners.

23,892. These should, in our opinion, be solicitors or barristers—preferably solicitors, seeing that the practice of a Clerk to Commissioners except in large towns would not occupy a man's whole time, and is conveniently combined with a solicitor's practice, but not with that of a barrister. General Commissioners are laymen, and it is important that they should be so (unless by chance a lawyer is sitting on the bench in his private capacity). They, therefore, depend for their guidance on law on their Clerk.

(4) Appeals against assessments.

23,893. The time limit for giving notice of appeal against an assessment—twenty-one days after the notice of assessment—is far too short. It frequently happens that a taxpayer, not being aware of the time limit, omits to give notice of appeal against the assessment in time. In such a case there is no power, even in the High Court, to extend the time. As against this, additional assessments may be made within three years after the end of the year of assessment. The time limit for giving notice of appeal should be extended, and the High Court should have power, for good grounds shown, still further to extend the time.

(5) Notes of appeals.

23,894. Frequently benches of Commissioners, both General and Special, object to the taxpayer having a shorthand note taken of the proceedings, and, although permission is often given, it is generally on condition that the Clerk is supplied with a transcript. The alleged reason for this objection is that the proceedings are private. But obviously the privacy is in the interests of the taxpayer, and not of the Crown, and if the taxpayer has no objection to publicity there can be no reason why the Crown should object. The condition of supplying a transcript, though it may seem reasonable, works unfairly, for it results in the necessity in all cases of having the notes transcribed, often at large expense, although usually a transcript would not otherwise be spoken unless the case proceeded to appeal. Of course if a Special Case is demanded a transcript is properly required by the Commissioners. Taxpayers should be allowed to take such notes of the proceedings as they think fit unconditionally.

(6) Appeals to High Court.

23,895. The provisions in section 149 of the Income Tax Act, 1918, sub-sections (d) and (e), are unnecessarily strict, and rather difficult to comply with. The appellant has to transmit the Case, when stated and signed, to the High Court within seven days after receiving the same, and, at the same time, or before, to send notice in writing, with a copy of the Case, to the other party. If this unnecessarily complicated and rather unlikable rule is infringed in the least degree the right of appeal is irrevocably lost, and even the High Court has no power to extend the time. We suggest that there can be no reason why the provision should not be made simpler, and the High Court given express power to extend the time in any proper case.

As regards these appeals to the High Court the rules impose no time limit on either side after notice of appeal has once been given. This enables either side to delay the hearing of appeals indefinitely, and, though I do not suggest that this is ever done by

the Inland Revenue deliberately, great delay is, in fact, caused, attributable chiefly, no doubt, to the many calls on the time of the Law Officers. It is most desirable that there should be time limits fixed for the following steps in the procedure:—

- (1) submission by the Special or General Commissioners of the draft case to appellant;
- (2) return of draft case by appellant;
- (3) submission of draft case to respondent;
- (4) return of draft case by respondent;
- (5) final settlement and signature of the case by the Special or General Commissioners;
- (6) delivery of points of argument.

The parties should have power to extend these times by agreement, and, in default of agreement, the Revenue Judge should have power to extend them, as well as the time limits already imposed by law. When appeals have once been set down arrangements should be made for hearing them during the same or the following term.

(7) Additional assessments.

23,896. The subject of additional assessments requires consideration (see section 125 of the Income Tax Act, 1918). Until the year 1907 any additional assessment had to be made within four months after the end of the year of assessment. It may now be made at any time within three years after the end of the year of assessment. This is in most cases too long, and it is suggested that an additional assessment should not be possible later than, at most, one year after the end of the year of assessment, except where fraud is proved.

The provisions of the section dealing with additional assessments (which provide for cases where the Surveyor discovers that a person has been undercharged in the existing assessment) should be amended, for this reason; it permits an additional assessment where the only discovery made by the Surveyor is that he has changed his mind. This frequently occurs where there has been a change of Surveyor. The new Surveyor looks into his predecessor's assessments and thinks that some are too low. This is what I refer to as a change of mind, for the two officials must be regarded as one. It is not fair that an additional assessment should be made unless any fraudulent return or concealment is shown. This works with particular hardship in the case of licensed houses, because outside London the assessment for Licence Duty is based on the House Duty assessment, or, failing that, the Schedule A assessment. Having regard to the high rate of Licence Duty (which in the case of a fully-licensed house is one-half of the annual value), it will be seen that where an additional assessment is made it may involve large payments of arrears for the preceding four years, amounting to a sum which in some cases may spell ruin to the taxpayer.

(8) Where no appeal lies.

23,897. It has become the practice in modern Finance Acts, more particularly in relation to Excess Profits Duty, to leave certain matters to the absolute discretion of the Inland Revenue. This, we submit, is a provision which can never be justified. There should in all cases be a right of appeal to the General or Special Commissioners from every decision of the Inland Revenue.

(9) Income Tax Act, 1918, section 147.

23,898. There is an extraordinary provision in this section for a statement of Case for the opinion of the Commissioners of Inland Revenue. I cannot say that this section has caused, in my experience, any grievance, for I have never known it acted on. On the face of it, however, the provision is absurd, for it means that after a case has been argued before General or Special Commissioners, the taxpayer being the appellant and the Commissioners of Inland Revenue the respondents, the latter may require the matter to be referred to themselves for their final decision. I can see no reason why this extraordinary provision should be left on the Statute Book. The

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words at the end of the section "subject to any relevant provisions of this Act relating to the statement of a Case for the opinion of the High Court," which were put in as the result of my protests before the Consolidation Committee, may or may not meet the case, for it is not certain that there are any relevant provisions.

(10) *Exemptions or abatements.*

23,890. Any question as to whether a taxpayer is or is not entitled to exemption or abatement should be made a subject matter for appeal to the General or Special Commissioners in the same way as the question of the amount of the assessment.

(11) Dividend vouchers.

23,900. A uniform counterfoil attached to dividend warrants issued by Government, corporations, and joint stock companies should be made compulsory, showing:—

- (a) amount of stock, loan or shares on which dividend is paid;
- (b) amount and rate of dividend;
- (c) amount and rate of Income Tax deducted;
- (d) period covered;

(c) if dividend "free of tax", the gross amount after adding the tax payable by the company or corporation. These vouchers are required to be produced when claiming returns of tax.

I produce specimen forms as examples, omitting the names of company and shareholder:—

- (a) a specimen form which meets all the above requirements;
- (b) a less satisfactory form, since it leaves the taxpayer to make the calculation of the amount of tax deducted; and, although it gives the materials for the calculation, it may not be a very easy calculation in the case of a holding of stock of an odd amount;
- (c) a very unsatisfactory form involving calculations up to three places of decimals.

The above are all cases where tax is deducted

- (d) This is a case of dividend paid "free of tax," and also involves a calculation in order to ascertain the amount of tax reclaimable up to three points of decimals.

EXAMPLE A.

No.....

5½ per cent. PERPETUAL DEBENTURE STOCK.

INTEREST to 5th OCTOBER, 1919.

At the rate of 34 per cent. per annum.

[illegible]

Proprietor's Name.....

I hereby certify that I have deducted from this Interest the amount of Income Tax stated above, and have paid or will pay the same to the Inland Revenue.

Secretary.

EXAMPLE B.

No.....

Dear Sir or Madam,

Herewith I have the pleasure to hand you a Warrant for the interest on your holding of Debenture Stock as under for the six months ending the 30th June, 1919, less Income Tax, which will be paid by the Company to the proper officer for receipt of Taxes.

Yours faithfully,

Secretary.

Holding.		Nett interest.
		£ s. d.
	4 per cent. Debenture Stock at £2 0 0 per £100 Stock 12 0 Tax at 6s. in £	£ s. d.
£1,500	£1 8 0 nett	21 0 0
	4½ per cent. Debenture Stock at £2 5 0 per £100 Stock 13 6 Tax at 6s. in £	
	£1 11 6 nett	— — —

INCOME TAX CLAIMS.—As the Inland Revenue Department will accept this certificate as a voucher for allowance of Income Tax it should be carefully preserved by stockholders claiming relief. An application for a duplicate of this voucher must be accompanied by a fee of 1s.

This Statement is to be retained by the Proprietor.

To ensure banking instructions or changes of address being attended to in time for ensuing dividend, it is requested that they be sent to the Secretary at least three weeks prior to date of warrant.

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EXAMPLE C.

No.....

ANNUITY, CLASS "B."

Memorandum of the amount of Annuity paid to an Annuitant's Banker.

List No.....

ANNUITY for the six months ended 31st March, 1918, in respect of £26 0 0 Annuity, Class "B," less
 INCOME TAX at 5s. 0d. in the £, on that part of the half-year's Annuity liable to tax as
 per margin (= 3s. 10 1/2 d. in the £); MANAGEMENT at 1d. in the £, under Section 34
 of Act 42 and 43 Vic. cap. 206, and SINKING FUND at 1s. 4d. in the £, under Section 23
 of same Act, both on the full amount of the half-year's Annuity.

£9 11 0

Name of Annuitant.....

N.B.—I certify that the INCOME TAX has been retained at the India Office, for payment to the Commissioners of Inland Revenue
 Somerset House, London. Annuitants claiming repayment of Income Tax are requested to forward this portion of the Warrant
 together with their claim, to the Commissioners, as above, who will accept the same as a Certificate of the deduction made
 herein.

Secretary.

This Memorandum should be forwarded to the Annuitant by the Banker.

EXAMPLE D.

FINAL DIVIDEND FOR THE FINANCIAL YEAR ENDED ON 31st MARCH, 1919

PAYABLE ON OR AFTER THE 1st AUGUST, 1919

	£	s.	d.
Dividend and Tax } per £10 share }	7	1	7 1/4
Less Tax... ..	2	1	7 1/4
	5	0	

150 Shares, £10 paid up, at 5s. 0d. per share. £37 10s. 0d

This part of the Sheet should be detached and retained by the Shareholder.

I hereby certify that the Income Tax (at the rate of 5s. in the pound) on the amount of this Dividend has been, or will be, duly
 paid by the Company to the Inland Revenue Authorities, who will accept this Statement as a Voucher.

Secretary and General Manager.

(12) Lack of co-ordination between Inland Revenue officials.

23,901. Unnecessary expense and trouble are caused to taxpayers in this respect, of which I will give two instances. On the 4th of April, 1919, judgment was given by the Revenue Judge on an important question relating to brewers' Excess Profits Duty, deciding that they were entitled to make a certain deduction which had been disputed. This affected most brewers and brewing companies throughout the kingdom. In spite of this decision, against which the Inland Revenue did not appeal, many Surveyors and Inspectors of Taxes throughout the country continued to raise the question, and we found that they had not been instructed of the effect of it, and many of those who had been instructed declined to act on it, on the ground that it might be taken to a higher court, although, in fact, the time for appealing had passed, and it was not the intention of the Inland Revenue to take the case further. I urge that some

system should be devised by which representatives of the Inland Revenue throughout the country should be kept informed of important decisions or alterations in the law affecting Income Tax.

Recently another instance came to my notice. In an appeal before the Special Commissioners on the 19th July, 1917, the appellants were represented by myself, and the Inland Revenue by an Inspector of Taxes. The appeal related to a deduction claimed affecting both freehold and leasehold houses, and the Inspector expressly conceded the appellants' claim as regards leaseholds, and the case was consequently contested only in respect of freeholds. The Special Commissioners decided against the appellants, who appealed to the High Court, where the appeal succeeded. Subsequently another Inspector of Taxes raised the point that, as the decision of the High Court did not deal with leasehold deductions, they could not be allowed, showing that he was not aware of the reason why the leasehold question was not

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brought before the High Court—namely, that it had been abandoned by the Inland Revenue before the Special Commissioners. I urge that no such ignorance on the part of one official of an admission made by another should be possible.

[This concludes the evidence-in-chief of Mr. Holme.]

23,902. *Chairman:* Mr. Budd and Mr. Holme, you have each prepared a paper. On some points there are differences; Mr. Holme touches something which Mr. Budd does not touch; but would you like the papers to be taken together, and then to be examined on them generally?—(Mr. Budd): As your lordship pleases.

23,903. Those points which the Commissioners ask you, you can answer according to whichever paper is concerned, but the two papers are nearly alike, except on some little points. I think we will take your papers as one, practically, and then you will be examined on them.—If you please.

23,904. *Mr. Atty:* Mr. Budd, I will take your paper first, if I may. Your first point, I think, is that there should be an appeal on fact as well as on law.—Yes; or, rather, that the Commissioners should not draw inferences of fact; that they should state the facts themselves, and the documents, upon which they rely.

23,905. Then you suggest some sort of limited appeal on fact?—Yes.

23,906. You only refer in terms to Special Commissioners, but I suppose you would say the same thing of appeals from General Commissioners?—Yes.

23,907. It would be very difficult, would it not, to limit an appeal on facts by allowing the Court, for instance, as I gather, you suggest, to draw its own inference of fact from either documents or admitted facts?—Yes.

23,908. But that is what you suggest?—Yes.

23,909. It might be feasible, though I am afraid it would be difficult. What do you say to a proposal that has been made before us, that a shorthand note should be taken of the evidence before the Commissioners, and that that should be attached to the case? You follow that that would give an opportunity to the appellants of saying, first, there was no evidence to support a particular finding, and therefore in law it is a wrong finding; but it would not allow the appellate Court to judge of the weight of evidence, if there were evidence. How far do you think that would meet your difficulty?—I think it would be very convenient.

23,910. Further, as an experienced lawyer, you would probably appreciate the fact that the evidence is to be recorded and passed on, in some cases might have an operation upon the findings of fact. It would lead to great care in seeing that the facts found were really justified by the evidence?—My suggestion as to that arises mainly in regard to cases upon what is or is not capital expenditure. On that I think there have been inferences of fact, in some cases, which were incorrect.

23,911. Of course, it is desirable that the Commissioners should do, as has occasionally been done, state certain facts, and then state, as a separate conclusion, the inferences which they draw from them?—Yes.

23,912. Your next point is that you object, on public grounds, to the taxation of non-residents?—I am calling attention to the effect of it at the present moment. I think it is very important in its effect upon our export trade. There are a very large number of companies in this country in which a considerable portion of capital is held abroad by non-residents. I do not use the word "foreigners," but "non-residents." With the high taxation at present in force in England, it is easy to acquire a controlling influence in English companies, and it is going on on a very large scale at present. Take, for instance, a company with shares of about £10 nominal value, doing well, and the shares ruling in the market at about £15. Non-residents can afford to buy those shares, and do buy them, so as to get half the shares plus one, a controlling interest, by offering to English shareholders a sum largely in excess of what they could get by a sale in this country, and I have known many cases of that kind occurring. They make proposals to the directors that if they can

buy half of the shares plus one, they will take the shares. I am giving you an example; it is not a real case, but it is very near to a great many cases that I know, where shares have been selling in this market at about £15, and non-residents can afford to give £20, that is to say, £5 more, or perhaps £5 or £4 more, and they buy up the shares and get the controlling interest, and away goes from England the whole of the business for supplying rolling stock and materials and everything in this country; and all the mercantile business connected with it, freights and everything; they go right away. I have known companies in which all the supplies have been taken to Belgium and France, and other places, where the taxation has not been so high as in England, and I think that is having a very detrimental effect on the export trade of the country. It comes before me so much that I know it is going on very largely.

23,913. I gather that what you have in mind is the case of a company carrying on business abroad, which has its control in England?—Yes.

23,914. And you desire that the control should be kept here?—Yes.

23,915. And, for that purpose, you suggest that foreign or non-resident shareholders in the English company should be relieved from tax upon their dividends?—Should have some consideration given to them, to prevent what is going on now. I think the Revenue, in the long run, would lose more by upholding the present system than they would by making a concession. I may be wrong, but I see it going on to a very large extent.

23,916. We have had other evidence about that. Do you suggest, generally, that a non-resident who draws an income from England, from business carried on in England, should not pay tax?—A business controlled in England, carried on abroad.

23,917. Then you would limit it to a business which, though controlled in England, is carried on abroad?—Yes; that is where the injury is at present.

23,918. It would be very difficult to devise a scheme which would release the shareholders you have in view, but would still tax shareholders interested in businesses actually carried on in England?—I do not think it is beyond the wit of man to distinguish them.

23,919. It would be of great assistance if you could suggest to us a practical scheme, say, a draft clause. If you think you can do it, or if some of the gentlemen associated with you could, you might forward such a scheme, because it is the difficulty of formulating the necessary clauses which really introduces one to the substantial difficulties?—It does not apply to companies whose undertaking is in this country; I would not suggest that it should. But when a great part of the undertaking is abroad, and supplies are wanted for that undertaking, it seems to me that it would not be difficult to arrange that some relief should be given to those non-resident shareholders.

23,920. In paragraphs 7 to 14 of your evidence-in-chief you object to the decision which have been given, that where a foreign manufacturer is selling his goods over here, he should be taxed on the ground that he is carrying on a trade within this country?—Yes. I think we are driving away a great deal of business in that way. I do not know whether it should not be applied not only to sales, but to purchases in this country, because a man may be treated as carrying on business, even if he purchases things in this country. I have known many cases in which large undertakings abroad have made arrangements for establishing a general agency in this country, and I think if they had done so a great deal of trade would have attached to those establishments, but when they came to consider the effect of the Income Tax upon them they have given it up at once. I have had many cases of that kind before me.

23,921. Have you ever known of a case where a foreign consumer, buying in this country for export, has been charged on the ground that he is carrying on a trade here?—No.

23,922. At present the test is whether he sells within this country?—Yes.

23,923. Do you suggest that a foreign manufacturer who regularly sells his product in England is not carrying on a trade in England?—I do not

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suggest that he is not carrying on trade in England; he is doing something in England; he may not be earning any money at all.

23,924. He must be earning a merchant's profit, must he not?—It does not follow. He does not make his profit where he sells his goods. He makes his goods and he sells them; I do not think he is making his profits here, because he happens to sell them here rather than in France or in any other country.

23,925. Do you say that he makes the whole of his profit at his factory, then?—Substantially, in most cases, because there is a world price for his goods. A great many articles have got a world price, subject, of course, to exchange.

23,926. I do not think I will discuss that proposition with you. It would be a considerable hardship upon an English manufacturer if a foreigner could bring in and sell goods, in competition with him, without paying tax, would it not?—Yes, I think it might be; it depends very much upon the goods.

23,927. We cannot distinguish between one class of goods and another. Are you not rather oppressed with the fact that there are particular hardships?—Possibly.

23,928. One has to legislate for the general case; you cannot deal with particular hardships; and is it not the particular hardship of dealing in some special class of goods, which is oppressing your mind? Let me put a general question to you. In paragraph 8, you say: "The question where a trade is exercised is a question of fact, and does not depend on any legal principle." Is that right?—I do not know that there is any legal principle to say where a trade is exercised.

23,929. If the same set of circumstances is constantly coming up, and the question is what is the proper inference from those circumstances, that inference seems to me to be law, and not fact?—I should not like to commit myself to such a general proposition as that.

23,930. Do you suggest that it would be desirable that one body of Commissioners, from the same set of facts, should be at liberty over and over again to draw a different inference from that which another body of Commissioners would draw?—No, I do not suggest that.

23,931. Then that paragraph means, because there is a question of principle behind it, and that is law, is it not?—I think we are dealing with a very theoretical thing. The question is whether a man should be taxed in this country on the ground that he is carrying on trade, when he merely sells an article here, or buys it.

23,932. That, you will agree, is a question, and a very important question, of principle?—You are asking about specific instances. Take the nitrate trade, for instance, that I know something about. Nitrate can be sold on the coast, and the prices for it in every great market, such as Hamburg, Antwerp or London or the coast, are all regulated by cable. There is no difference of price. A man does not gain anything because he sells here. It may be more convenient for him to do it, and better for English trade that he should do it, but there is no difference in price. A man does not sell that particular article any better because he sells it here; he does not get a penny more on the market for it; therefore he is not making any profit here.

23,933. I gather that what you are now saying to us is that where there is a world price, which is the same at the place of production as at the place of disposition, the proper inference is that there is no selling profit?—There is no selling profit.

23,934. This is a proposition of a very general character, is it not?—There may be no selling profit here at all in many trades. I give you only the instance of one where I know that there is no selling profit here. A great many of those large foreign undertakings have been prevented or frightened from making an agency here which would bring advantage to the country, from the fact that the mere selling in this country would make them liable to tax.

23,935. What is there to prevent the producer, in such a case, selling free on board in Chile?—Nothing; he does now; he does not come here.

23,936. Chairman: The nitrate industry is a very highly organised trade in this country?—Yes, it is, no doubt.

23,937. And it is a very highly organised trade in Germany?—Yes.

23,938. The value of the nitrate is in the manner in which it is sold in Germany and in England, is it not? They train a very big selling staff here, and an organisation which goes right down to the farmer?—I do not think there is any more organisation in this country than they have at Hamburg or at Antwerp or on the coast.

23,939. They have powerful organisations for dispersal of the nitrate, and that makes its value to a large extent, does it not?—We have had many cases where nitrate-producing establishments in Chile have refrained from setting up agencies in this country, on the ground that they may be charged on the profit of their industry.

23,940. Have you any actual proof on that point?—Only the proof of experience.

23,941. That, of course, is a proof; and you know from experience that that is the case?—Yes.

23,942. That they have refrained from shipping nitrates to England?—No, I do not say shipping nitrates. That is quite a different thing. It goes to the place where it is wanted. But I am talking about selling nitrates.

23,943. Of course, if they sell they would have to ship, would they not?—Yes, but it may be shipped to any place, if it is sold here or wherever it is sold.

23,944. Do you know cases where people in Chile have refrained from selling to England because of the Income Tax?—They have refrained from having a general agent in this country; that is all I say. They sell through brokers; that is very simple.

23,945. Mr. Kerly: What national loss is there to reason that the nitrate companies sell through brokers instead of having their own agency or a subsidiary company here?—If they had a general agent here no doubt he would arrange all the shipping through this country. He would arrange all the supply of material that they want, machinery, and everything of that kind. If he does that in Antwerp, no doubt the contracts for the machinery and everything they want go to Belgium. If he does it at Hamburg, they go to Germany. If he does it anywhere else they follow the general agency.

23,946. We seem to have gone back to something else. What you really want is that the nitrate-producing company should be managed and controlled from England. Is not that it?—Not only that. I am not talking only about companies where they are managed and controlled in England, in which case, of course, all the incidental advantages go with the control here. I am thinking of a large number of companies which are not controlled here, which are controlled from abroad, and will hesitate about having a general agency here. It does not apply to nitrates only. I only give you that instance because, possibly, I am more behind the scenes in that class of company than in others.

23,947. Is your suggestion that if a foreign producer is able to sell directly in England, he is more likely to set up an organisation over here to buy his materials and to conduct his general business, than if he were not able to have a selling agency?—I call him a general agent. The foreign producer can get a selling agent merely by employing a broker.

23,948. I will pass on. In your paragraph 15, you make a suggestion that it is a grievance that a company producing nitrate should not be allowed to charge the capital expenditure due to the consumption of their product?—Yes.

23,949. How could you distinguish?—I think there has been a good deal of reference before this Commission to the Alianza case. The nitrate-producing companies are companies who take the raw material, boil it up and extract from it the nitrate. They are a producing company. The raw material lies almost

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on the surface; the exact quantity of it can very easily be measured; there is no difficulty about it at all; but if there were two companies, one owning the raw material and the other manufacturing it, of course the manufacturing company would pay for the raw material, and would charge the cost of the raw material to its manufacture. It is more convenient for them to hold the two, but then they are not allowed to charge in their profit any cost of the raw material which they take out of their own land. They buy it in gross, so to speak, and they have a large quantity of it there which they use from time to time. It is all raw material, and if it was bought in the market, instead of being taken out of their own land, they would be entitled to charge the cost of the raw material to the profit that they made out of the manufacture.

23,930. We are familiar with this phase of the wasting asset question. The case to which you refer is the case of the Alhama Company, Limited, v. Bell, which is reported in Law Reports, 1906, Appeal Cases, at page 187.—Yes.

23,931. Your suggestion is that the nitrate should be treated as goods purchased for manufacture and resale?—As raw material used up, and an allowance for that raw material used up should be made in the accounts. I know it cannot be done under the law as it stands.

23,932. Everybody appreciates that that is a hard case?—A very hard case.

23,933. The question is, can it be distinguished from the ordinary case of minerals bought in the form of a mine?—I think it could, easily.

23,934. On what ground—on the ground that it is possible to form a fairly satisfactory and certain estimate of the quantity of stuff that the company has to deal with?—On the ground that it is raw material, and that you can measure the amount of raw material used, and the value of it as it is put into the *officina*. When it is taken out of the ground, you can measure it exactly, just in the same way as if it was any other raw material.

23,935. I have suggested capacity for measurement as the test, but you go further than that, and you are apparently not satisfied with it. How do you distinguish such a case from a coal mine?—In the case of nitrate you have the actual raw material that you can measure and value. Every bit of raw material that is used you can value.

23,936. How does that differ from coal which is produced for coking, say?—Manufacturers, as a rule, do not use their own coal; they buy their coal.

23,937. In paragraph 18, you suggest that unearned income should be taxed, not at a slightly higher rate, but at double rate?—I suggest that earned income should be taxed at half rate.

23,938. That comes to the other thing, does it not?—All those questions arise upon the question of wastage or wasting material. When you are dealing with a professional man, he is wasting his power of earning his living, and I consider an allowance ought to be made for that wasting material in this way. It is a very hard case. Take a professional man earning about £4,000 a year and not having had time to save much money; he has to pay now upon his income, £s. in the £; that is £1,200; then he has to pay Super-tax. I say that there is no proper allowance in that for the wasting material. It is only a short time that a man has got to work, and there ought to be an allowance.

23,939. The proposition that you are putting forward is quite familiar to me, and I think to the Commission. But have you considered that there are some difficulties about your proposal? Take your professional man. He has to save for his family and for his own old age?—Yes.

23,940. He pays Income Tax upon his savings?—Upon the income arising from his savings?

23,941. The savings are made out of the income on which he has paid Income Tax?—Yes.

23,942. Further than that, when he has invested his savings, he has got to pay Income Tax upon the income so produced?—Yes.

23,943. Do you desire that he should pay a double rate?—I think he ought to pay upon his investments the same Income Tax as everybody else does; but

I think upon what he earns year by year he ought to have an allowance for his wasting capital.

23,944. I suggest to you that when a professional man is becoming elderly, and the income from his savings is becoming more important to him than his annual income, he would feel it a great hardship that he should have to pay double Income Tax on money which he has earned himself?—I do not follow the double Income Tax.

23,945. I do not think I can make it plainer. Mr. Holme, I would like to ask you a few questions. I gather that you agree with Mr. Budd that the City has been very fortunate in the administration of Income Tax assessment and collection?—(Mr. Holme): Yes.

23,946. And Mr. Budd gives reasons, with which I have no doubt you will agree?—Yes.

23,947. I want to ask you one or two questions about the actual working. You desire that the whole apparatus of General and Additional Commissioners, Assessors and Collectors, should be maintained?—Yes.

23,948. Do you think that the General Commissioners and the Additional Commissioners in the City really do their nominal work?—As regards General Commissioners, the remark you are now making should really refer to the Additional Commissioners. I think my statement was rather misleading there.

23,949. You would rather take them separately?—Yes. I think I am right in saying that the duties of the General Commissioners are practically confined to appeals. Therefore I would like to limit my reply to the Additional Commissioners who make assessments, with the assistance of their staff—the Assessors. You ask me, do they do their work, as far as I know. I am not an official, and I do not know what goes on behind the official curtain, but as a taxpayer, and a representative of taxpayers, I have always comforted myself by imagining that that work was done, not by the Inland Revenue, which I gather is the alternative, but by a neutral body, namely, the Additional Commissioners and their Assessors.

23,950. Do you not think it is possible that you are acting upon an imagination of things that do not exist? Have you read the evidence given before us?—I have read most of it.

23,951. Do you know that it is the rule of the Additional Commissioners, in the City of London, to consider no assessment of less than £500 a year?—I saw that stated.

23,952. And yet it was suggested that they were a great protection to the poorer taxpayer. Do you know that, in addition to that, the Additional Commissioners divide themselves up, and one or two at a time take different books?—I saw that stated.

23,953. Do you know what the number of actual cases they consider, out of the whole number brought before them, is on each occasion?—I saw, but I have forgotten.

23,954. Do you know that they go through the cases they consider, at the rate of one a minute?—I saw that also.

23,955. Now, in view of that—and I am taking them as being a particularly good specimen of the Additional Commissioners throughout the country, though there are better, perhaps—do you think that it can be maintained that their work is anything other than a sham?—I am sure that is not a fair way of describing their work; but, as I say, I can only understand what happens there by the evidence before me. I read the questions put to Mr. Copley Hewitt, and I read his answers, and it seemed to me that his answers answered your questions better than I could, and showed that it was not a sham.

23,956. You have come here to give them your blessing, have you not?—Because I think they should remain.

23,957. You have told us that you do not know how their actual work is done. May I take it that the description of their actual work was a very great surprise to you?—Yes; only I think, as I say, that Mr. Hewitt's answers removed that surprise.

23,958. Had you any idea that they did not consider assessments under £500 a year at all?—No, I did not know that.

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23,979. Yet Mr. Hewitt put forward, as one of the reasons why they should be continued, that they were a protection to the smaller taxpayer—whom they never have considered. Would such an answer as that shake your confidence in the general evidence which is given with regard to the value of the Additional Commissioners?—Of course the evidence is of weight, I admit, but, at any rate, the City Commissioners are only one body out of some hundreds, I think.

23,980. I am only dealing with the City Commissioners. Now will you kindly turn to your paper; in your paragraph 1, you say: "Suggestions have been made before the Commission for the setting up of some official to advise and assist taxpayers in making their returns. The witnesses who made that suggestion were evidently not aware that the Assessors already exist for (inter alia) that very purpose." Do you know of any case where Assessors have given useful assistance to taxpayers?—Certainly.

23,981. Can you tell me of a case or any type of case? Can you give me an example?—Every solicitor, nowadays, has a considerable amount of Income Tax work, because, owing to the high limits of exemption, very many of one's clients have to get rebates, and so on, and there are other reasons. I have in my office an assistant who is very experienced in such matters, and when any doubt or question arises, he calls upon the Assessor, and the Assessor helps him; and it would be a great hardship to my office if he was no longer able to call upon the Assessor because the Assessor no longer existed.

23,982. This is merely put to you for information. Do you know that when a question is put to the Assessor by a member of the public about a rebate, that means that the Assessor writes to the Surveyor, gets an answer from the Surveyor, and then conveys it to the member of the public?—As I say, I do not know what happens behind the official veil, but I did not wish to limit my description of the usefulness of Assessors to rebates.

23,983. That is exactly why I asked you what case you would give me, and you immediately took rebates?—So many people have rebates, that it jumped to my mind; but even in regard to making out the return, where there is no question of rebate, if there arises a question I have found it of the greatest help to be able to go or send to the Assessor.

23,984. It is an advantage to you to have some local official whom you know, who is familiar with the Income Tax and who is readily accessible?—That is right.

23,985. Would it not be still more useful to go to the Surveyor, who has more knowledge?—I should have thought the answer was self-evident—no. May I explain why I say it seems to me self-evident?

23,986. If you please?—In every Income Tax transaction there must be two parties. There is the taxpayer, who pays, and the Inland Revenue, who receives. It seems to me obvious that when there is any question upon the Income Tax—of course in many cases there is no question about it at all—but if there be a question, it seems to me self-evident that you should go neither to one party nor to the other, but to a neutral person; and the Assessor, and the Additional Commissioners whom he represents, are a neutral body, representing not the taxpayer, strictly, and certainly not representing the Inland Revenue.

23,987. Why do you say the Assessor represents the Additional Commissioners?—Because he is their servant; they appoint him, and they dismiss him; he takes directions from them. Surely he is their official, and has no other reason for existence.

23,988. You think that is the general position: that the Additional Commissioners appoint the Assessor, and dismiss him, and that in fact he is their servant?—That is what I certainly understood, and understand, unless you tell me differently.

23,989. You think that he is an independent person, standing neutral between the taxpayer and the Revenue authorities?—Yes, because he is not a servant of the Executive, that is, of the Inland Revenue. That fact alone makes him, in my submission to you, a neutral person.

23,990. Do you know that throughout the country, with some exceptions, he is the Collector?—Yes.

23,991. And that not only his duties, but his remuneration as Collector, are much more important to him than his duties as Assessor?—I suggest that his remuneration has nothing to do with the case at all. He is remunerated by the Crown, I understand; but so are many people who are not Government servants. Take judges of the High Court; you will not suggest that because a judge of the High Court is paid out of public money, he is a servant of the Executive, I hope.

23,992. Towards the end of paragraph 1 of your paper, you say: "If the office of Assessor is to be combined with any other, it should be combined with that of Collector, as is already the case in many places, including the City of London. Possibly in country districts it might be combined with the office of Clerk to the Local Commissioners?"—Yes.

23,993. In your next paragraph, dealing with Special Commissioners, you suggest that they have conflicting duties put upon them, because they are in some cases both the Assessors and the hearers of appeals?—Yes.

23,994. Are not those two passages somewhat in conflict? You are going to make the Assessor the Clerk to the Local Commissioners. He is, therefore, to sit and hear appeals. That is the very thing you do not want, is it not; and he is to advise on appeals from his own assessment?—Yes, I think there is that defect in the suggestion, which I merely made because it might be helpful, that if there was not enough work for him in a country district, he might combine two positions.

23,995. Turning to your paragraph 3, "Clerks to General Commissioners," you say it is preferable that Clerks should have legal knowledge. I think most of us would agree about that. But where he is a part-time officer, you suggest that he should be a local solicitor—I presume in general practice?—That is right; he generally is, of course, but not always.

23,996. It may be inevitable, and probably does no great harm; but in that way, if he acts as Clerk to the Local Commissioners, he gets a good deal of information about people who come on appeals?—Yes, there is that objection, no doubt.

23,997. That probably is inevitable. Just preceding that, you raise objection to the qualification of Special Commissioners. As a matter of fact, nowadays, the existing property qualifications are of no importance, are they?—I did not mean the property qualifications; I meant qualifications such as being a barrister of 10 years' standing, and so on.

23,998. Educational qualifications?—Yes; professional.

23,999. Have you any suggestion to make with regard to the appointment of Special Commissioners? Can you suggest any better way of appointing them than that which at present exists?—I can, indeed. But first I wish to repeat what I said in my evidence-in-chief; I have no criticism to make upon any individual existing Special Commissioner.

24,000. There seems to be a general consensus of opinion that the present body of Special Commissioners are doing their work exceptionally well?—I agree; but I presume that the labours of this Commission are intended to last for many years hence, and the fact that we have at present an admirable bunch of Special Commissioners, should not blind us to the defect, if there be a defect, in the method of their appointment; and you asked me if I can suggest any better method than the present.

24,001. Yes; and I may tell you that I think there is a general feeling that the method of appointing Special Commissioners is anomalous, as it stands. Now, what is your suggestion?—I suggest that they should be limited to solicitors or barristers of 10 years' standing. I have in hand here a list of legal appointments of a public nature. It is three or four pages; and almost without exception they are barristers of seven years' standing, and so on. I can read it all to you, if you wish.

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24,002. Do not do that, because we know that there are many—I do suggest that they should be lawyers, in the strict sense; they should be appointed from the legal profession, and they should necessarily not be beginners, and therefore they should have a certain number of years' standing. I do suggest that whatever is the qualification for a county court judge, who deals generally with cases involving about £5, at least that qualification should obviously be necessary for a Special Commissioner, who, even in my experience, deals with cases involving hundreds of thousands of pounds, at one sitting.

24,003. Are there not two things to be considered? First of all, I will say nothing about solicitors; we are all aware that there are a great many solicitors who are gentlemen of wide experience and great ability and of first-rate character—a very large proportion. But probably you would agree with me that in the profession, from top to bottom, there are also a large number of other people who are quite unsuitable; so that proper selection would have to be made. I pass that by; we should agree about that. But take the Bar. Merely to provide that a candidate must be a member of the Bar, would be idle, in view of the fact that there are so many people who have merely passed an examination and are nominally barristers. You would have to limit it to practising barristers?—May I interrupt there. Surely that would be taken into consideration by the person who made the appointment. He would not appoint a person who was merely a barrister in name, but he would appoint a barrister who, from his career, showed reason why he should be given this appointment.

24,004. But do you not see, it is because you have not sufficient confidence in your selector, that you propose to exact qualifications. If you could leave it all to your selector, you could leave him at large to find the best man he can?—No, with deference, I do not agree there at all. It seems to me quite a different thing to give the Treasury power to appoint anybody—some politician, or anybody you like, instead of appointing a lawyer.

24,005. You will go with me so far, that if you are going to limit it to the Bar, or in part to the Bar, only a practising barrister ought to be selected?—Does not this difficulty, if it is a difficulty, though I hardly think it is, apply to every case? For instance, take the case of a county court judge. I imagine, and is fact it is the case, that the only qualification of a county court judge is so many years at the Bar.

24,006. As a practising barrister. That is what I am suggesting to you?—Then we are at one.

24,007. I am surprised that you did not accept it?—I beg your pardon; I quite agree to inserting the word "practising."

24,008. A man who has practised for 10 years at the Bar, has had a legal training. He has not any special knowledge of Income Tax, in all probability, because Income Tax work at the Bar is limited to three or four people. That is so, is it not?—I will assume that.

24,009. It is very desirable that the Special Commissioners should have some of their body who already have, on appointment, special acquaintance with this highly intricate subject?—I think that is not, as you put it, an axiom, by any means. I suggest to you that the proper place for the expert is not on the Bench, but in the witness-box or at the Bar.

24,010. Do you think it would really be feasible or convenient to attempt to decide a normal Income Tax appeal before a body of judges who had no special knowledge?—Certainly.

24,011. Do not Income Tax appeals in the High Court come every day, so to speak, before a High Court judge?—Certainly they do.

24,012. Who has had no special training as an Income Tax official, and probably has not made a special practice of Income Tax at the Bar?—Yes.

24,013. And at first he has to be instructed and to learn his work?—If you call it so. He hears the

arguments which are put before him, and he forms his judgment upon them.

24,014. He has the assistance of counsel who have a special practice in the matter; and he takes a very long time to try his cases?—Of course they are important cases, if they get as far as that.

24,015. Therefore because they are selected and important cases, a good deal of time can be spent over them. But do you suggest that the work of Somerset House can be done satisfactorily in the same way?—I cannot imagine why you say Somerset House; we are not talking about Somerset House.

24,016. The Special Commissioners?—They do not sit at Somerset House.

24,017. I beg your pardon; they used to?—Never in my time. The Special Commissioner, as pointed out in the previous paragraph, has two different functions, and you passed over that point, and I imagine you do not wish me to pursue that further. But on this question of appointment, I am considering the Special Commissioner in his capacity as an appellate judge—only that. Of course the Special Commissioner in his position as an administrative official, should be an official, that is obvious. That is one of the reasons why I say their administrative functions should be separate from their judicial functions. Having once got them separate, I am then considering the qualification for the appointment of a Special Commissioner who is to act on an appeal tribunal.

24,018. I will not follow this out much further. May I suggest to you that there is another professional body which may well provide useful recruits; that is accountants?—I am sorry to meet any suggestion with a negative, but my answer is certainly no. The place for the accountant and the expert, as I said, is in the witness-box or at the Bar, if I may so call it. For the gentleman on the Bench, the only real qualification is that he should have a legal training which enables him, as far as necessary, to deal with the matter in a judicial way, with some knowledge of the rules of evidence.

24,019. You rule out the accountants?—Certainly. 24,020. Is that because they have not the training which will give them a judicial frame of mind, or is it because they have not a knowledge of the rules of evidence?—Both.

24,021. But you admit solicitors. What practical acquaintance have solicitors, unless they happen to be solicitors who practice in county courts or before magistrates, with the rules of evidence?—I am a solicitor myself; I do not practice in county courts; I have been there but once or twice during my career; but I consider that I have quite an understanding of the principles of the rules of evidence.

24,022. Do you say that solicitors generally have any practical acquaintance with the rules of evidence?—Certainly.

24,023. Does their training induce them to look at both sides of the question, and to wait patiently until they have heard the other side?—Certainly. I really wonder that a member of the legal profession, although of the higher branch, should make a suggestion that solicitors cannot see both sides of a question.

24,024. Do not imagine that when I am putting questions, I am taking either one side or the other. I am trying to do what I am suggesting is necessary, namely, to put the other side to you?—Yes.

24,025. Do not assume that I have any view of my own. Then we will pass on to your next point; that is, appeals against assessments?—Yes.

24,026. You would probably agree that the best way to deal with the time limit, would be to provide that all times may be extended by the Court dealing with the matter?—Yes; I think there might be an extension of the time limit fixed also.

24,027. There must, of course, be a time limit, or you would never get the appeals through?—Certainly.

24,028. But there should be power, in a proper case, to extend the time?—Certainly.

24,029. In your paragraph 6, "Appeals to High Court," you say that the provisions for appeal are unnecessarily strict. Do you not think it would be desirable that there should be a rule-making authority, so that the rules could be changed from time to time

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according to current circumstances?—I think probably that is unnecessary; I think it would be quite simple to make rules once for all; but there would be no objection whatever, of course, to a rule-making authority.

24,030. Then in paragraph 7, "Additional assessments," you suggest one year from the year of assessment, except where fraud is proved. I presume you would add fraud or concealment?—Fraud or fraudulent concealment. My point is, any time you like, and I suggest a year is sufficient. We are all liable to make mistakes, but I think innocent mistakes ought not to be liable to be reopened after some time, and I think a year is long enough. In the case of fraud, of course, I ask for no time.

24,031. No time for fraud, and no time for what you call fraudulent concealment. They are both the same thing, or one is a branch of the other?—Yes.

24,032. But supposing a man has made a mistake which cannot be proved to be fraudulent, which may be innocent, and has thereby escaped a substantial liability for a number of years, why should he avoid payment at the expense of the rest of the taxpayers?—It would be unfair that he should, I agree; but you put a special case.

24,033. No; I put the case that you seemed to me to be covering?—But you put a particularly hard case, which I never heard of, of a man who has avoided a large liability for years and years. I say, in the interests of people in general, you want a time limit, not too long, when they should know that at any rate the thing is closed, and there is no question of it being reopened.

24,034. Six years, or something like that, would be a more reasonable limit than one year, would it not?—No; you have your income; you spend it, and various things change. I myself think one year is quite long enough. After all, until 1907, four months was considered sufficient.

24,035. In paragraph 10, "Exemptions or abatements," you say: "Any question as to whether a taxpayer is or is not entitled to exemption or abatement should be made a subject matter for appeal." Would it not be better to provide generally that any decision against a taxpayer should be subject to appeal with the restriction that it should be an appeal on law only, provided that you limit your appeals to appeals on law?—But we are talking here of an appeal to the General or Special Commissioners, which are appeals on fact, as well as law.

24,036. In that case, there would be no limitation?—I do not quite follow you.

24,037. Where you can appeal on fact, you could appeal against any decision?—Yes.

24,038. Then you speak of lack of co-ordination?—May I make a remark on paragraph 11. I suggest that some arrangements should be made for dividend vouchers being simpler, and I have given some specimens here. Example A is a perfectly satisfactory one, and one which gives all the information required. It is perfectly correct, and does all that is required. Example B is not right. Example C is perfectly hopeless, and Example D is very bad.

24,039. Mr. McIntock: I would like to ask you. Mr. Budd, regarding a remark at the beginning of your paragraph 14. You refer to the difficulty in regard to trades, &c., owing to the fact that they are taxed on what is, in no sense of the word, profits?—(Mr. Budd): Yes.

24,040. Would you care to give the Commission your idea about that?—I think it is no great harm, so far as we are dealing with big taxations; but in the case of the small man, there is a Government official who says to him: "your profits for last year, upon which the Government tax you, and which are profits, are so much." Under the Income Tax Act, the amount upon which he is taxed is very seldom the amount of either his income or profit. It is quite demoralising to a small person. Big people know all about it; they know that they are being charged upon what is not profit or income.

24,041. Then it is the person with the small income that you are referring to?—Yes, they are being damaged by it. The big people are not damaged. In some of these cases, a very large amount of money

has been expended to break down opposition. I know of a case in which £130,000 was expended by an English company in Germany, buying and setting up and manufacturing in Germany, to cut down the competition in England; and successfully. These people spent £130,000 upon it, and no allowance was made in taxation for it, although it was by that means that they made their large profits afterwards.

24,042. The point that you made in your evidence is the allowance of losses of a subsidiary company, as against the profits of the parent company?—Yes.

24,043. That is not the point I am on. You used the expression that they are taxed on what is in no sense of the word profits?—Yes.

24,044. Then you go on to refer to allowances for wasting assets and depreciation?—Yes.

24,045. The Commission have had a lot of evidence on the allowance for wasting assets and depreciation. Have you anything else in your mind other than those two?—I am frequently consulted by my clients in regard to profit and loss accounts, and their balance sheets, before they are issued, and in no case whatever could anybody suggest that what is taxed as profit is what could be spent as profit. That arises from the deductions that are made inside the businesses, and which are not allowed by the Revenue, and it mainly arises from wasting assets and capital expenditure. Those are the two great items.

24,046. You said the difficulty or hardship with regard to the question of profits arose in the case of the small taxpayer?—No, not the hardship, but the harm that is being done to a man who is told by a Government official that that is his profit for the year.

24,047. Will you give us something more specific as to what you refer to. Take the small trader. Do you mean a grocer?—I do not mean a grocer; I mean anybody who is carrying on a small business. It is common knowledge that the allowances for depreciation, and allowances for wasting assets, are not sufficient to allow a man to get at his proper profit. Ask any accountant; he will tell you so. They say: "we have to settle your Income Tax on a different basis from the basis on which your profit and loss account is made up." It would be very difficult to find a case in which the amount upon which Income Tax is charged is the same as the amount which a good accountant would say was a fair profit in a business. I think there is hardly a case now.

24,048. Then you have nothing to give us beyond the allowance for wasting assets and depreciation?—It is all a question of wasting assets and depreciation and capital expenditure. I can give you an instance of what is treated as capital expenditure. There are many cases in which small new companies are established, in which architects, surveyors and engineers get a fee paid partly in cash and partly in shares of the company. I do not mean to say they are good companies, but it is common knowledge that that frequently occurs; and there is one case which has been before the Court, in which the Court has decided that although those shares a man is obliged to take or he would not get his appointment, he takes them as part payment; and when he takes them, he knows he cannot get anything from them for three or four years. I know it is a small case, but that has been decided as regards small people.

24,049. That is a difference of opinion as to whether a share is worth £1 or 10s.?—No; the Income Tax authorities say it is a capital expenditure, if you take shares in a company, and therefore it is an improper allowance.

24,050. I suggest that if the architect takes his fee partly in cash and partly in shares of a new company there is no question of capital arising at all. The question is whether the shares are worth the face value or not?—Yes, but that is not the way they are dealt with in the settlement of his Income Tax; that is a case in which a man is taxed on what is not his income.

24,051. In what respect?—Because he is taxed on the full value of those shares.

24,052. That, after all, is a matter of opinion, as to whether they are worth £1 or 10s.?—Hardly a matter of opinion in the cases that come before the Courts.

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24,053. Well, he takes them as being that?—If they were worth par they would not be offered to him; it is very simple.

24,054. If they were worth par he would have no complaint?—If they were worth par nobody could suggest that he should pay tax on anything else, but he would not be offered them if they were worth par.

24,055. Is that the type of case you have in mind?—That is one of the reported cases. I say that in nine cases out of ten a man pays in a business, tax upon profits which are not profits. Of course, there is a little difference in big undertakings, but in all big undertakings there is an enormous difference between the amount of the Income Tax assessment and the amount that an auditor will certify as proper profits.

24,056. Who is to be judge: the man who pays the tax or the accountant or the solicitor who assists him?—If the Act was that he was to pay a tax on profits these questions would not arise, but the Income Tax Acts define how those profits are to be arrived at, and they define in a way that does not bring out proper profits that could be justified by any accountant.

24,057. Then your suggestion is that the Act should contain a clean-cut definition as to the meaning of profits?—I would rather have no definition at all, and let them be settled in every case on their merits.

24,058. Is not that practically what they do at present?—No, not at all, because you have got your Schedules with your Rules, how much you are to deduct, and what you cannot deduct, and you have got a whole heap of cases showing what you can and what you cannot deduct.

24,059. Take a trader; there are certain specific things he may not deduct?—Yes.

24,060. Anything he can prove is a business expense he will get a deduction for?—No, he does not; if he did there would be no question.

24,061. Is not that what the Act says, that any expense incurred for the purpose of earning a profit is allowed?—The Act may say so, but there have been interpretations of the Act. There are certain cases; take for instance the case we have been talking about, the *Albania* case; I was asked to advise on that case, and I advised them before they went to law that there would be no possibility of their getting a remission under the law as it stands now, but notwithstanding that they fought the case to the House of Lords.

24,062. That is the wasting assets case?—Yes, that is the wasting assets case.

24,063. We all appreciate the wasting assets point. Then comes the question of capital expenditure.

24,064. What I would like you to tell us is who is to be the judge as to what is a fair item of expense, and what is not?—You must have a tribunal which is to decide it in some form or another.

24,065. Have you not tribunals at present?—You have tribunals to settle the question upon the Rules laid down in the Act. If you were to abolish all the Rules which are in the Act, and say that a trader should pay upon his profits, I do not think you would have any difficulty in settling what his profits are.

24,066. Do you seriously suggest to us that the Act does not provide that anything that a trader can prove to a tribunal is an expense in carrying on his business is allowed?—Yes, I do. I know dozens and dozens of cases where if it was left to us to say that is a charge upon profits, or to an independent tribunal with no rules laid down, they would get a fair decision. Now we know that you cannot get a decision.

24,067. I suggest that if the method you advocate were adopted we would each say, "that is our profit; you have no cause to inquire. Our accountant says there is a balance shown on that sheet, and we have earned so much"—In 99 cases out of 100 large companies, when their accounts are audited by accountants of repute show on their profit and loss accounts what is their true profit. In all those cases they do not pay upon that sum, but some other sum under the Act, partly arising from this question of wasting assets, and partly arising from the question of capital expenditure.

24,068. Chairman: I do not think I would proceed any farther with that.

24,069. Mr. McLintock: Quite. Mr. Holme, there is one question I want to ask you. With regard to this additional assessment you said it is not fair that an additional assessment should be made unless any fraudulent return or concealment is shown. Where do you suggest that this concealment is to be shown? Let me put this to you—that a man makes a return and he enters a sum of profit?—(Mr. Holme): Yes.

24,070. And the Surveyor has no accounts, but he is of opinion that the man is under-paying; the only way he can satisfy himself is to press for accounts, and failing to get them to put up the assessment?—Well, the Surveyor has the opportunity at the right time of making the original assessment; why should they make additional assessments?

24,071. I think not; I think the Commissioners make the assessment?—Yes, I beg your pardon; I quite agree.

24,072. Nominally?—I quite agree; I am obliged for the correction. The original assessment is made; the Surveyor chooses to discover something wrong in it; my suggestion is that there should be a time limit, a shorter one than at present, during which an additional assessment should be made unless fraud be shown.

24,073. May I ask you if you have had much experience in dealing with traders' Income Tax returns?—Yes.

24,074. Have you come across many cases of errors in returning?—Yes.

24,075. You are aware that it is not by any means uncommon to find traders making mistakes not fraudulently, also many fraudulently, and the only method that the Surveyor has is to push up the assessment?—By an additional assessment, you mean?

24,076. By an additional assessment?—Letting that be so, my suggestion is there should be a shorter time limit than at present for making such additional assessments.

24,077. Shorter than three years?—Yes. Four months was found sufficient for years and years, and in 1907 it was altered to three years, with, so far as I know, no particular reason why the increased time should be given. My suggestion is that, at any rate, four months may have been short, but three years is certainly too long, and one year would certainly be more reasonable in my opinion.

24,078. You refer in paragraph 10 to exemptions for abatements, and you say that they should be made the subject-matter for appeal to the General or Special Commissioners. Do you know that they have an appeal to the General Commissioners?—No, not on abatements, I understand.

24,079. This is section 148, sub-section 3: "Provided that no claimant for the exemption granted by this Act, in a case where the total income does not exceed £130 a year, shall be allowed to appeal to the Special Commissioners, but every such claim shall be heard and determined by the General Commissioners."—It wants some explaining, I agree.

24,080. Well, there is the Act. You would not seriously suggest that the Special Commissioners, who you admit, should be a body of experts, should be bothered with a great mass of small exemptions?—I beg your pardon; I see your point now. I do not lay any stress on that at all as long as there be an appeal.

24,081. You evidently seem to think that accountants are not suitable people to deal with Income Tax matters?—I have answered that question already.

24,082. Yes, I am putting it; that is your opinion?—No, you say to deal with Income Tax matters. It would be impossible for us to deal with Income Tax matters without the assistance of accountants.

24,083. On appeal?—You did not say so on appeal. All I did say before, in answer to Mr. Kerly, was that in my opinion accountants were not of the right profession from which to draw people to sit practically as judges on an appellate tribunal, which, if I may say so, is quite a different thing from what you say

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to me, that they are not the right people to deal with Income Tax returns.

24,084. That was only the first part of it. They do in practice deal with the bulk of the big Income Tax returns of the country on Schedule D?—They make them up.

24,085. And they settle most of them without legal assistance?—Certainly.

24,086. And to the satisfaction of the Crown and their clients?—No doubt; or they would not be settled.

24,087. Therefore they have a certain amount of knowledge of Income Tax practice?—Of course they have.

24,088. And doubtless they will have a smattering of the law, too?—No doubt.

24,089. *Chairman*: And therefore they are not fit to sit as Special Commissioners.

24,090. *Mr. McIntock*: I was coming to that. You agree that they are in the special position to-day that probably they have more general knowledge of Income Tax practice than, we will say, the average practising solicitor?—I agree.

24,091. Do you agree that their disability for sitting as one of a body of Commissioners is their lack of knowledge of the principles of the rules of evidence?—Yes.

24,092. That is your main complaint against them?—Yes, putting it into general language.

24,093. There are many other things which come before appellate tribunals than merely a knowledge of the principles of the rules of evidence, you will agree?—I want to answer that. I have attended a very large number of appeals, both before the General and the Special Commissioners, and I have never known one turn upon a question of figures. They invariably turn upon a question of principle, practically a question of law, and although when the law has been laid down we want the accountants sitting beside us to say, "the result is a figure of so and so," the point the Commissioners have had to decide has invariably been, not figures, but a principle of law to apply to them.

24,094. I quite agree that on points of law the lawyer is the best man to deal with them?—Thank you.

24,095. But on the other hand a great many of the appeals are concerned with figures?—Well, that is not my experience.

24,096. Would you apply the same remarks to the lawyer's inability to deal with figures as you do to the accountant with the rules of evidence?—I cannot imagine an appeal on a question of figures.

24,097. On a question of accounts?—No. Speaking of my own experience, and I can imagine nothing else, appeals invariably turn upon a question of principle, and not upon a question of accounts or figures.

24,098. Then your view is this, that the future body of Commissioners should consist entirely of solicitors?—Well, or barristers; I do not mind barristers.

24,099. Even what we call briefless barristers?—I do not see why you should say that. I say they should be drawn like my other judicial tribunal from the ranks of the legal profession.

24,100. And you would not suggest them by either commercial men, bankers, practising accountants or anyone else to help them in their deliberations?—No, for the reason I have told you, that the points that come before them are points of principle, and practically points of law. The expert assistance which a banker or accountant can give should be given from the Bar or the witness box, and not from the Bench itself.

24,101. Then you do not agree with what Mr. Budd has just told us, as to the definition of profits being a very great difficulty in connection with the assessment of Income Tax?—I have no doubt it is a difficulty.

24,102. You will probably agree that an accountant ought to have some views worth listening to on what the profits are?—Exactly, and his views would be stated before the Commissioners, and the opposite view would also be stated before the Commissioners,

and they as a judicial body would decide between the two conflicting views.

24,103. You are aware that we have had some very conflicting legal decisions from the judges of the land as to what are profits?—Yes, I am aware of that.

24,104. And they have given some decisions which every accountant in the country would probably disagree with if he were asked?—Am I asked to answer that question?

24,105. *Chairman*: No, I do not think so.

24,106. *Professor Pigou*: I should like to ask Mr. Budd one question. In paragraph 18 of your evidence is that you suggest that earned income should be taxed at half the rate of unearned income?—(Mr. Budd): I do.

24,107. Would you keep that same fraction of one-half for all rates of income?—All income earned by brainwork.

24,108. Would you keep the fraction of one-half with a £50,000 income as well as with a small one, or would you make the fraction vary with the size?—I do not suggest that it should vary.

24,109. Under the present scale you would get paradoxical results, would not you? Supposing you have got a barrister earning £50,000 a year, and on the other hand a widow with an annuity of £2,000?—The widow would not be earning money.

24,110. No; that is my point. You get her with an annuity of £2,000. On your scheme the barrister with £50,000 would pay at a lower rate than the widow with her annuity?—I do not see any comparison whatever.

24,111. At the present rate £50,000 pays 10s.—I am only dealing with the wasting nature of a man's brain when he is a brain worker, and I think a sufficient allowance ought to be made for that, and I suggest it should be at half the rate that is charged for every income not earned in that way.

24,112. I quite see your point, but do you admit the result that I have just adduced from it?—I have no doubt it is an arithmetical problem that I could work out, but I have not worked it out.

24,113. Is not it rather paradoxical?—It does not seem to me to be relevant, if I may say so with deference.

24,114. Does not it suggest that it might be advisable that your fraction should vary with the size of the income?—I do not see as a matter of principle what variation there should be, because it is a comparison between what is earned income and what is not earned—I mean earned by brain work.

24,115. Well, I have made my point?—I do not see any reason to vary it.

24,116. *Chairman*: Are you satisfied with your answer, Professor Pigou?

24,117. *Professor Pigou*: Well, I have made my point.

24,118. *Mr. Synnott*: With regard to the relief to earned incomes, do you suggest that that relief should apply to all incomes earned by personal effort and personal capacity?—Yes.

24,119. Not to earned income as defined in the Income Tax Acts?—Oh, no.

24,120. You think that is wrong?—Yes.

24,121. Would you give no relief to what I may call semi-earned incomes, in which the question of goodwill or capital was involved?—No.

24,122. Of course, you realize that if one man is relieved his neighbour is taxed?—Yes.

24,123. How would you deal with the case of a barrister who is making, say, £2,000 a year; he comes to the age of 40 or 45 when the burden of his family and domestic burdens are increasing, and he has saved £10,000. You immediately tax the £10,000 at the 6s. rate. Do you think the gentleman in that case would thank you for being relieved during his early professional career?—I am afraid he must pay his full rate with the rest.

24,124. Do you think a gentleman in that position would thank you for the relief in the early part of his career?—I think he would.

24,125. I do not think I should.—I think he would.

24,126. *Mr. Walker Clark*: I think I understood you to say that you would allow questions of appeal

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on fact, Mr. Holmes?—(Mr. Holmes): No, Mr. Budd said that.

24,127. Would you agree with Mr. Budd?—Yes.

24,128. Would you still adhere to your statement that no one but practising solicitors should be on the Bench?—Well, the appeal on fact that Mr. Budd mentioned was an appeal from the Special or General Commissioners to the High Court. I think I am right in saying there is already an appeal on fact to the Commissioners.

24,129. But questions of appeal on fact you would agree should be heard by the Special Commissioners?—As they are now.

24,130. And on questions of appeal on fact as well as questions of appeal on law, you would still exclude traders who have large business experience from sitting as Special Commissioners?—Exactly; and may I just without wasting time tell you—

24,131. Purely on questions of fact?—Certainly, and law also.

24,132. Mrs. Knowles: I should like to ask Mr. Budd when he finds there is so much objection to husband and wife being assessed together, what has been the reason for that objection, merely a pecuniary one, or is there any principle behind it?—(Mr. Budd): I think there is sentiment behind it very much. I find that ladies consider that they are entirely free from a husband's control as to their own money matters, and they do not think it right that the joint income should be brought in for assessment to Income Tax. They think they should be assessed separately on their own income and the husband on his income; that is what I find among ladies generally.

24,133. Do you find the husbands agree with that?—Oh, I think so. I have never heard a male suggest that that would not be proper; he would gain by it, you see.

24,134. Sir W. Trower: Mr. Holmes, in litigation between the subject and the Crown with regard to Inland Revenue cases, would you agree that the same practice should prevail as far as possible as now prevails in litigation between subject and subject?—(Mr. Holmes): Yes.

24,135. Mr. Prettiman: Mr. Budd, in your paragraph 6 and again in paragraph 13 you make practically the same statement, first in the case of companies, and afterwards in the case of firms, that you know of many cases of business being withdrawn from this country on account of this taxation?—(Mr. Budd): Yes.

24,136. Can you give us any idea of the kind of area? Is that really an anticipation, or is there really any considerable withdrawal actually taking place?—There is a very considerable withdrawal going on I find every day. Only three or four days ago I came across a large company where the shares were being brought up and the control of the company taken out of England.

24,137. Had that actually been accomplished, or were steps being taken to accomplish it?—Whether the money had been paid over or not I do not know.

24,138. But it is settled?—It is settled.

24,139. It is actually the case?—I have had several cases pass before me that have been settled.

24,140. Is the extent of it really important?—I think so.

24,141. Or are there large deductions drawn from a comparatively small number of cases?—I think it is important because it has been a matter of conversation between myself and a great many friends of mine who are in a large way of business in the City, and I find from all of them that it is going on largely.

24,142. Would it be possible for you to give us any statement showing within your experience what are actual cases?—I must not mention names, you see; I cannot do that.

24,143. Chairman: A statement was made to us by one witness some time ago, and he gave the actual fact. If it is hearsay only that you have, and there is no fact, it is not worth very much as evidence.—No.

24,144. If you have got any definite information we should like to know it?—I am afraid I should not be justified in mentioning it.

24,145. But if you have the fact there we should like to have it?—I think if the Commission were to make enquiries from the Stock Exchange they would find out a great many of these cases themselves.

24,146. You make the statement, but you are not able to give the name?—I cannot say that I am not able.

24,147. Can you specify the name and not have it taken down?—No.

24,148. Mr. Walker Clark: Or the nature of the business?—All this is going to be published in a Blue Book.

24,149. Chairman: No, the point is it will not be published. I will not have it taken down, but I want to get something not hearsay—something definite. Do you know now, and will you give us the names of any concerns that have acted in the way you have suggested?—Yes, I can. I could write the name for you confidentially.

24,150. That will do, if you will do that?—Yes.

24,151. Mr. Prettiman: That is all I suggest, but I did not ask for one now. I think I am right in saying in matters of that kind, apart from the published evidence it would be very helpful to us to have a statement of actual fact of that character for our own confidential information, which would not be published and which would go no further, because we really cannot judge by statements made generally; we can only judge by actual facts. I suggest to you that you should get the permission of your clients in the first instance to let us confidentially have the facts.

24,152. Chairman: You say it is common knowledge on the Stock Exchange?—Yes.

24,153. You say there are a number of cases that you know?—Yes.

24,154. Will you hand those cases that you know to me?—Yes.

24,155. Mr. Prettiman: Thank you; that will meet my point?—I must not have them published.

24,156. Chairman: Oh, no.

24,157. Sir W. Trower: In paragraph 7, you refer to the question of business done by foreigners in this country?—Yes.

24,158. I notice that in your argument against the tax in paragraph 7 you treat them as buyers; the argument against taxing them is because they are buyers?—That is appointing the general agent.

24,159. Yes; people who have general agents in this country—foreigners trading here—that is the point. You point out that it is very undesirable to tax this trade, because they are buyers or prospective buyers; then in the next paragraph, the question as to whether a trade is exercised, and so on, where you are dealing with actual imposition of the tax, you deal with them as sellers?—Yes.

24,160. Surely the argument is that they are taxed as sellers and not as buyers?—They are hit as sellers under the Income Tax Acts, but when they are hit as sellers they stop, and they do not create these agencies. But they would be buyers; that is the way I want to put it.

24,161. Do you suggest that in the case of a German firm, for instance, which was in the habit of trading and selling in this country, selling its goods here, the fact that it was selling here made its agent a buyer?—I am not talking about Germans; I am talking about people in South America and cases of that kind. Those are the people who want to establish general agencies here.

24,162. Take the case of the Meat Trust?—That is a very special case. I am taking the case of mining industries and things of that kind abroad.

24,163. Are you going to draw the line between the special case at one end of the Meat Trust and the case of mining industries abroad. In the first place, do you agree that the Meat Trust business carried on in this country as it is now ought to be taxed?—Oh yes, clearly.

24,164. Can you suggest any other means of taxing it than on the turnover?—Yes. The Meat Trust does

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its business here; not only sells its meat, but it carries on a large business here. There could not be any doubt about the Meat Trust, surely.

24,165. Can you suggest any other method of taxing them except on their turnover?—If it was the more agency here of a foreign firm that was not carrying on such a business as the Meat Trust, then you used not tax them.

24,166. Very well, I will not pursue that; you cannot suggest any other way. Can you suggest any way of drawing the line between the Meat Trust at one end and a mining company sending goods here at the other?—I do not think there would be any difficulty in drawing the line, as long as they carried on a general business here. If they only sold their goods here, that is quite a different thing, as long as they did not carry on a general trade here.

24,167. I will not ask you any more on that, but I have one more question that I must ask you. I think it is important. The whole of your proposals here are in the direction of remission of tax or abatement of tax?—Yes.

24,168. On grounds which you and other witnesses have very strongly put forward, but you realize the

very great importance of the necessity of maintaining revenue?—Certainly, but another great importance is keeping up our export trade.

24,169. I know, but we have got to maintain our revenue?—You have got to put one against the other. It is not for me to judge which is the more important. I only wish to call attention to the fact that there is a great deal of export trade going away in consequence of the taxation.

24,170. You have done that, but have you given any thought to the matter, apart from all that, of maintenance of revenue?—I am unable to measure the quantum on both sides or how much we are losing in one way. I am only calling attention to the fact that there is a great loss to the export trade, and it ought to be carefully considered.

24,171. Have you considered it from this point of view, that assuming the same sum has to be raised if these remissions are given, it will involve a higher rate of tax?—No. I may be wrong, but I think you would gain by the increased profit made on the export trade.

MR. PHILIP HUBERT MARTINEAU, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Note by PHILIP HUBERT MARTINEAU, 2, Raymond Buildings, Gray's Inn, W.C., member of the firm of Martineau and Reid, Solicitor and Member of the Council of the Law Society.

24,172. I desire to call the attention of the Commission to a hardship which falls on many persons in connection with the assessment of Super-tax. The class on whose behalf I specially desire to draw attention is that of tenants for life of settled estates. I have been in practice now as a solicitor for over 30 years and have had a long experience in dealing with this class of property.

24,173. Super-tax is assessed on the income from all sources of the individual, and I take it that the object is to arrive at the real and true income of the taxpayer. This is provided for by the application to Super-tax of the provisions of the Income Tax Acts with reference to deductions allowable for exemptions and abatements. In my view a great hardship is caused by the construction in the Earl Howe case put upon the words "annual payments," section 164 of the Income Tax Act, 1842.

24,174. A tenant for life succeeds to a settled landed property which in many cases is heavily encumbered. Money is needed for various causes, one of the most common being the necessity for paying Death Duties, or the estate being in a bad state of repair, it becomes necessary to find the money for the purpose of carrying out obligations which his predecessor has not properly performed. The tenant for life probably has no means or income outside the income derived from the estate, and the only way by which he can borrow the money is to mortgage his life interest in the estate coupled with a policy of insurance on his life to secure the principal sum borrowed. He has to enter into a covenant in the mortgage to pay the interest on the loan, and in addition to pay the insurance premiums. It is not disputed that in respect of the interest payable on the loan he has a right to deduct this in his Super-tax return, but the Commissioners have refused to allow any deduction in respect of the annual premiums, and, while there has been a difference of judicial opinion on the subject, the Court of Appeal has decided that a deduction is not, on the true construction of the statutes, allowable in respect of these premiums.

24,175. I submit that this is a hardship, and that there is no real ground for the distinction thus drawn between the interest and the premiums. Both are annual sums, and both are paid for precisely the same reason, because there is a legal obligation enforceable by the Court. I submit that the real income of the individual is only that amount which remains to him

after paying out these sums. If the practice which now prevails is right it is possible to imagine a case in which a man might be compelled to pay Super-tax on a large income although in fact he had no free income whatever. I suggest for the consideration of the Commission that this can hardly have been the intention, and that premiums which a tenant for life has to pay compulsorily in order to enable him to borrow the money necessary to meet unavoidable expenditure ought to be treated as annual payments, so that if they are charged upon and legally payable out of income they should be deductible.

[This concludes the evidence-in-chief.]

24,176. *Chairman:* I do not think the Commission will want to ask you many questions on your paper, but you will please submit yourself to the questions the Commissioners will ask?—Yes.

24,177. *Mr. Pretzman:* Being a tenant for life myself, I can speak feelingly on this subject. Why do you say it is necessary for a tenant for life to mortgage the estate to pay Death Duties?—Because very often it is the only way he can possibly get the money; he cannot do it out of income. It is a heavily encumbered estate, and he has to borrow the money, and the only way he can borrow it is by insuring his life and charging the income of his life estate with the payment of the premiums and the interest on the money he borrows.

24,178. The conception of the duty is that it has to be paid out of the estate, probably by realisation of part of the estate?—You are speaking of Estate Duty?

24,179. Yes?—Of course, that can be raised out of the estate, but it does not follow where an estate is encumbered that you can raise that money very easily.

24,180. But if the estate is encumbered the weight of the encumbrance is deducted from the capital on which duty is charged?—That is quite true, but it does not apply to Succession Duty, which is payable by the tenant for life himself, and not out of the capital of the estate.

24,181. Succession Duty is not a duty on capital at all?—No, it is a duty on income; it is a duty on his life interest in the estate.

24,182. Is this case of yours solely on Succession Duty, or is it on Estate Duty?—On both. I have had both cases, where the tenant for life has had to borrow the Estate Duty in the first instance, although ultimately, perhaps, when he has been able to realize the estate, he has been able to pay off the Estate Duty. It does not apply only to Succession Duty. A tenant for life may come into an estate

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which is in a bad state of repair; his predecessors have neglected their duties; he is obliged, in order to secure his rental, to spend a great deal of money in repairs. They may be repairs which he cannot pay for out of capital; he must pay for them out of his own pocket.

24,183. Surely all repairs and maintenance on an estate under those circumstances can be paid for by the trustees out of capital under the existing law?—No, not all repairs. The repairs fall on the tenant for life, though they must be permanent improvements, I agree. There is a great difficulty very often with regard to that, because if you go to the Court you will find that judges hold very different opinions as to what are improvements and what are repairs, and what ought to fall on a tenant for life.

24,184. Surely all that comes into the value of the estate, does it not? I think what would be argued against you here would be that the Estate Duty (if we may take that separately in the first instance, because it seems a little different) is levied upon the entire capital value of the estate?—That is so.

24,185. And in assessing that capital value all elements which may tend to depreciate the value are taken into account before the duty is charged?—That is so, yes.

24,186. And therefore in every case the successor who has to pay the duty, would only have to pay the duty after all those have been deducted, and all would stand on the same footing in that respect?—Yes, that is right.

24,187. The man who has a property which is quite unencumbered, which is in good repair, and who is subject to none of those disabilities, would have to pay Death Duty on the entire value?—That is right.

24,188. The other would have to pay on a reduced value after all those other elements have been deducted?—That is so.

24,189. Of course, it might cause some hardship. Again, a tenant for life in one case might have considerable private means of his own?—Yes.

24,190. And he might be able to pay the duties out of income?—Yes.

24,191. And another might not?—That is so.

24,192. Again, I go back to the point I first mentioned, that the idea of the Death Duty is that it is a duty on the capital, and that a certain proportion of the capital should be realized to meet the duty?—Yes, that is the Estate Duty; they are all called Death Duties, but it is Estate Duty.

24,193. Then it is entirely a matter for the personal decision and convenience of the particular tenant for life in question whether he realizes part of his property, or whether he meets it by a mortgage covered by a Life Insurance?—Yes. I would not say in all cases, because in some cases he might not be able to realize, and he might not be able to borrow, because it might be already mortgaged. The question of putting the extra Estate Duty on to the estate may be a difficult point.

24,194. I quite admit that in some cases?—And he might be bound in that case to borrow in the first instance, and to insure his life.

24,195. I think your case would be a very strong one if you could prove that he would be actually forced to do that. It might get to the point that it was very desirable for him to do it, but would you go so far as to say he was actually obliged to do so?—Mortgage his life interest?

24,196. Yes?—For Estate Duty?

24,197. Yes; it seems to me to turn largely on that?—No, I do not think I can say that.

24,198. That seems to me to be rather the critical point?—I had one case, but fortunately I was able to borrow on a second mortgage; if I had not been able to do that I should have had to have done the other.

24,199. You would have advised that it was the best thing to do?—Yes.

24,200. But you could not have gone into a Court of law and said that the law compelled him to do it?—No; still he might be in a very awkward position; he has got to pay the duty.

24,201. That brings me to another point. He has the alternative, either of mortgaging and paying the duty in one lump, or of paying the duty spread over the eight years by instalments?—That is right.

24,202. And paying interest?—Paying it out of income if he can.

24,203. But paying interest?—Yes, that is true.

24,204. He has to begin paying interest, has he not, from the date of the death?—No, one year from the death, I think it is, in the case of real estate, and in the case of personal estate it is from the death.

24,205. Yes, that is so. Of course, the settlements that you refer to here are practically confined to real estate?—Practically, yes.

24,206. The interest is now 4 per cent., is it not?—Yes, it has been raised recently.

24,207. Would not your point be better met if that interest were to be allowed to be deducted from income; has it ever occurred to you? It is not allowed now?—No, you cannot deduct it.

24,208. It is a debt to the State, is it not?—It is a debt to the State.

24,209. Exactly as a mortgage would be?—Yes.

24,210. Mortgage interest can be deducted?—Yes, that is so.

24,211. The interest due to the State on the loan which the State has made, because that is the position?—Yes.

24,212. The State has made a loan to the tenant for life of the sum of duty which passed from the estate on death?—That is so.

24,213. Which really never was the property of the tenant for life?—That is so.

24,214. It is lent to him by the State for eight years?—Yes.

24,215. On conditions of repayment over periods?—Yes.

24,216. And interest is charged upon that?—I think that is what it amounts to.

24,217. But that is not allowed to be deducted?—No.

24,218. Have you ever taken out that kind of figures? Take the case of an estate of £1,000,000, which was mainly settled, consisting of various categories of property, such as a house in the country, a house in London, a certain amount of land, and a certain amount of settled money—the sort of average estate; the duty on that under the scale, I think, is 40 per cent.?—Something like that. I have not had the fortune to deal with an estate worth £1,000,000 at present.

24,219. I took that out of the scale to show what you may arrive at?—I think that is so.

24,220. The interest is 4 per cent., is it not?—Yes.

24,221. If the duty were 40 per cent., that would be £400,000?—Yes.

24,222. The interest on that would be £16,000?—Yes.

24,223. The income of that estate might come out, we will say, to about £30,000?—Yes.

24,224. Income Tax and Super-tax would be £15,000?—I cannot answer that question off-hand.

24,225. 10s. in the £?—At 10s. in the £, yes, that is so.

24,226. That would be £15,000?—Yes.

24,227. So out of an income of £30,000 he would have to pay £16,000 interest and £15,000 Income Tax and Super-tax?—Yes.

24,228. In other words, £31,000 out of an income of £30,000?—Yes.

24,229. That is universal, is it not?—Yes.

24,230. That covers every case?—Yes.

24,231. It is not dependent on whether a man has got a mortgage or not?—Yes, it would cover every case.

24,232. Do you not think it would be more reasonable to ask that interest on outstanding Death Duties should be deducted from taxable income rather than to put forward this proposal?—Well, I should rather like to consider that point; I am much

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obliged to you for putting it to me; I had not thought of it.

24,233. *Chairman*: I am wondering how they can spend £31,000 and receive £20,000; that is the thing that is hithering me.

24,234. *Mr. Petyman*: That is the law. I do not think it is realized by the public, but that is the position.

24,235. *Chairman*: Is this new to you, Mr. Martineau?—Well, I had not considered it until it was put to me; of course, I do know it.

24,236. It is very interesting that a member of the Commission can give a new point to a lawyer?—Yes, I think so.

24,237. *Mr. Mansfield*: The richer you are the poorer?—Perhaps the tenant for life is speaking feelingly himself.

24,238. *Mr. Marks*: Capt. Petyman's figures, I do not think are quite right. I do not think it goes up to 40 per cent. until the estate is two millions.

24,239. *Mr. Petyman*: Well, it may be 35 per cent. then; it is much the same thing. I saw a table the other day.

24,240. *Mr. Marks*: Not exceeding one million, 25 per cent.; between one million and a million and a quarter, 30 per cent. It would give him a little income.

24,241. *Mr. Petyman*: It would give him just nothing, I think.

24,242. *Mr. Marks*: He would pay £12,000 and £15,000, that is, £27,000; he would have about £3,000 a year.—Hardly enough to keep up his establishment.

24,243. *Sir E. Nott-Bower*: This claim of yours on behalf of the Super-tax payer, I understand, is put forward on the ground of equity?—Yes.

24,244. You think that if a deduction is not allowed for Life Assurance premiums the man will pay on a higher amount of income than he really has got himself?—That is so.

24,245. I just want to test that, because I am afraid I do not follow that at present. Mr. Petyman has been talking to you about Death Duties. Let me go for a moment to another of your causes of hardship; that is, an estate in a bad state of repair. I think the principle would be much the same, but I can follow it more easily on the case of repair. Assuming you have an estate in good repair and bringing in a rental of £10,000 a year, it passes on death, and the new tenant is tenant for life only; it is then in a very bad state of repair. Supposing it is land and houses—an agricultural estate, with farm buildings requiring a great deal of expenditure on them to maintain the property at a rental of £10,000. The life tenant wants to borrow £20,000 in order to put the estate in a thorough state of repair, and to enable it to command the £10,000 rent. He has no funds of his own out of which to borrow. I am putting it from your own point of view?—Yes.

24,246. He cannot mortgage the fee?—No.

24,247. He might for Estate Duty, but not for repairs?—That is so.

24,248. *Mr. Petyman*: Can he mortgage the fee for Estate Duty?—Yes, he can mortgage the fee for Estate Duty.

24,249. *Sir E. Nott-Bower*: But not for repairs. Therefore, he is keen to put the property into a good state of repair, and so he proceeds to mortgage his life interest?—Yes.

24,250. The mortgagee of the life interest say: "this is all very well, but you may die to-morrow. You must insure your life." That is the case you are putting?—Yes.

24,251. Let me follow that for a moment. It seems to me that if you allowed the Life Assurance premiums he would pay on less than his income. He borrows £20,000—would you mind my saying for convenience, at 5 per cent. only, because it is easy to calculate?—He will not get it at 5 per cent. now, of course.

24,252. I do not mind saying 6 per cent. or 7 per cent.

24,253. *Chairman*: Take it at 10 per cent. if you like.

24,254. *Sir E. Nott-Bower*: 10 per cent. will do for me equally well, because I can work it out. He borrows £20,000, say, at 5 per cent. He has to pay £1,000 interest, and he insures his life for £20,000, a non-profit policy, and pays £500 premium?—Yes.

24,255. The result of that is, he pays interest £1,000 and insurance premium £500; he has a net income of £8,500?—Yes.

24,256. He can enjoy that during the whole of his life if he likes. Merely for simplicity I am assuming he is not going to repay the money?—Yes.

24,257. When he dies the insurance money repays the loan?—Yes.

24,258. So that during the whole of his life he draws his income of £8,500 a year?—Yes.

24,259. How will that man be treated for Super-tax purposes, if your request that the premium be allowed is conceded? What would happen would be that during the first five years after the repairs were effected he would get a deduction of £4,000 a year—one-fifth of the £20,000 every year. Have you not overlooked the fact that all expenditure on repairs will be allowed both for Income Tax and Super-tax purposes? Therefore, for the first five years, he would pay Super-tax only on £10,000, less £1,000 interest, less £500 premium, less £4,000 for repairs, and his net Super-tax assessment would only be £4,500 for each of the first five years. Afterwards the allowance for repairs is exhausted, and he will pay on £8,500, his exact income, but you will observe he virtually gets that £20,000 allowed twice over. I think you overlooked the fact that the actual cost of repairs is allowed?—You mean that he is allowed the whole cost of his repairs?

24,260. Yes, he is allowed all his repairs, and what you say is that he ought also to be allowed the annual sum which is put by to replace the capital spent on the repairs. Is it not a double allowance virtually in respect of the same thing?—I do not think so, is it?

24,261. Well, I have put it to you. I endeavoured to work it out yesterday evening, and that is the result I arrived at.—He borrows £20,000 for repairs; he has an income of £10,000, which is reduced to £8,500 by that means. It is true, probably for some time, he would not have to spend any more money on repairs.

24,262. If he did he would get an allowance for it?—He would get under the Schedule A assessments his one-sixth off to cover repairs—that is really what it is—but it may not be enough; at the same time in this particular case he has put the estate into thorough repair.

24,263. I am supposing for the moment, for the sake of simplicity (I will take the other case afterwards, if you like), in order to test the principle, that it was an agricultural estate. If it was an agricultural estate there is no one-sixth limit; there is no one-eighth limit; you get the whole cost?—I know you get the extra; if you can show that your repairs have exceeded a certain amount you are allowed the extra sum. At the same time, I do not think he would have got that whole allowance if he had gone on paying for the repairs out of his income. Supposing he had sufficient income and he had gone on paying it out of that amount allowed him, got the whole of that amount allowed him.

24,264. Oh yes, he would?—No, absolutely.

24,265. *Mr. Petyman*: Yes, he would, every penny on an agricultural estate?—But it might not be all agricultural, if I may say so.

24,266. *Sir E. Nott-Bower*: Really I was only testing the principle. Supposing it was not all agricultural; supposing some of it were house property?—Yes.

24,267. And supposing the allowance were limited to one-sixth?—Yes.

24,268. Really the grievance there is not that the Life Insurance premium is not allowed, but the grievance, if any, is that the one-sixth allowance was not sufficient?—Yes.

24,269. We have had some evidence on that point. Still, to the extent that you have got the repair allowance, it would be a double allowance?—I see.

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My point is this, that he has to borrow this money and in order to do that he has got to insure his life, and he is under covenant to pay interest and premiums. It seems to me that you cannot distinguish between premiums and interest in that case. It is a sum which has to be paid and which can be enforced by law, and I think myself if you want to arrive at what is the true income (and I understand that is the principle upon which you are working in regard to Super-tax—the true and real income of the tenant for life on which he has to pay his Super-tax), he ought to be able to deduct those premiums; he is bound by law to pay them, and he cannot get out of it. That seems to be the whole point that I want to bring out.

24,270. I suggest to you he would pay Super-tax on less than his income in the example I gave.

24,271. *Chairman:* Do you think your case is as strong now as it was when you came in?—I am here before a very critical body of gentlemen, of course.

24,272. Would you like to reconsider your case?—No, I do not think I can reconsider it.

24,273. I was only wondering whether, if you are convinced that there is something against your case, as you would be as a fair-minded man, if there are points raised, you would want to proceed with your paper?—I do not think I should want to reconsider the case; I do not think really there is any point.

24,274. *Sir W. Trevelyan:* May I put it to you in this way, which is rather a different point of view that has no consideration with the purposes for which the tenant for life raises the income at all; I do not think that is material. You are familiar with the 16th section of the old Act?—Yes.

24,275. That is section 27 of the new Act, and it is by reference to that section that the allowances for Super-tax are arrived at?—That is so.

24,276. I am putting it to you that the questions which have been asked you with regard to the purposes are not relevant to the question at all. If you will refer to section 27 you will see the question is, "all particulars of any yearly interest or other annual payments, reserved or charged thereon, whereby his income is or may be diminished"?—Yes.

24,277. A tenant for life for the purposes of Super-tax is entitled, according to one construction of that section, to deduct any annual sum which is charged on his income; that is so, I think?—Yes.

24,278. And therefore, if a premium is an annual sum charged on his income it is a question of whether it ought to be deducted or not?—Yes.

24,279. The decision, as far as it has gone, is this: in the Court of First Instance it was decided that for the purposes of Super-tax the premium charged on a life estate was an annual deduction within that section?—Yes.

24,280. That is Mr. Justice Sankey's decision?—Yes.

24,281. That case went to the Court of Appeal, who reversed Mr. Justice Sankey's decision, and it comes back for the consideration of the Commissioners, I think, as to whether or not a premium is an annual deduction which should be allowed, within the principle of that section, to a tenant for life?—Yes, that is my point.

24,282. Now let me put it to you in this way: a tenant for life has an income derived from land or from houses; it does not matter much which; his life interest is charged subject to private encumbrances. Those private encumbrances may be at the date some time ago—some previous date—running, as we know they often were, at $\frac{3}{4}$ per cent. Therefore, the tenant for life is in this position, that some five or six years ago he had an encumbered estate with a large sum chargeable on it at $\frac{3}{4}$ per cent. Then he has to borrow (I do not care for what purpose he has to borrow) and he has for that purpose to insure his life and borrow on his life interest?—Yes.

24,283. For that purpose he gives a definite charge on his life interest and then comes the war. I am putting an extreme case. The insurance company puts up his interest to $\frac{5}{4}$ per cent. The whole of his income has gone. The insurance company puts in a Receiver, takes the whole of his income and applies part of it in discharge of the interest of the first encumbrances, and it takes the rest of his income to meet the premium and the interest on the charge of

his life estate; that is an extreme case?—Yes, that would be the exact legal position.

24,284. In such an extreme case you get the income of the tenant for life, I take it, intercepted before he gets it?—Yes.

24,285. In every case where a tenant for life charges his income for interest and premiums and it is not paid, if a Receiver is put in, it is intercepted?—That is so.

24,286. If the Receiver is not in, there is a potentiality of deducting it from his income?—That is so.

24,287. In neither case he gets the income which is devoted to that premium?—No.

24,288. Therefore, his net income, that is, his income less what is charged within the section, is charged with a payment whereby his income is diminished?—Yes.

24,289. Very well, then I put it to you, is it reasonable that a tenant for life who does not receive income should be charged Super-tax on income which he does not receive; that is your case?—That is my case; I do not think it is reasonable.

24,290. It is not reasonable that money, which is intercepted and which never reaches a man's hands under a legal charge, should be charged with Super-tax?—That is so.

24,291. That I think is your case?—That is my case.

24,292. And I think that the cases which Mr. Pretyman and Sir Edmund Nott-Bower have referred to, and you have referred to in your cases, are by way of illustration, and it does not affect the principle of the case?—It does not affect the principle.

24,293. Mr. McIntock: May I put it to Mr. Martineau in this way: suppose instead of having an insurance policy the tenant for life says: "I will repay you the loan annually so much per annum, and I will pay the interest on my loan," do you think that repayment of the loan should be a deduction from income for Income Tax purposes?—You would be entitled to deduct your interest in the first instance.

24,294. We will take an ordinary case, and assume you borrow £1,000 from me, and I do not ask you for a life policy. I simply say: "you repay me so much per annum until you have extinguished my loan," would you suggest that you ought to get a deduction of the repayment to me from your income for taxation purposes?

24,295. Mr. Kerly: So much interest and so much off capital?—No, I do not say that.

24,296. Is there any real distinction except that you are under obligation under the contract to pay this insurance premium; is it not really a repayment of the loan?—Well, it is in effect.

24,297. It is just one method of repayment?—It is one method of repaying the loan, I agree.

24,298. Have you considered another aspect of it, that the interest which the insurance company accumulates on the premium is not treated as income at all for Super-tax purposes. Suppose the tenant for life set aside a sum and invested it annually and received interest on it, he would have to return that interest for Super-tax purposes?—Yes.

24,299. He does not have to do that if he takes out a life policy?—He has to pay his premiums to the insurance company.

24,300. He does not have to add the interest on these premiums as part of his income to determine his Super-tax?—No, that it quite true.

24,301. So he has an advantage there?—Yes.

24,302. Do you see much distinction between premium and the repayment of the loan in the ordinary way?—Yes, I do, because in the one case it is not repaid till the death, and in the other case it is repaid in his lifetime. The tenant for life of an encumbered estate probably would not repay it by instalments of capital at all.

24,303. Mr. Marks: May I suggest this, that Mr. McIntock is putting an entirely different case. Mr. Martineau's suggestion is that the man borrows on his life interest. Mr. McIntock's suggestion is that he borrows on something else, which must be his personal covenant or some other security, in which

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case I do not suppose Mr. Martineau would for a moment claim relief.

24,304. Mr. McLintock: Is there any difference for taxation purposes as to the security on which he borrows when he comes to repay the loan?

24,305. Mr. Marks: I think a distinction might be drawn—I do not say I agree with it—between a loan which is made on the life interest and a loan which is made on some other security quite independent of the life interest.

24,306. Mr. McLintock: Should all repayers of loans get a deduction from their Income Tax for the principal sum repaid from year to year, would you carry it so far as that?—No, I do not think I should carry it so far as that.

24,307. You want special treatment for tenants for life?—I think so, in this particular case. My point is, it is an annual payment which is charged on income.

24,308. All repayments of a loan from an impecunious borrower if he has only an income and has no capital must come out of the income?—That is so.

24,309. Take a professional man with no capital, but merely his earnings; out of what does he repay a loan. He has been known to borrow?—Yes.

24,310. What does he repay a loan from—income?—It may be income or it may be capital.

24,311. He has no capital?—Very well, he has to pay it out of income, that is true, but I do not think that is the point here in this particular case I am putting forward.

24,312. I agree yours is a special case, but where are you going to stop?—I should say in all cases where a tenant for life of settled estates has to

borrow money for the purpose of those settled estates, whether it is for duties or otherwise, and he has to pay interest on loans and to pay premiums in addition, those are annual payments charged on his income, and he ought to be able to deduct those payments before you arrive at what is his true and real income for the purposes of Super-tax.

24,313. Mr. Marks: May I put it to Mr. Martineau like this: is it not your case that this is a condition of things which should fall within that 37th section, and if it does not so fall owing to judicial decision then you suggest that the law should be altered to make such a payment fall within the section?—Yes, to make it quite clear.

24,314. That is the whole of your point?—Yes.

24,315. And you do not contemplate that any such payment as Mr. McLintock instances should be brought within that section?—No.

24,316. Mr. Marks: No more do I.

24,317. Sir W. Trueman: You are aware that the Crown are in the habit of allowing the deduction in the case of a covenant to pay an annual sum on her or his marriage?—Yes.

24,318. And therefore this covenant to pay the premiums seems to be very much in the same position?—Very much on the same lines.

24,319. It is very easy through the insurance companies, is it not, to deal with the question in another way, in which case the subject would get relief. Suppose that a tenant for life requires £20,000, it is very easy for him to borrow £20,000 and use £10,000 of it in paying up the whole of the premiums in advance?—That is so.

24,320. In that case, the premiums being paid in advance, he is undoubtedly entitled to treat the interest on the whole £20,000 as a deduction?—Yes.

Mr. STEWART BLACKER QUIN, F.C.A., on behalf of the Institute of Chartered Accountants in Ireland, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Memorandum submitted on behalf of the Institute of Chartered Accountants in Ireland by the President, Mr. STEWART BLACKER QUIN, F.C.A., 25, Wellington Place, Belfast.

24,321. The following memorandum is based upon:—

- the maintenance of the principle of "taxation at the source";
- the merging of Schedules C, D and E in one Schedule;
- except in the case of manual workers where the present system of quarterly assessments should be continued, the assessment of the actual income and profits of the preceding year, subject to adjustment during the transitional period as regards assessments which are at present based upon averages;
- the abandonment of the distinction between earned and unearned income; and
- the merging of the Super-tax in a graduated Income Tax.

Scope, rates and incidence of the tax.

24,322. (1) Make the standard rate 6s. 8d. in the £ for taxation at the source.

24,323. (2) Apply the tax on a graduated scale to the assessable income of every person resident in the United Kingdom, after deducting the applicable relief suggested under the heading of allowances and reliefs. For the purpose of this provision it is assumed that the preceding year will be adopted as the basis of the assessment, and that one assessment will be made upon each taxpayer in respect of his income from all sources, after making due provision for income assessed under Schedule A and income taxed at the source.

24,324. (3) The annexed scale applicable to the income of individuals is merely illustrative. The scale provides for tax being paid at the rate of 1s.

per £ on the first assessable £100, rising by sixpenny increments on each additional £100 until the assessable income reaches £1,000. The tax thereafter is to rise by threepenny increments until the assessable income reaches £2,000, after which it would rise by penny increments until the total assessable income reaches £10,400. It will be seen from the Table that this represents an effective rate of 10s. 8d. per £ on an assessable income of £10,400. It is suggested that the annexed scale, or any other scale adopted, be regarded as permanent; any fluctuations in the amount to be budgeted for to be adjusted by a percentage addition to or discount on the amount of total tax payable.

Illustration A.

Married man with two children and a total income of £850, made up as follows:—

	£	s.	d.
Income from business	600	0	0
Director's fee	25	0	0
Amount assessed under Schedule A (on the basis of the preceding year)	100	0	0
Profits of farming (measured by Schedule B)	100	0	0
Income from investments	100	0	0
	£825	0	0

Deduct—

Head rents and other charges in respect of which Income Tax will be deducted by the payer at the standard rate

	75	0	0
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Total amount of income from all sources, less charges

	£850	0	0
--	------	---	---

Deduct—

Allowance for self

" " wife	100		
" " two children	100		
	300	0	0

Net amount assessable

	£550	0	0
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[Continued.]

Tax payable on £500, per Table ...	£	s.	d.
„ on excess of £50 over £500 at 3s. 6d.	50	0	0
Total tax payable ...	58	15	0

Deduct—

Tax payable at 6s. 8d. on £500 (Schedule A and investments) less charges £75, equal to £125 at 6s. 8d.	41	13	4
Balance due on this assessment ...	£17	1	8

Illustration B.

Widow with two children and an income from investments of £300:—

Total income (all derived from investments and not subject to any charges)	£	s.	d.
	300	0	0

Deduct—

Allowance for self	...	...	£100
„ „ two children	...	...	100
			— 200 0 0

Net amount assessable ...	£100	0	0
	£	s.	d.
	5	0	0

Tax payable on £100, per Table ...	£	s.	d.
„ deducted at the source on £300 at 6s. 8d. ...	100	0	0

Amount repayable on this assessment ...	95	0	0
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Allowances and reliefs.

24,325. (4) Grant no relief in respect of Life Assurance premiums where the total income from all sources exceeds £2,500.

24,326. (5) Abolish the distinction between earned and unearned income.

24,327. (6) Let Parliament before 31st March in each year fix the subsistence allowances to be granted during the ensuing year in respect of the taxpayer, his wife, children and dependants, and let all such allowances be deducted, irrespective of the total income of the individual.

The following scale is suggested as justified by the present cost of living:—

Taxpayer (married or unmarried) ...	£
Wife (or husband, where the income is the wife's) ...	100
Child (under 16 years of age or over that age who is receiving full-time education) ...	50
Dependant ...	50

Administration.

24,328. (7) Let the assessment, collection, and repayment of Income Tax be made at the office of the Inspector in each district.

Assessment.

24,329. (8) Except in the case of manual workers, where the present system of quarterly assessments should be continued, make all assessments upon the income and profits of the preceding year, subject to adjustment during the transitional period as regards assessments which are at present based upon averages.

24,330. (9) Provide that trading losses shall be carried forward.

24,331. (10) Allow as proper charges against profits:—

- all "commercially expedient" expenses, and
- the writing down of "preliminary expenses" over a period of years.

24,332. (11) Make proper allowances out of profits for all obsolescence and depreciation of buildings, plant and machinery, and for exhaustion of mines, leases, &c., on the principle that before profits are taxed provision must be allowed for the replacement of all assets which wear out in the process of producing the profits. Such allowances to be by way of percentage on original cost, based on the probable

length of life, but the taxpayer not to be precluded from claiming extra depreciation owing to abnormal conditions, or renewals in lieu of depreciation.

24,333. (12) Incorporate Schedules C and E in D, and make a separate assessment upon each partner in respect of his or her share of partnership profits, including income from other sources as explained in (2) and (3).

24,334. (13) So far as Schedule A is concerned make the assessment at the standard rate, and grant relief either by set-off or by repayment, or by a combination of both methods—in other words, revert to the practice prior to 5th April, 1918, whereby tax was levied in full in the first instance without any statutory relief.

24,335. (14) In the case of "free of Income Tax" dividend payments provide that each dividend warrant shall show clearly on the counterfoil the equivalent gross dividend.

24,336. (15) The recipient of any income taxable at the source should have the statutory right to obtain a voucher showing the amount of gross income and the tax deducted, and it is suggested that the warrants for payment of War Loan dividends should be accompanied by a counterfoil showing the total amount of dividend, and stating whether the tax has or has not been deducted.

24,337. (16) Prohibit the payment "free of Income Tax" of directors' fees, salaries of employees, &c.

24,338. (17) Assess the untaxed interest in respect of bank and like deposits of firms or companies on the amount receivable during the trading year.

24,339. (18) Provide that where an assessment is not appealed against within the specified time it shall not be binding if it can be conclusively shown within a period of three years that there was an over-assessment.

24,340. (19) Assess Co-operative Societies.

24,341. (20) Obtain reciprocal concessions in regard to foreign and colonial Income Tax. Colonial and foreign income which has already suffered deduction of tax in the country of origin should be entered in the return in the gross amount before deduction, but from the tax payable on the net assessable income shown by the return allow the whole of the tax deducted in the country of origin, subject to the proviso that the relief to be granted shall not exceed the tax at the "effective rate" payable by the taxpayer. (See column No. 6 of scale annexed.)

24,342. (21) It should be the duty of the Inspector to see that the taxpayer obtains all the benefits to which he is entitled.

24,343. (22) The repayment of overpaid Income Tax should be expedited, and a computation showing details of the repayment should accompany every repayment order. For the purpose of repayment the income of the preceding year to be taken as the basis.

Appeal.

24,344. (23) Let all appeals lie to an independent body to be appointed by the Board of Trade, and to be called the Income Tax Appeal Commissioners.

24,345. (24) Let arrangements be made for the continuous hearing of appeals by the Income Tax Appeal Commissioners.

Collection.

24,346. (25) Demand notes should give all necessary particulars and be complete without reference to the assessment notices.

24,347. (26) Employers should not be required to act as collectors of Income Tax from wage-earners, save in the case of individual defaulters, and then only under an attachment order.

24,348. (27) The Commissioners of Inland Revenue should in all cases insist upon the production by the taxpayer of satisfactory proof, either by the submission of accounts or otherwise, as to the accuracy of the amount of income returned for direct assessment.

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ANNEXE.

SCALE REFERRED TO IN PARAGRAPH (3) OF EVIDENCE-IN-CHIEF.

(1.) On every £1 of assessable income in—	(2.) Rate per £.	(3.) Tax payable on applicable £100.	(4.) Total assessable income, i.e., after deducting allowable allowances.	(5.) Total tax payable.	(6.) Effective rate per £1 of assessable income (to nearest penny).	(7.) Existing rates where the "total" income is the amount shown in the fourth column (see note at end).		(8.)
						Earned.	Unearned.	
1st £100 ...	1 0	7 10 0	100 0 0	5 0 0	1 0	2 3	3 0	3 0
2nd £100 ...	1 6	7 10 0	200 0 0	12 10 0	1 3	2 3	3 0	3 0
3rd £100 ...	2 0	10 0 0	300 0 0	22 10 0	1 6	2 3	3 0	3 0
4th £100 ...	2 6	12 10 0	400 0 0	35 0 0	1 9	2 3	3 0	3 0
5th £100 ...	3 0	15 0 0	500 0 0	50 0 0	2 0	2 3	3 0	3 0
6th £100 ...	3 6	17 10 0	600 0 0	67 10 0	2 3	3 0	3 0	3 0
7th £100 ...	4 0	20 0 0	700 0 0	87 10 0	2 6	3 0	3 0	3 0
8th £100 ...	4 6	22 10 0	800 0 0	110 0 0	2 9	3 0	3 0	3 0
9th £100 ...	5 0	25 0 0	900 0 0	135 0 0	3 0	3 0	3 0	3 0
10th £100 ...	5 6	27 10 0	1,000 0 0	162 10 0	3 3	3 0	3 0	3 0
11th £100 ...	6 0	28 10 0	1,100 0 0	191 5 0	3 6	3 0	3 0	3 0
12th £100 ...	6 6	30 0 0	1,200 0 0	221 5 0	3 11	3 0	3 0	3 0
13th £100 ...	6 3	31 8 0	1,300 0 0	252 10 0	4 1	3 0	3 0	3 0
14th £100 ...	6 6	32 10 0	1,400 0 0	285 0 0	4 3	3 0	3 0	3 0
15th £100 ...	6 8	33 10 0	1,500 0 0	318 15 0	4 5	4 6	5 8	4 6
16th £100 ...	7 0	35 0 0	1,600 0 0	353 15 0	4 7	4 6	5 8	4 6
17th £100 ...	7 3	35 5 0	1,700 0 0	390 0 0	4 9	4 6	5 8	4 6
18th £100 ...	7 6	37 10 0	1,800 0 0	427 10 0	4 11	4 6	5 8	4 6
19th £100 ...	7 9	38 15 0	1,900 0 0	466 5 0	5 1	4 6	5 8	4 6
20th £100 ...	8 0	40 0 0	2,000 0 0	506 5 0	5 2	5 3	6 0	5 3
21st £100 ...	8 1	40 8 4	2,100 0 0	546 18 4	5 4	5 3	6 0	5 3
22nd £100 ...	8 2	40 16 8	2,200 0 0	587 10 0	5 6	5 3	6 0	5 3
23rd £100 ...	8 3	41 5 0	2,300 0 0	628 15 0	5 7	5 3	6 0	5 3
24th £100 ...	8 4	41 13 4	2,400 0 0	670 8 4	5 8	5 3	6 0	5 3
25th £100 ...	8 5	42 1 8	2,500 0 0	712 10 0	5 8	5 3	6 0	5 3
26th £100 ...	8 6	42 10 0	2,600 0 0	755 0 0	6 10	Income Tax.	Super tax.	0 3
27th £100 ...	8 7	42 18 4	2,700 0 0	797 18 4	6 11	6 0	0 4	0 4
28th £100 ...	8 8	43 6 8	2,800 0 0	841 5 0	6 0	6 0	0 4	0 4
29th £100 ...	8 9	43 15 0	2,900 0 0	885 0 0	6 1	6 0	0 5	0 5
30th £100 ...	9 0	44 3 4	3,000 0 0	929 3 4	6 2	6 0	0 6	0 6
31st £100 ...	9 1	44 11 8	3,100 0 0	973 15 0	6 3	6 0	0 6	0 6
32nd £100 ...	9 2	45 0 0	3,200 0 0	1,018 15 0	6 4	6 0	0 6	0 6
33rd £100 ...	9 3	45 8 4	3,300 0 0	1,064 3 4	6 5	6 0	0 7	0 7
34th £100 ...	9 4	45 16 8	3,400 0 0	1,110 0 0	6 6	6 0	0 8	0 8
35th £100 ...	9 5	46 5 0	3,500 0 0	1,156 5 0	6 7	6 0	0 8	0 8
36th £100 ...	9 6	46 13 4	3,600 0 0	1,203 18 4	6 8	6 0	0 9	0 9
37th £100 ...	9 7	47 1 8	3,700 0 0	1,250 0 0	6 9	6 0	0 9	0 9
38th £100 ...	9 8	47 10 0	3,800 0 0	1,297 10 0	6 10	6 0	0 9	0 9
39th £100 ...	9 9	47 18 4	3,900 0 0	1,345 8 4	6 11	6 0	0 9	0 9
40th £100 ...	9 8	48 6 8	4,000 0 0	1,393 15 0	7 0	6 0	0 10	0 10
41st £100 ...	9 9	48 15 0	4,100 0 0	1,442 10 0	7 0	6 0	0 11	0 11
42nd £100 ...	8 10	49 3 4	4,200 0 0	1,491 13 4	7 1	6 0	0 11	0 11
43rd £100 ...	9 11	49 11 8	4,300 0 0	1,541 5 0	7 2	6 0	0 11	0 11
44th £100 ...	10 0	50 0 0	4,400 0 0	1,591 5 0	7 3	6 0	1 0	1 0
45th £100 ...	10 1	50 8 4	4,500 0 0	1,641 13 4	7 4	6 0	1 0	1 0
46th £100 ...	10 2	50 16 8	4,600 0 0	1,692 10 0	7 5	6 0	1 1	1 1
47th £100 ...	10 3	51 5 0	4,700 0 0	1,743 15 0	7 6	6 0	1 1	1 1
48th £100 ...	10 4	51 13 4	4,800 0 0	1,795 8 4	7 6	6 0	1 1	1 1
49th £100 ...	10 6	52 1 8	4,900 0 0	1,847 10 0	7 7	6 0	1 2	1 2
50th £100 ...	10 6	52 10 0	5,000 0 0	1,900 0 0	7 8	6 0	1 2	1 2
51st £100 ...	10 7	52 18 4	5,100 0 0	1,953 18 4	7 9	6 0	1 3	1 3
52nd £100 ...	10 8	53 6 8	5,200 0 0	2,006 5 0	7 9	6 0	1 3	1 3
53rd £100 ...	10 9	53 15 0	5,300 0 0	2,060 0 0	7 10	6 0	1 4	1 4
54th £100 ...	10 10	54 3 4	5,400 0 0	2,114 3 4	7 11	6 0	1 4	1 4
55th £100 ...	10 11	54 11 8	5,500 0 0	2,168 15 0	7 11	6 0	1 4	1 4
56th £100 ...	11 0	55 0 0	5,600 0 0	2,223 15 0	7 11	6 0	1 5	1 5
57th £100 ...	11 1	55 8 4	5,700 0 0	2,278 3 4	8 0	6 0	1 5	1 5
58th £100 ...	11 2	55 16 8	5,800 0 0	2,333 5 0	8 1	6 0	1 5	1 5
59th £100 ...	11 3	56 5 0	5,900 0 0	2,389 5 0	8 1	6 0	1 5	1 5
60th £100 ...	11 4	56 13 4	6,000 0 0	2,447 18 4	8 2	6 0	1 5	1 5
61st £100 ...	11 5	57 1 8	6,100 0 0	2,505 0 0	8 3	6 0	1 5	1 5
62nd £100 ...	11 6	57 10 0	6,200 0 0	2,563 10 0	8 3	6 0	1 5	1 5
63rd £100 ...	11 7	57 18 4	6,300 0 0	2,620 8 4	8 4	6 0	1 5	1 5
64th £100 ...	11 8	58 6 8	6,400 0 0	2,678 15 0	8 5	6 0	1 5	1 5
65th £100 ...	11 9	58 15 0	6,500 0 0	2,737 10 0	8 5	6 0	1 5	1 5
66th £100 ...	11 10	59 3 4	6,600 0 0	2,796 13 4	8 6	6 0	1 5	1 5
67th £100 ...	11 11	60 0 0	6,700 0 0	2,856 5 0	8 6	6 0	1 5	1 5
68th £100 ...	12 0	60 8 4	6,800 0 0	2,916 5 0	8 7	6 0	1 5	1 5
69th £100 ...	12 1	60 16 8	6,900 0 0	2,976 13 4	8 8	6 0	1 5	1 5
70th £100 ...	12 2	61 5 0	7,000 0 0	3,037 10 0	8 8	6 0	1 5	1 5
71st £100 ...	12 3	61 13 4	7,100 0 0	3,098 15 0	8 9	6 0	1 5	1 5
72nd £100 ...	12 4	61 21 8	7,200 0 0	3,160 8 4	8 10	6 0	1 5	1 5
73rd £100 ...	12 5	62 1 8	7,300 0 0	3,222 0 0	8 11	6 0	1 5	1 5
74th £100 ...	12 6	62 10 0	7,400 0 0	3,284 18 4	8 11	6 0	1 5	1 5
75th £100 ...	12 7	62 18 4	7,500 0 0	3,347 18 4	9 0	6 0	1 5	1 5
76th £100 ...	12 8	63 6 8	7,600 0 0	3,411 5 0	9 0	6 0	1 5	1 5
77th £100 ...	12 9	63 15 0	7,700 0 0	3,475 0 0	9 0	6 0	1 5	1 5

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[Continued.]

(1.) On every £1 of assessable income in—	(2.) Rate per £.	(3.) Tax payable on applicable £100.	(4.) Total assessable income, i.e., after deducting applicable allowances.	(5.) Total tax payable.	(6.) Effective rate per £1 of assessable income (in nearest penny).	(7.) Existing rates where the "total" income is the amount shown in the fourth column (see note at end).	(8.) Super-tax.
						Income Tax.	Super-tax.
78th £100 ...	12 10	54 3 4	7,800 0 0	3,639 3 4	9 1	6 0	1 11
79th £100 ...	12 11	54 11 8	7,900 0 0	3,668 15 0	9 1	6 0	1 11
80th £100 ...	13 0	55 0 0	8,000 0 0	3,698 0 0	9 2	6 0	2 0
81st £100 ...	13 1	55 8 4	8,100 0 0	3,728 3 4	9 2	6 0	2 0
82nd £100 ...	13 2	55 16 8	8,200 0 0	3,758 6 0	9 3	6 0	2 0
83rd £100 ...	13 3	56 0 0	8,300 0 0	3,788 0 0	9 3	6 0	2 0
84th £100 ...	13 4	56 8 4	8,400 0 0	3,818 3 4	9 4	6 0	2 1
85th £100 ...	13 5	56 16 8	8,500 0 0	3,848 6 0	9 4	6 0	2 1
86th £100 ...	13 6	57 0 0	8,600 0 0	3,878 0 0	9 5	6 0	2 1
87th £100 ...	13 7	57 8 4	8,700 0 0	3,908 3 4	9 5	6 0	2 1
88th £100 ...	13 8	57 16 8	8,800 0 0	3,938 6 0	9 6	6 0	2 2
89th £100 ...	13 9	58 0 0	8,900 0 0	3,968 0 0	9 6	6 0	2 2
90th £100 ...	13 10	58 8 4	9,000 0 0	3,998 3 4	9 7	6 0	2 2
91st £100 ...	13 11	59 0 0	9,100 0 0	4,028 0 0	9 7	6 0	2 2
92nd £100 ...	14 0	59 8 4	9,200 0 0	4,058 3 4	9 8	6 0	2 3
93rd £100 ...	14 1	60 0 0	9,300 0 0	4,088 0 0	9 8	6 0	2 3
94th £100 ...	14 2	60 8 4	9,400 0 0	4,118 3 4	9 9	6 0	2 3
95th £100 ...	14 3	61 0 0	9,500 0 0	4,148 0 0	9 10	6 0	2 3
96th £100 ...	14 4	61 8 4	9,600 0 0	4,178 3 4	9 11	6 0	2 3
97th £100 ...	14 5	62 0 0	9,700 0 0	4,208 0 0	9 11	6 0	2 4
98th £100 ...	14 6	62 8 4	9,800 0 0	4,238 3 4	10 0	6 0	2 4
99th £100 ...	14 7	63 0 0	9,900 0 0	4,268 0 0	10 0	6 0	2 4
100th £100 ...	14 8	63 8 4	10,000 0 0	4,298 3 4	10 1	6 0	2 4
101st £100 ...	14 9	64 0 0	10,100 0 0	4,328 0 0	10 1	6 0	2 5
102nd £100 ...	14 10	64 8 4	10,200 0 0	4,358 3 4	10 2	6 0	2 5
103rd £100 ...	14 11	65 0 0	10,300 0 0	4,388 0 0	10 3	6 0	2 5
104th £100 ...	15 0	65 8 4	10,400 0 0	4,418 3 4	10 3	6 0	2 5

13—In the £ on every £1 of assessable income over £10,400.

NOTE on columns, Nos. 7 and 8.

The rates shown in these columns are the rates applicable to "total" income, i.e., the income before deducting applicable allowances and reliefs.

[This concludes the evidence-in-chief.]

24,350. *Chairman:* Mr. Quin, I do not know how many times you have been before the Commission?—Once before, my lord.

24,351. And I have seen you before that?—Yes, we have met before.

24,352. We will commence at once with the examination of your paper?—I wish to say, as a preliminary, that the paper now before the Commission is based upon inquiries that have been made amongst the members of the Institute of Chartered Accountants in Ireland, and it is the agreed outcome of a joint committee consisting of an equal number of Dublin chartered accountants and Belfast chartered accountants, and that they have done me the honour to ask me to present it to the Commission. If you thought it would save time, I could make a statement explaining the various items, which perhaps might anticipate questions.

24,353. If you wish. We usually begin with questions, but you are what we describe as an expert witness, and you will not unduly prolong your statements, as some unfortunately do, till they become speeches?—If you thought it would save time, I would go briefly through the paper.

24,354. If you please?—We begin by certain notes.

(a) the maintenance of the principle of "taxation at the source." Taxation at the source should be continued, for the reason that that forms a convenient method of collecting tax in bulk, the machinery is already established, and the procedure is familiar to company officials and others. Any departure from this principle will probably involve more labour on the part of company officials in making out returns of dividends paid, and furnishing the same to the Inland Revenue, than the work involved under the present procedure. Also the public is familiar with the present procedure. I was asked by the committee to express regret that any differentiation was made in regard to War Loan interest, as it leads to considerable confusion in making returns and in preparing claims for repayment. Then in regard to note (b) the merging of Schedules C, D, and E in one Schedule. I might here inter-

ject that owing to the late stage at which we appear before the Commission, a great many of our recommendations, if not all, I am afraid, are already covered by evidence submitted to the Commission.

24,355. That is so?—With regard to note (b), one reason for recommending the merging of these three Schedules into one, is based on the recommendation that the preceding year should be taken for the basis of assessment. The fact that Schedule D is based on an average of years, and Schedule E is based on only one year, renders it necessary to have separate Schedules as at present. But with the adoption of the preceding year, there is no further necessity for the distinction.

24,356. Then with regard to note (c), I may remind the Commission that I have already given evidence on behalf of the Associated Chambers of Commerce on the subject of adopting the preceding year instead of the three years. The note here refers to an adjustment during the transitional period. It is suggested that there will be a transitional period of two years in which the taxpayer should have the option, either to have his profits assessed on the basis of the preceding year or on the average of the three preceding years, and then at the end of two years the average system should automatically cease. An alternative suggestion that has been made is that the transitional period should be two years, in the first of which the taxpayer should have the option of being assessed on the actual profits of the preceding year, or on the average of the three years; and in the second transitional year that he should have the option of the preceding year or the average of two years. The following year he would then be automatically assessed on his profits for the preceding year.

24,357. Then in regard to note (d), our reason for proposing to abandon the distinction between earned and unearned income is that we are suggesting the adoption of a graduated scale of a more or less permanent nature that will give relief to smaller incomes. Except for the granting of relief for smaller incomes, we see no reason for the present distinction. Under

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[Continued.]

present conditions of living, the distinction of 9d. in the £, which operates in favour of the earned income, is met by the increased bonuses and rise in wages and salaries to the recipients of earned income, whereas the widows and people of small means who are dependent upon incomes derived from investments, have no such means of meeting the increased cost of living.

24,358. Then in regard to note (c), the merging of the Super-tax in a graduated Income Tax, according to the scale suggested by the Institute, by way of illustration, it will be seen that the graduation is of such a nature as to obviate the necessity for separate returns of assessment for Income Tax and Super-tax; and it is submitted that such merging would mean simplification in the matter of returns and of assessments, and would tend to economy in administration, not only in the Inland Revenue Department, but in the case of the taxpayers. It is also suggested that the merging would obviate a considerable amount of inconvenience and irritation caused to taxpayers, as at present, by having to complete two sets of forms for what, after all, may be regarded as one income and one tax.

24,359. Then in regard to paragraph 1: if taxation at the source is to be continued, as we advocate that it should, and Income Tax and Super-tax are merged and a graduated scale adopted therefor, the fixing of a standard rate for purposes of taxation at source will be necessary; and inasmuch as the present maximum rate is 6s., it is suggested that the rate should be fixed at say, 6s. 8d., as a convenient figure for calculation. If this is considered too high, we suggest, as an alternative, a 5s. rate. For the present it is suggested that this standard rate should be permanent but a new standard rate could be fixed from time to time, in accordance with the requirements of the Budget. I have really nothing to say in regard to paragraph 2. I think it is self-explanatory.

24,360. Paragraph 3 relates to the suggested graduated scale. I would like to say that objection may be raised as to the steps suggested, on the ground that the smaller income has a steeper step than the larger income. But these steps really apply both to small and large incomes. The cumulative effect of these steps is so great on the larger incomes, that if they were to be made any heavier in the latter case, the income would be entirely wiped out.

24,361. Chairman: That is in your scale at the end of your evidence-in-chief. I notice a very strong figure at the end—15s. in the £?—Yes. We are only putting this forward purely by way of illustration.

24,362. Professor Pigou: Would you jump to 15s. straight off, after £10,000?—No: it is 14s. 11d., 14s. 10d., 14s. 9d.; it is graduated throughout.

24,363. Mr. Marks: In the footnote, you say: "15s. in the £ on every £1 of assessable income over £10,400." You mean you have led gradually up to that?—We have.

24,364. And it would remain at 15s.?—Yes. It will be observed that the steps in the lower part of the scale are at the rate of 6d., and in the higher part of 3d., graduated to 1d. Of course if the 6d. step were retained right through, at the end of 40 steps the income would be entirely confiscated. The scale, if adopted, would become permanent, and fluctuations in the amount to be budgeted for would be made by a percentage addition or deduction from the net assessment. That is our suggestion.

24,365. Then in regard to paragraph 4, the limit of £2,500 mentioned is an arbitrary figure suggested by the present earned income limit and the point at which Super-tax begins. It is suggested that the present system of allowing Life Assurance up to one-sixth of the income, however large, is not equitable. It induces men with large incomes to take out Life Assurance policies for the very purpose of defeating the Revenue, and, on the other hand, the struggling man, who is a bad life, is unable to insure, and he is therefore penalized by having to pay a greater tax by reason of not getting relief for Life Assurance, and is in effect contributing towards the other man's abatement, although having regard to his ill-health and probable early death, he is really, equitably more entitled to relief, so as to make some provision for

his family. We are aware that the argument is advanced in favour of the continuance of Life Assurance allowance on the ground that it tends to promote thrift, and is therefore in the interests of the State. But this argument only applies to the smaller taxpayers. In order to afford relief to the uninsurable life, it is suggested that a certain allowance might be made in the form of an investment in War Savings Certificates. I have already dealt with paragraph 5 in the preliminary notes.

24,366. Then in regard to paragraph 6, the fixing of subsistence allowances, a good deal of evidence has already been given before the Royal Commission on this proposal, and I do not think that I have anything further to add to it.

24,367. Then paragraph 7; it is submitted that this suggestion will tend to simplification and economy in administration. Where possible, in large cities the Income Tax officers for each district should be grouped together in a central position.

24,368. Paragraph 8 deals with the abolition of the average system and the adoption of the preceding year, on which I have already spoken; but we make an exception in the case of manual workers, where the present system of quarterly assessments, we suggest, should be continued.

24,369. Chairman: With regard to paragraph 11, we have had a great deal of evidence?—Yes. Paragraph 9 really is part of the proposal to abolish the average and assess on the preceding year. Our proposal is that where there is a loss, if this system were adopted, the loss should be carried forward until made good out of subsequent profits. Then in regard to paragraph 10: "Allow as proper charges against profits:—(a) all 'commercially expedient' expenses." By "commercially expedient" expenses, I mean all expenses incurred that are productive of revenue and tend to produce revenue as distinct from capital expenditure.

24,370. You will probably be examined on that.—Then with regard to "preliminary expenses," referred to in note (b). What is meant by that is the cost of incorporating a company. It is held by business men that the preliminary expenses incurred in connection with the formation of a company, should be chargeable against the revenue of the business, spread over a period, say, of five years. Then I come to paragraph 11.

24,371. You need not develop that.—I was going to say we agree with the evidence of the Associated Chambers of Commerce already given before the Commission. Paragraph 12 I have already dealt with. As regards paragraph 13 we say that this proposal will obviate a great deal of trouble to the Inland Revenue officials, as the present method of attempting to charge Schedule A tax at the appropriate rate for the individual income, often necessitates an adjustment at the end of the year, when the actual income is ascertained. Then on paragraphs 14 and 15, I have really nothing to say; the proposals as printed, speak for themselves.

Then paragraph 16; the reason for this proposal is that the practice of paying remuneration "free of Income Tax" tends to considerable confusion in the making of returns for assessment, having regard to the necessity of adding a tax paid in the previous year to the current year's assessment in order to find the year's true taxable income. Paragraph 17 is not a very material proposal. The main object of it is that interest accruing during the year should be assessed at the appropriate rate for the year. Paragraph 18, I think, is self-explanatory. Paragraph 19 is rather a thorny question, and I will just say that we agree with the evidence given on behalf of the Associated Chambers of Commerce. Then paragraph 20; we also agree with the evidence given, I think it was, by Sir Algernon Firth, on behalf of the Chambers of Commerce. Paragraph 21, I think, explains itself, and paragraphs 22 and 23 I need not elaborate.

Then I come to paragraph 24. This proposal would greatly benefit taxpayers, and particularly account-

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ants, who could deal with appeals as they arise, instead of having an accumulation to be dealt with in a short period of time. We propose that there should be a continuous tribunal for the hearing of appeals.

24,372. Do you think it is a wise plan to have accountants as Commissioners?—Accountants certainly would be well qualified.

24,373. That is your view?—Yes. Then with regard to paragraph 25, that is a proposal that really affects accountants more than any others. The practice is that they verify an assessment and return it to the client, who subsequently sends the demand note for verification also, and frequently cannot find the assessment, or gives considerable trouble in having it looked up. This is only a minor suggestion. Then in regard to paragraph 26, we agree with the recommendation of the Associated Chambers of Commerce. With regard to paragraph 27, which is the final one, I think what is meant by it is that accounts should be produced in the case of all trading concerns.

24,374. Mr. May: Lord Colwyn has asked you whether you think accountants should find a place amongst your Appeal Commissioners. It would be rather unlikely that you would deny that suggestion?—It is a suggestion that has not been considered by the committee.

24,375. A suggestion that has been made is that these Commissioners should be drawn wholly from the ranks of the legal profession. What would you say to that, from the point of view of the accountant?—I think that the accountants have really a very great practical knowledge of the administration of Income Tax procedure, and I think they would be well qualified to act on such a body.

24,376. You do not think that they could necessarily fulfil all their functions in the witness box or in appearing for their clients before the Commissioners?—I do not say that all the wisdom and experience is centred in accountants.

24,377. Would you, on the other hand, think that the whole of the wisdom that was necessary for the hearing of these appeals, was centred in the lawyer?—No, I do not think so. I think that accountants are really more in touch with the Income Tax practice than lawyers.

24,378. Have you any idea or suggestions to make as to how you think your body of Appeal Commissioners should be composed?—I think a satisfactory tribunal would be a tribunal composed of, say, experienced civil servants and the legal profession and accountants.

24,379. Chairmen: And commercial men?—Yes, and commercial men.

24,380. Mr. May: You do not think there would be anything necessarily derogatory to their decision or to their impartiality in having either accountants or representatives of the Board of Inland Revenue?—No.

24,381. On paragraph 19: I am not going to tremble you very much about that, and I do not know that I would at all, only you put it so delightfully briefly. Do you not think you have sacrificed something by putting it so briefly?—Well, I do not know. That is the outcome of the consideration of the committee; they put it in that way. I understand that their idea is that the large turnover of Co-operative Societies should bear some contribution to the expenses of the State, just the same as other trading concerns.

24,382. Would you think it unfair if I were to suggest, seeing that this comes from Belfast, that it is on the principle: "if you see a head, hit it"?—Pardon me; it does not come from Belfast.

24,383. Well, from Ireland?—Yes, from Ireland.

24,384. That it is on the principle: "if you see a head, hit it"?—Oh, no. We would not like to hit the head of a friend.

24,385. And you agree that Co-operative Societies are your friends?—Yes; I am sure they discharge a very useful function.

24,386. From what point of view do the accountants approach this question? You say that you endorse

the evidence that has been given on behalf of the British Association of Chambers of Commerce?—Yes.

24,387. Now their position is intelligible, because the Co-operative Societies are their rivals in trade; but so far from being your rivals, I suggest to you that very often they are your best friends, because they pay cash?—The Institute of Chartered Accountants in Ireland really represents the commerce of the country.

24,388. Accountants do?—Yes; their clientele is almost entirely made up of the commercial concerns of the country.

24,389. You suggest, then, that it is out of deference to their clientele and in order to support the interests of their clientele that this is put forward. Is that it?—No, I do not say it is put forward in that way. The point the committee felt was that they were bound to represent their convictions. I had not the privilege of sitting with the committee—I was unable to do so, but I understand their feeling was just as I have stated, that the large trade conducted by Co-operative Societies should bear a proportion of the expenses of the State, just in the same way as other commercial concerns do.

24,390. You have not thought out how it should be applied, or whether it should be applied any differently to other traders?—No. They wished me to make that suggestion for the consideration of the Commission.

24,391. So that it is just a bald and general statement?—Quite right.

24,392. And leaves out of account the fact that already every one of them is assessed?—They are not assessed, except—

24,393. So long as there is an exception, that is my point. You make the bald statement that they should be assessed. I suggest to you that they are already assessed?—This is in regard to their trading.

24,394. Mr. Holland-Martin: This memorandum is presented on behalf of the Institute of Chartered Accountants in Ireland, and it is, I take it, a majority report of a committee?—No, it is an agreed report of a committee—a committee consisting of an equal number of Dublin chartered accountants and Belfast chartered accountants, and they have agreed upon these recommendations.

24,395. Was it submitted to the Institute as a whole, too?—Yes. A questionnaire was issued, and the finding of the committee was really based on the answers to the questionnaire.

24,396. In paragraph 1, you make the standard rate 6s. 8d. in the £. You said you were willing that it might be taken at 6s. 2?—Yes; that is only a suggestion.

24,397. If you put it as high as that, when would you make the repayment? Because it would hit certain people very hard, would it not?—If you turn to the illustrations we have suggested, you will see the way we work out one or two cases of supposed incomes.

24,398. What I mean is this. When would you allow anyone to claim? Would it be quarterly? If you put a high standard at the beginning, would you allow payments to be made half-yearly?—Half-yearly was the idea.

24,399. Then in paragraph 10: "commercially expedient expenses"; that is very wide?—Yes. It just occurred to me that the readiness with which they adopted this term perhaps was inspired by the fact that they would not have to interpret it. They left it to somebody else to interpret. The best interpretation that I can give is, I think, the one that I have stated—that what is meant by "commercially expedient expenses" is expenses incurred that are productive of revenue or tend to produce revenue, as distinct from capital expenditure. I think what they had in their mind was such items as subscriptions to trade associations.

24,400. It covers subscriptions to trade associations, does it?—Yes, it would.

24,401. Up to any amount?—Up to a reasonable amount.

24,402. Because some of the subscriptions are very large indeed?—Yes; but my experience of those associations in which large subscriptions are paid is that we have an arrangement with the Inland

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Revenue. There is an agreement entered into by which the accounts of the organisations are furnished to the Inland Revenue, showing the detailed payments, and then they deal with the organisation to assess on the surplus. I have had personal experience of that class of arrangement, and it works quite satisfactorily.

24,403. Then in paragraph 16, payment "free of Income Tax," directors' fees, salaries of employees, &c.; do you include dividends? A practice has arisen very largely now of paying certain dividends "free of tax"?—No; we are not in favour of that. It would be more simple if tax were deducted from dividends, or at all events, evidence given on the counterfoils showing the equivalent.

24,404. You would be satisfied, in those cases, if the details were worked out on the counterfoils?—Yes, I think we would.

24,405. Sir W. Trouer: With regard to Income Tax at 15s., which you put on the larger incomes, have you considered that question from the point of view of the development of trade?—I am unable to say that the committee have, really. I assume what you are referring to is that large savings go to expand trade. I have no instructions from the committee on that.

24,406. You have not considered it from that point of view? I put it to you that the savings in trade of one year, in the larger businesses, are required to develop renewals and extensions of trade?—I am not prepared to go the length of saying that the extension of trade entirely depends upon that.

24,407. Does it not depend a great deal on the savings of one year?—Yes.

24,408. Are they not in a large degree employed in the extension of trade, in renewals and repairs?—I dare say they are.

24,409. Do you seriously think that a margin of 5s. is sufficient to enable a man in trade to live and also to extend the trade?—I understand the view of the committee is that, having regard to the present high taxation, and the necessity for it, large incomes should contribute largely in proportion.

24,410. That is not my point. My point is, will it not cripple trade?—I would not go the length of saying that it would cripple trade.

24,411. However, you have not considered that question?—No.

24,412. Mr. Prettymas: On that point of the 15s. Income Tax, is that a considered figure that you think might be paid, or is it merely an illustration without any meaning?—It is only put forward as an illustration. The scale printed here, we say, is only put forward as an illustration.

24,413. Then it does not mean that you are of opinion that a 15s. Income Tax is a thinkable thing, or would be economically sound. Does it or does it not mean that?—Yes, it does mean that.

24,414. That means that you think a tax might reasonably be imposed on that basis?—Yes, for large incomes.

24,415. Have you in mind, when you suggest that, that the 15s. rate is calculated not on the basis of only actually receivable income but also on many items in such an income as you have put here of £10,000 a year, which are really outgoings and not income, such as the house in which a man lives and other matters on which he is assessed as income but which do not produce anything from which he can pay the Income Tax, and that therefore a rate of 15s. is in fact a very much higher rate when it comes to be regarded in reference to the money or actual income available to pay it. Have you also in mind that this is only one tax of other taxes which are also imposed, and that Death Duties were imposed by the State on the basis of deferred Income Tax, and they exceed 5s. in the £ on an income of £10,000?—I quite admit that I do not think the committee in drawing up this table had any reference to Death Duties. They have only dealt with Income Tax.

24,416. Is the subject who pays tax in that happy position that he can pay Income Tax and ignore

Death Duties?—The Income Tax is assessed on income on his revenue; the Death Duty is assessed on his estate.

24,417. Where does the income come from; does it not come from the estate?—It does, certainly.

24,418. Does it make much difference which it is assessed on, whether it is assessed on income or on estate? Can a man who has got to pay Income Tax ignore Death Duty?—No; I do not think the Commission in making its recommendations should in fixing any scale ignore the question of Death Duties.

24,419. But you did ignore it?—I do not think the committee had it in mind when they were drawing up this scale.

24,420. Therefore that really reduces its value, does it not?—Possibly, but of course I always want to make it clear that this scale is intended to help the Commission; it is a suggestion by way of illustration and we make that clear.

24,421. I asked you that. If you have merely put it forward as an illustration there is no more to be said; but I asked you whether you put it forward because it was your definite opinion that a tax up to that figure might reasonably be imposed, and you said it was?—I will not go the length of saying that. We have made it clear throughout our printed document that this scale is only put forward by way of illustration.

24,422. Then you do not wish to say that now?—I think I have made it clear that in any finding of the Commission, in fixing an ascending scale of Income Tax, they should bear in mind also the question of Death Duties.

24,423. And that your committee, when they put this figure down, had not had that in their minds?—I do not think they had.

24,424. Then on quite a different point altogether, I see that in your paragraph 13 you refer to Schedule A assessments?—Yes.

24,425. And you also incidentally mention in the earlier part of your paper Schedule B assessments—I think I saw that somewhere?—Schedules C, D and E are referred to in paragraph 12.

24,426. Schedule B assessments are based upon Schedule A, are they not?—Yes.

24,427. Have you had any experience at all, as an accountant, in dealing with assessments in Ireland on Schedules A and B?—Very little.

24,428. Have you had any?—Practically none.

24,429. Chairman: When you ask a man at what point he thinks that a larger amount should be paid by way of Income Tax his answer generally comes just at that point above his own income?—Yes.

24,430. I was wondering whether the accountants who drew up this scheme were influenced by any feeling of that kind, which brought it to £10,000?—No, I do not think they were actuated by anything of that kind—that is, that they had a personal view in putting that forward.

24,431. I was only wondering whether the limit was of that nature?—No, I do not think so.

24,432. Professor Pigou: Is there not a misunderstanding owing to the way in which this note is put? The note says: "15s. in the £ on every £1 of assessable income over £10,400." Surely what you mean is 15s. in the £ for every pound over £10,400?—Yes, that is right.

24,433. Chairman: It would not be 15s. on the whole?—No.

24,434. Mr. Kerly: The effective rate is shown in a separate column.

24,435. Chairman: It is 14s. on an income of £50,000 a year.

24,436. Professor Pigou: The misunderstanding comes from putting the sentence the wrong way round.

24,437. Mr. Kerly: You in fact apply the Super-tax method of giving every £100, or whatever the figure may be, 15s. appropriate tax?—Yes.

24,438. If it is the 25th £100 it has a different rate to the 24th £100?—Quite right.

24,439. If I may say so, that seems to be a method that has very much to commend it. It is simple.

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You will probably agree, at any rate, after what has been said to you, that there is somewhere a figure at which, in the national interest, further advances should stop?—Yes, I agree.

24,440. Do doubt you appreciate that if you were going to allow the cumulative, effective rate to go on increasing, before you get to the point where you take the whole income, having arrived at 20s. in the £, you would have arrived at a point where it is, first, not worth while for a man to continue to make more income?—Quite right.

24,441. Secondly, where you will be preventing his accumulating what would pay Death Duties: and, thirdly, you would be removing his means of extending his business?—Yes.

24,442. For those reasons there probably is an upper limit to which you can safely go?—Quite right.

24,443. Now will you turn to paragraph 2 of your paper. You say your standard rate should apply on a graduated scale to the assessable income of every person resident in the kingdom. Do I understand you to mean that you would not tax non-residents at all, or that you would tax them on some other scale? Or had you not that in mind at all?—I do not think the committee had that in mind.

24,444. Then it is: "every person paying tax," you mean?—Yes.

24,445. Now go to your third paragraph, where you deal with your scale. Have you worked out the cost of your scale of graduation, as contrasted with the scale at present in force?—The scale itself shows the comparison in rates.

24,446. Pardon me; it does not apply to the actual incomes?—No.

24,447. The material exists, but you have not done it?—We have not done it.

24,448. Now paragraph 4, "allowances and reliefs," £100 for the spouse, as I will call it. Would you carry these allowances right through, regardless of the total income?—Yes.

24,449. "Commercially expedient expenses." That, of course, is too vague a phrase?—I am afraid it is.

24,450. Is this your own alternative suggestion: expenses actually made with a view to producing or maintaining revenue, as distinguished from capital payments?—Yes.

24,451. I think, if you will just consider two or three examples, you will find you are leaving a very uncertain guide to the Assessor. What about mine sinking? Is that a capital payment, or is it directed to maintain or produce income?—I have no experience of mines.

24,452. Very well; take the purchase of new machinery beyond expended machinery?—The purchase of new machinery would distinctly be a capital charge, over and above existing plant.

24,453. But if a man is buying new machinery, in addition to the plant he already has, he buys it with the sole purpose of producing revenue, does he not?—He does.

24,454. Would you regard that as capital expenditure?—Yes.

24,455. Where he puts in better machinery, more expensive machinery, is that capital?—No; that would come under the heading of obsolescence—the difference between his old plant and the new, and would be charged to revenue.

24,456. It would depend, would it not; he may be driven, by the operations of his competitors, to employ new and more expensive machinery, in order to maintain the same income. Is that capital, or is it income?—That would be revenue. That is what we claim. From the fact that his old machinery is obsolete he should be entitled to charge the difference of the cost of the old machinery and the new machinery against revenue.

24,457. So that you have to look at the whole circumstances of the trade in determining whether the expenditure is to be treated as capital or income?—Yes.

24,458. You will not satisfy the trader if you deal with that matter in that way, any more than on the present basis, will you? He will always think that an expenditure that he makes out of income for the purposes of his trade ought to be wholly allowed?—I have drawn a distinction. I would not allow any expenditure of a capital nature. I quite admit that "commercially expedient" is a rather vague term, and I have tried to interpret it.

24,459. We should be greatly assisted if anyone could favour us with a really workable definition of this matter. If you can, on thinking it over, make a suggestion, and forward it, we should be very glad to consider it. Now one other matter. Will you turn to paragraph 23, "Appeal"? You suggest the new Appeal Commissioners should be nominated by the Board of Trade. You mean the Board of Trade, deliberately, instead of the Inland Revenue Commissioners?—Yes; that is what was in the mind of the committee.

24,460. For what reason?—They thought the Board of Trade would probably be more independent.

24,461. How are they to get at the panel from which they are to select the names? The Inland Revenue know the people who are concerned about it. Do the Board of Trade?—I could not answer that. I cannot say whether the Board of Trade have the necessary information or not.

24,462. You object to the additional assessments after the expiration of a year. You say in paragraph 13 "Provide that where an assessment is not appealed against within the specified time it shall be binding."—P—"It shall not be binding."

24,463. Yes; that is the converse of the case I had in mind. I have nothing to say about that; that explains itself. You know that the Surveyors now have power, within three years, to make an additional assessment?—They have.

24,464. Complaint has been made to us that in some cases when an assessment has been agreed with a particular Surveyor another Surveyor comes along and makes an additional assessment. Is that within your experience?—I have had no experience of such a case as that. What we ask in paragraph 18 is that the taxpayers shall have the same right.

24,465. I followed that. Deal with the case I am putting to you. Do you think it would be a satisfactory amendment of the present state of things if an additional assessment were allowed upon an agreed assessment only where new facts have come to light?—Yes, I think that would be right.

24,466. Mr. McIntock: With regard to the transitional period during which the three years' average is discarded and the preceding year adopted, I understood you to suggest that, taking, say, the fiscal year 1920-21—that is next year—you were going to combine the year 1919 with some previous years. Is that not so?—Two suggestions have been made with regard to the transitional period of two years. First of all, that the taxpayer should have the option of being taxed on the result of the preceding year or on the average of the three years at at present. The alternative is that he should have the option of being taxed on the preceding year or on the average of three years and in the second year on the average of two years.

24,467. You want the taxpayer to have that right?—Yes, that is the suggestion.

24,468. I suggest to you that the year 1919 has never been in an average yet. The assessment for 1919-20, the current fiscal year, is based on the years 1916, 1917, 1918?—Yes.

24,469. 1919 has never come into any average?—That is so.

24,470. Why should the taxpayer object to pay the tax on the profits of the year 1919, without any option? He has earned those profits, and he should have no option?—This suggestion has been put forward to try to get over the difficulty which must necessarily arise in the transitional period due to the transfer from one system to the other. I do not think we would have any objection to adopt the suggestion made by Mr. William Cash on behalf of the Institute of Chartered Accountants in England.

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That is the addition of one-third or two-thirds, as the case may be.

24,471. But suppose the Inland Revenue were agreeable to start right off in 1920-21, and assess on the preceding year, do you think the taxpayer has any ground to object, even if the profits of the two preceding years were less than those of the year 1919?

—No. The suggestion I made when I had the honour of appearing before the Royal Commission in July last on behalf of the Associated Chambers of Commerce was that you must make a commencement some time, and probably you would have to assess twice on the same year.

24,472. 1919 has never been in an average; no one has seen the profits until you come to 1921-22, when you bring them in under the existing practice, 1919, 1918, 1917, and strike an average of three years?—Assuming that you were commencing on the new system next year, you might have to adopt the profits for the year ending 31st December, 1918.

24,473. Why?—If you had not the results for the current year 1919.

24,474. But you are starting next year, after next April or May, 1920; you are asked to make a return of your income for the preceding year, which has never been in an average before. Is there any reason why the taxpayer should have an option to bring that year into an average of one or two preceding years? Why should not the tax that he should pay be on his profit for that year?—I do not say he should not pay the tax on it. Certainly, bring it in.

24,475. That would be the best method of changing over?—Yes; certainly bring it in.

24,476. And if there were an option given to the taxpayer he would only take it if he could bring in two smaller years to bring down the average?—If an option were given you may rest assured that he would take the one which would be most beneficial to him.

24,477. But is he suffering under hardship because he is asked to pay on the profits of the preceding year which have not previously been taxed?—No.

24,478. You asked that trading losses shall be carried forward?—Yes.

24,479. The period at present is three years that you can carry forward a loss—by the operation of the three years' average?—Yes.

24,480. Do you limit this suggestion, or is it for ever and ever?—It is until it is made good out of subsequent profits.

24,481. Then you ask for something that has never been given before?—I do not see how you can work it otherwise. You must not ask the taxpayer to pay taxes on a profit that he has never earned.

24,482. He is being asked to do that at present?—But the average is continued and he gets the benefit.

24,483. No, you may have losses for three years and profits for three years. There is some part of that loss that you never make up?—Yes, I agree.

24,484. He gets three years at present?—He does. He gets the benefits of an average of three years, but under the new system, where you are only going to deal with an assessment on the preceding year, our view is that you must necessarily bring forward a loss until it is made good out of subsequent profits. I think that is a clear proposal.

24,485. Such a claim has never been put forward in the past, by the operation of the three years' average?—But you are going to change; at least, we are recommending you to change to another system and we consider that it would not be a fair system unless you allowed losses in business.

24,486. Yet we have had witnesses who have suggested that you should tax when there are profits, and there should be no tax when there are no profits, but do not carry the losses forward at all?—I do not think it fair not to carry forward the losses.

24,487. Do you not think that to carry forward your losses for a limited period not exceeding five years would be reasonable?—Primarily, people are in business to make profits, not to continue losses.

24,488. I agree.—I therefore say that a loss that is incurred in a business the taxpayer should be allowed to carry forward until he makes it good out of subsequent profits.

24,489. My point is this. You ask for the three years' average to be discontinued for a variety of reasons, which many witnesses have put forward?—Yes.

24,490. Under that system you do not get your losses for more than three years; but you now ask that you shall get that practically for all time?—Yes; we insist upon that as part of our recommendation—that the loss should be made good before the taxpayer has to bear a tax on profits.

24,491. I would like to put a question to you regarding this calculation of the wear and tear percentage as a practical proposition. The present method, of course, is on diminishing value?—Yes.

24,492. Do you suggest with regard to plant and machinery—and I am chiefly concerned with miscellaneous plant and machinery—that each part should have its life determined in order to fix its appropriate rate?—Yes.

24,493. And that that calculation should proceed annually on its original cost? Is it your view that that is a practical method as compared with the present method?—Personally, I think the present method is a very fair one. It always has regard to the residual value—writing off on diminishing amounts.

24,494. You agree this would entail a tremendous amount of labour to everyone?—I think it would.

24,495. Continued year after year, and the present method is simpler?—That is my own view.

24,496. Assume that towards the end of the estimated life of a piece of plant you have an expensive repair, would not the Inland Revenue ask you to treat that repair as capital expenditure owing to the extended life of the plant?—I do not think they should.

24,497. Why not?—Because it is only making good a worn-out machine.

24,498. But after all, you want to proceed on original cost with a regular life for every piece of plant. Would not every penny of repair have to be scrutinized annually to see whether it was extending the life, and if so, capitalized?—Yes, it would.

24,499. Would not that result in a good deal of heartburning and a great deal of trouble?—It would.

24,500. Then you agree that the present method is adequate?—Personally, I do.

24,501. You ask for a continuous hearing of appeal? I take it that in Ireland you suffer from the fact that you have the Special Commissioners coming at infrequent intervals?—They come once a year, in the autumn.

24,502. Therefore you must crush all your appeals into that time?—Yes.

24,503. Whereas in England and Scotland the appeal meetings are held at shorter intervals?—I have no knowledge of that.

24,504. In Ireland they are all crushed into one short period?—Yes.

24,505. With regard to the question of the demand note, I do not know if you are aware of this, and I do not know why it should exist, that in Scotland the only notice sent out requesting payment of Income Tax contains, in the case of a trader, his average profits, his insurance premium deductions, his abatements, if any, and the differential rate and the net sum payable. That is all shown on the face of the one and only notice that he receives, until he gets a reminder—which is seldom. I take it that what you want is a demand note in that form?—Yes.

24,506. I do not know why in one part of the country that is so and not in another. It does not prevail in England or in Ireland?—I suppose Scotland is specially favoured.

24,507. The fact remains that such a notice does come. There are not two notices sent out, as in England, and you want the demand note to contain all these particulars?—Quite right.

24,508. There are very few bodies of Commissioners all over the country which contain an accountant?—That is so.

24,509. I take it that probably one of the reasons is that an accountant might have to give up all his ordinary business dealing with Income Tax if he went on a body of Commissioners?—Yes.

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[Continued.]

24,510. He could not very well sit just when it happened that there was not a client of his coming along, and he certainly could not appear as an advocate before the body that he was sitting on next day?—Quite right.

24,511. That is one difficulty?—It is one difficulty.

24,512. So you would have to get an accountant who was willing to give up that part of his professional business altogether?—Quite right.

24,513. Mr. Biley: Would you continue to tax limited companies on their individual profits at the standard rate?—I am afraid it would be difficult to discriminate.

24,514. At present limited companies pay the standard rate on their undivided profits?—They do.

24,515. Would you continue to do that?—Yes.

24,516. You say you would propose that the standard rate should be 6s. 8d., but if it was more convenient it could be 6s. 2?—Yes.

24,517. But if those undivided profits were to be taxed at the standard rate it would matter very much what that standard rate was, would it not? It would matter a great deal whether it was 6s. 8d. or 5s. 2?—Yes, it would; at present the undivided profits are taxed at 6s.

24,518. But your suggestion rather is that the rate should be one of convenience for calculation?—Yes; but, of course, approximating also to the requirements.

24,519. But there is a definite figure at which those things must be taken, and if you made it 6s. you would lose very considerably. It is not a question simply of convenience?—I do not think, after all, it would be right to press the question of convenience.

24,520. I thought you rather made a point of 6s. 8d. being one-third or, if that was too high, 6s., being one-fourth of a £?—The committee do make that point in the printed memorandum. Personally, I do not think the question of convenience should be pressed as against a matter of principle.

24,521. Professor Pigou: In your paragraph 3 you suggest that your scale should be regarded as a permanent basis, and that if variations in the amount of tax are wanted the whole thing should be altered?—Yes, always subject to stating that the scale given here is by way of illustration. We do not put that forward as a definite thing.

24,522. On the point of moving up and down, of course you would not maintain that that should happen except for small changes. Supposing the present scale were doubled all the way up, you would put the top people above 20s. in the £?—I do not quite follow you.

24,523. If you want double as much Income Tax as you get now, and you doubled the whole of your scale, the top man would be 21s. in the £?—Yes.

24,524. So you clearly cannot apply this moving the whole thing up and down?—If the addition was to be 100 per cent.

24,525. Yes?—That would be very exceptional.

24,526. Of course, but does it not suggest that this convenient rule of moving the whole thing up can only apply to small changes?—Yes, quite.

24,527. And you would not press it with regard to big changes?—No, that would be unreasonable.

24,528. Big changes down as well as big changes up?—Yes.

24,529. You advocate the abolition of the distinction between earned and unearned incomes, and your argument I understood to be this: that at present, receivers of unearned incomes have been very hardly hit by the cost of living?—Yes.

24,530. Whereas the receivers of earned incomes have met that by getting increased incomes?—Yes.

24,531. Is not that merely a temporary thing? Your proposal is for a permanent system?—Our proposal to do away with the distinction between earned and unearned income rests upon the adoption of a graduated scale such as we have suggested.

24,532. But this particular argument refers to the present enormous position of recipients of unearned income?—Yes.

24,533. So it really is not relevant to the question that you should abolish the distinction permanently?

—Of course you have to take present day circumstances into account, and it is believed that the high cost of living will last a considerable time.

24,534. But the whole of the argument for the distinction would still remain. A person ten years hence will then have an earned income as against a person who has then an unearned income?—Our case is that the abolition of the distinction will be made by the graduated scale which we suggest; and you would put both on the same footing, both the earned and the unearned.

24,535. I understand that with your graduated scale you make a different arrangement as between a richer man and a poorer man; but there is no distinction made between two men of equal wealth, the income of one of whom is earned and of the other is not earned?—We think it would be fair if you adopt the scale suggested and give the exemption allowance as already suggested.

24,536. Surely the graduation of the scale affects people of different degrees of wealth, not as regards people whose incomes are earned or unearned; and I do not see that the whole scale here is relevant to that?—Having regard to present conditions and the conditions that are likely to last for a few years, we think that it would be only fair to place on the same footing, either earners of moderate incomes or people receiving unearned incomes of the same amount.

24,537. You are merely repeating the statement, are you not?—Yes.

24,538. Does not the argument hold; five years hence one man will be earning £1,000 a year and another man will inherit £1,000 a year. The man who is earning it has to save much more than the other has to save. Does it not still seem reasonable that he should have an allowance?—Well, yes, it does.

24,539. In paragraph 6 you suggest that when a person is married you shall knock off £100 for his wife, and that this shall apply throughout the whole income scale?—Yes.

24,540. Of course an alternative possibility is to say that what a person who has a wife should pay shall be a certain percentage of what a person who has not a wife would pay; for instance, he might pay at three-fourths the rate of a bachelor?—The committee do not appear to have gone into that question. They make the suggestion that the taxpayer, married or unmarried, should have his subsistence allowance.

24,541. Have you considered that alternative?—No.

24,542. With regard to what Mr. McLintock was asking you about—carrying losses through—do you not get into difficulties as to what the unit is which suffers the losses? Suppose you have a man who has carried on business and who dies, and his son takes on the business; would you carry on the father's loss to the son?—I have not considered that question. That view of it has not occurred to me. But if the business is to be regarded as the unit I do not see why the business should not get relief.

24,543. And to his grandson, and so on, for ever?—I take it, generally speaking, that when a man dies his affairs are wound up.

24,544. Would you carry it on to the son?—I do not see how it would be practicable. I admit that.

24,545. Then supposing he did not inherit it. Supposing there had been a business which had made losses and somebody else had bought it; would you carry on the losses then?—I do not think that would be practicable, either.

24,546. It would be neither practicable nor desirable, would it?—No.

24,547. So you would limit it to the particular man?—It would have to be limited to the lifetime of the taxpayer, I take it.

24,548. Suppose it is a limited company: it has an unlimited life?—Of course; it goes on for ever.

24,549. There, of course, you again differentiate in favour of a company as against private firms?—I do not see how you could do otherwise.

24,550. But it creates a difficulty, does it not? It does.

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24,551. Mr. Symcott: I had not the advantage of hearing you, and therefore you will permit me to ask you this general question. What is the advantage of your scale as compared with the existing scale? Is it this: yours is a scale per £100, and the existing scale is a scale per £12?—Our scale is a graduated scale in which Income Tax and Super-tax are merged.

24,552. Leave out Super-tax; the existing scale is also a graduated scale, is it not? It is not so completely graduated as yours?—That is right.

24,553. Your curve is a better curve?—Yes.

24,554. And it is so much per £100?—We have the rate per £ in one of the columns.

24,555. It is a rate per pound in slices?—Yes.

24,556. But otherwise a rate per £100?—Yes.

24,557. You say in paragraph (c) at the beginning of your paper and also in paragraph 8 that assessments are to be on the past year's income except in the case of manual workers?—Yes.

24,558. While agreeing with you, if I may be permitted to say so, as to the last year for trading concerns, is there not a great deal to be said for assessing workmen on their past year of income? Have you thought of that?—No, we have not, but you could take the past year as the basis.

24,559. If you went on continuously it would work itself out equally, would it not?—It would.

24,560. Would it not have this great advantage, that the objection to collection at the source by weekly deductions would be overcome, because the income would be absolutely known and there could be then no question at all about showing the details of a man's private affairs to the employer, because it would be absolutely known what the deduction would be?—I would have no objection to adopting that.

24,561. You know one of the objections of this weekly deduction instead of quarterly is that it would involve, first of all, a large amount of repayments running into millions, and, secondly, that it would involve showing to the employer all the man's private affairs?—Of course, we do not advocate at all the deduction by the employer.

24,562. Then I had better not pursue the subject, perhaps. At any rate, you will go so far with me as this: that if it was to be done at all it would be better done on the past year?—Yes.

24,563. As under Schedule E now?—Yes, quite right.

24,564. And that would get rid of the difficulty about adjusting the income where the employee was out of work?—Yes.

24,565. You say there should be only one assessment. That would raise great difficulties, would it not, where there were businesses carried on in different districts, and you might have to come under several Surveyors?—I do not think it would raise any difficulty.

24,566. You know in Ireland there are only Surveyors to make the assessment. Who would make the assessment if a business was carried on in three or four different places; which Surveyor would make the assessment?—You mean a company or firm with branches?—

24,567. Yes, and subsidiary businesses everywhere?—They would be assessed as at present. If you have separate concerns you must have separate returns in the appropriate district as at the present time.

24,568. But supposing there is only one concern and it carries on business in three or four different places?—Then the assessment would be made as at present based on the preceding year instead of upon three years' average.

24,569. You advocate only one assessment?—Yes.

24,570. I am afraid you are not following me?—I do not quite follow the difficulty, that is in your mind.

24,571. Is it not a fact that local knowledge is very often necessary to get an accurate assessment in a particular place?—We have not that system in Ireland. We have no Local Commissioners in Ireland.

24,572. I know you have not. Your evidence is quite general?—Yes.

24,573. We have had official witnesses who, I think I am right in saying, object to having only one assessment; they say there would be very great difficulty in having only one assessment. You have not considered that, perhaps?—We think it would simplify matters very much if there was only one assessment.

24,574. Now with regard to earned and unearned income. Do you make any distinction between income earned from purely personal exertion and capability and income earned where the elements of capital and goodwill come in? Do you think there is any difference between the case of a purely professional man, who works by his brains alone and has that as his only means of income, and the case of the owner of a business who perhaps only attends to it for two hours a day and has a staff who do the work for him, and which business he can leave to his children. Do you think there is a difference between the two?—I am afraid it would create great difficulty to try to discriminate.

24,575. In view of that, you would abolish the distinction altogether?—Yes; that is the recommendation of the committee.

24,576. It would, of course, be a large gain to the Revenue?—I do not know that it would necessarily, if you adopt a graduated scale on the lines that we suggest.

24,577. With regard to your next point as to allowances, would the results of your allowances be that a married man with four children would pay no tax on £400 a year?—Yes, that is what the recommendation would work out.

24,578. You have gone further than any witness before us. Do you say that a minimum of reasonable subsistence in the case of a man with four children is £400 a year?—That is the recommendation that the committee have put forward.

24,579. Have you considered the effect of this Commission acting on the theory, and declaring, that £200 a year for a married man and wife or £300 a year for a married man with two children, is the minimum of subsistence?—Personally I would say that in the case of a man and his wife living together it is unreasonable to suggest that they both should have the same subsistence allowance. I think the case might be sufficiently met by a lower subsistence allowance for the wife.

24,580. The existing one is now £50?—Yes.

24,581. Do you see the effect of a declaration by this Commission: because if it was to be applied to industrial workers or miners, and so on, it must be applied all round?—Certainly.

24,582. Do you not see the result? You are asking that this Commission should, without direct evidence or sufficiently direct evidence before us, declare that such an income is a minimum of subsistence?—Yes, I see that. I say personally I do not think that the subsistence allowance for the wife should be the same as for the husband.

24,583. A man and a wife living together do not necessarily cost twice as much as the man alone?—No.

24,584. Take the family as a unit, there is a great deal to be said for the point that whatever burden children under 16 years of age may be, over 16 years in many trades they are a considerable income asset, are they not?—Yes, quite right.

24,585. With regard to interest on money on deposit with banks; you know that the officials of the bank are bound to secrecy and that secrecy is relied on by the depositor?—Yes.

24,586. That is the reason he deposits his money, is it not?—Yes.

24,587. You do not suggest that the bank should be the informant, do you?—No.

24,588. It should be the privilege, if necessary, of the Inland Revenue to enl for it, but the bank should not be the informant?—We make no such suggestion.

24,589. I put it to you that the proper way as to any means of getting any knowledge of banking par-

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[Continued.]

ticulars is that it should be acquired from the taxpayer himself?—Yes.

24,590. Mr. Marks: You urge the abandonment of the distinction between earned and unearned income, and you also urge that there should be no relief in respect of Life Assurance premiums where the total income from all sources exceeds £2,500?—Yes.

24,591. You are aware, are you not, that the allowance in respect of Life Assurance premiums was originally made in order to give some advantage to the earned income producer?—Yes.

24,592. Do you still think that if the distinction between earned and unearned income is abolished, the Life Assurance premium allowance should also be abolished?—No, we say it should be continued up to a certain amount.

24,593. Are you aware at all what the average amount of the policies in the ordinary Life Assurance offices—not the industrial offices—is?—No.

24,594. Would it surprise you if I told you that it is under £300?—No, it would not surprise me if you told me that.

24,595. Does not that imply that the objection which you have to the Life Assurance premium allowance, so far as it is based on the consideration that it is given to wealthy people, does not hold?—No, I do not think that that average disproves the suggestion that working people take advantage of them. You have an enormous number of small policyholders, which is bound to bring down the average.

24,596. Then, to the extent to which they pay Income Tax, they are entitled to this allowance?—Yes.

24,597. And you would not deprive them of it?—I would not.

24,598. Do you not think there is also a case for the man who, as Mr. Synnott put to you, has no capital except his brains, and earns a big income, if you like, out of which he has to maintain his family?—We give it to him up to £2,500.

24,599. I suggest even a higher figure than that, because most successful men, as you know, do not begin to earn a large income until late in life, and then only have a few years out of which to make necessary provision?—Yes, I quite agree that the professional man does not begin to earn a large income until well advanced in life.

24,600. Do you agree then that it is not unreasonable that he should have some allowance given to him?—I have not really considered the question, but perhaps not.

24,601. You suggest in regard to weekly wage-earners that employers should not be required to act as collectors of Income Tax from wage-earners, save in the case of individual defaulters?—Yes.

24,602. You know that that very question was considered in 1915, and both employers and employed raised greater objections to that than even to deduction at the source. That would be putting on the employers particularly a very invidious and disagreeable duty?—Well, I am afraid in the case of a defaulter, a man who defies the authorities and will not pay, it would be only reasonable that the Inland Revenue should have that protection and should be able to follow the man's wages, but on the other point we are against collection at the source generally by the employer.

MR. S. J. SEWELL, MR. H. E. TUDOR, MR. C. ALLPASS, and MR. G. E. TRALE, on behalf of the Hire Traders' Protection Association, called and examined.

The witnesses handed in the following statements, as their evidence-in-chief:—

Evidence-in-chief of SAMUEL JAMES SEWELL, secretary of the Hire Traders' Protection Association, and Editor of the "Hire Traders' Record," 27, Chancery Lane, London, W.C.

24,603. (1) On behalf of my association, of which I have been secretary since its formation in 1890, I beg to submit that the incidence of the Income Tax on hire-purchase transactions requires to be standardized and in such a way as will not only secure for the State its due share of profit, but in a manner which shows a reasonable regard for the traders' rights and difficulties.

The size of the hire-purchase trade.

24,604. (2) For proof that this subject is of no small importance, I might state that my association, when called upon to give evidence before the Bankruptcy Law Amendment Committee in 1907, reported that some forty thousand firms traded on hire-purchase, the number of hire agreements annually entered into being two million, and not fewer than eight million being usually in force at any one time. These agreements were by no means confined to household requirements, since some twenty distinct classes of manufacturers passed into use largely by means of hire-purchase, including all kinds of machinery and tools for workers. Since then the number has increased, and the War Office is to-day disposing of its surplus horses on this system. As regards the percentage of such trade to cash sales, that is not known in all classes of goods, but in the cases of pianos and sewing machines eighty-five per cent. are let on hire-purchase, and as to furniture the figure is probably as high as fifty per cent.

Origin of hire-purchase.

24,605. (3) This class of trading, it might be noted, had its origin in France, and was introduced here in 1898 for furniture, and it gradually supplanted the renting of furnished houses and rooms where the payments only covered use, and ownership of the

furniture never accrued to the tenant. And it conferred on the public the opportunity of becoming owners of the articles they needed merely by their paying for their use a moderate sum periodically, which, should the hirer desire it, ranked as purchase money when such payments were continued until the agreed value of the goods was reached.

The hire agreements used.

24,606. (4) The hire-purchase system also gradually took the place of simple hiring, where the periodical rent alone came into taxation, and those who used the hire-purchase system, naturally, and with the approval of the Inland Revenue, did not treat their transactions as sales, and only brought in for taxation the rent as received. But some thirty years ago several firms started to use a form of agreement which was not, as originally, one of hire with the mere option to purchase, their agreements binding; the so-called hirer to pay the full price of the goods in 1893, in the case of Lee v. Butler, it was decided that such contracts meant that the hirer, so-called, had agreed to buy.

Helby v. Matthews agreements.

24,607. (5) But that class of agreement is not the kind used or approved of by my association. And in 1895 it sought, in the test case of Helby v. Matthews, to obtain a distinction between the Lee v. Butler and the Helby v. Matthews forms of contract. It failed in the Court of Appeal, but the House of Lords unanimously decided that the Helby v. Matthews contract is not an agreement to sell or to buy, only to hire with the right to end the contract by the return of the goods. Mr. H. E. Tudor, solicitor to my association, deals fully with the legal points of difference. Yet, although the judgment in the House of Lords clearly took Helby v. Matthews contracts out of the category of sales or purchases, many Income Tax Surveyors continue to treat such agreements as sales, and assess the firms using them as though on the signing of the agreement the trader had made his profit although such profit could not be recovered in the Courts and might never be realized.

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[Continued.]

The Darnagill wagon case.

24,608. (6) But since the decision in the Darnagill wagon case, in a Scottish Court, Surveyors are demanding of hire traders that they adopt another method of preparing their accounts. Mr. H. E. Tudor will also deal with this matter, as too will Mr. George Edward Teale, chartered accountant and auditor to my association, and Mr. Charles Allpass, ex-president of my association and an extensive user of the hire-purchase system. I will only add on this point that speaking from an experience of hire trading extending over thirty years, I am convinced that such a method of assessment is inequitable, costly, and impracticable.

What is required.

24,608. (7) My association respectfully submit that equity, economy, and sound accountancy demand: (1) a return to the old practice of only the hire rent as paid being brought into the accounting year, and (2) that Surveyors be instructed to act in a uniform manner as regards the assessment of business done on *Helby v. Matthews* contracts.

Safeguards for the Revenue.

24,610. (8) For twenty years I have been trying to get the method here suggested adopted by the Income Tax Commissioners, but without success. They fully agree that it need not mean the slightest loss to the Revenue, but some of the officials have hinted at the possibility of misrepresentation. I do not share these fears, but if they militate against our case, my association would, I am certain, be able to suggest ample safeguards.

[This concludes the evidence-in-chief of Mr. Sewell.]

Evidence-in-chief of HENRY EDMUND TUDOR, solicitor to the Hire Traders' Protection Association, of Lonsdale Chambers, 27, Chancery Lane, W.C.

24,611. (1) I have specialised in hire system work since 1882. When the Hire Traders' Protection Association was formed in 1890, I was appointed solicitor to the association and have continued to occupy that position up to the present time.

My submission.

24,612. (2) I submit that the amount of duty payable on hire-purchase contracts must depend on the construction of the contract. The substance, and not the mere words or the meaning of any clause isolated from its context, must be taken as the determining factor.

Classes of hire agreement.

24,613. (3) Looking then at the substance of the contract the question to be considered is: in the contract (1) a sale or an agreement to sell, or (2) merely a hire contract with an option on the part of the hirer to become owner.

24,614. (4) To ascertain under which of these two classes any particular agreement falls, the test must be, is there, having regard to the substance of the contract as a whole, any obligation on the part of the owner to sell, or does he merely give an option to buy? This will be governed by the obligation, if any, on the part of the hirer to pay the full value. If the hirer has agreed to pay the full price, then the agreement must, if duly performed, result in a sale. If on the other hand the hirer has only agreed to hire so long as he sees fit to do so, with a mere option to purchase terminable at will, then there can be no agreement to sell or purchase. In other words the test is whether the hirer has legally bound himself to carry the contract through to a purchase, or has merely a right, should he see fit to exercise it, to become a purchaser. If he has bound himself to buy, then, for taxation purposes he may rightly be regarded as a purchaser, and the owner as a seller, even though the general property in the goods remains in the owner till completion. On the other hand if the hirer has the option to terminate at will, he cannot be regarded as a purchaser, either actually or

potentially, for he is in fact simply a hirer clothed with a mere option which may never be exercised. In other words the test of the meaning and effect of any agreement for Income Tax purposes depends on obligation, if any, to purchase the goods in question.

Darnagill wagon case.

24,615. (5) In the Darnagill Coal Company case, the form of the contract involved no obligation to purchase, but looking at its substance the hirer had in effect agreed to pay the full price. The Court, having regard to the substance of the contract, rightly held, so I respectfully submit, that the contract was an agreement to buy, for there was an obligation to pay substantially the full sum.

24,616. (6) The form of contract which came before the Court in that case is exceptional, and is rarely used except in the case of railway wagons. Such contracts fall under what is now commonly known as the Lee and Butler form of agreement, i.e., obligation on the part of the hirer to pay the full price or substantially the full amount.

24,617. (7) But the Lee and Butler type only represents about 2 per cent. of existing hire-purchase contracts. In the furniture, piano, and practically all other trades the Lee and Butler form has, since the decision in *Helby v. Matthews*, entirely disappeared.

True test of hire agreement.

24,618. (8) Therefore the real question is whether the *Helby* and *Matthews* form of contract (i.e., no obligation on the part of the hirer to buy or the owner to sell) substantially differs from that of Lee and Butler, not only in form but in substance.

24,619. (9) My submission is that the difference between these two forms of contract is the difference between black and white, for the one is an agreement for sale and the other for hire. Therefore, the *Helby* form of contract should be regarded for taxation purposes in the same way as the *Inland Revenue* treat simple hire contracts where no option of purchase arises; for, in fact, they remain simple hire contracts unless and until the full sum is paid within the time fixed. See *Cramer v. Giles*, Cab. and Ellis, p. 161, confirmed by the Court of Appeal.

24,620. (10) In order to appreciate the difference between these two forms used in the above cases it becomes necessary to consider in some detail the facts of these cases.

24,621. (11) By the Factors Act, 1889, §2 and §3 Vict., sec. 9, re-enacted by the Sale of Goods Act, 1893, a person who is not the owner of goods but who has agreed to buy them can give a good title to a purchaser or pawnbroker. In actions, therefore, by the true owner against a purchaser or pawnbroker to whom a hirer has disposed of the goods, it is always necessary to consider whether the so-called hire contract is merely a hire contract with an option to buy or an agreement to buy, i.e., an obligation to pay the full price. In *Lee v. Butler*, 69, L.T. Rep. 370, 1893 and 2 Q.B. 318, the so-called hirer was bound absolutely to make payment of £1 on the 6th May, 1892, and of £96 4s. 6d. on the following 1st August. On payment of the two sums the goods were to become the absolute property of the hirer. Before payment the hirer sold the goods to Butler, and Lee, the original owner, brought an action against Butler to recover the goods. The defence was that as the hirer was bound to pay the full price the hirer had agreed to buy, and therefore, although Mrs. Lloyd, the hirer, was not the owner she could by virtue of sec. 9 of the Factors Act confer a good title on Butler. This decision was upheld in the Court of Appeal and approved of in *Helby v. Matthews* in the House of Lords.

24,622. (12) In *Helby v. Matthews* the hirer had pledged the piano to a pawnbroker, and the latter set up the defence that the agreement was an agreement to buy and that he had a good title under the Factors Act. By the terms of the agreement the hirer could terminate the agreement at any time by returning the instrument.

24,623. (13) The House of Lords, reversing the decision of the Court of Appeal, held that the agree-

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ment in *Holby v. Matthews* was clearly distinguishable from the decision in *Lee v. Butler* because there was no obligation to pay the full sum, and that in fact the agreement was a mere hiring with an option to purchase.

24,624. (14) If, therefore, the Inland Revenue maintain that they are bound by the decision in the *Darnagill* case, and refuse to distinguish agreements with a mere option to purchase from agreements with an obligation to purchase, they will, I respectfully submit, fall into the same error as the Court of Appeal did in the case of *Holby v. Matthews*, and act in direct contradiction to the ruling of all the judges in the House of Lords.

What are "profits"?

24,625. (15) Profits are either actual or potential. If actual, no question arises, if potential they must be based on an obligation to pay a definite sum which can be enforced in a Court of Law. Profits cannot rest on the possibility or probability of a hire not changing his mind. They must rest on a contract to pay a definite amount.

[This concludes the evidence-in-chief of Mr. Tudor.]

Evidence-in-chief of CHARLES ALLPASS, managing director of Hastings, Limited, House Furnishers, Piano, Cycle, and Domestic Machinery Dealers. Registered offices, Clapham Junction, S.W.

24,626. (1) I have had 25 years' experience of the working of the hire-purchase system in my business, and as a member and past president of the Hire-Traders' Protection Association, I have had opportunities of becoming intimately acquainted with the practical working of the system generally, having sat on various committees in connection with that body relating to the hire-purchase system.

I am strongly of the opinion that the method of the assessment of Income Tax under Schedule D of the accounts of traders carrying on a hire-purchase business requires urgent revision, and that such assessment must be treated differently from those where transactions are on a purely cash basis.

Hire-purchase transactions.

24,627. (2) All kinds of articles are now supplied on what is known as the hire-purchase system. Under agreement a trader lets out, and a hirer agrees to take on hire, specified articles. After the agreed amount of hire has been paid the hirer can obtain a receipt in full discharge of further liability, and the articles then, and not before, become his own property. Further, the hirer at any time during the hiring has the option of terminating the agreement by returning the articles. From this it naturally follows that the trader cannot, for the purpose of taxation at any time during the period of hire, say that the amount of profit he will make on the transaction will be the profit based on the total amount agreed upon to be paid as hire.

Period of hire.

24,628. (3) Hire purchase transactions vary in the length of period of hire according to the class of articles selected and the hire payments arranged. The hiring period may extend to over three years.

Present method of assessment of profits.

24,629. (4) The Board of Inland Revenue have decided to assess all hire-purchase transactions in the manner following:—

- (a) That all hire-purchase transactions have a definite cash price, and such cash price shall be treated as the sale. The difference between the said cash price and the amount agreed upon to be paid as hire is to be the extra charge made for such facilities.
- (b) This extra charge for the hire purchase agreement is to be apportioned equally over the period of years which the hire contract covers.

- (c) The assessment of Income Tax, therefore, will be based on a cash sale valuation plus the proportion of the total amount charged for hire applicable to the particular year of assessment.

Method unsatisfactory and unworkable.

24,630. (5) I have no hesitation in saying this method of calculating profits is totally unworkable by reason of its cost and cumbersome methods as regards hire-purchase transactions. It would mean that every item in every transaction, owing to varying rates of profits, would have to be kept account of in order to obtain the requisite details for tax purposes; and the extra clerical work that this would involve would, in the end, show a loss to the Revenue, by reason of the wages for the extra staff that would be required being charged to expenses, and, consequently, reducing the amount of net profits available for taxation.

The association's suggestion.

24,631. (6) I submit that the most equitable way of assessment for Income Tax purposes is that put forward by the association for many years, which method even now is being carried out in different parts of the country to the satisfaction not only of the trader but of the Surveyor of Taxes. This method is to take the whole of the moneys received by the trader on account of hire-purchase transactions, during the year of assessment, together with the moneys received for cash sales, as the basis of ascertaining the gross profits for the year. By this means the trader pays Income Tax on the profits derived from the actual money payments he has received. The State collects exactly what is due to it and no more.

Under the system as now in force (see paragraph 4), and an alternative method adopted by some Surveyors of Taxes under which the total amount agreed upon to be paid for hire is treated as an outright sale, irrespective of the period of hire or liability of the contract to be terminated at any moment, the trader is penalized by paying tax to the State on profits which have not been made in the year of assessment, but which may accrue in subsequent years if the hiring runs its full course.

[This concludes the evidence-in-chief of Mr. Allpass.]

Evidence-in-chief of GEORGE EDWARD TEALE, chartered accountant, 56, Great Marlborough Street, auditor of the Hire Traders' Protection Association.

24,632. (1) The method largely adopted by the Income Tax Commissioners of late years in arriving at the profits assessable for Income Tax made by a trader whose business is effected on the hire-purchase system is onerous, but this can be obviated without any loss to the Revenue.

Basis of assessing Income Tax.

24,633. (2) Section 1 of the Income Tax Act, 1842, lays down that Income Tax is chargeable on the "annual" profits, but the Commissioners assess most hire traders' whole profits on the first year, although the trader may not make those profits until three years have elapsed, or may make no profit whatever from his hire-purchase business. He is thus assessed on future profits, or hypothetical profits, and not on "annual" profits.

Methods of assessing profits.

24,634. (3) There have been in the past various methods adopted by Surveyors.

- (a) The trader has been allowed to bring in for taxation as his sales the actual hire payments as received.
- (b) If the trader sent out a piano on hire-purchase, valued at £90, payable in equal instalments spread over three years, his profits on the whole £90 has been allocated to the year when the agreement was signed, although the trader only earned one-third of the profit in each of the three years.

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- (c) A piano sent out on hire-purchase for three years at the price of, say, £90, it costing £90, the gross profit of £90 has been brought forward for taxation at £10 for each of the three years.

For book-keeping purposes, in the latter case purchases are debited £90 and sales credited at £90 in each of the three years, thus showing a gross profit of £10 each year. This method gives the real "annual" profits of the trader's business, when the transaction ripens into a sale, and is, in that case, theoretically correct, but owing to the complexity of the book-keeping required is practically unworkable.

The Davigall wagon case.

24,635. (4) That case has caused the Commissioners to divide a hire-purchase agreement into two parts: (1) a sale so far as regards the difference between cost and selling price for cash, and (2) the balance is treated as a hire profit and spread over the full hiring period. Owing to the intricacy of the book-keeping required for this manner of assessment this method is also practically impossible.

Objections to the above methods.

24,636. (5) The Commissioners in some of the above methods treat a hire-purchase agreement as a book debt. This is incorrect, as no book debt is created, as the goods can be returned at any time and there is no obligation on the part of the hirer to purchase. From my experience of this trade, extending over a great number of years, I have come to the conclusion that owing to the variety of articles dealt with and the varying rates of profit, and length of hiring period, it would mean that each article would have to be dealt with separately and thus cause such a complication in book-keeping that it would be unworkable, and the accounts would be more or less guesswork and unreliable. And it should be remembered that the transactions under hire-purchase are not on all fours with any other system of trading, since there is no selling or buying until the last payment is made.

My suggestion.

24,637. (6) It is that the simplest method of arriving at gross profits in this trade is to treat the cash received for hire, in agreements of the Helby v. Matthews type, as the sales of the business. Theoretically this is not quite accurate, but taking one year with another is correct enough, and as it would mean a saving in the expense of book-keeping, the Revenue would benefit and the work of verifying the accounts be lessened.

[This concludes the evidence-in-chief of Mr. Teale.]

24,638. Chairman: We have considered the evidence that you have sent in to us, and after a great deal of thought we wondered whether it was admissible for the purposes of this Royal Commission. There are some points, however, that we feel that it is a proper thing that you should put before the Commission, and those points will be brought out in examination by Mr. Kerly on behalf of the Commission. You must not think it is any disrespect to you if we conclude your evidence rapidly, but it is just because we want to ascertain certain points for our own knowledge those points will be brought out by Mr. Kerly's questions to you.

24,639. Mr. Kerly: Mr. Sewell, I presume you will answer on behalf of the gentlemen with you the questions that I have to put to you?—(Mr. Sewell): Yes, as far as I can.

24,640. The first grievance that you bring to our notice is this, that whereas you have two forms of contract, one of which you say is a sale on the terms of hiring and deferred payment, and the other which you say is a hire agreement only, both are treated by the Revenue as substantive sales on the hire-purchase system. You distinguish between the two cases of Lee v. Butler and Helby v. Matthews?—The answer is that we have got one form of agreement,

the Helby and Matthews agreement, and not the Lee and Butler agreement.

24,641. You always use the Helby v. Matthews form?—Yes.

24,642. You say that that should not be treated as a sale, but as a hiring only?—For the purposes of Income Tax.

24,643. In substance it is a sale of the goods on certain terms. If the hirer continues to pay his hire, as is anticipated on both sides, then at the end of the period of hire the property becomes his?—The House of Lords has found that it is no sale at all; that is the House of Lords decision in Helby v. Matthews.

24,644. Personally I am very familiar with these topics. I think I argued Helby v. Matthews, but I cannot quite recollect, so I know all about it; at any rate I either argued that or another case at the same time. You arranged the Helby and Matthews form—without intending to say anything that is improper—in order to defeat the Factors Acts?—No, the Helby and Matthews form of contract was in existence before the Factors Act was passed.

24,645. Then you adopted it?—No, it was in existence—we continued to use it.

24,646. Very well. The reason that you continued to use it rather than the other form was to prevent the hirer getting the power to sell and give a good title to a purchaser?—No, we continued to use it, having adopted it prior to the Factors Act, because we considered that it was the only proper form of contract.

24,647. In substance you agree that under your present Helby and Matthews form the intention of the parties is that the property shall ultimately pass to the hirer?—The intention of the parties may be that, or the intention of the parties may be that the hirer merely wants temporary use, but the obligation is not that the purchase be effected, and the obligation is the test for Income Tax purposes.

24,648. I am asking you to deal with the substance of it. Do you seriously tell this Commission that the hirer may only want possession for a short period?—I do.

24,649. And yet he pays, not a hire rate, but a hire-purchase rate?—There is practically no difference between the two.

24,650. Do you suggest that a man hiring a piano for three years would pay at the same rate, if he knows he has got to return the piano at the end of the three years, as he would if having completed his hire payments for three years he is to keep it?—I should say this: If you are a piano dealer and let on simple hire, frequently that piano you would have to charge for at simple hire very much more than you would for hire-purchase, and our interests are not restricted to the piano trade.

24,651. You suggest to the Commission that if you are hiring only, the property always remaining the property of the letter, you would charge a larger price than if the hirer were to get possession when he has completed his short-term payments; do you really expect us to believe that?—I do not quite follow you.

24,652. Then you could not have followed my previous question. Just give me your attention, please, you are saying something that does not appeal to me. I ask you whether in substance the common hire-purchase agreement is not a transaction in which the hirer pays a much higher rate per term, because he is expecting to get the property in the thing at the end of the period; is not that a fact?—No. I say that the average case of hire purchase means that if the article, instead of being on hire-purchase, is on simple hire, the simple hire charge would be just as high as the hire-purchase charge. I am putting it rather badly; I do not know whether you grasp it. I am conscious of having put that very badly.

24,653. What period of hire are you contemplating; how many years?—The hire-purchase agreement might be three years. I know of many which extend

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to five years, because hirers do not always keep to their contracts.

24,654. Do you suggest that what is called a hire-purchase agreement for three years should really be regarded as a letting on hire?—I do.

24,655. Without regard to the fact that the hirer can acquire the property merely by making his hire payments?—Yes; I would say that the average trader's charge for periodical hire-and-purchase is no higher than it would be for simple hire.

24,656. The same piano and for a period of three years?—Yes.

24,657. Can you tell me, then, why the trade allow the hirer to keep the property at the end of the three years?—Certainly. The public want a cessation of hire payments when these payments have reached the value of the article.

24,658. So I thought, but you are telling us that the value is nothing at the end of the hire period; that is what it comes to?—Why? In what way? I do not follow.

24,659. Let us take a particular example. Take a piano hired for three years, and its value is £50?—Yes.

24,660. The buyer could buy it for £50?—Yes.

24,661. How much a year would he have to pay for it on hire-purchase terms within three years?—You divide that—

24,662. You can tell me the normal payment?—Divide £50 by 3, and it is that much per annum. My mental arithmetic is not particularly good, but if I may work it out I will do so.

24,663. You can follow me if you please. We will take £60, which is readily divisible by 3?—£60—£20 a year.

24,664. Do you say a man can pay £20 a year for three years instead of paying £60 down—plus, I suppose something for interest?—Oh, no; nothing for interest.

24,665. Is the transaction that he can either pay £60 down or £20 a year for three years?—No, that is not the nature of the transaction.

24,666. What is it, then?—Have you seen the hire-purchase system—

24,667. With all respect, I want you to try and assist me.—I am trying to.

24,668. I do not want reference to something else. I am dealing with a transaction that I presume you understand, and you are telling me something that I cannot follow at all?—May I tell you in my own language?

24,669. I want you to give me an example of a piano at £60, and tell me how much a year has got to be paid on the three years' system, and tell me alternatively how much has to be paid to hire it, the piano being returned at the end of the three years?—May I, in my own language, give it to you?

24,670. Chairman: Yes, give it in your own language.—I know I am no match for this gentleman, and therefore you must hear with me in my ignorance. The practice would be this, that the trader would draw up an agreement similar to the one that my Association uses, under which there would be a first payment which is generally based on an amount varying according to the period; that is to say, supposing it is once a month, £60 would be spread over three years; it would be one-thirty-sixth part of £60. I will give you the exact figure if you like. If you take the value as £36 it is just the same, but it is easier. Many traders would let you have the piano on the payment of £1 only, and the obligation on the hirer would be merely this, that he keeps it safe, that after the month he could return it, and no more money is due to the trader; the second month another £1 is paid, and the third month another and so on, but at any time he could return it.

24,671. Mr. Kerly: You are not answering my question.—I asked if I might trace the career of the piano.

24,672. I asked you if you would be good enough to give me the figures. You say it is one-thirty-sixth of £60 each month.

24,673. Chairman: Do you mean £1 a month?—I thought we were taking it at a £36 article for easy calculation.

24,674. That is £1 a month?—Yes. The hirer pays £1 and he is under obligation to pay £1 for each succeeding month so long as he retains the instrument, but he can return the instrument and end the contract at any time.

24,675. Mr. Kerly: I know that. He pays £1 a month for three years, and at the end of the time the piano is his?—Yes.

24,676. Supposing he is taking it on an ordinary hiring, with an interest in it at all, how much has he got to pay?—I know of no dealer that would permit a piano to leave his place at less than £1 a month. It costs 10s. or so to take the instrument to the hirer's house. The dealer would prefer a hire-purchase contract to the simple hire contract.

24,677. Why?—Because he would feel that the hirer would be more likely to continue the payment of £1 a month, and thus become the owner.

24,678. Chairman: You mean this: supposing he buys a piano for £60, it is £1 a month for 60 months, and that is his piano?—Yes.

24,679. Supposing he only pays £36, it is not his piano?—No; the money that has been paid being for the hire thereof.

24,680. That is if he takes it for three years, and pays £1 a month, he does not get the piano?—But he does not take it for three years. The obligation is not for three years. The obligation is for the week or the month or the quarter, according to the periodical terms; it is not a three-year contract.

24,681. Mr. May: But the *pro rata* payments are calculated to cover the three years.

24,682. Chairman: Yes, that is so.

24,683. Mr. Kerly: I will leave this. You are apparently unable—I am very sorry; it may be my fault—to give me the assistance I want?—I am sorry sir. Perhaps I have not understood your question.

24,684. I have done my best, but you so persist with the particular form of transaction that you are wanting to explain to us, that you cannot answer the question I want to put to you about its results, apart from that particular form.—Do you mind putting the question again; I think I might.

24,685. Chairman: Give him one more chance, Mr. Kerly.

24,686. Mr. Kerly: I will put it once more. The transaction really is based upon the supposition that the hirer will get the piano for himself at the end of the term. I know he has the option of returning it if he pleases, but what you both contemplate is that he shall go right through with the transaction; that is so, is it not?—We might contemplate it, but the legal position is not that.

24,687. Very well then, I will leave it. You see I did not ask you that question, and I have asked you to put it aside, but you will not. Now let me come to the other grievance that you suggest. You say that your income should be taken to be your actual hire payments each year?—Yes, as in former years.

24,688. Let us take this example. We will take for simplicity a business selling goods which cost £5,000 a year?—Yes.

24,689. And we will suppose that they are sold on the three years' system at a profit of £1,000, so that the first year you will have sold £5,000 worth of goods at nominally £6,000, of which £2,000 will come in in that year?—I do not follow how you can get £2,000 in.

24,690. Assume that in the first year you sell £6,000 worth of goods?—Yes.

24,691. On a three years' system, and you are going to get repaid one-third of the amount of your sales in the first year, that will be £2,000, will not it?—Are you assuming that all this happens on the first day of the year?

[Continued.]

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24,692. I am, for simplicity, supposing you were able to sell?—All on the first day of the year?

24,693. Yes. I am going to take it that you have a uniform sale each year. Well, I will put the conclusion to you: on your system you would in fact be always three years behind the actual income which you have received. Test it in this way: at the end of your period, supposing you shut up business after 20 years, you would then have three more years' payments to receive if the thing had gone on normally, would you not?—There would be something to receive, you.

24,694. Those would be moneys that have already been earned?—Not received.

24,695. I did not say received; I said earned.—I know.

24,696. On the system that you suggest, of treating payments as income, no Income Tax would have been paid because they had not been received: that is right, is it not?—I presume that is correct.

24,697. It follows, does it not, that inasmuch as these sums for the three subsequent years after concluding your business have been earned, but the Income Tax upon them has not been paid, you must always have been in arrears in your Income Tax?—I do not know; that wants looking at.

24,698. Is not it so?—I am rather disposed to say no.

24,699. Test it at the other end.—Excuse me, this is the first time such a question has been put to me, and it is rather a searching question.

24,700. Chairman: I do not want you to get worried at all by a question. I will give you ample time to think over it. If what Mr. Kerly has asked you is not quite clear, with pleasure you can wait a moment or two to think about it, and then answer. I do not want you to be pressed to answer things off-hand?—Is it permissible for me to say that one of our witnesses is a chartered accountant, and more capable of dealing with accountancy questions than I am. We have tendered him as a witness.

24,701. If you like.—I have been asked questions of law and now questions of accountancy. I am a simple secretary. We have our lawyers here, and our accountant, and I do suggest, not that I want to get out of the gladiatorial arena, for I rather love it, would not it be better that these questions should be put to the experts?

24,702. Chairman: You said that you would answer the questions, but if now the accountant can answer the question that Mr. Kerly has asked you, the Commission will be perfectly ready to hear him.

24,703. Mr. Kerly: I am very sorry if I have troubled you at all, but I did ask you if you preferred to answer the questions, and you said yes. However, is the accountant here?—Yes.

24,704. The accountant can probably deal with this question most conveniently; is the accountant Mr. Tende?—Yes.

24,705. Mr. Teale, you probably appreciate what I am putting to you at once?—(Mr. Teale) Yes; I can answer it, I think.

24,706. The effect of the suggested method of treating the hire payments received in any year as the income for that year would be to defer the Income Tax by the normal period of hiring, would it not?—No.

24,707. Why not?—I will show you. We will take your instance of £5,000, and the goods were sold for £5,000, at the rate of £2,000 a year payment. The profit would be £1,000 on the whole transaction after three years; that is £333 a year roughly.

24,708. Why do you say after three years, the profit is earned at once, is it not?—No; it is payable in three years, and the profit on the whole thing would be £1,000 or £333 each year. The first year £333 would be brought into the profit of that year, and the trading account would be like this: there is stock £5,000, there is £2,000 paid during the first year; then the stock of £5,000 is worth at the end of the year £5,000, less one-third so you bring into your trading account the £2,000 that is paid, and the value of that £5,000 at the end of the year, which would be £5,000 less one-third; that is, £3,333. On the other side, the debit side, you have got £3,000, and on the credit side £2,000 cash

received, and stock £3,333. That will leave you with a gross profit of £333, which is the actual profit that you have made for the first year. That £333 comes in for income tax on the first year that it is made, £333 will come in for income tax in the second year that it is made, and also in the third year that it is made, so that each year will bear its proper income tax. Under the system that is proposed as present by the Board of Inland Revenue they propose to put the whole £1,000 as the profit of the first year. We say that is not right. As the profit is only made £333 each year it should have paid income tax on that £333 each year, and not on the whole £1,000 the first year.

24,709. You have brought out the exact point of difference. The company have sold, assuming it is a sale, goods which have brought in £1,000 profit, but that £1,000 is not receivable as to part of it until subsequent years?—That is so, exactly.

24,710. Mr. McIntock: I do not think that is the Inland Revenue method. The Inland Revenue only ask you to bring in the price you would have obtained if you sold the pianos for cash?—That is right.

24,711. The £5,000 is the total hire purchase price, and they do not ask you to pay the tax on that?—I know; the system that you are speaking about is more or less correct but totally unworkable, because it requires such expert book-keepers to do it that the hire-purchase traders who are not expert book-keepers could not possibly carry out the work you require. You want them to bring in the cash price of the goods the first year and divide the difference spread over a period of several years. They could never do it. They do not know what the cash price is; it is impossible to tell the cash price.

24,712. Let me put it to you in this way: you buy £5,000 worth of pianos, and you sell them all on the hire-purchase basis, the aggregate payments being £6,000 over the three years?—Yes.

24,713. Assume that the ordinary profit that you would have made had you sold them for cash was £400, the Revenue ask you to account for £400 as the profit on that year's transactions, and one-third of the £600 which is spread over three years?—That is so.

24,714. Namely, £200. In other words, they ask you to account for £200 of profit that year?—Yes.

24,715. That is not what you put to us?—What I say is that is unworkable.

24,716. But that is the Revenue claim?—If that was the cash price, but I cannot tell you what the cash price is. You must remember we are talking of pianos. Pianos in the hire trade is a very small item. It is furniture and all sort of goods as to which you cannot get at the cash price. The dealer cannot do it. Supposing he sells a young married couple furniture to start their house on for £300, and you ask him to say what is the cash price of that, he cannot do it. Some of the articles are patry para, some of it is a wardrobe. He has no idea what the cash price is, and he cannot get at it. If he could, all well and good. We are asking for a simple plan that will obviate all this difficulty that Somerset House ask us to go through, because we say it is unworkable, and we also say that the cost of getting a clerk to differentiate between the cash price and the hire-purchase price would be so great that the Inland Revenue would lose by it. Supposing it cost £100 for a clerk to do it; there is £30 from the Inland Revenue at once, at 6s. in the £.

24,717. You do agree that the method on which you propose to return your profits annually is less than the real profit on the transaction?—A little, for the first year.

24,718. And the second year?—On the three years it is the same exactly; there can be no difference.

24,719. It continues throughout all the period that you do hire-purchase; you have always got less than the true profit on the year on the basis you suggest?—I do not think that that is so, because we divide it equally amongst the three years.

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24,720. *Chairman*: I do not think there are any other questions. I was wondering how you did the business?—If we sell £6,000 worth of goods, and that is to be paid for in one, two or three years, we take our balance sheet for that year that we sell the £6,000, and we say that we made that profit, and we show that profit in our balance sheet. We add a profit for giving three years' credit, but that particular year we show on our balance sheet that profit and pay the Inland Revenue.

24,721. Is that the right way to do it?—That would

be so in the ordinary commercial way, by giving credit for three years, but in this particular business there is nothing said at all; there is no obligation, you see, to buy or sell.

24,722. *Mr. Kerly*: Perhaps I might be allowed to say that the real difference is between the substantive view of the matter, that this really is a sale, and your persistent repetition that the law for some purposes does not look upon it as a sale.

24,723. *Chairman*: We are very much obliged to you for coming this afternoon.

Mr. JOHN ZORN, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

I. GRADUATION.

24,724. (1) The graduation of Income Tax, and the differentiation of rate between tax levied on earned and unearned income are already embodied in our Income Tax system, therefore the accomplishment of both as scientifically and equitably as possible may be regarded as an accepted ideal. A system of graduation and of differentiation, simple of comprehension and calculation to the taxpayer is of enormous practical importance.

24,725. (2) It is submitted that a system based on that exemplified by the following tables would achieve equity: be scientific; and simple of comprehension and calculation to the taxpayer.

24,726. (3) The feature of the scheme is a division of Income Tax payers into four great classes:—

I.	Posseors of incomes of ...	£100 to £500
II.	" " " " " "	£501 to £1,000
III.	" " " " " "	£1,001 to £10,000
IV.	" " " " " "	£10,001 to £70,000

The scheme provides both for graduation by class and graduation within class.

Why accentuation is just.

24,727. (4) With each class an accentuation of taxation is both just and wise, for as class succeeds class the proportion of the unit's income that must be spent upon necessities falls, and the balance available for comforts and luxuries rises. This is the reason for the accentuated rise in taxation as class succeeds class.

CLASS I.—FOR INCOMES FROM £100 TO £500.

	Tax in £	Tax on re-spective £100.	Average rate in £ of tax over total income.	Total tax payable	Percentage of income payable.
1st £100 ...	3s.	1 5 3	1 5	1 5	1.5%
2nd £100 ...	6s.	2 10 4	2 10	2 10	2.0%
3rd £100 ...	9s.	3 15 5	3 15	3 15	3.0%
4th £100 ...	12s.	5 0 7	5 0	5 0	5.0%
5th £100 ...	15s.	6 5 9	6 5	6 5	6.5%

EXAMPLE:—What is the tax on an income of £386?

On 1st £100, at 3s. ... £1 5 3
On 2nd £100, at 6s. ... £2 10 4
On 3rd £100, at 9s. ... £3 15 5
On last 66s at 12s. ... £5 0 7

Total ... £10 15 0—an average of just over 7d. and 29d. of the total income.

At every stage within the table it will be seen the principle of graduation works to a nicety, and the calculation is so simple that the man in the street can work it out for himself with the greatest ease. There is no incentive existing in the present system to "waive" the income below a set figure, for the graduation is devoid of sudden arbitrary jumps.

Steeper steps.

24,728. (5) We now approach Stage II for incomes from £500 to £1,000, where the graduation proceeds on the same principle, but in steeper steps.

CLASS II.—INCOMES OF £500 TO £1,000.

The tax progresses successively by 4d. in the £ on every additional £100 of income.

	Tax in £	Tax on re-spective £100.	Average rate in £ of tax over total income.	Total tax payable.	Percentage of income payable.
6th £100 ...	1 9	8 15	11d.	27 10	5.6%
7th £100 ...	2 3	11 5	11.5d.	38 15	6.3%
8th £100 ...	2 9	13 15	12.5d.	51 10	6.8%
9th £100 ...	3 3	16 5	13.5d.	65 10	7.6%
10th £100 ...	3 9	18 15	14.5d.	80 10	8.0%

EXAMPLE 1:—What is the tax on an income of £825?

On £500 ... £12 10 0—an average of 1s. 7d.
On £325 ... £3 14 9 at 8s. 3d. in the £.

Total ... £16 4 9 an average of just over 1s. 4d.

Incomes up to £10,000.

24,729. (6) From Stage II we next proceed to Stage III. In the following way: The tax now progresses by successive advances of 1s.

	Tax in £	Tax on re-spective £1,000.	Average rate in £ of tax over total income.	Total tax payable.	Percentage of income payable.
1st £1,000 ...	1 9	27 10	1 9	27 10	2.7%
2nd £1,000 ...	2 9	37 10	2 3	37 10	3.7%
3rd £1,000 ...	3 9	47 10	2 9	47 10	4.7%
4th £1,000 ...	4 9	57 10	3 3	57 10	5.7%
5th £1,000 ...	5 9	67 10	3 9	67 10	6.7%
6th £1,000 ...	6 9	77 10	4 3	77 10	7.7%
7th £1,000 ...	7 9	87 10	4 9	87 10	8.7%
8th £1,000 ...	8 9	97 10	5 3	97 10	9.7%
9th £1,000 ...	9 9	107 10	5 9	107 10	10.7%
10th £1,000 ...	10 9	117 10	6 3	117 10	11.7%

EXAMPLE 2:—What is the tax on an income of £1,500?

On the first £1,000, at 1s. 9d. ... £27 10 0
On the next £500 at 2s. 9d. ... £58 15 0

Total ... £106 5 0

Average tax per £—7s. 1d.

What is 1s on an income of £5,750?

On £5,000, at an average of 1s. 9d. ... £137 10 0
On £750, at 4s. 9d. ... £253 2 6

Total ... £1,190 12 6

An average of just over 4s. 1½d.

For the very rich.

24,730. (7) From Stage III we go on to Stage IV, the advance progressing by 1s. 3d.

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INCOMES OF £10,000 TO £70,000.

	Tax in £	Tax on re- spective £10,000.	Average rate in £1 of tax over total income.	Total tax payable.	Per- centage of income payable.
1st £10,000...	5 6	3 125	6 3	3 125	31.25
2nd £10,000...	7 0	3 750	6 100	6 875	34.67
3rd £10,000...	8 9	4 375	7 6	11 250	37.5
4th £10,000...	10 6	5 000	8 14	16 250	39.72
5th £10,000...	11 3	5 625	9 2	21 875	41.75
6th £10,000...	12 6	6 250	9 41	28 125	44.47
7th £10,000...	13 9	6 875	10 0	35 000	50.0

EXAMPLE: What is the tax on an income of £40,000?
 On £40,000, at an average of 8s. 1½d. ... £16,250 0 0
 On £10,000, at 11s. 3d. ... £5,625 10 0
 Total ... £21,875 10 0
 An average of just over 8s. 1½d.

At incomes of £70,000 it will be seen we attain an average tax of 10s. in the £. Beyond this limit it would be unwise to proceed as the tendency would be for the tax to become more and more unremunerative. With a maximum tax of 10s. in the £ the richest member of the community would know that if he had the luck or skill to make a sovereign, half of it would belong to himself. Taxation on the scale of the Excess Profits Duty tends to kill the goose that lays the golden egg, and is responsible for untold waste, and what may be termed legitimate fraud by those on whom it is levied. When taxation comes permanently above the 50 per cent. level, a capital levy is probably best, and a reduction of taxation to a more reasonable figure.

Workable on any scale.

24,731. (8) The scheme should be understood as embodying a principle; the details of the tables might be very different, after examination of the data bearing on our problem. The increase in the tax by multiples of threepence is to render calculation easy to those who are not accustomed to think in decimals—a highly important consideration. The principle of the graduation could, however, be equally embodied if another scale were employed.

24,732. (9) The revenue produced if the Explanatory Tables above given were to be actually employed for the purpose of taxation would fall far short of that derived at present from the Income Tax and Super-tax combined, therefore to obtain the necessary revenue a division into more groups would probably be necessary. For example, ten groups with a rate advancing at every multiple of £500 could be employed up to £5,000. The revenue obtainable from incomes between £500 and £5,000 could thus be raised substantially. The loss of revenue on these incomes if the Explanatory Tables were actually employed, would be heavy.

24,733. (10) It will be noticed that a reduction of the limit of exemption to £100 per annum is con-

templated. In the first group of incomes the limit might be made £2 a week instead of £100 a year, thus raising the limit of exemption to £104. This trifling modification ought to be of great practical value, and save an infinity of work to both Revenue officials and the public, with little or no resultant loss to the national revenue.

24,734. (11) The system advocated accords with Adam Smith's four Canons of Taxation. The first canon "The subjects of every State ought to contribute towards the support of the Government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the State" is fulfilled by the graduation as projected. The scheme also accords with the requirement of the second canon, "The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person."

The requirement of the third canon, "Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it" could be met in the great majority of cases by the collection of Income Tax *pro rata* as income is received. For example, the tax could be collected from the wage-earning and salary-receiving classes, through the employer when the money is paid over to them week by week, month by month, or quarter by quarter. Incidentally, this would save the Exchequer large sums annually in discounts on Treasury bills, as money would flow in as fast or faster than it flowed out. Government would be carried on like a cash store, with resultant economy. An Income Tax collected through the employer on the insurance stamp principle would fulfil the fourth canon: "Every tax ought to be as contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the State."

24,735. (12) Under an equitable and scientific scheme of graduation, relief by graduation could be substituted for relief by reductions and rebates, those being merged in the benefit afforded to the smaller taxpayers by graduation. Of course, husband and wife should be assessed separately.

II.—DIFFERENTIATION.

24,736. (13) Table 2 of the Inland Revenue Report for 1918 shows differentiation between earned and unearned income to vary from nil to about 42 per cent. I suggest that this haphazard and unscientific system should give place to an increase of 50 per cent. throughout on unearned income. This would make both for justice and simplicity; the latter as I emphasized earlier, is a vital point.

24,737. (14) The following two tables show how a uniform increase of 50 per cent. on unearned income would work out on the basis of the Explanatory Tables:—

COMPARISONS OF SYSTEMS—INCOMES £131 to £5,000.

Income.	EARNED.				UNEARNED.			
	Amount of Tax Payable.		Virtual Rate on each £1 of Income.		Amount of Tax Payable.		Virtual Rate on each £1 of Income.	
	Existing System.	Proposed System.	Existing System.	Proposed System.	Existing System.	Proposed System.	Existing System.	Proposed System.
£	£ s. d.	£ s. d.	s. d.	s. d.	£ s. d.	£ s. d.	s. d.	s. d.
131	1 9 0	2 0 6	1.3	3.7	1 0 0	3 0 9	1.8	5.5
150	3 7 6	2 10 0	5.4	4.9	4 10 0	3 15 0	7.2	6.0
200	9 0 0	3 15 0	10.8	8.5	12 0 0	5 12 6	14.4	6.7
300	20 5 0	7 10 0	16.2	6.9	27 0 0	11 5 0	21.6	9.0
400	31 10 0	12 10 0	18.9	7.5	42 0 0	18 15 0	25.2	11.2
500	45 10 0	18 15 0	21.6	8.0	61 0 0	28 2 6	28.8	13.5
600	58 15 0	25 15 0	22.0	11.0	87 10 0	41 3 0	35.0	16.5
700	70 0 0	33 15 0	27.0	13.2	110 5 0	58 2 6	37.8	19.8
800	100 0 0	52 10 0	35.0	15.7	140 0 0	78 15 0	42.0	22.5
900	112 10 0	68 15 0	30.0	18.3	157 10 0	105 2 6	43.0	27.4
1,000	125 0 0	87 10 0	36.0	21.0	175 0 0	131 5 0	45.0	31.5
1,500	225 0 0	156 5 0	36.0	25.0	300 0 0	224 7 6	48.0	37.5
2,000	366 13 4	225 0 0	44.0	27.0	437 10 0	337 10 0	54.0	40.5
2,500	541 13 4	318 15 0	53.0	30.6	625 0 0	478 2 6	60.0	45.9
3,000	750 0 0	412 10 0	60.0	33.0	750 0 0	618 15 0	63.0	49.5

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The next table compares payments by Super-tax payers as set forth in Table 19 of the Inland Revenue

Report for 1918, with those obtaining under the proposed scheme:—

EXISTING SYSTEM.					PROPOSED SYSTEM.				
Income.	Income Tax.	Super-Tax.	Income Tax and Super-Tax.	Effective rate on each £1 of income.	New Margd Tax.				
					Total amount payable in income.		Effective rate on each £1 of income.		
					Earned.	Unearned.	Earned.	Unearned.	
£	s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
3,025	756 5 0	22 3 10	778 10 10	61·8	418 8 9	624 16 7	35·2	49·8	
4,000	1,000 0 0	79 3 4	1,079 3 4	64·7	550 0 0	975 0 0	38·0	58·5	
5,000	1,250 0 0	154 3 4	1,404 3 4	67·4	937 10 0	1,406 5 0	45·0	67·5	
6,000	1,500 0 0	245 16 8	1,745 16 8	69·8	1,275 0 0	1,912 10 0	51·0	76·5	
7,000	1,750 0 0	324 3 4	2,074 3 4	72·1	1,662 10 0	2,493 15 0	57·0	85·5	
8,000	2,000 0 0	479 3 4	2,479 3 4	74·4	2,100 0 0	3,351 5 0	68·0	94·5	
9,000	2,250 0 0	620 16 8	2,870 16 8	76·6	2,587 10 0	4,687 10 0	75·0	112·5	
10,000	2,500 0 0	779 3 4	3,279 3 4	78·7	3,125 0 0	5,975 10 0	82·5	112·5	
20,000	5,000 0 0	2,329 3 4	7,329 3 4	90·3	6,875 0 0	14,062 10 0	90·0	112·5	
30,000	7,500 0 0	4,279 3 4	11,779 3 4	94·2	11,250 0 0	18,750 0 0	97·5	112·5	
40,000	10,000 0 0	6,229 3 4	16,229 3 4	96·2	16,250 0 0	23,437 10 0	105·5	112·5	
50,000	12,500 0 0	7,779 3 4	20,279 3 4	97·8	21,8 5 0	27,500 0 0	120·0	120·0	
75,000	18,750 0 0	12,154 3 4	30,904 3 4	98·9	30,500 0 0	50,000 0 0	120·0	120·0	
100,000	20,000 0 0	16,529 3 4	41,529 3 4	99·7	50,000 0 0	50,000 0 0	120·0	120·0	

At £10,000 we attain under the new scheme an average tax for unearned income of 9s. 4½d. in the £. For simplicity, I suggest that this rate should be maintained for the next £50,000 per annum, and that on the seventh £10,000 the tax should be raised to 13s. 9d. in the £, bringing the average up to 50 per cent. the same as on an earned income of that amount. At the level of £70,000 per annum I propose that all distinction between earned and unearned income should cease. An alternative, and very good, plan would be for the limit of the tax to be an average of 9s. 4½d. which earned income attains at £80,000.

24,735. (15) It will be noticed that the scheme compared with the existing system, differentiates against the very small Income Tax payer. This is undesirable from the standpoint of expediency, as calculated to provoke hostility from a large number of the electorate, with the result of preventing the carrying through of a desirable reform. Two courses in regard to this obstacle suggest themselves. The first is a bold appeal to the electorate based on the inherent injustice of the scheme, emphasizing the desirability of citizens, even at the lowest possible level of income, contributing by direct taxation to the needs of their country; and the promise to them of an equivalent relief in indirect taxation. The second, and probably more politic, though less straightforward, course would be the raising of the level of exemption to its old figure of £150, which would solve our difficulty.

Danger of class division.

24,736. (16) The raising of the limit of exemption from Income Tax would be a mistake. It would tend to divide classes sharply, and provoke a struggle between them, the upper classes' interest being to see more and more indirect taxation laid on the lower classes, while the latter would be tempted to agitate continually for a raising of the limit of exemption from Income Tax. Conscious solidarity of interest should be the aim.

24,740. (17) Summing up the proposed system, it is based on:—

1. Scientific graduation.
2. Scientific differentiation.

It taxes Income Tax payers, in every class on an equitable basis, from the man with £100 to him with £100,000 a year. It removes the very real grievance of that large number of Income Tax payers with incomes ranging from £700 to £1,000 per annum who at present are dealt with very unfairly. Under it, Income Tax may be high or low, as circumstances may dictate, but it will not be as now, unfair as between classes and individuals taxed.

(This concludes the evidence-in-chief.)

24,741. Chairman: What is your profession?—I am a member of the London Stock Exchange, a stock-broker.

24,742. Probably you would like to say a few words to the Commission, on your evidence-in-chief. Perhaps you would like to say something on the reasons that prompted this, or what has given you the interest to pursue this subject, you might take a few minutes, and then we shall examine you—I do not know that I can add very much to the evidence which is before the Commission. I might say, my plan is somewhat academic. The subject of taxation has interested me, and in my odd hours of leisure, I sat down to see whether a more scientific plan of Income Tax could be designed, and here is the result. I think the merit of my evidence really lies in the table. I may tell you partly I was put on this idea by thinking whether one could get a more scientific system of commission on the Stock Exchange. We work a great deal on the Exchange by threepences. Threepence is an aliquot part of £1, of course—one-eighth of a £, and I thought, would the threepence which makes a perfect decimal, and also is as easy fraction of a £ work easily on a scale of Income Tax, and so I tumbled into these tables.

24,743. That is very interesting. Have you ever thought how we could increase the Income Tax and get more money from Income Tax?—There are two points in these tables. I attempted what I think is scientific graduation and scientific differentiation. Of course, the practical point is how, under my plan to get the necessary revenue. While I was at work I thought that the revenue would not be sufficient, and then after I had worked out on my tables and my articles there appeared Command Paper 224, which gives a great many details which I did not possess when I worked on my tables. I had the curiosity to prepare an estimate on those figures to see what under my scheme the tax would produce, and I found that under my scheme as outlined here the revenue produced would be in round figures £201,000,000, which would be, of course, very much less than is produced at the present time. At the present time, I think our Income Tax produces in the neighbourhood of £200,000,000 a year.

24,744. Mr. Kerly: £250,000,000.

24,745. Chairman: Your system makes it £201,000,000?—Yes. The data I have to work on is necessarily a year old.

24,746. Perhaps it might not come into accord, but if you are coming to the Commission with a plan to reduce the yield of the Income Tax from £250,000,000 to £201,000,000 I do not know that you are in the proper place?—That is perfectly true, but at the same time, although my scheme at present would not produce the necessary revenue, I think that on the

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basis of my system a better scheme and a more equitable scheme of graduation can be worked out than at present. Frankly I put forward my scheme as largely academic, but I think it is scientifically quite equitable.

24,747. *Mr. Kerly:* Your system is based upon a system we have heard a good deal about, of giving every £100 in an income its proper tax?—Yes.

24,748. That is to say, you are going to apply the Super-tax method throughout upon a unit of £100?—Yes.

24,749. But you would make your rise in graduation vary, and you divide incomes into four groups for that purpose?—Yes.

24,750. From the first to the fifth £100 is 3d. on £100?—Yes.

24,751. And from the fifth to the tenth £100 it is 6d.; from the tenth to the one hundredth it is 1s., and from the one hundredth to the seven hundredth it is 1s. 3d.?—Yes.

24,752. Two points arise on that. This provides for a smaller rise or a smaller curve, if you make it a curve, with a varying slope as you get to each point of fresh departure. Do you suggest that it has any other merit than that it provides a smaller curve?—I do not know that it has.

24,753. That was your primary object?—That was my primary object, yes.

24,754. You recognise probably that there must be an upward limit, beyond which you cannot carry the increase of your rate. You cannot get above an effective rate of 20s. in the £, can you?—No, of course not.

24,755. But long before that it would be bad business for the State to increase the rate. Have you considered at what point you ought to stop? I understand you suggest 10s. as the highest possible rate?—That would be desirable I think, but I fancy the American system is carried up to 15s., and I see no reason why we could not carry up on this system even to 15s. or 16s.; it would be a question of expediency.

24,756. Applying your scales and your method of graduation, if you have to raise not £200,000,000 a year but £300,000,000 a year it would be necessary to take your higher limit very much higher than 10s., would it not?—Yes.

24,757. You have not considered how high it would be necessary to go?—No, I had not the data.

24,758. I will not further discuss your graduation and grouping for the purposes of graduation, because the particular system is worked out in the tables, and you have told us what you had in view in arriving at it. You then go on to discuss differentiation between what is earned and unearned income. Would you just shortly explain how you propose to deal with that?—I propose, as in the table, that unearned income should pay at the rate of 50 per cent. more than earned income throughout.

24,759. Do you base that difference of 50 per cent. on any principle?—No, on an idea that it would probably be acceptable in the country as a whole as in accordance with rough and ready justice.

24,760. Would it be the same sort of justice at the top and bottom of the scale?—Yes, because of the graduation. Graduation works throughout and the differentiation would work with it.

24,761. Yes, just let us consider that. Take an income first of £50,000 a year, derived from an earned income and an unearned income. Very frequently the so-called earned income of £50,000 a year is really the earnings of capital, is it not?—I suppose that would be so in certain businesses.

24,762. Just contrast these. A member of a partnership has an income of £50,000 a year; he may be the senior member of the firm and his contribution may be mainly his capital interest. Supposing the business is transferred to a company, he then becomes the owner of shares which bring in an income of £50,000. Is his position substantially changed?—Substantially, I should say, his position would not be changed; but if he consents to such an arrangement that is his risk, and he must take the consequences.

24,763. You suggest that he should then pay at a higher rate of tax on his income. Against that I presume, you would say that he has the corresponding

advantage that he has got something that he can transfer and leave with more probable permanency to his descendants?—Yes.

24,764. Is there anything else to be said for the differentiation?—For the differentiation as a whole—the whole scheme?

24,765. No, in the particular case I put?—In this particular case I should say that in regard to the suppositions case which has just been cited, of course, hard cases must arise under any system, as they would under any system. I do not see that any system would avoid certain hard cases.

24,766. You are suggesting a very much higher differentiation than at present obtains, and you are suggesting that that should continue to the top of the scale?—Yes. I have an impression—it is only a recollection—that many years ago in Italy unearned income was taxed at double the rate of earned. Perhaps you would be aware of what are the conditions governing Income Tax in Italy. I think it is about 30 years ago when I read it.

24,767. *Chairman:* Do you mean at the present moment in Italy?—I do not know. I read it many years ago, and it has always stayed in my memory. I have never troubled to verify it. I suppose information with regard to the Italian Income Tax is at the service of the Commission?

24,768. *Mr. Kerly:* No doubt we could get it. Now, take the other end of the scale, an income earned or unearned, of £300 a year. It may represent the savings of a long life spent in business; do you suggest that that ought to pay twice the tax?—Fifty per cent. is my plan. The unearned income would pay half as much again as the earned.

24,769. It will pay half as much again as the same sum earned, perhaps, by a young man with all his prospects before him?—Certainly; but I would point out that on my system differentiation and graduation work together, and the relief given to small incomes by differentiation would allow for the unearned income paying at the increased rate on the lower incomes, and yet it would not be a heavy burden on the taxpayer.

24,770. I do not at present see how graduation is going to affect this question?—To take the case of a man with £300 a year, I propose that he should pay £7 10s. on earned income and £11 5s. on unearned. There again, in the cases that you cite, there might be injustice between the old man who is living on the savings of his thrift and the young and vigorous man who is living from his earnings. It might be that there may be a young man living on £300 a year which he has inherited, and living in idleness, and there may be an old man living on an income of £300 a year which he was earning. My answer is, that there again one cannot take notice of these individual hard cases. In the long run the one hard case might balance the other. The principle that unearned income should pay at a heavier rate than earned is, in my opinion, only just.

24,771. I follow that. What I should have liked to have had assistance upon is to find why you have pitched upon this large increase of the existing difference, and why you propose to introduce a great change and allow it to go right through the system so as to affect the largest incomes as well as the smallest?—It appeared to me that that was in consonance with the principles of justice right through.

24,772. *Mr. Walker Clark:* In paragraph 11 of your evidence—in chief you suggest the collection through the employer week by week of workpeople's incomes?—Yes.

24,773. May I ask you whether you represent any large section of employers; have you consulted them?—Oh, no, I do not.

24,774. Is your paper a personal one?—It is a personal paper.

24,775. *Sir E. Nott-Bower:* With regard to the curve that you adopt in this scale, which I think you put forward more by way of illustration?—Precisely.

24,776. I notice that for the first £1,000 income the graduation advances with every £100, does it not?—Yes.

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24,777. And inasmuch as the advance is 3d. per £100 in the first £500, and 6d. per £100 in the second £500, you get a scale which rises gradually for the first £500 and then more steeply for the second £500?—Yes.

24,778. Then when you get beyond £1,000 your scale instead of continuing to get steeper gets more gradual, because although you proceed after that by 1s. steps you only take 1s. steps for every £1,000; you do not get a smooth curve that way, do you?—No, I do not know that one does. I have not had the opportunity that I should have liked to have had to work out the whole system on a larger number of tables rising by £500, say, £100 to £500, £500 to £1,000, and then on to £1,500, and so on.

24,779. It is really an irregular curve?—Certainly.

24,780. And finally when you get near £70,000 or, say, after £50,000 you advance 1s. 3d. per £10,000. The sixth £10,000 is 12s. 6d., and the seventh £10,000 is 13s. 9d. Then for every £10,000 after that you do not advance beyond 10s.?—My idea was that, if possible, it is undesirable to tax any man with Income Tax at more than 10s. in the £. When one gets above 10s. in the £ in my opinion the tax begins to get wasteful; that is why I stopped at 10s.

24,781. It would have been better in those circumstances to have worked your scale here so that you never rose more than 10s. in the £?—Yes, I think that would be so, but frankly I have not had the time to work out all this system as it should be worked out. It would be a matter of years to work those all out for a man in his old hours.

24,782. Mr. Pretyman: You propose a steeper differentiation or a sharper difference between earned and unearned income, do you not?—Yes.

24,783. I think from what you have said, you seem rather to have done that on the assumption that you could really draw a definite line between the two. Have you considered that in very many cases what is treated as wholly earned income is really partly the application of capital. Take a doctor for instance: he may purchase a practice and he may pay £5,000 or £6,000 for it, but the whole of his income is apparently earned, although he paid something for it. In a large number of professions where the income is earned, the capacity to earn that income depends on the application of a certain amount of capital to the business, and if you were to attempt to draw the line exactly between earned and unearned you would get into an extraordinarily difficult region. Does not that rather justify the difference being a little less than you have proposed?—In a case, for example, such as the doctor who has bought a practice, I think it is possible to differentiate between the man's earnings and his capital. Supposing a doctor sinks £5,000 in a practice, he might equally invest £5,000 in War Loan. His capital will be bringing him in, we will say, 5 per cent. in round figures £250 a year. If his practice is bringing him in £2,000 a year. I think that his practice might be valued at £5,000 and the £250 interest on that practice might be treated as unearned income, while the £1,750 is treated as earned income.

24,784. That is exactly my point. Would you not find, if you try to follow that particular principle all through the whole region of nominally earned income, it would be extremely troublesome and contentious and difficult, and is it not better, rather than attempting to follow up that very complicated differentiation as to how much of an apparently earned income is really due to the investment of some amount of capital on the part of the earner, to have a difference a little less steep than is justified by the absolute difference between earned and unearned, having regard to the fact that some of the unearned income is, in nearly all cases where it is anything above a very small figure, due to the utilisation of some capital by the earner?—I think on the whole the balance of justice would be on the side of my system. It is more just to rather over-tax a man on unearned income and to under-tax him on earned than to run the risk of under-taxing him on unearned and over-taxing him on earned.

24,785. I only ask you again, had you that factor in mind when you proposed this 50 per cent.?—Thinking the whole matter over it appeared to me reasonable and just that unearned income should pay at the rate of 50 per cent. more than earned income. Personally, I should not object for an instant myself to pay at that rate on my unearned income.

24,786. You had not that particular point in your mind?—No.

24,787. You regarded it as a hard and fast matter?—I regarded it as a rough and ready rule that would work justly on the whole, and that would be simple of calculation both for the officials and also for the Income Tax payer.

24,788. Now on another point, I suppose the underlying object you had in drawing up this scale was to attain the most just possible distribution of the burden according to the ability to pay?—Yes.

24,789. Had you any other factor in mind as of supreme importance?—No, I do not think I had any other factor in mind.

24,790. You had not in mind the factor of the getting of the money?—No; that, it appeared to me, would be a subsequent consideration, that if one could devise the system or outline the system then the system could be developed or applied to raise the necessary funds.

24,791. But is it not absolutely necessary in considering a system of taxation to take both into account? If you rely on abstract justice you might, for instance, be able to justify a rate of 15s. or 16s. in the £ on a very large income, but you would not get it, because when you get beyond a certain figure, either by reason of extravagance in expenditure or for one reason or another it is not effective, and therefore you have to keep your Income Tax within the effective region?—Precisely. May I say if we had entered into all these particulars it would have wanted a committee of ten John Zorns to sit for ten years.

24,792. Chairman: We are very much obliged to you for coming.

MR. JOHN MACKIE, called and examined.

The Witness handed in the following statement as his evidence-in-chief:—

Evidence-in-chief of Mr. JOHN MACKIE, Fellow of the Institute of Chartered Accountants in Ireland, 39, Nassau St., Dublin.

24,793. (1) I submit the following memorandum, which suggests:—

- (1) The abandonment of the principle of "taxation at the source" in favour of "direct assessment."
- (2) The abolition of Schedules A, B, C, D, and E.
- (3) The assessment of the income and profits of the preceding year, except in the case of manual workers who might continue to be assessed quarterly on the actual income of the quarter

- (4) The discontinuance of the relief in respect of Life Assurance premiums.
- (5) The abolition of the distinction between earned and unearned income.
- (6) The allowance of rents, interest, royalties, annuities, etc., as proper deductions for the purpose of arriving at assessable profits.
- (7) The deduction by incorporated undertakings from assessable profits of the amounts distributed as dividends, bonuses, etc.
- (8) The furnishing by employers, banks, discount houses, stockbrokers, etc., of returns in respect of all payments made for rent, interest, royalties, annuities, dividends, bonuses, salaries, wages, fees, commissions, etc., so that these may be traced into the individual returns of persons resident in the United Kingdom.

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- (9) The assessment, collection, and repayment of Income Tax at the office of the Inspector in each district, and the making of one assessment on each individual in respect of his or her income from all sources, including shares of partnership profits.
- (10) The granting of power to the Commissioners of Inland Revenue to call for a copy of or extracts from the bank account of any individual or undertaking, and, on giving reasonable notice but without assigning any reasons, to order an examination of the books of any individual or undertaking, notwithstanding that the accounts of the individual or undertaking in question may already have been certified.
- (11) The prohibition of the deduction of Income Tax from any payment except in so far as it may be necessary with the object of adjusting matters to the date of the change over from "taxation at the source" to "direct assessment."
- (12) The prohibition of the payment by any person, company, etc., of the Income Tax liability of any person, company, etc., except in the capacity of agent for that person, company, etc.
- (13) The application of separate charges or scales of charges to—
 (a) The income (including shares of partnership profits and income received or receivable from sources outside the United Kingdom) of individuals resident in the United Kingdom;
 (b) The undistributed profits of incorporated undertakings in the United Kingdom; and
 (c) Interest, dividends, profits, etc., remitted out of the United Kingdom.
- (14) The merging of the Super-tax in a graduated Income Tax; and
- (15) The extension of the Income Tax to capital profits.

Abandonment of the principle of "taxation at the source" in favour of "direct assessment."

24,794. (2) Until about two years ago I was a firm believer in the maintenance of the principle of "taxation at the source," and even went out of my way to support it, but in the course of my study of the question of the equitable administration and simplification of the Income Tax (in so far as it is possible to simplify it) I felt constantly hampered by the limitations necessarily imposed by a system of Income Tax based upon "taxation at the source." I gradually came round to the view expressed for some time past by "The Accountant" that in the conditions which now obtain the Inland Revenue could safely adopt a system based upon "direct assessment" only.

24,795. (3) It may be convenient in the first instance to consider the aim of the problem of possible loss to the Revenue as it presents itself to one who has no direct access to the records of Somerset House.

Schedule A.—Lands and houses cannot fly away, and presumably the same care would be exercised under a system of "direct assessment" as under a system of "taxation at the source" in ascertaining that all houses and lands were brought under review. These should, therefore, be no loss under this Schedule.

Schedule B.—This is already a case of "direct assessment," and the maintenance of the principle would involve no loss.

Schedule C.—Although this is a "taxation at the source" Schedule the available information should make it a comparatively easy matter to prevent loss through evasion under a system of "direct assessment."

Schedule E.—As this Schedule is already largely a case of "direct assessment," and the "taxation

at the source" cases are subject to the same observation as regards Schedule C, there would not appear to be any room for loss of revenue owing to the proposed change in the system of assessment.

Schedule D.—Broadly speaking, all the profits assessable under Schedule D, and detailed in paragraphs 35 to 43 of Appendix No. 2 to the Minutes of Evidence, are subject to "direct assessment" except the profits of limited companies, and even so far as these are concerned "direct assessment" may be said fairly to apply at present to their undistributed profits.

24,796. (4) The leakage of revenue on the abandonment of the principle of "taxation at the source" would, accordingly, be confined to the distributed profits of limited companies, and to charges in the shape of interest (other than bank interest), annuities, royalties, and similar payments, which are disallowed for the purpose of arriving at the assessable profits of trades, employments and vocations. It may be desirable, therefore, briefly to consider these two possible sources of loss. So far as the distributed profits of limited companies are concerned, it would be provided under a system of "direct assessment" that no relief in respect of distributed profits would be granted except on the production of full particulars in such a form as to enable the Inspector in each case to distribute the information readily over all the districts affected. It is not suggested that "information at the source" papers should be sent to a central office, but that each Inspector should be the distributing centre for all the companies in his district. The secretaries of companies would be relieved from a certain amount of detail work in the preparation of dividend warrants, which under a system of "direct assessment" would not require lines for the amount of the Income Tax deducted and the net amount of the warrant, with the result that the warrant could be greatly simplified in form and reduced in size. On the other hand the requirements of a system of "direct assessment" would involve the submission to the Inspector of a copy of the dividend list, together with an extra counterfoil of each dividend warrant, or alternatively the dividend list might be prepared in such a form, by means of perforations, as to facilitate the distribution of the information disclosed by the list.

24,797. (5) So far as interest, annuities, royalties, rents, &c. are concerned, it may be taken for granted that when the payers realized that they could obtain no relief for Income Tax purposes unless on a full disclosure of the names and addresses of the payees, these would be quickly forthcoming, and the following of the particulars into the returns of the individuals concerned would merely be a matter of detail. It is suggested that even under a system of "taxation at the source" some such system of "follow-up" must be started sooner or later, with the object of checking the returns furnished by taxpayers, particularly those who are liable to Super-tax, as it is so easy in connection with a system of "taxation at the source" which does not provide an automatic check on the total income returns of taxpayers to evade payment of the whole or part of the Super-tax by merely omitting one or more items of taxed income.

24,798. (6) The main advantages claimed for a system of direct assessment all over may now be stated:—

- (a) It would obviate the over-assessment of taxpayers not liable to the "flat rate" which is an essential feature of a "taxation at the source" system. It would not, accordingly, be necessary for the Inland Revenue to collect and to hold (pending repayment) large sums of money to which it is not entitled, and which in many cases can ill be spared by those to whom it is due, nor would it be necessary to maintain for repayment purposes a staff which might be better employed in endeavouring to increase the productivity of the tax by looking more closely into total income returns made by taxpayers generally.

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- (b) It would obviate the under-assessment in the first instance of taxpayers who are liable at a higher rate than the "flat rate," and give the Revenue the use of a large sum of money which, in existing conditions, cannot be collected until the additional (Super-tax) assessments are made and agreed in the ordinary course.
- (c) It would facilitate the realization of the ideal of one assessment on each taxpayer in respect of his or her income from every source, and would, accordingly, bring to an end the present system under which many taxpayers receive various assessments under Schedules A, B, D, and E from different districts.
- (d) It would greatly simplify matters so far as taxpayers are concerned.
- (e) It would admit of the application of a scale which could be graduated to any extent that might be considered desirable.
- (f) It would facilitate the Island Revenue authorities themselves by enabling them so to co-ordinate the administration of the service as to prevent a great deal of the overlapping which is inseparable from the existing system.
- (g) It would increase the productivity of the tax, as the returns which it is suggested should be obtained from various sources with the object of checking the taxpayers' returns would disclose income which has not hitherto been fully assessed, or which has only been assessed in part.

Abolition of Schedules A, B, C, D, & E.

24,799. (7) Except for certain statistical purposes there would not appear to be any good reason for the maintenance of these five schedules, but in the initial stages of a system of "direct assessment" Schedules A. and B. might be retained for the purpose of measuring income and profits from lands and houses until the actual income and profits could be definitely ascertained.

Assessment of the income of the preceding year.

24,800. (8) Although I would personally prefer the assessment of the income of the year of assessment if the administrative difficulties could be readily surmounted, I believe the assessment of the income of the preceding year (except in the case of manual workers) would represent a marked improvement on the existing system, which comprises no less than five bases, apart from the basis on which profits under Schedule A, No. 2, Rule 7, and Schedule D, Case 6, Rules 1 and 2, are to be ascertained. I do not personally think that any adjustment should be made on the change over to the new system, but that the exigencies of the situation should be treated as sufficient to justify the alteration of the basis in each case without any adjustment. It may, generally speaking, be assumed that profits have been for the past two or three years on a rising scale, so that the elimination of the 3, 5 and 7-year averages, and the assessment instead of the income of the preceding year would presumably represent a large additional source of revenue for the first two or three years of the new system.

Discontinuance of relief in respect of Life Assurance premiums.

24,801. (9) I recognize that a great deal may be said for the continuance of this relief, particularly in respect of incomes under (say) £2,500 a year, but it seems to me that on the whole the relief should be discontinued, for the following reasons:—

- (a) It encourages insurance companies to secure business on the ground that the insurer will thereby escape payment of a certain amount of Income Tax, and it should not be within the power of any person or corporation to hold out any inducement of this kind.

- (b) The relief is from the very nature of the case not such as can be claimed by those most likely to require it—i.e., delicate people whose lives will not be accepted. This means that its incidence operates unfairly as amongst taxpayers whose incomes and other circumstances are otherwise equal.

- (c) As the relief is enjoyed under existing conditions it operates largely to enable well-to-do people to escape payment of a substantial amount of Income Tax.

- (d) Although Life Assurance may easily be distinguished from almost every other class of investment because of the insurance element in the premium payments, it is nevertheless a form of saving, and as such is favoured by the State at the expense of every other form of saving.

Abolition of the distinction between earned and unearned income.

24,802. (10) It is quite true that in theory something may be said for maintaining the distinction between earned and unearned income within certain limits, but in practice the relief is so administered as to make it in many cases largely illusory. All the relief to which the taxpayer is entitled in respect of abatement and other allowances is granted, in the first instance, at the earned rate, and this often produces such a result as is shown in the following illustration which is taken from "The Accountant" of 8th March, 1919:—

- (a) Married man with wife and four children under 16, whose total income of £650 is derived as regards £300 from salary and £350 from investments, and who pays £75 in Life Assurance premiums. The tax payable is £56 5s., thus:—

	£	£
Salary	300	
Income from investments	350	
		650
<i>Deduct—</i>		
Abatement	100	
Allowance for wife	25	
" " children	100	
" " Life Assurance premia.	75	
		300
Balance on which tax at the unearned rate of 3s. 6d. is payable	350	
£300, at 3s. 6d.—£56 5s.		

- (b) Assume similar conditions except that the whole of the income in this case is unearned. The tax payable would again be £56 5s. In other words, the relief of 9d. in the £ on £300 or £11 5s., to which (a) is theoretically entitled does not materialize, and he pays exactly the same tax in the given conditions as the man whose income is all unearned.

24,803. (11) It would meet this case to provide that all such relief shall be granted off unearned income in so far as it may be available, but it would probably be fairer and easier in the end to abolish the distinction altogether, and to relieve the hardship which might otherwise be inflicted by an adjustment of the scale applicable to incomes below £2,500.

Assessment, collection, and repayment of Income Tax at the office of the Inspector in each district, and one assessment on each individual.

24,804. (12) It would obviously simplify matters greatly so far as taxpayers and their professional advisers are concerned if the assessment, collection, and repayment of Income Tax could all be made at the office of the Inspector of the district in which the taxpayer either resides or carries on his business, and if at the same time arrangements could be made to issue one assessment on the taxpayer from that office in respect of his income from all sources.

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Extension of the Income Tax to capital profits.

24,805. (13) The administrative difficulties which would attend the extension of the Income Tax to capital profits cannot be lightly dismissed, but it would appear more or less self-evident that in existing conditions the tapping of this source should produce a large amount of revenue, even after allowing for the losses in respect of which relief would have to be granted.

The simplest method of dealing with the matter would be to bring capital profits under review in the same way as revenue profits, and to make them subject to the same rates of Income Tax, but the assessment of these profits under a separate schedule liable to a higher rate of tax, and subject to the proviso that capital losses could not be set-off against revenue profits, but would have to be carried forward until made good out of capital profits, would no doubt produce a much larger revenue. A great part of the information which would be required by the Inland Revenue authorities for the purpose of the extension of the Income Tax to capital profits is already in their possession in the shape of the certified balance sheets of companies, traders and others, and so far as individuals are concerned, the total income returns furnished for the purpose of arriving at the taxpayers' datum line and for Super-tax purposes also supply a valuable amount of information, but in many cases this would have to be amplified, with the object of showing in the case of individuals, for instance, the value of capital assets either at cost or market price, at their option, on the given date. After the given date it would probably be necessary to provide for the filing of a duplicate of every transfer of shares, property, &c., with the Inland Revenue authorities, with the object of tracing all such transactions eventually into the accounts of the transferor and transferee respectively, and detailed accounts of capital transactions would be required in the same way as accounts are required of ordinary trading transactions.

[This concludes the evidence-in-chief.]

24,806. Mr. Kerly: You are familiar with our procedure. Mr. McLintock will begin your examination?—May I just make three observations before I start?

24,807. Yes.—I want to say in the first place that I do not under-estimate the difficulties of anyone coming here and suggesting a system of direct assessment, but I have tried to console or support myself with the reflection that David slew Goliath. Somerset House is my Goliath, but I want to say in parenthesis that the relations between myself and the Inland Revenue have always been, and are at the present moment, of a most cordial nature; I have no personal grievance of any kind. In the next place I am here primarily as a firm believer in the Income Tax as an ideal method of taxation. I am prepared accordingly to place freely at the disposal of the Commissioners any ideas that I have, whether they militate against my main argument or not. I am not making any special appeal for myself or for my profession. I think recommendations Nos. 3, 4, 5 and 15 all operate against me personally, while the maintenance of the present system of taxation at the source is a gold mine to accountants, as I think most accountants would agree. I have just a few additional points to make to my main argument, but I hope to bring these out in the course of my examination.

24,808. We all feel that you have come here in the public interest, and we are much obliged to you for placing your suggestions at our service?—Thank you very much.

24,809. Mr. McLintock: I suggest to you in starting that if the existing system is a gold mine to accountants the system you advocate here is going to be an Eldorado?—I am afraid I do not agree.

24,810. Your main point is, of course, the abandonment of the principle of taxation at the source?—Yes, in favour of direct assessment all over.

24,811. Against the evidence we have had from all other accountants that it should be retained in the interests of the State?—Yes.

24,812. You maintain that the productivity of the tax would be increased by its abandonment?—Eventually, yes.

24,813. Just let us take one or two points on that. The discontinuance of the relief in respect of Life Assurance premiums, of course, means a gain to the State, but that is nothing to do with taxation at the source?—Quite; nothing whatever to do with that.

24,814. In your paragraph 1 sub-paragraph 6 you say: "The allowance of rents, interest, royalties, annuities, &c., as proper deductions for the purpose of arriving at assessable profits"—That follows, of course.

24,815. There is no possible confusion that by not giving that deduction to-day the taxpayer suffers anything?—None.

24,816. You agree that the amount is only treated as part of his profits to enable the State to recover the tax?—Quite so.

24,817. Then in sub-paragraph 7 you suggest that all incorporated undertakings treat the amount distributed as dividend as a deduction?—Yes.

24,818. Do you suggest that as simplifying the system that exists at present?—You could not have a system of direct assessment unless you do that.

24,819. We will just take this case; a company with, say, 10,000 shareholders. At the present moment the Revenue collect that tax from the company?—Yes.

24,820. Your suggestion is that 10,000 individuals have to return their dividend from that company, and I take it you then go on that the Inland Revenue have to check it by some means or another?—Yes. The secretary of the company should furnish particulars of those 10,000 payments to the Revenue and the Revenue should follow it up.

24,821. Arising out of that, you go on in your proof to state that if the method you advocate is adopted the present officials of the Inland Revenue will have ample time to look after those people whom you suggest in the past have not been paying their tax?—I think you are referring to paragraph 6 (a).

24,822. In paragraph 6 (a) you state it would increase the productivity of the tax as the returns, which it is suggested should be obtained from various sources, with the object of checking the taxpayers' returns, would disclose income which has not hitherto been fully assessed, or which has only been assessed in part?—Yes, and the other point you mentioned is in 6 (a).

24,823. Let me just deal with that point. The reason that income escapes taxation to-day, I suggest to you, is that it is income which is not taxed at the source, and as to which the Inland Revenue are dependent on a return from the taxpayer himself?—Largely, yes.

24,824. You want to extend that risk of loss of revenue?—No.

24,825. You are going to ask every individual in the country to return direct, and the Inland Revenue officials are to sit down and check the dividends paid to every shareholder in every company in the United Kingdom, and by doing that they are going to have so much spare time that they will be able to chase up the few people who will not make a return to-day?—Frankly, I do not think that is a fair paraphrase of the evidence. Paragraphs 6 (a) and 6 (b) are distinct. I suggest that the time of the repayment officials could be utilized to better advantage than at the present moment. That is not exactly the same thing as paragraph 6 (a).

24,826. Your scheme would practically involve this, that there would have to be a dossier kept somewhere for every taxpayer in the country?—Exactly, and I suggest that in present conditions the absence of such a file or record is a source of loss to the Revenue even under a system of taxation at the source.

24,827. We have had evidence before us by very experienced Inland Revenue officials who have told us from their experience that taxation at the source meant a very great increase of revenue to the Govern-

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[Continued.]

ment?—Yes, in the beginning of the 19th century, but is it fair to compare present day conditions with the conditions which obtained in Pitt's time, when you remember that under the present day conditions the Revenue has the use of the manual workers' form and forms Nos. 1, 2, 11, 12, 38, 46 and the Super-tax form. All these forms fortify the Revenue in a way in which it was not fortified towards the end of the 18th century. The problem is not comparable with the problem that the Government of Pitt had to face at the end of the 18th century.

24,828. I agree with you, but probably not for the reasons you give. Take the expansion of limited companies that has taken place; before the limited company you had one taxpayer, the man who carried on the trade?—Yes.

24,829. You are now going to have a return, instead of from the one man who carried on the business by himself, from the 500 or 1,000 shareholders?—Yes. You must have these returns at the present moment. The only thing under the existing system is that these returns are not necessarily complete, and, of course, every practising accountant knows that within given limits it is to the advantage of the taxpayer whose income is largely earned to suppress particulars of taxed income so as to get a better datum line, because, for instance, 8d. in the £ on £1,000 earned income is more to him than the unearned relief on £150.

24,830. Are you speaking of the Irish taxpayer or the taxpayer generally? I suggest to you seriously that the average taxpayer is honest?—Yes, I think that is a fair proposition.

24,831. If there is any record of his actual income kept at all in any sort of form he puts that down in order to determine his total income?—I think the proposition that the average taxpayer is honest is fair enough in a way, but it does not alter the fact that there is the greatest possible difficulty in getting people to disclose their full income from taxed sources.

24,832. At the present moment up to £2,500 a year they have a direct incentive to disclose their whole income, otherwise they do not get the full relief?—To disclose their full income within limits.

24,833. And that limit is a fairly high one now?—Yes.

24,834. You are going to suggest all this enormous amount of trouble to get at the taxpayers, whose incomes probably at present are over £2,500, and for Super-tax purposes?—No; that is only part of my case. I want simplification. My position is simply this: that for the purpose of simplifying the Income Tax and thereby, as I hope and believe, popularising it, any difficulties that may exist should be thrown upon the Inland Revenue authorities, and not upon the taxpayer, that the experts should face the difficulties, and that the difficulties should be removed from the path of the taxpayer. I want simplification as far as possible.

24,835. I suggest to you that the average taxpayer would not welcome being asked to make a return of every single bit of his income in accordance with the plan you advocate; it would be putting more trouble on him than he has at present?—What we have to do at the present moment for the purposes of making out the returns which we certify for 97 per cent. of our clients is, we get a return of his income from all sources, the counterparts of his dividend warrants, and every scrap of information that is available. My scheme would not involve any more difficulty or hardship than is absolutely necessary under the present system to any person who wants to prepare a return that he can certify.

24,836. Except that you have told us that at present he leaves out some of his income in order to escape the higher rate of tax; meanwhile you lay the whole burden on him of returning his total income, and that is to apply to every taxpayer?—He does not get a chance of leaving it out when he is dealing with us.

24,837. I suggest to you that if your client fails to disclose some income to you you cannot put it into the form?—There are various ways of getting at a man's income.

24,838. You have already told us that one reason you advocate this is, because people do not return their total incomes to-day in order to get off at the lower rate of tax?—Yes, and I was arguing from my particular knowledge by parity of reasoning to the cases where there has been no check, in the shape of an accountant, upon the taxpayer's return.

24,839. And that leakage to-day is confined to comparatively few taxpayers?—Of course, that is a matter of opinion.

24,840. I suggest to you it is comparatively few, and you are going to make it within the possibility of every taxpayer to forget things if he does not keep proper records of his own?—Certainly not, because there will be an automatic check on what I think Dr. Stamp described as the 'defective memory.' If those returns be obtained from various sources and followed up properly there will be an automatic check. The defect of the present system is the absence of an automatic check. The official evidence admits, I think, in question 4,130 that at present there is no precise knowledge of the total income of a taxpayer, and arising out of another question I think it is admitted in the official answer to question 597 that, notwithstanding direct assessments upon manual workers, there is no considerable leakage to the Revenue; and why?—because the official goes on to say in question 719: "we have a double check upon him, his own return and his employer's return," and he winds up by pointing out in official answer to question 4,459 that the return from the employer is the starting point of catching the taxpayer. I think these are all relevant considerations in connection with the point that I am advancing.

24,841. Will you take your question of rents. At present you say with regard to Schedule A, "lands and houses cannot fly away"?—Yes.

24,842. We have had quite a number of witnesses here on the question of the allowance for repairs and property?—Yes.

24,843. The objection to that remedy to meet their grievance of a fixed allowance is, that none of the owners of the houses kept any record of their expenditure, especially the owners of small properties?—Yes.

24,844. These are the people that you are going to extract with a direct return to the Revenue. The fact that the land cannot fly away does not affect the question of the owner returning the rent he receives and his expenditure for upkeep, insurance, &c.?—In connection with Schedule D—

24,845. I am referring to Schedule A?—I know, but I think this is quite pertinent. In connection with Schedule D the Revenue would not accept a statement from a taxpayer that he did not find it convenient to keep a record of the expenses of earning his income. Why should not the same rule be applied to Schedule A?

24,846. If he will not keep it to-day in order to get relief to which he is entitled under the Income Tax Acts, it is your opinion that he is much more likely to keep it in order to determine the amount of tax that he has to pay?—I know a good deal about Schedule A assessments in Dublin and outside Dublin, and I do not think in 24 years I have come across three cases where it would have paid the man, paying under Schedule A, to claim any special consideration. His net income was always in excess of the net Schedule A assessment.

24,847. Of course, you are blessed with a peculiar rating system in Ireland?—It is something based on the old Griffith's valuation, I think. However, there is a leakage of revenue there if you get down to actual facts. There would be far more income from Schedule A in Ireland—in Dublin and south-west Ireland; I do not know much about north Ireland—than there is to-day.

24,848. You are, of course, advocating this change for Schedule A all over the United Kingdom?—Exactly.

24,849. And your suggestion is that you will get a more reliable return by a direct return from every owner of property in the Kingdom returning to the Inland Revenue the rent he receives, less his expense, on the upkeep of his property?—I do not think I have

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[Continued.]

said anywhere that you will by a matter of change in the assessment automatically get a more reliable return from the taxpayer, but I do suggest that in the end you will get more revenue, and it will be simpler in the case of a man with a good deal of house property to have a certified statement showing his income and expenses than the present system of preparing a schedule with a separate item for each house.

24,850. A certified statement by whom?—Of course, that probably would be work for the accountant.

24,851. The complaint that is made at present is that the owners of property are paying too much Income Tax, not too little?—That may be.

24,852. Your suggestion is that by each individual making a return the State would get more money than it does at present?—Exactly; I believe so. I am only speaking from personal experience.

24,853. Have you any grounds for that?—Yes, my personal experience in Dublin and south-west Ireland.

24,854. You are comparing, in Ireland, the low valuation for Schedule A with the rack rent which does not apply in other parts of the country?—That may be the explanation.

24,855. The explanation may be that it is the valuation system that you want to alter and not the Income Tax system?—Yes, that may be so.

24,856. Mr. Synnott: With regard to the distinction between earned and unearned income, you advocate it on more general grounds than the result of the particular illustration you give; that is only an illustration in paragraph 10?—That is an illustration which shows the present comparatively illusory nature of the relief.

24,857. But you hinted that in questions that came before you as an accountant, shall I go so far as to say that some people's consciences were a little slack on the question of whether the income was earned or not?—Yes.

24,858. In paragraph 10 the distinction between so-called earned income and independent income is not based upon any logical principle, is it?—No, not as far as I know. I may say now, and I suppose I can speak quite frankly—

24,859. Yes; that is what we want you to do?—I was personally in favour of this differentiation, when it came out, but I think the Revenue has done very well out of it, because it has disclosed a great many sources of income not known to the Revenue, by reason of the taxpayer's anxiety to get the benefit of the lower earned rate. It has served a very useful purpose, and I think it may be dispensed with, although personally it would operate against me.

24,860. You have just told us that there is one justification for this distinction, that it enables the Inland Revenue, in the many cases where the claimants claim that income is earned, to get at the total income accurately, which they otherwise would never do. I put it to you that if those particulars can be got by other means, that is to say by direct assessment or by any other means, surely if the principle is a bad one it is not made good because it has other indirect good effects?—That is so. Simplification, of course, was the thing that influenced me more in connection with that than anything else, because the maintenance of the distinction between earned and unearned income is a troublesome matter for the Revenue.

24,861. I will not go into that matter further than this. A taxing Act, especially where it is on the high range as we have it now, should be absolutely clear, and based on logical principles?—Exactly.

24,862. The defining section of the Income Tax Act is not based on any such principles?—That is so.

24,863. I will not go into the question of taxation at the source. You speak of extension of Income Tax to capital profits?—Yes; that is a very difficult matter.

24,864. I know; but may I suggest that you should not use the phrase "capital profits." You mean isolated profits, not annual profits?—My whole idea is that the words "annual profits" should be left out of the taxing statutes; and that all "profits" should be assessed.

24,865. I suggest to you that the words "capital profits" should be left out, because the Income Tax Act (and I do not think we are going to change it in that respect) is based on income only, and it does not propose to tax capital. Your point on this paragraph 13 is, is not it, that you should be able to bring within the range of the Income Tax, isolated profit which is not necessarily an annual profit or a continuous profit?—Yes. The profits on the purchase and sale of houses, and things of that sort.

24,866. Mr. Kerly: What I think are called casual profits?—Yes, that is so.

24,867. Mr. Synnott: How do you propose to ascertain those profits?—Of course, I can only illustrate what is in my mind by taking something with which I am familiar myself. Take the case of a man operating on the Stock Exchange, and who is making casual profits, a man who may be a solicitor or an accountant or a business man. My suggestion is that on a given date, say the 31st of March, 1920, he will make a return of all his investments either at cost price or a market price, at his option. At the end of the ensuing year he should submit a statement starting with those figures and including all purchases of investments during the year. On the other side he should show all sales of investments within the year, and as a consolidating credit in the account, a complete list of his unsold investments at cost or market price—again at his option.

24,868. Mr. Kerly: You propose to tax capital increments?—Certainly.

24,869. Mr. Synnott: How are you going to deal with losses? Supposing I am not a speculator at all, but I have a certain income from investments, and I sell £2,000 or £3,000 worth of stock on which I might very easily, at the present range of prices make a loss of £200 or £300?—Yes.

24,870. That is a loss, is it not?—Yes.

24,871. Am I to be allowed to set off that against Schedule B, Schedule A, or Schedule D?—Of course, under my scheme you would have none of those Schedules, but my answer briefly is this, that in my proof I suggest two ways of dealing with the matter, either that you should be allowed to set the £200 off against your income or profits from other sources, or alternatively that a separate Schedule should be set up for the assessment of capital profits. Excuse my using the word, but it is a convenient word to use.

24,872. Would not it meet your point that either the profit or the loss should have been incurred during a fixed period, say a year?—I am afraid I do not quite follow.

24,873. That the profit or the loss should have occurred during a fixed period. Supposing I have some stock for 20 years, and I sold it the day before yesterday, surely you would not allow me to bring that loss in?—No, you would only bring the loss in as compared with its value on the 31st of March, or whatever day the system commenced.

24,874. Then you do agree with me that it must be within the year?—Oh, yes; within the year.

24,875. Mr. Marks: On this paragraph 13, do I gather from what you suggest that you would tax capital increments whether realised or unrealized?—Only when realized.

24,876. And you suggest it might be necessary at some period, if your scheme came into force, to provide for the filing of a duplicate of every transfer of shares, property, &c., with the Inland Revenue authorities?—Yes, that occurred to me as one way of following up those transactions, so as to get an automatic check. I want, if possible, an automatic check by the Inland Revenue authorities on the returns made by taxpayers.

24,877. How would you deal with the cases of speculative transactions in stocks and shares where no transfer is executed?—I am out of my depth there. I cannot offer an opinion on that point.

24,878. It is very important, and I think you should take that into account. On the question of Life Assurance premium the difficulty of the delicate people would be met to some extent at any rate, or might be met in two ways; first by allowing the War

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Savings Certificates to provide a ground for a claim for repayment of Income Tax just as the claim is allowed in respect of Life Assurance premiums, or in another way by extending the relief to accumulations of savings with a Life Office, which do not involve any element of risk of death?—Taking each of your points in turn, I do not think, with all due respect, that the proposal would meet the case, because it does not alter the fact that an insurable life may have relief in respect of Life Assurance premiums, and also have an investment in War Savings Certificates. If you stipulate that the healthy life shall not get some benefit in respect of an investment in War Savings Certificates, and the unhealthy life shall, you raise an invidious distinction.

24,878. I quite see that, but I suggest this, that there is no reason why the investor in War Savings Certificates should not get that relief even if the relief to the Life Assurance premiums is still continued?—Except that, of course, it does not meet the point about the delicate man who cannot get Life Assurance premiums allowed to him.

24,880. He can get an equivalent advantage by investing in another direction?—But so can the other man, who is healthy.

24,881. He can do so, but I do not see that that derogates at all from the advantage which the insurable life gets; however, if you do not agree with me I will not press the point?—I am heavily insured myself, and it is against me, but I would like all allowances granted by the Inland Revenue system to be such as can be used by all people who are in equal circumstances in life.

24,882. You would extend your suggestion to existing assurances as well as to future assurances?—I would cut off the relief with as little consideration as the Inland Revenue cut it off in connection with Super-tax when the insurance companies began to teach people how to evade Super-tax by taking out large insurance policies.

24,883. I should like to mention to you that the insurance companies strongly deprecate any such use of the provision, and do their best to stop it?—I wish the agents could be informed accordingly.

24,884. Mr. Marks: I agree.

24,885. Mr. May: There was a small point I intended to put to Mr. Quin, but as it is on your evidence I will take the opportunity of putting it to you. In sub-paragraph 3 of paragraph 1 you advocate the assessment to Income Tax of the profits of the preceding year?—Yes.

24,886. Why do you except the case of the manual workers?—That is a fair question. I would like the assessment made, if possible, on the income of the year of assessment. There are obvious administrative difficulties to such a course, because it would involve a tentative assessment at the beginning of the year and a correcting assessment at the end of the year; but, on the other hand, the manual workers' assessment is in the direction of that ideal, so when I came to deal with that point I said: "There is part of my ideal, at all events; let us keep it." On the other hand I am bound to admit (I want to give you all the assistance I can) that Mr. Synnott made, to my mind, a most excellent point in connection with the retention of collection of tax at the source, because it is quite clear if you tax manual workers on the basis of the preceding year's income, and record the result on a card which will not disclose the basis on which the assessment is made, you can reduce the amount payable by the manual worker to so much per week in the ensuing year, and every week that he is out of employment he automatically ceases to pay; the matter is made as simple as possible, and you retain taxation at the source. I hope I have made that clear.

24,887. Mr. May: Yes, so far.

24,888. Mr. Synnott: Upon that point, is it not a fact now that under Schedule E the Income Tax is based in certain cases certainly on the past income?—Yes.

24,889. And without adjustment next year; it goes on every year, therefore it adjusts itself, does it not?—That is only in respect of fluctuating profits like bonuses and commissions, and things like that, but where the salary comes under review it is subject to adjustment every year when a change occurs in the amount of the permanent salary. It is only fluctuating bonuses that are assessed on the basis of the preceding year.

24,890. Does not it come right the next year?—Oh, yes, except that there are two bases. If a man has a salary plus a commission, his salary is adjusted every time an alteration is made to the actual income of the year; but a fluctuating emolument in the shape of bonus or commission is based generally upon the income of the preceding year.

24,891. Mr. May: Then it is simple, because this method represents to a small extent what you regard as the ideal method of taxing?—I think myself as a matter of convenience it would be better to take them all on one basis—the preceding year.

24,892. But do you not think it would be fairer, too, to the manual worker?—That is a very difficult point. I have thought about it a great deal. If wages are likely to come down when things begin to approach the normal again, these men and women may be paying on a higher basis than they are actually earning, and then there would be a grievance.

24,893. You mean if they were charged on the preceding year?—Exactly. The matter will, as Mr. Synnott says, get right in the long run, but they might be dead before it got all right.

24,894. Does not that equally apply to every other taxpayer?—I think the manual worker is in a different category.

24,895. But as a matter of fact?—It does.

24,896. And you are only allowing for his want of intelligence or appreciation of his responsibility in the suggestion you make?—I would not like to put it so roughly as that, but I just take human nature as I find it, and I think there would be some difficulty.

24,897. Another point bearing on that: you advocate the abandonment of collection at the source?—Yes.

24,898. In order to simplify both the payment and any question of reclaim?—Yes, everything. I need not refer to the particular questions, but I think it will be accepted that the official witnesses admit that the abolition of taxation at the source will dispense with repayment claims altogether, except for errors.

24,899. Quite; but you are going to maintain it in the case of the manual worker?—What—taxation at the source?

24,900. If you follow the method of quarterly assessments you are going to maintain for him all the difficulties of reclaim?—Oh, no.

24,901. Well, are you not—not necessarily, but probably arising out of his circumstances? Supposing that the manual worker is assessed on the first three months?—I see what you are coming to now; yes.

24,902. And in the last six months not only is he not liable but he has suffered a considerable loss?—I follow what you mean. I quite agree in a certain number of cases an adjustment would be necessary at the end of the year, on the principle of quarterly assessments, and you get rid of that in the other case.

24,903. Then I put it to you that it would not only be more in consonance with your principle, but it would be fairer if the manual worker were taxed on the profits of the preceding year, instead of quarterly assessment you substituted instead of quarterly assessment you substituted quarterly payments of the tax that was due?—I quite agree, and in that connection may I put in to the Commission two forms that I have taken the liberty of preparing; they are an attempt to simplify.

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[Continued.]

24,904. *Mr. Kerly*: Yes, they may be handed in as an appendix to your evidence [see Appendices Nos. 38 (a) and 39 (a)].—I could explain them very briefly because Mr. May is questioning me in regard to No. 5 of paragraph 1.

24,905. *Mr. Trotter*: With regard to sub-paragraph 10 of paragraph 1, where you suggest the granting of powers to Commissioners of Inland Revenue to call for a copy of the bank account, I take that to mean from the taxpayer and not from the bank?—From the bank direct, notwithstanding the secrecy which is supposed to be observed; I would break the secrecy.

24,906. You would give the Commissioners power to get the return of any taxpayer's account direct from the bank?—Yes, where it was necessary. Without some overriding power like that there would always be evasion.

24,907. Then with regard to sub-paragraph 13, I take it there you would be in favour of having a differential rate of tax on the (a) (b) and (c) which you enumerate there?—Yes, sub-paragraph 13 (b) raises a very difficult point. I have tried to think of something that would be of some use to the Commission. It is a very difficult problem. I can tell you what I have done if you think it is of any use.

24,908. As I take it from your evidence, you would suggest they ought to pay something, but not the full rate?—Undistributed profits of companies, you mean?

24,909. Yes; all the way through something should be paid. You refer there to the application of separate charges or a scale of charges, and then you enumerate (a) (b) and (c). What you mean there is that a differential rate should be made in these cases?—Yes, subject to this qualification, that it might be possible if reciprocal arrangements could be made with the Colonies and foreign countries to have a flat rate for remittances; that would simplify matters immensely.

24,910. I only wanted to understand exactly what you meant by that.—I did not elaborate that, but under (b) I was trying to get at the difficulty that is caused at the present moment by the profits of companies escaping Super-tax.

24,911. *Sir E. Nott-Bosher*: With regard to the interest, dividends and profits remitted out of the United Kingdom, you would have to charge at the source there, or you would not get the duty at all?—I suggest in those cases that the person who makes the payment should for the time being become the agent of the Revenue and pay over at once. I do not suggest that in my proof, but that is the proposal I wish to make here. I suggest that in the original document which I sent in last June, and which I subsequently withdrew, a long document that is not before you at the present moment.

24,912. *Mr. Kerly*: We are much obliged to you. You have handed to me two forms, one a very simple form for return by the taxpayer setting out his income from all sources, and the other a corresponding form of assessment, and I notice that upon the form of assessment you have provided places for the Surveyor to add the different allowances to which the taxpayer will have a right upon the materials mentioned in this form?—Yes. These two forms of mine are based primarily upon my proposals for direct assessment, but if the Commissioners thought that a form based upon taxation at the source would be of any use I am quite willing to send in such a form embodying the principle of taxation at the source.

24,913. Perhaps you would kindly remit those to the Secretary and we will consider them?—I will do that. [See Appendices Nos. 38 and 39.]

24,914. We are much obliged to you. Your suggestions are, judged by the general run of the witnesses, unconventional and exceptional, but you have given us your reason for putting them forward, and I think we all appreciate the very great simplification

that would be possible if we did away with taxation at the source. The whole question is, would not it probably cost too much—you think not?—I suppose I must not keep the Commission now, but I was hoping to be allowed to develop that point a little by suggesting to the Commission that they should ask Somerset House to justify the estimate of £50,000,000 per annum, because I went to the trouble last night of taking out the figures from tables 5, 6 and 7 in Appendix No. 3 to the Minutes of Evidence, and it is very hard for me as a layman, who, however, has had a considerable experience of Income Tax practice and procedure, to see where a loss of £50,000,000 can come in.

24,915. We shall have probably to-morrow an experienced Income Tax official before us, and we will take care that that question is put to him?—Thank you. The only other thing I want to say is that I tried to get the magnitude of the operation into fair perspective, and I found, for instance, that the Inland Revenue officials have to deal at the present moment with about 5,345,000 taxpayers, whose papers have to be examined every year, but that 4,093,000 of these are between £130 and £230 per annum; so that the "follow-up" system about which so much has been made, would really only apply to the cases of about 1,253,000, and in that connection I would like to point out what can be done by organisation. In the year 1916 the staff of the Prudential Assurance Company handled over 1,000,000,000 entries of receipts and payments. That appears in the report of the annual meeting in the Insurance Record of the 2nd March, 1917: where the Chairman pointed out that the company's staff had dealt during the year "with 1,000,000,000 individual collection and payments at the homes of the policyholders"; and he also mentioned, in submitting the accounts for the year 1916, reported in the Insurance Record of 3rd March, 1916: that within a period of 48 hours a staff of 100 people attached the coupons to 44,000 bonds of a nominal value of £8,750,000, checked them, removed them from their own strong rooms, and despatched them to the Bank of England. The bonds made up six motor-bus loads. The adhesive paper used to affix the sheets of coupons measured over eight miles, and the work was done in 48 hours.

24,916. These are very big transactions. I should like to ask you a couple of questions about the Prudential Assurance Company. First of all they were dealing, it is suggested to me, with a million and a half people, who are policyholders?—On 31st December, 1913, they had 22,256,570 policies in force in the industrial section.

24,917. Policyholders?—Yes, the number of policies in force in the industrial section was 22,256,570.

24,918. All of whom were making their payments in order to secure or preserve an expected benefit?

—Yes, but I am only now on the point of the question of the handling of a multitude of documents. The principal objection to direct assessment is the handling of a number of information-at-the-source papers.

24,919. It is something more than handling them; it is dealing with them critically and comparing them. Nothing of the sort was required with regard to the Prudential papers; it was simply getting receipts and entering the amounts?—That is practically all it means.

24,920. There is one thing further. Can you tell me what the percentage cost of administration was in the Prudential Assurance Society to the premiums received?—No, I cannot.

24,921. *Mr. Marks*: I can; between 30 and 40 per cent. in the industrial branch; that includes commission.

24,922. *Mr. Kerly*: Yes; that includes commission. I thought it was something of the sort. We are much obliged to you, Mr. Mackie.

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[Continued.]

Mr. J. L. S. HATTON, Principal of The East London College, Barrister-at-Law, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

24,923. (1) I wish to draw attention to the unsatisfactory state of the law in regard to Income Tax on deductions from salary under the Federated and other Superannuation Schemes.

At the present time pensions are provided under Act of Parliament for elementary and secondary teachers on a non-contributory basis. The provisions of the Acts in question are somewhat similar to those under which civil servants receive their pensions. If and until some further Act of Parliament is passed, university teachers have to rely for superannuation benefits on the Federated Superannuation Scheme for University Teachers which was formed on the initiative of an Advisory Committee of the Board of Education and on previous college schemes which are generally of a similar nature.

24,924. (2) Generally the Federated Scheme provides, at the present time, for a payment of 5 per cent. of the teacher's salary by the college and a "contribution" of a like amount from the teacher. The money so accumulated may generally be used in one or other of three ways: (a) It may be used for paying the premiums on an endowment Life Assurance policy; (b) it may be used to pay the premiums on a pure endowment policy with an insurance company, which practically amounts to accumulation at 3 per cent.; (c) the money may be accumulated at compound interest for the benefit of the member by the college council or governing body.

24,925. (3) When a member has entered the scheme he cannot withdraw from it, and it is the usual custom to deduct his so-called contributions from his salary.

24,926. (4) If the money is invested under (a) or (b) above, Income Tax on the teacher's contribution can be abated under the provisions for the return of Income Tax on insurance policies. If the money is accumulated under heading (c), the authorities of Somerset House maintain that the so-called member's contributions are liable to Income Tax.

24,927. (5) It is submitted that all the "contributions" made by the member should be free of Income Tax under whatever head they are applied and that the salary of the teacher for Income Tax purposes should be treated as his salary less the payments to the Federated Superannuation or other approved scheme.

24,928. (6) In regard to the general question of administration of the Income Tax, I beg to point out that under the existing system the officials of the Board of Inland Revenue attempt to obtain Income Tax to which they are not entitled, and as the law stands, a member of the public has no redress against an official of the Board who demands, with threats, payments of Income Tax not due. Four specific cases will be quoted.

24,929. (7) As it is the practice of the officials of the Board to ask for Income Tax which is not due, a summary of decisions setting forth the practice of the Board of Inland Revenue should be available to the public.

24,930. (8) Payments under Schedule E should be able to be set against payments under Schedule A.

24,931. (9) In some districts landlords do not pay the full Income Tax, through the Income Tax payments being based on the local rate.

[This concludes the evidence-in-chief.]

24,932. Mr. Marks: In your paragraph 2 (b) you say, that under the Federated Scheme the contribution of the teacher "may be used to pay the premiums on a pure endowment policy with an insurance company which practically amounts to an accumulation at 3 per cent.," and in paragraph 4 you state that Income Tax on these premiums can be reclaimed; are you sure of that?—Yes.

24,933. What do you mean by a pure endowment policy?—I mean a policy in which the beneficiary pays so much per annum, and where the insurance company

simply accumulates the money at 3 per cent., and makes the value of the policy at the end of two years the amount paid plus interest at 3 per cent., and at the end of three years the amount paid in plus compound interest at 3 per cent., and so on.

24,934. That is not quite what is ordinarily meant, I think, by a pure endowment policy, which is a policy that provides a sum of money at the end of a specified period, but in the interval in case of death or anything of that sort the sum returned may be nothing, or the whole of the premiums, with or without interest, or some proportion of them?—I think in the prospectus of the Federated Superannuation Scheme it is made perfectly clear by a statement at the end, that what I have stated is the nature of the policies in question.

24,935. There is no risk of death involved in it?—No, the accumulations are paid on death.

24,936. Do you know whether any special concession was made by the Inland Revenue in respect of such policies to the Federated Superannuation Scheme?—I believe not. At the time when the scheme was initiated the differentiating between policies to private individuals and policies to Superannuation Societies had not been initiated. This distinction only arose, I fancy, during the war period. I do not regard it as a special concession.

24,937. I think I can tell you as a fact that that concession is not made to a member of the ordinary public who takes out such a policy as that which you have described. In (c) you say, "the money may be accumulated at compound interest for the benefit of the member by the college council or governing body."

If the money is accumulated in that method the authorities maintain that the so-called member's premiums are liable to Income Tax. I believe that the Inland Revenue have agreed that contributions of this kind, if they are definitely allocated from the control of the employing authority and applied to purposes of superannuation, may be admitted for the purposes of reclamation of Income Tax?—I was not aware of that fact, but I might say—though it does not affect this—that I am fighting a High Court case on the matter at the present moment. I would point out, if I may say respectfully, that the statement which you have made bears on my paragraph 6, in which I draw attention to the desirability of the practice of the Income Tax authorities being made public, and the difficulty in ascertaining it. I myself ascertained after great trouble that concessions have been made to different colleges. This information could not be obtained, except by writing specific letters to inquire whether concessions had been made.

24,938. I suggest to you that if you wrote to the Board of Inland Revenue?—Oh, I have.

24,939. And asked them for a copy of their model scheme, which they have submitted to Superannuation Societies generally, you would get complete information in regard to this point?—I am on the council of the Federated Superannuation Scheme, and when the matter has been up we have never had any model scheme of that kind accessible or placed before us.

24,940. I believe you will find it as an appendix to the evidence given here by the representative of Superannuation Funds [see Q. 4489]. On your paragraph 6 what are the four specific cases which you wish to quote?—I will give them shortly, and I have documents here to substantiate most of them. I happen to own an orchard in a country district. I was unable to let that orchard during the war period; therefore I had to put it into a caretaker's hands without any remuneration to myself. I communicated with the local authorities in the matter, and I was told distinctly that I was liable to pay Income Tax on it. I wrote to Somerset House and I was informed in reply that there was no machinery for recovering the Income Tax under the circumstances, and therefore I had got to pay. I stuck to my point and said it was not a question of machinery for recovering the Income Tax; it was a question whether I was liable. Eventually I received a letter to say that the Income

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[Continued.]

Tax had been discharged. I consider the letter which I received from Somerset House, while it may have been within the letter of the truth was, to say the least of it, misleading. I think it might have misled other people, women or uneducated people, into paying the Income Tax in question; that is the first case. The next case was this: I fought a case before the District Commissioners, and I was successful. At that time the Income Tax was divided up into two distinct payments. My Income Tax on the first payment was properly corrected in accordance with the decision which I had obtained. I ought to state that the Surveyor was appealing, or at least he gave notice that he would appeal against the decision of the Commissioners, which was in my favour. The demand for the second half of the year to my amazement, was for the full amount. I wrote to the Collector and informed him of his mistake, and in reply I received a demand for payment of the full amount within 10 days. I then, and only then, wrote to the Surveyor, and he said—I think his words were—that the claim had been withdrawn pro tem. I received no apology and no communication in the matter. If I had been careless I should have paid the money and the Revenue would have been better at my expense.

24,941. *Chairman*: What sort of a letter did you write to the Collector?—I wrote to the Collector to inform him that there had been a decision in my favour and that the notice ought to be amended.

24,942. Was it a nice letter?—I think there was nothing that he could regard as discourteous in it. I have some of my letters here.

24,943. Was it rather a heated letter?—No; I think it was very short indeed, but the point was that I received a demand for immediate payment in 10 days. I did receive an apology, I think, from the Clerk to the Commissioners, but I received none from the responsible person. It looked as if I might have paid more money than I ought to have done.

24,944. *Mr. Marks*: On this case may I just suggest to you that what I think must obviously have been a lack of co-ordination between two minor officials of the Revenue, is rather insecure foundation upon which to base a general charge that the Board of Inland Revenue attempt to obtain Income Tax to which they are not entitled?—I have given you the case of the officials. I think the particular official ought to have apologised. When I make a mistake, and we all do make them, I apologise. His reply was that it was withdrawn pro tem.

24,945. I do not think the manners of the Inland Revenue officials come within our reference?—But their acts do, I submit.

24,946. *Sir E. Nott-Bower*: With regard to that case, I understand that the mistake was made by the Collector. The Collector was probably, almost certainly, the officer of the District Commissioners, and I understand that you did get some sort of an apology from the Clerk to the Commissioners?—I eventually got an apology from the Clerk to the Commissioners.

24,947. The Clerk to the Commissioners is the chief officer of the Local Commissioners?—Yes.

24,948. It was to the Local Commissioners that the Collector was responsible, and you got an apology, I understand, from the chief executive officer of the Local Commissioners?—He and I are on very good terms, I may say. He wrote me a long letter of explanation in the end, but I received none from the Surveyor of Taxes or from the gentleman in question who sent me the demand note.

24,949. *Chairman*: Is not the statement made there rather a strong statement after you got to be friends with the Clerk to the Commissioners?—I mean to say we are on very good terms. He wrote me a letter about it, in which he explained, to a certain extent, the circumstances, but I do not consider his letter was an official letter. I am to give you some more cases.

24,950. Are they of a similar nature?—Yes, I was asked what were the four cases. This case was rather a hard one. It was a case of withholding repayments of Income Tax. I had a sister who was in Germany during the war period. She applied for the repayment of the Income Tax on certain foreign bonds which have been in my keeping. She went elaborately into the case with the local Surveyor and supplied all the particulars, and yet a letter was received from the local Surveyor of Taxes that no payment would be made. I saw the letter; it was referred to me. I wrote immediately to Somerset House to inquire on what Act of Parliament the Inland Revenue authorities relied for withholding the repayment of the Income Tax. Then the case was opened up and they began to ask questions, and the money was eventually paid at the instructions of Somerset House, by the same Surveyor of Taxes who had absolutely refused payment.

24,951. *Sir E. Nott-Bower*: Your sister was resident in Germany?—No. The Surveyor of Taxes had the full facts before him. My sister while in Germany was unable to obtain anything. When she returned to this country, having had to remain in Germany during the whole war period, she put in her application to the local Surveyor. If you like I will mention the town, but I prefer not. I had a letter of absolute refusal.

24,952. From the Surveyor?—From the Surveyor; it was forwarded to me.

24,953. Because in strict law a person who was not resident in the United Kingdom, I take it, was not entitled to relief on the ground of the total amount of income?—She was domiciled in England all the time.

24,954. Domicile does not affect it?—She had been in an engagement in Germany during the whole time, and it was on the papers that had been originally sent in, on which the application was originally refused, that it was granted after I had communicated with Somerset House.

24,955. If I may venture to say so, I do not think that case at all justifies the allegation in your statement. In strict law a person who has not been resident in the United Kingdom is not entitled to relief, which can be claimed on the ground of the smallness of the income. What happened, I take it, was this, that a case of hardship arose because people were abroad at the time of the outbreak of the war, and were unable to return?—That was her position.

24,956. Therefore the rigour of the law was not properly applicable to them, and it was decided to concede that point?—All I can say is that there was a deliberate letter of refusal from the local Surveyor of Taxes, which I saw, and on my writing to Somerset House on the same facts the money was at once refunded.

24,957. *Mr. Marks*: That is rather a testimonial to Somerset House, I think, than otherwise; do you not think so?—Well, it causes a feeling that no decision that you receive from a Surveyor of Taxes is necessarily a correct one.

24,958. *Sir W. Trower*: The last case you quoted was a concession on the part of the Inland Revenue authorities that the Surveyor of Taxes had no power to give. I think that will explain your last case.

24,959. *Chairman*: Yes, that is the case.—Then do you want the other case, or I will leave it over if you do not wish it.

24,960. Do you wish for any more cases, *Mr. Marks*?

24,961. *Mr. Marks*: No, I do not think so.

24,962. *Chairman*: You would not want to do anything unfair, would you? You would not make any unfair charge on a body of officials like that?—If you ask me frankly, I do think that, very much to the misfortune of this country, it has become the practice of the officials in many cases to what we call in ordinary language "try on"—make an application without strictly examining the claim for it.

24,963. *Sir E. Nott-Bower*: Taking that last case of yours, I suggest that the conclusion is quite different, and that really your sister was eventually

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[Continued.]

granted relief which the strict law did not justify, because the strict law had not contemplated the exceptional case of a person who was kept abroad and remained abroad simply owing to the stress of war. Whatever your complaint is finally the law was relaxed. The law is that no exemption, abatement or relief which depends wholly or partially on the total income of an individual from all sources shall be given to any person unless the person is resident in the United Kingdom. Your sister was not resident in the United Kingdom, but from what you tell me I understand that that point was waived when you brought it to the notice of Somerset House, because it appeared that she would have been resident in the United Kingdom had it not been for the war. I think that is rather insufficient ground on which to raise a charge such as you have brought forward.

24,964. *Mr. Holland-Martins*: There is such a complete answer to the three, might we not have the fourth; there might be an answer to that again?—The fourth case that I have in my mind is this, that after considerable trouble, and being treated by two distinct methods, I obtained a remission of Income Tax on house property at Scarborough which suffered seriously during the raids. We were all appealed to to reduce our rents; I reduced my rent, and I obtained the concession after great trouble in regard to Income Tax on the money that I received. I got it reduced, and last January I received a demand note for the Income Tax on the full amount without any previous communication to me at all.

24,965. *Sir E. Nott-Bower*: On the full amount of what?—On the full amount of the rent. Say the house had a rent of £24; it was reduced one-third. I got the Income Tax reduced to the tax on the actual rent paid. That went on for two years, and I only got that after a great amount of trouble.

24,966. *Chairman*: Was it a temporary reduction during the war?—It was on account of the war. There was nothing stated to be temporary about it. Then without any communication at all last January I received a demand for the full amount. I wrote back to ask why I had received a demand for Income Tax on the full rent, and then without any communication or any letter I received a demand for the reduced amount. If I had been a careless man and had not happened to notice it I should undoubtedly have paid Income Tax which I was not called upon to pay. I had no communication, and so inquiry whatever with reference to the matter. The increased notice was simply sent to me.

24,967. But you got satisfaction in every case?—Yes, after a great amount of trouble I have done, because I am glad to say I have never failed in any Income Tax case I have ever taken up.

24,968. Well, that is something, is it not; but I do not know whether that justifies your criticism in paragraph 6; that is all I was on?—Yes.

24,969. *Sir W. Trower*: In your last case was not the rent restored to its normal condition?—No, it had not been restored. I had retained the rent at the previous amount. If I had been written to and asked whether the rent had been increased I should have considered that was a courteous way, and they would have received an immediate reply.

24,970. The question is the assessment. Was the assessment reduced?—I was very much troubled over it, but it was a temporary thing. Originally there was an allowance made, and then I think there was a new assessment.

24,971. I was just wondering whether the assessment had been permanently reduced or temporarily reduced?—On my writing I simply received by return of post a demand for the Income Tax on reduced rent.

24,972. *Chairman*: I ask you now, on these four cases that you have specified, you have no complaint as to the result of the action of the Island Revenue?—As to the final result I have been successful in every case where I have had to deal with them.

24,973. *Sir W. Trower*: I do not see that the Surveyor was to blame, or whoever the official was, because the assessment reverted to its original position?—I am afraid I cannot quite agree with that, because I simply wrote to ask why I had received the demand for the higher amount of Income Tax, and I received no reply to that letter except a new notice or a demand in the reduced rent; I cannot see how he could have altered the assessment in 24 hours.

24,974. I do not think it was an altered assessment. It was a temporary reduction owing to the war. Are you sure it was not, because I am anxious to clear it up?—It was a reduction on account of the reduced rent during the war period.

24,975. That would be a temporary reduction. I am not sure that the Surveyor or Collector had any power to make an alteration?—Well, immediately on writing to ask why he sent the increased demand he sent me one at the lower rate.

24,976. *Sir E. Nott-Bower*: Was the official aware of the fact that the rent which had been lowered in the previous year was still being continued at that reduced rent; was not your letter the first intimation that it was still being continued at the reduced rent?—I did not even say it continued to be reduced. I asked why he had sent to me a demand on an increased amount over the previous year.

24,977. And owing to that the reduction was still followed?—Yes, but I take it before sending me the notice for the increased amount he ought to have made some inquiry.

24,978. I do not suppose the assessment had ever been reduced. It would be the full annual value of the house, and when you showed that part of the rent had been given up for one year relief was granted, but the same thing in respect of the remission of rent would have to be repeated the next year, and as soon as you repeated it you got the relief?—No, I should not quite interpret it in that way.

24,979. *Chairman*: Would you after this little conference still adhere to the statement that you made that the officials of the Board of Island Revenue attempt to obtain Income Tax to which they are not entitled? You are a barrister, and with regard to public officials it is always well to consider very earnestly what statements are going into evidence?—I should be agreeable to say that more care ought to be exercised by officials. I would be willing to modify my statement on those lines—that more care should be exercised. I think there is a want of care.

24,980. I think it is a proper thing to do.—I am quite agreeable to have it in that way. I do not know whether I am in order in asking, have I made perfectly clear what is meant by my paragraph 8: "Payments under Schedule E should be able to be set against payments under Schedule A."?

24,981. Yes, I understand that.—Thank you, my lord.

THIRTY-FOURTH DAY,

FRIDAY, 21ST NOVEMBER, 1919.

PRESENT:

MR. KERLY (in the Chair).

MR. E. E. NOTT-BOWER.

MR. J. S. HARMOOD-BANNER.

MR. W. TROWER.

MR. HOLLAND-MARTIN.

MR. WALKER CLARK.

MR. McINTOCK.

MR. MANVILLE.

MR. GEOFFREY MARKS.

MR. MAY.

MR. STAMP.

MR. SYNNOTT.

MR. TROTTER.

MR. E. R. HARRISON, an Assistant Secretary to the Board of Inland Revenue, recalled and examined.

The witness handed in the following statement as his evidence-in-chief:—

Proof of evidence to be given by E. R. HARRISON, an Assistant Secretary to the Board of Inland Revenue, as regards returns, assessments, appeals and the payment and recovery of the tax, and various matters arising out of evidence given before the Royal Commission.

24,982. (1) As regards the general procedure of assessment, appeal and recovery of duty, reference is made to the evidence of Sir Thomas Collins [see Appendix No. 4, paragraphs 16, et seq.] and Mr. A. HINNS.

I. RETURNS.

The form of return.

24,983. (2) The form of return for direct assessment of profits of trades and businesses under Case I of Schedule D (see Appendix No. 5) is from time to time made the subject of criticism, sometimes as containing too much, at other times as containing too little information.

24,984. (3) This is a matter on which the Board of Inland Revenue (who prescribe the form) are between two fires. There is a widespread public demand for simplicity [see, for example, the evidence given by public witnesses before the Royal Commission, questions 1472 (15) (Mr. J. E. Allen); 3147 (c), 3220-8 (Mr. R. N. Carter); 7707 (Mr. H. Lakin-Smith)], but experience has shown that there is an even stronger demand for full exposition of the taxpayer's rights. Pressure in the latter direction has notably increased in recent years, owing doubtless to the considerable extension of reliefs and the heavy increase in the rate of tax. Any failure to give full publicity to all allowable reliefs is liable to be attributed to motives of which it is particularly important in the interests of the tax that the Inland Revenue Department should not be suspected.

24,985. (4) Criticism sometimes proceeds on the assumption that the returns are in the main filled up by professional representatives of taxpayers, who are conversant with the Income Tax Acts and derive no assistance from the extracts from the Acts which the form and its enclosure contain. In fact, at least 75 per cent. of the taxpayers make their returns themselves. Experience shows that very many of these taxpayers rely upon the form when preparing or discussing their returns or their claims for relief, and the inclusion of the explanations which are criticised does in practice obviate much contention, disappointment, and waste of time.

24,986. (5) The criticism is also made that the language of the directions and explanations is too technical and complicated, and that the Board of Inland Revenue should make it their business to translate the Income Tax Acts into plain English which any man can understand. The Board feel that if

they were called upon to do any such thing they would be placed in an extremely invidious position. Much of the complexity of Income Tax legislation is merely a reflection of the complexity of modern industrial and social organisation and cannot be eliminated. The use of non-technical language in the existing form has been carried as far as has been deemed safe. Considerable caution has to be exercised as complaints are made from time to time that the Board have acted presumptuously, or even with guile, in substituting their own wording for the language of the Acts. Moreover, the substitution of general descriptive wording is liable to leave loopholes for evasion.

24,987. (6) A considerable step in the direction of simplification has been made in recent years (1) by providing separate forms of return for (a) ordinary individuals, (b) companies and firms, and (c) persons domiciled or ordinarily resident out of the United Kingdom; and (2) by making the form itself as simple as possible and printing on a separate sheet the "Notes, Explanations and Instructions" which accompany the form. An extension of the policy of providing separate forms of return for different classes of taxpayers would in the Board's opinion be advantageous; this extension is scarcely possible under existing law as it would require a very accurate discrimination between various classes of taxpayers when the forms are issued. But if the recommendation made by the Board that the work hitherto performed by the Assessor should be assigned to the Surveyor of Taxes be adopted, reform in this direction would become practicable.

24,988. (7) Criticism has recently been heard of the quality of the paper on which the form is printed (see, e.g., the evidence of Mr. G. O. Parsons, question 1683). This was a necessary war economy due to the paper shortage. It is the intention of the Board to rectify it next year.

24,989. (8) Possibly the difficulties inherent in any radical recasting of the form, apart from that suggested in paragraph 6 above, may be best gathered from the consideration of an alternative. Mr. Roger N. Carter—a recognized authority on Income Tax—has presented to the Royal Commission a draft of a suggested form which is printed in Annex I to this proof of evidence.

24,990. (9) A comparison between Mr. Carter's proposed form and the form of return in present use shows the main lines of departure suggested by Mr. Carter to be as follows:—

(a) omission of Sections A and B of the present form and many of the directions and explanations; with verbal amendments designed to present the form in more popular language;

* The first named form No. 11 is printed as Appendix No. 6 to the Minutes of Evidence. The two last-named forms (Nos. 1 and 11 K) which are variations of form No. 11 are not reproduced.

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- (b) amplification of the proposed form, on definite request, by a further sheet of notes;
 (c) amalgamation into one statement of (i) the return of income for assessment, and (ii) the return of total income for purposes of claim for exemption, abatement or reduction of rate of tax;
 (d) substitution of a comprehensive declaration for the separate declarations now required in respect of the various allowances for Life Assurance, wife, housekeeper, children and dependent relatives.

24,991. (10) Upon these proposals the following observations may be made:—

- (a) omission of Sections A and B of the present form and many of the directions and explanations; with verbal amendments designed to present the form in more popular language.

24,992. (11) (i) It has been mentioned above that practical experience has shown a full exposition of the taxpayer's rights to be necessary. Among the numerous rights of taxpayers of which mention is not made in Mr. Carter's form are the following:—

- the right of husband or wife to elect to be separately assessed;
- the right of electing to be assessed by the Special Commissioners;
- the right of application to the Board of Referees in respect of the deduction to be allowed for wear and tear of machinery and plant;
- deduction of full (Schedule A) annual value of mills, factories, &c.;
- deduction of doubtful debts;
- deduction of foreign and colonial income tax;
- deduction of bank interest from War Loan dividends;
- deductions allowable from income arising from foreign and colonial securities and possessions;
- non-liability of interest accruing on War Savings Certificates;
- non-liability of "dividends" on purchases from Co-operative Societies.

(ii) Mr. Carter proposes to omit a number of explanations on which taxpayers have continually been found to rely. For instance, he would not explain that patent royalties, Life Assurance premiums, capital expenditure, non-trading losses and losses recoverable under insurances or indemnities are not allowed to be deducted in the computation of profits for tax purposes, although such deductions are frequently claimed; and he would omit to explain how the place of residence determines what profits are to be returned, and whether the taxpayer is eligible to claim any relief from the full standard rate of tax on the full returnable profits.

(iii) Mr. Carter also proposes the omission of many requirements and directions which appear on the present form, and the omission of sub-divisions of classes of income which have been inserted for the purpose of rendering the return form complete and effective. These matters have been incorporated in the present form, as the result of experience, in order to make it effective in securing the information necessary for full assessment, for the prevention of excessive assessment, or for the granting of full relief. As an illustration, mention may be made of Mr. Carter's omission to require annual charges to be stated in detail. The necessity for these particulars arises in connection with the adjustment of the Schedule A assessment on each property to the appropriate rate of tax applicable to the income from such property accruing to the individual taxpayer making the return, as any ground rent and interest payable to another person normally require to be kept in charge in the Schedule A assessment at the standard rate.

(iv) It must be remembered that the form of return is constantly being issued to persons of whose circumstances the Inland Revenue authorities know

little at the time of issue—for instance, persons residing in private houses, hotels and boarding houses. In consequence Section A of the present form is provided, in order to save such persons, who may have already made a return elsewhere, the trouble of repeating the return. Again, certain persons are domiciled or are ordinarily resident out of the United Kingdom, and in these cases, the ordinary form being inapplicable, provision must be made, as in Section B of the present form, for having the proper form sent to them. Mr. Carter would omit both these sections of the present form.

(v) Some deletions and groupings proposed by Mr. Carter would appear to assume amendment of the present law in certain directions, e.g., the merging of Schedules B, D and E, the separate assessment of partners in a firm, and the removal of the £500 limit and other conditions governing the treatment of a wife's earnings as a separate income. Of course, any simplification of the law which may ultimately be adopted will be reflected in the form of return.

(vi) Mr. Carter goes further than appears safe in the use of non-technical language. For instance, heading 2 of the proposed form would fail to cover annuities, while heading 4 would fail to cover foreign and colonial rents, foreign and colonial trade profits, remittances out of foreign and colonial salaries, and such income as foreign and colonial preference dividends.

(vii) It must be remembered that the form is essentially one behind which the force of law must be preserved intact. Its language must be such as to exclude any danger of the form being impugned on the ground that its requirements are not in strict accordance with the requirements prescribed or authorised by the Legislature. Mr. Carter's form might be called in question in several respects, e.g., in that it demands, primarily, a statement of total income, whereas the Act only authorises a statement of assessable income to be so demanded, the declaration of total income being optional to the taxpayer. (See also paragraph 13 below.)

As a further instance, the requirements of headings 1 to 7 of the proposed form of return might prove difficult to enforce by reference to the requirements specially prescribed in the Income Tax Act, 1918, Fifth Schedule, Nos. VII to XII. In this connection, it is important to bear in mind the decision of the Courts with regard to the Land Values Return Form No. 6. Upon an action being brought by a landowner upon whom this form had been served, it was held that the form was not authorized by Statute, and that the owner was not under obligation to render the return which the form demanded.

- (b) Amplification of the proposed form, on definite request, by a further sheet of notes.

24,993. (12) It appears from Mr. Carter's evidence before the Royal Commission that the above suggestion is based upon the assumption that only a small proportion of taxpayers under Schedule D fill in their own return forms. The proportion actually doing so amounts (as already mentioned) to at least 75 per cent. of the taxpayers concerned. The Board of Inland Revenue think it essential that taxpayers should be furnished with a sheet of explanations covering ordinary cases, without having to write specially to the Surveyor of Taxes for such information. They should be invited to seek the advice of the Surveyor of Taxes, if they wish to do so, as to exceptional difficulties which may occur.

- (c) Amalgamation into one statement of (i) the return of income for assessment, and (ii) the return of total income for the purposes of claim for exemption, abatement, or reduction of rate of tax.

24,994. (13) (i) The separation of the return for assessment from the return of total income is in accordance with existing statutory requirements, and so long as those requirements remain the separation must be maintained if the force of law is to be preserved behind the form. It must be remembered,

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too, that the rules and provisions relating to the two returns differ substantially. As previously mentioned, the return for assessment is compulsory while the return of total income is optional. Moreover, more than one return for assessment may in certain cases require to be furnished (in two or more parishes in each of which the taxpayer has a source of taxable income), but more than one return of total income is normally unnecessary. Jurisdiction lies with the Additional Commissioners, or in some cases the Special Commissioners, in regard to the former return, and with the General Commissioners in regard to the latter return. The Surveyor's powers respecting the two returns differ and different penalties are provided in regard to irregularities in connection with each return.

(ii) In addition to the legal considerations mentioned above, the separation of the two statements has some working conveniences, inasmuch as it simplifies matters for a considerable number of taxpayers who require to fill in the return for assessment only, and also for each person as partner in firms who frequently require to fill in the statement of total income only.

(d) *Substitution of a comprehensive declaration for the separate declarations now required in respect of the various allowances for Life Assurance, wife, housekeeper, children and dependent relatives.*

24,985. (14) Formal declarations, embodying in themselves statements of specific facts are calculated to minimize the risk of inaccurate statements, and to afford a more reliable basis for legal proceedings, should occasion arise for this course of action. On the other hand, a common declaration is an obvious convenience to taxpayers, the convenience increasing with the increase in the number of reliefs that can be claimed, and it has already been adopted in certain forms—for instance, in the return form issued to weekly wage-earners, in certain repayment claim forms, and in the forms of claim for the new reliefs granted by the Finance Act, 1919. In view of the additional reliefs granted by that Act, the Board of Inland Revenue are already considering the question of extending the common declaration to the remaining returns and claim forms in the ensuing financial year.

24,986. (15) It may be added that a comparison with the more important United States forms of return, viz., the Corporation Income and Profits Tax Return and the Individual Income Tax Return indicates that these forms are much more complicated and detailed than the corresponding British forms.

Compulsory returns of total income from all taxpayers.

24,987. (16) It is suggested from time to time as desirable that every taxpayer should be under a statutory obligation to make a return of his total income from all sources.

24,988. (17) Substantially the necessary powers in this direction already exist.

24,989. (18) All persons called upon to make a return of their total income for purposes of Super-tax are required to make that return, whether they are liable to Super-tax or not. This covers the case of total incomes exceeding or believed to exceed £2,500. At present these taxpayers are not under obligation to give a detailed return, but the Board of Inland Revenue have already suggested that this omission should be rectified. (Questions 14,423 to 14,430.)

24,990. (19) All taxpayers are required to make, for the purposes of Income Tax, returns of any portion of their income liable to direct assessment.

25,001. (20) Taxpayers who desire to claim any exemption, abatement or relief calculated by reference to the amount of their total income are required for this purpose to make a return of the particulars of their total income. All taxpayers with incomes less than £2,500 are entitled to claim such exemptions, abatements or reliefs, with the exception only of that very limited class of taxpayers whose incomes lie between £2,000 and £2,500 and are derived ex-

clusively from unearned sources, and who have not assured their lives in such manner as to entitle them to relief from Income Tax in respect of the premiums paid.

25,002. (21) In these circumstances the Board see no sufficient reason for urging that the suggestion referred to in paragraph 16 should be adopted. If, however, the suggested power should be conferred upon the taxing authority and held in reserve for use in occasional cases, it would have elements of convenience rather than otherwise.

Miscellaneous suggestions relating to the form of return made by public witnesses before the Royal Commission.

25,003. (22) Mr. H. Lakin-Smith (question 7707) suggested that on the Form of Return a table should be printed showing how the amount of Income Tax payable is arrived at on the lines at present adopted for Super-tax. The table referred to is printed, not on the Super-tax form of return, but on the notice of assessment to Super-tax (copy attached)* and in the Board's view it is more appropriate to the notice of assessment than to the return form, more particularly as the latter document has to be issued to taxpayers before the rates of Income Tax payable for the year have been determined by Parliament. On the Income Tax notice of assessment (copy attached)† the rate of tax payable on the assessment to which the notice relates is clearly stated, and the Board doubt whether it is desirable to encumber the return form with a full statement of rates of Income Tax applicable both to earned and unearned income, abatements, personal allowances, &c., which would all have to be given if it were decided to meet Mr. Lakin-Smith's suggestion.

A separate form (No. 64-10, copy herewith)‡ exists, on which all the rates of tax are given, and it is suggested that this form sufficiently meets the requirements.

25,004. (23) A suggestion was made by Mr. Eresut (question 4791) that Income Tax returns should be treated as repayment claims where repayment is due. It is, in the Board's opinion, impracticable to carry out this suggestion, with the Income Tax as it is now modelled. The form of return does not provide for all the information to be given that would be necessary for the purposes of a repayment claim, and if it were revised to serve, in a small minority of cases, the double purpose suggested, its length and complexity would of necessity be considerably increased.

It was suggested by Mr. Currie (question 7674) that the form of return might contain a place for deposit interest. This has already been provided.

25,005. (24) The suggestion has been made that the notes and instructions which accompany the Income Tax return form should appear in the form of a separate official publication.

The Board's views on this matter may to some extent be gathered from paragraphs 2 to 14 of this evidence. It would be exceedingly difficult, if not impossible, to compile and issue to the public an official publication of a popular character containing a so-called "simplified statement" of Income Tax law, without giving rise to numerous complaints of *supplicatio veri et suggestio falsi*. The notes and instructions which accompany the present return form, and which are issued with every form free of charge, represent an attempt to give to the taxpayer the information that he most needs when filling up his form. These notes and instructions have been made as simple as possible, having regard to the complexity of the subject dealt with, and an official manual of the character suggested would necessarily be something on very much the same lines, but printed in book form and issued at a charge to the public. If such a manual were expected to deal not merely with the method of filling up the return form, but also with other matters relating to Income Tax liability which the ordinary taxpayer would be likely

* See Appendix No. 11. † See Appendix No. 42.

‡ See Appendix No. 63.

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to have to deal with, it would of necessity grow to an inordinate length, a fact which is apparent from the size of various popular and other handbooks on Income Tax which are in circulation to-day, as the result of private enterprise.

II.—MAKING OF ASSESSMENTS.

Assessments on partnership profits.

25,006. (25) Under section 20 of the Income Tax Act, 1918, the separate partners in a partnership may claim exemption, abatement, or relief under the general provisions of the Act according to their respective shares and interests, the income of each partner being deemed to be the share to which he is entitled during the year to which the claim relates, in the partnership profits as computed for Income Tax purposes. But Rule 10 of the Rules applicable to Cases I and II of Schedule D prescribes that the tax as respects the partnership profits shall be computed and stated in one sum, a single return of the profits of the partnership being rendered by the precedent acting partner and a joint assessment made in the partnership name.

25,007. (26) This joint assessment is sometimes criticized as being inconvenient, and more especially because the assessment—being in fact the sum of the liabilities of the several partners after each has secured the special relief to which he is entitled—is liable to disclose to one partner a certain amount of information as to the private circumstances of another (*see*, for instance, questions 7683, 7971 (Mr. G. W. Currie); 3353-6 (Mr. E. N. Carter); 7708 (Mr. H. Lakin-Smith)).

25,008. (27) It is essential to the effective working of the Act that the computation of the taxable profits of a partnership should continue to be made in a single sum on the basis of a single return in the district where the partnership is carried on, but there is, the Board of Inland Revenue think, no substantial objection to the shares, when ascertained, of the several partners being brought into assessment separately in the names of the individual partners, if there is any general desire for that course. It would be well that there should be a reserve power to assess in the partnership name,

- (a) any charges (*e.g.*, interest on borrowed capital) payable out of the partnership profits to persons other than partners; and
- (b) the whole of the partnership profits where the names or addresses of any of the partners are withheld.

It would also be necessary (either by making the assessments in the partnership name "for account of" the individual partners—as suggested to the Royal Commission by Mr. E. N. Carter, *vide* question 3138—or by an express statutory power) to retain the existing power of distraining (where necessary) on any assets that are now liable to distraint for tax payable in respect of partnership profits or any interest therein. The possession of this power of recovery against partnership assets might be necessary, not only in cases of default of payment by individual partners in normal circumstances (*e.g.*, in the case of a partner residing abroad), but also where, owing to a change in the partnership, a redistribution of liability became necessary in the course of a particular year.

Place of assessment.

"One taxpayer—one assessment."

25,009. (28) The broad general rules as to the places where assessments are to be made under the existing law are as follow:—

- (1) lands and buildings are to be charged in the parish where they are situate;
- (2) profits of trade, profession, employment, &c., are chargeable where the trade, &c., is carried on, or where the taxpayer ordinarily resides;
- (3) persons not engaged in trade, &c., are chargeable where they ordinarily reside.

25,010. (29) The effect of these rules is that in many cases a taxpayer who is interested in more than one business, or who is employed at more places than one (*e.g.*, a director of several companies) is assessed to Income Tax for the same year at a number of different places. Several witnesses (for instance, Mr. H. Lakin-Smith, question 7708; Mr. William Cash, question 8291 (4)) have urged that a single assessment should be made on each taxpayer in respect of his total liability. The kindred suggestion has also been made that on the single assessment the liability both to Income Tax and Super-tax should be accounted for. This latter suggestion, of course, involves the practical merger of the Super-tax in the Income Tax.

25,011. (30) With regard to the first question the Board have no desire to oppose any proposal which will really tend towards simplification of the Income Tax, and if, on examination, the proposal to make a single assessment on each taxpayer in respect of his total liability should be found to have this result, its advantages would be very considerable.

25,012. (31) They desire to point out, however, that the question is by no means free from difficulty. Some of the difficulties involved were brought out in the course of my examination on the 25th September, 1919 (questions 14,553 to 14,564). Moreover, in the Board's view, there are certain conditions the fulfilment of which is essential to the efficient working of the Income Tax. One of these is that the amount of the profits derived from a particular business (and in the case of a partnership, the division of these profits between the partners) should normally be determined by the Commissioners for the district in which the business is carried on.

For instance it is clearly advantageous that the profits of the cotton spinning industry should be dealt with in Lancashire, where that industry is centralized, and where Commissioners, accountants, and Surveyors of Taxes are likely to have expert knowledge relating to the industry, rather than that a taxpayer who carries on cotton spinning in Lancashire should have his profits dealt with at his place of residence, which might be in a southern county, where local knowledge of such an industry may well be almost non-existent. The foregoing consideration is, in the Board's judgment, so weighty as to make it desirable that if a single assessment is to be made on each taxpayer, that assessment should be made, in the case of a taxpayer carrying on business, at his place of business, and not at his place of residence. If this general rule be admitted, the application of the principle of a single assessment on each taxpayer would at once create difficulties where a person carried on, either solely or in partnership, two or more businesses in different places, and, in a less degree where the taxpayer held two or more appointments or employments in different places.

25,013. (32) It is true that the difficulties in such cases might be surmounted by leaving it to the Commissioners for the place of business or place of employment to determine the amount of liability arising from sources of income earned at such place, and notifying particulars of the amount so determined to the place where the taxpayer has his principal business (*or*, in some cases, his place of residence) in order that the figures might be aggregated as part of a single assessment to be made on him at one or other of the latter places. The Royal Commission will, however, appreciate that in such circumstances, although a single assessment might be made on each taxpayer, yet a taxpayer holding several appointments or having more than one business in different places would normally have to continue to deal with the assessing authorities at those places in respect of his liability there arising. The sacrifice of this would, in the Board's opinion, be fatal to the efficient working of the Income Tax.

25,014. (33) It would also be essential to take power to require taxpayers to fill up a simple form, when called upon to do so at any particular place, stating where they had made a complete return of the whole of their taxable income for assessment.

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Further, this complete return would of necessity require to be a detailed return specifying separately each source of assessable income and its place of origin.

25,015. (34) If a single comprehensive assessment were, as far as possible, made on each taxpayer, as suggested, it would certainly be at the cost of many of the advantages which flow from the present system, e.g., the prompt settlement of questions arising on an assessment. The Surveyor having the comprehensive assessment would often be unable, without reference to another district, to answer the enquiries made by a caller, or to settle questions made by the latter. This would lead not only to dislocation of the work, but also to considerable irritation on the part of the public. Moreover, the settlement of the comprehensive assessment would frequently be held up while action was being taken elsewhere as regards one of its constituent parts.

25,016. (35) The further suggestion that the Super-tax should be merged in the Income Tax follows naturally from the first suggestion, although the one does not necessarily involve the other. The complete merger of Super-tax in the Income Tax, in the sense that a single assessment should be made on each taxpayer on which duty should be charged at the rate appropriate to his total income, is not consistent with the present system of collection of Income Tax partly at the source. Even under the proposals which are dealt with in the foregoing paragraphs a single assessment could not always be made on the aggregate income of the taxpayer. If the average rate of tax applicable to the income of a particular individual were (say) 7s. in the £,* liability in respect of business profits at that rate could not be combined with an assessment on dividends or income from lands and buildings taxed at the source at 6s., and therefore liable to a further charge at the rate of 1s. only.

25,017. (36) The nearest approach to merger of the Super-tax in the Income Tax which could reasonably be hoped for without abandoning taxation at the source would be that a single direct assessment on the unforced income of each taxpayer should be made at a rate which would include his liability in respect of both Income Tax and Super-tax. If he had income from dividends or real property, or both, a further assessment would be necessary in respect of his liability to Super-tax on these sources of income, and thus, apart from tax deducted at the source, it would be necessary to make at least two assessments instead of a single assessment upon the majority of taxpayers whose incomes fall within the Super-tax range. But here a difficulty would arise. The rate of Income Tax when ascertained in a rate which is applicable to the whole of the income of the same class (i.e., earned or unearned) of the taxpayer whose case is under review. On the other hand, Super-tax is chargeable on different parts or "slices" of the incomes at different rates. In cases, therefore, in which it would be necessary to make more than a single assessment upon the same person the different assessments would necessarily be made on different slices of the income at different rates of duty, and it is questionable whether the result would not be at least as puzzling to the taxpayer as the present system.

25,018. (37) Under the present system a person liable to Super-tax (a) accounts for his liability to that tax in a single assessment upon his total income, and (b) is charged with Income Tax (possibly in several places and in different ways) at the uniform rate of 6s. in the £. There is, therefore, little in the present system to puzzle this class of taxpayer. The Board of Inland Revenue suggest that the taxpayer who is most puzzled by the existing system is the person whose income is below the Super-tax range altogether, and who receives separate assessments on different items of his income at apparently different rates (because of abatements, and allowances, and

set-offs for tax over-deducted from dividends taxed at the source). The advantages of a single assessment would be most apparent in this class of case where no question of the merger of the Super-tax in the Income Tax arises.

25,019. (38) On the whole, whilst the Board consider that the making of a single assessment to Income Tax on each taxpayer might result in some cases (i.e., where the taxpayer has only one place of business or employment and where neither income from dividends, &c., taxed at the source nor income from property assessed under Schedule A is involved) in a certain degree of simplification, yet, having regard to the considerations mentioned in paragraphs 31-34 they are clearly of opinion that in the majority of cases this procedure would itself involve both the taxpayer and the administration in a number of difficulties, which at present do not exist and which would more than outweigh any gain.

25,020. (39) As regards the merger of the Super-tax in the Income Tax, their view is that on balance so long as the Super-tax remains chargeable on different slices of the income at different rates, the effect of partial merger—which is all that could be effected—would be greater complexity rather than greater simplification.

Surcharges.

25,021. (40) Section 161 of the Income Tax Act, 1842, gave power to the Surveyor of Taxes to examine all assessments, and provided that if he should find that any person who ought to be charged "shall have been omitted to be charged . . . or shall have been under-rated" he should certify the particulars of a surcharge to the Commissioners in the manner prescribed by the Acts.

25,022. (41) Sections 63 *et seq.* of the Taxes Management Act, 1880, which dealt with the manner of making surcharges were, however, defective in that they provided only for the case of a person who has not been assessed at all, and not also for the case of the person who has been assessed in an insufficient amount. These defects, which appear to have arisen from mere oversight or a drafting error, could not be corrected when the law was consolidated, and the result is that the Income Tax Act, 1918 (*vide* section 26) confers on the Surveyor of Taxes no power of surcharge in a case where he discovers that a person has been insufficiently assessed.

25,023. (42) In the judgment of the Board of Inland Revenue, the Surveyor should have the same power of surcharge in the case of insufficient assessments as he possesses where no assessment at all has been made, and they suggest that the law should be amended accordingly.

25,024. (43) In making this suggestion, the Board do not propose that the protection to the taxpayer afforded by sub-section (3) of section 133 of the Income Tax Act, 1918, should be withdrawn. This subsection provides that where an objection made by the Surveyor to an assessment has been determined on appeal, he shall not make any further charge for the same year in respect of the same matter, property or profits, and in the opinion of the Board it satisfactorily marks the limits within which the power of surcharge should be exercised.

Public notices and notices of assessment.

25,025. (44) It has been suggested that the system of requiring public notices to make returns, &c., to be affixed to church and chapel doors is archaic, and should be superseded by notices inserted in local newspapers. The Board of Inland Revenue doubt whether this suggestion has much to recommend it. The public notice—in whatever form given—has its value where proceedings are contemplated against persons who are suspected of evading their liability, but experience has shown that as a practical means of inducing any considerable number of persons to come forward and declare their liability, it is painfully defective. In these circumstances, the Board suggest that whilst the particular notices to individuals should continue to be regarded as the normal method of drawing the attention of the public to their

* Owing to the method of graduation of the Super-tax there is in fact no such average rate legally applicable to the income as a whole—see paragraph 35.

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duties in regard to the Income Tax, the general church door notices should be retained as the necessary foundation of legal proceedings where circumstances have precluded a particular notice from being given.

25,026. (45) Mr. W. G. Rayner (question 8845) suggested that where the assessment differs from the taxpayer's return, the basis of the assessment should be set forth in detail. In the Board's opinion the notice of assessment contains all the necessary information in this respect, but, if the taxpayer wishes for further particulars in any individual case, he can, of course, obtain them on application.

Mr. Crook (question 5733) suggested that definite information as to the method of appeal should appear upon the assessment notice. The notice of assessment contains an intimation that if the taxpayer wishes to appeal, he should give notice of objection to the Surveyor of Taxes within a stated time. It is only a very small percentage of taxpayers who have occasion to appeal, and those who give notice to the Surveyor of their desire to do so are furnished by him with any necessary information as to the procedure to be followed. Reference may be made in this connection to paragraphs 93-107 of this proof dealing with "Statement of the taxpayer's total liability."

III. APPEALS.

25,027. (46) The Board associate themselves with the views expressed by the Presiding Special Commissioner of Income Tax as to appeals to the High Court on a point of law in respect to certain applications for repayment and adjustment (question 13,498). The cases in which the Board consider this right of appeal to the High Court might properly be given are the following:—

applications under Rule 3 of the Miscellaneous Rules applicable to Schedule D (cessations, deaths, bankruptcies and other specific causes of loss of profits;

applications for relief in respect of loss (section 34);

applications for relief where profits from land occupied for the purposes of husbandry fall short of the assessment, (Schedule B, Rule 6);

applications for relief in the case of new businesses and businesses discontinued. (Schedule D, Cases I & II, Rule 8).

It is a matter for consideration whether the right of appeal on a point of law should be further extended so as to apply to all claims for relief of any kind, by repayment or otherwise. So far as the Board are concerned, they would offer no objection to such an extension.

25,028. (47) They also associate themselves with the Presiding Special Commissioner's suggestions as to County Court Judges in Ireland (questions 13,482-7.) and as to the method of announcing the Commissioner's determination on an appeal (questions 13,467-69).

25,029. (48) It also seems desirable that statutory authority should be given to the Surveyor of Taxes to amend an assessment where he is able to arrive at agreement with the taxpayer after a notice of appeal has been given—the Surveyor afterwards obtaining covering authority from the Commissioners to whom notice of appeal was given. As explained in Sir Thomas Collins' evidence (question 678), this would give formal statutory authority to the method by which—in the nature of things—the great majority of appeals are actually settled.

IV. PAYMENT OF TAX.

25,030. (49) Income Tax which is directly assessed is normally payable on or before the 1st January in the year to which the assessment relates, or, in the case of assessments made after the 1st January, on the day following the making of the assessment.

25,031. (50) There are, however, certain important exceptions, mainly the result of developments of the tax during the war.

25,032. (51) Property Tax under Schedule A is payable in two equal instalments on or before the

1st January, and on or before the 1st July following. This arrangement is necessary, because the tax is in very many instances payable by the tenant (though not in the case of weekly properties), who recovers it from the next payment of rent to the landlord, and the tax at the present rate, if charged in a single sum, would often exceed the amount of the next (quarterly) payment of rent.

25,033. (52) The same system of payment by instalments applies to individuals or firms assessed in respect of the profits of any trade (including farming), profession, or vocation and (with certain exceptions) to individuals in respect of the profits of any office or employment. This concession was made to relieve the difficulty which such taxpayers would otherwise often experience in finding the whole amount of duty due at a single date.

25,034. (53) The duty payable by manual wage-earners is assessed and paid quarterly. Facilities are also afforded to this class of taxpayers to spread over a period of thirteen weeks the payment of amounts due from them for one quarter. This is effected by an arrangement under which Income Tax stamps can be purchased weekly and affixed to a card—the stamped card being accepted by the Collector at the end of the period in payment of the tax.

25,035. (54) Railway companies in England and Ireland pay the tax under Schedule D, by four quarterly payments, on the 30th June, 30th September, 30th December, and 30th March in the year of assessment. This is a survival of the provisions for payment contained in the Act of 1842.

25,036. (55) Where income from which tax is deductible is paid otherwise than out of profits and gains charged to tax, the payer is required to account to the Revenue for the tax immediately after the deduction is made.

25,037. (56) The Board do not consider that the foregoing arrangements call for review.

25,038. (57) Several witnesses have, however, suggested that companies should be accorded the same privilege as private individuals and firms in the matter of payment of the tax by two instalments. Payment by two instalments in the case of individuals and firms was introduced to meet the difficulty, felt in particular by taxpayers with small or medium incomes, of finding the whole amount of the tax in one sum at the beginning of January. The same considerations do not apply as regards companies. A company before distributing dividends to its shareholders ought to retain and normally does retain a sufficient sum to cover the Income Tax payable on its profits. It is in a position to estimate in advance the approximate amount that will be required for this purpose. In numerous cases dividends from which tax is deducted at the source are paid to shareholders at various dates before 1st January. Many of the shareholders concerned can come to the Inland Revenue Department for repayment of tax so over-deducted at the source, and if payment of the tax were not promptly made by the company to the Revenue, the company's shareholders might in many cases be repaid tax before it had reached the Department. Moreover, the extension of the system of payment by instalments to companies would mean a loss of revenue in one year (by deferment of tax) amounting to perhaps £65,000,000. In the Board's judgment no good case has been made for the change suggested.

25,039. (58) Mr. A. Eronet (question 4792) made the suggestion that where an appeal against an assessment cannot be determined at once the duty on so much of the assessment as is not in dispute should be payable as and when it would normally be due.

The Board associate themselves with this suggestion which would have the effect of preventing payment of tax being deferred in such cases to the extent that it is admittedly due to the Revenue.

25,040. (59) A historical note on payment of Income Tax has been submitted [see Appendix No. 7 (p)].

V. DISCOUNT ON PREPAYMENT OF TAX.

25,041. (60) Section 139 of the Income Tax Act, 1918 (which is based upon sections 141 and 142 of the Act of 1842 and section 10 of the Act of 1889),

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provides for the allowance, on application, of discount on prepaid Income Tax charged under Schedule D, the allowance being at the rate of 2½ per cent. per annum for the period from the date of actual payment to the date limited for payment.

25,042. (61) This provision, of which very little use is made, ought, in the Board's opinion, to be repealed. A provision which is limited to Income Tax under Schedule D is clearly too circumscribed. It is suggested that in principle at any rate any discount provisions should apply to the whole of the Income Tax and Super-tax.

25,043. (62) Under existing law (which has no provision analogous to the Excess Profits Duty provision for depositing duty in advance) Income Tax or Super-tax cannot be paid until it is assessed. Ordinarily, therefore, the possible period of pre-payment is extremely short. The payments every year include some millions of small amounts on which any discount, even if it fell to be allowed for a considerable period, would be trivial. In the case of manual wage-earners, an ordinary discount provision could hardly be applied at all.

25,044. (63) Before an effective discount provision could be introduced, a number of serious practical difficulties would have to be overcome. It would seem anomalous also that when certain classes of taxpayers, to the exclusion of others, are granted an extension of time for payment of one-half of their tax (see paragraphs 50-52 above) they should be allowed discount on payment in advance. The anomaly would reach its height if, whilst they were permitted to delay payment of one instalment without being charged interest, they, nevertheless, received discount on prepayment of the other.

25,045. (64) The matter goes even further than this. Many taxpayers receive part or the whole of their income under deduction of tax. In some cases the amount of tax suffered does not exceed the taxpayer's net liability, but even so it is suffered on an average at an earlier date than the 1st January, when taxpayers charged by direct assessment are liable to pay the duty. In other cases the taxpayer is entitled to claim repayment of part or the whole of the tax deducted. In each case the taxpayer appears logically entitled to share in the benefit of any discount provisions that may be prescribed.

25,046. (65) A radical scheme for dealing with this matter might prescribe that for every £ of Income Tax or Super-tax which a taxpayer pays or bears by deduction or otherwise before a prescribed date (say, 1st January) he should receive discount of 5 per cent. per annum (1d. per £ per month), and for every £ of Income Tax or Super-tax paid or borne after the prescribed date he should be charged interest at the same rate. Corresponding allowances of interest would fall to be made on any tax repaid.

25,047. (66) The Board of Inland Revenue are of opinion, however, that a scheme of this kind would create dissatisfaction rather than otherwise on account of its intricacies, and that in any event its adoption is precluded by the immense amount of detail work that it would involve and the consequent increase in the cost of administration.

25,048. (67) Although any partial scheme of allowance of discount is open to many of the objections mentioned in paragraphs 63 and 64 above, it may possibly be felt that facilities should be offered to taxpayers liable to direct assessment who wish to meet in advance the liability which awaits them at Christmas. It is sometimes represented that, notwithstanding the relief afforded by the instalment system, an arrangement of this kind would be especially of advantage to taxpayers with small or medium incomes.

25,049. (68) If this view were taken, the Board think that an arrangement would be feasible somewhat on the lines of that adopted for Excess Profits Duty. Arrangements might be made for taxpayers on or after 1st July in any year to purchase Income Tax vouchers which could be tendered in lieu of cash in payment of Income Tax falling to be paid on or before the 1st January following. Similar arrangements might also be made *re* regards tax becoming payable on 1st July. The vouchers might be issued

in denominations, e.g., of £1, £5, £10, £50, &c., under discount of 1d. per £ per month (or 5 per cent. per annum).

25,050. (69) Such vouchers might, subject to the concurrence of the Departments concerned, be obtainable at all Head Post Offices, and possibly at the offices of Collectors of Customs and Excise, or in the case of large amounts at the Head Office of the Accountant and Comptroller General of Inland Revenue. In order to prevent the danger of forgery the vouchers should be not negotiable and not transferable, and the name of the payer should be inserted on the voucher.

VI. REPAYMENTS.

25,051. (70) The deduction at the source of Income Tax at the rate of 8s. in the £, a rate which, so far as individuals are concerned, is applicable only where the total income exceeds £2,000, involves a very large number of subsequent adjustments in order to ensure that the rate of tax ultimately borne corresponds with the amount of the taxpayer's total income.

25,052. (71) These adjustments are not all made by way of repayment of tax. As explained in the Memorandum on the existing Income Tax System (see Appendix No. 2), a large proportion of amounts overpaid at the source are set off against tax payable by individuals on direct assessments (for instance, on their business profits or earnings). Moreover, income from the ownership of property, which is assessed under Schedule A and collected from the tenant, is normally charged at the rate appropriate to the income of the owner of the property.

25,053. (72) Mr. Roger N. Carter (question 3187) suggested that where, after the total remission of tax on a particular assessment (e.g., by the making of a personal allowance which exceeds the assessment in amount) there remains a balance of tax due to the individual concerned, the fact should be communicated to him. The Board associate themselves with the principle of this suggestion and in so far as it is not already covered by the existing practice, they propose to take steps to carry it into effect as far as possible.

25,054. (73) There remain, however, a large number of cases in which repayment of tax has to be claimed (see the particulars given in Table IV of the Statistical Tables printed as Appendix No. 11). A considerable number of public witnesses have referred to the hardship caused by the collection in the first instance of an excessive amount of tax and the necessity for the taxpayer to claim an adjustment by way of repayment, and have suggested that the machinery for making repayments should be improved (see questions 4596, 5733, 5761-3, 7368, 7711, 8278, 8291, 8967-71).

25,055. (74) In his opening evidence given before the Royal Commission on the 7th May (question 134), Mr. R. V. N. Hopkins referred to the intention of the Board of Inland Revenue to decentralize the repayments work as soon as possible in order to assist the taxpayer in obtaining more easily and speedily repayment of the amount due to him. The Board's intentions were explained in greater detail in the course of my examination on the 8th October (vide questions 15,232 and 15,424 to 15,429), and the two statements taken together, it is believed, sufficiently indicate the nature of the Board's proposals. They hope to be able to carry them into effect towards the end of next year, 1920.

25,056. (75) The decentralization of the repayments work would raise definitely the question of the sufficiency of accommodation in the offices of Surveyors of Taxes. Prior to the war the staff of an average Surveyor's district consisted of the Surveyor himself, sometimes an Assistant Surveyor, and about three or four clerks. Owing to the great expansion of the work arising out of the increase in the scope and rates of the Income Tax and the introduction of the Excess Profits Duty, the staff of the majority of tax districts has necessarily been greatly expanded. The consequence is that offices that were formerly sufficient to accommodate the staff in comfort and to provide for the needs of callers without inconvenience

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ing the public have now in many cases become inconveniently crowded. To meet this difficulty, various emergency steps were taken from time to time during the war and in some cases offices have been removed to more suitable quarters. The continued growth of the work, however, and the desirability of affording the public greater facilities for obtaining advice and assistance from the Surveyor of Taxes render it necessary that the question of office accommodation should be reconsidered throughout the country.

25,057. (76) The Board of Inland Revenue regard the matter as one of considerable importance, not merely from the point of view of the efficiency of the work and the comfort of the Board's officers, but also from the side of the convenience of the public; and they have already instituted an inquiry as to the extent to which the existing offices are insufficient to meet the reasonable needs of the near future. Whilst it is their intention to ensure that the necessities of the situation are fully met, as far as possible, they think it necessary to add that the finding of additional office accommodation at the present moment is often a matter of very great difficulty, and that recent experience in this direction has from time to time forced them to accept temporarily less suitable accommodation for their Surveyors than they would have wished, owing to the fact that nothing better was available.

VII. LIMITS OF TIME FOR GIVING NOTICE OF APPEAL AGAINST ASSESSMENTS AND FOR CLAIMING OTHER RELIEFS.

25,058. (77) It has been suggested to the Royal Commission (*vide* question 8291 (9), Mr. William Cush) that the limits of time for claiming adjustments and reliefs by way of repayment should be the same as the limits of time within which the Commissioners have power to make assessments on taxpayers, the underlying implication being that such a position of nominal equality would be fair to all parties concerned. This suggestion, however, leaves out of account the consideration that the information necessary to enable a correct assessment to be made must normally come from the taxpayer himself, and consequently that insufficient assessments or the absence of assessments where liability exists are, generally speaking, due to either accidental or deliberate non-disclosure of essential facts by the taxpayer. This consideration, it is submitted, is sufficient to demonstrate the unfairness of the suggestion, more especially as it is the dishonest minority of taxpayers who would stand to gain most by its adoption.

25,059. (78) The time limits for claiming various reliefs under the Income Tax Acts do, however, differ to a considerable extent, and are apparently based on no clear principle, and it is a question for consideration whether greater uniformity of treatment is not desirable.

25,060. (79) As far as appeals against assessments to Income Tax are concerned, the taxpayer is required to give notice of objection within twenty-one days after the date of the notice of assessment.

25,061. (80) Sir James Martin, in his evidence before the Royal Commission (question 5323), suggested that the twenty-one day limit for Income Tax appeals should be extended to six weeks, his reason being that "there are many causes which might prevent a taxpayer from actually receiving the assessment until the period has elapsed." Mr. W. G. Rayner (question 8845) and Mr. R. B. Hopkins (question 13,085) each made a similar suggestion.

25,062. (81) The reason given by Sir James Martin for an extension of the limit by twenty-one days does not appear to be very convincing, as clearly there is no limit to the time during which the receipt of a notice may be delayed from accidental causes.

25,063. (82) Mr. R. B. Hopkins (questions 13,172-9) in proposing a three (or possibly six) months' limit, observed that the practice had been better than the law, the strict letter of which he suggested had not been acted on.

25,064. (83) It is obviously necessary, in order to enable the Income Tax to be collected when it is due, to maintain a time limit for giving notice of appeal against an assessment. There seems to be no serious complaint as regards the existing time limit, as it is actually applied in practice, and it is for consideration whether any alteration in the law is called for. If the Royal Commission should come to the conclusion that statutory provision should be made for an extension of time to be allowed where, for good reasons, the taxpayer has been prevented from giving notice of appeal within the time prescribed, it is suggested that this might be done by giving the Commissioners concerned an express power to grant such an extension of time on sufficient cause being shown.

25,065. (84) As regards Super-tax assessments, the statutory regulations impose a limit of "twenty-eight days from the date of service of the Notice of Assessment, or . . . such further time as the Special Commissioners shall allow." No alteration appears to be called for.

25,066. (85) The principal reliefs other than appeals against assessments in respect of which a time limit for applying for relief is imposed by the Act are given in Annexes II. to this proof. It is suggested that in all cases in which the time for giving notice of a claim for relief expires at an earlier date than one year after the end of the year to which the claim relates it might with advantage be extended to one year after the end of such year. If the adjustment of a claim necessitates the consideration of the liability for a series of years *en bloc*, it is suggested that the time limit should be extended to one year after the end of the last of such series of years.

VIII. THE PERIOD OF THE YEAR OF ASSESSMENT.

25,067. (86) The question of the ending date of the Income Tax year of assessment was first raised before the Royal Commission in the examination of Mr. R. V. N. Hopkins at the opening sitting (questions 140 et seq.). The same question, in one or other of its aspects, has also been touched upon by public witnesses (*vide* questions 7713, 8229-30, 8490). An explanation of the adoption of the period 6th April to 5th April, as representing the fiscal year in this country, is given in the Historical note. (*See* Appendix No. 7 (c).)

25,068. (87) The chief criticism now levelled against this period as the assessment year is a repetition of a complaint raised at the end of the eighteenth century, in regard to the financial year, viz., that it has little reference to existing commercial practice.

The bulk of business accounts are now made up to the 31st December or 31st March*. Mr. Stewart Blacker Quinn, in his evidence-in-chief before the Royal Commission (question 7713), in advocating the preceding year basis for assessment purposes suggested that, with a view to earlier computation of liability, assessments under Schedule D should be based on accounts ending on a date immediately preceding the 1st January (instead of the 5th April), preceding the year of assessment. This course would not necessarily involve an alteration of the Income Tax year itself, although in question 8229 he endorsed the view that "the financial year should correspond to the ordinary business year."

Mr. William Cush, replying to Mr. Marks (question 8490) on the question of making the fiscal year coincide with the calendar year, thought that course possible, adding, "It would have to be done, I take it, by saying that in one year three-quarters only of the Income Tax would be payable up to, we will say, for argument's sake, 31st December, and then another twelve months thereafter." Sir Leo Chiosso Mowry (question 10,579) thought that on the whole, the disadvantages of such a coincidence of year outweigh the advantages.

* "Rather less than one-half of the business community make up accounts to 31st December, perhaps three-tenths to 31st March, and the remainder to various dates preceding December, averaging about 30th August." "These proportions have been adopted as the result of a number of samples taken from different parts of England." *British Income & Property*, by Dr. J. C. Stacey, p. 177.

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25,069. (88) The question of altering the ending date of the fiscal year, it is suggested, requires to be considered only in relation to two dates other than the 5th April, namely, 31st March and 31st December.

25,070. (89) If it were desired to make the Income Tax year end on 31st March, two alternative courses present themselves as regards the year of change, viz., (a), Income Tax might be charged in respect of the full year's income to 31st March, notwithstanding that tax would already have been charged in respect of five days of that period, viz., April 1st to April 5th, or (b) Income Tax might be charged in respect of only the 300 days from April 6th to March 31st.

25,071. (90) Proposal (a) is, of course, open to the immediate and obvious objection that the liability to Income Tax having been met up to April 5th in the new year of assessment (ending on March 31st), it would be unwarrantable that the State should seek to tax for a second time any part of the income involved. It is true that it would dispose of any question of loss of revenue, and that the duplication of tax for five days is not very considerable, but on examination, the difficulties appear to be formidable. As compared with proposal (b), which would involve ordinarily the charging of direct assessments under Schedules A, B, D and E at $\frac{1}{100}$ ths of the liability on an annual basis, course (a) has a certain attractiveness in that assessments would be continued on a yearly basis, and that the duplication of tax, as well as the change of year, would, as regards a large group of assessments, be practically imperceptible. Thus, as regards Schedule A, the tax, although covering the year to 5th April, is for practical purposes very usually regarded, in England at any rate, as in respect of the year to Lady Day, especially in regard to allowances for empty property and the deduction of tax from rent, and the alteration would make little apparent difference.

As regards Schedule D, profits assessed on the basis of the profits of prior years would continue to be assessed, very few accounts being made up to a date within the period April 1st to April 5th. Schedule E liabilities are already in practice very largely calculated on the basis of the year to March 31st. The change of year and duplication of tax would, in fact, be little noticeable except in such a contingency as a cessation or a succession, after the change, involving the calculation of liability from April 1st instead of from April 5th. Difficulty would arise, however, in the case of income taxed by deduction, in regard to which, if it were considered desirable to secure absolute equality of treatment of different taxpayers a provision would be necessary to the effect that in respect of that proportion of any rents, dividends, interest or other annual payments which accrue (or, in the case of such payments as are ordinarily treated in the hands of the recipient as income of the year in which they are receivable, are estimated to accrue) during the period April 1st to April 5th, tax should be deducted at double rates.

Assuming the normal rates in the new year of assessment (ending on 31st March) to be 6s. in the £, the extra deduction would amount to $\frac{1}{100}$ th of a penny per £ for the five days. But difficulties would not end here. Suitable adjustments would seem to be necessary for cases where the burden of duplicate taxation could be shown to be abnormal. If, for instance, exceptional income could be earmarked as having accrued during the period April 1st to April 5th, relief from duplicate taxation might very well be claimed down to the normal income of such period.

Similar adjustments would be required for Super-tax purposes in view of the provision [section 5 (3) of the Income Tax Act, 1918] whereby income taxed by deduction is deemed to be income of the year in which it is receivable.

25,072. (91) The alternative proposal (b) has the great advantage of avoiding any duplication of tax. Certain other difficulties, however, arise. All direct assessments would ordinarily require restriction to $\frac{1}{100}$ ths of the liability on an annual basis, although the point would probably arise as to whether income is to be deemed to arise evenly over the whole annual period in respect of which it is ordinarily calculable.

The restriction applied to assessments ought also to

apply equally as regards exemption, abatement, and the various deductions and allowances from gross assessments, and the scales of rates of both Income Tax and Super-tax ought similarly to be proportionately adjusted: were this not done a large and quite illogical loss of revenue would result. Perhaps the simplest method of carrying out proposal (b) would be either (i) to obtain returns and to assess as for the year to 5th April as at present, but to remit such proportion, if any, of the tax charged as corresponds to the last five days of the year (as in ordinary cases), or (ii) to obtain returns and to assess for the year to 31st March, and to remit such proportion, if any, of the tax charged as corresponds to the first five days of the year. The next returns and assessments, in either case, would, of course, be for the year from April 1st to March 31st.

It would be necessary to decide whether Super-tax should be restricted during the transition period in the same way and at the same time as Income Tax, or whether the restriction should take place in the year succeeding the Income Tax year of transition.

25,073. (92) An alteration of the date of termination of the Income Tax year to the 31st December, though more drastic, might possibly be given effect to along the lines of proposal (b), but such an enlargement of the period for remission of tax would probably give rise to many more claims for departure from the theory of equal accrual of income over the Income Tax year, and for the elimination of the income of the ninety-five days, January 1st to April 5th, on other than a pro rata basis. A weighty objection to the change would be the loss of revenue involved. Even if the whole machinery of assessment and collection were put back by a quarter to correspond with the change of year, a matter by no means free from difficulty, the new date for the collection of the second instalment, viz., April 1st, would fall outside the financial year, thus affording no set-off to the loss of the revenue on ninety-five days' income. Another considerable objection would arise as regards the assessment of property under Schedule A, in view of the fact that, in England, Lady Day (September 29th), and in particular, Michaelmas (September 11th), and in Scotland, Martinmas (November 11th), and in particular, Whitsun Day (May 10th), are the dates in regard to which rent agreements are most usually drawn up and, further, that local rates are calculated in England for the half-years to 30th September and 31st March, and in Scotland for the year to 10th May. Many practical advantages result from the reasonably close approximation of the Income Tax year to these various periods, which would disappear if the calendar year were adopted.

25,074. (93) The Board of Inland Revenue would wish to raise no objection to a change in the Income Tax year if the interests of the great body of taxpayers would, on the whole, be materially served thereby. The present span of the year, is, no doubt, an anachronism, but its disadvantages seem to be rather theoretical than practical. Any desire for an alteration is articulate chiefly, it would appear, amongst the business community. Seeing that the basis of the charge on business profits under the existing system has reference to the "day . . . on which the accounts . . . have been usually made up" (Rule applicable to Case I of Schedule D) it would not seem that any considerable practical benefit would accrue to that community from an alteration in the Income Tax year.

25,075. (94) The extent to which the present span of the year is disregarded in practice has been already touched upon in paragraph 90. It is well known that declarations of taxed income, such as dividends, &c., for the purpose of returns or repayment claims, for the year to March 31st, are accepted if such a basis of declaration is consistently adhered to.

25,076. (95) Of course, the very argument that Income Tax practice so largely adopts the year to 31st March might be said to justify a demand that the law should conform to this practice, and the Board of Inland Revenue are alive to the force of this view. They also recognize that it might possibly prove convenient from the point of view of the Exchequer (once

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the change had been made) if the Income Tax year of assessment were coincident with the financial year, and, from other points of view, with the co-terminous rating year.

25,077. (96) Such arguments do not apply as regards the calendar year, and in view of the objections referred to in paragraph 92, in particular the heavy loss of revenue for one year, amounting to some £30,000,000, and the very considerable disturbance which the change would cause both to the taxpayer and to the administration, the Board would be very averse from recommending such an alteration.

25,078. (97) In fact, the Board feel obliged to say that, in their opinion, the case for any alteration at all still remains to be proved. The inevitable disturbance and loss of revenue which would result, are such that before any alteration can be justified, evidence should be forthcoming that the advantages of the proposed change are real, practical, and strikingly manifest. So far, it seems to them that no sufficient evidence to this effect has been adduced, nor, so far as their observation goes, is the desire for a change of the Income Tax year either signal or general, even amongst the business community.

IX. STATEMENT OF THE TAXPAYER'S TOTAL LIABILITY.

25,079. (98) Under the system of taxation at the source it frequently happens that a taxpayer is liable to direct assessment in respect of part of his income only, the balance being charged by deduction. In these cases part of the total reliefs and allowances to which the taxpayer is entitled, may be made from the direct assessment, while the remainder is granted in other ways.

25,080. (99) The criticism is sometimes made that the information given on the notices of assessment and demand notes in cases of this kind is insufficient to enable the taxpayer to understand how his total liability has been computed and to check the calculation.

25,081. (100) Possibly this difficulty is greatest where part of the income is derived from house property or land, the tax on which is paid by the tenant and recovered by him on payment of his rent.

25,082. (101) In this connection three suggestions have been made which seem to call for special notice.

It has been proposed:—

- (a) that the first demand notes for Income Tax under Schedule A should be so constructed and filled in as to show clearly both the gross liability and the net liability after the grant of allowances;
- (b) that the notice given where a charge under Schedule A has been reduced should give full particulars of the adjustment; and
- (c) that where the whole tax on a property is remitted on account of the allowance of some abatement or kindred relief, the taxpayer should receive an explanatory notice to that effect.

25,083. (102) It is not the practice to include in the Schedule A demand note particulars of an allowance made on account of the taxpayer's title to abatement. The practice could be altered, but seeing that these statements usually remain constant from year to year, it is for consideration whether the alteration, which would involve a large increase of clerical work, is necessary.

Apart from this, the normal procedure now in operation largely conforms to that suggested at (a) and (b) above. The fact, rather, is that the pressure of war conditions has so far prevented the normal procedure from being universally followed by Collectors of Taxes. The multiplication of reliefs during the war period has given importance to the matter, and a revision of the forms designed to secure that all allowances made are clearly set out would be advantageous.

25,084. (103) The procedure suggested at (c) is not at present followed: its adoption could be arranged.

25,085. (104) The suggestions made are, however, subject to an overriding consideration which prompts a doubt whether they would, of themselves, even if fully carried out, suffice to achieve the ends desired. It is this consideration combined with the pressure of war conditions and the shortage of trained staff which has led the Board of Inland Revenue to defer the question of making improvements in the existing machinery in the directions indicated. The point is this. The insertion of detailed particulars on the Schedule A demand note is not always an effective means of conveying those particulars to the owner who bears the tax. In a large proportion of cases the demand note is issued to the tenant who pays the tax and recovers it from the landlord; he may or may not transmit the demand note to the landlord who is the person primarily concerned with any details it contains.

25,086. (105) For this reason these suggestions really raise the larger question whether arrangements should be made for giving each year to each taxpayer who renders a statement of his total income for Income Tax purposes a single document giving a classified list showing the amounts of all assessments made upon him, with particulars of the deductions and allowances made from such assessments to date in order to arrive at the net amounts upon which Income Tax is payable.

The addition to such a statement (a) of the amount of income from investments taxed at the source together with the amount of tax deducted therefrom (information which could sometimes but not invariably be given accurately by the Inland Revenue Department), and (b) of particulars of charges reducing the amount of the income and of Income Tax recoverable by deduction therefrom (which could usually be inserted, provided a detailed statement of his income had been furnished by the taxpayer) would lead up to the net total amount of the taxpayer's income and the total amount of tax payable thereon. It would, of course, be necessary to make it clear to the taxpayer (i) that any statement so furnished to him would be informative only, and would not have the effect (if not objected to) of precluding him from claiming any further reliefs to which he might (in law) be entitled or of preventing the Revenue from correcting any errors in the assessments which might subsequently be discovered, and (ii) that the taxpayer would remain liable to make a return of any income omitted to be charged, subject to the statutory penalties for neglecting to do so.

25,087. (106) The Board feel themselves precluded from recommending this course outright—unless it be shown to be absolutely necessary—because of the labour and risk of error it involves, and the consequent necessity for a considerable increase in their staff for this special purpose at a time when limitation of staff within the narrowest possible limits is essential on general public grounds.

25,088. (107) The Board are disposed to think that every taxpayer who has made a statement of his total income for Income Tax purposes should receive such a document, if he requires it, but that a large proportion of taxpayers do not, in fact, require it, while a further proportion would desire it only occasionally, and they suggest, therefore, that the position would be best met by conferring upon taxpayers a statutory right to receive such a document on application. Even this provision may, however, necessitate a considerable expenditure of public money.

X. INCOME TAX IN RELATION TO WEEKLY WAGE-EARNERS EMPLOYED BY WAY OF MANUAL LABOUR.

25,089. (108) Numerous suggestions have been made to the Royal Commission for the collection of Income Tax from weekly wage-earners by a system of compulsory deduction from wages. The collection of the tax at the source from weekly wage-earners is put forward in the evidence-in-chief of Counsellor James Walker and Mr. Hugh Lyon, on behalf of the Parliamentary Committee of the Scottish Trades Union Congress (questions 18,937; 18,980, et seq.).

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25,090. (109) From the point of view of the Inland Revenue, the suggestion that tax should be deducted at the source from wages would, if practicable, have many advantages. The history of this subject since the exemption limit was lowered to £130 in 1915, however, is not such as to encourage the Board to support the proposal at the present moment.

25,091. (110) The Bill which became law as the Finance (No. 2) Act, 1915, contained, when introduced, a clause providing that if the weekly wage-earner failed to pay the tax due from him his employer should be empowered to deduct the amount from his wages and pay it over to the Revenue. When that clause came up for consideration on the Committee Stage of the Bill, a storm of protest arose, both from employers and from workmen, and the Chancellor of the Exchequer agreed to ascertain the views of all parties affected at a representative conference to be summoned by him. The conference took place on the 3rd December, 1915, when the representatives of the employees advocated the direct assessment of the individual weekly wage-earner, as in the case with other classes of industrial employees, and expressed their entire disapproval of any scheme which would result in disclosure to an employer of a workman's private affairs. The attitude of the employers was understood to be, that to make them tax-collectors in respect of wages paid would lead to friction between them and their employees. On the Report Stage of the Bill, the Chancellor of the Exchequer informed the House that, after long discussion at the conference, the conclusion had been come to that, on the whole, the most satisfactory method for both parties would be to omit the above-mentioned clause altogether.

25,092. (111) In order to avoid disclosure of personal circumstances to the employer it has been suggested that a deduction from wages should be made at a rate bearing some proportion to the amount of the wages, as a payment on account of the wage-earner's liability, leaving the settlement of the final liability to be arranged with the Surveyor of Taxes by reference to a return of total income, and a balance of tax to be paid or repaid according to the result of such a settlement. In the Board's opinion this proposal is full of practical difficulties. In the case of a bachelor, liability may commence as soon as the income exceeds £130 a year. In the case of a married man with three children the effective liability does not begin until the income exceeds £260 a year. For the year 1918-19 1,940,000 persons (the great majority of whom were weekly wage-earners) with incomes exceeding £130 were entirely relieved from Income Tax owing to the operation of the personal allowances. If deduction for tax had been made from wages in cases of this class there would have been an over-payment in every case, and in the Board's opinion, an acute and widespread sense of hardship would have arisen.

25,093. (112) It will also be evident that, in addition to the cases in which no tax at all is payable owing to the operation of the personal allowances, the amount of the tax remaining payable in a number of other cases must fluctuate very widely. In these circumstances the Board consider that the deduction of Income Tax on a basis which relates the rate of tax to the wages paid and not to the personal circumstances of the taxpayer would be unworkable.

25,094. (113) The suggestion has also been made that weekly wage-earners, in common with other employees, should be assessed on a uniform basis, viz., their earnings during the preceding year. The basis of assessment of weekly wage-earners and the method of payment of the tax were settled with the principal object of introducing a system which would be convenient to the working man. It was considered that his habits of life were such that it would be more convenient to him to pay a small sum every quarter rather than a larger sum at longer intervals. Moreover, it was felt that an assessment made upon his earnings quarter by quarter, followed by payment of the tax immediately after the end of each quarter

would be easier for him than an annual assessment as in the case of other taxpayers. It may be argued that there is in the result some small differentiation in the treatment of weekly wage-earners as compared with other taxpayers, but it is rather a theoretical than a practical difference. The Board see no reason to revise their view that the present system is, on the whole, more acceptable to wage-earners, and on this ground they suggest that no alteration should be made. In making this suggestion they desire to point out that if regard were had to purely departmental considerations, they would place considerable stress upon the saving of time and labour which would be involved in collecting tax from weekly wage-earners at half-yearly instead of quarterly intervals. In their view, however, these advantages are more than balanced by the other considerations to which reference has been made.

XI. DEDUCTION OF INCOME TAX FROM SALARIES AND WAGES.

25,095. (114) In the evidence given before the Royal Commission on behalf of the British Association for the Advancement of Science (question 1472), it was suggested that an extension of the system of deduction of Income Tax might be made to salaries and wages generally, and Mr. C. W. Crook (question 5712) stated that teachers would prefer that Income Tax, in their case, should be deducted quarterly from their salaries, as in the case with civil servants.

The Board offer no objection in principle to the deduction of Income Tax from wages or salaries at the source, on the understanding that the amount to be deducted is (as in the case of Government employees, &c.) the actual amount of tax due from the employee. The Board have, however, already indicated the practical considerations which arise in the case of weekly wage-earners (paragraphs 110 to 112), and as regards other classes of employees, they feel that the objection which a considerable number of persons feel to their personal circumstances being made known to their employers, is a serious obstacle in the way of making general the deduction of Income Tax from salaries and wages. On the whole, the Board's opinion is that the present system under which the employer is required to furnish particulars of the emoluments paid to his employees, and the employee is assessed directly in respect of his liability, is the better, and they do not recommend that a change should be made.

XII. MISCELLANEOUS.

25,096. (115) The Board associate themselves with the suggestions made by Mr. G. F. Howe, the Presiding Special Commissioner of Income Tax, on the following matters relating to the subjects of this evidence:—

- jurisdiction of the Special Commissioners to deal with reliefs, &c., dependent on total income in so far as they arise in connection with assessments and applications as regards which the Special Commissioners have jurisdiction (questions 13,421-4);
- extension of the time for giving notice of desire to be assessed by the Special Commissioners (questions 13,428-30);
- jurisdiction of the Special Commissioners to deal with applications under No. 3 of the Miscellaneous Rules applicable to Schedule D in cases in which those Commissioners made the assessments (questions 13,429-40);
- the practice in cases where appeals are made to the Special Commissioners against an assessment made by the Local Commissioners (question 13,446-8);
- the making of Schedule D and E assessments in Ireland (questions 13,477-81), except that the Board consider that it is not necessary that the date for hearing appeals should be notified to all persons assessed—whether such persons wish to appeal or not.

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[Continued.]

25,097. (116) The Board also associate themselves with the suggestion of Mr. Howe (question 13,815) and Dr. G. E. Haslip (question 16,441 (3) (c)), that the allowance for wear and tear of machinery and plant should extend to professions as well as to trades.

25,098. (117) It has been suggested that where enquiries are issued to the public by the officers of the Board of Inland Revenue in such a form as to require a reply on the enquiry sheets, it would be a great convenience if such enquiries were issued in duplicate, so that the taxpayer could retain one copy for filing purposes and convenience of reference. The Board fully recognise the desirability of this procedure and will take steps to carry it out as soon as practicable. It is a question of office organisation and equipment, and the Department has yet to recover fully from the effects of the war period.

25,099. (118) The Board associate themselves with the suggestion of Mr. R. N. Carter (question 3213) that it is desirable that a tenant deducting Income Tax from his rent should be required, when making the deduction, to produce to his landlord the receipt for the tax paid.

25,100. (119) Several witnesses have suggested that departmental instructions to Surveyors of Taxes should be made public (*see*, for instance, questions 7707, 8195-8 and 8291 (2)). Witnesses who have made this suggestion have probably not had fully present to their minds the consideration that the authority for determining liability to Income Tax in individual cases is not the Board of Inland Revenue, but consists, according to law, of the various bodies of Commissioners of Taxes. The decisions of these Commissioners on particular cases arising in their respective districts are, of course, limited to the cases which they review. But so far as the Board are concerned, they are not empowered to issue binding decisions of general application in the same way as decisions may perhaps be issued by the central authority in certain other countries where the law relating to the ascertainment of liability to Income Tax is quite different.

Like other Public Departments, the Board, in the course of the exercise of their functions, issue instructions to their officers from time to time. In the

judgment of the Board it would be impossible to carry on public business satisfactorily if they were placed under an obligation to make such instructions public.

25,101. (120) Mr. H. Lakin-Smith (question 7711) suggested that all public bodies should give full information as regards Income Tax treatment on the counterfoils attached to interest and dividend warrants, including cases where dividends are paid "free of tax." He also suggested that counterfoils should be issued compulsorily in every case. The Board think it would be of considerable advantage to taxpayers, and also that it would save departmental time and labour, if the first suggestion were adopted, but the matter is primarily one which affects companies and their shareholders rather than the Inland Revenue Department.

With regard to the suggestion that counterfoils should be issued compulsorily in all cases, it is desirable, in the Board's view, that every person making a payment to another person from which the former is entitled to deduct Income Tax on payment should be under a legal obligation to furnish the recipient with a statement showing the gross amount of the payment, the amount of Income Tax, if any, deducted, and the net payment, and also a certificate that the amount of tax deducted has been or will be paid over to the Revenue. Although in the great majority of cases this is already done, it occasionally happens that a person receiving a payment subject to the deduction of tax is required to pay a small fee for such a certificate. This, in the Board's judgment, should be prohibited.

25,102. (121) Sir James Martin (question 6114) suggested that any person who commences any trade or occupation should be called upon to give notice to the authorities in order to enable the question of his Income Tax liability to be dealt with. The Board consider that this suggestion would be of little practical utility. The fact that a person has set up a business is usually well known locally, and his name comes under review for Income Tax purposes. Numerous small traders are exempt from Income Tax, and the suggested notifications would lead to a great deal of unprofitable labour being undertaken in such cases.

25,103.

ANNEXE I.

Copy.

16, Kennedy Street,
Manchester.

July 12th, 1919.

Dear Sirs,

In further reference to the evidence which I gave before the Commission I now beg to enclose suggested form of return with proposal for short note to accompany the same.

The claims for Life Insurance, children, etc., would, of course, have to appear upon the form, but it would, to my mind, be simpler to incorporate the declaration in each case into the headline thus:—

"Claim for allowance in respect of Life Insurance premiums, such premiums not having been deducted in arriving at the profits entered on this form, and not claimed from any other assessment,"

and then a general statement at the bottom of the form:—

"I claim allowances as stated above."

The gist of my suggestion is that page 2 becomes incorporated into page 3, in a manner which, I venture to think, should be pretty well understood by any one who was really desirous of filling up a correct return.

With the statement at the top of the "Notes" that a sheet of amplified notes would be furnished on application, no one could say that he had not been properly assisted by the Crown.

It would probably be considered necessary to make a general statement on the "Notes" that the form was returnable under penalty, and that there was a penalty for making improper claims.

Yours faithfully,

(Sd.) ROGER N. CARTER.

The Royal Commission on Income Tax,
2, Queen Anne's Gate Buildings,
Westminster, London, S.W. 1.

E. CLARK, Esq., Secretary.

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MR. E. R. HARRISON.

[Continued.]

25,104.

INCOME TAX SCHEDULE D.
YEAR ENDING 5TH APRIL, 1920.

To Mr.....

To be returned to Assessor.....
within 21 days. Any information desired will be furnished by the Surveyor
of Taxes.....

Income to be Assessed.

£

1. Profit or salary (on average of past 3 years) of occupation carried on at
.....
2. (a) Bank Interest
(b) Interest on Government securities not taxed by deduction
(c) Other Interest not taxed by deduction } Amount received in year
ending 5th April, 1919
3. Interest (of a fixed amount) from Colonial and Foreign securities not taxed
by deduction (amount to be received in year ending 5th April, 1920,
whether received in United Kingdom or not)
4. Interest (on fluctuating amount) from Colonial or Foreign possessions not
taxed by deduction (average of past 3 years whether received in
United Kingdom or not)
5. Profit from occupation of land
6. Other untaxed Income (specifying same)
7. Wife's Income falling under any of above heads (specifying same)

Total to be Assessed.

Income to be added in order to show Total Income from all sources if
Exemption, Abatement or Reduction of tax is claimed

8. Profit or Salary assessed in other districts (specifying same)
9. Annual value of property as assessed £.....
Less charges thereon
10. Interest or dividends taxed by deduction (the gross amount before deduction
of tax receivable in the year to 5th April, 1920)
11. Wife's Income :—
Amount falling under heads(8) to (10)
- Deduct Annual charges not included in No. 9
- Total net Income £

declare, etc.

Where there is no Income under any head the word "none" must be inserted.

If the taxpayer is liable to the full rate of tax, all items after No. 7 may be left blank.

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MR. R. R. HARRISON.

[Continued.]

25,105. NOTES, EXPLANATIONS AND INSTRUCTIONS IN REGARD TO THE RETURN OF INCOME FOR ASSESSMENT.

A Sheet of amplified Notes and Explanations will be furnished on application to any Surveyor of Taxes.

1. *Profits of Trades, Profession, Employment or Vocation.*—Where income is derived from the exercise of any business, profession or employment, attention is particularly directed to the fact that the amount of income to be returned for Assessment for any given year is neither the actual income of that year, nor the income which a person expects to make in that year, but is a "statutory" income, of which the amount is to be computed from actual ascertained figures. These are the figures shown by the accounts of the business or profession for the three years immediately preceding the year for which a return has to be made, or the earnings of the employment for a similar period, and the computation from them is to be made according to prescribed rules, of which the following is an abstract :—

RULES FOR CALCULATING PROFITS.

The tax extends to the profits of all trades, &c., carried on in the United Kingdom by any person whatsoever, whether a British Subject or not, and whosoever residing; and also to the profits of trades, &c., carried on elsewhere than in the United Kingdom, if carried on by persons residing in the United Kingdom.

Average.—The amount of profits is to be computed on an Average of the Three Preceding Years ending either on the date prior to the 5th day of April, 1919, to which the annual accounts have been usually made up, or on the 5th day of April, 1919 :

Or, if the trade, etc., has been commenced within the three preceding years, on an average from the period of commencement;

Or, if commenced within the year of Assessment, the profits are to be computed according to the best of your knowledge and belief, and the basis on which the amount has been computed should be stated.

In computing the profits upon which the average is to be taken—

Deductions are Allowed—

For all disbursements or expenses wholly and exclusively laid out for the purposes of the trade, etc., also for bad debts, E.P.D., and replacements of obsolete plant. A person occupying his own premises is also entitled to deduct the full annual value of the same. In cases where a dwelling-house is partly used for a business not more than two-thirds of the rent may be deducted.

Where a clergyman or minister pays rent for a dwelling-house, or is in occupation of a dwelling-house, but pays no rent therefor, and uses any part of such house mainly and substantially for the purposes of his duty as a clergyman or minister, a corresponding part of the rent or annual value of the house, not exceeding one-eighth may be claimed as an expense. Any amount so claimed should be specifically shewn.

No Deductions are Allowed—

For Income Tax paid.

For any interest on Capital or any annual interest, &c.

For any sums paid as Salaries to proprietors, or for drawings by proprietors or for maintenance of his family.

For any sums expended in improvement of premises or written-off for depreciation of land, buildings, or leases.

Wear and tear must be specifically claimed for and will be allowed off the average profit and must not be deducted in arriving at the average—see paragraph 2.

2. *Wear and Tear, &c., of Machinery and Plant used for the Purposes of a Trade.*—Where the machinery or plant belongs to the trader, or is so let to him that he is bound to maintain and deliver it over in good condition, an allowance may be claimed for diminished value of the machinery or plant by reason of wear and tear, or by reason of any machinery or plant being temporarily out of use at any time during the year through circumstances attributable directly or indirectly to the present war.

Where rent is paid for the use of machinery or plant, and the burden of maintaining and restoring it falls upon the Lessor, no deduction for wear and tear, &c., is allowable to the Lessee.

3. *Income of Married Women.*—The income of a married woman living with her husband is, by the Income Tax Acts, usually deemed to be his income for the purpose of Assessment, and in any case the income of Husband and Wife must be aggregated except where the wife has earnings of her own.

4. *Total Exemption* is allowed when the income from all sources does not exceed £130.

5. *Abatements* are allowed as follow :—

£120	when the income from all sources exceeds £130 but does not exceed £400.				
£100	"	"	"	£400	£600.
£70	"	"	"	£600	" " £700.

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MR. E. R. HARRISON.

[Continued.]

6. When the income from all sources does not exceed £2,500 *Reduced Rates of Tax* are allowed in respect of "Earned" income, and if the income from all sources does not exceed £2,000, reduced rates are also allowed in respect of any "Unearned" income.

Where reduction of rate of tax is due on unearned income *already taxed by deduction at the full rate*, e.g., dividends, mortgage interest, &c., the relief due will be allowed as far as possible as a set-off against the tax chargeable on the untaxed income.

Where the relief is due in respect of property, the assessment on the property will be at the appropriate rate or rates of tax. An owner may, if he desires, make application for the tax on any property to be recovered from him instead of from his tenant (without prejudice, however, to the right of ultimate recovery upon the property). Any such application should be made before the 31st July in the first year for which it is intended to take effect, upon a form to be obtained for the purpose from the Surveyor of Taxes.

7. Where owing to the fact that the total income of a person exceeds a certain limit (a) he ceases to be entitled to any exemption or abatement, or (b) he becomes entitled to a reduced exemption or abatement, or (c) he is liable to pay tax at a higher rate—an allowance will be made, if necessary, on completion of the appropriate Sections of pages 3 and 4 of the Form No. 11, so that the total tax payable does not exceed the sum of the following amounts:—

- (a) The amount of Tax which would have been payable if his total income had reached, but had not exceeded that limit.
- (b) The amount by which his total income exceeds that limit.

8. *Soldiers, Sailors, Airmen, Seamen, &c.*—In the case of (a) a person who has served during the year as a member of any of the naval or military forces of the Crown, or of the Air Force, or in service of a naval or military character, in connection with the present war for which payment is made out of money provided by Parliament, or in any work abroad of the British Red Cross Society or the St. John Ambulance Association or any other body with similar objects, or (b) a person serving during the year for not less than three months as master or a member of the crew of any ship or fishing boat—total exemption may be claimed when the income from all sources does not exceed £160, or an abatement of £160 when the income does not exceed £300. Special rates of tax are applicable to the pay in connection with any such service.

25,105.

ANNEXE II.

LIMITS OF TIME FOR CLAIMING VARIOUS INCOME TAX RELIEFS.

Nature of relief.	Time limit for application.	Income Tax Act, 1918, section
Relief in respect of diminution of profits due to the war.	Within or at the end of the year of assessment.	43.
Adjustment of assessment in the case of new concerns.	At the end of the year of assessment.	Schedule D, Cases I and II, Rule 8 (1).
Relief where profits from occupation of land fall short of assessment.	At the end of the year of assessment.	Schedule B, Rule 6.
Relief in the case of cessation of business, death, bankruptcy, &c.	Within three months after the end of the year of assessment.	Schedule D, Miscellaneous Rules, Rule 3.
Relief in respect of losses in trade, &c. ...	Within six months after the year of assessment.	34.
Relief in respect of rent lost (Ireland). ...	Within six months after the expiration of the year of assessment.	204.
Relief to Life Assurance companies, &c., in respect of expenses of management.	Within twelve months after the expiration of the year of assessment in respect of which the claim is made.	33.
Relief in respect of wear and tear of machinery or plant let where the burden of maintenance falls upon the lessor.	Within twelve months after the expiration of the year of assessment.	Schedule D, Cases I and II, Rule 6 (5).
Relief from tax in respect of income accumulated under trusts subject to a contingency.	Within three years after the end of the year of assessment in which the contingency happens.	25.
Claims for repayment where a limit is not specifically mentioned.	Within three years next after the end of the year of assessment to which the claim relates.	41.

[This concludes the evidence-in-chief.]

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Mr. E. B. HARRISON.

[Continued.]

25,107. *Mr. Kerly:* If I may say so, you have favoured us with another excellent paper. I have just been suggesting to my colleagues that, as your paper is substantially in the nature of a reply and a review, it will not probably be considered necessary that you should be examined at any great length.

25,108. *Sir W. Fowler:* There is only one point I want to ask you about. You recollect that in Mr Carter's evidence he made an alternative suggestion with regard to taxation by employers of workmen by a deduction, and the other alternative suggestion that can be made is that a certain sum might be charged as a flat rate on the wage-earner and left, as his own property, to his credit, say, at his Savings Bank. This, it is put forward, would encourage thrift, and, incidentally, it would be his own money at his disposal in some Post Office Savings Bank or Savings Bank arrangement, and liable to be charged with a deduction equal to the amount of tax which, at the end of the year, he is shown to be subject to?—Yes, I remember that statement.

25,109. Have you considered that point?—Yes. Speaking purely from a Revenue point of view, anything which assisted in the deduction of Income Tax at the source would be helpful to us as a principle. In the particular case, of course, it is something rather more than that. The proposal is, as I understand it, to set aside a sum of money which finally goes into a Savings Bank, but may be drawn on for Income Tax.

25,110. Yes. In the case of either that alternative or the other alternative being considered with regard to the deduction by employers (the other alternative would be that they kept it for a particular purpose at a flat rate), would it be possible for the Inland Revenue authorities, if they had assistance from the employers, to make them any allowance for some additional clerk or clerks, which they ought to have in large businesses?—It would require legislation, but if the employer were to act, if I may so put it, as a tax-collector there is a precedent in the Act in other circumstances for making a payment; I mean the precedent under which agents of foreign companies and bankers are allowed a poundage on the tax that they deduct from foreign dividends. If they work for the Inland Revenue there is a provision for paying them for it, and in principle I see no reason why, if such a system were introduced, something should not possibly be allowed to an employer.

25,111. That would be so, but would it militate against that suggestion that the money was in the Post Office Savings Bank at the disposal of the workman. It could only be a tentative measure?—Yes. I imagine in any circumstances, as far as the Revenue are concerned, they could only remunerate the employer for what he did for the Revenue. If it became a question of remunerating the employer also for something which he did in order to encourage thrift, then I think my answer would be that that is rather outside my province.

25,112. It is outside, unless it actually turned out that the money did get home to the Revenue?—Yes. In so far as it got home to the Revenue I think the principle might apply.

25,113. Then I think you would agree that it might encourage thrift if the workman had the Savings Bank account in his name, and that it would keep the money there for the purpose of the Revenue, and probably one attributes to the workman that he really does not object to pay tax, but he objects to the sum which he has to pay in bulk at a certain time being a very large deduction from his income?—Yes. His habits of life are not such that he ordinarily has a large sum available at any one time, I imagine.

25,114. Then on the question of the deduction at a flat rate, that raises a difficulty, which might be obviated by the workman having the power to draw on the account?—It certainly would mitigate the objection.

25,115. I noticed in your paper you raised some objection to the flat rate because of the allowances for the wife and family?—Yes.

25,116. The money would be at the bank, as I understand the suggestion, if it is seriously made, and if it should prove to the married workman that he was exempt, he could draw it out if he wished, or leave it there for other contingencies?—Yes. Of course, I am not quite clear how far the workman would be allowed to draw on it, while the question of his liability was still unsettled, for instance; that does not appear, I think.

25,117. That does not quite appear in the proposal which, to me, was a very interesting one?—Yes; I found it very interesting, if I might say so.

25,118. *Mr. Holland-Martin:* In your paragraph 57 you mention that it would be a loss of revenue in the year amounting to £65,000,000 if companies were to pay by two instalments?—That is so.

25,119. How much of that would come back in the next year?—I think the whole of it would come back eventually, but it would be deferring the collection for six months. Of course, it would be a permanent deferral; it would always be six months later than it is at present; and, therefore, in the year in which you made the change that £65,000,000 would drop out of that particular year's revenue altogether. In the next year, of course, we should get that £65,000,000, and another £65,000,000 due to the other instalment, but again another £65,000,000 would go over into the next year beyond that, so that we should always be late by six months in collecting this £65,000,000.

25,120. Is that to be a permanent bar to certain changes, that there would be a drop?—I am afraid that, at any rate in the present financial conditions of the country, it would almost be an insuperable obstacle.

25,121. You must start the year with a surplus?—That is how it strikes me.

25,122. *Mr. Walker Clark:* In paragraphs 16 to 21 you deal with a compulsory return of total incomes. I take it you see no sufficient reason for any greater powers being given to the Department than it now possesses?—In that respect that is so; I think we have all we need in that respect.

25,123. The inquisitorial powers of your own Inspectors are quite sufficient to deal with it?—I am not quite sure whether we are not a little at cross purposes. All I mean to suggest is this, that at present we are able to get a return of total income from everybody except that small section of people whose incomes lie between £2,000 and £2,500, and whose income is wholly unearned. With that exception we get our return already, and we do not particularly need a return from that small section for our purposes; that is all I mean to say.

25,124. The point rather has been raised that there are some who avoid taxation, because it is not obligatory on every citizen to furnish a return of income if he is assessable?—I think that is a misapprehension. We can call upon anybody to furnish a return of income if he is assessable.

25,125. You can call upon him?—And we can enforce it by penalties, if necessary.

25,126. But there is no obligation at present other than your calling upon the man to furnish a return, is there?—I think there is a distinction between the two things. He is bound to furnish a return of his income in so far as it is not taxed at the source; he is not bound to furnish a return of his total income taxed and untaxed, except for Super-tax purposes. He only furnishes us with the return of total income both taxed and untaxed in order to claim some relief.

25,127. Or for you to fix the appropriate rate?—That rate is a reduction of the 6s. rate, and therefore if he omits to claim it we again say we are not particularly interested in his return of total income, unless he is likely to be a Super-tax payer.

25,128. The main point is that you do not see any sufficient reason for any change in the existing legislation?—Not in that respect; that is so.

25,129. *Mr. May:* May I interject a point there which is not quite clear. I understood Mr. Harrison to say that the taxpayer is not obliged to make a return of the whole of his income taxed and untaxed?—That is so.

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Mr. E. R. HARRISON.

[Continued.]

25,130. But you require that for Super-tax purposes, and you tax him on that?—For Super-tax purposes.

25,131. How do you ascertain it if he does not make a return?—I think I qualified that. He is bound to make a return of his total income both taxed and untaxed for Super-tax purposes.

25,132. Where do you start? If he has a certain income which is taxed at the source before he receives it, and he makes a return to you in the ordinary way of his income which is not taxed at the source, where do you get to start to tax him for Super-tax?—Do you mean how do we find our taxpayer?

25,133. Yes.—Of course, we rely on our Surveyors of Taxes all over the country. That is our main source. They report to us names of people who are likely to be liable, and they exclude from their report all people who have claimed an abatement or who have claimed a reduction of the 6s. rate, and so on, because all those people obviously have incomes less than the limit of Super-tax liability, but if a person makes a return of, let us say, £200 bank interest, and he claims no reduction from the 6s. rate, he does not give the Surveyor a return of his total income, and the assumption is that his income is more than £2,000 at any rate, or he would have claimed some relief. Then the Surveyor says to us: "that man is probably liable to Super-tax," and we, the Super-tax people, proceed to serve him with a form of return requiring him to give us a statement of his total income from all sources.

25,134. Do you ever assume an income for Super-tax purposes without the return and make a charge?—Yes. The cases are very rare, but if a person refuses to make a return we can either proceed against him for a penalty or we can make what is called an estimated assessment of his liability; then, of course, it is up to him to appeal if he finds it excessive.

25,135. I want to know how far you think this method, which seems to me rather haphazard, effectively covers the whole field of the Super-taxable persons?—I am not prepared to say that it covers the whole field entirely, or else I should have to say that we never miss anybody at all, and that is not true, I am afraid.

25,136. I mean approximately, of course?—Substantially. I think it does cover the whole field, because the Surveyor has on his books, in some way or another, everybody who is liable to Income Tax, and unless the people who come under his notice have claimed some relief he automatically reports them for Super-tax. All people who have claimed relief are below the Super-tax limit, and therefore all the rest are considered above; that is, broadly, how it works.

25,137. And it is only that little narrow margin that you are not quite sure of catching, who, for instance, Sir Leo Chiozza Money and others who have been before the Commission, would have been in view when they say the Revenue is losing millions?—Well, yes. I should just like to say that that little narrow margin, that is, the people with incomes between £2,000 and £2,500, are not bound to make a return of total income in order to claim relief, because they are not entitled to relief, and they are not liable to Super-tax. Therefore, unless they are called upon for a Super-tax return, they need not make a return of their total income to anybody; but, as a matter of fact, those people, because they have not claimed any relief, are reported by the Surveyor of Taxes to the Super-tax branch, and are almost universally called upon to make a return. When we get those returns it may be that the total income shown is below the limit, and if we are satisfied with the return we put it away; nevertheless, in that small section of cases, normally speaking, we have got a return of total income, so that substantially the whole ground is covered.

25,138. Mr. Walker Clark: I think you have brought out the point I wanted. Now, with regard to partners' assessment, which you refer to in your paragraphs 25 to 27. You say that the Board see no substantial objection to the shares, when ascertained, being brought into assessment separately in the

names of the individual partners. That is a statement subject to certain qualifications (a) and (b) following?—Quite.

25,139. Do I quite understand here that you see no objection to the assessment if asked for, or see no objection to the plan, whether asked for or not?—I think what I intended to convey there was rather that, that if the Royal Commission thought fit to suggest that that ought to be done, as far as the Board are concerned they offer no objection; that it ought to be done generally, whether asked for or not I mean. But if it were only to be done in cases where it is asked for obviously the Board will have no objection to that either; that is a smaller proposal.

25,140. But the larger proposal would not be, in your judgment, undesirable?—No, it would not be undesirable in the Board's judgment.

25,141. In paragraph 107 you deal with the question of the total liability on one invoice, so to speak?—Yes.

25,142. "If he requires it" is in italics?—Yes.

25,143. How is that regulation to be made? Would it be made on Form 11.K, or in a special way at a special time, so that if a man is two days late he cannot have it?—No, certainly not. I think he should be allowed to have it at any time. I suggest it should not be a requisition on the return form, or anything of that kind, because in the taxpayer's own interest it might not occur to him when he filled up his form that he would like to have this statement, but later on, when he got a demand note for something he could not understand, he might say: "I should like to know how my Income Tax liability has been arrived at, and I will ask the Surveyor to tell me." He should have a right to ask him, we suggest, and if he does ask the Surveyor should give him a full statement as far as he is able to do so.

25,144. As a matter of fact you do it now verbally, not in writing?—We also do it in writing.

25,145. Under Schedule D you do it in writing?—Yes.

25,146. But you would make it statutory that that should be given if asked for?—Yes.

25,147. Of course some information would be given in a popular form to the taxpayer that he could have this if he asked for it?—If anything of that kind were done we should do our best to make it public.

25,148. That is a very important point, I think, and would save a good deal of misunderstanding in many cases if it were done, and the taxpayer knew he had the right to ask for it?—Quite. I should just like to say it would really give him a statutory right to what is done now as a matter of practice in a vast number of cases, but he does not always know that it is done.

25,149. That is exactly the point I had in mind. One other point with reference to the weekly wage-earner. Another suggestion has been made which I do not see that you allude to at all; that is, that a lower flat rate than the normal flat rate should be deducted by the employer subject to no abatements of any kind, particularly up to a certain point, say, from whatever was the minimum—the exemption rate—up to £250, or some similar amount to that?—That, of course, would necessarily mean, if I understand it rightly, that the exemption limit for the bachelor would be the same as the exemption limit for the married man with a large family.

25,150. Yes?—That, I should have thought, was not in accordance with the generally-accepted views of to-day.

25,151. That, you think, would be an insuperable objection to it?—That is the objection that strikes me at once, certainly.

25,152. But the policy suggested by Sir Walter Trower of a flat rate, which should be revised subsequently, would not be so objectionable?—No.

25,153. I do not mean the definite proposal of the bank?

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[Continued.]

25,154. *Sir W. Trower*: Is it not my proposal; it was a proposal of the Labour representative?—I beg your pardon; I am not quite sure that I have followed the proposal you have in mind.

25,155. *Mr. Walker Clark*: The proposal that was made was, that there should be a rate smaller than the usual rate, subject to adjustment for abatements?—Yes.

25,156. A confidential average between the Income Tax payer and the Revenue, the employer having no access to it?—Our real objection to that proposal, I think, is contained in paragraph 111, that 1,940,000 persons whose incomes are about £190, yet pay no tax because of the wife and children allowances, and so on. All those 1,940,000 persons would have something deducted from them, and they would have to come and claim it back. I should have thought that would create a great sense of hardship.

25,157. That would be a great and unnecessary grievance throughout the country?—An unnecessary grievance; that is how I put it.

25,158. That is the real objection to that proposal?—I think so.

25,159. *Mr. Marks*: On the question of weekly wage-earners I see for the year 1918-1919, let us call it, 2,000,000 persons were exempt; that 2,000,000 is an estimate, is it not—or is it an actual figure?—It is an estimate, but it is a very close estimate.

25,160. Made up on the actual figures, say, for 1917-1918?—Made up on the actual figures for 1917-1918, but with certain corrections from information in our possession as to 1918-1919.

25,161. In paragraph 110 you refer to the interview between the Chancellor of the Exchequer and the representatives of employers and employed in December, 1915?—Yes.

25,162. I do not quite know how to put it, but I will put it in this way: I should assume that the result of that conference was due more to political timidity, we will say, than to any regard for Revenue considerations?—I think I must leave you to form your own judgment on that.

25,163. Having regard to the enormous increase in weekly wages that has taken place in the last four years, would you think that that decision then arrived at might be reconsidered?

25,164. *Mr. Kerly*: After our report, Mr. Marks?—I find a little difficult to answer that; it is a mere matter of opinion.

25,165. *Mr. Marks*: I realize that, so I will not press it any further?—Thank you.

25,166. You say the employer is required to furnish particulars of the emoluments paid to his employees; does that also apply to weekly wage-earners and their employers?—Yes, it is universal.

25,167. So that the Revenue does get a complete statement of the incomes of weekly wage-earners, including those very large incomes which we have seen quoted in the papers as having been earned by miners?—Yes, they are all returned to us.

25,168. *Mr. May*: When we get to that point we might know how many of them have received those large incomes reported in the papers.

25,169. *Mr. Marks*: Well, the statement was made, and repeated after being challenged. On the question which Mr. Walker Clark asked you on paragraph 18, where you say that you can call upon a person whom you suspect of being liable for Super-tax to make a return, each taxpayer are not under obligation to give a detailed return?—That is so.

25,170. They simply return a lump sum?—That is so. Of course we ask them to make a return of their income under various heads, property, dividends, profession, or trade, and so on, but it is a little doubtful whether we are even entitled to call for those details to that extent. We are not entitled to say, for instance, if they return £2,000 from dividends, "give us a list of your investments. Let us see how that £2,000 is made up"—at least, we fear we are not.

25,171. The view of the Board of Inland Revenue is that they should have power to ask for a detailed

return?—Yes, because our experience has shown that where we get those details we are enabled to catch quite a lot of errors and omissions.

25,172. I agree it is very desirable. You refer in paragraphs 86 to 97 to the question of the Income Tax year, and in paragraph 87 you say: "The bulk of business accounts are now made up to 31st December or the 31st March"—with a very large preponderance in favour of the 31st December, I take it?—Yes. I think I show that in a note at the bottom of the page, one-half to 31st December and three-tenths to the 31st March.

25,173. I was going to ask you about that footnote. That expresses, or rather, we will say Dr. Stamp refers to the number of assessments, and not to their amount?—To the number, that is so, yes.

25,174. Have you any information as to the amount?—No, I am afraid not. We have attempted no classification of them by reference to amount.

25,175. Could you express any opinion on this point whether the average amount of the accounts made up as at the 31st December was, or was not, larger than those made up at any other period?—I should have thought that the average amount was about the same. A company usually chooses the date which suits it best, and I should have thought that that choice was not to any material extent governed by the amount of profits it makes.

25,176. *Mr. Walker Clark*: But the class of company might affect it?—The class of company might, yes.

25,177. *Mr. Marks*: In paragraph 92 you say that a weighty objection to the change would be the loss of revenue involved, but that is not a permanent loss?—No, it is a similar loss to the one I was referring to in answer to Mr. Holland-Martin, the postponement of tax.

25,178. Could not that be got over by some such method as this if the Government could be induced to adopt it; that is, at the period of change the Budget should be introduced, not for one year, but even for a longer period than one year, say, from the 5th April, 1920, to the 31st December, 1921?—That, of course, would obviously affect the question. One would have to consider it rather carefully by reference to the dates when tax was collected to see whether we got in a period of say 1½ years the revenue for those 1½ years. That question would have to be looked into in detail, but, of course, something on those lines might get over that difficulty.

25,179. In the last part of paragraph 92 you speak of all the various dates which are in use for different purposes in different parts of the Kingdom. Suppose this alteration of the fiscal year to coincide with the calendar year were adopted for Imperial purposes there would be a very strong tendency to bring all these varying dates down to one common date?—I agree that it might, but at the same time I think it would take a long time to do it. If I may just say so as an illustration, I believe it is quite common for agricultural tenancies still to run to old Michaelmas Day, the 10th October. The change back to the 29th September took place generally in 1752, but the agricultural tenancies have not universally adjusted themselves to that change even yet. There is a good deal of conservatism, I think, in those matters.

25,180. Could you say whether that selection of date for agricultural purposes had anything to do with the fact that the harvest comes in about that time and may be realized?—I am afraid I have no special knowledge, but that possibly might be so.

25,181. If that were a consideration it would gain some weight by postponement of the date from the 29th September to the 31st December; that would mean a more complete realization of the crops?—Possibly, but I am not sufficiently acquainted with the farmers' accounts to know whether the 31st December would really be a suitable date for them; it might, or it might not.

25,182. It only just occurred to me as a possibility?—Yes.

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[Continued.]

25,183. Then in paragraph 93 you say: "The Board of Inland Revenue would wish to raise no objection to a change in the Income Tax year if the interests of the great body of taxpayers would, on the whole, be materially served thereby." I recognise that there are reservations in that statement, but I think you have in mind the question of the business community rather than the individual taxpayer, have you not?—I think the business community is the particular body that we had specially in mind.

25,184. You say that the desire is articulate amongst them?—Yes.

25,185. If it is articulate amongst those who are the most important portion of the community do not you think that it deserves very serious consideration?—Yes, I do, but I would just point out that in paragraph 97—

25,186. I do not think that affects my point. What I was going to say was this: if the great proportion of the business community, or if a large proportion of the business community desire this change and find it convenient, would you not agree that smaller individual taxpayers would find it very much less confusing, and very much more convenient, that the fiscal year should be the 1st January to the 31st December?—I think it is quite possible that they might, but I do not think either the business community or the individual taxpayer who has considered this matter may have appreciated quite fully what a very considerable disturbance the change over would cause.

25,187. Mr. Kerly: May I ask one question there? Supposing for all purposes as well as for traders' accounts, the Revenue were satisfied to take the previous calendar year, that would get over all difficulties, would not it?—Not quite. I am afraid it would not get over the great difficulty which we should experience in connection with taxation at the source. If the fiscal year still ran nominally to the 5th April, if that is the point, and we accepted a year to the 31st December for the purpose of making up our returns and statements of liability, and so on, there would still be a difficulty about the Income Tax at the source, because when a change of rate took place that change of rate would operate necessarily with effect from the 5th April and not the 31st December.

25,188. I see the difficulty where there is a change of rate?—Where there is no change of rate I agree that difficulty would not arise.

25,189. Mr. Marks: My original suggestion contemplated that the Government year for all purposes should be the calendar year and not that the existing Government year, the 6th April to the 5th April, should be maintained?—Quite.

25,190. Just one general question which really arises on the last remark which you made in the interesting memorandum which has been prepared as to the Income Tax year [see Appendix No. 7 (c)]; you give details of the great number of changes which have been made in the last century?—Yes.

25,191. Do not all the arguments which you are advancing now apply equally well to the changes which were made then?—I should have thought that modern conditions were so much more complex that all the objections which might have been felt then—I do not know what they were—would be, or might be, enormously intensified now; subject to that I should agree.

25,192. I should agree that the conditions are much more complex, but I should also contend that the machinery for dealing with them was very much more efficient than ever it was at the period covered by these changes?—I hope it may be, so far as the Income Tax part is concerned, at any rate.

25,193. Sir E. Nott-Bower: In connection with these changes of date which are referred to in your historical note, and Mr. Marks' suggestion that there were not the same difficulties experienced then, was there an Income Tax in force when most of those changes were made?—Not when all of them were made, certainly.

25,194. I am not sure that it was in force when any of them were made?—May I just follow it through?

25,195. Yes?—The first change came in 1751 when there was no Income Tax. A further alteration was

made in 1832 when there was no Income Tax so that the question of the Income Tax does not arise. There were certain changes in 1834 and 1835, but, broadly speaking, it is true that there was no Income Tax in force when the bulk of these changes took place.

25,196. Mr. Kerly: It rather suggests that we cannot get much assistance from looking back with regard to this particular point.

25,197. Sir E. Nott-Bower: In 1854 there was an Income Tax in force, but what was the change in 1854?—That is referred to in paragraph 6 of the historical note; that is merely that the Finance Accounts were made up to the 31st March; it did not affect the Income Tax.

25,198. It did not affect the Income Tax at all. It cannot be suggested, I think, that because some difficulties were met on those former occasions they would be met now, because the difficulties did not arise on the former occasion. In two cases there was no Income Tax in force, and in the third case the change made did not affect it?—Quite.

25,199. Mr. Symonds: You do not refer, I do not know whether it was advisedly, to Mr. Bremner's evidence on the simplification of the Act?—Mr. Cox, the Solicitor of Inland Revenue, hopes to appear before you on the next occasion, and he will, I think, give you some evidence on that very point.

25,200. Is not Mr. Bremner's evidence, or one of his suggestions at any rate, that the Schedules which are really the operative charging section, should be embodied in the Act itself?—That is so.

25,201. It is human nature, which I have often tested, that people will read an Act but will not read the Schedules. I am glad to see Sir Walter Trevelyan nodding approval of that. Is it not therefore important, whatever may be done in other directions, that a taxing Act should in the body of the Act contain and show the taxpayer's liability?—Speaking for myself I should entirely agree, but I think Mr. Cox is going to deal with that particular point.

25,202. I only ask the question to proceed to another point, and that is in paragraph 24 you deprecate any official pamphlet or instruction with regard to Income Tax, and you suggest that we should be content with those forms. If the tax were simplified in the way of the grouping of the Schedules, and embodying them in the Act, and so on, on Mr. Bremner's suggestion, could you not proceed to have an official publication of a popular character (using popular in the proper sense) which would enlighten the public on this matter?—If the law is simplified the public can be reflected in our forms. They are very difficult now; but I should like to say that we did make one attempt to simplify this half form in a particular respect; I just want to use this as an illustration. There is a heading here, "Property or profits not falling under any of the foregoing heads, and not charged under any other Schedule." When the taxpayer sees that he may say, "well, I do not know what profits are not charged under any other Schedule; I do not know what this refers to at all." As a matter of fact it is intended to refer principally to what is known as Case VI of Schedule D, which deals with a lot of miscellaneous or casual profits.

25,203. All other profits?—All other profits arising. I believe we had on the form instead of this long heading the words "casual profits," and Mr. Bremner came before you the other day and told you that that was there, and he at once took exception to it. He said, "This is not in accordance with the law," and our attempt at simplification was put back because, as Mr. Bremner very properly said, we had applied popular language, and it was not accurate; that is the sort of difficulty we are met with at once.

25,204. Do not you think a publication that you would issue would be very much more likely to be accurate than the popular manuals that are issued now?—I should entirely agree.

25,205. People have asked me for some guide to Income Tax, and I have made some study of the literature on the subject, and I am really not able to say that I can speak of any book as a clear and succinct account?—Yes.

25,206. If you prefaced your publication by saying that it was official but not binding—?—If we could do that I agree we might do something.

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25,207. Mr. Kerly: Official, but not necessarily accurate?

25,208. Mr. Synnott: You do not want a return from every Income Tax payer of his total income. One reason is that you really get the information very much by these claims which are necessarily made for exemption?—That is so.

25,209. Especially in regard to earned and unearned income?—Yes.

25,210. I am not asking you to express an opinion, but if that distinction was abolished it would be necessary to get this declaration?—Well, I am not quite sure, because I imagine that you would not contemplate—perhaps you might—abolishing the whole graduation of the tax, so that if that income were treated in the same way as unearned income there would be still a number of rates applicable to different incomes.

25,211. The graduation would help you, but still it might become advisable to have those returns?—It might become advisable to have them, but I am not very clear that there is any case in which it would become unnecessary to have them in which we get them now.

25,212. You assume in paragraph 2 and elsewhere, and in paragraph 122, in criticising Sir James Martin's suggestion that the Assessor locally, and, of course, the General Commissioners, give the information which is necessary. Sir James Martin suggested that every trader should be called upon to give notice to the authorities that they might know whom to assess. There are places where there are no Assessors and no Commissioners; how would you suggest that the Surveyor of Taxes is going to get that local knowledge, first of all, as to the persons to assess, and secondly, as to the amount which they ought to be assessed at?—Well, I quite agree, speaking as I understand you to speak, of Ireland in particular.

25,213. Not that I wish a greater burden of taxation imposed on that country—that raises a controversial question—but that the taxation should be fair as between man and man?—Yes, quite. I quite admit that there are difficulties where there is no local person on the spot. Just in answer to that, I think, speaking generally, the Surveyor is able to get a good deal of information from the Collector at the present moment.

25,214. Speaking generally, on paragraph 11 in sub-paragraph IV, you refer to the number of persons residing in private houses, hotels, boarding houses, and so on, who are not easy to get at?—That is so; it is very difficult to catch those people.

25,215. Would not Sir James Martin's suggestion meet that point very much?—He suggests that a person starting in business should notify us; what I would rather suggest is that the person who is trying to evade Income Tax and who does evade it would not notify us.

25,216. You might catch a good many, might you not?—I do not know. We should only catch him if we knew he was carrying on a business, and if we now know that he is carrying on a business we catch him; it is only when he is carrying on a business and nobody knows it that we cannot catch him.

25,217. You allude to the difficulty of Schedule A, that is the adjustments on Schedule A, where the person who in the first instance pays the tax is not liable for the total amount where he has a small income, and you cannot compel the receipt to be produced?—That is so.

25,218. Of course, you are aware that the tendency now, which already obtains in Ireland, is towards a very large number of small holdings where the occupier is not liable to the tax, or not to the full rate of tax?—Yes.

25,219. Is it not the practice to deduct the full amount?—I am not quite sure that I have followed your question. You have an occupier who is charged tax for his landlord.

25,220. Yes. He is liable in law to the tax in the first instance, is he not?—I think in Ireland the Schedule A tax is collected almost universally from the landlord, is it not?

25,221. Yes, it is, but in law is not the occupier liable for the tax? He cannot deduct it if he does not pay it, and surely he would not pay it unless

he were bound to pay?—If you will excuse me a moment while I refer to the section, I confess that my knowledge of the details of Irish procedure is not complete.

25,222. I do not think there is any special provision with regard to Ireland. I only want you to deal with the general question of the occupier not being liable?—Leaving out Ireland, of course, the occupier is liable to pay the tax in the first instance.

25,223. And at the full rate?—Yes, but we do not charge him at the full rate on the property if we know that the owner is not liable to the full rate; we reduce the rate, in fact.

25,224. The occupier's rate may be a varying rate?—The occupier is only acting as agent for the owner; it is the owner's income that determines the rate under Schedule A.

25,225. But has the occupier to pay the full rate in the beginning?—No, not if the owner has shown us that he is entitled to pay at the reduced rate.

25,226. Supposing the owner was liable to pay at the full rate, and the occupier only at a reduced rate?—I think I see your point. The case you have in mind may be this, if I may suggest it: the property is worth £100 a year and the occupier is paying a rent of only £50 a year, and so the owner bears tax on £50, and the occupier has to bear the tax on the other £50.

25,227. Yes.—In that case, if the occupier has what one would call a beneficial occupation, or interest in the property, he can then come to us and get that balance of tax which he has to bear personally reduced to the rate appropriate to his own income.

25,228. I will not pursue the subject; it is a detail, and I apologise for going into it. The reason I ask you is that I cannot find in any of your forms that this point is dealt with?—No. I do not know how far it arises in Ireland, but in this country it is not a very common case. The normal case is where the tenant pays the whole of the Schedule A and gets the whole of the Schedule A back from his rent.

25,229. There is only one other point, and that is on the thorny question of the deduction of tax from the weekly wage-earners. Is not the figure that Mr. Marks referred to of 1,840,000 persons for the year 1918-1919 based on the wages for that year; or is it on the wages for the preceding year?—That would be based, broadly speaking, on the wages of the preceding quarters.

25,230. There has been a very large adjustment, and possibly that figure might be very much reduced now by the increase in wages?—It would be affected, but, on the other hand, I would point out that the wife allowance has been doubled this year, so I question whether it would be reduced on balance.

25,231. I thought you were going to say that. It would be affected in one way or another, but you could not tell how much?—Precisely.

25,232. In paragraph 113 you allude to the suggestion that the weekly wage-earners, in common with other employees, should be assessed on a uniform basis of their earnings during the preceding year. In the next paragraph you comment on that, but, if I may say so, you really do not comment on the merits of it, and the advantages of it?—Perhaps I may just say this about that proposal. We have in official evidence suggested that, leaving out the weekly wage-earner for the moment, employees might with advantage be assessed on their wages or salaries of the preceding year. As regards weekly wage-earners, in principle I think we should entirely agree with that, but there is the difficulty, that if you leave the weekly wage-earner's tax over until the end of the year, and assess him in one sum instead of assessing him quarter by quarter, he spends all the money, and we cannot collect our tax.

25,233. Assess him for this year, say on Schedule E as the trader; he will pay Income Tax this year, but the figure has to come out and be based on the wages of the previous year. First of all, it would put him on the same footing, especially if the three years' average was abolished for the rest of the community?—It would.

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25,234. And he would have no grievance on that point?—Certainly, on that point, the question of equality.

25,235. It would have this further advantage, that nothing need be disclosed to the employer if there was a deduction weekly; he would pay next year. Nothing need be disclosed to the employer at all, and the thing would adjust itself from year to year, would it not? If there were any lowering of wages, he would get the benefit the year afterwards?—Yes, but I am not sure if there were a lowering of wages whether a man who has now dropped from, say, £250 to £150 would be in a position to pay last year's tax, when he is only getting £150. I think there might be serious difficulty with the smaller incomes in those cases.

25,236. It would be adjusted the year after?—He would pay no tax the year after, but his income might still be going down. He would have an outstanding liability that he has not at present; that is rather an important point.

25,237. Whatever the hardships may be in the particular case, it is only in case of a general reduction that there would be any difficulty?—No, I do not think I would say that; there would be other objections also. One objection that strikes me on the spur of the moment is this, that the weekly wage-earners are much more migratory persons than people with larger incomes. A weekly wage-earner may have gone to the other end of the country; we may be unable to trace him, and we should lose our tax in a much higher percentage of cases. If we assess it quarterly by quarter we get it more quickly, more often, and there is less loss, but if we are going to wait for a year he has gone; he has disappeared.

25,238. I do not contemplate waiting for a year; it is only a question of the rate. Say for 1918-1919 he would pay in 1920?—Yes.

25,239. Very well; what is the difficulty? He pays quarterly then in 1920, or he pays weekly?—I beg your pardon, I am afraid we are a little at cross-purposes; I did not quite follow your proposal.

25,240. It is not my proposal, because it is there already. He still continues either quarterly, or he may pay perfectly easily weekly next year?—I think in answer to that I can only say that, when the whole of the circumstances were weighed up, it was thought it would be easier for the workman in filling up his forms, and generally easier all round, if we got him back as near as possible to the time at which he had earned his wages, and the quarterly system was considered better on those grounds.

25,241. I am not quarrelling with the quarterly system.—I beg your pardon. I mean the quarterly assessment system as against the yearly assessment system.

25,242. Mr. Kerly: I think you and Mr. Harrison are a little at cross-purposes.

25,243. Mr. Synnott: Perhaps you will draw him out afterwards; I think you know what I mean.

25,244. Mr. Kerly: I know what you mean perfectly well; I have no difficulty in following you at all, but I think there are practical difficulties which Mr. Harrison has somewhat in his mind which perhaps prevent his appreciating what you are putting to him.

25,245. Mr. Synnott: I am trying to make out that there are no practical difficulties.

25,246. Mr. Kerly: Yes, I know. May I put to you what strikes me: first of all your proposal is this: a man is to pay now out of his current income, but the amount he pays is to be determined by his last year's income.

25,247. Mr. Synnott: Yes.

25,248. Mr. Kerly: The difficulty as it seems to me is a double one: first to ascertain what his last year's income was, because very likely he was somewhere else, or employed by a different man, and, secondly, the workman's budget is really not a year-to-year budget as it is with the rest of the community, but it is really a week-to-week budget, and the amount he has available is not really determined by what he was earning last year but by what he

was earning last week. The ideal state of things would be to tax him this week on last week's earnings if you could do it. That is impracticable, but Mr. Harrison apparently favours the compromise of taxing him this quarter on last quarter's earnings, is not that so, Mr. Harrison?—That is so; that is exactly how I should put it.

25,249. One has to remember that the workman is in normal times living on a very small margin. Take the case of a man who was earning £5 a week last year and who is now only getting £3 a week; you cannot make him pay this year at the appropriate rate for the £5 a week that he was earning last year. Those seem to me to be the difficulties that your suggestion (of course there are obvious merits on the face of it) would practically meet with; I do not know whether you agree with what I have said?—I quite agree, and I apologise to Mr. Synnott if I misunderstood his questions.

25,250. Mr. Synnott: It may be true there would be a percentage of hardships, and so there will be in every reform, but I suggest that in 19 cases out of 20 it would work perfectly smoothly allowing even 1 per cent. to 2 per cent. for workmen moving and so on. Are you quite correct in paragraph 110 referring to these interviews with the Chancellor of the Exchequer? Was not the objection of the employers and the employed this; first of all the employer objected to being made liable to pay when the employed failed to pay?—That was the original clause, I quite agree; it arose on that clause.

25,251. They did not object that they should deduct in the first instance, which is quite a different matter, there being no failure to pay by the employees?—Quite; but I think the larger question came up in the course of the discussion, and the employers felt that it would lead to great friction between them and the workman; the larger question equally with the smaller one.

25,252. But you allude to the second one because it would result in the disclosure to the employer of the workman's private affairs?—That is the workman's objection.

25,253. That is the very reason I suggest to you this other system, because if you go by the past year's assessable income all those allowances would have been made, and the employer would never know what his private affairs are?—I am afraid I should not take that view. It seems to me that the employer could work it out quite as easily, from the tax charged by reference to the past year's income, in that case as in the other.

25,254. Do you mean to say the employer would go to that trouble?—No. I do not suggest that he would always do it, but he could do it if he had a mind; that is all. I am afraid that the workman might suspect that in certain cases he would do so; it is the feeling of the workman that the employer might do so.

25,255. Mr. May: But would it not be entirely impracticable to make the employer collect or to stop last year's tax out of this year's wages? I suggest it is altogether inconceivable and therefore Mr. Synnott's point holds?—If the employer deducted at all he would deduct from the workman's wages as he paid them.

25,256. I suggest that with Mr. Synnott's plan the employer does not come into it at all. You deal with the workman exactly as you deal with every other citizen, and therefore I say Mr. Synnott's point holds good, as I understand it.

25,257. Mr. Kerly: We have the argument on both sides; after all, it is a matter on which Mr. Harrison cannot help us on the facts; he has put forward his view for consideration here.

25,258. Mr. May: Quite.

25,259. Mr. McLintock: With regard to returns, in the case particularly of all those companies or concerns who produce accounts and agree everything with the Surveyor early in the calendar, probably about February or March, is there any difficulty in the Revenue having a special form to issue to these people?—No, I think not.

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25,260. Do you know that probably two months after they have settled everything with the Surveyor the Assessor sends them out the usual form and they are bombarded with reminders from the Assessor's office, and it entails a great deal of correspondence? If an accountant is dealing with it the forms go to the client and he writes: "here is a reminder. Why have you not dealt with my tax?" Yet it is probably settled months before. Now is there any objection to having a form sent out to people who agree? Could you not have a slip to be initiated by the taxpayer and the Surveyor and even do away with the form? A limited company has no return to make in addition to its one figure that is agreed to?—I think certainly that might be done, and of course it would become much easier if the whole thing were done from the Surveyor's office.

25,261. You mean if the Assessor were abolished?—If his duties in connection with forms, at any rate, were transferred to the Surveyor.

25,262. You have had complaints of this continual issuing of forms months after everything is settled?—Yes, I quite agree that does happen; it has occurred, and we have had complaints.

25,263. But you do not think you could do that unless you got the Assessor's present duties done away with?—I would not put it as high as that. I think it would be possible to devise a separate form for companies, but I think mistakes would be less likely to occur, and the thing would be facilitated if the Assessor's duties in connection with these forms were performed by the Surveyor.

25,264. Is it really a considerable nuisance?—I have no doubt it is. I think there are cases in which the Commissioners have insisted on a company making a return, but it could be made on a simpler form.

25,265. *Dr. Stamp:* It would be unwise to dispense with it, would it not?—It would be unwise to dispense with the statutory return, perhaps.

25,266. *Mr. McLintock:* I may tell you in practice they will accept the statutory return. If my firm, for example, put in the agreed profits and we sign it as auditors they never ask the company to sign it at all?—I believe that is so.

25,267. It is becoming a farce, then, to put one to all that trouble?—Yes.

25,268. *Mr. Rayner* raised a point—I do not know whether it is owing to war pressure—that there are a great many demand notices coming out to-day which are wrong; and that has been my experience. Some of them are on the part of the Surveyor disallowing items, others are errors. Where he has actually altered the figures for which he has had full details sent to him, is there any reason why the Surveyor should not send a specific explanation as to how the difference arises?—That is where the Surveyor makes a correction.

25,269. Not necessarily a correction; he alters the figures. He may be right or he may be wrong. In his view you have deducted something which you should not deduct, but where he has been furnished with full accounts and details of the computation it is a great deal of trouble if he fires out the notice without remark; you have to write or call and see him, whereas it would dispose of it if he gave an explanation of his alteration?—I can only say if that has occurred to any considerable extent I think the war pressure is the explanation. It is certainly the effort of the Department, in a case like that, to explain a difference of the kind you refer to.

25,270. For instance, you may have had meetings with the Surveyor and there has been a difference of opinion, and he has never said to you: "I will not admit your contention," but the notice comes out and you cannot check the figure. Should there not be an invariable rule that the Surveyor should write to the taxpayer and explain how it occurs?—Yes. I should not differ from that in the case where accounts are rendered.

25,271. I am referring to cases where accounts and full computations and details have been furnished?—We have a form which is prepared for the very

purpose of giving this information. I can only say that the omission, if it has occurred, has been due to the war pressure.

25,272. In paragraph 43 you refer to a power that is given to the Surveyor with regard to assessments which have been the subject of appeal. Is there any body of Commissioners in the Kingdom that you know of that call the taxpayers before them to agree formal assessments except in the City of London?—I do not know of a body of Commissioners who do that.

25,273. It is not the practice of the Commissioners generally where the Surveyor and the taxpayer, after a previous interview, have agreed the figures, that they are hailed before the august body just to say: "We are all in agreement"?—No, I am not aware of any such body.

25,274. Do you know it takes place in London?—My knowledge of the City of London practice is not detailed, but I thought it only took place in the City where repayment is claimed.

25,275. Is it the practice in any part of the country to bring them before the Commissioners after it has been agreed?—Not to my knowledge; I think not.

25,276. The Commissioners could have them before them if they wished?—The Commissioners can insist upon every taxpayer who obtains a reduction in his assessment coming before them if they wish.

25,277. There is one other point on general administration. You have the practice in the Inland Revenue generally of issuing all your letters and queries on a sheet of paper with the queries on one side and you ask for the answers to be put on the opposite page?—Yes.

25,278. Why not adopt the ordinary commercial practice?—I think you will find in paragraph 117 we say that we fully recognize the desirability of this procedure, and will take steps to carry it out as soon as practicable.

25,279. I am sorry I had missed that point?—We do recognize that.

25,280. With regard to errors in assessments, generally speaking, the Inland Revenue will rectify a palpable error even if you are outside the days of appeal?—Yes, I think so.

25,281. But there have been cases where they will not do it. Is there any reason why it should not be made statutory that an error, say, within three years, must be rectified?—I think not, provided, of course, that you can define your term "error" satisfactorily. It is a little difficult sometimes to determine what is a mere error and what is a disputed deduction, or something of that kind.

25,282. I agree, but you have come across cases of palpable errors made by an ignorant taxpayer?—Yes.

25,283. And then they are afterwards discovered, and you have to say you have no remedy; you cannot do anything for him?—Yes.

25,284. You have the right, for any reason, to issue an additional assessment within three years. In the case of error, do you not think the taxpayer should have the same right?—I am still hesitating a little about that word "error." The taxpayer may be quite low and not furnish us with information, when it suits him, and he may come forward later and obtain a reduction merely on the ground of this alleged error, also where it suits him. We must have some finality in our assessments, and we must bear in mind that the information to enable us to make a correct assessment must come from the taxpayer. Therefore, I do not think it is quite fair to make the time within which we can make additional assessments correspond absolutely with the time, in all respects, in which the taxpayer can claim an adjustment. If you did so, the dishonest taxpayer would gain most.

25,285. Of course, you have the absolute right at present, even though it is a clear arithmetical error, to say: "no, we have nothing to say to you."—I am not defending that absolutely; I am not suggesting that it might not be possible to meet that point.

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25,286. *Dr. Stamp*: In the case of a clear error like a double assessment.

25,287. *Mr. McLintock*: You have your remedy there. Failure to deduct amounts paid under Schedule A, are they repaid?—Yes. In that connection I just draw your attention to the fact that we have suggested in this evidence that the taxpayer should, at any rate, be given a time limit for claiming relief of not less than one year after the end of the year of assessment; that is an extension, at any rate, of the present law.

25,288. I do not know if any Commissioners asked you with regard to having an inquiry office?—I have not been asked anything on that to-day.

25,289. The point is this: the Surveyor, as a rule, has to communicate with headquarters by letters; I mean, if a special point is raised, he cannot settle it himself. His letter to headquarters—it is only human—is apt to be a little coloured by his own view of the point put up. Is it not possible to have a resident Inspector in all big city districts, where people could go and discuss with him and he would have the power to settle certain things; in other words, to have a higher consulting officer?—I should hesitate very much with regard to that.

25,290. If you had such an officer, when you had a difference with the Surveyor, you would go to him and he would say: "Yes, I will agree that," or "I will not agree." There is no such finality at present?—No. I should hesitate to agree, on the spur of the moment, to anything which would detract from the responsibility of the District Surveyor, but I am not saying that in big cities that might not be done to some extent. Indeed, there is an Inspector now in many big cities, who can be referred to, not by the taxpayer directly perhaps, but by the Surveyor.

25,291. Yes, but it is to give to the taxpayer the right of access to state his own case in his own way?—That raises this question more than anything else. Is the Surveyor a big enough man to deal with the taxpayer or ought there to be a bigger man behind him to whom the taxpayer can go habitually.

25,292. Most Surveyors are; there are some who are unduly nervous and strain at gnats and never swallow the camel?—I am afraid we shall always get that, human nature being what it is. You must get a certain percentage of all types in any service.

25,293. Where are these Inspectors now, except in London?—I am afraid I could not tell you offhand, but I can let you know.

25,294. I never heard of one in Glasgow, for instance?—I think that certainly during the war period Inspectors have been constantly working all over the country. I think it wants a little consideration, because there are questions of economy and so on behind it.

25,295. There is one other point. In dealing with repayment claims, in the recovery of interest against taxed dividend, for instance, there has been a good deal of changes in the method of computing the income for the year, has there not? I will give you an example that occurred recently. There was a claim lodged, and at least for three years before, the income of the year was held to be the dividend received during the year. For the first time they say: "No, we are going to apportion these dividends—throw them back into the year in which the profits were earned." It is very desirable that there should be an absolutely uniform practice, known to the public?—On that, I would suggest this. The law, I think, is that you have to apportion, but if you did apportion, it would cause the public such an enormous amount of inconvenience that we only insist on the law being carried out very strictly when it makes a material difference. I think that is really the difference between the law and the practice, and possibly you have run up against one of these exceptional cases.

25,296. In these points of practice this same case has been dealt with on different lines for three years to what it has been dealt with in the last year?—Of course, I am in a difficulty about an individual case, because I have not seen it.

25,297. There have been a lot of complaints. Is it not possible that where a practice differs from the

law, that practice should be publicly known in cases like repayment of claims?—I venture to suggest it must be subconsciously known, at any rate, because the taxpayer acts upon it.

25,298. Subconsciously known to whom?—To the taxpayer. He makes a return on the basis which accords with the practice though not with the strict law, and it is accepted. His repayment claim is dealt with on that basis, I should think, in 99 per cent. of the total cases we get. So that the practice is well known, even if it is not realised.

25,299. *Sir J. Harwood-Bonner*: Just one or two questions on your remarks in reference to one taxpayer, and one assessment. In paragraph 39 you say that as regards the merger of the Super-tax in the Income Tax, the Board are of opinion that there would be greater complexity rather than greater simplification. Does that mean that there would be greater complexity to the Board or to the taxpayer?—To the taxpayer in particular, I was thinking of. It includes the Board's side as well, but I had the taxpayer in mind more particularly.

25,300. Therefore the opinion expressed by Mr. S. E. Cash, on behalf of the Federation of British Industries and on behalf of all the large interests he represents, that they prefer a single system, in your view you do not think anything of?—I would not put it so high as that. I have great respect for all those views that have been expressed, but I do think sometimes that the witnesses who have appeared may not have appreciated all the difficulties that come home to us in practical working difficulties to the taxpayer as well as to the Revenue.

25,301. Does the difficulty arise because the Income Tax and Super-tax are chargeable on different slices of the income? For instance, if a man's income was £50,000, and the tax on incomes of that size to include Income Tax and Super-tax was fixed at 12s. 6d., and if, instead of being graduated as it goes up with various steps in the rate, it became 12s. 6d. on the whole £50,000, would your objection still apply?—Yes, I am afraid so, for this reason: Suppose that £50,000 is made up of two sources, £25,000 business profits, and £25,000 taxed dividends. You have to charge the business profits at 12s. 6d. but you have only got to charge the dividends at 6s. 6d., because they are already taxed at the source at 6s. You get a complication at once.

25,302. Is it not within the power of the men who pay Super-tax to make a return bringing that in?—I suggest that is what they do at the present moment, subject to the one qualification that we tax the business profits as well as the dividends at 6s. first. At the present moment the £25,000 from the business is taxed at 6s., the £25,000 from dividends we tax at source at 6s., and the £50,000 is taxed to Super-tax at the balance of 6s. 6d. Now the only difference, in this particular case, would be that the £50,000 would now be charged on £25,000 at 12s. 6d. and on £25,000 at 6s. 6d.

25,303. He would have to pay the 6s. 6d. on the amount on which he had paid 6s. 2.—Yes.

25,304. It is quite possible for him to make up an account setting that out?—Now, if I may suggest it, having got as far as that, we have assumed that he would be charged to Super-tax at 6s. 6d. or 12s. 6d., but as a matter of fact it would not work out like that, because one slice of his income is not chargeable to Super-tax at all, the next slice is chargeable at 1s. 6d., and so on, and if you had two assessments on his income you would have to regard one of them as including the lower slices, and the other as consisting of the top slice only; and you would get different rates applicable to the different slices.

25,305. But I was putting the slices out, and saying when it was £50,000 he paid at 12s. 6d. 2.—If you revise the graduation altogether and have a rate applicable to an income of £50,000, in that way, over the whole of it, you get a different kind of curve altogether; you probably introduce a number of jumps in your tax and get away from what is at present the smooth curve in the Super-tax.

25,306. *Dr. Stamp*: There is a different real rate for every pound of income?—At present there is a

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different real rate for every pound of income rights up.

25,307. *Sir J. Harwood-Banner*: But that would not be so if you put it at 12s. 6d. on the whole £50,000?—If I may just put this to you more in the form of a question: what rate would you charge on an income of £50,000 and on one of £50,001 and on one of £50,002? At present there is a different rate. If it is 12s. 6d. on £50,000, on £50,001 it is twelve shillings and six, point nought, nought, nought something pence.

25,308. What I am asking the question for is this. Do the Board rule out of order any possibility of arranging a system of taxation which shall graduate up to £100,000, or whatever it is, at one rate to include Income Tax and Super-tax?—To rule out, is putting it rather strongly, but I do suggest that it is incompatible with a system of taxation at the source. So long as you deduct part of the tax at the source, an entire merger of Income Tax and Super-tax is impossible.

25,309. Only if there were taxation at the source, but if there were a personal taxation, then it would be possible?—If there were no taxation at the source—which to my mind is unthinkable, if I may be allowed to say so—then I agree it would be possible.

25,310. And it is not possible to adjust the taxation at the source to the fact of having a single rate running through the different grades of income; it is not possible to adjust that in such a way as to carry out such a scheme?—No, I am afraid not, because the proportion of income taxed at the source will differ in every individual case. You have something taken off at 6s. in one case and an entirely different amount in another; and you could not have a complete merger in the way you are suggesting as long as part of the income is taxed at the source.

25,311. If you had single tax there would not be various taxes; you would have 12s. 6d. on everything?—Quite, but you could not take off 12s. 6d. at the source from the man with £50,000, I suggest?

25,312. No, but you could adjust it when he makes his return?—Yes, but if you had to adjust it, you would not get a complete merger, because you would be taxing part of the income at 12s. 6d. and part at 6s. 6d.

25,313. *Mr. Kerly*: I think you two gentlemen are at cross purposes. Do you mind if I put what I think is your point. Why not treat all deductions at the source as mere credits and make up the account as if there had been no deduction at the source at all, and give the man credit for what has been deducted? I agree that you would have the trouble that in every case where a man gets income less deduction you will have to find out what the real income was, by adding on what has been deducted. But if you go through that operation then you will have your complete Super-tax right through including Income Tax?—Yes, only it will be a different Super-tax from the present Super-tax in this respect also; that it will not be a Super-tax charged on different slices of the income.

25,314. But the results would be exactly the same?—Yes, but you will introduce jumps into your graduation unless you have a different rate for each pound of income right the way up.

25,315. And you do so?—Quite; admitted, if you introduce jumps.

25,316. *Sir J. Harwood-Banner*: My question was, that I wanted to know whether, if that could be adjusted, the Board would rule it entirely out of order, as they do in paragraph 39?—I am afraid that is a very big "if." I personally cannot see how the thing could be satisfactorily worked with circumstances anything like what they are at present.

25,317. *Mr. Marks*: Mr. Chairman, does your suggestion imply a graduation of the Income Tax in slices, as well as of Super-tax?

25,318. *Mr. Kerly*: That I think, is an ideal—to graduate everything, as I have often said; the ideal seems to me to give every £100 of income its appropriate rate, just as you do above £2,000 now for Super-tax. I put this to Mr. Harrison, and he did not like it because he thought there would be practical difficulties; but it would involve, as I have just put to him, as it seems to me, every man making

up his account. He would say: "I have received such and such income; as to A, B and C, I have got to add X, Y, Z, to get the actual income; as to D, there has been no claim, and D is the amount." Then he makes up his total income; and having got his total income, he is able to reckon by the table what his total tax would be. That would be one side of the account. As against that, he would credit as a payment everything that has been deducted at the source or which he has paid on account or in any other way. It seems simple on the face of it. It undoubtedly does involve having a flat rate or several flat rates for deduction at the source on any particular types of income?—It also involves, if I may say so, that you cannot make up your bill against each taxpayer until after the end of the year. You cannot collect last year's tax until this year.

25,319. I appreciate that. You told me so when I put it to you before?—Forgive my mentioning it again.

25,320. It is quite right that it should not be forgotten, but I would suggest getting over that by merely making the man pay something on account, and bringing that into his credit side. At an early stage of this inquiry, I had a great attraction towards what I was suggesting to you; I must say that the view as to its practicality has been very seriously shaken. I do not put it forward as my considered view, but I thought I might assist you.

25,321. *Sir J. Harwood-Banner*: You have been assisting me greatly; I am obliged to you for making the point clear. (To *Witness*): Then it is not ruled absolutely out of order that there is this possibility that such a tax might be arranged somehow or other?—It is a possibility, but all the official evidence, I think, is against its desirability.

25,322. Then will you just turn to paragraph 30. You say: "In cases, therefore, in which it would be necessary to make more than a single assessment upon the same person, the different assessments would necessarily be made on different slices of the income at different rates of duty, and it is questionable whether the result would not be at least as puzzling to the taxpayer as the present system." Do you put it entirely on the taxpayer there, or do you put it on the Board? Is it puzzling for the Board, or puzzling for the taxpayer?—I do not want to make too much of our difficulties; I wanted to show that the taxpayer would be involved as well.

25,323. Do you not think that the taxpayers—the able men who have given us evidence here—who pay on that basis, would be quite capable of dealing with that puzzle?—I think some taxpayers might, undoubtedly, but I am afraid that all would not be able to do so.

25,324. But the taxpayer who is in the habit of paying, say, £2,500 a year, and of being interested in more than one assessment, would be quite capable of dealing with such a puzzle?—I do not know. If you have a taxpayer who has three sources of income—and this paragraph of course, assumes that the present Super-tax method of charging different slices at different rates is retained; this paragraph is based on that; it may not be retained but it is based on that—if it were retained and if it was worked in that way, then the taxpayer would be charged at different rates on different parts of his income, and if his income came from three sources, he would find one rate applied to one part, and another rate to another, and another rate to a third, and I suggest that would puzzle him.

25,325. In paragraph 37 you suggest that the taxpayer most puzzled by the existing system is the person whose income is below the Super-tax range altogether?—Yes.

25,326. *Mr. Kerly*: That is the real trouble, because on my method, every taxpayer, not only every Super-tax payer, but every taxpayer, would have to make up an account?—Yes.

25,327. *Sir J. Harwood-Banner*: With regard to the taxpayer who is most puzzled by this, would it be possible, by giving him an opportunity of making a joint assessment, to rid himself of that difficulty?—If the taxpayer could have one single assessment, as far as he is concerned, it would get over that difficulty; but, for the reasons I have suggested in these

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earlier paragraphs of my evidence-in-chief, that in itself is a very difficult question.

25,328. Yes, you have suggested it, I see. But, looking at the statements made by these experienced witnesses, and from one's own knowledge, is it not extremely inconvenient to the taxpayer who has businesses in various parts, and who receives under A, B, C, D and E, numerous assessments, to have to deal with these numerous assessments; and his willingness to pay, and the ease in dealing with the tax as regards the taxpayer (I do not say as regards the Board) would be very much assisted if he was able to make one return and base it on the one system?—Yes, there is very great force in that, I admit, but in the very case you put, in which the taxpayer has two or three or more places of business, the difficulty which we feel is very great, because I suggest that if the taxpayer who has a cotton spinning business in Lancashire were to elect to be assessed altogether down here in London, he might have to come before a body of Commissioners who know nothing whatever about cotton spinning; and it is most desirable, from our point of view that his liability in respect of his cotton spinning business should be dealt with by Accountants, Surveyors and Commissioners who know something about that industry, and not by another body of Commissioners who may know nothing whatever about it. That is the difficulty we are up against there.

25,329. Are there many cases of that nature?—I am not in a position to give you a percentage. There is an appreciable percentage of cases in which the taxpayer is interested in more than one business, certainly; and the difficulty always might arise in a case of that kind.

25,330. Would it not be possible to have a central office before which these could come, and then be delegated down to their respective districts to deal with as regards the profits of those particular industries?—Then you would get back to the several assessments.

25,331. To several assessments as regards the Board, but not to several assessments as regards the individual?—To several investigations of liability; I will put it that way. You would get your return referred from the Central Office to Lancashire, Yorkshire and to Somerset, if you like, for the liability arising from industries carried on in those particular counties to be investigated. Now an investigation might, and in many cases undoubtedly would, involve correspondence with the taxpayer, and he would get letters from Somerset, and Yorkshire, and Lancashire, and he would say: "here I am back in the old trouble; I am dealing with three people in different parts of the country."

25,332. Are you not assuming rather that he is back in the same trouble, when he, having his various businesses, would have no difficulty whatever in his various branches in dealing with the point in the district to which it refers?—If that is so: if he can deal with the points, of course then the matter is easier. But I suggest that under the present system, his local liability is settled locally by his local people, and I think that system is more convenient to him, probably.

25,333. Is it not the fact that already, for instance, there are many cases of a similar nature? I take one of my own cases where we have Wigan, Liverpool and Warrington to deal with; it is all done at Warrington. I confess there are some difficulties in correspondence between the three, but still, there is no general difficulty which is insuperable. There being no general difficulty which is insuperable in the case of one business being iron, and one being coal, there would be no general insuperable difficulty in other classes of the community?—I am not suggesting that there is any difficulty where a man is carrying on one business in twenty places. The difficulty I have in my mind is where he is carrying on three or four different businesses, a draper, grocer and builder, if you like, or three industries of more importance, like those we were speaking of just now. If you are simply a big firm or a big company with a number of branches, at the present time, your liability is normally dealt with in one place; there are not twenty separate assessments because you have twenty branches.

25,334. You have the view that it would create a difficulty, but you would not be astonished if there were many others who consider it would not create any difficulty whatever, and that it would be absolutely easy for them, if they could make one assessment and not be troubled with the very numerous assessments that come, and which they have to deal with, and which virtually come to a central place to be dealt with?—I fully admit that the taxpayer would naturally take that view, but I do come back to my point, that if he has a particular kind of business which is localised or centralised in a particular place, we could not, without sacrificing revenue, let him be dealt with in another place, where nothing was known of the conditions of that industry.

25,335. Then might I say the conclusion that you come to is that the taxpayer might like it, but the Board of Inland Revenue would not, because it might affect the advantage of their collections?—Yes; and the taxpayer, I suggest, too.

25,336. It is a matter for the Board of Inland Revenue more than for the taxpayer?—I think it is a matter certainly for both.

25,337. You carry out the wishes of the Board of Inland Revenue, rather than the wishes of the taxpayer, in having these separate assessments?—I do not want to leave it quite like that, if you will allow me. Certainly I think it is essential to the efficiency of the Income Tax, and therefore to the interests of the taxpayers of the country as a whole, as I say, that businesses should be dealt with where they are carried on. As far as the taxpayer is concerned, while he may think it desirable and simple, according to his idea, to have a single assessment, yet I think, because of that necessity, he must be bothered by the officials for the district where he carries on his business. I agree that it is mainly the efficiency of the tax that I have in mind, in connection with that particular point.

25,338. In reference to salaries, directors' fees, and other things: where a man is doing work in various places, would it not be possible that he should be allowed to concentrate those and pay in one tax, instead of having the enormous number of assessments of all sorts and kinds that come in at the present time?—It would be much simpler, of course, to concentrate them in the case of directors' fees, because there would not be likely questions arising about the liability.

25,339. Then your observations here regarding one taxpayer and one assessment do not apply to the question of salaries?—Not to anything like the same extent. It is businesses that I have principally in mind.

25,340. One question as regards Income Tax in relation to weekly wage-earners. I have no doubt your attention has been called to the number of weekly wage-earners who have passed resolutions, colliers especially, who have said that they will not pay Income Tax of any sort or kind?—I have seen that asserted.

25,341. Do you not think that that would be entirely got rid of if the employer was entitled to deduct, in paying wages, a sum requisite to pay the Income Tax of those respective men?—Personally my fear is that you would have trouble at the outset with the workman, in establishing a system of that kind. I quite agree that if the workman's Income Tax could be taken off his wages in a way satisfactory to everybody concerned, he would feel the deduction much less than he feels the present payment; but we felt that we could not introduce a system of that kind; there were so many objections.

25,342. Do you know that in many cases employers have had requests from their workmen that it should be dealt with in that way?—Requests have been made, and in a certain limited number of cases, a system of that kind was established; but a number of them have had to be gone back upon since, because they were not found to work in practice.

25,343. The original representation was made at a time when the rate of wages was much less than it is at present?—No doubt that is true.

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25,344. So that now a greater number are brought in, and with the increase of wages, in the same way that they do not object to the deduction for insurance and unemployment charge, they would not object to a deduction for the Income Tax charge?—Of course that is purely a psychological point. Our experience, as distinguished from our views, has been that they did object.

25,345. For instance, taking the case of a man who employs a gardener and chauffeur, above the rate, do you think that the employees would not much prefer to have the tax deducted from their wages, in the same way as they pay their insurance, rather than have to pay that sum every quarter?—I can only say, in answer to that, that if I were a gardener, I would personally prefer to have it deducted; but I do not know how it would appeal to somebody else. That is purely a personal opinion.

25,346. But the present system, which brings to the man the notice of a serious payment every quarter, does create in his mind a feeling which makes him tend to object, and to strike and to create difficulties?—I do not know whether that is the root of his objection, or whether it is another thing altogether, which one sees put forward in the newspapers, namely, that the subsistence level is higher than it was, and that they are below the subsistence level, or something of that kind.

25,347. The less it is brought to his attention, the more chance there would be of your collecting it?—Quite.

25,348. Mr. Kerly: I will try to go somewhat rapidly over a few points I want to mention. In one of your former papers, you suggest that there would be 50 million pounds lost if deduction at the source were given up. That was based on some materials, no doubt?—That was based upon materials.

25,349. Could you put in quite a short note, indicating the materials upon which that was based?—I think I could do so, certainly.

25,350. I will not ask you to do it now, but will you kindly put it in?—Yes.

25,351. Do you know that there is a view, on the part of many taxpayers, that they are really paying Super-tax on Income Tax?—Yes.

25,352. That, of course, is wrong; they are paying it on their real income, which is got before deduction of Income Tax?—Precisely.

25,353. Has the Board considered whether it would be better to make the Super-tax payable only on what remains after the Income Tax has been deducted?—Yes; we have considered that, and we are about to send you, in the course of a few days a note on that very point. (See Appendix No. 56.)

25,354. Very well; then I will say nothing further about that. Speaking generally, a good many of the modifications that are suggested in practice, appear to be subject matter for departmental rules. Do you not think it would be an excellent thing if there was a rule-making power, if necessary in a certain class of cases; and supposing they require Parliamentary authority, to be laid before Parliament?—On that point, I think all I can say is that it is rather contrary to the traditions of this country, I think, for Parliament to delegate its rule-making powers to a Government Department. I do not say it has never happened.

25,355. Is it not a very bad precedent to require everything to be done by Act of Parliament, with all the difficulties of getting it through the House? Does not that in fact preserve such ridiculous anomalies as are displayed by these maps on the screens?—Quite; I think there is some point in what you say.

25,356. I merely put the point. There is a matter that seems to me to be important in regard to payments in advance. What do you think of this suggestion? I think you yourself suggest that vouchers might be obtained from the post office, and might afterwards be used for paying Income Tax?—Yes.

25,357. That would enable people with small incomes to save up?—Yes, that is the suggestion.

25,358. These vouchers would be bought under discount?—Yes.

25,359. At a rate which would be settled for the particular year?—Quite.

25,360. Should not that be extended, so that people with larger incomes, instead of investing their money in Exchequer Bills, could buy corresponding vouchers to any amount, through their banks?—I see no reason why the vouchers should necessarily be limited to small sums.

25,361. It seems to me that a good deal of assistance might be given to the Revenue in getting earlier payment in that way, now that the Income Tax is such a very large sum?—Possibly; but a business man, as a rule, is inclined to think that he can get higher interest by using his money in his own business, than he would be likely to get from the Inland Revenue in the form of discount.

25,362. Do not a great number of people put their money on deposit at banks?—I have no doubt they do.

25,363. And buy Exchequer Bills for short periods?—Yes; I am not suggesting there is nothing in it, by any means.

25,364. The rate the Government could give would be the rate at which it had to borrow, not a nominal rate?—Precisely.

25,365. Then as the question of limits of time for appeal, provided that an appeal does not stop the liability for payment, and that the payment is actually required, is there any reason why reasonably long times should not be granted for appealing?—No. I think if we were entitled to claim payment of our tax, of course the position would be altered very considerably.

25,366. Is it not desirable that it should be altered?—I do not think the taxpayer would take very kindly to a system under which he had to pay upon the liability as we fixed it, before he had an opportunity of appealing against it.

25,367. I suggest to you that is the right method?—As an official, of course, it appeals to me.

25,368. You say the Commissioners, but I suggest to you the Court or Commissioners should have power to extend all times for appeals, just as a Judge of the High Court has, or a Judge of a County Court?—Yes; I only referred to Commissioners because I was thinking particularly of cases that come before the Commissioners.

25,369. You gather that I am putting some of these points just to get them on the note?—Yes.

25,370. With regard to this question of workmen's payments, which has been very fully discussed, suppose the employer were required to make a deduction at a flat rate, for convenience I suggest 1s. in the £, in the case of a married man, on all wages of £5 a week and upwards, in every week where the wages exceeded or equalled £5; and in the case of an unmarried man, on £3 and upwards; and those deductions went to the credit of the workman, and his voucher being a stamped card, could not most of the difficulty be got over by arranging that those stamped cards should then be taken to the Surveyor's office, and a warrant given which would enable the man to draw from the Post Office Account for the balance?—Yes, that would be a variation of Mr. Carter's proposal, I take it.

25,371. Does it strike you as a practical line? Of course it would have to be worked out?—I hesitate to commit myself very definitely until it is worked out, because I can see possible complications.

25,372. I put this to another witness, but I would like to have your view upon it. Where there is a decision against the Revenue by the Commissioners, by the first Court, or by any Court, and an appeal, that is generally because the Revenue desires to have some doubtful point settled, is it not?—Yes, that would be so.

25,373. Does it not strike you as a reasonable thing, that in such a case as that the Revenue should have no costs of any subsequent proceedings?—May I reserve the answer to that question. Mr. Cox, the Solicitor of Inland Revenue, is, I think, dealing with that particular point.

25,374. Very well; then I will leave it to Mr. Cox?—Thank you.

25,375. I think the old rule, which obtained for many years, was that the Crown neither paid nor received costs?—I think that is so.

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25,376. And an alteration has been made, which has acted, as all of us know, with great hardship in particular cases?—That may be so.

25,377. Dr. Stamp: On the question of modifying the British attitude towards giving Departments power of making Regulations, there has been some extension in that direction of late years, has there not; there has been some precedent both for the Income Tax and Excess Profits Duty?—There has, certainly.

25,378. Has there been, to your knowledge, any great public dissatisfaction with what has been done under the Regulations?—I am not aware that there has, but I incline to the view that the British public might look upon this power rather differently in times of peace from what it did in times of war.

25,379. Is not most of the trouble likely to be in the House of Commons, in consequence of this?—I think the House of Commons might be jealous of anything which amounted to a suggestion that we should impose taxation or do anything which bore a resemblance to the imposition of taxation.

25,380. But in so far as it is settling the details within a well defined area, is there not a good deal to be said, in these days of very complicated facts, for letting them be dealt with by way of Departmental Regulations?—I think there are some cases in which you are almost bound to come to Regulations.

25,381. Mr. May: I should like to ask one question, following Dr. Stamp, as to the making of Regulations by the Department. Is it not a fact that the most vexed of all questions, the definition of profits, is left very largely to the administrative rules of the Department?—No, I do not think so. There is a great body of Case law upon the subject; it is not in the Statute, it is true.

25,382. Would it make any difference if I altered the word, and said the definition of "income"?—

"Income," of course, includes profits, and there are numerous decisions which help us to a definition of what is income for Income Tax purposes.

25,383. But is it not a fact that in the last resort, it is left to the Department to define, by rules?—I do not think so, because the taxpayer can immediately challenge us. We say something is income, and he says it is not, and he can immediately take us up to the Court, if he does not agree with us.

25,384. Dr. Stamp: There is a great difference between an interpretation of the Act and the actual setting up of machinery and method of rules?—Quite.

25,385. For instance, if it was left, as it was, I believe, to the Income Tax Regulations to define what was profits or surplus for Co-operative Societies under the Excess Profits Duty, that is quite another matter to ordinary Income Tax matters?—Yes.

25,386. Mr. May: I am not dealing with the Co-operative Societies.

25,387. Dr. Stamp: It is a question of principle involved.

25,388. Mr. May: I put this point: that in arriving at profits or the taxable profits or income of any public company, the ultimate figure is arrived at, very largely, by the Rules and Regulations laid down by the Department?—Of course the Department, acting through hundreds of officials, has to have something like a uniform system on which it works; but every one of those Rules, if I can so call them, may be challenged at any moment by the taxpayer, if he thinks it does not correspond with the law. There are no actual rules in the sense of statutory Regulations made, but of course there must be an interpretation of every sentence of an Act.

25,389. Mr. May: I will leave it at that.

25,390. Mr. Kerly: Thank you, Mr. Harrison.

Mr. PETER RINTOUL, on behalf of the Chartered Accountants of Scotland, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

25,391. (1) I am a member of the Institute of Accountants and Actuaries in Glasgow, and senior partner of the firm of Grahams, Rintoul, Hay, Bell, & Co., Chartered Accountants, carrying on business at 105, St. Vincent Street there.

25,392. (2) I have myself been in practice for over twenty-four years, and, like all practising accountants, have had considerable experience of work in connection with the ascertainment of liability to Income Tax, Super-tax, and the preparation of repayment claims, &c. I am at present a member of the council of the Institute of Accountants and Actuaries in Glasgow.

25,393. (3) There are in Scotland three chartered societies of accountants:—

- (1) the Society of Accountants in Edinburgh—incorporated in 1854;
- (2) the Institute of Accountants and Actuaries in Glasgow—incorporated in 1855;
- (3) the Society of Accountants in Aberdeen—incorporated in 1867.

The total membership of these Societies taken together is 1,516.

25,394. (4) In terms of the charters councils are elected by the members of each of the societies, to manage, direct, order, and appoint in all matters and things touching and concerning the societies.

25,395. (5) Some time ago a joint-committee of councils was formed, to which the Edinburgh and Glasgow societies each appoint four members, and the Aberdeen society two. This joint-committee deals with such matters as affect all three societies equally—that is to say, the profession in Scotland generally. It appointed a sub-committee to take steps with the view of putting the opinions and experience of the profession in Scotland with reference to Income Tax before the Royal Commission, and I have been deputed to give the evidence on their behalf. The sub-

committee consisted of Mr. T. P. Laird, secretary of the Edinburgh society; Mr. David Strathbin, president of the Glasgow society; Mr. Walter A. Reid, president of the Aberdeen society; and myself.

25,396. (6) We have endeavoured to secure the opinions of as many members of the three societies as possible by the issue of a questionnaire to all members and otherwise. We realize that the Commission has by now heard a great deal of evidence, and in particular, that of several prominent English accountants, and that in consequence much of the evidence we can give is really only confirmatory of evidence already given; but we think the Commission may probably wish to have the opinions of the profession in Scotland, and that these can be given briefly and in such a form as not to take up much of the valuable time of the Commission.

Function of the source.

25,397. (7) Although some of our members would like to see this abolished and a system of direct assessment substituted, the sub-committee are of opinion that, on account of the probable loss to the Revenue under, and the cost of such a system, the retention of taxation at the source is desirable.

Simplification.

25,398. (8) We are in favour of simplification, and our experience is that very few traders or private individuals understand the provisions of the Income Tax Acts, because of the variety of ways in which liability has to be computed and the multiplicity of reliefs and abatements now available to a taxpayer.

The sub-committee believe that the greatest practicable step in the direction of simplification would be the assessment of all incomes, profits, &c., including those now assessable under Schedule E, upon the basis of the income or profit of the year

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[Continued.]

preceding the year of assessment. A considerable number of our members are against the abolition, as the basis of assessment, of the present three and five years' averages of profits, giving as their principal reason for this that the system of averages allows losses to be set off against profits. If assessment on one year's results is made universal, provision should be made for carrying forward losses and deducting them from future profits before the sum liable for tax is arrived at. If the several methods of computing profits or income were abolished and one method substituted, all Schedules, except A and D, could be done away with.

In the event of the profits of the previous year becoming the basis of assessment, some protection against the reduction of the computed profit on which a taxpayer would be assessable by the alteration of the date of making up his accounts would be required. For example, the profits of a firm or individual for one year to 30th April, 1918, might be £48,000, which would be the basis of assessment for Income Tax in respect of 1919-20. Suppose the trading results since 30th April, 1918, were known to be poor, the accounts might next be made up to 31st March, 1919. If the profits for the eleven months 30th April, 1918, to 31st March, 1919, were £11,000, the assessment for Income Tax in respect of 1919-20 would be made upon £15,000—being the month, 31st March to 30th April, 1918, at £48,000 per annum, plus eleven months, 30th April, 1918, to 31st March, 1919, viz., £11,000. The result would be an evasion of tax which ought to be made impossible.

If it is considered desirable to make a gradual change from assessment on the three years' average to assessment on the profits of the preceding year, we suggest that the assessment might be first on three years' average, then on two years' average, and finally on the profits of the preceding year. Such a gradual change would minimize the inequality as between individual taxpayers which the change of basis necessarily involves.

25,399. (9) *Schedule E*.—We are in favour of abolishing this Schedule. It would be unnecessary if assessments under Schedule D were made on the income of the previous year. If, however, the three and five years' averages are retained for Schedule D, the three years' average, we think, ought to be made to apply to salaries of officials of limited companies, &c.

Income Tax and Super-tax in relation to undivided profits of limited companies.

25,400. (10) Generally our members see no inequity in the proposal to aggregate (for the purpose of ascertaining the Income Tax and Super-tax liabilities of individual shareholders) their proportionate shares of undivided profits of limited companies and dividends actually received. The rate of Income Tax which is borne by an individual in respect of a share of the profits of a business is sometimes affected according to whether he is a partner in a firm or a shareholder in a limited company. The amount upon which he may be liable for Super-tax is also affected by the same circumstances. There are great difficulties, however, in the way of getting rid of these anomalies.

We notice that three suggestions have been before your Commission.

(a) For Super-tax purposes to treat as revenue when distributed, all accumulations of profits, whether distributed in cash or shares.

This we suggest would place the tax on the wrong man when shares were transferred after the accumulation, but before the distribution of profits. Moreover, the remedy proposed would not make the position of a shareholder in a limited company identical with that of the partner of a firm. The Inland Revenue would gain a certain amount of Super-tax if this suggestion were adopted, but if adopted for Super-tax, it would in equity have to be applied to Income Tax, and to do so would increase the amounts on which repayment of Income Tax could be claimed.

(b) To impose an additional tax on a company's undistributed profits.

This might make good to the Inland Revenue the loss they at present sustain, but it would be inequitable as between taxpayers. The individual liable to pay Income Tax at only 3s. per £ would in effect pay the same rate of additional tax as the individual with an income involving liability to Super-tax.

(c) In arriving at the total income of an individual for abatement, rebate or repayment of Income Tax, and for assessment to Super-tax, to substitute for the dividends actually received, his rateable proportion, according to the number of ordinary shares he holds, of the assessable profits of the company.

Theoretically this is just, but we suggest it is impracticable on account of the labour involved, especially as, to be absolutely fair, consideration would require to be given to the period during which the shares were held, which might not be a year. We also think that great objection would be taken to the publicity of figures of assessable profits which it seems to us would be inevitable if this suggestion were adopted.

The committee considered that in this matter they could best serve the Commission by stating the alternatives and the arguments against them as these appeared to them. If an expression of opinion is desired as to the alternative to which they see least objection, I am authorized to say that if (c) can be limited in its application to companies where the control is in few hands, they would prefer that alternative. They would not consider it satisfactory to confine the operation of such a method of assessment to holdings in companies coming within the definition of private companies contained in the Companies Acts. They suggest it should extend to any holding in any company with less than 50 members, and in addition to any holding of more than one-sixth of the ordinary capital of any company. If, however, the method adopted is to extend to all companies, the committee prefer (b). They do not think that power to adopt one or other method in any particular case should be given to the Inland Revenue.

Limited company owning subsidiary companies.

25,401. (11) We should like to see a right to set losses in one concern against profits in the other—in fact, the aggregation of results which obtains for excess profits taxation, only without the qualification that the concerns must be carrying on the same trade or business. This, without any restriction, would be too wide, and the right would require to be limited to cases where the parent company owns all or no much of the ordinary capital of the subsidiary concern, as under the general law a single shareholder can legally own, or, alternatively, own at least 75 per cent. of the ordinary capital.

Allowance for depreciation.

25,402. (12) The general opinion of our members is that the present allowances are insufficient for wear and tear and obsolescence of assets, and that allowances should be made in certain classes of assets in respect of which at present no allowances are made.

(1) *Buildings*.—Rule 5 (2) applicable to Cases I and II of Schedule D in the First Schedule to the Income Tax Act, 1918, should be extended in its application to all buildings used for the purpose of carrying on a trade or business. The allowance should be made to the proprietor of such a building whether he carries on the trade or business himself or lets it to be used by another person in carrying on a trade or business.

(2) *Obsolescence*.—Allowance should be granted whether the plant is replaced or not.

(3) *Foundations and expenses of erecting plant*.—These should be treated exactly as the plant itself, and allowance, including allowance on obsolescence, should be made.

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[Continued.]

(4) *Mineshafts, and other expenditure on development of mines.*—An allowance should be made to cover the necessary cost of such, spread over the period during which it is estimated the expenditure will produce profits.

(5) *Cost of patents.*—An allowance should be made to cover the necessary cost of such, spread over the period during which it is estimated the expenditure will produce profits.

In our opinion allowance for depreciation should be made in all cases where the capital is expended on assets of an inherently wasting character essential to and used up in earning the profits of the trade or business. In this connection we have been asked to bring to the notice of the Commission the present position of cemetery companies. These companies are assessed for Income Tax upon the gross sums received for the sale of lairs, and it seems only fair that an allowance should be made against such receipts in respect of expenditure on laying out the grounds, making roadways and paths, planting trees and shrubs, providing walls or railings, &c.

Deductible expenses.

25,403. (13) Rule 3 (a), Schedule D, Cases I and II might be more generously interpreted in practice. For example, the following should be allowed:—

- (1) preliminary expenses, to the extent by which these do not exceed a stated percentage of the capital;
- (2) expenses of raising capital or borrowing money;
- (3) expenses of removal of plant, stock, and fittings to new premises.

Generally every expense reasonably incurred in carrying on a trade or business.

Assessor.

25,404. (14) We approve of the proposals made that the Assessors should be done away with, and that their present duties should form part of the ordinary clerical work of the Surveyors.

Production of balance sheets.

25,405. (15) We see no objection to Surveyors having a right to the production of balance sheets, trading accounts, and profit and loss accounts. In practice, speaking generally, Surveyors are not unreasonable in their demands in this respect, and their demands are usually not objected to by taxpayers. Accounts should, in the opinion of some of our members, not be available to General Commissioners.

Publicity of decisions.

25,406. (16) We think that all decisions by the Board of Inland Revenue interpreting the Acts or laying down the principles on which these are to be applied should be intimated to all local Surveyors and to the public. Decisions by the Special Commissioners acquiesced in by the Board of Inland Revenue, and decisions by the Board of Referees, should similarly be made public. Surveyors should point out to taxpayers any relief to which they are entitled, and which they may have omitted to claim.

[This concludes the evidence-in-chief.]

25,407. Mr. Kerly: You have given us a very excellent paper, it is almost entirely concerned with matters which we have heard from one or more witnesses already. It is of considerable value to us, for two reasons: first, it sums up a matter that we have already had, sometimes in a less concentrated form; it also adds weight to the evidence we have had. I do not think it will be necessary to trouble you with much further examination. I will, if I may be permitted, just ask one or two questions that occur to me. Will you turn to your paragraph 10. You are

there dealing with taxation for Super-tax purposes, of undivided profits?—Yes.

25,408. You put three suggestions before us. The first of the three suggestions you consider is this: "For Super-tax purposes to treat as revenue when distributed all accumulations of profits, whether distributed in cash or shares." That is the first proposal?—Yes.

25,409. Then you add: "This, we suggest, would place the tax on the wrong man when shares were transferred after the accumulation, but before the distribution of profits?"—Yes.

25,410. That would be met, to some extent, by the price of the shares, if it was known that there was a liability to pay tax, would it not?—The difficulty would be that the buyer may not be liable to pay Super-tax at all. To some extent it may influence the price of the shares, but according as a man was liable to pay Super-tax or not, he could afford to pay more or less for the shares.

25,411. So that the rich man might get rid of the shares when the distribution was imminent, getting for them the increased price that the accumulation indicated?—Quite so, by passing them on to a man who would not be liable for Super-tax.

25,412. I appreciate that. Then you say: "Moreover, the remedy proposed would not make the position of a shareholder in a limited company identical with that of the partner of a firm. The Inland Revenue would gain a certain amount of Super-tax if this suggestion were adopted, but if adopted for Super-tax it would in equity have to be applied to Income Tax, and to do so would increase the amounts on which repayment of Income Tax could be claimed?"—Yes. To take an extreme case, you might have a man purchasing shares for such distribution, increasing his own power to reclaim Income Tax.

25,413. I think that is a new point; we will consider it. Then, in dealing with your final conclusion, you say that your Committee prefer (c), that is: "In arriving at the total income of an individual for abatement, rebate, or repayment of Income Tax, and for assessment to Super-tax, to substitute for the dividends actually received, his rateable proportion, according to the number of ordinary shares he holds, of the assessable profits of the company?"—I think those words are rather unfortunate. What we had in view was his share of the distributable profits, not the assessable profits, which, of course, are arrived at after adding back such things as interest.

25,414. That puts a totally different complexion upon it, does it not?—Otherwise you would be going to make the man pay perhaps a very large sum for Super-tax on an income that he never had received, and might never receive.

25,415. Your idea was to put him in precisely the same position as if he were a partner in an ordinary firm?—Yes.

25,416. But then the firm pays Income Tax as well as Super-tax, whether it distributes the profits or not?—Quite. We did not mean that there should be power given to a limited company to withhold profits, even for reserves which might be required for the company's business, unless a similar power were given to firms.

25,417. You mean, then, assessable profits, not distributed profits?—The words "assessable profits" might have misled. "Assessable profits" might include interest on loans added back.

25,418. I beg your pardon; you said distributable profits?—Yes.

25,419. Did you mean the profits whether the company has power to distribute them or not?—Yes.

25,420. You make the suggestion that what are called private companies, not in the technical sense, but in the sense of companies in very few hands, should be treated as firms?—Yes.

25,421. What do you say with regard to that?—You cannot adopt the definition of a private company as contained in the Companies Act for such purposes as this.

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[Continued.]

25,422. No; it would have a definition directed to what I put to you—a company which is in very few hands?—What is at the back of our minds is the point of the ordinary shareholders, who can really direct its policy as regards dealing with the profits. That seldom happens where there are a large number of shareholders, because they obviously can bring influence direct or indirect on the directors; but you may have quite a large number of shareholders where there is a preference issue, for example, held by the public, but very few ordinary shareholders, who really control the policy of the company.

25,423. What you have in mind, no doubt, is a matter to which attention has been directed, namely, companies where the distribution of profits is deliberately held up so as to avoid payment of Super-tax?—I think we rather intended it to cover all companies where it could be done, even if it was done for the purpose of developing the company's business.

25,424. Then paragraph 11, limited company owning subsidiary companies. You suggest a consolidation of the accounts in cases where one company owns, say, 75 per cent. of the ordinary capital of another. Would not 96 per cent. be a fairer figure?—I do not think we put any special weight on the percentage; it must be more than 75 per cent., I think.

25,425. Now go to paragraph 12 (1), Buildings. You say that an extension should be made to all buildings used for the purpose of carrying on a trade or business. I presume you mean substantially used?—Yes.

25,426. You would not exclude the case of a hotel where a managing director has a suite of rooms? Perhaps that is not a fortunate illustration. Take the case, for instance, of the keeper of a boarding school, who himself lives on the premises?—No, I did not mean to exclude a circumstance like that.

25,427. Then in No. 5 of paragraph 12, you ask for an allowance in respect of the cost of patents?—Yes.

25,428. I suggest that it might be a reasonable extension of that to ask also in the case of all litigation for the protection of either patents or trade marks?—I think it would be.

25,429. That is much more serious than the case of a patent?—I agree.

25,430. At the end of paragraph 13, you suggest that amongst deductible expenses there should be every expense reasonably incurred in carrying on a trade or business. You would probably agree that that should be limited in this way: "In and for the purpose of carrying on"—Yes, I think that probably would meet the point we had in view.

25,431. Mr. Kerly: Then we note what you have said about the publicity of decisions. We have had other evidence about that.

25,432. Sir J. Harwood-Banner: In paragraph 16, you refer to publicity of decisions. You think that a decision by the Board of Inland Revenue should be intimated to all local Surveyors and should be published. That is rather a large order, is it not? That is to say, that any decision of principle arrived at by the local Surveyors as regards depreciation, or as regards some question of reserve for losses in advance, should be set out for the public to read. It would be very apt to make the public rush in to claim similar deductions, would it not?—I did not mean that every decision on a particular case should be published, but rather that the general principles should be.

25,433. I have a case now where it would be very awkward if that decision were made public, because it would bring in a lot of other similar demands based on the same principle.

25,434. Mr. McIntosh: Arising out of the last question or two, your view is that where the Inland Revenue have definitely settled as to the interpretation of a clause in the Finance Act, or as to a change in practice, arising out of a legal decision, those should be made public?—Yes, as soon as

possible, so that all taxpayers might know exactly how they stood.

25,435. In other words, one taxpayer should not get the benefit because he knows and other taxpayers do not?—That is precisely what is at the back of our minds.

25,436. I would like to ask you regarding the suggestion to depart from the three years' average and assess on the profits of the preceding year. Have you any suggestion to make as to how the change over should take place?—I think in the last part of paragraph 8 we suggest that it might be made by averaging first three years, then two, and then passing to the one alone.

25,437. I would like you to consider this. Take the assessment for the next fiscal year. It would be based, say, on the year up to December, 1919, the year up to December, 1918, the year up to December, 1917?—Yes.

25,438. The year 1919 has never yet been into an average?—No.

25,439. If the Crown were willing to take 1919, do you think the taxpayer could still ask to get an average?—The trouble is that it will affect some taxpayers favourably and others adversely. These it affects adversely will undoubtedly object.

25,440. I am assuming that the Crown was willing to say to everyone: "We will take the preceding year, 1919, and we will start next year"—I think you would find that a lot of people would object to that.

25,441. Why?—Because they would be adversely affected; 1919 being better than the three years' average would be, in their case.

25,442. Why should they complain?—All people complain who are hit.

25,443. They have made that profit?—Yes.

25,444. They have not even brought the preceding years into the average three times?—No.

25,445. Is there any reason why they should get a choice of average again? They have got in 1919, a better year; they would have to bring it in three times, sooner or later?—Yes.

25,446. Why not pay on it right off?—I do not see any reason why they should not, but I think you would find there would be a considerable outcry.

25,447. May I put it in this way: that if the Crown saw no reason to continue some average for a period of two or three years, the taxpayer should have no complaint?—He ought not to, as a class, no; but individuals, I think, will feel aggrieved—possibly unjustly.

25,448. You state here: "giving as their principal reason"—that is, those who are in favour of the average—"that the system of averages allows losses to be set off against profits"?—Yes.

25,449. You would limit that, of course, to three years' losses?—That is so.

25,450. Then in the next sentence you state that in the assessments you could carry forward losses apparently for all time?—Yes.

25,451. That is giving you a very great advantage as compared with the three years' average?—To certain people, it is.

25,452. I mean, to anyone who makes a loss?—The three years' average as a rule gets rid of a loss.

25,453. Still, it limits them to three years?—Yes, a consistently bad business does not benefit.

25,454. Take this as an illustration. A man has been making trading losses, and he gets into financial difficulty, and he has a private settlement with the creditors for less than 20s., and then proceeds to carry on. Do you suggest a man like that is to carry forward his losses?—I admit that case had not occurred to me. I think it would be unfair.

25,455. There are many cases of that kind which are bound to arise where a man continues in business and makes a private settlement for less than 20s.?—Yes, I think it would be unfair. He has been practically relieved of that loss by his creditors.

25,456. Mr. Kerly: Who have carried it as a loss to themselves?—Yes.

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MR. PRIER RINTOUL.

[Continued.]

25,457. Mr. McLintock: The Revenue have given the creditor the benefit of that loss?—Yes.

25,458. He might have lost his capital as well?—Yes.

25,459. Would you suggest that any definite limit should be put to the period?—I think it is rather hard to suggest a period.

25,460. There has never been a suggestion that the present system is hard, and yet it limits them to three years?—No, I do not think I have heard anyone suggest it is hard.

25,461. Would you consider it unreasonable to limit it, say, to five years?—No, I do not think I would.

25,462. On the question of depreciation we have had quite a lot of evidence, and chiefly by accountants, who suggest that the depreciation calculation should proceed on first cost instead of on diminishing value?—Yes.

25,463. Do you think first cost would entail a great deal of accounting difficulty on the part of the traders and the Inland Revenue?—My personal opinion is that it would be unworkable. I am not speaking now of the general opinion of the profession, because they are very divided on that point. My own impression is that they have not examined it critically enough.

25,464. I agree with you that it is practically unworkable?—I think so.

25,465. You are a director of one or two banks, I think?—Only one.

25,466. There has been a point raised as to compelling banks to deduct tax before paying the deposit receipt interest?—Yes.

25,467. There has been a great deal of evidence that that part of a man's income is very often omitted from his return for taxation?—I think that is possibly true.

25,468. What is the objection to making that deduction?—Are you speaking of the objection from the banks' point of view?

25,469. Yes.—I do not think there is any.

25,470. We have had no bankers before us, unfortunately.—I am speaking entirely from a personal point of view, but I do not think you would find any objection from the banks.

25,471. You do not see why they should get special treatment in being allowed to pay the interest without deducting the tax?—It is not in favour of the bank. We should pay less if we deducted it.

25,472. Mr. Synnott: In paragraph 10 you suggest that individuals who are shareholders in companies should pay Income Tax and the company should deduct Income Tax on undivided profits?—Super-tax.

25,473. And Income Tax?—The allusion to Income Tax was rather with reference to repayment which would be due in some cases.

25,474. I want to make it clear, because the words "Income Tax" are there?—In the heading, yes.

25,475. No; they are there quite plainly, "to aggregate (for the purpose of ascertaining the Income Tax and Super-tax liabilities of individual shareholders) their proportionate shares of undivided profits."—The Income Tax allusion really refers to the man whose aggregate income would entitle him to a repayment.

25,476. Then it does not apply to the Income Tax alone, except indirectly?—That is so.

25,477. But even in the other case are you not going beyond a point ever reached in the Income Tax, to make a man indirectly pay Income Tax on a sum of money which he is never entitled to and for which he cannot sue, and to which he has no right whatever?—He does, of course, indirectly pay Income Tax on all profits.

25,478. The company does?—Yes.

25,479. But you want him to pay also?—No.

25,480. Yes. You want him to put it into his income for Super-tax purposes?—No; that is not my intention at all.

25,481. What is the point?—For Super-tax purposes, that he should pay Super-tax on it, yes.

25,482. But you want him to pay Super-tax on a sum of money to which he has no right whatever, and never can have any right; he cannot sue the company for it?—In some form or other, of course, he must have the benefit of that profit, whether it is reserved or not.

25,483. It may only go to reserve; he may never get the benefit of it?—But he generally does in the increased value of the share.

25,484. Is not the difference between a private firm and a company this: the shareholders do not declare the dividend, do they; it is the directors?—No, the shareholders declare the dividend; the directors recommend.

25,485. But is it not practically the directors who control the dividend? The shareholders as a rule cannot increase the rate; so that to that extent the directors control it.

25,486. Is not that a grave limitation, whereas in the case of a private firm the partners can do what they like?—That is so.

25,487. Is not that a very great difference?—He still gets the benefit of all the profit earned.

25,488. He does not get the benefit as income?—He does not get it into his pocket.

25,489. He does not get it as income?—I think probably your point is this: that the proposal really amounts to assessing him on a considerable sum of money which he will never get; and really the fact that the company has made this profit means, not that he gets anything, but that he pays something.

25,490. He never gets it as income and he can never sue for it?—I agree.

25,491. Sir E. Nott-Bower: With regard to your paragraph 13, which deals with "Generally every expense reasonably incurred in carrying on a trade or business," you do not refer there to every capital expense, I suppose?—No. If you mean capital expenditure in the sense of erecting new works or the purchase of machinery, no.

25,492. The reason I ask is, that you mention certain specific expenses which really are of a capital nature; I mean preliminary expenses and expenses of raising capital. The suggestion that those should be allowed raised a question in my mind, because it is really capital expenditure that you want to have allowed; and capital expenditure, the value of which might not be exhausted for 50 years, or might never be exhausted, but would still retain its value as long as the company was in existence?—Of course the expense of raising capital and of borrowing money is, we think, really part of the cost, the same as interest.

25,493. If it is permanent capital you are raising, the value of that money remains as long as the capital is in existence and so long as the company is carried on?—It remains for a period which certainly is indefinite.

25,494. If the principle is conceded there would be considerable difficulty in calculating any basis for allowance, would there not? Take preliminary expenses. You form the company; you may hope that it is going on for ever; then the allowance would be nil. What basis would you suggest?—I think we would rather have some slight alteration of the existing wording, which would widen its scope, without going into details as to exactly the class of expense which is to be allowed.

25,495. I wanted your admission that you do not mean every expense incurred; you do not mean every capital expense?—No.

25,496. Mr. Kerly: Thank you for your evidence.

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MR. M. C. FURTADO.

[Continued.]

MR. M. C. FURTADO, an Assistant Chief Inspector of Taxes, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Proof of evidence of M. C. FURTADO, an Assistant Chief Inspector of Taxes, on the subject of casual or non-recurring profits in their relation to Income Tax.

25,497. (1) This evidence is concerned with profits or gains which do not arise in the carrying on of a trade, profession, employment or vocation, and which are not annual profits or gains.

25,498. (2) Profits of this character, often of large amount, arise very frequently from isolated transactions entered into outside the scope of the ordinary business, if any, carried on by a taxpayer. Although it may be quite clear that the transactions were entered into with the object of seeking profits, the terms of Schedule D of the First Schedule to the Income Tax Act, 1918, are such that it is often impossible to maintain that a liability to Income Tax attaches.

25,499. (3) The terms in which the charge under Schedule D is imposed are:—

"Tax under this Schedule shall be charged in respect of—

(a) The annual profits or gains arising or accruing—

(i) to any person residing in the United Kingdom from any kind of property whatever, whether situate in the United Kingdom or elsewhere; and

(ii) to any person residing in the United Kingdom from any trade, profession, employment or vocation, whether the same be respectively carried on in the United Kingdom or elsewhere; and

(iii) to any person, whether a British subject or not, although not resident in the United Kingdom, from any property whatever in the United Kingdom, or from any trade, profession, employment, or vocation exercised within the United Kingdom; and

(b) All interest of money, annuities, and other annual profits or gains not charged under Schedule A, B, C or E, and not specially exempted from tax;

in each case for every twenty shillings of the annual amount of the profits or gains."

25,500. (4) It will be noticed that, as regards subparagraph (a) quoted, the profits or gains must be "annual." Where the profits or gains arise in the course of a trade continuously carried on, and are clearly within the ordinary scope of that trade, no difficulty arises, as they form part of the annual profits of the trade and are within the charge. Where however, the profits or gains are outside the scope of a trade, they cannot be held to be, or to form part of, "the annual profits or gains arising or accruing to any person . . . from any trade . . . carried on in the United Kingdom, or elsewhere." Moreover, if they arise from isolated transactions it is not, as a rule, possible to maintain that they are "annual profits" at all, so that there is no heading either in paragraph (a) or paragraph (b) under which a charge can be maintained.

25,501. (5) Thus it arises that large profits may be made from a transaction (e.g., the purchase and sale of a large estate, the purchase and sale to a company of a mining concession or option, promotion profits of various kinds by persons who do not carry on a continuing business as company promoters, profits from deals in land, &c.), but cannot be made chargeable to tax, although it may be apparent, and may even be admitted, that the transaction was entered into not as an investment, but for the purpose of seeking a profit by closing it with a sale. If the profit is not an "annual" profit, and the transaction is not within the scope of a trade or profession carried on by the taxpayer, the fact that there was

intention to seek a profit by the transaction is not sufficient to render liable the profit arising on the sale.

25,502. (6) Even in the case of a syndicate which set out as one of its objects, in its memorandum, the selling of the whole or any part of its property, and whose prospectus stated that it was in contemplation that, on the estate which is acquired being sufficiently developed, the syndicate should sell it as a going concern, the profit on eventual sale was held not to be chargeable to Income Tax. It was considered that the syndicate was formed primarily to develop and cultivate the estate, and that the profit arising on the sale was, accordingly, not chargeable.

25,503. (7) It will be appreciated that in the case of a company, the main and dominant object is ordinarily gathered from the first stated object in its memorandum, and the other objects, however generally expressed, are treated as merely ancillary to this main object, and as limited and controlled thereby. It is difficult, in the event of litigation, to gain consideration of any subsidiary object stated in the memorandum, or of any facts which serve to indicate that the main object was in fact different from the main object to be presumed from the memorandum. In this way a company with partly or mainly financial objects may succeed in avoiding Income Tax by adopting the form of memorandum of, say, a mining or agricultural company.

25,504. (8) It has been suggested by some witnesses that the charge of Income Tax should be made much wider as regards occasional profits. For instance, Mr. Sidney Webb suggests that "windfalls" and gains of an occasional nature should be charged. He makes particular reference to the capital gains made by the sale of ships, and would charge them, and he considers that the logical course would be to charge Income Tax on any clearly demonstrable increments of capital.

25,505. (9) Mr. R. N. Carter and Mr. William Cash specially refer to profits made from speculation. They recognise the difficulty of dealing with such cases, and appear not to be averse from charging the profits, although they doubt whether it would be possible to go beyond speculations entered into by a taxpayer in the way of his own trade.

25,506. (10) There is no obvious reason why a profit arising on the sale of an asset which was acquired with the main or secondary purpose of seeking a profit by its sale should not be charged to Income Tax merely because it is not an "annual" profit. On the contrary, in many quite important cases, continually arising, where the object was clearly that of seeking a profit, it is probable that most impartial persons would regard it as quite unreasonable that the profits should escape Income Tax.

25,507. (11) The main difficulty that has always been met with in considering this matter is that the terms of the legal clauses necessary to establish liability in these cases, which now quite unreasonably slip through the net of the Income Tax, would apply equally to many other cases that are not so obviously fit subjects of charge.

25,508. (12) It has always been considered that to charge indiscriminately all profits that fell within any definition based on intention would prove a source of unproductive trouble and probably embarrassment to the Department, and a real plague to taxpayers. Apart from the great difficulty of discovering when profits have been made in the multitude of insignificant casual transactions, not within the scope of a trade or profession, that are entered into with the main or secondary object of securing a profit, and the certainty of receiving information of the corresponding multitude of similar transactions where a loss has resulted, it would not, in view of the Board of Inland Revenue, accord with any general public desire that taxpayers should, with very little advantage and probably with disadvantage to the Revenue, be subject to continual pesterings as to their intentions whenever they purchased, any, a house, or

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some shares—intentions very often incapable of proof and sometimes not well defined even in the mind of the taxpayer himself.

25,509. (13) It may be said, on the whole, that powers are desirable to charge to tax the more important classes of transactions entered into for the purpose of profit by way of individual enterprise. It is not as a rule difficult in these cases for most bodies of Commissioners to arrive at the conclusion that they are enterprises undertaken for profit, especially when, as is often the case, they are joint enterprises. It is generally easy to distinguish them from simple investments and when that is the case there seems no reason, or ground of expediency, why the fact that the profits cannot be described as "annual" profits should prevent them from being taxed.

25,510. (14) It is most desirable, in the view of the Board of Inland Revenue, that the profits arising from important transactions of this kind should be made chargeable to Income Tax. It is fully recognized that there is great difficulty in providing legislation that would enable such cases to be dealt with, and at the same time exclude the great number of unimportant cases, which, if taken up, would involve a system of investigation very troublesome to all concerned, and would, even then, be for the most part extremely difficult if not impossible to trace. The Board are in substantial agreement with the view that has obtained in the past, that any amount of tax that would be derived from an attempt to pursue transactions of every kind, where an intention to derive a profit on sale could be presumed to have existed, would be negligible compared with the trouble and irritation that it would involve. They have also especially in mind that private minor transactions of this kind are to so great an extent hidden from view that even if an attempt to follow them did in fact result in any additional revenue, it would be to a very great extent a voluntary contribution by the most conscientious taxpayers and would be likely, on that ground, to give rise to serious dissatisfaction.

25,511. (15) It is suggested, however, that this difficulty ought no longer to be allowed to stand in the way of charging tax on the profits of the many important transactions that are readily recognizable as business transactions, although they may be specific or solitary enterprises. The Board of Inland Revenue regard the appointment of a Royal Commission on the Income Tax as offering a suitable opportunity for raising this question, in order that it may be considered what dividing line (if any) should be fixed, and in what way the matter, which certainly involves questions of public policy and difficult discretion, ought to be dealt with.

25,512. (16) It is on the whole not difficult to appreciate a distinction between, for example, the case of a person owning some capital who instructs a broker to purchase for him a certain holding of shares perhaps with the full intention of selling when a favourable opportunity arises, and that of another person who, with no capital of his own, borrows capital, and, with the same intention, enters upon a speculation by a purchase of similar shares. Or, to take another illustration, the contrast may be drawn between the first case and that of a person who either alone or with others negotiates for the acquisition of a mining concession abroad, or an option on an important building estate which he believes that his experience, influence and connections will enable him to dispose of at a considerable profit, and sets out to canvass all possible channels of sale, or to promote a company for the purpose. It is not easy, however, to provide a clause that could be relied upon to express the distinctions that would be readily apparent to a body of business men in the consideration of a particular case.

25,513. (17) It is suggested that, if it is considered that a distinction should be made between cases in which a liability should, and those in which it should not attach, it is most desirable that the Royal Commission should consider by what machinery the distinction could be made most effectively, and with the greatest probability of affording public satisfaction. The Board of Inland Revenue would be inclined to

suggest that the most satisfactory results might be obtained by vesting the power of discrimination in some authoritative body, and making chargeable all profits of sale (except in the case of what may be fairly recognizable as the realization of an investment, which expression would require definition) unless that body directs to the contrary.

25,514. (18) It would be a matter for consideration in what body such authority should be vested. It would be most necessary that their action should proceed not only on well considered but on uniform lines; and the need for uniformity would make it desirable that only one such body should deal with all the cases. The Board of Inland Revenue do not regard it as desirable that, in a matter of this kind, the determination of a dividing line should be left to them. It would probably give satisfaction if it were left to the Special Commissioners; or the Board would see no objection to the designation of a body containing, say, one Special Commissioner, one or more representatives of the Board of Referees appointed under the Excess Profits Duty Act, and one representative of the Board of Inland Revenue.

25,515. (19) It is thought that such a body would find no serious difficulty in determining classes of cases that it would not be desirable or expedient to pursue, or in arriving at decisions in the comparatively small number of doubtful individual cases that did not fall within those classes. It would be reasonable to expect as a result of their decisions, an established practice that would commend itself to the public, and afford satisfaction.

25,516. (20) It would not be expedient, in the view of the Board of Inland Revenue, to attempt to extend the Income Tax so as to charge an accretion arising from what may be fairly recognized as the realization of an investment. It is true that such an accretion is chargeable under the Income Tax law of the United States of America; indeed, in that country practically every accretion of wealth is treated as income for Income Tax purposes, except the value of property acquired by gift, bequest, devise or descent; and if property acquired by bequest, devise or descent is sold, any surplus of the proceeds over the appraised value of the Federal Estate Tax or the State Inheritance Tax is charged to Income Tax. If the charging of such accretions were to carry with it the setting off against other income of any diminutions similarly arising, it would not, in the opinion of the Board, be a wise departure in this country. If it were ever considered expedient in this country to tax such accretions, the Board are of opinion that it would be better to do so in some other way than within the scope of the Income Tax.

25,517. (21) The Board of Inland Revenue consider that the determination of what is or is not an investment, or whether a particular profit arises or does not arise from the realization of an investment, should be left, as at present, to the General or Special Commissioners, with the existing right of appeal to the Courts where a point of law is involved. It is suggested, however, that a clear distinction should be made between an investment *bona fide* acquired and held for the sole purpose of deriving an annual income from its retention (including any asset acquired and held for the sole purpose of deriving an annual income from its use, e.g., business premises, goodwill, etc.), and an asset acquired with the main or secondary intention of deriving a profit from its sale; and they consider that the General and Special Commissioners should be given specific power to judge intention by having regard to all the known circumstances attending the acquisition, holding and selling, the duration of the holding, and any expressed or apparent secondary objects, as well as the main or seemingly main object. This distinction and this power should, in the view of the Board, be contained in an Act of Parliament.

25,518. (22) The remarks in the foregoing paragraphs have been directed mainly to profits arising from occasional transactions of purchase and sale. A difficulty also arises in some cases with regard to considerations received in respect of services.

25,519. (23) It will be noticed from paragraph 3 that the charge extends to (a) "annual" profits

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arising or accruing from the exercise of a profession, employment or vocation, and (b) "annual" profits or gains, even if they do not arise or accrue from the exercise of a profession, employment or vocation.

25,520. (24) No difficulty is ordinarily met with where a consideration for exceptional services arises in the course of the exercise of a profession, employment or vocation, since it is generally regarded as forming part of the annual profits arising therefrom. Where, however, the services in respect of which the consideration is received are outside the scope of the taxpayer's profession, employment or vocation, the contention is often advanced that the consideration is not taxable because the profit cannot be said to be an "annual" profit.

25,521. (25) It is suggested that there is no good reason why the profit arising from a consideration received for services rendered or to be rendered should not be made chargeable to Income Tax in all circumstances.

25,522. (26) If this were done, it would be necessary in order to make it effective, to extend the provisions under which employees render returns of the names, addresses and remuneration of their employees, so as to apply them to commissions of all descriptions, and consideration for services of any kind, and to persons paying or receiving the same.

25,523. (27) If casual profits, of the nature dealt with in this evidence, are made chargeable to Income Tax, it is suggested that they should be charged under Case VI of Schedule D as if they were specifically mentioned in that case.

25,524. (28) It has been thought that it may be found convenient in the consideration of this matter if the suggestions made in this evidence are gathered up in the form of a clause, tentatively drafted to bring to a useful focus the objects and powers suggested. This has been done in Annexure I to this report.

25,525. (29) There are three points which it is desired to submit for the consideration of the Royal Commission, but which are not dealt with in the draft clause.

25,526. (30) The first is the question of losses. The effects of charging the profits under Case VI of Schedule D would be:—

If a loss were made,

(a) inasmuch as the loss would not be a loss in respect of a trade, it could not be deducted from, or set-off against, the profits of any trade carried on by the taxpayer, under Rule 13 of the Rules applicable to Cases I and II of Schedule D, First Schedule, Income Tax Act, 1918.

(b) inasmuch as the loss would not be a loss sustained in any trade, profession, employment or vocation, it could not be set-off against the taxpayer's aggregate income for the year, so as to effect a general adjustment of his tax under section 34 of the Income Tax Act, 1918.

(c) if, as it is suggested should be the case, the basis of assessment were the amount of profit arising in the current or preceding year, a loss could not be taken credit for in computing the assessment for a subsequent year.

25,527. (31) It is suggested that reasonable regard should be had to losses made in such transactions, if it is decided that the profits should be made chargeable; but the practical difficulty is that, where profits are made in transactions outside the scope of a known business, it is not always easy to gain knowledge of the transactions or to ascertain correctly the extent of the profits, whilst, if losses are made, the information would be very readily made available.

25,528. (32) In the case of the Income Tax of the United States of America, this matter was evidently considered to be adequately dealt with in the Act of 8th September, 1916, by merely allowing a loss as a credit against, but not in excess of profits from similar sources in the same year. The Official Primer, explaining that Act, stated that a loss might be

claimed as a deduction in computing the taxpayer's net income, even though not connected with his regular business or trade, if during the same year he derived gains from other transactions entered into for profit, but not connected with his regular business or trade, in excess of the amount of his loss.

This regulation may have been due to a consideration of the practical difficulties of discovering profits, and the great ease of discovering losses, but it may also have rested on the idea that if a man goes outside his regular business to seek profits, that fact should not affect the tax that he would otherwise be called upon to pay in respect of his regular income; that whilst it is not unreasonable that he should pay tax on a resultant profit independently of his business profits, it is also not wholly unreasonable that if he makes a loss it should not affect the tax that he would otherwise pay in respect of his regular business, but should rank only as a set-off against similar profitable transactions. The adoption of the same idea, in its least arguable form, is to be found in States (e.g., The Commonwealth of Australia, and Tasmania) where, although lottery prizes are made chargeable to Income Tax, there is no provision for the allowance of outlays that produce no prizes.

It may be mentioned that there is no trace of any similar restriction in the Revenue Act of 1918 of the United States, or in the Regulations made thereunder.

25,529. (33) A similar provision occurs in New South Wales. Profits are made chargeable if they arise from the sale of

- (a) an estate or interest in land within the State (including a lease of land or the goodwill of any business carried on on the land) where the estate or interest was bought, or the land leased, during the year of income or the four preceding years;
- (b) shares in any company bought within the year of income or the two preceding years;
- (c) any other personal property of any kind of the value of £50 or over, bought during the year of income;

where such operations were not in the course of the taxpayer's business. In assessing income from such sales, a set-off of losses incurred in similar transactions during the year of income is allowed, and this is apparently the only possible set-off in respect of such losses.

25,530. (34) It might perhaps be expected that even if a set-off for losses made in transactions outside a regular business were restricted so that it could only be made against profits from similar transactions, provision would at least be made for the carrying forward of a loss for a reasonable number of subsequent years. It is, however, to be borne in mind that it is not usual in countries where the Income Tax is not based on an average of years to allow losses in any case, even when they arise in a business, to be carried forward. This is so in most of the British Dominions. It is so in New South Wales; and is perhaps an explanation of what may appear, in the provisions referred to, a little drastic to those accustomed to the fairly effective set-off for losses that an average of three years provides.

25,531. (35) If the three years' average system is not continued in this country, it seems probable that provision will have to be made for carrying forward losses to the extent to which they are at present effectively carried forward under the average system. It appears accordingly that if such profits as are under consideration in this evidence are made chargeable, a loss in excess of similar profits in the year should be allowed to be carried forward for three subsequent years.

25,532. (36) The Board of Inland Revenue incline to the view that such an arrangement would be sufficient in the case of losses arising in transactions entered into for profit outside the scope of a taxpayer's regular business. It would not, in their

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view, he fails to allow such losses to affect the tax payable in respect of the taxpayer's regular income. If such a course were contemplated, it would be necessary to guard it by some such expedient as providing that a set-off of loss could only be claimed, before or at the time when the transaction was commenced the taxpayer gave notice of the fact, and that it was a transaction entered into for profit. Any such course, however, would result in many difficulties. Such transactions frequently occupy a very short period. It is often difficult to determine when they really commenced, and there would be considerable danger that in many cases where notification was received the general result of the transaction was known or expected at the time when it was notified as having commenced.

25,533. (37) The second point, not dealt with in the draft clause, but which it is desired to submit for consideration, is that many transactions of the kind are carried out by two or more, and often several persons acting jointly, but not in partnership. At present, persons carrying on a trade in partnership are assessable jointly in one sum, and the tax is collectible in one sum. If that method of assessment is to be continued, it is more than ordinarily desirable that it should be extended to joint adventures of the kind that this evidence is concerned with, and that the tax should be made payable by the person in receipt of the profit, or in default of payment by him, by any of the persons joined in the venture.

Whether the assessment on, and collection from, partners jointly is continued or not, it is desirable that in the case of such joint adventures, the person in receipt of the profits should be made responsible for making a return of the whole profits, and for stating the division of the profits between the various persons concerned.

25,534. (38) The third point is concerned with sums received as the result of a contract of indemnity and profits arising from the sale of assets, in cases where an allowance falls to be made to the purchaser, for Income Tax purposes, in respect of the exhaustion of his capital outlay by the wearing out of the asset purchased by him.

25,535. (38) An example will serve to illustrate the difficulty in the case of a contract of indemnity. A shipowner loses a ship which originally cost him \$50,000. He has been in the habit of insuring it by reference to its market value, and he receives \$200,000 from the underwriters. At the time when the ship was lost, its cost in his books was written down to \$30,000 by writing off depreciation. The difference of \$20,000 has been allowed for. This profit is subject to Income Tax purposes. The insurance proceeds have also been allowed as an expense in computing profits for Income Tax. The shipowner replaces the lost ship by a new ship costing \$240,000.

35,536. (40) The excess of the \$200,000 received from the underwriters over the \$30,000, written-down value of the lost ship, not being profit of the transaction, is brought into credit for Income Tax purposes. On the other hand, the allowances for depreciation of the new ship must be based on the cost of the new ship, viz., \$240,000, because the allowances are required (under Rule 6 of the Rules applicable to Cases I and II, Schedule D, of the Income Tax Act, 1918) to represent a diminished value by wear and tear of the plant used, i.e., of the new ship.

25,537. (41) The results is that, in the end, the shipowner receives allowance from his profits of an amount very much in excess of the capital provided by him. He has provided £30,000, £50,000 for the lost ship and £240,000 for the new ship, less £300,000 received from the underwriters. He receives allowance (ignoring the question of break-up value that would not be allowed), amounting to £250,000 viz., £20,000 on the lost ship, and £230,000 on the new ship. The amount of the over allowance is accordingly, £170,000, which is made up of the £200,000 received from the underwriters less £30,000, the written-down value of the lost ship. In other words, he receives allowance for the exhaustion of

capital provided by a contract of indemnity, the cost of which, viz., the insurance premiums, has already been allowed as an expense in arriving at the profits charged; or stated in terms of tax, he receives an allowance of tax in respect of the depreciation of an asset that has arisen out of business expenditure, in respect of which an allowance of tax has already been made.

25,385. (42) It is suggested that this state of the law should not be allowed to continue. In the view of the Board of Inland Revenue it is essentially repugnant to the intention of Rule 3 (k) of the Rules applicable to Cases I and II, Schedule D, which provides that in computing profits no sum shall be deducted in respect of any sum recoverable under an insurance or contract of indemnity. That rule reproduces the provision contained in the third rule of Case I, Schedule D, contained in section 100 of the Income Tax Act, 1842, which provided that no sum shall be set against or deducted from profits if it is recoverable under an insurance or contract of indemnity.

In 1849 there was no allowance for depreciation, and when, in 1878, such an allowance was granted, the terms in which it was granted were such that it became, not a deduction in computing profits, but a deduction from profits after they have been computed. In the result, the allowance is quite detached from the prohibition against the deduction, in computing profits, of any sum receivable under an insurance or contract of indemnity. The Board considers that this should be corrected by a provision similar to the one in the *Revenue Cases*, and in § 1, Schedule D, to restrict the allowance in such cases, so that it may be calculated by reference to an amount equal to the total of the written-down value at the time of loss, plus the excess of the expenditure on the new plant or machinery over any amount received under an insurance or contract of indemnity. It is, of course, assumed that a corresponding advantage should be given to the taxpayer in the case of a new plant, in computing the average falling values, the amount recovered from insurance is less than the written-down value of the old plant when it was lost.

25,539. (43) The question of profits arising from the sale of assets, in cases where an allowance for Income Tax purposes falls to be made to the purchaser in respect of the exhaustion of his capital outlay by the wearing out of the asset purchased by him, is quite distinct from the matter just considered; but it is one that requires consideration in the light of the arguments that have been presented on the subject of wasting assets.

25,560. (44) As previously mentioned in this evidence, Mr. Sidney Webb raised the particular question of the profits on sale of ships, and that is a case that has recently attracted a great deal of attention.

25,541. (45) It has been suggested before the Royal Commission that if no allowance for exhaustion of expenditure is made to the purchaser of an inherently wasting asset, the result is to force the incidence of the tax on to the seller. Alternatively, that if no allowance were made to the purchaser, it would be necessary to charge the seller in respect of the profits of the sale. In the case of plant and machinery an allowance to the purchaser for the waste of the asset is made, and consistent reasoning seems to point to the conclusion that the profit on sale should be charged. The point is mentioned here not merely because the Board of Inland Revenue are concerned with a consistent presentation of the case in relation to other matters that have come before the Royal Commission, but also because, if it were decided that such profits should be made chargeable, it would necessitate a provision to the suggested exemption in respect of profit arising from the realization of an investment.

25,542. (46) If such profits were made chargeable, cases would arise where the proceeds of sale were devoted to the purchase of new plant, e.g., a ship might be purchased to take the place of a ship sold. It might reasonably be urged that the outlay made is difficult or impossible, to pay tax on the profit. It would doubtless be possible in such a case to provide for a restriction of the depreciation allowance in

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respect of the new ship, instead of taxing the profit on the sale, in a manner similar to that suggested in the case of recoveries from underwriters.

25,543. (47) If such profits arising from sales were made chargeable to tax, a further question would arise as to how, for example, an excess of an amount recovered from underwriters over the written-down value of a lost ship that is not replaced, should be treated. It is certainly not the profit on a sale. On the other hand, it is assumed that the amount recovered from underwriters is intended to place the owner in the same position as he would have occupied if he had not lost the ship. If the owner stops short of placing himself in the same position by refraining from replacing the lost ship, it does not seem unreasonable to treat him for Income Tax purposes in the same manner as if he had sold.

25,544. (48) A draft clause, designed to give effect to the foregoing suggestions (paragraphs 38-47) is printed in Annex E.

25,545.

ANNEXE I.

1. Notwithstanding anything contained in Schedule D of the first Schedule to the Income Tax Act, 1918, tax shall be charged under that Schedule in respect of:—

(a) The profit or gain arising from any consideration received or receivable in respect of any service or services (whether continuous or not) rendered or to be rendered, and not otherwise charged under any Case of Schedule D or under any other Schedule.

(b) Any other profit or gain not chargeable under any Case of Schedule D or under Schedule A, B, C, or E, notwithstanding that the said profit or gain is not an annual profit or gain, or is not recurrent, unless the profit or gain arises from the realization of an investment, or unless [], owing to any special circumstances, otherwise direct.

2. Any profit or gain chargeable under this Section shall be charged under Case VI of Schedule D as if it were specifically mentioned in that Case.

3. In this section the expression "investment" means any asset that was acquired and held for the sole purpose of deriving an annual income from its retention or use, and without any main or secondary intention of deriving a profit from its sale, and, in determining any such intention, the Commissioners having jurisdiction in the case may have regard to any circumstances before or at the time when the asset was acquired and during the period whilst it was held, and to the duration of that period as well as to any main or secondary object in any charter, memorandum, prospectus or other document.

4. Sub-sections (1), (2) and (4) of section 106 of the Income Tax Act, 1918 (which relate to returns of remuneration of persons employed), shall apply, with the necessary modifications, to commissions of any kind, and to persons paying and receiving the same, as they apply to remuneration of employment, and to employers and persons employed.

25,546.

ANNEXE II.

A.—ADDITION TO DRAFT CLAUSE CONTAINED IN ANNEXE I IN ORDER TO EXCLUDE MACHINERY OR PLANT IN RESPECT OF WHICH DEDUCTIONS FOR WEAR AND TEAR CAN BE CLAIMED FROM THE DEFINITION OF THE EXPRESSION "INVESTMENT."

Insert after the words "In this Section the expression 'investment' means any asset" the following:—

"(not being an asset consisting of machinery or plant in respect of which a deduction on account of wear and tear may be claimed and allowed under Rule 6 of the Rules applicable to Cases I and II, Schedule D, in the First Schedule to the Income Tax, 1918.)"

B.—DRAFT CLAUSE RELATING TO RECOVERIES UNDER INSURANCES OR CONTRACTS OF INDEMNITY, AND PROFITS ARISING ON A SALE, IN THE CASE OF MACHINERY OR PLANT REFERRED TO IN A OF THIS ANNEXE.

1. Where any machinery or plant used for the purposes of a trade is lost, destroyed, or otherwise rendered unusable, and is replaced by other machinery or plant, wholly or partly out of moneys received in respect of the loss or damage under an insurance or contract of indemnity, any deduction claimed and allowed under Rule 6 of the Rules applicable to Cases I and II, Schedule D, in the First Schedule to the Income Tax Act, 1918, in respect of wear and tear of the new machinery or plant, shall be computed as if the cost of that machinery or plant had been an amount equal to the excess of the aggregate amount of the costs of the machinery or plant replaced and the new machinery or plant over the aggregate amount of the total deductions made under the said Rule in respect of the machinery or plant replaced, and the amount received under the insurance or contract of indemnity in respect of the last mentioned machinery or plant.

2. Where any machinery or plant used for the purposes of a trade is lost, destroyed or otherwise rendered unusable, and is not replaced by other machinery or plant, any moneys received in respect of the loss or damage under an insurance or contract of indemnity shall be treated for the purposes of Income Tax as if they had been received in respect of the sale of the machinery or plant.

3. Where any machinery or plant belonging to any person and used for the purposes of a trade is sold by him and is replaced, wholly or partly out of moneys received in respect of the sale, by other machinery or plant, in respect of which deductions on account of wear and tear may be claimed and allowed under Rule 6 of the Rules applicable to Cases I and II of Schedule D in the First Schedule to the Income Tax Act, 1918, he shall be entitled, in lieu of being assessed and charged in respect of any profit arising from the sale, to elect that any deductions under the said Rule in respect of the new machinery or plant shall be computed as if the cost of that machinery or plant had been an amount equal to the excess of the aggregate amount of the costs of the machinery or plant replaced and the new machinery or plant over the aggregate amount of the total deductions made under the said Rule in respect of the machinery or plant replaced and the amount received in respect of the sale of the last mentioned machinery or plant.

4. For the purposes of this section, machinery or plant shall be deemed to have been replaced by other machinery or plant, where the new machinery or plant is of not less than equal capacity to the old machinery or plant; and where the new machinery or plant is of less capacity than the old machinery or plant, the Commissioners having jurisdiction in the case shall treat such portion of any sums received under the insurance or contract of indemnity or in respect of the sale, as the case may be, as appears to them to be reasonable, as having been received in respect of machinery or plant that has not been replaced, and shall treat a corresponding portion of the old machinery or plant as not having been replaced.

[This concludes the evidence-in-chief.]

25,547. Mr. Kerly: I think you are aware that we propose to take your evidence on one of your topics only, and that is with regard to what I will call casual profits. We are postponing your evidence on insurance until later, though I think Mr. Geoffrey Marks perhaps would like to ask you, at the end of your examination on the other matter, two or three questions to elucidate something in your other papers, but that will be a supplement to your examination. May I summarize your evidence in this way with regard to casual profits: the Board are of opinion that speaking generally, it is not worth while to tax casual profits except where they are important sums?—I

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think that is hardly right. I think it is rather where they are important classes. I do not think they feel that they can distinguish between sums.

25,548. Where they are important classes. You could not deal, of course, with the individual sum, but it is where you can classify the transactions as likely to produce important sums in the aggregate. Then you propose to adopt as the material factor in any definition the question whether the intention with which the property, which is afterwards the subject of a casual profit, was obtained is investment or speculation?—Yes.

25,549. You propose to allow losses only as against gains of the same character?—Yes.

25,550. And not against the general income?—That is so.

25,551. The Board are of the opinion that if speculative losses, as I may call them, are allowed to be set off against the general income, there will be no gain to the Revenue?—They are very strongly of that opinion.

25,552. Then you suggest that a special board shall be set up with a view to determining in particular cases or classes of cases whether the suggested casual profit shall be treated as an investment instrument or as a taxable casual profit?—No. The suggestion is that the General or Special Commissioners will, as now, determine whether a transaction is the realization of an investment, but in a case where the transaction is not found to be the realization of an investment it is suggested that some board to be set up should decide whether it falls within a class of cases that they consider should not be followed.

25,553. Your proposal then is that certain further appeals should be taken against the decision of particular Commissioners?—No, not so far as the suggested board is concerned. An appeal would lie to the High Court, as now, against the decision of the Commissioners as to whether any transaction was the realization of an investment if a point of law were involved.

25,554. Could you define a little more what you mean to be the jurisdiction of your special Court?—I will try to do so. The idea of the Board in this matter is that after a transaction has been decided not to be the realization of an investment there will still have to be exercised a discretion as to whether it is a transaction of a nature that on grounds of expediency ought not to be charged. The suggestion is that a body set up for that purpose would first of all apply its mind to deciding classes of cases that ought not to be charged, and classes of cases that ought to be charged. These decisions would be circulated, but there might arise individual cases where it was doubtful whether they fall into a class intended by the board set up or not, and those individual cases would be heard and determined by that board. Might I just explain a little more what is in our minds? It is quite conceivable, for instance, that the board might immediately determine that there is a broad distinction between, we will say, a man who enters upon a speculation in the way of his own trade or a man who uses his influence and knowledge for a venture, and a man who simply acts through another person without any knowledge of the particular thing with which he is dealing—a man who, perhaps, instructs a broker to buy some oil shares for him without being himself in the oil trade. They would probably find it desirable in all cases to charge a man who enters upon a speculation which is perhaps not in the way of his own trade, but a speculation in which he hushes himself, in which he devotes perhaps some special experience or some special skill, or some particular influence in arranging for a new chance and arranging for a sale; he hushes himself in it as is distinguished from simply using his capital and working through some other person. It is thought that broad distinctions of that sort would at once occur to the board, and that they might divide at once that the profits of such transactions ought to be charged, whereas it might be very doubtful whether a man who simply instructs his broker to buy 100 Shares or a few rubber shares, and sells them a little later on, ought to be followed; or even

whether it is expedient that a man, without capital perhaps, who enters into speculation in differences in rubber shares or oils should be charged. It is thought that certain broad classes might be arrived at fairly early if a board of the kind suggested applied their minds to the matter.

25,555. Do I understand that the operation of your proposed board is to classify cases for exception which fall within the words of the definition?—They would classify cases for exception that fall within the definition of a profit, other than a profit on the realization of an investment.

25,556. And do you anticipate that they would arrive at very early decisions, at any rate, upon particular cases which would be brought before them?—I think they would arrive at very early decisions by considering classes; having considered classes, individual cases would come before them as to whether or not they fell within those classes, and it is quite likely that they would find other classes as time went on.

25,557. In what way do you propose that it should be determined whether an appeal lies to the board or not? Is there to be an appeal in every case, or is someone to have discretion to pass the appeal on or not?—I think the matter would arise in this way. A transaction would come to the knowledge of the Revenue officials, and they would make up their minds first of all as to whether they considered it to be the realization of an investment or not. If they considered that it was the realization of an investment they would not seek to raise a charge; if they considered otherwise, they would seek to raise a charge. Then the taxpayer, on receiving a notice of assessment, might take the view that it was the realization of an investment, and an appeal would lie then to the General or Special Commissioners, with a further appeal to the High Court if a point of law were involved. If he did not take the view that it was the realization of an investment, or if the Special Commissioners or the General Commissioners found that it was not the realization of an investment, then under the clause suggested it would become at once chargeable unless the Board of Referees, as I will call the special body, decided otherwise. If it fell within a class that they had already designated as not properly chargeable, we should proceed no further; if, on the other hand, it did not fall within that class, we should maintain the charge, unless the taxpayer successfully appealed to that board.

25,558. Has the Board of Inland Revenue any suggestions to make as to the proposed constitution of the board?—Beyond the suggestion that is made in my evidence-in-chief, they have not asked me to say anything in particular.

25,559. What paragraph is that?—Paragraph 18. I say there, "The Board of Inland Revenue do not regard it as desirable that, in a matter of this kind, the determination of a dividing line should be left to them. It would probably give satisfaction if it were left to the Special Commissioners; or the Board would see no objection to the designation of a body containing, say, one Special Commissioner, one or more representatives of the Board of Referees appointed under the Excess Profits Duty Acts, and one representative of the Board of Inland Revenue."

25,560. Is it suggested that they should be a sort of statutory committee?—That is the idea that we put forward.

25,561. I am not at the moment struck by your suggestion that there could be any appeal to the Court, because the matter to be decided would be essentially one of fact. You told me at the beginning the main factor of your definition must be intention?—May I say that the suggestion that an appeal would lie to the Courts only refers to an appeal from the General or Special Commissioners, not to an appeal from the board mentioned.

25,562. I quite follow that?—But I would like to say this, that a point of law has sometimes been found in the past to be involved in whether a particular transaction is the realization of an investment, and on that particular point appeals have gone

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from the Commissioners to the Court. There was the well-known case of the Hudson Bay Company. We urged that their profits from land sales were trading profits. The company contended that they were the result of the realisation of an investment in land, and that was treated as involving a point of law, which went through the Courts, and the Court of Appeal decided in the company's favour.

25,563. You may perhaps get one or two questions emerging, but except for the elucidation of the definition, the assistance of the Court would be very rarely available?—I think so. There are very few cases that have gone to the Courts in the past.

25,564. Now will you please turn to Annex 1 of your proof. The important paragraph is 3. "In this section the expression 'investment' means any asset that was acquired and held for the sole purpose of deriving an annual income from its retention or use, and without any main or secondary intention of deriving a profit from its sale." It is hardly possible to conceive of an investment which is not bought with some idea of capital increment as a possibility. Is not this what you mean: just follow as I read my revised version of this. "In this section an investment means any asset that was acquired and held for the purpose '—leaving out the word 'sole'—'of deriving an annual income.' Then I should add: 'or benefit from its retention or use, and not mainly with the intention of deriving a profit from its sale.' Then I suggest that you might strike out all the words at the end following 'period'; that is to say, the words, 'as well as to any main or secondary object in any charter.' Have not I now expressed what you mean?—I do not think you have gone quite as far as I went. I have a case of this kind in my mind, a case that was heard in the Court of Session a few years ago. It was a case of the Tehrau (Johore) Rubber Syndicate, which is reported in the fifth volume of Tax Cases at page 658. That was a case of a syndicate that had a producing company's Memorandum. It acquired two rubber estates in the Malay Peninsula just about the same time, although not quite together. It planted about a quarter of the estates and sold them to a company. At its inception the syndicate issued a prospectus, which stated—this is a quotation I have before me—"It is in contemplation that, on the estate being sufficiently developed, the syndicate should sell it as a going concern, or should form a company to take it over at a price which will afford the syndicate an adequate profit, but it will be for the shareholders to determine whether the estate is to be realized in the market, turned over to a larger company or held and worked by the syndicate." The Court held that the primary object was to cultivate, although it was assumed that the promoters had in view from the first that it might become expedient to sell. I think that decision is practically a decision that it was not mainly the Syndicate's intention to derive a profit from selling the estate; and I think that the words that you gave me just now would not cover that case.

25,565. I adopted them, as you no doubt appreciate, because they are familiar words in Acts of Parliament?—Yes.

25,566. They are distinguishing between a dominant and a subordinate intention. Very well, I think we have got sufficient now to appreciate what you mean, and no doubt ultimately the actual wording will go to a Parliamentary draftsman if we adopt the scheme.

25,567. Sir W. Trower: Is it desirable to set up any further judicial bodies: if "annual profits" were extended to "all profits" under Schedule D why not leave it to the General Commissioners?—If you had a clause that extended the charge to all casual profits it would simply mean that the General Commissioners would have to charge all casual profits. Two results would follow: the first is that neither the Commissioners nor the officers of the Department would be able to find these casual profits.

25,568. Does that not depend on the definition in the Act of Parliament?—The definition of casual profits?

25,569. Yes. My point is, why increase appellate bodies; why set up a new board?

25,570. Mr. Kerly: May I explain what I think the idea is: having regard to the enormous difficulty of defining what is intended in the abstract, or by any one proposition, I understand the Board's scheme to be to start with a definition which would cover more than they think it desirable to face, and they propose to set up not a mere judicial body but rather an administrative body which will, going step by step, exclude classes of casual profits which, though they would fall within the definition, it is not considered desirable to deal with; I think that is the general opinion?—That is so.

25,571. So that it would not be another appellate Court.

25,572. Sir W. Trower: Another body.

25,573. Mr. Kerly: Another body, certainly.—I may say the Board attach very great importance to consistency in the decisions; that is why they would rather have one body dealing with the classes of cases and the few individual cases that would arise, rather than a great number of bodies.

25,574. Mr. Marks: Would not the intention of the Board, as defined by Mr. Kerly, if it were applied, give rise to all sorts of possibilities of dissatisfaction as between different classes of speculators?—I am not quite sure that I follow what you mean. You are speaking of a definition put forward by Mr. Kerly as distinguished from—

25,575. No. Mr. Kerly has proffered to you a definition of the intention of the Board in setting up this supplementary body, which seemed to me to imply that a large number of cases of extraordinary difficulty and delicacy would come before that board; the decisions of those cases might, and probably would, raise an enormous amount of dissatisfaction as between different classes of speculators or different classes of earners of casual profits. Two cases, although they might not be identical, would be so close together, and must in the nature of the transactions be so close together, that a decision in favour of one and against the other would create a great deal of dissatisfaction?—I think it would not happen in practice in that way. Of course, one has to have an idea in one's mind as to what would be the initial discrimination that such a board would make, and I think, as I said before, that they would first of all come to the conclusion "we want to charge a man who is dabbling in something in his own line, and we want to charge a man who is busying himself in a venture." I believe that those would form the broad distinctions, and I can quite conceive that they might issue an instruction that a person who simply uses his own capital to buy a few shares or something or other not in the way of his own business, and does not busy himself in the transaction at all, but simply acts through a broker, is not a person whom they wished to charge. They would get border-line cases even among such cases, as you say. They would have cases of two or three people together, who, perhaps, buy up a large block of shares and try to make a market in them. I think it quite likely that the board in question might quite early decide that all joint ventures ought to be charged. I think it would be only by degrees that they would get at all those classes which they would exclude, and I think that for some time there would be individual cases coming up for consideration which might suggest new classes, but I do think that in the end a practice would result which would be satisfactory. I cannot think of any other way of doing it. I have another point in my mind, which is this: unless the charge is to be restricted to important classes, such as the people who busy themselves or the people who are dealing in something in their own way of business, the nature and scope of the tax would become very greatly changed. You would have extended your Income Tax as the Americans have done, so as to cover practically all capital realizations. As soon as you do that, I think you will be in a difficulty. With regard to losses, you will find, as America has evidently found, that you cannot restrict the setting-off of

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losses in the way I have suggested. The original American restricted set-off of losses has not been maintained, and I do not think that it could have been maintained, because they have made the scope of their charge so very, very wide. A restriction of the set-off for losses seems to me essential. If I were to suggest to you, to put an extreme case (it is extreme, but it will bring my suggestion home to you), that you should charge a man for tax on the winnings he makes at cards in his own house, you would think at once that I was suggesting a voluntary contribution, but if I were to say to you: "and allow him to deduct from his business profits his losses on cards in his own house," you would have no doubt at all that I was a fool.

25,576. I think your extreme suggestion does illustrate very well the difficulties of establishing any real definition of the very large number of cases that you would have before you?—We felt that a statutory definition would present the utmost difficulty.

25,577. Have you considered the possibility of getting hold of the large amount of profit or of taking account of the very large amount of losses which arise from Stock Exchange speculations between accounts?—That is a very great difficulty, and I think that would be one of the first questions that such a board as we have been discussing would consider. I must say that all my experience is in the direction that the Income Tax is not the way to do it. I think there are other ways, perhaps more promising ways, of touching such speculation than by the Income Tax. This is purely a personal opinion, but I must say I think it is not right that those speculative accounts, purchases and sales during an account or carried over transactions at times when people can carry over transactions on contango, should escape, as they do escape, transfer duties. I think the duty should attach to the transaction and not to the piece of paper. I think that a more promising way of dealing with such speculations might well be by a stamp duty rather than by an Income Tax, but it is quite a personal view of my own.

25,578. *Mr. Kirby:* An ad valorem contract duty?—Yes. There is a stamp duty on a contract note now, but, of course, it is a question of the transfer. A man does not take a transfer to himself; he buys and sells during the account, and although the transfer duty is charged on his contract note he is credited against with it if he sells without a transfer to him taking place. It simply means that the stamp duty does not represent a tax on a transaction, but becomes merely a tax on a piece of paper.

25,579. *Mr. Marks:* Have you considered at all the value of a speculative market from an economic point of view, that is to say, the value which such a market has in extending opportunities for what we may call legitimate transactions in the same line—maintaining a free market?—I think there is a very great advantage indeed in maintaining a free market, even if it is helped by speculation. I think, for instance, that in some trades it is absolutely essential that there should be a speculative market to cover business risks. I suppose in the cotton trade, for example, it must be so.

25,580. Quite, that is a very striking example?—That is a very striking example, and I say it is essential. I do not see anything in principle against charging the profits on a speculation, but I very much doubt whether it would be wise to approach it by an Income Tax at the expense of very much widening the scope of the tax, with very great doubt as to whether we should get the profits as well as the losses, if there is any other way of doing it.

25,581. As you gathered, my question extended to the market in commodities as well as in stocks and shares, and you would approach that from the same point of view as you would the question of the market in stocks and shares?—I think so. I think in such markets as the cotton market you would generally find your case covered by the transactions being transactions by persons in trade in the way of their particular trade.

25,582. *Mr. Macaulay:* I understood you to say in your opening statement that your proposition was that profits and losses on speculative transactions

should form a separate item in the account of those who have to make a return for Income Tax?—Yes, I suggest that any set-off of losses on casual transactions should be against the same kind of profit.

25,583. And if there were a balance of loss they would not be able to include it in their other return for Income Tax?—I should like to expand that point. The suggestion is that they should not be able to set such a balance of loss off against their other profits, but that they should be able to carry it forward in account for three years against profits arising from the same sort of transactions. As you have kindly given me the opportunity to say a word on that point I should like to say that I have thought, since my proof was sent in to you, that to carry forward for three years might, perhaps, not be a very convenient arrangement for transactions of that kind. At a particular time there are speculative transactions in a particular thing. A man may in one year conduct a transaction at a profit; the next year he may enter into another transaction at a loss; perhaps he comes in the second time, when a great many shareholder people than he are carrying out similar transactions, and he may make a loss the second time, and the suggestion of carrying forward would not give him the set-off of that loss against the previous profit. I am rather inclined to think, on consideration, that the set-off over a period of years, in the case of casual profits, could be better dealt with as in the American Act, which contains a temporary clause enabling a set-off over a period of years for business losses and certain other losses, and that the adjustment might be, first of all, as against any similar profit in the preceding year, and then, as regards any balance of loss against any similar profit in the succeeding year. You would have then three contiguous years, and the year you are dealing with would be the middle year. I think it might be better in this class of transaction than to carry forward a loss for three years.

25,584. *Sir J. Harwood-Bonner:* Is it not the fact that this question of casual profits has come very much to the front during the last three or four years in consequence of the large profits that have been made by reason of the war?—It has come very much to the front for that reason.

25,585. Previously to the war it was generally considered that the man who speculated made losses which overrode his casual profits, so that there was not much attention paid to this question of casual profits?—I think that would have been the idea with regard to what is ordinarily termed speculation, but there were, of course, isolated transactions or ventures which were very profitable—company promotions, dealings in estates, and matters of that kind. One found a limited number of cases during any year, which were really quite important, but which we could not charge, even in pre-war times.

25,586. And the rule that you then adopted has more or less to be followed during the last three or four years when these cases have become very numerous?—Yes. I think that perhaps the cases during the war were not quite of the same kind. Most of the cases before the war were, I think, in connection with the flotation of companies, but the cases which have happened during the war have been to a great extent fortuitous contracts, big commissions, and things of that kind, which have simply arisen out of the hurly-burly of business during the war. I think there has been a special class of case during the war, but this difficulty has always been with us.

25,587. For instance, a man who was not in the trade who has found himself able to get a very big contract for boots and shoes for the Army and made a big profit out of it; have you managed to get hold of him in any way?—A man who was not in the trade and who got a contract and, perhaps, did not execute it himself, but got someone else to do it, is not obviously within the charge. It would be very difficult to tax him unless there were concomitant circumstances which did happen to bring him within the charge.

25,588. Yet there are many cases of that description which, if I may say so, are causing this proliferating cry?—There must be a great number of cases,

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some cases of which we have heard, and perhaps could not touch, and a great many more of which we have not heard at all.

25,589. Then there are other cases which call for a good deal of comment, that is to say, cases where there has been a purchase of a big fortune, and then a re-sale at big profits; do you not get any portion of that in tax?—In the case that you put, unless there was some other circumstance which would give us the opportunity, I should say, broadly speaking, we cannot charge the profits. We should hope under the powers that we are seeking to be able to charge tax in such a case as that.

25,590. Then as regards underwriting, you find considerable difficulty in getting a tax on underwriting, because many underwriters claim that that underwriting they obtain is in reduction of the cost of their investments?—Yes, that is so.

25,591. Mr. Kerly: You mean company underwriting, not underwriting at Lloyd's?

25,592. Sir J. Harwood-Bauner: Yes, underwriting an issue?—In that case if the underwriter takes up all the shares he underwrites we do not try to raise a charge. We treat the commission as a reduction of cost, but on the other hand, if he does not take up the shares himself, we contend that the underwriting commission is taxable, but we are not on very safe ground even then, because sometimes the reply to us is: "I am not an underwriter by vocation; I do not consistently underwrite issues. This is a casual transaction. It is not part of my business. It is not an annual profit. Therefore, you cannot charge it." We often meet with that argument.

25,593. If you struck out the word "annual" in "annual profits," so that you get up profits, whether they were annual or otherwise, it would enlarge your scope very much and enable you to bring in a good many of these transactions?—If we simply did that it would enlarge the scope of our tax practically to the same width as the United States Act, but we are not seeking that, and we do not think it would be wise. What we want is the power to charge profits whether they are annual or not, but with a discretion vested in some board to say the classes of profits which it would not be wise to charge.

25,594. Mr. Marks: As it seems to me, Mr. Furtado's proposal would give a tremendous incentive to that very disastrous form of gambling or speculation which comes under the general heading of trying to get a bit back—this question of carrying forward losses.

25,595. Mr. Synnott: I did not hear it, but may I ask one question? You abandon the question of intention of making a profit, do you not? Would you not include a profit where there was a purchase and re-sale within a limited time, irrespective of the question of whether there was an intention to make a profit originally?—I should rather say that we should be basing on intention, but the fact that the transaction of purchase and sale was concluded in a very short time ought to be a factor to be taken into account in considering it.

25,596. But do you not see the danger in an Income Tax Act of putting in a word like "intention" which is so vague? It would be very difficult to prove intention, and Mr. Kerly would bear me out in this, particularly in regard to criminal matters. If you make intention one of the elements it may be very, very difficult to prove?

25,597. Mr. Kerly: Undoubtedly it raises a question of very great difficulty, but personally, if I may say so, I agree with Mr. Furtado it is the only possible key if you are going to distinguish capital increment from casual profit?—May I say it was because we realized that the determination of "intention" was so extremely difficult that we thought it was necessary to preserve full rights of appeal in that respect.

25,598. Mr. Synnott: You think that unless the word "intention," or something like it, is there you may have real profits escaping tax?—Yes, I think, as Mr. Kerly put it, it is the key.

25,599. Do you wish to confine the subject of charge to a limited time, either one year, or two years, or three years, that is, that the purchase and re-sale must be within a limited period?—I think that that would be a point which might arise for the body which we have been discussing, but I do not think that in the Act any limited time as between the purchase and sale should be stated. I think that if there is a body to exercise a discretion, its rules and determinations should govern matters of that kind.

25,600. Mr. Marks: I want to ask you two or three questions, not directly bearing on the Life Assurance questions, but points on which I want some information. How do you now assess investment companies?—I understand you mean investment trust companies?

25,601. I was going to ask you whether you drew any distinction between what are ordinarily called investment companies and what are sometimes called trust companies?—There is this distinction, an investment trust company does not take into account, for its profit and loss, profits or losses on realization of its investments, and certainly, in England, we do not charge such a company for profits on realization of investments, nor do we allow losses on such realizations. We treat realizations just as we should do in the case of an individual investor. Until 1915 such companies stood in exactly the same position as an individual investor and paid tax upon their interest either by deduction or by direct assessment just as a Life Assurance company did, and received, as an investor would receive, no allowance for expenses; but in 1915, at the same time as an allowance for expense of management was granted to Life Assurance companies, the same allowance was granted to investment companies, so that now they are charged, just as an individual investor would be, by deduction, or direct for the untaxed interest, but they get a similar allowance for expenses to that which a Life Assurance company gets.

25,602. They are still not charged on profits on realization of securities?—not if they are investment trust companies; if, on the other hand, they are investment companies which are not precluded by their arrangements from treating profits and losses on realizing investments as profits and losses of their business, then we should say that those profits and losses should be taken into account for Income Tax, but they may still have an allowance for their expenses, because that allowance is not restricted to an investment trust company, but is granted to any company whose main business is the making of investments and the principal part of whose income is derived therefrom.

25,603. Then it depends, to some extent, on the form of Memorandum and Articles of Association, I suppose?—Yes, but in the result there is very little difference, because they are both chargeable upon their interest, and they can both make an expenses-of-management claim.

25,604. Then the second class; the trust company does bring into accounts its profits and losses on realization?—The trust company does not; the financial company does bring them in; but if the company falls within the definition in section 33 of the Income Tax Act of 1918, "any company whose business consists mainly in the making of investments, and the principal part of whose income is derived therefrom," although it may be a company which brings profits and losses on realizing investments into its profit and loss account, it is still entitled to claim repayment, if necessary, in respect of expenses of management; but you may often find a type of financial company which does not fall within that definition. You may find a company whose main business is not the making of investments, although the principal part of its income may be derived from its investments. Its main business may be exploration and development or finance, or something of that kind.

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25,606. I am not surprised that I could not ascertain the exact facts on my own account. There is just one other question. Is all interest charged now to tax whether fractional or not?—What exactly do you mean by "fractional"?

25,606. For periods of less than a year?—All interest that is received?

25,607. Yes?—Yes, unless there is statutory exemption such as in the case of "tax free" War Loan, or something of that kind.

25,608. Yes; I am not considering that. My point rather is I found some difficulty in ascertaining from the text books whether the fractional interest in certain cases was taxed, but, although it is not taxed

by deduction in the case of payment to banks, it comes into their profits and is there taxed?—Do you mean depositors' interest from banks?

25,609. Yes?—A bank is charged on its profits, including any untaxed interest received by it, but after deducting as an expense the interest that it pays to depositors. The depositors, in their turn, are chargeable under Case III. of Schedule D, in respect of the interest received by them on their deposits.

25,610. Is there any circumstance, or are there any conditions under which interest would escape taxation, because it is for a period less than a year?—None at all.

MR. LEONARD B. FRANKLIN, O.B.E., J.P., called and examined.

The witness handed in the following statement as his evidence-in-chief:—

25,611. (1) I shall refer to the exemption from the Income Tax returns of certain profits and losses, and specially refer to the fact that whereas traders bring such profits and losses into their account, in the case of non-traders such profits are reckoned as increased capital and are not subject to Income Tax.

25,612. (2) To give an instance. A dealer in securities purchases 2,000 Shell Shares at 6, he sells them, say, at 8, making £4,000 profit. He pays Excess Profit Duty of 80 per cent. thereon, leaving him £800 on which he pays Income Tax and (perhaps) Super-tax. Had he done the same operation for his wife, she would pay none of these taxes but would keep the whole amount.

25,613. (3) I would suggest that where a firm of dealers buys securities in which it does not ordinarily deal, or, for a commission agrees to guarantee an issue, or part of an issue, the profits or losses from these transactions should be treated as separate from its ordinary profits and not brought into account, or in the alternative that both traders and non-traders be treated on the same basis.

25,614. (4) I further wish to suggest that where a company gives shares or the right to apply for shares as bonus, the rights to apply should be valued, and that such value should be added to the income and subject to taxation.

25,615. (5) As for instance:—The Shell Transport and Trading Company gave in 1917 the right to holders on their register to subscribe at par for 1 share for every 4 held. According to the Stock Exchange calculation this was equal to £1 4s. 11d. bonus per share which was not subject to taxation nor was it brought into account in Super-tax returns. The holder of every 4 shares thus became the holder of 5. In 1918 a right was given for each holder of 5 shares to apply for 3 new shares at par. This right was valued on the Stock Exchange at £2 14s. 4d. on which no tax has been paid. Thus the original holder of 4 shares (valued on July 27th, 1914, at 4½th per share or £16 5s. for the 4 shares) on payment of £4 (making the amount £20 5s. in all) became possessed of 8 shares which could have been sold, and in many cases were sold, for £80. This bonus of £20 15s. or £14 18s. 9d. per share has not been subject to any tax, nor was it brought into account in Super-tax returns.

25,616. (6) I propose also to call your attention to the fact that by sale or reconstruction large profits are gained by shareholders of various companies, and no part of this profit due to increased price is brought in to the Income Tax account or Super-tax account.

25,617. (7) On page 2 of the document which was sent to the shareholders of the Law Union and Rock Insurance Company, Limited, on the 25th February, 1919, the last clause says:

"When the negotiations leading up to this Agreement were initiated, the market price of the 'Law Union and Rock' partly paid shares

was about £7½ and that of the fully paid shares £7½. The 'London and Lancashire' offer, therefore, represents a capital appreciation in the 'Law Union and Rock' share of about forty per cent."

The price paid for these shares was £10 for the part paid share and £10 10s. for the fully paid share, showing a bonus of £2 17s. 6d. per share, which has not been brought into Income Tax account.

25,618. (8) I give below an extract from the Westminster Gazette of the first week in June. This shows the result of the purchase of the Reversionary Interest Society by the Equitable Life Assurance Society, and that shares which on April 4 exchanged hands at £69 are to be bought out for £117 10s. in five per cent. War Stock worth about £110 and show a bonus of £40. No proportion of this is brought into income account.

25,619. EXTRACT FROM WESTMINSTER GAZETTE.

The latest insurance deal.

"It would seem that some inkling had been gained of the announcement just made by the directors of the Reversionary Interest Society of the sales of the society's shares, subject to the approval of the shareholders to the Equitable Life Assurance Society. Reversionary shares on April 4 changed hands at 69, and the price has just lately been raised to nominally 80 to 85. The price offered is £117 10s.—5 per cent. War Loan 1929-47 for each £100 share fully paid, and a proportionate amount for each partly paid share. The price of the fully paid £100 shares has for the past three years generally been under £70. The acceptance of the offer by the shareholders of the Reversionary Interest Society would therefore ensure at once an appreciable increase in dividend and a substantial increase in capital value. The Reversionary Interest Society would continue to exist as a separate society, and no change would be made in its customary business of purchasing reversions and life interests and of granting loans upon such interests. This society is a very old concern, having been established as far back as 1832; indeed, it is the oldest of the reversionary societies. It has a paid-up share capital of £264,825, upon which for a considerable period the dividends regularly paid have been 5 per cent. per annum. It is hardly likely that much if any opposition will be offered to the suggested arrangement."

[This concludes the evidence-in-chief.]

25,620. Sir W. Trower: The Commissioners have read your evidence, and there will be some questions asked you by way of examination?—Yes.

25,621. Mr. Monville: Do not your propositions, at all events starting from paragraph 5 of your evidence-in-chief, really amount to a taxation of capital? Let me put it in this way: in the examples you give in which bonuses are issued to shareholders for a payment which represents something more than the

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[Continued.]

market value of the share to which that bonus is attached, may it not be that that share is actually of that value before the bonus is attached to it, but that the value is not appreciated by the market? Many shares stand considerably below their real value in the market because the value is not appreciated, and when money is paid for rights of this sort it may be that that is only an appreciation of the real market value of the shares (which, of course, would be a capital value), rather than anything which could be regarded as taxable?—The question of the bonus there at the time when the bonus was given (I am referring to paragraph 5) was £1 4s. 1½d., that is to say, that if shares were held on contango—of course there was no contango at that time—or if shares were owed by the Stock Exchange to any buyer, he would be in place of his bonus have got £1 4s. 1½d.; that was the actual value of the bonus given. Of course, to a certain extent, it is a tax upon capital, that is to say, if it were brought in it would be a tax upon the increased value of capital.

25,622. Or rather the appreciation of capital?—The appreciation of capital.

25,623. Which really existed before?—Sometimes; but may I be allowed to point out one thing there? In this instance the amount of Income Tax has been paid by the company upon its increased earnings that may have been put to reserve or to anything else; that is so far as the company is concerned, but so far as the individual is concerned he does not take any amount whatsoever to add to his Super-tax. Shall I enlarge upon that point?

25,624. Sir W. Fowler: I think we understand the point.

25,625. Mr. Maxwell: If you carry that argument a little farther it would mean that capitalised reserves should also fall into the same category, would it not?—On their distribution, so far as the individual is concerned he should bring that into his Super-tax.

25,626. Sir E. Nott-Bower: With regard to your paragraph 5, you speak at the end of the paragraph of a bonus of £89 15s., or £14 18s. 9d. per share, which has not been subject to any tax. As I gather on paragraph 5, the shares which you say that are dealing have been twice dealt with, apart from the gradual increase in the market value of the unaltered share, and the value of the bonus addition on the first occasion was £1 4s. 1½d. on each four shares held?—No, if I may say so, it was per share.

25,627. That will suit me equally well. The value then of the bonus on the first occasion was £1 4s. 1½d. per share, and the value of the bonus on the second occasion was £2 14s. 4½d. per share. At the end of the paragraph you say that the whole bonus was £14 18s. 9d. per share; in that £14 18s. 9d. you have included the appreciated value of the whole original unaltered share?—That is so.

25,628. Supposing those intermediate transactions had not taken place at all it is evident that the original shares would have gone up enormously?—I should have to work that out.

25,629. Do not trouble to make a calculation. The point I want information on really is quite simple. Supposing there had not been any alteration in the shares; supposing this company was a very prosperous company, and its original £1 shares had been working up in value until they have now reached £10, do you want a tax to be put on the £9 of difference? Is a man to value his shares every year, and if there had been depreciation in value, is he to be assessed to Income Tax on that occasion; that is what I want to know?—That was not in the suggestion, although I quite see your point.

25,630. I think it is involved in it surely. When you speak of the bonus being £14 18s. 9d. per share, you include in that £14 18s. 9d. some of the ordinary appreciation?—I was going to take that point. It is perfectly correct that part of that appreciation per share is due to the rise in price. It is taken as clearly as possible in that way, but the point that ought to have been brought in at a period

that is to say, when the bonus shares were issued in the first instance, is that £1 4s. 1½d. was the actual estimated value, but at the period when this calculation was made the bonus per share was £14 18s. 9d. part of which arose through the rise in shares between those two periods.

25,631. Are you asking us to consider a suggestion to tax all increases?—No. The increase that I wanted to tax is the £1 4s. 1½d. and the £2 14s. 4½d. at the period at which they were valued by the Stock Exchange when they were issued.

25,632. Then when you get further on, to the instance quoted in your paragraph 8, that transaction if I understand it aright—I am referring to the sale of the Reversionary Interest Society to the Equitable Life Assurance Society—was merely an out and out sale of the shares in the Reversionary Interest Society to the Equitable Life Assurance Society?—Yes, that is so.

25,633. Your suggestion there is that a tax might be put on the excess of the price paid over the quoted value of the Reversionary Interest Society's shares, practically I suppose you may say at the time of the transaction, or just before the transaction took place?—Either just before or at the time of the deal; that is the suggestion.

25,634. I think the average price before this transaction came off of the Reversionary Interest Society shares was said to be about £70?—About £70.

25,635. Was that a share on which £100 had been paid?—I conclude so; it is all of a nominal value of £100.

25,636. So that even including the bonus of £40, the Reversionary Interest Society's shareholders did not get much more money back than they had put down?—They got about £10 or so, but, of course, compared with the general run of securities at the time—the general values, £70 for an industrial society was about the considered value of an ordinary stock yielding 5 per cent.; therefore at the time when £117 10s. 5 per cent. War Loan was given in exchange it was a distinct bonus or inducement for the sale to be made which, I would suggest, should have been brought into income account, and should have been subject to Income Tax, and again in individual cases, to Super-tax.

25,637. Mr. Marks: Referring for the moment to the question Sir Edmund Nott-Bower put to you, on this question of the Reversionary Interest Society's shares, the value which you quote there as the average value, £70, was the market value, was it not?—The market value.

25,638. Do you distinguish at all between the market value and the intrinsic value of those shares?—In this instance I would suggest that the market price was a fair value of the shares comparing it with other industrial societies of the same nature and earning the same amount.

25,639. I suggest that you have overlooked one very important consideration in this matter, and that is that the market value was determined with regard only to the present income upon those shares. I am speaking with knowledge, but I suggest to you as a possibility that there were many other considerations which were brought into account in this transaction of sale and purchase between those two societies?—There were, of course.

25,640. I think I may say, having regard to the fact that the names have been publicly given, that I know as a fact that it was a profitable transaction not only for the Reversionary Society, but also for the Equitable Society, a thing which does not always arise. So far as the question of taxation of the increased amount which the shareholders of the Reversionary Society got, I suggest to you that that value which you propose should be taxed, was always in the possession of the Reversionary Society's shareholders, although they had not had a previous opportunity of realising it?—May I suggest that if any holder had died just before this deal had taken place, and his estate had been valued for Death Duty, he would have paid, in spite of there being extra value therein, a tax upon the price of £70.

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[Continued.]

and no account would have been taken of the extra nominal value not expressed in the price, and therefore the State has had no payment whatsoever in respect of this extra value.

25,641. They will keep it when the present holder dies, but, of course in the nature of things it is impossible that they should have got it in the other case?—I only make that point because it shows that that was the true accepted value for all taxation purposes at the time, and that, as I put it, the undisclosed value of that goodwill and the reserves of the Reversionary Society would come out when the result of the deal with the Equitable Life Assurance had been taken into consideration, and that extra value that you refer to during the whole period paid no share of the burden of the State whatever.

25,642. I cannot agree with you, but it is a matter which is susceptible of a great deal of argument which we will not go into at this moment. You would agree, would you not, that there is a difference in principle between a man who buys and sells shares as a business, and a man who makes an occasional investment of a speculative character?—There is, but it seems to be a somewhat extraordinary difference, and I give it to you in this particular way; I think I have put it in my evidence-in-chief too; if, as a dealer in securities, I bought something and made a profit on it, I should have to bring it into income account, and it would be subjected to all taxation. If I did it for my wife in her name she would pay nothing.

25,643. That is all the difference between a transaction which is carried out as part of a man's business and an individual transaction which is undertaken by an ordinary taxpayer whether under the advice of her husband or not, and if the Government attempted to assess all profits and allowed all losses made by private individuals it is unlikely that there would be much gain to the Revenue?—That, of course, has always been the contention; that is not the American principle, which is under the Revenue Law of 1917—published on the 7th September, 1918, I believe, but I could find the actual data.

25,644. It does not matter?—America has done that, and I believe, as a matter of fact, practically the depreciations during the period, we will say, from 1895 to 1914 would have shown a loss, and it would not have been good business for the Treasury; but since 1914 generally and during the whole war period till practically now there has been a large definite increase in the capital valuation of the individuals composing the nation.

25,645. Over a long period you would agree that the two things would probably balance, or very nearly so?—Up to 1897, as you are perfectly aware, there had been for many years a continual rise in prices, and if we had taken into consideration these profits during that period I venture to think we should have had a benefit. From 1897 up till about 1914 there was a continual depreciation in securities, I believe, and also in land; I could give you the figures, but I think you will be aware of that yourself.

25,646. You propose to confine your proposals to realisation, do you not?—Yes, realised profits.

25,647. Would not that be rather difficult under the principle of valuation necessarily applied to the stock in hand of dealers in securities such as Stock Exchange jobbers?—The Stock Exchange jobbers

make a return and value their securities in their balance sheets whenever that return is made; that is always done.

25,648. Any dealer in securities would have to bring into account unrealised profits and losses as well as realised?—The system upon which it is done for your balance sheet is somewhat in this way: you take your holdings, you value them on a fair basis, and you bring that in on the one side.

25,649. My point is that you would have to bring into account actual diminutions in value, although they had not been made effective by sales?—Distinctly; the valuation is the true valuation.

25,650. In regard to your proposal in paragraph 4, would you distinguish such bonus shares as have been accumulated out of profits?—Is the point that already the Income Tax has been paid by the company on those particular profits?

25,651. That is my point?—On that point I wish again to make a distinct point that, as far as individuals are concerned it has not entered into their Super-tax return.

25,652. That is the point I was coming to: Super-tax is in fact the only thing affected?—It is the only thing affected in that way. I first of all put that it was not subject to taxation, and then showed exactly the point that I wanted to make.

25,653. Sir J. Harcourt-Banner: In connection with that last matter you said: "not brought in for Super-tax purposes." Is it not also a fact that there are a great many of the small shareholders who would be entitled under their share of that particular reserve, to apply for a repayment of their Income Tax?—I should think that would be so, but the number would be unimportant. I have not made the calculation, but I should think that the number would be small compared with the large number of those who have to bring it into their Super-tax return.

25,654. Sir W. Trower: If your suggestions were carried out you would have to have a special charging section in the Act, would you not?—Yes, that would be so.

25,655. Do you agree that it would be necessary for them to have a discretionary board to deal with the question?—I do not quite appreciate your point.

25,656. It would be difficult to frame a charging section which did not extend over a very large area which would probably not be intended to be covered by your proposal?—Is your meaning that some basis should be taken for bringing in the value of these bonuses?

25,657. Yes, it is very difficult to define what you wish to carry out without including a very large number of cases which you would not include?—Would it not be possible to take first those securities that are acquired on the Stock Exchange, take the Stock Exchange valuation that I put here at £1 4s. 11d. for those securities that are dealt with there, and then have a valuation by certificate from the secretary of any of those companies of any bonus upon shares that were not quoted; would not that be sufficient evidence of value?

25,658. You confine yourself to stocks and shares?—I am confining this point to stocks and shares.

25,659. Sir W. Trower: Then I will not put any further question; thank you. We are very much obliged to you.

MR. MICHAEL GORMAN, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

25,660. (1) I am the Secretary of the Maesycnew Building Company, Limited, the Cae Velin Building Company, Limited, the Crumlin Building Company,

Limited, the Sofrydd Building Club and the Hafarthan Building Club, owning 300 houses all occupied by the working classes, and desire to place before the Royal Commission on the Income Tax the urgent need of more allowances under Schedule A for repairs to property, particularly workmen's dwellings.

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[Continued.]

25,661. (2) More relief was due to small properties before the war. When one-sixth allowance was fixed, the small cottage had no shuting, no drains, no water service, no wooden down-stairs floors, the tenants had to share with five or six other tenants the use of one W.C. or E.C., which had no costly pan or syphon to stop or break; the house walls were not expected to be dry, but simply to hold up the roof. All these conveniences form part of the houses built for the past 20 years; the opening of drains, repairing water taps and flush tanks, renewing of shuting and the boarded floors on houses not erected more than 14 years cost an average of 18s. per house per annum in addition to the repairs and depreciation originally provided for in the one-sixth allowance and Schedule A. With the tax at 8d. or 1s. in the £, the burden, if understood, did not press seriously, but with the tax at 6s. in the £ I maintain that the allowance should be one-fourth even if the cost of repairs stood at the pre-war figure on houses of £15 gross estimated rental and under.

25,662. (3) Coming to the extra cost of repairs due to the war, I regret to learn that you have been advised not to give relief until the "cost of material is established." A heavy responsibility rests on the Royal Commission. People in different positions take opposite views of their duty to property. I quote two instances: (1) The Treasury, on the advice of their valuers have increased the allowance for repairs to drill halls from one per cent. to two per cent. on the capital value of the buildings—an increase of 100 per cent. (2) At a conference recently held of Monmouthshire Assessment Committee a new scale of allowances was adopted which leaves the houses of £8 and under at exactly the same allowance for repairs as was conceded in 1897, viz., 25 per cent.—

The cost of labour has increased 110 per cent.			
" "	Ironmongery	"	400 " "
" "	timber	"	600 " "
" "	cement	"	300 " "
" "	glass	"	400 " "

Labour is one-fourth, ironmongery (mainly shuting) is one-half, and timber is one-fourth the cost of repairs, which justifies me in striking an average increase at 300 per cent. Taking the Treasury basis of 200 per cent. increase we pay, therefore, on a £15 gross estimated rental house £3 15s. instead of £2 5s., which makes the tax 10s. in the £ and not 6s. on small cottage property.

25,663. (4) Another grievance which has always pressed on a corporation employing officials and owning cottages exclusively is that, because they pay Income Tax under Schedule A, no allowance can be obtained for salary, commission, directors' and auditors' fees, but the Revenue receives Income Tax twice on these sums. I do not ask that the method of "taxing income at its source" under Schedule A be abolished, but I do say that the Surveyor of Taxes can be given power to discharge the tax on these fees when he sees he has already taxed under Schedule D for these amounts. The following extract from one of my companies illustrates the case:—

	£	s.	d.
Profit shown in profit and loss account ...	159	18	11
If this was a brewery or gas company paying under Schedule D, the profits would be taxed after deducting the following amounts:—			
salary and commission ...	475	14	6
postage and stationery ...	4	1	7
directors' fees ...	12	12	0
audit fee ...	4	4	0
			96 12 1
Therefore the taxed profit under Schedule D would be ...	63	6	10

but because we are taxed under Schedule A we pay on £159 18s. 11d. instead of £63 6s. 10d.

[This concludes the evidence-in-chief.]

25,664. Sir W. Trower: Your paper has been considered by the Commissioners, and it is very much covered by other evidence that they have received.

25,665. Sir E. Nott-Bower: With regard to your first point about the cost of repairs; we have had a great deal of evidence as to whether the repair allowance generally is sufficient, and especially whether it is sufficient having regard to the high prices that are ruling now. I think the companies that you represent are owners of houses, are they not?—Yes.

25,666. Those houses are let to working men?—Yes.

25,667. And the repairs are undertaken by the companies. Is that so?—Yes.

25,668. What is the average annual value of those houses?—The gross estimated rental is £12.

25,669. You are not restricted to one-sixth, are you? Cannot you put in a supplementary claim?—No, not that I am aware of.

25,670. But there is legislation in the case of houses up to £52 in value. If the one-sixth allowance is insufficient, under section 19 of the Finance Act of this year you can get that allowance supplemented up to the actual cost of repairs, in the case of house property which does not exceed £52 in value. Why does not that apply to your cottages?—If we spend the money, I suppose we could.

25,671. If you do not spend the money why do you want an allowance?—Because depreciation goes on at the same rate, or rather worse if we cannot repair at the right time, on the principle of a stitch in time.

25,672. Are you postponing your repairs, do you mean?—We only do what we are compelled to; and sometimes we cannot even do what the local authorities would compel us to do, for want of material and difficulty with labour. Twice since the war I have used up every ounce of shuting, or troughing, as some call it, and then have not been able to get sufficient. If I am not able to spend the money it is a pity that I should pay Income Tax, when I know the day will come when it must be spent.

25,673. Quite so, but when that day comes you will get the allowance in respect of it. Under the legislation to which I was just referring you, when the day comes and you do spend the money, you can get an allowance right up to the full annual value of the house if you spend the whole year's rent; and you get it on the basis of an average of five years. I think if you will examine the legislation that I am referring to, you will be able to derive great comfort from it. I think it is unnecessary to pursue the matter further now, because the Commission have had a great deal of evidence on this subject as to whether the flat rate is sufficient and whether, if it is insufficient, it is satisfactorily supplemented by the legislation to which I have just now referred you. If you have received the rents and have not spent the money on repairs, I do not see that you have any grievance until the time comes when you do the repairs, and when that time does come you will be able to put in a claim?—I am sorry. I must resist the whole of that.

25,674. Sir W. Trower: You are not familiar with the new legislation?—I am. May I give you a little illustration? The average cost of repairs of this particular company—an extract of whose balance sheet has been sent here—is £2 5s. That is for 1917 and 1918. Now the houses have been built 14 years. For the next ten years the repair bill will be heavier every year, particularly on the roofs, because the battens on the roofs are beginning to give out. Although we are not spending money now on the roofs and the battens, we know that in 25 years time we will have to spend it; we will have to take the slates off and rebatten the roof. Although we are not spending money now, you must allow us something. You cannot tax us on money which, although we are not spending it, we must put in reserve.

25,675. Sir E. Nott-Bower: You will remember that you get the one-sixth allowance anyhow, whether

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[Continued.]

the money is spent or whether it is not. That gives you something to go on with?—Yes, but it is not sufficient.

25,676. You get the one-sixth allowance whether the money is spent or not and then if you spend money in excess of the one-sixth you get a further allowance on a five years' average.

25,677. Mr. May: I understand the witness to put it, that if he has one-sixth allowance for 25 years it will not pay for re-roofing the property at the end of 25 years. That is his proposition?—Added to the amount that has to be spent on the property every year during the 25 years, and then there is the lump sum to be faced in 25 years; and the one-sixth will not cover it.

25,678. Sir E. Nott-Bower: The one-sixth does not, but when you do spend the money you must remember you get a further allowance in respect of the actual expenditure in excess of one-sixth every year. At present I am afraid I fail to see that any hardship is likely to arise in your case?—Well, there it is, sir. These houses cost us £2 5s. now.

25,679. The one-sixth will just about cover that, will it not?—Yes, and then there is no provision for the lump sum that is to be provided when we have to re-batten the roofs, &c. I do not know that I have mentioned the sinking fund; I hope you are considering the sinking fund. We have to think of Macer on Dilapidations, our houses will be worn out; and as we are going on now, according to Macer, who says 40 years is the life of houses of this kind, we should put away £5 per house. The houses cost £200 each.

25,680. Mr. Merks: What are they let at?—Seven shillings is the standard rent.

25,681. Do you get more or less than the standard?—We try to get more now, because the rates have gone up. The houses cost £200 to build. Macer on Dilapidations says that 40 years is the life of the house. I have got Macer on Dilapidations here, and I would like to show it to you.

25,682. Sir E. Nott-Bower: It is a very short life. It is much less than the average life of a house. I suppose they must be not very substantially built?—We have no hope of them lasting more than 50 years, and in that case there is £4 a year per house to go to a sinking fund. The £2 5s. 0d. for repairs, the average of 1917 and 1918, has to be added to that: then you have incidental attentions, flushing tanks, W.C.'s choking, &c., so that in all it comes to £6 17s. 6d. per annum. The one-sixth will not provide for that, and unless we provide, and unless you give us relief on that provision, we will see (or those who live after us will see) the houses gone; we shall be responsible to the bank for a very big sum, and we will have nothing with which to rebuild the houses. We must provide for that; and now that the Income Tax is such a heavy item, you must allow on these expenses.

25,683. Sir W. Trower: Might I interrupt you there? We have considered this question very fully, because you are dealing with wasting assets now, and not with repairs. That question has received attention, and I do not think you need go into it further?—That is not the question of the sinking fund only.

25,684. Wasting assets and sinking fund are matters which have received our consideration; I do not think you need labour that point any more?—I mentioned in my evidence-in-chief that the houses, with the modern conveniences that were not in houses when one-sixth was decided upon as an allowance, such as shuting, W.C., &c., for each house, flush tanks, &c., to-day cost 25s. for upkeep. I have a note of the average items; but those are extras. These things were not considered, because they did not exist when the one-sixth was settled.

25,685. You got that in additional rent, do you not?—No.

25,686. Yes cannot increase your rents at all?—No, we can only add the increased rates.

25,687. Ten per cent.?—No, we can only add the increased rates. The 10 per cent. we cannot put on till six months after the signing of peace, I think, and I believe that has to be declared by Royal Proclamation or by Order in Council.

25,688. But when you raise your rents, that will account for that?—No, that will not remedy my grievance. I want to get an allowance for the Income Tax.

25,689. Mr. May: I think the only thing that the witness is convincing me of is that our sympathy is due to the people who had to suffer the inconveniences before he made these alterations. I certainly do not think there is anything to come before this Commission or that ought to take up our time.

25,690. Sir W. Trower: We have very carefully considered, with other witnesses, this question that you have put before us; I do not think you need labour that point.—There is just one other matter I wish to bring before you, which is not in my evidence-in-chief. I maintain that the poor class of people, who are not as careful as they should be with property, occupy houses up to £15 gross estimated rental. I therefore make this figure the first step in the ladder of graduation of allowances for repairs; and I recommend that there should be one-half allowance instead of one-sixth for houses up to £15 gross estimated rental; under £20 and over £15, one-fourth; under £30 and over £20, one-fifth; and over £30, one-sixth.

25,691. We have already had these suggestions; we will take them into consideration.—So long as they have been before you, I do not wish to waste your time.

25,692. They have been before us, and we will take them into consideration. Thank you; we are very much obliged to you.

THIRTY-FIFTH DAY, WEDNESDAY, 3RD DECEMBER, 1919.

PRESENT:

Mr. PRITYMAN (*in the Chair*).

Mr. BRACE.
Sir E. E. NOTT-BOWER.
Sir J. S. HARMOD-BANNER.
Sir W. TROWER.
Mr. HOLLAND-MARTIN.
Mr. BIRLEY.
Mr. WALKER CLARK.
Mr. KERLY.

Mrs. KNOWLES.
Mr. McLINTOCK.
Mr. GEOFFREY MARKS.
Mr. MAY.
Professor PIGOU.
Dr. STAMP.
Mr. TROTTER.

Mr. W. S. BEST, a Superintending Inspector of Taxes, and a Vice-President of the Association, Mr. E. A. EGBALL, an Assistant Chief Inspector of Taxes, Mr. R. W. OSLER, a Superintending Inspector of Taxes, and Mr. J. T. YOUNG, a Superintending Inspector of Taxes, on behalf of the Association of Tax Surveying Officers, called and examined.

The witnesses handed in the following statements as their evidence-in-chief:—

I. ON THE SUBJECT OF ADMINISTRATION (ASSESSMENT, APPEAL AND COLLECTION).

25,693. (1) The memorandum by the Chief Inspector of Taxes (printed as Appendix No. 4 to the Minutes of Evidence) sets out the duties of the Surveyor of Taxes (a) as prescribed by Statute and (b) as found in actual operation in the daily administration of the Income Tax Acts.

25,694. (2) The dual character of the administration of the tax—on the one hand the local administration by independent Commissioners and their officers, and on the other hand the central administration by the Board of Inland Revenue acting through the Surveyors of Taxes—is explained in the same memorandum, and in the evidence-in-chief of Mr. A. Binns, Deputy Chief Inspector of Taxes.

25,695. (3) It will be gathered from this evidence that the everyday working administration of the Income Tax has now centred in the office of the Surveyor of Taxes. The members of the Association of Tax Surveying Officers, being in daily contact with the members of the public, and having therefore a most intimate knowledge of present conditions, as they affect both the Revenue and the individual taxpayer, submit certain conclusions at which they have arrived as to the changes that would tend to the greater efficiency of the taxing machine and to the greater convenience of the taxpaying public.

25,696. (4) The purpose of our evidence is to recall to the attention of the Royal Commission the principal disadvantages of the present administrative system, and to propose such legislative changes as are in our opinion necessary to harmonise the application of the principle of local autonomy with the maintenance of consistent and sufficient administration.

25,697. (5) These matters are dealt with under the following heads:—

Assessment and appeal.

- (a) Administrative and technical duties.
- (b) Judicial functions.
- (c) Clerical and routine duties.
- (d) Assessment by Special Commissioners.

Collection.

ASSESSMENT AND APPEAL.

- (a) Administrative and technical duties.

25,698. (6) The Local Commissioners, being an honorary body without any technical training and devoting only a small portion of their time and energies

to the work arising in connection with the administration of the Income Tax, cannot fully carry out their administrative functions, but are content to leave them generally to the Surveyor of Taxes, as the representative of the Board of Inland Revenue. The lack of any central control or organisation of some 700 separate and independent bodies of Commissioners, acting without co-ordination, has contributed to this process of transfer, since the training and organisation of the Surveyors under a responsible central authority constitutes them the only existing body able to secure that uniformity and efficiency which are essential to a just and successful administration.

The ever-growing importance and complexity of the Income Tax demand a high degree of specialised knowledge and technical skill, and the increasing volume of work has required a fully developed office organisation; for these reasons, among others, the technical work of examining and enquiring into returns, ascertaining and agreeing liabilities, both before assessments are made and upon appeals against assessments, has passed from the Assessors and the Commissioners and has become almost exclusively the province of the Surveyor.

The participation of the Additional and General Commissioners in the administration has become less and less active, and in course of time the exercise of their statutory functions has become in most cases restricted to the formal legalisation of the Surveyor's work as a whole and to the hearing of appeals in the small residuum of cases not settled by agreement between the Surveyor and the taxpayer.

25,699. (7) It may here be pointed out that the duty of deliberating upon returns in respect of a round million of liabilities dealt with under Schedule D in each year is laid by the Income Tax Act upon some 700 bodies of Additional Commissioners in Great Britain. That is to say, each of these bodies should deal on the average with some 1,400 returns. The average number of meetings held by each division of Additional Commissioners is not more than three per annum, and the average duration of each meeting is not more than an hour, excluding the time occupied in preliminary formalities and courtesies. In some divisions the Commissioners sit for some hours and consider every item in the Schedule D assessment book before signing it, but, speaking generally, they do not go through the books of assessment, and do not apply themselves to the consideration of any liabilities, except such as are expressly brought to their notice by the Surveyor or are similarly marked for their attention by their Clerk. The technical work of investigating returns, of making enquiries, and of ascertaining liabilities, is not, and, indeed, cannot be done by the Commissioners upon whom the burden is laid by the Statute, and it is in fact done

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by the Surveyor of Taxes, assisted by his permanent technical and clerical staff.

25,700. (8) Similarly the performance of the administrative duties of the General Commissioners is confined in actual practice to the appointment of officers, to the formal signature of assessments under Schedules A, B, and E, and of other documents which have been prepared by the Surveyor and his staff, and for the accuracy of which the Surveyor is responsible to the Board of Inland Revenue.

(b) *Judicial functions—(appeals and penalties).*

25,701. (9) It is our experience that the functions of the General Commissioners as an appeal tribunal and in the imposition of penalties are exercised with a due sense of responsibility, and that, speaking generally, justice is done.

25,702. (10) In the immense majority of cases, however, the Surveyor to whom the evidence required for the determination of an appeal is produced, agrees the correct liability with the taxpayer, so that not more than 2 per cent. of the total number of appeals lodged are personally heard and determined by the Commissioners. Here again the existing practice has arisen inevitably from the sheer impossibility of the performance by the Commissioners of their statutory duty of hearing all appeals.

25,703. (11) We here refer to the statistics in paragraph 69 of Sir T. Collins' memorandum previously referred to, from which it appears that in the year 1917-18 in 22 important and representative divisions the total number of appeals heard personally by the Commissioners was 1,265, as against 65,538 cases adjusted by the Surveyor and accepted without question by the Commissioners.

(c) *Clerical and routine functions.*

25,704. (12) Certain of the clerical and routine functions of the Assessor and of the Clerk to the Commissioners have similarly in course of time passed into the hands of the Surveyor, but this process has been neither so rapid nor so complete as in the case of the administrative and technical functions, and a considerable residue of the clerical work still remains in the hands of these officers. The present position in actual practice is fully described in the Chief Inspector's memorandum (Appendix No. 4, paragraph 118) and in the evidence-in-chief of Mr. A. Binn (Position of Assessors—paragraphs 23,074-23,077 and Position of Clerks to Commissioners—paragraphs 23,017-23,024).

25,705. (13) It is difficult for anyone not having practical daily experience of work under these conditions to form any adequate conception of the inconvenience and waste of time and labour inherent in such a system. We desire to emphasize the following points:—

- (a) *Inconvenience to the taxpayer.*—In the ordinary course the procedure on Schedule D returns and assessments is as follows:—

A taxpayer

- (i) receives his declaration form from the Assessor;
 - (ii) may furnish accounts to and agree his liability with the Surveyor;
 - (iii) makes his return to the Assessor;
 - (iv) is assessed by the Additional Commissioners;
 - (v) receives notice of assessment from the Clerk to the Commissioners.
- At this stage, if the liability has not been previously agreed, he—
- (vi) gives notice of appeal to the Surveyor;
 - (vii) receives a precept for accounts from the Clerk to the Commissioners;
 - (viii) furnishes accounts to and commonly agrees the liability with the Surveyor.

- (b) *Unnecessary duplication of work.*—The returns are examined by the Assessor to see if they are complete as to matters of form; by the Clerk to the Commissioners for the

purpose of extracting certain particulars into the assessment book; and finally by the Surveyor, who is responsible to the Commissioners of Inland Revenue for their proper examination, and is in fact the only person who does examine them properly and investigate their accuracy.

- (c) *Unnecessary delay.*—The delay between the date of the issue of forms and the date on which the returns and assessment books are delivered to the Surveyor for examination seriously restricts the period in which the Surveyor has the opportunity of investigating the accuracy of the returns before assessments are made.

The constant transfer of the books of assessment to and from the Surveyor's office, and their frequent absence from his office for long periods, cause serious delay in dealing with correspondence, appeals and repayment claims.

- (d) *Danger of disclosure to unauthorized persons.*—In times of pressure the Clerk to the Commissioners is frequently compelled to engage temporary clerks to whom of necessity particulars of assessments, returns and declarations of total income are laid open.

While it is not suggested that disclosure of confidential information occurs, it is submitted that the system is contrary to the principles of secrecy underlying the Income Tax Acts.

Proposals.

25,706. (14) We therefore commend to the consideration of the Royal Commission the following proposals, in the belief that they are only such as are necessary to legalize the exercise by the Surveyor of the administrative, technical and judicial functions which he now in fact exercises, and to avoid delay and inefficiency in clerical and routine work by concentrating it under one control.

- (a) The powers of the Additional Commissioners in making assessments on employments (now assessed under Schedule D, Class II) should be transferred to the Surveyor.
- (b) The powers of the Additional Commissioners in making assessments under Schedule D (except employments) and allowances for wear and tear should be transferred to the Surveyor, subject to (1) a right of the taxpayer to elect to be assessed by the Additional Commissioners, (2) a right of the Surveyor to refer any return to the Additional Commissioners for assessment.
- (c) The powers of the General Commissioners in allowing assessments under Schedules A, B and E, and in certifying removals and repayments should be transferred to the Surveyor.
- (d) In case of appeal, power should be given to the Surveyor to amend the assessment by agreement with the appellant and on withdrawal of notice of appeal.
- (e) The separate office of Assessor of Income Tax should be abolished. We agree with the proposals of the Board of Inland Revenue that the clerical duties of the Assessor in issuing forms of return, and the legal powers of making assessments under Schedules A, B and E, and of estimating liabilities under Schedule D, where no return is made, at present nominally exercised by the Assessor, should be transferred to the Surveyor of Taxes. If these proposals are adopted, the only functions remaining to the Assessor will be those of affixing public notices, compiling a list of persons chargeable, and giving information as to removals, deaths, &c. We suggest that these remaining duties could well be performed by the Collector.
- (f) The clerical functions of the Clerk to Commissioners, including the preparation and completion of assessment books, the preparation of notices of charge, precepts for

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accounts, certificates of removal and repayment, Collectors' duplicates, charge duplicates, schedules of deficiencies, &c., should be transferred to the Surveyor.

- (g) Church door notices requiring returns to be made should be abolished. General notices should be inserted in the official Gazette and principal local newspapers by the Commissioners of Inland Revenue, specifying the dates by which all returns are required to be made. It is desirable that the fullest publicity should be given to the obligation, under penalty, of all taxpayers, whether served with a particular notice for a return or not, to declare any liability for assessment.

- (A) Church door notices of appeal meetings should be abolished.

- (i) The property in and the right of custody of assessments, duplicates of assessment books, and papers relating to the tax (except the Clerk's minute book of appeals) should be transferred from the General Commissioners to the Board of Inland Revenue.

25,707. (15) We are convinced that economy and increased efficiency would result from the abolition of unnecessary duplication of officials and the co-ordination and centralization in the Surveyor's office of all the clerical work, the correspondence and investigation necessary.

25,708. (16) It may be pointed out that the assessments to Income Tax on manual wage-earners are made, and all clerical work thereon is done, in the Surveyor's office. The system has been successful in actual operation, and it is found that the number of appeals dealt with by the Commissioners is negligible. The Excess Profits Duty has been administered successfully under a similar system, in which the District Commissioners' sole function is to act as the first court of appeal in the comparatively few cases not settled by agreement between the taxpayer and the Surveyor.

25,709. (17) We would point out that the safeguards to the taxpayer which are inherent in the principle of assessment by unpaid Local Commissioners are preserved under our proposals. Just as, at present, there is on every Schedule D return form an invitation to the taxpayer to say if he desires to be assessed by the Special Commissioners, and a statement that unless he expresses such a wish he will be assessed by the Local Commissioners, so, if proposal 14 (b) be adopted, there should be on every Schedule D return form an invitation to the taxpayer who returns profits from trade or profession or income assessable under Cases III to VI of Schedule D to indicate whether he wishes to be assessed by the Additional Commissioners or the Special Commissioners, and he should be informed that failing such request he will be assessed by the Surveyor.

The adoption of such a plan would enable the country to settle this question for itself. If the Additional Commissioners serve a useful purpose either to the taxpayer or the Crown, their intervention will continue to be sought by both parties. If they serve little or no useful purpose, they will cease to be called upon. In either case, they will not continue to sign assessments which they have neither examined nor even perused.

(d) Assessment by Special Commissioners.

25,710. (18) The procedure for assessment by the Special Commissioners is described in paragraphs 106-112 of the Chief Inspector's Memorandum, Appendix No. 4. The clerical work is done with complete efficiency and without avoidable inconvenience to the public, but the procedure in the making of assessments on railway employees under Schedule E is cumbersome and unnecessary.

25,711. (19) It is submitted that the powers of the Special Commissioners in making assessments under Schedule E should be transferred to the Surveyor.

25,712. (20) It is submitted that the separate administration of the Super-tax is inconvenient to the

public and uneconomical. Under the present system there is much unnecessary duplication of work on both sides, and the Super-tax payer not resident in London has no ready access to any officer from whom he can obtain assistance and responsible advice.

COLLECTION.

25,713. (21) The method of appointment and duties of Collectors of Income Tax, and the procedure followed in collection, are described in the evidence-in-chief of Mr. A. Binns. [Q. 23,085 *et seq.*]

25,714. (22) The collection of Income Tax has continued on lines laid down a century ago. It is suggested that modern methods of business require a complete change of system.

25,715. (23) We would point out that the whole of the Excess Profits Duty, the Super-tax and the Mineral Rights Duty is collected without the intervention of any local Collectors at all, and without the necessity for a single personal call upon the taxpayer. We would draw attention to the fact that any taxpayer can obtain at any money order office, free of all charge for postage (subject to a maximum amount of £40), a money order for the tax shown on his demand note, and can post this to the Collector. He is not, in England and Wales, authorized to post it free of postage, and this is a drawback which ought to be remedied.

25,716. (24) We submit that the present system, which serves upon the taxpayer first demand notes, second demand notes and third demand notes, and which involves a personal call by the Collector and possibly another formal letter from the Surveyor, is wasteful of time and money, and encourages delay. The obligation which now rests upon the Collector, to seek out the taxpayer and make personal demand for payment, should be transformed into an obligation on the taxpayer to remit the duty to the Collector.

25,717. (25) The Association is of opinion that full efficiency can be secured only if the collection of public moneys is placed in the hands of officers appointed by and under the full control of the Board of Inland Revenue, and supports the proposals of the Board (which are set out in paragraph 23,157 of Mr. Binns' evidence) for the establishment of Collectors as whole-time civil servants, with suitable offices and a civil service clerical staff, as befits the confidential character of their duties.

25,718. (26) We further suggest—

- (a) that it should be made the duty of the taxpayer to remit the tax shown on the demand note to the Collector, and that failure to remit the sum due within the time limited will render him liable to be proceeded against for the recovery of the tax as an arrear due to the Crown;

- (b) that the taxpayer should be entitled to obtain, free of postage and without restriction of amount, a money order or postal draft for the tax due from him; and that with every demand note there should be issued a franked addressed envelope in which to forward the remittance.

25,719. (27) These provisions would tend to render still more practicable the proposals put forward by the official witness, and we are satisfied that they would tend to still greater economy and efficiency.

ADDENDUM ON THE PRACTICE IN THE CITY OF LONDON.

25,720. (28) We venture to refer to the evidence-in-chief recently given to the Royal Commission by Mr. Copley Hewitt on behalf of the Association of Clerks to Commissioners of Taxes. We fear that this evidence may have conveyed the impression that the actual daily work of the administration of the Income Tax, so far as the City of London is concerned, revolves round the Commissioners and their officials, almost to the exclusion of the Surveyor of Taxes.

If this impression has been conveyed to the minds of the Royal Commission, we think that consideration of the following facts will probably remove it.

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25,721. (29) *The Assessor.**Schedule D.*

(i) The Assessor does not enquire into the adequacy of the income returned for assessment. If any profit and loss accounts are sent to him, either with the return or otherwise, he forwards them to the Surveyor for investigation, without himself making any examination of them.

In the City the amount of a taxpayer's income can be ascertained only from his accounts and books. It cannot be estimated from external appearances. The great majority of the assessments of any importance are based upon the accounts lodged with the Surveyor and investigated by him.

(ii) The Assessor and Collector is not in a position to furnish taxpayers with information as to the basis of their assessments or to deal with objections made by taxpayers, because his books do not show:—

- (a) amounts of the assessments;
- (b) particulars of the deductions made;
- (c) amounts returned by taxpayers;
- (d) any information as to the basis of assessments;
- (e) particulars of the assessments for previous years.

Further his office is not open to the public throughout the week in the same way as a Government office, while the correspondence and accounts are filed by the Surveyor. For these reasons the Assessor and Collector does not attempt to deal with objections, but forwards them to the Surveyor.

(iii) If the Assessor and Collector did, in fact, attempt to enquire into the adequacy of returns or to deal with objections, much inconvenience and disorganisation would result from the overlapping of his work with that of the Surveyor.

Schedule E.

(iv) The following statistics relating to the Schedule E assessments for 1917-18 show the extent of the work under this Schedule performed by the Assessor:

Total number of assessments 1917-18	108,920
Number of gross assessments entered by Assessor	3,744
Number of assessments where allowances entered by Assessor	251

25,722. (30) *Additional Commissioners.*—The Schedule D assessment books are sent to the Additional Commissioners by the Surveyor, who has previously entered the amounts of the assessments proposed, particulars of all statutory allowances, and the rate or rates of duty chargeable on each assessment. The Surveyor attends meetings and, where required, explains the figures, but the Commissioners do not consider:—

- (a) any cases under £500;
- (b) any cases of £500 and upwards where the Surveyor proposes that the returns shall be accepted;
- (c) any cases of £500 and upwards based on accounts agreed by the Surveyor;
- (d) allowances made for depreciation, abatement, &c.;
- (e) rates of duty charged.

For 1917-18, 8,236 cases were marked for the consideration of the Additional Commissioners by their Clerk, out of 70,899 assessments.

In 42 cases the figures were varied by the Commissioners, with the following aggregate net effect (subject to reduction on appeal):—

Assessments proposed by Surveyor	£418,732
Assessments made by Commissioners	£539,700

These figures may be compared with the total income assessed under Schedule D for the year in question, amounting to £185,064,477 as already given in evidence to the Royal Commission.

25,723. (31) *General Commissioners.*—For the year 1917-8 the number of Schedule D appeals determined on personal hearing by the Commissioners was 13. The number settled by agreement with the Surveyor was 9,766. These numbers include the appeals arising out of the 8,236 assessments of £500 and

upwards not agreed with taxpayers before the assessments were made.

25,724. (32) The statistics contained in the foregoing paragraph have been compiled and are submitted by permission of the Board of Inland Revenue.

II. THE REVALUATION OF LANDS, HOUSES AND BUILDINGS FOR THE PURPOSE OF ASSESSMENT TO INCOME TAX, SCHEDULE A, IN ENGLAND AND WALES (EXCLUSIVE OF THE METROPOLIS).

25,725. (1) In the official evidence submitted on behalf of the Board of Inland Revenue by Mr. W. Sharland, it has been explained that Income Tax, Schedule A, is charged in respect of the ownership of all lands, houses, &c., in the United Kingdom; that the basis of assessment is the annual value of the property; and that these annual values are periodically revised, if possible once in five years.

25,726. (2) The properties in England and Wales (exclusive of the Metropolis) assessable under Schedule A number approximately ten millions, and their periodical revaluation, therefore, constitutes in itself a task of very great magnitude. Concurrently with this revaluation, the ordinary work of Surveyors in connection with the assessment of the tax under Schedules A, B, D and E has to be carried on. In these circumstances, it will be readily understood that the performance of the work of the periodical revaluation has hitherto presented an administrative problem of acute difficulty. In actual fact, the revaluations have been rendered practicable only by the enforced sacrifice on the part of the Surveyors, not only of their leisure and holidays, but also, in too many cases, of their health. The completion of every revaluation has witnessed a number of nervous and physical breakdowns which have been directly attributable to the strain of prolonged overwork. The Revenue also has suffered severely, not only as regards the efficiency of the revaluation itself, but in connection with the inevitable abandonment or relaxation of other more remunerative work during the revaluation period.

25,727. (3) The Association has made the exploration of the question of revaluation one of its most anxious concerns, in the hope of being able to devise methods which might succeed in eliminating entirely both the loss of revenue and the administrative difficulties.

The last revaluation was made in 1910-11, and a representative committee was then appointed by the Association to reconsider the problem in the light of the experience gained by Surveyors during that revaluation. The solution of the problem before that committee was restricted by the important consideration that the adoption of remedies involving legislation would not rest with the Board of Inland Revenue alone.

The appointment of a Royal Commission with powers to recommend extensive legislative changes has enabled the Association again to consider the revaluation question, unhampered by restriction to merely departmental changes of procedure.

25,728. (4) The purpose of the present evidence is to submit for the consideration of the Royal Commission the conclusions at which the Association has arrived.

25,729. (5) It is desirable, at the outset, to call attention to the loss of Revenue inseparable from the method hitherto adopted of either a quinquennial or triennial revaluation. This loss arises in two ways.

25,730. (6) There is, first, the direct loss which arises during non-revaluation years, owing to the fact that, whilst in practice assessments on properties which have decreased in annual value are reduced, assessments on properties which have increased in annual value cannot be raised unless the increase is due to a structural alteration. This loss, which begins in the year next following the revaluation year and increases rapidly through succeeding non-revaluation years, is discussed by Dr. Stamp in his "British Income and Property" (pages 31-30b). With the

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high rates of tax now prevailing, the loss from this cause has become substantial.

25,731. (7) The second source of loss is directly attributable to the conditions (indicated in paragraph (2)) under which the work of the revaluation year has hitherto been conducted. The strength of the permanent staff of the Tax Surveying Branch has always been arranged by reference to the work of an ordinary non-revaluation year, the practice having been to sanction, during the revaluation year, the engagement of untrained, temporary clerical assistance, a most undesirable system. Speaking generally, additions to the permanent staff have not hitherto kept pace with the continuous increase in work, caused, on the one hand, by the increase in wealth and population, and, on the other hand, by the increase in complexity—both in the tax itself and in the conditions of commerce and industry. As a consequence, the staff has never been adequate to enable even the normal work to be carried out with full efficiency. Whenever, therefore, it has become necessary to undertake the very great additional burden of a revaluation, there has ensued a period of violent strain, during which the quality of the work has inevitably suffered. The result is that not only has loss arisen under Schedule D owing to the inability of the Surveyor either to pursue the usual number of enquiries or to devote as much time as usual to the examination of accounts, &c., but the revaluation work itself has been done with less accuracy than would have been attained under reasonable conditions, with results that have adversely affected the assessments under Schedules A and B throughout the succeeding non-revaluation years.

25,732. (8) Owing to the great increase in the complexity of the tax since the last revaluation year (1910-11) and to the consequent increase of pressure during a normal year, it follows that any attempt to proceed on the lines hitherto adopted must inevitably result, not only in great hardship to the staff, but also in a loss to the Revenue which it would be difficult to defend.

25,733. (9) In these circumstances, the Association submits that no solution of the problem can be satisfactory that does not permit of the work of each year being accomplished by the permanent staff in normal hours.

25,734. (10) Various proposals have been put forward, including those mentioned in paragraph 5 of Mr. Sharland's evidence-in-chief (Q. 30,919), but although the suggestion in that evidence that the re-assessment of any area begun during a particular year should not become effective until the year following embodies a principle that will, it is submitted, be most valuable in dealing with the first revaluation to be made under post-war conditions, none of the proposals yet advanced affords, in the opinion of the Association, a satisfactory solution of the general problem of revaluation.

25,735. (11) With regard to the proposal made in the course of Mr. Sharland's evidence that the country as a whole should be divided into areas (about five in number) and that each one of such areas should be re-assessed annually, such a scheme would necessitate the provision of a special travelling staff moving from one area to another. Such a peripatetic staff would be much more costly than a fixed staff of the same size, and in many cases it would be necessary to engage during the revaluation year temporary offices in order to accommodate the special staff. Another drawback would be that the local knowledge acquired by the district Surveyors would be largely wasted.

25,736. (12) As regards the alternative proposal to divide each Surveyor's district into about five portions, one portion to be re-assessed every succeeding year, it may be pointed out that many districts do not lend themselves easily to such a division, e.g., in large towns a district may comprise from one to three parishes only, and in rural areas may comprise numerous divisions of unequal size. Great difficulties would also be experienced when the areas of districts were altered, owing to the risk of confusion as regards

the valuation periods in the districts affected. Altogether, the Association is of opinion that any such scheme would prove impracticable.

25,737. (13) The scheme which the Association desires to submit for the consideration of the Royal Commission is as follows:—

- (a) The Surveyor of Taxes should be empowered to revalue any lands, houses or buildings once during any year.
- (b) The owner or occupier of any property should have the right of appealing once during any year against the valuation of his premises, whether such valuation has been revised during that year or not.
- (c) The valuation roll should be separate and distinct from the Schedule A assessment book, and should contain the particulars essential to the determination of the annual value as well as the amount of such annual value.
- (d) The Schedule A assessment book should contain the annual value as appearing in the valuation roll, together with particulars of all deductions and allowances to be made therefrom in arriving at the taxpayer's net liability.

25,738. (14) It would be an essential condition of this system that the functions of the Assessor of Taxes in revaluation years with regard to the issue of forms of return under Schedules A and B and to the making of the assessments should be transferred to the Surveyor i.e., that the Surveyor should become the Assessor in every year, as he is now in every year except a revaluation year.

25,739. (15) Under the proposed plan the Surveyor would take cognizance of all circumstances indicating either an increase or a decrease in the annual value of properties in his district, and would keep the valuation roll constantly under revision. The work in connection with the valuation roll would thus form part of the regular annual work of the district.

25,740. (16) Amongst the sources of information of which use could be made in connection with the revision of the valuation roll may be instanced:—

- (a) extracts from Poor Rates showing all new and altered ratings and changes of occupiers since the date of the previous rate;
- (b) information contained in Income Tax returns, accounts and claims of repayment, showing changes of ownership and rents;
- (c) local directories and registers of voters for Parliamentary and Local Government purposes, affording information as to new-comers, &c.

25,741. (17) The transfer to the Surveyor of the duty of issuing the forms of return and of making the valuations and the assessments under Schedule A should carry with it the power to require owners and occupiers of property to make returns of annual value or of rent and conditions of tenancy, as the case might be.

25,742. (18) In practice, forms of return would be issued where found necessary as a result of the information obtained, as indicated in paragraph (16), or where the particulars recorded in the valuation roll from returns received in previous years showed that a particular lease or agreement had expired.

25,743. (19) It would be open to the Board of Inland Revenue in any year to direct, with regard to any parish, that a complete check should be made of the valuation roll for that parish, with a view to ensuring that the assessments on any properties which had increased in annual value, but particulars of which had not come to light in the ordinary annual revision should be properly adjusted. This would not involve a revaluation of the whole parish, but only of such properties as were found to require revaluation.

25,744. (20) The frequency with which this complete check would be required to be made would vary with local circumstances. Where experience showed that in a particular locality there had been

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no pronounced upward movement of annual value the intervals would be longer; where, on the other hand, as in the case, for example, of a rising seaside resort or a rapidly developing industrial town, such a movement was in progress, the intervals would be shorter.

25,745. (21) It is not suggested that the valuation roll should be binding for any purposes other than for Income Tax, House Duty and (where the annual value under Schedule A is already binding) for Land Tax purposes, but local rating authorities might be given the right to be furnished with a copy of, or extracts from, the roll on due notice being given. Local authorities do now frequently obtain copies of the Schedule A valuation for the purposes of local rating valuation. It may be pointed out in this connection that the annual value assessed to Income Tax, Schedule A, represents the annual value to the owner as distinct from the rating basis of annual value to the occupier. For instance, suppose that in the same road there are six precisely similar houses, all owned by the same person, but let under agreement made at various dates. For rating purposes it is right that, in any given year, each of the houses in question should be assessed at the same rateable value. For Income Tax purposes, however, what is aimed at is the income derived by the owner from the property. If, therefore, it should happen that, on the expiration of a particular agreement, the rent of one of the houses should be raised or reduced, the Schedule A assessment should be increased or reduced accordingly. The result might well be that, in any given year, some of the houses would for Income Tax purposes be assessed at one figure, some at another, and others, again, at a different figure. Such a result may, and does, equally occur under the present system in the revaluation year, and whilst subsequent reductions can be secured by the taxpayer, increases cannot be assessed until the next revaluation year.

25,746. (22) As stated by Mr. Sharland in his evidence-in-chief, if and when a general Valuation Bill for Imperial and local purposes is again introduced, the whole question of the basis of assessment to Income Tax, Schedule A, as compared with the basis of assessment for rating purposes, must necessarily come up for reconsideration.

25,747. (23) With regard to the transitional stage which would necessarily precede the full operation of the suggested scheme, it is submitted that steps could be taken to commence the preparation of the first valuation roll, power being taken to require returns of rents or annual value. Meanwhile, the usual annual "continuing" section could be continued. As soon as the preparation of the first valuation roll was complete, the roll could be brought into operation by a provision in the following Finance Act.

III. CERTAIN ASPECTS OF GRADUATION AND DIFFERENTIATION.

25,748. (1) The purpose of the following evidence is:—

(a) to summarize the principal advantages and disadvantages of the existing method of graduation and differentiation;

(b) to suggest an amelioration of the principal inequality arising under that method; and

(c) to examine various possible methods of securing either smooth graduation or a close approximation thereto.

Advantages of the existing system.

25,749. (2) (a) The system is fairly well understood by the taxpayer.

(b) It is reasonably workable in conjunction with the maintenance of the indispensable principle of taxation at the source.

(c) It is based upon broad zones within which component parts of an income can be charged at a final rate.

(d) Generally speaking, it enables differentiation to be effected by the application to earned incomes of specific rates of tax.

(e) The method of computing the tax chargeable is the same throughout the scale up to the point at which Super-tax commences.

(f) Above a certain point, the apparent rate is a reasonably near approximation to the effective rate.

(g) The development of the application of the principle of graduation by a progression of increasing rates and diminishing abatements has been gradual and evolutionary.

Disadvantages of the existing system.

25,750. (3) (a) The graduation of the tax, whilst generally smooth, is subject to abrupt rises at certain points. It might be argued that the "relief" at margins granted at these points could equally be described as the imposition of a tax at the rate of 20c. in the £ on a certain portion of the income.

(b) In the case of "mixed" incomes (consisting partly of earned and partly of unearned income) the benefit of differentiation in favour of the earned portion is frequently nullified in cases of comparatively small incomes and of incomes falling within the "marginal fields." (See Annex I, Example 1.)

(c) The exemption limit is fixed at the same figure alike for earned incomes and unearned incomes, despite the fact that the principle of differentiation is recognised in the zone between the exemption limit and £2,500.

(d) The practice of allowing "unearned income relief" (i.e., the amount of overcharge suffered by a taxpayer on Income Tax at its source at the full standard rate) as a deduction from the tax chargeable in direct assessments is open to abuse and to possible leakage of revenue. This risk of leakage is increased where dividends are subjected to less than the standard rate of deduction in consequence of the allowance of Colonial Income Tax relief. (See Annex I, Examples 2, 3 and 4.)

(e) The allocation of reliefs in the case of a taxpayer whose income is derived from several sources or places, although he may make an inclusive return for the purpose of claiming such reliefs, is sometimes confusing to the taxpayer's mind.

(f) The system as a whole is complex, involving various rates, abatements and reliefs.

Suggested amelioration of the principal inequality in the existing system.

25,751. (4) The feature of the existing system which is most open to criticism is that of the abrupt rises or jumps referred to in paragraph 3 (a). We feel bound to say, however, that, judging from our experience with the public, this defect does not appear, speaking generally, to give rise to any acute dissatisfaction. As a matter of fact, we believe that with few exceptions the attitude of the relatively small proportion of taxpayers whose incomes fall within the marginal fields is one of tacit acquiescence in and acceptance of the present method.

25,752. (5) In our opinion it is virtually impossible to devise any system of graduation and differentiation which, whilst preserving unimpaired the essential principle of taxation at the source, will completely avoid the inequalities of the existing system and will, at the same time, possess the merit of simplicity. As we show in paragraphs 14 to 22, not one of the schemes which have so far been placed before the Royal Commission completely fulfils these conditions. We ourselves are submitting for consideration another scheme (see paragraphs 23 to 30) which appears to us to offer some balance of advantage over the schemes already submitted, but we frankly admit that this scheme also leaves much to be desired from the point of view of securing a thoroughly workable and intelligible tax.

25,753. (6) In these circumstances we suggest that whilst the general scheme of the existing system of graduation and differentiation should be retained, a reasonable practical solution of the difficulty in regard to marginal relief might be found by substituting for the present plan of taking the whole of the income within the marginal fields a plan under which an increasing proportion of the income

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within those fields would be taken. For instance, it might be arranged that:—

- 50 per cent. of the marginal income should be paid over at the point of £1,000 and under,
- 62½ per cent. of the marginal income should be paid over at the point of £1,500,
- 75 per cent. of the marginal income should be paid over at the point of £2,000,
- 100 per cent. of the marginal income should be paid over at the point of £2,500.

25,754. (7) Although as will be seen by reference to the Table in Annex 2, this plan would result in an enlargement of the marginal fields, the latter would nevertheless be substantially less than those which would result from the adoption of Mr. Hopkins' suggestion of double duty (Minutes of Evidence, paragraphs 4025–4027), and they would not in any way jeopardize the workableness of the tax.

25,755. (8) Speaking as the representatives of the officials upon whom falls the brunt of the work of administering the Income Tax, we venture to urge upon the consideration of the Royal Commission the cardinal importance of ensuring, when dealing with a tax directly affecting millions of taxpayers of all classes, that the method adopted shall be reasonably workable having regard to the actual conditions under which the tax must in practice be administered.

Various methods of securing smooth or nearly smooth graduation.

25,756. (9) In case the Royal Commission should decide not to recommend the retention of the present system, it is proposed in the following paragraphs, first, to examine the various possible methods of securing either smooth or nearly smooth graduation, then to deal with various schemes which have already been laid before the Royal Commission, and finally to submit for consideration a further scheme, which, in our opinion, as indicated in paragraph 5, offers some balance of advantage over the other schemes referred to.

Smooth graduation expressed in the form of a tabular tax.

25,757. (10) The discussion of graduation may be facilitated by reference to a graph showing the amount of tax per unit of income. Such a graph has been constructed and appears in Appendix No. 44, the plain black line illustrating the incidence of the tax on unearned income under the existing system. On the principle of proportioning the tax to "ability to pay," it might be expected that the curve representing the amount of tax payable should continually ascend. In order not to affect the present yield of the tax adversely, this curve might be made to follow the general course of the plain black line.

25,758. (11) For practical purposes, the adoption of any such curve would resolve itself into a "tabular" tax, i.e., it would be necessary to specify for each successive pound of income the amount of tax payable. In view of the very wide range of incomes to be provided for, the table of amounts of tax might be very voluminous.

25,759. (12) Unless, however, differentiation in favour of earned income were either abolished or effected by a totally different method from that now employed, it would be extremely difficult, if not impossible, to apply a "tabular" tax to "mixed" incomes. Having regard to the necessity for maintaining taxation at the source and to the system under which different classes of income are dealt with in different schedules, we believe that it can be shown conclusively that the adoption of the "tabular" tax is not from the administrative point of view reasonably practicable.

Approximately smooth graduation.

25,760. (13) The securing of absolutely smooth graduation being impracticable, it remains to be seen whether a workable method of securing approxi-

mately smooth graduation can be devised. Three possible methods may be considered, namely:—

- (1) the present system, with an extension of marginal relief;
- (2) the present system, with an increase in the number of "zones" and a corresponding increase in the number of rates of tax ("small zone" method);
- (3) the substitution, for a smooth curve, of a series of chords ("chord zone" method).

Extension of marginal relief.

25,761. (14) The schemes outlined by Mr. Hopkins in paragraphs 4024 and 4025 of the Minutes of Evidence are examples of the method of extended marginal relief. Both of these schemes would involve a very serious extension of the undesirable marginal fields. Under the first scheme the marginal ranges in the case of earned incomes would be as follows:—

Marginal point.	Present marginal field.	New marginal field.
£	£	£
500	18	43
1,000	46	120
1,500	73	206
2,000	134	316

(This scheme, where it involves a departure from the present system, is graphically represented for unearned incomes (see Appendix No. 44.) The second scheme would, in particular, involve a marginal field on earned incomes ranging from £500 to £600, a zone which embraces a very large number of taxpayers—about 90,000.

25,762. (15) Although exact statistics are not available, it is probable that the number of taxpayers affected would under both the schemes in question be increased from about 20,000 to more than 100,000. Apart from the additional labour involved by such an increase, the fact that a very much larger body of taxpayers would come within the operation of marginal relief, might tend to give rise to an increasing volume of complaint.

Small zones.

25,763. (16) The adoption of the small zone method, whilst mitigating the existing hardship, would not only multiply the number of marginal fields, but would also multiply the number of rates. From the point of view of the taxpayer, this would mean a serious increase in the complexity of the tax. From the administrative point of view, there would be the objection that the contraction of the broad £200 zone would necessitate intensified scrutiny of the annual returns.

Chord zones.

25,764. (17) An example of the "chord zone" system is afforded by the existing Super-tax. In our opinion, however, the multiplicity of rates applicable under a Super-tax method to the components of a single income would involve serious practical difficulties (which could not be surmounted by the mere substitution of a series of factors for a series of rates as proposed by Mr. Schooling) and would also be confusing to the general taxpayer.

25,765. (18) Another example of the "chord zone" system is to be found in the method described by Mr. Hopkins in paragraphs 4029–4042 of the Minutes of Evidence. The graph for this method is shown in Appendix No. 44.

25,766. (19) Although this particular method possesses the advantages of smoothness and equity in the final result, we believe that the complications involved would not only prevent it from being readily understood by the general taxpayer but would also result in great practical difficulties. An example of the application of the scheme is given in Annex 3.

25,767. (20) Bearing in mind that in the case of incomes between £500 and £2,500, it would be necessary, in order to determine the amount of tax payable, to ascertain the exact amount of the taxpayer's income (unless at present a conventional basis were

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adopted), and that the explanation of such features as the Life Assurance allowance exemplified in paragraph 4038 of the Minutes of Evidence would frequently prove distracting to the official as well as to the taxpayer, we consider that Mr. Hopkins' own description of the scheme, as "complicated and difficult to administer," would probably, in practice, prove to be an understatement.

25,768. (21) A considerable simplification of the scheme in question might be effected by substituting for the proposals in regard to personal allowances contained in paragraphs 4034-4038 of the Minutes of Evidence either a fixed rate of allowance or a deduction from total income of the amount of the personal allowance in computing the amount of taxable income for the purpose of determining the rate of tax and the amount of abatement.

25,769. (22) For example, it would be practicable to make allowance for Life Assurance premiums at a fixed rate of, say, 3s. in the £ no matter how great the total income, subject, if desired, to a restricted rate of 2s. 6d. in the case of earned incomes where the total income does not exceed £500. Similarly, the "chargeable" income of a man with a wife and one child and a total actual income of £550 would be (after deducting the personal allowances of £90) £460, entitling him to the full suggested abatement of £120 and to the rate appropriate to incomes not exceeding £500. There would still remain the problem of marginal relief at the points at which the personal allowances ceased.

Alternative scheme referred to in paragraph 9.

25,770. (23) There is, however, another method which we believe would secure approximately smooth graduation with less difficulty than the method suggested by Mr. Hopkins and which would also largely eliminate marginal fields, including the jump of £13 10s. in tax at the £500 limit referred to in paragraph 4040 of the Minutes of Evidence.

25,771. (24) The basis of this suggested alternative method is that of a "zone" system of increasing rates and increasing abatements as compared with the present system of increasing rates and diminishing abatements. The theoretical basis of the scheme is explained in Annex 5.

25,772. (25) The following is an example of a scale of graduation on the lines suggested, on the basis of a standard rate of 6s. in the £:—

Range of "chargeable" incomes.	Abatement.	Rate of tax.
£	£	3s. 4d.
140 to 500	140	
501 " 950	200	5s.
951 " 1,500	375	6s.

If a lower exemption limit were desired, the first range of "chargeable" income might be £100 to £500 with an abatement of £100 and a rate of 3s.

25,773. (26) The scale could be extended so as to comprise incomes in the range between £1,500 and £2,500, but in view of the fact that the rate in the £ on such incomes would exceed the standard rate of 6s., such an extension would be undesirable on practical grounds. In these circumstances, it is suggested that in the case of incomes exceeding £1,500 but not exceeding £2,500, (i.e., the point at which Super-tax commences), the necessary graduation could be effected by charging the standard 6s. rate uniformly on all component assessments and allowing either a gradually decreasing abatement or rebate of duty.

The method of allowing a gradually decreasing abatement is open to certain of the objections urged in paragraph 39 against that portion of Mr. Hopkins' scheme which relates to incomes between £500 and £1,500. In view, however, of the fact that the number of chargeable incomes in the range between £1,500 and £2,500 is only about 70,000 as compared with more than 400,000 incomes in the range between £500 and £1,500, it will be seen that the difficulties under the alternative scheme now proposed would be felt only in a comparatively restricted field. Further, the progressive reduction of

the abatement from £375 to zero as the income rises from £1,500 to £2,500 could be readily effected by diminishing the abatement abruptly by £3 for every advance of £8 of income. This would involve 125 "jumps" of 18s. tax, but as this amount is trivial in comparison with the income affected we believe that the adoption of such a method would not entail any serious risk of friction with the taxpayer.

25,774. (27) So far as regards incomes not exceeding £1,500—a range which comprises about 86 per cent. of the total number of incomes chargeable—the suggested scheme would possess the following advantages:—

- (a) the graduation would be perfectly smooth;
- (b) marginal relief would disappear except at the points where personal allowances cease;
- (c) owing to the fact that in the range of incomes from £500 to £1,500 (probably about 100,000) the standard rate applies, the necessity for granting unearned income relief would disappear altogether within that range;
- (d) in the range of incomes from the exemption limit to £500, the danger of leakage in respect of unearned income relief would be diminished, since the excess rates on which such relief is reckoned would be reduced;
- (e) the zones are sufficiently large to enable assessments to be correctly made on parts of a taxpayer's income without knowing the exact amount of the total income;
- (f) the number of ordinary rates of tax employed would be reduced from 6 to 3.

25,775. (28) Differentiation could be effected—

- (a) by charging only, say, three-fourths of the first £1,200 of the earned portion of the income (thus restricting the maximum deduction to £300) whilst charging the full amount of the unearned portion plus any excess of earned income over £1,200; or
- (b) by charging only three-fourths of the amount by which the first £1,200 of the earned portion of the income exceeds the exemption limit; or
- (c) by charging the whole of the earned portion at the appropriate scale rate and allowing from the tax so computed 9d. in the £ on the amount by which the earned portion exceeds the exemption limit.

25,776. (29) If differentiation were to cease when the £2,500 limit is reached, marginal relief would be necessary as at present. Alternatively, it would be open to retain differentiation (limited to a maximum allowance of £300) irrespective of the amount of total income, in which event the necessity for marginal relief would disappear.

25,777. (30) The practical application of the foregoing scheme to the example referred to in paragraph 19 is given in Annex 4.

25,778. ANNEXE 1.

Example 1. Loss of benefit of differentiation. (See paragraph 3.)

Total income £365, consisting of £215 earned and £150 unearned, with, say, £90 wife and children allowances, and Life Insurance £5, is charged as follows:—

Earned portion £215 less allowances £215—Tax nil.
Unearned portion £150 at 3s.

If the total income, £365, were wholly unearned exactly the same tax would be payable.

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Example 2. Understatement of taxed income. (See paragraph 3 (d).)

Actual income—	
£1,100 earned	
500 taxed dividends.	
£1,600	
The tax ultimately due is—	
£1,100 at 3s. 6d.—£247 10 0	
500 at 5s. 3d.—131 5 0	
Total	£378 15 0

If the declared income is—
£1,100 earned
400 taxed dividends

Total £1,500

he may ultimately be charged

£1,100 at 3s. 6d.—£206 5 0
500 at 6s. 3d.—150 0 0

£356 5 0

and get unearned income relief

£400 at 1s. 6d.—£230 0 0

£326 5 0

and thus deprive the Revenue

£52 10 0

Example 3. Overstatement of taxed income. (See paragraph 3 (d).)

Actual income as in Example 2.

If the declared income is—
£1,100 earned
700 taxed dividends

Total £1,800.

he may get excessive relief on £300 at 9d., and thus
deprive the Revenue of £7 10s. 0d.

Example 4. Colonial Income Tax relief. (See paragraph 3 (d).)

A taxpayer may return:—

Earned income	...	...	...	600
Taxed dividends	...	...	...	300
Total Income				900

If he omits to make it clear that the £300 dividends include, say, £250 from a Colonial company taxed at the rate of 3s. 6d., he may get unearned income relief thereon at the rate of 2s. 3d. on the presumption that they are taxed at 6s. He is, in fact entitled to no further relief upon a dividend taxed at 3s. 6d. only.

25,779.

ANNEXE 2.

COMPARISON BETWEEN PRESENT MARGINAL FIELDS AND
THOSE WHICH WOULD RESULT FROM THE ADOPTION
OF THE PROPOSAL IN PARAGRAPH 6.

Earned income.		Proposed marginal fields.		Present marginal fields.	
		£	£	£	£
50 per cent. ...	{	130 to 133	...	130 to 131	...
		400	"	405	"
		500	"	543	"
		600	"	613	"
		700	"	730	"
62½ per cent. ...	{	1,000	"	1,129	"
		1,500	"	1,641	"
75 per cent. ...	{	2,000	"	2,154	"
		2,500	"	2,634	"
100 per cent. ...	{	3,000	"	3,168	"
		3,500	"	3,634	"

Unearned income.

Proposed marginal fields.		Present marginal fields.	
£	£	£	£
130 to 134	...	130 to 132	...
400	"	400	"
500	"	548	"
600	"	618	"
700	"	742	"
1,000	"	1,136	"
1,500	"	1,655	"
2,000	"	2,165	"

Allowances for children, wife, &c., would also create a varying margin at £300 and affect the margin at £1,000.

25,780.

ANNEXE 3.

EXAMPLE OF APPLICATION OF MR. HOPKINS' SCHEME
REFERRED TO IN PARAGRAPH 19.

A taxpayer makes a return of his total income at the usual date to the Leicester Assessor as follows:—

Income from partnership in Leicester		£493—Sch. D
" " directorship in London		132 " E.
" " directorship in Manchester		60 " E.
" " War Loan interest		37 " E.
" " house property in Bury		279 " A
" " taxed investments		184
		£1,185

Less ground rent on Bury property... £30
" mortgage interest on Bury property 40 60

Net income, less charges ... £1,125
Life Insurance allowance (all before 22/6/16) ... £106

It is ascertained that £279 is the actual total of the net Schedule A assessments at Bury, and it is assumed that the taxed income £184 is accurately stated.

The Leicester Surveyor would advise London, Manchester and Bury respectively to raise the following charges:—

London directors' fees	...	£132 at 3s. 6d.
Manchester do.	...	60 " 3s. 6d.
Bury property	...	219 " 4s. 6d.
		60 " 6s.

He also includes £493—£106 life premium at 3s. 6d. in the composite assessment on the Leicester firm, and raises a separate charge of £37 at 4s. 6d. on the War Loan interest.

Then he makes an allowance for unearned income relief on £184 at 1s. 6d. deduction from duty on the firm's assessment ... £13 16 0

and a further allowance of £ (1,500-1,125) = £375 at 1s. 6d. = £28 2 6
Less (375 × $\frac{9}{500}$ × 106) pence £2 19 8

Net £25 2 10
Total allowance £38 15 10

If a proper explanation of the resultant assessment were to be given to the firm, it would be difficult to prevent the other partners from gaining an exact (and not merely an approximate) knowledge of this partner's private income.

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It might happen that at the end of December the London company, instead of voting £132 directors' fee, voted only £32. This would give no trouble to the London Surveyor, who would reduce his charge to £32 at 3s. 9d., but it would cut down the net total income from £1,125 to £1,095 and involve the re-working of the Leicester calculation as follows:—

£(1,500-1,025) = £475 at 1s. 6d. ...	£35 12 6
Less (475 × $\frac{9}{200}$ × 106) pence ...	3 15 6
Net allowance... ..	£31 17 0

An explanatory letter would have to be issued to the firm outlining the cause of the further allowance of £6 14s. 2d.

Nor might this end the matter. Suppose that, at the end of the financial year, the taxpayer in question found that some of his Bury property had stood empty during the last quarter of the year, involving a loss of £63 in rent. His total net income would then be reduced to £962 and this would necessitate the recalculation of his liability on an altogether different formula, thus:—

Share of partnership ...	£403		
Less Life Insurance premium ...	106		
	387	at 3s.	£58 1 0
Less abatement $\frac{1}{4}$ (£1,000-962) ...	9 10 0	at 3s.	1 8 6
			£56 12 6
But the taxed investments are now over-charged by 2s. 3d. in the £ and the unearned income relief must be corrected to £184 at 2s. 3d. ...			20 14 0
Corrected share of firm's assessment ...			35 18 6
The tax on War Loan interest, which is not levied in two instalments, would by this time have been paid in full, and a further set-off of the over-charge, £37 at 9d. ...			1 7 9
would leave payable as part of the firm's assessment ...			£34 10 9

The London and Manchester Surveyors would have to be advised that their second instalments of duty should be reduced by £32 at 9d. and £60 at 9d., respectively, and a similar advice would be sent to the Bury Surveyor in regard to Schedule A second instalment.

The original charge on the partnership share, as reduced owing to the alteration of the London directorship assessment before the first instalment fell due, was—

£387 at 3s. 9d.	£72 11 3
less unearned income relief ...	£13 16 0
" " total income " rebate ...	31 17 0
	45 13 0
	£26 18 3

At this stage it is necessary to explain that it is the practice to allow the whole of the unearned income relief from the first instalment. The scheme does not indicate how the "total income" rebate would be dealt with in this respect, but it will be assumed that it is spread equally between the two instalments.

On the first instalment there would then have been paid £6 11s. 2d. thus:—

Moiety of £72 11s. 3d.	£36 5 8
less " total income rebate	£15 18 6
less unearned income relief	13 16 0
	29 14 6
net payment included in firm's first instalment ...	6 11 2
leaving outstanding on the second instalment ...	20 7 1
Total	£26 18 3

Of the finally adjusted liability to be met by the partnership assessment, viz.:—

he has paid through the first instalment...	6 11 2
leaving still due	£27 19 7

But it is evident that the second instalment is insufficient to meet this liability by £7 12s. 6d. and the difference would have to be met by raising an additional assessment on the firm or by restricting the reductions of some of the other assessments. In either case the ordeal of conducting the taxpayer through all these labyrinthine ramifications is not one to be contemplated with equanimity.

It is not proposed to develop any subsidiary problems which might arise, such as the exact rate to be given for Colonial Income Tax relief, or the rate on which allowance is to be made for bank interest paid in full.

25,781.

ANNEXE 4.

EXAMPLE OF THE APPLICATION OF THE ALTERNATIVE SCHEME REFERRED TO IN PARAGRAPHS 23 TO 30.

The example is based on the same data as those given in Annex 3.

Assessments would in the first instance be made as follows:—

Leicester partnership, Sch. D, three-fourths of £493	= £370
Abatement (part of £375)	£370
	No charge.
Leicester War Loan interest, Schedule D. ...	£37
Less balance of abatement	5
	£32 @ 6s. = £9 12 0
Less Life Insurance:—	
(part of £106 at, say, 3s., £15 18s.)	9 12 0

London directorship, Schedule E.	No charge
Three-fourths of £132-£89 at 6s.	£29 14 0
Less balance of Life Insurance allowance	6 6 0
	Charge ... £23 8 0
Manchester directorship, Schedule E.	
Three-fourths of £80 = £45 @ 6s.	
Charge ...	£15 10 0

The house property, charged at the standard 6s. rate, and the dividends already taxed at 6s. by deduction, call for no action.

The effect of a reduction of the London directorship fees from £132 to £82 is to reduce his total "chargeable income" (total income now £1,095, less one-fourth of £585 earned) to a figure which falls within the lower zone, i.e., between £900 and £960.

The Leicester Surveyor, on being made aware of this, would then, for the first time, have to advise London, Manchester and Bury to adjust their charges, by reduction of second instalments in the

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two last-named (if the first instalments had by this time been paid) thus:—

	£ s. d.
London directors' fees—three-fourths of £32 = £24 at 5s. ...	6 0 0
Less part Life Insurance ...	6 0 0

Net Charge Nil

Manchester directors' fees, £45 at 5s. ...	£219 at 5s.
Bury property ...	£200 at 5s.
	£

He will then raise an additional assessment on the partnership share so as to charge ...	370
Less abatement £260, less £25 allowed from War Loan assessment ...	255

Net £115 at 5s. = £58 15 0

from which must be allowed a "Life Insurance" balance of 6s. and unearned income relief on £184 at 1s. ...	9 10 0
--	--------

Net duty £19 5 0

The other members in the firm would know from this that their partner's income lay between £200 and £250, but they would not be able to infer the exact amount of his total income.

This procedure, which involves a degree of trouble unavoidable in any zone system (including the existing system) where an adjustment has the effect of moving the income out of one zone into another, is sufficiently simple, as compared with that exemplified in Annex 3, to be readily followed by the taxpayer.

If at the end of March the loss of £63 rent through property standing empty be discovered, all that happens is that the Bury Collector makes an allowance (probably from the second instalment) of duty on £63 at 5s. and the Leicester Surveyor is not concerned in the matter at all.

If we adopted the alternative method of allowing 9d. on the excess of the earned income over £140, instead of excluding one-fourth thereof, the adjustments in this particular example would, as it happens, be very simple.

	£	£ s. d.
The partnership share would be charged on ...	489	
Less abatement ...	375	

Net £118 at 6s. = 35 8 0

Deduct Insurance £106 at 3s. ...	15 18 9
----------------------------------	---------

Deduct 9d. on £489—£140 13 4 9 = 29 2 9

Net duty £6 5 3

London would charge £132 at 6s. less 9d. in the first instance, and £22 at the same rate ultimately.

The "empty property" allowance would not now pull the income out of its original zone, and, like the original Schedule A charge, would be made at the standard rate of 6s. and give no further trouble.

25,782.

ANNEXE 5.

THEORETICAL BASIS OF THE ALTERNATIVE SCHEME REFERRED TO IN PARAGRAPHS 23-30.

A fundamental relationship exists between rates and abatements in all graduation graphs consisting of a series of straight lines, the amount of income in such graphs being measured horizontally and the amount of tax vertically.

Thus, in the illustrating Diagram I, the tax on each income between £0K and £0L can be calculated by charging a uniform rate on the excess of the income over £0A. In other words, incomes between these limits could be granted an abatement of £0A and charged at a fixed rate on the balance.

If at a certain point abatement is discarded altogether, the graph section for the zone commencing at that point will, when produced, meet the income (horizontal) axis at zero. Or again, if for what we may term the "natural" abatement (OA), there be substituted an arbitrary abatement (OB) the graph section produced will meet the horizontal axis at B. (See Diagram II.)

If the "natural" abatement limit be adopted, there can be no "marginal fields," but the adoption either of an arbitrary abatement or of a zero point at once raises the necessity for making special provision for marginal fields.

The illustrative scale given in paragraph 25 may be expressed after the Super-tax model in terms of rate alone, namely:—

	s. d.
For every pound of the first £140 ...	Nil
" " next £260 (£140 to £260) ...	3 4
" " " £450 (£260 to £450) ...	5 0
" " " £550 (£450 to £1,500) ...	6 0

In devising systems of this kind it is not necessary to adhere to equal zone limits (e.g. £500 steps) although it is desirable to have an easily remembered scale of rates and limits. In general, the relationship between consecutive rates r_1 and r_2 on either side of a limit of income L_1 and the consecutive "natural" abatements a_1 and a_2 is given by the equation:—

$$\frac{r_1}{r_2} = \frac{L_1 - a_1}{L_1 - a_2}$$

(For demonstration see Diagram IV.)

DIAGRAM I.

"Natural" abatement.

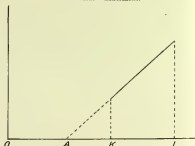
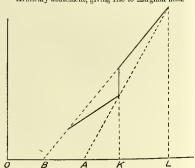


DIAGRAM II.

Arbitrary abatement, giving rise to marginal field.



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[Continued.]

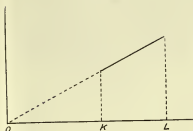
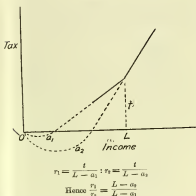
DIAGRAM III.
No abatement.

DIAGRAM IV.



[This concludes the evidence-in-chief.]

25,783. Mr. Petyman: There are three main subjects into which your evidence is divided, administration, Schedule A, and differentiation and graduation?—(Mr. Best): That is so.

25,784. We think that the simplest method, and the method which would save time, would be that we should take those three subjects separately, and take any evidence that any of you wish to give on those subjects. We have had your evidence-in-chief, and, taking that as read, is there anything you wish particularly to add, first of all, on administration?—I might perhaps say that on paragraph 7 of the first paper on administration, since this evidence-in-chief was in print, we have obtained certain statistics which bear out our general statements and which may perhaps be useful to the Commission.

25,785. Would you hand those in?—The statement is quite short. If I may, I will give you the figures. We have obtained particulars of the extent of action of Additional Commissioners for 630 divisions, that is in England and Wales, outside of London. In 77 of those divisions the books of assessment are completed by the Surveyor and signed by the Additional Commissioners without a meeting, leaving 543 in which they meet for the purpose of considering assessments. Of those 543 divisions, in 54 the Commissioners consider no cases, in 63 they consider all cases, in 80 they consider cases selected by themselves or their Clerk, and in 346 they consider cases selected by the Surveyor. I should, perhaps, explain that "all cases" means generally all cases except employments and interest, and I have included in the cases selected by the Commissioners or their Clerk those cases in which the Surveyor has listed the cases on principles

laid down by the Commissioners. I thought it well to give you these figures.

25,786. That would mean really that in those cases it was a combination of the Surveyor's suggestions considered by the Clerk?—That is so.

25,787. The listing would amount, I suppose, to suggestions by the Surveyor, would it not?—I think it is fair to say that these cases were selected by the Commissioners. They were selected, as a matter of clerical work, by the Surveyor on principles laid down by the Commissioners. The Commissioners would say: "we want to look at all cases over £500 where there is an increase," or something of that sort, and the Surveyor would prepare his list on those lines.

25,788. The suggestion would originally come from the Commissioners?—Yes.

25,789. Mr. Walker Clerk: From whom has this information been obtained?—It has been obtained by permission of the Board of Inland Revenue from the members of our Association.

25,790. Mr. Petyman: Does any other witness wish to say anything in addition to the evidence-in-chief?—(Mr. Eborall): May I refer to paragraph 29 of the first paper in which we mention the Assessors in the City of London. These gentlemen, you will remember, are also Collectors. Of course, as Collectors they do very valuable work in the City. We are dealing with them here only as Assessors, and we referred to certain work which they do not do, which they are really not in a position to do, and which it would be very inconvenient to us if they attempted to do. I thought it was fair to mention that they do very valuable work as Collectors in many cases—very good work.

25,791. What you say here refers only to their duties as Assessors?—Exactly. May I add to the evidence I shall give with regard to the City, that I am referred to here as an Assistant Chief Inspector of Taxes; I am really giving evidence as Surveyor of Taxes in the City; I have not yet commenced my duties as Assistant Chief Inspector.

25,792. Mr. McIntosh: Mr. Best, you are dealing with both valuation and administration?—(Mr. Best): Administration, if you please.

25,793. Very well, we will start with administration. Take your paragraph 7: you have now given us the statistics with regard to the whole country excluding London?—England and Wales, excluding London—not Scotland.

25,794. When you refer there to 63 cases in which the Commissioners consider all cases, I take it you mean they go over the book with the names and the amounts?—That is so.

25,795. They do not go over the correspondence. Do they examine the return if there has been one made?—In very few cases, I think not more than one or two.

25,796. They would not examine the statement of total income, for example, on page 3 of the form?—No, they would not.

25,797. In other words, they go over the entry in the assessment book relating to John Smith and his gross and his net amounts?—Speaking generally, that is so, but in a few places they do go through the book turning over the leaves and looking at each case; generally it is a very rapid process.

25,798. It is very perfunctory. They might as well sign the book without looking at it?—In some cases that is so.

25,799. In regard to cases selected by the Surveyor, which are selected according to the Commissioners' rules that they have laid down (you give them the benefit of having made that selection), they do not in any case go behind the assessment books, do they, in general practice?—To the return?

25,800. Yes.—No.

25,801. They do not read correspondence?—No.

25,802. Does the Surveyor give a report of his notes of, say, a meeting with a taxpayer where he has put up his assessment, as to why he has done so?—No.

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[Continued.]

25,803. Does the book contain those notes?—No. They would be on the Surveyor's file in each case.

25,804. Do you bring the file to the meeting?—It is very unusual; occasionally one is taken, but it is very unusual.

25,805. That is where the Surveyor wants to make good his case?—That is so.

25,806. He is afraid the Commissioners might turn him down. The Commissioners do not ask the Surveyor to come to this meeting armed with all the documents and everything else to justify his assessments in the selected cases?—Certainly not.

25,807. And you cannot judge properly the man's true liability just by seeing the bald entry in the assessment book?—No, it is quite impossible.

25,808. You give a large number, 346, selected by the Surveyor. Would you tell us very briefly what form of selection that is? What kind of selection it is, and what is the basis on which it is made?—The bases vary a good deal; generally speaking, they would be cases of large increase without accounts.

25,809. These are the number of districts—346?—The number of Commissioners' divisions.

25,810. How many cases on the average would there be in each of these 346 divisions? Would there be 5 per cent. of the total assessments, or 2 per cent.?—They would vary from 5 or less to 50 a year in each division.

25,811. Actual cases? You do not mean 5 to 50 per cent.?—No, 5 to 50 actual cases.

25,812. Could you put a percentage on it?—I should say from 1 per cent. to 5 per cent.

25,813. Five per cent. is an outside figure?—Yes.

25,814. All cases that are selected by the Surveyor for review in any way by the Commissioners?—Yes, that is so. As regards the City of London we tell you the figures.

25,815. Yes; this is excluding London, dealing with the figures you have just given us?—I should say 5 per cent. is an outside figure.

25,816. Under your heading (b) you refer to the judicial functions, appeals and penalties, and in paragraph 9 you say: "it is our experience that the functions of the General Commissioners as an appeal tribunal . . . are exercised with a due sense of responsibility and that, generally speaking, justice is done." May I put it to you that the average body of Commissioners (there are exceptions, of course) is very often more inclined to take the Surveyor's view of the liability than the appellant's?—Are you speaking of town or country, may I ask?

25,817. Both.—In the towns I think not; in remote country districts, perhaps yes.

25,818. That is, the Surveyor's views are given, shall I say, undue weight by the Commissioners?—I think not in the important divisions.

25,819. But in the country there is that tendency?—In remote country divisions there may be that tendency.

25,820. I take it that that proceeds really from this cause, that neither the Commissioners, nor very often their Clerks, have any real knowledge as to Income Tax matters?—I think that is commonly the case in country districts.

25,821. And consequently owing to their ignorance they naturally attach a great deal of weight to what the expert, the Surveyor, says in the case of an appeal?—Quite so.

25,822. And that is an argument for altering the composition of the body even if it is retained?—That may be so.

25,823. In paragraph 13 (a) you refer to the inconvenience to the taxpayer. Does the taxpayer complain? Have you many complaints with regard to what you term the inconvenience, which is the trouble the taxpayer is put to, of course?—I think, apart from the question of the amount of tax, this is one of the commonest complaints that we get from the taxpayer. It is very usual to have a man come into one's office and unload half-a-dozen forms which he has received, as he says, from half-a-dozen people about the same thing, and he naturally is annoyed.

25,824. That is, he should have put five in the

waste paper basket and come along with the one. In what districts and what type of form is it that the inconvenience is caused by; is it the issuing of the form No. 11?—The return forms mostly, 11 or 12—the form for return of profits.

25,825. You mean that he gets the same return served on him by more Assessors than one?—In some cases the confusion is due to his own fault, if I may say so. He gets a form from the Assessor to which he does not reply; he gets a reminder from the Assessor to which he does not reply; then he gets a form from the Surveyor to which he may not reply; and he may get a reminder then.

25,826. Then in practice the Surveyors do issue the form though they are not the Assessors?—If a return has not been made on the Assessor's requisition it is usual for the Surveyor to remind the taxpayer of his omission.

25,827. And send him one of the official forms?—Yes.

25,828. And of course, the contention of the Association that you represent is this, that the Surveyor would do all this work as part of his ordinary routine?—Quite so.

25,829. And send the necessary reminders and deal with the taxpayer who was careless, as you always have to deal with him at the finish?—Exactly.

25,830. Without the intervention of the Assessor at all?—Yes, and there is another point, that by the time the taxpayer comes to us he very likely has had a notice of charge from the Clerk to the Commissioners, yet another official.

25,831. Are these charges by the Clerk to the Commissioners sent out without the Surveyor having put the entry in the book. You have the case of a man who has not made a return, and I gather from your answer that the Surveyor has dealt with the matter?—The Surveyor will have put his estimate of the liability before the Additional Commissioners formally.

25,832. And this is the Surveyor's estimate that the notice of charge comes upon?—Yes.

25,833. You will always have that type of taxpayer, will you not?—Yes, but if he knows he can go to one man about his business he may improve.

25,834. But you think as he is careless you would give him some sort of excuse to come along and complain if you deluged him with certain forms?—That is so.

25,835. With regard to paragraph 13 (b), you refer to the duplication of work. What do you mean exactly by that? Will you just tell us in a few more detail the nature of the duplication to which you refer?—It quite often happens that the Assessor sends back a return form for completion in some matter of form—it may be for signature; it may be for putting "all" in where it should be in and so on. When this form ultimately comes to the Surveyor for examination it may quite well happen that the Surveyor has to send it back again for some serious omission or inaccuracy which could and should have been dealt with when the return form was first sent back, if the return had come direct to the Surveyor.

25,836. And that is quite common?—Quite common. Then there is a further duplication of work in that, as a rule, the Clerk to the Commissioners enters in the assessment book only the gross amount of income returned for assessment. The Surveyor, when he gets the return, checks that entry and enters also particulars of other income and of reliefs and allowances claimed by the taxpayer making the return.

25,837. In other words, if the Surveyor got the return in the first place he would do the whole work when he was making the initial entry?—Exactly.

25,838. So the same man at least would do it; he need not necessarily do it all at the same time, but the same individual could follow it up?—Yes.

25,839. Dr. Stamp: Is the part entry to which Mr. McLintock is referring made by the Clerk of any assistance at all; does it save any work to the Surveyor?—No, none at all.

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MESSRS. W. S. BEST, E. A. EBORALL, R. W. OSLER, AND J. T. YOUNG.

[Continued.]

25,840. Mr. McLintock: I take it there is a continual squabble between the Surveyor and the Clerk to the Commissioners as to who is to have the book at certain times?—I will not call it a squabble—certainly a difference of opinion.

25,841. I have had occasion to call on Surveyors and ask questions, and they have said: "sorry, we cannot deal with them. The Clerk to the Commissioners has got the book away." You have got to go back again, and it is a nuisance; that is quite common, is it not?—That is quite common.

25,842. The book not merely changes hands in the one office but it may go away a little distance off to the Clerk to the Commissioner's office?—Yes.

25,843. Whereas it should for the convenience both of the taxpayer and the Surveyor and the general good administration be in the one place and always to be found?—Yes. I should like to make it clear, I am not blaming the Clerks to the Commissioners in this matter.

25,844. No; I agree it is the system?—It is the system.

25,845. In paragraph 14 you set forth a number of proposals which go a little further than those made to us by the Board of Inland Revenue, I think. For instance, with regard to the Additional Commissioners, your suggestion is that they should only act in making assessments under Schedule D except employments and allowances for wear and tear, if either the taxpayer or the Surveyor desire them to?—That is so.

25,846. Will you tell us briefly the reasons which prompt your Association to put forward this extended suggestion?—Yes. On the general point we suggest that this is practically the system that is in force now. We ask the Royal Commission to make legal that which, in fact, is going on at the present time, that is, the Additional Commissioners considering those cases which the Surveyors ask them to consider. Then on the question of local knowledge, their local knowledge is of very little use to us. The assessing of Income Tax liability has ceased to be a matter of guesswork or estimate, and now calls for the scientific examination of accounts in all important cases.

25,847. May I put it in this way, that in former days you simply guessed at a man's income; nowadays if you have to make an estimate you proceed on something other than mere guesswork. You either endeavour to get hold of his bank pass-book or a statement of his total sales, or try to measure that profit by some definite rule rather than a mere shot in the dark?—Some definite investigation of concrete facts.

25,848. May I put it shortly in this way, that any advantage there may be gained from local knowledge is much more than counterbalanced by the disadvantages of the continuance of the present system?—We fully agree.

25,849. As measured by loss of revenue?—Yes.

25,850. And expense of carrying out the work?—Yes, I might point out that if Additional Commissioners in any division are found to be useful in this way we are still able to use them under the system we propose.

25,851. I take it you agree that your suggestion, that where the taxpayer or the Surveyor desires it the Additional Commissioners will make the assessment, will, in practice, mean that the Surveyor will say: "here is a case where I want to pass the burden on to you"—that is, on to the Commissioners?—Possibly.

25,852. Then when the taxpayer comes along and kicks up a dust and says: "how dare you assess me," the answer is, "I did not assess you; it was the Commissioners"?—I did not myself want to hide behind the Commissioners.

25,853. You know it has been done?—I know it has been done.

25,854. Would not this resolve itself simply into the Surveyor getting the Commissioners to do it; the taxpayer would not often avail himself of this option?—I do not think the taxpayer is likely to

avail himself of it. I do think that in some divisions the Additional Commissioners are useful, and in those divisions we desire to retain power to consult them—and really to consult them.

25,855. I suppose if you were to ask, to-day, 99 out of every 100 taxpayers who made the assessment on them, the answer would be the Surveyor of Taxes?—Probably.

25,856. That is, they are not aware of the formal procedure that goes on, and that the Commissioners are the real legal assessing body?—I think that is probably the case.

25,857. You refer here to the church-door notices and the abolition of them, and having advertisements. Of course, it is more expensive to advertise. Do you think it would be more effective?—I think it is desirable that the taxpayer should know and should have it brought to his attention that he is responsible to make a return, whether he is particularly asked to do so or not, and I think that would be worth the expense of advertising.

25,858. The Board of Inland Revenue suggest that the church-door notices should be retained as the necessary foundation of legal proceedings?—We suggest the publication in the Official Gazette might be sufficient for that purpose, with publication in newspapers for real advertisement.

25,859. Personally, I agree with the abolition of the notices; I do not think they serve much purpose. With regard to the assessment by the Special Commissioners in paragraph 20, you say: "It is submitted that the separate administration of the Super-tax is inconvenient to the public and uneconomical." I wanted to ask one question on that. In the case of all Super-tax payers, whose income is derived from profits under Schedule D, is there a reference made to the Surveyor for a verification of that figure in every case by the Special Commissioners?—It is the practice.

25,860. Invariably?—I cannot speak as to the invariable practice, but I should say, yes.

25,861. So that to that extent the Surveyor has to do part of the work, at present?—That is so.

25,862. And very often he is in a better position to judge as to the income from other sources than the Special Commissioners?—That is quite probable.

25,863. From his local knowledge?—From his local knowledge. May I also say rather in correction of my first answer, we have to report cases which we consider are likely to be liable to Super-tax to the Super-tax Commissioners.

25,864. Yes, I agree; that is where you have an assessment?—Yes.

25,865. You send on a reference to the Special Commissioners that there may be liability?—Yes, that is the practice.

25,866. The information in your possession is very useful for that purpose?—Decidedly.

25,867. Are all the cases gone through systematically with that object in view?—Every year, including additional assessments.

25,868. That is, it is not selected cases, but it is every case where you think there is a possibility of liability to Super-tax you furnish the information to the Special Commissioners?—Every case we consider possibly liable.

25,869. Not merely a selection?—No.

25,870. With regard to the City of London, will Mr. Eborall speak to that?—(Mr. Eborall: If you please.

25,871. You have read the evidence that was given by the Clerk to the Commissioners for the City of London?—Yes, I have read it.

25,872. He referred us to the number of applications for reduction had discharge of assessments by the Commissioners, and he gave us the figure of 14,415, I think it was?—Yes.

25,873. Would you describe to us very shortly the procedure with regard to these applications?—Do you mean from the time the taxpayer makes his application, or from the time the case is settled by us?

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MESSRS. W. S. BRET, E. A. EDWARDS, R. W. ORLER, AND J. T. YOUNG.

[Continued.]

25,874. You had better give it to us from the first stage?—From the commencement. The taxpayer, of course, gives notice of appeal.

25,875. Is that a notice of appeal to the Surveyor?—Yes. He is instructed by the notice of charge to give notice of appeal to the Surveyor.

25,876. It has been suggested that it was given to the Assessor, but I think they corrected that in their evidence?—Of course there would be a number of cases later which would arise on demand notes where the taxpayer has omitted to give notice of appeal on the notice of charge, where he would make the appeal on receipt of the demand note.

25,877. *Dr. Stamp*: It was stated in connection with the notice of charge that quite a large number went to the Assessor in spite of the name on the notice.

25,878. *Mr. McIntock*: Yes?—That, of course, is not so; that is a mistake on the part of Mr. Hewitt.

25,879. You mean it is not a mistake on the part of the taxpayer to go to him; it is a mistake to say that he goes to the Assessor in a large number of cases?—It is a mistake that he goes to the Assessor on receipt of the notice of charge in the average case. He might do so if he were a personal friend of the Assessor, or knew him intimately, but in the ordinary course he comes to us. Then he submits to us the necessary accounts or evidence, and we deal with that and interview him, and so on. We settle various points that arise, and we report the result to the Clerk to the Commissioners on a form. Those cases make up the 14,415 cases to which you refer.

25,880. In other words, the taxpayer comes to the Surveyor and he brings his papers and he settles finally with the Surveyor the net assessment on which he is to pay tax?—Undoubtedly.

25,881. And the rate of tax?—That is so.

25,882. And these go at the end simply to the Clerk to the Commissioners with the net amount. Does he see the details of all the adjustments?—What we show is the amount of duty to be written off the assessment on the front of the form. We show it in this way: if it is a matter of abatement we give the amount of the abatement; if it is a matter of Life Assurance we should state the amount of the Life Assurance; but in the ordinary course of a reduction of any importance it is a matter of reducing the gross assessment on accounts, and what we say in those cases is "accounts," and then come the different years, "1916 so much, 1917 so much, 1918 so much," and that is the whole matter. Of course all the points of principle have been decided already, and there would be no point in setting them out.

25,883. *Dr. Stamp*: The point of principle does not emerge from the figures?—It does not emerge; we give the result.

25,884. *Mr. McIntock*: Questions of principle are only considered by the Clerk to the Commissioners, or by the Commissioners themselves in these applications?—I really think what Mr. Hewitt may have had in mind in giving that evidence was this, that if we have an application, we will say, under section 134 of the Act of 1914—I am speaking of the old code—we should say: "section 134 application" and then set out the figures. If it were an application under section 13 of the Act of 1914, income diminished owing to the war, we should say: "war appeal," or "appeal under section 13," and then set out the figures.

25,885. Still that is the very type of case that probably the Commissioners should hear if they are going to hear important cases on questions of principle such as you have given under section 134?—Those are, of course, important cases.

25,886. Where the Surveyor is satisfied that it is a good claim; that is the specific cause claim?—Yes, exactly.

25,887. Where the Surveyor is satisfied the Commissioners take his decision and do not bring the applicants formally before them?—They take the result.

25,888. They do not hear the arguments put forward?—No, and they do not get the papers; we file the papers.

25,889. It has been suggested that 10 per cent. of the cases submitted go back to the Surveyors for further information?—We think the figure would not exceed 1 per cent.; we have considered that in the City.

25,890. Have you taken the figures out, or have you had them made available?—No, we have no record, but it is very unusual to get one back. Of course during the war our clerical assistance was not quite what it might have been, and this is merely a matter of reporting something to the Clerk to the Commissioners. It is not a thing which we do personally. It may be that occasionally there has been an apparent discrepancy, that is a difference in the figures.

25,891. You mean speaking generally one per cent. probably is sent back, and that one per cent. is an account of clerical error?—Yes, it is simply a matter of putting the thing forward afresh in the right way. It is purely clerical error in the form; I have no experience of anything else.

25,892. It is not that he returns it on a point of principle?—I have never heard of such a case.

25,893. Can you tell us the proportion of the 14,415 which represents reductions in assessments apart from the allowance of statutory abatements?—We have the figures for one year, for the year 1917 to 1918. I think they are quoted in paragraph 31 of the evidence-in-chief. The number of Schedule D assessments reduced was 9,769.

25,894. Are you referring to these same cases here?—We are referring to the cases where the gross assessment is reduced as distinguished from the cases of abatement or Life Assurance, and that sort of thing.

25,895. "The number settled by agreement with the Surveyor was 9,769. These numbers include the appeals arising out of the 8,236 assessments of £500 and upwards not agreed with taxpayers before the assessments were made"—Yes.

25,896. These are the figures with regard to the 14,415 cases?—Well, I am afraid they are not the same year. The 14,415 related, I believe, to 1918-19.

25,897. I was asking the number of cases out of the 14,000 odd which did not represent mere reductions in respect of the statutory abatements and allowances?—That is the figure for 1917-18, but we cannot give it, I am afraid, for 1918-19; the books are not closed for that year. We could make an attempt and we could give it up to date, but it would not be such a useful figure as the figures for 1917-18.

25,898. *Dr. Stamp*: Would it be fairly comparable?—Yes, I think so.

25,899. Would there be any great difference in the totals?—There would possibly be a little more reduction in 1918-19; there certainly would not be any reason to expect a smaller figure.

25,900. So you could take the figures in your paragraph 31 as being then a total number?—That is so.

25,901. *Mr. McIntock*: Is the tax invariably large in those 14,415 cases?—We have taken out some figures on that. There were over 70 cases for the year 1918-19 of reduction in assessments amounting to over £100,000 each, that is to say, the assessments involved amounted to over £100,000 each.

25,902. Not the tax?—No, the assessment.

25,903. The gross assessment?—The gross assessment.

25,904. That is what you have taken out—70 cases?—That is what we find, that the number of reductions of assessments of £100,000 was 70 for that year.

25,905. That is not quite my question. I asked if there were many cases in which the reduction involved was considerable?—I can tell you that there were 583 cases in which the assessment was reduced by the sum of £3,000 or more.

25,906. Generally speaking, the cases involved are small cases?—I quite think the majority would be small; on the other hand the assessments run up into millions, of course.

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Messrs. W. S. Best, E. A. Eborall, R. W. Osler, and J. T. Young.

[Continued.]

25,907. I think Mr. Best has already told us that when the Assessor in London receives an application for adjustment from a taxpayer he at once refers it to the Surveyor?—That is so.

25,908. He does not settle it himself?—No, the Assessor makes no attempt whatever to settle the case; he does not go into the case.

25,909. So the result is that if the taxpayer takes the trouble to go to the Assessor he simply has a double journey; he is sent on to the Surveyor?—That would be so in the ordinary course. If the Assessor could give him any information no doubt he would on a simple point.

25,910. Is it only a simple point?—Well, you see he has not any of the papers relating to the case, and he has not the necessary training to deal with the matter really.

25,911. In paragraph 29 (iv) you state that out of practically 109,000 assessments the number entered by the Assessor was 3,744?—Yes.

25,912. Out of a total number of assessments in 1917-18 of 108,920; who entered the rest of the assessments?—The Surveyor entered the rest.

25,913. Into the book?—Into the book.

25,914. As a matter of regular practice?—Up to the year 1918-19 that was done in the ordinary course. The Assessor entered the assessments in a few cases, and the Surveyor entered the remainder. This we believe to be a normal year. In the following year, that is to say in the current year 1919-20, the Clerk to the Commissioners instructed the Assessor to enter up the gross assessment in every case, but on his attention being called to the inconvenience which would result it was arranged that the Surveyor should enter the amount in pencil and the Assessor should ink it in afterwards.

25,915. Why was the change made, do you know?—I could not tell you; I never discussed that with Mr. Hewitt.

25,916. It had never been done before?—No, it has never been done before. The procedure before was that the Surveyor entered the assessments with the exception of this small number of 3,000 or 4,000.

25,917. What time in the current year did that take place?—It must have been in the spring, I think. The Assessors would be appointed in the spring.

25,918. After this Commission started sitting?—I could not tell you when; I do not know.

25,919. Dr. Stamp: On what date does the effective work begin of entering figures in the Assessor's column?—Probably in June or July; it might be in June or July, or possibly later in the City.

25,920. Mr. McLintock: After this Commission had started its sittings?—I am afraid I do not remember when the Commission started.

25,921. There was no explanation given as to this change in practice which had prevailed for so many years?—No, I have not heard of any explanation.

25,922. But they put the Surveyor to the trouble of writing up all the 100,000 odd amounts in pencil so that somebody in the Clerk to the Commissioners' office could write in ink on top of them?—In the Assessor's office.

25,923. Dr. Stamp: Does the book have to go back to the Assessor for that purpose?—It goes back to the Assessor, I understand.

25,924. Is that a new cog in the wheel? Did it always go back to the Assessor to see what had been entered in that column?—Not so far as I know.

25,925. Therefore a new stage has been introduced in the procedure?—That is so.

25,926. Mr. McLintock: I understood Mr. Eborall to say that the Surveyor entered them as before, but in pencil instead of in ink?—That is so.

25,927. And now they have to be sent back to be entered in ink by the Clerk to the Commissioners?—By the Assessor.

25,928. Dr. Stamp: The sending back is entirely an additional stage in the work?—It is a new thing altogether.

25,929. Mr. McLintock: Then who is supposed to have done the work now?—I could not tell you.

25,930. Is not that very troublesome and difficult?—I think it is very unsatisfactory.

25,931. Does it lead to very great possibility of error?—I think it is very unsatisfactory. We have no copies of those assessments; they are sent in in pencil to the Assessor, and if he rubbed a figure out and put in something else we should not see it again.

25,932. Does the book come back to you again after the figures have been inked in?—It ultimately comes back when the book has been completed and sent up.

25,933. Dr. Stamp: It introduces great possibilities of errors and omissions?—Well, it is a very undesirable thing, I think, really altogether. I am not sure whether I gave you the figures for the year 1919-20. The number of assessments which the Assessor did enter in Schedule E out of 140,500 was 3,890 in ink originally; that is before we arrive at the stage of entering the remainder in pencil.

25,934. Mr. McLintock: You gave us 1917-18 in your proof?—Yes.

25,935. You are now giving us 1919-20, and the change of practice took place in 1919-20?—Yes, that is so.

25,936. Mr. Walker Clerk: Dealing with the Additional Commissioners and their work, you do grant that their local knowledge is of some value?—(Mr. Best): In some divisions.

25,937. Therefore greater care in the selection of the Additional Commissioners, that is to say, with regard to their capacity of understanding and appreciating Income Tax law and Income Tax difficulties, would increase their usefulness?—I do not quite see your point.

25,938. My point is this, that it is the defects in the quality of the selection of the men themselves rather than in the system?—Local knowledge is one thing and knowledge of Income Tax law is another.

25,939. If the two are combined would not they make an ideal board; that is the only point I want to get at?—They could not possibly deal with all the cases, or even all the difficult cases.

25,940. They could not possibly deal with them?—Not unless they gave a very great deal more of their time than they do now.

25,941. I am rather following your own line of argument; I think you misunderstood my point?—Perhaps so.

25,942. You suggest that they should be retained very largely for appellate work, and for, shall I say, conference between officials and themselves?—Yes, for consultation in cases where we feel a little need of their local knowledge.

25,943. Would their capacity for usefulness not be increased if their knowledge of Income Tax difficulties and law were increased?—It is possible; I am afraid, however, we feel that we can supply the knowledge of Income Tax law that is necessary.

25,944. Do not you think the public regard the Additional Commissioners as a safety valve?—We recognize that in paragraph 17 of our evidence.

25,945. Therefore you think that in the interests of efficient working of the Act they should be retained with some powers?—We make that suggestion which is set out in our evidence.

25,946. You clip their wings in every respect, but still you want to keep them able to fly?—We do not admit all that any safeguard is necessary. We think the taxpayer may want it from a sentimental point of view, but we do not admit that it is necessary.

25,947. I will not put the question to you which I have put to another witness, but I could suggest a reason. In the third sub-paragraph of paragraph 6 you mention the Commissioners have become less and less active. Is not their less activity due, to a very large extent, to the fact that accounts are much more general and Surveyors usurp their powers, I was going to say, but they receive powers willingly transferred in some cases and taken in others?—Yes; the assessing of Income Tax now is a specialised matter requiring skill, knowledge of accounts, and qualities of that sort, and the work inevitably has fallen into the hands of the officers who are trained in accountancy and in law; also that work is continuous throughout the year in the hands of the Surveyors.

25,948. I was rather dealing with this less activity. The less activity is not due to less capacity on the

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part of the Commissioners?—In paragraphs 6 and 7 we are not making any complaint or accusation against the Commissioners. They are merely statements of fact and nothing more.

25,949. I agree. One other minor matter, and that is the church door notices which you suggest should be abolished. Would not a much better method of legalizing the forms for the collection of the tax be the affixing of notices in post offices, police offices, and offices of the local authorities?—I am not sure that there is a police office in every parish, and I am pretty sure there is not a post office in every parish; that would be my difficulty.

25,950. Nor is there a church?—Whereas the local newspaper does go into every parish even in the country. We see no objection at all to posting notices in the post offices and police stations as you suggest.

25,951. You know that the cost of advertising in the local newspaper for efficient notices of this kind is tremendous?—I was not aware of that.

25,952. Well, I am?—I take it from you.

25,953. It is very large indeed?—On the other hand we should save the cost of travelling round to the churches, and so on, to affix the notices.

25,954. That is quite nominal. When you were answering Mr. McIntock you rather conveyed the impression that when the Additional Commissioners met to decide upon the assessments very meagre information was in their possession; the Surveyors did not attend with the full documents, the correspondence, and so on. Are you aware in some cases that the Surveyors do attend with the full documents, in fact, that the meetings of the Commissioners are held at the offices of the Surveyor for that express purpose?—I think I said to Mr. McIntock that that does take place in some cases, but they are very unusual.

25,955. Mr. Walker Clark: I must belong to a very unusual set; that is all I can say.

25,956. Dr. Stemp: Arising out of one or two answers already given, Mr. Best, on paragraph 13 (a) and (b), you referred to the inconvenience to the taxpayer and the duplication of work between the Assessor and the Surveyor. With regard to the Assessor I take it his work is judged, and his remuneration to some extent fixed, by reference to the efficiency with which he does the duty now assigned to him?—Yes.

25,957. Therefore it is in his interest to get back his returns as fully and as high as possible?—Yes, he is anxious to show a high percentage.

25,958. If he showed a low percentage of success in getting in his return it would go against him in judging his work?—It would count against him.

25,959. Would not it be possible that the Assessor is now doing a great deal that the Surveyor would not find it very convenient to do, that is to say, running in to people near by him to get the forms and saying: "I have sent you two applications; just fill up that form and give it to me." Does not he do a great deal of personal collection of forms?—I do not think he does.

25,960. But you do not think the Surveyor's office at a more distant part would be at a disadvantage in working entirely through the post?—Not at all.

25,961. Do you not sometimes get recalcitrant taxpayers who will not pay attention to the forms until they are actually personally urged to do so? The Surveyor cannot get into touch with them as easily as the Assessor?—The Collector can.

25,962. Therefore you would in those cases perhaps take advantage of the services of the Collector?—Yes.

25,963. While we are on that point, in so far as the Assessor has valuable local knowledge, or knowledge which is of use to the Surveyor, does he not gain that knowledge to a great extent in discharging his function as a Collector?—Almost entirely I should say; any useful information he has he gets as Collector.

25,964. Therefore you would still have available to you a fund of local knowledge from whomsoever was engaged in the work of local collection?—Yes, that is what we think.

25,965. It would be quite as good, or practically as good, as at present given you by those who perform the duties of Assessor?—Quite as good.

25,966. Arising out of the question of the usefulness and value of the information and the activities of the Additional Commissioners you say that it is now not what it used to be, a matter of judicious guesswork, but a question of scientific work as to the liability of the taxpayer. If you ask an Additional Commissioner about a man's business, is his mind more directed as a rule to the man's total standing and his total income than the actual knowledge of what the business profits are?—Yes; one finds that very commonly one has to explain to the Commissioners that the assessment covers only a portion of the man's income, part of it being taxed by deduction and not coming under the review of the Commissioners.

25,967. That is to say, the Additional Commissioner's information about business is not quite as useful to you as it might be, because he nearly always has something irrelevant in his mind?—That is so.

25,968. In the suggestion about the Additional Commissioners and the reduction of their functions have you not treated rather lightly the importance of that body to the Surveyor in dealing with the taxpayer; when he is anxious to have immediately satisfactory results with an infuriated taxpayer coming in with an increased notice; is it not very convenient to be able to say then that the Additional Commissioners have made this assessment?—It is still open to the Surveyor to preserve the same shield for himself if he wishes under our proposal, for he may refer this case to the Additional Commissioners to take the burden of responsibility from him. As I said to Mr. McIntock I do not want the burden taken from me; I am quite willing to bear it, and I think that is the general attitude of Surveyors.

25,969. You think the Surveyors generally are quite prepared to face the taxpayer with the full responsibility themselves?—Yes. I should perhaps explain it is not common in cases of any importance to put an assessment up without any previous correspondence with the taxpayer. When one considers a return is insufficient one naturally writes to the taxpayer and asks him if he will furnish evidence to verify his return and show how he has computed his figure, and normally it would only be on his refusal or neglect to comply with that invitation, that the assessment would be increased.

25,970. Then you do not think that the administration of the tax would be at all embarrassed by this absolute direct responsibility of the Surveyor?—Not in the least, and I might remind you, as we have in our evidence-in-chief, that the whole of the Excess Profits Duty has been changed in this way without any shield to the Surveyors.

25,971. Would not an answer to that be that the Excess Profits Duty has to take for its material the Income Tax already dealt with—I mean to say, is it not already laid down that the Excess Profits Duty has to proceed very largely upon the assessments as settled for Income Tax?—Yes, but the plain fact is that in the course of Excess Profits Duty administration we have discovered the Income Tax deficiency. We have had accounts for Excess Profits Duty and assessed upon them, and in obtaining those accounts we have found quite commonly that the Income Tax assessments were insufficient.

25,972. But suppose you had no satisfactory accounts or returns and an assessment were made to Income Tax of a considerable sum in excess of what had been assessed before; the basis of that assessment is on the Additional Commissioners?—At present.

25,973. If an assessment has to be made to Excess Profits Duty that figure has to be utilized, or something approximating to it?—No, we must have accounts for Excess Profits Duty.

25,974. But if you were making an estimated assessment for Excess Profits Duty?—You can take any figure you like then. The Income Tax assessment, of course, is a three years' average, and it is practically of no use for the purposes of Excess Profits Duty.

25,975. Suppose that you had the pre-war accounts, and the accounts were settled and known, but for a given accounting period you had a large estimated assessment to Income Tax, would you not make an

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Excess Profits Duty assessment very largely by reference to the difference between those two?—I think not.

25,976. Would you assume a profit of the accounting period totally different from the profit taken by the Additional Commissioners?—Certainly.

25,977. Therefore that emboldens you to think that this change will not be repugnant to the majority of your Association?—That is so.

25,978. Coming now to the question that was raised just now about the church-door notice, you regard that as an anachronism?—Entirely.

25,979. And out of touch with life as we have it to-day?—Yes.

25,980. Does it not represent an enormous waste of human effort to go to something like 12,000, 13,000, perhaps 14,000, distant places far away from houses and put up notices and come away again? On the question of expense that has been put to you, is it not much more expensive, we will say, in a county like Dorset or Hereford to go to a couple of hundred out-of-the-way churches by foot or cycle or trap and affix a notice, than to put an advertisement in, we will say, at the most two or three county papers?—It seems to me likely, and in addition we should get real publicity through advertisements in the newspapers, whereas at present we do not.

25,981. Because all the taxpayers do not see the notice?—That is so. An Assessor once reported to me that the notice had been affixed on his church, but as the church was in ruins and in his garden he was afraid it would not be very much use to the tax-paying public.

25,982. Following upon a question that was put to you about the Surveyor's position in regard to Super-tax, you were explaining what the Surveyor had to do in reporting liabilities. Is not the Surveyor at a disadvantage in the matter of Super-tax compared with all his other activities in that he is not aware of what happens to any particular exhibition of vigilance on his part?—He gives information, but does not know what happens.

25,983. He does not know what the result of his work is?—No.

25,984. Is it not rather a deterrent to efficiency if a man does not know what the result of his work is?—Yes, I agree.

25,985. Would you not think, therefore, that the Super-tax might be more efficiently administered if the Surveyor's position were a fuller one in that matter?—I think so. We find frequently that there are taxpayers who have returned amounts for assessment to Super-tax which they have neglected to return for Income Tax.

25,986. That is an additional reason why the Income Tax would have an advantage?—Yes.

25,987. I am speaking now in the interest of efficiency of the official himself?—Yes.

25,988. Coming to some of the points raised on the evidence given by the Clerk to the Commissioners to the City of London, he stated that in his judgment the tax was assessed and collected with a minimum of friction and complaint under the present system; would you agree with that?—Not quite. I do think it is remarkable that there should be so little friction and complaint working under an administration which is nearly a hundred years old, but the official witnesses have already explained to you that the reason for this absence of friction and complaint is that the administration in actual practice to-day is a very different thing from the administration as laid down by the Statute 80 years ago.

25,989. Would you agree that the line of procedure as given in the evidence was an attempt to follow the formalities rather than the substance of that ancient procedure?—I think that is so.

25,990. And therefore you think there would be no loss in real efficiency if those formalities were swept aside?—There would be a gain, I have no doubt.

25,991. He suggested that any change from the methods obtaining in the City would result in a loss to the Revenue; do you see any danger of that?—Certainly not. On the other hand, we say that with

the improved methods under the proposals we now make and with improved powers as we suggested to the Royal Commission when we gave evidence on fraud and evasion, we shall improve the taxpayers' convenience, and we have no doubt at the same time improve the yield of the tax.

25,992. He laid great stress on the value in principle of the procedure in the City, and as he was speaking also for the provinces it was put to him that that system did not obtain in the provinces, he was asked whether he thought it ought to obtain, and he hesitated to say whether there should be a change in the provinces to bring it into line with the City; but when he was asked whether it might not be repugnant to the provinces to have those formalities put in, he would not say. What do you think about it; do you think the provincial Clerk to the Commissioners would object to the formalities of the City being put upon him?—I think he would very strongly object.

25,993. Great stress was laid upon the position of the Assessor in the City, and you have already referred to that, but I would like your view as to this: it was stated he was the obvious and proper person to whom the taxpayer could and, in fact, did apply for information and assistance; there was a sort of camaraderie between him and the taxpayers, which could not exist with the Surveyor's office?—You are talking now of the country generally and not the City alone.

25,994. The evidence was given in particular for the City, but it was always extended to the country as a general principle?—The country Assessor, as a rule, is not fitted by natural capacity, and he is certainly not fitted by training, to give any useful advice on the complexities of the Income Tax laws, and the taxpayer naturally goes to the person who can give him useful and responsible advice; that is the Surveyor.

25,995. We were told that the taxpayer's natural inclination was to go to his friend the Assessor rather than the Surveyor?—That is not my experience nor that of the members of my Association.

25,996. Do you agree that the Assessor is indispensable to the Surveyor?—No, I do not, decidedly not.

25,997. Do you agree that any officials of the Local Commissioners should be permanent whole-time officials?—All officials concerned in the collection or assessment of the tax should be whole-time officials, yes. They should in our view be appointed by the Board of Inland Revenue, which now pays them, and is responsible to Parliament for their efficiency.

25,998. Is there any advantage in the system that obtains in the City of dealing with those claims for repayment at a formal hearing before the Commissioners?—If you are coming to the City practice, may I ask you to address your questions to Mr. Eborall.

25,999. Mr. Eborall, considerable stress has been laid on the principle involved in summoning, to take a concrete case, Mr. McIntock and his client from Glasgow, and asking them into the room for a formal question to be addressed to them as to whether they agreed with a particular point; do you lay any stress on that question of principle?—(Mr. Eborall.) There is no advantage to anybody as far as I know; it is a great waste of time really all round.

26,000. Surveyors in general would not desire that form of procedure to be continued in dealing with repayment claims in the City?—No; on the contrary, we approached Mr. Hewitt in 1917 with a view to getting rid of it. He was very courteous, as he always is in these matters, and he conceded that repayments under £25 should be passed without the attendance of the appellant or of the Surveyor. He also agreed that one Surveyor might represent four districts to save our time to some extent, but we were unable to get beyond that point. I ought to say in this connection, perhaps, that there is considerable irritation on the part of the public about the waste of time that goes on at these meetings, and there is the further disadvantage that they are

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meetings specially held to deal with these applications for repayments, so that each person attending knows that the others have suffered a loss or suffered a reduction of profits, which is a very undesirable state of affairs.

26,001. You mean the taxpayer knows what the meeting is called for, and he sees other taxpayers, and he knows therefore their affairs are in a certain state?—Yes. It is the usual procedure in the City; a man just goes into the room and comes out; everybody knows what everybody else is there for.

26,002. So that to some extent it is a breach of secrecy?—It is in that sense.

26,003. Looking at your paragraph 31, the number of appeals "on personal hearing by the Commissioners was 13"; considering the immense complexity and importance of the assessments in the City of London that is extraordinarily low?—It is low out of 70,000 assessments.

26,004. How is it that so small a number is actually heard by the Commissioners?—It is much more convenient for the taxpayer to call at our office and agree the thing with us than to wait for a meeting of the Commissioners. In practice the Commissioners hear appeals only on points of law, and I think if you refer to Mr. Hewitt's list of appeals you will see that they are largely cases of companies. Of course, if the directors of a company are advised by their solicitor and counsel that they have a certain claim in law they are necessarily bound to go on, but the individual taxpayer as an appellant to the General Commissioners in the City of London practically does not exist. If you look at that list of appeals I think you will see they are nearly all companies and one or two firms.

26,005. Are very great precautions taken that appeals shall not come to the Commissioners if they can possibly be settled in any other way?—We endeavour to settle them, of course. We are very glad to settle them; it saves time all round.

26,006. Does the Clerk to the Commissioners second your efforts in that way or is his wish to increase the number heard by the Commissioners?—Really I could not say; I do not know.

26,007. One would wonder how it has come about that so small a number of appeals is heard?—In practice there is a sort of understanding that they hear appeals only on points of law and such points of law as we feel we cannot give way upon.

26,008. We were told in evidence that the City Commissioners wish to stand up for the small taxpayer; how is that given effect to?—I cannot say. The Additional Commissioners do not deal with cases under £500, and as the General Commissioners only hear appeals on points of law, the small taxpayer does not come within their purview at all, as a matter of fact.

26,009. The small taxpayer is really in your hands?—Yes.

26,010. I suppose you extend to him the same sort of treatment as you give to a large taxpayer?—Absolutely. I think he gets more assistance from us, because a more wealthy taxpayer can employ a solicitor or an accountant, but the small taxpayer frequently has to come to our clerks and get assistance in filling up forms, and that sort of thing.

26,011. Referring to one or two questions put to Mr. Best, in the paragraph dealing with collection (paragraphs 21 *et seq.*), you advocate certain changes and you refer to the existing provisions there are for taxpayers obtaining money orders at the post office?—(Mr. Best) Yes.

26,012. Supporting the taxpayers as a whole took advantage of that provision and it became very widespread, would not that practically be that the post office would be the effective collector as far as the passage of money is concerned?—(Mr. Osler) It would merely mean that the post office would act more as bankers than they do now, but it would not mean that the post office would be collectors, because they would merely issue to the taxpayer an instrument which enabled him to forward the money to the Collector himself, who would still have to remain responsible for issuing the receipt for that money and giving a due quittance for it. We do not suggest that the post office should ever be put in a position

in which they should give a receipt for the actual tax.

26,013. But the actual passage of the money and the accounting for it as against an entry of so much due would then be done by the post office, and all the rest of the work would be bookkeeping work?—All the rest of the work would be bookkeeping work on the part of the Collector.

26,014. That being the case, have you considered the possible alternative method of collection, by which Collectors of Taxes, as such, would almost disappear, that is, by the utilisation of the post office machinery in that way?—As an Association we have not considered that.

26,015. Does it occur to you that it would be possible to elaborate a system of payment to the post office on a notice containing a couple of counters, all the clerical work to be done as an adjunct to the Surveyor's office, with all the necessary checks if you like?—I have gone a little closely into that, because in my official capacity I have considered the possibilities of such a scheme and the difficulties in the way of it appeared to me at the time to be insuperable.

26,016. May we take it that your Association definitely negatives the possibility of extension of collection on those lines?—The Association have not considered the matter. I am only speaking now personally; you asked me the personal question.

26,017. After all, the Post Office has such wonderful ramifications—and is on the ground already for actual receipt of money—that we could by making use of the Post Office approximate to this very position, could we not?—You would approximate to this position, but I think you would find that there are grave practical difficulties in the way.

26,018. Mr. McLintock: Would the demand notice for the tax have to be exhibited to the post office official who made out the money order.

26,019. Dr. Stamp: It is now. The taxpayer wants a free money order for his duty, and to get his order free he has to show the notice.

26,020. Mr. McLintock: Then the post office officials will also see the man's liability for Income Tax if the system is extended.

26,021. Dr. Stamp: Would that be an additional objection? I do not know that there would be any particular objection to that, because the post office official will not see the man's total liability for Income Tax; he will only see by a particular demand note in respect of an assessment which bears a certain number that this man has to pay a certain amount of tax, but whether he has 40 such demand notes or whether that is the only one, nobody knows.

26,022. Mr. McLintock: In Scotland the demand note will show the whole thing.

26,023. Dr. Stamp: Is there not the additional precaution that he might go to another post office not in his own parish?—He might go to any post office.

26,024. Mr. Preshymer: He might get out of it if he chose by paying by cheque?—That would be a breach in the general system of collection by the post office.

26,025. Dr. Stamp: I was asking with a view of eliciting whether your Association had considered the possibility of largely eliminating the Collectors of Taxes in the provincial districts by using the post office, but letting the book-keeping work be done by the Inland Revenue Department?—I think I should be quite justified on behalf of my Association in saying that it is not our view that you will ever be able to do entirely without the personal services of a Collector.

26,026. For arrears?—There will necessarily be a residue of cases always.

26,027. My whole questions were framed with the idea that you would have to resort to something analogous to the Scottish system of the Sheriff's officer. You would have to resort to the County Court official or some other official to collect the arrears; that would be essential, would it not?—That would be essential.

26,028. Mrs. Knouter: Do you think the Post Office would be willing to take on the job? It would mean a great increase of work for them, and they say they are very much overworked already. It seems to me that you are going to take off officials at one end

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and put the work on to another office, who presumably or possibly will not take it?—I think the Post Office would undoubtedly want to consider such a matter very carefully, and it would, of course, resolve itself into a question of staff. I should like to suggest that on your point, that we are putting forward, is not that the Post Office should be placed in the position, as it were, of Collectors of Taxes. We are only suggesting that there should be no limit to the sum in respect of which it is possible to obtain this free money order, that is to say, that nobody should be in the position of saying: "I cannot remit this money to the Collector without putting myself to expense; I shall have to pay the 2d. on a cheque or pay poundage on money orders." At the present time he can obtain a free money order up to a maximum sum of £40. We are only suggesting that similar consideration should be obtainable at a post office irrespective of the amount, and that if a man had to pay £50, £60 or even £100, if he liked to go to the post office and get a free instrument for the purpose of remitting that money, he should be allowed to do so.

26,029. My idea of the advantage you set forth was that you would be able to do without certain of the Collectors, and you would be able to save in administration over the Collectors?—We think eventually you would be able to save a good deal in administration, but not because of this money order point; that is really a very small point; it was in regard to our other proposals.

26,030. Then if you had to increase the Post Office staff I do not see where the saving is coming in nationally?—I do not think there would be any particular saving in regard to that, but I do submit that is not the main feature of our proposal; it is a very subsidiary feature.

26,031. There is one point that you have not accentuated in your evidence, that is, do you think it is an entirely desirable system to have additional assessments that you can make for three years when you have under-estimated the amount. Do you think you should suddenly send in for £28, say, and give no reason why a taxpayer is called upon to pay up. What is the official name of the thing; is it an additional assessment?—(Mr. Best): There is usually full notice of charge.

26,032. But not the reasons for the charge?—The notice of charge should state the source of the income and the amount of the income, and if there has been an increase it would show the total sum less the sum already assessed, leaving the additional assessment as the difference; is not that sufficient explanation?

26,033. Well, a case was given to me by a colleague of mine, who had a demand for £28 recently. He said no reason was given to him, and he had to go round to the Surveyor's office to see what the £28 was asked for, and found it was salary while he was at the war, which salary was not paid by his place, and £28 was not due. He thought it perfectly outrageous that he should have £28 demanded and no reason given.

26,034. Mr. Petyman: Do you know whether the demand came from the Surveyor of Taxes or the Collector?

26,035. Mrs. Knowles: He went to settle it with the Surveyor.

26,036. Mr. Petyman: Perhaps it was only the demand from the Collector?—Did the notice show the total only?

26,037. Mrs. Knowles: I did not see the notice?—I suggest the notice of charge has been served and has possibly miscarried and has not reached him. It is very unusual for a demand note to be served without there being first a notice of charge explaining the additional assessment. Of course, mistakes do happen, one must admit, but it would be quite unusual for any taxpayer to receive a demand for an additional assessment without first having had a full notice of the charge; he would have that from the Clerk to the Commissioners.

26,038. Who would be responsible for making a back assessment like that?—The Surveyor.

26,039. You have spoken a great deal of the Surveyor being a sort of taxpayer's friend, although some people think he is not. Do you not think the

friction comes from the fact that the majority of the small taxpayers only see the clerks? Do you not think you have got to begin reforming your Surveyors' clerks a good deal? How are they appointed? Of course, a big person will see the Surveyor probably?—The tax clerks are established civil servants.

26,040. How long have they been established?—I suppose about six or seven years ago they were established. Previously to that they were unestablished clerks. They are now selected by examination or were until the war stopped examinations.

26,041. To what extent has the Surveyor got any power to dismiss them or reprimand them?—The Surveyor himself has no powers of dismissal other than reporting to the Board dereliction of duty.

26,042. Then he has got an office with no control over his clerks; is that it?—By no means. He has full power of discipline over his clerks, and in case of serious dereliction of duty he would report the clerk, and the Board would take appropriate action. In the meantime all the clerk's increments depend on the Surveyor's reports year by year, and his promotion also to a certain extent.

26,043. Dr. Stamp: The Surveyor could suspend the clerk in certain circumstances, could he not?—Certainly.

26,044. Mrs. Knowles: You think the method of recruiting clerks is at present satisfactory. Do you get a satisfactory class of clerk?—I think so, on the whole, though we are concerned about the smallness of the initial pay of the junior clerks. We are finding at the moment that the best of our junior clerks are very much inclined to leave us, because they are underpaid.

26,045. After all, it is with that class of person that the small taxpayer comes into contact. He goes and sees the clerk, and the clerk does not trouble the Surveyor?—(Mr. Eborall): We do not hear of any friction generally.

26,046. But you would not, you see?—We are sitting in the next room. (Mr. Best): And if the taxpayer is not satisfied, he goes home and writes a letter to us.

26,047. If you take away the Assessor, who is supposed to be the taxpayer's friend, they have only the Surveyor's clerk to go to?—The clerks must do some of the work.

26,048. I know that. I am asking what class of clerk you are going to substitute for your Assessor, which is pretty much what the substitution comes to. The point is, is the class of clerk satisfactory; are you improving them? They are more or less satisfactory and they are being improved.

26,049. And you think when you really do get them up to a better level even than at present you will not need the Assessor; that is where the friction seems to me likely to come in more than anywhere else?—I have no fear of friction of that kind arising. The clerks are all under very close instructions to be courteous at all times under any provocation, and we have reason to believe that they obey their instructions.

26,050. And do they know anything?—Oh yes, certainly. They are provided with books of instruction about 1½ inches thick; at times clerks are held to instruct them in their duties, and they are quite capable of dealing with the ordinary small taxpayer who comes to see us.

26,051. No one has any doubt that the small class of Surveyors are extraordinarily competent, but the mass of clerks below that will take the small people, and that makes the Income Tax so tremendously unpopular with a lot of small people?—You may remember we have had an enormous increase of clerks during the war, and they are not yet fully trained. We are training them as fast as we can and when they are fully trained they will, of course, be more competent than they are now, but we do not get complaints at present—or rarely. (Mr. Eborall): It is very exceptional indeed for a complaint to be made of a clerk's conduct, I think. I do not know that I can call a case to mind in the course of 20 years. (Mr. Oler): I do not remember such a case either. I think they are uniformly courteous, although they may not always be so fully competent as one might

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wish, but that is a thing that will improve as time goes on.

26,052. *Sir W. Trower*: As a matter of business, dealing with the collection and assessment of taxes, I take it there are four things that have to be dealt with, that is, the return of the taxpayer of his income within the jurisdiction of the Surveyor, the assessment, appeal and collection; that, as a business proposition, covers the whole ground?—(*Mr. Best*): I think so.

26,053. Return, assessment, appeal and collection?—That covers the ground.

26,054. I take it with reference to the return, the Surveyor should have power to obtain a return from the taxpayer?—We think so.

26,055. With regard to the assessment, is it your opinion that the Surveyor of Taxes should have power to assess in all cases where there is no difference between him and the taxpayer?—That is our proposal.

26,056. With regard to the Additional Commissioners, I gather that you wish them retained?—Subject to the terms of our proposal.

26,057. You wish them retained—I am not dealing with their duties for the moment?—Yes.

26,058. May I put it to you that it is necessary to have them first for the protection of the taxpayer who may wish to have an assessment by someone other than the Surveyor?—Yes.

26,059. And secondly from the point of view of the Surveyor who may like the protection of the Additional Commissioners in cases of difficulty?—Not so much the protection as the knowledge they may have.

26,060. Would it meet your view that the assessment should be made in all cases by the Surveyor except where either the taxpayer or the Surveyor wishes to refer the matter to the Additional Commissioners?—That is what we propose and wish.

26,061. Either the Surveyor or the taxpayer to have power to refer to, and obtain an assessment from, the Additional Commissioners, and in all other cases the Surveyor should have power of making the assessments?—Yes.

26,062. Then with regard to appeal, are you satisfied with the appeal to the General Commissioners?—Yes, generally speaking.

26,063. And it is a satisfaction both to the Surveyor of Taxes and also to the taxpayer?—Yes.

26,064. Then with regard to collection, which is the last point, you think that the Collector should be a whole-time civil servant?—Yes, we think that.

26,065. With regard to paragraph 20 that would seem to suggest that the question of the assessment of Super-tax should be dealt with solely by the Surveyor of Taxes of the district, and that there should be no right to refer the matter to the Special Commissioners?—That is not our suggestion. We do not wish that to be read into our suggestion. We should certainly retain the option of the taxpayer to be assessed by the Special Commissioners.

26,066. Your paragraph is rather different?—I am sorry.

26,067. *Sir J. Harwood-Barker*: In paragraph 14 (d) you say: "In case of appeal, power should be given to the Surveyor to amend the assessment by agreement with the appellant and on withdrawal of notice of appeal." Is not that rather a large order to give the Surveyor without some counter-check of some sort. Would not your proposal be subject to some power of agreement with the head officials, because the Surveyor and the appellant might agree, and there is no evidence that it has anyone else's sanction?—It seems to me that you are suggesting a very remote possibility, but there is no such check now other than those that will remain. There is at present the formal approval of the General Commissioners (in some cases) to the submitted appeals. There is also the inspection of the Surveyor's work by his superior officers. The check by the General Commissioners is purely formal; the check by the Surveyor's superior officers is not. We suggest that the formal check should go, and the other, of course, will remain.

26,068. It is only that you put this as one of the proposals, and to an outsider it looks rather a large order to give the Surveyor that power, unless it is

subject to some qualification that there should be that proviso as regards the authority of some head department?—It may surprise the public to know that we do the majority of the appeal work.

26,069. The Surveyors do the majority of the appeal work?—Yes, already.

26,070. Do they agree those cases without any reference to some head authority?—Yes; it is part of their normal work, unless an exceptionally difficult case arises in which the Surveyor would refer it for advice, perhaps, to his immediate superior.

26,071. There is a department which, for instance, audits his decisions, and if they found his decisions were running rather easily one way or the other would take him to task, and he would be subject to approval or disapproval by the authorities?—The whole of that Surveyor's work is watched and inspected.

26,072. By an audit department?—By an officer of superior rank, who has been through the Surveyor grade and who knows the work.

26,073. So that this power of settling appeals given here would be subject to some supervision by an outside authority?—By a superior authority, yes, in the way I have suggested.

26,074. It does look as you put it a little bit wide to give a right of settling an appeal to a Surveyor, unless there was some such superior authority stated?—Yes, but in that clause we are merely asking for legal powers for what we already do in fact.

26,075. *Mr. Prettymann*: We will now deal with the question of re-valuation.

26,076. *Dr. Stamp*: Your suggestion on re-valuation comes to this, that you are going to compile a valuation roll which can be kept up-to-date?—(*Mr. Osler*): That is so.

26,077. It is almost analogous, is it not, to the system obtaining in Scotland?—It is similar to that, but it has an important difference.

26,078. Will you tell us what that would be?—The re-valuation roll that obtains in Scotland is re-made every year. There is a complete new re-valuation roll every year. Returns are sent out to everybody every year and the roll is made afresh, although the values may be the same. It may be that they only find 5 per cent. or 10 per cent. of cases in which any alteration is necessary; still, the whole formality is gone through. In the proposal that we make we suggest that we should only concern ourselves with the re-valuation each year of the properties where there is evidence that an alteration of value has taken place.

26,079. On a change of tenancy, for instance, you would inquire?—On a change of tenancy we would inquire of the new tenant what rent he was paying.

26,080. Therefore, the new system would be a considerable advantage to the Revenue from the point of view of yield without being unjust to the taxpayer?—It would be of considerable advantage because the present system does not enable the Revenue to take advantage of any increases in value, whilst the Revenue has always been forced to admit reductions in the case of decreases in value.

26,081. Then so far from this change being made at the expense of justice to the taxpayer it is really more just to the taxpayer?—It is really more just to the taxpayer.

26,082. Because everybody is being dealt with on his current facts?—Yes, everybody is being dealt with on similar lines.

26,083. It is possible at the present moment that there are some people who are grossly under-assessed on this branch of their income?—Quite possible.

26,084. *Mr. McLintock*: With regard to the point that Dr. Stamp has touched upon, you find in Scotland that this valuation roll is very useful in connection with Income Tax assessment to enable you to trace removals, and it discloses a lot of general information about the taxpayer, which is quite helpful; it gives you his payments and the ground rents from which he deducts tax?—The valuation roll so far as I am aware does not give you information as to his payments for ground rents.

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26,085. It does in Glasgow anyhow?—I could not speak with first-hand knowledge as regards that; I have not been a valuation officer in Scotland.

26,086. Apart from the more valuation of the subjects, you find it very useful as a book of reference in tracing removals and various changes from time to time?—Undoubtedly.

26,087. Which otherwise you would have to go out and look for?—Yes.

26,088. And in England you have not had a re-valuation for about five years?—We have not had a re-valuation for about nine years—nearly ten years.

26,089. Sir J. Harcourt-Banner: Do you suggest that this re-valuation should apply to Ireland?—We do not suggest that this should apply to Ireland.

26,090. Mr. Pretymann: How do you suggest that the cases that require revision should be brought under notice; who is to do that?—I suggest that the Surveyor of Taxes would be made responsible for that, and that an organisation would be set up within his office for discovering automatically all such cases. We have instanced a few sources of information which would be useful to him in that connection, and it would be an administrative matter to devise a proper scheme whereby he could tap all sources of information which would enable him to discover from year to year changes in value.

26,091. Take the very normal and ordinary case in the increase of rent in the re-letting of a property, which I understand now does not carry a liability to an increased assessment until the quinquennial valuation?—That is so.

26,092. Would you throw the liability of returning that increased rent upon the owner of the property or would you leave it to the Surveyor to take his chance of finding it out?—We should leave it to the Surveyor to find it out. The Surveyor would be in possession of particulars showing changes of tenancy; that would be quite easy to ascertain, and in all those cases we should ask that you should recommend that he be given power to call for a return either from the owner or from the tenant of the new rent that is in operation.

26,093. And at present the right to get a rebate when a re-letting takes place at a lower rent is not statutory, is it?—It is not statutory.

26,094. It is only customary?—It is only customary.

26,095. I suppose you would make it statutory by this?—Yes.

26,096. So that a change which was ascertainable by the Surveyor would automatically be followed by a statutory alteration in the assessment corresponding to the change?—That would be so whether up or down.

26,097. Would that replace the quinquennial valuation altogether?—Yes.

26,098. You would have no periodic valuation?—No. The valuation roll would be a permanent roll subject to constant revision; it would always be up-to-date.

26,099. You do not think there would be any risk of some inequalities remaining undiscovered for a long period by there being so going over the whole ground?—I think not, because as an administrative matter the Board of Inland Revenue could direct in any particular year that the Surveyor of a particular district should make a check of the valuation in this parish or that parish and should issue forms of return to all the persons on the roll in the parish simply to check the particulars.

26,100. Mr. McLintock: In Scotland the form is issued every year to every owner of property?—Yes.

26,101. Mr. Pretymann: That is quite a different thing; it is really a very different system from the Scotch system. The Scotch system is that every person on the valuation roll has annually to make a return.

26,102. Mr. McLintock: And state if there is any change.

26,103. Mr. Pretymann: Yes, you therefore go over the whole ground every year?—Yes.

26,104. Your proposal is a very different one. Your proposal is in a sense that you do not propose to go over automatically any of the ground in any year;

what you propose is that changes should be recorded when ascertained?—We propose to set up a system under which we shall know before hand all the cases in which it has been possible for a change to take place and we shall concentrate our inquiries on those cases only instead of scattering forms broadcast to the whole of the properties, although we may know that the same tenant under the same terms of tenancy is still there. The man is still there working out an agreement of say five years.

26,105. Where there is a change of tenancies I can quite understand it would be pretty easy to ascertain, but take, for instance, agricultural tenancies. It is not at all infrequent for changes of rental to be privately arranged between the landlord and the tenant without anybody being aware of it except their own two selves; how are you going to get at that?—In the case of an agricultural tenancy where the tenancy is an annual tenancy from year to year, it would probably be necessary for us to issue forms at fairly frequent intervals, but I think there we should probably have some indication of the change in the rent.

26,106. Mr. Pretymann: Well, you might or might not.

26,107. Dr. Stamp: You would have to have an automatic system of dealing at certain intervals with that class of property, and also with owner-occupied property in general?—It would be quite possible to arrange that within the terms of this scheme; it would be an administrative matter.

26,108. Mr. McLintock: Take the case of buildings occupied for the purposes of trade, like a mill, in Scotland they make an annual survey?—That is so.

26,109. And if they observe a new building they put on a figure of additional assessment, with the right of appeal?—Yes.

26,110. That is not done in England?—That is not done in England. Of course, you see, in Scotland that valuation takes effect for rating purposes. In England now a valuation under Schedule A is only effective for the purposes of Income Tax, and in the case of a mill it really would not matter.

26,111. I was not so much concerned with the purpose, but in practice to-day there is a survey made of all property to see if there has been any specific addition or alteration to it?—That is so.

26,112. And the additional assessment is imposed?—That is so.

26,113. The same system should apply all round.

26,114. Dr. Stamp: Would not your proposal then lead the way to a fusion of the rating values and the Imperial values?—It would render such a fusion more possible, I think.

26,115. Mr. Pretymann: Before we begin the third subject I just want to ask you one question on the Schedule A evidence. Could you say whether you have made any calculation of what would be the estimated gain per annum in the proposed change in the method of valuation of properties?—We have a rough idea as to that. If a system were adopted which enabled the annual valuations to be kept up to date each year we have estimated that at present rates of tax the gain to the Revenue would probably be not less than £150,000 a year.

26,116. Now we will take the third subject on which you have presented your evidence, that is graduation and differentiation. I do not know whether you would like to make any addition to what you have said before you are questioned upon it?—I think not.

26,117. Sir E. Nott-Bower: I should like to ask you a few questions about the interesting suggestion which your Association brings forward in paragraph 24 of your third paper. That suggestion is designed to obtain a smooth graduation of Income Tax, and a graduation which will be capable of being defended on equitable grounds even when Income Tax has mounted to the height that our Income Tax has mounted. This graduation, if it were acceptable in principle, would smooth away those appalling difficulties which have been connected with some of the other suggestions which have been made in order to equalise the graduation. It is comparatively a very simple suggestion. I may say with regard to the method of working at

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first eight those abatements of £140, £160 and £275 look rather arbitrary. I think the principle at the base of the scale is really like the Super-tax principle. It might be perhaps more convenient to work it by those six payments that have an arbitrary look, but the scheme looks more attractive when you have regard to the basis upon which it is carried out, the Super-tax basis, which you really give in Annex 5 to your third paper. I think that scale in paragraph 25 is based on an exemption of the first £140 of income, then a charge of 3s. 4d. on income between £140 and £500, a further charge of 5s. on the excess up to £950, and a charge of 6s. on the excess of £950?—No, it is not based on a further charge of 5s. on the excess of £950.

26,118. I know; I have expressed myself badly; the scale in paragraph 25 is a scale under which an income in excess of £140, and not exceeding £500, would be charged first of all by deducting an abatement of £140 from the amount of the income, and then by charging a flat rate of 3s. 4d. on the residue, but if the income exceeds £500 and does not exceed £950 you would deduct an abatement of £350 from the total income, and then charge a flat rate of 5s. on the whole of the residue. There is no question of taxing the income in slices?—No.

26,119. The result is precisely the same, is not it? Your scale in paragraph 25 is expressly after the Super-tax model in terms of rate alone?—Quite so. We give in Annex 5 what would be the equivalent Super-tax model. Our system is a variation of the method of carrying that into effect, but arriving at the same result.

26,120. It is merely one method, and perhaps a more convenient method, of adapting the scale which you describe in Annex 5?—Yes, that is so.

26,121. With regard to the simplicity that you suggest, one of the methods by which you obtain that simplicity I think is that you adopt a different method of differentiating in favour of earned income. Instead of having a rate charged on earned income which is different from the rate charged on unearned income, you propose to exempt altogether a slice of the earned income, and to treat as taxable only three-quarters of it; you exempt one-quarter and only charge three-quarters, but charge it at the same rate?—That is one of the three suggestions that we made as possible alternative methods of dealing with the differentiation problem.

26,122. That treatment is really involved in this suggestion that you bring forward?—One of those three alternatives is involved, we think, in the adoption of this system.

26,123. You realize that treating earned income in that way would increase the measure of differentiation: it would make the cost of differential treatment much higher, would it not?—That would depend upon what fraction you use as your factor for the purpose of turning earned income into taxable income. We merely suggested three-quarters as a token figure; you can take four-fifths or eleven-twelfths, or any fraction you like, according to the measure of relief that you think it is necessary to extend to earned income.

26,124. But you suggest, do you not, that the fraction which is freed from tax, take it at one-quarter, which is one fraction suggested, might bring a man below the exemption limit altogether?—Yes. The fraction of a quarter would be undoubtedly more advantageous than the present differentiation, but we do not wish it to be taken that we are suggesting that a greater differentiation should be extended. We only used that fraction as an illustration of the possibilities of the scale.

26,125. I agree. With regard to that alteration of method, you do contemplate that the recipient of earned income should virtually have a higher exemption?—Yes, we contemplate that it may be desirable.

26,126. This scale that we have before us contemplates practically the exemption; I do not think you are recommending that precisely, but the figures that you put forward here contemplate an exemption rate of £140?—Yes.

26,127. If you grant differentiation in the form you suggest, the person in receipt of earned income would be exempt up to £186 odd?—On the first of the alternatives, yes; on the second of the alternatives, no, because the second suggestion is that you should apply your factor only to that portion of the earned income which exceeds the exemption limit. We have contemplated that you would wish to keep the flat exemption limit whether income were earned or unearned; that you would wish to have £140 as the exemption limit in any case.

26,128. Have you considered at all which is the fairest method of treatment?—I do not think that I am justified in saying that we have. That really is an economic and social question, to which we have not applied our minds. We were more concerned with the machinery and methods which you might recommend for carrying out what you consider to be the fairest method of differentiation.

26,129. Then with regard to the personal allowances for wife and children, and so on, how would you work them in connection with this suggestion?—It is suggested that it might be possible to consider those personal allowances as a deduction from income in arriving at chargeable income.

26,130. That at present is not done under the Income Tax Acts?—That is not done under the Income Tax Acts, neither in Life Assurance allowance, nor the personal allowances.

26,131. Life Assurance is such an anomalous allowance that I should almost like to think of it by itself, but with regard to the personal allowances, do you think that it is fair that the allowance when made shall be not merely an allowance of tax on a given amount, but that the given amount shall be deducted in considering a man's total income?—We think that would be quite reasonable and logical.

26,132. So far as mere equity is concerned, where would you cease to grant that allowance?—At what point should we cease to make personal allowances?

26,133. Yes?—That is a question upon which we have not ventured to offer an opinion; again, it is rather an economic and social question.

26,134. We are on the question of the smooth graduation now. Of course, if it is to stop anywhere, at the point where it is cut off there will be a jump?—There must always be a jump in any system where you cut off personal allowances.

26,135. Is there any reason why it should be cut off at any point at all on equitable grounds?—On equitable grounds I should think probably there is no reason; no administrative grounds possibly there might be found some reason.

26,136. You do not think you would be unable to work the tax because of those allowances?—No, and of course, the higher you make your limit the fewer are the number of incomes which will be excluded from those personal allowances, and the fewer number that are excluded in comparison to the whole, the less extra difficulty would be involved if you gave it to all of them.

26,137. With regard to the graduation which you would get under this scale, the slope is not quite so steep as we have it at present. Let me put it to you in this way to see if I understand your scale aright; I think under the scale you suggest the Income Tax payable by a person whose chargeable income was £500 is the same, is it not, as a man with an earned income of £500 would be under the existing scale; take it at those steps, £500, £1,000 and £1,500?—On an unearned income of £500 the tax would coincide with the tax under the present system. The points where coincidence takes place are shown on the graph which is given as an Appendix. [See Appendix No. 44.]

26,138. Would not the same result follow at £1,000 and £1,500?—At £1,000, that is true, and at £1,500 the points coincide again.

26,139. The point I have in my mind is this: of course you get coincidence just as the very point where the graduation under the present system is going to make a huge jump. There is a jump at

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£500—immediately above £500; then immediately above £1,000 there is a bigger jump, and immediately above £1,500 there is a bigger jump still; so it would follow that the total amount to be got under your scale is less than the total amount of duty to be got under the existing scale?—I think that is so, because of course our scale is smoothing out those jumps; therefore the tax that would be lost under the adoption of our scale is the tax you would obtain by saying to a man who is at one of those limits, "you shall forfeit so much of your income entirely until you reach the point where the new scale will begin to operate smoothly." Our scale does away with this forfeiture of his income, and you lose all that.

26,140. It is necessary of course that a huge amount of money should be raised by the Income Tax. We want to get as much money in the future as we have in the past, and perhaps more?—Yes.

26,141. So that if you adopt a scale which is an easy scale, you have to put on a higher rate to compensate for the difference?—That would be so; the rates of duty would depend on the total amount you want to raise.

26,142. I do not know why you should assume that the graduation of these fixed points of £500, £1,000 and £1,500 is an ideal graduation. Would not it be better to have a scale which would coincide with the present scale from the midway points?—Yes, that would probably be desirable.

26,143. What I had in mind in this connection was this: I wanted to suggest a further simplification which would operate in the direction that I mentioned. Why have three rates of tax? Why not have only two, one running to £500 and then above £500 charge the full 6s. in the £ on the excess over £500? That I think would be a scale which would be somewhat higher than yours, and would approximate more closely to the general trend of the existing scale; you have not considered that, have you?—You wish only to have two legs in the car?—

26,144. Yes.—One running to £500 and one going direct from £500 to £1,500?

26,145. Yes, say £1,500 for the present purposes.—Of course, it is possible to construct a scale on the principle that we lay down there with any number of legs at any number of points, and to have it quite smooth; it is just a question of whether you think it is right that the steepness of incidence should be the same between £500 and £1,500, or whether there is a midway point at which you begin to be a little more stringent.

26,146. I did not know whether you had considered it, but I suggest this, that if you eliminated that intermediate clause and brought on the 6s. duty to the excess over £500, you would attain that result, and you would at the same time further simplify this suggestion of yours. However, if you have not considered it I do not want to press it?—No, I should not say that we have considered that exact point. There might be a difficulty in working it, inasmuch as it perhaps would not follow exactly this abatement formula which enables us to construct a smooth ascending curve in this way, with increasing abatements and increasing rates of tax.

26,147. Assuming that this scale carried you fairly up to £1,500, you admit that at £1,500 the scale rather breaks down? The curve graduation wants reinforcing there if we are to get anything like the same rates of Income Tax on the larger income?—At £1,500 we suggest that it would not be desirable to continue with increasing abatements and increasing rates. We suggest that you should depart from that system so soon as you reach the standard rate of tax.

26,148. When you cut off the abatement?—As soon as the abatement has disappeared by successive steps.

26,149. The abatement you contemplate is £375, but with the alternative suggestion that I asked your opinion on just now, if you began with the 6s. rate at £500 the abatement would be not £375, but £500, and that you again pare as you get over the £1,500?—I am afraid I have not quite followed that.

26,150. When you get to £1,500, of course, there is your suggestion: you want to arrive at your standard

rate at some different point, £2,000 to the £2,500, or whatever it is. You can arrive at that by parring away that abatement gradually?—Yes, or alternatively you need not go straight to that point where it disappears; you may choose some midway point and you may say, "we will pare it away quickly up to that point, and then more quickly from there to the end."

26,151. I think I understand the principle of that suggestion. Of course, there would be an alternative method of reinforcing the graduation at the point of £1,500. You might start with Super-tax at £1,500; have you considered that at all? The present Super-tax only starts at £2,500?—Yes.

26,152. You have not considered as an alternative to that cutting away of the abatement, the reinforcing of the graduation curve by starting the Super-tax a little lower?—It would have to be a minus Super-tax at the £1,500 point if you do it in that way. What we want at £1,500 is to relieve a man of something, and not add something to it. A minus Super-tax is what is in the scheme put up by the official witness; he describes it as an abatement of duty.

26,153. I am afraid I do not quite follow that; why a minus Super-tax, because at £1,500 you propose to increase a man's charge by reducing the abatement?—Yes, but we still give him an abatement; he will get not £375, but £375 less a certain amount—less £4, we will say, or whatever it may be.

26,154. My suggestion merely was that you might leave that abatement standing and impose a Super-tax?—Still continue the abatement and yet impose a Super-tax?

26,155. Yes. I think we look at this from slightly different points of view. I regard your abatement of £375 merely as a device for obtaining the results which you do attain by adopting the Super-tax scale, that is I think really at £1,500 what you have done is that you have made an assessment on a man exempting the first £140?—Just as in Annex 5 it is set out.

26,156. What you have really done is, you have charged him nothing on the first £140, on the income from £140 to £500 you have charged him at 3s. 4d., and on the income from £500 to £950 at 5s., and from £950 to £1,500 at 6s. 2d.—Yes.

26,157. Then I should go on charging him 6s. That stands according to your scale from £950 onwards. I should charge him on all his additional income at 6s. I merely suggest it as an alternative method of dealing with the matter?—It is quite a possible method, I agree.

26,158. Of course, it will increase the number of Super-tax assessments very largely?—Yes.

26,159. Dr. Stamp: The principle of this suggestion is at the point of change to make an exact compensation between the increased rate of duty and the increased abatement?—That is so.

26,160. So that you might call it a simultaneous change of rate and abatement?—Yes.

26,161. Or a compensating change of rate and abatement?—Yes.

26,162. And if you calculated the duty on £500 on the lower scale or on the other it is the same?—Precisely the same.

26,163. The previous witnesses we have had on this have given us graphs in which the vertical scale has been a rate of tax; yours has given us an amount of tax?—Yes.

26,164. The amount of tax gives us each time straight lines in different directions?—That is so.

26,165. Whereas the rate of tax gives us a curve?—Yes.

26,166. In order that we might compare this evidence with the previous evidence and have it in like terms in our minds, could you put in a graph showing the effect of this, with the vertical column showing rate of tax?—Yes, we could do that.

26,167. It would have the effect, would it not, of showing us when the progression begins to get flat at the point of change it is repeated again?—That would be so.

26,168. So that you would get a sort of scalloped effect?—Yes. [See Appendix No. 45.]

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[Continued.]

26,169. But no vertical jumps such as all the other scales show?—That is so.

26,170. Is it within your knowledge that this principle of simultaneous change of rate and abatement was officially considered about five or six years ago in competition with the slice method for Super-tax?—I believe that was so. I think I am right in saying that that was so, but I had no personal part in the consideration of it; I was aware that it was considered.

26,171. Would the fact that for Super-tax the slice method was preferred appear to you to be any argument why on this lower range this should not be better than the slice scheme?—I think quite the contrary.

26,172. It could not be alleged because the slice system was preferred to the compensating change of rate and abatement for the section dealt with by Super-tax that therefore it is the better system for the lower section?—I think not; I think you are dealing with different types of income altogether.

26,173. The sole object that you have, I take it, is to have a sufficiently long zone in which the matter is dealt with automatically in the districts so as not to endanger the ordinary dealing with adjustments of assessments?—That is so.

26,174. And if you have quite short zones and try to get a smooth curve in that way you endanger the administrative convenience?—You do.

26,175. But if you have the long zones as you suggest of £200, with a definite rate, you are merely carrying out existing principles in your books?—Yes.

26,176. And there is no change in the methods on which you have to work?—Yes, that is so.

26,177. And it is the only system put forward that does not involve change in your methods of work?—Yes, that is so.

26,178. There appear to me to be two objections; will you tell me whether you think they are serious. The first objection is a psychological one. Is it easy to explain to the taxpayer who has an income of £600 that his abatement is £140, whereas his neighbour who has an income of £500 has a larger abatement?—I think there would not be any great difficulty in explaining that to him when one was able to point out, of course, that the rate at which he paid was 3s. 4d., and his neighbour was paying 4s.

26,179. More especially if you could point out that it had only the same effect as here got by a higher rate of tax?—That is so.

26,180. You do not think that is a real obstacle in the way of the adoption of the scheme?—I do not think so.

26,181. The second point is the difficulty to which Sir Edmund Nott-Bower has referred. By the time you get to £1,500 you get a nominal rate of 6s., whereas you do not get a real rate of 6s. until you get higher?—That is so.

26,182. He has suggested that you might drop your Super-tax to the limit of £1,500, continue your abatement of £375, and pick up what you have given away by the abatement by what we might call a lower form of Super-tax. Is not that rather making a hole in a man's tax by an abatement, and then having another tax to fill it up?—It strikes me as being rather analogous to that, and it seemed to me it would be rather a pity to extend the Super-tax to the lower limit if you could arrive at the same result in another way, because of course as you get down into the lower limit, as you come down range by range, so you are constantly getting into the region of larger numbers of incomes; the lower down you bring the Super-tax the greater number of incomes you have.

26,183. Therefore, between £2,500 and £1,500 you would have a large number of Super-tax incomes?—Yes, and a great deal of the Super-tax you would be collecting simply to counteract the effect of the abatement which you were giving them which you really ought not to be giving them; you are taking away with one hand what you are giving with the other.

26,184. You take away duty with the abatement quite unnecessarily in order to make the man pay Super-tax to fill up that?—I think so.

26,185. Your scheme, of course, obviates the necessity for anybody making an absolutely correct total income return for a particular year?—That is so, and it is one of the great advantages that we see in it.

26,186. Suppose the Commission came to the conclusion that an exact return ought to be made and the proper rate of the tax applied to it; supposing that could be adopted and people did have to make an exact return of actual income in a given year, have you considered the ways in which by repayment and adjustment that could be dealt with? I think there were three ways put forward, that the liability for a given year should not be paid upon until after the end of that year, and then it could be made upon an exact figure; the difficulty about that was finding a bridge for the loss of revenue in the interim?—That would be one very large difficulty.

26,187. The second method was so let the man make a provisional return as to what he thought his income was going to be at the beginning and pay upon it, and then make an adjusted return at the end of the year and get either repayment or a further assessment?—Yes.

26,188. The third method was to educate the public to disregard the tax that has been deducted from them during the current year as being the tax of the year and tell them it was a tax on account of next year?—Yes.

26,189. So that at the end of this year they would make up their exact account of this year, and it would be the basis of the return for the next; would you agree that there are only those three variants?—Those are the only three variants that my Association had under consideration. They had it under consideration earlier in the year with particular reference to endeavours that they were making to see whether assessment under Schedule D on the current year's income was possible.

26,190. You did not like them?—We did not like them, and we did not think that they were practicable.

26,191. Suppose you had to take one of them, which would you choose?—I am not certain that I should be justified in giving an answer off-hand as to that. We thought they were all undesirable; whether we had a particular leaning for one as being less undesirable than another I do not think I could tell you.

26,192. Professor Pigou: Of course, when one has decided what general form of scale one wants one can get it either by manipulating the abatement, or by manipulating the effective rate, or by manipulating the rates of successive slices?—Yes.

26,193. Or by a division of all those three?—Yes.

26,194. And which plan you adopt is purely a matter of machinery, and you can produce the same result by mathematical devices on any plan?—Yes, but not necessarily within the machinery.

26,195. Yes, I was coming to that. I wanted just to get that was a question of machinery.—It is a question of machinery.

26,196. Therefore one must be careful, must not one, in considering this machinery not to jump from the conclusion about the machinery as to the proper shape of the scale. There is a certain temptation if one sees a thing which will work smoothly to adopt that as a scale because it is smooth working?—It is a question of balance of advantage.

26,197. The first question is on purely general grounds what kind of shape of scale you want?—That is the economic question.

26,198. Having settled that, the second question is, what is the most convenient machinery for getting it?—Yes.

26,199. And your plan is suggested as a convenient means for getting the machine more like the present case?—Yes.

26,200. On the question of figures there is only one point which seems to me a difficulty. Dr. Stamp suggested to you the awkwardness of the present table—that this statement really was the same as graduation?—Yes.

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[Continued.]

26,201. Your reply was that you thought that could be explained?—I think so.

26,202. We have often had it suggested here, when an analogous question was raised, the question of abatements for wife and children when the relief was suggested by abatements and a growing abatement for richer men: "You are giving the richer man more than the poorer man"?—As regards personal allowance.

26,203. Yes, that is really analogous, is not it; it was proposed to give relief by means of a form of graduation?—Is it really analogous? I hardly think it is, because here the two things necessarily go together. A man cannot have a larger abatement unless he has a larger rate. If you are going to give him a personal allowance for wife and children, the fact as to whether he has that allowance or not will have no effect on the rate.

26,204. I was not arguing it from that point of view. I wanted just to indicate the difficulty that people have in perceiving that the abatement method is really the same as graduation?—At the first blush, if the man looked at the abatement alone he would say: "this man gets £140, and here is a man with a bigger income who gets £200." I think of necessity he would have to go on and explore it a little further.

26,205. You think there would be no serious difficulty?—I feel there would be no difficulty in explaining that to the taxpayer; I think that he would quite appreciate it.

26,206. On another point you suggest that earned income should be regarded as a sort of fraction of unearned income?—We suggest one of three alternatives; we do not express any preference for one or the other.

26,207. My question is, would you have it the same fraction for incomes of different sizes? If it is three-quarters for a small income, would you still make it three-quarters for a large income?—Our suggestion was that you should make it three-quarters, or some fraction of the first so much of the income, and there you should cease.

26,208. Dr. Stamp: It is a diminishing fraction now?—It is a diminishing fraction now.

26,209. Professor Pigou: But on your plan, up to the point where it ceased altogether it would remain three-quarters?—It would remain three-quarters, but it is possible to vary that.

26,210. Might not it be better to make it gradually rise to one instead of going on being three-quarters and suddenly becoming one; would it not be a more symmetrical plan?

26,211. Dr. Stamp: It does that now?—Yes.

26,212. Professor Pigou: It does it in effect?—By our third alternative of taking 9d. in the £ on the amount of the earned income, having, first of all, treated all the income as taxable income and not differentiating, and then differentiating by a duty allowance of 9d. in the £ on the earned income, you would in effect be giving a decreasing ratio compared with the total income, just as you do now; the third alternative would probably do what you have in mind.

26,213. Would you prefer that? Otherwise you do get a sudden jump?—There would be no jump with the 9d. allowance; you get a jump with the other system.

26,214. What I was trying to get at was, do you prefer the 9d. plan?—Yes, I think I would say that we do; it would be easier to work.

26,215. On the present scheme, take the case of a man with an income of £500. A man with £500 who has got an earned income gets, as against the bachelor, relief X. On the present plan a man who is both married and has an earned income does not get, as against the bachelor, as much as the relief X plus Y, but somewhat smaller?—That is so, because, of course, his personal allowances are coming off income, which, had he no personal allowances, would be getting a differential rate.

26,216. Do you consider that desirable?—Well, it does not seem equitable; whether it is desirable is a question which must be determined on two considerations: first of all, the economy of the thing, and,

secondly, the expense and difficulty of administering it in any other way.

26,217. Might it not be argued that a married man has more claim to relief for earned income than an unmarried man?—I should think it would be quite possible to put up an argument on those lines.

26,218. And similarly a married man with an earned income has a bigger claim to relief than one who is a bachelor?—Of course, that is the same question as to whether or not any earned income ought to have a lower rate than an unearned income.

26,219. Granted that you are going to give a relief to earned income does it not seem fair that the married man should have as much relief as the unmarried man?—That is to say, you think that the allowance for wife and children should be a duty allowance rather than an allowance from the income?

26,220. I do not mind how it is arranged; you can arrange it in either way. What I was suggesting was that this system under which at present married men plus earnedness gets a smaller relief when they are taken jointly than the sum of the two separately ought to be modified; I want to get you to agree to that?—It seems a very sound proposition from the theoretical point of view.

26,221. It is not at all obvious to a person looking at the very complicated scale that that does happen?—No, it is not obvious. Probably very few people realise that it does happen.

26,222. Mr. McIntock: It is not quite clear that your Association really want any change in the existing practice?—I think we almost make it clear that we do not.

26,223. You put forward these various alternatives if a change has to be made?—Yes.

26,224. But your view is that there is no occasion for any change; the present system works on the whole easily and without any sense of grievance?—That is our view—that it works as easily as anything that the wit of man can devise and without any particular sense of grievance. Of course, you cannot have an easy Income Tax.

26,225. All these suggested alterations are going to introduce a good deal of complication and education of the taxpayer as to the meaning of it all?—Yes.

26,226. But you do not advocate a change?—We do not. In our paragraph 6, I think we have suggested that we should like to leave things as they are, subject to the possibility of giving a little more relief at these jumping points than is given now.

26,227. Without reconstructing the whole thing?—Without reconstructing the whole fabric of the tax, because of those jumps.

26,228. Mr. Kerly: One objection to a sudden jump is that it seems unfair that a taxpayer just above the critical point should pay at a much higher rate than a man just below the critical point; that is the obvious objection. Is there not another objection that when you get into the neighbourhood of a critical point the taxing authorities scrutinise the last ounce of income with exceptional care and necessarily so, because another £5 on may put a man's rate up quite considerably?—That is so.

26,229. For instance, the present provision that if a man gets over a critical point he can abandon his extra income, that is, he can pay this tax instead of paying tax at the higher rate, has led the taxing authorities to say: "inasmuch as we are giving up taxes by admitting a claim we must be more careful than if we were only adjusting income in the ordinary way."—Not more careful in the sense of being careless in the one case and careful in the other, but that necessarily you can arrive at absolute accuracy of charge in the case of a man whose income is not at a marginal point as long as you know that it does fall within the limits of the zone. You do not need to know more than that, and you have got a perfectly accurate charge. In order to get a perfectly accurate charge on the man who does fall within the marginal field you must know his income exactly, so in both cases you will have a perfectly accurate charge, but in the one case you must determine his total income with exactitude, and in the other case there is no need to determine his total income with exactitude. From that point of view it is true you do have to know his exact income in one case and not

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in the other, but of course you are equally careful in both cases.

26,230. I do not agree with your antithesis. In each case if you are going to get an exact tax you must know both the rate and taxable income, must you not?—That is so.

26,231. But whereas by your subtracting a little from the taxable income you are only charging the rate, whatever it is, upon the loss, if any; in the other case you are charging the whole of the loss, and I suggest to you that in practice much greater difficulty is found in arriving at a settlement where the income is in the neighbourhood of a critical point than in other places in the scale?—Much greater difficulty in arriving at a final settlement, yes.

26,232. It is a difficulty that also arises in regard to Estate Duty and other places where there is a graduated tax. That is an additional reason, and I suggest to you a very practical reason for smoothing out the curve if you can?—Yes.

26,233. The proposal that you have been discussing is for having what I call a corrective abatement intending to correct the jump under the present or some other system in the scale?—Yes.

26,234. I have properly described it, have I not, as a corrective abatement?—Yes.

26,235. It is suggested that this objection will be raised, that a man whose rate is, shall we say, 2s. is allowed, shall we say, a £200 abatement, but a man whose rate is 3s. is allowed a £400 abatement. You say the £400 is only larger than the £200 because it is a corrective abatement?—Yes.

26,236. That sounds quite sensible, but will it not be said: "you have made your rates the appropriate rates for a man's income. Jones is charged at the rate of 5s. because that is the proper rate for Jones, and Smith is charged at 2s. because that is his proper rate. Why on earth should you allow Jones twice as much abatement as Smith?" In order to answer that the system of corrective abatements and the principle upon which they rest needs to be explained?—Yes.

26,237. Do you think that is capable of comprehension by a popular audience?—I think so, because you would tell an audience how much tax the man with an income of £200 paid, how much tax the man with an income of £300 paid, and the same with £350, £400, and so on, and by giving them a few rising incomes and the amounts of tax that are paid I think you would demonstrate to them that there is a rising amount to tax with the rising amount of income.

26,238. Your answer is that on the face of it it is a grievance, there is an explanation which shows that it is not a grievance, but the explanation requires to be given and understood?—No, that is not my answer; that is your interpretation of it.

26,239. Now tell me where the true answer differs from my interpretation?—To me there is no apparent grievance.

26,240. Because you know the answer?—No, because I would refuse to look at the abatement without also looking at the rate of tax which is charged on the residue of the income. It seems to me after all that is not a very grave test of a man's mentality. As a Surveyor in a district with a taxpayer who came in to see me about his tax I should not look upon that as being something that is very difficult to prove to him. There are some things that it is very difficult to explain to a taxpayer.

26,241. I am rather putting it to you from the point of view of the public, not the Surveyor's office?—As a Surveyor of Taxes I am precluded from taking part in public meetings.

26,242. Therefore, you will accept it if I tell you that personally I have no difficulty about understanding it?—I quite appreciate that, yes.

26,243. Mr. Petyman: On that last point, as a citizen and not as a Surveyor, you are aware that there is a great agitation going on now on the part of a large section of the working class about the exemption limit?—Yes.

26,244. I dare say it might occur to you that such a figure as suggested in this scale of yours might be utilised in an agitation of that kind, might it not?—Yes, I can quite think that it would be.

26,245. And the corrective explanation would not always be given at the right moment?—I think, perhaps, in fairness to this scheme I should say the £140, the £200, and the £375 are only illustrative. In case it was suggested how far this system of dealing with graduation was elastic, I have here three illustrations of how the scale could be worked, and I should like to hand them in, because one of them would allow you to work this system with an exemption limit very much higher than the present one. [See Appendix No. 47.]

26,246. Still, the principle would remain that the higher rate would have to be accompanied by a higher abatement?—Yes.

26,247. Quite irrespective of the figure, in a political argument that would be a weapon?—I think it would be, yes.

26,248. And of course we bear in mind what I understand the effect of your evidence to be, and that is that your Association has carefully looked at the point of suggested methods of smoothing out the graduation, and after examining them all you have come to the conclusion that none of them are practicable, that you suggest one of your own which you think is more practicable, but in regard to the very great difficulties that would attend explaining it to the public and the demonstration of it you are on the whole of opinion that it is better to retain the present system?—On the whole we are.

26,249. Although you put your suggestion forward as the best of a bad lot rather?—Not of a bad lot, as the best of a lot which are not so good as the present system. I would not like to say that they were definitely bad. I would not like to be too emphatic in condemnation of any of these suggested alternatives, but we do not think they are so good as the present.

26,250. That is an important point, because it is not desirable to make a change at any time in a system unless you are quite certain you are going to get something better?—That is so.

26,251. You go beyond that in this case. You go so far as to say that the present system on the whole is better if you had the choice. Supposing there were no system of Income Tax, and you had to start one de novo, that is what your answer would mean. You said you considered the present system better than any of those now proposed including your own. Did you mean only because it is in existence or did you mean better in itself?—Partly because it is in existence. If you were going to start afresh, I take it you would probably introduce many differences into the Income Tax system which would open the way for very large alterations.

26,252. So that you do not go further than saying that you do not think that any advantages in this system would justify the change?—That is as far as we wish to go.

*Mr. A. B. called and examined.

26,253. Mr. Petyman: We understand that you wish to give us evidence as to the system of making assessments for Income Tax in rural districts, but that you desire that your name shall not be published. Will you tell us now what the evidence is you wish to give?—I wish to make two remarks to begin

with: I believe the system adopted for the benefit of the Additional Commissioners in my district has not varied from that which goes on all over the country; it is the same practically everywhere.

26,254. When you say "for the benefit of," what do you mean by that?—I do not want you to understand that the Commissioners draw up these regulations under which we act.

* This witness gave evidence on the condition that his name was not disclosed.

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Mr. A. B.

[Continued.]

26,255. You mean "for the use of"?—We merely do what we are told.

26,256. Are you an Additional Commissioner?—Yes. One other thing I want to say, and that is in some of the things I say I may seem to be implying great laxity to the Inspectors or Surveyors of the Income Tax in my district. I do not wish to imply that at all; they are only the creatures of circumstance. I do not suppose that they are any better or any worse where I am than all over the country. With those remarks, I think, with your permission, I will not detain you very long. In my district there are two Inspectors and they are placed, either by accident or design, at different ends of the district, so when the Commissioners meet there are two books brought in by these two Inspectors; we deal first with the one Inspector and then with the second Inspector.

26,257. You mean a Surveyor, do you not?—They are now called Inspectors. I have only just ascertained that myself; I notice that they are called Inspectors now.

26,258. Mr. Kerly: Suppose you call them Surveyors because we are so familiar with them by that name?—I must point out that the Surveyors are liable to change, and I must also point out that in a rural district they cannot and do not know anything practically outside the village they live in; that I will prove in a minute. I believe by Act of Parliament there are seven General or Additional Commissioners of Income Tax—in my district I think, at all events, and I believe that is so everywhere. I consider that their work ought to be of the very utmost importance, but as it is it is hardly any use at all. We only meet once a year, and in my district during the last few years we practically always meet at the same place. Of course, that is obviously absurd.

26,259. Then the point above all others is this, that practically the only cases that are placed before the Commissioners are those cases where no return has been made at all. There was some alteration at our meeting in September; I was warned before I went that I should be much longer there, because we should go into more cases. Whether that arose from a certain amount of correspondence I had with Somerset House or not, I do not know, but I admit on the last occasion, in September, we went into more cases with a vast deal of benefit to the Inland Revenue. In a district like that where I am living, the profits of the tradespeople and hotel keepers in the last few years have been something enormous. I see them building houses; I see them retiring; and I am quite certain that in a vast number of these cases these men have not been got at at all. I must just point out in passing that it is obvious that even if we only put them up £100 or £200 a year it amounts to a great deal more than it would seem, because, of course, they may get into a higher rate of Income Tax. I will just give you a few proofs of what I say.

26,260. My first point is, that as far as the Additional Commissioners are concerned, there is hardly any check or supervision at all excepting where the returns have not been made. At our last meeting in September, as I have just said, we did go into a few cases, and in almost every case we put the tradespeople's assessment up very considerably. The Clerk to the Commissioners said to me afterwards, "I shall have a string outside my office protesting." I said: "You will not have one." He told me the other day there had not been a single appeal. As a matter of fact, there were only three Commissioners there, and two of us came from the same village. The result was that we dealt with the books of the one Surveyor, but practically we did nothing whatever with the books of the other, because the Commissioners from that end of the district were not present, and as far as I went, and my other two colleagues, we had no knowledge of the outlying districts, so that whereas in the portion of the district which we knew about there was a very material increase in the Income Tax returns, a large part of the district got off without any increase at all. Since I have been a Commissioner—some years now—although there are supposed to be seven of us, never at one meeting have I ever seen more than three, and as a matter of fact I only know the names of four;

three I have never seen at all. That arises, no doubt, from the fact of always meeting in the same place. If directions were given that we were to meet in different parts of the division then the Commissioners who were at one end of the division would attend in their district, and those at another end of the division would attend in theirs, and we should all of us have some knowledge of the cases we were dealing with.

26,261. I think, in the year 1915, one man had been foolish enough not to make a return, and the Surveyor did as he generally does in those cases, he said: "In this case I have put him up a bit," and he stated that he had put him up £50 or £100. To the astonishment of my colleagues, I moved that they put him up hundreds of pounds. He was put up hundreds of pounds and he never made any appeal at all. If I had not chanced to be there and had not some knowledge of what was going on in the particular place I live in, and had this man made a return and chosen to falsify it—I do not say that he would—his case would never have come before us at all, and up to September, as I say, we have never considered any cases excepting cases where no return has been made. As a matter of fact I have, during the last year or two, made a practice of asking what the returns of certain people were, knowing that they were making very large profits, but we do not deal, and have not dealt, with cases excepting those where they do not make returns. I have actually asked on two or three occasions what so-and-so was paying, and the Surveyor has not even got him on his list; he is not there at all. They told me the other day that before the next meeting the Surveyor was going very carefully through the villages to try and get those on his list who were not there at present. I should like to say in passing that, as far as I know, exactly the same state of affairs prevails in other places. I was in another county this year and I discussed this matter with a Commissioner of Income Tax there, and he gave me several instances (I do not think he ought to have done, but he did) of people in a large way, who had not been paying anything at all. I tried to get some typing done down there to send up to Somerset House, and a man in a big way of business said he would do it for me. At the end of a week he had not done it; at the end of a fortnight he had not done it; and he never intended to do it at all, it was obvious, because I brought in this county in writing to Somerset House. I said that the state of affairs prevailing there was just as bad as it was round me. I had to send that thing up to London to get it typed. I do not know whether it is outside my sphere to make one or two suggestions, and then, I shall have finished.

26,262. Mr. Prestlyman: Not at all; we shall be very glad to hear anything you suggest?—I say that there ought to be proper regulations drawn up as to the duties of Commissioners, and these regulations ought to be given, not only to the Commissioners, but to the Clerks to the Commissioners, and also to the Surveyors. I also say that the limit—I think I am right in saying that there is a limit—as to the number of the Commissioners should be increased. Take a district like mine; the only way you can get about it is by motor, because the trains do not connect. In September we did not go into the cases from one part of the division at all, as we had no knowledge. I say the Commissioners themselves, or perhaps better still the Rural District Councils, should decide how many Commissioners are wanted in each district. I say the Rural District Councils and not the County Council, because, of course, the Rural District Council's knowledge is greater than that of the County Council. I have been a member of both, and the County Council covers a much larger area. When I was on the County Council I represented several places; on the Rural District Council I only represent one, so that my knowledge as a Rural District councillor of that portion of the district I served as a Rural District councillor was greater than the knowledge I had of the larger district I served as a county councillor. I think it would be better to let the Rural District Councils have the appointment. Then certainly the Commissioners ought to be chosen from different localities. I said just now

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that there have never been more than three of us at any meeting; two of us have always been from the same village. Of course, as far as possible, they ought to be chosen from people who are sitting on other public bodies. There are no reporters present, so I can speak quite freely. I have been of the very utmost use, because I was chairman of the tribunal for letting off fellows from going to the war, and I was a member of the Food Committee, and the information I got at those two places has been of the greatest value. I have been able to help them a very great deal with people in my immediate district by reason of the knowledge I have gained from sitting on other bodies, and, therefore, I think it would be far better if they were chosen from some public body. Then above everything, the Commissioners should arrange for meetings for their own districts. It is no use summoning me to attend a meeting 15 or 20 miles away from me, because I have no knowledge there. They ought to get Commissioners living in the district to attend. I do not myself think the whole thing would take very long—because I was going to suggest rather a drastic thing, although I do not think it would amount to very much—and that is, that these meetings of Commissioners should be summoned when deemed necessary, and in such places as seem desirable, instead of having them as we are having them now, always in the same place, and only meeting once a year. I would suggest, lastly, that the Commissioners should be made to go through every case and not only those cases where no returns are made; they should be made to go through every case where money is made in the district in the course of two or three years.

26,263. Is there any law which prevents you in your district meeting when you like, and where you like, and as often as you like?—Certainly not, but you hear in mind in my particular district certainly two of us have been representing to the Clerk to the Commissioners that we ought to meet in other places, but, as a matter of fact, we have not done so.

26,264. Representing to the Clerk? Does he not take your orders?—I do not know what our powers are. I have never seen what the regulations are for the Additional Commissioners. I was appointed one, but beyond that I have never seen anything. I suppose he will tell you that we meet at the district where I am, because he is pretty certain of getting the Commissioners living just there. I dare say that is so, but as against that, if you appointed more Commissioners, there would not be that trouble, because you would appoint them from different parts of the district. Every single case, in my opinion, ought to be gone through in the course of two or three years. It would not take very long, because we should only deal with those in our own district. The Surveyor would read the names out, and if the man happened to be a doctor or a private schoolmaster and such like, as many of them round me are, we should say, "pass on." It is only cases where we know that the tradespeople have been absolutely coining money, and we have not been able to get at them in the slightest degree. I believe you, sir, have some knowledge of rural districts, but my experience of Government officials, as a rule, is that they have not got any. In a village, or may I call it a small town, close to me I happened to call for the return of one of the grocers in that town. The Surveyor said that his assessment would be all right, because his accounts were audited; but I just happened to fix upon that man, and he is making £1,700 a year.

26,265. Did his audited accounts show that?—Yes.

26,266. What was he assessed at?—He was assessed at that, but I know he was making a very large sum, and I did not know his accounts were audited, so I casually said, "I should like to know what Mr. So-and-So's return is."

26,267. There was no loss there?—There was no loss there, but there are losses, you know.

26,268. What it comes to is really that you suggest that the Surveyors very grossly neglect their duties?—Yes, but can they help it? I do not know that they have got any regulations. From what I know of them I do not know that they have the facilities, even if we were to meet and go through all these cases. I may tell you that Somerset House wrote to me and

said: "you can go through them yourself if you like." That is so, but I am not going through them at my place unless it is a general order, because, if it leaked out that I was the cause of all these gentlemen's accounts being gone into, I should be very far from a popular member of the community, as I said before. I want a general order.

26,269. A general order that the Additional Commissioners shall themselves go through every case?—In the course of so many years—two or three years—in these villages. I say it would not take long, because you would appoint a man from that district and a man from this district and so on.

26,270. Do you propose to draw a line from what is done in rural districts and what is done in urban districts?—I have no knowledge of urban districts, and I cannot say. I should think probably the same thing ought to be done in urban districts. You would find it much more difficult there, because the tradespeople on the Urban District Council protect one another to a considerable extent.

26,271. But under the present system, if the Surveyor did his duty as he ought to do it, where there is a case of doubt, is it not his duty to raise the assessment and to bring it to the notice of the Additional Commissioners, and if it was desired, could not they meet as often as they liked and hear these cases?—I dare say they could, but how can a Surveyor, living in a village several miles away, know what is going on in the village where I live. He has once or twice thanked me personally for bringing these cases before him.

26,272. The Surveyor is a whole-time officer?—I think he is.

26,273. Is it very difficult for him in his district to go from one village to another?—I should say in all rural districts it is exceedingly difficult.

26,274. Perhaps now you would like to answer some questions if you have finished your statement.

26,275. Mr. Kerly: May I say that yours is just the sort of evidence which we have been seeking which is exceedingly useful to us? You have dealt, as you told us, exclusively with the case you know of, rural districts. I think you are of opinion that a number of your suggestions would be equally applicable in an urban district?—Yes.

26,276. The gist of your evidence is that in rural districts you want to have people dealing with the locality who know the people there, and their conditions. That involves, does it not, that you must have a great number of Commissioners, because the area over which a man's knowledge would extend is not very large?—I do not think a very great number. Mine is, I think, a very scattered division. I should think a dozen would be the outside. I know my own village, I know the town next to it, I know the village on the other side, and perhaps a village or two besides.

26,277. Do you think you could get a dozen people in the district who would attend to what is not a very attractive voluntary duty?—I think so. I have knowledge that there are three of them that I have never seen, but I think that arises because we do not meet in their locality. We appointed a gentleman the other day, and the first gentleman we asked accepted, although he was a director of a company here in London.

26,278. You are speaking of a district which is to a great extent a residential district where well-to-do people are to be found?—Yes.

26,279. There might be a difficulty in a purely agricultural district, might there not?—I think you would always get people to take this. After all what does it amount to—two or three days in a year?

26,280. This question goes to the root of it, I think. How are you to select the suitable people for every unit that you take as a unit of area of knowledge and get these people to attend to the task you have indicated? Can you make any suggestion as to the method of selection or nomination?—Well, I confess it is a difficult suggestion, but I suggested the Rural District Councils in the various divisions.

26,281. That the Rural District Councils should nominate people from whom someone may appoint Additional Commissioners?—Yes.

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26,282. You suggest that there should be instructions drawn up to indicate to the Additional Commissioners, first, what their powers are, secondly, what duty they have to perform, and thirdly, suggestions as to how they should carry it out?—Yes.

26,283. I suppose in your district you have one Clerk for the whole district?—One Clerk for my division.

26,284. That is what I mean—the district you are dealing with. Is he a permanent Clerk?—Well, yes, he has been there ever since I have been there; he must be a permanent Clerk.

26,285. Or is he re-appointed year by year as a matter of course?—He is not appointed by us year by year. There are two bodies of Commissioners, as I understand, the Additional Commissioners and the General Commissioners. I think the General Commissioners hear the appeals as far as I know; I do not know if they appoint him.

26,286. They are a separate body?—Yes.

26,287. Do you think it would be more desirable that the Additional Commissioners should appoint their own Clerk?—No, I do not think so. I am not making a complaint against any of our officials. I do not believe it varies in my district more than it does in others.

26,288. I asked you for this reason: it seemed to me from your statement that your Clerk had entirely neglected his duties. He has not informed you of what your powers are; he has not informed you of what your duties are; and he has not commented upon what appears to be, and I think you agree, the very inefficient performance of the duties that are really entrusted to you. You understand that I am not reflecting upon you, because you have come into a machine in operation and you have been content to go on with it?—No, I have not; I have protested for the last two years.

26,289. Then you are still better; you have not been content, but you were aware that you could have if you pleased, and indeed it was your duty to do so, go through the whole of the returns?—Well, you say that, sir, but if you are sitting with two other gentlemen and one of you suggested that you should go through the whole lot I am not at all sure that you are going to be very popular. I have spoken to one or two of them individually, and they have told me, as a matter of fact, that they entirely agree with me.

26,290. I asked you the question because you are suggesting that somehow or other you can get this machinery to work properly?—Yes.

26,291. As to that I am in doubt. If it is to work properly, you say that the Commissioners must go through in the course of two or three years the whole of the returns?—I think so.

26,292. Well, will you get them to do that job?—No, because I consider that I ought not to have the onus of that. I consider it is the business of the Inland Revenue to issue instructions, and the only effect of my doing it would be as regards my own district; I want it done for the whole country.

26,293. Do you think the Inland Revenue can get such volunteers as we are considering to do so troublesome and repulsive a job?—But is it so repulsive as being on a tribunal to send men to the war?

26,294. I do not think it is; personally, that is the worst job I ever struck upon?—It is the worst job I ever struck.

26,295. We are probably all agreed about that, but still it is not an attractive thing to have to put up your neighbour's assessment?—No, but we are in this position, as I understand it, that the country is in great financial difficulties, and I believe if it is worked properly you would get in a vast sum of money.

26,296. Your suggestion as to proper regulations seems to me to be a very sensible one, and it can be done under the existing arrangements. Do you find that after men have been on the Additional Commissioners' body for a number of years they either move out of the district or they become slack about their work?—Well, since I have been on I have only seen four altogether, including myself. We are very nearly always the same three, and two of us come from the same village.

26,297. You would probably agree that it is desirable that continued residence should be a condition of service?—I think so, but I think if you bear in mind what I also said that they ought to live in different localities, and I think if you had meetings in different localities you would get over the difficulty about them not attending.

26,298. Suppose it were provided that every four years, or after some short period, a proportion, say, a quarter, of the Additional Commissioners should retire and should not be eligible for re-appointment for, say, another three or four years, do you think that that would tend to get an actively working body continually provided?—It might do, but if you are right in regard to the difficulty of getting these gentlemen at all, you appear to me to be rather increasing the difficulty.

26,299. From one point of view, yes, if your number is limited, and if you are going to fill some of the places with obsolete Commissioners, to use a phrase we are not unfamiliar with, then your body gets less and less effective?—Yes. You seem to have got the impression that we are slack in our duties. I may tell you I made very careful enquiries in another part of the country, and I found the state of affairs there was likely to be worse even than in mine. I will not dwell upon this, because you bear in mind in the place where I am living if it got out that I was the cause of the Clerk to the Commissioners, who happens to be a friend of mine, or the Surveyors, or anybody else, getting into trouble, I should probably have to move into another district, because in these rural districts things soon leak out.

26,300. Mr. Kerly: Personally, I fully appreciate that, if I may say so, and I look upon you as a sort of Argus, because you are an active Commissioner.

26,301. Mr. McLintock: I was wondering if you were aware that under the Act you can hold your meetings at any place, provided the Clerk is able to attend at that place?—I think we are aware of that, and I think it is about the only thing I was aware of.

26,302. And you have always met in the one place?—Yes, with one exception, since I have been a Commissioner.

26,303. Have you ever suggested a change?—Yes, both my colleagues from my village and myself suggested a change. I want to make this excuse for the Clerk; he can always rely on me, and on the other man living in my village, and he may say that is the reason for his always calling the meeting in a place which is very handy for us. We ourselves have told him that we ought to meet in other parts of the division.

26,304. Was it to suit the Clerk's convenience, or the Commissioners' convenience, that you always met in the same place?—It was certainly not to suit the Commissioners, because as a matter of fact two of us who always attend were those who protested against having it at the same place always.

26,305. Have you an Assessor in your district?—No, I do not think so. I think the nearest man we have is at a place about 7 or 8 miles away.

26,306. Have you not an Assessor whose duty it is to issue all the forms to the people in the village?—You mean the form that I have to fill up for the Income Tax?

26,307. You know it is not the duty of the Surveyor to issue the forms, but the duty of an Assessor?—Yes.

26,308. And the Assessor is the servant of the Commissioners. He is your servant in order that he may issue the forms to that every taxpayer in the district gets one, and it is his business to see that every taxpayer makes a return?—Yes, but evidently there is some leakage somewhere, because it is quite clear that a certain number of people are not on the list at all.

26,309. We have had a great deal of evidence that the great advantage of Assessors and Commissioners and Clerks to Commissioners is the advantage to the State in their local knowledge. What you complain of is that the Surveyor does not have enough local knowledge to check when the Commissioners and Assessor have failed to exercise theirs?—Yes.

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26,310. Do you agree in the first place it was the Commissioners and their Assessors who should have put their local knowledge into operation and issued the form?—I think so, yes. I think the Commissioners ought to be of a very great deal of use; as a matter of fact, I do not think they are.

26,311. If all the Commissioners in the rural districts act as they do in your district, and yours is probably a little better than the majority, do you suggest that that can be usefully continued?—Yes, I should think that certainly they could be of use, acting under a proper scheme.

26,312. If they are not going to do any more than they have done in the past, is there any use in having them for their present duties with regard to the making of assessments?—I certainly think so. In September we were very useful to a limited extent in the cases that were brought before us.

26,313. Why this special report last September?—I cannot tell you. I cannot find out why it was done. I was informed that my presence would be required for much longer, for many more hours, as they had got instructions down to go into a great many more cases. I cannot tell you whether it had anything to do with what I was doing or not. I was in communication with Somerset House very unsatisfactorily, and I also sent a copy of my letter to the private residence of the Chancellor of the Exchequer; whether it was in consequence of that or not I have not the faintest notion, but for the first time we went into a certain number of cases where people had made returns.

26,314. Who was it that got the prod from the Inland Revenue? Was it your servants, the Assessors and the Clerk, or was it the Surveyor?—It was the Clerk to the Commissioners who warned me that we should take a much longer time. Also, directly we met the Surveyor told us that more cases would be examined.

26,315. This was the first time in your experience that this had happened?—Yes. I have, as I said before, in 1915 and 1916, asked for a certain number of returns of my own bat; they were not volunteered. I said: "what has so-and-so returned?" They were very few in number, of course.

26,316. Then so far as you are concerned you do not know the Assessor of your district?—No, I do not know him personally.

26,317. You have never heard of him?—Well, I have heard of him. I looked to see what his name was, but he seemed not to put his name. He merely puts "Assessor" and his address, so when I send my cheque I address the envelope to the address given, but I do not put any name on it.

26,318. You are mixing that up with the Collector. The Collector is the man who gets the money as compared with the Assessor, who issues the original form to invite the taxpayer to make his return?—That may be; anyway I do not know the name.

26,319. Mr. Walker Clerk: Might I ask how you were appointed?—I can only tell you that the Clerk to the Commissioners asked me if I would serve, and I asked him how he fixed upon me. He said he was asked to do so by two very well-known gentlemen on the County Council; he gave me the names, and that is all I know.

26,320. With regard to the first meeting that you attended, you were summoned by the Clerk, were you not?—Yes.

26,321. Were there a number of Commissioners present?—No, I have never seen more than three including myself at any meeting.

26,322. And upon your appointment was no address given by the Clerk, or the Surveyor of Taxes for the district, as to your duties?—None whatever.

26,323. And your attention was not called to the provisions in the Act, which extend over several pages, dealing with the duties of Commissioners?—I am sorry to say I have not got them.

26,324. It was not read in your presence?—No.

26,325. You are not appointed by the Land Tax Commissioners, I presume?—Not that I know of; it was strictly in the way I have told you.

26,326. How many Commissioners have you in your district, 7 or 14?—Seven.

26,327. And seven on the waiting list?—No there is no waiting list, because we appointed another one the other day; two or three names were suggested to the Clerk and the first one he asked agreed to serve.

26,328. You are aware a Clerk is only appointed for one year?—No, I was not aware of that.

26,329. You rather indicated that Commissioners should deal with a restricted area?—Yes.

26,330. Two or three districts close to their residences?—Yes.

26,331. Are not Commissioners in your district appointed from the area as a whole representing each section of different social ranks?—I should say certainly not. Using the word in the common sense all the Commissioners are gentlemen.

26,332. Men of different social status are not included?—No; at all events we have not got them. We have only got one status.

26,333. I hope you will not take the question as offensive. Are they all Justices?—No, they are not. The one we appointed the other day is not a Justice. As a matter of fact I was not when I was appointed, but they thought I was.

26,334. Mr. Walker Clerk: I happen to be a Commissioner and my experience is very different from yours.

26,335. Dr. Stamp: Are you a General Commissioner as well as an Additional Commissioner?—No.

26,336. Mr. Prettiman: Bearing in mind the result we all wish to get, which is a fair assessment and a full collection of tax—and we are very much obliged to you, if I may say so, for having come and given this very important evidence—and having regard to the general principle and spirit under which the Additional Commissioners are appointed, do you think that the right way of getting that result is to strengthen the position of the Surveyors and their staff? Ought not the Additional Commissioners rather to be regarded as having a duty to safeguard the public against extortionate claims by the Surveyor than that it should be their duty to increase assessments which it is the Surveyor's duty to make to the full amount?—Well, I had not looked at it from your point of view that we were there to protect the Income Tax payer.

26,337. I rather suggest to you that that ought to be one of your very important functions; at any rate, it is one of the functions which you ought to have to carry out?—This would be the province of the General Commissioners who hear appeals rather than of the Additional Commissioners. There is one thing I should like to point out which I have forgotten, and that is I really do think on the Income Tax forms the question of letting furnished houses—which personally I think an iniquitous thing, but inasmuch as we have to pay Income Tax on it we should pay it, ought to be marked in a very much more definite manner. The houses round me bring very long rents. I know as a fact certain people do not know that they have to pay Income Tax on profits from letting. They make their return in London on their ordinary business, and the Income Tax is deducted from their dividends, but they have no knowledge at all that they have to pay on the letting of these houses.

26,338. You did not answer my question, which was whether you think it is better to encourage the Additional Commissioners to be themselves the instruments for putting up assessments, or whether it would be better to make that the Surveyor's duty and to give him such local assistance as would be necessary, and for him to do that work, and for you to responsibility for doing that work, and for you to expect to find it done and not to have it interested with the principal object of getting up assessments which you expect to find rather under-assessed than over-assessed?—Of course I have been most anxious all the way through not to make any suggestions

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which would increase the number of public officials in any way and increase the payment. If you are going to do that it seems to me the Surveyors will have to have very much more adequate premises and very much more adequate assistance than they have got now.

26,339. It does not follow. The suggestion might be that the Surveyor who would act as Assessor, assuming that he was to act also as Assessor, should have certain information available to him, certain

people appointed, as you say, through the recommendation of the Rural District Councils, to whom he could go in any particular parish to ask for information?—Yes. It would not be very pleasant for me for somebody to come and ask me about my next door neighbour—no, I do not feel sure about that.

26,340. It is very difficult to do?—I think that would be very difficult to do.

26,341. Mr. Petyman: We are much obliged to you for coming.

MR. T. BAXTER, on behalf of the Licensed Victuallers' Defence League of England and Wales, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Evidence-in-chief of Mr. T. BAXTER, Secretary of the Birkenhead and Wirral Licensed Victuallers' and Beer and Wine Retailers' Association, 25, Hamilton Square, Birkenhead, in this matter officially representing the Licensed Victuallers' Defence League of England and Wales.

26,342. (1) Our case is based upon section 101 of the Income Tax Act, 1842, which Act is repealed by the Income Tax Act, 1918, but the same matter is, in substitution therefor, dealt with in the First Schedule to the Income Tax Act, 1918, in Schedule D, Cases I and II, Rule 3 (c), which rule provides:—

"In computing the amount of the profits or gains to be charged, no sum shall be deducted in respect of:—

"(c) the rent or annual value of any dwelling-house or domestic offices or any part thereof, except such part thereof as is used for the purposes of the trade or profession: Provided that where any such part is so used, the sum so deducted shall be such as may be determined by the commissioners, and shall not exceed two-thirds of the annual value or of the rent *bona-fide* paid for the said dwelling-house or offices."

26,343. (2) The point we desire to bring to the notice of the Commission is that licensed premises, being assessed under Schedule A at a greater figure than the rent paid, i.e., the rent plus the assumed value of the beneficial occupation, the two-thirds allowance is insufficient, and as this allowance also applies to rates, we claim that the living accommodation is valued at a figure, generally speaking, far in excess of the actual value, and we believe it was never contemplated when the original Act was passed that the tied house system would ever exist as it does to-day with the inflated annual values of licensed premises, and so penalize licensed traders.

26,344. (3) We, therefore, suggest for the favourable consideration of the Commission, that a discretionary power should be given to Inspectors of Taxes, in respect of the allowance to tenants of licensed premises, for rent and rates, and that Rule 3 (c) should be amended by the addition of the words:—

"except in the case of premises licensed for the sale of intoxicating liquor by retail, and used mainly for that and residential purposes, when the sum so deducted shall not exceed five-sixths and be not less than two-thirds of the annual value or the rent *bona-fide* paid for the said premises."

Figures can, and will, be submitted at the hearing verifying the contentions put forward.

[This concludes the evidence-in-chief.]

26,345. Mr. Kerly: You are the Secretary of the Birkenhead and Wirral Licensed Victuallers' Association?—Yes.

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26,346. Do you speak on behalf of the Licensed Victuallers' Defence League of England and Wales?—I do.

26,347. The grievance you want to bring to our attention is the allowance in respect of a licensed victualler's house which is partly occupied as a dwelling-house?—That is so, yes.

26,348. You suggest that the existing limitation that the amount to be deducted shall be not more than two-thirds of the annual value or rent paid should be removed, and you suggest that it should not exceed five-sixths, or be less than two-thirds?—That is so, that a discretionary power should be given.

26,349. Will you tell me why you put a maximum limit at all?—The only reason is that I think some limit ought to be fixed. There is a certain value attached to the living portion of the premises.

26,350. Can you conceive of a public-house which is worth £10,000 a year?—Well, in a case such as that I think you will find that it is owned by a syndicate, and this question does not arise because it is occupied by an employee of that syndicate and consequently the whole amount is allowed as a deduction for Schedule D.

26,351. Is it only when the proprietor himself resides there that the trouble arises?—That is so.

26,352. Just one general question. How does the annual value, the assessed value for Income Tax purposes, compare with the actual letting value at the present time?—With the actual rent paid?

26,353. No, not the rent paid, the letting value?—The value for which it is assessed for local purposes is deemed to be the actual value which it would command in the open market.

26,354. Is not that matter greatly complicated by the tied house provision?—To a very great extent it is.

26,355. So what is paid as rent is very often only a proportion, perhaps a small proportion, of the real value of the house?—That practice varies throughout the country. In some places you will get a high rental and lower prices for the commodities supplied, and in other places you will get an equitable division, and then again you will get the reverse way.

26,356. Am I right in suggesting that the actual rent paid would be a very unsafe guide in determining any allowance? I think you could take that in a good many instances as being so.

26,357. Your proposed amendment takes as the datum some proportion of the rent paid. When you say "bona-fide paid," do you mean without relation to the value of the tie?—In practice what is done is that the annual value of the premises under Schedule A is charged in the accounts in lieu of the rent, and two-thirds of that portion is allowed, and the remaining one-third written back.

26,358. I am dealing with your suggested amendment. The phrase you use is: "annual value or the rent *bona-fide* paid for the said premises." Does "bona-fide" mean without relation to the tie, not the actual rent, but a rent assumed if you did not have a tie?—That is simply a reproduction of the Act as it stands at present.

26,359. But I ask you what you mean by it?—The rent actually paid for the place as licensed premises.

26,360. Do you wish to add anything?—No, unless you want any figures.

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MR. T. BAXTER.

[Continued.]

26,361. Mr. Kerly: No. I have asked you my questions, and apparently no other member of the Commission desires to ask any further questions. Have you anything to add?

26,362. Mr. May: There is only one point. In the last sentence of this witness's paper he says: "Figures will be submitted at the hearing." Are those figures to be put in?

26,363. Mr. Kerly: I am obliged. (To Witness): Have you any figures which you wish to lay before us—I can give you some figures illustrating my suggestion.

26,364. Have you got them in writing so that you can hand them in?—I have not; I did not know that it was necessary.

26,365. The suggestion of which Mr. May reminds me at the end of your evidence is that you would like to give us one or two illustrative examples?—Yes. I will give you them from different parts of the country: the Manchester Hotel at Blackpool, which is assessed for Schedule A at £625; the value of the living portion there is actually valued at £208. £208 for the living portion of licensed premises even at Blackpool is excessive, and, I contend, illustrates the point I have introduced. In

the case of the Royal Oak Hotel at Burnley, which is assessed at £235, one-third of that is £35, and the living accommodation there for that £35 rent is a kitchen, three bedrooms and a bathroom.

26,366. Mr. Holland-Morris: What is the accommodation in the first house?—I have not the accommodation there; that was not supplied to me; but the general practice, I think, at all seaside resorts is that the living accommodation is very small. The whole of it is used mainly for residential purposes during the season.

26,367. Mr. Kerly: Burnley, of course, is not a seaside town, but this kitchen and three bedrooms were all that was occupied throughout the year by the resident proprietor?—That is so; that is the only living accommodation.

26,368. Have you any other case?—There is the Station Hotel at Nelson, assessed at £300, one-third of which is £100, with a kitchen, scullery, sitting-room, three bedrooms and a bathroom.

26,369. £100 is taken as the value of the living part?—Yes. These are typical of practically the whole of the licensed premises throughout the country.

MR. P. J. CONGDON and COLONEL H. D. HENDERSON, on behalf of the Excise Clerks' Association, called and examined.

The witnesses handed in the following statement as their evidence-in-chief:—

The Collection of Income Tax—England and Ireland.

26,370. (1) In England and Ireland the system of collection of Income Tax under Schedules D and E by Collectors of Customs and Excise is as follows:—

26,371. (2) In December each year the Clerks to Commissioners of Income Tax, either directly or through the Inspectors of Taxes, deliver to the Collectors of Customs and Excise duplicates of the assessments made on taxpayers in their respective areas. The total amount of the assessments in these duplicates constitutes a debit charge against the Collector concerned (a) as regards the first instalments and (b) as regards the second instalments. Certain classes of income do not enjoy the privilege of paying Income Tax by two instalments and the assessments on such incomes are included with (c) above.

26,372. (3) First demand notes, giving notice that the tax is due on or before 1st January, are immediately made out and sent by post to the taxpayers who have already received, in the previous September, a notice of charge informing them of the amount of Income Tax they will be called upon to pay and briefly outlining the basis of the charge.

26,373. (4) Second demand notes, giving ten days' notice to pay, are posted 21 days after the first demand notes were sent out or on the 22nd January, whichever date is later, to those taxpayers who have failed to respond to the first demand.

26,374. (5) Lists of outstanding arrears of assessments are compiled within 10 days of the expiration of the second demand note and are placed in the hands of Officers of Customs and Excise engaged on outdoor surveying duties who then make personal delivery of a third demand note. If this personal application has still no effect on the taxpayer the Officer again calls upon him and makes a special personal demand and, if still unsuccessful in obtaining payment, he leaves a fourth demand note threatening distraint if payment is not made within seven days. In the last resort, which is rarely necessary, he calls upon the taxpayer—in the company of a bailiff—and levies a distraint on his goods.

26,375. (6) Adjustment of assessments.—Continuously throughout the period covered by paragraphs (1) to (4) disputes as to the amount of assessments are being settled with the result that quite an appreciable percentage of assessments are reduced while some are completely discharged. Advances of these reductions and discharges are sent to the Collector

by the Inspector of Taxes, and the Collector, after acting upon them, retains them as credit notes against the debit charge referred to in paragraph (2) above.

26,376. (7) On the 1st May the collection is balanced and, eliminating certain accountancy complications, the account stands thus:—

	£	s.	d.
Amount collected
" discharged
" outstanding
Total charge—First instalments	£		

26,377. (8) Second instalments.—The same course of procedure is followed as in the case of the first instalments; the dates of taking the successive steps being six months later in each case.

26,378. (9) Additional assessments.—Besides the original assessments referred to in the foregoing paragraphs other assessments, called additional assessments, are made throughout the year in respect of the current and three previous years of assessment. These additional assessments are very numerous; numbering, on an average, about 10 per cent. of the original assessments. The necessity for making them arises from the fact that the original assessments are based on a forecast of income in a large proportion of cases and these additional assessments are made on unforeseen and uncertain additions to income which are afterwards discovered or disclosed. The course of collection in the case of additional assessments follows essentially the same routine as in the case of the original assessments.

26,379. (10) Before entering on their duties all officials, both permanent and temporary, must make the statutory declaration of secrecy.

Scotland.

26,380. (11) Income Tax under Schedules A, B, D and E is collected in Scotland by Collectors of Customs and Excise with the exception of the annual weekly wage-earners' tax and the duties collected by a few local Collectors.

26,381. (12) Before commencing duty each person employed, either permanently or temporarily, must take the oath of secrecy prescribed by law.

26,382. (13) Duplicates of the tax assessment rolls are furnished direct to the Collector by the Clerk to the Commissioners of Income Tax or through the Inspector of Taxes. The charges shown therein are balanced by (a) the Collector's remittances to the Inland Revenue Department, (b) discount on assessments

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ments paid in advance, and (c) schedules of assessments discharged or defaulted.

26,383. (14) The notice of assessment issued by the Clerk to the Commissioners is adapted to form a first notice to pay. Immediately after 31st January the Collector issues a second notice to pay and, failing payment within the time allowed—10 days—a final (seven days) notice is sent. Duties unpaid at the end of this period are recoverable by poinding. For this purpose the duty is included in a warrant which must be signed by the Sheriff having jurisdiction over the district or by two General Commissioners of Income Tax. A Collector of Customs and Excise in Scotland having no power to pounce, the warrant is executed by a Sheriff Officer who is entitled to add 10 per cent. costs where a poinding is made. The Sheriff Officer remits the duties received by him to the Collector; he acts under a fidelity guarantee and is sworn to secrecy. Regulations are laid down for dealing with special cases such as bankruptcies, deaths, removals and the assessments on seafaring men.

The two systems contrasted.

26,384. (15) It will be observed that in Scotland the system of collection by Collectors of Customs and Excise differs from that in force in England and Ireland in several important respects. The results obtained there are more satisfactory.

26,385. (16) The Collector in Scotland is authorized to collect Income Tax not only under Schedules D and E but also under Schedules A and B. In addition he collects House Duty and Land Tax. This arrangement is a convenience to the public and a source of saving to the Revenue. These taxes are all paid to the same official, and that a Government full-time official, and the public frequently express their preference to be assessed by and to pay these taxes to a Government official rather than to a local Collector who may, at the same time, be carrying on some other business in competition with taxpayers in his area as is often the case in England. In England in areas where Collectors of Customs and Excise collect Schedules D and E local Collectors collect Schedules A and B, House Duty and Land Tax with the result that taxpayers have to pay in two different places and, from the revenue point of view, there is multiplicity of staffs, a great deal of the expense of which might be saved by adopting the Scotch system generally. The quarterly tax on weekly wage-earners is collected by local Collectors while the tax on their other sources of income such as interest on War Loan is collected by the Collector of Customs and Excise.

26,386. (17) Only in exceptional cases are the services of Officers of Customs and Excise on outdoor surveying duties requisitioned in connection with the recovery of arrears; thereby reducing the number of applications and preserving the moral effect and productivity of the Collector's demands. There is no doubt that, in England, a large number of taxpayers postpone payment until the officer or local Collector calls simply because they know that he will call and that the postponement does not involve them in any kind of penalty.

26,387. (18) Lists of arrears are put into the hands of Sheriff Officers, a visit from whom is no doubt regarded as an experience to be avoided.

26,388. (19) There are differences in detail in matters of account; but the underlying principles are the same.

26,389. (20) Paragraphs 17 and 18 appear to have the effect of expediting the collection by reducing the number of demands as compared with England and Ireland. Repeated demand notes give the experienced procrastinating taxpayer the conviction that the earlier demands are not intended seriously. This view would seem to be supported by the fact that the progress of collection in Scotland is always in advance of the collection in England and Ireland, date for date.

Suggestions.

26,390. (21) If, in cases where the three years' average does not apply (but not in the case of manual weekly wage-earners), assessments under Schedules D

and E could be made on the income for the year ended the 5th of April preceding the date of assessment instead of, as at present, in so many cases, on that for the year ending the 5th of April following the making of the assessment, it is anticipated that much labour and time might be saved (a) in collecting the revenue, (b) in reducing to negligibility the number of alterations to be made in assessments and (c) in reducing, to an equal extent, the necessity for making additional assessments during the three years following that in which the original assessment is made.

26,391. (22) The assessment would then be made on income already received and, therefore, fixed and ascertained.

26,392. (23) It would remove the grievance felt and frequently expressed by taxpayers at the time of payment that they are called upon in December to pay Income Tax three months in advance of the end of the year in respect of which it is levied. (In reality this is an imaginary grievance in the case of assessments on individuals and firms because such taxpayers are asked to pay only half the assessment nine months after the commencement of the year of assessment; but the point has to be explained and occupies time.) It is submitted that the imposition of Income Tax on income before it is actually received is bad in principle and that the public hold that opinion.

26,393. (24) Discharges and reductions of assessments, under the existing state of the law, affect, perhaps, 10 per cent. of the original assessments made, give rise to the necessity of making many repayments in cases in which assessments are paid before relief is granted, and involve a considerable amount of labour and delay.

26,394. (25) Many taxpayers request permission to pay by smaller and more frequent instalments on the ground that to find even a moiety of the total assessment, with Income Tax at its present high level, causes them financial embarrassment. It is suggested that the principle of the existing concession to individuals and firms to pay by two instalments be extended to four instalments to be paid on or before 1st December, 1st March, 1st June and 1st September, respectively. Such an arrangement would not involve any material postponement of the first moiety as the first two quarters should be collected, as at present, within the financial year which terminates on 31st March.

26,395. (26) It is desirable that the proposed privilege of paying by four instalments should be limited to assessments of (say) £4 and upwards; but so that when an assessment exceeds £1, £2, or £3, the first, first and second, first, second and third, instalments, respectively, should be £1 and the next and final instalments should be the remainder. In the present state of the law a taxpayer assessed 1s. is called upon to pay 6d. in January and 6d. in July.

26,396. (27) It is further suggested—

(a) that the position of Collector of Inland Revenue should be re-established; thus bringing the collection under the direct authority and control of the Board of Inland Revenue. (This would not involve the creation of new machinery but merely the transfer of a highly efficient machine at present run by the Board of Customs and Excise from that Board to the Board of Inland Revenue. Such of the staff in the Offices of Collectors of Customs and Excise who are experienced in the organisation and management of this business and willing to be transferred, could form a nucleus staff.)

(b) that these Collectors of Inland Revenue should collect all Income Tax under Schedules A, B, D and E as well as all House Duty and Land Tax in the whole of the United Kingdom. (See paragraph 16.)

(c) that one demand note only should be issued for each instalment about the middle of the months November, February, May and August, respectively, and that, in the cases of these amounts still unpaid by the end

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of the months of December, March, June and September, a circular notice, in general terms, warning the taxpayer that, if the instalment is not paid forthwith, the amount will be placed in the hands of the county court bailiff or the Sheriff Officer, as the case may be, for recovery with costs, should be sent.

(d) that arrears still outstanding by (say) the end of the second week of the second month of each quarter should be recovered, under a fidelity guarantee, by county court bailiffs in England and Ireland and by Sheriff Officers in Scotland.

26,397. (28) In support of our claim that the system of collecting Income Tax by permanent officials is the most economical and efficient method now in vogue the following quotation from the 29th Report of the Commissioners of Inland Revenue (page 47) is submitted:—

"The experimental trial made in England for the first time in 1880 of the system of collecting the Income Tax under Schedules D and E by the ordinary staff of our collectors of Inland Revenue, to which we referred in our 24th Report, has proved so satisfactory both as regards efficiency and economy that it has been extended as opportunities for its adoption have occurred. . . . The amount of Income Tax which had to be collected under this system was, on 1st January, 1886, in round figures £1,600,000; the number of persons charged being about 132,000. On the 31st March following, our collectors had received £1,407,000, leaving, at that date, a balance uncollected of only about £198,000 from which would have to be deducted the tax in disputed cases, uncollectible arrears, owing to bankruptcy and removal, &c."

26,398. (29) At present there are 4,500 local Collectors and the staffs of 66 Collectors of Customs and Excise engaged in the collection of Income Tax. At a rough estimate we believe that the whole of the work could be done by about 100 or, at the most, 150 Collectors of Inland Revenue and their staffs, and we feel confident that the economy which would thereby be effected would be well worth considering. It would concentrate the work at local central offices administering areas which would not be too large and unwieldy and would yield those economies which are usually reaped when business is carried on at a large scale.

[This concludes the evidence-in-chief.]

26,399. Mr. Kerly: Do you appear on behalf of the Excise Clerks' Association?—(Mr. Congdon): Yes.

26,400. Just describe to me, please, what the Excise clerks are?—They are the clerks engaged in carrying out the clerical work in the offices of the various Collectors of Customs and Excise throughout the United Kingdom.

26,401. Does your Association represent the whole of the Excise clerks of the United Kingdom?—Yes.

26,402. We are very much obliged for the evidence you have offered us, you will be asked questions upon it, and I might myself just ask you one or two questions at starting. You suggest that the Collectors of Inland Revenue should be re-established; by that do you mean something other than the Collector who now exists?—Yes. The Collectors who are now called Collectors of Customs and Excise were originally Collectors of Inland Revenue. The Excise branch was detached from the Inland Revenue and attached to the Customs, so that those who were formerly Collectors of Inland Revenue are now Collectors of Customs and Excise and are carrying out Customs and Excise work and certain Inland Revenue duties. The suggestion is that the work should be disconnected from the Customs and Excise altogether. It is considered to be sufficiently large in its scope that Collectors who should be Collectors of Inland Revenue should have the carrying out of the purely Inland Revenue duties in the various areas throughout the United Kingdom.

26,403. You suggest that the whole of the work of collection could be done by 100 or 150 Collectors in place of the 4,500 local Collectors now engaged?—Yes.

26,404. You are, of course, contemplating whole-time Collectors?—Yes.

26,405. And, I suppose, paid adequate salaries instead of what we are told are very inadequate salaries to the part-time men in some places?—Well, adequate salaries undoubtedly would be required, but, of course, these individuals that you would constitute as Collectors would have a very much greater amount of duty to collect and a larger number of cases to deal with.

26,406. When you say 150 Collectors, you do not mean that to include all the clerks whom they would employ, or is that the clerks and all?—No, those would be simply the chiefs in charge of 100 or 150 centres.

26,407. How many clerks do you estimate would have to be employed as well as the 150 heads?—There would necessarily be temporary clerks, who would exceed the permanent clerks in number, because the collection comes in, what one may term, rushes, and the work is not continuous throughout the year, but the permanent ones, the ones you have in mind, no doubt, in your question, at any rate in the first instance, I should say would be an average of 3½ to every one of the areas mentioned; that would mean another 350 or 400 permanent clerks.

26,408. That would bring your 150 up to 600 persons?—Yes.

26,409. What about the clerical assistance? Would that be a very large number of additional people who would be part-time people?—Those would vary in number according to the size of the area, or rather the population of the area, and, secondly, the number of transactions to be dealt with. If I might give you an illustration, I am in the Liverpool office, and at present have practically charge of the work there. This year our charges number some 84,000.

26,410. Mr. Huffer Clerk: For Inland Revenue?—For Income Tax only, Schedules D and E. I think I may say there that 15 temporary clerks are necessary for, say, nine months in the year, as there are now two collections, first and second instalment collections. You might call it 12 additional ones would be required there for 12 months, but those are temporary ones. They are doing the purely mechanical portions of the work under the control of three. There are three of us permanent ones there. The pay, of course, for those temporary ones would not be very large; it is not, as a matter of fact, large.

26,411. Taking into account all the temporary clerks there would be a large number of persons employed in addition to the 600 we have already got as permanent officials?—I think you might say again about 3½ times the permanent ones, that is if you take it as an average throughout the Kingdom and reckon them on the 12 months' basis for the purpose of getting at salaries—not that they would be employed for 12 months continuously.

26,412. If we take it at 3 that would be adding 1800 to the 600, and we have now got up to 2,600, which is a figure very much nearer the 4,500 that we started with?—Just so, but the 1,800 and 600 should be decreased by the numbers already so employed in the offices of Collectors of Customs and Excise, approximately 400 and 100 respectively, and the 4,500 should be increased by the large number of temporary clerks employed by local Collectors in large towns whose wages are paid indirectly by the Board of Inland Revenue. The number of such temporary clerks will not, I think, be less than 2,000.

26,413. But you say the work would be more efficiently done?—Undoubtedly, and perhaps what might weigh with the Commission from numberless expressions of opinion by the public, the public I think, in fact I know, would very much prefer that it should be done by Imperial officials rather than by others.

26,414. And you further advocate quarterly collection?—Yes. Of course if there is a quarterly collection, that would be with a view to it being for the benefit of the public. Taxation is very high now, and it is likely to remain high for very many years.

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and a large number of the public, the smaller taxpayers in particular, who after all form the bulk in number, find it very inconvenient to meet such sums as they are now called upon to pay at one time.

26,415. Have you considered those figures which I think are about correct? There are at present 20,000,000 charges; some of them are twice on the same person so it does not really mean 20,000,000 persons that you have got to deal with, but a figure in that neighbourhood. If you had a quarterly collection that would be something like 80,000,000 receipts to send out yearly. If you have 150 centres that would be half a million receipts to be dealt with every year at each centre?—Yes.

26,416. You would require a very large staff?—Of course the quarterly collection undoubtedly would. I may say, we are not exactly wedded to this idea, but we know that this Commission would be considering, not for the immediate moment alone, but for the future as well. Of course we are brought into touch with the persons actually paying the tax, and we find there is a very general desire for the quarterly collection, and we thought you might possibly consider the matter from that point of view.

26,417. Sir W. Trower: When you referred to 2,400 roughly the permanent and temporary staff that was for the half-yearly collection?—That is so.

26,418. You would require more for the quarterly collection?—Undoubtedly. I do not know that we should require more for the permanent, but certainly for the temporary staff.

26,419. Mr. McIntock: There was a resolution that was passed by the officers of Customs and Excise that the collection of arrears of Income Tax should be transferred from the Customs and Excise Department?—Yes.

26,420. What exactly is meant by that?—The English system is that when the tax has not been paid by a certain date, generally about the middle of February, the defaulters are put into certain lists termed technically arrears books, and these are sent out to local officers of Customs and Excise who perform the duties of Excise officers for the areas in which these individuals reside, and they call upon them personally for payment. The Federation of Customs and Excise Officers have passed resolutions, not only in one branch, but very generally, objecting to having to do this Revenue work.

26,421. You mean they have not in the first place been collecting the tax on the due date, but when they get so long into arrears they get that part of the work to carry out?—Yes.

26,422. That does not apply to the whole country?—No, it does not, but it does apply to the greater portion of the United Kingdom.

26,423. It does not at all apply in Scotland for example?—No.

26,424. Does it apply in parts of England and Ireland?—It does, and in Wales.

26,425. But not in Ireland; in Ireland it is the same man who collects all the way through?—The notices are sent from the Collectors of Customs and Excise in the first instance and they send the arrears books to the local officers there. I myself collected as an Excise officer in Ireland.

26,426. Your suggestion is that the collection of arrears of Income Tax should be transferred to some other department, to what other department do you mean?—To a department to be constituted for this business. In practically all the towns of a good size in the United Kingdom they have Inland Revenue staffs at present for the purpose of carrying out the stamp duties. It is suggested that those should be annexed to the Revenue offices. It will not, I think, increase the number of Revenue offices, but it will necessarily increase the staff if a larger amount of work is to be done than is done at present.

26,427. If the method of collection which is in force in Scotland were to be applied all over there would be no occasion for any transfer?—No.

26,428. You are only dealing with the case of the individual Collectors in England who go so far with their work and then hand it over to somebody else?—Just so.

26,429. You do not want to receive that work?—It is the officers outside. We do not do the arrears; we represent the clerical staffs who are confined to the offices.

26,430. When do you suggest the tax is in arrears—when they have to take proceedings to recover?—That is so; that is what the officers object to. They have to carry out that part of the duty.

26,431. Mr. Kerly: We are very much obliged to you gentlemen, and I hope you will not imagine because we have not asked you questions about the parts of your evidence-in-chief which seem to be quite clear that we have overlooked them; they have already been covered by discussion with other witnesses?—Thank you. I should perhaps have stated first of all, that we applied for permission of our Board to give evidence here and the Board extended that, but told us we were to make it clear that we gave evidence on our own behalf and that we were not in any sense official witnesses of the Board of Customs and Excise.

MR. ERNEST C. PROCTOR, F.C.A., called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Memorandum on the doctrine of control in relation to international trade and Double Income Tax by ERNEST C. PROCTOR, F.C.A.

26,432. (1) I am a Fellow of the Institute of Chartered Accountants, and a member of the firm of Spicer and Pegler, chartered accountants, of Mansion House Street, London, E.C. My firm acts for a large number of important companies and firms engaged with foreign enterprises, particularly in connection with taxation matters, and is continually being asked to advise other professional accountants and their clients from all parts of the country on these subjects. I am joint author with my partner, Mr. Spicer, of the books entitled "Income Tax in Relation to Accountants," of which the 5th edition is now being published, and "Excess Profit Duty" of which the 5th edition is in the press. I have made a study of the subject of Income Tax for many years. I have read the evidence already submitted to the Commission on this subject, in particular that of Sir Frederick Young, Sir Charles McLeod, Mr. William Mossenthal, Mr. Julius Auerbach, Sir Archibald Williamson, Sir William Vestey, Dr. J. C. Stamp, Mr. C. G. Spry, and Mr. Sidney Young. I do not propose to go over the ground

covered by these witnesses more than is necessary for my purpose.

26,433. (2) The points to which I desire to direct particular attention are as follows:—

- (a) The doctrine of control as affecting limited companies and firms, and the present and prospective effect of the continuance of taxation on the current basis;
- (b) The origin of profit arising from international trade, and its relation to Double Income Tax;
- (c) The possibility of fixing, for each class or sub-division of trade or business not wholly carried on in the United Kingdom, the proportion of the total profits to be regarded as arising from that portion of the trading conducted outside the United Kingdom;
- (d) Proposals for arriving at the proportion of profits to be regarded as arising from trading operations outside the United Kingdom;
- (e) The effect of such proposals, if applied, to limited companies and firms, and the measure of relief afforded to non-resident shareholders and partners thereunder;

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[Continued.]

(f) The effect of such proposals in relation to Double Income Tax;

(g) The effect of such proposals, if applied, on the revenue, and on the general trade of the country.

(A) THE DOCTRINE OF CONTROL AS AFFECTING LIMITED COMPANIES AND FIRMS, AND THE PRESENT AND PROSPECTIVE EFFECT OF THE CONTINUANCE OF TAXATION ON THE CURRENT BASIS.

26,434. (3) The doctrine of "control" has been very clearly set out by Mr. Spry in his evidence-in-chief so far as companies are concerned. So far as partnerships are concerned, he has admitted that the doctrine of control in the case of a firm was unknown to the Revenue until 1914, and that in practice each case was and is considered on its merits by the Commissioners on appeal, if necessary. It would also appear that the attitude of the Board of Inland Revenue varies according to the circumstances, although in some cases the non-resident partners' share of the profits of the firm controlled here is either not assessed to Income Tax, or, if it has been assessed, the tax is repaid upon it. Dr. Stamp has made some very important suggestions in paragraph 3 of his evidence-in-chief, and in the course of his examination, but it would appear that he foresees so many difficulties in practice that his suggestions could only be applied in Utopia, and consequently he confines himself in practice to suggestions for the relief of non-resident shareholders. It would appear, however, from the evidence of these and other witnesses that some alteration in the law is desirable in order to prevent the loss of revenue and trade that will arise if the present system is continued, and if companies and firms hitherto controlled here remove their seat of control elsewhere, with the result that the revenue at present derived from this source will cease to be obtainable, and the various sources of outside profit accruing to this country, by reason of such control being exercised here, will be very seriously diminished.

26,435. (4) I do not agree with Mr. Spry's contention in paragraph 5 of his evidence-in-chief that "the suggestion that the doctrine of control involves no hardship upon the resident shareholder—apart from the general question of Double Income Tax—appears to be borne out by the non-official evidence which has been presented to the Commission." In paragraph 6 he states, "it would appear from his evidence that Sir Archibald Williamson is in agreement that, so far as concerns the resident shareholders, the charge of tax upon undistributed profits, which the doctrine of control entails, does not act in restraint of trade." (See Questions 10,126 and 10,127.) It is clear from the evidence submitted by Sir Archibald Williamson and other witnesses that where a considerable proportion of the profits of a company are made outside the United Kingdom, a marked sense of grievance exists that those profits, whether distributed in dividends or not, should be taxed at the same rate as profits made within the United Kingdom; and further, I think the evidence also goes to show most clearly that if the present policy is continued not only will business be driven out of this country which has hitherto been controlled from here, but that new businesses, that otherwise would be controlled from here, will be controlled from elsewhere.

26,436. (5) The commerce of this country has been largely built up by its foreign trade, and it is clear that if any system of taxation is continued which tends to drive away some material part of such trade as has hitherto been controlled here, or to prevent the establishment of new enterprises with their headquarters here, the ultimate result will be to endanger the commercial supremacy of this country, and the position of London as the principal mart and money market of the world. I may add that the additional sources of profit coming to this country attached to this foreign trade, include the following: (a) banking, exchange and discounting profits, (b) shipping and insurance profits, (c) buying and selling commissions, (d) remuneration of employees, directors,

managers, and other persons, which would not be payable here were the control transferred elsewhere, and (e) profits on the purchase of plant and goods, orders for which might not be placed with this country were not the control exercised here. I may point out that profits from all these sources, except the last, constitute a portion of our invisible exports and as such play an important part in maintaining the balance of trade, which at present is so against this country, and is likely to remain adverse for some time to come. Any variation of our taxation policy in connection with the doctrine of control which may result in some immediate loss to the revenue should therefore be considered in relation to the ultimate loss to the revenue and to the country which would arise: (1) from the transfer of control in the case of businesses already controlled here; (2) from the fact that unless some alteration is made, fresh enterprises that otherwise would have been controlled here will be controlled elsewhere; (3) from the diminution of our invisible exports as above mentioned, and (4) from the diminution of visible exports. The question, therefore, must be looked at broadly, and too short a view should not be taken in estimating the probable balance of ultimate loss or profit to the revenue and to the trade of the country. I desire to make some comments on the four points mentioned above.

(1) The transfer of control in the case of businesses already controlled here.

26,437. (6) Mr. Spry in paragraph 8 of his evidence-in-chief indicated that in his opinion the principal reason why those businesses which have already removed their control from this country have done so, is "due more to the incidence of the temporary Excess Profits Duty than to the burden of the Income Tax." In paragraph 9 he states that "some observations made by non-official witnesses before the Royal Commission to the effect that there are companies which have been meditating removal and are awaiting the result of the present enquiry before deciding upon their course of action do not appear to afford any guidance in the present connection, as these statements appear to have been directed mainly to the case of companies with British shareholders affected, not by the question of control, but by the hardships felt to arise from the double charge of Income Tax." I do not agree that (apart from special cases where there has been a preponderance of non-resident shareholders) the control in the majority of cases where it has already been removed would not have been removed had there been no Excess Profits Duty, but merely a rise in Income Tax to the present rate. I have acted in connection with several important cases of removal within the last few years, and in all these without exception the removal would have taken place in consequence of the rise in Income Tax, whether or no Excess Profits Duty had been imposed. I admit that the Excess Profits Duty operated forcibly to cause such businesses to transfer their control more quickly than otherwise would have been the case, but I am satisfied from information I have received that they would have gone in any event. I think it probable that the same argument would hold in other cases with which I have not been personally concerned. I can confirm the statement that large numbers of other businesses are contemplating the removal of their control from this country unless some substantial relief is afforded to them.

(2) New enterprises controlled elsewhere.

26,438. (7) From enquiry in various quarters I have been able to confirm the statement that unless some alteration is made in our present taxation policy fresh enterprises that otherwise would have been controlled here will be controlled elsewhere. I am informed by someone closely connected with South American trade that some fresh enterprises with which he is connected have already been registered

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as South American companies, on account of the high rate of tax in this country, which otherwise would have been registered as British companies. This applies especially to companies where non-residents propose to turn their businesses into limited companies. In the pre-war days, it was customary for such a business to be converted into a British limited company controlled from here, capital being raised here to a large extent, the non-resident owner receiving as part of his consideration, a considerable number of fully-paid shares. This cannot now be done since the non-resident refuses to be burdened with what he considers to be a penalizing Income Tax. It should also be noted that whereas formerly it was cheaper and easier to raise money in London, so much money has been made by other countries in consequence of the war that capital can very often be raised there on terms not much less favourable than in London. If this tendency is accelerated by our taxation policy, it would deprive this country of the benefits that would otherwise have been obtained had the control been placed here.

(3) *The diminution of our invisible exports.*

26,439. (8) I have discussed this subject with prominent merchant bankers and directors or partners of large companies or firms interested in shipping, insurance and other businesses connected with international trade. All these individuals from their own knowledge confirm my view that if the control of business as transferred from this country a large measure of invisible exports will be lost to this country. It may not be commonly realized that the control of business here operates to give a large measure of what may be termed "automatic preference" to this country, altogether apart from the question of price or rate. I propose to make, as briefly as possible, a few comments on the various points at issue which will illustrate this.

(a) *Banking, exchange, and discounting profits.*

26,440. (9) It is common knowledge that in pre-war years London was the principal money market of the world, and that a large proportion of international trade, not only between this country and abroad, but between foreign countries, was financed through London. This still holds good to a great extent, but owing to the way in which, at present, various exchanges are so unfavourable to this country, severe competition is being experienced. I am informed by a well-known merchant banker that many of his foreign and American clients are now using American dollar credits, while others are continually asking him to open dollar credits for the purpose of financing their international trade, whereas formerly the credits were always opened in sterling. The dollar credit is also finding considerable favour in other countries which formerly looked to London for facilities. Although no doubt this tendency is mainly due to the effects of the war, my informant is of opinion that the transfer of control of businesses from this country will accelerate this process, particularly having regard to the probable diminution of visible exports referred to in paragraph 13 below, which would to that extent destroy the "automatic preference" hitherto enjoyed by banking and financial houses here.

(b) *Shipping and insurance profits.*

26,441. (10) "Automatic preference" applies similarly to this class of profit, and I am assured on good authority that a corresponding loss will be sustained once control has been removed. The directing heads of the business are no longer in close touch with shipping companies and insurance brokers, in the same way as they would be if they remained in this country, and apart from competitive rates there is not the same inducement to employ them. Where, for instance, the control is transferred to (say) Chile, it is just as easy, if not easier, to arrange for freight and insurance through the United States as through London. Connections would be formed with the United States and other foreign countries which would not be formed except in a minor degree were the control maintained in the United Kingdom.

(c) *Buying and selling commissions.*

26,442. (11) Large profits are earned by firms and companies who buy and sell on commission for the purpose of international trade. Orders are placed with these firms by other companies and firms controlled here, in large measure because the principals come into touch with one another and the requirements of the purchaser or seller are well known to the commission house. I am told by representative people in this class of business that if the control of businesses were removed abroad, a large part of the buying and selling commissions they have hitherto enjoyed from these sources, due to "automatic preference," will be seriously affected.

(d) *Remuneration of employees, directors, &c.*

26,443. (12) Remuneration payable here to such persons is of course assessable to Income Tax on the individuals concerned and if the control is removed, this source of revenue will be lost, and to some extent unemployment may be caused.

(4) *The diminution of our visible exports of plant and goods.*

26,444. (13) Large orders for plant and goods are placed in this country by companies and firms controlled here, for the use of their foreign or colonial establishments, or for re-sale abroad, and I suggest that some material part of this trade now due to "automatic preference," will be lost to this country if the control of such businesses is transferred elsewhere. I am aware that in cases where large quantities of one type of goods or large installations of plants are being ordered, it was the custom to obtain quotations from other countries, as well as from this country, and that in many cases the order was given abroad where it was thought to be good business policy to do so. No doubt the same conditions will continue in the future, but I would point out that where the buying organisation of a British controlled company is centred here, a large proportion of the orders are, as a matter of fact, placed in this country without any attempt to obtain alternative quotations from other countries, and this particularly applies to miscellaneous orders in moderate quantities, repeat orders and renewals of plant and machinery. The buying organisation of the company is centred here; they are in touch on the telephone with their principal suppliers, whom they know, and with whom they have been accustomed to deal; these suppliers send their travellers to the company's offices for the purpose of soliciting orders or taking orders, and being on the spot any difficulties or mistakes can be quickly remedied. For this reason, the company does not dream of obtaining quotations elsewhere, unless the amount involved in any particular order is of exceptional magnitude or for other special reasons. I am informed on the same authority that if the control of such a company were transferred abroad, there would not be the same inducement to continue placing orders in this country, and that they would not be placed in this country to anything like the same extent, and I have confirmed this view in other quarters. On the question of large installations of plant, or the building of ships, I am informed that in the ordinary way where the business is controlled here, preference is given up to 10 per cent. or 15 per cent. in the price to British makers, simply and solely for the reason that apart from the question of quality or special experience, the fact that engineers or ship surveyors known to the buying company can be instructed to report on the manufacture of the plant or the building of the ship, and that mistakes or bad material can be remedied on the spot, has an important influence in inducing the placing of orders in this country. Such inducement would be lost if the control of the buying company were transferred abroad, since then in any case, supervision would have to be exercised from a distance, and this country would no longer enjoy any benefit from "automatic preference." Further, American, German and other commercial travellers are much more active and enterprising in foreign countries than

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British commercial travellers, and frequently receive greater support and encouragement from their respective Governments than the British Government has hitherto seen fit to afford to representatives of British houses.

(B) THE ORIGIN OF PROFIT ARISING FROM INTERNATIONAL TRADE, AND ITS RELATION TO DOUBLE INCOME TAX.

26,445. (14) It would appear from the evidence already tendered that there are two main schools of thought as to the location of the origin of profit, the first being that the origin of profit should be attributed to that country where the goods are produced, and the second being that the origin of profit should be attributed to that country where the goods are sold. These are clearly conflicting views, and it is important to arrive at some formula which will command a general measure of acceptance.

26,446. (15) In order to obtain a simple view of the matter, let it be assumed that England represents the world, and that each county has a separate system of taxation, London being a county by itself. X. has an apple orchard in Surrey, and sells his apples in Surrey,—the whole of his profit from that source is clearly made in Surrey, and is taxable by Surrey. If, however, X. finds it more convenient to have an office in London, and sends his apples to be sold in London, does he make his profit in Surrey or in London? I suggest the answer is that he makes his profit partly in one place and partly in the other, and that on an equitable adjustment of taxation between the two districts, part of his profits would be taxed in Surrey and the remainder in London. To carry the illustration a step further, assume that X. has fruit farms in Surrey, Devonshire and Leicestershire, a cider factory at Bristol, and a jam factory at Liverpool, but finds it convenient to control the whole of his business operations from London. Part of the produce is brought up to London for sale, but some of the apples from Devonshire are sent to Bristol and there converted into cider. The cider is then sold partly at Bristol and partly in other counties. He also sends fruit from Leicestershire to Liverpool to be made into jam at his factory there, which is subsequently sold as to part in London and the remainder in various parts of the country. Because he controls the whole of this multifarious business from London, London contends that it is entitled to tax the whole of his profits at the full rate, irrespective of where they are made, and does so. The other counties do not share this view, and consider that where the various farms and factories are located in their districts, they are entitled to tax the profits arising therefrom, and tax them accordingly. Is it not possible that, in order to avoid double taxation, X. might move his control from London and locate it in the different districts where his operations are carried on.

26,447. (16) Assuming that each county in these circumstances represents a British Colony or a foreign country, and that London represents England, the problem of double taxation is at once apparent, and this in fact is the position in the world at the present time. This country has, in the past, been able to tax the whole profits of the businesses controlled here at the highest rate, notwithstanding the fact that a large part of those profits may have been made outside the United Kingdom. This was immaterial while the tax was low, and when other countries had no Income Tax, but now that our Colonies, the United States, and other important countries, have either instituted Income Tax systems or are contemplating the same, the problem becomes one of the utmost importance, and it is not reasonable to assume that this country can maintain the attitude which she has hitherto adopted. In consequence of the war, and the social and economic conditions created by it, there are, and will continue to be, great demands on the taxable resources of every country, and it is plain that the question as to which countries are entitled to tax the profits of international trade, and to what extent, is becoming one of the greatest urgency. In other words we are going on now what is in effect an international scramble to tax international profits.

26,448. (17) In my opinion, where goods are produced in one country and sold in another, it cannot be said that the origin of profit is wholly in the country where the goods are produced on the one hand, or wholly where the goods are sold on the other, but that some portion of profit should be attached to the country in which each transaction takes place. It is clear that no profit can arise in the first instance unless the goods are produced, and it is equally clear that no profit can arise unless those goods are sold. The problem of international trade, however, does not consist merely of the production of goods in one country and their sale in another, but taking this aspect by itself a further complication arises from the fact that in many cases of world-wide businesses controlled from here, operations of the greatest magnitude are carried out from here between two or more foreign countries. For instance, a firm operating here may buy large quantities of coffee in Brazil, and ship it to France and other foreign countries, without any portion of the coffee coming to the United Kingdom at all; or, to take another case, a mining company controlled from here may ship ore from Australia, and sell it in the United States or other countries. In such cases, I suggest that the profit is divisible in the first place into three portions: (1) attributable to the country of origin, (2) attributable to the country of sale, and (3) attributable to the country where the control is exercised, and from which the operation is carried through. Notwithstanding this, in all cases the profits of international trade, so far as we are concerned, may be divided into two portions: (1) profits made within the United Kingdom, and (2) profits made outside the United Kingdom. If this principle be admitted, it becomes necessary to arrive at some formula for apportioning the profits, and I put forward the following suggestions accordingly.

(C) THE POSSIBILITY OF FIXING, FOR EACH CLASS OR SUB-DIVISION OF TRADE OR BUSINESS NOT WHOLLY CARRIED ON IN THE UNITED KINGDOM, THE PROPORTION OF THE TOTAL PROFITS TO BE REGARDED AS ARISING FROM THAT PORTION OF THE TRADING CONDUCTED OUTSIDE THE UNITED KINGDOM.

26,449. (18) I suggest the setting up of a Board of Reference (similar to those already provided by the Income Tax Acts for certain limited purposes) to hear evidence from each class of trade or business not wholly carried on in the United Kingdom, for the purpose of ascertaining on the evidence submitted, the proper proportion of the total profits for that class of trade or business which is to be regarded as arising from that portion of the trading operations conducted outside the United Kingdom. In cases where the principal fixed assets are situated abroad, as for instance a nitrate company, with grounds in Chile, I consider that reference might be had to the proportion of the total assets which is sunk in fixed assets located abroad, and which for the sake of convenience I will term "capital domiciled abroad." In the case of a nitrate ground, operated by a British company the control and part of the management of which is exercised here, and the capital for which was raised in the first instance in the United Kingdom, it would be quite possible to discriminate between that portion of the "capital domiciled abroad" and the remainder. I attach great importance to this discrimination, because in the case of a company of this nature controlled from the United Kingdom it is clear that if any question of changing the location of control and management arises, the change would in most cases automatically be made to the country where the fixed capital is domiciled.

26,450. (19) Further, in considering the taxability of income derived from capital of this character, it should be remembered that this country cannot give so full a measure of protection to such portion of the capital as if this capital had been invested in fixed assets in this country. The fact that the British Government has been quite unable to afford any protection to the property of British companies owning mines or similar fixed assets in Russia is an illustration in point, and Mexico affords another

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instance of the same character. *Prima facie*, therefore, it is not reasonable to say that this country should be entitled to tax the profits derived from such capital on the same basis as it taxes profits derived from fixed capital in this country. I suggest, therefore, discriminating between the taxability of profits derived from "capital domiciled abroad" and profits derived from the balance of "free capital," in the case of businesses controlled here. It has been suggested that in so far as profits are attributable to "capital domiciled abroad" this country should forgo all right of taxation, but I cannot agree with this point of view. In the first place, assuming capital has been originally raised here, the company as a whole has derived some benefit from that operation, and, secondly, the fact that the control and management to some extent rests here is presumably of some advantage to the company as a whole. I think, therefore, that some proportion of the profits fixed by reference to the "capital domiciled abroad" should bear some share of British taxation, but I suggest that a lower rate should be charged in respect of such portion of the profits—possibly one-quarter or one-third of the highest British rate. This would be a fair charge to make for the benefits derived by such proportion of the profits in consequence of the fact that the capital has been raised here or is controlled here, and that some part of the control and management of the business as a whole is in this country. Such lower rate of tax should be adjusted automatically in relation to any rise or fall in the highest British rate.

(D) PROPOSALS FOR ARRIVING AT THE PROPORTION OF PROFIT TO BE REGARDED AS ARISING FROM TRADING OPERATIONS OUTSIDE THE UNITED KINGDOM.

26,451. (20) I appreciate the very grave difficulties in arriving at any allocation of profits on this basis, but it appears to me that a practicable solution can be found. Under the Excess Profits Duty Act, a Board of Referees was constituted for the purpose (among other duties) of determining any increase in the statutory percentage which should be applicable to various classes of trades or businesses, in consequence of additional risks to capital or otherwise to which such businesses may be subject. The Board of Referees has made numerous orders fixing increases in the statutory percentage, and I have had a good deal of experience in connection with applications of this nature. No insuperable difficulty has been found in practice in determining the various classes of trades or businesses concerned, and although as between one business or another in the same class the increased rate granted may be said to be inequitable in some individual cases, that is an incident which cannot be avoided in dealing with matters of this kind. It would seem to me, therefore, that there should be no difficulty in arranging that all businesses where part of the trading operations are carried on outside the United Kingdom should be required to make an application to a Board of Referees for the purpose above mentioned.

26,452. (21) It is not necessary for me to indicate the manner in which these apportionments should be determined, as I think it will be evident both to those members of the present Commission who have acted in the capacity of members of the Board of Referees for Excess Profits Duty, and to the Revenue representatives. It would be possible for a Board of Referees to arrive at a basis of apportionment on evidence produced by each trade group in question, in a similar manner to that in which applications have already been dealt with. The factor of "capital domiciled abroad" has already been dealt with, but in the case of merchandising businesses, where the proportion of such capital is comparatively small or wholly absent, other factors would have to be taken into account, and the principal one to be considered would probably be the turnover of trade done in each country. Shipping and foreign banking present special problems of difficulty, but I do not think these are insuperable of solution. In all cases, consideration would have to be given to the proportion of stock, book debts, and other liquid assets held abroad. The fact that the Board of Referees under the Excess Profits Duty Act has been able to formulate, in

practice, methods of determining the appropriate rate of increase in the statutory percentage in such an equitable way as between such varied trade groups makes me feel confident that the difficulties arising in connection with the apportionment of profits derived from international trade, could be overcome successfully in a similar manner. Let it be assumed that in a certain trade group it is found on evidence submitted to a Board of Referees that the proportions of profits arising from trade carried on outside the United Kingdom and within the United Kingdom are one-third and two-thirds respectively. Once this has been determined, the whole profits of all the businesses comprised in that group should be divisible in the same proportions, and the amount of each company's or firm's profits attributable to trade carried on outside the United Kingdom should be taxed at the lower rate, while the proportion attributable to trade carried on within the United Kingdom should be taxed at the higher rate. The proportion as fixed should apply for a definite term of years (say, three or five), and then be subject to revision, having regard to altered conditions, on the application either of the trade group concerned or the Inland Revenue authorities.

(E) THE EFFECT OF SUCH PROPOSALS, IF APLIED, TO LIMITED COMPANIES AND FIRMS, AND THE MEASURE OF RELIEF AFFORDED TO NON-RESIDENT SHAREHOLDERS AND PARTNERS THEREIN.

26,453. (22) Assuming this principle be admitted, a business of this nature would then be assessed on a portion of its profits at the lower rate and a portion of its profits at the higher rate. In the case of companies, statutory power could be given under which the company could legally appropriate the relief afforded for the benefit of the non-resident shareholders. If the amount of relief were in excess of the appropriate relief on the dividends payable to such non-resident shareholders, the balance of the relief would fall to the benefit of the resident shareholders. If the relief were not sufficient to discharge the non-resident shareholders wholly from liability to British Income Tax in excess of the lower rate applicable to them, then the whole amount of the relief could be applied to them. I think that although statutory power should be given to enable companies to appropriate this relief to their non-resident shareholders, the question as to whether the relief should be appropriated in this way, or otherwise, might be left to the discretion of the companies concerned. On the other hand, it might be thought desirable to make the appropriation of relief to non-resident shareholders a statutory obligation.

26,454. (23) The effect of this suggestion would be to overcome the difficulties indicated by Mr. Spry that would arise in practice in granting relief to non-resident shareholders on the basis put forward by him, and would leave these difficulties to be dealt with entirely by the company itself as a domestic concern. It would prevent any possibility of evasion either by arrangements being made for shares to be held by non-resident shareholders as nominees for resident shareholders, or otherwise, and would, in fact, avoid all the difficulties from the Revenue point of view which any other system of relief to non-resident shareholders would involve.

26,455. (24) I am aware that this suggestion goes beyond the suggestion to give relief to non-resident shareholders only on the dividends they receive, inasmuch as in many cases it will operate for the benefit of resident shareholders, and must certainly do so to the full extent in all cases where there are no non-resident shareholders. To this extent, therefore, this proposal involves a larger loss of revenue in the first place than any such measure of relief to non-resident shareholders, but I think that the question should be considered in its broadest aspect, not only from the point of view of any immediate and temporary loss of revenue, but also from the wider point of view of encouraging the control of foreign enterprises from this country to the fullest possible extent, thereby increasing the taxable income from that source and from all the other outside sources indicated above that would follow as a natural

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corollary. I do not think that the suggestion of giving relief to the non-resident shareholder is prompted by any particular tenderness for that individual, but has merely been put forward owing to the fact that the non-resident shareholder is frequently in a position to look after himself, and in a good many cases, unless some relief is granted, he will, if he has the power, endeavour to remove the control of the business from this country. It is not probable that, in the future, many large concerns will be placed under control from here, without some considerable colonial or foreign interests being retained, and either these interests must be treated reasonably in the matter of taxation, or they will not consent to place their property under control here at all.

26,456. (25) I suggest that firms conducting international businesses from this country should have the same right of application to a Board of Referees in common with companies, in the same trade group, and the procedure to be followed in their case would be similar. Such firms could then appropriate such measure of relief as is granted to their non-resident partners, such non-resident partners being treated in the same manner as non-resident shareholders in the case of a company. It is frequently the practice at present not to assess such proportion of the profits of these firms as is applicable to the non-resident partners, and in this particular case the loss to the revenue, if any, would be reduced accordingly. The application of this principle to firms would encourage them to continue the control and management here. The risk that such firms may transfer their business abroad is clearly shown by the evidence of Sir William Vasey and other witnesses.

(F) THE EFFECT OF SUCH PROPOSALS IN RELATION TO DOUBLE INCOME TAX.

26,457. (26) A great deal of evidence has been given on the question of Double Income Tax, both as regards the British Colonies and Dominions, and foreign countries. It would appear that some measure of relief must be granted, but I do not propose to discuss this question except in so far as it is related to international trade. If the proposals I have suggested were adopted in the case of businesses part of the trading operations of which are carried on outside the United Kingdom, I suggest that no relief be granted in respect of Double Income Tax in cases where the relief granted under my proposals amounts to more than the relief that would be granted under any proposals in connection with Double Income Tax. In the case of a company, any relief afforded under these proposals to non-resident shareholders might be adjusted by the company itself so as to charge the non-resident shareholders with their appropriate proportion of any colonial or foreign Income Tax borne by the company in respect of profits arising in their country of origin, but this is a domestic matter as between the company and the shareholders. Similar remarks would apply to firms. Where the relief afforded under my proposals is less than the relief that would be afforded under any general proposals for the adjustment of Double Income Tax, then I suggest that the company or firm should be entitled to claim so much of that Double Income Tax relief as is not already covered by the relief under these proposals. This would overcome, so far as businesses of this nature are concerned, many of the difficulties which attach to any suggestions for the relief of Double Income Tax and would automatically solve the problem to that extent. I may add that in my opinion no distinction should be made in these cases between

businesses the trading operations of which are partly carried on in British Colonies or Dominions or in foreign countries respectively, except in so far as it is desired, for political or other reasons, to give any preference to businesses comprised in the former class.

(G) THE EFFECT OF SUCH PROPOSALS, IF APPLIED, TO THE REVENUE, AND TO THE GENERAL TRADE OF THE COUNTRY.

26,458. (27) Mr. Spry has attached an annex to his evidence-in-chief, giving an estimate of the aggregate taxable profits for 1919-20, in respect of concerns trading wholly or mainly abroad, to indicate the effect of granting relief to non-resident shareholders on the lines suggested by him. I attach an annex to this memorandum, showing the comparative effect of the proposals now made, with those shown by him, assuming that the various percentages of foreign profits fixed by a Board of Referees average thirty-three and one-third per cent. for all trade groups. It will be seen that the present additional loss to the revenue is there estimated at £4,300,000 per annum if the lower rate of tax were taken at 1s. 6d., while it would amount to £3,733,334 per annum if the rate were taken at 2s. In either case, the amount is relatively small having regard to the large interests at stake, and to the compensating factors referred to in the note to the annex.

26,459. (28) Perhaps I may remark here that it has not been possible to deal in this memorandum with the converse position of international trade as reflected by our imports from the Colonies and foreign countries, involving the questions of agency and the control of business in this country by persons abroad, as I have not conceived this branch of the subject to be within the limits indicated by the title chosen.

26,460. (29) The main conclusions I have reached on this matter as a result of considerable experience and thought, may be summarized as follows:—

- (1) that our present application of the doctrine of control, if persisted in, will inevitably drive business away from this country and prevent new business coming here;
- (2) that we should do everything in our power to encourage the control of businesses from this country, thus reaping the actual and concomitant advantages that accrue therefrom, so far as is compatible with justice and equity to the general body of taxpayers, and with due regard to the financial necessities of the country;
- (3) that in so doing the particular sense of grievance or hardship that undoubtedly exists will be largely removed;
- (4) that ultimately, and sooner rather than later, the revenue will gain on balance, while the general trade of the country will be greatly benefited;
- (5) that by encouraging the growth of visible and invisible exports, our international trade position will be improved, which will assist materially in lowering the cost of living to the people.

26,461.

ANNEXE.

Comparative effect of proposals now made with those shown in the Annex to the evidence of Mr. C. G. Spry (Question 10,157), assuming that the various percentages of foreign profits fixed by a Board of Referees average 33½ per cent. for all trade groups.

Reduced rate of tax on foreign profits.	Estimated aggregate taxable profits.	Tax thereon in full at 6s. in the £.	Dividends of non-resident shareholders.	Relief suggested by Mr. Spry.	Foreign profits at 33½ per cent. of total.	Relief thereon now suggested.	Net tax after allowing relief on dividends to non-resident shareholders.	Net tax after allowing relief for foreign profits.	Present additional loss to revenue. See Note*.
1s. 6d.	80,000,000	24,000,000	8,000,000	1,800,000	26,666,666	6,000,000	23,200,000	18,000,000	4,300,000
2s. 6d.	80,000,000	24,000,000	8,000,000	1,800,000	26,666,666	5,883,334	23,000,000	18,666,666	3,733,334

* NOTE.—The loss shown would be considerably discounted by the proposal to make no allowance for Double Income Tax relief, except in so far as any foreign or colonial taxation relief exceeded the relief shown above. Any additional future revenue that may accrue to this country from the various sources indicated in the memorandum has been ignored here.

[This concludes the evidence-in-chief.]

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[Continued.]

26,462. Mr. Kerly: You have been good enough to send us a communication on the doctrine of control in relation to international trade and Double Income Tax prepared in a very convenient form for us. I will ask Mr. McLintock to begin your examination.

26,463. Mr. McLintock: Your paper is primarily on the doctrine of control?—Yes.

26,464. I take it that the purpose of your paper is to suggest to the Commission the desirability of finding some scheme to lighten taxation?—No, not wholly.

26,465. In respect of business controlled in this country, but carried on elsewhere?—Yes, that is right.

26,466. Your fear, I gather, is that control will be removed?—That is so.

26,467. And that as the result of that removal there will be losses of other kinds which will affect the Revenue?—Yes.

26,468. You have not restricted the operation of your scheme to the case of companies only which are registered and controlled here?—Do you mean to say by that that I apply it to firms as well or that I apply it to foreign companies which are not registered here?

26,469. Does your scheme go that length?—That aspect of it is the aspect which in my paragraph 28, I say I have not dealt with, because I do not conceive it to be quite within the limits of my title, but it is part of the whole question.

26,470. Would you restrict the application of your scheme to cases where there was a considerable but not necessarily a preponderating foreign interest in the carrying on of the trade?—You mean by foreign interest, shareholding interest?

26,471. Yes.—No, I would not restrict it to those cases at all.

26,472. Take the case of a business which is carried on wholly in the United Kingdom by British residents with British capital in the first place, and another business which is carried on, say, three-quarters in the United Kingdom and one-quarter abroad also by British residents and with British capital; do you consider that any relief should be given to the second business as compared with the first?—In the case of the first one, I take it you mean that some of its profits are made without the United Kingdom; in that case this proposal would not apply at all. The whole of those profits are made within this country and bear the full rate of tax. In the second case where the business is carried on by British capital controlled here, and the whole of the shareholders are British residents, but some portion of the trade of that company is carried on abroad, and some part of the profits are made abroad, I would apply the relief to that case.

26,473. You refer to capital domiciled abroad; I suppose you would agree that that is not always easy of ascertainment?—Quite.

26,474. Do you mean it is quite easy or not always easy?—It is not always easy, but it is possible.

26,475. How do you suggest dividing the total profits in proportion to the capital domiciled abroad and to the whole capital?—Assuming you have the case of a business the whole of the profits of which are derived in the first place.—I do not say they are earned but they are derived—from capital that is domiciled abroad as in the case of a mining company whose mine is situated abroad, and that is the only factor which for the moment we have to consider, I suggest that a fair way of arriving at the proportion of the profits or at any rate one of the principal factors you would have to take into account, would be to ascertain the proportion of the total assets represented by the capital domiciled abroad. Say the whole capital earns the whole profits; the capital domiciled abroad is, we will say, 60 per cent. of the whole capital, and that it earns 60 per cent. of the profits, taking it simply from the point of view of capital which you confine yourself to at the moment. If that is the line of argument, I should leave out of account liabilities altogether; they would be quite immaterial because they would be in most cases apportioned pro rata between the capital domiciled abroad and other capital.

26,476. Your suggestion to determine the proportion of profits to the capital domiciled abroad would be to take the total capital?—The total assets.

26,477. The total capital?—I do not mean capital in the sense of Excess Profits Duty capital.

26,478. I mean the total surplus?—I do not mean total surplus; I mean total assets.

26,479. Well, we will say, the total assets, the aggregate value of the assets. You take the proportion of the assets which represented, say, the cost of a mine there and development of it, etc., and you would apportion them in pro rata to the total of the assets?—Yes, that is assuming there are no other factors to come into account; there probably would be.

26,480. Do you think that is a satisfactory method?—I do not say it is wholly satisfactory, but I say it is a method. The methods I have suggested here are not the only methods. I only say that such profits ought to be apportioned, and I put forward certain suggestions for apportioning them.

26,481. Take the case of a gold mine in South Africa or Australia; do you suggest the method you have outlined is a satisfactory one?—I should say it is one of the principal factors you would have to take into account in determining the apportionment, but not the only factor by any means.

26,482. Mr. Kerly: Would you make it clear whether Mr. Pegler proposes to take the assets only without relation to the liabilities.

26,483. Mr. McLintock: I suggested the surplus to him and he said: "No, the gross assets without regard to the liabilities."—If I might explain why I take that view it is this: apart from the fact that there may be certain debentures or other charges which are secured as direct charges on specific assets, when there might be a different point to consider, let us assume that there are certain general debentures with a general charge on the whole of the undertaking. The company's main assets including their fixed assets abroad are liable to make good those liabilities; in other words the liabilities have to be paid off in the event of liquidation before any balance of the selling price of the assets is distributed to the shareholders. Therefore if you are going to apportion the capital as between one firm and another you would equally have to apportion the liabilities in the same proportion. It is as broad as it is long. You can either take the gross assets and apportion those or if you like take the net assets and apportion those; it comes to the same thing, only you must set off the appropriate amount of the liabilities against the proportion of the capital that is domiciled abroad.

26,484. If there were debentures secured over specific assets, you would want to apply the charge for interest against the profits applicable to those assets?—If you have got a specific charge I think that factor would have to be taken into account; not if you have a general floating charge because that is upon the whole of the assets of the business.

26,485. You agree that in a mining proposition your suggestion is not very workable, is it?—I do not agree to that at all.

26,486. How would you deal with a mining proposition; would you follow the same lines?—Yes, I cannot see that there is any difficulty about it really. These points have all been before the Board of Referees in connection with the additional statutory percentage for Excess Profits Duty purposes. They have arrived at the average life of mines over a whole group; if they can do that they can do the other.

26,487. The Board of Referees have never had to deal with cases just exactly on the lines you suggest?—I am perfectly aware of that, but they have had to deal with a great many difficult cases, which in my humble opinion they have dealt with in a very clever way. The principle that has been adopted, for instance, for getting at the appropriate rate for wasting assets has been a very complex and difficult one to arrive at.

26,488. Is it capable of rather more accurate ascertainment than would be the case in the apportionment of profits?—Do you think so?

26,489. I think so.—Of course, opinions differ.

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[Continued.]

26,490. I will leave it at that. Take a concern, the small proportion of whose capital is originally raised in the United Kingdom: because it is put into assets just now used abroad? I suppose your view is that that capital has lost its particular virtue and is earning profits which should not be subject to the same rate as the capital employed abroad?—Not necessarily, because when you say it has lost its virtue you mean to say its original virtue consisted in the fact that it was raised here.

26,491. Yes.—I do not. I think I indicate there that I do not think it should be wholly free of taxation at all, but I say it should bear some form of taxation, because it enjoys the privileges of the British Companies Acts, and it enjoys the privileges of having been raised here and enjoys the privileges of being controlled here, and it ought to pay for those privileges to a point.

26,492. You make another suggestion in regard to arriving at a profit on the basis of turnover?—Yes.

26,493. In your paragraph 21 you refer to the Board of Referees arriving at a basis of apportionment on evidence produced by each trade group, and then you go on to say: "The factor of 'capital domiciled abroad' has already been dealt with, but in the case of merchanting businesses, where the proportion of such capital is comparatively small or wholly absent, other factors would have to be taken into account, and the principal one to be considered would probably be the turnover of trade done in each country."—Yes.

26,494. Will you tell us where you suggest the profit emerges, in the country where the goods are produced or in the country where the goods are sold?—I say it is apportionable between both.

26,495. I agree; but can you be a little more definite? What is your suggestion? You take the total profit based on the turnover?—Assuming you had a merchanting business—and that is the only factor you have to consider—I suggest that is probably the only way in which you could arrive at some basis of apportionment; there may be others I have not thought of, but that appears to me to be the method you can apply where the business is a merchanting business, and does not involve any other considerations.

26,496. Would you compare it with similar types of business in particular countries?—Could I give you an illustration, do you mean?

26,497. Yes?—Yes, I can give you an illustration of, say, a business which is controlled from here which has branches in South America. If you like, that business controlled from here buys large quantities of goods in this country for export to South America. The South American branch or house also buys large quantities of goods in South America and exports them here or to other countries. If the whole business is controlled here the whole of those profits at the present time pay the full rate of tax, but they are not all earned in this country. The factors you have to consider are, first of all, that you have got a large quantity of goods bought here and sold in the other country, and you have got a large quantity of goods bought in the other country, some of which are sold here, but a large portion of which are sold in foreign countries—those are the factors you have to take into account.

26,498. You agree it is going to be a very difficult problem to arrive at any scientific method of apportioning profit earned in that way?—I agree it is difficult, but I suggest that simply because it is difficult it ought not to be shirked.

26,499. The main desire for the transfer of control from this country to some place abroad arises from the foreign shareholder?—Not wholly.

26,500. Or the participants in the profits?—Yes, although the most notable cases are cases where there is a large shareholding abroad, there are many other cases that I am aware of where there is only quite a small and negligible shareholding abroad, where nevertheless removal is contemplated—at any rate, if not actual removal, such a legal alteration as was adopted in the case of Shagbald's Hotel, which would practically deprive this country of the benefits of the tax on the trade.

26,501. Your scheme would relieve not only foreign shareholders, but British residents?—Quite. I am not in great sympathy with foreign shareholders,

except that they have to be considered, because they can do us damage if we are not careful.

26,502. It is the British resident whose profits are derived from abroad?—I am not even concerned with the British resident as an individual at all; I am concerned with the position of this country, and with the fact that, unless some alteration is made, in my view this country will suffer such a loss of trade in one form or another, direct or indirect, as will ultimately cause us to lose revenue that we are getting at the present time.

26,503. The proposition you put forward would give relief in the case of a firm, all of whose partners are in this country, and whose capital is here?—Do you mean the capital here or abroad?

26,504. You have a firm trading here in London that carries on a merchanting business abroad; do you suggest that that capital is abroad or here?—It depends whether it is located in fixed assets abroad or not. If it is located in fixed assets abroad it is certainly abroad, but if it is located in liquid assets in the foreign country it is abroad, not to the same extent, but it is abroad; in other words, it is in the form of book debts or stock in a foreign country, and it is not subject to the same protection by this Government as if the stock or book debts were in this country.

26,505. Do you draw a distinction between capital sunk in a fixed asset abroad and capital in book debts and stock?—Yes, I do. I do not say that the one ought not to be considered, but I say capital which cannot be moved is the capital which ought to have the greater proportion of relief, but capital that can be moved should have some relief, though not so much.

26,506. You would give less relief in that case?—Yes.

26,507. Then when you come to compare a firm such as I have indicated with one whose operations are confined to the United Kingdom, would it not create a new grievance to assess the one at a lower rate?—I do not think so, for this reason: if a firm carries on business in this country entirely, the whole of their operations are dependent on the security which the British Government can afford in this country. In my view Income Tax is a charge which is imposed for the general benefit of the State, and to enable the State to protect the property of its citizens, and to enable those citizens to earn profits. Without the power of the State that could not exist. We see the position in Russia to-day. The British Government cannot give the same protection to either fixed or liquid assets in foreign countries as they do in this country. Because they are controlled from here they pay the same tax; they are making them pay the same tax, but they are not giving them the same benefits. I think, therefore, if you make a discrimination, purely British concerns would have no grievances.

26,508. Take a man who invests his money abroad, and simply draws the income on the lines you have just been giving us?—That is not a trade, of course.

26,509. Well, in any case he gets no protection abroad?—No, but he is not obliged to invest his money abroad.

26,510. No, true enough; you could not extend it to him?—I would only extend it to him in so far as he was a shareholder in a company, and if the company got certain relief he would get some portion of it. I am not looking at the matter from the point of view of the individual. In my view, it does not matter about the individual at all. I am looking at it from the point of view of the general trade of the country.

26,511. Your paper generally: and your suggestions are put forward because you have the fear that the control will be removed abroad in a great many cases?—Yes.

26,512. If there is no differential taxation in favour of firms carrying on business abroad?—Do not call it differential taxation—any measure of relief.

26,513. Well, put it some measure of relief, if you like. You refer to Sir William Verley. His complaint was against Excess Profits Duty and Death Duties, not particularly Income Tax?—I venture to suggest if Excess Profits Duty had not existed and

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[Continued.]

a high Income Tax had, he would still have had a complaint, with Income Tax at the present rate.

26,514. Do you not agree that Excess Profits Duty is the only operating cause, so far as taxation is concerned, that has induced anyone to remove the control abroad?—No, I do not agree with that at all, and I say so in my evidence-in-chief.

26,515. Do you know of cases that have been removed solely for Income Tax?—No. I know cases of removal which have been accelerated by the Excess Profits Duty, but you have to remember that the Excess Profits Duty and the increased Income Tax have come at the same time. The cases that I know of have gone through Excess Profits Duty, but there are certainly three cases I have in mind which would have gone in any event if there had been no Excess Profits Duty, simply and solely because of the Income Tax.

26,516. You mean the Income Tax and no other reason?—None whatever; in other words, the companies concerned would no longer have continued to have been controlled from here, because none of their principal assets were here. The bulk of their capital was employed abroad, they did not trade with this country at all, and they say as they did not trade with it, why should they pay tax as 6s. in the £ on the whole of their profits.

26,517. You are suggesting to us that in the case of South America, owing to the war, it is becoming to some extent independent of capital borrowed from this country?—Well, I do not know that I have said South America is becoming independent; I have said that certain countries are or may be.

26,518. Of course, there are very few countries which have amassed a lot of money and which have not had to spend it during the war on warlike operations. I took it you were referring to South America?—I do not know that I was entirely. Another case I have in mind is Japan.

26,519. Well, Japan probably is another?—It is, without any doubt.

26,520. They have made a lot of money during the war, and they are less dependent on British capital?—Quite.

26,521. Is the question of taxation, do you think, really the cause of removal of control to either, say, Japan or South America?—You mean removal of control from this country?

26,522. Yes.—As far as I know, it is the only reason.

26,523. Is it foreign shareholders who have removed the control or British shareholders who have given it up?—In most cases, so far, it is foreign, because where the control has been in the hands of British shareholders they have during the war, in most cases I have been consulted on, taken the view that the country is at war and requires all the money it can get, and they have, therefore, felt it their duty to remain here. They also felt that Excess Profits Duty was necessary, because money must be found, and so on. Those cases I am thinking of are now beginning to consider that the war is over, and whereas during the war it was very essential from the point of view of the country that they should remain here, and it was also very difficult to remove because of restrictions, those considerations no longer exist. People were not allowed to leave the country because of the Military Service Acts, and so on. It was practically impossible to remove the control except in very exceptional cases. That impossibility no longer exists, and those companies that I have in mind are considering whether, under all the circumstances, if they do not get any relief at all, they will remove their businesses, and they do not feel the same obligation to remain here now, or they will not in the course of the next year or two, as they did during the period of the war.

26,524. Your view is that we may look for a continually increasing number of large concerns being removed out of this country altogether?—Certainly.

26,525. Unless there is a measure of relief?—Certainly.

26,526. On the profits earned abroad?—I am quite convinced of that, and further I am also convinced that a number of concerns that would have come to this country will not come at all; because I am being

consulted on it every day as to whether they should come or whether they should not.

26,527. Could you give us an indication of the type of businesses?—Yes, I will give you one or two, if you like. I will not mention names, but I have a note of a Portuguese business, a very large business in Portugal, which for certain particular reasons the shareholders in Portugal are desirous of converting into a British company. They took legal advice in London on the matter, and my firm was asked to advise on the question from a taxation point of view. Of course, we had to inform them that if the business was converted into a British company, the control of which was located here, the whole of the profits being earned in Portugal—because the business does not do any trade in this country, and never will—will be subject to British taxation at the highest rate. They said, "if that is so, we will not come here." We would be prepared to pay something to come here, but we are not prepared to pay 6s. in the £ on the whole of our profits." I had another case, a Japanese business, a very big business in Japan, that was very desirous of forming a British company. They do not propose to turn the whole of the business over to this country, but a large part of it, and they wanted advice as to the taxation position. There, again, I had to give them similar information, and they said, "if we have got to pay as much as that we will have the control of our business elsewhere." I had another case of an American business the other day, a very big business in New York that wants to establish a business in this country. There, again, with the present rate of Income Tax they do not feel inclined to do it, except in such a way as will very materially reduce their liability. Those are only three cases within the last fortnight that I have had to deal with. I have had to deal with many others, and I have had to give them the same advice practically in every case, that unless they are prepared to pay taxation on the whole of their profits if they are controlled here, they must not come or they must arrange their business in some other way.

26,528. Those are all cases of businesses which have been inquiring as to what the taxation liability would be if they were registered and controlled in this country?—That is right.

26,529. Have you had many cases of the control actually being removed from this country?—During the war I have had four cases of the control actually having been removed; those were cases where the accelerating force was the Excess Profits Duty, but I have been assured by the people themselves that they would have gone in any event because of the Income Tax. In all those cases there were preponderating foreign interests. To show the point that I want to make, I have been informed by those people that if they had been able to retain control here by paying a considerably lower rate of tax upon their whole profits, they would have retained that control, because it is very convenient for them. I asked why was it convenient for them, having regard to the fact that in none of those businesses was any trade carried on in this country whatever. One was a shipping business, where the ships ran from the East to the States, and they ran under the British flag. They never came to this country to deliver goods or to book freight. All they ever came to this country for was to register under the British flag and to undergo their surveys, and so forth. Their view was that it was very convenient—because London is in such a geographical position in the world—that it is extremely convenient to synchronize business in London even although it may equally well be done in the States. They are still under the British flag in another part of the world, but they do not pay any tax here.

26,530. Those transfers you speak of have all been since the war?—Since the war, yes.

26,531. Mr. Birley: In paragraph 14 you remind us that we have had evidence both to the effect that profit is made when goods are manufactured and also profit is made when goods are sold. In the latter case you come to when goods are sold. In the latter case you come to the conclusion that part is made in each transaction; part is made in manufacturing, and part is made in selling. You have dealt with many forms of selling those goods in this country. Have you ever considered the case of foreign manufacturers with foreign capital who sell goods in this country? They

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[Continued.]

do not merchant them, but they sell them direct through their travellers to consumers, or to merchants, and pay no Income Tax on their profit. If those goods are sold, and your contention is that on the selling a profit is made, that profit as it is now escapes any tax at all?—That is quite true.

26,532. How would you propose to deal with that?—As I say, I have excluded it from this memorandum because it is the converse position to the one I have been considering. It raises the whole question of selling goods in this country either direct in the way you suggest, or through agencies, or through brokers.

26,533. Through an agency it can be got at?—A sale agency, yes; I do not know that it can be got at where a number of agents are employed.

26,534. I am assuming a case where it cannot be got at?—Yes. Under the present law it cannot be got at. There I quite conceive that there is a very great difficulty, because it depends entirely on the nature of the article that has been sold. If it is such an article that this country must have it, and it cannot get it from anywhere else but the country of origin, the country of origin might either say: "if you tax on your side either we do not send the goods, or we put up the price."

26,535. There is a large business which is done in that way in competition with English manufacturers of the same goods?—I think it should be taxed. How to make a foreigner pay, to use a common expression, under those circumstances, is not an easy problem.

26,536. Have you ever considered as to whether it should be paid on an assumed rate of profit and take invoice values; those values could be ascertained?—Of course invoice values is an open point; there are all sorts of invoice values. You can make an invoice value what you like.

26,537. I am assuming not to their own house in this country?—No, to outsiders.

26,538. To their clients who are actual consumers, let us say?—I think that would probably be the only practicable way of dealing with it.

26,539. But you do consider that there is a profit made on that sale?—Yes.

26,540. And at present there is no tax on that profit?—Quite. They would not sell, of course, if there was not a profit arising from it. There is a profit arising from it, and so far they get the benefit of the protection of this country in connection with the sale of the article. For the recovery of the debt, and so forth, they might sue in these Courts. For these advantages they pay nothing.

26,541. You do consider that if a proper method could be arrived at that profit which is made should be taxed?—I do.

26,542. *Professor Pigou*: In paragraph 4 you referred to the grievance that is felt when profits earned abroad are taxed at the same rate as profits earned at home?—Yes.

26,543. Do you extend that to profits made in foreign countries where there is no Income Tax?—Yes. It is quite immaterial from my point of view as to whether there is double taxation or not. Double taxation accumulative is, of course, but the grievance has been expressed to me on many occasions by people in different trades that they should be obliged to pay the same tax on profits wholly earned abroad as other people pay on profits wholly earned in the United Kingdom, because they point out they do not get the same measure of protection.

26,544. Would not the effect of relief practically be to give a bounty to people who invest abroad rather than at home?—I do not think so for this reason, that there are already bounties in a great many cases which are not taken advantage of. I do not know whether it has been pointed out before this Commission, but it has been pointed out somewhere that before the war you could earn a very much higher rate of interest on your money if you invested it in Cape Colony, or South America, or San Francisco, than if you invested here on equally good security. The reason people did not do so was that they had to trust agents and persons abroad to look after the capital, and they did not trust them. Notwithstanding the higher rate of interest which could be earned with really equal security and that they could get first class people to look after it for them they would not do so, and did not do so, to any great extent. I think the same argument would apply here:

large numbers of people do not like investments abroad and never would like them, and they do not do it because they prefer to invest their money at home.

26,545. Is it a bounty?—I say that this country at the present time is getting more than it is entitled to. I do not call it a bounty.

26,546. It does not much matter what you call it, but the effect obviously is that there is an advantage given by the State to encourage British people to invest abroad?—I do not say so necessarily.

26,547. You have at length admitted that it does exist?—I do not say that it necessarily follows at all, but I do not object to it if it does. I say this country simply exists by its investments abroad. If we had no investments abroad we should be a second Belgium.

26,548. You do not think at the present time it is undesirable to encourage capital going abroad?—I do not think so. I think that is a short view.

26,549. You would be prepared to give a bounty?—No, I would be prepared to encourage capital, which is invested abroad, to be controlled here. It is better for this country that it should be controlled here rather than that it should be controlled abroad. I would much sooner it were controlled here than that it were controlled abroad. It will be controlled somewhere, because you do not mean to tell me that the capital is not going to be invested abroad; it will be invested abroad in one form or another. Somebody is going to control it; the question is who is going to have the control of it.

26,550. That surely is a different point altogether?—I do not think so.

26,551. Your proposal is that if British capital is invested abroad it will be taxed in England at a lower rate?—True.

26,552. That has nothing to do with control?—In this sense: after all when you say British capital what do you mean by "British capital"? You may have a British company with the bulk of its shareholders British, but quite a substantial portion of its capital may be furnished by foreigners. I say it is much better for this country that that business should be controlled here than that it should be controlled abroad.

26,553. That is a different point, but in this particular paragraph that I am referring to the question of that control is not mentioned at all. This paragraph says in effect that when British capital is invested abroad it should be charged at a lower rate of tax than when it is invested at home?—Where does it say that? Will you just read it if you do not mind?

26,554. It is in paragraph 4 of your paper.—I do not say it is wholly British capital.

26,555. It is not intended to refer to British capital invested abroad?—It is intended to refer to all capital which is controlled here, but some part of which is invested abroad. Whether that is originally British capital or whether it is partly furnished by foreign capital is immaterial for my point.

26,556. I want to get at what is referred to. Does it include capital which an Englishman invests in a foreign company that is not controlled in England?—No, it does not include that.

26,557. I am sorry; we have been at cross purposes?—If, for instance, an Englishman or a British resident chooses to invest in a company like the Mexican Eagle, which is controlled in Mexico, where they have revolutions once a week, and where they have simply controlled it there because they do not want it to be subject to taxation here—otherwise it would have been controlled here from the start—if it is a case of that sort and they choose to go and be controlled elsewhere, I would not give them any relief at all.

26,558. Then I misunderstood you. You do not propose that a British resident who invests in a foreign country should be relieved at all?—No; and another point I would like to make here is that my suggestion is to give relief to trade as a whole, not to individuals at all; I am not concerned with individuals.

26,559. That paragraph is supposed to be taken with the understanding in that way?—Yes.

26,560. I do not think it is clear as it is put?—I am sorry.

26,561. Then paragraph 7, the first sentence or two. The tendency to take control abroad will not

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[Continued.]

apply, will it, if the shareholders are all British?—Yes, it will, excuse me.

26,562. Will you explain how?—Let me take a South American case that I have in mind—a very large business in South America—where the whole of the trade is done in South America; no portion of the profits, except in so far as they are attributable to the control and management here or to the original raising of the capital here, is made in this country at all. All the customers of the company are in South America. They manufacture in South America. Although the great majority of the shareholders in that company are British shareholders (I suppose 50 per cent. are British shareholders) they are seriously considering removing their control to South America.

26,563. How will the British shareholders be taxed?—They will only be taxed on their dividends; but now the company pays on its reserves, which are very large.

26,564. They will escape in the matter of reserves?—Yes.

26,565. But they will not escape in the matter of dividends that they personally receive?—No. If the company moves, it is going to move because of the company, not because of the individual shareholders.

26,566. It is on undistributed profits?—Quite.

26,567. That is really the point?—Yes, these undistributed profits are very large.

26,568. But the point is the undistributed profits?—The point in that case is, certainly. You must distinguish between the point of view of the individual shareholder and the point of view of the company.

If a company says: "we are going to remove because we think we are paying too much," they are not thinking at all of the individual shareholder who has to pay tax on his dividends; they are thinking of the company as an entity.

26,569. And where the company is a different entity from the individuals who make it up, it is in respect of undistributed profits?—That is the main point of difference, of course.

26,570. Then in paragraph 24 you point out that your plan goes beyond giving relief to non-resident shareholders, inasmuch as in many cases it will operate for the benefit of resident shareholders?—Yes.

26,571. Does not that raise this difficulty: that the amount of benefit that resident shareholders will get depends in an arbitrary way on how much foreign capital there happens to be in the company?—Yes, entirely.

26,572. Is not that rather unsatisfactory?—I do not think so. After all, if a large portion of the capital is in its origin foreign, that introduces a further element as to whether it is desirable to tax it at such a high rate. If the business is British in its origin, that is to say, the whole of the capital is raised here, I do not see why, because those people are British, they should be worse off than if they were foreign.

26,573. But, on the other hand, is it not rather unfair as between two British people in two exactly similar companies, where in one of those companies there are a large number of foreign shareholders, and in the other a small number? The burden borne by the British shareholders will be different in the two companies?—Yes, it might. You will notice in the latter part of paragraph 22 I suggest, on the question of appropriation of relief, it might be desirable to make it statutory to appropriate the relief to non-residents, or, on the other hand, it might not be desirable. One of the reasons which make me think it might not be desirable to appropriate relief to non-residents is that if that were done automatically and obligatorily where there was a foreign market in the shares, it might be worth the while of foreigners to buy those shares; it might be more worth their while to buy than for British people to buy, or at any rate it might put up the price so that British shareholders would want to sell. That, I think, would be disadvantageous. The only way to stop that probably would be for the company not to be obliged to give the relief to foreign shareholders, but for it to be optional on the part of the company. The company might say: "we think the whole of this relief should fall to the general body of shareholders"—not be specifically allocated to the non-resident shareholders. That would probably have the effect

of stopping it. Of course, you have to remember that by working on the trade group principle all these things are averaged over the whole trade group, and incidental inequities will result which you cannot avoid. You cannot get a fairly correct result unless you individualise each case, which is, in my opinion, quite impracticable.

26,574. I understand in effect that you admit this inequity, but you do not think it is important?—Not material. There is inequity and has been inequity in some of the cases where the Board of Referees have made orders for the statutory percentage to be increased. As between individual businesses in the same trade group there may be inequity, but the fact that all of them in some measure are getting some relief rather softens the asperity of that inequity; they feel they are getting something, and half a loaf is better than no bread.

26,575. Mr. Walker Clerk: In paragraph 6 you say that these removals have already taken place in consequence of the rise in Income Tax; and in paragraph 7 you say: "on account of the high rate of tax in this country." Is not the tax in Japan and America growing?—Yes, certainly.

26,576. Is not a fact that the tax in America is higher on large incomes than it is here?—Yes. They do not tax their foreign profits; they do not tax profits made outside the United States.

26,577. In what cases?—In a great many cases.

26,578. With regard to the inquiries to which you referred of the Portuguese and the South American companies was one reason for their inquiry as to the cost of establishing business here, because of the high rate of tax in their own country?—No, nothing whatever to do with that at all. Because they have got to go on paying taxes in their own country just the same. That has nothing to do with it at all.

26,579. That did not affect the question?—No.

26,580. The representatives of the Stock Exchange have given evidence here that it is very desirable that capital should be attracted to this country?—Yes.

26,581. That capital is needed?—Yes.

26,582. And they rather suggest that anything in the nature of giving an advantage to the investment of capital abroad is disadvantageous. Would you agree with that?—When they say capital invested abroad, I think you have got to bear this in mind. You have to distinguish between capital which is controlled here, and other capital. I have a good deal of knowledge of the Stock Exchange, and if you asked the Stock Exchange representatives whether they objected to the control here of capital which is invested abroad, and the market for which is therefore in this country, I do not think they would object to that at all; they would rather like it; but what they object to is the exportation of capital abroad which is going to be controlled abroad. That is what they want to stop.

26,583. Mr. Walker Clerk: That point was put to them very plainly, and they would not admit it.

26,584. Mr. Trotter: With regard to the moving of control, you have referred to the question of taxation on reserves. Besides that, another consideration would be, would it not, the allowances for depreciation?—Yes, that is a very substantial point.

26,585. In order to make certain of retaining the control of these companies, you would have to give a series of reliefs?—No, not necessarily; I do not agree with that. I think that all those points have to be considered from a general point of view, not only for these companies, but for all companies. The Commissioners have had evidence on those points separately. But what I do feel is that the whole of those things, taken together, do operate very much to induce companies to remove. Mr. McIntock asked me whether those cases of removal had been before the war. They have not, in those specific cases, but I know other cases before the war which were wholly due to Income Tax and nothing else. One very prominent case was the De Beers, of course.

26,586. Mr. Kerly: De Beers was never an English company, was it?—They paid taxes here, I believe; they do not now.

26,587. Sir E. Nott-Bower: The De Beers Company was controlled here?—Yes.

26,588. I thought it was registered at Kimberley?—Yes, but it did pay tax here, and then it changed

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MR. ERNEST C. PEOLIER.

[Continued.]

its methods and no longer paid tax. The Egyptian Hotels case is another one.

26,589. Mr. Kerly: Will you allow me to put to you two alternative propositions, one dealing with relief in respect of dividends to foreigners, and the other dealing with relief in respect of undistributed profits as far as they might be considered the property of foreign shareholders. Take the first one. Supposing we had something in this form: where the business is managed or controlled here, but is otherwise carried on abroad, and the profits earned abroad, the tax chargeable in respect of so much of its profits as are distributed in dividends to non-resident shareholders not holding the shares on behalf of residents, shall be returnable to such shareholders—or, as you say, to the company. That is the first form of the proposition. The second form is: where a business is managed or controlled here, but its profits are earned abroad, as before, the tax chargeable on the company in respect of the business shall be reduced in the ratio of the capital belonging to such shareholders, as before, to the whole capital?—I did not quite follow your words “as before.”

26,590. —shall be reduced in the ratio of the capital belonging to such shareholders, as before—that is to say, non-residents not holding on behalf of residents—to the whole of the company. Of course, you would have to make that addition. Those are alternative propositions, are they not?—I believe so. I do not myself think they are sufficient, because they only seem to take account of the non-resident shareholders. I have no particular sympathy with the non-resident shareholder at all; I think we ought to look at it only from the point of view of this country. The only reason that the non-resident shareholder has to be considered at all is because if he is not considered, he may take his business somewhere else. Otherwise there is no particular reason why he should have a benefit that is not granted to a British shareholder.

26,591. Pausing there for a moment, I thought the whole trend of your paper, as of other evidence that we have had, was to show that it is a very real danger to this country that businesses carried on abroad but controlled here might be taken abroad, and that when they went abroad we should lose incidental profits which are earned because they are controlled here?—Quite.

26,592. And the end in view was to prevent such companies having their control taken abroad?—Quite.

26,593. And one important element in the danger of their going abroad is that they generally have foreign shareholders?—Quite.

26,594. They may have a large proportion of foreign shareholders?—Yes.

26,595. Now you say that my two propositions do not adequately deal with the case you have in mind. Will you just give me your comment upon them, from that point of view?—The danger that I foresee is not only the removal of the control where there are foreign interests; that is, of course, a direct cause which, if the foreign interests are large, will certainly operate. But there is also a considerable danger of the control being removed where there is not a preponderance of foreign shareholding, and not in consequence of pressure from foreign shareholding at all; because, as I say, there are a good many cases of businesses which could equally well be controlled from their place of origin or where the capital is domiciled. There are certain drawbacks to it, of course we know. For instance, directors and managers here who are resident here, or the people who are responsible for the control, would have to migrate elsewhere. I am quite aware that in a good many cases, they do not want to do so, because they prefer to be in this country. That acts as a deterrent, but it will act as a deterrent only to a point, and it is coming to the point when it is no longer a sufficient deterrent. There are many cases that I have in mind where it would be perfectly easy for the control to be shifted; there is no reason why it should not be shifted, except that this country is so very convenient for the control of international trade. It is a natural question, a geographical question.

26,596. The addition to my propositions that you

desire to make, seems to me to be something directed to relieve British residents drawing an income from abroad in respect of that income?—Well, no. There again I do not want to give relief to the individual at all; I want to give it to the trade group.

26,597. But just consider. In the case of a business which is abroad, you cannot tax the business; you only get at it because its profits come to residents?—You mean the resident might be a company, an entity?

26,598. If it is a company domiciled here, the business is got at only because its revenue comes to a resident, or because the residents are controlling it. It is one or the other, is it not?—You can put it in that way, if you like, I quite agree, but one generally does distinguish between a company as an entity, and the individual shareholders composing the company. I know that the tax point of view is that in fact the tax is borne by all the shareholders individually, but I think that from every practical point of view, you can distinguish between the tax borne by the individual shareholder, the Income Tax deducted from his dividends, and the tax borne by the company, which is in a great many cases very much more.

26,599. I suggest to you that you cannot go beyond the scope of the two propositions that I have given you, unless you are prepared to release, wholly or in part, actual residents in respect of their foreign income?—Yes, that would be so, in that way.

26,600. And if you are going to release residents in respect of income from abroad, that must be a general provision?—I do not quite see why it should. You mean to say it must apply to other sources of income than trades?

26,601. Yes; how can you distinguish? May I just make myself plain? A share held by an Englishman in a French company is foreign property?—Yes.

26,602. Just as if it were an estate held in France?—Yes.

26,603. How can you distinguish between the one and the other?—Because the one is controlled here, and the other is not.

26,604. But then you are going back to the doctrine of control?—No, I am not going back to the doctrine of control, but I am going back to control, in other words. I want to see as much business controlled here as possible; I want to encourage it.

26,605. I thought my propositions were intended to cover the whole ground where taxation depends upon what I will call residential control?—I would rather like to see your propositions in writing, if I might.

26,606. I understand you do not accept these two propositions as covering the whole field, but so far as they go, they involve this: that if you have a business which is partly carried on here and partly carried on abroad, disregarding in each case the element of control, then you must have some means of distinguishing how much of the profits is to be treated as coming from the business carried on abroad?—Yes.

26,607. You suggest that that might be referred, for groups of businesses, to some Board of Referees?—Yes.

26,608. And the only suggestion I can find in your paper is that the Board of Referees should be left to determine the principles of apportionment according to the facts of any class of trades?—Yes.

26,609. It would be a very difficult matter, would it not?—Quite.

26,610. And really you have no suggestion to make beyond leaving some other body to deal with particular trades; and I suppose you would say, in the course of dealing with the circumstances of a series of trades, and in the course of a number of years, they might formulate principles and make a body which would be a general guide?—Yes; I do not think it would take so long as that.

26,611. Of course we all know that that is how the Common Law grew up; it took, I think, eight centuries?—It did not take the Board of Referees eight centuries to formulate the principles under the section dealing with the increase of statutory percentages.

26,612. Mr. Kerly: We are much obliged to you for your evidence.

THIRTY-SIXTH DAY,

THURSDAY, 4TH DECEMBER, 1919.

PRESENT:

Mr. KERLY (*in the Chair*).

Mr. PRETYMAN.

Sir E. E. NOTT-BOWER.

Sir J. S. HARMOOD-BANNER.

Sir W. TROWER.

Mr. HOLLAND-MARTIN.

Mr. BIRLEY.

Mr. WALKER CLARK.

Mr. GRAHAM.

Mrs. KNOWLES.

Mr. McLINTOCK.

Mr. GEOFFREY MARKS.

Mr. MAY.

Professor FIGOU.

Dr. STAMP.

Mr. TROTTER.

Mr. H. BERTRAM COX, Solicitor of Inland Revenue, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

Proof of evidence of H. BERTRAM COX, Solicitor of Inland Revenue, on the subject of the Income Tax Acts.

26,613. (1) The Income Tax Act, 1918, is purely a consolidating Act. It embodied in a single Statute the provisions of the numerous Acts since 1849. One of the principal objects of the consolidation Bill was to facilitate that general consideration of Income Tax law by the Royal Commission which is at present taking place. It was never expected that the Act would be enduring; on the contrary, it was expected that the deliberations of the Royal Commission would lead to recommendations which would be followed by considerable reforms to be embodied in an amending Act. It was further anticipated that later still the Income Tax Act, 1918, and its amendments would be embodied in a single new Statute, which Statute might also, as far as practicable, contain the effect of much of the existing case law.

26,614. (2) I have had the advantage of reading Mr. Bremner's evidence before the Royal Commission, and I should like to say at once that as to a very great number of the points raised by him I find myself in entire agreement. I quite agree that much of the Statute law as contained in the consolidating Act is old, confused and vague. And although my experience in the work of consolidation has taught me how difficult it is to dispense entirely even with old, confused and vague language if it has formed the basis of an important tax for a long period, I still think that many improvements might be made. At the same time it must be remembered that any new Act which uses terms and expressions differing from those which have been employed during the best part of 100 years, and which have become familiar to the legal world and the taxpayer, is bound to give rise to a considerable number of disputed points. Litigation by no means entirely depends upon the obscurity of the phraseology in an Act of Parliament. It very greatly depends upon whether a person who considers himself over-taxed has a sufficient motive for questioning the meaning of the Act. It is generally possible to take two views of the meaning of even a simple sentence, and as in any particular case the taxpayer may quite reasonably be advised that he has a fair chance of establishing a construction favourable to his wishes, he will certainly, if a large sum of money depends upon whether one interpretation or the other is correct, be likely to endeavour to secure from a Court the interpretation which will suit him best. I do not deny for a moment that a fresh and, if possible, a more simple enactment is desirable, but I am confident that for some years litigation on points of Income Tax will thereby be very largely increased.

26,615. (3) I also agree with Mr. Bremner that the arrangement of the Act might be improved. The arrangement proposed by him is substantially the same arrangement as was found in the draft of the Bill presented to Parliament. In that Bill, in the forefront of the draft, were placed the provisions now included in the First Schedule. This arrangement, however, did not commend itself to the Joint Select Committee which considered the Bill. I do not think that their objection was so much to the arrangement as to the inclusion of what was termed a Schedule in the body of the Act.

26,616. (4) I agree with Mr. Bremner that what the taxpayer wishes first and foremost to know is (1) on what income the tax is imposed, and (2) how his assessable income is to be computed. It is clear, as he states, that the task of giving full and detailed information on these points in an Act of Parliament will not be easy. Indeed, I feel that when it comes to be attempted it will be extremely difficult. The complexity of the subject matter with which the Statute deals is the principal obstacle to minute treatment.

26,617. (5) For example, Mr. Bremner suggests that, as the House of Lords has laid down on more than one occasion that profit and gains are to be ascertained on ordinary principles of commercial trading, that guiding principle might be incorporated in the Act. I would point out, however, that if a specific provision to this effect were included in an Act of Parliament there is no limit to the amount of litigation that might arise.

26,618. (6) It has been suggested that an attempt should be made to tell the taxpayer in plain terms what expenditure he is entitled to take into consideration and what expenditure he may not include. This would obviously be very difficult, and I doubt whether it could possibly be satisfactory since it would be necessary that the two categories should together purport to be exhaustive. The point I have in mind will be best appreciated if one considers, for example, what would be the plain terms as to expenditure allowable and expenditure not allowable which would leave no doubt as to the basis upon which should be made, respectively, the several returns of a pawnbroker, a stockbroker, a Life Assurance company and an engineering contractor.

26,619. (7) Mr. Bremner suggests that the word "business" should be introduced into Schedule D. The object in view is apparently to bring within the charge profits which arise from isolated transactions and not in the course of a continuous trade, profession or vocation. I am informed that large sums of profits of this kind now unreasonably escape charge to tax; but I am inclined to think that the point would be well met by the suggestions which I believe the Board of Inland Revenue have already made with a view

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[Continued.]

to the inclusion of profits other than annual profits within the charge.

26,620. (8) Mr. Bremner also speaks of the forms of return, and I understand that other witnesses have raised complaints as to the obscurity and complexity of the forms. The governing consideration is, as Mr. Bremner states, that the forms must not differ from the Act. They must, of course, correspond to the Act, and any improvement in the Act will, of course, reflect itself in the forms as it ought to do.

26,621. (9) Mr. Bremner has suggested that the Schedules should be simplified and re-arranged. This might very well be done, but having regard to the variety of the subject matter which must be dealt with in the Schedules and dealt with in detail, the only results would be, it seems to me, to increase the number of sets of rules under a more limited number of Schedules. It appears to be a matter of taste whether you prefer to have a small number of Schedules, each containing a number of sets of rules, or a large number of Schedules and a smaller number of sets of rules within each Schedule. There is another important point in connection with the Schedules. The present Schedules were devised at the time when deduction at the source was instituted. The arrangement of the Schedules is an arrangement by reference to sources, and it is a natural arrangement. In Mr. Bremner's suggested arrangement I think it will be found that the sources overlap the different Schedules. For example, his Schedule A would include income from personal property, whilst his Schedule B includes all income from trades and businesses. It would accordingly seem that income from the shares held by an individual in an industrial company might fall either under his Schedule A or his Schedule B. I am in agreement with Mr. Bremner's suggestion that all employments might well be treated on the same basis, and for this reason I should see no objection to transferring all employments to a single Schedule. Apart from that I do not see any important ground for disturbing the present arrangement of the sources of income, unless it were found expedient for practical purposes to transfer particular sources of income from one of the present Schedules to another, as, for example, Nos. II and III of Schedule A to Schedule B.

26,622. (10) I quite agree that Super-tax should be separately dealt with as it now is by the Special Commissioners. It seems to me quite impossible, so long as deduction at the source is retained, to merge the Super-tax with the Income Tax, and I quite agree with Mr. Bremner that it is essential to retain deduction of tax at the source.

26,623. (11) With regard to appeals, I entirely agree that sufficient time should be given to a person who desires to appeal for him to give his notice of appeal, and that definite times should be fixed for all subsequent stages in the course of the appeal, subject to extension by agreement or by order of the Court.

26,624. (12) I am also in entire agreement with Mr. Bremner that there should not be an appeal to the High Court on matters of fact. With regard, however, to the question of shorthand notes, I am not fully in agreement with him. I consider that if the Court were at liberty to refer to shorthand notes there would be a great prolongation of the argument in cases before the High Court. At present, if a doubt arises as to the statement of facts it is always open to the Court to refer the case back to the Commissioners. I am, however, in sympathy with Mr. Bremner's suggestion that a shorthand note of the proceedings before Commissioners would frequently be useful. It would be valuable, because it would greatly assist the ascertainment of the facts, for the purposes of any case to be stated by the Commissioners. If it were decided that an appellant or the Crown should have the option of requiring a shorthand note to be taken of what passes at the hearing of an appeal, I consider that it would be essential that the note should be taken on behalf of the Commissioners having jurisdiction in the case by a short-

hand writer appointed by them, and that copies of the note should be available, on payment of a fee, to either party to the appeal. A difficulty, however, would, I think, arise in some of the small country divisions where meetings are held at remote places, and where, I think, the Commissioners might very much dislike that a note should be taken of their proceedings. This might be overcome by giving any body of General Commissioners the power to decline to allow a shorthand note to be taken, and in the event of their so declining, giving either party the right to have the appeal removed for hearing to the Special Commissioners who should be bound to allow the taking of the note.

26,625. (13) With regard to the question of delay in repayment, where an order has been made for repayment by some competent authority under the Act, I can only say that so far as my experience goes the taxpayer has no difficulty in recovering the money due to him. I can conceive of a case where the jurisdiction of Commissioners to make the order might be in question, and in consequence delay might arise, and perhaps it is to matters of this kind that Mr. Bremner refers, but I can only say that no such cases have come under my notice. If it is really necessary to deal with this matter I agree that a summons before a Revenue Judge would be the most satisfactory way of dealing with the difficulty.

I hardly think that Mr. Bremner can be referring to claims for repayment of tax on the ground of smallness of income, in regard to which there is normally no dispute as to the title to relief. Such claims are received in very large numbers at certain seasons of the year, and any delay which may have occurred in particular cases at times of great pressure, especially during the war period, has been unavoidable. I understand that official evidence has already been given to the effect that the Board of Inland Revenue hope to ensure speedy repayment in future by bringing into operation a scheme for decentralisation of the repayments work.

26,626. (14) I have not dealt with minor inconsistencies and difficulties which occur in the working of the present Act, because they are obviously such as would be considered by the Commissioners of Inland Revenue when discussing the terms of any draft Bill that might be proposed in consequence of the Royal Commission. The more important suggestions as to amendments which should appear in any new Act have, I understand, formed the subject of special evidence-in-chief given by various official witnesses, and during the sittings of the Commission the attention of the Commissioners has been constantly drawn to various points with regard to which amendment is desired. Beyond these points there would undoubtedly emerge upon a close examination of the Act many other points of less importance where small amendments are desirable, and where simplifications might be obtained. All these points would come up for consideration before any such Drafting Committee as Mr. Bremner suggests, but they are none of them of such importance as to entitle me to take up the time of the Commission with them.

26,627. (15) I should say, however, that with regard to Question 15,970, the Revenue authorities do in practice sometimes pay the costs of the other side in a proper test case, and at the present moment there is a case pending in which they have undertaken not only to pay the costs of the other side in an appeal to the House of Lords, but also to refrain from asking for any costs, whether in the House of Lords, or in the Courts below, or for the return of any costs paid by the Crown during the course of the case.

[This concludes the evidence-in-chief.]

26,628. Mr. Kerly: You are the Solicitor of the Board of Inland Revenue, and you have had unrivalled experience, of course, in the administration of the existing Acts. I suppose it is inevitable that any man who has learnt to work a complicated system

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[Continued.]

and has mastered it himself should take a rather conservative view?—Not necessarily, I hope.

26,629. I think it is inevitable. At any rate, you have not any very startling—certainly no organic—changes to suggest to us?—Do you mean in the existing Act?

26,630. Yes.—No, I do not think I have. There is only one thing I might add, possibly. A great deal has been said about the arrangement. I have here a copy of the Bill as it was presented to Parliament.

26,631. It looks the sort of thing which one might master in two or three minutes by careful attention?—No; I would only say this. A great deal of criticism, particularly by Mr. Bremner, has been directed to the point that the arrangement of the Act of 1918 is not in his view satisfactory. I am inclined to agree with that. Before the Select Committee I did my best to maintain the arrangement which the original Bill had adopted, and I still think, with all deference to the views of that Committee, that that was a better arrangement. It is very readily seen from this Bill as introduced, and I thought that if possibly it might be of use to the Committee, I might leave a copy.

26,632. Has your Bill a table of contents at the beginning of it?—It has.

26,633. This certainly looks a more logical arrangement?—The object of that arrangement was to put it from the point of view of the general taxpayer; to put in the forefront what he himself is most concerned with; that is to say, first, the amount of tax which he would have to pay, and secondly, the exemptions, abatements and reliefs which he might be entitled to get. After that we consider that he would not be very much troubled except as regards assessment and appeal; and you will see that order, I think, is generally followed.

26,634. I should be inclined myself to suggest that the arrangement is not so much a question for the individual taxpayer. No ordinary member of the community could make head or tail of any complicated Act of Parliament. He goes to his solicitor or to some other adviser, and it is in the inexpert professional with whom one has to deal, and an arrangement which is very difficult for him to follow is an inefficient arrangement?—I agree, but I think still that that arrangement in the Bill that you have before you, from that point of view, is preferable to the arrangement in the Act of 1918.

26,635. It looks so, but I have only one suggestion to make to you upon that. There are two great difficulties in introducing any general principles into an Act of this character. The first is the necessity of the draftsman to make up his own mind as to what he wants. The next is to choose an expression for the particular case, which will be clear, plain to the people to whom it is addressed, and accurate so as to cover what is intended, and nothing else. Those, of course, are obvious principles. In an Act of this kind it is exceedingly difficult to do not only the second, but also the first?—Exactly.

26,636. So far as I have been able to follow the matter, no draftsman or drafting body has yet directed his attention to making up his mind as to what the real ambit of the tax is intended to be. It has been dealt with from this corner and that corner, and with a revision here and a curtailment there, but no attempt has been made to formulate a general definition as to what is the subject exactly. Would you agree with that?—To a certain extent I do. The subject admittedly is a most complicated and difficult one; and the fact that from year to year you have a Finance Act which enables you to close doors and stop holes and give reliefs that the public demand, has naturally tended to make a very confused fustian of sections; I can call it nothing else. But the object of the Act of 1918 (at least my object in attempting the work of consolidation) was to put together the things which before you found in 67 different Acts of Parliament. You could not see the wood for the trees. I think the effect of that Act has been to accentuate the point of view which

you take, but at the same time to make it more easy to provide a remedy.

26,637. Personally I entirely agree. Whether you embody your consolidation into an Act of Parliament or not, it was a necessary step first to consolidate the existing law?—It was absolutely impossible, I think, for anybody to contemplate a large scheme of improvement without being able to see, as far as you could, concisely what the existing law was.

26,638. Do you agree with Mr. Bremner's suggestion that while this Commission might consider and perhaps report upon the general lines of the charging sections, as it is obviously impossible for them to prepare a draft even of the main sections, that matter ought to be referred to people who are specially competent for the work?—I entirely agree.

26,639. I think he suggested Lord Wrenbury as a proper chairman?—Subject to this: that I think the actual drafting possibly under the supervision of some such Committee as Mr. Bremner suggests, should be done, as usual, by the Parliamentary Counsel.

26,640. They would naturally prepare the draft?—Yes.

26,641. Upon the method of drafting what do you say to the suggestion that the method of introducing samples should be adopted? You are quite familiar with it, no doubt, in the Indian Acts?—In the Indian legislation it is quite common. In English legislation, as far as I am aware, it has never been adopted at all.

26,642. What about the Sale of Goods Act?—Yes, in the Sale of Goods Act. That was Sir Mackenzie Chalmers' Act. He is the only draftsman who ever suggested that in England.

26,643. It was Lord Macaulay's suggestion, was it not?—It originally rose in Lord Macaulay's draft of the Indian Penal Bill, years ago, and it was followed by Sir James Stephen's draft, I think, and then you find in all Sir James Stephen's books, like his book on the Law of Evidence or his book on the Criminal Law, that principle is adopted.

26,644. What is your view from your acquaintance with this subject? Is not the Income Tax a singularly suitable subject to be dealt with in that way?—I am not so sure about that. The difficulty of the Income Tax law, and particularly the difficulty of deductions, arises not only from the complexity of the Act itself (which must be complex), but from the enormously varied subject matter with which it deals. For instance, the deductions that you would allow, we will say, to one trader would be different from the deductions that you would have to allow to another. I think what you would have to attempt in your illustrations would be a sort of general statement of deductions: He may deduct (a), he may deduct (b), he may not deduct (c); but if you were to go very specifically into it I think you would find you would have a very large set of examples to introduce, and you would probably omit a great many of the examples that you would like to introduce. Of course, it would be possible to introduce those examples by subsequent legislation, if desired, and in time you might get possibly an exhaustive list of deductions suitable to all trades and employments. But at the start you would risk, I think, missing out things that you would like afterwards to have put in.

26,645. I am not suggesting that you should introduce exhaustive lists; it is the very thing I wish to avoid. You must begin by a general definition, according to the plan I am suggesting, and then give illustrative examples to indicate the meaning of the language which you are using in your definition?—Yes; that is following the precedent of the Indian Acts closely.

26,646. I wanted to take, by way of example, one of these very numerous communications that we have received from the Inland Revenue, where a paper actually tabulates something like 15 different cases upon which questions have arisen. Here, for instance, is a memorandum by the Board of Inland Revenue which deals with suggestions made by public witnesses as to expenses which might or might not be allowed as deductions in arriving at assessable income. [See Appendix No. 63.] We have a list running

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from (a) to (p); preliminary expenses of a company, costs of removal, subscriptions to trade associations, etc. Supposing you have a general provision that charges necessary to produce the revenue by tax are to be allowed; then if you could illustrate that by saying, for instance, such a thing is a charge and such a thing is not a charge within the meaning of the definition, that would make it a great deal plainer, would it not?—Yes, I think that would be very useful if it could be done.

26,647. Then in your paragraph No. 4 you point out that, the subject matter being complex, the Statute is necessarily complicated also. In your paragraph 5 you suggest that any attempt to introduce definitions of a general and inclusive character would lead to a great deal of litigation?—Yes.

26,648. That would be the cost that would be paid for any attempt radically to amend the law, would it not?—It would.

26,649. Of course, every lawyer is familiar with the fact that what may appear at first sight to be a generally expressed and simple definition often involves great ambiguity?—Yes.

26,650. As an example, have you had any experience of the present Copyright Act?—No, I have not had to deal with that at all.

26,651. It is an example, perhaps I may suggest to you, to be avoided. An attempt was made to give a literary form to the Act because it was the Copyright Act; and, according to my experience, very few lawyers have succeeded in finding out what it means. So that is an example to be avoided?—Of course it is always desirable as far as possible to keep to the forms of expression and terms which are familiar.

26,652. Which have become traditional in the particular context?—Yes.

26,653. But one must not be frightened because litigation would necessarily follow upon any substantial improvement of the Act?—No; I was only pointing out that certainly for a time—one cannot say how long—there would be a batch of cases going up through the Courts, probably to the House of Lords, to determine doubtful points. That, as you say, is a risk which has to be run, and I for one should not be at all disposed to say, "do not amend, because that risk would be incurred"; on the contrary.

26,654. May I recall your attention to a case where the topic had been well worked out in the Courts, and a consolidating Act was singularly successful, and led to very little litigation, that is, the Bills of Exchange Act?—Yes. May I say, as regards the Bills of Exchange Act, that was a most exceptional and valuable Act in many ways, but it was a consolidation, so to speak, of case law rather than of Statute law. The number of Statutes that were consolidated in that Act was small as compared with the vast number of cases on which the commercial law of bills of exchange had been founded, which was embodied in the consolidating Bill.

26,655. Mr. Marks: Can you give us any idea of what proportion of case law and what proportion of Statute law as included in the present Income Tax system?—I should say the probability is that there is more Statute law than case law.

26,656. There must be an enormous quantity of case law, must there not?—There is an enormous quantity of case law, but there is also an enormous quantity of Statute law. It would be very difficult to say which preponderates.

26,657. Mr. Kerly: If we look at the familiar book, Dowell, suppose we say that the case law is as three to one of the Statute law; numerous as the sections are, would that be about it?—It depends on how the case law is stated in a book. It is possible to state case law very briefly, and it is possible to set it out fully, and that gives an exaggerated idea of the amount of case law that there is.

26,658. That would be an approximate answer to the question that Mr. Geoffrey Marks was asking you?—Yes, I think it would.

26,659. I want to ask you one question about your last paragraph. You are dealing with the suggestion that it is a great hardship upon litigants that the

law should be settled, particularly in a revenue case, at his expense?—Yes.

26,660. And, of course, you include at his risk?—Yes.

26,661. And if it is taken to the Court of Appeal, and ultimately to the House of Lords, he is quite unable in anticipation to estimate what his ultimate risk is going to be?—Yes.

26,662. What do you say to the suggestion that wherever the Inland Revenue appeals it should get no costs, and it should pay costs if the Court in its discretion thought fit so to order?—Do you mean that the Inland Revenue should never get any costs if they win, but should pay if they lose?

26,663. Where they appeal; I am limiting it to that. Having got a decision against them, if the Inland Revenue appeal they should never get costs?—No, I do not think I should agree to that at all.

26,664. Why not?—Because I think it would be putting an undue burden on the taxpayer. It is not ultimately the Inland Revenue people who pay; it is the general body of taxpayers who pay. I am sure any gentleman here who has practised in the Courts will know that you may get a decision of a Judge that you feel bound to take up. For instance, it might be a case where the Revenue Judge had lost the Crown an enormous quantity of duty by a decision, and the Chancellor of the Exchequer, or anybody, might say, "we have either got to do one thing or the other: we have to prove this case wrong or we have to alter the law." I do not know that he would feel justified in saying to the House of Commons: "I want to alter the law on this point. The decision is against me." They might very well say: "Why did you not take the case up?"

26,665. Quite so. But why not? One public official, a judge, doing his best, has made a mistake. Why should not the public generally pay for that instead of throwing it upon the particular litigant?—Well, there are litigants and litigants, you know.

26,666. Yes, I know, but I am speaking of a successful litigant. If the litigant chooses to appeal when the judge has decided against him, it seems to me reasonable that he should do that at his own expense, but where he is fighting the Crown—that is, the general community, as you properly say—why should he be put to the risk when already the judge of first instance has decided in his favour?—I should not object personally in the very least; it is not really a legal question; it is a political question. It is not for me; it is for the politicians. Personally it is absolutely immaterial to me, as conducting cases for the Crown, whether I pay costs or whether I do not.

26,667. Yes, we assume that; but you must have had a great many hard cases brought under your notice?—No, not many. I do not think I have had many hard cases. The case that I allude to here is a case of immense importance to the Revenue. It is an Irish case. There is no harm in mentioning the name, because it has been in the Courts. It is the case of the Rotunda Hospital, as to whether they are rightly assessed to Income Tax under Schedule D on the ground that they are carrying on a business. The Crown has had one judge in its favour in each of the Courts below, and the other judges against it. It is a case in which the Rotunda Hospital said: "It is very hard that, when we have won in the Courts below, you should take us up to the higher Court, and we may possibly have to pay the costs." The Crown said: "You shall not be put to any expense."

26,668. May I put it in this way: that in a very exceptional test case the Board of Inland Revenue has itself thought right to guarantee the taxpayer against the cost of litigation?—Yes, but not on the ground that it is an exceptional test case, but on the ground of the poverty of the appellant. Here we are dealing with a hospital which is doing good work, and the funds of which we could not wish to deplete. But I can imagine the Board taking quite a different course if, for instance, it was the Bank of England, or somebody of that sort, who was perfectly able to pay, who was taking a case up to the House of Lords. Supposing a very rich merchant in the City brought the case and won it in the first Court, and

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thereupon the Board thought fit to take it to the Court of Appeal, though it is no business of mine, I personally should hesitate to say that that man, who is a very rich man and can afford to pay, should have his costs paid at the expense of the taxpayer. But it is a matter of opinion, of course.

26,669. Sir J. Harwood-Burser: In paragraph 9 of your paper, which is on the question of consolidating the Schedules, I see you rather state that it was either a case of consolidating Schedules and having a larger number of rules, or of keeping the Schedules as they are and having a smaller number of rules?—Yes.

26,670. Have you a very strong opinion about that? Do you not think it would increase the pleasure of the taxpayer if he had all his various profits brought under one Schedule and had fewer notices and fewer objections and complaints to deal with—I am not sure that it would have that result. I do not object to any division whatever of the heads—I will not call them Schedules, because they are really heads or categories or classes—under which you assess revenue. All I mean is that it is essential in every Act that these heads should be mutually exclusive, and should not overlap in any way, that there should be no overlapping of classes; and then, subject to that, make them as few as ever they please. But when you come to deal with what arises under the classes, then, inasmuch as you have embodied in one class what formerly was in two or three, we will say, and each of those two or three sub-divisions has, and must have, rules of its own to carry out what they are meant to do, that means that you must have a larger number of rules. But it is purely a matter of taste, it seems to me. Personally I think I should prefer to have as few categories and classes as possible, provided they do not overlap. I should prefer to have few categories rather than many; but bear in mind that if you have fewer categories, inasmuch as you have lumped a great deal into one category which was not there before, you must bring in more rules.

26,671. With regard to Schedules E and D, in the case of a man who receives profits in the shape of directors' fees and profits from other sources, those might very well be brought into one?—Personally I should see no objection. Of course, people who are more experienced than I am in the administration might have views about it, but I should see no objection myself.

26,672. Then in the paragraph 10, I see you have strong views about any question of creating a sort of classified tax to deal with a rate varied according to a man's income, on the ground that it would raise difficulties with regard to taxation at the source?—Yes.

26,673. Is that because of the convenience to the taxing authorities or the convenience to the taxpayer?—Personally I should say it was to the convenience of both.

26,674. If a classified tax could be made which would bring about the same result varying according to the taxpayer's income when once you had found that he came under the list of Super-tax payers, you do not think that would increase the facility with which the taxpayer could make up his account?—I am not familiar enough with the ordinary practice of a trader in making up his accounts, to give a very useful reply. From my own personal point of view I should much rather be taxed at the source than have to make a return under Schedule D; and I may say that I am considerably annoyed to find that certain investments which the Government have requested us to make have been taxed under Schedule D when I thought that there would have been deduction at the source.

26,675. Would you be surprised to know that the taxpayer would prefer to have a tax which would be settled upon the basis that he was a Super-tax payer and which varied according to the difference in his income between £2,500, say, up to £100,000?—I do not think I quite follow your question.

26,676. Would you be surprised if it was the opinion of a great many Super-tax payers that they would find great simplicity if they could have their effective rate levied, according to the amount on

which they were assessable in one amount by taxation at the source?—If that could be done I have no doubt it would be very convenient, but as far as I am concerned, I should imagine there might be practical difficulties in carrying it out.

26,677. There would undoubtedly be difficulties with the Revenue authorities; it would create difficulties for them, but I was rather looking at the taxpayer's point of view. If, for instance, he knew that when he had £100,000 he had to pay 10s. or 11s. in the £ on all his income he would find it much easier to make up his account, adjusting his taxation from the source, and then paying on that amount, than in the way by which he now has to make up all sorts of difficult accounts, and the amount being varied as between £2,500, £4,000, £5,000, £10,000, and upwards?—I agree that on the face of it that seems a very much more simple and desirable method of procedure, but I have an uneasy suspicion that if it came to be worked out in practice it would not be found so simple as it looks. But that is a matter which really is for the experts who levy taxation, and not a legal man's matter.

26,678. Mr. McLintock: In your second paragraph you suggest that a more simple assessment is desirable, but you are confident that litigation will be increased if you have such an assessment?—Yes.

26,679. Mr. Kerly: For some years?

26,680. Mr. McLintock: For some years. In other words, your view is that all the decisions that have been based on the existing Acts, which are 70 or 80 years old, would mean a fresh crop of definitions of the new simple language to be introduced?—It depends on the phraseology you use. No litigation, I imagine, will be likely to arise on the Act of 1918, because the exact terms and the exact phrases that have been employed in the old Acts are there reproduced verbatim, and we were most careful, and the Committee was most careful, not to alter that. But if you are going to discard phrases, which I agree are in some instances quite archaic, and which you would not think of putting into a Statute nowadays—if you discard those phrases on which decisions have been given which have resulted in making those phrases absolutely clear (at the cost of litigation), and adopt new phrases, however clear in themselves, then I am afraid—in fact I am certain—that it may give rise to a very great deal of litigation as to the meaning of those new phrases. I do not say that that is a disadvantage; I think it is a risk, as Mr. Kerly put to me, that you must be prepared to run for the sake of getting something better.

26,681. Mr. Kerly: I said the cost of getting something better?—Yes; it is the cost you must pay for getting something better; at the same time, it will occur undoubtedly.

26,682. Mr. McLintock: You think such a change is one which deserves very serious consideration?—I do not say in the least that it is undesirable, but I thought it my duty to point out the fact that it would give rise to litigation, and then very likely people may complain when the new Act, which may be really a very much better Act than has ever been seen before, is in operation: "Oh, look at the amount of litigation there is under this Act." That would be inevitable, but it would be worth it.

26,683. You are aware that a great point has been made that the taxpayer wants to have put in some simple words to define what are profits and what are deductible expenses?—Yes.

26,684. Is it your view that it would mean a serious loss to the Revenue if you were to attempt to define "taxable profits" too exactly?—I should imagine it would cause the greatest possible amount of litigation. I can imagine no case in which the views of the taxpayer and the views of the Revenue would be less likely to coincide.

26,685. We have had it before us very often the question what is the true commercial profit?—Yes, the question is to ascertain that.

26,686. You would not like to frame a section to define that beyond all possible doubt?—I should be quite prepared, if I was told to do so. I should do it with reluctance, but I should do my best with it; but I am quite certain that there would be a great deal of litigation on the point afterwards.

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26,687. You have two views, I take it: first that the State would probably lose by any such definition, either as regards profits or deductible expenses being carefully defined; and in the second place, that it would lead to a lot of litigation?—Yes.

26,688. In paragraph 12, you deal with the proceedings before the Commissioners. You seem to be rather against the taking of a shorthand note?—No, I am not against the taking of a shorthand note. I should like to explain that. I think the taking of a shorthand note would be very useful for the purposes of the Special Commissioners or the General Commissioners to decide a case. Very often, in my experience, a question arises as to whether or not a certain fact was proved before the General Commissioners. You see, a case is asked to be stated, and the Special Commissioners state the case, and then one of the parties says: "but they have left out something that we proved before them, which materially alters the situation." Then the other party says: "oh no, no evidence of that kind was given at all." If you had a shorthand note—not taken by one of the parties, but taken by the Order of the Court at the sitting, and a shorthand note which is, so to speak, the property of the Court—you would be able to put right a point like that at once. There the shorthand note would be exceedingly useful; but I am entirely opposed to letting the Revenue Judge, who tries the case after the Commissioners have sent the special case up, have anything to do with that shorthand note. The method of trying appeals on Income Tax is that every case is brought up by a special case. The case sets out the facts as found by the Commissioners; they are the judges of fact; and it has been laid down by the Courts, again and again, that they are the judges of fact; and unless the Court can say there was no evidence on which they could have found as they did, they will not interfere, and that the special case ought to be decided on a pure point of law on the facts found by the Commissioners, quite apart from any shorthand notes or evidence of what took place.

26,689. Let me put this to you. In a case before the Commissioners a certain document is put in and proved, and when the stated case comes along, the Clerk to the Commissioners is asked, "why did you not put that in as a fact proved?" and you are met with the answer: "the Commissioners are not going to put anything in the stated case which will stultify their decision?"—I should say that the Commissioners and the Clerk were acting exceedingly wrongly.

26,690. You are aware that the reason for this request for shorthand notes is chiefly on account of the loose way in which proceedings are conducted before General Commissioners?—That may be so.

26,691. You have seen a lot of draft stated cases?—I have seen many.

26,692. And you know that they emerge in their ultimate form, almost unrecognisable as regards the draft?—I would not go so far as to say that. Of course it may be that I see them in their later stages.

26,693. I suppose you do admit that many stated cases are very loosely and barely stated, as regards the Commissioners' findings?—The practice is this. The Commissioners state a case, and then it goes to the parties. The parties make their observations on the case. For instance, supposing a case is stated by the Commissioners, it is my experience that, as a matter of courtesy, it is sent to the parties by the Commissioners. It comes to me, and I say: "oh, well, I think these words ought to run differently," and I make a suggestion, and that goes to the other side, and they adopt my suggestion. Sometimes they are quite ready to say: "oh, yes, that is better put in that way; that was so and so." By the time it is finally settled by the Commissioners, you may be pretty sure that it does state pretty much what it ought to state.

26,694. My point is that they let you alter the draft of a stated case in any way you like, provided you say that so and so was contended by the Surveyor or by the appellant—that you can put in almost anything, whether it was contended or not?—No, I would not go so far as to say that.

26,695. I suggest that to you?—I would not say that I should not have been glad at times to put in some such remark as that the Surveyor contended certain things; but I am perfectly certain that if the Commissioners were of opinion that the Surveyor had not contended anything of the kind, they would refuse to let me put it in; and I should not want to put it in.

26,696. The Commissioners state that they confine themselves to facts which were proved or admitted, and then go on to skip very lightly over the contentions of the appellant and the Surveyor. I do suggest quite seriously that after the facts which were proved or admitted, have been found, they are not ready to let those be altered, but when it comes to the contentions of the parties, they practically bear no relation to the contentions which were in fact put before the Commissioners in argument?—You must recollect that a great many cases are tried which never come to me at all, which are conducted in the country, and which my officials and my Department who do conduct cases before the General Commissioners and Special Commissioners, do not see. But as regards cases that I have seen, and the cases which they conduct, I should not say it was as you put it.

26,697. The point I want to put to you is that in a long discussion before the Commissioners, unless the Clerk is exceptionally able, and thoroughly up in Income Tax matters, he is not capable of giving a proper statement of what has been proved or admitted, unless he has an accurate record of the proceedings?—I quite agree.

26,698. And, generally speaking, the notes that the Clerks to the Commissioners keep are not very full and complete; they have not very much detail; they are just a few brief notes?—I agree entirely that on the proceedings before the Commissioners there should be a shorthand note.

26,699. I should like to qualify that. The Special Commissioners are most painstaking in taking everything down. It is a great weariness while they are doing it?—Yes, I know, and it takes a great deal of time, and I should be entirely in favour, as Mr. Bremner suggested, of giving to either party a shorthand note.

26,700. Then you would agree that if either party intimates that they wish to have a shorthand note that should be acceded to?—Yes, subject to what I have said about General Commissioners in the country who object.

26,701. Should the taxpayer or the Surveyor not have a right to insist on having a shorthand note?—In remote places in the country it is a much more domestic form, if I may put it so, than it is before the Special Commissioners. I would prefer to put it as I have in my proof, that they should ask the Commissioners to have a shorthand note taken, and if they object, they should say: "Very well, we will go to the Special Commissioners and they will be obliged to." I do not think it would happen often.

26,702. I do not think the request would be made in country districts except in a large and important case. Generally speaking, there would be no request made for a shorthand note?—I agree; I think so, too.

26,703. But the point is that they should have the right to have a note taken?—I would give them the right to have the note taken somewhere, at all events; I would give the litigant the right to have a shorthand note taken, and if the General Commissioners refused permission, he should be able to go to the Special Commissioners, who should be obliged to allow the note to be taken. There is precedent for that in the existing Income Tax Act about the hearing of an accountant.

26,704. In paragraph 10 you say: "I quite agree that Super-tax should be separately dealt with as it now is by the Special Commissioners?"—Yes.

26,705. We have had suggestions made that the Surveyor should deal with Super-tax. Are you referring to that point?—I am not sure that I was justified in referring to that at all, because it seems to me to be a matter more of administration than of law; because Mr. Bremner, of course, dealt with two

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classes of things, he dealt with administration as well as law.

26,706. Your paragraph 10 means really that you approve of confining the deducting of tax at the source and not merging the Income Tax into the Super-tax?—Yes. I have said that I am not sure that I was really justified in dealing with that at all. I think it is a matter for the gentlemen who are experts in administration rather than for me.

26,707. You would rather not say anything with regard to the Surveyor dealing with the actual Super-tax assessment?—No, I am not really sufficiently experienced in that to be of any use to the Committee.

26,708. I put a question on a former occasion to an Inland Revenue witness with regard to the matter of specific cause and he suggested that I should keep it until you came?—If I may make a suggestion, I would ask you to keep it until he comes back.

26,709. Now that you are here I think I would rather put it to you. You are aware of the section in question which gives relief if a change of succession takes place?—Yes.

26,710. It is Schedule D, Rules under Cases I. and II., No. 11. I would like you to tell the Commissioners if, in your view, it is open to have a claim for specific cause if you have not a change of succession?—I am not at all sure that there have not been some cases on that.

26,711. It has been the practice, latterly, in dealing with war reliefs, to say that the war shall not be a specific cause. I suggest that the provision has been put in since the decision in the case of *Furtado v. The Lion Brewery*?—I am afraid I cannot answer that question off-hand. It is a question of *ejusdem generis*, to some extent, is it not?

26,712. It is, undoubtedly, under this section. I will give you a specific case in point. A change of succession took place in a business during the war, and there was a diminution of profits in the year of assessment owing to the war. The case went before the General Commissioners, and the Surveyor contended that there could be no claim for relief even with change of succession if the specific cause arose from the war. I think it ought to be cleared up now in any recommendations that are made. In the case of *Furtado v. The Lion Brewery* the company claimed that certain charges they had to incur had diminished the profits and that they were entitled to relief under this section. The Crown, in my opinion, properly resisted that claim, and the Commissioners held that they were entitled to relief. I am telling you what you probably know perfectly well. The case went to the Court and it was decided that there was no right of appeal from the decision of the Commissioners on this section; and the result was that the question as to whether a claim for specific cause must be preceded by a change of succession in the business was never settled?—With all deference, I should be entirely of opinion that an appeal ought to lie under that section.

26,713. I agree with you that an appeal ought to lie, but as a matter of fact, this case held that no appeal lay, and therefore the point as to the right to give relief where no change of succession had taken place was never settled. Now I want to ask you if you do not think now is an appropriate time to get that cleared up?—I should be only too delighted to get it cleared up.

26,714. Then will you give us your views as to how it ought to be cleared up?—If there is no appeal possible now it can only be done by granting a right of appeal; but you cannot clear up that particular case, I should imagine.

26,715. Do you agree that relief is competent in the event of a change of succession, whatever the specific cause may be?—It seems to me that you are asking me to sit as a court of appeal from the Commissioners in that particular case.

26,716. The Inland Revenue (I take it that it has come from them) in every Finance Act that has come along since that decision was given in the case I have mentioned have slipped in the words that the

war shall not be treated as a specific cause, and it leads to confusion?—Do you mean that that indicates their view—that but for that section the war would be a specific cause?

26,717. It is their view that it still is, but evidently they seek to get round the difficulties created by the decision I have mentioned. I do not want to press you to give us your views, but it is a point of difficulty which arises not infrequently?—That is so.

26,718. And I think now is the time when it ought to be cleared up?—I should be only too glad to facilitate the clearing up of it in any way in my power, but I confess at the present moment I do not quite see how to do it.

26,719. You do not feel disposed to say to the Commission whether in your view a change of succession having taken place the specific cause entitling you to relief may even arise from the war?—I give my opinion with great deference; I do not feel quite that I ought to be asked to give an opinion on a point of this sort. This is a very difficult and doubtful point, and if I had to advise the Board on it I should probably tell them to go to the Law Officers of the Crown.

26,720. I should not have asked you if they had not referred me to you?—I am extremely obliged to them. I will give my opinion, certainly, if you ask me; I am bound to do so, and I will do so. I do so with the greatest deference and with some reluctance, but I think it is *ejusdem generis*.

26,721. Mr. Kerly: Mr. McIntock is not asking you to interpret the existing Act, but to say what you think the law ought to be?—You mean that the war ought to be a specific cause?

26,722. Yes.—I am perfectly willing to give my personal opinion on the matter, but it is a matter of administration and of policy, not a matter of law. If you ask me for my personal opinion I should feel very much inclined to say yes, but it is not for me.

26,723. You are quite right to guard it in that way. That answers Mr. McIntock's question, I think?—It must be clearly understood that it is a matter of policy for the Board of Inland Revenue, or still more, the Chancellor of the Exchequer; I have absolutely nothing to do with it. It is not my business; but I have my private opinions, formed more or less erroneously, on things that come within my experience, and if those are worth anything to the Commission (which I should doubt) I am quite prepared to state them.

26,724. Mr. McIntock: My reason for raising the point is that it is a point which arose, and the question is, who is going to put it right? I think it ought to be cleared up.

26,725. Mr. Kerly: If I may make a suggestion—I do not mean to stop you for one moment—but the real difficulty here is that there was no appeal, or they could have gone to the Courts to determine the existing law. Now, according to a view that has been frequently expressed here, there ought to be an appeal in every case where Commissioners, General or Special, or the Court of First Instance, decides against the taxpayer, with the probable exception of decisions upon mere questions of fact. Now it seems to me to be within our province to recommend that alteration of the law. That would enable the particular question of interpretation of a particular section to be cleared up in the ordinary way.

26,726. Mr. McIntock: I quite agree; but I think Mr. Cox would probably agree that since that decision there has been an effort made on the part of the Inland Revenue to prevent any other bodies of Commissioners going wrong when the war was the specific cause alleged.—You mean by the later legislation?

26,727. Yes?—I should hesitate to admit that, I must say.

26,728. Very well; I will leave it there.

26,729. Mr. Marks: In your first paragraph, you say: "It was never expected that the Act"—that is, the Consolidation Act—"would be enduring; on the contrary, it was expected that the deliberations of the Royal Commission would lead to recommendations

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which would be followed by considerable reforms to be embodied in an amending Act?—Yes.

26,730. Then you say: "It was further anticipated that later still the Income Tax Act, 1918, and its amendments would be embodied in a single new Statute?"—Yes.

26,731. Why "later still"? What is the object of introducing an amending Act, which would only add to the existing confusion?—Do you mean that your new Act, passed, we will assume, after the Report of this Commission, would embody the Consolidation Act and everything else?

26,732. It should be an entirely new Act, I suggest?—It depends upon what happens.

26,733. Without the intervention of an amending Act?—Certainly, if possible; but it may well be—of course no one can tell—that the Report of this Commission will indicate certain urgent reforms which the Government may wish to introduce at once into the Finance Act, we will say, of next year.

26,734. In answer to Mr. McLintock, you said that there was a danger in discarding these archaic phrases on which many decisions have been given?—Yes.

26,735. Decisions which it was necessary to give probably very largely on account of the archaic character of the phrasing?—I am not quite sure that I should agree with that. A phrase is a phrase, whether it is archaic or not. It was intelligible, but it might bear two meanings, and the Courts have decided that one meaning is the right meaning.

26,736. That just illustrates my point. I was going to ask you why is it not possible to discard the archaic phrases, and embody the effect of the many decisions of which you have spoken, in new and simple language?—It is possible, and I hope it will be done.

26,737. I hope so, too, but you seem to me to advocate the retention of these archaic phrases because they had provided the basis of many decisions?—Not in the least.

26,738. Then I misunderstood you?—All I am saying is: discard your archaic phrases, put new, highly polished, modern legislative phrases in, and you will improve the law, but you will infallibly, I think, have to interpret these new phrases in the Courts. I think it is a desirable thing to do; I want to get rid of archaisms; I want to be up-to-date; but do not fancy that you are going to do it without a great deal of litigation.

26,739. I am taking a rather extreme layman's view of the situation, but I do not think my views are at all singular to me, and indeed they are very common amongst laymen and taxpayers. I opened Dowell just now at random at section 74 and section 75 of the Act of 1842. Section 75 consists of 53 lines of print?—Yes.

26,740. It is about a page and a third, in which there are no full-stops at all; is that a good example of Parliamentary drafting?—I should have thought it was about the worst example you could have, and for that very reason when I was drafting I took upon myself to re-draft the Act of 1842, and I put in stops and broke up all these long phrases into short sub-sections, and put them into modern form. If you compare that section with the Act of 1918 I hope you will find a considerable improvement.

26,741. Is it now permissible in Parliament to break up the sections into separate sentences divided by full-stops?—And sub-sections—oh, certainly.

26,742. That is a very great advantage to the layman. Turning for a moment to section 32 of the Act of 1918, sub-section 3, do not you think it would have been possible to have put that more clearly merely as a matter of arrangement? It begins with the three words "No such allowance," and then goes on for five sections, and sub-section (c), for instance, consists of thirteen lines, all of which you have to consider in connection with the three words that are found over the page?—I think if you will look at the margin you will see that all these sections which you object to are very extremely modern Statutes.

26,743. I know, but my objection is not only to the archaic phrasing but also to the unnecessary verbiage of modern Statutes?—I quite follow.

26,744. I do not think there is anywhere in the Act, but is there anywhere in your Department, or has any attempt been made in your Department, to provide a definition of "income"?—Not that I am aware of.

26,745. None at all? I suppose the definition is contained in Dowell?—I hope so.

26,746. That dictum which is so constantly quoted about Income Tax being a tax on income in the absence of a definition of "income" is no more than a perfectly futile platitude?—That phrase was a phrase used by Lord Macnaghten in a case in the House of Lords. It was a question, if I recollect, as to whether certain proceeds—I will use a neutral term—which were proposed to be taxed were income or not. He said, with that humour that he sometimes adopted, and everybody who knew Lord Macnaghten will know what I mean, Income Tax, "if I may be pardoned for saying so, is a tax on income," but what is income you have to decide in any particular case. It is absolutely impossible, and I will defy any human being to give a definition of "income." I should be very grateful to any person who will do it, but the question in any particular case is, is this or is this not income within the meaning of the Income Tax Act?

26,747. Has anybody ever tried to frame a definition of "income" within the meaning of the Act, if you like to limit it like that?—No, I do not think anybody has.

26,748. Do you agree with me that the dictum of Lord Macnaghten that Income Tax is a tax on income is quoted time after time as an authoritative statement quite unconnected with any subsequent explanation which he may have gone on to make?—I have no doubt that it is.

26,749. And it really is a perfectly futile platitude?—I do not think it is a perfectly futile platitude in the least. Lord Macnaghten's decision was not in the least bit affected by that phrase. It was a very humorous phrase, and a phrase which I think has often amused nearly everybody. It was Lord Macnaghten who thought that in this particular case, if I recollect rightly, an attempt was being made improperly to tax something which clearly was not income, so he starts off by saying "Income Tax is a tax on income. Well, is this income or is it not?" and he found it was not.

26,750. There is no definition of "income"?—No.

26,751. Mr. May: But after all he was stating the law and not humour?—Yes. Lord Macnaghten began by saying: "Let us start with first principles. Income Tax is a tax on income." Then he goes on to say: "Is this income." That phrase has often been quoted by everybody who wished to say that something taxed as income is not income but something else; they say: "Income Tax is a tax on income, and this is not income."

26,752. Mr. Marks: In paragraph 2 you say: "although my experience in the work of consolidation has taught me how difficult it is to dispense entirely even with the old, confused and vague language," and so on, you would not say it was impossible to do that, would you?—No.

26,753. And if it is possible it should be done?—Certainly. What I think I am directing attention to there is that it will be done at the cost of litigation—done, and properly done, and necessarily done, but done at a cost.

26,754. Sir E. Nott-Bower: Could it be done in a consolidation Act?

26,755. Mr. Marks: In a codifying Act it could.

26,756. Sir E. Nott-Bower: Could all that old and confused and archaic language be put right in a consolidating Act?—Certainly not in a consolidation Act. In a consolidation Act you must not alter phrases at all.

26,757. As far as you were concerned you were entrusted with the preparation of a consolidation

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Act?—Absolutely, and all through the proceedings of the Select Committee Lord Loreburn, who was in the Chair, laid great stress on that.

26,768. And if that Act had been anything more than a consolidation Act the question would have arisen as to whether sufficient Parliamentary time could be spared during the war?—The Select Committee was obliged to state to the House in order to enable the House to deal with the Act as a consolidation Act: "we pledge our word that this Act does no more than represent the existing law." In order to be able to do that you had to reproduce exact phrases because you could not say whether an altered phrase did, or did not, represent the existing law; that is the disadvantage in many ways of consolidation.

26,769. Mr. Marks: I think we are perfectly convinced of that. The point of my question was not that. We are not dealing now with the consolidating Act which we have got, and a very valuable possession it is. What I have in mind is the further Act which will be necessary after this Commission has reported?—That clearly will not be a consolidation Act.

26,769. I hope not?—It cannot be, because, of course, the Commission will recommend, I have no doubt, alterations in the law; it will be an amending Act.

26,761. Mr. Walker Clark: What happens when notice of appeal has been given by the Crown and they abandon it?—The Crown abandons the appeal?

26,762. Yes?—What generally happens is an application by the other party to have their costs paid, in which case I report it to the Board, and the Board almost invariably say: "yes; ask them what is a reasonable sum for their costs and pay it."

26,763. I was rather thinking of what happened to the taxpayer and the point in dispute?—I am not quite sure that I appreciate what sort of case you mean. Do you mean a decision has been given against the Crown at the start, the Crown appeals and a case is stated?

26,764. Yes?—Then the Crown comes to the conclusion that it cannot fight the case?

26,765. Yes?—Then there is standing a decision against the Crown, that is to say, the man, we will assume, is not bound to pay the extra tax that the Crown are asking him to pay. What happens then is that the case is dropped and the Crown pays the man's expenses, and the man does not pay the extra tax that he has been asked to pay.

26,766. What would happen in the following year? Would the Inland Revenue authorities attempt, do you think, to enforce the collection of the tax in the following year?—I have never come across a case of that sort personally.

26,767. You have referred to Statute law and case law; is there not a third differentiation adopted by the Inland Revenue—tax by negotiation or agreement?—Personally I have never had any experience of negotiating any tax by agreement.

26,768. Was there not a case a little while ago in which the Inland Revenue attempted to secure collection of tax from a London association called the London Trades Protection Association, who lodged an appeal and were successful, and after the appeal was abandoned by the Crown they attempted to collect the tax the following year?—I do not remember that case at all: I cannot say one way or the other.

26,769. Sir W. Trower: Surely this is outside the Solicitor's department?—I do not think that case came before me, but I am not sure.

26,770. Mr. Kerly: You know nothing about it?—I know nothing about it.

26,771. Mr. Walker Clark: I am glad that it did not come before the legal department.—I cannot go so far as to say that; all I can say is that it did not come before me personally. Of course there are other members of the legal department besides myself.

26,772. You would not defend the attempt in such a case to enforce a tax in the following year?—I am not sure that I will go so far as that at all. May I explain this: suppose a man appeals and the case is brought before the City Commissioners, and the Commissioners state the case in such a way as makes it impossible either for the man or for the Crown to go

on—take it, it is the case of the man and he is advised: "you will not win this appeal", he drops it, and he pays the tax. Next year he says: "I am not bound by this. Why should not I refuse to pay this tax again?" and he says: "I will not pay the tax. You have got it out of me last year; that is because they stated me out of Court; but this year I am going to fight," and he takes the case before the Commissioners.

26,773. Probably to another Court, to the Special Commissioners instead of the General Commissioners?—Possibly; he is beaten again, and when he gets a case stated this time he says: "this case is quite fairly stated; I will take that up."

26,774. I am quite satisfied?—"I shall fight this now." There is no reason why that man should not do that.

26,775. I am quite satisfied with the explanation?—The converse applies in the case of the Crown; I think the same ruling applies.

26,776. Mr. Marks: In the case Mr. Walker Clark has put to Mr. Cox, would any steps be taken by the Inland Revenue to make known to Surveyors throughout the country what the decision was in regard to that specific question?—There are always instructions to Surveyors as a result of cases.

26,777. Even a case which had been dropped by the Crown after notice of appeal had been given?—I cannot say. It depends a great deal on why it was dropped and all the circumstances of the case, but anything of importance with regard to the conduct of Surveyors in fighting particular points will always be given in instructions to Surveyors. Some case, for instance, may quite alter the aspect of the law on certain things. In that case every Surveyor would naturally be told of it; I should probably know of it, because I should have been fighting the case, but if not, I should get information that this had been decided, by means of a circular, or a Board's order, or something of that sort.

26,778. The position of the law established in that way would be communicated to the Surveyors generally?—I should say so, certainly. It does not follow because a case is dropped that the law is regarded as established.

26,779. It is so far established?—If it was dropped, yes.

26,780. Mr. May: Just a small point, and only one, in order to be clear. You laid stress on the fact that in a consolidating Act you were careful not to change a phrase in order that no alteration in the law may be implied or interpreted as a result of the consolidation?—Yes.

26,781. Would you say then that in some cases where you have actually altered the wording of a section that has been brought into this Act it has been rather for the purpose of uniformity, and that it makes no actual change in the statutory effect?—One can never be certain when one has altered the turning of a phrase in a Statute that you have not altered the law, but what we did was this: in consolidation there were certain things which it was impossible to reproduce owing to the lapse of time since the Statute was passed. We pointed all those things out to the Select Committee. We said: "this Bill does not follow the old law on this particular point, because it is obsolete." Again, for instance, we found that two sections of two different Acts dealt with the same thing in a different way. The Taxes Management Act often overlapped the Act of 1842. We said: "our view is that this more recent Act, the Taxes Management Act, has *pro tanto* repealed the section which it is impossible to reconcile with it in the earlier Act", and therefore we said: "the existing law is contained in the section of the later Act", and the Committee adopted that view. Of course it was very carefully discussed in the Select Committee with Lord Loreburn in the Chair, Lord Wrenbury, Lord Parmoor, and various other lawyers of eminence. They said, and we thought, and we still think, that this Act does represent really all that is material of the existing law unaltered, save where we have distinctly said that there has been an alteration.

26,782. And does not modify it?—No, except as stated to Parliament. I cannot say that the Act of

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1918 reproduces and leaves entirely unaltered the law before, but what I do say is that no alteration was made which was not of a slight and unimportant character, and no alteration was made which was not deliberately brought to the notice of Parliament while they were passing the Act. In the main it is pure consolidation as far as it was possible having regard to the subject matter to consolidate.

26,783. Perhaps I can make the point I have in mind quite clear, that in certain respects which you have taken from different Acts and as affecting different organisations you have slightly altered the wording, partly for the sake of uniformity in the phrasing; for example, you say in one case that certain funds shall be entitled to exemption?—Yes.

26,784. And in another case you take a section which says they shall not be chargeable, but partly, as I say, for uniformity, you imply the words "shall be entitled to exemption"?—Yes.

26,785. You would accept what I say, that it was simply for the sake of uniformity and not in modification of the Statute?—Yes. There may have been alterations of that sort as you say for uniformity, but each one of those alterations was considered by the Noble Lords and the Members of the House of Commons who considered every phrase and clause of the Bill, and they considered we were justified in putting it in that way, and that there was no alteration.

26,786. I suggest that those that I have just mentioned have not been submitted to Parliament, and they have just taken place in re-drafting?—May I point this out: when this Consolidation Bill was re-drafted it went before a Select Committee of both Houses with Lord Lechmere in the Chair, and they considered it, clause by clause, with the Parliamentary Counsel sitting aside by side with them and other people (among others Mr. Holme, who, I believe, has been a witness before you), whose business it was to point out any alteration from the existing law if they could find it. The Select Committee went carefully through this Bill clause by clause and attention was drawn to all the discrepancies, and in any case where the Committee thought there was a variation they put the old words back, and I can only assume that if there is such a variation as you point out now, the Committee which considered this Bill were of opinion, after hearing all that had to be said, that there was no alteration in the law, although the phrase was changed.

26,787. Quite, that is my point?—May I just say one thing more: there was an instruction by the Board of Inland Revenue to their Surveyors all over the country to say: "if there is anything in the new Act of Parliament which gives the Crown an apparent advantage which it would not have had under the old Acts, on the construction of a phrase, or the turn of an expression, that argument is not to be taken. The law is understood not to be altered, and you are to proceed as you would have proceeded under the old Statutes, and not take advantage of any new phraseology in the new Act which would seem to assist the Crown."

26,788. Mr. May: That completely answers my question.

26,789. Sir W. Trover: Arising out of Mr. Kerly's questions are there not many cases where the subject having obtained judgment in his favour either from the Commissioners or from a Court of First Instance cannot afford the expenses of defending an appeal?—Yes, no doubt, there must be such cases.

26,790. And the subject suffers from a grievance?—Yes. He knows that he may be taken from Court to Court, and I have no doubt it cannot be denied that that may, in many cases, induce the man to pay a claim which he thinks he ought not to pay.

26,791. My question is that he cannot afford to appeal because of the expense?—Exactly. He says "if it was a case of going before one Court I could stand that, but I may be taken right up."

26,792. Following on that is this question: you may first have to go to the Commissioners, then you appeal to a Court of First Instance, then you go to the Court of Appeal, and then to the House of Lords, and the expense of that is quite intolerable to the subject?—It is intolerable to the subject who cannot afford it.

26,793. And it is intolerable to the subject who can afford it?—I should not be disposed to agree to that.

26,794. Well, it is intolerable to incur unnecessary expense?—May I just qualify that—that is an objection, if I may say so, to all Courts of Appeal.

26,795. That is the general question. Could you make any suggestion as to limiting the number of appeals and reducing the cost of litigation? Probably you cannot recollect, but I can recollect, that in all cases in the old days where it was determined by both parties to go to the House of Lords, the Attorney-General used to go into the Court of Appeal and say: "we are both determined to go to the House of Lords whatever your Lordships' decision may be," and then the proceeding was that judgment was given *pro forma* in accordance with the decision below, and the appeal went direct; that saved the costs of one appeal?—I am afraid I am not familiar with that; I do not know what date it was.

26,796. It was before your time?—I ran back very far, I am afraid, but not so far as that.

26,797. But that was so. Do you think there is any objection to that in these cases?—I should not see any objection at all to it.

26,798. It would eliminate, possibly, the costs of a long discussion before the Court of Appeal?—Yes. But I might say you must always remember this, that we do not take every case that goes to the Court of Appeal to the House of Lords. From the Revenue point of view we take a case up perhaps to the Court of Appeal.

26,799. I assume that there are cases in which neither the subject nor the Crown would be content with a decision short of the House of Lords?—I quite agree there are cases in which either the subject or the Crown is bound to say: "this case has got to go up to the House of Lords. It is so important that it cannot stop anywhere below."

26,800. May I make another suggestion to you, that there should be an appeal to a Divisional Court consisting of two Revenue Judges, and their decision should be final except by leave of the Court of appeal?—I do not think I should see any objection to that.

26,801. It would then eliminate the cost of two further appeals?—Yes.

26,802. I think you will agree with me that it is desirable in the interests of the taxpayer that the cost of litigation should be minimized as much as possible?—Absolutely.

26,803. Sir E. Nott-Bower: In regard to a suggestion that was made to you on the other side, that when any changes in the law which may be resolved upon, in consequence of any recommendations that the Commission may make, are carried out the whole law may be altered at once; that would mean, would it not, that when the next Budget was introduced, say, about April, the entire Income Tax code would be thrown into the confusion?—Yes.

26,804. The Finance Act in any case has to be passed at latest on the 5th August?—Yes.

26,805. It would be quite impossible for Parliament to deal with the matter in the interval between April and August?—I should imagine so, quite.

26,806. Mr. Petyman: On the point that Sir Walter Trover and one or two other members of the Commission have spoken to you upon, the question of the costs of appeal, you may perhaps know I have had a certain amount of contact with Chancery of the Exchequer on disputed Revenue points in the House of Commons. Would you agree with me in saying that the reason that so many of these cases are taken up to the highest Courts by the Crown is because the Crown wants to make absolutely sure of what the final legal interpretation of an Act is before asking the House of Commons to alter it?—Yes, that is so, undoubtedly.

26,807. Is not that a question which is purely in the interests of the State and with which the taxpayer, who has brought that particular case, has nothing to do?—The taxpayer has been the unfortunate person who has given rise to a point on which it is absolutely certain there must be either legislation or a decision in favour of the Crown.

26,808. That is not his fault?—That is not his fault, it is his misfortune.

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26,809. Is it right that when the Crown for a purely national purpose, quite outside the particular small point which is at issue, desires to obtain the decision of the highest Court, the cost of that should be thrown upon that particular litigant?—It is always regarded from the point of view of the poverty of the litigant. Take the case of a man discovering, what we hope people do not often discover, a large hole in an Act of Parliament which enables an enormous amount of Revenue to slip through, which Parliament never intended at the time, but which he, being a more astute man, or a more fortunate man than others, thinks he has discovered. He goes to the Commissioners and then to the Court of First Instance, and the Court of First Instance decides that he is right, and that an enormous amount of Revenue is going to be lost to the Crown; it is then undoubtedly a question of legislation. The country cannot afford to lose it. I am taking an extreme case obviously.

26,810. I am quite content to take you on that extreme case?—Then the question is that that man's contribution to the Revenue on that point has gone at all events unless we beat him in the Court of Appeal, but I should be prepared to say: "let that man go, but legislate immediately." As I say I am taking an extreme case.

26,811. You would pay his costs; I am speaking purely on the question of costs?—I should have to; he would have won.

26,812. He would have won in the Court of First Instance. You would say then: "let him accept this as the law"?—Well, I should say legislate at once. It would not be my business to say whether we were to legislate or not, but I should be met, if I were to put that to the Board of Inland Revenue or the Chancellor of the Exchequer with this: "yes, this decision may be wrong, but we should not feel justified in troubling Parliament with a clause expressly to do this unless we got the opinion of a higher Court than the Revenue Judge." Then you would say: "very well, you are not going to put the litigant to the expense of that."

26,813. Yes, I do. If your advice has been taken my point would not arise, and therefore that falls to the ground?—Yes.

26,814. The litigant has won his case in the Court of First Instance, and you advise that there is no chance of succeeding in the highest Court, and therefore no further costs are incurred, then my point does not arise, but I am assuming as is more commonly the case, and from my Parliamentary experience is usually the case, that the Inland Revenue and the Chancellor of the Exchequer prefer to have a final interpretation of the law by the highest Court before they attempt to alter the law?—Yes.

26,815. And when they do that surely they ought to pay the costs?—I think so.

26,816. That is the point, but it is not done?—Well, it does not rest with me. I am not going so far as to say that it has never been done, because there is a case, which I refer to in my last paragraph, where we are doing it now.

26,817. Mr. Kerly: We are agreed, a very rare case?—Well, it is not sound, but I have known it done.

26,818. Mr. Petyman: By Parliamentary agreement it is done?—No. I have known it done more frequently in cases of Death Duties. Sir Edmund Nott-Bower will know much better than I, but I could enumerate, and my recollection tells me that there have been certainly not infrequently cases where we have had a point in Death Duties, and sometimes in taxes where we have said: "we will pay your costs; it is not fair to you."

26,819. There was the Bench case?—Yes, I think Beach is one of them.

26,820. But that was by agreement made on the floor of the House of Commons between the Chancellor of the Exchequer and certain Members who were interested in the particular point. That happened several times; I have known it happen several times?—All I can say is that agreement is made by less high functionaries than that. It is done by the Board of Inland Revenue and the solicitor. In principle I entirely agree with that, but it has to be very carefully safeguarded, because if it is once recognised in

a doubtful point where it is to the interest of the Commissioners to get a decision, they are going to pay the appellant's costs, no matter where he goes—

26,821. No, it is only after he has won in the Court of First Instance?—Even after he has won in the Court of First Instance—you will have a lot of people trying to push in and say: "new I will fight this case. I do not mind paying the costs if I lose in the Court of First Instance, because I can go to the Court of Appeal and House of Lords free of any cost to myself; I do not mind; I will keep right on." I think you will be tempting people. I quite agree on principle you put it most fairly, if I may venture to say so, but you have got to think of the other side. There is the man who says: "is this a fighting point?" counsel says: "yes, you may win; I think you have a fair chance." The man says: "all right, I will take it up to the Court of First Instance." Counsel might say: "you may win there but you may get taken further." If the suggestion put to me is carried out he will say: "I can stand the costs in the Court of First Instance; what do they amount to—I can stand that, and if it goes any further let it go as far as it likes, I shall not have any costs."

26,822. Would it be a laughable suggestion from a layman's point of view to say that the Court of First Instance in allowing an appeal might say: "subject to the costs of both sides being paid by the Crown" in a case of that sort?—Very frequently in cases before the Revenue Judge counsel for the taxpayer who loses says: "my lord, you will not give them costs here," and sometimes the judge says: "well, what do you say about it?" to the Attorney-General, and he says: "I leave it in your lordship's hands," or he probably says, as is very often the case: "I ask for costs here now, and if they address themselves to the Commissioners of Inland Revenue and ask for relief on the question of costs I will do my best to see it done."

26,823. I am afraid I did not make myself clear. I quite understand that the Court will give its view as to the costs in the Crown's own case, but my point was, would it be an impossible suggestion that the Court of First Instance, after deciding would express an opinion that if the Crown took the case any further they should pay the costs of both sides in the Courts above?—I cannot imagine a judge giving any such opinion because you see the costs of the appeal rest with the Court of Appeal.

26,824. Mr. Kerly: I think I can tell Mr. Petyman that such a provision would be inoperative?—It would have no legal effect, and I cannot imagine a judge doing it, because he would say: "after all, other circumstances and facts may emerge. It is not for me to give a direction to the Court of Appeal what they ought to do."

26,825. And in practice a judge is always very reluctant to put difficulty further in the way of questioning his opinion. He does not want to say: "well, I am quite certain I am right and I want to discourage anybody from questioning my view." On the other hand, a judge, and particularly a good judge, says: "well, I may be wrong and, if so, let me be put right."—Of course, there are cases as you are perfectly aware where appeal only lies by leave, and then I have known a judge say: "No, I do not think this is a case where you ought to appeal, and I will not give you leave."

26,826. Mr. Petyman: Now on an absolutely different point altogether, should I be asking you something within your province if I asked you why certain property is taxed on Schedule B as well as Schedule A; on a legal point is that your business?—No, with deference, I do not think it is my business. It might be put to me to advise whether this does fall under Schedule A or Schedule B.

26,827. That is what I meant?—The practice of doing it does not originate with me.

26,828. Mr. Kerly: May I suggest this is really a matter for the witnesses we are going to take this afternoon more than for Mr. Cox, who might be embarrassed by expressing an opinion here that he might have hereafter to reconsider.

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[Continued.]

26,829. *Mr. Pretymen*: That rather puts temptation in my way; however, I will be guided by you in this matter.

26,830. *Mr. Kerly*: You say that litigants should not be encouraged to fight questions they might otherwise leave by being given a security against further expense if they are once successful, but we all know that practically although a man is immune from having to pay costs to the other side the costs which he pays are nothing like what he expends?—That is so.

26,831. So that people would always have that in

mind?—There would always be that at the back, but at the same time the fact of not having to pay the costs of the other side in any event I think might induce some people to press appeals who would not otherwise do so.

26,832. The gist of it is that litigation will always be expensive for the litigant?—Always.

26,833. Even if he is secured from having to pay the other side's costs?—That is absolutely true.

26,834. *Mr. Kerly*: We are much obliged to you.

SIR THOMAS COLLINS, Chief Inspector of Taxes, and MR. E. R. HARRISON, an Assistant Secretary to the Board of Inland Revenue, recalled and examined.

26,835. *Mr. Kerly*: I may say we appreciate what an immense quantity of work these memoranda represent [see Appendices Nos. 48-71]. We regard them as really as replies, and we do not propose to attempt to take you through them generally. We are going to take them as your evidence, and, except on points here and there which some of us may desire to put to you, I think you will find that you will not be further troubled about them. Of course you will understand that they are nevertheless appreciated. The first one I want to ask you about is with regard to the exemption of Income Tax enjoyed by Friendly Societies [see Appendix No. 52]. Do I understand that your proposal is to maintain the existing exemption from taxation, but to abolish it in the case of unregistered societies?—(Sir Thomas Collins): That is the exemption by reference to the limit of income.

26,836. Limit it to registered societies?—Yes.

26,837. Have you considered—I know that you have in another connection—the case of charities under Schedule B, that is, charities occupying land for their own purposes?—We have always felt that exemption ought to be granted in such cases as are mentioned in paragraph 3 of our memorandum on charities [see Appendix No. 31].

26,838. If you extend the exemption that they already enjoy in respect of their income, to the assumed value of land which they occupy, in the case of charities, I suppose you would say, do the same thing as regards registered Friendly Societies?—Yes, certainly in similar circumstances.

26,839. Then regarding the allowance of two-thirds of the annual value in respect of a dwelling-house partly used for a trade or profession [see Appendix No. 53]. Do you suggest that the two-thirds limitation should be abolished?—Yes, in effect.

26,840. And it should be left to the Commissioners or the Court, or whatever it is. Where the part of the premises which is used for private purposes, and not for trading purposes, is less than one-third of the whole in value, you would allow a greater exemption than two-thirds?—Yes.

26,841. *Mr. Walker Clark*: There is a point there: the Commissioners are spoken of in paragraph 5 of this memorandum as District Commissioners.

26,842. *Mr. Kerly*: You mean, no doubt, the General Commissioners?—Yes. We have been in the habit of speaking of General Commissioners as District Commissioners; I think the word "District" has slipped in there unintentionally.

26,843. Then coming to the memorandum on unearned income [see Appendix No. 55]. This paper is rather upon the expression "unearned income." This is one of the cases where perhaps the name is important, but it is not upon that that I want to speak to you. I will read the last paragraph: "It is questionable whether any considerable number of taxpayers look upon the expression 'unearned income' as entailing a reflection upon the class of income to which it is related. It would, however, be possible to adopt the expression 'income from property' or 'investment income,' in substitution for the existing expression." Of course you mean that an income from shares in a limited company would still be treated as unearned income?—Yes.

26,844. Have you specially considered the case where the shares in a limited company belong to a shareholder who takes an active interest in the management, but has no special remuneration?—That point is often brought before us in our daily work. In the case of private limited companies where it is open, as a rule, to persons in the position referred to, to allot themselves whatever sums they like as remuneration. As a matter of fact, we find in private companies that large sums out of the profits are allotted to the managing shareholders as remuneration, and in that way they get the earned rate allowed.

26,845. I thought that was the answer you would probably make, but the question arose in my mind. As a matter of fact, that is one of the difficulties with regard to the division between earned and unearned income?—Yes.

26,846. I will not ask you to develop it, but I should like to know what is your view as to the maintenance of the division between earned and unearned income on the different rates of tax up to £2,500. It operates very hardly at the bottom of the scale and it is abandoned above the £2,500 limit?—Yes. I cannot claim to have given the subject very much consideration, myself, but I think that the difference between the earned and the unearned rate, in the lower ranges of income, operates hardly; that is, persons with unearned income running up to £200, £300 or £400 a year, are very much handicapped by the higher rate of the tax which is charged upon their small and very often fixed incomes.

26,847. I should like to take your opinion upon this. Supposing you were to regulate your abatement according to the earned income, does it occur to you that that would be practicable?—I could not say off-hand, but I know very great difficulties arise where you bring into opposition, for the purposes of abatement or relief, unearned income as against earned income. You get into very great complications, almost insurmountable complications, when you get mixed incomes.

26,848. Then your paper concerning the recovery of Super-tax from a wife in certain cases [see Appendix No. 57].—Mr. Harrison will deal with that.

26,849. *Mr. Harrison*, you are dealing here with the case of the wife with a large income and a husband perhaps with a very small one amongst other cases?—(Mr. Harrison): Yes, that is so.

26,850. You ask for power or you suggest power to call for a return from the wife. Do you propose to assess her personally or do you propose to recover from her the amount of the tax on the joint assessment?—We should propose to assess her personally and to recover from her the tax on her proportion of the total income, that is, the amount on which she is assessed.

26,851. Two different things occur to me there, one is that you might still assess her and her husband jointly?—That is so.

26,852. But make her personally liable only for her proportion of the joint assessment?—Yes, but I suggest that unless you separate the assessment you might have a dispute and an appealable question possibly as to what was her proportion, but if you assess her separately you determine it in the first instance.

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26,863. Surely you must give her the right of appeal if she says that whatever apportionment is made is wrong?—I entirely agree.

26,864. So we may put that aside, I think. Now the question is, what is her just proportion of the joint assessment?—Yes.

26,865. That would have to be determined by Act of Parliament?—The present rule in cases where the wife asks to be assessed separately is, that it is apportioned according to the incomes of the husband and the wife respectively.

26,866. Under the existing rule then there are cases where you do make a joint assessment and then divide it between the spouses?—Not quite; we make separate assessments where they are applied for, but in calculating the duty on the two assessments we in effect work out the duty which would be charged on the joint assessment if there were one, and then apportion it according to the two incomes.

26,867. You mean you take the joint assessment to determine the rate?—We take an imaginary joint assessment in determining the rate.

26,868. Sir K. Nott-Bower: Supposing the husband had £1,000 and the wife £4,000 a year you would arrive at what the duty on £5,000 would be, and then do you attribute four-fifths to the wife and one-fifth to the husband?—That is the case.

26,869. Mr. Kerly: I am much obliged; that explains what I was asking. Then it is the joint assessment which determines the rate?—Yes.

26,870. Mr. Marks: For Income Tax and Super-tax?—No, the Income Tax is complicated by special rules according to the nature of the income—the allowances.

26,861. But on the main point you do take them together both for Income Tax and Super-tax?—Yes.

26,862. Mr. Kerly: If you have got to the Super-tax level, the Income Tax is at its maximum rate?—That is so.

26,863. So that even if the husband had, shall we say, £200 a year and his wife £5,000 a year, the husband has got to pay on his £200 at the 6s. rate?—Quite.

26,864. And he gets no abatement or return?—That is so.

26,865. Mr. Marks: And he also pays Super-tax?

26,866. Mr. Kerly: I want to know whether your proposal is that you should take power to assess the wife and to recover from her her portion of the joint assessment?—Yes.

26,867. Will you tell me how you propose to recover it from a woman?—I know that if there is an objection to pay there are great difficulties in the way of recovering from a married woman, and I should not like to go into those difficulties in great detail, because they are purely of a legal nature, I understand.

26,868. But I want to know whether you make any proposal as to an increase of the existing powers?—At the present time, of course, we get these cases where the wife asks for an assessment, and as far as I know we have never had to press seriously the question of recovery in one of those cases.

26,869. I follow that where the lady asks for it, but here you are going to impose it on her?—Yes.

26,870. You can, of course, get execution against her separate property?—Precisely.

26,871. Just as you can against a man's?—Yes.

26,872. As regards the man, in the ultimate resort, I suppose, you imprison him?—Yes, we have power to do so. I have never known a case of a man imprisoned for Super-tax, but it might happen.

26,873. Have you ever known the case of a man imprisoned for Income Tax?—I have known a few cases, yes.

26,874. Mr. McLintock: Small taxpayers?

26,875. Mr. Kerly: Yes, the wage-earning class; I was forgetting that—that is new?—Normally, the wage-earning classes, but there are other classes also; there is no distinction as to class, of course.

26,876. Are you asking for corresponding powers against a recalcitrant married woman?—I think we should have full powers, but I hesitate to suggest that we should seek to imprison a married woman, at any rate, save in very extraordinary circumstances.

26,877. I had a question on the paper with reference to liability to Super-tax in respect of income from settled funds accumulating for the benefit of minors [see Appendix No. 58]. You make a proposal in case of a minor coming into a large accumulation of income which has accumulated during his minority. You suggest that there should be power to charge unpaid Super-tax which he would have been liable to had the income been vested in him before the date of vesting?—Yes.

26,878. Mr. McLintock: I take it it is the view of the Inland Revenue that whether the deed is revocable or irrevocable the income should be brought in for Super-tax purposes?

26,879. Mr. Kerly: Mr. Harrison says, as I understand, when once the accumulation has vested?—Yes, when it has vested, then we seek power to charge.

26,880. Then the time for revocation would have passed.

26,881. Mr. McLintock: I was on the other point. During the period of accumulation there is a trust in favour of a child until it reaches the age of 21; do you seek to tax that accumulated revenue as part of the father's income?

26,882. Mr. Kerly: That is not this point. This point is that where there is an accumulation for a child, the child being entitled if he attains 21?—Yes.

26,883. Until he attains 21 the child is not entitled to it, but when he does attain 21 he becomes entitled to the whole accumulation, which has been piling up. Mr. Harrison's suggestion is that then you should reconsider his Super-tax account from a certain number of years back?—An indefinite number.

26,884. Mr. McLintock: And his Income Tax liability also?—The Income Tax liability is almost always satisfied in this case by deduction.

26,885. He might be entitled to the lower rate?—He is entitled to a lower rate; he is now. The law is one-sided in that respect. He is entitled to reopen his liability for all those back years for Income Tax, and we say we should have a corresponding power for Super-tax.

26,886. Mr. Kerly: You were thinking of something other than the minor contingently entitled, which is Mr. Harrison's point?

26,887. Mr. McLintock: Yes.

26,888. Mr. Kerly: In the case of Income Tax there has, of course, been deduction at the source?—That would normally be the case.

26,889. Under the existing practice, I am told, if the total income turns out, when allocated to its particular years, to have been less than that which bears the full rate, you do now allow the account to be retaken for the purposes of return?—We do; that is so.

26,890. And you propose now to turn to the other side where Super-tax is payable and to ask them for that?—Yes.

26,891. Referring to the Memorandum on Charities [see Appendix No. 31]. You have already dealt with the point that you approve of the extension of the exemption from tax to land in the occupation of charities?—Yes.

26,892. I will not deal further with that. You help us here upon the vexed question upon what should be charities for the purposes of exemption?—We make some suggestions on that point, certainly.

26,893. It is quite clear from the examples you have given that something in the nature of a redefinition of a charity is necessary?—We certainly submit that it is.

26,894. Take, for instance, paragraph 5 (b) of this memorandum. You say it has been held that a hospital conducted on the principle of letting the rich patients pay for the poor is not entitled to exemption?—Yes.

26,895. Well, there is no such hospital as that, is there?—There are cases where the rich help to pay for the poor?

26,896. Mr. McLintock: There are asylums?—(Sir Thomas Collins: The particular case referred to (Needham v. Bowers) relates to an asylum near Gloucester—I forget the name of it—where patients were taken at various rates. In the days when this case was decided some were taken for a very small

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sum and the richer class of patients paid sufficient to cover their own expenses fully and to a great extent the cost of the others.

26,897. *Mr. Kerly*: So that there was a profit?—On the total transactions there was a profit.

26,898. *Mr. McLintock*: There are other asylums in the same position.

26,899. *Mr. Kerly*: I did not quite follow this passage, because I read it hurriedly. Do you suggest that that institution should or should not be a charity? It seems to me to be an ordinary business for profit, some part of the profits from which is disposed of for charitable purposes?—Yes. I would not like to speak with certainty without further knowledge of the facts of that case.

26,900. You merely bring that forward as one of the reasons for reconsidering the definition?—Yes.

26,901. I note that in paragraph 13 you point out that the exemption of charities at the present time—that means at present rates, I suppose—costs the country from £4,000,000 to £5,000,000 a year?—Yes.

26,902. Then in paragraph 9, do you suggest that colleges, universities and public schools should be excluded from relief as charities; that is considering also paragraph 14 and onwards, particularly 15 (a) and (b)?—(*Mr. Harrison*): I do not think we have suggested that the exemption of colleges, halls and universities should be withdrawn, but it is just a question whether they should continue to enjoy exemption of their endowments.

26,903. Why distinguish between their endowments and, say, land in their occupation which you propose to exempt if they are charities?—In principle, of course, there might be a good deal to be said for withdrawing it altogether.

26,904. Does the Board or does it not make any recommendation to us with regard to exclusion from tax. The words I had were, "colleges, universities and public schools"?—(*Sir Thomas Collins*): I think they do, tentatively, by paragraph 16. That implies, I think, that the Board do rather suggest for consideration—and under the restricted exemption, which they refer to in the preceding paragraph—charities for the relief or education of classes of persons with small incomes.

26,905. So I understood. Then you would also exclude, you suggest, religious bodies?—I am afraid that is suggested for consideration.

26,906. And, I presume, propaganda societies?—Yes. The suggestions are all very tentative and given with a great deal of diffidence.

26,907. Put forward for our consideration, but with your blessing?—Not mine personally.

26,908. I mean the Board's blessing?—I am rather aghast at leaving religious bodies out myself, but I am here to present the tentative opinion of the Board of Inland Revenue as to the points that might be considered.

26,909. The next paper is dealing with copyright (see Appendix No. 69). You say that copyright royalties, particularly where the copyright is owned abroad, under the present law escape taxation to a great extent?—Yes.

26,910. Do you propose to catch them by making the publisher chargeable in respect of the royalty which he pays to the author?—Yes.

26,911. That seems right enough, but there is a practical difficulty, is there not? What do you say as to the case of small lump sum payments, for instance, for magazine articles? How are you going to deal with that?—The proposal does not reach to such a payment as that.

26,912. It would be necessary for the practical working of it, would it not, to limit the charge on the publisher which is got, of course, by making an allowance in his accounts. You would have to allow him, would you not, to deduct such payments in the nature of royalty as ought not, in the view of the Legislature, to pay tax?—Yes.

26,913. That could only be got at, so far as I can see, by fixing an amount—by allowing him to deduct payments to a single author not exceeding £50 in one year, or something of that sort?—Yes.

26,914. Can you suggest any other way?—No, I think not, unless we were to confine the deduction of tax to royalties only.

26,915. Does that mean in the sense of periodic payments?—Yes.

26,916. Putting it round the other way, as Mr. Petyman reminds me, you would allow him to charge as expenses in his account all payments to authors except royalties paid periodically?—Yes. Of course, he charges them all at present.

26,917. Even then you see the lump sum would escape tax. Supposing an American author, to take a concrete illustration, sells his manuscript or a copy of his manuscript to an English publisher for £1000, that is not a periodic payment?—No.

26,918. Is it to escape?—Well, I do not think it has occurred to us to go so far as to suggest that the tax should be deducted on those payments.

26,919. At the other end of the scale, you know, if you made the publisher in effect pay, and so deduct from the author, in respect of all payments for copyright licences, there would be some very hard cases?—Yes.

26,920. I suppose most of us know that there is no class so impecunious as the class which lives upon occasional journalism?—I quite agree.

26,921. They would fall even below the suggested miners' exemption limit in most cases, and they would be taxed at 6s. if the publisher is to make the deduction. That is a difficulty which does not seem to have been met, and it is one we shall have to consider.

26,922. *Sir E. Nott-Bower*: A difficulty arises in my mind under paragraph 14. You seem to contemplate that, supposing these royalties were paid to an English author subject to deduction of tax, the English author might be allowed to claim the benefit of relief applicable to earned income; that the payment should be treated as earned income. Is not that so?—Payment to an author should be treated as earned income—I think that would be right.

26,923. Of an annual royalty?—Yes.

26,924. If it is earned income, where is it earned? It is earned where the author writes, is it not?

26,925. *Mr. Kerly*: Or where he thinks?

26,926. *Sir E. Nott-Bower*: Or where he thinks—where he exercises his vocation? If you take that view, are you consistent in seeking to tax the foreigner on the profits of his copyright?—A non-resident person?

26,927. Yes, a non-resident person, who exercises his vocation abroad; if it is earned income it must be earned where the vocation is exercised?—I am sorry to say that I do not see the point.

26,928. If royalties on copyright are earned income they are the earnings of a vocation, and they are the earnings of a vocation which arises where the vocation is carried on. Then this is my point: the foreign author then is in receipt of profits from a vocation which he exercises, say, in Paris. Why should he be taxed at all? If you tax the foreigner you are taxing him really because he is receiving profits from property in this country?—Yes, it seems to me to be quite right to tax him.

26,929. Both things cannot be right, can they? If the foreign author is deriving profits from property in this country, so is the English author, and then to the profit derived from property in the country the earned income rate would be applicable?—At the present moment the law does not allow non-residents the earned income relief at all.

26,930. But if they are profits of a vocation which is exercised abroad, they do not fall within the scope of the Income Tax at all in the case of a foreigner?

—But take the case of a firm which has partners in Great Britain and partners abroad, and the control is here, and the whole profits are charged, the income of the non-resident persons might be stated to be earned abroad, but they are charged, and charged generally at the unearned rate, for the portion of the profits which they take. The view which is given here is quite consistent with the practice in many cases which are analogous to it.

26,931. Well, I will not put it to you further; you have not removed my difficulty?—No; but perhaps my mind is not at the moment *ad idem* with yours.

26,932. My difficulty merely is this, that royalties for copyright you must regard either as income from property or as income from a vocation, and if they are income from a vocation, the vocation in the case

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of an author living in Paris is clearly exercised in Paris, and you ought not to want to tax him at all for the profits of a vocation exercised in Paris?—Not on profits he derives from Great Britain?

26,933. He does not exercise a vocation here.

26,934. Mr. Kelly: If I might intervene for one moment, personally I quite appreciate your point. There does seem to be a logical inconsistency in treating the profit of a mental exertion as income arising from a business in one country and as property in another, but I do not think there really is. There may be exceptional cases, but the normal case is this, is it not: an American author is carrying on the business of writing in America. In the course of that business he from time to time produces something which is saleable elsewhere. It is not his regular business to write for the English market but to write for the American market. Every now and then he or his publisher has got a piece of property, namely a completed book, which he brings over here and sells here for what he can get. I think that is not far off the practical working of it, and that, I think reconciles your difficulty. There are other cases I do not doubt where a man who has got a reputation on both sides of the Atlantic, for instance, may really be working for both markets normally. I do not see in this paper any reference to a question which has been raised both in connection with copyright and patents and trade marks, first that the cost of litigation to protect the rights of either class of property should be treated as a trading expense; has that been dealt with?—In charging patent royalties we allow the patentee his expenses, and litigation expenses for the purpose of protecting his rights would certainly be allowed as an expense.

26,935. Protecting and enforcing?—Yes.

26,936. That is done, is it, at present?—A patentee has Income Tax deducted from his royalties when they are paid to him, and if he brings us an account showing how much is received under deduction of tax and what his expenses are, we repay him on the expenses, or set against those expenses any sums which he may receive without deduction of tax.

26,937. Now we come to the memorandum on the subject of Double Income Tax elsewhere than within the British Empire [see Appendix No. 60]. I want to ask you what is rather a connective question on the immediate topic. Very considerable difficulties arise which have been discussed many times before us, where a business which is substantially a foreign business is controlled by a company resident in this jurisdiction, but has a number of foreign shareholders. —(Mr. Harrison): Yes.

26,938. Would not there be some logical justification for treating the dividends which at any rate are payable to the foreign shareholders as something in the way of goods in transit to a foreign country, which pay no Customs duty provided they are kept in bond?—I think in the official evidence we gave on that doctrine of control we did indicate that possibly dividends paid to foreign residents or profits accruing to foreign residents out of profits made abroad should not necessarily be taxed here at the full rate.

26,939. I had forgotten; the Board has already dealt with it?—Yes.

26,940. Then I will not trouble you further. My next point is on your paper regarding the taxation of the Clergy [see Appendix No. 63]. I gather that your proposal is in paragraph 21 to allow anything paid out of a clergyman's stipend or professional income to licensed lay workers?—Yes, I think that is the suggestion.

26,941. With regard to Easter offerings, in paragraph 12, you say that the law is clear that Easter offerings where they are part of the regular income of a clergyman ought to be taxed?—Yes.

26,942. Has any question ever arisen with regard to collections for the Clergy which are made at other times than at Easter?—I think the question is always the same one: do they accrue to him because he is the incumbent of the benefice, or are they collections made for him, perhaps to get a poor man a holiday, or something of that kind? If they are entirely collections for him in his personal capacity, then probably they would not be taxable, but if they accrue to him by virtue of his incumbency then they would, of course; it always depends upon the facts.

26,943. It depends upon the facts of the particular case?—Yes; a testimonial would not be liable, for instance.

26,944. Then I have a point on paragraph 32, with regard to mortgages. "Under the general rules . . . no deduction is allowable in respect of capital expenditure, and the prohibition applies to capital expenditure spread over a period of years." No modification "is permitted by reason of compulsory application of income to the specific purpose of providing annual sums by way of a sinking fund for the extinction of a mortgage debt"?—Quite.

26,945. To put a particular case: an incumbent of a particular benefice in the year 1900 gets leave to borrow upon the security of the future income a lump sum of money to repair the church, or to rebuild the rectory. His income for a number of years, thereafter is small, because the interest and perhaps a sinking fund have to be provided out of it?—Yes.

26,946. Do you say that that interest and sinking fund ought not to be allowed, but that the person ought to pay so though he had the uncharged income?—As far as the interest is concerned that ought to be allowed, and would be allowed; as far as the sinking fund proper is concerned, I suggest that the proper thing is to make him an appropriate allowance for the cost of the repairs, and I think in the great majority of cases that would now be done, either by the one-sixth, or if that is not sufficient by the additional allowance under what is usually known as section 69. I think if he had the sinking fund too, if we are merely on the equity of the case, he might get it twice over.

26,947. To continue the example, his predecessor having laid out the money which he borrowed, would you give the present incumbent an allowance in respect of repairs which he never makes to set off against a payment by way of sinking fund for his predecessor's debt?—I think if you have a rectory, say, which is going to be repaired, the one-sixth allowance would be made every year, notwithstanding the charge of the incumbent, and so I suggest would the additional allowance of the balance of the cost of repairs, insurance and maintenance to the successor if necessary; it would be carried on as long as the five years' average operated.

26,948. I still cannot see how it would work. A rector has got to repair the chancel, has he not?—Yes. There is a special allowance for that, if you take the case of the chancel.

26,949. Well, it may be that all my difficulties will vanish when I know the facts. Take the chancel; he has got to repair the chancel, and we will suppose before he came into possession, money was raised on mortgage and expended in repairing the chancel. The chancel produces no income?—No, but he can get a deduction from other income in respect of the repairs of the chancel. No. V. of Schedule A provides that he may claim as a deduction the amount expended during the year preceding the year of assessment on repairs of any collegiate church or chapel or chancel of a church, and so on.

26,950. But I am speaking of expenditure 10 years ago, not paid off?—I agree when you come on to the successor, then I think the only answer is that your predecessor had the allowance, and it may be personally a little hard on you, but we have made the allowance to your predecessor, and we cannot make a second allowance.

26,951. You have not persuaded me that it is right. In my view you should, as far as possible, tax a man on the income which he receives, and not on any imaginary income which he might have received?—Of course, if I may suggest it, in this particular case you get A incurring the expenditure, and he gets the allowance for it, but he charges the benefice to pay it off. He gets the whole of the allowance, and his successor suffers. I agree that as between A and B there may be a certain element of hardship in it, but not as between A and B on the one side and the Revenue on the other.

26,952. It is suggested to me that this apparent hardship is to some extent put right by the Commissioners of Queen Anne's Bounty: do you know whether that is so or not?—I have no very precise knowledge, but as a matter of fact I believe there

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are grants made by the Queen Anne's Bounty which may help this; I confess I have no detailed knowledge of that.

26,963. I will tell you how it strikes me: here is a capital property, the rectory house and so on, and there is an income; both have diminished in value, and you are going to charge a successor to the income as if his income were at the original amount?—Well, not quite, I suggest. We allow him at any rate to deduct the mortgage interest. It is only, I think, the sinking fund that we are really on, the repayment of the capital. I suggest the difficulty really arose there, that is, that under the law as it stands A, the man who spends the money on the repairs, but instead of paying for them out of his own pocket, borrows the money to provide for them, gets really equitably and logically too big an allowance because A gets the whole cost of the repairs, although as a matter of fact he himself is not bearing that cost; he is charging B, his successor, with a portion.

26,964. Mr. Walker (Clark): Ought not to be a point of adjustment between A and B?

26,965. Mr. Kerly: That is suggested, but inasmuch as this matter may have happened 50 years before the present incumbent is there, I cannot see that there is any justification for charging the present incumbent upon an income which he never has received and never can receive. It is not as though he were receiving that money by putting something aside, and at some future time he was going to get the benefit of it. The hypothesis is that the existing fabric has merely been repaired?—Yes, and an allowance made to the wrong man, perhaps, but an allowance has been made in respect of the cost of those repairs.

26,966. Possibly it has: possibly it has not.

26,967. Mr. Petyman: It depends on the annual value. It may not have been so unless the annual value in the country was below £522? I beg your pardon, I am on the specific allowance in No. V. of Schedule A. This is altogether in addition to, and outside, the general allowance that you are speaking of, the one-sixth or the section 69 allowance. There is a specific allowance under the old Act of 1842, No. V., Schedule A, for the amount expended on the repairs of collegiate churches, chapels, and so on.

26,968. But not for a rectory?—No. I took the chance because Mr. Kerly gave me that case.

26,969. Mr. Kerly: I took the case of the chancel, and you told me that there was a special provision?—I did.

26,970. Mr. Marks: If A has incurred a liability to spend £1,000 on his chancel, say, and he borrows that amount from the Queen Anne's Bounty, and it is repayable by an annuity, he cannot get an allowance off his income in respect of the total annuity, both the sinking fund and the interest?—I would not like to answer very definitely on that point, because I have no detailed knowledge of the working of Queen Anne's Bounty allowances.

26,961. You can assume that advances made by Queen Anne's Bounty to the incumbent of the living are repayable in 99 cases out of 100 by an annuity of principal and interest, and assuming that that were the case, in the particular instance which I have suggested, how would that work?—He gets the interest, but he does not get the capital. The portion of the annuity which represents capital he does not get; I think that is the position.

26,962. There would be no allowance made whatever to any incumbent in respect of the capital sum which he had expended, which is ultimately repaid out of his income?—No, pardon me, I did not mean to say that. In so far as that is expended on the chancel he gets a specific allowance for the cost of those repairs to the chancel.

26,963. How would that be dealt with in the instances I have suggested, where the cost of those repairs was repayable by an annuity?—The annuity question would not come into it at all. He has spent £1,000 on repairs, and he is entitled to claim an allowance in respect of that £1,000.

26,964. Mr. Petyman: Really, I do not think that is so; it is only so in certain cases. Take for the

moment, for argument, the case where he has not had an allowance; he will only get that allowance in the case you quoted under that particular Section, applying to a collegiate church or chapel, and he will also get it under the special legislation of last Session, where the annual value of a rectory is not greater than £52 in the country?—I agree as regards the rectory entirely.

26,965. Dealing with the case of a rectory worth £60, upon which a man has had to spend £500 in repairs, he has only had his one-sixth normal allowance, he has never had that £500 back, and after he has spent it the rectory is worth no more than it was?—I intended to limit my answer entirely to the chancel. I agree as regards the rectory if the rectory is outside the limit of value to which the section 69 allowance applies, then he only gets his one-sixth allowance for repairs as repairs.

26,966. Ought not he to have the full statement from his Income Tax of his entire repayment, both capital and interest, when he is repaying the £500 or £400, whatever it was, that he had had to expend, merely to maintain the annual value upon which he is paying tax all the time?—I agree; but may I suggest that is really part of the general case for extending the section 69 allowance to a higher annual value than £60 or £50, whatever it is.

26,967. Mr. Kerly: Here is what strikes me as a general solution of this difficulty: supposing instead of saying the man ought not to be treated on his actual income, that is what remains after deduction of charges upon it, because these charges may represent some allowance for repairs, put it the other way round; let him deduct all charges upon his income, and where the mortgage which the charges represent is in respect of repairs, make him no allowance for the appropriate time for repairs?—That of course might be a possible way of dealing with the clergy case. As a principle I am always a little afraid of introducing as a deduction anything in the nature of a capital charge.

26,968. I follow what you mean. Of course, we shall have to consider, unless we deal with the clergy case separately, the general question of the life tenant and the reversionsers?—That is so.

26,969. Sir W. Trower: I wanted to put a specific case to you, because I take it that Income Tax is a charge on income, as we heard by Lord Macnaghten's definition. Would you add to that that it was income received by the taxpayer?—I would not like to answer that with an unqualified affirmative.

26,970. You would qualify it? Then would you say that the tax extends to income beyond that which was received?—It might.

26,971. I will put a specific case to you. Take a bishop: a bishop's predecessor spends, say, £3,000 or £4,000 on addition to the palace, and that is borrowed from the Ecclesiastical Commissioners, and they deduct from his stipend as bishop £500 a year, and the bishop gets instead of, say, £4,000, £3,500. He never gets the rest of the income at all. He is nevertheless charged for Income Tax and Super-tax on the £4,000 which he is supposed to receive from the Ecclesiastical Commissioners, except that part of the capital sum expended which was represented by interest on the sinking fund?—Yes.

26,972. Can that possibly be right, in your judgment? It is money which the bishop has not spent himself, and which he never gets, the annual charge in reference to which he never gets, and as to which he has no voice at all in the matter. He only gets, we will say, £3,700 out of it. Can you possibly, on any ground of equity, be justified in charging him Super-tax on the full sum?

26,973. Mr. Petyman: May I add to that one consideration: assume also that the addition that Sir Walter Trower referred to to the palace had been added on to his Schedule A assessment.

26,974. Sir W. Trower: Yes, quite so.

26,975. Mr. Petyman: So that he is paying on that, and he has not got that in place of the income; he is charged on that?—I agree he is charged on that. There is this point to be borne in mind at the outset; the case that Sir Walter Trower puts is a case of addition to the palace.

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26,976. Which he is taxed on?—I agree, but here is the expenditure of what is essentially a capital sum on an addition to the palace. I quite agree that as between one bishop and another there may be a certain degree of hardship as in the case of one incumbent and another. I start from the point that there ought to be no deduction for the outlay of a capital sum.

26,977. That capital sum has gone into the building on which you are getting it in the form of annual value once, and then you tax it again, although it is not coming in; you tax it twice?—May I suggest that if I happen to own my own house and I determine to enlarge it, I may save the money which I spent on enlarging it out of my income, but I get no allowance for that, and I do not think I ought to have an allowance for it.

26,978. You do, because you do not have the income. You do not pay twice over; you only pay once. You transfer £500 a year of income into a capital sum which you spend in producing £500 a year more value to your house?—May I take a specific case? Suppose my income is £500 a year; I save £50 of it, and after accumulating that for a few years I am able to enlarge my house. Every year I have been taxed on £500.

26,979. No; you have been taxed on more; you have been taxed on the interest of your accumulations?—Yes, plus the interest on my accumulations, I agree.

26,980. That is the whole point. You put those accumulations into that building, and you are no longer taxed on your accumulations, but you are taxed on the building which, we will assume, would have the same annual value.

26,981. Mr. Kerly: If you borrow £500 to spend, instead of saving it, you are then taxed on your expenditure, but are not allowed to deduct the replacement of the £500 you have spent?—That is so.

26,982. Mr. Pretynias: Surely that is wrong; you are taxed twice absolutely?—No, I do not think so; I really do not think I am.

26,983. You are very generously disposed, but I really cannot see how you can get away from it. You would not be taxed twice if you did not borrow the money. You would have accumulated £500. While that was being accumulated, and as it was accumulated, you would pay tax on any income which it would produce?—Yes, because I should be perfectly free to spend it as income if I thought fit.

26,984. You then take that accumulation, and put it into your house, and you get £500 worth of house which has the same annual value on the Schedule A assessment as the other had.

26,985. Mr. McIntock: No; the annual value would increase.

26,986. Mr. Pretynias: I am speaking of the addition; I do not mean the whole house. The assessment of the house is increased by the annual value of that £500?—Quite.

26,987. You would then pay exactly the same Income Tax as you paid the year before. You would pay Income Tax on your original income, plus the Schedule A addition to your house, but you would not pay any kuper on the income of the accumulations which had been spent in providing the addition to the house?—Quite.

26,988. And therefore you would pay exactly the same as you paid the year before, and you would simply have transferred a portion of your capital upon the annual value of which you have paid Income Tax from investments to your house?—That is so.

26,989. We will not assume that you are a bishop, but you do exactly the same thing, and you borrow the money?—Yes.

26,990. You have not got any accumulations, but we will say there are additions to your family, and you desire more bedrooms, and you proceed to add to your house. You spend £500 on providing the extra accommodation, and you borrow the money; you pay off capital and interest on an annuity; is it right that in the one case you should only pay Income Tax once, and in the other you should pay twice?—With

great respect, except in so far as this is part of the general question of a man paying tax on the income from his savings I do not see that there is any grievance, and I would not admit it even in that case.

26,991. Mr. McIntock: Suppose the house were not owned, but let by you to a tenant, and when you spent this £500 you increased his rent?—Yes.

26,992. You would have an additional income in respect of that £500?—I should—£25 a year.

26,993. That is exactly the position you would occupy?—That is so; I should have a more valuable house, and I do not think I should have any hardship or grievance at all in having to pay Income Tax on that extra annual value instead of paying Income Tax on the investment.

26,994. Sir E. Nott-Bower: I do not know whether I have followed the discussion correctly, but surely in the case which is put, if you assume first of all that you save the money before you spend it, during the time you save it you are paying on a larger amount than the income which you have available for expenditure?—Yes.

26,995. If instead of that you borrow the money, and spend it, and repay it afterwards, during the time of repayment you pay on something in excess of the income which you have available for expenditure. In either case you have got the house in return for that income; you get value for your money, and there is no reason for any allowance to you at all?—No.

26,996. You cannot say, surely, in one of these cases you have been taxed twice and in the other case only once?—No.

26,997. Mr. Kerly: Can we leave this matter? Mr. Harrison has, I think, given us all the assistance he can upon it. You do not desire to add anything further to elucidate the point, Mr. Harrison?—No, I do not think I can add anything further.

26,998. Now may I go on to the memorandum regarding the assessment to Income Tax of the profits of breweries [see Appendix No. 70.], which is a case about brewers' deductions in respect of the rental value of a tied house being less than the Schedule A value of the tied house?—Yes.

26,999. You have got a somewhat complicated example in the Enclosure. At first sight it looks rather puzzling, but it comes out that the brewer is paying exactly too little by the excess of the gross annual value over the rent received?—Yes.

27,000. The fact is that the tenant pays on his actual rent, which is, *ex hypothesi*, less than the annual value?—Yes.

27,001. The solution of the whole difficulty is that the brewer ought to pay on the difference. He is allowed to deduct the difference between the annual value and the actual rent, but he is the person who ought to pay upon it?—Yes.

27,002. And therefore if he does deduct it he ought to have so much added to his assessment?—That is so. You can look upon the brewer in one sense as having two capacities, a brewer and a landlord; as landlord he receives the full rent.

27,003. Mr. McIntock: On the memorandum on trade associations [see Appendix No. 51.], I take it the view of the Inland Revenue is that with regard to trade associations who receive specific sums from their members as against the man who pays a guinea to his trade association for some pamphlets which he gets monthly or otherwise, the agreement which they have with the Inland Revenue fairly meets the case?—Yes.

27,004. And in practice all expenditure through the secretary of that association is really treated as a deduction for Income Tax purposes?—(Sir Thomas Collins): Yes.

27,005. Where do you think the hardship does arise?—We do not think any hardship arises at all. The members of the trade associations demand deduction of the subscription which they pay but the associations themselves sometimes will not come into this arrangement.

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27,006. I agree with you if the associations as such enter into the agreement there is no hardship; in fact they get probably better deductions than they would if they made individual payments?—Yes.

27,007. I take it you find it is a general practice to-day for all trade associations with a few exceptions to enter into the agreement with you?—That is so.

27,008. Do you wish legislative sanction given to this?—Yes, speaking personally; because those who do not enter give us a great deal of trouble, and give their members a great deal of trouble also.

27,009. At present these agreements are subject to all the rights of appeal as a concession that are given to the ordinary taxpayer?—Yes.

27,010. In another paper you deal with deductions [see Appendix No. 63.]?

27,011. Mr. Kerly: Deductions suggested by various witnesses.

27,012. Mr. McLintock: On the question of removal, why do the Revenue seek to draw a distinction between a compulsory removal and a voluntary removal, assuming that the individual in question is removing, say, to larger and better premises in order to make more profit?—We think that the expenditure is of a nature which is antecedent to earning the profits, very much in the nature of a preliminary expense.

27,013. And yet in a compulsory removal the man may decide to do a year or two earlier what he would have done in any event—go to bigger and better premises?—That might be so.

27,014. Do not you think it is drawing rather a fine distinction?—Yes, I think it is in such a case.

27,015. Would you agree that the whole cost of removal, whether compulsory or voluntary, should be allowed as a charge?—Not on my own responsibility, but I think it is a matter which might be considered further.

27,016. On the question of legal expenses, which is coming up very acutely, every Surveyor in my experience has a stock question: "How much is debited for legal expenses to-day?" Having got that he then proceeds to ask for production of the law account in question, and he goes over the details, sends it back and says: "I say the following are capital, and the balance I allow as a revenue charge." Let us take as an example a mining company, which from time to time has to renew its mining leases. The average trader does not care to take the responsibility of that work himself. He might do so if he liked, but he naturally gets his lawyer to draw the renewal of the lease. Why in a going concern should an expenditure of that kind be considered as capital? If you have to employ your solicitor to advise you on any point in connection with a new lease of an existing business that portion of the legal expenses incurred is treated as capital expenditure and disallowed for Income Tax purposes?—I should think that renewal charges of that character might perhaps be leniently dealt with.

27,017. At the present moment you say, for example, "legal expenses and stamp duties incidental to the creation of a partnership." I am inclined to agree with you that that type of expenditure is capital?—Yes.

27,018. But I suggest to you the Surveyors carry it a good deal further than the example that is given in this paper. You can find out by inquiry that what I say with regard to any legal advice in connection with a lease, particularly its renewal, is treated as capital expenditure?—You know that no objection is ever taken to the expenses in connection with the renewal of debentures.

27,019. No; but I am referring to the renewal of a mining lease.—They are somewhat analogous to those expenses.

27,020. You are probably aware that this question of legal expenses is the subject of particular scrutiny, and properly so by the Surveyors, and the line that is drawn is rather a fine one. Your view is that legal expenses of the nature I have mentioned should be

treated as a revenue expense?—On the whole I think I agree that they might be dealt with leniently.

27,021. With regard to your paper on depreciation [see Appendix No. 64.], in paragraph 1 you refer to the suggestion that an allowance for depreciation and for obsolescence should be made for Income Tax as in the case of the Munitions Levy and the Excess Profits Duty. You say it would have the effect of treating the plant account on the same lines as stock-in-trade. I never was aware of that suggestion being made. You mean there is no suggestion to re-value existing plant each year?—No, but it has been suggested that obsolescence for Income Tax purposes should be dealt with on the same lines as for Excess Profits Duty and the Munitions Levy. That does introduce an element of the character referred to. You want the plant like stock, valued at certain periods.

27,022. With this distinction, that if you under-value your stock when you sell it the profit emerges. The average trader does not dispose of his plant and machinery from year to year?—No, but if he wants it valued from time to time, not on the mechanical written-down value which we got at the present time, but by a valuation in accordance with the market circumstances, you do introduce something almost in the nature of a stock valuation. I do not want any literal importance attached to that paragraph at all. It simply means that you are going to introduce a very disturbing and very contentious series of periodical valuations into our Income Tax assessments.

27,023. I think you will agree the question would not have been pressed quite so hard if it had not been for the unusual method that is adopted to-day of giving a special depreciation allowance and not giving the same allowance for Income Tax, except in the case of a controlled establishment?—Yes.

27,024. Although the two establishments are both paying the same amount of Excess Profits Duty to-day?—Yes.

27,025. The Revenue have not considered giving the allowance in respect of the war writings-off for Income Tax?—No, except in the case of controlled establishments.

27,026. You know the reason that was put forward was that it was a breach of the party trace to bring up a question like a deduction for Income Tax?

27,027. Mr. Kerly: I think Sir Thomas would not be able to advise you upon that matter.

27,028. Mr. McLintock: After all, this is a point which has been very much in the minds of all traders. They have got a depreciation allowance for Excess Profits Duty and for Munitions Levy; they get 50 per cent. written off the cost of the plant, if the establishment happens to be controlled, although since the 1st January, 1917, there was no Munitions Levy, so that one firm gets a deduction for Income Tax and the other does not. Is there no suggestion to remedy that grievance?—Not that I am aware of. May I refer you to paragraph 9 of this paper?

27,029. My only comment is this, that it is not quite the same thing to suggest that what has been claimed is the same as a deduction from stock-in-trade which you have realised and sold, and a profit emerges if you claim an allowance on plant as compared with an allowance for stock; do you agree with that?—What is said may be taken as a criticism upon that matter.

27,030. On the question of obsolescence you hold the view that it is a capital loss when the plant and machinery is not renewed—when it is not actually replaced?—Mostly.

27,031. You would agree probably that a fairly wide interpretation of renewal might be given to meet the difficulty?—Certainly.

27,032. That is, it might be a totally different process, or a different type of machine that is used?—Yes.

27,033. You would agree that that really is renewal?—I agree.

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27,034. That is the farthest the Revenue are disposed to go, that is to say, to give a liberal interpretation of the meaning of renewal or replacement?—Yes.

27,035. You have another reference in paragraph 9 (c) in which you are dealing with this same question of valuation of plant, and you give a reference from "The Times" Trade Supplement of a cotton factory built 10 years ago at a cost of £2 a spindle valued during the war at £7 and £8, and you contrast it with a price of £14?—It is only pointing out some difficulties.

27,036. I suggest to you that that reference to a spindle does not mean the value of the spindle but is a convenient way of valuing the cotton mill; it is a little bit misleading to suggest that that is the value of the plant?—Yes, perhaps it is.

27,037. Cotton mills, you will agree, are being brought to-day on the basis of so much a spindle, but that price includes the buildings, the plant, the machinery, the stock, the book debts, and every asset they possess?—Yes, it is a measure of the total asset.

27,038. Then it has nothing to do with the valuation of the spindle itself?—No, not the spindle by itself.

27,039. One reads that paragraph as illustrating how pre-war plant has gone up in value. It is the profit earning of the cotton mill that has earned so much a spindle, and not the value of the plant?—But there is a connection between them.

27,040. There is some, but nothing like so great as indicated in this paragraph?—No, I quite agree.

27,041. Then you say in paragraph 9 (d) where the plant consists partly, or wholly, or mainly of plant purchased at inflated war prices, full allowance is made for the life of the plant, that is by means of the ordinary annual allowance for wear and tear?—Yes.

27,042. Mr. Prytoman: There is one small point in paragraph 8 of your memorandum with regard to the procedure in Scotland [see Appendix No. 62]. At the end of that paragraph I see you say that the existing Act says that such relief is to be given to landlords in Scotland in respect of rates as is just and reasonable, having regard to the additional burden that he bears. I suppose the interpretation of that is that the actual sum paid in rates is deducted?—Yes.

27,043. It is a curiously vague expression. Why is it put in that way instead of that the actual sum should be a deduction?—(Mr. Harrison): I think it is following the words of the section of the Act; we might perhaps have paraphrased it.

27,044. But that is the effect of it?—That is the effect of it.

27,045. There is no question raised at all; all that is necessary is to prove the actual amount of the rates?—That is so, the actual amount of the rates borne by the owner.

27,046. Then that is a deduction?—Yes.

27,047. On your paper on Double Income Tax, elsewhere than within the British Empire [see Appendix No. 60.], you are aware that the question of Double Income Tax within the British Empire has been considered by a Sub-committee; that Sub-committee did not, of course, touch the question that is raised in this paper of Double Income Tax outside the Empire?—Quite so.

27,048. But we thought it would be of some interest to ask that question. That Committee has now finished its labours—it was a conference rather than a committee. You know all about it, I think you heard probably what was said?—I heard the remarks that were made.

27,049. You heard that we asked the representatives, at the end of the Conference, whether they would make use of any arrangement that might be made to avoid double taxation within the Empire, in the direction of applying it outside the Empire?—Precisely.

27,050. The general view expressed, not the universal view, was that they would so apply it?—Yes.

27,051. Particularly, I think, in the case of Canada?—That was so.

27,052. No doubt *vis-à-vis* the United States?—Yes.

27,053. If that happened would it put us in any difficulty? Of course, speaking politically, the fact of any individual unit of the Empire adopting such an arrangement with foreign countries would not pledge any other unit of the Empire to do so?—That is so, provided the unit were a self-governing Dominion.

27,054. It would be perfectly free, for instance, for Canada to make that arrangement for the Empire, and say to the United States: "we have got this arrangement within the Empire; we will make this same arrangement with you"?—Yes.

27,055. And that would not pledge us to do anything of the kind at all?—No.

27,056. But would it practically make it difficult for you in the administration, would it make it difficult for you to work the scheme, or would it affect the administration at all, if other parts of the Empire extended it abroad?—So far as I can see it would not. So far as I can see it would be practicable, in the administration, to treat them as distinct questions throughout.

27,057. And what they did would not matter to us?—No, I think not.

27,058. Of course the question of control is a very important part of this foreign question?—Yes. The question of control extends outside the Empire naturally.

27,059. And I rather gather your feeling in the Inland Revenue Department is that if the doctrine of control can be fairly and liberally dealt with that is about as far as you think we ought to go in the matter of double taxation outside the Empire?—I think that fairly represents the position, yes.

27,060. Although you would consider that it might not be advisable, perhaps, to enter into reciprocal relations?—No. Circumstances might arise on grounds of national policy.

27,061. That is rather a political than a Revenue point?—I think it is a political point.

27,062. Political considerations might override Revenue?—They might.

27,063. You have put forward a paper about sporting rights and woodlands [see Appendix No. 52]. On woodlands I previously raised the question that in my experience objection was taken by the Inland Revenue to allowing commercially managed woodlands to be assessed under Schedule D, because the area was not large. That case is being investigated, I believe, and I am to be informed about it, but I would just like to call your attention to that. It actually occurred to me; I happen to have a considerable extent of woodland in one county, and a smaller extent in another, and they are both managed commercially on the same basis. In the larger area there is no question about my being assessed under Schedule D, but in the smaller area I was refused assessment under Schedule D, not on any statement that I did not manage my woodlands commercially, but on the ground that the area was so small that they could not be treated as commercially managed. I do not know what else they might have been—about 100 acres perhaps, or something like that?—It rather surprises me to learn that ground was put forward.

27,064. That was so. I believe your people are looking into it, but I should rather like to know what the result of the examination is. I am not putting forward my own case as a complaint. I did not think it worth fighting. But now that we are looking into these things I think that where woodlands are commercially managed, even though they are less than 100 acres, they ought to be given the same opportunity of assessment under Schedule D?—Certainly.

27,065. On the question of sporting rights, you state the case for putting sporting rights under Schedule A as a separate item?—Yes, that is so; sometimes they are included now in the assessment on the land.

27,066. I know it is so now, but your suggestion is that for the future sporting rights should be assessed separately in every case?—No, I do not think that is

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20. The idea is that we should in every case get an assessment which, either as a separate assessment, or as part of the assessment on the land, includes the value of the sporting rights.

27,067. That the sporting rights should never be left out?—Should never be left out.

27,068. That is what it comes to?—Yes.

27,069. Not that they should be separately assessed from the occupation in every case?—No.

27,070. That would be rather difficult?—I am afraid it would be difficult.

27,071. I rather read it in that way?—I am sorry if we have not made it clear.

27,072. What you suggest is that where there is a value of the sporting rights, and where that value is not now assessed it should be assessed?—Quite so.

27,073. I do not think anybody would dissent from that, but you refer here only to Schedule A?—Yes.

27,074. You make no suggestion that the sporting rights should be assessed twice, on Schedule A first and on Schedule B afterwards?—Where sporting rights are let with the land at an inclusive rent the Schedule B assessment as a matter of fact is on the total rent, so that it does include the value of the sporting element.

27,075. You do not suggest that sporting rights are a suitable subject for an assessment under Schedule B as well as Schedule A?—May I put it in this way: if a tenant farmer himself has the sporting, but makes no special use of it for sporting purposes, he uses the land for agricultural purposes, and he pays a rent which includes some sporting value, and I see no hardship in his paying Schedule B on the total rent he pays. I am not quite sure that it is very easy to justify the leaving out of that sporting element, where the land is used for sporting purposes as well as agricultural purposes. As far as the tenant is concerned, if he does not take the sporting, he only gets charged Schedule B on the rent he pays. If there is a separate tenant of the sporting we do not make a separate Schedule B charge. I am not sure that that is logical, although it is good law, I think.

27,076. We have had a particular case here which is rather a striking one with regard to a deer forest in Scotland. The case is given of a deer forest which was let for £1,000, and the proprietor is charged on that first of all under Schedule A and then under Schedule B—twice over?—May I put it in this way, the owner in this case may either say to the prospective tenant: "there is a liability under Schedule A and under Schedule B. I will undertake to pay the Schedule B tax for you provided that I get a sufficient rent," or he may say: "I will let you take it at no much rent; you will pay your own Schedule B tax."

27,077. I am not referring to the question of the equity of the charge; it is not a question between landlord and tenant. Surely the principle of Schedule B is this, that a piece of land is being occupied for profit?—Not necessarily for profit—being occupied.

27,078. Well, being occupied. A piece of land is either being occupied for profit, or might be occupied for profit?—Yes.

27,079. Take the case of a park, or a rose garden, which is being used for amenity but which might be let to an occupying tenant who would cultivate it for a profit?—Yes.

27,080. That piece of land either is let for profit, or might be let for profit. The assessment on Schedule A and Schedule B is really one assessment on the whole profit which that land would produce; part of that profit is paid in the form of rent, and the remainder is assessed arbitrarily on Schedule B as to that part of the profit which would remain to a tenant, or which might remain to a possible tenant, if the land were occupied for profit?—That is so.

27,081. Do you suggest that that condition applies to a sporting rent at all? The sporting rent of a deer forest is £1,000 and no more. The tenant rents the deer forest and he pays the £1,000 and enjoys the sporting which is worth £1,000. One man takes the rent and another enjoys it; there is no value there, or no profit which could be made beyond the £1,000; why do you charge it twice?—Assuming that the deer forest will let in this condition for £1,000, and

£1,000 only, subject to this double charge, then I suggest that the annual value should be fixed at something less than £1,000.

27,082. Here we have the actual case given us. The case made out here is that out of the £1,000 the result of the law at present is that with the rates which are charged upon him in Scotland, where you know the owner pays the rates, and of the Income Tax charged first under Schedule A and then under Schedule B, leave him only £140 out of his £1,000, but the indignant rejoinder from the Inland Revenue is that the man gets no less than £200 out of his £1,000?—May I suggest whatever the arithmetic may be that the owner may possibly have a case for going either to the local authority on his rates, or possibly to the Surveyor on the question of his Income Tax assessment and say to him: "you have not allowed me enough for my deductions. My assessment is too high." I think it is merely a question of the annual value of the land; when you have got at a proper annual value you have to charge it both under Schedule A and Schedule B.

27,083. Do you mean to say that the £1,000 ought to be divided into two?—I do not mean that it ought to be divided into two £500's, but I do mean to say that the total amount on which Income Tax is payable should be divided under Schedule A and Schedule B. That land is producing a total amount, or is capable of producing a total amount, of profit.

27,084. Of £1,000?—That, I think, is the whole point.

27,085. Mr. Kerly: Make that hypothesis?—If that is the hypothesis, then I suggest the rent should be higher than £1,000 if the assessment is £1,000.

27,086. Mr. Prettymann: Why?—Because there are more expenses.

27,087. But we do not want a tenant; it is in his own occupation. It can be let at £1,000, and he keeps it?—It does not let at all—not the sporting?

27,088. No, it is a deer forest worth £1,000 for the sporting rights, and there is no other value?—If the value of the ownership plus the value of the occupation is only worth £1,000, I suggest that the Schedule A assessment ought to be something less than £1,000 and the Schedule B assessment—

27,089. Mr. Kerly: Ought to be the balance?—Yes.

27,090. That is Mr. Prettymann's point. A and B together cannot exceed £1,000, the total value of the assessment. This unfortunate gentleman seems to be a gentleman who has been assessed at £2,000.

27,091. Mr. Prettymann: He has been assessed on Schedule A, and then on Schedule B at the same figure?—It seems to me that the assessment is too high. I do not think there is any principle behind it.

27,092. Mr. Kerly: We had it from the agent of large estates in Scotland, who told us that this was the regular method. This estate will let for £1,000 for sporting rights, and it has no other value. Its value to the landlord, who can let it for £1,000, is £1,000; therefore, that is the Schedule A assessment. Its value to the tenant is £1,000, because he is willing to pay £1,000 for it, and therefore that is the £1,000 Schedule B assessment, but what they forgot was that, its value to the tenant being £1,000, he is entitled to deduct the £1,000 which he pays as rent, and therefore its value to him is nothing, £1,000 less than £1,000 being nothing?—Yes, I follow.

27,093. That is right, is not it?—The value to the sporting tenant may be theoretically nothing, but here is a piece of land which ought to be capable of producing a profit to a tenant.

27,094. Is not the confusion in somebody's mind if you do not use this as sporting rights you would make £200 a year out of it by putting it under sheep?—That may be so.

27,095. If you made £200 you could make the £1,000, and therefore you must leave out of account a less valuable way of using that land?—Yes.

27,096. It is not £1,000 plus £200, but £1,000 instead of £200?—Quite.

27,097. That being the case, its total value A and B is £1,000; whatever A is, B must be £1,000 minus A?—Yes, but unfortunately you have an arbitrary rule. Having got your A determined by reference to the

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rent you have an arbitrary rule for determining your B.

27,088. Mr. Pretymen: That is my whole point. We are not here to say what the law is; we are here to say what the law ought to be. My point is exactly that; you have just come to it. The point is, ought that to happen? When a man has paid the full tax on the entire value, and there is no more profit to be made out of it, as in the case of land occupied for agricultural purposes by a tenant, ought he to be again assessed on Schedule B after he has paid on Schedule A?—The result of taking that view just as it stands means that the occupier would pay nothing at all.

27,089. Certainly not. Why should he? As long as you get your full tax, what does it matter who pays you?—He has all the amenity value of the occupation of that land.

27,090. Certainly, but he has paid for it. The full value of the amenity occupation is £1,000, and no more and he has paid that to the landlord, and the landlord pays the tax on it. Only one man can enjoy it; why should you tax two people? On what possible principle can you levy the tax twice?—Sir Thomas Collins has just put the case if you hired a garden at £5 a year.

27,091. Exactly; I have already dealt with that case. You hire a garden at £5 a year; the assumption is that the garden might be occupied for a profit, and the profit is roughly estimated at a further £5. In this case it would be £10 at the present Schedule B. A further £10 might be made in profit out of that garden by using it for some agricultural purposes; therefore the landlord pays the £5, and if he chooses, for an amenity purpose, either he or his tenant grow roses there, that land is capable of producing a further £10 in addition to that £5 if applied to an agricultural purpose, and therefore he pays on that, but in the case of the deer forest there is no such potential additional value at all, either in reality or in imagination. The whole value is the rental paid for the sporting rights. What justification is there for charging it twice over?—It seems to come to this, that the arbitrary rule for determining Schedule B in this particular case may produce an inequity.

27,092. And ought to be abolished?—Possibly. Of course I can understand there being different views about the right or the wrong of paying tax on deer forests for the pleasure that the occupier is supposed to get out of it.

27,093. Surely you do not tax a thing twice because it is for pleasure and something else; you can only tax for Income Tax on the full value. You may raise your rate if you like, but you could not tax it twice?—You could not tax the same profit twice, I agree. It is a little difficult in these amenity cases to determine really what is the true measure of the total value. I am a little slow to admit that the occupier can get nothing out of that beyond the £1,000; I think that is perhaps the point.

27,094. Suppose a man takes a house, and he pays £100 a year rent for it, and he pays Income Tax and deducts the Income Tax. Then suppose he furnishes that house—he has got the lease of it himself, and he lets it at a higher rent; he pays on the whole rent. He pays the rent to his superior landlord and deducts annually from that, and pays on the balance himself. Exactly in the same way a tenant of a deer forest or a grouse moor who may have got it at £1,000 a year on a lease improves it and makes it worth £1,500; he sub-lets it and gets £1,500. Of course, then it would be perfectly equitable, but he would not pay twice on the £1,500?—Quite.

27,095. All those things are allowed for. You see you come here and point out that in certain respects sporting rights escape assessment. I quite agree, and I think that where a sporting right is a natural value and escapes assessment it ought to be charged. I point out another case where it seems to me that sporting rights are over-assessed and where they are charged twice, but they ought only to be charged once. If you think I am wrong in that I want you to say so?—All I want to say is that it depends on whether you regard the law as right or wrong in

saying arbitrarily that an occupier of a deer forest shall pay something for it, whether he gets something out of it or not.

27,096. Mr. Kerly: You have referred to an arbitrary rule for ascertaining Schedule B, with relation, I presume, to Schedule A?—Yes.

27,097. What is it?—It is the rule that the annual value under B shall be taken to be in certain cases the same and in certain other cases twice the annual value under A.

27,098. Twice?—Land which is occupied for husbandry.

27,099. You say once for amenity?—Yes, and twice for husbandry.

27,100. In the case of the sporting rights which Mr. Pretymen was putting to you, you get, in fact, under Schedule A, both the owner's revenue from the estate and the value of the tenant's interest?—You get that under A?

27,101. Under A, because the rent covers everything.—That, I think, is the whole point—does it? Have you not to retain something, not for the profit, but for the imaginary value to the occupier, if you like?

27,102. Supposing I hire land and make a rose garden; I do not sell my roses; I pay £10 a year for the land; then I let to another person the enjoyment of that rose garden for £20, so that the value of the enjoyment of the rose garden is £20. The value of the rose garden as a subject for producing rent is £10. That is what I am putting to you?—I am not sure that I have it quite clearly.

27,103. I hire ground for a garden for £10; I make it into a rose garden, and I let the right to use that rose garden for £20?—Yes.

27,104. £20 represents its whole value?—Yes.

27,105. And therefore must be Schedule A plus Schedule B together?—Yes.

27,106. Therefore Schedule B is £20 less Schedule A?—Yes.

27,107. I happen to have taken a case where they are of equal value?—Yes.

27,108. Now the man who is taking a shooting is giving the whole value of the thing from the amenity point of view; therefore the rent of the shooting must be A plus B. You may divide it in any proportion you think right, but the sum of the two must be the rent. That is the logical result?—I think that may be logical, but I am not quite sure; in fact, I think it is not the way the law intended to regard it; it may be that the law is wrong.

27,109. Mr. Kerly: I do not know that we can carry it any further; it seems to be a matter of amendment.

27,110. Mr. Pretymen: On your paper dealing with the question of minors and Super-tax [see Appendix No. 58.] The Chairman asked you a question as to that. I see exactly your point, and I think there is a great deal in it. Did you contemplate making a charge when the property vested in the minor?—Yes.

27,111. Did you contemplate making that charge on a calculation of an exact sum, or what sort of basis had you in your mind?—The sort of basis we had in mind was to appropriate those accumulations of income to the back years, to which they belonged, and to calculate the minor's liability to Super-tax at the time when the property became vested in him as if his income over all those years had included the amount appropriate to each year.

27,112. With interest?—No, I do not think we should suggest adding interest.

27,113. It would involve a very detailed examination to do that, would it not?—It would, but the trust accounts are usually well kept, and I may say that where the income is less than £2,000 a year the trustee comes forward to us now with such a calculation and claims repayment from us. He can do it if he wants to, I think.

27,114. As you remark here, there is an inducement to keep the accounts in one case, and not quite such an inducement in the other?—I entirely agree, but as a trustee he ought to keep careful accounts.

27,115. My real point was whether you meant to do it by rule of thumb or by exact calculation?—We meant to do it in that way by a calculation.

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27,126. And really to take arrears of Super-tax?—Yes.

27,127. To treat it as arrears of Super-tax without interest?—Exactly.

27,128. One point on unearned income; you have put forward a paper on that which is a very difficult subject [see Appendix No. 55.]—Precisely.

27,129. And excites a good deal of feeling?—I think we recognize that fully.

27,130. It does to some extent dovetail in with the question of wasting assets?—There is a relation, of course, between the wastage of the professional man's brains, as it were, and a material asset like plant. There is a kind of analogy, but I think you get into very deep waters when you attempt to apply it.

27,131. You have considered whether it is possible to approach it from that point of view?—We have.

27,132. There are two points upon which we have had a considerable amount of evidence, particularly with regard to the wasting asset point, which will be one of the most difficult for us to consider here; the other point upon which we have also had a good deal of evidence is the point with regard to earned and unearned income?—Yes.

27,133. You do not think it is practicable in any way to treat the two on the one footing?—I am afraid we do not. We have considered that, and it seems almost an impossible thing to do to allow for the wastage of a human asset. May I just say at this point something which arises out of some evidence you had a fortnight ago, I think, on questions put by yourself. I was reading last night the evidence given by Mr. Martineau, and I thought there was a little misunderstanding at one point which I should like to be allowed to clear up. The point was: it was suggested that when a man has succeeded to an estate, say, an estate producing £30,000 a year, but there are arrears of Estate Duty, and he is paying interest of £15,000 a year on such arrears, his net income is only £15,000, and it was suggested that he has to pay Super-tax on the £30,000. That, I just wanted to tell you, is a misapprehension; we do, as a matter of practice, allow the interest on the Estate Duty as a deduction for Super-tax purposes to the successor who is in the receipt of the income of the estate.

27,134. I understood that is not so, but I am very glad to have that correction?—I do not know how that misapprehension arose.

27,135. Mr. Marks. But only the interest on the instalment?—Yes.

27,136. Mr. Pretyman: But it is allowed, I understand?—Yes.

27,137. I am glad to have that correction; I was informed it was not.

27,138. Sir E. North-Bowler: You are talking about Super-tax; how about the ordinary Income Tax?—It is allowed there in ascertaining the total income.

27,139. No deduction of Income Tax is allowed?—A deduction of Income Tax is not allowed, but I think when the rate of interest payable on Estate Duty in arrears was raised by Parliament this year it was kept at as low a figure as 4 per cent., because the subject has not the right to deduct Income Tax. If he had had that right it might have been put at some higher figure, say, 5 per cent. or 6 per cent.

27,140. Mr. Marks: Are your figures quite right? You spoke of an estate with an income of £30,000 a year, of which £15,000 was absorbed in interest?—I took the figures that were given a fortnight ago.

27,141. That £15,000 was the instalment of principal of the debt and interest on it?—Well, my arithmetic is subject to correction. I quite admit, but whatever the interest is it would be allowed.

27,142. Mr. Pretyman: That is only for the calculation of Super-tax, I understand?—Yes, only for Super-tax.

27,143. Why not for Income Tax?—I think the position is this, for Income Tax it is also allowed as a deduction in ascertaining the total income of the Income Tax payer for getting his reduced rate.

27,144. But he does not have to pay it, in the £; surely he is allowed to deduct that?—I think the explanation of that is this, that until the Finance Act of 1919 interest was only charged at the rate of

3 per cent. Parliament this year raised that rate to 4 per cent., but my recollection is that in the Bill, as it originally stood in the House, the rate was higher; I think it was 5 per cent. I believe the reduction to 4 per cent. which was finally accepted was because of the knowledge that the taxpayer could not deduct Income Tax, and therefore that 4 per cent. represents really and truly a net rate; it is the equivalent of, let us say, 5½ per cent. less tax.

27,145. Then I was right in saying that Income Tax is not deducted; it is only Super-tax that is deducted?—It is only Super-tax that is specifically deducted, that is to say, the person in possession of the estate pays Income Tax at 6s. on the whole value of the estate, but in return for that he gets the benefit of paying a very low rate of interest on the Estate Duty in arrears. He gets that concession for what it is worth, namely, that he pays less than the market rate of interest.

27,146. He only nominally pays 4 per cent.; he really pays very much more?—I think it might fairly be put in that way.

27,147. Over 5 per cent.?—He pays a larger sum and notionally deducts tax from it.

27,148. Sir W. Trouser: Is it quite clear that for the purposes of Super-tax he can deduct 4 per cent. on the arrears plus the Income Tax it would bear?—No, I do not go so far as that. He deducts the actual interest he pays.

27,149. Is that right?—Are you speaking of legally or equitably?

27,150. Equitably?—I think in equity he might conceivably have a claim to deduct the equivalent 5½ per cent.

27,151. Mr. Kerly: That is as far as we ever get you to go.

27,152. Sir W. Trouser: I am afraid it is quite clear that under the existing law it is so, but equitably he ought to be allowed to deduct 5½ per cent.

27,153. Mr. Kerly: He might conceivably be allowed to deduct it.

27,154. Mr. Pretyman: But the calculation given to me is that the real interest he pays on that showing is 5 and five-sevenths?—Yes; that would be the exact equivalent of allowing for Income Tax at 6s. in the £.

27,155. Yet you let Parliament suppose that he is only paying 4 per cent.?—Of course, I am not responsible for what took place in the House, but I am not at all sure whether that point was not referred to in debate, I would not like to answer definitely.

27,156. Do you not think it would be more equitable to charge him 5 per cent. and deduct the Income Tax?—There would be considerable difficulties. I do not know what the reasons were that led to that decision, but I can see practical difficulties. If the small taxpayer deducted Income Tax at 6s. we should have great difficulty in chasing him, if I may put it in that way, to see that he accounted to us for that 6s. that he deducted. He would be liable personally to pay, perhaps, at only 3s.

27,157. May I suggest on the other hand that if the basis of the rate is to bring the Income Tax deduction to a level it ought to be less than 4 per cent.—that it ought to be at the most 3 and two-sevenths per cent.?—Of course, that is arguable, I admit. You mean a compounded rate?

27,158. In other words, it ought to go back to 3 per cent.?—No, I could not admit that for a moment. Say, for the sake of argument, that the market rate is 5 and five-sevenths; 5 and five-sevenths less 6s. comes to 4 per cent.; I do not quite see how you can get it lower than that.

27,159. Where the rate is increased by Government borrowings and expenditure the unfortunate man with a fixed income has to pay that high rate?—I am afraid there must be some truth in that.

27,160. Mr. Walker Clark: With regard to your memorandum concerning certain deductions suggested by public witnesses [see Appendix 63], I think in answer to Mr. McIntock's question you

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agreed that you allowed the whole of the expenses for a compulsory removal?—(Sir Thomas Collins): Yes.

27,161. And that for a voluntary removal no expenses at all were practically allowed other than stock?—Yes.

27,162. Not even plant?—No.

27,163. Does it not appear equitable that plant, which is absolutely essential to continuing the business, should be allowed to be charged?—It may from one point of view; I admit it is arguable.

27,164. There is one small point on paragraph 11 of this memorandum. In particular cases the allowance granted to workers for their expenses is considered insufficient, the taxpayer has always the right of appeal; to whom is the right of appeal given?—To the General Commissioners in the locality.

27,165. Is it not the rule in some cases for the General Commissioners to appoint extra Commissioners purely to deal with those quarterly assessments?—They have that power given them under the Act, but personally I have not heard of a case where they have co-opted Commissioners for the purpose.

27,166. We have?—My knowledge goes for nothing in the face of that.

27,167. Would the appeal lie to these extra Commissioners elected for this purpose or to the General Commissioners who deal with the general question?—That is a construction of law which I would not like to answer with too great confidence, but I should think as these Commissioners are co-opted for the special purpose of expediting the hearing of wage-earners' appeals, an appeal by a wage-earner would commonly go to them.

27,168. Would you suggest that the law costs of a partnership agreement in continuing the business should be deductible?—Do you mean the admission of a new partner?

27,169. Yes.—I think strictly it would not be deductible.

27,170. It should be dealt with in some manner on the lines of the generous allowance that you suggested?—I should prefer to give it further consideration.

27,171. In your paper regarding trade protection associations [see Appendix No. 51.] should not it be headed: "trade associations," and not exclusively confined to trade protection associations; that is a very small matter?—I think that would be a very good amendment of the heading to the paper; and I will have that amendment made.

27,172. You quote in paragraphs 8 to 11 one or two legal decisions. The association referred to in paragraph 10, as I understand it, was an association formed for the express purpose of regulating prices or increasing prices?—That was the Lochgelly case. The levies were extended *inter alia* in defraying the expenses of the Conciliation Board, Scotland, paying the subscription to the Mining Association of Great Britain and experimenting with coal-dust with a view to preventing explosions in mines.

27,173. It is not that one, but the next, the Grahamston case?—But the Lochgelly case is the one.

27,174. They are both quoted?—The Grahamston case came up in this way: the company would not produce the association's accounts showing how the levies were expended. The Court held in effect that they should do so, and that in any case they were only entitled to such part of the subscription as was expended by the Association for purposes allowable for Income Tax.

27,175. The Board take their stand purely on that ground for enforcing the agreement or payment of the tax?—Yes, the allowance is made only on proof by the trader in each case, where the association is not under agreement.

27,176. That is the same thing.—Yes, as to how much of the subscription has been expended by the association on purposes which, if the trader had spent the money himself, would have been allowed him as a deduction.

27,177. And since the trader cannot produce those accounts and satisfy the Surveyor he must pay?—It raises a difficulty very often of that kind, but that is the fault of the Association in not helping their members to prove their case.

27,178. I put the question this morning to Mr. Cox as to what happens when notice of appeal is given by the Crown for the collection of the tax of an organisation in London and the appeal was withdrawn by the Crown?—Yes.

27,179. And the following year the Inland Revenue enforced payment of the tax?—On the trader?

27,180. No, on the organisation?—I am afraid I am not acquainted with the particulars of that case.

27,181. I take it that the Board are not willing to allow the ordinary subscriptions of an ordinary trader to an ordinary trade organisation, that is, a trade organisation which merely protects his interest so far as legislation or threatened legislation is concerned?—They always ask for proof that the whole of the subscription has been expended on purposes which are allowable for Income Tax. If there is any balance not so expended they think that either that balance should be liable to tax in the hands of the Association, or a proportionate part should be sliced off the subscriptions paid by the members.

27,182. As a matter of fact the Board is not in a position to get that assurance in many cases, and probably he pays the whole?—I do not always know what happens in particular cases. It bothers us very much where associations take up an opposing attitude, and will not enter into the ordinary agreement.

27,183. As I put this morning we have case-made law and Statute-made law, and now we have tax by negotiation?—At present on these cases, yes, for the ultimate convenience of both parties.

27,184. Is the only case the Hatherdahn's Company [see Appendix No. 54.]?—That is all we know of, of that precise type.

27,185. Mr. Marks: With regard to the registered Friendly Societies [see Appendix No. 59.] you speak of the limit now being £300 and an annuity of £52 a year. Do you know that the average amount of the policy in the ordinary Life Assurance office is less than £300?—I have heard that statement made on behalf of the insurance companies.

27,186. If you carry the thing a little further to the industrial Life Assurance offices the average comes down to somewhere about £10?—I do not know; I can only accept it from you.

27,187. It is so, and I believe for the whole business of the largest offices doing industrial and ordinary business, the average is about £15, but that includes large policies in the ordinary branches, so that it really seems, although those are maximum figures for Friendly Societies that it was quite high enough?—Before they raised it?

27,188. Yes. I think probably the reason was purely political. My point is that a Friendly Society might do a business which is comparable with that of an industrial office and probably is so doing a business, and it might even do business comparable with that of an ordinary Life Office and yet escape taxation entirely if it were registered under the Act?—I have no knowledge of the average amount of the policies, or the number.

27,189. I suggest that the full amount of the policies, done by the large Friendly Societies would be very much the same as the average amount of the policies done by the industrial Life Offices, and assuming that that were so, the Friendly Society would escape Income Tax entirely, whereas the industrial office would be taxed on its interest less expenses if that left anything, or otherwise on its profits?—The industrial companies pay on their profits.

27,190. That is not quite fair, do you think? One escapes tax altogether and the other pays tax on something?—Yes.

27,191. I suggest to you that in principle there is no difference between the business which they conduct?—I have not thought the matter out.

27,192. I will not pursue it. At any rate, it does not seem as you suggest that there is any case for enlarging the concession?—No.

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27,193. In paragraph 5 of your memorandum on earned and unearned income [see Appendix No. 55.] you suggest the phrase: "investment income," instead of "unearned income;" that is a new phrase to me except in connection with the evidence which has been proffered by the Inland Revenue in respect of Life Assurance offices. It is used in a different connection there?—Yes. I do not think we wish to press these new titles. It is simply because there appears to be some restlessness on this point of the titles "earned" and "unearned income," that these suggestions "income from property" and "investment income" are thrown out.

27,194. My point is there is no connection between the use of it in this memorandum and that which has been put forward in connection with Life Offices?—No.

27,195. Then there is just one point I want for information on the minor's income [see Appendix No. 55.] Would a minor on whose behalf there had been invested a sum of money in, say, Consols, where the dividends were accumulated and added to the principal, be entitled when he came into possession of the fund to reclaim the whole of the Income Tax from the time when the trust started?—(Mr. Harrison): Provided his income was sufficiently low.

27,196. How would his income be measured?—By whatever income he might have outside the trust for the different years plus the proportion of the accumulations which would be properly attributable to those years.

27,197. But even so, supposing he were a minor, could that properly be brought into account in assessing him with regard to the trust?—Yes, we have to deal with his total income, whatever it is, and in ascertaining his total income we are authorized to bring in the trust income.

27,198. One remark which you made just now rather interested me. You suggested that you would be properly liable to tax on the income of a fund which you had accumulated for the purpose of repairs—the £500 a year that you were talking about—because you were perfectly free to spend it as income if you so desired. Do you mean that in your mind or in the mind of the Inland Revenue officials that is a test of taxable income in any way?—No, I did not quite mean that. What I meant was, that if I have saved that sum out of my income—

27,199. I am not on that point. The point I wish to elicit your view upon is whether the fact that you were perfectly free to spend it as income is any test whether that income should be taxed or not?—No, I could not suggest that. If my remark conveyed that meaning I should certainly not like to lay that down as a test.

27,200. It is in the nature of a non acquit then?—I suppose it may be. I am afraid I cannot quite remember the whole sequence of the remarks.

27,201. On the clergy question [see Appendix No. 55.], is the decision in *Turton v. Cooper*, which you probably remember, overridden by that in *Blakiston v. Cooper*. I will just refresh your memory. This is *Turton v. Cooper*: "portions of the collections taken in church on certain Sundays were paid to the incumbent. The payments were made to him as incumbent, but would not have been made unless he had been poor. *Held*, that he was not assessable to Income Tax in respect of the amount so received." Then *Blakiston v. Cooper* is: "voluntary Easter offerings were given by parishioners at Easter to the vicar of a parish, in response to the request of the Bishop in a letter to churchmen asking them to mitigate the hardships of the position of the underpaid clergy generally, the offerings purporting to be made as 'a personal non-official free-will gift.' *Held*, that the sums in question were perquisites or profits accruing by reason of his office and that he was therefore assessable under Schedule E in respect thereof." Does that latter decision override *Turton v. Cooper*?—Of course, it has never been determined judicially whether it does or does not. I think it does not necessarily do so. The element of the poverty of the individual seems to appear rather prominently in *Turton v. Cooper*, and it may be that a distinction

would be drawn on that account had that case been decided later than *Blakiston*.

27,202. If the Bishop had been advised by somebody who kept his eye on *Turton v. Cooper* instead of addressing a general circular to churchmen he would have written to the churchwardens one by one naming the particular clergyman and saying: "It would be very nice if you would get up an Easter offering for him, or an offering four times a year," and therefore he would not have been taxed on it?—I would not like to commit myself definitely to what the result would be.

27,203. I will not suggest the way the Bishop should do it but I would suggest this, that if he confined himself within the limits of the decision in *Turton v. Cooper* it might be that offerings to the clergy would escape Income Tax?—Subject to the qualification that they must not be offerings to the clergy as incumbent of the benefice—they must be personal.

27,204. In *Turton v. Cooper* the payments made to him as incumbent would not have been made unless he had been poor?—Might I suggest that possibly the second element might be sufficient to retain that decision, but I do not suggest that if it had been decided later it might not have been held that that particular payment was taxable. It is possible that it might if it had followed the *Blakiston* decision. Of course, we are speaking about what the judges might have said; I am afraid I cannot give you a definite answer.

27,205. Professor Pigou: I should like to ask a question about the principle involved in this deer forest [see Appendix No. 32]. In an ordinary farm the Schedule B payment is intended, in not it, to cover profits that may result from investment of capital and labour in the land over and above what goes to pay the rent?—Yes, that is so.

27,206. In the argument put to you about the deer forest the assumption was that in a deer forest there was no opportunity for that sort of profit?—Yes.

27,207. That assumption, of course, may be valid about a particular deer forest, but surely it would be going a long way to lay down a general principle that it was valid for all deer forests?—I agree.

27,208. For example, if I were to make a deer forest in Cambridge nobody would propose to extend this exemption?—I should imagine not for a moment.

27,209. Might not it be urged also, supposing a landlord has turned out crofters and made a deer forest out of this land which before was yielding profit, then to let off Schedule B because it had become a deer forest would be a very paradoxical proceeding?—I agree again entirely.

27,210. Then again, may not it be possible that the occupier of the deer forest might invest money and might even make a profit in selling the venison?—That, of course, is possible; I do not know how far it happens in practice.

27,211. If he did there would be no other way of making him pay for that profit except under Schedule D?—That is so.

27,212. And again, the real point is not what he would make if he did keep it as a deer forest and sold the venison but rather what he could have made if he had turned it to the most profitable use?—Yes, that, I think, is the point.

27,213. It would be impossible to lay down a general principle that sporting rights in deer forests as such should be let off Schedule B and the most that could be done would be that each case should be examined on its merits?—I think, speaking as an official, we should be rather sorry to have to make these investigations. The present rule may be arbitrary, but I should personally prefer it.

27,214. You clearly prefer the present rule to the other which would be equally arbitrary of exempting them all?—Yes.

27,215. They would be both arbitrary?—Yes.

27,216. Sir E. Nott-Bower: What occurs to me is this: in this particular deer forest which was under discussion I understood the sporting rent was £1,000, and it was suggested that if sheep were turned out

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on it it would carry a rent of £500. If it were let as a shop run a Schedule A assessment then would be £200; the Schedule B assessment would be £400, a total of £600, and that is all the tax you can get?—That is so.

27,217. But it got put to a more profitable purpose which produces £1,000. Would it be possible to lay down the rule that where you were satisfied that the sporting rent exceeds the full taxable profit that you could get under Schedule A and B if it were turned to any other purpose then you should only get the tax once?

27,218. *Professor Pigou*: That would entirely meet my point, but that would mean special enquiry in each case. (*To Witness*): Would that be practicable do you think?—I think that would be quite practicable.

27,219. And that would really meet the whole grievance?—I think it would.

27,220. Except that there would still be the difficulty where the thing was on the margin?—Yes, there would.

27,221. To turn to an entirely different point on a matter of differentiation which does not arise out of these papers but upon which I should rather like your opinion, as things are at present a married man with £500 gets as against a bachelor with £500 a relief of X?—Yes.

27,222. A man with an earned income of £500 gets as against the bachelor with an unearned income Y?—Yes.

27,223. But a married man who also has earned income gets as against the bachelor with an unearned income less than the sum of those two?—Yes, that is so.

27,224. Can you tell me what the reason for that is?—No, I think not, except that perhaps the legislation has been piecemeal and I do not know that the whole thing has been worked out in a theoretical and scientific manner.

27,225. Does it not arise out of the purely arithmetical fact that the relief for wife and family are given by way of abatement and the others are given by way of a percentage; is it not purely an arithmetical consequence?—I think it is. It would have been quite possible to allow the unearned income relief by an allowance.

27,226. Or would it be possible to allow a different abatement for wife and family for a person who got earned income from one who had an unearned income?—Yes. We should probably get very great arithmetical complications in the case of a man who had partly earned and partly unearned income; you would get all sorts of proportions.

27,227. My point is, it would be quite practicable to do away with that either by turning them both into percentage allowances or by manipulating abatements?—Yes, that would be a possible way.

27,228. And probably the anomaly has arisen more or less by accident?—I think it has arisen by accident.

27,229. Does it seem to you in the face of things that it is quite incorrect that the man who is due for both those reliefs should get less than the sum of the two?—It certainly seems anomalous.

27,230. Might it not be argued that he ought to get more than the sum of the two; a married man presumably suffers more than the bachelor?—Yes.

27,231. So you would not be opposed to that suggestion that at least the thing should be so altered as to make a person who is entitled to the two reliefs get at least half the sum of the two?—No, it seems reasonable of course.

27,232. *Dr. Stamp*: I do not know whether you have had an opportunity of seeing the evidence that was put to us by the Tax Surveyors' Association?—Yes, I have seen the evidence in chief.

27,233. We were concerned with a very interesting suggestion made for getting over the graduation difficulty, the system that was called the simultaneous change of rate and abatement?—Yes.

27,234. Under which you avoided a jump at the point of £500 by being able to calculate the duty on

£500 on either scale, and it came to the same figure?—Yes.

27,235. The two objections that were raised yesterday were, first, the psychological one of the public—that you would be faced with a novel situation of explaining to the public and asking the public to understand a larger abatement to a wealthier person?—Yes.

27,236. There is an answer to that, and that is, that is more than compensated by the increased rate of duty?—Yes.

27,237. Do you consider that that would be too formidable an objection to be overcome?—I did think a great deal of the psychological objection in connection, not so much with the abatement as with the rate. It seemed to me that the effect of introducing a scheme on the lines suggested would be this, that the taxpayer, the man in the street, might say: "what emerges from this Income Tax Commission in regard to my case is that my rate has gone up from 3s. 9d. to 5s. 8d., and yet I am getting no more income." True, you might be able to answer him and say: "you have a larger abatement; you pay no more tax," but he is not apt to go very deeply into the question.

27,238. Do you not think by a campaign of publicity of real rates at stages of income showing the real rates at the back of the demand notes or return forms that might be very largely overcome?—I think if we had on the back of the demand notes a statement of what I call the effective rates that might help a great deal. There is a great deal of misapprehension at present as to the difference between the nominal rate and the effective rate.

27,239. We were concerned not so much with the psychology of the man himself as a poor man comparing himself with a wealthier man who had a larger abatement?—I think that might be capable of explanation.

27,240. It is not an insuperable objection?—I think it is formidable but not insuperable.

27,241. It was presented to us that both the features that the administration like so much, namely, rates not changing over a zone, and wide zones with abatements in them, so that a small alteration in income does not affect a man's total liability, together with the advantage of not requiring from him at the end of a completed year an exact statement of his total income for that year, would be preserved, and as both those features were preserved, the abatement and the rate, on the present lines it struck us that it had some advantages over other proposals, and if those objections were not insuperable it might be very seriously considered?—Yes, but I would not like to put it lower than this: I do think the objections are formidable.

27,242. The second point was the fact that you arrive at the 6s. rate at a much lower level than the real 6s. rate?—Yes.

27,243. There were two devices discussed, the first one was that you could tone the abatement off in small stages, and the second one was that you should, after having dug a hole into the man's duty with an abatement, bring the Super-tax duty to fill it up?—Yes.

27,244. It seemed to be making administrative work without any net result?—Yes.

27,245. Which of the two schemes, supposing they were considered, would you think would be the better?—On the whole I think the diminishing abatement rather appeals to me.

27,246. You do not think the Board would regard the system as unworkable?—Of course, unworkable is rather strong.

27,247. Are they such objections as would make it inadvisable to adopt it?—I think the Board most distinctly would prefer the present system with some smoothing off of the jumps to any scheme of that kind. I do not think they would go so far as to say that that scheme was unworkable if for other reasons it were possible to adopt it.

27,248. You think the Board would adhere to the original device put forward by Mr. Hopkins?—Yes, I do think that.

27,249. The second point I wanted to make also arises out of yesterday's evidence, and that was the

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scheme for getting away from the re-assessment year altogether, and having something analogous to the Scottish system, though not so cumbersome even as that, in the way of an always up-to-date valuation?—Yes.

27,250. Giving the Surveyor power on every change of tenancy or alteration of rent to alter the assessment, and also having from time to time a re-valuation of the owner-occupied property or other property as might be directed. Do you see any insuperable objection to that?—I see very serious objections to that. It seems to me if you are going to have a system of that kind you have either to make your re-valuation systematic or unsystematic. If you make it systematic you practically have to have a complete re-valuation every year, or at any rate you have to inquire into the circumstances of every property practically every year; if it is unsystematic you then introduce inequalities between taxpayers.

27,251. You mean in some districts where changes of tenancy, or changes of rent might be more obvious they would be over taxed if the rents were rising, as compared with districts where it was not so obvious?—And not only that, it would be very difficult to know at what point, if we are to have it unsystematic, to take hold of the owner-occupier and say: "there has been a general rise in values; we shall put you up."

27,252. Could not the unsystematic part of it be systematised by administrative regulations?—To some extent. I do not find it easy to see a half-way house.

27,253. Provided that it was competent to the Revenue, every time there was a change in the rent, to alter the assessment, and with regard to owner-occupied premises to re-value them at intervals of three or five years, would that be equitable?—That would not produce any grave inequalities, but as regards all cases except owner-occupied cases you would have to have your inquiry practically annually to see whether any changes in rent had been made.

27,254. You are thinking now particularly of agricultural properties where the rent changes without the tenant changing quite frequently?—I was thinking also of town properties—small properties.

27,255. Supposing you made it compulsory on all tenants at the time of a change of rent to notify that change to the authorities?—I do not think they would do it unless we sent them forms.

27,256. Supposing they were under heavy penalties to notify it?—I do not think it would make them do it. I think they would say: "we did not understand this," and they would take no steps at all. I have very little faith in a public notice with a penalty. I think you want to get an individual notice as a rule before the taxpayer does anything.

27,257. Sir J. Harwood-Benner: Supposing the landlord was under an obligation?—That would be more helpful, because the landlords would be much fewer in number, but I do not think even the landlords would come forward in a body and notify us of changes. We have found in connection with the Super-tax where the taxpayer is under legal obligation to give notice of his liability to Super-tax if he is liable, and there are penalties of £50 for not giving that notice, that the percentage of cases in which that notice is given to us has always been relatively very small.

27,258. Dr. Stamp: You think the courts are reluctant to impose penalties on forgetful taxpayers who have not had an individual notice?—They are, and I do not think we should like to go into court wholesale, perhaps in hundreds of thousands of cases to get penalties imposed.

27,259. That is one of the reasons why a church door notice is an anachronism?—It is certainly an anachronism but it has its use.

27,260. Sir J. Harwood-Benner: If you made it public by saying for these penalties you would soon bring them to your views, would you not?—We should be a great deal. I admit that something of that sort would help us considerably, but I think there would be a considerable percentage of people who would never do anything until their case came before us.

27,261. Dr. Stamp: If it is your view that in order to maintain a systematic method you must steer clear of this rather haphazard discovery of liability, would

you be against rectifying what is perhaps a little anomalous at present, that is, inability to raise a man's assessment in the quinquennial period when the rent goes up?—Of course that is an anomaly, especially from our point of view, but I think there is something in the psychological aspect; we do not want to disturb the taxpayer too often. We do not want him to feel that he has to think of nothing but Income Tax.

27,262. It is 10 years since there was an assessment?—Yes; 10 years is too long.

27,263. And a lot of people are grossly under-assessed?—Yes.

27,264. And it would be a little more equitable as compared with people who have larger assessments if they were rightly assessed?—Yes, but that has been due to the special circumstance of the war.

27,265. But even 5 years serves to bring about considerable anomalies?—It does. It is a question of opinion whether it should be 3 or 5 years.

27,266. Your view is that a constantly self-adjusted valuation roll, despite all the administrative precautions you can take, would tend to become rather haphazard and uneven?—I think it would unless it was so systematic that you introduced an enormous additional amount of work.

27,267. You do not at the present time serve, shall I say, a private resident with a form under Schedule D every year?—No, we do not. If he tells us in one year that he has no untaxed income we normally do not bother him again for two or three years.

27,268. To some extent that is analogous in the way of being haphazard, is not it?—I think it is, but of course if we serve a man this year with a form to make a return and he says: "no untaxed income," and then we leave him alone for three years and serve another form and he then says: "I have some untaxed income," we then say: "what about the last two years; had you any then?" and we go back and pick up the tax which might otherwise escape.

27,269. If you were to attempt to do that with property by securing that every tenant, or every owner, should have a form once in three years you might just as well have a systematic re-valuation every three years?—Yes, in connection with property I certainly think so.

27,270. Supposing you were to supplement the Surveyors' Association scheme with this precaution that you should pick up the liabilities as you find them, and also secure that everybody is called upon for a return every three years in time to pick up your duty, would that be practicable?—That would be possible, but I do not like the idea of making back assessments in an enormous number of cases in respect of property.

27,271. Sir J. Harwood-Benner: I think with regard to Liverpool every half year, or every year, the overseers go through the rents and look at the property?—I do not know what the position may be at Liverpool, but I believe generally the rating authorities have no power to call upon the tenants to make returns of their rents.

27,272. Dr. Stamp: Is not that the reason why the rating authorities are so glad to get a copy of the Schedule A assessment?—Yes.

27,273. Because of the superior powers of the Crown in getting returns?—That is so.

27,274. If I may come to another subject, I would like the views of the representatives of the Board of Island Revenue on Co-operative Societies' profits. Suppose that the Commission should feel that the present conception of profits under the Income Tax Acts does not include what we know as the "dividend" of Co-operative Societies, and that you make it legal to so extend the definition of "profits" that it should include such dividend. Having regard to its rather fortuitous and uncertain character and other things which might be introduced; and in view of the fact that they might have at the back of their minds the feeling that there was something unsatisfactory in the extent to which co-operative trading was gradually getting profits out of the sphere of Revenue yield, would it be workable to have any

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separate tax annexed to the Income Tax worked, not on the fortuitous part, but on the certain part, namely, on the turnover?—I suppose it would be possible, but I confess I do not like working a tax on turnover as part of an Income Tax.

27,275. May I explain my meaning a little further? If there is a feeling that there is something a little unjust in such a large body of economic activity being gradually withdrawn from the sphere of Revenue yield, and it is thought that it cannot be tackled by way of direct Income Tax definition and inclusion, would you think it would be impossible to tackle it in any other way by a separate tax?—No, I do not think I should say that it would be impossible.

27,276. Do you think now that it would be satisfactory to so extend the definition of "profit" as to make it cover the dividend that a Co-operative Society pays? Would it be free from arbitrariness—that is the point I am on?—No, I do not think it would be free from arbitrariness.

27,277. I take it in your judgment the only thing that would be free from arbitrariness would be to give the power to the Revenue to regard as profit the whole difference between the cost price and the market value?—That is so.

27,278. Not the actual figure shown in the account?—No.

27,279. That is the only thing that would have any kind of economic certainty about it?—Yes, but that would lead to great practical difficulties.

27,280. Is it not clear that if the trading of the whole community became co-operative trading the Income Tax would practically disappear?—As far as the retail trader is concerned it would.

27,281. And the wholesale Co-operative Society in the same way?—You can conceive a state of affairs in which it would all disappear.

27,282. And Income Tax then being a thing of the past the Government would have to find its revenue in some other way?—Yes.

27,283. Might that conceivably be from the turnover of the Co-operative Society?—Yes.

27,284. We need not wait till that extreme state of affairs comes about to see that the time might arrive when such a tax might be introduced?—Quite.

27,285. And it would not be impossible to work it on turnover?—It does not occur to me that it might be impossible.

27,286. Mr. Walker Clerk: The Meat Packing Trust is on the same lines?—Yes. We do tax by reference to turnover in certain non-resident company cases. (Sir Thomas Collins): What conceivable difficulty could there be in charging them if it were so decided on turnover? There is no difficulty.

27,287. Dr. Stamp: I think there is none?—I cannot conceive of any insuperable difficulty.

27,288. Is not it a fact that the turnover is defined already by regulations for the Excess Profits Duty?—(Mr. Harrison): I think it is.

27,289. Mr. Walker Clerk: And the profit too?—(Sir Thomas Collins): If you go to turnover, cannot we take turnover in its natural and ordinary sense with regard to a Co-operative Society?

27,290. Dr. Stamp: That is my view, certainly?—I should think so too.

27,291. Do you think it would be possible to extend the definition of "profit" in such a way as to include what the Co-operative Societies call "dividend," without mentioning it as such, that would not bring in other things?—(Mr. Harrison): That, of course, is a very difficult question. Until we saw that definition it would be very difficult to say.

27,292. Could it be done in general terms?—It would want a very clever Parliamentary draughtsman.

27,293. Do not you think it would undermine the whole conception of profit?—Yes, I do.

27,294. Sir W. Trower: I wanted to pursue that question I put to you a little time ago as to what is taxable income. You said that taxable income was income in some cases which is not received by the taxpayer?—Yes, I think I said I would not like to give an unqualified affirmative answer to the question whether it was confined to income that was received by the taxpayer.

27,295. My question to you was, was the taxation confined to income received by the taxpayer?—Yes.

27,296. You said it was not?—I said I would not like to give an unqualified answer to that.

27,297. Could you give me any instance?—Yes, I would take this case: suppose a man has an income from an estate of £5,000 a year, and suppose he is a spendthrift, an extravagant person who spends £40,000. He is taxed for the time being on £5,000, and then of course there comes the crash, and he has to make some arrangement with his creditors, and perhaps under that arrangement he now only receives £1,000 a year; the other £4,000 is applied towards paying off his creditors. He never receives, perhaps, any more than the £1,000, but he is still liable to pay tax on the £5,000 because he is (not voluntarily but compulsorily) having to set aside £4,000 to pay off his creditors.

27,298. Would you apply that rule to income which a man does not receive and from which he has derived no benefit?—I find it rather difficult to give a general answer to that, because I can see all sorts of difficult cases about settlements and life tenants, and so on, behind that, and I would rather see it on a concrete case if I might.

27,299. In the particular case which I submitted to you before you admitted the hardship of the case?—There may be a hardship in an individual case, yes.

27,300. There may be hardship in paying Income Tax and Super-tax on income which you do not receive, from which you derive no benefit?—I quite agree there may be hard cases.

27,301. There are hard cases which should be remedied if we are considering the question *de novo*?—I certainly think there are cases in which, if the question were being considered *de novo* they might be treated somewhat differently.

27,302. So that a man in the position I put to you who is taxed on income which he does not receive, and from which he derives no benefit?—

27,303. Dr. Stamp: An indirect benefit?—No, direct benefit.

27,304. Sir W. Trower: Direct or indirect benefit?—There may be such a case, but I would not like to assent too generally. I really prefer to know what the particular case is before answering on it, because there are such varieties of cases.

27,305. Then it comes to this, does it not, that the Crown may tax persons upon income which they do not receive and from which they derive no benefit?—That may happen as regards Income Tax.

27,306. And Super-tax?—Yes, and Super-tax—I would not assent too readily.

27,307. Dr. Stamp: Is not it in the words "derives no benefit" that the catch really is? A man would have no momentary benefit but he may be securing his position by a sinking fund or something of that sort.

27,308. Sir W. Trower: No benefit directly or indirectly.

27,309. Dr. Stamp: I doubt that.

27,310. Sir W. Trower: I put that; that is my point.

27,311. Dr. Stamp: Would not it be the case that in most instances where apparently there was a hardship that portion that was being taxed that he was not getting hold of was really benefiting him in some indirect way?—I should say that would be the general case that in some indirect way a sum was being put aside to pay off a debt, or something of that kind.

27,312. Improving the property?—To take a case that is now before the Courts, I believe, the payment of a Life Assurance premium; ultimately that produces a capital sum which benefits somebody at any rate.

27,313. Sir W. Trower: You will recollect the case I put to you of the Bishop. He could not possibly derive any benefit, directly or indirectly?—Not that particular Bishop. There I was all the time keeping in mind the incidence of the tax over a whole series of years with successive Bishops: I agree sometimes an individual may perhaps appear to suffer a hardship.

27,314. My point is the tenant for life succeeds his predecessor, who has done something really to his

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detriment; he has a deduction from his stipend for something which he cannot and does not derive any benefit from, but probably a loss?—I am not sure.

27,315. You will admit that a case of that kind was an extreme hardship?—Yes, but as regards the income of that successor for Super-tax, I am not at all sure that he might not be able to claim a deduction in some of the cases under the existing law.

27,316. I can only tell you that I have tried to get it in one case, and I could not get it.—I suggest that that was a case in which the competent authority, probably the Special Commissioners, felt they could hold that that income really did in some way become the income of the tenant for life, even if afterwards he had to do something with it.

27,317. I think not.—I cannot speak about a particular case. Any hard case of that kind should certainly be looked into.

27,318. The Commissioners would have a right to give relief?—There are border-line cases, and the question is always, "what is this man's income; and is what I may call the net sum, or is it the gross sum, and is he subject to pay something out of that gross sum which may not be an annual payment, but may be instalments of a capital payment?"

27,319. Sir E. Nott-Bower: On the subject of the graduation of rate, I think you regard that increase in the abatement contemplated in the scale which was brought before us yesterday as rather a dangerous element, do you not; I think you said so in reply to Dr. Stamp?—Yes.

27,320. Could not the necessity for that be avoided altogether by altering the scheme somewhat. I want to know what you think of the practicability of working a scale like this. Let us take the Surveyors' scale submitted yesterday, as it stands, up to £500. Then I suggest that you should bring the 6s. rate into play at once without that intervening 5s. scale. I am going to stop at £1500 for the present. Suppose all the difference in income between £500 and £1500 is charged at 6s., that scale would approximate, I believe, rather more closely to the existing scale of graduation than that the Surveyors have given. It is evident that, if the country is to pay its way, whatever Income Tax we impose has got to raise an amount not less than the amount at present produced?—Certainly.

27,321. Would there be any practical difficulty about working that scale? I will tell you what would happen with regard to that scale roughly: the scale as contemplated by the Tax Surveyors' Association did coincide in effective rate with the present scale at £500, at £1,000, and at £1,500?—Yes, I believe that is so.

27,322. That is, they coincide with the present scale just at the points where the present scale is going to make a big jump?—Yes.

27,323. Therefore it follows that the general effect of that scale would be to produce less revenue?—Yes.

27,324. Would it not be more reasonable even in considering the scale by way of illustration to have regard to some scale which, instead of coinciding with the present scale just at the point where the present scale is less effective, coincides with the mean of the present scale?—With the middle point.

27,325. I think if you were to begin your 6s. rate on the excess over £500 without that intervening 5s. rate, which necessarily complicates it altogether. I think you will find that you get a scale up to £1,500 which would approximate very closely to the yield of the present scale?—Yes.

27,326. It would have the advantage that that large abatement would not have to be given at all; there would be no abatements necessary. I am supposing now a continuous scale on the Super-tax method?—Yes.

27,327. The man with an income of £1,000 would be exempt on £140?—Yes.

27,328. He would pay at a lower rate between £140 and £500, but from £500 on he would pay 6s. He has got his abatement; he has got the equivalent. If you take those figures over £500 really the effective abatement that the man would get under the scale I suggest now would not be £375, but £300; it would be 1,800 shillings?—£50 of tax.

27,329. Never mind about checking the figures; I am merely asking whether there would be any practical difficulty in working the scale. It seems to me that that is simpler than any other suggestion.

27,330. Dr. Stamp: It is a combination of abatement and slice; there are two slices and one abatement.

27,331. Sir E. Nott-Bower: Yes, and I believe that the practical Surveyor who has been accustomed to deal with Income Tax charged at the source is very suspicious, I think almost unduly suspicious, of proceeding on a slice principle at all. The slice principle to his mind is connected with a rate varying possibly at every £100 of income?—Quite so.

27,332. He is so filled with horror at the thought of that that any suggestion of taxation on slice is looked upon by him with a large amount of suspicion?—Clearly, two slices are much easier to work than 20 slices.

27,333. You know the Leicester case?—Yes.

27,334. The gentleman with £1,125 a year?—Yes.

27,335. Full details are given in your memorandum on graduation [see Appendix No. 71], and curiously enough they are also given in the Surveyors' memorandum. If you applied that scale to the Leicester man whose total income was £1,125 could anything be more simple? You would have to charge the whole of that man's income at 6s. in the £ subject only to two things, first of all, he would want that 1,800 shillings' abatement, and then, if some of his income was earned income, if differentiation is to be continued, he would want differentiation in respect of his earned income. The difference in the rate of tax between earned and unearned income at present is about 9d. in the £. You might give him an allowance of 8d. in the £ on his earned income, but he would be chargeable really at 6s. on all his income, subject to those two allowances. I am still talking about the Leicester case; those allowances could be dealt with and deducted at once from the direct assessment which falls to be made on his earned income?—That would be the procedure.

27,336. At any rate, there is nothing unworkable in that?—No, I do not suggest there is anything unworkable in that.

27,337. And it would get rid of the objectionable feature of overtly giving increased abatement to the man with a high income?—Yes; it makes one zone right up to £1,500. From a practical point of view the larger the zone the easier it is to work. If a zone of that size can give a fair graduation the bigger the zone the better.

27,338. I have only gone to £1,500 so far. I agree at £1,500, and possibly a little more you are getting into difficulties under this. The graduation is flattening out too much; you must reinforce the graduation somewhere. You would never get to 6s. in the £ on an income of £100,000 a year simply working on that principle.

27,339. Sir J. Harwood-Banner: This is very elaborate, and I am bound to say I find some difficulty in following it. I was going to ask whether we could not have a paper drawn up upon this. It would be simpler, I think, for some of us who are not so much in the way of it, if we could get a document drawn up.

27,340. Dr. Stamp: A memorandum on this particular line?

27,341. Sir J. Harwood-Banner: Yes, I should be able to understand it better, I am bound to confess, personally?—Yes, I will do that.

27,342. Sir E. Nott-Bower: I have very nearly finished. Above £1,500 there are two ways of dealing with the matter. You can reinforce the graduation there by commencing your Super-tax at £1,500, which I think would be perfectly feasible, especially if Surveyors were made Assessors of Super-tax, which I think should have been done in the first instance. I am not suggesting that the hearing of appeals should be taken from the Special Commissioners at all, but simply the formal duty of making the assessments?—I agree; the examination of returns and working up to the assessment.

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SIR THOMAS COLLINS AND MR. E. H. HARRISON.

[Continued.]

27,343. If you regard this scale as a scale absolutely in the Super-tax line, the natural way of proceeding would be to say when you want to reinforce the graduation to let the graduation take 2s., 3s. or whatever you want in order to attain the result. Immediately you get above 6s. in the £ the tax has got to be obtained by a supplemental assessment which we at present call Super-tax?—Yes.

27,344. And another way of getting it and one which you think rather difficult is that you should lift the scale of graduation to a rate which would represent 6s. in the £ over the whole income by a gradual withdrawal of the 1,800 shillings' abatement?—Yes.

27,345. If you withdraw the whole 1,800 shillings' abatement the mean tax is 6s. in the £?—Yes.

27,346. At present that point is reached in the case of unearned income at £2,000?—Yes.

27,347. And if our Income Tax scale is to produce a sum corresponding to the produce of the present Income Tax it is necessary that the effective rate should become 6s. in the £ somewhere in the neighbourhood of £2,000?—Precisely.

27,348. I do not know that I should very much care which system was adopted, but I should like your opinion just on the practical aspect of the question. Would there be any grave practical difficulty in dealing with the matter when you get to incomes over £1,500 by a gradual withdrawal of the 1,800 shillings' abatement, very much on the same lines as the Surveyors' suggestion that their abatement of £375 should be gradually whittled away?—The chief practical difficulty is, I think, if you are withdrawing the abatement gradually you have to know almost precisely the exact income; that is, I think, the root difficulty.

27,349. And there is a slight departure from the smoothness of the curve at every withdrawal?—That is so. There are a lot of very little jumps instead of one or two big ones.

27,350. In that way you could get a perfectly smooth system of graduation?—Yes.

27,351. I think the Chairman suggested that he would like to have a memorandum put in on that part?—Yes, on the practicability; I will make a note of that.

27,352. Dr. Stamp: In the memorandum, would you mind putting in how you think in practice you could deal with a case like this: a man's income is, say, £200, consisting entirely of £30 houses. For £500 of his income you have charge £30 houses at the lower rate and allowed an abatement, and the rest of the houses distributed in different parts of the country charged at the higher rate. The Surveyor in a district where one of the lower rated houses is has to reduce the assessment £10; at once £10 of lower rated income falls to be allowed somewhere else?—Quite.

27,353. How is that Surveyor to know where to send to have it allowed, and suppose it is found that all the tenants have paid their tax elsewhere, is the man to make a claim?—You would like me to put that into the memorandum; I see the difficulty.

27,354. Sir E. Nott-Bower: In your memorandum on the phraseology "earned and unearned" [see Appendix No. 55], I think you rather depreciate the feeling that is excited by the use of the words "unearned income." May I put it to you in this way: supposing you have a tradesman who has saved up £10,000, and then retires and lives on the interest on his savings. He wants to have differential treatment in respect of that, and he is told he cannot

have it. The differential treatment is only given to earned, and not to unearned. Does it not put a very strong point on his grievance that he is not to have it on that income which arises from savings and is marked as unearned, and would it not rather diminish his acrimony if he were told, "you cannot have it because your income is derived from property"?—I think there is something in that.

27,355. With regard to this exemption of the Haberdashers' Company [see Appendix No. 54], were there not many other cases of exemptions under private Acts, and what is very much the same under local Acts; the Haberdashers' is not the only case?—I think it is not absolutely the only case. As far as I know, there are not very many, and I do not think there is one of anything like the magnitude of the Haberdashers' case.

27,356. You rather propose dealing ad hoc with this exemption, I understand?—Yes. Perhaps in connection with the general revision of the Act I suggest it would be a matter for consideration, whether some clause should not go in to prevent a private Act conferring a prevention from taxation. If Parliament intends it to be conferred it perhaps ought to be conferred only in a public Act. I do not know that it ever is done now in a private Act, but there are a certain limited number of cases, I imagine, on which exemption has been conferred many years ago. On that point there is a case now which has already gone through the Divisional Court and is coming to the Court of Appeal, in which the question is still being contested; I do not know what the final result will be.

27,357. Mr. Holland-Martin: There are no recent ones. I suppose there are very few indeed after 1750?—There are some rather more recent than that. There was a case reported, *Stewart v. The Conservators of the River Thames*, where the Thames Conservancy were held to have a certain exemption.

27,358. Sir E. Nott-Bower: I think that was a public Act?—That may have been a public Act, but they certainly had an exemption from taxation conferred by an Act which was not a taxing Act. There is a case now before the Courts, I think, something to do with tolls of a ferry, but I have not actually seen the case; that case, I believe, has been taken to the Court of Appeal. In the Haberdashers' case the inequity of the exemption is so particularly pronounced, because not only do the Haberdashers' Company get an exemption there, but the exemption actually extends to lessees who have built upon and developed the land, and who, of course, could never have been intended to be benefited at all.

27,359. Mr. Holland-Martin: What has been the actual effect on that estate; is the development very, very marked?—I do not know the extent of the development, but I believe it has been considerable, and lessees who are a trading concern are obtaining an exemption, which does not seem right.

27,360. Would there not be any case of compensation?—I can quite see that that point would be raised, but still the exemption seems to me to be so wrong that I should hesitate to say that it ought to be continued even if the question of compensation did arise.

27,361. Sir J. Harcourt-Banner: We are extremely obliged to you, and the only thing we can say is, that we are sure if there are any other points arising upon which we wish to see you again, you will be glad to come and give us your assistance?—Certainly, if we can be of any assistance we shall be only too ready to do so.

THIRTY-SEVENTH DAY,

FRIDAY, 5TH DECEMBER, 1919.

PRESENT:

Mr. PRETYMAN (in the Chair).

Sir E. E. NOTT-BOWER.

Sir J. S. HARMOOD-BANNER.

Sir W. TROWER.

Mr. HOLLAND-MARTIN.

Mr. ARMITAGE-SMITH.

Mr. WALKER CLARK.

Mr. KERLY.

Mrs. KNOWLES.

Mr. McLINTOCK.

Mr. GEOFFREY MARKS.

Mr. MAY.

Dr. STAMP.

Mr. TROTTER.

Mr. M. C. FURTADO, an Assistant Chief Inspector of Taxes, recalled and examined.

The witness handed in the following statements as his evidence-in-chief:—

No. I.—THE ALLOWANCE IN RESPECT OF LIFE ASSURANCE PREMIUMS.

27,362. (1) This evidence is directed to a consideration of the allowance in respect of Life Assurance premiums, the original objects of that allowance, whether its present application has results that go beyond the original objects, and whether there are grounds for considering that the allowance should be abolished or limited.

27,363. (2) A separate note of the history of this allowance has been put in (see Appendix No. 7 (J)). It will be seen from that statement that the allowance dates from 1799, but was limited in 1806 to incomes under £150. In the Act of 1842, the provisions granting the allowance were not re-enacted, but in 1853 the allowance was again made, without reference to the extent of the income of the taxpayer, except that no individual could obtain an allowance in excess of one-sixth of his income. This allowance has been continued, with certain modifications, to the present time.

27,364. (3) It will also be seen from the historical note, in which reference is made to Mr. Gladstone's remark in re-introducing the allowance in 1853, that whilst the allowance was made available to all who

chose to avail themselves of it, it was considered that the classes who were in the habit of assuring their lives were professional men and persons dependent on their exertions.

27,365. (4) It may be assumed accordingly that the main object in view was, in considering the ability of persons with little or no capital to pay Income Tax, to take into account the premiums they paid to ensure such a provision for their dependants in the event of their deaths, as would not, in the great majority of cases, be made otherwise than by way of Life Assurance, and would not, in any case, be certain to be made in any other way.

27,366. (5) If the assuring classes were practically confined to such persons in 1853, it is certainly not the case to-day, and with Income Tax at such high rates as are likely to obtain for a long time to come, it is clear that Life Assurance must become a growing habit among classes very different from those relieved by Mr. Gladstone, if only for the purpose of avoiding Income Tax on savings.

27,367. (6) The Estate Duty statistics for the last four years for which the details are available, viz., the four years ended 31st March, 1915, show the following distribution of policies of assurance between estates liable to duty where the net values of the estates did not exceed, and did exceed, £10,000.

Year ended	Estates not exceeding £10,000 net.		Estates exceeding £10,000 net.	
	Amounts of policies of insurance.	Numbers of Estates.	Amounts of policies of insurance.	Numbers of Estates.
31st March, 1912	£ 6,002,710	£ 66,136	£ 4,328,615	£ 4,056
" " 1913	5,972,551	66,750	4,298,172	4,062
" " 1914	6,148,880	70,221	5,261,351	4,421
" " 1915	6,849,522	71,329	5,959,269	4,400

Rather more than one-fifth of the amount of the allowances in respect of "ordinary" Life Assurance premiums is made to persons whose incomes exceed £2,500.

27,368. (7) It has been pointed out by Mr. William Schoaling in his evidence before the Royal Commission that at present a person whose income exceeds £2,500 a year obtains an advantage from Life Assurance, not only from the allowance of the premiums (up to a limit of one-sixth of his income) from his Income Tax assessment, but also from the interest earned on the premiums not being subject to Super-tax. He has also shown that this additional advantage may be very great.

27,369. (8) It is thought that it will be agreed that the original objects to which the allowance made in

1853 was directed were proper objects, and that broad considerations may well be held to support the allowance so far as it serves those objects. Further, it is believed that, on the whole, public opinion would be found to be strongly in support of the allowance; and that is an additional reason why the Board of Inland Revenue would feel disinclined to criticize it adversely, even if under modern conditions it transcended the original objects, so long as a reasonable limitation were imposed to prevent them from being overreached to an extent so unreasonable as to create, in individual cases, a condition that has nothing at all in common with the original objects.

27,370. (9) It is believed that it is the almost general view that Life Assurance, among those classes who cannot otherwise safeguard their families in the

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[Continued.]

event of early death, is an important national benefit. It certainly prevents innumerable cases of widows and children becoming a charge on the State to their own great disadvantage, as well as to the cost of other citizens. On this ground alone it deserves every possible encouragement; and it is not surprising that the unique national results of Life Assurance, and the method by which it is ordinarily provided by fixed annual payments maintained throughout a long period of years, should have singled out Life Assurance premiums, even from amongst certain other kinds of expenditure that may also be held to have good national results, as payments suitable to take into account to reduce the taxable income of those who pay them.

27,371. (10) There is another reason that makes the allowance very suitable. The occasion of marriage is probably the most common occasion for the taking out of a first life policy, as far as "ordinary" Life Assurance business is concerned; and subsequent policies are taken out very frequently as the number of children increases. It seems scarcely possible, when the present needs of revenue are considered, that any increase in the family allowances for Income Tax purposes will extend as far as one would like to see them extend if the governing conditions were less exacting; but the Life Assurance allowance may fairly be regarded as an additional factor in furthering the object of graduating the rate of tax by reference to family responsibilities.

27,372. (11) Encouragement given to Life Assurance in the scheme of an Income Tax is not peculiar to the United Kingdom. It is commonly found in the Income Taxes of other States, although the form of the encouragement varies. For example, an allowance in respect of premiums is made in the Income Taxes of the Commonwealth of Australia, New South Wales, Victoria, Queensland, Western Australia, New Zealand, the Union of South Africa, Southern Rhodesia, British India, and the Straits Settlements.

In Canada no allowance in respect of premiums is made, but exemption is granted on the incomes of Life Assurance companies except as regards such amounts as are credited to the account of shareholders. In the United States of America there is also no allowance in respect of premiums; but the method of assessment of Life Assurance companies is such as to produce much the same result as in Canada. It is not altogether clear whether in Canada tax is payable on the excess of the amount received on the death of a policyholder over the premiums he has paid; but in the United States it is clear that the excess is not chargeable if the proceeds of the policy are received by individual beneficiaries, or the estate of the deceased.

In South Australia there is no allowance in respect of premiums; but Life Assurance companies are taxed on the basis of distributable surplus (which would ordinarily be less than the investment income after deducting the expenses). The companies are, moreover, charged at one-half of the ordinary rate of tax. In Tasmania there is no allowance in respect of premiums. Life Assurance companies are assessed there on 20 per cent. of the premiums received in the State. In Southern Rhodesia, in addition to the allowance in respect of premiums, the income of Life Assurance companies is exempted.

27,373. (12) Although allowances and exemptions of the kinds mentioned are very common in the Income Tax systems of other States, it cannot be said that the allowances are often on a scale so generous as in the United Kingdom. For example, in the cases of the Income Taxes of the Commonwealth of Australia, New South Wales, Victoria, Queensland, Western Australia and New Zealand, the limit of the allowance is £50, although there is, in most cases, a further allowance, up to a limit of £50 or £100, in respect of payments to superannuation or widows and orphan funds or Friendly Societies. In the Income Tax of the Union of South Africa the limit of the allowance is £25. In Southern Rhodesia it is £100. In British India and in the Straits Settlements, however, the limit is, as in the United Kingdom, one-sixth of the total income.

27,374. (13) It would, accordingly, appear that many States attempt to fix a limit to the allowance that will serve to prevent a remission of Income Tax where it might lead to encourage Life Assurance mainly for the sake of avoiding tax, and to grant a remission where the extent of insurance does not pass the limit up to which it is of very special advantage to the State to encourage it.

27,375. (14) The question arises whether the existing limit in the United Kingdom Income Tax is a satisfactory limit, or whether it extends beyond the point up to which it is of very special advantage to the State to encourage Life Assurance by a remission of Income Tax that is not granted in respect of other forms of saving; whether, for example, if a person, whose income is £10,000 pays £1,666 for Life Assurance premiums, the State benefits from the particular manner in which he invests his savings, in any special way that justifies relieving £1,666 of his income of £10,000 from tax, and charging the interest that accumulates over the term of the policy, only at the same rate of tax as if his income did not exceed £2,500.

27,376. (15) The Board of Inland Revenue doubt very greatly whether these large allowances are justifiable, and whether their effect is not to create considerable inequality as between taxpayers without adequate grounds. They would not suggest that the limit should be fixed so low as it is in some States; on the contrary, they consider that if the limit were altered, and were still open to criticism, it would be better that the criticism should be that the limit is generous than that it is mean. They doubt, however, whether any satisfactory reasons could be found to justify an allowance in excess of £250, and if a reduction of the limit were to be made, that is the amount that they would be inclined to suggest. The amount is arbitrary, as any such limit must be, but if it is tested by reference to the objects that it is assumed that the allowance should serve, it is believed that it will be agreed that it would grant sufficient relief in the class of case in which alone encouragement of Life Assurance at the expense of the tax, and consequently of other taxpayers, is justifiable.

27,377. (16) Passing from the subject of the limit of the amount of the allowance, an important question arises in connection with the rate of tax at which the allowances are made in the case of persons liable to tax at rates exceeding 3s. in the £. In those cases, if the assurances were made on or before the 22nd June 1916, the allowances are made at rates varying from 3s. 9d. to 6s. in the £; whereas, if they were made after that date the rate of allowances is restricted to 3s. in the £.

27,378. (17) This is a source of great inequality between taxpayers whose financial conditions in any year of assessment may be identical. It is difficult to discover any relation between the ability to pay tax on the part of an individual, and the date when he secured his life. In the long run, it would seem that the matter must develop to a great extent into a discrimination of ability to pay tax, by reference to the ages of individual taxpayers.

27,379. (18) It is estimated that at present about one-seventh of the amount of the allowances, where individuals are chargeable at rates exceeding 3s., is allowed at the rate of 3s. and the remaining six-sevenths at rates varying from 3s. 9d. to 6s. in the £. It is not suggested that the limitation of the allowance to 3s., which was the highest rate that had been in force before 1916, is unreasonable, but that it is a matter for consideration whether allowances at rates exceeding 3s. in the £ are justifiable, and especially whether the inequality arising from the existing arrangement ought to be allowed to continue.

27,380. (19) It is estimated that the saving that would be effected, by limiting the maximum rate of tax for allowances to 3s. in the £ would be £295,000, and that the saving by limiting the maximum amount of an allowance to £250 would be £295,000, if the rates of tax for allowances remained as at present, or £155,000 if the rate of tax for allowances was limited to 3s.

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[Continued.]

27,381. (20) A suggestion was made by Mr. William Schooling (questions 1006 et seq.) that instead of continuing the existing allowance in respect of Life Assurance premiums, all policyholders, except persons liable to Super-tax, should receive a subsidy from the State to the extent of 15 per cent. of the premiums paid by them, whether they are Income Tax payers or not. The difficulties inherent in this suggestion were discussed during Mr. Schooling's examination, and the Board of Inland Revenue assume that they will not be expected to offer evidence on the propriety of the general subsidizing of Life Assurance by the State. They confine themselves, accordingly, to stating that, considered in the light of that suggestion, the matter ceases in their view to be a problem of the Income Tax, and that if such a course were adopted, it could scarcely be carried out by the interception of the Income Tax revenue.

27,382. (21) A suggestion was made by Mr. Parsons (question 1557) that the allowance for Life Assurance premiums should be abolished. It would not appear that the evidence received by the Royal Commission indicates, as a whole, that this suggestion would receive wide support. As previously stated in this evidence, the Board of Inland Revenue believe that public opinion is, on the whole, in favour of the allowance and that it rests on sound grounds.

27,383. (22) Mr. Kewat suggested (Questions 4328-9) that the limit of allowance might be made one-tenth of the total income instead of one-sixth. Any limit must necessarily be arbitrary, but the restriction of excessive allowances would, in the view of the Board, be better met by restricting the maximum sum allowable in any individual case and the rate of tax at which the allowance is made, than by a general reduction of the fractional limit.

27,384. (23) Sir James Martin expressed the view (question 3952) that the allowance should not remain restricted to annual premiums, but should be extended to single premium payments, subject to the limit of one-sixth of the income. The only point that it is desired to raise in that connection is how far the justification of any allowance at all rests on the idea of granting relief to persons who do not ordinarily come into possession of considerable capital sums, but who by dint of continuous saving, over a period of years, make a provision for their old age or for their dependants. It is a matter for consideration, for example, whether, if the question of making an allowance were quite new, a distinction would not arise between the ability to pay tax on the part of a person who has a considerable sum that he uses as a single premium payment, and on the part of another who enters into a contract that necessitates long continued self denial; and whether, instead of granting an allowance for a single premium payment, it is not desirable to fix a minimum period of years for the endurance of a policy in respect of which an allowance may be claimed.

No. II.—THE LIABILITY TO INCOME TAX IN RESPECT OF PURCHASED ANNUITIES.

27,385. (1) It has been represented to the Royal Commission by certain witnesses that the existing basis on which annuities are charged to Income Tax is unreasonable and gives rise to hardship. This matter was raised in particular by the representative of the Associated Scottish Life Offices, whose evidence on the point was, however, confined to life annuities.

27,386. (2) Under the present law there is a specific charge on annuities, and no provision exists for granting an allowance in respect of the wastage of any capital expended by the annuitant in acquiring an annuity. (Income Tax Act, 1918, Sch. D: Rule 1 (b).)

27,387. (3) In pursuance of the Rules, persons who pay annuities deduct Income Tax at the time of payment, and account to the Revenue for the tax so deducted, so far as the annuities are not paid out of profits already taxed. (Income Tax Act, 1918, All Schedules, Rules 19 & 21.)

27,388. (4) The method of charging Income Tax on annuities has been under consideration by various Committees from time to time, and an historical note

on the subject has already been furnished by the Board of Inland Revenue to the Royal Commission. [See Appendix No. 7 (j).] That note supplies the gist of the arguments that have been adduced. So far as the Board of Inland Revenue are aware the same arguments on both sides might be adduced to-day except that the argument that the incidence of the tax in the case of existing annuities has been a matter of bargain between buyer and seller, to whatever extent it may have been true in 1906 when the Departmental Committee reported, is an argument that doubtless requires re-consideration since the passing of section 13 of the Finance Act, 1915 (reproduced in the Income Tax Act, 1918, as Rule 21 (3) of the General Rules applicable to Schedules A, B, C, D, and E). That section provided that the amount of annuities which an insurance company may treat as having been paid out of profits or gains brought into charge to tax, shall not exceed the amount of the taxed income of its annuity fund. Any excess of tax deducted by a company from annuities over the tax on that amount is now payable by the company to the Crown. Subject to any difference in this respect, however, it may be said that if there has been a hardship throughout, the nature of the hardship has not changed, but its measure has been increased by the recent high rate of tax.

27,389. (5) It is submitted that there is no hardship in requiring an annuitant to pay tax on the whole of an annuity for which he has made no outlay of capital; and that accordingly, no alteration of the present law is necessary as regards annuities that were not acquired by purchase. Moreover, in many cases, such annuities are paid out of the taxed incomes of estates held in trust, and are mere appropriations of the incomes of the estates.

27,390. (6) It is considered, therefore, that the need for consideration arises only in the case of purchased annuities. Even in that case, it does not always happen that the outlay has been made by the annuitant, but it would probably be impossible effectively to distinguish such cases in practice, if it were decided that an allowance in respect of purchased annuities should be granted.

27,391. (7) Purchased annuities may endure for certain periods, or for uncertain periods, as in the case of life annuities. It does not appear that any argument that can be adduced in support of an allowance in respect of the exhaustion of the purchase price of a life annuity will not apply with at least equal force to the case of an annuity certain. From some points of view the claim in the case of an annuity certain is stronger, inasmuch as, at the time of purchase, the annuitant will not only be more able, but also more inclined to distinguish the interest element from the capital element. The investment aspect of his purchase and the return on his capital must necessarily be in his mind; whereas the purchaser of a life annuity is generally very little able or inclined to estimate the value of his purchase as an investment and is satisfied to feel that he has provided himself with an income for life.

27,392. (8) A remedy has, of course, always been in the hands of those who purchase or sell annuities certain. It is clear that instead of purchasing an annuity certain a person can agree to lend a sum which shall be repaid in instalments of capital and interest on capital remaining unrepaid, so that the total of the capital and interest repaid each year shall be a fixed annual amount in accordance with a pre-arranged schedule. This is clearly a loan transaction, and only the interest is taxable. That this course is not more frequently taken is doubtless due to the greater simplicity of the annuity, and probably to some extent to the fact that the seller has to make a profit, and the schedule of repayment is bound to reflect that fact by a display either of a shortage of capital repaid or of a rate of interest that might hamper the business. There remains the fact, however, that if the question of making an allowance in the case of purchased annuities were to turn rather on the strength of the case of annuities certain than on that of life annuities, an alternative exists to the annuity certain that would effect relief without a

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change in the law. For this reason it is considered that the consideration might well proceed as if it concerned only life annuities.

27,393. (9) The Royal Commission have already had under consideration the general question of an allowance in respect of wasting assets. The Board of Inland Revenue consider that although the granting of relief in respect of certain wasting assets would not necessarily involve the extension of similar relief to life annuities, if relief were not granted in respect of the exhaustion of assets engaged in production it could not well be granted in respect of the exhaustion of assets not engaged in production.

27,394. (10) It is believed that the common method of regarding an annuity as if the annuitant has an invested capital sum, part of which he is continually spending, together with a dwindling interest on the invested remainder, tends to obscure the real nature of an annuity. An annuitant is not in the same position as a person who has a deposit in a bank, on which and on the interest of which he lives by drawing a fixed amount yearly. The annuitant parts with his capital in return for a right to a regular income, i.e., a right to receive a fixed sum at the end of each of a certain or uncertain number of equal periods. Ignoring the question of the profit and expenses of the seller of the right, the purchase price of the right is, in fact, the total of the present values at the time of purchase of each such fixed sum at the time when its payment will become due. Each periodical payment has its present value or its own purchase price as a constituent of the total purchase price of the annuity. The adoption of this view, which it is suggested is the only view that accords with the nature of the transaction, would reduce the matter to a consideration of whether the principle is or is not right, that a person who in the year 1 pays £X for a right in the year 10 will provide him with an income of £Y should be charged to Income Tax on £Y or on £Y-£X.

27,395. (11) If it were merely a question of profit and loss, one would certainly say that the charge must be on (£Y-£X). One is not, however, dealing with a question simply of profit and loss, but with a question of income and Income Tax; and what is a simple question from the profit and loss point of view, becomes more difficult from a point of view that involves the idea of charging a tax by regard to ability to pay.

27,396. (12) As a question of profit and loss there is no difference between A, who purchases an annuity contract under which for an immediate payment of £X he obtains a right to receive £Y at a later date, and B who pays £X for a contract giving him the right to work a nitrate field from which he will receive £Y at a later date. It seems clear, therefore, that if the question is to be considered merely as one of profit and loss, there is no reason why A should receive an allowance if B does not, and equally he should receive an allowance if B receives one.

27,397. (13) But when one leaves the simple question of profit and loss a certain difference appears between the positions of A and B. B has used his capital productively, and that fact affords some expectation that he intends to conserve it and to continue to use it productively. In any case any allowance granted may be made contingent on his conserving the capital. In that case the necessity of conserving his capital must affect his ability to pay tax. A, who has purchased the right to an annuity, especially if it be a life annuity, has raised every presumption that he does not intend to conserve his capital, and in that case his ability to pay tax is not affected.

27,398. (14) It is suggested accordingly, that if the governing consideration is to be that of profit and loss, an allowance ought to be made in respect of purchased annuities, if an allowance is made in respect of wasting assets used in production; but that if it be considered that the governing consideration should be ability to pay tax there are grounds on which the case of purchased annuities is capable of being distinguished, especially if it be intended

that any allowance in respect of wasting assets used in production should be made contingent on a provision to replace the capital being made by the trader.

27,399. (15) Whilst it is suggested that the effort to replace the capital affects ability to pay tax, it is not suggested that any discrimination should be made against annuities on the wider ground that the dissipation of capital should not be encouraged. It is suggested that that is not a consideration to which weight ought to be attached in the case of life annuities in view of the fact that they are ordinarily purchased by savings accumulated with the special object of forming a provision for old age. On the contrary, it may be considered that this fact ought also to be taken into account to prevent too great weight being attached to the question of ability to pay, especially when it is remembered that in very many cases the savings that have provided the purchase price of the annuity have borne tax in earlier years as part of previous income of the purchaser. It is sometimes represented as, and is without doubt, a hardship that a person should pay tax on the portion of his income that he saves to provide for his old age, and that if he uses his savings to purchase an annuity he should be required to pay tax on them again when they are returned to him as a part of his annuity.

27,400. (16) For these reasons, and although it is considered that the case of annuities is distinguishable from that of wasting assets used in production, the Board of Inland Revenue are disinclined to urge that the balance of argument is against making any allowance in respect of purchased annuities, if it be decided that other wasting assets should receive an allowance.

27,401. (17) If an allowance were to be made the method of making it presents a difficulty in the case of a life annuity. In the case of an annuity certain there should be but little difficulty. In almost all cases they are paid by companies that can certify the amount of interest included in a payment. In the case of life annuities, it is obvious that in some cases the total amount received by the annuitant does not equal the purchase price, and in others the excess received by the annuitant beyond the purchase price may represent in the aggregate a high rate of interest.

27,402. (18) The prices paid for life annuities depend of course on average considerations. In effect, a number of annuitants provide a common fund which is invested, and their annuities are drawn from the capital and interest of the fund. Each annuitant secures peace of mind by a system of co-operation that enables him to purchase an annuity that will endure for whatever time he may live, on the same basis as if he were sure that his lifetime would be average. He purchases on the basis of an hypothesis, and it would not be unreasonable if in the interest of simplicity and in the absence of any satisfactory alternative, he were charged to tax on the basis of an hypothesis.

27,403. (19) The representative of the Associated Scottish Life Office suggested, in his evidence before the Royal Commission, a hypothetical basis for charging life annuities. The Board of Inland Revenue consider that, if an allowance were made, the basis suggested by him has much to recommend it. His suggestion was that an annuitant should be charged annually on 5 per cent. of the purchase price of the annuity. This would not only be simple, but the hypothesis, that an annuitant should pay the same tax during his lifetime as he would have paid if he had preserved the capital intact and invested, pays some regard to the objection that the Revenue is prejudiced by granting allowances for wasting assets if steps are not taken to replace the capital, but at the same time it would form the basis of substantial relief.

It is necessary to bear in mind that many annuity contracts are for deferred annuities, and the purchase prices are paid either as a lump sum or by way of annual premiums during the period of deferment. In such cases it is assumed that 'purchase price' for

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the purpose of the suggestion means the amount that would have been the purchase price if the annuity had been immediate and had been purchased at the time when it commenced to be paid.

27,404. (20) It is estimated that the cost of granting relief in the case of purchased annuities in the manner suggested would be £280,000.

No. III.—THE LIABILITY TO INCOME TAX OF LIFE ASSURANCE COMPANIES.

27,406. (1) The evidence that has been given by previous witnesses on behalf of the Life Offices has been directed to draw attention to (a) the two alternative bases on which Life Assurance companies are assessable, and (b) the fact that tax is charged on the amounts assessed at the full normal rate of tax, without regard to the amounts of the total incomes of policyholders individually, or of the average income of policyholders generally.

27,405. (2) The present evidence is directed to a consideration of these two matters, and to the submission of a proposal in regard to a separate matter concerned with interest received by Life Assurance companies in respect of loans on life policies, personal security or reversions.

(L).—THE TWO ALTERNATIVE BASES OF ASSESSMENT.

27,407. (3) It has been suggested by the Life Offices that the two alternative bases should be reconsidered with a view to a decision as to which is the more suitable. Further, that whichever basis is held to be the more suitable, the option on the part of the Inland Revenue to adopt the other alternative basis should be withdrawn.

27,408. (4) I am putting in an historical note on the Income Tax treatment of Life Assurance companies (see Appendix No. 7 (3)). It will be gathered from that note that the result of the existing method is that a company is required to pay tax on its investment income less its expenses of management (including commissions), or on its "profits" arrived at under the rules of Case I of Schedule D, whichever is the greater.

27,409. (5) These alternative bases of assessment are not peculiar to Life Assurance companies. Until 1915 any person whose business consisted partly of making investments was chargeable to Income Tax on his gross investment income or on his profits, whichever happened to be the greater. In 1915, however, a relaxation was made in the case of Life Assurance businesses, investment companies and savings banks, by which the management expenses can be deducted from the investment income before the comparison is made with the profits to see which is the greater. (Finance Act, 1915, section 14 (Income Tax 1915, section 33).)

27,410. (6) The expenses to be deducted from the investment income before making this comparison are the net expenses that is to say, the gross expenses less untaxed receipts. For example, in the case of Life Assurance business the deduction is the excess of the gross expenses over the amount of any fines, fees, or profits arising from reversions; and in the case of an investment company the deduction is the excess of the gross expenses over the amount of any income or profits derived from sources not charged to tax.

27,411. (7) It is clear that if, in the case of an investment company, one takes the investment income, and deducts from it these net expenses one arrives at a result which is the excess of all the income over the expenditure and is, in fact, in the case of such a company, the actual profit of the concern.

27,412. (8) In this way, apart from differences that arise from the fact that if the basis of profits is the alternative basis adopted for the assessment, an average of years is taken, whilst if the basis of investment income less expenses is adopted, an average is not taken, the two alternative bases produce the same result in the case of an investment company.

27,413. (9) It is not so, however, in the case of a Life Assurance company. In the case of "ordinary" Life Assurance (as distinguished from "industrial" Life Assurance, where the policies are small, and the premiums are collected at short intervals), it is generally found that the investment income, less expenses, is considerably greater than the "profits,"

whilst in the case of "industrial" Life Assurance, the "profits" are practically always greater than the investment income less the expenses—indeed the expenses almost always exceed the investment income.

27,414. (10) In order to understand how this arises, it is necessary to consider the special nature of Life Assurance business, and the elements that go to make up the so-called "profits" of Life Assurance companies.

27,415. (11) The special nature of Life Assurance business, so far as its examination is germane to the subject matter of this evidence, and the elements comprised in the so-called "profits," are dealt with, for convenience, in a separate statement, printed as an Annex. The following paragraphs are intended to summarize the conclusions, the grounds of which I have endeavoured to explain in that statement.

27,416. (12) The essence of the business by which income is earned in the case of a Life Assurance company is the business of investment, just as it is in the case of an investment company.

27,417. (13) The measure of the profit is the excess of the investment income over the expenses of conducting the concern, just as in the case of an investment company.

27,418. (14) The excess of the investment income over the expenses is eventually received by the policyholders, except so far as, in the case of a proprietary company, a portion is retained by the proprietary body.

27,419. (15) It is clearly in accord with the conception of an Income Tax that persons who receive, directly or indirectly, interest derived from the investment of sums provided by them should be taxed in respect of such interest.

27,420. (16) Where Life Assurance business is carried on by a proprietary company, and the proprietary body retains an amount greater than the investment income less the expenses of management, the excess is derived from premiums received from policyholders. It is income to the proprietary body, and is properly chargeable to tax.

27,421. (17) Accordingly, where the investment income less the expenses exceeds the amount retained by the proprietary body (if any), it is essentially the proper measure of the amount taxable; and where the amount retained by a proprietary body exceeds the investment income, less the expenses, that amount is essentially the proper measure of the amount taxable.

27,422. (18) Profits arising from reversions are essentially part of the investment income.

27,423. (19) Income derived from fines and fees is additional to the income derived from the investments, and should be included in the charge.

27,424. (20) Profits derived from selling annuities are also additional to the income derived from the investments, and should also be included in the charge. Although such profits may be regarded as being derived from a portion of the investment income of the annuity fund, the company and life policyholders suffer no part of the tax on that investment income, since it is all recovered by deduction from the annuities paid; but they receive the profits on selling the annuities and should be taxed in respect of those profits.

27,425. (21) The so-called "profits" of a Life Assurance company, i.e., the increase in the surplus between two valuations, is not in itself a suitable or reasonable basis of assessment, either as a sole basis, or as an alternative basis. The "profits" exclude a portion of the investment income, which is a proper subject of charge, and include a portion of the premiums, which, as far as they are returned to policyholders, are not a fit subject of charge.

27,426. (22) The option of charging the investment income less the expenses, or the so-called "profits," whichever is the greater, is, accordingly, not reasonable, and should be replaced by an option of charging the investment income less the expenses or the amount retained by the proprietary body, if any, whichever is the greater.

27,427. (23) To combine, as is done at present, the assessments on the "ordinary" and "industrial" branches of a company carrying on both classes of business is not a reasonable or sound basis. It results

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in the "ordinary" policyholders escaping tax on part of the interest they receive from the investment of their premiums, by reason of the heavy expenses of the "industrial" branch, the burden of which they do not share. The two branches should be considered separately.

27,428. (24) Under the existing law, the investment income of the Foreign Life Assurance Fund of a company doing foreign business is, in certain circumstances, exempted from tax. That exemption is operative so long as the company is charged on the basis of investment income less expenses; but it becomes inoperative if the company is charged on the alternative basis of its so-called "profits." The only income arising in the Foreign Life Assurance Fund is the investment income, and it is inconsistent with the expressed intention of the law that it should be charged in any form. It is considered, however, that the existing law carries the exemption rather too far. Any portion of the excess of the investment income, less expenses, of the Foreign Life Assurance Fund that is received by the United Kingdom policyholders or the proprietary company (if any), should properly be brought into assessment. If this were done, it would almost always be necessary to arrive at the amount of that portion on the basis of an estimate.

27,429. (25) In view of these considerations, it is submitted that, if sound principles are to be observed, the existing basis of assessment of Life Assurance companies requires amendment, so as to provide that an assessment should be made on the greater of the two following amounts:—

(a) the investment income, less the expenses of management (after deducting from the latter the income from fines, fees, gross profits arising from selling annuities and profits arising from reversions), but with continuance of the existing relief in respect of income from the investments of a Foreign Life Assurance Fund, so far only as such income is received by or credited to policyholders and annuitants of that fund;

(b) the amount retained by the proprietary body, in the case of a proprietary company;

and that this basis should be applied separately to the "ordinary" and "industrial" branches of a company that carries on both classes of business.

27,430. (26) It is estimated that this amendment would not occasion any loss of tax, but that it would result in a gain of probably £50,000.

(II).—THE RATE OF TAX CHARGED ON THE AMOUNTS ASSESSED.

27,431. (27) The Life Offices claim that it is unreasonable that the rate of tax charged should be the full normal rate in view of the facts that the income assessed belongs, for the most part, to the policyholders, and that there is no machinery by which they can obtain repayment of tax in respect of the exemptions or reductions of rate to which the majority of them would be entitled if regard were had to their individual total incomes.

27,432. (28) The Life Offices refer to the arrangements made with building societies under which a reduced rate of tax is charged in consideration of the fact that the majority of members of building societies are not liable to the full rate.

27,433. (29) The arrangements made with building societies are intended to avoid a very great number of repayment claims that would otherwise arise. A great number of building societies pay yearly dividends and bonuses to members from which they are entitled to deduct tax. These dividends and bonuses are annual income in the hands of the members, and if the societies were charged at the full normal rate, and deducted tax from the dividends and bonuses at that rate, the members would be entitled to make repayment claims in respect of the difference between tax at the full rate and tax at the rates at which they are individually liable having regard to their individual total incomes. The arrangements are convenient both to the members of building societies and the Revenue, but their existence is only justified

by the fact that a liability to repay tax, estimated to be roughly equal to the relief granted, would otherwise rest on the Revenue.

27,434. (30) The case of the policyholder of a Life Assurance company is different. There is no provision entitling him to claim a similar repayment of any part of the tax on interest credited to his policy; and, in the absence of any such title to claim repayment, a similar arrangement with Life Assurance companies would grant relief that could not be justified on the ground that a corresponding liability to make repayment to individual policyholders rests on the Revenue.

27,435. (31) The Life Offices contend, however, that it is unreasonable that the full rate should be charged, and that the law should be so amended as to permit of a reduced rate being charged.

27,436. (32) They claim that it is unreasonable that policyholders, because they invest their savings in a manner which is generally held to be one deserving of all possible encouragement, should have to bear a rate of tax on the interest out of proportion to their incomes, and higher than the rate they would have had to bear if they had invested in a manner that had less regard for the common good. They suggest that the interest should be charged at a rate not more than three-fourths of the standard rate.

27,437. (33) There is also the question whether, even if the result is not unfair to policyholders, the method by which the burden of the tax is imposed on them is one that renders difficult the conduct of Life Assurance business and may have unfortunate results to Life Assurance as an institution.

27,438. (34) This part of this evidence is directed to a consideration of the merits of the claim that life policyholders are unreasonably treated under the existing Income Tax law, and whether, in any case, the machinery by which the burden of the tax is imposed on them is unsuitable and should be altered.

27,439. (35) A consideration of the claim that policyholders are unreasonably treated by the taxation of the interest at the full rate in the hands of the companies, would, of course, be only a partial consideration, if the privilege of the allowance made in respect of premiums were ignored. In the view of the Board of Inland Revenue, the whole question is less one of unreasonable aggregate treatment, than one of the extent to which the encouragement to Life Assurance within the scope of the Income Tax should proceed.

27,440. (36) If it were to be accepted as an axiom that it is the intention of the law that the premium allowance is to constitute a net relief, then it would follow that policyholders do not receive the net relief intended. That would not necessarily mean that the result to policyholders was unreasonable. It might mean that the intention of the law is overgenerous.

27,441. (37) It is not open to doubt that the intention of the law in 1863, when the allowance in respect of premiums was re-granted, was that the allowance should constitute a net relief, and should not entail any consequential disability. The consequential disability in respect of the tax on the interest arose with the graduation of the Income Tax, and may be regarded as accidental. If the tax were not levied at the source, and the policyholders were charged in respect of the interest, it is clear that the premium allowance would still constitute a net relief; and from that point of view, the disability has nothing to do with the principles of the Income Tax, but arises wholly out of the machinery.

27,442. (38) It may well be, however, that although the restriction of the relief is accidental and arises out of the machinery, the relief that policyholders receive in the aggregate is all that is justifiable, having regard to existing conditions and to the rates of tax at which the allowances of premiums are now made.

27,443. (39) Whether this is so or not is a matter of opinion, and opinions will vary with the varying views of the importance to the State of Life Assurance as an institution.

27,444. (40) It is estimated that the present net cost of the special treatment of Life Assurance in the Income Tax is £2,094,000. This represents the excess of the tax allowed in respect of the premiums,

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viz., £3,708,000, over the tax gained by charging the interest in the hands of the companies at the full rate instead of at the rates applicable to the policyholders, viz., £1,624,000. In other words, the method by which the interest is treated neutralizes the allowance in respect of the premiums to the extent of about sixteen thirty-sevenths.

27,445. (41) The question accordingly becomes whether the importance to the State of Life Assurance, as an institution, is so great that the whole £3,708,000 tax ought to be allowed, or whether its importance does not justify a greater allowance than the existing net allowance of £2,084,000 tax, or whether it justifies some increase that would bridge a portion of the gap between these amounts.

27,446. (42) If the suggestion that the interest should be charged at the rate of 4s. 6d. in the £ were adopted, the gain of tax on the interest would be reduced by £628,000, i.e., from £1,624,000 to £996,000; and the net cost of the special treatment of Life Assurance would be increased from £3,084,000 to £3,612,000. The resultant position would be the same as if only thirty thirty-sevenths of the present allowance in respect of premiums were made, and the interest were charged at the same rates as if taxation at the source did not exist.

27,447. (43) The Board of Inland Revenue consider that these matters of opinion as to the justifiable extent of the allowances are essentially matters that must be left to the judgment of the Royal Commission. They believe, however, that they can usefully bring, and ought to bring, to the notice of the Commissioners certain matters that have a bearing on the method of allowance, as distinguished from its extent.

27,448. (44) As will be gathered from the separate evidence that I am putting in on the subject of the allowance in respect of Life Assurance premiums, the encouragement of Life Assurance is quite a common practice in the Income Taxes of various States. The method, however, varies. Some States make allowances in respect of premiums, others make no such allowances, but exempt the interest in the hands of the companies, and occasionally one meets with cases where both methods are adopted.

27,449. (45) In the United Kingdom, the relief, which was originally effected solely through the allowance of premiums, has become, owing to the graduation of the tax and the system of taxation at the source, a relief given through the allowance of premiums, but neutralized to the extent of sixteen thirty-sevenths by charging the interest at the full rate.

27,450. (46) Even if it should be considered that these mutually opposing conditions produce a not unreasonable result to life policyholders as a class, it must be admitted that they produce many undesirable results within that class, and constitute a source of embarrassment and difficulty in conducting the business of Life Assurance.

27,451. (47) The undesirable results among the policyholders themselves will be readily appreciated from the fact that of £38,000,000 of premiums on "ordinary" Life Assurance business in the United Kingdom, only £20,000,000 is allowed from Income Tax assessments. The policyholders who pay the remaining £18,000,000 receive no allowance, but suffer tax on their interest at the full rate.

27,452. (48) Again, without-profit policyholders who are liable to tax receive an allowance in respect of their premiums, but do not share in the effects of a rise in the rate of Income Tax. The with-profit policyholders bear their own share, and that of the without-profit policyholders as well. It may be said that this is part of a bargain, and is not a special hardship. That is doubtless true to some extent. The with-profit policyholders might have no sound ground of complaint if, in the result, they were called upon to bear the increase of tax by reference to the average rate applicable to without-profit policyholders, but they have in fact to bear very much more, since the interest is charged at the full rate.

27,453. (49) These results among policyholders as a class arise from the existing method, and depend on

the average, upon the excess of the normal rate of tax, at present 6s. in the £, over the average rate of tax, including Super-tax, at which the interest would be chargeable, if it were chargeable at the rates at which the policyholders are liable. This average rate is estimated to be 3s. 4½d.* Any method that avoided or reduced hardships and inequalities of this kind, and, instead of setting them off against an excessive advantage, if there is considered to be an excessive advantage, derived by a section of the policyholders, enabled any such excessive advantage to be reduced in the cases where it at present exists, would be an undeniable improvement.

27,454. (50) Passing from the policyholders to the companies, it will be readily understood how the existing method occasions difficulty in the conduct of Life Assurance business, especially when the rate of Income Tax has been very greatly increased. A great increase in the rate of Income Tax has more serious results on the finances of a Life Office than on those of most concerns. This is by reason of the nature of its contracts which generally continue over a long period of years. The premiums that policyholders contract to pay for a fixed benefit receivable in the future are bound to be based on assumptions of mortality, and of the net rate of interest that will be earned in the future. Actuarial science suffices to deal with the question of mortality, but the Income Tax might increase to an extent that would so reduce the net rate of interest that a Life Office might not be able to fulfil its contracts.

27,455. (51) The financial security of a Life Office depends very greatly on the maintenance of an excess of the net rate of interest that it earns on the sums it invests, over the net rate at which it requires to accumulate interest on those sums, in order to be able to fulfil its future obligations. This excess of the net rate of interest earned, over the rate of interest required, forms the margin of safety of a Life Office. If a Life Assurance company is bearing tax at the rate of 4s. in the £ on its interest, and if it is earning interest at the rate of 4½ per cent. gross, its net rate of interest is £3 12s. per cent. If, in order to meet its obligations, it requires to accumulate interest at 3 per cent., its margin of safety is 12s. per cent. If the rate of tax is increased so that it has to pay tax on its interest at the rate of 6s. in the £, its net interest is only £3 7s. 6d. per cent., and its margin of safety is at once reduced from 12s. per cent. to 7s. 6d. per cent.

27,456. (52) It is true that the same conditions that have led to a higher rate of Income Tax have also led to an increased interest earning power of investments. This, however, applies only to the new investments. The already existing large funds produce only the old rate of interest on the amounts invested.

27,457. (53) It would, of course, be very unfortunate if the high reputation of Life Assurance in this country were to suffer either by existing contracts having to be varied, or by a company not being able to carry out its contracts, if either such result were brought about by the method of imposing the burden of Income Tax on life policyholders, even if it could be shown that the total burden on them was not unfair when all the circumstances are taken into account.

27,458. (54) There is no reason at all to think that Life Assurance in this country is in a position that gives rise to any doubt whatever as to the ability

* This estimate, and each of the other estimates in this evidence as depend upon this estimate, are based on the rates of tax at which policyholders are in fact liable. It does not take into account any additional tax that policyholders would be required to pay, under section 24 of The Income Tax Act, 1913 (or any of the amendments of that section that have been suggested), by reason of altered rates of tax, etc., if it were applied to include annually in their total incomes for Income Tax purposes the interest credited to their policies. In that case, the additional tax if expressed as an additional average rate on the interest charged in the hands of the companies, would, it is estimated, be a further 6d. in the £ under the existing scheme, or 2½d. in the £ if the scheme were so altered that only one half of the excess income above a limit were payable as tax, or 1½d. in the £, if another graduation up to £2,400 were instituted.

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of the companies to carry out their contracts, notwithstanding the reduction of the net rate of interest earned on the amounts they have invested, through the recent great increase in the rate of Income Tax. It must, however, be admitted that this satisfactory state of affairs is due in a very great measure to the fact that so large a proportion of the Life Assurance business consists of participating policies.

27,459. (55) Participating policyholders pay extra premiums in the expectation of producing a surplus that will be distributed to them as extra assurance, or in cash. If "ordinary" Life Assurance business were wholly or mainly non-participating business, the strain of the reduction of the net rate of interest earned might have been really serious. As, however, the participating business greatly preponderates, the surplus due to the extra premiums arising from that business has provided an important source of relief. That surplus has had to be to a very great extent withheld from the participating policyholders and applied to meeting depreciation of the old investments, with the result that the net rate of interest earned on those investments, as written down, is still adequate to provide a safe excess over the rate of interest at which accumulations are necessary, in order to provide for the liabilities. A further rise in the Income Tax would, of course, occasion renewed restrictions of the amount available for bonuses of with-profit policyholders.

27,460. (56) In these ways the existing method of charging the interest at the full rate, and so partially neutralizing the allowance in respect of premiums, produces inequalities and hardship among the policyholders, and occasions difficulty to the companies in the conduct of their business. It is obvious that these objections would be greatly reduced by charging the interest at the rate of 4s. 6d. instead of 6s. in the £, but the extra cost would be £225,000. It remains to consider how, if it were decided that this extra cost, or any part of it, is unjustifiable, the inequalities and difficulties could be reduced without increasing the existing cost, viz., £2,084,000.

27,461. (57) In the separate evidence dealing with the allowance in respect of premiums, it is pointed out that, of policyholders liable to Income Tax at rates exceeding 3s. in the £, about six-sevenths receive allowances at rates varying from 3s. 9d. to 6s., whilst the remaining one-seventh receive allowances at the rate of 3s. only.

27,462. (58) This occasions an additional inequality among policyholders as a class; and it is suggested that if that inequality were removed and the rate of allowance were limited to 3s. in the £ in all cases, the saving effected might be usefully devoted to reducing the other inequalities among policyholders that have been previously mentioned, and reducing at the same time the difficulties to which the existing method gives rise in the conduct of Life Assurance business.

27,463. (59) It is estimated that if the maximum rate applied to premium allowances were limited to 3s., the saving would be £225,000, which is approximately equal to the estimated cost of charging the interest at the rate of 4s. 6d., instead of 6s., viz., £228,000.

27,464. (60) If this course were adopted, it would accordingly be possible, without increasing the present cost of the special treatment of Life Assurance in the Income Tax, to produce a very much greater equality in the distribution of the relief, and to reduce considerably a difficulty in the conduct of Life Assurance business.

27,465. (61) The evidence given by Mr. William Schooling was greatly directed to a consideration of the inequalities produced among policyholders under the present arrangements. In the course of his examination, the question arose whether the companies could notify each policyholder of the interest credited to his policy, and the tax paid thereon, to the end that the policyholder might claim a repayment of tax if he were entitled. This is not a method that would fit in with any system of book-keeping which, so far as the Board of Inland Revenue are

aware, is in general use among Life Offices; and even if it did, it would involve an enormous mass of detailed work for policyholders, companies and officials. The Board have no doubt that to have individual regard to the income of each policyholder would be so difficult as to be impracticable. On the whole they consider that if the matter is to be dealt with, it must be dealt with on broad lines, as is done in the case of building society interest, and they are not inclined to disagree with the Life Offices' Association that the best course would be to adopt a reduced general rate at which to charge the interest in the hands of the companies.

27,466. (62) If a reduced general rate were adopted, its application should, of course, be restricted to the portion of the assessment that has reference to the policyholders—that is to say, the portion of the amount assessed that, in the case of a proprietary company, is retained by the proprietary body, should be charged at the normal rate. The shareholders are in the same position as shareholders of companies of other kinds, in that they can make repayment claims, where necessary, in respect of tax deducted at the normal rate from their dividends. It may be desirable also to provide that the relief should be applied by the Life Offices for the exclusive benefit of policyholders.

27,467. (63) Among the matters to which Mr. Schooling drew attention was the comparatively very great advantage that persons liable to Super-tax derive from the existing Life Assurance arrangements. It is considered that if the rate of allowance in respect of premiums were limited in all cases to 3s. in the £, this point would be substantially met, especially if at the same time the amount of any individual allowance in respect of premiums were limited to £250, as is suggested in my separate evidence on Life Assurance premiums.

(III).—INTEREST RECEIVED BY LIFE ASSURANCE COMPANIES IN RESPECT OF LOANS SECURED ON LIFE POLICIES, PERSONAL SECURITY OR REVERSIONS.

27,468. (64) It is the almost general practice of Life Assurance companies to make application to the borrowers who pay interest on loans, for the net amount of the interest after deduction of tax at the full rate, except where the borrowers reside abroad. There are many cases where the borrowers are exempt, and it is fairly certain that a considerable proportion of the tax deducted by exempt borrowers does not reach the Revenue, through absence of knowledge that they are paying such interest. In other cases the borrower is entitled to, and claims, a reduced rate of tax; and there is very little doubt that the number of such cases in which it is known that such interest is paid in no way approaches the number in which it is actually paid. The inclusion in recent years of a special reference to interest paid to Life Assurance companies in the form of claim in respect of exemption, abatement or lower rate of tax, has increased greatly the number of cases in which such payments are disclosed; but the fact that about three-fourths of the whole of the life and annuity funds of "ordinary" Life Assurance companies is on loan to policyholders raises a great doubt in the minds of those who are in the habit of examining such claims whether a large proportion of the interest paid is in fact disclosed.

27,469. (65) At present there is no statutory power to require a Life Assurance company to furnish a list of persons from whom it receives interest under deduction of tax in respect of loans secured on policies, personal security or reversions, and practically none of the companies do so. If they are applied to for a list, they are inclined to excuse themselves, in the absence of a statutory requirement, on the ground of the labour it would entail. It is possible that they may also feel a doubt whether, without a statutory requirement, they ought to furnish information which is obviously sought in order to check the returns of their policyholders.

27,470. (66) It is submitted that a statutory requirement to furnish such lists would be useful, and is desirable. The question arises whether there should

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be a lower limit of amount for the purposes of such lists. The greater number of the loans are very small, but the aggregate amount of the small loans is great. The Board of Inland Revenue consider on the whole, that there should be no statutory limit. Whilst such a limit would probably be arranged in practice with the companies, it is felt that the knowledge of the existence of a limit would help to defeat the object in view, and that a statutory limit would make it more difficult for the Revenue to seek, and for the companies to furnish, information in any individual case, where it might be desired.

ANNEXE.

STATEMENT AS TO THE BASIS OF ASSESSMENT OF LIFE ASSURANCE COMPANIES, REFERRED TO IN PARAGRAPH 11 OF THE FOREGOING EVIDENCE.

27,471. (1) Life Assurance differs from Fire, Accident, Marine, etc., Insurance in that it is not, except in the case of temporary insurance, indemnity against risk, but is an assurance of a sum on the happening of an event which is bound to happen. Thus, a person assures for the payment of £1,000 on his death, or perhaps on attaining the age of 60 or on earlier death. The event, on the happening of which the £1,000 becomes payable, is bound to happen. The essence of the business is investment. Many individuals subscribe sums to a common fund, the fund is invested, and subsequently the sums subscribed, with the interest earned, are paid out again from the fund to the subscribers or their representatives. The peculiar feature of this investment business is that the payments out of the fund to the subscribers or their representatives, instead of having exclusive reference to the amounts subscribed by the various individuals, are made to them in such proportions and at such times as will serve a special and useful purpose. This special purpose entails that each subscriber may be able to expect, on the happening of an event at an uncertain date, a fixed sum or a minimum sum; and this necessitates that the amounts subscribed should be such as will provide and maintain a fund adequate to ensure that each subscriber's expectation will be fulfilled.

27,472. (2) This is absolutely the case with a mutual Life Assurance company. In the case of a proprietary company the only difference is this: it is obvious that if some person, other than the subscriber, holds a certain sum in readiness to supplement the fund, should it by any chance happen to prove inadequate, he affords the subscribers to that extent an additional security that the amounts expected by them will be paid. The proprietary body does this, and receives a consideration for its service in so doing.

27,473. (3) The essence is, however, the same, both in the mutual company and the proprietary company, viz., the collection of premiums and investing them as a common fund. There is no other business by which income is earned. The peculiar method of distributing the fund is a matter of distribution only and is not concerned with the method by which, or to the extent to which, income is earned. Apart from such minor matters as fines, fees and profits on realization of investments, the only means by which the capital sums subscribed, or engaged in the adventure, can be increased—i.e., the only source of real aggregate profit to all concerned, however it may be divided—is the interest earned by the investment of those sums, less the expenses of the undertaking. If, in the case of a proprietary body, it receives as remuneration for its services a sum in excess of the interest earned less the expenses, it is receiving, in effect, part of the premiums subscribed by the policyholders. In such a case, although the amount of that excess is not a profit in the sense of being an increment of the whole capital concerned, it is a profit to the proprietary body, which should be taxed for it. It is remuneration to the proprietary body paid out of the capital sums contributed by the policyholders.

27,474. (4) If one were to conceive an account that embraced the whole operations of a Life Assurance company from the time when it issued its first policy until the time when it paid its last claim and wound

up, that account would contain, as credits, all the premiums received, all the income received in respect of their investments, and such minor items as fines, fees and profits on realizing investments. As debits, it would contain all sums paid out to policyholders for claims, surrenders and other payments, all expenses, and, in the case of a proprietary company, whatever was paid to the proprietary body to remunerate its services. The account would show the concern in its true nature as an investment business, and (ignoring the minor items previously mentioned) the profit would clearly be the investment income after deducting the expenses of conducting the business, just as it is in the case of the ordinary kind of investment company.

That profit goes to the policyholders, except so far as, in the case of a proprietary company, a part of it goes to the proprietary body. The part that goes to the policyholders is included in the items of claims, surrenders and other payments to them, such as bonuses taken in cash. The balance of those items consists of the repayment of the premiums that the policyholders have subscribed.

27,475. (5) The main difference, then, between a Life Assurance company and an ordinary investment company is not connected with the sources from which their real profits are derived, nor with the nature or the measure of those profits. In both cases, the source is the investment, and the measure is the investment income less the expenses. The main difference between them, so far as the present consideration is concerned, lies in the methods of distributing those profits.

27,476. (6) In the case of an investment company the profit is paid yearly to shareholders in proportion to the amounts subscribed by them.

In the case of a Life Assurance company, so far as the profit is paid to policyholders, it is paid:—

- (a) partly on maturity or surrender of policies, in proportions that have regard not merely to what individual policyholders have subscribed, but to the dates when certain events contemplated in their individual policies happened;
- (b) partly by periodically declaring bonuses to participating policyholders.

From time to time, the actuary takes stock of the general position of the assets and liabilities of the concern, and if his experience, judgment and technical knowledge lead him to consider that the existing assets will, with the interest that will be earned on them in the future, be more than sufficient to provide for the liabilities of the future, he arrives at an estimate of the excess or surplus. His estimate depends, of course, very greatly on the valuation that he makes of the present value, at the time of his valuation, of the future liabilities; and the company is required to furnish details of the general basis of that valuation to the Board of Trade. The surplus disclosed may be wholly or partly distributed to policyholders as bonuses. The portion so distributed is allotted by fair methods, although not necessarily by the same methods, in different companies, to the individual policyholders, who may perhaps take their bonuses in cash, or use them to purchase additional paid-up assurances, maturing when their policies mature. In the latter case, the bonuses become merged in the end in the account already pictured of the complete operations of a Life Assurance company during its existence, in the amounts debited in that account for payments on claims and surrenders.

27,477. (7) The fact that a Life Assurance company takes stock from time to time of the assets and liabilities, as mentioned in the preceding paragraph, cannot affect in any way the essential fact that the real income of the business is the excess of the investment income over the expenses.

The main objects of the valuation are:—

- (a) to make sure that variations in the net interest-earning power of invested capital, in rates of mortality, in the expense of the machinery of the business, and other changes that are bound to occur owing to

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changing conditions over a long period, are not, in combination, depleting the funds in a measure that endangers the carrying out of the company's obligations to its policyholders;

- (b) in the event of such changing conditions, and the extra premiums paid by participating policyholders, having increased the fund in a measure that makes it clear that there is a surplus beyond the amount that will be required to carry out obligations, to arrive at a reasoned estimate of that surplus, and to allot it in proper proportions to individual policyholders, and, in some cases, to the proprietary body.

It is clear that no company could safely proceed on the assumption that all possible future changes in conditions had been accurately measured in fixing premiums, and that, without taking stock of its position from time to time, it could go on to the end, and expect that the account over its whole existence, that has already been pictured, would balance exactly in the end. It would find at the end either that it could not meet all its liabilities or that it had a surplus. As participating policyholders are entitled to share in any surplus, and as their policies mature at different times, it is clear that means must be taken to ascertain the surplus, and their individual shares of it, from time to time, and that the surplus cannot be left to reveal itself long after the claims of many who were entitled to share in it have been finally settled. Accordingly, the law requires such periodical valuations in the interests of safety, and for the satisfaction of existing and intending policyholders.

27,478. (8) When it is suggested that a Life Assurance company should be charged to Income Tax on its "profits" rather than on its investment income less the expenses of conducting the concern, the meaning intended to be applied to the expression "profits" is the increase in the surplus disclosed by successive valuations of the kind just mentioned.

27,479. (9) It has been already explained that the business from which profits are derived is the business of investing capital, and that the increment to capital that is derived from that business is the excess of the investment income over the expenses. It is submitted that it is clearly in accord with the conception of an Income Tax that persons who receive directly or indirectly interest derived from the investment of sums provided by them should be taxed in respect of it. It remains to show that what is intended by "profits," in the suggestion that the "profits" of a Life Assurance company form a more suitable basis for assessment, consist of something entirely different, and are not profits in any sense according with the general idea of an Income Tax, in that they include elements that do not properly fall within the scope of such a tax, and exclude other elements that do fall within its scope.

27,480. (10) The surplus disclosed by the valuation of a Life Assurance Fund is, broadly speaking, arrived at by deducting from the value of its existing assets of all kinds, the amount arrived at by the actuary as the present value of the liabilities.

27,481. (11) The liabilities are mainly future liabilities, *e.g.*, amounts due to be paid on the deaths of policyholders. In arriving at their present value a deduction is necessarily made of the present value of amounts that will be received in the future in respect of existing contracts, *e.g.*, future premiums receivable in respect of policies.

27,482. (12) The deduction in respect of future premiums receivable is not made, however, in respect of the full future premiums, but only that part of them that the company does not leave out of consideration as being necessary to defray future expenses, or as intended to provide future surplus. In this way, any saving in the future expenses as compared with the amount of future premiums left out of account in the valuation, falls into the surplus shown by succeeding valuations.

27,483. (13) In arriving at the present values of the future liabilities and of the future receipts, it is necessary to postulate certain conditions. The actuary must, for example, base on certain expectations of mortality among policyholders, since mortality will govern both the length of the periods before policies mature and amounts assured become payable, and also the terms during which future premiums will be received. He must also, in arriving at the present value, assume some rate of interest, and the rate of interest assumed by him must necessarily not exceed the net rate of interest that he expects the fund will earn on an average, in the future.

27,484. (14) On finding a surplus on the valuation, the company may, as previously mentioned, divide it or a portion of it, by making cash payments to policyholders or by undertaking further liabilities to them (reversionary bonuses); and it may leave any remaining portion of the surplus undivided, and carried forward in the fund.

27,485. (15) If, at the next valuation, the actuary arrives at his valuation of the liabilities on the same basis as before, and he finds that the surplus has increased beyond the amount of the portion of the previous surplus that has remained undivided since the last valuation, that increase must (except as regards such minor items as fines, fees and profits on realizing securities, which may be ignored for the purpose of this consideration) have been derived from one or other of the two following sources:—

Portion of the investment income received.

The surplus includes only a portion of the investment income earned. The remainder will have been absorbed in the valuation of the liabilities. Further reference to this will be made later.

Portion of the premiums received.

(a) Any portion of the premiums that has been saved through the mortality experience having proved better than it was assumed it would be.

(b) The excess of the portion of the premiums, left out of account in the last valuation to provide for subsequent expenses of management, over the actual expenses incurred.

(c) The portion of the premiums left out of account at the last valuation in order that it might produce surplus in the future.

27,486. (16) How it happens that the increase of surplus shown by two successive valuations does not include the whole of the interest earned in the intervening period will be readily understood by applying the principle of the valuation to a simple example.

A person is under contract to pay another person £150 at some date in the future. In order to be able to discharge that liability, he desires to keep continuously invested such a sum as will at compound interest, at a rate that he expects it will earn, amount to £150 when the payment falls due. At 31st December, 1920, he forms the opinion that the net rate of interest (after deduction of Income Tax) likely to be earned in the future is 3 per cent. He finds that the present value at 31st December, 1920, of £150 at the time it will fall due is £100 if he calculates interest to be earned at 3 per cent. He accordingly invests £100 as the necessary provision.

At 31st December, 1921, he finds that the net rate of interest earned over the year has been 4 per cent. and that his fund amounts to £104. He still considers, however, that the net rate of interest that will be earned in the future will be only 3 per cent., and he again estimates the present value of the liability to pay £150 at the future date by reference to that rate of interest. Assuming that the date on which the £150 is payable is a fixed date, it is clear that if

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the present value at 31st December, 1920, was £100, it will have become £103 at 31st December, 1921.*

If he makes an account of his assets and liabilities he accordingly finds that he has a surplus of £1, and this surplus represents £4 net interest earned, less £3 added to the liability, and ultimately received by the person to whom the £150 is payable; in other words the surplus merely contains interest on the amount of the fund at a rate representing the excess of the net rate of interest earned (4 per cent.) over the rate assumed in determining the present value of the liability (3 per cent.).

27,487. (17) By exactly the same principle, the major part of the interest earned by the fund of a Life Assurance company does not appear in the surplus, but, by the principle of the valuation, is added to the liability—or, as it might be put, it is credited to policyholders and ultimately paid to them.

27,488. (18) It will accordingly be seen that the increased surplus arises partly from investment income, the taxation of which, whether it is ultimately received by the policyholders or by the company, is properly within the scope of the Income Tax, and partly, from premiums, which are provided by the policyholders, and, so far as they are ultimately received back by them, are not fairly within the scope of that tax. So far as premiums paid by the policyholders go to the shareholders of a proprietary company, they form profit to the latter, and this point will be referred to later.

27,489. (19) Whilst the increase of surplus thus includes elements that are reasonably taxable, and other elements that are not reasonably taxable, it does not include all those that are reasonably taxable if it is a proper assumption—and it is submitted that it is a proper assumption—that all the interest (less expenses) earned on the investments, and received directly or indirectly by the persons concerned, is reasonably taxable.

27,490. (20) In the case of "ordinary" Life Assurance business, it is practically always the case that the investment income, less the expenses, exceeds the amount transferred to the proprietary body as its profit. It follows that, on the whole, the policyholders collectively receive back in the long run an amount exceeding the total amount they have paid collectively as premiums. The balance received by them may (apart from minor items that do not affect the consideration) be regarded as made up of the bulk of the interest, less expenses, the remainder of the interest, less expenses, being regarded as received by the proprietary body.

27,491. (21) In the case of "industrial assurance" it is almost always the case that the expenses of management and commission exceed the interest earned on the investments, so that any amount taken by the proprietary body may be regarded as being derived in effect from the premiums received, and is clearly a proper subject of taxation as a profit of the proprietary body.

27,492. (22) It is submitted, accordingly, that a consideration of the subject leads to the following conclusions:—

- (a) Where the investment income, less the expenses of conducting the concern, exceeds the amount credited to the proprietary body (if any), it is essentially the proper measure of the amount taxable.
- (b) Where the investment income, less the expenses of conducting the concern, is less than the amount credited to the proprietary body (if any), there is nothing receivable by the policyholders that is a proper subject of taxation, but the amount credited to the

proprietary body may be regarded as being made up partly of the excess (if any) of the investment income over the expenses, and partly of premiums received from policyholders, and is properly chargeable as representing the profit of the proprietary body.

- (c) The surplus or so-called "profit" is composed partly of premiums provided by policyholders, and partly of investment income. It belongs in the case of "ordinary" Life Assurance business to the policyholders, except as regards the small proportion taken by the proprietary body, if there be a proprietary body. It excludes the major portion of the investment income, viz., that portion which has been deducted and credited to the policyholders before the surplus is arrived at. Thus, it includes premiums repaid to policyholders, and excludes interest paid to them, and its constitution is accordingly such that it does not, in itself, form a reasonable basis of charge. It is only of use from a true Income Tax point of view, inasmuch as from it the amount credited to the proprietary body is determined.
- (d) As the amount credited to the proprietary body represents the profit of the proprietary body, as distinguished from the policyholder, the Income Tax assessment should never be less than that amount, although that amount may exceed the investment income, less the expenses.
- (e) The option hitherto existing of charging the investment income less the expenses, or the surplus or so-called "profit," whichever is the greater is not reasonable, and should be replaced by an option of charging the investment income less the expenses, or the amount retained by the proprietary body, whichever is the greater.

27,493. (23) In connection with conclusion (e) in the preceding paragraph, there is a special point to be considered in those cases of "ordinary" Life Assurance, where there exists a Foreign Life Assurance Fund. It may be said that, in practically all cases of "ordinary" Life Assurance, the investment income, less the expenses, exceeds the surplus or so-called "profit." Where, however, there is a Foreign Life Assurance Fund, and any portion of the investment income of that fund arises abroad and is retained abroad, or arises from certain British Government securities issued during or in connection with the war, or arises abroad, and is remitted to the United Kingdom, and is invested in such securities, such investment income is exempt from tax, and the allowance in respect of expenses of management is restricted in a corresponding measure (Income Tax Act, 1918, Rules applicable to Case IV., Schedule D, No. 2 (b); Rules applicable to Case V., Schedule D, No. 3 (b); section 46 (2) and (3); section 33 (5)). It so happens that in some such cases when the Foreign Life Assurance Fund is considerable, the liable investment income, less the allowable expenses, is less than the surplus or so-called "profit" of the company. In such an event, under the existing option, the surplus or so-called "profit" is adopted as the basis of the assessment, although it equally has reference to the foreign as well as the home business, and although a portion of it is allotted to the foreign policyholders. In other words, whilst the existing law gives effect to the view that it is not reasonable to tax the income on the invested premiums of a foreign policyholder, who makes his proposal to and receives his policy from a branch or agency abroad, if these premiums are invested abroad and the income derived from them is kept abroad, or if the premiums would have been invested abroad and the income kept abroad except for the special indemnity granted to encourage subscriptions to certain British Government loans, it does not afford a similar relief to the

* If the date when the £150 is payable is not a fixed date, e.g., if it depends on the cessation of a human life, the principle remains the same, but the figures would be somewhat different, inasmuch as the date on which payment of the £150 will become due would be deemed to be slightly postponed at each successive valuation. This is due of course, to the fact that the difference between the area after-life-time of persons aged x years and persons aged $(x+1)$ years is less than 1 year.

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portion of the surplus or so-called "profit" that is credited to policies in the Foreign Life Assurance Fund, when the option of charging tax on the "profit" has been exercised.

27,494. (24) It has been pointed out that the so-called "profit" is not in itself a reasonable basis of charge, and that its only reasonable use for Income Tax purposes is for determining whether the amount retained by the proprietary body is in excess of the investment income less the expenses. The expressed intention of the law to exempt the investment income of the Foreign Life Assurance Fund is inconsistent with the idea of charging that income in any other shape, and there is nothing of a chargeable nature that arises in connection with that fund beyond its investment income. It is suggested, accordingly, that there is no necessity to make any exception or reservation as regards conclusion (c) in paragraph 22 with the object of continuing the existing rather anomalous position in such cases. It would appear, however, that the existing law carries rather too far the exemption of the investment income of a Foreign Life Assurance Fund. There seems no reason why any portion of that income, less expenses, that is received by the United Kingdom policyholders or the proprietary company (if any) should not be brought into assessment; although it would almost always be necessary to arrive at the amount of that portion on the basis of an estimate.

27,495. (25) It will be convenient to consider briefly certain subsidiary points in the evidence given on behalf of the Life Offices' Association in connection with the basis of assessment.

27,496. (26) It is apparently suggested that it is incongruous to assess on the basis of the investment income less expenses of management, and at the same time effectively to charge the income from fines, fees and profits arising from reversions, by deducting these from the expenses in making the allowance.

27,497. (27) It has been submitted in the foregoing paragraphs that apart from certain minor matters, the real income is the income derived from the investments, and that in effect this income, after deducting the expenses of management, ultimately reaches the policyholders and the proprietary body, if any. A source of income additional to the investment income is the income received from fines and fees, and it is submitted that it does not conflict, but is in harmony with the principles that should govern the Income Tax, that this additional source of income should be charged as well as the main income which is derived from investments.

27,498. (28) As regards profits arising from reversions, these are essentially part of the investment income, and the considerations that go to show that the investment income, less the expenses, forms a proper basis of charge, apply in all respects to the income arising from reversions. There is no difference in essence between the profit derived from purchasing a reversion and that derived from purchasing a Treasury Bill. The difference is merely one of detail and rests mainly on the facts that whilst a Treasury Bill matures on a fixed date, the date of maturity of a reversion is in many cases uncertain, as for example, in the case of a reversion depending on the cessation of a human life; and whilst a Treasury Bill is redeemable by a fixed sum, securities in reversion may suffer depreciation between the time of purchase of the reversionary interest and the time when it falls into possession. Such depreciation is, however, allowed for in arriving at the profit derived from the reversion. Neither in the case of the Treasury Bill, nor of the reversion, is service rendered. The profit is wholly income from an investment, and it is considered that no charge based on the income from investments would be defensible if it omitted such a source of investment income.

27,499. (29) It has also been suggested that an inequality appears on comparing the basis of assessment of a bank with that of a Life Assurance company, in that a bank is permitted to deduct interest paid on deposits from its income from War Loans if the remaining untaxed profits are insufficient to provide for the full deduction of the interest paid on deposits, whilst a Life Assurance company is not

permitted to deduct from its investment income the portion that is necessarily credited to policyholders.

27,500. (30) It is submitted, however, that there is no inequality in fact inasmuch as the bank depositors are chargeable in respect of the interest they receive, whilst the policyholders of a Life Assurance company are not. It is merely an instance of the application of taxation at the source in a case where it is most convenient, and where the alternative would be most inconvenient, and the application of direct taxation of the individual in an exceptional case where taxation at the source would have extreme inconvenience.

27,501. (31) This statement has so far proceeded on the assumption that a Life Assurance company does not engage in the business of selling life annuities. It is, of course, the case that many of the companies do engage in that business, and it is necessary to consider what difference that fact makes to the conclusions. Just as in the case of life policies, the only income earned in the annuity fund is the investment income. The annuitants collectively may be regarded as receiving back the considerations they have paid, and the major portion of the interest earned by their investment. The remainder of the interest may be regarded as retained by the company and as constituting, after deducting the expenses, the profit derived from selling annuities. Where the company is mutual, the interest so retained is ultimately received by the participating policyholders. Where the company is proprietary, the interest so retained is ultimately received by the proprietary body, or is divided between the proprietary body and the participating policyholders, if the terms of their policies entitle them as is usually the case to share in the surplus derived from all the life business, including the annuity business.

27,502. (32) It is clear that this profit derived from selling annuities, whether received by the participating Life Assurance policyholders, or by the proprietary body, is profit in respect of which they should pay tax.

27,503. (33) At present, when a Life Assurance company is charged on the basis of investment income less expenses, it escapes from paying tax on this profit. Although the investment income on which it is charged includes the investment income of the annuity fund, the company recovers the tax on the investment income of the annuity fund by deducting it when it accounts to the Revenue for the tax which it deducts from the annuities, as an intermediary in the collection of tax from the annuitants. Thus, the company is left paying tax on the investment income of the life policy fund less the expenses of management of both life policies and annuities. It is submitted that it should be left paying tax on the investment income of the life policy fund less the expenses of management of the life policy fund, plus the net profit derived from selling annuities, or alternatively on the investment income of the life policy fund less the expenses of management of both life policies and annuities plus the gross profit (i.e. before deducting expenses) of selling annuities.

27,504. (34) It is suggested accordingly, that if the charge on a Life Assurance company that sells annuities is based on all the investment income less all the expenses of management, there should be deducted in arriving at those expenses, not only income from fines, fees and profits arising from reversions, as at present, but also the gross profits arising from selling annuities.

27,505. (35) In any discussion of amendments of the law that may be necessary to provide a reasoned and sound basis for the assessment of Life Assurance companies, a special point arises in the case of a company that transacts both "ordinary" and "industrial" business. The two funds are distinct, and whilst in the "ordinary" branch the investment income will almost always be found to exceed the expenses, in the "industrial" branch the expenses almost always exceed the investment income. The policy holding interests in the two branches are distinct. In the "ordinary" branch the investment

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income, less expenses, goes to the "ordinary" policyholders, except as regards any portion that goes to the proprietary body. In the "industrial" branch, there is no excess of investment income over expenses to go to the "industrial" policyholders, and any amount that reaches the proprietary body from the fund of that branch is derived from the premiums paid by the industrial policyholders.

27,506. (36) It follows that the only sound basis of an Income Tax charge in such a case is that the charge should cover:—

- (a) the interest less expenses of the "ordinary" branch which is divided between the "ordinary" policyholders and the proprietary company; and
- (b) the amount retained by the proprietary company from the "industrial" branch.

In other words, the basis of assessment, which this statement attempts to show to be the only sound basis, requires separate application to the "ordinary" branch and to the "industrial" branch, otherwise the resultant assessment would become unsound and meaningless.

[This concludes the evidence-in-chief.]

27,507. Mr. PRESTON: You have been good enough to send in your evidence-in-chief, which has been before us all, and which, if I may say so, is very clear and interesting. We shall not ask you to repeat that now, but if there is anything you have omitted which you would like to add, we shall be quite ready to hear it; if not, I shall ask the Commissioners to examine you and you will be prepared, no doubt, to answer any question the Commissioners will put to you?—Thank you. I think, as to anything else that I might have to say, perhaps, it would be more convenient if you would allow me to say it in connection with any answer that I should give.

27,508. It will be brought out probably in the questioning, but if at the end of your evidence there is any point which you think has not been brought out, and which you wish to add, we shall be only too pleased to hear it?—Thank you.

27,509. Mr. MARKS: I have made some notes on questions of detail that I thought I would ask you, but I think on the whole that would prolong your examination too much, and I do not know that they are very important, because I think what we both want to address ourselves to is the question of principle. I do not think I shall have to ask you any questions on points of detail, but if I do not do so you must not assume that I, or any of the other Commissioners, accept all your statements on matters of detail. Referring to the information which you gave me on the subject of investment companies at the last sitting, I understand that you divide them into two classes which you call investment trust companies and financial companies respectively, the former being taxed on their investment income, as you call it, less expenses, while the latter are taxed on the balance of their profit and loss account, which includes profit or loss on realization of investments; is that so?—That is so, with this proviso, that if the interest on investments exceeds the profit, the interest on investments is equally the basis of assessment of the financial company.

27,510. That is to say, that in principle the methods applied both to the Life Office and the investment company are the same?—To the Life Office and the financial investment company.

27,511. To the Life Office and the financial company I will call it; they are the same?—Yes.

27,512. Do you know any instance where that happens, that is to say, where they are taxed on their investment income less expenses? Do you know any instance where any financial company is so taxed?—Yes, there would certainly be cases where that happens.

27,513. In the first paragraph of the Annex to your third paper you say that the essence of the business of Life Assurance is investment. Do you think it arguable that protection against risk, as

in any other form of insurance, is the main element in the business?—No, I think the essence of the business is investment; I think that the protection is purely a question of distribution.

27,514. If investment is the essence of the business of Life Assurance, why should not a Life Assurance company be taxed on the same basis as a financial company, if the circumstances warrant it?—Do you mean by that that it should be charged on the basis of its profits?

27,515. Yes?—Instead of its investment income, less expenses, if the circumstances warrant it, that is to say, if the profits are greater than the interest, less expenses?

27,516. Yes. Taking into account profits and losses on realization of investments?—That is to say, as they are charged to-day, if the profits exceed the investment income, less the expenses?

27,517. I do not think they are, as a matter of fact, because the circumstances, as far as I know, are never such as to warrant it?—Well, they are in some cases. It would not often occur in the case of ordinary Life Assurance, but it does occur in some cases.

27,518. It must be in a very small proportion, surely?—It is a very small proportion of ordinary funds, but it happens with practically all industrial funds.

27,519. I think, perhaps, it would be just as well to explain to the Commission at this moment that, in speaking of the ordinary Life Offices, you mean offices which do "ordinary" Life Assurance business as against offices which do "industrial" Life Assurance, industrial Life Assurance being the small business which is done by offices like the Prudential where the premiums are collected at so much a week. Assuming that the law had not decided that a mutual Life Office does not make profits, would not the method of taxation on profits be even more evidently the proper method in the case of a mutual office, on your theory that the essence of insurance is investment?—Because I consider that the essence of the business is investment, I say that the investment income, less the expenses, is the natural and proper basis for the charging of Income Tax. That, I think, refers both to a mutual Life Office and to a proprietary Life Office.

27,520. In paragraph 3 of the Annex you speak of "such minor matters as fines and fees and profits on realization of investments." You would not include fines and fees in investment income, even if you include profits on realization of investment, would you?—Fines and fees I certainly do not include as income from investments, but I say that they are sources of income, additional to the income from investments, which should be charged.

27,521. We shall probably come to that later. They are, as a matter of fact, taxed now, are they not?—They are taxed at present.

27,522. And you explain that it is on the principle that they are profits outside the profits of an investment income?—Yes, they are profits or income additional to the investment income.

27,523. You include profits on realization in the minor matters. I do not want to over-emphasize the matter, but you realize that the profits might be very important?—May I ask where you are reading from at the moment?

27,524. Paragraph 3 of the Annex to your third paper: "Apart from such minor matters as fines, fees, and profits on realization." You do realize that they might be very important?—The profits on realization of investments are very important, I quite agree, but I say so long as we charge on the basis of interest on investments neither profits nor losses on investments are taken into account.

27,525. My difficulty, rather, is to see, if you maintain that, on principle, fines and fees should be liable to tax, why profits on realization should not also be taxed?—The reason is that, in the circumstances I have just mentioned, we liken a Life Assurance company to an investment trust company and not to a financial investment company.

27,526. That is rather important, I think?—Yes.

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[Continued.]

27,527. Why do you like it more to the investment trust company than to the financial company?—When I say we like it, I mean that the Act likes it in this. Although the profits or losses on realization are brought into account in calculating its profits, if the income from investments, less the expenses is greater than the profits, then the profits or losses on realization of investments are not taken into account.

27,528. Yes, but I think it is probable, is it not, at any rate in these days, that profits on realization are probably a very important item in determining the taxable basis of the financial company, we will say, even more so, probably, than interest?—If that be so, the result will be that the profits of the financial company will be greater than its interest income less the expenses, and so we should charge the profit which includes the profit on realization of the investments.

27,529. Would you agree that the basis of a Life Assurance business is nearer that of the financial company than of the investment trust company, inasmuch as the Life Assurance business does bring into account its profits and losses on realization, and must do so?—I should be quite content to take the view that it is nearer than the investment trust company, but I say that, unless the existing position is altered, if the charge is on interest, less expenses, then we have nothing to do with profits or losses on realizations.

27,530. But it has a bearing on whether the Life Assurance office should be charged on both?—It has a bearing, yes, but I think there is something radically different between the position of a Life Assurance company and the position of what we are calling a financial investment company, and that is this: that if you had a financial investment company whose credits consisted practically entirely of interest on investments and whose debits consisted of expenses, and, we will say, interest on debentures or to depositors, and the balance of its profits accordingly was the profit after deducting the expenses and that interest, then for Income Tax purposes, in order to arrive at the assessable profits of that company, we should take its balance of profits and we should add on the interest which is debited. Now, in order to liken that to the case of a Life Assurance company, if one were to work on the balance of profit as shown by its valuation to get the exact analogy to the position of a financial investment company, one would have to add on to that profit the interest which had been debited in arriving at that profit; in other words, one would have to add the interest which has been credited to policies.

27,531. Is that in connection with that rule in Schedule D?—Yes.

27,532. But that is a purely artificial provision, I maintain?—I am merely showing you that in order to get this similarity in principle between the two concerns, the Life Assurance company and the financial investment company, one would have to take the profit as shown by the valuation account and add on the interest credited to the policies. The result would be that you would get a sum which would exceed the interest, less the expenses, because it would, in fact, include all the interest, less expenses, plus a part of the premiums.

27,533. Yes; that is on your general theory as to the proper method of valuing Life Assurance business, I take it?—No, not on a theory. I am simply showing how alone you could get any analogy between the assessable profits of a financial investment company and the assessable profits of a Life Assurance company, if you started by saying that the balance of profit of a financial investment company was comparable with the balance of profit, as shown from the surplus on the valuation account of the Life Assurance company.

27,534. I do not know that it is very important, really, because you say that the financial company is, as a matter of fact, taxed on its investment income, less expenses, or on its profits made up on the usual principles of a trading account, whichever is the greater?—But what exactly do you mean by "on the usual principles of a trading account"?

27,535. The balance as shown by the balance sheet on a valuation of its assets and liabilities, bringing into account the balance of its revenue account for the year?—No, that is not quite the point. The comparison between investment income and profits in the case of what we are calling a financial investment company is a comparison between the investment income, less the expenses, and the balance of profits shown by the revenue account after adding back any interest which is debited in the revenue account.

27,536. Is that the principle which is applied to a financial company?—That is so; I should just like to say, so that no mistake should arise in public on this matter—

27,537. Forgive me one moment, I think perhaps it would tend to greater clearness and would save time if you would be kind enough just to make up a fictitious account on the lines which you have indicated and hand it in to the Commission; it could then be read in connection with the answers which you gave last time?—I will do so with pleasure. May I just complete what I was saying? In speaking of a financial investment company, I want it to be quite clear that I am speaking of what is a pure investment company, except that it takes power to treat its profits and losses on realizing investments as part of its revenue profits and losses. I am not calling for this purpose a financial investment company such a concern. I will say, as an exploration and development company and finance company; that is charged upon its investment income without allowance for expenses, or on its profits, whichever is greater. As a rule, in those cases the profits are greater because the investment income does not bulk so greatly as it does in a pure investment company.

27,538. At any rate, if a Life Office were regarded as a financial company whose main object is investment, the gains and losses would be brought in to increase or lessen its taxable income?—Yes, if the income were charged under the rules of Case I, Schedule D.

27,539. I will come to the Case I Schedule D consideration later. With regard to paragraph 4 of your Annex that is worked out on the basis of a revenue account, is it not?—That is the idea.

27,540. And it would be correct only in the event of the business being worked out—until the last policy dropped—but it could not possibly show the position of an office while any of its policies remain in force?—Clearly not.

27,541. Then you say that the ultimate account would show the concern in its true nature as an investment business?—Yes.

27,542. I suggest, although you say that the principle is the same, it should therefore be treated as an investment business; you say that it is?—Yes, I say that it is. I say that the profit is in fact the investment income less the expenses.

27,543. I do not see any particular point in your paragraph 4, if I may say so, because it appears to me that the position would be exactly the same in any trading company which disposed of its last item of stock-in-trade, realized its assets and paid off its liabilities, and then made up a revenue account on your principle, would it not?—Yes. The only point I have in mind is that it gets away from these periodical valuation accounts which are made to show the position at a point of time.

27,544. Periodical valuation accounts of Life Offices?—Yes, to show the position at a point of time. The account over the whole duration of the life of a Life Assurance company would in fact appear in this way, and I think you see the investment nature of the concern better from that conception than from having in your mind a valuation account.

27,545. But you do not suggest, do you, that the office should be taxed in its last year, we will say, on the results shown on the methods you indicate?—Which method do you refer to?

27,546. In paragraph 4?—I do not see there that I suggested any method.

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[Continued.]

27,547. You speak of the conception of an account drawn up on certain bases?—I only raise that conception in order to show that if you look at the account of a Life Assurance office from its start to its finish it does present itself in the nature of an investment concern.

27,548. I asked you whether or not you would contend that the result as shown at the end of the period you indicate would be a proper basis of taxation?—There would be no balance.

27,549. One moment, is that so—that there would be no balance?—No, I am assuming that the thing had worked itself completely out, and everything had been distributed.

27,550. What would you distribute? It seems to me three positions might arise: there might be a profit, that is, a surplus, there might be a deficit, or there might be an equality?—With regard to what is already distributed there would be no actual balance on the account. What I say is whatever has been distributed at any time during the course of its existence has been the interest earned on its investments less the expenses, because there is nothing else of a revenue nature to distribute.

27,551. I will come to that. You agree, do you not, that it is baseless to assume that a profit would be shown on the winding-up of a business on those lines?—I am not suggesting that there would be any profits shown on the winding-up of a company in that way. I am assuming that there would be no balance left at all, but I say whatever profit there has been in the account, and whatever profit has been distributed, has been the interest income less the expenses.

27,552. Mr. McIntock: Is that not what you mean by the term "profit" there, the difference between the two?—Between the interest income and the expenses.

27,553. That profit goes to the policyholders; you are meaning the difference between the two?—Yes, that is so.

27,554. Mr. Marks: My point really was that it was not possible to assume that there would be an equality at the end, but I do not know that it is very important, and I will not pursue it. You are aware that, rightly or wrongly, actuaries speak of profit and loss on mortality in addition to the other sources of profit and loss, such as interest income and depreciation or appreciation of securities?—Yes.

27,555. Do you agree that there may be a profit or loss on mortality by reference to a standard, of course?—I do not agree for Income Tax purposes there can be any profit or loss on mortality except so far as something in excess of the interest less expenses goes to the shareholders; then it is a profit to the shareholders.

27,556. I do not think we need concern ourselves with shareholders, because everybody agrees that so far as they get any profits out of the office they ought to be taxed on them?—Yes. Then subject to that, I say if we are considering what is purely a mutual concern there is no taxable profit from mortality.

27,557. I think I must pursue that a little further. Assuming that an office earned exactly the net rate of interest which it assumed, spent in expenses exactly the amount provided by the loading of its premiums, experienced on balance no profit or loss on securities, and that the lives fall in exactly as provided by the table of mortality which it assumed, there would be no surplus or deficit?—If they were all without-profit policies?

27,558. Well, no. You can assume that if you like, but it does not really matter. I am really including the loading for bonuses in the expense?—Would you mind repeating the question?

27,559. It does simplify matters if you assume that they are all non-profit policies, so we can do that. Assuming that an office earned exactly the net rate of interest which it assumed, spent in expenses exactly the amount provided by the loading

of its premiums, experienced on balance no profit or loss on securities, and that the lives fall in exactly as provided by the table of mortality which it assumed, there would be no surplus or deficit?—I agree.

27,560. Assuming that it could be shown that all the items just mentioned, except the last, that is mortality, balanced, if there were then a deficit or a surplus, would you agree that there was a loss or profit on mortality?—I should agree that it should not have any effect on the Income Tax assessment; in the parlance of actuaries I should say that there was a loss or profit on mortality.

27,561. Assuming for the moment that a Life Assurance office were taxed as a trading concern, because the law might be altered to produce that effect, there would be a taxable profit on mortality, or a loss?—Yes, I should agree that if a Life Assurance company were taxed upon the increase in its valuation surplus, that would form part of the profits which would be taxed; that is as far as I could go.

27,562. Quite. I do not want to admit that without being quite clear that I understand what you mean. If an office were taxed on its actuarial surplus I agree that would include any profit or loss which might have been made on mortality; is that your point?—I agree, yes.

27,563. In your paragraph 4 again, does it not rather imply that the proper method of ascertaining the profits of a Life Office for the purposes of taxation is to take the revenue account and ignore the balance sheet, a position, of course, which could not be right as long as there were any contracts in force?—I think it is so—subject to this point, that we are prepared to ignore the question of shareholders—that the liability of a Life Assurance company is calculable entirely from its revenue account, because its liability only consists of its interest revenue less its expenses.

27,564. Its liability to Income Tax?—Its true liability to Income Tax can only arise to my mind in that way, and so in that way it is properly calculable.

27,565. When you speak of its true liability to Income Tax, of course you mean that the truth is founded upon assumption?—You refer to my paragraph 4?

27,566. Yes?—I urge that that is the true liability, the interest less the expenses, and for that reason, because I consider it to be the proper liability, I say it is calculable from the revenue account.

27,567. Is there any other form of enterprise in which liability is calculated exclusively from its revenue account?—Yes, that is so. The use of a balance sheet as an adjunct to the revenue account is merely useful for Income Tax purposes in order to guide one as to whether there may be certain things hidden in the revenue account or not brought into the revenue account.

27,568. Mr. McIntock: I say it is always calculated from the revenue account and not from the balance sheet. It is exactly as Mr. Furtado says; the balance sheet is only to show liability where it may be hidden up?

27,569. Mr. Marks: I am not an expert accountant, but it seemed to me that you could not properly ascertain the liability of a trading concern, as I think it has been put to us here in evidence, without the balance sheet?

27,570. Mr. McIntock: No.

27,571. Mr. Marks: Well, do not let us confuse the matter. I will not pursue that. Just one question on paragraph 5 of the Annex. How does the method of distributing the profits affect the liability to taxation: is this taken into account in taxing any other taxpayer whether a company or individual?—You are referring to the last sentence in paragraph 5?

27,572. Yes: "the main difference between them, so far as the present consideration is concerned" (I take it that is the true basis of assessment) "lies in the method of distributing those profits" "F—And your question is what?"

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[Continued.]

27,573. How does the method of distributing profits affect the liability to taxation?—It cannot do so in any respect whatever; that is exactly my point.

27,574. Then I am afraid I misunderstood your paragraph 5: "the main difference, then, between a Life Assurance company and an ordinary investment company is not connected with the sources from which their real profits are derived, nor with the nature or the measure of those profits. In both cases, the source is the investments, and the measure is the investment income less the expenses. The main difference between them, so far as the present consideration is concerned, lies in the methods of distributing those profits." What does that mean?—The intention of paragraph 5, whether it attains that result or not, is that there is no difference in the sources of income in the two cases, nor in the measure of the income. The only difference is in the method of distribution, and it is not implied, or intended to be implied, that that might affect the Income Tax. The expression "so far as the present consideration is concerned" was intended to refer to this: I do not suggest that there is no difference between an investment company and a Life Assurance company except in its method of distribution. There are all sorts of other differences between them, but they have nothing to do with this consideration.

27,575. I am still rather at a loss. In the present consideration to which you refer, the consideration of the basis of assessment?—It is the liability of Life Assurance companies and investment companies to Income Tax.

27,576. That is the basis of assessment, is not it?—The whole question of their liability. May I just explain; I think I can clear your mind, if I may. I recognize that there is a wide difference between an investment company and a Life Assurance company in all sorts of ways of this kind: a man goes into an investment company and he is seeking a profit on his individual investment and anything that he gets is calculable exactly by his individual subscriptions. In the case of an insurance company the circumstances are altogether different. He does not get any share of the interest income less the expenses by reference merely to his individual investment; that is one difference.

27,577. Well, I could not admit that, but never mind?—There are many other differences.

27,578. Yes, I agree; I do not think you need pursue it?—I mean there are many differences which have nothing to do with this point at all, but the main difference to us as this consideration is concerned is simply that the income, although measured in the same way, is differently distributed.

27,579. You really mean that it is another method, and in your view the most striking method, of distinguishing between a Life Assurance company and a financial company?—I am not quite clear. I am not distinguishing. I say that a Life Assurance company and the ordinary investment company earn their profits from exactly similar sources and their profits are measured in exactly the same way, but the real difference between them is that they distribute those profits in different ways.

27,580. Let us leave it at that. So far we have been looking at the Life Office as the taxable entity, but I gather from your evidence-in-chief that, in your view and that of the Inland Revenue, the present method of taxing Life Assurance offices is an attempt to tax at the source the individual policyholders through the company, which is the legal person on which the tax is imposed; is that so?—We consider that in effect that is the case.

27,581. That it is the object of the Inland Revenue to get at the individual policyholder?—In effect that is the result whatever the object is. It is quite clear that it is the individual policyholder in the end who bears the tax, and that the result of the tax is to charge the policyholder through the company.

27,582. Who is the political head of your Department in the Government, the Chancellor of the Exchequer?—The political head would be the Chancellor of the Exchequer.

27,583. I suppose any dicta of any Chancellor on points such as these would have weight with the Department?—I cannot guarantee that in advance.

27,584. Do you mean whether it agrees with your view or not—is it rather important? So recently as 1916, when Mr. McKenna was Chancellor of the Exchequer, this point came up at an interview which several representatives of the Life Offices had with him at the Treasury, when not only Mr. McKenna was there but Mr. Montagu, Sir Edmund Nott-Bower, Sir John Bradbury, Mr. Warren Fisher, and Mr. Hamilton. The Chancellor of the Exchequer then said without contradiction—I do not know whether that is merely a question of etiquette or whether the dicta were approved—the method of assessing Income Tax on the Life Assurance companies, in order to bring it into line with the theory upon which the tax is assessed, namely, that it shall fall upon the individual?—the Chancellor said there: "that is not the principle of the Income Tax." Further he said: "the moment I am put in the position of following the Income Tax into the hands of the second cipher I shall be pushed into all sorts of arguments to trace the Income Tax back and back into remoter places. Upon the other point, to show the difficulty in relation to the absurdity of claiming to get behind the first liability to taxation, the liability imposed by Parliament upon a corporation or firm"—again he refers to the principles of taxation with regard to the individual or firm. So that I may not have to refer to it again, I just wanted one or two other things that he said in this direction. He said: "it is quite legitimate for you to say to me that the whole question of the incidence of Income Tax of Life Societies ought to be the subject of revision and I am not prepared to deny it," and he said: "I realize to the full the strength of your case; I quite appreciate it"—that is only just by the way; that is very much in contradiction of your view, is it not?—I think not. I should say, having heard your quotations, that we should attach very great weight to all those things, but I think, after all, that all you have is that the Chancellor has pointed out to a deputation that the principle of the Income Tax is taxation at the source. He could not possibly have meant that taxation at the source was not ultimately borne by the individual, because it is obvious that it must be.

27,585. No, I do not think he did mean that. I think what he meant was, that the law imposes the charge on the company or corporation, the legal person, and that is the matter and the sole matter which arises between the Inland Revenue and the company?—Yes.

27,586. There is another consideration which arises between the policyholder in the case of the Life Offices, and the shareholder in the case of an ordinary industrial company or trading company, but that is a question for settlement between the individual taxpayer and the Revenue?—That is normally the case, but, of course, that raises, I agree, very great difficulties in the case of a policyholder, who does not get his dividend or his interest yearly.

27,587. I am coming to that. Just incidentally, the theory which I have indicated is quite in accordance with the legal decisions which no doubt are familiar to you. The *Mersey Docks v. Lucas* and *The New York Life v. Snydes*, I think, decided that when the profits have once been ascertained the destination of them does not matter for the purposes of taxation?—That is so, but in mentioning the question of the entity for taxation I think one ought to bear in mind that a Life Assurance company is, after all, a little different from an ordinary company, because in the case of a Life Assurance company the tax upon the company is on something which includes not merely the company's profits but its customers' profits as well.

27,588. I will not argue that; I will just take you on my own lines. Do you compare the position of a policyholder with that of a shareholder in a financial or trading company—I take it not?—I think they are different.

27,589. In what way do you think they are different?—I think in the first place that the policyholder is not necessarily a member of the company, whereas the shareholder is.

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[Continued]

27,590. Well, he might be in a mutual office?—He may be a member then; he is a constituent then, but he is not necessarily a constituent in every Life Office.

27,591. But there are Life Offices, even proprietary Life Offices, in which the policyholders are members to the extent that they have certain rights in the direction of the company?—Yes, but the point I wish to make is that the law has taken the basis of charge rather farther with a Life Assurance company than it has with an ordinary concern. I know of no other concern where the profits of a person with whom the company contracts are included with the profits of the company itself. I would make that slight distinction—I do not know that it is a distinction in essence, but it is a distinction.

27,592. Well, I think it is rather an important distinction, and I think that admission on your part would enable me to shorten your examination somewhat, because at any rate it is an admission that the Life Assurance office as a taxable entity is a thing *et generis*?—I think in many respects it is.

27,593. Apart from the shareholders in a Life Assurance company you regard the Life Assurance company merely as a convenient channel by which you tax the assured?—I regard the company itself as a convenient method of bringing a large body of people into mutual relations.

27,594. For the purposes of taxation?—For the purposes of Life Assurance.

27,595. How do you regard that for the purposes of taxation?—I say that whatever the Life Assurance company, as a company, gets in respect of its service in bringing those people into those mutual relations.

27,596. Is that an answer that is categorical to my question?—Perhaps I did not follow it well.

27,597. Apart from the shareholders in a Life Assurance company, do you regard the Life Assurance company merely as a convenient channel by which you tax the assured?—No, I should not say that that was the case.

27,598. You say, do you not, that the Life Assurance company as a company is not the proper subject of taxation, and therefore it seems to me that you must regard it as the channel through which you get at the policyholders, and I thought you admitted that?—I do not think I should say that we regard the Life Assurance company merely as the convenient channel for taxing the policyholders; I think there may be something else beyond that.

27,599. Very well, let us leave that. Speaking quite generally, and not of Life Assurance or of policyholders, can taxation at the source be so applied as to produce the same results to investors in other forms of security as an Income Tax charged directly on them by means of the arrangements made for redemption, and so on?—I am very sorry I have not followed.

27,600. Leaving out of account altogether Life Assurance companies and policyholders, can taxation at the source be so applied as to produce the same results to investors in other forms of security as an Income Tax charged directly on them? I think it is fairly obvious that it must be so?—Certainly. You are excluding any question of Super-tax, of course. Generally speaking, yes.

27,601. If, as has been suggested here, taxation at the source were abolished, you would have to find some other method of taxing the individual, would you not?—Undoubtedly.

27,602. How would you tax individual policyholders which is what you say should be done if taxation at the source were abolished?—It would be a very difficult and cumbersome thing. It is done in some other countries, I believe. Policyholders are taxed on the difference between the amount of the premiums they have paid and what they receive on maturity of their policies. That is done in some cases, but it would be very cumbersome, I think, and very difficult. I should just go a little farther—I do not know what it is exactly you want me to say, but I do think this, as you raise the question of taxation at the source, that whilst taxation at the source has many inconveniences in many directions, although no doubt it is very valuable, I do not think that there exists any kind of concern that is so embarrassed by taxation at the source as a Life Assurance company.

27,603. I think the Life Offices would regard that as a valuable admission?—I think it is right to say it, and it is right to bring it home to the Commission that it is perfectly clear to my mind that a Life Assurance company might be perfectly sound under a system of taxation of the individual, and insolvent under a system of taxation at the source.

27,604. Now let us see if we can put any question on that. It rather tends to the view that as a matter of convenience, at any rate, the taxable entity should be the office rather than the policyholder?—The taxable entity, I think we all feel, must be the office, because of the very cumbersome business it would be to make the charge upon the policyholder.

27,605. You referred just now to the possibility that the Life Office might be made insolvent by the tax—that the channel by which you levy the tax might be made insolvent merely by the tax?—That is perfectly true, because taxation at the source hits a Life Assurance Company in two directions. It first of all reduces its net earnings and then it forces a reduction of the net rate of interest that it would expect to earn in the future, so on both sides of the account the Income Tax comes in to hamper the office. I should just like to explain that a little bit more. The revenue of a Life Assurance company in any year will very largely consist of its net interest revenue, so that its fund at the end of the year is, so far as it is increased by interest, increased by its net interest revenue. Then when on the other side it comes to value its liabilities it has to estimate that in the future it will earn a very restricted net rate of interest, because its interest will be taxed at the source. This results in increasing the total of its liabilities to policyholders. So on both sides of the account taxation at the source operates to embarrass the working of a fund.

27,606. Mr. McLintock: That is always assuming no increase in the gross rate of interest?—Whatever rate they contemplate will be earned in the future, they have to knock off from it the Income Tax which will be charged in the future. An increase in the rate of interest will tend to set off that reduction on account of tax.

27,607. Mr. Marks: There has been a considerable increase in the rate of interest and there has also been a much larger proportionate increase in the tax, with the result that the net interest now being earned for the Life Offices is very considerably less than it was.

27,608. Mr. McLintock: They have remedied that by writing down investments.

27,609. Mr. Marks: No, even taking that into account?—I think the most important point in that connection is that the increase in the net rate of interest only arises on the new investments, and it takes a long while to get it.

27,610. Mr. McLintock: Or the writing down of old ones out of former reserves?—Well, unfortunately it happens to be out of bonuses that the policyholders would like to get.

27,611. They have done that; that is in the past. They have all pretty well cleaned the slate now.

27,612. Mr. Marks: Anyhow, I submit that Mr. McLintock's questions do not bear on this question of taxation. We have got that the channel by which you levy the tax might be rendered insolvent by taxation. Do you know of any other channel where the same thing might happen?—No. As I said just now, I cannot think of any other similar case.

27,613. The broad effect of your proposals is that a Life Office should be taxed on interest less expenses?—That is so.

27,614. And you regard that as a sound principle?—Yes.

27,615. And you would also agree that a principle, if it is sound, must be of general application?—Yes.

27,616. What would be the position of a mutual Life Assurance office in which the expenses exceeded the interest income?—No charge.

27,617. What is the justification of your method of dealing with the industrial offices where expenses exceed the investment income; is it simply that they are not mutual or is it because you must find some thing to tax?—It is because they are not mutual and the surplus goes to the shareholders.

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27,618. It is only a question of taxing their shareholders?—That is so.

27,619. Not their policyholders?—Exactly.

27,620. Then the policyholders would get off altogether in that case?—Certainly.

27,621. Is there any difference in principle between the methods on which Life Assurance is conducted in an industrial company and in an ordinary company, which would give them that privilege?—When the expenses exceed the interest revenue the point is that the policyholders never really get any of the interest.

27,622. They get a certain amount of surplus, whatever it may be?—In rare cases, yes, but the point is the policyholders do not get any of the interest. What they get is some part of the extra premiums that have been paid.

27,623. What happens to the excess of expenses over interest; is it carried forward and set against a subsequent excess of interest income?—In an industrial company?

27,624. Yes?—Is it carried forward?

27,625. Yes?—I do not quite follow.

27,626. Mr. Walker Clark: From year to year.

27,627. Mr. Marks: We know that all the industrial companies' expenses largely exceed their investment income?—Yes.

27,628. What happens on the excess? Does it simply discharge their assessment on their investment income, or do they get any credit for it afterwards?—At the present moment the result is that they get back the difference between the tax which they have paid on their interest revenue and the tax on their valuation profits.

27,629. They get back the difference between the tax which they have paid on their investment income by deduction and the tax on their valuation profits?—Yes, so that they are left to pay Income Tax on their profits and those profits go to the shareholders.

27,630. I have got a question on that later on; perhaps it will come in better there. You admitted that a company might be reduced to insolvency by taxation on the present basis?—Excuse me for one moment, by taxation on the present basis that it might be reduced to insolvency?

27,631. Yes?—Yes. I agree, assuming a sufficiently high rate of tax.

27,632. And by taxation simply?—Yes.

27,633. Is this because a company must make some interest to be solvent?—A company must make a certain net rate of interest to be solvent.

27,634. Would it not be a practical suggestion then, that only that part of the interest which exceeds that necessary rate should be subject to tax?—No. The result would be that a portion of the interest received by the policyholders would be free of tax altogether.

27,635. I will not pursue that, because on your theory that would be wrong. You know it is generally stated now that persons are investing in non-interest bearing things like pictures and jewellery in order to escape taxation. Take a case of a man who buys a picture for £500 and keeps it till his death, when it is sold for £600, say; ought his estate to pay Income Tax on the £100?—I think it would be unwise to attempt to charge it. It is a pure question of policy. It is not charged now, of course, and I can only say in my personal opinion it would not be wise to attempt to do so.

27,636. You do not think it should. Is there any difference in principle from a tax point of view between that man and the case of the man who pays a single premium of £400 for an assurance of £500?—Yes; I think that man's money is earning interest all the while.

27,637. And the other is not?—And the other is not.

27,638. Suppose the man sold his £500 picture for something less; there would be nothing to tax then, would there?—No. I do not think we could possibly get anything in that case.

27,639. Suppose the holder of a non-profit policy for £200 at an annual premium of £25 paid 21 premiums on it, he would have made no profit; he would have paid £525?—No, he would have made no profit.

27,640. He gets no benefit from the fact that he has made no profit?—I think he does. All that it

means is that he has not received any interest out of the fund. Somebody else has, and whoever has received the interest has borne the tax.

27,641. But he has paid something during the whole of the continuance of his policy, receiving nothing in respect of it. On your theory that the individual policyholder is the man you want to get at, it seems rather hard on him, does it not?—I do not think it is. The tax has been borne on the interest, but somebody else gets the interest. Whoever gets the interest has borne the tax.

27,642. It is his interest which has been taxed?—No. What has been taxed is the interest on the collective capital of the policyholders.

27,643. That is just my point, or one of them. Directly you get on to the consideration of individual cases, you are bound to come back to the company and look at that?—Yes, but I think I have said before, it would be quite impossible to deal with the individual. It is collective investment, and the individuals as a whole share the burden of the tax, but they do not share it equally.

27,644. Mr. Petyman: Nor in proportion to their contributions?—Nor exclusively or principally in proportion to their contributions.

27,645. Mr. Marks: And yet you say that this method of taxation which you advocate is intended to apply to individuals?—I say that the result is that it is borne by individuals.

27,646. Borne very inequitably?—I do not know about very inequitably; I would not admit that.

27,647. Let me take another case, which is perhaps a little clearer. Take the case of two insurances, on a non-profit policy for convenience, each for £1,000, taken out at age 20 at a premium of £20, and the first man dies within a year, and a profit of £980 is made on the transaction. That certainly does not come out of his interest, does it?—As I said before, it comes out of the collective interest of the fund.

27,648. The second man lives until he is 80, say. This man not only receives no interest on his premiums but he pays £200 more than he receives?—Yes.

27,649. Can those two cases be reconciled with any theory of taxing the individual on his investment income?—Yes. I think the investors come together to invest collectively, and they have contracts which result in the appropriation of the capital and the income of the investments in certain proportions. We have nothing to do with the proportion in which the capital or the interest is divided between them, but we are entitled to tax the interest, and I say that the tax is borne by the individuals, but not necessarily equally amongst the individuals.

27,650. You are entitled to tax them, but, I submit, only to tax them equitably, or as nearly equitably as you can get?—I should agree that you should tax them as equitably as you can.

27,651. In paragraph 9 of the annex to your third paper you speak of persons who receive indirectly interest from investments of sums provided by them. What do you mean exactly by "indirectly"? Can you give some other instances?—By "indirectly" I mean that a policyholder does not receive the interest directly as it is earned by any portion of the fund which is allocable to him, but he receives it indirectly on the maturity of his policy.

27,652. You have just agreed that some of them do not get it at all?—Then he is not taxed upon it.

27,653. Pardon me. He has been taxed during the whole duration of his policy, so far as I can see?—The tax is borne by the man who gets the interest.

27,654. But that is not the individual policyholder. However, it is the same point. Can you give me any other instances?—Not life policies, do you mean?

27,655. Yes?—I think that in cases of trusts of many kinds, a man bears the tax upon the interest revenue indirectly. He does not pay it himself; he does not get it perhaps on specific investments, but he does bear it.

27,656. But it involves no inequity to him?—No. All I say in my evidence-in-chief is that it is right that he should bear the tax.

27,657. The investor in an investment trust company is merely an ordinary shareholder?—I was not speaking of a trust company then. I am thinking

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of a trust. I say that a man may derive taxed income indirectly, and not from specific investments. All I mean by that paragraph is that, whether a man receives interest from investments directly, or indirectly it is a proper subject of charge.

27,668. Of course I maintain that the policyholder does not receive it, in many cases. How are proprietary Life Offices actually taxed, first, if they do ordinary business, and, secondly, if they do industrial business alone or in combination with ordinary business?—At the present moment the law does not allow the separation of the ordinary business from the industrial business. It is all Life Assurance business, and it is charged together. As you will have noticed, I suggest in my proof that they should be dealt with separately.

27,669. That is because your principle does not apply in an extreme case?—It is because the joint assessment of the two funds enables the policyholders of the ordinary fund to escape a charge which I consider they should bear, simply because the expenses of the industrial fund, in which they do not share, are so great.

27,670. That would be the case in any expensively or extravagantly managed office?—If there were two funds.

27,671. Not necessarily if there were two funds?—But if there were only one fund of course the policyholders would share the burden of the expenses. Because there are two funds with different interests, the policyholders of the one fund should not get an advantage because of a burden borne by the policyholders of the other fund.

27,672. In the case of an office doing only industrial business where the expenses exceed the investment income, there is no taxation at all?—There is taxation upon the profits, because those are received by the shareholders.

27,673. But it is consistent with your theory that where there is no investment income there should be profits to be taxed?—Yes, provided that they go to the shareholders; because although they come from the premiums they are profits to the shareholders and should be taxed.

27,674. I think there is at least one mutual industrial office?—Yes.

27,675. How would you apply your principle to that?—If the interest revenue is exceeded by the expenses and the office is mutual there can be no possible basis of charge.

27,676. Is that as a consequence of your principle or as a consequence of the legal decision that a mutual office can make no profit?—As a consequence of the principle that I set down here.

27,677. In the ordinary proprietary office, is the office allowed to retain the tax deducted from the shareholders?—To deduct tax from the dividend, do you mean?

27,678. The tax deducted from the dividends paid to shareholders?—Yes, the company can deduct the tax from the dividends which go to its shareholders.

27,679. And it retains it?—Yes, it would retain it if it is part of the profits which have been assessed.

27,680. It is paid out of taxed income?—Yes.

27,681. To that extent the proprietary office is in a better position than the mutual office?—Not in so far as its policyholders are concerned. Of course, its shareholders are able to make their repayment claims, if they are entitled to them, at once; but in a mutual office there are no shareholders. But I think the policyholders are in the same position in both cases.

27,682. Could not the policyholder in the proprietary office get the benefit of the tax retained from the dividends paid to the shareholders?—No.

27,683. It would go into the general funds of the company, would it not?—No, I think not. The tax would be charged, we will say, on the interest income less the expenses, and a certain portion of that, perhaps judged from the valuation amount, would be paid to the proprietary body. The tax on that portion is deducted from shareholders' dividends, but it is paid to the Revenue.

27,684. I am not sure whether I am right, but just take this case for comparison. An ordinary trading

company makes a profit of £100,000, say, on which at present rates it would pay a tax of £30,000, leaving £70,000, and out of that £70,000, say, it pays the shareholders £60,000, and deducts tax of £10,000, which it retains. That would leave £50,000 paid to the shareholders, and if you deduct that from the £70,000 there would be a balance of £20,000, made up of £10,000, which they have not distributed, and £10,000 tax repaid?—Yes; in other words, they are left with the undistributed profits, £40,000, diminished by the tax on the undistributed profits, £12,000.

27,675. That is the effect of it. Now, take a proprietary Life Office where the interest less expenses is £100,000. They would pay tax on £30,000, leaving again £70,000?—Yes.

27,676. Suppose they distributed to the policyholders £50,000, to the shareholders £10,000, the tax on that £10,000 being £3,000; that would, together, mean a net sum of £57,000, which would leave, in that case a balance of £13,000; that is to say, the £10,000 undistributed and the tax repaid?—Yes.

27,677. If you come to the mutual Life Office with an investment income less expenses of £100,000, on which £30,000 tax has been paid, and the policyholders took £50,000, they would only have £10,000 left, would they not?—I do not know that I have followed the figures absolutely, but I think the point is this: that, inasmuch as they do not distribute the profits to shareholders (because there are no shareholders) they keep the profits and they bear the tax which the shareholders would have borne if they had had the profits. I think it only comes to that in the end.

27,678. The net result of it is that to the extent of the tax, the proprietary office or its policyholders are £3,000 better off, on the figures I have indicated?—I should say the proprietary office is not better off, because it has taken out of the funds the whole amount of the shareholders' dividend, whereas the mutual company has not.

27,679. The figures will speak for themselves; I need not trouble further with this. You agree that offices doing industrial business, or industrial and ordinary business in combination, are allowed to set off all their expenses against their investment income?—Subject to the limitation, that they must pay upon their profits.

27,680. That is on their full actuarial surplus?—Yes. I am speaking, of course, of the present law. You are referring to the present law?

27,681. Yes. That is determined, of course, on the usual principle?—Yes.

27,682. As I say, an industrial office doing business, on mutual principles, would escape taxation altogether, would it not?—Under the present law it does not escape taxation altogether, because the mutual office, just as the proprietary office, has that same limitation in regard to its repayment claim in respect of expenses of management.

27,683. Then a proprietary industrial office is also allowed to retain the tax on the dividend distributed?—Yes.

27,684. And such an office (I may be wrong here) gets back all the tax on its investment income, retains the tax on its shareholders' dividends, and is taxed in the last event on its actuarial surplus?—It is taxed in the last event on its actuarial surplus.

27,685. Such a position could not arise either in a mutual office or in a proprietary Life Office which was doing ordinary business?—In a mutual office which is doing ordinary business that same ultimate limit would apply; that is to say, if the balance of the interest income, less the expenses, were less than the valuation profits, then, although it is a mutual office, it would be charged upon those valuation profits in the last resort.

27,686. With reference to your conclusions in paragraphs 22 (d) and 22 (e) of the Annex, are not the conclusions stated there due to the fact that, if the principles of taxation which you advocate for ordinary offices were applied to industrial offices there would be nothing to tax? I submit that your proposal is intended to avoid the result that expensively or

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extravagantly managed offices would pay nothing?—The intentions of 22 (d) and 22 (e), I think, are scarcely that. The intention of 22 (d) is that if the amount received by the proprietary body is greater than the investment income less the expenses, the amount received by the proprietary body is a profit subject to charge, because it is profits of the proprietary body and should be charged; that is 22 (d). Paragraph 22 (e) is directed to the idea that the proper option is to charge the tax on the investment income less the expenses, or the amount which is received by the proprietary body, if that is greater, but thus the valuation surplus, as such, is not a proper basis of assessment.

27,687. It does really come to that: that unless you got the tax on the shareholders' profits, you would not get anything out of an industrial office?—That is so.

27,688. So that it might be argued that, as there is no difference in the principles on which the two classes of offices conduct their business, the fact that the principle of taxation does not work in the case of the industrial office is some proof, or at any rate indication, that the principle is not quite sound?—No, I should not agree to that. I should say the principle is perfectly sound; but both principles are sound. First of all, that the interest, less expenses, should be charged, but that if the profit which the proprietary body gets is greater, that should be charged.

27,689. We agree that the shareholders' profits should be charged in all offices?—Yes, and I think they are both principles.

27,690. But I submit there is no parallel between the two things which would enable you to suggest that an option should be exercised in regard to them. It is not a question of option at all, I submit?—I think one could state it without calling it an option at all. I think one could even state it in this way: that the proprietary body should be charged for what it receives for its services; and if there is any balance of the investment income, less expenses, it should be charged on account of the policyholders.

27,691. Just one point on your reference to the foreign Life Office. Does the foreign investor in a British trading company escape tax?—No.

27,692. Nor does the foreign investor in a British financial or investment company?—No.

27,693. Then there is another distinction between shareholders and policyholders, when both of them are foreigners?—Exactly.

27,694. And the policies are issued in accordance with the limitations imposed?—As I said before, there is a distinction between a constituent of a concern and a customer.

27,695. Can you tell me, for my own information, would a British office which issued all its policies through a foreign branch and complied with the other limitations which you mention, escape British Income Tax entirely?—So far as the investment income of the fund is concerned, it would. That is what I point out in my proof, that the exemption goes rather too far, because it is quite clear in a case like that, that the company itself might be deriving some profit out of the interest of the fund.

27,696. For the reason, either that the foreign policyholder would get better treatment than the British policyholder, or that the home policyholder in that office gets an advantage as compared with the home policyholder in offices doing only British business?—I think the case you put was that the whole of the business was done with foreigners.

27,697. Yes; I do not want to pursue it too far. If part of it were done with foreigners that would be the result, would it not?—Yes. I think it is quite clear that the exemption of the whole of the interest of the fund takes the exemption rather too far.

27,698. That is in paragraph 24 of the Annex, and you suggest that the injustice should be remedied, as far as any investment income brought home is concerned, on the basis of an estimate. Have you formed any idea of the way in which that estimate should be

made?—It is not a question of being brought home, I think, but that accrues to shareholders.

27,699. It has to be brought home, has it not, in connection with the limitations?—No, I do not think that is exactly the point. Although it may not be brought home if a Foreign Life Assurance Fund was earning net, we will say, 4 per cent. interest—

27,700. Let us make it as short as we can. I do not think it is worth while to pursue it. I only just wanted to know the position. Then there is one other point. You give the rule in Case III of Schedule D for British colonial companies doing business here, where there is an option to the Inland Revenue to substitute some other basis of assessment, I think it is?—Yes.

27,701. Have they done so in any cases, do you know?—Yes, there have been a few cases of the kind.

27,702. What basis is adopted?—With certain little differences, the main basis has been the liability basis.

27,703. On the ascertained actuarial liability?—Yes.

27,704. It has been found to be suitable in those cases?—Yes, it always helps them, of course, if the British business is new or rapidly expanding.

27,705. Paragraphs 26, 27 and 28 of the Annex, I think, are really founded on a misconception of the Life Office's case. This is how I understand their case. It is, that so long as the Inland Revenue claim the option to tax on interest less expenses or on profits, whichever is the greater, they cannot equitably tax the two. Or do you propose that the law should be altered so that they can legally do so?—No; my proposals are restricted to what I have put forward in the proof here. I may perhaps have misunderstood the suggestion made in the Life Office's proof. I rather thought the intention was to say that it was incongruous to charge the interest revenue and at the same time to try to charge fines and fees or profits on reversions. I do not think that is incongruous. That is the point I was making there.

27,706. In the present state of the law, which is what the office were considering—I do not want to read a rather long extract, but I will refer you to the last edition of Dowell, at page 465, and the remarks of the Lord President in the case of The Clerical, Medical & General Life Assurance Society v. Carter, which deals with that point, but I will not quote it. Can you defend the taxing of fines and fees on any other ground except that it is in accordance with the principle of income taxation as applied to companies which are taxed on their trading profits?—Yes, I could defend it on the ground that fines and fees are part of the profits. I say that the profits are the investment income less the expenses, and if there are any other sources of income than the investment income, they should be taken into account.

27,707. But you agree with me that it is not investment income?—I agree that it is not investment income.

27,708. And that if it had not been really a matter of bargaining between the office and the Inland Revenue, fines and fees could never have been included as part of the investment income for income taxation?—I do not say they were included as investment income. I say they were taken into account in deciding what expenses the company should have. They were taken as a deduction from their expenses, not included as their investment income.

27,709. If the profits on reversions exceed the expenses, what happens? Is the office charged on the excess of the profits over expenses, or is it charged on the whole amount of the reversion?—I have never seen such a case; I do not know what would happen.

27,710. I think it is a case that is quite likely to arise in an office which invests a large proportion of its funds in reversions?—I think under the present law we can only take into account profits on reversions, in so far as we can deduct them from expenses of management on which the office retains tax.

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27,711. They get no benefit from their expenses, really, when a large proportion of their profits is derived from reversions?—That is to say, it might wipe out their expenses claim, but I do not think under the present law we could charge in such cases any excess of such profits over the total expenses.

27,712. In paragraph 28 you refer to the purchase of a Treasury Bill, but that is under appeal, as you know. Then again in paragraphs 29 and 30, I think you have mistaken the point of the Life Offices' complaint. You suggest that "a bank is permitted to deduct interest paid on deposits from its income from War Loans if the remaining unutilized profits are insufficient to provide for the full deduction of the interest paid on deposits"—Yes.

27,713. Really I think the inequality of which they complain is that as the law stood, both banks and Life Offices were assessed on interest income less expenses or on Schedule D profits, whichever was the greater. In the nature of the businesses the normal result was that banks were taxed under Schedule D, and Life Offices on interest less expenses; but directly there appeared a chance that the banks would change over from the lighter to the heavier basis, the law interfered and, for reasons which the offices have long maintained should apply to them—that is, that they were taxed on a larger sum than their trading profits—the banks were relieved of the results which would have fallen on them?—Even in that sense I think there must be some little misapprehension in the minds of the Life Offices. Even taking it in the way that you say, the banks in the end are only paying upon their income after deducting their deposit interest.

27,714. I do not think we need discuss it; I feel quite sure that you have mistaken the point of the offices?—If you have not any special question to put, it is rather complicated, and I would rather not go into it.

27,715. I agree; but the point, as I have stated it, is the point of the Life Offices, rightly or wrongly?—Thank you.

27,716. Then in paragraphs 31 and 33, again the suggestion rather is that you are proposing to substitute for the option a tax on investment income less expenses or on profits, the right to tax on both?—Again I say that the profits on selling annuities is a source of income additional to the investment income. I should like to say this in that connection. The point was raised during the examination which I have had the advantage of reading of Mr. Low, when he was here on behalf of the Scottish Offices' Association, and I think he very freely admitted that if there was a source of income other than investment income, it certainly ought to be charged; and my own view is that that is incontestable.

27,717. In paragraph 32, are you not rather assuming all that you have to prove, including the doubtful proposition that there is always a profit on annuities?—We shall not charge it, if there is none, but if there is any, we propose that it should be charged. Generally speaking, there will be certainly gross profits.

27,718. I think it is fairly clear, to use your expression, that the interest on the sum paid by the purchaser of an annuity is not interest or investment income from any payment by a policyholder—I am speaking throughout this question of life annuities—and that so far as any profit is made out of the sale of annuities, it is in the strictest sense a trading profit for the policyholder, if he gets it, and not the annuitant?—Yes.

27,719. And you propose that that profit should be taxed?—I propose that that profit should, just as fines and fees, be set off against the expenses before a Life Office gets an allowance for expenses.

27,720. You are charging the policyholder on a profit which he has made outside the business of Life Assurance?—I think it is a business of Life Assurance.

27,721. In a different sense from fines and fees, which do arise in the business of Life Assurance?—I will put it in another way, if you like, that the policyholder, besides benefiting to the extent of the interest less expenses on the life policy fund, as I will call it, is also interested in a business of selling

annuities, and if he derives profit from that, he should pay tax upon it in some way, and I suggest that he should pay tax upon it by deducting it from expenses of management.

27,722. How would you ascertain the profit on the annuity business—as you suggest in paragraph 31?—I take it from the valuation of the annuity fund.

27,723. You admit a possibility of loss on the sale of annuities?—Yes, I admit a possibility of loss on the sale of annuities, but I do not admit a great possibility of gross loss. When a Life Office has a repayment claim in respect of its expenses of management, it includes all the expenses of its annuity business. So that what we should have to set off would be the gross profits of the annuity business. I do not think that you will find many cases of annuity business where you will have a gross loss.

27,724. I think that rather depends on the method on which you estimate the profit or loss, does it not?—I think it would be exceptional to find a gross loss.

27,725. I cannot agree with you, as a matter of experience?—Your information on the point would be far better than mine.

27,726. Supposing there were a loss, how would you treat that?—Would you give any credit for it?—I think it probably might be treated in the same way as losses arising from reversions.

27,727. These you would not give credit for it?—Yes, I do not see any reason why it should be treated differently.

27,728. You know how the profits on annuities would be estimated, I take it?—I take it that we should work ordinarily upon the valuation of the annuity fund.

27,729. You would ascertain the values of the annuities and compare them with the amount of the annuity fund?—Exactly.

27,730. And the balance would be profit or loss?—Exactly.

27,731. And of course that involves the introduction of the element of mortality?—Clearly.

27,732. And there might arise in connection with the annuities a profit or loss on mortality?—Clearly.

27,733. The interest is not the only thing to be considered?—Clearly. I should like to say, in connection with that, the position in which the policyholders would stand in regard to profits on annuities, is precisely the position in which the shareholders would stand in regard to profits on policies. Mortality comes in in both cases. It is a question of profits.

27,734. Do you admit that in regard to Life Assurance, there is only one correct method of ascertaining the profit or loss on Life Assurance as a business?—I admit that there is only one way by which the shareholders' profits are calculated in Life Assurance offices.

27,735. This is not my point. Do you admit that there is only one way of ascertaining the profits of Life Assurance, if you regard that as a business, and that is the ordinary way adopted?—No; I say there is only one way of arriving at the profits of Life Assurance for Income Tax purposes, and that is by taking the interest less the expenses.

27,736. I am not on that point for the moment, and I repeat the question: do you admit that there is only one correct way of ascertaining the profits of Life Assurance conducted as a business?—No.

27,737. Why not?—I say there is only one way of arriving at the surplus of a Life Assurance fund, and that is by the valuation account; but that that does not represent in any sense the profits properly within the scope of any Income Tax.

27,738. I am not at the moment on the Income Tax point. I only want to know whether you agree that the ordinary method of ascertaining the profits in a Life Office is the correct one.

27,739. *Dr. Stamp:* Commercial profits?

27,740. *Mr. Marks:* Yes, regarding the Life Assurance office as purely a business, a trade?—I could not admit that without a definition of "profit." If you call it "surplus," I will agree at once.

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[Continued.]

27,741. Is not the trading profit in an ordinary company adjusted afterwards by various methods for the purpose of ascertaining the taxable profit?—I think there is an essential difference, to start with. When you have got at the valuation profit, as you call it, of a Life Assurance company, then it is not the company's profit at all. The bulk of it goes to the policyholders, who are the customers of the company.

27,742. I know that, but you are going back again to the other point; that is to say, whether the ultimate destination of the profit has any bearing on the point that we are discussing. I do not think it has. What I want to know is, what is the proper method of ascertaining profits of a Life Assurance as a business?—All I can say is that the proper method of ascertaining the surplus of a Life Assurance fund, is exactly the method adopted by the companies; but when you have got that surplus, it has nothing to do with ordinary commercial profits. There is no comparison between the two things.

27,743. Why has it nothing to do with ordinary commercial profits, on the hypothesis that the Life Assurance company may be regarded as a trading company?—I say you cannot compare it; I cannot think of anything at all analogous to compare it with. I cannot think of any other case where you take a balance and call it a profit, and then find that it belongs to the customers of the concern. That is why I say it is not analogous to commercial profits.

27,744. Take co-operative trading; is there any analogy there?—I should not like to go into that question.

27,745. I think you have admitted that you can properly have a profit or loss on an annuity transaction?—Yes, or any other transaction.

27,746. On an annuity transaction, for the moment?—Yes.

27,747. The purchase or sale of a Life Assurance policy is exactly the converse of the sale or purchase of an annuity, is it not; in this way: the annuity transaction is the payment of a lump sum in exchange for a series of annual amounts for an uncertain period; and the other is payment of a series of annual amounts in exchange for a lump sum to be received at some uncertain time?—I should agree, if in both cases any surplus went to some other person, that the two things were on the same plane. But whilst a surplus arising from an annuity fund goes to persons other than the annuitants, a surplus arising on a life policy fund does not go mainly to persons other than the life policyholders.

27,748. There again that is not my point. My point is this: that you can, and I think you have admitted it, ascertain what is the exact profit or loss on the purchase or sale of an annuity?—Clearly.

27,749. And I suggest that inasmuch as the elements involved in the ascertainment of that profit or loss, are exactly the same as those which are involved in the ascertainment of the profit or loss on an assurance policy, the proper method to be applied to the one, is also proper to apply to the other, and that, applying that method in different ways, you do get what is a profit or loss on the policy?—I should agree that it would be the proper method if you were to say that the conditions are the same in both cases. But what might be the proper method in analogous conditions, would not be a proper method to use in both cases when the conditions of the persons in receipt of the income vary.

27,750. I cannot agree with that, but I will not pursue it. I put it to you that if the method is a proper one, it is proper in all circumstances, within the limitations which I have suggested?—I cannot agree to that.

27,751. You have admitted that the loss on mortality in the case of an annuity might properly be set off. Would you also admit that in the case of a Life Assurance policy?—The loss on mortality in the case of a Life Assurance policy is not set off in arising at the assessment, unless the assessment happens to be on the basis of what goes to the shareholder.

27,752. It is a proper set-off in some circumstances?—It is a proper set-off, if the basis of assessment is the profit derived by the shareholder.

27,753. A proper set-off, do you mean, strictly limited to the question of Income Tax; because I cannot admit that if it is a proper set-off in one direction, it is not a proper set-off in another?—I say it is not a proper set-off in one case, for this reason, that the policyholders together can have no profit at all except what comes from the interest on their investments; and the profit on the mortality is a pure question of the premiums that they have subscribed not being required. I should not consider it right to charge the policyholders on any excess premiums they have paid.

27,754. Generally I submit that selling Life Assurance is a business, but a business which is necessarily conducted on principles which differentiate it from all other businesses. You would not admit that?—I would admit that it certainly can be differentiated from all other businesses.

27,755. Would you agree that it should be regarded as a business?—The selling of Life Assurance is a business, clearly.

27,756. And that in that case the taxation of profits would bring it into the closest analogy to any other form of business?—Yes, subject to this: that the person who sells the Life Assurance policy is the proprietary body, and I have always suggested that it should be dealt with by reference to the profits that it gets as a proprietary body.

27,757. I will not pursue it, if you admit that. The method of taxation at present is based on a legal decision entirely, is it not, The Clerical, Medical and General Life Assurance Society v. Carter?—That, amongst others.

27,758. Which has been found impossible to apply universally without producing all sorts of difficulties?—I should not say it would be impossible to apply it universally; I think it is applied universally.

27,759. I need only take one instance, to show that it is not applicable universally. Under the old section, section 23, I think it was, of the Customs and Inland Revenue Act, 1890, where a man was allowed to set off a loss in business against his income on investment, that would not be possible if interest were really taxable as a separate subject matter of taxation?—You mean that there have been certain relaxations from that rigid principle by specific reliefs?

27,760. Yes?—I agree.

27,761. And in order to avoid injustice and in equity, concessions have had to be made?—Yes. It is still a universally governing principle, but it has been subject to relaxation.

27,762. My point was that the thing was found not to be of universal application, and had to be modified in order to bring it within the range of practical politics?—I agree that it has been considerably modified by relief.

27,763. I am not going to labour the point of the industrial offices, but I do submit that, inasmuch as your principle does not apply to businesses which are both *exclusively* *graciar*, there must have been something wrong in your methods?—I do not agree to that. I say that both are principles, and they apply separately to the two things.

27,764. In paragraph 26 of your third paper how do you arrive at the £30,000 which you estimate would be the gain to the Revenue?—It is made up of four items. First of all there is a certain loss on foreign business, then there is a certain gross annuity profit estimated, then there will be a gain from the industrial companies by separation of funds, and a loss in the case of the industrial companies by cutting out the portion of the surplus in some rare cases.

27,765. Will you mind just putting it down in detail and handing it in?—I will give you the details. I would like to say, with regard to that particular estimate, that it is subject to some margin of error, but I do not think a great one.

27,766. You have not left out—or do you think you have—anything either in the way of investment income or miscellaneous profits, which might be taxed?—I do not quite follow how that could arise.

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27,767. In getting your estimate?—I feel quite sure that this estimate, although it has some margin of error (mainly with the annuity profits), has not a margin of error that is probably more than 10 per cent.

27,768. But you have made an estimate of every possible source of taxable profit, whether it is from investment income or any other source?—Yes, I have done it as closely as I can.

27,769. That rather supports the contention that I advanced just now, that you are proposing to substitute, for the option which at present exists, the right to tax on both sources of profit miscellaneous profits, we will call them, and investment income?—In making this estimate, I am supposing that the charge will be made exactly in accordance with paragraph 25 of my third paper.

27,770. My point really is this: that you are now taxing the investment offices, not only on all their investment income less expenses, but everything else which might be considered as a profit?—Not everything else, I think. I am leaving out entirely profit or losses on realisation of investments; but, subject to that, I think it does take everything which can fairly be called revenue; and I think, generally speaking, it covers income from investments, fines and fees, profits on reversions and annuity profits.

27,771. Is not the attitude of the Inland Revenue in this respect a somewhat cynical one, having regard to the fact that for many years, long before the tax was at anything like its present level, the offices have contended that they are over-taxed, a contention which has been supported by more than one Chancellor of the Exchequer (I have read some quotations), while your proposed amendment involves them in an additional burden of £50,000?—I think you are only taking part (1) of my third paper.

27,772. I am simply on the basis of assessment now. —If you simply take part (1), I should say that a reformed basis of assessment would take this trifle more from the Life Assurance companies than they have paid in the past.

27,773. In contradiction to their own contention and the admissions which have been made by political authorities?—I do not know what you have in your mind.

27,774. I will not say anything more on the point. I think the whole of your evidence is based on the introduction of a quite new element, investment income, instead of a consideration of the question from the point of view of the legal position?—I should suggest that that is absolutely the oldest element in this consideration.

27,775. In the second sentence of paragraph 5 of your third paper, you say: "Until 1915 any person whose business consisted partly of making investments was chargeable to Income Tax on his gross investment income or on his profits, whichever happened to be the greater." As a matter of interest, is that strictly correct? Was not that limited by the section I quoted just now, section 23 of the Customs and Inland Revenue Act, 1890?—That is a relief section. He was required to pay tax on that in the first place.

27,776. He could set off his losses in trade?—Yes, he could set off his losses in trade against his aggregate income from all sources.

27,777. There was a suggestion that Life Offices might possibly say the same thing, was there not?—I believe it was raised by one company—one of the Edinburgh companies, I think.

27,778. Was it in order to avoid the possibility of doing that that the Inland Revenue put in Schedule D, Cases I and II, Rule 15 (3). "In ascertaining whether an assurance company has sustained a loss in respect of its life assurance business," and so on?—Yes, that was passed in 1915 to make the law quite clear.

27,779. I do not know that it was for that purpose. It was perhaps to prevent the Life Offices obtaining the advantage which they might have got from the existing state of the law. However, it is not very important?—I do not think that is so. I think certainly it was put in to prevent a Life Assurance company making such a claim, because it was felt it would not be right.

27,780. It is the suggestion that I put before, namely, that it, at any rate, implied a somewhat uneasy conscience on the part of the Inland Revenue?—No, I should not admit that, because I think it would be quite absurd for the Life Assurance companies to make such a claim as that.

27,781. Mr. Kerly: Dr. Stamp, you cannot be here after lunch; you may have one or two important questions to ask. Mr. Geoffrey Marks' examination will last some considerable time longer, and as it is so late now, Mr. Geoffrey Marks has been good enough to tell me he will interrupt his examination while you put your questions.

27,782. Dr. Stamp: I had an interesting suggestion made to me, suggesting a solution of the difficulty; I do not know whether it has passed through your mind, and whether, if I explain it now, you might like to give an opinion on it. It is something on these lines. It leads up to this as a final method of allowance. It is designed to bring home to the individual policyholder a little more closely than the average solution of a lower rate does, perhaps, the true relief that is due to him on the interest on his own policy for him himself, and it is to be given effect to on these lines. That, if the man is liable, we will say, at 2s. in the £, you shall take the amount of his premium and apply a factor to it. Instead of allowing £1 premium, you would allow him £3. But if his rate of tax was, say, 4s., you would add only 25 per cent. to his premium. I will explain the relation in a minute. When the assessment is to be made, the man's premium is looked at, and if he is paying a low rate of tax, a high factor would apply; if he is paying at 4s., a comparatively small factor would apply; if he is paying at 6s., nothing would apply; if he is paying at 10s., including Super-tax, instead of allowing the whole premium, you would allow a fractional part, say four-fifths. If I may give just two or three illustrations at the several stages, you will probably see the underlying principle at once. Take the case of the man who is liable to 2s., and the whole of whose premiums amount to £100. Now it is assumed that you can find a common relation between premium income for the given policy and the amount of investment interest that accrues to that policy. We will assume that for every £100 premium, there is an interest of £50 accumulating to that policy, on the average. Just take that relation, for the sake of argument—that you have established a relationship of £50 interest, on the average, to £100 premium, over the period. The man is liable at 2s., and he gets allowances on the £100 premium; that equals 200 shillings, in all, of tax. On his policy there is £50 of interest, by our hypothesis, which gets charged at present at 2s., whereas his true rate is only 2s. Therefore he is overcharged on £50 at 4s., which represents an overcharge of 200 shillings. If you make such an adjustment on his allowance as will give an excess allowance to counterbalance that overcharge, then the man will be properly taxed; or if you can give him an allowance not only of the 200 shillings that he is entitled to at present, but of another 200 shillings, that would cancel out. That would be achieved by multiplying his allowance by three; you would give an allowance of £300 at 2s., and thus neutralize the overcharge. Now take the case of the 4s. man. He gets allowed 4s. in the £ on the £100 premium, which equals an allowance of 400 shillings. The overcharge on his interest is represented by 250 at 4s., but he ought to pay £50 at 4s. That is an overcharge of £50 at 2s. He is charged 100 shillings too much. Now the suggestion is to give him that overcharge in his allowance by giving him 4s. or £125, instead of on £100, applying the factor of five-fourths to his premium. Now if you take the case of the man at 6s., obviously there is no necessity for allowance there, because that is exactly his true rate on his income. Now take the man at 10s.; he gets an allowance of 100 times 10s., or 1,000 shillings on his assessment. But he underpays in the interest, because he is charged £50 at 6s., and he ought to be charged £50 at 10s. Therefore he is undercharged 50 times 4s.; that is 200 shillings, which ought to come off his allowance. You can get it off

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his allowance if you reduce his premium from £100 to £50. So, in the case of a man at 18s., the scale would give you a reduction of his premium, four-fifths. So if you could find that relation between interest and premium, the suggestion is you could get for every man practically, by the initial allowance in his assessment, a true adjustment for the overcharge.

27,783. Mr. McLintock: There would be inequalities.

27,784. Dr. Stamp: Obviously there would be inequalities there, but the assumption is—and I should like Mr. Furtado's view of this—that there is a fairly stable relationship between premium income and investment income over companies of the same type, and keeping out industrial companies.

27,785. Sir W. Truett: Supposing a policyholder is exempt?

27,786. Dr. Stamp: Obviously the exempt policyholder gets nothing. It is assumed, I think, that in this class of assurance company, getting away from an industrial company, and with a low exemption limit, that would be a negligible factor.

27,787. Mr. McLintock: That factor is given in Mr. Furtado's paper already?—I think I can give you some particulars with regard to the relation of gross interest income to premium income. I think I have stated in my proof that on an average in ordinary funds it can be taken at practically one half. It is as nearly one half as possible, but of course that is merely an average; it means nothing in relation to the particular companies. That is with the ordinary company; if you take the industrial, I think you may say that, taking it all the way round, it is 15 per cent.

27,788. Mr. Marks: What is that relation? The interest income in the industrial company, say, is 15 per cent. of the premium income?—It is an average, just as the one half is an average. It has no bearing on individual companies. But taking the whole, it would be just about 15 per cent. of the premium income. As I said, it has no relation at all to the varying companies; but if you take old established companies, you will find a varying proportion from about one half up to two-thirds or even more; you will find cases where the interest income is practically equal to the premium income, and you will find some closed funds where the investment income even exceeds the premium income. But taking it all over, it is practically one half. With regard to this suggestion I think I ought to point out one or two things. To my mind, what is necessary to do if the Commission are anxious to relieve any of the difficulties that at present arise, is to bear in mind, first of all, the cases of the inequalities which arise among policyholders because of the position of non-profit policyholders and because of the position of policyholders who are not liable to Income Tax at all; and also, what to my mind is a really much more important question than many people think—because they have not thought about it at all—the really serious embarrassment that taxation at source at high rates causes to the companies themselves.

27,789. Mr. Pretymon: On their older contracts?—Or on any contracts. Even supposing you take the average computation of 1 to 2, as the ratio of investment income to premium income, this could not be applied generally. But then when you come to the individual, it has absolutely nothing whatever to do with the matter. Just as the average life is so man's life, this average relation, even if you adopted it throughout, has nothing to do with the individual case. You might say that the taxpayers between, we will say, £500 and £1,000 a year, were three-quarters of a million, or whatever it is (I have not it in my mind at all) and you might reasonably say that the interest received by those three-quarters of a million of people was roughly one half their premiums; but it has no application at all when you come to the individual case. In fact you get the case that Mr. Marks has put to us this morning, where a man takes out his policy at age 20, and he lives till age 80, and at the end you will have been charging him on so much interest during his life, or allowing him in respect of his interest, and

he never gets any. Again, you get a man who takes out a policy, and who has paid £50 on it in the course of a couple of years, and who gets £500. He has had £450 interest; what you will have charged him in your attempt to get something relating to the individual will be quite absurd.

27,790. Dr. Stamp: Take the class of case of the man liable to 2s. as a normal section of the community. That class would have the average mortality experience of the whole country?—Yes.

27,791. Would it not be fair to say that you have narrowed down the inequalities to the whole class that are liable at 2s. You could not get any nearer to the individual than that?—The fact that you have narrowed them down to the class does not at all mean that you have taxed the individual properly. As a matter of fact you have created much greater inequalities for the individual, by doing that, than you can ever have by letting the tax be paid in the bulk, and the man who really gets the interest bears his share of it.

27,792. But I think you could say that we have dealt with all the 2s. payers, and we have dealt with all the 3s. payers, as a whole and put them right; but as regards those who die early or who die late, we cannot deal with that?—I should say you have added a great many inequalities that at present do not exist, but you have not reduced any that at present exist.

27,793. I do not see why we have added any?—Because you would be actually charging the wrong man for interest year by year, when he may never receive any at all. You do not do that now.

27,794. But it is the same for all that particular class of taxpayers who are liable at 2s.?—Yes, but what it means is that in the case of the man who receives £450 of interest the adjustment is something which has no relation at all to his £450.

27,795. Mr. Marks: Your point is that even in the 2s. class there would be a wide range of inequality ranging from the very lowest up to the very highest?—Yes.

27,796. Dr. Stamp: I suggest to you that the general average rate that is being suggested as a lower figure is trying to do two things. It has to deal with two sets of inequalities: inequalities of the rates of tax of different taxpayers, and inequalities of rates of mortality. Now this suggestion seems to clear one of that set out; it still leaves you, with the inequality of mortality, but it does do something to clear out the inequalities of rate of tax?—Personally I think it does nothing at all; because when you come to the interest due to the individual you are working on a principle of average, which has nothing whatever to do with the individual.

27,797. Mr. Pretymon: I am afraid I perhaps do not quite grasp this subject so fully as either Dr. Stamp or Mr. Geoffrey Marks. I should like, for my own information, to get this quite clear. What I understand this proposal that Dr. Stamp has referred to, to be, is that this particular allowance should be made in this particular form to the policyholder?—Yes.

27,798. And that he will pay his premium, and in respect of his premium he will get an abatement from his own Income Tax?—Yes.

27,799. But the object of that statement, as I take it, is simply to induce him to take a premium to insure his life?—No. As I understand Dr. Stamp, he realizes that the fact that we charge a Life Assurance company on its interest at the rate of 6s. in the £ is really rather hard on the policyholder.

27,800. I quite understand that, but may I just put my point. What I cannot see is how that affects the companies. The allowance that is proposed to be made is to the man who takes out his life policy?—Yes.

27,801. And he gets an individual allowance which affects him only?—Yes.

27,802. And which does not seem to me to touch the company at all. I cannot see why it affects the

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company. The company gets the premium; then assuming that the principles that you have laid down here in the early part of your paper, upon which Mr. Geoffrey Marks has been examining you, are carried out and supposing the company is taxed upon its interest plus the other items which have been referred to, I cannot see how the companies are affected by the remission of tax which is given to the individual who takes out a policy on his own account.

27,803. *Mr. Marks:* Your point being that the two questions are quite distinct.

27,804. *Mr. Petyman:* They seem so to me: distinct to this extent, that it is a question of the taxing of the individual who gets an allowance, but I cannot see how the company is affected afterwards by the question of whether that individual got an allowance or not?—I think that is quite true. You are speaking of the matter quite apart from Dr. Stamp's suggestion just now.

27,805. I understand his suggestion to apply only to the two questions; but take them separately. One is the allowance which is made to the man as an abatement from his Income Tax when he takes out a premium. That is, as I understand it, an inducement to him to adopt that form of saving—that he will take out a life policy. All I understand Dr. Stamp's proposal to be (perhaps I misunderstand it) is this: that in that case, the point at which tax is deducted at the source being 6s., in order to remove the present inequality as between different people who take out policies—broadly stated, the position is that people subject to higher rates of tax escape a great deal more than people who are subject only to very low rates of tax. That is the hardship, is it not?—That is one of the hardships.

27,806. That is the particular hardship that Dr. Stamp proposes to meet, is it not?

27,807. *Dr. Stamp:* It is, and it appeals to me. Assume that we grant that the Legislature wants to continue the present allowance for premiums on principle, it is designed to utilize such an allowance.

27,808. *Mr. Petyman:* Will you say, first of all, how that affects the companies, except that perhaps they get more policies taken out?

27,809. *Dr. Stamp:* Yes, but if it is agreed to be the main principle that you wish to allow a man at the rate that he is liable to tax upon the premium that he pays, you have to work in relation to a certain inequality which exists, which arose through taxation at the source, that is, the depletion of the benefits accruing to him on his policy at a flat rate. The question is whether those who are hit by the flat rate cannot be put right in their original allowances, and those who are benefited by the flat rate cannot be also put right in their original allowances. It is a kind of attempt to adjust the inequality that arises in taxation at the source, through the original allowance that you intend to give them. I think Mr. Furtado has followed me?—I have followed you.

27,810. The company will continue, of course, to be liable at 6s.

27,811. *Mr. Petyman:* What puzzled me was that you put forward that proposal, and Mr. Furtado answers it by a statement as to the average relation between the interest of the companies and their premium income.

27,812. *Dr. Stamp:* I do not think Mr. Furtado was bothering about the company either. He simply says that the suggestion does not achieve what I wanted to achieve, namely, the correct assessment of the individual. May I say that I only referred to the relation between the premium income and the investment income of the company because Dr. Stamp is basing his argument on the average relation existing. That is where he derives the factor which he is intending to apply to the premium in order to increase or to reduce it so as to mitigate the inequality.

27,813. You must know that factor.

27,814. *Mr. Marks:* May I put it in this way: that Dr. Stamp is trying to adjust the equities as between individual policyholders, whereas there is no relation common to all policyholders between the premium income and the interest income?—That is so.

27,815. *Dr. Stamp:* But is there not an unbiased section—any section which you might cut out of the assurance company.

27,816. *Mr. Marks:* No, I think not.—What I say is that all you do is to create more inequalities, without doing anything at all to reduce the inequalities that at present exist.

27,817. *Dr. Stamp:* You leave out of touch the inequalities arising between the individual taxpayer as to length of life in a particular class, but in so far as you divide them into classes who are charged separate rates of tax, I think you get rid of inequality?—I say because you have applied a factor to the premium allowances of 10,000 policyholders, that does not give you any equality between those policyholders at all.

27,818. *Mr. Petyman:* How can you give equality in the matter of the length of life?—I think it is quite impossible to give equality between policyholders in that way. You have not only introduced further inequalities, but you have not remedied any of the inequalities which at present exist. Take another case: I take a without-profit policy for £1,000, and my premium is £40 a year, we will say. What are you going to do with me? The tax rises, we will say, from 1s. 3d. to 6s. in the £.

27,819. Under this proposal you would get your premium payment deducted from your liability to Income Tax, and if you lived for one year you would get it done once, and if you lived for 40 years you would get it done 40 times.

27,820. *Dr. Stamp:* The factors will alter every year according to the shifting of the rates of tax as compared with the normal rate?—Dr. Stamp is suggesting that I should not get merely my premium allowance, but that some factor is going to be applied to it which he thinks will rectify the difference between the rate of tax I ought to bear on the interest on my policy and the rate of tax the company has borne for me.

27,821. *Mr. Petyman:* I do not see how that is going to make any difference to the individual companies. That problem would adjust itself over the whole area of assurance at some time. Over the nation, they will have to get back as much from people with big incomes as they would give to people with small incomes?—Yes.

27,822. *Mr. Marks:* The age of the assurance company would come in.—I should say that that solution could certainly not cost less than has been suggested in these proofs, and could not possibly reduce the inequalities which we seek to reduce, but would create a great many more inequalities.

27,823. Is it not a fact that Dr. Stamp's proposal is founded on an assumption which is in itself radically unsound?—I think that Dr. Stamp's proposal is attempting to extend a principle of average to a place where it is impossible to apply it.

27,824. *Dr. Stamp:* The proposal before us is to reduce the rate from 6s. to 4s. 6d. That equated rate will leave the average man who is liable to 2s. overcharged irrespective of the length of his life, and it still leaves the richer man undercharged—the average man?—I am not sure that that is so.

27,825. This scheme puts the average man right, in his class?—I am not quite sure that what you say is right.

27,826. You say that the alternative rate of 4s. 6d. leaves somebody overcharged and somebody else undercharged?—I do not claim that the suggestions which have been put forward by me will remove all inequalities. I do say that they will reduce many of the inequalities, and I do say that they will reduce the inequality that arises to the with-profit policyholder, with regard to the non-profit policies. They do reduce inequalities which arise with regard to the policyholder who is not liable to Income Tax at all, and they do very greatly mitigate the embarrassment that charging the highest normal rate creates for companies.

27,827. *Mr. Petyman:* This 4s. 6d. you propose is to alter that interest, is it not?—The suggestion is to charge the interest at 4s. 6d. instead of 6s.

27,828. In other words, it is a 1s. 6d. allowance to that extent?—Yes.

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[Continued.]

27,829. Instead of any allowance which is now given on the premiums?—The allowance on the premiums, it is suggested, should remain, except that I suggest that certain allowances in respect of the premiums are not justifiable in present circumstances and should be restricted. The present allowances in respect of the premiums themselves create very great inequality between policyholders as a class, and I say that the saving by sweeping away the particular inequalities that arise from the method of allowance in respect of premiums might well be utilized in reducing the other inequalities that arise from charging the interest at too high a rate.

27,830. *Dr. Stamp*: I take it that your point is this: that there are two difficulties here. One is the individual policyholder, and the other is that embarrassment is caused to the Life Assurance company itself?—Yes.

27,831. And you are doing the two things at once?—Yes.

27,832. May I suggest that you could do both; you could give them the higher net rate of interest by reducing the rate to 4s. 6d., but in application to the individual policyholder you could work this solution by reference to a rate of 4s. 6d. and not 6s. 7—*I really do not think you would do anything but produce great inequalities and a great deal of work and a great deal of misunderstanding. In the end you would find it would cost you more; I feel sure.*

27,833. *Mr. Petyman*: Perhaps you might think over this point that *Dr. Stamp* has put to you and if anything occurs to you upon it you might send us a paper?—I will, with pleasure. I will think about it, but that is how it strikes me at the moment very forcibly. Just to recapitulate my objections to it, to get it clear: I say that it will cost as much money, that it will cause a great deal of labour, that it will produce a great number of new inequalities, that it will not reduce any of the existing inequalities, and that it will not reduce the embarrassment that this particular kind of charge creates to the companies in the conduct of their business.

27,834. Certainly that last point is correct; I am not quite sure about all the others. I wish you would think this over carefully?—I will.

27,835. *Mr. Marks*: With regard to the historical note on the Income Tax treatment of Life Assurance companies [see Appendix No. 7 (a)], how were the Life Offices assessed prior to the decision in the Clerical, Medical and General Life Assurance Company v. Carter?—As far as I am aware, they were assessed in the same way; they were assessed upon their interest revenue really from the institution of the Act.

27,836. And the Clerical, Medical and General Life Assurance Company v. Carter was a test case to see if that was in accordance with the law?—Yes, the Clerical, Medical and General Life Assurance Company took this case to test whether the interest should be separately charged as interest or whether it should be simply treated as part of their trading profits. I say that subject to correction; I was not concerned with Income Tax before 1889, and I can only tell you generally.

27,837. I was not much interested before then.—I can only say this, that the tax was not, perhaps, quite as closely followed then as it is in these days, and I quite believe that many Life Assurance companies just paid the tax that was deducted from their dividends, and it is just conceivable that nothing else was done, because it was practically all taxed by deduction in those days.

27,838. I merely wanted to know whether you knew—I do not—whether the offices were assessed on the interest income then, or whether on their actuarial profits?—No. I should think Sir Edmund Nott-Bower could probably tell you better than I could.

27,839. *Sir E. Nott-Bower*: I think from the commencement of the Income Tax the assurance offices were assessed on that basis, and my impression is, with regard to the particular point raised in Clerical, Medical and General Life Assurance Company v. Carter, that that confirmed the previous practice which the Clerical, Medical and General Life Assur-

ance Company wished to challenge.—With that confirmation from you I should say that is my answer—that it was the practice.

27,840. *Mr. Marks*: And it is that decision, interesting as it is as to the subject matter for taxation, that is responsible for all our difficulties in the last 30 years?—I do not know about all of them; it depends on what you say your difficulties were. If your difficulties were that you were charged on more than the profits, then, apart from any interest received untaxed, you might have had investment income which was received under deduction of tax of a much greater amount than what you were regarding as your profits; and that point was really unaffected by the decision in the Clerical, Medical and General Life Assurance Company v. Carter.

27,841. I submit it is not very important, but it is the basis of our difficulties, and it is also the basis of your present proposal, is it not?—That the proper course is to charge a Life Office upon interest less the expenses; that is the basis of my present proposal.

27,842. If that decision were upset, or if the law were altered to make it clear that interest as such is not taxable, what are your objections to taxing Life Offices on their profits?—My objection to taxing Life Offices on their profits is that they would be charged on something less than the interest that is earned upon the fund, that is received ultimately either by the shareholders or by the policyholders.

27,843. It was, as a matter of fact, the method applied for a great many years to the life branches of composite companies?—I agree, and I think very unreasonably.

27,844. The business so taxed was in the mass very large?—Yes, quite true.

27,845. You have agreed that if profits were estimated under Case I of Schedule D they would have to be assessed on the methods ordinarily used for the ascertainment of the position of a Life Office—the actuarial surplus?—No. I say that if in considering any change of the law it was decided that Life Offices should be charged on their profits derived from the actuarial valuation, then in order to assimilate the position to that of a trading company you would have to add on to that balance of profit any interest which has been debited in arriving at it.

27,846. I will put it in this way, that subject to any adjustments that might be within the law the basis of the assessment would be the actuarial valuation?—I agree if this is what you mean, and it only means this to my mind, that if the basis of the assessment were directed by law to be the valuation profits of the life company with the adjustments necessary for Income Tax purposes, it would be based on those valuation profits with the addition of that interest, and that in the result the companies would pay very much more than on the basis that I am suggesting.

27,847. I take it that your objection to this method of assessing Life Offices is not confined to the one mentioned in paragraph 4, that mutual offices would escape taxation?—Is that paragraph 4 of the historical note [see Appendix No. 7 (a)]?

27,848. Yes.—No, absolutely. My objection to the so-called profit basis is that it is not suitable in any case, and that it represents something which is not naturally and properly taxable.

27,849. Not even if the Life Assurance Offices were regarded as trading companies?—No, not unless the so-called profit exceeds the interest less expenses, and it goes to the proprietors.

27,850. In your paragraph 5 of the historical note you point out that the alterations in the law in 1915 were intended to make the incidence of the tax on Life Assurance companies more equitable; in what respect had they been inequitably treated previously?—I think that they had been inequitably treated previously in this respect, that whilst the real profit of the Life Assurance company was its interest less expenses it was charged on its interest without the allowance for expenses.

27,851. Only in that respect?—In that respect principally. Then there were certain other sections passed in the Finance Act of 1915. The first one had reference to the treatment of Life Assurance as a

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separate business from fire or accident or any other kind of insurance. That separation was made in the Act of 1915 in order to preserve equity between the composite companies and the purely life companies, and the equity was preserved or rather instituted by making the previous position of the pure life company apply to the composite company as well, because the basis of assessment of the pure life company was regarded as the proper basis and not that which had been applied to the composite company.

27,832. I presume that the fact that the offices have not been allowed to deduct their expenses must have involved them in a very serious loss over a long series of years?—I do not think it involved them in a serious loss. It depends on what exactly you mean by loss. It involved them in the payment of a far greater amount of tax than the revised basis which was thought to be fairer.

27,833. Than the equitable basis?—Than what we regarded then as the equitable basis.

27,834. In dealing with the question of allowance of the Life Assurance premiums, although that is not the point of my question at the moment, you give details of the laws in the Colonies. Those details at least show that the Life Offices are different from other taxpayers in the view of the legislatures of the Colonies, and that they require exceptional treatment and merit unusual favour?—That is quite clear. It runs throughout the whole, and if it were necessary I could give you just a few particulars as to the different ways in which they charge them.

27,835. No, I do not think that is necessary.—I agree it is quite clear that in practically all the Income Taxes in English-speaking countries anyway it is considered a proper thing to encourage Life Assurance.

27,836. Can you tell me whether Life Offices are assessed in any Colony on the same basis as they are here?—In the Union of South Africa I think it is practically the same; they charge on interest less expenses or on the profits if greater; that is the same basis as here. There is the same option there. There is another kind of option in the Straits Settlements. They charge there, in the case of a company not incorporated in the Colony, on the net profits of the company in the Colony plus 10 per cent. of the colonial policyholders' share of the profits, or, at the option of the collector, on interest on investments in the Colony or other sources of colonial income. The Straits Settlements, however, is not necessarily a good guide for an important Income Tax.

27,837. I think they have one native office, but I do not think any more?—There is another point you might like to know; in British India the charge is upon the valuation profits—I tell you this, because it is the basis you are seeking, and I think you will like to know it—and a repayment can be made if the tax on the interest suffered by deduction exceeds the tax on the valuation profits.

27,838. That is exactly the basis which the Life Offices suggest?—That is exactly the basis for which, I understand, you contend.

27,839. Not I, the Life Offices.—I thought you were putting that position to me.

27,840. Yes, as a member of the Commission, not as in any way connected with Life Assurance.—I think you would like to know in connection with a point that you raised this morning when you were speaking of the possibility of allowing so much per cent. of the interest, that New Zealand charges on the investment income in New Zealand less 2 per cent. on the investments in New Zealand, the income of which is not exempt.

27,841. That is the same basis?—Then there are other bases, and I should like to mention one or two to give you an idea. In Queensland there is an empiric basis of 25 per cent. of the premiums in ordinary funds and 15 per cent. of the premiums in industrial funds. In Tasmania there is a general basis of 30 per cent. of the premiums. In Victoria

there is a basis of 30 per cent. of the premiums in ordinary funds and 15 per cent. of the premiums in industrial funds.

27,842. It rather illustrates the difficulty of arriving at any common basis of assessment all round?—Yes. Then as you know in Canada there is exemption of the whole of the interest of funds except any portion that goes to shareholders, and in the United States, although the method is much more complicated, the result in the main is much the same as in Canada. In South Australia they only charge half-rate, and the charge is made on the profits distributable to policyholders in the State.

27,843. I do not think I need trouble you with any more, but I would like to ask you this: did not the Inland Revenue Department send an official to South Africa to advise them on the subject of their Income Tax law?—Yes, it was the Secretary of this Commission who went.—Mr. Clark.

27,844. I had an idea that they had consulted the Inland Revenue, and that would probably account for their adopting our basis?—I think our basis was probably the general framework.

27,845. Leaving the question of the basis of assessment, you will admit that the argument for something less than the full rate of tax being imposed on Life Offices applies equally whether profits or investment income is the basis of the assessment?—I should not like to say that, because I say the profits basis should not apply.

27,846. Supposing the Legislature took the view that profits were the proper basis, the arguments for a differential rate, if we may call it so, would apply equally to that?—I do not know that they would, for this reason, that if the Legislature took the view that the profits basis was the basis on which to charge it would be tantamount to taking the view that a portion of the interest should not be charged at all, and it might very seriously affect the question as to whether they would give any relief in the rate of tax if they gave a basis which omitted part of the interest from the assessment.

27,847. I should submit that the question of the allowance in respect of Life Assurance premiums is quite distinct from the basis of assessment and should be so treated; would you agree with that?—I agree that one should not mix up the computation of the allowance in respect of premiums with any computation in respect of interest, because, as I said this morning in reply to Dr. Stamp, I think it would be quite impracticable to do so.

27,848. Yes, I just wanted to emphasize that point. Taking the question of the lower rate which you suggest, on the basis of assessment, which you also suggest, would you agree that that is only a device to get some sort of relief?—Yes, but I think it is a very far-reaching relief, and I would just like to explain to you why I think it is more far-reaching than the figures at the first blush show. I have shown in my evidence in chief that the average rate at which the interest would be chargeable, if it were chargeable at the rates at which the policyholders are liable, is 3s. 4½d., subject to a foot-note that I have given with regard to extra tax at margins of income. I have this in mind: the companies have an allowance in respect of expenses, but those expenses are not wholly expenses of earning the income, but are to a very much greater extent the expenses of the social enterprise of Life Assurance. The expenses may be taken on an average in ordinary funds as one-quarter of the investment income; and very strangely it happens—it is a pure coincidence—that if you take one-quarter from 3s. 6d. you get, although I did not notice it at the time, exactly this 3s. 4½d., which was got out by a separate estimate. Some of the expenses ought to be allowed, because some of the expenses are really in connection with the investment business. I think that the extra 4d. or so in the 3s. that we should gain at margins of income, as indicated in the foot-note in my evidence in chief, is a reasonable set-off for the expenses which really are applicable to the business of investment: so that even if the rate of 4s. 6d. is taken, which seems very much

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above the average rate at which policyholders would be liable in respect of the interest, the factor of the expenses incidental, not to the business, but to the institution of Life Assurance, equalizes the matter very greatly.

27,866. That answers the question I was going to ask you as to exactly how you arrive at your 4s. 6d.; but all the expenses of Life Assurance are incidental to building up the source of taxable income, are they not?—I agree, but I do not think they are necessarily entirely in connection with the earning of the income. I do not insist upon that point, and I simply give it to you as an explanation.

27,870. This is not a controversial point from my point of view, at any rate. How would you propose that any relief under this heading should be applied for the exclusive benefit of policyholders?—I think it should be stated because it is obviously intended to be given to policyholders, and I should suggest it would be done in this way: you have a certain amount of interest less expenses to charge—

27,871. To charge to Income Tax?—Yes. We will suppose, for the sake of simplicity, that a company has an annual valuation and you find that what goes to the policyholders in a particular year is £1,000 gross of that interest less expenses; I should say that the £1,000 should be taken out of the gross interest less expenses and that the relief should be wholly applied to the portion which does not go to the company. It is purely a question of book-keeping; it could be done in many ways.

27,873. I do not want you to elaborate it; it was just for guidance. Then in part (III) of your third paper you deal with the question of "interest received by Life Assurance companies in respect of loans secured on life policies, personal security or reversions." Do the banks supply the Inland Revenue with a list of depositors, or a list of those to whom they make loans?—Not at present; but this is rather the converse to depositors.

27,873. Yes, it is to some extent. I have forgotten the exact figure, but I think you suggest it is 7½ per cent. of the funds of the Life Offices which are laid out in loans to policyholders?—I think I said three-fortieths somewhere.

27,874. That is 7½ per cent. If it held all through, the total funds of the Life Offices are about £200,000,000, that would mean a total of £35,000,000 say, making a little allowance?—Yes.

27,875. Have you any idea of what the total does come to?—The total interest on policy loans?

27,876. No, the total amount of loans to policyholders?—I could tell you. I am afraid it is not in the last abstract of the Board of Trade, but I could tell you fairly well by taking a proportion of the funds. I should say it would be roughly the interest on £30,000,000.

27,877. My point was to try and get at the sort of burden that you propose, or the extent of burden that you propose, to impose on the Life Offices. In an office with which I am familiar the average policy loan is about £150, so that if £35,000,000 was a fair estimate you would get nearly 235,000 separate transactions of which some details would have to be given to the Inland Revenue?—I think it would be a great number. On the other hand I suggest in the evidence that I think it is almost certain that some sort of limit would be arranged with regard to amounts. Of course many of these loans I know myself are very small. I am not suggesting that there should be a statutory limit, because I think we ought to have the power to be able to go to a company and say: "did you pay any interest to so-and-so," and that the company should be quite free to give us that information without feeling that they were infringing some confidence because there was no statutory power to demand it.

27,878. Regarding your first paper on the allowance of Life Assurance premiums I do not propose to ask you much. The reasons detailed for the allowance in your first few paragraphs still hold, I think, and the reasonableness of the allowance has been more than once affirmed by Parliament. As regards the table in paragraph 6 of that paper I cannot quite see its bearing on the argument?—I do not intend it to have

any close connection with the argument; the table merely indicates that at least there are a great number of really well-to-do people who do insure their lives—morely that. In 1883 it was suggested that it was really only the struggling professional classes and persons dependent on their own exertions who insured their lives; but it is quite clear, whatever was the case then, that when you get an average of something like £5,000,000 insurance policies in a year in estates exceeding £10,000 as against an average, we will say, of £6,000,000 in a year in all the estates not exceeding £10,000, it certainly cannot be said that Life Assurance is exclusively indulged in by people with small uncertain incomes.

27,879. Mr. Pretyman: How much of that goes back to the estate in Death Duties?—A certain percentage of these amounts that are shown here—I could not tell you what it would be on the average.

27,880. I expect every penny of it goes back to the State in Death Duties?—I think it can hardly be that. Of course these are the capital amounts of the policies in the estates.

27,881. Mr. Marks: I suggest that a large amount of those insurances is effected only for the purpose of meeting Death Duties?—I think that there is some little misapprehension even on that point. I have heard it said in some quarters that practically all people insure for Death Duties. Well, as a matter of fact, the statistics show that that is certainly not the case. I can give you instances.

27,882. Personally I should not put it as high as that, but I should say that the large preponderance in amount of the policies for large sums represent insurance for Death Duties?—The only point I want to make is that it must be quite a small proportion of the persons with large estates who make up their minds that they are going to insure for their Death Duties.

27,883. Mr. Pretyman: Surely you do not apply that directly or indirectly. A person with a large estate who has got to meet Death Duties is in the habit of insuring his life, not necessarily with a view that the whole of the money received on that policy shall actually directly go to payment of Death Duties, but that it shall be a realizable item in his estate at his death which will either itself be available or will set free other money which will be available to pay Death Duties?—I should say that that is most likely, but it is a little different from the argument that one hears that persons do use Life Assurance in order to insure Death Duties.

27,884. Is not it exactly the same thing? What difference does it make if the insurance is effected directly to be paid to the State for Death Duties, or if it is effected to be brought in with other assets to enable Death Duties to be paid; morally I cannot see that it makes any difference whatever?—I should have thought there was some little difference in idea between insuring in order that there may be some realizable asset when the Death Duties come to be paid, and the practice of insuring in order to provide the Death Duties.

27,885. Mr. Marks: I do not think it is very important anyhow. I just suggest two things in regard to your table. What is the limit below which no Death Duties are charged?—For small estates £100, or something of that kind—I forget exactly at the moment. I really do not deal with Death Duties, but it is a figure something like that.

27,886. I do not know myself, and that is why I asked you, but it does seem to me that in taking estates not exceeding £10,000 net you have omitted two considerations. One consideration is the very large number of small people who leave nothing except their Life Insurance, and the other is the fact that amongst the persons who leave estates less than £10,000, there is an enormous number of endowment insurance policies included, the proceeds of which might, but probably would not, come into the Estate Duty aggregate?—I not only admit all that, but I say that the figure that I have brought out as the average rate of 3s. 4½d., at which the interest would be liable,

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shows quite convincingly that the majority of the policies must be held by people of quite small means.

27,887. On the allowance for Life Assurance premiums I would only like to ask you this: on what ground could you suggest that the State should upset what I submit amounts to a contract between it and the policyholder, having regard to the full discussion of the question which took place in 1915 and 1916?—I do not admit that there is any contract between the Government and the policyholder.

27,888. I think if you had been present at the discussions which took place, you would probably be more inclined to agree with me that the result was in the nature of a bargain between the Life Offices and the Inland Revenue?—To start with, if there could be a bargain at all, it would have to be a bargain between the policyholders and the Government, not the offices. But apart from that altogether, I cannot conceive how it would be possible for any Government to bargain away the right of taxation in future.

27,889. I will not pursue that. Do you agree that, having regard to the present restrictions, the allowance per £ will be gradually reduced as policies die off?—Yes, I agree that it will be gradually reduced, but I think it will be at the cost of a great inequality over a whole generation.

27,890. Mr. Petyman: You say that you cannot conceive of the Government bargaining away its right to tax any particular contract or sum. What about the 4 per cent. "tax free" dividends?—That was a bargain compensating for the tax, and there was a *quid pro quo*; but this would be a bargain to set up a privileged set of taxpayers. That is what the other suggestion would lead to.

27,891. No tax is levied upon it, and the tax may go up or down afterwards, but it will not affect that dividend?—But there is a *quid pro quo*. The investor has paid the present value of the estimated tax; but there is no such *quid pro quo* in the case of the life policyholder.

27,892. But the *quid pro quo* is the premium he has paid to the assurance company?—That is not a contract with the Government.

27,893. It is a contract entered into with the assurance company on the faith of the Government having agreed to treat it in a certain way?—The Government merely makes certain allowances in any year for the assessing in that year, but it has not entered into a contract, the essence of which contract was that in all future years a person would be taxed in a different way from someone else in exactly the same financial position. I cannot conceive that it would be done. The overriding consideration must be an equal basis of taxation of persons in similar circumstances in any year, and I do not see how any Government could set out to undertake in advance that in all future years persons of similar financial circumstances should be differently treated. If anybody has a legitimate expectation at all, it is the man who, in a later year, says: "my legitimate expectation is that you will tax me on exactly the same basis as my next-door neighbour who is in exactly the same circumstances."

27,894. But you are dealing with this matter solely from the point of view of the theory of taxation. There is another side of it altogether, it seems to me, which is the side of ordinary equity. A bargain is made between two people, one to pay a certain sum in consideration of a certain premium paid by the other, and that payment is based on an agreement by the Government, not of a definite character, but an agreement, or a Parliamentary arrangement, that there shall be no tax at all, by which agreement that particular payment is to be free of tax, quite regardless of what the tax may be. Subsequently a tax is imposed on the existing contract, and the whole basis of the contract is upset; and although your theory of taxation is no doubt a very right and a very strong one, and can be imposed in respect of future contracts, the objection takes, I understand, by Mr. Marks, is not against your theory of taxation at all but against upsetting the basis of an existing contract which has been entered into on the faith of a

Parliamentary decision that a particular payment is not to be taxed?—I suggest that the basis of the contract between the policyholder and the company has nothing whatever to do with the premium allowance at all; it is quite independent of it. It is a mere accident that, having made that contract, the man is allowed by the Statute law, for the time being, to deduct the premium, but that does not bind the Government for any future year, and I suggest that the dominant consideration in any future year must be that the tax shall be raised equally as between one person and another.

27,896. Mr. Marks: In the last line of paragraph 23, of your first paper, you suggest that it is desirable to fix the minimum period of years. Is not that already effected to a large extent by the limitation of allowance for premiums not exceeding 7 per cent.?—It is not exactly the same thing. It limits the amount allowable in any year. I quite agree that if a man took a three-year life endowment policy, he would only get allowed a small proportion of the premium. I agree with that entirely, but it is just a question whether a man who takes such a short view of the future as that, should receive an allowance at all. I should like to call attention to the fact that I do not press this. I only put this against the suggestion that a single payment for a policy should be treated as an annual premium.

27,896. There might be something end on that, but I am not going to pursue it. I shall not ask you anything about your second paper on the allowance on annuities, because although I do not quite agree with all your argument, I think your ultimate conclusion is one with which I should agree. Thank you very much; I am sorry to have taken up so much time.

27,897. Sir E. Nott-Bower: With reference to your suggestion for a reduced rate of Income Tax on the interest received by Life Assurance companies, it is a suggestion to outstep the ordinary limit of the law altogether, is it not? Would you agree with this: that the general scheme of the Income Tax is to impose Income Tax at the source at given rates?—Yes.

27,898. With regard to a person whose income is under £130, the present exemption limit, the law provides, first, that he shall not be liable to any direct assessment to Income Tax, and, secondly, that if he receives any annual payments subject to deduction for Income Tax, he shall have the Income Tax deducted and repaid to him?—Yes.

27,899. The law, speaking generally, does not take steps so as to relieve an exempted person from any sort of indirect burden which might be regarded as a tax made on him because he engages in any operation such as Life Assurance, and so on?—I think that the Income Tax Acts do contemplate generally that the interest of an individual in a common fund, shall, when it comes out of that common fund, be subject to any claim which will rectify the rate: but in the case of Life Assurance, it is not possible to do it. The interest does come out of the common fund, but it comes out in such circumstances that it is not distinguished, and the recipient is unable to put in a claim which will rectify the rate, and I think that a Life Assurance policy is practically the only kind of investment to which this disability applies.

27,900. I think that one is considering a rather dangerous matter. In the case of a man whose income is such as to make him exempt from Income Tax, the present position is that he is exempt from assessment altogether, and, secondly, if he receives a sum from which Income Tax has been deducted, he shall have that amount returned. I think it might be carrying it too far to depart from that principle. I think the argument should be very strong which would justify departure from that principle, and it is just a question whether the argument is strong enough in the case that you propose to deal with. The relief is open to the objection that after all, if you give it, it will not go to the people who ought to have the relief by reason of the smallness of their income. The relief that is given will be enjoyed by the millionaire equally with the poorer person?—My proposals, of course, are restrictive of the benefit which would be received by the millionaire; but I

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should say this; that although there might be considerable objection in the case of a person who did not maintain throughout a vested interest in his investment, the position of a Life Assurance policyholder is really not that. Throughout the term of the policy, he has a vested interest in it. Interest is credited regularly at a rate on his policy in each valuation made by the company. The policyholder maintains a right over the policy; he can sell it; he can surrender it; he can borrow on it from the company at any time. The simple fact is that the real difference between a life policy and an investment is that the interest is continually growing on the policy, and is not paid to the man; in the other case it is continually growing and is paid to the man. It is credited to him in the case of the policy, but because it is not taken out he misses his power to claim. I think the hardship should certainly be met. It is quite clear to me that policyholders as a class pay a great deal more tax than they ought to pay, in that way. I am ignoring for the moment the consideration of any relief they get in any other shape. If the interest alone were considered, I think there is a considerable hardship, and I should say that their position is not analogous in any way to such cases, we will say, as a municipal corporation, or cases of that kind. The policyholder has a vested interest throughout. He can deal with his policy, he can borrow on it, he can surrender it, he can do anything he likes. His interest is vested. I think he should be regarded as having a vested interest in the tax applicable to it.

27,901. Then there is only one other point I want to call your attention to; that is on the question of purchased annuities. I think you suggest, do you not, that in the assessment of an annuitant who is in receipt of interest, the Income Tax assessment should be limited to 5 per cent. on the interest on the purchase money?—Yes.

27,902. Would not that lead to very startling inequalities, in the case of people of unequal ability to pay Income Tax? Suppose you have two people, each living on an annuity, let us say, of £200 a year. In the one case the £200 a year is, let us say, made a charge on his property, and he pays Income Tax on an income of £200. The other person, who receives the same interest exactly, would pay Income Tax on a sum much less, say £120; it might work out to about that figure. The capacity of those two people to pay Income Tax is exactly the same. How can the ability to pay Income Tax be affected in any way by their positions?—I do not say that this matter of annuities is free from difficulty; in fact I intended in my proof to indicate that it was not free from difficulty. If you go so far as to say that the waste of the capital should be allowed, I cannot conceive any reason why the waste of capital in a case where the capital was not provided by the person who is charging should be allowed; and that is the only defence that I can offer.

27,903. Surely in this case the asset is the purchase money paid for the annuity?—Yes.

27,904. That has gone away from the annuitant altogether?—Precisely. I say what he has paid for the right to receive an income, has gone away altogether, and although it may be right that you should allow from the income which that outlay has produced, the capital which has been expended in producing it, I cannot conceive any reason for allowing a man who did not pay for his right, anything at all.

27,905. Sir E. Nott-Morris: Then I think a pretty startling anomaly would arise. However, I do not want to press the matter any further; I simply draw your attention to that.

27,906. Sir W. Fowler: In paragraph 63 of your third paper, and in your first paper you are proposing to reduce the allowance on premiums to £250 premiums?—Yes.

27,907. You are proposing to take away the relief which has been given since 1853?—Yes; the suggestion is this—

27,908. That is my question: you are proposing to take that away?—To restrict the relief which might have been claimed at any time since 1853, I agree.

27,909. And you say that your Department doubt whether any satisfactory reasons could be found to justify an allowance in excess of £250?—Yes.

27,910. May I suggest to you three reasons. First, that it is necessary, as has been suggested by Mr. Protyman, to provide for Death Duties. Since 1853, the Death Duties have largely increased, and this year they have become enormous, sometimes amounting to half the estate. I suggest to you that with regard to Death Duties, the subject should be encouraged rather than discouraged in the matter of persons insuring their lives to meet the heavy Death Duties on estates. I suggest to you that is one reason: I will give you two others. If you take the death of a manufacturer who has a large capital in his business: we may assume that a large part of that capital has to be withdrawn from his business for the purposes of Death Duty. I suggest to you that it is essential in many cases that some provision should be made by way of insurance to restore that capital, and it may be necessary to have a premium tax in excess of £250. The third case I would suggest to you is the case where it is necessary to provide for several children, and that would not be met adequately in many cases by a premium of £250 a year. I suggest that those are, amongst others, substantial reasons why you should not take away the relief that has been given continuously since 1853, having regard to the enormous expenses which are incurred in the payment of Death Duties on a man's death?—I think I understand the points which you have suggested to me. I think that my reply to them must be this: that I quite recognize the necessity of providing sums of money against the contingencies which you have mentioned, and in order to provide for Death Duties, but I do not think that any of the arguments which will justify an allowance of the premiums in order to reduce Income Tax charged upon the person who pays them, have any force in connection with those things. Life Assurance may be a most convenient and most desirable way of providing for those contingencies, but that is quite a distinct thing, in my mind, from financial arguments which will support the allowance of a Life Assurance premium as something which shall reduce the Income Tax to be paid by the man who pays the premiums.

27,911. Then you disagree with the reasons which have induced the various Chancellors of the Exchequer since 1853 to make those allowances?—I think the various Chancellors of the Exchequer who have made the allowances, have made them for the reasons that it was intended to meet in 1853, which certainly had nothing to do with neutralisation of the Death Duties by way of an allowance from Income Tax.

27,912. They still thought it advisable not to limit it to £250. Your reasoning may have been present to their minds, but they objected to it?—If it could be assumed that the matter has been re-argued every year since 1853, as to whether an allowance should be made each year, I should agree with you that certain circumstances would have arisen from time to time which would be new circumstances; but I do not think it can be assumed that this matter was debated and reasoned every year since 1853, simply from the fact that the allowance has not been changed.

27,913. But it follows from that, that it has not been considered in any year?—I think that would be largely the case, and I think of course it is because it is under consideration now, that we come forward with these suggestions.

27,914. Mr. Holland-Martin: With regard to interest received by Life Assurance companies in respect of loans secured on life policies, you say that the almost general principle of Life Assurance companies is to make application to the borrowers, who pay interest on loans for the net amount of the interest?—Yes.

27,915. From the Inland Revenue point of view, why should not the companies be asked to collect the gross interest, and then the claim be made afterwards by the individuals?—Because under the existing law, the borrower from the life company is

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entitled to deduct tax on paying the interest to the life company. The life company is only entitled to receive the net amount of the interest, and so it applies only for the net amount of the interest; but it does not concern itself at all to see whether the tax which is deducted by its borrower has reached the Revenue or not. It is not part of its business.

27,916. But that is under the present arrangement?—That is under the present arrangement.

27,917. Supposing you were to make any new arrangement, why would you not suggest that?—It would mean that, because we think in this particular case that we may be losing a certain amount by reason of the principle of taxation at the source, we should fly away from taxation at the source instead of trying to get the information which would help us to see that we get the tax. We would rather maintain our principle, if we can. May I say one thing more, Mr. Chairman? There is one little point; you asked me if there was anything that I would like to say at any point of the examination.

27,918. Mr. Furstad: Yes.—There is only one point that occurs to me, that I think it is rather necessary to make clear, because it was brought up in the examination of the Life Offices. I think it was suggested in the examination of Mr. Hovell that there were conditions under which a life policyholder, especially a holder of a life endowment policy, would get an extraordinary advantage, something which was grotesque and unjustifiable in every way; and it was rather suggested that special steps ought to be taken to prevent that happening. The suggestion seems to be that a man who does not want Life Assurance, and is not seeking Life Assurance at all, really takes out an endowment policy because if he survives until the maturity of the policy, as he hopes to do, he will have had an investment which gives a startlingly large return. I would like to say that that is based to a great extent on a misapprehension. The 7 per cent. limit for premiums roughly ensures that a policyholder will not get his full premium allowance on anything short of about a 15-year policy. I think that is right. So that one may take the criterion as a 15-year policy; and the investigations which I have made have proved to me that regarding a policy simply as an investment on maturity, and apart from any question of the life coming, if a man is a Super-tax payer, and he therefore gets a great advantage from the interest being taxed at the 6s. rate instead of a higher rate, and gets the further advantage of getting the 6s. rate of allowance on his premiums, but even then he is not likely to get more than about 6 per cent. net. But if the maximum rate of the premium allowances were restricted to 3s. in the £, as I suggest, in no circumstances would he be likely to get more than about 4½ per cent. net; and if his advantage (if that is an undue advantage) were limited to a premium allowance of £250 a year, then I think that no policyholder, however wealthy he may be, could get any advantage which is really a strikingly great advantage. The rough result would be that the premium allowance would have this effect in most cases. It would prevent a man from gambling on the chances of his life, by avoiding Life Assurance for the sake of getting a better gain by investment. Unless a premium allowance were given under the Income Tax Act, it is quite clear that there would be a temptation to a man to say: "I am not going into a social pool, when I know that at once 15 per cent. or 12½ per cent., or something of the kind, of my premiums, is going to be lost in the expenses of this social pool; I am not going to do that; I expect to live; I have a pretty good life; I will take the chance myself." Then, whatever risk he, or his dependants, may be at, he takes that risk himself, which he could shift; he gambles with the risk, in order to avoid Life Assurance, and makes his investment himself. Now the suggestions I have made for the restriction of premium allowances, are just about sufficient not to induce a man to gamble on the risk of his life.

27,919. Mr. Morley: Are not the existing restrictions in regard to policies issued since 1916 also sufficient to prevent that?—Except, I think, that a man can do it on a very large sum if he is a wealthy man. I think if you had the conditions which at

present exist with regard to new policies, since June, 1916, and limited the amount of an individual's premium allowance to £250, then you have not quite substantially the complaint that anybody can get an undue advantage in the Income Tax through Life Assurance.

27,920. And prevent very large assurance being actually taken out for this purpose?—Yes.

27,921. Mr. Furstad: I suppose the misapprehension to which you have referred arises largely from people being deluged with advertisements from certain associations and companies which profess to give you a magnificent income in return for a life policy?—That is so. You have just reminded me of a matter which I thought might perhaps be put before you. Mr. McIlzack gave me notice that he was going to ask it, and, as he is not here at present, I would just like to mention it. He pointed out to me that the legislation in 1916, when it swept away the premium allowance in respect of a deferred annuity, did not make any provision for the continuance of such a premium allowance paid to a Friendly Society which conducted a widows' fund. I must say that it is a little startling, and has created some little hardship, and it is just a question whether the Commission would like to take a note of that point. I think it was quite accidental. I think that a bona fide widows' fund might well be excepted in the Act just as a bona fide Superannuation Fund is excepted.

27,922. Does your allowance of £250 mean that an actual sum of £250 is the lowest allowance that can be obtained, or does it mean that the highest premium on which an allowance could be claimed would be £250?—I suggest that the largest amount which any man can get would be £250.

27,923. That is, the amount of the premium?—The amount of the total premium an individual may have allowed. At the present moment the maximum amount that a man with an income of £1,500 a year can get is £250. I would never allow any man to have more than £250, and it works out very well, in this way. If you are charging the company at the rate of 4s. 6d., which is the rate applicable to a man who has over £1,500, then it is quite clear that a man who has over £1,500 is getting an advantage on the question of interest, because the company is only paying at 4s. 6d., and if he were assessed direct he would be chargeable at a higher rate. But I say one can ignore that when one remembers that the proportion of his income upon which he can get the allowance is continually diminishing as his income rises, if you limit the amount to £250.

27,924. You said just now that the effect of that limitation would be that the advantage of assurance, except in the case of large incomes, would largely disappear and a man would have no particular inducement to insure; he might just as well invest?—He would have inducement to insure, but he would not have more than inducement to insure. He would not have inducement to insure merely as a method of getting a good return upon his investment.

27,925. But that same thing applies to Death Duties?—I am not quite clear in what way you mean.

27,926. He would not have any particular advantage in insuring for Death Duties through an assurance office or by investment?—No, but as regards Death Duties I feel that it is purely a question of convenience; it may be a very convenient thing to insure for them, but I do not think that is any reason why he should have the premiums allowed for Income Tax. What it comes to is this. I cannot see any reason why the Government should be making contributions to the extent of six-twentieths (taking the rate of tax at 6s. in the £) of the premiums that a wealthy man pays in order to provide for Death Duties.

27,927. That seems to me to be a matter for the Government to decide?—I agree.

27,928. I point out to you that, on your argument that you used just now, the man who has a large income and who has insured his life for Death Duties has done so because the advantage has been given to him by the Government to do that, and he was induced to do that by the understanding that he

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would not be taxed upon it, and had he known that that concession was likely to be withdrawn he might have invested his money in some other way?—He can stop his contract at any time he pleases.

27,929. Not in an old assurance, without great loss?—He can always surrender the policy or he can take a paid-up policy. I do not say that there is not some loss.

27,930. If that is your only answer, I am afraid it is not a very strong one?—It is not the only answer, I think, but the other answer was given before. I do not think there was any contract with the Government. I do not think you can assume that because a man takes a Life Assurance policy with a company and because at the time he takes it there happens to be a premium allowance, when perhaps the tax may have been 1s. in the £, he is entitled to plead that he had any such legitimate expectation that he would receive an allowance of 6s. in the pound as will stand in comparison with the legitimate expectation of his neighbour in exactly the same circumstances, who only receives an allowance at 3s. in the pound.

27,931. I thought your argument was a very strong one until I heard you use the other one?—I am afraid I am unfortunate.

27,932. When I heard you point out that when these conditions which you suggest had been imposed, there would no longer be any advantage in his insuring his life, it seemed to me therefore that as you have given him that advantage, you cannot take it away from him now on an old contract?—Pardon me, I did not say there would be no advantage in insuring his life. I say there would be always an advantage in insuring his life for this purpose, because it provides a liquid asset on a contingency. The second advantage is that it helps him a very great deal to pay for that portion of the premium which is devoted to protection and not investment at all.

27,933. Sir W. Frower: Then you do not think that the long period since 1853 is any inducement to an insurer to assume that the allowance would be continued?—I think that an insurer might well speculate upon the past condition of the law, but I think he does nothing else. The fact is simply this. Before 1916 we had never had an Income Tax of more than 3s. in the pound. He really cannot build upon legitimate expectations.

27,934. The principle is the same, whatever the rate is?—The principle may be the same, but when you are building upon the legitimate expectation that a man may have from an Act of Parliament that existed when he made a contract with a Life Office, you have to take into account, I think, a difference in the rate of tax.

27,935. The only question which arises on that is that you intend your suggestion to apply to old policies as well as new?—Throughout.

27,936. Mr. Kerly: I have not had the advantage of hearing the whole of your evidence, so I am only going to ask a question or two on what I have heard. I gather your answer to Sir Walter Frower was that assurance is indeed an excellent thing and should be encouraged, but not at the expense of the rest of the community, except to a limited degree?—Except to a limited degree.

27,937. Of the three objects of assurance which Sir Walter put to you I will take one only—providing for Death Duties. You treat the allowance in respect of premiums paid to provide for Death Duties as really a set-off against the Death Duties, giving a man back with one hand a part, at any rate, of what you are going to take with the other?—Yes. I think it becomes in effect in those cases a neutralization of the Death Duties.

27,938. Let me see if there is not something to be said on the other side, purely from the Revenue point of view. I am accepting for the moment your criticism of assisting a man to insure for big amounts. Look at it purely from a business point of view in regard to the State. The State gets much larger taxation from bigger accumulations than if the money

was scattered, by reason of the graduation both of the Income Tax and of the Death Duties. That is right, is it not?—I think the State must always gain by accumulation of capital.

27,939. The State not only gains, but gains enormously, where you are going to tax the whole of the fund in one hand at, say, 10s. 6d., as compared with 3s., if it is divided into 20 hands. You gain the difference between 10s. 6d. and 3s. in the pound, if you have it accumulated in one hand?—I am perfectly ready to admit that if you have the income in one hand, it pays a higher rate, and accordingly the State benefits in that respect.

27,940. That is all I am putting to you. I am saying nothing about political consequences. Now the only means by which you can maintain great accumulations is by providing the successor with a liquid sum in order to discharge Death Duties; otherwise the big accumulation has to be broken up, and perhaps scattered to dozens of persons?—Not necessarily, I think. It happens certainly in the majority of cases the other way; that the Estate Duties, or the bulk of them, have not been provided for by way of assurance.

27,941. You are not quite following me; perhaps it is my fault. I am merely following out a perfectly simple line of inquiry. I am not asking you anything as to the consequence or as to latent defects. If you have not provided for Death Duties by assurance or by saving, then the accumulation is likely to be diminished, if not wholly scattered?—Yes.

27,942. Now the two alternatives are these: providing by assurance and providing by saving. Let us contrast those. If a man sets out to provide by assurance, as soon as he has paid a few premiums he has an immense pressure upon him to continue to save, because of the loss which his stopping would entail?—Yes.

27,943. Further than that, if he is going to take the alternative case of providing by saving he may die before he has saved enough?—Quite.

27,944. Then there is a very distinct advantage, from the point of view of getting enough money to pay for Death Duties, in assurance over other methods of saving?—I do not know whether that is so from the point of view of the State; it certainly affords a great deal of convenience to the man himself.

27,945. I think you must be going back to think of something else—some other political object. I am talking of preserving the largest taxation revenue to the State?—I think that you do omit this from consideration: that that large sum which the man who dies early gets, was a large sum in somebody else's hands, in the same way, before it was transferred from the Life Assurance company to the man.

27,946. But would it have borne tax at the high rate of the accumulation? That is the whole distinction. The advantage to the State that I am putting to you is an advantage arising out of dealing with the upper grades of the scale instead of the lower grades of the scale?—You mean to say, would the capital, after the death, bear tax at the same rate? Is that your point?

27,947. At the moment?—Do you mean at the time of the death?

27,948. You say to me the money might have been in someone else's hands, and then it would have been taxed, and I point out to you that it might have been in the hands of dozens of people or of an assurance office, which does not pay Super-tax, and so it would not have paid at the higher rate of 10s. 6d. in the £, or whatever it might be?—I should say, then, that up to the date of the death it is quite clear that the Revenue would gain more by the annual sums having been saved by way of investment rather than by way of Life Assurance.

27,949. Mr. Kerly: I will not pursue that, though I do not follow you.

27,950. Sir W. Frower: A man who would save would probably save as a provision for his dependants, and the State would not get it.

27,951. Mr. Kerly: Just one other advantage which had occurred to me while you were discussing this matter. It is a very great advantage in the collection of Death Duties that there should be a

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liquid asset available which will provide the Death Duties in money. That is so, is it not?—I agree with that, but I do not think that that is of such

advantage to the State as to justify an allowance for Income Tax on the premium for Life Assurance.
27,952. *Mr. Furtado*: Thank you very much.

SIR ARTHUR STEEL-MATLAND, M.P., called and examined.

The witness handed in the following statement as his evidence-in-chief:—

27,953. (1) I am a director of the Rio Tinto Company. The company is British with its head office in London. Its principal business is to work mines in Spain, and as subsidiary undertakings it operates refineries at Wilmington and Reunoko in the United States and a small plant employing 50 men at Port Talbot in Wales.

27,954. (2) The directors have been considering very carefully the position and policy of the company under the new conditions created by the war. Among other matters it seems evident that the present incidence of British Income Tax is likely, as judged both from the experience of the company and from impressions gained by myself in other capacities as well, to have a very detrimental effect on British interests, unless steps are taken to remedy the present anomalies.

27,955. (3) In this connection, the experience of the company may be of value to the Royal Commission. It will be remembered that the mines operated are in Spain. A great proportion of the management is also located in Spain. The function of the London Office is carefully to correlate local activities, decide finally on important sales and contracts (chiefly on the Continent and in the United States) and to direct the general policy.

27,956. (4) Of the capital of the company, the ordinary shares form the preponderating part, amounting to approximately 94 per cent. of the whole. Of these shares a large proportion which has at times exceeded half of the whole capital is held in France. Of the remainder the greater part is owned in this country, but some is also held in Belgium and the United States.

27,957. (5) The French owned shares thus have to pay British Income Tax as well as French taxation, and these charges are in addition to Spanish taxes. Before the war this triple taxation was not so severely felt, but (as the Commission have no doubt had placed before them in previous evidence) the general increase in taxation in all belligerent countries has completely altered the position.

27,958. (6) For purposes of comparison, the years 1910 and 1918 are taken in the Table subjoined because the rate of dividend was the same in those two years. They constitute a fair sample, but the figures for others would be produced if desired:—

	1918.	1910.
	£	£
Rio Tinto dividend distributable in France after payment of Spanish taxes ..	381,365	583,495
Less French revenue tax paid by the company out of general profits	21,680	20,700
Actual revenue for distribution in France	359,685	517,795
Less British Income Tax ..	117,905	30,205
	241,780	487,590
French revenue duty payable by individual shareholders estimated at ...	43,520	nil.
Net revenue enjoyed by French shareholders ..	198,260	487,590

27,959. (7) The effect of double taxation can thus clearly be seen, as also the serious situation that is created when the rates are increased so greatly. If, however, as may well be the case, a considerable further increase is made in French taxation in order to balance their annual budget, the difficulties of the position will be much enhanced.

27,960. (8) The hardships inflicted by the present state of the law on individual shareholders in the case mentioned are considerable, and in themselves

deserve remedy. But the facts have been cited because they may, by means of a concrete instance, illustrate for the Commissioners the dangers inherent in the general situation. It may well be that in the case of companies similarly placed, representations may be made by those affected that taxation should be avoided, the imposition of which they do not consider justified. It may be urged that their share of the profits is preponderantly earned outside the United Kingdom, and is spent outside the United Kingdom. Where then is the justification for the imposition of the full rate of British Income Tax? The management of a company, while recognizing that it is perfectly practicable to meet their wishes by removing the head office from the United Kingdom, may be most loth to do so. Yet it may not be easy to resist the representations made. If this, however, is the case in respect of existing companies, it is much more likely that new enterprises now projected, or which may be projected in the future, will be so arranged that they are not subject to the same disadvantages.

27,961. (9) The losses which may thus result to this country appear to be tolerably obvious, though they seem often not to be sufficiently appreciated. One cause of loss will be the fact that the Income Tax at present received on undistributed profits will no longer accrue. I lay, however, the less stress on this point because, in my personal opinion, it is open to grave question whether to charge Income Tax on undistributed profits, whether of companies operating at home or abroad, is really justifiable in principle, or, in the long run, expedient.

27,962. (10) Of great importance is the consequential loss that will undoubtedly be experienced if the management of companies, which might be located in this country, is in fact domiciled abroad. I am quite convinced that the fact that the direction of companies operating abroad has been located in London, or other parts of the United Kingdom, has in the past been responsible for immense orders for repairs, renewals and new materials being placed in this country which otherwise might equally well, and in many cases would in fact have been procured from abroad. I endeavoured, in another capacity, to try and procure a record of such orders in the case of one foreign country, in the development of which British enterprise has played a very important part. I regret that I am unable to place the figures before the Commission which I had hoped to obtain, but I am convinced of the magnitude of the sums involved. Nor does the loss stop with the provision of renewals and material directly consumed in the enterprises themselves. Direction from this country involves a larger proportion of British staff being sent out for local operation management than would otherwise be the case. These, in their turn, import British articles of use and consumption themselves, and are the means of spreading similar tastes among the nationals of the country with whom they come in contact. To sum up, I am of opinion that, in the case of a number of countries, the volume of British imports in the years immediately preceding the war was nearly, if not quite, as much due to the initiative of local enterprises under British leadership, as to any direct efforts to sell British goods. This effect, in this respect, of British enterprise would be immensely reduced if they were no longer controlled and directed from the United Kingdom.

27,963. (11) If this consideration was true before the war, its importance has been enhanced by the change in conditions since then. The amount of British capital available annually for foreign investment has decreased, while the proportion so utilisable in some foreign countries, e.g., Holland and the Scandinavian nations, has grown. At the same time, the United Kingdom still possesses an asset of great

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value in her accumulated experience of foreign trade, and adaptation of institutions for it. As a result, foreign capital is willing to place itself under British direction for purposes of international trade, if it is not discouraged from doing so. A number of such instances have come under my personal observation. It is equally clear, however, that, if Income Tax at the full rate is imposed on the whole earnings of such companies, the charge will more than offset the advantages which would be gained by control from the United Kingdom. I am convinced that in a large number of cases the result will be to locate the direction elsewhere, with the result that the goose will be killed that lays the golden eggs. Income Tax will not in fact be received from such companies, while the very important consequential advantages mentioned in the preceding paragraph will be lost.

27,964. (12) The Commission have doubtless considered what remedies are possible, and the principles which underlie their adoption or rejection. I would not, therefore, venture to make suggestions on the point. Perhaps, however, I might be permitted to call attention to three points as deserving consideration, as apart from the broad question whether it is right that income should be taxed two, or sometimes three times over, just because it may be earned, controlled and enjoyed in different countries.

The three points are:—

- (a) Is the imposition of Income Tax based upon services rendered by the community or upon capacity to pay as measured by spendable income? If both, then should not the charge be apportioned? If upon capacity to pay alone, then is there any justification for taxing income arising in the United Kingdom but spent outside?
- (b) Was not residence in the United Kingdom of the person charged originally intended in the theory of the tax as a means of deciding whether his income was principally spent or spendable in this country? If so, ought it to be extended to the residence of a legal persona which exists for purposes of transmission to the actual spenders?
- (c) Is it possible to restore the position obtaining before 1910 under which *bona fide* residents in France could claim repayment of British Income Tax on profits netted arising in nor enjoyed in this country?

[This concludes the evidence-in-chief.]

27,965. Mr. Kerly: We have had your evidence-in-chief and have considered it. You deal principally with the unhappy position of a British company owning a foreign producing asset and taxed in this country, and having in some instances, in the particular case you give, foreign shareholders who are also taxed at home?—Yes.

27,966. We have had a great deal of evidence upon this matter, but we have the advantage of considering yours with it. Mrs. Knowles will commence the examination.—If you please.

27,967. Mrs. Knowles: I think it is true, in it not, that you were Under-Secretary of State for the Colonies?—Yes.

27,968. And that you were also head of the Department of Overseas Trade?—Yes.

27,969. Therefore you have a very wide experience of all these companies abroad and of British foreign trade in general?—A good deal of experience of British foreign trade and a certain amount with regard to companies.

27,970. I take it that the gist of your evidence-in-chief is that existing companies in England may transfer the seat of control, and that if they do we shall lose the orders on renewals which are so important here, and that fresh orders will not come, in which case we shall lose the original equipment orders and also the renewal orders. Is that so?—Yes. I think the danger is greater with regard to new companies not coming here. There is always a *vis inertia* which may prevent a company going abroad when it is settled here, but I think it is likely to be a very considerable deterrent in the case

of new companies, and that they will not establish themselves here in cases where they might otherwise do so.

27,971. Have you any specific instances of any companies that would have set up here and have not done so?—Yes, I have. I would gladly give them, but, of course, they were told me officially, and I think that they ought to be kept confidential.

27,972. Mr. Kerly: We will accede to that. Are you prepared to mention their names now?—Certainly.

27,973. Very well they shall be excluded from the published report, if that meets your view?—From the evidence?

27,974. From the published evidence?—Shall I give the instances that occur to me from memory straight away?

27,975. Yes, if you please.—It was while I was at the Department relating to Overseas Trade that a number of individuals used to come to me personally with regard to the possibilities of trade. I can give three instances. They seem to me typical, and though I am speaking from memory I have not the least doubt there are more. [The witness here gave three instances to illustrate his statements, but he asked that the facts should be regarded as confidential.]

27,976. Can you say from the rest of your experience that you think they were typical of others?—I should think so, because it came up perfectly naturally as a question.

27,977. Mrs. Knowles: Did you come across any instances of companies that actually removed?—No. I have not. I have heard of one, but I have not verified it.

27,978. Mr. Kerly: We will not trouble about that, because we have had actual cases—I suppose those are the ones I have heard of, but I have not verified them.

27,979. Mrs. Knowles: What would be your suggestion as to the remedy, from your wide experience of this sort of business?—Here I am not an expert, but it seems to me very largely a difficulty of machinery, as to how far it is possible to make an allocation of the incidence of the Income Tax so as only, so to speak, to impose a fair proportion. From the ideal point of view, I do not think they ought to escape British income taxation altogether, if they have the advantage of London as a seat of operation. I only think that they ought not to bear the whole, because it is too great a deterrent. How far the charge is allocable is, I should have said, a very difficult question of machinery, on which I am really not sufficient of an expert to give an opinion which could weigh against opinions actually given by the Income Tax authorities.

27,980. You are director of a company which is really managed from here, and which works very little in this kingdom, except for the little bit in Wales that you have mentioned?—Yes, that is so.

27,981. What advantages do you consider specifically come to this particular company from its seat of control in England. Do the orders come here for renewals?—Very largely. The chairman and I were talking it over, and we both agreed that the actual fact that the head office was in this country was the cause of orders for fresh machinery, renewals and spare parts, and so on, coming to this country, when quite naturally they might go elsewhere. I do not wish to dilate upon this fact, because I have not the least doubt that in all the previous evidence the Commission have heard this kind of statement almost ad nauseam. But, at any rate, that was our own practical feeling. I have a similar instance, and if it would be of interest, I might mention it. While I was at the Department of Overseas Trade, we were promised a return of the orders placed each year by the Argentine Railway Companies in this country, and at that time, I remember my informant, Mr. Fallett Holt, who very kindly offered to get it for the Department, saying that these were orders which were influenced in coming to this country by reason of the British control.

27,982. Have you seen that American Report on the export industries?—No.

27,983. It says the same thing: that the orders come here because of the control, and I understood the inference was that they must try to get the

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SIR ARTHUR STEEL-MAITLAND.

[Continued.]

control removed to America?—I think it is a fact that at the moment in America a certain amount of pressure or influence is exerted on companies which are located in America, not to remove their control from America, and I have not the least doubt that this is one of the reasons.

27,854. But have you got any pressure exerted on the company here to remove their control to America?—No, not to America.

27,855. I should have expected your company, working largely in America, to be one of those who would have felt it?—No, the two works of the company in America are not really of sufficient importance to make it worth while to remove to America—not for that reason alone, compared with the operations of the company as a whole.

27,856. Mr. Trotter: Do you have a French register of shareholders?—They are bearer shares, very largely, so that it is impossible to tell precisely at any moment the actual amount of shares owned in France; but we can tell within comparatively close limits by the way in which the coupons are presented.

27,857. The two amounts you give, for 1918 and 1919, show an approximately similar amount as regards the French shareholders; or have they been falling off?—I think in 1919 there were more French shareholders than there were in 1918.

27,858. They have been selling?—I would not say they have been selling for that reason or at any rate for that reason alone. I think probably not, to be candid. I think the decline in the number of French shareholders began before the very great increase in the Income Tax, during the war.

27,859. Of course the effect of the differentiation in tax would mean a differentiation in price in the two countries, would it not? A share would be yielding a higher rate in France than it would here, owing to the fact that less tax would be paid?—I would not like to give an opinion offhand, but I should think that it would be unlikely that there would be much difference in prices in the two countries, because of course a bearer share could be sold from one country to another with such ease, to be sold.

27,860. You say that in your opinion a tax on undistributed profits, whether on companies operating abroad or at home, is unjustifiable in principle. Of course you know that the firm not only has to pay the tax, but it has to pay Super-tax as well?—I agree.

27,861. Sir W. Trower: On the question of double taxation as between England and her Colonies and Dominions, it has been suggested that the Income Tax should be divided between the two. How would you suggest that that should be applied to foreign countries?—I think this is a technical matter, of which I am not an expert; but I have often wondered whether it would be possible to agree upon a rough proportion, with the proviso that so far as there is a higher rate in one country than in another, the total should not be less than it would have been if the tax has been levied in one country at the higher rate.

27,862. That would involve a treaty arrangement, and reciprocity between the two countries?—There would have to be some convention, I should think.

27,863. That would depend upon negotiations between the two countries?—Yes.

27,864. If the rate was divided between the Dominions and this country, and then it was endeavored to apply it to foreign countries, it would follow that that would practically be done by negotiation between the two countries?—I do not think it would necessarily mean a convention, but I agree that very likely a convention would be desirable.

27,865. You could hardly give a concession in one country which would not be met by reciprocity in the other country, could you?—I am not sure about this country; but no doubt you have had this in evidence: that I think the Americans at present do give a certain concession with regard to this country, without having demanded one in return.

27,866. Mr. Kerly: No, pardon me; they do not wait for an agreement with us, but they give their concession to any American in respect of income from a country which has a corresponding provision.

27,867. Sir W. Trower: It is in effect reciprocity?—

May I say in reply to your question, I have no doubt it would be wise to try to get a *quid pro quo* in such cases where Income Tax, for example, is levied; but I am not sure that it might not be wise to give some sort of abatement, even although there may not have been in certain instances a *quid pro quo*. It might perhaps pay us better to give it without.

27,868. That is a matter very largely of surmise, is it not—as to whether the increased trade in this country will pay for the deficiency in the loss of income?—Clearly.

27,869. Then as regards control. Do you suggest that that should be treated by a flat rate?—You mean, if I take the case where income arises in a foreign country, and the company is controlled here, and the income is distributed in another country.

28,000. That, I understand, is the position of your company?—Yes; I think that a charge might be made.

28,001. At a flat rate, or in reference to the profits?—How do you mean, "in reference to the profits"?

28,002. At a flat rate on the profits, so much in the £?—Yes.

28,003. Sir E. Nott-Bower: You have a number of British shareholders as well, have you not?—Yes.

28,004. Would you think there is any hardship in those British shareholders paying Income Tax on the full amount of their dividends, although the profits are mainly, apart from the question of control, earned abroad?—I do not think it is really fair; I think that is double taxation, even so. It is not treble taxation, but it is double taxation.

28,005. Mr. Kerly: Taxing in the country of source?—Yes, as well as in the country of control and spending and enjoyment—in this case both.

28,006. Sir E. Nott-Bower: Is there an Income Tax in Spain?—No, there is not an Income Tax, but there is a very complicated series of taxes, which I could get you, but I do not think I could narrate offhand, of taxes on profits.

28,007. Mr. Marks: On the French model, I think?—Doubtless you are better acquainted with them than I am.

28,008. Sir E. Nott-Bower: I only wanted to get your view. May I assume, for a moment, a country where there is no Income Tax, and the foreign country has no Income Tax, and the British company is started and controlled from this country, but all the operations which directly lead to profit are carried out in the foreign country, and there are foreign shareholders and English shareholders. You do not see any objection, do you, to the English shareholder paying Income Tax on his share of the profits?—It seems to me that that comes to the most complicated question of the whole, which is this. Supposing you have not got Income Tax in two countries, but that in one of them, you have indirect or other forms of taxation which constitute a burden on the individual corresponding to the burden created by the Income Tax in the other country in which it is levied.

28,009. I rather agree in that case it makes the question of double taxation more difficult than ever, does it not, because if you are to consider the matter properly, must you not take into account taxes which are not Income Tax at all?—Yes, theoretically one ought clearly to do so, though it leads to complications that are appalling.

28,010. Mr. Marks: Can you tell me, on the figures you have given, what proportion of the difference between the £538,000 in 1910, and the £381,000 in 1918, is due to increase of Spanish taxation?—No; Spanish taxation has not increased; I think in 1918 it amounted to just under £100,000.

28,011. Mr. Kerly: Just under £100,000?—I think so. Might I ask perhaps not to be bound by that figure; I should like to verify that, if it is wanted.

28,012. At any rate, it would be in the neighbourhood of £5, in the £.

28,013. Mr. Trotter: That would be on the whole, then, would it not, not on the French shareholders?—That would be on the whole.

28,014. Mr. Kerly: I see it is "distributable in France"; that is quite right. You probably know that we have had a lot of evidence about Double

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SIR ARTHUR STREEL-MAYLAND.

[Continued.]

Income Tax, and have formed a Sub-committee to deal provisionally with the matter, and I dare say you have read the evidence on the topic which has been before us?—I have read a little of the evidence; I have not had time to read it all; it is somewhat voluminous.

28,015. I want your assistance to see what you say with regard to this. Proposals have been made on the line of treating the dividends that are ultimately due to foreign shareholders something in the way in which goods in transit in bond escape taxation. In order to apply any such method as that, there are two things to be done. First, you must determine what shareholders you are going to relieve?—Yes.

28,016. They would have to be the shareholders really entitled who are non-residents?—Yes.

28,017. You would have to provide against the case of English shareholders, shall we say, choosing to receive through a foreign nominee?—Yes.

28,018. Of course, the company, even if it knows its own shareholders, would be able to give very little assistance as to whether they are receiving for themselves or not. Therefore it looks as if the company would have to pay in the first instance, and leave the foreign shareholder to get it back on making out his title; and in the case of bearer shares, to which you have referred, the company could give no real assistance at all?—It might help, but it could not guarantee.

28,019. So much for the shareholder. The next question is to determine what companies you are going to relieve. The simplest case of all would be a company trading abroad and being merely controlled in this country; but that is by no means the only case. You would have control mixed up with management and active direction, where you really have brain work over here; and perhaps the essential profit-earning element of the company might be in this country. Further than that, you would have the case of a company trading abroad as well as at home. Now supposing we attempted to make a recommendation with regard to companies merely controlled here, can you offer us any sort of definition of what would constitute control and exclude carrying on?—I am not quite sure that I have grasped your distinction as between control and management.

28,020. Let me put you a case; I do not know whether it represents the actual facts. An English company possessing an interest in the Russian oil-field; all that the English directors do is to select the manager, and perhaps other people who are sent out to work the field, and to manage the finance. I suppose the London board always manages the finance of the company?—I suppose so. The case comes to my mind where you might possibly get it divided. I do not know whether the financial control of the Ottoman bank is divided.

28,021. A case occurs to me in which I happened to be professionally engaged. A motor-car building company which had been originally French was bought by an English syndicate, who bought up all the shares. They appointed some Englishmen as directors, and for a time they held their board meetings in London. It was then held that they were controlled in England, and so they had to pay all English taxation. They then decided to hold their board meetings in Paris, and they solemnly adjourned once a fortnight to Paris to hold a board meeting, but they continued to issue their summonses in London, and they had a London office. It was still held that they were an English company. That is the minimum of control in this country, I should have thought. Now take that as an extreme case of possibility?—Before giving a considered opinion I would like to think the question over, since when asked a very difficult question of this kind, I do not like to be bound, as a considered opinion, to what is a more or less improvised answer.

28,022. I do not want an improvised answer. If you did not appreciate before, I am sure you appreciate now, that, while many members of this Commission feel that this matter involves a very serious risk

to this country, they are also wondering whether the difficulties are not so great that they cannot be provided against. Of course we are all familiar with the political position, where it is not that you doubt the hardship, but you are unable to conceive of a remedy?—I really was convinced of the intricacies of it before.

28,023. After thinking it over—and by all means do so—if you can communicate with the Secretary in writing any suggestion which may help us upon this matter, we shall be greatly obliged?—May I take it that what you wish is to try to get some method of apportionment?

28,024. No, that is another matter, which I am going on to?—I do not mean fractions, but some method, shall we say, of discriminating between what is control of policy and what is real management?

28,025. No?—I want to get the question quite clear which you wish me to think out and answer.

28,026. The distinction I want is between the company which ought to escape some part of taxation, at any rate, in respect of its foreign-held capital, because, as is often put, it is not really carrying on business here as a resident, but is merely controlled in this country while carrying on business abroad. That is what is constantly put as hardship. I put to you an extreme case where there seems to be little else than a nominal control in this country. Now we will leave that. Assuming you have arrived at a solution of that difficulty, the next one is this. If the company is not merely earning part of its profits from a foreign business which it controls here, but is also carrying on a business in the ordinary sense here, then you must arrive at some apportionment, unless you are to rule it out altogether. Upon what lines are you to apportion? The only suggestion that has been made to us is that that should be left to some Board of Referees to fix a fraction of the total profits after a consideration of the facts of the particular case. That was a suggestion we had yesterday. If you can make a suggestion which you think is better than that, we should like to have it in the same way.

28,027. Mr. May: May I ask just one question as to the first point that you put to Sir Arthur on which he is going to give his opinion, and the instance which you gave him as an extreme one where there was only nominal control in this country?

28,028. Mr. Kerly: Yes.

28,029. Mr. May: For the purpose of his consideration, is it understood that the nominal control in this country had no commercial value to the firm?

28,030. Mr. Kerly: I do not know if Sir Arthur would like to answer.

28,031. Mr. May: What I am really asking is whether you are putting it to him on that basis.

28,032. Mr. Kerly: No, I did not want to limit him about that. I presume this is clear; that unless you had English directors you probably would not have got English money to buy up a French concern, and that that was why you had English directors?—Yes, presumably there is clearly some commercial value at each stage.

28,033. About the figures of your comparative statement for 1918 and 1919: the French Income Tax increased very largely in the interval—three or four times—did it not, between 1910 and 1918?—When I inquired (this was naturally before my connection with the company) they told me that the revenue duty payable by individual shareholders was a new duty since 1910.

28,034. So that it was not included in 1910, but is included in 1918?—Yes.

28,035. Has any suggestion been made to the French Government that they should give up part of the increased charge?—Not that I know of.

28,036. I am afraid it would be unsuccessful having regard to the financial position that now prevails in France. I do not think I need put any other figures to you. I am much obliged to you; will you, at your convenience, let us have any further suggestions you have to make?—Certainly.

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MR. WILLIAM KRAY.

[Continued.]

MR. WILLIAM KRAY, Solicitor, of Blairgowrie, called and examined.

The witness handed in the following statement as his evidence-in-chief:—

28,037. (1) I am a fruitgrower in the Blairgowrie district of Perthshire. I have about 47 acres of ground, owned and occupied by me, under raspberry cultivation. I also act as agent for a large number of fruit farmers in this district, and have been asked by them time and again to appeal against the assessment for Income Tax purposes.

28,038. (2) In 1903, my partner and I, along with some others, formed a company and purchased the estate of Wester Essendy, near Blairgowrie, for the purpose of dividing it up into small holdings for the cultivation of raspberries. The estate was ultimately sold to about 14 or 15 different individuals, whose holdings varied in extent from 5 to 25 acres. The company retained about 40 acres and worked the whole scheme co-operatively along with the smallholders. The annual value of the estate, when it was bought, was £1 per acre, but after it was divided up, the Assessor increased the annual value to £3 per acre.

28,039. (3) In the year 1906, the Assessor of Income Tax began to insist on the fruit farmers paying Income Tax on the basis of their profits instead of on the basis of their rental. I was instructed to appeal against this assessment to the Local Commissioners.

The grounds of the appeal were:—

(a) By the Income Tax Act of 1842, Schedule B, Rule VIII, it is provided that lands occupied as nurseries or gardens for the sale of the produce, and lands occupied for the growth of hops, shall be estimated according to the Rules of Schedule D. (Later, by Section 39 of the Income Tax Act of 1853, hop grounds were excepted from this Rule and treated in the same way as ordinary farm land.)

(b) The system adopted in the cultivation of raspberries was practically similar to the system adopted in the cultivation of hops.

(c) Hop grounds were not considered market gardens or nurseries in 1842, while raspberry fields were not in existence in 1842.

(d) But for the inclusion of hop grounds in Rule VIII of the 1842 Act, they would have been treated in the same way as ordinary farm land. Raspberry fields ought, therefore, to be treated in the same way as hop grounds and be assessed under Schedule B.

(e) The land was not cultivated as a garden or a nursery. It was ploughed and harrowed in the same way as an ordinary farm.

28,040. (4) The decision of the Local Commissioners, who, apparently, understood the methods of cultivation, was that the fruit farmer ought to be assessed under Schedule B as an occupier of land, and sustained the appeal. The Income Tax authorities in Perth, however, asked for a stated case to be taken to the Court of Session, when the fruit farmer decided to pay the 10s. claimed rather than incur the expense of a litigation in the High Court.

28,041. (5) Parties engaged in the cultivation of raspberries should be treated as other occupiers of land are treated, for the following reasons:—

1. The land is cultivated as a farm, not as a garden.

2. The produce is sold as a farmer sells his produce, not as a gardener sells his.

3. During the first three or four years, practically no income is obtained. To average the income in the sixth year on a three years' basis, therefore, means that the fruit farmer is paying on a very much higher scale than he ought to.

4. During the last years of a plantation, say, from the tenth to the fourteenth, his bushes have practically ceased to be worth anything, and nothing is allowed for depreciation.

5. It is unfair as between England and Scotland because—

In Scotland fruitgrowers usually confine themselves to the growing of fruit alone, and are assessed under Schedule D.

In England, a large number of fruitgrowers grow fruit as part of an ordinary farm, and are assessed under Schedule B.

The Departmental Committee on Fruit Industry estimated that there were 77,000 acres under small fruit in England in 1905, while Mr. Bell, the Superintending Inspector at Somerset House, stated that Rule VIII only applied to 4,749 acres of fruit land, pure and simple, in England and Wales, and to 27,413 acres of market gardens in which flowers, vegetables, &c., were grown for sale. This means that 50,000 acres in England and Wales were assessed under Schedule B without taking into account orchards.

6. It is unfair as between the larger farmer and the smallholder, e.g.:—

(a) I know of a farm of over 400 acres, 60 acres of which are under fruit. The assessment is under Schedule B, viz.: on the rental—£2 per acre $\times 2 = £4$ per acre.

(b) On 6 acres occupied by me, the rental of which is £19 10s., I was charged £18 last year, which is equal to an assessment of about £3 0s. per acre.

7. The Departmental Committee on Fruit Industry recommended that all occupiers of land (except nurseries) should be assessed on Schedule B. This recommendation should now be given effect to.

[This concludes the evidence-in-chief.]

28,042. Mr. Kerly: You come from Blairgowrie, and you want to put before us a particular hardship that growers of fruit, and especially growers of fruit in Scotland, suffer from because they are not allowed to pay tax, as I understand, upon Schedule B, that is, double the rent, like other people engaged in husbandry, but they are charged upon Schedule D?—Yes.

28,043. You will be examined by members of the Commission, but may I tell you how that strikes me at first blush: that they quite certainly ought to be charged on Schedule D, because they are carrying on business, and that all the other people in the same position ought to be so charged also?—Do you mean all the other people carrying on business ought to be charged under Schedule D?

28,044. Yes, all people engaged in husbandry or any other business should be charged on Schedule D; that is to say, on their actual profits, provided you can manage it. The difficulty is supposed to be that you cannot get the farmer, and particularly the small farmer, to keep accounts?—Of course the fruit growers are small farmers; if that difficulty applies to small farmers engaged in husbandry, those engaged in the growing of potatoes and cereals, then it applies equally to the small men engaged in the growth of raspberries.

28,045. But what about the man with a small mixed farm? He keeps no sort of accounts, very often, and it is suggested that he is incapable of doing it?—Nor does the fruit grower.

28,046. Does he not?—No.

28,047. Does not the Scotch fruit grower keep any accounts?—That is not my experience.

28,048. The suggestion has been made to us that all farmers should be assessed on Schedule D. If that suggestion were adopted and enforced, you would merely fall into line with the rest?—If I am to be treated in the same way as farmers, that is all I ask.

28,049. Have you anything to say against the equity of charging farmers on their actual profits under Schedule D?—I am not concerned with farmers,

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MR. WILLIAM KEAY.

[Continued.]

exactly; I have nothing to say against it in equity other than the difficulty of getting accounts out of farmers; and the farmers, of course, eat part of their produce without keeping any reckoning of it. 28,060. That would have to be charged?—Yes.

28,061. And allowance in respect of it to be made?—An allowance would need to be made in respect of farmers who are engaged in growing corn and feeding cattle, fattening pigs and so on, in respect of what they eat in the house.

28,062. Then incidentally if you tax farmers under Schedule D, you would rope in a good many things which are not really farming profits under the present Schedule B assessment. A man, for instance, doing stock dealing, or horse dealing, in connection with his holding, sometimes now makes very big profits?—I think they are brought in already, are they not? I have no experience of stock raising, but I thought they were brought in already.

28,063. I will not ask you anything further about that. Now with regard to your paragraph 5. You give an example there. Will you just follow this. In the sixth year there would be a full crop of raspberries, would there not?—Yes.

28,064. And a full year's profit?—Yes.

28,065. But on the present three years' average the assessment would be on one-third of the fifth year's profits only, assuming no profit until the fifth year?—On one-third of the third, fourth and fifth year's profits.

28,066. But would there be any profits in the third year?—There might be a little; the income might about equalize the expenditure.

28,067. We will start from the year 1 and go up to the year 6. In the year 1 there would be no profits?—No.

28,068. In the years 2 and 3 there would be profits?—It might equalize itself in year 3. There would be no profits.

28,069. We need not take the actual count, but for several years at the beginning of your series you would get off without paying any tax, because you would not have any profits?—That is so.

28,060. Then for the next two years, at any rate, after you have begun making full profits, you would be getting some reduction in respect of the previous years, when no profit or not a full profit was made?—That is so. May I be allowed to explain?

28,061. Yes, certainly. I notice in paragraph 5 (3) you say: "During the first three or four years practically no income is obtained. To average the income in the sixth year on a three years' basis, therefore, means that the fruit farmer is paying on a very much higher scale than he ought to."—Yes.

28,062. I suggest to you that the true inference is that until the sixth year he gets an advantage over all other traders?—I do not think so.

28,063. Will you explain it?—Suppose a raspberry grower ran his holding for ten years, and he makes £200 a year from the fourth to the tenth year. That is six times £200, which is £1,200. He has made that in the course of ten years. His average income for the ten years is, therefore, £120. If his average income is £120 he is not liable to pay any tax; but if you assess him on the last years of his holding you are assessing him on a basis of £200 a year, when he is liable to pay tax. That is the point.

28,064. I appreciate that. That is, he suffers a disadvantage, which everybody does, on an uneven income which is a growing income?—No, it is not the disadvantage which everybody suffers. It is a disadvantage peculiar to the trade, because he goes into a business which never gives a return at all during the first three years. It is a waiting process altogether, and in the course of ten years or twelve years at the most his capital is wiped out again.

28,065. Add whatever you like, but I will not ask you any further question about that?—With that £200 explanation, I think that settles the matter.

28,066. Sir E. Nott-Bower: During those first three years when a man is making no profits, what does he live on?—He goes into the business for the purpose of making profits during the six years. Most of the smaller fruit growers are engaged in other occupa-

tions; some of them are ploughmen, some of them are shopkeepers, some of them lend themselves out to work for other people. They go into these things, and while their fruit is coming into full bearing, as we call it, they are earning a wage as working men in other ways. Of course, if I were going into fruit growing I would be carrying on my business at the same time; but it is not for myself that I am speaking.

28,067. Is it the rule, then, that the whole land is planted with raspberries at once?—Yes, that has been the practice amongst raspberry growers.

28,068. This particular fact to which you allude would not cause this unevenness in the return of income if some acres were in full bearing and others immature, and others were becoming worn out?—It would not arise to the same extent if the fruit grower planted two acres this year and two acres next year and two acres the year after. But usually they take five or ten acres of land and plant it all out at once and work it out to the finish, and then give it up and take another five or ten acres.

28,069. Mr. Kerly: Is not fruit growing, especially where you devote the whole of the holding to a single crop, a very speculative business? It is not really the case that you begin with so many acres, for instance, and make a little money the third year and a little more the fourth and a little more the sixth, and then a steady income until the tenth, and then have to replant. That is not the real commercial history of the thing, is it?—It depends on the weather.

28,070. But taking the weather and taking the markets and taking the crop you get, is it not rather this: that you very likely in your ten years get one bumper year, when you make hundreds of pounds, and that it is for the bumper year you really go?—No. A large number of fruit growers are so anxious to secure an equitable return for their produce that they enter into contracts for a period of years at what they consider a fair price. In this way they avoid the extremes which may happen in the case of a perishable crop. The effect of this in 1909 was that those who had done so were about £5 a ton better on the average, while this year, on the other hand, they did not realize anything like top price for their crop.

28,071. The bumper year comes sometimes, does it not?—Sometimes it does.

28,072. As well as the bad year?—The bumper year came in 1909, as far as crop was concerned, and the price fell to 7s. a cwt. or 27 a ton. That was a bumper year, so far as crop was concerned. So far as I remember, the best three years the fruit growers have had were the three years prior to the war, when the price was about £27 to £28 a ton, and fair crops.

28,073. What happened during the war?—They have not made so much money during the war as they made during the three years prior to the war.

28,074. Have they not?—No, sir.

28,075. I have no doubt you know, but it surprises me to hear it?—I can believe that quite well. You naturally think that, on account of the rise in prices, the fruit grower would make more money. But as a matter of fact he did not. The rise in cost exceeded the equivalent rise in prices. For instance, in the year 1917—I am not sure whether it was 1916 or 1917, but it was one of them—the Government commandeered all the raspberries we had to sell, from these smaller fruit growers. They were selling, at the date of the commandeering, at £20 a ton, and the price received from the Government was about £21. Well, of course it did not pay.

28,076. You tell me it did not pay, and I will accept it as your evidence, but I do not see any necessity about it; I do not see why you should say "of course"?—Of course it did not pay, because the costs were very much greater.

28,077. They were sufficiently greater to prevent there being a big profit?—There was no profit in that year.

28,078. We are much obliged to you. You have come a long way to give us your evidence.





ROYAL COMMISSION

ON

THE INCOME TAX.

APPENDICES

AND

INDEX

TO THE

MINUTES OF EVIDENCE.



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1920.

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ROYAL COMMISSION
ON
THE INCOME TAX.

APPENDICES
AND
INDEX
TO THE
MINUTES OF EVIDENCE.



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APPENDICES.

Appendix No. 1.

Handed in by Mr. HOPKINS.

BOARD OF ISLAND REVENUE,
SOMESET HOUSE.

BRIEF HISTORY OF THE INCOME TAX.

1. Income Tax in this country has its origin in the financial necessities occasioned by the expense of the great war with France at the end of the 18th century. At the instance of William Pitt an Act, entitled "An Act for granting to His Majesty an Aid and Contribution for the Prosecution of the War," was passed in 1798, imposing duties which, although based upon the amount which the taxpayer had paid in the previous year in the form of "Assessed Taxes,"* were also brought into some sort of relation to the amount of the taxpayer's income, provided that if his income did not amount to £50 he was granted total exemption. These duties, which are known as the "Triple Assessment," amounted to something less than Income Tax as we understand the expression now; and moreover, owing to what Pitt characterized as "shameful evasion or rather scandalous frauds," they were a financial disappointment; but they were a beginning, and they paved the way for the real thing which came in the following year, 1799.

2. Pitt's Act of 1799 repealed the 1798 duties and imposed a regular Income Tax on incomes at the rate of ten per cent. A general statement of income from all sources was required from the taxpayer and the assessment was made on the total income subject to certain deductions, some of which after long dispute have been revived only in modern times, as, for example, deductions for children and for repairs of property. Incomes under £50 were not charged, between £50 and £200 the rate was graduated, but on incomes of £200 and upwards the tax fell at the full rate of ten per cent. The yield in the first year was a little more than six millions.

3. In the short interval of peace that followed the Treaty of Amiens in May, 1802, Addington repealed the Income Tax, stating that he considered it a tax to be reserved for war purposes; but on the resumption of war in the next year, the tax was revived by the Income Tax Act of 1803. In this Act we get for the first time a principle which has been of incalculable benefit to the Revenue of this country, and which in spite of some modern encroachments remains the great buttress of Income Tax stability and efficiency—the principle of taxation at the source. The tax was schemed out into the five great heads or Schedules which remain with us to this day, Schedules A, B, C, D and E. Pitt's statements of total income were dropped, and in their place statements of income from particular sources were required. Some stress was laid on the advantage to the taxpayer in not having to disclose his total income, but it is likely that the real reason for the change was the desire to check evasion. Perhaps both results were aimed at. Both were at least partially achieved. In the complementary words of an official publication of the time "the charge is gradually diffused from the first possessor to the ultimate proprietor, the private transactions of life are protected from the public eye, and the Revenue is more effectually guarded." As a result of the change the yield of the tax, although the rate was only 5 per cent., was almost equal to the yield in 1799 when the rate was 10 per cent.

4. The next important Act was that of 1806, which embodied the Regulations of an Act which had been passed in the previous year. Notwithstanding improved methods, evasion of tax by the claiming of excessive deductions was so prevalent that it was found necessary to withdraw on that account the allowance for repairs of property, which was not then limited to a certain fraction of the annual value.

The deduction for children was also discontinued for the same reason. Moreover, it would appear that large numbers of people had been content, in defiance of the facts, to return their total incomes as just below £50—till then the limit of exemption. To catch these offenders and to take advantage of the statements contained in their claims of exemption, the 1806 Act reduced the limit of exemption to £20, and at the same time confined the exemption to incomes from professions, trades and offices. A publication issued by the Tax Office at the time comments curiously on this change. "It is notorious that persons living in easy circumstances, nay, even in apparent affluence, have returned their income under £50, although their annual expenditure has been treble that sum, and on whom there was no ground for imputing extravagance. . . . Hence it is that the Legislature found the necessity to confine the exemptions to £20, that their former Returns may be made use of."

5. After Waterloo the Government proposed to reduce the tax by one-half, but the Government was defeated, their Bill thrown out in March, 1816, and the tax ceased to exist. The yield at this time exceeded £14,000,000. Then for a quarter of a century it remained an unused instrument of finance until it was revived by Sir Robert Peel in 1842 by 5 and 6 Vict., c. 35, an Act which still forms the basis of the existing Income Tax code.

6. Peel's Act of 1842—which it may be remarked was not a measure of war finance but introduced in time of peace—was based on that of 1806; in fact, it was not much more than a reprint of the Act of 1806, with certain additions and modifications. The Act did not extend to Ireland because the repeal of the "Assessed Taxes" in Ireland in 1823 had abolished the machinery for assessment and collection. The rate of the tax was 7d. in the £, and the exemption limit was fixed at £150. The duties were levied under the five familiar Schedules, and the tax in its structure, chief principles, and general scheme of administration has not been seriously modified until quite recent years.

7. In 1851, on the motion of Mr. Hume, M.P., a Select Committee was appointed (and re-appointed in the next Session) with Hume as Chairman, to consider "the present Mode of Assessing and Collecting the Income and Property Tax, and whether any other Mode of Levying the same, so as to render the Tax more equitable, can be adopted."

8. The Committee listened to a great deal of evidence, much of it of an actuarial character, mainly directed to the desirability of differentiating between temporary and permanent incomes by charging the tax on capital value instead of on income. Not real property only but income of every sort was to be expressed in terms of its assumed value by capitalizing the various kinds of income at different rates. The official witnesses opposed all these schemes, and John Stuart Mill, who also gave evidence, although in favour of discriminating between temporary and permanent incomes, was against the proposal to capitalize incomes. Hume's draft report suggested that the tax should be adjusted according to the capital value of the property or income, the tenure, and the age of its owner, but his report was not adopted, and finally the Committee merely submitted the evidence to Parliament without making any recommendations.

9. The next important stage in Income Tax history was reached in 1853, when Mr. Gladstone left his mark upon the tax in some notable particulars.

* The "Assessed Taxes" included taxes on carriages, horses, wine, spirits, etc., also the Window Tax, and the duty on Inhabited Houses.

* See note in column I.

especially in bringing Ireland within its scope. His speech when making his Budget statement on 18th April, 1853, dealt both with the history of the Income Tax and with its great possibilities. These possibilities he preferred to keep in reserve against a time of war: "with it, judiciously employed, you may again, if need be, defy the world." He was against its employment as a permanent ordinary portion of our finances. He said that the Government, having first considered the question of dropping the tax altogether, had decided against that course, but had determined to fix on the tax a temporary character by imposing it for a definite period of seven years at diminishing rates, so that when the time came Parliament might be in a position to part with the tax if it desired. The rate was fixed at 7d. for the first two years, 6d. for the next two, and 5d. for the last three years of the seven-year period. To the breaking up and reconstruction of the tax sought by the would-be reformers of the 1851 Committee Mr. Gladstone offered strong opposition on the ground that it was a complicated and unworkable scheme. "Whatever you do in regard to the Income Tax," he said, "you must be bold, you must be intelligible, you must be decisive. You must not palter with it." He admitted the public feeling as to the inequality of the tax, and that the tax did as a whole bear too hard upon intelligence and skill as compared with property, upon "industrious" incomes as compared with "lazy" incomes; but he argued not only that there was no hard and fast line that could be drawn between the two classes, but that in fact income from property being assessed upon its gross rental was already differentiated to that extent from what we have now learned to call "earned" income. Moreover, the effect of the Legacy Duty operated in the same direction. He proposed to increase that distinction—firstly by enlarging the scope of the Legacy Duty so as to make it apply to all successions whatever, and secondly by reviving the allowance for Life Insurance premiums which had been dropped when the tax was reimposed in 1842. This allowance he did not, it is true, confine to incomes of any particular kind, but he said that in practice "the classes who are in the habit of insuring their lives are just those very classes whom it is your main object to relieve by the reconstruction of the tax—namely, the classes of professional men and of persons who are dependent upon their own exertion." Further than this he was not prepared to go.

10. Mr. Gladstone's hope that the Income Tax would be in a position to expire gracefully on the 5th April, 1860, was disturbed by the Crimean War; 1855 and 1856 found the rate at 4s. 4d. in the £; the highest point reached since the re-introduction of the tax in 1842 until the outbreak of the present war, and 1860 came and went leaving the tax full of life and vigour.

11. The ineffective result of the 1851-2 Committee did not stop the agitation for differentiation, which continued strongly both in Parliament and outside, and the year 1861 saw the appointment of another Select Committee on Income Tax, with the same terms of reference as in 1851. The Committee had for its Chairman Mr. Hubbard, Governor of the Bank of England, who had carried in the House of Commons the motion for its appointment against the opposition of Mr. Gladstone, who was then Chancellor; and among its members were Mr. Gladstone, Mr. Lowe, and Sir Stafford Northcote. The witnesses went again over some of the ground traversed by the former Committee in the direction of classifying incomes for differential treatment and of allowing certain deductions from gross income; the allowance of repairs of property was considered, and the propriety of deducting the "capital" element in terminable annuities. Hubbard's draft Report contained proposals on all these points. He classified incomes as "spontaneous" or "industrial," the latter to be charged only on two-thirds of their amount; he proposed to make certain deductions by way of flat rates or averages to reduce gross income from lands, houses, mining rents and royalties, &c., to net, and to eliminate from the assessments on terminable annuities that portion which might be regarded as repayment of capital. But his Committee would not follow him. Hubbard complained later that the Committee was deliberately formed of men hostile to his views, and it may be that he was right. They finally submitted a short report

in which they gave it as their opinion that the objections urged against the tax "are objections to its nature and essence rather than to the particular shape which has been given to it," and they declared that they felt so strongly "the dangers and ill consequences to be apprehended from an attempt to unsettle the present basis of the tax without a clear perception of the mode in which it is to be reconstructed" that they were not prepared to offer any suggestions for its amendment.

12. So the Income Tax went on its way with minor changes until the dissolution of Parliament in 1874, when Mr. Gladstone (who had said in 1861 that he would very much like to be the man who could abolish the Income Tax and that he did not altogether abandon the hope that the time might come) proposed in a manifesto to his constituents the complete abolition of the tax, which it had been the "happy fortune" of Mr. Lowe to reduce from 6d. to 4d. Disraeli's election address also spoke of the abolition of the tax as a measure which the Conservative party had always favoured. As a result of the election Mr. Gladstone was not returned to office, and though the new Chancellor, Sir Stafford Northcote, reduced the rate to 3d. in the £, the lowest point it has ever touched, he kept the tax alive.

13. In 1878 an allowance was made for the depreciation of machinery and plant used by traders and manufacturers.

14. The year 1880 is noticeable for the passing of the Taxes Management Act, which consolidated the laws dealing with the machinery and administration of the tax. From this date until 1905—with the exception of the revival of allowances (abolished in 1805) for repairs of property, and the extension of the limits of exemption from £150 to £160, and of abatement from £400 to £500 in 1894, and a further extension to £700 in 1898—the history of the tax offers no very striking features.

15. In 1905 a Departmental Committee, which had been appointed in the previous year, issued its report. This Committee, over which Mr. Ritchie presided, was instructed "to inquire into and report whether it is desirable to effect any alteration in the system of the Income Tax as at present prescribed and administered under the following heads:—

- (a) The prevention of fraud and evasion;
- (b) The treatment of income derived from copyrights, patent rights and terminable annuities;
- (c) The allowances made in respect of the depreciation of assets charged to capital account;
- (d) The system of computing profits assessable under Schedule D on the average of the profits realized in the three years preceding the year of assessment;
- (e) The rules and regulations governing the recovery by taxpayers of over-payments of Income Tax;
- (f) Whether Co-operative Societies enjoy under the present law any undue exemption from liability to Income Tax."

16. The Committee after hearing 30 witnesses reported at length on all the subjects referred to them for inquiry. Among their chief recommendations were that the time limit both for rectifying insufficient assessments and for proceedings for penalties should be extended to three years; that power should be given to publish names and particulars in cases of gross fraud; that returns of taxable income should be insisted upon in all cases; that the principle of taxation at the source should be extended to patent royalties; that the 133rd section of the Act of 1842 (which gave a one-sided advantage to a taxpayer whose profits in the year of assessment were less than the amount assessed) should be repealed; and that the grant of exemption or abatement by reason of the smallness of income should be abolished in the case of persons resident outside the United Kingdom. They were disposed to leave alone the existing system of assessment on average profits, and did not suggest any serious alteration in the treatment of wasting assets. With regard to the treatment of copyrights, terminable annuities, households, and Co-operative Societies they recommended no change.

17. When making his Budget statement on the 30th April, 1906, Mr. Asquith said: "There are two familiar and, in point of justice and economic principle, valid objections to the incidence of the tax

Macnair
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2nd series,
Col. 1382.

Macnair
Vol. 121,
3rd series,
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S.C. 1861,
S.C. 1861,
P. IV.

4 A 42
Vol. C. B.

4 A 44
Vol. C. B.

P. 7,
C. B.

W. 7.

Col. 1877.

Official
Vol. 184,
3rd series,
Col. 181.

They are, as everyone knows, first that above the limits of exemption and abatement it is levied at a uniform rate; and secondly, that no distinction is made between precarious and permanent incomes. It appears to me that the time has come for a searching and authoritative inquiry.

By May, 1906, a Select Committee had been appointed to inquire and report "upon the practicability of graduating the Income Tax, and of differentiating, for the purpose of the tax, between permanent and precarious incomes." The 1906 Committee (Sir Charles Dilke being Chairman) heard 13 witnesses of whom four were official. Among the non-official witnesses the chief were Messrs. Chiozza Money, Harold Cox, and Snowden, all of whom had schemes of taxation to lay before the Committee and all of whom were in favour of both the reforms that were under discussion. The chief conclusions come to by the Committee were briefly:

- (a) That graduation was practicable,
 - (i) by an extension of the system of abatements, and
 - (ii) by a super-tax on large incomes.
- (b) That differentiation between earned and unearned incomes was practicable.
- (c) That abandonment of the system of collection at the source and adoption of direct personal assessment for the whole of the tax was inexpedient.

18. In 1907, following upon the reports of these two Committees, there began a movement in the direction of change and of more intimate adaptation of the tax to the circumstances of the taxpayer and to modern business conditions which has had a remarkable and almost revolutionary effect upon the development of the tax. The first great innovation was the differentiation of rates as between earned and unearned incomes up to a total income limit of £2,000, earned incomes within that limit paying 9d. in the £ instead of the full rate of 1s. This reform, discussed for a century, resisted by Pitt, by Peel and by Gladstone, was recommended by the 1906 Committee, introduced by Mr. Asquith, and carried out without any serious friction or inconvenience.

The 1907 Act contained also many minor but very useful provisions based largely on the Report of the Departmental Committee of 1905.

19. The next important step was taken by Mr. Lloyd George in the Finance Bill for 1909, which ultimately became law in 1910, as the Finance (1909-10) Act, 1910. By this Act, following again a recommendation of the 1906 Committee, the principle of graduation on the larger incomes was introduced by means of a Super-tax imposed on incomes exceeding £5,000, at the rate of 6d. for every pound by which the total income exceeded £5,000. Among other provisions of the 1909-10 Act were the revival of the allowance for children, in abeyance since 1806, a great extension of the 1894 allowance for repairs and maintenance of agricultural and cottage property, and an extension of the principle of differentiation from the former £2,000 limit up to £3,000.

After an interval of a few years, necessary for the assimilation of these changes, a considerable development of the principle of graduation was effected by the Finance Act, 1914, the last Finance Act passed before the war. By this Act the taxation of earned income was made to proceed by four steps before the maximum rate was reached by incomes over £2,500, and for the first time there was a beginning of graduation in the rates for unearned incomes, with two steps leading to the maximum when the income exceeded £800. Further graduation among the higher incomes was carried out by a great modification of the Super-tax. Liability to Super-tax was made to begin at £3,000 instead of £5,000, and in place of the old flat rate of 6d. there were seven rates rising to a maximum of 1s. 4d. The second Finance Act of 1914, passed after the outbreak of war, increased all the rates by a flat percentage but left the system of graduation unchanged.

20. Since then there has been further progress in graduation, the number of steps has been increased both for earned and unearned income and for Super-tax, and, as a temporary war measure, a now set of reduced rates has been granted to soldiers and sailors and merchant seamen. The scope of the attempt made since 1907 by the Legislature to temper the burden of a high rate of tax to the varying capacity of the taxpayer may be gathered from the fact that, quite irrespective of a graduated Super-tax, there are now six rates of Income Tax applicable to earned income, five rates applicable to unearned income, and seven to the pay of soldiers and sailors, &c.

21. In addition to this remarkable growth of differentiation and graduation the last few years have seen the extension of liability to incomes between £130 and £160 which about doubles the number of persons who come under the review of the Inland Revenue Department as having incomes over the exemption limit.

22. Payment of the duty by instalments, abandoned in 1869, has also been re-introduced recently to meet the hardship caused by payment in one sum at a high rate of duty.

23. There is one recent innovation which encroaches upon the principle of taxation at the source. Owing to the pressure of war expenditure, national borrowing had to be effected on a quite unprecedented scale, and foreign money had to be tempted into British Government Securities; the gravity of the crisis was held to justify, in so far as certain war loans were concerned, a retrograde departure from the system of paying the interest under deduction of tax.

24. There have been many other notable points in modern Income Tax legislation, all of them having their share in transforming the old and comparatively simple structure into a financial instrument of extraordinary complexity, subtlety, and power, but not calling for detailed comment in a brief memorandum.

25. It may be added finally that in 1918 all the numerous Income Tax enactments were consolidated into one compendious statute, the Income Tax Act, 1918, which came into force on the 6th April, 1919.

Appendix No. 2.

Handed in by Mr. HOPKINS.

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.

THE EXISTING INCOME TAX SYSTEM.

Scope of the tax.

1. The Income Tax of the United Kingdom extends to the income of

(a) individuals, and

(b) companies, corporations, and other bodies of persons

who are resident in the United Kingdom or who receive income which arises in the United Kingdom.

Income arising to the "legal persons" mentioned under (b) may be wholly or in part distributed by them amongst individuals and so become part of the

incomes of individuals, or it may remain in the hands of the company, &c., concerned and form part of its undistributed profits.

The aggregate income of individuals liable to Income Tax amounts roughly to £1,745,000,000, and the aggregate amount of the undistributed profits annually earned by companies, &c., may be put, very approximately, at £295,000,000.

2. The Income Tax applies to all annual income or profits. Broadly speaking, it may be said that by

profits are meant net profits—the surplus of income remaining after deducting all necessary expenses of making it—but this statement is subject to certain qualifications as will appear hereafter.

Geographical scope of the charge.

3. The tax extends, broadly, to

- (a) all income arising in the United Kingdom, by whomsoever it may be enjoyed; and
- (b) all income accruing to a person residing in the United Kingdom, without regard to the place where it may arise.

It is necessary to mention that the expression "person residing in the United Kingdom" includes a company whose seat of management is in the United Kingdom and whose operations are controlled here. The whole business profits of such a company are chargeable with United Kingdom Income Tax, notwithstanding that the transactions from which such profits are immediately derived may be carried on outside the United Kingdom.

Classification of income or profits.

4. The Income Tax Acts provide a great variety of rules (summarized below) for ascertaining and assessing profits. For this purpose, from 1803 onwards, profits have been divided into five classes, viz.:

- (a) profits from the ownership of lands and buildings;
- (b) profits from the occupation of land;
- (c) profits from investments in the public funds;
- (d) profits from trades, professions and employments;
- (e) profits from the emoluments of public offices, each with a separate set of rules. These five descriptions of income or profits with their rules were put into five lists or Schedules in the principal Act, lettered respectively A, B, C, D and E. Hence arose the now familiar expressions Income Tax Schedule A, Income Tax Schedule D, &c.

Graduation and differentiation.

5. As regards the undistributed profits of companies and other bodies of persons, Income Tax is charged at a flat rate, viz., the standard rate in force for the time being, which for the year 1918-19 is 6s. in the pound. Persons resident abroad who derive income from this country also pay United Kingdom Income Tax at the same flat rate (with certain exceptions). Where, however, such income is above the limit of exemption from Super-tax, that tax is strictly chargeable in addition.

The application of a flat rate in the first case is due to the fact that neither the relief for small incomes nor the Super-tax on large incomes applies to companies, &c., while, as regards persons resident abroad (a) the relief for small incomes is in general not applicable, and (b) in the case of a large income the resident abroad who is technically chargeable to Super-tax can seldom be made to pay the tax.

But so far as individuals resident in the United Kingdom are concerned (and these of course constitute the enormous majority of the taxpayers), the tax is a graduated and differentiated tax.

6. Graduation is effected in two ways, viz.:

- (1) *downwards*, by reduction of the standard rate to lower graduated rates which are applicable
 - (a) to unearned income where the total income, while exceeding £130, does not exceed £2,000; and
 - (b) to earned income where the total income, while exceeding £130, does not exceed £2,500.

(Incomes of individuals not exceeding £130 are altogether exempt.)

- (2) *upwards*, by means of an additional Income Tax—also graduated—applicable to incomes exceeding £2,500, and chargeable as a Super-tax in addition to Income Tax at the standard rate.

7. Differentiation in favour of earned income is effected in the case of total incomes not exceeding £2,500 by the application to such earned income of a scale of graduated rates which are throughout lower than the corresponding rates applicable to unearned income.

Rates of tax.

8. For the year 1918-19 the rate of Income Tax paid by corporations, &c., on their undistributed profits, and by persons resident abroad on income derived from this country is 6s. in the pound, the standard rate of Income Tax. This rate represents the final liability of an individual only in the case of the unearned income of a taxpayer whose total income lies between £2,000 and £2,500.

Individuals whose total incomes do not exceed £130 are entirely exempt from Income Tax, and as regards individuals whose incomes exceed £130 relief by reduction of the rate of tax below the standard rate is allowable on the following scale:—

Amount of total income.	Rate applicable to earned income.	Rate applicable to unearned income.
Not exceeding £ 500	s. d.	s. d.
Exceeding £ 500 and " "	2 5	3 6
Exceeding £1,000 " " "	3 0	3 9
Exceeding £1,500 " " "	3 9	4 6
Exceeding £2,000 " " "	4 6	5 3
Exceeding £2,500 " " "	5 8	6 3*

* Standard rate—no relief.

9. Further relief in the form of abatements and allowances for wife, children and certain relatives is also given in the case of the smaller incomes, the effective rate of tax being thus reduced to a figure considerably below the nominal rate. The scale of abatements at present in force is as follows:—

Amount of total income.	Amount of abatement.
Not exceeding £400	the tax on £130
Exceeding £400 and " "	" " £100
Exceeding £600 " " "	" " £ 70

10. The following allowances are made for a wife,† for certain relatives‡ and for children:—

Amount of total income.	Allowance for wife† and for dependent relatives‡ and the special allowance to widowers.†
Not exceeding £800	the tax on £25.

Amount of total income.	Allowance for children (including step-children and adopted children).
Not exceeding £800	for each child under the age of sixteen years, the tax on £25.
Exceeding £800 and not exceeding £1,000.	for each such child in excess of two, the tax on £25.

11. The Table printed on page 5 shows in respect of the incomes therein mentioned the considerable reduction in the effective rate of tax as compared with the nominal rate:—

* References are to this Act, unless otherwise stated.
 † The "wife allowance" is made to a claimant in respect of his wife, if living with him. Where the claimant is a widower, an allowance is made in respect of any female relative of his (or of his deceased wife) who is resident with him for the purpose of having the care and charge of his children.
 ‡ This allowance applies where the claimant maintains at his own expense a relative of his or of his wife who is uncapacitated (including an adopted child who, although over the age of 16, is incapacitated) by old age or infirmity from maintaining himself and whose income does not exceed £25 a year.

INCOME TAX—YEAR 1918-19.

Total income.	Nominal rate of Income Tax applicable to		Bachelor.				Married man without children.				Married man with three children.			
			If income all earned.		If income all unearned.		If income all earned.		If income all unearned.		If income all earned.		If income all unearned.	
	Tax payable.		Tax payable.		Tax payable.		Tax payable.		Tax payable.		Tax payable.		Tax payable.	
	Earned income.	Unearned income.	Amount.	Effective rate.	Amount.	Effective rate.	Amount.	Effective rate.	Amount.	Effective rate.	Amount.	Effective rate.	Amount.	Effective rate.
£	s. d.	s. d.	£ s. d.	s. d.	£ s. d.	s. d.	£ s. d.	s. d.	£ s. d.	s. d.	£ s. d.	s. d.	£ s. d.	s. d.
135 ...	2 3	3 0	1 13 9	3	2 5 0	4	NH	—	NH	—	NH	—	NH	—
145 ...	2 3	3 0	2 16 3	5	3 15 0	6	NH	—	NH	—	NH	—	NH	—
200 ...	2 3	3 0	9 0 0	11	12 0 0	1 2	6 3 9	7	8 5 0	10	NH	—	NH	—
220 ...	2 3	3 0	11 5 0	1 0	15 0 0	1 4	8 8 9	9	11 5 0	1 0	NH	—	NH	—
250 ...	2 3	3 0	14 12 6	1 2	19 10 0	1 7	11 16 3	11	15 15 0	1 3	3 7 6	3	4 10 0	4
300 ...	2 3	3 0	20 5 0	1 4	27 0 0	1 10	17 8 9	1 2	23 5 0	1 7	9 0 0	7	12 0 0	10
400 ...	2 3	3 0	31 10 0	1 7	42 0 0	2 1	28 13 9	1 5	38 5 0	1 11	20 5 0	1 0	27 0 0	1 4
500 ...	2 3	3 0	45 0 0	1 10	60 0 0	2 5	42 3 9	1 8	56 5 0	2 3	33 15 0	1 4	45 0 0	1 10
600 ...	3 0	3 9	75 0 0	2 6	93 15 0	3 1	71 5 0	2 4	89 1 3	3 0	60 0 0	2 0	75 0 0	2 6
700 ...	3 0	3 9	94 10 0	2 8	118 2 6	3 4	99 15 0	2 7	113 8 9	3 3	79 10 0	2 3	99 7 6	2 10
800 ...	3 0	3 9	120 0 0	3 0	150 0 0	3 9	116 5 0	2 11	145 6 3	3 8	105 0 0	2 7	131 5 0	3 3
900 ...	3 0	3 9	135 0 0	3 0	168 15 0	3 9	135 0 0	3 0	168 15 0	3 9	131 5 0	2 11	164 1 3	3 8
1,000 ...	3 0	3 9	150 0 0	3 0	187 10 0	3 9	150 0 0	3 0	187 10 0	3 9	146 5 0	2 11	182 16 3	3 8

General method of collecting the tax.

18. Whenever it is possible to do so, Income Tax is obtained by deducting it before the income reaches the person to whom it belongs. For instance, a trading company is required to pay to the Revenue Income Tax at the standard rate on the whole of the profits made by it, without reference to the ultimate destination of the profits. Such a company on paying dividends to its shareholders is entitled to deduct and retain the amount of Income Tax appropriate to the amount distributed, and the shareholder thus receives his dividends subject to this deduction of Income Tax.

The principal classes of income on which tax is collected by deduction "at the source" are the following:—

- (a) Interest on British Government pre-war securities and on certain securities issued since the outbreak of war.
- (b) Interest on Foreign Government securities payable in the United Kingdom.
- (c) Interest on securities issued by local authorities.
- (d) Mortgage and other interest payable on real property.
- (e) Rents, including ground rents, lease rents, head rents, feu duties and similar payments arising out of real property.
- (f) Debenture and other interest, and dividends paid by limited liability companies.
- (g) Interest and dividends payable by Foreign and Colonial companies through agents in the United Kingdom.
- (h) Coupons for dividends payable abroad which are realized through a banker or coupon dealer in the United Kingdom.
- (i) Patent royalties.
- (k) Mineral royalties and dead rents.
- (l) Annual interest and annuities payable under contracts.
- (m) Certain tithe rent charges.
- (n) Salaries of officers of Public Departments (including the Navy, Army, Air Force, Civil Service, &c.).

17. On the other hand, it is not always practicable to tax income at the source, and in such cases it is necessary to make a direct assessment on the recipient of the income.

The principal items of income which form the subject of direct assessments are:—

- (a) Profits of trades, employments and vocations.
- (b) Profits from the occupation of land.
- (c) Profits from foreign and colonial securities and possessions (where not taxed by deduction on payment through an agent entrusted with the payment of foreign and colonial dividends, &c.).
- (d) Profits from interest, discounts, &c., where not taxed by deduction (including interest on the bulk of British Government securities which have been issued during the war).

The aggregate income of a taxpayer may be made up of a number of separate items from some of which tax has been deducted before the income reaches its owner, while on others he pays tax on a direct assessment.

18. When tax is deducted at the source it is (with certain exemptions) deducted at the standard rate, which rate for the year 1918-19 is 6s. in the £. This rate represents the final liability in certain cases (see paragraph 8 above), but where the rate ultimately payable by a resident in this country whose income is taxed wholly or partly by deduction is less than the standard rate, certain adjustments must be made in order to give him the benefit of the relief to which he is entitled.

For example, A's income amounting to £1,800, is derived entirely from dividends taxed at the source at 6s. in the £. The "unearned" rate appropriate to a total income of £1,800 is 5s. 3d. only. A would be repaid 9d. in the £ on the amount of his income on his making an application for relief supported by evidence of the amount of tax which has been deducted from his income.

B's income amounting to £1,800, is derived as to £1,300 from dividends taxed at the source at 6s., and as to £500 from his profession as barrister. The rate appropriate to B's income from dividends is 6s. 3d., the rate applicable to his earned income is 4s. 6d.

The earned income will be the subject of a direct assessment as follows:—

£600 at 4s. 6d.	=	£135 tax
From this will be deducted the relief due on the unearned income, viz., on £1,300 at 6d.	=	£45 ..
Leaving a balance of tax collectible on the direct assessment of	=	£90

19. It may be mentioned at this point that the adjustments referred to in the preceding paragraph are greatly facilitated by the fact that personal statements of total income are now rendered annually by almost every individual taxpayer.

An individual whose income is wholly or partly earned renders a statement in order to claim the reduced rate of tax on his earned income, if his total income does not exceed £2,500.

An individual whose income is wholly unearned renders a statement in order to claim the reduced rate of tax on his unearned income, if his total income does not exceed £2,500.

Every individual whose total income exceeds £2,500 is required to render a statement for the purposes of Super-tax.

Thus the only individuals who need not render a statement of total income for one purpose or another are those whose final liability is represented by the standard rate of Income Tax (6s.), namely, the relatively small class of persons (about 15,000 in number) whose total incomes lie between £2,000 and £2,500 and consist wholly of unearned income—and even here claims for the allowance of Income Tax in respect of Life Assurance premiums bring in a certain number of statements of total income, owing to the necessity for proving that the claimant's income amounts to at least six times the amount of the premium.

Relief in respect of Colonial Income Tax.

20. Owing to the general rise in the rates of Income Tax the difficult subject of double taxation became acute during the war. A section was put into the Finance Act of 1916, admittedly as a temporary or stop-gap measure, granting relief solely at the expense of the British Exchequer, without prejudice to the question of the relative claims of the Exchequers of the United Kingdom and of the Dominions. It was provided that if a person has, on any part of his income, borne both United Kingdom Income Tax (at more than 3s. 6d. in the £) and also Colonial Income Tax, he shall be repaid the smaller of the following amounts:—

- (a) such an amount as will reduce the United Kingdom Income Tax on that part of his income to 3s. 6d. in the £, or
- (b) the whole amount of tax on that part of his income at the rate of the Colonial Income Tax.

With the present standard rate of United Kingdom Income Tax of 6s. in the £ the maximum rate of relief allowable under this section is 2s. 6d. in the £.

It may also be mentioned that income derived from abroad and accruing to the resident in this country is taxed here not on the gross amount, but on the amount remaining after deducting any Income Tax paid in the place where the income has arisen.

Rules of assessment.

21. One of the consequences of the taxation of income as far as possible at the source is seen in the classification of income that has been adopted for the purpose of assessment. As indicated above, this classification, which dates back to the year 1893, has given us the five well-known Schedules A, B, C, D, and E of the Income Tax Acts, which together embrace all income chargeable with Income Tax. Schedules A and C are primarily deduction-at-the-source Schedules, First Sch.

See D.
Case IV.
Rule 1, and
Case V.
Rule 1.

to attract money from every possible quarter—British and foreign—and in order to attain this object it was decided (a) to pay interest on certain War Loans without deduction of Income Tax, and (b) to exempt from liability to tax interest on those securities when they are in the beneficial ownership of a person who is not ordinarily resident in the United Kingdom. The investor who is ordinarily resident in this country is required to include such interest in his return for direct assessment under Schedule D.

Schedule D.

35. We now come to what may properly be described as the principal Schedule of the Income Tax, viz., Schedule D. Under this Schedule nearly two-thirds of the aggregate amount of the produce of the Income Tax is accounted for. Its charging provisions extend to the annual profits arising or accruing

(i) to any person residing in the United Kingdom, from property wherever situated (not assessed under Schedule A), or from trade, profession, employment, or vocation wherever carried on;

(ii) to any person not resident in the United Kingdom from property in the United Kingdom (not assessed under Schedule A), or from trade, profession, employment, or vocation exercised within the United Kingdom.

Interest of money, annuities and other annual profits not charged under other Schedules and not specially exempted from tax (as, e.g., is interest forming part of the income of a charitable trust) are also made chargeable under Schedule D.

36. The subjects of charge under Schedule D are grouped under six heads, or, as they are called, "Cases."

Case I relates to trade profits. The tax is to be computed on the basis of the average profits of three years ending next before the year of assessment.

Case II relates to the profits from professions, employments and vocations, and the tax is also computed on the basis of a three years' average, except that certain weekly wage-earners are charged in respect of their earnings for each quarter, being assessed and required to pay after the end of the quarter.

37. The Rules applicable to Cases I and II do not enumerate all the expenses that may be allowed in computing profits for assessment. In general it may be said that profits are computed on a commercial basis with the qualification that certain charges that would be regarded by a trader as part of the expenses of his business for commercial purposes are expressly prohibited by the Act. For instance, in accordance with the principle under which the whole of the profits arising from a business are charged in the hands of a person who carries it on—that is, as near the source as possible—the deduction of interest on borrowed money, patent royalties, and similar payments is prohibited, but the trader who pays the tax recovers a proportionate amount by deduction from any interest, royalties, &c., which he may have to pay to other persons. Broadly speaking, expenses which are not of the nature of capital and which are incurred wholly and exclusively for the purposes of the business are deductible, but capital charges, lost capital, losses unconnected with the business, and private and domestic expenses are not allowed. Debts proved to be bad are allowed for, and also doubtful debts to the extent to which they are estimated to be bad.

Any Excess Profits Duty which has been paid in respect of a business is allowed as an expense for Income Tax purposes, but Income Tax is not treated as an expense.

38. The deduction allowed for depreciation (apart from certain special war-time provisions) is limited to an allowance for diminution in value by reason of wear and tear of machinery and plant used for the purposes of a trade. A deduction is also allowed when machinery or plant that has become obsolete is replaced. An allowance, calculated by reference to annual value, is also made in respect of the depreciation of mills, factories, and similar premises.

39. During the first three years of a business the profits of the year of assessment may be adopted as the basis of liability; and similarly where a business is discontinued, the person chargeable is entitled to be charged for the last year on the actual profits arising in that year and to have an adjustment of the tax paid for the three previous years, so that the total amount paid does not exceed the amount which would have been paid if the profits had been assessed year by year on the amount arising in each year.

40. Under Case III is charged interest not taxed by deduction (including interest on British Government securities which has been paid without deduction of tax), discounts, &c. The basis of assessment is the amount of income arising in the year preceding year of assessment.

41. Case IV provides for the taxation of income arising from foreign and colonial securities. The basis of charge is the income arising in the year of assessment, but a person who is not domiciled in the United Kingdom and a British subject who is not ordinarily resident in the United Kingdom are chargeable only on the amounts actually received in the United Kingdom.

42. Case V extends to income arising from foreign and colonial possessions (other than securities). The liability is computed on the average income of the three preceding years. In the case of income from stocks, shares or rents, the liability is computed on the full amount of the income arising from the source in question (subject to a qualification similar to that applicable to Case IV, that a person not domiciled in the United Kingdom and a British subject not ordinarily resident in the United Kingdom are taxable only on the sums received in this country). Income from foreign and colonial possessions other than stocks, shares, or rents (for instance, from a share of a business wholly carried on outside the United Kingdom) is taxable only on the amount of income received in this country.

43. Case VI extends to "any annual profits or gains not falling under any of the foregoing Cases and not charged by virtue of any other Schedule." It is the sweeping-up Case which is intended to bring within the Income Tax net all annual profits that are not taxed in some other way. Owing to the indefinite nature of the profits that may fall within this Case, the rules for assessment are very vaguely drawn. They provide that the nature of the profits and the basis on which the amount has been computed, including the average, if any, taken, shall be stated by the taxpayer, and that the computation of liability shall be made either on the profits of the year of assessment or on an average of a period greater or less than a year as the case may require.

Schedule E.

44. Schedule E extends to the emoluments of public offices and employments of profit, and to annuities, pensions and stipends payable by the Crown or out of the public revenue of the United Kingdom. When the Act of 1842 was passed the bulk of the assessments made under this Schedule no doubt related to offices held under the Government, Ecclesiastical bodies, Municipal and other Public Corporations, and so on; at the present day officers and employees of limited liability companies constitute the most numerous class of persons chargeable under Schedule E.

The basis of assessment (except as regards certain fluctuating emoluments) is the income of the year of assessment, but the Board of Inland Revenue offer no objection if the District Commissioners assess subordinate officers of limited liability companies (e.g., clerks, travellers, &c.) on a three-years' average, thus giving such persons the same treatment as employees of private firms. The Act provides for the tax assessed under Schedule E to be deducted from official salaries and emoluments of public offices. This rule is not applied to persons employed by limited liability companies (except officials of railway companies) from whom the tax is collected direct.

Basis of assessment.

45. It is perhaps not out of place at this point to give a statement showing the various bases upon which income is computed for the purpose of assess-

Sch. D, Cases I and II, Rule 2.

Sch. D, Cases I and II, Rule 1.

Sch. D, Cases I and II, Rule 1.

Sch. D, Cases I and II, Rule 1.

Sch. D, Cases I and II, Rule 1.

Sch. D, Cases I and II, Rule 1.

Sch. D, Cases I and II, Rule 1.

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Sch. D, Cases I and II, Rule 1.

Sch. D, Cases I and II, Rule 1.

Sch. D, Cases I and II, Rule 1.

ment, and the nature of the income to which each basis is applicable:—

	Basis.	Income to which applicable.
		Income from:—
Sch. A, No. I.	Year of assessment, in year of re-valuation (same value continued in succeeding years until next re-valuation).	Annual value of property.
Sch. B.	Conventional basis (unless the occupier has asked to be assessed under Schedule D).	Occupation of land.
Sch. C.	Year of assessment ...	Interest, annuities, dividends, etc., taxed at the source.
Sch. D, Case IV, Rule 1.	Do.	Foreign and Colonial securities.
Sch. E, Rule 1.	Do.	Salaries, fees, &c., of public offices or employments. Annuities, pensions, &c., payable by the Crown or out of public revenue.
Sch. A, No. II, Rule 2.	Preceding year	Compositions for tithes. Payments in lieu of tithes from lands (except tithes re-charges).
Sch. A, No. II, Rule 3.	Do.	Fines in consideration of the demise of lands or tenements.
Sch. A, No. III, Rule 1.	Do.	Quarries of stone, slate, limestone, or chalk.
Sch. A, No. III, Rule 2.	Do.	Ironworks, gasworks, salt springs or works, alum mines or works, waterworks, streams, canals, docks, drains, levels, markets, fairs, tolls, railways and other ways, bridges, ferries, and other concerns of the like nature.
Sch. D, Case III.	Do.	Profits of uncertain value, including interest, discounts, &c., not taxed at the source.
Sch. E, Rule 4.	Preceding year or three years' average.	Perquisites* of public offices or employments.
Sch. A, No. II, Rule 1.	Average of three preceding years.	Tithes taken in kind.
Sch. A, No. II, Rule 2.	Do. do.	Ecclesiastical dues and payments.
Sch. D, Case I.	Do. do.	Payments in lieu of tithes (not being tithes arising from lands).
Sch. D, Case II.	Do. do.	Tithes in Scotland.
Sch. D, Case V, Rule 1.	Do. do.	Trades and manufactures.
Sch. E, Rule 4.	Do. do.	Professions, employments, and vocations.
	Do. do.	Foreign possessions.
Sch. A, No. III, Rule 2.	Average of three preceding years or preceding year.	Perquisites* of public offices and employments.
Sch. A, No. III, Rule 3.	Average of five preceding years.	Mines of coal, tin, lead, copper, mungie, iron and other mines.
Sch. A, No. II, Rule 3.	Average of seven preceding years.	Manorial dues, royalties and profits.
Sch. A, No. II, Rule 4.	Such average or basis as appears just and equitable.	Miscellaneous profits from lands not in the occupation of the person chargeable.
Sch. D, Case VI, Rules 1 and 2.	Do. do.	Annual profits and gains not otherwise charged.

All the income which is received by the individual to whom it belongs under deduction of Income Tax is of course taxed automatically by reference to the income of the year of assessment, the amount of tax deducted being that appropriate to the actual payment or payments made during the year.

46. Assessments made on the bases mentioned in the preceding paragraph are subject to modification

or to later adjustment in numerous cases that are specially provided for in the Act, as, for example, mines failing, new businesses, businesses discontinued, changes in a partnership in conjunction with a falling off of profits, cessation of business, death or bankruptcy, profits from lands falling short of the amount assessed, losses made in trade or in the occupation of lands, diminution of profits due to the war, total income falling short of the assessed income, and so on.

Place of assessment.

47. Speaking generally, the Act provides for income to be assessed in the place where it arises. Thus properties chargeable under Schedule A are to be assessed in the place where they are situate, businesses and employments are chargeable where they are carried on, and emoluments of public offices are taxable at the head office of the department under which they are held. Householders not engaged in business or employment, and persons not otherwise provided for, are chargeable where they ordinarily reside.

The taxation of income where it arises carries with it the obligation of making a return of income at each place where an assessment falls to be made. The Acts do not recognise any right on the part of the taxpayer to make one, and only one, return annually for Income Tax purposes. If he has two residences, or exercises a trade or profession in different parishes, or in a parish other than that in which he resides, he may be called upon to make returns in each of the parishes concerned, but such a course is not always necessary in practice.

Special reliefs.

48. It may be added that the Act contains a number of special relieving provisions which are due mainly to the war; thus reduced rates of tax and other reliefs have been granted in respect of the service pay of Sailors, Soldiers, Members of the Air Force, &c. Moreover, relief is allowed in respect of diminished income due to the War and provision has been made for postponement of payment of Super-tax where the income has been very seriously reduced. These provisions are in their nature temporary and will no doubt be reconsidered at an appropriate moment.

Husband and wife.

49. In general, the income of a married woman living with her husband is treated as the income of the husband, the aggregate income of husband and wife (in so far as it is not taxed at the source) is assessed upon the former, and the tax payable recovered from him. But—

- where the total joint income does not exceed £200 the married man is entitled to an allowance of the tax on £25 (see paragraph 10);
- where the total joint income does not exceed £500 any earnings of the wife may be treated as a separate income for the purposes of claiming exemption, abatement or other relief; and,
- where either the husband or the wife makes an application within six months before 6th May in any year Income Tax (and/or Super-tax) for that year is to be assessed on their respective incomes as if they were not married.

In cases where such an application is received, separate returns are called for from husband and wife, separate assessments made on each, and the tax payable on such assessments is recovered from husband and wife respectively (with an ultimate right of resort to the husband for the wife's tax). But the income of husband and wife is to be treated as one in dealing with claims for relief dependent upon total income, and the effect of the provision for

* I.e., such profits as arise in the course of exercising an office or employment from fees or other emoluments.

separate assessment is therefore not to reduce the total amount of tax payable but only to divide it between husband and wife according to certain specified rules.

Super-tax.

50. Assessments to Super-tax for each year are made on the basis of the total income of the individual from all sources as liable to Income Tax for the preceding year. The statement of income for the preceding year is not necessarily or even usually the actual income of that year, but it is the income on which Income Tax was paid for that year.

For instance, take the case of an individual whose total income is derived from the following sources:—

Profession of barrister.

Interest on Registered National War Bonds, and

Dividends on investments taxed at the source.

The computation of his total income for the pur-

poses of Super-tax for (say) the year 5 will be made as follows:—

- (a) *Profits as barrister*.—The Income Tax assessment of the year 4, which is itself based on the average profits of the years 1, 2, and 3.
- (b) *Interest on War Bonds*.—The Income Tax assessment for the year 4, which is itself based on the interest arising in the year 3.
- (c) *Taxed dividends*.—The amount on which Income Tax was paid (by deduction at the source) for the year 4 which in this case is the actual sum received in the year 4.

The aggregate amount of these three items represents the "statutory income" of the year 4 on the basis of which the Super-tax assessment for the year 5 will be made.

Appendix No. 3.

Handed in by Mr. HOPKINS.

BOARD OF INLAND REVENUE,

SOMERSET HOUSE.

STATISTICS RELATING TO INCOME TAX AND SUPER-TAX.

INTRODUCTORY NOTE.

The accompanying statements contain in tabular form certain statistical information relating to Income Tax and Super-tax which may be required in the course of the inquiry by the Royal Commission.

Table I gives particulars of the yield, &c., of the Income Tax from its first imposition (in 1798) to the present time. Corresponding information as regards Super-tax is given in Table IX.

Table II shows the various rates of Income Tax chargeable for 1907-8 and subsequent years. The rates in force for years prior to 1907-8 are given in Table I, Column 6.

Table III contains particulars for a series of years of the "gross income brought under review" for Income Tax purposes, and the "income on which tax was received," together with details showing how the net income is derived from the gross. The difference between "gross income brought under review" and "income on which tax was received" is made up of three classes of allowances, viz.:—

- (i) Exemptions—for small incomes, charities, and residents abroad (in respect of foreign and colonial dividends paid through an agent in the United Kingdom).
- (ii) Deductions for repairs, empty property, wear and tear of machinery, overcharges in the original assessments, &c.—that is, broadly, allowances necessary (in addition to Exemptions under (i)) to reduce the gross income to a figure which may properly be described as "taxable income" (see Table III, Column 11).
- (iii) Personal reliefs not in the nature of expenses, &c., that is, allowances for abatements, Life Insurance premiums, wife, children, &c.

The "taxable income" shown in Column 11 of Table III represents the aggregate income of the taxpaying community of the United Kingdom as computed for Income Tax purposes.

Table IV gives particulars of the division of the "gross income brought under review" (see Table III, Column 2) amongst the five Schedules under which income is classified for Income Tax purposes. Table V gives a similar classification of "taxable income" (Table III, Column 11). Table VI contains like information as regards "income on which Income Tax was received" (Table III, Column 16), while Table VII deals with the "net produce" of the Income Tax (Table I, Column 5, and Table III, Column 17) under each Schedule.

Table VIII contains particulars of numbers and amounts of repayments of Income Tax, showing the principal heads under which such repayments fall.

Table IX gives particulars of the yield, &c., of the Super-tax from its first imposition in 1900-10 to the present time, and corresponds with Table I which relates only to the ordinary Income Tax.

Table X contains a classification of Super-tax payers and their incomes.

TABLE I.

EXPLANATORY NOTES.

By "Exchequer Receipt" is meant the amount of Tax which is paid over to the Exchequer within the Financial year ended 31st March.

By "Net Receipt" is meant the amount of tax actually collected by the Department within the year (no matter for what year the tax may have been assessed) less the amount of tax refunded, &c., within the year.

By "Net Produce" is meant the estimated yield of the tax "assessed in" any particular year" irrespective of the date of actual collection. It furnishes the means of ascertaining what each ld. of the tax imposed produces.

Between the figures of Exchequer Receipt, Net Receipt, and Net Produce for any given year there must of necessity be very considerable divergence. Money collected on account of Income Tax, especially that collected in the provinces, occupies a certain time in the several stages of remittance through which it must pass before it reaches the account of the Board of Inland Revenue at the Bank of England, and for this reason much of the collection during the last fortnight of the financial year, although forming part of the Net Receipt of that year, is not paid into the Exchequer until after 31st March, and therefore does not figure in the Exchequer Receipt until the following financial year. As the sums in course of remittance towards the end of the year vary greatly according to the circumstances of the year, there must always be a divergence more or less considerable between the Exchequer Receipt and the Net Receipt of the year.

The divergence between the Net Produce for the year and the figures of Exchequer Receipt and Net Receipt respectively in the same period is apt to be even wider, for the tax proper to the year of assessment and collected within any Financial year represents only a part of the tax collectible for that year. This is due to several causes, viz.:—

- (a) from and including 1915-16 a considerable proportion of the tax has been collected in two instalments, the second of which is not payable until after the close of the Financial year;
- (b) certain assessments are not made until after the close of the year to which they relate—see latter part of Note* below;
- (c) arrears in course of collection;
- (d) payment is frequently deferred in cases where appeals are awaiting decisions, either of the Commissioners of Taxes or of the High Court of Justice; and
- (e) the Income Tax year (6th April to 5th April) does not exactly coincide with the Financial year (1st April to 31st March), and consequently the tax on certain Dividends and Coupons in respect of Government and other Securities falling due between 31st March and 6th April, cannot be included in the figures for the Financial year, although the duty is deducted at the rate in force for that year.

* For years prior to 1907-08 for "assessed in" read "imposed for." The yield of the tax "imposed for" any year could be ascertained, down to 1904-7 inclusive, shortly after the close of the year. For 1907-8 and subsequent years the time-limit for making assessments was extended to three years after the close of the year to which such assessments relate, and is consequently ceased to be possible to ascertain the yield of the tax "imposed for" any year until three years after its close. In these circumstances it became necessary, in dealing with "net produce," to substitute for the tax "imposed for" a year the tax "assessed in" the year, without regard to the years to which such assessments relate.

INCOME TAX.

TABLE I.—Exchequer Receipt, Net Receipt and Net Produce of the Income Tax in force in the Periods 1793-99 to 1801-02 and 1803-04 to 1815-16.

[For Explanatory Notes, see page 12.]

GREAT BRITAIN.

Year.	Exchequer Receipt.	Net Receipt.	Estimated Net Produce.	Rate of Tax in force for the Year.	Estimated Net Produce of each Penny of the Rate of Tax.
(1)	(2)	(3)	(4)	(5)	(6)
		£	£	£	£
				Year ended 5th April.	
1793-99 ...	Year to 10th October, 1796, £272,000	*272,000	1,555,000	24	77,000
1799-1800...	Year to 10th October, 1799, £3,767,000	*3,767,000	5,694,000	24	237,000
	Quarter to 6th January, 1800, £1,225,000	*1,225,000			
	Year ended 5th January.				
	£				
1800-01 ...	5,052,000	4,835,216	5,380,000	24	215,000
1801-02 ...	5,804,516	5,946,591	5,301,000	24	221,000
1802-03 ...	3,327,436	3,233,567		No Income Tax in force.	
1803-04 ...	384,614	360,277	4,362,000	12	405,000
1804-05 ...	3,687,531	3,662,531	3,872,000	12	323,000
1805-06 ...	4,592,314	4,545,845	5,046,000	15	336,000
1806-07 ...	6,150,087	6,163,088	11,982,000	24	499,000
1807-08 ...	10,155,042	10,155,042	11,213,000	24	467,000
1808-09 ...	11,403,301	11,413,294	12,696,000	24	529,000
1809-10 ...	12,410,385	12,410,298	12,839,000	24	535,000
1810-11 ...	13,492,338	13,497,546	13,613,000	24	567,000
1811-12 ...	13,210,928	13,226,143	13,615,000	24	567,000
1812-13 ...	13,065,196	13,063,195	14,585,000	24	608,000
1813-14 ...	14,273,687	14,273,587	14,876,000	24	620,000
1814-15 ...	14,616,219	14,515,218	14,302,000	24	698,000
1815-16 ...	14,617,969	14,617,964	14,732,000	24	614,000
1816-17 ...	11,797,578	14,689,710		No Income Tax in force.	
1817-18 ...	2,311,531	Apparently included above in 1816-17.		"	
1818-19 ...	680,771	"		"	
1819-20 ...	174,188	"		"	
1820-21 ...	46,178	"		"	
1821-22 ...	44,377	"		"	
1822-23 ...	Not distinguished.	"		"	

Income Tax not revived until 1842-43.

* Taken as equal to the Exchequer Receipt. There is some obscurity in the statistics of the period.

INCOME TAX.

TABLE I.—Budget Estimate, Exchequer Receipt, Net Receipt, Net Produce and other particulars of the Income Tax for the period 1842-43 to 1918-19.

Year.	Budget Estimate.	Exchequer Receipt.	Net Receipt.	Net Produce.	Rate of Tax in force for the year.	Net Produce of each Penny of the Rate of Tax.	Area for Taxation.	Principal changes in the Law (other than variations in the Rate of Tax, &c.) tending to affect the Produce of the Tax.	Chancellor of the Exchequer imposing or continuing the Tax.	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
GREAT BRITAIN.	£	£	£	£	d.	£				
	Year ended 5th January.			Year ended 5th April.						
	1842-43	3,700,000	580,886	582,088	5,405,161	7	772,166	—	Right Hon. Henry Goulburn.	
	1843-44	5,100,000	6,340,892	6,387,445	6,260,184	7	751,456	—	Do.	
	1844-45	5,100,000	5,745,682	6,329,601	5,245,573	7	749,368	—	Do.	
	1845-46	6,300,000	6,180,898	5,182,649	5,488,092	7	755,156	—	Do.	
	1846-47	5,100,000	5,541,067	6,543,682	6,589,775	7	798,539	—	Right Hon. Sir Charles Wood, Bart.	
	1847-48	6,300,000	5,694,407	6,612,654	5,567,865	7	795,409	Incomes of 1850, a year and upwards.	Do.	
	1848-49	6,300,000	5,496,196	6,485,184	6,535,348	7	790,750	—	Do.	
	1849-50	5,270,000	5,568,919	5,564,833	5,474,926	7	782,132	—	Do.	
	1850-51	5,410,000	5,524,828	5,510,860	5,508,910	7	787,130	—	Do.	
	1851-52	5,380,000	5,439,644	6,440,390	5,595,303	7	799,329	Farmers may appeal on basis of actual profit.	Do.	
	1852-53	5,187,000	5,664,678	5,632,770	6,570,030	7	810,004	—	Right Hon. Benjamin Disraeli.	
UNITED KINGDOM.					Incomes of 1850 and under 1850.	Incomes of 1850 and upwards.				
	1853-54	5,560,000	*5,731,777	6,730,458	6,888,678	d. 6	d. 7	1,006,200	Tax extended to Ireland. Friendly Societies exempt under D. Relief in respect of Life Insurance Premiums.	Right Hon. W. E. Gladstone.
	Year ended 31st March.									
	1854-55	13,082,000	10,542,631	10,922,257	13,697,114	10	d. 12	399,600	Incomes of 1850, and under 1850, were charged at the lower rate shown in Col. 6, and those of 1850, a year and upwards were charged at the higher rate.	Do.
	1855-56	13,585,000	15,070,938	16,159,438	15,726,677	11½	d. 14	1,503,600	—	Right Hon. Sir George C. Lewis, Bart.
	1856-57	18,355,000	16,089,838	16,050,671	16,047,647	11½	d. 14	1,023,800	—	Do.
	1857-58	11,450,000	11,586,115	11,396,434	7,479,654	5	d. 7	1,081,600	—	Do.
	1858-59	6,100,000	6,883,587	6,610,102	5,476,105	5	d. 5	1,095,221	—	Right Hon. Benjamin Disraeli.
	1859-60	9,940,000	9,596,106	9,555,141	9,984,147	5½	d. 9	1,120,000	—	Right Hon. W. E. Gladstone.
	1860-61	10,572,000	10,925,816	10,907,060	11,069,388	7	d. 10	1,123,700	—	Do.
	1861-62	10,360,000	10,565,000	10,471,207	10,458,153	5	d. 9	1,162,250	—	Do.
	1862-63	10,100,000	10,367,000	10,482,588	10,731,673	5	d. 9	1,184,000	—	Do.
	1863-64	8,600,000	9,084,000	9,101,894	8,532,049	7	d. 12	1,218,564	—	Do.
	1864-65	7,800,000	7,968,000	7,965,773	7,576,356	6	d. 12	1,312,728	—	Do.
	1865-66	5,150,000	5,390,000	6,331,692	5,621,450	4	d. 12	1,380,262	—	Do.
	1866-67	5,700,000	5,700,000	5,637,294	5,563,238	4	d. 12	1,410,809	Incomes of 1867, a year and upwards, with an abatement of 50L. on incomes of 1867, and less than 200L.	Do.
	1867-68	5,340,000	6,177,600	6,184,156	7,139,973	5	d. 12	1,427,294	—	Right Hon. Benjamin Disraeli.
	1868-69	8,700,000	8,618,000	8,623,507	8,519,388	5	d. 12	1,439,548	—	Right Hon. G. Ward Hunt.
	1869-70	9,360,000	10,044,000	10,108,658	7,832,056	6	d. 12	1,476,411	—	Right Hon. Robert Lowe.
	1870-71	6,380,000	6,355,000	6,390,611	5,568,125	4	d. 12	1,582,081	—	Do.
	1871-72	9,380,000	9,084,000	9,328,102	9,925,664	6	d. 12	1,654,277	—	Do.

* The Exchequer Receipt for the Quarter ended 5th April, 1854, was £2,731,299.

INCOME TAX.

TABLE I.—Budget Estimate, Exchequer Receipt, Net Receipt, Net Produce and other particulars of the Income Tax for the period 1842-43 to 1918-19—continued.

Year.	Budget Estimate.	Exchequer Receipt.	Net Receipt.	Net Produce.	Rate of Tax in force for the year.	Net Produce of each Penny of the Rate of Tax.	Area for Taxation.	Principal changes in the Law (other than variations in the Rate of Tax, &c.) tending to affect the Province of the Tax.	Chancellor of the Exchequer inspecting or continuing the Tax.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1873-74	6,940,000	7,500,000	7,403,737	6,964,353	4	1,741,088	Incomes of 100 <i>l.</i> a year and upwards, with an abatement of 80 <i>l.</i> on incomes of 100 <i>l.</i> and less than 300 <i>l.</i>	—	Right Hon. Robert Lowe, Do.
1874-75	5,575,000	5,691,000	5,641,791	5,563,934	3	1,854,644		—	Right Hon. Sir Stafford H. Northcote, Bart. Do.
1875-76	3,960,000	4,306,000	4,315,132	3,890,530	2	1,945,260		—	Do.
1876-77	3,900,000	4,100,000	4,041,892	3,956,169	2	1,978,084		—	Do.
1877-78	5,268,000	5,280,000	5,284,091	5,714,309	3	1,904,770		—	Do.
1878-79	5,340,000	5,380,000	5,341,365	5,787,017	3	1,906,096	Incomes of 150 <i>l.</i> a year and upwards, with an abatement of 120 <i>l.</i> on incomes of 150 <i>l.</i> and less than 400 <i>l.</i>	—	Do.
1879-80	8,370,000	8,710,000	8,665,491	9,295,385	5	1,872,073		—	Do.
1880-81	9,250,000	9,230,000	9,194,606	9,233,322	5	1,846,664		—	Do.
1881-82	10,425,000	10,650,000	10,776,013	11,109,816	6	1,665,636		—	Right Hon. W. E. Gladstone, Do.
1882-83	9,540,000	9,945,000	10,004,904	9,376,414	5	1,915,633		—	Do.
1883-84	11,662,000	11,900,000	12,166,477	12,758,661	6½	1,862,871	Incomes of 150 <i>l.</i> a year and upwards, with an abatement of 120 <i>l.</i> on incomes of 150 <i>l.</i> and less than 400 <i>l.</i>	—	Do.
1884-85	10,265,000	10,718,000	10,695,046	10,683,927	5	2,016,785		—	Right Hon. H. C. Childers, Do.
1885-86	11,250,000	12,000,000	11,922,770	12,015,232	6	2,002,222		—	Right Hon. Sir Michael Hicks-Beach, Bart. Do.
1886-87	15,400,000	15,160,000	15,217,312	15,813,065	8	1,980,395		—	Right Hon. Sir William V. Harcourt, Do.
1887-88	15,755,000	15,900,000	16,111,174	15,720,555	8	1,965,440		—	Do.
1888-89	14,340,000	14,440,000	14,270,502	13,948,844	7	1,992,690	Incomes exceeding 150 <i>l.</i> a year, abatements being allowed as follows:— 150 <i>l.</i> on incomes exceeding 160 <i>l.</i> but not exceeding 400 <i>l.</i> , and 100 <i>l.</i> on incomes exceeding 400 <i>l.</i> but not exceeding 500 <i>l.</i> Incomes exceeding 160 <i>l.</i> a year, abatements being allowed as follows:— 160 <i>l.</i> on incomes exceeding 160 <i>l.</i> but not exceeding 400 <i>l.</i> , 150 <i>l.</i> on incomes exceeding 400 <i>l.</i> but not exceeding 500 <i>l.</i> , 120 <i>l.</i> on incomes exceeding 500 <i>l.</i> , and 70 <i>l.</i> on incomes exceeding 600 <i>l.</i> but not exceeding 700 <i>l.</i>	—	Do.
1889-90	12,250,000	12,700,000	12,475,369	12,273,591	6	2,045,587		—	Do.
1890-91	12,550,000	12,770,000	12,783,501	12,849,549	6	2,141,538		—	Do.
1891-92	13,200,000	13,250,000	13,143,932	13,290,126	6	2,215,836		—	Do.
1892-93	13,750,000	13,810,000	13,853,616	13,428,780	6	2,238,130		—	Do.
1893-94	13,600,000	13,470,000	13,439,376	13,459,135	6	2,239,556	Incomes exceeding 150 <i>l.</i> a year, abatements being allowed as follows:— 150 <i>l.</i> on incomes exceeding 160 <i>l.</i> but not exceeding 400 <i>l.</i> , and 100 <i>l.</i> on incomes exceeding 400 <i>l.</i> but not exceeding 500 <i>l.</i> Incomes exceeding 160 <i>l.</i> a year, abatements being allowed as follows:— 160 <i>l.</i> on incomes exceeding 160 <i>l.</i> but not exceeding 400 <i>l.</i> , 150 <i>l.</i> on incomes exceeding 400 <i>l.</i> but not exceeding 500 <i>l.</i> , 120 <i>l.</i> on incomes exceeding 500 <i>l.</i> , and 70 <i>l.</i> on incomes exceeding 600 <i>l.</i> but not exceeding 700 <i>l.</i>	—	Do.
1894-95	15,150,000	15,300,000	15,342,333	15,357,000	7	2,191,000		—	Do.
1895-96	15,530,000	15,400,000	15,649,562	15,556,000	8	1,982,000		—	Do.
1896-97	15,530,000	16,100,000	15,982,544	16,265,296	8	2,033,162		—	Do.
1897-98	16,200,000	16,650,000	16,901,341	16,788,821	8	2,098,602		—	Do.
1898-99	16,900,000	17,330,000	17,171,577	17,507,040	8	2,188,380	Incomes exceeding 150 <i>l.</i> a year, abatements being allowed as follows:— 150 <i>l.</i> on incomes exceeding 160 <i>l.</i> but not exceeding 400 <i>l.</i> , and 100 <i>l.</i> on incomes exceeding 400 <i>l.</i> but not exceeding 500 <i>l.</i> Incomes exceeding 160 <i>l.</i> a year, abatements being allowed as follows:— 160 <i>l.</i> on incomes exceeding 160 <i>l.</i> but not exceeding 400 <i>l.</i> , 150 <i>l.</i> on incomes exceeding 400 <i>l.</i> but not exceeding 500 <i>l.</i> , 120 <i>l.</i> on incomes exceeding 500 <i>l.</i> , and 70 <i>l.</i> on incomes exceeding 600 <i>l.</i> but not exceeding 700 <i>l.</i>	—	Do.
1899-1900	17,780,000	18,000,000	18,042,511	18,274,315	8	2,284,289		—	Do.
1900-01	18,300,000	18,750,000	18,667,336	18,828,658	8	2,353,619		—	Do.
1901-02	25,800,000	25,920,000	27,561,160	27,705,512	s. d. 1 0	2,475,442		—	Do.

INCOME TAX.

TABLE I.—Budget Estimate, Exchequer Receipt, Net Receipt, Net Produce and other particulars of the Income Tax for the period 1842-43 to 1918-19—continued.

Year.	Budget Estimate.	Exchequer Receipt.	Net Receipt.	Net Produce.	Rate of Tax in force for the year.	Net Produce of each Penny of the Tax.	Area for Taxation.	Principal changes in the Law (other than variations in the Rate of Tax, &c.) tending to affect the Produce of the Tax.	Chancellor of the Exchequer imposing or continuing the Tax.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1901-02	33,800,000	34,800,000	35,378,700	35,440,470	1 2	2,531,162		—	Right Hon. Sir Michael Hicks Beach, Bart.
1902-03	33,800,000	34,800,000	35,352,846	35,037,951	1 3	2,556,502		—	Do.
1903-04	30,500,000	30,800,000	30,500,450	28,188,067	0 11	2,562,551		—	Right Hon. C. T. Ritchie.
1904-05	30,000,000	31,250,000	31,263,654	30,966,404	1 0	2,680,333		—	Right Hon. J. Austen Chamberlain.
1905-06	31,000,000	31,350,000	31,294,762	31,601,237	1 0	2,633,436		—	Do.
1906-07	31,500,000	31,650,000	31,381,349	32,002,412	1 0	2,666,807		—	Right Hon. H. H. Asquith.
1907-08	30,500,000	32,330,000	31,960,380	32,330,000	1 0†	2,693,000	Income exceeding 160 <i>l.</i> a year, abatements being allowed as follows:— 160 <i>l.</i> on incomes exceeding 160 <i>l.</i> , but not exceeding 400 <i>l.</i> , 150 <i>l.</i> on incomes exceeding 400 <i>l.</i> , but not exceeding 500 <i>l.</i> , 120 <i>l.</i> on incomes exceeding 500 <i>l.</i> , but not exceeding 600 <i>l.</i> , and 70 <i>l.</i> on incomes exceeding 600 <i>l.</i> , but not exceeding 700 <i>l.</i>	Earned Income charged at 8 <i>d.</i> where total income did not exceed 2,000 <i>l.</i> . Extension of time for making assessments, &c.	Do.
1908-09	33,000,000	33,950,000	33,708,541	33,408,754	1 0†	2,781,063		Earned Income charged at 1 <i>s.</i> where total income exceeded 2,000 <i>l.</i> , but did not exceed 3,000 <i>l.</i> . Relief for children (& 10 <i>l.</i>). Allowance for maintenance of property. Changes as to Friendly Societies and as to Non-residents.	Right Hon. D. Lloyd George.
1909-10‡	36,600,000	33,295,000	32,732,098	37,679,902	1 3†	2,691,422			Do.
1910-11§	58,250,000	59,035,000	60,505,094	38,344,767	1 3†	2,788,912			Do.
1911-12	41,800,000	41,804,000	41,815,565	39,631,630	1 2†	2,850,830			Do.
1912-13	40,600,000	41,306,000	41,112,666	41,574,277	1 2†	2,969,591			Do.
1913-14	42,700,000	43,329,000	43,801,738	43,523,545	1 2†	3,106,810			Do.
1914-15	53,021,000	59,279,000	59,423,331	63,392,338	1 8†	3,169,514			Do.
1915-16	59,324,000	171,555,000	112,372,336	113,765,226	3 0†	3,299,034	Income exceeding 130 <i>l.</i> a year, abatements being allowed as follows:— 120 <i>l.</i> on incomes exceeding 130 <i>l.</i> , but not exceeding 400 <i>l.</i> , 100 <i>l.</i> on incomes exceeding 400 <i>l.</i> , but not exceeding 600 <i>l.</i> , and 70 <i>l.</i> on incomes exceeding 600 <i>l.</i> , but not exceeding 700 <i>l.</i>	For graduated rates, see Table II. Taxation of Income from Foreign property extended. Children relief raised 10 <i>l.</i> to 20 <i>l.</i> . Allowance for maintenance of property extended. Relief for diminished income due to War. For graduated rates see Table II. Changes as to assessment of Insurance Cos., &c. Limitation of relief for Insurance premiums. Repayment on interest paid to Banks. Sch. B charged on full Annual Value. Children allowance raised to 25 <i>l.</i> . Quarterly assessments on weekly wage-earners (for 1916-17). Interest on Bank's subscriptions to War Loan treated specially. Liability of Non-residents trading through agents defined. Payment by two instalments in certain cases. Reduced rates for Soldiers, Sailors, &c.	Do. Right Hon. R. McKenna.
1916-17	178,000,000	183,930,000	186,538,089	201,636,704	5 0†	3,360,612			Do.
1917-18	305,000,000	216,252,000	214,856,990	Estimate 234,000,000	5 0†	Estimate 3,733,000			Do.
1918-19	305,750,000	235,591,000	237,590,000	Estimate 296,000,000	6 0†	Estimate 4,111,500			Do.

† Owing to the delay in passing the Finance Bill for the year 1909-10, the figures of Income Tax assessments (except those under Schedule C) and of Net Produce of the tax are somewhat lower for 1909-10, and somewhat higher for 1910-11, than they would have been in normal circumstances. The disturbance in the case of the Net Receipt and Payments into the Exchequer for both years and in the case of the Budget Estimate for 1910-11 is very marked owing to the great delay in the collection of the tax for 1909-10.

‡ Standard rate. For graduated rates, &c., see Table II.

INCOME

TABLE III.—Showing for the United Kingdom, the Gross Income brought under Deductions therefrom, the Income on which Tax was received, the Net

Year.	Gross Income brought under the review of the Department.	Exemptions in respect of—			Allowances from Gross Income.				Total of Columns 3 to 9.
		Incomes not Exceeding £100 a Year (to 1914-15) or £130 (from 1915-16).*	Charities, Hospitals, Friendly Societies, &c.	Foreign or Colonial Dividends belonging to Persons not resident in the United Kingdom.	Repairs—Lands and Houses.	Empty Property.	Wear and Tear of Machinery or Plant.	Other Allowances, Deductions, and Discharges.	
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
	£	£	£	£	£	£	£	£	£
1901-02 ...	866,928,453	45,778,722	7,801,857	634,286	34,260,568	5,638,368	11,500,079	47,468,168	158,112,068
1902-03 ...	879,636,546	48,436,324	8,547,084	520,520	34,908,416	5,806,728	12,707,530	49,108,920	160,129,370
1903-04 ...	902,755,555	50,540,372	10,045,512	561,531	36,917,355	6,336,466	12,788,498	53,566,918	171,187,432
1904-05 ...	912,129,680	50,496,914	10,005,292	669,720	37,522,232	6,826,351	13,765,418	54,927,550	174,243,477
1905-06 ...	926,184,556	52,613,662	10,532,691	971,040	38,173,957	7,570,868	14,974,744	47,180,877	171,767,849
1906-07 ...	943,702,014	54,520,281	11,105,028	1,139,340	38,996,538	7,729,821	17,107,518	49,223,004	179,941,350
1907-08 ...	960,117,000	57,200,600	11,578,787	1,232,340	39,322,000	7,662,445	20,000,000	43,617,925	180,804,600
1908-09 ...	1,006,938,926	58,611,689	11,838,219	1,544,740	40,068,877	8,106,915	22,833,488	43,034,407	185,378,235
1909-10† ...	1,011,100,345	58,169,544	12,212,215	2,036,300	40,497,628	8,361,164	23,832,741	43,764,961	188,874,548
1910-11‡ ...	1,045,835,775	58,119,462	12,504,076	2,071,560	41,906,700	7,985,381	25,341,740	59,595,561	207,524,420
1911-12 ...	1,070,142,943	59,468,725	13,602,707	1,626,360	42,406,290	7,599,208	26,414,376	52,571,934	208,688,540
1912-13 ...	1,111,456,413	60,381,678	13,960,518	1,691,500	42,942,150	6,877,891	29,205,471	49,245,392	204,504,600
1913-14 ...	1,167,184,229	61,606,821	14,858,572	1,731,960	43,359,697	6,141,120	34,870,052	53,576,530	216,148,742
1914-15 ...	1,208,313,397	62,373,178	14,772,327	1,884,800	44,161,960	5,517,614	36,563,642	57,884,275	223,116,796
1915-16 ...	1,322,684,845	67,810,534	16,131,630	2,119,000	44,450,224	5,116,969	36,683,004	100,528,744	272,790,806
1916-17 ...	1,662,724,028	66,167,193	15,258,040	2,072,000	44,839,804	5,077,976	36,719,999	119,157,384	289,272,246
1917-18 <i>Estimates.</i>	2,010,000,000	70,000,000	15,500,000	2,000,000	45,200,000	4,000,000	39,000,000	139,300,000	305,000,000
1918-19 <i>Estimates.</i>	2,290,000,000	80,000,000	15,500,000	2,000,000	45,500,000	3,000,000	42,000,000	152,000,000	320,000,000

* The figures in this column represent that fraction of the income of exempt persons which for

† Owing to the delay in passing the Finance Bill for the year 1909-10, the figures of Income Tax assessments (except that they would have been in normal circumstances. The disturbance of the Net Receipt and Payments into the Exchequer collection of the tax for 1909-10.

TAX.

the review of the Inland Revenue Department for Income Tax purposes, the Produce of Income Tax and the average effective Rate of Tax levied.

Taxable Income (Column 2 less Column 10).	Allowances from Taxable Income.				Income on which Tax was received (Column 11 less Column 15).	Net Produce of Tax.	Average Effective Rate of Tax Levied on each Pound of Taxable Income (Column 11).	Year.
	Abatements.	Life Insurance Premiums.	Relief in respect of Children and, for 1918-19, Wife, and Dependent Relatives.	Total of Columns 12, 13, and 14.				
11.	12.	13.	14.	15.	16.	17.	18.	19.
£	£	£	£	£	£	£	d.	
713,881,385	98,403,245	6,927,221	—	106,330,466	607,550,919	35,440,470	11·91	1901-02
719,509,176	108,553,556	7,342,717	—	110,902,273	608,606,903	38,087,891	12·68	1902-03
731,571,153	108,556,816	8,001,965	—	116,558,780	615,012,373	38,188,087	9·24	1903-04
737,886,203	110,466,027	8,062,079	—	118,528,106	619,358,097	39,566,494	10·07	1904-05
753,417,207	112,899,494	8,582,567	—	121,382,061	632,025,146	31,694,237	10·06	1905-06
763,769,484	114,556,689	9,155,557	—	123,712,246	640,048,238	32,002,412	10·05	1906-07
798,513,000	118,105,000	9,960,000	—	128,065,000	671,518,000	32,380,000	9·72	1907-08
824,037,641	120,374,508	10,460,051	—	130,734,559	693,303,082	33,408,754	9·73	1908-09
822,225,797	120,558,302	10,899,853	3,925,538	135,413,693	686,812,104	37,678,902	11·00	1909-10
838,309,255	124,529,529	11,655,511	5,050,383	141,235,323	697,074,032	38,844,767	10·98	1910-11
866,453,910	128,449,392	11,882,213	5,481,611	145,813,216	720,640,694	39,651,630	10·98	1911-12
907,151,813	133,195,066	12,518,938	5,860,262	151,574,266	755,577,447	41,574,277	11·00	1912-13
951,040,187	132,773,193	13,304,633	6,248,796	152,326,622	791,714,565	43,533,545	10·98	1913-14
985,194,601	144,908,762	13,734,624	11,704,911	170,347,297	814,847,304	63,392,288	15·44	1914-15
1,049,894,038	141,564,414	14,647,077	19,841,482	175,052,973	873,841,065	118,765,236	27·15	1915-16
1,375,461,782	311,462,371	17,430,934	62,842,704	391,735,909	981,715,873	201,636,704	35·23	1916-17
1,705,000,000	478,300,000	20,600,000	96,300,000	595,000,000	1,109,000,000	224,000,000	31·43	1917-18 <i>Estimates.</i>
1,970,000,000	521,000,000	23,500,000	198,000,000 Wife, &c. 1 68,000,000	720,000,000	1,250,000,000	285,000,000	36·05	1918-19 <i>Estimates.</i>

administrative reasons comes within the purview of the Inland Revenue Department.

those under Schedule C) and of Net Produce of the tax are somewhat lower for 1909-10, and somewhat higher for 1910-11, for both years and of the Budget Estimate for 1910-11 (See Table 1) is very marked, owing to the great delay in the

INCOME TAX.

TABLE IV.—Showing, for the United Kingdom, in Schedules, the Gross Amount of Income brought under the Review of the Inland Revenue Department for Income Tax purposes.

Year.	Profits from the Ownership of Lands, Houses, &c. (i.e., Annual Value). Schedule A.	Profits from the Occupation of Lands, &c. Schedule B.	Profits from British, Indian, Colonial, and Foreign Government Securities. Schedule C.	Profits from Businesses, Concerns, Professions, Employments, &c. Schedule D.	Salaries of Government, Corporation, and Public Company Officials. Schedule E.	Total.
	£	£	£	£	£	£
1901-02 ...	258,231,987	17,589,800	44,288,647	457,731,614	79,161,426	866,993,463
1902-03 ...	241,887,406	17,541,703	46,121,448	491,646,201	82,441,788	879,638,646
1903-04 ...	251,784,459	17,544,450	44,947,221	502,402,516	86,079,329	902,768,586
1904-05 ...	268,127,403	17,479,647	45,530,640	604,567,799	89,374,291	912,122,680
1905-06 ...	258,948,671	17,460,062	46,928,674	508,664,346	83,180,804	923,184,666
1906-07 ...	263,741,544	17,436,832	46,722,274	518,669,823	97,131,641	943,702,914
1907-08 ...	266,500,000	17,380,178	48,216,294	643,721,328	104,000,000	969,117,000
1908-09 ...	269,585,774	17,386,798	47,470,276	563,601,321	109,688,087	1,009,535,226
1909-10* ...	272,146,541	17,392,508	49,127,227	558,605,639	113,828,430	1,011,100,346
1910-11* ...	275,822,913	17,438,960	49,562,418	583,312,069	119,697,416	1,046,833,776
1911-12 ...	277,380,382	17,457,799	49,808,187	598,656,772	127,189,263	1,070,142,343
1912-13 ...	279,636,396	17,434,591	50,288,370	628,658,601	136,608,165	1,111,466,413
1913-14 ...	282,262,169	17,509,213	51,168,329	670,633,544	146,620,074	1,167,184,229
1914-15 ...	285,030,962	17,550,631	53,990,329	724,488,366	167,263,770	1,238,318,397
1915-16 ...	286,180,517	Annual Value,† 51,490,000	71,768,112	752,348,140	180,863,674	1,322,664,843
1916-17 ...	297,941,683	51,480,000	93,263,771	792,705,973	206,677,990	1,662,724,028
1917-18 ...	299,000,000	51,800,000	77,000,000	898,600,000	419,000,000	2,010,000,000
Estimates.		Annual Value x 2.†				
1918-19 ...	299,000,000	100,200,000	80,000,000	1,000,800,000	486,000,000	2,266,000,000
Estimates.						

* See Note § on page 18.

† General basis subject to certain exceptions.

INCOME TAX.

TABLE V.—Showing, for the United Kingdom, in Schedules, the "TAXABLE INCOME" for Income Tax purposes.

Note.—The Taxable Income is the Gross Income brought under Review, less exemptions and allowances other than those personal to the Taxpayer (*vide* Table III).

Year.	Profits from the Ownership of Lands, Houses, &c. Schedule A.	*Profits from the Occupation of Lands, &c. Schedule B.	Profits from British, Indian, Colonial, and Foreign Government Securities. Schedule C.	Profits from Businesses, Concerns, Professions, Employments, &c. Schedule D.	Salaries of Government, Corporation, and Public Company Officials. Schedule E.	Total.
	£	£	£	£	£	£
1901-02 ...	160,639,380	5,520,492	42,504,635	429,596,791	75,020,089	713,881,385
1902-03 ...	161,498,538	5,775,889	41,345,222	429,847,651	78,148,576	719,509,176
1903-04 ...	166,287,512	5,722,352	42,408,206	435,122,155	81,731,028	781,571,188
1904-05 ...	167,788,269	5,540,069	43,306,110	436,294,874	84,866,890	737,864,203
1905-06 ...	168,124,977	5,448,809	44,454,834	446,661,472	88,727,115	758,417,207
1906-07 ...	169,790,411	5,487,230	44,018,334	451,966,508	92,498,001	763,760,484
1907-08 ...	170,385,973	5,518,266	45,418,054	478,970,727	99,029,000	799,313,000
1908-09 ...	170,850,576	5,477,440	44,410,686	498,944,709	104,374,230	824,057,041
1909-10† ...	171,364,490	5,440,009	45,789,077	491,392,777	108,289,444	822,225,797
1910-11† ...	173,318,219	5,506,229	46,080,998	499,930,618	113,473,291	838,809,355
1911-12 ...	173,274,163	5,400,069	46,204,831	520,384,710	120,640,060	866,453,803
1912-13 ...	174,422,389	5,366,026	47,005,550	551,865,204	128,489,644	907,151,813
1913-14 ...	175,661,695	5,373,061	47,775,979	564,565,543	137,864,036	951,040,487
1914-15 ...	176,953,872	5,220,442	49,894,289	605,590,183	147,547,815	985,196,601
1915-16 ...	178,178,677	28,917,918*	62,423,612	608,612,087	171,767,743	1,049,891,038
1916-17 ...	184,097,540	28,603,361	78,371,473	661,139,711	219,864,777	1,373,451,782
1917-18 ...	185,500,000	28,600,000	70,000,000	750,909,000	400,000,000	1,705,000,000
Estimate.						
1918-19 ...	186,600,000	69,200,000*	72,000,000	802,600,000	468,600,000	1,970,000,000
Estimate.						

* The general basis of assessment was, for the years 1901-02 to 1914-15, one-third of the Annual Value; for the years 1915-16 to 1917-18, the full Annual Value; and for the year 1918-19, twice the Annual Value.

† See Note § on page 18.

INCOME TAX.

TABLE VI.—Showing for the United Kingdom, in Schedules, the Income on which Income Tax was received.

Note.—The Income shown in this Table is the Gross Income reviewed by the Department, less all exemptions and allowances of whatever kind or however made. (*Vide* Table III).

Year.	Profits from the Ownership of Lands, Houses, &c. Schedule A.	*Profits from the Occupation of Lands, &c. Schedule B.	Profits from British, Indian, Colonial, and Foreign Government Securities. Schedule C.	Profits from Businesses, Concerns, Professions, Employments, &c. Schedule D.	Salaries of Government, Corporation, and Public Company Officials. Schedule E.	Total.
	£	£	£	£	£	£
1901-02 ...	152,178,033	4,411,746	40,768,889	363,027,479	47,164,772	607,550,919
1902-03 ...	152,283,299	4,338,514	42,310,728	361,403,999	48,271,363	608,606,903
1903-04 ...	156,197,374	4,431,663	40,386,157	364,383,993	49,713,341	615,012,373
1904-05 ...	157,696,060	4,205,124	41,387,050	365,234,308	60,435,535	619,328,097
1905-06 ...	157,025,804	4,090,536	42,316,844	375,348,254	52,742,599	632,024,746
1906-07 ...	158,452,590	4,111,585	41,710,964	381,086,647	54,796,452	640,048,293
1907-08 ...	158,616,928	4,025,870	43,183,042	407,715,854	57,769,306	671,313,000
1908-09 ...	159,078,188	3,977,126	42,193,486	427,463,239	60,611,043	693,323,082
1909-10† ...	159,670,130	3,882,000	43,736,669	418,742,046	60,780,559	686,812,104
1910-11† ...	160,662,267	3,942,138	43,814,398	425,781,208	62,873,276	697,073,032
1911-12 ...	160,328,544	3,812,035	43,912,643	445,526,736	67,169,629	720,640,287
1912-13 ...	161,109,296	3,764,256	44,718,928	474,823,276	71,180,182	755,577,547
1913-14 ...	161,811,026	3,723,604	45,409,456	504,527,768	76,310,512	791,715,863
1914-15 ...	162,762,256	3,546,907	47,369,539	520,889,490	80,278,015	814,849,304
1915-16 ...	165,138,176	16,648,123*	59,800,182	533,048,385	99,206,199	873,841,965
1916-17 ...	172,861,291	18,389,372	76,973,462	669,301,764	121,774,564	961,715,373
1917-18 ...	173,709,000	16,400,000	68,000,000	640,300,000	150,000,000	1,110,000,000
1918-19 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1919-20 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1920-21 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1921-22 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1922-23 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1923-24 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1924-25 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1925-26 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1926-27 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1927-28 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1928-29 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1929-30 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1930-31 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1931-32 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1932-33 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1933-34 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1934-35 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1935-36 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1936-37 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1937-38 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1938-39 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1939-40 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1940-41 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1941-42 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1942-43 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1943-44 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1944-45 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1945-46 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1946-47 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1947-48 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1948-49 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1949-50 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1950-51 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1951-52 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1952-53 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1953-54 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1954-55 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1955-56 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1956-57 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1957-58 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1958-59 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1959-60 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1960-61 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1961-62 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1962-63 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1963-64 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1964-65 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1965-66 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1966-67 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1967-68 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1968-69 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1969-70 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1970-71 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1971-72 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1972-73 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1973-74 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1974-75 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1975-76 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1976-77 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1977-78 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1978-79 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1979-80 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1980-81 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1981-82 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1982-83 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1983-84 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1984-85 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1985-86 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1986-87 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1987-88 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1988-89 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1989-90 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1990-91 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1991-92 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1992-93 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1993-94 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1994-95 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1995-96 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1996-97 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1997-98 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1998-99 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
1999-00 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
2000-01 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
2001-02 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
2002-03 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
2003-04 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
2004-05 ...	174,309,000	42,800,000*	70,000,000	726,700,000	170,000,000	1,283,000,000
2005-06 ...	174,309,000	42,800,000				

INCOME TAX.

TABLE VII.—Showing, for the United Kingdom, the Net Produce of the Income Tax under each Schedule—i.e., Net Produce of each year's Assessments, no matter when paid.

Year.	Profits from the Ownership of Lands, Houses, &c.		Profits from the Occupation of Lands.		Profits from British, Colonial, and Foreign Government Securities.		Profits from Businesses, Concerns, Professions, Employments, &c.		Salaries of Government, Corporation, and Public Company Officials.		Total Net Produce of the Tax.	
	Schedule A.		Schedule B.		Schedule C.		Schedule D.		Schedule E.			
	£	%	£	%	£	%	£	%	£	%	£	%
1901-02 ...	8,877,032	25.1	357,312	0.7	2,378,185	6.7	21,176,098	59.7	2,751,278	7.8	35,440,470	100
1902-03 ...	9,517,644	25.0	271,137	0.7	2,644,420	7.0	22,837,750	59.4	3,016,960	7.9	33,697,931	100
1903-04 ...	7,189,041	25.4	308,117	0.7	1,846,451	6.6	16,700,931	59.2	2,278,527	8.1	28,188,067	100
1904-05 ...	7,884,804	25.4	210,236	0.7	2,067,352	6.7	18,261,716	59.0	2,541,776	8.2	30,966,494	100
1905-06 ...	7,876,290	24.9	204,342	0.7	2,115,843	6.7	18,767,448	59.4	2,637,118	8.3	31,601,237	100
1906-07 ...	7,922,629	24.8	206,580	0.7	2,085,548	6.5	19,051,833	59.5	2,736,322	8.5	32,062,412	100
1907-08 ...	7,909,277	24.4	185,583	0.6	2,128,553	6.7	19,717,328	60.9	2,409,356	7.4	32,380,000	100
1908-09 ...	7,961,239	23.7	182,389	0.6	2,108,901	6.8	20,670,226	61.9	2,515,999	7.6	33,468,754	100
1909-10† ...	9,364,314	24.6	198,851	0.5	2,532,134	6.7	23,058,395	61.2	2,625,908	7.0	37,679,902	100
1910-11† ...	9,334,020	24.3	203,789	0.5	2,554,399	6.7	23,527,279	61.4	2,725,280	7.1	38,344,767	100
1911-12 ...	9,907,700	23.5	194,600	0.5	2,567,673	6.5	24,661,301	62.2	2,910,936	7.3	39,831,630	100
1912-13 ...	9,856,611	22.6	189,398	0.5	2,607,210	6.3	26,356,883	63.3	3,061,575	7.4	41,574,277	100
1913-14 ...	9,460,000	21.6	189,563	0.4	2,647,498	6.1	27,979,225	64.3	3,307,059	7.6	43,523,345	100
1914-15 ...	15,462,651	21.2	254,990	0.4	3,870,027	6.1	40,890,358	64.6	4,914,841	7.8	63,992,258	100
1915-16 ...	24,512,560	20.6	1,989,646*	1.7	8,700,308	7.3	73,321,861	61.7	10,441,460	8.8	118,766,236	100
Weekly Wage-Earnings.												
1916-17 ...	36,598,873	19.3	2,899,121	1.4	17,988,345	8.9	120,933,222	60.0	2,732,677	1.4	18,125,566	9.0
1917-18 ...	38,800,000	17.3	2,900,000	1.3	15,700,000	7.0	137,000,000	61.6	7,000,000	3.1	22,000,000	9.5
Estimate												
1918-19 ...	46,700,000	15.8	8,600,000*	2.9	19,000,000	6.4	184,500,000	62.8	7,700,000	2.6	29,500,000	10.0
Estimate												

* The general basis of assessment was, for the years 1901-02 to 1914-15, one-third of the Annual Value; for the years 1915-16 to 1917-18, the full Annual Value; and for the year 1918-19, twice the Annual Value.

† See Note § on page 18.

INCOME TAX REPAYMENTS.

TABLE VIII.—Analysis for the United Kingdom of the Repayments of Income Tax made during the period from 1901-02 to 1918-19.

NUMBERS OF REPAYMENTS.

Years.	Exemptions in respect of Small Incomes.	Abatements.	Life Insurance Premiums.	Charities, Hospitals, Friendly Societies, &c.	Foreign or Colonial Dividends belonging to Persons not resident in the United Kingdom.	Other Heads (including graduated relief in respect of unearned income).	Total.
1901-02	...			Not available.			358,287
1902-03	...			Not available.			406,801
1903-04	...	293,606	92,519	19,664	10,196	3,254	436,216
1904-05	...	303,394	95,609	20,170	10,898	4,320	454,444
1905-06	...	314,461	100,620	22,005	11,427	3,902	473,529
1906-07	...	324,542	104,525	22,768	12,496	4,703	490,782
1907-08	...	345,773	113,971	25,326	13,259	7,197	529,151
1908-09	...	354,932	116,814	25,420	13,913	7,839	543,130
1909-10	...	369,857	119,498	22,923	14,220	7,052	566,356
1910-11	...	375,808	121,529	21,856	14,876	11,552	613,951
1911-12	...	404,746	129,491	25,585	15,579	13,634	644,101
1912-13	...	400,091	130,837	24,489	16,434	9,159	635,046
1913-14	...	406,839	131,229	24,691	15,011	9,533	641,383
1914-15	...	414,158	134,522	24,942	14,943	6,408	658,808
1915-16	...	462,085	138,486	25,005	17,162	5,718	1,091,216
1916-17	...	551,805	195,921	32,902	21,253	6,354	1,091,216
1917-18	...	570,037	233,456	37,929	23,718	7,565	1,285,734
1918-19	...	670,000	273,000	44,000	25,000	8,500	1,500,000
<i>Estimates.</i>							

AMOUNTS repaid.

Years.	Exemptions in respect of Small Incomes.	Abatements.	Life Insurance Premiums.	Charities, Hospitals, Friendly Societies, &c.	Foreign or Colonial Dividends belonging to Persons not resident in the United Kingdom.	Other Heads (including graduated relief in respect of unearned income).	Total.
1901-02	£ 586,382	£ 567,659	£ 74,744	£ 193,005	£ 35,746	£ 231,380	£ 1,688,916
1902-03	777,760	778,731	97,578	238,987	37,000	479,657	2,409,713
1903-04	937,005	931,703	109,432	292,694	32,520	564,734	2,868,088
1904-05	806,381	745,560	100,606	280,176	45,436	596,601	2,574,760
1905-06	802,810	783,129	99,512	293,925	34,986	691,641	2,706,008
1906-07	845,927	820,999	103,964	311,606	48,552	746,759	2,877,807
1907-08	886,134	885,670	113,888	332,217	57,967	522,313	2,798,289
1908-09	899,342	886,507	107,865	348,502	61,642	293,742	2,597,600
1909-10	924,615	877,785	101,986	352,210	77,237	343,683	2,677,516
1910-11	974,904	907,782	105,560	423,278	117,597	421,176	2,950,627
1911-12	1,087,388	1,032,215	123,501	431,057	120,733	521,114	3,322,008
1912-13	1,081,518	1,043,688	122,423	484,774	94,855	571,998	3,399,256
1913-14	1,075,422	1,039,416	128,767	480,853	98,673	558,971	3,382,102
1914-15	1,094,383	1,072,069	144,185	516,934	101,039	622,385	3,550,095
1915-16	1,490,106	1,264,869	175,678	685,399	155,438	2,098,316	5,877,806
1916-17	2,470,360	2,205,322	343,189	1,440,818	317,445	9,145,686	15,922,820
1917-18	3,968,082	2,901,527	537,761	2,192,541	516,800	13,753,581	23,870,292
1918-19	4,600,000	3,300,000	630,000	2,500,000	600,000	15,370,000	27,000,000
<i>Estimates.</i>							

NOTE.—Up to the year 1915-16 inclusive the repayments made in any one year were set against the assessments of the preceding year in estimating the Net Produce of such assessments. Since 1915-16 this practice has, perforce, been somewhat modified owing to the admission of interim claims which are set against the assessments of the year in which such claims are made. The total amount allowed on interim claims is, however, small in relation to the total of all repayments.

SUPER-TAX.

TABLE IX.—Budget Estimate, Exchequer Receipt, Net Receipt, Net Produce, and other particulars of the Super-tax from its imposition in 1909-10 till 1918-19.

[For Explanatory Notes, see page 12.]

Year.	Budget Estimate.	Exchequer Receipt.	Net Receipt.	Net Produce.	Area for Taxation.†	Rate of Tax in force for the Year.	Chancellor of the Exchequer imposing or continuing the Tax.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1909-10	£ 500,000	£ —*	£ —*	£ 2,620,000			Right Hon. D. Lloyd George.
1910-11	2,750,000	3,890,000	2,891,345	2,670,000	Incomes exceeding 5,000l.	On the first 3,000l. of the income, Nil	Do.
1911-12	3,600,000	3,000,000	3,018,388	2,821,000		" remainder " " 6d. in the £	Do.
1912-13	3,500,000	3,600,000	3,199,706	2,993,000			Do.
1913-14	3,250,000	3,390,000	3,339,068	3,210,000			Do.
1914-15‡	8,460,000	10,120,000	10,121,923	11,970,000	Incomes exceeding 3,000l.	On the first 3,000l. of the income { on 2,500l. Nil. on 500l. 0 6½ in the £	Do.
						" fourth 1,000l. ... 0 9½ "	
						" fifth 1,000l. ... 1 0 "	
						" sixth 1,000l. ... 1 2½ "	
						" seventh 1,000l. ... 1 5½ "	
					Incomes exceeding 3,000l.	" eighth 1,000l. ... 1 8 "	Do.
						" remainder of the income ... 1 9½ "	
1915-16	16,130,000	16,763,000	16,787,654	18,430,000	Incomes exceeding 3,000l.	On the first 3,000l. of the income { on 2,500l. Nil. on 500l. 0 10 in the £	Do.
						" fourth 1,000l. ... 1 2 "	
						" fifth 1,000l. ... 1 6 "	
						" sixth 1,000l. ... 1 10 "	
						" seventh 1,000l. ... 2 2 "	
1916-17	17,000,000	19,103,000	19,110,411	21,400,000	Incomes exceeding 3,000l.	" eighth 1,000l. ... 2 6 "	Do.
						" ninth 1,000l. ... 2 10 "	
						" tenth 1,000l. ... 3 2 "	
						" remainder of the income ... 3 6 "	
1917-18	19,000,000	23,237,000	23,278,704	24,500,000	Incomes exceeding 2,500l.	On the first 3,000l. of the income { on first 2,000l. Nil. on next 500l. 1 0 in the £ on next 500l. 1 6 "	Do.
						" fourth 1,000l. ... 2 0 "	
						" fifth 1,000l. ... 2 6 "	
						" sixth 1,000l. ... 3 0 "	
						" seventh 1,000l. ... 3 6 "	
						" eighth 1,000l. ... 3 6 "	
						" ninth 1,000l. ... 4 0 "	
						" tenth 1,000l. ... 4 0 "	
						" remainder of the income ... 4 6 "	
1918-19	34,700,000	35,995,000	35,560,000	38,000,000			

* Owing to the delay in passing the Finance Bill no duty was received.

† In estimating incomes for Super-tax purposes for years prior to 1916-17, Life Insurance premiums, in respect of which relief from Income Tax could be claimed, were deducted.

‡ The amount of Super-tax payable at the rates originally fixed by Parliament was increased by one-third by the Finance Act, 1914 (Session 2). The rates shown in column 7 represent those ultimately charged, in effect.

SUPER-TAX.

TABLE X.—Classification of Super-tax payers and incomes.
(The figures are partly estimated.)

TAXPAYERS.

Year.	Ex- ceeding £3,500 and not exceeding £5,000.	Ex- ceeding £5,000 and not exceeding £10,000.	Ex- ceeding £10,000 and not exceeding £15,000.	Ex- ceeding £15,000 and not exceeding £20,000.	Ex- ceeding £20,000 and not exceeding £25,000.	Ex- ceeding £25,000 and not exceeding £30,000.	Ex- ceeding £30,000 and not exceeding £40,000.	Ex- ceeding £40,000 and not exceeding £50,000.	Ex- ceeding £50,000 and not exceeding £75,000.	Ex- ceeding £75,000 and not exceeding £100,000.	Ex- ceeding £100,000.	Total.	
1909-10...	—	—	7,300	1,948	774	437	538			126	40	65	11,328
1910-11...	—	—	7,667	1,975	774	416	524			139	40	72	11,698
1911-12...	—	—	8,143	2,480	818	442	649			187	57	68	12,399
1912-13...	—	—	8,446	2,210	866	479	681			140	56	78	12,966
1913-14...	—	—	8,991	2,416	1,005	514	772			153	57	80	14,508
1914-15...	—	15,524	9,404	2,551	1,084	537	809			183	69	90	20,211
1915-16...	—	15,140	9,148	2,527	910	478	706			154	56	82	20,000
1916-17...	—	15,940	10,830	2,725	1,135	640	344	347	178	170	73	98	32,000
1917-18...	—	17,650	11,480	3,060	1,355	4715	385	390	195	190	85	105	35,500
1918-19...	11,300	18,390	11,640	3,500	1,455	790	440	435	225	221	100	124	45,000

INCOMES.—(£000's omitted.)

Year.	£	£	£	£	£	£	£	£	£	£	£	£	£
1909-10...	—	—	50,017	23,534	13,430	9,755	21,527			7,540	3,257	10,329	139,650
1910-11...	—	—	52,373	23,501	13,298	9,264	21,364			7,780	3,435	11,719	148,064
1911-12...	—	—	55,049	25,190	15,987	9,770	22,244			8,196	5,068	12,506	161,950
1912-13...	—	—	57,208	26,734	14,940	10,611	23,206			8,368	5,752	13,467	180,469
1913-14...	—	—	61,400	29,220	17,300	11,475	26,443			9,787	6,393	14,667	175,805
1914-15...	—	39,776	63,886	30,732	17,825	11,333	27,586			11,045	6,288	15,848	244,769
1915-16...	—	37,125	62,351	28,290	15,705	10,672	25,960			9,280	5,361	14,756	227,000
1916-17...	—	58,750	70,680	32,730	19,590	14,290	9,320	11,920	7,730	10,460	6,360	18,390	250,000
1917-18...	—	65,590	78,500	35,500	21,850	15,870	10,390	13,300	8,620	11,600	6,960	20,000	290,000
1918-19...	30,000	67,500	79,500	37,000	25,000	17,500	12,000	15,000	10,000	13,500	8,500	24,500	340,000

Appendix No. 4.

Handed in by Sir THOMAS COLLINS.

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.

MEMORANDUM BY THE CHIEF INSPECTOR TO THE BOARD
OF INLAND REVENUE ON THE FUNCTIONS OF SUR-
VEYORS OF TAXES IN CONNECTION WITH THE
ADMINISTRATION OF THE INCOME TAX.

1. In this memorandum the duties of the Surveyor of Taxes are set out—(a) as prescribed by Statute, and (b) as found in actual operation in the daily administration of the Income Tax Acts.

2. Before considering these duties in detail, it will be well to recall that the original basis of Income Tax administration was modelled to a certain extent on the provisions of the Land Tax Acts, and that its main conception in 1806 as well as in 1842 was that of a temporary impost to be assessed and collected locally with the minimum of interference by the Exchequer. It was not then regarded as a permanent addition to the fiscal system of the country, and in fact the temporary nature of the tax continued to be insisted on until near the close of the nineteenth century.

3. Trade and industry in 1842 were in a simple state, and business was then largely centred in the parish or locality. Further, the rates of tax in early years were invariably low.

4. To-day the problem of administration is more complicated and difficult.

5. The difficulty of administration has, moreover, been greatly added to by the higher rates of tax. Prior to 1800 the rate had not for thirty-eight years exceeded 8d. in the £, and although it rose after that date, it was only once as high as 1s. 3d. during the next thirteen years; but from 1814 it has been successively raised to 1s. 8d., 2s., 3s., and, in 1818, to 6s. in the £.

6. Another factor that marks the changed conditions is the general acceptance of the fact that Income Tax has now become a permanent, and indeed the most important, part of the fiscal system of the Kingdom.

7. These various changes in the many facts and conditions connected with the tax have led to numerous additions to the Statutes relating to Income Tax, so that the Consolidating Act of 1818 not only presents a highly complicated mass of legislation, but deals with numerous matters not dealt with and not even contemplated in 1842.

8. As a result the tax has reached such a point both in importance and complexity that many parts of the work of its administration can now be carried out only by highly trained officials who devote their whole time and energy to the task. Long and special training resulting in an intimate acquaintance with the law and practice relating to the tax is essential to the efficient performance of many of the daily operations connected with the work of assessment.

9. It is worthy of remark also that the scheme of administration laid down in the Acts makes no adequate provision for intercommunication between the various bodies of Commissioners. So long as income arising in one Division was assessable regardless of what income the owner might derive from other sources (which was broadly the position obtaining in 1842), each Division might be administered as a self-contained unit, but when the tax due from an individual could be computed only when his total income from all sources was known (which has become the case increasingly since 1907), close and frequent intercommunication between different Divisions became necessary, and the Surveyors of Taxes were the only officials whose position and organisation enabled them to satisfy this requirement.

10. Modern circumstances have therefore necessitated a great expansion in the duties of the Surveyors

of Taxes. The complexity of the tax has rendered it imperative that the bulk of the administrative work should be performed by officials specially trained for the task; and the adoption of a graduated tax has rendered it equally necessary that the officials administering the tax in one area should have ready access to all the information acquired by other officials in every part of the Kingdom.

11. In law the part assigned to the Surveyor of Taxes is primarily to safeguard the interests of the Revenue, with definite rights of intervention and objection. In practice, as the following statement shows, he carries out, with the full concurrence of the various bodies of Commissioners, numerous and most important duties that are vitally essential to the smooth everyday working efficiency of the machinery of Income Tax administration.

12. These duties are connected so intimately and at so many points with the work either carried out or assigned by law to the other officials concerned in the administration of the Income Tax Acts that in stating them it will be necessary, if the work of the Surveyor is to be adequately and clearly stated, to pass in review nearly the whole procedure of Income Tax administration.

13. The classification of all income chargeable to tax under five main classes, known as Schedules A, B, C, D and E, has already been explained in the statements submitted by Mr. Hopkins.

14. For the purpose of the present memorandum a further classification may be made, viz., of the sources of income that are assessable by the respective bodies of Income Tax Commissioners. This classification runs as follows:—

A. Assessments made by Local Commissioners (either General or Additional Commissioners) under Schedules A, B, D, and E.

B. Assessments made by Special Commissioners, viz.:—

(a) all assessments under Schedules A, B, D and E in Ireland that fall to be made in Great Britain by General or Additional Commissioners; Sec. 106.

(b) assessments under Schedule D or under Number III of Schedule A on persons who elect to be charged by the Special Commissioners; Sec. 123 (1) and Sch. A, No. III, Rule 3.

(c) assessments on the profits and gains of all railways in the United Kingdom; Sec. 124.

(d) assessments on the profits of colonial and foreign Life Assurance companies from trading in the United Kingdom; Sch. D, Case III, Rule 3.

(e) assessments on salaries and remuneration of all officials of such railway companies; Sch. E, Rule 1 (1).

(f) assessments on foreign and colonial dividends paid through agents in the United Kingdom; Sch. D, Misc. Rules, Rule 1, Sch. C, Third Set of Rules, Rule 2.

(g) all Assessments to Super-tax. Sec. 1 (1).

C. Assessments made by Commissioners for Public Offices, etc.

(a) On all salaries, etc., paid by Public Departments, Courts, the Houses of Parliament, etc.; Sec. 99 (3).

(b) on all interest, etc., paid out of public revenue by any public department; Sch. C, Fourth Set of Rules, Rule 1.

(c) on all salaries, etc., assessed by officers of corporations (the legal provisions for this are seldom used, and assessments are usually made by the General Commissioners). Sec. 70 (1).

Classification of income.

Jurisdiction of Local Commissioners and other assessing authorities.

Sec. 106.

Sec. 123 (1) and Sch. A, No. III, Rule 3.

Sec. 124.

Sch. D, Case III, Rule 3.

Sch. E, Rule 1 (1).

Sch. D, Misc. Rules, Rule 1, Sch. C, Third Set of Rules, Rule 2.

Sec. 1 (1).

Sec. 99 (3).

Sch. C, Fourth Set of Rules, Rule 1.

Sec. 70 (1).

D. Assessments made by Bank of England, Bank of Ireland, and National Debt Commissioners.

See 56.

Assessments on interest, annuities, salaries, etc., paid by these bodies and the assessment of the profits and gains of the Bank of England and the Bank of Ireland.

To the above may be added:—

E. Assessments made by Surveyors of Taxes.

See 131.

All assessments on manual weekly wage-earners.

15. The method of assessment and collection of the tax, and the part taken by the Surveyor of Taxes in its administration, are set out in the succeeding paragraphs. For this purpose it is desirable to consider the assessment of income chargeable under each Schedule separately, including the procedure of appeals. The work of collection will be considered without regard to the particular Schedule under which the tax falls.

ASSESSMENTS UNDER THE JURISDICTION OF THE LOCAL COMMISSIONERS.

ASSESSMENT—SCHEDULE A.

Years of new assessments.

Duties of Assessors.

16. A revaluation of all lands, buildings, etc., in Great Britain is made under normal conditions every fifth year. The law provides for the work of issue of returns and the making of the assessments being done by the Assessors. The Surveyor's legal powers are set out in Enclosure A to this Statement; in the main they consist of the right to examine the returns, to amend the assessments made by the Assessors, and to point out errors to the General Commissioners for amendment by them.

Surveyor in practice makes assessments.

17. The rules governing assessments under Schedule A form the subject of a considerable body of Statute and Case law and are often difficult in their application to individual cases. The work of assessment requires the expert knowledge of a whole-time official devoted to Income Tax administration, and in practice it is necessary for the Surveyor in a large proportion of the cases either to make the assessments or to revise the entries made by the Assessor.

18. The Surveyor serves forms of return on occupiers or owners who have ignored those served by the Assessor; reconciles discrepancies between the returns of occupiers and owners; computes the liability or revises and corrects the entries of the Assessor; sees that every property is properly dealt with; investigates the annual value of such special properties as tied licensed houses let at nominal rents; and compares the new assessments with those for the preceding period.

19. He deals with all claims for abatement, exemption or other forms of relief that may be allowable from the Schedule A assessments, and also performs a great mass of work that is not assigned to him by the Act. (The work in connection with claims for relief in general is dealt with in paragraphs 92 to 99.)

20. The Surveyor also calculates and inserts the allowances due for repairs, with their differentiation as regards lands and houses and their limitation in the case of repairing leases.

21. The total number of assessments in the last year of revaluation, 1910-11, was 10,139,000, and the General Commissioners, on receiving the books from the Surveyors, usually signed and allowed the assessments forthwith.

Years other than re-assessment years.

Years of continuance of assessments (Sch. A).

See 77 (3).

22. In years that intervene between the general revaluations, the Finance Acts direct annually that the value assessed for the previous year shall be adopted for the year current. (In practice, however, reductions are made by the Surveyor on proof that the annual value has diminished.) The Surveyor is by Statute the Assessor for these intervening years, and is responsible for the assessment of all new and structurally altered properties, and for making the numerous adjustments in the original assessments rendered necessary by the constant changes in ownership and occupation.

Metropolis.

Metropolis (Sch. A).

23. In regard to the Metropolis it is provided by the Valuation (Metropolis) Act that the gross values of land, houses, and buildings appearing in the Valua-

tion List are to be adopted for Income Tax purposes. A new valuation is made every fifth year, and the duty of preparing the Valuation List is placed upon the Borough Council, acting as Overseers. The Crown is represented by the Surveyor of Taxes, who is empowered to examine all returns and (if necessary) to object to the valuations made by the Rating Committees of the Councils. He is present also at the hearing of appeals.

ASSESSMENT—SCHEDULE B.

24. The assessments under Schedule B—on the profits arising from the occupation of land—are based on the annual values ascertained for the purpose of Schedule A. The assessable profits are at present assumed by the Statute to be twice the annual value, or, in the case of land not occupied for the purposes of husbandry only, or not mainly for those purposes, an amount equal to the annual value. For the year 1918-19 the estimated number of assessments under this Schedule was 650,000 in Great Britain, and in Ireland, where the basis of assessment is slightly different, 110,000.

Assessments (Sch. B).

25. In practice, the Surveyor makes all the assessments. Difficulties of identification of lands, ascertainment of annual values when owners are also occupiers, inquiries into the true effect of lettings of exceptional character, and disputes as to the legal occupation of land, all fall to him for investigation and settlement, subject to appeal to the General Commissioners, which, in fact, happens only in a trifling number of cases. The remarks already made in regard to the Surveyor's work on Schedule A assessments generally apply to Schedule B assessments.

Surveyor's work.

ASSESSMENT—SCHEDULE D.

26. (Vide paragraphs 35-63.)

ASSESSMENT—SCHEDULE E.

27. The incomes charged under Schedule E by the General Commissioners arise from employments under limited liability companies, municipal corporations, local government authorities and other public or statutory bodies.

Scope of Schedule.

28. The statutory duties of obtaining returns and making assessments under this Schedule are assigned to the Assessor, the Surveyor having in law only those functions that are set out in Enclosure A. They consist, as in the case of Schedule A, in the right to examine the returns and the assessments made by the Assessor and to amend them or to point out any errors to the General Commissioners for their amendment.

Duties of Assessor.

29. In practice the Assessor's duties are mainly confined to the issue and gathering-in of the forms of return and the drafting of the book of assessment. Particulars from the returns are entered in this book by the Assessor, and it becomes necessary for the Surveyor to revise and complete their work.

Surveyor in practice (vide assessments).

30. Reminders are issued by the Surveyor for delayed returns; discrepancies between the amounts of remuneration returned by the employer and employee are inquired into; returns of fees, etc., paid to directors and other officials of a company are compared with the amounts debited in the accounts of the company; adjustments are made to convert remuneration paid "free of tax" from the net amounts actually received into the gross amounts assessable; inquiries are instituted by him as to the dates from which increases of remuneration take effect, in order that liability unassessed for a previous year may be dealt with; and every amount returned whether by employer or employee is scrutinized and the entry in the assessment book amplified or corrected where necessary.

31. The Surveyor inquires also into the basis of returns of fluctuating emoluments, such as bonuses, commissions, percentages on profits, etc.; sees that the employees of every company, etc., have been dealt with; considers whether all grades of persons likely to be employed by particular bodies have been included in the employers' returns; deals with claims for deduction of expenses incurred in the performance of the office or employment, e.g., commercial travellers, superintendents of insurance agents, etc., and collates and uses in connection with particular assessments a mass of information which flows to him

See 131.

See 131.

See 131.

See 131.

See 131.

See 131.

See 131.

See 131.

from various sources as to miscellaneous remuneration.

32. The Surveyor makes use of the information thus acquired when entering or revising, as the case may be, the gross amount charged on each person; and he then proceeds to enter in the books of assessment the appropriate abatements and reliefs (for Life Assurance, wife, children, &c.).

33. The assessments, in practice made or revised by the Surveyor, are, with trifling exceptions, accepted by the General Commissioners. This statement is supported by the following figures relating to 782,276 Schedule E assessments for the year of assessment 1917-18. The Assessors made assessments in gross amounts in 190,682 cases, of which 27,089 were amended by the Surveyor. Assessments were made by the Surveyor in 591,594 other cases. The number of Surveyors' assessments amended by the Commissioners was 22 only.

34. As a specific illustration of the position in regard to the making of Schedule E assessments it may be stated that, in the course of the debate on the report stage of the Finance (No. 2) Act 1915, the Financial Secretary to the Treasury, Mr. Montagu, stated that out of 84,000 assessments under this Schedule in the City of London for the year 1914-15 the Assessors made only 9,000 assessments in gross sums (i.e., without any allowances for abatement, &c.), whilst the remaining 75,000 assessments, as well as the revision and completion of the 9,000 entries of the Assessors, were made by the Surveyors, the whole being accepted without investigation by the General Commissioners.

ASSESSMENT—SCHEDULE D.

35. Schedule D is the most productive and the most important of the Income Tax Schedules. Under it is assessed the income arising from the commercial, financial, industrial and professional activities of the nation, and it follows that the subject matter to be dealt with is not only a most varied one, but also continually presents new problems in assessment widely different from those existing when the Income Tax Acts were originally framed.

36. It is of the highest importance that assessments under Schedule D should be made with care and accuracy. The income falling within its scope is so vast that the Exchequer may suffer serious loss if its assessment is not dealt with by expert officials. On the other hand, with tax at the present high rate, any overcharge on the taxpayer is an unjust addition to a burden that already presses heavily on him. Correct assessments serve the interest of taxpayers in general as well as those of the State.

37. The statutory procedure for dealing with the assessments under this important Schedule is as follows.

38. The duties of an Assessor consist mainly in the service and gathering-in of returns from persons liable. He also prepares a list of the persons on whom he has served forms, and where no return has been made he is required to estimate the assessable profit.

39. The statutory functions of the Surveyor with regard to the assistance of the Assessor, the issue of forms and the right to examine returns, are the same as under the other Schedules.

40. For the purposes of Schedule D, he has also other powers, which are set out in Enclosure A.

41. Assessments under Schedule D (except where, under the Act, or on an election by the taxpayer, the case falls to be dealt with by the Special Commissioners, and except assessments on weekly wage-earners) are to be made by the Additional Commissioners. For the guidance of these Commissioners the taxpayer is legally obliged to make only a simple return of the nature and amount of his profits chargeable under Schedule D. There is no provision requiring him to support his return by any detailed information; on the other hand, the Additional Commissioners are not bound to accept the return as accurate. They may accept it or reject it: if they reject it, they may make an assessment in

excess of the sum charged. They may, however, without making any charge, refer the taxpayer's return to the General Commissioners, who are then to determine the assessment in the same manner as in the case of an appeal against an assessment.

42. The Surveyor has the statutory right to object to a return, and the Additional Commissioners are then to make a charge according to the best of their judgment; if the Surveyor is dissatisfied with their determination as not being in accordance with the true intent of the Act, he may require a case to be stated by them for the opinion of the General Commissioners, in accordance with whose decision the assessment is to be altered or confirmed. He may also certify to the Additional Commissioners particulars of any error he may discover in an assessment made by them under Schedule D. Finally, he may object in writing to the amount of any assessment which the Additional Commissioners have made, whereupon such objection is to be certified by the Additional Commissioners to the General Commissioners in order that the person charged may appear before the latter body for a hearing of the matter as on an appeal.

43. The procedure of the Act under Schedule D, as outlined above, has proved inadequate for dealing annually with a very great number of liabilities of a varied and frequently of an intricate character. The Commissioners, who are unpaid bodies meeting only at intervals, could not be expected to acquire that detailed and expert knowledge of tax law and of accountancy which is necessary for the proper investigation of the amount of assessable profits made by business concerns; and it is obvious that, however well they may be equipped with the necessary qualifications, the limited time that they are able to devote to the work in an honorary capacity would not permit them to carry out detailed investigations of accounts. Their meetings, moreover, are held too infrequently for the acquisition of familiarity with the complications of tax law; and they accordingly give full weight to the knowledge of accountancy and law possessed by the Surveyor of Taxes as a consequence of his training and his every-day experience and practice in Income Tax affairs.

44. It has therefore, almost of necessity, come about that the work of determining the proper liability of the various taxpayers under Schedule D is now to a very great extent performed by the Surveyor.

45. The procedure that is commonly followed in making Schedule D assessments is as follows.

46. When the Assessor has completed his list of persons liable to be charged under Schedule D (as described in paragraph 38), the list, together with the returns, is delivered to the Commissioners on a day appointed by them. The Clerk to Commissioners copies into the assessment book the names appearing in the Assessor's List, and enters against each name extracts from the return. He then forwards to the Surveyor the Assessor's list of names, the returns received from the taxpayers, and the assessment book.

47. The Surveyor calls for returns from persons who have not already delivered them to the Assessor. He enters in the assessment books, and calls for returns from persons notified to him by other Surveyors as having removed into his district. He compares the entries in the Assessor's statutory list of liable persons with those in the assessment books; examines the returns and compares the particulars stated in them with the entries made by the Clerk to the Commissioners in the assessment books.

48. He inquires into the basis of the returns, corresponds with and interviews taxpayers, endeavours to arrive at the true amounts of liability, and, in all important cases, to agree on this point with the persons chargeable. He consults from time to time with the Assessors, and usually in the last stage of his preparation of the books of assessment obtains their opinion as to cases where their knowledge of local circumstances may be of value.

49. Since the law relating to Income Tax, and to Schedule D in particular, is exceedingly complex, the accuracy of a taxpayer's return under this Schedule is dependent not only upon his integrity, but also upon his ability to interpret correctly the provisions

Procedure of assessment in practice.

The taxpayer's difficulties in rendering correct returns.

governing the calculation of taxable profit, and in many cases also upon his knowledge of decisions in the Courts.

50. Taxable profit, as defined by the Income Tax Acts and Cases, differs from commercial profit, and, although the taxpayer might regard it as legitimate in arriving at a return to make deductions in respect of wasting assets, losses of capital, contingent liabilities and other items that are commonly provided for by a prudent business man, he would in so doing be departing from the requirements of the Acts. A person in business is often unable to render without assistance a correct return of profit for assessment under this Schedule; and even where accounts in support are furnished there is usually matter for investigation and adjustment before the amount of legal liability is settled.

51. In order that mistakes in taxpayers' returns under this Schedule may be lessened the Surveyor endeavours in all important cases to obtain from year to year copies of balance sheets and profit and loss accounts for each of the years of the average on which the assessment is based.

52. The Acts at present afford him no legal power to require the production of accounts at this stage, and the taxpayer's compliance can result only from his recognizing that the object in view is the promotion of accuracy in assessment and that the request is accordingly a reasonable one.

53. As a result of such applications and of the greater tendency in recent years to supply accounts, it has now become the practice in some 81,000 cases (apart from limited liability companies) for the taxpayer to furnish annually a copy of his accounts to the Surveyor. There are also numerous other cases where, on a request from the Surveyor, accounts are furnished from time to time.

54. Copies of the accounts of all working limited liability companies are furnished annually to the Surveyor.

55. From the accounts thus furnished, supported where necessary by further details and explanations, or by the inspection of the books, the Surveyor computes the taxable profit. This work can be effective only when undertaken with an expert knowledge of Income Tax law and practice combined, and with a knowledge of the principles of accountancy.

56. In many cases, often including large commercial concerns, the accounts furnished in the first instance are bald summaries revealing only a minimum of information, which frequently bears but a remote relation to the taxable profit. It is necessary in these cases to obtain the detailed accounts that underlie those summaries, and to ascertain exactly how such important matters as provision for secret reserves, valuation of stock and debts, depreciation of assets, capital expenditure, and the profits of subsidiary businesses have been dealt with.

57. Difficult and intricate questions also arise in the cases of such businesses as Life Assurance, finance, and investment. The computation of the liability of municipal corporations and other local authorities may also be mentioned as presenting special difficulty.

58. The whole of this important work of inquiry and investigation is performed by the Surveyor; and where accounts, or in their absence, other adequate information has been furnished to him, an agreement between him and the taxpayer is generally reached. Taxpayers inevitably look to the Surveyor, and agreement with him as to the amount of the Schedule D liability before the assessment is formally made has become a recognized and prevalent practice throughout the Kingdom.

59. Mention may also be made of the work of the Surveyor in connection with liabilities on income arising abroad. Income arising abroad from stocks, shares, securities and rents is taxable whether remitted to the United Kingdom or not. Where, however, the owner of the income is not domiciled in the United Kingdom, or being a British subject is not ordinarily resident here, the liability is restricted to income actually remitted. The liability is similarly restricted in all cases of income arising abroad from sources other than stocks, shares, securities and rents.

Difficult questions of residence arise and legal puzzles on domicile have to be solved.

60. Allied to these questions are those in connection with the assessment of non-resident persons in respect of income derived from trading in the United Kingdom. The Surveyor has to consider whether trade is being carried on "within" or merely "with" this country, the actual and legal position of the resident person here through whom the trade is carried on, and his connection with his principal, and finally, the basis to be adopted in ascertaining the liability. The trade here may be only a part of the total operations of the foreigner, and the rate of profits attributed to the business done in this country may differ from that for the whole business. It may be necessary to compare and reconcile the branch accounts in the United Kingdom with those kept abroad for the whole concern, if the latter are obtainable. The Surveyor must be the active guardian of the interests of the Revenue against the foreign trader who may not unreasonably be anxious to reduce to a minimum his contribution to British taxation.

61. The actual work of the Surveyor in connection with employments assessable under Schedule D is somewhat similar to that described under Schedule E (paragraphs 27 to 34).

62. Except in comparatively few Divisions, and those generally the smaller ones, the Additional Commissioners do not as a rule regard it as necessary to consider in detail each case in the books of assessment. Where the amount of the liability has been agreed between the taxpayer and the Surveyor there is result is accepted by the Commissioners, who often reserve their consideration for important cases brought to their notice by the Surveyor where satisfactory information has not been supplied to him or where their own personal knowledge may be of special service in estimating liabilities.

63. This summary of the work actually done by the Surveyor in regard to assessments under Schedule D sufficiently indicates that in practice his functions under modern conditions are now far more important than those laid down in the Income Tax Acts, and that, in fact, in a very large number of cases he settles to the satisfaction of the Commissioners the amounts of the assessments under this Schedule.

FRAUD AND EVASION.

64. The discovery of cases of evasion of tax is of the highest importance in connection with the returns of business profits made under Schedule D. It may be shortly stated that the work of discovery as well as all the consequent inquiries and proceedings leading to the settlement of such cases are carried out by the Surveyor.

SURCHARGES.

65. Where the Surveyor discovers that a person liable to tax has not been charged, he is empowered to make an assessment known as a "surcharge."

APPEALS.

66. The Statute contemplates all appeals against assessments (except such as are heard by the Special Commissioners) being heard and determined by the General Commissioners, who may demand all such particulars as they may require for the determination of the appeals. The legal powers and duties of the Surveyor are detailed in Enclosure A.

67. The number of cases that are actually brought before the General Commissioners for a hearing is exceedingly small, the greater number being dealt with by the Surveyor. On receipt of the notice of appeal, he obtains the necessary evidence in its support, e.g., in the case of a business, a copy of the trader's accounts. The evidence produced is dealt with by the Surveyor in precisely the same manner as he deals with accounts and other information obtained prior to the making of the assessments. Correspondence and interviews take place, and in the great majority of cases the Surveyor comes to an agreement with the appellant as to the correct amount of liability. These agreed cases are submitted formally to the Commissioners for their approval. In

Surveyor's
applications
for accounts.

Supply of
accounts by
private
traders.

And by limited
liability
companies.

Examination
of accounts by
Surveyor.

Income arising
abroad.

Employment

Position of
Additional
Commissioners

Surveyor's
functions.

Fraud and
evasion.

Surcharge
Sec. 126.

Procedure
in law,
Sec. 117.

Procedure
in practice.

See also
pages
305.

practically every case the Commissioners approve the settlement and dispense with the personal attendance of the appellant at an appeal meeting.

68. The cases that actually come before the Commissioners may be summarized as:—

(a) those in which the Surveyor considers that the evidence produced to him is insufficient; and

(b) those in which there is difference of opinion, usually on a point of law, in relation to some expense that the taxpayer claims should be allowed.

69. The following figures show how the appeals were dealt with in the above respect for the year 1917-18, in certain important and representative Divisions throughout Great Britain:—

Statistics.

YEAR 1917-1918.

	Number of adjustments made by the Surveyor and accepted by the Commissioners.				Number of appeals heard personally by the Commissioners.				Number of taxpayers who appeared personally before the Commissioners to prove formally their title to repayment of sums previously agreed with the Surveyor.			
	Schedule :—				Schedule :—							
	A.	B.	D.	E.	A.	B.	D.	E.				
Division 1	9,769	6,963	...	...	13	8	211		
2	1,763	768	...	...	52	1	—		
3	2,057	772	...	...	81	5	—		
4	2,198	1,000	...	...	74	6	—		
5	975	317	...	...	54	12	—		
6	2,441	2,166	6	—	120	1	—		
7	1,158	708	2	—	53	5	—		
8	1,735	3,389	5	1	26	5	—		
9	1,700	2,678	17	—	132	6	8		
10	221	162	—	—	28	—	—		
11	108	842	1	—	—	—	—		
12	702	1,016	1	—	101	10	—		
13	532	830	8	—	121	8	3		
14	253	706	3	—	46	5	—		
15	600	504	4	—	44	4	—		
16	168	35	—	—	6	—	—		
17	172	453	—	—	—	—	—		
18	279	111	1	—	3	—	—		
19	207	197	1	1	9	—	—		
20	766	940	26	—	55	1	1		
21	91	1,528	1	—	45	13	—		
22	101	1,361	1	—	20	4	—		
Totals for the 22 Divisions				9,465	651	34,663	21,754	77	2	1,090	94	223
Grand Totals				66,533				1,263				

* Division either wholly or partly within the Metropolitan Valuation Area.

COLLECTION—SCHEDULES A, B, D, AND E.

70. Collectors of Taxes in England are appointed by the General Commissioners or (as regards a certain number) by the Board of Inland Revenue. The latter now make the appointments in some 900 cases, whilst the General Commissioners appoint about 3,600 Collectors.

71. To-day the collection in almost all the large provincial centres is in the hands of Collectors appointed by the Board of Inland Revenue.

72. Collectors in Scotland are appointed by the Lord Commissioners of the Treasury; those in Ireland are selected by the Board of Inland Revenue and receive their warrants from the Special Commissioners.

73. The law provides that the books of assessment are to be kept for the use of the Commissioners, and that two duplicates thereof are to be prepared by

the Clerk to Commissioners, one of which is to be delivered to the Surveyor and the other to the Collector.

74. In practice only one duplicate is made out. It is delivered, together with the assessment, by the Clerk to Commissioners to the Surveyor, who checks the carrying-out and computation of the duties in the assessment and compares the duplicate with the assessment. The duplicate is issued to the Collector, and the assessment is retained permanently by the Surveyor for his own use. The Collector then issues his demand notes for payment of tax; in Scotland the notices of assessment sent to the taxpayers are so devised as to form applications for payment where no appeal is made against the assessment.

75. In England and Wales, the Surveyor has no statutory functions in regard to the work of collection, except that he may report to the General Commissioners any unsatisfactory conduct on the part of a

Position
Surveyor.
Sec. 12A,
Sec. 13A.

Collector, and at the meeting that is subsequently to be held to inquire into the matter may attend and assist in considering what measures are to be taken.

76. In practice, however, the supervision and control of the collection usually devolves upon the Surveyor. He furnishes the Collector with the necessary demand notes, stationery, and instructions, and watches that the various stages of collection are reached in due time. He requires the Collector to be called before the Commissioners only in instances of definite neglect or other misconduct.

77. When the demand notes have been issued, numerous inquiries and objections from the taxpayers pour in. With the exception of requests for allowances of tax under Schedule A where property has been unoccupied (which are dealt with in the first instance by the Collector) all these communications reach the Surveyor, either directly or through the Collector. They are of a varied character, some relating to changes due to deaths, removals and cessations, others to points of objection to a charge that the taxpayer has neglected to raise until faced with an actual demand for payment, and others to the allowance of the various reliefs allowed by the Acts. The Surveyor's task is to deal with all the questions raised, to conduct a great mass of correspondence and numerous interviews, to elicit whatever facts and evidence may be necessary and to agree with the taxpayer the amounts of the adjustments due. Any delay in dealing with the objections impedes the flow of revenue to the Exchequer.

78. The amounts agreed between the taxpayer and the Surveyor to be remitted from charge are notified to the Collector, who amends his demand accordingly and accepts the reduced amount of tax without question.

79. The Act provides that, where any tax is left in arrear by any person who has removed to or happens to be in any parish other than that in which the charge has been made, the General Commissioners are to sign and transmit through the Board of Inland Revenue a certificate of the amount in arrear to the Commissioners for the Division where the defaulter is, in order that they may cause the tax to be recovered.

80. In practice a preliminary notification is prepared by the Collector and transmitted through his Surveyor to the Surveyor for the District where the defaulter is. The latter forwards the notification to the proper Collector, who applies for payment. Only in cases where it is anticipated that payment of the tax will have to be enforced by way of distraint do the Commissioners concerned sign a formal certificate.

81. Thousands of these preliminary notifications pass through Surveyors' offices each year, entailing upon the Surveyor many inquiries, interviews and adjustments.

ACCOUNTING PROCEDURE—SCHEDULES A, B, D, AND E.

82. Under their statutory powers the Board of Inland Revenue prescribe regulations to be observed by all Collectors as regards remittances to the Exchequer and the manner of making the same.

83. These regulations provide for lodgments of tax collected in official banking accounts, and for weekly notifications by the Collector to the Surveyor of particulars of the amounts so lodged with the Bank on account of the Revenue. The Surveyor keeps against the Collector for each parish or collecting area a ledger account showing the total amount the Collector has to collect and the amount of the weekly remittances. He closely watches the progress of the collection, and in almost all cases he gives such instructions and advice to the Collector as he finds necessary.

84. In cases of necessity he exercises the powers given to him by law—detailed in Enclosure A—under which he may report to the General Commissioners any unsatisfactory conduct or neglect on the part of the Collector, and may require the Commissioners to examine the Collector on oath as to the state of his collection.

85. Isolated cases of default by Collectors occur from time to time. When this happens, the Surveyor carries out the necessary investigation, ascertains

what sums of tax are collected or uncollected, how far the sums collected have been accounted for by the Collector, and unravels the tangle in the accounts that is usual on such occasions.

86. The Board of Inland Revenue, also under their statutory powers, appoint a day on or before which the Collector is to pay over and account for the tax given him in charge to collect. The Surveyor has powers—set out in Enclosure A—to receive from the Collector schedules of tax in arrear, and to require from the Collector the production of his duplicates of assessment and of any information concerning the tax to be collected.

87. In practice, the Surveyor arranges with the Clerk to Commissioners for a meeting of the General Commissioners to be held, if necessary, shortly after the date appointed by the Board of Inland Revenue for the delivery by the Collector of schedules of sums uncollected. Unless the Collector properly accounts for the total charge of his collection, he is required to appear before the Commissioners at the meeting so arranged; the Surveyor also attends and reports the facts of the particular case to the Commissioners, stating what in his opinion should be done.

88. The Collector's schedules of uncollected sums of tax, when delivered, are handed to the Surveyor, accompanied by the notifications of adjustment of the tax charged on the various assessments, which have been issued by the Surveyor during the course of the collection (see paragraph 75).

89. The Surveyor checks the accuracy of the amounts scheduled as discharged from assessment. Amounts of duty not collected by reason of property being empty are verified by certificates from the landlord and by comparison with allowances made for the same cause from the Poor Rates. Cases of refusal to pay are inquired into, and such directions as may be necessary for the recovery of the tax are given to the Collector. Such causes of arrears as deaths, bankruptcies, removals, appeals, etc., are dealt with as required by the particular facts.

90. When the arrears in the schedules have been cleared as far as possible, the various amounts are summarised into two classes, viz., sums discharged on due cause, and sums in default. A detailed list of the persons and sums in default, together with a summary of the discharges, is forwarded to the Clerk to Commissioners who prepares the Commissioners' statutory schedules of discharge and default, which, after being signed and sealed by the Commissioners, have to be transmitted to the Board of Inland Revenue. In practice, these schedules are sent to the Surveyor, who, before forwarding them to the Board of Inland Revenue, verifies all the particulars. The amounts shown by these schedules constitute balancing entries in the Surveyor's ledger accounts against the respective Collectors.

SCOTLAND AND IRELAND.

91. In Scotland, where all the Collectors are appointed by the Lords Commissioners of the Treasury, and in Ireland, where the Collectors are appointed by the Special Commissioners, the Surveyor's duties on the Collection and Accounting proceed on much the same lines as above—the main difference being that in Scotland the reports by the Collector of sums collected are made to the Assistant Secretary and Comptroller of Inland Revenue at Edinburgh, and the ledger accounts are also kept by him.

RELIEFS UNDER THE ACT.

92. The allowances and reliefs in force to-day, to the number of nearly fifty, are enumerated in Enclosure B. Those under headings (a) to (h) relating mainly to the allowances in respect of exemption, abatement, wife, children, dependent relatives, and earned income and unearned income below certain limits of total income, are under the Statute (except in the case of weekly wage-earners) to be made and proved before the General Commissioners. The notice of claim with the appropriate declaration and statement is to be delivered to the Assessor for transmission by him to the Commissioners. The remaining reliefs are to be granted by Additional Commissioners, General Commissioners or Special

Revenue.
Sec. 154.

Procedure of
Accounting.
Sec. 172 (1).

Sec. 173, 174.

Procedure
of
Accounting.
Sec. 172
(1) & (2).

Sec. 173 (2).

Powers of
Surveyor.

Commissioners, as may in any particular case be directed by the Act.

93. The Surveyor has certain statutory powers, enumerated in Enclosure A, in regard to the various claims—principally the right of objection, whereupon the matter is to be heard and determined as on an appeal.

94. In practice, all claims for the various allowances and reliefs—other than those from (s. 1) to (s. 1)—are dealt with mainly by the Surveyor, who receives the claims, either direct or through the Assessor; examines the evidence, whether accounts or declarations of total income; collects information, bearing on the total amount of the income, from any other district where the income may in part arise; and, having satisfied himself as to the facts, makes the adjustments.

95. There are three methods of adjustment—(1) by a deduction in the assessment from the profits or income charged; (2) by way of discharge by schedule of the appropriate amount of tax from the duty charged in the assessment and included in the Collector's duplicates of assessment; and (3) by means of repayment where the tax has already been paid. So far as practicable, allowances are made by the first method; claims for allowances made late or provable only on contingencies arising after the assessment has been closed are made, so far as the duty has not been paid, by the second method; the third method is employed when the other two are not permissible or practicable.

96. When it is remembered that one or more—and frequently several—of the numerous reliefs are claimed by the majority of persons assessed under Schedule A, B, D and E, it is apparent that the practical administration of the respective reliefs involves a huge task. In many cases the calculations are detailed and intricate. This is especially so where a combination of reliefs is due, e.g., in respect of abatement, Life Assurance, wife, children, dependent relatives, marginal relief, and relief on earned and unearned incomes where the total income does not exceed specified statutory limits. The mass of figures is still more intricate when a partnership of four or five persons has to be dealt with, the reliefs and allowances applicable to each partner having to be separately ascertained by reference to his own total income, and the whole series of reliefs then combined in the single assessment on the partnership.

97. The Surveyor's duties in connection with these allowances are of a responsible character. The receipt of a declaration of total income, or of accounts, in support of a claim for relief imposes on him an obligation to grant the full and proper relief, and at the same time to safeguard the Revenue against any improper allowance. So far as possible he makes the entries necessary to allow all the due reliefs in the assessment books in his own district. Where allowances are due in other districts, he forwards to other Surveyors the necessary information; conversely, he receives and acts upon notifications from them. Where any residue of the allowances claimed has to be dealt with by way of repayment, he so informs the taxpayer and supplies the necessary forms.

REPAYMENT CLAIMS.

98. As described in paragraph 95, in certain cases reliefs, allowances and adjustments may be made by way of repayment of any tax paid in excess of the due liability. The Act lays upon the General Commissioners and the Special Commissioners the duty of certifying the proper sums to be repaid. In practice all the inquiries, correspondence, interviews and calculations in regard to these claims for repayment are conducted by the Surveyor, with the following exceptions:—

- (a) In cases of claims on account of loss arising in the year of assessment in any trade, &c., it is the practice of certain bodies of Commissioners to require the personal attendance of the claimant before them; this appearance, however, is mainly formal, as the case has previously been investigated by the Surveyor and the exact amount repayable agreed between him and the claimant.

- (b) Where a claim for repayment (usually in cases where tax has been deducted from the income) is preferred year after year, the original claim is dealt with by the Surveyor, and the amount repayable certified by him; but in subsequent years, the claimant sends his claim direct to Somerset House, the Surveyor being then called on only to report details of tax paid on particular assessments in his district.

- (c) Certain special claims, e.g., by charitable institutions, Friendly Societies, &c., do not usually pass through the hands of the Surveyor.

99. The heavy rate of tax now deductible from all dividends, interest and annuities, together with the lower rate of tax applicable to unearned income where the total income does not exceed £2,000, and other numerous reliefs for abatement, wife, children, Life Assurance, &c., produce each year a large number of new claims, which are all investigated and determined by the Surveyor. He calls for and examines vouchers for the income taxed by deduction; checks income arising from property, business, &c., with the assessments either in his own District or in those of other Surveyors; deals with all untaxed income disclosed by the claim, either by assessment or set-off from the amount repayable; and agrees with the claimant the amount to be repaid.

Surveyor's duties.

ASSESSMENTS ENTIRELY OUTSIDE THE JURISDICTION OF THE LOCAL COMMISSIONERS.

100. In the preceding paragraphs 16 to 68, assessments made under the jurisdiction of the Local Commissioners have been dealt with. There are in addition a considerable number of assessments yielding a large amount of revenue that are not under their jurisdiction.

Assessments not dealt with by Local Commissioners.

MANUAL WEEKLY WAGE-EARNERS.

101. Assessments in respect of the wages of weekly wage-earners employed by way of manual labour are not within the jurisdiction of the Local Commissioners, whose functions are limited to—

Manual weekly wage-earners.

- (a) hearing appeals; and
(b) determining in case of doubt jointly with the Board of Inland Revenue whether a person is a "weekly wage-earner employed by way of manual labour" or not.

Sec. 131.
Sch. D.
Clases 1 & II.
Rule 1 (3).

102. These wage-earners are assessed in respect of their wages in each quarter, and not yearly as in the case of other taxpayers; and the Board of Inland Revenue are authorized to make regulations with respect to the assessment, charge and collection of the tax.

103. Under the regulations so made, the assessment of manual weekly wage-earners is exclusively carried out by the Surveyor of Taxes, who issues all forms of return required from employers and employees; makes the assessments; grants the allowances and reliefs; and deals in the first place with all objections to his assessments. Only in the event of non-agreement with the taxpayer is the objection carried before the Local Commissioners. The total number of appeals to the General Commissioners for the two years 1916-17 and 1917-18 was 548.

104. The number of weekly wage-earners liable to assessment reached in July, 1918, a total of 3,250,000. The duty charged as present exceeds £7,000,000 per annum.

IRELAND.

105. The powers exercised in Great Britain by the General Commissioners are entrusted in Ireland to the Special Commissioners; these exercised in Great Britain by the Additional Commissioners and parochial Assessors, broadly speaking, to the Surveyor of Taxes.

SPECIAL ASSESSMENTS.

Special assessments.

106. The principal object of the appointment of Special Commissioners of Income Tax was to afford to persons chargeable under Schedule D the means of avoiding the disclosure of their business profits to their neighbours. For this purpose it is provided that any taxpayer making a return under that Schedule may claim to be assessed by the Special Commissioners instead of by the Local Commissioners. His return in that case is delivered to the Surveyor, either directly or through the Assessor, and the whole of the assessment and appeal proceedings are then conducted by officers appointed by the Crown.

107. Further, should any taxpayer who has been charged by the local Additional Commissioners under Schedule D, or Schedule A, No. III, Rules 1 & 2, be dissatisfied with the charge, he can make his appeal to the Special Commissioners, instead of to the local General Commissioners.

108. The Special Commissioners also make assessments in respect of:—

- (a) all railway companies;
- (b) all salaried railway officials;
- (c) all colonial and foreign Life Assurance companies trading in the United Kingdom; and
- (d) all Super-tax.

Procedure.

109. Where any person chargeable under Schedule D elects to be assessed by the Special Commissioners, his return is forwarded to the Surveyor of Taxes, who, after making any inquiries that may be necessary, certifies to the Special Commissioners any appropriate abatements or reliefs, enters the name and his suggested assessment on an assessment sheet, and forwards it with the return to the Special Commissioners. If for any reason the suggested assessment exceeds the amount of profits returned by the taxpayer, the Surveyor makes a special report of the circumstances.

110. When the assessments have been signed by the Special Commissioners, a notice of assessment, which is prepared by the Special Commissioners, is forwarded by the Surveyor to the person charged.

111. Notice of an appeal against an assessment made by the Special Commissioners has to be forwarded to the Surveyor.

Sec. 8, Rule 7.

112. Forms of return are issued to all railway officials by the Surveyor, and assessments under Schedule E are made by him and forwarded to the Special Commissioners.

BANK OF ENGLAND, BANK OF IRELAND AND NATIONAL DEBT COMMISSIONERS.

Bank of England, Bank of Ireland, etc., Sec. 89 (1) & (2).

113. The Bank of England and the Bank of Ireland through their Governor and Directors acting as statutory Commissioners for this purpose, assess all interest, &c., paid by them or entrusted to them for payment, their own profits chargeable under Schedule D, the salaries and pensions paid by them, and certain other income.

114. The National Debt Commissioners act as Commissioners for assessing interest and annuities paid by them, and salaries and pensions paid in any office under their control.

Sec. 68 (3).

115. These assessments are not dealt with by the Surveyor of Taxes.

CROWN EMPLOYEES.

116. All employees of the Houses of Parliament, in Courts of Justice, in the Civil Government Departments of the Crown, and all officers of the Navy, Army and Air Force, are assessed by the respective Commissioners authorized by the Act to be appointed for the respective offices.

Crown employees.

117. Assessors are appointed in each office, and returns are made to them. Where no difficulty arises the Assessors deal with the returns and raise their assessments without reference to the Board of Inland Revenue. In the large number of cases, however, where the employee has income other than his official emoluments, the returns are referred by the respective Assessors to the Surveyor of Taxes for certification of the due amount of allowances and reliefs, and for local assessment of any extra-official income.

CONCLUSION.

118. The foregoing statement shows that the everyday working administration of the Income Tax has to a marked degree centred in the office of the Surveyor of Taxes. Of the many circumstances that have contributed to this result two or three may be marked for special mention—the complexity of the tax, the consequent necessity for its administration by whole-time officials whose life is devoted to that task, the necessity for uniformity of practice, and the necessity also that information obtained in any part of the kingdom should be readily available wherever it will be put to its full use in administering the tax.

Conclusion.

119. The Surveyors' organisation, which covers the whole kingdom, ensures, under the directing and co-ordinating influence of the Board of Inland Revenue, a uniformity of action and procedure that could not otherwise be obtained in the practical administration of the tax. Inter-communication on tax affairs throughout the whole kingdom, and even between adjacent parishes, is carried out almost entirely through the Surveyors' offices. Information, case-books and voluminous, regarding taxpayers, their returns, assessments and reliefs, the tax paid by them or on their account, their removals, or defaults in payment, passes and repasses daily between Surveyors. The Surveyor, moreover, is always accessible to the public.

120. Frequent mention has been made in this Memorandum of the statutory powers and duties of the Surveyor of Taxes, and of the large number of "reliefs" that are at present in force. For convenience of reference these matters are tabulated respectively in the Enclosures marked A and B which follow.

Enclosure A to Appendix No. 4.

STATUTORY POWERS AND DUTIES OF THE SURVEYOR OF TAXES.

The various powers and duties of the Surveyors of Taxes under the Act may be summarized under the following general headings:—

1. ASSESSMENT—SCHEDULES A AND B.

(c) He is to instruct and assist, upon application, any Assessor who is unable to make his assessments in accordance with the Act, or who is obstructed therein.

(b) He may give notice to make a return to any person who has not been charged to tax in the parish, or to whom the Assessor has neglected to give a notice, or who comes to reside in the parish after the expiration of the general notice prescribed by the Act.

(Note.—General notices are given by affixing a notice on the door of the church or chapel and on the market house or cross in the parish.)

(c) The Surveyor may examine all statements (i.e. returns) and assessments and may take the custody of any statement or take charge of any assessment.

(d) He may inspect and take copies of the parish Poor Rate books; he may require the Assessor to give notice to the Overseers of the parish to produce the rate books to the Commissioners; he may have the use of the rate books.

(e) If the Surveyor satisfies the Commissioners that any assessments have not been made in accordance with the Act, the Commissioners may summon and examine on oath the Assessor or the Overseer.

(f) The Surveyor is to compare all the assessments with the last Poor Rate, and he may rectify any assessment in any respect.

(g) He may, on obtaining a signed order of the Commissioners, with the assistance of a person of skill named therein, view and examine any lands or property, in order to ascertain the annual value.

(h) Before the first assessments are signed and allowed he is to amend the assessments if he discovers that any properties have been omitted or that no statement or an incomplete statement has been delivered, or that a person has not been assessed or has been undercharged, or that a person has obtained any allowance, relief, etc., not authorized by the Act.

(i) If the first assessments have been signed and allowed, the Surveyor is to certify the particulars to the Commissioners, who are to sign and allow an additional first assessment in accordance therewith.

(j) He may object to and apply for revision of any assessment, and suggest in writing to the Commissioners any error, mistake, omission or fraud; in such case the Commissioners are to rectify the assessment.

(k) He may object to the estimate of annual value made by the Assessor of a house or lands of an annual value under £10, and may require a notice for a return to be served.

2. ASSESSMENT—SCHEDULE E.

The Surveyor's powers are the same as set out above under "Assessment, Schedules A and B," excepting items (d), (f), (g) and (k).

3. ASSESSMENT—SCHEDULE D.

(a) He is allowed free access to the books of abstract of returns, and he may take copies of or make extracts therefrom.

(b) He is to have a reasonable time for the examination of the returns. Sec. 121 (2).

(c) For a sufficient cause he may make an objection in writing to a return, setting forth the cause thereof, and the Additional Commissioners are to make an assessment to the best of their judgment. Sec. 121 (3) (a). Sec. 121 (4) (c).

(d) If the Additional Commissioners make an assessment in accordance with a return, to which the Surveyor has not objected, but the Surveyor is dissatisfied with the assessment so made, he may require the Additional Commissioners to state and sign a case for the opinion of the General Commissioners. This case must be delivered to the Surveyor for transmission by him to the General Commissioners. When they have given their opinion the assessment is to be altered or confirmed accordingly. Sec. 121 (3) (a).

(e) The Surveyor may examine any assessment made by the Additional Commissioners before it is delivered to the General Commissioners, and may certify any error requiring amendment to the Additional Commissioners, who, on sufficient cause, may make any amendment required. Sec. 121 (4).

(f) If the Surveyor makes an objection in writing to the Additional Commissioners as to the amount of an assessment made by them, those Commissioners shall certify the objection, with their reasons for making the assessment, to the General Commissioners. Sec. 121 (7).

(g) The Surveyor is to give notice of his objection and particulars thereof to the person assessed, so that he may appear before the General Commissioners in support of the assessment. Sec. 121 (8).

(h) No notices of assessments made by the Additional Commissioners are to be delivered to the persons assessed until fourteen days after the Surveyor has had notice of the delivery of the assessments, signed by the Additional Commissioners, to the General Commissioners. Sec. 122 (2).

(i) If the Surveyor discovers that any profits chargeable have been omitted from the first assessments, or that no statement or an incomplete statement has been delivered, or that a person has not been assessed, or has been undercharged, or that a person has obtained any allowance, relief, etc., not authorized by the Act, then the Additional Commissioners are to make an assessment on the person in an additional first assessment according to their judgment, and any such assessment is subject to objection by the Surveyor and to appeal. Sec. 125 (1) (a).

4. APPEALS.

(a) Notice of appeal has to be sent to the Surveyor by the person assessed. Sec. 129 (1).

(b) He may at all reasonable times inspect and take copies of or extracts from any schedule of particulars delivered by the taxpayer in response to the demand of the Commissioners. Sec. 126 (4).

(c) He may, within a reasonable time after examination of any schedule, object to such schedule and state in writing the cause of his objection; in every such case he is to give notice in writing of his objection to the person charged. Sec. 124.

(d) Notice of appeal meetings to be held by the General Commissioners is to be given to the Surveyor by the Clerk to Commissioners. Sec. 126.

(e) He may attend every appeal and be present during the hearing and the determination. Sec. 37 (3).

thereof, and produce any lawful evidence in support of the assessment.

Act, viz., 31st March, may be varied with the consent of the Surveyor.

Sec. 149 (3)
(a) & (b)

- (f) Immediately after the determination of an appeal by the General Commissioners or the Special Commissioners, the Surveyor may declare his dissatisfaction with the decision as being erroneous in point of law and may, within twenty-one days after the determination, require the Commissioners to state and sign a case for the opinion of the High Court.

Sec. 153 (3).

- (g) He may not, when an objection made by him to an assessment has been dealt with on appeal, make any further charge for the same year in respect of the same matter.

5. COLLECTION.

Sec. 123

- (a) He may require the General Commissioners to call before them any Collector whose accounts for the year are not finally closed and examine him on oath as to the state of his accounts and collection.

Sec. 174.

- (b) He may, whenever he sees occasion, report to the General Commissioners concerning any matter relating to the conduct of any Collector or in every case where there has been a failure in raising or paying the sums charged on any person, setting forth the particulars of his complaint and his recommendation as to the action to be taken thereon.

Sec. 175 (3).

- (c) He may take delivery of the duplicates and all other papers from a dismissed defaulting Collector.

6. ACCOUNTING.

Sec. 172 (2) (b).

- (a) He receives from the Collector the schedules of arrears setting forth the name of every person from whom payment of the tax has not been received and the respective sums then in arrear and uncollected.

Sec. 172 (3) (a).

- (b) He may require the Collector to produce to him his duplicates of assessments showing the respective sums collected.

Sec. 172 (3) (b).

- (c) He may require the Collector to answer any lawful question concerning the tax or moneys given him in charge to collect.

7. RELIEFS.

Sec. 13 (7).

- (a) A certificate of the amount of premiums on Life Insurance effected with a Registered Friendly Society is to be produced to the Surveyor, in order to obtain the relief.

Sec. 33 (2).

- (b) Notice of any claim in respect of management expenses of a Life Assurance company is to be given to the Surveyor; where the Surveyor objects to such a claim the Special Commissioners are to determine it as in the case of an appeal.

Sec. 54 (1).

- (c) Notice of claim in respect of a loss in trade, &c., or farming, is to be given to the Surveyor.

Sec. 39 (3)

(b), (4).

- (d) Savings Banks claiming the relief provided in respect of interest to their depositors must make a return of the amounts exceeding £5 in the year, with the names and addresses of the depositors, to the Surveyor.

Sec. A, No. V,
Rule 8

- (e) If an owner of any land, &c., delivers his claim in respect of maintenance, &c., to the Surveyor, and the Surveyor is satisfied as to the correctness of the declaration, the Surveyor is to certify the amount of the allowance due.

Sec. A, No. V,
Rule 6 (6).

- (f) In computing the five year average required by a maintenance claim, the date to which each year is to be taken as fixed by the

8. MISCELLANEOUS.

In connection with the powers of other officers:—

- (a) If there is neglect in appointing General Commissioners or if the Commissioners appointed neglect or refuse to act, the Surveyor may be authorised by the Board of Inland Revenue to give notice, through their Clerk, to the Land Tax Commissioners to take up the execution of the Act.

Gen-
Commissioners,
Sec. 62 (1).

- (b) The Surveyor may give notice to an Assessor that he is to be continued in office and may require him to attend for the purpose of receiving his papers.

Assessors,
Sec. 74 (4).

- (c) The Surveyor may also give notice to the magistrates or justices of any place requiring them to appoint an Assessor, if the Commissioners fail to appoint one.

Sec. 74 (7).

- (d) Where an officer of Inland Revenue (i.e., the Surveyor) has been appointed to be an Assessor for the purposes of the Lands Valuation (Scotland) Act, 1854, no other person is to be appointed Assessor for purposes of Income Tax.

Sec. 74 (8).

- (e) If Assessors are not appointed, or having been appointed do not take upon themselves the office, the Surveyor may execute the duty of Assessor.

Sec. 77 (1).

- (f) Within the administrative county of London the Surveyors are the Assessors for the tax chargeable under Schedules A and B.

Sec. 77 (2).

- (g) Where the annual value of property chargeable under Schedules A and B for any year is prescribed by the Finance Act to be taken as the annual value for that property for the subsequent year, the Surveyor is the Assessor under those Schedules.

Sec. 77 (3).

In connection with various matters:—

- (A) He may issue to the Assessor notices required to be affixed, delivered or served, and his issue is as effectual as delivery by the General Commissioners.

Sec. 170 (1) (a).

- (i) He may give directions, that have been allowed by the Commissioners, to a Collector or Assessor with reference to the time and manner of affixing, delivering or otherwise serving the notices.

Sec. 169 (3).

- (j) He may serve a notice, to be given by himself, by registered post.

Sec. 220 (1).

- (k) He is not liable to any penalty other than as provided by the Act.

Sec. 229 (1).

- (l) He may decide in which parish shall be charged a dwelling house that is situate in two or more parishes and must notify to the Commissioners the parish selected by him.

Sch. A, No. 7,
Rule 4.

- (m) The election of a person occupying lands for husbandry to be assessed under Schedule D is to be signified by notice delivered to the Surveyor.

Sch. D, Rule
(2).

- (n) If a person ceases within the year of assessment to carry on a trade, &c., and is succeeded therein by another person, the Surveyor is to certify to the Commissioners the particulars thereof and the date of the change, if known to him.

Sch. D, Cases
(1).

- (o) The Commissioners are required by the Act to prepare a certificate (called the charge duplicate) of the full amount of the duty charged in each parish in each Division. The Surveyor has to certify that he has examined the duplicate and compared it with the assessments, and that it is a correct duplicate.

Sixth Sched-
ule, No. 14.

Enclosure B to Appendix No. 4.

RELIEFS ALLOWED BY THE ACT.

The allowances and reliefs in force to-day may be briefly enumerated:—

- (a) Exemption where the total income does not exceed £130.
- (b) Abatements of £120, £100 or £70 where the total income does not exceed £400, £600, or £700 respectively.
- (c) An allowance of £25 for each child, step-child or adopted child where the total income does not exceed £800, and a similar allowance for each child above the number of two where the total income does not exceed £1,000.
- (d) An allowance of £25 for a wife (or to a widower for any female relative of his or of his deceased wife who has the care of any child of his), where the total income does not exceed £800.
- (e) An allowance of £25 for each dependent relative maintained who is incapacitated by old age or infirmity.
- (f) A reduced rate of tax for earned income, varying with the total income, for total incomes not exceeding £2,500.
- (g) A reduced rate of tax for unearned income, varying with the total income, for total incomes not exceeding £2,000.
- (h) An additional abatement in respect of profits of a wife from her own personal labour, where the total income of the husband and wife does not exceed £500.
- (i) An allowance, where owing to the total income exceeding a certain limit, tax becomes chargeable at a higher rate, or an exemption or abatement is lost or reduced, of the difference between (a) the tax payable, and (b) the amount that would have been payable if the income had not exceeded that limit, plus the amount by which the total income exceeds that limit.
- (j) Cumulative exemption or relief from tax to minors in respect of income arising from any fund that is accumulated on contingent interests.
- (k) Exemption, abatement or relief to non-residents in the United Kingdom in certain specified cases, e.g., persons employed in the service of the Crown abroad.
- (l) An apportionment as between husband and wife of the total allowances and reliefs due, where they claim relief separately.
- (m) Allowances in respect of premiums for Life Insurance of the taxpayer, subject to certain restrictions.
- (n) Relief in certain cases to Life Insurance and investment companies and to savings banks in respect of their expenses of management.
- (o) Relief in respect of a loss in any trade, profession, employment, vocation, or in the occupation of lands for husbandry, or in the occupation of woodlands.
- (p) Relief in respect of interest paid to a bank, discount house or stockbroker.
- (q) Relief in respect of interest or dividends paid or credited by a certified Savings Bank to depositors, provided that a return of amounts of such interest exceeding £5 in the year is made to the Surveyor.
- (r) Relief on the excess of the actual cost of maintenance, repairs, insurance and managements of lands, and of houses not exceeding an annual value of £12, over the allowances granted normally by the Act (viz., one-eighth part of the annual value of lands and one-sixth for houses.)
- (s) Exemption from tax charged under Schedule A on colleges and halls in universities, and on hospitals, public schools, and almshouses.
- (t) Relief to the occupier of lands for the purposes of husbandry only of the difference between tax on the assessable value according to the Act and on the actual amount of profits arising during the year.
- (u) In the case of owner-occupiers of mills, factories or other similar premises, a deduction of one-sixth of the gross annual value in computing the profits assessable under Schedule D.
- (v) Such deduction as the Commissioners may consider just and reasonable as representing the diminished value by reason of wear and tear during the year of any machinery and plant.
- (w) Deduction as an expense of expenditure on replacing plant and machinery that has become obsolete, limited as directed by the Act.
- (x) Relief during the first three years of the existence of a trade, etc., on the difference between the profits assessed and those actually arising in the year.
- (y) Relief where a trade is discontinued, on the difference between the profits assessed and those actually arising in the year.
- (z) Relief where a trade is discontinued in any year, on the difference between the tax actually paid during the three previous years and the amount that would have been paid had the assessments been made on the actual profits arising in those years.
- (a, 1) Relief where the profits fall short from a specific cause in cases of change of partnership or of succession to a trade or profession.
- (b, 1) Relief to a person carrying on two or more distinct trades, by setting off against the profits of one the losses of the other.
- (c, 1) Relief to mines of coal, tin, lead, etc., that are failing or have wholly failed.
- (d, 1) Relief in respect of abatements of rents allowed to a tenant by reason of flood or tempest.
- (e, 1) Relief where a person ceases to carry on a trade, profession, etc., or dies or becomes bankrupt before the end of the year of assessment.
- (f, 1) Relief to any clergyman or minister for any expenses incurred in the performance of his duty as a clergyman or minister.
- (g, 1) Relief to any clergyman or minister (not exceeding one-eighth part of the rent or annual value of his dwelling house) for any part of it that is used substantially for the purposes of his duty as a clergyman or minister.

Sch. A, No. V, Rule 2.

Sch. A, No. VI, Rule 1.

Sch. B, Rule 6.

Sch. D, Cases I and II, Rule 5.

Sch. D, Cases I and II, Rule 5.

Sch. D, Cases I and II, Rule 1.

Sch. D, Cases I and II, Rule 5.

Sch. D, Cases I and II, Rule 5.

Sch. D, Cases I and II, Rule 5.

Sch. D, Cases I and II, Rule 11.

Sch. D, Cases I and II, Rule 12.

Sch. A, No. III, Rule 2.

Sch. A, No. V, Rule 2.

Sch. D, Miscellaneous Rules, Rule 4.

General Rules, All Schedules, Rule 2.

General Rules, All Schedules, Rule 2.

Sch. E, Rule 2.	(k, 1) A deduction to the holder of any office or employment of expenses necessarily incurred in performing the duties of the office.	(e, 1) Exemption under Schedules A, C and D in respect of dividends applied to provident benefits by a registered Trade Union.	Sec. 39 (3).
Sch. A, No. V, Rule 1.	(l, 1) Allowances to be made in making assessments under Schedule A, i.e., land tax, public drainage rates, expenditure on sea walls, and expenses in relation to tithe rent charges.	(p, 1) Exemption under Schedules C and D to Industrial and Provident Societies, with certain restrictions.	Sec. 39 (4).
Sch. A, No. V, Rule 4.	(j, 1) Relief in respect of additional burdens borne by landlords in Scotland.	(q, 1) Exemption under Schedules C and D to approved societies under the National Insurance Act, 1911, and also to insurance committees, etc., in respect of income from certain funds.	Sec. 39 (5) & 40.
Sch. A, No. V, Rule 7.	(k, 1) Deductions for repairs of lands and houses.	(r, 1) Relief in respect of tolls levied by burghs in Scotland and applied in the discharge of public burdens.	Sec. 35.
Treasury Concession.	(l, 1) Relief under Schedule A for abatements of rent on account of agricultural depression.	(s, 1) Relief in respect of fines received in consideration of any demise of lands on proof of their application as productive capital.	Sch. A, No. 1, Rule 1.
Sec. 55.	(m, 1) Relief in respect of colonial Income Tax.		
Sec. 59 (1).	(n, 1) Exemption to an unregistered Friendly Society whose total income does not exceed £160.		

Appendix No. 5.

HANDLED IN BY SIR THOMAS COLLINS.

Form No. 11.

INCOME TAX,

YEAR ENDING 5th APRIL, 1920.

N.B.—This form is intended for the use of INDIVIDUALS.

Returns of FIRMS, COMPANIES, &c., should be made on Form No. 1.

RETURN FOR ASSESSMENT UNDER SCHEDULE D.

In pursuance of the provisions of the Income Tax Act, you are hereby required to prepare a true and correct statement of your income, in the form on page 2 hereof, so far as it is applicable to your case, and to deliver it to me at my office, duly signed by you, within twenty-one days from this date. If, however, you elect to be assessed by the District Commissioners under a Letter, your Return should be sent to the Clerk to the Commissioners (whose address will be furnished by me or by the Surveyor of Taxes on application), or, if you elect to be assessed by the Special Commissioners, your Return should be sent to the Surveyor of Taxes, under cover marked "For Special Assessment."

Part I of the enclosed sheet of "Notes, Explanations and Instructions," has been drawn up in order to assist you in filling up page 2 of this form; Part II of that sheet explains the various Allowances that may be claimed on pages 3 and 4 of this form, in respect of Exemption, Abatement, Reduction of Rate of Tax, Life Assurance, Wife, Children, and Dependent Relatives incapacitated by old age or infirmity, and the special relief granted to a Widower; Part III contains directions for filling up a claim for Exemption, Abatement, or Reduction of Rate of Tax, on page 3 of this form, to which your attention is particularly directed. If you desire further information on any point, you should apply to the Surveyor of Taxes at

Dated this day of 19

Assessor of Taxes.

Office.

This form comprises the following Sections:—

- Section A. Declaration that a full Return has been made elsewhere for the year.
- " B. Declaration by a person not domiciled in the United Kingdom, or by a British subject not ordinarily resident in the United Kingdom.
- " C. Statement of Untaxed Income for Assessment under Schedule D.
- " D. Claim for Exemption, Abatement, or Reduction of Rate of Tax.
- " E. Claim for allowance in respect of Life Assurance Premiums.
- " F. Claim for relief in respect of Wife, living with her husband.
- " G. Claim for the relief allowed to a Widower.
- " H. Claim for relief in respect of Children.
- " J. Claim for relief in respect of Dependent Relatives incapacitated by old age or infirmity.

You should complete Section C; and also Sections D to J, so far as they are applicable.

Partner in a Firm is required to complete Section C, but only as regards any personal untaxed income not included in the joint Return of profits made on behalf of the Firm itself. He should in addition complete Sections D to J so far as they are applicable.

Married Women. The income of a Married Woman living with her husband is deemed by the Income Tax Acts to be his income, and should be included in any statement rendered by him for Income Tax purposes. Exceptions to this rule are explained in Notes 10 and 22 of the accompanying sheet of "Notes, Explanations and Instructions."

Persons not domiciled in the United Kingdom, or persons who are British subjects but not ordinarily resident in the United Kingdom, should fill up Section B only, and return the form to the Assessor, when the appropriate form of Return will be issued.

If a full Return for the above year has already been made elsewhere, only Section A need be completed.

The penalty for neglecting to make a Return, or for making an untrue or incorrect Return, is a sum not exceeding £50 and treble the tax chargeable, if paid before the District Commissioners, or £50 if used for in any Court. A penalty not exceeding £5 may be imposed for neglecting to make a Return, even though the person proceeded against may prove that he was not chargeable to Income Tax.

The penalty for fraudulently concealing or entirely declaring any particulars in making any claim for exemption, abatement or relief is £50 and treble the tax chargeable in respect of all the sources of income.

If any person, for the purpose of obtaining any allowance, reduction, rebate or repayment in respect of Income Tax, either for himself or for any other person, or in any Return made with reference to Income Tax, knowingly makes any false statement or false representation, he is liable on summary conviction to imprisonment for a term not exceeding six months with hard labour.

Section A. DECLARATION THAT A FULL RETURN HAS BEEN MADE ELSEWHERE FOR THE YEAR.

I have already made a Return of the whole of my income chargeable under Schedule D for the year ending 5th April, 1920, from
(State precise address)

If a Partner in a Firm, state full description of Firm

If an Employee, state name of Employer

Signature.

Date.

Address.

Section B. DECLARATION TO BE MADE BY A PERSON NOT DOMICILED IN THE UNITED KINGDOM, OR BY A BRITISH SUBJECT NOT ORDINARILY RESIDENT IN THE UNITED KINGDOM.

DECLARE THAT * I am not domiciled in the United Kingdom.

* I am a British subject, but that I am not ordinarily resident in the United Kingdom.

Given under my hand this day of 19

Signature.

(* Strikes out portion not applicable.)

Private Residence.

STATEMENT OF UNTAXED INCOME FOR ASSESSMENT UNDER SCHEDULE D.

In cases where there is no untaxed income to be returned for assessment, the word "None" should be entered in the money column, and the General Declaration should be signed.

Attention is directed to the note on page 1, as to the liability of a husband to include the income of his wife.

Section C.

Reference to column headed of "Notes, Explanation, and Comments."

DESCRIPTION OF INCOME

AMOUNT

INSERT THE AVERAGE PROFITS
See Note 4.

*Insert address of all places of business included in the Return of profits

INSERT THE AVERAGE PROFITS
See Note 4.

INSERT PROFITS OF THE PRECEDING YEAR, viz. THE YEAR ENDED 31st APRIL 1914.
See Note 5.

Insert amount arising in year of assessment, whether received or to be received in United Kingdom OR NOT.
See Note 6.

Insert amount arising on average of the 3 preceding years, whether received in United Kingdom OR NOT.
See Note 7 (a).

Insert amount received in United Kingdom on average of the 3 preceding years.
See Note 7 (a).

Insert amount arising in the year of assessment; but when amount is fluctuating and uncertain, insert average profits.
See Note 3.

*State how computed, including average, if any, taken.

See Note 8.

FROM TRADE, PROFESSION, EMPLOYMENT, or VOCATION, viz.:-

The Trade, Profession, or Business of.....

carried on by.....

at.....

The Employment or Vocation of.....

carried on by..... at.....

FROM INTEREST, ANNUITIES, ANNUAL PAYMENTS AND DIVIDENDS, NOT TAXED BY DEDUCTION, AND FROM DISCOUNTS, viz.:-

Interest on Banking Accounts or Deposits

Dividends or Interest on War Loan Stock, National War Bonds and Exchequer Bonds (where not taxed by deduction)

Small Dividends on other Government Securities and on Corporation Securities (where not taxed by deduction)

Dividends on Stocks purchased and held through the Post Office Savings Bank

Discounts (including Discount or Profit on maturity, sale or conversion of Treasury Bills or War Expenditure Certificates)

Other Interest, Annuities, Annual Payments and Dividends, not taxed by deduction (the particular source to be stated), viz.:-

FROM COLONIAL AND FOREIGN SECURITIES (where United Kingdom

Income Tax is not deducted on payment thereof), viz.:-

Interest arising from Securities of Indian or Colonial Governments, Corporations or Companies...

Interest arising from Securities of Foreign Governments, Corporations or Companies

Other Interest, Annuities, or Annual Payments, charged on any property out of the United Kingdom

FROM COLONIAL AND FOREIGN POSSESSIONS, viz.:-

Incomes arising from Stocks or Shares (where United Kingdom Income Tax is not deducted on payment thereof), or from Rents:-

In any of His Majesty's Dominions out of the United Kingdom

In Foreign Countries

Incomes arising from any other Possessions out of the United Kingdom (the particular source to be stated), viz.:-

FROM PROPERTY OR PROFITS NOT FALLING UNDER ANY OF THE FOREGOING HEADS and not charged under any other Schedule, viz.:-

Letting Furnished House at.....

Other Sources (the particular source to be stated), viz.:-

the amount whereof is computed according to §.....

TOTAL

Less, in the case of a Trade, Amount claimed for Wear and Tear of Machinery and Plant, which should not be deducted in arriving at the above figures

NET TOTAL

General Declaration.

I declare that in the foregoing statement I have given a full and true Return of the whole of the income chargeable upon me under Schedule D, estimated to the best of my judgment and belief, according to the provisions of the Income Tax Act, 1914.

Tax Acts. I desire to be assessed by the £.....

Given under my hand this..... day of..... 19.....

Signature

Business Address

Private Residence

Note.—A woman may make after her signature whether Married, Widowed or Single.

STATE WHETHER YOU MAKE THE RETURN—

1. On your own behalf; or
2. As Trustee, Agent, Receiver, Factor, etc., and for whom.

See Note 9.

See Note 10.

Section
E.**CLAIM FOR ALLOWANCE in respect of LIFE ASSURANCE PREMIUMS
or PAYMENTS FOR DEFERRED ANNUITIES.** (See Note 1.)

(See Note 1.5.)

[illegible]

I claim an allowance in respect of the foregoing amount of premiums, and I declare that I have not deducted the amount of such premiums in arriving at the profits or gains entered on this form, and that I have not claimed an allowance for the premiums for any other assessment upon me.

[*If no CAPITAL Sum is payable at Death, particulars of the Policy should be stated.]

Claimant's Signature

Section
F.**CLAIM FOR RELIEF in respect of WIFE, LIVING WITH HER HUSBAND**

(See Note 15.)

Relief is only allowable where the total income does not exceed £800.

Full Christian Names of Wife...

I claim an allowance in respect of my wife, named above, who is living with me.

Claimant's Signature

Section
G.

CLAIM FOR THE RELIEF allowed to a WIDOWER.

(See Note 17.)

Relief is only allowable where the total income does not exceed £800.

Name of female relative in respect of whom relief is claimed		Relationship to claimant, or to his deceased wife
Surname	Full Christian Name	
	•	

I declare that I am a widower, that the above-named is a relative of mine or of my deceased wife, and that she resident with me for the purpose of having the charge and care of a child or children in respect of whom the allowance for children, including adopted children, is claimed.

Claimant's Signature

Section
H.**CLAIM FOR RELIEF in respect of CHILDREN, INCLUDING STEP-CHILDREN**

(See Note 18.)

For the year 1919-20, allowance can only be made in respect of children born after 6th April, 1908, but before 7th April, 1910. Where the total income does not exceed £800 the allowance is made in respect of each such child; where the income exceeds £800 but does not exceed £1,000 the allowance is restricted as explained in Note 18. No relief is granted where the income exceeds £1,000.

[illegible]

I declare that the above-named children (in number) are my children, or my step-children, that the
were living on the 8th April, 1919, and that the above particulars are true and correct.

[N.B.—See directions in Note 18 as to ADOPTED Children.]

Claimant's Signature

Section
J.

**CLAIM FOR RELIEF in respect of DEPENDENT RELATIVES
INCAPACITATED BY OLD AGE OR INFIRMITY.**

(See Note 1B.)

Relief is only allowable where the income does not exceed £800.

[illegible]

I declare that I maintain the above-named persons at my own expense, that they are relatives of me or of my wife and are incapacitated by old age or infirmity from maintaining themselves, that the income of each such person from all sources does not exceed \$25 a year, and that the above particulars are true and correct.

 Plaintiff's Signature

No. 11-1.

Enclosure to Appendix No. 5.

Part
I.NOTES, EXPLANATIONS AND INSTRUCTIONS IN REGARD TO
THE RETURN OF INCOME FOR ASSESSMENT, ON PAGE 2 OF FORM NO. 11.(1). Persons liable to Assessment to Income Tax.

All persons resident in the United Kingdom, whether British subjects or not, are liable to assessment; and also all persons not resident within the United Kingdom (whether British subjects or not) in so far as they derive income from property, trade, profession, employment or vocation in the United Kingdom.

(2). Income to be returned on page 2 of Form No. 11.

The income to be returned on page 2 is all income that is assessable under Schedule D. The principal heads under which such income may fall are enumerated on that page. The return should be confined to income from which United Kingdom Income Tax has not already been deducted. When, however, Exemption, Abatement, Reduction of Rate of Tax, or other relief is claimed, the total income from all sources (whether taxed or not) must be entered on page 3.

(3). Income not to be entered on page 2 of Form No. 11.

Income falling under any of the following heads should not be entered on page 2, viz.:-

(i.) Income arising from the ownership of land, houses, or buildings within the United Kingdom, or from the occupation of land within the United Kingdom.

(ii.) Income, assessable under Schedule E, derived from any office or employment in the public service, or under any public corporation, or any company or society, or from any annuity or pension payable out of the public revenue of the United Kingdom.

(iii.) Wages of weekly Wage-earners employed by way of Manual labour.

[“Weekly Wage-earner” here means a person who receives wages which are calculated by reference to the hour, day, week, or any period less than a month, or which are paid daily, weekly, or at any less intervals than a month. Clerks, typists, draftsmen and persons employed in any other similar capacity are not regarded as employed by way of manual labour.]

(iv.) Income arising from the profits, rents, or annual value of quarries, mines, iron works, gas works, salt springs or wells, fishings, rights of markets and fairs, tolls, bridges, ferries, and other concerns of the like nature, within the United Kingdom.

[Special forms are provided for the return of income falling under these heads, and will be supplied on application to the Assessor or Surveyor of Taxes.]

(v.) Income from which United Kingdom Income Tax has been deducted.

The following are the classes of income from which the tax is commonly deducted before the income reaches the recipient, viz.: income from British Government securities issued prior to 1916, from loans to Corporations or to Colonial and Foreign Governments, from interest on mortgages of property in the United Kingdom, and from dividends or interest paid out of the profits of Companies carrying on business in the United Kingdom. See, *Assessor, Note (5) overleaf.*

(4). Profits of Trade, Profession, Employment, or Vocation.

Where income is derived from the exercise of any business, profession, or employment, other than those mentioned in paragraphs (ii.), (iii.) and (iv.) of Note (3) above, attention is particularly directed to the fact that the amount of income to be returned for assessment for any given year is neither the actual income of that year, nor the income which a person expects to make in that year, but is a “statutory” income, of which the amount is to be computed from actual ascertained figures. These are the figures shown by the accounts of the business or profession for the three years immediately preceding the year for which a return has to be made, or the earnings of the employment for a similar period, and the computation from them is to be made according to prescribed rules, of which the following is an abstract:-

Rules for Calculating Profits.

The tax extends to the profits of all trades, &c., carried on in the United Kingdom by any person whatsoever, whether a British subject or not, and wheresoever residing; and also to the profits of trades, &c., carried on elsewhere than in the United Kingdom, if carried on by persons residing in the United Kingdom.

Average.—The amount of profits is to be computed on an Average of the Three Preceding Years, ending either on the date, prior to the 5th day of April, 1919, to which the annual accounts have been usually made up, or on the 5th day of April, 1919; Or, if the trade, &c., has been commenced within the three preceding years, on an average from the period of commencement;

Or, if commenced within the year of assessment, the profits are to be computed according to the best of your knowledge and belief, and the basis on which the amount has been computed should be stated.

In computing the profits upon which the average is to be taken—

Deductions are allowed—

For repairs of premises occupied for the purposes of the trade, &c., and for the supply or repair of implements, utensils, or articles employed, not exceeding the sum usually expended for such purposes according to the average of the three years preceding;

debts proved to be bad; also for doubtful debts to the extent that they are respectively estimated to be bad.

the rent of premises used solely for the purposes of the business, and not as a place of residence.

a proportion, not exceeding two-thirds, of the rent of any dwelling-house partly used for the purposes of the business.

the Annual Value of any premises within the United Kingdom occupied by the Owner solely for the purposes of the business, and not as a place of residence—less ground rent, if any. (The Annual Value to be taken for this purpose is the amount on which tax has been paid under Schedule A, except in the case of Mills, Factories, or other similar premises, in respect of which the Annual Value to be taken is the amount of the Schedule A assessment before reduction by the statutory allowance for repairs and maintenance.)

a proportion, not exceeding two-thirds, of the Annual Value (according to the amount on which duty has been paid under Schedule A)—less ground rent, if any—of any dwelling-house within the United Kingdom occupied by the Owner and partly used for the purposes of the business.

any sum paid as Excess Profits Duty or Munitions Exchequer Payments—except any Excess Profits Duty chargeable by virtue only of the provisions of the Finance Act, 1918, relating to profits arising from the sale of trading stock otherwise than in the ordinary course of trade.

(in the case of a trade) so much of any amount expended in replacing obsolete plant or machinery as is equal to the cost of the plant or machinery replaced, after deducting from such cost (a) the total of any allowances already made for the wear and tear of such plant or machinery and (b) any sum realised by its sale.

any other disbursements or expenses wholly and exclusively laid out for the purposes of the trade, &c.

Where a clergyman or minister pays rent for a dwelling-house, or is in the occupation of a dwelling-house but pays no rent therefor, and uses any part of such house mainly and substantially for the purposes of his duty as a clergyman or minister, a corresponding part of the rent or Annual Value of the house, not exceeding one-eighth, only, may be claimed as an expense. Any amount so claimed should be specifically shown on page 2 of the Form No. 11.

No deductions are allowed—

For any interest on capital, for any annual interest, annuity, or other annual payment, payable out of the profits or gains, or for any royalty or other sum paid in respect of the user of a patent. (The tax on such interest, patent royalty, or other annual payment should be deducted from the person to whom the payment is made.)

any sums paid as salaries to proprietors, or for drawings by proprietors.

any sums invested or employed as capital in the trade, &c., or in respect of capital withdrawn therefrom.

any sums expended in improvement of premises or written off for depreciation of land, buildings, or leases.

any loss not connected with, or arising out of the trade, &c.

any expenses of maintenance of the persons assessable, their families, or establishments; or for any sum expended for any other domestic or private purpose.

any loss recoverable under an insurance or contract of indemnity.

any sum paid as United Kingdom Income Tax on profits or gains, or on the Annual Value of trade premises. (Colonial or Foreign Income Tax paid in respect of the profits in the place where they arise may, however, be deducted.)

wear and tear of machinery or plant, or for any premium for life assurance; but allowances may be claimed in respect of these items; see pages 2 and 4 of the Form No. 11, and Notes (8) and (15).

Page 2

(5). Profits from Interest, Annuities, Annual Payments and Dividends, not taxed by deduction, and from Discounts.

Under this head fall all untaxed interest, annuities, dividends and discounts received or credited—including interest on banking accounts or deposits, share interest or deposit interest from Co-operative Societies (but not dividends on purchases), discount or profit on maturity, sale or conversion of Treasury Bills or War Expenditure Certificates, and any dividends or interest on Government and Corporation securities from which tax is not deducted at the time of payment.

Among such dividends or interest on Government and Corporation securities from which tax is not deducted are the following:—

- (i.) Dividends or interest, of any amount, on any of the following securities, where registered or inscribed at the Bank of England or the Bank of Ireland or left in the custody of the Post Office (*i.e.*, in all cases except where the securities are held in the form of bearer bonds)—
- | | |
|---------------------------------|---|
| 5 per cent. War Loan Stock; | 5 per cent. Exchequer Bonds, 1919, 1920, 1921 and 1922; |
| 5 per cent. National War Bonds; | 6 per cent. Exchequer Bonds, 1920. |

[Where money has been borrowed from a bank and applied in the purchase of these securities, the interest paid to the bank on the amount so borrowed may be set off against the dividends or interest derived from the holding, so that Income Tax becomes payable on the net income only. Where such set-off is claimed, the taxpayer must show specifically on page 2 of the Form No. 11 the gross amount of the dividends or interest, and the amount of the bank interest to be deducted therefrom.]

A similar set-off may be claimed for any interest (other than yearly interest, from which the taxpayer is entitled to deduct Income Tax on payment) on advances from a member of a stock exchange or from a discount house.]

- (ii.) Dividends not exceeding £5 per annum from any Government or Corporation securities inscribed at the Bank of England or the Bank of Ireland.
- (iii.) All dividends from stocks purchased and held through the Post Office Savings Bank.
- (iv.) Dividends on $4\frac{1}{2}$ per cent. War Loan Stock registered at the Post Office, where the holding does not exceed £300.

[NOTE.—Dividends or interest on 4 per cent. ("tax compounded") War Loan Stock and 4 per cent. ("tax compounded") National War Bonds should not be included in the Return for Assessment on page 2 of the Form No. 11, but must be included in any statement of Total Income on page 3. (See Note 22c.)]

The accumulated interest on Post Office "War Savings Certificates" is exempted from Income Tax by special statutory provision, and should not be included in any statement of income for Income Tax purposes.

Dividends or interest on the securities mentioned under head (i.) above, and discount or profit on maturity, sale or conversion of Treasury Bills, or of War Expenditure Certificates, issued on or after 12th August, 1916, are not liable to Income Tax WHERE THE SECURITIES ARE IN THE BENEFICIAL OWNERSHIP OF PERSONS WHO ARE NOT ORDINARILY RESIDENT IN THE UNITED KINGDOM.]

(6). Profits from Colonial and Foreign Securities.

The Return is to be made on the full amount of the income arising in the year of assessment, whether the income has been or will be received in the United Kingdom or not. Any portion received through an agent or banker in the United Kingdom who deducts United Kingdom Income Tax on payment of the income should, however, be excluded from the Return on page 2.

The following deductions are allowed: (i.) any sum paid in respect of Income Tax in the place where the income has arisen; (ii.) any annual interest, or any annuity or other annual payment payable out of the income to a person not resident in the United Kingdom; (iii.) the same deductions and allowances in the case of income not received in the United Kingdom as if it had been so received.

(7). Profits from Colonial and Foreign Possessions:—(a). Income arising from Stocks, Shares, or Rents.

The Return is to be made on the full amount of the income arising on the average of the three preceding years, whether the income has been or will be received in the United Kingdom or not. Any portion received through an agent or banker in the United Kingdom who deducts United Kingdom Income Tax on payment of the income should, however, be excluded from the Return on page 2.

Deductions.—The same deductions are allowable as in the case of Colonial and Foreign Securities—see Note (6) above.

(b). Income arising from any other Possessions out of the United Kingdom.

The Return is to be made on the full amount received in the United Kingdom on the average of the three preceding years.

(8). Wear and Tear, etc., of Machinery and Plant used for the purposes of a Trade.

Where the machinery or plant belongs to the trader, or is so let to him that he is bound to maintain and deliver it over in good condition, an allowance may be claimed for diminished value of the machinery or plant by reason of wear and tear, or by reason of any machinery or plant being temporarily out of use at any time during the year through circumstances attributable directly or indirectly to the present war.

Where rent is paid for the use of machinery or plant, and the burden of maintaining and restoring it falls upon the Lessor, no deduction for wear and tear, etc., is allowable to the Lessee.

[Where an application is made to the Commissioners of Inland Revenue for the alteration of the amount of any deduction for wear and tear, the Commissioners, unless they are of opinion that the application is frivolous or vexatious, will refer the case to the Board of Referees, and those Referees, if they are satisfied that the application is made by or on behalf of any considerable number of persons engaged in any class of trade or business, will determine the deduction to be allowed. Any application under this provision should be addressed to—"The Secretary (Taxes), Inland Revenue, Somerset House, London, W.C. 2."]

(9). Mode of Assessment.

Persons assessable under Schedule D will be assessed in the usual course by the Commissioners of their District, unless they elect to be assessed under a Letter or by the Special Commissioners.

Persons who desire to select one of these two alternatives should complete the return and give notice of their election in the manner provided for on page 2 of the Form No. 11, and should also observe the directions on page 1 of that form.

(10). Income of Married Women.

The income of a married woman living with her husband is, by the Income Tax Acts, deemed to be his income; any profits from business, profession, &c., or untaxed income belonging to her, are required to be returned for assessment on page 2 by her husband, unless an application for separate assessment has been made, either by the husband or wife, within six months before 31st May, 1919. Such application must be made in the manner and form prescribed by the Commissioners of Inland Revenue. Fuller particulars can be obtained from the Surveyor of Taxes. THE TOTAL AMOUNT OF ANY EXEMPTION, ABATEMENT OR RELIEF GIVEN TO HUSBAND AND WIFE WILL NOT EXCEED THAT WHICH WOULD BE GIVEN IF NO SUCH APPLICATION WERE MADE.

[NOTE.—The Form No. 11 is not applicable to any person who is not domiciled in the United Kingdom, or who, being a British subject, is not ordinarily resident in the United Kingdom. Such persons should fill up Section B only (on page 1) and return the form to the Assessor or Surveyor of Taxes, when the appropriate form of Return will be issued.]

Part
II.NOTES, EXPLANATIONS AND INSTRUCTIONS IN REGARD TO THE
ALLOWANCES AND RELIEFS
THAT MAY BE CLAIMED.

Sections of the accompanying form that are required to be filled up in order to claim the various allowances.

(13). **Total Exemption** is allowed when the income from all sources does not exceed £130.

(14). **Abatements** are allowed as follows:—

£130	when the income from all sources exceeds £130 but does not exceed £400
£100	" " " " " £400 " " " £600
£70	" " " " " £600 " " " £700

(15). When the income from all sources does not exceed £2,500, **Reduced Rates of Tax** are allowed in respect of "Earned" income; and if the income from all sources does not exceed £2,000, reduced rates are also allowed in respect of any "Unearned" income.

[Where reduction of rate of tax is due on unearned income already taxed by deduction at the full rate—e.g., dividends, mortgage interest, &c.—the relief due will be allowed as far as possible as a set-off against the tax chargeable on the unearned income.

Where the relief is due in respect of property, the assessment on the property will be at the appropriate rate or rates of tax. An owner may, if he desires, make application for the tax on any property to be recovered from him instead of from his tenant (without prejudice, however, to the right of ultimate recovery upon the property). Any such application should be made before the 31st July in the first year for which it is intended to take effect, upon a form to be obtained for the purpose from the Surveyor of Taxes.]

(16). **Soldiers, Sailors, Airmen, Seamen, &c.**—In the case of (a) a person who has served during the year as a member of any of the naval or military forces of the Crown, or of the Air Force, or in service of a naval or military character in connection with the present war for which payment is made out of money provided by Parliament, or in any work abroad of the British Red Cross Society or the St. John Ambulance Association, or any other body with similar objects, or (b) a person serving during the year for not less than 3 months as master or a member of the crew of any ship or fishing boat—total exemption may be claimed when the income from all sources does not exceed £160, or an abatement of £160 when the income does not exceed £300. Special rates of tax are applicable to the pay in connection with any such service.

(17). An allowance may be claimed in respect of Premiums for **Life Assurance** or payments for **Deferred Annuities**.

The allowance is authorised for annual premiums, and for additional premiums (whether annual or not) to cover risks arising from war or war service abroad, paid by the claimant on his own life or on that of his wife, subject to the following limitations:—

(a) The total amount of premiums to be allowed (exclusive of any additional premium paid to cover risks arising from war or war service abroad) must not in any case exceed one-sixth of the claimant's net income chargeable with income tax for the year of assessment (or, during the war, for the year ended 5th April, 1914, if the income chargeable for that year was greater).

(b) In the case of any policy securing a CAPITAL sum on death (whether in conjunction with any other benefit or not) the amount of premium to be allowed (exclusive of any premium paid to cover risks arising from war or war service abroad) must not exceed 7 per cent. of that CAPITAL sum, exclusive of any additional benefit by way of bonus or otherwise.

(c) In the case of policies or contracts which do not secure a CAPITAL sum on death, the total amount of premiums to be allowed (exclusive of any premium paid to cover risks arising from war or war service abroad) must not exceed £100, and the policies must have been taken out not later than 22nd June, 1916. In the case of such policies or contracts effected after that date, no relief is to be allowed, except where they were made in connection with certain superannuation or pension schemes.

(d) In the case of a deferred assurance made after 22nd June, 1916, no relief is to be allowed in respect of premiums payable during the period of deferment (except where the assurance was made in connection with certain superannuation or pension schemes).

(e) In the case of any assurances or contracts made after 22nd June, 1916, the relief allowable is not to be given at a greater rate than 5% in the £.

The premiums are not admissible as a deduction in arriving at the total income for the purpose of a claim for Exemption, Abatement, or other relief.

The receipts for the premiums, or the policies, should, if required, be produced to the Surveyor of Taxes.

(18). When the income from all sources does not exceed £800, relief from tax upon £25 may be claimed in respect of the taxpayer's **Wife**, if living with him.

(19). When the income from all sources does not exceed £800, relief from tax upon £26 may be claimed by a **Widower** who has a female relative of his, or of his deceased wife, resident with him for the purpose of having the charge and care of any child or adopted child of his in respect of whom the allowance for Children and Adopted Children is given. [The expression "relative" here includes any person of whom the taxpayer had the custody and whom he maintained at his own expense while that person was under the age of 16 years.]

(20). When the income from all sources does not exceed £800 (a) relief from tax upon £25 may be claimed in respect of each **Child** or step-child living and under the age of 16 years on 6th April, 1918, and (b) a similar relief may be claimed in respect of each **Adopted Child** of like age of whom the taxpayer has the custody and whom he maintains at his own expense, provided that no other individual is entitled to relief from tax in respect of the child, or if any other individual is entitled to such relief that that other individual has relinquished his claim thereto.

When the income from all sources exceeds £800, but does not exceed £1,000, and the taxpayer has three or more such children, including adopted children, a similar relief may be claimed in respect of each such child above the number of two.

(21). When the income from all sources does not exceed £800, relief from tax upon £26 may be claimed in respect of any person whom the taxpayer maintains at his own expense, being a relative of his or of his wife who is **incapacitated by old age or infirmity** from maintaining himself or herself and whose income from all sources does not exceed £25 a year. [The expression "relative" here includes any person of whom the taxpayer had the custody and whom he maintained at his own expense while that person was under the age of 16 years.]

(22). Where owing to the fact that the total income of a person exceeds a certain limit (a) he ceases to be entitled to any exemption or abatement, or (b) he becomes entitled to a reduced exemption or abatement, or (c) he is liable to pay tax at a higher rate, an allowance will be made, if necessary, on completion of the appropriate Sections of pages 3 and 4 of the Form No. 11, so that the total tax payable does not exceed the sum of the following amounts:—

- the amount of TAX which would have been payable if his total income had reached, but had not exceeded that limit;
- the amount by which his total INCOME exceeds that limit.

(23). **Persons resident abroad.** No exemption, abatement or relief which depends wholly or partially on the income from all sources is allowable unless the individual is resident in the United Kingdom, except in the case of a person who is or has been employed in the service of the Crown, or who is employed in the service of any missionary society abroad or of any of the Native States under the protectorate of the British Crown, or who is resident in the Isle of Man or Channel Islands, or who satisfies the Commissioners of Inland Revenue that he is resident abroad for the sake of health, or in the case of a widow who is in receipt of a pension chargeable with Income Tax and granted to her in consideration of the employment of her late husband in the service of the Crown.

SECTION D

[The directions given in Part III. of these Notes should be observed.]

SECTION E

SECTION F

SECTION G

Particulars of the taxpayer's **Children** and step-children should be entered in **SECTION H** of Form No. 11. Particulars of **Adopted Children** should be entered in the special form, "No. 11-2A," which can be obtained from the Surveyor of Taxes if not already enclosed herewith.

SECTION J

Page 4.

**Part
III.****DIRECTIONS FOR FILLING UP
THE CLAIM FOR EXEMPTION, ABATEMENT, OR REDUCTION OF RATE OF TAX,
ON PAGE 3 OF FORM No. 11.**

(See also Notes 11 to 14).

(22). In order to obtain Exemption, Abatement, or Reduction of Rate of tax, the claimant must fill up page 3 (as well as page 2) of Form No. 11, setting forth EVERY source of his income, including, if he is married, that of his wife (see Note 22 below), with the amount derived from each source, whether returned for assessment elsewhere or not, whether tax has already been paid on the income or not, and notwithstanding that the income may have been received "free of tax" or "tax compounded."

The object of this requirement is to ascertain whether the TOTAL income falls within the prescribed limits of Exemption, Abatement, or other relief. Taxed or "tax-compounded" income will not be assessed upon the recipient by reason of its being entered on page 3.

(a). Income from Trade, Profession, Employment, or Vocation.

(i.) An individual who has made a return on page 2 of Form No. 11 on his own behalf should carry to page 3 the income from this source as entered on page 2, less the deduction (if any) for Wear and Tear.

(ii.) A partner in a Firm should enter on page 3 his individual share of the partnership profits, which should in normal cases be calculated as follows:—From the average profits of the Firm returned for assessment, deduct the amount (if any) by which the annuities, interest on loans and mortgages, ground rents, patent royalties, and other annual charges (exclusive of interest on partners' capital) payable by the Firm for the current year, exceed any income of the Firm which is taxed at the source (such as taxed dividends or interest, rents, or annual value of business premises). The balance then remaining should be divided according to the terms of the partnership agreement as in force for the current year, and the individual partner's share of the balance, so calculated, is the amount to be entered on page 3.

When several partners desire to make claims, a separate form must be used by each. Application should be made to the Assessor or Surveyor of Taxes for any additional forms required.

(b). Income from any Public Office or any Employment not entered in space "a)."

Income from any Public Office or Employment is taxable under Schedule E; and the wages of weekly Wage-earners employed by way of Manual labour (see para. iii. of Note 3) are chargeable by way of Quarterly Assessment. Income under either of these heads should, however, be included in the statement of TOTAL income entered on page 3 of Form No. 11.

(c). Income from Property.

If any part of the total income arises from the ownership of land, tenements, or hereditaments, state the precise situation of each property, with the name of the occupier, and the rent or annual value, INCLUDING IN THE STATEMENT PARTICULARS OF ANY HOUSE, LAND, OR OTHER PROPERTY IN THE CLAIMANT'S OWN OCCUPATION BELONGING TO HIMSELF OR HIS WIFE. If ground rent, mortgage interest, or other annual charge is payable on any of the property, particulars thereof must be stated in space "No. 2" on page 3.

See also the last paragraph of Note 22 (c) below.

(d). Income from the Occupation of Land.

In the case of lands occupied wholly or mainly for husbandry, the income is to be reckoned at twice the rent or annual value (inclusive of tithe).

In the case of lands not so occupied the income is ordinarily to be reckoned at the single rent or annual value (inclusive of tithe).

(e). Income from Dividends, Interest, Annuities, Colonial and Foreign Securities and Possessions, and Miscellaneous Sources.

Where United Kingdom Income Tax has been deducted, the amount to be entered is the GROSS amount, and not the net amount received after deduction of the tax. Where United Kingdom Income Tax has been deducted from any dividend at a rate less than the full rate, by reason of the company from which the dividend was received having been granted relief in respect of Colonial Income Tax already paid, it should be so stated.

Dividends or interest received "free of tax," or "tax compounded," should be entered in part (i.) of this space and treated as if the amount actually received represented net income after deduction of tax, the GROSS amount corresponding to the net amount received being entered; thus, if the amount actually received "free of tax," or "tax compounded," were £10, and the current Income Tax rate were 6s. in the £, the amount to be entered would be £14 6s. 8d., this being the gross amount which, after deduction of tax, would leave a net income of £10.

Where any item of income from British Government war securities arises from "bearer bonds," or is received "tax compounded," it should be so stated.

A partner in a Firm should enter on page 3 his share of the amount by which any income of the Firm which is taxed at the source (such as taxed dividends or interest, rents, or annual value of business premises) exceeds the annuities, interest on loans and mortgages, ground rents, patent royalties, and other annual charges payable by the Firm. PARTICULARS of the income of the Firm which is taxed at the source should be given.

(f). Wife's Income.

The income of a married woman living with her husband is, by the Income Tax Acts, deemed to be his income, and if Exemption, Abatement, or other relief be claimed, the whole of her income from every source, whether taxed or not, is required to be included in the statement on page 3, unless an application for separate assessment has been made, either by the husband or wife, within six months before 6th May, 1919 (see Note 10)—in which case the necessary return of the aggregate income of husband and wife may be made by either the husband or the wife.

Where a wife earns an income by the exercise of her own personal labour, and the joint income from all sources of the husband and wife does not exceed £600, the income so earned by the wife will be treated as a separate income for the purpose of any claim for any exemption, abatement or relief.

(g). Charges on Income.

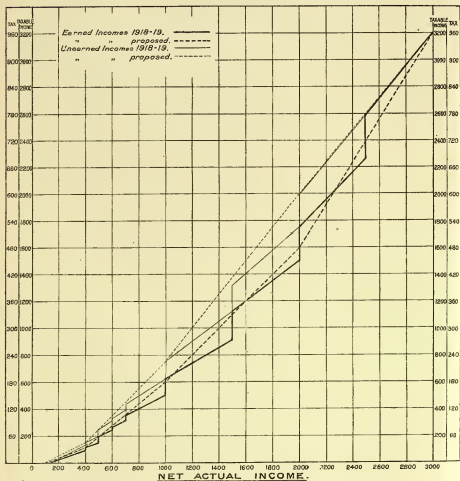
Particulars must be given in space "No. 2" on page 3 of all deductions from the income, such as GROUND RENT, INTEREST ON MORTGAGE OR LOAN (WHETHER SECURED ON PROPERTY, LIFE ASSURANCE POLICY, REVERSION OR OTHERWISE), ANNUITIES, PATENT ROYALTIES, OR OTHER ANNUAL PAYMENTS from which the taxpayer is entitled to deduct tax, but excluding Life Assurance Premiums, which should be entered in Section (E) on page 4. If there are no such deductions the word "None" should be inserted. It is not sufficient to leave the space blank.

A partner in a Firm should not enter in space "No. 2" any charges on the income of the Firm.



APPENDIX N^o 6.

Paper handed in by Mr William Schooling, 8th May, 1919.

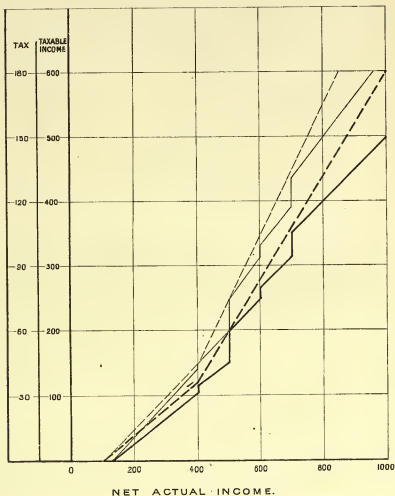


**DIAGRAM ILLUSTRATING MR SCHOOLING'S EVIDENCE
ON GRADUATION-SEE PARAGRAPHS 987 AND 1020.**

APPENDIX N^o 6.

49

Paper handed in by Mr William Schooling. 8th May. 1919.



ENLARGED VIEW OF LOWER PORTION OF
DIAGRAM.

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Appendix No. 7 (a).

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.HISTORICAL NOTE ON THE GRADUATION
OF THE INCOME TAX.

1. Graduation, as applied to Income Tax matters, is the name given to the principle of levying a heavier percentage upon large incomes than upon small incomes. Any system of Income Tax which departs from a universal flat rate of tax applicable to all incomes of whatever size is to the extent of that departure a graduated system, whether the method adopted is to charge a higher rate of tax upon the larger incomes or to grant exemptions or partial exemptions to the small ones.

2. Sir Charles Dilke, in his (unadopted) draft report submitted to the Select Committee of 1906, traced the principle of graduation as far back as the times of Ancient Greece, and found rudiments of it in the English medieval poll-taxes, which he described as the Income Tax of early times. Whether this is so or not, it is certain that Pitt's quasi-Income Tax of 1798, generally known as the "Triple Assessment," contained elements of graduation confined to the lower ranges of incomes, and that from the commencement all the early income taxes in this country were graduated so far as regards small incomes. The 1799 Act exempted incomes under £60, charged incomes between £60 and under £200 on a graduated scale of rates (all less than the full rate), and laid the full rate on incomes of £200 and over. In 1803 the full rate came into operation at £150. In 1806 the exemption limit was dropped to £80.

3. Although all these exemptions and partial exemptions of small incomes were really a form of graduation, they were not generally recognized to be so, but were regarded as innocuous even by the strongest opponents of that form of graduation which is achieved by charging a rate higher than the normal rate on the possessors of large incomes. Any suggestion of this kind of graduation met with the bitterest opposition from the beginning. To a member who had suggested something of this kind in 1806, Lord Henry Petty replied:—"Of all the dangerous doctrines that could possibly be held out in a legislative assembly, there was not one that could possibly be more mischievous in its tendency than that of equalizing all ranks of society by reducing the higher orders to a level with those of a different class, and depriving them of every comfort which they had a right to expect from their exalted situation." To give graduation at the lower end of the scale of incomes was admitted to be a practical necessity, and implied no moral blemish, but to suggest graduation at the upper end of the scale savoured of impiety.

4. In 1833 a motion to appoint a Select Committee to revise existing taxation and substitute a graduated property tax was defeated. Lord Brougham described the proposed system as a gross and revolting absurdity.

5. When the Income Tax was re-imposed by Sir Robert Peel in 1842, the exemption limit was raised to £150, the full rate coming into operation at once on that amount. Mr. Gladstone's Budget of 1853 gave large remissions of indirect taxation, and on this account he reduced the exemption limit to £100, but an abatement of tax was allowed to incomes of less than £150. He refused to consider a proposal for a graduated tax, arguing that past experience showed that the system of graduated taxation in Pitt's time was bad, and that he could not abolish in its favour a system which had worked well. Apparently his main reason for opposing the suggestion was that it "tended to communism." He repeated these reasons in opposing a proposal of graduation in 1860.

6. The Chairman of the Select Committee of 1861, Mr. Hubbard, opposed a graduated Income Tax as partaking of the "errors of Socialism," while J. S. Mill, in his evidence, also spoke of "the small amount

of justice that there is in the theory of a graduated Income Tax, which appears to me to be otherwise an entirely unjust mode of taxation, and, in fact, graduated robbery."

7. In 1863 an abatement of £60 was allowed from all incomes amounting to £100 but under £200, in substitution of the abatement of tax allowed in 1853. In 1872, having another substantial surplus, the Chancellor increased the abatement to £80 in order to counterbalance the pressure of indirect taxation on small incomes and the great increase in the cost of living. In 1876 exemption was allowed to incomes not exceeding £150, and an abatement of £120 to incomes exceeding £150 but not exceeding £400. These changes aroused a good deal of protest in the House of Commons on the part of those who regarded graduation with disfavour. One member said that "once they began to make arbitrary exemptions . . . they were laying, without perhaps intending it, the sure foundation of a graduated Income Tax." Another considered the proposal "a dangerous precedent of diminishing responsibility where it ought to exist, and in affording a specious argument in favour of the popular fallacy—progressive taxation." Mr. Hubbard also objected to the extension of the exemption and abatement limits—"the tax being levied for the benefit of the whole community, it should be levied upon everyone in the same proportion."

8. But the fierce moral indignation that the bare mention of graduation used to evoke had by this time largely died away beyond the possibility of revival. Even in 1863 Mr. Gladstone, who was against both differentiation and graduation, told Mr. Hubbard that he would no doubt be shocked to learn that in his (Gladstone's) opinion there was more to be said for graduation than for Hubbard's scheme of differentiation; and as time went on it became increasingly evident that the old unreasoning opposition could not be maintained in the face of modern and more scientific doctrines of taxation.

9. In the year 1890 Sir William Harcourt confessed his belief in the principle of graduation. "The rate at which the tax should be levied," he declared, "should be less in the case of persons with small incomes. . . . I believe that it is a sound principle of finance."

In 1894, when he had become Chancellor of the Exchequer, he was able to take a further step in the application of the principle to the lower ranges of income. He raised the exemption limit to £160, allowed an abatement of £160 to incomes not exceeding £400, and an abatement of £100 to incomes exceeding £400 but not exceeding £500. In submitting his proposals he said that he was in favour of the graduation of the tax on the higher incomes also—"In principle there is nothing to be said against such a system; indeed, there is every argument in its favour. The difficulties which lie in the way are of an administrative and practical nature, which, as yet, I have not been able to find means to overcome." It would appear that Sir Wm. Harcourt had examined a proposal for an additional tax on large incomes on the lines of the present Super-tax, but that his advisers had dissuaded him from adopting the plan on the ground of practical difficulty.

10. The abatement system was extended in 1898 by the allowance of an abatement of £150 to incomes not exceeding £200, an abatement of £120 to incomes not exceeding £300, and an abatement of £70 to incomes not exceeding £700.

11. Considerable pressure was exerted in 1901 for an extension of graduation by abatement to incomes of £1,000 and more, but Sir Wm. Harcourt thought that the limit had been reached for graduation by abatements. "What we have to look to is a higher scale for the richer people. That will be the tendency

15 & 39 Vict.,
c. 23, s. 12.

Harvard, Vol.
226, 3rd Series,
Oct. 1904.

Harvard, Vol.
229, 3rd Series
Oct. 1913.

Harvard, Vol.
229, 3rd Series,
Oct. 1907.

Harvard, Vol.
233, 3rd Series,
Oct. 1905.

Official Report,
Vol. 23, 4th
Series, Coln.
506-2.

81 & 82 Vict.,
c. 16, s. 1.

Official Report,
Vol. 26, 4th
Series, Coln.
525-4.

of the alteration of the income tax." While he agreed in theory with the principle of graduation in the rate, he thought the "practical difficulty made a graduated income tax" administratively impossible. He was afraid that it could be carried out only by relinquishing the system of taxation at the source, and adopting a system of personal return and direct assessment for the whole income.

12. From this time onward the feeling grew that the administrative difficulties that had seemed insuperable to Sir Wm. Harcourt were capable of solution if properly handled, and that graduation was not necessarily incompatible with the retention of taxation at the source. For example, in 1902 Mr. Trevelyan foreshadowed the future Super-tax when he proposed an additional graduated income tax on incomes exceeding £5,000, and in 1905 a scheme was put forward of a minimum tax payable at the source, and in addition a graduated tax based on personal returns of total income.

13. The Select Committee of 1906 (Sir Charles Dilke, Chairman), which was appointed solely to deal with the two questions of graduation and differentiation, took much evidence on the subject of graduation and found on the whole but little opposition to the principle. Sir H. Primrose expressed some fear that graduation with high rates might drive capital out of the country and doubted whether a Super-tax on incomes over £5,000 could be effectively levied. Sir T. Hewitt thought graduation could only be effected by degeneration, that is, by an extension of the present system of abatements, otherwise it would be unworkable. Mr. Gayler emphasized the difficulties of checking returns of total income where the incomes were large. The difficulties of administration and the objection to inquisitorial methods were emphasized, but the old note of bitter hostility to the mere idea of graduation had faded away.

14. Three of the unofficial witnesses, Messrs Harold Cox, Chiozza Money, and Snowden, brought forward schemes which included graduation in various degrees. Mr. Cox proposed graduation rising from 1d. in the £ at the bottom of the scale of income to the full rate at £1,500. He would have abolished the exemption limit altogether and gone down to zero: this doing away with exemption was coupled in his scheme with the abolition of indirect taxation which pressed heavily on the smallest incomes, and he admitted that the extension of Income Tax to all incomes however small would involve an enormous amount of labour. He thought it not worth while to carry the graduation beyond £1,500 a year, on the ground that both as regards number and amount the incomes over that limit were not worth special treatment.

Mr. Chiozza Money's scheme graduated incomes between £100 and £25,000 by successive stages, with separate scales for earned and for unearned incomes, which are printed on p. 64 of the Report. Abatements were to be swept away, their place being taken by graduation of the rate for earned incomes up to £1,000; unearned incomes were to pay at the normal rate up to £1,000 without graduation and without abatements; above £1,000 both earned and unearned incomes were graduated up to a limit of £25,000 above which all income paid on twice the normal rate. Deduction at the source would take place at the normal rate, and the additional liability under the scale would be assessed directly upon the taxpayer after receipt of a statement of his income from all sources.

Mr. Snowden proposed to extend the abatement system from £700 to the £1,000 limit, and to charge an additional tax on incomes above £5,000. He explained that he would begin the Super-tax at £5,000, because by that means the initial difficulties of any such plan would be lessened; afterwards, when the scheme was on its feet, the Super-tax could be gradually worked down the scale of incomes.

15. The Committee in their Report noted the fact that graduation up to £700 was already in force by means of the system of abatements, and considered the practicability of the extension of the principle. They decided that graduation by abatements might be carried up to £1,500 "or even more," but that it could not be carried very far, mainly on account of the number of repayment claims it would necessitate. They were convinced that direct personal assessment for the whole tax, involving the abolition of taxation at the source, was not practicable in the sense of being expedient or desirable. But they were of opinion that a Super-tax on the larger incomes, i.e., a second Income Tax distinct from and supplementary to the existing tax, to be assessed direct upon the taxpayer on a statement of his income from all sources, was practicable, though it was not without disadvantages and difficulties.

(The full text of the Committee's Report on this part of their subject is given as an Enclosure.)

16. These recommendations of the Committee of 1906 were not immediately translated into law. Differentiation between the rates on earned and unearned incomes was carried out in 1907 on the lines laid down by the Committee. This having been accomplished, graduation of the larger incomes followed in 1909 in the form, approved by the Committee, of a Super-tax on incomes over £5,000, an additional tax of 6d. in the £ being imposed by direct assessment on the amount by which the income exceeded £5,000. The extension of the system of abatements which the Committee had reported upon favourably was not adopted, but a new step was introduced into the rates on earned incomes, incomes of that class paying 9d. up to a total income limit of £2,000, 1s. up to £3,000, and the full rate above that amount. The position after the 1909-10 Act was, therefore, that there was graduation by exemption and abatements of all incomes not exceeding £700, graduation by rate in the case of earned incomes only up to £3,000, no graduation between £3,000 and £5,000, and finally graduation by Super-tax on incomes above £5,000.

17. This position continued until 1914 without change, but the first Finance Act of that year, the last Finance Act passed before the outbreak of war, carried the principles of graduation very much further. Herbert's graduation had been almost entirely confined to the incomes at the two extremes of the scale; now the middle incomes were dealt with, though only in a partial fashion. The rate on earned incomes rose by five steps instead of three to the maximum rate, which was reached above £2,500; unearned incomes went by three steps to the maximum rate which was charged on incomes over £500. The Super-tax limit was reduced from £5,000 to £3,000, and the Super-tax, instead of being charged at a uniform flat rate of 6d., was charged at seven rates rising from 6d. to 1s. 6d. in the £.

18. The total exemption limit was reduced in 1915 from £100 to £130, and at the same time the abatements on incomes not exceeding £500 were decreased, but no new improvement was made in the general graduated scale of rates.* The weak point in the system at this time was in the scale for unearned incomes, there being no increase in the unearned rate between £500 and £3,000, the point above which the Super-tax began to apply. For example, an unearned income of £701 paid ordinary Income Tax at the highest possible rate without any abatement. When the normal rate was raised from 3s. to 5s. in the year 1916, it was recognized that to apply the full 5s. rate on an income so low in the scale as £701 would have been an act of great severity, so two new degrees were made in the unearned scale, the full rate of 5s. not applying until the £2,000 mark was passed.

19. There was no further change in 1917, nor, except in the rates themselves, in 1918—there being still six rates for earned incomes rising to the full 6s. rate when the total income exceeded £2,500, and five rates for unearned incomes rising to the full 6s. rate when the total income exceeded £2,000. But the Finance Act of 1918 made the graduation more complete by

* Special rates on the pay of soldiers and sailors, etc., were granted in 1915 and extended in 1916 and 1917, but these are of a temporary character and do not affect the general development of graduation as applied to ordinary incomes.

bringing down the limit above which Super-tax becomes payable to £2,500, and by levying the Super-tax on the excess of the income over £2,500 on a scale gradually ascending until the maximum rate of 4s. 6d. is applied only to the excess of the income over £10,000.

20. The results of the present system of graduation (a) by abatement, (b) by a scale of Income Tax rates, and (c) by Super-tax, is shown in the Tables in the Memorandum on the Existing Income Tax System, [see App. p. 6.], which show a series of effective rates running from 2d. in the £ on an income of £131 to 10s. 4d. in the £ on an income of £150,000. Owing to the nature of the methods adopted for giving

effect to graduation the rise in the effective rate is not uniform or smooth; at every point where an abatement diminishes or ceases, and at every point where a new rate of Income Tax applies, there is a sudden upward jump in the effective rate. This defect has been partly met by a device in the Finance Act, 1916, section 32 of which smoothed the curve of the graduation at these awkward points by providing that where the income exceeded one of the limits by only a small margin the taxpayer should only be required to pay (a) the amount he would have had to pay if his income had reached but had not exceeded that limit, plus (b) the amount by which his income exceeded the limit.

6 & 7 Geo 5
c. 21, s. 32

Enclosure to Appendix No. 7 (a).

EXTRACT FROM REPORT OF SELECT COMMITTEE, 1906.

GRADUATION.

4. The income tax is already graduated by abatement in the case of incomes not exceeding £700 a year. It remained for your Committee to consider whether graduation could be made universal or extended, and in that event by what means and within what limits the extension could be effected without prejudice to the Revenue or the economical administration of the tax.

5. Graduation may be effected in various ways. First, there is the method of collecting the whole of the tax directly from each person upon his own declaration of income. If that system were adopted it would be easy to levy a graduated rate of tax according to the total net income of the individual. Such a course would involve, however, the abandonment of the principle which is known as "collection at the source." The importance of retaining in our Revenue system a principle which is mainly responsible for the present development of the tax and the ease with which it is collected, and the extreme undesirability of doing anything which would reduce its efficiency, can scarcely be over-estimated. At the present time, indeed, something like two-thirds of the tax is collected before the income reaches the person to whom it belongs, and without any information being obtained or required as to the persons to whom it will go. It is interesting to recall the fact that a hundred years ago we abandoned direct personal assessment, and collections at the source was substituted, with the result that the yield of the tax was almost doubled immediately. In 1803 an income tax of 5 per cent. collected at the source yielded within a very small amount as much as a tax of 10 per cent. did in 1801, when it was assessed and collected direct from each taxpayer.

6. Your Committee are convinced that direct personal assessment for the whole tax is not practicable in this country, in the sense of being an expedient or desirable means of collecting revenue.

7. The second method of graduating the tax, upon which we have taken much evidence, is that known as a super-tax; that is, "a second income tax, distinct from and supplementary to the existing tax, to be levied on individuals by direct personal assessment." The suggestion which has come most prominently before us is that such general rates of tax as may from time to time be determined should be collected at the source as at present, but that all persons whose total net annual income amounted to, say, £5,000 should be required to make a separate return showing the amount of their income. Upon the income so disclosed, an additional tax would be levied, which would be graduated according to the total amount of the person's income.

8. It will be seen that this is a combination of the method of a direct personal tax with that of taxation at the source. Thus portion of the tax which is new and additional would be a direct personal tax, and some of the objections which have already been urged against the adoption of a direct personal tax in place

of the system of collection at the source apply to this proposal. They are modified, however, to the extent that the tax which is now collected at the source would continue to be so collected, and consequently there would be no loss of revenue there as the result of failure to obtain full disclosure for the direct personal tax.

9. This proposal, in common with all proposals for direct personal assessment of the whole income, requires that a full statement of individual net income should be obtained from all persons upon whom the super-tax would be levied. It is true that, at the present time, about 700,000 persons do make a declaration of the amount of their net annual income. They are people with a total net income not exceeding £700 a year, and they make the declaration in order to obtain the abatement which the law allows upon such incomes. But it does not follow that other people with much larger and more complicated incomes would be equally willing to declare their actual income when the object for which the declaration was required was that an additional tax should be levied upon them. It is one thing to require that information must be given before taxation can be reduced. To demand the information with a view to increasing the taxation of those who supply it is totally different.

10. The difficulty of discovering who had an income of £5,000 a year or more and ought to make a return has been insisted upon by several of the official witnesses. But we think that the difficulties have been exaggerated. In most parts of the country the surveyors of taxes would probably know who are likely to be enjoying large incomes. There would also no doubt be difficulty in checking the accuracy of the declarations. Here, again, time would be required. But it would be seldom necessary to take action a second time against any taxpayer whose return had once been found incorrect. When a certain amount of trouble had been expended on a limited number of cases, and penalties imposed for attempts at evasion, the incentive to correct returns would, in our opinion, be sufficient. If, moreover, the penalties for attempting fraudulently to evade the tax were made heavier and especially if publicity were given to such cases, there would be strong reason for avoiding exposure. The Departmental Committee of 1904 reported in 1905 that the powers given by the law are inadequate. They wished that it should be made obligatory on every "individual who receives an income tax form to fill it up and to return it (even though the entry required be no more than 'Nil')." Your Committee endorse this view.

11. Your Committee are, therefore, of opinion that a super-tax upon the larger incomes is practicable. But it offers some disadvantages and difficulties which have been pointed out.

12. The third method of graduation to which your Committee have directed considerable attention is that of graduation by degression, which might take the form of extending the existing system of abatements, or of charging a lower rate of tax. Obvious degression by abatement is practicable, because it is now in operation and has worked smoothly for a long time. The point to be considered is—how far could it be extended, if it were desired to do so, without introducing serious difficulties and objections?

13. Your Committee assume that whatever alterations may be made in the incidence of the income tax as regards individuals, it is not desirable that the total revenue to be derived from that tax should be less than it would be under existing conditions. Indeed, it is well known that many people advocate a graduation of the tax quite as much as a means of increasing its total yield as of easing the burden of it upon the smaller incomes; and we have taken evidence in exposition of that view. It is clear, then, that even if there is to be no increase in the total yield of the tax, the tax on the incomes in the higher portions of the graduated scale must be raised to a rate which would compensate for all loss of revenue resulting from the reduction of the rate on incomes in the lower portions of the scale; and the further graduation is extended, the higher must the rate of tax be made on the incomes above the limit to which it is carried. Moreover, the further graduation is carried, and the higher the normal or foundation rate of tax is thereby made, the larger will be the amount of money that will be collected and then returned to those who are entitled to an abatement.

14. Theoretically, graduation by abatement from all incomes below the largest is possible. It would, however, in practice involve direct personal declarations of net income from every income taxpayer, and would, therefore, be open to some of the objections already described. The task of dealing with such an additional mass of claims for abatement as would result from a practically universal application of the system would be very heavy, especially as they would be far more complicated than those which now arise on the smaller incomes. A corresponding amount of trouble would be thrown upon those who claimed abatement, and the loss of time and the irritation caused in connection with the preparation and justification of those claims, combined with the very much higher rate of tax levied on the incomes in the higher portions of the scale, would arouse a feeling of resentment against the tax which it is very desirable to avoid.

15. Finally, there are obvious objections to collecting from the public an enormous sum of money which must subsequently be returned to them. In every case where the tax is collected at the source, the maximum tax would have to be paid. If, then, £40,000 a year

were taken as the maximum income beyond which graduation should not be carried, it would be necessary, in order to get the maximum tax out of some 250 persons, to collect the maximum rate on £450,000,000 of income and then to return part of the tax which had been collected on all but about £20,000,000 of that amount. The collection of so large an amount in excess of what was really required would be a serious inconvenience and a genuine ground of grievance to the large number of people who would have to provide it, and the unnecessary withdrawal of a vast sum of money from profitable employment in all parts of the country could not fail to interfere injuriously with the ordinary operations of commerce.

16. Your Committee are aware that out of a total of about 1,100,000 people with an income of nearly £700,000,000 abatements are now allowed on the incomes of 700,000 people with a total income of about £250,000,000. But these cases, we understand, present comparatively few difficulties. In many instances the tax is collected direct and the abatement is allowed at the time of collection. We are informed that the amount at present collected for income tax and subsequently returned on account of exemptions and abatement by reason of the amount of income does not exceed £1,600,000 a year.

17. Your Committee are of opinion that further graduation by means of deduction on the lines of the present abatement is practicable. But there are limits beyond which it cannot conveniently and usefully be extended. These limits will be reached when the total amount of the abatements becomes such as to require a large increase in the normal or foundation rate of tax, and the amount of the income to which the system of abatement is extended reaches a figure which would involve the serious inconvenience to the taxpayers themselves and to commerce generally of collecting large sums of returnable money. We have not sufficient information before us to enable us to fix the precise amount at which extension of the present system of abatements would cease to be prudent and convenient. Nor is it necessary that we should do so. It will probably suffice if we express the opinion that no serious difficulty would arise if the limit of abatement were extended from the present figure of £700 a year to one of £1,000 or even more.

Appendix No. 7 (b).

BOARD OF INLAND REVENUE, SOMERSET HOUSE.

HISTORICAL NOTE ON DIFFERENTIATION.

1. There is no subject of Income Tax reform that was urged earlier or pursued with greater persistence than what came to be called the "differentiation" of the Income Tax, that is, the imposing of a smaller charge on earned or industrial incomes than on unearned or spontaneous incomes, and it is rather remarkable that an agitation that began as soon as Pitt introduced his Bill in 1798 and was carried on by a devoted succession of enthusiasts throughout the whole of the following century did not attain its legislative end until 1907.

2. The position of those who favoured this plan was put in a nutshell by a member of the House during the debate on Pitt's Bill in December, 1798, when he declared that "the man who had an income of £1,000 per annum arising from capital, and the man who gained the same annual sum by a profession or by business, surely ought not to be assessed in the same degree." To modern ears this may sound axiomatic, but to Pitt it was revolutionary—"To complain of this inequality is to complain of the distribution of property; it is to complain of the constitution of society. To attempt to remedy it would be to follow the example of that daring rabble of legislators in another country."

3. In 1803 it was proposed to limit the grant of exemption and abatements to small industrial incomes, and to refuse any exemption to incomes, however small, derived from property and interest. Pitt, now in opposition, thought this early attempt at differentiation "the very reverse of wisdom," and the Government gave way; but in 1806 the exemption of small incomes was confined to earned incomes, and this was defended on differentiation grounds by Lord Henry Petty, who said that it was his intention in the formation of the Act to make a material distinction between those who were in possession of permanent property and those who had only a casual income derived from labour.

4. When the Income Tax was reimposed by Peel in 1843 his Bill contained no element of differentiation, and opposition was at once raised. Lord Brougham, for example, wanted professional incomes to be charged at half the normal rate. Among others, Mr. Hume, M.P., now began to be vocal on this point, but he had a plan for capitalizing all incomes and charging the tax on the supposed interest of the supposed capital. Peel would have none of these refinements, insisting on the anomalies that would still remain and the further inequalities that would be created by the adoption of any of the proposed

schemes. The advocates of change continued their crusade after 1842, gaining such important recruits as Bright and Cobden, and on the 2nd May, 1851, Hume moved for the appointment of a Select Committee. By this time he and his friends had made such headway with their theories that, as Gladstone admitted afterwards, "the public mind was disposed to listen on something of the kind, and it was only on the condition of granting the Committee that my right honourable friend who was the Chancellor of the Exchequer at the time then obtained a renewal of the Income Tax."

5. The Select Committee of 1851 (re-appointed in 1852) concerned itself mainly with the problem of differentiation. With few exceptions the witnesses were in favour of the principle, though there was much diversity of view as to the mode of giving effect to it. John Stuart Mill's theory was that savings out of income should be exempted; some were for charging temporary incomes at less than the full rate; but most of the evidence ran on the lines of Hume's plan of capitalizing incomes. Hume, who was the Chairman of the Committee, submitted a draft report suggesting that the tax should be charged in accordance with the value of the property, the nature of its tenure, and the age of the owner, but he did not carry his Committee with him and in the end the evidence was submitted to Parliament without any recommendations.

6. The failure of this plan, which Gladstone referred to later as "a consistent attempt . . . by bold and resolute men, who did not flinch from any difficulties, to reduce this principle into practice, put an end to the prospect of differentiating by means of capitalizing incomes; but the stronger desire to achieve the same end if necessary by another method induced Disraeli at the end of 1852 to propose, as Chancellor, a definite scheme of differentiation by charging incomes under Schedules B, D and E (that is, roughly speaking, all incomes except those from real property and Government securities) at three-quarters of the full rate. The Government fell, however, before Disraeli could carry out his intention, and Gladstone became Chancellor.

7. Gladstone's Act of 1853 revived the allowance for Life Insurance premiums as a concession to the demand for differentiation, and he contended that this allowance, combined with the effect of the legacy duty, and with the fact that property paid tax on its gross rental and not on the net income, carried the principle of differentiation as far as was reasonable. The reformers were not satisfied, and continued the fight. On the 19th February, 1861, Mr. Hubbard, M.P., Governor of the Bank of England, moved for another Select Committee, valuing what he called the "universal feeling" that something should be done for industrial incomes. Hubbard admitted that Hume's plan was too intricate to be practicable, but he had a plan of his own which he naturally thought was not open to the same objection. In spite of Gladstone's opposition his motion was carried by 181 to 127, and the Select Committee of 1861 was set up with Hubbard in the chair.

8. Hubbard's main idea, which he elaborated in a long draft Report, was to reduce gross incomes to net by a system of average allowances, and then to charge "industrial" incomes only on two-thirds of their amount. Many witnesses approved of his plan: Newmarch (352) agreed that industrial incomes should pay on two-thirds; so did Webster (322b); Coleman (312d) considered that there should be at least 40 per cent. between the two classes; John Stuart Mill would have preferred a more elaborate classification, but agreed that "if the line had to be drawn with great simplicity it ought to be drawn where the Chairman draws it" (373d), as this plan would not only cover the majority of cases that had any claim, but also the strongest cases (357c). When the Committee considered the draft report Hubbard encountered the strongest opposition. Lowe was wholly against differentiation (see his draft report), and so apparently were most of the other members. In the end they made no recommendation on the point.

9. This defeat did not quench Hubbard's zeal. For at least a quarter of a century he continued with admirable persistence to preach his doctrine in spite of constant Ministerial opposition, and after him other members took up the fight and pressed reform

upon successive Chancellors, until finally, in 1906, a third Select Committee was appointed, with Sir Charles Dilke as chairman.

10. The Select Committee of 1906 was appointed to consider (in addition to graduation) the practicality of "differentiating . . . between Permanent and Precarious incomes." During the hearing of the evidence other terms were used to express the two categories of income that were under discussion; incomes were classed as "industrial" and "spontaneous" incomes, "earned" and "unearned" incomes, and it was this last antithesis that came to be generally employed and that was finally adopted for use in the Committee's recommendations.

11. The Committee heard a good deal of testimony intended to show that a certain amount of differentiation was already in effect produced by the incidence of the Death Duties—see for example Mr. Bernard Mallet's evidence at 293, etc., and the tables in Appendix No. 1. Sir H. Primrose stated that in his opinion the degree of differentiation so produced was sufficient though Mr. Mallet admitted that the argument on these lines failed in cases where property was divided during life and no death duties were charged on it (283). Sir Thomas Hewitt thought that differentiation was either impossible or very difficult (293/4).

12. Mr. Harold Cox was not content with the simple division of incomes into earned and unearned: he wanted to subdivide earned incomes according as the element of capital entered or did not enter into the production of the income. A schoolmaster using his brain alone should be distinguished from a trader using both brain and capital (260d). This would involve having at least two or three categories of earned income and he admitted the practical difficulties of such fine distinctions (251d, 259d). His method of granting the differentiation to earned incomes would be by way of abatement from the income and not by a diminution in the rate of the tax (249i); and he saw no reason why differentiation should not apply to all incomes however large (249d).

13. Mr. Chimes Mosey's plan ceased to differentiate between earned and unearned incomes at £2,500 (59d), and used difference in rates to effect his purpose, the difference between the earned rate and the unearned increasing with some rapidity as the income went down the scale from £2,500 to £160 (see Table on p. 84 of Report).

14. Mr. Snowden also, on behalf of the Labour Party, desired to charge earned incomes less than unearned (168d/81), and Mr. Keir Hardie's paper made a distinction in rates between "earned income" and "income from property."

15. The Committee when reporting admitted that it was not easy to make a completely logical division of income for the purpose of differentiation between earned and unearned incomes, but they considered that it would be an acceptable working distinction if private traders' incomes were treated as "earned" and profits of companies as "unearned." Mere supervision of invested capital should not entitle the income to be regarded as earned. They were of opinion that many practical difficulties would be avoided by limiting differentiation to incomes not exceeding, say, £5,000 a year, and they expressed a preference for effecting the differentiation by charging the earned incomes at a rate less than the normal rate.

(For a full text of the Committee's recommendation on this subject see Enclosure.)

16. The Committee's recommendation was quickly acted upon, the Finance Act of 1907 giving relief to a 1d.

"earned income" by charging it at 8d. in the £ instead of 1s., provided the taxpayer's total income did not exceed £2,000, the expression "earned income" being so defined as to exclude the profits of sleeping partners and limited liability companies. Subsequent enactments have enlarged the application of the principle by successive steps. Thus the Finance (1908-10) Act, 1910, which increased the full rate to 1s. 3d., charged earned incomes up to £2,000 at 8d. as before, but gave an intermediate rate of 1s. for earned incomes between £2,000 and £3,000; and later Finance Acts have further refined the scale of rates until at the present time there are five rates applicable to earned incomes up to £2,500, the full normal rate being reached when the total income exceeds that amount.

R.C. 1906, Report, p. 11.

R.C. 1909, Report, p. 209.

R.C. 1908, App. No. 8, p. 297.

10 Edw. 7, c. 45, s. 6f.

Enclosure to Appendix No. 7 (b).

EXTRACT FROM REPORT OF SELECT COMMITTEE—1906.

DIFFERENTIATION.

18. Before your Committee considered the practicability of differentiating between permanent and precarious incomes they felt it desirable to define clearly the meaning of the terms "Permanent" and "Precarious." Other terms which have been used are "Industrial" and "Spontaneous," "Earned" and "Unearned," and incomes resulting from "Investment" and "Personal Effort." It is obvious that there are incomes from investments which are not "Permanent." There are also incomes which are "Earned" by "Personal Effort" which are less "Precarious" than many which are derived from investments. Probably the words "Earned" and "Unearned" most accurately represent the distinction we have in our minds.

19. Your Committee are not able to provide a completely logical and satisfactory definition of what constitutes an earned as distinguished from an unearned income. There is a large number of cases which for practical purposes must be placed under the heading "earned," into which the elements of investment and return upon capital distinctly enter. Private traders and manufacturers earn their income by personal effort and supervision combined with the investment of capital in their business. The profits of public companies will usually be regarded as "unearned" and as being derived from "investment." But a private trader may turn his business into a company and devote as much personal attention to its supervision as he did before. The line of demarcation is not strictly logical or accurate, but if the profits of private traders be regarded as earned and those of public companies and similar undertakings as arising from investment, a rough working distinction would be established which would probably meet with general acceptance. The mere supervision of invested capital should not be sufficient to entitle the income to be regarded as earned. According to our view of the question the owner of land who cultivated it himself would be regarded as earning the income which he derived from it; but the owner of an estate who let it to others to cultivate would not be regarded as earning the net income which he derived from the rents of that estate, although he might act as his own steward and devote much time to its supervision.

20. It appears to us that the existing feeling in favour of some differentiation in the amount of the tax levied upon earned incomes does not require that all incomes irrespective of size should receive privileged treatment. If some limit were imposed the difficulty would be much reduced of doing substantial justice to those cases which are on the border line, that is, where the trader's capital is in his business and his income may be regarded as partly earned and partly unearned. Speaking generally, the smaller the business and the smaller the profit derived from it, the larger will be the proportion of that profit which is, in the strictest sense of the term, earned. The more extensive and remunerative the business is, the larger, as a rule, is the part which capital plays in it, and the more practicable and equitable it will be to regard the profit derived from it as an income derived from an investment which is personally super-

vised as distinguished from an income earned by personal effort.

21. Other difficulties and objections would be avoided by limiting differentiation between earned and unearned incomes to incomes not exceeding, say, £3,000 a year. Your Committee are of opinion that such differentiation is practicable and can most conveniently be carried into effect by charging on such incomes a rate of tax lower than the normal or foundation rate. This class of income is almost invariably directly assessed and collected. It would, therefore, be possible to charge the tax directly at the reduced rate. Indeed, it might be made a condition of the allowance of the reduction in the rate of the tax that the assessment and payment were directly made. In support of the limit we have suggested, it may be pointed out that Mr. Mallet has shown that the differentiation effected by the death duties to which we refer later in our Report, in favour of incomes derived from personal exertion, is least marked in the case of incomes between £200 and £3,000 a year.

22. The practical working out of our suggestions, so far as both graduation and differentiation are concerned, would be that:—

1. There would be an extension of the present system of abatement to incomes of £1,000 a year and possibly more.
2. In the case of the earned portion of incomes below the limit of abatement there would be a lower rate of tax in addition to the reduction in the amount of incomes on which the tax would be charged.
3. In the case of earned incomes between the raised limit of abatement and the limit of differentiation the rate of tax would be lower than the normal rate.
4. The normal rate of tax would be levied upon incomes from property and investments above the limit of abatement and on earned incomes above the limit of differentiation.

23. We desire to repeat that through our enquiry we have paid chief regard to the practicability of any system that may be devised from the point of view of raising revenue in a simple and effective manner, and of securing elasticity in time of national exigency. We would point out that under such graduation and differentiation as we have suggested it would be easy to effect a substantial increase in the highest rate of tax without equally increasing the rate on earned incomes not exceeding £3,000 a year, and as, owing to the extension of the limit to which abatement would apply, only persons of substantial means would pay the full rate of tax, that rate could the more readily be increased. That is to say, the additional burden could be placed upon those who would be most able to bear it.

24. Your Committee are of opinion that a personal declaration of total net income in respect of which tax is payable by every one who may be called upon to make it should be compulsory, and would be of great value in preventing evasion and avoidance of full assessment, and in supplying information on which a system of graduation and differentiation could be based.

Appendix No. 7 (c).

BOARD OF INLAND REVENUE,

SOMERSET HOUSE.

HISTORICAL NOTE ON DOUBLE TAXATION.

1. In consequence of the imposition of an Income Tax in India in 1860 petitions were presented to the House of Commons in 1861, protesting against the double taxation suffered by residents in the United Kingdom who were liable to taxation both in the United Kingdom and in India upon incomes and profits arising in India. On 19th March, 1861, the question was debated in the House of Commons on a motion that the petitions should be referred to the Select Committee on Income Tax which was then sitting. The mover suggested the following alternative remedies:—

- (a) to exempt from payment of the tax in Great Britain or in India all incomes and profits which were already subjected to the tax in the other country. (The Chancellor of the Exchequer, in his reply, pointed out that the rates of Income Tax in India and in Great Britain happened then to be approximately the same, but they were hardly likely to remain so, and this remedy could not in fairness be applied if the rates differed.)

- (b) to tax real property at the place of its existence, and personal property in the country of domicile of its owner.

2. The general opinion seems to have been that the British Income Tax, which had been in continuous existence for nearly twenty years, ought not to be altered because another country chose to adopt the same system of taxation. The Chancellor of the Exchequer had no objection to the question being considered by the Select Committee, but Sir Stafford Northcote (one of the Committee) protested against the addition to their labours of a matter which would involve consideration of the whole question of Indian finance. The motion was withdrawn.

3. No further protest appears to have been made for over 30 years, but about the year 1893 the Dominion Parliaments began to impose taxes on income, and on 15th April, 1896, the Royal Colonial Institute sent a memorial to the Chancellor of the Exchequer on the subject of double taxation within the Empire. Further communications on the same subject were sent in 1896 and 1903.

4. Between 1896 and 1911 the question of the double tax was ventilated in the House of Commons through the medium of questions; and attempts were made in 1898 and 1907 to insert provisions for relief in the Finance Acts of those years. The 1898 amendment was in the following terms:—

"Provided that when the Commissioners are satisfied that in a British possession duty is payable in respect of any income accruing in such possession, they shall allow a sum equal to the amount actually paid as such duty to be deducted from the amount payable as income tax in respect of that income if received in the United Kingdom."

The new clause proposed in 1907 was still more drastic:—"Incomes which have already paid income tax in the Colonies shall not be liable to be assessed for income tax in Great Britain." In dealing with this proposal, Mr. Asquith said: "If a man, for reasons of his own, resided in this country and enjoyed the protection of our laws, it was only fair that, in consideration of that voluntary act on his part, and the Government protection extended to him, he should contribute income tax on the whole of his income, wheresoever that income arose. That was the root principle which went to the basis of the whole matter, and he could not recede from it."

5. A change in the attitude of the Government towards this question became noticeable in 1911 when the subject was discussed at the Imperial Conference and a resolution to abolish Double Income Tax within

the Empire was moved on behalf of the Colonial Premiers. The Chancellor of the Exchequer, while expressing sympathy with the proposal, said he could not afford to give up the revenue involved, and it was on this ground that the Colonial Premiers did not press the point.

6. The question was rendered more acute by the Finance Act, 1914, which made liability to United Kingdom Income Tax extend to unremitted income accruing abroad from Securities, Stocks, Shares, and Rents; this enactment and the ensuing rapid rise in the rates of Income Tax both in the United Kingdom and the Dominions to meet expenditure caused by the War made some measure of relief inevitable.

7. The first legislative attempt to alleviate the hardship was made in 1916, by Section 43 of the Finance Act for that year. This section was admittedly only a rough-and-ready expedient, and was introduced as "a temporary measure, and without prejudice to future consideration of the relative claims of the Exchequers of the United Kingdom and of the Dominions" (Financial Statement printed at page 9 in House of Commons Paper No. 50 of 1916).

Section 43 provides that where a person has on any part of his income borne both United Kingdom Income Tax (at more than 3s. 6d. in the £) and Colonial Income Tax, he shall be repaid—

- (a) such an amount as will reduce the United Kingdom Income Tax on that part of his income down to 3s. 6d. in the £, or
- (b) the whole amount of tax on that part of his income at the rate of the Colonial Income Tax, if that amount is smaller than the repayment under (a).

As the rate of Income Tax in 1916 was 5s. in the £, the maximum relief under Section 43 was 1s. 6d. in the £.

8. The question of double Income Tax was discussed at the Imperial War Conference in 1917, and the following resolution was passed:—

"That the present system of Double Income Taxation within the Empire calls for review in relation—

- "(i) to firms in the United Kingdom doing business with the Overseas Dominions, India, and the Colonies;
- "(ii) to private individuals resident in the United Kingdom who have capital invested elsewhere in the Empire, or who depend upon remittances from elsewhere within the Empire; and
- "(iii) to its influence on the investment of capital in the United Kingdom, the Dominions, and India, and to the effect of any change on the position of British capital invested abroad."

"The Conference, therefore, urges that this matter should be taken in hand immediately after the conclusion of the War, and that an amendment of the law should be made which will remedy the present unsatisfactory position."

9. The subject of Double Taxation within the Empire has been discussed in Parliament on a series of debates since the latter end of 1915. Mr. McKenna, on 4th April, 1916, when foreshadowing Section 43 of the Finance Act, 1916, said: "The subject is one which will have to be dealt with in the proposed reconstitution of our Income Tax laws"; in the meanwhile he must content himself "where the Dominion tax is not less than 1s. 6d. with not imposing any fresh burden." An amendment was proposed that the British Income Tax should be repaid up to the amount of the Colonial

Official Report,
Vol. 58, Series 5,
Col. 38-41

Official Report,
Vol. 118, Series 5,
Col. 2488.

Official Report,
Vol. 178, Series 5,
Col. 341.

445000, 5
a. 10, s. 5

647, 7, 1916
a. 24, s. 43.

CG 304, p. 2

Official Report,
Vol. 41, Series 5,
Col. 1037.

Official Report,
Vol. 83, Series 5,
Col. 394.

Income Tax paid, or wholly repaid when the Colonial rate was not less than the United Kingdom rate. Mr. Montagu replied that the amendment would mean a vast loss of revenue, whereas the Government clause, while sacrificing some revenue, would ensure that the evil was not exaggerated pending a thorough examination of the whole question.

10. During the debates on the Finance Bill, 1917, Mr. Bonar Law agreed that double Income Tax ought not to continue after the end of the War. But he said that it was impossible to give up more revenue during the War, and that the representatives of the Dominions completely concurred in this view. He concluded by saying: " . . . if I should happen to be in a position to enable me to have any 'influence at that time (i.e., after the War), I shall certainly see that this is one of the earliest questions considered." An amendment was proposed on 5th July, 1917, to substitute ls. 6d. for 3s. 6d. in Section 43 of the Finance Act, 1916, and Mr. Bonar Law, in refusing to accept it, pointed out that under the amendment any Colony which imposed a tax at a rate of 3s. 6d. would receive all the tax and the

United Kingdom Exchequer would get nothing. That was not the desire of the representatives of the Dominions, who quite recognized that it was a case for adjustment between the Exchequers concerned. A similar amendment was moved on 3rd June, 1918, but was withdrawn, Mr. Bonar Law repeating that the matter was one for adjustment between the various Colonies and the Mother Country.

11. When in 1918 the Income Tax rate was raised from 5s. to 6s., no alteration was made in Section 43 of the Finance Act of 1916, which was made to apply in its original form to the year 1918. The result is that the maximum relief is now 2s. 6d. in the £, the whole of which is borne by the United Kingdom Exchequer.

12. It may be remarked that the considerable discussion both in Parliament and outside on this subject has been directed almost wholly against the continuance of double taxation within the Empire: the taxation of the same income both in the United Kingdom and in foreign countries does not seem to have aroused so much comment.

Appendix No. 7 (d).

BOARD OF INLAND REVENUE, SOMERSET HOUSE.

HISTORICAL NOTE ON THE ASSESSMENT OF INCOME TAX ON MARRIED PERSONS.

1. Pitt's Income Tax Act of 1799 enacted that the income of a married woman living with her husband was to be "stated and accounted for by her husband," and it provided for examination of the wife by the Commissioners concerning her private property. The Act of 1809 contained a provision that any married woman acting as a sole trader should be charged as if she were unmarried, provided that if she were living with her husband she was to be "charged in the name of her husband." In the Act of 1806 it was provided that the profits of any married woman, living with her husband, "shall be deemed the profits of the husband" and charged in his name. Allowances or remittances from property out of Great Britain by a husband, who was "temporarily absent from her or from Great Britain or otherwise" were to be assessed on the wife.

2. When Sir Robert Peel re-imposed the Income Tax in 1842 he made no change in the law in this respect, the provisions of the 1842 Act merely repeating those of the Act of 1806; and no serious objection was taken to the position until after the Married Women's Property Act had been passed.

3. In 1894 consideration of the special circumstances arising in cases where the wife was earning income by her own efforts was the cause of the introduction of Section 34 (2) of the Finance Act, 1894. The special example brought forward was that of a schoolmistress who, on marriage, lost her right to separate exemption or abatement, although she continued in her employment and might be put to the expense of keeping a servant to look after the house in her absence. Sir W. Harcourt specifically set out to meet that difficulty in the section, which provided that "Where the total joint income . . . does not exceed five hundred pounds, . . . and . . . includes profits of the wife derived from any profession, employment or vocation . . . or from any office or employment of 'profit,' the Commissioners shall deal with the claim 'as if it were a claim for exemption or relief' or abatement . . . in respect of the profits of the wife, and a separate claim, on the part of the husband . . . in respect of the rest of the total income."

4. This new relief did not extend to cases where the wife's income was earned in carrying on a trade as opposed to a profession or vocation, and almost at once the restricted nature of the relief formed the

subject of questions and discussions in the House of Commons, in which efforts were made to extend the scope of the concession to all the income of a wife. Eventually a further concession was made in Section 5 of the Finance Act, 1897, which granted separate exemption or abatement to the wife's income from any business carried on by means of her own personal labour and unconnected with the business of her husband. The restriction that the joint income of husband and wife must not exceed £500 in these cases was retained.

5. When the Super-tax was imposed by the Finance (1902-10) Act, 1910, the duty of making returns and paying the Super-tax devolved upon the husband, but it was soon found in practice to be the fact that in many cases the husband did not know and had no means of ascertaining the income of his wife. It was accordingly enacted by the Revenue Act, 1911, Section 11, that the Special Commissioners who had charge of the Super-tax might, if for any reason they considered that they were unable to obtain a satisfactory return of the wife's income from the husband, require a return of her income from the wife, and in such cases the proper proportion of the duty appropriate to the aggregate income of husband and wife should be assessed on and recoverable from the wife.

6. In 1914 an important alteration was made in the law as to assessment. Section 11 of the Revenue Act, 1911, was repealed, and it was enacted that where an application for the purpose was made by either a husband or wife, Income Tax (including Super-tax) should be assessed, charged, and recovered on the income of the husband and on the income of the wife as if they were not married, but in such a case the total reliefs or allowances to the husband and wife, or the total amount of Super-tax payable, would remain the same in aggregate amount as if an application under the Section had not been made, and, broadly speaking, would be divided between husband and wife in proportion to their respective incomes.

7. The Finance Act, 1918, by granting an allowance of the tax on £25 for a wife, recognized for the first time that the limit of income at which a married man can afford to pay tax is higher than in the case of a bachelor. This allowance has not fully met all the claims which have been put forward in this connection. As far back as 1906 Sir W. Bull had advocated a 50 per cent. increase in the exemption limit for a married man, on the assumption that the cost of living to two persons living together was one-and-a-half times the cost to one, and legislation on those

Official Report,
Vol. 63, Series 5,
Cols. 936-7.

Official Report,
Vol. 95, Series 5,
Col. 595.

29 Geo. III,
c. 12, s. 43.

43 Geo. III,
c. 12, s. 91.

46 Geo. III,
c. 55, s. 56.

8 & 9 Vic.,
c. 35, s. 52.

37 & 38 Vic.,
c. 30.

Official Report,
Vol. 63, Series 5,
A, Cols. 1385-6.

Official Report,
Vol. 106, Series
5, Cols. 1291-2.

Therby
Vol. 95,
c. 54.

29 & 31 Vic.,
c. 24.

19 Edw. VII,
c. 6.

Geo. V, c. 5,
s. 11.

4 & 5 Geo. V,
c. 19, s. 9.

30 & 31
Geo. V,
c. 2.

8 & 9 Geo. V,
c. 16, s. 37.

lines has been advocated right up to the present time. Sometimes the suggestions take the form of proposals to tax the bachelor at a higher rate than the married man. Mr. Lloyd George, in 1909, speaking on a proposal to grant separate assessment of a married woman as though she were unmarried, pointed out that married persons had a joint duty in regard to household expenses, with the natural result that the family income as a whole was looked at in considering the ability to pay taxation.

8. The tendency of recent legislation, by allowing deductions for wives, children and dependent relatives, has been in the direction of regarding the family circumstances of the taxpayer when laying the tax burden upon him, but there has been a certain amount of criticism on the ground that this tendency has not gone far enough and proposals have been made for its extension. For example, a publication of the Fabian Research Department has suggested that "so far as incomes not exceeding £2,500 a year are concerned, whether earned or unearned, it should be open to any person assessed to ask that 'all the taxable receipts of all the members of his family, living in the same household with him and sharing in its expenses, or maintained elsewhere

"wholly or partially at his expense, should be aggregated for assessment as a Family Income" and that "Family Incomes so arrived at, should, for Income Tax purposes, be divided by the number of members of the family . . . actually maintained therefrom. There could then be allowed from the combined family income whatever Abatement each portion of such income would justify if it were that of one person only."

9. Criticism on these lines, though not always in so extreme a form, has been raised in Parliament from time to time, and the Financial Secretary to the Treasury said in the course of the Debates on the Finance Bill of 1918, "I am sure that everyone in this Committee is in agreement with him" (i.e., recognizing that the family should be the unit of taxation), "and I have no doubt it will be one of the principal objects of the Income Tax Committee . . . to see how the incidence of the Income Tax . . . can be so organized that it shall fall fairly on men according to the demands made on them for the families which they have to bring up and the homes that they have to keep, and according to the incomes with which they have to keep up these homes."

Official Report,
Vol. 105, Series
A, Col. 683.

Appendix No. 7 (e).

BOARD OF INLAND REVENUE,

SCHERIFF HOUSE.

HISTORICAL NOTE ON CHILDREN ALLOWANCE.

1. In Dowell's *History of Taxation* it is stated that the origin of allowances for children in assessing a taxpayer's liability "has been traced to a practice that prevailed under the old Subsidy Acts." It may have been owing to a recollection of this custom that our earliest Income Tax Acts made provision for tempering the burden of taxation by reference to the number of the taxpayer's children.

2. In Pitt's quasi Income Tax of 1798 children allowances formed part of his scheme of graduation. The limit of age was 21, and the children had to be "born in lawful wedlock," and maintained by the taxpayer at his own expense. No allowance was given unless there were at least five children, and the allowance was graduated as follows:—

5, 6 or 7 children, 10 per cent. of additional rates or duties.

8 or 9 children, 15 per cent. of additional rates or duties.

10 or more children, 20 per cent. of additional rates or duties.

3. In the first real Income Tax Act, passed in 1799, Pitt gave children allowances by the deduction of a percentage of the tax assessed upon the taxpayers, on the following scale:—

Incomes		When any child above 4 years.		When all children under 4 years.	
		For each child— % of the tax.		For each child— % of the tax.	
" £400	" £1,000	4%	"	3%	"
" £1,000	" £2,000	5%	"	4%	"
" £2,000 and over		6%	"	5%	"

The allowance was granted irrespective of the age of the children provided they were "maintained principally" by the taxpayer at his or her expense, and it was made applicable to children by a former marriage. Pitt justified the allowance in the case of the larger incomes on the ground that persons with these incomes "were obliged to give expensive educations to their sons" and "to their daughters portions suitable to their expectations."

4. By the Act of 1803 the allowances for children were revised. No allowance was granted unless there were more than two children. Above that number the percentage deduction was as follows:—

Incomes £60 and under £400,	4 per cent. for each additional child.
" £400 and under £1,000,	3 per cent. for each additional child.
" £1,000 and under £5,000,	2 per cent. for each additional child.
" £5,000 and over,	1 per cent. for each additional child.

5. In 1806 allowances for children were discontinued. The guide book published by the Tax Office at that date attributed this change to "the Trouble and Inconvenience of obtaining this Allowance, as well to the Party as to the Commissioners," but Seligman finds the reason in the fact that "the deduction . . . led to an astounding official increase of large families." As some compensation for the withdrawal of these allowances for Income Tax purposes a similar allowance for children was made in the same year in the case of the Assessed Taxes on Windows, &c., where the number of children exceeded two, and where the total assessment was under £40.

6. When the Income Tax was re-imposed in 1842 the Act, which was based on the Act of 1806, contained no provisions for allowance in respect of children. The Chancellor of the Exchequer in 1848, referring to the previous experience, said "the exemption was taken away, as it was found that it led to great fraud, and that it gave rise to similar claims for exemption, which ought in fairness to be acceded to, but which could not be granted without rendering the tax too complicated and unproductive."

7. This attitude towards the allowance continued until the dawn of the twentieth century when the growing public demand for a more accurate adjustment of the tax burden to the taxpayer's ability brought the question of an allowance for children prominently into notice. Some slight references were

43 Geo. III.
c. 125, s. 138.

45 Geo. III.
c. 68.
The Income
Tax (1814),
p. 133.

Hansard,
Vol. 97, 3rd
Series, Col. 215.

S.C. 1909,
186 & 188/10

made to the subject by witnesses before the Select Committee of 1908 but as it was not within the Committee's terms of reference the inquiry was not pursued. The matter was, however, raised in the House of Commons on more than one occasion in 1906 and the Chancellor promised it consideration.

Official Report,
6th Series,
Vol. 4, col. 907.

8. In 1909, after the lapse of over a century, the allowance for children was revived. Mr. Lloyd George, in his Budget statement for that year, having referred to the steps already taken in the direction of differentiating between earned and unearned income, said "it remains to complete the system by taking account, to some extent at any rate, not only of the source from which income is derived, but also of the liabilities which the taxpayer has contracted in the discharge of his duties as a citizen." The Finance Act for that year contained a provision for the allowance of the tax on £10 for each child or stepchild under 16 years of age, provided that the total income of the taxpayer did not exceed £500.

10 Edw. 7,
c. 3, s. 68.

4 & 5 Geo. 5,
c. 18, s. 7.

5 & 6 Geo. 5,
c. 63, s. 24.

9. The allowance granted in 1909 has been several times extended and enlarged. By the Finance Act, 1914, the amount of the allowance was doubled; the Finance (No. 2) Act, 1915, increased it still further to

the tax on £25 for each child; the Finance Act, 1916, extended the limit of the parent's income from £500 to £700; the Finance Act, 1917, granted the allowance in the case of adopted children; finally by the Finance Act, 1918, the limit of the taxpayer's income was again raised to £800, and, where the total income exceeds £800 but is not more than £1,000, allowance was granted for each child above the number of two.

4 & 7 Geo. 5,
c. 34, s. 70.

7 & 8 Geo. 5,
c. 31, s. 31.

8 & 9 Geo. 5,
c. 15, s. 12.

10. Although these allowances have undergone a rapid and continuous development since they were revived in 1909, there have been indications of a public opinion which demands still further progress in this direction, both in the amount of the allowance and in the size of the incomes to which the allowances apply. One of the latest suggestions, made in a publication prepared in the Fabian Society Research Department, goes so far as to propose children abatements of the same size as the abatement of the parent taxpayer, or alternatively of the tax on £50 instead of the tax on £25. Suggestions have also been made in the House of Commons to extend the allowance to the case of children over 16 who are still at school or at a university, but hitherto these proposals have not been accepted.

A Revision
in the Income
Tax, p. 15.

Appendix No. 7 (f).

BOARD OF INLAND REVENUE,

SOMERSET HOUSE

HISTORICAL NOTE ON THE ALLOWANCE FOR LIFE INSURANCE PREMIUMS.

1. In introducing the first real Income Tax Bill, Pitt emphasized the necessity of adjusting the tax to meet the cases of individual hardship where taxpayers, whose income was precarious, were anxious to provide for their families. He proposed to do this by allowing as a deduction for Income Tax purposes the amount paid for life insurance premiums. In the Schedule, therefore, to the Income Tax Act, 1799, among the General Deductions from Income Tax was a provision that "Persons who have made or shall make Insurance on their respective Lives, or on the Lives of their respective Wives, shall be at Liberty, in Addition to other Deductions, to deduct the Amount of the Premium of such Insurance for the current Year."

39 Geo. 3, c. 32,
Schedule.

2. In the Income Tax Act of 1806, a restriction was placed on the deduction of life insurance premiums, and only persons whose incomes were less than £150 a year were allowed to benefit by the allowance.

44 Geo. 3, c. 68,
s. 175.

3. When the Income Tax was re-imposed in 1842, the allowance in respect of life insurance premiums was dropped. Attempts were made in Parliament in 1845 to induce the Government to reinstate it, but the Chancellor of the Exchequer refused to make the allowance, giving these reasons amongst others, that the life insurance allowance made no provision for people with unimpaired lives, that the allowance would not benefit a man who made provision for his family by investing his savings in the Funds, and that the proposed deduction offered a great inducement for fraud and evasion of Income Tax by short term policies.

Harvard,
Vol. 76,
Eng. Series,
cols. 760-2.

4. Mr. Gladstone, when making his Budget Statement in 1853, said he proposed to mitigate the taxation of savings; it was impossible to exempt savings from Income Tax altogether, but where the savings were invested in a life insurance or a deferred annuity the premiums paid were not to be charged. He admitted the proposal did not meet the case of persons whose lives were uninsurable, but the classes who would mainly benefit were those whom the Income Tax reformers of that day specially desired to relieve namely, professional men and persons who were

dependent upon their own exertions. In the Act itself provision was made for the deduction of annual premiums paid for life insurances or deferred annuities on the life of the taxpayer or of his wife. The allowance was not to exceed one-sixth of the net income of the taxpayer, and the deduction was not to have the effect of bringing the income below the limit of exemption or of abatement. Premiums paid to Colonial or Foreign Insurance Companies were not allowable.

10 & 11
Vic. c. 34

5. In 1855, by the Income Tax (Insurance) Act, persons who made insurances with Friendly Societies were to be entitled to the deduction provided that the premiums were not for a shorter period than three months. (This proviso imposing a three months' limit was repealed by the Revenue Act, 1903.)

18 & 19 Vic.
c. 1.

5 Edw. 7,
c. 46, s. 10.

6. In 1859, the allowance was extended to contracts for deferred annuities with the Commissioners for the Reduction of the National Debt.

22 & 23
Vict. c. 14.

7. The question of allowing premiums paid to Colonial and Foreign Companies gradually acquired prominence as the business done by these companies in this country expanded, but it was a long time before the desired extension was granted, and when the Government yielded, the concession was given in two instalments. First of all the Finance Act, 1904, extended the relief to any life insurance or contracts for deferred annuities effected with any insurance company legally established in any British possession; and then the Revenue Act, 1906, allowed premiums on life insurance or contracts for deferred annuities effected with any insurance company lawfully carrying on business in the United Kingdom, which, of course, covered Foreign Companies if they complied with the conditions.

4 Edw. 7,
c. 7, s. 2.

6 Edw. 7,
c. 23, s. 11.

10 Geo. 5,
c. 18, s. 7.

8. In 1904, a case was heard in which, under a policy of life insurance, the insured paid one half only of the premiums in cash, and the other half by means of a loan from the insurer, repayable on demand and bearing interest (capital and interest were chargeable upon the policy); it was held by the Courts that the insured was entitled to deduct only the amount actually paid by him in cash.

Harvard v. 1

210 (A.C.)

5 T. 11

9. When the Super-tax was introduced in 1909-10, premiums in respect of life insurance and deferred annuities were allowed as a deduction in computing income for Super-tax purposes, up to the limit of one

10 Edw. 7,
c. 8, s. 66.

1909-10

Harvard,
Vol. 238,
3rd Series,
cols. 1585-6.

sixth of the total net income, and this deduction (unlike the deduction for Income Tax purposes) was allowed to have the effect of reducing the income below the limit of income (then £5,000) at which the Super-tax began to apply.

10. Life insurance business in the years that had elapsed since 1893 had not merely greatly extended in volume, but had become increasingly complex in character. In addition to what may be called the normal type of policy, that which secured a capital sum on the death of the insured, policies became common which were merely a form of investment, rendered more and more profitable and desirable as the Income Tax rate rose. The exemption from Income Tax and Super-tax of the amount of the premiums led certain Life Insurance companies to enter specially for this class of insurers until the Legislature stepped in to put some term to the effects of contracts which the Parliamentary debates show to have been regarded as inequitable though legal. The first restrictions were made by the Finance Act, 1915, which, in respect of policies that secured a capital sum at death, limited the allowance of premiums to 7 per cent. of the capital sum so assured (bonuses and other benefits not being included in calculating that capital sum); in respect of policies or contracts which did not secure a capital sum at death, the allowance was not to exceed a maximum limit of £100 a year.

11. These provisions did not prove effective in coping with the leakage of Income Tax that was arising in connection with the allowance of life insurance

premiums. Policies were still issued by certain companies which, while keeping within the letter of the law, produced a profit to the insured and to themselves out of the Income Tax and Super-tax remitted. Something more drastic than the 1915 legislation was evidently called for, and it came in 1916.

12. The provisions of the Finance Act, 1916, in this connection were as follows:—

- (a) So far as Income Tax was concerned, the 1915 restrictions continued to apply to policies taken out for contracts entered into on or before the 22nd June, 1916. But in respect of policies or contracts made after the 22nd June, 1916, additional conditions were imposed. Policies made after this date which did not secure a capital sum at death were definitely placed outside the allowance altogether, and a new maximum allowance of 3s. in the £ was fixed for premiums on policies which did secure a capital sum at death. In the case of deferred insurances no relief at all was to be given during the period of deferment.
- (b) So far as Super-tax was concerned the allowance for life insurance or deferred annuity premiums was wholly withdrawn.

13. The combined effect of the Finance Acts of 1915 and 1916 must have been considerable in checking the tendency to take advantage of this allowance by persons whom it was never intended to benefit.

Appendix No. 7 (g).

BOARD OF INLAND REVENUE, SOMERSET HOUSE.

HISTORICAL NOTE ON TAXATION AT THE SOURCE.

1. Pitt's first real Income Tax, of 1799, was levied by means of direct assessments upon the recipients of the income, based upon returns of total income from all sources made by the taxpayers. The abuses to which this mode of assessment on total income was open led the framers of the Income Tax Act of 1803 to make their approaches to the taxpayer in a less direct but more certain fashion. Instead of looking in the first place at the taxpayer, they looked at the source of income, classified incomes according to their kind under the Schedules A, B, C, D and E, and levied the tax so far as they could at the point where the income first emerged and became visible, leaving the first possessors of the income to deduct a proportion of the tax when distributing any part of the income among those who had charges upon it. So entered into our Income Tax system the great principle of taxation at the source, a principle which has lasted with many extensions and some notable recent exceptions to the present day, and has proved of such central importance in Income Tax administration that Professor Seligman, of Columbia University, U.S.A., has recently called it "perhaps the chief cause of the great success of the English income tax."

2. Though the Act of 1803 had made this principle a central feature of the tax and applied it to many sources of income, it left some gaps in the system to be filled later in the light of experience. For example, in 1803 dividends due on the public funds were in the first instance taxable in the hands of the recipients; in 1806 this considerable exception was brought into the system of deduction at the source, and henceforward the interest was paid less tax.

3. By this time the automatic effect of taxation at the source was evident in the yield of the tax. As Mr. Presley told the Select Committee of 1851-2. "In 1801, when the tax was 10 per cent., and the law required that everybody should make a return

of his property, the net assessment" [i.e., yield or produce of the tax] "was £5,628,000; but in 1806 (the rate then being also 10 per cent.) the produce of the tax, under the present principle of taxing all property at its first source, was £11,533,000."

4. Peel's Income Tax Act of 1842, which remained in force till 5th April, 1919, and was only superseded by the Income Tax Act, 1918—a consolidating Act—was based on the Act of 1806, and continued to tax income at its first source, leaving the distributors of income, whether they paid rent or interest or dividends or annuities, to deduct tax on payment. From 1842 until quite recent years no encroachment upon that system was made, because the soundness of the principle and its effect in limiting the operations of the evader were generally recognized. Mr. Lowe, for example, in his unadopted draft report for the Select Committee of 1861, said, "The Income Tax, it is granted on all hands, must be raised at its source." Indeed from 1842 onwards the net was time after time thrown a little wider to catch a new kind of income. Thus, by a later Act of 1842, dividends paid in this country out of the revenue of any foreign State were taxed in the hands of the person entrusted with the payment, and he was allowed to deduct tax from the dividends. Interest paid by Colonial Governments had already been included in the Income Tax Act of 1842. In 1853 the system was applied to dividends paid in this country by foreign companies, in 1861 to dividends of Colonial companies, and in 1869 to payments out of Indian funds. In 1895 a further extension was made to secure deduction of tax by bankers and coupon dealers from coupons for dividends payable abroad. To this extension there was some opposition in the House of Commons on the part of bankers, who resented the proposal as the insertion of the thin end of the wedge between the banker and his customers. These representations were met by the insertion of a provision making it clear that bankers should not be under the obligation to disclose any particulars relating to the affairs of the persons for whom they might be acting. In 1898 a small defect

6 & 7 Geo. 4,
c. 34, s. 36.

5 & 6 Geo. 4,
c. 34, s. 36.

5 & 6 Geo. 4, c. 36.

Harvard,
Vol. 200, 2nd
Series, Col. 1722.

was remedied, and interest which is not paid out of taxed profit was brought into the system; and in 1907 royalties paid for the user of a patent were added to the list.

5. The combined effect of all these enactments is that at the present time taxation is levied at the source and deducted at the time of payment in the case of—

- Dividends payable by limited liability companies.
- Debiture and loan interest.
- Interest on all British Government "pre-war" securities and on certain securities issued since the war.
- Interest on Colonial and Foreign Government securities paid through agents in the United Kingdom.
- Annuities and other annual payments.
- Mineral rents, royalties and wayleaves.
- Patent royalties.
- Interest not paid out of taxed profits (e.g., interest paid out of rates).
- Interest and dividends arising out of the United Kingdom and payable by Colonial and Foreign companies through agents in the United Kingdom.
- Coupons for dividends payable abroad which are realized through a banker or coupon dealer in the United Kingdom.
- Rents of property let to tenants.
- Ground rents, lease rents, head rents, &c.
- Mortgage interest.
- Deposit interest in certain Banks.
- Salaries and pensions paid by Government Departments, including Army, Navy, Air Force and Civil Services, and by Railway Companies.

6. Both the recent Committees which have inquired into the Income Tax had something to say on taxation at the source, and both were emphatic in its praise. The Departmental Committee of 1905 spoke of the principle in their Report as one "which lies at the root of British income tax administration" and as being "in itself a very great check on fraud and evasion." The Report of the Select Committee of 1906 affirmed that "abandonment of the system of collection at the source . . . would be inexpedient." In Sir Thomas Whittaker's draft report, on which the final report was based, the stronger word "disastrous" was used instead of "inexpedient."

7. The Select Committee of 1906, appointed to consider the practicability of graduation and differentiation, necessarily gave some thought to the position of taxation at the source in the event of differentiation or graduation or both of them being adopted. The evidence pointed strongly in the direction of preserving the principle. The official witnesses insisted that it must be retained; Mr. Coghlan, with experience of Australian systems, considered that graduation was not incompatible with taxation at the source; Mr. Chisham Money's scheme, which included both graduation and differentiation, did not contemplate the abolition of the principle; Mr. Snowden, representing the Labour Party's views, considered taxation at the source advisable; and Mr. Harold Cox's scheme included its retention.

8. The Committee's Report dealt with this subject in paragraphs 5 and 6 as follows:—

"5. Graduation may be effected in various ways. First, there is the method of collecting the whole of the tax directly from each person upon his own declaration of income. If that system were adopted it would be easy to levy a graduated rate of tax according to the total net income of the individual. Such a course would involve, however, the abandonment of the principle which is known as 'collection at the source.' The

"importance of retaining in our Revenue system a principle which is mainly responsible for the present development of the tax and the ease with which it is collected, and the extreme undesirability of doing anything which would reduce its efficiency, can scarcely be over-estimated. At the present time, indeed, something like two-thirds of the tax is collected before the income reaches the person to whom it belongs, and without any information being obtained or required as to the persons to whom it will go. It is interesting to recall the fact that a hundred years ago we abandoned direct personal assessment, and collection at the source was substituted, with the result that the yield of the tax was almost doubled immediately. In 1803 an income tax of 5 per cent., collected at the source, yielded within a very small amount as much as a tax of 10 per cent. did in 1801, when it was assessed and collected direct from each tax-payer.

"6. Your Committee are convinced that direct personal assessment for the whole tax is not practicable in this country, in the sense of being an expedient or desirable means of collecting revenue."

9. The imposition of a Super-tax in 1909, assessable directly upon the taxpayer on the amount of his total income from all sources, was only a partial departure from the orthodox doctrine of taxation at the source. Confined to persons with incomes over £5,000, and recommended by the 1906 Committee, which has spoken so warmly in favour of preserving the principle of deduction, the Super-tax still left the system of the Income Tax proper unimpaired, and collection at the source at the normal rate went on as before.

10. The only real infringement since 1806 upon the system of collection by deduction at the source, so far as the ordinary Income Tax is concerned, has taken place in connection with certain British Government securities issued in connection with the present war. The 4½ per cent. loan issued in 1915 was dealt with in the old way and, except as regards small holdings on the Post Office Register, tax is deducted from its interest. But when financial pressure grew greater, and when more particularly it became necessary to look abroad for money, it was felt essential for non-Revenue reasons to raise loans the interest on which would not only be paid without deduction of Income Tax, but would, if the securities were in the beneficial ownership of persons who were not ordinarily resident in this country, be free from all liability to the tax. Holders ordinarily resident in this country remained, of course, liable to the tax, and had to make a return of their interest for direct assessment. First of all 5 per cent. Exchequer Bonds, 1919, 1920 and 1921, then the 5 per cent. War Loan, and then National War Bonds were issued subject to these conditions. In the case of registered Stock or Bonds the dividends are paid in full without deduction of Income Tax: where the Bonds or Stock are held in bearer form deduction at the source is retained. Owners ordinarily resident in this country are obliged to return the dividends for direct assessment upon them under Case III of Schedule D, and beneficial owners not ordinarily resident in the United Kingdom are not liable at all.

11. This led to some inconvenience on the part of holders who, for security's sake, wanted to have inscribed or registered Bonds or Stock, and yet did not want the trouble of making returns and paying duty by direct assessment upon what was in many cases their only item of income untaxed by deduction. To meet these objections the latest issue of National War Bonds (4th Series) introduces a new form of holding, "Registered Coupon-Bonds." Holders of this form of Bonds are enabled to obtain their securities in a registered form, transferable by deed, and at the same time to have their dividends taxed by deduction before receipt.

Appendix No. 7 (h).

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.

HISTORICAL NOTE ON WASTING ASSETS.

1. In the early days of the Income Tax, when statements were never tired of insisting on the temporary nature of the tax, and when circumstances often seemed to justify their insistence, it was natural that profits should be ascertained for Income Tax purposes in a somewhat rough-and-ready manner. The tax was an annual tax charged on the profits of the year (though sometimes based on a conventional average) and it was thought sufficient in certain cases simply to look at the income arising in the year under review and to disregard nice distinctions about outgoings or necessary provision for the future. In these circumstances income from property was taxed upon its gross amount without any allowance for the cost of the repairs necessary to keep the property in being as an income-producing concern, and no deduction was permissible from the manufacturer's profits on account of the fact that year by year his machinery was wearing out and would sooner or later become useless.

2. The fact that the law imposed Income Tax upon the full realized profits of certain concerns, and did not authorize an allowance in respect of the consumption or exhaustion of part of the main capital asset of the concern, soon gave rise to discussion, especially in the case of mines. Deductions were by law allowed for the replacement of utensils or plant used in the business, but not for the using up of the mineral deposit itself. Complaints on this head were made to the Select Committee on the Income Tax in 1851-2. Several witnesses thought it unfair that the owner of minerals should pay tax in full on the royalties he received, complaining that "the mineral when it is got is gone for ever." One of them felt so acutely about this aspect of the question that he was moved to suggest the entire exemption of mineral royalties. The Draft Report of the Chairman of this Committee (Mr. Hume) asked the Committee to state "that in respect to property in canals, docks, railways and other works, as well as in mines and quarries which may be exhausted, the assessment is also unjust, as the tax is in many cases levied not on the profit only, but on a part of the capital," but the Committee made no recommendation.

3. The Select Committee of 1861, of which Mr. Hubbard was Chairman, took evidence on the taxation of Mines and Mining Royalties, the witnesses agreeing generally as to the injustice of the existing practice, though there was some difference of opinion as to the proper remedy. The Chairman regarded as one of the most important defects of the Income Tax the fact that "Capital, in the course of realisation through the working of mines, is taxed in the assessment of the entire value of their produce." The remedy he proposed was to allow in the case of rents or royalties from "Metallic Mines" one-fifth part as a deduction, and one-tenth in the case of "Earthy Mines and Quarries": a mining company he would charge only on the dividends it distributed. Mines and quarries were not the only wasting assets he dealt with. He also proposed a deduction of one-sixth in the assessment of the annual value of buildings, which allowance he calculated would not merely cover repairs and insurance but provide a fund to replace the building when decayed by age.

Mr. Hubbard's draft report was not acceptable to his Committee, which in the end came to no definite conclusion, either on this or on any other subject.

4. To those who were convinced that allowance should be made for the exhaustion of a mineral deposit, it was an additional grievance that nothing was allowed for the cost of sinking shafts or for the diminished value of shafts already sunk. Between 1875 and 1881 there was a series of cases in the Courts bearing on these points. The case of *Addie and Sons*, heard in 1875, settled that coal and

iron masters were not entitled to a deduction from profits in respect of a percentage of the cost of pitting and of the cost of their buildings and machinery. In *Müller v. Paris* (1878) it was held that a coalowner in computing his profits was not entitled to a deduction in respect of capital lost through the partial exhaustion of the mine; and in the case of the *Coltess Iron Company v. Black* (1881), where the Company claimed as a deduction from profits the cost of sinking new pits, it was decided by the House of Lords that such a deduction was inadmissible.

5. In the meantime by the Customs and Inland Revenue Act of 1878 an allowance had for the first time been legalized for the wasting of certain assets. The concession was confined to plant and machinery used by a trader and the deduction was measured by the diminution of its value in the year of assessment by reason of wear and tear.

6. The allowance for depreciation of plant and machinery in 1878 served merely to whet the appetite of those who sought a larger concession; year after year in the eighties and nineties they ventilated their grievance in the House of Commons, but their view was not accepted.

7. Lord Ritchie's Departmental Committee of 1905 did not report comprehensively on the subject of wasting assets, though their report dealt with depreciation of plant and machinery and with the assessment of terminable annuities (see the separate Historical Notes on those subjects). On the other hand, they took a certain amount of evidence on the subject of the diminishing value of temporary interests in properties which might or might not themselves be of a wasting character. Land, for example, is not in itself an asset inherently wasting, but a leasehold interest in land is a wasting asset and the prudent leaseholder regulates his affairs accordingly. The Departmental Committee gave no countenance to the view that the short leaseholder should pay less tax year by year so long as his interest endures than if he owned the fee simple.

8. Their views on this point are contained in paragraph 78 of their Report, which reads as follows:—"It is true that several witnesses have urged that allowance for depreciation of assets charged to Capital Account should not be limited to the disposition of capital due to the decay of material objects in which the capital is invested, but should apply also to capital expended in obtaining the transfer from one person to another of an interest in a source of income or, at any rate, in a source of income which is terminable. Suppose, for example, that A purchases from B for £700 B's interest in the lease, that has only ten years to run, of a house of the annual value of £100 and held at a nominal ground rent. At the end of 10 years A's enjoyment of his purchase will cease, and as a provident man he ought to set aside annually such sums as will replace his capital of £700 at the close of the term. It is contended that A should pay tax, not on the whole annual value of the house, £100, but only on the difference between the annual value and the amounts that he sets aside. This contention we regard as quite inadmissible. It seems to overlook the fact that, under existing conditions, what A purchases is not an income of £100 free of tax, but an income of £100 subject to tax, and that, presumably, the liability to tax has been taken into account in fixing the purchase money, which would have been appreciably higher had there been no such liability. A has bought an income subject to a charge and there is no injustice in requiring him to meet the charge. The contention, in truth, involves the consequence that, in respect of large classes of income, the principle of taxation at the source would have to be abandoned, and replaced by a system under which the several interests in an income should be separately assessed in the hands of the ultimate beneficiaries."

1684 L.R. 189.

1 T.C. 287.

41 & 43 Vict., c. 15, s. 12.

D.C. 1905, Report, par. 78.

H.C. 1851-2, p. 93.

H.C. 1851-2, p. 93.

H.C. 1851-2, p. 93.

H.C. 1851-2, p. 93.

H.C. 1861, Report, p. 9.

H.C. 1861, Report, p. 9.

T.C. 1.

"and in accordance with the indefinitely various conditions under which they may enjoy those interests. Where such a system, if once introduced, could be stopped it is hard to see; and we conceive that it is scarcely necessary for us to argue in support of the practically self-evident proposition that, so long as assessment of Income Tax at the source is taken as the governing principle of assessment, the principle must be applied consistently to every case which admits of its application or else much confusion must follow."

S.T.C. 172.

9. In 1905 the House of Lords decided in the case of *The Alliance Co., Ltd. v. Bell* that no deduction from profits was permissible in respect of the gradual exhaustion of the nitrate deposits from the working of which the profits of the company arose.

10. In 1910 there was a discussion in the House of Commons on a motion by Mr. Gibson Bowles to allow depreciation on wasting assets. During the debate the *Alliance* case was referred to by Mr. Pollock who supported the view that the law should be so altered as to permit an allowance for that part of the prime cost of the mineral bed which should represent the portion actually exhausted in making the profits. He did not think that leases, patent rights, etc., should be treated on the same footing as true wasting assets.

11. During the debates on nearly every Finance Bill from 1911 onwards this subject has been kept in the foreground. On the 2nd August, 1912, Mr. Pollock moved a new clause in the following terms:—

Official
Report,
Vol. 41,
5th Series,
Cols. 3611-2.

"For the purpose of enabling deductions from revenue receipts of expired capital outlay on inherently wasting assets to be allowed by the Additional Commissioners, claims in respect of those deductions shall be included in the annual statement required to be delivered under the Income Tax Acts of the profits and gains of any trade, manufacture, adventure, or concern, and where such a deduction from the revenue receipts is made, and has been made, from the commencement of the actual employment of the inherently wasting assets in seeking profits, or during a period of not less than three years to the end of the usual financial year of the particular trade, manufacture, adventure, or concern last prior to the year of assessment, and provided such deduction is so made as to prevent the same being available as profits, the Additional Commissioners in assessing those profits and gains shall make such allowances in respect of those claims as they think just and reasonable. For the purpose of this Section the term 'inherently wasting assets' means assets which necessarily waste in the process of seeking profits, provided always that such wasting assets are not the value of transferred rights to future profits or income which would have been chargeable with Income Tax if no transfer of such rights had been made."

Vol. 2618.

He pointed out that the terms of his proposal would eliminate "households, patents, and copyrights and

"other things not truly entitled to immunity, because by transfer and sale it would be possible in these cases to avoid paying revenue which ought to be paid." The motion was resisted by the Government and defeated.

12. In the following year (11th August, 1913) Mr. Pollock returned to the attack with a new clause identical with the 1912 clause, except for one important deviation. This time he proposed to confine the allowance to "inherently wasting assets existing outside the United Kingdom," and he explained that he imposed this restriction because he realised there was a real distinction to be drawn between the case of an English company which had acquired, for example, a mineral deposit in England from an Englishman, and an English company which had bought a mineral deposit abroad from a foreigner. "In the case of assets outside the United Kingdom, there is no liability to make any contribution to the Exchequer on the part of the foreigner who sells to an Englishman." In setting forth the merits of his clause he pleaded that the relief would be confined within narrow limits, that, as it would apply only to assets outside the United Kingdom, the loss to the Revenue would be much lessened, and that the deduction could be claimed only by those who had made a regular policy of providing against the waste of their assets and had set aside sums for depreciation in such a way that they could not afterwards be used and distributed as profits.

Official
Report,
Vol. 46,
5th Series
Col. 2140.

Col. 2154.

The Chancellor of the Exchequer opposed the clause not so much on the grounds of justice or injustice, but because of the "impossibility or impracticability of establishing a rule which will enable you to draw a distinction between what are wasting assets and what are not." He said that every industrial enterprise is bound to be a wasting asset in one sense of the phrase. Mr. Pollock had spoken of gold mines abroad. The Chancellor referred to these mines and said, "in none of those cases do the companies themselves, in their balance-sheet, arrange their affairs as if that business were coming to an end. The hon. and learned gentleman knows very well they do not set aside any sum to reserve in order to provide against the possibility of the enterprise coming to an end. They distribute the whole of the dividend." Further, he contended that the wasting character of the asset had its due effect in the operation of the Death Duties. Mr. Pollock's clause was negatived.

Official
Report,
Vol. 50,
5th Series,
Cols. 2146-7.

14. It may be added that in the Finance Act of 1918 a provision was inserted the effect of which is to give an allowance for the depreciation of mills, factories, and other similar buildings; but the question of depreciation so far as it affects buildings is dealt with in the Historical Note on Repairs to Property. [See App. 7 (g).]

15. The Income Tax treatment of terminable annuities, and the Income Tax allowances for depreciation of plant and machinery, are the subjects of separate notes.

S & S. G. 4
a. 10, s. 24 (f)

Appendix No. 7 (i).

BOARD OF INLAND REVENUE, SOMERSET HOUSE.

HISTORICAL NOTE ON ALLOWANCES FOR WEAR AND TEAR OF MACHINERY AND PLANT.

1. Prior to 1873 there was no provision in the law for any deduction to be made, in computing profits for assessment, in respect of the wasting or depreciation of a trader's plant and machinery. The cost of repairs was allowed, but nothing to represent the annual diminution in the value of the plant and machinery. The omission of any such allowance in the early Acts was, doubtless, due to the fact that the framers of those Acts visualized the tax as a merely temporary impost, and, in consequence, took a rather narrow view of profits and of the outgoings necessary to earn those profits.

2. In course of time some bodies of Local Commissioners began to make allowances for depreciation in spite of the absence of legal provision, but the practice was neither uniform nor of general application. Some of the witnesses before the Select Committee of 1851-2, for example, emphatically denied that allowances for wear and tear of machinery were made (Lee, 3,232; Murray, 3,673), but the evidence of Messrs. Dickens and Case, Special Commissioners (and, it may be added, of Parliamentary Debates of this period), show conclusively that certain bodies of Commissioners, apparently without opposition on the part of the Revenue, were making general allowances for depreciation. The Special Commissioners told the Committee that there was a general allowance for depreciation of machinery, but that it varied very

S.C.D. 40,
1851-2.

Vol. 1,
p. 1.

Vol. 1,
p. 1.

much from district to district. As to their own practice they said "we generally take, in the great manufacturing districts, the scale adopted by the manufacturers themselves, sitting as Commissioners."

3. With the law thus straddled by the practice it was not surprising that complaint was raised as to the want of uniformity, flagrant unfairness and gross anomalies in such allowances as were made. This happy-go-lucky state of affairs led, in 1863, to a proposal in the House of Commons that the Commissioners should be allowed to determine whether an allowance should be made or not, but that where they had decided that question in favour of the taxpayer they should allow a uniform deduction of 5 per cent., whatever the character of the machinery. This proposal did not commend itself to the Chancellor of the Exchequer, who was of opinion that if an allowance was to be legalized at all "wear and tear should be regarded as a matter of fair exemption; but that the amount to be allowed for it should be left to the discretion of the Commissioners."

4. The Customs and Inland Revenue Act of 1878 authorized for the first time an allowance in respect of "the diminished value by reason of wear and tear during the year" of plant and machinery used for the purposes of a trade. The amount of the allowance was to be determined by the Commissioners.

5. In 1897 an administrative concession carried the matter a step further. In a letter addressed to the Association of Chambers of Commerce by order of the Chancellor of the Exchequer, it was stated that where a claim was made in respect to the introduction of more modern machinery into a concern, no objection would be taken on the part of the Revenue to the allowance of so much of the cost of replacement as was represented by the existing value of the replaced machinery. This concession admitted the principle of an allowance for "obsolescence," which had been refused by the Courts in 1894 as not within the provisions of the 1878 Act.

6. This question of depreciation was one of those specifically remitted to the Departmental Committee which reported in 1906. The Committee did not suggest any substantial legal change, being of the opinion that ignorance of the law and of the authorized practice, and the want of uniformity resulting therefrom, were the matters that principally called for remedy; but they recommended that the wear and tear allowance should be made by the Additional Commissioners when they assessed the profits and not by the General Commissioners when confirming the assessment, and that where the allowance exceeded the

assessable profits for the year the balance should be carried forward and set against future assessments. (The text of the Committee's report so far as it relates to this subject is given below.)

7. Legal effect was given to these recommendations in 1907, and at the same time it was provided that the aggregate wear and tear allowances to any owner of plant and machinery should not exceed the actual cost to him of those assets.

8. The amount of the allowance being in the discretion of different bodies of Income Tax Commissioners concerned, the danger existed of a certain lack of uniformity in the allowances made, even in the same trade, and on the same class of machinery.

Agreements made between various important trade associations and the Revenue, by which rates of depreciation on different classes of plant and machinery were settled, subject to the concurrence of the Commissioners, did a good deal to limit this danger, but they did not cover the whole field, and complaints were still made by traders and manufacturers. In these circumstances section 24 of the Finance Act, 1918, was passed. This section empowers the Board of Inland Revenue to refer any application for the alteration of the amount of any wear and tear allowance to the Board of Referees (a body set up primarily in connection with the Excess Profits Duty), and those Referees, if they are satisfied that the application is made by a considerable number of persons engaged in any class of trade or business, are to determine the deduction to be allowed. At the same time the allowance for obsolescence admitted in practice since 1897 was formally legalized.

9. War conditions made inevitable certain temporary extensions of the wear and tear allowance. The Munitions of War Act, 1915, the Income Tax allowance has been temporarily extended for the period of control, by the Finance Acts of 1916 and 1917 to include the deductions for exceptional depreciation or obsolescence which have been allowed for Excess Profits Duty and Munitions Levy purposes. This legislation was provided to meet the case of controlled concerns which, owing to war requirements, were obliged to undertake abnormal expenditure which might have little or no post-war value.

10. In 1918 a White Paper was published setting out the legal and the practical position of this subject and containing a Schedule of rates of depreciation agreed upon by trade representatives and the Commissioners of Inland Revenue. [A copy of this White Paper forms Enclosure B. to this Note.]

Enclosure A to Appendix No. 7 (i).

EXTRACT FROM THE REPORT OF THE DEPARTMENTAL COMMITTEE OF 1906.

V. DEPRECIATION OF ASSETS CHARGED TO CAPITAL ACCOUNT.

68. The earlier Acts of 1842 and 1853 allowed as a trade expense of a business the actual cost of repairs of premises, plant and machinery, and of the supply or repair of implements and utensils. But they made no specific provision for a deduction from gross profits to cover the depreciation in the capital value of such subjects due to deterioration not made good by repairs.

69. Apparently, however, practice gradually became more liberal than the letter of the law in respect of plant and machinery, the expression "the supply or repairs or alterations of any implements, utensils, or articles employed for the purpose of such trade, manufacture, etc." (in Rule 2 of Case 1, Schedule D, Section 106 of the Act of 1842), being interpreted to include "renewals"; and in certain cases allowances came to be made, more especially in respect of ships, which to some extent admitted of the writing off from profits of certain amounts towards replacement.

70. It was not, however, until 1878 that legislative sanction was formally given for such allowances. By the Customs and Inland Revenue Act of that year

authority was given to the General and Special Commissioners for Income Tax respectively to—

"allow such deduction as they may think just and reasonable as representing the diminished value by reason of wear and tear during the year of any machinery or plant used for the purpose of the concern."

71. The interpretation of this enactment has formed the subject of more than one reference to the Courts, and even now it does not appear to be quite clear whether the judicial decisions obtained require the section to be read as meaning no more than this, that less by depreciation may be allowed, even though no expenditure has been incurred in making it good by repairs, or as meaning that, after all damage by wear and tear has been made good by repairs, short of renewal, a further allowance may be made in respect of the imperceptible and irremediable deterioration due to age.

72. The opinion of the Board of Inland Revenue and the practice follows the latter and more liberal interpretation, which seems to us the correct one.

73. As a result, a definite scale of allowance for depreciation of the character indicated has been established for ships, 4 per cent. on the prime cost of a vessel being annually allowed as a deduction from profits, until 96 per cent. of the cost has been written

7 Edw. 7.
Cap. 13, Sec. 26.

8 & 9 Geo. V.
Cap. 15, Sec. 24.

6 & 7 Geo. V.
Cap. 24, Sec. 24.

7 & 8 Geo. V.
Cap. 31, Sec. 16.

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James 66.
Vol. 171.
Part 1.
Page 412.

1843 Vict.
Cap. 25, Sec. 12

C. 1905.
Section 24.
Part 1.

1842 Vict.
Cap. 25, Sec. 12

1842 Vict.
Cap. 25, Sec. 12

1842 Vict.
Cap. 25, Sec. 12

1842 Vict.
Cap. 25, Sec. 12

off. As regards plant and machinery, no such precise scale of allowance has been laid down, nor is any possible that would fit all the varying circumstances of manufacturing machinery. But even here considerable progress has been made in establishing typical rates of allowance on different classes of machinery, as is shown in Appendix No. IV. The effect of the concessions is strikingly shown in Enclosure 2 to Appendix III., from which it appears that the amount of income exempted on account of wear and tear has grown steadily from £4,100,000 in 1893-4 to £12,700,000 in 1906-3.

76. Finally, the concession made by the Act of 1878 in respect of wear and tear of Plant and Machinery was carried somewhat further by administrative action in 1897, when, in a letter addressed to the Association of Chambers of Commerce, by order of the Chancellor of the Exchequer, and printed in Appendix No. V, it was laid down that "where a claim is made in respect of the introduction of more modern machinery into a factory, no objection (i.e., on the part of the Inland Revenue) is to be taken to the allowance, as a deduction from the assessable profits of the year, of so much of the cost of replacement as is represented by the existing value of the machinery replaced."

77. We think that the policy indicated in that letter sufficiently meets the reasonable claims of machinery users in respect of the replacement of obsolete machinery. But it appears that, although the letter was published at the time, no very formal steps have been taken, either by the Association of Chambers of Commerce or by the Revenue Authorities, to keep the concession which it offered before the minds of manufacturers or of the several bodies of General Commissioners, and in consequence a large amount of ignorance seems to prevail in regard to it. This is true also as regards the subject as a whole, and we think that effective steps should be taken, both to

make the law itself clear and to give the public reasonable facilities for ascertaining their rights and obligations. We are, indeed, of opinion that a want of knowledge of the law and of authorised practice, and the want of uniformity thereby engendered are the matters that principally call for remedy in this branch of our inquiry, and apart from them we do not consider that any substantial change is called for beyond that already recommended as regards depreciation of premises.

79. In one small point the present procedure is unnecessarily cumbersome, viz., that, after the assessment of profits has been made by the Additional Commissioners, the deduction for wear and tear is left for allowance before the General Commissioners. We recommend that, while the return of average profits should continue to be made without deduction for wear and tear, that deduction should be claimed simultaneously and should be subject to approval or amendment by the Additional Commissioners, whose assessment should be on the net profits after deduction for wear and tear as allowed by them, subject, of course, to appeal to the General Commissioners. It would, however, in the event of this procedure being adopted, be very necessary that, in claiming such deduction, traders should be required to specify clearly the sums charged in their accounts for supply or repair of plant and machinery, and the precise purposes for which they have been expended.

80. Further, it is a genuine grievance that where the year's business has resulted in a loss, or in a profit insufficient to cover the allowance for wear and tear, the deficiency cannot be taken into account in the following years. We recommend that when this occurs the amount of the allowance should be deducted from the actual profit, or added to the actual loss of the year, for the purpose of calculating the average in subsequent years.

Enclosure B to Appendix No. 7 (1).

INCOME TAX.

MEMORANDUM BY THE BOARD OF INLAND REVENUE ON THE SUBJECT OF ALLOWANCES FOR DEPRECIATION AND OBSOLESCENCE OF PLANT AND MACHINERY, &c.

Wear and Tear Allowances.—Legal Position.

(1) The Customs and Inland Revenue Act, 1878, Section 12 (quoted in the Appendix) authorises a deduction in the assessment of profits of such an amount as the Income Tax Commissioners concerned "may think just and reasonable as representing the diminished value by reason of wear and tear during the year of any machinery or plant used for the purposes of the concern." This deduction is in addition to the allowance made in respect of the cost of repairs to the machinery or plant.

(2) There is no statutory limit to the amount which the Income Tax Commissioners may allow in any year, but the aggregate amount of the deductions from first to last must not exceed the actual cost of the machinery and plant to the person by whom the concern is carried on.

(3) It may happen that the assessment on the profits of a trader for a particular tax year is nil, or is less than the amount of the wear and tear allowance for that year, so that he cannot get the full deduction from that year's assessment to which he would otherwise have been entitled; in such a case that part of the allowance to which effect cannot be given is carried forward and added to the allowance for the next year, and so on for succeeding years. (Finance Act, 1907, Section 26 (3), quoted in the Appendix.)

Bates Agreed for Certain Trades.

(4) Although no fixed scale of allowance is prescribed by law, definite rates of depreciation on different classes of machinery have been agreed upon for uniform application—subject to the concurrence of the respective bodies of Income Tax Commissioners—in a

number of important industries as the result of applications by representatives of the industries to the Board of Inland Revenue. Although these allowances have been generally adopted and accepted by the taxpayers, the power to appeal to the Board of Referees (see paragraph 5) will not be affected by any such agreement.

A Schedule of these rates forms part of the present statement.

Appeal to Board of Referees.

(5) The Finance Act, 1918, Section 24 (1)—quoted in the Appendix—provides that in cases affecting a class of trade or business the question of the amount to be allowed for wear and tear may be carried from the Income Tax Commissioners to the Board of Referees. Application in such a case has first to be made to the Commissioners of Inland Revenue and these Commissioners refer the case to the Board of Referees. If the Board of Referees are satisfied that the application is made by or on behalf of any considerable number of persons engaged in any class of trade or business they consider the case and determine the amount of the allowance.

Income Tax Authorities Concerned.

(6) The authorities who have duties to perform in connection with wear and tear allowances are the Commissioners of Inland Revenue, the Income Tax Commissioners, and the Board of Referees.

The Commissioners of Inland Revenue

are civil servants and constitute the Statutory Board entrusted with the collection and management of Inland Revenue. They are responsible to the Chancellor of the Exchequer and are represented in the numerous districts into which the country is divided by their Surveyors of Taxes (who are also salaried civil servants).

The Income Tax Commissioners.

With the exception of the Special Commissioners of Income Tax, the Commissioners concerned (who are more generally known as the District Commissioners of Taxes) are local bodies which act only in their respective areas (some 700 in number). They are not salaried officials, but are representative residents in the locality and are recruited from the Land Tax Commissioners named in a statutory list which is from time to time renewed by Act of Parliament. Their functions include the making of assessments, the hearing of appeals, and the allowance of deductions for wear and tear.

The Special Commissioners of Income Tax are a body of salaried officials with similar powers but acting (for the most part) only in those cases where the taxpayer elects to be dealt with by them instead of by the District Commissioners.

The Board of Referees

are a central body of business men which was set up in connection with the Excess Profits Duty. The names of the existing members of the Board are given in a footnote.* Their only duty in connection with Income Tax is to deal with applications for the determination of wear and tear allowances where those applications are made by a considerable number of persons engaged in a particular class of business. (See paragraph 5.)

Replacement of Obsolete Machinery or Plant.

(7) In addition to the allowance for wear and tear of plant and machinery there has been in operation since 1897 an allowance for obsolescence, and this allowance has been made statutory by Section 24 (3) of the Finance Act, 1918 (quoted in the Appendix).

The necessity for this allowance arises from the fact that machinery has frequently to be replaced, before it is worn out, owing to its having become obsolete and incapable of competing with more up-to-date machinery. Accordingly, where new machinery is introduced in place of machinery not wholly worn out, an allowance is made, as a deduction from the profits of the year, of so much of the cost of replacement as is equivalent to the written down value of the machinery replaced less any sum realised by the sale of it—the balance of the cost of the new machinery being an addition to the capital of the business.

For example, from the value of a machine which originally cost £1,000, wear and tear allowances have been made year by year until they have aggregated £600, so that the written down value of the machine stands at £400. The trader now considers that the machine is obsolete, scraps it and replaces it by an up-to-date machine which costs £1,400. He sells the old one for £50. He is entitled to charge as a trade expense incurred in the year in which the replacement is made the sum of £350, that is—

Original cost of the machine replaced	£1,000
Less (a) aggregate amount of wear and tear allowances already made in respect of the machine	£600
(b) sum realised by its sale	50
	650

Amount treated as trade expense in year of replacement ... £350

Assuming the total written down value of the trader's plant and machinery before the sale of the obsolete machine to be £10,000, future wear and tear allowances will be made upon a value of £11,000, thus:—

Written down value of total plant, &c.	£10,000
Deduct written down value of the obsolete machine	400
	9,600

Add cost of new machine	1,400
	£11,000

The obsolescence allowance is not made in quite the same way as the wear and tear allowance under paragraph 1, for the latter is by Statute an allowance from the assessment after the three years' average is struck. Thus the wear and tear allowance applicable to the year 1918-19 would be given as a deduction from the gross assessment for 1918-19 as follows:—

Trading profits (before allowing wear and tear)—	£
1915—Loss	5,000
1916—Profit	10,000
1917—Profit	13,000
	39,000

Gross assessment 1918-19 ... 6,000

(If the total wear and tear allowance due for the year 1918-19 were £6,500 a sum of £6,000 would be allowed against the 1918-19 assessment, and the balance of £500 carried forward for deduction in future years.)

Wear and tear allowance ... 6,000

Net amount on which tax is payable for 1918-19 ... nil

An allowance for obsolescence in 1918 of say £10,000 would, however, be a deduction from the commercial profits of 1918, turning them from a profit of say £9,800 to a loss of £200. The first assessment to be affected would be that of 1919-20, as follows:—

Profits 1916	£10,000
1917	13,000
1918—Loss	200
	39,200

Gross assessment 1919-20 ... 7,600

Less—
Allowance for wear and tear, say £6,800, for 1919-20, plus the unexhausted balance carried forward from 1918-19, £500— 7,300

Net amount on which tax is payable for 1919-20 ... £300

The business year 1918 would also come into the average for the tax years 1920-21 and 1921-22, by which time the allowance would have had its full effect.

Cost of Renewals as an Alternative Method.

(8) As an alternative to the allowance for wear and tear and obsolescence of plant and machinery, the cost of renewing plant and machinery may be claimed as a deduction in the computation of Income Tax liability under Schedule D. When this course is preferred by the taxpayer the amount to be allowed is the actual cost of the new plant and machinery

* PRESENT BOARD OF REFEREES.

1. D. M. Kerly, K.C. (Chairman), Barrister.
2. Sir J. Colman, Bart., Mustard Manufacturer, Chairman of Commercial Union Assurance Co., and Financier.
3. W. F. Clark, Mining Engineer.
4. W. H. Cook, Accountant.
5. A. Cooke, Manufacturer (Belfast).
6. Lord Fisher, Banker.
7. A. W. Fair, Boot Manufacturer.
8. J. E. Fotherill, Irish Banker.
9. F. W. Gibbins, Steel Plate Manufacturer.
10. Sir C. G. Hyde, Contractor.
11. J. A. Jones, Ship Owner.
12. Rt. Hon. Lord Jones, M.P., Underwriter.
13. Sir H. Woodburn Kirby, Accountant.
14. E. Manville, Motor Manufacturer.
15. R. H. Marsh, Accountant.
16. L. F. Massey, Engineer.
17. W. McLintock, Accountant.
18. A. C. Miles, Accountant.
19. G. D. Norton, Provision Merchant.
20. G. H. Nelson, Accountant.
21. Sir W. B. Peat, Accountant.
22. W. Pender-Green, Engineer.
23. J. H. Tritton, Banker.
24. W. Tynack, Cattle.
25. W. T. Walton, Accountant.
26. Howard Williams, Warehouseman.
27. A. W. Wyon, Accountant.

Note.—The question of adding further names to this list is under consideration.

(excluding any part of such cost which is attributable to additions or improvements, i.e., to an increase in capital) after deducting the scrap value or realised price of the plant and machinery replaced.

*Example (a).—*A machine which originally cost £1,000 is worn out and replaced by a machine of similar power or size or capacity which now costs £1,500. The whole of this expense of £1,500 is allowable from the profits of the year in which it is incurred.

*Example (b).—*A machine which originally cost £1,000 is worn out and replaced by one of greater power or size or capacity costing £2,500. The amount to be allowed as an expense is in this case not the full £2,500, but only the cost of replacing the old machine by one of similar power or capacity—say £1,500.

Although this method of allowance is alternative to the wear and tear allowance for the same class of plant, the two principles may run concurrently for different classes of assets in the same business. For example the wear and tear allowance may apply to fixed machinery, while the renewal method is used for loose plant.

Buildings.

9. In the computation of the profits of his business for assessment under Schedule D, a trader is allowed to deduct as a trade expense his whole outlay on repairs, maintenance, and insurance of his trade premises.

Where he owns the premises which he occupies for the purpose of his business, and therefore has to bear the Income Tax (Schedule A) on those premises, he is also allowed a set-off in arriving at the liability under Schedule D, of the amount on which he has actually paid Income Tax (Schedule A), i.e., of an amount equal to *five-sixths* of the full annual value of the premises. (This provision is of course necessary in order to prevent double taxation of the same item, once under Schedule D and a second time under Schedule A.)

But, although an owner-occupier of trade premises has actually paid the Schedule A tax on only *five-sixths* of the annual value, he is allowed (under Section 24 (4) of the Finance Act, 1918, quoted in the Appendix) in the case of premises which are peculiarly subject to depreciation, viz., mills, factories, and other similar premises, to deduct the whole (*six-sixths*) of the annual value in computing his profits for assessment under Schedule D. That is to say he is allowed every year absolutely tax-free a sum equal to one-sixth of the annual value of the mill or factory to provide a sinking fund to replace the building.

The operation of the allowance may be seen from the following example:—

Old Method:—

Year.	Profits.	Net Schedule A Assessment.		
	£		£	£
1915.	10,000	—	500	9,500
1916.	11,000	—	500	10,500
1917.	14,000	—	1,000	13,000
				383,000

1918-19 assessment under the previous law £11,000

New Method:—

Year.	Profits.		Gross Schedule A Assessment.	
	£		£	£
1915.	10,000	—	600	9,400
1916.	11,000	—	600	10,400
1917.	14,000	—	1,200	12,800
				392,600

1918-19 assessment under the law as now altered £10,867

TEMPORARY PROVISIONS NECESSITATED BY WAR CONDITIONS.

Extra Wear and Tear.

10. With the exception of the rates relating to the Motor Omnibus, Saw Milling and Steel industries, the rates of depreciation given in the Schedule were agreed upon under pre-war conditions.

Cases have arisen, especially since the commencement of the war, in which machinery is suffering exceptional wear and tear owing, for example, to extra hours of running, the difficulty of obtaining material for effecting repairs, the rougher usage to which the machinery is subjected owing to the employment of unskilled labour, and the fewer opportunities available for having the machinery overhauled. In such cases applications for special rates of depreciation have been entertained, but generally speaking the circumstances of individual cases have been found to vary so widely as to render it impracticable to fix a uniform scale, and each application has been dealt with on its own merits.

Machinery out of use.

11. Where machinery or plant has been temporarily out of use through circumstances attributable directly or indirectly to the present war an allowance for depreciation is granted on the same lines as if the diminished value had actually been caused by "wear and tear during the year." (Finance Act, 1918, Section 24 (2), quoted in the Appendix.)

"Controlled Establishments."

12. In one class of case, namely, concerns which are "controlled" under the Munitions of War Act, 1915, the Income Tax allowance has been temporarily extended, by the Finance Acts of 1916 and 1917 (see Appendix), to include the deductions for "exceptional depreciation or obsolescence of buildings, plant or machinery" which are allowed for Excess Profits Duty and Munitions Levy purposes.

This allowance prevents the hardship that would otherwise arise owing to the circumstance that "controlled establishments," being held at the disposal of the Government, may be required to alter completely the course of their business and to undertake exceptional expenditure which may be of little or no post-war utility to them, e.g., on machinery which may never be replaced, and to which therefore the ordinary obsolescence allowance would not be applicable. The Finance Acts of 1916 and 1917 accordingly authorise the Income Tax Commissioners to revise the Income Tax allowance so as to enable a deduction to be made from profits of the difference between cost and post-war value of installations and extensions (including buildings) which would not have been undertaken but for the war and the express requirements of the Government.

Somerset House,
31st July, 1918.

SCHEDULE OF AGREED RATES OF DEPRECIATION REFERRED TO IN PARAGRAPH 4.
(See Paragraph 10 as to Special Allowances to meet exceptional wear and tear.)

Industry, &c.	Rate per cent.	Prime Cost or Written-down Value.	Nature of Plant.	Remarks.
Electric Light Undertakings.	3 5	Written-down value " "	Cables. Plant and machinery.	
Flax Spinning and Linen Weaving (Ireland).	7½	Written-down value	Machinery and plant (except accessory plants such as piers, pine cages, spools, belting, driving ropes, damask cards, designs, patterns, models, furniture and fixtures).	
Flour Milling ...	5 7½	Written-down value " "	Engines, boilers and main shafting. Other machinery.	
Gas Undertakings other than those owned by municipal or other public authorities.	3 10	Written-down value " "	Gas holders. Meters, cookers and gas fires.	
Motor Omnibuses ...	20	Written-down value	Motor omnibuses ...	(a) The rate of 20 per cent. is to be re-considered at the expiration of four years commencing with 1916-17. (b) This rate does not apply to commercial motor vehicles.
Paper Mills ...	5 7½	Written-down value " "	Machinery working day only. " " " and night.	
Printing ...	5 7½ 10	Written-down value " "	Engines, boilers and shafting. Printing and binding machines. Type.	
Railway Wagons ...	5	Written-down value	Railway wagons ...	(a) The allowance applies to all wagons owned by traders. (b) In the case of railway companies the method adopted is to allow the actual cost of renewals year by year.
Shipping ...	4 3	Prime cost ... Prime cost ...	Steamships ... Sailing vessels.	With regard to ships purchased at second-hand at prices in excess of the written-down value at the date of purchase, the following arrangements have recently been made:— (a) The allowance is made on the actual cost price of the ship to the owner for the time being without regard to the prime cost to a previous owner. (b) The rate of depreciation allowable is calculated by reference to the reasonable expectation of the life of the ship at the date of purchase from the previous owner.
Steel Manufacturers ...	15	Written-down value	Machinery and plant used in the manufacture of steel.	The rate of 15 per cent. represents 5 per cent. for normal wear and tear, and 10 per cent. for the additional wear and tear arising from war conditions.
Timber Merchants, Saw Millers, and Manufacturers of Timber Goods.	5 7½ 20	Written-down value " " " "	Engines, boilers, and main shafting. General saw-milling plant and machinery. Traction engines, tractors, motorcars, and haulage plant.	
Tramways ...	— 3 7 5	— Written-down value " " " "	Permanent way. Cables. Cars and other rolling stock. General plant and machinery, including standards, brackets, and work-shop tools.	An allowance per mile of track based upon the estimated life of the permanent way.

APPENDIX TO THE MEMORANDUM BY THE BOARD OF INLAND REVENUE ON THE SUBJECT OF
ALLOWANCES FOR DEPRECIATION ETC.

ENACTMENTS RELATING TO DEDUCTIONS FOR WEAR AND TEAR OF MACHINERY AND PLANT.

THE CUSTOMS AND INLAND REVENUE ACT, 1878
(41 AND 42 VICT., c. 15).

Section 12.—Provision as to deduction for depreciation of machinery or plant.

12. Notwithstanding any provision to the contrary contained in any Act relating to Income Tax, the commissioners for general or special purposes shall, in assessing the profits or gains of any trade, manufacture, adventure, or concern in the nature of trade, chargeable under Schedule (D), or the profits of any concern chargeable by reference to the rules of that Schedule, allow such deduction as they may think just and reasonable as representing the diminished value by reason of wear and tear during the year of any machinery or plant used for the purposes of the concern, and belonging to the person or company by whom the concern is carried on; and for the purpose of this provision, where machinery or plant is let to the person or company by whom the concern is carried on upon such terms that the person or company is bound to maintain the machinery or plant, and deliver over the same in good condition at the end of the term of the lease, such machinery or plant shall be deemed to belong to such person or company.

And where any machinery or plant is let upon such terms that the burden of maintaining and restoring the same falls upon the lessor, he shall be entitled on claim made to the commissioners for general or special purposes, in the manner prescribed by section sixty-one of the Act of the fifth and sixth years of her Majesty's reign, chapter thirty-five, to have repaid to him such a portion of the sum which may have been assessed and charged in respect of the machinery or plant, and deducted by the lessee on payment of the rent, as shall represent the Income Tax upon such an amount as the said commissioners may think just and reasonable, as representing the diminished value by reason of wear and tear of such machinery or plant during the year: Provided, that no such claim shall be allowed unless it shall be made within twelve calendar months after the expiration of the year of assessment.

THE FINANCE ACT, 1907 (7 ED. VII., c. 18).

Section 26.—Provisions with respect to deductions for wear and tear of machinery or plant.

26. (1) For the purpose of enabling deductions for wear and tear to be allowed by the additional commissioners, claims in respect of those deductions shall be included in the annual statement required to be delivered under the Income Tax Acts of the profits or gains of the concern for the purpose of which the machinery or plant is used, and the additional commissioners in assessing these profits and gains shall make such allowances in respect of those claims as they think just and reasonable.

(2) No deduction for wear and tear or repayment on account of any such deduction shall be allowed in any year if the deduction when added to the deductions allowed on that account in any previous years to the person by whom the concern is carried on will make the aggregate amount of the deductions exceed the actual cost to that person of the machinery or plant, including in that actual cost any expenditure in the nature of capital expenditure on the machinery or plant by way of renewal, improvement, or reinstatement.

(3) Where as respects any trade, manufacture, adventure, or concern full effect cannot be given to the deduction for wear and tear in any year owing to there being no profits or gains chargeable with Income Tax in that year, or owing to the profits or gains so chargeable being less than the deduction, the deduction or part of the deduction to which effect

has not been given, as the case may be, shall, for the purpose of making the assessment for the following year, be added to the amount of the deduction for wear and tear for that year and deemed to be part of that deduction, or if there is no such deduction for that year, be deemed to be the deduction for that year, and so on for succeeding years.

(4) In this section the expression "deduction for wear and tear" means the deduction allowed, or which would be allowed, under section twelve of the Customs and Inland Revenue Act, 1878, as representing the diminished value, by reason of wear and tear during the year, of machinery or plant used for the purposes of any trade, manufacture, adventure, or concern.

THE FINANCE ACT, 1916 (6 AND 7 GEO. V., c. 24).

Section 39.—Repayment of Income Tax on sums deducted from profits under Munitions of War Act, 1915, 6 and 7 Geo. V., c. 54.

39. (1) Where in calculating for the purposes of Part II. of the Munitions of War Act 1915, the profits of a controlled establishment a deduction has been allowed under that Part of that Act or rules made thereunder in respect of exceptional depreciation or obsolescence of buildings, plant, or machinery, and the sums so deducted have not been deducted or allowed in computing the amount upon which Income Tax has been paid in respect of those profits, there shall be allowed a repayment of Income Tax equal to the amount of the Income Tax at the rate at which that tax has been paid on the amount of the sums so deducted:

Provided that the repayment of Income Tax under this section—

(a) shall be made in respect of the Income Tax year which includes the end of the period of assessment in respect of which the said deductions have been allowed under the Munitions of War Act, 1915; and

(b) shall be deemed to have effected a reduction of the Income Tax assessment by the amount upon which Income Tax has been so repaid.

(2) Any application for relief under this section shall be made to the Commissioners by whom the Income Tax assessment has been made, and those Commissioners upon proof of the facts to their satisfaction shall certify to the Commissioners of Inland Revenue the sum repayable, and the Commissioners of Inland Revenue shall cause repayment to be made accordingly.

THE FINANCE ACT, 1917 (7 AND 8 GEO. V., c. 31).

Section 16.—Repayment of Income Tax on sums deducted from profits.

16. (1) Where a deduction on account of any of the matters specified in section thirty-nine of the Finance Act, 1916 (which provides for the repayment of Income Tax on sums deducted from profits) has been allowed for the purposes of excess profits duty in calculating the profits of a controlled establishment for any period during which it is subject to control, that section shall, subject to the necessary modifications, apply as it applies where a deduction has been allowed in calculating these profits for the purposes of Part II. of the Munitions of War Act, 1915:

Provided that a repayment of Income Tax shall not be allowed under this section and also under the said section thirty-nine in respect of the same deduction.

(2) Sub-section (3) of section twenty-six of the Finance Act, 1907, shall apply, with the necessary modifications, with respect to any repayment of Income Tax under the said section thirty-nine or this section, as it applies with respect to deductions for wear and tear.

THE FINANCE ACT, 1918 (8 AND 9 GEO. V., c. 15).

Section 24.—*Provision with respect to deductions for wear and tear of plant, &c.*

24. (1) Where an application is made to the Commissioners of Inland Revenue for the alteration of the amount of any deduction for wear and tear, the Commissioners, unless they are of opinion that the application is frivolous or vexatious, shall refer the case to the Board of Reference, and that Board shall, if they are satisfied that the application is made by or on behalf of any considerable number of persons engaged in any class of trade or business, take the application into their consideration, and determine the deduction to be allowed.

In this section—

The expression "deduction for wear and tear" has the same meaning as in section twenty-six of the Finance Act, 1907; and

The expression "Board of Reference" means any Board of Reference appointed for the purpose of Part III. of the Finance (No. 2) Act, 1915, or, if there is no such Board, a Board of Reference to be appointed for the purpose of this section by the Treasury.

(2) Section twelve of the Customs and Inland Revenue Act, 1878, as amended by section twenty-six

of the Finance Act, 1907, shall have effect as if the references therein to diminished value by reason of wear and tear during the year of any machinery or plant included references to diminished value by reason of any machinery or plant having been temporarily out of use at any time during the year through circumstances attributable, directly or indirectly, to the present war.

(3) In estimating the profits or gains of any trade, manufacture, adventure, or concern in the nature of trade chargeable under Schedule D, or the profits of any concern chargeable by reference to the rules of that Schedule, there shall be allowed to be deducted as expenses incurred in any year so much of any amount expended in that year in replacing any plant or machinery which has become obsolete as is equivalent to the cost of the plant or machinery replaced after deducting from that cost the total amount of any allowances which have at any time been made in estimating profits or gains as aforesaid on account of the wear and tear of that plant and machinery and any sum realised by the sale of that machinery or plant.

(4) Section nine of the Finance Act, 1896 (which relates to the amount of the deduction to be allowed on account of the annual value of premises), shall not apply in the case of any premises being mills, factories, or other similar premises.

Appendix No. 7 (j).

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.

HISTORICAL NOTE ON TERMINABLE ANNUITIES.

1. From the early days of Income Tax in England there have been those who questioned the justice of imposing the tax upon the whole of the income derived from life or terminable annuities. The income from these annuities has always been treated by the Income Tax Acts as income chargeable on the full amount of the annuities, without regard to any question of capital involved. Those who have denied the equity of this treatment have based their opposition on the argument that the terminable annuity was made up of two elements, one admittedly interest, the other a return of part of the capital sum invested; and they have further contended that these two elements are separable and should be separated, the interest portion properly falling within the tax, the capital portion being entirely exempted. Alternatively they have sometimes asked that if the whole amount of the annuity is to be taxed, the charge should at least be made at something less than the full rate on the ground that the income is temporary.

2. When Sir Robert Peel re-imposed the Income Tax in 1842 he was urged to make some differentiation between incomes from perpetual and terminable annuities by way of a reduction in the rate of duty in favour of the latter class of income, but he refused on the ground that if he once began to make a distinction between different classes of income he would have to abandon the tax altogether.

3. The Select Committee which sat in 1851 and 1852 took a mass of evidence on the alleged injustice of taxing terminable annuities at the same rate as perpetual incomes. Many witnesses, for example, Messrs. Williams (3293), Scott (3725), and Brown (3824), were for charging them at a lower rate, but Messrs. Warburton (5149) and Babbage (5469) contended that, provided the Income Tax was considered as a permanent source of revenue, there were no grounds for such differentiation. As was said afterwards by a speaker in the House of Commons (Sir Henry Willoughby, on 26th May, 1854) a great quantity of algebra was expended before the Committee in order to show that if the Income Tax were perpetual it would come to the same thing if they invested their property in either way. The Committee made no recommendation for change.

4. In 1852 the Insurance Offices took joint action in this matter and addressed a memorial to the Earl of Aberdeen, who was then First Lord of the Treasury, but without success.

5. In 1853 special legal provision was made for the deduction of Income Tax from one-third only of the

amount of the terminable rent charges payable to the Crown by landowners under the Drainage Advances Acts (see paragraphs 61 to 63 of the Enclosure to this note). Mr. Hubbard, both before the Select Committee of 1861, and afterwards in the House of Commons, used this provision as a peg for his argument in favour of differential treatment of annuities, complaining that the Government made one law for their creditors and another for their debtors.

6. The Select Committee of 1861 (with Mr. Hubbard as Chairman) took considerable evidence on the subject of the taxation of annuities. Mr. Hubbard's own proposal was that terminable annuities should be assessed only on the "annual interest on capital unpaid," the amount of such interest to be determined by actuarial tables in cases where positive material for computation was not patent in the contract for the annuity. He was supported by Mr. Newmarch (363) who expressed the view that not to discriminate between capital and interest "savours very strongly of the morals of Finchley Common," explaining his meaning darkly by reminding the Committee that Finchley Common used to be "the resort of a certain class of characters." The Committee found no difficulty in understanding the allusion. Messrs. Ansell (2428), Cookson (3499), and Mill (3758) took the same view, Mill saying that anything that went to the replacement of capital ought not to be taxed, and that the case of terminable annuities was the strongest case of all.

7. Mr. Love, in his unadopted draft report, epitomised the views of the opponents of change. He said: "The annuitant has no right to expect that the State should be more careful of his capital than he is himself, or that the State should be very nice in re-discriminating that capital and income which he has been at such pains to mix together. . . ."

The terms of Mr. Hubbard's recommendation (which was not however adopted by the Committee) were: "That whenever an annuity or other periodical payment shall comprise an advance or repayment of principal monies, no deduction in respect of Income Tax shall be made from such principal monies"; but he was careful to point out that in speaking of "terminable annuities" he did not include a jointure or similar annual payment made out of an estate. He applied the term "exclusively to the payments terminable by lapse of years or by lapse of life, which restore with interest the capital given as their equivalent."

8. The field of discussion has been a good deal limited by legal decisions. In 1853, in the case of *Potter v. Fletcher*, the Courts held that the payment

S.C. 1861,
p. 131.

R.C. 1869,
p. 231.

p. XIX,

227

J.H. & N. 709.

R.C. 1861,
Ansd. 233.

26 & 17 Yr.,
p. 94, n. 42.

of the agreed purchase price of a property by instalments was not an annuity within the meaning of the Income Tax Acts; and in 1905, in the case of the *East India Railway v. the Secretary of State for India*, it was held that a so-called annuity which represented partly an instalment of purchase price and partly interest on unpaid capital was not an annuity for Income Tax purposes, and that tax should be deducted only on so much of the annual payment as represented interest on the capital outstanding.

9. The subjects of reference to the Departmental Committee which reported in 1906 included the treatment of income derived from terminable annuities. The Committee took evidence from representatives of the Institute of Actuaries and of the Life Offices' Association, who were in favour of limiting the charge to that part of the annuity which represented interest. Sir Thomas Hewitt (1132/6), and Mr.

Stedley (157)—an official witness—were opposed to any alteration.

10. In their report the Committee dissented from the view that annuities should be divided into two parts, the one representing capital and the other interest, and that only the latter portion should be subject to Income Tax. They considered that a man who buys an annuity deliberately sinks his capital and takes an income in exchange, and that the division of that income into capital and interest is only a fiction. Moreover, as existing annuities have been created during the existence of the Income Tax they held that it must be assumed that the contracting parties had taken the tax into consideration, and that therefore holders of existing annuities have no equitable title to relief. The conclusion of the Committee was that there was no sufficient reason for an alteration in the law. (The text of their Report on this matter is given below.)

Enclosure to Appendix No. 7 (J).

EXTRACT FROM THE REPORT OF THE DEPARTMENTAL COMMITTEE OF 1905.

56. Terminable annuities usually run either for a life or for a term of years. It has been suggested that, for the purposes of the Income Tax, all such annuities can be, and should be, split up into two parts, the one representing interest and the other capital, and that the former portion only should be subject to Income Tax. We dissent from this view; and we begin with life annuities, with regard to which the case is of course the clearest. We think it the sounder view that a man who buys a Life Annuity has, for his own purposes, altogether sunk his capital and taken a life income in exchange; and the division of such an annuity into principal and interest is after all a fiction. The fiction is so doubt convenient for some purposes, but it is based on actuarial data which may or may not be accurate on an average but certainly have nothing to do with the particular circumstances of the case or the actual terms of the contract.

57. We now pass to annuities for terms of years. If a debt be repayable by equal annual instalments of principal, with interest on the amount outstanding from time to time, it has never been questioned that only the interest, and not the instalments of principal, constitutes income, and is subject to tax. In this case, however, no "annuity" is created; and it is only where repayment is made by what may be called a "constant annuity," i.e., a fixed equal annual sum covering both principal and interest, that the question can arise.

58. Annuities are generally taxed by deduction, and therefore in so far as an annuity is paid out of the funds charged to Income Tax, the method on which the tax is computed would affect the distribution of the burden of tax as between the payer and receiver of an annuity, rather than the amount of tax received by the Exchequer. It is only where an annuity is paid by the State or by a public body out of the untaxed income that, in practice, the method of assessing the annuity to tax affects the amount of the tax received by the Exchequer.

59. It should be remembered too that, whatever may be the abstract merits of this question, lapse of time has done much to diminish its practical importance since it was last discussed by the Select Committee of the House of Commons in 1861. For nearly every terminable annuity now existing must have been created in the interval, and the parties to it on either side must have made their contract on the basis of the method of charge to Income Tax, which was then confirmed and has since been maintained. The holders of existing annuities, therefore, have no equitable claim to relief, and thus the question narrows itself down to one of policy for the future, the answer to which would seem to turn on the consideration whether there be, or be not, any real need for an alteration of the law that would serve no other purpose than that of encouraging investments in terminable annuities.

60. The history of the present law and practice is as follows:—

Under the Income Tax Act of 1842 annuities are made chargeable in express terms on the full yearly

amount, whether they are paid out of public revenue and charged under Schedule C, or paid from other sources and charged under Schedule D.

61. When, in 1853, the Income Tax was extended to Ireland attention was directed to the fact that large advances of public money had been made for drainage and land improvements, more especially in Ireland, and that on these advances repayment was secured by rent-charges on the lands affected. It was evident that if the persons paying these rent-charges to the State were to be entitled to deduct and retain Income Tax on the whole amount of the rent-charges, the recovery of the advances would be unduly impaired, and the charge to Income Tax on the income of land would be unduly diminished.

62. Parliament accordingly enacted by Section 42 of the Act of 1853 that on rent-charges created under certain Acts then in force, for repayment of loans advanced by the State, the persons paying the same should be entitled to deduct and retain Income Tax on one-third only of the amount of the rent-charge.

63. This enactment represents the single legislative action that has been taken towards placing a limited construction upon the term annuity as used in the Act of 1842. But much has been done in that direction by judicial interpretation and by administrative practice.

64. In 1856, in the case *Foley v. Fletcher*, the Courts held that the payment by means of half-yearly instalments, extending over thirty years, of a sum representing the agreed price of a purchased property, was not an annuity within the meaning of Section 102 of the Act, 1842.

65. Following the principle of this decision, and of Section 42 of the Act of 1853, the Board of Inland Revenue have regarded as not falling within Section 102 of the Act of 1842 any annuity which, by the nature of its origin and by the terms of the contract creating it, is manifestly and essentially a method of discharging by instalments, with interest, a debt created by loan or by purchase, and one in respect of which the capital sum of debt outstanding could be at any time ascertained.

66. Finally, in a case recently before the Courts, the House of Lords has decided that a long annuity payable by the Secretary of State for India, to the shareholders of the Great Indian Peninsula Railway, in discharge with interest of an ascertained capital sum agreed upon as the purchase price of the railway, though described by Parliament as an annuity in the Acts under which the agreement was made, is not an annuity within the meaning of Sections 88 or 102 of the Act of 1842, and is assessable to Income Tax only in respect of so much of each annual payment as represents interest on the capital outstanding. This decision will no doubt be applied to other cases in which the circumstances present no distinguishable feature.

67. The issue has thus been much narrowed. Purchased annuities for terms of years are alone in question; and on a review of all the circumstances, our conclusion is that there is no sufficient reason for altering the present law, and that terminable annuities, purchased as such, may properly continue to be taxed on their full amount.

1905, 2 K. R. 111.

D.C. 1905, Report, p. 31/32.

Peckham & Co. 20-22.

D.C. 1905, Report, p. 31/32.

10 & 17 Vic. cap. 34.

D.C. 1905.

10 & 17 Vic. cap. 34.

5 & 6 Vic. cap. 35.

(1856) 3 H. & S. 115.

5 & 6 Vic. cap. 35.

10 & 17 Vic. cap. 34.

5 & 6 Vic. cap. 35.

5 & 6 Vic. cap. 35.

5 & 6 Vic. cap. 35.

Appendix No. 7 (k).

BOARD OF INLAND REVENUE,

SOMERSET HOUSE.

HISTORICAL NOTE ON THE LIABILITY TO INCOME TAX (SCHEDULE D) OF CONCERNS CONTROLLED IN THE UNITED KINGDOM BUT TRADING MAINLY ABROAD.

1. Section 2 of the Act of 1799, which first imposed the Income Tax, charged with the new duty "all Income of every Person residing in Great Britain, and of every Body Politick or Corporate, or Company, Fraternity or Society of Persons (whether Corporate or not Corporate) in Great Britain, whether any such Income as aforesaid shall arise from Lands, Tenements, or Hereditaments, whosoever the same shall be situate, in Great Britain or elsewhere." In 1803, when the tax was split up into the five Schedules, A, B, C, D, and E, it was enacted that the charge under Schedule D should be levied "upon the annual Profits or Gains, arising or accruing to any Person or Persons residing in Great Britain, from any kind of Property whatever, whether situate in Great Britain or elsewhere, or from any Profession, Trade or Vocation, whether the same shall respectively be carried on in Great Britain or elsewhere."

2. In the Income Tax Act, 1918, which came into force on the 6th April, 1919, and which consolidated the Income Tax enactments existing at that date, the words indicating the nature of the income chargeable under Schedule D are found in the first Schedule to the Act, Schedule D, Rule 1. The wording of this Rule adheres closely to that of the charging sections of the Acts of 1842 (sec. 1) and 1853 (sec. 2), and reads as follows:—

"Schedule D.

1. Tax under this Schedule shall be charged in respect of:—

(a) The annual profits or gains arising or accruing—

(i) to any person residing in the United Kingdom from any kind of property whatever, whether situate in the United Kingdom or elsewhere; and

(ii) to any person residing in the United Kingdom from any trade, profession, employment, or vocation, whether the same be respectively carried on in the United Kingdom or elsewhere; and

(iii) to any person, whether a British subject or not, although not resident in the United Kingdom, from any property whatever in the United Kingdom, or from any trade, profession, employment, or vocation exercised within the United Kingdom; and

(b) All interest of money, annuities, and other annual profits or gains not charged under Schedule A, B, C, or E, and not specially exempted from tax;

in each case for every twenty shillings of the annual amount of the profits or gains."

3. It will be seen that under paragraph (a) (i) of the Rule a person (and this term includes a company who resides in the United Kingdom) is made chargeable to Income Tax under Schedule D on the whole of his trade profits, wherever his trade is carried on. The words in question are wide enough to cover the case of a business wholly carried on out of the United Kingdom so long as it belongs to a person residing in this country, but since the case of *Colquhoun v. Brooks* (2 T.C., 490) was decided by the House of Lords in 1889 the position has been that, unless the trade is at least partly carried on within the United Kingdom, the profits are chargeable not under Case I of Schedule D on the whole profits, but as a foreign possession under Case V on the amounts remitted to this country. *Brooks* was an English resident and was a partner in an Australian

business, but virtually a sleeping partner, taking no active part in the carrying on of the Australian business.

4. Referring to the words of the charging section, Lord Esher, M.L., in giving judgment when this case was in the Court of Appeal, made the following comment:—"Taking the words in their largest sense they apply to a foreigner as much as to a subject of the Queen, and it is that which to my mind makes the case so important. If the words are read in their largest sense any foreigner residing for a time sufficient to constitute a residence will have to pay Income Tax in this country for any kind of property, wherever situate, and though no part of the profits comes into this country. So in regard to trade, although it is in every sense an absolutely foreign trade and in no sense an English trade, that is to say, no part of the transaction is carried on from, to, or in this country, if those words are read in their fullest sense, from the mere fact of such a foreigner residing here for a sufficient time, all his trade is liable for the benefit and advantage of this country." (L.R., Q.B.D., Vol. XXI, p. 57.)

5. The House of Lords, as stated above, refused to give the words of the charging section their widest meaning, and restricted the liability, where no part of the trade is carried on in the United Kingdom, so that part of the foreign profits which is remitted to this country. As Lord Watson said in 1886, when giving judgment in a later case (*Sax Paulo Railway Company, Limited, v. Carter*, 3 T.C., at p. 411), "the noble and learned Lords who took part in the decision (in *Colquhoun's* case) were of opinion that the interest of the English partner was included in the sweeping language of the first Case, but they held that it also constituted within the meaning of the fifth Case a possession in one of Her Majesty's Dominions out of the United Kingdom. The ground upon which the interest was held to be taxable in terms of the fifth Case was that the Income Tax Acts contained no machinery for assessing under the first Case profits accruing from any trade which is not wholly or in part carried on within the United Kingdom, whereas they do provide machinery for assessing under the fifth Case all profits arising from trade exclusively carried on outside of the United Kingdom."

6. When the business belongs to an individual the question whether the liability extends under Case I to the whole of the profits, or falls under Case V on remittances only, is comparatively simple. If the individual resides in this country, and has such control of his business that it may be said that the business is at least partly carried on in the United Kingdom, he is liable under Case I on the whole of the profits, even though all the ordinary trading transactions take place abroad. The case of *Ogilvie v. Kiffen* (5 T.C., 338), decided in 1908, is definite on this point. This was a case where an individual residing in the United Kingdom was the sole owner of a business carried on through managers in Canada, and was "vested with the sole right to manage and control every department of its affairs" (5 T.C., 341). The Court held that the trade was carried on partly in the United Kingdom, and being carried on partly in the United Kingdom, the profits were chargeable under Case I as laid down in *Colquhoun v. Brooks*. There was "mere oversight regularly exercised, even though actual intervention never becomes necessary, everything abroad going smoothly without it" (Lord Sumner, commenting on *Ogilvie v. Kiffen* at 5 T.C., p. 551).

7. *Ogilvie's* case was not decided until 1908, and by that time there had been several decisions on the same question in cases where the business was carried on by a limited company. When the trader is not an individual but a company, the position is complicated by the fact that the company cannot be said to reside

in the United Kingdom in quite the same way as an individual resides. As far back as 1876, in the case of the *Caeana Sulphur Company, Limited*, v. *Nicholson* (1 T.C., 88)—a company working sulphur mines in Italy, but registered in England, where the directors held their meetings and exercised their powers—it had been held that the company was liable, as a person residing in the United Kingdom, in respect of its whole profits, whether made in England or elsewhere. Baron Huddleston, in giving judgment, said: "I think that the whole question here will . . . turn upon what we should consider the interpretation of the word 'residence' as applicable to a company. . . . Now, the definition of the word 'residence' is founded upon the habits and relations of a natural man, and is therefore inapplicable to the artificial and legal person whom we call a corporation. But for the purpose of giving effect to the words of the Legislature an artificial residence must be assigned to this artificial person, and one formed on the analogy of natural persons. You do not find any very great difficulty in defining what is the residence of an individual; it is where he sleeps and lives. We understand perfectly well what is the residence of a natural person. Then what is the residence of this artificial person? I think that all the Counsel are agreed here, that the residence of an artificial person, like a trading corporation, must be considered to be where he carries on his business, where the real trade and business is carried on" (1 T.C., 103). The judge would not admit that the place of registration of a company was conclusive of its residence, but he said that the place of registration was a fact which must be taken into account in connection with all the other facts, "and if you find that it is registered in a particular country, and acts in that country, and has its office in that country, and receives dividends in that country, you may say that those are all acts, coupled with the registration, which lead you to the conclusion that that country is the seat of its business" (1 T.C., 105).

8. Then in 1889 came the decision in the case of *Colquhoun v. Brooks*, already referred to above, which made it clear that liability to Income Tax did not attach (under Case I of Schedule D) to the whole of the profits of a foreign business owned by a British resident unless the business was at least partly carried on in this country. Before an individual could be charged under Case I in these circumstances, two questions had therefore to be answered affirmatively: (a) is he resident in the United Kingdom? (b) is the business at least partly carried on in the United Kingdom? In the case of a company the effect of the legal decisions quoted was to tend to merge these two questions into one. As the principal residence of a company was held to be at the seat of its business, the only question that had to be determined was whether the seat of the business of the company was in the United Kingdom.

9. Another important case was heard in the House of Lords in 1895, the case of the *San Paulo (Brazilian) Railway Company, Limited*, v. *Carter* (3 T.C., 407). In that case, although the company was registered in England, and although its directors held their meetings here and made contracts here, it was argued that the business was carried on wholly abroad, and therefore, under the decision in *Colquhoun v. Brooks*, was not liable under Case I. But the House of Lords would not admit that contention. The Lord Chancellor said: "Now in this case the appellant company is an English company, residing (so far as that abstraction, a corporation, can reside at all) in England. It has an office in London, and I am disposed to think (though it is unnecessary for the purposes of this case to say so) that its trade, if the word 'trade' is strictly construed, is wholly carried on in England." He went on to say that it was probably true that the phrase "where the trade is carried on" might be understood in two different senses. "It may mean where the goods in respect of which trading is carried on are conveyed, made, bought, or sold; or, speaking of land, where it is cultivated or used for any other purpose of profit. That makes the locality of the goods or the land which are the subject of the trade to be in a certain sense the place where the trade is carried on, because it is the place where the things corporeally exist or are dealt with. But there is another sense in which the conduct and management,

the head and brain of the trading adventure, are situated in a place different from that in which the corporeal subjects of trading are to be found. . . . It is therefore necessary to determine upon these principles where this appellant company carries on its business. It deals undoubtedly with land in the Brazil. In Brazil the payments are received, in Brazil the passengers and goods are carried, but the form of trading can make no difference . . . the person who governs the whole commercial adventure, the person who decides what shall be done in respect of the adventure, what capital shall be invested in the adventure, on what terms the adventure shall be carried on; in short, the person who, in the strictest sense, makes the profits by his skill or industry, however distant may be the field of his adventure, is the person who is trading. That person appears to me in this case to be the appellant company" (3 T.C., 410).

10. A further stage was reached in 1906, when the House of Lords decided the case of *De Beers Consolidated Mines, Limited*, v. *Hove* (5 T.C., 138). In that case the circumstances differed from those of the *San Paulo Railway* in that the company was registered in South Africa, its head office was in South Africa, and the general meetings of the shareholders were held in that country. Directors' meetings were held both in South Africa and in London, but it was in the United Kingdom that the majority of the directors and life governors resided, and the directors' meetings held in London were the meetings where the real control was exercised in all the important business of the company. It was argued for the appellants that the company, being registered in South Africa, could not be resident for tax purposes in the United Kingdom. On that point, the Lord Chancellor said: "In applying the conception of residence to a company, we ought, I think, to proceed as nearly as we can upon the analogy of an individual. A company cannot eat or sleep, but it can keep house and do business. We ought, therefore, to see where it really keeps house and does business. An individual may be of foreign nationality and yet reside in the United Kingdom. So may a company. Otherwise it might have its chief seat of management and its centre of trade in England, under protection of English law, and yet escape the appropriate taxation by the simple expedient of being registered abroad and distributing its dividends abroad. The decision of Chief Baron Kelly and Baron Huddleston in the *Calcutta Jute Mills v. Nicholson* and the *Caeana Sulphur Company v. Nicholson*, now 30 years ago, involved the principle that a company resides for the purposes of Income Tax where its real business is carried on. Those decisions have been acted upon ever since. I regard that as the true rule; and the real business is carried on where the central management and control actually abides. It remains to be considered whether the present case falls within that rule. This is a bare question of fact, to be determined not according to this or that regulation or by law, but upon a scrutiny of the course of business and trading" (5 T.C., 212 and 213). The court had no difficulty in determining that upon the facts of the case the *De Beers Company* carried on its business in England and was liable to Income Tax on the whole of its profits under Case I of Schedule D.

11. By this time the doctrine was well established that a company was resident in this country and liable to Income Tax on its whole profits if the general control of the company's activities was exercised in the United Kingdom, although the bulk of its trading operations was carried on abroad. There have been later cases in the Courts, e.g., the *New Zealand Shipping Company v. Steamers*, 1908 (5 T.C., 539), the *American Thread Company v. Joyce*, 1913 (6 T.C., 169), the *Egyptian Hotels, Limited*, v. *Mitchell*, 1915 (6 T.C., 542), but none of these cases has produced any real modification in the doctrine of control; they have each come before the Courts in order that it might be determined whether the facts and circumstances of the particular case were of such a nature as to constitute control.

12. Of the three cases mentioned in the preceding paragraph, the *New Zealand Shipping Company* and the *American Thread Company* were companies registered abroad, but the Courts held them liable under Case I because they were controlled from this

country. The *Egyptian Hotels, Limited*, on the other hand, was an English registered company, but it was able finally to show that control was not exercised in the United Kingdom, and so escaped liability under Case I. The company had admittedly been trading in this country until 1908, but in that year they made certain alterations in their Articles to secure that the business should henceforth be wholly carried on abroad under the control of a local board in Egypt. The directors of the company still met in England, transacting certain financial business, and retaining certain powers, and the question was whether their remaining self-limited functions were sufficient to constitute control. The company lost its case in the lower Court, but was successful in the Court of Appeal, and as the judges in the House of Lords were equally divided the decision of the Court of Appeal was not upset. But although the company was successful, the doctrine of "control" remained intact. Indeed, it was only by proving that the control was not here that they won their case. The Master of the Rolls was clear on the principle. Speaking of the circumstances in which the company carried on its business up to 1908, he said: "The brain and management and control was there [i.e., in London], and the authorities have plainly settled that if you find that it does not in the least matter where the actual selling of the goods and buying of the goods takes place. Many an English company with offices in London, with a board of directors in London, carries on a business in a remote part of the world; nevertheless it has its trade

carried on in London because the management and brain of the undertaking are at the head office in London" (6 T.C., 542). And Lord Sumner said if the owner of the business "takes a part at home in earning the profits, its importance relatively to that taken by his agents abroad does not matter, nor does the liability to be charged under Case I depend on active interference. Control exercised here over business operations abroad, though they are far greater in volume or magnitude, will suffice for Case I" (6 T.C., 551).

13. On the 17th November, 1915, when the House of Commons was in Committee on the Bill which ultimately became the Finance (No. 2) Act, 1915, Mr. Aunan Bryce made this proposal: "A company incorporated in the United Kingdom, whose capital is entirely or mainly employed in, and whose earnings are entirely or mainly obtained from operating railways, tramways, canals, or the supply of gas, water, electrical energy, or other similar public utilities in any British possession, shall be assessed to Income Tax in respect of its profits in the proportion of one-fourth only of the net annual value thereof." In reply to this proposal Mr. Montagu said that this was only one of a class of cases (concerns which are resident in the United Kingdom but whose profits are made outside the United Kingdom) which would have to be dealt with by the Committee to be set up after the war, and he could make no alteration in the law in favour of a small fraction of the companies concerned.

Appendix No. 7 (l).

BOARD OF INLAND REVENUE,

SOMERSET HOUSE.

HISTORICAL NOTE REGARDING EVASION OF INCOME TAX.

1. The question of evasion under the present Income Tax Act was first considered by the Select Committee of 1851-2.

2. This Committee was appointed "to enquire into the present mode of assessing and collecting the Income and Property Tax, and whether any other mode of levying the same, so as to render the tax more equitable, can be adopted."

3. The official witnesses were all of the opinion that widespread evasion of the tax existed, but they confined their evidence mainly to fraudulent claims of exemption in connection with Schedule A and seem to have had little conception of the possibilities of evasion under Schedule D.

4. Nevertheless, as is only to be expected, it is clear that evasion of the tax was common. The Clerk to the Commissioners of Taxes for the City of London complained that taxpayers went on making the same returns year after year. They "seem to have scored" tained what sum will pass and are content to go on "with it," he said. Other witnesses mentioned specific cases of fraud which had come under their notice.

5. The Committee came to the conclusion that the time at their disposal was not sufficient to enable them to produce a considered report, and they contented themselves with reporting the evidence taken to the House.

6. It is clear that they recognized the existence of fraud and evasion, but came to no conclusion as to how it could be prevented.

7. The question considered by this Committee was referred in precisely the same terms of reference to another Select Committee in 1861.

8. The evidence on this occasion was similar to that given in 1851-2.

9. This Committee also were unable to agree upon any recommendations.

10. An interesting paragraph in a draft report put forward by Sir Stafford Northcote reads as follows:—

"They have also to add that the scheme" (for differentiation, allowance for wasting assets,

etc., suggested by the Chairman, Mr. Hubbard), "appears to them defective in another respect, inasmuch as, while professing to provide for the more equitable levying of the tax, it wholly fails to touch the greatest and most serious of the evils which are incident to the present system, viz., the facility and encouragement which it affords to fraudulent self-assessment. The extent of this evil is indicated by several witnesses, but your committee have received no suggestion for remedying it; and they have some reason to apprehend that the plan which has been under consideration, might, if adopted, increase rather than reduce the mischief."

The present system referred to doubtless had reference to the extent to which the assessment of the tax depends on personal returns, and the difficulty experienced in checking their accuracy.

This paragraph, however, was withdrawn.

11. There was no further inquiry into the Income Tax system until 1905, when a Departmental Committee was appointed by the Chancellor of the Exchequer to inquire into various matters including, *inter alia*, "the prevention of fraud and evasion."

12. Mr. Stoddley, one of the Secretaries to the Board of Inland Revenue, presented an official memorandum in which it was stated that although the gross amount of income brought under review in respect of which there was appreciable room for evasion probably did not exceed £150,000,000 out of a total of £849,000,000, the Department was in possession of evidence showing that grossly insufficient returns, or no returns at all, were made over long periods of years with impunity, the probability of detection being slight until some event occurred to bring the facts to light, such as the death of the taxpayer, the conversion of a private business into a limited company, or a claim being made for compensation for disturbance based on the profits. The existing legal powers of the Department, either for inflicting penalties or for recovering lost duties were declared to be far from adequate.

13. The deficiencies were considered to be:—

- (a) that the only penalty for neglect to make a return or for making a false return, which could be sued for after a lapse of one year from the date of the offence, was that of £50 under section 55 of the Income Tax Act of 1842, proceedings for the recovery of which could be commenced within two years.

The necessary evidence in a case of fraud was rarely obtained in time to admit of proceedings being taken;

- (b) that insufficient assessments could be increased within only four months from the end of the year of assessment, and omissions from assessment rectified within only twelve months.

14. The Board of Inland Revenue were of opinion that section 64 of the Taxes Management Act, 1890, giving the Surveyor power in the case of omissions from assessment to make a surcharge, carrying, in fraud cases, treble duty, should be amended so as to apply to under-assessments as well as to omissions, and to extend the time limit to six years.

15. Sir Thomas Hewitt, K.C., Clerk to the Commissioners of Taxes for the City of London, presented a memorandum in which he expressed the opinion that deliberate fraud existed to a certain extent, but was not so common as evasion by failure to make returns, which, he said, was very frequent.

16. He suggested:—

- (a) that the Surveyor's power to make surcharges should apply to under-assessments as well as to omissions from assessments;
- (b) that the existing limit of four months during which the Additional Commissioners could make additional assessments should be extended to three years;
- (c) that all penalties should be recoverable within three years;
- (d) that an additional "return default duty" of 5 per cent. to 10 per cent. should be imposed in all cases where no return is made and no satisfactory excuse given;
- (e) that there should be no time limit for the recovery of duty under-assessed by reason of fraud;
- (f) that the Commissioners should have the right to require production of books.

17. In reply to questions by the Committee he expressed the opinion that the Police Court Magistrates would not be a satisfactory tribunal for Income Tax penalties, except possibly in small cases in the country, but that publicity was desirable and should be attained by giving the Commissioners power to publish reports of penalty proceedings before them.

18. With regard to legal evasion, Sir T. Hewitt drew attention to the numerous cases of foreign firms trading through agents, where the course of business was arranged so as to escape liability, and to the growing practice of registering companies abroad with the same object.

19. The Committee, in June, 1905, reported that in the sphere where self-assessment is still requisite, there was a substantial amount of fraud and evasion, resulting in a loss to the Revenue serious enough to demand some amendment of the law and practice.

20. They therefore recommended:—

- (a) that it should be made obligatory under a comparatively small penalty on each individual who received a form of return to fill it up even though he may not be liable to tax;
- (b) that the time within which a surcharge or additional assessment may be made should be extended to three years;
- (c) that the Board of Inland Revenue or the General Commissioners should have power to publish names and details in cases of gross fraud.

21. The Committee were of opinion that it was not desirable that any jurisdiction with regard to Income Tax penalties should be given to the police courts.

22. In May, 1908, a Select Committee was appointed "to enquire into and report upon the practicability of graduating the Income Tax, and of differentiating, for the purpose of the Tax, between permanent and precarious incomes."

23. The question of existing fraud and evasion came before this Committee only incidentally, and very little new evidence on the subject was given.

24. The Committee, however, reported that in their opinion "a compulsory personal declaration from each individual of total net income in respect of which tax is payable is expedient, and would do much to prevent the evasion and avoidance of income tax which at present prevail."

25. As a result of these reports the Finance Act, 1907, extended the powers of the Revenue in the following respects:—

It provided:—

- (a) that every person upon whom a form requiring a return of income assessable under Schedules D and E has been served, shall be liable, in default of a return, to a penalty under section 55 of the Act of 1842, whether he is chargeable with duty or not, the penalty not to exceed £5 if the person proves that he was not chargeable, (Section 29 (1));
- (b) that proceedings for the recovery of any fine or penalty might be commenced within three years after the commission of the offence, (Section 29 (1));
- (c) that the period within which an additional assessment or surcharge might be made should be extended to three years from the end of the year of assessment, (Section 29 (2)).

26. It further provided that in the case of any company, the secretary or other officer (by whatever name called) performing the duties of secretary should be responsible for making returns, (Section 29 (2)). This duty had formerly been imposed on the "clerk or other officer acting as treasurer, auditor or receiver." (Section 40, Income Tax Act, 1842.)

Incidentally, in introducing the principle of differentiation in rate as between earned and unearned incomes, it provided that the relief to the lower "earned" rate had to be claimed at the time the return was made, and, in any case, before the 30th September in the year for which the tax was charged. This provision had the effect of giving a considerable inducement to make a return in the case of incomes not exceeding £2,000 or £3,000, the maximum difference in rate rising from 3d. in 1907 to 8d. in 1914. This limitation as to the date of claim was abolished in 1915.

27. Section 94 of the Finance (1909-10) Act, 1910, provided that any person making a false statement or false representation "for the purpose of obtaining any allowance, reduction, rebate, or repayment in respect of any duty under this Act, either for himself or for any other person, or in any return made with reference to any duty under this Act," shall be liable on summary conviction to imprisonment for a term not exceeding six months with hard labour.

28. This provision, though applicable also to offences relating to other duties, gives for the first time jurisdiction to the Police Court Magistrates in Income Tax cases. As, however, the proceedings, which must be under the Summary Jurisdiction Acts, must be taken within six months after the commission of the offence the section is practically useless for Income Tax purposes, seeing that such offences can seldom be detected within such a limited period.

29. A very important provision for the punishment of fraud was introduced into section 5 of the Perjury Act, 1911, under which any person who knowingly and wilfully makes, otherwise than on oath, a statement false in a material particular "in an abstract, account, balance sheet, book, certificate, declaration, entry, estimate, inventory, notice, report, return, or other document which he is authorised or required to make, attest, or verify, by any public general Act of Parliament for the time being in force," shall be guilty of a misdemeanour punishable with hard labour for any term not exceeding two years, with or without a fine in addition.

In this connection it should be observed that the Perjury Act, 1911, does not apply to Scotland or Ireland.

30. The other provisions for the punishment of evasion contained in the existing Acts are set out in the evidence which will be given before the Royal Commission by Mr. E. Stanford London, Deputy Chief Inspector of Taxes.

Appendix No. 7 (m).

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.HISTORICAL NOTE ON ASSESSMENT BY REFERENCE TO THE PROFITS OF AN AVERAGE
OF YEARS.

1. From the early days of Income Tax in England the profits of a trader assessable under Schedule D have been computed on the average profits of the three years preceding the year of assessment. For the first year of the tax, 1799, the trader had, indeed, an option to select either the average profits of the three preceding years or the profits of the preceding year—no doubt to avoid the hardship of bringing into the clutches of a new tax abnormal profits made before the year for which the tax was first imposed—but when once he had made his election he had to abide by it for later years as well as for the first. This basis and this option applied not only to trades, but also to professions, offices and employments which were of uncertain annual amount. In the case of offices, pensions, stipends, &c., which were of certain annual amount, the basis was the income of the preceding year. Mines and fire insurance offices were assessable on a five years' average.

2. In 1803, when incomes were first classified under the five still existing Schedules, A, B, C, D and E, trades and manufactures were charged on the average of the three preceding years without any option, but professions and employments in Schedule D were put on the basis of the profits of the preceding year; mines remained on the five year basis, doubtless because of the fluctuating character of their profits.

3. When the Income Tax was reimposed in 1842, the old average system under Schedule D was retained. To some objections to assessment on averages raised when the Bill was in Committee, the Chancellor replied: "Persons in whose trades 'depression had existed during the last year, and 'who hoped for improvement in future, were 'desirous to have the assessment made on last year's 'profits; and those who thought that depression 'had existed in their respective businesses during 'the last three years were anxious that the assess- 'ment should be taken on the term of three years. 'He considered the fairest course was to adhere to 'the former practice, and to estimate the profits of 'the current year on the average of the three pre- 'ceding years." Traders and manufacturers continued, therefore, to be assessable on the average profits of the three years preceding the year of assessment, and professions and employments on the previous year, subject, however, in both classes, to a provision for adjustment in case the profits of the year of assessment fell short of the profits so assessed.

This provision was contained in the 133rd section of the Act, which was based on a similar section in the older Acts.

4. In 1853 the three years' average was extended to professions and employments chargeable under Schedule D, and the system thus enlarged is in force at the present time.

5. The evidence given before the Select Committee of 1861 showed very little opposition to the average system, but made conspicuous the one-sided action of section 133, which enabled the taxpayer to get his assessment reduced if he made less than the average, but did not enable the Commissioners to increase his assessment if he made more. While a useful and perhaps necessary provision in the first years of a new tax, its operation over a series of years was unequal and capricious both as between the Crown and the taxpayer, and as between two taxpayers one with a constant and the other with a fluctuating income. Mr. Hubbard in his draft report recommended the repeal of the section, but the Committee made no recommendation on this, or indeed any other point. The prominence given

in 1861 to the 133rd section may, however, have been the cause of the modification made in 1865, which mitigated, though it did not do away with the inequality of its action. The effect of the 1865 provision was, roughly speaking, that where the profits of the year 4 fell short of the assessment based on the average profits of the years 1, 2, and 3, the assessment should be reduced not down to the profits of the year 4 (as hitherto), but down to the average profits of the years 2, 3, and 4.

6. The Commissioners of Inland Revenue in their 134th Report (1870), commenting on the injustice of the 133rd section and on the fact that the 1865 Act merely palliated and did not completely correct that injustice, were led to the conclusion that the mischief was inherent in the average system, and said "We doubt whether any rule of charge could 'be devised for such cases which would do justice 'both to the taxpayer and the Revenue so long as 'the system of averages is preserved. It would be 'a great improvement if we could charge the actual 'profits made in the year ending on the 31st 'December immediately preceding the collection."

7. In 1893 Mr. Gibson Bowles made the proposal that under Schedule D the profits should be computed neither upon the three years' average, nor on the profits of the preceding year (which was the usual alternative basis proposed when the average was assailed), but on the profits of the year of assessment itself, maintaining that on this basis the Income Tax would exactly "follow 'the fortunes of the income." He returned to the charge in 1902, in company with Mr. J. Walton, pressing the point that the average was an abstraction which represented nothing that is absolutely true, and asking that means should be devised by which all concerns whether assessed on an average of five years, or three years, or on the profits of the preceding year, should in future pay on the actual profits of the year of assessment; but his proposal was not accepted.

8. The "system of computing profits assess- 'able under Schedule D on the average of the 'profits actually realised in the three years preceding 'the year of assessment," was among the subjects specifically resented to the Departmental Committee which reported in 1905.

The Committee, after examining the effect of section 133 of the Income Tax Act of 1842 and recommending its repeal, considered the general arguments for and against assessment under Schedule D on average profits. The evidence they had taken was divided—B. N. Carter (539), Wykes (719) and Athawes (2231) were in favour of retaining the average; Schuster (2067) would keep the average for traders but not for professional men; Nott-Bower (252), Hewitt (1170), Gore (1232, 1940), Chamberlain (1950) were against the average. The text of their Report is given in Annex II of the official evidence-in-chief on this subject. [See Q. 15,150 *et seq.*]

9. As a result of the 1906 Report the 133rd section of the Act of 1842 was repealed by the Finance Act, 1907, provision being made at the same time for adjustments of assessments in the cases of (a) newly set up businesses, and (b) discontinued businesses, but the system of assessment on average profits was left unaltered. In 1914, after the outbreak of war, section 133 was temporarily revived for the specific purpose of dealing with cases where profits had fallen short of the assessment owing to circumstances attributable to the war, and in that state of temporary re-animation it exists at present.

28 & 29 Vict.,
c. 39, sec. 6.Report of the
Commissioners
of Inland
Revenue, 1870,
p. 128.Official Report
Vol. 12,
4th Series,
cols. 166/7.Official Report
Vol. 106,
4th Series,
col. 836.D.C. 1905,
p. iii.7 Edw. 7,
c. 13, sec. 24.

Appendix No. 7 (n).

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.

HISTORICAL NOTE ON THE CONCERNS CHARGED IN NO. III OF SCHEDULE A OF THE
INCOME TAX ACTS.

1. The properties now comprised in No. III of Schedule A of the Income Tax Acts include quarries, mines, ironworks, gasworks, waterworks, railways, canals, docks, markets, ferries, and other concerns of a similar nature. These concerns, although properly described as "lands, tenements, hereditaments or heritages," and therefore naturally coming within the scope of Schedule A, offer a much more difficult problem than ordinary lands and tenements when their annual value has to be fixed for assessment purposes. In their character they approximate very closely to trading concerns which are chargeable under Schedule D, being properties, in the words of Lord Blackburn, "deriving their annual value from being ancillary to a trade," and they have formed, in consequence, a somewhat awkward class which the Legislature has thrown sometimes into Schedule D, sometimes into Schedule A.

2. The Act of 1803 was the first Income Tax Act which divided the chargeable subjects into the existing Schedules. Schedule A of that Act comprised all lands, tenements, hereditaments or heritages, which were to be charged on their annual value. Specifically included in Schedule A were quarries, mines, waterways, rights of markets, &c., when let at a certain annual rent. These concerns also came within the purview of Schedule D, the Third Case of which comprised property of an uncertain annual value not charged under Schedule A; and it was provided that, where they were carried on as a trade by the owner, or let in any other manner than at a certain annual rent, or let (whether at a certain rent or not) and carried on as a trade by the tenant, concerns of this kind were to be assessed under Schedule D on the amount of their profits.

3. The Act of 1805 abolished this dual system and transferred the assessments of what had become known as "concerns arising out of lands" or "concerns about lands" wholly to Schedule A.

4. The Act of 1806 repeated this provision, but added "drains and levels" to the list of enumerated concerns, and also a sweeping clause to include other concerns of a like nature.

5. The transfer to Schedule A accomplished in 1805 was continued in the Act of 1842, which repeated the provisions of 1806 with the addition of two new classes of concerns arising out of lands, namely, "gasworks" and "railways," thus bringing the law into line with modern commercial conditions.

Apparently some discontent with their position under Schedule A existed on the part of mine owners and proprietors of like concerns at this time, for an unsuccessful motion was proposed in the House of Commons by Mr. Forster on 6th March, 1845, that they should be allowed to make their returns in the same manner and with the same option

of privacy as other trading companies assessed under Schedule D, but fifteen years were to elapse before any step was taken in the direction of meeting this grievance.

6. The Income Tax Act of 1860 provided that the assessment of the profits of railways was to be taken from the jurisdiction of the General Commissioners and given to the Special Commissioners; and that persons assessed for mines or quarries might appeal to the Special Commissioners, a right previously restricted to persons assessed under Schedule D. These concessions paved the way to a much larger reform given by the Revenue Act of 1866, when it was laid down that the concerns described in No. III of Schedule A should be assessed "according to the Rules prescribed by Schedule D" "so far as such Rules are consistent with the said No. III." It is to be noticed that, although now assessable according to the Rules of Schedule D, these concerns remained chargeable under Schedule A.

7. This was a rather anomalous position, and an attempt was made to show that the Act of 1866 had in fact retransferred the concerns in question bodily from Schedule A to Schedule D. It needed judicial interpretation to define the limits of the new enactment. This interpretation was provided by a decision of the House of Lords in 1881, when it was laid down that the effect of the Act of 1866 was that all the provisions for keeping returns under Schedule D secret and confidential were made to apply to concerns described in No. III of Schedule A, and that any rule as to the mode of computing profits given in Schedule D which was not inconsistent with No. III of Schedule A was made to apply to the mode of computing the annual value of those concerns, but that there was no transfer from Schedule A to Schedule D such as would change the average on which the profits were to be assessed.

8. The Commissioners of Inland Revenue referred to the decision in this case in their 1881 Report, giving the true reason for the legislation of 1866, and saying: "Now that the point in dispute has been finally and authoritatively settled by the House of Lords, we may state as a fact that the section referred to was introduced at the instance of the mine owners, solely to enable them, if they so desired, to return their profits for assessment in one sum by the special commissioners of income tax, instead of returning them for assessment by the local commissioners of income tax, and that there was no intention whatever, by the section referred to, to alter the incidence of the tax or the averages on which returns were required by the previously existing law to be made by mine owners. The judgment of the House of Lords now conclusively decides that the section referred to enacts what it was intended it should enact, and no more."

From this date onwards there has been no change either in the law or the practice.

Colman Iron Co. v. Biscoe
(1 Tax Cas. at p. 312.)

43 Geo. 3,
Cap. 122,
Sec. 21,
Sch. A.

Sec. 24,
Sch. D,
Case 8,
Sess. 101-2.

45 Geo. 3,
Cap. 49.

46 Geo. 3,
Cap. 63,
Sec. 74,
Sch. A,
No. III.

5 & 6 Vict.,
Cap. 35,
Sec. 60,
Sch. A,
No. III.

23 & 24 Vict.
Cap. 34,
Sec. 2 & 7

23 & 24 Vict.
Cap. 34,
Sec. 8.

Colman Iron Co. v. Biscoe
(1 Tax Cas. 287.)

24th Report
the Commis-
sioners of In-
land Revenue
1881, p. 75.

Appendix No. 7 (o).

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.

HISTORICAL NOTE ON THE PERIOD OF THE YEAR OF ASSESSMENT.

1. The Income Tax year of assessment, which ends on April 5th, is, of course, not to be confounded with the financial year, which ends on March 31st, but the history of the latter elucidates the origin of the date of termination of the Income Tax year.

2. From the earliest times on record the yearly accounts of the public receipt and expenditure of this country were made up to Michaelmas, the time for holding one of the two full sessions of the old Court of Exchequer, when the sheriffs of counties and other accountable persons, having, at the Easter sessions, paid into the Exchequer such instalment as was considered sufficient, paid in the balance of their receipts. Among the Treasury Records now in the Public Record Office are the yearly declarations of the receipts and issues at the Exchequer, the earliest of which, it is understood, is "for one year ending at Michaelmas, 1508, the 34th year Henry 7th."

3. The first change came in 1751, when the Act 24 George II, c. 23, corrected the Julian calendar then in use. Eleven days between the 2nd and the 14th September, 1752, were dropped, and the 1st January was made the first day of the calendar year instead of the 25th March. Section 6 of the Act, however, expressly provided that the time of payment of rents, annuities and amounts payable by virtue of any Act of Parliament then in force should not be accelerated by the provisions of the Act. The 10th October (i.e., eleven days from the 29th September) then became the date of termination of the financial year.

4. Attempts were made to bring this period into accord with then existing commercial practice, beginning in 1786, when the Commons Committee of that year presented an alternative Statement of the Public Income and Expenditure for the year ended 5th January (the old Christmas day), 1786, and culminating in 1798, when the Finance Committee, in their 23rd Report, endorsed a recommendation made by the Commissioners of Audit urging the propriety of making up all public accounts to the same annual date, and added "the 5th of January being the period to which the annual accounts of the Customs and those of the general commerce and navigation of the Empire are made up, it would manifestly be more eligible for the public that all the other accounts should be made up annually to that date." This proposal was adopted from the 5th January, 1800, a quarter's accounts of the Public Income and Expenditure being made up for the period from the 10th October, 1799, to the 5th January, 1800.

5. A further alteration was made in 1832, when the annual Budget, which had previously been brought before the House of Commons for the year ending 5th January, was presented by Lord Althorp for the year ending 5th April (the old Lady Day), upon the suggestion of the Commission "for examining into the method of keeping the public accounts," presided over by Sir Henry Parnell (afterwards Lord Conington), which had observed that under the system then in force of presenting the annual statement of the plan of supplies and means in April, for a year which commenced in the past January Estimates were proposed for a certain amount of expenditure which had, in fact, already been incurred without the sanction of Parliament. At the same time the supplies were taken up to 31st March, 1833, to which date the annual grants were thenceforward to be calculated, but no similar alteration was then made in the date to which the financial accounts were made up, and for which a special legislative enactment was required, although such an alteration was recommended by the Commission.

6. The result was the inconvenient anomaly of the existence of three distinct terminations of the financial year, viz., 5th January, 31st March and 5th April. This inconvenience was not removed until 1854, when, under the provisions of the Act 17 and 18 Victoria, c. 94, the Finance Accounts were thenceforward made up for all purposes for the year ending on 31st March. A supplementary quarter's statement of the Finance Accounts was made up for the period from 5th January, 1854, to 5th April, 1854, and the next annual Finance Accounts were made up normally for the year ending 31st March, 1855. The financial year has since uniformly terminated on 31st March in each year.

7. The origin of the 5th April as the date of termination of the Income Tax year is thus clear. Peel's Income Tax Act of 1842 was introduced not long after the adoption of the 5th April as the date of termination of the fiscal year for Budget purposes, and its adoption for the purposes of the Income Tax naturally followed.

The question of the alteration of the period of the Income Tax year has arisen more than once in connection with the lapse of Parliamentary authority for levying the Income Tax between the 5th April and the passing of the Act imposing the Income Tax for the new year. To avoid this lapse, the advancement of the date by a quarter was formerly advocated. This ground for alteration disappeared, however, with the passing of the Provisional Collection of Taxes Act, 1913.

Appendix No. 7 (p).

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.

HISTORICAL NOTE ON PAYMENT OF INCOME TAX.

1. The Income Tax Act of 1799 provided for the payment of the duty imposed for that year by six instalments, the first payable on the 5th June in the year of assessment, and the others at intervals of two months, so that the final instalment fell due on the 5th April, 1800, the last day of the year of assessment; but under an amending Act, passed later

in the year 1799, the taxpayer could pay the whole of the duty, or several instalments, in one sum, without waiting for the dates on which the instalments became due, and section 31 of this second Act provided that on paying three or more instalments he could obtain a discount at the rate of 5 per cent. per annum.

1 Geo. III,
C. 122, S. 123.

2. With the introduction of a new method of assessment in 1803 the duties, except those that were deducted at the source, were made payable in four quarterly instalments, the first on 26th June in the year of assessment and the others on the 20th September, 20th December, and 20th March.

15 Geo. III,
C. 49, S. 109.

3. By the Act of 1805, it was enacted that the duties in Scotland were no longer to be paid quarterly but half yearly, on the 20th September and the 20th March in the year of assessment.

6 & 7 Vict.,
C. 35, S. 179.

4. The Income Tax Act of 1842, which revived the Income Tax after a long period of disuse, repeated the old provisions as to payment, the duties (except in those cases where the tax was deducted at the source) being payable in four quarterly instalments in England and Wales and by two half yearly instalments in Scotland. At that time the Income Tax did not extend to Ireland. But, although the Income Tax in England and Wales was nominally collectible quarterly, it appears that in practice the collection was, generally speaking, made half yearly.

37 & 38 Vict.,
C. 14, S. 8.

5. The Income Tax Act of 1890 contained a provision to compel Collectors to pay over the duties on days to be appointed by the proper officer for receipts. The comments on this provision, made by the Board of Inland Revenue in their thirteenth Report (1870) throw some light on the administrative practice of the time with regard to the nominal quarterly collection. The Report says:—

Board of In-
land Revenue
13th Report,
Page 124.

"The collection by quarterly instead of half-yearly payments was the most important alteration made in 1820. According to law indeed, the tax had always been due and payable quarterly, and it would scarcely occur to any one unacquainted with the complicated and anomalous arrangements under which the direct taxes are levied that it would be necessary, notwithstanding that the tax was legally exigible, to obtain a special enactment for the purpose of making it available as the income of the State. Such, however, was the case. The Collectors of the tax are parochial officers, not agents of the Crown, and although they might possibly have collected quarterly when called upon by us to do so, yet in the event of their refusing we should have been powerless to compel them, since there was no provision in the law requiring them to hand over the amounts received to the officers of this department more frequently than twice a year. As it was, we met with opposition in some few instances from the District Commissioners in our endeavours to carry into effect the intentions of the legislature, but on the whole the collection was made with tolerable punctuality.

"The principal object of the change was of course to bring into the Exchequer, during the financial year, three-quarters of the duty for the current year, in addition to the tax for the second half of 1820-21, which, falling due on the 20th March, was not available as revenue until the year 1820-21. The quarterly collection was, however, continued (in theory at all events) until the present year 1869-70; but in practice, from the late period of the year at which the Customs and Inland Revenue Act is generally passed, the Clerks to Commissioners, Assessors, and other local authorities alleged that they could not get the assessments ready before the second quarter's tax had become due, nor did they even accomplish so much as this in large towns, where the collection was generally deferred until January; and in some cases (especially in London) until the end of the financial year."

32 & 33 Vict.,
C. 14, S. 1.

6. In 1869 the quarterly system of collection was swept away and the duties were made payable in one sum "on or before January 1st" in the year of assessment, except the duties which were payable by way of deduction, and the duty payable on the profits of all railway companies.

43 & 44 Vict.,
C. 14.

By the provisions of sub-section 2 of section 83 of the Taxes Management Act, 1880, all duties in Scotland were made payable in one sum on or before January 1st, and the only cases in which the quarterly collection remained in force were those of the English and Irish railways (section 95).

7. The abolition of payment by instalments in the case of the ordinary taxpayer did not give rise to any serious objections—no doubt because the quarterly method had already fallen into disuse—but when in the early part of this century the rate of tax began to rise considerably above the modest limits that prevailed up to the end of the nineteenth century, payment of the tax in one sum began to be severely felt, especially by private taxpayers. Proposals began to be made in the House of Commons for a return to the old ways, or at least for permission to pay in two instalments. Nothing was done in this direction until the matter became acute owing to the sudden increase in rates due to the war, and the reduction in 1915 of the exemption limit from £160 to £130, which brought within the scope of the Income Tax a large body of taxpayers who were totally unaccustomed to yearly payments of any kind. To deal with this new class of taxpayers, section 27 of the Finance (No. 2) Act, 1915, made provision for quarterly assessments and quarterly collection in the case of weekly wage-earners employed by way of manual labour. This was not a mere reversion to payment by quarterly instalments: the tax itself was assessable quarterly by reference to the income of the previous quarter. This system applied only to manual workers; for other individual taxpayers a different method was adopted. They were still to be assessed annually for the whole year's profits, but the duty was to be collected half-yearly, on the 1st January in the year of assessment, and on the 1st July after the year of assessment had closed. This system applied only to the earned income of individuals, under Schedules B, D and E. It did not apply to tax payable by companies or corporations, nor to the duty assessed under Schedule A, on the ownership of property.

5 & 6 Geo. V.,
C. 30, S. 22.

8. In the next year, 1916, it was arranged that the duties on quarterly assessments might be collected by means of stamps, and the Commissioners of Inland Revenue were empowered to make regulations for that purpose.

6 & 7 Geo. V.,
C. 24, S. 25.

9. The year 1918 saw a further increase in the normal rate of tax to 6s. in the £. This increase made it necessary to consider the extension of half-yearly payments to the duty assessed under Schedule A on property. If the duty had remained payable in one instalment on the 1st January, the amount to be deducted by a tenant from his landlord might have exceeded a whole quarter's rent, and in such cases would have still left something to be deducted from a second quarter's rent. This position was considered undesirable and section 30 of the Finance Act, 1918, applied the system of half-yearly collection to the Income Tax charged under Schedule A on the owner ship of property.

8 & 9 Geo. V.,
C. 10, S. 30.

10. The position is now that, except for tax which is deductible at the source, the only duties payable in one sum on the 1st January are those charged (a) on individuals in respect of unearned income, and (b) Schedule D charged on companies, corporations, &c.

Appendix No. 7 (q).

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.

HISTORICAL NOTE ON THE ALLOWANCE FOR REPAIRS.

1. The original Income Tax Act of 1799 authorized allowances for repairs of property as follows:—

An average amount not exceeding—

- | | |
|--|------------------------------------|
| (1) in the case of a farm with a principal messuage and other buildings, 8 per cent. | } on the annual value of the farm. |
| (2) if no principal messuage, 3 per cent. | |
| (3) in the case of houses and buildings not occupied with a farm, 10 per cent. | } on the annual value. |

2. These allowances in the case of property let were conditional on the owner bearing the cost of repairs.

3. The allowances authorized by the Act of 1803 "on account of incidental repairs" were:—

Dwelling house	} Not exceeding 5 per cent. on annual value.
Farm houses and farm buildings (except where a tenant repairs)	

4. These allowances were continued by the Act of 1805, the exception as to repairing tenancies being extended to cover the case of dwelling houses, but withdrawn in 1806, by the Act of which year no allowance for repairs was provided.

The reason given was that fraudulent claims had occurred, landlords demanding an allowance for repairs in fact done by tenants. The withdrawal was also stated to be part of an attempt to differentiate in favour of hazardous incomes, and was justified on that ground.

5. The omission of any provision for repairs was continued when the Income Tax was reimposed in 1842. This omission was the subject of much discussion for many years. The evidence given before the Select Committee on Income Tax in 1851-2 showed that it was regarded as a very serious grievance, more particularly with regard to small property. The Select Committee of 1861 considered the question and the draft report of Mr. Hubbard, the Chairman, recommended an allowance of one-twelfth in the case of lands and one-sixth in the case of houses. This proposal was, however, not adopted, partly it would seem because the Committee thought the allowance of a flat rate would work unjustly as between one property owner and another.

6. No change was made until 1894. In that year Sir William Harcourt proposed an allowance of one-tenth from land rents, and one-sixth from house rents for the cost of repairs and maintenance, these

rates being based partly on the experience of local authorities and partly on Mr. Hubbard's proposal of 1861. With an increase to one-eighth in the case of lands, the proposal became law.

7. In 1907, concurrently with the introduction into the Income Tax system of differentiation in favour of earned income, proposals were put forward for the assessment of land and house property according to the principles of Schedule D—i.e., on the net yield—or, alternatively, for an increase in the rate of the uniform deduction for repairs, particularly on landed property. The former did not commend itself to the Chancellor of the Exchequer, as it was considered to be impracticable; but consideration of the latter proposal was promised.

8. In 1909, as a result of the promised consideration, further relief to owners of property in respect of the cost of upkeep was granted. An increase in the rate of the uniform deduction was considered, but rejected. Mr. Lloyd George, speaking in Committee on the Finance Bill (20th September, 1909), stated that he had consulted the Central Land Association as to the form in which the concession should be made, assuming the Government were prepared to set aside a certain sum, and no more, for the purpose. "They were perfectly unanimous that it ought not to be given in the form of a flat rate deduction. . . . They said, and I agree, that if you simply raise the *duties* line all round it means that the good landlord and the bad landlord are treated in exactly the same way." In the result section 69 of the Finance (1909-10) Act, 1910, became law. The section authorized repayment of tax in certain cases on the excess of the average cost in the previous five years of repairs, insurance, management, and maintenance (including replacement of farmhouses, cottages, fences and other works necessary to maintain the existing rent) over the allowances granted by the Act of 1894. This relief was at first confined to land and to houses of less than £5 annual value, and was limited to one-eighth of the annual value in the case of lands and one-twelfth in the case of houses. The maximum allowance was therefore 25 per cent. of the annual value in each case—i.e., one-eighth plus one-twelfth in the case of lands, and one-sixth plus one-twelfth in that of houses.

9. In 1914 the relief was extended to houses not exceeding £12 annual value, and the limit of 25 per cent. removed.

10. By the Finance Act of the current year (1919) the relief has been further extended to houses of an annual value not exceeding £70 in London, £90 in Scotland, and £32 elsewhere.

Appendix No. 7 (r).

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.

HISTORICAL NOTE ON THE ASSESSMENT OF PROFITS FROM THE OCCUPATION OF LAND.

1. In the earliest Income Tax Act, that of 1799, the Legislature, probably in the belief that farmers did not keep accounts in such a form as to enable the actual amount of their profits to be ascertained for assessment, adopted the rental value of land as the basis for estimating profits of occupation. This basis has been continued in subsequent Acts with, however, certain modifications in the method of its application.

2. It will be apparent that any desired ratio of assessable to annual value may be obtained in two ways:—

- (a) by taking the full annual value as the basis of assessment and charging a fraction (or multiple) of the normal rate of tax otherwise applicable thereto;

- (b) by charging the normal rate of tax but taking a fraction (or multiple) of the annual value as the measure of assessable income.

Until 1896 the first method found favour, but in that year a change to method (b) was made.

3. It may be mentioned incidentally that in England a deduction of one-eighth of the Schedule B duty made in the case of tithe-free lands and lands subject to commuted tithe rent charge was also withdrawn in that year. This concession was intended to correct an inequality which it was considered would have arisen *vis-à-vis* lands subject to tithes in kind, the rack rental of which as the result of this liability would have been correspondingly lower.

4. The Act of 1803 adopted the full annual value as the basis of assessment, but whilst the normal rate of Income Tax was 1s. in the £, the profits of occupation of land were charged at 9d. in the £ in England and Wales and 6d. in the £ in Scotland.

By the Act of 1805 these rates were increased by one-fourth.

The Act of 1806 imposed tax at double the rates in force in 1803. An effort was also made to tax the increased profits arising from lands devoted to certain special purposes in which the abnormal use of capital and labour rendered the yearly rent an inadequate measure of the occupier's profits. Rule 8 of Schedule B provided that lands occupied as "Nurseries, or Gardens for the Sale of the Produce," and lands occupied for the growth of hops, where such hop-lands exceeded one-tenth of the holding, should be charged to Schedule B on the average profits of the preceding three years.

A further provision was introduced under Schedule D for assessing the profits of dealers in cattle and sellers of milk. Rule 3 of the Third Case of Schedule D directed that:—

"Whenever the Commissioners shall, on examination, find that any lands occupied by a dealer in cattle, or by a seller of milk (which lands shall have been estimated and charged on the rent or annual value), are not sufficient for the keep and maintenance of the cattle brought on the said lands, so that the rent or annual value of the said lands cannot afford a just estimate of the profits of such dealer," the commissioners may require a return of profits and make a further charge, so that the aggregate of the charges under Schedule B and Schedule D may represent the full profit which would have been chargeable on a Schedule D basis.

5. These special provisions, with the exception of that relating to hoplands (*vide infra*, paragraph 7), have been continued since without intermission, and are to be found in Rule 8 of Schedule B and Rule 4 of Case III of Schedule D in the Income Tax Act of 1918.

6. The Income Tax lapsed in 1816. It was re-imposed in 1842.

By the Act of 1842, the occupier of lands was

charged in respect of the profits of his occupation upon the full annual value less one-eighth as in the Acts in force from 1803 to 1816. The normal rate of tax was 7d. in the £ and duty was to be calculated—

In England and Wales at one-half the normal rate;

In Scotland at five-fourteenths the normal rate; and for the purposes of a claim to exemption on the ground of smallness of total income, the occupier's profit was directed to be estimated in England and Wales at one-half and in Scotland at one-third of the full annual value.

7. The Act of 1853 extended the Income Tax to Ireland and charged the occupier of land upon the same basis as that prescribed for Scotland.

By section 39 of that Act the special provision as to the assessment of the profits of hop-lands was withdrawn and thenceforward hop-growers have been assessed under the general provisions of Schedule B.

8. Until 1894 the rates of duty under Schedule B remained for England and Wales at about one-half and for Scotland and Ireland at about one-third the normal rates, but by the Finance Act of 1894, the charge throughout the United Kingdom was equalised, the duty under Schedule B being fixed at 3d. for every 20s. of net annual value, the normal rate being 9d. in the £.

9. In 1896 the deduction of one-eighth on tithe-free lands was abolished and the method of charging a reduced rate of tax on the full annual value was abandoned. The Finance Act of that year charged duty under Schedule B at the full rate, but upon one-third of the annual value. It also directed that for the purposes of estimating the total income of the occupier for exemption, relief, or abatement, the profits of occupation should be taken throughout the United Kingdom to be one-third of the annual value.

10. The last quarter of the nineteenth century was a period of great depression in agriculture, and, in view of this and the low rates of tax, the virtual exemption accorded to farmers aroused little opposition. Soon after the beginning of the twentieth century, however, there was a revival of prosperity which became gradually more important. Even prior to 1914 there was a material amount of discontent with a system under which a farmer occupying a farm of £480 rental value was assumed to be in receipt of but £160 profits.

11. No alteration in the basis of charge was, however, made until 1915, when, by section 22 (1) of the Finance (No. 2) Act, 1915, the income for purposes both of computing the charge to duty and estimating the total income with a view to a claim for exemption, abatement, or relief was fixed at the full annual value.

By the Finance Act of 1918, section 21, the basis for both purposes was increased to twice the annual value, except as regards land not occupied mainly for the purpose of husbandry, which was still to be treated as of an assessable value for the purposes of Schedule B equal to the single annual value only.

Appendix No. 7 (s).

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.

HISTORICAL NOTE ON THE INCOME TAX TREATMENT OF LIFE ASSURANCE COMPANIES.

1. The profits of a Life Assurance company are by law assessable under Case I of Schedule D, in the same way as the profits of any other business, on the average profits of the preceding three years. Until 1915, it was held—following the decision given in 1884, in the case of *Last v. London Assurance Corporation*—that where a company carried on Fire or Marine Insurance as well as Life Assurance, the profits from these separate branches of insurance must be aggregated for Income Tax purposes; but the Finance Act of 1915 (reproduced in Rule 15 (1), Cases I and II, Schedule D, of the Income Tax Act, 1918) enacted that in such a case Life Assurance was, for the future, to be treated as a separate business for Income Tax purposes.

2. The special position of Life Assurance companies in relation to Income Tax is determined by the fact that Life Assurance companies are, by the nature of their business, compelled to have large sums of money invested, the interest of which is in the ordinary course liable to Income Tax either by deduction at the source or by direct assessment—interest being specifically liable to Income Tax [see the Income Tax Act, 1918, Schedule D, 1 (b)]. It often happens that the amount of the interest on which a Life Assurance company thus bears Income Tax is greater than the amount of its average profits as shown by its periodical valuations.

3. This position was made clear by the Court of Appeal in 1889, in the case of the *Clerical, Medical and General Life Assurance Society v. Carter*. In that case, the company argued that as certain interest came to them in the course of their trade or business it was not an assessable subject-matter. The Court would not accept this contention. Lord Justice Fry said "the Act appears to me to create a plain charge in respect of all interest of money . . . this is interest of money, and it is impossible to escape from the charge." This position is not confined to Life Assurance companies; it applies also to other financial concerns, but perhaps Life Assurance companies are the most conspicuous examples.

4. This grievance was ventilated in the House of Commons in 1891, and again in 1909. In the latter year, Sir Seymour King, during the Committee stage of the Finance Bill, moved to insert a new clause to the effect that where interest or dividends from investments were received in the course of, or as part of, a trade or business, they should not be assessable to Income Tax as a separate subject-matter, but as part of the profits of the business; and that where Income Tax had already been deducted from the interest, repayment should be made of the amount so deducted in excess of the tax that would have been payable on the profits of the business. The Chancellor of the Exchequer held out no hopes of redress, and pointed out that, under the proposed clause, Mutual Assurance companies would be altogether exempt from Income Tax because they do not seek to make profits.

5. The claim of the companies was raised again in 1910 and again in 1914 without success; but in 1915, by the Finance Act of that year, numerous alterations in the law were made, intended to make the incidence of the tax on Life Assurance companies more equitable. Section 11 of that Act overruled the decision in the case of *Last v. London Assurance Corporation*, and provided that "where an assurance company carries on life assurance business in conjunction with assurance business of any other class, the life assurance business of the company shall for the purposes of the Income Tax Acts be treated as a separate

business from any other class of business carried on by the company." Section 12 made it clear that income derived by such a company from the investments of its Life Assurance Fund was to be treated as part of the profits of the Life Assurance business.

6. But the provision that was most important to the Life Assurance companies was contained in section 14, which provided that Life Assurance companies which had been charged to Income Tax by deduction or otherwise, and not under the Rules of Case I of Schedule D on their profits, should be entitled to repayment of Income Tax on the amount disbursed by them as expenses of management, including commissions. To this concession there were three conditions attached:—

- (a) the relief to be given was not to make the Income Tax ultimately borne by the company less than the tax which would have been paid if the company had been assessed on its average profits under Case I of Schedule D;
- (b) sums received by the company from fines, fees, or profits arising from reversions, were to be deducted from the expenses of management for the year, and
- (c) in calculating profits arising from reversions the company is allowed to set off against those profits any loss arising from reversions for any previous year during which section 14 was in operation.

Under these provisions, which are now contained in the Income Tax Act, 1918, section 33, the position is that a Life Assurance company whose income from investments is greater than its profits, bears Income Tax finally, not on its gross income from investments, but on its income after the expenses of management have been deducted—the average profits as they would be computed under Case I of Schedule D remaining as a minimum liability.

7. The Finance Act, 1915, also dealt (section 16) with the income arising from the investment of a Life Assurance company's Foreign Life Assurance Fund, and enacted that income from that fund which was not remitted to this country should not be assessable to Income Tax, but that a corresponding reduction should be made when the company was claiming repayment under section 14 in respect of its management expenses. The dependence of this relief on the income being retained abroad would have prevented any part of a Foreign Life Assurance Fund, or of the income derived from it, from being invested in British Government War Securities. To meet this difficulty, section 44 of the Finance Act, 1916, afforded similar relief, where such investments were made.

8. Section 15 of the Finance Act, 1915, dealt with Assurance companies which carried on Life Assurance business in the United Kingdom, but whose head offices were out of the United Kingdom, and provided that the income of such companies arising from the investment of their Life Assurance Fund (excluding the Annuity Fund if any), wherever received, were to be charged under Schedule D in part only and not as to the whole amount, the part to be charged in respect of these investments being calculated according to the proportion that the amount of the premiums received from policyholders resident in the United Kingdom and from policyholders resident abroad whose proposals were made in the United Kingdom, bears to the total amount of the premiums received by the company.

Income Tax Act, 1918, Schedule D, Cases I & II, Rule 15 (3).

Income Tax Act, 1918, Section 33.

Income Tax Act, 1918, Schedule D, Case IV, Rule 3 (b) and Case V, Rule 5 (b).

Income Tax Act, 1918, Section 33.

Income Tax Act, 1918, Section 44, Sub-sections (2) and (3).

Income Tax Act, 1918, Schedule D, Case III, Rule 5.

Appendix No. 8.

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.

NOTE PREPARED BY THE BOARD OF INLAND REVENUE AT THE REQUEST OF THE ROYAL COMMISSION ON THE INCOME TAX SHOWING (I.) THE ESTIMATED COST OF COLLECTION OF INCOME TAX FROM CERTAIN CLASSES OF TAXPAYERS, AND (II.) THE ALLOWANCES ADMITTED UNDER EXISTING LAW IN RESPECT OF DEPENDANTS.

(I.) COST OF COLLECTION.

The machinery of assessment and collection of the Income Tax constitutes an organised whole and it is almost impossible to identify any part of the total cost with any particular class of taxpayer.

It is calculated that for the year 1918-19 the total cost of the collection and assessment of the Income Tax (and Super-tax) was approximately £3,000,000 including the cost of the services rendered by Departments other than the Inland Revenue.

From the data available it is roughly estimated that of this amount some £600,000 may be attributed to taxpayers whose assessments are dealt with quarterly.

This sum works out at about 7 per cent. of the estimated amount paid for last year by this class of taxpayer which was roughly £7,700,000.

It is also roughly estimated that of the amount of £3,000,000 some £800,000 may be attributed to taxpayers in receipt of incomes under £250.

This sum works out at 7½ per cent. of the estimated amount paid for last year by this class of taxpayer, which was roughly £8,000,000.

(II.) ALLOWANCES IN RESPECT OF DEPENDANTS.

The following allowances are made for a wife,† for certain relatives and for children.

Amount of Total Income.	Allowance for wife† and for dependent relatives and the special allowance to widowers.
Not exceeding £800	the tax on £250.
Amount of Total Income.	Allowance for children (including step-children and adopted children).
Not exceeding £800	for each child under the age of sixteen years, the tax on £250.
Exceeding £800 and not exceeding £1,600.	for each such child in excess of two, the tax on £250.

†The "wife allowance" is made to a claimant in respect of his wife, if living with him. Where the claimant is a widower, an allowance is made in respect of any female relative of his (or of his deceased wife) who is resident with him for the purpose of having care and charge of his children.

The allowance for a relative applies where the claimant maintains at his own expense a relative of his or of his wife who is incapacitated (including an adopted child who, although over the age of sixteen, is incapacitated) by old age or infirmity from maintaining himself and whose income does not exceed £25 a year.

Appendix No. 9.

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.

TABLES

PREPARED BY THE BOARD OF INLAND REVENUE AT THE REQUEST OF THE ROYAL COMMISSION ON THE INCOME TAX, SHOWING THE INCOME TAX PAYABLE IN CERTAIN CASES—

(a) for the year 1913-14; and

(b) for the year 1919-20 under the existing law and on various assumptions suggested by the Commission and detailed at the head of the Tables.

TABLE I.

Table showing the tax payable on certain *earned* incomes not exceeding £10 per week—

(a) For the year 1913-14; and

(b) " 1919-20 under the existing law.

The reliefs allowed in calculating the liability are as follows:—

(1) Statutory abatement, viz.:—

Incomes.				1913-14.	1919-20.
				£	£
				Exempt	Exempt
Exceeding £130 but	Not exceeding £180	...	...	Exempt	120
" £160 "	" £160	...	...	Exempt	120
" £160 "	" £400	...	...	150	120
" £160 "	" £500	...	...	150	100
" £500 "	" £400	...	...	120	100

(2) Wife Allowance—Year 1913-14, Nil; Year 1919-20, £25.

(3) Allowance for Children under 16—Year 1913-14, £10; Year 1919-20, £25.

(4) £10 for cost of Tools, etc.

			Tax payable per annum where Income amounts to—										
Weekly ...	Yearly ...	...	£2 10s. £130.	£3. £156.	£3 10s. £182.	£4. £208.	£4 10s. £234.	£5. £260.	£6. £312.	£7. £364.	£8. £416.	£9. £468.	£10. £520.
Bachelor ...	{ 1913-14 ...	...	—	£ s. d. — 0 9 0	£ s. d. 1 8 6	£ s. d. 2 8 0	£ s. d. 3 7 6	£ s. d. 5 6 6	£ s. d. 7 5 6	£ s. d. 9 12 0	£ s. d. 11 11 0	£ s. d. 14 12 6	£ s. d. 16 10 0
	{ 1919-20 ...	...	—	8 18 6	6 17 0	8 15 6	11 14 0	14 12 6	20 9 6	26 6 6	34 8 6	40 5 6	61 10 0
Married— No Children	{ 1913-14 ...	...	—	—	0 9 0	1 8 6	2 8 0	3 7 6	6 6 6	7 5 6	9 12 0	11 11 0	14 12 6
	{ 1919-20 ...	...	—	0 2 3	5 0 9	6 19 3	8 17 9	11 16 3	17 13 3	23 10 3	31 12 3	37 9 3	67 15 0
Married— 1 Child	{ 1913-14 ...	...	—	—	0 1 6	1 1 0	2 0 6	3 0 0	4 19 0	6 18 0	9 3 6	11 3 6	14 12 6
	{ 1919-20 ...	...	—	—	0 4 6	5 3 0	6 1 6	9 0 0	14 17 0	20 14 0	28 16 0	34 13 0	54 0 0
Married— 2 Children	{ 1913-14 ...	...	—	—	—	0 13 6	1 13 0	2 12 6	4 11 6	6 10 6	8 17 0	10 16 0	14 12 6
	{ 1919-20 ...	...	—	—	—	0 6 9	5 6 3	6 3 9	12 0 9	17 17 9	23 19 9	31 16 9	50 5 0
Married— 3 Children	{ 1913-14 ...	...	—	—	—	0 6 0	1 5 6	2 5 0	4 4 0	6 3 0	8 9 6	10 8 6	14 12 6
	{ 1919-20 ...	...	—	—	—	—	0 9 0	3 7 6	9 4 6	15 1 6	21 3 6	29 0 6	48 10 0
Married— 4 Children	{ 1913-14 ...	...	—	—	—	—	0 18 0	1 17 6	3 16 6	5 15 6	8 2 0	10 1 0	14 12 6
	{ 1919-20 ...	...	—	—	—	—	—	0 11 3	6 8 3	12 6 3	20 7 3	26 4 3	42 15 0
Married— 5 Children	{ 1913-14 ...	...	—	—	—	—	0 10 6	1 10 0	3 9 0	6 8 0	7 14 4	9 13 8	14 12 6
	{ 1919-20 ...	...	—	—	—	—	—	—	3 12 0	9 9 0	17 11 0	23 8 0	39 0 0
Married— 6 Children	{ 1913-14 ...	...	—	—	—	—	0 3 0	1 2 6	3 1 6	6 0 6	7 7 0	9 6 0	14 12 6
	{ 1919-20 ...	...	—	—	—	—	—	0 15 9	6 12 9	14 14 9	20 11 9	25 5 0	—
Married— 7 Children	{ 1913-14 ...	...	—	—	—	—	—	0 15 0	2 14 0	4 13 0	6 19 6	8 18 6	14 12 6
	{ 1919-20 ...	...	—	—	—	—	—	—	—	3 16 6	11 18 6	17 13 6	21 10 0

NOTE.—In all cases it is assumed that the earnings constitute the total income.

TABLE II.

Table showing the tax payable on certain *earned* incomes not exceeding £10 per week—

(a) for the year 1913-14; and

(b) " " 1919-20 on the assumption that the scale of exemption and abatements in force for the year 1913-14 is restored, but that the other allowances detailed at the head of Table I are unaltered.

			Tax payable per annum where Income amounts to—										
Weekly ...	Yearly ...	...	£2 10s. £130.	£3. £156.	£3 10s. £182.	£4. £208.	£4 10s. £234.	£5. £260.	£6. £312.	£7. £364.	£8. £416.	£9. £468.	£10. £520.
Bachelor ...	{ 1913-14 ...	...	—	—	0 9 0	1 8 6	2 8 0	3 7 6	5 6 6	7 5 6	9 12 0	11 11 0	14 12 6
	{ 1919-20 ...	...	—	—	1 7 0	4 5 6	7 4 0	10 2 6	15 19 6	21 16 6	28 16 0	34 13 0	55 10 0
Married— No Children	{ 1913-14 ...	...	—	—	0 9 0	1 8 6	2 8 0	3 7 6	5 6 6	7 5 6	9 12 0	11 11 0	14 12 6
	{ 1919-20 ...	...	—	—	—	1 9 3	4 7 9	7 6 3	13 3 3	19 0 3	25 19 9	31 26 9	54 15 0
Married— 1 Child	{ 1913-14 ...	...	—	—	0 1 6	1 1 0	2 0 6	3 0 0	4 19 0	6 18 0	9 4 6	11 3 6	14 12 6
	{ 1919-20 ...	...	—	—	—	1 11 6	4 10 0	4 10 0	10 7 0	16 4 0	23 3 6	29 0 6	51 0 0
Married— 2 Children	{ 1913-14 ...	...	—	—	—	0 13 6	1 13 0	2 12 6	4 11 6	6 10 6	8 17 0	10 16 0	14 12 6
	{ 1919-20 ...	...	—	—	—	—	1 13 9	7 10 9	13 7 9	20 7 3	26 4 3	37 5 0	—
Married— 3 Children	{ 1913-14 ...	...	—	—	—	0 6 0	1 5 6	2 5 0	4 4 0	6 3 0	8 9 6	10 8 6	14 12 6
	{ 1919-20 ...	...	—	—	—	—	—	—	4 14 6	10 11 6	17 11 0	23 8 0	48 10 0
Married— 4 Children	{ 1913-14 ...	...	—	—	—	—	0 18 0	1 17 6	3 16 6	5 15 6	8 2 0	10 1 0	14 12 6
	{ 1919-20 ...	...	—	—	—	—	—	—	1 18 3	7 15 3	14 14 9	20 11 9	39 15 0
Married— 5 Children	{ 1913-14 ...	...	—	—	—	—	0 10 6	1 10 0	3 9 0	5 8 0	7 14 6	9 13 6	14 12 6
	{ 1919-20 ...	...	—	—	—	—	—	—	—	4 19 0	11 18 6	17 15 6	36 0 0
Married— 6 Children	{ 1913-14 ...	...	—	—	—	—	0 3 0	1 2 6	3 1 6	5 0 6	7 7 0	9 6 0	14 12 6
	{ 1919-20 ...	...	—	—	—	—	—	—	—	2 2 9	9 2 3	14 19 3	33 5 0
Married— 7 Children	{ 1913-14 ...	...	—	—	—	—	—	0 15 0	2 14 0	4 13 0	6 19 6	8 18 6	14 12 6
	{ 1919-20 ...	...	—	—	—	—	—	—	—	—	6 6 0	12 3 0	28 10 0

NOTE.—In all cases it is assumed that the earnings constitute the total income.

TABLE III.

Table showing the tax payable on certain *earned* incomes not exceeding £10 per week—
(a) for the year 1913-14; and

(b) " 1919-20 on the assumption that the wife allowance is increased from £25 to £50, but that the other allowances detailed at the head of Table I are unaltered.

		Tax payable per annum, where Income amounts to:—										
Weekly	Yearly	£2 10s. £130.	£3. £156.	£3 10s. £182.	£4. £208.	£4 10s. £234.	£5. £260.	£6. £312.	£7. £364.	£8. £416.	£9. £468.	£10. £520.
		£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Bachelor	{ 1913-14	—	—	0 9 0	1 8 6	2 8 0	3 7 6	5 5 6	7 5 6	9 12 0	11 11 0	14 12 6
	{ 1919-20	—	2 18 6	5 17 0	8 16 6	11 14 0	14 12 6	20 9 6	26 6 6	34 8 6	40 5 6	61 10 0
Married—	{ 1913-14	—	—	0 9 0	1 8 6	2 8 0	3 7 6	5 5 6	7 5 6	9 12 0	11 11 0	14 12 6
No Children	{ 1919-20	—	—	0 4 6	3 3 0	6 1 6	9 0 0	14 17 0	20 14 0	28 16 0	34 13 0	64 0 0
Married—	{ 1913-14	—	—	0 1 6	1 1 0	2 0 6	3 0 0	4 19 0	6 18 0	9 4 6	11 3 6	14 12 6
1 Child	{ 1919-20	—	—	—	0 6 9	3 3 3	6 3 9	12 0 9	17 17 9	25 19 9	31 16 9	50 5 0
Married—	{ 1913-14	—	—	—	0 13 6	1 13 0	2 12 6	4 11 6	6 10 6	8 17 0	10 16 0	14 12 6
2 Children	{ 1919-20	—	—	—	—	0 9 0	3 7 6	9 4 6	15 1 6	23 3 6	29 0 6	46 10 0
Married—	{ 1913-14	—	—	—	0 6 0	1 5 6	2 5 0	4 4 0	6 3 0	8 9 6	10 8 6	14 12 6
3 Children	{ 1919-20	—	—	—	—	—	0 11 3	6 8 3	12 5 3	20 7 3	26 4 3	42 15 0
Married—	{ 1913-14	—	—	—	—	0 18 0	1 17 5	3 16 6	5 15 6	8 2 0	10 1 0	14 12 6
4 Children	{ 1919-20	—	—	—	—	—	—	3 12 0	9 9 0	17 11 0	25 8 0	39 0 0
Married—	{ 1913-14	—	—	—	—	0 10 6	1 10 0	3 9 0	6 8 0	9 14 6	12 13 6	14 12 6
6 Children	{ 1919-20	—	—	—	—	—	—	6 12 9	14 14 9	20 11 9	26 8 0	35 6 0
Married—	{ 1913-14	—	—	—	—	0 3 0	1 2 6	3 1 6	5 0 5	7 7 0	9 6 0	14 12 6
6 Children	{ 1919-20	—	—	—	—	—	—	3 16 6	11 18 6	17 16 6	23 10 0	31 10 0
Married—	{ 1913-14	—	—	—	—	—	0 15 0	2 14 0	4 13 0	6 19 6	8 18 6	14 12 6
7 Children	{ 1919-20	—	—	—	—	—	—	—	1 0 3	9 2 3	14 19 3	27 16 0

NOTE.—In all cases it is assumed that the earnings constitute the total income.

TABLE IV.

Table showing the tax payable on certain *earned* incomes not exceeding £10 per week—
(a) for the year 1913-14; and

(b) " 1919-20 on the assumption that the wife allowance is increased from £25 to £60 and the children allowance from £25 to £30, but that the other allowances detailed at the head of Table I are unaltered.

		Tax payable per annum where Income amounts to:—										
Weekly	Yearly	£2 10s. £130.	£3. £156.	£3 10s. £182.	£4. £208.	£4 10s. £234.	£5. £260.	£6. £312.	£7. £364.	£8. £416.	£9. £468.	£10. £520.
		£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Bachelor	{ 1913-14	—	—	0 9 0	1 8 6	2 8 0	3 7 6	5 5 6	7 5 6	9 12 0	11 11 0	14 12 6
	{ 1919-20	—	2 18 6	5 17 0	8 16 6	11 14 0	14 12 6	20 9 6	26 6 6	34 8 6	40 5 6	61 10 0
Married—	{ 1913-14	—	—	0 9 0	1 8 6	2 8 0	3 7 6	5 5 6	7 5 6	9 12 0	11 11 0	14 12 6
No Children	{ 1919-20	—	—	—	2 0 6	4 19 0	7 17 6	13 14 6	19 11 6	27 13 6	35 10 6	52 10 0
Married—	{ 1913-14	—	—	0 1 6	1 1 0	2 0 6	3 0 0	4 19 0	6 18 0	9 4 6	11 3 6	14 12 6
1 Child	{ 1919-20	—	—	—	1 11 6	4 10 0	7 10 0	16 4 0	24 6 0	30 3 0	42 0 0	60 0 0
Married—	{ 1913-14	—	—	—	0 13 6	1 13 0	2 12 6	4 11 6	6 10 6	8 17 0	10 16 0	14 12 6
2 Children	{ 1919-20	—	—	—	—	1 2 6	6 11 6	12 16 6	20 18 6	28 16 6	36 13 6	49 10 0
Married—	{ 1913-14	—	—	—	0 5 0	1 5 6	2 5 0	4 4 0	6 3 0	8 9 6	10 8 6	14 12 6
3 Children	{ 1919-20	—	—	—	—	—	—	5 12 0	9 9 0	17 11 0	25 8 0	39 0 0
Married—	{ 1913-14	—	—	—	—	0 19 0	1 17 6	3 16 6	6 15 6	8 2 0	10 1 0	14 12 6
4 Children	{ 1919-20	—	—	—	—	—	—	0 4 5	6 1 6	14 3 6	20 0 6	34 10 0
Married—	{ 1913-14	—	—	—	—	0 10 6	1 10 0	3 9 0	5 8 0	7 14 6	9 13 6	14 12 6
6 Children	{ 1919-20	—	—	—	—	—	—	—	2 14 0	10 15 0	16 13 0	30 0 0
Married—	{ 1913-14	—	—	—	—	0 3 0	1 2 6	3 1 6	6 0 6	7 7 0	9 6 0	14 12 6
6 Children	{ 1919-20	—	—	—	—	—	—	—	—	7 8 6	13 5 6	23 10 0
Married—	{ 1913-14	—	—	—	—	—	0 16 0	2 14 0	4 13 0	5 19 6	8 18 6	14 12 6
7 Children	{ 1919-20	—	—	—	—	—	—	—	—	4 1 0	9 18 0	21 0 0

NOTE.—In all cases it is assumed that the earnings constitute the total income.

Appendix No. 10.

Table showing the proportion of the whole-life output of Industrial Plant receivable annually, in comparison with the proportion of the cost charged annually to Revenue under various methods of distribution in common use.

Paper handed in by Mr. P. D. LEACH on 5th June, 1919, to illustrate his evidence on Wasting Assets, &c.

Financial conditions:—Cost of Industrial Plant, £100; Efficient Life Period, 10 years; Total Output, 95 Units; Usable Value, 295; Scrap Value, £5.

[illegible]

NOTES.

[illegible]

year, is a good reason for omitting to charge the revenue account with the capital outlay thereon which was incurred during that year.

(2) The method of distribution to annual returns of the cost of industrial plant, shown in column "A," headed "Original cost basis," should be adopted in preference to either of the other methods.

(3) The method of distribution to annual returns of the cost of industrial plant, instead of in total to the capital outlay as a whole. The efficient life of each class of plant, and by the use of suitable accounting equivalent this method can be applied, in detail, to the cost of such class of plant, instead of in total to the capital outlay as a whole. This efficient life of each class of plant, and of the units comprising each class, expire at different periods, and thus the operation of the law of averages will automatically eliminate the annual error which would otherwise exist, due to the differences in the annual output (or usefulness) of each class of industrial plant at different periods of its efficient life. Each of the methods, shown in columns B, C, D, E, and F, exhibit a large annual divergence between the annual output (or usefulness) of the plant, and the proportion of the cost charged annually to revenue, and to the extent that these methods are applied, not in detail to the cost of each class of plant, but to the capital outlay as a whole, the beneficial operation of the law of averages is lost.

(3) Column D shows the effect of the use of the unity and sinking fund methods at between one year and another, in distributing the costs over any period, after adjusting the apparent equal each class of plant, best to the capital outlay as a whole, the beneficial operation of the law of averages is lost.

Appendix No. 11.

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.

STATISTICAL TABLES, &c.

1. The Board of Inland Revenue have prepared the statistics referred to below which were asked for by the Royal Commission in the course of the examination of Mr. Hopkins on 7th May, 1919.

2. In addition to questions dealt with in this Note other questions raised on the same occasion will be dealt with in the course of evidence to be offered by the Board at a later date.

3. Questions 53, 54, 203-6, and 217. Table I contains an estimate of the distribution of income among taxpayers for the year 1918-19.

4. Questions 55-62. Table II contains a comparison of the taxable income for the years 1910-11, 1913-14, 1916-17, and 1918-19.

5. Questions 185-188. The Board have felt great difficulty in furnishing figures which would not be misleading as to the loss to the Revenue by graduation and differentiation since 1907. In their judgment the downward graduation by abatements and reduction of the standard rate of Income Tax cannot properly be considered without relation to the upward graduation effected by the Super-tax. Moreover, they consider that without some such extension of graduation as has recently been witnessed the tax at anything approaching the present standard rate would have been extremely difficult to enforce. Table III is printed subject to the foregoing reservations.

6. Questions 215-220. Table IV deals with the number of persons who claim repayment of Income Tax, and the cost to the State of dealing with claims.

7. Question 229. Table V deals with the cost of assessment and collection of Income Tax where the assessment is made quarterly.

8. Question 211 raised the point of the extent of foreign holdings of British capital. This is a question on which the information available to the Board is very vague and inadequate and any opinion they can give must be given under great reserve. Subject to this it is conjectured that the total foreign holdings of British capital in private hands *before the war* amounted to some £150,000,000, of which the great bulk would be in industrial shares rather than in gilt-edged securities. As to the amount of capital represented by shares in British companies held by foreign associated companies for purposes of their business information is not available.

TABLE I.
INCOME TAX AND SUPER-TAX.

ESTIMATE PREPARED BY THE BOARD OF INLAND REVENUE SHOWING THE APPROXIMATE DISTRIBUTION OF THE ESTIMATED AMOUNTS OF TAXABLE INCOME, ALLOWANCES, &c., AMONG TAXPAYERS, CLASSIFIED ACCORDING TO THE AMOUNTS OF THEIR TOTAL INCOMES, TOGETHER WITH THE ESTIMATED NUMBER OF INCOMES IN EACH CLASS, AND THE TAX PAID BY EACH CLASS.

EXPLANATORY NOTES.

1. The figures set out in the accompanying Table I are estimated. In preparing the estimate the Board of Inland Revenue have made use of all relevant information available to them, but elements which are

incapable of accurate measurement have of necessity entered into the calculations.

In particular the available data for estimating the amount of non-personal income and of income accruing to residents abroad are inadequate, and the figure of £225,000,000 attributed to these items (vide the foot of column 2 of Table I) must be regarded as subject to a considerable margin of error. The constituents of the figure are stated in Note 10.

2. Year.—Table I relates to income assessed to Income Tax in the year 1918-19, whether actually assessable for that year or for an earlier year. It does not include income assessable for the year 1918-19, but remaining unassessed at the end of that year. The amount thus carried forward from one year to another is, however, relatively small and fairly constant.

3. Income.—The income dealt with is income as computed for purposes of Income Tax, and is therefore in part computed by reference to the income of the year and in part by reference to the income of the preceding year or of an average of preceding years. The income dealt with does not therefore correspond with the actual income of taxpayers for the year.

4. (Columns 1a and 1b).

Number of Incomes.—The total of the two columns (1a and 1b) represents the estimated number of individuals with taxable incomes in each class and is divided in order to show:—

(a) The number of individuals who, although in receipt of incomes above the limit of exemption, are entirely relieved from Income Tax by the operation of the personal allowances—for example, a married man with a wife and three children under 16 years of age would pay no tax if his total income did not exceed £220, the whole being covered by allowances as follows:—

	£
Abatement	120
Wife	25
3 Children	75
Total Allowances...	220
Balance to be taxed ...	Nil

(b) the number of individuals actually paying tax.

The class with incomes exceeding £130 but not exceeding £160 does not include soldiers, sailors, merchant seamen, etc., having incomes within those limits, as they are entitled to the pre-war limit of exemption, viz., £160, and are consequently excluded from review.

5. (Column 2).

"Taxable" Income.—Subject to the foregoing explanations this represents, broadly speaking, the total net income of the classes within the taxable area after eliminating all expenses incurred in earning it, but before consideration of abatements and personal allowances.

6. (Column 3).

Abatements and personal allowances.—In 1918-19 these were as follows:—

(a) Abatements.

Income.		Amount allowed as abatement.	
Exceeding.	Not Exceeding.	Soldiers, Sailors, &c.	Other Taxpayers.
£.	£.	£.	£.
150	300	150	130
300	400	120	120
400	999	100	160
999	799	70	70

(b) Insurance premiums on the life of the taxpayer or of his wife, within a limit, generally speaking, of one-sixth of the total income.

(c) An allowance of £25 for a wife, and in certain cases for a housekeeper and for dependent relatives, where the total income of the taxpayer did not exceed £800.

(d) An allowance of £25 for each child (including adopted children) under 16 years of age where the total income did not exceed £800, and for every such child beyond the first two if the income, while exceeding £800, did not exceed £1,000.

7. (Column 4).

Net Income paying Tax.—This is the income on which tax is finally levied after all the allowances due have been deducted.

8. (Column 5).

Net Produce of Income Tax.—This is the amount of tax actually levied on the income in the previous column. It is somewhat smaller than the figure that would be produced by calculating the tax on the income at the appropriate rates in force for the year 1918-19 for the following reasons:—

(a) Some of the assessments made in the year relate to liabilities for earlier years charged at lower rates. (See Note 2 above.)

(b) Income which has suffered Dominion Income Tax is allowed a corresponding relief (up to a maximum of 2s. 6d. in the £) from British Income Tax.

(c) Incomes slightly above any limit at which the rate of tax alters or allowances cease are granted such relief as will obviate the possessor of the income being made poorer by payment of the tax than the man with an income which only just reaches the limit.

9. (Column 6).

Net Produce of Super-tax, 1918-20.—Super-tax (payable by individuals whose total incomes exceed £2,500) is computed for any year by reference to the Income Tax income of the preceding year. Consequently, the taxable income shown in Column 2, which, subject to the reservation explained in Note 2 above, is assessable to Income Tax for the year 1918-19, will not be assessable to Super-tax until the following year, 1919-20. Broadly speaking, therefore, the statement indicates that 50,100 individuals resident in the United Kingdom with an aggregate taxable income of £417,900,000 should be assessed to Super-tax in the year 1919-20. Even allowing for normal annual growth, these figures are unlikely to be realized. The anticipated deficiency, except so far as accounted for by a margin of error in the estimate, is attributable to the leakage which is inherent in a system of direct assessment as opposed to a system of collection of duty at the source. This deficiency is additional to a loss of Super-tax which occurs through the non-distribution of companies' profits or their distribution in a form other than income. Such profits are included in the £225,000,000 "Other Income" at the foot of Column 2 of the Table.

10. "Other Income," viz., non-personal income and income accruing to non-residents:—

The income under this head is made up of the following items:—

(i) that part of the taxable income of companies which, though charged to Income Tax, is not distributed to the shareholders in dividends, but is retained for the purpose of increasing reserves, etc. (This item accounts for nearly three-quarters of the total.)

(ii) the income from the invested funds of insurance companies retained to meet future liabilities.

(iii) income distributed to residents out of the United Kingdom, including not only dividends and interest but also profits arising from trading in the United Kingdom by foreign firms, etc.

(iv) other items, such as income of clubs, corporations, etc.

TABLE II.

GROWTH OF TAXABLE INCOME SINCE 1910-11.

The following figures show the growth in the taxable income as actually assessed since 1910-11, and an attempt has been made to evaluate the effect of all the statutory changes which have occurred since that

year in order to arrive at a figure of personal taxable income calculated on the basis then existing to as to show a truly comparable income. It must be borne in mind that the figures are to a certain extent conjectural and must not be taken as more than estimates.

—	1910-11.	1913-14.	1916-17.	1918-19.
Total taxable income as actually assessed	£ 838,309,000	£ 951,040,000	£ 1,373,452,000	£ 1,970,000,000
Net deduction for statutory changes since 1910-11:				
Reduction of exemption limit from £160 to £130	—	—	179,314,000	339,500,000
Other alterations of law	—	—	3,300,000	33,000,000
Taxable income on the 1910-11 basis	838,309,000	951,040,000	1,190,838,000	1,597,500,000
Deduct non-personal income and income accruing to non-residents calculated on the 1910-11 basis ...	90,000,000	127,000,000	183,000,000	225,000,000
Taxable income of individuals in the United Kingdom on the 1910-11 basis	748,309,000	824,040,000	1,007,838,000	1,372,500,000

Note.—The Explanatory Notes to Table I should be read in conjunction with this Table.

TABLE III.

NET COST OF DIFFERENTIATION AND GRADUATION OF THE INCOME TAX.

(See paragraph 5 of the Introductory memorandum.)

The following figures have been compiled in order to show as far as possible the cost of introducing

differentiation into the tax and extending graduation beyond the limits existing for several years up to 1906. Account has been taken of changes in the personal allowances (for abatement, wife and children) which constitute part of the scheme of graduation. It must be remembered that certain of the figures are estimated and too great reliance must not be placed on them.

—	1910-11.	1913-14.	1916-17.	1918-19.
	£	£	£	£
Actual total taxable income	838,309,000	951,040,000	1,373,452,000	1,970,000,000
Deduct class £130 to £160	—	—	179,314,000	339,500,000
Taxable income over old exemption limit of £160	838,309,000	951,040,000	1,194,138,000	1,630,500,000
Deduct abatements and insurance premiums which would have been allowable on 1906 basis	136,185,000	153,077,000	242,186,000	403,500,000
Estimate of net income to be taxed ...	702,124,000	797,963,000	951,952,000	1,227,000,000
Rate of tax	1s. 2d.	1s. 2d.	5s.	6s.
Net produce of tax which would have been realized at the normal rate, with no differentiation and no graduation beyond that existing in 1906	40,500,000	46,500,000	232,800,000	365,000,000
Net produce of income tax actually realized or anticipated	38,345,000	43,523,000	201,637,000	296,000,000
Net loss due on the foregoing assumed basis to reliefs in respect of graduation and differentiation since 1906	2,155,000	2,977,000	31,163,000	69,000,000
Against this loss, however, must be set the net produce of Super-tax, which constitutes an upward graduation of the income tax, viz. ...	2,825,000	11,370,000	24,500,000	42,300,000

Note.—The Explanatory Notes to Table I should be read in conjunction with this Table.

TABLE IV.

REPAYMENTS OF INCOME TAX IN 1918-19 AND COST OF ADMINISTRATION IN CONNECTION THEREWITH.

The total number of persons claiming repayment of Income Tax in the year 1918-19 is estimated at 940,000, as follows:—

Individuals with incomes not exceeding £150 claiming repayment on the ground of exemption from Income Tax.	940,000	or about 21 1/2 % of the adult population with incomes below the exemption limit, or about 1 1/2 % of the total number of individuals (5,546,000) with incomes exceeding £150.
Individuals with incomes exceeding £150 and claiming repayment of tax on account of a rise in the rate of tax or on account of personal allowances, e.g. children, children, life insurance premiums, etc.	550,000	
Other cases, e.g. shareholders, friendly societies, etc. claiming exemption, companies, firms, etc. claiming repayment of tax due to reduction of assessments on appeal, or for over-charges, double assessments, etc., residents abroad claiming repayment of tax deducted on foreign dividends, etc.	50,000	
	940,000	

The cost to the Department of dealing with the above repayment claims, so far as it can be analysed, may be put roughly at £160,000. It will, however, be appreciated that the introduction of an altered system of Income Tax which dispensed with

the necessity, in the last resort, for claims for repayment by abolishing the system of taxation at the source would increase, not decrease, the cost of collection, while greatly decreasing the yield of the tax.

[Note. Since the memorandum entitled "Statistics relating to Income Tax and Super-tax" was presented to the Royal Commission further information has become available showing the estimate given of the number of repayments in 1918-19 to have been excessive. See App. No. 3, Table VIII.]

TABLE V.

COST OF "QUARTERLY" ASSESSMENT.

The machinery of assessment and collection of the Income Tax constitutes an organised whole and it is almost impossible to identify any part of the total cost with any particular class of taxpayer.

It is calculated that for the year 1918-19 the total cost of the collection and assessment of the Income Tax (and Super-tax) was approximately £3,000,000 including the cost of the services rendered by Departments other than the Inland Revenue. From the data available it is roughly estimated that of this amount some £530,000 may be attributed to taxpayers whose assessments are dealt with quarterly.

This sum works out at about 7 per cent. of the estimated amount paid for last year by this class of taxpayer which was roughly £7,700,000.

Appendix No. 12.

Handed in by Mr. HOPKINS to illustrate his evidence on Graduation, 18th June, 1919.

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.

INCOME TAX GRADUATION.

ANNEXE I.

GRAPHS ILLUSTRATING THE RATES IN FORCE IN THE UNITED KINGDOM AND IN CERTAIN DOMINIONS AND FOREIGN COUNTRIES.

GENERAL NOTE.

1. Graphs I, Ia and II illustrate the scale of the effective rates of the United Kingdom Income Tax, and the remaining graphs Nos. III to XI are designed to afford a general comparison between the effect of that scale and of the scale of effective rates in force in a number of Dominions and Foreign Countries.

In order to show in a reasonable compass the graduation for the large as well as for the smaller incomes, the divisions of the horizontal line representing the amount of income are, except in graphs I and Ia, based not on the amount of the income but on the logarithm of the amount of the income, the result being that the spaces between the smaller incomes are increased and those between the larger incomes diminished. This affects the shape of the lines representing the effect of the rates as compared with those which would appear on a graph drawn on a scale based on the amount of the income, but, each line being equally affected, it does not interfere with the use of the graph for comparisons between the lines for the United Kingdom tax and for the other taxes dealt with.

2. In graphs Nos. III to XI, in order to avoid complication, in the case of the United Kingdom, only the line representing the scale of Income Tax on earned income is shown. The corresponding line representing the scale of tax on unearned income would be higher (in general to an extent corresponding to 9d. in the £ after the point at which abatements cease viz., £700) for incomes up to £2,500; but from that point onwards it would coincide with the line shown. The lines for both earned and unearned income in the United Kingdom are shown in Graphs I, Ia and II.

For such of the other countries as have systematic differentiation of the rate of tax as between earned and unearned income the lines for both classes of income are shown.

The relief allowed under section 24 of the Income Tax Act, 1918, in cases where the margin of income above a point where the rate changes is small, is taken account of in Graphs I, Ia and II, but not in Graphs III to XI.

3. No account has been taken in the graphs of relief in respect of dependants, but some brief particulars of the extent to which such allowances are granted are given in notes. In cases where a married taxpayer is allowed a larger abatement than an unmarried taxpayer, the figures for the latter form the basis of the graph.

4. It will be appreciated that the graphs can afford only a very general comparison. While it is unnecessary to enumerate the cautions and reservations which would have to be borne in mind if an attempt were made to apply the graphs to actual cases, an illustration may be given. In none of the cases illustrated are companies or income from companies dealt with in the same way as in the United Kingdom. Thus in New Zealand a company is taxed on its profits (excluding debenture interest) on a graduated scale. The company also pays tax at a flat rate on debenture interest paid by it. A person holding shares or debentures in a taxed company does not include his dividends or debenture interest in his personal statement of income to which the graduated scale for individuals is applied, nor, speaking generally, can he claim any repayment of the tax paid by the company on the ground that if the dividend or interest had been income falling to be included in his personal return it would have been taxed at a lower rate than that paid by the company. It will be seen from this that the lines for unearned income in the graphs would not be applicable to an unearned income consisting wholly or in part of dividends from companies.

5. Where British currency is not used in the countries concerned the conversion has been made at nominal rates.

NOTE ON GRAPH I.

UNITED KINGDOM.

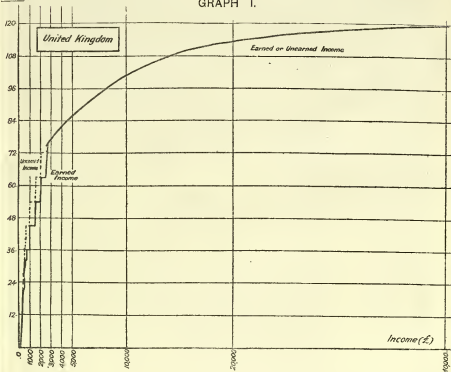
This graph represents the effective rate of Income Tax in the United Kingdom on incomes up to £40,000.

The black line and the dotted line for incomes up to (and slightly exceeding) £2,500 represent the rate of

tax on earned income and on unearned income respectively. After that point differentiation between earned and unearned income ceases* and the rate of tax, whether the income is earned or unearned, is represented by a single line.

Rate of Tax
(pence per £)

GRAPH I.



* The differentiation nominally ceases at £2,500, but is in effect carried on to £2,680 by the provision that, where the income is slightly in excess of a limit at which the rate of tax changes, the total tax payable

is not to exceed the amount of tax on an income which reaches but does not exceed the limit plus the amount by which the income exceeds the limit.

NOTE ON GRAPH 1A.

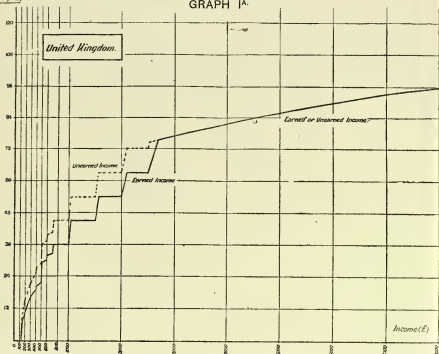
UNITED KINGDOM.

This graph is drawn on the same basis as the preceding one, but it is restricted to incomes not exceeding £8,000. It has thus been possible to increase

the scale on which it is drawn and so to represent somewhat more clearly the rate of tax on the incomes falling within its range.

Rate of Tax
(pence per £)

GRAPH 1A.



NOTE ON GRAPH II.

UNITED KINGDOM.

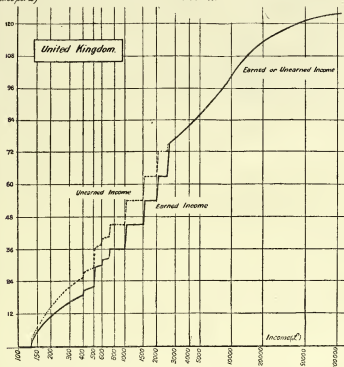
This graph represents the effective rate of Income Tax in the United Kingdom on incomes up to £200,000.

The divisions of the line representing the amount of the income in this and the following graphs are

based not on the actual amount of the income but on the logarithm of the amount of the income. (See General Note, paragraph 1.) The lines in Graph II. may be compared with those of Graphs I. and IA. where the logarithmic scale has not been used.

Rate of Tax
(pence per £)

GRAPH II.



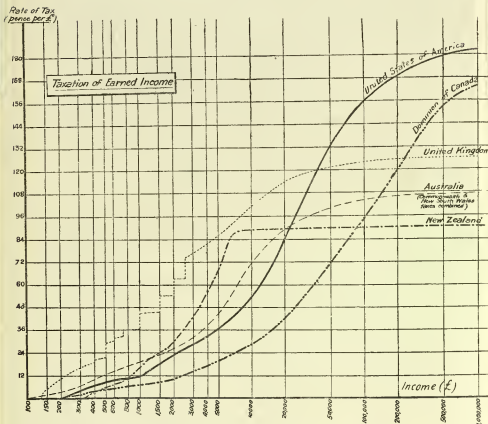
NOTE ON GRAPH III.

TAXATION OF EARNED INCOME.

This graph affords a comparison between the effective rates on earned income in the United Kingdom, the Commonwealth of Australia, New Zealand, the Dominion of Canada, and the United States of America, the five countries where the highest maximum rates are reached by the scales of charge.

The notes to Graphs IV., V., VII. and X. give some particulars of the taxes represented on the graph. In the case of Australia, the Commonwealth and New South Wales taxes have been combined as explained in the note to Graph IV.

GRAPH III.



N.B.—The precise value of the comparison shown in this graph cannot be appreciated without a knowledge of the effect in each country of indirect tax-

tion and of the burden of rates and other local imposts, together with the services secured thereby. [See Q. 4065.]

NOTE ON GRAPH IV.

AUSTRALIA.

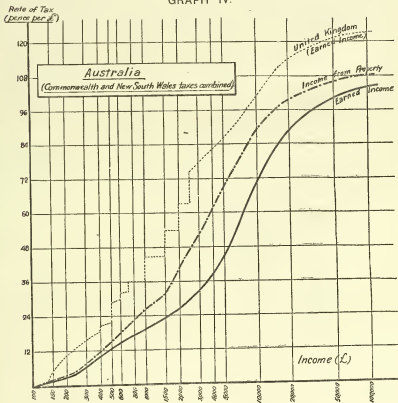
In Australia an Income Tax is levied by the Commonwealth, and each of the States also levies a State Income Tax. In the graph a general comparison is made between the United Kingdom tax and the aggregate of the Commonwealth tax and of the New South Wales State tax, for the year 1918-19. In arriving at taxable income for the purpose of the Commonwealth Income Tax the State Income Tax would be allowed as a deduction, and this has been taken into account in constructing the graph, so that what is represented at any point of income is the New South Wales tax on that income plus the Commonwealth tax on the same income as diminished by the amount of the New South Wales tax. Both Commonwealth and State taxes differentiate between income from personal exertion and income from property by charging a lower effective rate on the former, and the effect of this differentiation is shown. The differentiation continues throughout the whole range of incomes instead of stopping at a certain figure as in the United Kingdom tax.

The Commonwealth law allows a deduction of £26

in respect of each child under 16, and the New South Wales tax a deduction of £50 in respect of each child under 18, however large the total income. These allowances are not represented in the graph.

The rates of the Commonwealth tax commence at 4·9 pence and rise to 3s. 11½d. in the £, the maximum rate applying to the excess of the income over £7,800 in the case of earned income, and to the excess over £5,500 in the case of unearned income. The rates of the New South Wales tax commence at 11d. in the £ for earned income, and 1s. 1½d. for unearned income, and rise to 1s. 5d. (earned) and 1s. 9½d. (unearned), the maximum rate applying to the excess of the taxable income over £9,700. In arriving at the taxable income an abatement of £950 is allowed in New South Wales throughout the whole range of incomes. Under the Commonwealth law the abatements, commencing with £100 in the case of persons without dependants, and £156 in the case of persons with dependants, gradually diminish with the increase of the income and disappear at £200 (persons without dependants) or £224 (persons with dependants).

GRAPH IV.



NOTE ON GRAPH V.

NEW ZEALAND.

In New Zealand there is a graduated Income Tax and also a "special war tax" which is really an additional Income Tax, and is graduated on the same system as the ordinary Income Tax, except for a difference due to a different abatement.

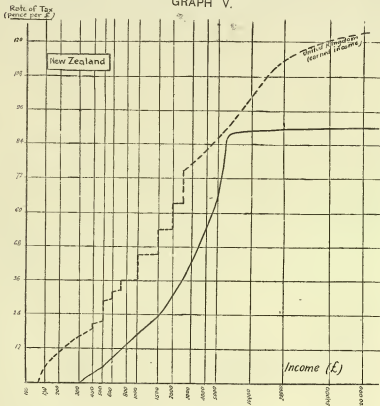
The rate of the Income Tax for 1918-19 begins at 6d. and rises gradually to 3s., and the rate of the "special war tax" begins at 5d. and rises gradually to 4s. 6d., so that the aggregate maximum rate is

7s. 6d. The line in the graph represents the joint effect of the two taxes.

There is no differentiation between earned and unearned income.

For the Income Tax, but not for the "special war tax," a deduction of £25 is allowed in respect of each child under 16, however large the total income. The effect of this deduction is not represented in the graph.

GRAPH V.



NOTE ON GRAPH VI.

UNION OF SOUTH AFRICA.

In the Union of South Africa there is an Income Tax, called the normal tax, at rates rising from 1s. to 2s., together with a Super-tax at rates rising from 1s. to 3s. The Super-tax applies to the taxable income as ascertained for the normal tax, plus dividends and debenture interest, which are taxed in the hands of the companies paying them and are not included in the normal tax assessment of the individual recipients. The graph shows the combined effect of the two taxes. The effect of the Super-tax, liability to which begins with an income of £2,500, in steepening the graduation will be noticed.

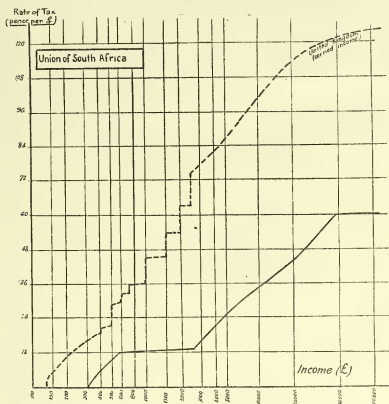
There is no differentiation between earned and un-earned income.

Married persons (and widowed or divorced persons) with a child or children under 17 are allowed, under

the normal tax, a fixed abatement of £300, provided their taxable income does not exceed £24,300, while in the case of unmarried persons the abatement is at first £300, but diminishes gradually, and finally disappears when a taxable income of £600 has been reached. For Super-tax purposes there is an abatement in all cases commencing at £2,500, but diminishing gradually with the increase of the income and finally disappearing at £7,500.

Where the taxable income does not exceed £600, £30 may be allowed in respect of each child under 17. Unmarried persons may claim an allowance of £20 for dependent relatives. When the taxable income exceeds £600 the amount of these allowances is diminished by the amount by which the income exceeds £600. The effect of these allowances for children and dependants is not shown in the graph.

GRAPH VI.



NOTE ON GRAPH VII.

DOMINION OF CANADA.

For the ordinary Income Tax (normal tax) an abatement is deducted of £200 in the case of unmarried persons, and £400 in the case of married persons. The next £100 in the case of unmarried persons, and the next £200 in the case of married persons, are charged at 2 per cent. and the balance at 4 per cent.

In addition to the normal tax there is a Super-tax on individuals on that part of their income which exceeds £1,300. The rates of the Super-tax rise from 2 per cent. to 50 per cent., the highest rate applying to the excess of the income over £200,000. Dividends from taxed companies, while not again bearing normal tax in the hands of a shareholder, would form part of his income for Super-tax purposes.

Further, in addition to the normal tax and Super-tax there is a sur-tax, which takes the form of a percentage of the Income Tax and Super-tax as

calculated in accordance with the rates given above. Thus for the slice of income between £1,200 and £2,000 the sur-tax amounts to an additional sum of 5 per cent. of the normal Income Tax and the Super-tax. The highest rate of sur-tax is 35 per cent. of the Income Tax and Super-tax payable on the portion of income which exceeds £40,000.

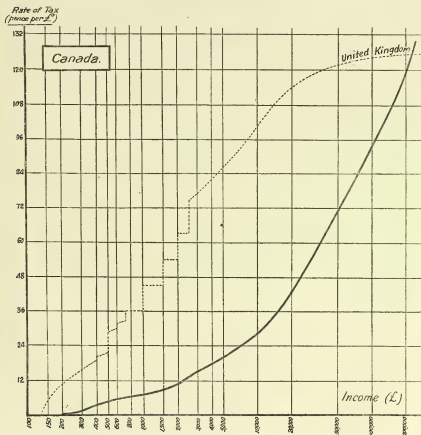
The graph represents the total effect of the normal Income Tax, the Super-tax and the sur-tax.

There is no differentiation between earned and unearned income.

A deduction of £40 is made in respect of each child. The effect of this is not shown in the graph.

Two only of the Canadian Provinces, Prince Edward Island and British Columbia, have a tax which is at all of the nature of a general Income Tax, and no attempt has been made to represent Provincial taxation in the graph.

GRAPH VII.



NOTE ON GRAPH VIII.

FRANCE.

In France there is a general Income Tax on total income, with a graduated scale starting at 1½ per cent. and reaching a maximum of 20 per cent. at £22,000, combined with a group of taxes on different classes of income (schedular taxes), the rates of the latter varying according to the kind of the income.

The abatements allowed under the schedular taxes vary according to the nature of the income, and in the case of salaries and professional income they vary according to the place of residence of the taxpayer. The lines shown in the graph would correspond to the total of the general Income Tax and the schedular tax on (1) incomes from real property and (2) income from salary or profession of a resident in Paris.

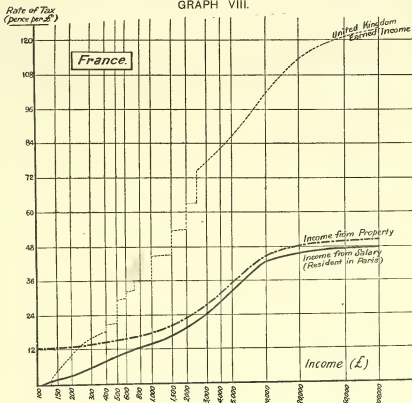
Income from business, which is derived partly from the capital of the owner and partly from his own

effort, is charged to a schedular tax at a rate intermediate between that applicable to unearned income derived from real property and that applicable to purely earned income from profession or salary.

The general Income Tax is assessed on the basis of the income for the year preceding the year of assessment. In arriving at the amount assessable both schedular tax and general Income Tax paid in the preceding year are allowed as a deduction. Such a deduction would not be allowed under the Income Tax laws of the United Kingdom or of most other countries, and for purposes of comparison the figures of the French tax, on which the graph is based, have been adjusted to make allowance for this.

No account has been taken in the graph of the extensive relief in respect of dependants which is allowed under the French Income Tax system.

GRAPH VIII.



NOTE ON GRAPH IX.

PRUSSIA.

In Prussia there is a graduated Income Tax beginning with incomes exceeding £45. The highest rate of 8 per cent. is reached when the income exceeds £5,000. Differentiation as between earned and unearned income is produced not by charging different Income Tax rates, but by imposing an annual tax on the capital value of the taxpayer's property. The line on the graph for unearned income shows the combined effect of the Income Tax and the property tax, the latter being represented as an additional Income Tax on the basis of a 5 per cent. yield from property.

The rates on which the graph is based are those resulting from a law of the 8th July, 1916. Proposals have been made for considerably higher rates for the current year.

There is at present no Imperial Income Tax in Germany, but it is understood that suggestions have been put forward that the Imperial authorities should levy additions to the State Income Taxes, these additions applying only to the larger incomes.

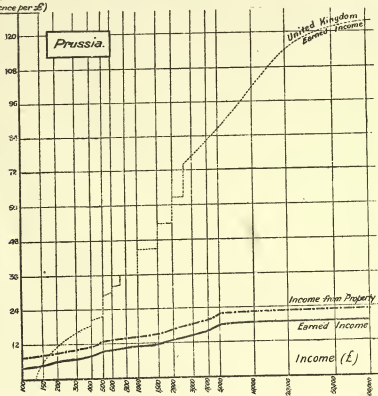
The local authorities levy additions to the State Income Tax. The amount of these additions varies from district to district, and no account is taken of them in the graph.

The Prussian Income Tax scale is made up of a tariff of steps in income with the amount of tax payable for each step. All incomes falling within any step pay the same amount of tax. The effect of this is that incomes which are near the lower limit of the step pay a higher percentage than those near the upper limit. The graphical representation does not take account of this regression or reversal of the progression within the step.

Relief in respect of dependants is confined to incomes not exceeding £475, and takes the form of placing the taxpayer in a lower step of the tariff of charge than that to which he belongs on the basis of his income. This relief is not represented in the graph.

Rate of Tax
(pence per £)

GRAPH IX.



NOTE ON GRAPH X.

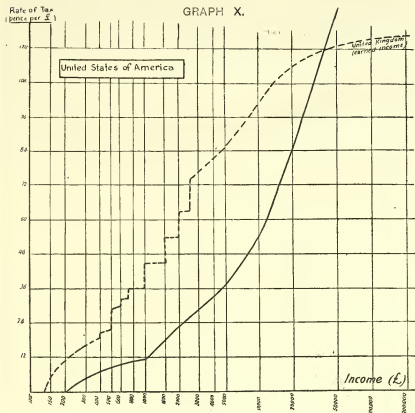
UNITED STATES OF AMERICA.

The United States tax represented in the graph is the "normal" or ordinary Income Tax and the sur-tax payable in the year 1919 under the Revenue Act of 1918. The normal tax is charged on the excess of income over an abatement of £300 in the case of single persons, and of £400 in the case of married persons, the general rate being 12 per cent. (reduced to 6 per cent. on the first £800 chargeable). The sur-tax is a highly graduated Super-tax commencing with 1 per cent. on the amount by which the income

exceeds £1,000 and does not exceed £1,200, and reaching 60 per cent. on the excess over £300,000.

An allowance of £40 is made for each child under 18. This is not taken into account in the graph.

It should be observed that no account is taken in the graph of taxation imposed by the component States of the United States. The prevailing form of State taxation is not the Income Tax, though there are Income Taxes in a few States.

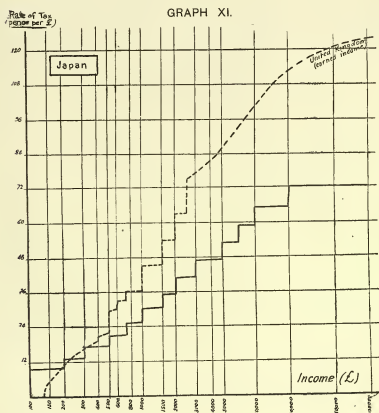


NOTE ON GRAPH XI.

JAPAN.

The scale for the assessment of individuals to Income Tax in Japan commences with 3 per cent. where the income exceeds £50 and does not exceed £100, and rises to 30 per cent. where it exceeds £2,000. The first £15 is abated if the income is not more than £70, and the first £10 if the income is not more than £100.

There is no general scheme of differentiation between earned and unearned income, though some relief is granted to salaries and allowances. No relief is granted in respect of dependants.



Appendix No. 13.

Handed in by Mr. HOPKINS to illustrate his evidence on Graduation, 18th June, 1919.

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.

INCOME TAX GRADUATION.

ANNEXE II.

1. The accompanying graph is designed to illustrate the scale of effective rates of the Income Tax up to, roughly, £2,800—

- (a) as it stands to-day;
- (b) as it would stand if the proposals made in paragraphs 25 and 60 of the proof of evidence (described on the graph as "Scheme I") were adopted;
- (c) as it would stand if the proposals made in paragraphs 66 and 67 of the proof of evidence (described on the graph as "Scheme II") were adopted.

2. In order to avoid complications only the line representing the effective rate of tax on earned income is shown in the graph, and the effect of allowances in respect of wife, children, and dependants is disregarded.

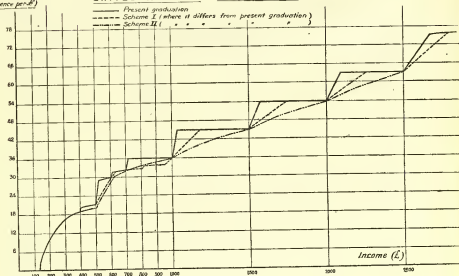
3. The graph is drawn on the same basis as graphs I and Ia in Annex I, but is restricted to incomes not exceeding roughly £2,800, and is on a larger scale.

Rate of Tax
(pence per £)

UNITED KINGDOM. *Earned Income.*

— Present graduation
- - - Scheme I (where it differs from present graduation)
- - - Scheme II

Income (£)



Appendix No. 14 (a).

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.

NOTE ON THE ASSESSMENT OF MARRIED PERSONS IN FOREIGN AND DOMINION SYSTEMS OF INCOME TAX.

1. The general tendency in foreign systems is to treat the income of husband and wife, and to some extent that of children, as one income.

2. This is broadly the tendency, for example, in France, Italy, Denmark, Holland, Prussia, Bavaria, Austria and Hungary.

3. In many of the above cases the assessment covers the income of the husband and the wife together with any unearned income of the children over which the parents have a right of usufruct. This right of usufruct is not found in this country.

4. In the United States the incomes of husband and wife are dealt with as separate incomes. Within certain limits the earnings of minor children dependent on their parents are included in the income of the father.

5. In most of the Dominions the separate income of husband, wife, and members of the family are dealt with separately.

6. In the Union of South Africa the Act imposing the Income Tax provides that the income of a married woman shall be deemed to be the income of her husband.

Appendix No. 14 (b).

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.

NOTE ON METHODS ADOPTED FOR SECURING GRADUATION OF INCOME TAX (BY REFERENCE TO AMOUNT OF INCOME) IN BRITISH DOMINIONS AND FOREIGN COUNTRIES.

1. This note sets out the methods adopted in the Income Tax systems of British Dominions and Foreign Countries for graduating the rate of tax by reference to the amount of the income on which the tax is chargeable. It is not exhaustive, nor is it designed to show the relative weight of the tax borne by taxpayers of different classes or nationalities.

In a number of countries (as in the United Kingdom) the Income Tax system comprises a normal Income Tax and a further tax in the nature of a Super-tax, both of which may be graduated. The mere combination of these two factors does not in itself require detailed description and is not dealt with in this note as a distinct method of graduation.

2. It will be understood that any classification adopted in a note of this character must be somewhat arbitrary and may be open to the criticism that some of the distinctions which are drawn are purely distinctions of form.

3. For the reasons set out in the general "Proof of Evidence on the Graduation and Differentiation of the Income Tax" (see paragraph 4017), many of the methods here described, whatever may be said for them as part of the taxing systems in which they are found, would be totally inappropriate under the conditions governing the British system of taxation.

4. Perhaps the simplest form in which graduation is effected is by the allowance of an abatement (see paragraph 3970 (a)) tax being charged only on the balance of income after deducting the abatement.

5. The abatement may be confined to small incomes within a fixed limit, incomes beyond that limit being charged in full; but this method is very limited inasmuch as all graduation ceases when the limit of the abatement is passed. Despite this fact there is one Income Tax system in the British Empire (that of the small Canadian Province of Prince Edward Island) in which this is still the sole means of graduation; while until 1917 Italy was in the same position.* In Italy, though tax was charged at different rates on incomes derived from different sources, the only method of graduating the

tax by reference to the amount of income was the allowance of small abatements. In no case did these abatements take effect if the total income exceeded about £50.

6. The limitation referred to in the preceding paragraph is modified to some extent if the abatement is allowed, not only from incomes below a certain level, but from all incomes. This method, it is true, produces a continuous graduation from the level at which tax begins to be charged to the very largest incomes; but while the graduation at the lower levels may be substantial, the effect of the abatement in the case of larger incomes is so small as scarcely to be noticeable. Examples of this method are found in the Income Taxes of one or two of the Cantons of Switzerland.

7. As stated in pars. 3970 and 3971, the methods of graduation by abatement, while producing an appreciable progression in the lower ranges of income, have little or no effect in the case of larger incomes, and in order that a more effective graduation may be secured, other methods are resorted to, often in combination with those referred to above.

8. One such combination is—

- (a) the allowance from total income of a general abatement, and
- (b) the charging of tax at a uniform rate on fractions or multiples of the balance of the income (see par. 3970 (c) of the general Proof of Evidence on Graduation, &c.).

The general Income Tax in France prior to a law of 29th June, 1918*, was levied on these lines, but different fractions were applied to different sections or slices of income above the level of the general abatement. In the case of bachelors (there were special allowances for married persons) the general abatement was £120, and the balance of the income was charged in accordance with the following scale:

"The tax is calculated by taking one-tenth of the fraction of taxable income between £120 and £320, two-tenths of that between £320 and £480, three-tenths of that between £480 and £640, four-tenths of that between £640 and £800, five-tenths

* Prior to the introduction of the Super-tax in the financial year 1909-10, a series of abatements was the only means of graduation in the United Kingdom.

* This law introduced, in substitution for the scale shown above, a scale of graduated rates on the whole income less the general abatement (see paragraph 12).

of that between £800 and £1,600, six-tenths of that between £1,600 and £2,400, seven-tenths of that between £2,400 and £3,200, eight-tenths of that between £3,200 and £4,000, nine-tenths of that between £4,000 and £8,000, and the whole of the balance, and by applying to the figure thus obtained, the rate of 10 per cent.*

9. A more common method of graduation is to charge tax at different rates on incomes of different amounts (see paragraph 3970 (h)). This method is frequently though not always, applied in combination with a general abatement.

10. In the simplest form of this method, the rates specified in the graduated scale are applied to the whole of the chargeable income (after allowance of any abatement). This method involves appreciable "jumps" in the amount of tax payable at the passage from one step in the scale to another (see paragraph 3972). Notwithstanding this objection, this method is adopted in many countries, for instance—

- (a) With a general abatement:
Queensland has a scale of seven steps.
British Columbia has a scale of seven steps.
Denmark has a scale of twenty steps.
- (b) Without a general abatement:
Straits Settlements has a scale of six steps.
Japan has a scale of fourteen steps.

India also has a scale of this character for normal Income Tax with four steps.

For an example of this method the Danish system may be taken. Here a small general abatement is allowed, and, subject to this, incomes under £56 are charged at the rate of 1 per cent.; incomes exceeding £56 but not exceeding £83, 1 per cent.; and so on through eighteen further steps, until a maximum rate of 14½ per cent. is reached for incomes exceeding £35,555.

11. In several taxing systems (including the British Super-tax) the various rates in the scale are applied, not to the whole of the income (after deduction of any general abatement), but to the section or slice of income lying between specified limits.

The United States Super-tax is charged on this system.

The scale begins with—

	Rate of tax chargeable.
On the first £1,000 of the income ... Nil	
" next £300 " " (£1,000-£1,300) 1%	
" £400 " " (£1,300-£1,600) 2%	
" £400 " " (£1,600-£2,000) 3%	
and proceeds thence by 45 steps each of £400 income and 1 per cent. increase in rate of tax until 48 per cent. is charged on the slice of income between £19,600 and £20,000. After that the scale runs as follows:—	

	Rate of tax chargeable.
On the next £10,000 of the income (£20,000-£30,000) 52%	
" £10,000 " (£30,000-£40,000) 56%	
" £20,000 " (£40,000-£60,000) 60%	
" £40,000 " (£60,000-£100,000) 63%	
" £100,000 " (£100,000-£200,000) 64%	
on the balance of the income (above £200,000) 65%	

Further examples of this method are to be found in the tax systems of—

- Canada (Super-tax and sur-tax),
- New South Wales,
- Victoria,
- South Australia,
- Tasmania,
- British India (Super-tax),
- Newfoundland (Super-tax),
- Trinidad,

as well as of some foreign States.

12. The "jumps" referred to in paragraph 10 of this note are also avoided by a method which is in principle merely an extension of the method explained in that paragraph. Under the method there explained, tax is charged in accordance with a scale of rates which vary with the amount of income. The number of steps in the scale is not very large, and in the systems referred to in the paragraph in question it ranges from four to twenty. Under the method now to be described, the tax is also charged at rates which vary with the amount of income; but in place of a moderate number of rates, each applying to a comparatively large range of income, the rate of tax changes with each small increase of total income subject to a maximum rate on large incomes.

It is obvious that a schedule showing the actual number of rates of tax in a system of this character would run to thousands of items, and the rate is therefore expressed by means of a mathematical formula. Systems containing this method are in operation in the Commonwealth of Australia, New Zealand, South Africa, Western Australia, and France.

For an example of this method the ordinary Income Tax of New Zealand may be taken. Here the rate of tax in the pound where the net taxable income does not exceed £400 is sixpence, and, where it exceeds £400, sixpence increased by 1/200th of a penny for every pound above £400 up to a maximum of 3s. in the pound:

so that the actual rate—

for a taxable amount of £ 400 is 6d.	in the pound.
" " " 401 " 6½d.	" "
" " " 402 " 6¾d.	" "
" " " 600 " 7d.	" "
" " " 1,000 " 9d.	" "
" " " 1,000 " 1s.	" "
" " " 6,400 " 3s.	" "

beyond which the rate remains constant at 3s. in the pound.*

The formulae in which the rates of tax are expressed are not all so simple as that of New Zealand. For instance, the following appears in the charging schedule of the Commonwealth of Australia Income Tax Act of 1918†:—

" AUSTRALIAN COMMONWEALTH INCOME TAX.

RATE OF TAX UPON INCOME DERIVED FROM PROPERTY.

(a) For such part of the taxable income as does not exceed £546 the average rate of tax per pound sterling shall be that given by the following formula:

$$R = \left(3 + \frac{I}{181.058} \right) \text{ pence.}$$

(R=average rate of tax in pence per pound sterling.

I=taxable income in pounds sterling).

(b) For such part of the taxable income as exceeds £546 but does not exceed £3,000 the additional tax for each additional pound of taxable income above £546 shall increase continuously with the increase of the taxable income in a curve of the second degree in such a manner that the increase of tax for one pound increase of taxable income shall be—

- 11.713 pence for the pound sterling between £545 10s. and £546 10s.
- 12.768 pence for the pound sterling between £599 10s. and £600 10s.
- 14.672 pence for the pound sterling between £699 10s. and £700 10s.
- 16.512 pence for the pound sterling between £799 10s. and £800 10s.
- 18.288 pence for the pound sterling between £899 10s. and £900 10s.
- 20.000 pence for the pound sterling between £999 10s. and £1,000 10s.
- 27.600 pence for the pound sterling between £1,499 10s. and £1,500 10s.
- 33.600 pence for the pound sterling between £1,999 10s. and £2,000 10s.

* There is also a special War Tax, additional to the ordinary Income Tax, graduated on the same principle.

† Additions to the tax arrived at from the formula shown are also levied.

(c) For such part of the taxable income as exceeds £2,000 but does not exceed £6,500, the additional tax for each additional pound of taxable income above £2,000 shall increase continuously with the increase of the taxable income in a curve of the third degree in such a manner that the increase of tax for one pound increase of taxable income shall be:—

33-600 pence for the pound sterling	between
£1,999 10s. and £2,000 10s.	
40-000 pence for the pound sterling	between
£2,499 10s. and £2,500 10s.	
45-300 pence for the pound sterling	between
£2,999 10s. and £3,000 10s.	
49-600 pence for the pound sterling	between
£3,499 10s. and £3,500 10s.	
53-000 pence for the pound sterling	between
£3,999 10s. and £4,000 10s.	
55-600 pence for the pound sterling	between
£4,499 10s. and £4,500 10s.	
57-500 pence for the pound sterling	between
£4,999 10s. and £5,000 10s.	
58-800 pence for the pound sterling	between
£5,499 10s. and £5,500 10s.	
59-600 pence for the pound sterling	between
£5,999 10s. and £6,000 10s.	
60-000 pence for the pound sterling	between
£6,499 10s. and £6,500 10s.	

(d) For every pound sterling of taxable income in excess of £6,500 the rate of tax shall be sixty pence.¹²

13. The method adopted in many of the German States and under the pre-war laws of Austria and Hungary has been to provide an elaborate scale of tariff setting out steps of income and the sum of tax applicable to each income falling within the step. This method results in their being a slight "regression" within the limits of the step, as the highest income within those limits pays the same amount of tax as the lowest, and consequently is charged at a lower rate. Thus, if from £5,000 to £5,250 is one step, and the tax for this step is £200, the percentage rate on £5,000 is 4 per cent., while on £5,250 it is only 3.81 per cent.

Taking Prussia as an example of this method, the normal tariff of the Income Tax Act for individuals commenced as follows:—

Income.*	Amount of tax.*
Exceeding £45 but not exceeding £52 10s.	6s.
" £52 10s. " " £60	9s.
" £60 " " £67 10s.	12s.
" £67 10s. " " £75	16s.

and proceeded by similar steps to—

Exceeding £5,000 but not exceeding £5,250 £200.

Above this point the amount of tax was increased by £10 for every £250 of income.

Since these rates were imposed percentage additions have been made thereto from time to time.

* Converted at rate of 20 marks to the pound.

Appendix No. 14 (c).

BOARD OF INLAND REVENUE,

SOMERSET HOUSE.

NOTE ON DIFFERENTIATION OF TAX ON DIFFERENT KINDS OF INCOME IN BRITISH POSSESSIONS AND FOREIGN COUNTRIES.

1. The following note contains a classification of the methods in force in different States giving practical expression to the principle, which has been accepted in the British law since 1907, of differentiating in favour of earned income.

2. Four methods may be distinguished:—

- Differentiation either (i) within the Income Tax itself, different rates being charged for different kinds of income (as in the British Income Tax), or (ii) by means of separate taxes on certain kinds of income (e.g., land tax, house tax, tax on dividends and interest, etc.) combined with a general Income Tax on the total income from all sources. Where separate taxes on different sources of income exist, the general Income Tax is charged on a scale depending only on the amount of the total income, differentiation based on kind of income being produced by the rates of the separate taxes.
- Differentiation by means of a separate general tax on the capital value of property together with a general Income Tax.
- Differentiation by means of a property tax on the capital value of property combined with an Income Tax which is applied only to income not derived from property and is charged at a rate fixed so as to impose a smaller burden on such income.
- Differentiation by means of loading the Income Tax assessment with a fraction of the capital value of the taxpayer's property.

3. Method A.—The method of charging, within the Income Tax itself, different rates of tax on incomes of different kinds is found in the Income Taxes of the Commonwealth of Australia and of all the Australian States except Tasmania. None of

the other Income Taxes of the British Empire outside the United Kingdom have a systematic differentiation between earned and unearned income. Under the law of the Commonwealth of Australia the maximum rate of 8s. 1½d. applies to all earned income in excess of £7,500 and to all unearned income in excess of £5,500. The following table contains examples of the effective rates for income below these figures:—

Amount of Income.	Rate for Earned Income. Pence in the £.	Rate for Unearned Income. Pence in the £.
£500	7-5	8-8
£1,000	11-0	17-1
£2,000	17-1	30-8
£3,000	23-2	42-1
£4,000	29-2	51-6
£5,000	35-3	59-3

In Victoria the rates for unearned income are double those for earned; in New South Wales the rate at each step of the scale for unearned income represents an addition to the corresponding rate for earned income of one-third of the earned rate minus 1d. in £. France, Italy, Bavaria, Wurttemberg, Austria, and Hungary may be mentioned as foreign examples of Method A. The taxes in these countries vary considerably in form and character, but on the whole the prevailing type is that of separate taxes on the yield of different sources of income combined with a general Income Tax on total income, rather than that of a single Income Tax with different rates. Of most of these systems it may be said that they are systems produced by fitting into an existing scheme of old taxes on different kinds of income an Income Tax of more modern type with graduated rates based on total income.

In Bavaria and Wurttemberg, during the war, a property tax of the kind dealt with in the next paragraph has been introduced, but the existing taxes have also been maintained.

4. *Method B.*—Differentiation by means of a supplementary tax on the capital value of property combined with a general Income Tax is common in the German States. Thus in Prussia, side by side with the Income Tax, there is a supplementary tax (*Ergänzungssteuer*) on capital value applying to all property movable and immovable (including the capital value of annuities) with limited exceptions. This tax applies to individuals only. The rate of duty taking into account an increase under a law of 1916, is about 789 per thousand. Assuming that the property returns a yield of 5 per cent, this would be equivalent to an additional Income Tax on unearned income of at most 3.79 pence per £. A Bill which has recently been presented proposes to increase the rates of both Income Tax and property tax in Prussia.

Holland, Denmark, Norway, Hesse and Baden are further examples of this type. The system also exists in Saxony with the modification that the

general property tax does not apply to land, which is charged with a land tax on a different basis. In 1915 Württemberg and in 1918 Bavaria adopted general property taxes, while maintaining the existing combination of an Income Tax on total income together with separate taxes on the yield of different sources of income.

5. *Method C.*—The method of differentiation by means of a tax on the capital value of property combined with an Income Tax applying to income not derived from property is commonly found in the Swiss cantons. An elaborate system based on this principle was introduced in Holland in 1892-1893 by the eminent economist Dr. Pierson, who was then Minister of Finance, but in 1914 this system was given up in favour of one falling under Method B.

6. *Method D.*—In Sweden, where a taxpayer possesses property, his income for taxation purposes is increased by one-sixtieth of the capital value of his property.

Appendix No. 14 (d).

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.

NOTE ON ALLOWANCES GRANTED IN RESPECT OF CHILDREN IN THE INCOME TAX SYSTEMS OF BRITISH DOMINIONS AND FOREIGN STATES.

1. This note, while it shows the general position as regards allowances for children in the Income Tax systems of certain British Dominions and Foreign States, is not exhaustive. The figures given are based on the latest information available to the Board of Inland Revenue.

Conversions from foreign moneys into English equivalents have been made at nominal rates.

2. The following table shows the allowances granted in certain British Dominions and Foreign States. The amounts shown in Column 2 of the table are, unless otherwise stated, allowed as a deduction from the income in respect of which tax is charged.

Name of British Dominion or Foreign State.	Amount allowed in respect of each child.	Age up to which allowance is granted.	Limit of income from which allowance is granted.
1.	2.	3.	4.
Austria, Commonwealth of.	£30	16	No limit.
New South Wales ..	£30	18	Do.
Queensland ..	£30	16	Do.
South Australia ..	£15	15	£500.
Western Australia ..	£30	16	No limit.
Tasmania ..	From £6.6d. to £8. in tax.	16	£500.
New Zealand ..	£30	16	No limit.
South Africa, Union of.	£20	17	£200.
Canada, Dominion of.	£40	16	No limit.
Holland ..	From £5.16s. 4d. to £10.15s. 4d.	21	Do.
Denmark ..	85 lkr. 84.	16	Do.
Sweden ..	20 lkr. 84.	15	£200.
Saxony ..	82 lkr. 84.	14	£125.
	(No allowance for children under 6 years of age).		
United States of America.	£40	18	No limit.
Manchouretto* ..	£50	18	Do.
Wisconsin ..	£40	18	Do.

* The allowance for children applies only to income from professions, employments, trades and businesses. The amount allowed, including an allowance of £100 granted to married persons, must not exceed £300.

3. The Income Tax laws of Austria, Bavaria, Hungary, Prussia, Russia, and Württemberg also provide for allowances in respect of children. The allowances in these countries vary according to the incomes of the parents, but the amounts allowed are very small and are granted only to taxpayers with small incomes.

4. The French Income Tax system includes an elaborate scheme of substantial allowances for children.

This system of taxation comprises—

- a group of taxes on various classes of income, commonly known as *schedular taxes*; and
- a general Income Tax levied on total income.

The *schedular taxes* are charged at comparatively low rates (ordinarily 3½ to 5 per cent.) and are graduated only within narrow limits. The general Income Tax is a graduated tax charged at rates ranging from 1½ per cent. (for taxable incomes not exceeding £200) to 20 per cent. (for incomes of £22,000 and upwards).

In most of the *schedular taxes* a taxpayer with children is entitled to relief from a proportion of the tax, viz.:—

For one child ...	5 per cent. of the tax.
" two children ...	10 " " "
" three " ...	20 " " "
" four " ...	30 " " "
" five " ...	40 " " "
" six or more children	50 " " "

In the general Income Tax two separate allowances are granted in respect of children, viz.:—

- (a) an allowance in arriving at the income on which the tax is chargeable; and
- (b) the remission of a proportion of the tax chargeable in respect of income as so reduced.

The former of these allowances (a) is an allowance from income of—

£40 for each child up to the number of five, and £60 for each child beyond five.

Thus a taxpayer with three children obtains an allowance from income of £120 (£40 × 3), while one with eight children obtains an allowance of £280 (£40 × 5 plus £60 × 3). This allowance is granted irrespective of the amount of the taxpayer's total income.

The proportion of tax remitted under (b) is as follows:—

Where the net income paying tax is less than £400—

For each of the first two children, 7½ per cent. of the tax.

For each further child, 15 per cent. of the tax.

Where the net income paying tax exceeds £400—

For each of the first two children, 5 per cent. of the tax,

For each further child, 10 per cent. of the tax,

but no further tax is remitted in respect of children beyond six in number. Subject to the limitation that not more than £80 (in tax) can be allowed under this head in respect of each child, the relief is given however large the amount of the taxpayer's income.

5. The Income Tax systems of the following British Dominions and Foreign States do not provide for an allowance in respect of children:—British Columbia, India, Straits Settlements, Victoria, Baden, Hesse, Italy*, Japan.

* A recently introduced Bill proposes a tax on the total income of households and in arriving at the taxable amount a deduction is to be made for each member of the household, with certain exceptions.

Appendix No. 14 (c).

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.

INCOME TAX.

TABLES ILLUSTRATING THE RATES OF INCOME TAX IN FORCE AND THE RELIEF GRANTED IN RESPECT OF WIFE AND CHILDREN IN CERTAIN DOMINIONS AND FOREIGN COUNTRIES.

NOTES TO THE TABLES.

1. Tables A and B show for a number of selected incomes ranging from £100 to £100,000 the amount of tax and the effective rate in pence per £ payable in various countries. Table A represents income which is wholly earned and Table B income which is wholly unearned. The last line in each table shows the maximum rate in pence per £ which could be reached under the system of graduation adopted in each of the countries dealt with.

2. Tables A and B do not take into account relief in respect of children or the higher abatements for married persons which are allowed in many instances. The effect of such relief and abatements in the case of incomes of various amounts is illustrated in Tables C and D; Table C deals with the case of earned income and Table D with the case of unearned income. In these Tables the figures in ordinary type show the amount of tax and the effective rate per £ payable by a man with a wife and three children, while the figures in *italics* show the extent to which he is relieved from tax as compared with a person who has no wife or dependants. While Tables C and D relate only to incomes ranging from £100 to £1,500 it should be explained that in many of the cases dealt with, relief is granted however large the income.

In Japan no relief of this character is allowed.

3. In some countries non-residents are not allowed certain abatements which are granted to residents. The figures shown in the Tables are those applicable to residents in the countries dealt with.

4. In New Zealand, the Union of South Africa, the Dominion of Canada, the United States of America, and Japan there is no system of differentiation between earned and unearned income, so that for these countries the same figures appear in Tables A and B and again in Tables C and D.

5. The Australian Commonwealth Income Tax is shown both separately and also in combination with the New South Wales State Income Tax. In arriving at the taxable income for the purpose of the Commonwealth Income Tax the State Income Tax is allowed as a deduction. Account has been taken of this fact in calculating the figures in the column relating to the combined taxes.

6. In the case of France there is a general Income Tax on total income from all sources combined with a series of taxes on different classes of income which are

known as "scholar" taxes. The latter are assessed at different rates and with different abatements so that no one figure can be given as representing with complete accuracy the tax on earned income or the tax on unearned income. The figures shown in Table A would be appropriate to income from a profession carried on or a salary earned by a resident in Paris, and those in Table B to income from real property.

The French general Income Tax is assessed on the basis of the income for the year preceding the year of assessment. In arriving at this amount the "scholar" tax and the general Income Tax paid for that year are allowed as a deduction. Account has been taken of this fact in calculating the figures.

7. In the case of Prussia differentiation as between earned and unearned income is produced not by charging different rates of Income Tax on the two classes of income, but by charging an annual tax on the capital value of property side by side with the Income Tax. In constructing the Table for unearned income it has been assumed that the taxpayer's property produces a return of 5 per cent. and on this basis the property tax has been represented as an additional Income Tax. This system of differentiation differs substantially from that of the United Kingdom tax.

The figures shown are those resulting from a law of the 8th July, 1916. Proposals for increases in the rates for 1919 have been introduced.

8. Although for the sake of completeness Tables A and C (which deal with earned income) have been framed to include incomes of large amount, it will be appreciated that earned incomes falling within the higher ranges dealt with are only rarely found.

9. Generally it should be observed that the Tables do not enable comparisons to be made with any accuracy of the burden of State direct taxation in the countries dealt with.

Within the Income Taxes themselves variations in the principles of assessment of different classes of income would prevent the figures shown from being of exactly equal value. The different methods adopted for taxing companies prevent the Tables from being generally applicable to incomes consisting in whole or in part of dividends from companies.

10. In dealing with the countries where British currency is not used, the amounts have been converted at the nominal rates.

TABLE A.
TABLE SHOWING THE TOTAL AMOUNT OF TAX PAYABLE ON A NUMBER OF EARNED INCOMES AND THE AVERAGE RATE IN PENCE PER £ IN CERTAIN COUNTRIES.
(The amount is that of a resident taxpayer without wife or children.)

Income.	United Kingdom.			Commonwealth of Australia.			Commonwealth and New South Wales.			New Zealand.			Union of South Africa.			Dominion of Canada.			France.			Prussia.			United States of America.			Japan.		
	Tax.	Rate.	Pence £ s. d. per £.	Tax.	Rate.	Pence £ s. d. per £.	Tax.	Rate.	Pence £ s. d. per £.	Tax.	Rate.	Pence £ s. d. per £.	Tax.	Rate.	Pence £ s. d. per £.	Tax.	Rate.	Pence £ s. d. per £.	Tax.	Rate.	Pence £ s. d. per £.	Tax.	Rate.	Pence £ s. d. per £.	Tax.	Rate.	Pence £ s. d. per £.			
100	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
150	3 7 6	5-60	—	1 6 1	2-09	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
200	9 0 0	10-80	—	2 16 0	3-96	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
300	29 5 0	15-30	—	6 6 9	5-07	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
400	81 10 0	18-30	—	10 12 0	8-36	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
500	45 0 0	21-60	—	15 12 0	7-49	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
600	75 0 0	30-00	—	21 6 6	8-33	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
800	120 0 0	35-00	—	32 10 0	9-75	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
1,000	130 0 0	35-00	—	45 14 0	10-97	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
1,500	281 5 0	46-00	—	87 11 10	14-01	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
2,000	450 0 0	54-00	—	142 3 9	17-06	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
3,000	862 10 0	77-00	—	289 9 0	23-16	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
4,000	1,482 10 0	81-75	—	487 10 0	26-25	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
5,000	1,787 10 0	83-80	—	786 6 6	35-34	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
10,000	4,137 10 0	100-50	—	2,995 15 9	63-30	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
20,000	8,437 10 0	113-25	—	6,035 8 9	79-90	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
50,000	25,187 10 0	120-50	—	18,215 18 9	90-16	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
100,000	51,437 10 0	123-46	—	39,138 8 9	90-95	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		

TABLE B.
TABLE SHOWING THE TOTAL AMOUNT OF TAX PAYABLE ON A NUMBER OF *INVESTED* INCOMES AND THE AVERAGE RATE IN PENCE PER £ IN CERTAIN COUNTRIES.
(The case assumed is that of a resident taxpayer without wife or children.)

Income.	United Kingdom.		Commonwealth of Australia.		Commonwealth and New South Wales.		New Zealand.		Union of South Africa.		Dominion of Canada.		France.		Prussia.		United States of America.		Japan.	
	Tax.	Rate.	Tax.	Rate.	Tax.	Rate.	Tax.	Rate.	Tax.	Rate.	Tax.	Rate.	Tax.	Rate.	Tax.	Rate.	Tax.	Rate.	Tax.	Rate.
£ 100	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
150	4 10 0	7-30	1 7 1	2-17	1 7 1	3-17	—	—	—	—	—	—	7 16 8	12-53	6 0 1	8-01	—	—	6 0 0	9-09
200	12 0 0	14-10	2 10 7	3-57	2 19 7	3-37	—	—	—	—	—	—	11 0 8	13-24	8 1 10	9-71	—	—	8 0 0	9-09
300	27 0 0	21-00	7 0 6	5-03	9 14 6	7-78	—	—	—	—	—	—	17 8 9	13-96	13 1 11	10-43	8 0 0	4-80	16 10 0	13-20
400	42 0 0	28-20	12 3 2	7-29	20 5 9	11-11	6 5 0	3-75	10 1 8	6-05	6 0 0	3-60	28 3 6	14-50	19 3 2	11-60	12 0 0	7-20	28 0 0	16-99
500	60 0 0	35-80	18 7 3	8-81	31 12 2	15-20	12 10 0	6-00	20 6 8	9-76	10 0 0	4-80	31 10 4	16-13	27 15 0	13-32	18 0 0	8-44	35 0 0	16-80
600	83 15 0	37-50	26 14 2	10-68	44 12 2	17-84	18 15 0	7-50	30 15 0	12-36	14 0 0	5-40	39 6 1	15-70	32 19 8	13-19	24 0 0	9-60	41 0 0	20-40
800	150 0 0	43-00	46 11 4	13-97	74 9 8	23-35	42 3 9	12-66	41 6 8	12-40	22 0 0	6-00	66 19 8	14-79	46 12 8	13-99	36 0 0	10-80	84 0 0	25-20
1,000	237 10 0	43-00	71 6 4	17-12	108 11 9	20-06	70 6 3	16-87	62 1 8	12-56	30 0 0	7-20	74 6 1	17-82	59 19 8	14-40	48 0 0	11-52	106 0 0	25-20
1,500	337 10 0	54-00	152 6 10	24-37	213 6 1	31-08	146 17 6	23-50	79 13 9	12-75	56 18 0	9-10	126 16 2	20-26	97 2 6	15-54	116 0 0	13-46	137 10 0	30-00
2,000	525 0 0	68-00	256 7 9	30-77	338 8 10	40-11	249 9 7	29-94	108 6 8	13-00	88 8 0	10-61	188 6 2	22-60	139 11 4	16-75	190 0 0	22-80	290 0 0	34-50
3,000	902 10 0	77-00	525 19 6	42-03	617 14 0	51-82	532 16 8	42-42	207 8 5	16-68	167 8 0	14-99	536 16 4	38-95	228 10 11	13-38	358 0 0	28-64	510 0 0	40-80
4,000	1,282 10 0	81-75	860 15 11	51-65	1,020 16 2	61-25	920 6 3	53-22	356 7 7	21-88	296 8 0	17-18	616 3 11	30-87	330 11 6	19-33	560 0 0	33-00	780 0 0	46-50
5,000	1,287 10 0	83-90	1,286 9 4	50-85	1,033 15 2	63-63	1,411 19 7	67-77	515 17 7	24-91	418 8 0	20-66	743 8 8	34-72	458 7 1	22-09	765 0 0	36-56	975 0 0	46-50
10,000	4,187 10 0	100-40	3,253 9 0	78-20	3,094 10 2	88-67	3,632 10 0	88-38	1,165 8 0	27-99	1,165 8 0	27-99	1,829 8 9	43-90	837 0 1	29-49	3,280 0 0	53-42	2,450 0 0	53-80
25,000	9,107 10 0	111-20	7,300 19 0	87-86	6,893 6 11	99-62	7,432 10 0	89-19	3,664 13 4	44-00	3,631 8 0	42-38	3,844 16 6	47-34	1,894 15 1	29-74	7,090 0 0	84-36	6,100 0 0	64-80
50,000	25,187 10 0	120-90	19,768 9 0	93-44	22,608 13 0	108-03	18,632 10 0	89-63	12,860 0 0	40-00	11,791 1 8	71-00	10,296 13 4	49-91	4,765 4 1	23-89	27,430 0 0	131-66	15,000 0 0	72-00
100,000	51,437 10 0	125-45	39,820 19 0	93-37	45,681 4 7	108-19	37,432 16 0	88-84	25,000 0 0	69-00	39,091 8 0	93-82	20,313 6 8	49-50	9,507 4 1	25-94	64,330 0 0	135-11	30,000 0 0	72-00
	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	128-70	—	97-30	—	110-26	—	93-100	—	80-00	—	174-36	—	50-00	—	—	—	164-65	—	—	52-05

TABLE C.

TABLE C.

TABLE ILLUSTRATING THE EFFECT OF RELIEF IN RESPECT OF WIFE AND CHILDREN IN VARIOUS COUNTRIES, IN CASES WHERE THE INCOME IS £4000.
(The Table shows the amount of tax and the effective rate in pence per £ actually paid by a taxpayer with a wife and three children, and in *italics* the difference between the amount of tax and the effective rate paid and the amount of tax and effective rate which would have been payable if the taxpayer had no wife or other dependants.)

Income.	United Kingdom.	Commonwealth of Australia.	Commonwealth of Australia and New Zealand.	Union of South Africa.	Dominion of Canada.	France.	Prussia.	United States of America.
£.	Rate of Tax and Relief.	Rate of Tax and Relief.	Rate of Tax and Relief.	Rate of Tax and Relief.	Rate of Tax and Relief.	Rate of Tax and Relief.	Rate of Tax and Relief.	Rate of Tax and Relief.
100	—	—	—	—	—	—	—	—
150	3 7 0	1 0 1	1 6 1	—	—	0 9 0	1 18 10	—
200	9 0 0	2 16 0	2 16 0	—	—	0 17 2	0 17 2	—
250	—	—	—	—	—	—	—	—
300	9 0 0	4 19 8	1 19 8	—	—	—	—	—
350	11 5 0	4 17 6	1 17 6	—	—	—	—	—
400	11 5 0	3 14 6	1 14 6	—	—	—	—	—
450	11 5 0	3 14 6	1 14 6	—	—	—	—	—
500	11 5 0	3 14 6	1 14 6	—	—	—	—	—
550	11 5 0	3 14 6	1 14 6	—	—	—	—	—
600	11 5 0	3 14 6	1 14 6	—	—	—	—	—
650	11 5 0	3 14 6	1 14 6	—	—	—	—	—
700	11 5 0	3 14 6	1 14 6	—	—	—	—	—
750	11 5 0	3 14 6	1 14 6	—	—	—	—	—
800	11 5 0	3 14 6	1 14 6	—	—	—	—	—
850	11 5 0	3 14 6	1 14 6	—	—	—	—	—
900	11 5 0	3 14 6	1 14 6	—	—	—	—	—
950	11 5 0	3 14 6	1 14 6	—	—	—	—	—
1,000	11 5 0	3 14 6	1 14 6	—	—	—	—	—
1,050	11 5 0	3 14 6	1 14 6	—	—	—	—	—
1,100	11 5 0	3 14 6	1 14 6	—	—	—	—	—
1,150	11 5 0	3 14 6	1 14 6	—	—	—	—	—
1,200	11 5 0	3 14 6	1 14 6	—	—	—	—	—
1,250	11 5 0	3 14 6	1 14 6	—	—	—	—	—
1,300	11 5 0	3 14 6	1 14 6	—	—	—	—	—
1,350	11 5 0	3 14 6	1 14 6	—	—	—	—	—
1,400	11 5 0	3 14 6	1 14 6	—	—	—	—	—
1,450	11 5 0	3 14 6	1 14 6	—	—	—	—	—
1,500	11 5 0	3 14 6	1 14 6	—	—	—	—	—

TABLE D.

TABLE ILLUSTRATING THE EFFECT OF RELIEF IN RESPECT OF WIFE AND CHILDREN IN VARIOUS COUNTRIES, IN CASES WHERE THE INCOME IS GREATER THAN £100. (The Table shows the amount of tax and the effective rate in pence per £ actually paid by a taxpayer with a wife and three children, and in *italics* the difference between the amount of tax and the effective rate paid and the amount of tax and effective rate which would have been payable if the taxpayer had no wife or other dependants.)

Income.	United Kingdom.	Commonwealth of Australia.	Commonwealth of Australia and New South Wales.	New Zealand.	Union of South Africa.	Dominion of Canada.	France.	Prussia.	United States of America.
£	Rate of Tax and Relief.	Rate of Tax and Relief.	Rate of Tax and Relief.	Rate of Tax and Relief.	Rate of Tax and Relief.	Rate of Tax and Relief.	Rate of Tax and Relief.	Rate of Tax and Relief.	Rate of Tax and Relief.
100	—	—	—	—	—	—	—	—	—
150	4 10 0	1 7 1	1 7 1	—	—	—	—	—	—
200	12 0 0	2 19 7	2 19 7	—	—	—	—	—	—
300	12 0 0	2 1 6	2 1 6	—	—	—	—	—	—
400	12 0 0	2 1 6	2 1 6	—	—	—	—	—	—
500	12 0 0	2 1 6	2 1 6	—	—	—	—	—	—
600	12 0 0	2 1 6	2 1 6	—	—	—	—	—	—
700	12 0 0	2 1 6	2 1 6	—	—	—	—	—	—
800	12 0 0	2 1 6	2 1 6	—	—	—	—	—	—
900	12 0 0	2 1 6	2 1 6	—	—	—	—	—	—
1,000	12 0 0	2 1 6	2 1 6	—	—	—	—	—	—
1,200	12 0 0	2 1 6	2 1 6	—	—	—	—	—	—

Appendix No. 14 (f).

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.

NOTE ON THE ASSESSMENT OF INCOME TAX ON FARMERS' PROFITS IN THE DOMINIONS
AND IN FOREIGN COUNTRIES.

Dominions.

1. The profits of farmers are in general liable to Income Tax wherever such a tax is levied in the Dominions, on the basis of the actual profits made. No distinction is made in these cases between profits of ownership and profits of occupation if the land is occupied by the owner. If a rent is paid it would be a deduction in arriving at the occupier's profits and would be assessable on the recipient. The principle of an arbitrary standard was tried for one year in the Cape Income Tax Act of 1908, when the presumed income from the ownership of land was rated at 6 per cent. and from the occupation of land $\frac{1}{2}$ per cent. of the Divisional Council Valuation; but this principle was abandoned in 1909, one year's experience having established its unsuitability, and the basis of actual profits was reverted to. This Act lapsed on the creation of the Union of South Africa.

2. In certain States where a land tax is levied special relief is given to farmers' profits in view of such tax.

3. As regards stock-on-hand the Acts in general provide that the value of live-stock, produce, &c., not disposed of at the beginning and end of the year under review must be taken into account. In some cases the farmer is required to adopt a standard value per head of stock. In Australia the standard is prescribed by the Commissioner of Taxation and varies according to locality.

4. The exceptions to the general rule as to taking stock into account are provided by Queensland and the Union of South Africa. In Queensland the owner of live-stock can elect to "contract out" of the general rule and to be assessed on a cash basis, ignoring live-stock and produce on hand. The notice of such election, once given, is irrevocable. The inequitable results of the cash basis are indicated by the report of the Commissioner of Taxes for 1916, which referred to the inordinate "profits" of 1915 arising on the heavy realizations in that year made in anticipation of drought, and by his report for 1917, which deprecated the facility given for choosing the cash basis, considering it suitable only for persons owning a limited number of animals.

5. In the Union of South Africa the choice is reversed, and every farmer is assessed on the cash basis unless special application is made to the contrary. As in Queensland, the choice once made is irrevocable. Here, too, the anomalies resulting from the cash basis in the case of realizations of stock were evident, and in 1918 it became necessary to provide that in the case of total realization of live-stock the profit arising therefrom should be deemed to be the difference between the sum realized and the capital value of the stock as registered with the Commissioner, viz. the value at 30th June, 1913, plus any capital (but not re-invested profits) introduced since that date for the purchase of stock. On partial realization the farmer can choose a similar method of arriving at profits. A South African Committee of Inquiry, appointed to inquire into the taxation of farmers' profits, recommended in December, 1918, that the section imposing the cash basis in assessing farmers' profits, with an option to adopt the inventory basis, should be abolished, and

that all persons carrying on farming operations should be required to frame their returns on the same basis as other taxpayers. The Committee also recommended that farmers who do not keep accounts should be officially provided with a simple account book yearly to enable them to keep accounts, the recording of all transactions in such book to be made compulsory on farmers who do not otherwise keep adequate records of their business dealings. The Committee added: "It is compulsory by law for the smallest trader to keep a proper set of books. It is clear, therefore, that it cannot be regarded as an unreasonable expectation that a community so important as that of farming should in its own interest take advantage of one of the most elementary of business principles." Income Tax was first imposed on 1st July, 1914.

6. The same Committee also recommended a regulation as to the method of valuing stock.

A lump-sum valuation at the farmer's own figure was to be disallowed, a schedule system being substituted. Purchased stock was to be entered at cost price. Live-stock bred was to be included at a standard value determined by the Commissioner or by regulation, which should take into consideration quality and maturity of stock. Taxpayers were to have the option of valuing above the standard.

Foreign countries.

7. In France there is a close analogy to Schedule B. Under a law of the 31st July, 1917, imposing a "tax on different categories of income," the profits of husbandry are charged at the rate of 3 per cent. on one-half of the rental value of the lands cultivated.* If, however, the real profits in the year preceding the year of assessment did not reach this figure, the farmer can, on furnishing the necessary evidence, obtain a proportional reduction. For the purpose of the general Income Tax on total income, the figure arrived at, on the basis of rental value, can be taken as representing the income from farming.

8. In Italy the present position is admittedly anomalous, and under a new Income Tax Bill, introduced in the Italian Parliament this year, the ownership of land becomes what we should call a "schedule" of the Income Tax; and husbandry will be charged under another "schedule" (that applicable to income derived from labour and capital combined). No difference will be made in future between the case where the cultivator is also the owner and the case where he is a tenant.

9. In Holland, at the end of 1914, a general Income Tax was introduced, and agriculture is chargeable thereto on its profits. The general property tax already existing was reduced to the level of a subsidiary tax intended to impose an additional burden on unearned income.

10. In other States with a general Income Tax the practice seems to be to assess the tax in principle on the basis of actual profit.

* Where the rental value does not exceed £400 tax is charged only on the portion of the assessed income which exceeds £50 and there is also provision for abatement and substantial relief in respect of children.

Appendix No. 15.

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.

INCOME TAX.

Table prepared at the request of the Royal Commission, giving for certain years estimates of the amount of income charged to Income Tax at the reduced rates applicable to earned income, the allowances made from the taxable income, the net income taxed, the tax paid thereon, and the cost of differentiation in favour of earned income.

Year.	Range of Total Income.		Earned Income (including pay of sailors, soldiers, etc.).			Rate of Tax. (see Note)*.	Actual net produce of tax on Earned Income.	Corresponding rate of tax on Un-earned Income.	Tax that would have been payable if there had been no differentiation.	Cost of Differentiation. (Col. 9 less Col. 7).
			Taxable Income.	Abatements and Allowances.	Net income taxed.					
(1)	(2)		(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Exceeding £	Not exceeding £	£	£	£	s. d.	£	s. d.	£	£
1907-8	160	2,000	187,653,000	22,800,000	94,853,000	0 9	3,847,000	1 0	4,742,000	1,185,000
1910-11	160	2,000	212,210,800	108,068,200	104,152,600	0 9	3,906,000	1 2	6,075,000	
	2,000	3,000	10,861,300	366,100	10,485,200	1 0	624,000	1 2	611,000	
			223,072,100	108,434,300	114,637,800		4,430,000		6,686,000	2,246,000
1913-14	160	2,000	248,753,100	124,185,500	121,566,600	0 9	4,869,000	1 2	7,092,000	
	2,000	3,000	15,811,700	625,600	15,186,100	1 0	764,000	1 2	891,000	
			264,564,800	124,811,100	136,752,700		5,633,000		7,983,000	2,366,000
1916-17	130	500	443,106,700	346,449,500	96,657,200	2 3	10,229,000	3 0	14,219,000	
	500	1,000	70,426,400	11,839,900	58,586,500	2 6	7,054,000	3 6	10,104,000	
	1,000	1,400	29,225,600	1,073,700	28,151,900	3 0	4,121,000	4 0	6,340,000	
	1,500	2,000	16,778,400	638,800	16,144,600	3 3	2,880,000	4 6	3,945,000	
	2,000	2,500	10,761,200	392,800	10,368,400	4 4	2,153,000	5 0	2,498,000	
			670,366,300	360,409,200	209,957,000		26,397,000		35,915,000	9,518,000
1918-19	130	500	809,000,000	653,690,000	155,310,000	2 3	16,927,000	3 0	23,186,000	
	500	1,000	102,400,000	21,010,000	81,390,000	3 0	11,671,000	3 9	14,925,000	
	1,000	1,500	40,000,000	1,300,000	38,700,000	3 9	7,112,000	4 6	8,628,000	
	1,500	2,000	26,000,000	830,000	25,170,000	4 6	5,866,000	5 3	6,276,000	
	2,000	2,500	19,000,000	600,000	18,400,000	5 3	4,882,000	6 0	5,450,000	
			996,000,000	677,430,000	318,170,000		45,958,000		68,535,000	12,577,000

* For the years 1916-17 and 1918-19 there were also special allowances and reduced rates applicable to the service pay of sailors, soldiers, etc.

The information contained in this table is given under considerable reserve, as it has necessarily been based to a considerable extent on estimated figures.

Appendix No. 16.

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.

INCOMES EXCEEDING £150 AND NOT EXCEEDING £250.

Table prepared by the Board of Inland Revenue at the request of the Royal Commission on the Income Tax giving for the year 1918-19 an estimate of—

- I. the total number of individuals with incomes between the above-named limits, their aggregate taxable income, and the proportion of those individuals and of that income wholly relieved from Income Tax by abatements and personal allowances, and
- II. the total number of such individuals who are chargeable with tax, their aggregate taxable income and the proportion of that income relieved by such allowances, together with
- III. a summary of Parts I and II showing also the proportion of the aggregate income on which tax is received.

PART I.

Incomes		Total number of Individuals.	Aggregate of their Taxable Income.	No. of Individuals wholly relieved from Tax.		Aggregate Taxable Income of Individuals wholly relieved from Tax.	
Exceeding	Not Exceeding			No	Per cent. of Col. 1	Amount.	Per cent. of Col. 2.
		(1)	(2)	(2)	(1)	(7)	(6)
£	£		£			£	
150	150	2,490,000	339,500,000	1,590,000	63·9	215,000,000	43·3
150	200	1,110,000	191,000,000	290,000	26·1	49,800,000	26·1
200	250	499,000	106,800,000	50,000	10·1	10,870,000	10·2
Total, 150 — 250		4,099,000	637,300,000	1,930,000	47·2	275,670,000	43·3

PART II.

Incomes		Number of Individuals chargeable with Tax.	Aggregate of their Taxable Income.	Abatements and Personal Allowances.	
Exceeding	Not Exceeding			Amount.	Per cent. of Col. 2.
		(1)	(3)	(5)	(4)
£	£		£	£	
150	150	900,000	124,500,000	109,780,000	88·9
150	200	430,000	141,300,000	114,780,000	81·3
200	250	448,000	97,900,000	69,010,000	71·9
Total, 150 — 250		2,168,000	363,700,000	293,570,000	81·2

PART III.

Incomes		Total number of Individuals.	Aggregate of their Taxable Income.	Individuals and Incomes wholly relieved by Abatements and Personal Allowances.		Individuals and Incomes partially relieved by Abatements and Personal Allowances.		Balance of Incomes on which Income Tax is received.	
Exceeding	Not Exceeding			Number of Individuals.	Aggregate of their Taxable Incomes.		Number of Individuals.	Aggregate of their Taxable Incomes relieved.	
		(1)	(2)		Amount.	Per cent. of Col. 2.		Amount.	Per cent. of Col. 2.
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
£	£		£						
150	150	2,490,000	339,500,000	1,590,000	215,000,000	63·3	900,000	109,780,000	32·3
150	200	1,110,000	191,000,000	290,000	49,800,000	26·1	320,000	114,780,000	60·1
200	250	499,000	106,800,000	50,000	10,870,000	10·2	448,000	69,010,000	64·6
Total, 150 — 250		4,099,000	637,300,000	1,930,000	275,670,000	43·3	2,168,000	293,570,000	46·1

Appendix No. 17.

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.

MEMORANDUM PREPARED BY THE BOARD OF INLAND REVENUE AT THE REQUEST OF THE ROYAL COMMISSION ON THE INCOME TAX WITH REGARD TO THE EVIDENCE PRESENTED BY SIR GILBERT KENELM TREFFRY PURCELL, CHIEF JUSTICE OF THE SUPREME COURT OF SIERRA LEONE.

1. Sir G. K. T. Purcell raises a question as to the liability to Income Tax of Government officials in West Africa.

2. Government officials whose emoluments are not paid out of the Public Revenue of the United Kingdom—e.g., Indian and Colonial officials—are in the same position as other persons who are employed abroad. All such persons who maintain a residence in the United Kingdom are liable to be taxed as residents for any year in which they come to the United Kingdom.

3. Persons coming within the description in paragraph 2, who do not maintain a residence in the United Kingdom, are not held to be liable to tax unless they are in the United Kingdom at one time or several times for a period equal in the whole to six months in the Income Tax year.*

4. The assessment to United Kingdom Income Tax in cases falling within paragraphs 2 and 3, is made under Case 5 of Schedule D of the Income Tax Act, 1918, on the basis of the Colonial or Indian leave pay, &c., drawn in the United Kingdom, and on remittances made to the United Kingdom.

5. The foregoing rule has always been followed in the case of Indian officials, and has been accepted without question by the officials concerned.

6. Officials of Crown Colonies, when in the United Kingdom, are paid by the Crown Agents for the Colonies; and in the year 1913-14 it was found that the question whether or no an official was maintaining a residence in the United Kingdom was not being considered, and that these officials were being treated as liable to United Kingdom Income Tax only when their stay in the United Kingdom in any Income Tax year amounted in the aggregate to six months.

7. Arrangements were accordingly at once made under which for the year 1914-15 and following years the practice in relation to Colonial officials was brought into accordance with the law and with the procedure followed in the case of Indian officials.

8. It will be evident from the foregoing paragraphs that it is not correct to say that for over 70 years the Inland Revenue authorities had never put forward any claim that Income Tax was payable by Colonial officials who were paid out of Colonial funds. During the whole life of the tax the legal position has been as is indicated above, and so far as the records show, Indian officials have always been dealt with on this legal basis. The reason for the change made in 1914-15 in connection with the assessment of the liability of the West African officials has already been indicated.

9. It will be seen that the West African official is treated for the purposes of United Kingdom Income Tax in precisely the same manner as any other person working abroad.

10. Although the decision in the case of *Cooper v. Cadogan* (12 Sc. L.R. 449; 5 Tax Cases 101), which was given in 1904, confirms the correctness of the legal position set out above, it had nothing to do with the change in practice. This took place in 1914-15 for the reasons explained in paragraphs 6 and 7, i.e., ten years after the decision in the Scottish Court.

11. The instruction to which reference is made in the evidence of Sir G. K. T. Purcell relates solely to the case where the husband is abroad and does not come to the United Kingdom during the year. In order to remove any possible doubt in the matter a further instruction was given in 1914 to the effect that when in any Income Tax year the husband is resident in the United Kingdom, he is himself assessable in the ordinary manner, and his liability is not limited as in the case of the husband abroad during the year) referred to in the previous ruling.

12. It is no doubt true that in the case of the West African official the application of the ordinary law may bear rather hardly, because the maintenance of a residence in this country and frequent visits here are more essential for men working in West Africa than for those whose field of labour is in some more healthy part of the world. It is further understood that for the most part these officials are not allowed to take their wives and families to West Africa, so that if married they are almost bound to maintain residences in the United Kingdom. It would, however, not appear suitable to give effect to these considerations by way of remission of taxation granted in favour of a particular body of taxpayers. Rather it would seem to be a matter taken, or to be taken, into account in fixing the conditions of service.

13. It is not the case that Colonial and Indian officials coming to the United Kingdom are necessarily assessed on their full incomes. As stated above, they are assessed on leave pay, &c., drawn in the United Kingdom and remittances made to the United Kingdom. They are not assessed for income arising and paid abroad and not brought to this country.

14. The main burden of the complaint is really directed against the conditions obtaining in the West African service, and it would clearly be out of place for the Board of Inland Revenue to express any opinion on this subject. The further complaint that the tax bears hardly on the married man as compared with the bachelor is a general one not confined to the particular case under review.

* Government officials who are paid out of the Public Revenue of the United Kingdom are liable to United Kingdom Income Tax under Schedule E on their emoluments of office wherever they are serving or residing.

† Vide Rule 2 of the Miscellaneous Rules applicable to Schedule D, First Schedule, Income Tax Act, 1918.

Appendix No. 18.

Paper handed in by Mr. G. P. NORTON on 18th July (see Q. 8057).

EXTRACT FROM A REPORT OF THE PROCEEDINGS OF A DEPUTATION FROM THE ASSOCIATION OF BRITISH CHAMBERS OF COMMERCE TO THE BOARD OF INLAND REVENUE ON 25th NOVEMBER, 1913.

"I will first ask Mr. Norton, of Huddersfield, to deal with the first points as regards depreciation, &c., under paragraph 2.

"Mr. G. P. Norton (Huddersfield, &c.): Sir Algernon Firth has made reference to one or two matters which I had intended to mention myself. I should like to say as a professional man on this Committee (and I speak on behalf of all the others) that we have not approached this matter at all with any view to criticising the administration of the Act, and I should like to take this opportunity of saying that from my own knowledge all over the country the officials who are administering the Act are doing their work in a zealous and very efficient manner. I think the complaints which have arisen are chiefly perhaps instances of excess of zeal occasionally on the part of some of the Surveyors. We have had brought before us a very large number of suggestions, and complaints, and our time has been largely occupied in eliminating matters which we saw, when we went into them carefully, could not be brought forward. The attitude of those who have made complaints and suggestions has been that of an individual considering his own case, and not looking at the matter from the point of view of the whole body of taxpayers, who of course you, Sir, representing the Government, have to look after. That led to our throwing out a very large number of suggestions; and we have actually boiled down all the matters that were put before us into these few recommendations contained in the Memorandum which is now before you.

"I have been asked, Sir, to deal with the questions under paragraph 2.

"(a) Allowance for depreciation on buildings and other structures.

"(b) Allowance for depreciation on wasting assets, shaft sinking and developments, furniture, fixtures and fittings.

"(c) Allowance for expenses of removal and rearrangement of plant and machinery.

"(d) Extra allowance for depreciation of machinery run both day and night.

"(e) That a definite effort should be made by the Revenue Authorities to regularise the rates of depreciation allowed in different trades."

"I shall deal particularly with the question of 'Allowance for depreciation on buildings and other structures,' and 'Allowance for depreciation on wasting assets, shaft sinking and developments, furniture, fixtures and fittings.'

"This question of the allowance for depreciation on buildings and other structures is a very long standing grievance; it is a very real grievance; it is a grievance which is very clearly understood by the best and ablest traders in the country. I have not the slightest hesitation in saying that this grievance has been the cause of more dissatisfaction with the administration of the Income Tax Acts than any other. It is so palpably unjust and inequitable to the taxpayer who has to use buildings and structures, as is also the question of shaft sinking and developments. I constantly come across this question in preparing accounts for the trader. He says: 'Why should you allow depreciation on plant and machinery and not

allow it upon the factory buildings?' I conceive there is no reason. It is impossible to the man in the street to define the line where plant ends and buildings begin. Take, for instance, a chemical works. Very frequently the plant is part of the structure of the buildings in which it is contained, and the whole thing is one; they are inseparable; they could not be used apart. Then take the ordinary mill. I mention this particularly because in reading one of the recent decisions the learned judge obviously did not understand what a mill is, as we who live amongst the mills understand it. The mill in the judge's mind was the shell of the building, its floors and roof, and nothing more. A mill, as we understand it, is the shell of the building, the motive plant which is contained therein, the shafting and gearing which transmits the power from the motive plant, the heating arrangements, and the lighting arrangements. They are all inseparably one. The shell of the building without the plant is useless. The plant without the shell of the building is useless. Therefore it seems to be unreasonable altogether that we should allow depreciation on one part of the plant, as they call it, and not allow it on another part. There is no dividing line. Take another instance, a modern engineer's shop. That is almost always built on the same principle. We have bays with lines of iron pillars or stanchions, which stanchions are the chief cost in the structure; they have to be embedded in stone or concrete. They serve a treble purpose. First of all the stanchions support the light iron framework for the roof; then they support a gantry or long girder which runs right along on it as a rule; and then across the bay there stretches the overhead crane. The stanchions you see form part of the overhead crane. Also on the stanchions, or pillars, there is the driving gear, the shafting and the attachments to drive the machinery. You see there the chief cost of the building in the stanchions is not only for the roof to cover, but also to support the machinery, both the overhead crane and the shafting for the other machinery, and it is impossible to separate the building and plant and say: 'This is building,' and 'That is machinery,' beside which they would serve no useful purpose apart from one another. They are essentially one. An engineer's shop is plant. I should say that if you were to go into an engineer's shop built thirty years ago, it would be largely useless for present methods; it is not strong enough. The introduction of electricity for the driving of the overhead crane means that there is greater speed and greater stress; all the machinery has been quickened up in power, which means that the strain is much greater, and, therefore, the building becomes obsolete in, say, 25 or 30 years.

"I have never been able quite to understand on what basis depreciation is allowed on ships. I find nothing in the Acts of Parliament which justifies it, unless ships are regarded as plant. If a ship is regarded as plant I say there is absolutely no distinction in principle between a ship and a mill. A steamship is a structure containing engines, boilers, and gearing, and if you separate the hull from the machinery it is useless. The same applies exactly to a mill, only one

is stationary, and the other moves from place to place. I am not able, therefore, to see any reason to distinguish between a mill and a ship so far as depreciation is concerned.

"On the question of obsolescence, a very proper regulation was issued some short time since, providing for obsolescence of machinery. I may say that if the regulation were followed I could quite clearly show to you that it was unfair to the Government. As a matter of fact it is not followed, and your Surveyors have been a little more careful and they do treat it properly. But obsolescence is actually allowed on plant and machinery. If it is required on plant and machinery it is required quite as much upon a mill. The life of a mill is to a large extent contemporaneous with the life of the machinery. I do not mean to say that in all cases the machinery lasts as long as the mill; that is not so; different cases must be differently treated; but I would like to give you an illustration of what occurs. Take a cotton mill—this is a case in my own experience—a very fine structure. I daresay if some of the gentlemen in this room could see it they would say what a magnificent building it was. The story of that mill is this. It was built, I do not know how many years ago, probably 30 or 35 years ago, and the cost of it was something like £60,000. My firm actually sold this mill a few years ago for £3,500. Why? The mill is a long narrow mill, and it was built for machinery at a time when machines were very short. The long narrow mill was lighted from either side, and the machines were of just sufficient length to fill the mill across, and the windows gave light between the alleys of the machines placed transversely across the mill. Then there came a change, and the machinery was altered, and much longer machines were put in, with the consequence that they could work very much more economically, but all the short machines had to be thrown out. That involved the throwing out of all the machinery in this mill and the introduction of long machinery into a mill which was not built for long machinery; and instead of placing the machinery crosswise the machines had to be placed lengthwise, and, therefore, half the mill was not occupied, and the half that was occupied was badly lighted. That meant that by obsolescence the value of this mill was reduced from £60,000 to £3,500. That is only one instance amongst a great number that I could give you.

"Before leaving this portion of the subject, I want to exhaust the arguments which have been brought forward against the allowance of depreciation. One in particular is that one-sixth of the rack rent is allowed to cover maintenance and repairs. That is absolutely useless to the manufacturer. The position is this: It is allowed under Schedule A, and when the manufacturer comes to make up his accounts under Schedule D the only allowance he gets is the amount which he pays on under Schedule A, so, therefore, he gets no advantage whatever. In the 1905 Inquiry it was clearly shown how foolish this was, and it was recommended by the Departmental Committee that the full annual value should be allowed in making out the assessment under Schedule D, but that is disregarded. Even supposing that the full annual value were allowed, one-sixth of the rack rent is not anything like sufficient to provide for depreciation. Let me take an illustration to show how it would work. Assuming we have buildings worth £12,000; if we take the rack rent at 5 per cent. we get £600 per annum, and one-sixth of £600 is £100. If we are to write off our buildings it would take us 120 years to write them down. Of course before a third of that time had passed the probability is that the mill would be demolished. So that it does not help us in the least, and, of course, under the present methods of finding out the assessment under Schedule D we get no benefit at all.

"Now, Sir, the general principle of allowing for capital used up in the production of profits has been admitted, I think, on all hands. Sir H. W. Primmie, a member of the 1905 Committee, referring to this question, said: 'If, however, there be any strong and general desire for an amendment of the system, I do not think we properly could refuse to entertain

the question.' If that is correct, it is only necessary for me to show that there is a strong and general desire, and the fact that we are here to-day is, I think, an indication. I have seen scores of pamphlets and resolutions passed by different institutions. I had sent to me only the other day from the Income Tax League, of which Lord Avebury is President, a pamphlet showing that they were trying to get this done, and their first item on the list was the question of the depreciation on buildings and wasting assets. I will refer you here to some remarks by Mr. E. E. Nott-Bower, a Commissioner of Inland Revenue, in the evidence taken before the 1906 Committee. He says—and his words I think all of us will endorse—'I think that when capital is used up and exhausted in earning profits we should be most reluctant to make any attempt whatever to charge Income Tax on those profits without first deducting the capital that has been used up in earning them. Profit is only the sum remaining after the capital used had been deducted. If the Committee may their way to extend the same principle to other things which merely stand in the same position, they would, if I may say so, have our cordial approval.' That relates to the question of depreciation on buildings and wasting assets.

"Mr. E. E. Nott-Bower: I am speaking there simply in the abstract.

"Mr. G. P. Norton: I was not aware that I was quoting someone present here—I thought nothing could be better stated. I do not wish to improve on those words.

"I had handed to me just before I came into the room—I do not know whether you may wish to follow American methods—the Federal Income Tax Laws of the United States. In computing the net income for the purposes of taxation one of the deductions is as follows: 'A reasonable allowance for the exhaustion, wear and tear of property arising out of its use or employment in the business.' I take it that this has not been compiled without inquiry in practically all countries of the world as to the methods adopted, and I think it is good evidence at any rate of what the Americans think is just and equitable.

"Now, Sir, if I am not tiring you, I would like to give two concrete instances showing how the present law affects traders. A short time since I had an interview with an Armenian merchant. This gentleman told me that 25 years ago he lived in Constantinople, and he had to leave that country because of an incident which happened. It was an interesting incident. He said that he was outside a café one evening, and he saw two young officers in the Turkish Army coming out, and an Armenian sitting in the doorway, and one of the officers made a wager with the other that with one thrust of the sword he would run through the Armenian and kill him. The wager was accepted and the man was killed. This merchant thought it was better that he should come to this country and seek the protection of its laws. He has been here for 25 years, and he has amassed a large fortune. He has had the protection of the English laws, and I take it he ought to pay his full share of the taxation which supports those laws. But he does not, as I shall show you. The only visible assets that this merchant has consist of his office furniture which is worth perhaps £50 to £100. All the rest of his property is liquid. This gentleman pays Income Tax on his profits only, or perhaps on so much of his profits as the estate Surveyor can discover. One of these days, perhaps, he will retire from this country and go back to his own, taking his assets with him, and no death duties will be paid. Now let me take the other concrete instance, that of a large manufacturing firm established in the West Riding of Yorkshire. They employ a large number of workpeople, and the whole district is made more prosperous by their undertaking. Of course there is a great deal of capital in the business. Their assets are tangible and visible. There are some very fine mills. They pay rates, and one day they will have to pay death duties. What is the position? Let us suppose that one of these mills cost £40,000 to build. In 30 years that mill will not be worth £20,000—that is quite clear. That means that during the 30 years there will be £20,000 per annum of capital on which income tax is paid, or if I might

put is more forcibly, you are calling upon the Yorkshire firm to pay part of the tax which should be paid by the Armenian merchant. The Armenian merchant's case is perhaps an extreme one, but it is only typical of all those who do not employ buildings and other structures in their business, who do not use up capital in making income. I call your attention more particularly to this because of recent legislation. Employers of labour have had some very heavy burdens imposed upon them—the National Insurance Act, and the Employers' Liability Act. These are taxes which from the point of view of public policy ought to be considered very carefully, because although in this country we may be able to deal with home trade, we have to compete with foreigners; and, I submit, that where an injustice, such as evidently it is, obtains with regard to income tax, it ought to be remedied, and that burdens which are inequitable should not be imposed upon those who are producing the wealth of the country; it is against public policy.

"Now, with regard to wasting assets, your Secretary sent to us some pronouncements of the Chancellor of the Exchequer. I want to refer to them. The Chancellor of the Exchequer in 1912 said 'he quite agreed that it was a matter which should be dealt with, but that it would involve a loss to the Revenue of at least two million sterling, that the principle sought to be laid down with regard to foreign minerals would be applicable to British coal-fields, and that made it a very serious proposition.' Then in 1913 the Chancellor of the Exchequer referred to the 'difficulty of establishing a rule which would enable them to draw a distinction between what was and what was not a wasting asset.' I want to suggest a distinction. I recognise that two millions of money is a great deal of revenue to find, and we all recognise that it is better for us to get half a loaf than no bread at all. I will refer again to what Sir H. W. Primrose said in the 1905 Inquiry. He drew a distinction which would eliminate a large number of cases, but which would enable the authorities to do justice to owners of property used in industries and to mine owners in respect of shaft sinking and development. These are his words: 'They—that is the minerals—are not produced by human agency, and cannot be replaced by human agency, and there is, therefore, not the same reason for allowing for their waste as there is in the case of subjects which are the produce of human labour and capital.' I submit that if that distinction is accepted there would be a very great deduction from the two millions loss, and it would meet to a very large extent the complaints and demands of the manufacturers employing buildings in their business.

"I must leave that question to pass on to the other heads. As regards allowance for expenses of removal and re-arrangement of plant and machinery, it seems to me that it is so obviously the right thing to do that I need not make many remarks about it. It is quite a constant practice in large businesses for machinery to be moved from place to place, either during extension or removal from premises. Of course there is no gain whatever, that is to say no capital gain; the money is absolutely sunk; and I presume in the majority of cases these removals would not take place unless it were expected that further income would be derived, from which the Revenue would get Income Tax. It seems to me, therefore, absolutely right to charge that as an expense of the business. With reference to the extra allowance for depreciation of machinery run both day and night, it is quite the practice in our district for certain classes of machinery to be run continuously day and night, and, of

course, if it is run day and night there is a considerably greater wear and tear than if it were run by day alone. I may say that in some cases there is an extra allowance, but in the majority of towns the Surveyor does not make that allowance. Even in the town where I reside he refuses to do so. I suggest that matter should be regularised and that instructions be given that a proper allowance should be made in every case. As regards Clause (e), that a definite effort should be made by the Revenue Authorities to regularise the rates of depreciation allowed in different trades, I do not want to go into detail; it would be a long business, but the facts are these, that precisely similar machinery, made by the same makers and used for the same purpose, in the towns of Bradford and Huddersfield get an allowance of 7½ per cent., whereas if we go to Wakefield we are allowed 5 per cent. only. I will only give you those towns, but I can give you many others where there are differences in precisely similar classes of machinery. We, therefore, suggest that you should make some attempt to regularise the charge so that a man living in one town is as fairly treated as a man living in another town.

"Now, Sir, before concluding my remarks, I know that Sir Algernon Firth, who has taken a very deep interest in this matter, and my colleagues, will not think I have done my duty if I do not make a personal appeal to you, to use your influence in this matter. I have shown you that there is a strong feeling throughout the country on the particular points with which I have been dealing; I have shown you, I think, that it is generally admitted on all hands, even by the Chancellor of the Exchequer himself, that something ought to be done; I have endeavoured to show you that it is contrary to good public policy that the present state of affairs should be continued; and, I submit, that the excuse for refusing redress which was made by the Chancellor of the Exchequer is not worthy of the British nation. I think any of us in our individual capacity who would make the excuse for perpetuating an injustice that unless we did so we could not pay our household expenses would be inclined to be ashamed of ourselves. I press the appeal because I really think it is a matter that ought to be dealt with, and I make a personal appeal to you because I feel that this matter would have been rectified long since only it has been attacked in a desultory sort of way—one body has passed one resolution, another body has passed another resolution, and these resolutions have gone from all kinds of quarters and have never definitely had a leading mind to put them forward. Might I suggest to you, Sir, that you take up this position for us and help us in the matter, and I believe if you did there would be very little loss to the Revenue.

"Now, Sir, the last argument that I wish to put forward is this, and I know what I am saying by experience, that men will evade a tax if they think the tax is unjust to them. They do think that this tax is unjust. It obviously is unjust. The consequence is that we get a great deal of evasion. Evasion is not nicely proportioned to the amount which a man thinks he is being deprived of. If once evasion begins it is impossible even for us accountants to watch it. I believe that is a very strong argument for arranging that the assessment of Income Tax should be scientifically just.

"I think, Sir, that I have now exhausted my subject, and I leave the matter with you. I trust that I have been able to convince you that the recommendations which we are putting forward ought to be carried into effect."

Appendix No. 19.

PARTICULARS IN REGARD TO INCOME TAX CASES HEARD IN THE HAMILTON COUNTY COURT BETWEEN THE 28TH MARCH, 1919, AND THE 25TH JULY, 1919, INCLUSIVE.

Supplied by Mr. SHERKIE, in response to Question 9288, with a Note by the Board of Inland Revenue.

<i>Court, 28th March, 1919.</i>	<i>Court, 6th June, 1919.</i>
109 Cases: Decrees, 79; continued or paid, 30.	104 Cases: Decrees, 79; continued or paid, 25.
<i>Court, 13th April, 1919.</i>	<i>Court, 20th June, 1919.</i>
159 Cases: Decrees, 102; continued or paid, 57	20 Cases: Decrees, 16; continued or paid, 4
<i>Court, 2nd May, 1919.</i>	<i>Court, 27th June, 1919.</i>
88 Cases: Decrees, 63; continued or paid, 35.	36 Cases: Decrees, 23; continued or paid, 13
<i>Court, 9th May, 1919.</i>	<i>Court, 4th July, 1919.</i>
10 Cases: Decrees, 3; continued or paid, 7.	35 Cases: Decrees, 29; continued or paid, 6.
<i>Court, 16th May, 1919.</i>	<i>Court, 11th July, 1919.</i>
28 Cases: Decrees, 17; continued or paid, 11	13 Cases: Decrees, 11; continued or paid, 2.
<i>Court, 23rd May, 1919.</i>	<i>Court, 25th July, 1919.</i>
35 Cases: Decrees, 24; continued or paid, 12.	202 Cases: Decrees, 150; continued or paid, 52
840 Cases	

Note by the Board of Inland Revenue.

The Board of Inland Revenue explain in regard to the procedure in Scotland and to the terms used, that while the method of assessment of weekly wage-earners and the facilities for appeal are as in England, the law prescribes different procedure for the eventual recovery of the tax. The appeal, if any, having been determined, in cases of non-payment the Collector, who has no power of distraint, in due course either (a) certifies the arrears to the Sheriff for the grant of a warrant to the Sheriff Officer, empowering that officer to "pound" (or

distrain) the defaulter's goods, or (b) takes summary proceedings in the Sheriff Court, before which the defaulter is summoned to appear. The Court may then grant "decree" empowering arrestment of wages and, in the last resort, imprisonment, or may decide to "continue" (or adjourn) the case in its discretion. Frequently the arrears is paid before the case actually comes into Court. The Sheriff Court is, of course, not a Court of Appeal for Income Tax purposes.

Appendix No. 20.

TABLE handed in by Mr. W. Cash on 30th July, 1919, to illustrate his evidence on graduation (see Q. 8558).

TABLE showing the Income Tax payable for the year 1918-19 and the progressive advances in rates of Tax required to produce approximately the same results when the advances are made only on the *Increases of Income*.

1	2	3	4	5	6	7	8	9	10
Income Tax on Unearned Incomes on the Basis of the 1918-19 Assessment.						Suggested Graduation of Tax.			
Income.		Rate in the £.	Amount of Tax.			Amount of Tax.	Rate.	Total Income.	
Total.	Amount Assessed.		Tax.	Super-tax.	Total.				
£	£	s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.		£	
130	Nil	—	—	—	—	—	—	130	
131	11	3 0	—	—	*1 18 0	1 11 0	1/- in the £ on each £ above £100 up to a total income of £150	131	
150	30	3 0	—	—	4 10 0	2 10 0	do. do.	150	
200	80	3 0	—	—	12 0 0	10 0 0	3/- in the £ on each additional £ up to a total income of £300	200	
300	180	3 0	—	—	27 0 0	25 0 0	4/- do. do. £300	300	
400	280	3 0	—	—	42 0 0	45 0 0	4/- do. do. £400	400	
401	301	3 0	—	—	*45 3 0	45 5 0	5/- do. do. £600	401	
500	400	3 0	—	—	60 0 0	70 0 0	5/- do. do.	500	
501	401	3 9	—	—	*75 3 9	70 5 0	5/- do. do.	501	
600	500	3 9	—	—	98 15 0	95 0 0	6/- do. do.	600	
601	531	3 9	—	—	*99 11 3	95 6 0	6/- do. do.	601	
700	630	3 9	—	—	118 2 6	125 0 0	6/- do. do.	700	
701	701	3 9	—	—	*131 8 9	125 6 0	6/- do. do. £1,000	701	
800	—	3 9	—	—	150 0 0	155 0 0	6/- do. do.	800	
1,000	—	3 9	—	—	187 10 0	215 0 0	6/- do. do.	1,000	
1,001	—	4 6	—	—	*225 4 6	215 6 6	6/6 do. do. £1,500	1,001	
1,500	—	4 6	—	—	337 10 0	377 10 0	6/6 do. do.	1,500	
1,501	—	5 3	—	—	*394 0 3	377 17 0	7/- do. do. £2,000	1,501	
2,000	—	5 3	—	—	525 0 0	552 10 0	7/- do. do.	2,000	
2,001	—	6 0	—	—	*600 6 0	552 17 6	7/6 do. do. £2,500	2,001	
2,500	—	6 0	—	—	750 0 0	740 0 0	7/6 do. do.	2,500	
2,501	—	6 0	750 6 0	25 1 0	775 7 0	740 8 0	8/- do. do. £3,000	2,501	
3,000	—	6 0	900 0 0	62 10 0	962 10 0	940 0 0	8/- do. do.	3,000	
4,000	—	6 0	1,200 0 0	162 10 0	1,362 10 0	1,365 0 0	8/6 do. do. £4,000	4,000	
5,000	—	6 0	1,500 0 0	267 10 0	1,767 10 0	1,815 0 0	9/- do. do. £5,000	5,000	
6,000	—	6 0	1,800 0 0	437 10 0	2,237 10 0	2,265 0 0	9/- do. do. £6,000	6,000	
8,000	—	6 0	2,400 0 0	787 10 0	3,187 10 0	3,215 0 0	9/6 do. do. £8,000	8,000	
10,000	—	6 0	3,000 0 0	1,187 10 0	4,187 10 0	4,215 0 0	10/- do. do. £10,000	10,000	
20,000	—	6 0	6,000 0 0	3,437 10 0	9,437 10 0	9,465 0 0	10/6 do. do.	20,000	
50,000	—	6 0	15,000 0 0	10,187 10 0	25,187 10 0	25,215 0 0	10/6 do. do.	50,000	
100,000	—	6 0	30,000 0 0	21,437 10 0	51,437 10 0	51,465 0 0	10/6 do. do.	100,000	

* These are subject to adjustment under section 32 of the Finance Act of 1916, viz. —

£	Actual Tax.	£ s. d.
131 ...	1 0 0	
401 ...	43 0 0	
501 ...	61 0 0	
601 ...	94 15 0	
701 ...	119 2 6	
1,001 ...	188 10 0	
1,501 ...	338 10 0	
2,001 ...	526 0 0	
2,501 ...	751 0 0	

Appendix No. 21.

PAPER HANDED IN BY PROFESSOR LOUIS ON 30TH JULY, WITH REGARD TO HIS EVIDENCE ON DEPRECIATION (see Q. 8768).

FORMULÆ FOR DEPRECIATION OF PLANT.

Let P be the first cost of the plant.

" n be the life of the plant in years.

" r be the rate of depreciation per unit.

" the value of the plant be reduced by KP at the end of n years, so that the residual or scrap value shall be $P(1-K)$.

The calculations for the four methods of depreciation are as follows:—

I. Diminishing Value method.

$$P[1-(1-r)^n] = KP \text{ or } n \log(1-r) = \log(1-K).$$

It is obvious that in this method the value can never reduce to zero, for when $K=1$, $n=\infty$; hence this method can only be applied when $K < 1$.

II. Equal Decrement method.

$$P(1-K) = P(1-nr) \text{ or } K = nr.$$

III. Annuity method.

In this and the next method, the interest earned by the depreciation fund has to be taken into account. Let the rate of interest per unit = i , this being the effective rate for accumulations, that is the rate after deduction of Income Tax (if any).

Let a be the amount to be written off annually.

The value of a put to reserve at end of 1st year will amount to $a(1+i)^{n-1}$.

The value of a put to reserve at end of 2nd year will amount to $a(1+i)^{n-2}$.

The value of a put to reserve at end of last year will amount to a .

$$\text{And } a(1+i)^{n-1} + a(1+i)^{n-2} + a(1+i)^{n-3} + \dots + a = KP.$$

$$\text{whence } a = \frac{KP}{(1+i)^n - 1}.$$

IV. Sinking Fund method.

At the end of each year set aside an amount that will amount to $\frac{KP}{n}$ at the end of the term.

$$\text{For the 1st year } a(1+i)^{n-1} = \frac{KP}{n} \quad a = \frac{KP}{n} \times \frac{1+i^{n-1}}{(1+i)^{n-1}}.$$

$$\text{" " 2nd " } a = \frac{KP}{n} \times \frac{1}{(1+i)^{n-2}}.$$

For the 3rd year

$$a = \frac{KP}{n} \times \frac{1}{(1+i)^{n-3}}.$$

" " n th "

$$a = \frac{KP}{n}.$$

For example assume that a piece of machinery has cost £1,100 and that at the end of the 10th year its value is £100. Here $K = \frac{10}{11} = 0.9091$.

$$\text{I. } \log(1-r) = \frac{\log(1-0.9091)}{10}$$

whence $r = 0.2132$
or the rate of depreciation is 21.32% on residual value.

$$\text{II. } 10r = 0.9091 \quad r = 0.09091$$

or the rate of depreciation is 9.09% on prime cost.

III. Let the normal rate of interest be 5 per cent. and let Income Tax be 6s. in the £. Then the effective accumulative rate per unit = 0.035.

$$a = 1000 \times \frac{0.035}{(1.035)^{10} - 1} = £85.24 \text{ (} = 7.75\% \text{ on prime cost).}$$

Hence £85.24 must be set aside each year to form a replacement fund, so that at the end of 10 years £852.4 will have been set aside, and £147.6 will have been accumulated by way of interest.

IV. The amount to be set aside must be calculated for each year and will be as follows:—

Year.	£	Year.	£
1 ...	73.37	6 ...	87.14
2 ...	75.94	7 ...	90.19
3 ...	78.60	8 ...	93.35
4 ...	81.35	9 ...	96.62
5 ...	84.20	10 ...	100.00

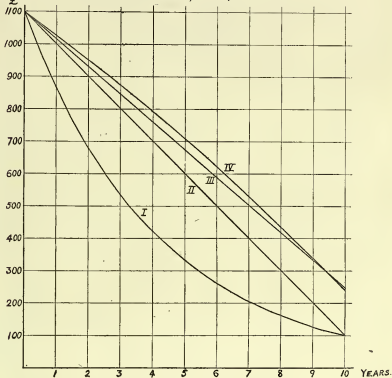
These sums together amount to £860.74, and £139.26 will have accumulated by way of interest.

These four methods are shown graphically on the accompanying diagram, the residual value being understood as the original value less the total amount placed to the redemption fund without taking account of interest.

Appendix No. 21—continued.

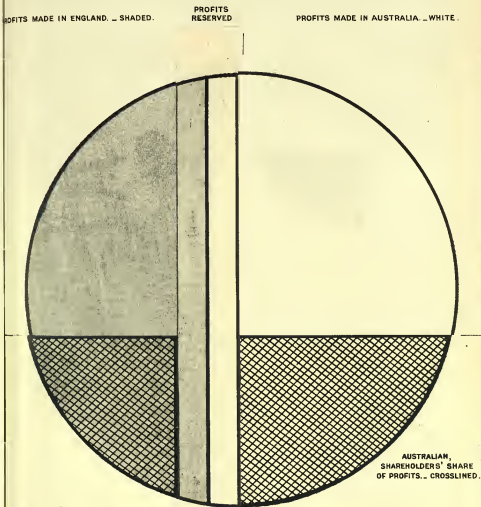
RESIDUAL
VALUES

£

GRAPH showing RESIDUAL VALUES after n YEARS
on Formulas I, II III, & IV.

APPENDIX No. 22.

Diagrams handed in by Dr. J. C. Stamp on 1st. August, 1919, to illustrate the constituent parts of the profits of a company resident in this country and carrying on business abroad; having part of its Shareholders resident abroad.



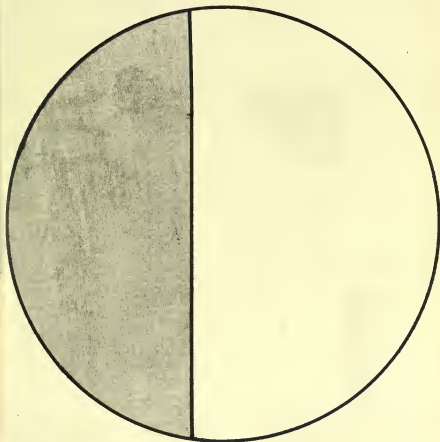
No. 22.

Diagrams handed in by Dr. J.
of the profits of a company made
of its Shareholders resident abroad

August, 1910, to illustrate the constituent parts
and carrying on business abroad; having part

PROFITS MADE IN ENGLAND - SHADED.

PROFITS MADE IN AUSTRALIA - WHITE.



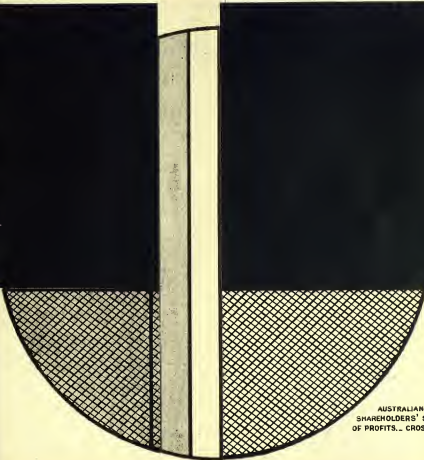
APPENDIX No. 22.

Diagrams handed in by Dr. J. C. Stamp-on 1st. August, 1919, to illustrate the constituent parts of the profits of a company resident in this country and carrying on business abroad; having part of its Shareholders resident abroad.

PROFITS MADE IN ENGLAND. — SHADED.

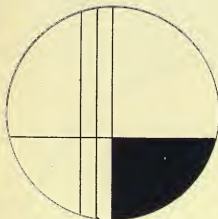
PROFITS
RESERVED

PROFITS MADE IN AUSTRALIA. — WHITE.

AUSTRALIAN,
SHAREHOLDERS' SHARE
OF PROFITS. — CROSSLINED.

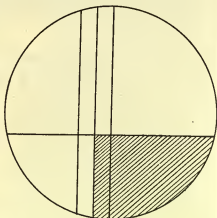
A

CHARGE IN FULL ALL PROFITS EXCEPT DIVIDENDS PAYABLE
TO NON-RESIDENTS OUT OF THE PROFITS MADE ABROAD.



B

CHARGE IN FULL ALL PROFITS EXCEPT THE PROPORTION
OF PROFITS MADE ABROAD, APPLICABLE TO FOREIGN
SHAREHOLDERS & CHARGE LATTER AT REDUCED RATE



C

CHARGE ONLY DIVIDENDS PAID TO BRITISH SHAREHOLDERS.



D

CHARGE ALL PROFITS EXCEPT DIVIDENDS PAID TO
NON-RESIDENTS.



*The portion of the profits assessed is shown in white;
that partially assessed is shaded;
that not assessed is shown in black.*

Appendix No. 23.

BOARD OF INLAND REVENUE,
SOMERSET HOUSE.

Paper handed in by Mr. F. L. MACE, on 10th September, 1919.

THE SECTIONS OF THE INCOME TAX ACTS WHICH HAVE REFERENCE TO THE LIABILITY
OF NON-RESIDENTS TRADING THROUGH AGENTS.

(A.) *Provisions anterior to the Income Tax Act, 1918*

Income Tax Act, 1842. Section 41.

[And be it enacted, that] the trustee, guardian, tutor, curator, or committee of any person, being an infant or married woman, lunatic, idiot, or insane, and having the direction, control, or management of the property or concern of such infant, married woman, lunatic, idiot, or insane person, whether such infant, married woman, lunatic, idiot or insane person shall reside in Great Britain or not, shall be chargeable to the said duties in like manner and to the same amount as would be charged if such infant were of full age, or such married woman were sole, or such lunatic, idiot or insane person were capable of acting for himself; and any person not resident in Great Britain, whether a subject of her Majesty or not, shall be chargeable in the name of such trustee, guardian, tutor, curator, or committee, or of any factor, agent, or receiver, having the receipt of any profits or gains arising as herein mentioned, and belonging to such person, in the like manner and to the like amount as would be charged if such person were resident in Great Britain, and in the actual receipt thereof; and every such trustee, guardian, tutor, curator, committee, agent or receiver shall be answerable for the doing of all such acts, matters, and things as shall be required to be done by virtue of this Act in order to the assessing of any such person to the duties granted by this Act, and paying the same.

Income Tax Act, 1842. Section 44.

[And be it enacted, that] where any person, being trustee, agent, factor, or receiver, guardian, tutor, curator, or committee of or for any person, shall be assessed under this Act in respect of such person, or where any chamberlain, treasurer, clerk or other officer of any corporation, company, fraternity, or society shall be so assessed in respect of such corporation, company, fraternity, or society as aforesaid, it shall be lawful for every such person who shall be so assessed, by and out of the money which shall come to his hands as such trustee, agent, factor, or receiver, guardian, tutor, committee, or curator as aforesaid, or as such chamberlain, treasurer, clerk, or other officer, to retain so much and such part thereof from time to time as shall be sufficient to pay such assessment; and every such trustee, agent, factor, or receiver, guardian, tutor, committee, or curator, chamberlain, treasurer, clerk, or other officer, shall be and is hereby indemnified against every person, corporation, company, fraternity, or society whatsoever, for all payments which he shall make in pursuance and by virtue of this Act.

Finance (No. 2) Act, 1915. Section 31.

(1) Section 41 of the Income Tax Act, 1842 (which relates to the charge of Income Tax in special cases), shall, so far as it relates to the taxation of non-residents, be extended:

- (a) so as to make non-resident persons chargeable to income tax in the name of any branch or manager as well as in the name of any factor, agent, or receiver; and
- (b) so as to make non-resident persons so chargeable, although the branch, factor, agent, receiver, or manager may not have the receipt of the profits or gains of the non-resident.

(2) A non-resident person shall be chargeable in respect of any profits or gains arising, whether directly or indirectly, through or from any branch, factorship, agency, receivership, or management, and shall be so chargeable under section 41 of the Income Tax Act, 1842, as amended by this section, in the name of the branch, factor, agent, receiver, or manager.

(3) Where a non-resident person not being a British subject or a British, Indian, Dominion, or Colonial firm or company, or branch thereof, carries on business with a resident person, and it appears to the Commissioners by whom the assessment is made that, owing to the close connection between the resident and the non-resident person, and to the substantial control exercised by the non-resident over the resident, the course of business between those persons can be so arranged, and is so arranged, that the business done by the resident in pursuance of his connection with the non-resident produces to the resident either no profits or less than the ordinary profits which might be expected to arise from that business, the non-resident person shall be chargeable to income tax in the name of the resident person as if the resident person were an agent of the non-resident person.

(4) Where it appears to the Commissioners by whom the assessment is made, or on any objection or appeal to the general or special Commissioners that the true amount of the profits or gains of any non-resident person chargeable in the name of a resident person with income tax cannot in any case be readily ascertained the Commissioners, may, if they think fit, assess the non-resident person on a percentage of the turnover of the business done by the non-resident person through or with the resident person in whose name he is chargeable, and in such case section 53 of the Income Tax Act, 1842, shall extend so as to require returns to be given of the business so done by the non-resident through or with the resident in the same manner as returns are to be given under that section of the profits or gains to be charged.

(5) The amount of percentage shall in each case be determined, having regard to the nature of the business, by the Commissioners by whom the assessment on the percentage basis is made, subject, in the case of an assessment made by the additional Commissioners, to objection or appeal to the general or special Commissioners.

If either the resident or non-resident person is dissatisfied with the percentage determined either in the first instance or on objection or appeal by the general or special Commissioners, he may, within four months of that determination, require the Commissioners to refer the question of the percentage to a referee or board of referees to be appointed for the purpose by the Treasury, and the decision of the referee or board shall be final and conclusive.

(6) Nothing in section 41 of the Income Tax Act, 1842 (as amended by any subsequent enactment or by this section), shall render a non-resident person chargeable in the name of a broker or general commission agent, or in the name of an agent, not being an authorised person carrying on the non-resident's regular agency or a person chargeable as if he were an agent in pursuance of this section, in respect of profits or gains arising from sales or transactions carried out through such a broker or agent.

(7) The fact that a non-resident person executes sales or carries out transactions with other non-residents in circumstances which would make him chargeable in pursuance of this section in the name of a resident person shall not of itself make him chargeable in respect of profits arising from those sales or transactions.

Finance Act, 1918. Section 26.

Where a non-resident person is chargeable to income tax in the name of any branch, manager, agent, factor, or receiver in respect of any profits or gains arising from the sale of goods or produce manufactured or produced out of the United Kingdom by the non-resident person, the person in whose name the non-resident person is so chargeable may, if he thinks fit, apply to the Commissioners by whom the assessment is made or, in case of an appeal, to the general or special Commissioners to have the assessment to income tax in respect of those profits or gains made or amended on the basis of the profits which might reasonably be expected to have been earned by a merchant or, where the goods are retailed by or on behalf of the manufacturer or producer, by a retailer of the goods sold who had bought from the manufacturer or producer direct, and, on proof to the satisfaction of the Commissioners concerned of the amount of the profits on the basis aforesaid, the assessment shall be made or amended accordingly.

(B.) *Provisions of the Income Tax Act, 1918, First Schedule, General Rules applicable to Schedules A, B, C, D, and E.*

5. A person not resident in the United Kingdom, whether a British subject or not, shall be assessable and chargeable in the name of any such trustee, guardian, tutor, curator, or committee, or of any factor, agent, receiver, branch, or manager, whether such factor, agent, receiver, branch or manager has the receipt of the profits or gains or not, in like manner and to the like amount as such non-resident person would be assessed and charged if he were resident in the United Kingdom and in the actual receipt of such profits or gains.

6. A non-resident person shall be assessable and chargeable in respect of any profits or gains arising, whether directly or indirectly, through or from any factorship, agency, receivership, branch or management, and shall be so assessable and chargeable in the name of the factor, agent, receiver, branch, or manager.

7. Where a non-resident person, not being a British subject or a British, Indian, Dominion or Colonial firm or company, or branch thereof, carries on business with a resident person, and it appears to the Commissioners by whom the assessment is made that, owing to the close connection between the resident person and the non-resident person, and to the substantial control exercised by the non-resident person over the resident person, the course of business between those persons can be so arranged, and is so arranged, that the business done by the resident person in pursuance of his connection with the non-resident person produces to the resident person either no profits or less than the ordinary profits which might be expected to arise from that business, the non-resident person shall be assessable and chargeable to tax in the name of the resident person as if the resident person were an agent of the non-resident person.

8. Where it appears to the Commissioners by whom the assessment is made or, on any objection or appeal, to the general or special Commissioners, that the true amount of the profits or gains of any non-resident person chargeable with tax in the name of a resident person cannot in any case be readily ascertained, the Commissioners may, if they think fit, assess and charge the non-resident person on a percentage of the turnover of the business done by the non-resident person

through or with the resident person in whose name he is chargeable as aforesaid, and in such case the provisions of this Act relating to the delivery of statements by persons acting on behalf of others shall extend so as to require returns to be given by the resident person of the business so done by the non-resident person through or with the resident person, in the same manner as statements are to be delivered by persons acting for incapacitated or non-resident persons of profits or gains to be charged.

9. (1) The amount of percentage under the last preceding rule shall in each case be determined, having regard to the nature of the business, by the Commissioners by whom the assessment on the percentage basis is made, subject, in the case of an assessment made by the additional Commissioners, to objection or appeal to the general or special Commissioners.

(2) If either the resident person or non-resident person is dissatisfied with the percentage determined either in the first instance or by the general or special Commissioners on objection or appeal, he may, within four months of that determination, require the Commissioners to refer the question of the percentage to a referee or board of referees to be appointed for the purpose by the Treasury, and the decision of the referee or board shall be final and conclusive.

10. Nothing in these rules shall render a non-resident person chargeable in the name of a broker or general commission agent, or in the name of an agent not being an authorised person carrying on the regular agency of the non-resident person or a person chargeable as if he were an agent in pursuance of these rules, in respect of profits or gains arising from sales or transactions carried out through such a broker or agent.

11. The fact that a non-resident person executes sales or carries out transactions with other non-residents in circumstances which would make him chargeable in pursuance of these rules in the name of a resident person shall not of itself make him chargeable in respect of profits arising from those sales or transactions.

12. Where a non-resident person is chargeable to income tax in the name of any branch, manager, agent, factor or receiver in respect of any profits or gains arising from the sale of goods or produce manufactured or produced out of the United Kingdom by the non-resident person, the person in whose name the non-resident person is so chargeable may, if he thinks fit, apply to the Commissioners by whom the assessment is made, or in case of an appeal to the general or special Commissioners, to have the assessment to income tax in respect of those profits or gains made or amended on the basis of the profits which might reasonably be expected to have been earned by a merchant or, where the goods are retailed by or on behalf of the manufacturer or producer, by a retailer of the goods sold, who had bought from the manufacturer or producer direct, and on proof to the satisfaction of the Commissioners concerned of the amount of the profits on the basis aforesaid, the assessment shall be made or amended accordingly.

13. The person who is chargeable in respect of an incapacitated person, or in whose name a non-resident person is chargeable, shall be answerable for all matters required to be done under this Act for the purpose of assessment and payment of tax.

14. Any person who has been charged under this Act in respect of any incapacitated or non-resident person as aforesaid may retain, out of money coming into his hands on behalf of any such person, so much thereof from time to time as is sufficient to pay the tax charged, and shall be indemnified for all such payments made in pursuance of this Act.

Appendix No. 24.

Paper handed in by Major LEONARD DARWIN on 8th October, 1919, (see Q. 15,817).

TABLE INTENDED TO ILLUSTRATE THE METHOD OF ASSESSMENT OF INCOME TAX BY DIVIDING THE INCOME INTO A NUMBER OF SEPARATE INCOMES.

This Table is intended to illustrate the method of assessment of Income Tax by dividing the income into a number of separate incomes. The figures given are merely illustrative and do not indicate the rates of taxation held to be desirable or practicable. In the case of married couples with no children the income is to be divided into two separately taxable incomes; with two children into three incomes; with four children into four incomes; with six children into five incomes; two children being given the same weight as each parent.

Rates of taxation on each separate income, up to £100, nil; £100 to £400, 3s. 6d. in £; £400 to £700, 5s. in £; £700 to £1,000, 6s. 6d. in £; over £1,000, 7s. in £.

Total Income. All Earned.	Single.	Married, Divided into 2 incomes.	2 Children, Divided into 3 incomes.	4 Children, Divided into 4 incomes.	6 Children, Divided into 5 incomes.
£250	As proposed £ 26	£ 9	£ 9	£ 9	£ 9
	As now paid 15	9	4	2	0
£500	As proposed 77	53	35	17	0
	As now paid 45	29	15	8	29

Total Income. All Earned.	Single.	Married, Divided into 2 incomes.	2 Children, Divided into 3 incomes.	4 Children, Divided into 4 incomes.	6 Children, Divided into 5 incomes.
£1,000	As proposed £ 223	£ 115	£ 128	£ 106	£ 87
	As now paid 159	150	150	150	150
£5,000	As proposed 1,625	1,500	1,375	1,250	1,125
	As now paid 1,500	1,500	1,500	1,500	1,500
£10,000	As proposed 3,375	3,250	3,125	3,000	2,875
	As now paid 3,000	3,000	3,000	3,000	3,000

Rules to facilitate calculations of taxation on each separate income on proposed plan.

Incomes below £100, nil.

Between £100 and £400 per annum, excess over £100 at 3s. 6d. per £.

Between £400 and £700 per annum, £32 10s. + excess over £400 at 5s. per £.

Between £700 and £1,000 per annum, £197 10s. + excess over £700 at 6s. 6d. per £.

Over £1,000 per annum, £225 + excess over £1,000 at 7s. per £.

Appendix No. 25.

Paper handed in by Mr. MAX MURRATT on 9th October, 1919, (see Q. 16,089).

NOTES UPON THE UNFAIRNESS OF THE PRESENT INCIDENCE OF INCOME TAX IN CONNECTION WITH THE EXHAUSTION OF MINERALS IN THE UNITED ALKALI COMPANY'S SPANISH MINES.

1. Up to 1908 The United Alkali Company bought its fundamental raw material (which comes from Spain) in the open market. Only two companies had large enough supplies for its requirements, and The United Alkali Company was seriously handicapped by the rising prices. To remedy this, they bought a mine in Spain, containing 1,000,000 tons of pyrites, for £200,000, which made the prime cost of sulphur in the form of pyrites 4s. per ton of pyrites.

2. The real cost of this pyrites when it enters The United Alkali Company's sulphuric acid manufactory in England is therefore—

- (a) the prime cost of the raw material, say 4s. per ton, plus
- (b) the cost of mining (including on-costs), plus
- (c) the cost of transport to The United Alkali Company's works;

but the present incidence of Income Tax does not permit the inclusion of (a), which appears as a charge for exhaustion of minerals.

3. If a person, or company, embark upon a mining venture by purchasing a mine of known contents, it is obvious that as a general rule, if it is to escape bankruptcy, the selling price must include:—

- (a) the prime cost of the mineral, plus
- (b) the cost of mining (including on-costs), plus
- (c) the cost of transport to the point of delivery, plus
- (d) profit,

and if The United Alkali Company, buys its pyrites from a mining company it is permitted to debit to

its cost of producing sulphuric acid (i.e., to revenue) the combined cost of (a) plus (b) plus (c) plus (d) before arriving at its profit.

4. If, however, the United Alkali Company buys its pyrites in the form of a Spanish mine, in order to ensure sufficient supplies, or to escape an undue charge from the mining company for profit, thereby in the latter case increasing its profit, and therefore its taxable capacity, it is precluded from debiting to revenue the prime cost of the raw material (i.e., pyrites in the ground) and left with a wasting asset, and no means, opposite Income Tax, of recouping its original purchase of the raw material, which in the case of a purchase of sulphur from the Italian or U.S.A. manufacturer, it is permitted to do. The Income Tax in this case is a fine on its action in relieving itself of an onerous monopoly.

5. To show the seriousness of the position, I wish to state that The United Alkali Company purchased further mines and a mineral railway which is of no value when the mines are exhausted. In all they have spent about a million, and in amortising this they will be deprived by taxation at the rate of £300,000 of their working capital.

6. It is to be noted that the principle for which The United Alkali Company is contending is admitted with regard to Excess Profits Duty in that a class of trade dealing with a wasting asset is specifically empowered to apply to the Board of Referees for an increase in the percentage standard, and as a matter of fact the appropriate corresponding increase in the statutory percentage is recognized by the Board of Inland Revenue.

Appendix No. 26.

Paper handed in by Mr. P. D. LEAKE on 9th October, 1919, (see Q. 16,436).

MINE DEVELOPMENT AND INCOME TAX.

(Statement by Mr. G. F. Dawkins of The Consolidated Goldfields of South Africa, Ltd.)

1. The treatment of this account by the Income Tax authorities should be on more definite lines and not left as it is to-day to the individual views of the Surveyors, some of whom class it under depreciation and allow an arbitrary rate against profits irrespective of the tonnage milled; others refuse to recognize development prior to crushing, claiming that such expenditure is capital, and allow only the annual cost of winning ore in the year of its recovery. The ideal system described later has been, however, admitted by all Surveyors with whom I have had dealings, in some cases very readily, in others only after strong insistence on the method.

2. Before starting a battery of stamps the cautious mining engineer insists on at least two years' supply of ore being developed, and endeavours to keep his subsequent development two years ahead of the battery. In the early days of developing a mine after the shafts have reached the reefs—the cost of such shafts under a decision in 1875, confirmed in *Coltess Iron Co. v. Black* 1881, and thus antiquated, being treated as capital expenditure—a large amount of "dead work," as the engineer terms it, has to be done in opening up the ore body; this "dead work," consisting of levels, rises, cross cuts, winzes, etc., is of the utmost value to subsequent development, but, charged as it is against the two years' supply of ore opened up, means an abnormal rate per ton, in addition to which getting familiar with the ore body and the best methods of developing same means additional cost.

3. Under these circumstances it would be obviously unfair to the shareholder of to-day to charge this abnormal rate against the earlier crushing, and it is averaged with the current cost of development as follows:—

Original development—		£
200,000 tons at 5s.	...	50,000
Developed during first year of crushing—		
100,000 tons at 1s.	...	5,000
average, 3s. 8d.	...	55,000

loss	£
50,000 tons crushed at 3s. 8d. ...	9,166
250,000 tons at 3s. 8d. ...	45,833
Developed during second year of crushing	
100,000 at 1s. ...	5,000
average, 2s. 11d. ...	50,833
deduct 100,000 tons crushed at 2s. 11d. ...	14,583
	36,250

4. Thus the deduction allowed for the second year, when the outlay is £5,000, amounts to £14,583, and the position of the development account at the end of that year is 250,000 tons developed at an average cost of 2s. 11d., subsequent years' current development, at say 1s., further reducing the average until current cost is reached.

5. Variations of this method will suggest themselves for adoption to meet financial needs; for instance, the abnormal cost of original development could be spread over, say, five years and averaged, producing a lower rate for charge to profit and loss account than 3s. 8d. However, the principle should be granted by the Income Tax authorities of every penny of expenditure on development being allowed as a charge against profits, even if the deferment of charge for original development leaves a sum in the balance-sheet to be charged against the last year's profit of a mine the ore body of which has suddenly "pinched out," and the charge for which results in the profit of the year being absorbed by a charge for development incurred in past years and not hitherto redeemed.

Appendix No. 27.

Paper handed in by Mr. ARTHUR E. BUCK on 10th October, 1919, (see Q. 17,134).

1. The proposition which I have to lay before you, although new in itself, is in no way a violation of any recognized principles in the government of this country. It is in fact an application and extension of principles which have been in existence for a very long time.

2. In the first Poor Law in the reign of Elizabeth, the State undertook a liability to each individual to maintain him or her upon the failure of income, irrespective of the cause of such failure, and to raise the cost of such liability by a tax upon others. The benefits given by the State to the individual were not even dependent upon any past payment or act of that individual. In later years, by the National Health Insurance Act, the State, acting through Approved Societies, accepted certain other liabilities to the individual, but made such liability contingent upon previous payments by the same individual. It made those payments compulsory, and it even enforced some payment from those who were not direct beneficiaries. It also obtained payment for the benefits given, by a compulsory deduction from the wage.

3. The proposition I submit is therefore covered, in principle, by the past and existent Acts of the State. There are only two new features in the pro-

position which I make; one is, making the payments made and the benefits given part of a general scheme of taxation; the other is, creating an income to the State for other purposes by such means. These are, however, but minor objections and should form no bar to the free consideration of the proposition upon its merits.

4. The Income Tax has long been regarded by people of all classes as being the most just of all taxes. It is the only means by which the payment to the State can be at all proportioned to the general benefits received by the individual from the State. The section which is most opposed to the present form of government has even for a long time advocated a single tax, which of course would have had to be proportioned to the individual ability to pay. I mention this because that which exists as a widespread impression among the people has political value and significance when it is sought to introduce anything new. To be actually just or equitable, the Income Tax must be all inclusive; the taxation of a section only for the benefit of the whole is recognized, even if expedient, to be unjust. More especially is this so when those taxed are a numerically small fraction of the community.

5. The present system is productive of very grave danger; it divides the community into two distinct alien groups, the one which votes the money away, and the other which pays. There is a double danger in this; the first is that the voters in this country who do not pay direct Income Tax develop the idea that they can enter upon any national expenditure without its affecting or reacting upon them; the second is that those either capable of earning larger incomes or having capital may find the conditions in this country growing more irksome, and may transfer their energies and capital to another country, and some capital is sufficiently fluid to permit of this transference. The result must be a higher rate of interest to induce other necessary capital to remain—both this and the unbridled expenditure of the voter must increase the cost of production in our country.

6. Every statesman recognises this, but the attempt to include all incomes in even a graduated Income Tax is a task too great for any Government in our time to undertake. It would arouse such organised opposition that no Government could survive it, and no political party which made the attempt would return to power within a generation. The present Government finds itself even unable to resist the demand for increased or new abatements for different reasons and purposes, and members of Parliament all over the country are being asked to support a total abatement of Income Tax upon all incomes under £250 per annum, and this serious division in the State, under present circumstances, will not only continue but will grow. Anything which will prevent it is worthy of consideration, and the proposition which I now submit to you has for its primary purpose making the recipients of the smaller incomes—those at present wholly free or subject largely to abatement—willing to pay Income Tax. It is an incident, although an exceedingly important one, that it brings other advantages in its train. I realise that unless the proposition brings some special benefit to the working classes and the small income-producer it would never be possible to pass it into law, and that such benefit should be one which is, in the mass, unprocureable elsewhere, and one which the working classes in the main value so highly that they would be willing to pay to obtain; and also that the proposition could not properly come before this Commission unless it created a margin for the Revenue which it could properly regard as taxation, and unless the net income of the State from the Income Tax were larger by the adoption of the proposition than it could be without it.

7. It is because my proposition complies with all those requirements and brings also certain other advantages both to the State and to the individual—to which I shall refer more fully later—that I earnestly submit it to you for your consideration. It is as follows:—

every earner of income should pay Income Tax, whether the income be large or small, from the first to the last pound in that income; the rate of the tax (upon each pound of income) would be graduated in a steadily rising scale so that the larger incomes paid the higher rate, but so that even the smallest income paid tax sufficient to more than cover the full cost of the benefits extended by the Government to the taxpayer under this scheme.

8. The smallest earned incomes, those under £100 a year, should pay 1s. in the pound tax, and it is for me to show you that even in this case the money so paid would be sufficient not only to cover the costs of the suggested benefits, but leave some margin, even if not very large, as added income to the State. Incomes over £100 and below £200 should pay 1s. 3d. in the pound as tax, and in this case whatever margin existed in the 1s. which would be paid on the smallest incomes would be added to by the additional 3d. in the pound. Incomes between £200 and £300 would pay 1s. 6d., and an increased addition to income arising out of the tax would result. Incomes between £300 and £400 would pay 1s. 9d., and incomes between £400 and £500 would pay 2s. I suggest that this rate of increase in the amount of the tax

might be continued up to incomes of £2,000 a year, but this rate of increase above £500 forms no integral part of my scheme. Even the rate of increase from the smallest incomes up to £500 could, if thought advisable, be adjusted without impairing the practicability of the proposition. I do, however, most earnestly suggest that if a perfectly steady rate of increase can be adopted it will have great political value and remove any possible objection from the impression that the smaller incomes paid disproportionately, or that the benefits received under this scheme were added to and not included in the tax.

9. No abatements of any kind would be allowed, excepting Life Assurance, as at present; maintaining an elderly relative, as at present; and, in the case where a woman was already widowed, she should be free of tax where her income did not reach £150 a year. The present abatement of £130 is largely embodied in the smaller incomes by the reduced scale of tax. The special abatements for wife and children would not be continued—it being an unarguable fact that the widow after the death of the husband has needs much greater than husband and wife during the life of the husband. Similarly, it is more important both to the family and to the father of the family that the children should be wholly provided for in the event of the death of the father than that he should have some trifling allowance on their account during his life. The suggested abatement to widows who have not received and cannot receive benefit under this scheme is just—the scheme is largely to benefit their class—and it would be inconsistent to tax them for a benefit they can never receive and to impair the very condition we seek to improve. Unearned income should be taxed 3d. in the pound more than earned income in incomes below £500, 6d. in the pound in incomes between £500 and £1,000, and 9d. in the pound in incomes above £1,000. The absence of all rebate would leave a larger income arising to the State upon unearned incomes, which are at present subject to abatement.

10. In return to the taxpayer for the alterations which I have set out, I suggest that the Government should, in the event of the death of any married male Income Tax payer, continue to his widow one-half the average earned income upon which he had paid tax so long as she had children below 16 years of age, or one-third if she be childless or have no children alive under that age, and should continue such payment until she dies or re-marries. Childless widows whose marriage has lasted under one year should receive only one-third benefit; above one year and under two years, two-thirds benefit; and above two years, full benefit. Young widows who are without children, and whose absence from their previous form of life has not been long, can usually return to their previous conditions without much loss; and as the principle in the giving of benefits is to compensate for loss actually incurred, it would be unfair to others and unwise not to limit in some such way the compensation to the measure of the loss.

11. The State should also continue to every spinster who arrives at the age of 60 years one-half of the average yearly earned income upon which she had paid tax. A man will be willing to pay in order to secure the future of his wife and family, and a woman will be willing to pay to a fund which secures her future in any event. If she marries she has the husband to support her, if he dies she has her widow's portion continued by the State, and if she never marries then when her earning powers are drawing in she will have an addition to her income which should leave her above want.

12. The limit of payment by the State to any widow with children, or spinster, should be £250 per annum, and to any widow with no children below the age of 16 years £100. The average earned income upon which tax has been paid during the years of such payments shall be reckoned as the income of the taxpayer for the purpose of this scheme, but when the inclusion of payments made below 20 years of age would reduce such average they should not be reckoned. The benefits should accrue at the rate of one-third for each completed year's payments (up to three years) after the passing of the Act. It might be possible to make either one-quarter or one-fifth of the benefits accrue each of the first four or

five years of payment, and to extend to either four or five years the period before the full benefits became payable, but the working classes do not like deferred benefits, and as the financial burdens of the scheme can be met by the shorter period being adopted it is suggested that preference be given to it.

13. From my knowledge of the working classes and from my experience when I have expounded the scheme to those whom I have purposely met, I can state that the large majority would sincerely welcome the scheme. There may be some who would not, but they would get very little sympathy in any opposition, for such opposition by any man would be equal to a declaration that he was more indifferent than other men to the future condition of his wife and family, and so indifferent as to wish to evade so small a payment to secure it. The working classes are used to paying very considerable sums into clubs, Friendly Societies and insurance companies to secure proportionately small benefits, and the idea of making provision is more in their minds than our rulers usually conceive. It is quite certain that any objecting member of the working classes dare not object at home, that women as a whole would be in favour of the project and any Government adopting it could fall back safely upon the fact that women form nearly half of the voters of the country. Again the view that the working classes were paying a much smaller proportionate tax than those whose income was larger, and that they were receiving larger proportionate benefits than the classes above them would doubtless predispose many to the matter.

14. Before I place before you the figures proving that the scheme is sound from an actuarial standpoint, I would like to refer in more detail, even to recapitulate the benefits which could arise to our nation by the adoption of the proposition. It would create and establish a new feeling among men, each would feel that the more direct interest of each of them in the State established a community of interest between him and his fellow. It would bring men into closer touch with the State and give them a new and vital interest in its finance, its advocacy, and its economy, in fact in almost all its acts. It would make men interested in the stability of government, they would each realise that the security of their family, children and home was dependent upon the security of the State. It would make men willing to fight for the State and to oppose disruption from within or without, and for the first time the masses would feel they had a vested interest in the State. It would give men and women a new outlook on life—the present would be happier because the future would be secure.

15. To the young married man there is at the back of his mind the question he dare not ask because he cannot face the answer: what would become of his wife and children in the event of his death? It is the ever present grey cloud in the minds of the thoughtful, and the more the man loves his wife and children the more his mind recoils from the thought. This scheme would dissolve the cloud, it would make him dare to look forward to the future, it would make him more contented, and it would improve the mental, moral, and physical condition of the best of the rising generation. Then to the man who was more advanced in life, who had been unable to make provision, the fact that his previous payments to the State would be the base of the bond between it and him by which his home would be kept together and his widow maintained would create a new feeling in his life.

16. It would improve the community as a whole, for the splitting up of the home on the death of the breadwinner and the distribution of the children away from the influence of the parent's home is a national as well as a personal loss, and the prevention of it will cause better men and better women. The thoughtless and improvident marry early and have unrestricted families, the more responsibly frequently defer marriage or restrict their families if married, this causes racial depreciation. If the scheme merely prevented this, as it would do, it would largely justify its adoption. It would bring the women of the kingdom into closer and more intelligent touch with the government, and direct the political power

newly given them towards good and stable government, their future security would lie in national stability. The scheme should be adopted because it will by means of the Income Tax raise a larger national revenue than is possible without it, but it is impossible to think that the other benefits which result can be regarded as any deterrent to its acceptance.

17. The question remains however; can it be done? Is it financially possible? I would like to call attention to the following circumstances:—

- (1) almost half the husbands outlive their wives. The payments therefore would be received from all, but the benefits would be claimed by practically half;
- (2) the tax would be paid on either twice—or, in the case of widows without children, three times—the amount upon which benefits were disbursed;
- (3) the average period during which a man paid Income Tax (taken as the expectancy of life at 20) is 39½ years, whilst the average period of life of a widow after her husband's death is not materially above 10 years; the payments to the State are therefore roughly four times as many as the payments by the State;
- (4) many men never marry.

18. I propose now to submit to you the method I adopted in ascertaining the amount out of the Income Tax collected which it was necessary to be set on one side in order to cover the benefits proposed under this scheme. I took the expectancy of life of male and female at 20 as embodying and assessing the comparative mortality of the two sexes for the remainder of their lives. I found this to be, male 39·4, female 41·6. It followed, therefore, that out of 810 men married, 394 men would outlive their wives, whilst 416 women would outlive their husbands; that is to say, payments of tax would be received from 810 and benefits claimed by 416. With regard to 2, I found that in the census of 1911 the number of widows under 55 years old was 419,046, and those above 945,848. I found that upon two necessary factors I could get no absolute information, one, the number of marriages which were childless, and the other, the average age of women when their last child was born. I therefore obtained the opinion of a number of doctors (actually 16) and from it I learned that their consensus of opinion was that one in seven marriages produced either no children or none who lived, and, further, that the average age of the mother where the last child was born was in her fortieth year. Accepting these two estimates, the average payment to each widow for every pound of income upon which her deceased husband had paid tax would be 7s. 7d. I would point out that even a considerable variation of the estimate would make only a slight variation of this amount, and that very little risk is entailed in accepting it. As to the proportion of men who never marry, I found that the proportion of single men above 30 years of age to married of the same age up to 70 was in no case less than one-tenth, whilst for the mean of the ages in between it averaged 10·4 per cent. It is therefore safe to calculate on the most unfavourable figures and to state that one-tenth of men do not marry.

19. When I tried to get reliable data to establish a relationship between the number of years the man would be paying tax and the number of years the widow would be receiving benefit, I found that if I took the male expectancy of life at 20 I might get the average of the former, but the latter I could not obtain from any statistical paper or census at all. The opinion of the Life Assurance experts whom I consulted was that it was between 10 and 11 years, i.e., for one widow who died one year after her husband, one would live 20 years, but as this point was more important than those upon which I had accepted estimates from medical men, I determined to deal with the proposition another way, and I am able to place before you in unarguable form the income as it would have been had the scheme been in operation in 1912, based upon the census of 1911, and the figures supplied to me by the Ministry of

Health, and ascertained from the Statesman's Year Book. The amount of income of each person is not material, it is necessary to show that the tax paid upon each individual pound of income is sufficient to discharge the liability arising out of that pound of income. It is like the tables used by insurance companies, it establishes a rate of premium which applies to all amounts.

20. The statement which I now submit to you is calculated as though each person had an income of £1 only—the same calculations which affect the first pound of income affect each subsequent pound, the number not affecting the position in any way. In my original method of calculation the proposition resolved itself into the question: what sum will 810 men have to pay for 32½ years to provide 418 women with 7s. 6d. per week for 10½ years, the answer is 11-8d. When I take the wider and more certain view I find the result 10-8d. or practically 1d. in the pound less. The reason of this difference is that in the one case the income of the man only is considered, whilst in the other whatever income is earned by women before marriage is included. All persons who are creating income would be payers. Fortunately this number can be ascertained within very narrow limits of error. An addition of the number of employed persons as registered under the National Health Insurance Act, added to the number paying Income Tax apart from manual workers, will give the number from whom income would be derived. It is true that there are many self employers and small tradesmen who are not included in either, but this number whether small or large would add a further margin of safety to the calculation.

21. I am informed by the Ministry of Health that the total number of persons insured under National Health Insurance Acts in 1912 was 10,797,000; 7,684,000 being men and 3,313,000 being women.

I learn that in the same year the number of assessments on persons, excluding employees, for the year ending 5th April, 1912, was 452,496.

The number of assessments on firms for the same year was 54,739.

The number of assessments on employees for the same year was 664,786, making a total of 1,172,014, but as some of these assessments overlap I have been advised to put the number at 1,000,000 as being a safe estimate, especially as the numbers given do not include the persons whose incomes are solely derived under Schedules A and B.

To these have to be added the number of the Army and Navy serving abroad.

The Army Estimates for the year 1911-12 give the number of all ranks serving abroad as 131,406. I have been unable to obtain the number of the men in the Navy abroad, but the Statesman's Year Book for 1912, page 12, in a table showing the distribution of population at the census taken in 1911, gives the number of Army and Navy abroad as 145,729, which figure I have taken for the purpose of this calculation. The total contributors, had the scheme been existent in 1912, would therefore have been 11,942,729. It would not affect the proposition if the Army and Navy or any particular section of the community were excluded from the operation of the scheme, as it would exclude both the income from that section and the liability arising out of that income. So long as the state of society undergoes no fundamental change the relationship of the numbers of those earning money over 20 years of age to the number of widows in the country will be stable, so the figures of both as ascertained for the year 1912 will be a safe base to apply to the future.

22. The census of 1911 gives the total number of widows in England and Wales as 1,364,894, of these 419,046 were under 55 years last birthday, and 945,848 were above that age. For the purpose of submitting this proposal I have taken every widow as constituting a liability. We know of course that many were the wives of men who lived on unearned income and therefore could not be a liability, also that in a large number of cases the woman has supported the man, and that a certain number would be widows of those who have neither paid Income Tax in the past nor been insured under the National

Health Insurance Acts. All these, however, can be disregarded in the initial calculation or treated as simply increasing the margin of safety in the calculation.

23. The census of 1911 gives the number of spinsters in the country above 60 years of age as 90,688. Of these it is estimated that 60 per cent. have earned their own living, but as my suggestion is that all incomes should be taxed, and as it is quite impossible to know when a young woman is earning money whether she will in the future marry or remain permanently a spinster, it would impose a hardship if in the latter event her income were taxed to provide security for the married woman—a benefit in which she could not share. It might of course be argued that the same argument might apply to the male bachelor, but in his case the condition is largely optional, whilst in the case of the spinster—with more women than men in our society—it is not optional. The margin available for taxation is undoubtedly larger in the bachelor's than in the spinster's income. It therefore becomes necessary to give some benefit to the spinster as such, and I suggest that the State shall continue one-half of the average income upon which she has paid tax to her for the rest of her life when she arrives at the age of 60.

24. In order to put before you the practicability of this and the fact that the proposed benefits to spinsters would be more than covered by the payments received from them as a class, I have taken the number of women who would be necessary to be alive after 20 years of age to produce 90,688 spinsters at the age of 60, and I have assumed that each has paid Income Tax each year, and that in such tax 10-8d. has been set aside to cover the cost of the proposed benefit, and I find that on a compound interest of 5 per cent. each spinster could receive as a pension after the age of 60, 14s. 9d. in the pound instead of 10s. suggested, so that the State would receive 4s. 9d. either as extra income or as balancing up the other portion of the scheme. It is no part of my scheme or proposition to consider compound interest at all, I only do so in the case of spinsters in order to establish some equity in the benefits as between the woman who has paid for herself and the other who has had men to pay for her.

25. We have as a net result of what I have set out the fact that there are 11,942,729 persons who would be paying, and if they each paid 10-8d. (or slightly under 11d.) on the first pound of their incomes it would amount to £242,034 10s., which would provide the following payments:—

Widows under 55 with children—	2 s. d.
399,183 at 10s.	179,591 10 0
Widows under 55 without children—	
89,863 at 6s. 8d.	19,954 6 8
Widows over 55 without children—	
945,848 at 4s. 8d.	315,282 13 4
Spinsters over 60—	
54,412 at 10s.	27,206 0 0
	<hr/>
	£242,034 10 0

26. Thus the payments on the first pound of income would meet the liability arising out of that pound of income. The amount of each individual income will necessarily differ, but if 10-8d. of the tax on each pound of each income be set aside it will pay the liability appertaining to that income, whether large or small. This amount of 10-8d. of tax in all incomes up to £500 is constant, but as the rate of Income Tax will be a progressive one it will leave a constantly growing margin of income to the State out of each advancing stage of income. But as the payment to any one widow is limited to £250 a year, it follows that as income rises above £500 a smaller proportion will be set on one side to meet the liability, and a larger net income result to the State. For instance, in incomes of £1,000 a year, to provide for a benefit to the widow limited to £250, 5-445d. (or slightly under 5½d.) will be sufficient to cover, or in incomes of £2,000 slightly under 2½d. So whilst the

Income Tax progressively increases with rising incomes, the liability created will proportionately decrease, and a quickly rising scale of net income arise to the State.

27. In addition to this the following incomes will arise to the State by the adoption of this scheme:—

- (1) the interest upon the sum secured during the first two or three years—while only partial benefits were being paid;
- (2) the total living widows are calculated as a liability, but some could never claim being wives of men who have not paid earned Income Tax;
- (3) childless widows of under two years' marriage would be paid smaller pensions, and the full payment to all widows have been calculated in the table of liabilities;
- (4) the tax upon all unsecured incomes would be collected without the abatements upon the smaller incomes now being given;
- (5) the disposition to evade the tax would materially decrease.

28. I am aware that the revenue collecting and spending departments have hitherto been quite distinct and separate in the State, but this is a time when precedent is being made and when either its existence or its absence no longer constitutes a hindrance. Again, the collecting department might and would be wholly separate under my scheme, the figures of the one only being available to the other. In fact only when earning income had ceased by death would the figures be handed entirely over to the other department and therefore no complications be created.

29. Given that you are satisfied that an increased income would be received by the State, that great political benefit would arise to the nation, and that substantial good would result to the individuals constituting that nation, and, further, that without some such scheme as this those advantages would not be possible, I shall respectfully ask for the support of this Royal Commission even though the proposition be not of an ordinary character, or based upon the lines of previous precedent.

Appendix No. 28.

Paragraphs omitted from the evidence-in-chief of Mr. JOHN MONTGOMERY, as printed in the Minutes of Evidence of the 22nd October, 1919.

1. (14) *Co-operative Wholesale Society, Ltd., Manchester*.—Rule 2.—Objects: The objects of this society are to carry on the trades or businesses of wholesale dealers, bankers, shippers, carriers, manufacturers, merchants, cultivators of lands, workers of mines, and insurers of persons and property against risks of every description which may be lawfully undertaken. . . . For the purpose of carrying on any such business aforesaid either in the United Kingdom or elsewhere, the society may acquire property of any description and any rights thereover and interest therein . . . and may do all things expedient for accomplishing, or incidental or conducive to the attainment of, all or any of the objects of the society which shall include dealings of every description with land.

Rule 5.—Admission of Members: The members of this society shall consist of:—

- (1) Such co-operative societies or companies registered under the Industrial and Provident Societies Acts or under the Companies Acts with limited liability or under any law of the country where they are situate, whereby they acquire the right of trading as bodies corporate with limited liability. . . .

2. (15) *Scottish Co-operative Wholesale Society, Ltd., Glasgow*.—Rule 2.—Objects: The objects of this society are to carry on the trades or businesses of wholesale dealers or general retail dealers, of bankers, shippers, carriers, manufacturers, merchants, cultivators of land, workers of mines and insurers of persons and property against risks of every description which may be lawfully undertaken. . . .

For the purpose of carrying on any such business as aforesaid, either in the United Kingdom or elsewhere, the society may acquire property of any description and any rights thereover, and any interest therein . . . which shall include dealings of every description with land. . . .

Rule 32.—Mode of conducting business.—In communities where no retail co-operative society which is a member of this society or a branch of such society exists, or which is not served by any such retail society, branches may be formed by and carried on under the control of the committee subject to the following terms and conditions:—

- (1) Each branch shall carry on business under the name of the Scottish Co-operative Wholesale Society, Ltd., but shall be treated as if it were an independent business and separate books and accounts shall be kept to show the business done, including income and expenditure and profit and loss

after allowing interest at 5 per cent. per annum on the capital required to initiate and carry on the business.

- (2) Each branch shall keep books in which shall be entered the names and designations of all purchasers.

- (3) The purchasers shall not have any say in or control over the business of such branch, the only benefits they receive in return for their custom being right to share in the dividends paid by the branch.

- (6) The Committee shall at any time if and when they think proper, be entitled to discontinue any branch, and wind up the business without consulting the purchasers and such purchasers shall have no claim against the Society in any shape or form in connection therewith.

3. (16) *The Aberfoyle Retail Co-operative Society* is a branch of the Scottish Co-operative Wholesale Society and their mode of conducting business is a copy of Rule 32 of the Scottish Co-operative Wholesale Society. There is a similar branch at Balfour conducted under the same rules.

4. (24) That there is a distinct benefit enjoyed by Co-operative Societies over other traders is also proved by an advertisement which appeared in the *Aberdeen Free Press* of 6th October, 1917, stating that a resolution had been passed at a meeting of the Northern Co-operative Company, Limited, Aberdeen, giving notice that they were converting the company into a society, and registering under the Industrial and Provident Societies Act. This was one of the first companies in Scotland to register under the Companies Act. It is No. 77 on the register, and dates from 1881, a period of 37 years. The following is taken from a circular sent out to their shareholders, giving their reasons for the conversion of the company into a society:—

The Directors are of opinion that it is of the utmost importance to the shareholders that the company should be incorporated under the same Acts as the other co-operative societies in the country, otherwise it will be found that the Company, while it remains registered under the Joint Stock Companies Act, will be prevented from participating in the privileges which the Co-operative movement has by combination obtained in the past, and whatever advantages it may obtain in the future . . . The Company, being a member of the Co-operative Union, has helped to fight against the imposition of

Income Tax on co-operative dividends, and has also helped to expose the injustice of excess profits duty being imposed on co-operative societies, with the result that the Government have made certain modifications in the Finance Act of 1917, which practically exempt co-operative societies from this tax. The Company, however, owing to its present constitution, is debarred from sharing in the concession At present a person wishing to become a shareholder of the Company can only do so by paying the price of the share—£1—at once, and the cost of the transfer stamp, and then only provided that a shareholder is desirous of adding a share, as on account of the Government restrictions the Company is prohibited from issuing new capital. Under the new rules, anyone wishing to become a shareholder may do so by paying 1s. of entry money at the registered office, or at any of the company's grocery shops, and allowing dividends on purchases to accumulate until the share is paid up. It should be specially borne in mind that although the holding of an individual member of a society is limited, no limit is placed on the total capital which the Society itself may issue It should be stated that it is the unanimous opinion of the Directors that if future success and expansion is to be accomplished the conversion should take place as early as possible, in order that the greater scope which is allowed to co-operative societies registered under the Industrial and Provident Societies Acts be immediately taken advantage of by the shareholders.

5. (25) In an excerpt from the *Baker and Confectioner* of 21st March, 1919, appeared the following:—

Mrs. Waldorf Astor, wife of Major Astor, Parliamentary Secretary to the Local Government Board, has joined the Plymouth Co-operative Society and is said to be the first millionaire's wife to have joined the movement.

6. (26) This wealthy member will now be able to supply her household with goods of every description and it will not be necessary for her to make a return to the Income Tax Assessor of the dividends received by her from Co-operative Societies. She will now rank with the other wealthy members described in the Scottish Co-operative Wholesale Society advertisement in *The Bute* of 9th January, 1918:—

It is nonsense to say that co-operation is only of use to a particular class. The clergyman, the M.P., the banker, the shipowner, the priest, the town councillor, the farmer, the railway magnate, &c., have all found and appreciated the value of the mutual help system. You will be in the best of company when you join the co-operative store nearest your door. Full particulars will be gladly supplied by the manager or secretary or at any of the shops in your district. Do it now.

7. (27) Reference is made to the case by the Inland Revenue authorities against the Plymouth Co-operative Society, Ltd., in connection with Excess Profits Duty:—

The Crown Agent said the Rules of the Society lay down clearly its objects as being to carry on the trades or businesses of general dealers, manufacturers, &c., and the ordinary provisions were made in their rules for capital, loan capital, division of profits, interest dividends, interest on capital, reserve funds, investment of capital, payment of officers and auditors. The mode of conducting the business was also defined. He could give the number of rules if necessary. He submitted it was a clear case where the society or corporation came within the provisions of the Excess Profits Duty, Part 3 of the Finance Act No. 2, 1915, and it was carrying on a trade or business. The liability attaching to the corporation was irrespective of the question as to what members or what kind of members formed the corporation. . . . The Agent for the Crown submitted, with respect, that it was the clearest and the strongest case that could ever be imagined. It was a corporation and it was carrying on business liable to Excess Profits Duty. The decision of the Special Commissioners was in favour of the Crown.

8. (28) Additional evidence to prove that Co-operative Societies are ordinary traders is to be found in the following excerpt from the *Scottish Co-operator* of 2nd May, 1919:—

Co-operative trade with Russia.

Co-operators in this country and also in Russia have been trying to open up trade between the two countries. The difficulties of the moment are very great and trade at the best could only attain meagre and inadequate proportions, but so far the weight of our Government seems to be placed against trade of this nature. If trade of all kinds was being prohibited this could be understood but it is evident that licences and encouragement are being given to capitalist concerns to trade with Archangel and Siberia in a manner which practically ensures them a monopoly. Doubtless co-operators will continue their agitation until trading rights are secured. We have to fight for privileges which others can have for the asking.

9. (29) Additional evidence that they are ordinary traders will be found in the following excerpt from the Scottish Co-operative Wholesale Society's advertisement in the *Bulletin* (Glasgow) of 30th June, 1919, as follows:—

Enormous contracts for clothing, blankets, boots, foodstuffs, &c., were entrusted to it by the Government and all were carried out in a manner that earned the highest praise from the responsible officials.

10. (30) Further evidence that co-operators are ordinary traders is to be found in the following excerpt from an address by Professor Hall, who is employed by Co-operative Societies to lecture and instruct members on co-operative propaganda work:—

He dissented from the proposals that trading with non-members should cease on several grounds. The Industrial and Provident Societies Act permitted this and it was bad tactics to give up an advanced trench before being driven out of it. The membership of societies was open to all, therefore there was no injustice done to non-members if they traded without coming in. Trading with non-members was also one of the ways in which the membership was recruited, and so far as the Wholesale Societies and other federations were concerned, they would be unable to carry on certain productive departments if they were not allowed to sell by-products to non-members. It would be better even to submit to Income Tax than to give up the principle of trading with non-members.

11. (31) The following excerpt from the *Times Trade Supplement* of 5th April, 1919, throws further light on Co-operative Societies being ordinary traders and shows that they ought to be made to bear their fair share of taxation like other traders:—

The Scottish C.W.S. has a membership of 265 affiliated distributive societies, with total capital deposits of £5,620,490, and sales in 1917 of £17,000,000. The profit for the last financial year amounted to £333,100, which was allocated to members in proportion to purchases. Its reserve and insurance funds amount to £1,023,895, and the financial position is further considerably strengthened by a generous writing-off of buildings and stock. The fine central premises at Morrison Street, Glasgow, one of the most handsome buildings in Glasgow, cost £156,000, but is shown in the assets at £25,414. This society also has numerous mills and factories; but its greatest activities are with grain and flour, accounting for nearly half its productive capacity. Its organization for collecting wheat all over Canada is very complete, including numerous grain elevators on the Canadian Pacific Railway and on the shores of the great lakes; also a large depot at Winnipeg. Among other recent developments is the manufacture of soap. The S.C.W.S. has erected its own soap factory, which now manufactures soap and allied products to the value of £250,000 a year. It also manufactures perfumes, toilet polishes, drugs, &c.

The Society, in partnership with the C.W.S. has palm oil plantations in West Africa and tea estates in India and Ceylon. It cures its own fish, and hopes soon to have its own fishing fleet at Aberdeen and elsewhere. It builds motor vehicles for its distributive trade. Its own building department erects its factories, warehouses and offices, and so on.

12. (43) In this connection I would direct your attention to the Rule 76 of the Kinning Park Co-operative Society, Limited, Glasgow, which was registered on 20th June, 1918:—

Rule 76.—Allocation of Surplus.—The net proceeds of all business carried on by or on account of the Society at the end of each half-year . . . shall be allocated as follows:—

7. The balance of the surplus shall be paid as dividend on members' purchases . . . at so much per £ . . .

13. (44) The Lochaber and District Co-operative Society's rules furnish another example:—

Rule 30.—Application of Surplus.—The net proceeds of all business carried on by or on account of the Society . . . shall be divided among the members in proportion to the amount of their purchases during the quarter.

14. (45) The Northern Co-operative Society, Limited, Aberdeen, previously referred to, which traded as a company for a period of over 37 years and only converted into a society in 1917, have made provision in Rule 19 for the "disposal of surplus."

15. (49) *Scottish Co-operative Wholesale Society, Limited.* Rule 18.—Division of Profit and Special Fund.—After providing for . . . the net profit, or such portion of it as may be agreed upon at the Quarterly General Meeting . . . shall be divided

Rule 32.—Mode of Conducting Business.—In communities where no retail co-operative society which is a member of this Society or a branch of such retail society exists, or which is not served by any such retail society, branches may be formed by and carried on under the control of the Committee, subject to the following terms:—

(1) Each branch shall carry on business under the name of the "Scottish Co-operative Wholesale Society, Limited," but shall be treated as if it were an independent business, and separate books and accounts shall be kept to show the business done, including income and expenditure and profit and loss . . .

(4) The profits of each branch shall be determined quarterly or half-yearly and be divided in the shape of dividend, at a rate to be fixed per £ on purchases. . . .

16. (50) The Rules of the Aberfoyle Co-operative Society and the Balfon Co-operative Society, which are carried on by the Scottish Co-operative Wholesale Society, contain identical provisions with regard to profit.

17. (51) *Plymouth Co-operative Society, Limited.*—Rule 26 provides a mode for the "Division of Profits."

18. (52) *Birmingham Industrial Co-operative Society, Limited.*—Rule 32 provides a mode for the "Application of Profits."

19. (53) *Newcastle-upon-Tyne Co-operative Society, Limited.*—Rule 12 provides a mode for the "Application of Profits."

20. (54) *St. George Co-operative Society, Limited, Glasgow.*—Rule 17 provides a mode for the "Division of Profits."

21. (55) *Liverpool Co-operative Society, Limited.*—Rule 129 provides a mode for the application of "Profits" and sub-section 8 provides for the "Division of Remaining Profits."

22. (56) *City of Bradford Co-operative Society, Limited.*—Rules 33 and 34 deal with the "Application of Profits."

23. (57) *York Equitable Industrial Society, Limited.*—Rule 96 provides a mode for the "Application of Profits."

24. (58) *Derby Co-operative Provident Society, Limited.*—Rule 90 provides a mode for the "Application of Profits."

25. (59) There are further rules in the Appendix,* but I have quoted a sufficient number to show that it is a general custom for Societies to provide, in their registered rules, a mode for the application of their "profits" in terms of the Act of 1893.

26. (62)

31st July, 1919.

Dear Sir,

Many thanks for your letter of the 30th inst. There is another matter regarding which we should like to have information. In the Memorandum of Instructions issued by the Inland Revenue for the Return of Income, it is stated—Page 2, Form No. 11, Part I, Clause 5:—

Profits from Interest, Annuities, Annual Payments and Dividends, not taxed by deduction and other discounts. Under this heading fall all Interest, Annuities, Dividends and Discounts received or credited, including Interest on Banking Accounts or Deposits, Share Interest or Deposit Interest from Co-operative Societies (but not Dividends on Purchases).

We shall be obliged if you will kindly favour us with the authority for this and a reference to the Act granting this exemption.

Thanking you in anticipation,

We are,

Yours faithfully,

for MONTGOMERIE & Co., Ltd.

(Sd.) JOHN MONTGOMERIE.

Secretary,

Inland Revenue.

27. (63)

20th August, 1919.

Dear Sir,

I am in receipt of your letter of the 22nd instant, in reply to mine of the 31st ultimo, and note that after three weeks' consideration by the Board of Inland Revenue you are directed to state:—

that there is no provision in the Income Tax Acts relating specifically to dividends on purchases by members of co-operative societies; that these dividends are in the nature of a return in part of the moneys expended by customers in connection with their purchases from the societies, and, in the hands of the customers, cannot therefore be regarded as constituting income assessable to Income Tax.

In view of the fact that the Board has been unable to produce any statutory authority, I fail to see that the Board of Inland Revenue has any right to issue instructions to members of co-operative societies or the general public not to include in their income tax returns the dividends received by them out of the profits earned by societies.

I fail to follow the Board's reasoning and explanation, and have no hesitation in stating that their action is illegal. The Board is evidently not aware that every society registered under the Industrial and Provident Societies Acts, 1893 to 1913, is bound to provide in its registered rules a mode for the application of the trading profits earned by the society. It will therefore be seen that the interpretation as to how they make their profits or how they pay their dividends does not rest with the Board of Inland Revenue. I submit that so long as the Industrial and Provident Societies Act, 1893, stands unrevoked it is the law of the land. Its term must be complied with by the Board of Inland Revenue, and it is their duty to see that the revenue is properly collected from every taxpayer irrespective of whom he trades with.

To show that co-operative societies do make profits and that the Board of Inland Revenue has actually obtained a decision in their favour proving that societies make profits, I refer the Board to the recent action by the Inland Revenue authorities against the Plymouth Co-operative Society, Ltd., in connection with Excess Profit Duty.

* Not reproduced.

The Crown Agent said the Rules of the Society clearly laid down its objects as being to carry on the trade or business of general dealers, manufacturers, &c., and the ordinary provisions were made in the rules for capital, loan capital, division of profits, interim dividend, interest on capital, reserve funds, investment of capital The mode of conducting the business was also defined. He submitted it was a clear case where the Society or corporation came within the provisions of the Excess Profits Duty, Part 3 of the Finance Act (No. 2), 1915; and it was carrying on a trade or business. The liability attaching to the corporation was irrespective of the question as to what members or what kind of members formed the corporation. They had already got the accounts which showed the ordinary profits made just as if it had been an ordinary trader He submitted with respect that it was the clearest and the strongest case for the Crown that could ever be imagined. It was a corporation, and it was carrying on business liable to Excess Profits Duty.

The decision of the Special Commissioners was in favour of the Crown.

Further, I refer the Board of Inland Revenue to the Industrial and Provident Societies Act, 1893:—

Section 10, Sub-section 6:—The rules of every society registered under this Act shall provide for the profits being appropriated to any purpose stated therein or determined in such manner as the rules direct.

Schedule II:—Matters to be provided for by the rules of societies registered under this Act:—

(10) Mode of application of profits.

The Board is aware that there is a Royal Commission appointed to deal, *inter alia*, with the whole question of the taxation of societies trading under the Industrial and Provident Societies Act, 1893, and it is possible that if allowed to pass unchallenged, the Board's action in issuing these instructions might have the effect of nullifying any decision given by the Commission. For example, in the event of the Commission deciding to recommend the withdrawal of the exemption to payment of Income Tax under Schedules C and D, granted to societies under section 24 of the Industrial and Provident Societies Act, 1893, their decision would be nullified if the Board were allowed to place such an interpretation on the profits earned by societies. In fact, the issuing of such instructions can only be looked on as a gratuitous advertisement on behalf of Co-operative Societies by educating taxpayers to the fact that if they purchase goods from Co-operative Societies, they will not be required to make a return, and will consequently be relieved from payment of Income Tax thereon.

In fact, in my view, the issuing of such instructions by the Board of Inland Revenue on the eve of the appointment by the Chancellor of the Exchequer of a Royal Commission to go into this question has prejudiced the Board in any evidence which they may tender to the Commission on the question of the taxation of Co-operative Societies.

The Board state that there is no provision in the Income Tax Acts relating specifically to this question. I fail to find any provision in the Industrial and Provident Societies Act, and shall be glad if the Board can give me a reference to any Act or authority which authorizes them to issue such instructions.

I am,

Yours faithfully,

(Signed) JOHN MONTGOMERIE.

Secretary,
Inland Revenue.

28. (64)

Inland Revenue,

Somerset House,

5th September, 1919.

Sir,

With reference to your letter of the 26th ultimo, I am directed by the Board of Inland Revenue to acquaint you that in their view the sums returned from time to time to purchasers from Co-operative Societies by reference to the amounts of

their purchases do not constitute profits or gains within the meaning of the Income Tax Acts.

In this connection I may invite your attention to the case of "Styles v. New York Life Insurance Company" (House of Lords, 20th and 24th March and 1st July, 1889—L.R. 14 app. Cases 381, 2 Tax Cases 460) and to the Report of the Departmental Committee on Income Tax, 1905, Cd. 2575.

Your letter appears to convey the suggestion that the matter is affected by the absence of any statutory provision to the effect that the sums in question are not within the scope of the Income Tax charge. The Income Tax Acts are, however, concerned with the imposition of Income Tax upon the profits and gains, &c., described therein and they do not contain an enumeration of the many possible forms of receipt which are outside the scope of the charging sections.

I am to add that, inasmuch as misapprehensions have arisen from the fact that the sums returned to purchasers from Co-operative Societies are frequently described as "dividends" the Board have found it necessary not only to indicate on the appropriate Income Tax forms the receipts from Co-operative Societies which do constitute taxable income, *e.g.*, share interest, but also to point out that the so-called "dividends" do not fall to be returned as income.

As regards your observations on the question of liability to Excess Profits Duty I am to refer you to the provisions of Rule 10 of Part I. of the 4th Schedule to the Finance (No. 2) Act, 1915, from which it will be seen that the inclusion for that purpose of "any surplus arising from transactions with members" is effected by a specific statutory direction in that sense.

I am,

Sir,

Your obedient Servant,

(Sd.) J. SNELLGROVE.

John Montgomerie, Esq.

29. (65)

8th September, 1919.

Dear Sir,

Many thanks for your letter of the 5th instant.

I note you are directed by the Board of Inland Revenue to acquaint me with the fact that, in their view, the sums returned to purchasers from Co-operative Societies do not constitute profits or gains within the meaning of the Income Tax Acts, and that the Board also calls my attention to the case "Styles v. New York Life Insurance Company," House of Lords, 20th March and 1st July, 1889, and to the Report of the Departmental Committee on Income Tax, 1905.

On a perusal of the Report and the Memorandum submitted to the Committee by the Deputy-Chairman of the Board of Inland Revenue, page 44, Appendix No. X, it proves conclusively that the arguments put forward by the Board to justify their issuing instructions to all taxpayers not to include in their returns for Income Tax the dividends received from Co-operative Societies, have no foundation in fact or law, as will be seen from the following excerpts from the Memorandum and the Report:—

"The Law as to the Assessment of Income Tax on the profits of Societies registered under the Industrial and Provident Societies Act.

Section 24 of the Industrial and Provident Societies Act, 1893, runs as follows:—

'A registered society' (i.e., a Society registered under the Industrial and Provident Societies Act) 'shall not be chargeable under Schedules (o) and (n) of the Income Tax Acts unless it sells to persons not members thereof, and the number of shares of the society is limited either by its rules or its practice. But no member or person employed by the society shall be exempt from any assessment to the said duties to which he would be otherwise liable.'

Let us consider what is the effect of the exemption granted by this section, and under what conditions it is granted.

1.—The effect of the exemption.

"The section exempts 'registered' societies under certain conditions from direct assessment to Income Tax under Schedule (c) (stock, dividends or interest) and (d) (interest and other profits or gains).

"This is a mere matter of administrative convenience. The exemption is not exemption from Income Tax on profits. It is merely an exemption from the liability which the Income Tax Acts impose on companies, etc., to account for the Income Tax on behalf of their shareholders. It is, in fact, merely a variation in the machinery of collection, not in the principle of the tax. This will appear from the following explanation:—

"The central principle of Income Tax Law is that each individual whose total income from all sources is over £160 a year is liable to Income Tax; if it does not exceed £160 he is exempt. This principle is applied both in the case of ordinary traders (individuals, trading partnerships, or companies) on the one hand, and registered Co-operative Societies, subject to certain conditions, on the other: but for the convenience of the collecting authority the principle is applied in different ways in the two cases.

"Registered Societies.—It is important to bear in mind that in principle it is not the society that is ultimately taxed as a unit, but the individual members composing it. Whatever the aggregate profits may be, every member whose total income from all sources does not exceed £160 a year is entitled, like the ordinary trader, to be relieved from the payment of Income Tax on his share of the profits; and every member whose total income exceeds £160 is, like the ordinary trader, chargeable to that tax.

"It makes no real difference whether a 'registered' society is assessed directly to Income Tax or not; the distinction simply is, that if the society is assessed directly, Income Tax is deducted from each member's share of the profits before he receives it, but he can claim repayment afterwards if he is not individually liable; if the society is not assessed directly, each member receives his share in full without any such deduction; but he has to pay Income Tax upon it afterwards if he is individually liable."

Page 43.—"The above facts appear to show that, taking a general view of the subject, Section 24 of the Industrial and Provident Societies Act, 1893, does not, to any appreciable extent, operate to the unfair benefit of Co-operative Societies registered under that Act, or to the detriment of private traders. Its effect is that so far as the operations of such societies result in 'profits chargeable with Income Tax,' such profits are to be so charged, but the charge is to be made, not on the society, but on the individual members."

The rest of the Board of Inland Revenue Memorandum of 1905 is composed of contradictory and irrelevant nonsense, and proves without a doubt that those responsible for its preparation were entirely ignorant of the most elementary principles relating to the constitution of societies trading under the Industrial and Provident Societies Act, 1893, and the registered rules under which they trade. Any unbiased person studying the Memorandum and Report, together with the Historical Sketch of the Acts, can come to no other conclusion than that the Board of that time were more concerned in advocating the case of co-operation than looking after the collection of Taxes for the support of the State.

The case "Style v. New York Life Insurance Company" has no bearing on the question at issue, as it refers to an Act repealed by the Act of 1893. Further, the company was not an Industrial trading concern, and was not making profits on the manufacture and sale of products.

Finally, I shall quote from the Report of the Departmental Committee on Income Tax, page 25, No. 139:—

"The question whether societies registered under the Provident and Industrial Societies

Act ought to be subjected to any limitations with regard to their dealings with non-members was not referred to us, and we express no opinion upon it. But it has been brought to our notice that very large and varied enterprises, in the way of manufacture, shipping, insurance and banking—enterprises which in some cases involve considerable and regular dealings with the outside public—are now carried on under the Industrial and Provident Societies Act, and it may be worth consideration whether further enquiry should be made into the conditions under which the privilege of registration under that Act is conferred."

I purpose embodying this correspondence in my evidence to be given before the Royal Commission on Income Tax, and if I am wrong in my views the Board will have an opportunity of proving to the Commission wherein I am in error. The question is of vital importance to the welfare of the nation, and therefore every effort ought to be made to place the Law and the facts before the Commission.

Yours faithfully,

(Sd.) JOHN MONTGOMERIE.

Secretary,
Inland Revenue.

30. (68)

22nd May, 1919.

Dear Sir,

Industrial and Provident Societies Act, 1893.

We have received this morning the Rules of the Lochaber and District Co-operative Society, Limited, Register No. 646 B, whose address is Masonic Buildings, Fort William. On examining these Rules, we find they are registered in violation of the Industrial and Provident Societies Act, 1893, as they do not contain a mode for the application of their profits. Section 10, Sub-section 6, of the Act, 1893, reads as follows:—

"The rules of every society registered under this Act shall provide for the profits being appropriated to any purpose stated therein or determined in such a manner as the rules direct."

You will see it is not optional; the language used is that they "shall provide," &c., and there is no option in the matter. We refer you to Section 65 with regard to penalty for falsification.

"If any person wilfully makes, orders, or allows to be made any entry or erasure in or omission from, any balance sheet of a registered society, or any contribution or collecting book, or any return or documents required to be sent, produced or delivered for the purposes of this Act, with intent to falsify the same, or to evade any of the provisions of this Act, he shall be liable to a fine not exceeding fifty pounds."

Rule 20 of the above Society is headed "Application of Surplus." The word "Profit" or "Profits" is entirely eliminated from the Rules, and we submit this is done with a view to evading the provisions of the Act wherein it is stated clearly that Societies shall provide in their Rules for the profits being appropriated to any purposes stated therein, &c. We have in our possession balance sheets and rules of other societies showing that the word "Surplus" has been substituted for "Profits," and, as you are aware, there is a Royal Commission sitting at present to consider the whole question of Income Tax. This looks like an attempt to alter the Rules so that those altered Rules may be placed before the Commission. We are aware that at present societies are remodeling their rules, and as this, in our view, is in direct violation of the Statute Law of the country, we must ask you to refuse to register or permit any alteration in the rules of any society, sanctioning the substitution of "surplus" or any other word for "profits" until the Act is repealed or amended. We hold that so long as the Act of 1893 stands unreppealed, the Registrars must see that the provisions of that Act are properly complied with, and we shall therefore feel obliged by your giving effect to the representations herein made.

Chief Registrar,

Industrial and Provident Societies.

31. (74)

9th June, 1919.

Dear Sir,

The writer is at present preparing evidence to submit to the Royal Commission on Income Tax in connection with the question of the exemption from the payment of Income Tax of Industrial and Provident Societies, and more especially those entitled "Co-operative Societies." On perusing many of the Rules obtained from Societies throughout the country, we find that powers have been taken in the Rules for compulsory paying out of members and the extinguishing of the shares, either transferable or withdrawable, that is, they take powers when they have more capital than they require to reduce the number of shares of each member. We also find this practice shown in the Annual Returns sent in to the Registrar by Societies.

We have searched the Industrial and Provident Societies Acts, 1893-1913, for any clause giving societies registered under the Industrial and Provident Societies Act, 1893, authority to embody this system in their Rules, or to allow them to traffic in shares of the society after they have once been allotted, but we fail to find any reference thereto. As the authority may have been given in some Act other than the Industrial and Provident Societies Act, we shall be obliged if you will kindly supply us with a reference to the Act dealing with this question.

Yours faithfully,

(Signed) JOHN MONTGOMERIE,

Chief Registrar,
Industrial and Provident Societies.

32. (75) Registry of Friendly Societies,

Central Office,
British Museum (North Entrance),
Montague Place, London, W.C.1.
14th June, 1919.

Gentlemen,

In reply to your letter of the 9th instant, there is nothing in the Industrial and Provident Societies Act or any other Act, so far as I am aware, to forbid the exercise of the power to which you refer. On the contrary, as the capital need not be fixed in amount and the shares may be withdrawable, the Acts seem rather to encourage it. The principles of *Trevor v. Whitworth*, 12 A.C. 409, therefore, do not apply.

I observe that you have written an identical letter to the Assistant Registrar for Scotland. May I suggest that in future you address one or other of us but not both?

I am, Gentlemen,

Your obedient Servant,

(Signed) G. STUART ROBERTSON,
Chief Registrar.

Messrs. Montgomerie & Co., Ltd.

33. (76)

17th June, 1919.

Sir,

We are in receipt of your letter of the 14th inst., in reply to ours of 9th inst., and note that so far as you are aware there is nothing in the Industrial and Provident Societies Act or any other Act to forbid the exercise of the power to which we refer, and that "on the contrary as the capital need not be fixed in amount, and the shares may be withdrawable, the Act seems rather to encourage it."

We must respectfully decline to accept your interpretation of the Industrial and Provident Societies Act, giving you power to pass rules authorising societies to pay out the shareholders at any time they think proper, and have those shares extinguished. In our view, this is a violation of the Industrial and Provident Societies Act, 1893 and we refer you to the following sections of Schedule 2 of "Matters which must be provided for by the rules of societies registered under this Act":—

7. Determination whether the shares or any of them shall be transferable; and provision for the form of transfer and registration of the shares, and for the consent of the Committee thereto; determination whether the shares or any of them shall be withdrawable, and provision for the mode of withdrawal and for payment of the balance due thereon on withdrawing from the society.

9. Determination whether and how members may withdraw from the society, and provision for the claims of the representatives of deceased members, for the trustees of the property of bankrupt members, and for the payment of nominees.
10. Mode of application of profits.

You will observe from the foregoing that there is no provision for the registration of rules containing the powers to which we directed your attention, and no authority is given the Registrar to pass rules containing provisions enabling societies to expel their members by paying them back their share capital after these shares have been allotted. The powers only refer to the withdrawal of funds out of the society in the event of a member, through unforeseen circumstances, requiring to do so, and provision must be made in the rules for the mode of withdrawing and payment of the balance due on withdrawing from the society.

The serious consequences which may ensue, and which have ensued, have evidently never occurred to you through passing rules containing provisions giving a society or the committee of a society powers to select and pay out members at any time they think proper and extinguish those shares. There is not one title of evidence to support your contention that the Act seems to encourage such a procedure.

We shall give you particulars from the Annual Report made by the Rochdale Provident Co-operative Society, Limited, for the year ended 10th December, 1918. These show that share capital was repaid to the extent of £100,010 13s. 5½d., and as the share contributions for the year only amounted to £32,317 7s., this society reduced their share capital to the extent of about £48,000. This, in our view, is a limitation of their share capital by their rules and practice, and as they sell to non-members they have rendered themselves liable to payment of Income Tax under Schedule D, and it is evident that no notice was given to the Inland Revenue authorities to see that the tax was collected.

It must be kept in view, however, that by permitting such rules to be registered, questions are raised, as far as the members of the society are concerned, of as great, if not greater importance than the question of the payment of Income Tax. In all the rules which we have perused, drawn from different parts of the country, societies have taken powers to expel their members not only by limiting their capital by paying out members, but by paying out and extinguishing the shares of the poorer purchasing members. The Act under which they are trading in no way contemplated or authorised such treatment being meted out to the poor or that such a practice would be permitted in the rules under which they were allowed to trade.

It has evidently never occurred to you when passing such rules that you were placing in the hands of men conducting the business of these societies weapons to enable them to wipe out and rob the legitimate members of their interest in societies and put the Committee in such a position that they would become a menace to the trading community of the country. The rules of societies state that when a person ceases to be a member, he shall have no right or interest in the reserves or funds of the society, and you will see that as the shares are paid out and extinguished the shareholders have no claim on the society. If this is allowed to continue it will only mean that in a few years, the Committees with the funds which they have been allowed to accumulate through the Government's subsidy in the shape of exemption to Income Tax at 6s. in the £ are put in the position which is practically a means of robbing the persons who legitimately become members of the society, and they have power to turn them out without question. The question will then arise: Who are to be the owners of the property and funds of the societies, after the share capital is extinguished and a trifling number of shares retained to obscure their methods of trading?

Yours faithfully,

(Signed) JOHN MONTGOMERIE.

G. Stuart Robertson, Esq.,
Chief Registrar of Industrial and
Provident Societies.

34. (77) Registry of Friendly Societies,
Central Office,
British Museum (North Entrance),
Montague Place, W.C.1.
21st June, 1919.

Dear Sir,

In reply to your letter of the 17th instant, I regret that you do not accept my interpretation of the Act.

I am, Sir,
Your obedient Servant,
(Signed) G. STEVART ROBERTSON.

J. Montgomerie, Esq.

35. (81) *Bookdale Provident Co-operative Society, Ltd.*—Rule 6.—Admission of Members: The society shall consist of the present members and of all other persons who shall afterwards be admitted, in the following manner:—

A person wishing to become a member must apply at the office, or to the manager of any of the branch shops. He must state his name, residence and occupation, and he proposed and seconded by two members of the society. He must also (at the time of application) sign a declaration stating his willingness to abide by the rules, and prior to expiration of three months from the time such member is accepted he shall make a deposit of (at least) one shilling towards his share capital. Complete lists of names, residences and occupations of all persons who have applied to become members in manner hereinbefore stated shall be submitted to the next weekly meeting of the Committee of Management for their approval and if any person whose name is on the said list shall be objected to by the majority of the Committee of Management then present, the name of the said person shall be erased therefrom. . . . All persons objected to by either the Committee of Management or the members, shall have the whole of the money which they shall have paid into the Society returned. No interest whatever shall be given to any member who does not purchase from the society to the extent of at least £6 per annum.

Rule 22.—Application of Profits: (b) . . . The profits from non-members' purchases . . .

36. (82) *Greenock Central Co-operative Society, Ltd.*—Rule 33.—Repayment Compulsory on Members:—Subject to the payment of, or a sufficient provision for all subsisting claims on the society, the Committee, with the approval of any General Meet-

ing, may apply any monies for which they cannot find profitable investment in paying off:—

- (1) The shares of any member who has bought of the society less than any amount fixed by the ordinary business meetings in any prescribed time.
- (2) The excess of shares held by those who hold the largest number above those who hold the next largest, provided that no member be required to accept less than the full sum paid upon each share paid off.

Rule 34.—Repayment on the request of Members:—Subject as aforesaid, the Committee may, in the case of any transferable share required to be held by a member desirous of withdrawing from the society, on the application of the holder of any such share, repay any sum not exceeding the amount then credited thereon, and shall repay the whole sum so credited in any case where the member is paid off under the provisions of Rule 33, or where they refuse to confirm the transfer of any such share which is fully paid up.

Rule 35.—Shares repaid to be extinguished:—All such repayments shall be made on resolution of the Committee, which, with the receipts of the money paid, shall be entered or referred to in the respective register of withdrawable or transferable shares after-mentioned, designating any transferable shares by the number to be given to it and thereupon the shares in respect of which such payments are made shall be extinguished.

37. (83) The following Societies have taken powers in their rules similar to those referred to above:—

- Flynnth Co-operative Society, Ltd.
Birmingham Industrial Co-operative Society, Ltd.
Newcastle-upon-Tyne Co-operative Society, Ltd.
St. George's Co-operative Society, Ltd., Glasgow.
Liverpool Co-operative Society, Ltd.
City of Bradford Co-operative Society, Ltd.
York Equitable Industrial Society, Ltd.
Derby Co-operative Provident Society, Ltd.
Halifax Industrial Society, Ltd.
Middlesbrough Co-operative Society, Ltd.
Preston Industrial Co-operative Society, Ltd.
Dunfermline Co-operative Society, Ltd.
Ayrington Provident Co-operative Society, Ltd.
Barrhead Co-operative Society, Ltd.
Larbert Co-operative Society, Ltd.
Cowdenbeath Co-operative Society, Ltd.
Paisley Co-operative Society, Ltd.
Kilmarnock Equitable Co-operative Society, Ltd.
Bainford and Grahamstown Co-operative Society, Ltd.

Appendix No. 29.

Paper handed in by Mr. E. STANFORD LONDON on 24th October, 1919.

I. ESTIMATE OF THE PERCENTAGE OF MEMBERS OF CO-OPERATIVE SOCIETIES WHO ARE LIABLE TO PAY INCOME TAX.

A.—ESTIMATED NUMBER AND CLASSIFICATION OF PERSONS ASSESSED TO INCOME TAX FOR THE YEAR 1918-19.

	Manual wage-earners	Other persons.	Totals.
Persons assessed 1918-19.	2,950,000	2,045,000	4,995,000
Divided as follows:—			
Married men or widowers	2,100,000	1,350,000	3,450,000
Bachelors	580,000	450,000	1,030,000
Total males	2,680,000	1,770,000	4,450,000
Widows and spinsters	270,000	265,000	535,000
	2,950,000	2,045,000	4,995,000

It is estimated that the persons assessed but paying no actual tax who number may be divided as follows:—

	Males	Females
Males	1,400,000	400,000
Females	130,000	20,000

The total male population over 20 years of age is approximately 13,000,000 of whom 4,460,000 (as shown

above) or say one-third, are within the scope of the Income Tax.

B.—ESTIMATED NUMBER AND CLASSIFICATION OF MALE MANUAL WAGE-EARNERS ASSESSED TO INCOME TAX FOR THE YEAR 1918-19.

By reason of the fact that the allowances made from assessments on bachelors are in general much smaller than those in the case of married men and widowers, the proportion of bachelor manual wage-earners within the scope of the Income Tax who actually pay tax is considerably higher than the corresponding proportion applicable to the married men and widowers. It is considered that about 5/6ths of the bachelor manual wage-earners assessed are actually liable to tax.

On this basis the following figures are reached for male manual wage-earners for 1918-19:—

	Total	Bachelors.	Married men and widowers.
Number within the scope of the tax	2,680,000	580,000	2,100,000
Number not liable to pay tax	1,400,000	47,000	1,353,000
Number of taxpayers	1,280,000	483,000	797,000

giving the proportion of married men and widowers within the scope of the tax who actually pay tax as approximately 2/5ths.

From the figures given in the foregoing statement it will be seen that for the Income Tax year 1918-19:—

- (1) only one-third of the male population over the age of 30 come within the scope of the Income Tax;
- (2) of the manual wage-earners within the scope of the tax rather more than one-half pay no tax owing to the statements and other allowances deductible from their assessable incomes;
- (3) of the manual wage-earners within the scope of the tax who are married men or widowers approximately two-fifths are actually liable to pay tax.

On the assumptions that Co-operative Society members are so generally manual wage-earners that the figures for the latter are sufficiently representative

of the Income Tax conditions of co-operators, and that co-operators are almost entirely married men or widowers, the following is given as a reasonably close estimate of the proportion of members of Co-operative Societies who are liable to pay Income Tax:—

Proportion of adult male population within the scope of the Income Tax—one-third.

Proportion of married men and widowers within the scope of the tax liable to tax for 1918-19—two-fifths.

It has been found however that, for the first quarter of the Income Tax year 1919-20, owing to the increased allowances granted for wife and children, the proportion assessed who are actually liable to tax has fallen to approximately one-fourth.

On the above basis therefore the proportion of co-operators who are liable to pay tax for 1919-20 may be taken as one-fourth of one-third = one-twelfth, or, say, 9 per cent.

II. EXTREME ESTIMATE OF THE PERCENTAGE OF MEMBERS OF CO-OPERATIVE SOCIETIES LIABLE TO PAY INCOME TAX IN THE YEAR 1919-20.

Of manual wage-earners within the scope of the Income Tax, it is found that

- (1) approximately 75 per cent. are married men or widowers;
- (2) approximately 25 per cent. are bachelors;
- (3) approximately 25 per cent. will be taxpayers in the year 1919-20, as indicated by the actual assessments on weekly wage-earners for the first quarter of that year.

It is found in addition that at least one-half of the weekly wage-earners who are liable to pay tax in the year 1919-20 are bachelors, this disproportion being due to the fact that the allowances from assessments on bachelors are in general much less than those allowable in the case of married men and widowers.

It follows that the proportion of married men and widower weekly wage-earners who are actually liable to tax is as $12\frac{1}{2}$: 75 or 1 : 6 and it is considered that

it is this class which forms the bulk of the membership of Co-operative Societies.

It has been suggested, however, that as the number of adult males who are outside the scope of the Income Tax is double the number of those within the scope of the tax that, therefore, only one-third of the members of Co-operative Societies will be within the scope of the tax. I am, however, of the opinion that this proportion cannot be applied without modification, as some of the poorest members of the community are perhaps not likely to be members, and consider that to be well on the safe side, it is a reasonable assumption that three-fourths of the total membership may be within the scope of the tax.

On that assumption my estimate of the proportion of Co-operative Society members actually liable to pay tax is one-sixth of three-quarters = $12\frac{1}{2}$ per cent., and in my opinion this is an extreme estimate giving an ample margin for all possible errors.

Appendix No. 30.

EXTRACT FROM A SPEECH BY MR. A. BONAR LAW, REGARDING CO-OPERATIVE SOCIETIES.

Paper handed in by Mr. ROBERT WALKER on 22nd October, 1919.

In support of our general contention that the trade (£250,000,000, annually) of the Co-operative Societies should be compelled to pay its full fair share towards the maintenance of the State, I beg to quote the following extract from a speech by the then Chancellor of the Exchequer, Mr. A. Bonar Law, see Parliamentary Debates, House of Commons, 17th July, 1917, Vol. 95, No. 96, Column 271:—

"But it does not deal with the present situation at all. I believe these societies (Co-operative Societies) have done a great deal of good in the country, but they are doing an exceedingly large share of the retail trade of the

country, and although they do not make profits in the ordinary sense, it comes to this, that that immense share of the trade is done without paying the share to the Revenue which is borne by other traders. I think that is something that ought to be remedied. I think members of Co-operative Societies themselves will see that that is not quite a reasonable position, and that some arrangement later on will be possible which will make it fairer from that point of view. I can assure my hon. Friends that I sympathize with retail traders in connection with this matter."

Appendix No. 31.

MEMORANDUM BY THE BOARD OF INLAND REVENUE ON THE SUBJECT OF THE EXEMPTION FROM INCOME TAX ENJOYED BY CHARITIES. (See Q. 20,388.)

A. Present position of charities under the Income Tax Acts.

1. Exemption from Income Tax is granted:—

(a) under Schedule A—

- (i) to colleges and halls in the Universities, in respect of their public buildings;
- (ii) to hospitals, public schools, almshouses, and literary or scientific institutions, in respect of their public buildings;
- (iii) to hospitals, public schools, almshouses, and all trustees for charitable purposes, in respect of the rents and profits of lands, tenements and hereditaments, so far as they are applied to charitable purposes.

(b) under Schedule C—

to all trustees for charitable purposes in respect of the dividends of public funds, so far as they are applied to charitable purposes.

(c) under Schedule D—

to all trustees for charitable purposes in respect of any yearly interest or other annual payment chargeable under Schedule D, so far as the same is applied to charitable purposes.

2. It will be observed that there is no exemption in respect of profits derived by trustees for charitable purposes from anything in the nature of a trade or business. In a number of cases the Courts have held that such profits are liable to Income Tax in the ordinary way.

3. There is no exemption from Income Tax under Schedule B, on land in the occupation of charities, presumably on the ground that the occupation of land is normally for the purpose of carrying on farming—a business competing with private individuals. Where, however, the land is occupied for an uncommercial purpose by a charity whose buildings are specifically exempted, e.g., as a recreation ground of an hospital, public school or almshouse, exemption is in practice allowed.

4. It will further be seen that trustees for charitable purposes (other than those specifically mentioned in the Act and referred to in paragraph 1 above) are not entitled to exemption in respect of lands and buildings in their own occupation. In practice, however, exemption from Schedule A is allowed in the case of churches, chapels and other buildings used mainly for religious purposes.

5. There is a considerable body of Case Law relating to the scope of the Income Tax exemption of charities, and it has been held, *inter alia*, that—

- (a) a school founded not for profit but for the benefit of a large portion of the public in contradistinction to a particular class or sect, and partly maintained by an endowment, is a "public school" within the meaning of the Income Tax Act, notwithstanding that substantial fees may be charged. (*Blake v. Mayor, etc., of London* (1887), 19 Q.B.D. 78; 2 Tax Cases, 209.)
- (b) a hospital conducted on the principle of letting the rich patients pay for the poor is not entitled to exemption. (*Needham v. Bevers* (1888), 21 Q.B.D., 436; 2 Tax Cases, 300), but one that has a substantial charitable endowment is so entitled, although it may take paying patients on remunerative terms (*Cause v. Nottingham Lunatic Hospital* (1891), 1 Q.B.D., 585; 3 Tax Cases, 38).

B. What constitutes a charity for Income Tax purposes.

6. After considerable divergence of opinion amongst the judges concerned, it was finally decided by the House of Lords in the year 1891, in the case of the *Special Commissioners of Income Tax v. Pemsel* (1891), A.C. 531; 3 Tax Cases, 53, that the words "charitable purposes" when used in an Income Tax Act must be given their technical legal meaning.

7. This technical legal meaning is derived from a Statute of Elizabeth, 43 Eliz., cap. 4 (which enumerates a list of charitable purposes),* and is considerably wider than the popularly accepted meaning of the word "charity" in the sense of the relief of the poor and the sick. Broadly speaking, "charity" in this legal sense, includes all gifts of general public utility, and this is the characteristic feature common to all the four principal divisions into which Lord Macnaghten, in the course of his judgment in the above-mentioned case of the *Special Commissioners of Income Tax v. Pemsel*, classified "charity" in its legal sense, viz.: (1) the relief of poverty, (2) the advancement of education, (3) the advancement of religion, (4) other purposes beneficial to the community. It should be observed that the Income Tax exemption is conferred without reference to the pecuniary status of the persons receiving benefit from the "charity."

8. The Courts in deciding whether a particular trust is analogous to those recited in the Statute of Elizabeth, have taken a wide view as to what constitutes a legal charity, and in determining whether a particular object is for the benefit of the public (not necessarily the whole community, but a section of the public), have been guided mainly by the intention of the testator or donor, and provided that the object is not actually pernicious, have not been concerned to inquire whether the object is meritorious or is achieved.

9. The general result is that many institutions which are outside the popular conception of charity are within the exemption from Income Tax, e.g., the Universities, Eton College, the Institution of Civil Engineers, the Anti-Vivisection Society. Legal charities also include gifts for the advancement of education generally, and of religion, irrespective of the doctrines which the charity may be established to advance. It may be observed, too, that gifts for general public purposes are none the less charitable because they benefit the rich as well as the poor, and whilst a trust to be charitable must be of a public character, it is to be noted that the distinction between a public and a private purpose is often very fine. For example, the income of a trust applicable to the education of individuals with a particular surname has been held to be within the Income Tax exemption.

C. Generally.

10. In 1863 Mr. Gladstone proposed to repeal the Income Tax exemption in favour of charities, on the ground that the exemption amounted to a grant of public money without public control, and that a large number of charities, especially the "dole" charities, were not beneficial to the community. He pointed out that the wealthy charities with big

* The charities enumerated in the Statute of Elizabeth are as follows:—

The relief of aged, impotent and poor people. Maintenance of sick and maimed soldiers and mariners. Schools of learning, free schools and scholars in Universities. Repair of bridges, ports, havens, causeways, churches, sea banks and highways. Education and preferment of orphans. Relief, support and maintenance for houses of correction. Marriage of poor maids, supportation aid and help of young tradesmen, handicraftsmen and persons decayed. Relief or redemption of prisoners or captives. Aid or ease of poor inhabitants, concerning payment of fifteenth, setting out of soldiers, and other taxes.

endowments received a large grant from the State, while the poorer charities, mainly or wholly dependent on annual subscriptions, received little or nothing. The proposal was strongly opposed and was eventually dropped, although the matter went so far as the introduction of a repealing clause in the Customs and Inland Revenue Bill of the year 1893.

Again in 1871, in relation to the Charity Commission, a resolution was passed in the House of Commons to the effect that "discontinuing the exemption of endowed charities from Income Tax is a suitable method of carrying out the decision of this House against the payment of the expenses of the Charity Commission out of public funds." No action was, however, taken to put the resolution into effect.

11. In the year 1914 there was a debate in the House of Commons on a proposal that the exemption in respect of public buildings should be extended to all charities and not be restricted to the specific institutions mentioned in the Income Tax Acts (see paragraph 1 (a) (i) and (ii) above). The Government reply to the proposal was, firstly, that any amendment of the law in this respect could only be agreed to on a complete revision of the whole basis of the present system of exemptions and, secondly, that such revision should be referred as a suitable subject to the then recently promised Commission of Inquiry on the Income Tax as a whole. The proposal is now put forward for the consideration of the Royal Commission in paragraph 19 of this Memorandum.

12. In relation to this question of the relief from Income Tax in favour of charities, the following considerations, amongst others, may be suggested:—

- (a) every exemption from Income Tax throws an additional burden on the rest of the community;
- (b) every charitable institution or body which obtains exemption from Income Tax may be represented as receiving a concealed subsidy from the State, unaccompanied by State control, and at the present time a subsidy of the very appreciable amount of 6s. in every £ of its income from endowment;
- (c) the effect of the exemption from this point of view is to force the State into the position of subsidising in perpetuity societies which in their aims may be diametrically opposed to each other, e.g., a society to encourage, and a society to discourage vivisection;
- (d) the interpretation of the word "charity" for Income Tax purposes is derived from an Elizabethan Statute, which was designedly wide in terms, because it was enabled to protect from misapplication of their funds various kinds of trusts primarily intended to benefit the poor or the community. It is open to question whether a wide interpretation derived in this manner is proper in relation to an exemption from Income Tax;
- (e) in regard to exemptions and abatements contained in the Income Tax Acts, other than those relating to charities, it would seem that the general object of the Legislature has been to grant relief to small incomes and funds benefiting the poorer classes of the community, and it would seem more consistent with the general policy of the Income Tax Acts to apply the same principle to the exemption in favour of charities.

13. The exemption at the present time costs the State between £4,000,000 and £5,000,000 a year in revenue.

14. In these circumstances it is for the Royal Commission to consider whether it is desirable that the exemption should continue on its present wide basis, or whether the conditions of to-day call for some restriction of its scope.

15. If some restriction is considered to be called

for, it is suggested that it might perhaps take the form of confining the relief from Income Tax:—

- (a) to charities concerned primarily to benefit classes of persons with small incomes, which, if not below the limit of exemption, are subject to little or no tax after allowance of all reliefs; and
- (b) to other charities not falling under (a), but conforming to the popular conception of the term, i.e., to charities for the relief of physical distress.

16. Under a restricted exemption of this nature, charities for the relief or education of the poor, hospitals, and other charities for the relief of physical distress (such as the National Life-Boat Institution) would continue to enjoy the relief. On the other hand, charities for the education of the well-to-do, religious bodies, and the miscellaneous charities which are not infrequently for the benefit of the well-to-do in part, or are for the dissemination of some particular doctrine, religious or secular, would no longer be entitled to claim relief.

17. There is no reliable information to show with any degree of accuracy what would be the effect on the Revenue of a partial restriction of the exemption on these lines, but, subject to a liberal margin of error, it is estimated that there would be a saving to the State of about £1,500,000 of the present annual cost of the exemption (see paragraph 13). There is no doubt that there would be strong opposition to the proposal, particularly from the richer charities, receiving all, or nearly all, their income from endowments, and therefore affected in the greatest degree (see paragraph 10), but there is no evidence to show that the restriction would, except in a very few cases, involve any serious disturbance of the finances of the institutions concerned.

18. Demands would no doubt be put forward in some cases for a State subvention or an increased State subvention; even so, relief from Income Tax is, apart from other considerations, not a scientific method of giving State support to any object and if in any of the cases affected the State should see fit to make a direct contribution in lieu of the present Income Tax exemption, it would be open to the State to make this contribution dependent on the proper administration of the institution concerned, and to take such steps as might be necessary to see—

- (a) that the State's contribution is economically and effectively expended, and
- (b) that the relief afforded is neither inadequate nor excessive.

Apart, however, from the general question of the extent of the exemption in favour of charities, there are three subsidiary points to which it is desired to invite the attention of the Royal Commission with a view to such amendment of the existing law as may seem to be required.

19. In cases where the Statute grants exemption from Income Tax on the rents and income of invested funds of trustees for charitable purposes (see paragraph 1), there seems no logical reason for withholding the exemption from Schedule A tax on properties in the occupation of the trustees.

20. In the case of hospitals, public schools and almshouses, exemption from Schedule A tax is not allowed so the portion occupied by an individual official whose total income exceeds £150. It is suggested that this limit of income should be altered so as to conform with the limit of exemption in force for the time being, and that in the case of a literary or scientific institution (where the law at present imposes no corresponding income limit at all) the same limit should be provided.

21. Section 40 (2) of the Income Tax Act, 1918, requires the claim by a charity to be verified by affidavit before a General or Additional Commissioner for the division in which the treasurer, trustee or other duly authorized agent of the charity resides. In practice, a declaration before a Minister of Religion, Justice of the Peace, or a Commissioner of Oaths is accepted and it is suggested that the law might well be brought into line with the practice.

Appendix No. 33.

MEMORANDUM BY THE BOARD OF INLAND REVENUE ON THE SUBJECT OF THE INCOME TAX ASSESSMENT (A) ON WOODLANDS, AND (B) ON SPORTING RIGHTS AND FISHERIES. (See Q. 20,382.)

(A) WOODLANDS.

1. In the normal course, woodlands are assessed to Income Tax in the same manner as other lands; that is, as regards the ownership, under Schedule A, and as regards the occupation, under Schedule B. The assessment under Schedule B is made upon the full annual value of the woodlands.

2. Under the provisions of Rule 7, Schedule B of the First Schedule to the Income Tax Act, 1918, any person occupying woodlands, who proves to the satisfaction of the District Commissioners or the Special Commissioners, that those woodlands are managed by him on a commercial basis and with a view to the realization of profits, may elect to be charged to Income Tax in respect of the occupation thereof under Schedule D instead of under Schedule B. In that case the profits from the occupation are calculated for assessment under Schedule D in the same manner as profits arising from a trade.

3. The election to be assessed under Schedule D is required to extend to all woodlands on the same estate managed on a commercial basis. The only exception to this rule is in the case of woodlands which have been planted or replanted since the 19th July, 1916 (the date of passing of the Finance Act, 1916), where, on notice being given to the District Commissioners or the Special Commissioners within a year of the planting or replanting, the occupier is entitled to treat these woodlands as being woodlands on a separate estate.

4. The election to be assessed under Schedule D in lieu of Schedule B not only has effect as respects the year of assessment for which the election is made, but is binding for all future years of assessment, so long as the woodlands remain in the occupation of the person making the election.

5. An occupier of woodlands assessed under Schedule D has, of course, the same right of appeal as any other taxpayer charged under that Schedule, and he may claim a revision of the assessment under the provisions of section 43 of the Income Tax Act, 1918, if he can show that his profits from the woodlands have diminished owing to circumstances attributable directly or indirectly to the war. Also an occupier of woodlands assessed under Schedule D, who has sustained a loss in any year from the occupation of such woodlands, and who proves the loss to the satisfaction of the District or Special Commissioners, may, under the provisions of section 34 of the Income Tax Act, 1918, claim repayment of so much of the sum that he has paid for Income Tax as represents tax upon income equal to the amount of his loss.

(B) SPORTING RIGHTS AND FISHERIES.

6. The Board of Inland Revenue think it desirable to bring to the notice of the Royal Commission the following facts relating to the assessment to Income Tax, Schedule A, of rights of sporting and fishing.

History of assessment of sporting rights.

7. In the Income Tax Act of 1918, as in previous Acts relating to Income Tax, there is no specific mention of "sporting rights," whether of shooting or fishing. However, among the subjects mentioned in Rule 3 of No. III, Schedule A, "fishings" are included, and in common with the other concerns named in that Rule, "the annual value (of fishings)" shall be understood to be the profits of the preceding year. Again, in section 170 (2) (b) it is provided that "where the tax is charged on the profits of manors or royalties, markets or fairs, or on tolls, fisheries or any other annual or casual profits not distrainable, the owner, occupier or receiver of the profits thereof shall be answerable for the tax so charged, and may retain and deduct the same out of any such profits."

8. The above-mentioned Rule 3 of No. III, Schedule A, and section 170 (2) (b) of the Income Tax Act of 1918, merely reproduce provisions of the Income Tax Act of 1842, and there has been no modification of the Income Tax charge on sporting

rights since the date of passing of the earlier Act, at which time it is doubtful whether the annual value of sporting rights was ever thought of except as an incident of the ownership or occupation of land.

9. Further confirmation of this view is found in the law of rating. In England, sporting rights were not mentioned in connection with rating prior to the Rating Act of 1874, which enacted that where any right of sporting is severed from the occupation of land and is not let, the occupier is to be rated for the full value of the land (including the right of sporting), but may deduct from his rent the rates paid in respect of any increase of his assessment on account of the value in the sporting being rated, and that where the severed right is let, then either the owner of the right or the lessee may be rated as the occupier of such right.

In Scotland, the Lands Valuation Act of 1854, had enacted that the expression "lands and heritages" should extend to and include shootings and deer forests "where such shootings and deer forests are actually let." From this it followed that where these were kept in the owners' hands they entirely escaped assessment. This omission was remedied by the Sporting Lands Rating (Scotland) Act, 1891, which repealed the limitation quoted above as to actual letting. The Act of 1895 further provided that the Assessor should enter separately for each parish and in respect of each proprietor therein the yearly value of the shootings over the lands belonging to him within such parish.

10. While the Legislature has, since the year 1842, brought sporting rights completely within the scope of local rating, whether such rights are in the occupation of a tenant or of their owner, no steps have been taken to effect a parallel advance in the region of Income Tax liability.

Present position.

11. The present position as to the assessment to Income Tax, Schedule A, of sporting rights including fishing rights attached to lands is as follows:—

England and Wales.

12. (a) Where the owner retains or lets the right of sporting over lands in his own occupation, or where he lets lands to a tenant together with the right of sporting—whether the tenant sub-lets such right or otherwise—the assessments to Income Tax under Schedule A are made in one sum on the full annual value of the lands including the sporting rights.

(b) Where the owner lets lands to one person and the right of sporting thereover to another, the Income Tax assessment on the sporting rights is made on the owner under Rule 7 of No. II, Schedule A.

(c) Where the owner retains to himself the right of sporting over lands let, no assessment is made in respect of such rights.

Scotland.

13. (a) Where the owner lets the right of sporting together with the land to the same tenant, whether the tenant sub-lets the sporting rights or not, the assessment under Schedule A is to be made, under the General Rule of No. I, Schedule A, on the full annual value of the land as enhanced by the sporting rights.

(b) In all cases where sporting rights as such are let, the Schedule A assessment is made under Rule 7 of No. II, Schedule A.

(c) Where the owner retains the right of sporting over his estate no assessment is made in respect of sporting rights.

Ireland.

14. Sporting rights are not included in the valuation on which the assessment under Schedule A is based in Ireland. Sporting rights are assessed under Schedule D in all cases where they are let apart from the land, whether the land itself is in the occupation of the owner or the tenant.

Appendix No. 34.

REPORT OF THE COMMITTEE APPOINTED BY THE BOARD OF GENERAL COMMISSIONERS
ON THE 4TH MARCH, 1919.

Paper handed in by Mr. COPLEY DELISLE HEWITT, on 6th November, 1919. (See Q. 21,556.)

TERMS OF REFERENCE.—"To report upon the present administration by the office of the Commissioners of Taxes for the City of London, with such retrospect as may be necessary for purposes of comparison."

Committee:

H. COSMO O. BOWSER, Esq. (*Chairman*).
RICHARD WHITE, Esq.
COPLEY HEWITT, Esq.
W. W. LAUCHMAN, Esq. (*Secretary*).

(1) Your Committee beg to report as follows:—

The several Boards which control and deal with the assessment and collection of Income Tax, Inhabited House Duty, and Land Tax in the City of London consist of:—

1. The Board of General Commissioners.
2. The Board of Additional Commissioners.
3. The Board of Commissioners for Duties on Offices.
4. The Board of Commissioners of Land Tax.

The statutory provisions enumerating the powers and duties of the various Boards, other than the Board of Commissioners of Land Tax, are contained in the Income Tax Act, 1918. This Act, being "an Act to consolidate the enactments relating to Income Tax," was passed on the 8th August, 1918, and came into operation on the 6th April, 1919.

1. GENERAL COMMISSIONERS.

(2) Constitution of the Board.

The Board of Commissioners for the General Purposes of the Income Tax (Schedules D. and A. and Inhabited House Duty) consists of sixteen members appointed under the provisions of the Income Tax Act, 1842, as follows:—

Seven by the Land Tax Commissioners.

Two by the Mayor and Aldermen of London out of eight persons, four of whom shall be Aldermen, to be returned to them by the Common Council.

Two by the Bank of England.

One by the Directors of the East and West India Dock Company.

One by the Directors of the London Dock Company.

One by the Directors of St. Katherine Dock Company.

One by the Governor and Directors of the London Assurance Company.

One by the Governor and Directors of the Royal Exchange Assurance Company.

The representation on the Board of the Dock Companies has been modified as follows. By special Act of Parliament (27 and 28 Vict., c. 178) in 1864, the London Dock Company and St. Katherine Dock Company, together with the Victoria (London) Dock Company, were amalgamated to form the London and St. Katherine Docks Company. By 63 and 64 Vict., c. 111, the London and India Docks Company was incorporated. This was an amalgamation from 1st January, 1901, of the London and St. Katherine Docks Company with the East and West India Dock Company, so that the three dock companies above mentioned became then amalgamated in the London and India Docks Company. The Port of London Authority was established by the Port of London Act, 1908. To it were transferred (*inter alia*) the undertakings of the London and India Docks Company as from the 31st March, 1908. The City of London Income Tax Commissioners have always regarded that Company, and at present regard the Port of London Authority, as succeeding to the right of the three original constituents to appoint Commissioners of Income Tax. At present the list of acting General Commissioners for the City of London contains two Commissioners who were appointed by the London and India Docks Company, and one

Commissioner appointed by the Port of London Authority.

The London Assurance Corporation was incorporated by Royal Charter dated 22nd June, 1720. It has a Governor, sub-Governor, deputy Governor and Directors. It is the same concern as is referred to as the London Assurance Company in the Income Tax Act, 1842. The present list of acting General Commissioners for the City of London contains one Commissioner appointed by the London Assurance Corporation.

The Royal Exchange Assurance Corporation was incorporated by Royal Charter of 22nd June, 1720. It is now governed by its special Act of 1901 (1 Ed. VII., c. 10), which repealed all previous Acts. It has a Governor, sub-Governor, deputy Governor and Directors, and is the same concern as is referred to in the Income Tax Act, 1842, as the Royal Exchange Assurance Company. The present list of acting General Commissioners for the City of London contains one Commissioner appointed by the Royal Exchange Assurance Corporation.

By the Income Tax Act, 1918 (s. 59 and the Second Schedule), the above constitution of the Board has been confirmed, and in particular the appointment of three members is conferred upon the Port of London Authority.

(3) Qualification of Commissioners.

The qualification of a General Commissioner for the City of London was fixed by the Income Tax Act, 1842, s. 10, at (a) £200 per annum in respect of real estate; or (b) £5,000, or producing annual income of £200 in respect of personal estate; or (c) £200 per annum in respect of combined real and personal estate; or (d) the eldest son of a person possessing in right of his own estate three times the value in estate required for the qualification of a Commissioner.

(4) Members of the Board.

The present Board consists of the following members, the sources of their respective appointments, with the dates, in brackets, being added after their names:

H. Cosmo O. Bowser, Esq., Bank of England (1886), Chairman (1902).

Howard Morley, Esq., Land Tax Commission (1888), Deputy Chairman (1907).

The Rt. Hon. Lord Abingham, Land Tax Commission (1892).

Greville Hordley Palmer, Esq., The London Assurance Corporation (1890).

Alderman Sir Wm. Purdie Treloar, Bart., Corporation of the City of London (1902).

Sydney Eggers Bates, Esq., London and India Docks Co. (1903).

Charles Franklin Torrey, Esq., Land Tax Commission (1904).

Sir Alfred Dent, K.C.M.G., Land Tax Commission (1906).

Fred Pook, Esq., London and India Docks Co. (1908).

Henry Alexander Trotter, Esq., Land Tax Commission (1911).

Cecil Lubbock, Esq., Bank of England (1913).

Walter Burch Gair, Esq., Land Tax Commission (1915).

Richard White, Esq., Port of London Authority (1918).

Alderman Sir Alfred Jas. Newton, Bart., Corporation of the City of London (1919).

The Rt. Hon. Lord Ebury, Royal Exchange Assurance Corporation (1919).

Your Committee regret to report the deaths of the following Members of the Board:

William Delisle Powles, Esq., a Land Tax Commissioner since 1886, and also a Member of this Board for upwards of 21 years.

William Henry Pannell, Esq., F.C.A., appointed to the Board in 1902 on the nomination of the Corporation of the City of London.

Mr. Alderman James William Domesday, a representative of the Port of London Authority, appointed in 1915.

William Gair Rathbone, Esq., the representative of the Royal Exchange Assurance Corporation since 1911.

The several Boards and the commercial community are greatly indebted to each of the above for much valuable service. The vacancy on the Board occasioned by the death of Mr. W. D. Powles has not yet been filled.

(5) Income assessed.

For the financial year ended on the 5th day of April, 1919, the Board signed and allowed 271 books of assessments and 324 duplicates of assessments under Schedules D. A. and Inhabited House Duty. The figures covered by the above assessments were as follows: total gross income and annual values assessed, £220,086,953 0s. 6d. Net income chargeable with duty, £203,049,503 7s. 6d. Net Income Tax payable to the Revenue, £68,461,480 15s. 7d. These figures constitute the largest figures for which the Board has ever been responsible since the Income Tax was first imposed. It is interesting to point out that the Income Tax payable by the City of London produces one quarter of the whole of the Income Tax collected from the United Kingdom. Tables are annexed to the Report showing the steady growth of the income assessed and the Income Tax raised from the year 1803 to the present time.

(6) Board meetings, appeals, etc.

The Board met on 19 occasions during the year. Details of the principal appeals heard by the Board appear later in this Report under the heading of Appeals. Most of these appeals involved important questions of principle and were attended by counsel, and in some cases occupied the attention of the Board during several sittings.

(7) Excess Profits Duty.

The Finance (No. 2) Act, 1915, first imposed the Excess Profits Duty, and by s. 45 (5) entrusted this Board with the duty of hearing appeals against assessments made by the Commissioners of Inland Revenue. These appeals have been numerous, and as they frequently raise points both novel and difficult they have added considerably to the work which the Board has been hitherto called upon to perform.

(8) Repayments.

Meetings of the Board periodically held for this purpose considered applications for repayment of Income Tax under s. 28 of the Act of 1890 and ss. 24 (2) (3) of the Act of 1907, and 185 certificates were issued after hearing the applicants in person and the Surveyors of Taxes. 782 certificates for repayment under other statutory provisions were also signed by the Board in cases where personal attendance of the applicants was not required.

(9) Certificates of removal.

The Board signed during the year 845 certificates of removal preparatory to the issue of signed warrants by the Local Commissioners for the recovery of tax outside the City of London.

(10) Adjustment appeals.

14,415 applications for reduction or discharge of assessments were allowed by the Board. It must be understood that these applications, although rightly called "Appeals," inasmuch as they vary assessments already made, are in the great majority of cases formal adjustments of assessments on application by the taxpayer to the Assessor and forwarded to the Commissioners as unopposed by the Surveyor of Taxes. These adjustments arise principally on subsequent application by the taxpayers for statutory allowances previously omitted to be claimed—e.g., abatements, Life Insurance, allowances for wife and children, unearned income relief, three years' averages, &c. Each of the above applications and certificates, before being recommended to the Board for confirmation, is

considered personally by the Clerk to the Commissioners on questions of principle, and the figures are examined by a staff clerk specially detailed for the purpose.

5. ADDITIONAL COMMISSIONERS.

(11) Constitution and qualification.

The Board of Additional Commissioners is appointed by the Board of General Commissioners under s. 16 of the Income Tax Act, 1842 (now superseded by s. 61 of the Income Tax Act, 1918) to make assessments under Schedule D. The qualification of an Additional Commissioner for the City of London is in respect of estate of the like nature as, and of one half the value of, that required for a General Commissioner as stated above. The present Board consists of the following members, with the dates of their appointments:—

Arthur Hill, Esq. (1907). Chairman (1912).
Archibald Thomas Peckey, Esq. (1907).
Frederick Wolf May, Esq. (1907).
Major Reginald Bonsor (1907).
Col. Charles Evelyn Johnson (1911).
Edward Clifton Brown, Esq. (1914).
Frederick William Lund, Esq. (1914).
Alderman Sir William Henry Dunn, Bart. (1914).
Sidney Marr Ward, Esq. (1918).

Capt. Sir William Fitzroy Farquhar, Bart., a member of the Board, was killed in action on 14th October, 1918. Your Committee desire to record their sense of the great loss which the Board has sustained and their appreciation of the valuable services rendered by him during his tenure of office. Mr. Arthur Hill, the Chairman of the Board, has accepted an appointment as a member of the Royal Commission on Income Tax now sitting.

(12) Board meetings.

The Board held 20 meetings at various periods of the year to deal with first assessments, and March and July additional assessments. 206 Schedule D books of assessment were signed and allowed, including no less than 9,413 individual assessments extracted for their special consideration and only allowed after discussion with the Surveyor in person and a full disclosure of the particulars of each case. The work of the Board, particularly in the autumn months, when the first assessments for the financial year are passed and signed, has become extremely onerous, and this has been particularly noticeable during the past year, owing to the absence on military or other war services of several members of the Board. The thanks of the general body of the Commissioners are due to those members who attended regularly at a time when there were so many other calls upon their services. It is thought these difficulties might be overcome and the assessments dealt with more rapidly in the future if the number of members of the Board were increased and a rota arranged for their attendance. Your Committee desire to add their testimony to the excellence of the work of this branch of the administration, securing, as it does, a great sense of fairness and efficiency due to the high personal standing of members of this Board in different branches of London commerce, and to the special knowledge which they are able to bring to a solution of the various problems presented to them.

6. COMMISSIONERS FOR DUTIES ON OFFICES.

(13) Constitution of the Board.

The Board of Commissioners for Duties on Offices (Schedule E.) consists of seven members appointed by the Corporation of London under s. 32 of the Act, 5 & 6 Vic., c. 35 (now superseded by s. 70 (1) of the Income Tax Act, 1918), which provides as follows: "The Mayor, Aldermen and Common Council, or the principal officers or members by whatever name they shall be called, of every corporate city, borough, town or place, and of every cinque port throughout Great Britain, or any three or more of them, not in any case exceeding seven, shall be Commissioners for executing this Act, and the provisions herein contained in relation to the public offices or employments of profit in such city, corporation,

and in every guild, fraternity, company or society, whether corporate or not corporate, within such city, corporation or clique port."

This Board has control of the assessment and collection of the Income Tax on salaries and fees of officials of public companies, and appeals arising thereon. The present members of the Board, with the dates of their appointments, are as follows:—

Alderman Sir John Charles Bell, Bart. (1894),
Chairman (1903).
Thomas Anthony Woodbridge, Esq. (1894).
Sir Richard Stapley (1899).
Alderman Sir John James Baddeley (1903).
Mr. Deputy Millar Wilkinson (1914).
Maurice Jenks, Esq. (1914).
Mr. Deputy Walker Henry Key (1915).

(14) Income assessed.

The gross income assessed under Schedule E, for the financial year ended on the 5th day of April, 1919, amounted to £36,354,040 16s. 8d. The net income chargeable with duty for the same period was £26,320,865 0s. 10d., and the total duty payable £5,604,013 3s. 3d. Tables are annexed to this Report showing the consistent increase in the Income Tax produced from this source. The books of assessment signed and allowed by the Board numbered 188, together with 245 duplicates of the assessment for the use of the Collectors.

(15) Certificates of removal and repayment.

180 certificates of repayment were signed by the Board, and 1,240 certificates of removal preparatory to the issue of signed warrants by the Local Commissioners for the recovery of tax outside the City of London. The principal appeals decided by the Board are more particularly dealt with later in this Report under the head of Appeals.

(16) Adjustment appeals.

15,778 applications for reduction or discharge of assessments were allowed by the Board. The nature of these applications and the method by which they are examined previously to their confirmation by the Board are similar to those already explained in the cases brought before the General Commissioners.

4. COMMISSIONERS OF LAND TAX.

(17) Members of the Board.

This is the oldest Board of the Tax Commissioners, having existed since the year 1892, when Land Tax, to a great extent in its present form, was first introduced. It is interesting to record that a complete set of the yearly assessments dealing with the Land Tax, so far as they affect property in the City of London from the year 1692 to the present time, are still in existence, and are filed in the Land Tax room at the offices of the Commissioners.

The Board at present comprises (amongst others) the following members, with the date of their appointments:—

Henry Cosmo O. Benson, Esq. (1885), Chair-
man (1903).

Charles Franklin Torrey, Esq. (1903), Deputy
Chairman (1904).
Howard Morley, Esq. (1886).
The Rt. Hon. Lord Aldenham (1898).
The Rt. Hon. Lord Aldenham (1892).
Charles Ogle Rogers, Esq. (1897).
Sir Alfred Dent, K.C.M.G. (1906).
Walter Burgh Gair, Esq. (1897).
Daniel Clewin Griffith, Esq. (1907).
Sir Henry Seymour King, K.C.I.E. (1907).
William Hardy King, Esq. (1907).
Colonel Alexander Sutherland Harris (1907).
Sir Homewood Crawford (1917).

Each member of the Board is nominated by Act of Parliament, called the Land Tax Name Act. By the Land Tax Commissioners Act, 1906 (5 Edw. VII., c. 62), the necessity for the qualification of Land Tax Commissioners by estate formerly required has been removed.

Your Committee record with regret the death of Mr. Howard Chatfield Clarke, a member of the Board, on the 12th July, 1917. Mr. Chatfield Clarke's intimate acquaintance with City property made him a particularly valuable member of the Board.

(18) The Board appoints 25 Assessors and Collectors, and controls the Land Tax on all property in the City of London under the provisions of the various Acts which lay down the mode of assessing and collection, including appeals and the redemption of the Land Tax. The annual values assessed for Land Tax during the year ended on the 24th day of March, 1919, amounted to £1,477,128.

(19) By the Act of 38 Geo. III. c. 5, the gross quota of the Land Tax originally assigned to the City of London was the sum of £123,309 6s. 7d. This sum now stands at £87,075 8s. 5d., and is apportioned between the various wards and parishes into which the City of London is divided. By the Finance Act, 1896, s. 32 (1), the owner of any land may in any year redeem the land tax charged on such land by payment to the Commissioners of Inland Revenue of a capital sum equal to thirty times the sum assessed on such land by the assessment last made and signed. Of the above-mentioned gross quota £63,664 5s. 0d. has been redeemed, and there has been a further reduction of £7,253 19s. 8d. by the application of the excess or surplus Land Tax collected, leaving £16,157 3s. 7d. still payable annually to the Revenue. This sum is raised upon the annual values above-mentioned by rates at present varying from 7d. to 2d. in the different wards or parishes. The total assessment last year amounted to the sum of £25,771 2s. 9d., leaving an excess of £9,613 19s. 1d. over the £16,157 3s. 7d. payable to the Revenue, and this surplus Land Tax, so far as it is recovered, will be applied in further reducing the gross quota.

(20) APPEALS.

Since the appointment of the present Clerk to the Commissioners the following important Appeals involving large sums of money, attended by counsel or solicitors, have been heard by the Commissioners, with the results stated:—

(21) SCHEDULE D.

Company A v. A. J. Fowler	...	Allowance of losses in working tied license house.	Special case demanded by Surveyor of Taxes. Appeal since withdrawn.
Company B v. H. T. Bustard	...	As to whether Appellants were an English or Australian firm.	Special case demanded by Appellants. Case signed. Appeal since withdrawn.
Company C v. A. S. Merrifield	...	As to liability of French firm for profits in this country.	Special case demanded by Surveyor of Taxes. Appeal since withdrawn.
Company E v. H. J. Garcia	...	As to dividends paid to German shareholders, s. 5, Finance Act, 1914.	Special case demanded by Appellants. Appeal since withdrawn.
Company F v. G. H. H. Clement	...	As to allowance of deduction of a loan and the price of shares purchased by the Company.	Special case demanded by Appellants. Appeal since withdrawn.
Company G v. E. A. Eborall	...	As to whether profits arising from the sale of shares in a Russian Company are assessable to Income Tax, and as to liability under s. 5 of the Finance Act, 1914.	Special cases demanded by both parties.
Firm H v. J. G. Dixon	...	As to liability as dealers in cold storage properties.	Special case demanded by Appellants. Appeal since withdrawn.

Company I v. F. Hole	As to liability of the Quebec branch of the firm as traders in the United Kingdom.	Special case demanded by Appellants. Appeal since withdrawn.
Company J v. E. B. Eborall	As to a specific cause under s. 134 of the Income Tax Act, 1842.	Appeal allowed.
Company K v. S. W. Lewis	As to a specific cause under Rule IV., s. 100, of the Income Tax Act, 1842.	Appeal disallowed.
Company L v. C. Fry	As to whether profits from land sales could be assessed to Income Tax.	Special case demanded by Appellants.
Company M v. A. W. Davies	As to a specific cause under s. 134 of the Income Tax Act, 1842.	Appeal disallowed.
Company N v. B. J. Brown	As to whether proceeds of certain sales of rubber were capital or income.	Special case demanded by Surveyor of Taxes. Case signed. Awaiting hearing.
Company O v. C. H. Rand	As to whether Company traded in land.	Special case demanded by Surveyor of Taxes.
Company P v. E. A. Eborall	As to whether Syndicate carried on any trade.	Appeal allowed.
Company Q v. E. A. Eborall	Claim under s. 13 of the Finance Act, 1914 (Session 2), for losses due to the war.	Special case demanded by Appellants. Case signed. Awaiting hearing.
Firm R v. W. D. Carey	As to the correctness of the firm's return for Income Tax.	Assessment confirmed and treble duty awarded at request of the Crown.
Company S v. W. E. Ferguson	As to whether this Company was controlled in Russia or in this country.	Special case demanded by Surveyor of Taxes. Appeal since withdrawn.
Company T v. A. F. Pool	Application to write off a bad debt.	Application granted.
Company U v. A. F. Pool	As to whether a claim for relief under s. 13 (1) of the Finance Act, 1914 (Session 1), had been made in reasonable time.	Appeal allowed.
Company V v. A. W. Davies	Claim to set off losses upon investments against gold mining profits.	Appeal disallowed.
Company W v. E. A. Eborall	As to whether a claim for relief under s. 13 (1) of the Finance Act, 1914 (Session 2), had been made in reasonable time.	Appeal allowed.
Company X v. C. F. Baker	As to whether the control of this Company, which was registered in Hong Kong, was exercised from this country.	Appeal allowed.
Company Y v. A. F. Pool	As to whether a distribution of stock of the Baltimore & Ohio Railroad Company among shareholders of the Union Pacific Railway Company was capital or income.	Special case demanded by Surveyor of Taxes.
(22) SCHEDULE E.		
A v. A. F. Pool	As to residence of Appellant	Special case demanded by Appellant.
B v. C. J. Baker	Application for service rate of tax under s. 30, Finance Act, 1916.	Special case demanded by Surveyor of Taxes.
C v. H. C. Seymour	As to whether sum voted to Appellant was a gift or salary.	Special case demanded by Appellant. Case signed. Commissioners' decision upheld in the High Court.
(23) EXCESS PROFITS DUTY.		
Company A v. L. Mylman	As to whether certain shares acquired by Appellants should be included as capital employed in their business.	Special case demanded by Surveyor of Taxes. Case settled and appeal withdrawn.
Company B v. H. W. Mitchell	As to whether pre-war standard of profits should be taken on average of four out of last six years on the ground of abnormal depression.	Special case demanded by Appellants. Case signed. Appeal withdrawn.
Company C v. A. F. Pool	As to how capital for pre-war standard should be arrived at, and how deficiencies under Finance (No. 2) Act, 1915, s. 38 (3), should be set off.	Special cases demanded by both parties.
Company D v. J. W. Dodd	As to whether there had been a change of ownership in Appellants' business.	Appeal allowed.
Company E v. E. A. Eborall	As to whether a Company can be assessed for Excess Profits Duty on profits arising before its incorporation.	Special case demanded by Appellants.
Company F v. C. H. Rand	As to whether the Company was carrying on any trade or business under Finance (No. 2) Act, 1915—its only assets being royalties.	Special case demanded by Surveyor of Taxes.
Company G v. E. B. Eborall	As to whether the Company's holdings in certain foreign undertakings were capital employed in the Company's business.	Special case demanded by Surveyor of Taxes.

(24) Among the members of the Bar appearing before the Commissioners in the above-mentioned cases, the following may be mentioned:—

For the Crown: Mr. H. F. Dickens, K.C.; Mr. Alderson Fooks, K.C.; Hon. Frank Russell, K.C.; Mr. H. F. Parr, Mr. R. P. Hills; and Mr. Edwards Foster.

For the Appellants: Sir E. Pollock, K.C., M.P., Solicitor-General; Sir J. Simon, K.C.; Mr. Gore Browne, K.C.; Mr. Douglas Hogg, K.C.; Hon. W. Finlay, K.C.; Mr. Cyril Atkinson, K.C.; Mr. Bremner; Mr. Lattier; Mr. Roland Burrows; Mr. W. J. Whittaker; Mr. Edwards Jones; Mr. R. A. Gordon, and Mr. P. Goodalla.

It will be seen that of the 25 special cases demanded, 19 have been demanded by the Crown and 13 by the appellant taxpayers. Under the provisions of a 149, Income Tax Act, 1915, special cases can be demanded by either the appellant or the Surveyor if dissatisfied with the determination of the Commissioners as being erroneous in point of law. For the drafting of each case, which frequently runs to very considerable length and calls for much time and thought, the Clerk, in accordance with the above provisions, receives a fee of 20s.

(25) ADMINISTRATION.

All the four Boards of Commissioners hold their meetings, hear appeals, and transact all necessary business at Gresham College, Basinghall Street, the offices of the Commissioners. The Commissioners devote their time and services to the performance of these public duties without remuneration or reward of any kind. Each Commissioner and every member of the staff is required to subscribe to a declaration of secrecy before entering upon the duties of his office.

(26) The Clerk.

The chief Executive Officer under the Commissioners is the Clerk to the Commissioners, Mr. Copley Hewitt, who was appointed on the 30th March, 1916. Mr. Hewitt is a barrister of over twenty years' standing, and previous to his present appointment held the office of Assistant Clerk since 4th February, 1897. The Income Tax Board (other than the Board of Additional Commissioners) and the Land Tax Board each have the right to appoint a separate clerk, but in the interests of economy the various Commissioners have arranged with the Clerk that he and his staff should fulfil the whole of the duties on behalf of all the Boards, and this arrangement, which is now of long standing, has been found in practice to work satisfactorily.

The Clerk to the Commissioners controls and manages under the various Boards of Commissioners the whole of the administration in connection with the assessment and collection of the Income Tax and Land Tax for the City of London. He also acts as counsel to the Commissioners at the hearing of appeals, and assists them on the legal questions that arise for decision. In the event of special cases being demanded for appeal to the High Court, he prepares the same on their behalf, setting out the facts adduced in evidence and the contentions relied upon by the parties. The Clerk is assisted by an Assistant Clerk, a permanent indoor staff, augmented by supernumerary clerks during the busy period of the year, and an outdoor staff comprising the Assessors and Collectors and their clerks. The Clerk to the Commissioners, the Assistant Clerk, and the indoor and outdoor staff above mentioned are required to devote the whole of their time and energies to the performance of their duties.

(27) Assistant Clerk.

The office of Assistant Clerk was established in February, 1897, with salary assigned by the Treasury in October of that year, owing to the great increase in the work consequent upon the legislation of that period, and has continued ever since. The present holder of the office is Mr. William Wood Leuchars, a Chancery barrister of twenty-two years' standing, who was appointed on 11th June, 1917.

(28) Indoor staff.

The permanent indoor staff consists of twelve men. These men have in most instances held their posts for long periods of time. Each man has assigned

to him some special portion of the daily work of the office, and by reason of their long experience and general efficiency the work is carried out with accuracy and despatch. The Committee takes this opportunity of calling the attention of the Commissioners to the excellence of the work done by this staff, and the high quality of the services rendered.

In the autumn months, when the first assessments for the year come to be dealt with, it is necessary to engage a large temporary staff, amounting last year to the number of 47. In this number were included 96 lady clerks, under the control of a supervisor, with offices at No. 2, Gresham Buildings. This staff, under the supervision of the permanent staff, assists in calculating the duties payable on the various assessments, and in preparing the notices of charge to the taxpayers and the duplicates of the assessments for the Collectors. The experiment of engaging a lady staff gave satisfactory results.

The work of the indoor staff last year, in addition to the ordinary office routine, comprised, *inter alia*, the following:—

The completion of 459 books of assessment (Schedules D, E, A, and Inhabited House Duty), by allowing the appropriate abatements and deductions, calculating the duty payable at the various rates (last year amounting to twelve) and carrying out the duties in two instalments after allowance for unearned income relief, etc., have been made.

The copying of 569 duplicates of assessments for delivery to the Collector.

The copying of 35 duplicates of Land Tax assessments.

The preparation of 81,661 notices of charge, setting out details of each assessment for the information of the taxpayer. This is at the present time a highly technical and difficult branch of the work, having regard to the complexities in calculating the duty as above-mentioned.

The consideration of 30,193 applications for relief, abatement or adjustment of tax for issue to the Collectors.

The preparation of 1,140 claims for repayment of tax.

The preparation of 2,085 certificates of removal. The preparation of parchment copies of Collectors' schedules in all cases where through default or deficiency they have been unable to collect the tax assessed.

The preparation of charge duplicates.

The requisition and supervision of the supply of all books and forms required by the Assessors and Collectors.

The following figures, showing the forms issued during the last financial year, are of interest:—

Return forms	417,469	Specially printed for the Assessors and Collectors.
Notices of Charge	125,000	
Demand Notes	585,470	
Receipt books (100)...	2,638	
Franked envelopes	698,750	
Assessment books (bound)	397	
Duplicates of assessments	615	
Other forms, etc.	360,332	
Total: 2,190,582		

(29) Assessors and Collectors.

The outdoor staff at the present time consists of 44, who each hold the joint offices of Assessor and Collector, and whose duties are to make assessments of the whole of the taxes (except Schedule A, and Inhabited House Duty) in the City of London, and subsequently to collect the same (including Schedule A, and Inhabited House Duty). 25 of this number, in addition to their other duties, are also responsible for making the annual Land Tax Assessments referred to above and collecting the tax assessed. These officials are nominally appointed annually, but as a matter of practice are seldom changed except in cases of death or for other sufficient reasons. Many of them have held their posts for a number of years,

extending as far back as forty-four years—twenty-two have seen over ten years' service—and by their long experience and knowledge of the taxpayers in their respective districts, and of their offices, clerks, trade and surroundings, contribute materially to that feeling of confidence and respect that exists between the Commissioners and the taxpaying public, who more and more come to rely upon them for their help and advice in filling up the forms of return and assisting them to claim the abatements, reliefs, and other allowances to which they may be entitled. It is the practice of the Commissioners to secure for these appointments gentlemen of good education and position who are qualified to be of assistance to the taxpayers whom they represent. Furthermore, being permanently situated in their districts, and by reason of the special knowledge so acquired, they are indispensable to the Surveyors of Taxes, who, by reason of the frequent changes in their appointments, must necessarily rely in many cases upon the local knowledge and experience of the Assessors.

18 of the Assessors and Collectors served in His Majesty's forces during the war. During their absence temporary arrangements had to be made in each case, and at various periods members of the indoor staff, in addition to their other duties, rendered assistance.

Each Collector and his clerks are required to enter into a guarantee policy to cover possible loss in his collection. The amount guaranteed in this manner for the last financial year amounted in the aggregate to £172,500. Out of the large sums collected, extending to many millions and never been any loss to the Bank of England, there has never been any loss to the Crown to the knowledge of the Commissioners.

Of the forms sent out last year to taxpayers for return of income the Assessors obtained back—in the case of Schedule D, 84.23 per cent., and Schedule E, 89.25 per cent.; and as Collectors they have subsequently received in payment the major part of the first instalment of the duty assessed after allowance has been made for the many applications for discharge or reduction which have been granted, and also for many large assessments under appeal, which may ultimately be discharged in whole or in part.

The banking arrangements of the Commissioners require that all sums received by the Collectors are paid in daily to the account of the Commissioners of Taxes at the National Provincial and Union Bank of England, and thence by arrangement transferred direct to the Bank of England.

During the course of the war the work of the Assessors and Collectors has been largely increased, owing to the manner in which the incidence and complexities of the Income Tax have been varied and extended, particularly having regard to the payment and collection of Income Tax half-yearly, which now extends to Schedule A. It should also be recognized that the Collectors experience increased responsibility and difficulty when a high rate of tax is demanded, as at present. The Commissioners have been partially able to compensate the Assessors and Collectors for the abnormal conditions prevailing by obtaining a war bonus of 15 per cent., with a maximum of £100. In our opinion it will be necessary from time to time to consider the further subdivision of districts which tend constantly to become too great a burden and responsibility for a single Assessor and Collector.

(30) QUARTERLY COLLECTION.

By the Finance (No. 2) Act, 1915, the quarterly assessment of weekly wage-earners was introduced. A weekly wage-earner is defined in the Act as a person who receives wages which are calculated by reference to the hour, day, week, or any period less than a month, at whatever intervals the wages may be paid, or who receives wages, however calculated, which are paid daily, weekly, or at any less intervals than a month. The jurisdiction of the Commissioners under this Act includes the hearing of appeals and the determining jointly with the Commissioners of Inland Revenue whether a person is a weekly wage-earner employed by the way of manual labour or not. The Commissioners of Inland Revenue may make regulations generally, and may in particular provide for assessment and charge by the Surveyor and for collection by a Collector appointed by them; but by arrangement with the Board of Inland Revenue the two Collectors, who carry out the whole of this work

for the City of London, have been appointed by the General Commissioners. In the City of London during the last financial year the amount collected from approximately 12,298 weekly wage-earners was £85,817 12s. 5d., representing 39,172 number of charges.

(31) THE OFFICES.

During the eighteenth century the rooms occupied by the Board of Commissioners were situated in the Guildhall Yard, being part of a building known as Blackwell Hall, and held by them under the Corporation of London at an annual rent paid from time to time out of the surplus moneys raised under the authority of the Land Tax Acts. These premises were in the occupation of the Board until the year 1829, when on the demolition of Blackwell Hall they were temporarily housed at No. 18, Aldermanbury by Mr. Chamberlain.

In the year 1834, counsel's opinion being against the power of the Board of Commissioners to be the purchaser of property, the offer of Mr. Weddell to be the purchaser of certain land adjoining Guildhall Yard, Basinghall Street, from Mr. Cowley for a sum not exceeding £2,000 was accepted, and the same was let to the Commissioners at a rent yielding five per cent. on the amount bid out. The rent paid to Mr. Weddell on a lease of sixty-three years was £105 per annum. The upper floor was let to Mr. Newman at £50 per annum.

In 1871 the property was held in connection with the Sheriff's Court and the Corporation of London, who paid to the Land Tax Commissioners £200 for the use of the ground floor and one-third of the rates and taxes, the ground rent of £105 and two-thirds of the rates and taxes, viz., £57 19s. 4d., being paid by the Inland Revenue. In 1886 the Commissioners, on the earlier expiration of the lease for the enlarging of the City of London Court, removed to the corner of Guildhall Yard, thus returning to the site of the premises formerly occupied by them in Blackwell Hall. The compensation for the short residue of the lease, payable by the Corporation, was fixed by Messrs. Vigers, surveyors, at £2,808. Since that time the Commissioners held the premises from the Corporation under a tenancy at will, paying the Corporation an acknowledgment in lieu of rent of one hundred guineas per annum, subsequently increased to two hundred pounds, an amount which was included as an incidental expense and paid by the Inland Revenue.

Owing to the great increase in the work of the Commissioners during recent years the old offices were found to have become quite inadequate to provide the space required for the meetings of the Boards, which frequently involved the attendance of between eighty and a hundred persons. Accordingly other premises were secured, and the present offices at Gresham College, Basinghall Street, were recommended as suitable on the following grounds:—

- Their vicinity to the old offices of the Commissioners, which for more than two centuries had been near to the Guildhall, the Bank of England, the Royal Exchange and the centres of commerce of the City, and in the proximity of the offices of the Inspectors and Surveyors of Taxes.
- The space afforded, which would permit of the whole body of Commissioners, officials, and the extra clerical staffs being assembled together in one set of offices.
- The provision of lifts and other conveniences, thus avoiding the old narrow staircase—the subject of frequent complaints from the members of the boards, taxpayers, appellants and their counsel, solicitors, and witnesses.
- The favourable opportunity occasioned by the fall in annual value of rents due to the war, coupled with the fact that the premises were vacant and that the Corporation had notified that they would require possession of the old offices for the approaching rebuilding of the block.

After negotiation these premises were eventually secured, and are now held under a lease from the Corporation of the City of London and the Mercers Company, dated the 4th June, 1917. The premises

comprise the first and second floors of Gresham College, with a portion of the basement. They are held for forty-two years from 25th December, 1916, at a rental of £1,500 and a further rental of £40 for expenses in connection with heating the radiators. The lease further contains an option of renting the third floor of the buildings on the termination of the present lease's tenancy at a rental of £280, and 42 lbs. for each radiator. The rent, together with the cost of the electric light and the outside window-cleaning is paid by the Office of Works. It is considered desirable that steps should be taken as soon as the opportunity occurs of exercising the option the Commissioners at present possess of acquiring the third floor of Gresham College, so that the whole of the temporary staff can be housed in the same building. The furniture in use at the offices of the Commissioners in former years belonged to the Clerk to the Commissioners, being taken over by each successor at a valuation. Since the removal to these offices it has been suggested and agreed that His Majesty's Office of Works, who are responsible for the rent shall also take over the furniture at a valuation from the retiring Clerk to the Commissioners. Negotiations for a settlement on these lines are in progress.

(32) EXPENSES.

The cost of the administration of this office for the last financial year (exclusive of war houses) to Assessors and Collectors was as follows:—

	£	s.	d.
Rent	1,540	0	0
Salaries of the indoor staff, including the Clerk to the Commissioners, Assistant Clerk and Supernumeraries, and incidental expenses such as stationery, book-binding, printing, etc.	6,445	14	8
Gross salaries of outdoor staff	25,010	0	0
Total	£32,995	14	8

It should be mentioned that out of the gross salaries of the outdoor staff, amounting to £25,010, the Assessors and Collectors have to pay the rent of their offices, lighting, heating, housekeeper, etc., the salaries of one or two assistants, with extra help where necessary, and the premiums on the guarantee policies for themselves and their clerks. These expenses for the financial year 1918-19 amounted to £10,155 14s. 9d., leaving the total net salaries received by the Assessors and Collectors, who for that year numbered 39, at the sum of £14,854 5s. 8d. It must be remembered that in this figure their remuneration as Assessors and Collectors of Land Tax is also included.

As the total net Income Tax to be collected during the same period amounted to £64,065,512 16s. 10d., making with Inhabited House Duty £11,803 3s. 4d., and Land Tax £25,771 2s. 8d., a total of £81,640,187 2s. 11d. it will be seen that the cost of collection of this very large sum of money does not exceed one eighth of a penny in the £, or '05 per cent.

(33) GENERALLY.

As it is found in practice that the public frequently confuse the functions of the Commissioners of Taxes and their Assessors and Collectors, on the one hand, with those of the Board of Inland Revenue and their Surveyors, on the other hand, it is thought convenient to recall the exact position and duties allotted to each in the general machinery of the taxing Statutes.

The Commissioners of Taxes, and the Assessors who are appointed by them, represent the taxpaying public, and the Board of Inland Revenue with their Surveyors of Taxes on the other hand, are appointed to safeguard the legitimate interests of the Crown. The Income Tax Act of 1842 assigned to the Commissioners the execution of "all matters and things relating to" the Income Tax (s. 22), including the appointment of the Assessors (s. 36), and the hearing of appeals by all persons thinking themselves aggrieved by any assessment (s. 118), while the Commissioners of Inland Revenue, as representing the Crown, was given "the direction and management" of the duties granted (s. 3). These powers remain to-day, and how they work in practice can best be illustrated by

tracing the course of an assessment from its commencement to the final collection of the tax.

(34) The Assessors first of all compile a list or book (No. 14) containing the name of every company, firm (with names of the partners and employees), sole trader, agent, etc., within their respective wards or parishes and from time to time check the accuracy of the entries by a personal survey of the district. To every name in the list a form (No. 1 or No. 11) is issued requiring a return of income. Also in the case of a company a form (No. 46) is issued, requiring a return of the name and address of each director and employee, and the salary paid to each. In the case of a firm a similar form (No. 8) is issued.

The date of issue of each form is recorded by the Assessor in his list, with particulars of the form or forms sent. If the returns are not received back within 21 days, the Assessor sends out a reminder in each case. The Assessors are always willing, and regard it as part of their duty, to assist the taxpayers in making their returns, and in the early part of the financial year are engaged several hours daily in this work alone.

(35) In the case of Schedule E assessments the Assessor, upon receiving the companies' return of names (No. 46), proceeds to enter them in the assessment books, with the salaries stated to be paid to each. Some of the largest companies return lists of over 5,000 names which require to be dealt with in this way. The Assessor then issues to each name so supplied a form (No. 12 or No. 38), upon which a return of income has to be made and allowances and abatements claimed. All the returns received are examined by the Assessor, and sent back for revision or completion if incorrect. When the returns are in order, the figures and the particulars shown thereon are entered in the assessment book by the Assessor.

(36) In the case of Schedule D, the practice is similar, except that the Assessor enters the names of the persons to be assessed, leaving the figures from the returns to be filled in at the office of the Clerk to the Commissioners.

The Assessors book and the returns under both Schedules are then handed to the Surveyor to check the entries made by the Assessors with the returns received. When this is done the Assessor proceeds to settle the assessments in consultation with the Surveyor, including those cases where no return has been received, or where the return are not accepted. The Schedule D assessments are then brought before the Additional Commissioners. The Surveyors attend and explain the cases where assessments by estimate are proposed, or where for some reason the taxpayer's return is not accepted. The Additional Commissioners then proceed to make and sign the assessments.

(37) The books of assessment so signed and the Schedule E assessments are then left at the office of the Clerk to the Commissioners, who completes the assessment by making the necessary deductions from the gross income assessed and carrying out the duty payable at the appropriate rate in one or two instalments. This office also prepares duplicates of the tax to be collected, for the use of the Collectors, and all notices of assessment to be sent to the taxpayers, containing full particulars of the tax proposed to be assessed upon them, and giving them an opportunity to appeal. These notices of assessment are sent to the Assessor for posting.

The books of assessment and the duplicates are then countersigned by the General Commissioners, or signed by the Schedule E Commissioners, as the case may require, and the assessment is complete. The assessment book is then sent to the Surveyor so that he may be in a position to deal with any points that may be raised by the taxpayer, and the duplicate is sent to the Collector.

(38) The duties of the Collector—who, it will be remembered, is in the City of London, also the Assessor—then begin. The Collectors first of all issue demand notes for each amount shown by the duplicate of the assessments to be payable on the first instalment. These demand notes invariably result in calls and correspondence by a large number of taxpayers who desire information as to how the tax is

arrived at, or point out omissions from their returns—for instance, allowances for Life Insurance premiums, wife, children, &c. For at least one month after each batch of demand notes are sent out the Collector's time is fully occupied in dealing with these inquiries.

After 21 days a second demand is sent out for sums then unpaid. If the amount is unpaid and cannot be recovered in the City, the Collector certifies the assessment and the amount unpaid, and the collection is then transferred to the district in which the defaulter resides.

After three months the Collector prepares a schedule of all unpaid amounts, specifying those cases which have been discharged by the Commissioners, as well as those in default. The amounts in this schedule, added to the amounts paid into the bank, balances the total duty shown in the duplicate delivered to the Collector. This schedule, when completed, is brought in on oath before the Commissioners. The Collectors still proceed to collect these arrears, and account weekly for the sums recovered.

The second instalment of the first assessment and the March and July additional assessments are treated in the same way.

Each payment of duty is dealt with as follows. The Collector issues a receipt and fills in the counterfoil in his receipt book; he also marks off the payment with the date in the duplicate of the assessment. Each day all sums received are paid into the bank, and the total is entered in his cash book. On Wednesday in each week a statement of sums collected and how appropriated is forwarded by each Collector to the Clerk to the Commissioners, and a copy, together with the bank's credits, is sent to the Surveyor of Taxes. This statement is checked against the return received from the bank of the actual weekly payments standing to the credit of the Commissioners' account.

(30) The above system, whilst preserving to the Surveyor of Taxes the fullest powers of objection and supervision for the purpose of securing to the Crown

the whole of the duties imposed, affords the taxpayer through the assistance of the Assessors and Collectors, and ultimately of the Commissioners, who may not unreasonably be considered to be the trustees for the public, the means of satisfying himself that his return of income is correct, and that the duty levied upon him is fairly charged. This interposition of a "buffer state" between the Crown and the taxpayer is of the essence of every system of Income Tax administration hitherto adopted, and is of the utmost value to all taxpayers, and in particular to the large majority who are assessed upon small or moderate incomes.

The system works with remarkable smoothness in the City of London, and in the words of the Report of the Ritchie Committee on Income Tax, which are equally true to-day, "the tax appears on the whole to be levied with a minimum of friction and a maximum of result."

Annexed hereto:—

Table A, showing the gross income assessed—net income assessed—and total duties payable since 6th April, 1903, to 5th April, 1919.

Table B, showing number of meetings held and appeals heard by the several Boards of Commissioners during the financial years 1903-4 to 1918-19 inclusive.

Table C, showing number of Assessors and Collectors, and Surveyors of Taxes; books of assessment and Collectors' duplicates of assessment; also unopposed applications for adjustment of assessment, notices of charge, repayment, and certificates of removal for the financial years 1903-4 to 1918-19 inclusive.

H. COBURN O. BENSON.

RICHARD WHITE.

COSELY HEWITT.

W. W. LEUCHARD (Secretary).

Dated the 14th day of October, 1919.

TABLE A.

CITY OF LONDON.

From the year 1908 inclusive
the figures taken are for
the Year of Account.

From the year 1916 inclusive
the figures have been ar-
rived at after deduction of
Excess Profits Duty.

SHewing THE GROSS INCOME ASSESSED—NET INCOME ASSESSED—
AND TOTAL DUTIES PAYABLE SINCE 6TH APRIL, 1908, TO 5TH
APRIL, 1919.

YEAR	RATE IN THE £	INCOME TAX.				SCHEDULE D.				SCHEDULE E.			
		Gross income assessed.		Duty payable.		Net income assessed.		Duty payable.		Gross income assessed.		Net income assessed.	
		£	d.	£	d.	£	d.	£	d.	£	d.	£	d.
1903	11d.	108,159,419	11	97,264,729	11	4,438,980	11	13,114,789	11	13,114,789	11	9,990,425	2
1904	1s.	102,532,267	18	94,823,113	7	4,730,155	12	11,478,981	15	11,478,981	15	8,900,425	2
1905	1s.	107,534,107	11	99,398,683	5	8,135,424	11	13,891,773	19	13,891,773	19	10,573,546	11
1906	1s.	108,639,984	4	100,417,232	4	8,222,752	11	14,635,539	8	14,635,539	8	11,310,315	12
1907	1s. and 9d.	113,510,185	14	105,417,232	4	8,092,953	11	15,875,693	10	15,875,693	10	12,771,923	9
1908	1s. and 9d.	113,194,575	15	105,417,232	4	8,092,953	11	16,217,984	2	16,217,984	2	12,605,194	2
1909	1s. and 9d.	105,888,397	0	100,417,232	4	5,467,062	11	17,914,174	9	17,914,174	9	14,247,901	7
1910	1s. and 9d.	130,113,027	13	121,017,107	12	9,095,920	11	18,715,814	13	18,715,814	13	14,919,137	10
1911	1s. and 9d.	130,013,348	15	121,017,107	12	9,095,920	11	21,905,268	16	21,905,268	16	18,391,317	13
1912	1s. and 9d.	130,350,468	19	121,017,107	12	9,095,920	11	22,982,845	10	22,982,845	10	19,795,295	10
1913	1s. and 9d.	133,010,974	16	121,017,107	12	9,095,920	11	23,832,386	13	23,832,386	13	20,792,983	3
1914	1s. and 9d.	133,013,484	7	121,017,107	12	9,095,920	11	24,324,969	13	24,324,969	13	21,339,740	10
1915	Various, up to 1s. 8d.	133,254,371	6	121,017,107	12	9,095,920	11	26,354,569	16	26,354,569	16	23,310,546	13
1916	Various, up to 1s. 8d.	133,254,371	6	121,017,107	12	9,095,920	11	26,354,569	16	26,354,569	16	23,310,546	13
1917	Various, up to 1s. 8d.	133,254,371	6	121,017,107	12	9,095,920	11	26,354,569	16	26,354,569	16	23,310,546	13
1918	Various, up to 1s. 8d.	133,254,371	6	121,017,107	12	9,095,920	11	26,354,569	16	26,354,569	16	23,310,546	13
1919	Various, up to 1s. 8d.	133,254,371	6	121,017,107	12	9,095,920	11	26,354,569	16	26,354,569	16	23,310,546	13
1920	Various, up to 1s. 8d.	133,254,371	6	121,017,107	12	9,095,920	11	26,354,569	16	26,354,569	16	23,310,546	13
1921	Various, up to 1s. 8d.	133,254,371	6	121,017,107	12	9,095,920	11	26,354,569	16	26,354,569	16	23,310,546	13
1922	Various, up to 1s. 8d.	133,254,371	6	121,017,107	12	9,095,920	11	26,354,569	16	26,354,569	16	23,310,546	13
1923	Various, up to 1s. 8d.	133,254,371	6	121,017,107	12	9,095,920	11	26,354,569	16	26,354,569	16	23,310,546	13
1924	Various, up to 1s. 8d.	133,254,371	6	121,017,107	12	9,095,920	11	26,354,569	16	26,354,569	16	23,310,546	13
1925	Various, up to 1s. 8d.	133,254,371	6	121,017,107	12	9,095,920	11	26,354,569	16	26,354,569	16	23,310,546	13
1926	Various, up to 1s. 8d.	133,254,371	6	121,017,107	12	9,095,920	11	26,354,569	16	26,354,569	16	23,310,546	13
1927	Various, up to 1s. 8d.	133,254,371	6	121,017,107	12	9,095,920	11	26,354,569	16	26,354,569	16	23,310,546	13
1928	Various, up to 1s. 8d.	133,254,371	6	121,017,107	12	9,095,920	11	26,354,569	16	26,354,569	16	23,310,546	13
1929	Various, up to 1s. 8d.	133,254,371	6	121,017,107	12	9,095,920	11	26,354,569	16	26,354,569	16	23,310,546	13
1930	Various, up to 1s. 8d.	133,254,371	6	121,017,107	12	9,095,920	11	26,354,569	16	26,354,569	16	23,310,546	13

INCOME TAX.

Year	Rate in the £	Schedule A.				Total.				Improved House Duty.		Land Tax.		Total Duty Payable.								
		Gross annual value assessed.	Net annual value assessed.	Gross Income and annual value assessed.	Net income and annual value assessed.	Duty payable.	Duty payable.	Duty payable.	Duty payable.													
1903	11d.	6,393,925	2	5,140,923	12	4	235,421	3	5,140,923	12	4	235,421	3	5,140,923	12	4	5,140,923	12	4	5,140,923	12	4
1904	1s.	6,441,341	14	5,188,735	13	4	235,421	3	5,188,735	13	4	235,421	3	5,188,735	13	4	5,188,735	13	4	5,188,735	13	4
1905	1s.	6,489,091	0	5,235,471	3	4	261,273	10	5,235,471	3	4	261,273	10	5,235,471	3	4	5,235,471	3	4	5,235,471	3	4
1906	1s. and 9d.	6,500,118	15	5,246,544	5	4	272,437	10	5,246,544	5	4	272,437	10	5,246,544	5	4	5,246,544	5	4	5,246,544	5	4
1907	1s. and 9d.	6,575,270	10	5,344,339	13	4	272,437	10	5,344,339	13	4	272,437	10	5,344,339	13	4	5,344,339	13	4	5,344,339	13	4
1908	1s. and 9d.	6,605,321	1	5,374,389	13	4	272,437	10	5,374,389	13	4	272,437	10	5,374,389	13	4	5,374,389	13	4	5,374,389	13	4
1909	1s. and 9d.	6,645,321	1	5,414,389	13	4	272,437	10	5,414,389	13	4	272,437	10	5,414,389	13	4	5,414,389	13	4	5,414,389	13	4
1910	1s. and 9d.	6,685,321	1	5,454,389	13	4	272,437	10	5,454,389	13	4	272,437	10	5,454,389	13	4	5,454,389	13	4	5,454,389	13	4
1911	1s. and 9d.	6,725,321	1	5,494,389	13	4	272,437	10	5,494,389	13	4	272,437	10	5,494,389	13	4	5,494,389	13	4	5,494,389	13	4
1912	1s. and 9d.	6,765,321	1	5,534,389	13	4	272,437	10	5,534,389	13	4	272,437	10	5,534,389	13	4	5,534,389	13	4	5,534,389	13	4
1913	1s. and 9d.	6,805,321	1	5,574,389	13	4	272,437	10	5,574,389	13	4	272,437	10	5,574,389	13	4	5,574,389	13	4	5,574,389	13	4
1914	Various, up to 1s. 8d.	7,135,249	18	5,864,352	13	4	331,017	11	5,864,352	13	4	331,017	11	5,864,352	13	4	5,864,352	13	4	5,864,352	13	4
1915	Various, up to 1s. 8d.	7,175,015	18	5,904,352	13	4	331,017	11	5,904,352	13	4	331,017	11	5,904,352	13	4	5,904,352	13	4	5,904,352	13	4
1916	Various, up to 1s. 8d.	7,215,015	18	5,944,352	13	4	331,017	11	5,944,352	13	4	331,017	11	5,944,352	13	4	5,944,352	13	4	5,944,352	13	4
1917	Various, up to 1s. 8d.	7,255,015	18	5,984,352	13	4	331,017	11	5,984,352	13	4	331,017	11	5,984,352	13	4	5,984,352	13	4	5,984,352	13	4
1918	Various, up to 1s. 8d.	7,295,015	18	6,024,352	13	4	331,017	11	6,024,352	13	4	331,017	11	6,024,352	13	4	6,024,352	13	4	6,024,352	13	4
1919	Various, up to 1s. 8d.	7,335,015	18	6,064,352	13	4	331,017	11	6,064,352	13	4	331,017	11	6,064,352	13	4	6,064,352	13	4	6,064,352	13	4
1920	Various, up to 1s. 8d.	7,375,015	18	6,104,352	13	4	331,017	11	6,104,352	13	4	331,017	11	6,104,352	13	4	6,104,352	13	4	6,104,352	13	4
1921	Various, up to 1s. 8d.	7,415,015	18	6,144,352	13	4	331,017	11	6,144,352	13	4	331,017	11	6,144,352	13	4	6,144,352	13	4	6,144,352	13	4
1922	Various, up to 1s. 8d.	7,455,015	18	6,184,352	13	4	331,017	11	6,184,352	13	4	331,017	11	6,184,352	13	4	6,184,352	13	4	6,184,352	13	4
1923	Various, up to 1s. 8d.	7,495,015	18	6,224,352	13	4	331,017	11	6,224,352	13	4	331,017	11	6,224,352	13	4	6,224,352	13	4	6,224,352	13	4
1924	Various, up to 1s. 8d.	7,535,015	18	6,264,352	13	4	331,017	11	6,264,352	13	4	331,017	11	6,264,352	13	4	6,264,352	13	4	6,264,352	13	4
1925	Various, up to 1s. 8d.	7,575,015	18	6,304,352	13	4	331,017	11	6,304,352	13	4	331,017	11	6,304,352	13	4	6,304,352	13	4	6,304,352	13	4
1926	Various, up to 1s. 8d.	7,615,015	18	6,344,352	13	4	331,017	11	6,344,352	13	4	331,017	11	6,344,352	13	4	6,344,352	13	4	6,344,352	13	4
1927	Various, up to 1s. 8d.	7,655,015	18	6,384,352	13	4	331,017	11	6,384,352	13	4	331,017	11	6,384,352	13	4	6,384,352	13	4	6,384,352	13	4
1928	Various, up to 1s. 8d.	7,695,015	18	6,424,352	13	4	331,017	11	6,424,352	13	4	331,017	11	6,424,352	13	4	6,424,352	13	4	6,424,352	13	4
1929	Various, up to 1s. 8d.	7,735,015	18	6,464,352	13	4	331,017	11	6,464,352	13	4	331,017	11	6,464,352	13	4	6,464,352	13	4	6,464,352	13	4
1930	Various, up to 1s. 8d.	7,775,015	18	6,504,352	13	4	331,017	11	6,504,352	13	4	331,017	11	6,504,352	13	4	6,504,352	13	4	6,504,352	13	4

TABLE B.

CITY OF LONDON.

PARTICULARS SHewing NUMBER OF MEETINGS HELD AND APPEALS HEARD BY THE SEVERAL BOARDS OF COMMISSIONERS DURING THE FINANCIAL YEARS 1903-4 TO 1918-19 INCLUSIVE.

COMMISSIONERS DURING THE FINANCIAL YEARS 1903-4 TO 1918-19.

Year.	INCOME TAX.								LAND TAX.		
	Additional Commissioners.	General Commissioners.				Commissioners on Offices.				Commissioners of Land Tax.	
		Schedules D, A, and I.H.D.				Schedule E.					
		Number of meetings.	Number of meetings.	Personal hearing.	Notices of appeal to High Court.	Number of meetings.	Personal hearing.	Notices of appeal to High Court.	Number of meetings.	Number of appeals.	
					By Surveyor of Taxes.			By Appellant.			By Surveyor of Taxes.	By Appellant.
1903	15	14	124	9	11	5	23	—	3	3	29
1904	15	10	166	7	16	5	4	—	—	4	20
1905	12	12	127	10	10	4	5	—	2	2	17
1906	15	14	130	5	8	3	3	1	1	3	21
1907	15	9	109	2	5	4	5	—	2	3	33
1908	11	13	326	10	10	5	5	1	—	4	28
1909	14	8	211	4	4	4	21	1	—	3	15
1910	14	9	158	2	4	2	6	—	—	5	42
1911	12	11	222	4	5	5	19	8	1	5	53
1912	15	20	215	3	3	3	7	7	—	4	41
1913	13	17	240	4	5	4	9	—	—	2	30
1914	13	13	212	2	4	5	11	—	3	5	20
1915	16	16	215	2	1	5	5	—	2	8	19
1916	19	19	359	2	5	4	7	—	1	3	26
1917	18	19	199	2	4	4	8	1	1	4	22
1918	20	20	219	5	2	4	11	—	—	4	30

TABLE C.

CITY OF LONDON.

PARTICULARS SHOWING NUMBER OF ASSESSORS, COLLECTORS, AND SURVEYORS OF TAXES, BOOKS OF ASSESSMENT AND COLLECTORS' DUPLICATES OF ASSESSMENT: ALSO UNOCCUPIED APPLICATIONS FOR ADJUSTMENT OF ASSESSMENT, NOTICES OF CHARGE, REPAYMENTS, AND CERTIFICATES OF REMOVAL FOR THE FINANCIAL YEARS 1903-4 TO 1918-19 INCLUSIVE.

Year.	Assessors and Collectors.	Surveyors of Taxes.	Books of assessment.	Collectors' duplicates of assessment.	Unoccupied applications for adjustment of assessment.		Notices of charge.		Repayments.		Certificates of removal.			
					Schedule D.	Schedule E.	Schedule D.	Schedule E.	Schedule D.	Schedule E.	Schedule D.	Schedule E.		
													Total.	Total.
1903	32	12	303	481	6,948	4,222	11,170	12,927	4,156	17,113	423	68	—	—
1904	33	12	314	482	6,538	4,548	11,396	11,396	3,645	16,021	509	15	458	1,183
1905	34	12	305	490	6,326	3,895	10,191	11,498	3,443	14,849	576	22	698	1,171
1906	34	12	317	506	5,925	4,246	10,171	10,966	3,722	14,688	683	16	679	733
1907	34	15	378	592	6,326	5,494	12,280	18,776	12,381	31,137	580	15	690	1,483
1908	35	15	349	515	6,516	4,491	13,007	17,554	8,326	25,980	245	17	282	649
1909	35	17	247	367	5,321	6,013	11,534	20,147	17,397	38,144	192	16	308	1,149
1910	35	17	342	483	7,377	8,585	15,872	17,658	9,379	27,237	164	12	176	2,513
1911	35	17	330	509	7,476	8,021	15,497	21,947	8,672	29,719	228	13	241	977
1912	35	17	325	442	7,853	10,079	17,712	23,313	8,689	32,452	191	20	348	1,217
1913	36	19	349	451	8,494	10,650	20,174	25,129	9,849	35,008	289	40	279	2,368
1914	36	24	345	433	14,490	13,876	27,276	29,318	17,030	46,568	265	29	284	2,155
1915	35	24	379	468	13,573	13,621	28,394	33,942	19,700	53,652	945	35	1,060	1,185
1916	35	26	414	506	28,695	23,345	50,040	58,110	24,335	62,145	1,403	117	1,350	1,487
1917	37	34	481	585	19,689	15,612	34,701	49,463	30,367	89,120	1,629	164	1,193	741
1918	39	34	495	604	17,388	20,544	38,432	48,387	33,274	81,661	960	150	1,140	728
														2,090
														2,085

Appendix No. 35 (a).

STATEMENT SHOWING PERCENTAGE OF BURDENS, MANAGEMENT, RENEWALS, ETC., TO GROSS RENTALS OF CERTAIN ESTATES IN SCOTLAND.

Statement handed in by Mr. A. W. ROBERTSON DUNHAM on 7th November, 1919.

ESTATE A—ARGYLSHIRE

	Gross rental.	Burdens.	Management.	Renewals, etc.	Surplus.	Assessed on.
LANDS.—5 years, 1909-1913	5,934,139	6,110	3,913	12,631	11,635	25,698
Average	6,328	1,222	733	2,516	2,397	6,139
Per cent. on rental	—	17.9	11.4	36.8	33.8	70.3
5 years, 1914-1918	5,311,735	7,661	3,211	11,671	9,229	23,998
Average	6,347	1,532	642	2,314	1,859	4,641
Per cent. on rental	—	24.1	10.1	36.5	29.3	79.1
HOUSES.—5 years, 1909-1913	5,323,233	568	793	2,529	—673	2,280
Average	644	113	139	506	—124	466
Per cent. on rental	—	17.6	24.7	78.6	—	70.8
5 years, 1914-1918	5,314,145	768	480	1,733	214	2,716
Average	629	163	86	347	43	543
Per cent. on rental	—	24.3	13.7	65.2	6.8	86.2

ESTATE B—RENFREWSHIRE

LANDS.—5 years, 1909-1913	6,771,291	10,073	4,722	40,789	16,687	65,893
Average	14,253	2,015	958	8,158	3,137	13,179
Per cent. on rental	—	14.1	6.7	57.2	31.9	92.4
5 years, 1914-1918	5,611,699	11,612	4,735	29,666	15,836	47,763
Average	12,939	2,303	957	5,913	3,167	9,562
Per cent. on rental	—	18.6	7.7	47.9	26.6	77.4

ESTATE C—ABERDEEN AND BANFF.

LANDS.—5 years, 1909-1913	5,435,516	6,833	2,975	6,368	27,414	39,157
Average	8,709	1,371	496	1,260	6,433	7,631
Per cent. on rental	—	16.8	6.8	14.6	63.9	87.6
5 years, 1914-1918	5,444,667	2,549	2,305	4,682	25,031	39,076
Average	8,913	1,910	461	936	5,606	7,835
Per cent. on rental	—	21.4	6.2	10.5	63.9	87.7
HOUSES.—5 years, 1909-1913	5,2851	40	24	88	98	213
Average	69	8	5	17	30	42
Per cent. on rental	—	16.0	10.0	34.0	40.0	81.0
5 years, 1914-1918	5,006	66	26	61	154	266
Average	61	13	6	12	31	61
Per cent. on rental	—	21.3	8.2	19.7	60.8	83.6

ESTATE D—GLACKMANNASHIRE.

LANDS.—5 years, 1909-1913	5,211,275	4,058	1,250	7,831	8,196	17,487
Average	4,990	812	250	1,666	1,627	3,407
Per cent. on rental	—	19.0	6.9	36.8	38.2	82.2
5 years, 1914-1918	5,022,192	6,479	1,260	8,054	9,409	16,748
Average	4,439	1,068	250	1,311	1,852	3,349
Per cent. on rental	—	24.7	6.7	27.3	42.4	76.4

ESTATE E—FORFARSHIRE.

LANDS.—4 years, 1910-1913	4,038,813	7,206	3,956	15,627	42,800	65,241
Average	17,223	1,801	814	3,957	10,701	15,810
Per cent. on rental	—	10.4	4.7	23.6	62.1	80.2
5 years, 1914-1918	5,286,473	10,403	4,263	13,507	67,610	68,029
Average	17,094	2,080	859	2,662	11,560	13,612
Per cent. on rental	—	12.3	4.9	15.5	67.2	79.7
HOUSES.—4 years, 1910-1913	4,15,059	139	518	1,603	2,447	4,036
Average	1,261	107	129	416	613	1,000
Per cent. on rental	—	8.5	10.2	33.9	48.1	73.0
5 years, 1914-1918	5,16,632	821	776	1,376	3,649	6,253
Average	1,324	164	115	275	739	1,061
Per cent. on rental	—	12.4	11.7	30.8	55.1	79.4

ESTATE F—DUMFRIESHIRES.

	Gross rental.	Burdens.	Managem- ment.	Renewals, etc.	Surplus.	Assessed on
LANDS.—5 years, 1909-1913	5)208,040	33,243	9,523	50,404	114,865	166,427
Average	41,608	6,648	1,905	10,081	22,979	33,285
Per cent. on rental	—	15·9	4·6	24·2	55·2	79·9
5 years, 1914-1918	5)201,732	48,995	9,320	39,144	104,873	167,694
Average	40,346	9,799	1,864	7,829	20,951	31,539
Per cent. on rental	—	24·4	4·6	19·6	51·9	78·5
HOUSES.—5 years, 1909-1913	5)16,533	1,318	1,273	3,700	10,442	12,644
Average	3,327	244	255	740	2,088	2,529
Per cent. on rental	—	7·3	7·7	32·2	62·8	76·0
5 years, 1914-1918	5)14,150	1,300	1,377	4,360	7,108	11,044
Average	2,830	261	275	872	1,422	2,269
Per cent. on rental	—	9·2	9·7	30·8	50·3	78·0

ESTATE G—MORAYSHIRE AND INVERNESS-SHIRE.

LANDS.—5 years, 1909-1913	5)206,451	11,110	6,822	19,851	28,668	64,019
Average	13,290	2,222	1,164	3,970	5,594	10,804
Per cent. on rental	—	16·7	8·8	29·9	44·6	51·3
5 years, 1914-1918	6)85,447	14,329	6,456	15,529	29,203	52,136
Average	15,089	2,852	1,291	3,106	6,840	10,427
Per cent. on rental	—	21·8	9·9	23·7	44·6	79·7
HOUSES.—5 years, 1909-1913	5)1,136	113	347	1,051	—386	899
Average	225	23	69	210	—77	180
Per cent. on rental	—	10·2	30·7	98·8	—	80·0
5 years, 1914-1918	5)1,189	137	377	1,386	—1,311	948
Average	238	27	76	297	—362	190
Per cent. on rental	—	11·4	31·9	166·9	—	79·8

ESTATE H—DUMFRIESHIRES AND LANARKSHIRE.

LANDS.—5 years, 1909-1913	5)52,823	5,805	3,168	16,736	25,130	41,564
Average	10,565	1,161	631	3,347	5,026	8,373
Per cent. on rental	—	10·9	5·7	31·7	47·6	79·2
5 years, 1914-1918	5)49,426	5,733	4,617	8,545	30,730	38,613
Average	9,885	1,147	983	1,709	6,146	7,725
Per cent. on rental	—	11·6	8·9	17·8	62·2	75·1
HOUSES.—5 years, 1909-1913	5)1,452	182	93	550	827	1,285
Average	290	36	19	110	165	245
Per cent. on rental	—	10·9	5·8	33·8	60·0	75·1
5 years, 1914-1918	5)1,681	195	119	775	532	1,243
Average	336	39	24	155	118	249
Per cent. on rental	—	11·6	7·1	46·1	35·1	74·1

ESTATE I—ROXBURGHSHIRE AND DUMFRIESHIRES.

LANDS.—5 years, 1909-1913	5)181,880	29,599	7,079	20,944	105,265	138,101
Average	36,376	5,920	1,414	7,989	21,053	27,830
Per cent. on rental	—	16·2	5·9	21·9	67·8	76·6
5 years, 1914-1918	5)180,560	33,435	8,755	39,270	91,043	133,022
Average	36,111	7,687	1,751	7,854	18,509	27,604
Per cent. on rental	—	21·3	4·8	21·8	52·1	76·4
HOUSES.—5 years, 1909-1913	5)9,085	776	444	7,896	—71	7,637
Average	1,817	154	88	1,584	—18	1,407
Per cent. on rental	—	8·5	4·9	87·4	—	61·9
5 years, 1914-1918	5)9,152	865	536	5,916	1,854	7,591
Average	1,830	173	107	1,183	367	1,538
Per cent. on rental	—	9·4	5·8	64·6	30·2	84·0

ESTATE J—PERTH, STIRLING, AND LANARK.

	Gross rental.	Burdens.	Management.	Renewals, etc.	Surplus.	Assessed on
LANDS.—5 years, 1909-1913	5368,247	2,237	4,800	30,495	32,815	52,476
Average	13,649	1,267	960	4,159	8,563	10,535
Per cent. on rental	—	14.6	7.0	30.3	48.0	77.2
5 years, 1914-1918	6369,175	11,335	4,995	13,122	39,733	52,682
Average	13,835	2,267	999	2,624	7,945	10,536
Per cent. on rental	—	16.4	7.2	18.9	67.4	76.1
HOUSES.—5 years, 1909-1913	531,119	116	21	327	535	815
Average	284	23	15	68	117	163
Per cent. on rental	—	10.3	8.0	29.5	52.0	72.8
5 years, 1914-1918	531,579	185	137	616	743	1,132
Average	216	37	27	105	149	226
Per cent. on rental	—	11.7	8.5	32.6	47.1	71.6

Appendix No. 35 (b).

ADDITIONAL STATEMENT PREPARED BY MR. A. W. ROBERTSON DURHAM, C.A., F.F.A., SHOWING THE AGGREGATE PERCENTAGE OF BURDENS, MANAGEMENT, RENEWALS, ETC., TO GROSS RENTALS OF CERTAIN ESTATES IN SCOTLAND.

Period.	(a) Total gross rental.	(b) Burdens.	(c) Ministers' stipend.	(d) Management.	(e) Repairs and Renewals.	(f) Surplus.	(g) Original assessment for Schedule A.
LANDS:							
1909-13	816,584	81,574	42,425	48,551	250,761	413,370	656,563
Percentage to gross rental	—	10.0	5.2	5.9	28.2	50.6	80.4
1914-18	811,949	90,509	73,832	49,747	183,791	413,050	634,008
Percentage to gross rental	—	11.2	8.9	6.1	22.3	51.5	78.1
Total 1909-18	1,628,533	172,083	115,277	98,301	434,552	826,420	1,290,563
Percentage to gross rental	—	10.5	7.1	6.0	26.8	51.0	79.2
HOUSES:							
1909-13	53,147	3,442	—	3,585	17,846	18,271	28,163
Percentage to gross rental	—	9.0	—	9.4	46.7	34.8	76.4
1914-18	57,824	4,340	—	3,778	16,725	12,963	30,283
Percentage to gross rental	—	11.6	—	9.9	44.2	34.8	80.0
Total 1909-18	110,971	7,782	—	7,363	34,571	31,234	58,446
Percentage to gross rental	—	10.2	—	9.7	46.6	34.5	78.2

NOTE.—Column (g) shows the original assessment for Schedule A. A Maintenance Claim is thereafter lodged and repayment of tax over-assessed is obtained by the proprietor.

Appendix No. 36.

Suggested placard handed in by MR. PHILIP SELLEY on 19th November, 1919. (See Q. 25,518.)

Bill or Poster to be shown on every Church or Chapel Door, at every Post Office, Parish Council Office, Town or Public Hall.

THE NATIONAL TAX ON INCOME.
DEMAND FOR RETURN OF INCOME.

NOTICE IS HEREBY GIVEN that every Person whose Total Yearly Income from all sources (including that of Wife, if any) exceeds £130 is required by statute to make a Full and True Return of such Income to the Commissioners of Inland Revenue.

FORMS MAY BE OBTAINED AT ANY POST OFFICE

OR FROM

THE ASSESSOR OF TAXES,

(Address)

From whom information can be obtained in any case of doubt or difficulty.

PENALTY FOR OMISSION—£20 (£10) on summary conviction in County Court for each year of omission, whenever discovered.

Appendix No. 37.

SUGGESTED NEW FORM OF RETURN No. 11.
 Handed in by Mr. PHILIP SULLY, on 19th November, 1913, (See Q. 23,524).

THE NATIONAL TAX ON INCOME.

DEMAND FOR A RETURN OF YOUR FULL INCOME FOR THE
 YEAR FROM 1st APRIL, —, TO 31st MARCH, —.

LIABILITY EXISTS

Wherever the yearly income from all sources exceeds £130.

The Income of a married woman living with her husband is his income, for tax purposes.

ALLOWANCES AND CONCESSIONS.

- (a) £700. Total income from all sources not exceeding £700:—
 You are entitled to Abatement
 Not exceeding £400, £130.
 " 600, 100.
 " 700, 70.
- (b) £800. Total income from all sources not exceeding £800:—
 For a Wife, allowance of £50.
 Female Relative keeping house or in charge of children for
 whom you are responsible 50
 For your First Child living under age of 16 40
 Each other Child 25.
 The same amounts for Adopted Children or Children dependent on you.
 For any Relative solely dependent on you 25.
- (c) £1000 Total income from all sources not exceeding £1000:—
 For any Child or Children above the number of 2, as above.
 No age limit for Children continuing to receive full time education.
- (a), (b), (c).—Where the total income slightly exceeds—see Note ——— (Marginal Relief.)
- Total income from all sources not exceeding £2000:—
 Reduction from the full rates of duty.
- Total income from all sources exceeding £2000 but not exceeding £2500:—
 Reduction from the full rate of duty on any earned portion.

LIFE INSURANCE.

Premiums paid for Insurance on the life of Husband or Wife to the limit of one-sixth of total income.

DECLARATION.

Income not exceeding £2500. I solemnly and sincerely declare that I have entered in this form the full and true particulars of my income from all sources whatsoever, without any deduction.

.....Name.
 Date.....Address.

Income exceeding £2500 (liable to Super-tax). I solemnly and sincerely declare that I have entered in this form the full and true particulars of every source of my income which has not already been subject to Income Tax, without any deduction.

.....Name.
 Date.....Address.

If a full Return of income has already been made elsewhere, state precise address return made from.

.....Address.
 Date.....Signature.

PENALTIES.

For failure to make a return, penalty of £30 (£10) for each year in which no return has been made.
 For concealing or untrue declaring income or any portion thereof, penalty of £20 and treble the duty unpaid, whenever ascertained.

For fraudulently securing any abatement, allowance or concession, imprisonment not exceeding six months.

All Penalties recoverable by summary proceedings in County Court.

Appendix No. 38 (a).

SUGGESTED FORM OF INCOME TAX RETURN, IF TAXATION AT THE SOURCE IS NOT RETAINED.

Handed in by Mr. JOHN MACKIE on 20th November, 1919. (See Q. 24,904.)

No.....

FORM A

INDIVIDUALS.

Income Tax 19.....

Return of Income of Year ended.....for Assessment in

Year ended.....

To H.M. Inspector of Taxes,

I annex herewith—

- (a) full and true particulars of my Income from every source for the year ended.....; and
 (b) full and true particulars of all Charges (if any) upon my Income for the year ended.....
 I have filled in each of the claims for relief on the back of this Form as apply to my case.

Signature.....

Private Address

Business Address (if any).....

Occupation (if any).....

*PARTICULARS OF INCOME FROM—

Rents, royalties, annuities, interest, dividends (including bonuses whether paid in cash or shares), profits, salaries, fees, commissions, and other sources (if any) within the United Kingdom, and of all Income received and receivable from sources outside the United Kingdom.

Source of Income.

Amount.
 £ s. d.

Total £

Particulars of CHARGES on Income.

Name and Address of Person to whom charge is paid.	Nature of Payment.	Amount. £ s. d.
.....	£
.....	£
Total		£

Net Income after deducting Charges ... £

* See footnote (1).

Print on back of Form spaces in which to claim relief in respect of wife; the relief allowed to a widower; the relief in respect of children, and the relief in respect of dependent relatives, but omit in each case the section which in the present Form has to be signed by the claimant.

Add the following footnotes:—

(1) If the space allotted to the sections for Income, Charges, &c., should prove to be insufficient please show the particulars on one or more foolscap sheets ruled in the same way as the section in question, and attach them to this sheet.

(2) You can obtain free of charge a pamphlet from any Post Office or Inspector of Taxes showing you "How to fill up your Income Tax Return," and you can, of course, obtain any further assistance that you may require on direct personal application to the Inspector of your District.

Appendix No. 39.

SUGGESTED NOTICE OF INCOME TAX ASSESSMENT IF TAXATION AT THE SOURCE IS RETAINED.

Handed in by Mr. JOHN MACKIE on 20th November, 1919. (See Q. 24,913.)

No. of Assessment.....

INDIVIDUALS.

Assessment payable for year ended		Income Tax 19		in respect of Income of Year ended	
Net amount of Income from all Sources, after deducting Charges (if any) thereon		...		£ :	
Deduct :-					
Allowance for Self	...	...	...	...	£
Allowance for Wife (or Husband)	...	...	...	...	£
Allowance to a Widower (or Widow)	...	...	...	...	£
Allowance for Child	...	...	...	...	£
Allowance for Dependent	...	...	...	...	£
Allowance for Life Assurance Premiums	...	...	...	...	£
Amount assessable to Income Tax		...		£ :	
Income Tax payable :					
On first £	per Table on back hereof	...		£ :	
On next £	" " at 1/- per £1 =	...		£ :	
£		...		£ :	
Deduct :-					
Tax payable at 1/- on £ (Sob. A and Investments)	...	...		£
Less :- Charges £	£	at 1/- =		£	
Relief (if any) due in respect of Income received from Sources outside the United Kingdom already taxed and included (gross) in the net amount of Income from all Sources					
...		...		£	
Net amount payable at the address and on or before the dates shown below		...		£ :	
Amount payable on or before 30th September		...		£ :	
"	" 31st December	...		£ :	
"	" 31st March	...		£ :	
"	" 30th June	...		£ :	
Total		...		£ :	

H.M. Inspector of Taxes.

Address.....

Date.....

NOTE.—If you have any objections to raise to the foregoing Assessment, please let me have particulars of your objections in writing *within twenty-one days from the above date* and quote the No. shown in the top left-hand corner or give me a call, when you should bring this Assessment with you.

H.M. Inspector of Taxes.

TABLE APPLICABLE TO INDIVIDUALS.

(1) On every £1 of assessable Income in—	(2) Rate per £	(3) Tax payable on applicable £100.	(4) Total assessable Income, i.e., after deducting applicable allowances.	(5) Total Tax payable.

Set out here particulars of the agreed Table under the foregoing Headings.

Enclosure to Appendix No. 39.

Where the deductions in respect of taxed income, &c., exceed the Income Tax payable on the amount assessable to Income Tax, a red form might be used and the following Section substituted for the "Net Amount Payable" Section of the Assessment Form :-

Amount repayable	...	...	...	...	...	£ :
I enclose money order No.	for	...	...	...	...	£ :

Appendix No. 39 (a).

SUGGESTED NOTICE OF INCOME TAX ASSESSMENT, IF TAXATION AT THE SOURCE IS NOT RETAINED.

Handed in by Mr. JOHN MACKIE, on 20th November, 1919. (See Q. 24,904.)

No. of Assessment.....

INDIVIDUALS.

Income Tax 19 ..

Assessment payable for year ended		in respect of Income of year ended	
Net amount of Income from all sources, after deducting Charges (if any) thereon		...	£
<i>Deduct :-</i>			
Allowance for Self	...	£	
Allowance for Wife (or Husband)	...		
Allowance to a Widower (or Widow)	...		
Allowance for Child	...		
Allowance for Dependant	...		
Amount assessable to Income Tax		£	
Income Tax payable :			
On first £	per Table on back hereof	£	
On next £	" " at 1/- per £1 =	£	
<i>Deduct :-</i>			
Relief (if any) due in respect of Income received from Sources outside the United Kingdom already taxed and included (gross) in the net amount of Income from all Sources		£	
Net amount payable at the address and on or before the dates shown below		£	
Amount payable on or before 30th September		£	
" "	31st December		
" "	31st March		
" "	30th June		
Total		£	

H.M. Inspector of Taxes.

Address.....

Date.....

NOTE.—If you have any objections to raise to the foregoing Assessment, please let me have particulars of your objections in writing *within twenty-one days from the above date* and quote the No. shown in the top left-hand corner or give me a call when you should bring this Assessment with you.

H.M. Inspector of Taxes.

TABLE APPLICABLE TO INDIVIDUALS.

(1) On every £1 of assessable Income in—	(2) Rate per £	(3) Tax payable on applicable £100.	(4) Total assessable Income, i.e., after deducting applicable allowances.	(5) Total Tax payable.
---	-------------------	---	--	---------------------------

Set out here particulars of the agreed Table under the foregoing Headings.

Appendix No. 40.

FORM USED BY A FIRM OF CHARTERED ACCOUNTANTS, IN CONNECTION WITH THE
SUBMISSION OF CLIENTS' ACCOUNTS TO THE INLAND REVENUE.

Handed in by Mr. JOHN MACKIE on 20th November, 1919.

Surveyor of Taxes,

Name of Client (s)

Accounts for

Applicable to Income Tax year ended 5th April,

DEAR SIR,

We enclose duly certified Accounts herein, as per list at end hereof, and annex a Statement showing the Assessable Profits of the period covered by the Accounts, after making all necessary adjustments in respect of (a) inadmissible Expenses (if any) included in the Charges, and (b) other matters (if any), in accordance with the requirements of the Income Tax Acts.

Balance of Profit per £ 1 1

Add
Income Tax Schedule A £

Do. B
Do. D
Do. E

Non-Trade Subscriptions and Donations
(Trade Subscriptions (if any) charged and claimed
are detailed in the "special notes.")

Interest on Loans, Mortgages, &c., apart from Bank
Interest Gross...£
Less Income Tax deducted ...

Rents payable in respect of business premises where Sch. A.
set-off is claimed

Gross...£
Less Income Tax deducted ... £

Interest on Proprietors' Capital £

Proprietors and Partners withdrawals or remuneration, and/or
maintenance of families and establishments including
cost of Gas, Coal, Electricity and Servants in so far as
expended for private purposes and charged as Trading
Expenses £

Capital Expenditure (if any, see "special notes" at end for
particulars) £

Improvements and additions to or Renewals of Premises,
Plans, Machinery, Fittings, Fixtures, Furniture, &c. (if
any, see "special notes" at end for particulars) £

Depreciation £

Husband's or Wife's Salary £

Rents, Rates, Taxes, Insurance and Repairs applicable to part
of business premises used as private dwellings... £

Charge for Bad Debts in excess of amount actually written
off £

Life Assurance Premiums £

Profit Assurance Premiums £

Non-Trade Legal Expenses £

Rents, Rates, Taxes, Insurance and Repairs, applicable to
premises not used for business purposes and/or sublet
part of business premises separately rated... £

.....

.....

.....

.....

.....

.....

.....

.....

Forward

<i>Deduct—</i>	<i>Forward</i>	<i>£</i>
Balance forward from last Account	£	
Net Schedule A. Assessment on business premises in which there is a beneficial interest	£	
Replacements (if any, see "special notes" at end for particulars)		
Taxed Dividends and Interest on Investments		
Rents received out of premises not used for business purposes and / or out of sub-let part of business premises separately rated		
.....		
.....		
.....		
.....		£
ASSESSABLE PROFITS FOR PERIOD UNDER REVIEW		£

We hereby certify the accuracy of the foregoing Statement, and we compute the Assessment as follows :—

Assessable Profits for.....ended.....	£
Do.	£
Do.	£
Do.	£
Total Assessable Profits for.....	£
equal to an annual average of	£

Deduct—Wear and Tear Allowance—

	Plant & M/o. at at $\frac{1}{10}$	at $\frac{1}{10}$	at $\frac{1}{10}$
Written-down value brought forward ...	£	£	£
<i>Add—</i>			
Additions during period covered by Accounts ...	£	£	£
<i>Deduct</i>			
Sales during period covered by Accounts	£	£	£
Amounts on which Depreciation allowable ...	£	£	£
Amount of Depreciation	£	£	£
Net amount assessable			£

We hereby certify that unless otherwise stated in the accompanying Balance Sheet or in the annexed "special notes"—

- Sundry Debtors are entirely Trade and Gross ;
- No Loans or Reserves are included in the item of Sundry Creditors ;
- Stock in Trade has been taken on the same Cost or Market Price basis as before, and no deduction has been made for Depreciation or Reserve ; and
- There are no Reserves apart from those disclosed in the accompanying Accounts.

If the necessary connecting links with the Revenue Account and the previous Balance Sheet as regards Capital, Premises, Plant and Machinery, Reserves, &c., are not shown in the accompanying Balance Sheet they will be found in the annexed "special notes."

Yours faithfully,

List of Enclosures :—

Appendix No. 41.

NOTICE OF SUPER-TAX ASSESSMENT.

Handed in by Mr. R. R. HARRISON on 21st November, 1919.

This Slip should accompany the payment or remittance. All Cheques should be drawn in favour of the "Commissioners of Inland Revenue," and crossed "Bank of England."

NOTE.—Credit will be given against the Assessment as distinguished by the above number, no mention of the name of the payer and the address to which the receipt should be sent may, however, be stated below if desired.

SUPER-TAX.
1919-20.

Assessment No. _____

Tax £ _____

(THIS LINE IS FOR CORPORATIONS)

257 This part of the Form to be retained.

Year 1919-20.

Notice of Assessment under the Income Tax Acts by the Special Commissioners.

SUPER-TAX.

To _____

Register No. _____

Assessment No. _____

TAKE NOTICE, that the Special Commissioners of Income Tax have made an Assessment on you as follows, so Super-tax for the year ending 5 April, 1920, viz. :—

Assessment of total income after allowance of statutory deductions £

Super-Tax charged * £

If you intend to appeal against the Assessment, you must give Notice to me in writing and state the grounds of your appeal within twenty-eight days from the date hereof. All correspondence should contain a reference to the Register Number quoted above.

The whole of the tax is payable on or before 1 January, 1920 (except as regards Assessments signed and allowed by the Commissioners on or after that date, in which case the tax is payable on the day following that on which the Assessment was signed and allowed).

The tax should be paid or remitted without further application from this office, on or before the date on which it is payable, to the Accountant-General (Cashier) of Inland Revenue, Somerset House, London, W.C. 2.

Dated this _____ day of _____ 19 ..

{
Clark to the
Special Commissioners.

Windoor House, 83, Kingway, London, W.C. 2.

* The rates of tax are set out on the other side.

No. 10
S.C.

Super-tax for the year 1919-20 is chargeable in respect of incomes which exceed £2,500 at the following rates:—

In respect of—		
The first £2,000 of the income		Nil.
" next £500 "	... at 1s. 6d. in the £	"
" " £500 "	... at 1s. 6d. "	"
" " £1,000 "	... at 2s. 6d. "	"
" " £1,000 "	... at 2s. 6d. "	"
" " £1,000 "	... at 3s. 6d. "	"
" " £2,000 "	... at 3s. 6d. "	"
" " £3,000 "	... at 4s. 6d. "	"
" remainder of the income	... at 4s. 6d. "	"

^a Where the total income is only slightly in excess of £2,500, the amount of Super-tax payable is, by virtue of the provisions of the Income Tax Act, 1918, the amount by which the income exceeds £2,500.

^a In the case of the death of an individual liable to super-tax during any year for which super-tax is charged, a part only of the year's super-tax shall be payable, proportionate to the part of the year which has elapsed before the date of the death.^b Income Tax Act, 1918, Sect. 6.

EXAMPLES:—

Income, £	Super-tax, s. d.
£2,501	...
2,501	...
2,527	...
2,527	...
2,550	...
2,550	...
3,000	...
3,000	...
4,000	...
4,000	...
5,000	...
5,000	...
6,000	...
6,000	...
7,000	...
7,000	...
8,000	...
8,000	...
9,000	...
9,000	...
10,000	...
10,000	...
Exceeding	...

plus 4s. 6d. on each £ of the excess over £10,000.

EXPENDITURE IN 1919-20.

I. CONSOLIDATED FUND SERVICES.		II. SUPPLY SERVICES.	
	£		£
National Debt Services	...	Army	...
Expenditure on Local Taxation Accounts, &c.	...	Air Force	...
Other Consolidated Fund Services	...	Naval Services	...
	...	Public Education	...
	...	Old Age Pensions	...
	...	Unemployment Pensions	...
	...	Insurance, &c.	...
	...	Civil Decolonisation and Reconstruction	...
	...	Loans to Dominions and Colonies	...
	...	Railway Agreements	...
	...	British School	...
	...	Other Civil Services	...
	...	Adm. Supplementary Estimates to be presented	...
	...	Unions and Exchequer and Inland Revenue Departments	...
	...	Post Office Services	...
	...	Total	...
Total	...	Grand Total	...

Appendix No. 42.

NOTICE OF INCOME TAX ASSESSMENT UNDER SCHEDULE D.

Handed in by Mr. E. R. HARRISON, on 21st November, 1919.

Parish: _____

No. of Assessment.....

INCOME TAX: YEAR 1919-20.

Notice of Assessment under Schedule D.

Tax payable on or before the date or dates shown below.

To..... of.....

TAKE NOTICE, That an Assessment has been duly made on you under Schedule D by the Commissioners of Income Tax, for the year ending the 5th of April, 1930, as follows:—

						In respect of Profits of Trade Professions, Employment or Vocation.	In respect of other Profits, viz—				
						£	s.	£	s.		
AMOUNT OF ASSESSMENT.....											
LESS ALLOWANCES FOR—											
Abatement	Life Assurance	Wear and Tear of Machinery and Plant	Wife (or allowance in other circumstances for Housekeeper)	Children	Independent Help (who is main- tained by self or family)						
£	£	£	£	£	£						
						{ at 6/- in the £..... { at 5/3 in the £..... { at 4/6 in the £..... { at 3/9 in the £..... { at 3/- in the £..... { at 2/3 in the £..... { at in the £.....					
NET ASSESSMENT.....											
TAX CHARGEABLE THEREON						£	s.	d.	£	s.	d.
LESS DEDUCTIONS (if any) as under :—											
(i) Relief under head I overleaf.....											
(ii) Allowance for Life Assurance (where not already deducted above) at } maximum rate of 3s. in the £. }											
(iii) Relief of s. d. in the £ on Unearned income from taxed dividends } or interest, etc., due by reason of such income being taxed at the } full rate of 6s. in the £ instead of at the reduced rate applicable } where the total income does not exceed £2,000. }											
(iv) Soldiers, Sailors, Airmen, Seamen, etc.—Special relief, so far as not } otherwise allowed. }											
NOTE. <i>In the case of partial individuals or firms from trade, profession, or employment or vocation, the tax is payable in two instalments, one on or before 1st January, 1920, and 1st Jan'y, 1921, respectively, any relief under (ii) or (iii) above being allowed in equal parts from the instalments, and any relief under (iv) or (v) from the first instalment only, as possible.</i> <i>In other cases, the tax is wholly payable on or before 1st January, 1920.</i>											
Net Tax payable on or before 1st January, 1920											
Net Tax payable on or before 1st July, 1920 ..											
[The Collector will apply in due course for the net tax payable should no appeal be made.]											

If you intend to appeal against this Assessment you must :—

- (1) give notice of your objection in writing, within twenty-one days of the date hereof, to H.M. Inspector of Taxes at his office, situate at
- and (2) appear before the General Commissioners personally, or, if the Commissioners for any cause permit, by duly authorised agent, at the time and place fixed for hearing appeals (of which due notice will be given), unless you are previously advised that such appearance is unnecessary.

Dated this _____ day of _____, 19 _____

Clerk to the said Commissioners.

APPEALS.

On giving notice of objection, you should state the grounds of your appeal, and transmit to the said Inspector a full and complete account of your profits or gains from Trade, Profession, Occupation and/or other sources chargeable under Schedule D for each of the three years ending either on the date, prior to 5th April, 1913, to which your annual accounts have usually been made up, or on 5th April, 1913. If you have commenced business within the said period of three years, your accounts must show the profits or gains from the period of commencement. Particulars must be given of all Deductions made by you in arriving at the profits for each year.

NOTE.—If the Assessment against which you desire to appeal is in respect of profits from Interest, Annuities or Discounts, not taxed by deduction, an account should be rendered for one year only, ending on 5th April, 1913; if in respect of profits from Colonial or Foreign Securities, an account should be rendered for the year of assessment.

If you claim Abatement, Allowance for Life Assurance, Relief in respect of Wife, Children, Adopted Children, or Dependent Relatives incapacitated by old age or infirmity, the Relief granted in certain circumstances for a Housekeeper, or Reduction of Rate of Tax, not already allowed, you should apply to the Inspector within twenty-one days of the date hereof, and, in the case of Life Assurance, produce to him the receipts for Premiums paid during the past twelve months.

You can, if you so desire, appeal to the Special Commissioners, instead of to the General Commissioners, on giving notice in writing to that effect to the Inspector within the period above stated, and in that event the day for hearing appeals by the Special Commissioners will be notified to you in due course.

The Name of the Parish and the Number of Assessment should be quoted in all communications.

I.—Restriction of the amount of tax payable when the income from all sources exceeds only by a small margin any of the following limits, viz., £130, £400, £500, £600, £700, £800, £1,000, £1,500, £2,000, £2,500, and also (in the case of Soldiers, Sailors, Airmen, Seamen, etc.) £300.

Where, owing to the fact that the total income exceeds one of the above limits, a person (a) is liable to pay tax at a higher rate, or (b) ceases to be entitled to any exemption or abatement, or (c) becomes entitled to a reduced exemption or abatement—the amount of tax payable is not to exceed the sum of the following amounts:—

- (i) the amount of tax which would have been payable if his total income had reached, but had not exceeded, that limit; and
- (ii) the amount by which his total income exceeds that limit.

Where tax is charged at different rates on different parts of the total income, the deduction from total income required in calculating the amount of tax under (i) above is to be made from that part of the total income which is taxed at the lowest rate.

II.—Circumstances in which applications for adjustment may be preferred at the end of the year of assessment.

(1) In the event of the profits of the year of assessment falling short of the sum assessed, owing to circumstances attributable directly or indirectly to the war: provided that (except in the case of a person who, in connection with the war, is or has been serving during the year of assessment as a member of any of the naval or military forces of the Crown, or of the Air Force, or in any work abroad of the British Red Cross Society, or the Saint John Ambulance Association, or any other body with similar objects) no relief can be claimed unless the average profits of the last three years, including the year of assessment, fall short of the sum assessed.—*Income Tax Act, 1918, sec. 43.*

(2) In the event of a person ceasing to carry on a trade, profession, employment or vocation, or dying or becoming bankrupt, before the end of the year, or from any other specific cause being deprived of or losing the profits or gains on which the computation of tax was made: provided that no relief is to be granted to a person who has succeeded to the trade, profession or vocation of a person charged, unless it is proved that the profits have fallen short, from some specific cause, since, or by reason of, the succession.—*Income Tax Act, 1918, First Schedule, Rule 3 of the Miscellaneous Rules applicable to Schedule D.*

(3) In the event of the discontinuance in any year of a trade, profession or vocation.—*Income Tax Act, 1918, First Schedule, Rule 8 (2) of the Rules applicable to Cases I and II, Schedule D.*

(4) In the event of a loss being sustained by any person during the year (a) in any trade, profession, employment or vocation, or (b) in the occupation of woodlands in respect of which the occupier has elected to be charged under Schedule D.—*Income Tax Act, 1918, sec. 34.*

(5) In the case of a trade, profession, or vocation set up or commenced within the year of assessment, or within the three preceding years, upon the average of which the profits are to be taken, if the profits arising in the year of assessment fall short of the sum assessed.—*Income Tax Act, 1918, First Schedule, Rule 8 (1) of the Rules applicable to Cases I and II, Schedule D.*

(6) In the case of a person who has paid United Kingdom Income Tax on any part of his income at a rate exceeding 3s. 6d. and who proves that he has also paid any Colonial Income Tax in respect of the same part of his income.—*Income Tax Act, 1918, sec. 55.*

(7) In the event of the actual income of an individual from all sources for the year of assessment being proved to be less by more than 10 per cent. than the income on which he has been assessed and charged.—*Income Tax Act, 1918, sec. 44.*

Appendix No. 43.

RATES OF INCOME TAX AND SUPER-TAX.

Handed in by Mr. E. R. HARRISON on 21st November, 1919.

RATES OF INCOME TAX AND SUPER-TAX.

YEAR 1919-20, ENDING 5TH APRIL, 1920.

INCOME TAX.

I.—The standard rate is 6s. 0d. in the £.

this rate is payable—

- (a) where the income (including wife's income) exceeds £2,500, or
 (b) where the income (including wife's income) exceeds £2,000, in
 so far as the income is unearned, *i.e.*, derived from property,
 investments, annuities, etc.

II.—In other cases a modification of this rate can be obtained (by the methods explained in the following paragraph, No. III) so as to make the rate of tax finally payable on incomes (including wife's income)—

		On earned portion.	On unearned portion.
Not exceeding £2,500 but exceeding £2,000		5s. 3d. in the £	6s. 0d. in the £
" "	£2,000 " " £1,500	4s. 6d. "	5s. 3d. "
" "	£1,500 " " £1,000	3s. 9d. "	4s. 6d. "
" "	£1,000 " " £500	3s. 0d. "	3s. 9d. "
" "	£500	2s. 3d. "	3s. 0d. "

III.—The methods of allowing the modification are as follows, viz. :—

- (a) As regards *earned income*, and any *unearned income not tax d by deduction*, *e.g.*, interest on war securities—
 The assessments on the individual will be at the appropriate rates ascertained by reference to the statement of total income rendered by him for 1919-20.

- (b) As regards *unearned income from property*—

The assessments on the property will be at the appropriate rate or rates, provided that a declaration of total income has been delivered to the local Assessor or Inspector of Taxes.

- (c) As regards *unearned income taxed by deduction*, *e.g.*, income from investments and annuities—

(1) Where the taxpayer is directly assessed in respect of income from other sources, and a declaration of total income has been delivered to the local Assessor or Inspector of Taxes, the relief in respect of the income taxed by deduction will be allowed as far as possible from the direct assessment without further application.

(2) Where there is no such direct assessment, but the taxpayer has property, the relief due will be allowed so far as possible from the assessments on the property, provided that he makes a claim *early* in the financial year on a form which can be obtained from H.M. Inspector of Taxes for the district.

(3) Where the relief cannot be (or has not been) allowed in either of the preceding ways, repayment may be claimed half-yearly (on a form to be obtained from the Secretary Inland Revenue (Claims Branch), Australia House, Strand, London, W.C. 2, or from the local Inspector of Taxes). The first claim may be made as soon as one-half of the income for the year ending the 5th April has been received.

[Notes.—Other abatements, allowances, etc., are set out and explained in the Forms of Return and Claim, and in the Assessment Notices.

There are special provisions modifying the effect of the increase in the rate of tax where an individual's income just exceeds any of the several income-limits.

Soldiers, Sailors, Airmen, Seamen, etc., are entitled, under certain conditions, to a special scale of allowances, and to special reduced rates of tax on their pay. Details are given *overleaf*.]

Any necessary further information will be supplied by H.M. Inspector of Taxes for the district upon application.

SUPER-TAX.

An additional duty of Income Tax, viz., the Super-tax, is chargeable upon incomes exceeding £2,500, on the following scale :—

On the first		£2,500 of the income	{ £2,000	at	Nil
			£500		1s. 0d. in the £
" next	£500 (£2,500 to £3,000)			"	1s. 6d. "
" fourth	£1,000 (£3,000 to £4,000)			"	2s. 0d. "
" fifth	£1,000 (£4,000 to £5,000)			"	2s. 6d. "
" sixth	£1,000 (£5,000 to £6,000)			"	3s. 0d. "
" seventh and eighth	£1,000 (£6,000 to £8,000)			"	3s. 6d. "
" ninth and tenth	£1,000 (£8,000 to £10,000)			"	4s. 0d. "
" remainder of the income (above £10,000)				"	4s. 6d. "

[It is the duty of every person chargeable with the Super-tax to give notice that he is chargeable, to the Special Commissioners of Income Tax, Windsor House, 83, Kingsway, London, W.C. 2, BEFORE 30th SEPTEMBER in the year for which the Super-tax is chargeable.]

P. THOMPSON,
 Secretary.

ISLAND REVENUE,
 SOMERSET HOUSE,
 July, 1919.
 No. 64-10.

[P.T.O.]

SOLDIERS, SAILORS, AIRMEN, SEAMEN, ETC.

SPECIAL INCOME TAX RELIEFS.

The following special provisions apply in the case of—

- (a) a person who has served during the year as a member of any of the naval or military forces of the Crown, or of the Air Force, or in service of a naval or military character in connection with the war for which payment is made out of money provided by Parliament, or in any work abroad of the British Red Cross Society or the St. John Ambulance Association, or any other body with similar objects,*
- or (b) a person serving during the year for not less than 3 months as master or a member of the crew of any ship or fishing boat.

(1) The reduced rates of Income Tax shown hereunder are applicable to the pay received in connection with such service :—

Where the total income (including wife's income)				9d. in the £	
does not exceed £300	...	...	...	...	...
exceeds £300 but does not exceed £500	...	...	...	1s. 3d.	"
" £500	"	"	£1,000	...	1s. 3d.
" £1,000	"	"	£1,500	...	2s. 3d.
" £1,500	"	"	£2,000	...	2s. 3d.
" £2,000	"	"	£2,500	...	3s. 3d.
" £2,500	...	...	...	...	3s. 6d.

(2) The ordinary abatements, etc., set out and explained in the Forms of Return, are extended as follows :—

Total exemption is granted when the income from all sources does not exceed £160	
An abatement of £160	£300.

(3) Where the pay received in connection with the service as a soldier, sailor, airman, seaman, etc., is not the sole income, the deductions for abatement, life assurance premiums, wife, children, dependent relatives, etc., are allowed first against any *earned* income other than the before-mentioned pay, then against any *unearned* income, and lastly any balance of the deductions will be allowed from the assessment on the *pay*.

* For the purpose of these reliefs, a person is not to be deemed to have served as a member of the naval or military forces of the Crown or of the Air Force, unless he has served—

(a) on the active list of the Navy; or

(b) in the Army or the Air Force, as the case may be, either with the colours or as an airman in Air Force service, or as an officer on full pay or at a rate of pay equivalent to full pay, and either out of the British Islands or for at least one month continuously in the British Islands.

Appendix No 44(a)

Graphs handed in by the Association of Tax Surveying Officers on 3rd December 1919.
See paragraphs 2572, 2573 and 2575.

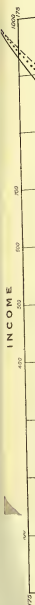
UNEARNED INCOME.

- A ————— Present System.
B Scheme proposed in Pers: 4029-4042 of Minutes of Evidence.
C - - - - - " " " " Par: 4024 " " " "
D - - - - - Alternative Scheme.
B D Merged

NOTES: Between the income limits of £1000 and £1500 D is identical with B.
To avoid Congestion, C is shown only for incomes of £1000 and upwards.



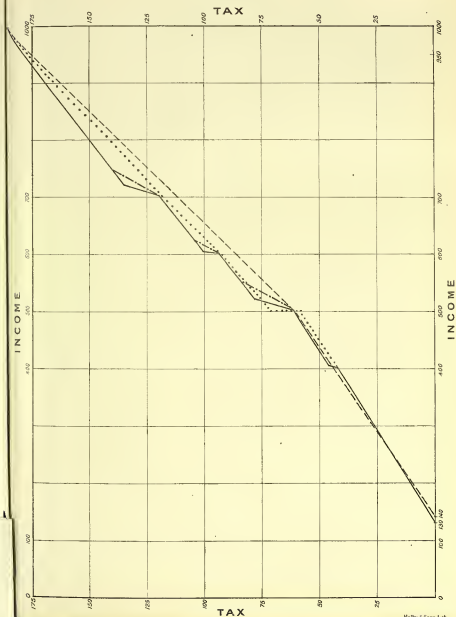
A
B
C
D



UNEARNED INCOME.

CONTINUATION OF THE LOWER PART OF APPENDIX N° 44 (a), SHOWING THE INCIDENCE ON INCOMES NOT EXCEEDING £1,000.

- A ——— Present system
 B Scheme proposed in pars. 4029-4042 of minutes of evidence.
 C - - - - - " " " " 4024 " " " "
 D - - - - - Alternative scheme.



Appendix No 45(a)

GRAPH SHOWING, BY COMPARISON WITH GRAPH 1A IN APPENDIX 12 AND WITH THE GRAPH IN APPENDIX 13 OF THE MINUTES OF EVIDENCE (SO FAR AS THEY RELATE TO INCOMES NOT EXCEEDING THE SUPER-TAX LIMIT), THE EFFECTIVE RATES OF TAX UNDER THE ILLUSTRATIVE SCHEME OUTLINED IN PARS. 25772, 25773 AND 25775 OF THE EVIDENCE GIVEN ON BEHALF OF THE ASSOCIATION OF TAX SURVEYING OFFICERS TO THE ROYAL COMMISSION ON THE INCOME TAX, ON CERTAIN ASPECTS OF GRADUATION AND DIFFERENTIATION.

Present System; income all "unearned"

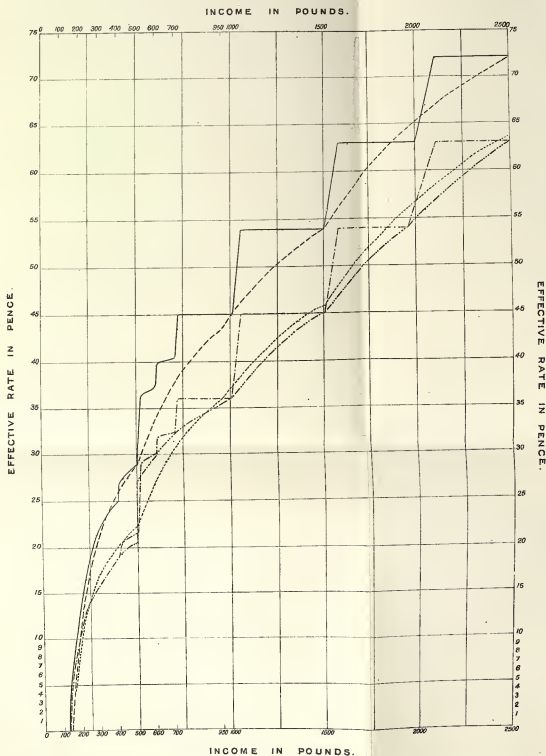
Do. ; income all "earned"

Scheme outlined in paragraphs 4031 and 4032 of the Minutes of Evidence, income all "earned"

25772 and 25773 " " " income all "unearned"

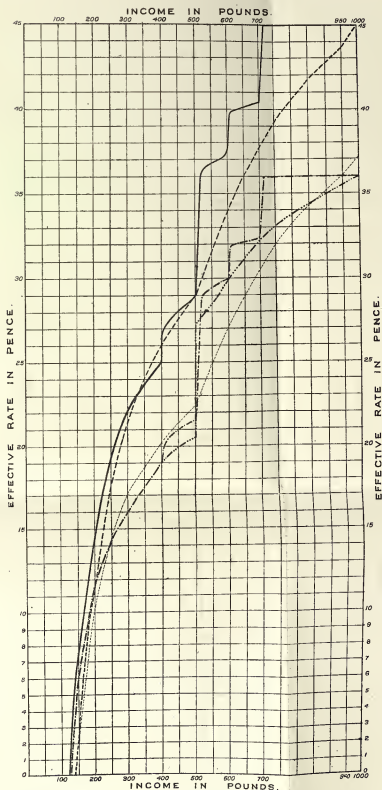
if differentiation be effected, as suggested in paragraph 25775(c) of the Associations evidence, by an allowance of 3d in the t.

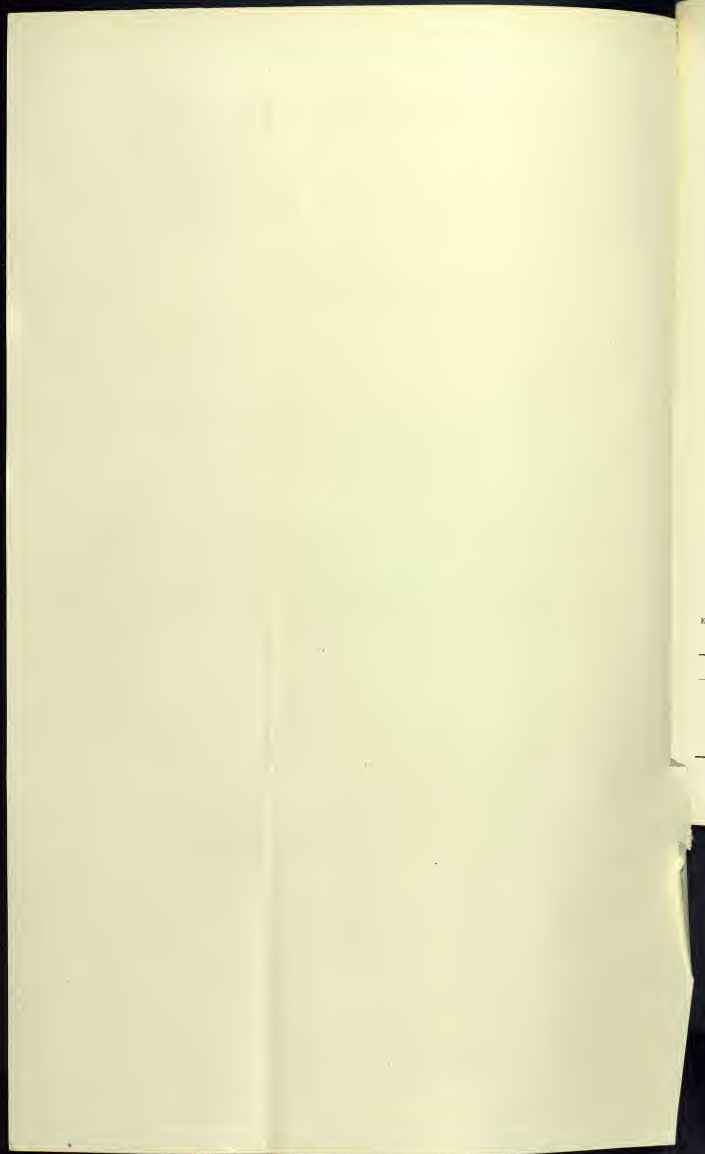
* This curve would be applicable also to the "chargeable" income, if differentiation were effected by elimination of some fraction of the earned portion of a composite income, as suggested in sub-paragraphs 25775 (a) and 25775 (b).





ENLARGEMENT OF THE LOWER PART OF APPENDIX N^o 45(a) SHOWING
THE INCIDENCE ON INCOMES NOT EXCEEDING £1,000.





Appendix No. 46.

DATA FOR GRAPHS IN APPENDICES NOS. 44 (a) AND (b), AND 45 (a) AND (b), REPRESENTING EFFECTIVE RATES OF TAX, FURNISHED TO THE ROYAL COMMISSION ON THE INCOME TAX, AT THE REQUEST OF DR. STAMP, BY THE ASSOCIATION OF TAX SURVEYING OFFICERS.

Scale in per. 25,772.					Present system.				
		Earned income. sd. relief.			Earned.		Unearned.		
Income. £	Tax (£).	Rate (pence).	Tax (£).	Rate (pence).	Income. £	Tax (£).	Rate (pence).	Tax (£).	Rate (pence).
140	5	7	—	—	403	—	45	45	26·8
170	5	12	7·75	9·8	410	34·875	20·4	40·5	27·2
200	10	15·7	—	—	420	36	20·6	43	27·4
220	16	18·5	15·5	14·3	440	38·6	20·9	51	27·8
260	20	20·7	25·25	17·4	450	39·375	21	52·5	28
290	25	22·5	—	—	460	40·5	21·1	—	—
320	30	24	34·5	20·2	480	42·75	21·4	—	—
350	35	26·5	—	—	490	43·875	21·5	—	—
410	45	28·1	46·5	22·3	500	45	21·6	60	28·8
440	50	28·8	55	24·45	515	60	28	78	36
470	55	29·5	—	—	518	—	—	—	—
500	60	31·1	142·125	35·9	520	63	29	84·375	36·8
540	70	33	155·25	37·9	550	—	—	—	—
580	80	35·6	176·25	39·2	560	66	29·6	—	—
600	85	37	183·75	40·1	580	72	29·8	—	—
640	95	38·3	207·75	41·6	600	75	30	98·75	37·5
680	105	39·5	229·25	43·5	603	80	31·7	100·70	39·8
720	115	40·5	270·75	46·2	610	81	31·9	—	—
760	125	41·4	286·5	43·8	690	84	32	108·75	40·1
800	135	43·5	345·6	50·1	695	87	32·1	—	—
840	145	45	376·5	51·8	670	90	32·2	—	—
950	172·6	47	403·6	53·2	695	95	32·3	—	—
1000	187·5	49·5	436·5	55·1	700	100	32·4	118·125	40·5
1080	211·6	51·8	466·6	56·5	For other data see Table I, paragraph 3638 of the Minutes of Evidence.				
1200	247·5	53·2	495·5	58·9	Scheme in paragraphs 4031 and 4032 of Minutes of Evidence.				
1320	283·6	55·1	529·25	60·1	Income (earned).		Tax (£).		Rate (pence).
1440	319·5	56·2	559·5	61·6	£	42·75	20·5	—	—
1500	337·5	57·5	570·75	62·9	500	56·25	27·1	—	—
1660	403·5	58·35	601·1	63·6	just exceeding 500	60	27·7	—	—
1740	436·5	60·2	636·5	65·1	520	78·75	30·8	—	—
1820	469·5	61·9	666·6	66·5	620	93·75	32·2	—	—
1900	502·5	63·5	696·5	68·6	700	112·5	33·7	—	—
1980	535·6	64·9	726·5	70·1					
2300	667·6	69·65	889·5	81·6					
2500	750	72	961·5	83·6					

Appendix No. 47.

EXAMPLES HANDED IN BY THE ASSOCIATION OF TAX SURVEYING OFFICERS, ON 3rd DECEMBER, 1919, TO ILLUSTRATE THEIR EVIDENCE ON GRADUATION (see Q. 26,345.)

EXAMPLE A.—Example of "chord zone" scale, illustrating effect of a 25 per cent. increase in standard rate, i.e., from 6s. to 7s. 6d., but without increase of the burden on incomes under, say, £2,000.

Scale.

Range.	Abatement.	Rate.
£160 to £500	£140	3s. 3d.
£500 to £550	£260	5s.
£550 to £1,500	£375	6s.
£1,500 to £2,000	£600	7s. 6d.
£2,000 to £3,200	£600, reduced by £1 for every £2 increase of income.	7s. 6d.
Above £3,200	Nil	Standard rate and Super-tax.

EXAMPLE B.—Example of a "chord zone" system with exemption limit of a purely earned income £250 ; exemption limit of a purely unearned income £200.

Differentiation to be given effect to by freeing from taxation one-fifth of the earned portion of the total income up to a maximum exclusion of £200, i.e., one-fifth of the first £1,000.

Scale.

Range.	Abatement.	Rate.
Chargeable Income. £200 to £250	£200	4s.
£250 to £300	£200	5s.
£300 to £1,500	£375	6s.
£1,500 to £2,000	£375, decreased by £1 for every £4 advance in income.	6s.
£2,000 to £2,500	£250, decreased by £1 for every £2 advance.	6s.
Above £2,500	Nil	Standard rate and increased Super-tax to compensate loss of yield due to raising of exemption limit.

Note.—The incidence on earned incomes as compared with the present system would then be:—

—	New scale.	Old scale.
On £500 purely earned	£40	£45
On £1,000 " "	£135	£150
On £1,500 " "	£277 10s. 0d.	£281 5s. 0d.
On £2,000 " "	£450	£450

EXAMPLE C.—Example of a "chord zone" scale, illustrating the effect of a 10 per cent. all round increase of rate.

The zone limits and abatements given in paragraph 25 of our evidence-in-chief [Q. 25,772 of the Minutes of Evidence] will remain unaffected, the rates only being varied.

A 10 per cent. increase on the standard rate would give 6s. 7½d., but if the standard rate were raised to a round 6s. 8d. a slight increase in the "natural" abatement of £375 would ensue in the zone commencing at £950. The new abatement would be £380 15s. 0d. exactly; but £380 might be adopted in practice.

Resultant scale.

Range.	Abatement.	Rate.
£140 to £250	£140	3s. 8d.
£250 to £350	£260	5s. 6d.
£350 to £1,550	£380	6s. 8d.
£1,550 to £2,550	£380, reduced by £2 for every £5 increase of income.	6s. 8d.
Above £2,550	Nil	Standard rate 6s. 8d. and Super-tax.

Appendix No. 48 (a).

MEMORANDUM PREPARED BY THE BOARD OF INLAND REVENUE AT THE REQUEST OF THE ROYAL COMMISSION ON THE INCOME TAX WITH REGARD TO THE POSITION OF SUPERANNUATION FUNDS OF PUBLIC COMPANIES AND CORPORATIONS IN RELATION TO THE INCOME TAX.

I. BRIEF STATEMENT OF POSITION.

1. The ordinary Superannuation Fund is built up of:—

- contributions by the employer;
- contributions by the employee;
- interest or dividends on the invested funds.

There are, however, numerous funds where either the employers or the employees make no contributions.

(a) Contributions by the employer.

2. These are generally regular contributions equal to, or bearing a fixed proportion to, the employees' contributions. Such contributions are allowed to be deducted, as a working expense, in computing the

liability to Income Tax of the profits of the business under certain conditions, viz:—

- that the amounts in question are definitely alienated by the employer and do not represent a reserve fund over which he retains control; and
- that it is provided that the employees shall ultimately benefit to the full extent of their contributions.

(b) Contributions by the employees.

3. The question whether or no the employees' annual* contribution can be allowed as a deduction

* Initial contributions, whether of the employer or of the employee, made in order that an employee with several years' service may come into the fund on a satisfactory footing are disallowed as being in the nature of capital expenditure.

in assessing his earnings depends on the nature of his prospective benefit from the fund.

If that benefit is to be paid in the form of a pension or annuity on retirement (in which case it is taxable income) the contributions to the fund are allowed.

Conversely, if the benefit is to be paid in the form of a lump sum, that is, of a payment which is not taxable, the contribution to the fund is not allowed. (If it were, the employee's savings would be relieved from tax altogether.)

Where the benefit is to be paid in the form of a pension or annuity on retirement, but provision is also made for payment of a lump sum on death or retirement before pension age, it is made a condition precedent to the allowance of the employee's contribution that tax shall be accounted for to the Revenue on so much of the lump sums paid on retirement (but not on death) as represent the returned contributions of employees liable to Income Tax.

(c) *Interest or dividends on the invested funds.*

4. The income from the investments of a fund is liable to tax in full like any other income of this nature. On payment of pensions, however, the fund is entitled to deduct tax at the full rate from the pensions* and (so far as the pensions are paid out of the investment income of the fund which has borne tax) to retain the tax so deducted. Thus it suffers tax, if at all, only on its undistributed income.

5. In the case of funds which have been in existence for a number of years, and have not substantially increased their membership, the pensions either exceed the taxed investment income or approximate to it; correspondingly, the tax deductible from the pensions either exceeds or approximates to the tax paid on the investment income, with the result that little or no tax falls upon the fund. (This represents the position of most of the railway funds.)

6. In the case of funds which have only been in existence a short time or have increased their membership substantially, the converse holds good; that is to say, the investment income exceeds the pensions paid and the tax on the excess falls upon the fund.

II. STATEMENT AS TO RELIEF SOUGHT BY THE FUNDS.

7. As just explained, the Superannuation Funds—

- (a) pay Income Tax at the full rate on all their incomes from investments; and
- (b) afterwards recoup themselves to the extent of tax at the full rate on so much of that income as is distributed in pensions.

In other words, the funds ultimately bear tax at the full rate on their undistributed income. This is the subject of their complaint.

8. The funds seek relief from the tax in whole or in part, putting forward as reasons—

- (a) that they encourage thrift, and that certain other funds which do the same are accorded exemption; and
- (b) that their individual members have small incomes and consequently are either exempt or liable at the lower rates of tax only.

* Where a fund has deducted tax from a pension at the full rate, the pensioner can of course claim any repayment to which he may be entitled by reference to the amount of his total income. In order to save separate claims for repayment by the individual pensioners, the Inland Revenue Department has made an arrangement with many pension funds under which the fund deducts tax from the pensions only to the extent of the pensioner's net liability, the amount of which is notified by the Department to the fund. The Department subsequently repays or allows to the fund an amount representing the difference between the tax at the full rate on the amount of taxed income distributed in pensions and the aggregate liability of the pensioners in respect of their pensions.

9. The burden of the complaint is that the effect of the present high rates of Income Tax is to diminish the accumulations to such an extent that the funds may ultimately become insolvent, thereby necessitating other increased contributions by the employer or by the employee or both. On the other hand, recently established Superannuation Funds, which are these mainly affected by the burden of tax on undistributed income, are making additional investments as their funds increase, and on these new investments they are earning a higher gross rate of interest than that anticipated at the time of inception of such funds.

10. As regards 8 (b), the various kinds of relief which the Income Tax Acts provide for individuals* by reference to the amount of their total income do not extend to any bodies or associations of persons.

11. As regards 8 (a), there is no general relief from Income Tax in favour of funds which encourage thrift.

There are, as the Superannuation Funds point out, exemptions in favour of registered Friendly Societies, savings banks, and Co-operative Societies. As will be seen, however, these exemptions are very limited in character. It has, of course, to be borne in mind that in each case the member or depositor whose income exceeds £130 is liable to direct assessment in respect of any income of a taxable nature which he receives in full from the society or bank.

12. Registered Friendly Societies are exempted from tax if they do not assure more than £200 or grant annuities in excess of £22 a year. The limit attached to this exemption seems to indicate that the intention was to confine it to societies all or practically all of whose members are exempt. The exemption certainly could not be justified if the limiting conditions were removed.

The special Income Tax provisions relating to savings banks do not affect their undistributed income except so far as it is derived from investments with the National Debt Commissioners. These investments are only made by the banks' "general departments" in which the limit for deposits is £200. This exemption is, therefore, similar to the last, being based on the assumption that small depositors would not be liable to Income Tax.

The general exemption of the banks' funds under Schedules C and D is expressly confined to the income "applied in the payment or credit of interest to any depositor." This does not give the savings banks any advantage over the Superannuation Funds.

13. The exemption under Schedules C and D in favour of Co-operative Societies is not very closely in point in connexion with the question of thrift funds. A better analogy could be drawn with the Life Insurance companies who have in fact raised a similar claim. These companies build up large reserves out of their investment income in order to meet future liabilities. The policyholders who are eventually to benefit are for the most part people liable to the lower rates of Income Tax, but the undistributed income of the companies is, nevertheless, taxed at the full rate.

14. The question of the incidence of Income Tax on Superannuation Funds is merely a part of the general question of the treatment for taxation purposes of undistributed income of various classes of public and private bodies, and is one of the matters for the investigation of the Royal Commission.

* The only bodies to which a similar relief (i.e., a relief by reference to total income) is granted are unregistered Friendly Societies. There is a specific exemption in favour of such societies, where their income does not exceed £140.

Appendix No. 48 (b).

FURTHER MEMORANDUM PREPARED BY THE BOARD OF INLAND REVENUE WITH REGARD TO THE POSITION OF SUPERANNUATION FUNDS OF PUBLIC COMPANIES AND CORPORATIONS IN RELATION TO THE INCOME TAX.

1. The Board of Inland Revenue have already furnished, at the request of the Royal Commission, a memorandum setting forth the present position of these Superannuation Funds in relation to the Income Tax, and embodying a statement as to the relief from tax sought by the funds.

2. Mr. J. C. Mitchell in his evidence on behalf of the Conference of Superannuation Funds (questions 4465-4490) contended that the income from investments of Superannuation Funds should be exempt from tax (questions 4467 and 4483). He based his contention primarily on the ground that a "Superannuation Fund is merely a channel, and income passing through it should be taxed only at the destination, viz., the pensioner (or in the case of refund, the contributor)" (question 4480).

3. Mr. Mitchell also stated that with the limit of exemption at £130 as at present, approximately 85 per cent. of the pensioners of all the Superannuation Funds represented by the Conference of Superannuation Funds are not liable to Income Tax, while the remainder, with few exceptions, are liable only at the lowest rate (question 4473).

4. The Board of Inland Revenue consider that there is much force in the contention that the fund should be regarded as a mere channel.

It is clear, moreover, that the basis of the funds is such that the existing method of ignoring any

considerations other than the interest received and the pensions paid in any particular year cannot avoid hardship.

5. If the Royal Commission should in all the circumstances see fit to concede the request put forward on behalf of the Conference of Superannuation Funds that the interest on investments held by the funds should be relieved from tax (the pensions paid remaining taxable as at present) the Board for their part would offer no objection.

6. The Board have arrived at this conclusion, having regard to the facts (i) that a Superannuation Fund exists not for the purpose of making profits or of accumulating unnecessary funds but for the sole purpose of paying pensions to the contributors, and that the pensions constitute the sole and comprehensive charge on the investments of the fund; (ii) that the pensioners are for the most part exempt from tax; (iii) that such pensioners as are not exempt are specifically taxable in respect of their pensions as and when they receive them, and (iv) that any alternative method of relieving the obvious hardship involved by considering only the interest received and pensions paid in a particular year would be far less simple, and in the long run is not likely to cost much less.

7. The cost of the exemption would be about £100,000 a year at the present rates of tax.

Appendix No. 49.

MEMORANDUM BY THE BOARD OF INLAND REVENUE REGARDING THE GRADUATION OF THE INCOME TAX WITH REFERENCE TO THE EXTENT OF THE "ZONES" TO WHICH PARTICULAR RATES OF TAX APPLY.

1. The suggestion has been made from time to time that the existing method of graduation of the Income Tax would be improved if the changes of rate were smaller in amount and took place at closer intervals in the scale. For example, it is suggested sometimes that, instead of the rate for (unearned income) being changed from 3s. to 3s. 9d. at £500, and from 3s. 9d. to 4s. 6d. at £1,000, smaller changes in the rate might take place at every £100.

2. The Board of Inland Revenue offer some observations upon the practical aspects of a proposal of this kind.

3. Experience shows that in the case of an Income Tax such as that of the United Kingdom—a tax which is collected, as far as possible, at the source, and in which assessments are made upon separate items of income at the several places at which those items arise—a primary necessity for the smooth working of the tax is a system which enables the assessing authority to ascertain very readily the particular rate at which a given taxpayer is chargeable.

4. Under the present system it is in the great majority of cases easy to ascertain whether a taxpayer is chargeable at the 3s. rate, the 3s. 9d. rate, the 4s. 6d. rate or otherwise. It is clear that the smaller the zone to which the various rates apply the greater the difficulty in ascertaining with certainty the proper rate in a particular case. It will be recalled in this connection that very many assessments have to be made at a time when the taxpayer's total income for the year of assessment is only approximately known.

5. It is necessary to make very exact inquiries as to the precise amount of a taxpayer's income when the amount as returned falls close to a point at which the rate of tax changes. For example, if a tax-

payer returns his total income at £490 or £501, an exact examination of the statement is necessary before it can be said with certainty that the rate is 3s. or 3s. 9d., as the case may be, as some quite small error discovered afterwards in the return, or some unexpected alteration in the income, such as one due to a house becoming unoccupied or a married company paying a small dividend, might carry the income from one zone into the other. If a change of rate were prescribed at each £100, the number of these cases would be greatly increased.

6. It will be recalled also that the method of graduation now adopted produces irregularities, generally known as "jumps." An increase in the number of separate rates would, of course, increase the number of these "jumps," though the extent of each would be decreased.

7. A change in the rate of tax at any figure lower than, say, £400 would be extremely inconvenient not only to officials but to taxpayers, as compared with the present system. An enormous number of incomes fluctuate round any figure lower than £400, and an exact inquiry in so many cases would be very burdensome.

8. Further, any device which multiplies the number of different rates of tax increases mechanical difficulty. The difficulty arising out of a great number of separate rates will be appreciated when it is remembered that there are some twelve millions of separate assessments of houses, lands and buildings, and that it is practically essential when dealing with this large number of Schedule A assessments that the assessment books should be prepared and arranged much in the same form as that of rate books, except that they list, with the necessary alterations, for a

period of years. In addition to the mechanical difficulties arising out of the use of so many rates, numerous alterations of rates from year to year, due to a great number of small sums, could not fail to occasion much confusion.

9. While the Board do not suggest that the Income Tax would be unworkable if the rates to which specific rates apply were reduced to so small an

amount as £100, they are of opinion that the present facility with which the tax is worked would be very materially reduced. There can be no doubt in their opinion that, as a working method of graduation for incomes under £1,000, one change of rate at £500, with a system of varying abatements, has great practical advantages over a system of many changes of rates.

Appendix No. 50.

MEMORANDUM BY THE BOARD OF INLAND REVENUE ON THE SUBJECT OF SPECIAL RELIEFS FROM INCOME TAX (INCLUDING SUPER-TAX) INTRODUCED TO MEET WAR CONDITIONS.

1. As early as the autumn of 1914 it was found necessary to make legal provision to enable relief from the burden of taxation to be afforded in cases of hardship brought about by conditions resulting from a state of war.

2. In a number of cases businesses and professions were practically brought to a standstill on the outbreak of hostilities, and to have maintained the legal assessment to Income Tax under Schedule D on the average profits of preceding years in such cases might have imposed an unjustifiably severe burden. Also, a number of Super-tax payers, e.g., individuals with incomes largely derived from foreign sources, found themselves with incomes greatly reduced (in some few cases, with no income at all) and with a considerable liability to Super-tax based on the Income Tax income of the preceding year.

3. Accordingly, in the second Finance Act passed in the year 1914 (Finance Act, 1914 (Session 2)), several provisions were introduced for the allowance of relief in cases of diminution of income due to the war. A section of that Act provided that any person charged to Income Tax under Schedule D who proved that the profits of the year of assessment had fallen short of the amount of the assessment and that the diminution was due to circumstances attributable directly or indirectly to the war, was entitled to substitute for the amount of the assessment (based normally on an average of previous years) the average amount of the profits of the three years including the year of assessment. In the case of trade profits, the assessment for the year 4, based on the average profits of the years 1, 2 and 3, could be adjusted under this provision to the average profits of the years 2, 3 and 4.* Soldiers and sailors and certain other people engaged abroad on war work during any portion of the year of assessment were not required to adopt the three years' average, but could substitute the profits of the actual year for the amount of the assessment. This provision (as reproduced in section 43 of the Income Tax Act, 1918) represents a revival of the principle of section 133 of the Income Tax Act of 1842—a section which was repealed in 1907 following a recommendation of the Ritchie Committee in 1906. The revived relief, however, is of limited application inasmuch as it applies only to diminutions of profit due to circumstances directly or indirectly attributable to the war.

4. The next special provision to be introduced was that which made reduced rates of tax and other relief applicable to the service pay of sailors, soldiers, airmen and others. This is now section 42 of the Income Tax Act, 1918.

5. A measure of relief (now reproduced in section 44 of the Income Tax Act, 1918) was granted in 1916 to any individual who could prove that his actual income from all sources for the year of Income Tax assessment was less by more than 10 per cent. than the income on which he had been charged with tax for that year. A claim can, in these circumstances, be made for repayment of tax equal to the difference between the amount of the tax charged upon and

paid by the individual, and the amount which would have been paid if he had been charged on his actual income for the year.

6. In the second Finance Act of 1914 it was also provided that payment of Super-tax might be postponed when an individual could show that his actual income from all sources for the year of Super-tax assessment was less than two-thirds of the income on which he was charged to Super-tax, i.e., the Income Tax income of the preceding year. In these circumstances the individual was called upon to pay at the time only the Super-tax applicable to the actual income of the year, payment of the balance of the tax being postponed. This provision is now found in section 50 of the Income Tax Act, 1918.

7. The various reliefs mentioned in the foregoing paragraphs 3, 4, 5 and 6 are only operative for any year provided that the Finance Act for that year contains a specific provision to that effect. The reliefs have been continued in force year by year by successive Finance Acts.

8. It has been stated in the House of Commons that the service reliefs (section 42 of the Income Tax Act, 1918) will no longer apply after the end of the present Income Tax year 1918-20, and as regards the other special war reliefs, it would not seem that they should be continued as the necessity for their existence has now practically disappeared with the termination of the war and the gradual return to normal conditions.

9. In the first Finance Act of 1915, relief from Super-tax was afforded to soldiers, sailors, &c., for any year in which there was service on the part of the individual in connection with the war. A section of that Act provided that where in such cases the total Income Tax income of the individual for the year of Super-tax assessment was less than his total Income Tax income for the previous year (the statutory basis of Super-tax liability), the total Income Tax income for the year of assessment was to be taken as the measure of his Super-tax liability for that year. This provision, which is now reproduced in section 51 of the Income Tax Act, 1918, necessarily ceases to be operative on the termination of the war.

10. Cases arose in which, owing mainly to diminution of income since the outbreak of war, the amount paid by a taxpayer in respect of Life Assurance premiums exceeded one-sixth of his total income for the Income Tax year of assessment. In order to meet such cases, it was provided that during the war a taxpayer was to be allowed a deduction for Life Assurance premiums not exceeding one-sixth of his income for the last pre-war year, 1913-14, if that allowance was more advantageous to him than one-sixth of the income of the year of charge. This relief provision is now reproduced in section 45 of the Income Tax Act, 1918, and the section applies to any year of assessment which includes any time during which the war continues.

11. In the Finance Act of 1918, it was provided that where machinery or plant has been out of use through circumstances attributable directly or indirectly to the war, an allowance for depreciation should be granted on the same line as if diminished value had actually been caused by "wear and tear, during the year." This provision is reproduced in section 56 of the Income Tax Act, 1918.

* Where the profits of the year of assessment (4) are less than the amount assessed (average of 1, 2 and 3) but greater than the new average (2, 3 and 4) the assessment is in practice reduced to the profits of the year 4.

Appendix No. 51.

MEMORANDUM PREPARED BY THE BOARD OF INLAND REVENUE ON THE QUESTION OF CONTRIBUTIONS OF TRADERS TO TRADE ASSOCIATIONS IN THEIR RELATION TO INCOME TAX.

1. The question of the liability to Income Tax of Trade Associations and of the admissibility of subscriptions to such Associations as working expenses in the computation of the profits of businesses was dealt with in particular in the evidence offered to the Royal Commission by Mr. Alfred Hutchison on behalf of the Association of Trade Protection Societies of the United Kingdom (Questions 17,199 to 17,203).

2. The conditions of modern business and the variety of problems in recent years affecting all branches of commerce have given rise to the formation of Trade Associations in almost every class of trade.

3. These Associations are for the most part properly constituted bodies, sometimes incorporated, having articles or rules which define their scope, govern their action, and determine the conditions of their membership and administration. Their main objects are the general protection and advancement of the corporate and individual interests of the members of the trade concerned, and the discussion with a view to united action of all matters affecting the trade, whether in political, economical, industrial, commercial or technical spheres. In some cases power is taken to accumulate funds for the purpose of indemnifying members in the event of strikes by their operatives, or stoppage of work due to conditions which, unless resisted by the particular member, might, in the circumstances, adversely affect the whole trade.

4. Further objects vary in detail according to the particular trade and may include social and benevolent purposes.

5. The principal funds are derived from members' entrance fees and subscriptions which are either (1) on a fixed scale determined by rules, or (2) collected in the form of a levy on each member for his proportionate share of the ascertained expenditure from year to year.

6. Other revenues may arise from fines imposed on members for breach of rules, interest on invested moneys, or voluntary donations from well-wishers.

7. It is not unusual for the members of an Association to enter into pooling arrangements for the purpose of regulating the trade and maintaining prices. Members are allotted a certain proportion of the total trade to accord with the size and capacity of their various businesses as indicated by their previous turnovers. The profits earned by members on business done in excess of their agreed proportions are paid into the pool and after deduction of administrative charges, are divided among members whose business has fallen short of their allotted quotas. Keen competition and cutting of prices to secure orders are thus obviated.

8. The question of the admissibility as a trade expense for Income Tax purposes of payments to a Trade Association first came before the Courts in 1896 in the case of the *Rhymney Iron Co. v. Fowler* (3 Tax Cases 476) where the company sought to deduct their contribution to an Association, one of whose objects, *inter alia*, was to indemnify its members against loss in the event of stoppage of output by reason of strikes. The Court held that the deduction was inadmissible and the decision was taken as an authority for resisting all claims to deduct subscriptions to Trade Associations from that time.

9. In 1910, in the case of *Guest, Keen and Nettlesolds, Ltd. v. Fowler* (5 Tax Cases 511), a claim was made for the allowance of a subscription to the pool of an Association formed with the object of keeping up prices and the Court decided that the deduction claimed was allowable.

It does not appear, however, that the circumstances of this case were fully investigated. No inquiry was made as to whether the company's contribution had or had not actually been expended on

the objects for which it was made and the importance of this question does not seem at that time to have been appreciated.

10. The question was more exhaustively considered in 1913 in the case of the *Lochelly Iron and Coal Co., Ltd. v. Crawford* (6 Tax Cases 267) and the Court then held in effect that the contribution of a taxpayer to a Trade Association, in so far as it is actually applied by the latter in expenditure which would be admitted by the Income Tax Acts as a business expense if made by the trader himself, is allowable as a deduction for Income Tax purposes.

11. The principle of this decision was endorsed in 1915 in the case of the *Grahamston Iron Co. v. Crawford* (7 Tax Cases 25), where the Court upheld the refusal of the Special Commissioners to allow a deduction of levies paid to a Trade Association without the production of accounts of the latter as evidence of the manner in which the moneys in question had been expended.

12. Prior to the two last-mentioned decisions, in deference to numerous representations from traders, the Board of Inland Revenue took the matter into consideration and, as the result of negotiations with the representatives of several of the more prominent associations, agreed to enter into arrangements under which the contributions of the members might be allowed as expenses to the latter on condition that the association agreed to be assessed in respect of any portion of its income which was not applied to purposes admissible under the Income Tax Acts.

13. A copy of the form of agreement is given as an enclosure to this Appendix.

It will be observed that this agreement secures to the members of the association the full allowance of their contributions, and to the Revenue, tax on such portion of the contributions as may be unexpended or used to create a reserve or expended in such a way as would preclude the allowance thereof if paid and claimed by the trader himself.

14. An official list is kept by the Board of Inland Revenue of all associations which have adopted this agreement and all additions thereto are notified to the District Surveyors of Taxes from time to time in order that no question may be raised when the returns and accounts of the members are under examination.

15. The list at present comprises some 1,800 associations and the number is being increased daily.

16. The agreement is subject to variation in detail in particular cases to meet the special conditions of certain classes of associations. The modified agreements differ but slightly from the standard form. The general principles remain unaltered, but an endeavour is always made to meet any particular hardships or peculiar circumstances which any case may present.

17. If an association declines to adopt the agreement, it devolves upon the members who claim the allowance of their contributions to produce particulars of the constitution of the association and show to what extent their contributions are legitimately allowable under the decision in the case of the *Lochelly Iron and Coal Co., Ltd. v. Crawford*. The claim is then admitted to that extent.

18. The agreements above referred to are strictly voluntary and without such agreements there is no power in law to assess these associations which are mutual bodies not carrying on any trade or profession. Cases arise from time to time where the controlling members of an association decline to entertain the proposed agreement although many trading members may desire that they should do so, with the result that the traders either have to suffer the disallowance of their contributions or are put to the trouble of proving by means of the association's accounts, which they cannot always obtain, what proportion of their contribution is legally allowable.

Enclosure to Appendix No. 51.

ARRANGEMENTS APPROVED BY THE BOARD OF INLAND REVENUE UNDER WHICH SUBSCRIPTIONS AND LEVIES PAID BY MEMBERS OF THE ASSOCIATION MAY BE ALLOWED AS A TRADE EXPENSE IN COMPUTING THEIR INCOME TAX LIABILITY.

1. That the Association furnish copies of its Rules and Regulations to the Board of Inland Revenue.

2. That the said Association render annually accounts of its income and expenditure and pay tax on the balance of income over expenditure computed in accordance with the provisions of the Income Tax Acts, on the basis provided by Clause four thereof. In computing the said balance all administrative expenses, all payments to members of any kind (other than loans and payments of a capital nature) and all payments for legal charges in cases taken on behalf of the members, shall be treated as ordinary expenditure.

3. That members receiving payment of any kind (other than loans and payments of a capital nature) bring the amounts received to the credit of their individual trading accounts, and that the Association furnish particulars yearly to 31st December of the amounts paid in that way and to whom paid. In the event of any member or other person failing to account for the tax on any such receipts in the ordinary course the amount is to be included in the assessment upon the Association, i.e., by disallowing the items as deductible expenditure in computing the liability of the Association.

4. That the Association render accounts for the last completed year, and be assessed on such accounts for the year ending 5th April, 1911, that for the following year they be assessed on the basis of an average of the accounts for the two years preceding the year of assessment, and for the third year and subsequent years on the average of the three preceding years.

5. That the payment of subscriptions, entrance fees and levies be allowed, and receipts by members from the Association, if any, be credited in the accounts of the individual members for the three preceding years in computing the assessment for the year ending 5th April, 1911.

6. That contributions or subscriptions by the Association to any other organisation be only allowed as expenses on production of the accounts of such organisation and on evidence that it has entered into similar arrangements with the Board of Inland Revenue, or has no surplus income which ought, on the lines of this scheme, to be subjected to tax.

7. The existing and future accumulated funds of the Association to be regarded as taxed income in the event of the Association being wound up and the funds distributed among the members.

8. No allowance to be made or relief granted in respect of the excess of the expenditure of any year over the contributions except so far as is necessary for the computation of the three years' average.

9. In the event of any dispute as to the admissibility or non-admissibility of any item of expenditure, the question shall be submitted to the Commissioners of the District, or the Special Commissioners, for determination in the ordinary course, and subject to the right of appeal to the High Court, provided that the terms of this Agreement or the validity of the assessment made in accordance therewith shall not be otherwise impugned.

10. The Association to give an undertaking to abide by these Regulations.

11. This arrangement may be determined by the Board of Inland Revenue or by the Association on twelve months' notice expiring on the 5th April, in any year.

We desire to adopt the above arrangements and hereby undertake to fulfil the conditions thereof.

On behalf of

.....Chairman.

.....Secretary.

Dated,

Appendix No. 52.

MEMORANDUM BY THE BOARD OF INLAND REVENUE ON THE SUBJECT OF THE EXEMPTION FROM INCOME TAX ENJOYED BY FRIENDLY SOCIETIES.

1. A registered Friendly Society, i.e., a Friendly Society legally established under any Act of Parliament relating to Friendly Societies, which is restricted by Statute, or by its rules, from assuring to any person any sum exceeding £300, or from granting any annuity exceeding £33 a year is exempt from Income Tax (a), under Schedule A, in respect of its lands and houses, (b) under Schedule C, in respect of the dividends and interest belonging to the society, and (c) under Schedule D, in respect of interest and other profits and gains. The exemption is contained in section 39 (1) of the Income Tax Act, 1918.

2. It will be observed that the title to exemption of a Friendly Society is conditional upon the benefits to be granted by the society being limited to specified amounts. The limits for the benefits are identical with those contained in the Friendly Societies' Act, 1908, as a condition of registration under that Act.

3. The present limits for the purposes of the exemption from Income Tax came into force in the year 1909-10. The limits previously imposed in the Income Tax Act of 1842 as a condition of the exemption were £200 for assurance and £30 a year for an annuity, and having regard to the Income Tax exemption limit (£150) prescribed by that Act and to the general average of working-class incomes then prevailing, there can be no question that the great

majority of the members of Friendly Societies were then exempt, and this was doubtless the main reason underlying the grant of the exemption to the societies.

The benefits which Friendly Societies pay are, of course, of very varied descriptions; they include e.g., sick pay, death benefits, as well as annuities. The funds out of which these benefits accrue consist, broadly speaking, of contributions and of interest earned thereon, and it seems very natural that this interest—when arising from sums subscribed by exempt persons and when applied to the payment of benefits to exempt persons—should have been treated as outside the scope of an Income Tax.

4. Present-day conditions are, however, very different, and an appreciable proportion of the members of Friendly Societies are now liable to pay some Income Tax, even when all reliefs have been allowed. On this ground there may be some case for restricting the relief at the present time, although the Board of Inland Revenue do not wish for their part to press for any restriction. There is, it is suggested, certainly no case for enlarging it. It will be recalled that Friendly Societies are carrying on business in competition with that of Life Assurance companies.

5. Section 39 (1) of the Income Tax Act, 1918, also provides that an unregistered Friendly Society whose

income does not exceed £160 shall be entitled to exemption from Income Tax. This exemption seems anomalous for the following reasons:—

- (i) it is the only instance of exemption from Income Tax being allowed by reference to the total income of a society or body of individuals; other similar exemptions apply only to individuals;
- (ii) the exemption is granted irrespective of the limits of the benefits, and an *unregistered*

Friendly Society may therefore in some circumstances be more favoured than a *registered society*.

6. It is suggested, therefore, that the exemption in favour of *unregistered Friendly Societies* should be abolished. There would be no hardship on these *unregistered societies*, as they would still be able to obtain analogous Income Tax relief by registration.

7. The annual cost of the exemption to *Friendly Societies* as a whole is at present between £600,000 and £700,000.

Appendix No. 53.

MEMORANDUM BY THE BOARD OF INLAND REVENUE ON THE SUBJECT OF THE ALLOWANCE OF TWO-THIRDS OF THE ANNUAL VALUE OF A DWELLING-HOUSE PARTLY USED FOR A TRADE OR PROFESSION, IN THE COMPUTATION OF PROFITS FOR THE PURPOSE OF ASSESSMENT TO INCOME TAX, SCHEDULE D.

1. The Board of Inland Revenue associate themselves with the view expressed by Mr. G. F. Howe, Presiding Commissioner for the Special Purposes of the Income Tax Acts, that Rule 3 of the Rules applicable to Cases I and II of Schedule D calls for amendment (questions 13,425-7).

2. That rule provides that in computing the amount of the profits or gains to be charged no sum shall be deducted in respect of the rent or annual value of any dwelling-house, except such part thereof as is used for the purposes of the trade or profession; provided that where any such part is so used, the sum so deducted shall be such as may be determined by the Commissioners, and shall not exceed two-thirds of the annual value or of the rent bona fide paid for the said dwelling-house.

3. The history of this provision goes back to 1799. No doubt when it was first enacted it was equitable enough, but in modern conditions the limitation of the allowance to two-thirds of the annual value or rent occasionally gives rise to great hardship.

4. The accompanying schedule gives particulars of some cases which have recently been under the notice of the Board, in which practically the whole of the annual value of the premises ought to be allowed as a deduction in arriving at the profits under Schedule D, and the absence of legal authority to make the full allowance equitably due has created hardship.

5. It should be added that, while some bodies of District Commissioners have felt themselves bound by the letter of the law, others (endeavouring to bring their action into conformity with modern conditions)

have not hesitated in certain cases to extend the allowance beyond the limit laid down in the Act.

6. The Board of Inland Revenue suggest that the limit of two-thirds imposed by the rule should be retained as the normal maximum allowance, but that the Commissioners concerned should be empowered to increase the allowance beyond this limit in special cases where it is shown that the restriction of the allowance to two-thirds of the rent or annual value would create hardship.

SCHEDULE.

1. Large Residential Boarding House.

Two rooms reserved for private use of proprietor.

2. Public House. Annual value £584.

Tenant has a private residence elsewhere, but uses one room in the public house as a bed sitting-room one or two nights a week when busy.

3. Hotel. Annual value £505.

Proprietor occupies with wife and family two rooms only.

4. Ladies' School. Annual value £600.

Two bedrooms occupied by proprietresses.

5. Hotel. Annual value £800.

Proprietor occupies one bedroom only.

6. Shops. Four shops adjoining and communicating internally with one another. Proprietor, with wife and family, resides in rooms over one shop.

Appendix No. 54.

MEMORANDUM BY THE BOARD OF INLAND REVENUE ON THE SUBJECT OF THE EXEMPTION FROM TAXES CONFERRED BY A PRIVATE ACT UPON CERTAIN REAL PROPERTY BELONGING TO THE HABERDASHERS' COMPANY.

1. In 1600 a settlement made by one William Adams on the Master and four Wardens of the Haberdashers' Company, of certain lands, the "Manner and Graunge of Knighton," comprising some 912 acres in the parish of Adhaston, for the maintenance of a school and almshouse at Newport, Salop, and for further charitable uses, was confirmed by a private Act of Parliament (12 Car: R. 2^d No. 34). The Act contained a clause exempting these lands from taxes in the following terms:—

"That the said Manner and Graunge of Knighton with the appurtenances and all other Lands and hereditaments settled and Conveyed by the said William Adams to the said Governors and their Successors for the purposes aforesaid be and at all times hereafter shalbe freed discharged and acquitted of and from the payment of

all every or any Manner of taxes Assessment^s or charges Civill or military whatsoever hereafter to be laid and Imposed by authority of Parliam^t or otherwise. And that the said Manner Messuages Lande tenement^s and premises and the Owners and occupiers thereof or any of them shall not at any time hereafter be rated taxed or assessed to pay any Summe or Summes of money or be otherwise charged in any way whatsoever for or in respect of the said Manner Lands and hereditam^s or any of them for or towards any manner of publique tax Assessment^s or charge whatsoever any Statute Law or Ordinance to the Contrary hereof in any wise notwithstanding."

2. No question was raised as to liability under the Income Tax Acts until the year 1895, in which year assessments were made on the Haberdashers' Com-

pany. The company appealed to the General Commissioners of Taxes for the Division, who confirmed the assessments. The company thereupon demanded to have a case stated for the High Court. As, however, the Board of Inland Revenue were advised that the appeal would succeed, in view of the general principle of construction that a general provision is *prima facie* not to be taken as repealing a provision directed to a particular case only, the case was not defended, and an order was made in the Queen's Bench Division, discharging, by consent, the assessments.

3. Since that date no assessments have been made in respect of the property whether for Income Tax (Schedule A or Schedule B) or Inhabited House Duty, the exemption extending to "the owners and occupants."

4. The property has been continuously developed, parts of the estate having been leased, and factories and cottages built thereon, with the result that persons other than the Haberdashers' Company obtained a relief from taxation to which they have no equitable claim, and one which was clearly not contemplated when the original enactment was passed.

5. So far as the Haberdashers' Company is concerned, to the extent to which the rents of the lands are applied to charitable purposes, it would still be open to them to claim remission of Income Tax, Schedule A, under the provisions of section 37 of the Income Tax Act, 1915.

6. Accordingly, in the opinion of the Board of Inland Revenue, there is a very strong case for the repeal of the exempting clauses of this private Act so far as any rate as imperial taxes are concerned.

Appendix No. 55.

MEMORANDUM BY THE BOARD OF INLAND REVENUE ON THE EXPRESSION "UNEARNED INCOME."

1. In the course of the Debates on the Finance Bill of 1919 several members took exception to the use in the Income Tax Acts of the expression "unearned income." It was not suggested by them that the existing differentiation between the two classes of income described respectively as "earned" and "unearned" should be abolished, but it was suggested that the description of that class of income which is charged at the higher rate as "unearned income" was inapposite and objectionable, more particularly as a part of the income falling within this category represented interest upon money which was not inherited, but actually saved by the recipients of the income.

2. It will be recalled that when the question of differentiation in the Income Tax was under the consideration of the Select Committee of 1906 (known as the Dilke Committee), this question of nomenclature was specially dealt with. The Committee had under consideration the relative advantages of the terms "permanent" as opposed to "precarious," "spontaneous" as opposed to "industrial," "income from investments" as opposed to "income from personal effort" and "unearned income" as opposed to "earned income." The Committee were of opinion that the last-named expressions were, on the whole, the most convenient as indicating the classes of income which they had in view.

Prior to the Debates on the Finance Bill of 1910 this decision does not appear to have been seriously questioned.

3. Many countries in addition to the United Kingdom have in force a system of differentiation, and the following are examples of the nomenclature which they have adopted:—

The Dominions speak generally of "income from property," or "income derived from property" as opposed to "income derived from personal exertion." In France the expressions "revenu provenant de capital" and "revenu gagné" or "revenu le produit du travail" are found. Germany speaks of funded income (*fundiert*) and unfunded income (*unfundiert*), also of "property income" and "labour income." Italy also speaks of "property income" and "labour income" ("redditi di capitale" and "redditi di lavoro").

4. When the differential rate of tax on "earned income" was originally introduced in 1907, the expression "earned income" only was used and defined, all income not falling within the definition being charged at the standard rate of tax. Later, when graduation of tax on income other than "earned income" came into force, the expression "unearned income" was employed.

5. It is questionable whether any considerable number of taxpayers look upon the expression "unearned income" as casting a reflection upon the class of income to which it is related. It would, however, be possible to adopt the expression "income from property" or "investment income" in substitution for the existing expression.

Appendix No. 56.

MEMORANDUM BY THE BOARD OF INLAND REVENUE ON THE SUBJECT OF THE COMPUTATION OF SUPER-TAX LIABILITY BY REFERENCE TO "NET" INCOME. [see Q. 25,553]

1. The proposal to charge Super-tax on the taxpayer's income as reduced by the Income Tax paid by him is usually supported on two grounds:—

- (a) the alleged unfairness of charging tax on tax; and
- (b) the difficulties experienced by persons called upon to render Super-tax returns in ascertaining the gross sum to be included in respect of dividends which have been received after deduction of Income Tax at varying rates.

2. The question was discussed in one or other of its aspects in the House of Commons on 30th September, 1909 (Official Report, Col. 111, &c.), 2nd July, 1914 (Col. 685, &c.), and 28th June, 1916 (Col. 908, &c.).

3. The official attitude towards the proposal has consistently been that on examination it has no merits, that if introduced it would be troublesome to work—the taxpayer as well as the officials would be involved in difficulties—and that unless the rates at which the tax is charged were raised it would be very costly. These assertions may now be considered.

4. Super-tax is an additional duty of Income Tax, which for administrative reasons is collected separately from Income Tax. The unit of taxation, both for Income Tax and Super-tax is the £ sterling of income, and if the aggregate amount of the two taxes were collected as a single tax at an inclusive rate or rates, by direct assessments on individuals—a course which has been urged upon the Government on more than one occasion—the suggestion that any other basis than the £ of gross income should be adopted

would probably have never been seriously put forward. Each £ of income would have been regarded as falling to be appropriated by the State and by the taxpayer, respectively, in proportions determined by the rate of the inclusive tax in force for the time being. It is the separation of the total import into

- (a) Income Tax, collected in part by deduction, and
- (b) Super-tax collected by direct assessment of the individual taxpayers,

which has given rise to the fallacious view that the additional Income Tax called Super-tax should be computed not on the £ sterling, the unit taken for the purpose of the "first bite" of the State by way of ordinary Income Tax, but on a different unit, namely, the fraction of the £ sterling which remains to the taxpayer after payment of his Income Tax. A logical consequence of such a view is that if it were found desirable to collect an Income Tax of (say) 10s. in the £ by means of four separate imposts of 2s. 6d. in the £ each, the first tax should be charged on the £ sterling of income, the second on a unit of 17s. 6d., the third on 15s., and the fourth on 12s. 6d. Such a process is capable of indefinite extension.

5. The allegation of unfairness in charging "tax on tax" is sufficiently met by the answer that if in the normal course of authorizing the raising of a given amount of revenue, Parliament has determined that, with ordinary Income Tax at (say) 6s. in the £, it is necessary to raise a certain additional sum by means of a Super-tax, the amount of every individual's liability will be precisely the same, whether he is charged (say) 4s. 6d. for every £ of income, or (the equivalent to produce the same yield) 6s. 5d. for every £ of income which remains after payment of ordinary Income Tax.

6. The difficulty experienced by taxpayers in arriving at the gross income by adding back Income Tax to dividends, &c., received after deduction of Income Tax, or "free of tax," is said to be due mainly to the varying rates of Income Tax that have to be added to dividends which have accrued during different periods. This difficulty makes a good debating point, but vanishes in practice. The official form of Super-tax return contains a printed note suggesting as sufficiently accurate an all-round addition of a named fractional part of the net dividends to arrive at the corresponding gross figure, a suggestion which is taken advantage of by the great majority of Super-tax payers.

7. The difficulty just referred to would not be removed if the proposal to charge Super-tax on net

income were adopted. In its present form it would, indeed, vanish, but only to reappear in a new shape. A very large amount of income is received "gross," that is, before payment or deduction of Income Tax, and if the basis were changed all this gross income would require to be converted to a net figure by deduction of the Income Tax applicable thereto. Annuities and charges paid out of income would have to be entered at the net amount after allowing for Income Tax deductible on payment, while any Income Tax repaid to the taxpayer would have to be added to and treated as part of the income when the return was made. This last-mentioned consideration might involve a series of additional assessments to Super-tax as and when the taxpayer obtained repayment of Income Tax on one ground or another, e.g., for Life Assurance, Colonial Income Tax relief, &c. It may well be debated whether a year's experience of these inevitable complications would not result in a clamour on the part of many Super-tax payers for a return to the present system.

8. It goes almost without saying that so long as the Income Tax is 6s. in the £, or more, a proposal to charge Super-tax on net income without diminishing the Revenue derived from the tax would necessitate a drastic revision of the Super-tax scale. The substitution of the income as diminished by the Income Tax for the gross income as the unit of charge would result in the sacrifice of six-twentieths (30 per cent.) of the yield of the tax, if the rates of Super-tax remained unaltered. To produce the same yield as at present, not only would the rates have to be raised by six-fourteenths, but the starting point of the Super-tax (£2,500 a year with the first £2,000 franked) would have to be lowered to £1,750 with £1,400 franked, and the amount of income on which each of the graduated rates is charged would need to be proportionately reduced. The result would be that over a certain range of income two scales of rates would be in force, one (the Income Tax scale) based on gross income, and the other (the Super-tax scale) based on net income. For instance, a taxpayer whose income amounted to £3,000 (gross) would pay Income Tax on an income of £3,000 and Super-tax on an income of £2,100; a state of affairs which could only be puzzling to many persons.

The statistical confusion which would be liable to arise from a double definition of income, one (gross) for the purposes of the ordinary Income Tax and the other (net) for the purposes of Super-tax (e.g., in showing the virtual rate of the combined Income Tax and Super-tax chargeable on selected incomes) is obvious.

Appendix No. 57.

MEMORANDUM BY THE BOARD OF INLAND REVENUE REGARDING THE POWER TO REQUIRE A RETURN FOR SUPER-TAX PURPOSES, AND THE RECOVERY OF THE TAX, FROM A WIFE IN CERTAIN CASES.

1. The income of a married woman living with her husband is deemed for the purposes of Super-tax to be the income of the husband who is normally assessable on the amount of the combined incomes of himself and his wife.

2. Under section 8 of the Income Tax Act, 1913 as amended by section 26 of the Finance Act, 1919, separate assessments may, however, be made in respect of the incomes of the husband and the wife respectively when application is made for the purpose by the husband or the wife within the prescribed time (i.e., except in the first year of marriage, before 6th July in the year of assessment).

It will be recalled that the making of separate assessments does not alter the rate at which the tax is assessable.

3. Practical difficulties are liable to occur in the assessment and recovery of tax in two classes of cases, as follows:—

- (i) cases where a husband expresses his inability to make a correct return of total income owing to lack of knowledge of the amount of his wife's income and the absence of

power to compel her to disclose the necessary information;

- (ii) cases where the wife's income being considerable in amount and the husband's relatively small, the latter declares that he is not in a position to pay the amount of Super-tax demanded on the combined incomes.

4. Most of the cases falling within the first of these two classes are cases in which an application for separate assessment is made, and thus no difficulty is usually experienced. In several instances, however, cases falling into the second class have caused trouble owing to the absence of such an application.

5. It is desirable in these circumstances that the Special Commissioners should have power, if for any reason they are unable to obtain from the husband a satisfactory return of the wife's income, to require from the wife a separate return of her income and to make separate assessments upon the husband and the wife.

6. This would not be an innovation: it would be a reinstatement of the law as it stood from 1911 to 1914. The law was altered in the latter year, when pro-

visions were introduced for the first time upon the same general question as affecting both Income Tax and Super-tax, and the 1914 legislation (which reappears in the Income Tax Act, 1918) has been found in the above-named particular less convenient—so far as Super-tax is concerned—than that which preceded it.

7. It is desirable also that, where the husband is unable to pay tax assessed upon him in respect of his wife's income, the Special Commissioners should be able to recover it from the wife upon the same principles as apply where an application for separate assessment is made. The difficulty caused by the absence of this power was referred to by Mr. G. F.

Howe, Presiding Special Commissioner, in his evidence before the Royal Commission (question 13,823).

8. It may be added that a small drafting error in sub-section (2) of section 8 of the Income Tax Act, 1918 (the section now in question), calls for correction at a suitable opportunity. In that sub-section power to call for certain returns in cases where an application is made for separate assessment of the income of husband and wife for purposes of Super-tax is given to the Board of Inland Revenue. As the Special Commissioners are the authorities by whom the Super-tax is assessed, the power should strictly have been given to those Commissioners.

Appendix No. 58.

MEMORANDUM PREPARED BY THE BOARD OF INLAND REVENUE WITH REFERENCE TO LIABILITY TO SUPER-TAX IN RESPECT OF INCOME FROM SETTLED FUNDS ACCUMULATED FOR THE BENEFIT OF MINORS OR OTHER PERSONS WITH CONTINGENT INTERESTS IN THE ACCUMULATIONS OF SUCH INCOME.

1. The enactments relating to Super-tax as they at present stand do not extend to income which is being accumulated for minors with contingent interest in such accumulations under settlements. Where funds are vested in trustees on trust to accumulate the income and the destination of such accumulated income is uncertain, until the happening of a contingency which will settle to whom such accumulations belong, Super-tax does not fall upon the accumulated income either at the time of its accrual or afterwards on the accumulations passing into the possession of a beneficiary. The typical case is that in which a testator leaves his estate in the hands of trustees, directing that the income of the estate is to be accumulated by the trustee and re-invested, that only so much as is necessary for education and maintenance of an infant child is to be paid out in the period of accumulation, that if the infant attains the age of 21, the settled funds and accumulations are to become the property of the infant, and that should he die before attaining that age, such funds and accumulations are to pass to another quarter.

2. In such a case, until the capital is finally vested in the beneficiary, neither the capital nor the income derived from it is in law his: it belongs to the trustees; and the capital or the income cannot even notionally be regarded as the beneficiary's so long as the specified event has not happened.

When vesting takes place, the beneficiary becomes entitled not merely to the future income arising from the settled fund, but also to the income which has accumulated while his interest was only contingent. The generally accepted view as regards such income is that it passes to the beneficiary not as income, but as part of the corpus of the fund, and therefore that it cannot be treated for Super-tax purposes as part of the income of the beneficiary.

3. Experience shows that the amount of income which has been immune from Super-tax on this ground is of considerable magnitude, and that revenue is being lost through the impossibility of imposing an effective charge.

4. At a time when it is imperative to tap all sources of revenue which can be profitably drawn upon without injustice, there seems much to be said

for the levy of a toll upon accumulations which possess some of the features of a windfall accruing to the fortunate recipient. This consideration was emphasized by the enactment of section 14 of the Finance Act, 1917 (now embodied in section 25 of the Income Tax Act, 1918). That section confers relief from the ordinary Income Tax in the case of minors with contingent interests whose incomes are relatively small in amount. On the attainment by the minor of the specified age as which the capital funds become vested in him, it is open to him to make a claim to repayment of Income Tax (which will normally have been deducted at the full standard rate) for the whole period of accumulation, by reference to his total income for each year, including the income which accumulated. Under this provision a considerable measure of relief is given to minors.

5. It seems both logical and equitable in these circumstances that as soon as the contingent interest of a minor in the income of a fund has become a vested interest, the question of his liability to Super-tax should be reviewed for back years by reference to the amount of his total income, including therein any income attributable to each such year which may have accumulated for his benefit.

If powers were taken to this effect the law as regards Super-tax would be brought into line with the law as affecting Income Tax liability.

6. It is worth notice that the Income Tax section is a relieving section, whereas the corresponding Super-tax section would be a charging section, and that in the one case the Revenue already holds its tax whereas in the other the tax could only be obtained after formal assessment. There would not, therefore, be the same incentive either to the trustees or to the beneficiaries to preserve all the evidence that would be necessary towards an accurate charge, as there is to preserve such evidence for the purpose of establishing a title to repayment.

7. Although some small practical difficulties may arise in this way, the suggested solution obviates other greater difficulties which would arise if an attempt were made to levy Super-tax year by year either from the trustees or from the minor during the period of minority. It is suggested, therefore, that this solution should be adopted.

Appendix No. 59.

MEMORANDUM PREPARED BY THE BOARD OF INLAND REVENUE ON THE SUBJECT OF INCOME TAX IN RELATION TO INCOME ARISING FROM COPYRIGHT.

1. The Copyright Act of 1911 amended and consolidated the law in relation to copyright, and enacted that Imperial Copyright might subsist in any original literary, dramatic, musical or artistic work.*

There is also provision in the law for International Copyright, where there is reciprocity of treatment.

2. The term of copyright covers the lifetime of the author and, with variations in certain cases, is divided after his death into two periods, viz.:—

- (1) 25 years of unrestricted copyright, and
- (2) 25 years of restricted copyright, in the sense that any person may publish the work upon payment of royalties.

The owner of the copyright may assign the right wholly or partially or may grant any interest in the right by licence.

3. The Ritchie Committee of 1905 considered the question of liability to tax in respect of income derived from copyright, and the relevant portion of their Report is quoted in the Enclosure to this memorandum.

4. As stated in that Report, payments in respect of copyright are made substantially in two ways, (a) by lump-sum payments and (b) by royalties. It may be added that a bulk advance payment on account of royalties is sometimes made.

5. As regards (a) lump-sum payments, the recipient's liability to tax—as the law stands at present—ordinarily depends on whether the payment is received in the course of the exercise by him of a trade, profession or vocation, and this question in turn depends in some cases on whether the transaction is an isolated one or one of a series.

6. As regards (b) royalties, the question of liability to Income Tax depends upon different considerations. A copyright is personal property, and while, as already stated, the question of Income Tax liability in respect of lump-sum payments for an assignment of the right may be, in some cases, not free from doubt, royalties which are calculated usually on the basis of the relative takings of the producer or publisher of the copyrighted work and cannot be said to be instalments of a definite rate price, provide "annual profits or gains arising or accruing from . . . property," which are liable to assessment under Schedule D, (a) in the hands of residents in the United Kingdom, wherever the property is situated, and (b) in the hands of non-residents, if the property is in the United Kingdom. [Rule 1 of Schedule D, First Schedule, Income Tax Act, 1918.]

7. Any appropriate expenses of the owner of the copyright in regard to the work are allowable in arriving at his assessable profits therefrom, whether received by way of lump-sum payments or royalties.

8. Under the existing provisions of the Income Tax Act, copyright royalties are paid in full without deduction of Income Tax, and the payer of royalties on copyright, e.g., the producer of a play or the publisher of a book, can claim such payments as a deduction in the computation of his liability to Income Tax.

9. While, in the case of residents in this country, the liability to tax in respect of copyright payments can normally be traced and assessed by means of the usual machinery of returns, etc., in the case of a non-

resident recipient of copyright payments the technical liability to tax (see paragraph 6) cannot be enforced unless he employs a resident agent, in which case he is assessable (in the name of the agent) under Rules 5 and 6, General Rules, First Schedule, Income Tax Act, 1918.

Even where the owner of the copyright temporarily resides here, e.g., whilst his play is being produced, the machinery of assessment and collection usually operates too slowly to prevent the loss of the tax.

10. The virtual immunity from tax which thus exists in cases where the copyright royalties are paid direct to the non-resident owner, has resulted in the adoption on an increasing scale of the mode of direct payment, with consequent loss of revenue, and, incidentally, the gradual elimination of the resident agent.

It is understood that the direct payment of royalties to American owners of copyright in plays produced in this country has largely increased of late years, and in this connection it may be observed that under United States Income Tax law the direct payment of royalties does not provide a means of escape from taxation, inasmuch as payers of royalties to non-resident aliens are required to deduct tax at a flat rate.

11. The Ritchie Committee of 1905 regarded copyrights as analogous to patents, which they were also considering, and, in the case of patent royalties, they recommended that these payments should be included in the assessable profit of the manufacturer using the patent and subjected to tax by deduction, which method "besides being more consistent with the general principles of assessment under the Income Tax Acts, would have the special advantage of securing the collection of the tax on the profits derived from the working of patents in the United Kingdom, but payable to patentees who reside abroad and have no agent resident in this country." This recommendation was carried into effect by section 25 of the Finance Act, 1907, which is now reproduced in Rule 3 (m) of the Rules applicable to Cases I and II, Schedule D, and Rules 19(2) and 21 of the General Rules, First Schedule, Income Tax Act, 1918.

12. In view of the practical immunity from taxation which, as explained above, the non-resident recipient of copyright royalties arising in this country now enjoys at the expense of other taxpayers (and in spite of existing technical liability), it is suggested that it is a matter for the Royal Commission to consider whether legal provision, on the lines of that introduced in 1907 in relation to patent royalties, should not be made for the deduction of Income Tax from payments of copyright royalties.

13. The application of the principle of taxation at the source provides, in the opinion of the Board of Inland Revenue, the only possible method for the effectual taxation of copyright royalties paid to non-residents.

14. In any consideration of a proposal to extend generally the principle of taxation at the source to copyright royalties, it is, of course, necessary to consider the effect of this action upon the resident owner of copyright. The resident owner, equally with the non-resident owner, would receive his royalties, less tax at the standard rate, and as, in many cases, the resident owner might be chargeable at a lower rate of tax applicable to earned income and might also be entitled to a deduction for expenses, he would find it necessary to claim an adjustment probably by way of repayment of tax.

15. In this respect, the position of the owner of copyright would in no way differ from the present position of the owner of a patent who, under the existing law, receives his royalties under deduction of tax at the standard rate (see paragraph 11), and although the Board of Inland Revenue have no wish to add to the number of repayments by the inclusion

* "Literary work" includes books, letters, articles, translations, and other writings; maps, charts, plans, and tables; collective works and compilations, such as encyclopedias, dictionaries, year books, newspapers, reviews, magazines, advertisements, catalogues, &c.

"Dramatic work" includes any cinematograph production which is original in character, and in the case of a literary, dramatic, or musical work, copyright includes the right to work any record, perforated roll or cinematograph film by means of which the work may be mechanically performed or delivered.

"Artistic work" covers works of painting, drawing, sculpture and artistic craftsmanship, architectural works of art, engravings and photographs.

in the ranks of claimants of a certain number of resident owners of copyright, if this could be avoided, they consider that if—with a view to the effectual taxation of the royalties of non-resident owners of copyright—it is decided to require the deduction of tax from copyright royalties, this deduction must, subject to the observations in paragraph 16 below, be automatic, as, in the Board's view, it would not be reasonable to place the payer in a position in which, one agent of the Revenue, he would be called upon to exercise discrimination and decide whether the recipient was resident or non-resident.

16. It is possible that the Royal Commission, whilst favouring the extension of the principle of

deduction at the source to non-resident owners of copyright, may take the view that the resident owner of copyright should receive his royalties without deduction of tax. In that event, it is suggested that the royalties should only be paid in full on condition that the payer of the royalties has agreed with the local Surveyor of Taxes as to the cases in which payment of royalties is to be made without deduction of tax, and has arranged to furnish the Surveyor with a complete list of such payments. The proposed extension of the principle of deduction of tax at the source to copyright royalties must, it is suggested, be universal in all other cases, if it is to be workable.

Enclosure to Appendix No. 59.

EXTRACT FROM THE REPORT OF THE DEPARTMENTAL COMMITTEE ON INCOME TAX OF 1905.

44. The profits that an author derives from the publication of his work may be received by him in more ways than one. But the more usual forms are two, viz., (a) a royalty on copies as sold, (b) a lump sum paid to him by the publisher for the purchase outright of his entire interest in the work.

45. Under the first plan, no question can arise as regards the proper method of charging Income Tax. The receipts in each year constitute profits and gains for the year, and fall to be assessed in accordance with the rules of Schedule D.

46. Under the second, or lump-sum alternative, there is room for question whether, when the purchase is made in respect of works of a permanent character, the payment is not of the nature of capital rather than of income. For, in that case, it represents the estimated present value of a future income. There is much to be said for this view, which, in fact, is in accordance with the principle adopted in dealing with all other transactions of a similar character. But in practice it has become the well-established rule to treat such payments for copyright as income to the author, and to assess them in accordance with the rules of Schedule D.

47. On the side of the publisher the course pursued is as follows:—Payments to authors in the form of royalty on copies sold, and single payments for copyright of ephemeral productions, such as magazine articles and pamphlets, are treated as an outgoing to be deducted from gross receipts before striking the balance of profit for the year. But lump-sum payments for copyright of works of per-

manent character are charged to capital account, and the copyright treated as stock-in-trade, of which a valuation must be made at the beginning and end of each year before arriving at the balance of profit for the year.

48. Thus, both on the side of the author and on the side of the publisher, the treatment of lump-sum payments for the copyright of permanent works in respect of assessments to Income Tax is exceptional. But it must be remembered, as regards the author, that large payments for copyright are earned only by those who make literature their profession, either in whole or in large part, and the money so earned is clearly in the nature of income derived from a profession, even though it is received at irregular intervals and in varying amounts.

49. Turning to the side of the publisher, it would clearly result in a double assessment of duty, if, after charging the author Income Tax on the lump sum received by him for his copyright, the Revenue were to tax the full future profits from publication in the hands of the publisher. It accordingly becomes necessary to make an adjustment on this account, and this is done in the manner described above.

50. For those reasons, we do not consider that any change is called for in the existing practice, which appears to result in doing substantial justice in a region of business of a somewhat special character, to which the ordinary rules and practice of trades and professions cannot be applied without more or less of adaptation.

Appendix No. 60.

MEMORANDUM BY THE BOARD OF INLAND REVENUE ON THE SUBJECT OF DOUBLE INCOME TAX ELSEWHERE THAN WITHIN THE BRITISH EMPIRE.

1. Official evidence on the subject of Double Income Tax within the British Empire has already been presented to the Royal Commission. The complete examination of this question in relation to foreign countries would necessitate the traversing of a good deal of the ground covered by the previous evidence, and reference is accordingly made to that evidence so far as it is relevant. The question in its relation to countries outside the British Empire, however, also involves certain additional considerations which can appropriately be dealt with separately.

2. The official case for relief within the British Empire was rested upon the assumption that there was a hardship in having to make two contributions to Income Tax for purposes which can be conceived as in some measure a single purpose, viz., the purposes of the British Empire.

As regards foreign countries, however, it is necessary to have regard to any other reasons for granting relief that may be found to exist, for if the case for relief were to be based only on the grounds considered sufficient *vis-à-vis* the Dominions, there would clearly be no grounds for relief as regards the taxes of

countries not within the British Empire, there being in such case no double contribution to the same single purpose.

3. It is, of course, arguable that the existence of double taxation may give rise to hardship of a different kind from that of double contribution for a single purpose—for instance, it might be said that the case of X who lives in the United Kingdom but derives his income from America is a hard case, because he has to pay considerably more Income Tax than Y who has an income precisely the same in amount which is derived from this country, and which therefore pays only one tax whilst X pays two taxes. Before admitting that facts of this character give rise to hardship, however, it would be necessary to enter upon an elaborate inquiry as to the circumstances of X—for instance, the cause of his living elsewhere than in the country whence his income is derived and the desirability of encouraging him to continue to do so; the net yield derived by him from his capital after payment of all taxation, both absolutely and also relatively to the net yield derived by resident investors from capital in this country, &c.

4. It is only natural that persons in this country who derive their incomes from abroad and also persons whose business is that of handling foreign capital, and the agents of such persons, should take the view that there is a hardship in respect of which relief should be given. It would, of course, be to their interest that such relief should be granted, but it is suggested that it is a matter for consideration whether and how far the general interests of this country, as distinguished from the particular interests of individual traders and others (who, even if suffering from some measure of individual "hardship" when Income Tax is considered by itself, may yet be in a very advantageous position when all the circumstances are taken into account), would be served by a measure conferring world-wide relief from Double Income Tax. The passing of a general measure of relief would necessarily involve the giving up of considerable amounts of the national revenue, and it is suggested that in present circumstances this revenue ought not to be sacrificed unless as a matter of policy the country sees its way to an equivalent national advantage.

5. It is worthy of note that a number of cases of alleged hardship of which complaint is made may disappear or at least be substantially alleviated if, as the result of any recommendations which the Royal Commission may make on the subject, the doctrine of company control as affecting liability to United Kingdom Income Tax should be materially modified. Official evidence on this subject has recently been given. It is suggested that it is a matter of some importance to keep always clear the distinction between any taxation which may be due primarily to this doctrine (even though the result to which it leads may be double taxation) from any double taxation that exists independently of the effect of any such doctrine.

6. Amongst the considerations which it is suggested are relevant in connection with the question of introducing a world-wide scheme of relief from Double Income Tax are:—

- (a) the extent of any desire to encourage the investment of British capital in the foreign countries concerned and vice versa;
- (b) the weight of taxation in such countries and how far such taxation may have been taken into account by individual traders when deciding whether to invest their capital;
- (c) the extent of arrangements for reciprocal reliefs which are, or might be granted in such countries;
- (d) whether, even if a charge for "double services" should be regarded as inadmissible within the British Empire, there might not be substantial grounds for retaining such a charge as regards foreign countries.

7. The question how far it is desirable to encourage the flow of British capital or of foreign capital in particular directions is one of broad national policy. It leads to the further question whether if any such encouragement is given it should be given as regards all foreign countries or some only, and, if in relation to some countries only, in favour of which countries the discrimination should be made. The Board assume that the Royal Commission do not wish them to express an opinion upon these questions, and they mention them merely in order that they may not be thought to have been overlooked. It is possible that circumstances might arise in which it would be found expedient to confer relief from double income taxation merely in order to guide the flow of capital into particular channels.

8. The weight of income taxation in foreign countries, it is suggested, is also a matter for consideration, and in conjunction with it, the net yield to be derived from trading or investment in such countries. For it is conceivable that the attractions of a particular country as a field for the outlay of capital by non-residents might be so great as easily to outweigh the drawbacks due to the existence of high taxation both in that country and in the country to which the investor belongs. Moreover, it is well

known that the rates of income taxation in force in different foreign countries vary greatly.

9. As regards reciprocity, there are circumstances in which it might become expedient to grant relief from double income taxation in relation to a particular country simply in order to obtain favourable treatment from, or to avoid retaliatory measures by the Government of that country in connection with its own Income Tax or other fiscal legislation.

10. The case for a charge for "double services," it is suggested, is stronger in connection with relief from Double Income Tax *vis-à-vis* foreign countries than it is as regards income taxed in a Dominion. For in the latter case there may be said to be contribution to a single purpose (see paragraph 2); in the former this circumstance does not exist.

11. From the foregoing considerations it is suggested that it by no means follows that the concession of relief from Double Income Tax within the British Empire involves a like concession as regards foreign countries. So far as the Board of Inland Revenue are aware no considerable demand has arisen for a world-wide system of relief. It is true that in a limited number of cases complaints of hardship have been made and requests for redress put forward, but it would probably be correct to say that there is at present little general sentiment in favour of relief outside the limits of the Empire. Moreover, in certain cases which have come before the Royal Commission it is suggested that either there is a remedy in the complainant's own hands, if he chooses to use it, or the alleged hardship is due primarily to the doctrine of "control" or to the difficulties inherent in the just taxation of non-resident persons trading in the United Kingdom and competing in business with resident traders. A case in point is that of the group of businesses in which Sir William Vestey is interested (*vide* the evidence given by him on 31st July, 1919, questions 8424 *et seq.*).

12. For these reasons the Board do not consider that a world-wide measure of relief from double taxation is called for, although they agree that circumstances might arise in which such relief might be considered justified on grounds of general policy, as part of mutually advantageous reciprocal arrangements, or otherwise. If such a measure of relief should at any time be contemplated the general criticisms of existing proposals for granting relief that have been put forward in the official evidence on Double Income Tax within the British Empire (questions 6397 to 6482) would, of course, broadly speaking, be applicable to the wider question now under consideration. The constructive suggestions made by the Board for granting relief within the Empire (modified according to circumstances) might prove workable in the wider sphere, but the difficulty of the practical problems presented would be greatly magnified.

13. This is due not only to the fact that many of the Dominion systems of Income Tax owe at least a portion of their outlines to the pre-existing model of the Income Tax code of this country, whilst foreign systems diverge from the United Kingdom system in a very much greater degree, but also to the obstacles that would be likely to arise through differences of language and lack of facilities for easy and frequent communication with many foreign countries.

14. If the Royal Commission should come to the conclusion that relief from double income taxation ought to be given in respect of income taxed elsewhere than within the British Empire, the Board assume that the degree of relief which would be recommended would in any case not exceed the relief to be given in respect of income subjected to Double Income Tax within the Empire. It may be taken that the cost of the relief in respect of countries outside the British Empire would be somewhat less than half the cost of corresponding relief within the Empire.

15. It may be noted in conclusion that the interest on certain British Government War Securities is exempt from Income Tax so long as the securities are owned by a non-resident. In this way a person living abroad can invest in British securities without incurring liability to United Kingdom Income Tax.

Appendix No. 61.

MEMORANDUM BY THE BOARD OF INLAND REVENUE ON THE SUBJECT OF THRIFT SOCIETIES AND THE INCOME TAX.

1. A Thrift Society or club, as dealt with in the following paragraphs, is an organisation in which each member takes up one or more shares to be subscribed for by instalments, the capital money so raised being employed primarily for the purpose of granting loans to members of the society at a low rate of interest, coupled with other advantages, e.g., cheap law and survey costs in connection with the purchase by a member of his own home. Since the war, certain of these societies have invested a portion of their money in Government securities.

2. There is a considerable number of these societies or clubs, and they may be described as mutual loan societies. Mr. H. A. Godson Bohn, Hon. Treasurer of the Kensington Self-Help Society, in the course of his evidence before the Royal Commission described a society of this kind as "a poor man's bank" (question 2169).

3. The profit derived by a society on its investments, either in loans to members or in War Stock, is paid or credited annually to the members after provision is made for a reserve. The amounts reserved are usually trifling.

4. The working of a typical society is described in the evidence of Mr. H. A. Godson Bohn (questions 2170-2327), from which it will be seen that a large proportion of the members of a society of this nature is drawn from the working classes, among whom the society endeavours to encourage thrift and providence.

5. Many of the societies are registered under the Friendly Societies Act, 1896, as "specially authorized societies" (see section 8 (5) of the Act),* but they do

not thereby become entitled to the relief from Income Tax which is given by section 39 of the Income Tax Act, 1918, to "registered Friendly Societies" complying with the prescribed conditions. The essential difference between Friendly Societies and Thrift Societies is that Friendly Societies are for the purpose of providing insurance against certain contingencies, death, old age, sickness, etc., while Thrift Societies are for the purpose of saving or investment (the member's money in the society being capable of being withdrawn at any time, if he so wishes), and are somewhat akin to savings banks. They differ from savings banks, in that the member of a Thrift Society is entitled to a share of profits instead of a fixed rate of interest.

6. In law, therefore, the Thrift Society is not entitled to relief from Income Tax in respect of the income which it receives under deduction of tax and is liable to be assessed under Schedule D on any interest received without deduction of tax, e.g., interest on 5 per cent. War Loan.

7. In practice, however, the Board of Inland Revenue have had regard to the financial position of the members of the societies and to the fact that scarcely any members are in possession of incomes exceeding £200 a year, and in order to avoid the necessity of claims for relief or repayment by individual members, the societies are for Income Tax purposes treated in the following manner.

8. Any direct assessment upon a society under Schedule D in respect of untaxed income is restricted to the proportion of the profits paid or credited to members liable to Income Tax, less a deduction for the contributions in aid of the society's management expenses borne by the liable members, the tax under the assessment being charged at the lowest rate applicable to unearned income, i.e., where the total income does not exceed £500. A member's income from the society is thus treated as being the amount of profits paid or credited to him, less his contribution for management expenses.

9. Moreover, where a society is in receipt of income paid under deduction of Income Tax, the Board of Inland Revenue take into account the fact that such income is taxed at the standard rate, and if the amount of tax suffered by deduction exceeds the amount of the tax due in respect of the profit paid or credited to liable members, computed in the manner described in paragraph 8 above, the amount of the difference is repaid to the society.

10. It will be seen that this method of dealing with the liability of the Thrift Society operates in fact so as to restrict the charge of tax to the case of liable members, who are charged at the lowest unearned rate on the income derived from their savings in the society, and it is submitted that in these circumstances any practical hardship which might have arisen under a strict application of the law, has been avoided, and that no equitable reason exists for admitting Mr. Godson Bohn's contention that a Thrift Society should as a society be entitled to claim exemption from Income Tax. Mr. Godson Bohn seems in effect to be asking that the State should subsidize the activities of the society, without regard to the fact that a proportion of its members may be liable to Income Tax, and therefore properly chargeable in respect of the income derived from their savings in the society.

authorise as a purpose to which the provisions of this Act, or such of them as are specified in the authority, ought to be extended.
Provided that where any provisions of this Act are so specified, those provisions only shall be so extended.

* Section 8 of the Friendly Societies Act, 1896, runs as follows:—

Registry of Societies.

8. The following Societies may be registered under this Act:—

(1) Societies (in this Act called friendly societies) for the purpose of providing by voluntary subscriptions of the members thereof, with or without the aid of donations, for—

- (a) the relief or maintenance of the members, their husbands, wives, children, fathers, mothers, brothers, or sisters, nephews or nieces, or wards being orphans, during sickness or other infirmity, whether bodily or mental, in old age (which shall mean any age after fifty) or in widowhood, or for the relief or maintenance of the orphan children of members during minority; or
- (b) insuring money to be paid on the birth of a member's child, or on the death of a member, or for the funeral expenses of the husband, wife or child of a member, or of the widow of a deceased member, or, as respects persons of the Jewish persuasion, for the payment of a sum of money during the period of confined mourning; or
- (c) the relief or maintenance of the members when on travel in search of employment, or when in distressed circumstances, or in case of shipwreck, or loss or damage of or to boats or nets; or
- (d) the endowment of members or nominees of members at any age; or
- (e) the insurance against fire, to any amount not exceeding fifteen pounds, of the tools or implements of the trade or calling of the members.

Provided that a friendly society which contracts with any person for the assurance of an annuity exceeding fifty pounds per annum, or of a gross sum exceeding two hundred pounds, shall not be registered under this Act.

- (2) Societies (in this Act called cattle insurance societies) for the purpose of insurance to any amount against loss of and cattle, sheep, lambs, swine, horses, and other animals by death from disease or otherwise;
- (3) Societies (in this Act called benevolent societies) for any benevolent or charitable purpose;
- (4) Societies (in this Act called working-men's clubs) for purposes of social intercourse, mutual helpfulness, mental and moral improvement, and national regeneration;
- (5) Societies (in this Act called specially authorised societies) for any purpose which the Treasury may

Appendix No. 62.

MEMORANDUM BY THE BOARD OF INLAND REVENUE ON CERTAIN MATTERS RELATING TO THE INCOME TAX IN REGARD TO WHICH THE PROCEDURE IN SCOTLAND PRESENTS SPECIAL FEATURES.

Areas of Administration, Assessors and Collectors.

1. The position in Scotland as regards Areas of Administration, Assessors and Collectors has already been dealt with by Mr. Binns in his proofs of evidence on these subjects. [See Q. 23,033 to 23,224.]

Assessment under Schedules A and B.

2. It has already been stated by Mr. Binns in his evidence-in-chief on Collectors that over the greater part of Scotland the Collectors of Customs and Excise collect the Income Tax charged under Schedules A and B (as well as under other Schedules). The area covered by a single Collector may embrace two or more whole counties.

3. Whereas in England the assessments under Schedules A and B are made only at intervals of five or more years, and as regards the names and addresses of occupiers and owners are apt to become out-of-date, in Scotland the annual compilation (under the provisions of the Lands Valuation (Scotland) Act, 1854) of a valuation roll showing the yearly rent or value of all lands and heritages makes it possible for the Schedule A and B assessment books to be kept up-to-date in all particulars.

4. The valuation roll, which is made up every year in Scotland, is the basis for all local rates and contains the names of all tenants and occupiers as well as of owners (who in Scotland pay a portion of the local rates) with the current rental values of the various lands and heritages. The entries in the roll are subject to appeal or objection to the Valuation Committee of the County or the Magistrates of the Burgh, as the case may be, with the right of a further appeal to the Court of Session in Edinburgh.

5. As Mr. Binns has explained in his proof of evidence on Assessors the valuation roll is conclusive both for local rates and Imperial Taxes where the Surveyor of Taxes holds the office of Lands Valuation Assessor. Where the Surveyor is not Assessor the roll is not conclusive for the purpose of Income Tax (or Inhabited House Duty), but save in rare cases it is not found necessary for any exception to be taken on the part of the Revenue to the annual values appearing in the valuation roll.

6. As already stated, the annual compilation of the valuation roll makes it possible to bring the assessments under Schedules A and B (and the Inhabited House Duty assessments) up to date in every detail each year, and this is not only of considerable help in the collection of the tax, but is also of great use in connection with the issue to the public of forms of return for Schedule D purposes.

7. There is no direct legal sanction for the annual correction of the Schedule A and B assessments, but this practice enjoys universal approval and it is suggested for the consideration of the Royal Commission that steps might well be taken to legalize a practice which has for many years worked well and commanded general acceptance.

Payment of local rates by owners of property.

8. The payment of rates imposed by law on owners of property in Scotland was the subject of legislative provision in 1896 when by section 1 of the Taxes Act,

1896 (reproduced in Rule 4 of No. V of Schedule A, Income Tax Act, 1918) it was enacted that where a landlord in Scotland is by law charged with any public rates, taxes or assessments which in England are by law charged on the occupier, or where such landlord is by law charged with any public rates or taxes or other public burdens the like whereof are not chargeable on lands in England, the Board of Inland Revenue shall cause such relief to be given to landlords in Scotland in respect of such rates, &c., as is just and reasonable having regard to the additional burden which he bears. The relief is given either by abatement from the assessments or by repayment of tax.

Ministers' stipends.

9. The manner in which ministers of the Church of Scotland pay Income Tax on their stipends which arise from tithes (or tithe) raises a comparatively small matter, though one which as affecting the majority of parishes in Scotland should, it is thought, be brought to the notice of the Royal Commission.

10. The above-mentioned stipends are paid by the heritors of the parish out of the tithe which forms a charge on their lands, as in the case of tithe rent charge in England, and Income Tax at the standard rate is deducted by the heritors from each half-yearly payment of stipends. At the present high rate of tax this deduction involves a considerable temporary diminution in the amount of the income of the minister, who has subsequently to claim repayment of the difference between the tax deducted and the net amount of tax to which he is actually liable at the appropriate earned income rate, with any allowances for abatement, expenses, Life Insurance, wife and children, to which he may be entitled.

11. Prior to 1853 the recipients of tithe rent charge in England and Wales similarly suffered deduction of tax, but in that year it was provided that if the owner of the tithe rent charge made a return for the purpose of an assessment being made upon him, the Local Commissioners might, if they think fit, make a direct assessment upon the owner with the necessary corollary that where any such charge is made upon the owner of the rent charge, the amount of the rent charge is to be allowed as a deduction from the annual value in assessing the lands, &c., upon which it is charged. (Rule 7 of No. VII, Schedule A, Income Tax Act, 1918.)

This option has been almost universally adopted by the clergy concerned in England and Wales, and it is suggested that if a similar provision were made for the direct assessment of ministers of the Church of Scotland in respect of their stipends it would be welcomed not only by the ministers themselves as removing an inequality of treatment and enabling them to be taxed in the first instance at the rates appropriate to their incomes, but also by the heritors who would be relieved of the necessity of retaining tax from the payment of stipends.

12. If such a method of direct assessment be adopted, it is suggested that the assessments upon the ministers should be under Schedule E, in view of the greater convenience afforded in practice by this method of assessment as compared with that under Schedule A.

Appendix No. 63.

MEMORANDUM BY THE BOARD OF INLAND REVENUE REGARDING SUGGESTIONS MADE BY PUBLIC WITNESSES THAT, IN THE COMPUTATION OF LIABILITY TO INCOME TAX, DEDUCTION SHOULD BE ADMITTED FOR CERTAIN EXPENSES NOT AT PRESENT ALLOWED.

1. A number of witnesses who have given evidence before the Royal Commission have suggested that deductions should be admitted for Income Tax purposes in respect of expenses of various kinds, for which no allowance, or what is regarded as an inadequate allowance, is at present made.

2. The following expenses have been mentioned in this connection:—

- (a) Law costs and charges, e.g., legal expenses and stamp duties incidental to the creation of a partnership.
- (b) Preliminary expenses of a company.
- (c) Cost of removal of a business.
- (d) Underwriting commission.
- (e) Expenses in connection with the purchase of property.
- (f) Patent and trade mark charges.
- (g) An allowance to schoolmasters for the purchase of necessary books.
- (h) Agents' fees paid by Secondary Assistant Masters.
- (i) An allowance for the value of a part of a dwelling-house used by a teacher for school work.
- (j) Travelling expenses between place of residence and place of business.
- (k) Contributions for religious and charitable purposes.
- (l) Donations for the encouragement of research and advanced learning.
- (m) Subscriptions to Trade Associations.
- (n) All charges necessary to produce revenue.
- (o) Allowances to manual wage-earners for tools, clothing, &c.
- (p) Allowance of all sick, accident and provident contributions of any kind and for trade union contributions.

3. It will be recalled that under the existing law there is a clear distinction between expenses of a capital nature and expenses which may properly be regarded as falling to be debited against current revenue. This distinction is necessary, if only for the reason that accretions of capital are not chargeable to Income Tax as profits, and in the Board's view so long as the Income Tax remains a tax on income and is not a tax on capital, so long ought there to be a distinction of the kind which is at present made between income expenditure and capital expenditure. Income Tax law also makes a clear distinction between business or professional expenditure, and private expenditure.

The capital element or the private expenditure element, or both, will be found in greater or less degree in all the items (a) to (h) in paragraph 2 above.

4. As regards removal expenses [see paragraph 2 (c)], the cost of removal of stock-in-trade is allowed as a deduction in computing liability under Schedule D, whether the removal is a forced or voluntary one. No objection is in practice raised by the Board of Inland Revenue to the allowance of other expenses of removal in cases where the removal has been forced on the trader and has not been voluntarily undertaken for the purpose of business improvement or expansion.

5. The question whether allowances should be made in respect of such items as the purchase of books by a schoolmaster, or the payment of agents' fees by a schoolmaster [see paragraph 2 (g) and (h)], depends primarily on whether the payment is (i) of a capital nature, and (ii), if not, whether it is wholly and exclusively necessary for the purposes of the business or employment. In the Board's opinion, there is no serious hardship in the disallowance of these items. The capital element is present in some measure; and, in the case of books, the private expenditure element;

and, in view of the general principle indicated in paragraph 3 above, the Board consider that it is undesirable to make any alteration in the existing law.

6. While the Board offer no objection in principle to the making of an allowance for the value of so much of a dwelling-house as is used by a teacher solely and exclusively for the purposes of his profession [see paragraph 2 (i)], they do not regard the use by a teacher of a room in his dwelling-house as a study, as of itself sufficient to warrant the making of an allowance for Income Tax purposes. In the Board's view, an allowance on such grounds could scarcely fail to be of very wide application seeing that many professional and business people are in the habit of carrying on their occupation at home to a certain extent. Apart, therefore, from the question of principle, under which private expenditure is not admitted as an allowance for Income Tax purposes, practical difficulties would arise in giving effect to any allowance in the case of rooms which are in fact used partly for domestic purposes and partly for professional or business purposes, and the Board consider that, e.g., in the case of the teacher, the use of a room as a study should at any rate be coupled with its use for the reception of pupils as a condition precedent to an allowance, and that if any amendment of the law is thought to be necessary in this respect, it should be on the lines of the allowance to clergymen and ministers mentioned in Rule 2 (1) (b) of the General Rules of the Income Tax Act, 1918.

7. The Board consider that no allowance ought to be made for the cost of a season ticket or of other travelling expenses between the taxpayer's residence and the place of his business or employment [see paragraph 2 (j)]. Such expenses obviously vary according to the circumstances which govern the choice of a residence by the taxpayer. One person may live within walking distance of his business; another may choose to reside scores of miles away; and in the Board's view the expense is in each case a private expense for which no allowance ought to be made.

It may be added that during the war, when the demands for the production of munitions caused the sudden transfer, usually for temporary periods, of large bodies of workers to various centres where housing accommodation was either deficient or non-existent, a concession was made to that class of workers under which they were granted an allowance of the actual cost of travelling from their homes to and from their place of employment. This exceptional allowance has been confined to weekly wage-earners employed by way of manual labour and chargeable to tax on their earnings by quarterly assessment.

8. Charitable contributions [see paragraph 2 (k)] are at present allowed as a deduction for Income Tax purposes where the contribution is given to a charity which directly or indirectly benefits the workmen of the employer making the contribution. In the Board's judgment, there is no sufficient reason for extending the present allowance and making a deduction for contributions by individual taxpayers for charitable purposes generally. Such contributions may vary in character in the widest possible degree. At the one end of the scale, perhaps, is the establishment of a permanent endowment in aid of some charitable object—at the other is the contribution which a taxpayer puts into the collection plate at his place of worship. The Board are quite clearly of opinion that the sums which any taxpayer in his discretion sees fit to devote to charitable objects should be made at his own expense out of the income which remains to him after satisfying the demands of the State in taxation, and not partly at the expense of the State by being deducted from his income before tax has been paid upon it.

9. With regard to donations for the encouragement of research and advanced learning [see paragraph 2 (f)], the same considerations apply as in the case of charitable subscriptions. So far as such donations are for research and the advancement of scientific knowledge in a general sense, they must, in the Board's view, be regarded as an expenditure by the taxpayer out of the income which he enjoys after meeting the taxation demands of the State. When, however, a trader either on his own account or in conjunction with other traders in the same line of business carries on industrial research work (e.g., by the maintenance of a laboratory), the results of which may be reflected in the profits of the particular business in the near future, the Board of Inland Revenue regard expenses so incurred, provided they are not of a capital nature, as legitimate trading expenses to be deducted in the computation of the trader's Income Tax liability.

Similarly, subscriptions of traders to an Industrial Research Association duly approved by the Department of Scientific and Industrial Research are allowed as deductions.*

* Note.—The Department of Industrial and Scientific Research, which has been provided by Government with funds for the purpose, is promoting the formation of Industrial Research Associations by concerns engaged in various industries with a view to developing systematic industrial research on a large scale.

10. The question of subscriptions to Trade Associations [see paragraph 2 (m)] is being dealt with by the Board of Inland Revenue in a separate memorandum [see Appendix No. 61].

11. As regards the allowances made in computing the Income Tax liability of weekly wage-earners, in respect of expenses incurred on tools, clothing, &c. [see paragraph 2 (o)], these allowances are usually made at a flat rate fixed by negotiation between the Workers' Trade Union and the Board of Inland Revenue, and every factor is taken into due consideration with a view to arriving at an adequate allowance. If in particular cases the allowance granted is considered insufficient, the taxpayer has always the right of appeal.

12. With regard to the suggestion that an allowance should be granted in respect of all sick, accident and provident contributions of any kind and for trade union contributions [see paragraph 2 (p)], it may be pointed out that a deduction is in fact granted in respect of that portion of a premium paid under an accident or sickness policy, which is applicable to the death risk. Also, a deduction under the head of Life Assurance is made for so much of a wage-earner's contributions to a trade union as is allocated to superannuation benefits in addition to any portion allocated to funeral benefits or Life Insurance.

Appendix No. 64.

OBSERVATIONS BY THE BOARD OF INLAND REVENUE ON SUNDRY SUGGESTIONS SUBMITTED TO THE ROYAL COMMISSION BY CERTAIN WITNESSES ON THE SUBJECT OF DEPRECIATION ALLOWANCES.

1. It has been suggested that an allowance similar to the special writing-off allowances for exceptional depreciation and obsolescence now made in the case of Munitions Levy and Excess Profits Duty should be a permanent feature of the Income Tax applicable to all concerns (vide questions 8046, 8095, 8104).

2. The adoption of the suggested principle as a permanent feature of the Income Tax is open to very serious objection. It would have the effect of treating the plant account on the same lines as stock-in-trade, with the very grave drawback that the Revenue could exercise no effective check.

3. In the long run, it would be of no advantage to the trader when once prices have reached a stable level.

4. The suggestion throws over the general principle that the Income Tax is a tax on profits. For example, if A is a going concern, and if 1920 happens to be a year of abnormally high cost of plant, A's profits would be made abnormally large by including a fictitious book profit due to a high valuation of his machinery. Such a principle would be scouted by accountants, would not be approved by the industrial community, and would not, and could not, be adopted by traders in the very practical question of fixing sale prices of goods.

5. It may, however, be urged that the suggested allowance, like the Excess Profits Duty allowance, is required as a temporary measure in view of the disturbance created by the war.

6. The Excess Profits Duty allowance [Finance (No. 2) Act, 1915, s. 40 (3)] is on account of "exceptional depreciation or obsolescence of assets employed in the trade or business due to the present war, or to the necessity in connection with the present war of providing plant which will not be wanted for the purposes of the trade or business after the termination of the war . . ."

7. For Munitions Levy the allowance is defined by Rules 9 (a), (b) and (c) of the Munitions (Limitation of Profits) Rules, 1915, which require that adjustment shall be made in respect of (a) exceptional wear and tear, (b) special capital expenditure for munitions work, (c) the post-war value of plant, &c., installed for munitions work since 4th August, 1914.

8. Although differently expressed, the allowances under both Acts cover broadly the same ground.

Each was based upon the facts that the special taxation in question referred to a strictly limited period, that it was a period of abnormal conditions, that it was essential for the purposes of the war to instal plant purchased at abnormal prices, and that, in determining the amount of this special taxation, account should in justice be taken of the special burden placed upon the trader as a consequence of the abnormal conditions of the period.

9. The main justification of these special allowances is clearly the temporary nature of the taxation; and the claim to an extension of the allowances to the permanent Income Tax must find justification (if at all) on other grounds.

It is urged in evidence (question 7702) that "the present cost of construction is probably three times the pre-war cost. It is absolutely essential that this excessive cost should be written off as early as possible."

On this point the following observations may be made:—

(a) the normal range of post-war costs is likely to be considerably higher than pre-war, and therefore the amount to be written off will be much smaller than at one time seemed probable;

(b) the suggestion that manufacturers with war or post-war plant should be allowed to write down such plant to facilitate competition with the owners of pre-war plant (vide question 7702) would introduce an entirely new principle into Income Tax administration. Income Tax must necessarily deal with the actual profits made, without regard to whether they are less or more than they might have been, or to how they are applied for the purposes of the business;

(c) although some concerns have been started under war conditions, the bulk of ordinary commercial plant in the country is still pre-war plant, which is producing profits at the post-war rate. If plant is to be revalued to its market value each year until the period of normal post-war prices is reached, it is not unreasonable to suggest that for Income Tax purposes pre-war

plant should be included in such valuation, a course which can hardly be contemplated as applied to the individual taxpayer, however equitable it might appear as applied to industry as a whole. As an illustration of the increased value of some pre-war plant, the *Times Trade Supplement* of May 30th, 1919, referred to a cotton factory built 10 years ago at a cost of £2 a spindle, valued during the war at £7 and £8 a spindle, and purchased within the previous six weeks by large commercial interests at a price of £14 a spindle;

- (d) Where the plant in any business consists substantially of both pre-war and war plant, it does not appear that the individual would suffer any special hardships or labour under any special handicap during the post-war period of decline to normal post-war conditions. Where the plant consists wholly (or mainly) of plant purchased at inflated war prices, full allowance is made over the life of the plant. It may also be noted that the excess cost of the plant over the post-war value is allowed to be deducted as an expense in calculating Excess Profits Duty. This concession, taken in conjunction with the reduced rate of Excess Profits Duty, goes far to meet the contention that the trader may be put in a position of financial embarrassment where the allowance for Income Tax purposes does not equal the fall in market value of the plant during the first few years;

- (e) revaluation yearly would apply to practically every plant-using concern in the country, since all must have acquired some plant since 1914. The problem would be unworkable on any lines of actual valuation. It would mean in practice that the taxpayer would value his own plant, and in view of the various dates of purchase, varying conditions of use, and the alleged inferior make of much plant acquired during the war, it would be impossible for the Revenue official to check or counter such claim. The larger concerns would be under a serious inducement to create an untaxed reserve by writing down the plant unduly during the next few years, which reserve might be realized with loss to the Revenue by sale or reconstruction of such concerns. For where plant is sold at a value in excess of its written-down value, the purchaser is entitled to depreciation up to that enhanced cost, and the Revenue allows depreciation in respect of such increased price twice over;

- (f) the practical question for the manufacturer during the first few years is mainly one of working capital—a question of business credit which should not be met at the expense of the Revenue.

10. Among other suggestions laid before the Royal Commission is that a *prudential reserve* should be allowed in addition to depreciation (say, by doubling the allowance for depreciation) (question 8109).

11. This proposal appears to have been put forward on the ground that the Government is practically the predominant partner in a pecuniary sense in all businesses . . . it should take up the position that an ordinary partner must take up . . . prudential reserves must be made by manufacturers and others . . . The logical inference is that the Government should retain its "partnership" right to a share in such reserves; but the suggestion in effect is that the Government should surrender its share in such reserves for the benefit of the other partners.

12. The witness (Mr. G. P. Norton) appears to have had in mind prudential reserves for the general purposes of the business, using a double depreciation allowance merely as the measure and the method of the allowance. It is hardly conceivable that further

depreciation would be allowed on such grounds; and the only material point, so far as regards depreciation, is whether the allowance for "wear and tear" should include something as a reserve against future contingencies (which may never occur).

13. The only material contingencies affecting the plant appear to be:—

- (1) catastrophe (fire, boiler explosion, &c.);
- (2) sudden obsolescence or abnormal renewals as the result of the invention of new methods.

14. So far as (1) is concerned, provision may be made by means of insurance. The premiums are admitted as an expense for Income Tax purposes, and no Income Tax grievance can reasonably be said to exist.

15. As regards (2), if the contingency is insurable the trader's remedy lies there. If it is so uncertain, immeasurable, or remote as to be non-insurable, it is difficult to see any grounds for an allowance of what is to all intents and purposes a general reserve. The allowance is at present made when the contingency happens, and it cannot be said with reason that as far as the Income Tax is concerned any positive grievance exists.

16. Income Tax is necessary to meet annual expenditure; and if traders are relieved by paying on less than true profits the deficiency must be made up by other members of the community, who might themselves put forward an equally good claim for allowance in respect of the contingencies to which they themselves are liable.

17. Mr. H. D. Leather suggested that "allowance should be made for the annual reduction in the value of all property used for trade or business purposes . . . whether such reduction in value is caused by wear and tear, obsolescence or exhaustion (question 7705).

This suggestion covers the whole field of "wasting assets" and hardly calls here for detailed consideration. The question of allowance in the case of material assets has already been dealt with in the official evidence. Non-material assets, such as leases, goodwill, &c., have been referred to more briefly. The general position is explained in the official evidence on the subject of "wasting assets" (see question 9878). Briefly, any provision that may be made to meet the wastage of such non-material assets is not a part of true "cost of production" at all. The asset may be wasting capital to the individual trader, but the payment made to acquire the asset represents merely the capitalized value of a right to receive (for a definite or indefinite period) future profits. If an allowance on account of his wasting capital were made to the purchaser of such non-material assets, the seller ought logically to be directly charged to tax in respect of the profit accruing to him from the sale. Although no such direct charge is in fact made upon the seller, by reason of the fact that the purchaser pays a smaller price than he would pay if he did not in essence pay tax on the purchase-price. The purchaser's personal profit is what is left after allowance is made for the wastage of the acquired asset, and as he receives no such allowance for Income Tax purposes, he pays tax on a sum equal to the cost of the asset over and above his own commercial profit. In the long run, therefore, the incidence of the tax tends to be rightly apportioned between the persons who share in the total profits.

18. The present allowance (of one-sixth of the annual value) in respect of mills, factories, &c., should be extended to all premises in which trade or business is being carried on (question 5816).

The discrimination in favour of mills and factories is due to the special wear and tear to which they are subject. They are distinguished from all other premises by the fact that they contain machinery, and that, as a consequence of the destructive vibration, their life is appreciably shorter than that of other premises. It is difficult to suggest that the life of other business premises is, as a result of their use, less than that of dwelling-houses. Where they are not of the nature of dwelling-houses (e.g., shops), there is reason to think that their more substantial

structure will at least counterbalance their problematic extra wear and tear as compared with dwelling-houses. It is therefore suggested that such business premises should be classified with dwelling-houses rather than with mills and other such premises which contain machinery.

19. *Allowance for obsolescence of buildings should be made whether replaced or not* (question 8077).

Obsolescence is not in the strictest sense a "cost of production." It does not enter into the cost of goods which have already been manufactured and sold. Nor does it enter into the cost of future manufactures, if, as is possible, obsolescence results in a cessation of the particular business. It is, generally speaking, a "catastrophic" loss, and where it results in cessation, it cannot be clearly distinguished from losses resulting from cessation brought about by other causes. Continued trade losses, inadequate working capital, uninsured fire, shipwreck, mine flooding or explosion, powerful competition—all may cause a business to cease and all result in a loss which is not a loss of profit in the ordinary Income Tax sense, but a loss of capital. It would be difficult to defend the allowance in respect of obsolescence where it results in cessation (even if the obsolescence could be proved), and the refusal of an allowance in respect of other losses of capital in the case of cessation.

On the other hand, where in the case of a continuing business assets are renewed the loss involved in the renewal is essential to the continued carrying on of the business, and is accordingly, and may be fairly regarded as, a proper charge against the profits of the continued production of the particular business. Obsolescence of plant is allowed on this ground, the loss due to renewal being the actual loss of the

obsolete plant, less any allowance already made by way of depreciation and anything realized on sale of the scrap.

20. *Rates of allowances should be fixed by a central authority* (question 7705).

This point is dealt with in the official evidence (questions 933 to 2). In some trades the conditions as to plant are so uniform that a common rate of allowance may be fixed. Where this is the case the trade may apply to have such rate fixed by a central authority (the Board of Referees). It does not, however, seem practicable or desirable to burden a central authority with the very numerous individual cases in which no substantial uniformity of conditions or of use exists. One of the chief grounds for enabling classes of trade to be dealt with by a central authority is that the jurisdiction of particular bodies of Commissioners would not ordinarily extend to the whole trade. This difficulty does not exist as regards an individual trader.

21. *For mills, a rate of not less than 2½ per cent. on the diminishing value should be allowed* (question 8063).

The figure suggested is more or less arbitrary. An allowance on the above lines would write down the value to a residual of 10 per cent. in 20 years. Having regard to the fact that the suggested 2½ per cent. is on the cost of the building, whereas the present allowance of one-sixth is on annual value of both building and site (including fixed plant where the rating and assessment includes such plant) the present allowance appears to be, if anything, more liberal than the suggestion, except that the 2½ per cent. proposal gives a somewhat larger figure in the earlier years of the life.

Appendix No. 65.

MEMORANDUM BY THE BOARD OF INLAND REVENUE ON THE SUBJECT OF DISTRAINT FEES IN RELATION TO TAXES.

1. The tax due from any taxpayer is recoverable in default of payment by distress upon the property charged or upon the property or goods of the person charged and, except in Scotland, Collectors of Taxes are authorized and required by section 162 of the Income Tax Act, 1918, to levy distress for taxes outstanding and to recover the costs and charges of the distress equally with the amount of tax due.

2. The "costs and charges" of distress, known as "distraint fees," are not uniform throughout the United Kingdom, but are different in amount in England and Wales, Scotland and Ireland respectively, and the purpose of this memorandum is to draw attention to an anomaly that exists in connection with the fees chargeable in England and Wales and Ireland.

England and Wales.

3. The distraint fees chargeable in England and Wales are given in Enclosure A. There are two scales, one where the tax payable does not exceed £20 and the other where the tax exceeds £20.

4. The scale of fees where the tax payable does not exceed £20 is a statutory maximum. It is the scale prescribed in the Schedule to an Act of 1817 entitled "An Act to Regulate the Cost of Distress Levied for Payment of Small Rents" (57 Geo. III, cap. 93) as the maximum chargeable for distress for rent not exceeding £20, and it applies to distresses for tax not exceeding £20 by virtue of an Act of 1827 (7 and 8 Geo. IV, cap. 17) which applied the scale of the 1817 Act to distresses for rates or taxes where the amount payable did not exceed £20. The Act of 1827 is still in force for rates as well as taxes.

5. The scale of distraint fees where the tax payable exceeds £20 has no statutory authority. Under common law, the costs and charges recoverable must be reasonable in amount, and the Board of Inland Revenue adopted this scale, which is the scale prescribed by the Lord Chancellor under the provisions of the Law of Distress Amendment Act, 1888, for

distresses of rent exceeding £20, as one which in their view was reasonable and should not be exceeded by Collectors.

6. The Law of Distress Amendment Act, 1888, which amended the law relating to distress for rent, and applied only to England and Wales, repealed the Act of 1817 mentioned above and gave the Lord Chancellor power to prescribe in every case scales of fees that shall be allowed for distress for rent. The scales prescribed by the Lord Chancellor in respect of rent are given in Enclosure C, and it will be seen that the fees where rent does not exceed £20 are practically the same as those laid down by the Act of 1817 with the exception that the fee for a man in possession has been increased from 2s. 6d. per day to 4s. 6d. per day.

7. The Act of 1817, though repealed in so far as it relates to rent, is still in force in regard to rates and taxes, and there is, therefore, the anomaly that where the distress is for rent the fee for a man in possession is 4s. 6d. per day, but where the distress is for taxes the fee is the old figure of 2s. 6d. a day. The distraint fees for taxes should not be less than those for rent, and the Board of Inland Revenue accordingly suggest that the Act of 1827 should be repealed so far as taxes are concerned, and that it should be enacted that the scale of distraint fees for taxes shall be such as may from time to time be prescribed with respect to distress for rent.

Ireland.

8. The distraint fees chargeable in Ireland are given in Enclosure B to this memorandum. As in the case of England and Wales, there are two scales according as the tax payable does or does not exceed £20.

The scale where the tax does not exceed £20 is a statutory maximum laid down by section 15 of the Act of 1817 and 10 Vict., cap. 111, which regulated the cost of distress in Ireland for rents, taxes and rates

not exceeding £20 on the lines of the corresponding Acts in England and Wales. The scale of fees where the tax payable exceeds £20 is the same as that in force in England and Wales.

9. There has been no recent legislation in Ireland respecting distress for rent corresponding to the Law of Distress Amendment Act, 1888, in England and Wales. The Board of Inland Revenue suggest, however, that the distress fees for tax in Ireland should be the same as those in England and Wales, and that accordingly the Act 9 and 10 Vict., cap. 111, should be repealed in so far as it relates to taxes,

and that it should be enacted that the same scales of distress fees should apply in Ireland as in England and Wales.

Scotland.

10. Pounding, the Scottish term for distress, is carried out in Scotland not by the Collector of Taxes, but by the Sheriff Officer, and is subject to the special provisions of section 106 of the Income Tax Act, 1918, under sub-section (5) of which the Sheriff Officer is entitled to a poundage of the tax payable. No alteration of the Scottish law or procedure is proposed.

Enclosure A to Appendix No. 65.

DISTRESS FOR TAXES.

TABLE OF DISTRAINT FEES CHARGEABLE IN ENGLAND AND WALES.

(1) Where the tax payable does not exceed £20.

	£	s.	d.
Laying distress	0	3	0
Man in possession, per day	0	2	6
Appraisement, whether by one broker or more, sixpence in the pound on the value of goods.	0	10	0
All expenses of advertisement, if any such Catalogues, sale and commission, and delivery of goods, one shilling in the pound on the net produce of the sale.	0	10	0

(2) Where the tax payable exceeds £20.

Laying distress:—	
On sums exceeding £20 and not exceeding £50:—	
Three shillings on £20, and three per cent. on the balance.	
On sums exceeding £50 and not exceeding £200:—	
Three shillings on £20, three per cent. on £30, and two and a half per cent. on the balance.	

On sums exceeding £200:—

Three shillings on £20, three per cent. on £30, two and a half per cent. on £150, and one per cent. on the balance.

Man in possession, 5s. per day (to provide his own board in every case).

Appraisement, whether by one broker or more, sixpence in the pound on the value as appraised.

For advertisements, the sum actually and necessarily paid.

Catalogues, sale and commission, and delivery of goods:—

Seven and a half per cent. on the sum realized not exceeding £100; five per cent. on the next £200; four per cent. on the next £200; and on any sum exceeding £500 three per cent. up to £1,000; and two and a half per cent. on any sum exceeding £1,000. A fraction of £1 to be in all cases reckoned £1.

Enclosure B to Appendix No. 65.

DISTRESS FOR TAXES.

TABLE OF DISTRAINT FEES CHARGEABLE IN IRELAND.

(1) Where the tax payable does not exceed £20.

	£	s.	d.
Laying distress	0	2	0
Man in possession, per day each (but not exceeding two in number, unless upon information sworn before a Justice that a rescue or violence is apprehended) ...	0	2	0
All expenses of advertisement, if any such, not exceeding	0	5	0
Catalogues, sale, commission, and delivery of goods, 1s. in the pound on the net produce of the sale, if sold by a licensed auctioneer; otherwise, 6d. in the pound on the net produce of the sale.	0	5	0

(2) Where the tax payable exceeds £20.

Fee for laying distress:—	
On sums exceeding £20 and not exceeding £50:—	
Three shillings on £20, and three per cent. on the balance.	

On sums exceeding £20 and not exceeding £200:—

Three shillings on £20, three per cent. on £30, and two and a half per cent. on the balance.

On sums exceeding £200:—

Three shillings on £20, three per cent. on £30, two and a half per cent. on £150, and one per cent. on the balance.

Man in possession, 5s. per day (to provide his own board in every case).

Appraisement, whether by one broker or more, sixpence in the pound on the value as appraised.

For advertisements, the sum actually and necessarily paid.

Catalogues, sale and commission, and delivery of goods:—

Seven and a half per cent. on the sum realized not exceeding £100; five per cent. on the next £200; four per cent. on the next £200; three per cent. on the next £500; and two and a half per cent. on any excess over £1,000. A fraction of £1 to be in all cases reckoned £1.

Enclosure C to Appendix No. 65.

DISTRESS FOR RENT.

TABLE OF DISTRAINT FEES CHARGEABLE IN ENGLAND AND WALES.

(1) Where the rent demanded and due does not exceed £20.		£ s. d.		exceeding £200; and one per cent. on any additional sum.
For laying distress	...	0	3	0
For man in possession, per day (to provide his own board in every case)	...	0	4	6
For appraisement on the tenant's written request, whether by one broker or more, 6d. in the pound on the value as appraised in addition to the amount for the stamp.	...	0	10	0
For all expenses of advertisement, if any	...	0	10	0
Catalogues, sale and commission, and delivery of goods, one shilling in the pound on the net produce of the sale.	...			
For removal at tenant's request, the reasonable expenses attending such removal.	...			
(2) Where the rent demanded and due exceeds £20.				For man in possession, 5s. per day (to provide his own board in every case).
For laying distress. Three per cent. on any sum exceeding £20 and not exceeding £50; two and a half per cent. on any sum exceeding £50 and not	...			For advertisements, the sum actually and necessarily paid.
	...			For commission to the auctioneer. On sale by auction, seven and a half per cent. on the sum realized not exceeding £100; five per cent. on the next £200; four per cent. on the next £200; and on any sum exceeding £200 three per cent. up to £1,000; and two and a half per cent. on any sum exceeding £1,000. A fraction of £1 to be in all cases reckoned £1.
	...			Reasonable fees, charges and expenses where distress is withdrawn or where no sale takes place, and for negotiations between landlord and tenant respecting the distress.
	...			For appraisement, on tenant's written request, whether by one broker or more, 6d. in the pound on the value as appraised, in addition to the amount for the stamp.

Appendix No. 66.

OBSERVATIONS BY THE BOARD OF INLAND REVENUE UPON THE STATEMENTS OF EVIDENCE ON THE SUBJECT OF THE TAXATION OF THE CLERGY OF THE CHURCH OF ENGLAND, SUBMITTED TO THE ROYAL COMMISSION BY THE REVEREND A. G. B. ATKINSON, THE RIGHT REVEREND GEORGE NICKSON, LORD BISHOP OF BRISTOL, AND THE REVEREND CANON FRANK PARTRIDGE.

I. EVIDENCE-IN-CHIEF OF THE REVEREND A. G. B. ATKINSON.

The parochial clergy (question 14,581).

1. This paragraph calls for little comment. As regards Income Tax, the suggestion that "the burden falls more heavily upon the Clergy than on any other class" will be dealt with in the notes upon the succeeding paragraphs, which presumably set forth all the grounds of any importance upon which the basis of assessment of clerical incomes is alleged to be unfair.

The question of local taxation hardly appears to be relevant. The circumstance that a tithe-owner's income would be larger than it is if rates were not chargeable in respect of the tithe rent charge would seem to afford no reason why Income Tax should not be charged upon the income which is in fact received.

The clergyman's "ability to pay" (question 14,582).

2. A taxpayer's liability to Income Tax is determined by his ability to pay, as evidenced by the amount of his income, and this is the case whether he be a clergyman or a layman. And the burden is adjusted to the back by means of graduated rates of tax, by the exemption of incomes not exceeding £130 per annum, by the abatement allowances, and by the various statutory deductions by reference to personal circumstances, e.g., allowances in respect of wife, children and dependent relatives.

3. All these reliefs are of general application within the income limits to which they respectively apply. It is urged, however, that further relief is due to the Clergy because they are subject to "a number of claims which do not fall on other members of the community." It is admitted that the obligation is moral rather than legal, and this fact of itself would make it most difficult, even if it were considered desirable, to determine an appropriate Income Tax allowance in any individual case in

respect of voluntary expenditure of a charitable character.

4. Although no doubt the "moral obligation" may be more generally recognised by the Clergy than by the laity, no monopoly of charitable liberality would or could be claimed by the former, and it is not easy to see how their claim for an Income Tax allowance could be met without admitting a general all-round relief on similar grounds. This would give rise to claims from almost every taxpayer, claims which it would be practically impossible to verify, and which might prove a fruitful source of fraud.

5. The argument that a certain standard of living is necessary to the Clergy, and that regard should be had to this in determining their liability to Income Tax, is one which could be advanced by many classes of taxpayers, e.g., the professional classes generally, officers of His Majesty's Forces, and especially the widows of such taxpayers. In any case it would appear to be out of the question to import consideration of social status into the determination of Income Tax liability, and it is anticipated that any proposals in that direction would meet with no approval from the general body of taxpayers.

The parsonage house (questions 14,583-4).

6. The clergyman is assessed to Income Tax, Schedule A, in respect of his parsonage upon the annual value, i.e., the rack rent at which it is worth to be let by the year and from this value a deduction of one-sixth for repairs is made every year, whether there has been any actual expenditure on repairs or not. Moreover, under section 19 of the Finance Act, 1919, and Rule 8 of No. V, in Schedule A of the Income Tax Act, 1918, where the expenditure, upon the average of the preceding five years, in respect of maintenance, repairs and insurance of the house is proved to have exceeded the statutory deduction of one-sixth, repayment of tax upon the amount of the excess may be claimed. This further

relief is limited to houses the annual value of which, as adopted under Schedule A, does not exceed—

- (a) where the house is situate in the Metropolitan police districts, including the City of London, £70;
- (b) where the house is situate in Scotland, £50; and
- (c) where the house is situate elsewhere, £22.

The great bulk of the parsonage houses are within these limits of annual value.

Apart from and in addition to the foregoing a deduction is made for Income Tax purposes, up to a maximum of one-eighth of the annual value of the parsonage, where a part of the house is used mainly and substantially for the purposes of the clergyman's duty.

7. The "Recommendations" put forward (question 14,586) include a suggestion that "the allowance for 'study' be increased to a sum not exceeding two-thirds of the annual value of the house."

In the Board's opinion there is no ground for an increase of the normal maximum of one-eighth in the case of the parochial Clergy.

The question is whether the annual value of the clergyman's "study" represents more than one-eighth of the annual value of his house and this question is not affected by the circumstance that some Clergy occupy houses which are larger than they need or desire, or by the fact that where the professional rooms of a doctor or dentist actually represent in annual value two-thirds of his house, he is allowed an Income Tax deduction on that basis.

The tithe-owning Clergy. Assessment. (questions 14,585-7).

8. Where the tithe-owner elects for direct assessment in respect of his tithe, as is done in the great majority of cases, the Income Tax assessment is based, in accordance with the law, upon the full annual value of the tithe for the year of assessment, as shown by the Tables, based on the price of corn, &c., by reference to which the amount payable in respect of tithe rent charge is computed. It is quite immaterial what the valuation for Poor Rate purposes may be.

Thus the owner of a tithe rent charge of £100 would have been assessed for 1910-11 (the last year for which a general re-assessment to Income Tax, Schedule A, was made) in the gross sum of £70 7s. 8d. and under the continuation clauses in the respective Finance Acts this assessment will have held good for each of the succeeding years notwithstanding the considerable increase in the value of the tithe (now £109 3s. 11d.). If on the other hand the value of the tithe had been less than £70 7s. 8d. for any of the succeeding years the assessment would have been reduced to the actual value.

From the gross assessment of £70 7s. 8d. a deduction is allowed in respect of (1) any actual expenditure incurred in collecting the tithe and (2) the full amount of the parochial rates charged on the tithe, notwithstanding the fact that the clerical tithe-owner pays only one-half of these rates, the other half being paid out of the Imperial Revenue.

9. The position may be illustrated by an example. A tithe rent charge of £300 is attached to a particular benefice. For the year 1918-19 the clergyman's gross income from the tithe is £327 11s. 9d. (£109 3s. 11d. x 3); out of this he pays, say, £15 for the collection of the tithe and £20, one-half of the local rates charged on the tithe; his net income from this source is, therefore, £292 11s. 9d. Income Tax for the year 1918-19 would, however, be chargeable on the sum of £160 3s. only—gross assessment, £211 3s. (£70 7s. 8d. x 3), less £15 cost of collection and £40 rates = £156 3s.

It will be seen that, even if for 1918-19 the tithe rent charge had been assessed upon its proper value, £327 11s. 9d., the clergyman would still have paid tax upon £20 less than his real income by reason of the allowance of the full amount of the rates instead of the half paid by him.

10. The various points under this heading raised on behalf of the Clergy may be dealt with more particularly as follows:—

(a) The argument based upon the effect of the Tithe Act, 1918 (which inter alia fixed the value of the tithe rent charge for the years 1919 to 1925 upon the 1918 basis of £109 3s. 11d.), amounts practically to the proposition that, because a man does not receive as much income as he expected or would like to receive, he shall not be assessed upon the full amount of the income which he does in fact receive. Or, in other words, that Parliament by a preferential and illogical reduction of the Income Tax charge upon the Clergy should augment the value of the tithe rent charge which Parliament itself has fixed.

(b) It is not the case that in the majority of cases the Poor Rate is adhered to in the assessment of real property to Income Tax. The overwhelming majority of properties are let to tenants, and the rack rent and not the Poor Rate valuation is the basis of the Income Tax assessment. Equally, where a property is in the occupation of the owner it is the annual value, i.e., the rack rent at which it is worth to be let by the year, which is the basis of the Income Tax assessment, and where the Poor Rate valuation is below that figure it would not be adopted for Income Tax purposes.

The suggestion that tithe rent charge bears a greater Income Tax burden than other forms of real property is not only incorrect, but is the reverse of the truth. Whether the tithe rent charge is properly rated or whether it ought or ought not to bear local rates at all is not an Income Tax problem. What the Income Tax is concerned with is the charging of tax upon the income. Whether that income is more or less in amount than it ought to be is quite irrelevant.

(c) The reference to the Income Tax treatment of farmers does not assist the case for the Clergy. It is no part of the Income Tax scheme to assess a farmer upon less than the full amount of his profits. It is true that, in the absence of election by the farmer for assessment under Schedule D, upon his exact figures, he is automatically assessed under Schedule B upon an artificial statutory estimate of profits, but it will be remembered that that estimate has been raised twice in recent years to meet the rise in farming profits, and now stands at double the annual value of the lands farmed—six times the pre-war basis of one-third of the annual value.

(d) The non-saleable character of the tithe rent charge may or may not be a matter calling for redress, but it certainly is not within the scope of the Income Tax law, which necessarily confines itself to ascertaining the amount of the income.

(e) The statutory Income Tax allowance of one-eighth of the annual value in the case of lands (inclusive of the farmhouse and other buildings) is made in respect of the cost of the maintenance and upkeep of the farmhouse, buildings, fences, &c. The allowance is based upon the full annual value, inclusive of the tithe rent charge, and is rightly made to the person who has to maintain the property. It is not apparent why a second allowance of one-eighth should be given to the tithe owner, and still less why it should be increased to one-seventh in his case, where there is no possibility of any expense of repairs or upkeep.

11. For the foregoing reasons, it is submitted that the Clergy have no case against the present basis of Income Tax assessment upon tithe rent charge.

On the other hand, the Revenue—or rather, the general body of taxpayers—have a strong case. In the Board's view, the Income Tax deduction in respect of rates should unquestionably be limited to the amount actually paid by the tithe owner, and the Board accordingly suggest an alteration of the existing law in this respect. (*See Income Tax Act, 1918, Schedule A, No. VII, Rule 7 (1).*)

Easter offerings (question 14,588).

12. Any doubts as to the law in regard to this source of clerical income were removed by the case of *Cooper v. Blakiston* (1909, A.C. 104; 5 T.C. 347).

Easter offerings are taxable as profits accruing to the clergyman by reason of his office.

13. The distinction between such taxable profits and non-taxable receipts of an exceptional or purely personal character is brought out in the judgment of the Lord Chancellor, which was as follows:—

"The Lord Chancellor.—My Lords, I agree with the Court of Appeal. The only question is, whether or not a sum given by parishioners and others to the Vicar as Easter, 1905, is assessable to Income Tax as being 'profits accruing' to him 'by reason of such office.'"

"In my opinion, where a sum of money is given to an incumbent substantially in respect of his services as incumbent, it accrues to him by reason of his office. Here the sum of money was given in respect of those services. Had it been a gift of an exceptional kind, such as a testimonial, or a contribution for a specific purpose, as to provide for a holiday, or a subscription peculiarly due to the personal qualities of the particular clergyman, it might not have been a voluntary payment for services, but a mere present."

"In this case, however, there was a continuity of annual payments apart from any special occasion or purpose, and the ground of the call for subscriptions was one common to all clergymen with insufficient stipends, urged by the Bishop on behalf of all alike."

"What you choose to call it matters little. The point is, what was it in reality?"

"It was natural, and in no way wrong, that all concerned should make this gift appear as like a mere present as they could. But they acted straightforwardly, as one would expect, and the real character of what was done appears clearly enough from the papers in which contributions were solicited."

14. These Easter offerings are clearly taxable income under the law and it is submitted that, so long as Income Tax is to be charged on income, they should remain chargeable. The circumstance that the offerings are not legally exigible would not of itself furnish an adequate ground for their exclusion from the computation of income. They are received by the clergyman only while he is a clergyman and because he is a clergyman and it is not seen that any reason exists for ignoring this particular ingredient in the total clerical income.

Moreover, it would not be logically possible to give the relief desired by the Clergy of the Church of England without going further and admitting non-liability in respect of payments not legally exigible made to other Clergy, with the result in some cases of removing the larger part or the whole of a clergyman's income from the scope of the Income Tax charge, e.g., in the case of the Roman Catholic Clergy.

Dilapidations (question 14,589).

15. It is not seen that the Clergy have any possible claim for further relief from Income Tax in respect of their glebe, glebe houses, farm buildings, &c., beyond that already afforded under the Income Tax Act.

The statutory allowance for repairs in the case of lands, inclusive of the farmhouse and other buildings, is one-eighth of the annual value, and where the owner of the land, &c., shows that the cost to him of maintenance, repairs, insurance and management,

according to the average of the preceding five years, has exceeded the one-eighth allowance he can claim repayment of Income Tax on the amount of the excess. Moreover, it is provided that the term "maintenance" shall include the replacement of farmhouses, farm buildings, cottages, fences, and other works where the replacement is necessary to maintain the existing rent. (*Income Tax Act, 1918, Schedule A, No. V, Rules 7 and 8.*)

16. It will be remembered that the normal allowance of one-eighth, which is given every year, whether there have been any repairs or not, is calculated upon the full annual value not only of the farmhouse and buildings but of the land as well, i.e., of the farm in its entirety, thus the allowance in the case of a farm of the annual value of £200 would be £25, and if on the average of the five preceding years the repairs, &c., were proved to have amounted to, say, £60, repayment could be claimed of the tax upon £35 (the excess beyond the normal allowance of one-eighth).

The parsonage garden (question 14,590).

17. The statement that Schedule B of the Income Tax "is devised to meet the case of farmers" is incomplete. Income Tax under Schedule B is charged in respect of the occupation not only of farm lands, but also of all other lands, e.g., parks, pleasure grounds, and amenity lands generally.

A distinction is made as regards the quantum of the charge between (a) lands occupied wholly or mainly for the purpose of husbandry and (b) lands not so occupied. In the former case the "assessable value" upon which Income Tax is charged is twice the annual value, in the latter case it is the single annual value.

The parsonage gardens now in question fall within the latter class and are chargeable on the single value basis.

It is not seen that there is any sufficient ground for preferential treatment of these as compared with similar gardens, pleasure grounds, &c., in lay occupation.

Parochial helpers (question 14,591).

18. The admissibility of deductions for Income Tax purposes in respect of payments by a clergyman to his assistants is governed by two separate statutory provisions:—

(a) Under the Income Tax Act, 1918, General Rules, No. 2, a deduction is allowed for expenses incurred by a clergyman wholly, exclusively and necessarily in the performance of his duties as clergyman. This, however, covers only expenses incurred in his personal performance of the duty and not payments to other people for performing part of the duty for him (*Lottien v. Macrae*, 2 Tax Cases, 66; *Jardine v. Gillispie*, 5 Tax Cases, 263).

(b) Under Rule 4 of No. VIII of Schedule A of the Income Tax Act, 1918, an incumbent is authorized to deduct Income Tax from any stipend paid by him out of income taxed under Schedule A, to a licensed curate, i.e., a curate licensed to the particular parish (such stipend is by ecclesiastical law a charge upon the income of the benefice). In practice effect is given to the Rule by allowing the incumbent to deduct the curate's stipend as an expense in the computation of his Income Tax liability. He then pays the stipend in full to the curate and the latter is directly assessed.

19. It will be seen from the foregoing that strictly there is no legal provision for the allowance as an expense for Income Tax purposes of payments to any assistants other than licensed curates.

The Board of Inland Revenue have, however, in certain cases where claims have come before them offered no objection to allowances in respect of payments made by clergymen to licensed lay workers employed by them to assist in the administration of their religious functions—lay readers and deaconesses.

20. On the other hand the Board have not found themselves able to acquiesce in claims for the deduction of all expenditure on lay assistance that clergymen have in fact incurred. For instance, it sometimes happens that a clergyman with private means spends a large part of the income of his benefice in supplying to his parishioners services which do not

fall within the duties necessarily attaching to his office, and include services of a secular character, such as those of a nurse, health visitor, relief assistant.

The Board do not consider that expenditure of this kind could reasonably be admitted as a deduction for Income Tax purposes. It appears to be of the nature of private charity rather than an expense necessarily incurred in connection with the clergyman's duties, and has its analogies in private expenditure of a similarly beneficial character incurred by laymen, e.g., subscriptions to hospitals and dispensaries, maintenance of district nurses, village reading rooms, for which no Income Tax allowance can be made.

21. The Board would suggest the desirability of meeting the claim now put forward on behalf of the Clergy by providing specifically for a deduction in respect of payments for licensed lay workers engaged to assist the Clergy in the administration of their religious functions—lay readers and deacons. This would secure uniformity of practice and regularize the position.

Collection of tax (question 14,592).

22. The Income Tax year ends on the 5th April, and the tax charged in respect of tithe rent charge is payable in two equal instalments, the first on or before the 1st January within the year of assessment and the second on or before the following 1st July.

The tithe owner is not required to pay any tax until 1st January, when practically three-fourths of the Income Tax year have elapsed, and then he pays only half the year's tax, that is the equivalent of tax on a half-year's tithe; and he does not pay the other half until 1st July, practically three months after the end of the Income Tax year.

In these circumstances there does not appear to be any such Income Tax hardship as is suggested in the evidence.

The Board of Inland Revenue are not aware of any general difficulty or delay in the collection of tithe rent charge.

Inspection of tax books (question 14,593).

23. The suggestion that as regards assessments to Income Tax, Schedule A, the Clergy are at a disadvantage as compared with other taxpayers receiving income chargeable under that Schedule has already been dealt with (paragraph 10 (b) above).

24. The Income Tax Acts do not afford to taxpayer M any right to inspect the Schedule A assessment upon taxpayer N, and this must necessarily be the case.

It would be out of the question for M to be in a position to gratify his curiosity as to N's private affairs, e.g., whether his property is or is not subject to a mortgage, the approximate amount of his total income—particulars which an intelligent inspection of the assessment would at once reveal.

The law prescribes an equal basis for the assessments under Schedule A and it lies with the various persons concerned with the administration of the Income Tax to see that the assessments are made in accordance with the legal requirements.

25. The proposal put forward converts the suggestion that a clergyman in parish X is paying too much Income Tax under Schedule A because some other taxpayer is under-assessed in respect of property in the same parish.

The Board do not admit the suggestion of under-assessments to the special prejudice of the Clergy and in any case the alleged clerical grievance would not be met by an inspection of the Schedule A assessments for a particular parish.

26. The Income Tax is not a local impost and a clergyman in Penzance might be aggrieved by an under-assessment of property in Pontefract as much as by an under-assessment in Penzance.

Also he might be equally affected by an under-assessment (Schedule D) of trade profits in Portsmouth.

Carried to its logical conclusion the suggestion put forward would lead to every taxpayer being given the right of appealing against any other taxpayer's Income Tax assessment.

Machinery (question 14,594).

27. Form 38 E.C. is sent annually to clergymen of the Church of England to enable them to claim certain reliefs which are of general and annual application, e.g., earned and unearned income relief, abatement, allowances for Life Assurance premiums, wife, children.

Certain special reliefs to clergymen are dealt with in separate forms, which are supplied upon request. These special reliefs are believed to be well known to the Clergy, but if there is a general desire for their enumeration upon Form 38 E.C. this could, of course, be done, though at the risk of criticism from those who press for the simplification of Income Tax forms.

28. As regards the item tithes, no directions are given on Form 38 E.C. Special forms are issued, whenever there is a general re-assessment of property chargeable to Income Tax under Schedule A, for returns in respect of tithe rent charges and claims in respect of expenses admissible as deductions, e.g., rates, land tax, cost of collection, repairs to church and other ecclesiastical charges.

As is explained in paragraph 8 above, these assessments stand for succeeding years until there is another general re-assessment, and it is, of course, the net figure after the deduction of the expenses which is returnable on Form 38 E.C. as the income from tithes.

29. With reference to the correspondence in the particular case mentioned in the evidence, it will be observed that the Surveyor of Taxes explained that the allowances due had been made, and suggested an interview with a view to affording any further information which might be desired. Moreover, the Board understand that the form of claim asked for, No. 72, was in fact sent to this clergyman in June last, and that up to a recent date no claim had been preferred by him.

The Board are not aware of any grounds which would justify a suggestion that there is any failure on the part of the Surveyors to assist the Clergy, as well as other taxpayers, in arriving at their correct liability to Income Tax.

The exemption limit (question 14,595).

30. This is a general question upon which official evidence has already been submitted to the Royal Commission.

In the Board's view the exemption limit, at whatever figure it may ultimately be fixed, must necessarily be of general application irrespective of any alleged requirements incidental to the social position of particular sections of the community.

Recommendations (question 14,596).

31. These have been considered in the preceding paragraphs.

Postscript. Mortgages (question 14,597).

32. Under the general rules and principles of the Income Tax no deduction is allowable in respect of capital expenditure, and the prohibition applies to capital expenditure spread over a period of years equally with such expenditure in the form of an immediate lump sum payment.

Also no modification of the rule is permitted by reason of the compulsory application of income to the specific purpose of providing annual sums, by way of a sinking fund or otherwise, for the extinction of a mortgage debt. (*City of Dublin Steam Packet Company v. O'Brien* (1912), 8 Tax Cases, 201).

33. As regards the farmhouses and buildings owned by the Clergy, it will be remembered that an Income Tax allowance is made not only for the cost of the ordinary maintenance, repairs, insurance and management, but also for the replacement of farmhouses, farm buildings, cottages, fences and other works where the replacement is necessary to maintain the existing rent.

The Board are unable to support a claim for a further preferential allowance to the Clergy in respect of capital expenditure upon additions or improvements.

II. EVIDENCE-IN-CHIEF OF THE RIGHT REVEREND GEORGE NICKSON, LORD BISHOP OF BRISTOL.

The case for the Bishops (questions 13,269-13,271).

34. The statutory deduction allowed to a clergyman in respect of the rent or annual value of the part of his dwelling-house which is used mainly and substantially for the purposes of his duty as clergyman is limited to a maximum of one-eighth of such rent or annual value.

Although the Board have no reason to regard this limit as inadequate in the case of the parochial Clergy generally they feel that a larger allowance might fairly be made to meet special circumstances such as those of the Bishops. They would accordingly suggest that the one-eighth be retained as the normal maximum and that power be given to the Income Tax Commissioners to exceed that limit in the exceptional cases in question and to allow a deduction in respect of the rent or annual value of so much of the residence as is proved to their satisfaction to be used mainly and substantially for the purposes of the Bishop's duty. At the same time it would in the Board's view be equitable to provide for an allowance in all cases of expenses, such as the cost of service, fuel, light, &c., incurred in connection with the part of the residence which is used for the purposes of the duty and in respect of which a deduction is allowed for Income Tax purposes.

Allowances for repairs (question 13,272).

35. As regards the part of the residence which is not used for the purposes of the Bishop's duty, it is not seen that there is any ground for preferential treatment of the Bishop as compared with any other owner whose residence is expensive to maintain, e.g., the owners of various historic mansions.

36. On the other hand, as regards the part of the residence which is used mainly and substantially for the purposes of the Bishop's duty, the expense of repairs and maintenance may perhaps be regarded as analogous to the similar expense incurred by a tradesman or professional man in respect of his business premises. In cases, therefore, where the actual cost of repairs and maintenance of the residence is not covered by the statutory allowances as described above—(see paragraph 5), it would seem reasonable to allow to all clergymen, whose residences are of annual value beyond the limits within which maintenance repayment claims may be made, a deduction in respect of so much of the excess as is attributable to the part of the residence used for the purposes of the duty.

Private incomes and Super-tax (question 13,273).

37. Super-tax is simply an additional Income Tax and necessarily attaches to the income as determined for Income Tax purposes. Any allowances made in the computation of the Income Tax liability apply equally for Super-tax purposes and there would appear to be no ground whatever for any variation of the normal basis of Super-tax charge in favour of the Bishops.

Official subscriptions and official hospitality (question 13,274).

38. The observations above (see paragraphs 3 and 4) apply to the claim put forward on behalf of the Bishops.

39. The mention of the allowance of a deduction to a trader in respect of his subscription to an infirmary, where he may send his workpeople if injured, seems hardly to be in point.

The trader's profits depend largely upon the activities of his workpeople; the wages paid to them are paid with a view to the earnings of profits, and other payments to secure their well-being and efficiency may be regarded as in augmentation of the cost of wages and made with a similar view.

The Bishop's income is not derived from the activities of the Clergy in his diocese, nor is he responsible for the payment of their stipends, and it is not seen why his contributions towards their welfare should be allowed as a deduction for Income Tax purposes when similar contributions by laymen are not so allowed.

40. As regards hospitality, the case of the Bishop is not like that of the Mayor who receives an allowance for the purpose of hospitality.

The Bishop receives an income, some part of which he expends in hospitality. In this respect he is not unlike other taxpayers.

The amount of the expenditure in hospitality will necessarily vary with the circumstances, pecuniary and otherwise, of the individual Bishop. No doubt some hospitality is expected from a Bishop, and the obligations of custom are especially strong in his case. On the other hand, many taxpayers, by reason of their position and means, are expected to, and do, entertain. Many of them are forced, by reason of the high taxation due to the war, to curtail their expenditure in hospitality, but it would hardly be suggested that any relief from Income Tax should be afforded to them in this respect, or, in other words, that they should receive a subsidy in aid of their entertaining from the State, i.e., from the general body of taxpayers.

Recommendations (question 13,275).

41. These have been considered in the preceding paragraphs.

III. EVIDENCE-IN-CHIEF OF THE REVEREND CANON FRANK PARTRIDGE.

Memorandum by the Central Board of Finance of the Church of England (questions 14,826-14,832).

42. The main points raised in this memorandum have already been dealt with in connection with the preceding evidence on this subject.

The following observations are offered on certain minor points which were not specifically raised in the preceding evidence.

Election to be assessed under Schedule D for profits of garden (question 14,829).

43. Reduced to its simplest terms, the proposal put forward is that the Clergy should be relieved of the Income Tax charge under Schedule B which is imposed in respect of the occupation of amenity lands generally.

The case put is that the garden lands are a source of expense to the clergyman and produce no profit. It is then suggested that he be allowed to elect for assessment under Schedule D upon the profits. The profits are *ex hypothesi* nil, and he would, of course, elect for a nil assessment under Schedule D.

Test whether voluntary gifts are to be regarded as income (question 14,830).

44. Paragraphs 12-14 above deal with the question of liability in respect of Easter offerings and the tests to be applied in distinguishing between taxable profits and non-taxable receipts.

The suggestion now made is that, "in the case of a gift to a clergyman, there should be a presumption that it is a gift to him in his individual capacity, unless and until it is proved to be intended by the donor to be a gift to the holder of the office (if any) which he holds."

This suggestion embodies the reverse of the normal probabilities.

45. In the ordinary course, the regular contributions of parishioners for the benefit of the incumbent, though not legally exorable by him, are made in recognition of his services as incumbent. But, as being not legally exorable, they are "gifts," and under the suggestion put forward they must be presumed to be of a purely personal character; it would, therefore, devolve upon the taxing authority to prove in each case that they really arise by reason of the office.

46. Such proposals are quite impracticable. The tests to apply, as laid down by the Courts, are, in the Board's opinion, at once reasonable and adequate. Occasional border line cases may, of course, arise from time to time, but it will be remembered that the clergyman can always appeal to the District Commissioners if he is unable to acquiesce in the view taken by the Surveyor.

Appendix No. 67.

MEMORANDUM BY THE BOARD OF INLAND REVENUE REGARDING (A) THE INCOME TAX CHARGE IN CASES WHERE A RENT PAID IN RESPECT OF PROPERTY IS IN EXCESS OF THE ANNUAL VALUE AS ASSESSED UNDER SCHEDULE A, AND (B) THE TENANT'S RIGHT OF DEDUCTION OF INCOME TAX FROM RENT.

(A) Rent paid in excess of annual value as assessed under Schedule A.

1. The basis for estimating the annual value of real property is provided by the "General Rule" of No. 1, Schedule A, and is the rent at which the property is let at rackrent by agreement, commencing within the seven preceding years, or if it is not let at such a rackrent, the rackrent at which it is "worth to be let." From the rackrent or annual value a deduction is normally made, to arrive at the amount on which tax is to be collected, of one-sixth (houses) or one-eighth (lands) in respect of the cost of repairs. In the normal case, therefore, the rent paid for a property is not in excess of the annual value as assessed under Schedule A.

2. There is, however, a class of case where an excess of rent over the Schedule A annual value does exist, and the problem which it is desired to bring to the notice of the Royal Commission in the following paragraphs relates to the question of charging Income Tax on this excess rent.

3. The case arises normally where a property is leased by A to B and then sub-let by B to C. It sometimes happens that the rent which B pays to A is larger in amount (i) than the rent which B receives from C, or (ii) than the amount on which tax under Schedule A is charged in respect of the premises.

4. In a concrete case which has recently come under the notice of the Board of Inland Revenue, the figures were approximately as follows:—A, the superior landlord, leased premises to B at an annual rental of £100, B sub-let to a tenant C at £75, while the net amount on which tax was paid under Schedule A in respect of the premises was £75.

5. In those circumstances C the tenant-occupier is charged with and pays Schedule A tax on £75, and when paying the rent of £75 to his landlord B deducts tax at the standard rate from that rent.

6. When B as tenant comes to pay his lease rent of £100 to his landlord A, his right of deduction of tax from that rent is limited by Rule 4 (1) of No. VIII, Schedule A, of the Income Tax Act, 1918, to the tax which he has himself suffered in respect of the property, i.e., in the present case the tax on £75. B thus pays to A £75 under deduction of tax and £25 in full, and the Board of Inland Revenue are advised that under the existing law the annual value of the property as assessed under Schedule A is the measure of the Income Tax liability, and that there are no means by which tax can be recovered, in the circumstances stated above, on the excess of the rent over the Schedule A assessment. In other words, A receives an income of £25 free of liability to Income Tax (or Super-tax).

7. It has been considered whether this excess rent might be charged with tax in the hands of the recipient under Rule 7 of No. II, Schedule A, but the Board are advised that this is not the case. This question of excess rent is one which is apt to arise especially in connection with licensed houses.

8. It is suggested that the anomaly of allowing tax on the excess rent to escape assessment should be remedied. A simple remedy would be to make the excess rent (less an allowance for repairs if the cost of repairs is borne by the person receiving the excess rent) assessable under Case VI of Schedule D. In this connection it will be observed that in the evidence which the Board have put forward for the consideration of the Royal Commission on the "average" question, it is suggested that the miscellaneous profits from lands chargeable under Rule 7 of No. II, Schedule A, should be transferred to Case VI of Schedule D (questions 15,136 to 15,138).

9. A similar question is referred to in the evidence-in-chief of Mr. G. F. Howe, Presiding Special Commissioner of Income Tax, in the paragraphs headed "Income Tax—Void Properties," and the Board of Inland Revenue associate themselves with the obser-

vations which Mr. Howe makes on this subject (questions 13,461 to 13,466).

10. It is not suggested that an excess rent should be made chargeable if it has arisen during the period between two general re-assessments of the properties in the neighbourhood. If this were done it would merely result in effect in re-assessing such properties as may have been re-let at an enhanced rent since the last general re-assessment. Any such action would conflict with the legal provision for continuing during the years intervening between two years of general re-assessment the annual values fixed in the earlier of such two years. It is accordingly proposed that any such charge in respect of excess rent should be restricted to excess rents existing at the time of a general re-assessment.

11. It is suggested that the proposed charge on excess rents should apply not only outside the Metropolitan Area but also to the Administrative County of London, where, under the Valuation (Metropolis) Act, 1869, the gross value in the valuation list governs, in general, the assessment under Schedule A. Under that Act the gross value in the valuation list is not, in the case of properties that are let, the rent at which they are let, as is the case under Schedule A of the Income Tax Acts, but the annual rent which a tenant might reasonably be expected, taking one year with another, to pay for an hereditament, if the tenant undertook to pay all usual tenant's rates and taxes and tithe commutation rent charge, if any, and if the landlord undertook to bear the cost of repairs and insurance and the other expenses, if any, necessary to maintain the hereditament in a state to command that rent. It frequently happens that a rent actually paid is regarded as a "fancy" rent, and the gross value is fixed at a lower amount, as being the annual rent that the property is worth. In this way, excess rents, often of large amount, are common in the Metropolitan.

(B) Tenant's right of deduction of Income Tax from rent.

12. Under Rule 1 of No. VIII, Schedule A, a tenant-occupier of any lands, tenements, &c., on paying rent is entitled to deduct therefrom the tax on the amount of such rent, provided that he shall not deduct any greater sum than is charged upon the property under Schedule A and paid by him.

The Board have always considered that this right of deduction is not affected by the provisions of Rule 7, No. V, Schedule A, under which the amount of a Schedule A assessment is in certain circumstances reduced for the purposes of collection by one-sixth or one-eighth, and that where the amount of the net assessment as thus reduced is not greater than the amount of the rent the tenant is still entitled to deduct the whole of the tax paid. It follows that if the rent is less than the annual value adopted for the purposes of the gross Schedule A assessment the landlord does not get the full benefit of the reduction allowed by Rule 7, No. V, Schedule A, and while in many cases, e.g., premises let on repairing leases, the landlord has no claim to the reduction in question, there are other cases where he is deprived of an allowance to which he is equitably entitled.

13. A number of instances may be cited to show the inequity which arises from the law as it at present stands.

Premises are let for £250 per annum, owner repairing, to a tenant who effects certain improvements. The annual value in consequence of such improvements is in excess of the rent and is assessed for purposes of Schedule A at £300, from which an allowance of one-sixth is made, leaving a net sum of £250 on which the tenant pays tax under Schedule A. The whole of this tax can be stopped from the landlord, although out of the £250 rent received by him he may be put to appreciable expense for repairs.

A factory is let at £150 per annum, landlord repairing. The tenant installs machinery and the property is assessed at £180, to include the value of such fixed machinery. One-sixth is allowed for repairs and the tenant pays tax on £150, the whole of which he can stop from the landlord.

In both of these cases the landlord is deprived of the benefit of the repairs allowance, which it must be assumed it was intended by the Legislature that he should have.

14. The inequitable result of the present provision is the cause of frequent complaint, and it is submitted that the case calls for a remedy which will confine the tenant's power of deduction to a sum computed on the rent less an appropriate deduction for repairs.

15. A similar inequity arises in regard to tithe rent charge where the net amount on which a property is assessed is greater than the rent less the tithe rent charge and the appropriate allowance for repairs.

Under the Income Tax Act of 1842, tithe rent charge was assessable as part of the annual value of the lands, and the landowner was entitled to deduct from his payment of the tithe rent charge the appropriate proportion of the tax suffered by him in respect of the lands under Schedule A (Income Tax Act, 1842, Schedule A, No. IV, Rule 10).

Rule 7 of Schedule A, No. VII, of the Income Tax Act of 1918 gives power to the General Commissioners, if the owner of a tithe rent charge so desires and they think fit, to assess the tithe owner directly in respect of the tithe rent charge, which in that case is allowed to be deducted in assessing the lands charged therewith under Schedule A. This course is now almost universally followed.

16. Where the rent payable is not greater than the net assessment arrived at by deducting from the gross annual value the amount of the tithe rent

charge (Rule 7, No. VII, Schedule A), and also the one-eighth allowance (Rule 7, No. V, Schedule A), the landlord would appear to be bound under Rule 1, No. VIII, Schedule A, to allow the tenant to deduct tax on the full amount of his rent, notwithstanding that he has to pay out of the rent the tithe rent charge which is separately assessed under Schedule A on the tithe owner.

17. It is obvious that such a result is not in accordance with the intention of Rule 7, No. VII, Schedule A, and it is often contended that the words in parentheses in Rules 1 and 4 of No. VIII, Schedule A, regarding the sums that have been allowed by the Commissioners are insufficient to prevent this result. The difficulty arises less frequently than that connected with repairs, but it is submitted that a remedy should be provided.

18. It is suggested that both points might be dealt with by a clause on such lines as the following:—

The amount of tax deductible under Rule 1 or Rule 4 of No. VIII, Schedule A, in respect of any rent payable to a landlord, owner, or proprietor in respect of lands, tenements, hereditaments or heritages, by a tenant or occupier, shall not exceed the amount of tax that would be deductible under the said Rule 1, if the tenant or occupier were a tenant-occupier, and the landlord, owner, or proprietor were the landlord for the time being, and the annual value of the lands, tenements, hereditaments or heritages were an amount equal to the rent so payable, and any deductions or allowances that would have been due to be made under the Income Tax Act, and any reduction of the assessment that would have been due to be made for the purposes of collection under Rule 7 of No. V, Schedule A, had been duly made.

Appendix No. 68.

MEMORANDUM BY THE BOARD OF INLAND REVENUE REGARDING MINOR POINTS ARISING IN CONNECTION WITH THE INCOME TAX ACT, 1918.

1. In his evidence on the subject of the Income Tax Act, Mr. Bertram Cox, Solicitor of Inland Revenue, has referred to the fact that there are certain inconsistencies and difficulties which occur in the working of the Act as it at present stands. Various points of major importance have already been dealt with by official witnesses who have given evidence before the Royal Commission, and the Board of Inland Revenue do not propose to trouble the Royal Commission with all the remaining points of minor importance which, as Mr. Cox indicates, would be duly considered in relation to any draft Bill that might hereafter be prepared in connection with a general revision of Income Tax law. There are, however, some few points to which attention has not yet been drawn and which the Board desire to bring to the notice of the Royal Commission. These matters are discussed in the following paragraphs.

Relief in respect of a dependent relative.

2. Where a dependent relative in respect of whom relief may be allowed under section 13 of the Income Tax Act, 1918, is maintained jointly by two or more persons, it is the practice to apportion the relief granted between those persons in accordance with their respective contributions. There is, however, no legal sanction for this practice, as the law requires that the "claimant" must "maintain at his own expense" the dependent relative. It is suggested that at the first convenient opportunity the law should be amended to accord with the practice.

Right of husband and wife to claim relief separately.

3. Under the provisions of section 31 of the Income Tax Act, 1918, husband and wife can claim to be assessed separately as if they were not married. Sub-section (c) of the section provides that earned income relief shall be given to husband and wife, respectively, in proportion to the earned incomes of

each and that, apart from Life Assurance allowances, which are dealt with as being purely personal, other reliefs are to be given "in proportion to the respective incomes." Other reliefs include unearned income relief which clearly should be allowed by reference, not to the respective incomes, but to the respective *unearned* incomes of the husband and wife.

The reason for this anomaly in relation to the unearned income relief lies in the fact that the above-mentioned sub-section (c) reproduces section 9 (c) of the Finance Act, 1914, and that when provision was subsequently made for unearned income relief in certain cases—see now section 15 of the Income Tax Act, 1918—it was not accompanied by any direction relating to the case of husband and wife assessed separately.

In the Board's opinion this position calls for remedy, and provision should be made for husband and wife who claim separate assessment under section 31 of the Income Tax Act, 1918, to receive unearned income relief in proportion to their respective unearned incomes.

Property rented by the Crown.

4. The landlord of property is assessable under Schedule A for houses let in different apartments, for houses of less than £10 annual value, for any lands and tenements let for a period of less than one year, and in cases where before the 31st July in any year he makes a successful application to the District Commissioners to be assessed as occupier of his property (Rules 8 and 9 of No. VII., Schedule A of the Income Tax Act, 1918). In all other cases the occupier of property (and not the landlord) is legally chargeable with the tax under Schedule A in accordance with Rule 1 of No. VII of Schedule A. Where the occupier happens to be the Crown, the difficulty arises that there is no power to charge anyone, as the Crown is not bound by any Act of

Parliament except by express enactment and is not, therefore, within the scope of the Income Tax Act.

There have been several recent cases involving this difficulty where the landlord of property, which was not of such a description as to make him legally chargeable with tax, has refused to allow deduction of tax from rent paid by an occupying Government Department.

The Board suggests that this anomalous position could and should be remedied by a provision rendering the owner of property rented by the Crown liable to be charged to tax in respect of his property as if he were the occupier.

Schedule A tax on property for which the occupier is chargeable and which becomes empty during the Income Tax year of assessment.

5. In cases where the occupier of property leaves before the tax becomes due and has paid his rent in full to the date of leaving and the landlord refuses payment of the tax, the only remedy is to wait for the next occupation of the property, however distant in point of time that may be. The result is that a landlord, who may have received all the rent due to him, can defer payment of the tax thereon during the whole period for which the property is unlet. While this difficulty is not much in evidence at the present moment, in normal times there have been numerous cases of this nature.

There is no good reason why the landlord should thus enjoy immunity from taxation for an indefinite period in respect of rent received, and the Board of Inland Revenue suggest that a simple method of repairing this omission in the Act would be to add to Rule 4 of No. VII, Schedule A, a proviso to the following effect:—

Provided that where such occupation ceases before the date on which the tax becomes payable, the tax chargeable and outstanding in respect of the period of occupation shall, if necessary, be recoverable from the landlord as if he had been charged therewith and in the same manner as any tax charged on him may be recovered.

Schedule A—Landlord unknown—Proposal to require landlord's agents to disclose name and address of landlord.

6. It is not infrequently happens that in the case of tenement property and property of small annual value, the name and address of the landlord on whom the assessment under Schedule A should be made, are unknown and cannot be ascertained, although the name and address of the agent who collects the rent, are known. Moreover, where in this class of case the agent refuses payment of the tax, the poverty of the tenants often renders the usual method of recovering by distraint on the property either impracticable or a great hardship. In this respect the position has changed considerably with the great increase in the rate of tax during recent years, seeing that at £s. in the £, the tax, or an instalment of tax, would amount to several weeks' rent. It is suggested that the difficulty which thus arises requires to be met, and that where tax is unpaid and the agent refuses to disclose the name and address of the landlord he should be compelled under penalty to do so.

A clause on some such lines as the following would appear to meet the case:—

"Every person who, as agent for another, receives rent in respect of any lands, tenements, hereditaments, and heritages in the United Kingdom, shall, on being required by the Commissioners, furnish to them within thirty days the name and address of the person on whose behalf he receives the rent."

"If any person wilfully fails to comply with the provisions of this Section he shall be liable to a penalty not exceeding £50 to be recovered in the High Court."

Schedule A—Recovery of tax in cases where person assessed is abroad.

7. A loss of Income Tax under Schedule A at present occurs in certain cases where rents of pro-

perties are received by resident agents on behalf of absentee landlords. In such cases it is often not possible to collect the tax on the properties themselves where such properties are divided up into many small holdings, and it is also impossible to recover the tax from the landlord when he resides outside the jurisdiction of the Courts of this country.

As the law stands at present, the Board of Inland Revenue are advised that in these cases it is not possible to assess the tax upon the agent or to compel payment of the tax by him and it is suggested, therefore, that provision should be made for this power of recovery by a clause somewhat on the following lines:—

"Where Income Tax has been charged under Schedule A of the Income Tax Act upon the landlord or immediate lessor of any property and the person charged shall be absent from the United Kingdom, a demand for payment of the tax may be made upon any person who, as agent, is in receipt of the rents or profits of the property, and in default of payment in pursuance of the demand, the tax may be recovered from that person in like manner as if he had been charged, but so as not to impeach the remedy of the recovery by any other method provided by the said Income Tax Act."

Recovery of Income Tax, Schedule A and Schedule B.

8. As the Royal Commission are already aware, the general re-assessment of property for the purposes of Schedule A and Schedule B is, under present conditions, not made annually, but at intervals of five or more years. It results that the names and addresses of owners in the assessment books tend to become out of date during the years between two years of re-assessment. Generally speaking, this does not materially hamper the collection of the tax, because power is given to the Collector to recover it from the occupier for the time being even if there has been a change of ownership or occupancy. In cases, however, where the former occupier was also the owner, the tax cannot be recovered from a subsequent occupier (see Rule 4 (b) of No. VII, Schedule A) and the only remedy in that event is to take proceedings against the former owner-occupier in the High Court, and as the matter now stands that can only be done if his name is actually shown in the assessment book which, as indicated above, is frequently not the case. Also, in the case of small houses under £10 annual value, or houses let weekly or in tenements, the "occupiers for the time being" may be too poor to be distrained upon, and the owners, if their names do not in fact appear in the assessment book for the year, are able to escape their liabilities as there is no power to distrain upon them, nor can they be proceeded against in the High Court.

The Board of Inland Revenue consider it desirable that this gap should be stopped, as it is one through which an appreciable amount of tax escapes, and for this purpose they suggest for the consideration of the Royal Commission a clause on the following lines:—

"Where, owing to any change in the occupier, landlord or immediate lessor of any property charged to Income Tax under Schedule A or Schedule B, or to Inhabited House Duties, any person, who has become liable to be assessed or charged to such tax or duties, is not specifically named in the assessment made for any year in which the annual value of the property for the preceding year is prescribed by any enactment to be taken as the annual value for that year, or, if the property is situate in the Administrative County of London, for any year other than a year in which a valuation list first comes into force, such person shall be deemed to have been duly assessed and charged, although not so named and in lieu of the person so named, and the provisions of the Acts relating to the said tax and duties as to recovery of the same or otherwise, shall apply and have effect accordingly."

It may be added that a difficulty of the same nature arose in Scotland in connection with distraint for taxes, and was remedied by section 33 of the Finance Act, 1918, now reproduced in section 166 (1) of the Income Tax Act, 1918.

Appendix No. 69.

MEMORANDUM PREPARED BY THE BOARD OF INLAND REVENUE AT THE REQUEST OF THE ROYAL COMMISSION IN ORDER TO ILLUSTRATE THE WORKING OF THE VARIOUS RELIEFS SET OUT IN ANNEXE III TO THE EVIDENCE-IN-CHIEF OF MR. HARRISON ON THE SUBJECT OF THE "ASSESSMENT OF INCOME TAX BY REFERENCE TO THE INCOME OR PROFITS OF A PAST YEAR OR AVERAGE OF YEARS" (see Q. 15,181).

1. In accordance with the request made by the Royal Commission to Mr. Harrison in the course of his examination on the 5th October, 1919 (questions 15,530-3 and 15,556-9), the following examples designed to illustrate the working of the various provisions relating to relief from Income Tax in respect of new businesses, cessations, successions, losses in trading, &c., have been prepared.

2. For the sake of convenience, all references are to the Income Tax Act, 1918, although this Act did not come into force until the 6th April, 1919.

3. The expressions "profits" and "losses" in the following examples mean profits and losses as computed for Income Tax purposes.

ILLUSTRATIVE EXAMPLES.

I. Rule 8 (1) of the Rules applicable to Cases I and II of Schedule D.

This Rule deals with new businesses and provides

that where the business has been set up within the period of three years on which the average is based, or within the year of assessment, the reduction of the assessment to the amount of the actual profits of the year may be claimed.

Example (a). A new business for the first three years of its existence shows profits of £11,600, £300, and £1,200, respectively. The Income Tax liability under Schedule D for the year 1 would be in the sum of £11,600—the first year's profit. The assessment for the year 2 would again be made in the sum of £11,600, but the liability would be adjusted under the Rule to £300—the second year's profit. The liability for the year 3 would in the first place be computed on the average profits of the years 1 and 2, i.e., on £5,950 (£11,600 plus £300, or £11,900 divided by two), and would similarly be adjusted to £1,200—the third year's profit. The following table shows the effect of these adjustments:—

	Profits.	Amount of assessment as originally made.	Amount of assessment as adjusted under Rule 8 (1).
Year 1	£ 11,600	£ 11,600	£ 11,600
" 2	300	11,600	300
" 3	1,200	5,950	1,200
	13,100	29,150	13,100

Example (b). The profits of the years 1 and 2 in Example (a) are transposed and the new business makes profits of £300, £11,600, and £1,200 in the

years 1, 2 and 3 respectively. The following table shows the working of the Rule in these circumstances:—

	Profits.	Amount of assessment as originally made.	Amount of assessment as adjusted under Rule 8 (1).
Year 1	£ 300	£ 300	£ 300
" 2	11,600	300	300 No adjustment claimed or made.
" 3	1,200	5,950	1,200
	13,100	6,550	1,800

It will be seen from the above examples that the effect of Rule 8 (1) is favourable, and perhaps unduly favourable, to the taxpayer, who is not only protected from being charged on more than his profits for the first three years of the business, as shown by Example (a), but in some cases, owing to the one-sided operation of the Rule, may escape the full measure of taxation which his profits should bear, as shown by Example (b), where the three years' profits amount to £13,100, while tax for the three years is finally borne on £1,800 only.

II. Rule 8 (2) of the Rules applicable to Cases I and II of Schedule D.

(1) Taxpayer may in year of discontinuance of business claim to be assessed upon actual results instead of usual average.

(2) He may further claim repayment of any excess of tax paid in the aggregate in the three preceding years over the total tax which he would have paid if assessed in each of these years on the actual profit.

Example (a). A business, on the whole, shows increasing profits for the last few years of its existence, and then comes to grief, the profits for the last period being insignificant in amount. Suppose that the accounts are made up annually to the 31st March, that the profits for the six years ended 31st

March, 1914, have been £3,000, £4,000, £5,000, £9,000, £5,000 and £14,250 respectively, and that the business ceased on 31st December, 1914, having made £150 profit during the last nine months from 31st March, 1914. The following table shows the working of the Rule in the above case:—

Business year.	Profits.	Year of Income Tax assessment.	Amount of assessment (i.e. average profits of three preceding years).	Assessment as adjusted under Rule 8 (2.)
Year ending 31st March, 1909	£ 3,000	—	£ —	£ —
" " " " 1910	4,000	—	—	—
" " " " 1911	5,000	—	—	—
" " " " 1912	9,000	1911-12	4,000	No adjustment claimed or claimable as the tax (at 1s. 2d. in the £ each year) on the aggregate profits of the three years exceeded the tax on the aggregate assessments.
" " " " 1913	5,000	1912-13	5,000	
" " " " 1914	14,250	1913-14	5,533	
Nine months to 31st December 1914, when business ceased	150	1914-15	9,417	
				150

Note.—^a Aggregate tax at 1s. 2d. in £ on £28,250 = £1,647 18s. 4d.

† " " " " " £16,333 = £952 15s. 2d.

In such a case as this, where profits have been normally increasing, the Revenue, as usual, loses tax through the "time lag" and, in addition, the taxpayer can claim adjustment of the assessment for the last year of the business under the Rule, the net result being that while the profits for the last 2½ years of the business amounted to £19,400 (£5,000 plus

£14,250 plus £150), the actual amount on which tax was borne was £12,483 (£6,000 plus £6,333 plus £150).

Example (b). Take now the case of a business showing steadily decreasing profits until it is wound up. The following table shows the working of the Rule in these circumstances.

Business year.	Profits.	Year of Income Tax assessment.	Amount of assessment (i.e. average profits of three preceding years).	Rate of tax.	Tax.	Assessment as adjusted under Rule 8(2), either by reduction of assessment or by repayment.	Rate of tax.	Tax.
	£		£	s. d.	£ s. d.	£	s. d.	£ s. d.
Year ending 31 Mar., 1909	16,000	—	—	—	—	—	—	—
" " " " 1910	14,250	—	—	—	—	—	—	—
" " " " 1911	12,000	—	—	—	—	—	—	—
" " " " 1912	9,000	1911-12	14,083	1 2	821 10 2	9,000	1 2	525 0 0
" " " " 1913	5,000	1912-13	11,750	1 2	685 8 4	5,000	1 2	291 13 4
" " " " 1914	4,000	1913-14	8,667	1 2	505 11 6	4,000	1 2	233 6 8
					2,012 10 0			1,050 0 0
Nine months ending 31 December, 1914, when business ceased.	150	1914-15	6,000	—	—	150	—	—
								Tax repaid £962 10 0

In a case such as this, where profits steadily decline, the taxpayer over a series of years pays tax, while his business is a continuing business, on amounts larger than the amounts of profits which he is at the time actually making.† It will be seen, however, that the Rule operates to remove this hardship in the cases to which it applies, so far as regards the last three or four years of a business.

NOTE.—It will be recalled that the Rules discussed in I and II above were introduced in 1907 at the time when section 133 of the Income Tax Act, 1842 (see head X below) was repealed. It was then felt that while there was no justification for the retention of section 133, it was necessary to provide in certain

cases a measure of relief for the taxpayer in the first and last three years of a business.

III. Rule 9 of the Rules applicable to Cases I and II of Schedule D.

- Surveyor to certify particulars of any change of ownership to the Commissioners.
- Assessment to be divided; a fair proportion to be charged to the new proprietor, and the person assessed to be relieved accordingly.

This rule does not involve any reduction in the amount of the assessment computed on the ordinary lines. The total assessment is divided between the old and new owners of the business, &c., usually, though not necessarily, in direct proportion to the respective periods of ownership.

† Subject of course to the effect of the war reliefs. See heads X and XI below.

IV. Rule 11 of the Rules applicable to Cases I and II of Schedule D.

Assessment to be based on usual average notwithstanding a change of ownership or in partnership

unless diminution of profits from a specific cause arising after or by reason of the change is proved.

Example (a). Business carried on by a firm transferred to a limited company on 1st April, 1911.

Business year.	Profits.	Income Tax year of assessment.	Assessment on average of three preceding years.	Liability as adjusted under Rule 11 to profits of year.
Year ending 31st March, 1909	£ 16,500	—	£ —	£ —
" " " " 1910	14,000	—	—	—
" " " " 1911	19,750	—	—	—
" " " " 1912	8,250	1911-12	16,750*	8,250
" " " " 1913	after payment of directors' fees, £3,000. 1,830	1912-13	14,000*	1,830
" " " " 1914	after payment of directors' fees, £3,000. 10,270	1913-14	9,940*	No adjustment claimed.
	after payment of directors' fees, £3,000.			

* In addition for each of the years 1911-12, 1912-13 and 1913-14 there would be assessments under Schedule B amounting to £3,000 in respect of fees. The payment of these fees is regarded as a "specific cause" giving rise to a claim for an adjustment under the Rule, but its effect is not limited to the reduction of the assessment by £3,000.

Example (b). Withdrawal of a partner from a firm on the 1st April, 1911.

Business year.	Profits.	Income Tax year of assessment.	Assessment on average of three preceding years.	Liability as adjusted under Rule 11 to profits of year.
Year ending 31st March, 1909	£ 8,250	—	£ —	£ —
" " " " 1910	5,270	—	—	—
" " " " 1911	16,500	—	—	—
" " " " 1912	6,500	1911-12	10,007	6,500
" " " " 1913	7,250	1912-13	9,423	7,250
" " " " 1914	13,500	1913-14	10,083	No adjustment claimed.

The result of the withdrawal of a partner is regarded as a "specific cause," in respect of which a claim for an adjustment can be made under the Rule.

V. Rule 3 of the Miscellaneous Rules applicable to Schedule D.

- (1) Application may be made for relief in cases of cessation, death or bankruptcy during year of assessment, or of loss from any other specific cause of the profits assessed.
- (2) Such relief to be given as is just, but
- (3) Subject to Rule 9, Cases I and II (*vide* head III above), a successor to any trade, profession, or vocation is to pay full tax charged unless he proves diminution of profits from a specific cause since or by reason of the accession.

Example (a). The assessment for the year 1913-14 in respect of the profits of a business was in the sum of £12,000—based on the average profits of the three years ending 31st March, 1913. The business ceased finally on the 31st December, 1913, the profits for the period of nine months from the 1st April to 31st December, 1913, having amounted to £2,500. The assessment for the year 1913-14 would, under this Rule, be reduced to £2,500. Also a claim might be made, if necessary, for an adjustment of the liability for the three previous years 1912-13, 1911-12, and 1910-11 under Rule 8 (2) of the Rules applicable to Cases I and II, Schedule D (*see* head II above).

Example (b). Suppose that the same business, instead of ceasing to an end on the 31st December, 1913, was sold to a new proprietor, then the assessment for 1913-14 would be apportioned under Rule 9 of the Rules applicable to Cases I and II of Schedule D (*see* head III above), i.e., normally, £9,000 to the old owner and £3,000 to the new owner. Should it have happened that the realized profits of the old owner for the nine months from 1st April to 31st December, 1913, amounted to more than £9,000, there is no provision of the law under which the excess can be charged with tax. On the other hand, if the new owner's profits for the three months from 1st January, 1914, to 31st March, 1914, fell short of the above-mentioned amount of £3,000, he might succeed in getting his assessment adjusted under Rule 11 (*see* head IV above) to the amount of his actual profits for that period.

VI. Rule 13 of the Rules applicable to Cases I and II of Schedule D.

A person interested in two or more trades, &c., may set losses in one against profits in others.

This Rule is self-explanatory.

VII. Section 34.

A person sustaining a loss may apply for an adjustment by reference to the loss and to his total income for the year. Repayment of tax on amount of loss to be granted (up to amount of tax paid). Amount of loss on which tax is repaid not to be deducted in computing assessments for subsequent years.

Example (c). A business showed the following results:

	Profit.	Loss.		
	£	£	£	£
Year ending 31st March, 1909 ...	6,350		18,000 = 6,000	
" " " " 1910 ...	7,000			
" " " " 1911 ...	4,750			3
" " " " 1912 ...		2,000		
" " " " 1913 ...	5,000			

The assessment for the year 1911-12 was made in the usual manner on the average profits of the three preceding years ending 31st March, 1911, i.e., in the sum of £26,000, and a tax was paid thereon. On proof of the loss of £2,000 in the year ending 31st March, 1912, the taxpayer, under this provision, obtained repayment of the tax on £2,000 for the Income Tax year of assessment 1911-12. Following the repayment the result of the year ending 31st March, 1912, would be treated as "nil" (and not as minus £2,000) for the purpose of computing the average profits for subsequent years, the assessment for the year 1912-13 being in the sum of £3,917, arrived at thus:—

Year ending 31st March, 1910 ...	£7,000
" " " " 1911 ...	4,750
" " " " 1912 ...	Nil
	3/11,750
	£3,917

Example (b). If in the foregoing case the loss for the year ending 31st March, 1912, had been £12,000, instead of £2,000, and the taxpayer had in the Income Tax year 1911-12 other taxed income outside his business amounting to £6,000, he could claim repayment on the whole £12,000 by reference to his total income for the year, i.e., business profits as charged on average of three preceding years £26,000 and other taxed income £6,000. Again, the result of the business year to 31st March, 1912, would be taken as "nil" for the average purposes for subsequent years.

Example (c). If in Example (b) the taxpayer had no income outside his business he would be repaid on £6,000 (i.e., the amount on which he had paid tax for 1911-12) of the £12,000 loss for the year ending 31st March, 1912, and the balance of the loss (£6,000) would come into the average for subsequent years, with the result that the assessment for the next year, 1912-13, would be in the sum of £1,917, arrived at thus:—

	Profit.	Loss.
	£	£
Year ending 31st March, 1910 ...	27,000	
" " " " 1911 ...	4,750	
" " " " 1912 ...		6,000
	11,750	6,000
	6,000	
	8/5,750	
	£1,917	

In the normal case where a business has an occasional bad year, and perhaps makes a loss, the ordinary average system enables the taxpayer to obtain full allowance in respect of such loss by its inclusion in the average for three years. In cases, however, where there is either an exceptionally bad year, so that for the three years the average would be a misquantity, or losses in business are sustained for several successive years while tax is at the same time borne on income outside the business, the provision contained in section 34 operates to give the taxpayer relief from taxation in respect of his business losses which he might not otherwise get.

VIII. Schedule A, No. III, Rule 2, proviso.

In the case of a partially failing mine the preceding year may be adopted as the basis of assessment instead of the five years' average, and in the case of a mine totally failing the assessment may be wholly discharged.

Examples are unnecessary in this case.

IX. Schedule A, No. III, Rule 7.

An adventurer in a mine carried on by a company of adventurers may set his share of any loss in a mine so carried on against profits received by him in any other such mine.

This Rule is clearly not concerned with the case of the ordinary shareholder in a mining company; it has long been contained in the Income Tax Acts and was evidently designed to meet primarily the case of the adventurer in a "cost-book" mine, who is liable to "calls" in the event of the mine not proving a success. An adventurer in two or more such mines, receiving income from some of his ventures and paying "calls" in respect of other ventures, can claim to be separately charged to Income Tax in respect of his shares in the mines and to set off losses against profits in the computation of his liability to tax. The "cost-book" mine has nearly disappeared.

X. Section 43.

This is a "war relief" section and provides relief in cases where owing to war conditions there is a diminution of profits assessed under Schedule D. The taxpayer may claim to substitute an average of three years including the year of assessment for the average of three preceding years in cases where owing to the war the profits of the year of assessment fall short of—

- the amount assessed, and
- the new average (including the year of assessment).

Where the profits of the year of assessment are less than (a) but greater than (b), the assessment is in practice reduced to the profits of the year.

A taxpayer on active service during any portion of the year of assessment may claim reduction to the actual profits of the year.

Example (a).

Business year.	Profits.	Year of Income Tax assessment.	Amount of assessment on average of three preceding years.	Amount to which assessment adjusted under section 43.
	£		£	£
Year ending 31st Dec., 1911 ...	4,000	—	—	—
" " " " 1912 ...	18,350	—	—	—
" " " " 1913 ...	7,950	—	—	—
" " " " 1914 ...	1,500	1914-15	10,100	9,267
" " " " 1915 ...	1,200	1915-16	9,267	3,550
" " " " 1916 ...	900	1916-17	3,550	1,200
" " " " 1917 ...	2,100	1917-18	1,200	No adjustment
" " " " 1918 ...	15,000	1918-19	3,733	" "

Example (b).

Business year.	Profits.	Year of Income Tax assessment.	Amount of assessment on average of three preceding years.	Amount to which assessment adjusted under section 43.
	£		£	£
Year ending 31st Dec., 1911 ...	14,000	—	—	—
" " " " 1912 ...	16,350	—	—	—
" " " " 1913 ...	17,950	—	—	—
" " " " 1914 ...	1,500	1914-15	16,100	11,933
" " " " 1915 ...	1,200	1915-16	11,933	6,883
" " " " 1916 ...	22,000	1916-17	6,883	No adjustment.
" " " " 1917 ...	31,200	1917-18	8,233	
" " " " 1918 ...	40,000	1918-19	18,133	

Example (c).

Business year.	Profits.	Year of Income Tax assessment.	Amount of assessment on average of three preceding years.	Amount to which assessment adjusted under section 43.
	£		£	£
Year ending 31st Dec., 1911 ...	8,000	—	—	—
" " " " 1912 ...	2,000	—	—	—
" " " " 1913 ...	5,000	—	—	—
" " " " 1914 ...	4,700	1914-15	5,000	4,700*
" " " " 1915 ...	6,000	1915-16	3,900	No adjustment.
" " " " 1916 ...	3,810	1916-17	5,233	4,837
" " " " 1917 ...	10,000	1917-18	4,837	No adjustment.

* The adjustment for 1914-15 would be to £4,700, the profit of the year ending 31st December, 1914, which is greater than the average profits—£3,900—of the three years ending 31st December, 1914.

Example (d). Taxpayer on active service from 1914 onwards.

Business year.	Profits.	Year of Income Tax assessment.	Amount of assessment on average of three preceding years.	Amount to which assessment adjusted under section 43.
	£		£	£
Year ending 31st March, 1911	5,000	—	—	—
" " " " 1912	7,500	—	—	—
" " " " 1913	9,000	—	—	—
" " " " 1914	3,000	1913-14	7,167	—
" " " " 1915	12,000	1914-15	6,500	No adjustment.
" " " " 1916	3,500	1915-16	8,000	3,500*
" " " " 1917	3,000	1916-17	6,167	3,000*
" " " " 1918	2,500	1917-18	6,167	2,500*

* The adjustment for each of the years 1915-16, 1916-17 and 1917-18 is to the actual profit of the year as the taxpayer was on active service. It will be observed that in this case the large profit of £12,000 in the year 1914-15 does not enter into the ultimate computation of liability for any year.

The reliefs under section 43 are entirely at the option of the taxpayer, and, in the case of a taxpayer not on active service, result in a profitable year coming into the average twice instead of three times, while a bad year comes into four averages instead of three. In the case of a taxpayer on active service the result is that tax is paid year by year on the average profits or the profits of the year of assessment, whichever is less. This section is a revival of an old section (133) of the Income Tax Act, 1842, which, as modified by section 6 of the Revenue Act, 1865, was repealed by the Finance Act, 1907, as a result of the recommendations of the "Ritchie" Committee of 1906. The section cannot be defended on

any ground of equity, and in common with other reliefs introduced to meet the special conditions arising out of the war may be expected to disappear at an early date [vide memorandum by the Board of Inland Revenue on "war reliefs," Appendix No. 50].

XI. Section 44.

An individual whose actual income from all sources for the year of assessment falls short of his total statutory income by more than 10 per cent., may claim repayment of the amount paid in excess of the tax on his actual income.

This again is a special war relief which relates only to the case of individuals. Relief under head X

(section 43) can be claimed by any taxpayer (whether an individual, a firm or a company) assessed under Schedule D.

Example. A was assessed for the year 1917-18 under Schedule D, in respect of his business profits, on the average of the three years to 31st March, 1917, in the sum of £15,000. His income from taxed dividends and property was £7,000. His actual business profits for the year ending 31st March, 1918, proved to be £10,000. A comparison between his actual

income for the year, viz., £17,000 (£10,000 profits plus £7,000 other income) and his assessed income, viz., £22,000 (£15,000 assessed profits plus £7,000 other income) showed a reduction of more than 10 per cent., and he was therefore entitled under the section to claim repayment of the tax on £5,000, the difference between the amounts assessed and his actual income for the year. Repayments under this section have no effect on the averages for succeeding years, which are computed in the usual way.

Appendix No. 70.

MEMORANDUM BY THE BOARD OF INLAND REVENUE ON A POINT ARISING FROM THE DECISION OF THE HOUSE OF LORDS IN THE CASE OF *USHER'S WILTSHIRE BREWERY, LIMITED v. BRUCE* (1914, A.C. 433; 6 TAX CASES, 399), AS REGARDS THE ASSESSMENT TO INCOME TAX OF THE PROFITS OF BREWERIES.

1. The case of *Usher's Wiltshire Brewery, Limited v. Bruce* to which this memorandum relates deals with the expenses incurred by brewers in connection with "tied" houses, which either belong to or are held on lease by a brewer and are let by him to tenants who are bound by their agreements to purchase their beer and, in many cases, spirits, &c., from him. The rent paid by the tenant to the brewer is usually considerably less than the rack rental value, but the tenant is compelled to pay a higher price for beer, &c., or what amounts to the same thing, is allowed a smaller discount than would be allowed to a free tenant.

2. Prior to the judgments in the cases of *Smith v. Lion Brewery Company, Limited* (1910, 5 Tax Cases, 568) and *Usher's Wiltshire Brewery, Limited v. Bruce* (1914, 6 Tax Cases, 399), brewers were not allowed when computing their assessable profits to deduct any expenses connected with such "tied" houses, whilst, on the other hand, rents received and paid in respect of such houses were not treated as trade receipts and expenses in the computation of brewers' profits under Schedule D of the Income Tax. This practice has, however, been overruled, and it is not suggested that it should be reinstated.

3. The case of *Usher's Wiltshire Brewery, Limited v. Bruce* raised the following points:—

The company were owners or lessees of a number of licensed premises which they acquired solely in the course and for the purpose of their business as brewers and as a necessary incident to the more profitable carrying on of their business. The licensed premises were let at rents much less than the rack rental value to tenants who were "tied" to purchase their beer, &c., from the company. In arriving at the assessment on the company from the profits disclosed by its accounts, certain items included in those accounts were excluded, in order to arrive at the profits of the company's manufacture and sale, apart from any profit or loss incidental to the owning or leasing and letting of the "tied" houses. In this way the following items relating to the "tied" houses for which debits appeared in the company's accounts were excluded:—

- (a) repairs,
- (b) fire and licence insurance premiums,
- (c) rates and taxes,
- (d) legal and other costs,
- (e) rents paid by the company under leases,

and the following items relating to the "tied" houses for which credits appeared in the company's accounts were also excluded:—

- (f) rents received in respect of leasehold houses,
- (g) rents received in respect of freehold houses.

The final judgment in the House of Lords was that none of the above-mentioned debits and credits should have been excluded, and that from the balance of profit shown before their exclusion there should be deducted the gross annual values as assessed under Schedule A of the freehold houses.

The general basis of that decision was that owning or leasing and letting of "tied" houses was a part of the trade of the company.

4. It is not suggested that the basis of the decision was not perfectly right, nor that, as regards the items (a), (b), (c) and (d), their inclusion as debits leads to any inequity or anomaly. As regards the items (e), (f) and (g), and the deduction of the gross annual value of the freehold houses, the decision makes clear a state of the law that results in a loss of revenue that appears quite unjustifiable, and calls for remedy.

5. The idea underlying the decision is that the expenses connected with the "tied" houses are expenses of the trade; and that accordingly (1) the excess of the rents paid for the houses over the rents received for them and (2) the excess of what rents the company might have received for its freehold houses, if it had let them without a "tie," over the rents that it actually received for them, are expenses of the trade, and should be deducted from the apparent gain derived from manufacture and sale.

6. It will be convenient to consider the cases of the leasehold and the freehold houses separately.

7. With regard to the leasehold houses, it is not suggested that there is any anomaly, so far as the brewer is concerned, in deducting from the profits of manufacture and sale the excess of the rents he pays over the rents he receives in respect of "tied" houses. But an important question arises as to how the Revenue is to obtain tax from the brewer's landlord on that excess. The brewer suffers tax, by deduction at the hands of his tenant, on the rent he receives. He cannot legally deduct more than that same amount of tax from his own landlord. In these circumstances the brewer's landlord suffers no tax by way of deduction on the excess of the rent he receives over the rent that the brewer receives, and there appears no power under the existing law to tax him in respect of it. This question in its general aspect is dealt with in a separate memorandum which the Board of Inland Revenue are submitting to the Royal Commission [see Appendix No. 67].

8. The case of a freehold house owned by a brewer and let to a "tied" tenant is somewhat different. The *Usher* decision as applied to this case rests on the basis that the brewer has underlet the "tied" house, and accordingly that he should be allowed to deduct from his trade profits the difference between the nominal rent receivable (i.e., the so-called rent paid by the "tied" tenant) and the full rental value. The rent in fact received by the brewer in the nominal rent plus a concealed rent comprised in the enhanced price of the goods (see paragraph 1). The procedure in practice involves a loss of revenue in consequence of the rent being deemed for the purposes of (1) the deduction of tax by the tenant, (2) the assessment under Schedule D on the tenant, and (3) the adjustment under the *Usher* decision, to be merely the nominal rent. If the concealed rent were treated as rent for these purposes, and were measured by the difference between the gross Schedule A assessment and the nominal rent, the result would be that both brewer and tenant would bear tax on their actual incomes. The precise manner in which this comes about will be apparent from the example given

in the Enclosure, from which it will be seen that the amount of tax lost is precisely the tax upon the difference between the gross Schedule A assessment on the licensed house and the rent paid by the "tied" tenant, and that while the "tied" tenant is left bearing his correct liability, the brewer is unjustifiably relieved from tax on the above-mentioned difference.

9. It is suggested that this inequity as between the Revenue and the brewer should be rectified, and that

it could be rectified most easily by a provision that the difference between the gross Schedule A assessment of the freehold house owned by the brewer and the rent paid by the "tied" tenant shall not be allowed as a deduction in the computation of the brewer's liability under Schedule D.

10. While the *Usher* decision stands, the Exchequer is deprived of Income Tax at the rate of 6s. in the £ on some £700,000, the amount of tax lost being about £200,000 a year.

Enclosure to Appendix No. 70.

Example illustrating the effect of the decision in the case of Usher's Wiltshire Brewery, Limited v. Bruce (see paragraph 8 of memorandum).

A brewer owns the freehold of a licensed house of the annual value of £300, which he lets to a tied tenant for £50. The brewer has no other tied houses. His profit, apart from the £50 rent he receives (i.e., the excess of his sales over expenses of manufacture, &c.) is £800. The tied tenant's profit (i.e., his sales after deducting his expenses including the £50 rent he pays) is £300. The house is charged under Schedule A on annual value £100, less one-sixth allowance for repairs £17, net £83.

It is clear that, in all, the Revenue should obtain tax on £950, arrived at as follows:—

	£	£
Brewer on	600	
plus rent received	50	
		650
Tied tenant on	300	
		—
Total	£950	

But the Revenue actually receives tax on £900, arrived at thus:—

	£	£
Brewer, Schedule D	600	
Less excess of gross annual value of house over rent received	50	
		550
Tied tenant, Schedule A	100	
Less one-sixth	17	
		83
Schedule D	300	

	£	£	£
Less excess of net Schedule A assessment over rent paid to brewer under deduction of Income Tax [see Rules applicable to Cases I and II, Schedule D, Rule 3 (c) and Rule 5 (2)]	33		
		267	
			350
Total			£900

There is, accordingly, a difference of £50 between the amount on which tax is paid and the amount on which tax ought to be paid. This £50 is exactly the amount of the deduction made in arriving at the Schedule D assessment on the brewer in respect of the excess of the gross annual value of the house over the rent received by him in accordance with the decision of the House of Lords in the case that forms the subject of this memorandum.

The tied tenant is left bearing the correct amount of tax, viz.: on £350 less on £50 (the tax on which he deducts from the brewer), or on £300 net, which is his actual profit; but the brewer is left paying tax only on £550 under Schedule D and on £50, by way of deduction at the hands of the tied tenant, in all on £600, whereas his profit is £800, excess of sales over cost of manufacture, &c., and £50 rent received, in all £850.

It will be understood that any amounts spent by the brewer and the tied tenant on repairs of the house will have been included in the expenses of their respective businesses, and have been fully allowed for in the computation of their Income Tax liabilities.

Appendix No. 71.

MEMORANDUM BY THE BOARD OF INLAND REVENUE ON THE PROBABLE PRACTICAL WORKING IN THE INCOME TAX OF METHODS OF GRADUATION BASED ON THE METHOD ADOPTED FOR SUPER-TAX.

Introductory.

1. The question of introducing into the Income Tax the Super-tax method of graduation has been referred to before the Royal Commission on more than one occasion. Mr. W. Cash, representing the Institute of Chartered Accountants, put in a scale which proceeds on this basis (Appendix 29 to the Minutes of Evidence). The matter was also discussed in the examination of Sir Leo Chiozza Money (questions 10,541-51, 11,033-6 and 11,148-52).

2. In the course of his examination by Mr. Kerly on 18th June, 1919, Mr. Hopkins was desired (question 4435) to put in examples illustrating the difficulty of applying this method to the Income Tax as now constructed. The following statement has been prepared by the Board of Inland Revenue accordingly.

3. The Board have at various times given prolonged attention to the question involved in order that they might be in a position to express a considered opinion in the event of it being thought

important that smooth graduation should be provided by a continuous change of the effective rate of tax on the Super-tax model. They have not found any method which does not create difficulty. In the case of several of the possible devices for applying to the Income Tax the Super-tax method the objections seem to the Board so serious as to make the means, in their judgment, impracticable in a system of taxation at the source. The only method that has been suggested and that they think sufficiently in consonance with the general scheme of the Income Tax to be workable is that illustrated by Scale IV in paragraph 40 below.

4. The difficulty of working this method of graduation in a system of taxation at the source does not centre in one single point: rather the practical problem is created by a number of difficulties, any one of which might by itself be manageable, but which, when acting in combination in a single case (as in the nature of things they continually must), will create, as it seems to the Board, almost inextricable confusion.

5. The nature of this confusion can best be seen by following the details of a representative case. For this reason such a case is worked out in considerable detail in the course of this memorandum.

The Super-tax scale and its nature.

6. The scale of graduation of the Super-tax, as expressed in the Statute, is as follows:—

In respect of the first £2,000 of income, nil.
In respect of the excess over £2,000:—

For every pound of the	£	s. d.
first 100 of the excess (£2,000-£2,100)	1	0
next 100 "	1	6
" " 1,000 "	2	0
" " 1,000 "	2	6
" " 1,000 "	3	0
" " 1,000 "	3	6
" " 1,000 "	4	0
For every pound of the remainder of the excess (above £16,000)	4	6

7. The general characteristic of this scale (whether expressed in the above form or in a variety of other forms to which it can equally be reduced) is that it produces a reasonably smooth progression by apply-

ing an increased rate of tax (at any point at which an increased rate is introduced) to a section of the income only.

The result, is, of course, that the effective rate applied to the whole income increases with every pound of additional income. Any scale possessing this characteristic, however it may be expressed, produces when the effective rates are represented graphically, a series of asymptotic curves. The present memorandum deals with scales of this general character expressed in the same way as the Super-tax scale and also with such scales expressed in other ways in which they can equally be framed.

Application to the Income Tax of a scale based exactly on the Super-tax scale.

8. The following scale is expressed precisely on the model of the Super-tax scale:—

* As regards the comparative weight of tax which they would impose on incomes of different amounts the illustrative scales used in the memorandum bear a rough relation to the existing scale of graduation of Income Tax, and to each other, but they are used purely as illustrations of practical working without any reference to the question of the proper level of the amount of Income Tax rates or of the point at which the exemption limit should be fixed in future.

Illustrative Scale I.

Sections of Income.	Rate of tax on each £ of earned income within the section.	Rate of tax on each £ of unearned income within the section.
On the first £100 of income ...	Nil	Nil
" next 400 " (£100-500) ...	2 6	3 1½
" " 500 " (£500-1,000) ...	4 0	5 0
" " 500 " (£1,000-1,500) ...	5 3	6 0
" " 500 " (£1,500-2,000) ...	6 9	7 6
" " 500 " (£2,000-2,500) ...	8 3	9 0
" " 500 " (£2,500-3,000) ...	9 9	6 0
" balance of income ...	6 0	6 0

9. An example may be taken as follows:—

Taxpayer's income computed according to the Income Tax Acts:—

Salary ...	£ 300
Income from 5 per cent. War Loan not taxed at the source ...	100
Debt interest taxed at the source at 6s. in the £ ...	50
Total	£550

10. The first point that would require to be settled is into which zone (or section of income) the £150 unearned income is to be taken as falling, for the results of the calculation will necessarily differ according as the earned income is placed in the lowest, or the highest zone, or is divided proportionately amongst the several zones. This would be a matter for legislation, but it is one that at once deprives the scheme of an advantage that at first sight it seems to have, viz., that in cases of dispute or appeal only the highest zone or zones of income would be affected. Where the income forming the subject of an adjustment falls into one or more of the earlier zones, the entire calculation may be disturbed.

11. For the purpose of this example it is assumed that the earned income is to be dealt with in the earlier zones.

In that case—

- (a) the salary would be charged as follows:—
First £100 ... Nil
Next £400 at 2s. 6d. in the £ ... £50
- (b) the income from War Loan would be charged as follows:—
£100 at 6s. in the £ ... £35
- (c) the debt interest would be liable as follows:—
£50 at 6s. in the £ ... £13 10 0

Inasmuch as this interest has been taxed at the source at 6s. a credit of £2 10s. (viz., £50 at 6s. less 5s.) is due to the taxpayer, and this amount can be set off against either of the two assessments (a) or (b) above.

12. The case taken is one which is rendered simple by the figures being round figures and by the absence of any allowances for wife, children, Life Insurance, &c., and one in which the facts are assumed to be accurately and finally known and agreed at the time when the assessments are being made. In this case the method of graduation suggested can be worked with reasonable ease. The case, however, so far from being a normal case, is an exceptional case in the actual administration of the Income Tax.

13. Another example exhibiting difficulties, the occurrence of which is more normal, is given below:—

Income of a taxpayer residing at Leicester as returned by him (computed according to the Income Tax Acts):—

	£	s. d.
Income from partnership in Leicester ...	400	
" " director's fees in London ...	180	
" " " " Manchester ...	60	
" " War Loan (not taxed at the source) ...	37	
" " house property ...	279	
" " taxed investments ...	184	
	1,185	
Deduct:—		
Ground rent payable ...	30	
Mortgage interest secured on property ...	40	
	£60	60
Net income, less charges ...	£1,125	
Allowance due in respect of Life Insurance ...	£105	

14. If the assessment upon this income (including that which, in fact, falls to be taxed at the source) were assessable upon the taxpayer in a single sum, at one place and at a time when all the facts have become fully and finally ascertainable (as happens in the case of the United Kingdom Super-tax and in many foreign and Dominion taxes), and especially if there were no differentiation between earned and unearned incomes, there would be no difficulty in applying the scale to this case. In the circumstances as they actually exist the position is very different, and a procedure on the lines explained in the following paragraph would be requisite.

15. Regard being paid in the first instance only to the items in the taxpayer's income apart from the allowance (for Life Assurance premiums) to which he is entitled, the case can be treated in the following way:—

Income from partnership in Leicester ...	£483
“ “ War Loan ...	37
assessed by the District Commissioners in Leicester as follows:	
£100 at nil	

	£	s.	d.	£	s.	d.
* £393 at 2s. 6d. ...	49	2	6			
* £7 at 3s. 1½d. ...	1	1	10½			
+ £30 at 5s. ...	7	10	0			

Income from director's fees in London ...	£132
assessed by the District Commissioners in London as follows:—	
+ £132 at 4s. ...	£26 8 0
Income from director's fees in Manchester ...	£60
assessed by the District Commissioners in Manchester as follows:—	
+ £60 at 4s. ...	£12 0 0
Income from property (chargeable by deduction at the source) £275.	

Proper amount chargeable (including charges):	
	£ s. d. £ s. d.
+ £219 at 5s. ...	54 15 0
+ £60 at 6s. ...	18 0 0
	72 15 0

Taking the most favourable hypothesis (from the point of view of simplicity) it may perhaps be possible (as is possible under the existing system of graduation) to arrange that this sum (£72 15s.) and not a sum equal to 6s. in the £ shall be charged upon the property; if this should prove impossible any excess amount deducted must be set off against one or other of the foregoing assessments or must be subsequently repaid.

	£	s.	d.	£	s.	d.
Income from taxed investments ...	184	0	0			
Tax deducted at 6s. ...	55	4	0			
Tax chargeable:—						
+ £259 at 5s. ...	14	15	0			
+ £125 at 6s. ...	37	10	0			
	52	5	0			
Tax deducted in excess and to be set off against one or other of the direct assessments ...	2	19	0			

16. In this example it has been assumed, for the sake of additional simplicity, that the earned and unearned incomes could be distributed over the zones (or sections of income) without discrimination (see footnote to par. 15). The calculation and the resultant duty would otherwise be different from those

set out above, and, of course, in practice there would require to be a discrimination on lines laid down by Parliament. The discrimination would lead to complication, as previously indicated, wherever adjustment of the assessment on any source of income became necessary.

17. Even at this stage and making all assumptions in the interests of simplicity, the case is clearly difficult for the taxpayer to follow, but there is the more serious difficulty that the allowance to which he is entitled in respect of Life Insurance (£106) has still to be made. If this allowance is made at the lowest rate chargeable on any part of his income (2s. 6d. in the pound), the taxpayer is deprived of part of the relief to which he is entitled; if it is made at the highest rate chargeable on any part of his income (viz., 6s. in the pound on unearned income exceeding £1,000) the taxpayer is left to pay too little tax, viz., tax at the rate applicable to an income, not of £1,125 which is his actual income, but of £1,019, as if that were his actual total income and he were not in a position to insure his life. The allowance, if it is to be accurate, must be made at the effective rate applicable to the income as a whole which has to be arrived at as follows.

18. The tax chargeable upon the taxpayer (see paragraph 15) is as follows:—

	£	s.	d.
Chargeable at Leicester ...	57	14	4½
“ “ London ...	26	8	0
“ “ Manchester ...	13	0	0
Chargeable in respect of bonus property ...	72	15	0
Chargeable in respect of investments ...	52	5	0
Total ...	221	2	4½
Less tax deductible on paying charges ...	18	0	0
	203	2	4½
His income is ...	1,185	0	0
Less charges ...	60	0	0
	£1,125	0	0

19. A tax of £203 2s. 4½d. on £1,125 is equal to 3s. 7-332d.* in the £, which (on the assumptions taken) is the effective rate applicable to the case of this taxpayer. He is therefore entitled to an allowance of 3s. 7-332d. in the £ on £106 or £19 2s. 9d., which would, perhaps, most naturally fall to be deducted from the assessment made at Leicester (see paragraph 15).

20. The taxpayer would therefore receive the following assessments:—

On salary and War Loan at Leicester as follows:—	
	£ s. d. £ s. d.
£293 at 2s. 6d. in the £ =	49 2 6
£7 at 3s. 1½d. in the £ =	1 1 10½
£30 at 5s. in the £ =	7 10 0
	57 14 4½
Less tax over-deducted on dividends ...	2 19 0
Less Life Assurance allowance on £106 at 3s. 7-332d. in the £ ...	19 2 9
	22 1 9
	35 12 7½

On director's fees in London ...	26	8	0
On director's fees in Manchester ...	12	0	0

whilst the balance of his income (from property and investments) would be taxed by deduction at the rate of 5s. and 6s. in the £. These assessments he would receive at different times from different offices,

* In practice it would no doubt be adequate to work to one or two places of decimals of a penny.

* These amounts make up the £403 to which the rates of 2s. 6d. (earned) and 3s. 1½d. (unearned) apply.

† These amounts make up the slice of income between £500 and £1,000 chargeable at 4s. (earned) and 5s. (unearned).

‡ To avoid a further complication in the example it is for the moment assumed that unearned income can be introduced at any point of the scale, as may be convenient, without disturbing the result. This is not in fact the case. See paragraphs 10 and 16.

§ This amount is charged at 6s. because it does not form part of the taxpayer's income, the tax thereon being deductible by him on payment of the charges to which it relates.

|| This amount represents the slice of income exceeding £1,000, chargeable at 6s. (unearned).

from the Clerks to the several bodies of District Commissioners concerned. However carefully they might be explained, it appears doubtful whether the average taxpayer could give the time necessary to understand them.

21. Whether this is so or not, there remains the difficulty that after the assessments have been made a taxpayer's return may be found to require amendment. For example, in the illustration given, one of the taxpayer's houses may become empty for the last quarter of the year; and later he may show title to an adjustment in respect of his income from director's fees. On each occasion the whole of the calculations, or a considerable part of them—including the allowance for Life Insurance—will require to be re-made. This difficulty is serious and continually recurrent: it arises from the fact that at the time when returns and assessments are being made many items in a taxpayer's income are not yet finally ascertained. The conditions are altogether different, for example, from those obtaining when a taxpayer prefers a claim for repayment of tax after the close of the year to which the claim relates.

22. For instance, assume that the directorship in London ceases during the year and that the income therefrom proves to be not £132, but £100 only. In that event the following adjustments must be made.

23. In the first place, the assessment on the fees must be reduced from £25 8s. (£132 at 4s.) to £20 (£100 at 4s.).

24. Secondly, the deduction of £2 18s in respect of tax overcharged on the investments needs correction.

The amount which has been charged at the rate applicable to the slice of income between £500 and £1,000 has been reduced to £409, viz.:—

	£	s.	d.
War Loan (assessed at Leicester) ...	30		
Director's fees (assessed at London) ...	100		
Director's fees (assessed at Manchester) ...	60		
Income from property ...	219		
	<u>£409</u>		

and £91 of the income from investments is therefore properly chargeable at the 5s. rate. As tax has been deducted as 6s. the difference of £4 11s. (£91 at 1s.) must be allowed from one of the direct assessments in lieu of the £2 18s. previously allowed.

25. Thirdly, the allowance for Life Insurance premiums needs correction. That allowance had previously been made at 3s. 7-332d. in the pound; but this is no longer the effective rate of tax on the income as a whole, and that rate must be recalculated as follows:—

	£	s.	d.
Tax chargeable at Leicester ...	57	14	4½
" " " London ...	20	0	0
" " " Manchester ...	12	0	0
" " in respect of house property ...	72	15	0
" " in respect of investments:—			
£91 at 6s. ...	22	15	0
£93 at 6s. ...	27	18	0
	<u>50</u>	<u>13</u>	<u>0</u>
	213	2	4½
Less tax deductible on paying charges ...	18	0	0
Total tax ...	<u>£195</u>	<u>2</u>	<u>4½</u>
Taxpayer's income as before ...	1,125	0	0
Less reduction in director's fees ...	32	0	0
	<u>£1,093</u>	<u>0</u>	<u>0</u>

26. The effective rate of tax is $\frac{£195 \text{ 2s. } 4\frac{1}{2}\text{d.}}{£1,093}$ which works out at 3s. 6-844d. in the pound. Taking the first two places of the decimal, the allowance for the

Life Insurance premiums comes to £18 18s. 6d. instead of the £19 2s. 9d. previously allowed.

27. Certain alternatives to the above method of working the system may now be considered.

28. Firstly, it may be suggested that a better course would be to start by ascertaining the effective rate of tax upon the whole income and to base the whole series of calculations upon the effective rate so chargeable. In the example given the effective rate is 3s. 7-332d. in the £ (see paragraph 19), and this applies to the whole of the taxpayer's income with the exception of the sum of £20 which under the principle of taxation at the source is included in the assessment upon him, but which in fact constitutes charges in respect of ground rent and mortgage interest which he has to pay away.

Tax upon this sum of £20 requires to be levied at 6s. in the £ because that is the rate at which the taxpayer is entitled to deduct tax on paying those charges. Subject to that reservation the whole income, less the Life Insurance allowance, would upon the foregoing basis be chargeable to Income Tax at the rate of 3s. 7-332d. in the £. The difficulty in taking this course, however, is that no progress at all can be made upon this basis until the total income of the taxpayer is precisely known and the effective rate has thus become precisely ascertainable, while so soon as one of the taxpayer's houses becomes unoccupied, or so soon as for any other reason the total income returned by him requires revision, the effective rate of Income Tax upon the income changes and all the various calculations made have to be revised.

29. Secondly, it might be suggested that the calculations could be simplified by granting all personal allowances; not at the effective rate but at the lowest rate in the scale. This would remove only some part of the difficulties to be incurred and only at the cost of the introduction into the Income Tax of a novel and highly debatable principle, so far as regards allowances in respect of a wife, children or dependants, which would operate to the disadvantage of taxpayers.

30. Thirdly, it may be suggested that the calculation could be simplified if all direct assessments made upon a taxpayer were made upon him at one time and at one place.

To this suggestion the observations made in the last paragraph equally apply. The system of assessing the taxpayer at the place where the income arises and where the taxing officials have knowledge concerning it is, in the Board's judgment, of too great advantage both to the Exchequer and to the taxpayer to be lightly discarded. Its abolition would create other practical difficulties which in their turn would have to be combated. This matter was dealt with in Mr. Harrison's evidence-in-chief on Assessments (paragraphs 28 to 38, questions 25,009 to 25,019). There is a further point worthy of mention in connection with convenience of administration. A system depending on taxation at the source, and embracing very numerous incomes, grows in complexity with the number of separate rates of tax. At present (excluding the temporary rates granted in respect of army pay, &c.) there are only five rates in addition to the normal rate of 6s. Scale I entails ten rates in addition to the rate of 6s. Even the existing six rates are found very unwieldy in the arrangement of assessment books and other documents.

APPLICATION TO THE INCOME TAX OF A SCALE HAVING THE SAME EFFECTS AS ILLUSTRATIVE SCALE I BUT WITH A DIFFERENT EXPRESSION.

31. It is proposed to consider next the practical working of the scale which has so far been under consideration, if that scale be expressed in a different

* These allowances include reliefs in respect of a wife, children, dependants, and Life Insurance and are due in varying amounts to the great majority, though not all, of the taxpayers.

and less inconvenient form. The following scale produces exactly the same results as Scale I, set out in

paragraph 8 above; it differs only in the method of expression:—

Illustrative Scale II.

Earned income.

Amount of total income.		Rate of tax in the £.	
Exceeding	Not exceeding		
£	£100	s. d.	s. d.
—	—	Nil.	Nil.
100	500	Nil on first 100	2 6 on balance
500	1,000	2 0 "	4 0 "
1,000	1,500	3 0 "	5 3 "
1,500	2,000	3 9 "	6 9 "
2,000	2,500	4 6 "	8 3 "
2,500	3,000	5 3 "	9 9 "
3,000	—	6 0 on whole income,	

Unearned income.

Amount of total income.		Rate of tax in the £.	
Exceeding	Not exceeding		
£	£	s. d.	s. d.
—	100	Nil.	Nil.
100	500	Nil on first 100	3 1½ on balance.
500	1,000	2 6 "	5 0 "
1,000	1,500	3 9 "	6 0 "
1,500	2,000	4 6 "	7 6 "
2,000	2,500	5 3 "	9 0 "
2,500	—	6 0 on whole income,	

32. The difficulties entailed in this scale are of the same nature as those entailed in Scale I, and the advantage over Scale I is merely that in each case the income extends into only two zones or sections of income. The same difficulty of adjustment in both zones arises where an adjustment is made of the assessment on any income falling into the first zone; and the same difficulties present themselves in dealing with the rate of tax at which personal allowances are to be made.

Scale II at the same time lacks the advantage which is sometimes alleged in favour of Scale I, that it shows clearly on its face the rate of tax uniformly charged in all cases on each slice or section of income. Apart from these difficulties, such scales as I and II are, it is suggested, not likely in practical working to be well understood and appreciated by the public. A taxpayer does not regard his income in sections. When he is considering his Income Tax he thinks of his income as a whole and the rate of tax that he has to pay upon it. For instance, a person whose income of £1,750 consists of £1,620 untaxed remittances from property abroad, and £150 from dividends taxed by deduction at 6s., thinks merely of the £1,750 and the rate of tax that he should bear on it. He knows that the 6s. rate deducted from the £150 is too high, but he will not readily appreciate that a reasonable way of putting his liability right lies in charging him as follows:—

- (a) on his £1,600 foreign remittances £1,500 at 4s. 6d. and £100 at 7s. 6d., and
 (b) on his already taxed £150 from dividends at a further rate of 1s. 6d., or alternatively on £1,350 at 4s. 6d. and £250 at 7s. 6d., with an allowance of £150 at 1s. 6d.

33. Moreover, knowing that he should pay a rate of less than 6s. on his income as a whole, it is sug-

gested that the idea would not be welcome to him that any part of his income has to be charged at the rate of 7s. 6d.

In this connection another example may be given. A taxpayer's total income is £2,400, made up of £2,100 earned income and £300 dividends, from which tax at 6s. in the £ has been deducted. Assuming that it has been provided by law that the first £2,000 shall be taken to be earned income, he would be charged at certain rates (under Scale I or Scale II) on that £2,000 and at 8s. 3d. in the £ on the balance of earned income (£100). He should also return the £300 already taxed at 6s., so that he may be again taxed on it at 3s. in the £. In practice there would clearly be an incentive to omit from a return income already taxed by deduction, and the omission of such income is the most difficult kind of omission to check. There would also be an increased incentive to understate profits for business, etc., for direct assessment. In the example given, if the earned income were returned at £2,000, instead of £2,100, the tax lost under the existing law would be £100 at 5s. 3d. Under Scale II it would be £100 at 8s. 3d.

APPLICATION TO THE INCOME TAX OF SCALES SIMILAR TO THE FOREGOING, BUT WITH MORE FREQUENT BREAKS.

34. It would be easy to construct scales corresponding exactly with Scales I and II dealt with above, except that the successive increases in the rates would be smaller in amount and would take place at more frequent intervals, say at intervals of £100.

35. For example, the following scale for unearned income corresponds with Scale II, except in the particular named above.*

* The corresponding scale for earned income is omitted for reasons of space.

*Illustrative Scale III.**Unearned income.*

Amount of total income.		Nominal rates of tax in the £.		Effective rate of tax in the £ rising	
Exceeding	Not exceeding			from	to
£	£	s. d.	s. d.	s. d.	s. d.
0	100	Nil		Nil	Nil
100	200	Nil on first £100 ...	2 6 on balance	Nil	1 3
200	300	1 3 " 200 ...	3 0 "	1 3	1 10
300	400	1 10 " 300 ...	3 6 "	1 10	2 3
400	500	2 3 " 400 ...	3 11 "	2 3	2 7
500	600	2 7 " 500 ...	4 1 "	2 7	2 10
600	700	2 10 " 600 ...	4 7 "	2 10	3 1
700	800	3 1 " 700 ...	5 1 "	3 1	3 4
800	900	3 4 " 800 ...	5 7 "	3 4	3 7
900	1,000	3 7 " 900 ...	6 1 "	3 7	3 10
1,000	1,100	3 10 " 1,000 ...	6 7 "	3 10	4 1
1,100	1,200	4 1 " 1,100 ...	7 1 "	4 1	4 4
1,200	1,300	4 4 " 1,200 ...	7 7 "	4 4	4 7

And so on up to £2,500

36. The objections to Scale III are of the same nature as those to Scale II, with the added objections that the narrowness of the zones would multiply the number of points around which disputes as to the quantum of total income concentrate, and the multiplicity of different rates would make practical working most difficult. The difficulty arising out of so great a number of separate rates will be appreciated when it is remembered that there are some twelve millions of separate assessments of houses, land and buildings, and that it is practically essential in dealing with this large number of Schedule A assessments, that the assessment should be prepared and arranged much in the same form as that of rate books, except that they last, with the necessary alterations, for a period of years. In addition to the mechanical difficulties arising out of the use of so many rates, the numerous alterations of rate from year to year, due to the great number of small zones, could not fail to occasion much confusion.

37. In the same way, of course, a scale could be constructed corresponding exactly with Scale I except that the increases of rates take place at each successive £100.

38. Such a scale would reproduce the same difficulties as Scale I (paragraphs 8 to 30) with the difference that these difficulties are increased owing to the larger number of zones or sections of income to which the different rates have to be applied.

39. To a slight modification of this scale under which the balance of an income above the last complete £100 would be charged at the same rate as the last complete £100 the same observations would apply.

APPLICATION TO THE INCOME TAX OF A FURTHER POSSIBLE SCALE HAVING THE SAME EFFECTS AS ILLUSTRATIVE SCALE I BUT WITH A DIFFERENT EXPRESSION.

40. Finally the following scale may be considered.

*Illustrative Scale IV.**Incomes not exceeding £1,000.*

Amount of total income.		Abatement allowed from income before tax is charged.	Rate of tax charged on balance of income.	
Exceeding	Not exceeding		Earned.	Unearned.
£	£	£	s. d.	s. d.
—	100	—	Exempt.	Exempt.
100	500	100	2 6	3 1½
500	1,000	One-third of the amount by which the income is less than £1,000.	3 0	3 9

Incomes exceeding £1,000.

Amount of total income.		Rate of tax on total income.		Rebate allowed.
Exceeding	Not exceeding	Earned.	Unearned.	
£	£	s. d.	s. d.	s. d.
1,000	1,500	3 9	4 6	1 6 in the pound on amount by which income is less than £1,500.
1,500	2,000	4 6	5 3	2 3 do. £2,000.
2,000	2,500	5 3	6 0	3 0 do. £2,500.
2,500	3,000	6 0	6 0	On wholly earned incomes 3s. 9d. in the pound on amount by which income is less than £3,000. On wholly unearned incomes no rebate. On mixed incomes a modified relief would be requisite.
3,000	—	6 0	6 0	No rebate.

41. This scale is precisely the same in its effect as Scale No. I and Scale No. II.

42. Apart from the question of personal allowances (such as allowances for wife, children or Life Insurance) it produces the same effective rate of tax. It differs only in the method of expression.*

43. It does not as it stands overcome the difficulty (see paragraph 17) as to the rate of relief to be granted in respect of personal allowances where the total income falls between £1,000 and £3,000; but this allowance can be made fairly and in a manner that preserves the character and smoothness of the graduation by deducting the amount of the allowance from the income to be charged with tax (as under the existing system) and reducing the rate of the rebate by the number of pence represented by nine five-hundredths of the number of pounds in the allowance.

44. It also involves a difficulty in certain cases where personal allowances have to be made to taxpayers, whose incomes lie just above £500. This difficulty, which may perhaps be described as a negative "jump," is shown by comparison of the two following examples:—

A. has an income of £500 a year (earned) and is entitled to personal allowances of £300. His Income Tax liability would be calculated under the scale as follows:—

Total income	£500
Less Abatement	£100
Allowances	£200
	£300

£300 at 2s. 6d. in the £=£25.

B. has an income of £520 a year (earned) and is entitled to personal allowances of £300. His liability would be calculated under the scale as follows:—

Total income	£520
Less Abatement	£160
Allowances	£200
	£360
	£160

£160 at 3s. in the £=£24.

The taxpayer with an income of £520, therefore, would pay less than the taxpayer with an income of £500, when each is entitled to personal allowance of £300.

* As stated in the footnote to paragraph 8 the rates of the scale are only illustrations. This particular form of expression can be extended to other scales of graduation. For instance the scale in paragraph 65 *et seq.* of Mr. Hopkins' evidence-in-chief is in a similar form.

45. Under the scale mentioned (but not advocated) in paragraphs 65 *et seq.* (questions 4030 *et seq.*) of Mr. R. V. N. Hopkins' proof of evidence on graduation (a scale which resembles that now under discussion) the anomaly shown above would not arise, as the reduction in the amount payable, caused by the allowance being computed at an increased rate, would be counteracted by the positive "jump" at £500 referred to in paragraph 75 (question 4040) of the proof and the footnote thereto.

46. The two scales referred to, viz., Illustrative Scale IV, set out above, and the scale in paragraphs 65 *et seq.* of Mr. Hopkins' evidence, therefore, present two alternatives, viz.:—

(a) under Illustrative Scale IV—to create a negative "jump," except where there are no personal allowances, the negative "jump" increasing as the amount of those allowances increases; or

(b) under the scale put forward in paragraphs 65 *et seq.* of Mr. Hopkins' evidence—to create a positive "jump," the "jump" being at a maximum where there are no personal allowances, and decreasing as the amount of those allowances increases.

47. The Board do not recommend in any way a scale upon these lines, as compared with some much simpler correction of the imperfections existing in the present system of graduation. But the scale does express the Super-tax method of graduation in a form which is, perhaps, capable of being worked in the Income Tax, and the Board are of opinion that this is the only one of the forms considered in which that method could be so worked. It provides zones of sufficient width to enable the rate of tax at which a taxpayer is primarily chargeable to be readily ascertained. It provides (subject to differentiation for earned income) a single rate at which all the income of a taxpayer is chargeable. It simplifies the calculation of the amount of set-off due to any taxpayer, part of whose income is taxed at the source at the rate of 6s. in the £. It does not involve the assessing authorities in the necessity to delay the work of assessment pending the production by a taxpayer of an accurate statement of total income from all sources (a statement which he often delays to make or is unable to make with accuracy at the time when returns for direct assessment are necessary), and it enables the relief due to the taxpayer, in order to adjust his total charge to a smoothly graduated scale, to be given on a single calculation, which can be made and checked as a whole. It enables it, moreover, to be given either as a deduction from a direct assessment at a time when that assessment is being made, if the taxpayer has then made his return of total income, or to be given at a later date if the taxpayer in particular circumstances finds it necessary to delay making such a return.

48. For example, under Illustrative Scale IV the liability in the example given in paragraph 13 would be computed as follows:—

Income from partnership at Leicester, £ s. d.	
£450 at 3s. 9d.	92 8 9
Director's fees, £132 at 3s. 9d.	24 15 0
" " £60 at 3s. 9d.	11 5 0
Interest on War Loan, £37 at 4s. 6d.	8 6 6
Income from property, £219 at 4s. 6d.	49 5 6
" " £60* at 6s.	18 0 0
	<hr/>
	£204 0 9
Less personal allowance £ s. d.	
(Life Insurance), £106	
at 3s. 9d.	19 17 6
Less tax overcharged on	
dividends, £134 at	
1s. 6d.	13 16 0
Less rebate of duty	
$375 \times (18 - 9 \times 106) \dots$	25 2 10½
500	<hr/>
	58 16 4½
	<hr/>
	£145 4 4½

* This amount is charged at 6s. because it does not form part of the taxpayer's income, the tax thereon being deductible by him on payment of the charge to which it relates.

Adding to this the tax deducted from dividends, £55 4s., and deducting the £18 recovered by the taxpayer on payment of the charges on his property, it is found that the tax actually borne by the taxpayer amounts to £182 8s. 4½d., while under Scale I he would bear £183 19s. 7½d. (£203 2s. 4½d. less £19 2s. 9d.), as shown in paragraph 19. The difference of £1 11s. 3d. is due (a) to the circumstance that in the earlier example the earned and unearned portions of the income have been assigned for simplicity to the various zones without discrimination, and (b) to a trifling difference in the rate at which the allowance for insurance has been computed.

49. It will be appreciated that, since the rate at which the rebate of duty is to be calculated contains only one variable (viz., the amount of the personal allowances), it is capable of being arrived at from a simple table of small dimensions. In practice, the rate would probably be taken to the nearest farthing and as the highest rate of rebate in any zone is 3s. 9d., the range of possible rates is seen to be very limited.



ROYAL COMMISSION ON THE INCOME TAX.

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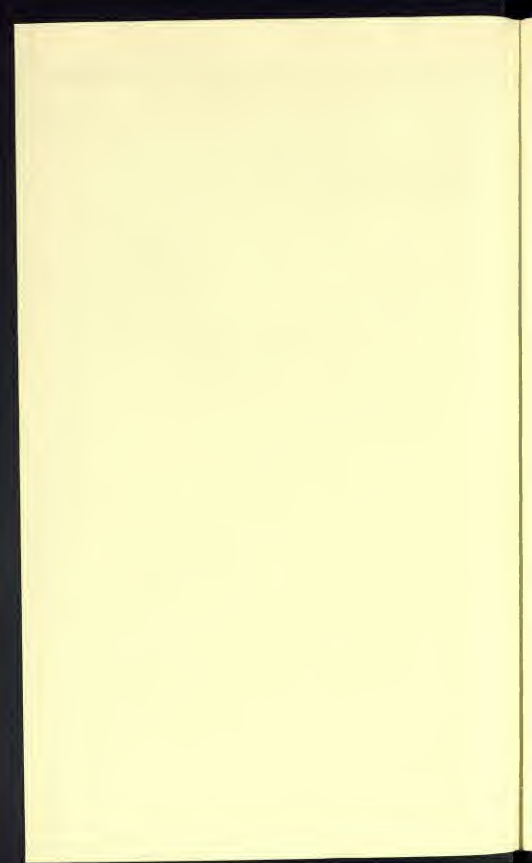
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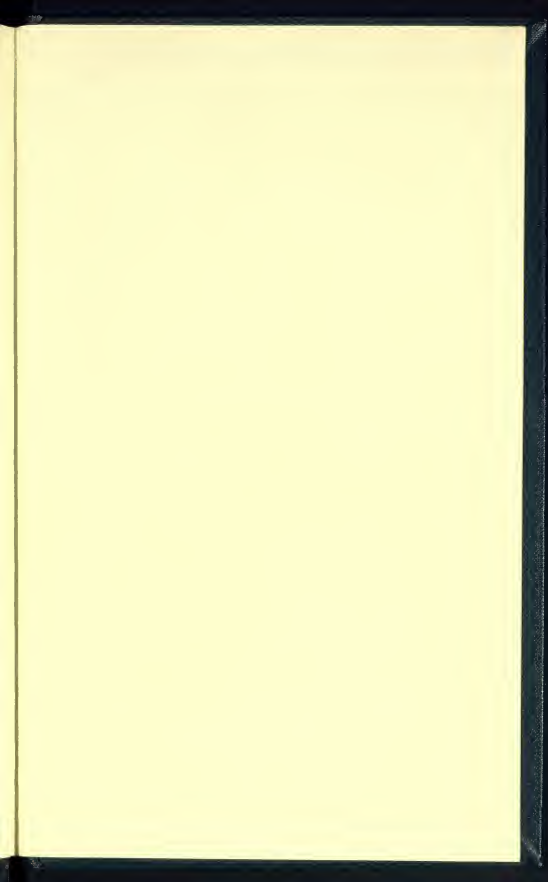
YOUNG, SIDNEY, O.B.E., Chairman of the	
British and Argentine Meat Company, Ltd.	11,861-11,923
Argentine, British meat importing firms,	
American competition and proposed	
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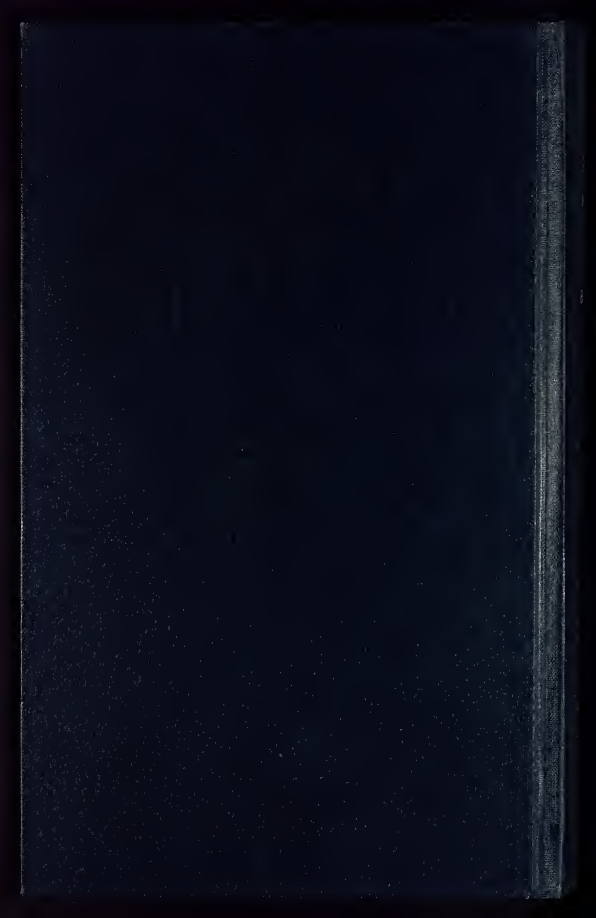
ZORN, JOHN	24,724-22
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INCOME TAX

EVIDENCE TO
CMD. 615